

The Impact of National Policies on the Real Estate Industry in China

Yanshu Ma^{1,*}, Yifeng Yue^{2,†}

¹ Beijing Private Huijia School, Beijing, 100000, China

² Rosedale Academy, Kunming, 650000, China

* Corresponding author. Email: 23mayanshu@huijia.edu.cn

† These authors contributed equally

ABSTRACT

China's real estate has always been a very important driving force of China's economy. The proportion of real estate investment in GDP increased from 5% in 1995 to more than 13% in 2019, of which more than 70% was used for residential construction. Real estate not only accounts for 23% of household consumption but also connects with all sectors of the economy through investment, construction and financial system. The role of real estate in China's economic growth has been criticized for many years because of high house prices. Getting rid of excessive dependence on real estate has become the direction of many local governments. China's government has imposed a lot of regulations and policies on the real estate industry recently. Moreover, it will affect the price of housing in China and also affect the future development of the real estate industry in China. The characteristics of the real estate industry, the policy, and the influences of the real estate industry and the future expectations of the industry will be discussed in the paper. According to the history of China's real estate development and the latest policies, this paper analyzes the impact of China's new real estate policies on the real estate industry, and the positive promotion of consumers and the emerging real estate industry. Moreover, this paper provides reference suggestions for the future development direction of China's real estate.

Keywords: China Real Estate, Policies, Housing Price

1. INTRODUCTION

1.1. Research Background

In recent years, with the rapid development of the national economy and the deepening of the housing system reform, China's real estate industry has become increasingly mature and perfect. The real estate industry has become a pillar industry and a new economic growth point of China's national economy. At the same time, the real estate market in some cities has overheated, which is manifested in the unreasonable and continuous rise of prices, the coexistence of insufficient and excessive effective supply of real estate commodities, non-standard market operation, and the increasing speculative demand for real estate. These problems not only threaten the security of real estate finance but also have a profound impact on the lives of the people and the healthy operation of the national economy. To this end, since the second half of 2003, the Chinese government has decisively taken a series of macro-control measures

against the rising house prices and the rapid growth of real estate investment. However, after more than five years of regulation and control, the problems existing in the real estate market have not been fundamentally improved. Some cities still have problems such as the continuous rise of house prices and the imbalance of real estate supply and demand structure. Under this background, this paper deeply analyzes the effect of macro-control policies in China's real estate market, explores the deviations and problems in its development process, and correctly grasp the timing and direction of regulation.

1.2. Related Research

China is a classic housing bubble, and in recent years, housing prices is increasing dramatically. The Chinese government plays a critical role in the China real estate industry and housing markets. The government is trying to restrict the supply to maintain prices close to the current market level. The alternative for the Chinese

government is to accommodate high levels of construction and housing supply. After we have shown, there may have low or negative returns to investment in housing. There will be a rise in potential new buyers, but current owners will suffer losses [1]. Through the examines of the emerging housing policy framework in China, which includes 3 major affordable housing programs and frequent regulation of the housing finance sector. The previous studies revealed that after thirty years of reforms, China has It has achieved great success in its residential sector. The living conditions of most urban families have been significantly improved. The housing industry has also become the main contributor to the country's economic growth. despite this success, China's emerging housing policy framework has also faced major challenges [2]. As the expanding and the developing of China's city land policy and the land market and the real estate industry policy. there is a significant effect on the real estate market in China. The real estate market in China is transitioning from a planned economic era to a market-driven economy with the following 2 features. 1. Urban city's land supply is not a complete market supply. 2. The real estate market is very complex in China [3].

It is difficult to evaluate the risk of the China real estate market. There are limited information and data to refer to when evaluating and analyzing. In addition, through the investigation of the unbalance between demand and supply, the following conclusion can be drawn. First, there is substantial heterogeneity in the volume of supply-demand imbalances across markets, both over time and in the shorter run. Second, The cities on the east coast like Beijing, it has the problem of surplus (the supply over its demand). It's risky. Third, even markets such as Beijing with strong measured fundamentals should be considered risky because housing units there trade at very high multiples of rent [4]. The Chinese economic reform is gradual, incremental, and experimental. Looking back at the evolutionary process of China's cities development. The pros and cons are both occur on the intervention of the government to the land supply. For beneficial, it greatly promotes the local expensive infrastructure's construction income and financing. The fact that land supply is now more responsive to land demand is evidence of a gradual learning curve on government response to the market. Nevertheless, the government has a long and arduous way to make land supply respond to market demand and city development more effectively and efficiently [5].

China's real estate development is very rapid, but also young immature, house prices also caused many problems at the same time, the rapid growth of China's housing price index is mainly based on the secondary market of housing transaction data, but it may not suitable for the new housing market, current China's real estate market is facing huge risk pricing errors [6].

China's house prices have been high, but not the price of each region is the same, different parts of the housing land production index, due to the flourishing degree and land quality, is the nature of the growth differences, but in recent years, the general trend is soared in value, not only exists in the coastal developed cities, exist in the typical national market, this is caused by many different factors, Volatility is high. In recent years, both quantity and price have increased sharply, and some characteristics of local political and economic policies will also affect it. For example, the time when local leaders of the Communist Party of China take office is also related to land supply [7]. China's housing price and the economy through experiments, there is no major stable relationship. Since the government began to through the macroeconomic regulation and control real estate, real estate prices have deviated from the basic rules of economy, real estate and the relationship in the economic basic mechanism is distorted. Especially the land policy has a positive effect on prices for real estate finance mortgages, but has a negative influence for the supply of land [8].

1.3. Objective

The real estate industry takes a large proportion in the Chinese market nowadays. The objective of this research is to find out the impact and the influences of the policy published by the Chinese government on the real estate industry in China. In addition, using the current data and data before to investigate the potential influence and the Impact on the financial aspects of the real estate industry. This paper evaluates the effectiveness and feasibility of related policies in China's real estate industry. It also explores the relationship and correlation between government policies related to the discovery and the development of China's real estate industry, and the impact of China's latest bank lending policies on China's real estate price growth dynamics by adjusting long-term benchmark bank lending rates, money supply growth, and mortgage policy indicators. Expansionary monetary policy tends to accelerate subsequent house price growth, while restrictive monetary policy tends to slow subsequent house price growth. China's monetary policy actions are a key driver of changes in property price growth in China, and hot money flows have no significant impact on changes in property price growth after controlling money supply growth. Finally, a bullish stock market tends to accelerate subsequent house price growth [9]. Pressure from the real estate market has become a burden on the healthy development of China's social economy. Although the Chinese government has launched many policies to strengthen control, the effect has not reached the expectation, because the administration without external constraints is not reasonable, and the supervision of real estate policy aims to ensure the effectiveness of the main objectives of the link and prerequisite [10].

2. CHARACTERISTIC OF CHINA'S REAL ESTATE STRUCTURE

2.1. The relationship and its particularity between China's real estate and the national economy

As the pillar industry of the national economy, real estate occupies an important position in the process of economic development. At the same time, the real estate industry is also a relationship is a basic industry of national economy and people's livelihood, is closely related to the social production and people's life, the real estate industry in China regional market concentration is higher, the product differentiation is obvious, but in the real estate industry's rapid development at the same time, the problem such as real estate investment overheating and rising house prices has become the focus of attention, especially in recent years, Country to solve these problems and implementation of a series of macro-control policies, did not achieve the desired effect, urban land prices are still rising, although house prices continuous rapid increase of real estate industry has a natural heterogeneity characteristic, as a result of the real estate industry in our country is not yet mature, policy influence on the legal system, and belongs to regional oligopoly market. Because of the regional monopoly of the real estate market in China, the price competition in the real estate market is mainly monopoly pricing, while the non-price competition is mainly concept differentiation, service differentiation, and brand differentiation. The oligopoly of the real estate market affects the normal competition activities in the market, and the failure of market regulation will eventually affect the long-term healthy development of the real estate market and the improvement of residents' welfare levels. The characteristics of real estate determine that China's real estate market is an imperfect competition market, and the experience of developed countries or regions proves that oligopoly competition is a mature market structure type. Therefore, the oligopoly market structure is the ultimate trend of the development of China's real estate market, and only when a stable oligopoly market structure is formed, can we control the development of housing prices to a reasonable trend.

2.2 Factors affecting and hindering the development of China's real estate

However, the regional oligopoly market structure of China's real estate industry is still in a relatively low stage, with poor market stability, low market concentration, insignificant economies of scale, lack of effectiveness of competition, and the market's resource allocation function cannot be fully played. Therefore, the future change and development trend of China's real estate market structure lies in overcoming these problems. The market structure of any industry has a

process from low level to the high level, and the real estate industry also has to go through such a development process. Since the development history of China's real estate industry is relatively short, the market development is not mature, the market system is not perfect, and the market players are basically in a state of small scale and disorderly order, so the process of market structure optimization will be relatively long.

Due to the characteristics of virtual management, high debt, and regional market, China's real estate industry has barriers in necessary capital quantity, scale economy, technology, and product differentiation, and the main barriers lie in government policies. Due to the scarcity of land and the characteristics of real estate such as high added value, long cycle and complex transaction process, the limited openness of real estate, and China's market economy still exists to a certain extent. As a result, the obstacles to policy covering all issues and disrupting market order to some extent are more pronounced in China.

China's urban land supply is seriously out of control, and the degree of competition in the land transfer market is relatively poor. At present, the land system of classification quota system of examination and approval of the central control has strong in the vast land trade, but as for the enforcement of local government, driven by the interests of increasing fiscal revenue and, tend to take for a small group, illegal land leasing, to achieve regional group interests. Secondly, the government departments in charge of the industry on low demand. Moreover, the government's supervision of real estate enterprises' technical strength, land development period, and project development funds is not in place. The defects of these systems and policies give opportunities to some real estate enterprises with insufficient development qualifications, weak risk resistance ability, and low technical content, thus disturbing the order and rules of the real estate market to some extent.

3. THE STATE'S POLICY AND INFLUENCE ON REAL ESTATE

China's real estate industry land regulation and control policies are mainly divided into four stages: 2003-2004, the initial formation of the land policy system, 2005-2007, the preliminary refinement of land policy regulation; 2008-2009, the land policy regulation and control continue to be used; 2010 to present, the policy rich and detailed regulation.

3.1. The four stages of the regulations and the policies change in China's real estate industry

3.1.1. Stricken Management Stage (2003-2004)

The main policy in this stage is to use land supply plans, land transfer methods and land regulatory policies to regulate the real estate market.

3.1.2. Regulation stage (2004-2007)

During this period, China regulates land transfer, clearly stipulates the use of land, and begins to use land tax and land financial policies to participate in real estate regulation.

To curb overheated investment in the real estate market, stabilize housing prices, and adjust the housing supply structure, the central government has successively promulgated the "National Eight Articles", "New State Eight Articles", "National Six Articles" and the "15 Articles" of nine ministries and commissions. Specifically, the land policy at this stage regulated land transfer, clearly defined land use, and began to use land tax and land financial policies to participate in real estate regulation.

3.1.3. Responding to the international financial crisis (2008-2009)

The control measures of land policy at this stage include land supply planning, land taxation, and financial policies, and land supervision.

In 2008-2009, in response to the international financial crisis, the Chinese government adopted more monetary policy, supplemented by fiscal policy, but used less land policy, and most of it was the same as the policy of the previous period. Mainly include land taxation and financial policies, as well as land regulatory policies and other methods.

3.1.4. Perfect system and supervision stage (2010-present)

The land policies used since 2010 mainly include land supply policies and land supervision policies. The first is to vigorously tilt the land supply structure to affordable housing; the second is to improve the 'bidding, auction, and listing' system for land transfer; and the third is to strengthen the land use supervision of the real estate market.

3.2. 14th Five- Year Plan

The central government has made detailed suggestions on the economic and social development plan and target prospects during the "14th Five-Year Plan" period. Among them, there are not many real estate contents, but the market is very concerned. It is mentioned in the "14th Five-Year Plan": Adhere to the positioning of houses for a living, not for speculation, simultaneous rental and purchase, and city-specific policies to promote the steady and healthy development of the real estate market.

Government should effectively increase the supply of affordable housing, improve the land transfer income distribution mechanism, explore support for the use of

collective construction land to build rental housing following the plan, improve the long-term rental policy, and expand the supply of affordable rental housing.

There are four interpretations of this policy:

First of all: the 14th Five-Year Plan clarifies that housing should not be speculated. Once again, it is required that housing and housing should not be speculated, which means that the national real estate regulation and control will remain in the previous state. Under the fluctuation of the real estate market, the basic principles of regulation and control will remain unchanged. The determination of the central government to curb housing price increases will not change. Non-speculation of housing and housing also means that future housing market policies will continue to combat speculation and protect real housing. Future fine-tuning policies are also conducive to rigid demand.

Second: continuous policy implementation due to the city. Starting from July 2020, more than 27 cities have been issued in this round, and more than 30 real estate tightening control policies have been issued. Real estate regulation is a top-down regulation, and the trend of increasing regulation in cities with rising housing prices will continue, which also means that future policies will continue to curb the overheated development of the market.

Third: Promote the balanced development of finance and real estate with the real economy. The core of real estate regulation in the future is still the key to handling the coordinated relationship between housing consumption and investment, real estate, and economic growth. In addition, the investment attributes of real estate must be reduced and the attributes of residence must be returned. From the perspective of policy expectations, the next step should be to speed up housing, land supply, real estate taxation, and leasing systems. Use a long-term mechanism to guide the market to stabilize expectations.

Fourth: vigorously develop rental housing. The biggest problem in the leasing market at present is that the second-landlord leasing model in some cities has gone off the road and thunder. For the market, there will still be a large number of subsequent developments in leasing and leasing, and the simultaneous development of leasing and sales is the trend.

In the second half of 2020, the real estate financial policy will continue to be tightened, and the scale of real estate credit will be reduced from the supply and demand sides. The supply-side banking financial institutions implement the two red lines of real estate loan concentration management, and the demand-side housing enterprise financing is set The "three red lines" force the real estate industry to deleverage.

4. THE FUTURE EXPECTATIONS

4.1. Transformation of the real estate industry

Traditional real estate enterprises should accelerate the integration of industries. The traditional real estate development mode has passed, and the future real estate must be an industrial supporting concept, which will develop in the direction of integration with the industry. Real estate should be used in a wider range from the current limitation. Urban development real estate enterprises must combine industries. Industrial change drives the development of cities or regions, leading industries upgrade from basic industries to service industries, and industrial upgrading accelerates population aggregation. Industrial real estate can be combined around the layout of pillar industries and new industries to promote the rapid development of the real estate market.

Commercial development real estate enterprises must serve the industry. Commercial development real estate enterprises must rent houses if they cannot build a good house. They should extend the whole industrial chain, connect consumption points one by one, and increase service efforts in five aspects of living, shopping, vacation, office, and culture, to create a primary city supporting service provider. Industrial real estate enterprises to participate in the layout of regional industry. Industrial real estate should be developed with the mentality of industrial development. Taking industrial development as an example, the product chain should be perfected while supporting the service chain, adding an innovation chain, and finally upgrading the value chain to realize the innovation ecosystem of the whole industrial chain. The industrial value of industrial real estate enterprises should come from the industry. The biggest difference between industrial real estate and traditional real estate is that the industrial value should be associated with the value of the parking industry, regional industry, and urban service industry to realize the synchronous development of industry, park and regional economy.

4.2. House property tax

There are three reasons why China introduced house property tax to the market.

First, shorten the gap between the rich and the poor in society. People who do not speculate in real estate are getting richer and poorer because of leverage. The real estate tax, like a personal tax, adjusts the gap between the rich and the poor. Second, the introduction of a real estate tax can increase the cost of property hoarders in the process of holding real estate, which can curb excessive real estate speculation. Third, the introduction of real estate tax has provided local governments with an additional source of income, which will reduce their

dependence on land finances. In the future, land prices will fall, and the prices of new houses will fall.

As early as 2011, China started to levy real estate tax pilot projects in Chongqing and Shanghai. The Shanghai version of the property tax is levied on incremental housing. As long as the per capita housing of the family exceeds 60 square meters, the property tax will be levied. But the result is that it did not have an inhibitory effect on housing prices.

China's promotion of property tax reform across the country will have the following three major impacts on the real estate market. First, many people may suspend their recent home purchase plans. When the demand for real estate purchases drops, the price of new homes may fall. Furthermore, the price of second-hand housing will also fall. In the past, a large number of real estate speculators hoarded real estate, and now everyone is throwing real estate on the market, causing the price of the second-hand housing market to fall. Third, rents in the rental market will also fall. After the cost of hoarding houses rises, real estate speculators will rent out the house. The housing rental market is oversupply, and rents will naturally fall. Finally, after the introduction of the real estate tax, people began to be bearish on the real estate market. If the real estate market is bearish, then the price of the land market will also cool down. If the land price falls, the subsequent housing prices will fall further.

Second, it will have an impact on developers. With the real estate tax and it's non-refundable, the buyer will pay an amount of related expenses. When buying a house, it may reduce the number of houses to buy, or buy a house with a relatively small area. Buyers will use this method to evade the payment of real estate tax or pay less. Then, the developer's house will be unsalable, it will be more difficult to sell than before, and the sale rate will be lower. Furthermore, some developers have made corresponding adjustments in the area of the units to help buyers avoid paying real estate taxes, thus disrupting the previous development and design.

Third, the impact on multi-suite owners. Some people can't afford a house, but some have multiple suites. This is the imbalance of society. Although the extra houses can be rented out, according to my country's current rental income, most of them are less than 2%. If a property tax is introduced, likely this rental income will not be enough to pay the property tax. At this time, owners of multiple suites will rethink their houses. They are likely to list their extra houses for sale to reduce the collection of property taxes. Then, the second-hand housing market will increase the supply, and it may be in a state of no market for a certain period. There are many houses on the market, but they cannot be sold.

In general, the introduction of a real estate tax will have a certain impact on China's real estate market. On the one hand, due to the interest rate of the real estate tax,

the holders of many houses in their hands may push the idle houses to the market due to the increase in the cost of holding, so that the market supply will increase. On the other hand, the introduction of the real estate tax will also allow some people who were planning to buy a large house to take into account the long-term holding cost burden in the future, reduce the area of the house, and require the purchase of some smaller houses.

5. CONCLUSION

This paper is discussing the impact of national policies on the real estate industry in China. The new policies of China on the real estate industry will highly affect the real estate industry in many different criteria. The real estate industry is the main industry in the domestic economy and has an important position in the process of economic development. China's real estate industry has barriers in necessary capital quantity, scale economy, technology, and product differentiation, and the main barriers lie in government policies. Due to the scarcity of land and the characteristics of real estate such as high added value, long cycle and complex transaction process, the limited openness of real estate, and China's market economy still exists to a certain extent, so the existence of policy barriers in China is more obvious.

In addition, China's land regulation development could be divided into 4 different stages with different influences. The "14th Five-Year Plan" mentioned that adhere to residential positioning, refrain from speculation, rent, and purchase simultaneously and implement policies based on the city to promote the stable and healthy development of the real estate market. The house property tax is very important as well to China's real estate industry. First, shorten the gap between the rich and the poor in society. Second, it will have an impact on developers. With the real estate tax, the buyer will pay an extra amount of related expenses. Third, the impact on multi-suite owners. Some people can't afford a house, but some have multiple suites. In conclusion, the future influences of the nation's policies still could not be predicted exactly and precisely. In addition, it will have large influences and impacts on the real estate industry. The research can be used for the future policy development of the real estate industry. Moreover, to explore the impact of China's current real estate policies on the whole industry.

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