

# Problems and solutions of Shenzhen's housing market

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**Abstract.** Housing market is an important part of China's market economy, and the stability of housing market is of great significance to China's economic development and financial growth. However, China's housing boom has long created problems that need to be solved. This paper takes the housing market development of Shenzhen as an example, deeply discusses the real problems in the housing market process of Shenzhen, and puts forward some solutions, so as to provide effective support for promoting the improvement of housing market and economic stability of Shenzhen. Finally, this paper provides some references for understanding the housing market in Shenzhen.

**Keywords:** Shenzhen; Housing market; Problems.

## 1. Introduction

The housing market is facing many problems that urgently need to be solved. Problems related to houses have always been heated topics because houses are necessities that everyone cares about. This essay will take Shenzhen as an example, illustrating issues that the housing market in Shenzhen has encountered and proposing some possible solutions to address these problems. As a modern city that is at the forefront of China's reform, Shenzhen is developing at a rapid pace: the GDP of Shenzhen was 2328 billion in 2017, 2699 billion in 2019, and a breakthrough of 3 trillion in 2021. Moreover, the number of listed companies in Shenzhen has already exceeded 500, including the headquarters of some well-known enterprises such as Huawei, Tencent, and Ping An Insurance Company, so these valued job opportunities attract many talented people to migrate and work in Shenzhen. The net migration has sustainable growth, which had a net migration of 11.8 million people in 2020, ranking the first in China. Unlike more developed cities in China such as Shanghai and Beijing, Shenzhen's buildable land is limited by mountains and coastline, covering only 28.5% of the total land area of the city, which is only 1/3.5 of Shanghai and 1/8 of Beijing. Shenzhen's high population inflow results in a great level of population density which is the highest among major cities in China, leading to a housing shortage and rocketing housing prices. As an emblematic representative of housing markets undergoing serious issues, studying the pattern of Shenzhen's real estate market can act as an inspiration for other cities, providing people with ideas about how to prevent or solve problems in housing markets.

## 2. Problems of Shenzhen's housing market

While Beijing, Shanghai, and Shenzhen have the top housing prices in China, Shenzhen's housing price has significantly exceeded Shanghai and Beijing, ranking the first in China since 2019. In 2019, Shenzhen had an average housing price of ¥65516 per square meter compared with ¥63052 in Beijing and ¥54467 in Shanghai. The sky-high housing price is a grievous problem exacerbated by many factors. First, houses are necessities that are imperatives of human beings, resulting in a supply-demand imbalance in the housing market in Shenzhen. The demand for houses in Shenzhen is exceedingly high. Shenzhen is an open city that proactively attracts talented migrants and has a relatively loose residential policy, which means it is easy for migrants to settle down in Shenzhen. Shenzhen is a city at the cutting-edge of the reformation of China and has centralized financial resources. Many people are optimistic about the prospects of migrating to Shenzhen because it has many listed firms such as Evergrande Group, Tencent, Alibaba, and Baidu, making more valuable job opportunities available. Highly educated people are appealed by those job opportunities in prestigious firms and migrate to Shenzhen. The educated person usually receives a higher income, as

proved by that the average monthly salary in Tencent is 84 thousand in 2019 compared with the average monthly pay of 11 thousand in 2019 in China. These people are more likely to buy houses owing to their stronger financial ability. With such a considerable external population, Shenzhen now has a total population of 17.6 million with 11.8 million migrants which occupy 2/3 of Shenzhen's population. The high population leads to high demand for houses, but there is a lack of supply. Shenzhen has a total area of 1996.85 square kilometers with only 28.5% of it being utilized for construction. To have further development, Shenzhen's government utilizes a large proportion of usable land for attracting foreign investment, which means not enough land is used for lodging, aggravating the problem of the housing shortage. In 2019, Shenzhen had 1830 thousand commercial residential houses, and only 7.4% of people in Shenzhen owned commodity houses with 0.9% of the population owning more than one commodity house. Some people were forced to live in urban villages. Due to the high demand and short supply, many people are competing for limited houses, resulting in the price being promoted continuously to a higher position. Second, there are some school estates in Shenzhen. Children are only admitted to going to certain schools if their parents own the corresponding school estate. Parents purposefully buy houses that can make schools with considerable enrollment rates available to their children because of the growing emphasis on children's education. Therefore, considering the future of their children, many parents in Shenzhen would like to spend a lot of money to buy school estate, which leads to the high housing prices in the school district. On account of the above reasons, Shenzhen has high housing prices, attributed to the superior difficulty of settling down in Shenzhen.

Another severe problem is the existence of housing speculation in Shenzhen. Housing speculation is a phenomenon incurred by the development of the real estate industry. It is a special kind of investment that people buy many houses and regard them as a financial asset that they assume will appreciate with the expectation of selling them at a higher price in the future. People sometimes group together or even collude with some property companies and use hunger marketing to raise the price of houses by monopolizing many houses, periodically releasing a small number of houses, fabricating a fake perception that those houses are welcome, attracting many people to buy and therefore boosting the price of the house. The incentive of selling houses can earn much more money than people working for a long time makes more people willing to take the risk, and some people even use loans to buy houses and intend to use the money they earn from selling the house later to repay the money of bank and earn a price difference. This incurs two consequences: the housing price keeps rising rapidly, shown by the 14.6% increase of the price of Shenzhen's second-hand houses in 2021; some people speculating houses may have capital chain scission, making them unable to repay the housing mortgage, increasing the bad loan of banks and subsequently increasing the economic risk, which can eventually lead to the financial crisis and place the whole country in trouble and dilemma. The third problem is that some corporations in Shenzhen use high leverage to operate and invest in houses, which means they construct houses using loans then sell houses to others and attempt to make a profit by the price difference between the revenue and the repayment. This could finally give rise to economic collapse and crisis during economic repression when the housing price is declining, which means people can no longer pay back their loans to banks. The whole country's finance would be put in danger and other industries would have to be confronted with the potential risk of being dried up due to the capital shortage.

### 3. Conclusions and suggestions

To solve the problem of high housing prices and to make houses more available and affordable for people, some measurements can be taken. First, there could be a reallocation of land implemented by the government. More land can be constructed with the intention of dwelling instead of commercial use, which can effectively relieve high housing prices caused partially by the shortage of house supply. Second, regulation of minimum floors can be imposed to enable more houses to be built in a given area, which can further relieve the pressure on housing. Moreover, school district housing can be

rectified to disperse from being specific to one school. With the random division of schools and the new policy that one house corresponds to various schools, there is no need for people to purposefully buy houses in a concentrated area with well-reputed schools, alleviating the high price. Different types of houses can be widely introduced by the government: capped-price housing (limit prices of both house and land), low-renting houses (government gives subsidy for renting houses), public rental houses (lease state-owned houses at a lower price). After strict scrutiny, only eligible people can get access to these beneficial housings, making more people capable of settling down in Shenzhen.

The problem of speculation can be reduced by imposing some regulations. First, there should be a platform for government information disclosure about the housing market which reveals the reported price of premises and the number of houses available, allowing the information symmetry between consumer and supplier. Second, there could be a more progressive tax system on real estate, which means people need to pay more housing property tax if they buy more houses, raising the financial burden for people who want to have more houses. Third, the number of houses one person can own can be directly limited, so people are not able to buy more houses for investment. Moreover, the number of people who buy more than one house for investment can be reduced by limiting the available house loan, raising the mortgage tax, and increasing the down payment, which effectively increases the difficulty of people to buy houses. The problem of high leverage can be resolved by strictly investigating the capital source of money used to buy land or build housing, which can prevent some enterprises from buying land using debit and credit or financing.

In conclusion, the housing market in China especially Shenzhen's housing market is currently experiencing three major problems: the high housing prices, the existence of housing speculation, and the problem of the high leverage ratio. The essay lists some solutions to solve these problems, such as changing the school district housing system, introducing a more progressive housing tax, and the rigid inspection of the capital source of real estate contractors. The specific case of Shenzhen's housing market and some potential solutions mentioned can also be employed by other cities suffering from similar problems.

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