

Exploration of Investment Risk Causes and Prevention Measures in Real Estate Enterprises

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Abstract: In China's national economic system, the real estate industry is a pillar industry that not only directly relates to the growth of the national economy but also profoundly affects the quality of life of the general populace and the stable development of society. In recent years, with the increasingly complex global economic environment, frequent adjustments in national macro policies, and intensified market competition, real estate enterprises face new challenges. Investment, as the core driving force for profit growth and sustainable development of real estate enterprises, is undeniably important. However, investment itself is a high-risk activity, especially in the real estate industry, where various risk factors such as market fluctuations, policy changes, financial pressures, and management mistakes can pose significant challenges and even lead to investment failures. Therefore, it is crucial to deeply analyze and study the types and causes of investment risks in real estate enterprises, and to formulate and implement targeted and effective risk prevention measures to ensure the health and stability of the entire real estate industry, as well as the continuous growth of the national economy and the improvement of people's livelihoods.

Keywords: Real Estate Enterprises, Investment Risk, Prevention Measures.

1. Introduction

In the development journey of real estate enterprises, investment is the key driver that promotes their scale expansion, economic benefits, and overall competitiveness. However, influenced by objective factors, many risks still exist during development, and irrational investment decisions or excessive investment can bring fatal impacts to real estate enterprises. On one hand, if the investment planning is unreasonable or the funding arrangements are improper, enterprises may face the risk of being unable to repay investment loans on time. If this risk materializes, it could not only affect the enterprise's credibility but also lead to a break in the capital chain, causing operational difficulties. On the other hand, large-scale investments can easily increase the financial leverage of an enterprise. Although excessive use of financial leverage can bring higher returns, it also comes with higher risks. Thus, strengthening investment risk prevention has become a critical issue that real estate enterprises must face and prioritize [1-3]. Through scientific investment decisions, reasonable funding arrangements, and effective risk prevention measures, real estate enterprises can ensure the steady progress of investments, laying a solid foundation for their continuous and healthy development.

2. Characteristics of Investment Risks in Real Estate Enterprises

Investment risks in real estate enterprises mainly refer to the possibility of investment losses during the investment development process, due to the influence of uncertain factors. Compared to other enterprises, real estate enterprises are greatly affected by policy, socio-economic, and market environment factors, making their investment risks relatively special. Specifically, the investment risks have the following characteristics, as shown in Figure 1.



Figure 1: Characteristics of Investment Risks in Real Estate Enterprises

2.1. High Liquidity Risk

Real estate enterprises face significant liquidity risks, determined by their unique capital needs and operational characteristics. Compared to other enterprises, real estate enterprises have massive capital requirements and rely on external financing to meet investment needs. However, ensuring sufficient funds under limited financing costs is key to the success of real estate investments. Additionally, due to the long construction cycles of real estate projects and the relatively slow pace of capital recovery, enterprises face great challenges in liquidity, especially during market downturns. Once the market undergoes unfavorable changes[4-5], enterprises might find it difficult to quickly convert investments into cash, facing substantial liquidity risks that pose severe tests to their financial robustness and ongoing development.

2.2. Diverse Investment Risks

The investment risks of real estate enterprises are notably diverse, not only in terms of the variety of investment objects but also throughout various stages of investment projects. In the investments of real estate enterprises, apart from directly involved lands and buildings such as commercial, tourist, construction, agricultural, public, and residential buildings, they also involve closely related industries like the building materials industry, construction industry, and financial sector. Market dynamics, policy adjustments, and fluctuations in raw material prices in these industries can directly or indirectly affect the investments of real estate enterprises, making the sources of investment risks quite extensive. Additionally, the multiple and complex stages of real estate investment projects further exacerbate the diversity of investment risks.

2.3. Cyclical Risks

The investment risks of real estate enterprises have obvious cyclical characteristics. Firstly, the construction process of real estate projects is inherently cyclical, requiring time from project planning, land acquisition, and funding preparation to construction, completion inspection, and later sales operations. Secondly, as a type of commodity, the market demand and price levels of real estate are also affected by the cyclical nature of the market economy. During prosperous market periods, high real estate demand and rising prices lead to high investment returns, accompanied by higher investment risks. Conversely, during market downturns, reduced real estate demand and falling prices result in relatively lower investment risks, but the return on investment may also decrease. Therefore, real estate enterprises must fully consider the cyclical characteristics of the market economy when

investing, to accurately forecast and grasp market trends and cope with the investment risks brought by different economic cycles.

3. Causes of Investment Risks in Real Estate Enterprises

3.1. Policy Changes

Real estate enterprises, as a pillar industry of the national economy, are profoundly influenced by policy factors. Firstly, land policy is a crucial factor that cannot be overlooked by real estate enterprises. The scarcity and importance of land resources determine their significant share in the investment costs of real estate enterprises. When the state adjusts the land transfer prices, the investment costs of real estate enterprises fluctuate, thereby affecting their profit margins and market competitiveness [6-7]. Secondly, housing purchase policies such as purchase restrictions and down payment ratios also significantly impact the sales and capital recovery of real estate enterprises. These policies limit the purchasing power and willingness of buyers, causing fluctuations in real estate market demand, and thereby affecting the sales strategies and funding plans of enterprises. Lastly, changes in tax policies cannot be ignored. An increase in tax rates directly increases the tax burden of real estate enterprises, reducing their after-tax profits and exacerbating investment risks.

Table 1: Impact of Policy Factors on Real Estate Enterprises

Policy factors	Impact	Specific effects
Land policy	Cost of investment	The increase of land transfer price leads to the increase of investment cost; Lower land transfer prices may affect corporate profits
Purchase restriction policy	Market demand	It limits the purchasing power of buyers and affects the market demand and the sales strategy of real estate enterprises
Down payment ratio	Threshold of purchase	Raising the down payment ratio may reduce the buyer's purchase intention and affect the sales speed and capital return of real estate enterprises
Tax policy	Return on investment	The increase of tax rate will increase the tax burden of enterprises, reduce the after-tax profits of enterprises, and intensify the investment risk

3.2. Monolithic Investment Projects

The investment decisions of real estate enterprises involve substantial capital and lengthy project development cycles, making the risk factors in investment decisions numerous and complex. Before making investments, enterprises need to comprehensively review the investment timing, geographical location, project scale, budget, project type, and pricing and sales strategies. Only through thorough and detailed investment feasibility analysis and scientific validation can enterprises make wise investment decisions. However, some real estate enterprises overlook comprehensive feasibility analysis before investing, and their estimates of costs, market, and product sales prospects are overly optimistic. This lack of comprehensive consideration often hides potential risks, which could lead to significant economic losses and reputation damage if not carefully managed. Therefore, thorough and rigorous investment feasibility analysis is crucial for real estate enterprises to reduce investment risks and ensure project success [8-9].

3.3. Ineffective Cost Control

During their operations, financing activities are crucial for real estate enterprises. Due to the large amount of financing and corresponding high financing costs, these activities place significant financial pressure on enterprises. In the investment process, besides financing costs, enterprises also

face a series of other expenses, such as high land costs, rising labor costs, material costs, as well as management and sales costs. However, some real estate enterprises do not pay enough attention to cost control during actual operations, or their control efforts are insufficient, leading to costs exceeding budgets and compressing enterprise profits, ultimately making it difficult to achieve expected investment returns. This situation directly affects the profitability of enterprises and may also have adverse effects on their long-term development. Therefore, strengthening cost control and enhancing cost control capabilities are crucial for real estate enterprises.

4. Prevention Measures for Investment Risks in Real Estate Enterprises

4.1. Pay Attention to Macro Policies

In the real estate industry, accurate investment decisions directly affect the development trend of enterprises. To effectively avoid investment risks, real estate enterprises need to establish a comprehensive system for policy analysis and market forecasting, as shown in Figure 2. For this purpose, companies should actively form a team of policy analysis experts, who possess profound industry knowledge and keen market insights, capable of real-time monitoring of changes in national macro policies and precisely analyzing policy directions. This team should not only focus on changes in policy content but also delve into the economic logic and market trends behind the policies to provide strong support for the enterprise's investment decisions. Moreover, enterprises should also closely monitor policies related to national industrial structure adjustments, timely adjust investment strategies according to policy guidance, ensure investment directions are consistent with national policies, and increase investment diversification to reduce investment risks[10].

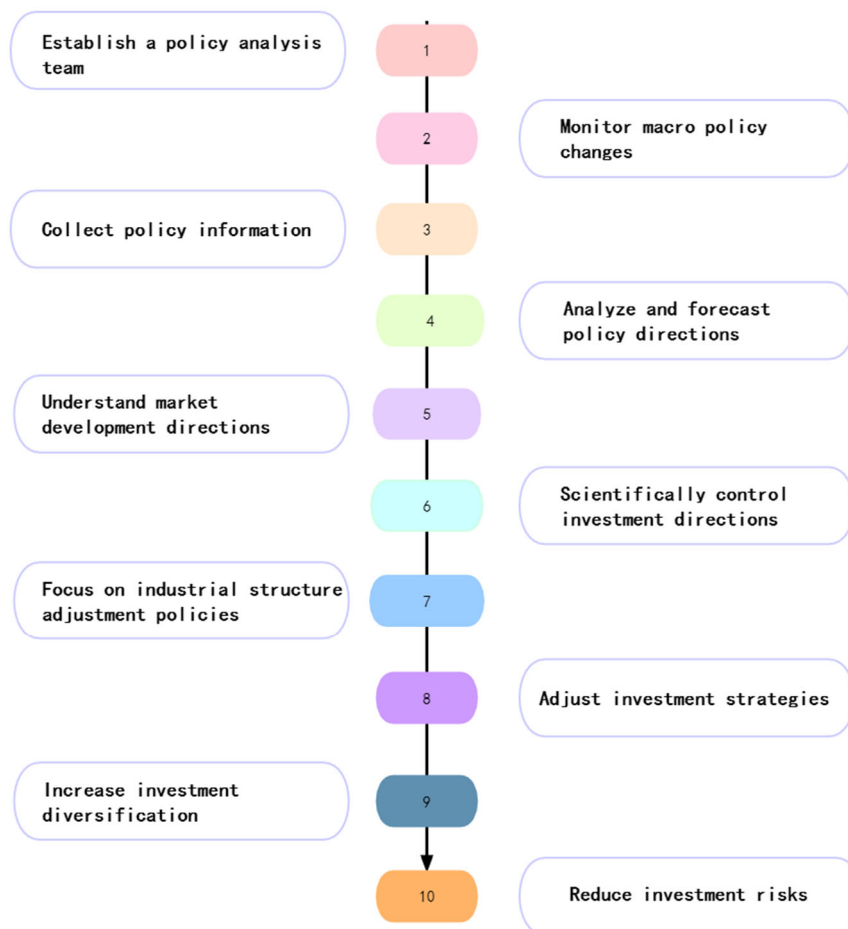


Figure 2: Process of Reducing Investment Risks in Real Estate Enterprises

4.2. Strengthen Investment Analysis

Before making investment decisions, real estate enterprises should select professionals from finance, investment, legal, and engineering departments to form a feasibility analysis team. They should utilize advanced and scientific big data technologies to scientifically predict and analyze the market prospects, development trends, costs, risks, and capital requirements of investment projects. This will help accurately grasp national preferential policies, regional market demand, and combine banking and financial institutions' credit policies and interest rates to estimate investment costs and returns, thereby formulating corresponding investment decisions. Additionally, enterprises should strictly follow authorization and approval mechanisms to ensure the transparency and compliance of investment decisions. Based on thorough analysis and scientific predictions, real estate enterprises should design detailed investment plans and allocate funds appropriately to ensure the robust operation of investment activities and the realization of expected returns.

4.3. Perfect Management Systems

Real estate enterprise managers, in leading the path to stable development, must deeply understand the importance of investment risk management, actively foster an awareness of investment risk management, and through internal training, meeting discussions, and other forms, intensify the promotion of risk prevention to ensure every employee deeply understands and conscientiously implements various investment management systems. Additionally, real estate enterprises should enhance information technology construction, fully utilize IT and professional tools to collect internal and external data, and combine their actual situations to identify and assess risks during the investment process, establishing comprehensive measures to avoid, transfer, or eliminate risks. Furthermore, establishing an investment risk early warning mechanism is crucial. Enterprises should dynamically monitor key risk factors and issue timely warnings based on changes in risk factors, enabling management to make quick decisions and effectively avoid investment risks.

4.4. Shorten Development Cycles

To enhance capital turnover efficiency and guard against investment risks, real estate enterprises should adopt a high turnover model. By optimizing project management and coordination, shorten the development cycles of investment projects, accelerate capital circulation, and effectively reduce the risks of capital shortages and breaks. For example, real estate enterprises should pay special attention to clauses and factors affecting construction periods when signing contracts with construction units and banks to prevent prolonged construction and capital recovery periods, reducing investment risks. Moreover, by devising competitive sales strategies to accelerate product sales and enhance capital recovery speed, further shorten the investment cycle. Additionally, exploring the securitization of commercial real estate projects and including them in investment trust funds not only shortens the investment cycle but also enhances asset yield, bringing higher investment returns and effectively reducing investment risks.

4.5. Strengthen Cost Control

The level of investment costs directly impacts the investment returns of real estate enterprises. During the investment process, it is crucial for real estate enterprises to pay close attention to and strengthen control over investment costs, especially for projects with large investment amounts and long construction periods, to control investment costs and prevent interruptions in investment projects that could cause significant investment losses. Therefore, leaders of real estate enterprises must deeply understand the importance of controlling investment costs, not only participate in and promote the implementation of cost control but also ensure that a strong cost control atmosphere is formed within the enterprise. A professional cost control department should take on the responsibility of formulating and implementing cost control plans, ensuring the scientific and effective implementation of various measures[11]. Additionally, enterprises should also strengthen departmental collaboration and communication to ensure cost control responsibilities are truly implemented in every department and

position, thereby building a comprehensive and efficient cost control system that significantly enhances cost control effects.

5. Conclusion

In today's rapidly changing market environment, investment activities of real estate enterprises have become an important means for enterprises to expand, enhance economic benefits, and improve overall strength. However, as the market environment becomes more complex and competitive, the uncertainties encountered in the investment process by real estate enterprises have also significantly increased, leading to gradually rising investment risks. For this reason, real estate enterprises need to closely monitor macro policies, strengthen investment feasibility analysis, utilize investment portfolios, strengthen investment cost control, and perfect the risk control system to enhance their investment risk prevention capabilities. The implementation of these measures will help enhance the investment risk prevention capabilities of real estate enterprises, ensuring their stable development.

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