

The Impacts of COVID-19 on Real Estate: Evidence from Evergrand Group and Greenland Group

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Abstract. The COVID-19 virus is the novel coronavirus, which is an entirely new pathogen that first emerged in humans in late 2019. It has had a huge impact on various industries. Industries such as accommodation, tourism, transportation, retail, and catering saw a sharp decline in revenue; Manufacturing, real estate, and other industries have been repeatedly restricted due to the epidemic, unable to resume normal work. The real estate is immovable property, need to go to the scene to see the house decision. In this study, we investigate the impact of COVID-19 on real estate in the Evergrande Group and Greenland Group cases. According to the analysis, in the face of the epidemic, real estate companies need to explore a variety of sales channels. To sum up, the epidemic will inevitably affect the number of people looking at houses in the short term, which will affect the turnover and the revenue of housing enterprises. Overall, these results shed light on guiding further exploration in order to prevent the occurrence of similar events in the future when some small real estate businesses bankrupt.

Keywords: COVID-19; real estate; Greenland Group; Evergrande Group

1. Introduction

Based on big data analysis of the novel coronavirus epidemic and regional prevention and control policy suggestions, one knows that the novel coronavirus pneumonia cases are spreading in large numbers, and have become a major public health event threatening people's safety and social stability. However, due to the Chinese New Year period at that time, more than 5 million people living or staying in Wuhan had left the city before the lockdown, becoming potential virus transmitters [1]. COVID-19 is the seventh coronavirus known to cause respiratory infections in humans. Compared with SARS and MERS, it has a lower fatality rate but is more contagious. The incubation period of the novel coronavirus pneumonia is about 1 to 14 days, mostly 3 to 7 days, which makes it easier to spread the novel coronavirus. Fever, fatigue, and dry cough are the most common clinical symptoms. Some patients may present shortness of breath, headache, sore throat, and diarrhea, and all age groups are susceptible. These thoughts and suggestions for general surgery under the new coronavirus pneumonia can be found [2]. Through Zhang's impact on Chinese small and medium-sized enterprises and the response, the outbreak of COVID-19 has a great impact on our economy. This disaster has not only reduced the market demand of Chinese micro, small and medium-sized enterprises, thus reducing their operating income, but also increased the operating costs of Chinese micro, small and medium-sized enterprises and reduced their working capital [3]. By studying this paper based on a mathematical model of the transmission of the novel coronavirus, it is found that on May 26, 2020, the number of infections exceeded 2.6 million and the number of deaths exceeded 180,000 [4].

The impact of COVID-19 has strongly influenced various industries such as tourism, airline businesses, accommodation, pharmaceutical industry, and medical industry, either positively or negatively. For example, there's a study pointed out that in China, the medical and pharmaceutical industries have performed particularly prominently, making great contributions to the fight against COVID-19 [5]. As the development of online shopping and online ordering in China mainland, China's pharmaceutical logistics industry will usher in more positive opportunities and enter a high-

speed growth period [5]. Another example will be the impact on accommodation. A study gave the opinion that since the outbreak of COVID-19 in Dec. 2019, it has had a great short-term impact on the hotel industry, and this caused revenue for hotels falling down (same as for real estate groups), and even close down of lots of hotels [6].

COVID-19 is a virus with high morbidity. During the 2 years since COVID-19 started, the coronavirus called “SARS-CoV-2” has killed at least 5.4 million people in the world, according to a study [7]. Moreover, a study said that people are 1000 times more likely to be infected with COVID-19 from the air they breathe from the surface [8]. Fast propagation and high morbidity, are going to be the representation of COVID-19, and this is also how COVID-19 makes so many industries go down into recession, i.e., it will reduce the labor force in lots of industries.

As for the impact of real estate industry, in the study on the impact of COVID-19 on the real estate industry and the countermeasures, Ma compared the COVID-19 epidemic with the SARS epidemic and concluded that the reason why COVID-19 has such a huge impact on the real estate industry now is that the policy environment of the real estate industry is stricter than before, and the spread of COVID-19 is very wide and the impact is very deep [9]. According to Liao, the impact of COVID-19 on real estate enterprises and their coping strategies that construction is delayed due to the epidemic, but workers still need to continue the construction, which makes the real estate enterprises unable to effectively operate their own cash flow. Over a long period of time, real estate will gradually bankrupt due to the pressure of payment [10].

The essays nowadays are mainly discussed about the impacts of COVID-19 on selling, investments, policies (for real estate instead of COVID-19), and government spending on real estate. The aggregate demand for housing was showing a decreasing trend during the 3 years of COVID-19. If the policy on COVID-19 is not going to change in the future, it will keep decreasing for sure due to loss in consumer and investor confidence, and the investment and consumption will decrease. Moreover, if the government doesn't change the policy for COVID-19, they will spend most of the money on COVID instead of housing. Therefore, government spending will decrease.

This study will investigate the impact of the new crown virus on the real estate industry from 2019 to 2021 for Evergrande Real Estate Group Ltd. and from 2019 to 2022 for Greentown Real Estate Group Ltd. It will also observe the responses made by these properties in the face of the epidemic, in an attempt to be able to make some suggestions for consumers and other businesses now. To be specific, this paper will analyze these companies in terms of debt, sales, and cash flow in their earnings reports. We plot the chart with time as the independent variable and aspects such as debt and sales as the dependent variables. The purpose of this research is to evaluate the housing price level and the change of aggregate supply and demand of real estate companies and groups during the COVID-19 period to have a sober forecast of future real estate policies and prices. For the following of study, we will use 2 typical examples for evaluation. One is Evergrande Real Estate Group, which has had some problems in finance recently, and the other is Greenland Real Estate Group.

2. Impact of COVID-19 on Real Estate

This study assumes that COVID-19 brings a crushing blow to the real estate industry. This is mainly because, before COVID-19, some real estate agencies do build lots of housing for themselves to sell to make a profit, and planned lots of high-investment high-return projects related to their real estate industry to attract consumers to make more money. However, owing to COVID-19, lots of economic disasters come to the world, especially for the average inflation rate around the world from 3.62% in 2018 to 7.40% in 2022. Therefore, the general price level as well as the housing price will increase whereas there is no change in consumers' income or even a decrease in consumers' income from 2018 to 2022. Consequently, there are fewer and fewer people who are willing and able to consume lots of houses. As a result, there will be a crushing blow to the real estate industry.

3. Evergrande Real Estate Group

Evergrande Real Estate Group used to be the largest real estate group in China or even East Asia. It's been at the top of the ranking of real estate industry for years. In 2010 to 2020, Evergrande Real Estate Group even used their money to invest on a Chinese Football Club and got lots of excellent results in China and Asia. Fig. 1 shows recent 11 years' revenue of Evergrande Group. In the figure above, it is easy to find out that the total revenue for Evergrande Group kept and keeps increasing from 2010 to 2020, and from 2017 to 2018, the increase rate is the most of 50%. However, after 2018, from 2019 to 2020, which is the same year as the start of COVID-19, it seems that the increase rate of total revenue for Evergrande Group is very slow, and it was hard to increase. What's worse, the worst news for Evergrande Real Estate is the -284.56 increase in revenue from 2020 to June 2021. This is mainly because that Evergrande Group is in a financial and debt crisis, even now,

Revenue of Evergrande Group from 2010 to June 2021

(in billion yuan)

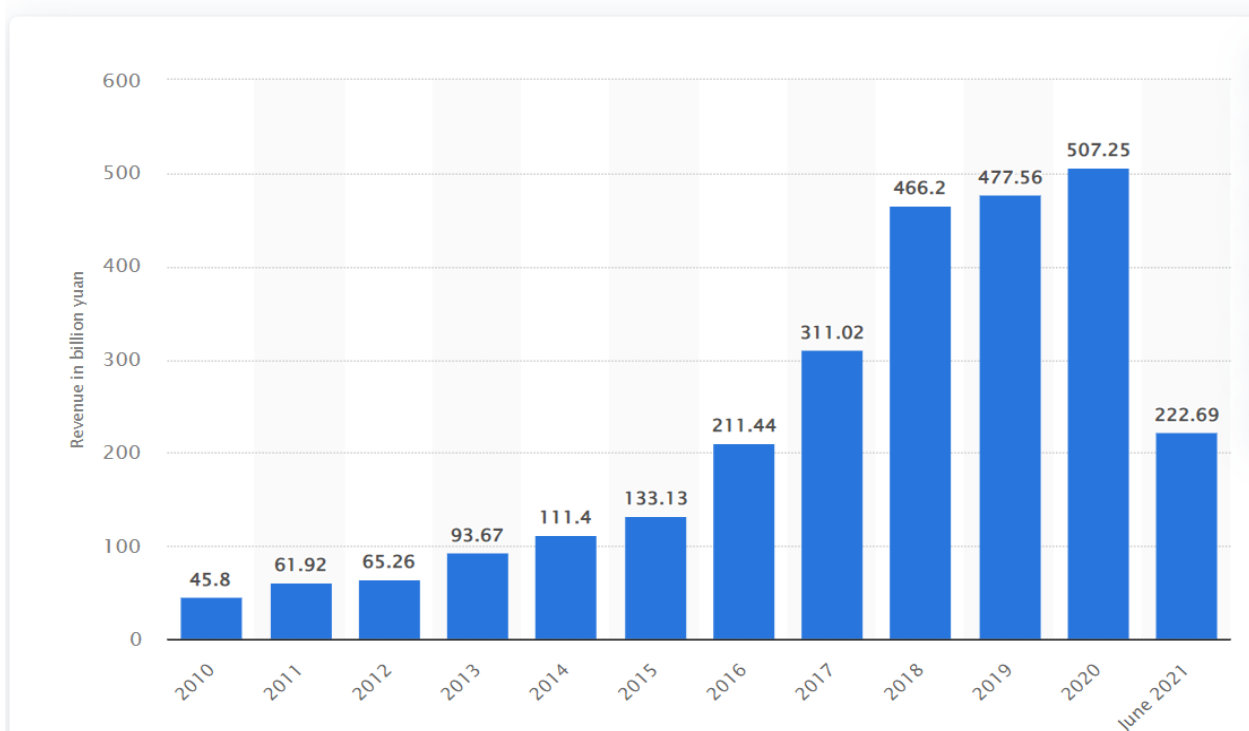


Fig. 1 Revenue of Evergrande Group from 2010-2021.

The main factor for this crisis is COVID-19. As mentioned above, COVID-19 is damaging to the real estate industry, especially in China, and Evergrande Real Estate Group is just one of them, unfortunately. Low revenue or even negative revenue drags the company to hell. In addition, Because of the new policies from China Central Bank, it pointed out that, first, the asset-liability ratio excluding advance receipts should not exceed 70%. Second, the net debt ratio should not exceed 100%. Third, the ratio of short-term debt to cash shall not be less than 1 time. After this policy has been made, it could control the housing price indirectly. Afterward, COVID-19 makes real estate companies live in the cracks. They are nearly closed or already closed. COVID-19 also decrease the revenue for real estate companies. Moreover, COVID-19 could make some real estate companies transform into another industry due to a lack of revenue in the real estate industry.

4. Greentown Real Estate Group Co., Ltd.

Greentown Real Estate Group Co., Ltd. is a famous real estate group in China. Greentown has been ranked TOP10 in brand value of Chinese real estate companies for 5 consecutive years and TOP10 in comprehensive strength of China's top 100 real estate enterprises for 4 consecutive years. Thus, Greentown Real Estate Group Co., Ltd. is an outstanding real estate enterprise in China. Fig. 2 presents the revenue of Greentown Group in the past 7 years. According to the results, we find that the revenue of Greentown Group continued to increase from 2015 to 2021, even under the impact of COVID-19 in 2019, the revenue of Greentown Group continued to rise. Even in 2021, the growth rate reached 52.3 percent, the highest in seven years. In other words, the epidemic did not hit Greentown very hard, and surprisingly, the epidemic did not affect Greentown Group, but made Greentown Group's revenue greatly increase, from 2020 to 2021 revenue is a jumping growth.

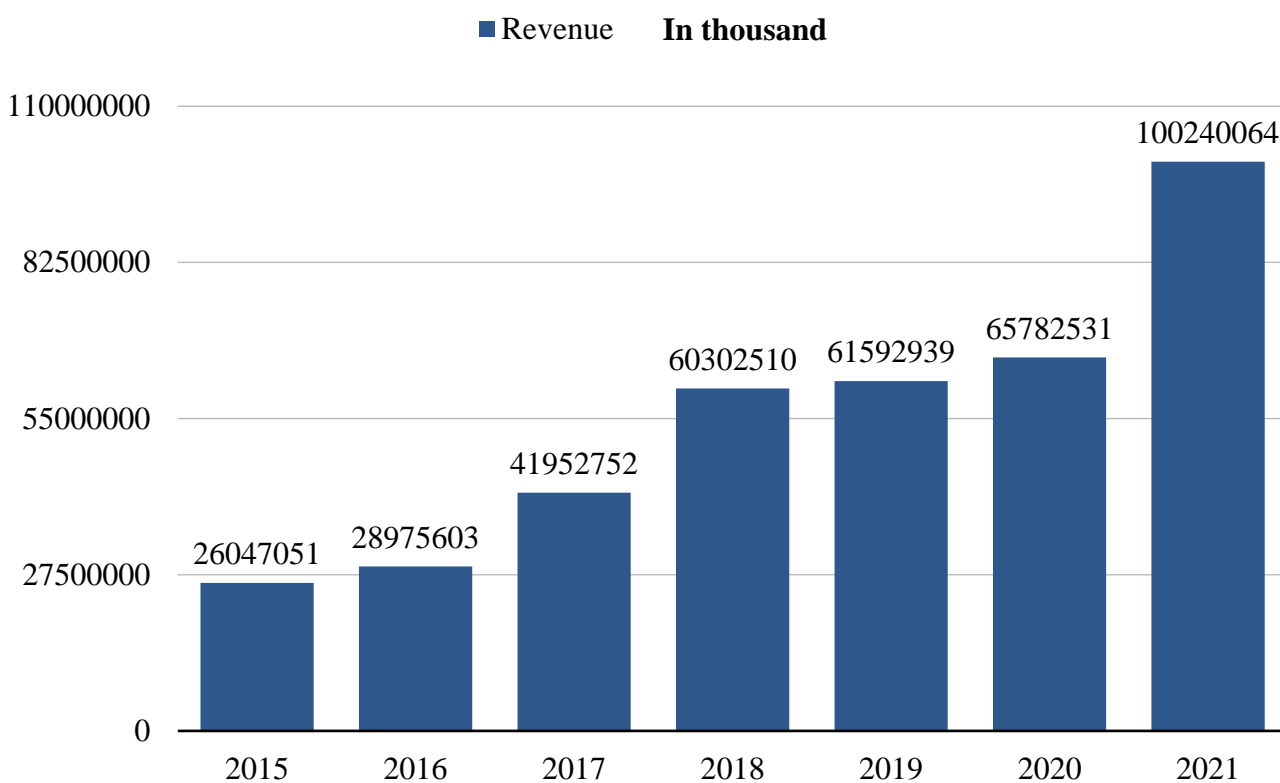


Fig. 2 Revenue of Greentown Group from 2015-2021.

If the data of income alone is not enough to prove that Greentown Group is still developing positively even in the midst of the epidemic, then we will present the data of Profit attributable to owners of the Company of Greentown Group and the total equity of Greentown Group. Seen from Fig. 3, in 2019, the Profit attributable to owners of the Company of Greentown Group began to rise significantly. Moreover, we found that from 2019 to 2020, even though the revenue in 2020 did not change much compared with the revenue in 2019, there was a significant increase in profits. When most companies are facing bankruptcy, and when the rising prices of most basic items are driving up costs, Greentown Group is still keeping itself afloat in this dire crisis. Greenland, however, has taken different measures to prevent itself from following the same path as Evergrande.

However, in fact, Greentown Group is not so easy to imagine, Greentown management Holdings in the first half of the year, the revenue of 815 million yuan compared to the same period last year decreased by 21.3%. The profit attributable to owners was 134 million yuan, down by 14.28% year-on-year. However, due to the improvement of the management level, the net profit of the management holding under the parent still achieved a small increase compared with the same period last year.

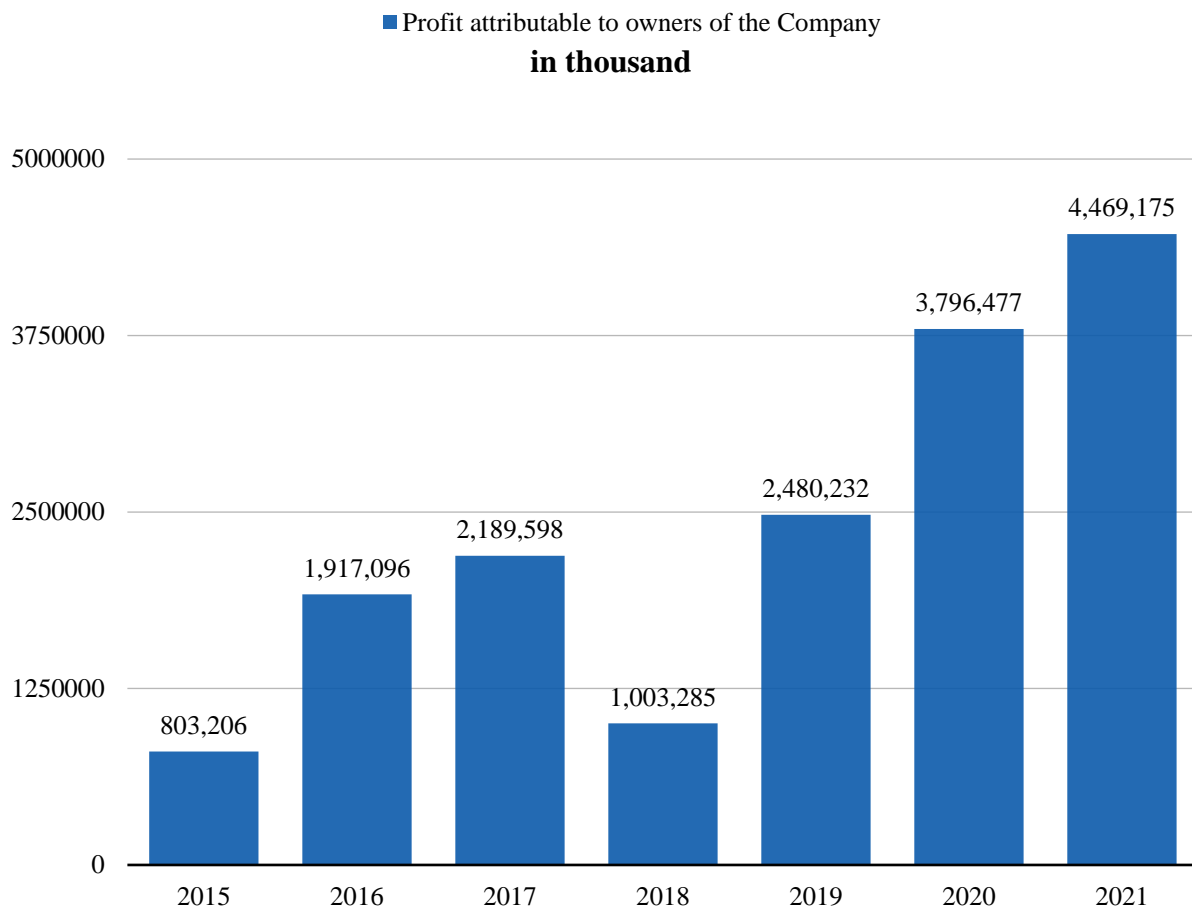


Fig. 3 Profit of Greentown Group from 2015-2021.

5. Suggestions

Through the analysis of these two companies, we put forward several suggestions:

- First of all, it is necessary to increase payment collection and financing. Under the epidemic situation, the cash flow security of real estate enterprises is more urgent. To seize the inventory project sales and cash collection, one needs to increase the operating cash inflow, explore a variety of financing channels to increase the inflow of financing cash, as well as control operating cash outflow and overall financing cash outflow.

- Besides, one ought to explore multiple sales channels. We will actively promote the application of 5G, VR, and other new technologies in housing sales, and intensify efforts to promote housing sales. To be specific, it is necessary to expand online services, create an online sales display platform and drainage platform, and build an online real estate fair. For the situation of on-site housing selection and viewing, the buyers can be classified and grouped according to the situation, so as to promote the orderly progress of sales under the condition of avoiding the agglomeration of people.

- Last but not least, it will be helpful to focus on the investment pace. The epidemic has put forward higher requirements for the precision of the investment rhythm of real estate enterprises. Real estate enterprises should actively use scientific tools to improve the accuracy of an investment strategy under the premise of ensuring the safety of cash flow. Hence, one needs to strengthen research on land, customers, and market, seize market opportunities, and realize a precise investment.

6. Conclusion

In summary, this paper chooses the cases of Evergrande Group and Greenland Group to investigate the impact of COVID-19 on the real estate industry of China. According to the analysis, The COVID-19 pandemic has caused short-term impacts such as construction delays, reduced demand for housing, and delayed delivery. Moreover, the epidemic will make the government adjust the supply of land, and tighten the financial loans, bonds, and trust financing. Suggestions including Increasing payment collection and financing, exploring multiple sales channels, and focusing on the investment pace have been proposed accordingly. Nevertheless, this study has some shortcomings and drawbacks. To be specific, this study is not universal and does not apply to all real estate industries. In the future, it is hoped that one can make more general recommendations to help more real estate industry. Overall, these results offer a guideline for the real estate strategy designs.

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