

Analysis of Preventive Pathways for Real Estate Financial Risks in China

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Abstract: Preventing real estate financial risks in China is a core measure for maintaining the stability of the financial system and the healthy development of the real economy. This paper, based on the deep interconnection between the domestic real estate sector and financial markets, aims to comprehensively identify four core risk types in the real estate industry—market, credit, liquidity, and operational risks—as well as their transmission and cyclical characteristics. A quantitative evaluation system covering market, financial, and enterprise dimensions is constructed to support dynamic monitoring and early-warning mechanisms. The study further explores practical challenges such as the interaction between real estate policies and market behavior, financial institutions' risk management capabilities, cross-department regulatory coordination, and technological support. By analyzing the main risk prevention pathways, this research provides a practical reference for establishing a long-term preventive framework for real estate financial risks, facilitating the healthy operation of both the real estate sector and financial markets.

Keywords: Real estate; financial risk; preventive pathways

Introduction

The real estate sector, once a crucial pillar of China's national economy, has its stable development closely tied to the safety of the financial system. The unconstrained spread of real estate financial risks may trigger systemic risks in the socio-economic landscape^[1]. After nearly two decades of rapid expansion, China's real estate market has entered a phase of deep adjustment. Cases of debt defaults among real estate developers have been emerging continuously. Since 2020, the number of defaulting developers in China has increased year by year: 16 in 2021, 44 in 2022, with numbers continuing

to rise in 2023 and 2024. Notable default cases include Evergrande Group, with cumulative defaults of \$14.3 billion (approximately RMB 130 billion) involving 10 US dollar bonds, some of which have been written down to zero; Sunac China, with cumulative defaults of \$9.55 billion, whose restructuring plan includes extending maturities to up to 7 years and lowering interest rates to 3.2%; and Country Garden, with defaults of \$9.641 billion involving 20 offshore Chinese bonds. To date, a total of 77 major developers nationwide have experienced debt defaults. As of August 2025, nearly 20 distressed developers have had their debt restructuring or reorganization plans



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approved, with the total resolved debt exceeding RMB 1.2 trillion. Against this backdrop, issues such as housing price fluctuations and tight funding chains have gradually surfaced. Guided by the government's policy stance of "housing is for living in, not for speculation" and the steady implementation of financial deleveraging, accurately identifying risks, resolving prevention dilemmas, and constructing a scientific prevention and control framework have become critical tasks within the current economic governance framework. This paper aims to provide theoretical support for preventing and mitigating real estate financial risks in China by categorizing risk types, analyzing core obstacles, and exploring preventive pathways.

1. Main Types of Real Estate Financial Risks

Real estate financial risk refers to the potential for losses in financial institution assets, breaks in funding chains, or disruptions in market order, triggered by factors such as market conditions, credit issues, and policy changes across the stages of real estate development, circulation, and consumption. Market risk in real estate arises from supply-demand imbalances and fluctuations in housing prices. Influenced by macroeconomic cycles and land policies, sharp corrections in housing prices can lead to the depreciation of mortgaged assets ^[2]. From 2021 to 2024, housing prices in some third- and fourth-tier cities experienced significant cumulative declines, though the extent varied by city. Key data and trends are analyzed below (overview of price declines in third- and fourth-tier cities):

Yantai case: In 2021, 30,279 commercial housing units were sold in Yantai, but by 2024, this number had dropped to 10,927—a decline of approximately 60% over three years. While the exact price decline was not directly disclosed, the sharp contraction in transaction volume reflects market weakness.

Nanchong case: From January to November 2024, the growth rate of real estate development investment in Nanchong fell to -23.2%. Housing price declines, combined with sluggish transaction volumes, have pushed prices in some areas to historical lows.

In December 2024, the national inventory destocking cycle across 100 cities reached 21.3 months, with third- and fourth-tier cities generally exceeding 50 months. Although the magnitude of price adjustments

has narrowed, inventory pressure persists. From 2021 to 2024, cumulative housing price declines in some third- and fourth-tier cities exceeded 15 percentage points, directly exacerbating credit risks for financial institutions. Credit risk manifests in the form of debt defaults by real estate developers or mortgage delinquencies by individuals. Under high-leverage business models, such risks are prone to concentrated outbreaks. Liquidity risk stems from excessively high proportions of real estate loans in financial institutions' portfolios or from tightened financing channels for developers, leading to difficulties in capital turnover. Operational risk arises from internal control weaknesses in financial institutions or irregularities in real estate transactions ^[1].

2. Challenges in Preventing Real Estate Financial Risks

2.1 Balancing Policy Regulation and Market Fluctuations

Real estate financial policies must strike a balance between curbing bubbles and promoting stable market development. Due to policy lag, the effects of measures are not immediately observable. Overly aggressive adjustments may trigger liquidity crises among real estate firms. From 2021 to 2023, strict credit control combined with declining market demand caused domestic small- and medium-sized banks to experience narrowing net interest margins, facing multiple credit challenges. Following the peak of China's population in 2021, insufficient personal credit demand transmitted pressure to real estate enterprises. Small- and medium-sized banks were particularly affected, while large banks competed for real estate clients at a 2.3% interest rate ^[3].

2.2 Insufficient Risk Management Capacity of Financial Institutions

Some commercial banks rely excessively on collateral evaluation during loan approvals, paying insufficient attention to core factors such as real estate firms' cash flow and industry cycles. Approval processes often suffer from formalism, resulting in over-lending to highly leveraged real estate firms. In 2023, certain small- and medium-sized banks exhibited significantly higher non-performing real estate loans than the industry average. Specific cases include:

Guizhou Bank: total non-performing real estate

loans of ¥3.046 billion, with a non-performing rate of 40.39% (approximately ¥400,000 unrecoverable per ¥1 million in real estate loans).

Other small banks: Harbin Bank 2.85%; Shengjing Bank 2.68%; Jiangxi Bank 2.17%; Jiujiang Bank 2.09%; Zhongyuan Bank 2.04%; Gansu Bank 2%—all above the industry average. Post-loan fund supervision is weak. Financial institutions lack effective tools to monitor fund flows, and real estate firms sometimes misuse credit funds. Traditional risk assessment models are insufficiently adaptive to sudden shocks, making it difficult to detect hidden debts, related-party transactions, and other potential crises.

2.3 Complexity of Cross-Departmental Regulatory Coordination

Real estate financial risks involve multiple departments, including housing and urban-rural development, financial regulation, and taxation. Differences in departmental responsibilities and policy orientations often result in regulatory overlaps and blind spots. Due to the lack of unified standards, off-balance-sheet financing by real estate firms and other irregular operations are difficult to detect in a timely manner^[4]. The absence of robust information-sharing mechanisms leads to regulatory information asymmetry: data are stored in a decentralized manner, and housing sales data from the development department cannot be linked in real-time with credit data from financial regulators. The lack of regular coordination mechanisms reduces the efficiency of risk handling, making it difficult to quickly curb the spread of risks. Information asymmetry in the real estate market is exacerbated by underdeveloped information-sharing systems, manifesting as insufficient disclosure, high information acquisition costs, and lagging regulatory tools. Key information in real estate transactions—including property quality, historical prices, and surrounding environment—is often not systematically collected, compiled, or published. For instance, some developers or intermediary agencies may conceal defects or misreport prices, making it difficult for buyers to obtain accurate information. Verifying real estate information requires substantial time, labor, and financial resources, further raising the cost of information acquisition for consumers.

2.4 Technological Challenges Due to Lagging Information System Development

The lag in information system development constrains

the efficiency of risk prevention. Real estate-related data are dispersed across departments, with inconsistent formats and standards; some data are still stored in paper form, complicating automated collection and analysis. Interfaces between financial institutions and real estate firms are often incompatible, delaying real-time monitoring. Most institutions are at an early stage in applying new technologies such as big data analytics and artificial intelligence, making it difficult to identify hidden risks in massive unstructured datasets. AI models currently face limitations in accuracy and adaptability. Moreover, blockchain traceability functions have not been widely implemented in the real estate sector, preventing transparent supervision of the entire financing process.

3. Implementation Paths for Real Estate Financial Risk Prevention

3.1 Improving the Policy Regulation System

A policy system combining counter-cyclical adjustment with structural regulation should be established. Based on the fluctuations of the real estate market cycle and regional differentiation, regulatory intensity and direction should be adjusted in real time. At the macro level, a set of real estate market monitoring indicators should be created, including housing price fluctuations, inventory levels, and credit growth, to assess market trends. When the market shows signs of overheating, credit policies should be appropriately tightened, and down payment ratios increased to curb speculative home purchases. Conversely, when the market faces downward pressure, credit policies should be reasonably adjusted to support the rigid and improvement-driven housing demand, preventing large market swings. In 2023, some cities lowered loan interest rates and down payment ratios for first-time homebuyers, resulting in a month-on-month increase of 15%-20% in local commercial housing transactions, demonstrating the effectiveness of structural policy adjustments. Differentiated regional regulatory approaches should be implemented: policies should be tailored according to population trends, inventory status, and economic development levels in different cities. In first- and second-tier cities, the focus should be on ensuring housing supply for genuine demand, optimizing the timing of land transfers, and controlling rapid housing price increases. In third- and fourth-

tier cities, the focus should be on reducing housing inventory, enhancing demand through improved urban infrastructure and industrial relocation, strictly controlling the scale of new construction land supply, and establishing a policy effectiveness evaluation system to monitor implementation and adjust tools in response to market feedback, thereby avoiding potential risks. A comprehensive long-term real estate financial framework should be established to implement the “housing is for living, not for speculation” policy, stabilize housing prices in local government performance assessments, and curb excessive reliance on land finance, addressing market bubbles at their source.

3.2 Enhancing the Risk Management Capacity of Financial Institutions

Financial institutions should reconstruct their real estate credit risk control systems by incorporating cash flow analysis, industry cycle assessment, and enterprise operational capability evaluation into core review dimensions, reforming the traditional over-reliance on collateral. During the credit approval stage, multidimensional borrower credit evaluation models should be established, integrating data on personal income, credit history, debt levels, and other factors to accurately assess repayment capacity. According to China Banking and Insurance Regulatory Commission Document No. 39 (2021), a “through-the-structure” review of real estate loans should be conducted, comprehensively examining enterprise debt scale, hidden liabilities, and related-party transactions, strictly reducing financing limits for highly leveraged real estate companies and preventing irregular funds from entering the sector. Enterprises’ qualifications, tax records, and loan usage should be rigorously reviewed.

Professional service organizations, such as third-party appraisal agencies, should be cultivated to provide consumers with professional advisory services. State-owned commercial banks should optimize their credit approval models, using indicators such as operating cash flow coverage and net debt ratios as core review standards. In 2023, the non-performing loan ratio for real estate loans in a certain state-owned commercial bank decreased by 0.3 percentage points compared to the previous year. Post-loan management should include dynamic monitoring using big data technology to track the flow of credit funds in real time, ensuring

funds are used for real estate development projects and personal housing consumption, while preventing the misappropriation of credit funds.

3.3 Establishing a Collaborative Regulatory Mechanism

A multi-department joint regulatory platform should be established, integrating the regulatory responsibilities of housing construction, financial supervision, taxation, and land management departments. This platform should clarify the division of labor in risk identification, monitoring, and mitigation, fill regulatory gaps, and eliminate overlapping areas. It should take on the overall coordination of real estate financial risk prevention, formulate consistent regulatory standards and operating procedures, and jointly address major challenges in cross-department supervision. The scope, format, and update frequency of information sharing should be explicitly defined, and a data security system should be constructed to ensure the safety of information transmission and storage. Through the information-sharing system, regulatory authorities can fully understand real estate companies’ operational status, fund flows, and risk dynamics, achieving precise identification and real-time monitoring of real estate financial risks. A regular coordination meeting system should be established, holding monthly cross-department meetings to synchronize supervision progress, analyze risk trends, and discuss solutions, thereby improving the efficiency of risk response.

3.4 Promoting the Application of Financial Technology

Investment in financial technology should be increased, encouraging the deep adoption of big data, artificial intelligence, blockchain, and other technologies in real estate financial risk prevention. Big data can integrate multi-channel datasets, including real estate enterprises’ financial data, project construction data, credit transaction data, and macroeconomic data. Using data mining and analysis, hidden risk points can be identified, such as related-party transactions, potential liabilities, and fund misappropriation by real estate enterprises. Risk assessment and early warning models should be optimized to improve the accuracy and timeliness of risk predictions. Machine learning algorithms can be employed to train models capable of automatically detecting abnormal fluctuations in indicators and forecasting future risk trends, providing scientific reference for regulatory decision-making and

financial institutions' risk control.

Conclusion

The prevention of real estate financial risks in China belongs to the category of multi-sector systemic projects. It requires scientific identification and assessment, precise problem-solving, and the implementation of collaborative approaches to build a long-term mechanism. Understanding risk types and characteristics, establishing a quantitative evaluation and early warning system, and providing targeted safeguards are essential for effective risk prevention. Key aspects for improving prevention include balancing real estate policies with market dynamics, enhancing institutional risk management, ensuring cross-department regulatory coordination, and leveraging technological support. By improving policy regulation, deepening institutional risk control,

establishing collaborative regulatory mechanisms, and promoting financial technology empowerment, a synergistic approach to risk prevention can be achieved.

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