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BIZ INSIGHT

Is China's property bubble real?

OVER THE past year, housing prices have skyrocketed by 16 per cent nationwide in the mainland and tripled in the tier of big cities. Therefore, China's overheating housing market and the property bubble are major concerns to economists and analysts.

History suggests the movement of China's housing market is significant enough to directly affect investment and consumption. The market accounts for approximately 25 per cent of the country's GDP, which played a huge factor in the recent rebound of GDP growth to stabilise roughly at 6.7 per cent, in help together with a robust infrastructure spending and strong auto sales.

Though, the rebound of the housing market raised many flags due to the increase of investors buying and selling houses for a profit, instead of owner-occupiers. Furthermore, the increase in borrowing of home buyers is extremely tormenting.

Q3's data recently showed new loans reaching 1.22 yuan, where 39 per cent is accounted towards mortgage loans. Therefore, in the past two weeks more than 20 top-tier cities have been imposing new measures including raising required down payments, prohibiting illegal fund raising for home payments and controlling the land supply in urban areas to slow down the market.

The biggest cause of a housing market crash is by over-borrowing of homebuyers, but correspondingly Chinese officials have been doing a very decent job and are able to limit the over borrowing amount thus far. Despite a recent surge in mortgage lending, the household balance sheet is overall in good shape. In addition, strict down payment regulations state that buyers will generally put down as much as half of the house price. Besides, even if the prices fall, buyers are unlikely to walk away from their mortgage debt.

Global investors and analysts have been predicting a crash in the Chinese real estate for more than better part of a decade, however there has been no nationwide crash. Moreover, the price of the market may weaken over a certain period, typically when the government starts intervening with the buying side of the housing market, and only to stop this measure once every few years.

We absolutely cannot deny that the housing market is facing problems, but is still a way away from a "bubble".

Lastly, it is imperative that the slowdown in the housing market causes slower sales and a slacker demand for raw materials, furniture and household goods, thus putting pressure on future growth of the economy.

Given this constraint, it is unlikely that the officials would revert to tightened monetary policy.

However, there still more room in which fiscal policy would ultimately position the world's second-largest economy back on track for a sustainable growth path.

Contributed by Asset Plus Fund Management

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