

Development Status of China's Real Estate Industry

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Abstract: The real estate industry has always been a significant factor in the Chinese economy which can be easily affected by many sectors such as demand and supply imbalance, aging, and information asymmetric between producers and consumers. Under the new economic situation in China, the development and innovation of the real estate industry play a crucial role in the Chinese economy. The paper explores the future trend of real estate by analysing the current situation of the Chinese real estate industry through a method of literature review and data analysis. The result shows that the first, the house vacancy rate is a main factor that the government should control in order to balance the demand and supply. The price of the house would decrease caused by the unbalanced supply and demand. Secondly, the high unemployment rate would also affect the demand, which could lead to decrease in house price. Lastly, the uneven development between different areas would lead to negative impact for the real house industry as well. This paper find that government intervention plays a significant role in the control of demand and supply of the real house industry and The real estate industry ushered in a new stage and began to explore new ways of development that fit publics needs.

Keywords: real estate Industry, current situation of economic development, influence factor, urbanization

1. Introduction

The real estate industry has always been a significant part of the Chinese economy that leads the whole trend of economic development. Under the circumstance of a new economic situation (new normal), which is the recovery of an economy from an abnormal state, innovation is required in the real estate industry to maintain sound development. Urbanization in China lead to a new stage for the real estate industry in which the demand for houses sharply increased as more people move to the urban area and people's living standards increased as their income increased. A drastic increase in house prices would cause a market bubble and inequality between different areas and people of different income levels. It is important for government to introduce policies that can ease the growth rate of house price and prevent the housing market overheating or cooling. The encouragement need to be given out to people to use house as an residential area Instead of a financial asset. On the other hand, it is also essential for government to allow the automatic regulation of the market to do self correction.

Through literature review and data analysis of changes in housing prices, unemployment rate, the percentage of real estate in total GDP, and the total area of urban housing, this paper discusses the

future trend of real estate buy referring to the maturity, the current operation and the development potential of the real estate industry in China. This paper would give out discuss the present situation of the real house industry in China, and the puts forward suggestions for government intervention in the real estate industry about how to control the housing price and the demand for housing to achieve the steady positive growth of the real house industry in order to achieve public needs in the future.

2. Development Status of the Real Estate Industry in China

Nowadays, as China's economy continues to rise, the income of the urban population continues to rise, thus raising the requirements for living conditions. According to the seventh demographic census, 90,1991,162 people live in cities and towns, accounting for 63.89% (the urbanization rate of household registration in 2020 is 45.4%). The rural population was 50,978,7562, accounting for 36.11%. Compared with the sixth national census in 2010, the urban population increased by 23,415,856 and the rural population decreased by 16,4361,984, with the urban population proportion rising by 14.21 percentage points [1]. The accelerated urbanization process makes cities gather a large number of migrants, and housing has become the primary problem for these migrants to survive in cities [2].

2.1. The Rapid Economic Growth Rate

As the impact of the epidemic on the economy recedes and measures to stabilize growth begin to take effect. In the first quarter of this year, China's GDP grew by 4.5% year-on-year, 1.6 percentage points higher than that in the fourth quarter of last year [3]. According to State Statistic Bureau, the GDP in 2022 was 12,10207 billion yuan, an increase of 3.0% over the previous year. Including 8,834.5 billion yuan value added in the primary industry, which increased by 4.1 percent; The added value of the secondary industry was 48,316.4 billion yuan, which increased by 3.8 percent; The value added of the tertiary industry was 63,869.8 billion yuan, increased by 2.3%. The value added of the primary industry accounted for 7.3% of GDP, that of the secondary industry 39.9%, and that of the tertiary industry 52.8%.

The GDP per capita for 2022 was 85,698 yuan, an increase of 3.0 percent over the previous year. Gross national income was 11,97215 trillion yuan, an increase of 2.8% over the previous year [4].

2.2. The Rapidly Growing House Price

The rapid growth of the economy during the recovery period boosts consumer confidence.

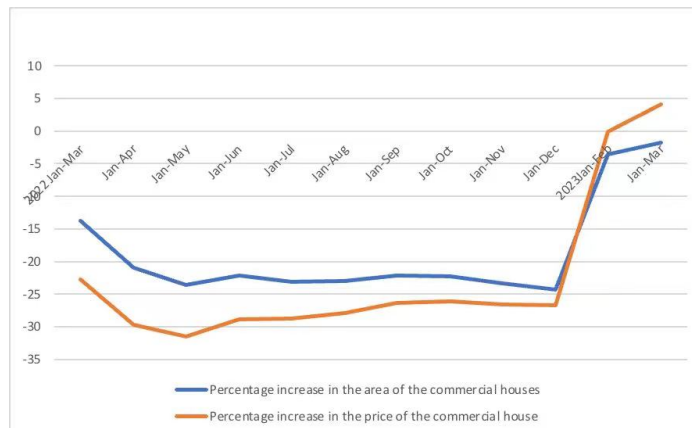


Figure 1: National commercial housing sales area and growth [5].

As shown in figure 1, The sales of commercial housing boosted at the end of 2022 from -26.7% to -0.1% and turned positive in quarter 1 2023 with 4.1%. The rapidly increasing house price leads to a high rate of return for those who bought houses as assets. In this case, the high profit cause the price to accelerate and exacerbate the risk of the housing bubble. In addition, as more houses become financial products, the housing vacancy rate increases. This situation could be the main reason for the limited housing space per capita in urban areas. Census data shows that the per capita housing area in Chinese cities still has a large room for growth [6]. The urbanization rate will be further increased in the future. As people's disposable income is increasing, the land prices, construction materials, and the quality of commercial housing improved and the potential demand of the Chinese real estate market is still large, the housing price will continue this positive trend. Instead of increasing the supply of houses, it is more important to change people's behavior and relocate the housing supply. The government encourages the public to use the house as a place for residence instead of an asset. The aim is to construct a housing system that satisfied a wider range of customers who want to get access to urban life and encourage both renting and purchasing. The government intervention should emphasize the important correlation between the development of real estate and the construction of a moderately prosperous society, the construction of modern cities, and the construction of a strong modern socialist country, and gradually stabilize the growth rate of the real estate market and standardize the market order [6].

2.3. Macroeconomic Implication

Data from the National Bureau of Statistics show that from 2015 to 2022, the sales of commercial housing in China reached 87.281 billion yuan, 11.762 billion yuan, 1.3701 billion yuan, 12.264 billion yuan, 15.725 billion yuan, 17.76 billion yuan, 18.83 billion yuan, and 119 billion yuan, respectively. The value of the real estate industry accounted for GDP increases year by year, basically concentrated in 5% ~ 7% [6]. This indicates that the real estate industry plays a significant role in the development of the Chinese economy, and will continue to lead the whole economic trend. However, the haphazard development of the real estate industry could lead to an excess supply of housing, and the price of the house would decrease caused by the unbalanced supply and demand. Moreover, the change in development in the real estate industry will lead to many side effects. It might bring damage to many other industries including the tourism industry, transportation industry, and service industry. Most consumers buy houses in two ways, cash, and mortgages, the decrease in the house price will lead to a loss for the house owner. The aggregate demand would also decrease as consumption decreased. The loss of the consumers will lead to the loss of the bank as the borrowers will not be able to pay back the mortgage. The house will be returned to the bank and sold out at a lower price which causes a vicious circle of house prices.

3. Factors that Affect the Development of the Real Estate Industry in China

3.1. Unemployment Rate

The rate of unemployment before the COVID-19 in 2018 was about 5%, the rate peaked at April 2022 with 6.1%. Until March 2023, the unemployment rate was 5.3%, which was still higher than before COVID-19 [7].

The unemployment rate could lead to a decrease in the demand for houses in the urban area. From the perspective of investors, the high unemployment rate could reduce the demand as they are less confident about the future economic prospects. From the perspective of those who wants to live in the urban area, they would have to move back because they can not find jobs. In both way, high unemployment rate would exacerbate the unbalanced between demand and supply which could lead to the further decrease in the house price. Moreover, the amount of trading happened in the real house

industry would decrease as the house owners will be more reluctant to move out and sell their current houses because they are more likely to lose their jobs and become disqualified to buy a new home due to credit constraints before finding a new suitable home. At the same time, they have less incentive to move and sell their existing homes because they expect to spend longer searching the market for a suitable buyer [8].

3.2. Urbanization

In the past five years, the urbanization rate increased from 60.2% to 65.2%. With the rapid development of urbanization, more and more rural people are settling down in cities. In terms of size, China's urban population increased by 748.26 million from 172.45 million in 1978 to 920.71 million in 2022. The rate of growth had declined after the COVID-19 [9]. In addition, the inequality between each province could lead to problems. According to the China Statistical Yearbook 2022, 12 provinces, autonomous regions and municipalities directly under the central government have urbanization rates higher than the national level, with Shanghai, Beijing and Tianjin ranking the top three with 89.3 percent, 87.55 percent and 84.7 percent, respectively. Nineteen were below the national level, 10 of which were below 60%, with the lowest being 35.73% [10]. The uneven development would lead to negative impact for the real estate industry. The unequal distribution of labor force will lead to imbalance of industrial structure in backward regions, widen the gap in regional economic development, and lead to lack of development in the industry and regional economic. The outflow of high-quality labour forces stops the steady growth of the industry and economy in the region, leading to a vicious circle of regional economy. Therefore, the government should efficiently guide and regulate the distribution of labour force and other resources. Policies and support should be given out to reduce the gap between each city and maintain the comprehensive development of the real estate in the whole China.

3.3. Real Estate Supply and Demand

Under the current economic situation of China, the demand for the housing gradually decreasing during 2023 as the population distribution has settled down. Under the construction and expansion of the urban area in China, the real house industry had developed in a wide scale. The further development of the urban had been focused on the stock rather than exploiting new estates. In some cities in China, the excess supply of the house still exists even though the price is low because most of the young residences had left their hometown and moved to metropolis that can exacerbate the supply and demand imbalance. The housing vacancy rate in the domestic market is still high, and the real estate enterprises are developing blindly [11]. It is necessary for the government to give out intervention for the management of the housing stock. Firstly, the government need to impose restrictions on the supply of the house in order to achieve the current demand level. The restriction in supply can be carry out by adding taxation for the householder to reduce the amount of house prosperity transaction. On the other hand, government can also set policy on the amount of time that the householder must keep the houses before selling them to the next buyer. Moreover, government can increase the demand by losing the restrictions on the nonlocal buyers the balance out with the supply. Finally, government can control the money supply in order to adjust the inflation rate, the depreciation of money will lead to overall increase in the income of people. With the controls on house prices to keep it on its original price, the demand for the house will increase as less value is cost for buying the same house.

4. Conclusion

To sum up, this paper find out that the real estate industry is facing a stage of decreasing growth rate that are caused by unemployment, equality, and imbalance between supply and demand. Government is an important factor that controls each factor in order to maintain the stable development of the national economy and people's living standards. The country should strengthen the macro-control aspect, and comprehensively rectify the industry market. The real estate industries should cooperate with the government polices and be ready for the innovations and changes that would have to be down in the future to ensure the positive and sustain development. There are still some sectors in this paper that requires some further investigation. For example the data that has been use in this paper is not accurate enough, there are still many factor that have not been consider and can not be shown out through the numerical data. In the future, it would be worth to do a deeper and more through reach on this topic again.

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