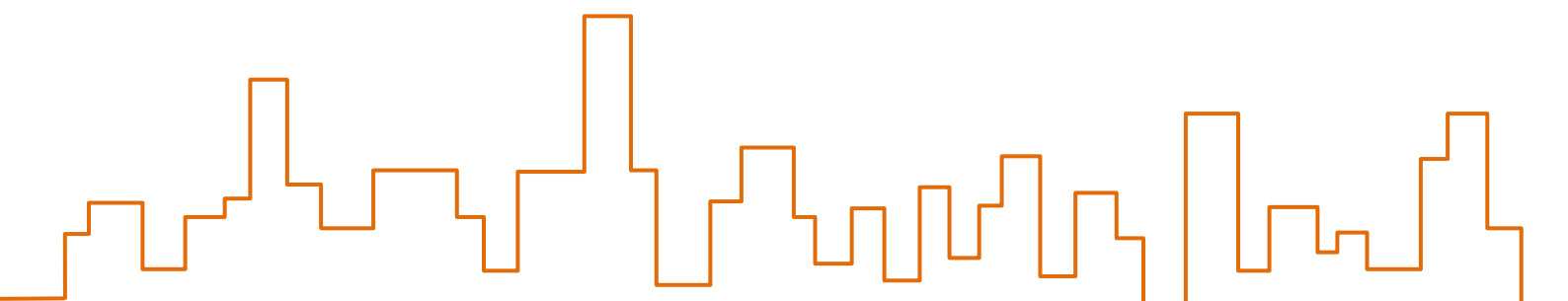


ANNUAL REPORT ON DEVELOPMENT OF HOUSING MARKET IN CHINA (2013–2014)

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Abstract

This report gave a comprehensive and systematic analysis, prediction and assessment of China's housing market, and put forward the policy proposals from five aspects: macroscopic background, market players, market system, public policy and topic of the year.

The 2012-2013 analysis reveals that: global housing prices rose, particularly in emerging economies; China's housing market grew rapidly; endogenous retrench slowed growth rate and the economy tended to be stable after sufficient adjustment; weak demand restrained the inflation and food price together with house renting price pushed up the general price level; industrial concentration was further enhanced and the number of firms started to decrease after growing; the operating range for housing firms were generally wide and some centrally controlled enterprises were still involved in the real estate market; local governments implemented "the five national real estate regulations" but most key cities can hardly achieve the regulatory objectives; owner-occupied demand entered the market in a panic with housing prices pushed up dramatically for metropolis but small and medium cities showed stagflation; rentals kept growing rapidly and renting pressure increased significantly; the land market continued to rebound, planned supply, actual supply and trading volume increased dramatically on a year-on-year basis, residential land price rose notably; real estate development loans rose significantly, individual mortgage loans kept running at high levels; various channels of fund raising ensured the smooth implementation of affordable housing policies, renovation of shantytowns was included as a core objective of housing security; house sales quota policy continued to be implemented strictly and housing market regulations entered a stable and smooth transition phase; differentiation taxation policy was stable and continuous, property tax reform is imminent; immigrant population as a percent age of urban population might be over 30%, and the situation for most of them leaves much to be desired.

For 2013-2014 we forecast that: global economic growth rate will be low with slowing inflation, stable interest rate and slumping trade; global housing market is expected to growth continuously at lower speed; cyclical, structural and periodic characteristics of China's economy will be more significant, moderate growth will be the norm; "steady growth" policy will remain basically unchanged but the effectiveness of regulatory policies will be weakened; real estate industry will concentrate further and companies will focus more on competition in branding; housing firms fundraising via a variety of approaches and proportion of direct financing will continue to increase; housing price of metropolis may peak and in small and medium cities declining tendency will be sustained; rents will increase by momentum with large seasonal variations; land trading volume may rise further with higher and stable prices; there could be land shortage for first-tier and key second-tier cities, so land price tends to increase continuously while remaining

stable for the majority of second tier and third tier cities.

The main problems and challenges for the balanced development of China's housing market are: excess production capacity is still very serious in some industries and there are potential local financial risks; housing firms operate irregularly with problems such as window dressing, rent seeking, etc; big housing firms invest and finance abroad over aggressively and face huge risks; mortgage still accounts for a big proportion of loans provided by financial institutions, credit risk still exists; differentiated mortgage is difficult to implement and financial institution for affordable housing absent; financial risks for local government accumulate and conflicts are intensified in the land acquiring process; administrative controls distort the market and imbalance between supply and demand exists in the long term; housing price soar together with rents and income gap between house renting families and house owning families expands; house renting families cannot enjoy the same rights as the home owners and rental agent market is chaotic; oligopoly in the land market becomes more severe and land price is forced to increase; housing financing overly concentrates on indirect financing market and strong performance of housing credit market puts pressures on regulatory policies; supervision on idle land is inadequate and construction quality control should be strengthened; affordable housing system is unclearly layered and the affordable housing qualification mechanism is incomplete and there are loopholes in the file management; affordable housing allocation system is incomplete as well, housing provident fund has inadequate coverage and loopholes; accountability mechanism remains unfulfilled and long term housing regulating mechanism is yet to be established.

Therefore, the report recommends: maintain appropriate scale of government led investment and moderate monetary policy; improve the legal and political system, regulate operational behavior of housing businesses; establish the appropriate environment for cooperative housing financial institutions and explore to build effective supporting systems for financing of affordable houses; reconstruct central local government fiscal system; optimize the performance evaluation systems; weaken administrative control, deepen economic reform; improve the housing rental market, guarantee the legitimate rights of tenants; increase land supply appropriately in first and second tier cities while reducing it in third and fourth tier cities; expand the direct housing financing effectively and prevent and control financial risks by securitization technologies; housing regulation should be sustainable and have comprehensive coverage, should not blow hot and cold nor just emphasize buyers while neglecting tenants; build up affordable housing file management system, complete housing provident fund system; reconstruct "basic, moderate and content" housing supply system, establish long term housing regulatory system as soon as possible; reform current land and housing market institutions, use multiple approaches to enhance housing affordability for migrant population.