

Letter

China's debt threat and the price of apartments

From Dr Bernhelm Booss-Bavnbek and Dr Changqiu Yu



Families with an average income can no longer afford a suitable flat © Bloomberg

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In “[Time to rein in the lending boom](#)” (The Big Read, July 26), Martin Wolf examines the sustained surge in domestic debt in China and illuminates related perils. However, the article did not mention the sustained surge in real estate prices. By some estimates, real estate accounts (directly and indirectly) for as much as 30 per cent of gross domestic product in China. Sky-high

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prices for flats in the Chinese centres of population are among the factors driving the debt surge and, in our opinion, China can do something about it.

In cities such as Beijing, Shanghai or Tianjin, the price of a flat has increased from about Rmb10,000 to about Rmb40,000 per square metre in the past two years. Families with an average income can no longer afford a suitable flat, and have to wait and save very hard. That is one explanation of the high private saving rate Mr Wolf mentions.

The rapid increase in the prices of flats also explains why medium-income households no longer have the means to invest on the stock market, with the steady fall of the Shanghai Composite as one consequence. Another is that big and small enterprises cannot easily use the debt-free way of financing expansion by capital increase through issuing new stocks (secondary equity offering). That is at least one reason why corporate debts are growing.

So what? Is that all “fate”? By no means: in our opinion, western observers and analysts should be attentive to the possibilities of the Chinese “managed economy”, referred to by Mr Wolf, to halt the increase in the prices of flats and even to invert the trend — just by separating the value (and price and ownership) of the land and of the “bricks”.

What we mean is that the buyer of a flat pays a fixed sum for the bricks and installations when buying, but pays perpetually for the land use on an annual basis, as with the substantial annual ground tax levied in Scandinavian countries. In Copenhagen, for example, this amounts to about Kr50, or Rmb50, per square metre of land used annually.

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