



Boao Forum for Asia Annual Conference 2017

Session Summary (No. 67)

Boao Forum for Asia Institute

March 26, 2017

Session 44

Property Bubble: Will China be an Exception?

Time: 3:30 pm to 5:00 pm, March 26, 2017

Venue: ICC, Level 1, Dong Yu Grand Ballroom D

Moderator: Peter HARTCHER, Political Editor & International Editor, The Sydney Morning Herald

Panelists

JIA Kang, Former Director, Research Institute for Fiscal Science (RIFS), Ministry of Finance; Chief Economist, China Academy of New-Supply Side Economics

LI Xunlei, Chief Economist, Zhongtai Securities

Jeff LIN, Chief Strategy Officer, Country Garden Holdings

Chris MARLIN, President, Lennar International



WU Xiaoqiu, Vice President, Renmin University of China

Key points:

- China is no exception in the property bubble, and the bubble will burst if the leverage is not adjusted downwards.
- Whether the bubble will burst is closely related to the economy, the population dynamics and population thermodynamics. At present, the real estate is in a controlled slightly heated development state.
- With the advance of urbanization, it is necessary to construe the supply under the concept of housing as a dual-track coordination framework that can meet the needs of the society. The government should strive to support the guarantee. Thus, the transaction prices of the commodity housing market will not have such a destructive force.
- China must actively learn from the United States and Europe, and establish the direct tax system, and formulate the housing tax, property tax or real estate tax.
- It is best to implement the officials' property disclosure system. Other major civilized countries, without exception, have their own disclosure system for property of officials or the disclosure system for the property of officials who take office in certain positions.
- Beijing municipal management agencies will be relocated to Luohe town, Tongzhou in the next two years. The population size can no longer expand in a central city like Beijing.
- Cognizant of the property bubble, the Chinese government launches purchase quota policy, while the US government did not take any measures when the real estate bubble occurred.
- To truly solve the problem of school district housing, we shall return to the



more rational allocation of educational resources.

Synopsis:

Japan's property market bubble has burst, and the US property market bubble has burst, resulting in disastrous consequences for both countries. The burst US property market bubble has its repercussions for other countries. Will China be an exception in the property market bubble? If China becomes an exception, why can we go against the general rule of history? Participants expressed their views—with thoughts, worries, and predictions. They kicked off discussion with the audience on the status and the future of China's real estate market.

Will the real estate bubble burst?

WU Xiaoqiu pointed out that there were two major global bubbles: bubble in the US stock market, and bubble in the Chinese property market. China's property market bubble will burst, but there is a time lag. If the leverage rate is drastically lowered, China's bubble will not burst. If not, the bubble will burst.

LI Xunlei agreed with WU's view that the bubble would certainly burst.

JIA Kang said that the academic circle recognized the existence of the bubble, but the recognition of bubble was often a matter of opinion. Generally, we only know the magnitude of the bubble after it is burst. Japan is a lesson for the property bubble. Japan's urbanization rate reached 77% at the time. In 2016, China's urbanization rate of the registered population was 41%. International experience shows that China would probably reach the slow development stage after a rise of almost 30 percentage points.

Jeff LIN agreed with JIA Kang's point of view and said that the definition of the bubble was very important. The bubble does exist in different times, but its material is different. And this cannot be generalized for different cities.



Whether the bubble will burst is closely related to the economy, the population dynamics and thermodynamics. At present, the real estate is in a controlled slightly heated development state.

Chris Marlin said that there was a major difference between the United States and China in the property market bubble: the Chinese government was aware of a real estate bubble, whilst the US government did not have such awareness. The Chinese government launched the purchase quota measures to cool down the real estate market, while the US government did not take such measures when the real estate bubble occurred.

Will house prices go up?

WU Xiaoqiu said that it could not draw a conclusion of such high housing prices from the economics theory, but the data analysis showed that there was some logic in the rising property market prices. The price of a country's real estate is related to the level of the country's economic development, the degree of marketization, and the level of individual income.

JIA Kang considered that with the advance of urbanization, it was necessary to regard the supply under the concept of housing as a dual-track coordination framework that can meet the needs of the society. The government should strive to support the guarantee. Thus, the transaction prices of the commodity housing market will not have such a destructive force.

LI Xunlei predicted that housing prices might generally fall by 2020 or so. The floating population that is a determinant factor of the housing price cannot continue for so long. In addition, monetary growth will decline in the wake of slowdown in economic growths. Any bubble burst is irrational. After the end of decline, the rise will come back.



Whether it is possible to ensure a steady rise in housing prices through regulation

JIA Kang considered that promoting the healthy development of China's real estate market required a long-term mechanism, which depended on the basic system construction. First, to keep exploring the experience of the pilot project in Chongqing; second, the government should take the lead in providing an orderly supply, and put the low-income classes on the platform of public rental housing and shared ownership housing; third, we should mobilize the non-government funds to provide housing and infrastructure of livable city; fourth, China must actively learn from the United States and Europe, and establish the direct tax system, and develop the housing tax, property tax or real estate tax.

Whether the property tax should be levied

WU Xiaoqiu said that the introduction of real estate tax or property tax may bring other forms of social unrest and other costs. If it is not levied, house prices will rise. Whether the property tax or real estate tax will be levied is based on which one of the two costs is greater for China.

JIA Kang said that China must build a modern tax system if it is to enter a modern society. All central documents agree with this opinion.

The property tax should be preceded by the officials' property disclosure system

JIA Kang said that it was best to implement disclosure system of the property of officials. Other major civilized countries, without exception, have their own disclosure system for property of officials or the disclosure system for the property of officials who take office in certain positions.



Whether the talent should return to third- or fourth-tier cities under the pressure of high housing prices

LI Xunlei expressed that the outward movement of population was a normal phenomenon. There is still much room for the development of city clusters and urbanization. So the price will rise. In the far-flung areas, there are few employment opportunities, and public services are lacking. Population in these regions will be drawn to metropolitan areas. This makes for adjustment of the population and improvement of the economic structure.

Jeff LIN said that China has made some progress in exploring the concepts of property right integration and characteristic towns. In fact, this provides a good option for the surrounding areas of the first- and second-tier cities.

JIA Kang said that Beijing's municipal management agencies would be relocated to Luohe Town in Tongzhou, in conjunction with the integration of Beijing-Tianjin-Hebei. The fundamental idea of the government is that the population size can no longer be expanded in central cities like Beijing. They hope to guide people to vote with their feet through various constraints.

How to view school district housing

WU Xiaoqiu said that the demand for school district housing would cool down if the educational resources can be relatively balanced. School district housing is not a representative feature and its discussion is of no value for the real estate market.

JIA Kang believed that the school district housing was a reality. It was inescapable and worthy of discussion. To really solve this problem, we shall return to the question of how the educational resources can be allocated more rationally.