

# *Analysis of four important factors affecting the smooth development of the real estate industry*

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**Abstract:** The real estate industry has been developing smoothly in China for decades. At present, it has become an important part of China's economy. The rapid development of the real estate industry in the past few decades has played an important role in promoting the prosperity of China's economy. At this stage, China's real estate industry is not as prosperous as before, but it is still an important part of China's economy. For the smooth development of the real estate industry, this article believes that the following four factors are relatively important: first, strong financing channels; second, fast return of funds; third, land supply in a suitable location; fourth, bold investment courage. Of course, the smooth development of the real estate industry is caused by many factors. The four factors listed above are only important from my point of view.

## **1. Introduction**

There is a saying in Chinese people, "food, clothing, housing and transportation", in which "living" refers to the house, and the industry corresponding to the house is the real estate industry. The real estate industry accounts for one of the four important aspects of life, including eating, dressing, accommodation and travel. It shows the importance of the real estate industry to people's lives. The real estate industry is very important to people's lives, and it is also very important to the social economy. According to some economists, the economic crises in many countries around the world are caused by the difficulties of the real estate industry. The subprime mortgage crisis in the United States and the economic stagnation of Japan in the 1980s were caused by problems in the real estate industry in both countries. Since the real estate industry is so important to people's lives and social economy, how can the real estate industry develop smoothly? In my opinion, four of the many factors are relatively important.

## **2. Strong financing methods**

### **2.1. The initial investment amount of the real estate industry is large**

The real estate industry is an industry with huge investment, and the initial investment is very huge. The investment of a project should reach the level of hundreds of millions. Without financing, it is difficult to complete the initial investment by relying on the enterprise's own funds alone. Moreover, in the early stage of the project operation, a large amount of operating funds are also

required. In the early stage of the real estate project, there is no capital inflow without meeting the pre-sale conditions, so a large amount of capital investment is still needed in the early stage. With such a large amount of capital investment in a real estate project, it is difficult to start a real estate project without financing and foreign capital inflow[1].

Foreign financing just solves the problem that the initial investment and early operation of the real estate industry require a large amount of funds. The real estate industry is not a high-tech industry. There was a real estate industry a long time ago, but it is a capital-intensive industry. Without a large amount of capital, it is difficult to start the real estate industry[2].

Not to mention ordinary cities, it is a small city, or even a county seat. The land price of one mu is about 2 million yuan. In a general community with about 100 mu of land, the land price alone is more than 100 million yuan. If a large-scale community or a good location, the land price may reach hundreds of millions, or even billions of yuan. Therefore, the initial investment amount in the real estate industry is very large[3].

## **2.2. The early operation of the real estate industry requires a lot of money**

The real estate industry has its own unique characteristics. Without applying for a pre-sale certificate, it cannot be sold abroad. If it cannot be sold abroad, it cannot receive funds, and there will be no cash inflow. Under such circumstances, real estate projects also require a large amount of capital investment in the early stage. The cost in the early stage and the management cost in the early stage also require a lot of money. The "seven-way and one-flat" fee, urban supporting fee, deed tax, etc. in the initial cost are also a large amount of expenses. Urban supporting fees and deed tax are millions of expenditures, or even tens of millions of expenditures. The various office expenses and employee salaries in the management expenses are also at the annual level of one million or even at the level of ten million, and there is even greater[4].

## **2.3. In the process of operation of the real estate industry, there will also be a large amount of expenditure**

In the process of operation of the real estate industry, there will also be large capital expenditures. Under such circumstances, in case of insufficient funds, external financing is also needed, and the operation of real estate cannot be suspended. The real estate industry has its own characteristics, and the amount of funds spent is sometimes relatively large, such as the payment of due project funds, the payment of large taxes, and the expenditure of employee compensation and benefits at the end of the year, all of which require large expenditures. External financing can solve the urgent problem of capital shortage in the operation process. Strong financing methods and the ability to successfully finance funds are very important for the smooth development of the real estate industry.

## **2.4. Unforeseen events in the operation of the real estate industry will also lead to large expenditures**

In the process of real estate development and operation, some unforeseen things may also happen. For example, the delay of the project caused by natural disasters, casualties on the construction site, and the extension of the construction period caused by policy factors such as dust control and epidemic prevention and control. The occurrence of some unforeseen events may also lead to the support of large amounts of funds. Casualty accidents on the construction site sometimes cost a lot of money to deal with. The extension of the construction period may also be compensated or compensated, which will also lead to the expenditure of large amounts of funds[5].

### **3. The rapid return of funds**

#### **3.1. The cost of investment in the real estate industry requires a quick return of funds**

In the process of development and operation of the real estate industry, a large amount of capital is needed, whether it is own capital or external financing, it is a cost. External financing needs to pay interest. The longer the time, the more interest. Excessive interest will reduce the profits of the enterprise and increase the operational risk of the enterprise. If you have been occupying a large amount of your own funds, there will also be opportunity costs. If your own funds have been occupied all the time, you will lose other profit opportunities. The long return time of self-owned funds and the slow turnover time will affect the operational efficiency of the enterprise and the next development of the enterprise.

#### **3.2. The healthy and sustainable development of the real estate industry requires a quick return of funds**

Therefore, in the process of the development of the real estate industry, the rapid return of funds is indispensable. As soon as the real estate project starts to be built, the construction and security fee must be paid according to the agreed time limit. At each time node, it will be paid to the construction company when it expires. If the progress payment is not paid to the construction company in time, it may not only affect the normal operation of the construction company, but also the normal operation of the material supply company. More importantly, failure to pay the project progress in time will affect the wage payment of construction workers. Construction workers are all grassroots workers in society, and wages are to maintain their lives. If construction workers are not paid in time, it will affect their lives. In the long run, it will not be conducive to the construction of a harmonious and stable society[6].

#### **3.3. The improvement of the production efficiency of the real estate industry also requires a faster return of funds**

In the process of real estate development and operation, capital has always been invested in the early stage, and the invested capital should be recovered, otherwise how can investors recover the invested capital and how can investors make money? A faster return of funds will enable investors to receive investment within a reasonable period of time and may also make money. Faster return of funds can shorten the investment period of real estate industry, improve the speed of asset turnover in real estate industry, and also improve the efficiency of asset turnover in real estate industry. The return of funds is slow, and there is no return of funds for a long time. If the money invested by real estate investors cannot be recovered, it will be impossible to make the next investment. This will affect the speed and efficiency of asset turnover in the real estate industry[7].

### **4. The supply of land in a suitable location**

#### **4.1. The smooth development of the real estate industry is bundled with the supply of land in a suitable location**

Another key point in the real estate industry is that real estate is inseparable from land. Real estate is tied to land. Without land, real estate projects cannot be built, and without the supply of land, the real estate industry cannot talk about it. The most important point of the smooth development of the real estate industry is the supply of land. However, not all land can develop real

estate projects. Only on suitable land can real estate projects be developed. It makes no sense to develop real estate in uninhabited places. Only by developing real estate in a suitable location can we provide people with use value and make the developed real estate projects play a role.

#### **4.2. The supply of land in a suitable location is an indispensable factor for the smooth development of the real estate industry**

In the real estate project development and construction project, there is no cement and steel bar, and the brick-concrete structure can be used for construction. Without wood materials, plastic steel or aluminum alloy materials can be used. But if there is no land, there will be no other alternative. Therefore, the smooth development of the real estate industry is inseparable from the supply of land in a suitable location[8].

#### **4.3. Only the land in a suitable location can play its social value**

It is difficult for land far away from human social groups to play its social value. Where human footprints can't reach, how much value can the land in that position produce to human society? Therefore, only the land in a suitable location can play its social value. The same is true for the real estate industry. Only the real estate developed in a suitable location can bring use to people's lives and realize the value of the real estate. Otherwise, the built house will have no use value, no use or no sale because of its remote location.

### **5. Bolder investment courage**

#### **5.1. The investment amount in the real estate industry is large, and investors need to have bold investment courage**

Not only is the investment in the real estate industry large, but it is difficult to withdraw once it is invested. The real estate project is either successfully completed, the sale is completed, or successfully completed and used by yourself, otherwise it will be difficult to withdraw in the middle. The real estate project is large in scale and there is a lot of capital investment. It is also difficult to find someone to take over. Before completion, the asset liquidity of real estate projects is very poor. Under such circumstances, real estate project investors need to have bold investment courage. If real estate project investors do not have a bold investment courage, are reluctant to invest in the early stage of funds, and dare not dare to raise large amounts of external financing, then it will be difficult for the real estate industry to develop smoothly[9].

#### **5.2. In the face of the risks arising from the operation of the real estate industry, investors need to have bold investment courage**

The real estate project takes three to four years from the beginning to the completion, and the long one takes five to six years. In such a long time, you will encounter a variety of operational risks. For example, when demolishing, when encountering nail households, it will not only take a long time, but also have to pay a large amount of demolition costs than expected. In the early stage of construction, it is possible to excavate cultural relics. Once cultural relics are excavated, the staff of the Cultural Relics Bureau will come to the construction site for a long excavation of cultural relics. This will lead to an extension of the construction period, which will increase the cost of the whole project. Various accidents may also occur at the construction site, such as fire house accidents, casualties, etc. In the event of an accident, the construction period may be extended,

resulting in fines and compensation. All kinds of risks encountered require investors to have bold investment courage [10].

### **5.3. In the face of municipal planning changes and various policy risks arising in the operation of the real estate industry, investors need to have a bold investment courage**

In the process of operation, real estate projects are greatly affected by policy changes, and will also be directly affected by municipal planning changes. Changes in the national housing loan interest rate and the down payment ratio of mortgage house sales will affect the sale of houses. The change in municipal planning directly involved in the real estate development project will have a greater impact on the real estate development project itself. Some street-facing commercial houses have seen a significant decrease in value due to the construction of nearby subway entrances, which has obstructed the facades of these commercial properties. As a result, the value of these street-facing commercial houses has been directly reduced by half. Consequently, investors in real estate projects need to consider the impact of policy changes and municipal planning changes on the real estate industry [11].

### **5.4. In the face of various natural disasters encountered in the operation of the real estate industry, investors need to have bold investment courage**

In the process of real estate development and operation, we will encounter various natural disasters, such as rainstorm, earthquake and ground collapse. Such a natural disaster will cause great damage to the built property. Some damages will cause huge investment losses for real estate investors [12]. People are sometimes powerless in the face of natural disasters. Natural disasters are sometimes unpredictable. Faced with the risk of natural disasters and the risk that natural disasters may cause damage to real estate, under such circumstances, investors in the real estate industry also need to have bold investment courage.

## **6. Conclusion**

The real estate industry is a very important existence for people's life and social economy. There are also many factors that affect the smooth development of the real estate industry. Among them, there are four factors, which this paper thinks are more important. These four factors are: the first factor is a strong financing way; The second factor is the rapid return of funds; The third factor is the land supply in a suitable location; The fourth factor is the bolder investment drive. The third factor is that the supply of land in a suitable location solves the problem of raw material supply; The fourth factor, the bolder investment courage, is the problem of investment subjects; On the one hand, strong financing channels solve the problem of external assistance; The second factor is that the quick return of funds solves the problem of sales, so the four factors form a closed loop and a cycle. If the four factors are solved, it is possible to promote the healthy and smooth development of the real estate industry.

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