The Impact of Different Factors on Real Estate Economy

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Abstract. With the end of the epidemic and the gradual recovery of the national economy, the real estate economy as an important economic pillar of the country will naturally attract people's attention. This study will focus on the short- and long-term impact of the pandemic on the real estate economy, especially in the form of changes in housing prices. Meanwhile, the change of interest rate equals to the interest rate hike of the Federal Reserve and the interest rate cut of the RMB, which will also have a great impact on the capital chain of the real estate economy. For instance, the formation of a "bubble", demand, and market aspects. Some international policies will promote the international capital flow, which will positively affect the real estate economy and credit pattern. According to the analysis, pandemic, interest ratio and international policies will cause real estate positive or negative fluctuations to some extent. To sum up, these results shed light on guiding further exploration of the influencing factors of real estate economic changes.

Keywords: Real Estate Economy, Late Stage of the Epidemic, Interest Ratio, Policies

1 Introduction

As the epidemic entered the later stage and the economies of various countries began to recover gradually, the governments also introduced some policies to promote the economic development, especially for the real estate economy (e.g., the adjustment of interest and some international financial, fiscal and land policies). According to the data in Table 1, which is uploaded by the National Bureau of Statistics in 2023, China's GDP in 2022 totaled 12,1020.7 billion yuan, of which the real estate contributed 7,382.1-billion-yuan, accounting for about 6.1%. Therefore, the real estate economy is a pillar enterprise of the country, and as a necessity for most residents, the development of the real estate economy will attract much attention [1].

Meanwhile, consolidate the important position of the real estate economy in the country, and drive the further development of the real estate economy. Additionally, for the follow-up house purchase, investment and other business and personal economic

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aspects to provide relevant direction guidance and promotion. It can also promote the joint development of real estate economy and other related industries to improve the potential of economic development level. Liu pointed out in 2020 that the short-term impact of the epidemic on the real estate market was obvious, the market was frozen, the risk of capital chain rupture of real estate enterprises increased, and the real estate enterprises had a high chance of price reduction. In terms of long-term impact, the housing market will usher in a new round of development in the future, but commercial real estate may suffer from long-term sluggish development due to the impact of e-commerce, and the demand for office buildings in the future will continue to decrease, with a worrying prospect [2]. As early as 2018, Yin pointed out that the interest rate hike of the Federal Reserve would lead to the increase of foreign debts of Chinese enterprises, which would lead to the problem of cash flow rupture [3]. Meanwhile, he also pointed out that the interest rate hike of the Federal Reserve would also lead to the depreciation of the RMB, which would lead to the depression of the real estate market [3].

At the same time, Wang pointed out in 2020 that the interest rate cut of RMB will also lead to the decrease of the cost of house purchase and then lead to the surge of demand for houses [4]. In 2018, Hu et al. supposed that the depreciation of RMB would lead to short-term investment behavior, and finally lead to inflated housing prices and "economic bubbles" [5]. At the same time, in 2019, Wu believed that if China's central bank tightened liquidity to prevent asset bubbles, mortgage interest rates would rise, borrowing costs would increase, and market risks would increase [6]. As demand and housing prices rose over the past few decades, the country also eased bank lending. Therefore, some small and medium-sized enterprises will borrow money from banks and invest all the money in real estate construction. Although this does allow them to obtain relevant benefits, it will cause low efficiency of resource allocation and fail to form a good situation of real estate consumption [7]. In 2023, Yang and Shi analyzed the micro-level effects of international capital flow and credit mode on domestic real estate economy under the framework of the development and changes in the international economic market and the overall environment, and believed that the interactive relationship between real estate economy and credit mode was weakening. International capital flow has a positive impact on real estate economy and credit model [8]. In 2022, Zhang further proposed that the upward fluctuation of RMB exchange rate is attractive to the domestic short-term capital input, and capital return to the market makes the real estate price rise [9]. In order to promote consumers' further understanding of the real estate economy and the supply of information related to the demand for some real estate in the region, this study will mainly provide some information about the epidemic, the interest rate hike and policy of the Federal Reserve and analyze its impact on the real estate economy. The second part of this paper is about the epidemic analysis, the third part is about the Federal Reserve interest rate analysis, the fourth part is about the policy analysis. As shown in Table. 1, the absolute amount shall be calculated at current prices and the growth rate shall be calculated at constant prices. The classification of the three industries is based on the Provisions on the Classification of the Three Industries amended by the National Bureau of Statistics in 2018. The industry classification adopts the Industry Classification of National Economy. Some of the GDP data in this table are not equal to the sum of all industries (industries), which is caused by the error of numerical reduction and has not been adjusted mechanically.

Table 1. Preliminary accounting data of GDP for the fourth quarter and the full year of 2022

	Value (100 million yuan)		Year-on-year growth	
	4^{th}quarter	Annual	4^{th}quarter	Annual
GDP	335508	1210207	2.9	3.0
Primary Industry	33497	88345	4.0	4.1
Secondary Industry	132601	483164	3.4	3.8
Tertiary Industry	169411	638698	2.3	2.3
Agriculture, forestry, animal husbandry and fishery	35057	92582	4.1	4.3
Industrial	106845	401644	2.5	3.4
Manufacturing	88897	335215	2.3	2.9
Construction Industry	26365	83383	7.0	5.5
Whole sales and retail trade	31905	114518	0.3	0.9
Transportation, warehousing and postal services	12792	49674	-3.9	-0.8
Hotel and catering sectors	5231	17855	-5.8	-2.3
Financial industry	23775	96811	5.9	5.6
Real estate industry	18466	73821	-7.2	-5.1
Information transmission, software and information technology services	12108	47934	10.0	9.1
Leasing and business services	11883	39153	5.6	3.4
Other industries	51082	192831	5.7	3.8

2 The Impacts of COVID-19

First is the first part of the analysis of the COVID-19, where Liu 2020 pointed out that the short-term impact of the COVID-19 on the real estate market was significant [2]. At the beginning of the COVID-19 in 2020, offline sales departments in the real estate industry were forced to close to prevent the wide spread of the COVID-19. However, online home purchases are at risk. These circumstances lead to the real estate market being in a frozen state, exposing real estate companies to the risk of capital breakdowns. In the short term, due to the pressure of capital, major real estate companies are likely to take price reduction measures. 2020 In early February, Evergrande Real Estate has given priority to propose a uniform "25% discount" on the sale of houses nationwide, and other real estate companies will also follow Evergrande's model [2].

The COVID-19 also has a long-term impact on the real estate market. After the end of the COVID-19, the real estate market is expected to see a new round of development: (i) the developed medical standards and educational resources of first-tier cities will continue to attract the inflow of talented people; (ii) local governments in first-tier cities and economically developed areas are more capable of managing, and people are willing to live and work in safe cities; (iii) financial and property market policies will be appropriately relaxed, helping real estate companies to get out of their predicament [2]. After the end of the COVID-19, the economy recovered and people were more willing to work and live in first-tier cities, second-tier cities, or safer areas. The increased mobility of people and the strengthening of residents' purchasing power will increase their willingness to purchase or exchange their homes, boosting transactions and sales in the residential market. Reasonable government regulation and control policies will promote economic development and further heat up the real estate market. With the massive closure of shopping malls during the outbreak, some commercial real estate companies have thought of adopting strategies such as rent reductions to tide over the period with their tenants. In the meantime, innovative retail shopping methods have taken hold during the outbreak. After the end of the COVID-19, e-commerce will continue to have a certain degree of impact on the commercial real estate sector, with a certain probability of entering a prolonged period of low growth. In recent years, the momentum of the physical commercial economic recovery will weaken [2].

The future of the office market is in doubt. The more far-reaching impact of the COVID-19 is that it has caused a change in the business model of some companies. Many places are asking companies to delay their start, leading to the early arrival of innovative online work models such as telecommuting and online working. These have directly led to a gradual reduction in future demand for office space, and there is currently a saturation or even surplus supply of office space across the region [2].

3 The Impacts of Interest Ratio

This part is about the impact of interest ratio on the real estate market. For example, the recent interest rate hike policy of the Federal Reserve will indirectly affect China's real estate market. Yin pointed out in 2018 that one of the characteristics of the real estate industry is that the leverage ratio is too high, so it is vulnerable to the impact of the Federal Reserve's interest rate hike [3]. Most property developers have borrowed from the United States since quantitative easing was introduced in the wake of the subprime crisis in 2008. At this time, the interest rate hike of the Federal Reserve led to the surge of foreign debt borne by China's real estate enterprises, and the risk of capital chain rupture greatly increased, which may finally lead to the survival crisis of real estate enterprises [3]. In the meantime, the interest rate hike of the Federal Reserve will indirectly lead to the depreciation of the RMB. Besides, most of the investment is concentrated in the real estate market and the stock market. Therefore, when the depreciation of the RMB, people may switch their investment to the commodity market denominated in US dollars, and eventually lead to the depression of the real estate industry [3]. Moreover, Wang pointed out in 2020 that interest rate cut means lower monthly mortgage amount for house buyers and lower house purchase cost, so the demand for house purchase will increase [4]. The depreciation of RMB will also increase short-term speculative behavior, and the demand for real estate may increase, leading to inflated housing prices and easily resulting in "bubbles", threatening our financial market [5]. However, if China's central bank actively implements countermeasures to squeeze out economic bubbles, the risk of the whole real estate market will be increased [6]. Rising demand for real estate has led to rising prices, and the country has also eased bank lending. Therefore, in the past, some small and medium-sized enterprises took advantage of the low cost to obtain bank loans and invested all the money in the real estate construction, so that they could obtain relevant benefits. However, such a practice will cause the low efficiency of resource allocation in some other industries in the market, which cannot form a good situation of real estate consumption [7].

4 The Impacts of Policies

The impacts of policy on the property market will be discussed in this section. Before the outbreak of the COVID-19 epidemic, China issued regulations that led to a tightening of many of the country's banking institutions and bond companies and a massive reduction in funding for property development [7]. Following the outbreak of the COVID-19 epidemic, the price of land in China was subject to some short-term fluctuations, but the period affected by this fluctuation did not last long [7]. The construction of real estate requires consideration of several factors, of which the price of land is the most important one. The price of real estate and the price of land is positively related [7].

With the overall macro environment suffering, people do not have extra money to buy property, which can also lead to a depressed market for the property economy. To promote a rebound in the property market, China has had a more pronounced change in its house credit policy. While house prices are rising rapidly, China is also further expanding the corresponding bank loans, giving both businesses and individuals a more relaxed environment to buy property [8]. People can obtain more money to buy a house than before. The pressure on young people to buy a house will be further reduced, and more people will buy rather than rent. Although the expansion of credit policies in China provides an easy environment for consumers to buy homes, there will also be an increase in property prices in terms of property sales. The increase in credit policy will drive up the price of the property, and as both sides expand in size and number, a positive cycle will slowly form. The entire Chinese property economy will also slowly boom [8].

In 2022, With the development of the epidemic and the change in the economic environment, China's outlook for domestic property investment is not good. The number of investments in real estate in China is also showing a downward trend and the overall property development capital is decreasing [9]. Many businesses and consumers are using the country's development dynamics as the direction for their investments. When real estate was prevalent, companies and consumers would invest their spare money in real estate as a means of generating high returns. However, with the decline in the overall property development trend, many people now hold a wait-and-see attitude towards buying a house, because people will exist in fear of the house during the construction of the capital chain broke and thus become a bad building mentality, etc., making the sale of houses more dismal. If the houses are not sold, they will not be funded and the country and consumers will not see the prospect of development and will no longer invest, which will slowly turn into a dead cycle and the development of real estate will not get better. The real estate development outlook index is still declining, which is a further indication that real estate development is still not optimistic [10]. However, the index is on the rise in 2023, and with the end of the epidemic, China is encouraging consumption to boost the overall macro environment, and perhaps the property market will pick up in the future.

5 Implications and Suggestions

There is a lack of data to support this paper, such as how much of an overall impact the COVID-19 epidemic had on the country's property economy; how much of an advantage the Federal Reserve's interest rate hike in China had on domestic sales during the period; whether there was a large difference between the number of incentives for consumers to buy property in China and the actual occurrence of such incentives; and whether there was a large difference between the number of incentives for consumers to buy property in China and the actual occurrence of such incentives. and the relationship between the willingness of the Chinese people to spend on housing and actual purchases after the introduction of these policies. As some of the data is unavailable and scattered, even if a selection is made using questionnaires and sampling methods, there will still be an error. This error cannot be measured or verified. It is uncertain whether new influences will be introduced in the subsequent development of the whole property. With the rapid development of the times and the growing power of human technological civilization, it is not known whether housing alternatives will emerge in the future thus affecting the further development of the property economy. Although China has encouraged the economy after the COVID-19 epidemic and other aspects, the property economy is on an upward trend, but there is still uncertainty about its subsequent development.

6 Conclusion

With the development of the COVID-19 epidemic in recent years and its impact on the general economic environment, the property economy has not developed very well, as the impact of the COVID-19 epidemic has weakened the economy and prevented the flow of capital in the market to drive the rapid development of the property economy. However, in the wake of the epidemic, China is further promoting consumer development, and the state is strongly encouraging consumers to spend, allowing capital to flow through the Chinese market. Once capital slowly starts to flow into the market, the construction investment funds for real estate as well as the development trend will gradually increase. At the same time, influenced by the Federal Reserve's interest rate hike, China's interest rate cut makes it more advantageous and less stressful for people to buy property. The Chinese government will also further encourage young consumers to buy the property and will increase the number of incentives available. For example, there will be strong support for loans, with lower interest rates for people to buy property.

There will also be adjustments to the housing fund increase. All of these have further contributed to the recovery of the property economy. Therefore, it is important to believe that the real estate economy will continue to be a pillar of China's economic development. It will continue to account for a large proportion of China's expenditure and income in the future. Although the development of the property economy has not been so optimistic in the last three years, it will have a better development trend with the end of the COVID-19 epidemic. Besides, consumers can have confidence in the Chinese property economy to further expand their demand. Overall, these results offer a guideline for consumers to have a higher outlook on the property market by providing information on some of the recent developments in the real estate economy in relation to the COVID-19 epidemic, Fed rate hikes and policies that consumers can consider in future property market transactions.

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