REAL ESTATE

More Than 1 in 5 Homes in Chinese Cities Are Empty, Survey Says

Southwestern University of Finance and Economics Analysis Finds 49 Million Sold but Vacant Units

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Roads and housing projects under construction in the suburbs of Beijing. *European Pressphoto Agency*

SHANGHAI—More than one in five homes in China's urban areas is vacant, and a current housing-price correction is putting additional pressure on the owners of such empty properties, according to a nationwide survey by researchers from China's Southwestern University of Finance and Economics.

The vacancy rate of sold residential homes in urban areas reached 22.4% in 2013, or 49 million homes, up from 20.6% in 2011, according to the Survey and Research Center for China Household Finance, which conducted the analysis.

The researchers surveyed households in 262 counties in 29 provinces, an expanded sample compared with 2011's survey of households in 80 counties.

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As of August 2013, the amount of outstanding mortgage loans on vacant homes in China reached 4.2 trillion yuan ($674.33 billion), the report added.

The survey included homes left vacant by owners of multiple homes as well as those left empty by owners who have left the city to work elsewhere. In addition to the 49 million sold but vacant units, the survey estimated that China has 3.5 million homes that remain unsold.

The survey said that vacant homes are more likely to add to homeowners' burden and cause them to suffer a financial loss. If home prices fall by 30%, 11.2% of the vacant homes would be underwater on their mortgages, compared with just 3.3% of occupied homes, it said.

While most Chinese cities have shown only mild home-price declines so far, many analysts are concerned that sustained price falls could result in more homeowners holding mortgages that exceed the value of their homes.

China is currently seeing a correction in its housing market, which is plagued by excess supply in many cities outside Beijing and Shanghai, and tightened credit. The country's property sector is an important driver of growth, with economists estimating that real estate and related industries, such as steel and cement, account for 16% to 25% of GDP.

Analysts and investors have raised concerns about the massive rows of empty apartments in seemingly every Chinese city, the result of rapid development fueled by easy credit and authorities' desire for growth. A few analysts have also voiced the possibility of a painful correction if the bubble pops.

Listings for residential properties for sale are displayed in the window of a property agency in Chenjia, Chongming Island, China, in May. *Bloomberg News*

In recent years, property developers have rushed into the market to build homes, which have been a popular investment as prices seemed bound to keep rising. But the allure has faded since late 2013, as prices began to stagnate and China lifted restrictions on individuals' investments in alternative channels. Many consumers are now investing in wealth-management products or in homes abroad, leaving property firms with hefty inventories to clear.

Property firms cite China's still-low urbanization rate—54% in 2013—as reason to continue to build. But the survey pointed out that inventory levels are too high and demand for housing stemming from new urban residents would have only a limited impact on clearing inventory.

An increase of 10 percentage points in the urbanization rate would result in only a 2.6% fall in vacancy rates, the survey said.

Another property survey released last month by brokerage CLSA Research found that 15% of homes completed in the past five years, or 10.2 million units, are vacant. CLSA studied 609 projects across 12 cities in China, a sample that accounts for 20% of the country's GDP.