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Real Estate Economy in the Post-epidemic Era

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Abstract: The COVID-19 outbreak has had a significant impact on China's real estate market, with the sector's recovery lagging behind the overall economy. This study evaluates the pandemic's influence on consumer behavior, housing demand, and preferences, highlighting substantial declines in real estate development investment and commercial housing sales. Key factors contributing to reduced demand include a shift towards remote working models, heightened health and safety concerns, and evolving perceptions of urban living. To stimulate the market, government incentives such as tax breaks and housing subsidies are recommended. Additionally, developers are encouraged to embrace smart city technologies for optimizing energy consumption and providing convenient community services. Emphasizing health-conscious design is crucial for improving air quality and increasing green space while investors should diversify their portfolios to mitigate market volatility risks and enhance resilience. The objective of this study is to devise an appropriate real estate economic recovery plan that aligns with the changing urban to sustain economic growth.

Keywords: Real estate market, covid-19 impact, consumer behavior, urban transformation

1. Introduction

The National Health Commission has announced that the epidemic prevention and control measures will be lifted on January 8, 2023. With effective containment efforts, China has achieved a significant and decisive victory in epidemic prevention and control [1]. This signals that the Chinses government is shifting its focus from epidemic prevention and control to restoring production. After releasing a series of measures and policies to encourage production and construction, China’s economy has returned to the right track. Chinese economy had gradually entered a steady growth. The implementation of macroeconomic policies is anticipated to lead to a gradual increase in the annual GDP growth rate, with projections indicating a range of 5.1% to 5.3% for the year 2023, thereby attaining the targeted growth objective of approximately 5% [2]. The global economy is experiencing sluggishness in 2023, while the international landscape is characterized by complexity and constant evolution, with frequent occurrences of geopolitical conflicts. The cyclical and structural contradictions in China are manifold, and natural disasters occur with alarming frequency. The accomplishment of such development is significant given the prevailing circumstances. The real estate industry, however, appears to be facing a predicament in comparison to the recovery of other sectors and, what’s worse, it has not yet reached its lowest point. After the outbreak of the epidemic, the real estate industry’s previously uninterrupted growth came to an abrupt halt and subsequently experienced a sustained decline during this period.

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Since the initiation of reform and opening up, China's real estate industry has made great contributions to the rapid advancement of urbanization and rapid economic growth. The added value of the real estate industry as a share of GDP rose from 4.48% in 2003 to 7.24% in 2020, as shown in figure 1 [3]. In 2020, real estate development investment is projected to indirectly contribute approximately 7.5 trillion yuan to the GDP, representing around 7.4% of the total GDP for that year. Moreover, the added value generated by real estate development investment will account for about 30.48% of the overall added value in the construction industry during that period . The development of the real estate industry has driven the rapid development of related industries, promoted urban employment, increased government tax revenue, and accelerated the process of urbanization. Many scholars believe that the real estate industry has entered a stage of structural adjustment of supply and demand [4].Researcher at Hubei University of Economics analyzed the short-term impact of the epidemic on real estate and discussed the possible long-term impact of the epidemic on the real estate industry [5]. However, the existing researches only analyze from the macro and industry perspectives, and there is a lack of research on the change in consumer behavior, the trend of housing demand, and the evolution of consumer preferences. The author will focus on the factors related to consumers in the post-pandemic era, and give some practical and reliable suggestions for the situation.

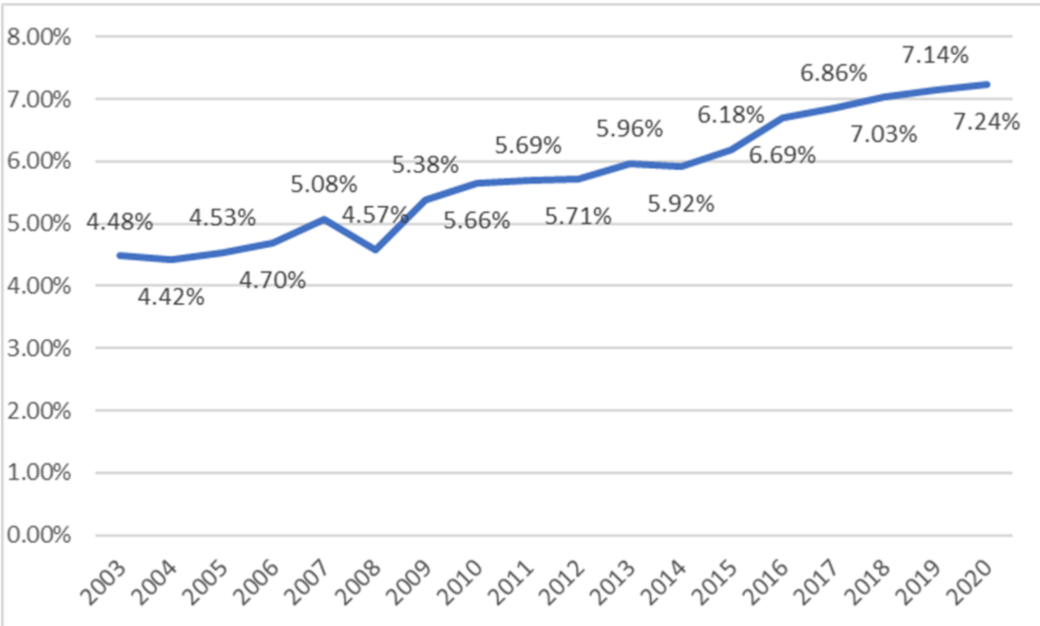

Figure 1: The data on the contribution of the real estate industry's added value to GDP.

2. Real Estate Investment and Sales Status in China

Affected by the pandemic, the overall performance of China's real estate industry has shown a significant downward trend, and the net profit of the three major real estate companies (Evergrande Real Estate, Vanke Real Estate, and Poly Real Estate) in 2021 has dropped by about 40% on average compared with 2020 [6]. The author will use visibility data and figures, from the National real estate development investment growth rate, National commercial housing sales area, and sales growth rate to demonstrate the predicament of China's real estate.

2.1. National Real Estate Development Investment Growth Rate

As indicated by the recent data from National Bureau of Statistics of the People's Republic of China [7], the national investment in real estate development amounted to 11,091.3 billion yuan, reflecting

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a decrease of 9.6% compared to the previous year, as shown in figure 2. Specifically, the investment in residential housing reached 8,382 billion yuan, indicating a decline of 9.3%. The data exhibited month-to-month variability, yet no discernible seasonal patterns emerged. This implies that the persistent downward pressure impacting the market is not attributable to seasonal factors. The observed decline may be indicative of the cooling real estate market, waning investor confidence, diminished market demand, or the regulatory impact of government policies. A reduction in real estate investment can have a cascading effect on interconnected industries such as construction, material supply, and employment opportunities.

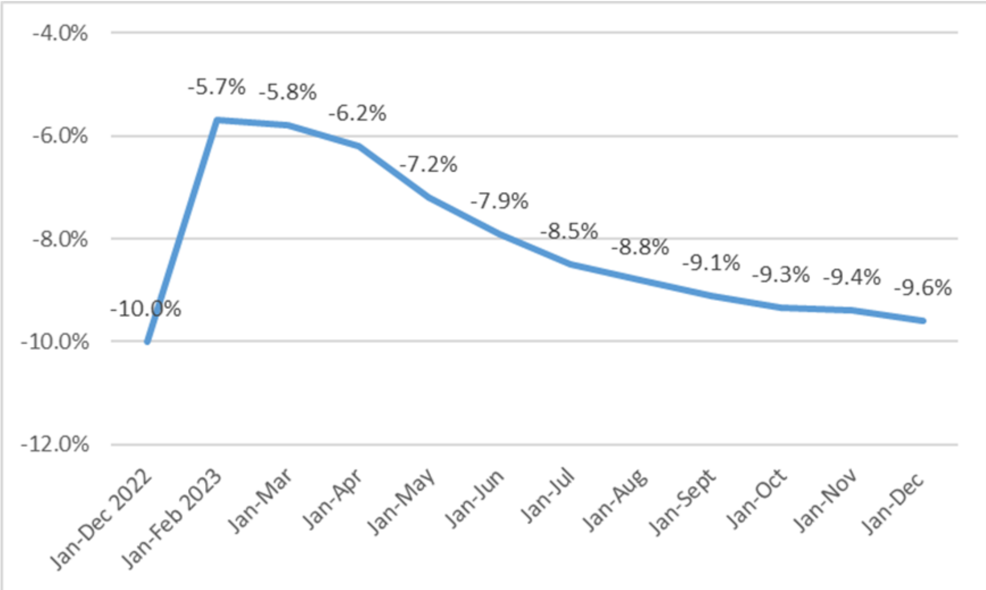

Figure 2: National real estate development investment growth rate

The chart illustrates the overall negative growth and declining trend of real estate development investment during the observation period, albeit with some alleviation; however, the inexorable deterioration trend persists.

2.2. National commercial housing sales area and sales growth rate

According to data from the NBSPRC [7], the area of commercial housing sales in 2023 was 1117.35 million square meters, representing an 8.5% decrease from the previous year; within this figure, residential sales decreased by 8.2%. The sales volume of commercial housing amounted to 11,622 billion yuan, reflecting a decline of 6.5%, with residential housing sales decreasing by 6.0%, as shown in figure 3. The sales area and volume of commercial housing have exhibited a downward trajectory in the majority of months, indicating a decline in market demand. It is noteworthy that there was a positive growth rate in the sales area during March 2023, suggesting an increase in commercial housing sales for that month. However, this growth was not sustained as it reverted to negative territory in the subsequent month.

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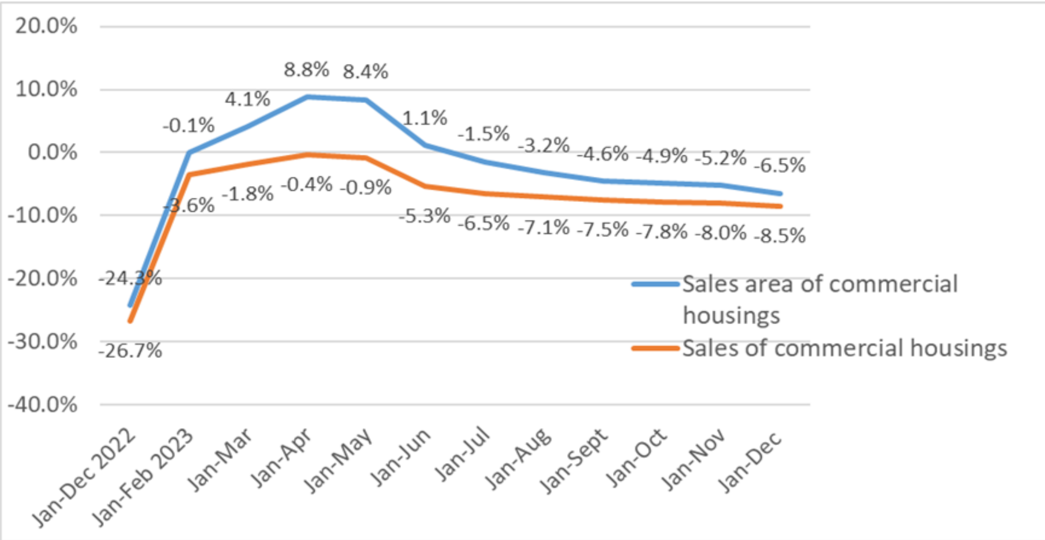

Figure 3: National commercial housing sales area and sales growth rate

The overall trend depicted in this chart indicates a deceleration in demand within the real estate market during the observation period, with intermittent fluctuations. However, the downward trajectory is more pronounced.

3. Analysis of the Causes of Real Estate Status

Many scholars believe that the pandemic has engendered four significant forces [8]. The impact of social scarring has the potential to induce enduring cognitive shifts in individuals' perceptions of cities and regions. Physical proximity and face-to-face interaction are integral to urban life, yet during the pandemic, this closeness has transformed into friction and even risk [9]. The COVID-19 pandemic, spanning over three years, has brought about comprehensive transformations in various facets of urban life, consequently influencing the mindset and behavior patterns of residents. As a result of this global health crisis, individuals have gained novel insights into fundamental characteristics associated with cities. This newfound understanding may prompt a reevaluation of both the merits and drawbacks linked to urban living, as well as expectations about the quality of life within urban areas. Consequently, it is imperative to consider the human factor when analyzing the impact that this epidemic has had on the real estate industry.

3.1. Uncertainty About Long-term Investment and Planning

Due to the COVID-19 pandemic, numerous factors have become increasingly unpredictable, thereby directly impacting the decision-making processes of real estate investors, developers, and home buyers. The global economy has been significantly impacted by the epidemic, leading to adverse effects on the financial status and income of numerous businesses and individuals. Repercussions of escalating unemployment rates and diminishing projected incomes also engender a sense of uncertainty regarding the prospect of purchasing residential properties. Consequently, individuals may exercise greater caution when contemplating home purchases, potentially deferring their plans or opting for leasing arrangements until they have a clearer understanding of future economic conditions and employment prospects. In addition, investors must meticulously evaluate potential risks before making long-term investment decisions. These risks encompass market volatility, policy fluctuations, economic downturns, and the progression of the pandemic—all contributing to a decline

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in demand for real estate investments. As a result, investors may adopt a more cautious approach by holding cash reserves or shifting towards conservative investment strategies.

3.2. Changes in Working Patterns

The pandemic has significantly impacted working patterns, thereby playing a major role in the downturn of the real estate market. During the pandemic, numerous companies were compelled or opted to implement remote work policies. This paradigm shift in working arrangements diminishes the necessity for conventional office spaces, as businesses may no longer require expansive facilities to accommodate their entire workforce. Consequently, this trend has resulted in an upsurge in vacancy rates and a decline in rental prices within the commercial real estate sector. The urban real estate market has been significantly impacted by the remote working model. Previously, downtown areas were favored due to their convenient location and abundant business facilities. However, with the shift towards remote work, there may be a decrease in demand for residential and commercial spaces in these central locations, leading to a downturn in the local real estate market. This phenomenon is also impacting consumers' home purchasing decisions, as the growing popularity of remote work has shifted the demand for residential properties from urban centers proximate to workplaces towards suburban and rural areas. Moreover, the trend towards remote work may lead individuals to prefer long-term rentals over property acquisitions to maintain flexibility and adapt their living locations according to future changes in work or lifestyle demands. Even beyond the pandemic, this transformation is expected to persist in the post-pandemic era, significantly influencing the long-term trajectory of the real estate market.

3.3. Changes in the Way People Think About Cities

As a consequence of the pandemic, there has emerged a novel comprehension regarding certain fundamental attributes of urban areas, such as density and interactivity. The prevalence of high-density residential zones and crowded working conditions within cities has transformed them into high-risk environments for viral transmission during outbreaks. Consequently, individuals have begun reevaluating both the advantages and disadvantages associated with urban living, along with their expectations concerning the quality of life in these settings. The fear instigated by the pandemic prompts people to temporarily avoid densely populated areas, thereby influencing their choices about habitation. If an extended lockdown ensues, it may cast doubt upon the allure of city living, particularly if urban centers become hotspots for disease outbreaks. This could potentially result in individuals favoring less densely populated suburban or rural regions instead, consequently impacting urban real estate markets.

4. Conclusion

The COVID-19 pandemic has exerted a substantial impact on the real estate economy in the post-pandemic era, and the recovery of China's real estate market has exhibited a comparatively sluggish pace compared to other sectors. Altered working patterns, heightened health, and safety concerns, as well as evolving perceptions of urban living, have contributed to a diminished demand for urban real estate, particularly within city centers.

To address these challenges, governments can offer incentives such as tax exemptions, housing subsidies, and low-interest loans to stimulate home purchases and investments. Simultaneously, simplifying the development approval process can reduce upfront costs for developers. Moreover, developers should leverage smart city technology to optimize energy consumption and provide convenient community services while prioritizing health-conscious design elements that enhance air quality and green spaces to bolster residents' sense of security. Investors should diversify their

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portfolios across multiple markets or regional economies to mitigate risks associated with market fluctuations and improve overall resilience. In conclusion, by embracing these transformative measures and implementing strategic adjustments, the real estate sector can foster a resilient recovery post-pandemic while continuing to contribute significantly to economic growth and urban development.

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