Faculty Profile

Weidong Qu is a research fellow at the Peking University–Lincoln Institute Center for Urban Development and Land Policy in Beijing, and an associate professor in the Department of Land and Real Estate Management at Renmin University of China. Dr. Qu's research interests include real estate appraisal, land and cadastral management, fuzzy cluster analysis, GIS programming and analysis for real estate valuation, and real estate investment analysis and finance.

Since 2003, he has focused much of his research on property tax reform in China. Dr. Qu has authored five academic books and published over twenty papers for both international and domestic Chinese journals and conferences. He earned his Ph.D. in real estate appraisal at the Geodetic Institute of the University of Hannover, Germany, in 2000.

Dr. Qu also serves as director of the China Association of Real Estate Academicians and executive secretary general of the Global Chinese Real Estate Congress. He is also conducting research in Munich on real estate mortgage valuation and risk analysis as a Humboldtianer fellow of Germany's Alexander von Humboldt Foundation, and taking part in a research project on property tax reform in Germany. Contact: quweidong@mparuc.edu.cn

Weidong Qu

LAND LINES: *How did you become associated with the Lincoln Institute of Land Policy?*

WEIDONG QU: After returning to China in 2002 following my studies Germany, I took part in a training seminar on urbanization and smart growth that was cohosted by the Lincoln Institute and Renmin University. Then, in December 2003, I was invited by officials in the City of Shenzhen to participate in an international symposium on property taxation organized by China's State Administration of Taxation and the Lincoln Institute. At a later conference on property taxation in Beijing in 2007, I met Joyce Yanyun Man, the director of the Institute's China Program and the Peking University–Lincoln Institute Center for Urban Development and Land Policy, and she invited me to join the Center's research group to lead the property tax team.

LAND LINES: *Why is research on property taxation in China so important?*

WEIDONG QU: China's real estate market has developed rapidly over the past 30 years as economic reforms have been introduced. At the same time, real estate–related taxes remain relatively complicated, with a lack of distinction between taxes and fees, and widespread use of administrative fees in place of taxes that may not otherwise have been approved by central regulatory authorities. The steady increase in the use of taxes and fees has begun to influence development costs in the residential housing sector, with the combined charges estimated to account for 40 percent of total costs for new housing stock. This situation is a growing source of criticism from both property developers and residents, who see this increase in charges as one of the factors pushing China's urban housing prices ever higher.

Another tax-related issue confronting the sustainable growth of China's real estate sector is the preference for levying taxes and fees on the developer rather than the ultimate owner. To date, China has not established a property tax system, and taxes and fees levied on property owners remain comparatively low, which has contributed to overinvestment and speculation in the property market.

In addition, due to China's centralized tax system and the lack of a stable local revenue source such as a property tax, local governments have become heavily dependent on revenues from land transfer fees to fund public expenditures and infrastructure investments. According to China's Ministry of Land and Resources, during the 11th Five-year Plan (2006–2010), more than 33 million *mu* (more than 200 million acres) of land was transferred by local governments for development, generating revenues of 7 trillion *renminbi* (approximately US$1.1 trillion). This land-based approach to public finance undermines economic stability and puts pressure on land prices, with the potential to contribute to a real estate bubble.

LAND LINES: *What challenges differentiate property tax issues in China from the experience in the United States, Europe, or other developed economies?*

WEIDONG QU: Property tax levies in developed countries are generally based on an assessed value, and most jurisdictions utilize computer-assisted mass appraisal (CAMA) systems to administer their property taxes. At this time, however, none of the taxes or fees levied on China's real estate sector are based on an assessed value and, consequently, there is a critical shortage of experienced assessors and officials. Most current assessors focus primarily on individual properties, and they lack experience with mass appraisal techniques.

Administering a modern property tax also requires an integrated geographic and property database. My research indicates that more than 90 percent of China's cities do not yet have such a property database, and many local governments cannot document the number of parcels within their jurisdictions, or even the ownership of each parcel.

LAND LINES: *How does property taxation in China relate to the country's rapid urban development and growth?*

WEIDONG QU: According to a projection from the Chinese Academy of Social Sciences, China's rate of urbanization will be 52.28 percent in 2015, 57.67 percent in 2020, and 67.81 percent in 2030, after which the rate is expected to stabilize. This trend will produce a rapid increase in the urban population and the need for significant expansion of basic infrastructure, such as schools and hospitals, as well as more residential housing. Supplying land for this new infrastructure will be an ongoing challenge and will eventually render China's current land-based public financing approach unsustainable.

LAND LINES: *How do you approach property taxation in China through your own research?*

WEIDONG QU: The first official mention of property tax reform came in a report from the third plenary session of the 16th Central Committee of the Chinese Community Party in 2003. That report directed the government to "reform city and village construction taxes and fees, and levy a property tax on fixed assets when the conditions are ready, including the concomitant cancelation of overlapping taxes." This statement was one of the major impetuses for the Lincoln Institute to become involved with property tax research in China and to collaborate with the State Administration of Taxation in Shenzhen, as well as the beginning of my own work in the area.

With the central government's support, policy makers selected six Chinese cities to serve as initial property tax reform pilot cities for internal sample valuations and research. The study was later expanded to ten cities, including Beijing. These pilots have built upon China's ongoing stamp tax reform, which refers to a value-based tax paid during the sale of a property and has been invaluable in pushing jurisdictions to formulate their own assessment standards. According to the Ministry of Finance, China will transition to an assessed-value standard for the stamp tax by 2012, which will require each jurisdiction to develop its own computer-assisted mass appraisal system.

In my opinion, four key issues merit research attention. First, it is important to define what we mean in China by a property tax, because considerable disagreement exists among policy makers and scholars about what such a tax should include. Second, property databases remain incomplete or inaccurate, so it is vital to conduct a national-scale survey of housing stock and ownership. Without this data, government agencies are unable to assess property values for all parcels within their jurisdictions or ensure that property tax bills are mailed to the correct property owner.

Third, further research into mass appraisal theories and techniques is still needed. Although China's tax officials have made progress in their knowledge of the basic principles of mass appraisal, they generally lack specialized real estate training, and their limited understanding threatens to lead to ill-informed policy making. Fourth, before any progress can be made, it is necessary to overcome opposition from China's political and economic elites, who often own multiple properties and have emerged as one of the biggest obstacles to property tax reforms. Given the uncertainty as to the final direction of property tax reform in China, these interest groups have seen delaying the imposition of a property tax as their best strategy.

LAND LINES: *What challenges has the PKU-Lincoln Center's property tax demonstration project sought to address?*

WEIDONG QU: Since property tax reform in China was first mentioned in 2003, the Lincoln Institute has contributed to this important issue by hosting training seminars and international conferences on property tax assessment and theory, along with lessons from other international experiences. The property tax demonstration project represents the logical next step in the Institute's work, with a goal of identifying and addressing the practical challenges of such reform. Many of these challenges, such as the importance of cross-ministerial information sharing and CAMA valuation codes, are not the high-profile issues focused on by officials, but they are equally important in ensuring the success of any property tax reform.

Specifically, the demonstration project has focused on 18 properties on Financial Street in western Beijing, the location of the People's Bank of China and the headquarters of a number of other major domestic and international financial companies. We chose Financial Street because it is one of the most developed districts in Beijing; however, even in such a modern area it took us several months to collect all of the geographic, property, and tenant information needed. This underscores the importance of constructing standards for data gathering and information sharing among government agencies.

LAND LINES: *What are the biggest remaining obstacles to implementing an effective residential or commercial property tax in China?*

WEIDONG QU: Assessing a property tax on residential housing stock and on commercial real estate are two separate issues in China. As mentioned, many factors hinder the implementation of a property tax on residential housing stock, including the opposition of powerful interest groups and the current lack of reliable property transaction and ownership data. As in most countries, citizens' historic opposition to paying taxes on owner-occupied property is also a challenge.

In terms of a property tax on commercial real estate, the current consensus is to leave the existing tax burden unchanged by eliminating the present land use fee and the rental-income and original-value-based real estate taxes levied on commercial property and then establishing a single assessed-value property tax. This approach should not generate the same opposition as that seen against a residential property tax.

In my view, there are two key challenges remaining. The first is to revise China's existing laws related to taxes on property and then to draft new legislation. The second challenge is the current variety of commercial real estate and the lack of consensus on what valuation method should be used for each type. The demonstration project conducted by the PKU-Lincoln Center in 2009 focused exclusively on top-grade commercial real estate, such as office space, hotels, and apartments. There remains a need for further research on the best valuation methods for property such as gas stations, hospitals, shopping centers, and informal shops in China.