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An Analysis of China's Housing Purchase Situation Based on Real Estate Policies

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Abstract: Because of some new policies in China, the government has begun to lower house prices and encourage people to buy more houses, at least in Anhui. However, the reduced housing prices have not led to an increase in residential housing sales. So the author analyzes the reasons for the current insufficient purchasing power of Chinese residents' housing based on existing literature and data. The result shows that, in the context of contemporary society, personal income levels have significantly decreased. This decline is influenced by various factors, including tax policy reforms and the profound impact of the COVID-19 pandemic on the global economy, including China. At the same time, the hedging ability of the real estate industry has also decreased, which hinders the improvement of personal purchasing power. Although the real estate market has shown strong risk resistance and has gradually recovered from the initial impact of the epidemic, the lingering impact and uncertainty still affect individual purchasing power.

Keywords: Housing Price, Purchasing Power, COVID-19, Taxation

1. Introduction

Because of some new policies in China, the government has begun to reduce the price of houses and encourage people to buy more houses. But the truth is that there are still many people who do not buy more houses, or some of them cannot even afford one house. The author wants to explore the reasons and understand whether this is caused by China's overall economic problems. At present, the research on the real estate market in the academic field mainly focuses on the impact of rising house prices on purchasing power, while there is relatively little research on the reasons why falling house prices cannot improve people's purchasing power [1][2]. It lies in the lack of understanding of the relationship between purchasing power and house prices, and the improvement of purchasing power is restricted by many factors. Therefore, this article aims to explore the reasons why falling house prices cannot improve purchasing power and provide a comprehensive research method. The significance of this research is to provide theoretical and practical guidance to policymakers, economists, and real estate market participants to promote the sustainable development of the economy. In addition, for specific groups of people, understanding the reasons why falling house prices cannot improve purchasing power can help them make more informed house purchase decisions and avoid potential economic risks. To sum up, this article will explore the reasons why the decline in housing prices cannot improve people's purchasing power through the above points and comprehensive methods, which have important theoretical and practical value.

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2. Background Information

In recent years, global house prices have fallen sharply due to the active tightening of monetary policies by global central banks to cope with price pressure, soaring borrowing costs, and tightening of loan standards, coupled with excessive housing valuation [3]. China is also facing a downward trend in house prices, including due to government regulation policies and the decline of people's own economies. When it comes to economic development, real estate and the economy are closely related. Economic growth promotes the demand for real estate because people's income levels and employment opportunities will affect their ability and demand to buy real estate. Real estate investment has made an important contribution to economic growth, which has promoted the development of related industries and created employment opportunities for some people. At the same time, the stability of the real estate market is crucial to the stability of the financial system. Real estate transactions also provide tax revenue for the government. However, excessive changes in the real estate market may also bring financial risks and inequality. Therefore, the government usually needs to take appropriate policy measures to balance the development of the real estate market to ensure sustainable economic growth and social stability.

3. The Ways the Government Reducing House Prices

First of all, about the reduction in the price of houses, the government has not directly reduced the selling price of houses. The reform of property tax only slows down the rise of house prices, and the reform of property tax still needs to be improved, so this method cannot directly cause the decline of houses [4][5]. However, the government has adopted many other methods. There are many reasons why people may not be able to pay for today's houses. In addition to the price of the house itself, there are many potential things that increase the value of the house [6]. What the government has done is deal with these things. Such as lowering interest rates, relief of partial tax, and canceling school district houses.

Reducing interest rates or taxes are macroeconomic regulatory measures in economic policies aimed at influencing economic activities and market performance by adjusting money supply and fiscal policies. These policy measures are usually taken by the government or central bank to promote economic growth, stabilize prices, stimulate consumption, or do other things. Reducing interest means reducing the required interest when people pay mortgages. The interest rate of high-interest mortgages in China used to be about 5.9%, but this year, the interest rate was reduced to 4.2%, which is a large number when people buy some very expensive houses. Reducing taxes is a fiscal policy measure in which the government reduces the taxes that enterprises and individuals need to pay. The decline in taxes can increase personal disposable income and consumer spending. Some kinds of taxes required for housing have also been reduced, such as property deed tax or stamp duty.

In the past, communities that were close to some middle schools were called school district houses, and these houses were often more expensive than other houses. In addition, some schools stipulate that if there is no school district housing near the school, it is not allowed for the student to go to this school. However, now days, school district houses in many parts of China have been canceled and become normal houses. It is not difficult to see that the government wants to increase the purchase of houses in these ways, but there is a question: why hasn't people's purchasing power increased?

4. Reasons That People Do not Buy Houses

4.1. Property Tax

For many people, it is already very difficult to buy a house to live in. Many people do not buy a house in full, but pay the down payment before paying the mortgage. 80% of the people in China are paying off their mortgages, and the total mortgages in China exceed 38 trillion RMB. And for those who can not pay their mortgages, their houses eventually become "foreclosure property". According to some news statistics, there will be more than 600,000 houses in foreclosure in China in 2022 [7]. On the other hand, recently, the government has begun to lower house prices and encourage people to buy more houses. However, in fact, the government has increased the tax on houses. Although the price of buying a single house has decreased, for those who already own a house and want to buy more houses, the property deed tax is actually higher, up to 3%. For those who are under a lot of pressure to buy a house, house prices can not bring a particularly ideal purchase rate unless their prices plummet. Therefore, although the price of the house has dropped, people have not taken advantage of it. It is still difficult for low-income people to buy a house. For high-income people, the more houses they own, the more taxes they need to pay. The author thinks this is one of the reasons why people's purchasing power is not strong.

4.2. Economic after the Influence of COVID-19

Another reason is that many people's income is not ideal now. Due to COVID-19, many businesses in China have not been able to go out normally for about three years, and everyone has to stay at home, which has led to the interruption of the income of many companies. Many production enterprises, such as those that cultivate crops, are unable to go out normally due to the epidemic. Also, the demand for masks, medicines, alcohol, and other items has increased, and the high cost of manufacturing these things will also affect the economy [7]. In addition, because the work cannot be carried out normally, many companies can only lay off staff in order to ensure that it does not go bankrupt, which leads to a large number of people losing their jobs. Although the epidemic has now passed, the damage caused by it cannot be ignored, and its impact on the economy may persist for some time. In this case, the real estate market will also be affected. Due to the interruption of corporate income and unemployment, people's demand for house purchases may weaken [8]. At the same time, investors' confidence and expectations may also be affected, further affecting the trend of the real estate market.

4.3. Adjustment of Personal Income Tax Policy

In addition, there is also a reform of the personal income tax. The government has raised the threshold for personal income tax. At present, people with a monthly salary of less than 5,000 yuan do not have to pay tax. However, high-income people also need to pay more taxes. Up to half of the income may need to be handed in. Today's tax policy requires the rich to pay more taxes in absolute terms, or it can set up progressive tax rates to require the rich to pay a greater proportion of their income in taxes. Due to the diminishing marginal utility of income, levying a higher proportion of taxes on the rich can increase fiscal revenue and narrow the gap between the rich and the poor with less loss of total social welfare [9]. In this way, people’s income gap seems to be narrowing. In fact, those people who cannot make a lot of money are still poor, and those who make more money are also required to pay more taxes. Therefore, the government actually approaches personal income by reducing people's income as a whole. But this is impractical because personal income and overall income are closely related, and it is precisely because of high-income people that an overall high income is built. Therefore, when people's overall income is low and the more houses they own, the more taxes they pay, their purchasing power will not be as strong.

4.4. Negative Psychological Expectations

The last reason is that falling house prices will bring negative psychological expectations for many people. There are many people who buy multiple houses, and they will use the house as an investment

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tool. They buy a lot of houses, and constantly observe the trend of house prices. Then they will sell them when house prices rise, and this can bring them considerable profits. Falling house prices not only affect real estate investments, but also non-real estate investments. It should be pointed out that some investors who are motivated by profit will only buy houses that may rise and not houses that may fall. The continued downward trend in house prices will reduce speculative investment, thereby affecting the entire real estate investment. The final impact on the overall economy [10]. For these buyers who want to sell their houses in the future, they will worry that the value of the property will continue to fall, making the property a value trap. If house prices continue to fall, the return on investment of the house will decline, and many people are unwilling to take this risk, so they choose not to buy a house at all.

5. Evaluation of the Decline of Real Estate Price

In today's society, falling house prices may not be a good thing. Although these policies and price changes may close the gap between the rich and the poor, they cannot directly make everyone's economy equal. In addition, the decline in house prices will also directly affect the development of the economy. When people buy a house, they also need decoration and all kinds of furniture. If people's purchasing power for real estate is not high, it will directly affect the production and income of many industries, such as household appliances, building materials and decoration. On the other hand, there are many cities, such as Sanya, Haikou and Kunming that rely on real estate to drive the local economy. The housing industry accounts for 35% of the GDP of these cities. The decline in the purchasing power of houses will directly lead to the decline of the local economy. Hainan Province is a coastal city and has the potential to become an international city in the future. If the local housing industry economy continues to decline, it may affect the entire Chinese economy. In addition, even if the decline of houses increases people's purchasing power, if many people buy houses and the mortgage ratio of some banks is too high, banks will face many risks.

Last but not least, under China's current economic situation, lowering housing prices will not improve people's purchasing power. For those who buy many houses, the decline in house prices is accompanied by higher taxes. House prices or stock prices are mutually dynamic and affected by today's economic shocks [11]. The interaction of factors such as supply and demand, loan interest rates, government policy regulation, and investment sentiment and expectations determines the trend of house prices. Loose monetary policy, rising personal income, and positive investment sentiment may drive up house prices. On the contrary, the decline in personal income, government regulatory policies, and an uncertain economic environment may lead to a decline in house prices. In recent years, due to the impact of COVID-19, the economy has declined rapidly, and consumption in various markets has been declining rapidly. In the first quarter of 2020, China's per capita consumption expenditure actually fell by 12.5% compared with the same period last year, and China's GDP fell by 6.8% compared with the same period in 2019, of which final consumption expenditure drove GDP down by 4.4 percentage points [12]. People's wealth has been so low that they can't recover quickly in a short time. For low-income people, falling house prices are accompanied by more problems and higher risks. Finally, many people are satisfied with the status quo and basically won't buy more houses.

6. Conclusion

According to the integration of existing information and empirical evidence, it is obvious that in the context of contemporary society, the income level of individuals has declined significantly. This decline is affected by various factors, including the reform of tax policies and the profound impact of the COVID-19 epidemic on the global economy, including China. At the same time, the ability of the real estate sector to maintain its value has declined, thus hindering the purchasing power of individuals. Although the real estate market has shown resilience and has gradually recovered from the initial impact of the epidemic, the lingering impact and uncertainty continue to affect the purchasing power of individuals. The interaction between income levels, the ability of real estate to maintain value, and the broader economic impact of the epidemic requires a comprehensive review of many factors affecting the relationship between China's housing prices and economic growth. The reform of personal taxation has affected people's income. The increased tax has caused people's income to be limited. Some of the documents quoted are several years away from today, so there will be deviations in the data. Future research will need to read more literature in future papers, quote more useful materials in papers, and use more academic forms.

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