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Topic: Deciphering the latest round of Macro Control of Real Estate in China

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Abstract:

The spirally increasing real estate prices have been obsessing the Chinese government for a long time. Since the revival of the real estate market in late 1970's, the Chinese government has been using a number of macro measures to control and regulate the real estate market. Despite the various measures, the real estate market mains untamed. In the past few years, the rocketing house prices had greatly disturbed the people and the central government. The central government has attempted to use several macro control measures to rein in the unruly market but with limited success. In May 2006, the central government introduced a new package of measures, commonly referred to as "State Council's 6-point policy", to control the real estate market.

The 6-point policy only provides broad guidelines and needs elaboration. In this regard, nine ministerial departments have subsequently issued a 15-point document to provide details for implementing the 6-point policy package. This paper provides an overview of various real estate macro control policies, the latest measures and makes a comparison of the new measures and the old ones. Through the analysis, it attempts to identify the likely impacts on the housing market.

Introduction

China adopted an 'open door' policy in 1978 to reform the economy and modernise the country. The real estate market was subsequently. The economy experienced a sharp upturn after the late party leader Deng Xiaoping toured southern China in early 1992 to encourage the speeding up of reform and opening the country further to the outside world. The GDP had substantial growth and the economy soon became over-heated (Yu, 2001).

The strong economic growth also pushed up real estate prices. High inflation and spirally escalating house prices caused big concerns among the people. Over the years, the central government has introduced a number of measures to control the real estate market. Three main rounds of control were introduced in 1986, 1993 and 2003. Each of them had its respective objectives and outcomes.

The control introduced in 2003 has not ended and is continuously supplemented by new measures. A heavy weight policy was introduced by the State Council in March 2005 when an 8-point policy document – *Notice Regarding Earnestly Stabilising Housing Prices* (generally known as State Council's 8-point policy) – was released to regulate the housing market. Nevertheless the result of the control was not satisfactory.

In May 2006, the central government introduced additional measures (generally referred to as State Council's 6-point policy) to reinforce the 8-point real estate macro control policy. This paper provides an overview of the new measures and makes a comparison of the new measures and the old ones. Through the analysis, it attempts to identify the likely impacts on the housing market.

Macro Control of Real Estate in China

Macro economic policy is frequently used by the Chinese government to harness the galloping economy. Since the introduction of the 'open door' reform policy in 1978, the central government has carried out 5 rounds of macro economic controls (1979 – 1981, 1985 – 1986, 1988 – 1989, 1993 – 1996, and 2003 – present) to cool off the overheated economy. Those related to the control of real estate market were the ones in 1986, 1993 – 1996 and 2003 – present (Li, 2006b).

The first round of macro control of real estate was aimed at curbing unauthorised development of offices, hostels, hotels and dormitories. For a very long time, state enterprises obtained free land and funding from the government under the planned economy. Prior to the control in 1986, a lot of state enterprises used the free land and funding for real estate development and speculations, rather than for production. Eventually it led to difficulties in cashing in credits and high inflation. In 1987, inflation was 7.3% higher than 1986. In 1988, it was 18.5% higher than the previous year (Li, 2006b). The government subsequently took action to stop approval of development and funding of non essential projects. The control took 3 years to complete.

At the turn of 1990, the old planned market mechanism was dwindling and the new market economy mechanism was thriving. The economy on the whole enjoyed high growth rate. It was further boosted up by Deng Xiaoping's southern China tour in early 1992. The GDP growth rate rose to 14.2% (Yu, 2001). In relation to real estate, hundreds of billions of Yuan (tens of billions of US\$) of funding flooded the coastal cities. The resulted spirally rising real estate prices eventually led to the second round of macro control of real estate in 1993.

Via a policy document *Opinions for Strengthening Real Estate Market Macro Management and Encouraging Healthy and Sustainable Development of the Real Estate Industry* the government took various actions to tighten up money supply, regulate financial institutions, land supply, market order and other related areas (Yang, 1993). The objective was to suppress real estate prices. Large amount of illegal funding for real estate development was taken away

and misappropriated funds from key state development projects were reinstated. Inappropriate lending policy and procedures were reviewed and persons involved in illegal lending were punished administratively or subject to legal penalty.

The 1993 macro economic control policy was in force for a few years and was very successful. Inflation dropped from 24.1% in 1994 to 8.3% in 1996 (Yu, 2001). The impacts of the macro economic control policy were exacerbated by the Asian financial crisis in late 1997, and China entered a period of deflation. In order to pull the country out of deflation, the macro control measures were relaxed and the real estate market was given a chance to recover.

With the help from low interest rate and loosened controls, the real estate market began to pick up again. Real estate prices once again increased at record level. Between 1997 and 2004, there was a staggering 42.40% increase in commercial house prices and 28.85% increase in affordable house¹ prices (NBSC 2005). Table 2 below shows the transaction prices of residential properties in Shanghai in the past 10 year from 1995. In can be seen that house prices had increased by 165% in the 10-year period.

Table 1 Residential price (Yuan/m²) in Shanghai

Property Type	1995	2000	2004	2005
Commercial housing	2,572 (US\$326)	3,565 (US\$451)	6,489 (US\$821)	6,842 (US\$866)

Source: Shanghai Municipal Statistics Bureau, 2006

The high house prices caught the attention of the central government and a third round of macro control of real estate was introduced in 2003. In April 2003, housing credit was again tightened up. Home purchasers were required to have at least 20% down payment. In March 2004, a land policy known as *831 Deadline* was introduced. A joint circular from the Ministry of State Land Resources and the Ministry of Supervision (the discipline enforcement authority) required all relevant governments to clear land with unresolved problems before 31 August 2004 or facing confiscation of the land by the central government. In March 2005, the preferential loan rate for home purchasers was removed, home purchasers in cities with rapid rising housing prices are required to have at least 30% down payment.

On 26 March 2005, the State Council issued an 8-point policy circular *Notice Regarding Earnestly Stabilising House Prices* (commonly known as the old State Council's 8-point policy) (Xiao, 2005). On 24 April 2005, the Premier Mr. Wen Jiabao reiterated the necessity of macro control of real estate in a State Council meeting and gave 8-point suggestions (commonly known as the new State Council's 8-point policy) to guide and control the real estate market (Soufun, 2005a). The contents of the two 8-point policies are summarised in the following table:

Table 2 Comparison of old and new State Council's 8-point policies

Old 8-point Policy	New 8-point Policy
1. Stabilising house prices should be highly regarded.	1. Reinforce programmed control and improve the structure of commercial housing.
2. Earnestly carry out the duty of stabilising house prices. A system of responsibility is to be set up and provincial governments are to be held responsible ultimately. Officials	2. Strengthen the control of land supply and carry out strict land management,

¹ Government subsidised low cost housing for purchase

who failed to rein in the galloping house prices will be held responsible.	
3. Vigorously adjust the structure of housing supply and land supply. Increase the land supply for ordinary commercial housing and affordable housing, and supervise their construction.	3. Reinforce the price control of ordinary commercial housing and affordable housing. Guarantee the supply of middle-low priced and middle-small sized housing.
4. Strictly control passive housing demand, in particular, the amount of relocation due to demolitions for redevelopment	4. Perfect the low rent housing system in cities and towns. Safe guard the basic housing demand of the lowest income families.
5. Provide residents with proper guidance for reasonable consumption demand.	5. Use economic measures such as taxation to control the real estate market. In particular, it needs to increase the strength in regulating real estate transaction activities.
6. Comprehensively monitor the operation of the real estate market	6. Strengthen supervision of the finance sector.
7. Actively and thoroughly control the various policies and measures relating to housing supply and demand.	7. Earnestly rectify and regulate market order.
8. Seriously organise supervision and urging the work of stabilising house prices.	8. Reinforce market supervision and perfect the disclosure of market information.

Source: Soufun, 2005b

As the 8-point policy packages cover a number of administrative areas, a document *Opinion for Doing A Good Job in Stabilising House Prices* was jointly prepared and released by 7 ministerial departments (Ministry of Construction, National Development and Reform Commission, Ministry of Finance, Ministry of Land and Resources, State Administration of Taxation, People's Bank of China, and the China Banking Regulatory Commission) to provide the working details.

While the document provided some clarifications and guidelines, it failed to provide quantitative details or benchmarks for implementation of the policy. Local governments and developers were still relatively unrestrained and the real estate market remained untamed. In the first half of 2006, the average real estate prices in 70 medium-large cities increased by 5.8%. The biggest price changes were in Shenzhen (14.6%), Beijing (11.2%), Xiamen (11.1%), Hohhot (10.4%), Baotou (10.3%), and Guangzhou (10%). Only 2 cities had price drop – Shanghai (5.4%) and Jinzhou (0.5%) (Soufun, 2006).

In May 2006, the State Council introduced a 6-point policy package to reinforce the 8-point macro control of real estate policy.

The State Council's 6-point policy package

In a State Council standing committee meeting on 17 May 2006, the Premier Mr. Wen Jiabao announced 6 major policies (commonly known as State Council's 6-point policy) to curb the over heated housing market. The 6 policies cover the following areas:

1. Adjusting the structure of housing supply. The emphasis is on the development of low-middle price and small-medium size commercial housing, affordable housing and low rent housing. Local governments are required to establish and implement housing development program, and ask for the proportion of medium-small size residence in new residential development.

2. Further developing the regulatory functions of tax, credit and land policies. It requires strict implementation of policies for housing development and sales, and perfection of tax policy on housing transactions. Credit policy needs to be discriminately and appropriately adjusted to guide and regulate demand for housing. The scale of land supply for development should be determined scientifically. Land use supervision should be strengthened to prevent land hoarding.
3. Rationally control the scale and progress of demolition of old houses in urban areas so as to slow down the rapid growth of derived demand for housing.
4. Further rectifying and regulating real estate market order. It requires the strengthening of supervision of the whole process of real estate development so as to stop unauthorised alternation of projects, illegal transactions, hoarding of housing resources and manipulation of prices.
5. Expediting the establishment of low rent housing system in urban areas, standardise the development of affordable housing, positively develop second hand housing market and rental market, and gradually resolve the accommodation problems of low income families.
6. Perfecting the disseminating system for real estate information and statistical data. It requires market supply and demand information to be released accurately, totally and on time. It also requires correct public opinion to be upheld.

The 6-point policy again only provides broad policy principles and need elaboration. In this regard, the State Council subsequently issued a 15-point document *Opinions for Adjusting Housing Supply Structure and Stabilising House Prices* jointly drafted by the Ministry of Construction, the National Development and Reform Commission and seven other ministerial departments. This is the first time that a circular is jointly prepared and issued by 9 ministerial departments in China. It highlights the great concern of the central government in the problems of the real estate market.

The main points of this document are:

1. All urban people's governments must include housing construction in their 11th five-year program. In particular, they should include the construction target for ordinary commercial housing, affordable housing, and low rent housing in 2006 and 2007 into the program and publish it by the end of September 2006.

From June 1 2006, home units smaller than 90m² must account for at least 70% of the total floor space in any new residential projects.

2. As a measure to discourage speculations, from 1 June 2006, a transaction tax will be imposed on the sale price for property owners who resell their ordinary homes² within five years of purchase. Previously the grace period was two years. The tax rate will stay unchanged at 5.5% of the sale price. For individuals who sell their non-ordinary homes after 5 years, a transaction tax based on 5.5% of the difference between the sale price and the purchase price is levied.
3. Developers have to provide 35% funding from their own capital for any project before they can seek loans from commercial banks. Commercial banks are required to be cautious when dealing with development funding or rolling credits for

² Homes with floor area of 144m² or less

developers who have a large amount of idle land or vacant commercial housing units. Commercial banks are not allowed to accept commercial houses that have been vacant for over 3 years as collateral.

4. From June 1 2006, individual home purchasers need to have a down payment of at least 30%. For those who are buying a home smaller than 90m² for their own occupation, the down payment rate remains 20%.
5. All urban people's governments have to prepare annual land use program and to guarantee that the land supply for low-medium price, small-medium size commercial housing, affordable housing and low rent housing is not less than 70% of the housing land supply. Land supply for development of villas and the like remain prohibited. Land supply for low density or large size housing developments is highly restricted.

The relevant governments are required to use a fixed portion of the proceeds from sales of land use rights, and with the support from other government finance, to build low rent housing. A considerable scale of construction of this type of housing has to be commenced by the end of 2006.

6. Urban people's governments are required to promulgate clearly the scale of construction of low rent housing in 2006 and 2007 before the end of 2006.

Comparison of various macro real estate control policies

The first round of macro control of real estate in 1986 emphasised on stopping approval and funding of non essential projects. This was done by direct administrative orders. In the second round of control in 1993, monetary policy was used. The focus was on tight money supply and rectifying the order of the finance sector. Illegal funding for real estate development was taken away and misappropriated funds from key state development projects were reinstated. Persons involved in illegal lending were subject to legal penalty or administrative punishment.

In the third round of control in 2003, a much more diversified approach was adopted. The government has changed its focus from suppressing to stabilising real estate prices. A combination of measures including controlling land supply, planning for development of commercial and affordable housing, taxing real estate transactions, regulating real estate finance, and supervision of real estate transactions processes, etc. has been adopted. It also introduced a new initiative to establish a system of responsibility to urge relevant government officials to act.

The policies in the third round of control are highlighted by the State Council's 8-point and 6-point policy packages. The similarity in the contents of the packages shows that the 6-point policy package is not a new policy initiative. It is an extension to the 8-point policy packages and aims at perfecting them.

The focus of the 8-point policy packages is on stabilising house prices. The goal is to be achieved by slowing down the speed of real estate investment and house price increment through strict control of land supply and finance, and fight against speculation. Although the new and old 8-point policies were fairly comprehensive, they did not provide quantitative benchmarks for implementing the policy. Requirements such safe guarding the basic housing demand of the lowest income families, increasing the land supply for ordinary commercial housing and affordable housing, etc. are too vague and flexible for implementation.

The 8-point policy packages did have some impacts on the real market. There was a fall in housing prices in some cities, but the results were far from satisfactory. In order to make good the deficiency of the 8-point policy packages, the 6-point policy package was introduced.

The objective of this policy package was to adjust the housing supply structure to increase the supply of less expensive housing for low and middle income families. The central government tried to achieve the goal by providing the necessary benchmarks for implementation. For example, from June 1, 2006, the minimum down payment for a new house/apartment larger than 90m² was raised from 20% to 30%. Owners who resell their residential property within 5 years of purchase are liable to pay a transaction tax at 5.5% of the sale value. Local governments are required to make sure 70% of their annual land supply is available for the development of low-cost housing, etc. (Yan, 2006).

Another feature of the 6-point policy is that the 15-point explanatory document *Opinions for Adjusting Housing Supply Structure and Stabilising House Prices* was jointly prepared and issued by 9 ministerial departments. These government bodies include the 7 that drafted the explanatory document for the 8-point policy plus the Ministry of Supervision and the National Bureau of Statistics of China.

The involvement of the Ministry of Supervision sends a clear signal that the system of responsibility established by provincial governments under the old 8-point policy will be enforced and closely monitored, and that incompetent officials may lose their job if they do not do a good job in stabilising house prices and adjusting the housing structure.

Marketing information from developers is often misleading. However, real estate information from government departments may also be confusing. Statistics departments and local government agencies use to separately release real estate market information. They all claim their data to be accurate and authentic. In fact, the data were often contradicting and confusing (Yang, 2006). For example, data from the Beijing City Construction Commission showed that commercial house prices in the first quarter of 2006 had increased by 14.8% over the same period in 2005. Seven days later, data from the Beijing City Statistics Bureau showed that the increase was only 7.6% (Beijing Xiandai Shangbao, 2006). One of the 6 policy points is perfecting the disseminating system for real estate statistic data and information. The involvement of NBSC in drafting the 15-point document implies that it is responsible for determining uniformed methods for collecting and analysing real estate information.

Causes of China's high house prices problem

High house prices in China are not about insufficient supply of commercial housing. In fact China's annual housing construction rate tops the world. The pressure of high house prices is experienced by people with housing need cannot afford to buy commercial houses, they are frustrated by the underdeveloped private rental and second hand housing market, and there is insufficient supply of affordable and low rent housing. The various rounds of macro control of real estate in China were triggered by excessive commercial house prices that were well beyond the means of those people.

There are many contributory factors for high house prices in China. The more outstanding ones are:

1. Mismatch of supply and demand

Urbanisation is one of the main factors for high housing demand in China. In 1949, when the communist government came into power, there were 136 cities in China. In 2004, there were 661 cities (NBSC, 2005). In 1996, the urban population density was 367 persons/km². The figure jumped to 865 persons/km² in 2004 (NBSC, 1997 and 2005). As at the end of 2004, China had 41.76% of the population living in cities and towns, whereas in 1994, it was 28.51% (NBSC, 2005).

Coupled with other factors such as the abolition of the welfare housing system in 1998, formation of new households, people wanting to upgrade or improve living

condition and people displaced by urban renewal schemes, etc., there is a high demand for housing.

On the supply side, the annual housing construction in China is enormous. In 1978, about 38 million m² of housing floor area were completed, while in 2004, about 569 million m² of housing floor area were completed (NBSC 2005). The annual rate of increment is about 130%. However, the supply is skewed towards commercial housing development. Little land is allocated to affordable and low cost renting housing.

Under the 6-point policy, residence with a size not exceeding 90m² is regarded as acceptable for middle-low income people and is given preferential treatment under the policy. Yet the high prices make it virtually impossible for individuals to buy their home even if the house size was reduced by one half and the prices were kept at 2004 level, see table below.

Table 3 House price/income ratio in 10 cities in 2004

City	Commercial Housing Average Price (Yuan)	Price of a 45m ² Apartment	Household disposable annual income per person (Yuan)	House price/income ratio
Wenzhou	9,278 (US\$1174)	417,510 (US\$52,849)	17,727 (US\$2,244)	23.55
Shanghai	8,627 (US\$1092)	388,215 (US\$49,141)	16,683 (US\$2,111)	23.27
Hangzhou	7,210 (US\$913)	324,450 (US\$41,070)	14,565 (US\$1,844)	22.28
Beijing	6,232 (US\$789)	280,440 (US\$35,499)	15,638 (US\$1,979)	17.93
Shenzhen	6,037 (US\$764)	271,665 (US\$34,388)	27,596 (US\$3,493)	9.84
Ningbo	5,900 (US\$747)	265,500 (US\$33,608)	15,882 (US\$2,010)	16.72
Guangzhou	5,660 (US\$716)	254,700 (US\$32,240)	16,884 (US\$2,137)	15.09
Xiamen	5,156 (US\$653)	232,020 (US\$29,370)	14,443 (US\$1,828)	16.06
Nanjing	4,960 (US\$628)	223,200 (US\$28,253)	11,602 (US\$1,469)	19.24
Tianjin	4,760 (US\$615)	214,200 (US\$27,113)	11,467 (US\$1,452)	18.68

Source: Average house price and income data from Personal Finance, 2005a

Even if the people could afford to buy their home, small size residences are significantly under supplied. According to the Ministry of Construction, at the end of April 2006, there were 1 million units on the market of 40 cities with a total floor area of 120 million m², only 12,000 units were smaller than 60m² (China Daily, 2006).

2. Insufficient supply of low cost housing

China used to have a welfare housing system. Employees were entitled to receive free accommodation from their employers. The system was discontinued in 1998 and replaced by a monetised housing system, i.e. housing benefit is to be incorporated into salary (Chan, 2000, Lee, 2000). While the high income employees may look after

themselves under the monetised housing system, the middle-low income employees find it difficult to buy their own home as they cannot afford the high house prices. The underdeveloped private rental and second hand sales markets also do not give them comfort either.

In 1999 the Chinese government introduced the *Urban Low Rent Housing Management Regulation* following the abolition of the welfare housing system. The regulation was replaced by the *Urban Lowest Income Families Low Rent Housing Management Regulation* in 2003. Under the provisions of these regulations, local governments have a responsibility to establish a low rent housing system. Regrettably the requirement has either been abused or ignored. The Ministry of Construction reports that as at April 2006, 70 cities still did not established a low rent housing system and 122 cities did establish strict application and approval system (Li, 2006a).

The proportion of private housing in China is estimated to be around 73% (Chen and Berrell, 2004). While this figure looks encouraging, it does not mean that the private properties are all commercial houses. A very large portion of them are former dormitory accommodation that turns private properties when sold to employees at cheap prices following the abolition of the welfare housing system. Commercial house prices are still beyond the reach of most people, see Table 3 above.

Ya (2005) reported that as at October 2005, there were more than 100 million m² of vacant commercial housing space; the vacancy rate nationally was 28%. Since the majority of real estate development projects are financed by borrowing, the vacant properties become a big burden to financial institutions and put them at risk. The adverse situation also highlights the plight of those people who need housing but cannot afford to buy commercial houses. They have to look forward to the expansion of the private rental and second hand real estate market and the construction of more affordable housing. Those families with low or lowest income have no choice but to wait for building of more low rent housing by the government.

3. Land sales by auction and tender

Under the provisions of the *People's Republic of China City Real Estate Management Law* 1994, local governments at county level or above are authorised to sell land use rights by way of auction, tender, or mutual agreement. Although the law specifies three methods for transfer of land use rights, local governments prefer sales by mutual agreement. As the deals under mutual agreement are not transparent, corruption and loss of state revenue occur from time to time.

In April 2001, the State Council issued a document *Notice Regarding Strengthening State Land Asset Management* to promote using auction and open invitation for tender for the sale of land use rights. Subsequently the Ministry of Land and Resources in May 2002 introduced the *Auction and Invitation for Tender Sale of State Owned Land Use Rights Regulation* that required local governments to implement this policy. From 1 July 2002, state owned land use rights for commercial purposes must be sold by way of auction or open invitation for tender.

The requirements have reduced the amount of land that developers can get from local government via the old channel. They need to compete for land in open competitions via auction or tenders. As open bidding will inevitably boost up land prices, home purchasers eventually have to foot the bill. A survey by the Ministry of Land and Resources shows that land value accounts for 23% of commercial house prices (Long, 2006).

4. Conflict of interest at local government level

In China, land sale proceeds, real estate taxes and fees contribute to a big share of local government revenue. In 2005, the land sale revenue of all local government was over 500 billion Yuan (US\$63 billion) (Zhai & Shao, 2006). There are 15 prescribed real estate development taxes that account for about 9% of development cost. In regard to fees, the number varies from local government to local government and can be over 100, and accounts for about 41% of development cost (Long, 2006). All up, the local governments may get more than 70% of the sale prices of real estate.

The huge revenue potential has seen some local governments operate like private enterprises and the behaviour of certain local governments is astonishing. In 2005, the Hohhot government in Inner Mongolia employed professional from Beijing to push up real estate prices, and developers worked closely with the government to raise house prices (Zhao, 2006). Instead of allowing the market to determine the price, the Hohhot government unilaterally raised land price from around 300,000 Yuan (US\$38,000) per mu³ to over 500,000 Yuan (US\$62,000) per mu, with the highest price at 3 million Yuan (US\$380,000) per mu. The land use rights sales brought over 400 million Yuan (US\$51 million) revenue to the government. In the last quarter of 2005, Hohhot had the highest house price rise in the country (Wu & Liu, 2006).

Despite that the central government wants to control real estate prices, it is not in the interest of local governments to do so. Since the local governments have monopoly over land supply and are authorised to levy taxes and fees, if they choose not to cooperate, it is difficult to see real estate prices come down.

5. Lack of investment channels

The Chinese real estate market is mainly financed by the banks and private investors. As banks are under pressure to improve performance and make profit, they try to lend out as much money as possible. Real estate is a good choice for lending as each deal involves a large amount of money. The Bank of China reveals that as at the end of 2005, the outstanding loans for real estate development was 2.77 trillion Yuan (US\$350 billion), up 16.1% from previous year (Asia Pulse, 2006).

In regard to private investors, the rapid growth of the Chinese economy has seen an increase in the number of wealthy people and they need to invest their money. As Chinese stocks and shares are not performing and that other channels of investment are limited, they invest their money in real estate with a view to get capital appreciation. Apart from real estate in their home town, they also invest in other cities as well. The following table shows the proportion of non local real estate purchaser in 12 Chinese cities in 2004.

Table 4 Ranking of Non-local House Purchasers

Ranking	City	Percentage of non local house purchasers
1	TaiYuan	80%
2	Beijing	60%
3	Dalian	60%
4	Zhengzhou	55%
5	Chengdu	51%
6	Guangzhou	50%
7	Hangzhou	50%
8	Fuzhou	42%
9	Xiamen	39%

³ 'mu' is a Chinese unit of measurement for land area. 15 mu = 1 hectare (10,000m²)

10	Haikou	36%
11	Chongqing	26%
12	Shanghai	20%

Source: Personal Finance, 2005b

Likely impacts of the 6-point policy

The 6-point policy package together with the 15-point explanatory document provides detailed guidelines for adjusting housing market structure and stabilising house prices. They are soon followed by a number of documents and measures to complement the policy. For example, on 31 May 2006, the State Administration of Taxation issued the document *Notice Regarding Problems Associated with Strengthening Residential Transaction Tax Management* to clarify the queries on the tax payable for the sale of ordinary and non ordinary residence. On 19 August 2006, the central bank (People's Bank of China) raised the interest rate from 6.39% to 6.84%. On the same day, the Ministry of Construction issued the *Urban Low Rent Housing Work Standardised Management Implementation Method*.

The issue of a number of complementary documents soon after the release of the 6-point policy shows the central government's determination to get the job done this time. In order to make sure the policy will be followed by local governments, the Ministry of Supervision is involved in overseeing the implementation of the policy. While the full impact of the involvement of the Ministry is yet to be seen, indicative signs can be observed from Article 19 of the *Urban Low Rent Housing Work Standardised Management Implementation Method*.

Article 19 contains a table of benchmarks for assessing the performance of government agency responsible for low rent housing. The performance is regarded as unsatisfactory if the score is below 80 out of 100, and the relevant agency will be required to improve within the specified time fixed by the supervising authority. Officials now clearly know what are expected as well as the consequence. Coupled with the threat of job security under Point 2 of the old 8-point policy, officials concerned have to take it seriously this time.

The central government understands that by merely suppressing house prices will not achieve the goal. The focus has now been shifted to stabilising house prices by using market forces through increase in supply of housing for middle-low income families. The 6-point package highlights 6 areas that the central government would look at. Housing development in the years ahead will be focused on the development of commercial housing, affordable housing and local rent housing for low-middle income families.

Local governments are instructed to speed up the establishment of a low rent housing system and are required to publish annual housing development program. They are also required to ensure not less than 70% of housing land supply are reserved for development of low-middle income housing. The policy package also requires that 70% of the floor area of all newly approved and constructed residential projects to be smaller than 90m². It is envisaged that there will be a substantial increase in small size residence to suit the need of middle-low income families. For example, the Beijing city government has announced that in the next 5 years (2006 – 2010), 900,000 commercial houses will be built, of which, only 5% are up market large size houses. Development of luxurious housing such as villas remains to be banned (Mingpao, 2006)

In regard to the fight against speculation, it is done via tax and credit measures. As from 1 June 2006, resale of residence owned for less than 5 years is subject to a transaction tax at 5.5% of sale value. In addition, home owners will have to pay 20% of the net profit in individual income tax when they sell their property on or after 1 August 2006 (Xinhua, 2006). Purchasers for homes of 90m² or above need to have 30% down payment and developers need to have 35% equity before they can get finance for development projects. Commercial banks

are not allowed to accept commercial residence vacant for more than 3 years as collateral. The various anti-speculation measures will see a lot of speculators leave the arena.

In order to prevent hoarding of land, the policy package requires land and planning authorities to monitor land developments. Developers will face a monetary penalty if no construction work is started within 1 year of approval and the land will be confiscated if construction work does not start within 2 years. Nevertheless, the success of this policy will depend on the attitude of relevant authorities. In this regard, it is likely to see the Ministry of Supervision put forward measures for the necessary supervision.

In regard to rectifying and regularising the order of real estate market, the package emphasises on supervising the development process of real estate projects and rectifying illegal activities in real estate transactions. However, the policy documents only provide broad principles. Local governments still have the flexibility to induce different measures to deal with irregularities; and corruption may occur. The Ministry of Supervision and the Ministry of Construction are expected to issue guidelines and set up a monitoring system to make sure that the policy is justly implemented.

Demolition of old houses has been relied on by local governments to get urban land for redevelopment. Since the amount of compensation money is often insufficient for purchasing replacement accommodation, there have been numerous clashes between the local governments and the affected people. The large number of displaced people also increases derived demand for housing. As it is unreasonable to stop all demolition projects, the policy package requires the scale and progress of demolition activities to be reasonably controlled at 2005 level. The requirement 'controlled at 2005 level' is, however, a rather vague requirement. It is envisaged that clashes between local governments and affected people will continue to upset the central government.

In regard to the release of real estate information, the 6-point policy and 15-point explanatory document do not explicitly make NBSC the sole authority to disseminate information. The policy only requires that the information must be thorough, on time and accurate. Local authorities are allowed to do the job as well. There is no requirement for the statistics departments and local authorities to verify or cross check their data before releasing the information. Unless uniformed guidelines are issued by NBSC for collecting and analysing real estate data, people will continue to see confusing information as before.

Conclusion

Control of the real estate market is common in both developed and developing countries. China is no exception. Since the introduction of the 'open door' reform policy, there have been several rounds of macro control of real estate. Each round of control has its respective objectives and outcomes. The current round of control aims at restructuring housing supply by emphasising development of more low-middle income housing as well as stabilising housing prices. By encouraging more supply, the central government aims at using market forces to stabilise and possibly lower house prices.

The contents of the 6-point policy package are by far the strictest and most comprehensive. They cover 6 main areas including restructuring housing supply, using tax, credit and land policies as weapons to fight against speculation, controlling the scale demolition of old houses, regulating the order of real estate market, establishing low rent housing in urban areas and perfecting the system for disseminating real estate information.

The central government understands that the success of the current round of macro control of real estate will depend on satisfactory implementation by local governments. Under Point 2 of the old 8-point policy, officials failing to rein in the galloping house prices will be held responsible. The 6-point policy reinforces the mandate by bringing in the Ministry of

Supervision. Unlike previous policies, the 6-point policy also lays down benchmarks to assess the performance of local governments. Local governments will have no excuse that the policies are too vague to implement. On 25 September 2006, the top party official of Shanghai was sacked for siphoning more than US\$400 million of workers pension funds to finance risky real estate and other deals (Toy, 2006). A few days later, two top officials of Henan Province were given disciplinary action for involvement in illegal land acquisition and development projects (Shanghai Zhengquanbao, 2006). These are strong signals to local government officials that their job will be at risk if they do not do a good job. No doubt the housing market and market order will have a big change under the mandate of the 6-point policy package.

While the 6-point policy package is the best policy package so far, it fails to address the issue of conflicting interest of local governments. Local governments have been for a long time addicted to chasing high real estate prices to increase revenue. The central government fails to put forward a measure to break the tie. In relation to the land sale proceeds, the 6-point policy only requires local government to allocate a fixed portion of the proceeds for low rent housing development. However, the policy fails to specify the relevant percentage required. Local governments may still be able to get through by allocating only a tiny portion of the land sale proceeds. Similar problems may occur to other areas of control that lack a benchmark. It is expected that more policy documents will be released in the near future to fine tune the current round of macro control of real estate.

The policy package has laid down strict control on real estate finance. While the control is necessary, the lack of appropriate investment channels to divert surplus funds from financial institutions and private investors will encourage them to uncover loopholes in the control. The central government has to consider means to widen the investment channels so that funds can be diverted to other outlets.

The success of the control depends very much on how the policies are carried out. Even though the Ministry of Supervision is now involved, local governments and developers will still try to find loopholes to get what they want. In order to achieve the targeted results, the central government should also allow freedom of speech such that there is also supervision by the people and media. Unless and until financiers, developers and local governments become law abiding citizens, the central government still has a lot of challenges in the future.

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