Law of Real Estate Development in International Metropolises and Its Inspiration on Beijing

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Since the receipt of real estate market reform of 1998, Beijing’s real estate sector has experienced substantial development, as the housing boom contributes to the growth of local economy and residents’ rising standard of living. However, as the housing price’s wild upswing for the past few years, it has generated negative impact at people’s well-being, the stable and sustained economic development and the initiative of building a harmonious society.

In our study, we adopted international compare as our method, and chose New York, Tokyo, London, Hong Kong and Singapore as the objects of the study, generalized development characteristics of real estate market, identify trouble and problem at Beijing's real estate market, and provide suggestions to Beijing's real estate development.

I. Law of Real Estate Development in International Metropolises

Real estate has significant contribution to economy and revenue. Real estate is an important sector in tertiary industry. Its ratio in added value was between 15%-30%. The ratio of property tax in revenue was between 15%-35%. For example, the added value of New York City’s real estate sector made up 15.8% of local GDP in 2006, the top performer of the service sector; the added value from real estate and commercial services industry captured 30.3% of London’s GDP in 2007; since 1980s, the share of real estate added value in total output in Tokyo has shown steady uptick, staying at 12% in 2000, and 12.9% in 2007. Property tax revenue reached $13.1bn in 2008, 34.2% of the total tax income and 21.2% of the total revenue of New York City’s local government.

In recent 30 years, major cities in the world have experienced one or several housing price swings, showcasing real estate market’s boom and bust repetitive cycles. Research shows that there is a positive correlation between real estate cyclical fluctuation and economy swaying, with almost identical wavelength. Generally speaking, real estate boom and cooling-down precedes macro economy, but recovery and slump lag behind the overall economy.
<table>
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<tr>
<th>City</th>
<th>Time period</th>
<th># of cycles</th>
<th>Upswing</th>
<th>Downward</th>
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<td>1993-2002</td>
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<td>2004 to now</td>
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<td>Tokyo</td>
<td>Since1985</td>
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<td>1985-1991</td>
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**Housing inventory fit for the population size, government provided abundant public housing during 30 years house shortage time.** New York had 3 million households in 2008, residential units 3.3 million sets, as the two numbers were almost equal. In Tokyo, housing inventory exceeded households since 70s. In 1993 Tokyo's housing inventory was about 5.3 million, 12.3% more than household. Oversupply prolonged depression of the real estate market. Also there is a positive relationship between the rising of housing price and the increasing of active buyers (age 25-45). During 50s to 80s of last century, accompanied by rapid industrialization and urbanization, most of developed countries and regions faced severe housing shortage. Governments of many countries undergone about 3 decades of massive public housing construction, and then housing shortage and housing hardship to low-income person were solved gradually. Most of welfare countries paid great attention to the social security function of housing, public housing was treated as essential public product. Government inducted multiple market entities, regulated them and punished speculation.

**The ratio of housing price and income kept at a reasonable range.** The reasonable ratio of housing price to annual income recognized by the World Bank is 4-6. Metropolises like New York and London has abundant employment opportunities and enviable public resources, which generally pushes up housing prices, but residents' housing expenditure kept at reasonable range. For instance, since 1990 London's ratio of housing price to income has stayed below 5, it peaked at 4.8 in 2004, slightly higher than national average level.
Second-hand housing plays a critical role in real estate market, and renting emerges as the important means of housing solution. New housing market is relatively small in international metropolises, as second-hand trading market plays the critical role. New York emphasizes on the maintenance of the housing inventory, encourages the sustained utilization of inventory resources. London has been valuing the aged buildings in downtown as cultural heritage and taken all measures to protect them. In New York, the ratio of home ownership was 34% (at the same period, US national home ownership was 67.1%), while the ratio of renting stood at 66%, far ahead of the former. In Tokyo, the ratio of home ownership arrived at 44.5%, while rented households made up more than half of non-vacant housing units.

II. Trouble and problems in Beijing's real estate development

Neglect cycle built house price bubble. Like other metropolises, real estate was very important to Beijing's economy and revenue. While Chinese real estate market took off relatively late, and Beijing has not experienced a complete price cycle. After a few rounds of price control, housing price in Beijing has not fallen sharply; to the contrary, the pent-up demand and purchasing enthusiasm have remained high, as optimistic outlook is still prevalent. Though Beijing's real estate market has its own characteristics, like other metropolises whose real estate development history has several cyclical fluctuations, Beijing's real estate market is bound by the periodic trends, as price will not go up forever. Bubble will burst and what goes up must come down.

Urbanization enhanced demand pressure, and Beijing is still in the phase of housing shortage. As urbanization process accelerates, Beijing's total population has swelled and the first-time buyer who has urgent housing demand has surged as well. The number of active buyers reached 6.6 million. Housing demand was huge, and there is no sign that such demand will slow down. Permanent population reached 20
million in 2012, 17 million living in the urban area. Assuming 3 person per household, 5.8 million households are living in urban area which needing the identical size of housing inventory. In 2012 the ratio of public housing investment to total housing investment was 25%, the ratio of constructing area of public housing to overall housing sales area was 34% in 2012. While demand in public housing, especially in low-rent housing, is still huge.

**The ratio of housing price and income is high.** Recent years, Beijing’s housing price skyrocketed. Price of housing inside the fourth ring road touched RMB 34,000/m² in 2010, and price for housing unit between the fourth and fifth ring road also shot up to RMB 20,000/ m²; for a family with annual disposable income of 90,000 RMB (three person household), it will exhaust about 30 years disposable income to buy a 90m² apartment inside the fourth ring road, and 20 years of disposable income to buy an apartment of equal space at the location of between the fourth and fifth ring road. It would take even longer time to pay back mortgage plus interest. Besides, house is the biggest piece of residents’ assets, a key factor influencing distribution of social wealth. Since 2003 Beijing’s real estate market has experienced breakneck growth, and accompanied by stunning price spike which has pushed up the asset value of housing owners, as favorable loan and tax policy have transferred wealth from those who don’t own housing properties to housing owners.

**New house still plays important role in real estate market, homeownership was still admired by peoples.** In recent 30 years, Beijing urban built-up areas increased rapidly, as old quarters of the city experienced massive reconstruction. Now the bulk of Beijing’s buildings are newly-built, and some of them have with short life span. According to 2007 housing survey data, in the housing inventory existing on state-owned land, merely 2% were built prior to 1949, 8% built between 1949 to 1979, and 88% were constructed after 1979, 48% went up after 2000. To improve housing situation, homeownership is still the primary choice for the most of residents. Originally government's design on public housing focused on ownership than renting too.

**III. Inspiration on Beijing**

**Promote coordinated development within metropolitan area.** We should make housing plan base on scientific analysis, and construction of housing must adapt to the shift of social and economic development as well as population shift. Population flow has great influence to the demand and supply of housing and housing price. Economic development in China is unbalanced, and the integration of Beijing-Tianjin-Hebei Metropolitan Area was not enough. Beijing is absorbing and devouring people across the country, especially from the neighboring areas, housing demand and supply conflict has become more acute and housing price shoots up to the roof. To solve this problem, we must promote coordinated development with neighbor province.
**Insist on commercial approach and activate inventory is very important.** In the commercial housing market, housing's commodity quality should be stressed and market's role to allocate resources should be fully taken advantage of. Government should formulate rigorous management system in the areas of land trade, house trade and house rental, enhance regulation, punish speculation through taxation and credit policy, ease price and maintain equitable market order. It is very important that collect property tax and subsidy to renters to active the remnant inventory. Also specify the responsibilities and obligations between the lessee and the lessor is very important. We should adopt rental subsidy program to stimulate supply increasing, especially the supply of long-term rental house.

**Do more work to promote public housing program.** We must have a sober understanding that the imbalance between supply and demand will exist in a long period, and government will be in the phase of affordable housing construction for a long time. We should build a health laws and regulations system around real estate, and define government and citizen's rights and obligations. Cultivating independent housing construction system, and promote accordable housing construction with industrial way.

**Guide public to form correct expectation and consumption behavior.** We should lead market participants to form correct understanding that real estate market has cyclical fluctuation. Provide information of real estate market timely, accurately and comprehensively. It is helpful to market participants to make right decision and predication. We should also guide customers to form proper consumption views, and encourage them to consume according to their capacity and real needs.

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