



Changes in the Real Estate Market in China and Its Impact on the Local Real Estate Market: Taking Junfa Group as an Example

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Abstract. In recent years, the local real estate downturn and the bankruptcy crisis of real estate enterprises caused by the change of China's national real estate policy. This paper mainly studies the impact of policy changes on the real estate market in China. Taking the Junfa group in Yunnan province as a case, this paper analyzed the influence of macro market downturn on the micro market and evaluate the response policies of leading real estate enterprises in Yunnan Province to offset debts with assets and grant provident fund loan subsidies and put forward suggestions on their overall development and follow-up response, such as issuing medium tickets and developing regional targeted real estate projects.

Keywords: Case study · the real estate market · influence of macro market · suggestions on the countermeasures

1 Introduction

China's real estate has always been one of the hot spots in China's economy. A large number of demand and decent investment profits have attracted many home buyers. At the same time, China's house prices have also risen again and again from long time ago. However, due to changes in the general direction of national policies in 2021, this trend has also reversed. For example, the capital chain of the famous Evergrande group is broken, and a large number of real estate are shut down and vacant. However, the existing research on real estate companies focuses on large well-known enterprises such as Evergrande group and Country Garden, and there is less research on local real estate companies. Taking Junfa group, the largest local real estate company in Yunnan Province, as an example, this paper studies the impact of real estate policies on local companies, the company's corresponding measures and their advantages and disadvantages, and finally puts forward some suggestions for the company's future development.

2 Case Description

Yunnan Province, one of the most livable provinces in China (contains the 3rd most livable city in China - Kunming[1]), has attracted many real estate investors from other provinces with its unique climate conditions, diverse local customs, and special distinctive multi-ethnic local culture.—A firm called Junfa group is blooming in the real estate industry in Yunnan Province. Junfa group is ranked 257th among Chinese private enterprises, as the real estate company with the largest asset scale and the largest housing land in Yunnan Province [2]. The firm is a national comprehensive group company integrating real estate development, real estate construction engineering, property service, and other diversified sectors. Its headquarters is located in Kunming, which is known as the “Spring City”. Since its establishment in 1998, the company has been considered as the leader in real estate development in Yunnan Province [3]. Its real estate projects are mostly located in important sections of important cities in the province, such as the “Chun Zhi Yan -The Spring Eye” project under construction, which is located in the core of the provincial capital Kunming and close to Henglong square. It is considered to be the most promising real estate enterprise and the representative enterprise in Yunnan Province and is also regarded as the proudest local national enterprise.

However, many real estate projects of Junfa group have been shut down since 2022, with frequent problems such as meanwhile, salary arrears, overdue loans, and poor capital chain turnover. It led to problems such as delayed delivery of real estate, inability to handle real estate certificates, the inability of investors to trade, and the inability of buyers to move in. It has seriously affected the local real estate market, housing security, and the legal rights of consumers. It is apparent that Junfa group is affected by the policy level, which makes the leading real estate enterprises in this place so embarrassed. However, not only did the policy lead to the current situation of Junfa group, but also the downturn of China’s macro real estate market led to the downward trend of the overall house price market in Yunnan Province. As the most important real estate enterprise in Yunnan Province, what is the coping strategy of Junfa group? Are their coping strategies effective? Junfa group urgently needs to solve these problems, otherwise, it will cause problems such as the inability to guarantee to house, the consumers’ money going down the drain, enterprise bankruptcy, the sluggish real estate market in the province, and the decline of GDP in the province.

3 The Way the Policy Influences the Real Estate Market

On March 5, 2021, the work report of the Chinese national government pointed out that we should adhere to the positioning that houses are used “for living, not for speculation”. The country should stabilize land prices, house prices and expectations. On April 30, the meeting of the Political Bureau of the CPC Central Committee stressed: increase the supply of affordable rental housing and housing with common property rights and prevent speculation on house prices in the name of school district housing [4]. The national policy has expressly stipulated to curb the excessive growth of house prices. Therefore, in response to the national policy, banks have also taken measures to curb the rise of house prices, such as increasing the down payment, raising interest rates, raising

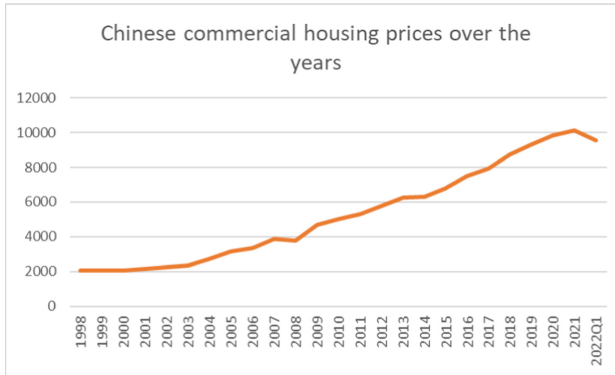


Fig. 1. Chinese Commercial housing prices over the years



Fig. 2. Growth rate of investment in real estate development in China

the standard of second home loans, reducing lending, prolonging the lending cycle, and some banks suspending new real estate credit business [5]. This series of requirements and operations have indeed led to a downward trend in house prices everywhere, which has guaranteed consumers' housing demand to a certain extent. However, although the overall policy direction of the country is indeed mainly released for consumers and home buyers, it has also caused turbulence in the domestic real estate market. As the national policy generally tends to lower house prices, avoid commercial speculation in house prices and ensure housing, there has been an overall downward trend in China's domestic real estate market since the middle of 2021.

At first, the national average price of commercial housing fell from 9859 yuan in 2020 and 10141 yuan in 2021 to 9552 yuan in the first quarter of 2022 from Fig. 1 [6], realizing the first ever obvious decline in the average price of housing in China since the 21st century.

The growth rate of national real estate development investment decreased from 25.6% in January 2021 to 0.7% in January 2022 (Fig. 2).

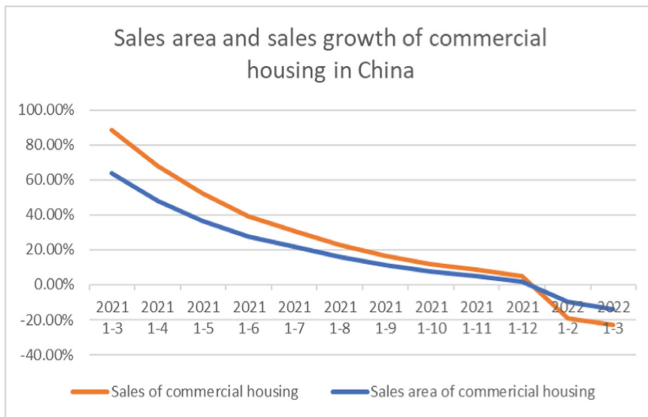


Fig. 3. Sales area and sales growth of commercial housing in China

As shown in Fig. 3, the growth rate of national housing sales area has fallen all the way from 63.8% in January 2021 to - 13.8% in January 2022. Besides, the growth rate of national commercial housing sales fell rapidly from 88.5% in January 2021 to -22.7% in January 2022.

According to the data above, the real estate market in China is currently in a downward trend – price goes down, people have less purchase intention and real estate companies are facing troubles.

The downturn in China’s overall real estate market has made many real estate investors abandon their consistent style of buying and investing when there is sale of new real estate and turn into a wait-and-see attitude towards the real estate market, not to mention the worries of the first real estate buyers about this necessity of life. For instance, whether the real estate company can deliver the house in time, and whether the compensation can be obtained if the real estate company cannot deliver the house, will the real estate company go bankrupt and cause the buyer’s property to be empty. At the same time, due to the conservative response policies of banks, many real estate companies not only have difficulties in financing, loans, and broken capital chain, but also make it difficult for consumers to obtain loans from banks to purchase real estate. The whole trend of the Chinese real estate can be concluded as Fig. 4.

At the national level, it is required to stabilize house prices and avoid real estate speculation. House prices fall. At the early stage, the lower price led to higher purchase intention. Then, banks receive policy regulation and tighten loan policy. As a result, it is difficult for enterprises and buyers to obtain loans. While the business of real estate companies shrank, consumers’ willingness to buy declined. Consequently, the enterprise faces bankruptcy. Afterwards, those who have purchased cannot deliver and cannot check in.

Such a phenomenon of putting the cart before the horse. Real estate enterprises are in urgent need of changing their ideas and self-help in order to achieve the national policy objectives and ensure the positive rights and interests of consumption.



Fig. 4. Trend of the Chinese real estate

4 Analysis on the Influence of Macro Market on Micro Market (Yunnan Real Estate Market and Junfa Group)?

As mentioned above, the adjustment of national policies and banks has depressed the real estate market at the national level, which has also affected the real estate market in Yunnan Province:

Firstly, in the middle of 2021, the average house price of 15 major cities in Yunnan Province: Kunming, Qujing, Dali, Pu'er, Lijiang, Yuxi, Xishuangbanna, Lincang, Baoshan, Dehong, Zhaotong, Honghe, Wenshan, Chuxiong and Diqing rose only in Dehong, while all other cities fell. The decline of Chuxiong and Dali, a famous tourist city, is particularly exaggerated, with 1.34% and 1.23% respectively.

Secondly, after entering 2022, among the 15 cities, only Baoshan Baoshan, Zhaotong, Honghe and Wenshan have regained a degree of buoyancy. Among them, house prices in Zhaotong, Honghe rose by no more than 0.1%. In contrast, in cities where house prices continue to decline, Dali alone has a decline of 3.21%. Although the overall housing market has warmed up a little bit, it is still in a downward trend as shown in Fig. 5.

Therefore, according to the above analysis, it can be inferred that the macro market at the national level has affected the micro market in Yunnan Province. The overall low real estate market in the province led to the weakening of purchase intention.

Due to the downturn of the national and local provincial real estate market, its impact on Junfa group, a local real estate enterprise, can be summarized as follows:

At first, the tightened mortgage policies of major banks, in order to comply with the general direction of the country, made it difficult for housing enterprises to take out loans. The asset liability ratio of most real estate companies is very high. From the National Bureau of Statistics showed that the average liability ratio of real estate enterprises was increasing to over 80% in 2020, as shown in Fig. 6.

The asset liability ratio of Junfa group is close to 80%. Junfa group mainly focuses on current liabilities, accounting for 69% of the total debt. As of the same reporting period,

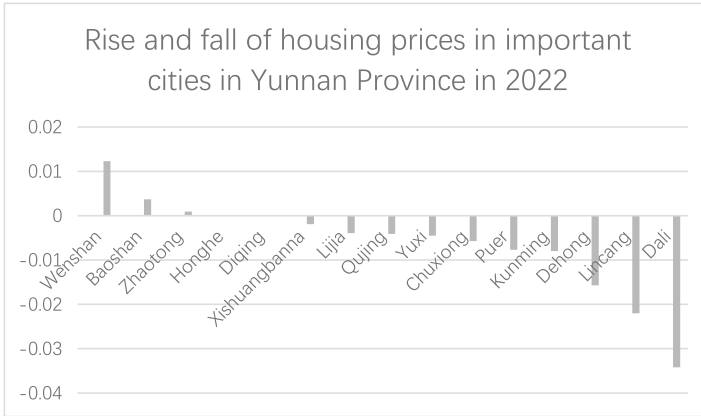


Fig. 5. Rise and fall of housing prices in important cities in Yunnan Province in 2022

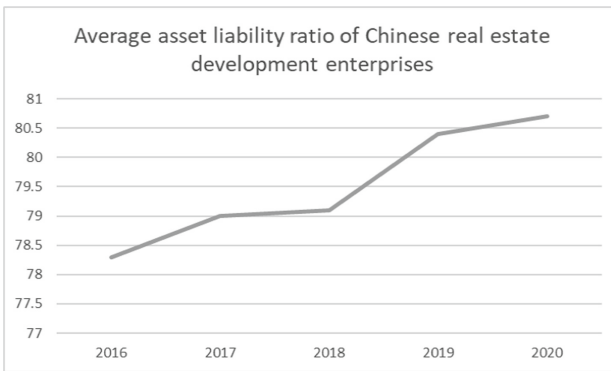


Fig. 6. Average asset liability ratio of Chinese real estate development enterprises

Junfa group had current liabilities of 85.846 billion yuan, mainly accounts received in advance, and its short-term debts due within one year totaled 11.6 billion yuan. Compared with the scale of short-term debt, Junfa group has significantly tight liquidity, and its monetary capital on account is only 6.612 billion yuan. According to Fitch statistics, by the end of June 2021, Junfa group had only 4.5 billion yuan of unrestricted cash on hand. However, in October and December 2022, Junfa group had a domestic corporate bond of RMB 2 billion and a bond of USD 237 million due respectively, and another corporate bond of RMB 2 billion due in March 2023. The short-term debt ratio reduced to 0.4 times means that Junfa group is about to face huge debt repayment pressure [7].

Subsequently, due to the difficulty to buy real estate or the or low willingness of the public, real estate companies have less cash inflow, and the capital chain is tense. Moreover, the bank financing standards are tightened, and Junfa group is difficult to get loans.

Then, the amount of cash inflow is small, the bank is difficult to finance, the financing channels are weakened, the debt cannot be repaid, and the credit rating is lowered:

on February 28, Fitch, an international rating agency, lowered the long-term foreign currency issuer default rating of Junfa real estate from “B + “ to “B -”, and looked forward to “negative”; At the same time, the senior unsecured rating of Junfa real estate and the outstanding bond rating of power Best Global Investments Limited were also lowered from “B + “ to “B -”, and the recovery rating was “RR4” [8].

As a result, credit evaluation was weakened, further increasing the difficulty of financing. Afterwards, problems such as salary arrears have surfaced and cannot be paid Project and other cooperation team funds, real estate project stagnation and shutdown.

At last, consumers further look down on the market in the province, and Junfa group has to find another way out of the real estate project of Junfa group, for instance, they are currently trying to pay off the debt with assets.

5 Analysis on the Strengths and Weaknesses of Junfa Group’s Coping Strategies

The Junfa group’s response to the current problems of the company, such as high asset liability ratio, insolvency, unpaid work stoppage and so on, is as follows: 1 Founder Li Jun will take the helm of the company again and stand in the front line of the company. 2. Asset disposal: Li Jun said: Junfa group is cooperating with a number of large central enterprises and state-owned enterprises in connection with projects, asset disposal and other matters. It is expected that more than 10 billion funds will be recovered, which is enough to cover all project payments and principal and interest repayment this year. 3. Promise to pay the work as soon as possible, determine the new delivery date and specific delivery of the real estate, and guarantee to pay compensation in strict accordance with the contract for some delayed delivery projects. 4. Junfa also released the “red may provident fund loan Subsidy Plan”, which includes three items: housing subsidy, owner subsidy and leading owners to play around Kunming [9].

5.1 Strengths

Firstly, the founders of the company took the helm again, determined the delivery date, paid compensation according to the contract, and delayed delivery projects are reshaping the company’s image, rebuilding consumer confidence and giving birth to purchase intention. For instance, “We find that DVC has a positive effect on firm value for founder controlled firms. This result implies that investors believe that their interests are better protected by founder controlled firms than by non-founder controlled firms.”[10] It is easy to assume that the founder back to control the company will have a positive effect on both consumer side and the company side.

Docking cooperation projects with central enterprises and state-owned enterprises and disposing of assets can quickly obtain cash inflow, pay arrears, reduce the debt ratio, improve the company’s reputation and speed up the resumption of the project.

Secondly, the company will try to increase the cash flow from the current housing purchase plan, and the company will try to increase the cash flow from the current housing purchase plan.

Therefore, the company should reshape its image, thus attracting consumers into the market and stimulating consumption to strengthen its cash inflow. What is more, it is suggested that the company improve its credit rating and lay a foundation for future financing, especially considering that China has now relaxed the loan policy [11].

5.2 Weaknesses

Firstly, the real estate projects that could have brought high returns to the company are used to offset debts with assets, which may make it sell high-value assets at a low price. Moreover, although the form of paying off debts with assets is proposed at present, there are still efficiency and amount of payment after mortgage. If there is no clear amount of payment or the amount of payment is small, it can not solve the current shortage of funds, salary and debt of Junfa group. In addition, in view of the current downturn in the real estate market, most buyers choose to wait and see. Even if there is a provident fund loan subsidy plan, many investors may still not buy it.

6 Suggestion

First of all, the state readjusted the differentiated housing credit policy on May 15 - reducing the interest rate of the first house loan. From the perspective of national policy, there is a positive signal. It can be predicted that the real estate market will pick up in the short term. Junfa group should seize the opportunity to respond to national policies and integrate its provident fund loan subsidy plan to further attract home buyers. It can pass 1 Reduce the proportion of down payment requirements to the minimum amount obeying the center bank's rule. 2 Further increase provident fund loan subsidies 3 Negotiate with banks and other loan enterprises to provide buyers with more preferential loan policies and other methods to recover the sales return to make up for the shortage of capital chain. At the same time, while ensuring the recovery of cash flow, it is also necessary to ensure the immediate collection of future sales, such as using these methods: 1. According to the credit rating, loans with different limits are given to different people. 2. Establish reasonable sales collection proportion within the enterprise.

Secondly, for Junfa group, choosing the appropriate cities or districts to develop their business is important as well. For instance, as the city which has the most decline in average properties, selecting Da Li will definitely not be a decent choice for Junfa group. Furthermore, choosing districts in a specific city with development prospects or commercial value is also essential. In Kunming, the most valuable district is the area near the Dian Lake, where the rich are also gathered. If real estate firms establish houses or condos in such places will easily attract the consumers and sell their products. At the same time, it is also crucial for Junfa group to pay the arrears immediately and start construction. Although the national policy has been adjusted, if Junfa group can not re-establish its corporate image and ensure the rights and interests of consumers, it will lose the favor of consumers when housing cannot be guaranteed. If such things happen, the enterprise will fall into a vicious circle of consumer sentiment - the capital chain is still short - unable to start work - consumer sentiment.

Lastly, as the most urgent matter of the company at present-solving the problems of corporate liabilities and capital chain rupture, Junfa group should properly handle the issue of asset disposal with state-owned enterprises, such as 1. To ensure the amount of money, do not sell assets at a low price 2. The payment delivery date should be agreed and the deferred payment policy should be determined. There should be no problems such as collection delay when there is a shortage of funds.3. Improve the rationality of the price evaluation of debt paying assets. The first is to change the mode of court appointed appraisal institutions, allowing banks to choose their own appraisal institutions, so as to objectively and truly evaluate the value of debt paying assets. Second, standardize the working procedures of the appraisal institutions, improve the industry norms, unify the appraisal standards, and organize relevant departments to regularly spot check the appraisal results of the appraisal institutions, so as to prevent the randomness of the determination of the price of debt paying assets. Third, change the way in which the appraisal institutions charge based on the appraisal value, and restrict the appraisal institutions by formulating policies and regulations or guiding the transformation of the market mechanism. For example, if the transaction price is lower than a certain proportion of the appraisal price for many times, the appraisal fee can be refused or paid less [12].

Issuing bonds is also a good way for Junfa group to decrease the pressure they are currently facing. As the short financial ticket belongs to the filing system and the corporate bond is the approval system, Junfa group can reduce the pressure of one-time sales and the probability of issuance failure by issuing medium tickets in batches so as to optimize the capital structure and reduce financial risks [13].

7 Conclusion

By sorting out the impact of national policies on the overall market and the impact of the macro market on the micro market, this paper selects Junfa group, a representative local real estate company in Yunnan Province, for policy analysis, and mainly identifies the company's financial status from the aspects of asset status, sales status and cash flow status, Find out the reasons for its financial losses, and then put forward other countermeasures according to the actual situation of a real estate company. It is conducive to the judgment of real estate investors on the general trend of the real estate market and the control of financial risks of real estate companies. It is easy to include that the policy will affect the market at the national level, and the downturn of the macro market will lead to the sluggish of the micro market. The various influences of market and policy will limit the current status and development prospects of local real estate. In view of this situation, the current real estate policy has been relaxed. Local real estate companies should seize the opportunity of the recovery of the real estate market, timely solve the problem of the capital chain, re improve the credit rating and solve the people's housing problem.

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