

Driving Mechanisms of Housing Price Surges in the Yangtze River Delta Economic Zone

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ABSTRACT

The real estate industry is one of China's most vital economic sectors, and its significance is self-evident. As one of the country's key economic hubs, the Yangtze River Delta Economic Belt has long been a focal point for economic research, with housing prices being a major area of public concern. However, in recent years, soaring housing prices have triggered panic buying and speculative selling, leading to an increasingly unstable market environment.

This paper takes the Yangtze River Delta as a case study and explores the driving mechanisms behind surging housing prices from multiple perspectives. The real estate market is governed by a complex interplay of factors including supply and demand dynamics, macroeconomic conditions, policy interventions, market expectations, regional development, socio-cultural trends, external shocks, industry competition, legal regulations, and technological innovation.

Keywords: Yangtze River Delta Economic Belt; Housing Prices; Driving Mechanisms

1. Introduction

The Yangtze River Delta (YRD) Economic Belt stands as China's premier city cluster and a key global economic hub. Representing a significant portion of the nation's economic output, it includes major cities like Shanghai and provinces such as Jiangsu, Zhejiang, and Anhui, boasting six cities within the "GDP Trillion Club." Paradoxically, this economic powerhouse contends with persistently high housing prices, contributing to reduced resident well-being, dampened buyer enthusiasm, stagnant sales, and instances of property sell-offs. This phenomenon, particularly acute in the YRD, necessitates a deeper understanding of its underlying causes, an area where current research remains insufficient. This review paper aims to comprehensively synthesize the driving mechanisms behind soaring housing prices within the YRD Economic Belt. Understanding these price dynamics also sheds light on potential linkages to challenges in China's import-export trade performance. Furthermore, the financial risks for listed real estate enterprises in the region^{[4][5][6][7][8]} are escalating, primarily under the pressure of the "Three Red Lines" policy implemented to curb excessive leverage:

Red Line 1: Liability-to-asset ratio (excluding advance receipts) $\leq 70\%$.

Red Line 2: Net gearing ratio $\leq 100\%$.

Red Line 3: Cash-to-short-term debt ratio $\geq 1x$.^[1]

This policy categorizes developers into a color-coded system ("Red," "Orange," "Yellow," "Green"), imposing strict limits on new interest-bearing debt growth based on the number of lines breached (0% for Red, 5% for Orange, 10% for Yellow, 15% for Green), significantly amplifying financial risks within the sector. The YRD's rapid industrialization and urbanization have indirectly linked economic growth with housing price inflation. High housing prices result from a complex interplay of political, economic, and policy factors, reflecting not only market supply-demand dynamics but also broader macroeconomic conditions, policy interventions, market expectations, investor behavior, and regional development strategies.

2. Driving Mechanisms of High Housing Prices^[3]

Our analysis identifies ten primary interconnected drivers:

2.1 Supply-Demand Dynamics

Supply-Side: New housing supply is constrained by construction volume, land release policies, developer strategies, and rising costs. Statistical data reveals a positive correlation between increasing new housing starts and rising prices over recent years. Scarce land supply in core urban areas, evidenced by planning authority data, drives up land acquisition costs, directly inflating new home prices.

Demand-Side: Robust demand stems from population growth (including sustained in-migration), evolving household structures, upgrading demand, and investment interest. Steadily rising disposable incomes and relatively stable mortgage rates further enhance purchasing power, fueling price increases.

2.2 Policy Intervention

Market Regulation Policies: Direct controls like purchase restrictions (Hukou/ownership limits), loan restrictions (down payment/interest rates), price caps, and sales restrictions significantly impact both supply and demand. Regulatory documents show that tightening purchase restrictions typically cools demand and slows price growth, while loosening stimulates demand and price surges.

Land Policy: Government control over land supply plans and auction rules directly affects development costs. YRD planning data indicates that manipulating land release pace and minimum prices effectively regulates market supply and influences price trends.

2.3 Market Sentiment and Investor Behavior

Market Expectations: Public perception of future price movements heavily influences current buying decisions. Market surveys and sentiment analysis suggest bullish expectations trigger panic buying and speculative investment, pushing prices higher, while bearish sentiment leads to buyer hesitation and downward pressure.

Investment/Speculation: Analysis of indirect indicators (e.g., short-term resale ratios, non-local buyer proportions) reveals that investment/speculation, especially during high-market phases with laxer oversight, accelerates price inflation.

2.4 Regional Development and Planning

Urban Planning & Infrastructure: Planning authority data confirms that areas benefiting from new commercial hubs, metro lines, or major industrial parks (as per city/master plans) experience significantly higher price appreciation, demonstrating the potent impact of planned development.

2.5 Socio-Cultural Factors

Cultural Imperative for Homeownership: Deeply ingrained cultural values equate property ownership with stability and social status, sustaining demand even under high price pressures.

Educational Resource Allocation: The "school district housing" phenomenon highlights the link between property values and access to quality education. Data comparisons show premium prices for properties within coveted school districts, reflecting parental priorities and educational resource inequality.

2.6 External Shocks and Events

Natural Disasters/Environment: While typically localized and temporary, events like floods can impact prices in affected areas^[2].

Global Economic Conditions: International factors (global recessions, trade tensions, capital flows, exchange rates) indirectly affect domestic prices. Capital inflows can inflate prices, while outflows or currency depreciation may depress them. Global crises also impact domestic economic confidence and purchasing power.

2.7 Industry Competition and Developer Strategies

Market Structure: Sales ranking data suggests competitive markets may lead to price discounts, while oligopolistic structures can facilitate price increases.

Corporate Strategy: Developer decisions on product positioning, marketing, financial management (especially liquidity), and project turnover directly influence pricing and supply. Case studies (e.g., developer distress sales) demonstrate how firm-level strategies impact local prices.

2.8 Legal and Regulatory Environment

Property Laws: Legislation governing property rights (Real Rights Law), real estate transactions (Real Estate Administration Law), and land use (Land Administration Law) shapes market rules and transaction costs, indirectly affecting prices. Initiatives like the unified real estate registration system enhance transparency and stabilize expectations.

Market Supervision: Regulatory enforcement against practices like inventory hoarding, false advertising, and price manipulation maintains order and stabilizes prices. Enhanced oversight of developer financing and pre-sale funds also mitigates systemic risks.

2.9 Technological Progress and Innovation

Construction Technology: Innovations like prefabrication and green building techniques can lower construction costs per unit area, exerting downward pressure on prices. Cost comparisons between traditional and modern methods illustrate this impact.

Information Technology: Platforms enabling online viewings (VR), transactions, and smart property management improve efficiency and potentially stimulate demand, supporting prices. Online sales data provides evidence of this effect.

2.10 Impact on Import-Export Trade[9]

Empirical studies using provincial panel data (2007-2018) indicate an "inverted U-shaped" relationship between housing prices and import-export trade, with regional variations. In the YRD (Eastern China), real estate investment initially amplifies the positive effect of prices on exports but later exacerbates the negative effect as prices rise beyond a threshold. Consumption plays a similar mediating role for imports in central regions.

3. Future Outlook & Research Significance

Based on the analyzed mechanisms and current trends, core YRD cities are projected to experience modest price recovery (2-3% annual growth), while surrounding satellite cities may prioritize sales volume over price growth. This review systematically synthesizes prior research, analyzes the current YRD housing market dynamics, and projects future trends. By organizing the complex drivers (policy, corporate behavior, market forces) logically, it provides a foundation for understanding this critical economic issue. The findings offer valuable insights for:

Policymakers: Designing more effective housing market regulations and land policies.

Investors & Developers: Assessing risks (especially related to the "Three Red Lines") and opportunities within the YRD market.

Researchers: Identifying gaps for future studies on the intricate links between housing, regional development, and macroeconomics (including trade).

4. Conclusion

Housing price volatility in the YRD Economic Belt is a multifaceted phenomenon driven by the complex interplay of supply-demand fundamentals, macroeconomic conditions, policy interventions, market psychology, regional planning, socio-cultural norms, external events, industry competition, legal frameworks, and technological change. This review has systematically synthesized these ten key drivers and their mechanisms. By dissecting these interconnected factors, stakeholders can gain a more nuanced understanding of price trends, enabling better-informed decisions for navigating this dynamic and critical regional market. The projected trajectory suggests a period of moderated price growth in core hubs, contingent on continued policy calibration and broader economic stability. Cross-dimensional interactions reveal non-linear compounding effects. Policy design requires hierarchical prioritization of supply-demand rebalancing (Factor 1), macro-prudential controls (Factor 3), and expectation management (Factor 4).

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