

# *Research on Financing Dilemma and Solutions of Small and Medium-Sized Real Estate Development Enterprises*

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**Abstract:** The real estate industry is a pillar industry related to the national economy and people's livelihood. In recent years, China has been constantly regulating real estate development and housing sales activities to control speculation in the real estate industry. In this environment, small and medium-sized real estate development enterprises fall into the dilemma of financing difficulty, insufficient financing amount and high financing cost. Therefore, this article in view of the small and medium-sized real estate enterprises financing problems, found that small and medium-sized real estate development enterprise financing difficulty is much by its comprehensive strength as insufficient internal factors, as well as the macroeconomic situation, the political environment, social resulting from external factors. In order to solve the financing difficulties, this paper argues for the improvement of their own comprehensive strength, the adjustment of market and development strategy, the strengthening of capital operation and planning, and the use of "Internet + Finance" for real estate development financing and other ways, to help enterprises develop healthily and promote the smooth operation of economy.

## **1. Introduction**

Real estate industry is affected stable operation and continuous development of national economy important pillar industry <sup>[1]</sup>. In order to standardize its reasonable healthy development, in recent years, China restricts land for real estate industry and regulatory policy lending restrictions and limits to buy, to control the property market, prevent the bubble economy, to ensure the quality of the national economy development <sup>[2]</sup>. Under the background of the credit crunch, the real estate industry as a whole the financing pressure, especially many middle and small real estate development enterprises is financing difficulties, the difficult to obtain financing, financing for insufficiency, the financing risks, financing costs is high, a serious threat to the existence of enterprise need research and solve their financing difficulties.

Through the literature collection and study of the European and American countries, the author found that the European and American companies dealing with financing problems tend to be from the company's capital structure, the optimal financing structure by measuring the enterprises to make financing decisions, involving theory mainly includes the classical financing theory, to MM as the

main body of modern financing theory, the main research enterprise financing structure of the optimal solution. However, most domestic studies in China focus on large listed real estate companies, mainly including: analysis of the advantages and disadvantages of the application of existing financial instruments, theoretical framework innovation of new financial instruments, and analysis of the financing situation of macro real estate industry. Study most focused on the listed real estate development enterprises, while the attention for small and medium-sized real estate development enterprise financing problems was less. Between small and medium-sized real estate development enterprises and large national and international real estate development enterprises there is a large difference, and in China's real estate enterprises, small and medium-sized real estate development enterprises occupy a big proportion number, need to get more attention <sup>[3]</sup>.

Therefore, this article focused on small and medium-sized real estate development enterprises, the financing difficulties of small and medium-sized real estate development enterprises, aims to research our country small and medium-sized real estate development enterprise financing present situation, production to analyze the financing problems, find out the influence factors of small and medium-sized real estate development enterprise financing, put forward the countermeasures to solve the problem of the current financing, the financing difficulties of small and medium-sized real estate development enterprise, the small and medium-sized real estate development enterprises realize a virtuous cycle, reasonable avoid financing risk, enhance the capacity of sustainable development is of great significance, is to adjust the housing, standard real estate finance market. And economic macro-control has a positive and far-reaching impact.

## **2. Concept Definition**

Real estate development activities are closely related to urban and rural construction, with certain particularities, including capital and personnel intensity, and closely related to the financial industry, which has an important impact on national economic development and people's livelihood <sup>[4]</sup>. According to relevant regulations, the author thinks that our country small and medium-sized real estate development enterprise is a national secondary qualification and under development, the number is less than 200 people, registered assets of less than 400 million RMB, sales of less than 150 million RMB of the enterprises engaged in real estate development activities, generally has a clear economic activity scope of small and medium-sized, namely only in a particular area, city and county, engaged in real estate, real estate development business activities in the province, with administrative domain, more in the enterprise name compared to the large real estate development enterprise, its smaller geographical limitations, popularity is low, business activities is stronger, in a more disadvantage position in the finance market.

## **3. Financing Difficulties of Small and Medium-Sized Real Estate Development Enterprises**

The business activities of real estate development enterprises need a lot of capital and manpower, their development project value is high, the investment scale is large, the development and construction period is long, investment payback period is long, with high financial risk and operational risk, and most of the real estate development has a high degree of industrial correlation and complex economic relations <sup>[5]</sup>. Therefore, financing is very important for the normal operation and survival of enterprises. Continued demand in recent years, the People's Bank of China's major commercial Banks to adjust the credit structure, to further strengthen its management of housing credit tightening land loans, standardize the order of shadows in the credit markets <sup>[6]</sup>. At the same time for some irregularities, such as project financing is not in place for loans, liquidity loans were using illegal channels, and land use development loans to pay for the strict censorship. A series of policies limiting housing loans and purchases have been introduced across the country to strictly

control housing prices and tighten the market from the demand side. In the credit crunch environment, small and medium-sized real estate enterprises of the traditional financing way is blocked, only rely on its own funds, bank credit, the buyer's deposit and advance payments, is usually difficult to meet the demand of a lot of money and bring higher financing costs and financial risk, because of funding problems eventually lead to capital chain rupture and shutdown or even bankruptcy, form the rotten poop, a huge waste of resources, therefore, in urgent need of the small and medium-sized real estate development enterprise financing bottleneck to explore and solve.

At present, the main problems of small and medium-sized real estate development enterprises is simple financing way, financing of exogenous dependence is strong, too single financing form, simple form of financing combination, is the inherent limitations of the different financing is more, at the same time because of the lack of reasonable scientific planning, most small and medium-sized real estate development enterprises failed to attach importance to and form a reasonable capital structure and financing structure, part of the small and medium-sized real estate development enterprise own ability is insufficient, and involves the shadow financing activities of the credit markets, has a greater risk of financing and higher financing costs. At the same time, small and medium-sized real estate development enterprises are greatly affected by macroeconomic policies, so they need to re-examine their own problems and keep in harmony with the overall macroeconomic situation of the country and the special economic situation of the region where they are located.

#### **4. Factors Affecting Financing Difficulties of Small and Medium-Sized Real Estate Development Enterprises**

##### **4.1. Constraints of the Enterprise's Own Comprehensive Capabilities**

The financing methods of small and medium-sized real estate development enterprises will be restricted and affected by their own factors, the main factors of their own are: enterprise scale, degree of institutional norms, enterprise information transparency, enterprise credibility, management and marketing ability, etc. Mostly belong to small and medium size, small and medium-sized real estate development enterprise management system and financial system is not sound, lack of senior professional accounting personnel for budget planning, tax planning, and many enterprises because do not attach importance to the establishment and perfection of financial system, there are accounts chaos, confusion, cash flow and use of the lack of regulation problems. In management and marketing, compared with the large company lack of competitiveness and influence, also led to lack of enterprise reputation, enterprise information in addition to business promotion needs, almost not to publish, the enterprise credit is low, in most small and medium-sized real estate development enterprise, the management concept of administrators tend to be conservative and not good at exploring try new form of financing, relying on traditional bank borrowing and lending, financing for development projects have very big conditionality. Generally speaking, the restriction of small and medium-sized real estate development enterprises' own management ability is an important factor that can not be ignored.

##### **4.2. PEST Analysis of External Factors**

###### **4.2.1. Constraints of Macro Political Factors**

China's real estate industry has been in a state under the strict control of economic policy to a certain extent, restricted the development of the financing channels, for example, the property of the trust business, narrowing the real estate development enterprise financing channels, retain only easy to regulate the financing ways for real estate development enterprises to choose, to some extent, limits

the marketization of China's real estate industry financing. The policy of land restriction, purchase restriction and loan restriction has been adjusted for many times and the situation has been constantly changing, which puts forward higher requirements for the ability of small and medium-sized real estate development enterprises to flexibly carry out investment and development activities according to the land policy, urban and rural planning and environmental protection concept of the region. In addition, China's relevant legal system for real estate development financing is not perfect, and there is a serious absence of supervision of professional real estate credit institutions, investment institutions, security institutions and other institutions. There are high-risk financing behaviors, which is not conducive to the control of financing risks and costs of small and medium-sized real estate development enterprises.

#### **4.2.2. Constraints on Local Economic Development Level**

Financing of small and medium-sized real estate development enterprises will be affected by the local market supply and demand, the development of the financial system such as banks. Market supply and demand is a factor that real estate development enterprises must consider when they conduct high-efficiency financing, which determines the financing scale and financing timing of development projects and affects financing risk control and financing cost control. The development degree of local financial system affects the choice and combination of financing methods of enterprises, including the feasibility of the combination method and the economic benefits of the combination scheme. By analyzing relevant statistical data, it is found that small and medium-sized real estate development enterprises in first-tier cities have relatively less difficulty in financing, while the underdeveloped financial system and low level of economic development in central and western China and other less developed regions bring more financing constraints to small and medium-sized real estate development enterprises.

#### **4.2.3. Restriction of Social and Environmental Factors**

Although housing just need to remain strong in China, people's purchase enthusiasm unabated, but excessive prices, public opinion on the evaluation of small and medium-sized real estate development enterprises is not high, the consumer's trust for the development of small and medium-sized real estate enterprises and the overall service satisfaction is low, the real estate financing products, caused by a lack of information asymmetry and the appeal of the product itself, most investors wait to for housing investment and commercial housing investment, due to inflation's influence on people's life day by day obvious, many people turn to investment real estate, therefore provide housing product and project is crucial, and today, most small and medium-sized real estate development enterprises not conducting market research and market segmentation, the unclear market under the condition of saturation degree and the market demand changes, it opened, not only in the credit market financing, also is unable to win consumers in the consumer market, financing is blocked, the capital operation appear rupture, seriously affect the enterprise survival and development.

#### **4.2.4. Information Technology Constraints**

In the context of promoting the transformation and upgrading of traditional economic forms, the "Internet plus" boom is both an opportunity and a challenge for real estate development. Will change the traditional management ideas, the use of information management system and technology of the large data to provide customized services and information management, to create the Internet virtual community real-time communication with the customer, use the Internet for small and medium business process reengineering of real estate development enterprises to optimize supply chain management, as well as by creating strategic partner platform for joint development activities, etc.,

is a question of small and medium-sized real estate enterprises must pay attention to. At present, many small and medium-sized real estate development enterprises still follow the traditional financing methods and dare not innovate in management ideas and financing modes. They are afraid or unwilling to bear the risks and reform costs of integrating new technologies, which restricts their development due to information technology factors.

## **5. Countermeasures and Suggestions to Solve the Financing Difficulties of Small and Medium-Sized Real Estate Development Enterprises in China**

### **5.1. Improve Their Own Operation and Management Capabilities**

Difficult financing for small and medium-sized real estate development enterprises, all is due to their own ability is insufficient, only improving their own comprehensive strength, form a good management system and strong ability of risk resistance, and to have a high business reputation and popularity, will naturally have the financing competitiveness, which is easier to get money from the financial markets. Small and medium-sized real estate development enterprises should re-examine themselves, improve their financial system as soon as possible, absorb professional senior accounting personnel, clear up their accounts, establish a fund planning system and strictly control the use and flow of funds. For small and medium-sized real estate development enterprises, they can seek help from management consulting companies, or actively seek cooperation with local colleges and universities, combine production, education and research, absorb talents and cash management concepts, and build local real estate brands. To break through financing difficulties, from their own ability, is the solution.

### **5.2. Make Strategic Adjustments**

Small and medium-sized real estate development enterprises can adopt product differentiation strategy and development cooperation alliance strategy, adjust market positioning and traditional independent development, in order to find a breakthrough and solve the financing dilemma.

First of all, as a local brand, we should make full use of our local advantages to develop differentiated products and avoid direct competition with large real estate development companies. Internal structure of the building in the public areas of the design, construction and use value, etc., according to the deep understanding of the local consumer groups, segment the market demand, such as those of economic housing construction meet the city's main flow, build endowment housing, white-collar apartment, etc., can also according to the local young group of building structure innovation, such as changing the traditional rectangular type room window, set up a wide Angle, promote housing privacy and storage ability, etc., with characteristics of real estate development projects to attract investment.

In addition, small and medium-sized real estate developers can also consider adopting cooperative development strategies. First, through the horizontal joint development of many small and medium-sized real estate development enterprises, mutual support of capital can effectively reduce enterprise financing and operating risks. The second is to carry out vertical joint development with real estate operators, combine real estate construction and development with after-sales service, and give overall consideration to all links, that is, to provide customers with comprehensive services, reduce transaction costs, improve reputation, and achieve more economic benefits.

### **5.3. Pay Attention to Fund Operation Planning**

Small and medium-sized real estate development enterprises should pay attention to capital planning,

adjust capital structure and bring the positive benefits of financial leverage into play. The balance between financial risk and financial leverage should be realized while the cost of capital should be reduced in the financing planning according to the financial status, asset structure, product and service sales, credit rating, tax rate and interest rate changes of the enterprise. When leverage over investment profit margin will be very bad impact on the profit margin of its own funds, can't play to the positive benefits of financial leverage, which requires enterprise before financing on the basis of the financial costs and their earnings estimates, in the form of financing for the financing plan, determine the financing structure, adjust the capital structure of enterprises, realize the positive benefits of financial leverage, reduce the enterprise financial risk.

#### **5.4. Develop Internet Crowdfunding**

With the help of Internet platform, the financing projects of real estate crowdfunding should be valued and utilized by small and medium-sized real estate development enterprises. Funding launched by small and medium-sized real estate enterprises, such as construction, finance and investment cooperation funding, can gather social idle funds, and implement financing to the middle, and lower the cost of financing, through the network platform also makes the financing information and enterprise information transparency, realize the mutual understanding between the two sides cooperate with matching. Investment and financing of break the geographical limitations of funds, can reduce the financing risk, improve the financing efficiency, also achieve good publicity effect. After investors inputted in the investment, they would pay close attention to the development of small and medium-sized real estate development enterprises, promote spontaneously to help small and medium-sized real estate development enterprises, the starting from the platform of "Internet + real estate" the innovation of the financing way is a very handsome and have a good development prospect.

#### **6. Conclusion**

In this article, through various, multi-angle analysis our country small and medium-sized real estate development enterprise financing situation, found that small and medium-sized real estate development enterprise financing affected by a variety of internal and external factors, including their comprehensive management capabilities, external macroeconomic situation, political environment, the social market environment factors, information technology, the financing for difficult and high cost of financing, financing risk and other issues, in order to solve the financing difficulty, the macroeconomic policy in our country, this paper argues that small and medium-sized real estate enterprises financing problem solving with the prospect of more clear, can be achieved by small and medium-sized real estate development enterprises to improve their comprehensive ability, including the establishment and improvement of financing system and financial system, strategic adjustment, the adoption of joint development strategy and differentiation strategy, horizontal integration within the industry and vertical integration of supply chain, and based on the local market segmentation, to provide more distinctive and differentiated products and services, alleviate the pressure of competition. At the same time, in the new era of rapid development of Internet and other information technologies, a new way of "Internet + real estate development" can be adopted to carry out equity-based crowd funding for online real estate, collect idle funds from the society, improve the visibility of enterprises and obtain more financing benefits.

In short, the economic environment of China's credit crunch seems to be an insurmountable barrier for small and medium-sized real estate development enterprises, but in fact it is an opportunity period for small and medium-sized real estate development enterprises to temper themselves, carry out financing reform and innovation, and improve their comprehensive competitive strength.

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