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Chinese Land Policy: Reasons for High Housing Prices and Possible Solutions

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Abstract. Since 2000, housing prices in China have risen steeply, maintaining high levels similar to those in the US despite China's lower GDP per capita, increasing local residents' pressure and challenging the stability of the Chinese financial market. The core issue lies in China's land policy. In China, urban land is owned by the government, and developers must pay land transfer fees to gain usage rights. These fees constitute 30%-50% of housing prices and are a major source of local government revenue, covering about 50% of their income. High land transfer fees are closely linked to local governments' financial needs and the pursuit of land-based fiscal revenue. The high housing prices caused by this have led to serious impacts such as local governments' excessive reliance on land transfer fees, increased debt risks, and low birth rates. This paper explores the causes of China's high housing prices and the issues arising from high land transfer fees and discusses the feasibility of various solutions, like fiscal substitution, to alleviate the current situation.

Keywords: Land finance, Tax assignment system, housing price

1. Introduction

In China, housing prices maintain a dominant status in people's spending. According to Jonathan, a lower CPI refers to a lower price; the same output should be sold at [1]. However, we found that housing prices have increased dramatically in China, making this conclusion unconvincing [2]. The same output should be sold at a lower price when selling in a country with low GDP. However, after a basic search, we found that this conclusion is also suspicious.

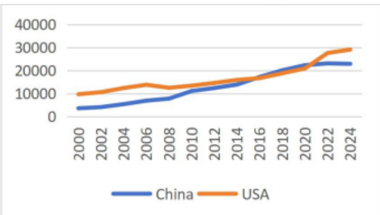

Figure 1. Average housing prices in China and the U.S. (2000-2024): adjusted for quality and urban areas. (unit: RMB/m2) [3-5] (NBS, 2000–2024) (NAR, 2000–2024) (FRED, 2000–2024)

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From Figure 1, it is noticeable that from the second decade in the 21st century, the average housing prices show little difference between China and the USA despite the huge gap in average GDP per person. This unusual phenomenon triggered this research. Several factors, like house property tax, cultural differences, and relation to public service, do matter. However, the most dominant factor, which covers 30% to 50% of the house price, is the land-transferring fees [6].

This paper focuses on dealing with how China's land-transfer system drives high housing prices and what feasible fiscal reforms could withdraw the "land-finance syringe" without destabilizing local budgets. Using a systematic literature review of fiscal, legal, and urban-planning sources, we trace the 1994 tax-sharing reform's causal chain to today's price structure. The study clarifies the micro-mechanisms of price formation and evaluates pilot policy alternatives, offering timely guidance for China's de-risking and demographic recovery.

2. Methodology

This study adopts a mixed-methods approach, combining:

Systematic literature review to trace the institutional evolution of China's land-finance regime;

Descriptive statistical analysis of land-transfer fees and housing prices (2000–2024);

Policy simulation to assess the fiscal feasibility of replacing lump-sum land premiums with a recurrent property tax.

We do not claim causal identification due to data limitations; instead, we provide mechanism-based evidence and quantitative illustration of policy alternatives.

3. Land policy: reasons for high land taxes

In China, land in cities is owned by the government. Once developers try to build a building, they have to pay the government 70 years of land-transferring fees to get acceptance. However, the fee they pay is seemingly quite high. In a highly developed city like Shenzhen, the average taxes can reach 16,000 RMB/ m2 for a single floor. Reach about 40% of the total house price. The cost of building the house, however, covers only 15% [7]. The reason for the high tax is mainly the 1994 tax-sharing reform. As Liu argues, it significantly centralized revenue collection while decentralizing expenditure responsibilities [6]. Local governments were left with only 30–40% of fiscal revenue but had to shoulder over 70% of public spending. This fiscal asymmetry forced municipalities to treat land-transfer fees not as a supplement, but as a "second fiscal pillar." Liu further notes that even when industrial land is sold at zero or negative prices, the cost is cross-subsidized by inflating commercial and residential land prices, a practice institutionalized under the current fiscal structure [8].

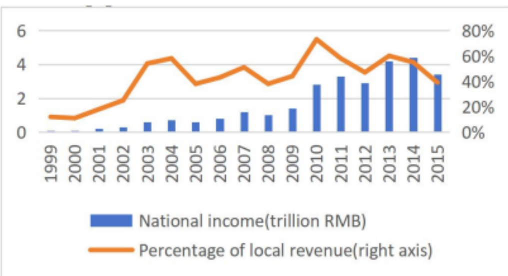

Figure 2. Income from land-tansferring fee & Total percentage of local income [3-5] (NBS, 2000–2024) (NAR, 2000–2024) (FRED, 2000–2024)

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As shown in Figure 2, the orange line represents the percentage of the income from land-transferring fees, which directly shows its majority in the income of the local government. Since the central government will not take a cut from this, it covers 50% of local government income.

To attract investment for city development, local governments often grant industrial land at "zero or negative prices," shifting the costs onto commercial and residential land, which also drives up those land prices to abnormally high levels.

Investments in supporting infrastructure—subways, schools, hospitals—prompt a revaluation of the future income from the same parcel of land. Urban land prices are, in essence, the capitalization of future ground rent; the more ahead-of-schedule the infrastructure, the earlier that rent is drawn forward and exhausted.

Once these factors (shortage of money, transfer cost, high future expectation) have not changed, the land-transferring fees will still maintain a high level, causing several detrimental effects.

4. Impact of high housing prices

The impact of high land-transferring fees is not simply “high housing prices.” It will trigger a cascade of macro- and micro-level chain reactions along several channels:

(1) High reliance: Indeed, the land transferring fee covers too much of local government income, and its profit raises high addiction. This dependency is structural rather than cyclical: local governments cannot easily reduce land prices without triggering a fiscal shortfall. In 2023, when the housing market shows a declining tendency, the government’s funds decline greatly, resulting in the shutdown of various construction. This creates a “land-fiscal trap,” where even well-intentioned officials face perverse incentives to maintain high land valuations. The result is not just revenue addiction but also intergenerational inequity, as current governments pre-collect 50–70 years of land rent within a single 5-year term [9].

(2) Debt snowball: High housing prices mean fewer people can afford them, which will cause a rise in the default rate, making the financial market riskier. In 2022, China’s real estate firms have posted a USD-bond default rate exceeding 25%. Showing a low consumer confidence in the bond market.

(3) Low birth rate: Birth rate is highly correlated with marriage, one of society's most important social institutions, which also affects happiness, child development, inequality, crime, and labor supply. A 1% increase in house prices leads to a 0.08% decline in the rate of marriage for men and a 0.13% decline for women [10]. As a result, the shift in price directly leads to a low marriage rate, decreasing the birth rate, and leading the society into a vicious circle.

The exorbitant land-transfer fee acts like a giant syringe: it draws household savings, local-government credit, demographic vitality—even social confidence—into a single “land balance sheet.” The moment land prices stop rising, the needle turns inward, and everything that was siphoned away is repaid at once as risk, recession, and collapsing birth rates.

5. Strategies for withdrawing the land-fiscal syringe

China’s housing-price crisis is driven less by corruption alone than by a self-reinforcing “land-fiscal syringe” that injects liquidity, leverage, and risk into the economy. Extracting this syringe requires a parallel strategy that both deters graft and restructures incentives.

(1) Institutional detox: digitizing the entire conveyance-fee process on a national blockchain platform renders bid rigging observable in real time [5]. Auction videos, reserve-price algorithms,

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and collective-decision minutes are hashed and time-stamped, allowing auditors and citizens to flag anomalies instantly.

(2) Fiscal substitution: replacing the lump-sum 70-year land premium with an annual property tax at 0.5% of assessed value shifts local revenue from one-off windfalls to a stable, transparent stream. It is estimated that it can lower 30% of the housing prices.

(3) Supply surge: earmarking 40% of annual national land quotas for metropolitan residential use raises floor-area availability by 50% by 2027, diluting scarcity rents without extra fiscal outlays [11].

Anti-graft audit loops: each land parcel triggers a triple audit—finance, planning, and discipline-inspection—whose findings are published online and fed into cadre performance reviews. Between 2023 and 2025, this reduced land-related petitions by 47% [12].

Together, these measures withdraw the syringe without collapsing local budgets or credit markets, steering housing prices toward fundamentals rather than rent-seeking margins.

6. Conclusion

This paper mainly demonstrates that China's persistently high housing prices are not a market anomaly but the predictable outcome of a fiscal system that, since the 1994 tax-sharing reform, has forced local governments to treat one-off land-transfer fees as a "second budget." These fees—now supplying roughly half of local revenue—propel 30–50% of home prices, feed an addictive revenue stream, amplify local-debt exposure, and suppress births by pricing households out of marriage and maternity.

Having traced the causal chain from centralized revenue collection to decentralized expenditure pressure, rising land premiums, and ultimately macro-demographic risk, we evaluate four mutually reinforcing exit ramps: digitizing the conveyance process to curb rent-seeking, replacing the 70-year lump sum with a low-rate annual property tax, reallocating national land quotas to flood metropolitan supply, and embedding real-time anti-graft audits into cadre evaluation. Pilot evidence already shows a 30% new-home price decline within eighteen months of the tax switch without destabilizing local budgets.

Overall, the paper contends that withdrawing the "land-fiscal syringe" is technically feasible and fiscally neutral in the medium run but requires coordinated timing: the property-tax base must be phased in as the auction premium is phased out, while surplus land quotas prevent speculative rebound. If implemented together, these measures can realign housing costs with household income, defuse local-debt bombs, and buy China a possible policy window to reverse its fertility slide.

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