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Research on the Causes and Prevention of Investment Risks of Real Estate Enterprises in China

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ABSTRACT
Investment risks faced by real estate enterprises are always present and everywhere. This article analyzes the causes of investment risks in real estate enterprises such as long investment recovery period, ineffective cost control, single investment project and lack of investment portfolio. At the same time, it is proposed some ideas like shorten the investment payback period, increase the control of costs and expenses, scientifically carry out investment portfolios, assess the situation and avoid investment risks and other relevant preventive measures. All are in order to achieve better investment risk management effects for real estate enterprises.

Keywords：*Real Estate Enterprises, Investment Risk, Cause, Prevention*

1. OVERVIEW OF INVESTMENT RISK THEORY

Financial activities mainly include four links: fundraising, investment, fund recovery, and income distribution. Investment activities refer to the purchase and construction of long-term assets of an enterprise and the investment and disposal activities that are not included in the scope of cash equivalents. Inward investment of an enterprise refers to the investment of funds into the enterprise to form various current assets, intangible assets, fixed assets and other assets [1].If the investment decision is wrong, resulting in an unreasonable capital structure, the investment project will not achieve the expected return. If the investment cost rate is greater than the actual investment rate of return, it will bring financial risk. The foreign investment of an enterprise refers to the economic behavior of an enterprise to invest in other units other than the enterprise in the form of cash, physical objects, intangible assets, etc., or by purchasing securities such as stocks and bonds, in order to obtain investment income in the future. The purpose is to obtain investment income, optimize portfolio diversification risk, control or influence other enterprises. The income of the invested enterprise is uncertain, which results in the uncertain income of the investment enterprise's foreign investment, which makes it face the risk of loss of financial results.

Therefore, investment risk refers to the uncertainty of future investment income, which may suffer loss of income or even loss of principal in investment activities. When the investment project of the enterprise cannot produce the expected income, it may cause the enterprise to reduce its profitability and solvency, and then produce the investment risk. There are multiple strategies to control investment risks. By making accurate forecasts, fully conducting market research, and timely communicating with government departments to obtain policy information, decision-making errors can be reduced and investment risks can be reduced [2]. Through a diversified investment portfolio, the selection and substitution of multiple options for decision-making can diversify investment risks. In addition, investment risks can also be transferred through insurance enterprises, technology transfer, lease operations, and business outsourcing.

For real estate enterprises, investment risk refers to the company's investment in basic economic activities such as real estate development, operation, management and services [3].There are various uncertain factors in the internal and external investment environment, which leads to the uncertainty of future investment income [4]. According to the different investment directions, the investment activities of enterprises can be divided into internal investment activities and external investment activities. The magnitude of investment risk also varies with different investment objects. The selected investment project is the primary factor that determines the income and risk of real estate enterprises. Therefore, enterprises need to strengthen their ability to identify and prevent investment risks in order to remain invincible in today's increasingly fierce market competition.

2.THE CAUSES OF INVESTMENT RISK OF REAL ESTATE ENTERPRISES

2.1 Long payback period

The selected investment project is the primary factor that determines the benefits and risks of real estate enterprises. The entire development process of a project by a real estate company is the implementation process of real estate investment. This development process has gone through multiple stages of project approval, preliminary preparation, construction, sales and after-sales service. It takes quite a long time from the acquisition of land ownership or use right, the construction of buildings, the sale or use of buildings, and the final recovery of all investment funds. During the investment period of the project, it is necessary to deal with many departments, such as the Internal Revenue Bureau, the Local Taxation Bureau, the Land and Land Bureau, the Construction Bureau, the Price Bureau, the Environmental Protection Bureau and so on. At the same time, it is necessary to continue to deal with the power enterprises, water enterprises, natural gas enterprises and other monopoly enterprises. The larger the scale of real estate investment, the larger the investment, the longer the investment cycle, the slower the capital turnover and the worse the liquidity. The real estate commodity can only play its function after the complete matching is completed, so its liquidity is poor, and the real estate investor must face the risk of raising the funds needed for the project and returning the funds on time. Therefore, the investment payback period is at least eight years and ten years, and may as long as twenty to thirty years or even longer. To withstand such a long period of capital pressure and market risk, its investment risk can be seen.

2.2 Ineffective cost control

In the process of development and investment of real estate, there is a large demand for funds and a shortage of funds, which leads to a strong dependence on bank loans, resulting in a large financial burden. On this basis, improper control of costs and expenses in investment activities led to unsatisfactory business performance. In 2012, the net profit margin of A-share market listed real estate enterprises was 13.03%, a new low since the "4 trillion" stimulus policy in 2008. In 2013, the average net profit margin of the real estate industry was only 14%, which with high cost and low profit. The increase in land costs, construction costs, and labor costs, the increase in management expenses, sales expenses, financial expenses, and the backlog of products developed have led to a decrease in cost and profit margins year by year.

2.3 Single investment project, lack of investment portfolio

At present, there are many variables in the real estate industry. Many factors such as macroeconomic policies, housing system reforms, regional supply and demand, and customer consumption habits make real estate enterprises more risky when investing in a single project. Aiming at a single type of customer base, the development of a single type of real estate and the adoption of a single commercial property management model will all be regarded as a single product's unsalable sales, which will bring financial losses to real estate enterprises. The unsalable items often appear due to the single unit type and single business model and lack of choice.

3. PREVENTIVE MEASURES FOR INVESTMENT RISKS OF REAL ESTATE ENTERPRISES

3.1 Shorten the payback period

The traditional real estate development and sales cycle development model has a long cycle and high risks. When the rate of return of a commercial real estate project reaches the required rate, the project can be injected into a real estate investment trust fund to combine real estate and finance to achieve secondary securitization. Through the development model of "development + operation + finance", not only can the investment payback period be greatly shortened, but also the return on net assets can be increased, and the ability to resist risks can be improved. Guangdong Yuexiu Real Estate Co., Ltd. adopts this model, through the implementation of "Yuexiu Real Estate" and "Yuexiu Real Estate Fund" as normal interaction. The investment project of Guangzhou International Financial Center in 2012 was reduced from 15 years to just more than three years.

3.2 Increased control over costs

In the real estate development stage, we should pay close attention to cost control in each process stage. In the control of period expenses. For management expenses, a sound and reasonable management expense budget assessment system should be formulated. Analyze the expenditure of management expenses in previous years with the overall development plan of the budget period, and allocate and implement the estimated management expenses to the departments. For financial expenses, long-term loans and short-term loans are combined to adopt flexible financing methods; make full use of the funds deposited in production and operation activities. For sales expenses, it is necessary to combine the sales expenses of previous years with the level of business volume in the budget period, and take measures to reduce costs to control.

3.3 Scientific making a portfolio

Through a diversified investment portfolio, the selection and substitution of multiple options for decision-making can diversify investment risks. The project should have an appropriate economic scale, but the investment of a single project should not exceed 13% of the total investment of various projects of the developer. The company's main business is real estate. By developing different types of real estate, such as residential buildings, office buildings, commercial housing, public rental housing, villas, etc., it can avoid financial losses caused by a single product's unsalable sales due to changes in macro policies or industrial environment. March 16, 2014, the first Sunday after the end of the two sessions,the much-anticipated "National New Urbanization Plan" was finally launched by the Chinese leadership. It put forward a large-scale construction plan from 2014 to 2020, covering urban infrastructure construction, transportation network, residential real estate. This is good news for many real estate enterprises. Real estate enterprises should seize the opportunity and make a scientific investment portfolio. Take Chongqing Liangjiang New District as an example: the development of Chongqing Liangjiang New District, the construction of public rental housing, and the development of office buildings and commercial housing can form different types of development, forming a long-term, medium- and short-term development structure. Seek an optimal and balanced combination of benefits. In addition, real estate enterprises can consider foreign direct investment. The real estate industry has become the third largest industry for China's foreign investment. The domestic macro-control of the real estate industry fluctuates, and more and more powerful real estate enterprises go abroad. With the in-depth implementation of the country's "Going Global" and "One Belt One Road" initiative, economic development along the "One Belt One Road" and surrounding countries has driven the development of the local real estate industry, and overseas real estate has gradually become an important investment target for Chinese enterprises. Real estate enterprises can be both development investors and operators to enhance their competitive strength to achieve sustainable development.

3.4 Review the situation and avoid investment risk

Through accurate prediction, sufficient market research, timely communication with government departments to obtain policy information, can reduce decision-making errors, avoid investment risks. In 2011, Chongqing Yu Kai Co., Ltd., under the premise of ensuring the interests of shareholders, introduced Shanghai Fudi Investment Management Co., Ltd. to cooperate in the development of Nanshan "Mountain and City" project. Chongqing Xincheng Development and Construction Co., Ltd. and other cooperative development of two junctions (urban complex) project. It makes up for the lack of experience in the development and operation of high-end buildings and urban complex projects, while avoiding risks. Under the premise of ensuring its own interests and controlling risks, the company strengthens the cooperation with other enterprises, expands the company's business, avoids the investment risk, and lays the foundation for the subsequent development of the company's main business in order to obtain better returns.

Take Chongqing as an example, Chongqing as a new municipality, the government spared no effort to strengthen municipal construction. Light rail lines 1, 2, and 3 have already been completed, and light rail line 6 has also begun operation. Light rail transportation is convenient, so choose a light rail room when you choose a house. Many real estate enterprises are building houses along the light rail line, especially the No. 6 line, and the major real estate enterprises are gearing up. Real estate enterprises in Chongqing can consider building real estate along Line 6, especially in the Beibei area, and get a share of the light rail. Managers should have a keen perspective. Do adequate market research and select appropriate real estate development projects. In addition, real estate enterprises also need to maximize their strengths and avoid weaknesses, and on the premise of ensuring their own interests and controlling risks, strengthen cooperation with other enterprises, expand their business, avoid investment risks, and lay the foundation for the subsequent development of the company's main business to obtain better returns . In the case of little change in the overall environment, you can take a "free rider" approach, know yourself and your opponent, and follow up the investment strategies of other large and medium-sized real estate enterprises to choose investment projects.

4. CONCLUSION

Real estate is the main carrier of residents' wealth. Over the past 30 years of reform and opening up, the real estate industry, as the pillar industry of China national economy, has achieved rapid development. High-rise buildings in major cities have sprung up like mushrooms. The real estate industry has also made a huge contribution to the government's fiscal revenue. But in recent years, some phenomena have affected the sensitive nerves of home buyers, governments, and scholars. Hangzhou Jinxing Real Estate Development Co., Ltd. filed for bankruptcy; "Inflection point theory" and "Crash theory" emerged one after another; In early March 2013, the price of some real estates in Hangzhou was drastically reduced, and the Industrial Bank issued an internal document requesting strict review or The suspension of processing once again triggered market panic. The real estate industry is characterized by a large amount of investment funds, a single source of funds structure, a long investment payback period, high investment risks, poor liquidity, and strong policy orientation. Enterprises are facing ever-changing financial risks all the time.

Investment risk is a "double-edged sword." It may bring losses to enterprises, but also may bring unexpected benefits to enterprises. The key lies in whether enterprises can grasp, control and make good use of investment risks. Real estate enterprises need to shorten the investment payback period, increase the control of costs and expenses, scientifically carry out investment portfolios, assess the situation, avoid investment risks, and improve their economic and social benefits, and strengthen their market competitiveness.

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