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Housing Investment in Urban China: Evidence from Chinese Household Survey

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Highlights

- This paper conjectures that higher expected housing capital gains drive higher investment demand. Due to the financial frictions prevalent in China, such demand takes place not only through households' owning multiple houses, but also through their owning a larger primary living residence if they are constrained from buying multiple houses.

- We develop a simple framework to study how expected capital gains impact households' housing investment decisions when subject to financial constraints. We also explore the heterogeneity by analytically demonstrating how this capital gain effect varies with family wealth.

- Our empirical findings, based on 2010 and 2011 household survey data, are consistent with our theoretical predictions. Specifically, we find that (1) households are more likely to own multiple houses when expecting higher capital gains; (2) the primary housing demand of those households who are constrained from owning multiple houses increases with the expected capital gains; while (3) the primary residence demand of those who are not constrained does not increase with the expected capital gains.

- Furthermore, we find that wealthier households are more sensitive to changes in expected capital gains. Specifically, the marginal effect of capital gains on housing investment is higher for wealthier households. This links the booming housing market to widening income inequality which is a typical growth pain in a developing country like China.

- Finally, we conduct various robustness checks in the empirical analysis, by taking into account relevant institutional features of China's housing markets, such as subsidized housing obtained from the housing market privatization reform (i.e., *fang-gai* housing) and housing purchase restriction policies. We obtain fairly robust results.