

Research on Chinese Real Estate Development and the Future Trends

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Received: June 15, 2011 Accepted: July 6, 2011 doi:10.5539/ass.v7n9p207

Abstract

After nearly 20 years' development, Chinese real estate industry shows the evidence of increasing both in scale and price. But recent years, China citizens began to complain more about the high price of housing, and government also pays more attention to the real estate industry. This article first analyzes the Chinese real estate development in recent years, and then based on the life cycle theory, the paper discusses Chinese real estate's stage in the life cycle as well as the problems in this stage, at the end of the paper, the future trends of Chinese real estate are predicted.

Keywords: China, Real estate, Life cycle, Trend

1. Introduction

Real estate industry includes the investment, development, operation, management, and service in the real estate and belong to the 3rd industry. Usually, real estate industry in China is looked as a basic, guiding, driving and risking industry. As a very fundamental industry, real estate industry plays a very important role not only in a country's economic life but also in people's daily life, thus attract many research interests. Kaklauskas (2011) gives comparative description of crisis management for real estate in developed countries, and makes general recommendations for improving crisis management efficiencies in these countries' real estate sector, also tries to give multiple criteria analysis of crisis management components and selection of the most efficient life cycle version of crisis management in real estate. Wang (2011) points out that China's major cities have experienced significant real estate price increase which has been fueled by the sustained growth of the economic fundamentals, the author examined the linkage between urban economic openness, the ratio of trade volume as a percentage of GDP, and urban real estate prices basing on the quality of life theory as well as Balassa-Samuelson (B-S) effects. Liow and Webb (2009) investigate the presence of common factors in the securitized real estate markets of the United States (US), United Kingdom (UK), Hong Kong (HK), and Singapore (SG). The authors found that the degree of linkage across the four securitized real estate markets is much weaker than the strong linkages present across the four economies. These studies show only a fraction of the research in real estate field. Aizenman and Jinjark (2011) studies the association between current account and real estate valuation across countries, and they found find a robust and strong positive association between current account deficits and the appreciation of the real estate prices/(GDP deflator).

And when it comes to China, due to its fast and amazing developing, it seems people are more interested in how it will develop in the future: China real estate began to rise in the 1980s', and since the market-oriented housing reform in 1998, urban real estate prices in China have risen quite rapidly in general. Koetter and Poghosyan (2010) discussed that real estate prices can deviate from their fundamental value due to rigid supply, heterogeneity in quality, and various market imperfections, which have two contrasting effects on bank stability. Their research found that house price deviations contribute to bank instability. This finding corroborates the importance of deviations from the fundamental value of real estate, rather than just price levels or changes alone, when assessing bank stability.

Under the China's active fiscal policy, the fixed asset investment grows rapidly and the ratio of real estate investment in GDP increased gradually. Accompany with the quick development, the scale and price of real estate in China also experienced rapidly grow. In order to cool down the whole market and keep the price in a reasonable increase rate, the Chinese government issued a series of policies in 2010. Under this macro environment, the development of China's real estate industry and its future trends analysis is not only concerned by consumers and government, but also be concerned by many scholars and real estate business company. This paper will first describes the resent status of Chinese real estate, and then based on the life-cycle theory and China static to give a prediction of the future trends.

2. Today's Chinese real estate development status

According to the data published by China National Bureau of Statistics, all of the indicators of China's real estate in 2010 show increase. In 2010, the Chinese national real estate development investment is 4.8267 trillion RMB, increased 33.2% over 2009, among which, the commercial residential investment is 3.4038 trillion RMB and this number increased 32.9% over 2009. At the same time, the proportion of total investment in real estate development is 70.5%. In 2010, the business construction area is 4.055 billion M², increased 26.6% over 2009, and new construction area is 1.638 billion M², which also increased 40.7% over 2009. Completed space of houses is 760 million M², increased 4.5% over 2009, among which, the residential area is 612 million M², increased 2.7%. Over 2009.

Table 1 shows the sales of China's real estate in 2010, and Figure 1 shows the real estate climate index from January 2009 to December 2010.

The investment in affordable housing in 2010 is around 840 billion RMB and the growth rate of investment in real estate development was driven by about 5%. In 2011, 10 million new affordable housing units construction are under planning and 60% is expected to be completed by the end of 2011. If calculation of the average 60 square meters for each affordable house, the new affordable housing will be completed in an area of approximately 3.6 billion square meters. Thus it's estimated that about 1.3 trillion RMB affordable housing will be completed in 2011, which will boost real estate development investment increased by about 10%, and boosting China GDP growth by 1%.

3. Chinese real estate life-cycle position and the main problems

The life cycle can be used to observe the behavior of many concepts in business; it is best applied to products and industries. Industry Lifecycle is a concept relating to the different stages an industry will go through, from the first product entry to its eventual decline. There are typically four stages in the industry lifecycle (figure 2). And the first stage can also be divided into early stage and innovation stage.

The stages are defined as:

- (1) Early Stages Phase-alternative product design and positioning, establishing the range and boundaries of the industry itself.
- (2) Innovation Phase - Product innovation declines, process innovation begins and a "dominant design" will arrive.
- (3) Growth (Cost or Shakeout) Phase - Companies settle on the "dominant design"; economies of scale are achieved, forcing smaller players to be acquired or exit altogether. Barriers to entry become very high, as large-scale consolidation occurs.
- (4) Maturity Phase - Growth is no longer the main focus, market share and cash flow become the primary goals of the companies left in the space.
- (5) Decline Phase Revenues declining; the industry as a whole may be supplanted by a new one.

Now, the Chinese real estate is experiencing the development from begin phase to the growth phase, due to the following reasons:

- (1). The Chinese citizens are consuming the real estate product in growing numbers;
- (2). More and more real estate companies enter into the market, race to offer their own products and gain a share of a growing market.
- (3). Total sales and profits continue to grow in the Chinese real estate industry.

Though it looks very promising, but there are still some problems exist in China real estate industry in this development stage, we analysis and include these problems as the following 4 main parts:

Continues expanding of the real estate investment. Real estate investment proportion in the total social fixed assets investment increased year by year. In 1999, the real estate investment amounted is around 401.017 billion RMB, and the number reached 4.8267 trillion RMB by 2010, with an average growth of 400 billion RMB per year. At the same time, the ratio of real estate development investment in GDP also increased year by year.

Rapid growth in developing size. The China national real estate construction area in 2010 reach to 4.055 billion square meters, compare with the 568.58 million square meters in 1999, it increased nearly 40 million square meters, an average increase of 300 million square meters per year. And the scale of real estate development also expand gradually, the indicators of real estate development growth is more than 10%, and the highest rate close to 30%.

Regional differences in market size and growth rate, both in completed construction area and under construction area, the east of China has a large proportion, while the central of China has leading position in the growth rate (except sales). At the same time, there are regional differences in the level of urban residents living.

Continuous high price. Recently, the Chinese real estate market shows a "three high" phenomena: High prices, high enthusiasm of residents purchase and high disposable income. In China, the price of live house in 2004 was 2,714 RMB / square meter, but in 2010, the price climbed to 8363 RMB / square meter, the high prices of live house caused many concerns for both residents and government.

4. Trends and Countermeasures

After nearly 20 years' development, Chinese real estate has made great achievements, look back this 20 years' development, we can find the following characters:

- China real estate industry is gradually moving toward market-oriented.
- The real estate and capital markets are linked closer.
- China real estate moves into a rapid developing and rapid growth period.
- China's Real Estate's policy is under gradually improving.

With China's accession to WTO, China's real estate market will follow the international practice and open to other WTO member countries according to the multilateral negotiations of the commitments. China's real estate market will be further developed, and the trends are mainly in the following areas:

With the accelerated urbanization process and urban population increases, a large number of house renovation and real estate secondary market, the housing market still has more room for development.

Given the urban population will have more 10 square per person, it will cause to nearly 40 million square meters demanding. Coupled with the accelerated process of urbanization, which will increase the demand for housing (about 100 million square meters per year), thus in the next 10 years, China will has a sustained development in housing construction.

According to some agencies' survey, the satisfaction rate of China residents' in housing is under 20%, about 48% of the residents are willing to update their house in the coming 2 to 3 years to improve the living conditions and environment, plus there are a lot of people willing to invest in housing, therefore, the potential demand for housing in China is still quite large.

After joining WTO, China's real estate market increasingly changed form group consumer dominated to individual consumers dominated. The proportion of individuals purchase will increase, the housing quality will be further improved, the sales cycle will speed up, housing service consumption will have a greater expansion, the total amount of personal loans in housing will increase, and the real estate law will be strengthened.

5. Conclusion

From the preceding data and analysis, we can see that the Chinese real estate market has experienced the stage of germination and rapid development, and now it is still in its growing stage.

With the improvement of national policies and more matured consumption, the Chinese real estate development will enter a relatively mature stage of development, it means the market is beginning to become very competitive, and the the competition for customers becomes fierce. On the other hand, under the guidance of national policy, to purchase for the purpose of real estate investment would be reduced. These two factors will help the real estate prices to return to a reasonable level.

But since the China citizen's rigid requirements for house still exist, Chinese real estate will enter a more competitive yet still promising phase. And only those companies who pay much attention to the government

policy and customer needs can stay in the market.

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Table 1. China's real estate sales in 2010

	Sales area (Million square meters)	Sales area growth (%)	Sales (Billion)	Sales growth (%)
Total	104349.11	10.1	5247.872	18.3

Table 1 shows the sales of China's real estate in 2010

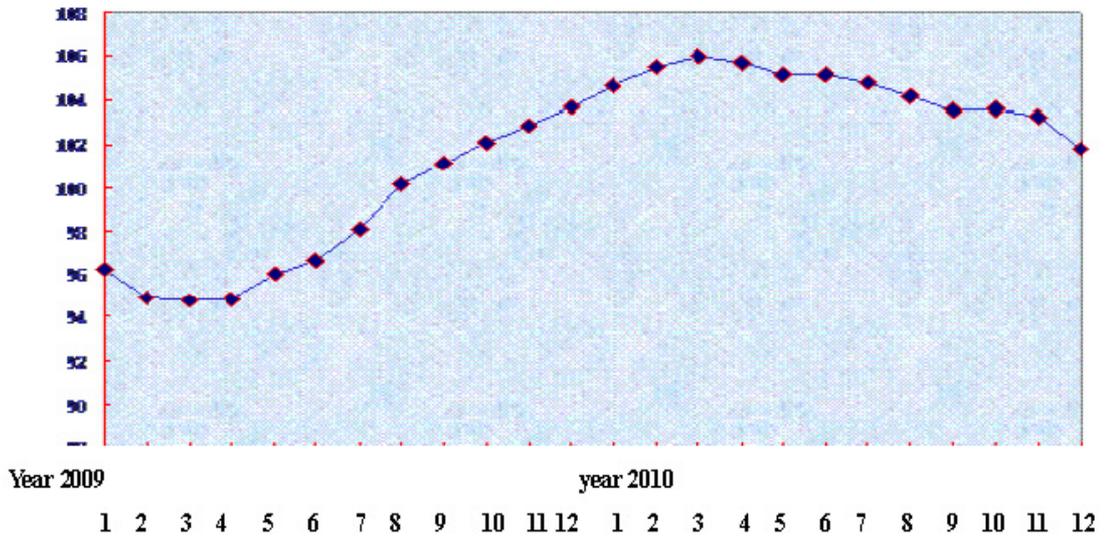


Figure 1. China's national real estate climate index (2009~2010)

Figure 1 shows the real estate climate index from January 2009 to December 2010

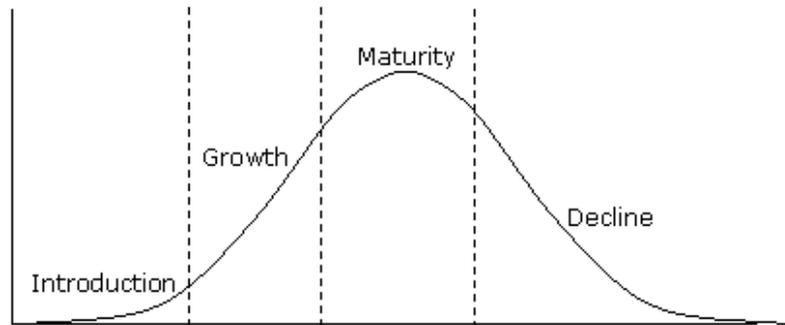


Figure 2. Stages of Industry Lifecycle