Preface

The Forthcoming “Golden Age”
Of the Internet and the Existing Home Market

Here I am now in Hong Kong, looking out of my window at a forest of high-rises. While looking at this city with a mature real estate market and contemplating the development of China’s property sector, I wonder what changes are burgeoning as various sectors of the Chinese economy are using “Internet plus” strategy to explore new frontiers.

China’s property market is undergoing a dramatic shake-up. A fundamental change is that a market dominated by new homes is giving way to a market of existing homes. In this age of mobile Internet, China’s industrial transformation, which used to feature standardized products, is now characterized by nonstandardized services. Mobile Internet is germinating changes in the property sector, although a drastic transformation has not yet started.

Under these circumstances, a shake-up in the property market is duly expected, with the old order receding and the new order being established. This book is my effort to visualize the future in China’s property market. The views expressed in it are my own and do not represent those of any organization.

I. Crossover Fusion of the Internet and Property Sector

The advent of this new age is marked by these three events:

First, a market dominated by new homes is giving way to a market of existing homes, which is the fundamental change.

Second, China’s mobile Internet users have outnumbered PC users. This means the Internet’s influence over the traditional industries is no longer about standardized products, but nonstandardized service. The Internet, now providing all sorts of services in real-life situations, is no longer simply a virtual world, but part of the real world. Mobile Internet is germinating changes in the real estate brokerage industry, although a drastic transformation is yet to be expected.

Third, the new rules of the real estate brokerage industry are established. The boundaries between different business models are blurring. Real estate developers
and traditional brokerages are becoming more and more Internet-based, Internet companies are engaging in brokerage, and media companies are transforming into e-commerce businesses. The formerly different businesses that used to operate within their own territories are now competing severely on the same battlefield.

II. What Does a Booming Market of Existing Homes Mean to Us?

Existing homes are already a dominant presence in the markets of the USA, the UK, France, and Australia, where the numbers of existing home sales are, respectively, 9 times, 8.1 times, 1.9 times, and 3.5 times those of new home sales. While this ratio is only 0.6 in Japan at large, existing home sales are much more active in Japan’s capital region and Kinki region than the rest of the country, the numbers of which are 3 times and 1.9 times those of new home sales, respectively.

In 2013, although the ratio of existing home and new home sales is only 35 % in China at large, the former already surpassed the latter in all first-tier cities and a few second-tier cities. According to the statistics of Centaline Home, first-tier cities account for 16 % of the total transacted area of existing homes and 39 % of the transaction volume.

Although existing homes have not yet dominated the housing market in most Chinese cities, due to a large enough existing housing stock, relatively high homeownership rate and the increasing population mobility, the boom of the existing home market is but inevitable.

What, then, does a booming market of existing homes mean to us?

1. Balance Between Supply and Demand

As real estate development process consists of many complicated steps like land acquisition, design and construction, the cycle of development can be as long as three years or longer. As a result, in a new home market, the supply of homes does not synchronize with demand. When demand elasticity is much greater than supply elasticity, developers at the supply end of the industrial chain has the final say in the market, with consumers and real estate agents at the disadvantaged end. The result is elevated home prices and reduced commissions.

However, in a market dominated by existing homes, supply and demand are both decentralized, with no individual or organization monopolizing the supply. Supply elasticity and demand elasticity are more balanced and synchronized. If not impacted by a macroeconomic cycle or financial business cycle, home prices will not experience any momentous rise or fall. The fluctuation in home prices will be smaller and more constant. Therefore, consumers need to be constantly attentive to the ever changing market. In the existing home market, home buyers are mostly owner-occupiers rather than investors, and naturally they will be more concerned about the location, transportation, and neighborhood of the property. Houses to them are not just concrete structures—they are homes to live in. That explains the highly complicated and intensive information cluster each housing transaction is. Furthermore, people may opt to rent a home as an alternative to buying one. The demand for information will be even greater given the shorter cycle of house rental and higher frequency of information exchange.
2. **The Emergence of Large Matchmaking Platforms**

The prerequisite for a trading platform is balanced and decentralized buyers and sellers. As real estate sector is becoming a buying market, developers’ clout is on the decrease as consumer power rises. This will pave the way for trading platforms and e-commerce businesses in the new home market. What’s more, in the existing home market where buyers and sellers are more decentralized than in the new home market, even larger trading platforms will emerge.

There was no trading platform in its true sense in China’s new home market before 2014. The prevalent business model then was media e-commerce businesses, which were in essence with media companies offering advertising services. Internet companies were merely developers’ platforms for advertisement.

However, in 2014, with the hesitant housing market, the long-drawn sales cycle and home-buying process and the limited effect of advertisement in traditional media, traditional brokerages found it difficult to expand its customer base. Trading platforms for both new homes and existing homes then heaved into sight. Furthermore, the group-buy deposits these platforms charge guarantee immediate commission payment, which used to be a headache for traditional brokerages, and these platforms thus thrived.

However, no real trading platform is in sight in the existing home market. Media companies offer advertising channels or platforms for real estate agents or brokerages to disseminate their information, but they are not involved in or have much control over transactions. On the other hand, although traditional brokerages participate in transactions, they have not evolved from brokerages to platforms. Given the complexity of the existing home market and the indispensability of agents, trading platforms are bound to switch from solely matchmaking platforms to platforms with their own brokerage operations and then the other way round. In the next two or three years, there will emerge one or several huge regional trading platforms for existing homes, which provide information, match buyers and sellers and provide extended services centering around transactions.

Finally, there will be competition between trading platforms for new homes and those for existing homes, because from a consumer’s point of view, new homes and existing homes are not much different, but it remains to be seen which will get the upper hand.

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