The problems and suggestions of Beijing's real estate market

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Abstract. China's real estate market has been fully developed, but there are also many problems. To solve these problems properly is of great practical significance to the healthy development of real estate market. Taking Beijing's real estate market as an example, this paper finds that Beijing's real estate market has some problems such as high price and real estate speculation. By canceling school district housing and adjusting housing price, the problems in real estate market can be effectively alleviated and the sustainable development of real estate market can be promoted. The analysis of this paper is beneficial to the high-quality development of China's real estate market.

Keywords: Real estate market; Beijing; Housing price.

1. Introduction

The housing problem is of great importance to the people. Everyone needs a home, or a shelter, where people live offer them a sense of belonging, which is necessary for people. However, nowadays, housing market is facing several severe problems. In the following passage, I used Beijing as an example to explain the problems of housing market which has a sky-high average housing price, ranking the top tier in mainland China. In 2021, the overall average housing price in Beijing in 2021 is 69,686 RMB per square meter, followed by Shenzhen and Shanghai that have a housing price of 65,593 and 64,732 RMB per square meter, respectively. Secondly, in 2019, Beijing has 21.89 millions of permanent residents as well as an astonishing number of transient populations, about 7.88 million. Such a great number of transient populations has something to do with the attraction of big companies and institutes, such as Industrial and Commercial Bank of China (ICBC), China Life Insurance Company (CLIC), China Construction Bank Corporation (CCB), and so on, which offer their employees generous salaries. For instance, a normal employee who works in ICBC earns an average salary of 293,300 RMB per year, comparing to the salary in other cities in China, which is quite high. Without those population flow, companies may not be sufficient to operate effectively. This indicates that the housing market problem is challenging and burdensome as a huge amount of people have the plan of house-buying. Lastly, Beijing, as the capital city of China, is the political center and is the top two economic center of China that has a GDP of 4027 billion yuan in 2021; it certainly gets more attention from others. In this case, exploring house market of Beijing can offer a comparison and explanation for similar issues in other large cities in China. That is the reason I chose Beijing as a prototype to research the house market.

2. The problems of Beijing's real estate market

Besides people's solicitude for Beijing's housing market and housing price, the city still has faced several problems in its housing market. In the following paragraph, three key issues are elaborated to clarify my point. To start with, the housing price of Beijing is sky high making almost every ordinary citizen unable to afford. There are several possible causes for its high price. One of the reasons is that the imbalance between the supply and demand in the housing market. Specifically, Beijing's economic is developing in a fast pace, as the annual growth rate of the gross domestic product increased by 8.5 percent from 2020 to 2021 despite the global pandemics, with approximately four trillion yuan of GDP in 2021. Compared with the overall GDP growth rate of China, which is approximately 8.1 percent, it exceeds 0.4 percent. In such a rapid economic development, Beijing has attracted more employees who are seeking for an occupation due to its profitable job prospects, abundant employment opportunities, as well as relatively high salary. To be specific, the recently released national average monthly income data shows that the average monthly salary in Beijing still

ranks first in the country, at more than 11,000 RMB. Big nation-owned enterprises, such as four big banks (China Construction Bank Corporation, Agricultural bank of China, Bank of China, and China Construction Bank) and three telecommunications companies (China Mobile, China Unicorn, and China Telecom), chose Beijing to set their headquarters.

In 2020, Beijing had 97 enterprises on the top 500 list, ranking first in China. It facilitates the influx of a huge amount of labor. In 2021, the natural growth rate of Beijing's permanent population has reached 0.96 percent which means in every 1000 people, the natality exceeds mortality. For another reason, starting from February 21st, 2014, China implements a policy allowing married couples to have two children. As the proportion of second-child births rose from about 30 percent in 2013 to about 50 percent in 2017, the policy accelerates people's need for house improvement, which brings up the demand. With the combination of these factors, house buying is an urgent issue for many people. However, at the same time the supply of house does not increase accordingly. Based on the market research department of Lianjia Real Estate, the supply-demand ratio of house in Beijing in 2017 was 1:2.4. Under this situation, because the demand goes up, it will be followed by the rising housing price. In 2018, the average second-hand housing price in Beijing reached 59000 RMB per meter square. Secondly, a specific type of house in which price has increased sharply is school district housing which has the enrollment quota of the nearby elementary and middle schools.

In addition, although for students who live outside the school district a few years before are allowed to pay temporary schooling fee to that certain school to get enrolled, starting from 2009, Beijing has abolished such policy which means that students are only able to study in certain school within their school district. Specifically, as the education of younger generation is becoming much more vital and crucial in modern society, more parents are eager to buy property near notable schools for children, which tremendously propels the prices. This is because once kids attend such schools with better education resources and qualities, the higher probability for them to get enrolled into a college and graduate with higher degree. At the same time, an individual with a bachelor's degree earns an average salary of 7000 RMB per month after graduation. However, a person with only associate degree earns an average of 5749 RMB per month. Thus, we can see that it's vital for children to attend good schools, and school district house becomes scarce, and its price is sky-high. For instance, the High School Affiliate to Renmin University of China ranks first in Beijing in terms of enrollment rate and national ranking, which means that the school district house of this high school is super popular and expensive as so many parents are eager to send their child to this school. The house price around this high school reached 111,842 RMB per meter square in 2021, which nearly doubled the average housing price in Beijing in 2021. Thirdly, for the majority, they buy houses for investment. Many people now use houses as a real estate speculation instead of a necessity for living. One reason that contributes to such phenomenon is that these people own not only one house. Data shows that every urban family owns 1.5 houses. Besides, the home ownership rate reaches 96 percent, which are mainly composed by the ownership from local Beijing people or someone who has settled in this city for a long time. This reflects that home ownership is uneven. It's possible that one person, usually a local Beijing people, has three houses, but another person who comes to Beijing for job has none.

Therefore, with the uneven distribution of houses, people who own more than one house can usually manipulate the price of the house in the market, further contributing to this imbalance. Normally, they use medias or internet to publish out messages or advertisements to the market, such as claiming that top-schools or big malls are going to be built around their houses. The result is that houses are considered as financial product. Such investment behavior is not random, instead, people need to analyze information and carefully perform the whole process. For example, from 1998 to 2001, a group of rich people from Wenzhou poured into local real estate, which caused the local urban housing price to soar from about 2,000 RMB per square meter to more than 7,000 RMB per square meter. On August 18, 2001, they went to Shanghai as well as many other first-tier cities and bought more than 100 apartments in three days. In the years that followed, about 200 billion RMB of their money was invested in real estate across the country, making property prices soaring. Their approach

is to focus on the future development by studying municipal planning to see if there are major initiatives in the city, such as the building of bridges and roads or the removal of top schools.

3. Conclusions and solutions

The problem of Beijing's housing market is severe and intense, but several solutions can be applied to resolve the issue. Firstly, the government can pose a price ceiling that regulates housing price. To make it effective, Chinese government should pose the price ceiling below the equilibrium of house market. In the housing market, it is also called Contract Records, which is the highest price that a project declares to the price examination and approval department before it goes into the market. Moreover, it shall not exceed the open-selling price within the range of 5~10%. For example, the average price of house of "two limits" in Chaoyang district, Beijing, is about 26661 RMB per meter square, which is significantly lower than the average housing price. Its affordable cost is mainly due to the presence of price ceiling. Moreover, cancelling school district housing can also be an effective solution. To be specific, one way to cancel school district houses is to give every student within the community an equal chance to get enroll into a school, so that students are chosen randomly by lottery. This means that even if parents have purchased school district house, the probability for their children to get into the target school is lowered. In this way, school district house can be permanently eliminated from the society. Last but not the least, the solution to control the phenomenon of seeing houses as a financial asset can be raising the down payment for people who have already owned more than one house. Under this situation, People's Bank of China will require financial institutes to charge a higher interest rate of housing loans from "investors". Normally, the high cost of investment accompanies with high profits, but in such market the profits that they should have earned simply become unreachable due to the increase of down price. By considering this issue, investors are likely to stop further investment. In addition, Chinese government or banks can trace house buyers' source of money to pay the down payment. If those institutes are permitted to do so, they can prevent money coming from illegal channels flowing into housing market.

In conclusion, it is undeniable that the housing market in Beijing, as well as in other major cities in China, is now facing multiple dilemmas, including high housing price, excessive inflation of school district houses, and inappropriate investment. However, several solutions can be proposed and applied to alleviate these problems, such as posing an effective price ceiling, abolishing the title of school district houses, as well as posing special regulations on down payment, respectively. With the combination of those solutions and proposals, the purpose of houses will eventually return to its original meaning which is to offer everyone in the city a home.

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