

# The Comparison of Purchase Restriction Policy in the First and Second-Tier Cities

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**ABSTRACT.** *With rapid development of urbanization, housing demand in China increases sharply with scarce land resources, leading to a surge of housing price particularly in first-tier cities. Wealthy people consider real estate as an approach of investment while ordinary people struggle to earn one and even don't own a house.*

**KEYWORDS:** *First and Second-Tier Cities; Purchase Restriction; Housing policy*

## 1. Introduction

To prevent real estate market from 'irrational inflation' and ensure stable development of real estate market, the State Council issued 'Notification of the State Council on Firmly Curbing the Excessive Rise of Housing Prices in some cities', be called for short as 'New National Ten'.

## 2. The situation in first-tier cities

### 2.1 The overview of purchase restriction policy in first-tier cities

After the introduction of "New National Ten", the sales volume of real estate in first-tier cities except Guangzhou, Shanghai, Shenzhen and Tianjin decreased and the sales price rose sharply. In 2011, affected by local purchase restriction policy, the sales volume in all five first-tier cities decreased while the sales price increased slightly except Beijing.

### 2.2 The background of Beijing

Beijing, the capital of China, has one of the most heated housing markets in country. According to 2010 census, the urban population of Beijing reached 16.86 million. Between 2003-Q1 and 2010-Q1, Beijing's housing prices appreciated by nearly 20% per year in nominal terms. By early 2010, estimated price-to-income ratios varied from just below 10 to above 18. Wu et al.'s (2012) estimates also indicate an increase in the price-to-rent ratio from 26.4 in 2007-Q1 to 45.9 in 2010-Q1. As China's housing markets recovered quickly from influence of subprime mortgage crisis and housing prices kept rising, the government introduced two rounds of market regulations in 2010 to deter speculation. On February 21st, the first round of regulation required the down-payment ratio to be a minimum of 40% for the purchase of second homes (a reiteration of a 2007 Policy II) and the raise of profit tax rate on home resale within five years of purchase.

### 2.3 The further development of housing purchase restriction in Beijing

Due to the limited effect of Policy I, in April 2010 the State Council required local governments to impose direct restrictions on home purchases. The larger cities were urged by the State Council to implement stricter HPR measures. Two weeks later, Beijing became the first city to announce and enact a bundle of policies. The central feature of Policy II was the home purchase restrictions (HPR), the first command-and-control type regulation on housing demand. The HPR limits households with a Beijing local Hukou to a maximum of two homes (except that additional homes owned were "grandfathered") while non-Hukou households were prohibited from purchasing homes. Accompanying the HPR in the bundle of Policy II there were two additional policies. One is requiring a minimum of 50% down payment with a mortgage rate at least 10% above base rate for the purchase of second homed. The other policy is requiring the minimum down payment ratio to be 30% for first-home larger

than 90 m<sup>2</sup>.

### **3. The purchase restriction policy in second-tier cities**

#### ***3.1 The overall stages in second-tier cities***

For most second-tier cities, the implement of order can be devised into three stages. The first stage is 2010-2014, during which time most second-tier cities apply different types of purchase restriction policy. The second stage is 2014-2016. Many second-tier cities chose to cancel the former policy in the first stage. The third stage is 2016-2018, some second-tier cities reapply purchase restriction policy. After applying of the purchase restriction policy, the second-tier cities' housing market fluctuations is comparatively smaller than the first-tier cities.

#### ***3.2 The detail in Kunming***

2011.1.18, Kunming government set a new order asking every family can only purchase one apartment to restrain too-fast rising in housing price. The data showed housing price in October 2010 increased 1.2% from September levels, in November 2010 increased 0.1% from October levels. After one year's applying of new restriction order, in the first quarter in 2012 housing price increased 14% percent comparing the same quarter last year. Some insiders pointed under the nationwide regulation, the housing price of Kunming was just partly "rational returned".

In August 2014, the Kunming government released a new policy for new purchasing house, family didn't need to show the former house purchasing record. In July 2018, the Kunming government republish a restriction policy restricting those who without Yunnan registration. After 18-month housing price decrease since April 2014, the price kept volatile. During first half of 2017, the price kept going higher.

### **4. Conclusion**

In conclusion, the China housing market bubble was restricted in a short run, but it kept increasing in a long run. For first-tier cities, the purchase restriction policies didn't make enough effectiveness on restricting the high housing price, even make some promote-housing-price effect. For second-tier cities, the policies were effective but didn't show enough effectiveness in a short run. But for long run it's possible to use these restriction policies to restrain too-fast housing price increasing

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