

How can urbanization policy influence the housing price in China?

Abstract:

Nowadays, Chinese housing bubble is accumulating, more and more people worried about the housing bubble will burst soon. According to the characters of Chinese housing bubble, I think there are different housing bubbles in different tier cities of China. In the Tier 1 and 2 cities, prices are high due to strong demand and constraint in supply, so the housing bubbles in these cities seem to be more severely; in many Tier 3 and 4 cities, oversupply is the main problem, even creating some “Ghost towns”. We should pay close attention to these housing bubbles, even if the housing prices in these cities are not very high and housing bubbles seem not so severely. After studying the influence of urbanization on housing prices, I will get my research result: we should implement the new urbanization, which means population urbanization and resource-saving urbanization, and we need to pay attention to many issues in the process of new urbanization, especially, solving the Hukou problem. New urbanization would make housing prices return to reasonable prices and soft-land overall housing bubble in the long term.

Keywords:

Chinese housing bubble; urbanization; new urbanization; Hukou.

Chinese housing prices have been skyrocketing over the past few years. The Chinese central government has been worried about a housing bubble for years, and it has been taking steps to cool the market. There is always a tension between building enough to keep GDP growing and keeping housing prices from growing too much that people can't afford them.

Urbanization Policy as one of the most important driving force of China's future economic development is undoubtedly the most talked about topic recently. There are two different ideas about the influence of urbanization on housing price: One is urbanization created enormous consumer demand for real estate investment, so urbanization accelerate progress will certainly have a huge impact on housing price in the future. Especially in some cities, the local

government under the theme of urbanization, they really have the urge to push high housing prices; the other is the new urbanization plan maybe have short term impact on supply/demand prices but it will eventually lead to a moderation in prices in the long term.

So I choose the topic “How can urbanization policy influence the housing price in China?” to do my research paper, I think there are important practical meanings of it. After studying the influence of urbanization on housing price, I will finally get my research result: We should implement the new urbanization, which can make housing prices return to reasonable prices and soft-land Chinese housing bubble in the long term.

I. Literature review

1. In the article of “China’s housing least affordable in the world” (Zhu Weijing, 2013), which talked about the serious housing bubble in China and will support my claim about the importance of my research question;

2. In the article of “China residential, when will the party end” (Alpha Watch, 2014), which talked about housing price bubble in China and will support my analysis about the characters of Chinese housing bubble;

3. In the article of “Urbanization and real estate investment in China” (Guillaume Rougier-Brierre, Guillaume Jeannet, 2009), which talked about the economic effects of urbanization in China and will support my conclusion about urbanization maybe increase housing bubble;

4. In the article of “New urbanization” (Business Sohu, 2014), which talked about the timetable of new urbanization policy will support my related analysis about it;

5. In the article of “Let us talk about NPC & CPPCC” section (2013) of www.Ifeng.com, the idea of Zhang Ping will support my conclusion about new urbanization will make the housing price in China's big cities cool down.

6. In the article of “China's New Urbanization Plan” (Shannon Tiezzi, 2013), which talked about the urbanization in China prioritizes Hukou reform over construction and relocation projects. It will support my analysis about solving the Hukou problem will increase housing consumption demand and overcome housing oversupply problems.

II. The logic of my research paper

1. Introduce Chinese housing bubble

Because Chinese housing bubble is accumulating, more and more people worried about the housing bubble will burst soon;

2. Analyze the characters of Chinese housing bubble

According to data and analysis, I think there are different housing bubbles in different tier cities of China. In the Tier 1 and 2 cities, prices are high due to strong demand and constraint in supply, so the housing bubbles in these cities seem to be more severely; in many Tier 3 and 4 cities, oversupply is the main problem, even creating some “Ghost towns”. We should pay close attention to these housing bubbles, even if the housing prices in these cities are not very high and housing bubbles seem not so severely.

3. Discuss the influence of urbanization on housing price

Housing bubble is caused by many problems. My research will focus on the influence of urbanization policy. However, there are two different ideas about the influence of urbanization on housing price: one is urbanization maybe increase housing bubble; the other one is new urbanization maybe soft-land Chinese housing bubble.

4. Get my research result

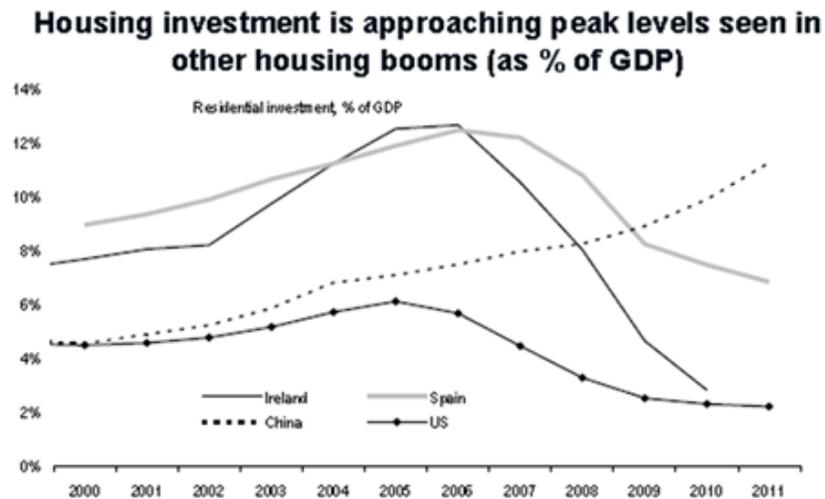
We should implement the new urbanization, which can make housing prices return to reasonable prices and soft-land overall housing bubble in the long term.

III. Main body

1. Chinese housing bubble

Chinese housing prices have been skyrocketing over the past few years, with seemingly unstoppable momentum. The Chinese government has tried a few times to control the real estate market, such as the real estate restrictions implemented. However, housing investment continues to spike.

Housing bubbles in the United States, Ireland, and Spain all burst between the years of 2005 to 2007. The amount of real estate investment in China as percent of national GDP is nearing that of Ireland and Spain at their housing bubble peaks; but Beijing's shows no indication of slowing down. (As shown in the graph below) History shows that housing bubbles will eventually burst, and when that happens, the whole country and the whole world will suffer the consequences. The IMF estimates that a 1 percent decline in Chinese real estate investment would reduce global GDP by about 0.05 percent. So if we can soft-land the Chinese housing price and reduce the damages to the minimized level, before the housing bubbles eventually burst, it will have very important practical meanings.^①



From 2005 to 2011, average housing prices rose rapidly in the Chinese real estate market. Analysts argued over whether this rise was a result of a speculative real estate bubble, or genuine increases in demand. Evidence for a bubble included significant numbers of vacant or under-performing commercial and residential properties and the continued construction of property despite these facts, including an estimated 64 million vacant apartments. There were high price-to-income ratios, and high price-to-rent ratios for real estate, such as in Beijing where the price-to-rent ratio is 500:1 months compared to the global ratio of 300:1 months. There was a weak secondary market for Chinese homes, with the ratio of secondary to primary residential property transactions at 0.26 for the first half of 2009 (four times as many new home purchases as secondary sales). Comparably, Hong Kong had a ratio of 7.25, and the U.S. had a ratio of 13.45.

What caused the Chinese housing bubble?

(1) Economic contributors

① Cheap and abundant liquidity for the real estate has been a key driver factor

There have been many factors that may have led to rising Chinese housing prices, but economic system problems are the key driver factors of Chinese housing bubble. Possible economic contributors include low interest rates and increased bank lending, beginning in 2003 under Premier Wen Jiabao which allowed cheap credit for the construction and purchase of property while making competing debt investments less appealing. And responding to the 2007–2012 global financial crisis, the huge spending from the China economic stimulus program may have found its way into real estate, contributing to the housing bubble.

② Lack of the other profitable investment fields

Currently, the China economic slowdown, overcapacity, lack of profitable investment fields and the rapid development of real estate, makes profit-seeking capital accumulating impulse of investing in housing industry. Many Chinese companies in the chemical, steel, textile and shoe industries open real estate divisions, and expect higher returns than in their core businesses. During this period, residential housing investment as a share of China's GDP has tripled from 2% in 2000 to 6% in 2011, similar to the peak of the U.S. housing bubble. Meanwhile limited access to foreign investments for Chinese citizens increased the appeal of domestic investments such as property. Furthermore, Chinese citizens also faced cultural pressures encouraging home ownership, particularly for men seeking a wife.

③ Banks have incentive to drive property market

In China, the banks account for more than 90% of the amount of housing industry financing. If real estate risk once appears, the banks' losses will be very heavy. So banks have incentive to drive property market.

(2) Some local governments in China have incentive to drive property markets and push up housing prices

During the bubble, local government relied on land sales for income, incentivizing the continued sale and development of land. This is partly a result of 1994 fiscal reforms to raise

local government revenues, which were falling despite overall GDP growth. By most estimates, land sales and taxes account for between 40% and 60% of local government revenues. In 2009, proceeds from land sales alone amounted to RMB 1.5trillion, some 40% of local government income. Local government encouragement of high property prices is underpinned by loose monetary policy.

(3) Regional disparities and the Hukou (Chinese household registration) restriction

Regional disparities caused the housing price in Chinese Tier 1 and 2 cities continue to rise. It is because of limited land supply but huge housing demand. There are more work opportunities, better education, and better medical care in big cities. Social services are much better than the small cities or countryside, so a large population swarm into big cities, in actually, every year there are 600,000 people become new residents of Beijing or Shanghai. What is more, many citizens living far from these mega cities also buy a flat for investment, if they can afford it, because they believe investment housing industry will never lose money in these mega and big cities.

However, in China is running similar way to US's green card system. As a citizen of China, Hukou residency status based on cities indicates what kind of medical and education service a citizen can obtain from local Chinese government. Hukou residency is not determined by where people actually live but by their parents' Hukou status. As a developing country, the fairly good education, employment opportunities and medical services are provided only in big cities of China such as Beijing, Shanghai and some core second tier cities. Premium of Hukou at big cities in China should be evaluated properly when justifying Chinese property bubble. For instance, the education and medical premium of a Beijing Hukou can be evaluated at RMB 600,000 (\$100,000), which is popular cited in Chinese internet. Most government and state-owned enterprises only provide interview opportunity to people with the local Hukou.

(4) Grey Income

According to independent economist Andy Xie, the scale of China's gray income is very large, possibly one-tenth of GDP. Most of grey incomes are invested in the real estate market of tier 1 and tier 2 cities, which contributes to the fact that the leverage rate of Chinese properties

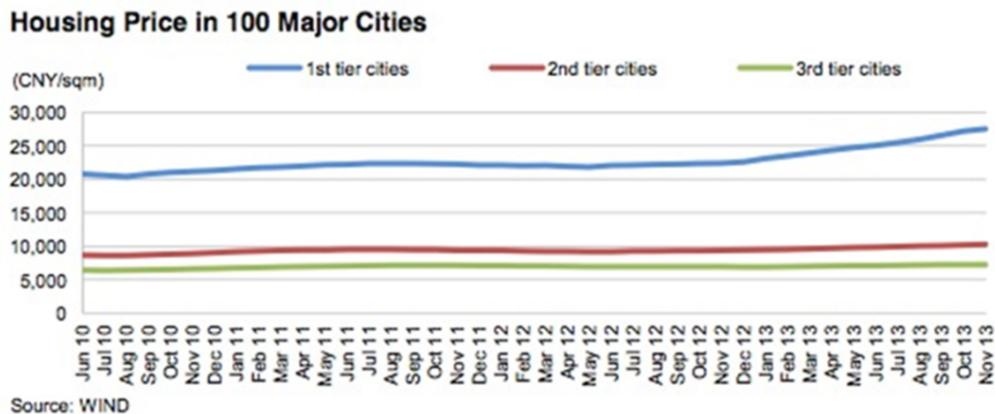
are small compared to the property bubbles in other countries. The normalization of grey incomes in China feeds the property bubble in the long run.

(5) Urbanization

Trends of increasing urbanization and rising incomes in China could continue to support real estate prices. However, In China, there were comparatively conservative mortgage lending practices, particularly in contrast to those at the height of the United States housing bubble.

2. The characters of Chinese housing bubble

The China’s central bank Governor Zhou Xiaochuan said: “China may have housing bubbles only in some cities, the issue that’s difficult to solve with a single nationwide policy.”

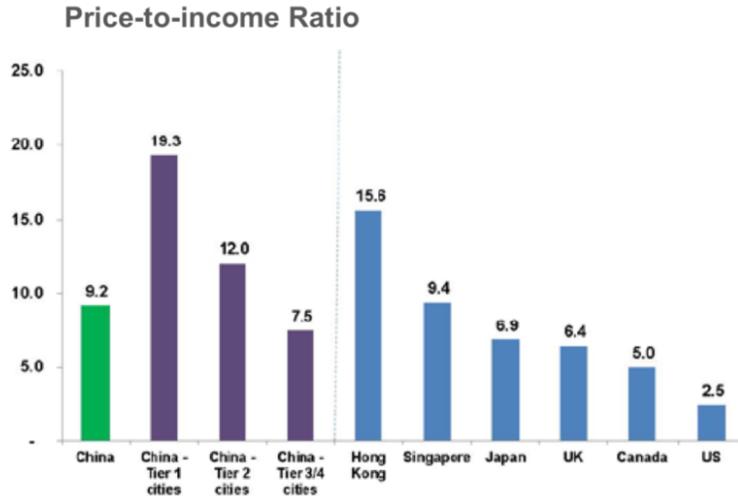


The price-to-income ratio¹ and affordability ratio², commonly used indicators to analyze housing market exuberance, showed that the China’s average ratios are higher than most other countries, which means that there are housing bubbles.³ However there is a degree of variance among different areas. The ratios are much higher in the Tier 1 and 2 cities where price increases have taken on a faster pace, while Tier 3 and 4 cities have ratios that are comparable to other countries.

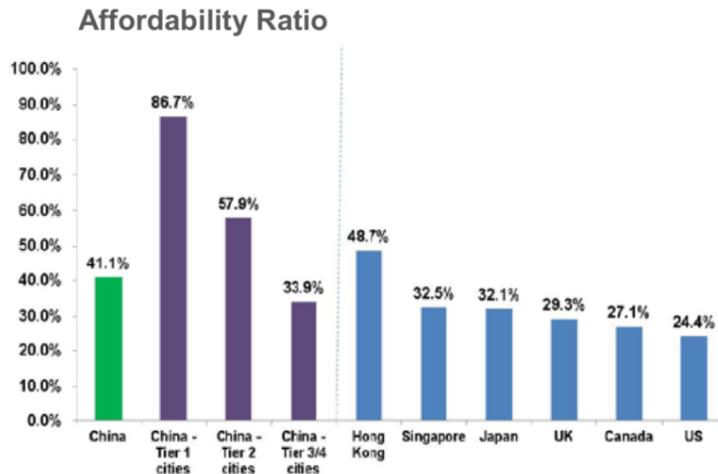
¹ **The price-to-income ratio**, which measures median housing prices in a given city against median disposable incomes, reflects affordability rather than absolute property value.

² **The affordability ratio**: Monthly mortgage payment for mainstream unit size versus average household income.

³ **Source**: Citi Research, China Property, Ghost Towns and Property Bubbles, December 2013.



Source: Citi Research; Note* assume units size of 90sqm for all countries



Source: Citi Research; Note* - Mortgage payment as % of household income, taking avg living unit size/ mortgage rate in respective countries

According to Citi Research, the price-to-income ratio in China is 9.2, higher than in most other countries with the exception of Hong Kong (15.6) and just below Singapore (9.4). Similarly, the affordability ratio in China at 41.1% is higher than in most other countries except for Hong Kong (48.7%). This is due to the higher mortgage rates in China, besides the high property prices. (As shown in the graph above)

However, these do not reflect a nationwide bubble. The ratios are higher in Tier 1 and 2 cities, while Tier 3/4 cities exhibit ratios comparable to other countries. The ratios in Beijing, Shenzhen and Shanghai are among the highest in the world, given their fast rates of price growth

which have outpaced growth in disposable income. Price-to-income ratio and affordability ratio have reached 22.4, 95.4% for Beijing; 23, 92.7% for Shenzhen; and 17, 91.2% for Shanghai respectively. (As shown in below Table) The root causes for the high ratios in the Tier 1 and 2 cities are ample liquidity and supply shortage. Property has become a popular investment method, because it grows rapidly and preserves value against inflation amidst a lack of other investment channels. In the Tier 1 and 2 cities, the better job prospects attract a continuous growing population, including new graduates, businessmen and migrant workers. However, land resources are getting limited as these cities grow, exerting pressure on housing prices. ②

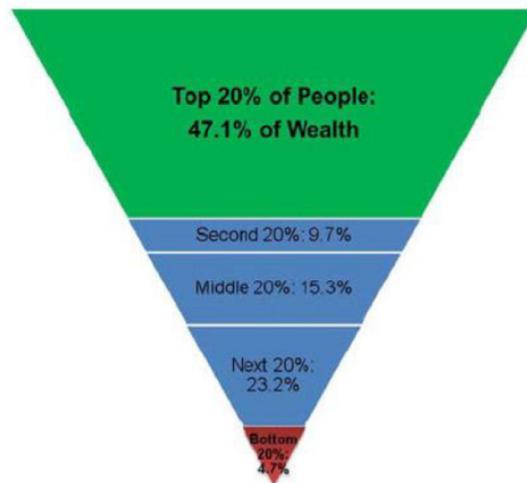
Price-to-income and affordability ratios of Tier 1 and selected Tier 2 cities

	Price-to-Income Ratio	Affordability (Mortgage as % of Income)
National	9.2	41.1
Tier 1 Cities	19.3	86.7
Beijing	22.4	95.4
Shenzhen	23.0	92.7
Shanghai	17.0	91.2
Guangzhou	15.6	69.4
Tier 2 Cities	12.0	57.9
Hangzhou	18.4	84.9
Tianjin	13.3	65.8
Xiamen	17.0	62.3
Chengdu	12.4	60.3
Nanjing	13.1	58.9
Chongqing	10.3	48.2
Shenyang	11.2	47.8
Wuhan	12.6	41.9

Source: Soufun, CEIC, Citi Research

While the high prices in Tier 1 and 2 cities have a part to play in the high price-to-income ratio and affordability ratio, the huge wealth gap (As shown in below graph) and under-reporting of income have also caused these ratios to be disproportionately higher. Because affordability is less of an issue for the higher income groups, the greater constraints for them are the credit tightening for second properties and ban on third property purchases. At the same time, the rising prices in the Tier 1 and 2 cities have made housing less affordable for the lower income worker, resulting in pent-up demand in the lower end segment. ②

China Distribution of Wealth, 2009



Source: World Bank; Citi Research

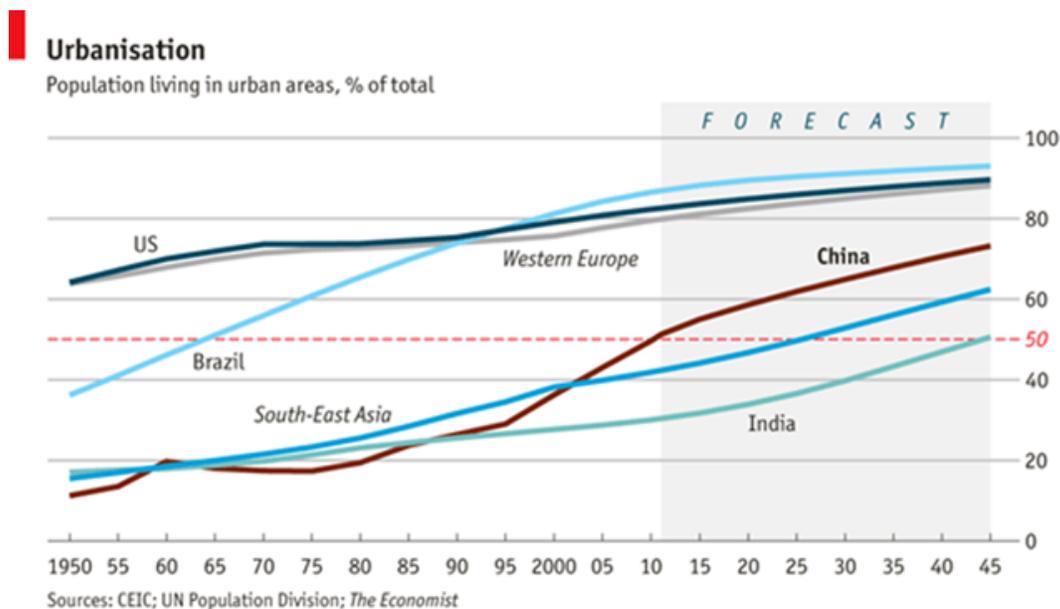
However, I do not think a national or devastating bubble will burst in the whole China property market, although some smaller markets may occur due to oversupply and weak demand. China is a large country with a wide degree of variance among different geographic areas. In the Tier 1 and 2 cities, prices are high due to strong demand and constraint in supply, so the housing bubbles in these cities seem to be more severely, but reasonable in some degree; in many Tier 3 and Tire 4 cities, oversupply is the main problem. We should pay close attention to these housing bubbles, even if the housing prices in these cities are not very high and housing bubbles seem not so severely.

3. The influence of Urbanization on housing price

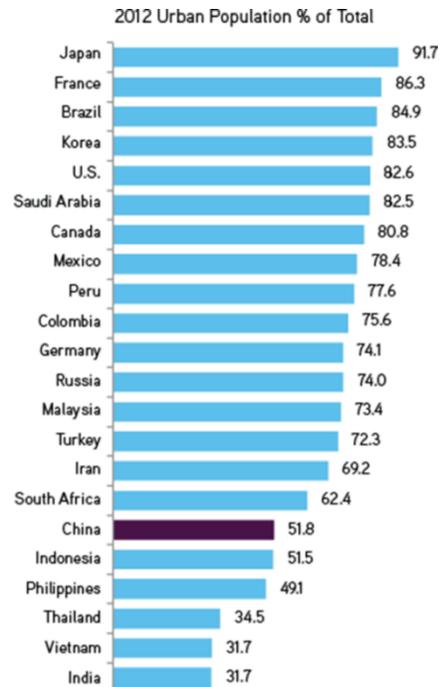
Housing bubble is caused by many problems. My research will focus on the influence of urbanization policy. However, there are two different ideas about the relationship between housing bubble and urbanization: one is urbanization created enormous consumer demand for real estate investment, so urbanization accelerate progress will certainly have a huge impact on housing price in the future. The other one is the new urbanization plan maybe have short term impact on supply/demand prices but it will eventually lead to a moderation in prices in the long term.

(1) Why did China accelerate the urbanization?

Urbanization is a historic transformation process by which the means of production and people's lifestyles evolve from the country to the city. While this process is often characterized as farmers' migration to cities and the continuing development of cities, the process is in fact far more complex. Considering the rapid economic growth in China, some experts and scholars have maintained that urbanization in China lags far behind that of developed nations in Europe and America and it is imperative for China to catch up with this process. As a result, the Chinese government is permitting farmers move to cities and has instituted various measures to accelerate the urbanization process. (As shown in the graph below)



For a nation whose culture and society have been shaped over millennia by its rice-farming traditions, China has just passed a remarkable milestone: its city-dwellers now outnumber its rural residents. Data from the National Bureau of Statistics show that of China's 1.35 billion people, 51.8% lived in urban areas at the end of 2012. (As shown in the graph below) Even now, its ratio of city-dwellers is low for an economy at its stage of development. America reached the 50% mark before 1920. Britain passed it in the 19th century.



Source: World Bank, Haver Analytics. Data as at January 2, 2013.

More important is that urbanization will become a new impetus for the development of China. Now, the new Chinese government is facing a complex economic situation: economic growth is slowing down; export growth is slowing down; and an aging society is leading to labor recruitment difficulties in some cities and provinces. Under the new circumstances, what measures will the new administration take to ensure the sustainable and balanced development of the Chinese economy? Premier Li Keqiang has emphasized urbanization, which will become the focus of China's economic growth in the future, and will become a new impetus for the development of China.

According to Chinese news reports, urbanization could add 400 million more people to the current Chinese urban population in the next decade, which will involve a capital investment of 40 trillion RMB. The government is also said to be expanding the bond market to support urbanization. This will objectively promote the further liberalization of China's domestic capital markets, driven by comprehensive reform.

Gu Shengzu, a member of the NPC Standing Committee, he said: "If industrialization increases, urbanization will create more need in the market. Calculated against the current

urbanization rate, total social consumption can rise by one trillion to two trillion Yuan. The annual investment volume would maintain more than two trillion Yuan for 20 years.”

(2) Urbanization maybe increase housing bubble

Housing demand will increase dramatically as China’s urbanization accelerates. With the urbanization rate increasing by 13 percentage points from 36 percent in 2000 to just below 50 percent in 2010, China has added more than 200 million urban residents within the decade. This population change has created a huge demand for housing. Assuming a requirement of 30 square meters of space for each resident, 200 million people require a total of 6 billion square meters of accommodation.

According to a recent report by BNP Paribas (BNPP), the following Table summarizes the economic effects of Chinese urbanization, especially relating to the consumption of raw materials and the boost given to the real estate market. (As shown in the graph below)⁴ The fate of China's property sector is closely watched as a key economic risk. Capital Economics estimated that the property sector contributed 9.5 percent of China's gross domestic product (GDP) in 2013.^③

Urbanization & Investment Driving China Commodity Demand											
Year	Installed generation		Coal (m tonnes)	Oil (m bpd)	Rolled steel		Cement (m tonnes)	Auto (10,000 units)	Urban population (m)	Export (USD b)	Property sales (m sqm)
	(GW)	(m tonnes)			(m tonnes)	(m tonnes)					
1990	137.9	1,079.9	2.3	51.5	209.7	514.0	301.9	62.1	29.0		
1991	151.5	1,087.4	2.5	56.4	252.6	714.2	312.0	71.8	30.3		
1992	166.5	1,116.4	2.7	67.0	308.2	1,066.7	321.7	84.9	42.9		
1993	182.9	1,148.0	3.0	77.2	367.9	1,298.5	331.7	91.7	66.9		
1994	199.9	1,242.0	3.1	84.3	421.2	1,366.9	341.7	121.0	72.3		
1995	226.3	1,360.7	3.3	89.8	475.6	1,452.7	351.7	148.8	79.1		
1996	236.5	1,396.7	3.6	93.4	491.2	1,475.2	373.0	151.1	79.0		
1997	254.2	1,372.8	3.9	99.8	511.7	1,582.5	394.5	182.8	90.1		
1998	277.3	1,250.0	4.2	107.4	536.0	1,630.0	416.1	183.7	121.9		
1999	298.8	1,280.0	4.2	121.1	573.0	1,832.0	437.5	194.9	145.6		
2000	319.3	1,299.0	4.5	131.5	597.0	2,070.0	459.1	249.2	186.4		
2001	338.6	1,381.0	4.7	160.7	661.0	2,341.7	480.6	266.1	224.1		
2002	356.6	1,455.0	5.0	192.5	725.0	3,251.0	502.1	325.6	268.1		
2003	386.6	1,722.0	5.5	241.1	862.1	4,443.9	523.8	438.4	337.2		
2004	429.9	1,992.3	6.4	319.8	966.8	5,091.1	542.8	593.4	382.3		
2005	517.2	2,205.0	6.7	377.7	1,068.8	5,704.9	562.1	762.0	557.7		
2006	623.7	2,373.0	7.2	468.9	1,236.8	7,278.9	577.1	969.1	606.3		
2007	718.2	2,536.0	7.5	568.9	1,360.0	8,887.0	593.8	1218.0	761.9		
CAGR 1999-2007	11.6	8.9	7.5	21.3	11.4	21.8	3.9	25.7	23.0		
CAGR 1990-1999	9.0	1.9	6.9	10.0	11.8	15.2	4.2	13.6	19.6		

Sources: NBS; BNP Paribas

⁴ CAGR: Compound Annual Growth Rate

According to above data, urbanization created enormous consumer demand for real estate investment, so urbanization accelerate progress will certainly have a huge impact on housing price in the future. At the same time, we can simply look at the incremental supply from residential land under construction and social welfare supply for the next four years (2014-2017), the number is 227 million and already higher than our projections of incremental demand based on migration and marriage needs, only 176 million. (See following table)^②

China's incremental residential supply and demand

	GFA (sqm)	Units	No. of people ¹
Under construction by developers	4.863 billion ²	51 million	147 million
Planned social welfare units (2014 -2017)		28 million ³	80 million
Supply			227 million
Migration (2014 to 2017) ⁴			72 million
Marriages (2014 to 2017) ⁵			104 million
Demand			176 million

Source: National Bureau of Statistics

1 Assumes urban building space per capita of 32.9sqm and average household size of 2.86 based on NBS Population Census 2010

2 Source: NBS 2013

3 36 million or 7.2 million p.a. social welfare housing units were planned under the 12th Five-Year Plan (2011-2015). We assume a similar rate of 7 million to be built p.a. thereafter.

4 Migration 18 million p.a based on average of historical and future urbanisation growth rate

5 Marriages 13 million p.a. based on 2013 actual (Source: NBS)

It is not including the estimates of supply from land held by developers and the possibility of some vacant units held by multiple-home owners being put back into the market due to lack of transparent information. These would make the oversupply looks even larger.

However, this oversupply situation is not evenly distributed. In the developed Tier 1 and core Tier 2 cities, land is more lack and old buildings especially in the prime city centers are torn down to make way for new developments. Housing prices in these cities are high due to strong demand and constraint in supply, so the housing bubbles in these cities seem to be more severely; while in the Tier 3 and 4 cities, a higher rate of increase in residential GFA (Gross Floor Area) being commenced, constructed and completed between 2008 to 2012, resulting in a higher inventory digestion period. (As shown in the graph below) We should pay close attention to these housing bubbles, even if the housing prices in these cities are not very high and housing bubbles seem not so severely.^②

China Property – Key Statistics by City Tier

5-year CAGR (2008 – 2012)	Tier 1	Tier 2	Tier 3/4	National
Demographic and Economic				
Population	3.4%	1.9%	0.1%	0.5%
Disposable income	9.2%	12.0%	11.5%	11.0%
Real GDP growth	10.3%	13.3%	11.7%	9.3%
GDP per capita	7.7%	11.8%	13.6%	11.7%
Property Market				
Residential property sales value	6.2%	15.4%	18.7%	16.1%
Average selling price	12.4%	10.7%	7.9%	8.8%
Residential GFA started	1.3%	10.1%	15.8%	13.1%
GFA starts/GFA sold	110.8%	119.6%	160.1%	132.0%
Residential GFA completed	-0.4%	11.9%	16.5%	13.4%
Residential GFA under construction	6.2%	15.6%	22.6%	18.6%
Inventory digestion (months)	10.4	14.9	20.7	17.8
Land Market				
Land sales value	0.9%	12.5%	23.2%	17.6%
Land price	16.9%	12.3%	7.5%	14.9%
Land sold in GFA/GFA sold	77.6%	135.2%	175.2%	151.0%

Source: CEIC, Soufun, Citi Research (November 2013)

*CAGR (2008-2012): Compound Average Growth Rate from 2008 to 2012

GFA: Gross Floor Area

The smaller cities bear the brunt due to the large supply of land sold by local governments. Massive advance town planning, which over-forecasted demand, and local governments' strategies of building infrastructure and selling land for housing construction to achieve their GDP-driven KPIs (Key Performance Indicators) have resulted in excess supply in many cities. Oversupply exists not only in the units that have been completed or are under construction; it also lies in the massive land bank held by developers following the local governments' aggressive selling in the past. Local governments will inevitably try to take advantage of such large-scale investment, to build new urban infrastructure. Given the large number of corrupt officials involved in inefficient government spending, people are wondering whether public money would be better for urbanization and under the stricter eye of public opinion. To make matters worse, many smaller cities do not enjoy high sustainable housing demand. As a result, a number of cities have been labeled as "Ghost Towns" by the media given the low occupancy of the newly completed homes.

In actually, "Ghost Towns" are caused by too fast urbanization incompatible with slow cities' development. Firstly, blind city expansions. Some local governments propose

development objectives that are impractical and do not consider principles of city development, stages of economic development and limited resources; Secondly, symbolic projects are prevalent. Without considering investment returns, some local governments build “show-off projects,” such as administration centers and luxurious office buildings, at the expense of investments in city facilities that are critical for public welfare; Thirdly, cities lack guidance on small-city development and special regulations, blindly imitating the patterns of others; Fourthly, very few people take into consideration their current labor conditions, future population growth, the construction of matched environmental and sanitary systems, and so on.

According to Citi Research,⁵ Ordos, Yingkou and Tangshan deserve the label “Ghost Towns” given the massive cumulative oversupply that has been built up, virtually no rental market, resources-driven economies which have been hit by overcapacity, wide income disparity which means many locals cannot afford to buy these new homes, and declining or slow population growth.

Public perception of “Ghost Towns” usually comes from the impression of low occupancy such as no lights at night or little activity in the town. However there are some peculiarities in the China housing market that takes a newly completed building a longer time to reach high occupancy. The primary market is still dominant with bare-shell units and young couples tend to buy first and move in upon marriage. The physical key handover can come after 18 months or more from purchase day while often taking another two years for decoration. Hence in general, it can take 3-4 years for homebuyers from buying to moving in. From Citi Research’s ground checks, they noticed many projects can indeed record around 50% occupancy in around two years’ time, and over 70% after 3-4 years.

Urbanization is in fact far more complex. Particularly if this process is not brought under control, it will cause many problems, which will have severe economic and political consequences and affect social stability as well. Urbanization is not simply a process in which farmers move to cities. Rather, it is a complex process that not only requires co-development with industries and the entire economic system, but also needs to be compatible with the

⁵ Citi Research: China Property, Ghost Towns and Property Bubbles, December 2013.

conditions of employment, security, education, public transportation, medical insurance, environmental protection, infrastructure, and so on.

(3) What is new urbanization?

There is some history background and social reality reason of new urbanization. This policy is in close contact with the situation and problems of China's economic development. At present, the Chinese investment and export growth rate become much slower than before and their rapid development are unsustainable, and insufficient domestic demand can't quickly boost in a short time. Investment and consumption structure has been close to the "tipping point", and this judge has basically reached a consensus. To find a new driver and to adjust the investment structure is urgent. Traditional urbanization problems and contradictions have prominently increased, so new urbanization transition is just around the corner.

Urbanization is not only the result of industrialization but it also provides a platform for industrial development. At the current stage of China's development, urbanization without the support of industry would be dangerous and unsustainable. Urbanization and industrialization are two faces of the same coin - a supply side and a demand side. Both sides complement each other. If urbanization needs industrial development to create jobs and promote entrepreneurship, industrial development could meet newly released domestic demand through urbanization. The key point is, thanks to urbanization, the new trend of industrial development can offer more opportunities for service industries, and also for new industries.

① New urbanization is population urbanization

In the past 30 years, urbanization mainly reflected in two aspects: First, the expansion of city size; and second, a large number of migrant workers are working in the city, but they can't stay in the city. Even though most of the migrant workers have worked in the city for many years, they still had to go back to their home in the countryside. The current institutional mechanism doesn't give the migrant workers the convenience of staying in the city, so it needs to make systemic changes. The Chinese government attaches great importance to this issue, because new urbanization is one of population urbanization, rather than the land urbanization.

The core of new urbanization is people-centered urbanization. In the past, China's urbanization was more reflected in material-based, which resulted of the land urbanization is much higher than the population urbanization. Currently, China appeared the semi-urban phenomenon. 260 million migrant workers, although they lived and worked in the city, they can't enjoy the city's share of public services, and of course this old type urbanization is not sustainable. To turn to people-centered urbanization, which does not mean the "hard turn" of infrastructure, but is "soft turn around." Because China high-speed, massive urbanization infrastructure investment for a long time, did not narrow the regional disparities between a large number of rural areas and urban areas, and still remain at the level of focusing on speed rather than quality. To prevent the next phase of urbanization from being a new “Great Leap Forward” into real estate investment, it is important to focus on the human nature of urbanization. That means that urbanization should be for the benefit of the people. Both settlements in cities and the improvement of farmers’ conditions in the rural areas should be taken into consideration.

Furthermore, new urbanization not only play a role in increasing investment in urban infrastructure and expand the domestic demand, but also help to alleviate the problem of rising labor costs. As we all know, China's labor costs now are increasing. But on the other hand, because of the current policy, China still has 30% -35% of the working population of migrant workers, who are very difficult to stay in the city, which is the cause of shortage of urban labor. New urbanization can increase labor force for China's future economy development.

② New urbanization is resource-saving urbanization

On the other hand, the construction of new infrastructure should lay the foundation for a new development model characterized by resource-saving, environment-friendly and intensive development. Recent government documents clearly indicate that the construction of centralized settlements of farmers is not encouraged.

③ The timetable of urbanization

Urbanization has been a core part of the Chinese government's strategy over the past decade, and new-type urbanization is part of their continued drive to help more rural dwellers migrate to cities, improving their standard of living and helping boost the overall economy. And the new urbanization policy has a specific timetable:

Firstly, on December 16th, 2012, Chinese central government put forward this economic policy for the first time. Central Economic Work Conference proposed that new urbanization is the historical task of China's modernization, which is also the greatest potential for expanding domestic demand, so we should actively promote the healthy development of urbanization.

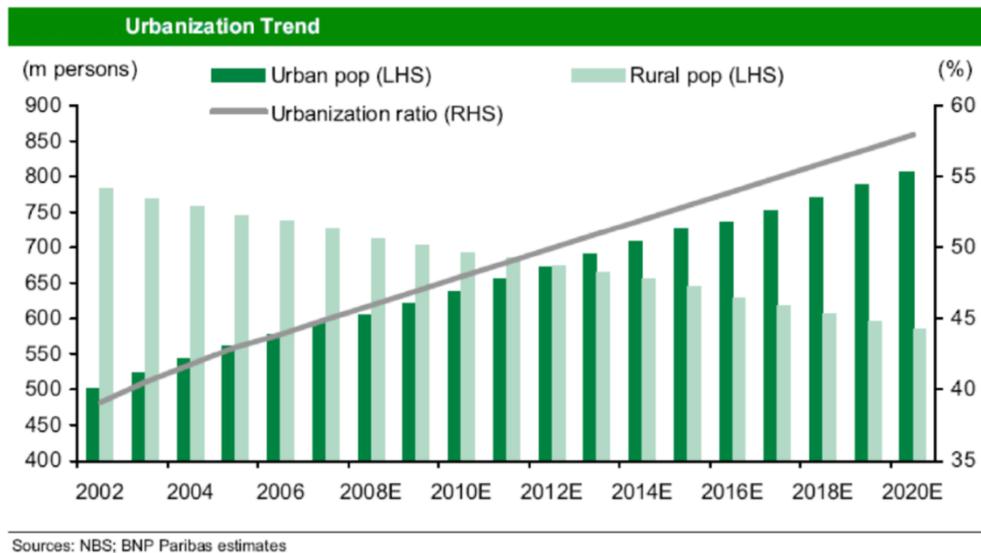
Subsequently, in 2012-2013, after several central level meetings preheat, as a general outline of the development of China's urbanization, "The plan of Promoting the Healthy Development of New Urbanization in China (2011 - 2020)" had been completed, had been reported to The State Council, and soon be released. The plan is led by the National Development and Reform Commission, and more than a dozen ministries jointly prepare and draft.

Then, on December 23th-24th, 2013, the Central Rural Work Conference further refined the next stage specific time schedule of new urbanization, proposed three "100 million" goal, which means that in 2020, about 100 million used into solving the agricultural population permanently migrated and settled in the city; about 100 million used into reconstructing shanty towns and villages in towns; and about 100 million used into the Midwest of China urbanization.

In December, 2013, the Central Working Conference about Urbanization discussed the "New National Urbanization Plan". According to the meeting discussion, the relevant ministries will continue to amend the specific plan details.

On January 20th, 2014, "New National Urbanization Plan" had been revised and submitted to the State council.

On March 17th, 2014, the Chinese government unveiled the National New-type Urbanization Plan, which detailed plans to increase the amount of Chinese people living in cities from 54 percent to 60 percent by the end of 2020, which will involve 110 million rural residents crowding into the cities over the next seven years, through huge investment in transport networks, urban infrastructure and residential real estate, together with reforms to the country's registration system (Hukou system).^④



(4) New Urbanization maybe soft-land Chinese housing bubble

① Accelerating development of small and medium cities will make the housing price in Tier 1 and 2 cities cool down.

Firstly, accelerate the new urbanization, especially the development of small and medium cities in China. Improve urban layout. Cities and towns should have a reasonable structure: to proper control the scale of megacity and big cities, vigorously develop medium and small cities, and small towns.

Secondly, strengthen the construction of infrastructure in the medium and small city, and improve the carrying capacity of these cities. If we increase employment opportunities, improve public services and infrastructures, which are the small and medium cities needed to run. I think the people will prefer to live in their hometown.

Thirdly, the layout of the city population should suit for the resources and the environment. ^⑤

According to Alaistair Chan, economist at Moody's Analytics, on March 17th, 2014, he said: "Now that the 70-City house price index has peaked showing that prices in the major cities are coming down, the government is under pressure to reduce restrictions. I don't think they will do that, but the new urbanization plan could be a method of putting a floor under prices." It implied that new urbanization has started had the positive effect on the Chinese housing price. It has

increased housing consumption in the most of the Chinese cities, which will disperse housing prices pressure in the Tier 1 and 2 cities. And this continued strong demand for cities housings should put a floor under house prices, rather than hard-land the housing bubble in the whole China. So it will lead to a moderation in housing prices in the long term, although it maybe has short term impact on supply/demand prices.

② The Hukou system is the biggest barrier to implement new urbanization.

Chinese policy makers proposed Hukou system problem is the biggest barrier to implement new urbanization, and we should reform of the household registration system first, because it is the key breakthrough factor of the new urbanization.

Firstly, the lag of population urbanization is the biggest barrier to implement new urbanization. In the past, for a long time, we misunderstood that the urbanization equal to urban construction, and too much focus on the expansion of the scale of the urban construction, but ignoring the size of the urban population. The migrant workers are deemed to labor, rather than citizens. As a result, urbanization seriously lags behind industrialization, and population urbanization seriously lags behind land urbanization. In fact, nearly half of 700 million people in the urban are not really citizens, which the experts call "semi-urban" or "pseudo-urbanization".

Secondly, the reform and breakthrough of the Hukou system is the key to promote the new urbanization. Currently, the land urbanization is much faster than population urbanization, so the reform of household registration system is the key of transforming rural farmers into citizens. We should gradually release the cities settled restraints and focus on improving the quality of urbanization, rather than blindly pursuing the rate of urbanization.

New urbanization policy, rather than emphasizing the building of new homes and new cities, the top priority will be helping rural residents who have already migrated to the cities win the status of official legal residents. In other words, new urbanization will focus first on solving the Hukou problem.

③ Solving the Hukou problem will hugely increase housing consumption demand and overcome housing oversupply problems, mostly in Tier 3 and 4 cities.

In coming years, China will fully remove Hukou restrictions in towns and small cities; gradually ease restrictions in mid-sized cities; setting reasonable conditions for settling in big cities; while strictly controlling the population in megacities. In other words, China will continue to emphasize the growth and development of “small cities” by removing Hukou restrictions for these underdeveloped areas. But “megacities” like Beijing and Shanghai will likely continue to have strict limitations on Hukou in a bid to fight overcrowding and rising housing costs.^⑥

As part of Hukou reform, China’s leaders hope to begin breaking down the socioeconomic gap between registered urban residents and rural migrant workers. Such a plan wouldn’t technically increase China’s urbanization ratio, since non-registered migrants are already counted as urban residents.

However, reforming the Hukou system would achieve the underlying goal of new urbanization by increasing domestic consumption. Solving the Hukou problem will help rural residents to win the status of official legal residents, and providing residence permits for migrants workers would raise their standard of living, which would lead to increased housing consumption. Then further increase the housing demand, and finally digest housing inventory, mostly in Tier 3 and 4 cities.

④ Improve urbanization quality and further improve people living conditions.

While reforming the Hukou system was the number one priority for China’s urbanization efforts, the five other tasks: more efficient land use, a sustainable funding system, better patterns of urbanization, holding construction to a higher standard, and providing stronger management of urbanization as a whole. These goals promise that China will continue to relocate current rural residents even while it addresses the needs of people already living in cities.

However, the government wants to ensure that urbanization does not come at the price of China’s already-damaged environment. Now numerous mentions of China’s ecology and natural resources, showing these concerns are constantly on the minds of leaders. And there be a “red line” for the quantity and quality of arable land that is left available for farming. Urbanization is also expected to proceed with modernization of farming techniques to make up for the loss of both farmland and rural agriculture workers.

Finally, the government remains cautious about the potentially negative economic aspects of urbanization, including ballooning local government debt, housing bubbles, and economic imbalances between urban and rural regions. To address these concerns, the government seeks to strengthen its management of the entire urbanization process, ensuring tighter control over local officials. Of course, strengthening central government control is always easier said than done in China, but the call to do so proves China's leaders are aware of the potential for local governments to abuse the new emphasis on urbanization for personal gain.[®]

4. My research result

(1) New urbanization is an unprecedented opportunity for real estate

The development of urbanization has brought unprecedented opportunities and long-term broad space to the real estate industry. China has 1.35 billion people, which is more than current total population of the developed world (Around 1.2 billion in 2012), but nearly half of Chinese live in the poorer rural areas. Before urbanization, housing demand in cities was generated by the natural increase in the population and by the renovation of old housing stock. With the development of urbanization, more rural people are now becoming urban residents, creating heavier demand, which offers a huge opportunity to the real estate industry.

So urbanization will not only provide the basis for sustained growth of the Chinese economy over the next few years, but also have a significant impact the world economy. Meanwhile, we should clearly see that the urbanization of China is only the start of accelerated development. To further realize the changes of new urbanization and digest the oversupply housing inventories, which is the key of soft-landing Chinese housing bubble.

(2) Implement people-centered urbanization

Currently, a handful of rich people in China are spending millions even billions to pursue the city's luxurious style houses, while many migrant workers are sharing the small dormitory placement in a long-term. The huge gap of living conditions in cities has resulted in increasingly higher suicide rate and crime rate, and eventually society will pay a high cost for the unfair. New urbanization is bound to be population urbanization or called "people-centered urbanization". We should gradually ease the Hukou restrictions in different cities and ensure more and more migrant workers can enjoy the fruits of cities development as urban residents, and is the key step

of improving their living conditions, increasing housing consumption demand and soft-landing Chinese overall housing bubble in the long term.

(3) Implement resource-saving urbanization

Residential, commercial, services, and urban-related infrastructure, supporting facilities related industries, will pull national economy. However, the poor quality of construction is difficult to take into account the needs of energy saving and environmental protection. A large number of buildings are only an average of 30 years of life. This led to a large urban buildings demolition and reconstruction, which is waste of resource and energy. So, it is the time to implement a new resource-saving urbanization, which means more efficient land use, a sustainable funding system, better patterns of urbanization, holding construction to a higher standard, and providing stronger management of urbanization as a whole.

(4) We need to pay attention to many issues in the process of new urbanization

In the current stage of urbanization, the biggest problem caused China's domestic housing oversupply is uneven. A lot of migrant workers worked in the cities for many years, but they can't buy houses in there, because they do not have the urban Hukou. So we should solve the Hukou problem at first, and then adjust income distribution. The government should eliminate identity discrimination in the labor and civil rights, though giving migrant workers the right of living in the city and enjoying the corresponding services, rather than hopelessly crowded barracks-style dormitory, such as the tragedy of Foxconn.

In my opinion, new urbanization should pay attention to the interests of the 260 million migrant workers, including through the reform of income distribution system, household registration system, land system, central and local fiscal and taxation systems, college entrance examination, pension, etc, in order to enable migrant workers to benefit from equal public services.

Firstly, urbanization should be focused on human development. If we allow immigration, we should provide job training, funding for small businesses, and eliminate all hurdles that could cause new citizens trouble.

Secondly, we should coordinate urbanization and rural area restructuring. While a proportion of the rural population will be moved into cities, the modernization of the countryside should not be neglected. The formation of the joint development of urban and rural areas will lay the foundation for healthy and sustainable development.

Thirdly, new urbanization should avoid imitation. Each city or town should have its own characteristics, or should build its own brand. Every city (including small towns) should plan according to its local competitive advantages, focusing on the development of specific industries or services.

Fourthly, new urbanization should focus on green and low carbon development. Resource-saving and environmentally friendly technologies should be promoted so that land resources can be used in an economical way, and production can be used intensively. New urbanization should also strengthen energy conservation, reduce carbon dioxide emissions, and try to avoid the destruction of the existing ecological environment. If possible, it should also try to restore the ecological environment by reforestation.

Fifthly, cluster development should be prioritized in this new round of urbanization. Not only are industrial clusters rational, but town clusters can also be very significant. The difference between towns would allow the formation of a reasonable division of work, enabling them to develop their own advantages in order to enhance the overall competitiveness of the urban system.

Sixthly, urbanization should let the market play its role. Although government should play a guiding role in this new round of urbanization, the market should never be replaced. Urbanization is a natural development process to meet people's needs, so peasants, citizens, and enterprises should play a main role in urbanization.

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