# CHINA'S HOUSING MARKET:
# AN UPDATE

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# Executive Summary

1. The housing market in China saw an overall downturn in the first five months of 2014, while variations exist across regions and among different tiered cities. A recent government report shows that the year-on-year growth of major market indicators decelerated.

2. Several factors contributed to the downturn, including massive social housing construction, expected property tax levy and large housing stocks in some cities. Most significantly, the real estate sector experienced a serious shortage of capital as the banks are reluctant to lend, a result of the capital shortage in the banking sector.

3. A nationwide housing market crash is not likely. Housing demand remains strong and the monetary policy relatively loose. A healthy real estate sector is also considered important for growth and social stability. The authorities still have many policy instruments at their disposal to avoid a market collapse.

4. In the near future China is expected to see diversified housing markets across regions. While housing prices in the central districts of first tier cities might continue to stand firm, those in cities and regions with an oversupply would likely plummet and a small scale crash in the housing market of certain localities is possible.

5. China's governance strategy on the housing market is likely to become more diverse in different localities. Local governments thus have more autonomy in regulating regional housing development.

6. Judging from the policy directives promulgated by the government since late 2012, the new leadership seems determined to promote the role of the market in the real estate sector by shifting its housing governance strategy from strong administrative intervention to market mechanism improvement.

7. It is evident that the central government has committed to the improvement of market mechanisms, e.g. regulations on the Housing Provident Fund system, the establishment of banks for social housing, the legislation of real estate registration, and more social housing programmes.

8. Despite dampening growth, this market downturn is deemed to be good for accelerating institutional rearrangements in China's housing market. However, much remains to be done for a healthy housing sector to emerge, including a stronger financial sector, overhauls in the taxation and fiscal systems, as well as a vibrant economy.