

**Pacific Rim Real Estate Society Fourth Annual Conference
Perth, Western Australia 19-21 January 1998**

**ON THE POLICY ORIENTATION FOR
THE REAL ESTATE INDUSTRY DEVELOPMENT
IN CHINA**

Presenter

Chen Guang-yan

*Director, Professor, Senior Engineer, Cost Engineer,
Real Estate Appraiser, Shenzhen, P.R.China*

In only a few years , the real estate market in China experienced the starting, climax, getting out of control , adjusting , digesting and enveloping phases . From the following chart of comparison of macro-economic index , we can see clearly that between 1992 and 1993 , the scale of investment in real estate development was too large , and abnormal .The speed was not balanced with the national economic development and capital construction development . It was also a rare phenomenon in the history of international real estate development .

**The Target of Macrostructure
For Real Estate Development in China
(Contrast the present with the past + or - %)**

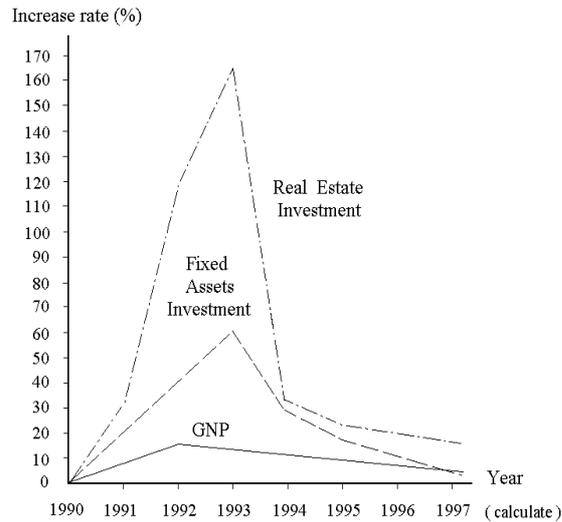
Year	Gross national product (GNP)	The whole society fix assets investment amount	The investment of real estate
1991	9.2	23.81	32.41
1992	14.2	42.59	117.42
1993	13.5	58.60	164.98
1994	12.6	31.40	31.79
1995	10.2	18.78	23.39
Average increase of annual	11.8	34.31	65.49
1996	9.7	18.20	21.50
1997 (calculate)	8.0	7.20	18.00

* Source: Statistical Yearbook of China 1995.

Government Working Report 1996.

Change of Real Estate Development in China

(Contrast the present
with the past year)



The lopsided development of real estate industry in china inevitably resulted in disorder in the market , unfair competition , waste of land resource , investment scale out of control , large amount outflow of benefits from state-owned land ; The sudden huge profits induced the funds flowing to real estate improperly , encouraged disorder in financing , resulted in credit expansion ; The over-developed real estate industry brought the increase in the price of building material and production goods as well as the rapid increase in the cost of construction. All these showed that the establishment and cultivating of it is still in the initial stage , thus it strayed from the right path and therefore it premature senility .

After being regulated , conformed and renovated , for several years , the disorderly expansion in real estate development has been kept within limits , the investment structure has also been adjusted , the price in real estate has been stabled , the market rules has been constantly improved ,the market conduct has been gradually normalized . The real estate industry has turned to stable developing stage from adjusting staging and basically get into the healthy developing track .

At present, the development and real situation of real estate total us that there are still quite a lot of problems in both the external environment and internal mechanics: Up till now, the development of real estate in China faces three striking contradiction obviously:

1. The contradiction between the optimism in medium and long term prospect of real estate industry and hardship in immediate term development. With the development of macro-economy, the real estate should still be developed at a certain scale and speed and the increase should be kept at 9-10% which is basically in balance with the economic development, so to bring some new opportunity to real estate industry. The reform in financing system and housing system will also enhance vigor to the real estate development. The total demand operation for real estate commodities from the society is not satisfied yet, so there is a great potential market, thus, it can be concluded that the medium and long term development in real estate is optimistic. However, the immediate-term development faced great difficulties, so there is a big falling in investment sifter rising.

The cooling down in investment caused unbalanced development, there is more unoccupied areas in real estate commodities, and the operation is dull, the loss incurred in enterprises is quite big, and the economic benefit is gliding down, so the immediate-term real estate situation is not optimistic, the initial stage is hard.

2. The contradiction between the great potential market demand and the unsatisfied effective demand. China is a developing country with big population, the people's housing problem plus the foreign business people here in China means a great potential demand in real estate market.

In order to realize the 8 m² floor space per capita, during the ninth five year plan, each year, a 1005 --1008 million m² of houses need to be built, By the year 2000, the land used in cities will reach 3000 m² which is twice as many as what the city area is. In the whole country, nearly 3000 km² of new houses and existing houses need to be built or improved, plus the 2000 km² buildings needed by industry, communication, commercial business, education, culture, health and offices, a total of about 10000 km² area of land in cities need to be developed or re-developed.

The potential market demand is great. But the enterprises, institutions and individuals are not strong enough financially to purchase houses, the prices of commercial houses are very dear, much higher than the people's income, plus, there is not enough mortgage support in real estate, so the ordinary demand for real estate was not turned to effective demand in time, therefore, the total development in the industry is not balanced.

3. The contradiction between the large amount increased of commercial houses left unused and the households with housing problem: Now, the accumulated area of unused commercial houses over 50 million m², obviously, this made a striking contrast with the million plus household who need housing badly. Of course, not all tire unoccupied houses are overstocked .

It's just like any other commodities , necessary stock is reasonable . In developed countries , the warning limit of unused houses is set at 10% of the total supply for 3 years . Now , in china , the rate unused houses is 9.95% (published figure); This is a warning which can't be neglected . Under the president situation , the focus of attention for starting the real estate market is to adjust and enliven the real estate stock , invigorate the circulation , increase the effective supply , stimulate effective demand , and foster the real house purchaser .

The key to enliven the real estate market is to rationalize the price of commercial houses , gradually establish and improve real estate financial system and strengthen property management and service quality .

In my opinion , the real estate policy orientation and measure should focus on and try to realize the following aspects:

I. TRY VARIOUS DEVICES TO ENLIVEN THE EXISTING REAL ESTATE STOCK .

At present , there is no surplus of the total real estate product , the unused over 50 million m² commercial houses made a striking contrast to the 5 million households with serious housing problem , this means the stock of real estate products need to be enlivened . What the government should do to the over-stocked land and commercial houses is: first , to sort out the existing real estate developing projects and to speed up the construction of those which have the condition , the market and funds , and conscientiously make a food effort to the construction of supporting measures and ensure the work quality while put into operation of those projects that have been stopped due to lack of funds by purchasing, transferring , or auction through setting up professional venture purchase company or project trust company. Second , for those already built but not sold out commercial households with housing problem at low price by taking back the commercial houses after return back the cost and fax or turn these houses to “settling projects”. In other words , the government will solve the housing problem at its own cost . The government should also strictly forbid collecting the various arbitrary charges from real estate companies , so to lower the dear price of houses . Besides , the profit of the real estate developing companies should be controlled , and the developer’s profit concept should be changed and they should also try to promote the sales of various overstocked commercial houses by the methods of “rent first and then buy” replace sales by renting and “make things easy for both renting and sales” .

II. EFFECTIVE MEASURES MUST BE TAKEN TO INCREASE EFFECTIVE SUPPLY.

According to the economic development strategy object determined by the state , the four major task in construction industry during the "ninth five year plan " period is:- to establish the key projects , dwelling houses construction , city and town construction and country construction . All these will bring along the development of a series of relevant industry .

The fact that dwelling house construction became the new national economy in crease point has become guide and for sure it will set off the start and development in the whole real estate industry . With the "construction of ninety five year plan " key projects --- develop the mid-western area formed the new economic pattern which provided large market and opportunity for real estate . So , in order to develop real estate , the focus should be on structure adjusting and effective supply increasing . The government should use the part of income from renting out lands to provide loan with discount interest to real estate companies for infrastructure construction , and speed up the supporting dwelling houses construction . Of course , we should be careful not to resume the real estate development craze while speeding up the dwelling houses construction . The real estate craze in 1992 and the first half of 1993 resulted in the block of thousands of billion funds . It is estimated that , it will take at least 10 years to solve all the problem caused by the real estate craze. The methods to solve the programs are: to make the local authority offer concessional price , and the owner offer concessional profit and the bank offer concessional interest . We must adopt the market-oriented economy concept to enliven real estate , stimulate the circulation of stock while paying attention to increase the amount , so to foster the real estate market .

III. TRY EVERY POSSIBLE WAY TO FOSTERED STIMULATE EFFECTIVE DEMAND.

To train and foster real estate products consumer and promote the effective demand for dwelling houses are the important ways to realize the sustained development of real estate industry . At present , the contradiction in China is not that the supply exceeds demand , but the effective demand is not satisfied . The leading role in developing dwelling houses is not the supplier , but the demander .

Due to the dual-track housing system and low salary system in China , most of the users of dwelling houses have not become the buyer , and this is a problem can't be solved in a short time . Many vigorous and effective measures must be taken in order to make the people willing to buy , enable them to afford to buy houses . I believe we can realize this through the following measures: First , firmly carry out the commercializing , marketing , standardizing the dwelling house construction and build them intensively in large scale .

Second , adjust the ratio of prices of house and workers' income , lower the price of house and raise the worker's salary , also set up housing allowance fund .

Third , reform the real estate tax and establish a tax system which is able to keep the development of house building , strengthen the function of tax lever and regulate , encourage normal consumption of houses .

Fourth , adjust the ratio of house renting price and sales price , to convince people that it's worthwhile to buy the house than to rent it .

Fifth , speed up the support reform of financing industry , establish housing savings bank or real estate financing organ , widely and carefully implement installment loan and mortgage loan system .

Sixth , enhance the housing consumption and commercialization mentality of the whole nation, dispel the privilege in housing distribution.

Seventh , develop the leasing industry and practice the method of first purchase the house by installment payment and then lease it out, meanwhile , be aware that property management is a main part of housing market , it can't be neglected .

IV. STRICTLY RATIONALIZE AND COVER THE COMMERCIAL HOUSES.

According to the statistics by the construction department , from 1980 to 1995 , the sales price of commercial houses increased 11--14 times in China , if take specific city for investigation , then from 1982, the price of houses increased to 7000/m²--8000m² yuan from over 200 yuan/m² in 1982 . The housing price is too dear in the conclusion . The unreasonable structure of the price of commercial houses itself is one of the main reason for the too fast increase in price . On the whole , to solve the problem of too dear housing price compared to workers' income , we must gradually raise the worker's income based on the national economy , foster and build the housing consumption hot spots . But concerning the existing price structure of commercial houses , we can lower the too dear price by further study and taking vigorous measures.

1. Lower the price of land to achieve the lower price of houses , standardize the government performance , carefully calculate the confessional land price ; Another way is to let the house buyer pay the land lease by installment during the time he uses the house , that is to say : instead of paying off the price of land in clump sum , the buyer can pay back the land by in a long term .

2. To study rationally amortizing the public service facility and supporting facility cost .

3 . To strengthen the clearing of the real estate tax and earnestly solve the high tax problem faced by real estate enterprises .

4. To find the financing source for city infrastructure construction cost , gradually adjust the price of public utility commodities in order to finance for the cost .

5. To encourage the internal management of the real estate enterprises , practice strict economy to lower the cost for dwelling houses developing and building .

V. SYSTEMATICALLY STUDY AND REFORM THE EXISTING REAL ESTATE TAX SYSTEM.

At present , the existing tax rate of real estate transaction was made in the early 1950's , so it needs to be adjusted properly according to the new Situation.

In accordance to international practice , we should avoid levying both tax on business and tax on deeds for the same act in the purchasing and sales of commercial houses or the transaction of real estate products in stock . On the other hand , we need to re-study the value-added tax on land . The method of administration tax on property practiced in Hong Kong deserves consideration . It is an important aspect to encourage consumption on dwelling houses through the lever function of tax policy .

VI. SPEED UP THE REFORM OF THE WELFARE TYPE OF HOUSING MECHANICS .

In some medium and big cities , it's hard to sell the welfare house even at the cost price . The sales volume is only about half of the amount . This phenomenon disproved that the reason for the overstock of commercial houses can not be simply classified as too dear price . It only shoos that

the welfare housing system is the important influence . As you know , most of the workers living in cities and towns in china rent and live in state-owned houses and the time , now , the rent is still very low in china , one of the drawback of welfare housing mechanics is free house distribution or paying large amount of allowance by the units . So , the welfare housing mechanic is a big obstacle for the sales of commercial houses and also the restrictive factor in the development of real estate . We must concentrate on the transform of the welfare housing mechanic , resolutely dispel the tree house distribution or paying (the workers)large amount of allowances , so to over come the peoples' dependence on the government or the enterprises , and quickly transit the welfare distribution to helping people buy house by increasing their salary , and by purchasing houses from the market to speed up the commercializing of the dwelling

houses and put them to market , so to build mechanism in a favorable spirit.

VII. PROMOTE THE MODERNIZATION PROCESS OF HOUSE CONSTRUCTION BY MEANS SCIENCE AND TECHNOLOGY PROGRESS.

The state has put the housing industry as a new increasing point for the national economic development , so it is the important driving force to start up the real estate industry .

The key to reform and develop the housing industry is to depend on science and technology progress .

First of all , we must realize the transition from loose , extensive construction style to rational layout , unified regulation and supporting facilities construction style and realize the modernization of production technology , standardization of management, standardization of prediction of house parts in factory's to improve the product quality of house construction and lower the cost, therefore lower the price of the houses.

Second, to realize the house production in large scale and improve the present situation. Most of the real estate companies are of small scale and there are thousands of such companies in one city. The business scope must be enlarged by market completion , select the superior and eliminate the inferior.

Third , we must adhere the new way of using science and technology as guide , speeding up the transform of science and technology achievement and improving the construction quality and the function and environment of dwelling houses , so to explore the new way of modernization of our housing industry .

VIII. CONTINUE THE MACRO-ADJUSTING ON REAL ESTATE AND STRENGTHEN MANAGEMENT OF MARKET.

Macro-adjusting means: in order to achieve the expected economic operation , with an eye to the national economy , comprehensively utilizing various means to regulate and control our national or social economic activities . The object of the macro-adjusting is to balance the total economic amount , propriety the optimization of economic structure and lead to the sustained, quick and healthy development and promote the social progress in every way .

From this point of view , it's necessary to continue the macro-adjusting on real estate industry , it should not be crippled .

UP till now , the state has fostered real estate development as new economic increasing

point , the real estate management departments should do a good job on the following aspects :

1. Correctly grasp the relationship between the development of housing and economy . To develop housing industry and start up the consumption of houses does not mean to create another real estate over-heated real estate market , nor to resume the real estate craze .

2. Correctly grasp the relationship between dwelling house construction and fostering the consuming market . In arranging the dwelling house construction scale , we must strictly obey the law of developing the national economy in a planned way and with certain proportion and to balance the real estate investment scale within the social fixed assets investment scale .

3. Correctly grasp the relationship between house construction and the correct development of city infrastructure . For time being , we should pay attention to study the financial source for city infrastructure construction fund and the way of arranging the fund .

4. Correctly grasp the relation ship between dwelling house construction and real estate industry . Dwelling houses is an integrate of real estate , so , we should not neglect the overall balanced development of real estate industry while paying attention to dwelling house construction .

5. Correctly grasp the relationship between the quantity and quality of dwelling house construction . We must take vigorous measures to improve the quality of the construction work and improve the function of dwelling houses in order to make people feel relieved and satisfied when they buy the dwelling houses .

6. Correctly grasp the relationship between dwelling house construction and property management . We must take property management as one of the important item in real estate industry operation and overcome the bad habit of building and selling the house but not looking after the house.

IX. THERE MUST BE CORRECT PUBLIC OPINION GUIDE.

The climax of real estate has been over for several years , but the media still advocates that real estate is “pillar industry” to serve production and people's life . It can't change our national economy relation and policy of agriculture as the foundation , industry as the guide , it can't be speed-up either . There is also advocates real estate “ is inflation-proof ” and “value-adding ” .

This is only commercial propaganda for sales promotion . In fact , the real situation in China is: those who have money don't need houses , while those with housing problems have no money . “Speculation” is one way of market operation , it should not be forbidden or against , but it should be at a moderate degree , so it can be helpful to the real estate development .

From the point of view of long term development , with quite a long term , the real estate industry will not be a quick-profit-gaining industry , but it's possible to gain an investment recovery higher than the average profit . This also means that the flourishing and growing of real estate is one of the driving force for our economy . As to the present regulation on real estate advertisement , we should strengthen the control over it . Any advertisement against “advertising law” must be seriously dealt with or be dealer through the court .

X. WE MUST BE CONFIDENT, TRY TO PROGRESS BY STEADY DEVELOPMENT, CONTINUE TO DIGEST.

The state has made clear about the focus of macro-economy should be on promoting economy and the transform of the way for economic increasing and to improve the quality and benefits of economic increase . So that we can make progress by steady development and promote the sustained rapid and healthy development of our national economy , so to “make progress by steady development , at moderate degree” , and “continue to practice the moderately financial currency policy ” , “ keep the rational investment scale” (from “ The government work Report ” made on the fifth plenary session of the Eighth NPC Meeting) etc. so , it is not very realistic to expect a rise again in a large scale in the near future .

From the pell-mell irrational development from 1992 to the first half of 1993 , people can get the common view from the price paid that to develop the real estate industry also need to strictly obey the economic law and in accordance with the basic rules such as “ real estate development need financial support ” , and “ the relationship between effective demand , effective supply and consumption capacity ” as well as the policy of developing the national economy in a planned way and at a certain proportion . In this view , even though there is a sign of getting out of the ebb and rising a little and a sign of recovery , from the above observation and analysis , the main key is slowly recover , continue to digest , make progress through steady development and foster the market . The policy-orientation is about to make dwelling house construction the new increasing point of our national economy , adjusting and controlling the total volume , optimizing the structure , regulating the price of houses , enlivening the market and strengthen management . The growing of our economy is powerful , and the potential real estate market is large .

Look into the status of China in the world economy at this transition-century period , we are confident . This confidence comes from the formation of the new economic increasing point and decision of macro-strategy of opening up and economic development . Real estate is one of the increasing economic point in China and it'll play a leading role in the long term economic development in China .

It will be a driving force for starting real estate market successfully and helpful for sustained , quick and healthy economic development during the “ ninth five year plan ” period .

As well as the driving force for the take off surpassing the year 2000 . In a word , we should look reality in the face , be practical and realistic , concentrate on solving the existing problem and contradiction rationally , change the unfavorable factors to the favorable ones . We also need to offer a relaxed environment for real estate industry , especially the dwelling house construction , restrict the price of houses , foster housing consumer , develop housing finance , raise the people's purchasing power , taking forceful measure , deepen the unused commercial house digestion; speed up improving the supporting real estate law and regulation ; Establish and improve the real estate intermediate agencies and property management system , improve the service before and after the sales of commercial houses , keep the quality and value-adding potential possibility , to relieve the purchaser from worries .

At the same time , carefully digest the negative influence left over from the real estate craze a few years ago , take vigorous measures to start the real estate market which has been dead for many years .

This does not only have a bearing on the self-development of the real estate industry , but also have a bearing on the question of whether the national economy can get on the sustained , rapid and healthy developing track .