Evaluating the Impact of China’s Housing Purchase Limit Policy

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Introduction
In order to restrain rapidly increasing Chinese housing prices, the Chinese government has implemented a series of policies to control the real estate market. The Housing Purchase Limit Policy (HPLP), a policy to restrict the quantity of real estate purchased, was implemented by Chinese city governments, with specific policy rules based on the local real estate market. Most HPLPs contain component rules regulating new housing purchase number limits, Hukou system requirements, and down-payment requirements, etc. City-specific HPLPs can be classified into three different levels of enforcement by adding up those component rules.

Research Questions
This project aims to estimate HPLP effects on housing price. Specifically, I estimate the HPLP in three ways:
1. the overall effect of HPLP on housing price trends in both the short- and the long-run
2. the effect of the intensity (weak, moderate, and strong)
3. the effect of individual HPLP components (list below)

Data & Methods
- The data are city level in a balanced panel from Jan 2008 to Jan 2015 (84 months).
- The sample is made up of 35 medium to large cities in China, 30 provincial capitals and 5 important economic centers.
- There are two types of housing studied: new and resale.
- The dependent variables are new and resale housing price levels in real terms. (Base year = Jan 2008)
- Explanatory variables include the Consumer Price Index (CPI) and Land Price Index (LPI).
- All regressions employ city fixed effect estimation.

Hypotheses
1. HPLP will reduce the rate of housing price increases in short term, but cannot control long-term housing price increases.
2. HPLP will be more effective in reducing new housing prices than decreasing resale housing prices.
3. The more aggressively HPLP is enforced, the larger the effect it will have on housing prices.
4. Different components will have different effects on dampening the upward trend in housing prices.

Graphical Evidence
- The supply for new housing is more inelastic than the supply for resale housing.
- The graph shows nationwide new/resale average housing price level. There was a obvious downtrend from April 2010 to the end of 2012. The green line illustrates cities enacting HPLP since April 2010.

Results
Test of Hypotheses 1 & 2

Test of Hypothesis 3:

Test of Hypothesis 4:

Conclusions
- HPLP effectively reduces housing price increases in the short run but seems to have less ability to control prices in the long run.
- HPLP has a larger effect on reducing new housing prices than resale housing prices.
- When more intensively implemented, the HPLP is more effective.
- Different policy components have different effects. Limits on maximum house purchases and Hukou registration requirements have the largest effects.

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