



**MARMKET RESEARCH: A STUDY ON FACTORS CAUSING THE BOOM  
OF REAL ESTATE MARKET IN CHINESE OF MAJOR CITIES – BEIJING  
SHANGHAI GUANGDONG**

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**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT  
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A STUDY ON FACTORS CAUSING THE BOOM OF REAL ESTATE MARKET  
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## Abstract

Title: A Study on Factors Causing the Boom of Real Estate Market in Chinese of major cities.

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Degree: Master of Business Administration

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In the past two decades, the real estate industry is as the pillar industry of the country, it's the stability and developments are related to the national economy and the people's livelihood. The real estate market has been increasing rapidly and has grown tremendously in China's major cities. For example, the average housing price in Beijing has risen to four times from 2007. Although housing prices have risen so much, the real estate market is still booming in major cities. High housing prices have caused many social problems. The research aims to find out the key factors that have effect on the housing price by increasing in order to solve these problems in China's major cities in Guangdong, Shanghai, Beijing. This paper on the factors of the existence of a thorough review includes the world's literature about real estate prices, based on Beijing, Shanghai province provincial the capital City of GuangDong province as an example, in order to collect the primary data average price, average housing prices rose. What's more, per capital disposable income in major urban from 1997 to 2016, the population density, land resources, broad money supply, and long-term purchase mortgage rates, through a variety of analysis found that in addition to the long-term mortgage rates, monetary policy affects the rest of the various factors and the housing price which there is significant positive correlation between and analyzing the factors which cause the development of real estate economy in difference regions. Chinese government is expected to take several measures to control the housing bubble issues in major cities. Hope this article can inspire to the

government to discuss and analysis which the Chinese government will adjust to the real estate market for China's market economical regulation and development. However, the government's decisions to improve the insight and influence in China's real estate market researchers.

**Key words:** Chinese real estate market, China economy development trend, major cities, government's policy.



## 摘要

题目： 中国主要城市房地产市场快速发展因素的研究

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在过去的二十年中，作为国家的支柱产业，房地产业的稳定与发展关乎国计民生。我国房地产普遍存在房价上涨过快中国主要城市的房地产市场巨大的增长。例如，北京的平均房价从 2007 上升到四倍，尽管房价上涨了这么多，但各大城市的房地产市场仍在蓬勃发展。高房价引起了许多社会问题。为了解决这些问题并提供。本研究旨在找出影响我国主要城市房价上涨的关键因素。本文首先对存在的因素彻底审查，关于房地产价格上涨的世界文献，然后以北京，上海市广东省会城市为例，收集了平均房价、平均房价上涨的主要数据。以及 1997~2016 年间各大主要城市人均可支配收入、人口密度、土地资源购置、广义货币供应量和长期抵押贷款利率，通过各种分析方法发现除长期抵押贷款利率外，货币政策的影响其余各因素与住房价格之间存在显著正相关关系和分析不同区域造成房地产经济发展的因素。目前，中国政府预计将采取几项措施来冷却主要城市的购房泡沫现象。希望本文的讨论能对政府有所启发，中国政府将调整房地产市场来对整个中国经济市场的调控。然而，政府的决策将会对中国房地产市场研究人员提高洞察力和影响。

关键词： 房地产 中国市场 中国经济的发展趋势 政府政策 主要城市

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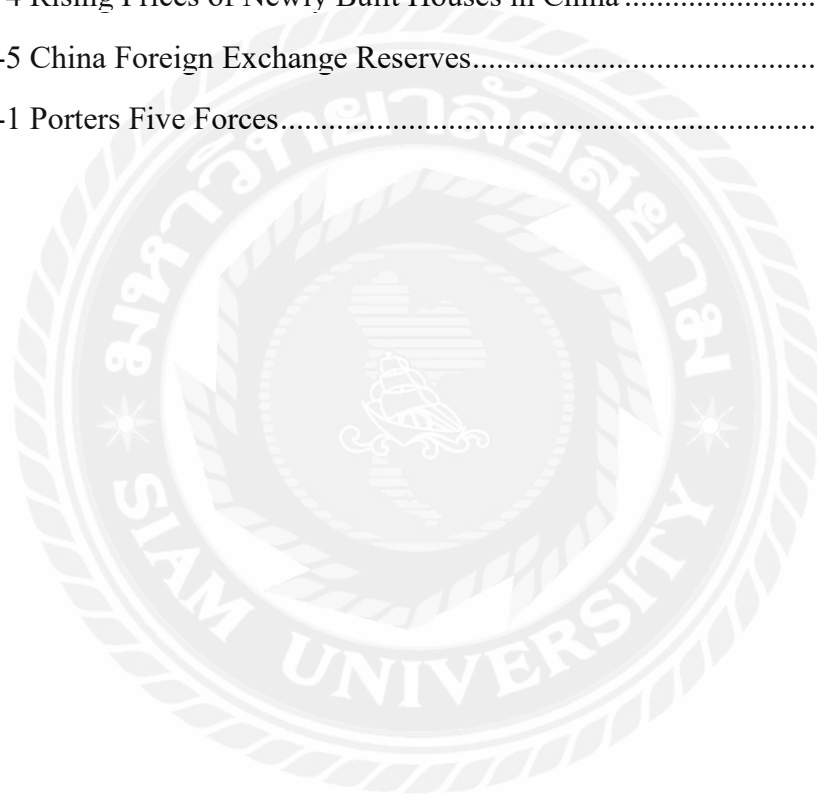
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# CHAPTER 1

## INTRODUCTION

### 1.1 Background

In the past few decades, China's housing prices has risen continually, as we all know the factors which are: the rapid economic growth, rapid urbanization, and income growth. The number of house buyers has increasing about 20-50 years old. It has become family miniaturization. During 1978-2015 years, it has shown which the average annual growth rate of GDP in China was 15.3% which is based on the surveys, and the average annual disposable income of urban residents rose by 13.2% in nominal terms. During the 1978-2015 years, China's urbanization rate increased from 17.92% to 56.1%, the urban population has increased from 170 million to 770 million, a net increase of 600 million people of which 20-50 years old. the increasing number of buyers has becoming family miniaturization, according to the five census data, the average number of households per household was 4.41 in 1982, it was 3.44 in 2000, compared with 3.1 in 2010.

By the development and progression of Chinese economy, Real estate market affects by the world economic, exchange rate and the government policy and so on. It plays important role in the developing economy, Especially, China's price to income ratio China ranks first in the world's major economies. Based on some studies, (Xin & Jin, 2015). it has suggested which usually the normal level in the case of the United States is about 5 times, and the Seoul area of South Korea 15 times, Japan Tokyo circle 8 times, China line and the coastal city of about a year after the level to fluctuate, Shenzhen has reached about 25 staggering.

Besides, China proposes "One belt, One road" strategy which influences 4.4 billion populations account for 63% of the global and its economic volume reaches 2.1 billion US dollars account for 29% of the global. "One belt, One road" starts from Asia and finds its place in Asia. World Bank published the global GDP in 2014. It also can boost the real estate market developing.

The real estate market affects many other areas of the economy. A boom in the real estate market means increased construction which in turn means increased demand for areas such as basic materials, construction labor, interior decoration labor, and the real estate agents. As the real estate market quickly expands, it have effect on these various other industries regions to gain weight. For instance, on the financial institutions and banking industries. Financial institutions such as banks must keep lending to keep up with the demand for financing for housing. If China's the real estate growth suddenly comes to a halt, Chinese financial institutions would be negatively affected, among other industries which have become dependent on the real estate market to fuel the demand for their services in the past decade.

The real estate industry is important role in the proportion of China's economy, the market consensus is direct contribution rate at about 10%, according to the latest two housing minister, the latest data are real estate added value accounting for the proportion of GDP reached 6.1%, usually in the urban real estate development investment 20% of investment in fixed assets, it is about 17% in the last year.

Based on the current article, there are plenty of articles about factors causing the boom of the real estate market in Chinese of major cities. However, it is hardly to find a research about detailed of analysis the real estate market in deeply way. Meanwhile, other Southeast Asian countries, under the economic range of "One belt, One road", explore Chinese real estate market aggressively. This proposed research article frames research methods through literature review, survey data to figure out the key factors causing the boom of the real estate market in Chinese of major cities. Therefore, it provides not only imperative information for studying in Thailand for Chinese market, but also offers some references or analysis of data for analysis of the real estate market.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 PEST**

##### **2.1.1 Social**

The social and cultural are playing an important role on parts of the economical developed country. Lifestyle, religion, education and emigration all of these potentially impact of social, cultural trends and value. Besides, demographic of population growth of fluctuation in the age distribution also have effective on the social and cultural behaviors of the country.

##### **2.1.2 Political**

Based on the latest real estate policies which have shown "restricted purchase" police which is a strange phenomenon that violates the basic principles of the voluntary trading of market economy. Purchasing a house is even more ambivalent, a lot of people are dissatisfied with the purchase restrictions for the most of the main cities in China. It makes Chinese the real estate market more completed.

##### **2.1.3 Economical**

China's economic has developing rapidly in the last few decades, nowadays it becomes the world's second largest economy. In this situation, it still exists several issues which the main reasons for the market is which the export growth rate is caused by the international financial crisis has been greatly reduced. The export growth rate of the US Dollar has decreased from 31.3 per cent to -7.74 per cent in 2010-2016. The investment has growth it causes by the uneven development of domestic urbanization, also has been significantly reduced the growth rate of fixed-asset investment in the whole society decreased from 24.5% to 8.1% in 2010-2016.

#### **2.1.4 Technological**

Technological management is an important role for process of the whole the real estate market, the technical management of real estate enterprises is an indispensable part in the process of production and operation of the real estate enterprises. A real estate enterprise technology management level is higher, the production of the "product" is better, the market effect is better, thus brought about by the social benefit and economic benefit will be greatly improved, it will cause "product" backlog, long production period and low investment costs increase, developers cannot recoup their investment.

#### **2.2 SWOT Analysis**

The origins of the SWOT analysis technique is credited by Albert Humphrey, who led a research project at Stanford University in the 1960s and 1970s using data from many top companies. Obviously, its function has changed. A SWOT analysis is a process to identify where you are strong or weak, threat, opportunity. Businessman usually uses the analysis to conduct the business activities or overall business strategy sessions on a product, or service. Besides, a SWOT analysis is a planning tool used to understand the external and the internal factors including the Strengths, Weaknesses, Opportunities, and Threats. In order to businessman have good knowledge on understanding environment for specific segment like marketing research production or sales.

The SWOT analysis that people envision before the session changes throughout reflecting factors people were unaware of it, who would never have captured if not for the business's input.

#### **2.3 The Marketing Mix- the 4 P's**

The original meaning of the term marketing mix was developed by Neil Borden who first started using the phrase in 1949.

Culliton, J. who provided the theory was for ingredient recipe. He sometimes experimented with or invents ingredients no one else has tried. However, the E. Jerome

McCarthy (McCarthy, 1960), was the first person to suggest the four P's of marketing – price, promotion, product and place, distribution. We usually use the four mix to analysis the market to make marketing strategy or write marketing plans. The market is influenced by "Marketing variables" marketing factors. All four of mixes the variables be changed. (Kotler & Levy, 1967) explained marketing mix methods based on 4P's on his famous book "Marketing Management, Analysis, Planning and Control, " as below:

#### Price

Price reflects the customers to the product's value, affects how price performs on the market, the price refers to the real amount value which customers are expected to pay for the product. There are two kind of situation which it is possible for a product to be higher price that customers are expected the price, customers can still accept the value, it is a positive the results, On the other hand, the result presents negative which a product may need to be underpriced for it to sell if the customer considers it of little value.

#### Promotion

Promotion is the strategy way to promote product via different methods. These may entail advertising, sales promotions, special offers, as well as public relations. The promotion should be appropriate for the product, especially new product which goes into a new market or region.

#### Product

When it comes to the product, it can be a tangible good or an intangible service to meet customers' needs and wants in the market. Product follows up with the product life cycle. Every stage has their specific challenges. Besides the products should be unique and put the function of products as priority. In order to customers can recognized and understand products features and benefits.

#### Place

The enterprises are rather facing consumers directly than focusing on cultivating dealers and establishing e-commerce. The enterprises contact the consumers by dealers.

Where is the product put, it is related how the product how the product will be provided to the customer is what determine place or its placement. It is important for the marketing strategy and also main element in determining the product market.

## **2.4 TOWS Analysis**

TOWS analysis, is trend analysis tool, is closely related with the object of main factors causing the boom of real estate market in Chinese of major cities of various main internal strengths, weaknesses and external opportunities and threats. According to the matrix form, using the main of system analysis, the various factors suit with each other for analysis, we have a series of corresponding conclusions from the analysis, and the conclusion is usually a certain decision-making.

Strengths and Opportunities (SO) refers to a "Maxi-Maxi" Strategy. Strategies that used strengths to maximize opportunities.

Strengths and Threats (ST) refers to a "Maxi-Mini" Strategy. Strategies can be used strengths to minimize threats.

Weaknesses and Opportunities (WO) refers to " Mini-Maxi" Strategy, Strategies that minimize weaknesses by taking advantage of opportunities.

Weaknesses and Threats (WT) refers to a "Mini-Mini" Strategy, Strategies that minimize weaknesses and avoid threats.

## **2.5 Descriptive Statistics Logistic Regression**

Logistic regression is called logit model, which also called logit model and translation evaluation model, evaluation model of classification, logistic regression is one of the method of discrete choice models, Logit model is the earliest discrete choice model, is also the most widely used model in the social. It is a common method of statistical empirical analysis of sociology, cultural, biostatistics, clinical, psychology, econometrics and marketing, etc. Logit model is mainly method applying for different study because of the explicit characteristic its probabilistic expression (Chang & Liu, 2012). The model



can be used to solve quickly and conveniently. When the model selection doesn't change, only when the level changes of the variables, e.g. price of real estate. It can easily solve the selection branch in the new environment of the choice of the probability of being chosen. According to the properties of Logit model, select the branch to reduce or increase does not affect at every other choice between the size of the selected probability ratio, therefore, it can be directly removed from the model would need to get rid of the choice of branches, the choice of the new branch would also be added to the model used to predict directly. It is helping to analysis the variables during the study.

## **2.6 Porter Five Forces Analysis**

Porter's Five Forces model was provided by Michael, E. in 80s' of 20 centuries. It mainly identifies and analyzes five competitive forces that situation every business and helps determine a business's weaknesses and strengths, also internal or external business environment. Main factors causing the boom of real estate market in Chinese of major cities this report which belongs to the components in the economic situation and suits applying for Porter Five Forces analysis.

The five forces analysis includes competition in the industry: Potential of new entrants into the industry, Power of suppliers, Power of customers, Threat of substitute products.

This condition and comprehensive strength of the five basic competitive forces, which decide the level of competition of the business, determines the ultimate potential, as well as the flow of capital, a viable strategy proposed should confirm and evaluate the five forces including: the characteristics of different power and importance of business Porter's competitive model is that the meaning of the five competitive forces, it contains three types of strategic that known as: the total cost leadership strategy, the differentiation marketing strategy and concentrated marketing strategy.

## **2.7 Differentiated Marketing**

The concept of differentiated marketing is market segmentation, setting up the target consumers, introducing the brands and establishing the image to market. Actually, it is strategy of marketing region and differentiated marketing should enable the firm to achieve several of objectives, such as Sales maximization, Recognition as a specialist, Diversification. According to the objectives of the differentiated marketing, marketer have to dig out the customer's different hobbies, behaviors, characters, values, incomes and consumption to choose the target market through differentiated marketing strategy. Differentiated marketing is based on the various characters of consuming in order to meet customers' needs and wants, and design the unique features or benefits.

## **2.8 Concentrated Marketing**

Concentrated marketing is a strategy which a product or service is developed and marketed for specific segment of the consumer or audience. Concentrated marketing is effective strategy for company, which don't have enough limited resources or enough capability for meeting a specific market.

## **2.9 Undifferentiated Marketing**

After our discussing deeply about differentiated and concentrated marketing it is important to understand undifferentiated marketing applying and definition. Author focus "undifferentiated" the word, it tells us that marketers usually use the same strategy for all segments of the market. it can save capability and resources, marketers typically create a strategy or methods that appeals to everyone, so the strategy or method are often general or simple to allow more customers to relate.

### **2.9.1 Social and Cultural**

The social and cultural are playing an important the roles in the economics of development country. Lifestyle, religions, education and emigration all of these which have effect potentially on social and cultural trends and value. Besides, demographic of

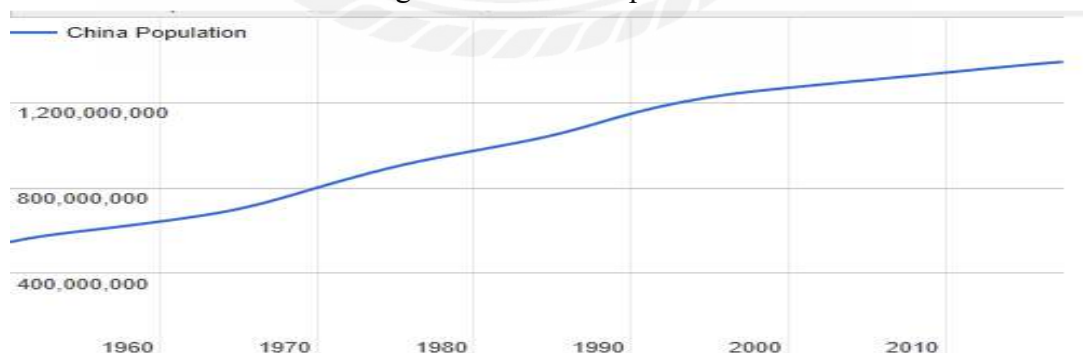
population, growth and fluctuation in the age distribution also have effective on the social and cultural behaviors of the country.

### 2.9.2 Demographic

The People's Republic of China is a largest country of any country in the world. The current population of China is 1,389,270,247 as of Monday, September 4, 2017, based on the latest United Nations estimates. 91.51% of the population was Han Chinese, and 8.49% were minorities. China's population growth rate is only 0.47%, ranking 159th in the world. The report would present server of the bigger cities of China, Shang Hai has 22 million populations, it has the largest and busiest port in terms of containers and cargo tonnage, two large airports are Pudong and Hongqiao, as we all know, Beijing is as China capital city. It has 19 million people, also is a political, educational, and cultural center, with light industries including science, technology and research. Guangzhou also has not as much population as other cites, it only has 11 million people. Every year business man shippment a lot of clothing, electronics, and plastic goods to around the world as a manufacture base.

The figure presents china population has increased year by year, especially the amount of population increased fast from 1960 to 2000, however, it keeps to increasing slightly in the 2000 year. As the figure 2-1:

Figure 2-1 China Population



Source: World Bank, United States Census Bureau

## CHAPTER 3

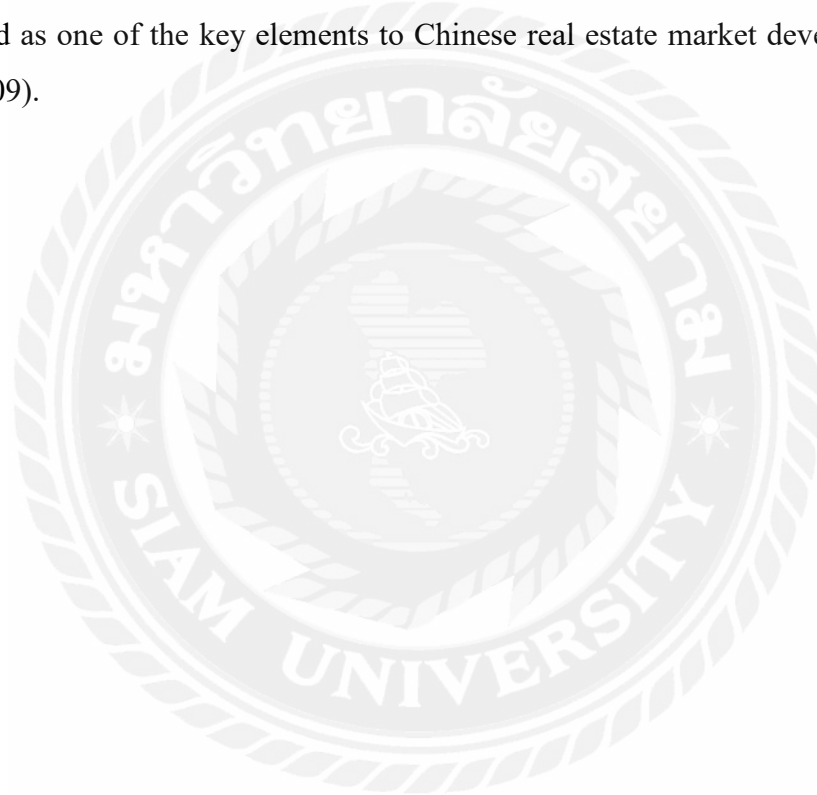
### RESEARCH METHOD

A quota system on mortgage loans was introduced on the mainland as part of a broader effort to control the China bubble house price, China's mortgage depends on market collateral value. As a result of, the amount of mortgage credit made available by lenders is likely to increase in response to escalating house prices. However, the rules came up with, which is the 'monthly mortgage loan growth could not exceed the average growth in mortgage lending during the fourth quarter, sources at major banks in Beijing told the Post. Besides, Industrial & Commercial Bank of China, Bank of China, and Ever Bright Bank Company, have used up their allocated quotas. The willingness of lenders to provide mortgages depends on their net assets, and the rise of real estate prices will also affect the value of loans guaranteed by real estate and loan institutions assets. It is likely to stimulate housing demand, leading to rising housing prices (Bardhan, Edelstein, & Kroll, 2009).

According to the PBOC available data, outstanding household medium-to-long term loans, an equivalent of mortgage loans, which all of this grew by 380.4 billion Yuan in February US\$55.17 billion, a drop from the 629.3-billion-yuan growth in January, and the lowest mortgage growth since March 2016.

According to available data, housing prices may be related to mortgage loans. In generally, there is a direct relationship between housing prices and mortgages, i.e., the proportion house sales supported by mortgage could be estimated through comparison between the total house sale volume and the amount of mortgage loan of the same period. However, because banks only provide data on mortgage balances, the total amount of mortgage loans is not available for a given period of time. So, there is certain relationship between housing prices and the net increase of loan balance. The mortgage market in Shanghai and Beijing is much earlier than any other city in china. That's why housing prices in Beijing and Shanghai are higher than in other parts of Beijing and Shanghai.

The two main areas of the real estate market are relatively developing, the mortgage started earlier larger loans, and repayment amount is relatively large as a result of, the net balance of loans is relatively low in Beijing and Shanghai while the balance of loans are also low in total housing sales in main cities. Although there is no obviously relationship between housing prices and mortgage net increase, but the data and analysis are based on the mortgage loan is an important driving force in China domestic market development, especially in some regions. In another words, the growth of mortgage loans could be identified as one of the key elements to Chinese real estate market development (Atif & Sufi, 2009).



## CHAPTER 4

### RESEARCH AND ANALYSIS

#### **4.1 SWOT Analysis of a study on factors causing the boom of real estate market in Chinese of major cities**

When it comes to talk about what is relation between and research and analysis. First of all, the report aim to make sure the purpose of the questionnaire, which is what is the purpose, author focus on the objective analysis to get accurate results, set up problems in the questionnaire and the project is has certain correlation with our purpose.

According to the survey results, the answers of each question are counted and analysis. These data directly reflect the behavior and psychology of the investigators, and how they perceive the problem.

What's more, it collects information through the data. This is also the most of important the part of the questionnaire, because analysis has shown the investigator about the specific situation, which is what the investigators want.

##### **4.1.1 Strengths (S)**

Strengths A: Promoting economic balanced and stable development

Based on the level of development of the economic, China's cities are divided into 4 tiers, the first tier includes Beijing, Shanghai, Shenzhen and Guangzhou, and these cities have rapidly most developed. The real estate demand is more than supply, the first tiers city's economic development is the most dependent on real estate. The second tier includes most capitals and resources, economic activities, they are large, industrialized, have strong local economic, but it cannot reach the first tier's high level of income. Tier 3 includes have medium to high levels of income, which are smaller. Tier 4 cities are further down in economic development and size. But cities have potential to develop economic to follow up the first tiers cities.

### Strengths B: Exert the flexibility of local government

As we all know, the concept of "the bigger, the better" expresses the truth that all the investors pursue, investors in order to get the higher profit to design the large size of house, investors are not able to satisfied with the profits from the affordable housing. as the survey, only 5 percentage target of the whole target market customers to purchase luxury residential real estate property. Most of people just purchase affordable housing. Government has issued the police to control the economic and protect people who don't have enough ability to purchase. Governments should have the flexibility in implement their policies which are suited to local conditions. The new policy which is the new building should be consist of at least 70 percent of floor space sized under 90 sq. Since substantial differences exist between cities and economic development and the pattern of housing consumption. Obviously, it is successful example in Nanning real estate market. But it failed in some cities, different cities have different population, consumption and income level. In all, government has to be a flexibility to issue policy in order to promote economic.

### Strengths C: Control the population and regulate the land use

China is a big country with large population and scarce land in the world, based on the survey (Wu, Gyourko, & Deng, 2012). It has shown that the population density is 881 persons per.sq.km in Beijing, 2902 persons per sq.km in Shanghai, and 975 persons per sq.km in Guangzhou. Obviously, government has to control the population and regulate the land use, if local government doesn't take right measures, as a result of, economic and environment natural resource cannot actively continuously to develop. Therefore, when developers develop the new real estate, developers need to provide development contracts, the feasibility report of the project, permission for investment and operation, the certificate of the land rights, the qualified development plans, permission for construction, plans of presale, permission for sale. The local government should encourage the fair competition between the house developers by the equal, efficient implementing the practical and effective measures. Meanwhile, the government should

examine the qualification and credit class record of each developer and publish fairly the results to the public. The local regions government controls all processes in order to let regulate the land use in fierce competition market.

#### **4.1.2 Weaknesses (W)**

Weaknesses A: The development of regional development is uneven in the most cities of China

China's development situation has always been unbalanced, the post-founding industrialization is the best example. Some scholars who (Logan & Wu, 2008) suggested which the country implements the policy of state monopoly for purchasing and marketing of agricultural products, since the founding of new China, especially from 1953 to 1986. In fact, it is a byproduct of workers and peasants "price scissors" between price for absorbing a large number of surplus agricultural industrial production, laid to the foundation of China's industrial modernization initially.

Urbanization is a similar process, combining between rural and other cities, it exchanging to give fresh blood to key cities, for rapidly completing the development of key cities, and exacerbating the imbalance in regional development. This process is based on resource allocation and household registration systems. The main first-tier cities have received the policies support, resources, capital and labor inflow of urbanization, but the corresponding cost are responsibility by the second and third-tier cities (Grenadier, 1996).

Based on the development of regional development is uneven in the most of cities of China, we have knowledge about there is a gap between the infrastructure and education medical resources in different regions, so that the real estate in different areas is different from the value itself.

Furthermore, it is lack of improvement in the expected regional development unbalance, due to the short-term, people's expectations of the real estate investment value are highly differentiated. A surge in housing prices will only improve Beijing's property market expectations, in Shanghai and Shenzhen without raising the market for second-tier cities. As urban progress of propulsion, around Shanghai, Kunshan city may get some



spillover effect, to improve the useful value and the expected, the prices will drive the other affected as spillover effect city. e.g., langfang, Dongguan. Price rather than spread to the surrounding city (Goldman, 2014).

Weaknesses B: The distribution of educational and medical resources is uneven

In China, educational and medical resources are heavily concentrated in major cities, and the Beijing system restricts access to many resources to local residents. Home purchases and permanent residence in top tier cities is one step towards becoming local residents. Consequently, high housing prices could reflect in part of expectations about future demand for urban amenities.

Weaknesses C: Capital outflow

It is a fatal weakness as a result of China's housing bubble may the acceleration of Yuan outflows. The major driver of China's capital outflow is high asset prices. If Chinese government cannot control capital outflow effectively, the economic would slow down to developing of China. Besides, while it is not Beijing's desire to keep the housing bubble as inflated as possible, it may not have a choice because China's housing market is among the least affordable globally. Although this doesn't necessarily mean a sharp price correction anytime soon, it leaves the government with less scope than most others in our view to manage housing price, should interest rate jump or income growth slow.

#### **4.1.3 Opportunities (O)**

Opportunity A: China promotes its “one belt one road” construction

"Belt and Road Initiative" English: The Belt and Road, abbreviated B&R is Silk Road Economic Belt "in twenty-first Century and" maritime Silk Road" is referred to, which is based on China's new national strategy that is to promote interest's community together with neighboring countries and common fate of construction. To promoting the development of domestic and hinterland countries via investment, technology transferring and assistance step by step to improve self-image, which obtaining other countries' trust, cooperating in various of fields, for example: trade, humanities, ecology, technology, and Education cooperate with them international environment. One belt one road is really

related with China the real estate, some the real estate development enterprises, such as Biguiyuan, Greenland, R & F, Vanke, China happiness, have also been actively engaged in overseas residential and commercial projects. Despite of the difficulties encountered, but after few years of efforts, has stopped in some countries, such as some large housing enterprises overseas projects have become the benchmark of local real estate projects. In the beginning, some of the housing enterprises "going out" have been done, some in the construction to explore overseas industrial park, to introduce the industry to promote the development of local and China economy.

#### Opportunity B: Depreciation of RMB

It was the difficulty year in 2016, most countries growth is increasing, led by the recovery in the US and other advanced economies, however, it made effect by the populism, geopolitical risks is unsteadily in Chinese market. Based on the People's Bank of China PBOC (Zhang, 2000) suggested that push monetary policies in an expansionary direction, it has shown that the RMB would weaken and that would imply second round depreciation in the rest of Asia. This could push US rates higher and reinforce the appreciation of the dollar. Commodity prices are most likely to contribute to the low-inflation business environment. Chinese government would take measures to recovery the economic situation to control the market. Especially, for the price of the real estate.

Figure 4-1 Currency Exchange Table Rate



Source: Currency Exchange Table Rate

RMB exchange rate has risen year by year. Yahoo Finance in 2016 shows that RMB exchanges Baht on June 8<sup>th</sup>, 2016. 1: 5.36 from now, decline 1: 5.05, the rate of 5.78 % on September 16<sup>th</sup>, 2017. (Figure 4-1)

### Opportunity C: Government policy

The Chinese government has taken the initiative to increase the supply of lower-end housing in an attempt to solve the problem of low-income people not being able to afford housing at all. The government measures would make the price real estate growth up.

It is an important incentive that pushes Chinese governments, particularly the local governments, towards real estate development comes from the Chinese tax system. That is why Chinese government is interested in the Real Estate region. (Li & Zhou, 2005) suggested which "the price of real estate is connecting with the government fiscal revenue. The government can have, revenues from land sales accounted for as much as 40 percent of the local government fiscal revenue in some years, it is high taxation percentage". Government has to push residence, in order to push developing of economic.

The tax system in China leaves the local governments with a limited stream of ongoing fiscal revenues (Tsui, 2005). It has suggested that taxation of the real estate development and apartment sales also contributes to local fiscal revenue. This revenue system helps explain why Chinese local governments are very enthusiastic about new construction.

### Opportunity D : The global economy has been growth up slightly

The following chart has shown (Figure 4-2) U.S. Eurozone the growth of the world as a percentage of world economy trend from 2013 to 2016. For example, during 2015 and 2016, developed country and U.S.A. the growth of it is only 3.1% and 1.6%. based on the latest IMF forecast is lower than the 4.5% average that preceded the decade before the great recession, but it is better than the average over the past five years, if the world economic presents falling situation. In the US and Europe region, after countries went through the post crisis period and economic crisis period, it would take time which both of region on getting recoveries in the investments levels, productivity growth, and import export sector contribution higher.

Figure 4-2 The Growth of The World Economy Trend from 2013 to 2016

The growth of the world economy trend from 2013 to 2016				
	2013	2014	2015	2016
World economy	3.4%	3.4%	3.5%	3.8%
Developed country	1.4%	1.8%	2.4%	2.4%
U.S.A	2.2%	2.4%	3.1%	3.1%
Eurozone	-0.5%	0.9%	1.5%	1.6%

Sources: World Economic Outlook

Despite falling unemployment levels in some developed economies, based on World Employment and Social Outlook. The figure (Figure 4-3) has shown which is unemployment rate of 2014 to 2016 major developed economies has declined, it is worst situation for job crisis, it can be affected by the whole global financial crisis activities. As the explanation Raymond Torres, Director of the ILO Research Department. “ The unstable economic environment associated with volatile capital flows, still dysfunctional financial markets, the shortage of global demand continues to affect enterprises, deter investment and job creation.”

Now making the detailed analysis of the European Zone unemployment rate of 2014 to 2016 .it is not only external environment challenge for China economic. It is also kind of chance to develop. Especially the euro zone debt crisis has been struggling in Europe and there has been negative growth recent years and the unemployed rate is over 10% yearly (Figure 4-3) Iceland, Greece and other countries even have faced to the national bankruptcy. Although US economic data is better than the euro zone by cold weather, another temporary factors, retails, manufacturing orders, housing starts and employment data has shown the weak economic growth in the US in the first quarter 2015. The growth of economic was expected to an annual rate was only 1% which was lower than the last fourth quarter 2.2% in the quarter. Furthermore, the pace of

improvement was slowing down in the employment rate, non-farm employment increased by 12.6 million people in March, it was the lowest has increased since December 2013. Manufacturing growth was fatiguing, Institute for Supply Management index fell to 51.5 in February, for five consecutive months of decline, which was the lowest level since May 2013.

Figure 4-3 Unemployment Rate of 2014 to 2016 Major Developed Economies

Unemployment rate of 2014 to 2016 major developed economies			
	2014	2015	2016
Developed economies	7.3	6.9	6.6
U.S.A	6.2	5.5	5.1
Eurozone	11.6	11.1	10.6

Source: CIA World Fact Book

#### 4.1.4 Threats (T)

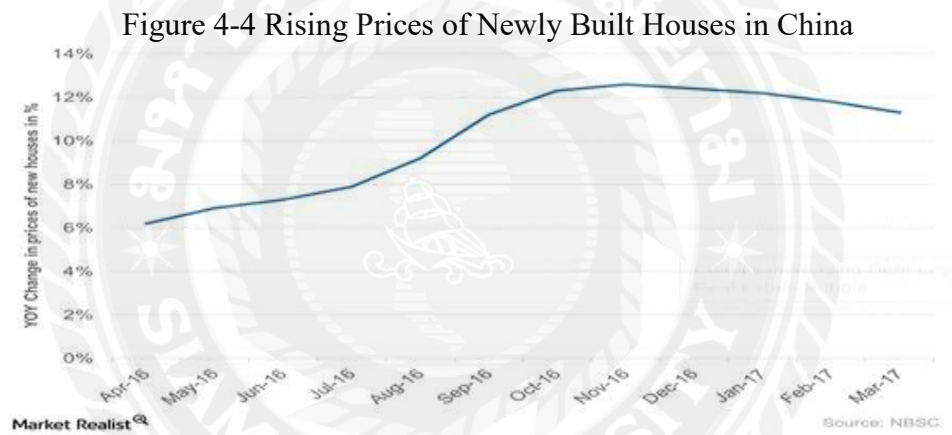
Threats A: China's corporate and the real estate debt risk have continued to rise

A key word behind China's housing boom is lending and mortgage. Now our government worries about the housing mortgage, house bubble and enterprise risks, it's one of the factors of bubble housing. The report saying which western analysts were also worried the phenomenon. The People's Bank of China chief economist Ma Jun also said that the public need to take some measures to curb the excessive expansion of the real estate bubble, the real estate financial loans curb overheating situation. Especially, the phenomenon is a process of increasing the risks, bank lending, people is used borrowed money to buy a house, property presents appreciation, the owners feel wealth increased, economic prosperity, consumption is very high. However, the growth of debt driven risks is great, especially in the case the owners cannot repay the loans back, the bad debts of banks have increased, the financial risks have been aggravated. UBS and the Royal Bank

of Scotland analysts pointed out that the real danger of China's current real estate fever is the huge debt behind it, especially the depth and breadth of shadow lending.

#### Threats B: Housing bubble in China

Housing bubble is a phenomenon which runs up a run-up in housing prices fueled by demand speculation and exuberance. It made effect by increasing the demand of house in the face of limited supply it takes a relatively long period of time to increase, at this time, investors catch the opportunities to drive the house market demand. The real estate values began to rise. Resulting in a sharp drop in prices — and the bubble bursts. It is big threat for the real estate market (Franklin & Gale, 2000).



Source: China Newly Built House Prices YoY Change

Based on the figure (Figure 4-4), it has shown which average prices of new homes in 70 cities in China rose 11.3% year of year in March 2017. Compared to an 11.8% rise in February 2017. The gain in March marks 18 consecutive months of gain. The gain has been slower since September 2016. Prices rose ~19% and 16.8% in Beijing and Shanghai, respectively. Chinese government in at least 64 cities announced new property-buying restrictions.

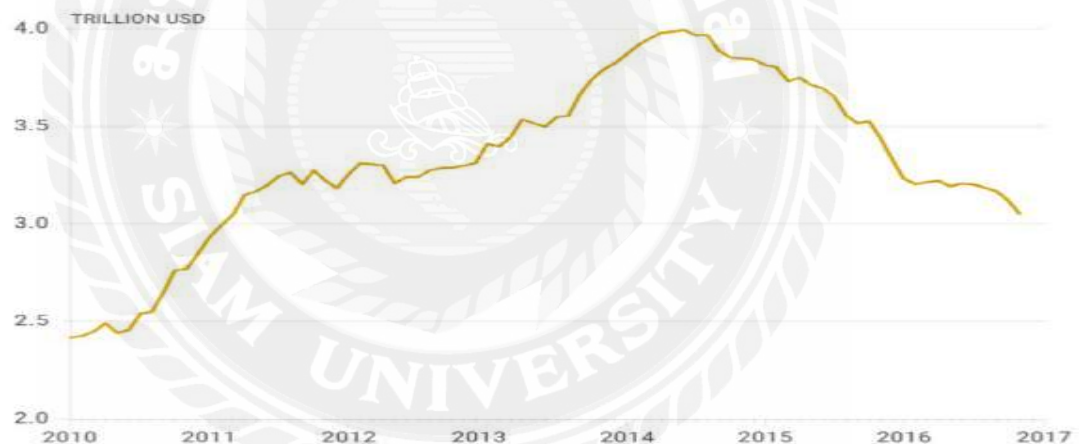
There are some restrictions which government made some measures for control the bubble real estate phenomenon, non-local residents will not be allowed to buy second

homes without providing a record of local income tax payments. Local residents are also not allowed to buy three or more homes in FoShan.

Third and fourth tier cities are now seeing the majority of the nation's housing transaction volume. Today, 60 percent of new home sales occur in third and fourth tier cities, compared with 13 percent in tier 1 cities and 27 percent in tier 2 cities.

To supplement the regulatory policies, the People's Bank of China has told all commercial banks, whether state owned or private not to expand their loans to developers and their mortgages to home buyers. More specifically, the measures which can control effective the economic protect the government profits, as the analysis of the government revenue, 40 percent is from the taxation of the real estate.

Figure 4-5 China Foreign Exchange Reserves



Source: China Foreign Exchange Reserves

#### Threats C: Higher interest rate

Based on some economic crisis studies and research, the phenomenon of results analyzed (Liu, Liu & Malekian, 2017). it suggested which " property bubble bursts in another countries were often preceded by higher interest rates." Nowadays, China has becoming an unfavorable demographic trends and slow down of urbanization. Chinese government has confidence and ability that they can avoid a property bubble burst. As we all know, China has strong control over the real estate prices than other Europe countries. Our government has the closed capital account, high saving rates, low CPI inflation,

lower tariff, high level of reserves, a current account surplus, monopolized land supply and financial systems largely controlled by Chinese government. Thus, it exists benefits for the Banks, developers, urban property owners and Chinese government, during year every central bank is starting to tighten and raise interest rates. What's more, Economic Analyst said that the opportunity of rate hikes in China rises in 2018. As we expect higher inflation in China and six more rate hikes in the US over 2017/18. (Figure 4-5)

The Chinese government has taken the initiative to increase the supply of lower-end housing in an attempt to solve the problem of low-income people not being able to afford housing at all. Chinese experts have agreement that promotion of low-income housing by local governments is one of the key factors in curbing China's rising real estate prices. Government strives to increase affordable housing, low-cost housing, public rental housing, price-limited housing, and construction of affordable housing. Chinese government encourages commercial banks to provide loans to the development of low-income house and develop policies that support public rental housing construction with medium-to-long term loans. By increases in the construction of low-income housing will help to deter speculation in China's real estate market. Therefore help cool down the rising real estate prices in China.



## 4.2 Survey & Analysis

### 4.2.1 The target groups & methodology

The target groups which includes retail, industrial, office, medical office, land, multiple families.

Methodology, Survey, Implement SWOT Model analysis to make sure which the direction and content of the survey.

### 4.2.2 Sample Description

Table 4-1 Argument Description & Descriptive Statistics

<b>Argument Description &amp; Descriptive Statistics</b>				
<b>Variable</b>	<b>Argument Description and Statistics</b>	<b>Av. Age</b>	<b>S.D.</b>	<b>ECP IMP AC</b>
Age	under 26 years old = 1, 26-40 years old = 2, 41-55 years old = 3, up 60 years old = 4	2.50	0.909	+/-
Gender	male = 1, female = 0	1.50	0.518	+/-
Occupation	officer = 1, business man = 2, retired people = 3	2.00	0.707	+/-
Education	under primary school = 1, high school=2, university = 3	1.77	0.414	+/-
Monthly income	3000- 35000 RMB = 1, 4500-6000 RMB = 2, over 6000 RMB = 3	2.00	1.037	+/-
Size of house	two-bedroom one living room apartment =1, three-bedroom one living room apartment = 2, three-bedroom and living room apartment =3	2.00	0.802	+/-
Current living form	commercial housing = 4, price-restricted, commercial Housing = 3, affordable housing = 2, low-cost housing = 1	3.00	1.038	+/-
Interest rate of bank	1 = very unimportant, 2 = unimportant, 3 = generally, 4 = important, 5 = very important	3.61	0.896	+/-

Exchange rate	1 = very unimportant, 2 = unimportant, 3 = generally, 4 = important, 5 = very important	3.99	0.983	+/-
Reasonable price \$/m <sup>2</sup>	over 900 \$/m <sup>2</sup> = 1, 500 -900 \$/m <sup>2</sup> = 2, 100 -500 \$/m <sup>2</sup> = 3	2.55	0.861	+/-
Location of house	others = 1, countryside = 2, near to center of city = 3, center of the city = 4	3.21	1.100	+
Which method to pay	mortgage payment = 1, payment by installments = 2, one-off defrayal = 3	3.79	0.884	+/-
How to know the resource of house	friends = 1, TV= 2, magazines = 3, agency = 4, website = 5	3.86	0.990	+
The most worried problem	contract trap = 1, quality of house = 2, deferred delivery = 3, Shrink are = 4	2.60	0.976	-

Sources: Created by Author

The questionnaire investigated the effects of different factors on the price of real estate and the understanding of the real estate market. The report took 122 questionnaires as based on the research of the series of factors. The result of questionnaire measuring is certain stability and reliability.

### 4.2.3 The impact on factors causing the boom of real estate market in chinese of major cities

Table 4-2 Descriptive Statistics & Logistic Regression

<b>Descriptive Statistics</b>					
	<b>Case</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>	<b>S. D.</b>
1. Age	122	1	4	2.06	.909
2. Gender	122	0	1	.51	.502
3. Occupation	122	1	3	1.98	.704
4. Education	122	1	3	2.04	.427
5. Monthly income	122	1	3	2.09	1.037
6. Size of house	122	1	3	2.70	.861
7. Current living form	122	1	4	2.74	1.038
8. Location of house	122	1	5	3.61	.896
9. Interest rate	122	1	5	3.99	.983
10. Exchange rate	122	1	5	3.21	1.100
11. The reasonable unit price / per square meter	122	1	5	3.79	.884
12. Which method to pay	122	1	5	3.86	.990
13. How to know the resource of house immigration	122	1	4	2.60	.976
14. The most worried problem	122	1	3	2.08	.803

Sources: Created by Author

#### 4.2.4 Logistic Regression

Table 4-3 Logistic Regression

	<b>Factors</b>	<b>B</b>	<b>S.E.</b>	<b>SPRT</b>	<b>EXP (B)</b>
	Age (x1)	-.137	.321	.182	.872
	Gender (x2)	.254	.557	.208	.892
	Occupation (x3)	-.098	.389	.063	.907
	Education (x4)	.138	.515	.072	1.148
	Monthly income (x5)	.022	.233	.009	2.662
	Size of house (x6)	.508	.292	.035	0.778
	Current living form (x7)	-.456	.236	3.727	.634
	Location of house (x8)	.108	.326	.110	1.029
	Interest rate (x9)	.318	.255	1.562	1.114
	Exchange rate (x10)	-.314	.225	1.951	.731
	Reasonable unit price per square meter (x11)	.154	.288	.286	.858
	Which method to pay (x12)	.029	.259	.012	.629
	How to know the resource of house (x13)	-.061	.245	.062	.536
	The most worried problem (x14)	-.468	.284	2.715	.626

Sources: Created by Author

#### A. Individual factors:

**Age (x1):** Age is significant on survey factors causing the boom of real estate market in Chinese of the major cities. According to the survey, during 25-40 years old person purchasing housing prices are higher than other age groups, but it presents which 25-40 years old person has enough capability and ability to purchase house. During 25-44 years old person demands is the most exuberant, especially for residential demands, the stage of purchasing power of the population is increasing, on the one hand, improve their income from family combination brings increased purchasing power, on the another hand, parents reduce the burden on house buyers. During 25-44 years old stage person housing consumption the result of two generations from family income and savings in reasonable situation. However, along with the growth of the age, demand for retirement homes are beginning to break out, after 51-60 years old person would buy homes in retirement areas for retirement and vacation.

**Gender (x2):** Gender is not significant on impact on the price boom in the market, it is related purchasing of objective. Female and male have different orientation. However, both of female and male have the same opportunities to buy the house. When male purchase a house on the basis of financial resources, but female purchase a house based on emotional in the Chinese traditional culture, while the most of people get marry, they would purchase house as marriage presents, it is a fuzzy point of period, female's expectations are not based on financial rationality planning who are in blind consumption.

**Occupation (x3):** The residents have different occupations that determines on the difference from their income, also determine on the difference between the criteria of valuation, the pursuit of quality and grade is different these factors indirectly impact on the price for real estate.

**Education (x4):** The education level is higher, the level and grade of the real estate consumption is higher, to some extent, it is related to the customer's behaviors, the level of education spent on consumer purchases behavioral influence. Social relations mainly refer to relationship between consumers and their relatively fixed groups. Values of members in a group, which are habits customs and specific buying behaviors, it is

called " Reference Group". The specific purchasing behavior would often be authoritative leaders.

**Monthly income (x5):** In recent years, with the rapid development of China's economy, people's income has gradually increased. The residents of different occupations determine the difference in their level income. Income determines the level of consumer spending, if high-income means that consumers have better choice.

#### **B. Selection factors:**

**Size of house (x6):** Families of different structures have different demand for size of house, according to the size of each room to calculate the size of the whole house, an economic family need just proper function, each room area will be relatively small, it is not necessary to consider the entrance hallway, 80-90 square meters of the mistress room most suitable for this type of family, if the family pay attention to the comfort of the home, there are certain requirements for the bedroom the size of the room, the master bedroom about 20 square meters, spacious living room will be more bigger is also above in 15 square meters, the whole 100-120 square meters apartment layout is comfortable, it suit for better economic conditions, customer will choose the luxury apartment layout, the aisle, porch, balcony, bedroom, they will require a larger, overall luxury apartment layout area of 150 square meters in the above, ensure each room to use the function, customers have good enjoy the beautiful scenery and sunshine outside the window. In all, size of house influence on the price of real estate is positively correlated but not significant.

**Current living form (x7):** The factor is related on the government policy. If government issue policy, it has influence on the most customer's current living form or customers living satisfaction. It plays important role in the real estate market.

The main forms of housing in China are low-cost housing, affordable housing, Price-restricted Commercial Housing, commercial housing, military delivery room in five forms. There has motioned to military delivery room, the report doesn't discuss about it, because these house transactions activities could not be listed, it can only be inherited and

the commercial housing market would not have much impact on the role, only part of the purchasing power of diversion.

**Low cost housing** refers a method to solve the problem of low rent housing for many low- income families, mainly to provide rental housing subsidies.

**Affordable housing** refers to the government to provide preferential policies, limited construction standards, supply and sales price has sold to low-income housing for needy families in the security nature of the housing policy.

**Price-restricted commercial housing** refers to the government make measure by bidding, auction and listing transfer of commodity housing land, construction provide the sales price limit, the housing area and sales targets to fair competition.

**Commercial housing** is the relationship between commercial housing and the house policies which becomes very subtle, it even can be said to be closely related with it. By developers in accordance with the market economy model, developer did not limit sales target, this form takes an absolute proportion of the housing form in the real estate market.

**Location of house (x8):** When it comes to location, there are 3 elements that natural environment, environment, economic environment and traffic environment, etc.

Natural environment – outside of the house is nearby the neighborhood. The nearby landscape, beautiful scenery, quiet, smooth air inside of the house, good lighting, and no dead angle.

Traffic environment - convenient access, it is not far from the main traffic line.

Economic environment - shopping, work and living are convenient.

Cultural environment - children's schools, hospitals, sports venues, places of cultural and recreational activities.

**Interest rate (x9):** The rise and fall of interest rate has a great influence on the price of real estate. From the cost point of perspective, the interest rate rise and fall will increase or lower the interest rate of investment in real estate development, so that real estate prices rise or fall. The demand from the real estate perspective, since the purchase of the real estate, especially commercial house. Generally take loan payment, interest rate movements would reduce or increase in real estate demand, that the real estate price rise or drop. The real estate real estate value is the present value of expected future profits the point of view, because the real estate value and discount rate are negatively correlated, and the discount rate and interest rates are related, therefore, interest rate movements will make real estate prices rise or drop.

**Exchange rate (x10):** A positive correlation that between exchange rates and interest rates, the exchange rate falls. For example, when currency appreciation occurs, Interest rates will fall down and property prices will rise as well, if a country appreciates its currency with inflation now, as imports increase, the price of imported products will rise as well as, it would further promote the rising domestic commodity prices, real estate prices are no exception, so there is a negative correlation between the real estate price and the exchange rate.

**The reasonable unit price per square meter (x11):** According to the actual situation of different cities throughout the country, the price is not the same, some places are higher than small cities, some places are lower, generally between 500 RMB to 4000 RMB square meters. However, according to some government real estate policies, house prices fluctuate at normal prices.

**Which method to pay (x12):** When consumers purchase the real estate, what kind of payment would they choose. This method includes a lump sum, installment or mortgage. Thus, economic strength of the stronger would choose to pay in a lump sum, most of the general working class would choose the mortgage payment.

**How to know the resource of house (x13):** Resource and information is an im-



portant part of modern society, depending on the method way to uptake resource its form

**How to know the resource of house (x13):** Resource and information is an important part of modern society, depending on the method way to uptake resource its form the generation and formation of people's consumption preferences or preferences. such as the real estate business advertising, real estate transactions, press conferences and provide information for real estate consumers, enhance the corporate and product image in the minds of consumers, to encourage consumers the enterprise of real estate products .

**The most worried problem (x14):** It is not main factors on influence of the price of the real estate. However, it is related about the customer's behavior.

The most of target customers in the purchase process emphasis on the quality of housing construction, customers can investigate the residential environment and housing construction, cause housing construction quality is perfect, a direct impact on the quality of life of residents.

Some customers worry about contract trap, that it is the common problem in the Chinese the real estate market, due to the unequal knowledge of real estate both sides, the customers are often in a passive position. Therefore, when in signing the contract, the customers should read and have a good knowledge on the terms of the contract and supplementary agreement, if necessary, could go to counsel and competent departments for consultation.

Above all, the top four influential factors causing the boom of real estate market in Chinese of major cities are as blow: Monthly income (x5) > Education (x4) > Interest rate (x9).

## **CHAPTER 5**

### **ANALYSIS OF FACTORS CAUSING THE BOOM OF REAL ESTATE MARKET IN CHINESE OF MAJOR CITIES**

Porter's Five Forces model, named after Michael E. Porter, helps determine and analyze five competitive forces that shape every industry. Based on the Porter's Five Forces model theory, the competitions in an industry not only exist in the competitors, but also there exist five basic competitive forces, which are the threat of new entrants, the threat of substitute, the bargaining power of buyers, the bargaining power of suppliers, the competition within industry rivalries.

Research analysis is like SWOT a strategy analysis tool, which is to formulate corresponding strategies based on the internal and external environment of the analysis object. Five forces analysis is competitive environment analysis tool designed to analyze where major competencies or threats come from five aspects. Author can use the five-force model to analyze the market competition environment to find out where the main threats come from and to determine the external environment factors. Then use research analysis to determine the basic competitive strategy.

The report is based on above the data and information to analysis and research the Porter's Five Forces model of factors causing the boom of the real estate market in Chinese of major cities.

#### **5.1 Threat of New Entrants**

The real estate market is a unique market, it attracts the many entrepreneurs to do business and expand market because its uniqueness lies in the high-input, high-yield and high-risk. Meanwhile, the real estate market shares are only 0.5 percent in the China domestic of enterprise. That's why there are many potentials new entrants to come into the market. As China's accession to the WTO, International enterprises into the China's real estate market, there are some foreign enterprises participated real estate activities.

For instance, Shenyang China delegation signed nine agreements with Singapore, in the early 2001 year. There are five real estate projects during the business meeting were held in Singapore. Obviously, China is getting more and more attractive in the international real estate market.

The threat of entrance is from other area exists in many provinces or cities of China. For instance, based on the survey, (Yue & Liu, 2004) has suggested that "Beijing Yinxi Guanghai Real Estate Company has successfully developed the "sunshine 100" in Ji'nan city who signed a 1500 acres of land agreements, new town developer who is Pan Shiyi in Hainan development and construction of Hainan Boao, has 1000 acres of land. He also signed a 10 billion yuan investment agreement with Hong Kong Hutchison Whampoa and Beijing Chaoyang District city government. The development of Dongba 300 hectares of land investment. " All of these real estate not only focuses on their own city, but also as a new threat to the entrance for China market, expanded other cities looking for opportunities and new challenges."

The real estate industry is an enterprise industry, which requires enterprises to have a large number of resources and capacity into it. Otherwise, it is difficulty to enter the real estate industry. The new entrants usually prepare to sufficient resources to invest the market before they into. What's more, the state of the real estate industry operation rules to give the corresponding provisions for enterprises. The new entrants pay close attention to the government's policies and regulations, in accordance with the policy.

Therefore, the threat of potential entrants is very large, and real estate enterprises have competed in limited markets to meet the challenges and opportunities of the new entrants.

## **5.2 Substitutes**

The transformation of consumer attitudes and the high-grade price of the real estate provide an opportunity for the substitute. For instance, in the residential market, customers' needs and wants always has changed, when consumer's attitudes to the high-

grade of the house, the suppliers have to be awareness of the situations which the market clearly indicates a gradually increasing trend in the construction area. There will emerge a large backlog of small size housing. Now the consumption stairs structure has been composed of low-cost rental houses, ordinary rental houses, second-hand houses and commercial houses.

The added value of plenty of the real estate products are higher, which is called "compound house", which is more popular in China's major of cities. After China's entry into WTO, economy has developed rapidly, foreign capital institutions, private enterprise. Individual enterprises are growing providing more jobs and improve young people's income. In addition, China's housing manufacturing, standardization and industrialization would accelerate. This is a new generation of purchasing housing with the introduction of foreign advanced technology, it answers the advanced technology. It has the ability to innovate and adapt to the new market.

Besides, customers in accordance with cost-effectiveness analysis, for example, customers are based on transportation, location, water, electricity, natural gas and other infrastructure, as well as medical care, natural environment to make decision buy house.

### **5.3 Bargaining Power of Buyers**

Buyers can be individuals, families, organizations and government departments, as a result. It is fundamental for enterprises to understand the bargaining power of buyers and analyze their purchasing behavior and characteristics.

Many enterprises have a lot of opinion which suppliers always can raise prices, and buyers try to keep prices down. China's real estate market is far more demand than supply. In addition to the characteristics of income distribution is unbalance in China, the wealth distribution is divided between rich and poor, and the wealth is concentrated in the hands of a few people, the developers are looking for the needs of these purchasers. At present. The bargaining power of buyers has changed. Consumer oriented- private buyers will spend more time on bargaining.

The medias report the irregularities of certain developers, always reminding of purchasers the contract traps, causes the misunderstanding of the real estate market, let developer lose confidences, although it is not main of reasons which gain bargaining power of buyers, it has deeply effect on the developer motivation.

What's more, the developers give large of space price fluctuations rights to the distribution staff in the real estate. The developers are lack of unified management of the price, therefor the price competition among enterprises become increasingly fierce. That's why purchaser has more chance to bargain the price.

#### **5.4 Bargaining Power of Suppliers**

The housing industry is a huge market in our country, whether it is foreign real estate developers, Suppliers of materials and products pay close attention to this market. After WTO accession, the tax has been lowered to develop economic in China, foreign timber imports construction materials from our country. In residential construction, real estate development processes using a large number of building materials, mechanical and electrical products and sanitary ware, with tariff reductions. Restrictions on some special product restrictions has cancelled, foreign products would be a lot of charged domestic market, foreigner products have a huge impact on bringing down the prices of domestic goods. As far as the real estate industry is concerned with it, this may be advantageous for market (Rodrik, 1996).

At present, the general building materials and equipment suppliers bargaining power is weak, special materials and equipment suppliers have bargaining power, but the land has a higher bargaining power of supplier. In addition, the land belongs to Chinese government, not to the private sector. The tenure of these enterprises is 70 years, which is affected by the land policy of the state and local government, so it is limited to the land law. However, land is limited. Therefore, land suppliers have higher bargaining power on the supply side. The government has issued some policies to control prices, whether ordinary or high-grade residential prices are still rising, the second-hand housing prices

increased significantly, as a result of, it leads to the real estate bubble phenomenon, the real estate development enterprise makes big difference in the government's land policies.

### **5.5 Industry Rivalries**

Enterprises restrict each other within the real estate industry and an enterprise's behavior will inevitably lead to a competitive reaction. The competition intensity of the real estate industry mainly depends on the quantity of competitors, the balance of power, the differentiation of products, and the supply and demand of the market. Competitive means including price war, advertising war, property management, product improvement and service enhancement. Companies rarely have exactly the same within the real estate industry, and they differ in terms of resources and capabilities, strategy. Therefore, in order to pursue strategic competitiveness and excess profits, enterprises must be actively engaged in conflicts. If company is challenged or has a significant opportunity to improve its market position, fierce competition which is inevitable with in the real estate industry. Enterprises operate under the siege and restriction of their competitors, it is not only from the domestic market, also is from regions. What's more, the competition is not only from in the real estate industry, also from some enterprises outside the industry could compete with other enterprises.

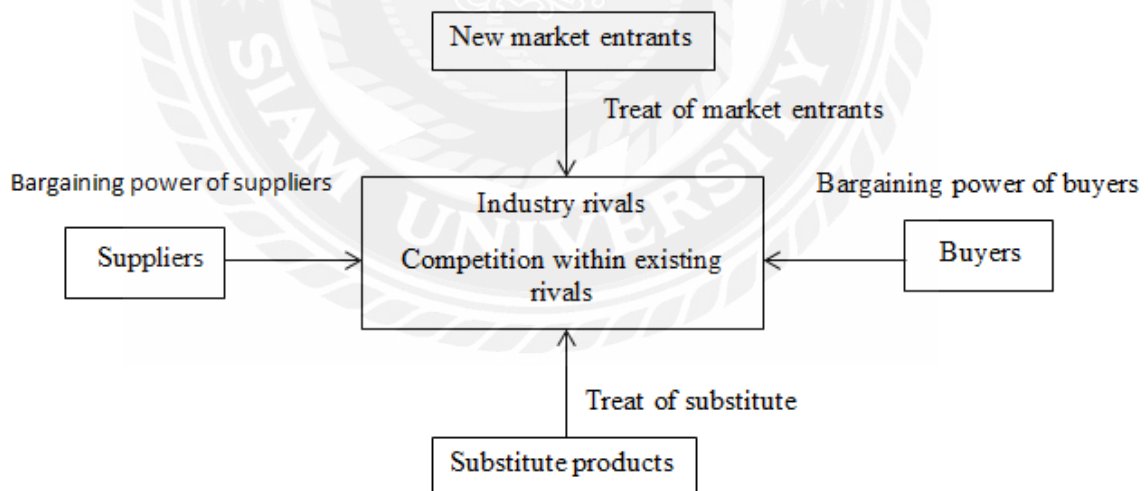
The industry is dominated by several giants in the real estate market, so the ability to combine with cost leadership and differentiation is crucial to maintaining the competitive edge of the enterprise. Enterprises that can be successful to implement cost leadership and differentiated strategies will be in a better position than those that rely solely on a dominant strategy. there are 24378 real estate development enterprises in the domestic market, which is large quantity of it, the enterprises are participants within the market, who have their own investment strategy for whole industry have small impact, but they would take separate action, in such case, it is more difficult, amore intensified competition.

By analyzing the five forces of real estate, the investment subject should be able to judge the attractiveness of the industry to see if there is a chance to obtain sufficient or

even exceptional investment return. Generally speaking, the competition is stronger, the return for investors is lower within the industry. on the other hand, the real estate industry usually has high barriers to entry, suppliers and buyers have no enough bargaining power, the alternative to competition is weak, the degree of competition between rival medium. According to the analysis of the five forces model of real estate industry, the real estate industry is a very attractive industry, which is also the main reason the real estate industry.

To sum up, China's real estate market competition is fierce, the market potential is huge as well. If the real estate enterprises want to survive in the fierce competition market, it is necessary to conduct a comprehensive and detailed analysis of the market characteristics and the competitive environment of the developers. The report presents the Chinese real estate market and competitive environment systems analysis by Professor Michael Porter proposed five competitive forces theory. Author hope to do some helps or presents some ideas for real estate enterprises responding to the fierce market competition.

Figure 5-1 Porters Five Forces



Source: Porters Five Forces