

Analysis and Suggestions on Real Estate Stock Problem in Shanxi Province

Qiyang Zhang^{1,*} Zhaoqi Peng²

¹School of Economics and Management Beijing Jiaotong University, Beijing, China.

²School of Economics and Management Beijing Jiaotong University, Beijing, China.

*Corresponding author. Email: 17120747@bjtu.edu.cn

Keywords: *real estate, national land market, real estate stock*

ABSTRACT. The real estate industry as a high-yield industry has a strong appeal to investors, but high returns are often accompanied with high risks. The real estate industry isn't an exception, because its investment is large, the investment return cycle is long and the product is real estate. At the same time, rolling development and other characteristics make risk increased. The management of the real estate industry in China strengthen and the national land market has been rectified, related laws promulgated by the state to regularize the behaviour of main market players, however there are still many problems. Real estate as a pillar industry of China is under pressure, China's real estate inventory is increasing and real estate demand is very weak, so these problems will affect social and economic development. These problems also exist in Shanxi Province, therefore this paper will analyse the real estate inventory situation of Shanxi Province and find problems about excessive real estate inventory. Finally the paper offers some constructive suggestions to destock real estate inventory of Shanxi Province.

1. INTRODUCTION

In recent years, the world economy is still generally weak but gradually recovering. Investment and trade between countries have decreased, economic growth has been insufficient. Meanwhile global economic environment turmoil will affect economic development prospects.

Compared with the dissatisfaction of the global economy, China's economic development appears to be vigorous. In 2014, China's economy shows a "new normal" trend on structure. The overall economy is rising steadily, the industrial structure is upgraded, and the driving force is gradually changed from investment and factors to innovation[1].

Since 2008, China's real estate prices have been rising which led to serious "real estate bubble"[2]. Related departments have issued a series of policies to curb the real estate market, financial market and land market. Although problems such as tight capital, insufficient land supply and low consumer psychological expectations appeared in the real estate reform at this time, the high level of real estate attracted a large amount of investment to enter the market and the relative demand was slightly insufficient. In order to promote the good development of the real estate industry, the implementation of the destocking strategy is imminent. The state pays great attention to real estate destocking. Comrade Xi Jinping hosted a meeting on the morning of November 10 this year and made the plan to reduce real estate inventory and promote the stable operation of the national economy, we should take the market as the main body and develop a variety of real estate products in response to the market's multiple needs. At the same time, the government should provide corresponding policies and financial support. In 2017, Premier Li Keqiang mentioned in the government work report that China's current real estate inventory is mainly concentrated in small and medium-sized cities. To dissolve the inventory, residents should be encouraged to purchase self-occupied housing and improved housing. When housing prices in some cities are rising rapidly, the government should play its regulatory role to reverse the trend of rising housing prices and regulate the intermediary behavior of corporate financing.

2. Real Estate Inventory Status in Shanxi Province

The production process of commercial housing is mainly divided into four stages: transferring undeveloped land, starting construction without obtaining pre-sale permission, starting construction and obtaining pre-sale permission and completion[3]. The real estate inventory refers to finished real estate products that generally have a relatively mature form[4]. This article defines real estate inventory as the sum of inventory of existing homes and off-plan properties.

From Table1, we can see that in 2015, China's commercial housing sales area was 71.853 million square meters, off-plan housing sales area was 2.51 billion square meters, total real estate inventory was 3.233 million square meters and the average real estate house price reached 6,792 yuan. The overall level of real estate inventory is high and the average house price is also high. In 2016, China implemented loose fiscal and monetary policies in order to reduce high real estate inventory. Therefore, the real estate destocking effect was significant last year. Table1 is the relevant information of China's real estate released by the National Bureau of Statistics in recent years. In 2016, the area of commercial real estate sold in China was 69.95 million square meters. The inventory de-removal cycle was 8.9 months, and the real estate inventory decreased by a large margin.

Table 1 2011-2016 China Real Estate Inventory Status Data Table

Time	Commercial housing for sale(billions)	Commercial housing sales area(billions)	Stock removal cycle (month)
2011	27194	109367	7.2
2012	36460	111304	6.7
2013	49295	130551	7.3
2014	62169	120649	7.9
2015	71853	128495	9.7
2016	69095	157349	8.9

In the past 20 years, the growth of real estate investment in Shanxi Province has exceeded expectations, and the speed is amazing. In 2011, the completed area of real estate in Shanxi Province reached 2.1043 million square meters, the sales area of commercial buildings reached 1.284 million square meters and the floor space of houses for sale was 6.486 million square meters. The average house price in the province was only 3,433. The price was lower than the national average. The market is developing well. From 2011 to 2015, the real estate investment in Shanxi Province increased significantly. The area of completed area does not change much each year, but the sales area has steadily increased. In the past five years, the sales area has increased from 12.847 million square meters to 15.928 million square meters. It increased by 23.97%, which also reflected from the side that the real estate development in Shanxi was in full swing and a large number of people poured into the real estate market, which also led to a substantial increase in the supply of the real estate market. The area of real estate for sale also increased from 6.486 million square meters to 18.16 million square meters from 2011 to 2015. Imbalances will hinder the healthy and stable operation of the economy. The area of real estate for sale in the country during the period of 2011-2015 also increased by 164.22%, which is the same as the increase in the area of real estate for sale in Shanxi Province.

In 2016, all relevant departments of Shanxi Province attached great importance to real estate destocking, adhered to Chairman Xi's supply-side reform as the main line, coordinated the work of various departments and implemented a series of favorable policies of the central government.

In 2016, the area of housing sales in Shanxi Province maintained a substantial increase and the increase was so large that the total area of commercial housing for sale decreased by 555,000 square meters compared with the end of 2015. Most of Shanxi are second-tier cities and third-tier cities, real estate inventory is mainly concentrated in second-tier cities and third-tier cities. Therefore, the digestion cycle of real estate inventory in Shanxi is generally higher than the national average. However, after the implementation of the 2016 active destocking policy, Shanxi's destocking cycle was shortened from 13.7 in 2015 to 10.3 months.

In 2016, the national real estate inventory fell by 3.84%, while Shanxi's real estate inventory fell by 5.37%. In comparison, Shanxi's inventory decline was higher than that of the whole country, but other data showed that the status of destocking is still severe. In 2016, the scale of housing construction in Shanxi has increased significantly. From Table1, it can be seen that the completed area of commercial housing is 9.7 times the area of commercial housing for sale in the province, which is twice as high as in 2015. In addition, the new construction area of real estate in Shanxi Province was 38.548 million square meters, which was 327,000 square meters more than the area of commercial buildings for sale. All the above data shows that Shanxi's "destocking" road has a long way to go.

3. Problems Caused by High Real Estate Inventory in Shanxi Province

3.1. High stocks exacerbate downward economic pressure

As the main driving force of China's economic growth, investment has played an important role in promoting economic development. In fixed asset investment, real estate investment exceeds 20% and it will also lead to rapid increase in investment. Therefore, the real estate industry plays an important role in our economy.

Investment-driven economic growth accounts for a large part of economic development. At the same time, the high inventory situation in real estate market and the pressure of enterprises' funds have led to a decrease in demand for land and in new real estate development[5].

Table2 shows the situation of real estate investment and GDP in Shanxi Province. Shanxi Province's GDP growth rate has been decreasing year by year, and fixed asset investment accounts for a large proportion of this. When the growth rate of real estate investment slowed down, the GDP growth rate of Shanxi Province also slowed down, so it was found that real estate investment and GDP promoted each other.

Table 2 Real estate investment and GDP in Shanxi

Time	Investment in fixed assets (billion yuan)	Real estate investment (billion yuan)	GDP growth rate (%)
2010	6352.6011	900.3350	
2011	7373.0582	790.1982	22
2012	9176.3142	1010.4513	7.8
2013	11200.2376	1308.6275	4.04
2014	12354.5298	1403.5549	1.26

3.2. High inventory restricts the development of the real estate industry

The normal reproduction process of the real estate industry is blocked and the growing unwilling inventory of real estate has affected the normal reproduction cycle of the real estate industry, which has increased the pressure on developers' capital flows[6]. Since June 2014, the proportion of sales about existing homes has increased significantly and the share of off-plan sales has decreased year-on-year. The sales structure has changed and it has greatly affected the capital turnover of real estate companies. Therefore, development enterprises can reduce the amount of capital and land acquisition.

3.3. High inventory causes increased local fiscal pressure

High real estate inventory hinders corporate capital flows and its assets are real estate, preventing development companies from continuing to purchase land. Since 2014, the growth rate of land purchase area in Shanxi has fallen sharply. The transaction amount of real estate land has also shown downward trend after October 2014. The reduction about land transfers has reduced local government revenue. The pattern of fiscal revenue supported by land has been unsustainable. It is difficult to reverse the decline of the related industries in the real economy, but the construction of related public service facilities is still underway and local governments are stretched[7].

3.4. High inventory increases risk to banking system

Real estate products have good mortgage characteristics, which makes them widely used in bank mortgage loans[8]. And the unique attributes of real estate products and the rising prices make people's investment enthusiasm soaring. In the past ten years, along with the rapid development of the real estate market, financial products and activities have also developed rapidly. Now more and more financial activities are implicated in the real estate market. If house prices fall, the collateral effect of real estate products associated with them will be weakened and financial markets will be turbulent[9]. At present, local finance has a high dependence on land, the financial industry and the real estate industry are closely linked.

4. Causes of High Real Estate Inventory in Shanxi Province

In recent years, real estate inventory of Shanxi, especially unwilling inventory, has continued to increase. On the surface, it is the sluggish sales growth caused by the economic downturn. The underlying reason is the accumulation of contradictions in the real estate industry's own development process.

4.1. Oversupply due to over-development in the early stage

Since the global financial crisis broke out in 2008, China's economic development has encountered a series of challenges. In order to expand domestic demand and promote economic growth, the central government launched a 4 trillion yuan investment plan. Loose monetary and fiscal policies have led to a sharp rise in national housing prices, which has further stimulated investor enthusiasm for investment in the real estate market. In order to curb the excessive increase in housing prices and promote the steady and healthy development of the real estate market, relevant departments in China have introduced relevant regulations to limit speculative behavior in the real estate market. Among them, in order to slow down the rate of increase in house prices in large cities, the central government has also begun to implement housing purchase restrictions on some large cities.

4.2. Weak real estate demand growth

The sales of commercial housing in Shanxi Province has been increasing year by year. From table2, it can be seen that real estate sales in Shanxi from 2011 to 2015 has generally increased, but the growth potential of market demand is not large. In 2016, Shanxi Province promulgated a series of stimulus measures, which led to a substantial increase of real estate sales. Unlike first-tier cities such as Beijing and Shanghai, after the rapid expansion of the real estate market in Shanxi Province in the early stage, demand was overdrawn and affected by the following factors in the later period, it was difficult to resume sales growth.

4.3. Land financial dependence

The land financial dependence is caused by the rapid development of urbanization. The transferred land, especially the urban fringe land, is used for the development of new urban areas. The rapid development of urbanization can be achieved through the extension of the city scale. At the same time, a large amount of land transfer fees can be used for urban infrastructure construction. During the period of rapid development for the real estate industry, local governments did not pay much attention to the transformation of the development mode and the adjustment of the industrial structure during the economic development process. They relied too much on land finance and the real estate industry and suffered from land finance dependence. In Shanxi Province, land revenue has become one of the few stable sources of revenue for local governments. In the face of increasing public expenditure, various measures can only be taken to increase land revenue. In recent years, coal prices have fallen, Shanxi's coal economy has been in a slump and fiscal revenue has been greatly reduced.

5. Real Estate “destocking” Suggestions for Shanxi Province

5.1. Enterprises develop flexible strategies to achieve good development

Development enterprises are the main body of real estate destocking. They should recognize the market situation, take an active action and take proactive measures[10]. First, Shanxi's real estate companies develop flexible marketing strategies based on market demand. Developers should analyze the reasons for the slowdown in real estate sales according to the psychological needs of home buyers and take targeted marketing activities to reduce inventory. For example, we can use garden remodeling and technology to provide services such as community housekeepers, upgrade products and improve products Image. Under the current real estate market situation, Shanxi's development enterprises should reduce investment and land acquisition plans in third- and fourth-tier cities with severe inventory actively. Projects have already entered the development and construction process, they should adjust the development pace and make decisions respond.

5.2. Government departments introduce related policies to encourage home purchases to stimulate demand

The government is an economic manager. In order to maintain stable economic operation and promote the healthy development of the real estate market, the government should take relevant measures to help reduce real estate inventory[11]. First of all, it should stimulate local people or household registration population to meet the needs of autonomous housing. The second is that ordinary housing can be used as affordable housing. The government buys inventory commodity housing in the real estate market as a public rental housing by means of tendering. On the one hand, it can ease the financial pressure of real estate development companies and reduce corporate risks. On the other hand, the construction cycle of affordable housing has been shortened, the government's housing security capacity has been greatly improved. Real estate inventory of third-tier cities and fourth-tier cities in Shanxi is obviously more difficult to dispose of based on the needs of the existing population[12]. It is necessary to develop the needs of new urban population. The most realistic demand is the housing demand of migrant workers.

5.3. Strengthening supervision of the real estate market

Strengthening the supervision of the real estate market can effectively prevent speculation and bad behavior in the real estate market[13]. First of all, it is necessary to strengthen supervision and ensure that information is open and transparent. Relevant departments can establish a network information platform, so that companies can grasp relevant dynamic information in a timely manner, reduce information costs and plan more rationally[14]. Secondly, we need to deepen the credit system and investigate the risks of the capital chain of real estate development companies vigorously.

6. Conclusion

In the development of real estate, the income generated by the real estate economy accounts plays a very important part for the economic aggregates of various countries and the good development of the real estate industry can promote the long-term prosperity of the economy. Therefore, in order to maintain the sustainable development of the real estate industry, real estate inventory should be controlled within a reasonable range to prevent some financial crises caused by real estate inventory problems.

Acknowledgment

First of all, I would like to thank my mentor, Peng Zhaoqi. Without her careful teaching and careful guidance, my dissertation could not be completed so quickly, so I thank the teacher for helping and caring for me. Secondly, I would like to thank all the teachers who have taught me in the university, and thank them for their tireless and conscientious knowledge of the professional courses and the

truth of being a person, so that I can become more plump and participate in future work and study more smoothly.

References

- [1] Li Jianfei, Shi Chenyu. The impact of China's bank credit on the fluctuation of real estate prices [J]. *Journal of Shanghai University of Finance and Economics*, 2005 (2): 26-32.
- [2] Liu Shuixing. Brief analysis of Hainan's real estate bubble crisis [J]. *Times Finance*, 2006 (11): 32-33.
- [3] Lu Fengling. Contradictions in real estate prices and changes in land management models [J]. *Price Theory and Practice*, 2012 (11): 32-33.
- [4] Ji Daolin. Basic Judgment and Suggestions on Hainan Real Estate Market, 2004 (1): 43-45.
- [5] Niu Li, Hu Zuyi. China's Real Estate Inventory Status and Destocking Suggestions [J]. *Development Research*, 2016 (4): 51-57.
- [6] Wang Ziming. Non-equilibrium analysis of bubble and bubble economy [M]. Beijing: Peking University Press, 2011: 38-42.
- [7] Wang Xuefa. Study on the Demand Motivation and Regulation Countermeasures of China's Urban House Price Rising [J]. *Price Theory and Practice*, 2007 (4): 41-42.
- [8] Wu Heli. Challenges of Hainan Real Estate Development [J]. *China Finance*, 2005 (9): 39-42.
- [9] Xiang Weimin, Wang Shuang. Real estate "destocking" and corresponding orientation [J]. *Reform*, 2016 (6): 111-119.
- [10] Xing Yue, Feng Suosen. Hainan's real estate investment and house prices return to maturity and rationality [J]. *China Finance*, 2005 (8): 32-35.
- [11] Xu Yong. Countermeasures to resolve real estate inventory. *Journal of the Party School of CPC Shijiazhuang Municipal Committee*, 2016 (6): 31-34.
- [12] Yan Jinhai. Housing and Land Price in China: Theoretical, Empirical and Policy Analysis [J]. *Research on Technical Economy and Quantitative Economy*, 2014 (1): 17-26.
- [13] Zhang Cenyao. The Impact of Local Government's Intervention on Urban Real Estate Price: Double Pressure Hypothesis [J]. *Journal of Dongbei University of Finance and Economics*, 2016 (5): 32-35.
- [14] Zou Shinian. De-stocking in the real estate market needs precision [J]. *China Price*, 2016 (4): 56-58.