

Research on the causes and governance of the "thunderstorm" problem of real estate enterprises

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Abstract: The real estate industry is an indispensable pillar in the national economy. With the gradual development of the real estate industry, it is difficult to maintain the demand of the asset-heavy industry by virtue of its own capital accumulation, and most enterprises will choose debt management for better development. In recent years, there have been frequent "thunderstorms" in real estate enterprises in the market, and the trust of financial institutions and the general public in real estate developers has continued to decline. Therefore, it is very important to analyze the causes of "thunderstorm" in the real estate industry, and this paper analyzes the current situation of the real estate enterprise market and the causes of its "thunder storm", so as to propose prevention and control measures for enterprise credit risk, financing risk and business risk.

Keywords: Real estate enterprises; "Thunderstorm"; Credit; Risk.

1. Introduction

As one of China's pillar industries, the survival and development of the real estate industry is inseparable from the support of funds, and the real estate enterprises themselves have the characteristics of "high turnover" and "high profit margin". In order to adapt to the development of the times, real estate enterprises invest funds in financial institutions to appropriately financialize in the hope of reducing leverage, easing financing constraints and improving short-term performance. In the process of financialization, the financing credit problem of real estate enterprises is the fundamental reason why real estate enterprises will "thunder". In order to better cope with the new situation in the real estate market, effectively implement the monitoring of the real estate market, and implement the real estate financing credit management system in real time, this paper will try to analyze the financial status of listed companies and the composition of corporate debts, especially the scale of domestic and foreign credit bonds of real estate enterprises in the past ten years, seek enterprises with relatively higher operating safety factors, and put forward relevant suggestions to prevent real estate enterprises from financing credit crisis.

2. Financing status of real estate enterprises in China

Since 2012-2021, real estate enterprises have gone through various stages such as financial crisis, land policy reform, "housing without speculation" and the new crown epidemic, and as the most financialized industry in the real economy, rapid return of funds is an important means for real estate enterprises to survive well, but in recent years, real estate enterprises have continuously erupted in debt, debt defaults, and their default subjects have gradually extended from small and medium-sized housing enterprises to industry leading enterprises.

2.1. Real estate enterprise "thunderstorm" risk

Under the new normal economy, the financing health of

real estate enterprises will affect the development of upstream and downstream industries in the supply chain, so the management of financing risks of real estate enterprises should be managed and optimized, focusing on internal and external aspects (Guangchun LI, Pengfei LI, 2022) [1]. The general assumption is that blockchain can solve a significant challenge facing real estate businesses. Using blockchain to conduct new research on the management, transaction and land management of real estate enterprises (Saari Anniina, Vimpuri Jussi, Junnila Seppo, 2022). The operation of securitization in the real estate industry is an indispensable and important step in the process of its financialization, and the existing problems are also worth studying and improving (Limin Yan, 2017) [2]. In the process of financialization of real estate enterprises, there must be many influencing factors that can curb their excessive financialization, it will be interesting to see how our country's public financing, credit, and debt will affect businesses. (Liang Yan, 2020) [4].

The financing status of real estate enterprises is mainly debt, supplemented by equity financing, and there are many risks in the financing structure, the most prominent of which is that the proportion of indirect financing of real estate enterprises is too high, which will increase the operational risks of enterprises, and at the same time, the government focuses on regulating the financing end, and some high-leverage real estate enterprises will be exposed to debt repayment pressure and credit risks. Here, ten typical "thunderstorm" real estate enterprises in recent years will be selected for analysis of their solvency as shown in Table 1.

The asset-liability ratio of the real estate industry should be between 0.6-0.7, as can be seen from the figure, most of the asset-liability ratio of ten enterprises are too high or low phenomenon, the asset-liability ratio is too high will bring high financial risks to real estate enterprises, but also reduce the solvency of enterprises, the asset-liability ratio is too low not only can not play a good role in financial leverage, but also very easy to cause the financing cost of enterprises is too high, not conducive to the benign development of enterprises. The cash ratio is the ratio of quick assets after deducting accounts receivable balance to current liabilities, which can best reflect the ability of an enterprise to directly repay current

liabilities, five of the ten enterprises are about 20%, the remaining five are about 3%, the cash ratio is too low indicates that the liquidity of the company's cash is relatively weak, to a certain extent, indicating that the solvency of the enterprise is limited. The ratio of long-term borrowings to total assets of an enterprise reflects the degree of capitalization of an enterprise, and the high and low of the ten enterprises are different, and if the ratio is too high, the long-term debt repayment pressure of the enterprise is high, the

degree of capitalization is too low, and the degree of capitalization is too low, and too high and too low are not conducive to the long-term development of the enterprise. Based on the above data, it is not difficult to see that the average debt service value of "thunder" real estate enterprises is too high or too low compared with the industry, which can reflect that the common point of "thunderstorm" enterprises is the corporate debt crisis.

Table 1. The solvency of ten "thunderstorm" enterprises

	Financial Street Holdings Co.,Ltd	Macro link Cultural Tainment Development CO., LTD	Macrolink Cultural Tainment Development CO., LTD.	China Evergrande Group	Poly Developments and Holdings Group Co., Ltd.
Basic EPS growth rate A	0.059		-1.952	-2.408	3.296
Cash ratio	0.348	0.036	0.047	0.397	0.208
Gearing ratio	0.742	0.899	0.411	0.289	0.784
Long-term borrowings to total assets ratio	0.223	0.216	0.101	0.026	0.166
Long-term debt-to-equity ratio	1.675	2.216	0.175	0.050	0.918
Next:					
	Gemdale Corporation	Sichuan Languang Development Co.,Ltd	Greenland Holdings Corporation Limited	Cathay Lujiazui Life Insurance Company Limited	China Fortune Land Development CO., LTD
Basic EPS growth rate A	3.091		-2.696	2.221	-1.163
Cash ratio	0.250	0.025	0.053	0.250	0.040
Gearing ratio	0.762	0.960	0.888	0.682	0.946
Long-term borrowings to total assets ratio	0.096	0.049	0.072	0.062	0.071
Long-term debt-to-equity ratio	0.858	2.137	0.918	0.690	0.875

2.2. The financing credit crisis is prominent in real estate enterprises

Real estate enterprises are capital-intensive industries, involving industries including housing, industry, construction, commerce and municipal, etc., which have a wide range of correlation driving effects, in the past decade, the real estate industry has developed rapidly, and at the same time, the scale of liabilities of real estate enterprise assets has also expanded rapidly. With the development of the real estate industry, the expansion of the scale of interest-bearing liabilities, the reduction of financing channels and the contraction of the market, the credit risk of real estate enterprises continues to increase, and the real estate industry has higher requirements for credit ratings than securitized products in other industries(Jianping Zhang, Yuhao Xu, 2021)[5].Compared with traditional commercial banks, supply chain finance is a very new management method that is the key for enterprises to control risks in the supply chain(Yongge Xu, Ran Li, 2018)[6].China's construction industry supervision is an important subject of the construction market, and its credit status will largely affect the credit level of China's

construction industry, so it is urgent to evaluate the credit system of supervision(Hui Ma, 2012)[7].As shown in Figure 1, the total domestic liabilities of listed real estate enterprises rose from 1,477.839 billion yuan in 2012 to 2,329.579 billion yuan in 2021, an increase of 57.63%, and the asset-liability ratio rose from 75.2% in 2012 to 80.3%, an increase of 5.1%, which shows that the debt of the real estate industry has maintained a high level in the past decade. In 2020, the total debt scale of real estate enterprises turned around because the central bank lowered the reserve requirement and interest rate and began to release funds, trying to alleviate the current situation of tight funds in the real estate industry, so the total debt of real estate development enterprises decreased in 2020, and the pressure on the financing credit of real estate enterprises was also relatively eased.

The main business credit of real estate enterprises usually includes: first, the operation of the land transfer fee payable in the real estate industry, so that all purchased land can have installment payment conditions except for special circumstances. Second, real estate developers obtain "five certificates" through pre-collection of accounts to pre-sell houses. However, this kind of financing credit often depends

on the market environment and the planning of sales projects, which will also affect the consistency of the company's capital chain. The process of obtaining the "five certificates" by real

estate developers will also make the capital chain tight, and real estate developers are also required to intervene and prevent them as soon as possible.

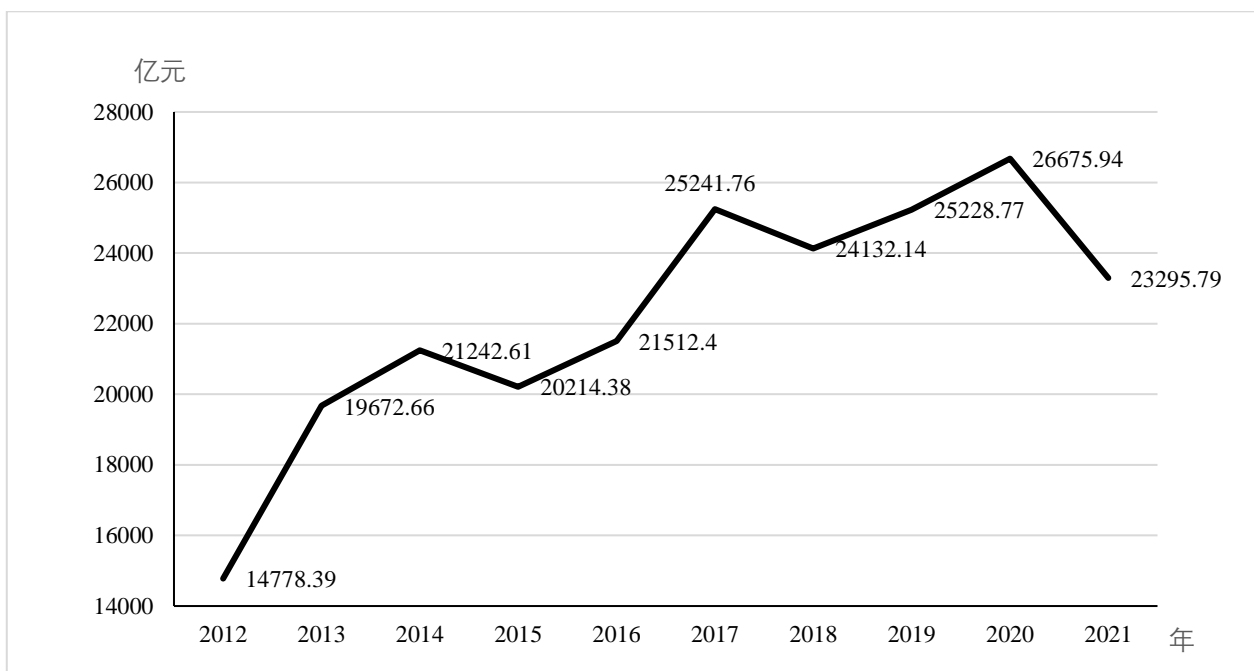


Figure 1. Total domestic liabilities in the real estate industry from 2012 to 2021

Improving the productivity (also known as technological efficiency) of real estate and construction enterprises (RECFs) is critical to addressing the continuing housing shortage and increasing housing burden in developing countries. However, few studies have focused on this issue in the context of developing countries. The meta frontier framework allows businesses of different sizes to operate different production technologies and different business environments. (Hoang Viet Ngu, Raharjo Joko Purnomo, Susilawati Connie, 2022). According to the Notice on Printing and Distributing the Measures for Credit Evaluation of Construction Enterprises (Implementation Rules for Credit Evaluation of Inspection and Testing Institutions) (for Trial Implementation) issued by the Engineering Construction Quality Supervision and Inspection Branch of the China Construction Industry Association in June 2019 (Establishment of co-supervisors[2019] 23 号)[9] Measure the credit rating system of real estate enterprises under different credit rating methods to better serve investors and other stakeholders. The impact of financial analysis, purchase restriction and corporate governance on the operational risks of real estate enterprises has been maintained for a long time. The financing credit crisis has only begun to attract people's attention in recent years, and this is the root cause of the closure, liquidation, legal person running away, platform loss and bankruptcy of real estate enterprises.

3. Analysis of the causes of the "thunderstorm" problem of real estate enterprises

3.1. Excessive financialization of real estate enterprises

After years of real estate project development, its profit model has changed from simply buying and selling houses to using project financing, and under the condition of high

project turnover to ensure the safety of funds, the more profitable funds are invested in new projects, and the more circular investment, there will be three situations: the first blind expansion, contempt for project quality. When the project becomes a financing tool, the scale of the project is large enough to attract capital, thus ignoring whether the project itself can be profitable and whether it is of good quality. The second type of financing is expensive. For example, ever grande's high financing costs seriously occupy project profits, from the disclosed project statistics, invalid costs account for as much as 25% of land payments, 700 billion interest-bearing liabilities will repay high interest of more than 100 billion yuan per year (interest is calculated at 15%), financing costs account for more than 12%, compared with other companies in the same industry, the cost is too high. The third type of blind diversification. Diversification itself is a double-edged sword, fundraising diversification can make the healthy and stable development of corporate funds, but blind diversification will disperse corporate funds, making it difficult to sustain the healthy development of enterprises themselves. Proper subtraction is more conducive to the long-term stability of enterprises.

In the past, real estate enterprises curbed the excessive financialization of their enterprises by alleviating financing constraints, and now under the rising uncertainty of economic policies, the financing constraints faced by enterprises will gradually increase, which will prompt real estate enterprises to invest more financial assets in limited investment resources to reduce their own constraint risks.

3.2. False performance is disqualified

Common methods of false performance include consolidated statements, fake work credit, etc. When the financial statements are consolidated, they will not be consolidated if they do not meet the requirements for the preparation of consolidated financial statements. Work arrival is the real estate developer to the construction unit to pay

funds, not in cash and supply chain financing and other ways but directly to the housing to offset the project payment, and fake work arrival is to inflated performance to make virtual construction site procedures, "when the waves retreat, only to know who is swimming naked" After that, on the basis of false performance to add performance pressure is increasing day by day, false performance will be exposed for the first time when the market is cold, so that "thunder" is an inevitable result.

3.3. Industry regulation, market decline

In August 2022, the Ministry of Housing and Urban-Rural Development and the People's Bank of China clarified the rules for capital monitoring and financing management of key real estate enterprises, drawing "three red lines" for developers, which largely blocked the way for real estate enterprises to repay old debts with new debts, and their sharp increase in debt pressure was also an important reason for the "thunderstorm" of real estate enterprises. The "two red lines" of banks have also reduced the occupation of financial resources by the real estate industry, and the total amount of development and loans has been controlled under the restrictions of policies, which directly affects the demand for housing purchases and indirectly affects the investment and acquisition of land by real estate enterprises. The "two concentrations" policy has made the distribution of land resources unevenly in various regions, and the advantages of developing core cities with large amounts of funds have become more prominent, resulting in land auctions in most cities, and local finances are tight, passively reducing housing prices, and indirectly affecting market expectations. All policies are directed at the use of funds, which will promote the differentiation of real estate enterprises.

4. Governance countermeasures for the "thunderstorm" problem of real estate enterprises

In recent years, real estate enterprises have frequently "thunder stormed", through the analysis of the above reasons to avoid the recurrence of this phenomenon, so put forward some suggestions.

First, establish a more complete risk prevention and control mechanism. In order to maintain the stable development of the real estate market, protect the credibility of the government and relevant departments and the legitimate rights and interests of citizens, retain the credit image of the real estate industry in investors and creditors and other stakeholders, establish a solid and perfect risk prevention and control mechanism, correctly grasp the relationship between working capital and investment funds and net profit, and ensure the strength of cash flow. The risk prediction system of complete enterprises uses systematic and scientific methods to measure the risks of various investments, strictly controls the inflow and outflow of new flows of enterprises, and strives to reduce the investment and financing risks of real estate enterprises.

Second, enrich market financing channels. At present, the financing channels in the market are still not rich, the financing limitations of real estate enterprises are still large, compared with foreign markets, China is still in the development stage of securities, funds, insurance and trusts, and the relevant regulatory system is still in the stage of exploration and improvement. The equity financing and credit

methods usually chosen by real estate enterprises will increase the financing risk of enterprises, which is not conducive to the long-term development of enterprises. Enterprises should choose different financing channels according to market changes, and the state should also have corresponding policies as support to ensure the standardization and diversification of their participation in projects.

Third, improve the market creditworthiness system. The "thunderstorm" of real estate enterprises is ultimately a crisis in their financing credit. A sound credit system can help financial institutions reduce the ratio of non-performing loans, facilitate real estate enterprises to strictly control their own strength and loan qualifications, and help credit report users clarify their financing limits and risk indices of investment projects from financial institutions. Therefore, a series of important measures issued by the government to promote the steady development of the real estate industry must be adhered to. However, it should be noted that under the conditions of the future market environment is not clear, it is necessary to take active measures to avoid disturbance factors, reasonably optimize regulatory policies in the future, standardize the financing of real estate enterprises, and pay attention to the steady development of the real estate market. Corresponding scientific tools can be used to help the measurement, such as the more mature forward-looking KMV model based on option theory; Logistic model of influencing factors of research results; Credit Metrics model; Credit Portfolio Risk model, etc. Establish quantifiable rating criteria to help users of the system complete the financing process more conveniently.

Fourth, improve the legal system of the real estate industry. In order to promote the healthy and stable development of the real estate industry, relevant laws and regulations of relevant departments should be improved to escort the development of the industry. In the context of today's system, the real estate industry is struggling to survive, first of all, it is necessary to increase the hearing system and involve a wide range of stakeholders, so as to better protect the interests of the masses. Credit is the embodiment of the comprehensive strength of real estate enterprises in many aspects such as development ability, credit, taxation, contract performance, product quality, social responsibility, etc., and is also a very important part of the social credit system.

5. Research Summary

The "thunderstorm" of real estate enterprises will bring unstable factors to the market and related equity investors and creditors will cause certain losses. Although the debt operation of real estate enterprises can "revitalize" the cash flow of enterprises, exert financial leverage effect, reduce capital costs and tax burdens and other advantages, but also make enterprises face debt repayment risks and financing difficulties, resulting in enterprises falling into financial crisis, and even bankruptcy liquidation, etc., so real estate enterprises should establish a good risk early warning mechanism, rationally plan and use their own credit advantages, broaden their financing channels to strengthen their own ability to resist risks. There are also relevant departments in the market to increase supervision and protect the interests of enterprises, while also protecting the general public, and the state will continue to promote and promote the establishment and improvement of the credit system of the whole society. In 2023, the economy is about to start a new

development, and the real estate industry will have new opportunities and challenges waiting in the new market.

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