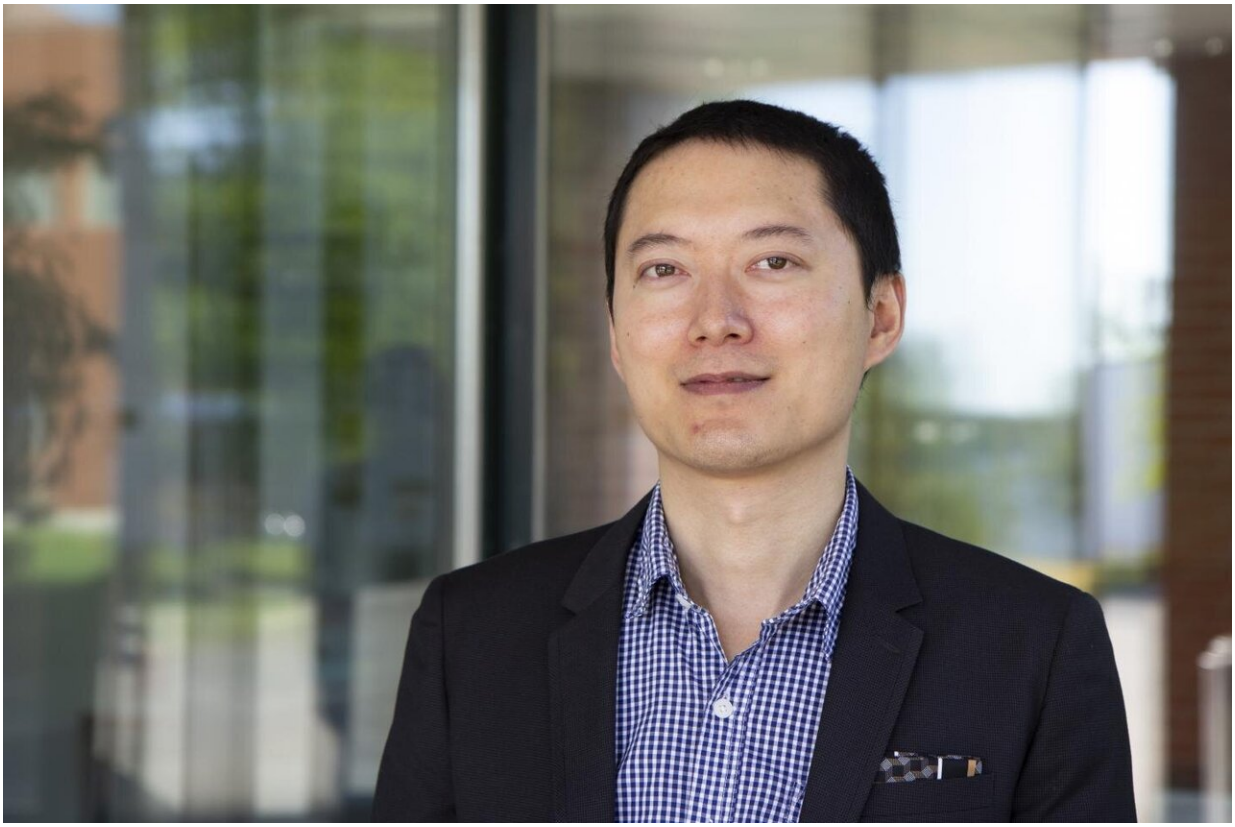
Real estate control policies in China can partially constrain real estate risks to banks

June 17 2020



Junhua Jiang, University of Vaasa. Credit: Riikka Kalmi/University of Vaasa

According to Junhua Jiang's doctoral study, real estate control policies in China that aim at stabilizing or slowing house price growth can reduce two types of real estate risks to banks: discount rate risks and overall

risks of the real estate firms to banks. Real estate control policies, however, cannot constrain another type of real estate risks to banks: risks of the real estate market to banks.

For example, banks may hold, either directly or as collaterals, stocks of the real estate firms. Hence, when investors change their expectations of stock returns on the real estate firms, banks can also be affected. These effects are the discount rate risks of the real estate firms to banks. The discount rates are the rates that are used to discount the dividends of real estate firms in order to obtain the stock value of these firms.

Similarly, the real estate market can cause risks to banks. The banks are influenced by the changes in the expectations of real estate prices, as real estate prices affect the values of the mortgage loans and real estate collaterals of the banks.

In addition, the effects of each specific type of real estate control policies are also different.

For instance, financial control policies, which usually increase the down payment ratios and interest rates of mortgage loans, may raise the discount rate risks of the real estate firms to banks. Land control policies tightening the land supply, acquisition, and usage could decrease the overall risks of the real estate firms to banks.

"In consequence, when designing real estate control policies, policy makers may need to consider how various types of real estate control policies affect the real estate risks differently", says Junhua Jiang, who succesfully defended his doctoral dissertation on June 17 at the University of Vaasa.

Real estate stimulating policies can both raise and

reduce risks

Financial stimulating policies make it easier for home buyers to obtain mortgage loans at lower costs, leading to lower overall risks of the real estate firms to banks.

"Tax-related stimulating policies that lower the taxes for housing transactions could raise both the risks of the real estate market to banks and the overall risks of the real estate firms to banks. Decisions to relax the tax-related real estate regulatory policies, therefore, should be taken with caution", says Junhua Jiang.

In his doctoral thesis, Jiang has also studied frequency connectedness of equity volatilities across industries in China. The study shows the Chinese industries that are the main targets and sources of risks at different frequencies over different time periods.

Provided by University of Vaasa

Citation: Real estate control policies in China can partially constrain real estate risks to banks (2020, June 17) retrieved 21 September 2024 from https://phys.org/news/2020-06-real-estate-policies-china-partially.html