

# Discussion on Financial Risk of Real Estate and its Countermeasures

Yixiang Wang

School of Guangxi University, Nanning 530004, China

1906177923@qq.com

## Abstract

**The real estate industry plays an important role in promoting the development of the national economy in modern society. As a capital-intensive industry, real estate started late and has certain financial risks in the development process. Based on the analysis of real estate financial risks, this paper explores the impact of real estate financial risks and the necessity for prevention, further proposes effective countermeasures for preventing real estate financial, and aims to provide some references for the real estate industry personnel.**

## Keywords

**real estate; financial risk; countermeasures.**

## 1. Introduction

The level of modern socio-economic development has increased significantly, and the market situation has become increasingly complex. The real estate financial industry is also facing certain risks in the process of rapid development, which is mainly manifested in financial services such as financing, financing and settlement. It is easy to cause losses in assets, gains or reputation, which in turn will restrict the development of the real estate industry. Under such circumstances, it is of practical significance to explore the real estate financial risks and their exploration.

The real estate industry refers to a comprehensive industry that integrates a variety of economic activities in which real estate development and construction, management, management, maintenance, decoration, and services are conducted with land and buildings as the object of operation. It is a leading, basic, Driving and risky industries. It mainly includes land development, house construction, maintenance, management, paid allocation of land use rights, transfer, purchase and sale of house ownership, lease, real estate mortgage, and the resulting real estate market. In real life, people are accustomed to calling the industry engaged in real estate development and management the real estate industry.

Real estate financial risk refers to the possibility of the bank's actual return deviating from the expected return in financial service activities such as the financing, financing, and liquidation of the real estate industry. Real estate financial risks include not only the risks faced by individual businesses and individual financial institutions, but also the risks of the entire real estate financial system. The real estate industry itself is a high-input, high-profit industry with inherently high-risk lives. After the financial industry is involved in the real estate industry, if it is overly supportive, it will easily cause credit expansion problems and thus induce a crisis.

It is well known that there is an important relationship between real estate and the financial industry that is interconnected, interdependent and mutually supportive. In addition, the real estate industry is a capital-intensive and labor-intensive industry, which has the characteristics of large investment scale, long turnover time and large profits. Therefore, the development of the real estate industry is inseparable from the support of the financial sector. The real estate

industry is particularly dependent on bank credit. Although there are many sources of funds for real estate, they all rely on specialized organizations to raise funds and then invest in real estate. Therefore, real estate finance is a combination of the real estate industry and the financial industry.

## 2. Causes of Real Estate Financial Risk

Real estate is the "barometer" of the national economy, and the rapid growth or downturn of the national economy will directly have a huge impact on the real estate industry. According to the economic development cycle theory, the economy always develops in a cyclic cycle. In the long run, real estate prices will rise, but in a cycle, real estate prices will definitely rise and fall. In the period when the real estate industry is booming, there will be more opportunities for real estate finance to make a profit. Conversely, the real estate finance industry will have less profit or loss, and there will be risks.

Real estate is too dependent on banking and finance. At present, China's real estate investment mainly relies on bank loans. According to the survey, about 20% to 30% of the investment funds of real estate development projects are bank loans; construction companies often have to advance 30% to 40% of the total investment, and most of these funds are loans from banks; in addition, consumers Except for a part of personal savings, at least half of the buyers of home purchases applied for personal housing loans. It can be seen that 60% of the funds in real estate projects come from banks. These figures show how much the real estate industry depends on real estate finance. In reality, the state also uses the adjustment of financial policies related to real estate to achieve the purpose of macro-adjusting the healthy and orderly development of the real estate market.

It is precisely because the real estate industry is the leading industry of the national economy and the economy is overheated. First of all, it manifests itself in investment in fixed assets, especially in the real estate industry. Whenever the state implements macro-control policies, some real estate development companies are revoked or closed down or bankrupted, projects are stopped or rectified, and the real estate industry will correspondingly fall, resulting in damage and real estate financial risks.

Real estate company's own operating risks. First, the risks caused by mistakes in real estate companies' decision-making in real estate credit are mainly manifested in the following: first, whether they make loans, how much, how much time, and how they make loans; and second, real estate companies There is no standardized decision-making procedure for the financial business, especially the feasibility of the project is not strict and comprehensive, and the potential risks of the project are insufficiently understood and prepared. So that the flow of funds breaks in the real estate development and operation process, causing unnecessary losses and even getting into trouble due to inability to repay the loan. The second is the bank credit risk caused by poor management of real estate development enterprises. Real estate development receives sales from land acquisition, pre-development, project bidding, investment, construction, and inspection. There are many departments involved and the cycle is long. The risks during the period can come from financing methods, site selection, design positioning, project organization, construction quality, materials and the overall estimation, administrative intervention and other links, and once a certain link appears risk, the risk of the entire project will have a chain reaction.

Nowadays, the loans of real estate development enterprises generally take the form of real estate as collateral. When a real estate development company runs poorly or goes bankrupt, theoretically, the real estate that it mortgages can be used as the loan repayment asset. However, the real estate itself has the characteristics of poor reliability, and there are many procedures during the realization of the real estate, especially when the real estate companies are not

operating well, it is often the time when the real estate industry in the region is in a downturn, so chain risks are often generated, The crisis of the entire construction industry and related industries.

### 3. Prevention of Real Estate Financial Risks

Improve the real estate credit evaluation system, with the rapid development and maturity of China's real estate industry, the real estate industry has become a new growth point for the national economy, but at the same time, real estate is also the industry most likely to produce a bubble economy and trigger financial risks. The integrity of the real estate mortgage loan evaluation system of the bond is extremely important. Drawing on foreign assessment theories and methods. In the practice of mortgage evaluation, market assessments under the so-called conservative principle are almost always used, ignoring the changes caused by loans to investors' cash flows, lacking scientific basis, and being subjective. Innovate and improve existing evaluation methods. In China, there is a decoupling relationship between collateral evaluation and collateral disposal, because the validity period of a mortgage evaluation report is generally set to one year, and during this year, the real estate market may have changed significantly.

Diversified financing channels, breaking a single channel, establish a real estate investment fund organization so that the general public can also participate in real estate construction. No longer just relying on big real estate developers, let the people really manage themselves. The Chinese government should introduce corresponding policies to encourage foreign companies and funds to join the Chinese real estate market. Change the singularity of investor entities to make market entities more diverse and international.

Project management is integrated with deadline management. Real estate project management is a classification of engineering project management. It is the real estate project manager's use of system engineering perspectives, theories and methods to carry out the whole process and comprehensive management of the construction and use of real estate projects to realize the production factors in real estate projects Optimized configuration on the basis to provide users with quality products. In the actual implementation and operation process, real estate projects have significant characteristics such as large investment, long construction period and immovability, which may lead to real estate project management risks. The longer the loan term, the greater the risk, therefore, banks should shorten the period of capital lending to minimize risk.

Attach great importance to real estate financial risks and enhancing awareness of prevention. Real estate companies should pay close attention to changes in the government's policies on real estate and must respond positively and actively. Adjust the business direction and strategy of the real estate business in a timely manner to promote the healthy and orderly development of housing's own business. The feasibility evaluation of development projects must be carried out carefully, and the market demand must be accurately understood. Development projects with higher risks should be entered carefully and evaluated carefully; small development enterprises with bad records and poor anti-risk capabilities, and projects with clearly insufficient funds must not be involved. It is necessary to grasp both the promising real estate projects and the potential risks of real estate bubble accumulation. It is necessary to gradually establish a business management model with real estate finance as the goal, start from standardizing operations, reduce risks, and ensure operation, expand the real estate business scope, and step by step to promote the development of housing's own business to diversification, standardization, and quality.

Strict fund management in accordance with the law and promote the sound development of corporate funds. First, we must check the project approval. Strict appraisal of the real estate

project's income evaluation and feasibility, projects with significantly lower profits and pressure on house sales are firmly rejected. Second, we must strictly control the project design. In the design phase, professional personnel must be hired for meticulous planning and design. Third, we must increase project risk management. It is necessary to carry out enough strategic research on specific projects and formulate correct, scientific, practical, and executable project goal plans. It is also necessary to establish a strong and high-quality project management team. Only with a high-quality project management team can the strategic objective plan of the upper-level system and the complex engineering technology plan be combined with the actual situation of the specific project.

Strengthen the attention of banking business and establish a business supervision mechanism centered on risk control. First, a more systematic risk monitoring, evaluation, analysis mechanism and reporting system for the real estate industry must be established. Focus on observing the trend of real estate prices and prevent and timely avoid regional risks. Secondly, it is necessary to conduct surveys on the real estate market on a regular or irregular basis to understand the relevant information of the industry in a timely manner. If policy changes, land policy adjustments, market trends, municipal construction, and urban development strategy trends that may affect real estate operations are discovered, they should be analyzed in a timely manner to adjust their development strategies in a timely manner.

#### **4. Effective Countermeasures to Handle Estate Financial Risks**

As far as the real situation of the development of the real estate market is concerned, through financial innovation, the scientific application of modern financial instruments and novel financial service models can better meet the diverse needs of the real estate market for finance, and promote it to a certain extent. The expansion of the real estate market's service scope has enabled the real estate market to operate safely and promoted its profits to be effectively increased, which is essential for the healthy development of real estate finance. The government should conduct in-depth investigations and studies on real estate financial risks, introduce related policies, and effectively attract different types of financial institutions to promote their entry into the real estate financial market and enable diversified participation in real estate credit and financing services. The government can organize financial and insurance institutions to establish financing institutions to ensure their professionalism. The government must fully consider the difficulties of financial institutions, take effective measures to improve the financial institution system, and scientifically diversify financial risks.

Improve the management system of housing mortgage loan and standardize the operation process of loan business, we should give full play to the support and guidance of the state, establish and improve the management system of housing mortgage loan, manage and regulate the real estate industry with the real estate financial policy, and prevent the real estate financial risk scientifically. At the same time, commercial banks need to strictly review the credit degree of real estate enterprises and residents, ensure the standardization of loan business operation process, effectively control the risks in all aspects of business operation, ensure that the loan is reasonable and can achieve safe recovery.

Establish estate risk early warning system and the implementation of the supervision and regulation by the government departments of real estate financial supervision are essential for the healthy development of real estate finance. Therefore, it is necessary for the government departments to establish a real estate risk early warning mechanism to scientifically rate real estate finance with asset rating companies, but it is necessary to ensure the professionalism of asset rating companies. In order to implement the unified supervision and ensure that the real estate financial risk can be effectively solved.

Build a real estate financial institution system and improve the credit of real estate enterprises, government departments should actively build a perfect real estate financial institution system, and encourage real estate enterprises, real estate developers and individuals to solve financing problems through various channels when they are faced with financing problems. At the same time, it is necessary to establish industry norms of real estate financial market, give full play to the role of financial management institutions, strengthen the management of real estate financial market, and crack down on illegal phenomena. In order to effectively reduce the financial risk of real estate, it is necessary to enhance the credit of real estate enterprises and truly curb the speculation of real estate enterprises.

## 5. Conclusion

In summary, in the process of economic development, the emergence of real estate financial risks will inevitably affect the integrity of the economic and financial system, and will even hinder the healthy development of the real estate industry to a certain extent. Therefore, in the new stage of the development of modern society, it is necessary to objectively analyze real estate financial risks, strengthen the awareness of risk prevention, actively establish a risk warning system, enhance the credit of real estate companies, standardize the loan business operation process, and effectively avoid and resolve different types of real estate financial risks, so as to lay a good foundation for the healthy development of the real estate financial industry.

## References

- [1] Yao Wen. New Situation and Strategies of Housing Credit Business Development [J]. Financial Theory & Practice, 1999, (08).
- [2] Wu Jiawen. Research on Response Strategies of China's Real Estate Financial Innovation Risk[J]. Operation Manager, 2017 (9).
- [3] Lei Ming. Research on China's Real Estate Financial Risk and Its Prevention[J]. Guide to Business, 2015 (1).
- [4] Liu Ruomin, Xia Xueming. Research on China's Real Estate Financial Risk and Prevention[J]. Market Modernization, 2015 (4).
- [5] Fan Tengda, Huang Lijun, Xu Wenjie, Ma Lixiao. Discussion on countermeasures on how to curb financial risks in real estate in China [J]. Economic & Trade, 2018 (4).