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02 Macro Economy
   CPI & PPI
   Bank Lending Increase
   Building Material Prices

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   Construction Cost

25 Observation
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In November, the increase of both CPI and PPI narrowed.

Real estate development loans decreased, and the growth of personal housing loans declined.
Macro Economy

Movement of CPI & PPI, Mar 2017~Feb 2018

Movement of Shanghai Real Estate Lending Increase, Feb 2017~Jan 2018
Price Movement of Steel Materials

Price Movement of Cement, Yellow Sand and Concrete
Inventory residential price index fell steadily under sluggish market.

Land supply and demand are better than those in the same period of last year.

New housing market saw decline in both transaction volume and transaction price.

Average transaction price of pre-owned housing rebounded to RMB 40,000/sqm.

Retail and office transactions remained languid.
**Urban Analysis**

*Shanghai Inventory Residential Price Index*

1. Inventory residential price index fell steadily under sluggish market.

Shanghai Inventory Residential Price Index was 308.94 in February 2018, down 0.33% MoM and up 4% YoY.

Because of the languid market and Spring Festival holiday, the transaction volume of Shanghai’s inventory housing in February created a new low for the past six years. The inventory residential price index was stably going down. After the holiday, the market may see a rebound. Transaction volume is expected to rise but overall price hike is of little possibility.
2. Price index between the Inner and Outer Ring Roads saw relatively large decrease.

In this month, the price index by ring road continued falling. The price index between the Middle and Outer Ring Roads saw the largest MoM decrease of 0.58%. The price index between the Inner and Middle Ring Road saw the second largest MoM decline of 0.52%.

3. Lujiazui Riverside Precinct saw the largest growth of price index.

In February 2018, there were 21 precincts not seeing decline of price index. Lujiazui Riverside saw the largest growth of price index, namely, 0.41%.
**Land Market**

1. Supply

1) Overall Supply

![Trend of Land Supply](image)

The supply of profit-oriented land showed downward trend in January and February but the volume was much larger than that in last year. The supply of industrial land rebounded in January but the volume still stayed at a low level.

2) Supply of Profit-oriented Land by Type

![Supply of Profit-oriented Land by Type](image)

By type, the supply of retail and office land rebounded and played a dominating role. The supply volume of affordable & social housing land remained relatively high, followed by rental housing land and retail/office land.
2. Transaction Volume

1) Overall Transaction Volume

The transaction volumes of profit-oriented land in January and February were much lower than those in 2017 but both of them saw MoM increase. Similar to the profit-oriented land market, the transaction of industrial land also declined but it was better than that in the same period of last year.

2) Transaction Volume of Profit-oriented Land by Type

By type, retail/office land ranked top, supported by the large transaction volume of retail/office land in Pudong. Affordable & social housing land ranked No. 2, followed by rental housing land and mixed-use (incl. residential) land.
3. Transaction Price

In February 2018, the average transaction price of profit-oriented land strongly rebounded. There was no commodity housing land transacted in the first two months of the year. However, boosted by the prime mixed-use (incl. residential) land in Putuo and the large-sized and well-received retail/office land in Pudong, the city’s average land prices saw a significant increase. The average transaction price of industrial land rose first in January and then fell in February. In January, multiple parcels of high-priced land for R&D and design purposes entered market and drove the average price up. However, in February, there was only one such type of land parcel transacted.

URBAN VIEW -10-
New Residential Market

1. Supply and Demand, Transaction Volume and Price

In January and February, Shanghai’s new commodity housing market showed obvious differentiation. In January, both supply volume and transaction volume were high. Particularly, the supply volume doubled. In February, the supply volume and the transaction volume fell by 78% and 60%, respectively. The transaction volume even created a new low for the past six years. On one hand, the approval of pre-sale permit and the registration of transaction delayed because of the Spring Festival holiday. On the other hand, buyers can hardly find satisfactory and available new commodity housing in Shanghai, which led to a low transaction volume.

After declining to below RMB 44,000/sqm in January, the average transaction price failed to see rebound and remained low in February, mainly attributed to the increase of middle- to low-end properties located in the outskirts.
2. Hot Precincts and Projects

**Top 10 precincts in terms of commodity housing transaction volume across the city in Jan-Feb 2018**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Precinct</th>
<th>Supply Area (sqm)</th>
<th>Transaction Area (sqm)</th>
<th>Average Transaction Price (RMB/sqm)</th>
<th>Turnover (in RMB 100 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nanqiao</td>
<td>86,442</td>
<td>81,200</td>
<td>36,476</td>
<td>29.62</td>
</tr>
<tr>
<td>2</td>
<td>Changxing Island</td>
<td>89,485</td>
<td>67,645</td>
<td>28,227</td>
<td>19.09</td>
</tr>
<tr>
<td>3</td>
<td>Qingpu Town</td>
<td>35,611</td>
<td>63,594</td>
<td>40,602</td>
<td>25.82</td>
</tr>
<tr>
<td>4</td>
<td>Jiading New Town</td>
<td>60,412</td>
<td>41,048</td>
<td>33,030</td>
<td>13.56</td>
</tr>
<tr>
<td>5</td>
<td>Huinan</td>
<td>30,536</td>
<td>40,191</td>
<td>29,999</td>
<td>12.06</td>
</tr>
<tr>
<td>6</td>
<td>Lingang New Town</td>
<td>-</td>
<td>30,674</td>
<td>25,098</td>
<td>7.70</td>
</tr>
<tr>
<td>7</td>
<td>Nanxiang</td>
<td>44,562</td>
<td>27,914</td>
<td>46,234</td>
<td>12.91</td>
</tr>
<tr>
<td>8</td>
<td>Maqiao</td>
<td>24,653</td>
<td>26,177</td>
<td>46,862</td>
<td>12.27</td>
</tr>
<tr>
<td>10</td>
<td>Zhangyan Town</td>
<td>15,553</td>
<td>16,752</td>
<td>20,793</td>
<td>3.48</td>
</tr>
</tbody>
</table>

**Top 10 projects in terms of commodity housing transaction volume across the city in Jan-Feb 2018**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Project Name</th>
<th>District</th>
<th>Precinct</th>
<th>Transaction Area (sqm)</th>
<th>Average Transaction Price (RMB/sqm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Xanadu Park</td>
<td>Fengxian</td>
<td>Nanqiao</td>
<td>77,339</td>
<td>36,884</td>
</tr>
<tr>
<td>2</td>
<td>Cathay Courtyard</td>
<td>Chongming</td>
<td>Changxing Island</td>
<td>67,153</td>
<td>28,266</td>
</tr>
<tr>
<td>3</td>
<td>The Bliss</td>
<td>Qingpu</td>
<td>Qingpu Town</td>
<td>27,487</td>
<td>39,065</td>
</tr>
<tr>
<td>4</td>
<td>Sheng Shi Hui Ting</td>
<td>Nanhui</td>
<td>Huinan</td>
<td>27,448</td>
<td>30,373</td>
</tr>
<tr>
<td>5</td>
<td>City Gorgeous Scenery</td>
<td>Jiading</td>
<td>Nanxiang</td>
<td>24,707</td>
<td>46,226</td>
</tr>
<tr>
<td>6</td>
<td>Oriental Fairyland</td>
<td>Nanhui</td>
<td>Lingang New Town</td>
<td>22,819</td>
<td>25,030</td>
</tr>
<tr>
<td>7</td>
<td>VeCity</td>
<td>Minhang</td>
<td>Maqiao</td>
<td>22,740</td>
<td>46,642</td>
</tr>
<tr>
<td>8</td>
<td>Dacheng Courtyard</td>
<td>Jiading</td>
<td>Jiading New Town</td>
<td>20,779</td>
<td>28,483</td>
</tr>
<tr>
<td>9</td>
<td>Star Mansion</td>
<td>Jinshan</td>
<td>Zhangyan Town</td>
<td>15,553</td>
<td>20,670</td>
</tr>
<tr>
<td>10</td>
<td>Yulan Garden</td>
<td>Qingpu</td>
<td>Qingpu Town</td>
<td>13,833</td>
<td>42,897</td>
</tr>
</tbody>
</table>
3. New Supply Ranking

Top 10 projects in terms of new commodity housing supply volume across the city in Jan-Feb 2018

<table>
<thead>
<tr>
<th>Rank</th>
<th>Project Name</th>
<th>District</th>
<th>Precinct</th>
<th>New Supply Area (sqm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cathay Courtyard</td>
<td>Chongming</td>
<td>Changxing Island</td>
<td>89,485</td>
</tr>
<tr>
<td>2</td>
<td>Xanadu Park</td>
<td>Fengxian</td>
<td>Nanqiao</td>
<td>86,442</td>
</tr>
<tr>
<td>3</td>
<td>City Gorgeous Scenery</td>
<td>Jiading</td>
<td>Nanxiang</td>
<td>44,562</td>
</tr>
<tr>
<td>4</td>
<td>Noble Mansion</td>
<td>Songjiang</td>
<td>Songjiang New Town</td>
<td>38,132</td>
</tr>
<tr>
<td>5</td>
<td>The Curio</td>
<td>Chongming</td>
<td>Chenjia Town</td>
<td>32,807</td>
</tr>
<tr>
<td>6</td>
<td>The Bliss</td>
<td>Qingpu</td>
<td>Qingpu Town</td>
<td>31,380</td>
</tr>
<tr>
<td>7</td>
<td>Sheng Shi Hui Ting</td>
<td>Nanhui</td>
<td>Huinan</td>
<td>30,536</td>
</tr>
<tr>
<td>8</td>
<td>Vanke Anting New Town</td>
<td>Jiading</td>
<td>Jiading New Town</td>
<td>30,300</td>
</tr>
<tr>
<td>9</td>
<td>Baohua Noble City</td>
<td>Fengxian</td>
<td>Jinhui</td>
<td>30,212</td>
</tr>
<tr>
<td>10</td>
<td>Dacheng Courtyard</td>
<td>Jiading</td>
<td>Jiading New Town</td>
<td>30,112</td>
</tr>
</tbody>
</table>

4. Transaction Structure

![Transaction Structure of Commodity Housing by Area, Jan-Feb 2018](image)

![Transaction Structure of Commodity Housing by Total Price, Jan-Feb 2018](image)

Compared with the end of last year, the transaction proportion of commodity housing priced RMB 2-3 million saw a further growth in this January and February while the
proportion of commodity housing priced over RMB 5 million was almost halved. By area, the overall transaction proportion of commodity housing with an area of 70-145 sqm reached 80% again.

5. Inventory Movement

As of end-February 2018, the city’s new residential inventories totaled 31,758 units, slightly increasing by 157 units MoM. The inventories of new housing have remained around 32,000 units for multiple months. Considering the high attention and strong demand for new housing, significant growth of inventories was of small possibility in the short run.
**Pre-owned Residential Market**

1. **Transaction Volume and Price**

In February 2018, the average transaction price of Shanghai’s pre-owned homes fell to RMB 40,000/sqm after nearly half-year volatility. The transacted units were even fewer than 8000, created a new low for the past six years.

2. **Transaction Volume by District**

The transaction by district was largely influenced by the holidays in January and February. As the New Year’s holiday was short, there were a few districts seeing MoM increase in January; but in February, there was none. The MoM decrease in Hongkou was the smallest. There are mainly pre-owned apartments in this district, which enjoy price advantage compared with other central districts.
3. Hot Precincts

Top 10 precincts in terms of MoM increase in pre-owned residential transaction volume in Jan-Feb 2018

<table>
<thead>
<tr>
<th>Rank (Jan)</th>
<th>Section</th>
<th>Area Sold</th>
<th>MoM</th>
<th>Rank (Feb)</th>
<th>Section</th>
<th>Area Sold</th>
<th>MoM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Qingpu New Town</td>
<td>446</td>
<td>85.83%</td>
<td>1</td>
<td>Luodian</td>
<td>93</td>
<td>29.17%</td>
</tr>
<tr>
<td>2</td>
<td>Luodian</td>
<td>72</td>
<td>67.44%</td>
<td>2</td>
<td>Everbright City</td>
<td>85</td>
<td>-1.16%</td>
</tr>
<tr>
<td>3</td>
<td>Xinqiao</td>
<td>93</td>
<td>38.81%</td>
<td>3</td>
<td>Dahua</td>
<td>50</td>
<td>-12.28%</td>
</tr>
<tr>
<td>4</td>
<td>Laoximen</td>
<td>53</td>
<td>35.90%</td>
<td>4</td>
<td>Huinan</td>
<td>134</td>
<td>-15.72%</td>
</tr>
<tr>
<td>5</td>
<td>Dachang</td>
<td>134</td>
<td>31.37%</td>
<td>5</td>
<td>Changzheng</td>
<td>62</td>
<td>-16.22%</td>
</tr>
<tr>
<td>6</td>
<td>Fenglin</td>
<td>94</td>
<td>30.56%</td>
<td>6</td>
<td>Liangcheng</td>
<td>75</td>
<td>-18.48%</td>
</tr>
<tr>
<td>7</td>
<td>Wuning</td>
<td>77</td>
<td>26.23%</td>
<td>7</td>
<td>North Sichuan Rd.</td>
<td>86</td>
<td>-20.37%</td>
</tr>
<tr>
<td>8</td>
<td>Jinhongqiao</td>
<td>168</td>
<td>23.53%</td>
<td>8</td>
<td>Chuansha</td>
<td>127</td>
<td>-22.56%</td>
</tr>
<tr>
<td>9</td>
<td>Beicai</td>
<td>153</td>
<td>23.39%</td>
<td>9</td>
<td>Anshan</td>
<td>88</td>
<td>-26.05%</td>
</tr>
<tr>
<td>10</td>
<td>Chuansha</td>
<td>164</td>
<td>19.71%</td>
<td>10</td>
<td>Chongming New Town</td>
<td>69</td>
<td>-27.37%</td>
</tr>
</tbody>
</table>

4. RVMS Base Price

According to the statistics of RVMS system, in February 2017, the mean of base prices of Shanghai’s residential quarters was RMB 53,892/sqm, down 0.45% MoM and up 3.65% YoY; the median of base prices of Shanghai’s residential quarters was RMB 55,601/sqm, down 0.46% MoM and up 2.97% YoY.
In February, the districts with large volume of listings, such as Pudong, Putuo and Jiading, saw further decrease of base price.

By precinct, among the total 121 precincts, there were more precincts seeing MoM decline of base price. Three of the top 10 precincts in terms of decrease were located in Jiading District, which saw the largest decrease of base price among all the districts. In the ranking of increase, the top-ranked precincts were mainly the ones with relatively low price but average amenities in exurban districts.
### Top 5 precincts in terms of increase

<table>
<thead>
<tr>
<th>Precinct</th>
<th>Old Value</th>
<th>New Value</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xujing</td>
<td>42767</td>
<td>43345</td>
<td>1.35%</td>
</tr>
<tr>
<td>Zhuanghang</td>
<td>17501</td>
<td>17654</td>
<td>0.88%</td>
</tr>
<tr>
<td>Huinan</td>
<td>26755</td>
<td>26929</td>
<td>0.65%</td>
</tr>
<tr>
<td>Jiuting</td>
<td>38555</td>
<td>38785</td>
<td>0.60%</td>
</tr>
<tr>
<td>Jinhui</td>
<td>22033</td>
<td>22161</td>
<td>0.58%</td>
</tr>
</tbody>
</table>

### Top 5 precincts in terms of decrease

<table>
<thead>
<tr>
<th>Precinct</th>
<th>Old Value</th>
<th>New Value</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangxin</td>
<td>61197</td>
<td>60297</td>
<td>1.47%</td>
</tr>
<tr>
<td>Anting Automobile City</td>
<td>27149</td>
<td>26850</td>
<td>1.10%</td>
</tr>
<tr>
<td>Luodian</td>
<td>30987</td>
<td>30656</td>
<td>1.07%</td>
</tr>
<tr>
<td>Zhenxin</td>
<td>51653</td>
<td>51198</td>
<td>0.88%</td>
</tr>
<tr>
<td>Jiading Main Urban Area</td>
<td>31504</td>
<td>31232</td>
<td>0.86%</td>
</tr>
</tbody>
</table>
5. **Transaction Structure**

According to the data of the first two months of the year, the transaction proportions by area just slightly changed. By total price, the transaction proportions of pre-owned housing priced RMB 2-3 million saw a significant decrease; while the transaction proportions of pre-owned housing priced over RMB 2 million saw different increases. Overall speaking, the pre-owned housing purchasers’ requirement for home size had little change but the actual buyers in February were mainly rigid demand buyers with limited budget.
Retail / Office Market

1. Supply

1) Monthly Retail / Office Supply

The supply volume of new office properties saw a robust rebound in this February, reaching a record high since 2017. By contrast, The supply volume of retail properties remained low.

2) Retail / Office Supply by District

By district, Pudong dominated the office property transaction, mainly attributed to the large-sized new supply of Crystal Plaza. In retail property sector, there were only three districts having newly-launched projects. The supply volume in Qingpu was the largest.
2. Transaction Volume

1) Monthly Retail / Office Transaction Volume

![Trend of Retail / Office Transaction Volume]

The Spring Festival holiday resulted in a significant shrinkage of retail property transactions in January and February. Similarly, the transaction volume of office properties saw continuous decrease to a level much lower than that in the same period of last year.

2) Retail / Office Transaction Volume by District

![Retail / Office Transaction Volume by District, Jan-Feb 2018]

By district, Minhang was the No. 1 in terms of office transaction volume. Among the top 10 office projects in terms of transaction volume, six projects were located in Minhang, three of which were ranked top three. In retail sector, Jiading ranked top, followed by Pudong.

**URBAN VIEW -21-**
3. Transaction Price

After continuous decline, the average transaction price of office properties rose at the end of February, benefited from the transactions of multiple hot projects in Minhang and high-priced projects in Xuhui. By contrast, the average transaction price of retail properties saw significant decrease as the proportion of exurban projects increased.

4. Inventory Movement

The inventory volumes of retail properties and office properties saw different increase in February. Because of the large supply of new office properties in Pudong, the city's office supply-demand ratio reached 3.67, driving the office inventories up. In retail property sector, the inventories also grew under the languid transaction market.
5. Case Study

(1) Top Seller Office Property – Hongqiao Lvgu Plaza
Located in Greater Hongqiao CBD, the project is composed of 7-9 floors aboveground and 3 floors underground. It is divided into east zone and west zone by Shenchang Road. The east zone includes 150,000 sqm of aboveground space and 130,000 sqm of underground space, with 7 office buildings embracing two canyon-style commercial plazas. In January and February, there were 12 units transacted, totaling 17,784.15 sqm. The average transaction price was RMB 38,258/sqm and the total transaction amount was RMB 680 million.

(2) Top Seller Retail Property – Camphor Court Jinding
The project is the ancillary retail stores for Camphor Court Jinding residential community in Jiading. There were 9 units transacted in January and February, totaling 19,028.92 sqm. The average transaction price was RMB 45,000/sqm, and the total transaction amount was RMB 856 million.
## Construction Cost Indicators

### I Project Summary

<table>
<thead>
<tr>
<th></th>
<th>Underground garage of XX Community</th>
<th>GFA</th>
<th>16,736.86 m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project name</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project location</td>
<td>Between the Inner and Middle Ring Roads</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure</td>
<td>Shear wall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Floors</td>
<td>1 floor underground</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Function</td>
<td>Independent underground garage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                | Method of charging                  | 08 BOQ valuation (2013.04-2015.08) |     |              |

### II Construction Cost Indicators

<table>
<thead>
<tr>
<th>No.</th>
<th>Item</th>
<th>Total cost (RMB)</th>
<th>Cost per sqm (RMB/m²)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Project Cost</td>
<td>66,809,999</td>
<td>3,991.79</td>
<td>100.00%</td>
</tr>
<tr>
<td>I</td>
<td>Architecture</td>
<td>38,941,300</td>
<td>2,326.68</td>
<td>58.29%</td>
</tr>
<tr>
<td>II</td>
<td>Fit-out</td>
<td>10,527,900</td>
<td>629.02</td>
<td>15.76%</td>
</tr>
<tr>
<td>III</td>
<td>Installation</td>
<td>9,280,200</td>
<td>554.48</td>
<td>13.89%</td>
</tr>
<tr>
<td>IV</td>
<td>Additional Construction Expenses</td>
<td>3,327,400</td>
<td>198.81</td>
<td>4.98%</td>
</tr>
<tr>
<td>V</td>
<td>Main-contractor Service Fee</td>
<td>23,500</td>
<td>1.40</td>
<td>0.04%</td>
</tr>
<tr>
<td>VI</td>
<td>Government Fees</td>
<td>2,462,900</td>
<td>147.15</td>
<td>3.69%</td>
</tr>
<tr>
<td>VII</td>
<td>Taxes</td>
<td>2,246,799</td>
<td>134.24</td>
<td>3.36%</td>
</tr>
</tbody>
</table>
Highlights of Two Sessions

General Principle of Regulation

City Development

Rural Development

Urban-Rural Integrated Development
Highlights of Two Sessions

Li Keqiang, Premier of the State Council, delivered the Report on the Work of the Government at the First Session of the 13th National People’s Congress of the People’s Republic of China on March 5, 2018. We here select some highlights about real estate sector in this report with our interpretation.
I. General Principle of Regulation

The Government Work Report says:

“Thanks to city-specific policies and category-specific guidance, clear progress has been made in reducing commercial residential housing inventory in third- and fourth-tier cities, and the growth of housing prices in the most popular cities has been brought under control.”

Comments:

Over years of exploration and development, the city-specific policies have become mature. Policies curbing investment and speculation are specific to the first- and second-tier cities where real estate market is overheated. Policies encouraging multiple channels for inventory reduction are specific for the third- and fourth-tier cities where there is a large volume of housing inventory.

City-specific policies are formulated in response to the differences between domestic cities, including the development difference of real estate markets in eastern China, western China and central China as well as the attraction difference of large, middle and small cities to talent. These differences result in different transaction volumes and prices of land and properties as well as different buying purposes and market expectations of purchasers. Therefore, different regulatory policies are needed to ensure the stable and sound development of real estate market in different cities.
II. City Development

A place to call home – Multi-level housing system

The Government Work Report says:

“We must be clear that houses are for living in, not for speculation. We expect local governments to fulfill their primary responsibility in this respect, and will continue exercising differentiated regulation and put in place robust permanent mechanisms to promote the steady and healthy development of real estate markets. We will support people in buying homes for personal use, and develop the housing rental market and shared ownership housing. We need to speed up the establishment of a housing system with multiple types of suppliers, multiple channels for housing support, and encouragement for both renting and purchase, so that more people will soon have a place to call home.”

Comments:

The multi-level housing system currently includes the following aspects: 1. Renovation system targeting native urban residents. The Government Work Report says: “We will launch a new three-year renovation plan to address housing in rundown urban areas, starting with construction this year on 5.8 million units.” The renovation projects are now mainly in the third-, fourth- and fifth-tier cities. Highly monetized renovation can also help solve the problem of large inventory in these cities. 2. Low-rent system targeting urban non-owner residents. The income level of this group is usually low. Stabilizing this group can largely help stabilizing society. 3. Rental housing (public-rental) system targeting migrant population. It plays a role of attracting and keeping talent (labor force). 4. Shared ownership housing system targeting middle- to low-income group. It is an important way of changing migrant population to permanent resident population. 5. Commercial residential system, which has developed into a fairly large scale over a decade. In the future, it will show signs of shrinkage no matter in the first/second-tier cities or the third/fourth/fifth-tier cities.
New urbanization – Pay attention to the quality of city development

The Government Work Report says:

“This year, another 13 million people will be registered as permanent urban residents, and we will speed up work on granting permanent urban residency to people from rural areas living in cities. We will prioritize the development of public transportation, and improve local amenities like food markets and parking facilities. We will take planned steps to rebuild villages in cities and old residential areas, improve supporting utilities, and encourage the installation of elevators in old residential buildings where conditions permit. We will do more to improve drainage pipeline networks and underground utility tunnels.”

Comments:

The core problem of new urbanization is people. The population of urbanization is composed of those who already live in urban areas and those who have moved to urban areas from rural areas.

The living conditions of those who already reside in urban areas are not necessarily good. Therefore, the government work report requires giving priority to the construction of infrastructures and living facilities, which can improve the living environment of the existing urban residents and enhance the attractiveness of urban areas to rural population.

Although urban areas are attractive, it is impossible for the rural people with accumulated wealth nowadays to migrate without hesitation like their elder generation. Rural-urban migration includes two aspects: 1. Local urbanization. Qualified regions can build the rural areas into urban areas. 2. Use job opportunity to attract rural migrants based on all kinds of equal rights.
III. Rural Development

Land reform – take active and prudent steps

The Government Work Report says:

“We will implement the policy extending second round rural land contracts by another 30 years upon their expiration. We will experiment with separating the ownership rights, qualification rights, and use rights for rural land designated for housing.”

Comments:

The main reason for the increasingly larger gap between urban areas and rural areas is that rural wealth cannot be externalized. The solution is to make farmland and state-owned land enjoy same rights and same price.

Firstly, the ownership of rural land shall be re-sorted in legislation. The experiment of separating the ownership rights, qualification rights, and use rights for rural land designated for housing mentioned in the government work report of this year is a helpful attempt to make farmers’ wealth externalized in legislation.

After the legal relation of farmers’ two rights is sorted, the long-term stability of the two rights shall be ensured. Therefore, the government work report of this year proposes the policy extending second round rural land contracts by another 30 years upon their expiration to ensure farmers’ long-term rights.

The third step is to price contracted land management rights and rights to use rural land designated for housing, which has been piloted in some regions in the form of transfer. With the increase of pilot projects, there will be a transfer market of contracted land management rights and rights to use rural land designated for housing, which can lay the foundation of the externalization of farmers’ wealth.
Farmland – protection and restoration

The Government Work Report says:

“We will redouble efforts to protect and restore ecosystems, and finish setting redlines for ecological conservation across the country. This year, more than 6.67 million hectares of land will be afforested, and crop rotation and fallow land trials will be increased to cover 2 million hectares of farmland. Wetland protection and restoration will be expanded and pilot reforms for the national parks system will be continued.”

Comments:
From setting redlines for ecological conservation at macro level, to building park system at meso level, then to applying farmland protection techniques at micro level, farmland is largely involved. In other words, farmland is the focus of ecological protection and restoration. The government’s protection of farmland now focuses more on its quality and sustainable use. If the existing farmland is high-quality enough to provide crops in high quantity and quality, we will feel free to change the inefficient and not improvable farmland into construction land.
IV. Urban-Rural Integrated Development

The Government Work Report says:

“We will improve the measures on offsetting cultivated land used for other purposes, and establish a mechanism that allows the surplus quotas produced by linking newly-added cropland quotas with the amount of land used for construction to be adjusted inter-provincially. All profit there from will be used to fight poverty and support rural revitalization.”

Comments:

According to current stipulation, the issue of quotas is only allowed to be coordinated within the city when changing construction land to farmland or using farmland for other purposes. The intention is to prevent developed cities in east China from purchasing quotas from poor cities in middle and west China. This strategy can slow down urban sprawl and mitigate the outbreak of city disease. However, in these years, many large and medium cities have already delineated the boundaries of urban growth. If the administration of quotas still cannot be eased, the readjustment planning and urban renewal of these cities will be impeded. Therefore, we can find from the 2018 Government Work Report that the surplus quotas produced by linking newly-added cropland quotas with the amount of land used for construction are allowed to be adjusted inter-provincially. It will help the core cities in a metropolitan area give full play to their functions and help China shape a “metropolis + nature” mode of urban development.
Fine tuning on real estate market policies

Authorities refutes the rumor of policy easing

CBRC announces to curb resident leverage

Beijing has three land auctions failed in five days

Government no longer monopolizes housing land
Policy: Fine tuning on real estate market policies
At the beginning of 2018, there is fine tuning on the home purchase policy in Lanzhou and Nanjing. Lanzhou has cancelled the home purchase restriction in some districts and the remaining districts no longer require certification of social security contribution and tax payment. Nanjing eased home purchase restriction on high-level professionals. Professionals with master’s degree or above and professionals below 40 years old with bachelor’s degree can obtain permanent residential permit with their diploma; high-level professionals will no longer be restricted by permanent residential permit when buying homes in Nanjing.

Urban View:
In this year, to ensure more targeted reduction of excess inventory and effective prevention of speculation, China’s real estate market may adopt different policies for one city under the keynote of “housing is for living in, not for speculation”. Notably, the current loosening of policy is local fine tuning. The home purchase restriction is eased only for partial buyers and in some regions. The main purposes are to attract talent and reduce excess inventory, which do not contradict the intention of real estate regulation. In the future, the regulation over real estate market will get rid of the “one size fits all” mode. The final target is undoubtedly to maintain the stable and sound development of real estate market. However, the fine tuning will necessarily bring some impact on market participants’ expectations. The actual effect remains to be seen.
Policy: Authorities refutes the rumor of policy easing

Recently, media reports on Lanzhou’s “loosening” of home purchase restriction, Hefei’s cancellation of home price cap and Chengdu’s “easing” of regulation through professional household registration have overspread. On January 16, the Ministry of Housing and Urban-Rural Development explained it is misunderstood that real estate regulation is relaxed and the government will keep regulating the real estate market.

Urban View:

Over the past three months, nearly 20 cities nationwide joined the competition for talent. A raft of new policies was released. The common point of them was to retain talent through targeted easing of eligibility criteria for home purchasers. It made people think that the final target of lowering the threshold may be to attract home purchasers. However, there is still a series of fine tuning to ensure the steady development of the real estate market. For example, multiple cities have raised mortgage interest rate.

The Central Economic Working Conference held at the end of 2017 has said that the monetary policy in 2018 would remain steady and neutral. Overall speaking, the mortgage policy in 2018 will remain tight as 2017 and favor rigid demand for the first home buyers and move-up demand. Speculation and home flipping will still be severely curbed. Therefore, despite of the targeted fine tuning in some cities and regions, measures preventing the irrational market are still strictly taken. Policies are not likely to be “loosened” and make future market rally.
Finance: CBRC announces to curb resident leverage
On January 25 and 26, China Banking Regulatory Commission (CBRC) held 2018 National Banking Sector Supervision and Management Working Conference. The conference emphasized that efforts shall be put in curbing resident leverage and the main points shall be controlling the excessively fast increase of resident leverage, cracking down the behaviors (such as diverting consumer loans and illegally overdrawing credit card) and strictly preventing illegal personal lending entering stock market and real estate market.

Urban View:
According to the Annual Report on Development of Housing Market in China (2017-2018) released by Chinese Academy of Social Sciences, by the end of 2017, the housing mortgage rate of Chinese residents rose to 50%, approximating to the level of USA before the Subprime Crisis. Other data also showed that the percentage of debt among disposable income of households grew to 90% from 35% in 2007, much higher than the level of other emerging economies. Chinese residents mainly use leverage to buy homes. If home price falls, the balance sheets of financial institutions may rapidly worsen and the lending will be largely tightened. Consequently, a large number of home purchasers will break the contract and there will be bank runs, which can lead to serious financial risk. Therefore, it is imperative to control resident’s leverage.
Market: Beijing has three land auctions failed in five days
In January, there were totally 16 parcels of land transacted in Beijing, the transaction amount of which totaled RMB 40.307 billion, almost quadrupling compared with January 2017 and soaring by 161% MoM. The large increase stems from the adequate and faster supply of land listings. However, there were three consecutive land auction failures in five days.

Urban View:
According to data, Beijing witnessed a land auction failure in November and December of 2017, respectively. It has been the third consecutive month seeing land auction failure. Moreover, the premium rate remained low. The involved parcels were all high-priced land with certain marketing risk. In addition, developers’ financing channel have been much narrowed under current market environment, it is difficult for developers to afford large-sized and high-priced land parcels. It should be noted that some developers were still willing to obtain such “losing projects” of large size, small margin and located in key cities in previous years to increase their market share and expand their businesses in key cities. However, there is almost no such kind of case in the last one year. Developers’ market expectation has significantly changed. The government’s control on home price will not be eased, and as a result, developers’ profit margin will become smaller.
Market: Government no longer monopolizes housing land

On January 15, the minister of Ministry of Land and Resources disclosed that China would formulate measures for non-developer enterprises to legally obtain the use right of residential land under original ownership and in accordance with planning requirement. Further efforts would be put in using rural collectively-owned profit-oriented land for rental housing pilot program. A housing system that ensures supply through multiple sources, provides housing support through multiple channels, and encourages both housing purchase and renting shall be put in place. The government is no longer the only supplier of residential land.

Urban View:

If the policy is successfully promulgated, it will be a great progress in the reform on supply side. It can help put enterprises’ inventory land into efficient use and also ensure land supply through multiple sources. However, it should be noted that what we mentioned here is residential land, not commodity housing land, which is more likely to be altered to rental housing land. Now it is the acceleration period of cultivating rental housing market. In addition to ensuring the stable growth of commodity housing land and affordable and social housing land, the market also requires more rental housing land. This proposed policy will better guarantee the supply of rental housing land. From this point of view, it is of great significance for big cities with limited new land, such as Shanghai.
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