Housing investment and house prices in China: an institutional analysis with Suzhou as a case study

Yunqing Xu & Albert Cao
29 Jun 2017
Induced and imposed institutional changes

**MACRO CONTROL POLICIES**

**An induced institutional change** (bottom-up) is voluntarily initiated, organized, and executed by an individual, a legal entity or a group of individuals in response to profitable opportunities. It results in modification or replacement of an existing, or the emergence of a new, institutional arrangement.

**An imposed institutional change** (top-down) is introduced and executed by governmental orders or parliamentary laws to respond to beneficial opportunities to government or simply to redistribute existing incomes among different groups.

The **NHIM** is an institution formed by the agreement and interactions of developers, local governments and investors, with mainly informal rules such as business conventions and practices, and culture and values.

Source: Lin, 1989; Zhang, 2012; Feng at al. 2014; Cao, 2017
A record rise of housing prices in 2016

- What are the reasons for rapid housing price inflation in Chinese cities?
- What are the impacts of the national housing investment market (NHIM)?
- What are the institutional explanation and implications on housing policy-making?
Suzhou City Profile – 1.5 Tier City

Permanent Residents: 10.61 million
Municipality area: 8848 km²
Built-up area: 494 km² (2012)
Urbanisation: 74.9%
GDP growth rate: 10.3% (2008-16)
GDP per capita: 145000 RMB
FDI growth rate: 35.2% (1990-2016)
High-tech investment/industrial investment: 41.4%
PDI growth rate: 15.66% (2008-16)
PDI/GDP Ratio: 14.05%
Immigrant City Encouraging Household Registration

- **Immigrant cities only after Shenzhen,** with over 50% non-local residents
  - Suzhou
    - 13mn
    - 50%
  - Shanghai
    - 23mn
    - 39%
  - Guangzhou
    - 12.7mn
    - 37%
  - Beijing
    - 19.6mn
    - 35.9%

- **Low threshold of household registration and welfare equality:**
  - Purchase of house larger than 75m²
  - Accumulating points for car purchase and medical treatment
  - Equal children education opportunities

- Further industrial upgrading with refining immigrants structure

- **Favourable talent policies** that provide housing allowance and subsidies to talents, “Thousand Talents Program” larger than Shanghai

- **Non-local buyers account for about 70% of all buyers,** up from around 30% in the last decade (by interviewees)
Strong Growth & Investment Potential of Suzhou

• **Market expectation** towards market rescue/support by central/local governments based on previous experience
• **Policy priorities:** housing policies subordinated to the economic policies, and is adjusted by economic growth targets.
• Increasing regional and international roles and attentions
• Historic prosperity and modernisation

“Development is of paramount importance. Economic growth brings side effects, but it could also solve many problems including housing price inflation.”

“After this wave of control, housing prices will increase again, and a 30% rise will not be surprising.” (by interviewees)
2016 Fierce land sale competition among developers

In the first 8 months of 2016, 39 cities have obtained a land sale revenue exceeding RMB10 billion, land price doubled in a number of cities including Suzhou, Nanjing, Wuhan, Zhengzhou and Shenzhen etc. (Centraline Property Agency, 2017)

Premium Rate by District:
• Xiangcheng 109.41%
• Gaoxin 84.7%
• Gusu 60.97%
• Wujiang 56.93%
• SIP 49.81%

Growth of Housing Development Investment in Suzhou City

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Amount</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing development investment</td>
<td>106.02 billion RMB</td>
<td>33.72%</td>
</tr>
<tr>
<td>New starts of commodity housing</td>
<td>14.26 million m²</td>
<td>82.37%</td>
</tr>
</tbody>
</table>

Source: Suzhou Bureau of Housing and Construction, 2017

Source: SBS, China Index Academy, 2017
Sale unit and average price of commodity housing in Suzhou City

Price increases by 74.6% from 2012-2016
On average, 25.4% annually

Housing sale cycle only 7 months, against 3.3 years for commodity property

Source: SBS, China Index Academy, 2017
## Housing Price Surge and Non-local Purchase

### Housing Price Surge by Suzhou District 2015-2016

<table>
<thead>
<tr>
<th>区域</th>
<th>销售面积(万m²)</th>
<th>销售金额(亿元)</th>
<th>销售价格(元/㎡)</th>
<th>销售面积(万m²)</th>
<th>销售金额(亿元)</th>
<th>销售价格(元/㎡)</th>
</tr>
</thead>
<tbody>
<tr>
<td>合计</td>
<td>70072</td>
<td>18870</td>
<td>1687.14</td>
<td>42695</td>
<td>631.94</td>
<td>98466</td>
</tr>
<tr>
<td></td>
<td>2016年</td>
<td></td>
<td>2015年</td>
<td>1767.14</td>
<td>614.34</td>
<td>13093</td>
</tr>
<tr>
<td></td>
<td>894.10</td>
<td>42695</td>
<td>31.63</td>
<td>1176.14</td>
<td>32078</td>
<td>512.40</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>吴中区</td>
<td>22691</td>
<td>16964</td>
<td>489.14</td>
<td>9270</td>
<td>152.74</td>
<td>31895</td>
</tr>
<tr>
<td></td>
<td>2015年</td>
<td></td>
<td>2016年</td>
<td>426.25</td>
<td>11622</td>
<td></td>
</tr>
<tr>
<td></td>
<td>288.35</td>
<td>379.35</td>
<td></td>
<td>11236</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>工业园区</td>
<td>7604</td>
<td>27823</td>
<td>334.76</td>
<td>4201</td>
<td>72.31</td>
<td>20167</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>120.32</td>
<td>264.88</td>
<td></td>
<td>17956</td>
<td>4511</td>
<td>89.31</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>高新区</td>
<td>17258</td>
<td>17792</td>
<td>401.89</td>
<td>7008</td>
<td>104.09</td>
<td>21180</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>225.88</td>
<td>251.47</td>
<td></td>
<td>12262</td>
<td>7329</td>
<td>119.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>相城区</td>
<td>14743</td>
<td>14175</td>
<td>251.13</td>
<td>7036</td>
<td>89.56</td>
<td>16228</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>163.05</td>
<td>181.13</td>
<td></td>
<td>9853</td>
<td>7525</td>
<td>96.41</td>
</tr>
</tbody>
</table>

Source: SBS, China Index Academy, 2017

### Proportion of non-local housing buyers:
- 36.24% for Suzhou whole city (including subordinate cities)
- Highest – Taicang 52.86% and Kunshan 52.84%
- Zhangjiagang 38.37% and Changshu 36.02%

### Popular types of housing purchase:
Ratio of row villa sale areas increases from 8.6% in 2015 to 13.1% in 2016
While ratio of apartment sale areas decreases from 87.7% to 76.0% in 2016
Land finance and central revenue contribution

The profit motive will prevail in the institutional battlefield

- Heavy reliance of land finance: **76.34% in 2015, top 3 in China**!

- Yet, exceptionally **high contribution to central fiscal revenue**: **131.4 Billion RMB**, more than the sum of 6 cities in Jiangsu Province!

---

[Source: Jiangsu Statistics Yearbook, 2016]
Local Government: open economy and reluctant to implement Idle Land Disposal

Maintain balance in the institutional battlefield

[Idle Land Disposal Policy] - “land that has not begun construction for over 2 years since being sold, or with less than 25% of investment being made, should subject to free reclamation by government.”

- “Never been implemented in reality!” (by interviewees)
- Suzhou government still wants to attract business and investors
- Developers will be desperate to avoid this from happening...
- Land price is an important indicator for the city’s competitiveness
- Dilemma between preventing overheating and cooling down
2006 Housing Size 70/90 Policy

Induced institutional changes

- Implementation Obstacles:
  - Policy bias towards market expansion
  - Unclear instructions and confusion
  - Reluctance of local governments
  - Strong objection by developers

Reduce proportion – blind eyes – counter-measures

Abandoned by local governments

Withdraw by central government in 2015

"almost no one pays any attention to this policy anymore" (by interviewees)

Housing Sales by Size in Suzhou 2016

<table>
<thead>
<tr>
<th>面积 (㎡)</th>
<th>销售套数（套）</th>
<th>销售面积 (万㎡)</th>
<th>销售单价 (元/㎡)</th>
<th>销售金额 (亿元)</th>
<th>批准上市套数 (套)</th>
<th>批准上市面积 (万㎡)</th>
</tr>
</thead>
<tbody>
<tr>
<td>合计</td>
<td>62146</td>
<td>800.53</td>
<td>18187</td>
<td>1523.30</td>
<td>58768</td>
<td>728.76</td>
</tr>
<tr>
<td>75㎡(含75)以下</td>
<td>1205</td>
<td>7.28</td>
<td>16219</td>
<td>11.81</td>
<td>566</td>
<td>3.37</td>
</tr>
<tr>
<td>75-90㎡(含)</td>
<td>13705</td>
<td>118.77</td>
<td>15375</td>
<td>182.61</td>
<td>12257</td>
<td>107.01</td>
</tr>
<tr>
<td>90-100㎡(含)</td>
<td>10227</td>
<td>96.82</td>
<td>14843</td>
<td>143.71</td>
<td>8893</td>
<td>84.27</td>
</tr>
<tr>
<td>100-110㎡(含)</td>
<td>4550</td>
<td>47.76</td>
<td>17279</td>
<td>82.53</td>
<td>5023</td>
<td>52.86</td>
</tr>
<tr>
<td>120-144㎡(含)</td>
<td>18034</td>
<td>214.42</td>
<td>20676</td>
<td>443.35</td>
<td>18045</td>
<td>241.18</td>
</tr>
<tr>
<td>144-160㎡(含)</td>
<td>1794</td>
<td>26.77</td>
<td>20176</td>
<td>54.01</td>
<td>2000</td>
<td>30.05</td>
</tr>
<tr>
<td>160-200㎡(含)</td>
<td>1507</td>
<td>28.53</td>
<td>23020</td>
<td>65.68</td>
<td>1467</td>
<td>27.80</td>
</tr>
<tr>
<td>200㎡(不合200)上</td>
<td>5659</td>
<td>65.15</td>
<td>17106</td>
<td>111.45</td>
<td>5052</td>
<td>58.06</td>
</tr>
<tr>
<td>200㎡(不含200)上</td>
<td>6246</td>
<td>44.84</td>
<td>23704</td>
<td>106.29</td>
<td>2901</td>
<td>49.06</td>
</tr>
<tr>
<td>200㎡(不含200)上</td>
<td>4819</td>
<td>159.19</td>
<td>20219</td>
<td>321.86</td>
<td>2564</td>
<td>75.10</td>
</tr>
</tbody>
</table>

Source: NBSC, China Index Academy, 2017
2008 Market Rescue

Induced institutional changes

<table>
<thead>
<tr>
<th>Date of issue</th>
<th>Cities</th>
<th>Issued by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Sep</td>
<td>Xi’an</td>
<td>Xi’an municipal government</td>
</tr>
<tr>
<td>22 Oct</td>
<td>National</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>23 Oct</td>
<td>Suzhou</td>
<td>Suzhou municipal government</td>
</tr>
<tr>
<td>29 Oct</td>
<td>Tianjin</td>
<td>Tianjin municipal government</td>
</tr>
<tr>
<td>5 Nov</td>
<td>National</td>
<td>State Council</td>
</tr>
</tbody>
</table>

Suzhou Na4onal

Suzhou, Shanghai, and other cities implemented new policies to stabilize the housing market. The policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. These measures are aimed at reducing the burden on homebuyers and promoting the recovery of the housing market. The graph shows the market trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

Suzhou

Suzhou has been implementing stringent policies to control the housing market. These policies have resulted in a decline in the housing market index. The graph shows the trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

National

The National government has been implementing policies to stabilize the housing market. These policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. The graph shows the market trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

Shanghai

Shanghai has been implementing new policies to stabilize the housing market. The policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. The graph shows the trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

2008 Market Rescue

Induced institutional changes

<table>
<thead>
<tr>
<th>Date of issue</th>
<th>Cities</th>
<th>Issued by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Sep</td>
<td>Xi’an</td>
<td>Xi’an municipal government</td>
</tr>
<tr>
<td>22 Oct</td>
<td>National</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>23 Oct</td>
<td>Suzhou</td>
<td>Suzhou municipal government</td>
</tr>
<tr>
<td>29 Oct</td>
<td>Tianjin</td>
<td>Tianjin municipal government</td>
</tr>
<tr>
<td>5 Nov</td>
<td>National</td>
<td>State Council</td>
</tr>
</tbody>
</table>

Suzhou Na4onal

Suzhou, Shanghai, and other cities implemented new policies to stabilize the housing market. The policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. These measures are aimed at reducing the burden on homebuyers and promoting the recovery of the housing market. The graph shows the market trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

Suzhou

Suzhou has been implementing stringent policies to control the housing market. These policies have resulted in a decline in the housing market index. The graph shows the trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

National

The National government has been implementing policies to stabilize the housing market. These policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. The graph shows the market trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

Shanghai

Shanghai has been implementing new policies to stabilize the housing market. The policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. The graph shows the trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

2008 Market Rescue

Induced institutional changes

<table>
<thead>
<tr>
<th>Date of issue</th>
<th>Cities</th>
<th>Issued by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Sep</td>
<td>Xi’an</td>
<td>Xi’an municipal government</td>
</tr>
<tr>
<td>22 Oct</td>
<td>National</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>23 Oct</td>
<td>Suzhou</td>
<td>Suzhou municipal government</td>
</tr>
<tr>
<td>29 Oct</td>
<td>Tianjin</td>
<td>Tianjin municipal government</td>
</tr>
<tr>
<td>5 Nov</td>
<td>National</td>
<td>State Council</td>
</tr>
</tbody>
</table>

Suzhou Na4onal

Suzhou, Shanghai, and other cities implemented new policies to stabilize the housing market. The policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. These measures are aimed at reducing the burden on homebuyers and promoting the recovery of the housing market. The graph shows the market trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

Suzhou

Suzhou has been implementing stringent policies to control the housing market. These policies have resulted in a decline in the housing market index. The graph shows the trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

National

The National government has been implementing policies to stabilize the housing market. These policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. The graph shows the market trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.

Shanghai

Shanghai has been implementing new policies to stabilize the housing market. The policies include adjusting the thresholds for purchasing and selling houses, reducing transaction fees, and providing subsidies for first-time homebuyers. The graph shows the trend from 1999 to 2016, with Suzhou and national trends indicated by different lines.
2010/11 Purchase Restriction

*Imposed institutional changes*

- Average housing price decreased 3.97% y-o-y 2011-2012
  - Purchase restriction
  - Price growth target limit

- Housing prices fall in 52 cities by Dec 2011
  - Second home, third home
  - Non-local: income tax for one year
  - Foreign: immediately stopped by the central government!!

- Stopped NHIM and housing market downturn
  - 2012 Relaxing Policies in Foshan and Wuhu City
  - Jan, Apr 2011 Suzhou Control
  - Apr 2010 Beijing
  - Suzhou Market Cooling Down

*immediately stopped by the central government!!*
Abolishment of Purchase Restriction in 2014

*Induced institutional changes*

- **Counter-measures:**
  - Temporary divorces against household purchase restriction
  - Circumventing to buy house in a local’s name through ones’ relatives/friend in Suzhou; one’s children who graduate/work in Suzhou; or company asset investments

- 2014: Hohhot was the first city to abolish, followed by 40 other cities, leaving only 5 cities continue.

- 2015: when ‘Housing Destocking’ became a national priority, cities quickly rolled back most of the macro control measures during 2011-13, stimulating purchase and investment
2016 Localised Adjustment Control Measures

Suzhou Local Government Adopts Localised Measures:

THE MOST STRINGENT
Four rounds of policies in one year

<table>
<thead>
<tr>
<th>Month</th>
<th>Measures</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 Mar</td>
<td>Suzhou Ten Measures; Finance Eight Measures</td>
<td></td>
</tr>
<tr>
<td>17 May</td>
<td>12 Specifications</td>
<td>Land price cap</td>
</tr>
<tr>
<td>12 Aug</td>
<td>Suzhou Fifteen Measures</td>
<td>Purchase Restriction &amp; Loan Restriction</td>
</tr>
<tr>
<td>3 Oct</td>
<td>Overall Housing market Control</td>
<td>Expand restriction coverage</td>
</tr>
</tbody>
</table>

Source: Suzhou Bureau of Housing and Construction, 2017
Conclusions

• Institutional failure or battlefield often occur when local and central interests diverge. Successful institutional changes only take place when local and central interest converge.

• When prices rise more than a healthy level, the interests of both local and central governments converge and imposed institutional changes are forced through. When prices stagnate or fall, businesses and local governments join forces to battle the central government, forcing it to soften or cancel its housing policies. – *Zig Zag of Macro Control*

• housing policies in countries with NHIM or without barriers to foreign investment need to take account of the impact of external purchasing power to avoid the excessive house price inflation generated by inward housing investment.
THANKS
Yunqing.Xu@xjtlu.edu.cn; jcao@brookes.ac.uk