

# Research on the Impact of Public Expectations on the Fluctuations of Urban Real Estate Markets

Shenling Wang<sup>\*</sup>, Bowen Xie

School of Statistics and Applied Mathematics, Anhui University of Finance and Economics, Bengbu, Anhui, China

<sup>\*</sup>Corresponding Author: [wshlttkx@163.com](mailto:wshlttkx@163.com)

## ABSTRACT

The stability of the real estate market is of great significance to the healthy development of urban economies and societies. Public expectations, as the psychological judgments of market participants regarding future trends, play a crucial role in the fluctuations of the real estate market. Based on the theoretical connotations of public expectations, this paper systematically analyzes the impact mechanism of public expectations on real estate market fluctuations and explores the multi-dimensional pathways of influence from the demand side, supply side, and market sentiment. The research findings indicate that public expectations significantly impact the supply-demand relationship and price fluctuations in the real estate market by influencing housing purchase demands, developers' investment decisions, and market sentiment. During periods of market prosperity, optimistic expectations drive up demand and prices; whereas during market adjustment periods, pessimistic expectations suppress demand and lead to market downturns. Additionally, policy expectations play a significant guiding role in the behavior of market participants and market trends. Through case analysis, this paper further reveals the mechanism of public expectations in the actual market and proposes policy recommendations to strengthen expectation management, optimize policy design, and enhance the rational decision-making ability of market participants. The research points out that the complexity and diversity of public expectations make it an important endogenous factor in real estate market fluctuations. Policy makers, real estate companies, and homebuyers need to work together to address this issue in order to promote the stable and healthy development of the market. The research in this paper provides theoretical support for understanding the role of public expectations in the real estate market and offers references for the formulation of relevant policies and the decision-making of market participants.

## KEYWORDS

Public Expectations; Real Estate Market Fluctuations; Expectation Management; Policy Expectation

## 1. INTRODUCTION

The real estate market, as a vital component of the urban economy, plays a key role in promoting urban economic growth, facilitating employment, improving residents' living conditions, and accelerating urbanization. However, the stability of the real estate market not only affects urban economic development but also directly relates to social harmony and stability. In recent years, frequent fluctuations in the real estate market, especially in some hot cities, have garnered widespread attention from all sectors of society due to adjustments in housing prices. These fluctuations have not only impacted the normal operation of the real estate market but also posed potential risks to urban economic and social stability. Therefore, in-depth research on the factors influencing real estate market fluctuations and their underlying mechanisms is of great theoretical and practical significance.

In the operation of the real estate market, public expectations are an important factor that cannot be ignored (Fan et al., 2015). Public expectations refer to the psychological judgments and anticipations of market participants (including homebuyers, developers, investors, etc.) regarding the future trend of the real estate market. These expectations are not only based on the economic fundamentals and policy environment but are also influenced by a variety of complex factors such as psychological factors, social public opinion, and market sentiment. For example, homebuyers' expectations of rising housing prices may lead them to enter the market early, thereby further driving up housing prices; while expectations of falling housing prices may suppress housing demand and lead to a sluggish market. The complexity of public expectations lies in the fact that their formation process is influenced by the interplay of various factors and is easily amplified or distorted by market sentiment. The universality and complexity of public expectations make their impact on real estate market fluctuations worthy of in-depth exploration.

The core objective of this study is to reveal the intrinsic relationship between public expectations and fluctuations in the real estate market. By thoroughly analyzing the mechanism of public expectations, this paper aims to provide theoretical support for the formulation of relevant policies, helping policymakers better manage market expectations, reduce excessive fluctuations in the real estate market, and promote its stable and healthy development. Additionally, this research also intends to offer theoretical references for real estate companies and homebuyers. Real estate companies can adjust their development strategies and investment decisions based on changes in public expectations, optimizing resource allocation; while homebuyers can avoid blindly following trends and make more rational purchasing decisions through an understanding of public expectations. Through the synergistic effect of multiple stakeholders, the negative impact of public expectations on real estate market fluctuations can be effectively alleviated, enhancing the overall operational efficiency of the real estate market.

In terms of research methodology, this paper employs a combination of literature review, theoretical analysis, and case study. First, through a literature review, it sorts out the current state of research on public expectations and real estate market fluctuations both domestically and internationally, summarizes the achievements and shortcomings of existing research, and lays the theoretical foundation for this study. Second, using economic, psychological, and real estate market theories, it constructs a theoretical analysis framework for the impact of public expectations on real estate market fluctuations, and thoroughly explores the mechanism and transmission path of public expectations. Finally, by selecting typical cities as cases, it analyzes the performance of public expectations at different market stages and their actual impact on real estate market fluctuations, in order to enhance the practicality and persuasiveness of the research. The innovation of this paper lies in the comprehensive use of psychology, economics, and real estate market theories to construct a multi-dimensional analysis framework. Previous studies have largely adopted a single-discipline perspective, lacking a systematic analysis of the mechanism of public expectations. In contrast, this paper introduces the expectation formation mechanisms from psychology (such as the anchoring effect and herding effect), combines them with the supply and demand relationship and market failure theory in economics, as well as the actual operation characteristics of the real estate market, to comprehensively analyze the pathways through which public expectations affect real estate market fluctuations. This provides a new perspective and theoretical support for related research.

## **2. THEORETICAL BASIS AND LITERATURE REVIEW**

The theoretical connotation of public expectations refers to the subjective judgments made by economic agents regarding future economic events or trends, based on past experiences, current information, and logical rules. In the real estate market, public expectations play a significant role in economic behavior. They influence the decisions of market participants, thereby affecting the supply and demand relationship and price fluctuations in the real estate market. Psychological theories

provide an important perspective for understanding the formation mechanism of public expectations. For instance, expectancy theory emphasizes that individuals make decisions based on their expectations of the future, while the anchoring effect indicates that the public often relies on initial information or past experiences when forming expectations, and adjusts accordingly. Additionally, the herding effect is also commonly observed in the real estate market, where the public often adjusts their own expectations due to the influence of group behavior, leading to irrational market fluctuations.

Fluctuations in the real estate market are the result of the combined effect of various factors, and their theoretical basis mainly involves the relationship between supply and demand, the price formation mechanism, as well as theories of asset bubbles and market failure. The supply and demand relationship in the real estate market determines the basic trend of prices. Changes on the demand side are influenced by factors such as the economic fundamentals, population structure, and policy environment, while the supply side is constrained by factors such as land supply, development costs, and policy regulation. The theory of asset bubbles points out that when market participants have overly optimistic expectations of future returns, it may lead to asset prices deviating from the fundamentals, forming bubbles, and thus triggering market fluctuations. The theory of market failure emphasizes that due to the existence of factors such as information asymmetry and externalities, the market mechanism may not be able to effectively allocate resources, leading to excessive fluctuations in the real estate market.

Domestic and international scholars have achieved certain results in their research on the impact of public expectations on the real estate market. Domestic research mostly starts from the perspectives of expectations and economic fundamentals, policy environment, etc., to explore the mechanism of how public expectations affect housing price fluctuations. Kuang(2010) analyzed through an adaptive expectations model and found that expectations and speculation have a significant impact on housing price fluctuations. Lu and Wu(2014) pointed out that the explanatory power of expectation factors on housing price fluctuations is stronger than that of economic fundamentals. Zhang et al. (2020), Zhao et al.(2022), and Zhao and Li(2022) introduced investor heterogeneous expectations into the real estate market, analyzed the internal mechanism of housing price fluctuations from the internal perspective of market evolution, and found that expectation heterogeneity is an important cause of housing price changes. Jia and Zhang(2021) found that investor sentiment also significantly affects housing price fluctuations in the short term. Zhao et al.(2018) pointed out that media attention and sentiment, by influencing public expectations, have a significant impact on housing price fluctuations. In addition, foreign scholars have studied housing price fluctuations from the perspectives of long-term actual income, interest rates, and credit, and found that public expectations have a universal impact on real estate markets in different countries and regions.

However, there are still shortcomings in the existing research. On the one hand, most studies focus on empirical analysis, with relatively insufficient theoretical exploration of the formation mechanism of public expectations. On the other hand, research is often conducted from a single-discipline perspective, lacking the integrated application of psychology, economics, and real estate market theories. The entry point of this study is to comprehensively use multi-disciplinary theories to construct a more comprehensive analytical framework, in-depth analysis of the role of public expectations in real estate market fluctuations, in order to make up for the shortcomings of existing research and provide theoretical support for relevant policy-making and behavioral decision-making of market participants.

### **3. TYPES AND IMPACT MECHANISMS OF PUBLIC EXPECTATIONS**

Public expectations refer to the psychological judgment of real estate market participants on the future market trends. The types and impact mechanisms of public expectations play an important role in the fluctuations of the real estate market. Based on the content and scope of influence of expectations, public expectations can be divided into price expectations, economic expectations, and policy

expectations. These expectations affect the fluctuations of the real estate market through multiple channels such as the demand side, the supply side, and market sentiment.

### **3.1. Classification of Public Expectations**

Public expectations mainly include the following three types:

First, price expectations. Homebuyers' judgment of future housing price trends is an important factor affecting the real estate market. When homebuyers expect housing prices to rise, they tend to enter the market early to avoid higher purchasing costs in the future; on the contrary, if they expect housing prices to fall, they may delay their home-buying plans and wait to see how the market changes.

Second, economic expectations. The public's expectations of the macroeconomic situation, such as interest rates, employment situation, and economic growth, will also significantly affect their home-buying decisions. For example, expectations of rising interest rates can increase the financing costs of homebuying, thereby curbing housing demand; while expectations of a good employment situation and stable income growth may enhance homebuyers' confidence and promote housing demand.

Third, policy expectations. The government's real estate regulatory policies have an important guiding role on the behavior of market participants. Homebuyers' and developers' expectations of policies will affect their decisions. For example, when homebuyers expect the government to introduce purchase restrictions or loan restrictions, they may buy a house in advance to avoid policy restrictions; developers may adjust their development plans and capital-raising strategies according to policy expectations.

### **3.2. Impact Mechanism of Public Expectations on Real Estate Market Fluctuations**

Public expectations influence real estate market fluctuations through multiple channels, including the demand side, the supply side, and market sentiment:

First, the impact on the demand side. On the one hand, the expectation of rising housing prices leads to an increase in housing purchase demand. When homebuyers expect housing prices to rise, they tend to enter the market early to avoid higher housing purchase costs in the future. This expectation not only increases the demand of homebuyers with rigid needs but also attracts some speculative homebuyers to enter the market, thus further pushing up housing prices. On the other hand, poor economic expectations suppress housing purchase demand. If the public expects the economic situation to be poor, such as rising interest rates, unstable employment situation or slowing income growth, the confidence of homebuyers will be hit, thus suppressing housing purchase demand. This demand suppression may lead to a quiet real estate market transaction and a decline in housing prices.

Second, the impact on the supply side. On the one hand, developers adjust their development plans based on market expectations. As suppliers in the real estate market, developers' plans and investment decisions are significantly influenced by public expectations. When developers anticipate rising housing prices and robust market demand, they will speed up development progress and increase market supply; conversely, if they expect a weak market, they may slow down development progress or even suspend some projects. On the other hand, policy expectations affect developers' fund-raising and investment decisions. Policy expectations have an important impact on developers' fund-raising and investment decisions. For example, when developers anticipate that the government will tighten credit policies, they may raise funds in advance to guard against the risk of fund shortages; if they expect policy relaxation, they may increase investment and expand the scale of development.

Finally, public expectations trigger market sentiment and speculative behavior. On the one hand, the irrational price push caused by market sentiment due to expectations. Public expectations are not only based on rational analysis but also influenced by market sentiment. For example, when the market generally expects housing prices to rise, it will trigger optimism, prompting homebuyers and investors

to accelerate their entry into the market, thus leading to an irrational increase in housing prices. Conversely, when market expectations are pessimistic, it may trigger panic selling, causing housing prices to drop significantly. On the other hand, the interaction between speculative home buying and expectations. Speculative home buying behavior interacts with public expectations, further exacerbating the fluctuations in the real estate market. Speculators typically enter the market based on expectations of future housing price increases, and their behavior not only drives up housing prices but also affects market expectations, attracting more investors to enter the market and forming a vicious cycle.

### **3.3. The Transmission Pathways of Public Expectations**

The formation and dissemination of public expectations influence the real estate market through various channels:

First, the role of information dissemination and media. Information dissemination is an important channel for the formation of public expectations. Media coverage and analysis of the real estate market can quickly impact public perception and expectations. For example, media reports on rising housing prices may trigger optimistic expectations among the public, driving an increase in housing demand; while reports on market adjustments may lead to pessimistic expectations, suppressing market transactions.

Second, the impact of social networks and group psychology. Social networks and group psychology also play a significant role in the formation and spread of public expectations. Homebuyers and investors are often influenced by those around them, leading to similar expectations. For instance, when a community or group generally expects housing prices to rise, this expectation can rapidly spread through social networks, affecting the decisions of more people and thus driving market fluctuations.

In summary, public expectations have a profound impact on real estate market fluctuations through various channels. The complexity of their formation mechanisms and transmission pathways means that fluctuations in the real estate market are not only influenced by economic fundamentals and the policy environment but also significantly affected by public psychology and market sentiment. Therefore, gaining a deep understanding of the types and impact mechanisms of public expectations is of great significance for the stable and healthy development of the real estate market.

## **4. CHARACTERISTIC ANALYSIS OF PUBLIC EXPECTATIONS AND REAL ESTATE MARKET FLUCTUATIONS**

### **4.1. The Current Situation and Characteristics of Urban Real Estate Markets**

By analyzing first-tier cities (such as Beijing) and second-tier cities (such as Chengdu), it can be found that there are significant differences in housing price trends, supply-demand relationships, and market activity levels among different urban real estate markets. Due to continuous population inflow, scarce land resources, and a strong economic foundation, housing prices in first-tier cities generally remain at a high level. However, in recent years, market activity has fluctuated due to policy adjustments. For example, after policy adjustments in 2024, the sales area and prices of commercial housing in Beijing showed phased fluctuations, but overall remained at a high level. In contrast, the real estate market in second-tier cities like Chengdu has demonstrated stronger dynamic changes in supply and demand. In 2024, under the dual effects of inventory reduction policies and population growth, housing prices in Chengdu's real estate market fluctuated more significantly, and market activity was greatly influenced by policies.

## 4.2. The Manifestation of Public Expectations at Different Market Stages

The impact mechanism of public expectations on market fluctuations varies across different stages of the real estate market cycle.

**Stage One: The Boom Period.** During the boom period, the public generally holds an optimistic expectation of housing price increases, which significantly drives up housing demand. Homebuyers, worried about missing out on the opportunity for asset appreciation brought by rising housing prices, accelerate their entry into the market. For example, in the first half of 2024, Chengdu's real estate market, propelled by policy relaxation and expectations of economic recovery, saw homebuyers anticipating continued housing price increases. This led to active market transactions and rising housing prices. Such optimistic expectations stem not only from the improvement of market fundamentals but are also fueled by media coverage and market sentiment.

**Stage Two: The Adjustment Period.** During the adjustment period, public expectations turn pessimistic, and housing demand is suppressed. For instance, after September 2024, as economic data fell short of expectations and policy adjustments intensified, Chengdu's real estate market entered an adjustment phase. Homebuyers anticipated possible housing price declines, leading to a decrease in their willingness to purchase and a reduction in market activity. At this time, the negative spread of market sentiment further exacerbated the pessimistic expectations.

**Stage Three: The Policy Intervention Period.** Policy adjustments have a particularly significant impact on public expectations. During the policy intervention period, the public's expected reactions to policies directly influence market trends. For example, in 2024, the adjustment of purchase restrictions and interest rate preferences implemented in first-tier cities like Beijing significantly improved homebuyers' expectations and drove the recovery of market activity. However, policy uncertainty may also lead to increased market fluctuations. For instance, if the market's excessive expectation of policy relaxation is not fulfilled, it can cause a rapid reversal of market sentiment.

## 4.3. Case Study

Taking Chengdu's real estate market as an example, we can conduct an in-depth analysis of the role of public expectations in the actual market. In 2024, Chengdu's real estate market experienced a complete cycle from prosperity to adjustment and then to policy intervention. During the boom period, homebuyers' expectations of housing price increases drove the concentrated release of housing demand, and developers also accelerated their development progress. However, as the market entered the adjustment period, homebuyers anticipated possible housing price declines, leading to a rapid contraction of demand and a decrease in market activity. At this point, policy adjustments became a key factor. In September 2024, the Chengdu Municipal Government introduced a series of inventory reduction policies, including reducing the down payment ratio and optimizing credit policies. These measures effectively improved public expectations and drove the recovery of market activity.

In addition, the media and market sentiment have also played a significant role in the formation and dissemination of public expectations. For example, media reports of housing price increases further fueled housing demand during the boom period, while negative reports exacerbated homebuyers' wait-and-see attitude during the market adjustment period. Through this case, it can be seen that public expectations have played a significant intermediary role in real estate market fluctuations, and their formation and transmission mechanisms are jointly influenced by market fundamentals, policy adjustments, and market sentiment.

In summary, public expectations show significant differences at different stages of the real estate market, and their impact mechanisms on market fluctuations are complex and multi-dimensional. Through case analysis, it can be seen that public expectations are not only an internal factor of market fluctuations but also an important target of policy adjustments. Therefore, understanding and

managing public expectations is of great significance for the stable and healthy development of the real estate market.

## **5. POLICY RECOMMENDATIONS AND RESPONSE STRATEGIES**

Public expectations have a significant impact on fluctuations in the real estate market. Therefore, policymakers, real estate companies, and homebuyers need to adopt targeted strategies to address the uncertainty of public expectations, in order to promote the stable and healthy development of the real estate market. In addition, given that the media plays a key role in the formation of public expectations, its important value in actively guiding the public to form reasonable expectations, and thus effectively reducing the risk of real estate market fluctuations, cannot be ignored. The following will focus on public expectation management, and elaborate on specific policy recommendations and response strategies in detail:

### **5.1. Policy Recommendations at the Government Level**

First, strengthen expectation management and information disclosure. The government should reduce information asymmetry with the public through a sound mechanism for regular tracking and communication, guiding public expectations to align with policy goals. Specific measures include improving the information acquisition mechanism, tracking and analyzing market dynamics in real-time, and promptly understanding public expectations and demands; at the same time, adhering to transparent information disclosure, and providing timely and accurate policy interpretations through mainstream media to stabilize market sentiment.

Second, optimize policy design and implementation. The government needs to flexibly adjust policies according to market changes to avoid excessive shocks to public expectations due to policy adjustments. For example, during a market downturn, it can moderately relax credit policies and reduce the down payment ratio to stimulate housing demand. At the same time, policies should focus on long-term and stability, avoid frequent adjustments, and reduce public concerns about policy uncertainty.

Third, guide social public opinion and market sentiment. The government should effectively guide social public opinion and enhance its ability to monitor and respond to it. During market fluctuations, it should release authoritative information through mainstream media to prevent false information from causing panic or excessive optimism. In addition, the government can utilize big data and internet technologies to monitor market sentiment in real-time and adjust policy directions in a timely manner.

Fourth, promote the construction of a long-term mechanism for the real estate market. The government should accelerate the building of a high-level socialist market economic system, optimize the economic structure, and improve the income level of residents, thereby fundamentally enhancing the intrinsic stability of the real estate market. Meanwhile, by improving the housing security system and rental market, it can meet housing demands at various levels and reduce the market's over-reliance on housing price increases.

### **5.2. Response Strategies for Real Estate Companies**

First, optimize products and services. Real estate companies should adjust their product positioning and design according to market changes and public expectations. For example, they can introduce smart home technologies, green building materials, and community service facilities to enhance the added value of their products. In addition, companies can conduct in-depth market research to understand consumer demands and formulate precise marketing strategies.

Second, strengthen financial management and risk prevention. Faced with market uncertainties, real estate companies should optimize their financing structure to reduce financial risks. For instance, they can utilize policy support, such as value-added tax credit refunds and special bonds, to alleviate financial pressure. At the same time, companies should enhance internal risk management to avoid disruptions in the capital chain due to market fluctuations.

Third, actively participate in policy innovation. Real estate companies should actively respond to government policies, such as participating in urban village renovation and affordable housing construction projects, to obtain more land resources and development opportunities. Through cooperation with the government, companies can not only alleviate financial pressure but also enhance their market competitiveness.

### **5.3. Response Strategies for Homebuyers**

First, improve financial literacy and make rational decisions. Homebuyers should enhance their understanding of the real estate market and avoid blindly following trends. Governments and financial institutions can help homebuyers establish rational expectations by conducting financial knowledge popularization activities. When making decisions, homebuyers should comprehensively consider their own financial situation, market trends, and policy changes, to avoid impulsive decisions due to short-term market fluctuations.

Second, pay attention to policy dynamics and market information. Homebuyers should promptly follow government policy adjustments and market dynamics, and use authoritative channels to obtain information to avoid being misled by false information. For example, during periods of policy relaxation, homebuyers can reasonably arrange their home purchase plans according to their own needs; during market adjustment periods, they should enter the market cautiously.

Third, make rational use of policy preferences. Policies such as income tax exemption and home purchase subsidies introduced by the government can effectively reduce the cost of buying a house. Homebuyers should fully utilize these policies, plan their home purchase timing reasonably, and thus achieve asset appreciation.

### **5.4. The Role and Responsibility of the Media**

The media has significant influence in the formation of public expectations. Mainstream media should play a guiding role in public opinion, adhere to the principles of objectivity, truthfulness, and accuracy, and disseminate information about the real estate market. By leveraging their communication influence and public opinion guidance, they can create a rational market public opinion atmosphere. This enables the public to have a correct understanding of the real estate market based on true and reliable information, avoiding irrational fluctuations in expectations caused by false information or one-sided interpretations, and effectively contributing to the stable development of the real estate market. In summary, the following will focus on public expectation management and elaborate on specific policy recommendations and response strategies in detail.

In conclusion, the impact mechanism of public expectations on real estate market fluctuations is complex and multi-dimensional. Governments, real estate companies, and homebuyers need to work together to address the uncertainty of public expectations through measures such as strengthening expectation management, optimizing policy design, and improving financial literacy, in order to promote the stable and healthy development of the real estate market.

## **6. CONCLUSION**

This paper, through an in-depth analysis of the relationship between public expectations and real estate market fluctuations, reveals the significant role played by public expectations in the real estate

market and the mechanisms through which they exert influence. The study finds that public expectations significantly impact real estate market fluctuations through multiple channels, including the demand side, the supply side, and market sentiment. On the demand side, expectations of rising housing prices stimulate housing demand, while poor economic expectations suppress demand. On the supply side, developers adjust their development plans and fund-raising strategies based on market expectations, thereby affecting market supply. In addition, market sentiment and speculative behavior triggered by public expectations further intensify fluctuations in the real estate market. These impact mechanisms indicate that public expectations are not only an important endogenous factor in real estate market fluctuations but also a key focus for policy adjustments.

The complexity and diversity of public expectations endow them with an extremely important role in the real estate market. The formation mechanism of public expectations is influenced by a combination of factors, including economic fundamentals, policy environment, market sentiment, and social public opinion. Therefore, understanding and managing public expectations is of great significance for promoting the stable and healthy development of the real estate market. By strengthening expectation management, optimizing policy design, and enhancing the rational decision-making ability of market participants, the negative impact of public expectations on real estate market fluctuations can be effectively alleviated.

However, this study still has some limitations. First, due to the lack of specific empirical data support, the research is mainly based on theoretical analysis and case studies, making it difficult to precisely describe the quantitative relationship between public expectations and real estate market fluctuations. Second, the study still needs further expansion in terms of theoretical depth, especially regarding the formation mechanism and transmission pathways of public expectations, which have not been systematically analyzed by fully integrating multidisciplinary theories such as psychology and behavioral economics. In addition, the research scope is mainly focused on first-tier cities and some second-tier cities, failing to fully consider the heterogeneity of real estate markets in different regions.

Future research can be further expanded in the following directions: First, conduct empirical studies by collecting and analyzing a large amount of market data to verify the quantitative relationship between public expectations and real estate market fluctuations, providing a stronger basis for policy-making. Second, carry out cross-regional comparative studies to analyze the differences in public expectations among different cities and regions with varying levels of economic development, as well as their different impact mechanisms on the real estate market, in order to enrich and improve the relevant theoretical system. Finally, combine psychology and behavioral economics theories to delve into the formation mechanism and transmission pathways of public expectations, offering more targeted strategies for expectation management in the real estate market. By expanding in these research directions, we can further deepen our understanding of the relationship between public expectations and real estate market fluctuations, and provide more comprehensive theoretical support and policy recommendations for the stable and healthy development of the real estate market.

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