

Problems And Solutions of Real Estate Industry in China

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Abstract. Since real estate industry is one of the national pillar industries in China, therefore, it has great contributions to China's economy and society. for example, promoting the Chinese economic growth in the long-run, and it provide financial support to government and benefits for cities development. Secondly, real estate also helping the development of relevant business, creating large amount of job opportunities to society, for residents, they can enjoy higher living standard. However, at same time of rapid development of real estate industry and economic boost, they exist series of problems that harmful to society like real estate bubble, unfinished buildings and cooperates financing difficulties. aiming at these problems, this paper suggest that government can through promulgate some new policies, laws, and establish the compete financing channel mechanism to solve these kinds of problems. The target of this study is to help real estate industry in China keep healthy development.

Keywords: Real estate bubble; financing; unfinished buildings; real estate market.

1. Introduction

Real estate industry plays an important role in country, it plays crucial roles of promoting the economic growth, increase government revenue, creating job opportunities. In addition, real estate also like a promoter of urban development, the improvement of urban infrastructure along with construction of real estate projects. For instance, road, bridge, water supply, electric supply and other public facilities. overall, real estate industry like a catalyst promoting the cities develop from different aspects. These effects undoubtedly help the overall development and progress of society.

In China, the development of real estate industry having joint connection with development of times [1]. Although there is no long history this industry, but it experiences rapid growth, have many turning points, these turning points also have significant effects on national economic growth [2]. since 1978, the real estate begins to develop, and in July of 1998, the houses as a welfare allocated by government were fully eliminated, this means that the command economy had ended, the preliminary construction of demand and supply system has been finished. Coming to 2009, the China government has been implements series policies that stimulate real estate industry for preventing the impacts caused by financial crises. these policies included decrease tax rate, credit easing and others. Supported by policies, the number of house buying and housing prices both hit record high [3]. The huge contributions made by real estate industry help China keep continuous development under financial crises.

According to the Fig. 1, there are over decade burgeon of real estate industry, from 2008 to 2021 in China, and China real estate made great achievement on economic growth, improving living conditions of residents, promoting cities development and others. But the data on diagram have demonstrate that since 2022, the amount of real estate investment have experience continuous decrease in 3 years. Because in the real estate rapid development process, there are some problems formed, for example, real estate bubble, unfinished buildings, companies financing difficulties, therefore, the amount of investment stop increase and begin decrease. To solve series of problems, this paper has given some suggestions for help real estate industry recover healthy development.

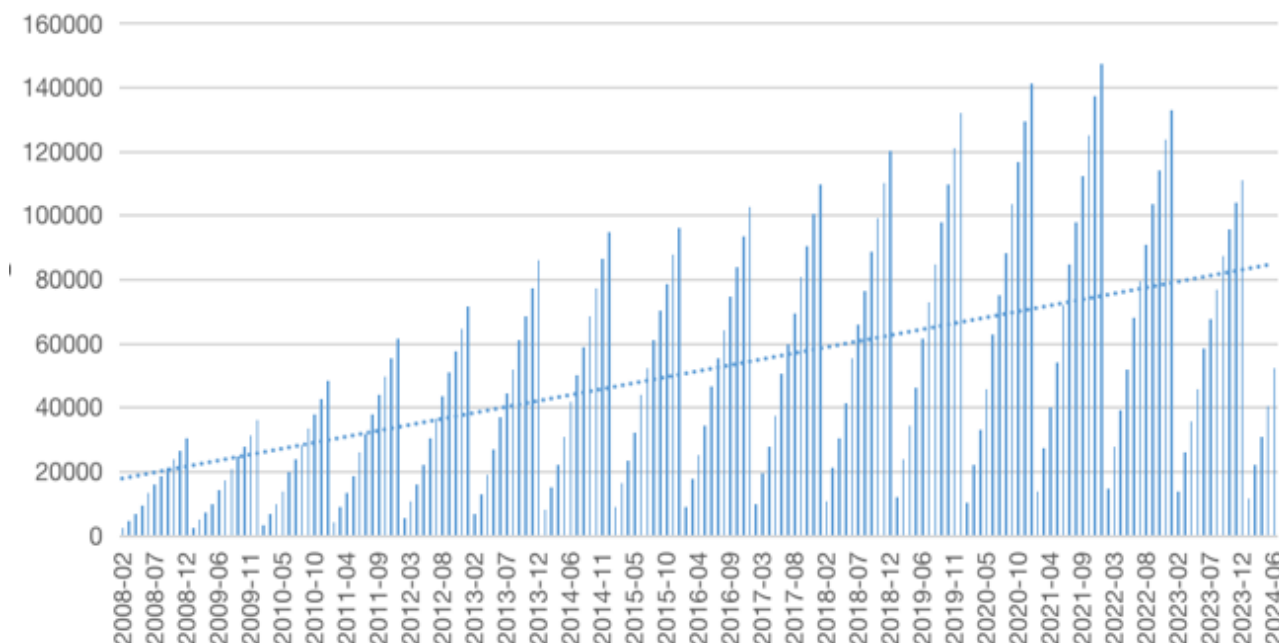


Fig. 1 Development history of real estate market

2. Problems

2.1. Real Estate Bubble

Real estate bubble usually refers to the market prices of houses are considerably higher than its real value. These also bring some negative impacts to country and society. For starters, for ordinary people, high level housing prices not only make people feel higher pressure in their daily life, and high living costs such as high rents also will cause talent people migrate to other places, this will have influence on cities attractiveness and competitiveness, it not benefits for future development. Secondly, for companies, based on one report, real estate industry as a national pillar industry in China, and it has many connections with relevant businesses, therefore, it has a great influence. For instance, industries like cement, decorations, chemicals, wood, even household appliances and others will affect by real estate bubble, in a varying extent. More than that, the false prosperity and high profits are easy to attract medium and small-sized enterprises enter in this industry, participate in market competition, these participants do not know that these high profits are not result from real economic growth. If the bubble break, for some small business who are poor ability of risk bearing, they are easy to bankrupt from real estate bubble, thus disrupting the market.

2.2. Unfinished Buildings

When the economy is in a downturn, the company increased risk of break a contact, and there are many houses cannot sell at expected prices, it is hard to cover their projects costs, at this situation, large number of companies on the verge of bankruptcy, capital chain rupture [4-5]. Beyond that, due to the cash flow problems, some construction projects being developed by real estate enterprises cannot operate normally, so there are many unfinished buildings have emerged in many cities in China in the short run. And there are many negative effects to the society caused by unfinished buildings: for starters, the economic lost, the emergence of unfinished buildings has greatly damaged the interests of banks, developers, construction enterprises and house buyers [6]. The unfinished buildings may make the funds lent by banks face the dilemma that they cannot be recovered and become non-performing assets. Secondly, waste of land resources. Usually, the projects of unfinished buildings had got the right use of the land, but due to the financial problem the developer cannot use the land resources efficiently, the economic benefits are not well played. Finally, affect the

appearance of the cities. Most of the unfinished projects are at the important positions in cities, and since the projects fall into disuse for a long time, the quality of the houses is declining, but some homeless people probably lived in the unfinished projects or some people use the unfinished projects for other purposes, which brings potential dangers to the public security and tarnish the reputation of the city.

2.3. Financing

The investment process of real estate projects can be divided into multiple stages, from the initial obtain land to the project construction, and then to the later sales and operation, each process required a large amount of capital. Therefore, for real estate companies, financing is most important to construction projects [7]. However, due to the emergence of unfinished buildings, the investors are lack of confidence on construction projects, and as some real estate enterprises face debt risks due to the lack of funding, which not only damages the credit of real estate enterprises themselves, but also affects the credit environment of the whole real estate industry, financial institutions will be more strict in assessing the financial risks to real estate companies. Furthermore, in recent years, funding policies for the real estate industry have continued to tighten, especially after the introduction of the "Three Red Lines" policy at the end of 2020, which has put forward strict standards on the leverage level of real estate enterprises, raised financing thresholds, limited financing channels and increased financing costs. That has certainly made it harder for many property companies to raise money [8].

3. Solutions

3.1. Policy Regulation

Chinese government can promulgate some new policies to prevent the break of real estate bubble. For instance, new loan policies are issued to distinguish buyers with different purposes [9]. Different down payment ratios and loan interest rates are adopted for self-occupation, improvement demand and investment speculation demand, and relatively loose policies are adopted for the former, with lower loan interest rates and down payment ratios to reduce their purchase costs. On the other hand, for investment speculative demand, we should adopt more strict policies to increase their purchase costs, restrain speculative demand, prevent the emergence of bubbles, and maintain a balanced development of the real estate market. In addition, the government can introduce a property tax, which is aimed at buyers of vacant properties or for investment purposes, to control the high-level housing prices. At the same time, the government can also use tax revenue to encourage the purchase of owner-occupied housing to support the development of affordable housing. In short, we should control housing prices at a reasonable level, ensure people's basic housing security and stabilize housing prices, actively take measures to strengthen supervision and promote the steady and healthy development of the real estate market [10].

3.2. Plan to Deal with Unfinished Buildings

Solving the problem of unfinished buildings is a complex one, which requires the joint efforts of the government, developers, home buyers and the society. First, for the government, the incomplete system and lax legislation of the real estate industry are one of the main reasons for its problems [11]. Therefore, the government can issue new laws to make it illegal for real estate enterprises to leave unfinished buildings, so that the real estate enterprises will not easily cancel the progress of the project even if they encounter some difficulties in the development process. Or the government can cooperate with the real estate enterprises and provide financial assistance to the real estate enterprises to ensure the construction projects can be finish. Secondly, for house buyers, when buying a house, they can first understand the reputation, reputation and financial status of different developers in advance. In addition, once house buyers find the risk of unfinished projects after buying a house, they should take timely actions to safeguard their rights and interests through laws. They can also join relevant house

buyers' organizations to jointly pay attention to the progress of the project and collectively protect their rights.

3.3. Solving Financing Problems

To solving the financing problem. For real estate enterprises, they can optimize and change their financing mechanism to make financing more effective [12]. First, enterprises should combine financing planning with actual operation, and conduct capital budget and debt maturity planning based on project development progress, profitability and repayment ability, to avoid financial crisis caused by capital mismatch. Second, improve credibility and reduce financing costs. The level of financing cost is mainly affected by corporate reputation and investor recognition. Therefore, enterprises should improve the level of operation and management and corporate reputation, reduce the doubts of investors and financial institutions, and thus reduce financing costs. Specific measurements such as optimizing profitability, strengthening the management of reputation, brand image and quality, to establish a good corporate image in the industry, attract more investment, and achieve low-cost financing. On the other hand, enterprises themselves should improve the ability of risk identification and prediction, strengthen financial risk management, control key indicators such as debt scale within a controllable range in the process of project development, and regularly evaluate risks. For the government, it can issue more bonds through the evaluation of the funds needed by the real estate enterprises to ensure that the real estate enterprises have enough money to complete the projects.

4. Conclusion

In conclusion, this paper demonstrates that real estate has played a very important role in China's economic development for a long time, because with the rapid development of the real estate industry, the rapid economic growth is accompanied by many problems, so this paper also puts forward some solutions to these problems. In short, the healthy development of China's real estate needs the joint participation and efforts of the whole society, enterprises, people, government and other institutions. It is very important to provide more high-quality housing resources for people and promote social stability and sustainable economic development.

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