Research on Real Estate Investment Trust Fund

Borui Xie
Dalhousie University, Beijing 100071, China
xieboruiltz@163.com

Keywords: Real estate investment trust fund, Problems, Development measures

Abstract: Through the real estate investment trust fund (REITs), the financing needs of real estate and the investment needs of investors can be met, and the capital market and the real estate market can be closely linked. Through the development of real estate investment trust fund, we can effectively improve the investment and financing mechanism, which is conducive to the healthy progress of the real estate industry. According to the specific situation of the development of real estate investment trust fund in China, this paper analyzes the necessity of developing real estate investment trust fund in China, points out the problems faced by real estate investment trust fund in China, and formulates the development measures of real estate investment trust fund.

1. Introduction

Owing to the rapid progress of the socialist market economy, the real estate industry has rapidly entered a golden period of development, and the real estate trust fund has also entered a good stage. Because of the fast progress of real estate, real estate trust fund has emerged as the times require. This new form of financing can play a good role in regulating the real estate investment mode, and promote the new real estate financing channels to become wider.

2. Necessity of Developing Reits in China

As for the sources of funds of real estate development enterprises in China, domestic loans and self-raised funds are important sources. At this stage, the financing channels of China’s real estate enterprises are not diversified enough. When there are sudden problems, it is hard to take effective measures quickly, and it is very likely to break the capital chain, which will affect the interests of real estate buyers, investors or upstream and downstream enterprises, and even lead to economic turbulence[1]. Therefore, for most of the real estate development enterprises, in addition to the conventional way, the real estate investment trust fund can provide new financing channels to the real estate development enterprises and promote the financing channels of enterprises to become more diversified. The real estate industry is related to many industries. In the whole real estate market, the integration of real estate investment trust fund can play a good role in promoting the financing of many industries.

Affected by the economic downturn, the funds of real estate enterprises have deteriorated, lacking sufficient solvency. Generally speaking, the loan amount of real estate enterprises is
relatively high, and the enterprise term is relatively long. In the development process of real estate enterprises, if there is a capital gap, the capital chain is easy to break, resulting in greater credit pressure on banks. The issue of real estate investment trust funds can provide new financing channels to real estate enterprises and reduce the credit pressure of commercial banks.

In the face of higher housing prices, the government has issued many real estate policies, such as the increase of deposit reserve ratio, the increase of the down payment ratio of second house, the provident fund policy, etc., mainly to ensure the development of the real estate market regulation work, promote the urban residents’ housing problems to be dealt with, and lay the foundation for the sustainable and stable progress of the real estate market \(^2\). Setting up real estate investment trust fund can improve and innovate the resource allocation of real estate financial market, and enhance the scientificity and efficiency of macro-control policy.

3. Problems of Reits in China

In the product of real estate investment trust fund, the basis of its design is real estate, which is mainly to meet the diversified needs of investors, expand the financing channels of real estate enterprises, and promote the progress of housing and rental market. In the mature capital market, real estate investment trust fund plays a crucial role.

3.1 Lack of Good-Quality Assets

In China’s real estate investment trust fund, compared with the expected income, its rental income is relatively low. With the rapid growth of house prices, the growth rate of house prices can’t match the growth rate of rent. There are not many high-quality assets with good operation and management in China. For real estate investment trust funds, they focus more on long-term operating income and land appreciation. Most properties do not focus on the maintenance of property operation. The lack of sufficient high-quality assets has a negative impact on real estate investment trust funds.

3.2 Less Tax Incentives

With the advent of new trust products, as for the investment types of real estate investment trust funds in China, they are mainly responsible for the investment activities of real estate, and have the relevant ownership, so as to obtain the relevant rental income. This will be associated with the sale and transfer of real estate. When purchasing real estate, we need to pay the relevant deed tax and stamp tax. In the process of selling real estate, we need to pay land value-added tax and stamp tax. Multiple tax collection will have an adverse impact on the development of REITs \(^3\).

3.3 Lack of Excellent Market Environment

In China’s current financial market, although the relevant credit system has been constructed, the system is not perfect enough, and most market subjects do not have good credit habits. So far, there is no credit rating system for real estate project trust products in China. The development of real estate investment trust fund has relatively high integrity. The development of specific operation activities needs to rely on professional team. However, there is a serious lack of professionals in China, seriously hindering the progress of REITs.

4. Development Measures of Reits
At present, China’s real estate investment trust fund is in the initial stage of development, and there are many obstacles in the development process. In order to accelerate the progress of real estate investment trust fund, we need to be based on a diversified perspective and closely linked with the specific situation of our country, and formulate relevant sound measures.

4.1 Formulate and Perfect Relevant Legal Systems and Policies

The development time of REITs in China is relatively short. In order to promote the progress of REITs in a more standardized direction, we can actively carry out relevant reference and learning activities according to the research results of other countries, and closely link with the specific situation of our country, so as to ensure the completion of the construction of legal market environment, enhance the development efficiency of China’s real estate investment trust fund. As for the policy of real estate investment trust fund, the more mature countries are Japan, the United States and so on. These countries have introduced a series of preferential policies in terms of tax, which promotes the current situation of “double taxation” to be properly handled. In order to promote the progress of REITs in a more large-scale direction, we need to seriously develop relevant improvement activities in view of the current legal system, so as to provide a more harmonious environment for the development of REITs. With regard to the current Securities Law of the People’s Republic of China, the relevant state departments can optimize the relevant contents and include real estate investment trust funds in the category of securities, so as to make China’s real estate investment trust funds closer to international standards [4]. In order to promote the efficient protection of investors’ interests, the relevant national departments should also quickly introduce special laws, policies and systems, which can play a good role in standardizing market operation and accelerating the development of supervision.

4.2 Vigorously Build the Organizations of Real Estate Investment Trust Fund

In the process of developing real estate investment trust fund, we need to attach great importance to the construction of relevant organizations, such as supervision organization, management committee, etc. In carrying out specific work, we can learn from the experience of the United States, absorb the essence of it, closely link up with the current financial system in China, and build a diversified investment institution system in an all-round way. The investment institution system should include residential banks, mortgage banks, trust banks, real estate trust and investment companies, real estate credit department of CCB, etc. The operation activities of practical significance can be completed by professional financial institutions, and the guarantee letter of credit for the developing project needs to be issued by insurance companies. In addition, it is also necessary to establish a rating agency and organize a political management committee to carry out relevant regulatory work.

4.3 Vigorously Foster Excellent Real Estate Institutional Investors

As for the sources of real estate investment trust funds, enterprise funds are one of the important sources. In the real estate investment trust funds, most investors also do corporate investment. Generally speaking, the enterprise investors have more funds. They have rich investment experience, good investment vision, wide access to information, and scientific and systematic information. Therefore, enterprise investors can play a good role in promoting the development of REITs. The relevant departments of the state should vigorously carry out the training activities of enterprise investors, introduce a series of preferential measures, give certain policy and financial support, and lay a good foundation for the smooth progress of enterprise investor training activities. In order to
train more professionals for the society, colleges and universities can set up relevant majors, which can help enterprise investors master more professional knowledge and content, and play a better role in guiding their later investment activities. To transfer more excellent enterprise investors to the society, universities and enterprises can further strengthen the relevant exchange and communication activities, constantly deepen cooperation, jointly develop the training of professional talents, transfer more excellent enterprise investors to the society, and make contributions to the progress of China’s real estate investment trust fund.

5. Conclusion

At present, China’s real estate industry has made remarkable achievements. Through the real estate investment trust fund, the systematicness of real estate finance has been significantly improved. If we want to develop real estate finance towards a more mature direction, we must vigorously promote the real estate investment trust fund. As the domestic real estate investment trust fund is in the initial stage of development, in the specific development process, we need to attach great importance to its stability, comprehensively control the relevant risks, use relatively stable measures to comprehensively guarantee the stability of the fund, and on this basis, accelerate the rapid progress of real estate investment trust fund.

References