



Institutional and demographic influences on the presence, scale and geographic scope of individual Chinese real estate investment

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ABSTRACT

We use the results of a survey taken in ten large Chinese cities to investigate several aspects of Chinese real estate investment. The survey provides significant (though not comprehensive) information on the personal and family characteristics and real estate holdings of the survey respondents. In this paper we ask three inter-related questions: 1. What factors are associated with individuals who own property in China? 2. What factors are associated with the extent of such ownership—i.e. what determines the number of properties owned? 3. What factors determine the geographical extent of this ownership; in particular, who owns local property and who owns geographically dispersed?

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1. Introduction

As China's residential real estate sector continues its transition from one dominated by state and employer-sponsored housing units to one with a more market-oriented allocation system, researchers have grappled with the effects of that transition.

Prior to 1988, the vast majority of urban households had very limited housing options, and were largely relegated to employer-provided flats. This link between employment and housing was nominally broken by the 1988 reforms which allowed households to seek out housing in a private market, and to potentially become owners of said housing.¹ In this way, questions of tenure choice became relevant to Chinese real estate. Fu et al. (2000) Huang and Clark (2002) and Li (2000) investigated this early version of tenure choice, based on a 1996 survey of Chinese households, and found that many of the factors which influenced tenure choice in the West had similar impacts in China, though there were some important differences. The most important factor was that private (or open) market housing was quite expensive compared to subsidized, employer-sponsored housing. While information on the relative qualities of these two housing stocks seems somewhat lacking, the extent

to which inequality of housing consumption became a concern, either reflecting the inequality that arose from increasing market orientation in other sectors of the economy (Meng et al., 2005) or disappointment that markets in general had not undermined bureaucratic privilege in the allocation of housing (Logan et al., 2002, 2009).

Accompanying this was the sense that China's housing prices were not in line with fundamentals. This was seemingly first noticed by Chen (1996), who calculated that price–rent ratios were higher than would be expected given the usual asset pricing model. Other studies have confirmed this result, including some of the above-cited work, and most recently, Wu et al. (2012). Commentators have noted with concern these high real estate prices, causing some to call for reining in real estate speculation (Zhao, 2010). The level of real estate speculation by households is seen to be increasing dramatically (Yi, 2010). As in the west, property speculation is seen by many to be the road to wealth, which causes bubble-like behavior. The *WantChina Times* (2012) reports that homeownership is very high in many urban areas (up to 90% in some places) and that property speculation appears to be a very good investment:

“[A] recent report, by the People's Bank of China and Southwestern University of Finance and Economics, shows that average investment returns reach 340.31% for a buyer's first residence, 143.25% for their second, and 96.7% for a third. Sustained demand and limited investment alternatives have made housing prices surprisingly resilient, especially in metropolises such as Beijing, Shanghai, Guangzhou and Shenzhen.”

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¹ The full-scaled market reform on housing allocation system started in 1998, which abolished the employer-provided housing in the country and behind most of which were state-owned enterprises, government institutions, education institutes and other state-related entities.

In this paper we seek to understand the people behind the property speculation in large Chinese cities. For this purpose we utilize the results of a recent special micro survey on urban housing demand, which collects information on people's property holdings such as the number of homes owned and the location of these homes. That allows us to look into the demographics of demand for real estate investment, through the lens of defining speculation in real estate. We ask three interrelated questions of the data. First: who invests in real estate? In asking this first question we conflate both investment for the purposes of owner-occupation, and for solely for investment. We do this because we find in our survey that ownership of real estate does not translate into occupation of one's own unit, at least not nearly so much as in the west. While a detailed analysis of this topic is a topic for our future research, we find that people who own real estate very often nevertheless live (or continue to live) in employer housing, or with a larger family unit. Thus in this paper we seek to identify people for whom property ownership is an investment rather than a means to become owner-occupiers, in the language of [Henderson and Ioannides \(1983\)](#), those for whom investment demand is (much) greater than their consumption demand. Second, we attempt to identify those who have investment demand, by modeling the decision to own multiple properties. As the next section makes clear, owning multiple properties, which we identify with investment, or more pejoratively, with speculation, is quite common among our respondents. Third, we seek to identify the geographic scope of property investment, by asking if respondents own property in multiple locations.

Our analysis uses two intermingled strains of analysis. The first is to model these decisions using standard housing variables as one would find in a cross-sectional analysis of this topic in western countries. In this context we take account of household demographics, such as family structure, available financial resources and the like. But we also need to take into account the particularities of the Chinese experience that are which includes the legacies of the employer-related housing system, the local hukou system and the continuing influence of government entities in the housing allocation process. As we also discuss in the next section, the hukou system, which binds households to particular areas, is seen as a major impediment to migration; it is of interest to see if it does the same with property investment.

These topics have been discussed previously in the literature. There are several recent micro studies on urban Chinese households homeownership related to our paper. [Zhou \(2011\)](#) compared tenure choice by Chinese households in 1995 and 2002 and examined how uncertainties in the transitional socialist economy would affect these decisions. But he does not consider the increasingly important phenomenon of real estate investment and investment in multiple properties. This latter topic was investigated using a 2005 micro survey data, by [Huang and Yi \(2010\)](#). They found that due to the transitional features of China's economic reform, about 10% households own more than one dwelling through their work units, intergenerational transfer or other advantages. Our survey is more recent than either of these studies, so we are able to update the findings provided in those works after a further half-decade of reform. But there are two important dimensions that, because of our survey, we can provide findings previously unavailable. First, we have more complete information on the work situations of our respondents we are better able to capture the influence of the China-specific factors in property ownership. Second, we have more complete information on the extent of property investment. In particular, we know for many respondents how many properties they own. Third, we have information on the location of property investment, specifically whether respondents invested outside their city of residence.

We discuss these topics below in [Section 2](#), which also describes the survey and the data that arose from it. In [Section 3](#) we present the econometric models used in the analysis, while [Section 4](#) presents the results of the estimation. These results emphasize the similarity of homeownership and real estate investment decisions in China and

the west. But also there are facets of property ownership uncovered by the survey that apply particularly to the Chinese experience. This includes the influence of employment characteristics other than income in the decisions surrounding property investment. Employees of certain (state-related) industries are more likely to own property. Residents of high priced cities (particularly Shanghai) are more likely to invest outside their cities of residence. There is some indication that migrants from other locations are also more prone to invest outside their city. Somewhat surprisingly, hukou is relatively unimportant to the investment decision, but, given investment, is very important to the location of the owned property. Hukou owners do not buy non-local property as frequently.

2. The survey

To understand household real property investment behavior in China, in the summer and winter of 2011 we conducted surveys of about 5160 homeowners or potential homeowners in ten mainland cities, including Beijing, Shanghai, Guangzhou, Shenzhen, Zhengzhou, Fuzhou, Tianjin, Chongqing, Changsha and Shijiazhuang. The first four on this list are described as Tier I cities in China, which have observed the highest rise in housing prices during the past few years. The remaining cities—Tier II—are either municipalities directly under jurisdiction of the Central Government or provincial capital cities.² Except for Zhengzhou, with only 302 surveys collected, we have collected on average over 500 individuals in each city, and in Beijing and Shenzhen more than 600 surveys were collected. We use a stratified sampling scheme to choose a location in every close-center urban district of each of these ten cities, and then conducted on-street interviews at these locations.³ Individuals were randomly selected to participate the survey and given a small souvenir after they finished the survey. We discuss the representativeness of the survey below.

The survey has three parts. The first part identifies and distinguishes homeowners or potential homeowners from people who do not own or want to own any property at all. We asked individuals where they lived in the city and for how long, and whether they owned any property. If the individual does not own any property, the survey continues by asking whether they intend to own real estate in the near future. If not, the individual does not need to continue the survey. The second part of the survey collects detailed information on the individual's relevant real property investment, such as whether all their property holdings are in the local area or not, how many properties they have held in total, and information about their place of residence.⁴ Information about their most recent property investment is also collected.

The last part of the survey was to obtain more background information about the individual, such as age, marriage status, education, industry of employment, occupation and so on. These are the standard questions in housing surveys that are considered to have impact on household's tenure choice. Though we designed all the questions as multiple choices in order to maximize the number of valid surveys, it was not the case everyone filled out all these questions. There are quite a few missing pieces of information across these different questions. After carefully examining the collected 5160 surveys, we

² The tier ranking depends on how active or how prosperous the city is. The ranking is provided by the China Index Academy, an industry institute which helped us with the survey and data collection.

³ The "close-center" districts correspond roughly to population-dense locations. In Beijing for example, the selected districts are located within the Sixth Loop Zone. The specific locations where the surveys were conducted are usually clustered communities with multiple residential apartment complex buildings, shopping centers and places where a dense population is observed.

⁴ The "how they live" question includes several exclusive choices, such as whether live in the purchased own home, with the parents, in employer-provided housing, or rent home. For this study, we use this question and the homeownership question to identify any inconsistency in the survey the individual filled out.

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