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Research on Cash Dividends and Financing of Real Estate Enterprises

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Abstract

In the background of China's adherence to the new development concept and the promotion of the new development pattern, real estate enterprises, which occupy an important position in the Chinese economy, are faced with numerous constraints and challenges, and how to achieve the return on investment in the capital market and their own sustainable development in the background of the new development pattern are two important issues that real estate enterprises urgently need to solve. Based on the background of the new development pattern, this paper explores the issues of cash dividend distribution and financing of real estate enterprises and proposes countermeasures to provide theoretical support for real estate enterprises to get rid of their development difficulties.

Keywords

Real estate enterprises; cash dividends; financing.

1. Introduction

President Xi of China has repeatedly put forward the important viewpoint of "grasping the new development stage, implementing the new development concept, and building a new development pattern", and pointed out that the new development pattern is to realize a large domestic economic cycle and a dual domestic and international economic cycle. The real estate industry, as an important pillar of China's economic development, is an important driving force to realize the new development pattern, but in recent years, the development of real estate is constrained by the system. In 2021, the "no speculation in housing" policy is mentioned several times in Chinese government reports, the policy insists on the positioning of "house is for living, not for speculation", increases the supply of guaranteed rental housing and common property rights housing, prevents speculation in the name of school district housing and other housing prices, and strengthens the regulation and control of the real estate market. The current economic data in the total high growth, the policy pointed out that we should pay great attention to prevent the housing price bubble, to implement the "housing not to speculate", to continue to improve the property market regulation and control policy, the real estate market should be regulated from the strict, restraint housing enterprise financing, clarify the proportion of housing-related loans, strict investigation of short-term consumer loans into the real estate market and other policies, the real estate business challenges extremely high. And the impact of the epidemic in 2020 on people's income expectations and show a decline in income will lead to a weakening of demand for property, which will affect residents' plans to buy houses, thus affecting the market of the real estate industry, resulting in greater market risk, even for companies with good development momentum, but it is difficult to escape the ripple effect of market risk.

In the capital market, the share price of listed companies is the concrete performance of the enterprise value, how to stabilize the share price and meet the demand of investors' return is

the key point of continuous concern for real estate listed companies. According to the signaling theory, the information of paying cash dividends can enhance investors' confidence and shape the positive image of good development momentum of the enterprise, so as to stabilize the share price and promote the stable development of the enterprise. However, in the actual market, companies often choose to pay less or no cash dividends due to their own investment needs or development needs. At the same time, the demand for capital has prompted enterprises to raise capital, and in recent years, real estate enterprises have been subject to increasing financing constraints, making it difficult to raise capital and slow development. Therefore, based on the background of the new development pattern, this paper conducts a study on the cash dividends and financing of real estate enterprises.

2. Analysis of the problems and causes of cash dividend distribution in real estate enterprises

Investors purchase shares of listed companies in the capital market for the purpose of receiving dividends distributed by the company. Dividend distribution policies are divided into residual dividend policy, fixed dividend payment rate policy, fixed dividend policy and low normal dividend plus additional dividend policy. The real estate industry has a long payback period and high investment volume compared to other industries, so investors obviously invest in real estate companies with the expectation of receiving actual cash dividends. As investors demand cash dividends, a "cash dividend premium" is generated, which is the difference in the ratio between the average market value and the book value of the company paying dividends and the company not paying dividends. When the "cash dividend premium" is positive, managers choose to pay cash dividends, and when the "cash dividend premium" is negative, managers ignore cash dividends [1]. With the development of market economy, some studies have shown that cash dividends are still the primary consideration for managers as long as they are distributed to listed companies in China [2]. If a company does not have the willingness to pay dividends, not paying cash dividends will harm the interests of shareholders and investors, so the securities authorities have introduced the "mandatory dividend" and "semi-compulsory dividend" policies to protect the rights of investors. Regardless of whether the firm is catering to the policy or not, as long as the investors approve the cash dividend distribution of the firm, they will pursue the firm, and because of the investors' pursuit, the firm will take the initiative to cater to the investors. At the same time, signaling theory shows that company managers have more information about the company's financial situation, operating results, cash flow, etc., while investors are at an information disadvantage. If the company does not improve the information asymmetry problem, investors do not know much about the development of the company, which will lead to stock price fluctuations and affect the actual interests of the company. At this time, the news of cash dividend payment can convey to the market the information about the future profitability and cash flow strength of the enterprise, which can attract more potential investors.

Chinese real estate enterprises mainly distribute cash dividends, but the amount of cash dividends is small and only formal, and they also lack continuity. The cash dividend policy of more real estate enterprises is not fixed and cannot be guaranteed to be paid every year, and the ratio of dividends is not regular, so investors cannot clearly grasp the actual development of enterprises through the distribution policy. The main reasons for the existence of this problem in real estate enterprises are: (1) Chinese real estate enterprises have a weak sense of responsibility and take only corporate interests as their final goal, without considering investors' returns. If investors are not given due attention and returns, the orderly and good development of the capital market will be disturbed and a lot of short-term investment and speculation will occur, which is even more detrimental to the sustainable development of

enterprises. (2) The dividend policy decision of real estate enterprises is unstable, and the management of the enterprise has an arbitrary decision on dividend policy, and most of them only consider the problem from the enterprise's perspective, and cannot provide investors with a stable distribution tendency, thus investors cannot grasp the actual dividend distribution policy of the enterprise, which will lead to share price fluctuations.

3. Analysis of the problems and reasons of real estate enterprise financing

In August 2020, the relevant authorities proposed the "three red lines" for real estate financing rules, a policy to limit the risk of the real estate industry, if not met, the regulatory authorities will require financial institutions to limit the full-caliber debt of the corresponding real estate companies. The details are: (1) the debt ratio after excluding pre-receipts does not exceed 70 percent; (2) the net debt ratio does not exceed 100 percent; (3) the cash to short term debt ratio is not less than 1. But the real estate industry is capital-heavy, and all real estate companies rely heavily on external financing to maintain their own development operations. However, with the increasing regulation of real estate finance, real estate companies are facing a major choice in financing channels. Now that the real estate industry is facing unprecedented challenges and SMEs are facing the risk of bankruptcy, real estate companies need to have sufficient capital flow, or they will still be in trouble.

Corporate financing is divided into two types: endogenous financing and exogenous financing. endogenous financing means that firms obtain funds from internal sources, and corporate profitability can effectively promote endogenous financing but inhibit firms from exogenous financing [3], The accounting soundness of enterprises will likewise increase the cost of exogenous financing, which will increase the gap between internal and external financing costs and form financing constraints [4]. The most important problems that firms encounter financing constraints are information asymmetry in the capital market [5] and agency problems [6]. The different degrees of information access between managers and investors of real estate enterprises lead to the difference in internal and external financing costs and difficulties in external financing of enterprises.

The main reasons for the problem of financing constraints in real estate are: (1) the financing ability of real estate enterprises is related to their location, and it is easier to meet the financing needs of real estate enterprises in more developed economic regions, while real estate enterprises cannot get enough financial support in regions with more backward economic development; (2) the financing channels of real estate enterprises are relatively single, and at present, real estate enterprises rely on bank credit financing, but in view of the increasing financial control of real estate in recent years, bank credit has become increasingly strict, leading to difficulties in financing real estate enterprises. (3) The financing structure of real estate enterprises is unreasonable. In theory, internal financing is more advantageous than external financing, but real estate enterprises need more funds for development, and internal financing is not enough to meet the needs of enterprises before they turn their attention to external financing, and internal financing is affected by the profitability of enterprises and has instability.

4. Conclusions and recommendations

(1) Improve the level of information disclosure and transparency

Due to the degree of information asymmetry gradually serious, the depth and breadth of information that the management of real estate enterprises and their minority shareholders can obtain in terms of corporate profitability, solvency, cash flow, etc. are seriously different, investors are at an information disadvantage, if they are unable to know the specific operating

information of the investment company for a long time, investors gradually lose confidence, which will affect the corporate image and the stability of the share price. Therefore, enterprises should consciously improve the level of information disclosure to achieve openness and transparency, and it is necessary for the regulatory authorities to impose certain regulatory penalties on enterprise information disclosure, cultivate the consciousness of enterprises to consciously and completely disclose information, promote mutual communication and understanding between enterprises and investors, safeguard the rights and interests of investors, and help investors make correct decisions in a timely manner. Enterprises to improve the degree of information disclosure is more conducive to exogenous financing, information disclosure can promote the bank credit institutions to understand the true profitability of enterprises, and can expand diversified financing methods, not limited to the bank credit financing a way, greatly reducing the problem of corporate financing constraints.

（2）Improve financial flexibility reserves and ensure corporate cash flow

Financial flexibility is an enterprise's ability to optimize the allocation of its financial resources to meet its own development needs in the future. Financial flexibility reserves can alleviate the pressure of corporate funds, resist external risks and ease the pressure of financing in the case of insufficient corporate funds. Financial flexibility includes cash flexibility and debt flexibility, the former refers to the enterprise to maintain a certain amount of free cash flow, debt flexibility refers to the enterprise to maintain a lower financial leverage can more easily obtain exogenous financing. Therefore, financial flexibility can ensure the level of cash flow, relieve the financial pressure when cash dividends are paid, and reduce the degree of financing constraints when the company encounters financing constraints by reserving financial flexibility in advance. Financial flexibility enables companies to better grasp investment opportunities, ultimately improving their financial performance and enhancing corporate value.

（3）Selecting the right dividend policy to meet the needs of investors

The dividend distribution policy for shareholders is one of the most important decisions of a company, and an unstable dividend policy can lead to an unstable share price and affect investors' confidence in the company's shares. The information of no dividend is not helpful for investors to understand the company's development intention, and most of the investors tend to invest for short-term income, and long-term development is not attractive to them. The company's return for short-term investors also leads to long-term investors gradually leaning toward short-term investments, and the direct stopping of dividend payments is unacceptable to investors, and the negative reaction of investors leads to drastic fluctuations in share prices. Therefore, real estate companies need to properly listen to shareholders' suggestions and adopt a continuous dividend policy in order to reduce the agency problems that may arise between investors and management, not only to maintain the interests of major shareholders, but also not ignore the interests of small and medium-sized investors, maintain a good corporate image, avoid share price fluctuations and stabilize share prices. Therefore, real estate enterprises should adjust the dividend distribution policy in a timely manner by combining the current financial situation of the enterprise and its future business development plan and diversified strategic development. If the real estate enterprise is in the initial development state, then at this time the enterprise needs to grasp the investment and development opportunities and retain sufficient funds, if the real estate enterprise is in the rapid development stage or mature stage and already has the main areas of enterprise and advantageous areas, then it can choose to develop to cultivate shareholders investors to invest in the enterprise and establish a good corporate image in the capital market. Real estate enterprises need to consider their own development needs for funds and the attitude of investors, both to retain sufficient funds and to stabilize share prices and maintain investor confidence, which tests the profitability and

financial payment capacity of real estate enterprises and maintains the solvency of the enterprise.

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