

Comparison of Real Estate Market Level and Financing Mode of Real Estate Companies

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Abstract. Contemporarily, with the rapid development of the real estate industry, its market needs a large number of sources of capital. At present, real estate financing mainly relies on bank loans to solve the capital needs, and a small number of large enterprises through the listing of financing. However, these financing modes alone are not enough to solve the needs of real estate enterprises for capital. This study selects countries or regions with different levels of real estate markets and compares the financing of representative real estate companies in these locations in an attempt to identify the relationship between the level of real estate markets and the financing patterns of real estate companies. According to the analysis, Sun Hung Kai Properties in Hong Kong uses a variety of new financial instruments to finance itself, D R Horton in the US has diversified its financing, and DLF in India gets most of its financing from banks. Overall, the empirical analysis will be useful for guiding further exploration of the impact of real estate market levels on corporate financing patterns.

Keywords: Real estate; Financing mode; Sun Hung Kai Properties; D R Horton; DLF.

1. Introduction

Real estate is very important in every country over the world [1-3]. The real estate industry is the backbone of the national economic chain and has a close relationship with the national economy well-being [4, 5]. It is the guarantee of people's livelihood and the pillar of the national economy in every country [6, 7]. The amount of capital required by a real estate company to develop a real estate project is very large, and financing means are needed to make the project go on better. The development of the sector has promoted economic growth, but it is a high-investment industry in order to obtain high income. If the financing cost is not well controlled, it is difficult to ensure the balance of payments. In the current fierce competition in the real estate industry, various financing methods have also emerged, such as corporate bonds, overseas financing, trusts, etc., which can provide real estate companies with operational measures. In order to ensure the orderly development of the real estate industry, the financing method should be more reasonably selected and adjusted to ensure the good operation of the financing model. There are many common financing models for real estate companies.

Zhao divides them into traditional financing models and innovative financing models [8]. The traditional financing models mainly include self-owned capital financing, securities and capital market financing, commercial credit, bank credit, financial leasing, private capital lending, pre-sale house payment, etc [8]. There are still some innovative financing methods, such as real estate trusts, real estate securitization, entrusted loans with subsidized interest for developers, after-sales repurchase of real estate financing, and PPP project financing. Each of these financing models is different and has advantages and disadvantages in different situations. For example, Lee pointed out that under certain circumstances, the huge variability of stock returns makes investor interest low, and stock financing is not very effective at this time [9]. Wang argued that bank credit is a relatively mainstream financing method. For real estate companies, banks are a financing channel with a relatively reliable source of funds and relatively simple procedures [10]. However, due to the different degrees of economic development in different countries, it will lead to the formation of real estate financial models. Abundant real estate financing channels are conducive to the healthy development

of real estate and at the same time reduce the risk of real estate finance. Ma pointed out that real estate in the United States started earlier and the market system is more mature, which has reference significance for the real estate industry in other countries [11].

If the financing cost is not well controlled, it is difficult to ensure the balance of payments. In the current fierce competition in the real estate industry, various financing methods have also emerged, such as corporate bonds, overseas financing, trusts, etc., which can provide real estate companies with operational measures. In order to ensure the orderly development of the real estate industry, the financing method should be more reasonably selected and adjusted to ensure the good operation of the financing model. In order to find out the relation between real estate market and the financing frames and then analyze the different methods, this paper selects Sun Hung Kai Properties, D.R.Horton and DLF company from three different countries as example to investigate the correlation. The rest part of the paper is organized as follows. The Sec. 2 will introduce the backgrounds of those selected companies respectively. The Sec. 3 will analyze their cashflows and quantify the market.

2. Hong Kong: Sun Hung Kai Properties

As a capital-intensive industry, the real estate industry is characterized by huge initial investment and bank financing. Therefore, understanding the financing model of it and finding the right financing method play a key role in preventing financial risks. As an international metropolis in Asia, Hong Kong has a very long history of the real estate market, dating back to 1841. Owing to Hong Kong's special geographical location and land policy, Hong Kong has become one of the most expensive residential markets in the world. In 2020, according to statistics, the average property price in Hong Kong was US\$1.25 million. Apart from competition from thousands of small and medium-sized real estate developers, Hong Kong's residential market is mainly controlled by large real estate developers such as Sun Hung Kai, Cheung Kong Holdings, Henderson Optics Property and Sino Land. In terms of land bank, it is the largest property developer in the region. This article will further assess the level of Hong Kong's real estate market through various indicators such as household debt service reserve ratio. In April 2022, Hong Kong households had an average household debt service reserve ratio of 32.5 years, ranking first in the world. Sun Hung Kai Properties, as a liability and operating entity, has three main financing methods. The evolution of the revenue is presented in Fig. 1.

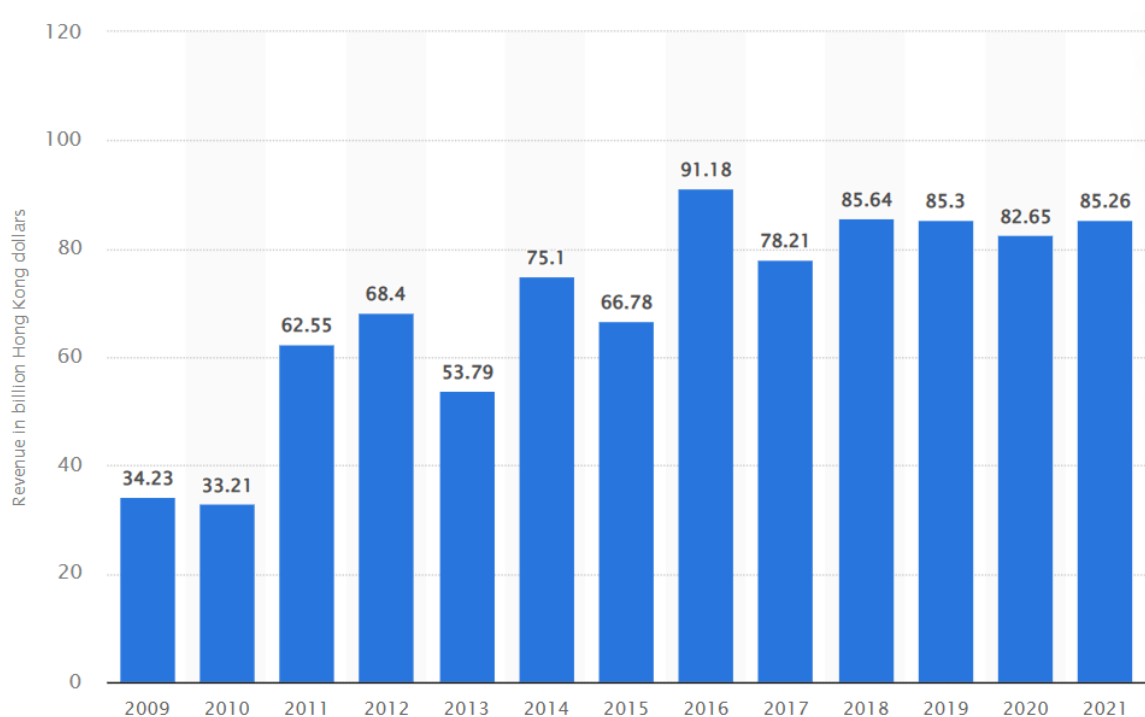


Fig. 1 The revenue evolution of Sun Hung Kai Properties (unit in billion Hong Kong dollars).

The first is a listed offering with relatively low financing costs. Sun Hung Kai was listed on 23 August 1972. With an authorized share capital of HK\$300 million, a paid-in share capital of approximately HK\$227 million and a par value of HK\$2 per share, 20 million new shares were offered at HK\$5 per share, raising HK\$100 million, which was oversubscribed by 10 times. There are 2,897,780,274 shares with a share price of 102.500 per share. The second is bank lending, the traditional bank credit is the main mode of real estate financing, with a single nature, which is beneficial and disadvantageous for the sector. According to Sun Hung Kai Properties' 2021-22 Annual Report, Sun Hung Kai Properties' unsecured credit facility amounted to HK\$82.5 billion, representing approximately 66.03% of total borrowings. In the financial instruments he is rich now, bank credit has become no longer monolithic. In 2022, Sun Hung Kai Properties signed 5-year sustainability-linked loan agreements with 16 banks, also known as ESG-linked loans. Under this agreement, Sun Hung Kai Properties will receive a discount on interest rates when it meets its set sustainability goals. Bank lending rates are generally based on HIBOR plus point, which is currently 5.78% for 12 months.

The issuance of bonds is also an important way for companies to intervene in funds, and the advantages of issuing bonds are low financing costs, large financing scale, and relatively long maturity time. Sun Hung Kai Properties has a stable credit rating with A1 for Moody's and A+ for Standard & Poor's. A good credit rating provides Sun Hung Kai with the possibility of low financing costs. According to Sun Hung Kai's latest annual report, total bond borrowings amounted to HK\$42.1 billion, accounting for approximately 33.71% of total borrowings. In January 2020, Sun Hung Kai issued US\$300 million unsecured bonds with a 10-year maturity and a coupon of 2.875%. Compared with bank credit, financing costs are greatly reduced.

3. The US: D R Horton

The real estate industry is a pillar industry in the United States, and the consumption of it and relevant industries has always accounted for one-fifth of the US GDP. In 2021, the average price of real estate in the United States will be 2,069 US dollars per square meter, which is equivalent to RMB 14,483 per unit, an increase of 9.1% compared with the price in 2020. The state of growth of the real estate market is closely related to the state of macroeconomic development. Due to the regulation of US national policies, the real estate market continues to see a contraction in access to financing, an overall reduction in the scale of financing and an increasing cost of financing. US real estate companies need to continue to explore new financing models to reduce risks. D R Horton is one of the four largest real estate companies in the United States. It was established in 1978 and is headquartered in Texas. Holden has been the largest real estate developer by sales in the United States since 2002, and is the youngest but fastest growing of the four largest real estate companies in the United States, operating in 90 markets in 29 states. The following data comes from the stock information network and the 2020-2021 D.R.Horton annual report.

Table 1. Listing related information

Time of listing	1992.6.5
Issue price	11.00
Total share capital	344,341,000shares
Total market capitalization	30.715 billion dollar
Current share price	89.290

Table. 1 reflects that the company's first method of financing was through a listing, D R Horton was listed on June 5,1992 at an issue price of 11.00 and now has a share price of 82.290 and a total market capitalization of US\$30.715 billion. As can be seen from Table. 2 and Table. 3, the company has financed its debt from various sources, most notably from bank loans, accounts payable and finance leases. The percentage of financing obtained through bank loans alone exceeds 70% of the

company's total debt financing, indicating that D.R. Horton is more dependent on bank loans and has a higher proportion of debt financing.

Table 2. Current liabilities(Unit: USD)

	2020	2021
Accounts payable	901 million	1.17 billion
Taxes payable	86.7 million	139 million

Table 3. Non-current liabilities(Unit: USD)

	2020	2021
Long term loan	4.283 billion	5.712 billion
Long-term finance lease liabilities	37 million	37 million
Other non-current liabilities	119 million	100 million

4. India: DLF Company

In recent years, India's real estate industry has grown rapidly and become the second largest industry after agriculture, which has attracted a lot of attention from all over the world. Nevertheless, the Indian real estate sector continues to be plagued by a lack of supportive infrastructure, an imbalance in the regional market structure, subpar financial services, irrational pricing levels, and quickly growing property values. The current real estate market crisis is due to a number of factors, including the privatization of land in India, the rapid urban population growth and social structure changes, the lack of government oversight brought on by the ethnic system, and the contradictory social structure.

Table 4. Cash flows from financing activities

	2021	2020
Proceeds from share warrants	-	224,990.00
Proceeds from debentures (including current maturities)	50,865.00	98,750.00
Proceeds from current borrowing	578,892.30	596,021.26
Proceeds from non-current borrowings (including current maturities)	71,709.49	251,861.59

Table 5. Current borrowings in the balance sheet

	2021	2020
Secured		
Overdraft facility		
From banks	-	388.16
Short-term loans		
From banks	221,563.53	223,921.28
Unsecured		
Loans from related parties	8,429.74	14,552.00
Loans from body corporates	4,496.23	5,074.73
	234,489.50	243,936.17

The largest real estate business in India, DLF, has a different financing profile from other countries due to the magnitude of the real estate industry in India. The Table. 4 was created using the balance sheet, cash flow statement, etc. of DLF. The finance sources and amounts used by DLF Corporation year 2020–2021 are shown in the Table. 4. The information was taken from the 2021 annual report of DLF Company. Table 4 indicates that the sources of cash financing for the year, with non-current borrowings, bond proceeds, and warrant proceeds all making substantial contributions. Current borrowings made up the majority of the sources of cash financing for the year. The company's total

borrowings for the year are displayed in Table 5 and Table 6. The sources of borrowings are diverse and include bonds, term loans, and foreign loans. However, in general, bank loans make up a bigger percentage.

Table 6. Non-current borrowings in the balance sheet

	Non-current		Current Maturities	
	2021	2020	2021	2020
Secured				
10% Non-cumulative irredeemable debentures	0.90	0.90	-	-
Non-convertible redeemable debentures	49,816.01	49,381.86	49,590.58	83,826.15
Term loans				
Foreign currency loan				
From banks	-	33,909.95	33,004.32	61,361.92
Rupee loan				
From banks	153,572.42	139,587.43	5,173.40	27,395.21
From others	126,049.99	165,993.19	14,506.83	4,625.02
Vehicle loan from banks	40.82	138.39	97.57	94.96
Unsecured				
Optionally convertible redeemable preference share	10,020.51	-	-	-
	339,500.65	389,011.72	102,372.70	177,303.26

5. Conclusion

In summary, this paper investigates real estate companies financing mode based on different Real Estate Market Level. The primary method of financing real estate is traditional bank credit, which offers advantages and disadvantages for the growth. The huge size of bank loan funding is a benefit, but there are also drawbacks, such as the possibility of increased risk and higher financing costs linked to a single source of financing. All three real estate companies have a relatively high proportion of their financing sources from bank credit, but there are differences. India has the highest proportion of bank loans for DLF companies, followed by the US and the least by Hong Kong. In Sun Hung Kai, Hong Kong, where house prices are the highest, traditional bank credit is lower compared to the US and India, and has been replaced by other financial instruments. This may be due to the high and continuing rise in house prices, creating optimism among investors, creating more capital inflows and no need for real estate companies to borrow heavily from banks. The majority of DLF firms' funding in India, where home prices aren't as high, comes from banks, indicating that there aren't many people investing in real estate and that the country's real estate industry isn't as established as it is in Hong Kong and the US. In addition, higher property prices often indicate a more developed economy and generally more developed financial markets, providing a basis for companies to offer a wide range of new financing instruments.

Nevertheless, the study still has several flaws due to a lack of capability and limited time and effort. A sufficient sample size is critical for a valid investigation. The sample size used for this study was tiny, and certain samples may not be entirely typical of the study's main body, and it was difficult to utilize accurate data to verify the study's importance. Whereas, the cases selected for this study are still highly representative. Overall, these results provide guidance for future real estate-related research, especially studies on real estate companies' finance.

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