

CHINA'S NEW REGULATIONS FOR ITS HOUSING SECTOR

ZHOU Zhihua

EAI Background Brief No. 1255

Date of Publication: 15 June 2017

Executive Summary

1. Since early 2016, China's housing bubble has again captured media headlines. The de-stocking stimuli policies, huge capital flows to the real estate sector, surging land prices and strong housing demand have led to the housing fever.
2. The housing boom takes place mainly in some high-tier regions. While skyrocketing prices and resultant unaffordability have become a major problem in some high-tier cities, many low-tier regions are still desperately working to reduce the high volume of inventories for economic revival.
3. Measures to tighten purchase and credit to temper the market have been launched since end-September 2016, but with the unsatisfactory effect of cooling the market.
4. The leadership is seemingly facing the dilemma of driving growth while seeking to prevent an overheated housing market and easing discontent from the unaffordability. This helps explain the limited effects of the measures launched.
5. Over 40 regions have issued tightening measures since mid-March 2017. This could be the strictest round of real estate regulation in the past decade in terms of geographical coverage and intensity of measures, demonstrating stronger than ever determination of the leadership to further cool the market, after procrastinating on the measures to be taken.
6. These tightening measures have already generated immediate effect on the market and more market deterioration is expected in the coming months.
7. However, the outcomes of previous rounds of real estate regulations indicate that administrative regulations are unable to curb the price surge and ease the unaffordability problem in high-tier cities.
8. China has relied heavily on administrative measures to regulate the market due largely to the underdevelopment of some market mechanisms.

9. The leadership needs to work on the land, fiscal and taxation aspects to lessen local governments' heavy reliance on the land sector, thereby letting the market, instead of the government, play a key role and long-term market mechanisms to work. Although this proposal has been in place for years, no big progress has been made so far.
10. To sustain housing development, there is a need to reform the hierarchical administrative system in order to balance resource allocations across cities. This could help optimise population movement to reduce housing inventories in low-tier regions and alleviate discontent with unaffordability in high-tier cities. To date, these measures have yet to make it to the priority list of the leadership.