

# Research on the Impact of COVID-19 on China's Real Estate Industry

SONG Huatai<sup>1,\*</sup>

<sup>1</sup>School of Ocean Sciences, Sun Yat-sen University, Zhuhai, Guangdong 519082, China

\*SONG Huatai. Email: wangqixin3@126.com

## ABSTRACT

China's macro economy is greatly affected by the COVID-19 epidemic (hereinafter referred to as "C19E"), and due to the spread of the epidemic abroad, the Chinese economy will still be affected by the global epidemic after the domestic epidemic is controlled. In the short term, the outbreak of the C19E will have a strong impact on the Chinese real estate (hereinafter referred to as "R-E") market. R-E sales and construction have almost stalled, and the pressure on R-E companies' funds has increased, and the R-E industry will accelerate integration; in the medium and long term, as the domestic epidemic situation changes Well, the R-E industry recovered quickly, the market gradually recovered, and some markets experienced overheating. Due to the changes in housing values in the market, residents will pay more attention to the quality of housing, and the urban circle with first-tier cities and second-tier cities as the core has both population and industrial advantages, and it is easier to create a good living environment. Therefore, in the future, first-tier cities and second-tier cities R-E will remain the main focus of the market.

**Keywords:** C19E, R-E industry, impact research

## 1. INTRODUCTION

The C19E is a major public health emergency with the fastest spread, the widest range of infections, and the most difficult prevention and control since the founding of the People's Republic of China. The R-E industry, as a relatively heavy industry in China's economy, is also greatly affected by the epidemic. However, because the foreign epidemic has a relatively small impact on the domestic R-E market, the impact of the epidemic on the Chinese R-E industry can be divided into two stages: 1. This is the stage where the domestic epidemic is severely closed, and the second is the recovery stage of the domestic epidemic under control.

In the first stage, affected by the domestic epidemic, the R-E industry entered a period of dormancy, sales of R-E development enterprises were suspended, and transactions in the R-E market reached a freezing point. In late January, the China R-E Association issued an initiative to member units and the entire industry to temporarily suspend sales activities at sales offices and resume after the epidemic. Statistics from the Centaline R-E Research Center show that since late January this year, the transaction volume of most developers has plummeted by 95% compared to previous years during the Spring Festival. The report released by the Crane

Research Center shows that in January 2020, the top 100 R-E companies achieved sales of 509.75 billion yuan, and the overall performance scale fell by nearly 12% compared with the same period last year. The land market has also continued its low operating trend since 2019, and the land transaction volume in January has declined significantly compared with the cyclical peak in December 2019. The land acquisition sales of the top 100 R-E companies continue to decline. The land acquisition sales ratio in January 2020 is only 0.27, which is far from the highest point in 2017, reflecting the extreme caution of most R-E development companies in acquiring land.

In the second stage, due to the obvious effect of domestic epidemic control, the R-E industry entered a recovery period, suppressed market demand was released, and the R-E market continued to rise. According to a report released by the Crane Research Center, first-tier cities sold 1.53 million square meters (hereinafter referred to as "MSM") in March, 2.28 MSM in April, and 2.71 MSM in May, representing an increase of 206%, 37%, and 30% from the previous month, and a year-on-year decrease of 39%, 10%, 17%; The sales area in second- and third-tier cities was 13.89 MSM in March, 21.55 MSM in April, 22.52 MSM in May, an increase of 31%, 44%, and 30% from the previous month, and a decrease of 31%, 4%, and 0% year-on-year. Data from

the National Bureau of Statistics show that from January to May, the country's commercial housing sales were 487.0297 MSM, a year-on-year decrease of 12.3%, of which residential area fell 11.8%, and the year-on-year decline continued to narrow. The land market has also begun to slowly recover. According to data from the National Bureau of Statistics, the cost of R-E land purchases from January to May of 2020 is 1.528.693 billion yuan, a year-on-year increase of 5.4%.

Based on the above analysis, this article will analyze the impact of the epidemic on China's R-E industry and propose policy recommendations for the development of the domestic R-E industry, with a view to providing references for the Chinese R-E industry to overcome the impact of the C19E and promote sustainable development.

## **2. LITERATURE REVIEW**

### ***2.1 Analysis of influencing factors of China's R-E industry***

The influencing factors of the R-E industry are multifaceted and complex, so domestic research on the influencing factors of the R-E industry is also multi-angle and multi-directional. Zhang Zhao and Chen Wuwu (2009) analyzed the fluctuations of China's R-E industry based on demographic factors, predicting that with the advancement of China's urbanization process and the increase in the new urban population, the demand for rigid housing will reach its peak in 2020 and then decline due to the decline in the population base, and judged that the aging trend of China's population will reduce the ability of residents to purchase houses in the future, and the residents' demand for improved housing will decrease due to the intensification of the aging process of the social population [1]. Tang Xiaofei et al. (2014) summarized five factors that affect the future trend of China's R-E industry through literature review: first, the government's positioning of the R-E industry in the development of the national economy; second, the R-E developers' target positioning of the R-E industry; It is the changes in consumer investment channels; the fourth is the development of alternative industries in the R-E industry; the fifth is the impact of the development trend of the R-E industry on the economic and social development goals of the Chinese government [2].

The buying and selling of R-E is the main content of the R-E industry. Therefore, changes in R-E prices can largely reflect economic fluctuations in the R-E industry. Many domestic scholars have conducted research and analysis on the influencing factors of Chinese R-E prices. Wang Wenbin (2010) analyzed the formation mechanism of R-E price fluctuations under the macro-analysis framework of the stock-flow model, and concluded that the expected methods and speculative behaviors of economic actors are important factors that determine R-

E price fluctuations [3]. Hao Danlu (2014) qualitatively analyzed the influencing factors of R-E prices and divided the many factors that affect R-E prices into three categories. The main factors affecting R-E supply, the main factors affecting R-E demand, and the main factors affecting both at the same time, respectively It is the development cost, the number of consumers and income, government policies and the natural environment, and the gray correlation analysis is used to explore the degree of influence of variables on R-E prices. The results show that the variables at the supply level have the greatest correlation with R-E prices and have the deepest influence [4].

### ***2.2 The impact of COVID-19 on China's economy***

Regarding the impact of the C19E on China's economy, scholars have recently made a literature analysis on this. From the perspective of production law, Liao Maolin and Zhang Mingyuan (2020) estimate the impact of the C19E on economic growth and the negative impact on GDP growth by industry. It is expected that the impact on China's three major industries in 2020 will be slight in the first quarter, the GDP growth rate of the primary industry was less affected. In the first quarter, the GDP growth rate of the service industry was about 0% year-on-year, and an analysis was made to support the recovery and development of China's economy by the "new infrastructure" policy [5]. Wu Tingting and Zhu Angang (2020) conducted a comparative analysis of the C19E and the SARS epidemic. Based on the scope of the epidemic and the situation in China at the time of the epidemic, they concluded that the C19E has a greater negative impact on the Chinese economy. This epidemic will cause the global production system to shut down, which will have a negative impact on economic globalization, and then affect the development of China's economy [6]. Zhiyan and Luo Changyuan (2020) examine the impact of the C19E on China's economy from the regional, industrial, macro and micro dimensions, as well as long-term (hereinafter referred to as "LT") and short-term (hereinafter referred to as "ST") dimensions, and conclude that industries in severely affected areas will seriously affect the national industrial chain such as automobiles The industry and the service industry will be severely impacted, and the impacted consumption will have a stronger impact on the growth of the entire economy and there will be downward pressure on the Chinese economy in the ST, but the conclusion that it may give China's economy a "structural" upgrade opportunity in the long run [7]. According to data from the National Bureau of Statistics, the GDP in the first quarter of 2020 decreased by 6.8% compared with the same period last year.

### **2.3 The impact of the C19E on China's R-E industry**

To study the impact of the C19E on China's R-E industry, we need to analyze it based on time. Because the epidemic is a ST phenomenon. According to the severity of the epidemic in China and related policies, it will also have different impacts on the R-E industry. The impact of the epidemic is divided into ST impact and LT impact to analyze. As for the impact of the epidemic on China's R-E, it is mainly studied from the two fundamentals of supply and demand.

Analyzing the ST impact of the epidemic on China's R-E industry, most domestic scholars have a unified concept. They all believe that affected by the epidemic and strict prevention policies, R-E companies will face huge financial pressures, and R-E investment, land transactions, and new construction areas have been greatly suppressed. The supply of commercial housing has fallen sharply, and the demand for housing purchases has also fallen sharply. Qiu Hongquan (2020) collected R-E consumption data by Chinese households during the epidemic through a questionnaire survey, and constructed an orderly ternary Logit model for analysis. The research results showed that after the outbreak of the C19E, residents' willingness to purchase R-E was significantly weakened and their purchase tendency increased. Reduction, which has an immeasurable negative impact on residents' willingness and behavior to purchase R-E [8].

Regarding the LT impact of the epidemic on China's R-E industry, it is widely believed in China that the Chinese R-E market will continue to adhere to the policy of "no speculation in housing and housing" and three stability policies. Based on the impact of the epidemic, Zhao Dongmei (2020) analyzed that residents' awareness of buying houses will change after the epidemic is over, paying more attention to the living environment and medical conditions, and the government will introduce favorable policies for R-E, but still focus on stabilizing housing prices [9]. Zhong Wei (2020) believes that after

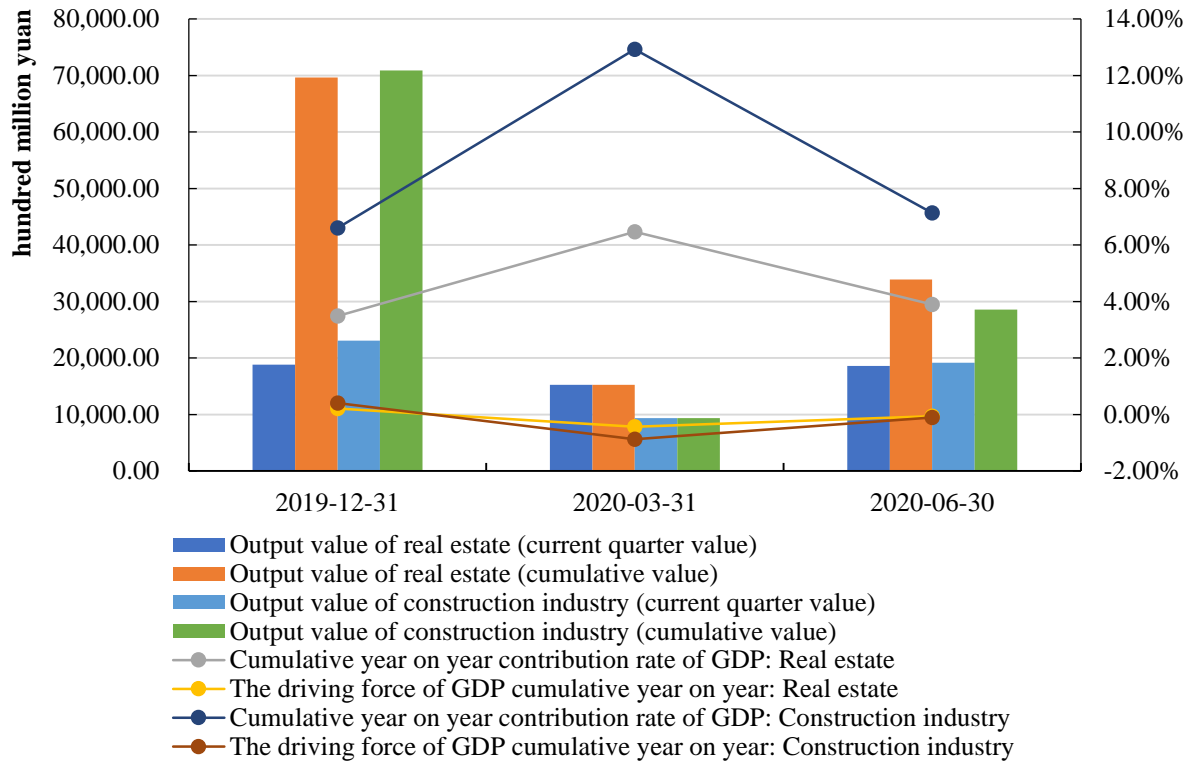
the outbreak of the epidemic, residents will pay more attention to housing quality. Therefore, the concepts of green housing, low- and medium-density housing, and second housing will be improved, and the market for housing with ultra-high plot ratio in densely populated megacities will decrease [10].

In general, this article integrates the research literature on the impact of the C19E on China's R-E industry, and analyzes the R-E industry data during the epidemic period, trying to use a more comprehensive analysis to explore the development of the Chinese R-E industry under the impact of the C19E path.

## **3. ANALYSIS OF THE IMPACT OF THE C19E ON THE R-E INDUSTRY**

### **3.1 The macro impact on the R-E market**

From a macro perspective, the GDP growth rate and value of growth have fallen, and the per capita disposable income of residents has fallen, which has delayed residents' demand for housing purchases. It can be seen from Figure 1 that in the first quarter of 2020, the R-E industry output value was 1526.83 billion yuan, a decrease of 18.78% from the previous quarter's output value; the cumulative year-on-year contribution rate to GDP was 6.46%, an increase of 2.97% from the previous quarter; The cumulative year-on-year pull of GDP was -0.44%, a year-on-year decrease of 0.65% from the previous quarter. However, as the epidemic eases, all walks of life across the country have begun to resume work and production in an orderly manner, people's lives have returned to normal, and the delayed release of demand for home ownership will gradually return to the market. In the second quarter of 2020, the R-E market recovered rapidly, with an output value of 1859.36 billion yuan, a year-on-year decrease of 18.78%; a cumulative year-on-year contribution rate to GDP of 3.89%, a year-on-year decrease of 2.57%; a cumulative year-on-year pull to GDP of -0.06%, a year-on-year decrease increased by 0.38%.



**Figure 1** The contribution rate of China's R-E and construction industry to GDP since the epidemic

On the other hand, the country's policy regulation in response to the epidemic will have a greater impact on the R-E market. The central policy insisted not to use the R-E market as a ST economic stimulus. At the beginning of the year, the R-E market regulation policy focused on stabilizing the market. The central bank's work conference first proposed a "LT management and regulation mechanism for R-E finance", emphasizing normalization, initiative, and two-way. At the same time, under the influence of the epidemic, the R-E market in various tier cities in the ST is facing outstanding adjustment pressure. Subsequently, macroeconomic policies increased counter-cyclical adjustments. On April 17th, the central government raised the issue of "no speculation in housing and housing", and "no speculation in housing and housing + policies in accordance with the city + three stability" will constitute a stable new normal. And with the improvement of the epidemic prevention and control situation, the R-E market has quickly recovered, and the main indicators have remained stable and positive, and have taken the lead in digesting the impact of the epidemic. During the recovery of the R-E market, some cities, such as Shenzhen, experienced overheating in the R-E market, and regulatory policies began to upgrade. After the epidemic prevention and control entered the normalization stage, the central

government continued to adhere to the policy of "housing to live without speculation", and at the same time, local governments were flexible and precise "implementing policies according to the city" to ensure the smooth operation of the R-E market. It is estimated that in the latter part of this year, the R-E market in cities across the country will maintain a basic trend of overall stability and improvement and partial differentiation.

### 3.2 Impact on R-E transaction prices

The outbreak occurred on the eve of the Spring Festival. Affected by the C19E, in early February, most provinces and cities in China temporarily closed the sales activities of sales offices and housing intermediaries, and R-E sales were almost stagnant, as can be seen from Figure 2, The national urban second-hand housing sales index also dropped to the lowest. In contrast, the second-hand housing market can better reflect the actual situation of changes in housing prices in various places due to the influence of price restrictions, sales restrictions, and structural factors in the price of first-hand housing. Therefore, regarding the impact of the C19E on China's R-E transaction prices, this article analyzes the second-hand housing market transaction data in China's large cities.



**Figure 2** Data on second-hand housing transactions in Chinese cities since the ep

Since the outbreak, as of the end of June, the sale and listing prices of second-hand houses in first-tier cities, second-tier cities, third-tier cities, and fourth-tier cities have all shown an upward trend (see Figure 2). Rise, and the year-on-year growth rate gradually expanded. From the perspective of cities of different magnitudes, first-tier cities just need sufficient funds to superimpose the influx of safe-haven funds, and housing prices are rising significantly, followed by second-tier cities, while third- and fourth-tier cities are gradually unbalanced due to the gradual imbalance of supply and demand, and the growth rate of population inflow is gradually falling short of market supply. Growth, the upward trend of housing prices is not obvious, and even some cities housing prices have declined. Apart from the regional differentiation of housing prices caused by changes in domestic industries and demographics and the impact of policy regulation, the C19E has intensified the demand for R-E markets with good living conditions and complete supporting facilities, such as first- and second-tier cities.

### 3.3 Impact on R-E construction

The impact of the C19E on China's R-E construction is mainly divided into two aspects. One is the impact on the construction of R-E buildings, and the other is the impact on the construction mode of R-E and residential buildings.

According to data from the National Bureau of Statistics, from the perspective of construction, from

January to June, the country's total housing construction area was 7.92 billion square meters, an increase of 0.3 percentage points from January to May. Among them, the residential construction area was 5.57.76 MSM, an increase of 3.8%. The year-on-year increase in cumulative construction area reversed the downward trend and began to rise. A total of 970 MSM of floor space started for housing, of which 710 MSM of floor space started for residential buildings, were down 7.6% and 8.2% respectively over the same period last year. The rate of decrease of floor space for housing starts narrowed by 5.2 percentage points. Since 2020, the number of new constructions starts has continued to show negative growth year-on-year, but the year-on-year decline has continued to narrow. In terms of completions, as of the end of June, the floor space of houses completed nationwide was 290 MSM, of which 206 MSM of residential buildings were completed, down 10.5% and 9.8% year-on-year, respectively. Among them, the decline in floor space of houses completed narrowed by 0.8%, but it was still very significant. From the above data, it can be seen that the impact of the C19E is gradually decreasing. From the significant decline in the year-on-year growth rate of new construction and completion in the first quarter, the decline has been significantly narrowed, and the housing inventory in the R-E industry will gradually return to normal.

In the post-epidemic era, affected by the LT home isolation of the epidemic, the market's values of housing have changed, and residents have paid more attention to

the quality of housing. Consumers have a clearer demand for housing product upgrades. In addition to conventional decision-making factors, "healthy" value will become a more important indicator of residential purchases.

## 4. CONCLUSION

### 4.1 Research conclusion

In the ST, the outbreak of the C19E will have a strong impact on the Chinese R-E market. R-E sales and construction have almost stalled, and the pressure on R-E companies' funds has increased, and the R-E industry will accelerate integration; in the medium and LT, as the domestic epidemic situation changes Well, the R-E industry recovered quickly, the market gradually recovered, and some markets experienced overheating. Due to the changes in housing values in the market, residents will pay more attention to the quality of housing, and the urban circle with first-tier cities and second-tier cities as the core has both population and industrial advantages, and it is easier to create a good living environment. Therefore, in the future, first-tier cities and second-tier cities R-E will remain the main focus of the market.

### 4.2 Recommendations based on research conclusions

Based on the above conclusions, in order to alleviate the negative impact of the C19E on the R-E industry and maintain the healthy and stable development of the R-E industry, this article puts forward some suggestions. As all aspects of production and markets have entered the recovery period after the epidemic, some markets have experienced overheating. Therefore, R-E financial supervision still needs to be tightened to curb ST speculation and market overheating. The R-E industry should continue to insist on "Live without speculation" and the Three Stability Policy to stabilize the R-E market. However, the huge market size of the R-E industry will remain a stabilizer for the development of the entire national economy for a long period of time. Therefore, the purpose of policy regulation is to stabilize the property market rather than suppress the property market. Local governments' "policies based on the city" need to be more flexible. Accurate adjustments based on the time and the situation promote the smooth operation of the R-E market. For current R-E companies, the most important thing is to strengthen market research and judgment, keep abreast of policy windows, and keep up with industry trends to achieve steady development.

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