

A Review of the Development, Impact and Trends of China's Land Grant System over the Past Decade

Jingyi Wu

School of Arts and Crafts, Fuzhou University, Xiamen, 361000, China
Corresponding author: 172302219@fzu.edu.cn

Abstract:

China's real estate economy has advanced rapidly since the 1990s tax-sharing reform, generating substantial local fiscal revenues and offering sustained impetus to numerous derivative industries. However, the collapse of the real estate economy has prompted significant societal reflection, leading to the gradual diminishment of property's role as an economic driver in China. This paper reviews scholarly research on property marketisation over the past decade, aiming to analyse historical data and examine the systemic impacts of real estate policies: driving urbanisation and infrastructure development, enhancing urban planning management standards, and addressing irregularities in tenant-landlord relationships. It further offers reasoned projections for the sector's future trajectory, providing practical guidance for optimising property market development. This paper is structured into five sections, comprehensively examining the themes of "institutional evolution," "marketisation impacts," "government regulation," and "development trends." Key research implications emerge in three dimensions: institutionally, the government must strengthen dynamic adjustments, further refine land transaction and property rights systems, enhance risk early-warning mechanisms, and standardise lending, transfer fees, and financing to balance interests between urban and rural areas, as well as among cities of varying scales. At the market level, efforts should focus on optimising the rational allocation of resources, directing land resources towards high-quality development and affordable housing, eliminating substandard property developers, and safeguarding public welfare. Finally, at the policy level, further progress should be made in advancing real estate tax reform to gradually reduce the burden of property-driven urban economic growth.

Keywords: Land grant system; real estate industry; economic development; overcapacity.

1. Introduction

The 1994 implementation of the tax-sharing system reform significantly increased pressure on local fiscal revenues and expenditures. Beyond central government transfer payments, local governments gained additional income sources including property tax, land appreciation tax, and land use fees, catalysing a series of local land finance and financial mechanisms. Land transfer fees witnessed a drastic surge over the decades: 30 billion yuan in 1993, 129.6 billion yuan in 2000, 2.9 trillion yuan in 2010, 8.7 trillion yuan in 2021, and 8.5 trillion yuan in the latest statistical year. In recent years, however, they have declined rapidly. Despite the government's early implementation of measures such as purchase restrictions, mortgage caps, and sales limitations to curb speculative property trading, the evident policy adjustments have had minimal impact on the overheated market. From 2021 to 2025, key real estate indicators have plummeted, triggering panic among property owners over asset holdings. Some have drawn parallels to Japan's 1990s bubble crisis and the US subprime mortgage crisis. In terms of causes, Japan's bubble stemmed from excessive monetary easing and speculative land transactions, while China's market risks lie in regional supply-demand imbalances and high debt; compared to the US crisis triggered by subprime lending defaults, China's financial system has stricter real estate credit controls, reducing direct risk spillover. This paper will examine scholarly research on China's land system development over the past decade, its primary economic and social impacts, and future trends. It will be structured in three parts: the evolution of China's land transfer system, the effects of real estate market legalisation, and government measures alongside predictions for future trends [1-3].

2. Evolution, Practice, and Future Optimisation of China's Land Grant System

2.1 China's Land Allocation Policy: From Breakthrough to Marketisation

2.1.1 The legal formation phase of land marketisation (1988–1990)

To overcome the "non-transferable" status of land, the First Plenary Session of the Seventh National People's Congress amended relevant provisions of the 1982 Constitution in April 1988. This removed the prohibition on leasing land, stipulating that "land use rights may be transferred in accordance with the law." On 29 December 1988, the Fifth Session of the Seventh Standing Committee of the National People's Congress deliberated and ad-

opted the Decision on Amending the Land Administration Law of the People's Republic of China. In May 1990, the State Council promulgated the . This administrative regulation formally established the state system for granting and transferring state-owned construction land use rights in urban areas. This signified the legalisation of China's land market. The 1992 Southern Tour addresses by Chinese Communist Party leaders and the 14th National Congress established the process of economic reform and land market cultivation. Against this backdrop, property gradually acquired the characteristics of finance and savings, becoming the primary savings asset for most residents. Subsequently, the state enacted specialised legislation: in December 1988, the Standing Committee of the National People's Congress amended the Land Administration Law, transforming the constitutional principle of land use right transfer into specific legal provisions and clarifying the fundamental rules for land circulation. Moreover, in 1990, the State Council promulgated the Administrative Regulations on the Granting and Transfer of State-Owned Land Use Rights in Urban Areas, further detailing the procedures, timeframes, and authorities for land grants and transfers. This marked the formal establishment of a market-based allocation mechanism for state-owned urban land [4].

2.1.2 Further refinement of land policies and market-oriented commercialisation

The Southern Tour addresses delivered by Chinese Communist Party leaders in 1992 and the 14th National Congress's establishment of a socialist market economy system directly propelled the nascent land market towards vigorous expansion. Property's attributes shifted from primarily residential to becoming a financial investment vehicle and a vehicle for public savings appreciation, evolving into a vital component of factor markets. It has since emerged as a potent engine driving China's economic development [5,6].

2.2 Advantages and Disadvantages of Real Estate Marketisation

2.2.1 Advancement of population urbanisation

The establishment and refinement of the land grant system became a vital source of fiscal revenue for local governments. These governments then invested these funds, stimulating the development of related industries. As construction, infrastructure, and residential amenities gradually improved, rural populations were drawn to urban centres. This migration boosted consumption and service sector development, directly increasing the national urbanisation rate and significantly optimising the urban-rural population structure. Concurrently, this optimised land resource allocation by consolidating abandoned farmland

left by rural migrant workers. This land was converted into industrial and agricultural plots, supporting urban expansion [7].

2.2.2 Urban infrastructure upgrades

Proceeds from land sales provide financial backing for urban infrastructure development, including roads, transport, healthcare, and education. Maintenance and new construction of bridges, roads, hazardous walls, footbridges, underpasses, subways, water networks, and power grids advance urban functionality and enhance living environments. Public services are elevated, with funds allocated to schools, hospitals, parks, landscape facilities, and pedestrian streets. This indirectly attracts permanent residents and tourists, elevating happiness indices and generating tourism revenue for cities.

2.2.3 Promoting urban economic development

Well-defined land use rights and robust transaction mechanisms create a dynamic secondary market, enhancing the liquidity of land assets. This system provides critical financing channels for businesses through land mortgages, easing capital constraints. In practice, a clear urban hierarchy emerges: major cities leverage industrial land mortgages to attract high-tech firms, medium-sized cities focus on manufacturing parks, and smaller cities often rely more heavily on residential land mortgages to fund infrastructure. With secure land rights, companies can proceed with construction and production with greater confidence, which reduces operational uncertainty. Furthermore, property-related revenues fund industrial parks, corporate tax subsidies, and innovation grants, injecting vitality into local economies. However, this land-centric development model yields uneven results. While megacities may benefit from integrated agricultural-industrial development fueled by land appreciation, smaller cities can become over-reliant on residential land sales, leading to unbalanced industrial structures. The model also carries inherent risks. Excessive land mortgages could trigger financial instability if property markets correct, and a long-term dependence on land conveyance fees poses a threat to fiscal health when the real estate sector cools. Ultimately, the real estate economy is a double-edged sword, capable of both driving growth and creating complex challenges that require careful management.

2.2.4 Product quality irregularities

Some property developers, driven by short-term profit motives, frequently engage in practices detrimental to purchasers' rights. Firstly, there is the cutting of corners in construction materials, substituting inferior products for genuine ones. This includes the use of substandard cement, steel reinforcement, timber, paint, load-bearing beams and columns, waterproofing and fireproofing materials, and more. Such practices lead to structural collapse,

water ingress, poor sound insulation, wall cracking, and floor bulging, significantly compromising housing safety and quality. During the finishing stage, substandard paints, composite panels, and adhesives release excessive levels of formaldehyde, benzene, and TVOCs, causing residents to experience dizziness, chest tightness, formaldehyde poisoning, and in severe cases, leukaemia, posing serious health risks. Another major source of buyer grievances is excessive shared area allocation, where floor plans bear little resemblance to the actual property. Reduced balcony dimensions and mismatched bay window measurements mean the usable space delivered falls far short of what was promised at sale. Concurrently, promised communal amenities like green belts, fitness facilities, and service centres often fail to materialise, instead being converted into parking zones. The most damaging consequence is undoubtedly the proliferation of unfinished developments. Broken funding chains halt construction, leaving building teams idle and workers unpaid. Homeowners who have paid for their properties face the grim prospect of neither receiving their homes nor recovering their investments, creating a predicament where they are left with nothing. These cases frequently dominate news headlines, sparking civil and criminal disputes that inflict severe economic and social harm.

2.2.5 Mismatch in supply and demand structure

On one hand, major cities possess inherent industrial agglomeration advantages, attracting large populations and generating substantial property demand, with both transaction prices and volumes remaining elevated. Conversely, smaller cities suffer from the brain drain effect of larger urban centres, leading to a steady decline in young residents and demand. Market activity remains sluggish, leaving vast quantities of property illiquid. According to the 2020 census, first-tier cities account for 8.55% of the total urban population yet hold only 6.37% of residential floor space, creating a 739 million square metre housing "shortfall". Conversely, third-tier cities, housing 57.9% of the population, hold 69.4% of residential floor space, resulting in an 11.2 billion square metre "surplus" - a stark mismatch between housing supply and population distribution [8].

2.3 Government Regulatory Measures: From Livelihood Safeguards to Industry Reshaping

2.3.1 People-centred initiatives: alleviating housing pain points

Firstly, through the dual approach of acquiring existing properties at low prices and restructuring debts, inefficient and substandard surplus housing resources in the market are consolidated and optimised. These are then developed into affordable public rental housing meeting

government standards. This measure targets low-income, under-protected migrant workers without housing in cities, alleviating their housing pressures and safeguarding public welfare. It embodies the safety net and protection provided by a democratic society for vulnerable groups. Subsequently, improvements to living conditions extend beyond upgrading the physical and functional aspects of housing itself to encompass the enhancement of surrounding supporting environments. For instance, addressing the disorder in urban villages requires refurbishing dilapidated exteriors to eliminate potential safety hazards. For newly constructed housing, optimising unit layouts and reducing shared space areas is essential. Concurrently, surrounding facilities such as transport links, healthcare, education, and recreational venues should be upgraded to enhance the functionality of the entire area.

2.3.2 Industry and financial regulation measures: mitigating market risks

The foremost priority is a comprehensive industry-wide consolidation, eliminating substandard players and raising entry thresholds. This involves restricting and phasing out non-compliant enterprises, optimising financing structures through policy measures to reduce bad debt ratios and leverage ratios. By curbing the production of substandard and hazardous housing at source, the economic and health interests of tenants and homeowners are safeguarded. Resources are redirected towards high-quality enterprises, elevating industry standards and fostering a virtuous cycle. Secondly, a risk prevention system for the financial sector must be established. The government should adjust financing policies (such as optimising mortgage rates and relaxing credit support for high-quality property developers) while alleviating economic pressures on banks, enterprises, and homebuyers. Risk and investment should be diversified, guiding households to shift assets from real estate towards other financial products. The excessive entanglement between the property and financial systems must be severed to prevent risks from the property sector spreading to finance and capital markets [9].

2.3.3 Measures to alleviate household pressure: reducing housing economic burdens

Through policy interventions (such as purchase and loan restrictions, land supply adjustments, and pricing guidance), excessive housing price volatility is curbed to align more reasonably with household income levels. This alleviates the financial strain of homeownership, preventing families from falling into high debt burdens that compromise basic living standards. Broadening the logic of housing choices involves improving the rental market, dismantling the outdated notion that homeownership is mandatory, and promoting a diverse range of options that equally value renting and purchasing.

2.4 Future Trends: Demand Transformation and Institutional Refinement

2.4.1 Structural shift in demand: from „incremental expansion“ to „optimisation of existing stock“

Amidst China’s long-term demographic trends of population ageing and declining birth rates, demand for new housing has significantly diminished. Consequently, residential demand has shifted from property acquisition towards upgrading existing dwellings. This manifests in the retrofitting of lifts, optimisation of floor plans, and a transition from large to compact, functionally refined units (reflecting the rise of childless couples and single individuals). Such adaptations cater to heightened aspirations for living standards and family quality of life, driving renewed value extraction from existing housing stock.

2.4.2 Direction for institutional improvement: guiding healthy market development through policy optimisation

Advancing tax system reforms to implement comprehensive property taxation, adopting a “pilot-first, gradient expansion” approach—initially launching pilots in first-tier cities, with the collection scope covering urban commercial housing and commercial real estate (rural housing excluded temporarily to adapt to rural development characteristics). The tax rate is determined by a combination of multiple factors: differentiated based on housing quantity (lower preferential rates for first homes, moderate increases for second homes, and progressive higher rates for three or more properties), tiered by assessed property value (setting different rate brackets according to market evaluation results), and additional surcharges imposed on oversized dwellings. This design increases the holding cost of speculative properties, effectively curbing speculative demand, guiding the market to return to the primary residential function of housing, and laying a solid foundation for the subsequent nationwide rollout with operable implementation paths. Optimise land allocation to precisely match actual demand. In major cities and core urban centres experiencing net population inflows, moderately increase residential land supply to alleviate housing shortages. In medium-sized and small cities with net population outflows, strictly control new construction land expansion to prevent land idleness and property inventory accumulation caused by oversupply. Align land use with urban industrial planning to achieve “coordination between land functions and regional development,” enhancing land utilisation efficiency and urban functional compatibility [10].

3. Conclusion

This paper traces the evolutionary logic of China’s land grant system from “legal breakthrough” to “market ma-

turity,” clarifying that, from an institutional evolution perspective, the development of China’s land grant system has consistently resonated with economic system reforms, forming a clear trajectory of “legal breakthrough—market cultivation—regulatory refinement.” The 1988 amendments to the Constitution and the Land Administration Law broke down the institutional barrier of land “non-transferability.” The 1990 Provisional Regulations on the Granting and Transfer of State-Owned Land Use Rights in Urban Areas established a market-based allocation framework through administrative regulations. Following 1992, driven by the market economy system, land gradually transformed from a “resource” into an “asset” with financial attributes, while property became a crucial vehicle for household savings and urban development. This evolution not only resolved early-stage land supply challenges during urbanisation but also provided market entities with stable expectations through clear property rights and standardised transactions, laying the institutional foundation for decades of rapid growth in China’s property market.

In terms of institutional impact, the land grant system has produced a “dual effect” on economic and social development. Its positive contributions manifest across three dimensions: firstly, by providing fiscal support to local governments through land grant revenues, it has accelerated urbanisation by upgrading infrastructure and public services such as roads, healthcare, and education; secondly, through market-based allocation, it has channelled land towards high-efficiency sectors, driving growth in related industries including real estate, construction, and services, thereby becoming a key growth engine for regional economies; Thirdly, clear land transaction rules reduce investment risks, attracting domestic and foreign capital to establish operations, thereby creating a resource platform for industrial cluster development and urban functional optimisation. However, this institutional practice has also given rise to a series of issues: at the market level, property developers’ blind pursuit of profit has led to substandard building materials and shoddy construction, resulting in frequent quality scandals. For instance, a well-known national real estate enterprise faced capital chain rupture due to excessive leverage, leaving over 100 residential projects across dozens of cities unfinished—homebuyers who had paid down payments or taken out mortgages were trapped in “housingless debt,” with daily lives disrupted and long-term rights protection struggles, while property quality issues like “formaldehyde-laden homes” also persist. These problems severely undermine homebuyers’ legitimate rights and interests. At the spatial level, imbalances exist between large and small cities in real estate development: the former face strong demand from population inflows coupled with relative supply shortages, while the latter grapple with high inventory levels

and resource wastage due to population outflows. At the urban-rural level, resource allocation is tilted toward cities during land expropriation and transfer, further widening the development gap. Specifically, rural high-quality farmland is frequently expropriated for urban industrial parks, residential construction and other projects, hindering rural large-scale modern agriculture development and restricting agricultural efficiency improvement; meanwhile, most land transfer revenues are invested in urban infrastructure and industrial construction, resulting in insufficient capital for rural areas—rural roads, medical care, education and other public facilities remain backward, and rural industrial development lacks financial support to form competitive industrial chains, leading to a growing urban-rural development gap.

Looking ahead, China’s land concession system and property market must transition from “scale expansion” to “quality optimisation” to align with socio-economic transformation needs. On the demand side, population ageing and declining birth rates will shift housing demand from “new purchases” to “existing stock improvement”. Compact units, age-friendly renovations, and rental housing will dominate the market, while homeownership rates will moderate to reasonable levels. On the supply side, governments must enhance the precision of regulatory measures. This involves eliminating substandard property developers, standardising financing channels to mitigate industry-wide financial risks, and balancing “market efficiency” with “social equity” through urban village redevelopment and affordable housing construction. Regarding institutional refinement, comprehensive property tax coverage will become a key instrument for adjusting housing holding costs and curbing speculative demand. The land allocation approach of “targeted supply” and “revitalising existing land reserves” will also drive land use from “incremental dependency” towards “efficiency enhancement”, thereby fostering a long-term equilibrium between the property market and socio-economic development.

Overall, China’s land grant system has served as a catalyst for urbanisation and economic growth over recent decades, yet must now address new challenges in the contemporary context. Future institutional optimisation must prioritise “people-centred development” and “efficiency-first” principles, balancing market vitality with governmental regulation. This will enable the land grant system to better accommodate demographic shifts, industrial upgrading demands, and shared prosperity objectives, thereby providing more robust institutional safeguards for the healthy and sustainable development of China’s property market.

References

- [1] Cheng Jian. Incentive adjustment and changes in land transfer behaviour: A quasi-natural experiment based on departure audits. *China Economic Review*, 2024, 87.
- [2] Ministry of Natural Resources, State Administration for Market Regulation. New “Contract” text issued between natural resources departments and transferees. Ministry of Natural Resources Portal, 14 July 2025. The website of the Ministry of Natural Resources.
- [3] Liu Shouying, Wang Zhifeng. Land systems and China’s development model. *Journal of Peking University (Philosophy and Social Sciences Edition)*, 2020, 57(04): 25-40.
- [4] Sun, Yukun. Land finance dependence and urban land marketisation in China: The perspective of strategic choice of local governments on land transfer. *Land Use Policy*, 2020.
- [5] Sun Hongliang, Chen Jie, Wu Yanbo, Wu Youmeng. How land utilisation competitions influence urban green economic efficiency: Evidence from the “Heroes by Mu” Reform. *Economic Analysis and Policy* 2025.
- [6] Feng Lei, Zhu Yong. The evolutionary logic and transformation direction of China’s land grant system. *Chinese Journal of Land Science*, 2021, 35(08): 1-10.
- [7] General Office of the CPC Central Committee, General Office of the State Council. Opinions on adjusting and improving the scope of land grant revenue use to prioritise support for rural revitalisation. China Government Network, 2020-10-12. the website of the Central People’s Government of the PRC
- [8] Lu Ming, Li Pengfei. Urban scale, housing supply and spatial mismatch: An analysis from the perspective of land supply. *Economic Research Journal*, 2022, 57(01): 132-149.
- [9] Jiang Nan. Experiences and implications of land development rights systems in Anglo-American jurisdictions. *Specialised Research*, 2020(2): 165.
- [10] Zhang Wei. Strengthening contract performance principles and emphasising full life-cycle land management. *Rule of Law Daily*, 18 July 2025. *Legal Daily*.