

The Dilemma and Way Out of Real Estate Groups under Covid-19

Yujia Li^{1,a,*}

¹*Department of Accounting, Nanchang University, Nanchang 330000, China
a. 5411121050@email.ncu.edu.cn*

**corresponding author*

Abstract: In retrospect, the Covid-19 hit the global economic hard. As a core industry, real estate also experienced a terrible loss. This paper is aimed to reflect the practical situation affected by the epidemic, taking two typical enterprises as examples on behalf of the whole real estate industry to provide relevant ex-perience in case that if the similar emergency happens in the future. By recit-ing some essential statistics (asset-liability ratio and EBITDA etc.) during 2019 to 2022 and analyzing the fluctuations, it is obvious that this epidemic caused a big shock to these companies. The sales amount and investment de-clined considerably, leading to a fall in companies' gross profit and equity. Apart from that, the cash flow also suffered some influences for the delayed inflow, adding risk to the debt structure. Other factors like the shortage of materials and blocked expansion as well as land acquisition also contributed to the dilemma. The business conditions in three four years were not very promising. The companies should adopt effective measures in terms of funds management, shareholding structure, financing structure and inventory supervision.

Keywords: real estate, Covid-19, vanke, poly property

1. Introduction

From three years ago in 2020, a destructive disaster swept the worldwide countries and gave rise to inestimable losses not only in the daily lives of people but also the prospects of different fields of work among which that for realty business is the worthiest being discovered [1-6]. This essay is targeted at the reports of financial status and business decisions of two biggest real estate companies in China- Poly Property Group Co and Vanke Co during the three years. The analysis from these papers can help us know what a shock the pandemic has caused for the domestic industries and by studying the urgent measures taken by these companies, one can draw out some useful business experience in convenience for the future emergence situation if there happen to be some fluctuations in the markets.

The main resources are the financial annual reports exposed by the companies themselves. By pulling through the three-year reports for horizontal comparison and digging up the balance sheets as well as the cash flow statements of two companies, one can reach a conclusion that in what way the Covid-19 has influenced the company's operating conditions [7]. As far as it known to all, some obvious factors mostly embodied in the declines of sales and leasing, shortages of materials and labor, investments in land acquisition and M&A expansion being blocked and financing obstruction with liquidity issues [8-10]. To figure out this theme not only present a chance to let us know what has

been done during the last three years in the two notable estate companies but also do good for them to find the weakness which hadn't been discovered and know how to improve for future developing direction [11].

In previous study, Peng sorts out the results and theories required for real estate financing at home and abroad and studying the strategies according to the enterprise life cycle theory and capital structure related knowledge in of Vanke [3]. The asset and liability structures also have been compared deeply with some empirical analysis in finance performance by Liu and Chang [4]. What's more, Zhang briefly introduces the specific financing methods current in Poly Real Estate Financing Analysis and Chen also focuses on the capital structure to make optimization recommendations in Poly Property Estate Capital Structure Optimization Countermeasures [4, 5]. More specifically, Weiming Liao precisely studies the effects on macro-economy and real estate and judges the policies that emerged after the epidemic [6]. As to figure out how these companies' reaction, Tang and Li illustrate the changes in the solvency of listed real estate enterprises and their reasons with the aim to promote the healthy and sustainable development of this industry [7]. Besides, Chen has investigated the current financial management status and explored Vanke's strategies from three aspects-investment, operation and capital of Vanke's financial data [8]. Then, Qiu ex-tracts the financial forms for 2019 and 2020 to calculate, judge and interpret data from different levels and angles which can give related predictions of the financial status [9].

The structure of this essay approximately divides into three parts: initially, there are some essential background information like a brief description about the what severe influences had been existed with several depressing data. To the main body, in the first paragraph, this study will choose Vanke as an example and recite the financial forms to analyze the changes in the three years and what methods they have adopted to overcome the difficulties. Then, this research will take Poly Property Group co as another example and attach the formats as well as the changes in data, the countermeasures. In addition to those, there also will demonstrate the comparison between the rate of the two companies and that of average market to show the gap. The last part will roughly summarize the reasons why the two company can survive in such a hard time and their uniqueness from other companies.

2. Analysis of Vanke

Initially, one takes Vanke Co as an example, where one looks at the forms which records some specific statistics from 2019 to 2022. Statistically, the ratio in real estate always stays around 65% in average. However, those of Vanke Co during 2019 to 2022 have reached 79%, even 84% at the beginning of the eruption of Covid19. Such a high ratio may contribute to the risk in future. Seen from Table. 1, in the most severe time of this epidemic, the ratios were much higher than in the latter two years which means in 2019 and 2020, Vanke has undertaken a big-ger financial pressure with huge debt. The reason for such a high ratio may lie in the high leverage operating model. Vanke always adopt the method of raising a loan to expand their scale and market share. So, when the explosion of Covid 19 gave rise to an apparent fluctuation in the market, the company's pressure in debt has grown several times. In addition, Table 2 reveals that Vanke's capital relies on short-term financing. During these years, the interest rates of it had a significant rise which aggravate the burden [6].

In 22nd Sep 2021, chairman of the board of directors Liang Yu answered the questions from journalists that the real estate had stepped into a severe winter. He claimed the aim for his enterprise was to live, not to survive. This time was just like labor pains, after which there would appear chances and turning points. In the Table 3, Vanke's net cash flow decreased continuously. It might blame on the tightened supervision of pre-sale funds at the executive level. In addition to that, the money spent on purchasing goods and payment for employees exceeded 421million at the same period last year,

happening to meet the paying deadlines of some new projects. The Chief Economist of IPG China Wenxi Bo said it was mainly caused by the sharp fell in sales since the prospect of market turned extremely dismal from the second half of 2020 [1]. As Table 4 depicts, the cash flow in financing have been negative for three consecutive years and the large number of investments means Vanke made it effort to support the possibility of other business like what were mentioned in the annual report of 2021: the acquisition of 188 companies.

Table 1: Changes in asset-liability ratio.

| Years | 2019 | 2020 | 2021 | 2022 |
|-----------------------|--------|--------|--------|--------|
| Asset-liability ratio | 84.36% | 81.28% | 79.74% | 76.95% |

Table 2: Financing Structure [1].

| Access to financing | Financing Balance | Financing Cost Range | Term Structure |
|---------------------|-------------------|---|--|
| Bank loans | 19,036,624.66 | 3.00%~Hibor floated up in the agreed proportion | Short-term, IIIiquid liabilities within one year |
| Bond | 8,560,771.8 | 2.56%~Libor floated up in the agreed proportion | IIIiquid liabilities within one year;Bonds payable |
| Others | 3,813,200.00 | 4.10%~6.16% | IIIiquid liabilities whinthin a year;Long-term borrowing |

Table 3: Cash Flow Value.

| Years | 2019 | 2020 | 2021 | 2022 |
|---------------|-------------------|-------------------|------------------|------------------|
| Net Cash Flow | 45,686,809,515.08 | 53,188,022,243.81 | 4,113,160,948.20 | 2,750,449,478.44 |

Table 4: Different kinds of cash flow.

| | 2019 | 2020 | 2021 |
|----------------------|---------|--------|--------|
| Operating Cash Flow | 456.87 | 531.88 | 41.13 |
| Investment Cash Flow | -286.27 | 59.97 | -262.8 |
| Financing Cash Flow | -333 | -325 | -231 |

The survey conducted by Deloitte which focused on the influences of Covid 19 for real estate industry finance and operating displayed the possible stress sources that a company's cash flow faced: the difficulties in sales collection, the expenditures in salaries and welfare, loan and interest payment, the higher management costs for offending the disease as well as the money for suppliers. Vanke is no exception too. In 2022, the cash flow generated in employees was 2,003,255.47 and in loan repayment was 10,087,240.27. The distribution of equity and profits was 3,316,769.95. Taking these parts as representatives, one can know the Covid 19 made a big shock to Vanke's available funds because of the longtime delay in selling their products but keeping buying spare land which could hardly make end meet [1].

Table 5: Earnings Per Share.

| Years | 2019 | 2020 | 2021 | 2022 |
|-------|------|------|------|------|
| EPS | 3.47 | 3.62 | 1.94 | 1.95 |

Table 6: Operating Revenue.

| Years | 2019 | 2020 | 2021 | 2022 |
|-------------------|--------------------|--------------------|--------------------|--------------------|
| Operating revenue | 367,893,877,538.94 | 419,111,677,714.12 | 452,797,773,974.14 | 503,838,367,358.76 |

Table 7: Operating Profit.

| Years | 2019 | 2020 | 2021 | 2022 |
|------------------|-------------------|-------------------|-------------------|-------------------|
| Operating Profit | 76,613,136,041.54 | 79,958,642,103.88 | 52,530,997,237.25 | 52,006,935,659.54 |

The profit status presented in Table 5, Table 6 and Table 7. In 2019, Vanke realized net profit 551.3 and gross profit 27.2%, ROE 20.7%. Subsequently, in 2020, the profit reached 593, with 7.6% year-over-year growth. However, the gross profit and ROE both dropped to 22.6% and 18.5% while after 2020, the situation became worse and worse. The net profit in 2021 and 2022 only had 380.7 and 375.5. Besides, the gross profit and ROE also experienced a continued decline (21.7%, 16.9%). This kind of disappointing news mainly were mainly because of the less number in sales and a lag in the settlement of real estate. Nevertheless, the vice president believed that after 2023, there will certainly be a pick-up [1, 8]. Trapped in an increasingly challenging development environment, Vanke were always so set in opening a new pathway to accomplish the transformation of their company. One of which was the adopt of asset-light operating model processed by investing the limited and essential resources into the core link and outsource hard-to-handle work so that less money is devoted but higher income. Moreover, to reduce the costs of financing and expand access of financing, Vanke conducted foreign currency debt financing to relieve the stress of capital shortages domestically, occupying more than 20% of debt. Nevertheless, due to the tightening of overseas financing channels by our country, the total amount had a tremendous fall. It is worth mentioning that in the latest two years, Vanke has exposed their plan to raise up to 15 billion to support working on eleven new projects and replenish the circulating funds. Then, at the management level, Vanke regained power and comprehensively strengthened overall combat effectiveness [7].

3. Analysis of Poly Property

The second case that one puts the attention on is Poly Property. The followings include the papers, statistics, and some analysis. To its credit, during these four years, Poly Property has continued strengthening the exploitation in southwest region and others but taking the Pear River Delta and Yangtze River Delta regions as the main strategic points. Up to 2022, the company own 12.2164 million square meters and recorded a revenue of 36,513million at the end of 2021, increasing by 16.7% compared with that of 2020(31.281million) as given in Table. 8. Besides, one can find from the above forms that all the important data present-ed the positive changes, increasing by years which means although the real estate market had been hit by Covid 19, Poly Property still has kept a seemingly bright prospect. The volatility was not as great as Vanke Co.

Table 8: Necessary Statistics.

| Poly Property | 2019 | 2020 | 2021 | 2022.3 |
|--|----------|----------|----------|----------|
| Total assets | 1,121.23 | 1,395.43 | 1,619.47 | 1,677.93 |
| Total liabilities | 995.45 | 1,245.62 | 1,415.56 | 1,470.56 |
| Total debt | 456.22 | 559.01 | 564.32 | 601.24 |
| Total operating income | 243.68 | 247.70 | 279.89 | 23.11 |
| Total owners' equity | 125.78 | 149.82 | 203.91 | 207.37 |
| Net profit | 3.16 | 21.14 | 22.38 | 0.91 |
| EBITDA | 24.37 | 47.08 | 48.25 | - |
| Gross profit | 28.79% | 33.79% | 32.80% | 28.16% |
| Net debt ratio | 173.07% | 170.80% | 141.11% | 160.84% |
| Net cash flow for operating activities | -7.69 | -8.15 | -32.43 | -40.20 |

However, there were some unavoidable negative impacts as well. Because of the comeback of Covid 19 in many cities, the downward pressure on the real estate market has increased. The investment also decreases by 5.4% year-on-year (seen from Table. 9), the less money flowing into capital market. In the most severe years, many people were isolated in their homes, which led to the lower desire to purchase new property. The projects that had been finished by Poly Property couldn't be sold out and caused idleness. Then, the large areas of idleness would arise a long delay between the cash flow outlaid in processing these projects and inflow of the money by delivering the houses which may increase asset liability ratio (80.3% in 2021). Whatever in 2021 and 2022 (79.3%), the ratios were much higher than the normal average one (around 65%). Fortunately, after every measure in real estate reaching an all-time low in 2020, the effective control of Covid-19 and the recovery of work and production, the investment and sales were constantly rising [7].

Table 9: Earnings Relevant.

| Yeas | 2019 | 2020 | 2021 | 2022 |
|-------------------------------------|--------|--------|--------|------|
| Total debt /EBITDA | 18.72% | 11.87% | 11.70% | - |
| EBITDA interest Protection multiple | 0.99 | 1.55 | 1.62 | - |

Poly Property net profit margin on sales has risen year by year and the growth is very stable. So, the overall profitability is considerable [10]. Looking at the liquidity ratio and quick ratio. Liquidity ratio depends on current assets and current liabilities. Besides, quick ratio depends on quick assets and current liabilities.

Table 10: Liquidity Ratio and Quick Ratio.

| Years | 2019 | 2020 | 2021 |
|-------------------------|------|------|------|
| Liquidity ratio | 1.56 | 1.51 | 1.52 |
| Average liquidity ratio | 2.44 | 2.40 | 2.42 |
| Quick ratio | 0.59 | 0.53 | 0.54 |
| Average quick ratio | 1.17 | 1.15 | 1.18 |

Seen from Table. 10, the current liabilities in 2021 and 2020 were 125,553,127 and 105,580,761. While the current assets in 2021 and 2020 were 207,684,816 and 178,430,596. During 2019 to 2022, the liquidity ratio and quick ratio were both on constant descending order which means the pressure to repayments of debts within deadlines climbed up and may increase the financial risk. Poly Property's inventory turnover ratio and total assets turnover ratio were wholly decreasing and the turnaround were slower so that the speed of money withdraw-al had a reduction may leading to the insufficient available capital for company to launch the latter operating or financing strategies [10].

One can see that in the latest four years (seen from Table. 11), Poly Property's asset liability ratios exceeded the normal average ratio (65%) a lot in the market. Although this high ratio can play out bigger role of financial leverage, it also can add stress to a company's ability to repay the debt and aggravate financial risks with higher financial leverage ratio. From 2020, the current liabilities occupied more and more proportions in the total liabilities (as shown in Table. 12). The big gap between two liabilities unsettled the balance of liability structure and brought heavier debt repayment pressure even worse may bring the difficulty of money turnaround and debt crisis in the future [5].

Table 11: Asset-Liability Ratio.

| Years | 2019 | 2020 | 2021 | 2022 |
|-----------------------|--------|--------|--------|--------|
| Asset liability ratio | 88.78% | 89.26% | 87.41% | 87.64% |

Table 12: Current Liability Proportion.

| Years | 2019 | 2020 | 2021 |
|------------|-------|--------|-------|
| Proportion | 72.3% | 76.34% | 88.7% |

4. Suggestions & Prospects

Based on the problems which appeared during the hard time such as the slow speed of capital turnover and the high gearing ratio, Vanke, Poly property and other relevant companies can accelerate the return of corporate funds and com-press capital occupation as well as establishing an improved system to strengthen funds management and using efficiency, enhancing the awareness of the time value in funds. By increasing ownership equity and reducing debt can lower the gearing ratio. Apart from that, to optimize the shareholding structure, diverting the equity and bringing in more investors, even implementing equity incentives to motivate workers higher efficiency. As for financing structure, control the proportion of debt financing and increase the share of equity financing. No matter to whom, there is always a need to develop multiple financing channels. Finally, the inventory management also needs to be emphasized. Evolving a better inventory supervision system to make turnover faster and improve the operation-al capacity [5,6].

5. Conclusion

During the four years when Covid 19 had hard hit to the global, there were so many other companies which may be not as big or stable as the companies like Vanke Co and Poly Property and have been knocked down by this disaster. They didn't survive eventually. Nevertheless, among them, some tough companies didn't give up trying and made their every endeavor to struggle their exits. For Evergrande Group, it is a large comprehensive enterprise spreading 200 cities in China with notable "diversity" in business. However, in September 2021, this company was stuck deep in debt crisis, summing to 1.9665 billion which can amount to 2% of 2020 China domestic product and the rumors about the chair-man of Evergrande Group. Instead of going bankrupt, the company began its self-

save way. Firstly, they accomplished the restriction of whole company by achieving an agreement with their creditor for 190 million dollars. Then, they chose to release new bonds to replace the old ones. In addition to that, they claimed that in the future three years the company's core task is to ensure the delivery of buildings, and it will strive to maintain orderly operation of resumption of work and production. They will still need an RMB250billion to 300 billion in financing. Expectedly, Great progress has been made in foreign restructuring debt which will lessen much pressure on China Evergrande.

Overall browsing the essay, there definitely are some limitations. To name but few, the data can only be caught from what have been expose by companies publicly. One has no access to some more confidential information which may also are more realistic one. So, it is likely that the rigor of the conclusion in the essay has suffered some influences. Additionally, because of the restricted time when Covid 19 was very severe, the sampling range are not as wide as possible and the total amount of data are not enough to guarantee the scientific.

To conclude, the study mainly selects two typical and famous companies in China as the research subjects. By analyzing the fluctuations in different kinds of data, one can thoroughly figure out what aspects and levels the Covid-19 has influenced the real estate market domestically. Besides, the studies on the past can provide advice and some convenience for the future to avoid generating the same mistakes or taking a wrong path as well as gaining useful and precious experience to tackle similar problems if other uncertainties again hit the market in someday.

References

- [1] Zhou, Y., Wang, W., Sun, Y., et al.: *The prevalence and risk factors of psychological disturbances of frontline medical staff in China under the COVID-19 epidemic: workload should be concerned. Journal of affective disorders*, 277, 510-514 (2020).
- [2] Zhou, J., Cao, Z., Wang, W., et al.: *First patient management of COVID-19 in Changsha, China: a case report. BMC Infectious Diseases*, 20, 1-6 (2020).
- [3] Deng, Z.: *Research on financing strategy of Vanke. Master's thesis, The Jiangxi University of Finance and Economics* (2020).
- [4] Liu, Y., Chang, Y.: *The impact of asset and liability structure before and after the transformation of asset-light operation mode: A case study of Vanke Group. Northern Economic & Trade* 5,132-136 (2020).
- [5] Huang, Z.: *Research on Capital structure optimization of Poly Real Estate. Modern business* (6), 65-68 (2023).
- [6] Chen, M.: *Strategies for Capital structure Optimization of Poly Real Estate. Cooperative economy and science and technology* 20, 118-120 (2021).
- [7] Liao, W.: *Impact of COVID-19 on real estate enterprises and countermeasures. Shanghai Real Estate* 3, 7-9 (2020).
- [8] Tang, W., Li, L.: *Analysis on the solvency of Vanke Enterprises. Chinese Management Informatization* 21, 36-37 (2021).
- [9] Chen, X.: *Financial Strategy Analysis of Vanke. Modern business* 28, 153-156 (2022).
- [10] Qiu, S.: *Analysis of Financial Statements of Chinese Listed Real Estate Companies: Taking Poly Real Estate as an example. Financial Management Research* 5, 59-64 (2022).
- [11] Huang, W., Lan, C., Xu, Y., Zhang, Z., Zeng, H.: *Does COVID-19 matter for systemic financial risks? Evidence from China's financial and real estate sectors. Pacific-Basin Finance Journal*, 74, 101819 (2022).