IPTI Xtracts

Property Tax and Assessment News from Around the World

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Shanghai and Chongqing offer hints of how China's property tax would work, and be ignored by runaway home prices

The property tax, tested in Shanghai and Chongqing in 2011, had their nationwide adoption deferred in 2013

The tax, which still remains in place in both cities, did nothing to stem housing costs, with Shanghai's average home price soaring 155 per cent since 2011 while Chongqing rose 108 per cent

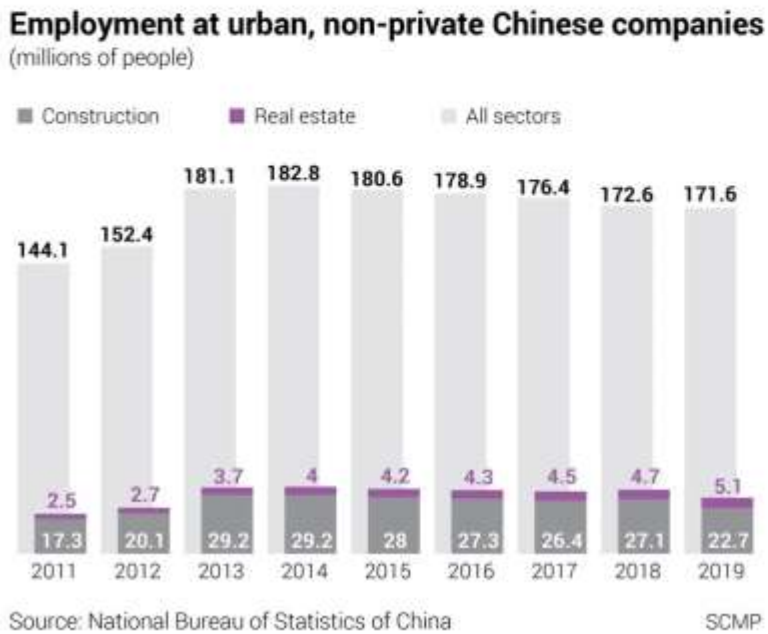
Shanghai and Chongqing, two of China's biggest urban centres, offer a hint of what a property tax would look like as the Chinese legislature gave its nod last week to kick off the tariff after a decade of stop-go measures to rein in runaway home prices.

The two municipalities, with a combined population of almost 60 million residents, were the test beds in 2011 for a tax that still remains, although its nationwide roll out was deferred two years later when Xi Jinping took over as president, along with a new line-up of ministers and regulators.

The tax, enforced by the municipal tax authorities of Shanghai and Chongqing, leaned heavily against non-residents, and owners of more than one home, especially large, expensive property.

A resident who opts for a second new home exceeding 60 square metres (645 square feet) would be liable for an annual levy of between 0.4 per cent and 0.6 per cent of the property's fair value, calculated on the area that exceeds the minimum. Non-residents – defined by China's household registration system, or hukou – buying their first homes will be charged a 0.6 per cent tax rate if the purchase price is double the city's average price in the preceding year.

Chongqing, located in south-western China near the Sichuan provincial capital of Chengdu, levies a progressive property tax starting at 0.5 per cent, going up to 1.2 per cent. The tariff applies to owners of existing and new villas, as well as new apartments that cost more than double the average price of new homes in the metropolis. Non-residents buying a second home in Chongqing will also be subject to a tax.



There is little evidence that the property tax was an effective cap on home prices, not least in Shanghai or Chongqing, where the levies remain in place.

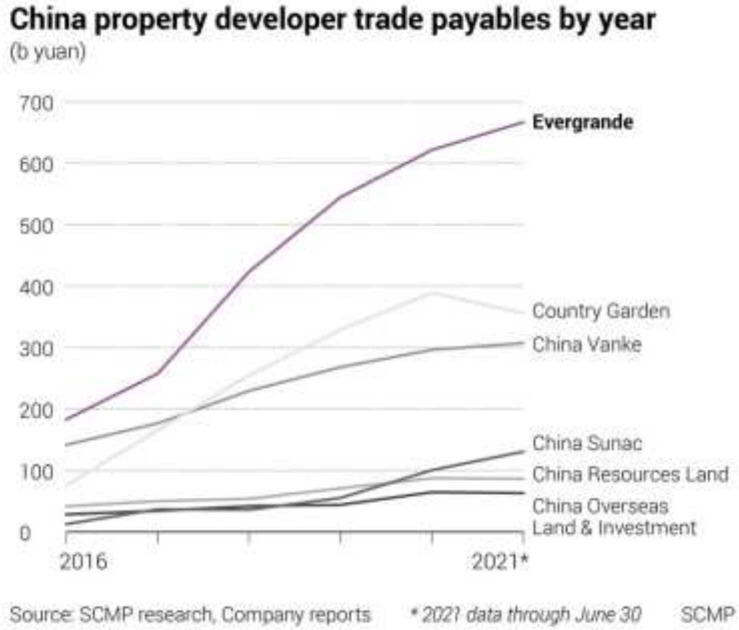
The average home price in Shanghai has jumped 155 per cent since 2011 to 54,428 yuan per square metre, according to E-House China R&D Institute in Shanghai, from 21,374 yuan when the tariff was imposed. In Chongqing, average prices grew 108 per cent to 14,501 yuan per square metre in September, from 6,969 yuan per square metre in 2011.

The property tax is unlikely to derail the long-term price trend even if it increases the holding cost in real estate and poses short-term downside risks, said ANZ's senior China economist Betty Wang.

Still, the Chinese government is pushing for the tax as part of its decade-long struggle to rein in prices in the 16 trillion yuan (US$2.5 trillion) real estate market. The government, harking to its socialist roots, is anxious to make housing affordable to young families and first entrants on the property ladder, particularly during politically significant periods such as the ruling Communist Party's centenary in 2021.

It is also part of Chinese President Xi Jinping's "common prosperity" campaign to redistribute wealth and to address widening social inequality, in a nation where more than 40 per cent of urban households are estimated to own at least two homes.

Last week, the Standing Committee of the National People's Congress (NPC) delegated the State Council to launch a five-year property tax programme in selected regions. The targets of the proposed tax include owners of residential and commercial properties but exclude legally owned rural homes. Ten cities including Shenzhen, Haikou and Hangzhou will take part in the pilot, according to a report by Reuters, down from the original 30 mooted due to strong opposition to the plan.



The Chinese government has introduced a series of administrative measures since 2017 to cool the housing market, from capping home prices, limiting bank loans to restrictions on how much land developers get access to. A trio of lending caps, known as the "three red lines," came into force in August 2020, severely curbing the debt-fuelled building binge by real estate developers.

The United States has a property tax that ranges from 0.5 per cent to 2.13 per cent per annum, while the UK applies a tax of 1.93 per cent, according to the Tax Foundation's website. Hong Kong, with its own tax regime, charges 5 per cent as a levy based on the estimated annual rent of the property.

"It will take reference from tax regimes in mature markets, and make it fit into China's context," said Sam Xie, head of research at CBRE China, adding that the proposed property tax will allow room and flexibility for local authorities to implement the tariff at their discretion and based on the conditions in their markets.

A property tax should be simple and straightforward, said Delotte's tax partner Winnie Shek.

As an ad valorem tax, it is levied on ownership and the assessed value of the property. There are different taxes, either distinguished by the types of real estate (e.g. tax on land only, tax on property only, or tax on land and property inclusive), or by their categories (e.g. residential, commercial and/or industrial).
The exact tariff depends on the actual circumstances, including but not limited to land resources, economic situation, stability of property market, of each of the jurisdiction.

The tax, levied on individuals, will also be unlikely to shake growth of real estate investment trusts (Reits), which were launched in May to help developers create new financing sources from their property portfolios.

"The property tax is aimed at individuals with multiple properties who are currently exempted from the scope of corporate real estate taxes," said Delotte's Shek. "Subject to the stipulation of the actual provisional rules, we do not expect the rolling out of the new property tax pilot would affect Reits."

As an additional source of tax income, the property levy will do little to bolster China's financial coffers, analysts said.

China's local authorities get the lion's share of their revenue from renting out land-use rights to developers, earning 8.4 trillion yuan last year, or 84 per cent of local fiscal revenues in 2020, according to the finance ministry.

"It's questionable whether the property tax revenue is large enough to become a major revenue stream for local governments," said ANZ's Wang. "Property tax revenue may only be a fifth of the receipts from land sales even if it were to be implemented nationally, far from enough to replace land sale revenue."

Homeowners sell off extra units following China's property tax pilot plan

Pilot property tax plan to reduce multiple dwelling ownership: experts

China's plan to hold five-year trials of levying property taxes in selected cities is curbing speculation and pushing people to sell extra homes, the Global Times has learned.

The pilot program, which may increase the cost of keeping extra apartments, will drive some sales in the short term, but it won't fundamentally change the relationship between supply and demand, experts said.

The Standing Committee of the National People's Congress, China's top legislature, adopted a decision on Saturday to authorize the State Council, China's cabinet, to hold trials of property tax reforms in some regions, according to a report by the Xinhua News Agency.

The pilot program will run for five years and affect all types of real estate, including residential and non-residential properties, but excluding legally owned rural houses, said the report.

Some homeowners in Shenzhen, South China's Guangdong Province, a likely candidate for the pilot reform, are now moving to sell their extra units, local brokers said.

"Due to the recent policies on regulating the real estate market, including the pilot property tax, buyers and owners are now increasingly concerned about the second-hand home market," said a Shenzhen-based agent surnamed Xiao with Lianjia, a leading housing agency in China.

Xiao said that within the past week, his branch added 50 new second-hand homes listed for sale with lower prices.

"The average unit price has dropped by 300,000 yuan ($46,975) to 500,000 yuan. More people are searching for second-hand units, probably due to the lower prices," Xiao told the Global Times on Monday.

Shenzhen has about 2 million second-hand residential units, and if the city is picked up for trying out the pilot reform, the number of second-hand houses will surge on the market, pushing prices down, Song Ding, a research fellow at the Shenzhen-based China Development Institute, told the Global Times on Monday.

Other first-tier cities have also seen an increasing number of second-hand homes for sale.

Beijing property brokers have added more than 10,000 listings for second-hand homes in the past three months, and in Guangzhou, South China's Guangdong Province, more than 8,000 second-hand houses were posted for sale in the past month, according to data from Lianjia.

A Shanghai-based real estate agent surnamed Ma said that the new property tax policy will deal a huge blow to the owners of multiple units.

"The ripples of the property tax are yet to be seen in Shanghai. Due to tighter mortgage policies, both buyers and sellers are tending to wait and see how the policy will play out," he said. "With more detailed policies on the property tax, it is expected that many surplus houses will be put up for sale," he said.

The property tax is expected to target the inventory house market and curb real estate speculation, which may mean there will be more second-hand houses on the market, causing prices to fall, Song Qinghui, an economist told the Global Times on Monday.

"It will deal a blow to speculators, but it will be beneficial to the sound and stable development of the whole property market," Song said.

According to the National Bureau of Statistics, prices of second-hand housing in major first-tier cities fell in September.

Prices in Beijing, Shanghai and Guangzhou fell by 0.2 percent, 0.6 percent and 0.4 percent month-on-month respectively, compared with August. Second-hand home prices in Shenzhen fell by 0.5 percent from August.

The property tax is expected to lower the number of additional homes that people hold, and it will monetize the value of those units as they are sold, Cai Zonghan, a research fellow of China's real estate brokerage company 5I5j Holding Group, told the Global Times on Monday.

"Many households own more than one residential unit, and many are unoccupied," he said.

From 1978 to 2018, China's urban inventory housing increased from less than 1.4 billion square meters to 27.6 billion square meters, and the ratio of housing units per family jumped from 0.8 to 1.09, meaning that on average, each family owns more than one house, according to a report conducted by Ren Zeping, chief economist from Dongwu Securities.

The figure in Germany is 1.02 and in the UK it is 1.03, according to the report.

China could widen property tax trial, official media outlet reports

China could expand pilot testing of a property tax to Zhejiang province, a former government expert was quoted as saying in an official media outlet on Sunday, the latest sign that the country is moving closer to adopting the long-discussed levy.

China launched a pilot property tax programme in Shanghai and Chongqing in 2011, and experts have in the past suggested that the pilot testing be broadened to include Shenzhen city and Hainan province, according to state media.

President Xi Jinping on Friday called for progress on a property tax that could help reduce wealth inequality as the country strives to achieve his goal of "common prosperity" by mid-century.

"China could consider conducting system innovations to expand the scope of property tax while moving forward with tax legislation as soon as possible," said Jia Kang, ex-director of the finance ministry-backed Chinese Academy of Fiscal Sciences, according to China Property News, which is managed by the housing ministry.

China has mulled introducing a property tax for over a decade but has faced resistance from stakeholders including local governments, which rely on revenue from land sales and worry it would erode property values or trigger a market sell-off.

However, such a tax could help curb rampant speculation in the housing market, which has come under intense global scrutiny as massive developer China Evergrande Group struggles with a debt and liquidity crisis.

Jia suggested extending the property tax trial to the wealthy eastern province of Zhejiang.

Real estate prices vary greatly within China, with prices many times higher in tier-one cities such as Beijing and Shanghai compared with markets in hinterland cities.

"Generally speaking, third- and fourth-tier cities would not be among the first batch for a property tax trial," Jia said, adding that any property tax regime should adapt to regional circumstances.

China has been collecting property taxes on certain categories of high-end residences in Shanghai and Chongqing since the pilot programme started in those cities in 2011.

In March, the Chinese government said in its development plan for 2021-2025 that it would push for property tax legislation over the next five years, but there was no mention of such a tax in the country's 2021 legislative agenda for the second consecutive year.

In Tackling China's Real-Estate Bubble, Xi Jinping Faces Resistance to Property-Tax Plan

After negative feedback from within the party, an initial proposal to test a property tax in some 30 cities has been significantly scaled down

Chinese President Xi Jinping has made no secret of his desire to deflate China's property bubble. But according to people with knowledge of government deliberations, he is facing resistance over a measure aimed at curbing housing speculation: a nationwide property tax.

Many economists and analysts have long argued that such a tax could make it more expensive to speculate on property and help bring down prices. That would help reduce the financial burden on middle-class families, in line with Mr. Xi's goal of a more even distribution of wealth.

China has experimented with a tax on some properties in just a couple of cities during the past decade. Earlier this year, Mr. Xi assigned to Han Zheng, the most senior of China's four vice premiers, the task of rolling out the levy much more widely, these people say.

But Beijing is now settling for a limited tax plan because of strong pushback, while a proposal involving state-provided affordable housing is emerging as an alternative.

Mr. Xi's efforts to tame a market that has been in an extended boom for four decades has already sent shock waves across the Chinese economy and global markets. He has shown little mercy toChina Evergrande Group, even as the heavily indebted property developer teeters on default. Other private developers that have binged on debt are also being squeezed. Home sales are falling and banks are pulling back on new lending. The impact from property tightening contributed to a sharp slowing in China's growth in the third quarter.

China's property bubble has gotten bigger over the years. Home prices have consistently risen faster than actual economic growth, driving more credit into real-estate speculation, further pushing up property values. Authorities in recent years have repeatedly tried to break the vicious cycle with various tightening measures only to loosen them whenever growth appears threatened.

Now, Mr. Xi appears bent on putting in practice his slogan: "Housing is for living, not for speculation."

However, in internal debates, the feedback to his property-tax plan from both the party's elites and its rank-and-file members has been overwhelmingly negative, say the people familiar with the deliberations.

Arguments against the tax, which would be levied annually on the value of a property, have flooded in since the ministries of finance, housing and taxation started to seek feedback to the tax proposal in the spring. Many officials contend that such a levy could crush housing prices, cause consumer spending to plunge and severely harm the overall economy.
The sprawling municipality of Chongqing in central China has levied an annual charge on second homes or high-priced ones since 2011.

The pushback on the tax is one sign that taking on a sector that perhaps more than any other defines modern China carries risks for Mr. Xi—of both alienating Chinese households and sowing dissent within the party.

More than 90% of urban Chinese families own their homes, and property-related industries account for nearly a third of the country's output. Meanwhile, up to 80% of China's household wealth is tied up in real estate; a drop in property values could make homeowners feel poorer and less willing to spend.

Press offices for China's State Council, the top government body, and the ministries of finance, housing and taxation didn't respond to questions.

Some retired senior party members also petitioned against imposing the new tax, saying they themselves couldn't afford to pay any additional taxes. "So many people, including party members, own more than one property," said one of the people familiar with the deliberations. "The tax proposal is becoming a potential social-stability issue."

Citing fears of the broader fallout, Mr. Han, the vice premier tasked with the rollout, has recommended to Mr. Xi against imposing the levy too widely for now, say the people familiar with the deliberations.

An initial proposal to test-run the tax in some 30 cities has been scaled back to just around 10. Officials are still haggling over how to set the tax rate for the pilot initiative and whether to offer discounts and exemption areas. A new law aimed at advancing the tax across the country likely won't be finalized until around 2025, the last year of the current five-year development plan, the people said.

One idea under discussion is to gradually test the tax plan in big cities, including Shanghai and the sprawling municipality of Chongqing in central China, which both have levied an annual charge on second homes or high-priced ones since 2011. Other places under discussion include the southern boomtown of Shenzhen and the province of Hainan, both designated by Mr. Xi as the testing ground for building a socialist market economy.

The city of Hangzhou, in the wealthy province of Zhejiang, is also expected to join the tax-pilot program, according to the people. The eastern province, home to the business empire of Jack Ma, the beleaguered Chinese tech star, has already been named as a place to pilot Mr. Xi's policies aimed at reducing inequality.

In a sign that Mr. Xi has come to terms with the less-aggressive proposal that centers on limited trial runs of the tax, he wrote in an article published in the Oct. 16 issue of the party's top theoretical journal, Qiushi, "We should actively and steadily promote the legislation and reform of real-estate tax, and do a good job in the pilot work."

Meanwhile, local governments, which get roughly a third of their revenue from selling land to property developers, worry that a property tax would cause demand for land to drop and hurt their revenues, which amounted to more than $1 trillion last year.

Already, with developers' ability to access financing severely curtailed, land transactions and sales revenues in China are falling by record margins, according to research firm Rhodium Group. In the southern city of Guangzhou, for instance, the government sold less than half of the 48 parcels of land offered in a late September auction, and only five parcels sold above their asking price.

Based on transactions data from 100 cities, Rhodium's analysis shows that land sales plunged 43% in the first three weeks of September from a year earlier. The drop is adding to the financial strains on many localities across the country.

Across other sectors, Mr. Xi's campaign to squeeze what he sees as capitalist excesses out of the Chinese system has already cut into growth.
Sales, employment and other activities in the service sector, led by big tech companies hit hard by the policy tightening, have all slowed down in recent months. State banks and funds, faced with an intensive scrutiny into their ties with big private-sector players, are also pulling back.

"Beijing is clearly willing to risk rising economic costs, which raises questions about how far authorities will push the property sector," said Logan Wright, Rhodium's director of China markets research.

Mr. Xi hinted at the tensions his economic-cleanup effort could cause in a Sept. 1 speech, which some officials read as an attempt to prepare his party apparatchiks for tough times.

"Daring to struggle is the distinct character of our party," Mr. Xi said during the speech at the Central Party School, the exclusive training ground for Communist leaders. "Starting a new journey of building a modern socialist country…[we] will not face fewer risks and tests than in the past."

Chinese society has in the past four decades moved from the Maoist notion of people living in housing provided by their work units to a roller-coaster market. A less controversial alternative to the tax proposal centers on affordable housing provided by state firms.

Under this idea, China would essentially go back to a "dual-track" system with government-subsidized housing offered alongside commercial housing. It was the initial direction for China's housing reform that started in the late 1990s, according to government advisers, but over the years the effort had focused almost only on commercialization.

Now, some officials and advisers say, a return to such a system could help the leadership make China more equal. "What's needed is to revisit the 'dual-track housing system' and let state-owned enterprises and companies controlled by the central government return to affordable housing," Meng Xiaosu, former head of China's housing reform research group, wrote in an online article last month.

A financing firm owned by the provincial government of Yunnan, in southwestern China, is among those that have sprung into action. The Yunnan government announced in late September that Yunnan Construction Investment Group will team up with state banks to expand the supply of affordable housing "with a high sense of mission and responsibility."

China's Xi faces resistance to property-tax plan

Chinese President Xi Jinping is facing resistance over a nationwide property tax aimed at curbing housing speculation, the Wall Street Journal reported on Tuesday, citing people with knowledge of government deliberations.

Earlier this year, Xi assigned to Han Zheng, the most senior of China's four vice premiers, the task of rolling out the levy much more widely, according to the report.

However, Beijing is now settling for a limited tax plan because of strong pushback, while a proposal involving state-provided affordable housing is emerging as an alternative, the WSJ reported.

An initial proposal to test-run the tax in some 30 cities has been scaled back to around 10, the report said.

In an essay in the ruling Communist Party journal Qiushi, published by the official Xinhua news agency on Friday, Xi had called for China to "vigorously and steadily advance" legislation for a property tax.

China has mulled such a tax for over a decade but faced resistance from stakeholders including local governments themselves, who fear it would erode property values or trigger a market sell-off.

In internal debates, the feedback to Xi's property-tax plan from both the party's elites and its rank-and-file members has been overwhelmingly negative, the WSJ report said, citing the people familiar with the deliberations.

China to pilot property tax scheme in some regions

The top decision-making body of the Chinese parliament said on Saturday (Oct 23) it will roll out a pilot real estate tax in some regions, the official Xinhua news agency reported.

The State Council, or Cabinet, will determine which regions will be involved and other details, Xinhua added.

The long-mooted and long-resisted property tax has gained new momentum since President Xi Jinping threw his support behind what experts describe as one of the most profound changes to China's real estate policies in a generation.

A tax could help red-hot home prices that have soared more than 2,000 per cent since the privatisation of the housing market in the 1990s and created an affordability crisis in recent years.

But talk of the plan is coming at a sensitive time, as the property market is showing significant signs of stress and home prices have started falling in tens of cities.

The tax will apply to residential and non-residential property as well as land and property owners, but does not apply to legally owned rural land or where residences are built on it, Xinhua said.

The pilot schemes will last five years from the issue of the details from the State Council.

The idea of a levy on home owners first surfaced in 2003 but has failed to take off due to concerns that it would damage property demand, home prices, household wealth and future real estate projects.

It has faced resistance from stakeholders including local governments, who fear it would erode property values or trigger a market sell-off.

Over 90per cent of households own at least one home, the central bank said last year.

But analysts say the tax will bring in much-needed revenue.

"Land sales are not a sustainable source of government revenue anymore," Capital Economics said in a note on Friday. "Gradual implementation should also mitigate fears that a tax could cause prices to crash."

In pilot programmes rolled out in 2011, the megacities of Shanghai and Chongqing taxed homeowners, albeit just those possessing higher-end housing and second homes, at rates from 0.4 per cent to 1.2 per cent.

But until now the pilot programmes have not been widened to more cities.

Analysts expect a wider pilot to first include wealthier and economically more diversified regions in eastern and southern China such as the provinces of Zhejiang and Guangdong.

"It is expected that Zhejiang is likely to be included in the reform, especially Hangzhou," said Yan Yuejin, director of Shanghai-based E-house China Research and Development Institution.

Hangzhou, the base of e-commerce giant Alibaba, is China's eighth-richest city, with economic output reaching 1.61 trillion yuan (US$252 billion) last year, about 70 per cent of Hong Kong's gross domestic product.

China will set up a property tax pilot plan, taking small steps after years of dithering to tame home prices for common prosperity

The State Council will select the first regions and the timing for collecting the dutiable tariff on land, as well as owners of residential and commercial real estate, according to the state news agency Xinhua

Legally owned rural homes will be exempted from the pilot plan, which lasts for five years before the National People's Congress (NPC) turns it into a nationwide law, Xinhua said

China's legislature will enact a property tax in selected regions across the country, rolling out the pilot plan as part of a wider "common prosperity" programme to enhance housing affordability and tame runaway prices.

The State Council, as the government's Cabinet is known, will select the first regions and the timing for implementing the dutiable tariff on land, as well as owners of residential and commercial real estate, according to the state news agency Xinhua.

Legally owned rural homes will be exempted from the pilot programme, which will last for five years before the National People's Congress (NPC) turns it into a nationwide law, Xinhua said.

The Ministry of Finance and the State Taxation Administration will draft the relevant measures and regulations for supporting the pilot programme, Xinhua said.

A pilot plan that lasts five years "implies that it will be at least five years before the introduction of the [nationwide] legislation at the earliest," the independent economist Ma Guangyuan said in his Weibo post. "The suspense now is which specific cities will be picked for the pilot, and when it will start."

It has been barely four decades since China transformed the nation's communal housing into private ownership, a revolution that created the world's largest property market with US$1.7 trillion of new homes sold in 2017, seven times bigger than the United States, according to Stansberry Churchouse Research. Harking to its socialist roots, the Chinese government had tossed about the idea of taxing property owners for years to rein in runaway prices, redistribute wealth and bolster state coffers with much-needed revenue.

Local authorities of Shanghai and Chongqing, two of the most populous and wealthiest municipalities in China, were authorised by the central government in 2011 to collect taxes on real estate within their jurisdictions, part of a plan to curb rising prices. A new government team that took over under Xi Jinping's presidency a year later deferred the idea of expanding the pilot, according to state media, citing technical difficulties.

Nearly a decade later and under Xi's edict for citizens to share the opportunity to be wealthy, the property tax is again being touted as a likely policy tool. Some government ministers have openly talked about the property tax, with the Finance Minister Xiao Jie saying in a December 2017 report in the Communist Party's mouthpiece newspaper People's Daily that the necessary legislation for a tariff based on appraisal value could be completed in 2019.

The legislation remains on China's economic development plan for the five-year period from 2021 through 2025, even if the government omitted any mention of it in its 2021 legislative agenda for the second year in a row. As the economy was struggling to recover its growth pace amid a worldwide Covid-19 pandemic, the government's priority was to restore growth, economists said.

Efforts to revive the tax began anew in May, as housing prices kept rising despite a slew of administrative measures across the nation to curb speculation. The effort took on extra urgency when Xi defined for the first time what "common prosperity" means during an August meeting of China's economic leaders: favourable changes in taxes and social security payments for middle income earners, policies that increase earnings for low-income groups and crackdowns on practices and loopholes that may give rise to "illicit income."

"The current practice in housing and land use will be strictly controlled and guided, especially such behaviour as real estate speculation," said Yan Yuejin, director at Shanghai-based E-house China R&D Institute. "Taking into account the cities which had been discussed the most recently in the market, Zhejiang province is likely to be included in the tax reforms, especially Hangzhou.

China Widens Property-Tax Trials With Levy on Home Owners

China's State Council will expand property-tax reform trials to more areas and start taxing residential property owners, official news agency Xinhua reported.

The plan, approved by the National People's Congress Standing Committee, China's top legislative body, is designed to guide rational property buying and will last for five years, according to the report. The locations and number of areas where the trials will be undertaken were not specified.

Property prices in China have skyrocketed to unaffordable levels since private home ownership was introduced in 1998, and the government has faced an ongoing battle to control speculators. Authorities started property tax trials in 2011 in Shanghai and Chongqing, levying annual charges on second or high-priced homes.

Residences owned by individuals are currently not subject to taxes, according to a law imposed in 1986, while there is an annual tax on commercial properties. Local governments earn income from developers mainly through land sales, collecting a total of 8.4 trillion yuan ($1.3 trillion) last year.

Industry experts say details of the plan are unclear so far.

"We don't know yet what the differences will be in this plan than in the current trials in Shanghai and Chongqing, but it's likely to have something new," said Liu Yuan, vice president for property research at Centaline Group. "The government may not want to make all the details public immediately for the sake of expectation management. But I think this aims at hedging the ongoing property-market supportive measures so home prices won't rebound again."

China's new-home prices fell for the first time in six years and sales plunged 16.9% in September from a year earlier, as the country's second-largest real estate developer, Evergrande Group, plunged into a debt crisis, which led to a property slowdown nationwide.

Property Crisis Underpins China's Economic Slowdown

Real estate has become the dominant investment in China because there is no property tax: That means zero cost for holding on to apartments as prices rise. Eighty percent of household wealth is now tied up in real estate, much of it rooted in the handover of danwei (work unit) apartments to private ownership in the 1990s. So is a large portion of corporate holdings.

Several Chinese cities have conducted pilot projects for property taxes, albeit at a low rate. In the past, such projects might have been scaled up to the provincial level before becoming national policy. But none of the property tax projects have gone anywhere because they face such strong resistance. The Wall Street Journal recently reported that President Xi Jinping himself wants to impose property taxes, but he faces pushback from across the political system. People fear economic disaster if the real estate sector falters.

A property tax would require a comprehensive register of owners, as analyst Martin Chorzempa pointed out this week. Most Chinese have an interest in opposing the idea. Such a list would be politically risky for officials whose own wealth is tied up in property, for example. If property taxes ever come to fruition in China, it could be the case that political clout allows people to stay off the register or avoid the taxes altogether.

It's interesting that well-connected figures seem to be leaking to the Wall Street Journal, which has had a series of scoops from its China team in recent months. High-level officials usually abide by a code of silence toward outsiders, especially the Western press, as the political penalties for talking are extreme. The choice of outlet could indicate an attempt to signal to the Western business community that not everyone is happy with the expansion of state control—or it may be an attempt by those unhappy with Xi to build support against him.

There are two ways that things could proceed, in my opinion. The central government could retreat from the attempt to rein in the property sector, only increasing the public's confidence that real estate is a guaranteed bubble—an investment the government won't let fail. But that would create the chance of a more devastating crisis in the future by piling up more debt and making productivity more dependent on property.

Or Xi could use the real estate question to push other parts of his political agenda: the dominance of the central government, greater state control of all sectors, and the purging of potential contenders before his likely and unprecedented third term in 2023. In that case, the government could make real estate regulation into a political weapon, blaming economic slowdowns on corrupt officials and the West—and expanding the role of the planned economy even further.