

# Housing Bubble in China and Real Estate Revival in US

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Recently the 60 minutes program showed the over development of Chinese real estate industry, they not only over build apartments but also they over build shopping centers, infrastructures and brand new cities. The program portray this crazy phenomenon with a slight sarcasm. It was so apparent that the developers have blindly taken capitalism whole stock and barrel and applied to the real estate industry in China without second thought. Now they are caught in a bind, they not only over build but they built unaffordable apartments for average citizens. So you have millions of empty apartments and empty cities. However, the irony is these empty buildings are all sold and owned by middle class citizens. The government in order to manage this bubble phenomenon, has edict a policy that a citizen can only own one apartment, that brought the prices down which potentially will cause unrest as reported by the 60 minutes reporter.

As Americans watching this program, I am sure there are different reactions. Real estate developers in this country will say, so long the buildings are sold, the developers would have made money that is fine. (the developer interviewed did not show much stress indeed) The construction workers also made money. The speculators or investors are the one holding the bag. That is not so bad compared to the US housing bubble where most homeowners 'innocently' (not so innocent in getting over their head in buying more than they could afford but they were innocent in the MBS collapse) got sucked into the bubble because of the hype of mortgage backed security (MBS) business built on bundled mortgage s. When the bubble burst, the home owners' asset evaporated causing massive foreclosures, the banks last holding the mortgages got bailed out by government loans but the pension funds owned by retirees sadly did not. Now China is making a calculated move to burst the bubble. Will people revolt? I doubt it. The Chinese communist government although embraced capitalism but never liked their businesses who took in the capitalism stock and barrel wholeheartedly. The rule to limit only-one-apartment-ownership is just one example. The control of residency paper is another measure to regulate migration of massive people. In my opinion, the poor people deserve to have housing will eventually benefit from this housing bubble in China, since the Chinese government will side with them for fear of real unrest. The middle class has too much to lose to cause unrest. Whereas in this country, I doubt very much the poor who deserve to have housing will benefit from our housing bubble. The government imposed low mortgage interests, but they really don't help if people are unemployed.

Are there lessons in all of these housing bubbles? I don't think it can be so simply dismissed as the fault of capitalism or one government housing policy. Let's take our town Somers to talk about it. Somers is a well managed town especially in its housing development. That is because, the town government is a conservative one managed well under bipartisanship. There was never a massive over-build and the town regulates its buildable land so there is no new large development coming forth to over burden the town infrastructure. Somers fortunately has a land conservation minded population. Of course the housing bubble did affect our town just like everywhere else. The housing prices did come down but

certainly not as bad as compared to nationally elsewhere. Somers is a well established town consisting of three blocks of population, a regular household residency, a retirement community and a small commerce entity. The retirement community Heritage Hills is so well managed which can be qualified as one of the best in the nation. Somers school district is constantly improving in its academic, performing arts and athletic achievements with student population staying under the capacity of the school facilities at least for several more years. So the economic outlook especially in Housing should be fairly rosy for Somers. The Heritage Hills condo sales and rental are certainly showing fast pickup already (speaking with 'inside' information from TLC), so predictably the prices will move up since there is only limited supply. Recovering housing price will help the school budget working under the new legislative 2% cap in budget increase. As the economy recovers more, predictably the regular households will have more movements with younger family moving in with kids to take advantages of the Somers school system.

After seeing the 60 minutes program, I was amazed about the speed of Chinese development. (24 new cities a year!) Clearly there is a huge bubble but I am not so pessimistic for them since there is a long way for China to raise their standard of living to match ours. Perhaps the bubbles are a way to equalize wealth and raise the standard of living for the poor. (Isn't Obama trying to do that?) The question we need to ask is: Did we really learn anything from these bubbles? The Chinese mastered manufacturing and building houses but they have not (so didn't we) mastered social engineering. Something we all should think about.

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