

# Real Estate Bubble Resolution with Chinese Characteristics: Integrate Fragmented Vacant Resources

Guangze Wang<sup>1, a</sup>

<sup>1</sup>Jinju College, Jinan new channel, Jinan, 250011, Shandong Province, China

<sup>a</sup>wgz12345678901@outlook.com

**Abstract:** The bursting of Japan's real estate bubble in the late 1990s has directly brought a devastating blow to the Japanese economy. Nowadays, China is enjoying the dividend brought by the rapid growth of the real estate industry. At the same time, we must always be vigilant against the possible harm of the bursting of the real estate bubble. This paper focuses on how to integrate the fragmented vacant resources of real estate to resolve the real estate bubble with Chinese characteristics and realize the soft landing of the real estate bubble, so as to avoid the impact of the concentrated burst of the real estate bubble on the economy.

**Keywords:** Property bubble, Soft landing, Feasible measures.

## 1. Introduction

The real estate market in Japan is similar to that in China in 1986. This paper will put forward a new term: real estate bubble with Chinese characteristics to show the uniqueness of China's real estate bubble. By summarizing the phenomenon of Japan's real estate bubble bursting, finding and analyzing the special reasons for the formation of the real estate bubble with Chinese characteristics, and thinking about how to resolve the real estate bubble with Chinese characteristics, this paper leads to the central idea of this paper, focusing on how to solve the real estate bubble with Chinese characteristics by integrating fragmented vacant resources.

## 2. Literature Review

In the relevant papers on how to resolve the real estate bubble with Chinese characteristics, most of them analyze the possible solutions from a very macro point of view. Some of them analyze in terms of macro-economic policies, and some only point out the possible development direction of the real estate industry in the future. Few people study and analyze specific solutions. This is exactly the most direct and efficient way to solve problems. In this paper, the author points out how to integrate the real estate bubble in the perspective of macro economic development.

## 3. The Harm of the Bursting of Japan's Real Estate Bubble

At the end of 1990s, Japan's real estate bubble completely burst, house prices plummeted, and many enterprises and individuals' assets shrank rapidly. A large number of bankrupt enterprises could not repay bank loans, and banks could not collect loans. Many banks went bankrupt one after another. In the economic downturn, the Japanese government has no money to invest in public investment, such as medical care, unemployment subsidies and so on. It has to borrow money constantly. The Japanese government has to pay off a lot of debts, which eventually forms a whole set of terrible vicious circle.

However, the real estate bubble burst crisis has not only affected Japan's finance, but also seriously damaged the Japanese people's confidence in the future economy. The panic psychology of the public directly led to the prudent multiplier effect of Japanese consumption and investment in the future. Although the Japanese government has taken many measures to stimulate the economy, up to now, the Japanese society has not been able to get rid of the huge influence of low desire consumption. Therefore, with Japan's lessons learned, China's real estate industry has entered a downward cycle. We must learn from history in order to avoid repeating the same mistakes.

## 4. China's Real Estate Bubble Performance of Three Groups of Data

There are many reasons for the formation of China's real estate market bubble, among which the people have a unique love and dependence on real estate and land, resulting in the excessive development of a large number of real estate demand, thus causing the real estate bubble with Chinese characteristics.

### 4.1. The Ratio of House Price to Income

This paper introduces from the report No.17 of China's Urban Competitiveness: housing, the relationship between countries and families, which is published by the Institute of financial strategy, Chinese Academy of social sciences:

The normal ratio of house price to income should be 9:1. China's 45 cities are more or less bubble housing prices, some cities even more than 20:1.

**Table 1.** Top 4 Cities of China's urban housing price income ratio in 2021

Shenzhen	45:1
Shanghai	36:1
Guangzhou	30:1
Hangzhou	26:1

Source: <https://www.numbeo.com>

These cities are all ranked in the TOP100 cities with the ratio of house price to income in NUMBEO world. For most people, the housing prices in China do deviate from the reasonable income level.

## 4.2. Rent-To-Sale Ratio

Rent-to-sale ratio has become internationally recognized as the key data of whether there is a bubble in the property

market. According to international standards, the rent-to-sale ratio of real estate in good condition is usually 1:200 to 1: 300. In the first half of 2021, the rent-to-sale ratio of first-tier cities is the highest, reaching 1:680, followed by second-tier cities, with the rent-to-sale ratio of 1:626, and that of third-and fourth-tier cities is 1:525, all of which deviate from a reasonable range.

**Table 2.** Rent-to-sale ratio of cities at various levels in the first half of 2021 and 2020

The city level	Rent in the first half of 2021	House prices in the first half of 2021	Rent-to-sales ratio	Rent-to-sales ratio
	(Yuan/m/month)	(Yuan/m)	Rent-to-sales ratio	in 2020
First-tier cities	82.03	55774	1:680	1:646
Second-tier cities	31.17	19499	1:626	1:588
Third and fourth-tier cities	23.89	12583	1:525	1:623

Source: Zhuge Housing Prospective Industry Data Research Center

## 4.3. International Standard Housing Vacancy Rate

The reasonable range of international standard housing vacancy rate is 5%-10%, and the dangerous range is 10%-20%. According to the data collected from the National Urban Housing Market Survey Report in May 2015, the overall level of housing vacancy rate in major cities in China is between 22% and 26%, which has exceeded the warning line.

## 5. The Biggest Difference Between China and Japan

In fact, the biggest difference between China and Japan is that Japan is a developed country while China is a developing country. China's per capita income, per capita GDP, income gap between the rich and the poor, HDI(Human development Index) and other data are far less than those of Japan in 1980s, but the level of China's real estate bubble is even greater than that of Japan in those days. As long as most Chinese people have money, they will try their best to buy a house instead of spending it on other places, such as education, medical care, investment and tourism. Many Chinese consumers regard houses as the first choice for asset value preservation and appreciation, and they are extremely inclusive of real estate prices. Even if the house price increases greatly, it will not affect their enthusiasm for buying a house at all. As a direct result, in the past 30 years, China's real estate prices have climbed to an unimaginable high year by year. Therefore, the affordable limit of China's real estate bubble is much higher than that of Japan's real estate in 1990s. China is rich in land resources. After 30 years of development, the bursting of the real estate bubble has caused a large amount of material resources to be wasted. The high vacancy rate in China's real estate market indicates that tens of millions of houses are vacant. If they cannot be utilized, they will become one of the burdens of Chinese society in the coming decades.

## 6. China's Real Estate Solution to Consolidate Vacant Resources

### 6.1. Business Park or Science and Technology Innovation Awards

By consulting the relevant policies of the national economic development direction (Notice of the Ministry of

Finance, the State Administration of Taxation and the Ministry of Science and Technology on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses (Caishui [2018] No.99)). It is concluded that China will take the road of rejuvenating the country through science and technology and upgrading its industry in the future. In the future, the state will continue to introduce innovation and entrepreneurship policies to lower the threshold of innovation and entrepreneurship.

Local governments can make use of incomplete construction projects, unfinished buildings, or buildings with extremely low sales volume due to poor location, and transform them into pioneering parks by government investment, which can be used to invest in research and development of "specialized and special new" technology industries, such as chip industry and new energy automobile industry. It can also be used as e-commerce service industry or online education, customer service, telemedicine, etc. However, for some vacant houses with better location, convenient access in urban areas, or townhouses or villas with larger area in suburban areas, the government gives certain subsidies to developers, and then rewards vacant houses to those who join the science and technology industry or make contributions to the national science and technology innovation. It can also be used to attract workers with high education or high-end technical level. This will make good use of the vacant real estate stock, promote the increase of innovative and entrepreneurial projects, and effectively develop the "specialized and special new" technology industry.

However, this method may also cause obstacles. With a large number of vacant resources and incomplete development, the government has made such a huge investment, resulting in a serious expansion of the government's fiscal deficit. Long-term investment and planning by the government or enterprises are needed. Under the economic pressure of the bursting of the real estate bubble, the government also needs to strengthen the confidence of enterprises and people to ensure the effect of policy implementation.

### 6.2. Retirement Garden or Incentive for The Birth of A Third Child

Through intensive reading of China's Seventh National Census Report, China's population aged 65 and above

accounted for more than 7% in 2000, and the elderly population accounted for more than 14% in 2021. It is estimated that the elderly population will account for more than 20% in 2032, and the old-age dependency ratio is expected to be 53.2% in 2050, that is, every two young people will support one old man. In addition to the heavy burden of old-age care, the high cost of raising children also puts pressure on young people. It is concluded that China needs to solve the problems of social pension and newborn increment in the future.

The planning and layout of the social pension industry by the state can effectively utilize the vacant resources generated by the real estate bubble. Developers or local governments can integrate the fragmented vacant buildings, package, sell or rent them to enterprises that invest in the old-age industry, and build old-age centers with sound physiotherapy conditions and beautiful environment, which can greatly relieve the pressure of children's old-age care, and children can concentrate more on work and child rearing.

Fragmented vacant real estate resources can also be used as the family's third birth reward. The government can give subsidies or preferential housing price benefits to real estate developers, which can be used to encourage the birth of the third child, reduce the pressure on families with many children to buy houses, promote family consumption and promote economic growth.

However, the bottleneck lies in the fact that there are not many vacant resources that may be suitable as retirement homes, and there may also be difficulties in integration. Not all regions are suitable for developing the retirement industry. It may bring opportunity cost to the local government, and places with good scenery can develop the old-age industry, but it may limit the development of tourism. In the aspect of multi-child reward, the government needs to avoid the advantages and disadvantages of poor information as much as possible. Some people may take opportunistic measures to obtain real estate by illegal means, or some people may form low-quality families in order to get real estate as soon as possible, resulting in the newborn being unable to get good education and care. Even if the number of newborns increases, the quality of newborns cannot be guaranteed.

### 6.3. Helping to Achieve Carbon Neutrality

On September 22, 2020, at the 75th UN General Assembly, the Chinese government promised to the world to achieve peak carbon dioxide emissions by 2030 and carbon neutrality by 2060. It shows the country's determination to integrate and rationally use vacant resources, eliminate old production capacity and vigorously develop new production capacity. To achieve this goal, there are two aspects to discuss the contribution of the integration and utilization of idle real estate resources to peak carbon dioxide emissions and carbon neutrality. First, make full and reasonable use of houses that have already consumed carbon value, so as not to waste resources and consume carbon value by blindly and repeatedly building new projects that need real estate. Second, industrial parks used for carbon neutral projects after the fragmentation and integration of idle real estate, such as Wuhu Circular Economy Park in Anhui Province, Guang'an New Energy Smart Industrial Park in Sichuan Province, clean

energy intensive industrial park in the middle reaches of Jinsha River, etc.

## 7. Conclusion

Through the analysis of the first part of this paper, it is concluded that the bursting of Japan's real estate bubble in 1990s brought unprecedented devastating blow to Japan's economy and national confidence, which directly led to the disappearance of Japan for 30 years, and it will be difficult to return to the pre-crisis economic level in the future.

Through the analysis in the second part of this paper, it is concluded that the concept of real estate bubble with Chinese characteristics is introduced. The characteristic reason is that China's population base is large, and the paranoid investment in buying houses and land creates huge real estate demand, which leads to over-development of real estate and over-support, and a large number of fragmented houses are vacant. If they can't be used reasonably, it will be a huge waste of resources.

Through the analysis of the third part of this paper, it is concluded that the vacant real estate resources focused on integration and fragmentation can be transformed into a pioneer park, or used as a scientific and technological innovation reward for innovators, or as a social pension center, or as a reward for giving birth to three children, and so on.

After 30 years of rapid development, China's real estate market has achieved the development mode of China's first enlargement and then strengthening, completed the modern urban construction, promoted the industrialization development, and achieved the first step of some people getting rich first and then driving the great goal of common prosperity. The real estate market ended its phased mission. Next, the real estate has entered a new stage of rational, healthy and orderly development. Resolving the real estate bubble crisis is a systematic, strategic and overall work. Adhere to the national chess game, strengthen the top-level design and overall planning of all parties, make the overall layout, and formulate a scientific action plan. I believe that under the leadership of the Communist Party of China (CPC), the economy will achieve a stable transformation and realize the great rejuvenation dream of the Chinese nation at an early date.

## References

- [1] Zhong, X. (2018) Strictly control the development of real estate, keep the bubble under control-Enlightenment from the bursting of Japan's real estate bubble. *Shanghai real estate*, 12: 42-45.
- [2] Guo, H. (2018) Overseas Investment and Export Credit. *Japan's Local Finance and Real Estate Bubble*, 2: 35-38.
- [3] Zheng, H. (2018) The Deep-seated Causes and Lessons of Japan's Real Estate Bubble Burst. *Development Research*, 9: 56-63.
- [4] Zhang, Y. (2018) Real estate bubble problem and empirical analysis of "contemporary economy (second half of the month)". 6: 36-39.
- [5] Cai, X. (2011) Xiangtan University's 2011 Research on China Real Estate Bubble Based on Financial Support. *Thesis of Xiangtan University*, 5: 40-49.