



# Impact of urban economic openness on real estate prices: Evidence from thirty-five cities in China

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## ABSTRACT

Over the past decade, China's major cities have experienced significant real estate price increase which has been fueled by the sustained growth of the economic fundamentals. It is well believed that deeper integration with the world market is one of the major reasons for such high speed macroeconomic growth. In this paper, we examined the linkage between urban economic openness, the ratio of trade volume as a percentage of GDP, and urban real estate prices basing on the quality of life theory as well as Balassa–Samuelson (B–S) effects. Using panel data of 35 large Chinese cities from the year 1998 to 2006, we empirically find that for every 1% increase in urban economic openness, urban real estate prices will increase significantly by 0.282%, after controlling for other traditional demand–supply factors. Urban economic openness alone accounted for about 15.90% appreciations of Chinese real estate prices during the sample period, which is not neglectable. This result implies that urban real estate price fluctuations are potentially affected by international economic factors. The economic distance to the international market could be deemed as productive and consumption amenity for a city as well. This study enriches the perception of quality of life factors, and furthermore provides a new perspective for understanding the real estate price dynamics in the globalized economic development today.

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## 1. Introduction

Extensive studies have been placed on the determinants of regional real estate price in the field of urban economics. One strand of research explained regional real estate prices basing on the national and regional macroeconomic factors (Green et al., 2005; Gyourko et al., 2006; Jud and Winkler, 2002). Another strand focused on regional price determinants by considering the spatial heterogeneity and interregional linkage of real estate submarkets (Alexander and Barrow, 1994; Blomquist et al., 1988; Gyourko and Tracy 1991; Meen, 1999; Roback, 1982, 1988).

Despite contributions to understanding real estate price dynamics at the regional level, none of the above studies have extended their conceptual framework to take into account the impact of international trade on the urban real estate prices. This contrasts with the fast paces of globalization in the 20th century. Actually, in the first decade of the 21st century, many scholars have begun to study the real estate market from an open economy perspective (Aizenman and Jinjark, 2009; Bardhan et al.,

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