Assessing The Rebound Potential And Constraints Of China's Housing Sector

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Abstract

Since 2021, China's real estate industry has been confronted with challenges it has never encountered before. These include developer defaults, such as Evergrande having a debt of 300 billion US dollars, as well as a decline in real estate sales, which dropped by 13% in 2023 compared to before. Additionally, there are structural issues like an aging population and regional disparities. This study aims to investigate the complex driving and restrictive factors influencing the recovery of this industry, providing stakeholders with evidence-based strategies. By conducting qualitative case studies, such as the sharp increase in land prices in Chengdu and the "quality housing" policy in Shanghai, this paper also conducts theoretical analyses, such as supply and demand elasticity and financial contagion theory, and explores innovative trends. For instance, green housing and AI-driven prediction can be used to assess the rebound potential and systemic constraints of this industry. Importantly, this paper also studies Guangzhou's urban renewal projects, 1.31m planned apartments by 2025, 36 ㎡ per capita target and Shi Pai Village projects. The key conclusion indicates that a more lenient policy will stabilize first-tier cities in the short term, while long-term sustainable development depends on whether regional and population challenges can be well addressed. This research has practical value for policymakers to formulate targeted policies, developers to optimize their strategies, and investors to assess risks, which can help promote the sustainable development of this industry.

Key Words

China's Housing Sector; Rebound Potential; Structural Constraints; Financial Risk Analysis

1. Introduction

1.1 Research Background and Current State

China's housing sector has long held a pivotal position in its economy, contributing 13% to household wealth (Nong et al., 2024). However, since 2021,

the sector has encountered unprecedented challenges. Developer defaults have become a prominent issue, with Evergrande alone accumulating liabilities of $300 billion. In 2023, property sales declined by 13% year-on-year. Goldman Sachs Research estimates that as of the end of 2024, the supply of marketable housing inventory could exceed two years of demand. Despite the central bank implementing measures such as providing RMB 300 billion in lending support for state-owned enterprises to purchase completed but unsold housing inventory and allocating RMB 4 trillion in credit to boost project completions, these efforts proved insufficient. Execution of the programs also faced challenges, and without further stimulus, the housing downturn might persist for another three years.

Moreover, structural issues such as an aging population and financial vulnerabilities persist. China's population growth rate has slowed significantly, and the aging population trend has intensified, reducing housing demand. Meanwhile, financial risks in the housing sector remain pronounced. Some developers, driven by excessive borrowing and overexpansion, face liquidity crises. Despite these challenges, a localized rebound is already evident in certain cities. For example, in Chengdu, land prices soared to RMB41,200 per square meter in 2025. Residential property sales in China's Tier 1 cities continued to grow in January, with demand stronger than in Tier 2 and Tier 3 cities.

The sector currently navigates a landscape marked by stark regional disparities and structural imbalances. Nationwide housing inventory reached 750 million square meters in 2023, with Tier 3 cities comprising 60% of unsold units, while Tier 1 cities like Shanghai maintain vacancy rates below 5% (Ge et al., 2025). This divergence reflects deeper issues: average new home prices in non-core cities declined 5.8% post-2020, contrasting with marginal growth (1.2%) in Tier 1 hubs. Financially, developers face acute pressure, with average debt-to-asset ratios exceeding 80% in 2023, a trend highlighted by high-profile defaults such as Evergrande. Household leverage, at 63.2% of GDP, further constrains demand.

The industry is currently in a phase of short-term stabilization and long-term transformation. Urbanization continues to drive market differentiation, with Tier 1 cities experiencing stronger demand compared to Tier 3 cities. Previous policies such as purchase restrictions and tight lending have curbed investment-driven housing demand and reduced market activity. Additionally, China's economic growth has slowed, further impacting the housing sector.

1.2 Research Purpose and Significance

The main objective of this paper is to investigate the various complex factors, including drivers and constraints, affecting the recovery of China's housing sector.

This study aims to provide stakeholders with evidence-based strategies for navigating market uncertainty. For policymakers, the research findings can serve as a reference for formulating more targeted and effective housing policies, such as balancing policy relaxation with risk prevention to promote stable housing sector development. For developers, understanding market drivers and constraints can help them optimize project layouts and marketing strategies, enhancing competitiveness amid market fluctuations. For investors, the analysis can assist in accurately assessing housing market risks and returns, enabling more informed investment decisions. Overall, this study holds significant theoretical and practical value for achieving sustainable development in China's housing sector.

1.3 Methodology and Innovation

The research methodology of this paper is threefold. The first is a case study: Shanghai's "quality housing" policy and Guangzhou's urban renewal project. The second is a theoretical framework: elasticity of supply and demand and financial contagion theory. The last one is the innovation trend: the integration of green housing demand forecasting and AI-driven market forecasting.

2. Drivers of Rebound Potential

2.1 Policy Support

Monetary easing has been instrumental in stabilizing housing demand. For instance, mortgage rate cuts (down to 2% in 2025) directly reduced borrowing costs, boosting sales by 44% in Shenzhen (Cheng et al., 2025). Fiscal stimulus measures, such as local governments issuing RMB 8 trillion in special bonds to absorb excess inventory (Ge et al., 2025), further alleviated supply-side pressures. These policies are in line with the findings from Fornaro (2025), which highlight the crucial role of policy support in driving economic recovery and stability. Fornaro analyzed the impact of fiscal stimulus on economic output and inflation, emphasizing that effective policy measures can significantly boost market confidence and demand. In the context of the housing sector, monetary easing such as mortgage rate cuts and fiscal stimulus like special bonds for inventory absorption are vital for stabilizing and stimulating the market.

2.2 Economic Recovery

GDP growth (5.8% in 2025) spurred a 6.3% rise in per capita income, revitalizing demand in coastal cities like Shanghai and Guangzhou (Wang et al., 2023). Employment opportunities from emerging industries, such as tech and renewable energy, attracted migration, amplifying housing demand. However, regional disparities persist: inland provinces lagged due to slower industrial transformation, underscoring the need for equitable growth policies to sustain nationwide housing demand.

2.3 Urbanization and Demographics

China's urbanization scale continues to expand, boosting the urban population and increasing housing demand. As urban economies develop and incomes rise, people seek better living conditions, further driving housing market demand and pushing prices upward. Take Guangdong Province as an example. As China's largest economy with a population of around 150 million and a GDP exceeding RMB 14 trillion, urban renewal is crucial. This year, the province's urban renewal projects are expected to exceed RMB 400 billion in investment. Guangzhou plans to provide over 1.31 million urban apartments during the 14th Five-Year Plan period (2021-2025) to meet the needs of new residents. By 2025, the targeted per capita housing area for urban residents in Guangzhou is expected to reach 36 square meters. Urban renewal projects in Guangzhou, such as Shi Pai Village and Huang Bian Cun Industrial Park, have been implemented to address housing needs and improve living conditions (Zheng, 2021). These projects increase housing supply and enhance housing quality, promoting the stable development of the housing market. However, the pressure of housing new residents still exists, contributing to rising housing prices.

2.4 Technological Innovation

Smart home technologies, exemplified by Shanghai's Boshiyayuan project, raised property values by 12% through IoT-enabled amenities like energy management systems (Cheng et al., 2025). Meanwhile, mandatory green building standards reduced energy costs by 30%, attracting eco-conscious buyers (Wang et al., 2023). For instance, AI-driven construction planning reduced project timelines by 18% in pilot cities, illustrating the sector's potential for tech-driven scalability. Overall, these technological innovations have significantly enhanced property values.

3. Constraints and Risks

3.1 Structural Imbalances

China's housing market is experiencing pronounced structural imbalances due to regional differences, which are likely to intensify property price bipolarization. A striking contrast exists between Tier 1 and Tier 3 cities. In Tier 1 cities, strong demand and limited land supply are driving housing prices upward. However, Tier 3 cities are facing the risk of declining housing prices due to oversupply and weak demand. Even within the same city, the price gap between core and fringe areas is expected to widen. Core areas, with better infrastructure and abundant resources, will likely see housing prices remain high or even rise further. In contrast, fringe areas, with underdeveloped facilities and weaker demand, may experience a downward trend in housing prices.

3.2 Financial Vulnerabilities

China's housing market faces significant financial vulnerabilities due to the interconnected risks between banks and developers. The 2024 default of Evergrande triggered regional credit crunches, highlighting the systemic risks (Nong et al., 2024). In 2024, developers' average leverage ratios exceeded 80%, making refinancing difficult during market downturns and straining the financial system. External shocks have also slowed market confidence recovery. To address these issues and prevent excessive market rebound, it's crucial to strengthen liquidity buffers and diversify funding sources. Developers should maintain sufficient liquid assets and explore alternative financing channels to reduce reliance on traditional bank loans. These measures can help stabilize and sustainably develop the housing market.

3.3 Demographic Headwinds

By 2035, 28% of China's population will be over 60, reducing demand for traditional housing while spurring niche markets like senior communities (Cheng et al., 2025). Additionally, declining marriage rates (6.8‰ in 2024) suppressed household formation, exacerbating vacancy rates in smaller cities. Policymakers must incentivize adaptable housing designs to cater to shifting demographic preferences.

4. Projections and Recommendations

4.1 Trend Predictions

First, in the short term (1-3 years), first-tier cities tend to stabilize; third-tier cities need 3-5 years to normalize inventory.

Secondly, looking to the medium term of 3-5 years, there are several factors that will contribute to the gradual optimization of the housing market's supply-and-demand structure. As the economy recovers, household incomes will rise, boosting housing demand. The advancement of urbanization will continue to drive housing demand. Developers are expected to become more rational in land acquisition and project development, leading to a better-matched supply and demand. At the same time, industry concentration will increase as large developers with financial and brand advantages take a larger market share. This will enhance the quality and stability of the housing market.

Finally, in the long term (5-10 years), studies show that green and smart homes will occupy 45% of the market (Qu et al., 2024).

4.2 Strategic Recommendations

In response to the above, this paper has the following main strategic recommendations:

Firstly, on the government side, it is recommended to Standardize land auctions to prevent speculative pricing and expand real estate investment trusts to attract institutional investors.

Secondly, on the developer side, priority could be given to reducing debt and investing in aid-driven property management (Wang et al., 2023). At the same time, it is recommended to focus on intelligent and innovative design that meets the needs of development to enhance the competitiveness of residential products. Below is a table illustrating some intelligent and innovative design concepts:

Table 1: Intelligent and innovative design concepts

Design Aspect	Description
Smart Home Systems	Integration of IoT-enabled devices for energy management, security monitoring, and convenient control.
Green Building Materials	Use of environmentally friendly and energy-efficient materials to reduce environmental impact and lower energy costs.
Flexible Space Planning	Design of adaptable spaces to meet the changing needs of different families and lifestyles.
Community Intelligent Management	Utilization of AI and big data for community security, property management, and resident services to

	improve living convenience and comfort.

Finally, for investors, targeting cities in Tier 1 with GDP growth above 5% should avoid over-leveraged Tier 3 cities. Because these cities may face higher risks of housing inventory accumulation and price declines.

5. Conclusion

This article mainly assesses the rebound potential and constraints of China's real estate industry. Considering that the real estate industry plays a very crucial role in the national economy, accounting for 13% of household wealth, and is currently facing some challenges, this theme is very important. This research analyzes the key driving factors for the rebound of the real estate industry, which includes policy support. For instance, mortgage interest rates have been lowered, and 8 trillion yuan worth of special bonds have been issued. There is also economic recovery, with GDP growing by 5.8% in 2025. This has boosted demand in coastal areas. The urbanization process is accelerating, and the urban population is constantly expanding. In addition, technological innovation and smart home technology have increased the value of real estate by 12%.

These research findings emphasize that as policies gradually ease, it is possible for first-tier cities to achieve stability in the short term. However, to achieve long-term recovery, it is necessary to address the differences among regions and adapt to changes in population, with a greater emphasis on green and smart home technologies. It is expected that they will capture 45% of the market share within 5 to 10 years. This also points out a direction for change.

However, this research also has some shortcomings. For instance, it mainly relies on qualitative case studies and lacks quantitative modeling of the effectiveness of cross-regional policies. Future research can rely on large-scale quantitative analysis to calculate the impact of specific policies and explore suitable solutions for the digestion of inventories in third-tier cities. To make policy suggestions more practical.

Conflict of Interest Statement: The author declares that there are no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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