The COVID-19 Effect on Chinese Real Estate Market
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Abstract
This research aims to discuss the possible COVID-19 effect on China’s real estate market from the perspectives of market demand, supply, government, agency and banks. This paper has explained the reason of recovery of the real-estate market with statistics and economic theories. The initial recession of the real estate market is due to the temporary closure of the offline office and prohibition of in-person visiting. This paper also quoted the figures to visualize the fluctuation of the market demand, supply and price. The subsequent recovery of the market was attributed to the expansionary government policy, business innovation of the online platform and consumer’s return to work. The research work wants to provide a meaningful guideline, to the government, real-estate developers and relevant parties, about the evolutionary paths under the dramatic external shocks.

Keywords
Business Innovation; Real-estate; COVID-19 Crisis; Online Platform.

1. Introduction
To prevent the spread of COVID-19, many firms are forced to shut down, including the real estate market. On 26 Jan., the Chinese Real Estate Association advice a temporary suspension of the entire real-estate market; meantime, in-person visiting and construction activities were not allowed during the lockdown. The virus "squeezed" the cash flow of housing developers and reduced the Chinese GDP by 6-7 percent [1]. According to Forbes, the sales of newly constructed houses in Shanghai decreased by 56% from February to early March [2]. However, COVID-19 started in the first quarter of 2020, has constrained its negative effect on the housing market due to the lower seasonal demand. Most real-estate developers took the corresponding action to prevent losses, and the Chinese government also implemented new policies and injected liquidity into the market. This research will discuss the characteristics of the Chinese real estate market extensively during the pandemic period. The paper will first analyze the post-crisis market demand and supply and then try to understand the behavior of different parties in the economy, e.g., the bank, housing agency, and the Chinese government. This article wants to discuss the market change during the COVID-19 pandemic from government, supply, demand, agency and banks, aiming to explain the evolutionary path of China's real-estate market for the relevant parties.

2. Five Perspectives
COVID-19 may lead to the recession of the real estate market. The sales (by floor area) have increased by 9.7% in May [3]. Between February and March, there was no house sold in the
market, but the demand for real-estate increased by approximately 5% from the earlier period in 2020. Shanghai has a relatively low real-estate demand, which only returned to the usual and ordinary level after April, as figure 1 shows. According to previous year statistics, the number of built houses sold did not display a significant monthly fluctuation in 2019, while there was an apparent fluctuation in 2020. According to figure 2, the number of houses increased sharply as the virus forced people to cease purchasing and other social activities. The COVID-19 outbreak may explain the suddenly reduced number of deals between December to March. The Chinese housing market became the worst in January and witnessed multiple drops in property sales. Later on, counter-virus government interventions were implemented to control the virus spread, so more social activities, especially real-estate purchases, returned to their original level. The economic recovery may explain the sales boost in May. Although the COVID-19 cases in China were not as bad as January and February did, the overall situation was still not optimistic, and major industries are still in their economic downturn. Therefore, the real estate sales in many Chinese tier-one cities recovered to an average level and even reached a record-high most recently.

Figure 1. Number of house deals closed in China.

According to the statistics from the National Bureau of Statistics of China, the average sales growth rate of China's housing market is about 7%. Simultaneously, the decreased demand for houses (due to COVID-19) leads to a temporary excess supply in China. So, house suppliers would lower prices to attract more consumers. At the beginning of the COVID-19 outbreak, the sales offices closed, and housing sales declined significantly, challenging both market demand and supply adjustment. After the outbreak, the regional real-estate markets behave differently. The sales in tier-one cities have recovered quickly. According to China Index Academy, between 17th February to 23rd (workers return to work in Beijing and Shanghai in the second week after the Spring Festival), there was a total of 666,945 commercial houses sold in Shanghai and Beijing together, and this was regarded as a dramatic rise compared to the 413,595 sold in the previous week. In the third week after the business reopens, on 24th February 24, the number of commercial housing was 1,792 in Beijing, which was even higher than the 808 units sold at the same time last year[4]. In tier-two cities, real estate sales were relatively cold. According to China Index Academy, among the 21 sample Chinese, the monthly sales (in terms of floor area) increased by 49.7% between 24th February and 1st March. Still, they decreased by 58.6% compared to the previous year's data. The tier-three and -four cities witnessed a different size of the increase in sales. In general, real estate sales are under pressure in the short term.
Figure 2. Monthly Growth Rate of Real-estate Development in China.

Shenzhen, Dongguan, Huizhou, Guangzhou, Buddha, the real estate market in tier-three and -four cities behave differently in terms of sales and differ between urban metropolitan and rural areas Zhaoqing, Nanjing, and other nine metropolitan areas, 14 sample cities. Between 24th February and 1st March, total commercial housing transactions reached 6269, which as 166.4% monthly increased by 166.4%, but a 46.9% annual decrease. At the same time last year, another 14 non-metropolitan sample cities had commercial housing transactions of 3279 sets, a 155.8% increase, but a 49.2% yearly decrease. HengDa’s online sales platform, HengFangTong China Real Estate Association, and China Real Estate Evaluation Center, jointly published the top 500 real estate development enterprises’ evaluation and research report in 2020, which HengDa came to the top. To cope with COVID-19 impact, HengDa, a leading real estate company in China, innovatively promoted its online sales through the HengFangTong platform on 13th February. Some analysts believe that, with the increasing number of online consumers and users, HengDa will expand its online business more efficiently.

Despite the market shock, the insiders still believe a reasonable profit margin exists in the real estate market. In this case, to increase the profit margin, real estate enterprises will strive to sell at a higher price. Nowadays, HengDa is the first to break the industry inertia, make the housing price transparent, and be consumer-centric. Price transparency is just one part of HengDa’s plan to sell homes online. Since the online selling program of houses was fully launched, HengDa implemented various marketing strategies, which further became the industrial standard and stimulated the market competition. For example, in February 2020, HengDa promoted its online marketing for all real estate purchasing in China, providing one-click services such as VR visiting and online house selection. At the same time, HengDa also reduced the commercial house price to the lowest market price and introduced the free-withdrawal policy, which raised consumer confidence and avoided mis-purchase behavior [5].

In March, HengDa upgraded its online sales program again and reduced purchase requirements for a customer by offering a 22% price discount for consumers and 3% commission fees for the Hengfangtong platform. The commission fee may vary according to the construction progress, payment method, and consumer preference. HengDa engaged in low-price strategies to earn sufficient cash flow and consumer purchase.

On HengDa’s online platform, not only customers can gain discounts, but the third-party agency may also receive the commission fee. According to HengDa, any HengDa commercial housing
commission fee consists of a flat fee of RMB 35,000 plus a 1% commission incentive fee. Now, the Hengfengtong platform has over 10 million users. In the first half of 2019, HengDa achieved 348.84 billion yuan, a 23.8% annual increase. The total area sold was 38,632,000 square meters and increased by 47.5% compared to the previous year; The total sales revenue was 312 billion yuan and increased by 66.5% compared with the year earlier. All the core business indicators reached a record high. On 1st July, HengDa announced its June sales of 76.05 billion, a 51.3% increase. HengDa’s online-sales strategy was initially to respond to the COVID-19 crisis in the short run but stimulated a long-term industrial revolution. While the real estate enterprise has not strategically planned its digital innovation, the virus outbreak escalated the platform launching and entrepreneurial growth.

Furthermore, the prime loan rate has been decreasing since COVID-19 started. According to CNBC, in January, the 1-year rate was 4.15%, and the 5-year is 4.80%. The newest updated rate on 22nd June reached 3.85% and 4.65% for 1-year and 5-year rates [6], respectively. Compared to the traditional agencies, internet platforms implement a similar strategy like Hengda did. During the pandemic, real estate agency Leju has launched a similar online platform on 16th February 2020. The revolutionary platform "Haofang XianShangGou" has enabled customers to purchase their houses online. The process consists of 360-angle picture viewing and VR visiting, which strive to provide the same service as in-person viewing. After customers selected the preferred unit, the platform required a deposit to lock-in the unit to exclude the other consumer’s purchase. Following the payment, the platform will arrange for the two parties to sign the purchase contract. The contracting and lock-in process used to be conducted offline before the pandemic. Online purchase is revolutionary in the real estate market. It made all of the real-estate transactions possible during the pandemic lockdown, therefore after five days of launch, 8000 deals were made on Leju’s platform [7].

Unlike Hengda, many real-estate developers do not have the resources and customer base to build their online platform. This became a chance for the agency to exploit its strength and help developers customize a robust online sales office. This addresses the fundamental problems and difficulty of the real-estate market during the pandemic - customer and transaction. By advertising on the platform, the platform promoted communication and streaming live commerce. The agency develops promotions on the internet. The agency did not act as quickly as the developers did in the real-estate market following the pandemic. The developers then launched the "Everyone is a broker" program [8]. This initiative dates back to 2012, where developer Greentown granted a commission fee to anybody who brings in customers. But this initiative soon failed after launch as the third-party agency has a more remarkable customer base and operation efficiency. In 2016, a mini-program on WeChat enabled big developers to implement the "Everyone is a broker" strategy. The registered "broker" can view and check the purchase status of each customer they bring in. The platform has contributed to 42.2 billion RMB sales for Country Garden between August 2014 and June 2016 [8]. But in comparison to the sales of 308.8 billion RMB in 2016, "Everyone is a broker" became a threat to real-estate agencies nowadays.

Alongside the market fluctuation during the pandemic, this initiative threatens the survival of agencies in 2020. After lockdown, to secure funds, developers started to implement this initiative to close more deals. In June 2020, five agencies, including Lianjia and Zhongyuan, have announced to oppose any developers who implemented the "Everyone is a broker" initiative. Because not only non-brokers are participating in this initiative, but also the back-desk brokers get more commission. Chinese real-estate brokers usually have short-term career planning, which results in short-term career retention of each broker [9]. The annual retaining rate of real-estate brokers is around 50%. As per current data, the agency should establish policies to benefit and retain the brokers while advocating for regulations and legislations on real-estate transactions.
Moreover, the Chinese government constrained the real-estate market’s speculative behavior and allowed the city-specific land policy. These two policies are critical, as the government wants to limit the housing price fluctuation and stabilize the market. At the beginning of February, China’s central bank decided to inject 1.2 trillion yuan, which is around 174 billion dollars, to revive the market. Second, each city has its land policies to respond to different geographical demand. Because of the decreasing housing price, many investors started to join the market in Shenzhen. The government wants a stable market and limited sudden demand-side shock.

To purchase a house in Shenzhen, the consumer must be a locally registered household and pay tax over three years. The city also decides to increase the upfront payment to restrict speculative behavior. From a regulation perspective, many related policies have been introduced to support real estate companies. According to "real estate and property market policies after the 2020 new crown virus pneumonia epidemic", the initial official policy loosened the requirements of sales license of semi-finished houses on 12th February in Xiamen, China. The sales license allows the real estate developer to pre-sell their commercial houses before the final construction. However, to support more real-estate companies to acquire this certificate during the COVID-19 crisis, the government allows the firms to apply for the approvals who received construction permission before 30th September and completed 25% construction. Specifically, buildings under ten floors only need to meet with basic structures; buildings with 11 to 20 floors only need to finish with more than one floor of the main structure; buildings with 21 floors above only need to complete with more than two floors main structure. Despite the short-term decline in sales, the lower sales approval requirement still facilitates many real estate companies to generate sufficient cash flow.

The government also implemented the other expansionary policy to allow a different payment method. This new policy will enable developers to purchase the land in installments on 12th February in Xi’an, China. This policy asks only a bidding deposit at 20% of land price, and 50% of the land price shall be paid within one month after the purchase contract is signed. The remaining amount is paid in installments as per the agreement. Although the COVID-19 crisis makes top100 real estate companies achieve monthly sales of 509.75 billion yuan, the top 100 real estate companies’ performance decreased by nearly 12% compared to the previous year. The real estate developers could use the new policy to reduce their capital turnover requirement in this "ischemic state". The government also postponed the project completion deadline for the real estate market on 15th February in Fuzhou, China. Due to construction activities being delayed by the pandemic, the reaction time for the first-level epidemic situation was extended to the completion deadline. If a commercial housing sales contract was signed, the deadline of the construction completion would be extended accordingly, exempting the enterprise from liability for breach of contract. Under this new policy, more developers on housing companies can reduce the liability and cost for breach of contract to complete construction.

3. Conclusion

This research provided a full picture of China’s real estate market from demand, supply, bank, agency, and government perspectives. We can see that each company is trying its best to adjust to the market. With the pressure of paying bonds later in the year and assuming that the virus might come back, it is hard to predict the market. But as the leading role in the real estate market, the central government’s policies should balance between profits and benefits of each perspective. For instance, set up and enforce regulations that prohibit broker activities without professional qualification. This not only protects the benefits of agencies and brokers but also sustains a healthy business environment. Shortly, VR showing, and online transaction of real-
real estate will no-longer be a Chinese specialty. In facing this pandemic, it is undeniable that the real-estate market will adopt a similar model globally.

References


