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Research on the sustainability of China's real estate market

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Abstract

Although China's real estate market (CREM) has made great development since the Chinese government adopted the reform and opening-up policy in 1978, it has been confronted with many problems during this period. This paper describes the background of CREM and its basic situation, outlines its main problems, and presents suggestions for its sustainable development.

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1. Introduction

China has made significant progress in economic growth since the Chinese government adopted the “reform and opening-up” policy in 1978, which is reflected partially by CREM’s rapid development from 1978 to present. Nevertheless, with housing prices rocketing in China in recent years, a growing number of scholars, officials and common Chinese people are paying special attention to and putting forward their views or suggestions on the sustainability of CREM since it is related to the immediate interests of every person living in China.

2. The Background and Basic Status of CREM

The socialist public ownership of land was established since the foundation of the People's Republic of China (PRC) on October 1st 1949. *The Constitution of the People's Republic of China*, amended in 2004,

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still stated that “no organization or individual may appropriate, buy, sell or lease land, or unlawfully transfer land in other ways” [1]. The basic condition of CREM from 1949 to 1978 was that private ownership of land was eliminated, that land supply totally relied on administrative allocation, and that urban housing was completely non-commercial. CREM began to recover gradually since 1978 and the Chinese government subsequently introduced a number of related laws and regulations.

The constitutional amendment adopted by the National People's Congress (NPC) in 1988 explicitly stated that “the right to the use of land may be transferred according to law” [2]. This amendment symbolized a historic change in China's land-use institution, leading to a jump in the quality and quantity of the real estate-related laws and regulations introduced subsequently. For example, the State Council of the PRC promulgated *The Interim Regulations of the People's Republic of China concerning the Assignment and Transfer of the Right to the Use of the State-Owned Land in the Urban Areas* on May 19th, 1990 [3]. The Ministry of Construction of the PRC promulgated *The Planning and Administrations Measures concerning the Assignment and Transfer of the Right to the Use of the State-Owned Land in the Urban Areas* on December 4th, 1992 [4]. The introduction of these laws allowed CREM to develop. Nevertheless, a real estate bubble appeared quickly in Southern China, such as Hainan and Shenzhen, for the first time since the foundation of the PRC. The Chinese government began the first round of tightening macro-control. The burst of this real estate bubble led to a considerable amount of unfinished properties and bank bad debts.

The Law of the People's Republic of China on Administration of the Urban Real Estate was adopted by the National People's Congress of the PRC in 1994 [5], and it went into force as of January 1st, 1995. This law was rigorous from a system perspective since it covered real estate development, real estate transactions, administration of real estate ownership registration, legal liability and other aspects. Its implementation signified that CREM officially entered a stage of the legalization. After this law, the relevant departments of the Chinese government introduced a large number of CREM laws and regulations. It can be said that the Chinese government is gradually improving the system of laws and regulations fitting CREM's development.

The People's Bank of China promulgated *The Measures for the Administration of Individual Housing Loans* in 1998 [6]. The regulation provided that individual housing loans may be used for the purchase of all ordinary housing for personal use, that individual housing loans could be issued in all the cities and towns of China, and that all banks in China could conduct the business of individual housing loans. The implementation of this policy directly stimulated the growth of housing loans and CREM. According to the data published by the National Bureau of Statistics of China, China's actual housing sales in 1987 was 11 billion RMBs with 26,972,400 square meters while that in 1998 was 251.3 billion RMBs with 121,853,300 square meters [7].

The State Council of the PRC issued *The Notice of the State Council of the PRC on Strengthening the Administration of State-Owned Land* in 2001 [8]. This notice proposed to strictly control the total supply of land for construction, to strictly enforce the principle of paid use of state-owned land, and to improve the administration of the transfer of the right to the use of land, and to regulate the administrative approval of land development plans. This notice emphasized that great efforts should be made to promote the transfer of the right to the use of land via biddings and auctions so as to reflect the principle of market economy and to ensure open, fair and impartial transactions of the right to the use of land.

The State Council of the PRC issued *The Notice of the State Council of the PRC on Enhancing the Sustainable and Healthy Development of Real Estate* in 2003 [9]. This notice proposed on the level of the central government for the first time that the real estate industry was highly associated with and could exert strong driving forces to other industries of the national economy, and that it had become a pillar industry of the national economy. This notice also emphasized that keeping the sustained and healthy

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