China’s property bubble

As Beijing looks to curb 'excessive' gains in the property market amid concerns of a property bubble in China, Bill Hunt, former president of Century 21 China Real Estate, remains sanguine that the bubble will not burst.

“I don't foresee that China would have the kind of a deflation, for example, that happened in the United States where in so many of the markets property prices have dropped 50, 60 per cent, where there are literally millions of foreclosed properties that are back on the market. I don't think that will happen, just because of the sheer size of the marketplace that China has,” Hunt told INSEAD Knowledge before addressing a group of MBA students at the China Strategy presentation at INSEAD’s Asia campus in Singapore.

That China is also “the epicentre right now of the world’s economy” and will probably surpass Japan’s -- “maybe sometime even in 2010 as the second most aggressive and rapid growing economy” -- is likely to cushion its property market from any sort of major collapse that could hamper global recovery.

Hunt, who is now CEO and President of Hong Kong-based real estate project consultancy Amanzani Group, however doesn’t dispute the fact that there is

indeed a bubble developing in China because property prices there are at all-time highs. Beijing, for example, saw its property values soar by 88 per cent, while in Shanghai, he says, the increases were “even greater than that.”

At one point, as much as 65 per cent of all residential sales involved investors living outside Shanghai, who were investing with the idea of flipping the property and reselling it. This was quickly brought under control when the government started putting pressure on these speculators, through various means such as imposing higher interest rates, taxes and other measures. And it worked because sales of properties dropped 50 per cent.

Conversely, property prices in 72 different cities had gone up by 10.6 per cent at around the same time, and that does not bode well especially for residents of those cities. (In March, real-estate prices rose a record 11.7 per cent from a year earlier).

“The government has to be very aware that because of this discrepancy of all the higher-end properties and the fact that there are so many people that can't afford them, they need to close that gap and provide more affordable housing for the citizens, maybe some sort of subsidy programmes even similar to what they do here in Singapore,” says Hunt.

“I think that an even greater cause of what's creating this bubble is the fact that all of the local governments make a huge amount of their revenue from the sale of the land, so the higher the price that they can sell the land to the developers, not only do they make money on that, but they make money on the taxes from it.”“There’s this huge gap between the high end and what the rest of the country can afford; and that kind of rapid increase in prices, it just can’t continue.”

What’s encouraging is that the numbers are currently pointing to a slowdown. Vanke, the largest development company in volume, he adds, reported a 35 per cent drop in sales in the last month. “So there is a slowdown that is starting to occur. But it grew so rapidly it's not going to stop overnight; but the momentum looks like it's starting to turn downwards.”

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