

Research on the Prominent Problems and Strategies in China's Real Estate Finance Innovation

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Abstract: Based on the discussion and research on the prominent problems and strategies of China's real estate finance innovation, this paper mainly analyses these issues from the following three aspects: the necessity of China's real estate finance innovation, the main problems in China's real estate finance innovation, and the strategies to promote China's real estate financial reform and innovation, hoping to contribute a little to the healthy development of China's real estate finance.

1. Introduction

With the gradual improvement of China's market environment, the development of China's real estate finance has progressed very rapidly in recent years. It has become a powerful stimulus and an essential pillar for the development of the national economy. In addition, the continuous development of rural land reform and urban modernization represents the maturity of China's real estate financing development. At the same time, however, many issues in the real estate finance innovation process need to be addressed. Failure to solve these problems quickly and effectively will not only undermine the innovative capabilities of real estate finance but will inevitably limit and hinder its future sound development. Therefore, it is imperative to take a deeper look at relevant measures based on the salient problems facing China's real estate finance innovation.

2. The Necessity of China's Real Estate Finance Innovation

First, China's real estate finance innovation is the basis for optimizing capital circulation. The innovation of real estate financial products and financial instruments provides real estate investors with more prosperous and diverse choices. At the same time, this also dramatically increases the circulation channels of the real estate market because, based on relatively loose restrictions on investors' funds, the rate of return is more significant, making the circulation of financial funds more efficient and smoother. Secondly, China's real estate finance innovation is an effective measure to transfer risks. At present, many experts and scholars in the industry believe that real estate financial innovation is a crucial way to avoid price and credit risks to realize the effective transfer of financial risk. In other words, real estate finance innovation is a process of risk conversion and dispersion, maximizing the security of various economic and financial activities [1].

3. Main Problems in China's Real Estate Finance Innovation

3.1 Fund Planning is Not Scientific and Reasonable Enough

In addition to some external factors that will lead to unreasonable capital planning of real estate companies, if the company's internal capital accounting management is not ideal, such as financial data is not accurate and reliable, accounting audits are not strict enough, or there is a lack of advanced and effective financial data management and protection measures, etc., the scientificity and implementability of fund planning might as well be affected due to the easily occurring capital accounting risks. In addition, the inaccurate analysis of the current market and future development trends by the leadership and senior managers of the enterprise or their lack of long-term vision are

also the main reasons for the unreasonable capital planning of the enterprise. When the correct decision-making at each stage cannot be guaranteed, there are many problems in the survival and development of the enterprise itself, not to mention participating in the innovation of real estate finance.

3.2 The Financing Risk Prevention and Control System is Not Perfect

Although most modern real estate companies in China formulate and implement corresponding risk prevention and control systems for financing needs, they are often unable to be fully utilized for financing when the financing structure is too single due to incomplete systems and insufficient supervision. In addition, some enterprises needed to fully consider their specific conditions and development needs when formulating the system. They even directly entrusted the financial department with full responsibility for financing risk prevention and control. However, due to the lack of cooperation with other relevant departments, financial personnel usually can only rely on their limited resources and talents. Therefore, financing risks due to a lack of professionalism or poor work quality and efficiency are inevitable. After the enterprise discovers the financing risk, if the risk prevention and control system is not perfect, it will also lead to the inability to take appropriate control measures or eliminate it in the shortest time, which will cause the risk to penetrate other departments of the enterprise, leaving severe obstacles to the healthy development of the enterprise and financial innovation [2].

3.3 The Types of Financial Products are Relatively Simple

Judging from the current situation of China's real estate financial innovation products, the product categories are still relatively simple and lack innovation. The main reasons for this phenomenon can be illustrated in the following two parts. First of all, there are very few types of real estate financial innovation products, and most financial institutions focus on increasing the output of products rather than pursuing and paying attention to product uniqueness and quality, resulting in insignificant differences among various products, nor can it fully reflect the use of some financial means in fundraising. Secondly, there are still many things that could be improved in producing real estate financial innovation products. For example, the existence of real estate-related loan products is very short, which is also vividly reflected in the current financial market; it is rare for real estate-related credit products to last more than two years, and most of them are between one and two years.

3.4 Lack of Innovative Awareness and Innovative Talents

At present, real estate finance innovation talents are still badly short. For example, the existing staff of many real estate companies lacks innovation awareness or high professionalism, resulting in actual mistakes in the work, making the enterprise constantly fall into unnecessary risky situations. In addition, it is common for people involved in financial innovation in real estate companies to have a weak sense of legal thinking. It is common sense that the consequences of misuse of official duties can be resolved. However, if the company's internal secrets are leaked, the only consequences waiting for the company are significant financial losses or even bankruptcy. Some companies have very loose recruitment standards due to the low salaries they can pay and are unwilling to provide corresponding training to employees. This is also the main factor in internal personnel's poor sense of responsibility and professionalism.

3.5 Relatively Large Systemic Risks

First, housing prices are developed independently from economic fundamentals, and rocketing is a process of risk accumulation. Assuming that this process will be reversed under the influence of various factors, the stability of real estate finance and China's real economy will be affected by real estate development loans, housing mortgage loans, and real estate mortgage loans. Under normal circumstances, if housing prices fall sharply, real estate companies and companies that use real estate mortgage financing are more prone to risks.

Second, the probability of real estate companies' loan defaults has dramatically increased under

the background of restrictive credit policy and changing macro policy environment. From the perspective of commercial banks, this kind of credit event has reduced their risk preference and increased their mobility and security requirements. At the same time, considering that capital will be depleted due to non-performing capital, the bank's capital adequacy ratio may be infinitely close to the regulatory red line. Banks may sell liquid and illiquid assets in sequence to meet the regulatory capital adequacy requirements. Therefore, the underlying assets are at risk of falling in value, increasing liquidity risk. [3].

4. Strategies to Promote China's Real Estate Financial Reform and Innovation

4.1 Enhancing the Rationality of Capital Planning

Under the new situation, real estate companies can set up a special fund planning management department to select the project organization model based on the company's current operating conditions and external environment. Suppose the project developed by the enterprise is located in different regions. In that case, the head office should make the financial decision to effectively enhance the scientific and reasonable capital planning of real estate enterprises in financial innovation. In addition, the capital planning management department should also fully integrate the existing resources within the enterprise to maximize the utilization of resources as much as possible and strictly supervise the implementation of the project based on providing sufficient resources for the whole process of project development. If the capital planning management department discovers that there is an unclear assignment of responsibilities after starting the project, the company should promptly analyze changes in the external environment and formulate preventive countermeasures; if the progress of real estate fundraising is abnormal or even out of control, the company must use the planned fund management system as a basis to carry out a series of control operations on the fundraising risk [4].

4.2 Implement a Sound Financing Risk Prevention and Control System

Real estate enterprises should conduct a feasibility analysis on the acquired land resources at the initial stage of determining that the project can be launched. After it is further reassured that the project can continue to be developed, the internal and external resources that the enterprise can invest in will be integrated to ensure that the financing risk system can fully play its role. Specifically, the enterprise should plan a scientific and complete overall project development plan before implementation. It should have the premises that the project content, cost issues, and land resources are clear. Then, guided by plan management, through controlling the key tasks and time nodes, the overall arrangement and coordination of various professions and departments should be carried out to ensure that subsequent financing activities can be implemented smoothly by the risk prevention and control system based on eliminating internal and external business risks as much as possible. In addition, it is also necessary for real estate companies to increase observation and analysis of the factors affecting the implementation of the financing risk system in practice and then formulate a planning management system and strategic process for the known influencing factors so that the financing risk system can be standardized to the greatest extent [5].

4.3 Make Financial Products More Diverse

Real estate companies can use various financial innovation products to enhance their investment attractiveness and consumers' attention. In this way, the development of real estate-related stocks and bonds can be promoted on the one hand. On the other hand, it can also effectively alleviate the financing pressure on enterprises. Therefore, the real estate industry, financial institutions, and government departments should pay attention to the enrichment and quality improvement of financial innovation products to inject vitality into the real estate market and provide the necessary boosts for the overall development of the market economy. When optimizing real estate finance innovation products, you can focus on extending the term to raise more funds, such as extending the term of financial products to two and a half years or more and extending the average duration of

real estate loan products to two years, allowing more investors and a more significant amount of capital flow into the real estate market to create greater room for innovation in real estate finance.

4.4 Increase the Attention on Personnel Training

First, real estate companies should set generous salaries to attract high-quality financial innovation talents and then set strict assessment levels to ensure that their professional level, comprehensive quality, and sense of responsibility are up to standard before allowing them to have the job formally. Secondly, real estate companies should regularly conduct professional training for existing internal personnel or organize symposiums or small competitions to create a benign competitive atmosphere by effectively expanding their professional knowledge and enriching their operational capabilities. Finally, the enterprise should combine the goal of real estate finance innovation to assess the employees' current capability comprehensively, performance during the assessment period, overall performance, or contribution, etc., and at the same time, implement a scientific incentive and punishment mechanism to improve the ability and enthusiasm of the staff to the greatest extent [6].

4.5 Minimize the Impact of Systemic Risks

First, it is necessary to implement relevant loan and purchase restrictions strictly. An overly prosperous real estate market means its development is unbalanced and insufficient. Therefore, efforts must be made to curb the small number of large capital holders and financial boosters that lead to real estate bubbles. At the same time, in implementing policies, enterprises should also focus on plugging the loopholes in fiscal land revenue, keeping their spirit of risk prevention consistent with that of the central government.

Second, government debt inflation should be avoided to the greatest extent possible. The real estate market should break the backward concept that local governments can always support housing prices and create a full-caliber local government debt management model that includes on- and off-balance sheet liabilities to lay a solid foundation for the establishment and improvement of the government's fiscal risk prevention mechanism. In addition, the transformation of local government investment and financing mechanisms to marketization is also on the agenda, and an investment and financing system needs to be established and implemented. Government implicit guarantees and expected land income shouldn't be used as the only means of repayment.

Third, a contingency plan mechanism should be established to deal with a sudden drop in housing prices. The central and local governments can integrate land transfer income and real estate transaction tax to set up a real estate risk management fund. At the same time, financial institutions should establish a real estate risk management mechanism after analyzing the current situation to strengthen risk response capabilities effectively. In addition, through financial information statistics agencies and management systems, the problems of incomplete, mismatched, or even distorted information can be avoided as much as possible. Then a risk warning mechanism covering the real estate sector and the financial system can be established based on this [7].

5. Conclusion

To sum up, as far as the real estate industry and real estate companies are concerned, the role of real estate finance in operation and development is becoming increasingly significant. Therefore, it is extremely necessary to solve the existing problems in real estate financial innovation in time to provide a strong impetus for the healthy development of China's real estate economy based on creating a safer and better development environment for enterprises.

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