

# Research on the Interactive Relationship between Housing Price Fluctuations and Macro Policy Regulation

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## ABSTRACT

This article systematically explores the interactive relationship between housing price fluctuations and macroeconomic policy regulation in the context of China's real estate market. The current market is in a stage of deep adjustment, showing characteristics such as overall decline but local marginal improvement, significant structural differentiation, and sustained weakening of expectations. In the face of this situation, China has formed a multidimensional policy regulation system that covers demand side management, supply side optimization, and financial and tax coordination. Research has shown that policy regulation affects housing prices through short-term expectations guidance and liquidity effects, long-term structural adjustments and development model transformations. However, there are still challenges in the interaction between the two, such as policy lag, diminishing effectiveness, insufficient coordination, and multiple goals. This article suggests that in the future, a dynamic, precise, forward-looking and coordinated policy framework should be established, and basic institutional reforms should be deepened to promote the long-term stable and healthy development of the real estate market.

## KEYWORDS

Housing Price Fluctuation; Policy Regulation; Influence Mechanism; Real Estate

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## 1. INTRODUCTION

Housing prices, abbreviated as real estate prices, are an indispensable and important component of the national economy. They play a pivotal role in the national economy, and their fluctuations affect the wealth and consumption choices of households. Through the industrial chain, land finance, and financial connections, they form a mutually causal relationship with the macro economy. After experiencing a one-way upward trend, the current real estate prices in China are in a period of adjustment and transformation. The interaction between fluctuations in housing prices and regulatory policies is gradually emerging. The rise in housing prices often stimulates the introduction and implementation of government macro-control policies, in order to avoid the expansion of financial risks and protect the basic living needs of residents; The implementation and withdrawal of macroeconomic policies will affect and adjust the supply-demand relationship and its subject expectations, thereby causing housing prices to deviate. Grasping the interactive relationship and mechanism between housing price fluctuations and regulatory policies is of great significance for solving the current market development dilemma, better exerting the role of government regulatory policies, and accelerating the transformation of the new development model of the real estate industry. It has important theoretical and practical value. This article focuses on a brief analysis of the characteristics of housing price fluctuations, policy environment, policy transmission effects, and the problems that exist in the interaction, hoping to provide a basis for the scientific design and improvement of real estate regulation policies.

## **2. THE CURRENT SITUATION AND CHARACTERISTICS OF HOUSING PRICE FLUCTUATIONS**

In recent years, the operating situation of China's real estate market has been a market game and game equilibrium characterized by overall pressure, structural differentiation, and pessimistic expectations. Overall, the trend of China's real estate market is further downward. As a result, the real estate market has entered a channel of adjustment, with an average month on month decline in the prices of newly-built residential properties in 70 cities across the country, a year-on-year decline in prices, but the decline is further narrowing. Moreover, the downward pressure faced by the real estate market has not fundamentally changed. It is a common pattern for real estate development enterprises to maintain negative year-on-year growth in investment, new construction, and sales area. While continuing to decline, there is also a marginal upward change and expectation. For example, the decline in housing prices in first - and second tier cities is smaller than that in second - and third tier cities, and some good projects in first - and second tier cities have shown good sales momentum, indicating that a structural change space has emerged in the downward process.

Differentiation is the main manifestation of housing price changes in recent years, which can be divided into three forms: urban level, product level, and enterprise level. The urban level is reflected in the strong resilience of first tier cities to decline under the guarantee of industrial foundation, population absorption, and resource scarcity, such as the month on month increase in new housing prices in Shanghai. The internal differentiation of second tier cities is accelerating, and provincial capital cities or regional center cities with strong industrial or population support and basic strength are relatively stable. Conversely, cities without supporting conditions will face the test of a downward scenario. Third - and fourth tier cities or county towns generally face the situation of large inventory and overdrawn demand, and the recovery scenario is the worst. The product level is reflected in the rigid and resilient demand for improved housing and high-end boutique housing, with a prominent phenomenon in the high-end market. At the same time, the second-hand housing market is generally facing downward pressure, with increasing transaction volume and listing volume, and declining housing prices. Compared with the trend of the new housing market, the market difference is greater. At the enterprise level, it is reflected that central and state-owned enterprises with stable finances, as well as high-quality private enterprises with stable finances, have decent sales performance and ideal sales performance. Conversely, high debt enterprises have to lower their selling prices to promote payment collection, exacerbating the inconsistency of the market price system. The multi-dimensional differentiation and differences in this market pattern pose precise requirements for the macroeconomic regulation policy.

## **3. FRAMEWORK AND TOOLS FOR MACROECONOMIC POLICY REGULATION**

The series of policies adopted by the Chinese government to address the issue through a combination of demand side, supply side, and financial and tax policy regulation include policies to promote real estate demand, policies to improve the supply side of real estate, and financial and tax related support policies. The policies aimed at promoting real estate demand are focused on easing demand and promoting demand for essential housing. Purchase restrictions and policies that limit residents' demand, such as purchase restrictions, loan restrictions, and sales restrictions. Increase financing channels for housing mortgage loans, reduce housing interest rate pressure and loan risks. Banks and financial institutions reduce the down payment or down payment ratio for second homes to support and increase personal loan amounts. It is also possible to expand housing demand through measures such as adding housing subsidies, exchanging old for new, introducing policies related to housing provident fund, and providing tax subsidies. This is also to increase short-term confidence from a

policy perspective and ensure the effective reduction of negative feedback pressure in the housing market.

Supply side reform aims to optimize the supply structure, stabilize market entities, and promote industrial development and transformation. For high inventory in some cities, policies advocate optimizing increment and revitalizing stock. Through land supply, local governments adjust or stop land supply in high inventory areas based on actual market demand, in order to avoid the worsening of oversupply from the supply side. The key to revitalizing the stock lies in guiding the conversion of existing commercial housing into affordable rental housing or resettlement housing through special bonds and other means. On the one hand, it can quickly digest the inventory, and on the other hand, it can make up for the shortcomings of housing security. More importantly, the industry can transform from having to not having to being good or bad through policy advocacy. By raising the standards for residential buildings, green buildings, and digital buildings, we can provide good houses, ensure the quality of living that people need, and create new growth opportunities for the industry. For struggling real estate companies, a whitelist mechanism can be established by setting up an industry financing coordination group to provide continuous credit funding support for normal development projects. By ensuring the delivery of buildings and stabilizing people's livelihoods, industry risks can be avoided from spreading.

#### **4. THE IMPACT MECHANISM OF POLICY REGULATION ON HOUSING PRICES**

The impact mechanism of regulation on housing prices is much more complex than the prices themselves. The transmission paths of macroeconomic regulation measures on housing prices are diverse, and the strength and mode of their impact on the housing market depend on different long and short-term transmission paths. In the short term, there are two main transmission mechanisms: expectation management and liquidity effects. For expectation management, although not every "prescription" that can effectively influence the real estate market can inspire investors' confidence. However, for a city that mainly adopts suppression measures, once a very strong easing policy is implemented (such as the comprehensive relaxation of purchase restrictions in core cities), it will immediately send a signal of bottoming out or stimulus to the market, allowing investors to re-examine the bleak prospects of the future real estate market. Market expectations are about to change, and homebuyers are worried about missing the window period for real estate investment and accelerating their home buying progress, resulting in a surge in real estate transactions for a period of time, becoming a "straw" for the real estate market to turn danger into safety, driving up prices in the short term and possibly even experiencing a pulse like rise. For example, after the introduction of certain urban policies, there is a sudden increase in project visits and contract signings in the short term, which is a manifestation of expected management. However, the liquidity effect is stronger, with lower interest rates and lower down payment ratios. On the basis of increasing residents' purchasing power, it can also greatly increase the availability of credit, which is equivalent to directly flooding the real estate market from a credit perspective in a short period of time. The increased demand for funds can have a direct impact on prices through the increase in supply.

In addition, when considering the "long-term mechanism", it is mainly necessary to focus on policy arrangements or strategies for structural and fundamental adjustments and the transformation of development models. One is the optimization policy on the supply side, which mainly focuses on addressing the fundamental issues of dynamic adjustment of land supply and the transfer of existing housing from storage to guarantee in the long run. When the scale of urban land transfer matches the actual needs of registered residence population and industrial development, and when the excessive stock of housing has been converted into functional utilization and absorption, the structural contradiction of long-term housing supply and demand imbalance will be corrected and alleviated to a certain extent, and a fairly stable overall market supply and demand pricing basis will be brought.

The second is the key to leading the upgrading and transformation of housing, the formation of housing prices, and guiding pricing, which is the strategy of good housing: to create and lead new housing consumption demand through product supply side upgrading. When housing is no longer a place to shelter from wind and rain, but a quality carrier for enjoying a healthy life, it is possible to naturally shift the value measurement standard of this good housing from "property price" to "residential value" definition, ultimately making the price formation more driven by "property quality and value", which is conducive to the healthy development of pricing mechanisms. The third is the financing support and market clearing mechanism for real estate enterprises, which can be expected to optimize the industrial ecology from the perspective of industry competition structure arrangement in the long run, so that financially stable and well managed housing enterprises can better develop and grow, and help reduce the unsustainability caused by "vicious competition+cash flow depletion", thereby curbing the space for malicious price cuts and stabilizing the market price system

## **5. ISSUES AND RESPONSES TO INTERACTIVE RELATIONSHIPS**

### **5.1. Response to Policy Delays and Diminishing Effectiveness**

The delay in monetary policy affects the effectiveness of the policy. The formation of policies usually involves cognitive lag, decision-making lag, execution lag, and policy implementation lag in the specific implementation process, especially in the domestic economic market, which takes a long time to fully reflect. Therefore, the timing of policy introduction missed the implementation period. Moreover, currently in just a few policy cycles, some of the old methods used by it have experienced severe marginal decline, such as interest rate cuts, lowering down payments, etc., and even caused a situation of "policy heat, economic market cold" in the economic market.

Establish a dynamic policy evaluation and policy adjustment mechanism for policy time delay issues. Firstly, it is necessary to strengthen the monitoring of the real estate market and improve the identification and discovery system of leading indicators such as market transaction volume and price, land transaction activity, real estate enterprise funding situation, and consumer willingness to purchase houses. Fully utilize technologies such as big data and artificial intelligence to enhance forward-looking predictions of market trends and reduce policy delays. Secondly, establish a dynamic evaluation mechanism for policy implementation effectiveness, establish a quantitative evaluation system for policy implementation effectiveness, timely evaluate the effectiveness of policies that have been introduced, and adjust the strength and methods of policies in a timely manner.

In order to avoid the problem of policy effect attenuation, it is necessary to enrich the policy toolbox and change the simple traditional demand management based policies. Firstly, research the establishment of a real estate market stabilization fund to play a role in countercyclical regulation when there are abnormal fluctuations in the real estate market. The real estate market stability fund can increase the supply of land and housing for commercial housing when the real estate market prices are hot, and repurchase existing commercial housing as affordable housing when the real estate market is cold, achieving the function of market stabilizer. Secondly, we need to increase innovation in supply side policies by promoting urban renewal, renovating old residential areas, etc., to generate new market demand and improve housing quality. Thirdly, establish differentiated credit policies based on regional divisions and implement targeted financial policies for different types of housing needs.

### **5.2. Improvement of Insufficient Policy Coordination**

The coordination of regulatory policies is insufficient. The coordination of regulatory policies mainly refers to the coordination of policy implementation in both horizontal and vertical directions, which includes both central local games and mutual constraints between departments. In terms of the central local game, due to the inconsistent policy goals between the central and local governments, local

governments place more emphasis on economic growth and fiscal revenue compared to the central government, while the central government emphasizes stability and sustainable development. Therefore, in terms of policy implementation, there is a preference for demand stabilization policies and a tendency to avoid "selective landing" of deep-seated policy choices. In terms of departmental games, there is an inherent inconsistency between policy objectives, such as the conflict between short-term goals of stabilizing housing prices and long-term goals of deleveraging, and the conflict between policies that stimulate real estate development and compress local debt.

Strengthen policy coordination and establish a central local coordination and decision-making mechanism for regulation. The central government should establish an overall regulatory framework and bottom line rules, define the positioning of "housing for living, not for speculation" and establish a systemic risk bottom line, to maximize the release of local regulatory space, and adopt a differentiated authorization regulatory mechanism based on urban characteristics. For cities with high market heat, the regulatory authority can be moderately strictly enforced; For cities with cold markets and foam in real estate, more space should be given for independent policy adjustment. At the same time, establish a sound supervision and assessment mechanism, and include the stable and healthy development of the real estate market in the local government assessment system to avoid blindly pursuing short-term growth at the expense of long-term development interests.

### **5.3. Precise Measures for Structural Differentiation**

The differentiation of the real estate market has begun to enter the "deep water zone", with obvious differentiation across cities, locations, and products. The policy combination of comprehensiveness and single tool is facing unprecedented pressure. From a market perspective, the fundamentals of first tier cities and some hot second tier cities are generally stable, but there is significant upward pressure on housing prices; Most cities in second tier cities have an overall balanced market, but there is significant differentiation within the market; There is a widespread situation of high inventory and shrinking demand in third - and fourth tier cities. From a product perspective, products such as essential housing and improved housing are still facing strong inventory pressure.

The principle of implementing policies based on the city is the foundation of destocking. In the face of market structural differentiation, it is necessary to deepen the implementation of precise regulation. One is to form a scientific classification and hierarchical regulation based on the city. It is suggested to divide cities in China into three regions based on factors such as inventory size, population growth and decline, industrial support, and housing price location, namely hot cities, flat cities, and depressed cities, and to set different regulatory policies accordingly. Hot cities focusing on inventory control continue to strictly implement purchase and loan restrictions, defuse the market foam, and reform and improve the housing supply system by increasing land supply and improving housing security; Mainly focusing on stable cities, maintaining policy continuity and stability, and controlling supply-demand contradictions through "financial leverage", expanding housing rigidity and improving demand; For depressed cities, increase market regulation flexibility, with the basic adjustment goal of resolving market inventory and eliminating financial risks, and provide more "self selected" policy support to cities.

Build a local government decision support system. Local governments often lack objective decision-making basis and professional analysis and consultation in implementing city specific policies. It is suggested that provincial governments take the lead in establishing monitoring and early warning platforms for real estate in various cities, and provide specialized data analysis and policy simulation services; Strengthen professional training for relevant personnel of local people's governments; Improve the quality and capability of local government's policy decision-making and implementation; Establish experience exchange platforms and mechanisms for local governments.

## 6. CONCLUSION

Overall, this article focuses on the trend of housing prices, policy coordination, transmission mechanisms, and policy issues. It points out that the expected decline in housing prices is the main reason for the negative feedback caused by this decline. This leads to the difficulty of overcoming the negative cycle of demand, supply, finance, and taxation in real estate regulation. Moreover, it is necessary to study how to combine multiple policy measures to form a "dual force" of expected control and structural transformation of rising and falling housing prices, and to overcome the problems of time delay, decline, and contrast that arise in the interaction process of multiple policy measures. This is an important task for the stable and healthy development of the real estate market and housing policies, which requires relevant departments to work together and gradually promote. The long-term task, We need a good environment for the normal and healthy operation of the market, the overall development of the national economy, and the sustained growth of residents' income.

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