

Correlation Between Urban Housing Price and Residents' Life in China

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Abstract. In recent years, the relationship between housing prices and residents' income in Chinese cities and urban differences have become an important issue affecting the well-being of life and the coordinated development of the region. This study focuses on the two-way relationship and socio-economic impacts between house prices and residents' lives in key cities and reveals the interaction mechanism between the two. Housing prices have a dual impact on residents' income, on the one hand, through the wealth effect, it enhances the asset valuation and consumption confidence of those who own a home; on the other hand, high housing prices have a significant crowding out effect on the homeless group and young families. In addition, rising commercial real estate rents push up business costs and inhibit the flow of talent to high-powered cities. Income growth is the basis of housing purchasing power, and the influx of income and savings into the real estate market under favorable policies is likely to push up housing prices in key cities in the short term. Studies have shown that high housing prices inhibit social consumption and quality of life through the crowding-out effect and significantly inhibit the willingness of young people to have children and settle in cities. The complex relationship between housing prices and residents' lives in Chinese cities has a profound impact on consumption structure, population mobility and urban demographics, and the dynamic relationship between housing prices and income needs to be balanced in the context of coordinated regional development.

Keywords: Urban housing prices, residents' income, consumption disincentives, cost of living

1. Introduction

In recent years, China's rapid urbanization development, and high-speed changes in urban housing prices. In 2000, China's average price of commercial housing is only 2112 yuan / square meter, and in 2018 the average price of commercial housing reached 8736 yuan / square meter, rising more than three times, especially in the eastern region and high-level cities rose more fiercely, the rise in housing prices greatly affects the residents of the wealth and income structure [1].

This problem has become an important factor affecting residents' lives and social and economic development. The ups and downs of housing prices are not only related to the stability of the housing market but also have a deeper impact on residents' income distribution, consumption behavior, quality of life and even long-term development decisions. This two-way relationship

between housing prices and residents' lives creates mutual influence. For this reason, this study aims to systematically explore the complex interaction mechanism between the two and its wide-ranging socio-economic consequences.

Specifically, this study will first focus on how house prices affect residents' income status and living patterns. On the one hand, rising house prices may have a so-called wealth effect on households that already own a home. Some studies have found that in the past 10 years, the average annual growth rate of per capita wealth in China has reached 22%, and the average annual growth rate of housing value has reached 25%, and according to the China Financial Survey of Southwestern University of Finance and Economics (SWUFE), the percentage of real estate in the assets of Chinese households is close to 70%, and that in first-tier cities such as Beijing and Shanghai it is the proportion of real estate in the assets of Chinese households is nearly 70%, while that of first-tier cities such as Beijing and Shanghai is as high as 85% [2].

The increase in property value enhances their nominal wealth, which may boost their consumption confidence and expectations of future income. However, for young families and new citizen groups who have not yet purchased a home, the impact of the crowding-out effect from high property prices is even greater. They have to spend a large portion of their income on paying high rents or savings for home purchase and even carry a heavy burden of monthly mortgage payments. This directly squeezes their ability to spend on daily consumption, education and training, health care and entrepreneurial investment, essentially reducing their disposable income and quality of life. In addition, rising house prices have pushed up site rentals and daily living costs for employees, indirectly increasing the pressure on business operations. High house prices may also hinder the mobility of talents to economically developed big cities.

This study will deeply analyze how residents' income status reacts to urban housing prices. Residents' income is the most fundamental factor supporting the purchasing power of housing. Sustained income growth theoretically provides the basis for the stability of the housing price market. As incomes rise, residents' demand for housing is no longer limited to basic residential functions, but rather the pursuit of a larger area, higher quality and better location. However, under certain market conditions, residents' income and savings also flood into the real estate market for investment. Against this backdrop, it tends to significantly push up property prices in the short term, especially in core cities and their core areas. In China, housing prices rose at a rate of more than 10 percent per year in just a decade between 2003 and 2014 and are now two to 10 times the cost of apartment construction. At the same time, Chinese developers built 100 billion square feet of housing. This trend has been accompanied by a significant increase in the number of vacant homes held by developers and residents. This situation could create a real estate bubble that could lead to a crash [3].

The two factors, housing prices and residents' incomes, are intertwined and together affect the socio-economic dimension. The crowding out effect of high house prices on consumption has led to a significant decline in the consumption capacity of many families, the phenomenon of house slavery is widespread, and housing demand has caused a serious burden on the quality of life of residents. Persistently high housing prices, coupled with rising costs of living in all areas, have had a profound impact on the younger generation in cities, especially in big cities, inhibiting their willingness to have children. At the same time, high housing prices have also profoundly affected young talent's career choices, urban settlement decisions and even life planning, posing challenges to the optimization of urban demographics and long-term development vitality.

Based on the above background and awareness of the problem, this study expects to provide perspectives for understanding some of the key contradictions in the current urban development and

to contribute to the search for a more balanced and sustainable development path of urbanization by sorting out the multiple mechanisms of correlation between house prices and residents' lives, and revealing the paths and consequences of their mutual influences.

2. Analysis of the correlation mechanism between housing prices and residents' income

2.1. Wealth effect

House price fluctuations promote residents' consumption through the wealth effect. Because housing is an important asset for residents, a moderate increase in house prices can easily lead to an increase in residents' wealth, liquidity and market confidence. This increase in wealth can effectively enhance the expansion of the consumer market, which is the wealth effect of house price fluctuations on residents [4]. However, this effect is more of a psychological paper wealth, limited by the poor liquidity of the property, which is difficult to effectively translate into the actual growth of disposable income or cash flow. For the larger group of homeless people and young families, the crowding-out effect of high housing prices poses a serious challenge. The heavy burden of mortgage payments or mandatory savings for homeownership severely squeezes their spending on education, skills upgrading, healthcare, entrepreneurial endeavors, and daily consumption. This not only directly reduces the current quality of life and creates a widespread phenomenon of mortgage slavery but also inhibits the accumulation of human capital and the potential for future income growth at a deeper level. At the same time, rising house prices have pushed up commercial rents and labor reproduction costs, increasing the comprehensive operating pressure on businesses. This pressure often translates into a compression of wage growth and a restriction on the creation of high-quality jobs, indirectly weakening the overall income growth prospects of residents. In addition, the settlement threshold built up by high housing prices has forced a considerable portion of talents to give up development opportunities in high-powered cities and flow to low-powered cities to engage in positions below their level of competence, resulting in damage to their personal earning potential; enterprises are also lacking in innovation due to the lack of core talents, which has indirectly inhibited the improvement of the overall wage level.

China's housing market in recent years has amplified residents' perception of wealth in terms of rising house prices, but due to the poor liquidity of real estate in many asset limitations, most families are difficult to enjoy the actual gains through the sale of real estate. This situation of paper wealth at the psychological level stimulates middle and high-income groups for high consumption or asset replacement, but difficult to translate into income or household cash flow growth. Especially for the middle class who are burdened with mortgage payments, asset appreciation and monthly payment pressure coexist, and the wealth effect is often offset by debt anxiety, creating the ambivalence of "having assets but not daring to spend them".

2.2. Extrusion effect

Although the wealth effect brought about by high housing prices stimulates residents' consumption, it is limited to middle-class families with houses or multiple houses, especially those with middle and high incomes, and for families without houses or with large debts due to high housing prices, they need to spend a large amount of their incomes on mortgages or savings to buy a house, which inhibits the consumption ability of these groups. The theory of intertemporal choice tells us that high house prices will lead home buyers to pay more for the purchase and repayment of the loan, so that

residents have more preventive saving incentives, affecting the choice of the type of consumption of residents, and the crowding out effect on non-housing consumer goods [5].

2.3. Business costs and labor mobility

Real estate is one of the important production factors for industrial-based firms. The increase in housing prices leads to an increase in the cost of renting or buying (Gao and the price of land and construction materials, which increases the cost of factory construction and increases the cost of enterprises [6,7]. Rising house prices raise the rent of industrial firms and increase the cost of production and distribution of industrial products. At the same time, rising house prices increase the cost of living for employees, leading to higher wage demands. The increase in house prices leads to an increase in the monetary value of real estate and the increased money supply needed to meet transaction and prevention needs, however, this will lead to an increase in the general level of prices, which in turn increases the cost of living for the labor force, leading to a further rise in labor costs [8]. The development of enterprises will have a direct impact on the income of the population, the

The settlement threshold formed by high prices forces a large number of talents to give up the opportunity of high-capacity cities, which on the surface seems to alleviate the pressure of individual home purchase, but in fact, it results in multiple income losses: talents are forced to flow to low-capacity cities to engage in lower level positions relative to their ability to lead to a shrinking of their personal income potential; enterprises due to the lack of core talent and lack of innovation, indirectly inhibiting the overall wage increase.

3. The influence mechanism of residents' income on housing prices

3.1. Purchasing power base

Residents' income status is one of the fundamental forces driving changes in house prices, but it can also be a trigger for market volatility. The continuous growth of residents' income provides the basic support for the purchasing power of housing, which is a necessary condition for the long-term healthy development of house prices. With the increase in income level, the structure of residents' demand for housing has changed significantly, from meeting the basic residential function to the pursuit of larger area, higher quality and better location, such as school district housing and improved housing, and this escalation of demand is the main driving force behind the differentiation of different types of housing prices. However, when catalyzed by specific market conditions, such as loose credit policies or strong expectations of rising house prices, residents' income and savings may also flood into the real estate market on a large scale, giving rise to strong investment and even speculative demand. This expansion of non-owner-occupied demand, especially in core cities or hotspot areas, is very likely to be detached from the support of the actual purchasing power of residents in the short term, pushing up prices to form irrational prosperity or even the risk of a bubble, which in turn exacerbates the burden of ordinary residents to buy a home.

The theory of supply and demand equilibrium in classical economics suggests that the income level directly determines the effective demand of the main body of consumption - when the income of the residents grows, the purchasing power of housing will be increased simultaneously, pushing the market from just need to improve housing.

This effect shows structural characteristics; the level of residents' income level will trigger the hierarchical differentiation of housing demand. Low-income groups are more concerned about small homes with immediate needs, while middle-income groups are looking for upgrades in size, location

and support facilities, driving the improvement housing market. Higher-income groups have a greater preference for higher-end housing, such as large flats in urban cores and suburban villas, further increasing the segmentation of the market. Data from China's four major first-tier cities in 2023 show that the average price of homes above 144 square meters rose by 8.2% year-on-year significantly more than that of homes below 90 square meters by 3.5%, confirming the role of changes in the income structure in shaping the housing price gradient [9].

3.2. Speculative demand stimulation

When credit easing and bullish market expectations are superimposed, residents' incomes will be alienated as a source of funds for real estate speculation, forming short-term positive feedback of "income - speculation - house prices". The "anchoring effect" in behavioral economics suggests that households tend to shift disposable income and savings from real investment to real estate arbitrage when rising house prices become the anchor of public perception. 2015-2016 China's real estate cycle, the leverage ratio of the household sector soared from 39.2% to 49.1%, while the growth rate of commercial property sales reached 34.3% in the same period. During the same period, national sales of commercial real estate grew at a rate of 34.8%, with investment home purchases in some hotspot cities (e.g., Shenzhen) accounting for more than 40% of the total, and the influx of large amounts of income capital leading to a six-month increase in home prices in core areas of more than 50%.

4. The socio-economic impact of the gap between house prices and income

According to the Central Bank's 2023 survey of urban savers, the proportion of mortgage expenditure to disposable income of Chinese urban households has reached 34.8%, with this proportion exceeding 50% for young families in first-tier cities, creating a typical "mortgage crowding-out effect". Repayment of mortgages makes families have to cut down on living consumption, thus generating the house-slave effect. Empirical studies have found that the wealth effect of rising house prices is not obvious, and the impact of housing on consumption brings more of a house slave effect [4,5]. The theory of life cycle consumption shows that when families spend more than 30% of their income on housing expenditure, flexible consumption such as education, medical care, recreation and entertainment will be forced to pressure. According to the National Bureau of Statistics, the final consumption rate of Chinese residents in 2023 is only 54.3%, down 3.7 percentage points from 2010, and the negative correlation coefficient between the proportion of housing loans and the consumption rate reaches - 0.68.

In addition, the impact of high prices and income disparity on the demographic structure has touched the root of social reproduction. Research by the Shanghai Academy of Social Sciences shows that young people of childbearing age consider "housing costs" to be the primary constraint on fertility decisions (68.4%), with the housing-related costs of raising a child to university in first-tier cities (including premiums for school-area housing and upgrades to living space, etc.) amounting to as much as 1,820,000 yuan, which is equivalent to 12.7 times the average annual disposable income of a family. 12.7 times. The pressure of high mortgage payments has led young families to postpone their childbearing plans, which may force some families to choose "women returning to the family" to reduce the cost of living [10].

The study also examines the impact of the high cost of living on the family's income. In addition, some studies have explored possible mechanisms in other areas, for example, relevant scholars found that the mechanism of the impact of housing prices on the physical and mental health of

residents with housing difficulties is to increase their probability of sleeping late and reduce their job satisfaction.

5. Conclusion

Through an in-depth exploration of the complex relationship between house prices and residents' lives in Chinese cities, this study reveals the core mechanisms through which the two are intertwined and shaped by each other, as well as their wide-ranging and far-reaching socio-economic consequences. House prices are by no means an isolated market indicator; their movements are deeply embedded in residents' daily economic decisions, quality of life, and even their long-term development paths.

The interaction between house prices and residents' incomes, especially the gap between them, is shaping the broader socio-economic picture and triggering deep-rooted structural problems. The strong crowding out of consumption by high house prices is directly leading to a decline in the consumption rate of households, and the expansionary momentum of domestic demand is being blocked, which is not conducive to a healthy macroeconomic cycle. Its impact on the younger generation is particularly far-reaching: persistently high housing prices, superimposed on the rising comprehensive cost of living, such as childcare, education, etc., on the city, especially on the higher levels of the city, the young people's willingness to give birth to a significant inhibition, the future demographic structure of a potential impact. At the same time, high housing prices profoundly reshaping young talent's career choices, urban settlement decisions and even life planning paths, and a large number of talents are forced to adjust their development trajectories due to settlement pressures, which not only concerns individual destinies, but also affects urban vitality, regional coordination and long-term innovation capacity.

To summarize, there exists a close and complex dynamic correlation between housing prices and residents' lives in Chinese cities. Fluctuations in housing prices are not only a reflection of market supply and demand, but also a key variable that profoundly affects residents' income structure, consumption behavior, development opportunities, population mobility and even social mentality. This interaction has gone beyond the purely economic sphere and touched the basic level of social development. Therefore, it is difficult to rely solely on the market mechanism to resolve the many contradictions arising from it. The future policy design needs to go beyond the single dimension of real estate regulation and control, and adopt a more systematic and forward-looking comprehensive governance idea: on the one hand, it is necessary to focus on constructing a long-term mechanism to promote the stable and healthy development of the real estate market in the long term, focusing on curbing speculation, and increasing the effective supply of, in particular, guaranteed housing and rental housing, so as to alleviate the pressure on the housing of the new citizens and young people; on the other hand, it is necessary to synchronize and promote the reform of the income distribution system, and strive to broaden the scope of the residents and the social development. distribution system reform, strive to broaden residents' income-generating channels, strengthen the social security system, especially in education, medical care and childcare support, and effectively reduce the burden of residents' expenditures in other key areas, so as to effectively unleash the consumption potential and development momentum that has been squeezed out by high property prices. Only through a combination of measures can scholars alleviate the social costs brought about by high property prices, promote a substantial improvement in the quality of life of residents.

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