

Comparative Analysis of the Real Estate Markets in China and Japan

-Including an Examination of Influencing Factors

Mengfei Sun^{1,a,*}

¹*The University of Sydney, Business School, Sydney, NSW2006, Australia*

a. mengfeisun29@gmail.com

**corresponding author*

Abstract: China's and Japan's economic development has undergone decades-long periods of rapid growth at different times, with the real estate industry consistently representing a significant portion of GDP. After Japan experienced a real estate bubble in the 1990s and then the bubble burst, the economy has been recovering slowly or even stagnant. China is currently experiencing a real estate economic bubble. This article will use comparative analysis to compare the real estate markets of China and Japan from the perspectives of politics, economy, society, and culture, and deeply analyze the impact of these factors on the real estate economy. After in-depth research, it finds that the different policies and economic environments, and the cultural values of residents will have a certain impact on the fluctuations of the real estate market. To prevent the problem of the bursting of China's real estate economic bubble, China should continue to reduce the debt ratio of real estate companies, draw lessons from Japan's experience, strengthen regulatory power, solve regional differences, tailor policies and systems to national conditions, and mitigate the risks that the real estate market will face.

Keywords: Real estate market, Bubble economy, Bubble burst, China, Japan.

1. Introduction

Over the past few decades, the real estate market has played a pivotal role in the economy and has attracted widespread attention for research and analysis. While the real estate market has experienced rapid growth over the past period, the market has begun to face risks and challenges in recent years due to many factors, such as the COVID-19 pandemic. Among many countries in the world, China and Japan's real estate markets share commonalities but also exhibit distinct characteristics and differences. To gain a deeper insight into the real estate markets of China and Japan, this paper aims to conduct a comprehensive analysis of the real estate markets of the two countries, considering their development status, political, economic, different societies and cultures. While comparing the similarities and differences between the two countries, it further explores the impact of these factors on the real estate markets of the two countries. Additionally, this study will delve into the respective risks and challenges faced by the real estate markets of China and Japan and extract valuable insights. This paper aims to gain an in-depth understanding of the real estate markets of China and Japan from different perspectives, conduct a comprehensive comparison and analysis of the real estate markets

of the two countries, study the impact of various factors on the real estate market, and maintain the stability of the real estate market economy.

2. Current Status and Trends in the Real Estate Markets of China and Japan

2.1. China

Being one of the most populous and vast countries globally, China possesses an extensive real estate sector. After decades of rapid economic growth, 31 out of the country's 34 provinces are engaged in real estate development in the 2023 China Statistical Yearbook [1]. Similarly, except for the three provincial administrative regions of Hong Kong, Macao, and Taiwan, the remaining 31 provincial administrative regions are all involved in real estate investment, development, and sales in the basic statistics of the national real estate market from January to May 2024. Despite a decrease in investment and development activities in the real estate market, as well as a slowdown in sales growth from 2023 to 2024, they continue to exert significant influence on the overall economic indicators [2]. According to World Bank estimates, the real estate industry in China is projected to represent 13% of GDP by the end of 2021, excluding entities within the real estate supply chain such as land developers, material suppliers, and housing contractors [3]. This substantial scale and proportion can be attributed to the strong domestic demand for housing. Owing to the substantial housing demand and rapid urban development, high wages in China's first- and second-tier cities, such as Shanghai and Guangzhou, attract many residents from third- and fourth-tier cities. This influx of workers has led to a heightened demand for housing in the first- and second-tier cities. However, due to the high cost of housing construction in these urban centers, there is also a shortage of housing supply. As the population of third and fourth-tier cities gradually decreases, the demand for houses decreases, and the number of remaining houses increases. It results in a situation where supply exceeds demand. An assistant professor from the Business School of the Chinese University of Hong Kong refers to this phenomenon as a mismatch between supply and demand [4], which indicates that the Chinese real estate market is currently in a significant imbalance between supply and demand.

2.2. Japan

Similar to China's experience, Japan has experienced 40 years of rapid economic development. To encourage people to invest, Japan relaxed its monetary policy and implemented a low-interest rate policy between 1986 and 1990. It was easier for residents to get loans from banks, which led to the emergence of a bubble economy in Japan. The overly loose credit policy also led to a bubble economy in the real estate industry in Japan. After the bubble economy, the Bank of Japan strictly restricted and controlled bank loans in the real estate industry, which led to a downward trend in the real estate market in 1991, a significant drop in transaction volume, the collapse of the real estate bubble economy, a rapid drop in housing prices, and a serious crisis in the Japanese financial market [5]. Following a decade to twenty years of economic downturn, the Japanese government has made long-term policy adjustments. Although the real estate market in Japan still faces problems and challenges, it has recovered significantly compared to the last century's end. Since 2010, the number of newborns in Japan has been declining annually and has seen negative growth compared with previous years, the aging phenomenon is significant [6]. It is projected that by 2033, approximately 33% of the total housing units in Japan will remain unoccupied, reflecting the current state of oversupply in Japan's real estate market [6]. Similar to the real estate market in first and second-tier cities as well as third and fourth-tier cities in China, there is also an imbalance in population density and housing demand across different cities in Japan. Over the past two decades, most of Japan's population growth has been concentrated in major urban centers such as Tokyo and Nagoya, where housing prices and

demand are higher than elsewhere, leading to a surplus of vacant homes in less densely populated areas [6].

3. Comparison and Influencing Factors of Real Estate Market in China and Japan

3.1. Political and Economic Factors

Amidst rapid national economic development, China's and Japan's real estate markets confront challenges posed by a potential bubble economy. Following Japan's real estate market bubble burst, to forestall future financial crises, the Japanese government established the Financial Services Agency (FSA) in 2000 to consolidate regulatory authority and bolster oversight of the real estate market [7]. Simultaneously, the Japanese government has long pursued a low-interest rate policy, reducing the benchmark lending rate to 0.5% and implementing accommodative monetary measures to enhance residents' purchasing power for homes and access to credit [7]. Through these efforts, the Japanese government aims to stimulate borrowing for home purchases and thereby bolster the country's economy. However, it is precisely due to the prolonged loose monetary policy and persistent negative interest rates that the yen exchange rate experiences fluctuations. The yen depreciation has made Japan's real estate market more appealing to investors and contributed to substantial sales growth in key real estate markets such as Tokyo [8].

On the contrary, China adopts a more cautious approach to regulating and adjusting the real estate market as well as policy adjustments. Each policy adjustment is implemented incrementally to prevent economic overheating, inflation, and excessive market fluctuations. This will stabilize the real estate market so that every policy adjustment can be seen in the short term [9]. Furthermore, to curb speculative housing investment, the Chinese government initiated housing purchase restrictions and tightened loan policies as early as 2010. Subsequently, on April 30th, 2024, following a real estate market conference, it was announced that certain cities and regions would lift housing purchase restrictions and relax eligibility criteria for home purchases. This move aimed to encourage residents to invest in property by increasing home purchase subsidies and reducing associated costs to stimulate economic growth and revitalize China's real estate market. The removal of purchase restrictions primarily targeted first-tier cities in China; additionally, each city introduced its tailored policies for the real estate market. For example, Wuhan provides financial subsidies to residents who improve their housing conditions to promote consumption in the second-hand housing market, while Shenzhen reduces personal income tax rates and insurance premiums for home purchases [10]. These localized policy adjustments are designed to better respond to the situation in specific regions, resulting in significant implementation effects across cities.

Meanwhile, China proposed the theory that "houses are for living, not for speculation" and the "three red lines" policy for real estate companies in 2020 [11]. This policy strictly regulates the capital and debt risks of real estate companies, constrains the way real estate companies manage their financing, and changes the traditional high-leverage, high-debt financing model of real estate companies. For Chinese residents, the promulgation of this policy aims to curb excessive housing price increases and enable every Chinese resident to have a house to live in. For Chinese companies, it aims to reduce the debt risks of real estate companies and stabilize China's financial system [11]. The policy implementation shifts the focus from regulating the real estate market to regulating the reasonable operation of real estate companies, promoting the high-quality development model of real estate companies. The implementation of the "three red lines" policy has been very effective, especially in regulating the prices of domestic properties. As the policy limits the leverage ratio of real estate companies, companies sell houses at low prices to quickly turn over funds. This positive effect is particularly evident in second- and third-tier cities. Although housing prices in first-tier cities have declined, they have become more stable [12]. While the "three red lines" policy has resulted in

the insolvency of numerous real estate companies due to challenges with capital turnover during implementation, take the well-known company Evergrande as an example [13]. However, "three red lines" have propelled China's real estate sector towards sustainable development characterized by improved health and quality.

3.2. Social and Cultural Factors

The national culture of different countries is also a significant factor influencing house prices. For instance, there is a preference for new houses over second-hand in Japan, with the latter constituting only a small portion of the real estate market [14]. Houses are viewed as consumables in Japanese culture and are expected to depreciate over time despite maintenance efforts [15]. A 2008 study by Koo & Sasaki suggested that houses in Japan lose their value within 15 years [16]. Therefore, the phenomenon of reselling and speculating on houses in Japan has been decreasing in recent years. Furthermore, Japan's susceptibility to natural disasters due to its location on seismic plates significantly impacts housing prices [17]. In contrast, houses are symbols of family establishment and responsibility in traditional Chinese culture. It is customary for men to prepare a house for their brides upon marriage. Without a house, there is no true home according to Chinese beliefs [18]. That concept contributes to high housing demand. In addition to culture, the social environment also creates fluctuations in housing prices. There is a special type of house called a "school district house" in China. Children living in school districts can attend schools within the district for free. Due to differences in education quality, many parents invest heavily in properties near better schools so that their children can attend those schools, which has also led to a continuous increase in housing prices near schools [19].

4. The Risks and Challenges Facing both Countries and Lessons China can Learn from Japan

Despite outpacing other countries all over the world, China and Japan's real estate economies still confront numerous risks and challenges. The global economic slowdown has impacted both nations, leading to reduced national income and diminished market appeal. Additionally, significant regional disparities exist within each country's real estate landscape. The demand and price of houses in China's first and second-tier cities are higher than in third and fourth-tier cities, while the vacancy rate of houses in Japan's rural cities is higher than in large cities. These imbalances contribute to a persistent issue of housing supply-demand mismatches across both countries [4, 6]. China with approximately 30% contribution towards GDP including industry chains [20]. The excessive proportion has caused the real estate industry to be in a bubble economy and face the risk of a bubble bursting. After the bursting of the economic bubble at the end of last century, Japan has gradually entered an aging society since 2010, with fewer newborns and lower demand for houses [6]. On the contrary, the number of vacant houses has increased, resulting in an increasingly sluggish real estate market.

In response to the risk of a bursting of the real estate bubble economy facing China, China could draw insights from Japan, enhance financial market management, centralize supervision power over the real estate market, and persist in implementing the "three red lines" policy. This involves reducing the leverage ratio of real estate enterprise loans, strategically balancing housing supply and demand, addressing regional imbalances in supply and demand, and minimizing the risk of a real estate bubble leading to economic collapse.

5. Conclusion

After conducting a comparative analysis of the real estate markets in China and Japan, it is evident that while the Japanese market can draw valuable lessons from its Chinese counterpart, it also undergoes adjustments tailored to its unique national conditions. After the bursting of its economic bubble, Japan established the Financial Services Agency and maintained a prolonged low-interest rate policy, leading to a depreciation of the yen and a surge in the real estate market. However, due to deep-rooted social and cultural influences, housing is perceived as consumable by Japanese residents. Furthermore, natural disasters have limited significant fluctuations in Japanese housing prices. However, China is currently in the process of a real estate economic bubble. The demand for housing has increased due to traditional Chinese ideas. Therefore, the government prevents the bursting of the real estate market economic bubble through macro-control. By canceling housing purchase restrictions to stimulate the real estate market economy, promulgating the "three red lines" policy was to supervise the financing methods of real estate companies, reduce loan amounts, avoid the emergence of high leverage ratios, and thus macro-control housing prices, guide the Chinese real estate market to a healthy and sustainable development path.

This paper analyzes and discusses factors influencing the real estate markets of China and Japan from political, economic, social, and cultural perspectives. While acknowledging that there are more influential factors affecting these markets than those discussed here, it is still not comprehensive and has limitations. In future research, more knowledge of economics, statistics, and data analysis will be used to compare and analyze the real estate markets of the two countries.

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