

The Analysis of How Financial Leverage Influences Property Economy Globally

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Abstract: Based on the ongoing development of society, citizens' quality of life has significantly increased as compared to previous decades. Many locals strive for an elite standard of living. One strategy to enhance quality of life is to purchase a suitable home. Between urban and rural locations, the housing market is very different. The escalating housing issues have impacted several facets of social progress and enhanced various policy initiatives. The purpose of the research focuses on analyzing the housing problems that emerged in China's rural and urban areas. On the other hand, the research primarily analyzes specific social issues brought on by property concerns and the solutions associated with them. In order to illustrate how financial leverage campaigns are used to alleviate the financial load, the article will utilize a real estate corporation as an example. This study will analyze instances from the property company in order to highlight similar global developments. The research highlights the significant and critical features of financial leverage that have an impact on the growth of the property economy by analyzing the specific examples of the financial deleveraging campaign and related remedies released by the government.

Keywords: property economy, financial leverage, urbanization

1. Introduction

In recent years, the social economy has improved constantly based on the sustainable development of global finance. The property economy as a significant point of human development has emerged because of the increased demand of residents for satisfied accommodation and their pursuit of high quality of life. There tends to be an implicit agreement within the amount of writings about a new economy that economic actions are in the process of fundamental revision [1]. According to the influences of the property economy, there are a lot of differences that can be divided. If we pay attention to the potential shortness of a description produced by various alternative sets of concepts and baselines in a meta-language, the longstanding controversies over baselines and exceptions in property can be seen in a different light [2]. Not only the influences of urban and rural caused by property and the financial solutions leverage balance which solves the issues caused by the property economy, but the changing property economy has also affected many social phenomena. The regulations and policies published based on the variation of the property economy process the development of society to some degree. The essay focuses on the development of property and attempts to make connections between property and social influences. Through the comparison of

rural and urban which face property challenges and showing examples of the property condition from a global angle, the analysis of the property challenges will solve a lot of problems that confuse the operators and investments and make efforts to avoid the economic risks promisingly. The following will focus on the impact of the financial leverage combined with the specific examples that emerged globally and the social changes.

2. The Property Challenges Faced by Urban Areas and Rural Areas

The constant development of society will process the demand of people to chase high-quality lifestyles. Take China as an example, China is a developing country that has a huge population but cultivable and livable land. As a result, there have differences in the housing sector between urban and rural areas in China. The research will be divided into two parts to analyze the property problems. Firstly, it is the urban group. As shown in Figure 1, there is a constant increasing trend of residents in urban from 1960 to 2020.

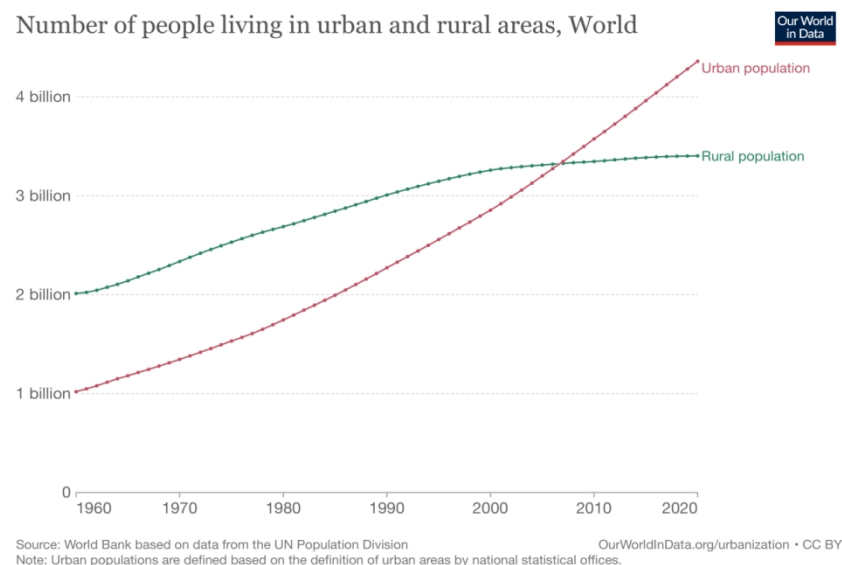


Figure 1: The world urbanization phenomenon in rural and urban areas between 1960 to 2020.[3]

Urbanization as a new process of describing the people who migrate to urban areas has become faster and faster globally. The dramatic increase of urban residents will be accommodated too-many-city-immigrants argument. As mentioned by Williamson, an overwhelming rush to the cities may cause complaints from residents about the quality of urban services newly created rapidly deteriorates as the residents get stretched across an ever-increasing set of users[4]. Based on the urbanization trend, the range of workers in urban becomes various. More people will want to make a living in urban areas and meet their fundamental living standards. However, property prices in international cities are a main burden to young couples. The high prices of property will also cause some social influences at the same time. In many cities, the workers are hard and effective, thus, the workers will not have spare time to bring up their children and give them a stable life. The housing problems are not only emerged in urban areas. Furthermore, rural areas are also influenced by property challenges. Because of the cultivable and livable land in China, the government takes the basic food supply and security into consideration. As a result, many governments of rural areas take action to avoid building houses on cultivable land. Based on the framing of the collective risk-sharing arrangements, the dependence on private resources constituted circumstances favourable to the institution of common

property resources in these areas [5]. The prohibition of building houses causes a lot of residents in rural areas to build their private houses vertically with high floors and big spaces.

3. The Case of How Evergrande Company Uses the Leverage Principle

The constantly increasing property problems have processed the dependence on financial leverage to face the challenges. The leverage principle in financial management means the fixed expenses which included the aspect of line operating. With the change in the volume of business, there is a dramatic change in profit. As mentioned by Stewart, based on holding a constant status of the asset of a firm and the investment plans, the most optimal debt ratio of a firm is always determined by a trade-off of the costs and benefits of borrowing [6]. The financial leverage will be explained through the use of facing the challenges of a famous property company. Evergrande, as one of the top five property developers in China, has made a difference in China's financial stability to some extent, while by using financial leverage to solve the circumstances, the crunch caused by the excessive debt payments is still manageable. Evergrande takes participant in a housing market that accounts for thirty percent of Chinese GBP and it has more than 800 projects spread among cities of all sizes in China. However, five hundred of those projects have recently ceased because of the issues of liquidity [7]. As for the situation, the policymakers and regulators in China have put forward a deleveraging campaign to put the Chinese financial system and the real economy on sounder footing in the years ahead. The Chinese governments also raise up ample resources which can backstop the Evergrande loan defaults and the foreign exchange reserves stored by the company will also absorb a worst-case.

4. The Reasons for the Determined and Methodical Approaches--Leverage Balance

The reason why China has the determined and methodical approaches to face the challenges is mainly due to the constantly high prices in real estate in China recently. With the development of urbanization, there are more and more increases in urban compared with urban share in past years. In the research of Evergrande and real estate value subjectivity, the demand for housing and housing prices has arrived at an unprecedented level in China. There also happened a similar phenomenon in Korea, Japan, India and Australia. The main reason for the excessive of Evergrande is the concomitant rise in income has not kept pace with the increase in housing prices, causing the size of the Evergrande starter flat to continually shrink. Based on the situation of loose credit and low-interest rates, the operators can expand their empire via land acquisition. The initial step in housing construction is the purchase of land, while some cities in the world have problems with land. The issues caused by the constantly increasing property prices have also processed the appearance of the bubble burst. There is a statement that emerged in financial literature that leveraged bubbles typically precede financial crises. When a financial crisis nears, there is a lift-off in debt-serving costs [8]. The crisis triggered by the Lehman Brothers, an investment bank, has a similar aspect to the bankruptcy of Evergrande [8]. As a result, China faces this bubble burst prospectively, which means that may have a huge influence on domestic finance.

5. Analysis of the Property Challenges from a Global Perspective

Because of the property issues, not only China and many countries have taken action to keep the stable development of the world. As for China, the country also establishes the 'three red lines' and takes some specific measures to target the shadow banking sector. The solutions will also have an impact on some speculation that emerged among China property developers. The crunch is an important test of the commitment to financial stability. Some related social influences caused by property have also been solved. Governments attempt to publish a lot of methods and policies to benefit rural and urban residents. Some governance of increasing the welfare benefits, especially

medical and pension insurance. On the other hand, for the purpose of promotion of common prosperity, the investment of improving the infrastructure facilities and services has been published. It is a great comfort for residents. The education problem is also an issue that residents are concerned about. High prices of property may let young parents pay more attention to earning enough money to buy favourable houses. As for the children in the rural areas, there is an influence on their mental health and will cause the low-educational level. Due to the high cost of the house built in the country, a lot of young couples should leave home to earn money, while their children will be taken by their aged parents and left in the countryside. The country has encouraged the realty sector to show some ways to benefit people. For example, governments support the property developer to cater to meet the reasonable demand of homebuyers. More importantly, some cities and rural areas hope for these real estate to explore a new development model, which is different from the traditional model principal. Finally, the residents hope for a balance between developing a house system and the rental housing system. Some developers also focus to accelerate the development of affordable rental housing by putting marketing rural land for housing construction and introducing property tax, which will let the property problems improve a lot.

6. Conclusion

This paper mainly focuses on the challenges property causes and the measures the global world has taken to face them. In conclusion, the world still has a long way to go in the use and improvement of deleveraging campaigns. Economic achievement is also an attribution to demographic dividends. To solve the property challenges, the world should make more efforts to analyse and research. The issues are not only having an impact on the financial stability but also have a connection with some supply chain and fuel costs. The research on property challenges has not completely covered all the aspects of the issues and problems. The analysis which it includes is one-sided. As for holding future research, it should divide the conditions that emerged in the property market more specifically and with more details.

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