

# Corporate Financial Risk from the Perspective of Financing Structure: Evidence from Sunac China

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**Abstract.** With the rapid development of the real estate economy, the importance of financial risk analysis for the survival and development of enterprises has become increasingly apparent. In addition, it has also attracted many concerns from the academic and industry circles. On this basis, this study initially compiles the sources and sums of money used over the previous five years to develop China's real estate, and extensively searches and organizes China's real estate policies. Taking Sunac China as an example, by analyzing Sunac China's financial statements to judge its financing characteristics and structure, according to research, China's biggest issues with real estate financing are that China's real estate enterprises generally have high debt ratios, single financing models and imperfect systems. Moreover, suggestions are put forward on improving real estate finance legislation and optimizing enterprise management capabilities. It is hoped that these results can provide reference opinions for promoting the diversified development of real estate financing models.

**Keywords:** Financing structure; real estate; financial risk.

## 1. Introduction

Since the real estate market has grown so quickly in recent years, it has significantly boosted China's economy and improved residential housing, but at the same time, high housing prices and high leverage have also accumulated a growing number of systemic risks. If the real estate market collapses, it will deal a fatal blow to the financial system and the country's economy. To this end, the state has proposed a number of pertinent policies to control excessive housing costs and prevent systemic financial risks. Over the past four decades, one of China's fastest-growing economic sectors has been the real estate industry, especially since the 1998 housing reform. This growth was evident in both construction and precipitous price growth, with housing sales prices nearly quadrupling between 2000 and 2017 [1]. China's rapid economic development and growing urban population have increased the demand for real estate.

Chinese developers have expanded their portfolios to include office and retail construction during the current consumer boom. The Chinese developers' high leverage was the result of aggressive project launches. Chinese developers have recently embraced a more flexible strategy to secure their operating capital and reduce their cost of finance, even if conventional bank loans continue to be the major source of funding [2].

A more complicated risk transmission mechanism between various nations and various financial asset classes has emerged with the onset of the globalization age. From a number of perspectives, including those of policy regulators who seek to maintain the stability of the financial system and the smooth operation of the economy as well as intertemporal arbitrage and international investors who seek risk and return, understanding the risk dependence structure of different assets is essential [3]. Different companies in China's financial system have financing capabilities that are asymmetrical to their size or efficiency, and the financial market's distortions result in an unbalanced and inefficient mismatch of financial resources [4], creating a vicious cycle between inequities in financing and investment efficiency.

This paper examines the government policies influencing the financing status of real estate enterprises from the perspective of the financing structure, rationalizes the financing strategies used by Chinese real estate enterprises, and presents the internal and external risk factors influencing the

financing of real estate enterprises. Financing issues exist for real estate businesses. The primary issues with real estate enterprise financing are examined through the analysis of Sunac China's financial status, and helpful solutions are proposed.

## 2. Financing Status and Policy Analysis of Real Estate Enterprises

As shown in Table. 1, One can see that domestic loans, self-financing, and other funds are where the majority of the money for real estate development companies comes from. Real estate businesses primarily rely on bank loans and have a limited percentage of their own funds. The financing scale of housing enterprises has increased year by year, with domestic loans reaching the highest in 2020 and continuing to decline after 2020.

**Table 1.** Real estate financing of China in 2018~2022 (unit: 100 million yuan, data from the National Bureau of Statistics).

Index	Real estate development enterprises actually have funds in place this year	Domestic loans for real estate development enterprises	Real estate development enterprises use foreign capital	Real estate development enterprises are self-financing	Other sources of funding for real estate development enterprises	Deposits and advance receipts for real estate development enterprises	Personal mortgage loans for real estate development enterprises	Other funds in place for real estate development enterprises
2018	166407.11	24132.14	114.02	55754.79	86406.16	55748.16	23643.06	7014.94
2019	178608.59	25228.77	175.72	58157.84	95046.25	61358.88	27281.03	6406.34
2020	193114.85	26675.94	192	63376.65	102870.26	66546.83	29975.81	6347.62
2021	201132.21	23295.79	107.36	65427.69	112301.37	73945.65	32388.19	5967.53
2022	148979.21	17387.56	77.97	52940.2	78573.48	49288.81	23815.03	5469.64

Mortgage rates, limits on the LTV ratio for mortgage loans, and capital requirements for real estate development projects are the key monetary policy instruments the Chinese central government use to control the housing market [5, 6]. Since 2003, different down payments and mortgage rates have been in place to reduce the risk associated with mortgage loans. Policymakers typically stabilize housing prices when contractionary monetary policies are put in place by increasing mortgage rates, LTV ratio ceilings, and capital requirements for real estate development projects. These actions raise the financial required for residents to acquire homes while also dramatically raising the cost of funding real estate businesses [7]. As a result, the real estate market's supply and demand fluctuate, directly affecting the success of real estate firms [8].

Tax requirements for real estate construction and transactions are the typical means through which central governments control the housing market. The property deed tax, land value increment tax, stamp tax on real estate transactions, and company tax on real estate transactions are often employed control instruments [9, 10]. By increasing the property deed tax, land value increment tax, and stamp tax as well as prolonging the term exemption from business tax on real estate transactions, policymakers frequently cool down the transactions of the housing market during periods of tightened regulatory frameworks. These steps significantly lower locals' desire for housing transactions.

The following four aspects are significant examples of how control policies on the land market operate:

Increasing the land supply for rental housing, affordable housing, and other types of housing to stabilize housing prices during a period of tighter regulation, while decreasing or even stopping the land supply for residential homes during a period of looser regulation.

Land leasing restrictions: During a period of tightening, policies like "limited house price, competing for land price," "limited land price, competing for house price," and "existing house sales or competing for self-holding area after the premium rate exceeds the limit value" are frequently used to slow the rate of house price growth.

Conditions for the land rental fee: Raising the standards for the land auction guarantee fund and rigorously scrutinizing the sources of the land auction money used by real estate firms at a period of tightening regulatory requirements [11].

Crackdowns on hoarding of land [12]. The macro-control of land played a crucial role in regulating the real estate market, according to a chronology of China's land supply regulations from 2003 to 2016.

**Table 2.** Summary of Sunac China's financial position in 2022 (part 1)

Year	Total assets	Total liabilities	Total shareholder's equity	stock	Properties under development	Properties available for sale	Accounts receivable	Sustainable capital vehicles
2018	716,659,990,000.00	643,553,421,000.00	73,106,569,000.00	14,967,000.00	291,913,575,000.00	47,336,265,000.00	1,386,541,000.00	5,526,772,000.00
2019	960,649,242,000.00	846,554,998,000.00	114,094,244,000.00	490,307,000.00	426,783,378,000.00	55,189,210,000.00	1,776,321,000.00	2,789,505,000.00
2020	1,108,405,204,000.00	930,574,721,000.00	177,830,483,000.00	775,381,000.00	504,147,025,000.00	64,536,564,000.00	2,819,769,000.00	0
2021	1,176,554,888,000.00	1,051,880,642,000.00	124,674,246,000.00	835,020,000.00	619,172,767,000.00	60,583,750,000.00	3,419,432,000.00	0
2022	1,090,167,471,000.00	1,003,764,634,000.00	86,402,837,000.00	990,898,000.00	587,120,002,000.00	53,915,786,000.00	4,041,325,000.00	0

### 3. Sunac China's asset status and financing characteristics

As shown in Table. 2 and Table. 3 are summary of Sunac China's financial position from 2018 to 2022. The data is collected from the company's annual report. Through the data, one can see that Sunac China has high debts and excessive inventory, but its total assets exceed 1 trillion yuan, so Sunac China has a good foundation for recovery. At the same time, through the analysis of Sunac China's financial statements, one can also conclude that Sunac's financing methods mainly include: bank loan, bond financing, financial leasing, overseas financing, pawn financing, direct deposit, bank letter of credit, loan guarantee and national fund.

### 4. Suggestions and Implications

Commercial banks bear a disproportionate share of the risks associated with the market for commercial bank loan investments. More than 60% of the total capital used by real estate businesses comes from direct bank loans. The financing strategy of issuing bonds has increasingly diminished in China as the listing and financing of real estate firms has increased [13]. China's real estate

enterprises generally have a high debt ratio, and the overall debt-to-asset ratio of developers has risen from about 72% in 2008 to more than 80% in 2020 [14]. An excessively high debt ratio not only increases the risk of the enterprise, but also increases the risk of creditors, greatly reducing the financing capacity of the enterprise [15]. Under the conditions of market economy, a sound legal system is the guarantee for the development of enterprises and the foundation of economic development. If there is no perfect legal system to match it, it will restrict economic development and even lead the economy astray. Compared with the developed countries in the West, there is still a big gap between China's relevant laws and regulations. A scientific and effective enterprise financing system has not yet been formed, which has brought certain difficulties to the financing of real estate enterprises and directly affected the normal development of real estate enterprises [15].

**Table 3.** Summary of Sunac China's financial position in 2022 (part 2).

Year	Share capital and premium	Surplus reserve	Total bank loans	Issuance of perpetual bonds	deposit received	Contractual liabilities	Accounts payable	Issuance of convertible bonds	Proceeds from the issuance of common shares	Net cash flows from fund-raising activities
2018	378,421,000.00	42,190,000.00	229,409,300.00	340,600,000.00	0.00	199,378,610,000.00	41,584,254,000.00	0.00	43,090,000.00	-10,426,889,000.00
2019	382,339,000.00	65,180,292,000.00	322,274,959,000.00	0.00	0.00	240,818,329,000.00	66,576,014,000.00	0.00	466,022,000.00	36,393,367,000.00
2020	400,938,000.00	97,200,984,000.00	303,438,895,000.00	0.00	0.00	273,759,529,000.00	123,297,865,000.00	0.00	7,267,024,000.00	-35,378,495,000.00
2021	429,113,000.00	3,172,000.00	05,146,000.00	0.00	0.00	341,867,335,000.00	135,223,501,000.00	0.00	4,189,286,000.00	-11,452,459,000.00
2022	466,030,000.00	27,648,059,000.00	298,419,217,000.00	0.00	0.00	318,845,924,000.00	122,296,194,000.00	0.00	3,662,176,000.00	-29,111,730,000.00

The real estate boom is conducive to the growth of the national economy, while the excessive expansion of the real estate bubble will threaten the sustained and stable development of the industry. Among them, the real estate market is closely linked with the financial system, and excessive financial support and other factors give rise to the real estate bubble. The real estate bubble may eventually burst, and the real estate financial risk will accelerate the release, and infect the banking system and related industries, impact the financial system and the macro economy, and affect the stability of the macro financial economy.

As part of its efforts to improve China's real estate finance legislative activities, the government should speed up the introduction of pertinent laws and policies for real estate financial supervision, provide adequate financial compensation to enterprise financing, and increase fiscal revenue for the growth of the national economy. Businesses should standardize their internal financial practices, create accounts that are compliant with Chinese tax regulations, ensure that tax evasion is allowed, and increase the return on investment of their real estate investments. The provision of effective and high-quality financial services to businesses as well as the development and improvement of loan management strategies are essential components of firm management. A programmatic management procedure is designed to prevent the absence of effective communication in the operation of various departments of real estate firms in light of the capital allocation issues faced by many real estate enterprises in China. The finance department should select a particular individual to be in charge of

financial matters in light of the disadvantages that a significant share of cash cannot be withdrawn in a timely manner [13].

## 5. Conclusion

In summary, this study only analyzes the financial risks of real estate enterprises from the aspects of national policies and corporate financing conditions, mainly focusing on theoretical research. On the other hand, due to the limitations caused by subjective factors such as the author's own cultural background and professional cognition, this bias will also affect the rationality of the study. In order to solve the shortcomings of this research, the future development direction is proposed. First, some mathematical models and software technologies are used to collect, screen and analyze research data to make the research results more realistic. Second, it is necessary to expand the scope of literature research and conduct more in-depth research, while paying attention to the combination of theory and empirical evidence. Overall, these results offer a guideline for risk analysis.

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