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Research on the Market Forecast of China's Real Estate

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Abstract. The real estate industry in China plays a crucial role in the country's economic development and social progress. As a pillar industry of the national economy, it has driven the growth of dozens of related sectors such as building materials, home decoration, and finance, creating many urban employment opportunities and playing a significant role in driving economic growth. This paper forecasts China's real estate market post-pandemic. It analyzes the industry's downturn under epidemic impacts and policy effects like "housing for living, not speculation." It explores developers' strategies: financial restructuring (asset divestiture, REITs), product focus on improved/niche housing, regional concentration, and operational upgrades. The study predicts a 12-trillion-yuan market from stock renewal, rentals, and smart services, with policies integrating international experience. It notes a dual ecosystem of state-owned and private enterprises, multi-level financing, tech-green regulation, and shifted homebuyer focus on living attributes and risk defense, foreseeing a capacity-driven growth shift.

Keywords: China's real estate, Market forecast, Industry transformation, Policy impact, Homebuyer behavior.

1. Introduction

After three years of the pandemic, China's economy has entered a state of sluggishness, and the real estate industry has been significantly impacted. The Omicron variant's extremely high transmissibility led to unprecedentedly strict, frequent, and widespread epidemic prevention measures (lockdowns, static management, regular nucleic acid testing). These measures inflicted sustained and deep shocks on economic activity, particularly on consumption and the service sector. Simultaneously, they contributed to a profound downturn in the property market. The government has introduced a series of targeted policies, such as "housing is for living in, not speculation," deleveraging and risk mitigation, city-specific policies, and ensuring project delivery. However, the effectiveness of these policies remains to be tested by the market. The future of China's real estate industry still requires careful deliberation.

To forecast the future of China's real estate industry, it is essential to employ appropriate thinking models. Using institutional analysis and empirical data methods, Fan and Miao, integrating policy documents, statistical yearbooks, and industry data on land transactions, sales area, and debt ratios, identified severe issues of high leverage and supply-demand imbalance in China's real estate industry's old model. They emphasized the need to shift from high-debt, high-turnover models to

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new ones featuring rent-purchase integration, diversified financing, and refined operations, leveraging land supply optimization, affordable housing expansion, REITs development, and technological empowerment to achieve sustainable, high-quality growth and meet diverse housing needs [1]. Zhong and Ma propose four key approaches: reverse thinking, international thinking, historical thinking, and balanced thinking. They argue that the traditional model of "high debt, high leverage, and high turnover" requires reform, but not simply by reducing these figures. Instead, policymakers should analyze the pros and cons of the business models causing the "three highs" and let the government design and implement new systems. New policies should be formulated based on historical data and patterns, rather than unfounded future predictions [2]. Yuan et al. used historical stage analysis to divide China's real estate industry into three phases: 1949-1978, 1978-1998, and post-1998 housing reform. By examining policy evolution and economic data, they analyzed the role of state-owned enterprises (SOEs) in different periods, pointing out that SOEs shoulder dual missions: remedying market failures in public welfare (e.g., affordable housing) and stabilizing the market through strategic regulation in commercial sectors (e.g., stabilizing prices and ensuring delivery). Although their status has declined with marketization, SOEs remain key to the industry's healthy development, requiring a balance between social attributes and market efficiency. Reference to other countries should also be integrated, as only by combining these thinking modes can correct conclusions be drawn [3]. Zhu used qualitative analysis to reach similar conclusions. By examining the interaction between real estate and construction economies and analyzing five influencing factors, including macroeconomics and technology, Zhu proposed six development strategies. The healthy growth of these intertwined sectors, crucial to the national economy, requires coordinated efforts in policy optimization, technological innovation, talent cultivation, and international cooperation, aiming for stable, high-quality, and sustainable development [4].

Cui analyzed China's real estate industry by integrating policy interpretation, market data analysis, and demand variable research. Facing challenges like weak demand and high inventories, the current policy emphasizes de-inventorying for risk prevention. The future calls for a "market + security" model via urban renewal and housing development, with joint efforts from all parties [5]. Zhou analyzed China's real estate sector by scanning the macro environment, including urbanization trends and policy evolutions. Focusing on the pressures at the resident, real estate enterprise, and local government levels, and using data like a 65.22% urbanization rate and 22.3% vacancy rate, he revealed structural challenges. He suggested a diversified "rent-purchase integration" system and customized policies to drive long-term stable transformation [6]. With technological progress, the real estate industry faces uncertainties but also great potential. Yuan et al. used big-data research and tech case studies to analyze digital transformation. Hampered by debt and mismatches, the industry needs tech like BIM and blockchain. Government policies are key to driving intelligent and service-oriented development [7]. Reforms in China's real estate sector should be considered from multiple aspects, with green transformation being a crucial part. Dong analyzed top-level policies, including the report of the 20th National Congress and carbon peaking plans. On the demand side, a growing urban population coexists with low willingness to pay for green features. On the supply side, existing housing has many structural problems. With "dual carbon" goals, green transformation is essential, achievable through urban renewal and green building development for win-win results [8].

Liang used a literature review to summarize academic studies on China's real estate structural issues. Facing "four major imbalances" and regional mismatches, he suggests structural reforms for asset-light operations and fiscal-tax system changes [9]. Bai used the "technical scenario disassembly method" to analyze how big data and AI can be applied across the real estate chain.

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They drive industry transformation but face challenges in data security and algorithm optimization for better efficiency [10].

2. For the property developers

The future development of real estate developers in China is intricately intertwined with policies, and a series of profound changes are on the horizon. Leading real estate developers mainly restructure their financial structures through the following strategies:

2.1. Financial restructuring: the deleveraging path for leading real estate developers

2.1.1. The divestiture of non-core assets is accelerating

Top real estate developers are selling off non-core assets such as commercial properties and hotels on a large scale. In addition to planning to divest 30 billion yuan worth of assets over three years, Vanke has sold seven logistics parks in the Guangzhou-Shenzhen region in 2023, raising 8.2 billion yuan. Industry data shows that the transaction volume of non-core assets of the TOP50 real estate developers increased by 37% year-on-year.

2.1.2. Reits expand into key channels

In 2023, the issuance scale of REITs for public rental housing reached 28 billion yuan, and that of REITs for industrial parks was 15 billion yuan. At the policy level, the China Securities Regulatory Commission has expanded the REITs pilot program to consumer infrastructure and extended tax incentives until 2025. China Merchants Shekou has revitalized its existing assets through public REITs, reducing its debt ratio by 5 to 8 percentage points and providing a replicable path for the industry.

2.2. Product strategy: battle for niche markets

2.2.1. Improved housing dominates the market

Improved housing accounts for 62% of the new home transaction volume and has become the main battlefield. The product standards have been significantly upgraded: the usable floor area ratio has increased from 75% to 82%, and the rate of technology system configuration has risen from 35% to 60% (refer to the Greentown Haitang Sanzhang project). The target customer group is second-time home buyers aged 35 to 45, who are willing to pay a 30% premium for quality.

2.2.2. Structural tracks explode

Aging-Friendly Communities: Targeting the needs of 120 million aging people, Poly's "Hexi Club" has been implemented in 42 cities across the country. Green Technology Residences: With a compound annual growth rate of 25%, Jinmao's smart energy system covers 90% of newly developed projects

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2.3. Spatial strategy: regional focus and activation of existing stock

2.3.1. Regional investment is highly concentrated

In 2023, over 55% of real estate developers' investments were focused on the Yangtze River Delta (38%) and the Greater Bay Area (17%). Land reserves in core cities in the central and western regions increased by 25%, while investment in third - and fourth-tier cities continued to contract.

2.3.2. Dual-track promotion of existing stock renovation

Renovation of old residential areas: With an annual start-up volume of 53,000 units (Ministry of Housing and Urban-Rural Development), it will drive an increase of 400 billion yuan in the home decoration market

Industrial land transformation: 30 cities pilot the "industrial-to-lease" policy. Shanghai Zhangjiang Science City has transformed old factories into scientists' apartments, with rents 30% lower than the market price.

2.3.3. Upgrade of operational efficiency

The land reserve period for real estate developers has been shortened from five years to 2.5 years. Companies like Longfor have established a "policy sandbox" mechanism, with dedicated teams generating "one city, one policy" response plans within 24 hours.

2.4. Industry endgame: a new ecosystem driven by capabilities

2.4.1. Pattern differentiation and finalization

State-owned enterprises undertake 70% of the construction tasks of affordable housing (such as China Overseas Land & Investment Corporation and China Resources). Private enterprises focus on the improvement-oriented market. Binjiang Group has a 28% market share in the high-end residential market in Hangzhou.

2.4.2. Reconstruction of core competitiveness

Policy Decoding: Establish a biweekly analysis mechanism of "policy-market". Technology Empowerment: AI Design Platform Shortens Development Cycle by 40% (Longfor IPMS System). Capital Operation: REITs+CMBS+ private equity fund portfolio financing

3. Evolution of market space

The scale of incremental development has shrunk to within 10 trillion yuan, but "stock renewal + rental housing + smart services" will give rise to a 12-trillion-yuan compound market (McKinsey's 2024 forecast), and capacity-driven enterprises will dominate the new cycle.

3.1. Forecast of the government's future management measures and status

Policy-making will deeply integrate historical experience with international practice. The government is moving past short-term fixes and taking a long-term view on housing reform, learning from countries where renting and public housing work well - like Germany's rental markets

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or Singapore's flats. Policies now target specific needs: in hot markets like Beijing or Shanghai, the focus is on protecting buyers from scams and making sure developers finish projects on time. In cities drowning in empty apartments (think Harbin or Kunming), efforts center on clearing stock - for example, converting old offices into affordable housing. A few key cities will test bold ideas, like turning factory zones into residential hubs. At the same time, a new monitoring system will track developer debts and unsold homes to catch risks early.

3.2. The structure of market entities will form a dual ecosystem with complementary functions

State-owned developers are doubling down on building affordable homes. They get priority access to land and funding to shore up basic housing needs - like Shanghai's recent rental blocks for essential workers. They're also stepping in to take over stalled private developments, helping calm jittery markets. Performance is now graded on real results: how many units get built and occupied, and whether projects include sustainable features like solar panels.

Private builders get tailored approaches: big players like Vanke focus on premium projects (think Guangzhou's riverfront towers), while smaller firms shift to niche roles - converting old buildings or handling maintenance. A government-backed restructuring fund helps manage troubled projects, turning half-built sites into usable housing.

3.3. The financial system is accelerating the construction of multi-level financing channels

Asset-backed securities are now the go-to tool for turning old properties into cash flow. Tax breaks for these deals have been extended, and pilot programs now cover more cities - like Chongqing's mall-to-apartment conversions. To reduce cities' reliance on land sales, special "urban renewal bonds" fund neighborhood upgrades. Banks now tightly link construction loans to building progress - releasing funds only after completing floors, stopping money from being diverted to other projects.

3.4. The regulatory system deeply integrates the dual requirements of technology and green development

A new digital platform tracks every stage of property projects - from land permits to demolition permits - like Hangzhou's real-time construction dashboard. Developers now get "health checks" grading financial risks (cash flow, project delays), flagging problems early like the Evergrande debt crisis. All new builds must meet carbon targets (e.g., installing solar panels), while eco-friendly projects get cheaper loans, creating a green cycle: lower emissions → better financing → more sustainable buildings.

3.5. The role of the government is undergoing a systematic reconstruction

Short-term: Focus on preventing crises and reviving sales. Cities like Chengdu now allow extra home purchases if you have kids or seniors living with you - but won't bail out every failing developer.

Medium-term: Create a "rent-or-buy" market where 40% of new homes in places like Guangzhou are affordable rentals with capped rent hikes (e.g., max 5% yearly).

Long-term: Squeeze housing profits toward manufacturing levels (think 5-8% margins).

State giants like China Resources dominate land banks and rentals. Housing bureaus shift from approving blueprints to managing community services - finally launching a national housing agency to run a twin-track system: market-priced homes alongside subsidized security housing.

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4. Prospects

4.1. A fundamental shift in the logic of home purchase decision-making

The residential attribute of real estate has completely overshadowed its financial attribute. Home buyers' primary concern is no longer the potential for appreciation, but the real living costs and quality of life - the monthly mortgage payment must be kept within 35% of the family income (previously generally over 50%), the average annual holding cost (property tax + maintenance fees) should reach 2-3% of the house price, and the rental yield of less than 2% in most cities makes the cost-effectiveness of renting stand out. The new generation is turning to the "rent first, then buy" path, especially against the backdrop that public rental housing covers 30% of the new demand.

The rent for the same area is only 40% to 60% of the monthly payment. The policy of equal rights for renters and buyers has been implemented, providing educational and medical resources, and eliminating the high transaction losses of property exchange.

4.2. Risk defense has become a compulsory course for home buyers

With developer defaults now topping 37%, homebuyers need three shields: regularly check official developer health ratings like Beijing's traffic-light system, demand proof that over 90% of presale funds are in protected escrow accounts like Shanghai's model, and avoid "zombie discount projects" where land sits idle for three years like stalled Foshan sites. Navigate policy swings by acting fast when cities like Chengdu ease purchase rules, use floating-rate/provident fund combo loans to lock in rates like Shenzhen's 3.8% deals, and hold properties five-plus years to qualify for tax breaks like Beijing's zero capital gains exemption.

4.3. The precise capture of structural opportunities

Smart money's chasing upgraded homes: Green-certified units sell for more than 15% premiums like Shanghai's LEED platinum towers, while senior-friendly layouts-think walk-in showers and handrails-meet real needs in aging cities like Chongqing. Urban renewals like Foshan's factory conversions get tax sweeteners.

City strategies are splitting too. Population magnets like Hangzhou build micro-apartments downtown and package rentals into REITs, while industrial decline zones like Hegang dump empty malls and swap them for affordable housing access.

4.4. Phased action guide

Over the next 1-3 years, pause speculative buying. First-timers should target move-in-ready units from state developers like Poly's Beijing complexes, while monitoring city watchlists for troubled projects (like Zhengzhou's monthly risk bulletins). From years 3-5, consider shared-equity homes where you own 60-95% - similar to Guangzhou's co-ownership schemes - and position for tech upgrades like Shanghai's solar-integrated apartments. By 5-10 years, build a diversified portfolio: core affordable housing (e.g., Shenzhen's talent apartments), value-add renovated units (forced appreciation through upgrades), and rental REITs capturing neighborhood revitalization gains.

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5. Conclusion

The real estate reform covers five aspects: policies are formulated in combination with international experience and the characteristics of cities; State-owned enterprises and private enterprises form a complementary ecosystem. Multi-channel financing and standardized loans; Regulatory integration of technology and green requirements; The government's role has been restructured, and policies will be implemented in short, medium and long-term phases to build a rental and purchase market, etc.

In the next five years, China's real estate industry will shift from being driven by finance to being driven by capacity. Only enterprises that accurately grasp the policy pulse, deeply integrate technological innovation, and reconstruct the capital logic can weather the cycle and occupy the value high ground in the 8-trillion-yuan market.

Home buyers are undergoing a transformation from "gamblers" to "butlers" - their decision-making basis has shifted from marketing rhetoric to financial report analysis, their risk awareness has evolved from the rise and fall of house prices to the prevention of unfinished projects, and their asset allocation has evolved from a single property right to a combination of leasing/property rights/REITs. The essence of this transformation is to re-anchor the balance point between residential dignity and financial security amid dramatic policy changes.

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