THE IMPACT OF RESIDENTIAL REAL ESTATE MARKET BY PROPERTY TAX

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Abstract. Property tax levying will make a huge impact on residential demand, residential supply, even the whole residential property market. It plays a vital role to the healthy and stable development of the residential property market. Although levying the property tax is very difficulty, it is the inevitable trend of development. In the long run, levying the property tax not only conform to the national interest, but also conducive to development of the real estate and the interests of residence buyer.

Introduction

In recent years, the real estate of China develop rapidly. It has become one of the most important industries of national economy. But in some areas, there is a prominent problem of speculation in real estate. That results lot of phenomenon, as housing prices go up too fast, there has been overheated in real estate, too many vacant estate in developers' hands, much funds has been overstocked, social resources has been wasted severely, the gap between rich and poor has been widened. These issues need to be solved by taxing.\textsuperscript{[1]}

Property tax is mainly for land, housing and other real estate, requiring the lessee or owner must pay taxes every year, while the tax will increase as the increase of the value of the real estate market improved.\textsuperscript{[2]} Property tax reform is of great significance for our country. Although simulated property tax collection for several years in some pilot cities, it is still not implemented in our collection. That is due to the fact that much policy and technique need to be prepared for the introduction of property tax. A new realty tax was announced to be pilot started in Shanghai and Chongqing on January 27, 2011. I believe that property tax includes realty tax, and it will make a re-adjustment of the real estate tax system. With the development and advancement of taxation reform, the new realty tax will gradually make a transition to the property tax. Property tax is likely to be the ultimate goal of Real estate tax system in Chinese real estate.

The impact of residential supply by property tax

The impact of residential supply by Property tax is mainly through local government and the real estate developers to show.

Land conveyance fees is the main revenue of local government. When land in the transfer, various taxes must be one-time payment in the current land tax policy. After implementation of property tax reform, the original one-time charge of land transfer fee will be payed for many times. It will reduce the impulse of local governments to expand in a certain extent, because of large granting land will no longer bring great benefits for the government, by contrast they will be responsible for the negative impact of short-term action, so it is not worth. In the long run, property tax will be the main sources of income for local government, the Government will pay more attention to increase the sources of the property tax revenue and expanding value-added benefits, so they will do everything possible to improve the local environment to attract more residents to live in the area. Therefore, the property tax
can promote to transform government functions, it is of great significance for the government to use land resources reasonable and make the city to have a further development.

The impact of the developers in real estate market. Real estate is a capital-intensive industry. Huge cost of financing formed the risks and barriers to entry for real estate developers. When the property tax levy, the developers' pressure on funds and business risk will be reduced. Meanwhile with the cost of developers to acquire land reduced, there must be more developers enter the market.[3] It leads to an intense Competition in the real estate industry. But the market demand for housing will be a dominant factor for real estate companies to decide the number of housing supply. Therefore, this article will pay more attention to the demand of residents.

The impact of residential demand by property tax

![Figure 1: Supply and demand curves of real estate in current](image)

![Figure 2: Supply and demand curves of real estate when property tax levied](image)

Property tax levy have a profound impact on residential supply and demand, even the whole residential real estate market. In figure 1, D0 represented the demand curve of buyers. S0 represented the housing supply of the developer when property tax does not levy to real estate developers, at the same time other current taxes do not in the range of consideration. Curves S0 and curves D0 intersect at the point of initial equilibrium G0 (the residential area), P0 (the residential price). The developers' cost will increase when the government levying the current real estate taxes to the developers. That leads to curve S0 rise to S1, and intersect curves D0 at (G1, P1). By observing the position of point P1, point P1-tax and point P0, it can be found that a part of taxes which should be undertaked to the developer is actually passed on to consumers under the current real estate tax system, and the proportion of shift relate to the elasticity of supply and demand curves. In figure 2, the meanings of S0 and D0 are same as in figure 1. At this time the government levying property tax to the consumers. Under this circumstance the demand curve D0 decline to D1, and intersect curves S0 at (G2, P2). By comparing the location of point P2, point P2 + tax and point P0, it can be found that property tax is assumed by both consumers and developers. It is similar to the situation in figure 1. From this it can be seen that the property tax levy will not increase the tax burden on both supply and demand. In
addition, by comparing point P1 and point P2, it can be found that P2 is much lower than P1, this indicate that the property tax levy will reduce the expected of buyers on the prices, to make the prices of demand lower. That means the residents’ willingness to buy a house will reduce after the property tax levy. In the situation of the prices relatively stable in the short term, there will be still some consumers choose the better residence, but they can withstand the residential area will be less. Therefore the property tax levy will also reduce demand for residential area.

The impact of residential demand in different types by property tax

It is needed to distinguish between different types of demand for making an analysis of the impact on housing prices by property tax reform. According to the different purposes of residents to purchase, residential demand can be divided into basic demand and non-basic demand. The non-basic demand here mainly refers to improving demand, investing demand and speculating demand.[4][5]

Basic demand means the purposes of residents to purchase housing is to solve their own basic needs for living, a majority of cases are changes from having no room to having one room. In terms of price, it will more reflect the price drop directly in the beginning of the property tax reform that due to pay tax installments. This is favorable for the consumer, especially the lower-income consumers. It will reduce the expenses. Consumer would buy a house as soon as possible. In addition, the consumption of residence will be more reasonable and frugal when the cost increased to own residences. Real estate resource will be economized if consumption is reasonable. Meanwhile, it will increase the supply of real estate in the market, and play a role to control the rising house prices.

Improving demand means residents have already solve the basic housing problem, but in order to improve their quality of life, they want to purchase another houses. One of the most important goals of property tax is to promote the redistribution of social wealth, in order to reduce the overall level of social inequality in the distribution of wealth. On the one hand the tax will inhibit the richer to own excessive resources, especially high-quality resource possession; On the other hand, the tax enable the Government to get more resources, so that the government can help low-income and disadvantage groups access to housing and improve housing conditions by improving the housing security system.

Investing demand means residents purchase houses in order to obtain rent. For example, the buyers would like to buy houses instead of to put their money into the bank in order to obtain value in the case of lower interest rates. Wealthy class invested in real estate in order to increase the value. The property tax levying will increase the cost of property for holding period and reduce its earnings expectations. At this point, if the leasehold market over-supply, it is difficult for the investor to pass on the property tax costs to the lessee through rental, then investors will tend to sell the house as soon as possible to get predictable earnings. If the leasehold market over-demand, the investor will pass on the property tax costs to the lessee by the rental. For investors who have not yet entered may change direction to other areas of investment for the expected benefits become blurring. Thus it can inhibit the false real estate investment, slowing the growth rate of housing prices in the current, and stimulate a reasonable housing prices formation.[6]

Speculating demand means purchasing houses is treated as investments and Speculation, the houses will be later changed hands to get additional revenue for the fundamental purpose, it can be regarded as a investments to pursuit of highly profitable short-term. Because speculators hold property in the short term, they do not need to pay much property tax. So property tax has limited impact on speculative profits expected. Although the property tax is not useful enough to curb real estate speculation by itself, strict business tax and personal income tax in second-hand housing transaction can effectively suppress this part of the demand.[7]

The impact of house prices by the property tax based on supply and demand

Although many factors affect the house price, the connection between supply and demand is the most fundamental factor in the conditions of market economy. The property tax impacts on house prices though affecting the supply and demand. Only by supply and demand of the real estate market
becoming reasonable, the houses price can be reasonable. In short, the implementation of property tax can promote the house price into rational. But the impact and the magnitude of the impact can not be generalized. Our country's residential real estate market is broadly divided for three cases, I will discuss the different impact among the three cases.

The first kind of areas in which the residential real estate market is overheated and housing prices is artificial highly. In these areas, the supply is lack, but the demand is overheat. The property tax levying will lead to increased supply and reduce excessive demands. Supply will reduce obviously and the aggregate demand will increase, thus greatly easing the current real estate market of supply and demand, so the house price rise slowly, even lead to an oversupply of real estate market, in this case house price may have a certain degree of decline in the period of time.

The second kind of areas which the residential real estate market is developing steadily and the housing prices is moderate. There is no obvious affect on house price. But the property tax levying is beneficial to prevent the expansion of investment and speculative demand, and escort for the healthy development of the real estate market.

The third kind of areas which the residential real estate market has not yet started or has just started, and housing prices is low. In these areas, both supply and demand is not busy. The property tax levy will reduce the difficulty level to purchase residence, it will greatly activate the basic needs of housing, meanwhile boost the supply. Because of the land resources are limited, it will lead to a certain degree rise of house price ultimately.

Conclusions

Most mature market economy countries have levied property tax for many years, but our country has not yet. According to the analysis made above, we can see that levying the property tax will inevitably have some impact on different sides of real estate market, but the degree of different sides is different. In a market economy environment, the supply and demand is always the most important factors, so this article focuses on the impact of residential property tax levy by analysis of supply and demand, and then make an analyze on housing prices. Based on many positive effects for the market by Property tax, the authors hope that the government will put on the property tax at the right time.

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