

China's Housing Market Is Like a Casino. Can a Property Tax Tame It?

Written by Administrator
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In October, Xi Jinping, China's president, told the nation that "houses are built to be inhabited, not for speculation."

Real estate fervor was on display on a chilly recent morning at an apartment complex in the eastern city of Nanjing. Would-be buyers spent the night in tents and under quilts, lined up for a chance to buy. So many cars arrived, according to people who were there and photos that went viral on social media, that traffic seized up for a mile around the sales office.

"There were a lot of speculators," said Han Changlong, a Nanjing real estate inspector who attended the event. "Some people believe that if they don't buy now, homes will become more expensive in the future."

A tax is far from assured, and lawmakers have not indicated that one will be on the table when they hold their annual meeting in March. Still, experts say momentum is building.

Xiao Jie, the finance minister, wrote in late December in People's Daily, the Communist Party's official newspaper, that leaders at a major party meeting two months earlier had favored instituting such a tax. The slogan, Mr. Xiao said, would be "Legislation first, full authorization, move forward step by step."

A property tax could have a profound impact on a crucial part of the nation's economy. Real estate makes up nearly three-quarters of the assets of Chinese households, according to the Survey and Research Center for China Household Finance, an academic institute in Chengdu, in southwestern China. That compares with a bit more than one-third for United States households. Roughly a fifth to a quarter of China's annual economic output comes from property and related industries, like furniture making.

But housing is also the source of some of the country's biggest booms and busts. Local investors — many of whom do not trust the country's stock markets and are forbidden by Beijing to move most of their wealth abroad — simply throw money at housing. Real estate broker fees, often as low as 1 percent, are a small fraction of the typical 6 percent in the United States. Mortgage lending has leapt over the past two years, adding to the potential for financial

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turbulence.

Photo



Prospective buyers standing in line outside a project in Nanjing. A property tax could be the curb on price fluctuations the country has experienced.

Credit

Visual China Group, via Getty Images

Housing in Beijing and Shanghai has soared beyond the reach of even many affluent families and speculators — at least for now.

Other factors spur frantic buying, such as access to local government services, as well as cultural forces that emphasize homeownership.

Ma Xiaoguang, a 31-year-old mechanical engineer, and his wife recently bought an apartment for \$227,000 in the farthest outskirts of Shanghai so their daughter could get permission to attend a nearby public school. But they do not live there, instead renting a place in a more expensive neighborhood. They found a tenant for their purchased apartment, but for only \$180 a month.

“I know the yield is too low,” Mr. Ma said, “but I want to have a home, and an apartment makes my family and me feel safe.”

It is not clear whether a property tax would cover all homes, or just second ones. Much of China would be starting from scratch, as the country does not have decades of real estate records like the United States and other places.

One longtime obstacle — figuring out who owns which apartment — appears to have been resolved. For years, many corrupt government officials [accumulated homes](#) and resisted

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creating a database of real estate records.

But motivated partly by Mr. Xi's nationwide corruption crackdown, the Ministry of Land and Resources [announced in September](#) that it had just completed a database of land ownership across the country. Real estate executives say that the database encompasses the beneficial owners of real estate held through companies and investment partnerships, although wealthy individuals in China have been known to disguise the extent of their holdings.

China's absence of a property tax is a legacy of the 1949 Communist takeover. Land ownership was gradually restricted, then banned. When the leadership allowed private citizens to become homeowners again after Mao's death, it created a system under which the government leased land [to developers and others](#) .

Introducing the tax would be a delicate task for a government prone to [ham-handed policy changes](#) . It could damage demand in places where thousands of new apartments are still coming onto the market.

"What would happen if real estate prices keep stable?" said Li Xunlei, the chief economist at Zhongtai Securities in Jinan, in the east. "We have many speculators, and they may find it unnecessary to hold real estate that does not increase in value."

However, cultural forces could set a floor. Young people in China are expected to buy a home before they can get married. Usually the groom is responsible for buying a home, though the bride's family [frequently chips in](#) . Thanks to the now-abandoned one-child policy, China has more young men than young women, setting off a male-led surge to buy homes to make themselves more appealing husbands. Shang-Jin Wei, a Columbia University business professor, [found](#) that rising real estate price increases in 35 big cities were strongly correlated with lopsided gender ratios.

Jerry Lu, a 24-year-old insurance salesman, said he was determined to buy an apartment so that his girlfriend would feel more secure. He waited in a long line in November in his hometown, Deyang, in the southwest, and bought one of the last apartments available, incurring a mortgage that will claim a third of his income for monthly payments.

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"I don't care if there is a real estate tax next year," he said. "No matter what, I need to buy one."

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