

Economics

Title	Demand and Supply: Comparison of Main Determinants of Private Housing Prices between Chengdu and Similar Cities in China
Research Question	What are the main economic factors that cause housing prices in Chengdu to be much lower compared to the other new first tier cities in China?
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Introduction

In recent years, there has been an unprecedented increase of economic growth in China, with the average commodity housing price increasing by 40% since 2014.¹ Commodity housing is constructed by private real estate developers driven by profit maximization.² The housing prices, in New First Tier cities, are increasing rapidly and approaching those of traditional First Tier cities such as Beijing and Shanghai. However, Chengdu as the number one New First Tier city has much lower commodity housing price among the top five most developed New First Tier cities (Table 1) where many young people complain of high housing prices.

Table 1: Ranking of Top 5 New first tier cities

Rank	City
1	Chengdu
2	Hangzhou
3	Wuhan
4	Nanjing
5	Tianjin

New First Tier cities are mainly classified by GDP, city development, and population size. There are six tiers of cities in China: First Tier, New First Tier, Second Tier, Third Tier, Fourth Tier and Fifth Tier. New First Tier cities have become increasingly more attractive for domestic and international investment than other lower tier cities. They are the fastest growing cities in terms of GDP. However, there are no exact classifications for the different tiered cities as they are compared relatively by growth rate.³ There are 15 New First Tier cities, but this essay will only focus on the three most comparable cities in terms of population and income: **Chengdu, Wuhan, and Tianjin.**

¹ Stats.gov.cn. (2018). 国家统计局 >>高级检索. [online] [Accessed 27 Jun. 2018].

² FLOCK, R. (2013). *Commodity Housing and the Socio-spatial Structure in Guangzhou*. [Accessed 27 Sep. 2018]

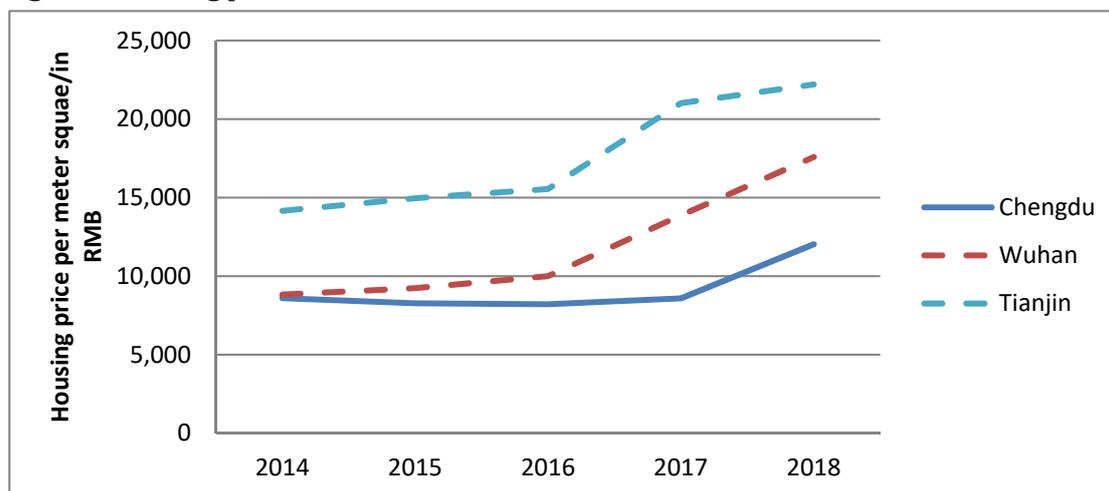
³ Wineaustralia.com. (2017). *Understanding China's tiered city system*. [online] [Accessed 27 Sep. 2018]

Table 2: Commodity housing price ranking in China, 2018

Rank	City	Price/RMB per meter square
1	Beijing	57,768
2	Shenzhen	51,477
	⋮	
9	Nanjing	25,733
10	Tianjin	22,205
17	Wuhan	17,586
	⋮	
33	Chengdu	12,061

Tables 1 and 2 show that while Chengdu is ranked 1st according to New First Tier city classifications; it is only placed 33rd in the ranking of average commodity housing prices which is 65% lower than **Tianjin and Wuhan**. In contrast, their housing price rankings generally reflect their rankings as New First Tier cities. To show that this may not be a one-off phenomenon in 2018, I looked at the changes in housing prices across these three cities between 2014 and 2018.

Figure 2: Housing price of three new first tiers cities in China⁴



⁴ Stats.gov.cn. (2019). 国家统计局 >> 高级检索. [online] Available at: <http://www.stats.gov.cn/was5/web/search?channelid=288041&andsen=%E6%88%BF%E4%BB%B7> [Accessed 27 Feb. 2019].

Figure 2 proves this concept, as except for Chengdu, the cities have experienced strong growth in their housing prices since 2014. Chengdu experienced stable housing price in the last five years with only a 17% increase in housing price. Therefore, the evidence suggests that the growth of housing prices in Chengdu is significantly behind the other New First Tier cities. It is surprising to see that the city with the largest population (identified as a contributing factor in rising housing prices⁵) and highest GDP in Sichuan province has such a low housing price.

Therefore, I believe it is important to investigate why Chengdu can maintain such an affordable housing price for its residents as across the other New First Tier cities prices continue to rise. I aim to uncover the reasons behind Chengdu's low housing price in this essay. Since housing price is determined by demand and supply, it will compare impacts of different demand and supply factors in determining housing price in the three chosen New First Tier cities: **Chengdu**, **Tianjin**, and **Wuhan**. To summarize, my research question is: "What are the economic factors that cause housing prices in Chengdu to be lower compared to other New First Tier cities in China?"

⁵ Karantonis, A. (2015). *Population growth and housing affordability in the modern city - Sydney a case study*. Available at: http://www.ppres.net/papers/karantonis_population_growth_and_housing_affordability.pdf [Accessed 24 Dec. 2018].