

The Impact of Consumption Downgrading on Housing Purchase Decision of Chinese Middle Class: An Analysis Based on the Life Cycle Theory and Marriage Market Theory

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Abstract: In the face of the trend of consumption downgrading, the purchasing decisions of the middle class regarding real estate have undergone new changes. Existing literature on the housing market and purchasing behavior of the middle class under the trend of consumption downgrading suggests that the purchasing power of the middle class has generally decreased, with many unable to bear the costs of mortgage loans and other housing-related financial burdens. As a result, the number of people purchasing real estate in the future may decrease. Based on existing research and practical needs, this paper summarizes the trends of previous studies through a literature review, pointing out their shortcomings. The paper further explores the decision-making process of the middle class in the context of consumption downgrading and analyzes the reasons for this situation using the Life Cycle Theory and Marriage Market Theory. The goal of this research is to provide policy recommendations for policymakers and reasonable suggestions for middle-class housing consumption decisions. The analysis shows that the middle class tends to rent housing or purchase small-sized properties, and that owning property is an important factor in the marriage market, especially from adulthood to the marriage stage.

Keywords: Consumption downgrading, Middle Class, Marriage Market Theory, Life Cycle Theory, Real Estate

1. Introduction

The middle class is a dynamic and diverse group, characterized by stable income sources, higher levels of education and occupation, a comfortable standard of living, and a rational approach to consumption and investment. It generally refers to individuals in the upper part of the societal (power) structure. In recent years, China's middle class has faced slower income growth and fluctuations in the real estate market, which have made housing demand and decision-making more complex. While existing research has explored the consumption behavior of China's middle class, there remains a gap in studies addressing the influence of marriage and family factors on housing decisions under the background of consumption downgrading. This study aims to fill this gap by exploring how the housing behavior of the middle class in China is influenced by both the Life Cycle Theory and Marriage Market Theory in the context of consumption downgrading. The analysis helps to better understand the changing motivations behind housing decisions among the middle class in China. This

paper focuses on the following aspects: (1) how middle-class individuals make housing decisions at different life cycle stages; (2) how marital status influences housing choices; (3) the current state and trends of the real estate market; (4) the impact of these changes on the quality of life for the middle class. This research is valuable for government policy-making, real estate market adjustments, and academic studies on family economic decisions. By employing an interdisciplinary theoretical framework, this paper offers new perspectives and data support for future research.

2. Background and Definition of Consumption Downgrading

Consumption downgrading is a phenomenon that arises when economic growth slows down, income growth pressure increases, and consumer confidence declines. In recent years, China has entered the "new normal" phase of economic development, characterized by slower growth and fluctuations in the real estate market, leading to more conservative consumer expectations. Consumption downgrading refers to the shift in consumer behavior from high-end, luxurious, and hedonistic consumption towards more affordable, cost-effective, and practical consumption. In short, consumption downgrading involves not only a reduction in consumption expenditure but also changes in the types of goods and consumption habits.

2.1. Economic Environmental Changes

China's economic slowdown and fluctuations in the real estate market have led to a change in the consumption expectations of the middle class. According to data from the National Bureau of Statistics, the per capita disposable income growth rate in 2019 dropped to 5.8% [1]. The financial pressure on the middle class increased, leading to more cautious consumption behavior. Since 2000, housing prices in China have risen from just above 2,000 RMB per square meter to nearly 10,000 RMB per square meter, representing a nearly 400% increase [2].

At the same time, China is facing an increasingly severe population aging problem, which exerts long-term pressure on economic growth. This trend poses significant challenges to the labor market, consumption structure, and pension system.

2.2. Changes in Consumer Psychology

Facing economic uncertainty, the middle class tends to reduce non-essential consumption and prioritize basic living expenses and housing expenditures. This shift in psychological outlook has made them more cautious in real estate investment, with a greater focus on high-cost-performance properties. As economic uncertainty increases and long-term financial planning becomes more important, the middle class's consumer psychology has shifted from impulsive spending to more rational, careful, and "penny-pinching" behavior. They are more focused on value for money, comparing prices, brands, and quality to seek efficient and high-value consumption experiences.

3. Housing Investment from the Perspective of the Life Cycle Theory

The Life Cycle Theory, proposed by economists Franco Modigliani and Richard Brumberg in the 1950s, is a key economic theory that explains individual consumption and saving behaviors. The core idea of the theory is that people do not always consume according to their current income but base their consumption on expected lifetime income, smoothing consumption across their lifespan. For the middle class, real estate is not only a means of satisfying housing needs but also an important investment tool.

3.1. Housing Demand at Different Life Cycle Stages

According to the Life Cycle Theory, individuals' income, expenditure, and consumption vary at different stages of their life cycle. Early in their life, middle-class families may prefer to rent, while as their income rises and their family structure changes, they gradually shift toward homeownership.

- **Young Stage:** Renting is common, with an emphasis on flexibility and affordability.
- **Family Formation Stage:** The demand for housing increases, and they are more likely to buy a home suitable for family needs.
- **Parenting Stage:** The focus shifts to purchasing properties in desirable school districts to enhance family investment value.
- **Empty Nest Stage:** Some may consider downsizing to smaller properties or senior-friendly apartments.

3.2. Impact of Consumption Downgrading on Housing Choices

Consumption downgrading has made the middle class more focused on cost-effective housing choices. In cities with high housing prices, they tend to choose smaller properties with reasonable prices rather than pursue luxury homes. They are more likely to opt for smaller, high-value properties in areas with good transportation and amenities, especially in second- and third-tier cities. In China, eligibility for admission to primary and secondary schools is linked to home ownership, and the only way to qualify for admission is to purchase a house and settle down, which has led parents who wish to enroll their children in key schools to rush to buy houses near these schools, thus giving rise to the phenomenon of "school district fever" [3]. For these parents, they believe the houses are high-value although they are more expensive and maybe really small.

4. Housing Investment from the Perspective of Marriage Market Theory

Marriage Market Theory is an important framework in sociology, economics, and social psychology that explains how individuals compete in the marriage market based on various social, economic, and cultural factors. This theory argues that marriage decisions are influenced not only by personal emotions but also by social structures, resource distribution, and cultural values. In modern society, marriage choices and partner competition resemble market transactions. In China, the middle class's marriage market is also affected by consumption downgrading and changes in the real estate market.

4.1. Real Estate as a Tool in the Marriage Market

In traditional Chinese culture, owning property is a symbol of economic strength and social status. Therefore, property ownership becomes a key competitive factor in the marriage market. For many young people, the availability of property can directly influence their entry into the marriage market or their ability to find an appropriate partner. Chinese society equates home ownership with economic success. Consequently, unmarried men who own substantial and valuable real estate assets are often viewed as more desirable candidates in the marriage market, meeting the criteria for financial stability, social status, and family provision [4].

4.2. Impact of Consumption Downgrading on Marriage Choices

Consumption downgrading has led the middle class to place more importance on economic conditions and property ownership when choosing a partner. Due to economic pressure, many young people may delay marriage and choose to rent rather than buy homes, which in turn affects family structures and fertility decisions. Furthermore, consumption downgrading has caused many individuals to face

greater economic pressures, and the uncertainty or worsening of financial conditions makes people more cautious in selecting partners, potentially leading to increased reliance on economic factors such as income, assets, and property in making marriage decisions. A recent survey found that in the context of a consumption-oriented society, university students prioritize material factors such as property, cars, and income when choosing a partner, viewing marriage as a way to achieve a high-quality material lifestyle [5].

5. Impact of Consumption Downgrading on the Quality of Life of the Middle Class

5.1. Decline in Quality of Life

Under the backdrop of consumption downgrading, the overall quality of life for China's middle class has been affected. With economic growth slowing, real estate regulations, intense job market competition, and an unstable employment environment, many middle-class families have experienced stagnant or slowing income growth. While some cities still have relatively high income levels, rising prices and living costs mean that income increases are insufficient to maintain previous consumption patterns. According to the 2022 China Quality of Life Report, the middle class has notably reduced expenditures in education, healthcare, and cultural consumption, negatively affecting their overall quality of life [6].

5.2. Changes in Investment Behavior

In the face of economic uncertainty, the middle class has become more conservative in their investment choices. They are more likely to invest in stable income-producing properties, such as rental homes, rather than high-risk investment projects. In the past, real estate served as a long-term stable investment channel that attracted large amounts of capital from middle-class families. However, due to consumption downgrading, economic pressures, high housing prices, and policy adjustments, the middle class has become less enthusiastic about real estate investment, shifting their focus from investment to personal habitation. This shift in behavior may lead to changes in the structure of the real estate market.

6. Policy Recommendations and Future Outlook

To address the challenges posed by consumption downgrading, the government can guide the development of the real estate market through policy interventions. For example, increasing housing subsidies for middle- and low-income families or offering housing loan policies suitable for the middle class could effectively promote the healthy development of the housing market.

In the context of consumption downgrading, the real estate market is expected to experience a significant trend of segmentation. The middle class's housing demand will likely be concentrated on smaller, cost-effective properties in well-equipped areas, while the high-end housing market may face greater pressure.

7. Conclusion

Consumption downgrading has had a profound impact on China's middle-class housing market. Under the dual influence of changes in the economic environment and consumer psychology, the housing choices and investment behaviors of the middle class have changed significantly. By analyzing these changes through the Life Cycle Theory and Marriage Market Theory, this paper provides deeper insight into the effects of consumption downgrading on the middle class's quality of life, family structure, and future development. Going forward, policy guidance and market segmentation will be important trends in the housing market, and the government should focus on

meeting the actual needs of the middle class by offering more suitable housing options and policy support, thereby promoting the healthy and sustainable development of the real estate market.

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