New policy in China for curbing property market: companies banned from buying

Description

In the past a couple of days, four cities in China, Shanghai, Xi'an, Changsha and Hangzhou, has announced that they will restrict corporate entities in purchasing local properties, a new round of efforts in reining in local property market.

For a decade, China (mainly the central government) has been wrestling with property markets. On one hand, the governments do not want the property market to get too hot with prices getting out of reach of majority of the people, and on the other hand, the governments heavily rely on property revenues (land sale fee, property transaction taxes) to power the country's economy. So government policies always change with the climates of the China property markets.

In the recent past, the major measure that has brought about meaningful control is the restrictions imposed on purchase by people, and limitations on the availability of financial support for home buyers. All major cities in China have put in place similar polices to ensure local property markets won't go out of control.

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Despite the hard stance of governments on property markets, only since last year have people seen the cooling down of the properties in the first-tiered cities like Shanghai, Beijing and Shenzhen.

However the plausibly tight control and regulation has indeed a loophole that is seemingly kept there intentionally by the local governments: companies are not restricted from purchasing properties even residential properties. So in practice, many people start flipping properties through companies though mortgage loans are not available to corporate property owners but with Chinese people's overwhelming enthusiasm and love for property investments, it is not too much a difficulty in amassing private money to set up private funds or companies to buy properties. News has disclosed that a large number of China listed companies hold investment properties.

So with new move to prevent companies from buying properties shows a more sincere stance toward property market regulation.

Maybe it is too early to be optimistic as only a few cities have now implemented the policy. Shanghai that was said to be one of the few cities has not issued any official announcement or notice thereof. It was found in a publication from a local district government in Baoshan. This means that such restriction on corporate buyers may and can be easily and readily lifted if the local governments feel the real pinch of a contracting property market.

Let us wait and see what will come next.

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UPDATE ON JULY 5

Here is what was just published on July 2 by Shanghai Housing Authority regarding the detailed rules

for corporate buyers in local Shanghai property market. We reckon that this may have serious impact on the property market, further driving down the local property prices in Shanghai.

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Provisional Rules on Regulation of Purchase of Properties by Companies

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Companies that wish to buy properties in Shanghai shall meet all the following conditions, and the time of purchase shall be that of the filing of the online contract for the purchase:

1??????????5??

the company has been in existence for up to 5 years;

2???????????????100??????

the company has cumulatively paid taxes up to RMB 1 million;

3???????10????????????????????5??

the company has more than 10 employees and has paid social insurances and housing fund for up to 5 years;

???????????500????????????????????????????

If the tax paid in recent years is up to RMB 5 million, the company is exempt from the conditions listed above.

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company that purchases properties shall not sell the properties within 5 years.

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These provisional rules shall take effect from July 3, 2018.

Date Created
June 2018
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