Are House Prices Rising Too Fast in China?

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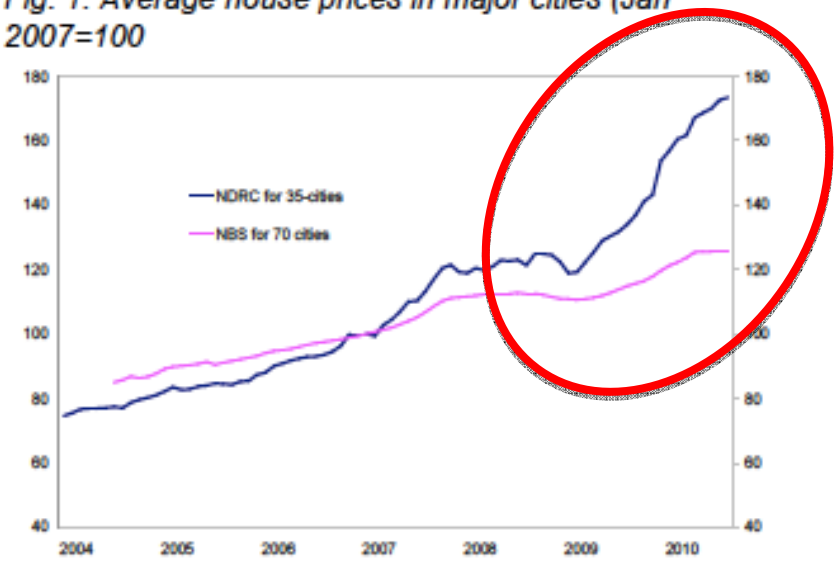
Summary of the Paper

- Measuring the equilibrium housing price based on panel regression by linking the price to long-term fundamentals, such as GDP per capita, lending rate, population density, land price and stock price.
- Following the asset pricing approach (Poterba, 1984, Himmelberg, Mayer and Sinai, 2005) to evaluate the potential overvaluation of housing prices in major cities.
- The study found
  - House prices are not significantly overvalued in China as a whole. Some cities are in early stages of excessive price growth;
  - Deviation from benchmark prices are not persistent, around 1 quarter on average for overall China;
  - Government macro control policy measures have had some impact on price growth in a few cities, but not in other few cities (e.g., Guangzhou, Tianjin, and Shenzhen)

General Comments

- Housing sectors are heterogeneous, caution should be applied when interpreting the aggregate data analysis to infer policy implications

Fig. 1: Average house prices in major cities (Jan 2007=100



- More elaboration on the data series used in the analysis will be greatly helpful
- Given the nature of the data series and limitation, it will be interesting to explore the error structure of the data series

Specific Comments

- *Despite rising house price trends, housing affordability has not worsened by as much (Fig. 6).*
  - Issue of data limitation
  - National average level vs. distributions of house prices and income (Quigley and Raphael, JEP 2004)
- Specification for the (partial) equilibrium pricing model
  - Effect of income growth
  - Constrained vs. non-constrained financing effect
  - Inflationary pressure effect
  - Impact of government policy measures (page 6)
  - How the population density variable control for the migration effect
  - Limited supply side controls, land price can be either driven by demand or by supply

Specific Comments

- The asset pricing model
  - Specification written in eq. 3-4 is for developed economies.
  - What exactly is the specification for the estimates for the Chinese cities reported in fig. 10-11?
  - What parameter assumptions are applied to risk-free long-term rate, property tax rate, income tax rate, mortgage interest rate, maintenance cost, expected annual capital gains, and risk premium?
  - Section "**How we calculate** P_t^* " seems coming out of blue, which discusses how the asset pricing model applied to developed economies, while up to that points and after that section, all discussions are focused on Chinese housing market.

Specific Comments

- Policy recommendation regarding an increase in real interest rate (page 5, 27 and various places)
  - Requires a more careful analysis on whether the price in specific housing market sector is pushed up by cash-constrained home buyers who rely more on the mortgage financing, or by cash rich speculators who are less constrained by the mortgage rate hike. The outcome may well be market sector dependent.
  - Glaeser, Gottlieb and Gyourko (2010) find cheap credit only has limited power to explain the US housing boom.