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Real Estate Speculation and its Social Consequences

Editorial

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Editorial

NATACHA AVELINE-DUBACH

China is undergoing intense urbanisation at a rate largely surpassing anything Asia has experienced and the magnitude of which might well have a lasting effect on the global economy. Some 350 million rural residents are expected to move into urban areas by 2025. If current trends persist, 221 cities could have populations surpassing one million by 2025 – against 35 in Europe now – of which 23 could have more than five million. This urbanisation phenomenon poses a major challenge to the building industry and opens up formidable investment potential. In dealing with real estate issues in China, academic literature has largely focused on land use as a means of capital accumulation by local authorities, conflicts over expropriation procedures, or distortions in land use – especially wasteful use of farmland. However, little is known of the workings of property markets and the modalities of action in that industry. This special feature aims to open new paths of reflection on the structuring effects of property dynamics in China's urbanisation.

Rooted in Deng Xiaoping-era reforms, China's property market really took off in the 1990s with the growth of a private housing market. In just a few years, official steps to externalise the real estate of work units transformed thousands of people into owner-occupants. This has been accompanied by a marked rise in property prices in coastal cities. Is this because of speculative activities, or do these spurts stem from the Chinese productive system's economic performance? The media have reported on extreme instances of real estate oversupply in several places, the most spectacular being the Ordos "ghost city" in Inner Mongolia. Mylène Gaulard notes these supply-demand distortions and defends the bubble hypothesis. She points to the abnormally high property-price/income ratio and to rising real estate debt in the Chinese economy. She traces the origin of speculative activities to 1994, when there was a convergence of fiscal recentralisation, an upsurge in local collectives' indebtedness based on land collateral, and housing commodification.

Mindful of the need to halt property inflation that could well rock the Communist Party, the state has sought to encourage the growth of "medium-sized towns," or urban centres with 500,000 to a million residents. There is no guarantee, however, that the state still has the means to influence urban growth as it could in the past. Han Ruibo expresses doubts on this score, arguing that the dominance of the manufacturing industry buttresses the growth of larger cities, especially in coastal regions. The state could achieve balanced growth through the on-going "urban clustering" phenomenon in the regions, but this presupposes the adoption of coordinated planning instruments, which does not yet seem to be on the agenda.

This fragmented vision of Chinese urban reality is shared by foreign investors, whose capital allocation strategies depend heavily on conditions of access to real estate in each urban jurisdiction. In this regard, Natacha Aveline-Dubach shows the crucial mediatory role played by five major international property consultancy firms located in China. With their promotion of investment-worthy cities across the country, these actors facilitate the advance towards the west, northeast, and south without, however, challenging the east-west divide. Going by the risk/return profiles and the investors' time horizons, capital does not flow to the same destinations. Short-term speculative funds, often from the United States, seek capital gains on real estate, venturing into medium-sized cities in the interior or new suburban neighbourhoods of large cities. On the other hand, funds with medium or long-term return strategies are of regional origin (mostly from Singapore) and settle in the central districts of the largest cities in a highly selective manner. In the process, they help imbue neighbourhoods with special characteristics that undermine the Maoist city's multifunctional cellular structure.

Despite their often highly emblematic nature, foreign investments are hardly the only cause of Chinese cities' spatial restructuring. The deterritorialisation of *danwei* through the residential sector's commodification lies at the heart of the specialisation and fragmentation of urban spaces. However, urban structures have resisted social polarisation stoked by property market dynamics. This is what Ryanne Flock and Werner Breitung found in Guangzhou, which played a pioneering role in residential privatisation. Their analysis highlights a significant expansion of the range of housing prices, especially towards luxury, but also notes strong social diversity in the sought-after central districts of Yuexiu and Tianhe. These seem to be fragile balances, as the authors are concerned over the gradual disappearance of affordable residential pockets in the central or sub-central areas, such as urbanised villages (*chengzhongcun*), former *danwei* clusters, and pre-socialist era housing. Such changes can be disquieting as the supply of social residences, current and planned, is far short of demand.

Given the accelerating exodus towards cities, the state has to deeply rethink its urban policies if it wishes to forestall a potentially explosive situation. In an attempt to curb speculation in the property markets, the central government has imposed new restrictions over the past two years on second-home ownership. It has also introduced pricing caps across the country and raised the requirements for down payments and mortgages. Despite the concerns that a slump in property prices might seriously damage the economy, the government is maintaining its strong anti-speculative stance. In March 2013, the State Council enforced a stricter policy aimed at reining in the country's property market. The new measures include stricter income tax rules for home sellers, raising down payment rates for second home-buyers, and plans to impose property taxes in the coming years. But the primary purpose of this policy is to force local governments to become more active in curbing property prices – a policy they have avoided so far – and to set specific agendas for the construction of affordable housing. Will this policy be able to address the challenge of the population shift from rural to urban areas, or is it a temporary response to the most undesirable effects of a speculative mechanism? In other words, would these measures survive a slump in the economy? Given the significance of real estate as a major source of income for banks and local governments, it remains to be seen whether the state will able to maintain the current housing policy in the long run.

Translated by N. Jayaram.