A Tale of Tier 3 Cities

Author:Kenneth S. Rogoff, Yuanchen Yang

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This paper provides new estimates of the housing stock, construction rates and price developments by city tier in China in order to understand where excess supply might be concentrated, and the implications of any significant contraction. We also update estimates of the size of China’s rapidly evolving real estate sector through 2021, allowing one to look at the initial impact of COVID-19, as well as extending the analysis to incorporate urban-expansion related infrastructure construction. We argue that China overall faces imbalances between supply and demand for housing stock, but the problem is significantly deeper in the generally smaller and lower income tier 3 cities, which nevertheless account for more than 60% of both China’s GDP and its housing stock.