

# Explore the Financial Management Risks of Real Estate Enterprises and Relevant Preventive Measures

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## Abstract

In the new era, China's large-scale urban and rural construction is growing day by day, real estate development enterprises are emerging endlessly, urban and rural construction is growing day by day, and management problems are emerging. Real estate companies are an important part of China's economic development. In recent years, real estate enterprises have developed faster and faster. Under the market economy, real estate development faces many risks. Based on the analysis of the types, causes and characteristics of financial risks of real estate enterprises, this paper puts forward reasonable suggestions on financial risks of real estate enterprises and necessary measures to prevent them, which provides a theoretical basis for the prevention of financial risks of real estate enterprises.

## Keywords

Real Estate; Financial Management Risk; Preventive Measures.

## 1. Types of Financial Risks of Real Estate Enterprises

### 1.1. Investment Risk

Compared with other industries, real estate investment risks are more serious and extensive. Investment risk is mainly determined by its own characteristics. The development process of real estate companies is very long, from the initial positioning to the subsequent construction and sales. Every step may be accompanied by financial risks. Many companies are unable to conduct scientific financial analysis. Blind investment, imperfect management mechanism and systematic financial analysis have led to a gradual increase in the company's accounts receivable, and ultimately face a debt crisis and huge investment risks. In addition, the high debt index of many real estate companies also brings financing problems, which hinders the daily operation of the company. Due to insufficient capital management and use, many listed companies can only take the current profits as the main guarantee of debts, thus increasing the operational risk of real estate companies.

### 1.2. Financial Risk

Real estate development requires a large amount of capital, early and long-term investment, difficulties and the allocation of funds for sustainable development. In this case, all real estate companies will be affected by changes in credit policies through financing investment projects and bank loans. Policy changes directly affect bank loan interest rates, and have a great impact on the capital of companies, consumers and industries.

### 1.3. Cost Recovery Risk

The risks of receivables of real estate companies mainly include sales risk and credit risk. The relationship between market supply and demand directly affects the development trend of real estate companies this year. When supply exceeds demand, the purchase demand of consumers drops, and the sales price of real estate drops. Credit risk is closely related to the solvency of

creditor's rights. Only when the buyer reduces the solvency and pays on time, can he play the role of credit. In this case, real estate sales is a marketing problem.

## **2. The Causes of Financial Risk in Real Estate Enterprises**

### **2.1. Lack of Reasonable Budget**

Like capital intensive industries, real estate development projects have a lot of investment with the rise of land prices and construction costs. Real estate development is a long process. According to deployment factors and operating costs, some companies may not use scientific evaluation and financial budget to design the inevitable blind decisions of financial and investment risk management projects.

### **2.2. Insufficient Emphasis on Cash Flow Management**

The essence of real estate development is to develop, construct and receive land. The project duration will extend the long-term liquidity period and reduce the turnover rate, which will hinder the implementation of the project. The management of meteor cash flow in the housing and construction sectors has not received enough attention, and most private sectors bring financial risks to companies.

### **2.3. Unreasonable Capital Structure of Enterprises**

Loans and stocks account for a large proportion of the total capital of commercial real estate companies, increasing financial risk. Therefore, when the time is ripe, adequate resources will determine the survival of enterprises. Now, in most financing models, if the owner does not have enough funds or only uses his own funds to purchase land and mortgage the bank, his share in the company's loans is higher than the growth rate of its total assets and liabilities, which increases the company's financial risk invisibly.

## **3. Characteristics of Financial Risk in Real Estate Enterprises**

### **3.1. Comprehensiveness**

Capital, such as cash flow, is a risky asset. The main factor is the capital flow generated by the daily management activities of commercial real estate, which has financial risks. Commercial real estate is a quite complex business with a large transaction volume. It provides funds for short-term and long-term loans of capital risk. With well-developed financing channels, financial risks can be effectively controlled. Therefore, before making decisions for all economic activities and managers, feasibility analysis must be carried out to increase opportunities for effective monitoring, fund management and risk reduction. Enterprises must also strengthen many financial risks arising from poor management. In daily business activities, enterprises can continue to operate and control risk awareness.

### **3.2. Objectivity**

Financial risk is not the risk of the fund itself, but most financial risks are caused by objective factors. Therefore, it is very objective to control financial risks according to various factors, and enterprises must understand financing problems. The financial risks of real estate enterprises adhere to real estate operation, solve these problems in time, and avoid greater impact on future activities. When the company sets goals, investment and other economic activities should conform to the sales and reality of existing buildings.

### **3.3. Controllability**

General financial risks, even enterprises can reduce financial risks through reasonable scientific management and control. In the daily activities of enterprises, it is necessary to assess and

prevent financial risks related to economic activities, and supervise and manage capital flows. Pay cash, costs and budgets correctly, give priority to auction, financing and other businesses, and recover debtors as soon as possible to reduce default and debt risk.

### **3.4. Uncertainty**

Financial risks can be managed, but this does not mean that they cannot be completely eliminated without production. Therefore, uncertainty has become an important feature of commercial real estate. Financial risks may change at any time, so enterprises must strengthen self-management and objectivity. From an individual perspective, it is necessary to reduce the possibility of personal financial errors. However, it is necessary to conduct effective risk assessment and cash flow budget for each activity in the economic field. Enterprises must reduce financial risks through good management and objective factors. In the field of real estate, according to the status of urban land, analyze the status of real estate, determine the sales factors related to real estate, so that assets can use the relationship between supply and demand to reduce the potential capital risk in the market economy.

## **4. The Fundamental Reasons for the Formation of Financial Risks in Real Estate Enterprises**

### **4.1. Poor Financial Budget Management**

Real estate is a capital intensive standard industry, which invests in production and operation. However, the capital flows from production to sales for a long time. The capital is invested in large projects, and the projects are poorly adapted. Some real estate companies are unable to analyze the financial budget of the whole project in detail from the aspects of cost, capital transaction and income. Lack of proper planning, poor use and management of funds and blind lending have brought financial risks to real estate companies.

### **4.2. Cash Flow Management Without Rules**

Real estate companies have long production cycle, complex construction process, long capital turnover cycle and low turnover rate. Therefore, enterprises must strengthen cash flow management. However, many Chinese real estate companies do not have the concept of cash management, and risk control usually does not meet the requirements of sustainable development.

### **4.3. Problems in Capital Structure and Cost Control**

The equity and liabilities of participating real estate companies are abnormal, which may lead to financial risks. The production and operation of real estate companies are complex, many of which involve land use, demolition, preparation, infrastructure, equipment, installation, ancillary facilities, start-up and sales. The management method should also comply with different expenditure periods, different expenditure ratios and capital expenditure. However, some real estate companies unilaterally focus on the time, speed and quality of construction, without considering the management of capital expenditure. Therefore, the Office of Finance did not record the baseline data of financial expenditure management, and the actual expenditure and financial budget expenditure differed greatly, which reduced the efficiency of real estate companies.

## **5. Financial Risk Prevention of Real Estate Enterprises**

### **5.1. Preventing Financial Risks**

The first step to protect real estate enterprises from financial risks is to hedge financial risks. Real estate enterprises should take the following measures: real estate enterprises should

significantly expand financing channels, and relevant industries should appropriately relax financing restrictions. Stimulate the real estate stock and bond markets and properly develop real estate mortgage loans. We should constantly improve the indirect financing mechanism, and real estate enterprises should accept various forms of indirect financing scientific financial decisions. Real estate enterprises should formulate appropriate fiscal policies according to the overall planning and strategic development. Control the financing quality, formulate a reasonable payment plan, and control the financing process.

## **5.2. Hedge Investment Risk**

In order to prevent investment risks, enterprises and enterprises need to take appropriate protective measures at each stage of investment decision-making. Real estate enterprises should pay attention to the feasibility study and policy changes of investment projects. Improve investment environment prediction, flexibly apply portfolio theory, and take such measures when necessary. This is a kind of real estate insurance designed to reduce investment risk or avoid land acquisition during land acquisition. Real estate enterprises should carefully study the natural characteristics, advantages and social nature of land to reduce the risk of land acquisition. Resettlement is flexible. In the process of project construction, real estate enterprises must strengthen control to ensure the success of the project, and ensure the quality and duration of the project. In the process of management, real estate enterprises must learn to track supply and demand, pay close attention to market trends, take scientific pricing measures and flexible marketing methods, and reduce or increase price risks.

## **5.3. Risk Prevention of Capital Recovery**

A successful lease or sale determines how a real estate enterprise successfully recovers its capital. Therefore, real estate enterprises must formulate effective marketing strategies, expand sales channels, and select appropriate potential customers. Formulate scientific and reasonable leasing and sales plans, and improve the management of accounts receivable of real estate enterprises. Debtors are a key risk factor for capital inflows into real estate. Housing enterprises must improve credit policies. Reasonably determine customer reputation and scientifically determine the share of accounts receivable. To ensure the rapid recovery of credit sales and reduce the risk of bad debt loss.

## **5.4. Prevention of Income Distribution**

Real estate enterprises should formulate reasonable income distribution policies and comprehensively consider financial needs, capital structure and other factors. The interests of investors and creditors, the public image of the enterprise, abnormal profit distribution, and solving any problems. In fact, real estate enterprises must have long-term profit distribution plans. The purpose of profit distribution should be to increase actual capital, avoid random distribution of profits, and optimize the capital structure of enterprises. Constantly reduce financial costs and increase internal financing opportunities, thereby improving the profitability of the Organization.

# **6. Necessary Measures to Control Financial Risks of Enterprises**

## **6.1. It is Necessary to Conduct Market Research before Project Development**

Before making a decision, the company must study the feasibility of the development project and decide whether to accept the quality requirements, development prospects, advantages and disadvantages of competitors. The real estate enterprise should set up a market investigation department to collect detailed information of market supply and demand through the investigation of the operation of the construction market, so that the project management can make more scientific decisions and avoid blind decisions that increase organizational risk.

## 6.2. Strengthen the Management of Enterprise Capital Budget

In general, the project development cycle is long, which brings great uncertainty to the financial budget of real estate enterprises, and is an important factor affecting the project development. Reasonably arrange the distribution and use of the Company's funds, and prepare the overall project budget, including development costs, investment, estimated income and indirect costs. In order to ensure the importance of budget management, enterprises must establish and improve the budget indicator system, adhere to monthly analysis, and understand the cash flow. At the same time, the Company strictly implements the performance appraisal system and annual budget, and the capital investment stage is limited.

## 6.3. Optimize Enterprise Capital Structure

A reasonable capital structure is the basis for the healthy development of real estate enterprises. If enterprises have sufficient solvency, they may need more than commercial debt. Broadening financing channels can effectively reduce debt ratio and capital risk.

## 7. Concluding Remarks

The large investment and long development cycle of real estate development bring great uncertainty to the capital management of enterprises and increase the financial risk of enterprises. This is very important for the development of enterprises, but in order to reduce the debt risk caused by blind investment, the relevant financial and management personnel must make a reasonable analysis of the development project. Human resources, continue to ensure the sustainable development of real estate enterprises. Especially for debt companies, if the use of capital is not well controlled, the risk will increase. Therefore, enterprises must strengthen investment budget management, safety management and investment risk control, and even scientific investment, in order to obtain higher returns.

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