



## Building Cascaded Hierarchical Real Estate Market Based on the Housing Consumption Theory and the Security Theory

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**Supported by** the Philosophy Social Science Fund Projects of Hunan Province(No: 2010YBB146).

Received 7 August 2011; accepted 8 September 2011

### Abstract

The excessively high price not only has adverse impact on the development of the entire national economy, what's more, it goes against the settlement of livelihood problems and the construction of harmonious society. To solve the current high price's dilemma, it should combine the local real income levels of China, and perfect market structure according to the effective housing demands, then build up three high, middle and low real estate markets with independent operation, and mutual connection and conversion, in order to control the house prices, realize the basic needs of social housing, and solve the housing problems of urban residents.

**Key words:** Housing theory; Effective demand; Real estate market

LI Qingquan & SHE Guohua (2011). Building Cascaded Hierarchical Real Estate Market Based on the Housing Consumption Theory and the Security Theory. *Management Science and Engineering*, 5(3), 68-71. Available from: URL: <http://www.cscanada.net/index.php/css/article/view/j.mse.1913035X20110503.4z017> DOI: <http://dx.doi.org/10.3968/10.3968/j.mse.1913035X20110503.4z017>

### INTRODUCTION

China's house prices has been always rapidly growing since 2003, until 2009 the national average house price has doubled more than that in 2003, what's more, the first-tier cities' house prices are more than tripled (a small steady increase during the first half of 2010 year). According to the per capita annual income of statistical data, in order to purchase a 90 square meters' housing in mid-range section, a people in Beijing city has to work for 109 years without eat and drink, while the people in Shanghai city needs 78 years, and the high prices have become the pain in the vast majority people's hearts. Therefore, house slaves, dwelling and other terms come into being. The helplessness of facing such life necessities as housing is hurting the passion of entrepreneurial generation, as well as hiding potential problems of social instability. In order to curb too rapid growth of housing prices, the state has gradually come on a series of regulatory measures since 2003, including macro-control measures of the real estate enterprise (credit ratio, etc.), the land market (land supply, etc.), buyers (down payment ratio, etc.), tax rate and so on, but all in all, the effect is not obvious, "retaliatory rise" is always accompanied by the macro-control again and again. This paper is in accordance with the housing consumption theory and the security theory to put forward a suggestion of establishing three real estate markets, and try to explore the measure of breaking the current housing predicament.

### 1. THE HOUSING CONSUMPTION THEORY AND THE HOUSING SECURITY THEORY

The research on housing consumption is generally based on supply and demand curves of the classical economics' market, and achieves the balance between supply and demand through market pricing rules. On this basis, relevant theories include:

1<sup>st</sup>. Housing filtering theory.

In 1953, Ratcliffe defined housing filtering process as follows: This is a phenomenon, which is very easy to be observed, and with the lapse of housing time, the quality and value standards of housing will decline. Thus, the highest value of housing will gradually drop to a lower level. Used housing will be released to lower levels until the bottom of the market, this process is called "filtering down". The most important feature of filtering process is that the household will move upward because of the decline of housing quality, while housing prices and quality filter down, then forming the dual motion.

2<sup>nd</sup>. Housing gradient consumption theory.

Gradient consumption means that on a certain time point, because people's purchasing power is different, so different income groups tend to consume according to their consumption ability when they select goods. Generally speaking, because of the effect of residential grade, type, location, size and other factors, the individual housing demand is multi-level, high-income consumers are often at higher consumption levels, while lower-middle classes are often at lower consumption levels because of limited purchasing power. Housing is a special consumer goods, its difference from common consumer goods is that it is both the survival data, and meanwhile means of enjoyment and developmental data. The quantity and quality of housing determine its survival, the utility level of enjoyment and development.

3<sup>rd</sup>. Housing stratification theory.

The corresponding theory of gradient consumption is the housing stratification supply theory, with the residents show cascaded requirements to housing quality, location and other aspects, housing providers need to consider meeting residents' basic needs to the maximum extent, therefore, it results in the concept of housing stratification supply theory.

4<sup>th</sup>. Housing entry and exit theory.

It mainly refers to guarantee the exit of housing, and it indicates that ensuring housing exist strict screening mechanism. For receiving relief groups, they do not quit after the improvement of their incomes, which is unfair to other low-income people. There are two common exit ways: The first one is housing exit (the government exit), the government transfers its owned property rights according to market prices, withdraws the financial investment, which originally used for subsidies, and obtains the corresponding ratio of increasing investment value income, the government coerces into changing the nature of housing, that means changing affordable housing into commodity housing; The second one is households exit (common property people exit), the government purchases the property they own at market prices.

From the perspective of housing security theory, the main theoretical bases are as follows:

1<sup>st</sup>. Sociology research on vulnerable groups and

social support lays a good theoretical basis on the housing security theory. The profound sociological concept is "to promote social progress and growth, reduce social costs", that is any social harmonious development and progress will inevitably pay the social costs, and in most cases social costs are undertaken by the disadvantaged groups. The relative sociological theories make the importance of urban low-income family housing security clear, that is whatever the inequality caused by personal innate factors or the injustice of social system, any society will objectively exist "vulnerable groups". They all need to guarantee their basic life rights through social security, among them including the most basic housing problem.

2<sup>nd</sup>. In the economic field, there are more research works on security. Pigou regarded the object of the economics of welfare as the research on promoting the world or a country's economic welfare. Pigou thought the way of transferring income was that the government imposed a tax on the rich and subsidized the poor. Subsidize methods can be taken to establish various social service facilities, free education, unemployment insurance, medical insurance, housing supply and other resources to transfer to the vulnerable groups through government intervention. Keynes established the social security economic theory based on demand management, and put forward a series of rescue capitalist economic crisis theory and proposed policies. In his view, the country's production and employment conditions depend on effective demands, but effective demands are often insufficient, therefore, leading to the occurrence of economic crisis and unemployment. The government should actively intervene in the economy, and implement the expansionary fiscal policy. The expansion of social welfare spending, government' intervention in economy and other theories proposed by Keynes provided a strong theoretical basis on Western capitalist countries in economic crisis establishing social security system.

## 2. THE ASSUMPTION OF THREE REAL ESTATE MARKETS

It can be seen from the housing consumption theory, housing should not be a static concept, but should be a collective noun, it refers not only to the differences between housing and other life necessities are reflected in its systematization (the supporting functional requirements of housing are often higher, it is not just under the term as "live", but also often includes basic living, safety needs, surrounding facilities, cultural environment, etc.) and protracted nature, and at the same time it indicates that the housing requirements of the individual will change with the time and individual economic capacity, showing hierarchical characteristics. In view of this, this paper proposes the assumption of three real estate markets, for the demand characteristics of social different levels, and it

establishes different markets to correspond with them.

### **2.1 Establishing Relief Type of Real Estate Market**

Social assistance is a kind of social security system, and it means that the state and society provide free material assistance to help the low incomers living below the poverty line or the life difficulty persons suffering from disasters. As early as in 1536, France passed the legislation requiring of registering the poor in the parish in order to maintain the basic needs of the poor. In 1601, the British enacted the poor law to provide relief for the poor. Ancient China's "charity granary" is also a relief system. Maintaining a minimum level of basic life is the basic characteristics of the social relief system, the main sources of funding are government financial expenditure and social donations.

The relief type of real estate market is an effective way of reflecting social welfare. This market is a low-end market, and mainly faces the low-income people: laid-off workers, no regular income source people as well as migrant workers and so on. This part of people's first priority order of purchasing the life necessities is food and clothing, then they will consider buying houses, therefore, after the first two are met, they fundamentally can not afford high value durable goods like housing. For these people, the main housing solution method is the relief method under the leading of the government, with the way of transferring wealth to achieve humane housing security. Taking the social equity and efficiency into account, the basic requirements of such housing can not only meet their basic needs of life, but also respect the people's feelings who provide relief, therefore, the product should mainly be 50 to 70 square meters' low-cost rental housing, for the expenditures of housing costs, which mainly are the full support and subsidies given by all levels of government, common ways are as follows: freely transferring land as relief real estate land in a certain area; while developers obtain development rights, at the same time, with additional terms forcing them to develop a certain number of this type of housing, assume their social responsibility, and achieve lower development costs while giving benefits to the people. In addition, the government can buy some overstock housing as relief housing. Among the housing declaration people, it must reflect that they have not enough other income sources, and just rely on relief to achieve their basic life necessities. In individual housing filter, it basically stays in the lower grades. But we should know that if these application people's incomes increase, or they lack enough qualifications, it is necessary to develop an exit mechanism through government to abandon the right to enjoy continued relief.

### **2.2 Establishing Security Type of Economical Real Estate Market**

Security housing is also a kind of social assistance.

Relative to complete relief housing type, ensuring housing is using social resources to compensate for the relatively low economic capacity population through the government's regulation and control, and under the premise of people protected by government provide part funds so as to ensure their basic living conditions and life quality. The construction of these ensuring housing regards the convergence of government's finance and personal resources as the main support no matter from funding sources, operation mode or from the system design.

Because it is the accumulation of private capital and financial subsidies, so the market belongs to mid-market, its target customers are middle-income groups, such as government civil servants, staff of enterprises and institutions, corporate new entrants and so on. Common characteristics of this group is that their income conditions are relatively good, personal development potential are relatively great, but because of the constraints of working nature and lifetime, the stock of personal disposable funds is not much, therefore, it is very difficult to solve the housing problem entirely through the individual accumulation. As the number of people is large, this market should account for the most part of the whole real estate market. This group has a more rigid housing demand, and has some certain payment ability. From the development perspective, they are not only the main force of construction, but also the backbone of the real estate market.

According to the housing filtering theory, their needs to houses are at the middle level, and their requirements of basic quality and specifications should be based on 70 to 90 square meters' affordable housing, their payment levels should be able to pay twenty percent of the entire house. From the perspective of gradient consumption, their requirements to housing basically meet their basic life needs, but the good development potential determines that they will be the reserve force of improved type housing; from the perspective of social stratification, they belong to the group owing good background knowledge, and they are young age structure people. They can shorten their basic life struggle time based on obtaining government subsidies, thus saving more labor costs and achieving the more effective increase of personal values.

Such security housing primarily reflects in the way of affordable housing, the government through the allocation of land, the reduction of related fees, the profits' restrictions of contractors and developers and other means to reduce the construction costs of the real estate, except these, it realizes the protection of these people through the housing purchase of such subsidies, etc.

### **2.3 Establishing Free Real Estate Market**

The third market is a kind of sufficient competitive real estate market, and its theoretical bases are the supply-demand theory and the land differential theory of classical

economics. The products in these markets are the full sense of commercial housing, from the perspective of the construction side, which aim to obtain developmental profits, and from the perspective of consumer side, which aim to improve the living quality or gain more investment opportunities. These markets have the same qualifications to any people with purchasing requirements and ability. They follow the full sense of the construction process in the project's decision-making, the construction and operation of design, the state does not give any subsidy, but it is essential to fully consider the externalities of its development, and at proper time the government needs to regulate the market. This market is a high-end market in the face of the whole social people at home and abroad. This market is established for those who seek the living environment, the high-end customers of high living comfortableness or investors for gaining high investment return. The market products mainly are luxury commercial housing, which prices are fully liberalized, and are determined by the market mechanism, and as a result, realizing a real sense of marketing.

This kind of real estate market belongs to the highest level in the housing filtration theory, and it belongs to the top layer of the stratification theory, therefore, it is the high quality representative of living. Because it acts in accordance with market planning, as long as the procedure is legal, it exists no enter or exit restrictions for people.

### 3. THE PROBLEMS DESERVING ATTENTION

The assumption of three real estate markets is put forward based on the housing consumption theory and the housing security theory, therefore to meet the basic needs of social housing, but in operation, there are some problems worth noting:

Firstly, the boundaries' grasping problem of the three markets. Objectively speaking, there is no strict boundaries, therefore, there no specific definition about how the three markets are divided in the space, where and when to build what kind of market requires extensive and far-reaching argument.

Secondly, the problem of housing security

discrimination. Because security used financial subsidies, if it can't appropriately grasp its constructive form and content, it will easily lead to the waste of public resources, and also may cause the taxpayers' worry to the capital efficiency, and they are the actual providers of the public resources. Over-security not only means the waste of public resources, but also strangles the entrepreneurial spirit of the guarantor, and may cause other people, who do not enjoy the security generate resent feeling, and reduce resources' efficiency. If the security is inadequate, it will let these groups, who can't get equal competition and survival status for some reasons lose confidence to the society, and are even dissatisfied with the rulers and other people, meanwhile, it will affect the social stability.

Thirdly, the problem of all levels of housing market people's qualification assessment. Although theoretically there is a clear distinction to entry people, but in practice, due to the applicant and the authorities exist asymmetric information, what kind of people are eligible to enter which market, and when the applicant conditions get improved should withdraw to what extent, have been always plagued by the perpetrators and policy makers.

Fourthly, the three markets exists a linkage mechanism to some extent, which means that changes in one market will affect other markets' changes, such as the improvement of free real estate market prices involve security housing, and rent-seeking phenomenon becomes more common. This requires policy makers can globally look at the problem, analyze their linkage motivations to ensure the relevance and effectiveness of policy.

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