

Research on Real Estate Price and Real Estate Finance in Mainland China

Chen Ningyan

International Business College, South China Normal University, Guangzhou, China

Keywords: Mainland china's high real estate price, The growth rate of mainland china's real estate price, The age of stock, The innovation of mainland china's real estate finance, Reits in mainland china

Abstract: Since Mainland China's reform and opening up, house prices have been rising and kept at a very high level in recent years. In many cities of Mainland China, the rent to sale ratio and the ratio of wages to housing prices are too low. The reasons for the rapid growth of Mainland China's housing prices are the attention of the people to real estate, the local government relying on real estate to drive the local economic growth, and the promotion of developers and speculators. Mainland China's high housing prices have many effects. First, high housing prices will easily lead to Mainland China's real estate bubble and subprime mortgage crisis. Then, high house prices will make more money flow to the real estate market and hit the real economy. Finally, high housing prices will make the young people who enter the first-tier cities unable to afford housing, while the rich people have more and more assets, aggravating the social polarization between the rich and the poor. The Chinese government controls house prices through a series of policies. Mainland China's real estate from the development era into the stock era, the real estate financial market is booming. The combination of Private Equity Real Estate and REITs may become the mainstream mode of Mainland China's real estate financial market in the future.

1. Introduction

Since the founding of the People's Republic of China, real estate has experienced a long process of development. Before Mainland China's reform and opening up, planned economy and welfare housing distribution were implemented. There were many single rooms in a building. The characteristics of welfare housing were large population and small housing area. In 1978, Mainland China entered a new era of reform and opening up, Mainland China's housing from tile roofed houses, bungalows into apartments, villas and other new stages of development. From 1980 to 1991, Mainland China's housing conditions rose, housing quality improved, and housing facilities became more perfect. Housing has gradually become the private property of Chinese people, and welfare housing has gradually been replaced by commercial housing for personal consumption. From 1992 to 1993, real estate prices rose rapidly, and Mainland China's real estate overheated. From 1993 to 1997, the Chinese government adjusted the price of real estate. The economic crisis in 1997 led to a further decline in Mainland China's real estate prices. Since 1998, Mainland China's economy has begun to develop rapidly, and Mainland China's real estate market has been developing. Mainland China's real estate prices have been rising. At the same time, new changes have taken place in the form of housing in Mainland China. Houses with an elegant environment and fashionable personalities have gradually become the mainstream choice of Chinese young people, which improves the people's happiness.

2. Reasons for the Rapid Growth of House Prices in Mainland China

Housing prices in Hong Kong and Mainland China are growing rapidly. First, the real estate market in Hong Kong and the first-tier cities in Mainland China is in short supply. In addition, Mainland China believes that houses are of great significance, that houses are hard currency, and is keen to buy houses. In addition, local governments rely on land finance and rely on real estate to drive local GDP. Finally, real estate developers and speculators are also the reasons for Mainland

China's high housing prices.

Starting from 1997, the real estate industry in Hong Kong takes six years as a cycle. The nodes are 1997, 2003, 2015 and 2021. Hong Kong's real estate prices started from the bottom of the decline, low enough to attract investors to enter the real estate market, and the house price rebounded. When the price rises to the peak, investors will give the excessively high house price one reason after another for rationalization. After that, the house price plummeted, the lender went bankrupt, causing a sell-off, and the house price further decreased. The high turnover mode of real estate enterprises is the mode of rapid land acquisition, sales and operation management. Typical examples of high turnover mode are residential real estate companies such as Vanke and Country Garden, which stipulate that the land should be acquired within five months and the construction should be completed within four months. The high turnover mode of residential real estate has led to many disadvantages, such as housing quality problems, requiring employees to work too long and financial risks.

In December 2016, Mainland China's central economic work conference proposed that "houses are for living, not for speculation." In order to speed up the establishment of a long-term mechanism of the real estate market suitable for market rules. Mainland China's government has made rational use of financial, land, fiscal, taxation, investment and legislation measures to curb the real estate bubble and prevent the housing prices from changing radically. Nowadays, in Mainland China's first-tier cities, the ratio of house price to rent is too high. Many of the new residents who work in the first-tier cities are unable to live a real life because of the high housing prices, and the pressure of life in the first-tier cities is too great.

3. The Impact of High Housing Prices in Mainland China

Real estate prices are rising too fast and real estate bubbles are prone to the subprime mortgage crisis. In order to buy a house, people borrow a large amount of money from the bank. Many people's loans account for more than 60% of the total price of the house. Banks sell loan certificates to financial companies at relatively low prices, and financial companies package housing loans as financial products and sell them to investors. Once the real estate bubble, the real estate market crumbled and house prices plummeted, the crisis will happen to buyers and financial products investors. In the subprime mortgage crisis, buyers were burdened with loans higher than the market price. Many people default because they can't pay the mortgage, the bank can't get the loan back, the capital chain is interrupted, businesses can't borrow money, and all kinds of businesses are withered.

Hong Kong has a high level of consumption and housing prices. As an Asian financial center, Hong Kong has little land and a relatively large population. Some people at the bottom of Hong Kong have to live in a small space of several square meters. In Hong Kong, more than 50 square meters of houses are divided into 19 small houses for tenants. This is the impact of high housing prices on some Hong Kong people.

With the development of the Internet in Mainland China, the real economy is declining. However, the combination of the Internet and the real economy, that is, online and offline, can be used as an innovation point to obtain greater returns. For example, the Internet can advertise the real estate industry. The Internet can provide publicity channels for residential real estate, cultural tourism real estate and hotels. Visitors can book rooms on the Internet before they go to a scenic spot. This is very convenient for tourists. At the same time, it makes the Internet industry and the real estate industry promote each other and gain benefits. In addition, the Internet can provide buyers and renters with the prices and building profiles of each community, reducing the information gap between buyers and developers.

Mainland China's economic activity is concentrated in the East. Mainland China's population and inflow are also mainly concentrated in the East. Among them, Beijing, Shanghai, Shenzhen and other big cities are also the main destinations of graduates. Mainland China's first-tier cities and eastern developed cities have been in great demand for houses, and many cities have the phenomenon that the demand for houses is greater than the supply. Therefore, housing prices in

eastern Mainland China are getting higher and higher.

In my opinion, Mainland China's real estate bubble is not obvious in the first-tier cities, such as Beijing, Shanghai, Shenzhen and Guangzhou. Because the GDP of Mainland China's first-tier cities is developing very fast. Moreover, with the inflow of the population into the first-tier cities, the income of Chinese people is growing, and the supply of houses in the first-tier cities is in short supply. However, in Mainland China's three city lines, there is a real estate bubble. In some third-tier cities in Mainland China, that is, cities with relatively low level of development, house prices are still very high relative to wages. For example, the average wage of Zhuhai, a coastal city in Mainland China, is 6460 yuan per month, and the average house price is 20767 yuan per square meter. Some real estate speculators are speculating in the third and fourth tier cities, which leads to the phenomenon that house prices are far higher than wages.

The security of public rental housing has become the safety net and stabilizer of Chinese society. By the end of 2018, about 70 million indemnificatory housing projects in Mainland China's cities and towns have been started, more than 37 million people with difficulties have lived in public rental housing, and nearly 22 million people with difficulties have received public rental housing rental subsidies. Mainland China's housing security policy system has improved the financial, land, financial and tax relief and other supporting policies.

4. The Innovation and Development of Mainland China's Real Estate Finance in the Stock Age

The financing of the real economy is difficult and needs the help of private funds. The amount of real estate investment is large and the return period is long. Nowadays, unlisted real estate developers in Mainland China have limited sources of funds and single channels, which are mainly bank loans. Listed real estate companies can also raise funds through public fundraising. Private equity funds should invest in the real estate market with a huge capital pool and long-term investment plan.

Foreign real estate finance can be the reference of Mainland China's real estate finance. At present, in Asia, REITs are developed in Japan, Singapore and Hong Kong. After the impact of the real estate bubble in Hongkong, its equity REITs is more responsive to market demand. The equity REITs in Hong Kong mainly invest in commercial real estate. Hong Kong REITs is managed by a third party. Hong Kong's preferential tax system makes enterprises pay less tax and REITs expand. At the same time, the management and supervision system of Hong Kong REITs is perfect, in order to ensure the standardized operation of the REITs market. One of the reasons why Chinese mainland REITs is difficult to apply to commercial real estate is that Chinese mainland does not have a tax system suitable for commercial real estate REITs. REITs in Singapore has banned real estate development and requires 90% of its income to be used for dividends. The United States is the birthplace of REITs, mainly public offering REITs, the number is far more than other countries. The cash flow of REITs in the United States is stable with high security. The industry distribution is mainly industrial, office, retail and residential.

REITs in Australia not only invests in commercial and residential real estate, but also in infrastructure such as roads. Australia's REITs are supervised by many departments, which is worth learning from Mainland China. Mainland China's REITs should also be strictly regulated to prevent house prices from getting out of control. Japan's REITs are usually listed on the stock exchange with at least 50 investors.

Mainland China can also carry out real estate financial innovation. Metro Land Corporate Ltd. is a real estate development enterprise in Mainland China. The main business of Metro Land Corporate Ltd. is the infrastructure investment of rail transit. The largest holding company of Metro Land Corporate Ltd. is Beijing investment company, which is a state-owned enterprise. With the help of the rich capital and powerful resources of the parent company, Metro Land Corporate Ltd. Co., Ltd. has developed rapidly in recent years, expanded its scale and increased its investment projects. Since its establishment, the headquarters of Metro Land Corporate Ltd. has shifted from southern Mainland China to Beijing, in order to gain an important strategic position in rail transit.

The development of Beijing Investment Group has gradually expanded from Beijing Tianjin to the whole country. At the same time, the development of Beijing investment continues to develop upstream and downstream industries, such as rail transit infrastructure construction investment and financing, rail transit facilities management and operation, and rail transit equipment manufacturing. Metro Land Corporate Ltd. is a secondary development platform of real estate, with vehicle base and Green Town projects. The development scope of Beijing Investment Corporation is relatively specific, and most of them are the construction of commercial, office and residential real estate near the subway.

Mainland China's commercial real estate has a huge volume and great potential. Mainland China's commercial real estate combined with tourism, culture, infrastructure, etc. It has a large market and considerable income. In recent five years, the development and operation ability of commercial real estate represents the comprehensive ability of real estate developers, which should be considered in REITs investment. Commercial real estate has a high demand for lots. More central areas and more people have more rent and more income. REITs is a kind of principal-agent relationship. Investors entrust REITs practitioners to integrate and invest funds. Investors give them fund management fees.

Vanda Group has four industries: Commerce, culture, network technology and finance. Vanda Plaza's general non-retail proportion is more than 50%. Although the non-retail rent is low, it can provide a rich choice of formats. Once these formats are stable, there will be more room for rent increase and rent growth. Vanda has changed its previous mode of pursuing the maximization of sales revenue to focus on long-term rental revenue and asset appreciation revenue. It changed the sales profit mode into rent profit mode. At the same time, Vanda will expand hundreds of shopping centers by means of REITs in the future.

5. Conclusion

In the past five years, the head effect of Chinese real estate developers has been very prominent. Small and medium-sized real estate companies are short of funds, slow capital return, and many of them go bankrupt. Private Equity Real Estate and REITs can effectively solve this problem, revitalize social capital and promote economic vitality. With the rapid development of the Internet in Mainland China in the past decade, e-commerce has impacted the real economy.

References

- [1] Zhang Cong. Research on The Impact of Real Estate Investment Trust Funds (REITs) on Commercial Real Estate Prices: An Empirical Analysis Based on Hong Kong Market. Harbin Institute of Technology, 2020.
- [2] Wang Xianda. China Real Estate Investment Trust (REITs) Operational Research- Take Penghua Qianhai Vanke REITs as an Example. Shandong Technology and Business University, 2019.
- [3] Wang Yi. Theoretical and Practical Exploration on the Reform of Real Estate Tax System in Shanghai. Shanghai Customs College, 2018.
- [4] Sun Wushuting. The Analysis and Policy Suggestion of Real Estate Tax Reform- Based on the Reform of Shanghai and Chongqing. Nanjing University, 2018.