

The Influence of RMB Exchange Rate Fluctuation on Real Estate Price in China

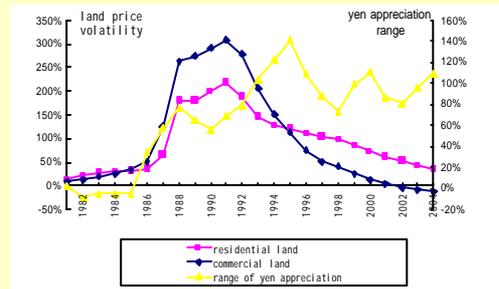
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Outline

- 1. The Effect of Appreciation of Yen and NT dollar on Real Estate Prices in 1980s
 - 1.1 Japan's Experiences
 - 1.2 Taiwan's Experiences
 - 1.3 Lessons Learned from Japan's and Taiwan's Experiences
- 2. The Effect of International Capital on China Real Estate Market
 - 2.1 The effect on real estate development market
 - 2.2 The effect on real estate sales market
 - 2.3 The Analysis of International Investment Fund in Real Estate Market
 - 2.4 The Influence on Real Estate Prices
- 3. Conclusion

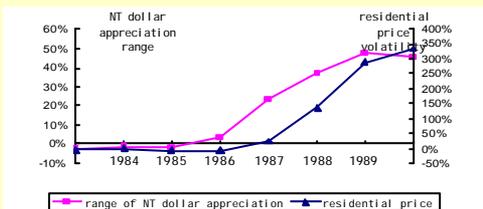
1. The Effect of Appreciation of Yen and NT dollar on Real Estate Prices in 1980s

1.1 Japan's Experiences



The Appreciation of Yen and the Volatility of Tokyo-circle-areas Land Price

1.2 Taiwan's Experiences



The Appreciation of NT Dollar and the Residential Price Volatility of Taipei City

$$Y = 2.279 + 5.770X \quad (t = 12.349, R^2 = 0.822, F = 152.497, n = 35)$$

Y : Taipei City house price's change

X : the NT dollar exchange rate's change

1.3 Lessons Learned from Japan's and Taiwan's Experiences

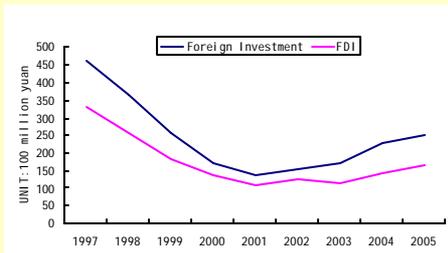
- The expected appreciation of RMB will attract international speculative capital to flow into China to make speculative profit. The more acute the appreciation is, the more profitable the speculation is.
- The continuous appreciation of RMB will attract international speculative capital to flow into China real estate market, which can drive the continuous rise in the house price in China.

1.3 Lessons Learned from Japan's and Taiwan's Experiences (cont.)

- The range and pace of RMB appreciation will determine the extent of the impact of the international capital on China's real estate market.
- The measures China will take to restrict international capital that enters into China's real estate market will determine whether or not the real estate bubble will form or how fast the bubble will expand if any.

2. The Effect of International Capital on China Real Estate Market

2.1 The Effect on Real Estate Development Market



Foreign Investment in China Real Estate Development Market

2.2 The effect on real estate sales market

Year	Growth of Foreign Exchange Reserves	Trade Surplus	Actual Use of Foreign Direct Investment	Amount of "Hot Money"
2003	1168.44	254.7	535.05	378.69
2004	2066.81	320.9	606.3	1139.61
2005	2089.4	1019	603	467.4

(Unit: 100 million U.S. dollar)

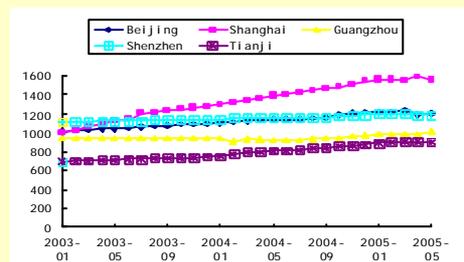
The amount of "hot money" = the growth of foreign exchange reserves
 - the trade surplus
 - the actual foreign direct investment

2.3 The Analysis of International Investment Fund in Real Estate Market

Overseas Fund	Property Purchase
MSREF	World Trade Building, 200 million U.S. dollars; Shanghai Plaza, 850 million Yuan; FuLi Shuangzizuo (?), 400 million Yuan;
CapitaLand	Huanlian Commercial Plaza and Wangjing Shopping Center, 1,746 million Yuan; land (14.7 thousand square meters), 550 million Yuan; Central World Trade Center, 1837 million Yuan; (By the end of 2005, total investment reached 7.8 billion Yuan in Beijing)
Citibank	office building in Shanghai, about 800 million Yuan
Yangyi Fund	Yuanyang Xingxian, 30 million U.S. dollars
Kingsway Group	Yuanyang Xingxian, 236 million Yuan
Macquarie Bank	Xinmao Plaza, 800 million Yuan
Goldman Sachs Investment Bank	Pidemco Tower, 107.6 million U.S. dollars (the highest price in Shanghai)
Excel Partners Ltd.	property options, 105 million U.S. dollars

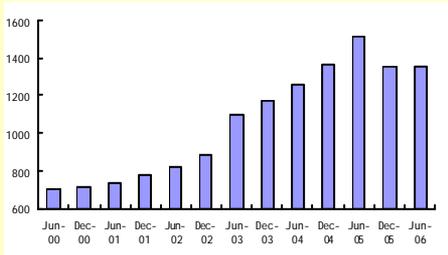
Overview: Property Purchase of Some Overseas Fund in 2005

2.4 The Influence on Real Estate Prices



Residential Index of Primary City in China

2.4 The Influence on Real Estate Prices (cont.)



The Comparison of CREIIs before the Appreciation of RMB and after it

2.4 The Influence on Real Estate Prices (cont.)

Year	2000	2001	2002	2003	2004	2005
Average disposable income(yuan)	11718	12883	13250	14867	16683	18718
Annual growth rate (compared with the year before)	9.94%	2.85%	12.20%	12.21%	9.94%	12.20%
Accumulative growth rate (compared with the year 2000)	9.94%	13.07%	26.87%	42.37%	59.74%	9.94%
Month/Year	06/2000	06/2001	06/2002	06/2003	06/2004	06/2005
CREI	701	741	823	1102	1260	1517
Annual growth rate (compared with last June)		5.71%	11.07%	33.90%	14.34%	20.40%
Accumulative growth rate (compared with June,2000)		5.71%	17.40%	57.20%	79.74%	116.41%

the Comparison between Citizen's Governable Income and Property Price Change in Shanghai

3. Conclusion

- the expectation of the continuous appreciation of RMB, the aggressive speculation activities and the massive flow of foreign capital into Chinese real estate market are closely correlated.
- Suggestions:
 - a slow and gradual appreciation of RMB
 - establish more strict laws and regulations to control foreign capital that flows into the real estate market
 - restrain the speculations by using taxation and other economic tools and mechanisms.