



Can the Shanghai “blue-stamp” residency status move the market?

Recently there are voices that the Shanghai municipal government will re-introduce measures of granting residency status (the “blue-stamp” residency registration or “蓝印户口”) to non-local home buyers. This measure together with income tax rebate for home buyers (See *analysis in Colliers’ News Flash dated Feb 4, 2009*) are regarded as more aggressive tools to support the residential property market. The measure was implemented in Shanghai during the last property market downturn in mid-1998 – early 2002. How powerful is this measure in arresting the property market downturn?

How attractive is the “blue-stamp” residency status?

A scarce good...

Over the past years, the municipal government only granted a limited number of “blue-stamp” residency registration each year, reportedly with an annual quota of around 10,000. This is just 0.07% of the registered population. The main purpose of granting the “blue-stamp” residency is to attract high-quality professionals all over China to stay in Shanghai for Shanghai’s economic development. The limited annual quota suggested that the municipal government ostensibly aimed to import only labour resources which can add value to the economy but not to compete with local residents on public resources.

Demand for “blue-stamp” residency status in Shanghai was extremely keen, as the status enjoys high convenience in terms of public resources that can be enjoyed. Apart from better employment prospect in Shanghai (though competition is also keen), the residency status allows the right of access to various social benefits, including in particular retirement and medical insurance, which are not portable for non-residents. More importantly, the children of the residents also have the right to attend the best local schools in town. Though “residence permit” (“居住证”) is introduced after the cancellation of “blue-stamp” residency status, the need for regular renewal of the former and the opportunity for the latter to be upgraded to a formal residency status renders the latter still a preferred option.

...allotted based on merit

It should be noted that the criteria of granting the residency status after the cancellation of the “blue-stamp” one is more on merit basis i.e. by reference to education and professional qualifications, rather than referencing to the “means test” i.e. on the income or assets of the individual. There is virtually no other channel to obtain the status. Therefore, the measure opens up a temporary leeway for obtaining the “blue-stamp” residency status through purchasing property or investment in Shanghai.

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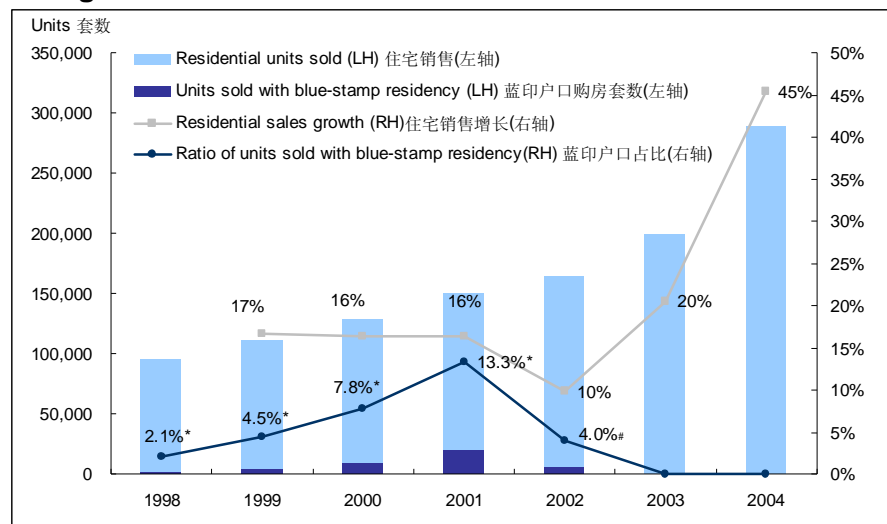


How did the market respond in the previous round?

The measure implemented during mid 1998-early 2002 set a relatively reasonable threshold for potential home buyers. For instance, home buyer of a property in sub-urban area at RMB100,000 or a property of 70 sq m in downtown at RMB350,000 were required for obtaining the “blue-stamp” residency status. Alternatively, the “blue-stamp” residency status could also be obtained with an investment amount of RMB 1 million in Shanghai.

Partly due to the lagged effect of the policy and also the subdued market sentiment prevailing after the Asian financial crisis, the positive impact on the property market was not conspicuous in 1999 and 2000. Yet when the market stabilized since 2000, home sales associated with the “blue-stamp” residency status picked up notably from slightly above 17,000 cases during late 1998 - 2000 to nearly 20,000 in 2001 and 6,600 in Q1 2002 right before the municipal government clawed back the measure on April 1, 2002. Accordingly, the share of “blue-stamp” residency-related home sales in total home sales surged from around 5% in 1998-2000 to an average annualized 15% in 2001 and 2002.

Chart: Residential units sold with blue-stamp residency in Shanghai



* Estimated by Colliers from the reported figures

For Jan-Mar only

It should be noted that excluding home sales associated with the measure, overall housing demand showed only steady growth during 1999-2001. Home price also saw no sharp increase during the period. A more notable pick-up was only seen in 2003 upon completion of the market correction and after the measure was clawed back. This indicated that the measure in fact had limited impacts on boosting

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overall market demand as it basically had not altered market fundamentals and also came with a time lag.

Can the “blue-stamp” move the market in this round?

We believe that the scarcity of the “blue-stamp” residency status will continue to appeal to non-local residents, especially those not possessing higher education qualifications. The effect on boosting housing demand would depend on the price threshold set by the municipal government. A lower price threshold would benefit more eligible buyers, thus rendering stronger boost to the market. Although the measure is not relevant to local Shanghainese and foreign nationals, given the experience in the previous round, the market is now more familiar with the measure and therefore will respond more promptly and positively, in our view. This would help speed up the adjustment process in the property market.

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