

Real Estate's Developing Situation after 21 Century and Future Predictions Towards Its Possible Trend

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Abstract: With the emergence of real estate aiming for commercial usage, the Chinese economy had built an unbreakable chain with the real estate market. Real estate is indeed a subject that needs to be researched but still doesn't draw enough attention from the academic circle. This paper analyzes the changes of real estate as a property accompanying the national economy's indexed changes and makes predictions of their future growth trends in order to give some suggestions to people who would like to purchase China Mainland houses, buildings, apartments, etc. The author wrote this paper mainly by collecting information and statistical information from JOURNAL OF SHANGHAI ECONOMIC MANAGEMENT CADRE COLLEGE, a research report from business school, Guangxi University, papers from The 15th meeting of the National Symposium on the theory and practice of socialist economy in Colleges and Universities and so on. The conclusion of this paper is that real estate in China will experience an appreciation in at least the next 10 years, This paper also gives recommendations for purchasing real estate properties instead of saving cash in the banks to not only China residents but also investors all over the world.

Keywords: real estate, national economy, residential wellbeing, future predictions

1. Introduction

China's real estate market is still blanked in statistics and lacks matured analytical institutions. Unlike other developed counties, China is in the interval of getting a matured real estate market. The aim of this paper is to introduce the evolution of real estate in China and to conduct some possible predictions of the market. This paper analyzes the differentiation and their characteristics in real estate industry among those areas which are in different level of wealth. Quotations of historical figures for trading and pricing are used, and also lots of comparisons are mentioned in the paper. This thesis is meaningful to those real estate analysts to understand the Chinese real estate market better. For the industry, some authorities can reflect the differentiation and specialty of different areas on fiscal policy as well as direct the people to buy real estate properly.

2. Characteristics of the Real Estate Market in the Early 21st Century

At present, the housing assets of urban families account for about 70% of the total assets in China (China in this paper refers to China's mainland, excluding Hongkong, Macaw, and Taiwan these three

areas that legally belong to the People's Republic of China), which reflects the importance of real estate in the wealth of Chinese families and the dependence of families on real estate.

From 1995 to 2013, the proportion of real estate development investment in social fixed assets investment fluctuated around 20%. Compared with other industries, this proportion is very high, which can support the assertion that real estate has become an important pillar of China's national economy. According to incomplete statistics, there are more than 20 industries directly related to real estate, such as rebar and cement; More than 100 industries are indirectly related, which is beyond most economics experts' expectations. The rise and fall of the real estate economy are directly related to our national economy [1]. However, as long as the real estate economy is in relationship with the national economy, empirical knowledge also tells that the national economy is strongly lifted by the booming real estate economy and will also be easily destructed once the real estate market price experiences a great fall. If using a metaphor to describe this phenomenon, it can be compared to a lifting jack pushing up a wrecked vehicle. Although the process of pushing the car up seems to be very easy, once the lifting jack goes stuck, the vehicle will crash onto the ground immediately. This comparison can symbolize the two-side effect of the estate on the economy: rapid development in a numerical statement but a high risk of the whole economy crashing down. China was originally a country without real estate products, even now China still possesses a newly born real estate industry which is created by the Chinese government with their supporting policies of releasing houses like bungalows since 1990, so there are some specialties in the Chinese real estate market. Firstly, there are a lot of developed countries' conditions that can be used as examples of future governance. Even now, China is imitating Japan, Tokyo's governance style to control the fair price of real estate from falling. Secondly, for one thing, China's huge population basis offers a huge amount of labor force to exploit both urban and rural areas and to build new constructions, for another thing massive population gives pressures - increasing living costs, overwhelming demand outraces land and apartment supply, which contributes to unaffordable housing price to Chinese residents. With the ongoing control of the real estate market by the macro economy given by the Chinese authorities, the wretched influence of being highly populated is nearly totally eliminated. But there is still a part of the unbalanced market, which is usually found in the rural area, especially those places surrounded by continuous mountains or places full of hills or basins. These places are not like plague areas, too high or too low terrains place restrictions on the amount of available-to-build houses.

The feature of the real estate market at the beginning of the 21st century is complicated, this can be blamed on the extreme imbalance in China's relatively developed areas in the East, underdeveloped areas in the West and extremely poor areas which are usually precipitous. Here are the descriptions of the three areas throughout this paper: On the regional division, the central and western regions are underdeveloped regions; The East and coastal areas are developed areas. What's more, those mountainous desert areas are identified as extremely poor areas, no matter where they are located.

3. Characteristics of Real Estate Market in the Beginning of 21 Century

3.1. Description of East Relatively Developed Area

In terms of economic strength, the Pearl River Delta, the Yangtze River Delta and the Bohai Rim region are the developed regions; Other areas are underdeveloped areas except those that are defined as extremely poor areas. The regional nature of the real estate industry is obvious, and the role of regional tilt here seems not to be significant. If we look at it from a deeper level, there is a division of labor and cooperation that coordinates the relationship between the real estate industries and other industries. The first stage of the real estate economy stimulated by the division of labor is before 2005. The main feature of this stage is that the residential sales area is lower than the completed residential area, and the supply exceeds the demand. To demonstrate separately, East relatively

developed area is becoming stronger from the end of 20th century till now. To exemplify, the Yangtze River Delta lured thousands of grassroots workers to join in. With this division of labor, from village to city, a huge devotion was conducted by this stream of people who flooded in, and local demand for buying housing apartments accelerated. Nevertheless, this absolutely doesn't show the economy of the Yangtze River Delta was intensively dependent on these external populations, starting from the Eastern Jin Dynasty, the Jiangnan area (part of the Yangtze River Delta) was densely commerce concentrated, in summary, it was only icing on the cake but not thorough assistance for the area's economy. When it comes to Western Underdeveloped Areas, things are getting different. China is always focusing on developing the east side, developing the other areas with residual fiscal retained earnings which can be used in estate properties. That's why the west and middle parts of China are always striving after the pace of the East part of China. Due to the domestic strategy called: vigorously developing factories in the West of China. There emerges a lot of coal exploitation factories and chemical plants, and people are unwilling to live in there. As a result west local real estate is in a huge value gap with east area real estate. As for the extremely poor area, local villagers in those areas suffer a tough time. They are the neediest group of people in China. They are in privation for as much as China's Strategy of strengthening provincial capital as well as lack of poverty alleviation policy. This shortage of elixir-like policy results in the absence of the local real estate market. There, houses are valueless, because villagers have no extra currency to run the trade of estate property. Houses are only avatars of living places, not real estate properties for commercial purposes.

With the good development momentum and accelerated development speed of the whole Chinese economic situation, the real estate industry has been one of the fastest growing and most profitable industries in the past decade and is also one of the important pillars of local finance, especially in the east well-developed area [2].

3.2. Description of West Underdeveloped Areas

Underdeveloped areas' governors are always worrying about how to retain people in how keep their residents from moving to relatively developed areas. The population who transfer from relatively developed areas to inferior ones gain little benefit. In contrast, the population in an extremely poor area is hard to get out since there were too many cliffs and hills, isolating these places both geographically and economically. Even if someone satisfies the conditions of getting out of poor areas, they will choose developed areas with no hesitation, because those "big cities" is always stationed in the first place in the ranking list of average salary. Secondly, if pollution is too severe, incoming immigrants would be scarce and these pollutants are always dumped away there by those chemical plants and power stations, originally dry sandy soil and loess plus chemical pollutants can't be decomposed by the nature for more than 50 years [3].

3.3. Description of Extremely Poor Areas

Qin'an County can be listed as an icon of a county in poverty since it is found that the number of laid-off and unemployed enterprise workers has increased in recent years, people will look down on their future expected income, and most of their disposable income will be converted into savings. With their children's families and businesses, people tend to convert their savings into housing. In Qin'an County, such buyers account for the vast majority; The second situation is that most of the laid-off and unemployed people flock to the commercial circulation industry, and there are fixed shops to do business, so the shops are more popular; The third situation is that the number of farmers entering the city to do business has increased, and the demand for housing has greatly increased due to living and doing business; The fourth situation is that after the housing reform, units are no longer allowed to raise funds to build houses [4]. The factors above lead to the increasing demand for

commercial housing in Qin'an County. This stylized mode of people dealing with high employment rates, although a bit irrational, is undoubtedly a fixed formula of poor area aborigines be likely to take reaction facing career problems. Consequently, real estate in extreme areas can be with high appreciation potential when a job crisis comes. Samely, commercial residences are far more worthy to take a long position. The report points out that as the largest of the four interest rate cuts this year, this interest rate cut in 2008 has brought immediate savings to loan customers [5]. In this interest rate cut, the interest rate of commercial loans over 5 years was reduced by 108 basis points, and the interest rate of the provident funds was only reduced by 54 basis points. After adjustment, the provident fund interest rate of 4.05% has been close to the commercial loan preferential interest rate. In contrast, the provident fund interest rate has no obvious advantage over commercial loans. Therefore, it is expected that the proportion of commercial loans will rise after the central bank's sharp interest rate cut.

There is no doubt that China has entered the interest rate reduction cycle. In order to promote currency liquidity, boost the confidence of investors, reduce the cost of existing loans of enterprises, stimulate economic vitality, and ease the trend of economic decline, it has a certain positive effect. It is a powerful stimulus policy to maintain economic stability and prevent excessive growth decline [6]. China's per capita GDP has increased by 2.27 times in this period. This increase is not far from the increase in house prices in the same period. In the face of such rapid wealth growth, China has very few investment channels. In 2003, the Shanghai Composite Index hovered around 1550 points, and in 2013, the Shanghai Composite Index hovered around 2160 points. During this period, the Shanghai composite index increased by about 40%. If the inflation rate is deducted, the investment return of about 40% is too low for investors even lower than the annual domestic inflation rate. Most families in China had no choice except for investing money in civil or commercial real estate. Such a rush of homogenous asset holders crowded its market. High demand still, formulated the swift booming of estate prices. If not for the appreciation, the national economy won't go up so quickly since they are positively related. In the same year, 2009, in order to encourage citizens to buy ordinary housing, the relevant departments of the state recently introduced a series of preferential measures [7]. According to experts' analysis, home buyers, under the current situation, should firmly grasp the two cores of first-time house purchase and ordinary housing, and on this basis, formulate purchase strategies in a flexible manner to fully enjoy the benefits brought by the policies. Moreover, after 2008 with the accession of the Olympic Games held in Beijing, Taiwanese businessmen accelerated their investment in the mainland based on the consideration of the huge market potential of the mainland and the relaxation of the island's investment policy toward the mainland for high-tech industries [8]. Taiwan businessmen in technology-intensive industries, represented by high-tech industries, accelerated their investment in the mainland [9]. This incident radiated almost every area in China, they inevitably get influenced by a higher economic index brought by real estate buyers coming from Taiwan, and subsequent welfare was secretly but fairly distributed to all the Chinese citizens.

4. The Economic Significance Behind the Rapid Rise of GDP Caused by Real Estate

4.1. America

Different from China, taking the American residence market as one entity would stick out the uniqueness of China's real estate characteristics. America is the only country whose global domestic production exceeds China and its market shares converge with Europe, so its market can be the representative of most developed countries in the world. Over the past century, the real estate market in the United States has very matured development. Although it used to experience a serious economic crisis, it always gradually matured in its perfect financial system and market-oriented

industrial characteristics. Therefore, the United States has produced many high-level mortgage loan markets [10].

4.2. China

Unlike America, real estate value occupies over 80 percent portion of most residents' total assets. In addition, China has never experienced a collapse in the real estate market, so there's no matter that China's tolerance of the real estate market is extremely weaker than the USA's.

5. Conclusion

China's special real estate market has highly terrific growth and prosperity. This paper draws a conclusion that investing in real estate in developed areas and those extremely poor areas are more worthy than any other place, and there's still a long way for China's real estate market to grow. This paper only analyzes the development of the real estate industry from a macro perspective, and does not involve too many specific case studies. Future research can combine specific real estate companies and different regions for comprehensive analysis.

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