# The Historical Political Economy of Chinese Housing Regulation and Price Speculation

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## ABSTRACT

This work posits that the current state of the Chinese real estate market is a result of its historical development of housing distribution and regulation, through a critical literature review embedded in a political economy analysis on China's Three Red Line policy. The paper follows key transitory periods within Chinese socio-political reform within the context of its housing sector, identifying several policy making decisions and structural shifts which contributed to its current environment that fosters exuberant speculation and the treatment of housing as a private commodity rather than public necessity. The Financial Crisis is employed as a case study on housing market failures, exploring the institutional role of Fannie Mae and Freddie Mac as well as the existence of a credit-speculation binary in the distribution of subprime mortgages. The economics of the interrelationship between speculative behaviors within markets and the ability to leverage debt is then studied and applied to a Chinese context, utilizing several examples including the Evergrande crisis and the Three Red Line policy to identify the underlying failures of the Chinese housing market.

## Introduction

In the 1990s, the Chinese government implemented a series of economic reform policies geared towards fostering neoliberalism in its then stagnated housing market (Jiang et al., 2021). Since then, its real estate industry has experienced a surge in investment and housing prices, resulting in a significant boom with pertinent effects on its economy as a whole. Real estate investments increased by 117% in 1992, and by mid-1993 the number of real estate developers increased to 20,000, compared to the 3,000 at the beginning of 1992 (W., 2011). However, this rapid growth has come at the expense of economic stability, as housing is growingly treated as a commodity rather than a necessity, and real estate is subject to exuberant investment speculation that artificially inflates prices to an extreme state. Since 2016, housing prices in China have risen rapidly, with an annual growth rate of around 6% (Chen, 2019). Therefore, whether a housing bubble exists in China has remained a central question amongst economists. Although certain individuals argue that the existence of a bubble is inconsistent with China's rapid urbanization alongside its equally increasing GDP per capita (Jiang, 2021), this paper will argue for the existence of a housing bubble for several reasons, namely that its real estate market encourages irrational speculation amongst investors.

Construction and property sales have been the one of the largest factors of economic growth in China since President Xi Jinping's inauguration in 2013, which is reflected in China's policies towards generating real estate investment. Over the past decade, China's housing industry has been excessively dependent on maintaining a high leverage position through incrementally increasing its leverage ratio to seek business and asset expansion (Li, 2022). As a result of excessive debt, numerous property developers have been forced into liquidation, of which the impacts are evident as construction fell 14% in 2021 relative to the previous year (Curran, 2022). This failure of the real estate market is catastrophic to the Chinese economy, as over a quarter of China's growth domestic product is attributed to its real estate sector (Curran, 2022). To combat its debt crisis, the Chinese government recently implemented a number of policies which aim to defuse its debt bomb in hopes of avoiding an incoming financial crisis. However, the extent to which the policies were successful in reducing debt leveraging practices amongst real estate firms is frequently debated between economists, due to significant impacts on large-scale real estate development firms, perhaps none more infamous than Evergrande. Once one of the largest real estate development firms in China, Evergrande's net liabilities currently exceed over $300 billion USD (Hoskins, 2021). However, it is China's economic and political reform, that began around the 1950s, specifically in terms of its real estate market, that has fostered such an environment that rapidly exacerbated its current housing crisis. To this end, the following paper aims to evaluate how the historical development and implementation of housing regulation contributed to the phenomenon of housing price speculation in China. One of the ways this topic will be explored is through the lens of a contemporary crisis, undertaking a case study of the Evergrande crisis in the context of China's Three Red Line policy.

## Methodology

This research paper will follow the Golden-Biddle and Locke structure for presenting literature on qualitative research, which involves constructing intertextual synthesized coherence, as well as problematizing the situation through subverting the literature and locating the problem (Bryman, 2008). In essence, this paper will engage in a systematic literature review, more specifically a mixed methods meta-study, that is used to achieve interpretative synthesis of qualitative research and other secondary sources, thus providing a counterpart to meta-analysis in quantitative research (Bryman, 2008).

In order to effectively study the effects of the Three Red Line policy on China's real estate market, this paper will attempt to integrate diametrically opposing pieces of economic literature to holistically evaluate the successes and limitations of the policy. In order to ensure the derived hypothesis on the central proponent of the rapid financialization within China's real estate market is contextually applicable, this paper will also engage with summary statistical and numerical data analysis. The research ultimately seeks to develop innovative approaches to interpreting currently available data by comparing heterogeneous studies on the Chinese housing market to bridge any possible gaps in critical knowledge, ensuring the paper bears greater significance within the academic sphere.

Relevant limitations of secondary research, as cited by Alan Bryman, include a lack of familiarity with data, complexity of data, a lack of authorial control over data quality, and absence of key variables in the research process, which can necessitate multivariate analysis (Bryman, 2008). These aforementioned factors may restrict the reliability and accuracy of any conclusions drawn from secondary studies. Moreover, although there is a plethora of research into the economics of the real estate market, its applicability to the Chinese economy can very reasonably be questioned. To this end, information from secondary sources on international real estate markets may not be directly transferable towards better understanding the Chinese market. Therefore, this paper will be careful to avoid assuming transferability between international and Chinese housing markets by carefully curating information based on its relevant contextual focus. However, as academic research into the historical development of Chinese real estate regulation is relatively limited, this paper will also study several foreign markets to better understand the similarities and differences between the foundational structure of the Chinese market compared to notable foreign housing industries.

The following paper will be structured into the following sections:

1. Historical development of regulation in the Chinese housing market
2. Understanding the phenomenon of housing price financialization and speculation
3. Discussion and analysis of case study dynamics: China

Such a structure will enable for a seamless macro-to-micro approach of understanding the potential impacts of China's Three Red Line policy in combating its growing debt crisis and will raise the important question of whether its stringent policies have done more economic damage than good.

## Historical development of regulation in the Chinese housing market

China's transition from its socialistic to neoliberal housing allocation system in the late 1990s spurred unprecedented levels of growth in its real estate sector, which has induced a dramatic paradigm shift in housing consumption and distribution across the country (Li et al, 2011). Since then, the Chinese housing market has transitioned into a burgeoning segment of economic activity, providing sizable tax revenue for the Chinese government. Despite the apparent success of China's housing reform, natural repercussions of a largely market-based structure are becoming growingly visible. Affordability of housing has decreased substantially across the last decade, owing primarily to limited housing supply that struggles to keep pace with its rapid population growth. The following chapter aims to assess the development of housing regulation, in an attempt to better understand the structural foundation of Chinese real estate which has contributed towards its current housing bubble.

### Reconstruction Period (1949-1952)

Prior to 1978, the Chinese government engaged in policies which nationalized private housing. In essence, public housing units were allocated as work units as part of the central planning system (Li et al, 2011). This was largely a result of Mao Zedong's distorted vision for the People's Republic of China in 1949, when the country was officially founded. In an attempt to quickly gain the trust and support of the population upon Mao's initiation, the government immediately launched a series of policies to restructure the country towards providing equity in a disenfranchised nation. Under this system, almost all urban land was state owned and all real estate transactions were monopolized by the government. While private landowners were allowed to keep a certain portion of their housing necessary to maintain a stable life for their families, any remaining housing space was confiscated by the state and redistributed amongst the population (Broudehoux, 1994). Although urban populations grew significantly as a result of rural exodus and unprecedented levels of urban growth, housing construction was not an initial target of the government. Instead, the government's first priority was to reconstruct infrastructure damaged during the Chinese Civil War and lay the infrastructural foundation for China to industrialize and catch up with the rest of the modern world (Kwok, 1979). To this end, housing aesthetics were disregarded as architects and planners instead focused on functionality and economic practicality. Up until this period of political and economic history, mass housing was a concept relatively unbeknownst to developing economies. As such, due to a lack of conceptual precedents most housing constructed during the Reconstruction Period was a form of single-story, continuous row housing (Broudehoux, 1994). During this period, there were several factors which determined housing allocation, including seniority, merits, and needs. Rent prices were heavily subsidized, to an extent in which it was rarely sufficient to break even or simply cover maintenance costs (Zhou and Logan, 1996). As such, home ownership and private property rights had effectively been abolished. The consequences of such socialist housing policies included low levels of real estate investment, severe shortages in urban housing, substandard quality of housing, and poor living conditions for a number of urban workers. Ultimately, while the Reconstruction Period managed to achieve a degree of equity, exercised policies also led to lower levels of social prosperity which were disadvantageous to a majority of the Chinese population.

### The Great Leap Forward (1958-1961)

Perhaps the next pivotal period in China's dramatic economic reform is characterized by an increase in Chinese autonomy, which was a result of the severing of previously strong political ties between China and the Soviet Union (Broudehoux, 1994). Chinese economic policy was largely centralized around the ideology of abandoning foreign concepts in favor of developing local practices to address local needs. In essence, the economy was shifting away from foreign dependency in order to generate economic efficiency that emphasized increased production while reducing investment through targeted investment strategies. Between 1959 and 1961 China experienced a severe economic depression, partly due to increased concentration in ramping up the industrialization of its economy, and the economy experienced a 27.27% fall in GDP growth rate in 1961(Hu & Khan, 1997). The opportunity cost of redirected investment was the development of the agricultural industry, which was ultimately left neglected. In addition, due to a succession of natural disasters such as droughts, floods, and typhoons, there were severe shortages in agricultural produce, resulting in the Great Chinese Famine that killed close to 55 million people (Almond, 2012). To control urban migration, the government introduced the Hukou policy, which transferred surplus population to rural China (Kwok, 1979). This increased the supply of cheap labor, triggering an unprecedented mass production of factories and suburban worker housing with the objective of maximizing comfort at a minimum cost.

## The Cultural Revolution (1966-1976)

While the Great Leap Forward was followed by increased emphasis on rural development, this readjustment and consolidation of the Chinese economy was halted by the introduction of the Great Proletarian Cultural Revolution. The proposed reforms offered a new interpretation of socialism that was conducive to mobilizing the masses and redeveloping revolutionary consciousness ; however, exaltism and fanaticism led to mass rejections of the elite, bringing the country to a state of quasi-anarchy and on the edge of bankruptcy (Broudehoux, 1994).

During the Cultural Revolution, public construction was reduced to a minimum and housing production was neglected, resulting in the lowest housing standards ever seen in China (Kwok, 1979). Moreover, the state effectively eliminated the concept of private ownership under the ideology of '*yida ergong*', or large-scale public housing (Huang, 2004). Yet despite socialist-driven ideology of supply-side development and 'construction first, consumption later', housing construction was essentially stagnant during the Cultural Revolution. Between 1949 and 1978, real estate investment accounted for only 0.78% of China's GNP annually, pointing towards a debilitated housing market that struggled under the sociopolitical paradigm shift induced by the Cultural Revolution (Huang, 2004).

## The Open Door Policy (1978-1990)

After Mao Zedong's death, Western economic concepts were eventually reintroduced to China, leading to China's official transition from a state to market based economy. In 1978, the Open Door Policy was introduced with the objective of achieving the modernization of industry, agriculture, science, and national defense by the year 2000 (Elleman, 2015). In 1981, the government re-established private property rights by returning nationalized property to its previous owners (Li et al, 2011).

Since the 1980s China's real estate reform can be characterized into three stages. Prior to 1993, the first stage of the reform revolved around trial and error, employing various projects to test the successes of various housing policies and regulation. In 1988, the Chinese government began its reform commercialization and privatization of urban housing to bolster private property rights (Li et al, 2011). The second stage of its modern real estate reform focused on the restructuring of housing construction and finance, management, and distribution systems. During this period the Chinese government identified high income groups as the central proponents for real estate development, and thus introduced a number of policies to encourage the development of high-income housing. In addition, the government subsidized commercial housing for middle to low-income family groups (Kwok, 1979). As a result, the nature of housing was radically transformed from necessary facets of public life to private commodities, resulting in the treatment of housing as commodities rather than basic human rights. Beginning in 1998, the third and final stage of housing reform terminated welfare-based housing allocation and formally established a market-based system of housing provision. This involved the termination of a number of policies intended to support low-income workers, including the 'danwei' system which involved selling public rental housing to employees at extremely low prices (Zhou and Logan, 1996). The government also introduced cash subsidies for housing for newcomers entering urban markets. This radical transformation of the Chinese economy towards overt neoliberalism resulted in the development of a rigorous urban housing market.

Since 2005, urban housing prices in China have skyrocketed, leading to a significant decrease in housing price affordability. A growing number of economists point towards the existence of a possible housing bubble, suggesting extreme levels of housing price financialization and speculation that are perhaps rooted in China's turbulent economic and political involvement in its real estate sector. It is the understanding of this history in the context of the modern Chinese economy that might provide deeper insight into the current state of China's housing industry.

## Understanding the phenomenon of housing price financialization and speculation

Housing price speculation is defined as the practice under which housing is primarily treated as a market investment as opposed to a basic necessity — one to be bought, sold, and renovated to maximize profits (Gao et al, 2017). As a result of increased deregulation and corporate consolidation within the real estate industry, the practice of housing price speculation has increased dramatically (DeFusco, 2017). Speculative tactics have the potential to impact every aspect of the housing industry from prices to vacancy rates, fostering an environment which encourages predatory practices and amplifies displacement pressures. By extension, housing financialization refers to the policies and practices that promote the perception of housing as a vehicle for speculative investment (Alexandri, 2022). To this end, understanding the binary between housing financialization and speculation is essential in understanding local housing issues in the context of the global financial market, as it illuminates the importance of jurisdictional housing policy in combating such issues.

### The Financial Crisis

Since the early 2000s, a number of global housing markets have experienced a tumultuous cycle of price volatility that has caused several problems to the global economy. Perhaps the most devastating was the Financial Crisis of 2008, which I argue was driven at its core by exuberant speculation. Although the Financial Crisis is largely attributed to the expansion of subprime credit policies, housing price speculation is a largely understudied mechanism that forms an underlying basis for economic and housing cycles. Recent studies have suggested that speculation was largely independent of credit expansion to subprime households during the 2000s, which contributed to rising house prices between 2004 and 2006 and ultimately adversely impacted economic activity during the Financial Crisis between 2007 and 2009 (Gao et al, 2017). In essence, deregulation in the credit market resulted in increased buyer spending power, increasing the demand for housing and thus real estate prices. As a result, real estate was seen as a vehicle for speculative investment, leading to a housing bubble.

Although the market crashed in 2008, housing price speculation was an issue that had been developing several decades prior, rooted in ineffective policy making. Primarily, two factors are attributed to the Financial Crisis: Fannie Mae and Freddie Mac and lack of government regulation in key sectors of the financial economy, often from diametrically opposed viewpoints. The conservative viewpoint tends to assert that it was excess government involvement within the housing market which contributed to the market crash, which is important to note in evaluating the applicability of studying foreign housing markets in relation to the Chinese market. Fannie Mae and Freddie Mac are publicly traded firms chartered by the US Congress which specialize in mortgage security and aim to maintain the stability and functionality of the mortgage market (Marquit, 2022). In the years prior to the Financial Crisis, Fannie Mae and Freddie Mac purchased an outsized number of mortgages on the secondary market, which helped support a sustained rise in housing prices in the United States between 2005 to 2007 (Bhagat, 2017). Alongside consequential financial practices at large investment banks, the market for unsustainable mortgage markets grew substantially, as both homeowners and the financial system became overleveraged and unbalanced, ultimately resulting in the market bust (Marquit, 2022). However, other economists suggest that Fannie Mae and Freddie Mac helped provide liquidity to mortgage markets, and that it was a lack of government insight into consumer protection, private mortgage securities, bank capitalization, and financial markets that transformed the American housing bubble into a global financial crisis (McArthur & Edelman, 2017). In the early 2000s, the government-controlled sector of the mortgage market began to decline as the market for private label mortgages (PLS) expanded. During this period mortgage lending increased significantly, a large portion of which was in predatory, subprime loans that increased the risk of the housing market as households would likely default on such mortgages under the pressure of changing economic conditions. In 2008, housing prices plateaued alongside a rise in interest rates, causing the Financial Crisis due to a lack of ability of households to pay off subprime mortgages. This ultimately led to over 4 million housing foreclosures between 2008 and 2012 (Corbae & Quintin, 2013). Although both arguments have merit, both draw attention to the importance of government intervention and policy making in fostering sustainable real estate markets. To this end, I hypothesize that speculation in the housing market can bear significant economic consequences and must thus be effectively regulated to ensure the market is securitized and stable.

## The Dynamics of Housing Price Speculation

It was the Financial Crisis which initially drew researchers towards the narrative of financial cycles being caused by the interaction between credit and speculation. In the assets market, not excluding the housing market, boom and bust cycles typically begin with displacements such as financial innovation or liberalization that expands credit to speculators (Mian & Sufi, 2021). In essence, by utilizing improved leverage positions through undertaking larger amounts of debt, speculators can boost bidding prices for a specific asset, thus increasing the price of the commodity. This credit-speculation binary suggests a vicious economic cycle of unsustainable levels of financialization, which can be especially dangerous in significant markets such as real estate. The ability to leverage debt thus is a key proponent of speculation, as speculators tend to display overly optimistic consumer behavior as they maintain the belief that the value of their investment will continue to grow. This phenomenon was first coined by Adam Smith, who labeled it 'overtrading', where market-implied expectations are not contingent with the full price mechanism. As a result, speculation provides an instance of market failure within the economy, as the inherent value of the asset is not accurately reflected by its price. Within the housing market, speculation thus has significant consequences on affordability, equity, and security. This conceptual framework is exemplified as growth in mortgage credit is strongly correlated with a growth in housing prices (Jordà et al, 2014). I thus posit that the availability of credit, specifically mortgages, is the primary factor behind fostering speculative real estate markets.

To this end, housing price appreciation is predominantly the result of policies which subsidize the consumption of housing, including the relaxation of credit regulation which improves the availability of credit relative to a non-distorted market (Popa, 2013). As such, the number and availability of intermediary parties willing and able to lend funds to potential home buyers will directly affect the degree of price appreciation in the housing market, influencing the level of speculation in the process. For instance, a key proponent of the financialization of the European housing industry was the 'wall of money' that was pumped into the global real estate market from the 1990s, the consequence of which is that European banks currently hold €879bn of non-performing loans, the majority of which are linked to speculative property assets (Waldron, 2018).

Utilizing these key findings in the context of the Chinese real estate market, regulation and real estate policy can be identified as key factors promoting irrational investment within the housing sector. Such speculation resulted in the oversupply of housing relative to its aggregate demand, causing a shift away from market equilibrium. To tackle such an issue, the Chinese government has recently introduced a number of policies to restrict debt leveraging as a means to invest in real estate in order to control the housing price appreciation that is seen as a byproduct of the relaxation of credit regulation.

## Discussion & Analysis

### Case Study Dynamics: China

Due to China's dramatic economic reform over the past decade, its real estate industry has grown excessively dependent on maintaining high leverage while continuously increasing leverage ratios in order to seek business and asset expansion (Li, 2022). In order to tackle the issue of housing price speculation, which was driving real estate firms to undertake dangerous levels of debt, China introduced the Three Red Lines policy. The policy declared that public real estate firms in China had to keep their liability-to-asset ratio below 70%, their debt-to-equity ratio less than 100%, and their cash-to-short term debt ratio less than 100%, which a number of large real estate developers failed to comply with (Goddard, 2022). However, the extent to which the Three Red Lines policy has cooled off the speculative bubble within the Chinese real estate market is contested amongst economists. Since the implementation of the Three Red Line policy in 2020, the number of mergers and acquisitions within the housing development industry has accelerated rapidly due to an increased financial burden on smaller real estate firms (Chan, 2022). Such a policy has essentially priced out smaller real estate firms from the market, reducing the level of competition within the market in a manner that is non-conducive towards China's attempts at fostering greater neoliberalism in the housing industry. While the Three Red Line policy was designed to restrict real estate firms' debt leveraging abilities to reduce speculation and the financialization of housing in theory, in practice it has increased the market power of larger firms who are able to acquire smaller firms which are unable to fulfill the stringent requirements of the policy. Such increased market power may thus prove disadvantageous towards increasing the affordability of housing units in China, as well as harmful towards the general welfare of its economy. Moreover, small-to-medium sized firms are increasingly struggling to fulfill the requirements of the Three Red Lines policy, resulting in outright defaults on loan payments due to a lack of liquidity or competitiveness (Chan, 2022). In essence, in order to effectively reduce speculation within its market, China has had to sacrifice a large amount of growth within its real estate sector, exemplified by the drastic measures taken by the Three Red Lines policy. In order to fulfill the debt requirements, many real estate firms are beginning to shift their focus away from profit maximizing towards optimizing their balance sheets, which has caused land acquisitions rates to slow down — the effects of which are still yet to be observed fully (Chan, 2022). However, despite firms' focusing on rebalancing balance sheets, balance sheets within the real estate sector are continuing to deteriorate, as the percentage of defaulated real estate bonds increased from 6.7 billion Yuan in 2019 to 20.3 billion Yuan in 2020 (Goddard, 2022). Furthermore, in 2021 close to half of the 30 largest housing developers in China overstepped at least one of the three lines, while the percentage of defaulted loans reached a record high of 46.8 Billion Yuan (Chan, 2022), signaling that the policy is both unrealistic and impractical. This downturn is only expected to continue, as an S&P Global Ratings forecast predicts that a greater number of Chinese property developers are expected to default this year due to severe regulatory constraints on debt leveraging and financing (Ramintas, 2022). Perhaps the most notable example of the consequences of China's rash policymaking in the housing sphere is Evergrande. Prior to the introduction of the Three Red Line policy, Evergrande was the most leveraged real estate developer in China, with a gearing ratio more than double the next leveraged firms in the market (Jones, 2021). Currently, Evergrande has over 800 housing projects across China; however, as a result of the Three Red Lines policy, construction has recently ceased on 500 of those projects (Goddard, 2022). In 2020, Evergrande breached all three red lines by the fiscal year end, allowing the government to place restrictions on the company's growth aspirations to an extent to which the company is currently struggling under large amounts of debt incurred before the implementation of the policy (Kinder, 2022). The failure of such a large firm invokes thoughts of Freddie Mae and Fannie Mac during the Financial Crisis, challenging the phrase 'too big to fail' in all aspects.

To understand the instability of China's housing market, it is important to consider the historical role of regulation within its real estate industry, as well as past instances of housing bubbles, including the American market during the 2008 Financial Crisis. China's early push for deregulation seemingly aimed to emulate Western free markets, which provided the basis for the Financial Crisis to emerge. The reintroduction of private property rights in China in 1981 greatly encouraged the treatment of housing as a financial asset to grow wealth instead of as a necessity. Due to a political shift towards free market economics and away from regulation, speculation was virtually unregulated and thus impossible to detect or remedy. Moreover, the 'Three-Step' recovery of the Chinese real estate market in the late 1990s seemingly promoted irrational and exuberant spending and investment within the housing sector in order for China to catch up to global markets due to the lag its economy experienced under Mao Zedong. Through identifying high income owners as key proponents for the development of its real estate markets, the Chinese government indirectly favored speculation as opposed to generating sustainable levels of equity, which eventually contributed to its housing bubble that exists today. Moreover, the case study on the role of Fannie Mae and Freddie Mac during the Financial Crisis draws attention to the correlation between speculation and credit. However, the case study does not identify the availability of credit as a proponent of speculation, rather, it identifies the allowance of unsustainable amounts of debts and subprime mortgages as key factors. To this end, although the Three Red Lines policy attempts to tackle such issues, it does so ineffectively by weakening smaller firms and placing unrealistic limits on an industry historically reliant on maintaining a high debt leveraging position. Instead, the Three Red Line policy, along with other measures, has resulted in the slump of its housing markets as the growth of firms is severely restricted. Furthermore, in an attempt to restrict the distribution of subprime mortgages, China declared in 2021 that banks should control the issuance of real estate and personal housing loans. However, this policy has ultimately backfired, as it has furthered the inefficiencies of the nationalized banking industry which China experienced under Mao Zedong and has negatively affected housing sales and payment collection due to delays in debt releases by banks (Li, 2022). Such a policy diametrically opposes China's generally neoliberalist approach towards real estate, and further harms a market that is already struggling under exuberant speculation and irrational financialization of housing. In essence, policies imposed upon China's real estate market fail to consider the historical role of regulation within its market and fail to appropriately acknowledge past instances of real estate market crashes.

## Conclusion

China's economic and political reform since the 1950s, which involved the Reconstruction Period, the Great Leap Forward, the Cultural Revolution, and the Open-Door policy among others, has greatly contributed to forming the structure of its current real estate market that is struggling under excessive debt leveraged by nearly all real estate firms. Its attempts to rapidly revitalize its economy towards fostering neoliberalism in a previously Marxist system through rash policymaking mirrors the precedents to the Financial Crisis of 2008 and overlooks the faults of the banking and housing sector that were made then. Moreover, this rapid transition led to a process of trial and error and deliberation in policymaking shortly after the introduction of the Open Door Policy, which eventually resulted in the elimination of welfare-based housing systems. Ultimately, this led to the treatment of housing as a private commodity, conducive to speculative behaviors, rather than a public good and intrinsic human right. The economic transition within the housing market therefore gave rise to an ideological shift, forming one of the foundations for China's current housing bubble.

At its core, the Financial Crisis was driven by excessive housing price speculation, which ultimately points towards the existence of a credit-speculation binary. The ability to leverage debt is thus a key proponent of overtrading, reflecting and supporting the tendencies of traders within a market to overestimate the value of their return on investment. During the Financial Crisis, weak regulation upon the quality of mortgages resulted in the distribution of unsustainable amounts of subprime mortgages, weakening the stability of its housing market which was weakening under over-investment and exuberant speculation. Although the Chinese government has attempted to restrict the availability of credit in the real estate sector through several policy changes and regulatory practices, these attempts have been relatively unsuccessful in developing a safe and sustainable real estate market to propel China's economy. Historical practices within large scale real estate firms to maintain high debt leveraging positions conflict with the underlying targets of policies such the Three Red Line Policy, which is largely inconsistent with China's socio-economic development during its periods of reform.

Despite China's rapid real estate growth over the past several decades, this growth has been fostered by such lax regulation within its housing sector. Policies designed to restrict speculative behaviors, including the Three Red Line policy, fail to properly acknowledge economic learnings from the 2008 Financial Crisis in an effective and coherent manner. To this end, housing price speculation has been allowed to run rampant over the past decade, decreasing the affordability of housing units for lower income families and encouraging highly unsustainable levels of debt with the potential of causing the crash of China's economy, to an extent so large that restricting debt leveraging practices to sustainable levels has led to the downturn of its real estate market. Only by effectively studying and contextualizing the past can China achieve a more sustainable future of housing market development.

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