温州肯恩大学
WENZHOU-KEAN UNIVERSITY

Real Estate With Financial Market And Banking In China

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by

ZHEN Chenrui

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Chenrui, Z

Abstract

The real estate industry has a mutual relationship with the financial market and the banking industry, not a single item. This article analyzes the relationship between these three by using descriptive research design and correlation research design. Through the collected data, this paper finds that there is a certain degree of positive correlation between the bank's reserve ratio and credit scale and the real estate industry. In addition, this article found through data that different cities have different degrees of response to financial policies and market changes. The first-tier cities have the greatest changes and the strongest response. But there are also some areas that do not meet expectations.

Key word: China's stock market, real estate market, bank credit, foreign exchange changes, new house price index.

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Introduction

My topic explored the relationship between real estate, financial markets and lightning. The assets of the whole family are related. The market pressure on the price of the buyer's asset value. Moreover, the rapid rise and fall of stocks even caused the assets of many people to disappear overnight. In this case, understand the real estate and financial markets. The interrelationship between banks is crucial. Similarly, we need to be sensitive to these factors, which is also conducive to avoiding risks.

China's second-largest property developer -- and the world's most indebted real estate company with $300bn in debt -- faced struggling interest payments this week, raising broader concerns about the impact on China's property market, the main driver of growth in the world's second-largest economy. (Krishnan, 2021). The biggest real estate crisis in China directly reflects the current development situation of China's real estate industry. Due to the fracture of capital chain, the land company cannot pay the debts due, and the income from selling houses and real estate cannot fill the vacancy. As a result, lending banks are under more pressure to take risks and lend less to other individuals and businesses, creating a bigger crisis.

Although most people understand the relationship between real estate and the financial market and the banking industry, here, the analysis is how the real estate industry brought the lending crisis to the banking industry and how the banks responded to it. Real estate's response to changes in economic policies and interest rates.

This article believes that the real estate industry, the financial market, and the banking industry are interactive. When the real estate industry has developed to a peak or the market is saturated, the industry faces more risks than opportunities. When the risk increases, many companies will be forced to withdraw from the market, and the remaining companies will also face tremendous pressure. Part of the pressure is on banks that lend to real estate. As an intermediate medium, the bank will extend its influence to the entire market. In addition, as banks are the center of China's financial market, bank crises are bound to bring crises to the entire financial market. With the downturn in the real estate industry, investors who use houses as collateral are under more pressure to depreciate, which may cause mortgage defaults. Large-scale defaults by many investors and home buyers will be another disaster for the financial market. In addition, this article believes that foreign exchange stocks and other factors also affect the development of real estate. When the foreign exchange market changes, the real estate industry is bound to be affected. When foreign exchange rises, more people will exchange for US dollars, and in order to maintain basic stability, the central bank will need to buy back its own currency. This will result in less money circulating in the market and the scale of bank lending will shrink. Real estate will face a shortage of funds.

Literature Review

The relationship between financial market and real estate market

China's real estate economy has a complicated relationship with financial crisis and economy. (Zhan and Zhao, 2017). The decline of the financial system will lead to the credit and intelligence of the financial market, and China's financial market is centered on the banking center. There will be shocks or downturns in the macro economy from time to time, it will rise at any time, and the population will shrink, which will further reduce incomes. The relationship between China's real estate industry and the financial system is mutual. It is not the real estate that caused the financial crisis, nor the financial crisis that caused the bubble in the real estate industry. Crises and bubbles are created by one interaction after another. In addition, the real estate industry supply and demand problems. From the beginning of the real estate bubble, a large number of investors turned their attention to the real estate industry, including cement, steel and other production enterprises. As real estate investment increases, demand cannot keep up with the increase in supply, which creates a surplus situation. Falling house prices can lead to lower collateral valuations, leading to financial defaults, which can lead to a housing bubble bursting.

The impact of financial stability on real estate prices is greater than the reverse. The above work adds new clues to the complex relationship between the financial stress index and real system real estate price fluctuations. (Wang & Zheng & Zhao,2020). The

relationship between stock price and stock price will be considered to change with the second phase and city level (first-tier, first-tier, and third-tier cities). The stock and real estate markets exhibit various interrelationships. In addition, the economic and political policy environment will also affect this relationship.

The real estate market is not only an important part of China's economy, but also an important part of China's financial system. (Chang & Wei, 2020). Local governments in China rely heavily on land transfer income and use future land transfer income as collateral to raise debt financing through local government financing platforms (LGFPs). In addition, companies also rely on real estate assets as collateral to borrow money, especially companies with strong capital, which are engaged in a large number of land acquisitions for investment purposes. Finally, banks face serious real estate risks by providing loans to households, real estate developers, local governments, and companies backed by real estate assets.

Regularly updating our knowledge of the dynamic real estate market and its ability to hedge against inflation is valuable to investors. (Li, 2019). The relationship between real estate and inflation, including the balance between home buyers' profitability and purchasing power. Due to the lack of adequate financial channels in China's financial market, many people now buy houses not for housing but for investment. However, China faces the risk of inflation, which will reduce people's purchasing power, so the real estate market and its ability to hedge against inflation are crucial. This determines

whether the way people manage their finances by buying a house is correct. Of course, different regions have different hedging capabilities. Housing prices in emerging cities have risen rapidly, far exceeding the inflation rate, which means that these cities have sufficient hedging capabilities.

The monetary policy shock affects whether people will continue to purchase real estate for financial management (Wang, 2017). It also has an impact on the financing ability of private real estate companies. By adjusting the expected present value of their holdings, they lead to changes in the borrowing capacity of private companies, thereby complicating the process of determining the effectiveness of mortgage loans. The issue of the balance between the investment of state-owned enterprises and the investment of private enterprises. The crowding out effect of the private real estate industry on state-owned enterprises is negatively correlated with the investment of state-owned enterprises.

Monetary policy and output are not always asymmetrical to the real estate market. (Zhang & Pan, 2019). This is another perspective on the impact of the new crown epidemic. In fact, in the case of low output, the impact of COVID on the real estate industry is minimal. In the case of low growth rates, loose monetary policy will be able to stimulate the recovery and development of the real estate industry to the greatest extent. In addition, the author also mentioned income or cash flow effects. When interest rates fall, people need to repay less interest and reduce debt, thereby increasing

disposable income. Second, the article points out that the indirect effects of monetary policy are wealth channel effects and credit channel effects. The wealth channel effect focuses on the expansion of monetary policy, which will lead to an increase in real estate prices, thereby increasing the wealth of the owner and increasing output. The credit channel is due to the increase in real estate prices and the increase in the value of residential mortgage loan assets, making it easier to obtain loans and more lines from financial institutions.

The asymmetry and split causality between China's monetary policy and the real estate market. (Liang & Tong, 2019). Researchers have studied the nonlinear correlation between real estate prices and money supply, and found that many cities in China have tail causality. The skyrocketing housing prices and regional price differences have stimulated residents' desire to invest in the residential real estate sector. Researchers have considered the impact of monetary policy on real estate, that is, lower loan interest rates will increase housing demand, thereby pushing up housing prices. In addition, loose monetary policy will expand the scale of bank credit and increase credit supply. The impact of monetary policy on the real estate industry in different regions is different, even very different. So this reminds me that when analyzing the relationship between real estate and monetary policy, it needs to be divided according to different regions. This will improve the accuracy of the argument. It may be related to scale and people's purchasing power. Housing prices in small cities and inner cities are more sensitive, and the response to policies will be greater.

The asset sell-off of real estate assets has exerted tremendous shock pressure on the financial network, which makes it dominate the risk contagion. (Yang & Deng, 2019). Researchers use network effects and liquidity effects to explain changes in real estate prices Systemic banking crisis. The fall in real estate prices and related banks are at risk, and there is also a tandem between banks, which will lead to risk contagion and will undoubtedly expand the scope of risk. In addition, due to the lack of liquidity in the real estate industry, when a certain real estate asset goes bankrupt, the bank will sell the mortgaged real estate, and the information between buyers and sellers is asymmetric. This caused a small-scale panic, and real estate prices would fall sharply. Lead to more bank bankruptcies. This analysis is more specific, explaining the relationship between real estate prices and the banking industry by explaining the conduction of the two effects. Researchers analyze the negative externalities imposed on the banking system by real estate price fluctuations in two ways, and believe that the risk management strategy tested and formulated is one of the effective methods.

Researchers used EPU to analyze the impact on the real estate market. The author mentioned that after the financial crisis, the EPU index rose, but the real estate showed signs of slowing down, leading to a lag effect in the real estate market. Regardless of whether the EPU is rising or falling, a high degree of uncertainty will depress home buyers or investors, thereby delaying their demand. (Yang & Deng, 2019). In addition, the author also used data to analyze the impact of EPU on the volatility of real estate in

first-, second- and third-tier cities and its impact on the stock market. The first-tier cities have a greater degree of response, and the impact on the stock market is more obvious.

Bank Credit and Real Estate

Stable housing prices and low credit risk play an important role in stabilizing the economy and preventing financial crises. The higher credit scale in the real estate market leads to a higher degree of reliance by banks on the real estate boom. (Su & Cai &Qin, 2021). Although rising house prices increase the value of collateral, it also increases credit risk. This is not a contradiction, because China's real estate is in a bubble. When the bubble bursts to a certain extent, China's banking and financial system will be severely impacted. In addition, the intervention of the Chinese government has played an extremely important role. First, government intervention is not only positive, it can also produce a negative side. The government's purchase restrictions were originally intended to maintain the stability of the real estate industry, but when this policy was introduced, the profitability of some real estate companies was affected, and the liquidity of funds deteriorated, leading to loan defaults. However, the real estate industry has a large demand for funds and relies on credit loans from commercial banks.

Methodology

Method Used

This article mainly adopts related methods of research methods and methods of describing relevance. This method fits well with the research and analysis on the relationship between the real estate industry, the financial market, and the banking industry. Relevance design can be specific to mutual relationships. In the context of the real estate downturn, the financial market reacted quickly, and less funds flowed into the real estate industry, which caused a shortage of funds and led to overdue loans. As the main lending institution, banks will face greater borrowing risks. In order to avoid These risks make it necessary to reduce the scale of borrowing. This will once again impact the sluggish real estate market.

Correlation is also reflected in the relationship between real estate and exchange rate changes. Although there is no direct relationship between them, the exchange rate changes and the development trend chart of the real estate industry are compared. We will find that there is a positive correlation between the two. Similarly, this correlation is also reflected in the relationship between bank reserve ratio and real estate development. When the bank's reserve ratio is lowered, more money will circulate in the market, and banks can also lend more money to real estate companies.

In addition, in this article, descriptive research design is also widely used. This includes collected data on the impact of the financial market on real estate in different

cities, and data on the scale of real estate loans in the banking industry in recent years. Analyze the interrelationship between real estate and the banking industry by displaying data.

By analyzing and comparing the trend of M2 index and the development of domestic real estate, this paper concludes that the price of real estate is not determined by its value to a large extent, but by the amount and amount of investment.

All the date from the Google Scholar, Behind the downturn in the real estate industry is a large number of commercial housing that cannot be consumed, although new commercial housing is constantly being built wisely. And this astonishing inventory for the real estate bubble economic burst buried hidden trouble.

Date collection

Eastern Fortune data Center provides the latest economic data.

These data include historical data from 2009 to 20 years, including the overall credit scale change trend and the sample individual's new housing price change index.

To show the relationship between the stock market and the real estate market. This paper presents the annual data of well-known real estate enterprises in China, and forms

a regression relationship with stock prices.

Findings and Result

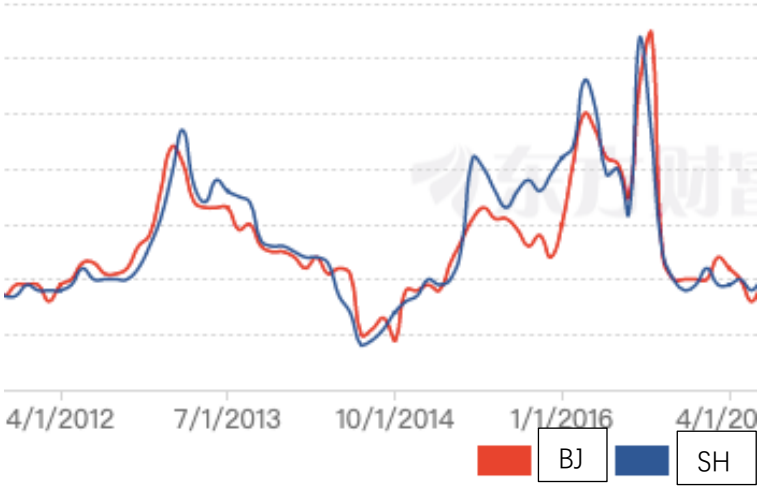
bank credit scale and real estate price

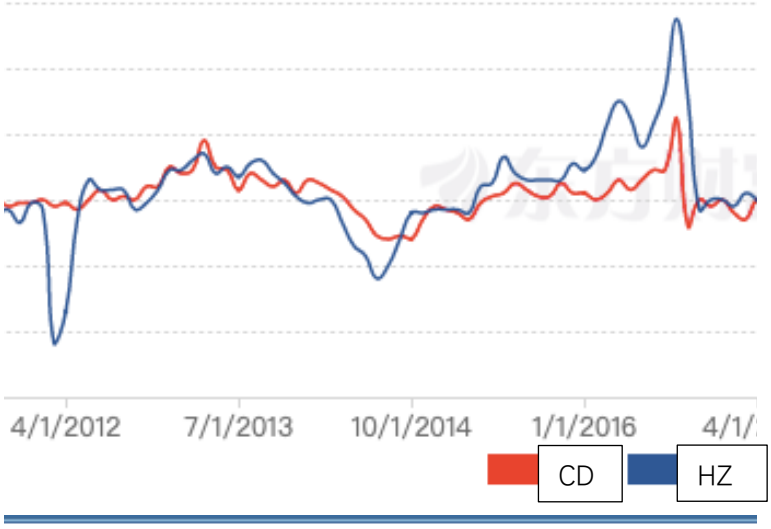
There is a positive correlation between bank credit and the real estate market. The figure below shows the changes in the scale and price of bank credit in the entire real estate industry in recent years. We can see the positive relationship between the two. For example, in 10, 16 and 18, real estate prices maintained the same growth as the size of bank credit increased. But here, policy is also very important. In 2019, the real estate loan ceiling of China's large banks will be adjusted to 40%. In 2019, the government announced easing policies and mortgage interest rates fell. In 2020, China will lower its deposit reserve ratio three times and release 1.75 trillion yuan in funds. Loose loan conditions have caused more funds to flow into the real estate industry, further pushing up prices.

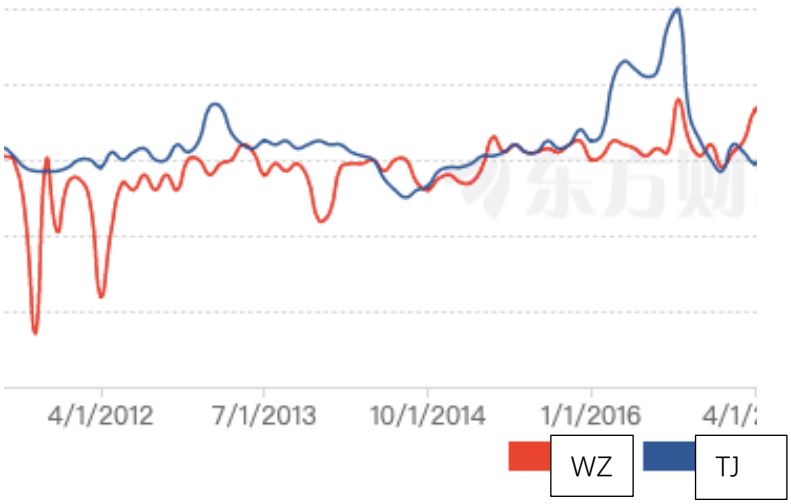
There is a positive correlation between bank credit and the real estate market. The figure below shows the changes in the scale and price of bank credit in the entire real estate industry in recent years. See the positive relationship between the two. For example, in 10, 16 and 18 years, real estate prices maintained the same growth with the increase in bank credit scale. But here, the impact of policy cannot be ignored. In 2019, the real estate loan ceiling of China's large banks will be adjusted to 40%. In 2019, the government announced easing policies and mortgage interest rates fell. In 2020, China will lower its deposit reserve ratio three times and release 1.75 trillion yuan in funds. Loose loan conditions have caused more funds to flow into the real estate industry, further pushing up prices.

Here are a few sample cities selected. Including changes in housing prices in several first-tier cities and second-tier cities. It can be seen that first-tier cities such as Beijing, Shanghai, and Shenzhen are more sensitive to bank credit adjustments. According to the upward adjustment of the price index of new real estate companies, first-tier cities led by Beijing, Shanghai, Guangzhou, and Shenzhen have a large gap in extreme values, indicating that these first-tier cities bear more in the face of less or more bank credit. Here, it can be understood that the first-tier cities can absorb more capital and face a large amount of bank credit. Similarly, the real estate market is more sensitive

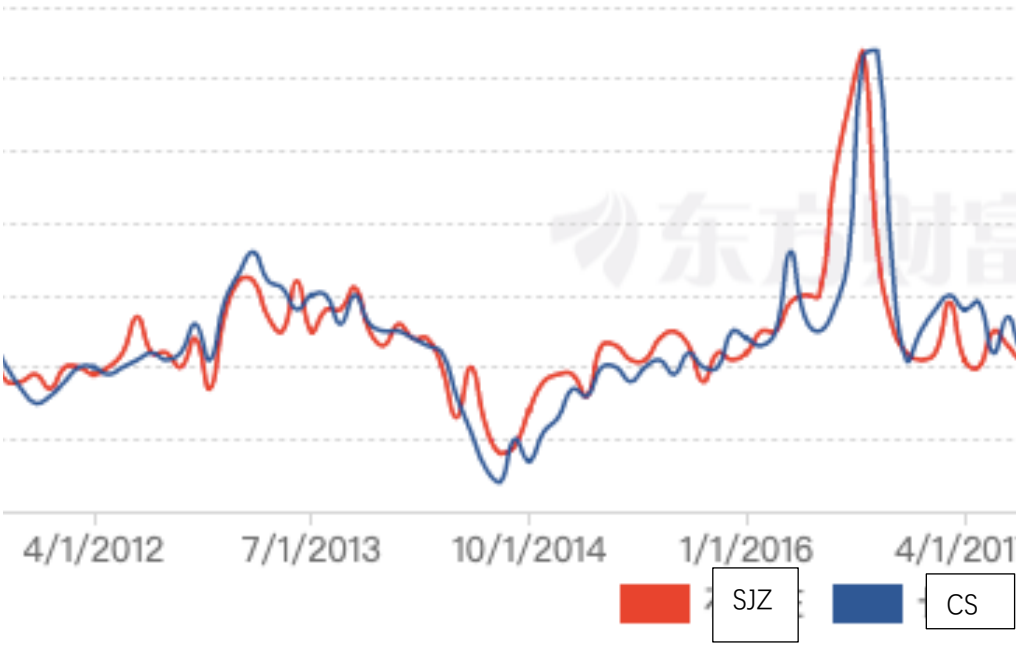
to changes in credit, which is consistent with changes in credit.

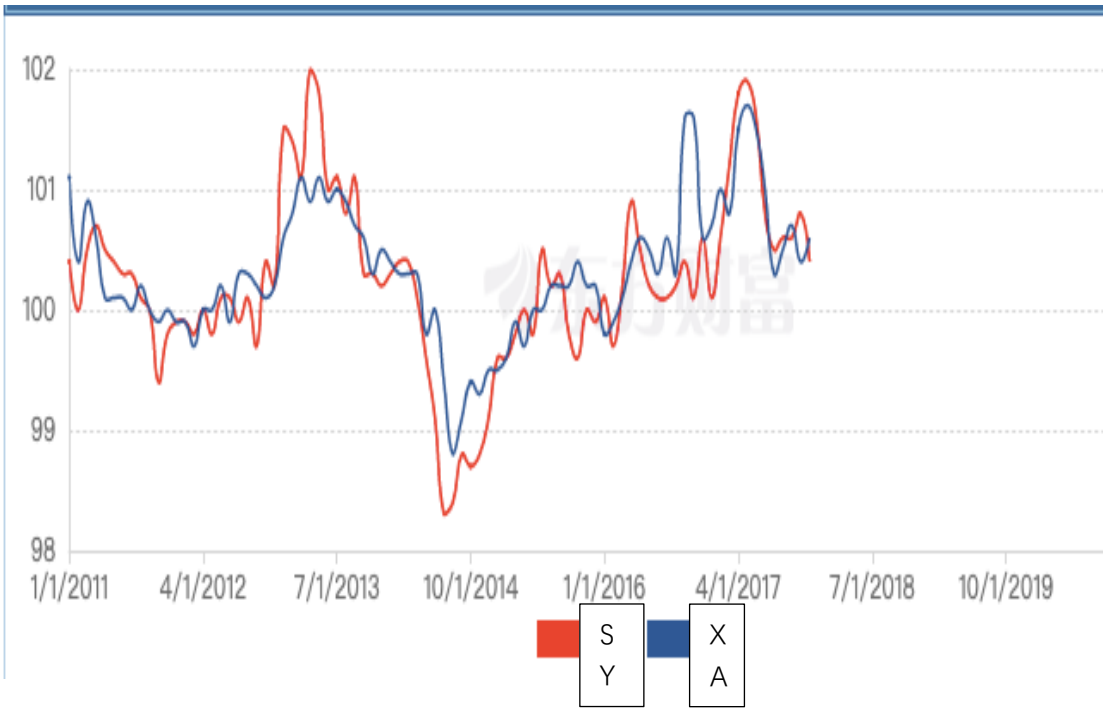






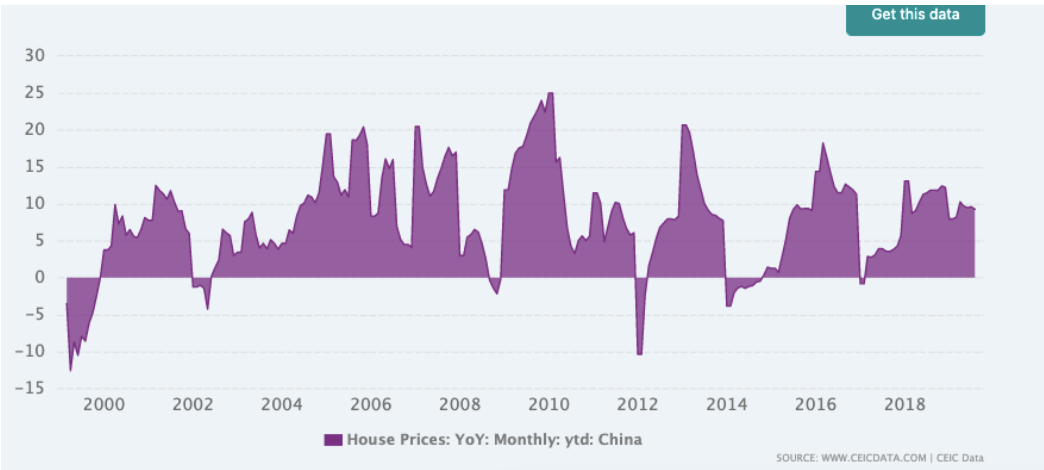
In addition, the second-tier cities in the sample also showed consistency, although the degree of change was not as obvious as that of the first-tier cities.





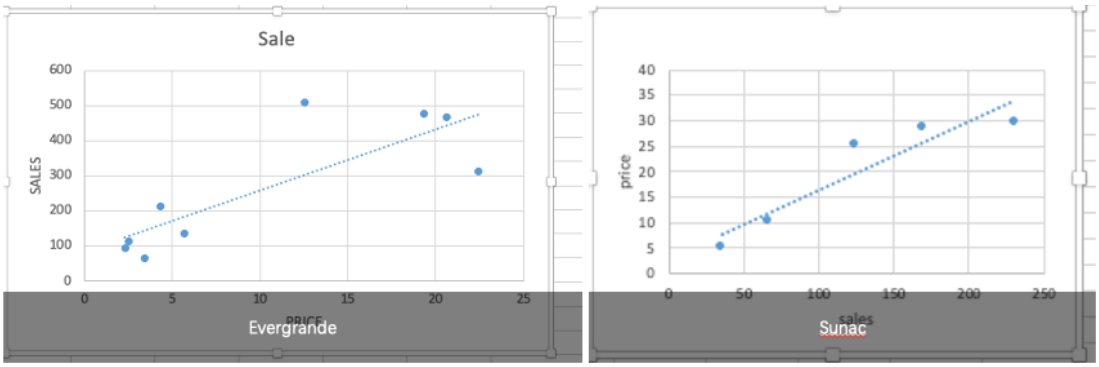
stock market has a positive relationship with real estate

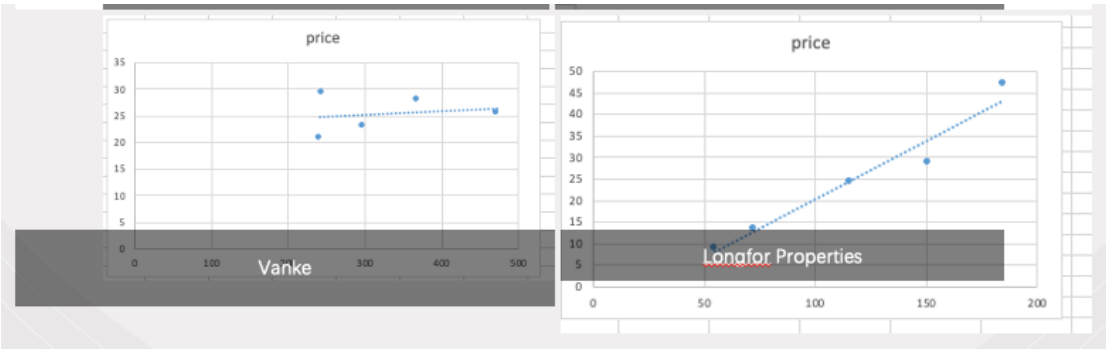
Second, there is a positive correlation between the stock market and the real estate market. The following are the average changes in the Chinese stock market in recent years. The attributes are basically the same.

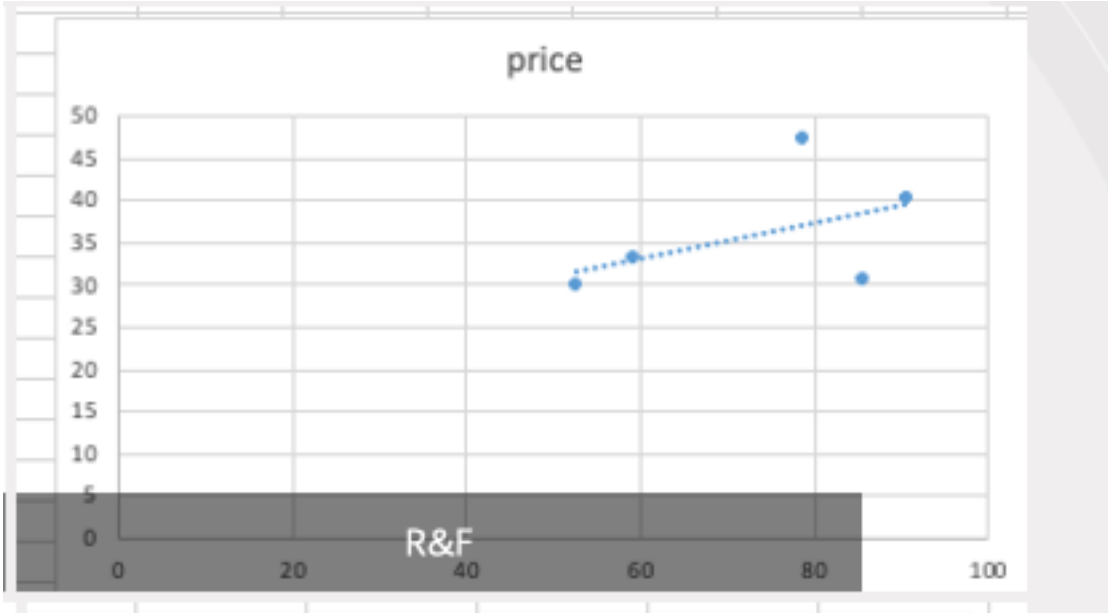


In addition, in a selected set of data, China's real estate companies rank among the top 10. Including Wanda, Vanke, Evergrande, Country Garden, etc. A regression analysis was carried out through the average annual stock price of each company and the company's total real estate sales. The total value of real estate sales will change as the stock price changes. Although in comparison, individual companies are not so obvious. This is usually because rising stock prices increase the company's market value and attract more consumers to buy. Therefore, the negative impact of the real estate market on the stock market is far greater than the positive impact. In the first half of this year, Evergrande lost nearly 10 billion U.S. dollars. Then came the crash of

Evergrande stock. The stock price plummeted at a much faster rate than the original rise of Evergrande stock. Through the establishment of a regression model, it is found that the average stock price of these companies is positively correlated with the total value of real estate sales. It should be noted that in the relationship between the two, the positive impact of stocks on real estate is far greater than the positive impact of real estate on stock prices. However, the negative impact of real estate on the stock market is huge. As in the first half of 2021, Evergrande's overall sales declined, resulting in a decline in profits and even losses. The results were quickly reflected in Evergrande's stock, which fell.







Exchange rate with real estate price

Finally, through research, found the correlation between the foreign exchange market and the real estate sector, although there is no equation. But there is still a normal way of transmission. Real estate prices also change with changes in the foreign exchange market. As shown in the figure, in 2018, China's exchange rate reached its lowest level in recent years. Parallel to this, real estate prices are also at a low level. It is easy to draw the relationship between the two by contacting the economic situation at home and abroad.

For example, the U.S. labor market reached full employment in 2018, the exchange rate fell in 2018, the unemployment rate remained at the lowest level since 1969, inflationary pressures also declined, and the U.S. dollar appreciated. On the other hand, China's economic growth has slowed down, the Sino-US trade war has continued to escalate, financial regulatory policies have become tighter, and the "three major markets" (stock markets, foreign exchange markets, and bond markets) have increased downward pressure on the volatile economy. Although the two have no direct impact. However, due to the peculiarities of the Chinese system, when the RMB exchange rate falls, the central bank will buy RMB and sell US dollars on a large scale, causing the RMB exchange rate to rise rapidly. More funds flow into the market. On the contrary, the government adopts the method of adjusting the reserve ratio to control the flow of funds. Less investment from abroad. But in the face of the threat of inflation and the pressure of negative interest rates, savers use houses as a means of currency

preservation and appreciation, which is also good for real estate.

Conclusion

Research shows that changes in bank credit affect real estate market prices. Generally speaking, when the bank credit scale increases, real estate prices will rise due to the influx effect, which in turn leads to more credit expenditures. In addition, regarding the relationship between stock market and real estate market prices, research has found that stock prices have a positive relationship with the total sales of real estate. When a company's stock rises, the company's sales performance will be improved. The downturn in corporate sales will be reflected in the stock market at an alarming rate, which will cause stock prices to plummet. Finally, the paper analyzes that the foreign exchange market does not have a direct relationship with the real estate market. This influence is conducted in an indirect way.

Limitations and contributions

For the research topics of this article, quantitative research methods are more appropriate. Qualitative research cannot provide enough data, and thus cannot intuitively reflect the relevance of real estate, financial markets, and the banking industry. The explanatory research design is also not applicable to this research. This

research pays more attention to the relationship, rather than the development of a theory, nor the study of the opinions and ideas of certain people.

This research is a discussion on the interaction and correlation between the real estate industry, the financial market and the banking industry. There may be certain differences with theoretical knowledge. For example, the degree of response of real estate to the financial market is different, and even the degree of response of individual cities will be negatively correlated. We can't use theoretical knowledge to push all the facts and results. This article adds more possibilities. According to general knowledge and financial and economic knowledge, banks will reduce the scale of borrowing in order to reduce the scale of borrowing. But in fact, banks may borrow more loans to help certain companies tide over the crisis for the emergence of bad debts. This involves national policies, support, the prospects of enterprises, and so on. This is not a contradiction, nor is it a refutation of theoretical knowledge. But in the face of special circumstances, different reactions to social events.

However, in the research of the paper. Regarding the response of cities at all levels to the scale of bank credit, only the price index change chart can be inquired. Due to the inability to obtain the relevant policies of the government of each city, it is impossible to accurately explain the proportion of factors in the housing price change. In addition, when studying the relationship between the stock market and real estate, this study may not be able to accurately measure the government's macro-control efforts.

Because the policy influence of the Chinese government may be decisive at some point, it may weaken the influence of this factor.

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