

# Examining the Impact Factors and Strategies to Mitigate Economic Fluctuation in the Real Estate Sector

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**Abstract:** With the continuous growth of the economy and the rapid pace of urbanization, the real estate sector has assumed an increasingly substantial role within the national economy. Ensuring the stable and sustainable development of the real estate sector to maximize its societal and economic contributions has become a pressing issue. China, presently engaged in an extensive urbanization drive, places real estate development and sales as pivotal components in the broader real estate industry, significantly impacting the overall functionality of the real estate market. Real estate, being a comprehensive system encompassing land, housing, infrastructure, and other key elements, exerts a profound influence on people's basic needs such as shelter, sustenance, and daily living. Its evolution directly shapes the trajectory of the national economy and social stability. Therefore, to foster the consistent and robust growth of China's real estate economy, it is necessary to implement effective measures that entail a systematic and thorough analysis of the factors responsible for the fluctuations in China's real estate economy.

**Keywords:** Real estate; Economic fluctuations; Influencing factors; Countermeasures

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## 1. Introduction

Since the initiation of economic reforms and opening up, China's real estate sector has achieved remarkable progress, significantly contributing to the national economic development. However, the rapid economic growth has given rise to several challenges, including persistent housing price increases, the imbalance between real estate market supply and demand, and the growing fiscal revenues of local governments, which have, in turn, triggered a series of economic fluctuations. In response to these fluctuations in the new era, both the central and local governments have devised relevant policies and measures aimed at addressing this issue. This paper mainly examines the underlying causes of real estate economic fluctuations and outlines the key strategies for mitigating these fluctuations, intending to resolve real estate economic fluctuations in China in this new era.

## **2. Factors influencing fluctuations in the real estate economy**

### **2.1. Housing prices**

Housing prices play an important role in affecting the fluctuations within the real estate economy. The level of housing prices directly reflects the market's demand for real estate. Generally, higher housing prices lead to reduced buyer willingness, resulting in greater price fluctuation, while lower housing prices boost buyer enthusiasm and minimize price fluctuation <sup>[1]</sup>. Simultaneously, as China continues its urbanization process, the demand for housing among its citizens is continually on the rise. However, a scarcity of available residential land and irregular land supply practices in China have led to substantial land underutilization. Consequently, numerous individuals engage in various degrees of speculation to secure additional land resources, further exacerbating the supply-demand imbalance in the real estate market and consequent housing price fluctuations. Therefore, government authorities need to adopt effective measures to encourage the rational formation and stable development of housing prices. In addition, reinforcing macro-level control of the housing market is essential to ensure the steady and healthy development of the real estate economy.

### **2.2. Resident income**

Resident income encompasses the monetary income acquired by individuals through diverse means, including wages, interest, rent, property income, and more. There exists a certain connection between the real estate economy and the residents' income, with fluctuations in the real estate economy being greatly affected by changes in resident income <sup>[2]</sup>. On one hand, higher income levels among residents correspond to increased demand for home purchases. On the other hand, individuals with higher incomes tend to invest surplus funds in the real estate market, thereby driving up housing prices. It is evident that an improvement in residents' income levels significantly propels the development of the real estate economy. However, China's real estate economic market currently exhibits certain anomalies, including high housing prices, inadequate supply of affordable housing, excessive currency issuance, and more. These irregularities somewhat constrain the populace's demand for the real estate market <sup>[3]</sup>. Thus, rectifying these discrepancies is vital to promoting the stable and healthy advancement of China's real estate economy.

### **2.3. Interest rates and deposit reserve requirements**

Interest rates represent a crucial factor affecting fluctuations within the real estate economy. Given the intricate connection between interest rates and real estate investments, an increase in interest rates directly reduces real estate investments, thereby impacting the development of the real estate economy. Interest rate fluctuations also reverberate within household consumption patterns and consequently exert a substantial influence on the real estate market <sup>[4]</sup>.

In essence, as interest rates rise, consumers' purchasing ability for commercial housing diminishes, thereby negatively affecting real estate investment. On the contrary, a decrease in interest rates bolsters consumers' purchasing ability for commercial housing, favorably enhancing commercial housing sales. In light of these dynamics, it is essential, during the process of macroeconomic regulation, to thoroughly assess the implications of interest rates and deposit reserve ratios on real estate economic fluctuations. However, due to the relatively nascent state of China's financial market, limited investment avenues, and the high bank reserve ratio, further enhancements are warranted. Hence, future development should prioritize financial innovation, broaden investment opportunities, improve the deposit reserve system, and standardize the bank's financial product market to foster the stable and healthy growth of China's real estate economy <sup>[5]</sup>.

### **3. Strategies to mitigate the influencing factors on real estate economic fluctuations**

#### **3.1. Uphold the principle of “housing for dwelling, not speculative investment”**

In the face of considerable economic pressures, it is imperative to maintain the stance that housing should serve as a means of residence, not speculative investment. Real estate must not be utilized as a short-term stimulus for the economy but rather foster a healthy and stable development of the real estate market. Adherence to the “no speculation on housing” principle is essential to prevent abrupt surges or declines in housing prices, thus restoring rationality to the real estate market <sup>[6]</sup>.

- (1) Enhance regulation of the land market: Simultaneously with the “no speculation” principle, bolstering land market regulations stands as an important measure to stabilize the real estate market in the contemporary era. As various policies and measures are introduced, the Chinese government should exercise prudent land price management to stabilize land and housing prices, and curb excessive expectations. This can be accomplished by adjusting land auction prices, increasing land transfer fees, and regulating land supply quantities. Additionally, the government can mitigate rapid land price increases by elevating the approval threshold for real estate projects and augmenting the supply of residential land <sup>[7]</sup>.
- (2) Establish and refine real estate market supervision mechanisms: To ensure the sustained development of the real estate market, the Chinese government must institute and refine supervision mechanisms for the real estate sector, accompanied by the formulation of relevant laws and regulations. This approach entails robust supervision and management of real estate projects, stringent control of illicit activities, and continuous enhancement of the legal and regulatory framework within the real estate market. In parallel, overseeing local governments and regulatory departments is crucial to assess and supervise their activities.
- (3) Develop rational tax policies: Taxation policies serve as an important instrument for mitigating fluctuations within the real estate economy. The Chinese government can strategically adjust the tax policy by increasing the proportion of residential and commercial real estate land in the tax policy. This helps stabilize the supply-demand dynamics within the real estate market and prevents abrupt surges in housing prices.

#### **3.2. Optimize the land supply structure and advance housing system reforms**

Land plays a pivotal role in real estate economic fluctuations, necessitating the strategic planning of land supply to meet the current market demands. The government has already implemented multiple policies and measures to enhance land supply, aligning land regulation and control, and increasing housing land supply. For instance, the central government issued the “Notice on Issues Related to Strengthening Land Regulation and Control” in 2017, increasing the supply of housing land from 400 hectares a year previously to 1,200 hectares a year; In 2019, the central government issued the “Guidelines on Further Promoting the Economical and Intensive Use of Land,” stated that all localities are required to increase the economical and intensive use of land for urban industrial and mining construction, rural collective land for commercial construction and unused land, and incorporate it into the overall urban planning; In 2020, the central government issued the “Guidelines on Deepening the Reform of State-owned Enterprises,” where local governments are required to adopt various ways to increase the use of urban construction land; In 2021, the central government issued the “Notice on Further Standardizing the Management of Income and Income of Land Transfer,” stated that all localities are required to strengthen the management of land transfer revenues and expenditures.

The above policies and measures were implemented to mitigate the current real estate economic

fluctuations. However, certain issues remain, such as the imbalance in land supply structures and incomplete housing system reforms, which contribute to structural imbalances in China's real estate economic fluctuations. Therefore, policy adjustments and continuous optimization of the land supply structure are required to effectively control real estate economic fluctuations <sup>[7]</sup>.

At present, housing system reform stands as one of the most fundamental strategies to mitigate real estate economic fluctuations. By increasing the price of commercial housing and accelerating the construction of affordable housing, the government can effectively moderate economic fluctuations in the real estate sector. The authorities must augment their support for indemnificatory housing construction while expediting the transformation from affordable housing to commercial housing, thus minimizing the impact on real estate economic fluctuations <sup>[8]</sup>.

### **3.3. Enhance the regulation mechanism of the real estate market**

As the market mechanism evolves, the government should actively exercise its macroeconomic control function. When the housing market experiences fluctuate, corresponding measures should be deployed for regulation. While regulating, the government should continually refine the market mechanism to avoid ineffective or excessive intervention. This entails the enhancement of land policies to determine land prices systematically, vigilance in overseeing housing credit policies to prevent real estate credit bubbles, and the effective utilization of tax policies to strictly curb speculative purchases and prevent market overheating <sup>[9]</sup>.

## **4. Conclusion**

To sum up, numerous factors impact the fluctuations in China's real estate economy, necessitating a thorough analysis and summation of these influencing factors. To ensure the stable progression of the real estate economy, it is imperative to consistently refine pertinent policies, optimize the operational environment for the real estate sector, and devise well-informed macroeconomics control policies that align with the industry's evolution and dynamics. As China's market economic system continually evolves, the real estate industry undergoes continuous development. The challenge at hand is to craft macroeconomic control policies that are harmonized with the current state and trajectory of China's real estate industry. This represents a collective endeavor for all relevant departments, and success in this regard is essential to drive the healthy and stable development of China's real estate sector, thereby contributing to the high-quality growth of the national economy.

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## **Disclosure statement**

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