



# Analyzing Factors Affecting Housing Price Fluctuations and Policy Recommendations

Yilan Huang

International Business School, South China Normal University, Foshan, Guangdong province, 528225, China

20202255@stu.hebmu.edu.cn

**Abstract.** In the context of the global economy, the importance of China's real estate market is self-evident, but the rapid rise of housing prices may lead to economic bubbles. The research revealed a juxtaposition of robust market demand and the swift escalation of housing prices, particularly in major urban centers. However, the disparity in residents' purchasing power exacerbates the imbalance between supply and demand, coupled with financial deepening and other factors that increase the complexity of the market and the risk of housing price volatility. This paper examines the key drivers of price fluctuations in China's housing market and provides policy suggestions to assist the government in regulating the market effectively and mitigating financial risks. Through the literature review method, this paper reveals the important effects of the supply and demand relationship, macroeconomic variables, and policy changes on housing prices. The study put forward targeted policy suggestions such as developing the rental market, providing housing subsidies, adjusting loan policies to curb speculation, implementing the "rent and sale of the same rights" policy to ensure the fair distribution of resources, and emphasized strengthening the monitoring and early warning of real estate financial risks.

**Keywords:** Housing Price Fluctuations, Factors Affecting, Policy Recommendations.

## 1 INTRODUCTION

With the steady growth of China's economy and the continuous improvement of per capita income, people's demand for housing continues to increase, which results in rising housing prices [1]. The real estate industry plays a pivotal role in the world. Therefore, it is of great significance to conduct in-depth research on the real estate market [2].

Relevant studies showed that the housing price increase in many large and medium-sized cities is higher than the national average, but the overall affordability of residents is relatively inadequate [3]. In 2023, China's economy showed a weak recovery trend, mainly affected by many factors. According to the forecast of the China Macroeconomic Forum (CMF) team, the total export volume in the first half of 2023

and the second half of 2023 is expected to decline by 2.7% and 4.9% respectively. The growth rate of fixed assets also slowed down, and the real estate industry reflected a downward trend. Data show that from January to May 2023, the sales area of commercial housing is 464.4 million square meters, down 0.9% year on year. These trends show that China's economy faces challenges in 2023, and the affordability of residents is weak [4]. At the same time, with the influence of factors such as the strengthening of contemporary social and economic links, and the deepening of finance and financial innovation, the relationship between real estate and economy and society became more complex, and the volatility of housing prices increased, making real estate an important factor in triggering crises [5].

From the perspective of economic growth, housing price fluctuations have an impact on urban household assets, residents' consumption levels, and overall consumption level [6]. In addition, housing price fluctuations will also affect the urban industrial structure, affect the investment enthusiasm and R&D expenditure of enterprises, and affect the agglomeration of high-end industries in the region and the increase of income, thus affecting the upgrading and transformation of urban industries [6]. Once the bubble of excessive accumulation in the real estate market bursts, it will bring significant systemic risks to the entire national economy [7].

The management of the real estate market is an indispensable part of the overall social economic management. Although the central government also introduced several policies and regulations over the years to strengthen the macro-control of the real estate industry, it has little effect on dealing with the negative impact of housing price fluctuations. Compared with developed countries, China is obviously at a disadvantage in the research of the real estate system. Therefore, more and more scholars began to study the government and the real estate market and achieved some results. However there is still a problem of systematic insufficiency, and there remains ample scope for further research into the real estate market.[8].

This paper adopts the method of literature review to deeply explore the influencing factors of housing prices and the impact of housing price fluctuations and analyzes the problems and status quo of the current real estate market. To optimize the government's countermeasures and path selection in the management of the real estate market, this paper put forward some reasonable policy suggestions and improvement methods for several key factors affecting housing prices to enhance the government's ability to effectively cope with housing price fluctuations.

## 2 ANALYSIS OF INFLUENCING FACTORS

The real estate sector consistently garners significant attention within the academic community, drawing sustained research efforts from scholars both domestically and internationally. Since the 1960s, scholars have begun to discuss various factors that cause housing price fluctuations in the international academic circle. This paper integrates the current views and literature of the academic community, and finds that the research mainly involves the following discussion and analysis:

## 2.1 Supply and Demand Factors

Supply and demand are considered to be one of the key factors affecting the trend of housing prices, which mainly involves population, income, land supply, construction cost, city size, etc. As a basic living demand, housing demand is the most basic and indispensable demand for real estate. In China, the formation of the real estate market bubble is partly due to the mismatch between supply and demand, with a structural supply contradiction [4]. At the same time, people pursue a better life and hope to have better housing conditions and continue to pursue within the scope of economic permission. In addition, due to the limited and non-renewable urban land, the land occupied by housing is a limited resource. This scarcity determines that housing is an expensive commodity, so the supply of housing is also an important factor affecting housing prices [9]. By deeply studying and analyzing these influencing factors, this paper can better understand the operation law of the real estate market, better deal with the fluctuation of housing prices, and help prevent and defuse the risk of real estate bubbles [4].

## 2.2 Economic Factors

As China's economy continues to grow, real estate becomes a key component of the economy, focusing on housing prices. From a macro point of view, the level of GDP per person has a relationship with house prices. The higher the GDP per capita, the higher the level of living and consumption of the people, and the increase in prices, and the increase in house prices. As a result, real estate became an indispensable key industry for national economic growth [9]. Economic growth is always inseparable from the real estate market and has a profound effect on society. The development of the economy not only affects the fluctuation of house prices but also the important driving force of the market boom, which promotes the increase of employment opportunities and the accumulation of social wealth. Therefore, it is important to study the impact of the economy on house prices [10].

## 2.3 Policy Factors

The impact of financial policies, especially monetary policies, on housing price fluctuations should not be underestimated. The adjustment of monetary policy will directly affect the operation of financial institutions, in which the change of money supply and interest rate is the key factor affecting the housing price [9]. After the crisis in the subprime mortgage market in 2007, scholars around the world found that there were obvious defects in the existing monetary policies, and macro-prudential policy tools could make up for these defects. Stabilizing the real estate market also became one of the important financial objectives in the macro-prudential policy framework of various countries. According to Jerome's research, the implementation of macro-prudential policies in many countries around the world can significantly reduce the rise in house prices and curb real estate market volatility. Ke analyzed the impact of the macro-prudential policy of real estate finance on systemic risk in China, and the

results showed that the policy can effectively reduce systemic risk, especially in first- and second-tier cities. However, there is still room to further improve and supplement the specific implementation tools of China's housing finance macro-prudential policy [11]. These policies are aimed at stimulating consumption in the housing market or curbing overheating housing prices to ensure stable development of the market. However, in recent years, the real estate industry faced many challenges. Frequent policy regulation will undoubtedly have an impact on the financing decisions of real estate enterprises, resulting in continuous fluctuations in housing prices [12].

## 2.4 Other Factors

In real estate transactions, the rapid escalation of market prices is predominantly fueled by speculative demand, serving as a primary driver behind the increasing housing prices in our nation. In the real estate transaction market, most people do not perceive the changes in supply factors and economic factors. The recent housing price transaction data and short-term housing price fluctuation trend affect the judgment of both sides of the transaction on housing prices, which led to the phenomenon of "chasing the rise and falling" in the real estate trading market[13]. Home buyers are often affected by psychological factors. When home prices rise, home buyers may believe that they can resell to someone else at a higher price, thus accepting a higher offer. When the housing price falls, the buyers tend to lower the offer, and the sellers are also worried that the price will fall further, so it is easier to compromise the price [9]. However, not all economists agree on the dominant role of speculation in the real estate market. In 1953, Friedman studied asset speculation from the perspective of psychology and behavior. He noted that speculation usually involves buying at high prices and selling at low prices for a profit. Buying high and selling low causes speculators to suffer losses, and such unstable speculation is difficult to sustain. Therefore, he believes that there is no real unstable speculation and that unstable speculation is only a theoretical possibility [14].

## 3 HOUSING PRICE FORECASTING MODEL

Housing prices, as a pivotal factor in the evolution of the real estate sector, exert significant influence on both the supply and demand dynamics within the market. The housing price forecast is to forecast the housing transaction price in a certain area in the future by taking into account all the factors that may affect the change of housing prices through in-depth analysis and synthesis of the objective conditions and the law of change. The use of existing technical means to accurately forecast housing prices is of great significance to real estate market participants. From the perspective of the government, relevant policies can be formulated in advance according to the trend and stability of housing prices. When the housing price has unreasonable growth, we should take measures to restrain the housing price rise; And when the housing market is in a downturn, more flexible policies should be implemented to stimulate real estate investment. Such timely regulation can prevent social and economic problems caused

by unreasonable housing price fluctuations to a certain extent. For real estate developers and investors, the risk and reward ratio of real estate investment is extremely high, so it is crucial to understand future changes in house price trends. This helps prevent social and economic problems caused by abnormal house price fluctuations. For buyers, the understanding of future house price changes helps to make a more reasonable house purchase plan and avoid economic losses caused by house price fluctuations or speculation, thus saving expenses and reducing the pressure of house purchase [15].

The traditional housing price forecasting model only considers the current housing price and the surrounding city housing price but does not consider the market environment and national macro factors, such as unemployment rate, loan interest rate, and national consumption index. These factors have an important impact on the trend of housing prices, especially the consumption index as one of the important indicators of economic development. So these factors' forecasts should be taken into account to improve the accuracy. With the continuous development of the field of machine learning in housing price prediction, more effective data-fitting methods emerged [16]. With the wave of the fourth industrial Revolution, the gradual rise of cutting-edge technologies such as artificial intelligence, big data, 5G, and the Internet of Things also provides new possibilities for housing price forecasting. In the trend of housing prices, which is widely concerned, many scholars conducted in-depth studies. These scholars use methods such as mathematical models, data analysis, or market analysis to predict the changing trend of housing prices, which enhances residents' confidence in housing consumption [17].

## 4 THE IMPACT OF HOUSE PRICE FLUCTUATIONS

At the same time, the risks brought by house price fluctuations cannot be ignored. The impact of house price fluctuations on financial market stability is mainly transmitted through the balance sheet channels of companies and banks. In China, real estate is one of the most important collateral in the credit market. When house prices rise, collateral values increase, borrower wealth increases, corporate balance sheets are optimized, and more financing opportunities are available. However, falling house prices reduce collateral values and increase the risk of corporate debt defaults, potentially destabilizing the banking system. To control risks, banks will reduce the scale of credit, resulting in a tight capital chain of real estate enterprises, and then trigger a vicious circle of falling housing prices and credit tightening, causing serious damage to the stability of the financial market [12]. In one research, Qiu uses Chinese real estate data to explore the impact of the collateral value effect and the deviation effect. The findings show that when house price increases deviate from their fundamental value, the stability of banks may be affected, which is consistent with the house price deviation effect. In addition, Li found that the fluctuation of housing prices has a significant impact on the non-performing loan ratio by analyzing the data of 69 listed companies of Chinese commercial banks [12].

Fluctuations in house prices can also have an impact on consumer spending and investment behavior through the wealth effect, thus affecting the overall economy.

Real estate owners will be affected by fluctuations in house prices, which will not only alter their current financial position but also affect their future expectations, resulting in changes in consumption and investment spending. Renters will face increased rents and higher living costs when home prices rise and may need to adjust spending. Home buyers will face higher loan and interest expenses, and credit pressure will increase, which may lead to other consumer spending. Prolonged credit stress may also increase the risk of default, posing a threat to financial market stability [12]. According to the current housing practice in China, the increase in housing prices will generally lead to an increase in housing rents. Woogo's research bears this out. A rise in housing prices usually boosts the income level of those who own homes, thus stimulating an increase in personal consumption [18]. In addition, the rise in housing prices may increase the availability of mortgages, thereby helping to reduce credit constraints of residents, and thus promote the growth of consumption levels. In addition, using 31 provincial panel data, Chen found that in regions with more developed credit markets, rising house prices will indeed improve the availability of mortgages. Therefore, such housing mortgage financing may bring more income or cash flow, thus stimulating the growth of consumption level [18].

Fluctuations in house prices also crowd out investment and consumption. When housing prices rise, social resources tend to be invested in the real estate sector, resulting in the relative reduction of resources obtained by other industries, thus affecting the effective allocation of social resources and economic development. In addition, the excessive expansion of the real estate industry will also distort the industrial structure. The excessive expansion of the real estate industry hurts economic development and may pose potential risks to the stability of the financial market [12]. Between 2001 and 2020, the national average house price per square meter increased from 2,170 yuan to 9,860 yuan, with an average annual growth rate of about 7.6 percent. At the same time, the national household consumption rate dropped from 45.3 percent in 2001 to 39 percent in 2020. Although there was a rebound in the consumer consumption rate between 2013 and 2019, overall, the consumer consumption rate showed a relative decline. It is worth noting that the disposable income of urban residents increased from 6,859.6 yuan in 2001 to 42,358.3 yuan in 2019. Although the disposable income of urban residents maintained steady growth, the consumption rate of urban residents maintained a certain level of decline. This indicates that rising housing prices have a crowding-out effect on residents' consumption levels to a certain extent [18].

The real estate industry plays an important role in the economic development of our country, so its reasonable regulation and control can help prevent and defuse financial risks and continue to promote economic growth [4].

## 5 POLICY SUGGESTIONS

By analyzing the factors affecting housing prices and the risks, the main factors causing housing price fluctuations can be identified, and measures can be taken. It is necessary to take measures to control the relevant factors, restrain the excessive rise or

fall of housing prices, and maintain macroeconomic stability. Based on the above analysis, this paper puts forward the following policy recommendations.

For young talents and low-income groups who have just entered society, the government can foster the advancement of the rental housing market or increase the supply of affordable housing to meet the demand. The government should also provide certain housing subsidies to meet their housing needs. For college graduates who are about to enter society, although they urgently need to buy houses, they are facing a shortage of funds and insufficient ability to buy houses. Therefore, policies and economic support should be adopted to meet the housing needs of a large number of young people [1].

For families with houses and loans, they bear the heavy pressure of mortgages, as prices rise. These families can only cut living expenses to maintain their mortgage [4]. The government can adjust the bank's housing loan interest rate and quota to limit the loan of the house speculators and adopt the purchase restriction policy to reduce the "one person more than one house" behavior of the house speculators. In particular, some professional "stir-fry tenants" often cash out and buy houses again through mortgage, repeated operations. Therefore, China should further strengthen the supervision of real estate financial risks, especially banks should be alert to high-risk behaviors. Excessive lending may lead to asset bubbles, excessive money will also lead to inflation and social polarization. The government should maintain a prudent attitude when formulating the monetary policy of the real estate market [9].

For large cities, these cities will accelerate the implementation of social resource reform policies in cities with high housing prices. In China, social resources such as educational resources, welfare, and social security are often linked to the household registration system, which results in higher housing prices in resource-rich, high-quality cities. The core goal of implementing policies such as "rent, sale, and equal rights" is to break the link between social resources, welfare and security, and the household registration system, and realize the redistribution of benefits. Therefore, the government is suggested to weaken the investment value of school district housing, gradually promote the "rent and sale of the same right" policy, expand the coverage, and gradually reduce the premium part of the housing price [9].

As the main body of market regulation, the government needs to comprehensively consider various factors such as market supply and demand, economy, policies, and social expectations, and formulate scientific and effective policies to guide the development of the market. For example, the government can balance market supply and demand, and stabilize housing prices by adjusting the land supply policy, optimizing tax policy, strengthening financial supervision, and other means. At the same time, the government also need to establish and improve risk monitoring and early warning mechanisms, timely detection, and disposal of potential risk points, to ensure the smooth operation of the market.

## 6 CONCLUSION

Through empirical analysis, this study deeply analyzes the key factors and mechanisms affecting the price fluctuation of China's real estate market. In the fundamentals of supply and demand, population growth, resident income, land supply, construction costs, and city size jointly determine the basic trend of housing prices, especially in large and medium-sized cities with population inflow. Due to the imbalance of housing supply and demand, scarcity of land resources, and consumption upgrades, the upward pressure of housing prices is increasing. From a macroeconomic perspective, economic development and per capita GDP increase significantly push up housing prices, and housing price fluctuations in turn affect household consumption, corporate investment, and urban structural transformation. Monetary policy changes, such as money supply and interest rate adjustments, change the supply and demand pattern through the transmission effect of financial markets, resulting in house price fluctuations. Although macro-prudential policies can effectively cool down the property market, administrative measures such as purchase restrictions can only restrain the surge of housing prices in the short term, and cannot solve the contradiction between supply and demand.

Drawing from the aforementioned analysis, the study proposes policy recommendations that consider the diverse needs of various demographics and promote fairness and equity. The government ought to optimize the land supply policy, adjust the real estate tax system, strengthen financial supervision to balance supply and demand, and stabilize housing prices. The government should amplify assistance for the rental sector and the development of cost-effective housing, while enforcing policies promoting equal rights for renting and selling to mitigate excessive premiums and alleviate the burden on prospective homebuyers. The government also needs to establish a risk monitoring and early warning mechanism to prevent and control real estate financial risks. While this study provides strong support for policymaking, it also recognizes the limitations of existing research frameworks and points out the need to focus on the application of emerging technologies in house price forecasting in the future, deepen the analysis of regional market disparities, and advocate interdisciplinary cooperation to address the complexity and challenges of the housing market.

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