

How is it possible for millennials to afford Tianjin without parental support?

Real estate continues to be one of the most popular investments in China and young professionals looking to get married, especially men, are often expected to purchase an apartment before marriage. We explore how they might be able to afford this investment and how recent policy changes by the government, aimed at spurring the economy, have also improved the prospects for these young buyers. We take a look at the government housing fund and how that allows buyers to afford their real estate purchases and how prices compare across Tianjin.

Policy changes in 2015

The People's Bank of China cut the interest rate five times over the course of 2015 in response to the ailing economy. Stimulating the residential market has been a top priority of the PBoC given the sector's large contribution to the overall economy – including construction related to real estate development. The rate cuts have reduced to the cost to finance home purchases dramatically. The national benchmark lending rate fell from 5.6% in February to 4.35% in September last year, the lowest point in over a decade.

Besides interest rate cuts, a plethora of other policies were eased, making it much easier for individuals to purchase property in Tianjin. These include lowering the minimum down payments for traditional mortgages and also removing purchase restrictions on Chinese nationals with a Tianjin "hukou" meaning they can buy as much property within Tianjin as they can afford. The municipal government also bolstered usage of the "public housing fund" by increasing the amount one can borrow against his/her housing fund balance and also lowering the down-payment ratio.

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Policy Adjustments in 2015	Dec. 2014	Dec. 2015
Base Lending Rate	5.6%	4.35%
Minimum Down Payment First Time Buyers	30%	25%*
Minimum Down Payment Second Time Buyers	60%	40%
Home Purchase Restriction for Tianjin "Hukou" Holders	Yes	No

*Reduced to 20% for borrowers using the "public housing fund"

What is the "public housing fund"?

Chinese employees and their employers monthly contribute a portion of their base salary to what is called the "public housing fund" – a government program that allows individuals to save money towards purchasing a home. While it's a nationwide program, local authorities have autonomy in setting contribution rates. In Tianjin, the required contribution rate is 22% of an employees' base salary with the employee and his/her employer each contributing 11%. Contributions are capped after the base salary reaches RMB 19,320 per month. In other words, the maximum contribution is RMB 4,250 (22%*4,250).

The balance of an individuals' housing fund determines the size of loan they can receive, though credit rating also plays a factor. For example, an individual deemed with 'good credit' by any traditional bank may receive a loan at 20X the balance in their housing fund, while someone with average credit may only receive 15X. While the funds cannot be withdrawn immediately to make down payments, they can be withdrawn a year after purchasing the house to make mortgage payments or to pay for fit-out costs. Purchasers using their housing fund balance to apply for loan receive special terms including reduced mortgage rates and a lower down-payment ratio (20% as of 2016). However, the size of this loan is limited to RMB 600,000 and anything higher must be borrowed in a traditional mortgage – typically at higher rates.

What are average home prices in Tianjin?

For simplicity purposes, we've broken prices down into four distinct geographies: Central Tianjin, Suburban Areas, Binhai New Area, and Other Districts and Counties. At over RMB 23,500 per square meter, the average price in Central Tianjin was twice as high as the next highest region, Suburban Areas, which stood at an average of RMB 10,872. Binhai New Area and Other Districts and Counties followed at RMB 9,862 and RMB 7,365 per square meter, respectively.

	Average Price (RMB/sqm)
Central Tianjin	¥ 23,547
Suburban Areas	¥ 10,872
Binhai New Area	¥ 9,862
Other Districts and Counties	¥ 7,635

Central Tianjin includes Heping, Nankai, Hexi, Hedong, Hebei, and Hongqiao

Suburban Areas includes Beichen, Xiqing, Jinnan, and Dongli

Other Districts and Counties includes Jixian, Baodi, Ninghe, Wuqing, and Jinghai

How affordable is housing in Tianjin?

For this study, we looked at a prospective 28 year old couple, with good credit, looking to purchase a 50 square meter apartment for the first time within Tianjin. The couple has each worked for five years and therefore has saved in the public housing fund for that amount of time. Assuming that the couple each lived with their parents during this five year period, the couple is able to save 50% of their income, thereby avoiding rental expenses. We also assume that the average net take-home salary in Tianjin was RMB 2,243 per month when our prospective couple began working in 2011 and grew to RMB 2,841 in 2015.

Using these assumptions, our couple has a combined monthly income of RMB 5,682 per month and has saved a total of RMB 116,008 within the five years' time. Within the housing fund, the couple has additionally saved a combined RMB 65,440 meaning they can qualify for the maximum public housing fund loan of RMB 600,000 ($20 \times 65,440 = \text{RMB } 1,308,800$). In summary, the couple can afford to make an initial down payment of RMB 116,008 as well as a monthly mortgage payment of RMB 5,682.

	Central Tianjin	Suburban Areas	TBNA	Other Districts and Counties
Price of a 50-sqm Apartment	¥ 1,177,350	¥ 543,600	¥ 404,020	¥ 470,830
Total Loan Amount	¥ 941,880	¥ 434,880	¥ 305,400	¥ 394,480
Down Payment	¥ 235,470	¥ 108,720	¥ 98,620	¥ 76,350
Mortgage Payment	¥ 5,883	¥ 2,716	¥ 2,464	¥ 1,907
Mortgage Payment as a % of Net Household Income	103.5%	47.8%	43.4%	33.6%

RED indicates that it's outside the couple's price range
Assuming a 20-year mortgage, 80% loan-to-value, at a 4.35% interest rate

In the above chart you can see that home prices in Central Tianjin are out of reach for the couple, for the minimum down payment and also mortgage payments are above the couple's limit. However, each of the other regions is within range of the couple's budget. Purchasing property in the Other Districts and Counties puts the least amount of pressure on the couple, enabling them to dedicate a lesser amount of their income to making mortgage payments.

In our example, this couple is not able to afford an apartment in central Tianjin based solely on their own savings and income, but in many cases parents may either provide an apartment or at least a down payment, meaning the couple can either buy in a more desirable area or buy a larger apartment than they would have been able to afford on their own. Many buyers in Tianjin are particularly interested in buying homes in central Tianjin, especially in Heping, Hexi and Nankai districts because their schools are perceived as being higher quality. In addition to the convenience of being downtown, this is one of the reasons for higher prices in these central districts.

For our example we've looked at average prices of new projects, but an alternative is to buy second hand property which may not have all of the amenities of newer developments, but may be lower density or may be in locations that already have a more established neighborhood. New homes are increasingly furnished, whereas a second hand purchase might require a larger investment to refurbish the unit.

Tianjin property prices are not cheap and are still unaffordable to some, but the current slowing economy and loosening of government restrictions may create a buying opportunity for young buyers who are currently in the market and even those without support from their parents might find a way to secure a real estate investment in Tianjin.

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