Land markets, property led growth and local economic development: lessons from China

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China’s Economic Drivers
Economic Driver 1: Exports

The graph shows the trend in exports and imports over the years from 1979 to 2006. The exports are represented by a blue line, while the imports are represented by a pink line. The y-axis indicates the value in billion dollars ($bn), ranging from 0 to 1200. The x-axis shows the years from 1979 to 2006.
Economic Driver 2: Fixed Asset Investment

The graph shows the percentage of GDP spent on fixed asset investment from 1980 to 2006. The percentage has been increasing over the years, starting from around 15% in 1980 and rising to approximately 60% in 2006. This indicates a growing dependence on fixed asset investment as a driver of economic growth.
Pudong, Shanghai’s new-town CBD
Puxi, Shanghai’s old-town CBD
World Trade Centre, Beijing’s CBD
Financial District, Beijing
Guangzhou’s CBD
Offices in Guangzhou
Chongqing’s CBD
Chongqing’s waterfront
Economic Driver 3: Consumption

- Total retail sales

![Graph showing total retail sales from 2001 to 2006. The sales are measured in RMB billion, and the growth is measured in percentage. The graph displays a trend of increasing sales with a slight fluctuation in 2003 and 2004, followed by a steady increase until 2006.]
Property-led development in the UK/US context
Property led development

• Dominated UK/US urban policy since early 1980s
• Underlying rationale
  • Overcoming market deficiencies to bolster private sector confidence for investment in peripheral/dilapidated locations
• Means
  • Subsidising private sector investment through various means including loan guarantees, land acquisition, taxation break and infrastructure development
  • Creation of special development quangos, e.g., UDCs
  • Civic boosterism involving direct public investment in major projects
Reasons for wide adoption

• Economic globalisation, major social, economic and political shifts towards neo-liberal perspectives

• Greatest control by local governments in terms of influencing spatial and local economic development through land use and planning
Major criticisms

- Large scale and long term public subsidies
- Limited positive economic impact at the local city level
- Largely benefiting elite and globally centred economic activities
- Exclusionary impact on urban governance largely involving global actors and excluding the general population
- Contributing to property market overheating
- Negative environmental impacts due to over emphasis on rapid physical development
A more considered approach?

• The criticisms have led to gradual shifts in urban policy since early 1990s

• In UK particularly, emphasis has shifted to a plan led approach and more comprehensive policies for wider and more inclusive partnership building
A spreading wave…

• Property led urban growth spreading not only in Europe but also major developing cities of the South during 1990s and 2000s

• Most prominent cases are perhaps Dubai and Singapore but also stretching from Bangalore to Beijing and beyond
Methodology
First a note on methodology

- Utilising an institutional approach for the conceptual underpinning of our research
- Comparative case studies of four main cities: Beijing, Shanghai, Guangzhou and Chongqing
- Detailed archival and documentation research
- Over 200 field interviews and five focus groups in China
The analytical framework

Contextual factors

Rules

Constitutional  Collective Choice  Operational

Levels of Analysis

Constitutional Choice  Collective choice  Operational choice
The changing context of urban governance: entrepreneurial local government

- Constitutional level
  - defining rules of promotion and office tenure of officials according to economical achievements measured by GDP
- Collective choice level
  - defining rules of support, subsidies, streamlined planning approval for preferred sectors
- Market level
  - taking opportunities offered by local rules, focusing on projects that generate GDP and employment in the short-term
The rise of the local

- Devolution of power to decide on local development
  - The constitutional level delegated power to local governments to decide on local development since 1992
- Enhancing local revenue raising power
  - The central government gave up the right to share land sale receipts in the early 1990s
  - Greater freedom in raising local taxes and fees in the 1990s
  - Local government to order local branches of state banks to lend
- Soft-budge constraint
  - Spending extra-budgetary revenues
  - Borrowing by state-owned firms to spend on local infrastructure and development
  - Not accountable for repaying the debts
The Chinese property-led urban economic growth model
Public ownership of land and emergence of the urban land market

- **State-ownership of urban land**
  - Local governments are empowered to manipulate the sale of Land Use Rights (LUR) on state-owned land to engineer economic growth

- **Collectively-owned rural land**
  - Controlled by the village committee, which is in fact part of the government
  - Subject to compulsory purchase by administrative powers of government
  - Low/delayed compensation
  - Emergence of the urban land market from 1987
Strategic management of cities

- Planning power: to create site value
- Selling land: extra-budgetary funds
  - Maximum terms of LURs 70 years (residential), 40 years (commercial), 50 years (Mixed use)
- Infrastructure and other projects
  - Underground railways
  - Airports
  - Ring roads and other express roads
  - Motorways
Receipts by local governments from land sale
Investment in market property development

RMB Billion

Percent

Investment Growth

School of the Built Environment
GDP growth rates for main cities in China
Property and infrastructure developments

- Beijing, Shanghai and Guangzhou since 1991
  - 12 million sqm prime office space
  - 7.7 million sqm prime retail space
- MTR lines
  - 2 lines in Beijing before 1995
  - Beijing, Shanghai, Guangzhou and Chongqing
    - 14 lines in operation
    - 10 lines under construction
Impact on urban planning
% of interviewees unsatisfied with the way the planning system operate

% of Answers

- Beijing
- Shanghai
- Guangzhou
- Chongqing

- Long-term city development vision
- Transparency of planning
- Effectiveness in planning control
- Public participation in planning
Over-ambition: Chongqing’s CBD expansion
Guangzhou’s New CBD (the fifth in 50 years)
Intensive competition

- Guangzhou’s clustering of super-malls
  - Teemal: 100,000 sq.m.
  - Grandview Mall: 300,000 sq.m
  - Three other projects offering another 100,000 sq.m
  - Two new projects to offer 100,000 sq.m
Oversupply: Grade A office supply, take-up and vacancy rates in Chongqing
Zhengzhou CBD: city-scale speculation?
% of interviewees who perceived problems in the planning system as serious

% of Answers

<table>
<thead>
<tr>
<th>City</th>
<th>Lack of compensation to change in planning</th>
<th>High costs in planning application</th>
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<tbody>
<tr>
<td>Beijing</td>
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<td>Shanghai</td>
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<td>Guangzhou</td>
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<td>Chongqing</td>
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Impact on urban form and sustainability
Urban sprawl

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<td>1,182</td>
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<td>549</td>
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<td>554</td>
<td>670</td>
<td>785</td>
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<td>Chongqing</td>
<td>184</td>
<td>369</td>
<td>431</td>
<td>329</td>
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</tbody>
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Note: figure in square kilometres
Sources: CNBS (1996); Ministry of Construction (www.cin.gov.cn/statis/city/)
*Targests allowed by the central government for master plans up to 2010
^Targets allowed by the central government for master plans up to 2020
Poor coordination: Major Office Clusters in Beijing
Pollution

Beijing’s Traffic Jam
Major office clusters in Shanghai
Distorted infrastructural development: Opening up the suburb rather than connecting to the city centre
Trends of population growth and cultivated land decline in China
Impact on housing
Cumulative change of housing prices nationally by REPI35/70
CREIS housing index on Beijing and Shanghai
Falling housing affordability

• The central government has intervened in 2004, 2005 and 2006 to dampen house price inflation
  • Raising interest rates and mortgage down payments from 20 to 30 percent
  • Require developers to contribute at least 30% of their own equity before qualifying for borrowing
  • MLR restricting land supply to bring order to the uncontrolled residential developments
• Housing size bigger
• Housing price higher
• Rising mortgage interest rate
• Rising down payment
Impact on social housing provision

• Concentration on middle to high income demand through market provision

• Major decline in social housing provision through the Housing Provident Fund, Economic and Decent Housing and Cheap Rented Housing all of which require an element of public subsidy

• Shanghai only had 13,500 CRH housing in 2005 and Beijing completed its first purpose built CRH project in 2004 providing 400 units
Sale of Economic and Social Housing stalls
Investment into commercial housing and Economic and Decent Housing

US$ Bn

- Commercial housing
- Economic and decent housing
Conclusions
Conclusion

- Administrative decentralisation with increasingly powerful local authorities and reform of the land and housing markets have been major drivers for property led growth in China.

- Property led urban development has been pursued as a main pillar of GDP growth with a large measure of success in Chinese cities.

- Nevertheless major issues of concern have arisen as to:
  - Conflicting policy agendas and enforcement of regulations at central and local government levels.
  - Uncoordinated and unplanned form of development causing a huge wastage of resources in terms of unnecessary and ill planned development, ineffective planning, loss of arable land and negative social impacts (particularly in social housing provision).
Conclusion

• Much of this is due to the institutional rules and interaction between constitutional, collective choice and operational levels of property led development.

• There is therefore a need for:
  • Clearer rules of operation for enforcement of regulations at local government and market levels with clear penalties for non compliance.
  • A shift from property led to plan led urban growth with the property industry being down graded from a pillar to an important industry.
  • Instituting more comprehensive measures for assessing cadre performance based on principles of sustainable urban development rather than the current over-reliance on GDP growth.