IPTI Xtracts

Property Tax and Assessment News from Around the World

CHINA – January 2018

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

China has tried just about everything to tame a property market in which home prices sometimes jump around like the value of Bitcoin.

Over the years, in one city or another, it has limited mortgage lending. It has tried to halt purchases of homes by people who already own one. It has plowed billions of dollars into building new homes that regular Chinese people can afford.

Now the Chinese government is considering adopting something that, while familiar to homeowners in the United States and elsewhere, could dramatically reshape the world's second-largest economy: a property tax.

Living in a place without property taxes may sound appealing, but a growing number of experts and policymakers in China say the absence of one has helped destabilize a vast and crucial part of the Chinese economy.

Many investors snap up homes — in China, they are mostly apartments — hoping to ride a price surge. In the biggest cities, property prices on average have at least doubled over the past eight years. But vast numbers of apartments in many cities lie empty, either because the buyers have no intention of moving in or renting out, or because speculators built homes that nobody wants.

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

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

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 turbulence.

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 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.

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

A property tax could be coming to China

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

Chinese homeowners may soon get to complain about one of the same things American homeowners do: property taxes.

In an effort to stabilize the country's notoriously volatile housing market, the Chinese government is considering establishing a property tax, as experts say the lack of one is a major reason why its housing market is so unstable, according to the New York Times.

The move is not a sure thing, but finance minister Xiao Jie wrote in the official Communist Party newspaper late last year that leaders expressed support for establishing a property tax at a party meeting under the not-very-catchy slogan "Legislation first, full authorization, move forward step by step."

Real estate comprises almost 75 percent of assets for the Chinese but is also a factor in some of the largest booms and busts in the country, with investors eager to pour money into housing and mortgage lending skyrocketing over the past two years.

The lack of a property tax stems from the country's Communist takeover in 1949, when owning land was at first restricted and then banned. China has also historically had a hard time figuring out who owns what properties, but its Ministry of Land and Resources said in September it had compiled a land ownership database.

Property prices fell by 0.3 percent in Beijing and Shanghai between November 2016 and November 2017 after years of double-digit growth, fueling fears of a possible mortgage crisis, but the government could loosen housing regulations to increase prices.

China speeds up introduction of property tax

As part of the plan to contain housing price, China vows to step up housing system reform and create a long-term market mechanism.

When and how a property tax will be levied has long been a public concern.

China's finance minister Xiao Jie has published his policy statement on People's Daily, the Communist Party of China (CPC)'s flagship newspaper.

What have been specified?

Xiao outlined that property tax will be levied on industrial and commercial properties, as well as personal residential houses, based on their "appraised value". He also suggested the legislation work would be completed by 2019, which would lay the foundation for its enforcement in as early as 2020.

Experts believe it has sent out signals for the speeding up of China's introduction of property tax.

"The article shows that the authorities now have clearer thinking on the levy of property tax, as substantial questions have been specified, especially how the taxes will be collected," said Yan Yuejin, senior researcher of the Shanghai-based E-house China R&D Institute.

Yan noted that "appraised value" means a comprehensive assessment of the original and current value of the property, while also taking into account affecting factors such as the real estate market situations and the price of similar property in surrounding areas. "It's a rather fair and reasonable way to do it," Yan added.

It would require the establishment of an appraising system by each city, according to Zhang Dawei, chief analyst of Beijing-based Centaline Property, a leading property agent company. In Xiao's article, he also confirmed that local governments would obtain enough authorization in the process.

"That means local governments are allowed to run pilot policies based on their specific circumstances, so as to map out practical schemes that suit local development," said Jiang Zhen, research fellow with Chinese Academy of Social Science, "and their experiences drawn from the pilot programs will become important reference for property tax legislation, which will be pressed ahead steadily."

Why is property tax put on China's legislation agenda?

"Housing is for people to live in, not for speculation," this has been the tone-setting slogan for China's real estate market since it was first brought up by Chinese president Xi Jinping on the Central Economic Work Conference in December 2016. The long-awaited property tax is a key measure to reduce the appeal of houses as speculative investment, and bring the development of China's housing market to the right direction.

China's property price has been rocketing for over a decade, partly due to Chinese investors' preference for houses as investment and the resulting speculations. Bloomberg estimated that 25 percent of China's housing demand is out of speculations.

At present, taxes are only levied when houses are bought or sold, which leaves multi home owners with no extra financial burdens. The planned introduction of property tax may not only deter future speculators, but also drive existing multi home owners to sell extra ones before the enforcement of the new tax, thus increasing housing supply in the market.

But it's all up to the release of further details on how the property tax will be rolled out step by step.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.