

Interpreting the "Unbundling" of Purchase Restrictions in China's Property Markets from Volume and Price Perspectives

Yumeng Lu

School of Economics and Management, Shanghai Maritime University, Shanghai, China

1701010818@stu.hrbust.edu.cn

Abstract. Based on theoretical analysis of the impact of purchase restriction policies on housing prices and transaction volumes in the real estate market, this study empirically explores the actual response of the real estate market following the lifting of such policies. Firstly, it summarizes the development of purchase restriction policies in major cities in China since 2023 through a literature review. Secondly, it selects representative cities as research samples to analyze dynamic changes in housing prices and transaction volumes after policy relaxation. The study finds that while there is no immediate significant impact on housing prices due to purchase restrictions, over time, market demand gradually increases leading to an improvement in housing prices. Additionally, an increase in transaction volume is more evident during the early stages of policy relaxation. Furthermore, this study also predicts future trends for the real estate market. In conclusion, this comprehensive and systematic analysis provides a scientific basis for formulating real estate market policies and holds important theoretical and practical significance for understanding and mastering regulation mechanisms within the real estate market while guiding its healthy development.

Keywords: Real estate market, liberalization of purchase restrictions, housing price, transaction volume, market regulation.

1. Introduction

In the development of China's real estate market, as a crucial regulatory tool, the implementation of purchase restriction policies has had a significant impact on the supply and demand dynamics, price fluctuations, and market expectations. Since 2003, China's real estate market has witnessed rapid growth. In an effort to curb soaring housing prices, the government has sought to stabilize them by curbing housing demand and mitigating market overheating [1]. However, with increasing economic downward pressure since 2023, purchasing power in the real estate sector has declined. Consequently, there is now a necessity to adjust the purchase restriction policy [2]. Starting from Q3 2023 onwards, some regions have gradually relaxed or even abolished purchase restrictions to promote healthy and stable development within the real estate market.

Against this backdrop, comprehending the implications of "loosening" these policies aim to unveil underlying market logic behind such changes while evaluating their actual effects on housing prices and transaction volumes. This analysis will provide a scientific basis for future market forecasts and policy adjustments.

The core focus of this study revolves around examining how lifting purchase restrictions impacts various real estate markets across China. Firstly, it reviews and categorizes purchase restriction policies implemented in major cities since 2023. Subsequently selecting representative sample cities enables data collection related to their respective real estate markets for analyzing dynamic changes in housing prices and transaction volumes. On this basis, one can reveal both short-term impacts as well as long-term adjustment effects resulting from these policies. Finally, based on the findings, one aims to predict future trends within the real estate market while offering corresponding policy suggestions that serve as references for policymakers and participants alike.

2. Characteristics and Differences of the Policies

The removal of restrictions has become the focal point in the first month of 2024. On January 30, 2024, the four major suburbs of Shanghai successively lifted single purchase restrictions [3]. Recently,

Guangzhou also announced that there are no limitations on purchasing units with an area of 120 square meters or more. Currently, only Beijing and Shenzhen have not lifted the purchase restrictions; instead, they have adjusted real estate policies by reducing payment ratios for housing loans.

Table 1. Overview of purchase restriction policy for 2023-2024

City	Category	Time	Policy Descriptions
Beijing	Unleashed	2023/12/14	(1) Minimum down payment ratio for individual housing loans (first set) unified down to 30%; (2) Minimum down payment ratio for individual housing loans (second set) lowered to 50% in the six city districts, 40% in the six non-city districts.
Shenzhen	Unleashed	2023/11/25	Minimum down payment ratio for second suite adjusted to 40 percent
Shanghai	Limited liberalization	2024/1/30	Liberalization of home purchases by single non-city householders
Guangzhou	Limited liberalization	2024/1/27	No restriction on purchase of housing over 120 square meters in restricted areas
Hangzhou	Limited liberalization	2023/10/16	No purchase restrictions outside the four main city cores
Chengdu	Limited liberalization	2023/9/26	Restricted purchase area of more than 144 square meters, "5 + 2" areas outside the purchase is not restricted
Changsha	Limited liberalization	2023/9/22	(1) No purchase restriction for the first home (2) Transferable after 4 years of online signing
Xian	Limited liberalization	2023/9/19	No more purchase restrictions outside the second ring road
Tianjin	Limited liberalization	2023/9/1	Liberalization of the purchase restriction in non-city six districts
Foshan	Full liberalization	2022/12/9	Full liberalization
Dongguan	Full liberalization	2022/12/26	Full liberalization
Yangzhou	Full liberalization	2023/6/25	Full liberalization
Jiaxing	Full liberalization	2023/8/25	Full liberalization
Nanjing	Full liberalization	2023/9/8	Full liberalization
Dalian	Full liberalization	2023/9/8	Full liberalization
Lanzhou	Full liberalization	2023/9/8	Full liberalization
Jinan	Full liberalization	2023/9/11	Full liberalization
Qingdao	Full liberalization	2023/9/11	Full liberalization
Fuzhou	Full liberalization	2023/9/11	Full liberalization
Zhengzhou	Full liberalization	2023/9/12	Full liberalization
Shenyang	Full liberalization	2023/9/12	Full liberalization
Hefei	Full liberalization	2023/9/15	Full liberalization
Wuhan	Full liberalization	2023/9/19	Full liberalization
Wuxi	Full liberalization	2023/9/19	Full liberalization
Ningbo	Full liberalization	2023/9/28	Full liberalization
Taiyuan	Full liberalization	2023/10/7	Full liberalization
Kunming	Full liberalization	2023/11/2	Full liberalization
Xiamen	Full liberalization	2023/11/15	Full liberalization
Suzhou	Full liberalization	2024/1/30	Full liberalization

Furthermore, as early as September 1st, 2023, Wuhan took the lead in implementing "recognize houses rather than loans" policy which included a complete cancellation of purchase restrictions and

support for multi-child families' home purchases. On February 4th, Shenyang declared a full opening up of real estate market restrictions on buying and selling properties. Nanjing followed suit on February 7th by issuing new policies that completely abolished purchase restrictions. Jinan and Qingdao in Shandong province successively released similar policies on February 11th. According to incomplete statistics since September onwards, cities such as Shenyang, Dalian, Nanjing, Fuzhou, Suzhou, Jinan, Qingdao, Zhengzhou, Hefei, Xiamen, Xi'an, Wuhan, Wuxi, Changsha, Chengdu, Ningbo etc., have joined the ranks to optimize their purchase restriction policies. As shown in Table 1, some cities fully cancelled them while others implemented regional cancellations [4].

Analyzing the characteristics and disparities in the implementation of purchase restriction policies across different regions can unveil the regional nuances and efficacy of China's real estate market regulations. Specifically, since 2023, economically advanced cities such as Beijing, Shanghai, Shenzhen, etc., have adopted a relatively cautious approach towards easing purchase restrictions by primarily targeting specific areas or demographic groups. Conversely, cities facing greater economic pressures tend to adopt more comprehensive measures by either canceling or significantly relaxing these restrictions. For instance, certain small and medium-sized cities have implemented more lenient purchasing policies to attract talent and stimulate economic growth. Undoubtedly, these policy adjustments have exerted a profound impact on both local and national real estate markets.

3. Empirical Analysis

3.1. Empirical Analysis of First-tier Cities

Beijing, as the capital of China, possesses a distinctive administrative status and follows a unique economic development model. As shown in Table 2., in the empirical analysis conducted, the findings indicate that the initial adjustment of Beijing's purchase restriction policy did not result in significant fluctuations in housing prices. Within one month after its implementation, there was only a marginal fluctuation of ¥300/m² in housing prices. The rate of decline in housing prices compared to the previous month gradually slowed down until it stabilized at approximately ¥59,400/m². Simultaneously, following the short-term adjustment of the purchase restriction policy, there was a notable increase in transaction volume which indicated an improvement in market activity. According to statistics gathered on December 15th and January 1st, daily transaction volumes reached 782 and 755 sets respectively. However, this growth was not sustained for an extended period and eventually settled at around 550 sets. Analysis suggests that these fluctuations may be attributed to adjustments made in Beijing's land supply policy as well as mortgage interest rates and property tax-related policies [5].

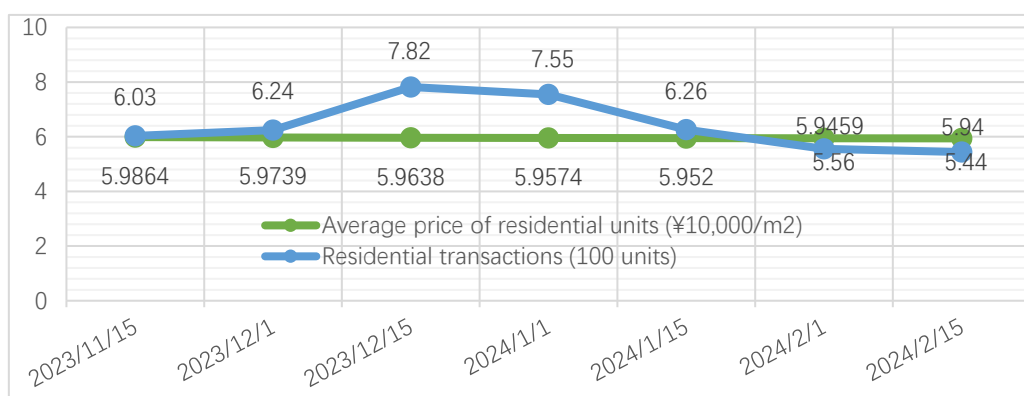


Figure 1. Changes in housing prices and transaction volumes in Beijing

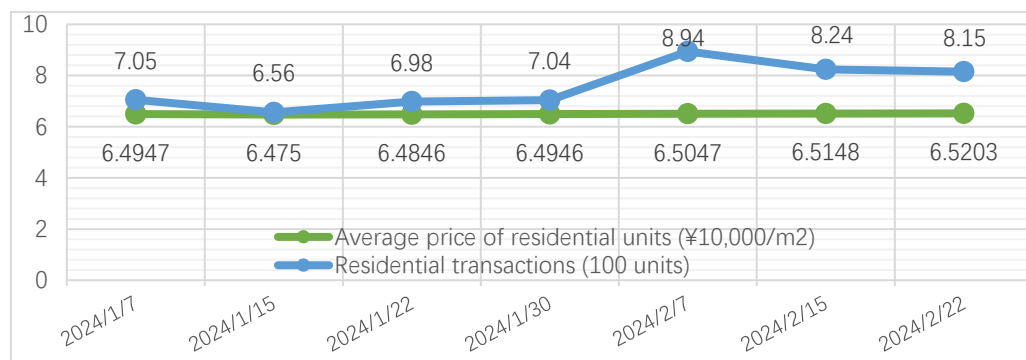


Figure 2. Changes in housing prices and transaction volumes in Shanghai

As one of China's largest economic centers, Shanghai has garnered significant attention in its real estate market. As shown in Fig. 2, the analysis reveals a slight increase in housing prices by ¥257/m² within three weeks following the removal of purchase restrictions. Moreover, the transaction volume experienced a rapid surge during the week immediately after policy cancellation, reaching a daily average of 894 units on February 7th. Subsequently, it gradually declined to 820 units over the next two weeks, representing an overall month-on-month increase of 117 units. This phenomenon can be attributed to Shanghai's highly market-oriented and internationally integrated real estate market characteristics, where investors and consumers exhibit heightened sensitivity towards policy changes due to the mature nature of its regulatory mechanisms [6]. However, further statistical analysis is required due to limitations imposed by the timing of policy promulgation.

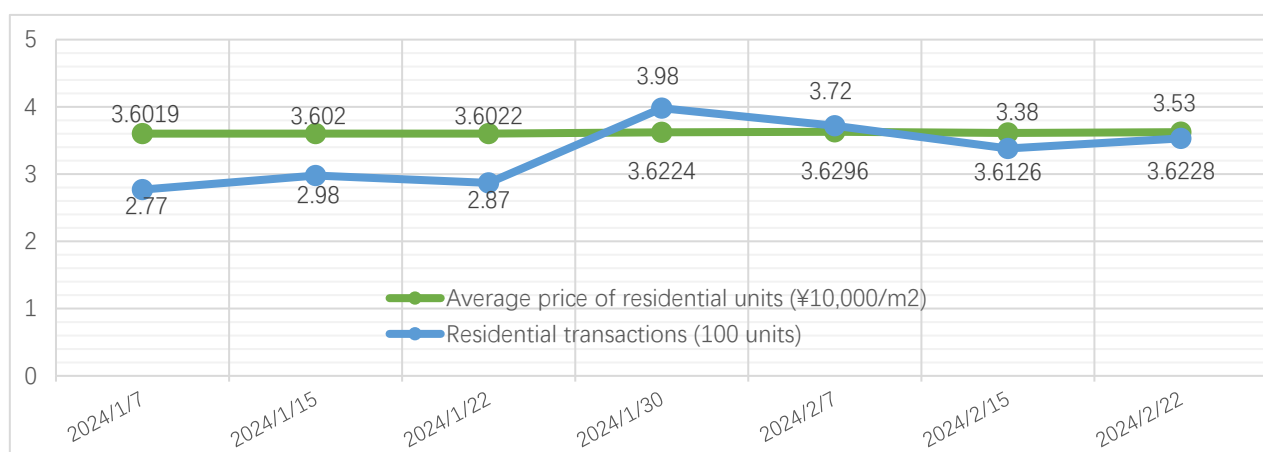


Figure 3. Changes in housing prices and transaction volumes in Guangzhou

After the abolition of the purchase restriction policy, Guangzhou, as the economic leader in southern China, serves as a representative of its real estate market performance. As shown in Fig. 3, the analysis results indicate that there was minimal fluctuation in housing prices within three weeks, ranging from ¥36,100/m² to ¥36,300/m². Conversely, the transaction volume experienced a slight increase during the initial stage of policy relaxation (approximately 65 daily growth compared to the previous month), followed by a deceleration in growth rate and eventual stabilization (with over 330 daily turnovers). Due to the time constraints imposed by policy promulgation, further statistical analysis is required for data validation.

3.2. Empirical Analysis of 20 Major Second and Third-tier Cities

As a crucial component of China's real estate market, comprehending the overall market pattern necessitates an understanding of the market dynamics in second- and third-tier cities. As shown in Fig. 4, upon analysis, it becomes evident that following the removal of purchase restrictions, housing prices in these second-tier cities exhibited positive growth during the first half of the year. Notably, Xiamen and Fuzhou experienced remarkable half-year growth rates of 25.02% and 12.12%, respectively, surpassing those observed in first-tier cities. Conversely, Dongguan and Wuhan

encountered negative growth within this period. The reasons behind such trends can be attributed to factors including the relatively smaller scale of real estate markets in second-tier cities, limited responsiveness to policy changes by market expectations, as well as variations in strategies employed by local governments for regulating their respective real estate markets [7].

The analysis of data from 20 cities reveals a significant initial rise during the policy withdrawal period, followed by a gradual deceleration in turnover growth until reaching a new equilibrium point, as illustrated in Fig. 5. Post-policy removal, there are similarities in housing prices and turnover trends between first-tier cities and select second-tier and third-tier cities with rapid economic development. However, due to variations in economic foundations, market demand, supply, and other factors, certain second-tier and third-tier cities exhibit distinct characteristics in their market response.

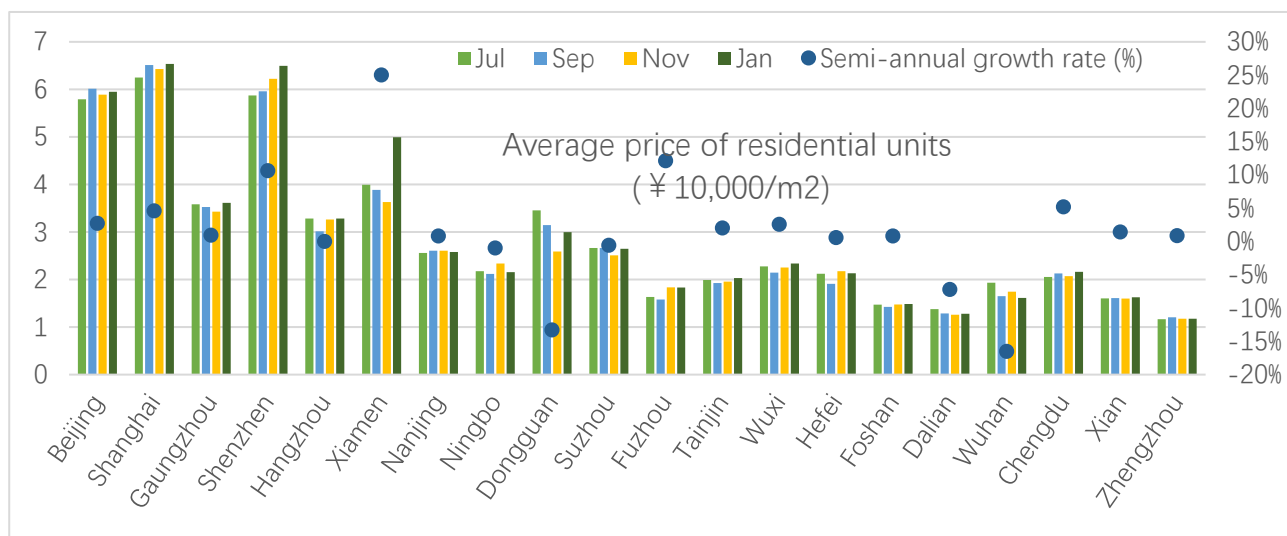


Figure 4. Changes in housing prices in 20 major second - and third-tier cities

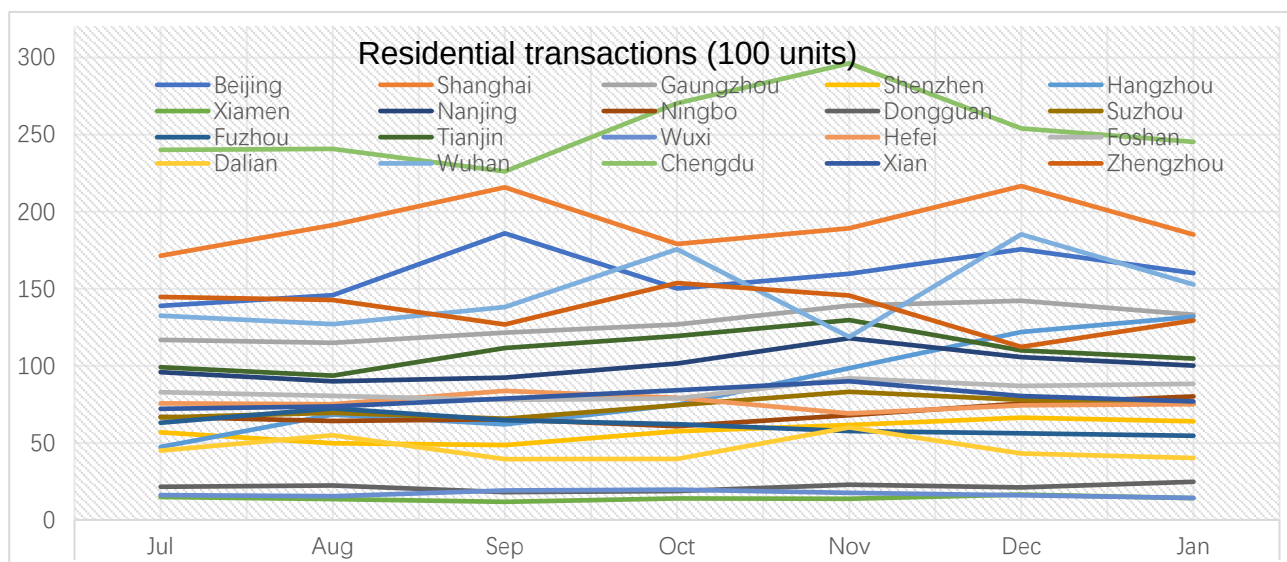


Figure 5. Changes in transaction volumes in 20 major second - and third-tier cities

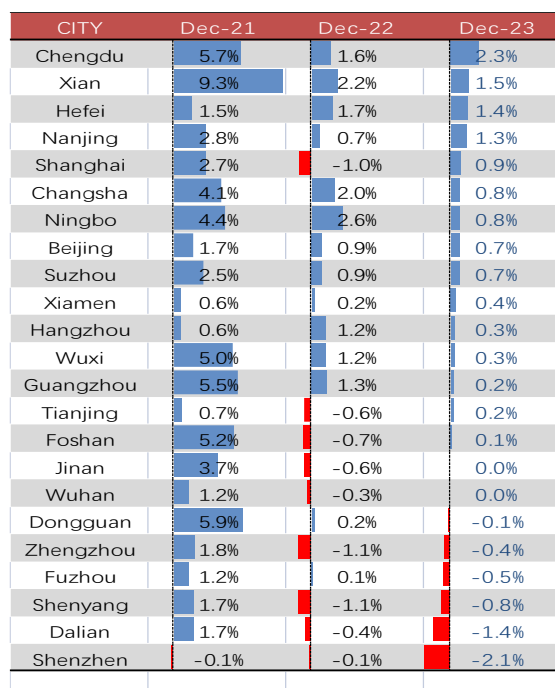


Figure 6. Three-year housing price trend

4. The New Purchase Restriction Policy and Housing Price Trend Forecast

Since September 2023, policies such as recognizing housing instead of mortgage, reducing down payment ratios for first and second homes, adjusting mortgage interest rates, and other measures have been implemented. The recent relaxation of real estate policies in Guangzhou, Suzhou, and Shanghai has opened up new opportunities for policy adjustments. At the deployment meeting of the urban real estate financing coordination mechanism held by the Ministry of Housing and Urban-Rural Development on January 26th, it was mentioned that cities will be given full autonomy to regulate their own real estate markets according to local conditions [8].

In 2024, while the general direction remains housing for residence rather than speculation [8], more targeted measures will be taken to stimulate demand and strengthen market transactions. Currently only some core cities still have certain restrictive policies; however it is expected that in 2024 further reductions in down payment ratios for first and second homes will occur in these core first-tier and second-tier cities. First-tier cities are also expected to optimize purchase restriction policies based on district needs while second-tier cities may completely cancel them altogether. More low-level cities are expected to promote housing demand through subsidies or other means [9, 10].

After analyzing the three-year housing price trend in 20 cities, based on the average housing price data of samples taken in December each year, as depicted in Fig. 6, it is observed that except for Zhengzhou, Shenyang, Dalian, and Shenzhen which have witnessed negative growth in housing prices for two consecutive years, other cities have shown steady progress with a decelerating growth rate and a certain degree of elasticity. Notably, Beijing and Shanghai exhibit relatively robust housing markets. Furthermore, the year-on-year growth rate in Chengdu in December 2023 is 0.7 percentage points higher compared to the same period last year while Nanjing experienced an increase of 0.4 percentage points.

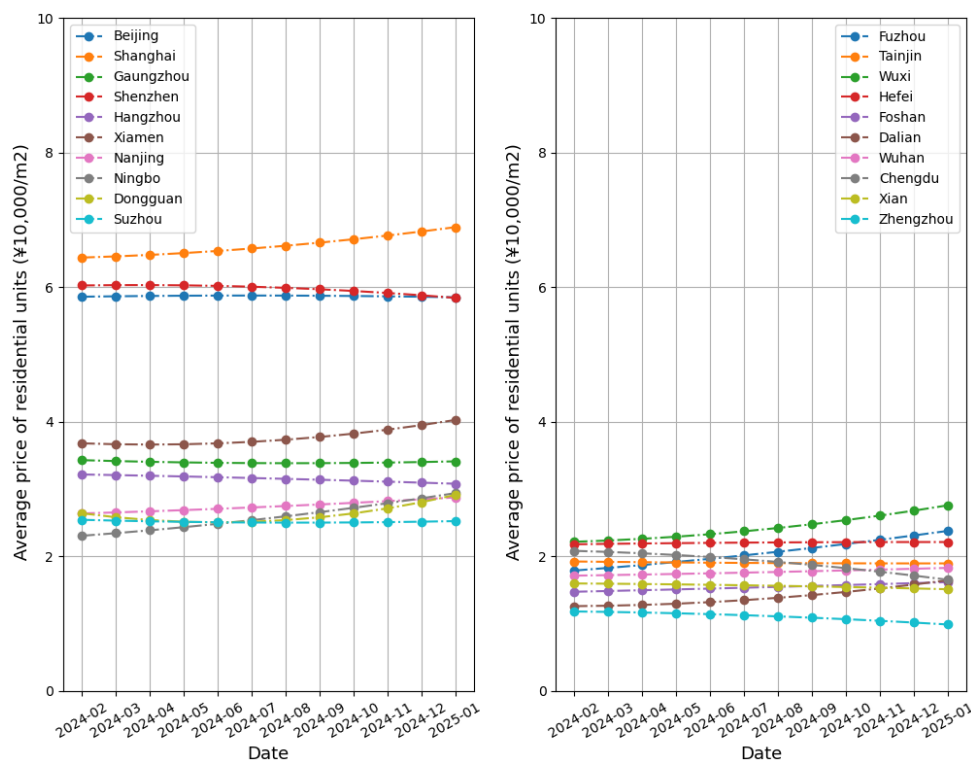


Figure 7. Housing price forecast for 2024

Based on machine learning and visual analysis (as shown in Fig. 7), it can be observed that in 2024, with the exception of a few cities experiencing a decline in housing prices, there is an overall upward trend in housing prices. This indicates that the real estate market is expected to rebound and the economy is gradually improving. However, it should be noted that this forecast has certain limitations. Due to the limited time frame for policy implementation, further data collection is necessary. The real estate market is influenced by various complex factors such as policies, which introduces uncertainty into the forecast results.

5. Conclusion

After conducting a comprehensive analysis and empirical investigation into the phenomenon of "loosening" the purchase restriction policy in major cities' real estate market in China, one has derived the following significant research findings. Firstly, as an effective tool for regulating the real estate market, the cancellation or relaxation of the purchase restriction policy exhibits a lag effect on housing prices. In the initial stage of policy cancellation, there is no sharp fluctuation in housing prices. This may be attributed to a certain time window required for market participants to respond to policy adjustments and for market expectations to gradually assimilate these changes. Secondly, over the long term, lifting purchase restrictions unleashes market demand and leads to an upward trend in housing prices, particularly in cities with robust purchasing power and high demand elasticity. Thirdly, regarding its impact on transaction volume, our study reveals that after removing purchase restrictions, there is a significant short-term increase in trading volume. This indicates pent-up demand within the market that rapidly emerges following policy relaxation. However, with time passing by, this growth effect begins to weaken gradually as evidenced by declining growth rates in trading volume—suggesting stabilization of market demand. Through comparative analysis across different cities' data sets, one also discovered that factors such as supply-demand dynamics within their respective real estate markets along with regional economic development levels and residents' income levels significantly influence changes observed in both housing prices and transaction volumes. Notably, in economically developed cities experiencing substantial population inflows, the withdrawal of purchase limits has more pronounced effects on housing prices and transaction volumes.

Based on the research findings, this study proposes the following recommendations regarding the implementation of the purchase restriction policy. Firstly, it is advisable to gradually adjust the purchase restriction policy and allocate sufficient time for market adaptation. When considering lifting or relaxing the policy, a gradual approach should be adopted to prevent excessive market fluctuations caused by sudden changes in regulations. Furthermore, it is essential for the policy to emphasize "housing for residence, not speculation" as its primary objective, aiming to restore housing's fundamental purpose and address housing issues faced by young individuals and new citizens. Additionally, in response to national demands, implementing city-specific policies tailored to each locality and adopting precise measures can optimize the real estate market. This will enable adjustment according to new circumstances arising from significant shifts in supply-demand dynamics within the real estate sector while stimulating activity in 2024 and alleviating downward economic pressure.

The practical significance of this study is primarily manifested in the following aspects. Firstly, the study closely aligns with the prevailing political focal points in 2023 and 2024, ensuring timely policies and data. This enables a more scientific and rational grasp of the market context, facilitating empirical analysis results and policy recommendations for the government that are both scientifically grounded and accurate. Secondly, the research findings provide valuable reference information for market participants, particularly real estate development enterprises and home buyers. Thirdly, this study also forecasts future trends in the real estate market, thereby assisting investors in evaluating market risks while offering guidance for urban planning and social resource allocation. However, it is important to acknowledge certain limitations within this study. Firstly, there are constraints on sample selection as although representative cities have been chosen for analysis; further efforts should be made to enhance both breadth and depth of samples collected. Additionally, due to policy time constraints, further data collection is anticipated. Secondly, this study predominantly focuses on examining the impact of purchase restriction policies on housing prices and transaction volumes but fails to encompass an investigation into other potential influencing factors. Lastly, given that the real estate market is influenced by various complex factors; uncertainties remain regarding prediction outcomes from this study which necessitate verification and revision through future research.

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