The Development Path for Real Estate of China During the Normalization of the COVID-19

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Abstract. The COVID-19 pandemic swept the world in early 2020, which strongly inhibited and severely affected the real estate industry of China. In terms of information retrieving, integrating relevant data and implementation of SWOT and PEST analysis, this paper explores the development path of it in the post-epidemic era. According to the analysis, under the normalization of the pandemic, the market has several strengths and weaknesses. To be specific, strengths (e.g., the removal of the house purchase quota policies and burgeoning demand for housing) and weaknesses (e.g., blocked corporate capital chains and restricted offline sales) are clearly demonstrated. Meanwhile, opportunities and threats are also existed for this market. For instance, opportunities include LPR interest rate cuts and deposit reserve ratio reductions, and threats include uncertain outbreaks of pandemic and changing consuming attitudes of the millennial generation. In order to stabilize the real estate market, the government should keep implementing a series of macro-control and monetary policies. Additionally, real estate companies should change the design of house patterns, focus on the development of green and intelligent housing products, and cater to consumers' demand for new housing types. Under the premise of regular pandemic prevention and control, companies should also actively create an "online + offline" sales model to reduce the constraints of the pandemic. These results shed light on guiding further exploration of future development direction for the market.

Keywords: COVID-19; Real estate industry; SWOT analysis; PEST analysis; Development strategy

1. Introduction

The real estate issue is the most important one concerning daily life of human beings. In 2021, the real estate industry had an annual growth about 5.2% with totaled 775.61 billion yuan, possessing about 6.78% of the whole GDP. In the process of economic system reform of China, the continuous prosperity has brought along the flourishing for various relevant industries, e.g., construction, transportation, media, Internet, and finance. It is estimated that the added value of upstream and downstream industries completely or directly pulled by the real estate industry was 15.5 trillion yuan and 5.8 trillion yuan, respectively in 2021, accounting for 13.6% and 5.1% of GDP [1].

In the early 2020, the COVID-19 pandemic affected many walks of life across the country to varying degrees. Liu and Tang found that compared to communities without confirmed COVID-19 cases, the average housing prices decreased by about 1.3%, whereas it will oscillate back to the original trajectory with a short period after the pandemic shocks [2]. Zhang and Pan demonstrate by an empirical study that, in a sluggish growth regime, negative shocks from output have less impact on the real estate market, while monetary policy in that regime has a greater positive impact on the market [3]. Han, Zhang, and Zhao point out that the growth trend of the industry can be transferred to other sectors. Therefore, the measures that adopted to local conditions should be taken, the policies that guide professional services for developers ought to be emphasized, and the citizens' demand for improved housing should be meet [4]. Yang and Zhou note that house prices in first-tier cities tend to be higher during the pandemic owing to better medical conditions and urban management. However, this positive effect was reduced, implying that house prices in first-tier cities were effectively controlled during the pandemic [5]. By studying the current micro-growth situation of the real estate market in the post-pandemic era, Liu claim that more stringent policies should be implemented to cool down the excessive house prices and overheated investments [6]. Based on

SWOT analysis, Fang elaborates the effect of the pandemic from three aspects (i.e., country, business and consumer), and proposes some corresponding countermeasures [7].

As a leading and indispensable industry in a country's economic structure, real estate industry could affect the secondary and tertiary industries and it is prone to systemic risks. Therefore, it is of great importance to study the way that the real estate industry can develop well in the post-pandemic era. The purpose of this paper is also to provide suggestions for its booming in the future. The rest parts of the paper of this paper are organized as follows. The second section briefly introduces the current situation of China's real estate market under the normalization of the COVID-19 and conducts a SWOT analysis of it. The third section uses PEST analysis to explain the impact of the pandemic on China's real estate market. The fourth section proposes the strategic suggestions for the future development. Eventually, the last section will give a conclusion of the study.

2. Overview of the market under the normalization of the pandemic

2.1 Basic conditions under the normalization of the pandemic

In December 2019, some confirmed COVID-19 cases are emerged in Wuhan and spread rapidly across the country, causing a huge impact on many industries. Since real estate is a long-term asset, the negative influence of the sudden COVID-19 outbreak on the market was short-term. After the pandemic was brought under control, the market has been achieving positive growth, mainly reflected in the increases in real estate transactions and investment in development.

The sales area and sales of commercial properties reached new levels. As shown in Figures 1 and 2, the sales area of commercial properties in China had a annual growth of 1.9% and amounted to 179.43 million square meters in 2021, reaching a new high in the past six years. Among them, residential sales were 156.53 million square meters, accounting for 87.24%, and had a increase of 1.1% year-on-year. Seen from Figures 3 and 4, sales of commercial property in China were 1,819.3 billion yuan in 2021 and had an increase of 4.8% year-on-year. Thereinto, residential sales were 162,730 billion yuan, accounting for 89.4%, and had an increase of 5.3% year-on-year.

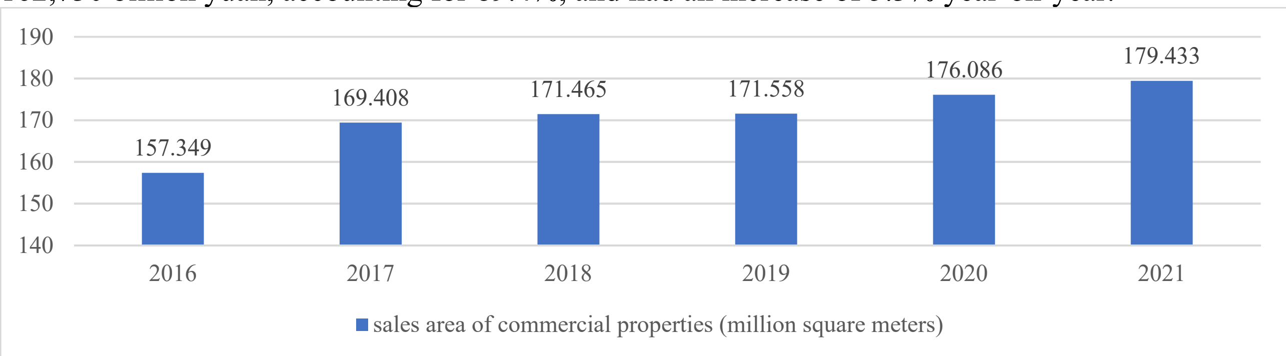

Fig. 1. The sales area of commercial properties in China from 2016 to 2021.

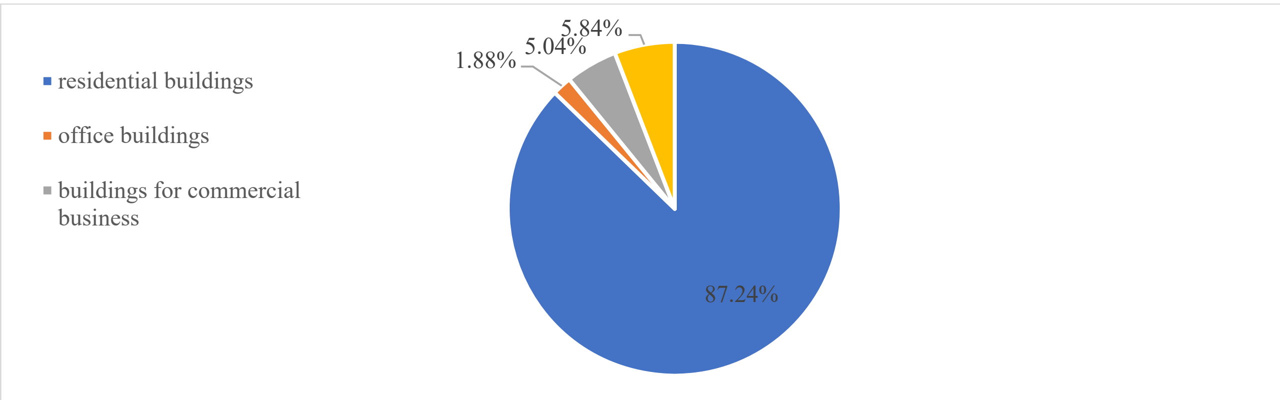

Fig. 2. Proportion of sales area of different types of commercial properties in China in 2021.

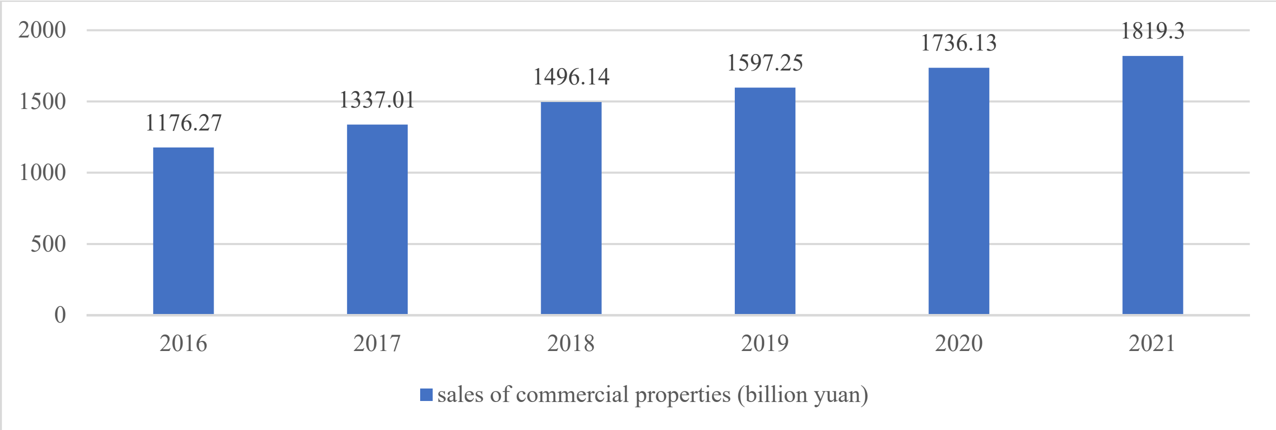

Fig. 3. Sales of commercial properties in China from 2016 to 2021.

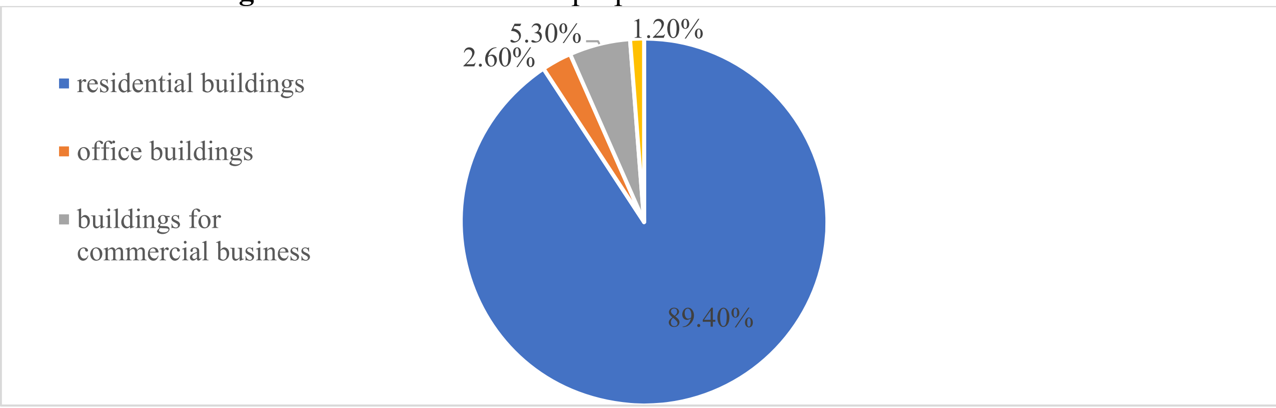

Fig. 4. Proportion of sales of different types of commercial properties in China in 2021.

The rise in housing prices has declined. As depicted in Fig. 5, the average sales price of commercial properties in China in 2021 was 10,139 yuan per square meter, with an annual increase ratio of 2.8%, which is the lowest in the past six years. In addition, in 2021, the sales prices of first-hand and second-hand houses increased by 2% and 1% respectively in 70 large and medium-sized cities, which was 1.7 and 1.1 percentage points lower than that in 2021.

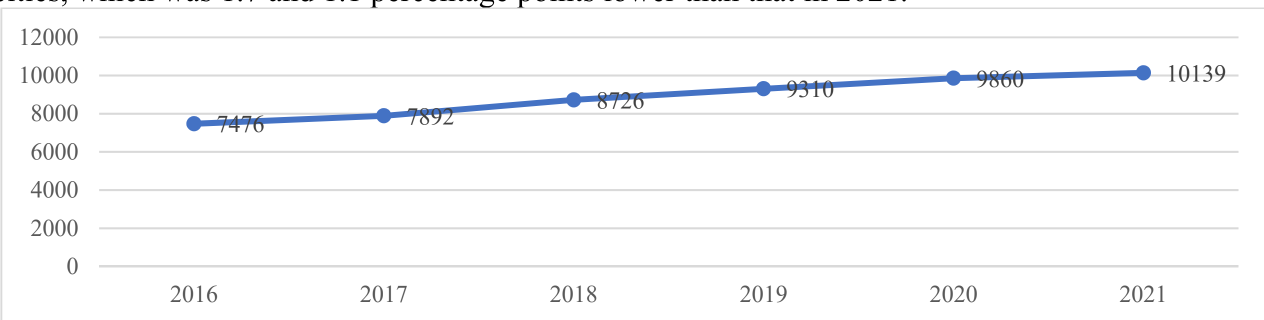

Fig. 5. The average sales price of commercial properties in China from 2016 to 2021.

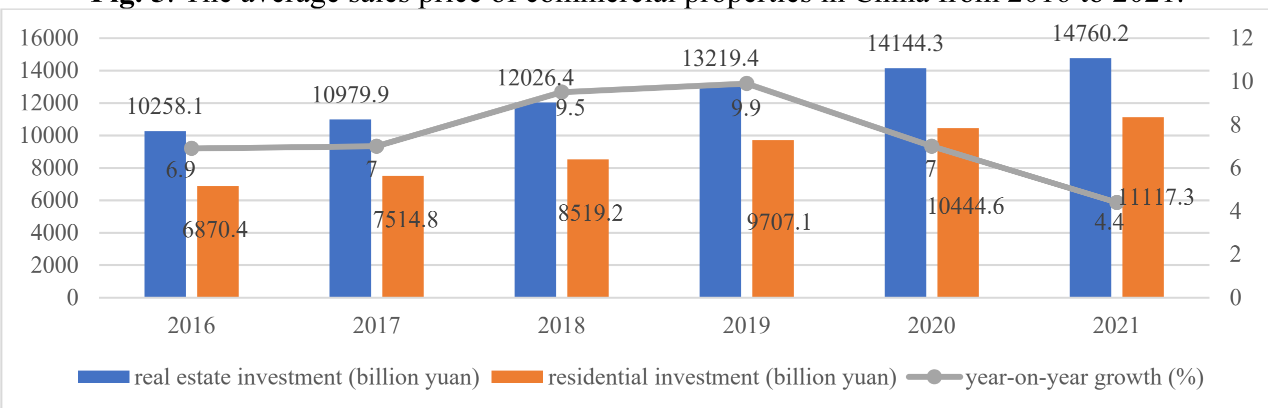

Fig. 6. Investment in real estate development and residential buildings from 2016 to 2021.

As shown in Figure 6, the national real estate investment in 2021 was 14,760.2 billion yuan, with an increase of 615.9 billion yuan of annual growth ratio of 4.4%. In detail, residential investment was 11,117.3 billion yuan, accounting for 75.3% of the total investment, with annual ratio of 6.4%.

2.2 SWOT analysis

2.2.1 Strengths

Since Quzhou, Zhejiang became the first city in China to cancel the purchase and sale restrictions policies, more than 100 cities have successively adjusted and optimized real estate policies more than 300 times. For the market, the cancellation of the house purchase quota policy is helpful to further release the demand, i.e. results in an increase in the market transaction volume to some extent. It will also ease the pressure on the real estate market. Furthermore, to encourage childbirth, the "three-child" policy was officially incorporated into the law. The traditional three rooms one hall housing structure will no longer meet the needs of "three-child" families, which will lead to crowded space for such families, affecting their life satisfaction and happiness. Therefore, improving housing structure has become a rigid demand, and the need for large-sized and new-type houses is increasing [8].

2.2.2 Weaknesses

During the pandemic, many households experienced a substantial reduction in their income, while their expenditures did not drop significantly. Some households even found that they are unable to make ends meet. As a result, residents' demand for preventive savings increased, causing a decrease in their ability and willingness to purchase houses [9]. In 2021, the proportion of sales back to subsection in the actual funds received by real estate development companies reached a extremely high level of 52.87%, totaling 10,633.4 billion yuan. Meanwhile, owing to severe financing restrictions, the proportion of domestic loans in 2021 was only 2,329.6 billion yuan, with a decrease of 12.67% compared with the previous year, reaching the lowest point ever. Last but not least, because of the high value of houses and their long-term impact on people's lives, it is difficult to transact housing directly without on-site inspection similar to ordinary consumer goods. Since most buyers and sellers are not very familiar with the online sales pattern, and the purchase of a house also involves procedures must be handled by the buyer in person, the traditional offline sales are restricted.

2.2.3 Opportunities

On May 20, 2022, the People's Bank of China announced the latest LPR. The 5-year interest rate fell by 15 basis points, from 4.6% to 4.45%, which was the largest drop after the LPR bundled the mortgage interest rates. The mortgage interest rate of the first residence can be as low as 4.25%. From a policy perspective, this rate cut can encourage real estate companies to take out loans, reduce the burden of loan interest and benefit their operations. It can also push residents to borrow loans to buy houses and release the pressure on them, thereby stimulating the rapid development of the real estate economy. Specifically, the ratio cut represents more cash flow in the market, which can effectively reduce the financing difficulty of real estate companies, alleviate the existing tight capital flow of them, and ensure the healthy development of the industry.

2.2.4 Threats

At the current stage, the global pandemic is still spreading, and a variety of mutant strains with more contagiousness and diverse symptoms have emerged. There are still some uncertain impacts on China's economy and even the whole world. Moreover, in order to stabilize the development of the real estate market, China has issued a series of strict macro-control policies. Some income sources of real estate have been cut off in that way, and the real estate market is facing overwhelming pressure [10]. In addition, ascribed to changes in consumption conception, the new generation is more inclined to rent a house. They tend to deposit money in the bank for other consumption activities (pet keeping, entertainment, self-investment, etc.), so their intention of house purchase may drop significantly.

3. PEST analysis

3.1 Politics

In the first half of 2020, under the impact of the pandemic, the growth rate of real estate development investment hit a record low, and the growth rate of commercial properties sales fell below the negative value. The industry has introduced some macro-control policies to ease the downward pressure on the economy, but the general direction of China's real estate policy is basically unchanged. China's real estate market is still in a new round of regulation. The policies still aimed to emphasize the concept of "houses are for living in and not for speculative investment", achieve "stability of three aspects", namely "stabilizing house prices, land prices, and expectations". In addition, from the perspective of local regions, there are fewer policies involving real estate brokerage and leasing industries. More rules are formulated to release the high working capital pressure of developers, by means of delaying the payment of land transfer fees, liberalizing the conditions for completion etc.

3.2 Economy

At the beginning of 2020, under the impact of the pandemic, the growth rate across the country has dropped significantly, and negative increase has occurred for the first time. As illustrated in Figure 7, from January to February 2020, the national real estate development investment was 1,011.5 billion yuan, with an annual decrease of 16.3%, and the rate of decrease was 26.2 percentage points lower than that from January to December 2019. Among them, investment in residences fell by 16% year-on-year, office buildings fell by 17.8% year-on-year, and commercial business housing fell by 25.6% year-on-year.

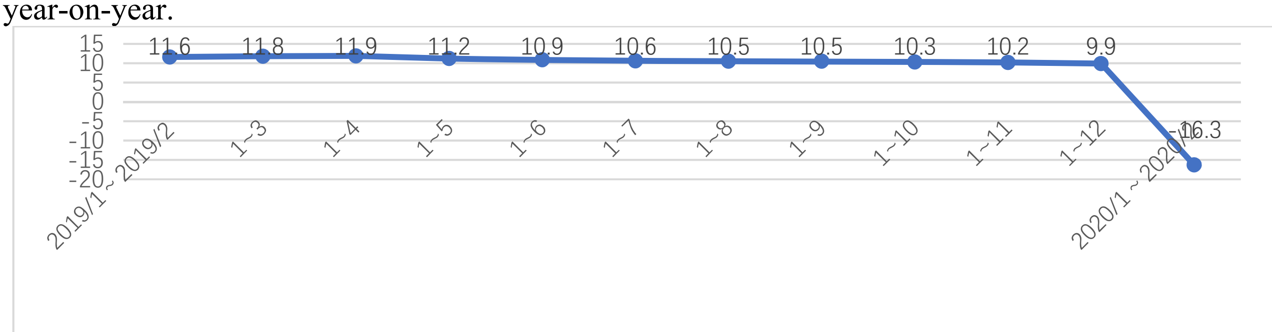

Fig. 7. Growth rate of investment in real estate development in China from Jan 2019 to Feb 2020.

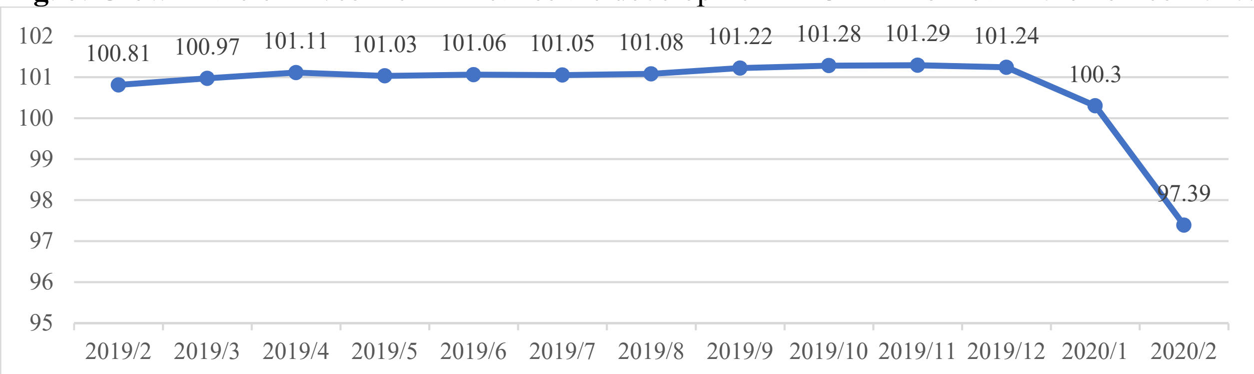

Fig. 8. Real estate climate index in China from Feb 2019 to Feb 2020.

As presented Fig. 8, at the beginning of 2020, the national real estate climate index has declined. In January, it dropped by 0.94 percentage points compared with December last year. In February, it turned into negative growth, which is the lowest level since February 2019. At the end of January 2020, sales activities in most cities across the country were discontinued consecutively. For better prevention and control in the COVID-19 pandemic, most people stay at home throughout February, and most enterprises stopped work and production. Under the effective control of the pandemic, some real estate companies resumed work at the end of February, but the sales volume is far lower than before the pandemic. As demonstrated in Figure 9, the sales area of commercial properties decreased by 39.9% compared with 2019, and the sales volume decreased by 35.9%. Thereinto, the sales area of residential buildings decreased by 39.2%, and the sales volume decreased by 34.7%, which is also the lowest level in history since the housing system reform in 1998.

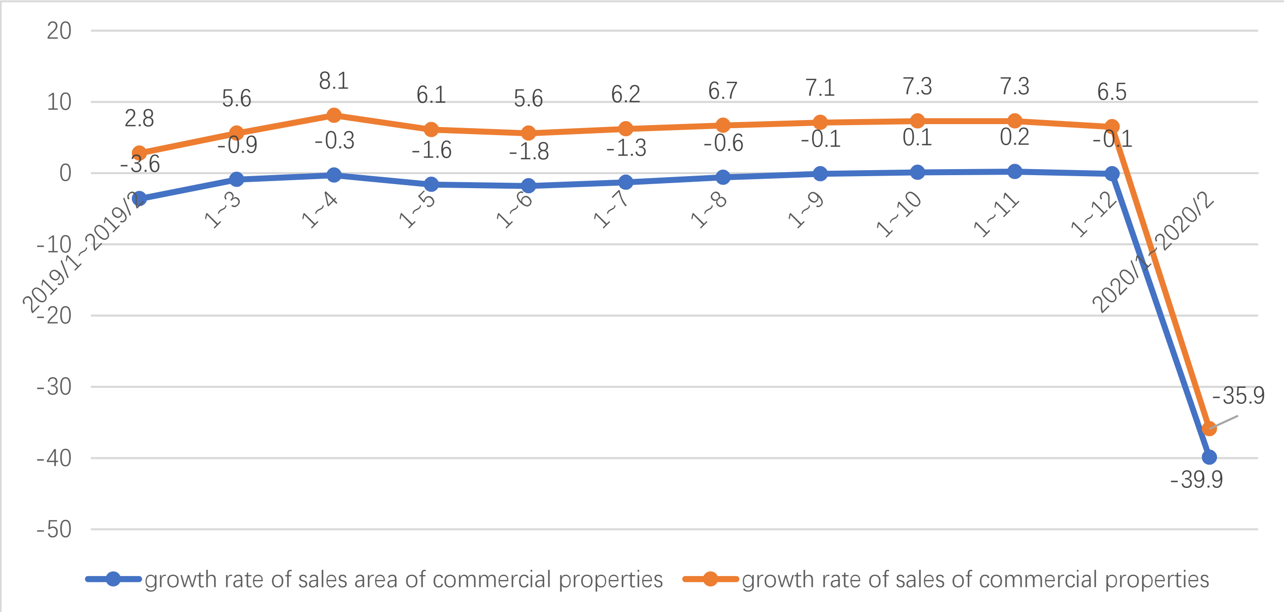

Fig. 9. Growth rate of sales area and sales of commercial properties in China from Jan 2019 to Feb 2020.

3.3 Society

Public health emergencies have changed consumer's conception of investment and financial management. People are more concerned about the risk of investment, and instead invest their money in visible fixed assets. Therefore, the consumer group of the real estate market still exists. In addition, during the pandemic, the closed management of various cities, regions and communities made it difficult for renters to return home. People who worked away from home began to realize the importance of settling down in the working city. Therefore, the pandemic has also changed consumers' attitudes towards buying a house, the demand may burst out [7].

3.4 Technology

During the pandemic, the traditional offline sales model faced severe challenges. Most real estate companies turned to the "online + offline" sales model. For example, some companies made online mini-programs, live broadcast and provided various online services like VR house viewing, house selection and consultation for customers [7].

4. Strategic Analysis

4.1 SO strategy

Namely, the “strengths + opportunities” strategy. It is the most ideal strategic model, which combines local strengths and existing opportunities to formulate relevant strategies. For one, to maintain the necessary support for the recovery of the real estate economy and reduce the pressure on consumers to buy houses, the country should keep adopting proactive fiscal policies and prudent monetary policies. For another, to implement the conception of low-carbon development and meet diverse needs, real estate companies should focus on the green design of housing products, the intelligence of property management, and the humanization of community-related supporting measures [11]. The companies should endeavor to create the digital architecture to innovate people's way and idea of life in the future and inject new vitality into the real estate industry.

4.2 WT strategy

Namely, the “weaknesses + threats” strategy. It is the second most important strategic model, which combines local weaknesses and existing threats to formulate relevant strategies. As for the real estate companies, they should try to create an "online + offline" sales method, flexibly use high-tech such as 5G and VR, and develop a more efficient online marketing pattern to reduce the restrictions of the pandemic. By means of combining promotional activities (e.g., gift giving, limited-time buying) with professional real estate measures (e.g., product publicity planning, investment operation), the companies can achieve the goal of precise marketing and rapid sold-out in the short term [6]. In the meantime, the traditional offline sales method still has the advantages of more open information and more convenient house viewing. Therefore, in the post-pandemic era, better prevention and control of the pandemic is still one of the key points for the industry.

4.3 WO strategy

Namely, the “weaknesses + opportunities” strategy. It is the third most important strategy, which combines local weaknesses and existing opportunities to formulate relevant strategies. For example, after the COVID-19 pandemic, a city in Hubei provided preferential policies for the use of housing provident funds for those who participated in the fight against the pandemic. Besides, a city government in Zhejiang provided opportunities for single people over 30 years old but still without housing to buy a residence. Referring to these cases, the governments of different regions could do something within the reach. Corresponding subsidies can be given to special groups whose income has been greatly reduced, who are unemployed or even went bankrupt due to the pandemic [12]. The governments could grant allowances of different amounts or give away houses of different sizes to reduce the pressure of purchasing houses for such groups.

4.4 ST strategy

Namely, the “strengths + threats” strategy. It is the lowest priority strategic model, which combines local strengths and existing threats to formulate relevant strategies. Firstly, the real estate industry should adopt various channels for financing and manage cash flow well. On the premise of guaranteeing the quality is passed, the house price should be stabilized to ensure that the willingness of buyers will not decline. Meanwhile, real estate companies should respond to the call of the "three-child" policy as soon as possible. In order to meet the needs of different types of families, the companies should work on the optimal design of housing pattern, control the costs and increase housing flexibility and supply diversity [13].

5. Summary

In summary, this paper investigates the development path of China's real estate market in the post-pandemic era. Combined with the results of the full text analysis, China's real estate market is facing new challenges such as increased residents' willingness of preventive savings, more difficult financing for real estate companies, and restrictions on traditional offline sales method. In the meantime, the market is also facing new opportunities such as policy incentives, demand rebound and abundant marketing means. China should keep actively implementing various macro-control policies to stabilize the development of the real estate market, and providing assistance to groups with special difficulties due to the pandemic. Besides, real estate companies should pay attention to the green and intelligent design of housing products, and create an "online + offline" sales model to mitigate the impact.

Based on the summary of relevant literature, this paper integrates the latest data of China's real estate market in 2021 and makes relevant charts to clarify the status quo of China's real estate market under the normalization of the pandemic. However, on account of the limitation of time and space, this paper place emphasis on explaining the impact of the pandemic on China's real estate market from the macro environment, thereby ignoring in-depth analysis from the micro level of real estate companies. Furthermore, ascribed to the limited academic level, the research of the strategic analysis is not comprehensive enough. In the future, further studies should make improvements accordingly. Overall, these results offer a guideline for the future developing path to the real estate market of China in the post-pandemic period.

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