

Original Paper

Research on the Transformation of Real Estate Enterprises’ Asset-light Operation Mode—Take Vanke as an Example

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Abstract

Chinese the real estate industry has experienced more than 20 years of prosperity. The traditional operating model has brought huge profits to real estate companies under the specific economic environment and reform dividends. However, in the context of the continuous upgrade of macro-control in the real estate industry, real estate companies have narrowed their financing channels, and the pressure on funds has generally increased. They are facing an urgent need to expand financing channels, reduce financing costs, and maintain stable cash flow. In this context, it is increasingly important for real estate companies to transform their asset-light operation model. Therefore, this article will analyze the concept of light assets and the characteristics of light asset operation models, and take Vanke as an example to analyze the changes in Vanke’s financial performance before and after the transformation, and put forward relevant suggestions to provide references for real estate companies to transform asset-light operation mode.

Keywords

real estate companies, asset-light operation mode, financial performance

1. Introduction

Starting from the period of housing commercialization in 1978, China officially implemented the housing commercialization policy. The cancellation of welfare housing allocation on July 3, 1998 opened the golden period of rapid development of the real estate industry. However, since the 2008 financial crisis, the country issued policy to rescue the market. In 2010, the golden period of rapid development of real estate officially ended, and the “National Ten Articles”, “New National Eight Articles”, “New National Five Articles” and other policies were introduced successively, which started several years of policy control road. The report of the 19th National Congress of the Communist Party of China clearly stated that it insisted on the positioning of “a house is for living, not for speculation”. In this context, many real estate companies have transformed. Among them, the asset-light operation mode is an important mode for the transformation of real estate enterprises. The asset-light operation model has strong practical significance for revitalizing the non-current assets of enterprises and reducing capital occupation.

2. The Concept of Asset-light and the Characteristics of the Operation Mode

What is asset-light? Raphael Amity (1993) proposed that light asset is a kind of asset formed in the course of business operations that will not be reflected in financial statements, which helps the company to gain an advantage and obtain excess returns¹. Georgiana Surdu (2011) pointed out that the breadth and depth of cooperation among various industries has deepened, making the asset-light model more and more popular. In the process of globalization, multinational companies continue to pursue cost reductions, so the asset-light model has become the best way. Therefore, the company has included key considerations in ways to reduce its own load and outsourcing. Du Haixia (2015) believes that every company has its own development direction, and some companies are in the low value-added link of the production chain, and some companies are in the high value-added link of the production chain. Many companies do not need to complete all the links in the industry chain. Therefore, when companies adopting the asset-light operation model have unique resources, they can rationally allocate resources to occupy the high value-added links in the industry chain, that is, achieve the purpose of controlling the entire industry chain. Based on the research conducted by scholars in this article, asset-light is the core of intellectual capital and its management, including the intellectual property, customer relationships, channels and networks emphasized in the company's brand, invention patents and basic market assets, as well as other things such as corporate values and Intangible assets such as corporate culture, product innovation capabilities, technology research and development capabilities, product marketing capabilities, human resources, management systems and business processes. Companies use these superior resources they own to focus on building their core competitiveness, outsourcing unimportant business processes, leveraging the resources of other companies to serve themselves, and develop together with partners.

Xue Wenyan (2012) also pointed out that companies with asset-light operation model have the characteristics of low asset-liability ratio, high sales and net profit margins, fast asset turnover, and fast capital flow. Zhang Yan (2017) believes that the asset-light model has the characteristics of small investment, light, high, and sophisticated asset status, and abundant cash flow⁵. Wang Dongmei (2018) believe that asset-light companies have the characteristics of light asset structure and rapid business development, but the performance range has changed greatly, the development prospects of the company are not clear, and it is difficult to evaluate the value of the company. Based on literature research and actual cases, this article believes that asset-light companies have the advantages of high cash reserves, high working capital, fast asset and inventory turnover, high securities investment and high returns, increased flexibility, and risk reduction, which can greatly improve the capital operation capability of the enterprise and the reasonable asset structure of the enterprise have advantages. However, the corresponding disadvantages are also obvious. Because companies have problems such as low inventories, fixed assets and low cash dividend ratios. If the company absoluteizes asset-light operations, it is easy to form asset bubbles and it is difficult to estimate the company's market value.

3. Asset-light Operation Mode Theory

The main theories of the asset-light operation model are the division of labor theory, the "smile curve" theory, and the industrial value chain analysis model.

Adam Smith pointed out the division of labor in *The Wealth of Nations*. He believes that systematic division of labor plays a huge role in the improvement of labor productivity and the growth of national wealth. The proficiency, skill mastery, and key discrimination of workers can be greatly improved through the division of labor. At the same time, all industries can adopt the way of division of labor

system to improve the productivity of labor. The reasons are as follows: first, workers can focus on a specific task through division of labor, which increases the repetition of work in the focus field and improves the proficiency of the work. Second, the division of labor saves the time of switching between different work areas and increases economic benefits. Third, while improving their working proficiency, workers are more likely to improve their working methods and improve their production efficiency. Based on the theory of division of labor, asset-light operation mode enables enterprises to further subdivide the selection range of the industrial chain, focus only on the important links of the whole industrial chain, control the process, and reduce their capital input.

Strategic management expert Michael Porter points out through the analysis model of industrial value chain that different links in the industrial chain contain different value increment space. By accurately controlling key links in the industrial chain, enterprises on other links in the same chain can obtain excess profits or reduce investment. In other words, enterprises can gain competitive advantage through efficient allocation of resources.

Mr. Shi Zhenrong, founder of Acer Computer in Taiwan, pointed out through the “smile curve” theory that the research and development link in the upstream of the industrial chain and the marketing link in the downstream have higher added value, while the assembly link and the manufacturing link belong to the labor-intensive or capital-intensive production mode. Due to the adoption of programmed operations and fierce competition, the profit space of the production link is squeezed, so the added value line of the industrial chain is a u-shaped curve with high ends and low middle, so it is called “smile curve”. Therefore, through division of labor, enterprises can take charge of the core links with high added value and outsource the links with low added value, so as to obtain more benefits with less input. The theory of “smile curve” further expounds the rationality and effectiveness of asset-light operation mode.

4. The Motivation Analysis of the Transformation of Asset-light Operation Mode

4.1 Land Cost Pressure

Since the total amount of land reserves is fixed and the state owns the ownership of land, enterprises can only passively participate in the sale of land. Due to market demand, the market price of land in large and medium-sized cities is getting higher and higher, so real estate enterprises have to purchase land at a high price, or even get land at the price of “land king”. It can be seen from Table 1 that the land purchase cost of Chinese real estate enterprises keeps rising from 2009 to 2019. The land purchase area is relatively stable and fluctuates within a certain range, and the two are in a reverse comparison relationship. The reduction of land investment by real estate enterprises is mainly due to the following two reasons: first, the soaring land price and the tight capital chain make it difficult for real estate enterprises to achieve the purpose of enterprise expansion by investing in land; second, large and medium-sized enterprises in the real estate industry have successively transformed their asset-light mode and gradually changed their operation mode. In order to stabilize the real estate market and reduce the economic bubble, the government has introduced a series of policies to stop the rising of housing prices. Therefore, the sluggish sales performance and high costs have severely squeezed the interests of real estate enterprises, facing business difficulties.

Table 1. Real Estate Industry Over the Years the Purchase of Land Situation Table

Year	Land purchase area (10,000 square meters)	Land purchase Fee (100 million YUAN)
2009	31909.45	31439.73
2010	39953.10	55832.15
2011	44327.44	66199.26
2012	35666.80	71198.04
2013	38814.38	74283.19
2014	33383.03	96771.08
2015	22810.79	104929.27
2016	22025.00	107368.14
2017	25508.00	109799.00
2018	29142.00	101622.00
2019	25822.00	147090.29

4.2 Land Cost Pressure

At present, the financing methods of Chinese real estate enterprises are mainly self-raised funds, bank loans and foreign capital utilization. Most of the money received in advance and sold by enterprises is personal mortgage loans, which are essentially bank loans. There is no doubt that Banks have become the main source of capital for real estate enterprises in recent years. As can be seen from Table 2, from 2010 to 2019, the self-owned capital in the capital sources of China's real estate enterprises keeps increasing, but the total share is not high. In 2014, the share of self-owned funds peaked at 41.33%. However, the proportion of domestic loans in the total capital is always high, among which bank loans are the main means of access. Although in recent years, real estate enterprises have also expanded their sources of capital through bonds, funds, trusts and other means, the proportion of these sources of capital is relatively low due to the imperfect market economic system and the financial products are still in the early stage of development, and the main form is still bank loans. The single mode of obtaining funds through Banks makes real estate enterprises burdened with extremely high debt-to-asset ratio. The real estate Blue book shows that the debt-to-asset ratio of the real estate industry has been increasing in recent years, with the average debt-to-asset ratio of the top 10 real estate companies reaching 79.6%. According to relevant data, the asset-liability ratio of Jianye Real Estate reached 91.25 percent at the end of 2019, ranking first. The asset-liability ratio of leading real estate companies such as Evergrande, vanke and country garden also exceeded the red line of 80 percent.

Table 2. Capital Sources of the Real Estate Industry (unit: 100 million)

Year	Domestic loans	Utilization of foreign capital	Self-raised funds	Other funds	total
2010	12563.70	790.68	26637.21	32952.45	72944.04
2011	13056.80	785.15	35004.57	36942.21	85688.73
2012	14778.39	402.09	39081.96	42274.37	96536.81
2013	19672.66	534.17	47424.95	54490.69	122122.47
2014	21242.61	639.26	50419.80	49689.81	121991.48
2015	20214.38	296.53	49037.56	55654.59	125203.06
2016	21512.00	140.00	49133.00	66355.00	137140.00
2017	25241.68	168.12	50872.16	79771.30	156053.26
2018	25737.26	172.38	53821.45	83763.49	163494.58
2019	25229.00	176.05	58158.96	95046.18	178610.13

4.3 Inventory Backlog

With the continuous upsurge of the real estate industry, the government has increased macro-policy control on the real estate industry, and the rigid demand of consumers for housing shows a weak trend, so the real estate market has gradually turned into an oversupply. According to the Blue Book on Social Sciences released by the Chinese Academy of Social Sciences in 2019, the living conditions of Chinese urban residents have been greatly improved, and the home ownership rate is about 92.1 percent. However, the construction time of residential projects is long, and there are a large number of unfinished projects, which makes it difficult to digest the continuous accumulation of residential inventory in my country. According to the relevant data of the National Bureau of Statistics, the sales area of commercial housing in my country has fallen from 1.3 billion square meters in 2013 to 1.2 billion square meters in 2014, which is the first decline. However, the area of completed houses continued to grow, rising 276 million square meters in 2014 compared with 2013, reaching a peak of about 719 million square meters in 2015. Over the next four years, the area available for sale fell, easing the inventory pressure. In the traditional operation mode of real estate enterprises, the investment capital is relatively high in the early stage of the project. In addition, due to the stagnant market and excessive overstocked inventory, the real estate capital circulation is not smooth. In order to maintain the scale expansion and realize the continuous circulation of capital in the project process to achieve the capital appreciation, loans are needed constantly. Therefore, many large and medium-sized real estate enterprises began to transform the asset-light operation mode to alleviate the current difficulties.

4.4 Tax Burden

Tax revenue is the main means for the country to control the economy from the macro level. Faced with an investment boom in China's real estate market, the government has used tax revenue to adjust the real estate industry for several rounds. The tax burden of real estate is much higher than that of other industries. China's real estate enterprises involve more than ten kinds of taxes, such as deed tax,

stamp duty, land value added tax, value-added tax, enterprise income tax, urban land use tax, real estate tax, etc. The real estate industry bears not only a lot of taxes, but also a high amount of taxes. According to statistics from the Shanghai Stock Exchange, among the 23 first-class industries in China, the comprehensive tax burden of the real estate industry reached 15 percent, ranking the top three in the industry, three times that of the construction industry and five times that of some service industries.

5. The Asset-light Operation Mode of the Real Estate Industry

The asset-light operation mode of real estate mainly refers to the professional division of labor and the lightness of assets. Companies in the industrial chain complete the stages of investment, development, planning, design, construction, sales and later property management of real estate development respectively. The public is the main source of funds, and the rest of the funds are from banks. Different from the traditional model, the asset-light model pays more attention to the increment of enterprise value brought by the operation process in the real estate development, and no longer takes owning land assets as the core. There are four main ways for real estate enterprises to transform the asset-light operation mode: sale and leaseback, real estate trust and investment fund, commercial trust and cooperative development. There are four ways for real estate to be asset-light.

Table 3. Real Estate Light Asset Implementation Approach Comparison

approach	specific method	advantage	disadvantage
leaseback	transfer the property rights of commercial properties to investment institutions or financial leasing companies, they can be completely removed from the balance sheet	Move the fixed assets off the balance sheet, no longer withdraw the depreciation of fixed assets, improve the current ratio, and quickly improve the business performance.	The credit of small and medium-sized enterprises is poor, there are more non-performance repurchase events.
REITs	A trust fund that collects the funds of a specified majority of investors by issuing income certificates managed by a specialized investment institution for real estate investment	It can achieve a good combination and balance of security, profitability and liquidity.	The excessively high property price causes the excessively high rent to sell ratio, in our country the application difficulty is great.
Commercial trust	Similar but more flexible innovative products and financing tools.	Part of the issuing income can be retained for the return on the payment to investors in the early stage of the project when the income is low.	Like REITs, they also encounter problems in the legal and policy environment.
Cooperative development	Cooperate with professional investment management organizations	Full complement, reduce the risk.	It can be controlled by others.

6. Vanke's Asset-light Operation Mode Implementation Strategy

6.1 Small Stock Trading Development Mode

The specific operation of "small stock operation" of Vanke is as follows: Vanke takes only a small share and controls the whole process of the project. Generally speaking, the proportion of Vanke's shares is about 10%-50%, and the specific proportion varies according to the different proportions of the project. Less capital input not only reduces Vanke's financing pressure, but also enhances its capital liquidity. At the same time. By providing professional services and obtaining management fees, Vanke can avoid the adverse impact caused by economic fluctuations and maintain the stability of its cash flow. It can be said that the mode of "small stock trading" brings a new round of profit growth for Vanke. The transformation of Vanke into a "small stock operation" mode will bring vanke the next profit growth point.

The partners of small stock trading can be divided into project holders and capital holders. As the partner is the holder of the project, Vanke holds a small proportion of shares and has little capital investment, so it is responsible for the open operation of the project. For the partner as the capital holder, the cooperative project is generally vanke's own project. Vanke no longer controls the project by introducing external funds, and then vanke will lead the development and operation of the project. Vanke has advantages that its partners lack, such as strict quality control, mature manufacturing system, excellent design ability and good credit resources. The partner chooses Vanke to take charge of the operation, and Vanke invests a small amount of money into the project. The "small cap" model creates a larger operation with the same asset size. Since Vanke does not hold a controlling stake, its profits in income distribution are mainly based on brand usage fees, planning and design fees, management technology fees, financing fees and other service fees, and more diversified income can be obtained through less capital investment.

6.2 Business Partnership System

The asset-light operation mode attaches great importance to human capital. At the same time of implementing the "small stock operation", Vanke also launched the "business partner" system, that is, the employee co-investment system. The employee co-investment system is a supplementary measure to the model of "small stock trading". Vanke's business partner system is divided into the following two levels.

6.2.1 The Overall Level of the Company-shareholding Plan

Based on the characteristics of business partners, partners need to achieve revenue sharing, risk sharing, achievement co-creation. So a partnership is the best way to do it. The shareholding objects can be divided into the following three categories: (1) members of the group's board of directors, supervisors, senior executives and senior executives of local companies; (2) There are corresponding levels of employees in the group headquarters; (3) Local companies have corresponding levels of employees. There are also the following differences in shareholding according to the classification of employees: There is a limit on the shareholding of vanke group or local executives, which can avoid potential risks caused by stock price fluctuations caused by non-core employees. There is also a lower limit for executive shareholding, which effectively binds the interests of senior executives and the development of the company. The shareholding funds are mainly derived from the economic profit bonus plan implemented by Vanke since 2010. Each year, the bonus is closed for three years, and the bonus is centrally managed by Shenzhen Ying 'an Financial Consulting Co., LTD. As a general partner, Shenzhen Ying'an Financial Consulting Co., Ltd. has the right to invest and manage. As a limited partner, vanke's wholly-owned subsidiary under the Trade Union Committee and Huaneng Trust

jointly established Shenzhen Yingan Financial consulting enterprise, and then cooperated with Guoxin Securities to subscribe shares through Guoxin Jinpeng Rating No. 1 asset management plan. According to the announcement of vanke's shareholders' meeting, as of February 20, 2020, Vanke's business partners held 4.56 billion shares, accounting for 4.04% of Vanke's total share capital. According to the shareholding plan, before the repayment of financing costs and return to the company, the bonuses of economic profits managed by the company will not be redeemed to individuals and the partners will not receive bonuses if they have short-sighted behaviors before the redemption, which to some extent avoids the short-sighted behaviors of the partners. The shareholding plan helps Vanke's executives and core employees to choose the most effective development mode when introducing the asset-light mode, which is considered from the long-term perspective beneficial to the enterprise.

6.2.2 Project Level-project Co-investment and Event Partnership

When Vanke introduces the asset-light mode, it should not only pay attention to the management and core employees, but also the employees at the project level. From April 1, 2014, Vanke began to implement the project co-investment system at the project level, and let the project employees participate in the project with Vanke's investment. Through the mechanism of interest binding, it can avoid the blind increase of land reserve at the project level, and promote Vanke to gradually transform from the all-asset-heavy mode to the asset-light mode. This not only stimulates the initiative of employees to improve efficiency, but also guides them to alleviate the operational limitations brought by the traditional asset model.

The project co-investment system requires that the management and project manager of the first-line company where the project is located must co-invest. The co-investment is restricted by the directors, supervisors and executives of the company, and other employees can participate voluntarily. The initial share of follow-on investment shall not exceed 5% of the capital peak. At the same time, vanke's organization shall receive additional grants and follow up investments, and the total amount shall not exceed 5% of the peak capital. Front-line follow up investment employees of the project may choose to receive additional grants within 18 months. The specific process is as follows: First, Vanke makes public the follow-investment project, which not only introduces the basic information of the project but also includes the expected investment data. Secondly, before the project starts or during the construction period, compulsory and voluntary co-investors are registered for subscription within the group system. Then, after the subscription is completed, the follow-through will make the payment. Finally, the co-investor will bear the corresponding profits and risks of the whole project operation after the completion of the project and sales. By the end of 2019, the group has introduced a total of 865 projects under the co-investment mechanism. The 2019 annual report shows that among the newly acquired projects, the amount of follow-through subscription is 4.157 billion yuan, accounting for 1.87% of the peak capital of the follow-through projects and 2.48% of the peak equity capital of Vanke.

6.3 Diversified Asset-light Business

Vanke is paying more and more attention to the development of new businesses. Yu Liang, its President, has floated the idea of shoring up Vanke through new businesses. Based on the development trend of vanke in recent years, vanke has no longer specialized in residential property and has begun to expand its business scope. At present, Vanke has begun to layout property, old-age care, long-rented apartments, commercial and other fields, and correspondingly adopted "brand output", "small stock operation" and other asset-light operation methods. Vanke hopes to gradually transform from a real estate project developer to an urban supporting service provider, and constantly march into the stock housing market. In the 2017 annual Report, Vanke upgraded its strategic positioning to "service

provider for urban and rural construction and living”.

Through “brand output”, Vanke has rapidly expanded the layout of property, pension and other fields. In terms of property, Vanke launched Rui Service 3.0, and continues to improve the quality of Rui service, creating rui alliance of integrated operation. By August 2019, Vanke’s Rui Alliance has covered more than 2,000 projects in 65 cities. In addition, Vanke also completed the division of the property part, preparing for the later stage of this part's entry into the capital market. The pension sector is similar to the property development model, which is mainly expanded through the output of services and control standards. By December 2019, Vanke has launched the mode of continuous care retirement Community (CCRC), urban institutions and community centers, covering 15 cities including Beijing, Shanghai and Guangzhou, Hangzhou, Qingdao and Chengdu. At present, Vanke has successfully implemented more than 200 pension projects.

The development of Vanke’s long-lease apartment business makes full use of the advantages of asset-light operation, which can create higher value wealth. In April 2016, Vanke’s long-rent apartment business brand “Mooring” was unveiled, which means that vanke’s long-rent apartment business has begun a more in-depth exploration. The operation mode of Vanke’s long-rented apartment business is mainly to expand and manage its business through the means of leaseback, merger and acquisition and trusteeship. Long-term rental apartment property includes not only the lease of industrial plants, but also the lease of stock assets, such as collective assets in towns and villages. Rental housing business new 56000 rooms, 2019 by the reporting period, opened in 110000, 81% of room has opened in Beijing, Shanghai, shenzhen, guangzhou, hangzhou, tianjin, chengdu, xiamen, Qingdao, nanjing, suzhou, wuhan, xi’an, jinan and other 14 core cities, mature project (opened for half a year and above) the average occupancy rate of about 90%.

In addition, Vanke is also actively expanding its commercial real estate sector. In 2016, it opened about 9 large-scale commercial projects in Shanghai, Ningbo and other places. In 2016, the joint acquisition platform formed by Vanke and some partners acquired the equity of Ingram Group, which has mature commercial development management and operation capability. The acquisition will further optimize Vanke's layout in commercial real estate. In October 2017, Yinli initiated and set up a special plan to support beneficial rights of trust assets with Shenzhen International Investment Plaza as the target to realize the securitization of commercial property assets. Commercial property securitization is of great significance to vanke’s transformation. First, the capitalization of commercial property can effectively revitalize their own assets, reducing the real estate project due to a long development cycle caused by the capital turnover. Second, as the growth rate of domestic consumption cannot catch up with the development speed of commercial real estate, commercial property is now facing great competitive pressure. For Vanke, capitalization of commercial property is an effective way to reduce risks and stabilize profits. By the end of 2019, Ingram Group operated and managed 108 projects covering more than 50 cities, with a management area of nearly 9 million square meters and an open area of 6.44 million square meters. Shanghai Yinli won the 2019 World Internet Conference (Wuzhen) “China’s Big data Application Best Practice Case”. Impression One Business Investment Fund was launched in November 2019, with a total scale of 3 billion yuan. It will be invested in the development and operation of shopping malls in the future, and actively explore capital market innovation.

7. Comparison of Financial Performance in the Transformation of Asset-light Operation Mode

7.1 Asset Management Capability

The operation situation and asset management ability of enterprise assets can be analyzed through operation ability index. Enterprises can not only understand that in a complete accounting cycle or production cycle, capital from the input, purchase, consumption and other processes, the final judgment of asset appreciation. Investors can also judge whether they are getting a satisfactory return. Through the annual report of Vanke from 2011 to 2019, the main indicators of vanke's operating capacity in the past 9 years are sorted out, and the performance of operating capacity reflected in the period before and after the transition to asset-light operation mode is analyzed. The change trend of inventory turnover rate and accounts receivable turnover rate is relatively consistent. Since the implementation of asset-light strategy transformation in 2013, it has gradually picked up, showing a good development momentum.

Table 4. Vanke's 2011-2019 Operating Capacity

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Inventory turnover	0.21	0.26	0.28	0.32	0.33	0.34	0.33	0.39	0.41
Receivables Turnover Ratio	46.18	60.63	54.54	58.87	88.79	104.88	138.48	198.4	193.57
Current Assets Turnover	0.25	0.28	0.30	0.31	0.34	0.37	0.38	0.27	0.29
Total asset turnover	0.24	0.27	0.28	0.29	0.30	0.33	0.35	0.26	0.25

In terms of specific turnover efficiency, the inventory turnover rate declined in 2011 under the influence of macro-control. The increase of inventory turnover rate in 2012 is on the one hand due to the accelerated sales growth driven by the recovery of industry prosperity, and on the other hand due to the slowdown of scale expansion in 2011, the inventory accumulation rate has decreased. 2013 is still in the initial stage of the asset-light model, still relying on sales to relieve the inventory pressure, so the turnover rate rose. However, after 2014, the overall sales growth was blocked, while the inventory actually declined, indicating the improvement effect of the asset-light operation mode on the inventory turnover rate. Since inventories account for a large proportion of both current assets and total assets, the asset-light transformation model alleviates inventory overstocking and reduces the proportion. The changing trend of current asset turnover and total asset turnover reflects the improvement of vanke's overall operating capacity driven by inventory.

7.2 Profitability

Profitability refers to the ability to increase the assets of an enterprise, which reflects the business performance of the enterprise in a certain period, and also indicates the ability to sustain the future development of the enterprise. If an enterprise wants to achieve sustained profitability, it must constantly improve its profitability and increase the value of the enterprise. Profitability increment ability mainly through the enterprise's sales net interest rate, return on assets, return on equity and other indicators to measure. Due to the majority of projects in the traditional operation mode, Although

Vanke has expanded its scale after the transformation to the asset-light mode, it has not reversed the predicament that the asset-heavy mode is restricted due to the industry adjustment. Although Vanke’s sales revenue increased year by year, the growth rate decreased year by year. Another major reason for the inventory backlog is the slowing growth of traditional operations and sales. In order to reduce the inventory pressure as soon as possible, Vanke adopted various promotional methods, so that the gross profit margin of sales decreased year by year, reaching as low as 29.41% in 2016. Since vanke’s asset-light mode projects account for a relatively small proportion, the decline in profits from the traditional operating mode has affected the year-on-year decline in net interest rate. After the transition to asset-light mode in 2013, the decline of net profit margin on sales relative to gross profit margin slowed down somewhat. Although the transformation of Vanke into asset-light mode is relatively light, the downward trend of profitability plays a restraining role.

The roe of Chinese real estate industry has been declining in recent years, which is mainly related to the regulation policies issued by the Chinese government for the real estate industry. Although Vanke showed an upward trend from 2010 to 2013, it showed a sharp decline in 2014, which is also a key point of the housing market decline. However, in the context of the overall decline of the real estate market, Vanke actively promoted the transformation and launched a new cooperative development model such as “small stock operation”. It gave full play to the role of leverage and levered larger projects with less money, effectively increasing the return on equity. In fact, the bigger the company’s sales, the higher its return on capital. The return on equity of Vanke increased steadily from 2016 to 2019, which also proves that its transformation has achieved certain effects.

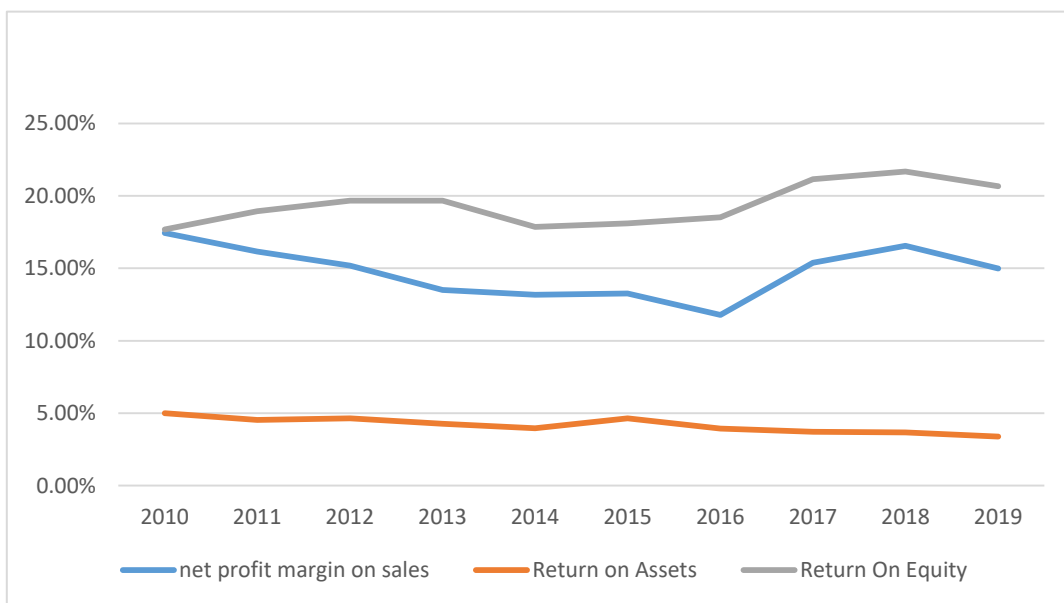


Figure 1. Vanke’s Profitability Indicators of 2010-2019

7.3 Debt paying Ability

After 2014, the current ratio of Vanke continues to decline, indicating that the ability of enterprises to repay debts by relying on current assets is weakened. On the contrary, the quick ratio shows that after the transformation, the index as a whole is rising, which indicates that the current assets with strong liquidity are gradually improving their ability to repay debts. Taken together, the solvency of receivables and inventories is declining. Before and after the transformation, the cash ratio of

enterprises shows a reversal difference of decline and rise, indicating that after the transformation of asset-light operation mode, the cash ratio of enterprises shows a trend of growth for many years, indicating that the disposable cash of enterprises is increasing. After Vanke implemented the asset-light operation mode, the asset-liability ratio has been rising, so it can be inferred that the enterprise still adopts the capital structure with high liabilities. According to the information disclosed by enterprises, the growth rate of liabilities is much faster than that of assets due to the change of business mode. According to the index of interest guarantee multiple, after the asset-light operation mode was implemented in 2014, the interest guarantee multiple of enterprises realized a high growth and then dropped sharply, mainly after 2016, when the financing scale of enterprises was constantly expanding, leading to an obvious increase in interest expense. In general, vanke's capital structure is highly indebted, so its financial risk is high, which deserves attention.

Table 5. Vanke's Solvency Indicators of 2011-2019

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
indicators									
liquidity ratio	1.41	1.40	1.34	1.34	1.30	1.24	1.20	1.15	1.13
Quick ratio	0.37	0.41	0.34	0.43	0.42	0.44	0.50	0.49	0.43
Cash ratio	17.06%	20.13%	13.49%	18.14%	12.66%	15.00%	20.55%	16.79%	13.06%
interest coverage ratio	32.00	28.55	28.24	40.41	71.76	25.66	25.64	12.25	14.34
Asset-liability ratio	77.10%	78.32%	78.00%	77.20%	77.05%	80.53%	81.98%	84.59%	84.36%

7.4 Development Prospect

Through the growth rate of enterprise's operating income, it can be seen whether the enterprise's sales growth is fast. According to the data analysis in the figure, under the asset-heavy operation mode, Vanke's revenue growth rate rose in 2011 and declined in other years. Under the asset-light operation mode, the growth rate of operating income increased sharply from 2014 to 2015, indicating that the transformation measures expanded the sales volume of the enterprise, but decreased from 2015 to 2017. This is mainly because Vanke was caught in the "Battle for Marlboro" which affected the development of the enterprise. After the crisis, revenue growth was back on track and started to climb. In combination with the growth rate of net profit, from 2010 to 2013, traditional operations led to a continuous decline in the overall growth rate of net profit. After the transformation, the index is not stable. In 2014, the index was low, which was mainly because the enterprise was in the early stage of transformation. In the following years, it only declined in 2016, while the rest years kept increasing, indicating that the transformation of the enterprise was still conducive to the scale expansion of the company. In contrast, the growth rate of earnings per share in the two stages from 2010 to 2013 and from 2014 to 2019 is roughly the same, rising first and then falling. This shows that after the transformation of the enterprise to the asset-light operation mode, Vanke's asset growth rate has been steady, and the company has been showing a good momentum of expansion.

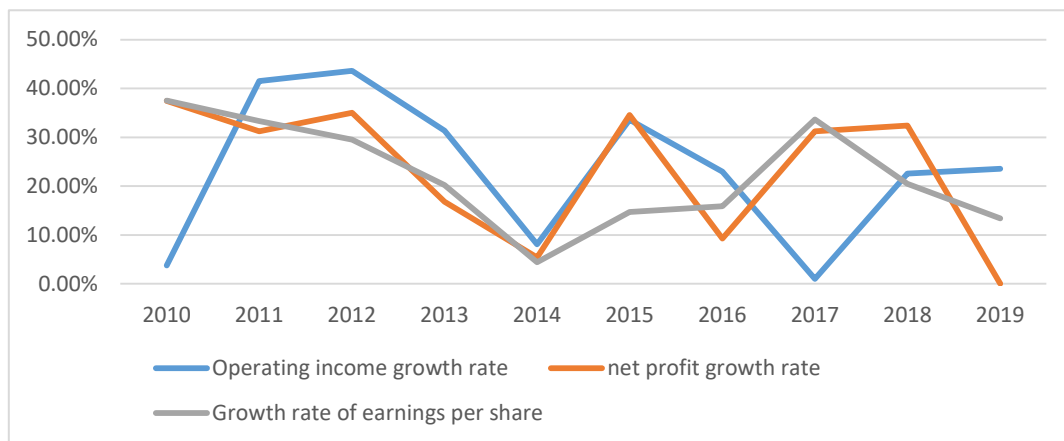


Figure 2. Vanke's 2010-2017 Development Capability Analysis

8. Comparison of Financial Performance in the Transformation of Asset-light Operation Mode

8.1 Conclusion

As the pillar industry in China, the real estate industry is an indispensable part of Chinese economic development. With the change of macro environment, the traditional operation mode of Chinese real estate enterprises has been unable to meet the demand of the market, so it is urgent for them to change their operation mode. The asset-light operation mode is a very beneficial attempt in China's real estate industry. This paper analyzes the motivation of the asset-light transformation, summarizes the applicability of the asset-light operation mode, and analyzes the operation effect of the asset-light operation mode through the financial indicators of Vanke Group. This paper draws the following conclusions:

First, with the change of economic situation, Chinese real estate market is facing many challenges, such as the change of market supply and demand, the increase of land cost, the increase of tax burden and financing difficulties. When the real estate market is depressed, the housing price goes down and the capital cost goes up, the return brought by asset appreciation is no longer enough to make up for the capital cost occupied by assets, so it is urgent for enterprises to change their operation mode. However, asset-light operation mode is more suitable for Chinese enterprises under the current background because it introduces partners to share capital input and operational risks, and enterprises rely more on value-added services to obtain income, which is less subject to capital cost and market fluctuation.

Second, the asset-light operation mode reduces the capital demand of the project, alleviates the financing pressure of enterprises, and shares the risks brought by the project for enterprises by introducing capital input from partners. At the same time, it can also help enterprises to broaden financing channels, build enterprise financing platform, solve the capital needs of enterprises, reduce financing costs. In addition, real estate enterprises under the asset-light operation mode will change their profit model and start to rely on providing value-added services to obtain profits. While relying on the share of earnings, it can also charge management fees and extract excess earnings. Enterprises can obtain greater returns with less investment and improve the return on assets of enterprises. At the same time, in the face of the slowing down of the appreciation rate of domestic real estate, the increase of financing costs, the previous value-added income is faced with a greater risk, and the expense profit model makes enterprises in a more stable state of investment return, which is conducive to the long-term healthy development of enterprises.

Third, in the fierce market competition, any enterprise wants to obtain high returns at low costs. Asset-light operation enterprises must rely on their own core capabilities to occupy the high value-added links of the value chain. This requires a strong core skill set. Take Vanke, the case company in this paper, for example, with its advantages in material procurement, project management, professional design, property operation, brand reputation and other aspects, it was able to gradually transform to be asset-light and earn large project profits with low capital investment.

8.2 Implication

In view of the introduction of asset-light operation mode, this paper proposes the following Suggestions for real estate enterprises:

Asset-light operation mode is not simply to introduce partners and broaden financing platforms, so as to obtain excess returns with small input. In addition, the real estate enterprises under the asset-light mode need to strengthen their own capacity building. The real estate enterprises under the asset-light mode have an obvious characteristic—specialization. They can subcontract different links to excellent partners through division of labor. It will be easier for different enterprises to participate in the project with their own expertise, and the competition among enterprises will be more intense. Therefore, under the new market environment, enterprises must strengthen the construction of their own capacity, strengthen the construction of soft and hard power such as design planning, building construction and knowledge capital. The real estate enterprises under the asset-light mode can only take part in the more intense market competition with one or several excellent core knowledge and skills. At the same time, under the asset-light mode, enterprises are no longer responsible for all links of project development, but allocate different links to different professionals, and there are many different enterprises operating together in the whole value chain. This requires enterprises to have a certain degree of resource integration and cross-organizational management capabilities, to be able to properly distribute the interests of all parties, organize their superior resources, and avoid the impact of different interest demands, different corporate cultures, short-term rent-seeking behaviors of all parties on the normal operation of the value chain. In addition, in the face of the current enterprise sustained high capital costs, enterprises' asset-light mode needs to adjust its capital structure, reduce its scope of business, optimize the allocation of resources, eliminate project assets with low profits or even losses. Concentrate the limited capital on the advantageous areas of the enterprise, further improve the capital operation ability, strengthen the capital use efficiency, and speed up the assets turnover.

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