Cognitive Dissonance Under Policy Shock: The Psychological Transmission Mechanism of China's "Houses Are for Living in, Not for Speculation" Policy on Investor Behavior

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Abstract: With the deepening implementation of China's "housing for living, not for speculation" policy, investors in the real estate market are increasingly experiencing cognitive dissonance. Against the backdrop of soaring housing prices and resource misallocation in China's real estate market, this article systematically analyzes the causes and manifestations of such dissonance under this policy framework and proposes optimization strategies. The study identifies policy ambiguity, information distortion, and investor psychological biases—including the disposition effect, loss aversion, and anchoring bias—as primary drivers of cognitive dissonance. To address these issues, solutions are proposed from dual perspectives: refining policy instruments and optimizing investor behavior. Specific recommendations include enhancing policy transparency, improving information disclosure mechanisms, strengthening policy expectation management, and encouraging investors to deepen financial knowledge learning. These measures aim to help investors better adapt to the policy environment, reduce cognitive dissonance, and promote the stable and healthy development of the real estate market.

1 INTRODUCTION

1.1 Background to the Selection of Topics

The rapid development of China's real estate market has caused a series of problems, and the irrational surge in housing prices in some cities is particularly serious. According to data from the National Bureau of Statistics and the China Index Research Institute (CREIS), the growth of house prices in core cities and the growth of residents 'income from 2015 to 2023 significantly deviated, showing obvious irrational characteristics. This surge not only exceeds the purchasing power of ordinary citizens but also creates a double bubble that includes price and quantity at the structural level. For example, in the first-tier city of Shenzhen, the average price of new commercial housing in 2023 will reach RMB 65,000 per square meter, up 97% from RMB 33,000 per square meter in 2015. In core areas like Nanshan, the price per square meter exceeds 100,000 yuan, and the price-to-income ratio reaches 35.5:1 (National Bureau of Statistics, 2023). Similarly, in the second-tier city of Chengdu, the average price of new housing in its High-tech Zone in 2023 will rise to 32000 yuan per square meter, an increase of 167% compared with 12000 yuan per square meter in 2015, bringing the price-to-income ratio to 18:1 (Figure 1). A China Real Estate Association (CRIC) study of 100 key cities further indicates that in 2023, core cities like Shenzhen and Sanya maintained price-to-income ratios as high as 35.5 and 30.8, respectively, while third- and fourth-tier cities generally registered ratios below 10 (e.g., 4.3 in Zhuzhou), revealing significant regional divergence (Zhuge Research Institude, 2024) (Figure 2). Price bubbles occur when housing values substantially exceed intrinsic worth, whereas quantity bubbles arise when supply drastically outpaces demand. This dual-bubble phenomenon poses latent risks to socioeconomic stability and has consequently drawn heightened government attention.

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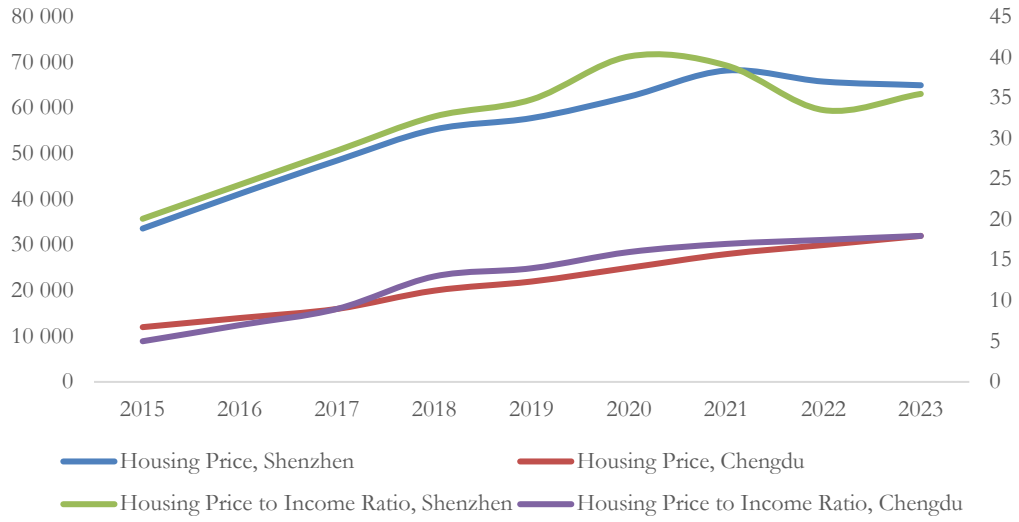
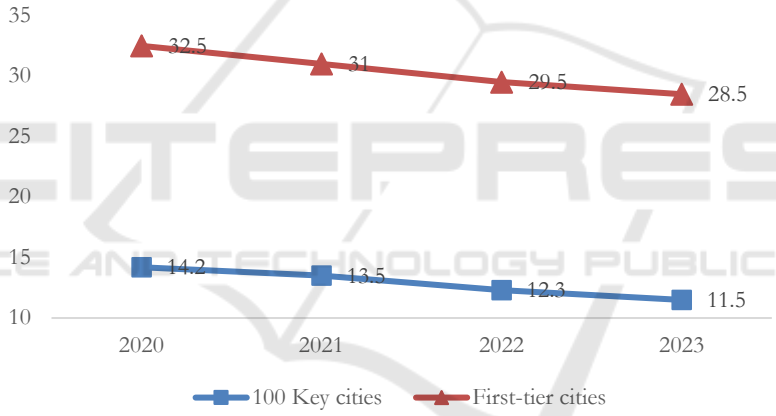


Data source: National Bureau of Statistics of China. China Statistical Yearbook (2023)

Figure 1: Trend of Housing Price to Income Ratio in Core Cities (2015-2023)



Data source: Zhuge Research Institute. (January 23, 2024). "Research Report on the Housing Price-to-Income Ratio of 100 Key Cities". Zhuge Research Institute Official Website. Retrieved from https://example.com/report-link

Figure 2: Comparison of the average housing price-to-income ratio of 100 key cities in China and that of first-tier cities (2020-2023).

In addition to housing bubbles, excessive speculative behavior has led to misallocation of land and credit resources, as well as severe imbalances in housing supply and demand. This imbalance has not only intensified social tensions but also impeded healthy economic development. To address this, the Chinese government introduced the "housing is for living in, not for speculation" policy, which aims to curb rapid housing price growth through targeted measures and promote stable, healthy development of the real estate market.

The policy's implementation has significantly impacted investors. By restricting speculative home purchases, it has triggered cognitive dissonance among some investors. Cognitive dissonance theory posits that individuals experience psychological discomfort when perceiving inconsistencies between their attitudes or between attitudes and behaviors; they subsequently attempt to reduce this discomfort by adjusting either attitudes or behaviors (Liu et al., 2020). In the real estate investment environment, this inconsistency reflects investors 'confusion about future market trends. On the one hand, they realize that unreasonable price surges are unsustainable. On the other hand, they are difficult to give up their dependence on real estate investment and related

return expectations. This psychological state has an adverse impact on investment decisions and may also aggravate market volatility.

1.2 Objectives and Significance of the Research

This paper provides an in-depth analysis of the psychological mechanisms and behavioural manifestations of different types of investors 'cognitive dissonance under China's "housing is for living in, not for speculation" policy, revealing how this dissonance hinders the effective transmission of policies. This research aims to formulate targeted optimization strategies through a two-pronged approach, improve policy tools based on behavioural economics principles, and guide investors to make behavioural adjustments. These coordinated efforts aim to resolve cognitive conflicts, improve the effectiveness of policy implementation, and ultimately promote stability in the real estate market.

2 BASIC FACTS ABOUT POLICIES AND INVESTOR

2.1 Policy Framework and Tool Map

2.1.1 Policy Tool Map

The "housing is for living, not for speculation" policy contains extensive and in-depth measures, mainly targeting multiple dimensions including housing demand, supply and differentiated credit policies. Overall, these interventions constitute a comprehensive policy toolkit designed to curb excessive housing price increases from multiple perspectives and guide the real estate market towards rational development.

At the 2016 Central Economic Work Conference, the principle that "a house is for living in, not for speculation" was officially established. The conference called for integrated deployment of financial, land, fiscal, investment, and legislative instruments to accelerate the development of fundamental systems and long-term mechanisms compatible with national conditions and market principles. Subsequently, numerous cities implemented purchase and loan restrictions.

Demand-side interventions since 2016 have centered on purchase restrictions, loan controls, and sales regulations. Following the central government's 2016 pilot restrictions in major cities, policies such as Shenzhen's "Eight Measures" and Shanghai's "Nine Measures" were successively introduced. The 19th National Congress report (October 2017) reaffirmed the policy while proposing a dual rental-purchase housing system. In July 2018, the Central Politburo emphasized the imperative to "resolutely curb housing price increases" and established the "Three Stabilities" objectives: stabilizing land prices, housing prices, and market expectations. The "Real Estate Loan Concentration Management System" (December 2020) imposed bank-level caps on real estate loan proportions to mitigate financial risks.

Supply-side measures include land supply optimization, housing structure reform, and financing regulation. The July 2023 Central Politburo meeting advocated "adapting to new real estate supply-demand dynamics" and optimizing instruments like the "Two-Concentration" land supply system (centralized announcements and transfers). The "Three Red Lines" policy imposes critical financial constraints on developers to transition from high-leverage expansion to sustainable operations, representing a core initiative for real estate "de-financialization." These thresholds comprise:

- Asset-liability ratio (excluding presales) $\leqslant$ 70%: Measures actual corporate debt levels
- Net gearing ratio $\leqslant$ 100%: Limits net debt to equity
- Cash-to-short-term debt ratio $\geqslant$ 1: Requires sufficient liquidity to cover maturing obligations

Policy instruments have evolved from singular measures (e.g., 2010 "Ten National Measures") to multidimensional frameworks incorporating purchase restrictions, price caps, and financial transparency—exemplified by 2021's second-hand housing guidance prices.

2.1.2 Manifestations and Causes of Local Implementation Disparities—A Perspective from the "Promotion Tournament" Theory

Zhou Li'an (2007) proposed the "promotion tournament" model, highlighting the powerful incentive mechanism that drives Chinese local officials to prioritize economic growth (Zhou, 2007). This framework elucidates the variability in local implementation of the "housing for living, not for speculation" policy.

First-tier cities (e.g., Beijing, Shanghai, Guangzhou, Shenzhen) typically enforce the strictest regulatory standards. Shanghai includes judicial-auctioned properties in purchase restrictions, while Shenzhen implements a second-hand housing

reference pricing system. These cities exhibit strong economic foundations and low land finance dependence—Shenzhen's land-related revenue constitutes <20% of fiscal income. Consequently, officials impose rigorous controls to gain central government recognition and bolster political capital for promotion.

Second-tier cities (e.g., Hangzhou, Chengdu) demonstrate dynamic policy adjustments aligned with market conditions. In 2023, Hangzhou relaxed suburban purchase restrictions to stimulate peripheral inventory clearance. Facing dual pressures of sustaining GDP growth and stabilizing housing prices, local officials balance participation in the promotion-driven "GDP competition" with compliance to central directives.

Third- and fourth-tier cities, where land finance dependence often exceeds 50%, employ indirect regulatory relaxation through "talent subsidies" and "group purchase discounts" to maintain fiscal revenue. Examples include Heze's removal of resale restrictions and Zhumadian's reduction of down payment requirements—measures strategically designed to bypass central regulatory constraints.

2.2 Behavioral Traits and Structural Stratification of Investors

The investor structure of China's real estate market exhibits clear stratification, with distinct differences among various groups in investment motivations, asset allocation, and risk preferences. Based on data from the China Household Finance Survey (CHFS) and market research, investors can be categorized into the following three types.

Institutional investors, represented by insurance capital and REITs funds, exhibit long-term and stable investment behavior. They favor asset types with steady cash flows, such as commercial real estate and logistics parks, aiming to generate rental income and achieve capital appreciation by holding high-quality properties. For example, in 2024, industrial parks and warehousing logistics projects accounted for 58% of the underlying assets in domestic public REITs (Guo et al., 2024).

High-net-worth households are the primary drivers of real estate investment; however, their asset allocation tends to be highly concentrated, with significant dependence on property. According to the latest data, in 2023, housing assets made up approximately 61% of the total assets of Chinese households (Ren, 2024). This indicates that real estate continues to play a significant role in the asset allocation of Chinese households. Real estate assets make up 41% of individual investments in China (Marjerison et al., 2021). It was one of the most popular investment methods at the time, with wealth appreciation achieved through "using property to service loans" or cross-regional allocation, such as in the Yangtze River Delta and Pearl River Delta city clusters.

According to the 2024 Hurun Report, the proportion of high-net-worth families investing in real estate has dropped to 5%, with a growing preference for corporate equity and financial assets. However, many still retain high-quality properties in core cities as a hedge against inflation, indicating a trend toward risk management and strategic transformation.

Small and medium investors tend to have undiversified asset allocations. According to the "China Household Wealth Survey Report 2019," 93.03% of resident households owned one residential property in 2018 (China Household Welath Survey and Research Center, 2019). However, the "China Urban Household Wealth Health Report" (2023) (China Household Finance Survey and Research Center, 2023) shows that cash and deposits account for 88% of Chinese households' financial assets. In addition, the net value of real estate accounts for 71.35% of per capita household wealth in urban areas and 52.28% in rural areas. The narrow range of investment options has resulted in excessive reliance on real estate for wealth preservation.

Moreover, small and medium investors are easily influenced by social media in their decision-making. A survey conducted by DT Business Observer (2025) found that over 80% of households had cut back on non-essential spending such as education and travel due to mortgage pressure, while 52.9% had postponed other major purchases. Given their high sensitivity to debt, most households are considered risk-averse, lacking independent judgment and being easily misled by one-sided information on short video platforms—such as "real estate speculation tips" or "huge profits from school district housing"—which often leads to irrational herd behavior in home buying.

Small and medium investors also face liquidity risks. Survey data indicate that low-income households are significantly more vulnerable to income losses than higher-income borrowers, with approximately 20% of households in the lowest income quintile having experienced substantial income loss, compared to only 4% of households in the top income quintile (Wang, 2022). Because real estate assets are difficult to liquidate, low-income households face greater pressure to repay debt during economic downturns.

3 POLICY LOGIC AND THE MECHANISM BEHIND THE EMERGENCE OF COGNITIVE DISSONANCE

3.1 Core Motivations for Implementing the Principle of "Houses Are for Living in, Not for Speculation"

3.1.1 Economic De-Real Estate Transformation

The core motivation behind the government's implementation of the "housing is for living, not for speculation" policy lies in addressing the long-standing issues of excessive speculation and housing price bubbles in China's real estate market.

This policy was introduced to guide the real estate market to return to its basic function of providing housing rather than just as an investment tool. It is also implemented out of the need to reduce financial risks. Its implementation is also driven by the need to mitigate financial risks. Excessive speculative behavior not only inflates housing prices but also increases market volatility. For example, speculators often use leverage—such as business and consumer loans—to hoard properties in the short term, creating a false sense of supply-demand imbalance, pushing up prices, and generating an illusion of market prosperity. This illusion encourages real estate companies to aggressively acquire land using high levels of debt. Combined with surging land costs, this behavior directly contributes to the rapid expansion of corporate debt.

Data show that when the debt-to-GDP ratio of real estate companies becomes excessively high, it indicates that their debt levels have far exceeded the economy's capacity to sustain them. If sales revenue slows—due to policy tightening or a market downturn—high interest payments and maturing debt obligations can trigger a chain of defaults. A large body of empirical research, including studies by Borio & Drehmann (2009), Drehmann & Juselius (2013), and Gertler & Hofmann (2016), has shown that credit expansion plays a key role in the formation of asset bubbles and financial crises. Domestic credit has been identified as a critical leading indicator of financial instability (Ji et al., 2017).

3.1.2 Demands for Social Equity

The price-to-income ratio, defined as the median housing price divided by the median annual household income, serves as a key indicator of housing affordability. In 2023, this ratio reached as high as 25:1 in first-tier cities, with Shenzhen hitting 35.5:1. This means that an average household would need to save every penny for 25 years to afford a home, far surpassing the international warning threshold of 9:1. Research has shown that once the house price-to-income ratio surpasses 9:1, the net contribution of the real estate sector to economic growth turns from positive to negative (Caijing Strategy Research Institude, 2019).

At the same time, this extreme imbalance has directly led to two major social issues: housing anxiety among young people and a worsening of intergenerational wealth disparity. According to the "China Household Wealth Index Research Report 2021Q1," in the first quarter, over 70% of household wealth growth was attributed to housing assets. Households that owned property saw an average annual wealth increase of 12.3%, while young people without property experienced a growth of only 3.8% (Caixin, 2021). This differentiation results in dual economic consequences. First, a decline in the youth entrepreneurship rate has been observed. According to the China Youth Entrepreneurship and Employment Foundation (2023), the "China Youth Entrepreneurship Development Report 2023" indicates that China's youth entrepreneurship intention index dropped by 22% in 2023 compared to 2015, highlighting the significant dampening effect of high housing prices on young people's motivation to start businesses (China Youth Entrepreneurship and Employment Foundation, 2023). Second, there has been insufficient investment in educational capital among the younger generation. A 2019 study by the School of Economics and Business Administration at Beijing Normal University found that rising urban housing prices exert a significant crowding-out effect on household education spending. Based on data from 35 large and medium-sized cities between 2002 and 2017, the study revealed that a 1% increase in housing prices leads to a 0.4 percentage point decrease in the share of educational expenditure by rural households. The imbalance in educational spending is even more pronounced in cities with high housing prices (Yan, 2020), thereby undermining the long-term potential for economic growth.

Therefore, the "housing is for living, not for speculation" policy was introduced to ease the rigidity of housing costs, promote upward mobility among young people, and pave the way for long-term equitable mechanisms such as equal rights for renters and buyers.

3.2 Causes and Manifestations of Investor Cognitive Dissonance

3.2.1 Mechanisms Driven by Psychological Effects

Odean, T noted that individual investors tend to sell winning assets and hold on to losing ones (Odean, 1998). In other words, investors often retain underperforming assets to avoid the psychological discomfort of realizing losses, while selling profitable assets too early to secure gains.

Consistent with the view that this investment behavior is a mistake stemming from limited cognitive ability or low financial literacy, the disposition effect is most pronounced among financially unsophisticated investors. For instance, the disposition effect is generally stronger among individual investors than among institutional investors (Brown et al., 2006; Chen et al., 2007; Choe & Eom, 2009; Barber et al., 2007).

Calvet, L. E., Campbell, J., & Sodini, P. (2009) noted that less sophisticated households are more likely to sell winners and hold losers. As a result, this disposition effect is particularly evident among general individual investors in the real estate sector.

In their analysis of prospect theory, Kahneman and Tversky (1979) stated: "A salient characteristic of attitudes to changes in welfare is that losses loom larger than gains. The aggravation that one experiences in losing a sum of money appears to be greater than the pleasure associated with gaining the same amount". Loss aversion is one of the core features of prospect theory. In the real estate market, investors tend to fear falling housing prices more than they desire rising prices. This asymmetry leads them to make irrational decisions—either overly conservative or excessively risky—when prices decline, in an effort to avoid losses. The analysis also incorporates the value function: "The value function is normally concave for gains, commonly convex for losses, and is generally steeper for losses than for gains" (Tversky & Kahneman, 1979). The asymmetry of the value function suggests that the pain of losses exceeds the pleasure of equivalent gains. This imbalance makes investors more sensitive to price declines and more likely to behave irrationally to avoid losses, thereby amplifying their fear of falling housing prices. Such asymmetric reactions often result in investors refusing to sell at lower prices, even when facing liquidity crises. The endowment effect is a specific manifestation of loss aversion, referring to the tendency of individuals to assign higher value to items they own, even when these items are objectively indistinguishable from similar items they do not possess. This effect reflects an irrational preference for goods already owned, causing individuals to charge higher prices when selling them and lower prices when purchasing them. As a result, the irrational behavior of investors in the real estate market has further intensified. Due to the endowment effect, investors incur psychological costs when considering selling their properties, which makes them reluctant to accept prices lower than their own valuation even if market conditions change.

In the real estate market, this psychological phenomenon can have several major consequences. It could lead to a shortage of housing supply because many property owners are reluctant to sell at prices they believe are "losing money." The endowment effect could exacerbate market volatility because investors are more likely to hold properties than sell when prices fall, which could prolong the market adjustment period. Finally, this phenomenon may reduce market liquidity, as differences in price expectations between buyers and sellers can cause transactions to be delayed or failed.

In many cases, people will start with an initial value and then adjust the initial value to arrive at the final answer. The initial value, or starting point, may be implied by the expression of the problem or may be the result of part of the calculation process. In either case, the adjustments made are often insufficient. In other words, different starting points will lead to different estimates, and these estimates will be biased towards the initial values. People call this phenomenon the anchoring effect (Tversky & Kahneman, 1974). In the field of behavioural economics, anchoring effects, as the core mechanism of decision-making bias, have been proven to profoundly affect investors 'perceptions and behaviors in the real estate market. Since the pioneering introduction of anchoring theory by Tversky and Kahneman in 1974, subsequent research has revealed how it works in complex economic environments. The real estate market, characterized by high value, information asymmetry and long-term investment cycles, has become a typical scenario where anchoring effects can be significantly observed.

The real estate market, characterized by high value, information asymmetry and long-term investment cycles, has become a typical scenario where anchoring effects can be significantly observed. When historical highs are used as a benchmark, current market prices may still be considered "undervalued" even if underlying fundamentals have changed and prices have fallen. This over-reliance on initial information can cause investors to ignore key

market signals and ultimately lead to irrational investment decisions.

From a cognitive psychology perspective, investors naturally rely on "anchored adjustment" heuristics when evaluating the value of a property. Historical prices, developers 'pricing strategies and listing prices of surrounding properties can all serve as initial reference. An experimental study conducted by the University of Tilburg in the Netherlands in 2019 found that when participants were shown different initial price information for a property, even if they were clearly told that the prices had no actual reference value, their subsequent valuations still showed significant anchoring bias, which was usually adjusted by less than 40% (University of Tilburg, 2019). This cognitive inertia stems from the brain's tendency to simplify information processing by transforming complex tasks of value assessment into limited adjustments based on anchors, resulting in systematic deviations from rational expectations.

In real estate investment behavior, analysis by the U.S. real estate data platform Zillow indicates that, on the eve of the 2008 subprime mortgage crisis, over 65% of investors continued to use pre-crisis historical peak prices as valuation anchors, ignoring critical signals such as tightened credit policies and rising default rates (Zillow Research, 2020). This bias resulted in persistently overvalued asset prices, ultimately leading to a market collapse. Therefore, in his research on global real estate bubbles, Professor Shiller of Yale University pointed out that even when clear warning signs emerge in the market, investors tend to cling to their initial perceptions due to anchoring bias, leading to collective irrational behavior (Shiller, 2015).

3.2.2 Interaction Between Policy Environment and Behavior

The ambiguity of the policy environment is primarily reflected in the frequent fluctuations of local implementation standards and the vague language used in policy documents. Significant regulatory discrepancies are observed at the local level: first-tier cities generally adopt the strictest regulatory measures, while third- and fourth-tier cities tend to ease restrictions under the guise of "talent subsidies" and similar programs. This inconsistency in enforcement, combined with the unclear distinction in policy texts between "supporting reasonable demand" and "curbing speculative investment," has led to persistent instability in market expectations.

The vagueness in policy language further exacerbates cognitive dissonance. A tension arises between the central government's policy objectives—namely the "three stabilities" (stabilizing land prices, housing prices, and market expectations)—and the flexibility granted to local governments to "implement city-specific policies," making it difficult for investors to form consistent judgments. A typical example is the divergent interpretation of "reasonable demand"—whether home purchases for improvement purposes fall within the scope of support often sparks debate.

This dual ambiguity has driven investors to seek information through informal channels. According to a survey (DT Business Observer, 2025), over 60% of small and medium-sized investors rely on WeChat groups and short video platforms for policy interpretation. However, distorted information spread by self-media—such as "insider news on policy relaxation" and "signals to buy at the bottom"—has accelerated the formation of cognitive biases. As the information environment deteriorates, investor behavior becomes increasingly driven by emotion, ultimately undermining the effectiveness of the policy principle that "housing is for living in, not for speculation."

4 CONCLUSION

4.1 Research Findings

The study reveals that investors' cognitive dissonance during the implementation of the "housing is for living, not for speculation" policy is primarily driven by three mechanisms.

Policy ambiguity serves as the primary trigger: the tension between the central government's "three stability" objectives and the local governments' flexible "city-specific policies" creates uncertainty. The policy texts lack clear boundaries between "supporting reasonable housing demand" and "curbing speculation," as illustrated by ongoing debates over the definition of improvement-oriented home purchases. This ambiguity is further exacerbated by inconsistent local implementation. First-tier cities strictly implement relevant regulations, but third-and fourth-tier cities have hidden relaxation, which has led to continued instability in market expectations.

Psychological effects exacerbate cognitive conflicts, and small and medium-sized investors often exhibit a "disposal effect", in which they hold loss-making properties to avoid the pain of realizing losses. "Loss aversion" causes fear of falling prices to outweigh the desire for profit, which in turn triggers

irrational behaviors such as refusing to sell. The "anchoring effect" can cause investors to rely too much on historical peak prices as a reference point and ignore changes in market fundamentals.

The deterioration of the information environment has played a catalytic role. More than 60% of small and medium-sized investors rely on social media to obtain scattered and often misleading interpretations, such as the so-called "real estate speculation strategy", and spread distorted information from the media, such as "policy relaxation". Such rumors accelerate the formation of cognitive bias.

Investors have shown a clear trend of stratification and differentiation. Institutional investors such as REITs, with the support of professional analysis, focus on industrial parks and logistics assets with stable cash flow, demonstrating strong resilience to policy shocks. High-net-worth households are accelerating their withdrawal from the real estate sector while retaining high-quality properties in core cities to fight inflation. In contrast, small and medium-sized investors whose assets are highly concentrated in real estate and lack financial knowledge are particularly prone to irrational behavior. They are easily influenced by psychological bias and social media, leading to follow suit buying or falling into a liquidity crisis.

This cognitive dissonance creates a negative feedback loop between investor behavior and policies. The disposal effect lengthens the holding cycle of loss-making assets, loss aversion reduces the willingness to accept price adjustments, and the anchoring effect enhances price rigidity. These factors work together to weaken policy transmission and hinder reasonable adjustment of the real estate market. Solving this dilemma requires targeted intervention in the behavior of key groups, while continuously improving the design of policy tools.

4.2 Policy Optimization and Behavioral Adjustment Pathways

4.2.1 Short-Term Measures: Enhancing Transparency and Managing Expectations

In terms of information disclosure systems, the United States has implemented new regulations in recent years requiring identity disclosure in all-cash real estate transactions. Under these rules, transactions involving shell companies or legal entities must report the buyer's true identity and beneficial ownership information to relevant parties to combat money laundering. These measures directly increase market transparency and reduce the channels for illicit funds to flow into the real estate sector. China can learn from the Financial Crimes Enforcement Network (FinCEN) model in the United States and establish a unified national real estate transaction database, requiring developers and intermediaries to report the identity and source of funds of full-time home buyers, especially for multi-property holding by high-net-worth families.

In terms of managing policy expectations, the United States regularly releases house price indices and policy roadmap to help shape stable market prospects, such as the Standard & Poor's/Case-Shiller house price index and the Federal Reserve's forward-looking guidance on interest rate decisions. China could adopt a similar approach by regularly issuing a "White Paper on Real Estate Policy" to clarify regulatory objectives, outline the list of policy tools, and specify implementation conditions, thereby reducing arbitrary interventions by local governments.

4.2.2 Long Term: Policy Design in Behavioral Economics

In the long-term evolution of policy tools, the concept of psychological resilience assessment can be incorporated by integrating investor sentiment indicators into the policy-making process and systematically embedding psychological factors—such as the disposition effect and loss aversion—into the analytical framework of the “housing is for living in, not for speculation” policy.

One core strategy is to reconstruct the framework of loss perception by requiring real estate platforms and financial institutions to explicitly display the “holding costs” of properties, such as monthly interest payments and property management fees. Through continuous visualization, this approach aims to reduce the irrational overvaluation driven by the endowment effect.

To counteract excessive anchoring to historically high prices, the government should take the lead in establishing and regularly publishing an authoritative “Rational Housing Price Index.” This index should incorporate rental yields, household income growth, and regional economic fundamentals to provide an objective benchmark based on long-term value, thereby guiding the formation of reasonable price expectations.

To address the widespread psychological tendency of loss aversion, a pilot “Loss Offset Subsidy” mechanism could be introduced. Individual investors who sell properties at a loss could be allowed to deduct a proportion of the net loss from

their personal income tax. This measure would transform the immediate "pain of book losses" into future "tax relief," thereby lowering the psychological barrier to selling at a loss.

To directly address the disposition effect—the tendency to sell winners and hold losers—real estate agencies should be required to embed a "Holding Cost Calculator" on property listing pages. This tool should calculate various explicit costs, such as interest and property management fees, as well as key opportunity costs, such as other stable returns on capital, to visualize the cumulative combined cost of holding a losing property. This would encourage investors to weigh all relevant factors to make more rational decisions when deciding whether to hold or sell.

4.2.3 Recommendations for Strategies to Optimize Investor Behavior

Individual investors should have a deep understanding and mastery of financial knowledge, covering the basic dynamics of the real estate market, the characteristics of various investment products, and risk assessment methods. This knowledge allows investors to maintain clear and rational thinking in a complex market environment. Understanding endowment effects and loss aversion is crucial to formulating effective investment strategies and appropriately responding to market policies. Through education and policy intervention, investors can understand these psychological deviations and adopt more rational and balanced decision-making methods.

Therefore, investors can improve their financial literacy by participating in relevant courses, reading professional literature, or staying informed about industry developments.

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