Economy Lab

Chinese faking divorce to buy more homes

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Call it ‘Til Debt Do Us Part, China edition.

Soaring real estate prices in China are breaking up marriages, but not in the way you might expect. Unlike in North America, where high household debt levels are putting a lot of stress on families, Chinese couples are divorcing – or at least pretending to – in order to borrow more.

A story on Bloomberg’s websites says government initiatives to curb a housing bubble are behind the trend. China has raised the down payment for second mortgages, and about 40 Chinese cities have begun to limit apartment purchases to two per family, or one for non-locals. The government has also asked commercial banks to stop offering loans to third-home buyers.

To get around the restrictions, Chinese couples are flocking to so-called fake-certificate companies, which sell phony divorce papers for 300 yuan, or about $45. Getting “divorced” allows couples to register properties under separate names.

The ChinaDaily website reports that banks and real estate agents have encouraged the practice.

Housing sales have risen 25 per cent so far this year and prices have climbed in nearly every city monitored by the government. Household expenses are also on the rise. The cost of food increased 14.8 per cent last month from a year earlier. China’s central bank has hiked interest rates three times this year to try to calm inflation.

The purchase of multiple homes in China is a fairly new and mainly urban phenomenon, says Terry Sicilar, an economics professor at the University of Western Ontario.

“The Chinese are big savers, but they are constrained in where they can put their savings due to China’s underdeveloped financial system and restrictions on foreign exchange and foreign capital flows,” Ms. Sicilar says.

Bank deposits, the main savings vehicle, offer returns so low that with rising inflation, real returns are negligible, maybe even negative, she says.

“Stocks are an alternative but very volatile and non-transparent. Many urban households do hold stocks, but most are reluctant to risk much of their savings in them.”

China’s private residential property market has only existed since the late 1990s, when China
Initiated reforms to privatize urban housing and develop residential real estate markets.

“As urban housing prices began to accelerate in the mid-1990s, people quickly realized that the returns on housing investments were very substantial and much higher than on other investment vehicles,” Ms. Siculac says. “Families also began to worry about how children who came of age after the completion of the housing reform would be able to afford housing in the future, so they developed strategies to buy a second apartment for their child. And why not? It was a high-return investment anyway.”

During the global financial crisis, while North American banks were clamping down on lending, China was going through a lending boom, with mortgages accounting for a third of loans. Fears that bad debts will soon rear their ugly heads have dominated headlines lately and weighed on Chinese bank stocks. In April, Moody’s Investors Service downgraded China’s property sector from “stable” to “negative.”

If China’s housing bubble bursts, can an increase in real divorces be far behind?

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So instead of cooling the market, housing sales have risen 25 per cent so far this year and prices have climbed in nearly every city monitored by the government. Household expenses are also on the rise. The cost of food increased 14.8 per cent last month from a year earlier. China’s central bank has hiked interest rates three times this year to try to calm inflation.

China’s private residential property market has only existed for 13 years, and the lure to invest is huge. Beijing prohibits individuals from investing in overseas stocks or corporate bonds, and a one-year bank deposit pays nearly three percentage points less than the rate of inflation.

“Traditionally, people in east Asia all have a passion to possess properties,” Liu Li-Gang, a Hong Kong-based economist at Australia & New Zealand Banking Group Ltd., told Bloomberg. “But economic theories also apply here. In eastern Asian countries, we have less land with a high intensity of people. Properties are a scarce commodity, so if you enter the market early, there is a bigger chance of high returns later.”

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North Americans have traditionally thought of China as a nation of savers, but rising Chinese incomes have been accompanied by a rush into debt. If China's housing bubble bursts, can an increase in real divorces be far behind?

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