



Client Alert

Financial Markets Developments

New policies to revive the Chinese property market

On 22 October 2008, the Chinese central banking authorities rolled out a series of new policies to boost the Chinese property sector which is starting to feel the effects of the global economic downturn. In recent weeks, Chinese municipal government authorities also have introduced similar measures to help revitalize the local property markets. These new incentives include:

- lowering the down payment for an initial purchase of ordinary personal housing;
- cutting the interest rates for loans made under the personal housing accumulation fund;
- reducing the floor interest rates for personal housing loans;
- exempting stamp duty and land value-added tax on residential property sales by individuals;
- reducing the deed tax for an individual's purchase of his or her first personal housing property;
- increasing the maximum loan amount available for individuals' purchases of residential properties under the personal housing accumulation fund; and
- extending government subsidies of up to 1% of purchase price to individual purchasers.

This note provides a brief overview of these new policies.

Background: The ailing property market

As the recent global financial crisis starts to take hold in Asia, the Chinese property market is showing signs of a nationwide slowdown after a two-year surge of activity.

In stark contrast to the days when the Chinese authorities had to limit bank financing for property developers in order to clamp down on property speculation in an overheated market, in September 2008 China has seen the slowest pace in the increase of property prices in more than three years. Average property prices in the Chinese major cities rose 3.5 percent in September from a year ago, 1.8 percentage points lower than the year-on-year increase rate in August. The growth rate has been decreasing for eight months in a row this year.

It is against the backdrop of such sluggish market conditions that the Chinese authorities introduced the new policies in the hope of stabilizing the property market and restoring consumer confidence.

The new policies: Reductions and exemptions by the People's Bank of China and the Ministry of Finance

In an effort to encourage purchases by first time home buyers, the People's Bank of China (PBOC) announced on 22 October 2008 various adjustments to its policy on loans for personal housing and China Banking Regulatory Commission issued relevant implementation rules on 29 October 2008.

- **Minimum mortgage deposit for initial purchase reduced from 30% to 20%**
The down payment for an individual's purchase of his or her first personal housing property has been reduced to at least 20% from 30% previously.



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If you have questions or comments regarding this Alert, please contact one of the following lawyers:

Karen Tang
Partner
+ 86 21 6132 5916
katang@whitecase.com

Hallam Chow
Partner
+ 852 2822 8780
hchow@whitecase.com

John Hartley
Partner
+ 852 2822 0409
jhartley@whitecase.com

Xiaoming Li
Partner
+ 86 10 5912 9601
xli@whitecase.com

Steve Payne
Partner
+ 86 10 5912 9602
spayne@whitecase.com

Rosanna Chow
Associate
+ 852 2822 0479
rchow@whitecase.com

■ **Interest rates for loans under the personal housing accumulation fund reduced by 0.27%**

The interest rate for loans made under the personal housing accumulation fund with a term of 5 years or below will be reduced from 4.32% to 4.05%, while the interest rate for loans with a term exceeding 5 years will be adjusted from 4.86% to 4.59%.

■ **Floor interest rates for personal housing loans lowered to 70% of the benchmark lending rates**

The minimum interest rates which banks are now allowed to charge on personal housing loans in relation to individual's purchase of his or her first personal housing property are to be lowered to 70% of PBOC's benchmark lending rates.

The reductions in paragraphs (1) to (3) above come into force from 27 October 2008.

The central bank's policy changes are echoed by the Ministry of Finance, which also announced new fiscal measures on 22 October 2008.

■ **Stamp duty and value-added tax of land on individual property sales exempted**

Residential property sales by individuals will be exempt from stamp duty and land value-added tax starting from 1 November 2008. Local authorities are encouraged to introduce fees-reduction policies to promote spending on personal housing.

■ **Deed tax for initial purchase of personal housing temporarily reduced to 1%**

Starting from 1 November 2008, the deed tax payable in relation to an individual's purchase of his or her first personal housing property with a floor space of no more than 90 square meters will be reduced to 1%.

The above measures from the Ministry of Finance and the People's Bank of China essentially validate similar measures previously announced by a number of Chinese municipal governments, including Shanghai, Chengdu, Shenyang, Xi'an, among others. In addition to these measures, the various Chinese municipal governments have extended these additional incentives to individual purchasers:

■ **Increase in loan amounts available under personal housing accumulation fund**

Many local governments have increased the maximum loan amount available for individuals' purchases of residential properties under the personal housing accumulation fund. For example, in Shanghai, a family can now borrow up to RMB 600,000 from the fund to buy residential property.

■ **Direct government subsidies of 0.5 % to 7% of purchase price**

Some local governments are providing direct subsidies in amounts ranging from 0.5% to 7% of the total purchase price to support the acquisition of residential properties in their cities.

It is hoped that the above measures will help boost domestic consumption and stimulate the slowing Chinese property market in the midst of the global financial crisis.

For the official announcement of these new policies (in Chinese), please refer to the following Chinese websites:

<http://www.pbc.gov.cn/detail.asp?col=100&id=2898>

http://www.mof.gov.cn/caizhengbuzhuzhan/zhengwuxinxi/caizhengxinwen/200810/t20081022_83596.html

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Beijing Office:

White & Case LLP
19th Floor, Tower 1 of China Central Place
81 Jianguo Lu Chaoyang District
Beijing 100025
People's Republic of China
Telephone + 86 10 5912 9600
Facsimile + 86 10 5969 5760

Hong Kong Office:

White & Case
9th Floor, Central Tower
28 Queen's Road Central
Hong Kong
Telephone + 852 2822 8700
Facsimile + 852 2845 9070

Shanghai Office:

White & Case LLP
Shanghai Bund No. 12 Building, Room 220
12 Zhongshan Dong Yi Road
Shanghai 200002
People's Republic of China
Telephone + 86 21 6132 5900
Facsimile + 86 21 6323 9252

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