



## China Report

# Public housing policy to ease double dip fears

### Investment Highlights

- ❖ **Public housing policy to offset the negative impact of real estate control.** Investors are worried that real estate control policies may cause China's economy to double dip. However, in our opinion, the country's public housing policies came in stronger than expected and the signing of letters of objective fulfillment between the Ministry of Housing and Urban-Rural Development. Local governments will, to a certain extent, elevate the political significance attached to the construction of welfare housing. In addition, the competition among officials from various regions for political achievements will accelerate the construction of public housing and make up for the pull-back in investments in commercialized real estate development, thereby effectively diminishing the negative impact of real estate control policies that were adopted recently.
- ❖ **Real estate control policies have a smaller impact on economic growth than on housing prices.** In terms of the macroeconomy, there are notable counter effects from commodity housing regulating policies and public housing policies. Such policies can partially offset negative impacts on investment while curbing further rises in housing prices.
- ❖ **GDP to grow about 10% under a neutral scenario and it is not likely that the economy will reach the bottom for a second time.** Using the input-output method, we estimated the boost from real estate investment to other sectors. We found that the combined influence coefficient on GDP is about 2.11, ie for every RMB1 increase in real estate investment, GDP will increase by RMB2.11 (in other words, for every 1% change in real estate investment, GDP will change by 0.17%). Assuming a neutral scenario, ie housing prices fall to levels seen in 3Q09, commodity housing investment is set to pull back to 13.1% in 2010. Conservative estimates show that investment in welfare housing throughout the country will grow 130% in 2010. As a percentage of real estate investment, it is likely to reach 10%, which can help to partially offset the impact from the pullback in commodity housing investment. As a whole, growth in real estate investment is likely to pull back to about 19% for the whole of 2010, with the rate of contribution from public housing investment to real estate investment at 35%. Under the abovementioned circumstance, GDP growth is expected to remain at about 10% and it is not likely that China's economy will reach the bottom for a second time.
- ❖ **Estimating the influence of real estate control policies on sectors at the upper and lower ends of the chain.** The impact from changes in real estate investment will be greater on sectors at the upper end of the real estate industry chain, such as the cement, steel and chemical sectors. Under a neutral scenario, ie housing prices fall to levels seen in 3Q09, growth in industrial added value of these three sectors will drop 6.48 ppts from its current level. In comparison, the impact on industrial added value from changes in real estate investment will be smaller on the financial, furniture and household appliance sectors. Under the same assumptions, growth in these two sectors will pull back 2.97 ppts and 2.35 ppts respectively.

Rate of contribution from welfare housing to real estate investment to reach 35% in 2010.

	Welfare housing	Commodity housing	Total
Growth rate	130%	13.1%	
Contribution rate	35%	65%	100%
Boost to growth in real estate investment	6.5%	12.5%	19%

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