

Research on the Impact of Real Estate on China's Economy

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Keywords: Real Estate, Economy, Economic Structure, Policy.

Abstract: During the past 3 decades of rapid economic progress in China, the real estate industry has played an important role in advancing the Chinese economy. Real estate plays different roles in the economy at different times and circumstances. This paper aims to explore the relationship between real estate and China's economy, and what progress and risks real estate has brought to the economy over the decades of development. Through data collection and analysis, this paper makes a detailed analysis and enumeration of the role of real estate in promoting China's economy, such as the support of local finance, employment promotion, etc. At the same time, it also notes a series of financial risks and foam caused by the excessive development of real estate, as well as the living pressure of ordinary residents caused by excessive housing prices. This paper also calls on residents and consumers to view real estate rationally and not to adopt irrational purchase behavior. So as not to add too much life pressure and loan repayment risk to yourself.

1 INTRODUCTION

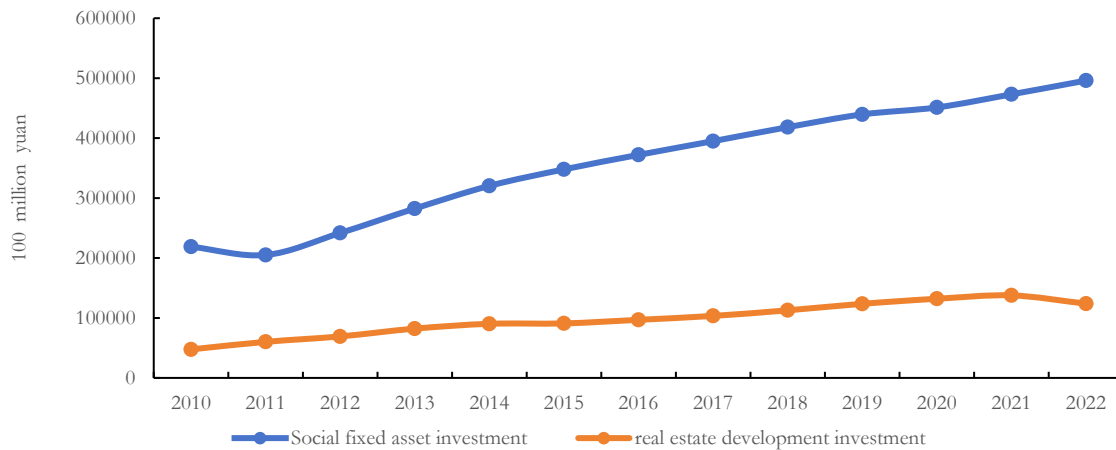
Reviewing the history of China's real estate development, it can generally be categorized into four distinct phases. From 1949-1978, China's housing system was still in the state allocated stage. From 1978-1998, the State Council promulgated many reform policies on land use and housing system, marking the beginning and establishment of the real estate industry. From 1998 to 2008, surge in housing demand and the deepening reform of the housing system promoted the rapid development and real estate's marketization. Since 2019, due to the bubble and risk of real estate, the real estate industry has entered a stage of regulation and financialization. Throughout the development of the real estate industry, the relationship between real estate and China's economy is very close. However, the question that what advantages and related risks and problems real estate industry brought to China's economy and what role it plays in is worth discussing and researching.

2 THE POSITIVE IMPACT OF REAL ESTATE

2.1 The Significance of Real Estate Development Investment to Social Fixed

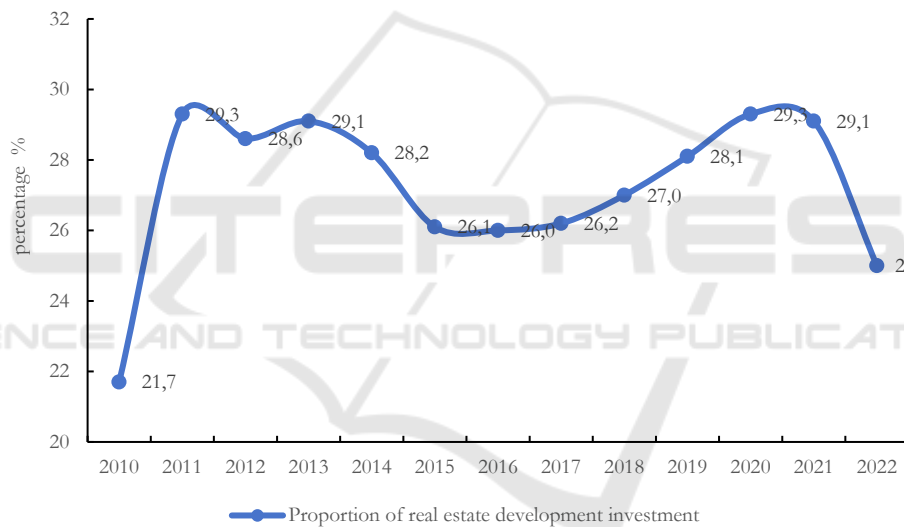
Real estate development investment refers to the investment of funds by enterprises or individuals in real estate development for obtaining investment benefits. The development process involves various aspects and processes, such as land acquisition, house design and planning, house facility construction, construction and other links. Therefore, real estate development requires a large amount of capital and money to invest (Zhu, 2024). Social fixed asset investment refers to the total amount of funds invested in fixed asset construction in a country or region in the form of currency over a certain period of time. It covers multiple fields such as infrastructure construction (transportation, energy, communications, etc.), real estate development, manufacturing, agriculture, etc. Social fixed asset investment is also an important indicator for measuring the economic growth of a country or region.

Although investment in real estate development is a part of social fixed asset investment, it has an



Data source: National Bureau of Statistics

Figure 1: Annual amount of social fixed assets and real estate development investment.



Data source: National Bureau of Statistics

Figure 2: Proportion of real estate development investment.

important impact and role on social fixed asset investment. According to the related data from 2010 to 2022, the amount of real estate development investment has steadily increased every year from 475.62 billion yuan in 2010. By 2022, the amount of real estate development investment reached 1238.47 billion yuan, nearly three times. Correspondingly, the amount of social fixed asset investment also increased from 2188.33 billion yuan to 5209.16 billion yuan (Figure 1). According to data calculations, the share of real estate development investment within total social fixed asset investment has largely maintained a level above 25% between 2010 and 2022 and even

reached nearly 30% in some years (Figure 2). This reflects that real estate development investment takes a considerable proportion of social fixed asset investment, and it plays a vital role in the entire social fixed asset investment.

China has also issued many related favorable policies like the "Continue to promote and expand private enterprise bond financing support tools to support private enterprise financing, including real estate companies" issued in 2022. The increase in financing tools for real estate companies allows them to raise more funds for real estate development, and indirectly promotes the growth of social asset

investment. The series of policies on lower loan interest rates, tax incentives, and lower down payment ratios issued in the policy year of 2024 also stimulated people's enthusiasm for buying houses. The expanded real estate demand has also increased investment in real estate development, further promoting consumption and the economic environment at the time.

2.2 The Important Role of Real Estate in Land Finance

Public ownership of land has always been one of the basic principles of the Communist Party of China. China's Constitution specifies that land in urban areas is owned by the state, while land in rural regions is collectively owned. The development of the real estate and land markets is actually closely related to the handling of land use rights (Hu, 2012). The development of land finance in China can be traced back to the late 1980s. With the rapid development of China's economy and the acceleration of industrialization, local governments raised funds by selling or leasing land use rights. In the tax-sharing reform in 1994, the proportion of local and central taxes was redistributed, and local government tax revenue was reduced. However, the smaller land revenue at that time was allocated to local governments, which laid the foundation for land finance. As an important part of China's current economic system, land finance is only tied to real estate, and the relationship between the two can be said to be very close. Local governments obtain income by selling the use rights of state-owned land through auctions, bidding, etc., which is an important part of land finance.

In the golden period of rapid real estate development before, the booming real estate market has promoted the increase in housing demand, which in turn has strengthened the demand for land, and in turn has caused the price of land transfer to rise, which has directly increased local fiscal revenue. In 1999, the income from land transfer fees accounted for only 9.3% of the total budget revenue of local governments. But by 2011, this proportion had increased to an astonishing 60.7%. Even in some years when the real estate industry was booming, the land transfer income of some regions such as Tianjin and Hangzhou has exceeded the local total budget revenue (Wang & Ye, 2016). These data and cases are enough to show that the development of real estate has driven the growth of income in various parts of China and provided a good guarantee for the urbanization and industrialization of various regions.

In addition, the land whose value has increased due to real estate development can also be used as high-quality collateral to borrow from banks and other financial institutions or issue bonds. The funds raised can help some local governments alleviate the shortage of funds in the short term, or be used for investment in public infrastructure construction and other public service projects, which also indirectly confirms that land finance has been positively affected by real estate.

2.3 The Promotion on Employment

The real estate industry has a significant impact on employment. It not only directly creates a large number of jobs, but also indirectly creates and promotes many employment opportunities in its upstream and downstream industrial chains. In terms of direct employment: In the early stage of real estate development, from project planning, design drawings, on-site construction, house sales and other processes and links, human resources are required. The positions involved include engineers, designers, construction workers, house salesmen... Take the construction industry, which is most strongly associated with the real estate industry as an example: the number of relevant workers required for every 10,000 square meters of house construction area is about 170 (Chen, 2014). The growing prosperity of the real estate industry represents an increase in the number of house purchases, and the increase in housing demand means an increase in the construction area of houses, so the number of workers required will also increase rapidly (Chen, 2014). The increase in residential houses and houses also means an increase in the demand for property management personnel. At the same time, the intermediary consultation in the house transaction process also requires a large number of corresponding professionals. In terms of indirect employment: the increase in housing demand has caused an increase in the demand for raw materials required for upstream houses, such as steel, cement, glass, wood, etc., which has increased the demand for personnel in these corresponding industries. When the house purchase is completed, the house decoration, home appliances and furniture purchase and other links involved require the employment of labor. Mortgage loan services provided by banks and other financial institutions also benefit from the active housing market, increasing demand for employment related to credit business.



Data source: National Bureau of Statistics

Figure 3: The proportion of direct real estate employment to tertiary industry employment.

According to the relevant data in Figure 3, the number of direct employment in the reality industry was only about 930,000 in 2000, accounting for about 0.49% of the total employment in the tertiary service industry. However, with the rapid development of the reality industry, the number of direct employment provided by the real estate industry is also rising rapidly. By 2018, the number of direct employment in real estate reached a peak of 2.94 million, nearly three times the number in 2000. From these data, it can also be seen that the real estate industry has created many jobs and employment opportunities in the process of development. At the same time, it can be found that the proportion of direct employment in real estate to employment in the service industry has shown an overall upward trend. Although the proportion is not large, less than one percent, the proportion has also increased significantly. By 2014, it has reached about 0.89%, an increase of about 82% compared to 2000. And this is only the direct employment created by the real estate industry, and does not include the increase in employment in upstream and downstream raw material supply, construction industry, etc. due to the influence of the real estate industry. Therefore, real estate undoubtedly has a boosting effect on China's employment situation.

3 NEGATIVE IMPACT OF REAL ESTATE

3.1 The Debt Crisis

Over the last two decades, the fast-paced economic growth of China, steady GDP growth and stable employment market are inseparable from the promotion and help of the real estate industry. However, even though the real estate industry has brought many positive effects to China's economy, there are also many problems and huge risks behind it. The real estate industry is a capital-intensive industry. The land purchase cost, construction cost, design planning and other links in real estate development require a large amount of capital investment. A real estate development project is usually accompanied by high investment and long cycle characteristics, so real estate companies have a high demand and dependence on capital. The high dependence on funds means that real estate companies need to raise a lot of funds to make the project go smoothly, and companies usually adopt high-leverage debt financing methods. Although the high-leverage financing strategy will enable the company's business and scale to expand rapidly, it will also cause the company to bear huge financial risks and debt pressure (Bai & Zhou, 2025). Because most of the assets of real estate companies are fixed assets such as land and houses, the ability to convert

them into cash flow is poor. In addition, the long cycle of real estate development, these factors further test the capital operation and management capabilities of real estate companies that adopt high-leverage financing. The real estate industry is also extremely susceptible to the influence and regulation of national policies. The real estate market's direction is heavily impacted by each specific policy enacted by the authorities. The constant changes also make real estate companies vulnerable to fluctuations but difficult to adjust and respond in time (Liu, 2018). The above internal and external factors show that the risk and possibility of debt crisis in real estate companies are much higher than other industries.

In recent years, there have been many cases of real estate companies going bankrupt due to debt defaults, among which the famous companies are: Country Garden, Evergrande Group, etc. The bankruptcy of these real estate giants has brought a series of financial problems, causing very bad impacts and losses to the society. Take the bankruptcy of Evergrande Group as an example: Evergrande Group entered a state of crazy expansion between 2016 and 2020, and the company's asset scale also reached a historical high of 2.3 trillion yuan in 2020. Correspondingly, such a radical expansion is inevitably accompanied by high financing loans. In 2020, Evergrande Group's liabilities reached 1.95 trillion yuan, and its asset-liability ratio was as high as 84.8%. Such an astonishing debt ratio has shown that Evergrande's financial risks are in an extremely dangerous situation, and the high debt has put great pressure on its cash flow. What is more fatal is that the country began to implement stricter controls on the real estate sector in 2020, promulgated the "three red lines" policy, and imposed relevant restrictions and supervision on the high-leverage financing behavior of real estate companies. This series of measures made it even more difficult for Evergrande, which was already in a debt crisis, to maintain normal operations through refinancing. Coupled with Evergrande's failed investments in other fields such as medicine, new energy, and health, it eventually led to the bankruptcy of Evergrande, a former leading real estate company. Evergrande's bankruptcy caused huge losses to upstream raw material merchants, depreciation of the wealth of Evergrande bond holders, and the loss of money for Evergrande's pre-sale buyers, among other social harms and losses. This case also fully reflects that real estate not only represents high returns, but also contains crises and risks.

3.2 Increased Living Pressure on Residents

The fast-paced expansion of estate sector and the rapid rise in property values have brought considerable income and wealth to those who invest in this industry. However, the high property prices have brought considerable living pressure to many people who want to buy properties. The property value is usually affected by the development costs, expected income and housing supply and demand of real estate developers. The price of real estate should fully reflect the value of real estate. However, in property market in China, the price of property deviates from its corresponding value. This phenomenon also exposes the bubbles and risks contained in real estate prices (Li, Li & Nuttapong, 2022). According to relevant data from National Bureau of Statistics: in 2005, the price of commercial residential housing was about 2,937 yuan per square meter. In the following 20 years, due to the rapid advancement within the property industry and social economy, the price of property has been rising accordingly every year. By 2023, the value of commercial residential homes per square meter has risen to 10,864 yuan, nearly 3.7 times that of 2005. The sharp increase in housing prices also shows that the financial pressure faced by ordinary residents when they want to buy houses will also increase accordingly. The ratio of housing prices to household income is an important indicator for measuring the housing prices in a region and the purchasing power of residents. It has a good reference value. The World Bank indicates that in developed countries, a standard housing price-to-income ratio usually lies within the range of 1.8 to 5.5, whereas in developing countries, the acceptable level ranges from 3 to 6. However, in 2016, the housing price-to-income ratio in first-tier cities such as Beijing and Shanghai reached an astonishing 25 times (Glaeser, Huang & Shleifer, 2017). In 2010, the housing price-to-income ratio in Shenzhen reached about 22 times. Although it briefly dropped to about 17 times in 2015, it reached a peak of about 40 times in 2020 after another round of housing price increases. The extremely high housing price-to-income ratio in the above-mentioned first-tier cities in China has far exceeded the reasonable housing price-to-income ratio range proposed by the World Bank. When a family in a first-tier city needs to spend more than 25 years of annual income without food or drink to buy a house to live in, it is foreseeable that most families may be under a series of pressures and influences such as high housing prices and mortgage repayments for a long time. According to

CHFS data in 2017, the total asset change index of urban households without housing was 96.3, indicating that wealth is shrinking. The index of households with houses is 110.3, indicating that their wealth continues to grow. This shows that due to the rise in housing prices, wealth has begun to transfer from households without houses to households with houses. The faster the housing prices rise, the greater the gap between the rich and the poor between the people with houses and the people without houses. This phenomenon also stimulates the public to choose to work hard to buy houses in order to avoid losing wealth, which in turn stimulates the housing prices to continue to rise due to the increase in demand, forming a vicious circle.

3.3 Challenges of Economic Restructuring

China's long-term rapid economic advancement has relied on the real estate industry as the engine of economic growth. The over-reliance on the real estate industry has led to obstacles and challenges in China's economic structural transformation. In the previous article, the relationship between land finance and the real estate industry was analyzed in detail. Although real estate has brought a lot of benefits to the finances of various regions, the corresponding data show that the land transfer income related to real estate has occupied too large a proportion of the local government's budget revenue. Local government debt funds have poured into real estate-related industries. The over-reliance on real estate has caused the funds that should have been invested in other fixed assets to flow into real estate, thereby limiting the government's ability to invest in other areas and distorting the ability to adjust fund allocation accordingly (Yang, n.d.). According to data surveys, since 2018, the land transfer income of real estate companies has begun to decline continuously, from 120.7 billion yuan in 2018 to 67.4 billion yuan in 2023. The continuous decline in land transfer income shows the unsustainability of land finance. Today, the Chinese government has promulgated a series of relevant laws to suppress and regulate real estate, and gradually transfer the long-term, high-investment, and high-leverage characteristics of real estate to the real economy model (Chen, 2025). Therefore, local governments cannot continue to develop the real estate industry as the mainstay of local finances. The adjustment and transformation of the industrial structure is a big challenge for them. It is difficult to transform from the land finance model to other models quickly.

4 CONCLUSION

This paper takes the real estate's influence on China's economy as the survey background, and discusses in detail the positive and negative impacts of the property industry on China's economic growth through data analysis and case analysis. It is found that real estate sector has significantly contributed to the swift growth of local financial systems in China, employment, and economic level, but the phenomenon of China's economy over-relying on property also contains corresponding financial risks and social harm. The analysis of real estate, a key driving force in China's economic structure, has very important social significance. A deeper understanding of the two sides of the real estate industry will help people have a more rational view and understanding of it. For the current problems of high house prices and financial bubbles, the government should strengthen the monitoring of the corresponding real estate loan situation. Increase the supply of land to build more public rental housing and affordable rental housing, in order to cope with the current phenomenon that house prices are generally too high and low - and middle-income people can not afford house prices. At the same time, government should continue to emphasize the residential attributes of the house and limit its financial attributes to avoid another irrational rise in house prices.

Although this article provides a specific analysis of the dual nature of real estate, most of it focuses on existing data analysis and does not involve relevant data calculations or predict and analyze future development trends in the real estate industry. This is one of the shortcomings of this article. After that, this paper can focus on predicting and exploring the adjustment and future prospects of the real estate industry based on the relevant policies issued by China.

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