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Analyze the Trend of China's Real Estate Market from the Current Market and the Japanese Bubble Economy

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Abstract: This article predicts potential future trends in China’s housing market by analyzing past housing price fluctuations and the bubble economy in Japan during the 1980s. The study focuses on the price of second-hand homes rather than new houses. Through a detailed analysis of various data and drawing lessons from Japan’s experience, the paper concludes that housing prices in China are likely to continue declining in the future. Furthermore, there is a significant possibility of a bubble economy bursting, similar to what occurred in Japan. The paper warns of this impending crisis, urging stakeholders to prepare in advance. Given the escalating regulatory interventions and economic challenges confronting China's real estate sector, the likelihood of a housing bubble rupture poses significant risks to the broader economy. Consequently, it is imperative to implement preemptive strategies at this juncture to alleviate the prospective economic repercussions that may ensue from such a crisis.

Keywords: House price, Bubble economy, Economy Crisis

1. Introduction

China's real estate market is experiencing a depressed trend. In addition to the downward trend of housing prices in all the first-tier cities. Due to the high similarity in social structure between China and Japan, both are Asian countries with high population density and cultural similarities so that this paper will analyze the future housing price trend and possible crisis in China based on China's current housing price data and Japan's past bubble economy. In this study, the term "housing prices" specifically refers to the valuation of second-hand properties, as the pricing authority for new constructions lies predominantly with real estate developers rather than market forces. Furthermore, the depreciation of houses is less pronounced, akin to that of automobiles. Therefore, this paper adopts the price of second-hand houses as a more objective measure of housing valuation.

The arguments is going to be divided into two parts, the first parts will analysis the current house price trends and give a forecasting. China's housing prices are mostly declining except in first-tier cities, although the housing prices in first-tier cities are also in a stable state, and the supply of second-hand housing in the market is in a state of greater than the demand. In the second part will analysis the Japan's past bubbles. In addition, by finding similarities between Japan's past experience and China's current situation, people can find out the possible crisis they may face in the future, and analyze the Japanese government's solution to the economic crisis at that time to find out whether there is a suitable solution that can be applied to China's reality. And in the final summary part,

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combined with the previous two parts to give a conclusion, and give some solutions when the real estate bubble economy in China is really burst in the future.

2. Analysis of Current Form

2.1. Trends in China

2.1.1. Analysis of Housing Price Trend in China

In recent a decade of year, the Chinese house prices are increasing really fast. In Guangzhou's Pearl River New Town (CBD), for example, the average price in 2008 was about 8,000 yuan, but now the average price has reached 140,000 yuan. Excessively high housing prices have far exceeded people's normal purchasing power, which has a huge negative impact on life happiness and real economic growth.[1] House prices are rising faster than people's incomes, so if people buy homes, they will be heavily burdened. From these three lists, it can easily be found that China's real estate bubble is serious.

Due to the excessive inflation of the bubble, a market recovery will necessitate a decline in prices. This list shows changes in the sales price of commercial housing in 70 large and medium-sized cities in October 2023. The analysis shows that the housing price in most cities has shown a downward trend. Although the decline is not much, it is a significant change compared with the trend of increasing yearly in previous years. Nevertheless, China's economic advancement is intricately linked to the real estate sector, which serves as a crucial source of fiscal income, acts as the primary repository of household wealth, and occupies a central position in the marketplace.[2] Therefore, the decline in housing prices has a huge impact on China's economy, which is likely to cause a series of chain reactions leading to a downward trend in the overall economy. From this point of view, China's real estate sector is crucial to stabilizing the country's economy.

At present, housing prices in China are within an unreasonable price range. The concept of the house price to income ratio was initially presented in Weicher's scholarly work concerning the assessment of new housing affordability in the United States, subsequently adopted by global entities such as the United Nations and the World Bank for investigations into urban management initiatives. Zhang Qingyong pointed out that the housing price-income ratio data calculated by the median and the average are relatively close. From this, we can derive the calculation formula 1 of China's housing price to income ratio (PIR) : PIR=(Average housing unit price*Average housing unit price)/Household per capita disposable income[3]. Table 1 presents the equation utilized to determine the static housing price-to-income ratio for urban households in China during the period from 2015 to 2019.

Table 1: Housing price income ratio

Index	2015	2016	2017	2018	2019
Average house price to income ratio for urban households	7.8	8.1	8.0	8.7	8.7
Housing price to income ratio of 20% urban low-income households	19.9	21.0	21.2	23.7	23.8
20% of households in the lower middle income group in urban areas	11.3	11.9	11.9	13.7	13.8
20% of households in the middle income group in urban areas	8.4	8.7	8.6	9.7	9.8
20% of households in the upper middle income group in urban areas	6.3	6.5	6.4	6.9	7.0
The housing price to income ratio of 20% urban high-income households	3.7	3.9	3.8	4.0	4.0

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However, the reasonable upper limit of the ratio of housing price to income that Chinese urban residents can afford in theory is about 4.38 to 6.78 times. So the current real housing income ratio is out of an unreasonable category. Therefore the current real estate market is an invisible bomb.

Figure 1 shows some data on house price from 2011-2022.

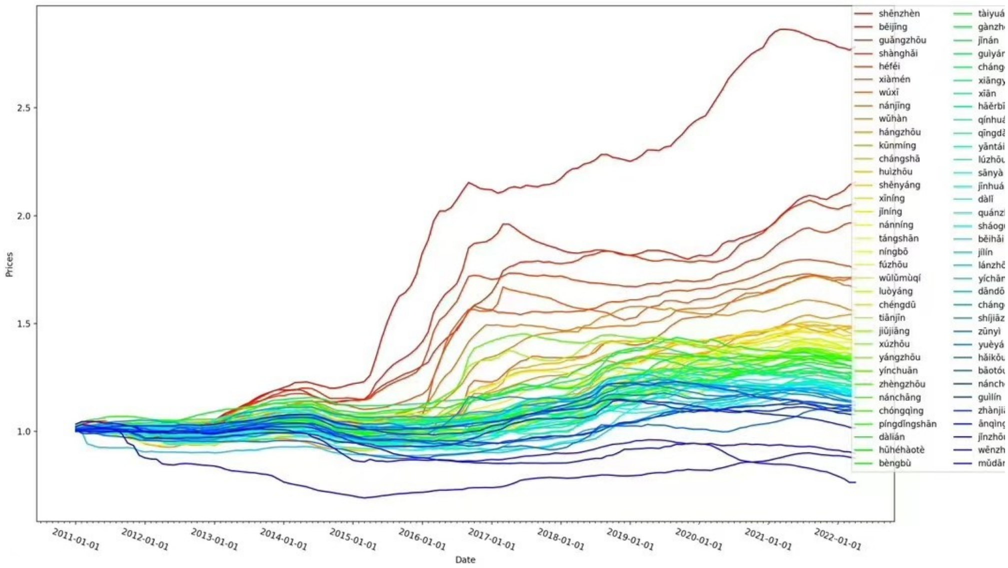

Figure 1: Trend chart of housing prices in major cities

This graph illustrates the housing price trends across 70 cities from 2011 to 2022. It is evident that there was a rapid increase from 2015 to 2021; however, in 2021, the prices stabilized or even experienced a decline So by using this graph, we can infer the house price is nearly at the top, and after that it start decreased. Based on this analysis, it can be inferred that the property price is likely to continue decreasing in the future.

2.1.2. The Impact of Falling House Prices on the Chinese Economy

House prices plunged. The change has profound implications not only for the property market itself, but also for China's economy as a whole.

(1)Housing market correction: The housing market is facing a correction due to the sharp drop in housing prices. Developers' profit margins have shrunk, and some with weak financial strength may even face the risk of bankruptcy. At the same time, the willingness of home buyers has also been affected, and the market transaction volume has decreased.

(2)Financial market volatility: The real estate market is closely linked to the financial market. The decline in house prices will lead to an increase in non-performing loans of banks, which in turn will affect the stability of financial markets. In addition, the decline in housing prices will also affect investors' confidence and make the financial market face greater uncertainty.

(3)Slower economic growth: Falling house prices will also impact economic growth. The property sector plays an important role in China's economy, and falling home prices will lead to less real estate investment, affecting overall economic growth.

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2.2. Japan's Bubble Economy and House Prices

2.2.1. Bubble Economy in Japan

In the late 1980s, Japan had a severe bubble economy which caused the bubble to collapse, but it has not been completely shaken off since then. At present, the economy of our country has the shadow of the bubble economy of Japan, the voice of RMB appreciation is rising, the asset price is inflated, and the hot money floods in is obvious. In this part, it will analysis the Japan’s bubble economy and by using it to prediction the economy in China.

From the perspective of historical development, Japan's bubble economy accelerated its upward formation and development because of the "Plaza Agreement" reached in September 1985. Since March 1990, Japan's bubble economy began to collapse acceleratedly by putting the brakes on land finance. The "Plaza Agreement" triggered the accelerated formation of Japan's bubble economy. In order to cope with the industrial situation affected by the appreciation of the yen, the Central Bank of Japan and the government successively implemented large-scale financial easing policies. A series of monetary policy mistakes, such as the loose monetary and fiscal policy and the continuous reduction of interest rates, are the main reasons for Japan’s fall into the liquidity trap and economic bubble.[4]

In order to cope with the negative impact of yen appreciation on commodity exports, the Japanese government implemented a series of active fiscal policies dominated by expansionary monetary policies, resulting in a large amount of excess capital entering the market. The sector where excess capital flows into is the real estate market, which is highly speculative.[5] A large amount of capital inflow caused Japan's stock and land prices to soar. Then, real estate prices soar, making Japan's economy appear prosperous on paper, and economic bubbles emerge. Consequently, from this perspective, the significant escalation in real estate prices signifies the emergence of a bubble economy. When property values increase at an accelerated pace, it is imperative to remain vigilant for signs of a bubble economy.

2.2.2. The Reason for the Rapid Rise in Japanese House Prices

(1)Economic aspect: Fundamentals drive up housing prices. Japan has invested much money in the field of infrastructure, which has further accelerated the pace of urban development, increased the power of population migration, and the urbanization rate has been increasing. In this context, the number of buyers, the ability to buy homes, and the willingness to buy homes in Japan all showed an increasing trend at that time, which promoted the rise of housing prices.[6]

(2) Financial level: money influx and boost by financial accelerator mechanism price bubble. To facilitate the internationalization of the yen, Japan initiated measures to promote financial liberalization. These factors have contributed to the emergence of a bubble economy within the Japanese real estate sector.

Because there were many similarities between China's real estate and Japan's real estate before the foam burst, for this reason, China should learn the lesson of Japan's real estate foam burst.

2.2.3. Recommendations for China

For individuals: The present housing market is experiencing a speculative bubble, and it is anticipated that prices will decline in the coming period. Consequently, it is not advisable to engage in real estate investment at this time. It is still important to continue to watch the market and if it is a necessity then it is fine as long as the price is in an acceptable range.

For enterprises: In order to ensure a successful market expansion, it is imperative to conduct thorough and meticulous market research rather than blindly increasing output. The current situation requires a reduction in the scale of investment and gradual transformation. The real estate market operates under conditions of monopolistic competition, where during periods of overall market decline, it is unwise to indiscriminately increase production; instead, a strategic focus on differentiated design is essential.

For the government: It is imperative to strengthen market regulation to restrain the excessive expansion of the real estate industry and deter the unwarranted loosening of bank credit policies. At the same time, it should also strengthen the management of land resources to prevent excessive development of land and cool down the real estate market. Moreover, it guides the rational flow of funds, strengthens financial supervision, and maintains a stable foreign exchange rate policy.[7]

3. Conclusion

The rapid development of China's real estate market over the past decade has led to an excessively fast rise in housing prices. In some regions, housing prices have even doubled, increasing the living burden on ordinary people while also fueling a bubble economy in the real estate sector. Since last year, however, housing prices have started to slow down and, in some areas, even showed a downward trend. While this decline may alleviate some of the pressure on residents, it also serves as a warning sign for the market. The Chinese government must be prepared to address the potential bursting of this real estate bubble and make efforts to ensure a soft landing for the economy. There are significant similarities between China's current market and Japan's housing market in the 1980s, providing valuable lessons for the Chinese government. By analyzing Japan's response to its own housing crisis, China can learn from past mistakes and avoid excessive economic damage. This study forecasts a continued downturn in China's housing prices, prompting policymakers to implement preemptive strategies to avert a more acute crisis. It is essential to carefully monitor the situation and develop strategies to minimize risks. It also warns buyers to be cautious about investing in their homes.

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