

Determination of Land Prices in Shanghai under a Transitional Economy

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Due to the practice of administrative allocation of land and the socialist doctrine of public ownership of land, land price has been omitted from the overall land use system for a long time. The privatization of land use rights in China aims at decentralizing the use rights on land from the whole bundle of ownership rights to the free market mechanism. Allowing the allocation of the land use rights to be decided by the market mechanism means allowing price mechanism to operate to equate market demand and supply forces. This is in fact implied in the title of the Privatization process of the land use rights: land use with compensation, as opposed to the old system of using land without compensating to the land owner, or the state.

Evaluation of the land price behavior under such a transitional economy will therefore serve as a measurement of the effectiveness of the privatization of land use rights in China. This is how the model developed in the previous section tries to exhibit. If the objective of the privatization of land use rights is to release the use rights of land into market according to the price mechanism in a commercial land market, then market principles should be applied to the determination of the "compensation" for the use of land to the state. Basic market principle implies that land price represents the summation of the discounted future land rent or income from land product, which in an urban economic context refers to the income from the real property built on land. This is transferred into the residual land value concept.

From the empirical test results we can see that the determination of market price of land use rights in Shanghai during the recent years of the privatization process has been influenced by the old socialist view of value that land price is a function of the production cost relation. Such a view leads to the charging of land price in Shanghai in the form of a component structure rather looking at it as a discounted sum of future land rental income. This is why the term "market price of land use rights" has been used to refer to market land price in this thesis. An even more complicated problem exists as low cost or even free occupation of space in China has been a form of social welfare and even part of the wage package. However, the actual property rights in this economy has never been properly defined. This grey area leads to substantial room for negotiation of the resettlement costs in urban Shanghai, which are in fact a form of invisible leasehold interest.

Depending on the number of sitting tenants affected and their negotiation power with the developer, the cost portion accounts for a substantial part of the total market price of the land use rights. This cost portion also affects the determination of the land price portion, as the developer cannot be made to pay the amount reflecting the future land rental income after paying the value of the leasehold interest in the form of resettlement cost. As such, the determination of the land price portion is also not dependent on the market factors that determine land rent as normally expected, but as an arbitrary negotiation process.

This is mainly due to the ideology that value is a function of the production cost. Therefore, cost becomes the sub-conscious guidance of the "formulation" of value, when such a value has to be created in the market for the privatization process. We are therefore examining the performance of a privatization programme in a major sector of this transitional economy from a political economic view. The contribution of taking this view is the recognition that the government political and ideological perceptions of the need for reform and its ability to take the necessary measures can critically influence the package of policy measures that are undertaken much more than market activities themselves.

In a transitional economy, especially the one entering into a market socialism instead of completely market system, political and ideological preferences always take priority than actual economic consequences.

From a different perspective, this cost structure of market land price does not make the determination of market land price a pure cost approach. Although it is not possible to explain market land price behavior in

Shanghai by market factors, it is, however, possible to examine and analyze this behavior from market appraisal principles of land price.

Market price of land use rights in Shanghai can be viewed as an additive element of the two parties' interests. The first one is the price for the land portion which is obtained by the local authority as the land use rights owner or a reversionary freehold interest with encumbrances of an undefined leasehold interest on land. The second portion is the price for the built structure (or resettlement from this built structure) on which the sitting tenants have an invisible leasehold. These two together produce a production cost function that reflects the traditional socialist economic view of the "value." Finally, it is believed that the land price behavior as analyzed in the paper, although irrational according to market standard, does not rise out of ignorance of market phenomenon but of the political compromise in the short-term operation during the transition.

The Chinese approach of privatization of land use rights pushes the market demand further high up and thus speeds up market activities, as noticed by the growing transaction of land use rights in these few years, without creating an excessive high land price market but at the expense of losing the marriage value of land to the developers. However, this is ideologically acceptable to the authority as land value had never been clearly defined before the land use rights reforms.