Advances in Social Science, Education and Humanities Research, volume 484
2020 International Conference on Social Sciences and Big Data Application (ICSSBDA 2020)

Problems and Countermeasures of Real Estate Enterprises' Financing Difficulties -Taking Vanke as an Example

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ABSTRACT
With the continuous progress of reform and opening up policy, our country's real estate industry has been developed continuously. As an important pillar industry, the existence and development of real estate enterprises play a very significant role for the stability of China's capital market and the national economy. For real estate is a capital-intensive industry, that's the reason why satisfying the capital needs has become the primary problem during its progress, especially in recent years. In the past few years, the government has introduced a series of regulatory policies that have restricted the financing channels of real estate enterprises. In view of this, this article explains the basic status of financing for real estate companies, and proposes existing financing problems and solutions based on Vanke's situation. With its strong promotion and practicality, this article aims to provide financing strategies for Vanke while providing additional financing strategies to other real estate companies in the same industry, which inspires to help solve the problems of financing difficulties for real estate companies.
Keywords: *real estate company, Vanke, financing difficulties*

1. INTRODUCTION

Since the beginning of the 21st century, the real estate industry, as an important part of the national economy, has developed rapidly and has a very momentous effect and economic status. As a significant growth point of the national economy, the real estate industry plays an active role in stimulating the rapid growth of the national economy and expanding labor employment. With the effective implementation of the "housing to live without speculation" policy, the popularity of real estate companies has declined. At the same time, as a typical highly capital-intensive industry, the real estate industry requires considerable investment funds and has a long return period. Each link of the project must obtain stable funds to retain its normal operations [1-3]. Therefore, reliable financing channels are critical to real estate companies, and it is related to its survival and sustainable development. In 2013, to curb the "overheated" development of the real estate market, the state adopted a tight credit policy. At the same time, the promulgation of the new "National Five Articles" has led to a sharp drop in funds returned by real estate companies and limited internal financing. The average annual interest rate of real estate trust financing has reached more than 15%, and the cost of private financing has reached 30% or even higher. In addition, most banks have tightened lending to real estate companies, which has increased the difficulty of financing to real estate companies. Squeezed by national policies, financial institutions and markets, many real estate companies are deeply mired in financing, the business conditions deteriorated, the speed of returning funds has slowed down and the working capital gap has widened [4-5]. At this time, capital has become a grueling "hurdle" for real estate companies to overcome, restricting its corporate investment, annual performance and future sustainable development.

Whether real estate enterprises can raise funds smoothly will not only affects the investment efficiency of enterprises, but also affects the economic operation and normal advance of our social, which has a great impact on the reality of people's livelihood. Therefore, how to ensure sufficient cash flow in the course of business operations and prevent the shortage of funds from hindering the sustainable and healthy development of the company, has become the core issue facing real estate companies. Faced with this situation, we try to analyze the current situation of financing of real estate enterprises in China and financing methods mainly adopted by real estate enterprises [6]. Taking Vanke real estate enterprises as an example, this paper analyzes the financing problems of Vanke enterprises, and puts forward feasible financing proposals. We expect that this financing issue will bring some inspiration, which is of practical significance.

2. CURRENT STATUS OF CORPORATE FINANCING IN THE REAL ESTATE INDUSTRY

2.1. Overview of Real Estate Enterprise Financing

Due to the high risks and cyclical fluctuations of the real estate industry, financing has always been plagued by real estate companies. The development of a real estate project needs a large amount of investment in the early stage [7-8]. There are few real estate companies in the industry that can have sufficient funds, and it is very difficult for companies to obtain equity financing. Therefore, most companies just have to develop projects through debt. Liabilities bring extraordinary risks to real estate companies. At the same time, changes in national policies have caused real estate companies to fluctuate cyclically and with uncertainty.

2.2. Main Methods of Financing for Real Estate Companies

The main methods of real estate financing include internal financing and external financing.
Internal Financing. Real estate companies use their funds, operating accumulated funds, or loans from related companies to support the implementation of the project, which is called endogenous financing. The advantage of using this financing method is that this kind of capital can be flexibly controlled and used by real estate enterprises, which is generally unrestricted and can stay for a long time, with almost no capital cost. Moreover, the state stipulates that real estate developers must have the right of self-determination when developing. The drawback is that the state stipulates that real estate companies must hold more than 30% of their own funds, which brings great pressure to the companies. Although there are many real estate companies, there are actually a few large companies and powerful companies [9]. When the scale of enterprise investment increases, the demand for self-owned funds will increase, so will the demand for the number of companies holding private equity funds.
External financing:

2.2.1. Commercial credit financing

Commercial credit financing is a means of financing by making use of debts formed by business credit and upstream and downstream customers. The method has the advantages of low cost, low risk and reusability. This includes pre-collected using financing widely used by real estate companies, which means that when real estate projects developed by fully-documented real estate companies reach a certain construction schedule, they can directly sell houses to buyers and collect accurate pre-collected funds to supplement subsequent development funds. This business model is common problem in real estate companies, which has a far-reaching impact on alleviating the shortage of funds. The data shows that the deposit and advance payment received from housing sales account for about 40% of the total development funds, which can enable real estate companies to obtain interest-free funds and effectively solve the housing sales problem. However, this method needs a certain level of engineering construction. Before the pre-sale, a large amount of capital investment is still a big pressure for real estate companies.

2.2.2. Bank loan

Due to the long-term capital cycle requirements of real estate companies and the long-term funds provided by bank loans, real estate companies gradually rely on bank loans for financing. At present, bank loans account for over 60% of the external funds obtained by China's real estate industry. It is a real estate company, one of the most traditional financing methods, and also the main channel for the stable operation of real estate development companies. Banks extended credit period, with moderate interest rates, large amounts, low risk and simple procedures. Under normal circumstances, they can meet the capital needs of real estate companies, which is the company’s first choice. However, its shortcomings are unavoidable. The interest rate is determined by policy, the repayment period is fixed, liquidity is insufficient, and funds can not be freely used. Nevertheless, the proportion of bank loans in the financing of real estate enterprises is still increasing, and it is difficult to change the situation of relying heavily on commercial bank credit in the future.

2.2.3. IPO financing

Enterprises mainly transfer their shares by issuing stocks, and the financing activities in the financial market are called listing financing, which includes catalogue listing and indirect listing. In an IPO of a company, the company’s shares are listed in the catalogue. Indirect lists are also called a shell lists. A steady medium-sized company acquired the shares of the listed company by means of acquisition and holding of the listed company, and obtained a certain listing position. The business and funds of the company. There are advantages and disadvantages in these two ways of listing. Catalogue listing can quickly obtain huge funds, establish a corporate image, and help enterprises to develop continuously. However, there is a long time of listing to a successful listing, with low success rate. Indirect listing can continuously raise funds in a relatively short period of time, but it is difficult to control and obtain new funds, and the benefits of enterprises can not be highlighted. In terms of the amount of financing the companies cares about, the listing in the catalogue is higher than that in the indirect listing. But the threshold of the directory list is too high. Most companies choose to go public in order to obtain financing. Indirect listing requires companies to hold a large amount of funds, and raise funds through additional issuance and share allotment refinancing, but also requires companies to have good enough projects and assets to replace them.

2.2.4. Bond financing

Bonds are debt certificates issued to debtors by companies. By using bond financing, you can gather debtors's funds and develop real estate projects. The advantage of this financing method are that it does not affect the original equity owners of the enterprise, the cost of capital is lower than that of stocks, and the financing scope is larger and the amount is higher. The disadvantage is that the issuing process is complicated, the financing cost is higher than other methods, and most real estate companies are still difficult to issue corporate bonds. Since 2018, with the increasing demand of enterprises to "borrowing the new and repaying the old", the overall shortage of funds has eased, the exchange has relaxed the issuance of real estate corporate bonds, and the issuance of corporate bonds by real estate companies has gradually resumed.

3. VANKE FINANCING STATUS

3.1. Company Introduction

The predecessor of Vanke was established in May 1984. In 1988, the company reformed its shareholding system and entered into the real estate industry. Changed its name to "Vanke Co., Ltd.", and became the first industrial and commercial enterprise to develop public shares in accordance with international practices. With the passage of time, Vanke now takes "Let architecture Praise Life" as its purpose, and its business markets covers 40 key cities such as the Pearl River Delta, Yangtze River Delta and Beijing-Tianjin-Hebei Economic Circle, and has become the leader in the real estate industry. China's largest residential development and real estate company.

3.2. Vanke Financing Issues

3.2.1. The proportion of internal financing is not high

Real estate companies is a capital-intensive companies. Faced with huge investment in project development funds, it is difficult to complete the construction and operation of the project only by its own funds, so it relies heavily on external funds. By comparing the data of internal financing and external financing of Vanke, it can be found that Vanke also accords with the characteristics that internal financing of other companies in the industry is smaller than external financing. The real estate industry is greatly influenced by macro-economy and policies, and the excessive external financing ratio will adversely affect the future development of enterprises. To increase its own capital in the future business process, you can increase the proportion of equity financing and increase the equity of the enterprise.

3.2.2. Single external financing channels

Asian economies are characterized by bank-led and imperfect capital markets, especially underdeveloped venture capital. This situation leads to the present situation. These enterprises mainly rely on bank loans for financing, and the financing method is single. Although in recent years, the proportion of funds provided by other external financing methods has been increasing, bank financing is still the most important external financing channel. The data show that in recent years, the asset-liability ratio of China's real estate companies has exceeded the warning line of 70%. Project development funds come from owner's rights and interests, and the funds are less. Most of them come from bank loans. Vanke is the debt financing of China's listed real estate companies. The proportion of equity financing and internal financing is relatively small [10-11]. The data shows that in 2017, Vanke's asset-liability ratio was 83.98%, equity financing accounted for 0.18, and debt financing accounted for 0.882; in 2018, the asset-liability ratio was as high as 84.59%, with equity financing accounting for 0.097 and debt financing accounting for 0.903. The debt-to-financing ratio is rising and borrowings is increasing. Long-term loans will increase from RMB 564.0606 million in 2016 to RMB 120.92906 million in 2018. In 2018, short-term loans reached 10,101,920 yuan. This kind of financing structure will bring great risks to enterprises. Under the stricter financial policies at present and in the future, Vanke relies too dependent on bank loans. When bank credit policies changes, enterprises will be issued as part of policy impact, and the safety of the capital chain will be at risk. If bank credit can be realized, the source of funds will become tenser, which will become a dilemma that can not be financed.

3.2.3. The proportion of pre-collected housing financing is too high

Vanke adopted pre-sale housing funds to raise funds, which is beneficial to the rolling development of the company's projects. However, this part of the funds has become a liability of the company, causing uncertain risks. At present, the advance payment ratio of Vanke deposit is as high as 45%. What does this bring? It is more risky to the enterprise. These risks include: the deterioration of the market environment, deterioration of industry environment, the slow progress, and intensified conflicts between consumers and enterprises.

3.2.4. Incomplete financing planning

Companies need to coordinate financing plans according to their own development framework, and implement policies to ensure financing and investment of the company. However, the present financial investment mechanism and capital market in China are still immature. Just because of such macro environment? It is very difficult for Vanke to make a systematic financing plan. Therefore, we can find that Vanke's financing plan is unreasonable, and the corresponding financing capital scale is inconsistent with the future development plan of the company. Unable to meet the company's funding needs, the financing subject is uncertain. Looking up the data, it is found that the data index design of Vanke's financing strategy planning is unscientific, and the existing financing quota can hardly provide convincing support for the financing strategy implementation plan in the next five years. Whether it is the increase in the financing line or the number of days of receivables, the problem of too large a span is obvious, which leads to an over-heavy annual financing task for enterprises, which may not meet the requirements of financing planning goals. In this respect, the enterprises should optimize.

3.2.5. Unreasonable choice of financing channels and high financing costs

At present, Vanke adopts various financing methods such as trust, bonds and fund. Although these financing modes can bring higher returns in a short time, they are costly and are not recommended for long-term use. Compared with Poly Real Estate, it can be found that the average interest rate of financing channels has little difference, and the advantages are not obvious. The reasons for this situation are as follows: (1) the change of financing environment. With changes of economic conditions and the tightening of monetary policy, the financing environment becomes more and more strict, and the fixed financing costs, interest rates and financing costs rise. The financing methods of Vanke will also be affected. (2) Improper management of funds. Vanke does not have an internal unified and effective financing platform. Each branch of the group raises money by itself. It can not make full use of the redundancy between funds, can not reach the optimal financing channel, and can not better save transaction costs. (3) Short-term notes, medium-and long-term notes and corporate bonds with low capital costs have not been fully utilized. Despite the fact that Vanke can meet the requirements of these financing channels, it has never successfully used these methods because of financial indicators.

4. HOW TO SOLVE WANDA FINANCING PROBLEMS

4.1. Improve Your Own Profitability

The fundamental ability of an enterprise is the profit of the core business. If an enterprise wants to fundamentally solve its dependence on bank credit and let investors hold more shares in the enterprise, it must strive to improve its profitability in order to gain more capital accumulation and more internal source of funds. Investors are more optimistic about the development of enterprises and hope to invest in enterprises. In the development of the company, it is also a good choice to borrow money from employees and benefit them. Although there are financing costs, compared with bank loans, the financial risk are smaller and the degree of dependence on the bank is lower. At the same time, staff members can earn interest income. Vanke can also improve its ability and help solve the financing problem from the following aspects. First, enhance the awareness of financial management. Insist on maintaining a good reputation and credit records, and communicate with the bank more, so as to leave a better impression on them. Secondly, make unremitting innovation. Products are the soul of a company. We must constantly innovate and optimize our products, expand our market share and increase our company's profits. Third, actively develop talents, and improve the personnel training system. Talent is the foundation of healthy development of the company. We must actively introduce high-quality talents to promote the company's development.

4.2. Choose Diversified Financing Channels

Vanke can adopt the small-stock trading model, and in recent years. Vanke has frequently used the small-stock trading model for financing, and it can continue to use this financing method. Vanke can also actively strive for overseas financing. Vanke has a large scale and good reputation. From 2014 to 2018, it will seek to raise funds overseas and in Hong Kong. The cost of overseas financing is relatively low, which can increase the company's overseas popularity. However, Vanke also needs to pay attention to some problems arising from overseas financing, such as the difference between local laws and domestic laws, whether the restricted zones are too protective of local trade, and how to deal with unfair treatment. In addition, we need to pay attention to the change of exchange rate, which has great influence on financing. At present, there are few restrictions on overseas financing in China. Hedging mechanism can be used for overseas financing investment of overseas projects, which is also an effective financing method.

4.3. Formulate a Scientific and Sound Financing Plan

When making a financing plans, Vanke needs to seek truth from facts, and make short, medium and long-term financing development plans according to its own needs and actual conditions. So that enterprises, including business operators, can make clear the financing objectives, financing plans and financing capital structure. Effectively plan financing channels and financing costs, determine the main financing channels, and choose effective financing channels that are beneficial to the sustainable development of the company. At present, Vanke's main financing channels are not clear, and it has not chosen a better financing channel through comparison of situations. Relatively random choice of financing channels makes financial planning unable to play an effective guiding role. In order to solve this problem, Vanke Group needs to work out a feasible financing plans, strengthen the management of basic financing work and promote the orderly advancement of financing plans.

4.4. Choose a Reasonable Financing Model to Reduce Financing Costs

In order to form a financing structure with low financing costs and low financing risks, Vanke needs to choose a reasonable financing mode. Vanke Group's current financing methods include internal financing and external financing, and is seeking to diversify its financing to help companies raise more funds. However, the high financing costs is always an unavoidable problem for Vanke. What Vanke needs to do is to choose a more affordable financing mode under the existing financing policies, so as to reduce the interest cost and capital risk cost of financing capital and improve the economic benefits. Equity financing is a financing model worth trying.

5. SUMMARY

In this paper, the financing status of real estate enterprises is analyzed in depth, and the financing methods commonly used by real estate enterprises are put forward. Meanwhile, taking Vanke as an example, the financing problem of Vanke is analyzed in detail. Through the analysis, we can see that Vanke still has many financing problems. These problems not only exist in Vanke enterprises, but also generally exist in real estate companies in the industry. Therefore, the authors put forward some financing suggestions for Vanke, hoping to bring some inspiration to Vanke and even the enterprises in the real estate industry that are troubled by financing problems.

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