Real Estate Finance Models and Prospect of Its Development

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Abstract

Real estate development and investment behavior is a form of capital, technology, management-intensive, the amount of money to develop a real estate project is occupied by a very large, without the help of various means of financing, and developers will be unable to move. Meanwhile, the industrial chain financing as the first ring, the bottleneck is the real estate development has been the need to improve the financial and capital markets as a backing. However, the real estate development of different projects, different segments or different real estate companies have different risk and financing needs, it is necessary to analyze the real estate financing channels, to determine the optimal financing structure.

Keywords: real estate; finance; funds; management.

1. INTRODUCTION

Real estate industry has its unique mode of operation, including developers, financing, infrastructure, development and operation of the project and provide a range of activities and services, and other industries. Industrial real estate development, an important feature for developers is the high financial strength requirements, so as to ensure the funds needed for investment in the pre-zone. Industrial real estate funds used a longer period, the investment recovery period is greater than the residential real estate and commercial real estate, this characteristic becomes insufficient funds to develop small and medium enterprises to enter the threshold. Real estate investment industry, initial investment ranging from ten several hundred million to several billion, investment, management, operations and other aspects also need to invest a lot of capital investment, while the payback period is some up to ten years, a little financial strength there are not enough, there will be the funds strand breaks.

2. Funding and management of industrial real estate development

The present main financing channels can be basically divided into two categories: First, the debt financing required for repayment of the principal and interest of such financing, including bank loans, bonds and debt financing formula trust; the second is equity financing, namely investors shares of the way the injection of development funds for the appropriate development benefits, including the development of business cooperation, trust and real estate equity type funds. In the industrial real estate development, pre-financing of the park has been the use of a variety of financing - issuance of bonds, loans from development banks, commercial bank loans, financial investment companies listed shell resources in the existing funding channels for almost 90% of debt financing. However, the current domestic industrial park development funds to support the status quo, the long-held type of industrial real estate in terms of matching funds to

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support long-term capital, there is a big problem. Domestic real estate industry’s own institutional channels established long-term capital remains to be seen.

Own funds, developers’ use the enterprise's own capital, or through a variety of ways to expand the capital base of its own, for example related borrowings to support project development. Funds raised through these channel developers to long-term holding, discretionary, flexible use; also the country's own funds necessary for the developer to set hard and fast "threshold." Own funds ratio must be more than 30%. The number of multi-national real estate companies, but few have the size and strength of enterprises, with the increasing scale of investment, the demand for own funds will become increasingly large, many lack the strength of small and medium real estate will They were excluded out.

Paying back the advance back the principal in advance, often by buyers and sellers welcome, because for developers, sales proved the highest quality, lowest risk financing, early return of funds may be used for construction, ease the pressure on its own funds, also part of market risk transfer to the buyer; and for the buyer, since a small amount of money to get a larger expected value-added benefits, so long as optimistic about the prospects for real estate, will be on sale showed great enthusiasm. No. 121 document stipulates that commercial banks have to obtain individual purchase commercial mortgage loans at "cap structure", while China is currently the vast majority of buyers are loans to buy a house, without the support of housing loans, real estate developers is difficult to house pre sold go, it is difficult to get back the principal in advance. From real estate projects under construction, do have "Five Card", to "cap structure" an average of about one year, this time it is the most severe shortage of funds in time, lack of paying back the principal in advance, the greater the pressure will own funds, project development unsustainable.

3. Real estate asset securitization
Real Estate Asset Securitization Real Estate Securitization is the low liquidity of the non-real estate investment securities form directly into securities assets on the capital market financial transaction process so that the relationship between the investors and investments by direct Property It has converted to the form of debt securities owned. Asset securitization is advantageous developers to attract investment funds after, although part of the proceeds to make out, but it can quickly get funds to build a good investment mechanism, successfully launched the project; it also helps with the Real Estate Investment consumption achieve both, relying on real estate property portfolio as a transfer vector, and to attract more funds into the field; at the same time, changes in the price of the Fund contains fund investors to judge profitability and market It expected that this change will help gather the purchasing power of the real estate market and price discovery.

Large-scale real estate conglomerate, due to the development in the long history of the industry, a certain reputation and experience in project operation, with respect to small and medium real estate companies easier access to support and financing of financial institutions is relatively diversified. However, subject to national policies and enterprise development environment, this part of the business is also showing a status of over-reliance on bank loans. In the case of countries interested in the regulation of markets and avoid financial risks, although these companies are subject to certain obstruction conventional financing, but it can expand its multi-party resources, by combining the strengths of the industry, capital market financing, the marriage of foreign capital, reduce capital requirements, reshape the way state-owned asset restructuring or to strengthen the chain of enterprise funds, to improve their financial strength due to the national macro-control to resist the funds raised tensions.
4. Various financing

As a complete chain of real estate finance, real estate should be a variety of ways including credit, equity financing, debt financing, credit financing and trust financing. In general, the cost of real estate financing, and financing not only the way, that is closely related to the timing of funding of development time. Financing costs and development time with change, a start up, with the progress of the project, for example, permits to get started; the financing costs will be gradually reduced.

4.1 Development Finance Cooperation

Development of lenders in providing real estate project development loans needed to require developers to first invest a certain amount of its own funds to the real estate project. If the developers’ lack of its own funds required, we will look for joint venture partners. Of course, some developers even have sufficient own funds, do not want to put all, because even though he must be developed with joint venture partners to share profits, but this approach can reduce its own funds to his own inputs required, a corresponding reduction in risk but also limited its own funds into the development of multiple projects. This method of financing is the real estate development enterprises to adopt more and feasible. If one of the party is a joint venture of a foreign enterprise, and it has opened up a foreign investment financing channels. This approach is usually provided by the Chinese land, all or part of the land use rights as equity investment in real estate projects and development funds provided by the foreign, the two sides formed a joint venture relationship to their respective investment ratio share the profits.

4.2 Frontier currency contracts

America is a very high rate of real estate financing. It is funded by lending institutions, developers of the technology and to establish a joint venture company in the form of. The difference is that with the joint venture, participation and cooperation of capital investment are also lenders to recover their investments and obtain interest installments, so this kind of financing is also known as “dual identity and loan.” Since the lender itself is a partner, thus lending rate is generally low, but as a partner, he also shared interests and developers, shared equally at risk. So use this credit cooperative financing, developers can not only reduce the associated risks, and to expand the size of the project, so that the value of real estate project loans ratio reached a higher level.

4.3 Real Estate Syndication

Foreign real estate developers are widely used mode of financing. It is a passive by a group of investors in the form of a limited partnership formed to invest in real estate entities. Its organization is composed of the manager for a firm and limited partners. Managing Partner responsible for real estate management, unlimited liability; limited partner ownership, does not participate in the operation, their contribution and limited liability. Syndicate developer can aggregate interests or short-term funds needed they cannot get, but also because investment multipolarity, selection and management of specialized property, reducing the risk, limited financial resources or a lack of investment experience, developers can also get real estate investment earnings.

4.4 Equity Financing

Equity financing mode refers investors to put money entrusted to the trust and investment management, trust and investment companies in accordance with the terms of the trust contract, trust funds set of investors to subscribe for the real estate business to increase their investment or transfer of the shares, shareholders in the real estate business after the expiration of a premium to buy Buyback Trust and investment Corporation purchased by investment trust companies to pay principal and investment income to
investors. The advantage is unlimited money into time, to avoid the project without the "four cards" and cannot invest in; project capital ratio from 35% of the limit, reduce the proportion of its own funds to the real estate business; trust and investment companies can participate in corporate decision-making, further risk prevention. The disadvantage is the increase in registered capital, shareholders' meeting held need, and go through the relevant verification, enterprise change the registration, issuance of the investment certificate and other formalities, the operation is more complex; the existence of trust and investment companies purchased the shares expire does not rotate or real estate enterprise shareholder buyback risk shares; due to the sale of shares not true purpose of the transaction, there is a risk was identified between business lending.

5. Development Trend of real estate financing channels
5.1 Mixed class real estate trust mixed class real estate trust, there are two main modes: first, the real estate trust funds and trust shall be a combination of transfer mode; the second is the trust beneficiary trust funds and equity transfer combined model

Capital Trust and estate trust beneficiary transfer mode combination, refers to real estate companies will be established as a real estate trust property, the trust shall obtain the trust property, trust and investment companies and entrusted the trust shall be transferred to investors, and by rent or premium paid to repurchase right of the trust and other rewards to investors; at the same time, investors will invest trust funds entrusted to the company management, trust and investment companies in accordance with the terms of the trust contract, trust funds set of investors for the purchase of real estate business real estate trust beneficial interest.

5.2 Real Estate Fund

Three real estate fund investment strategy: portfolio, cross-market arbitrage, asset restructuring. Five key factors affecting the Fund's investment strategy: the exchange rate, interest rate differentials (the cost of capital in the domestic market upside down), the state-owned non-performing assets and non-core business divestitures, domestic and international capital markets opportunities, overseas real estate fund their own risk management needs. Five strategies to attract foreign funds: the investment value of the product itself, property prices, city selection, marketing, packaging, developers management team.

5.3 The creation of a multi-level real estate financing system

The main problem of the current real estate financing is to build a stable multi-level real estate financing system to meet the diverse needs of different levels of business. For a long time China's real estate financing market participants mainly commercial banks, the lack of specialized credit institutions, currently only in Tianjin Sino-German Bausparkasse Savings Bank. Real estate bonds, real estate trusts and foundations dysplasia of our real estate financing limited contribution. Equity financing threshold is relatively high, it is difficult to meet the requirements of SMEs through public financing. In recent years, under the national macro-control of finance, tightening bank credit, real estate companies are deeply financial pressure. Therefore, an urgent need to establish a multi-level financing system, offer different places for different types of business financing, in order to truly reduce reliance on bank loans.

6 CONCLUSIONS

National, local and departments have promulgated a series of laws and regulations. But it has the system failure and hasn’t the specific provisions. On the whole, it lags far behind the real estate economy. In the real estate financing diversification process, many emerging financing instruments If there is no
corresponding system to regulate, will inevitably fall into chaos. It must establish and improve the relevant legal system, organizational forms of innovative financing tools, portfolios, negotiable, distribution and other revenue sources and make strict specifications. To make the development of real estate diversified financing norms in China. In short in the larger environment of the credit crunch, urgently need to get rid of real estate financing situation lazy single by bank credit, take the diversified development path. But the difficulty facing reality, the real estate finance market in financial intermediary institutions are not perfect, financial products and financing are too scarce, laws and regulations are incomplete. This requires on the one hand strengthening the country's real estate market macro-control and financial management, to further improve laws and regulations, and strive to innovative financial instruments to enrich financing. On the one hand the real estate businesses itself actively expand financing channels, to avoid relying solely on bank funds, according to business characteristics, using a variety of approaches and methods of financing.

References