Housing demand still strong in China, says Roach

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NEW YORK - The property boom in China isn't a bubble because it is supported by "solid" demand for residential housing, according to Stephen Roach, chairman of Morgan Stanley Asia Ltd.

While portions of the real estate market such as high-end apartments are overheating, demand for residential homes will remain robust as rural Chinese migrate to bigger cities, Roach said.

"This is just a sliver of the property boom," Roach said, citing that each year since 2000, between 15 and 20 million people migrate to Beijing, Shanghai, and second- and third-tier cities in the mainland. That's two and a half New York Cities created annually, he said.

"This underpins a huge demand for residential property. This property has not overheated and the demand for this property is very, very solid."

The nation's property prices rose 12.4 percent in May from a year earlier, the second-fastest pace on record.

China's banking regulator said on Monday it sees growing credit risks in the nation's real estate industry and warned of increasing pressure from non-performing loans.

China's lawmakers have raised down payment requirements and mortgage rates and restricted loans for multiple-home buyers as they seek to dampen record property price gains.

The government's "decisive" actions in April are working to cool the sections of the housing market that were overheating, according to Roach.

"By all accounts, it looks like the measures are working for now," he said.

China expanded 11.9 percent in the first quarter from a year earlier. The Shanghai Composite Index has dropped 22 percent this year. Markets in China were closed from June 14 to June 16 for a holiday.

China has kept the yuan linked to the dollar as a crisis-fighting policy, swelling its Treasury holdings and fueling complaints from US lawmakers that it has an unfair advantage in global commerce.

American lawmakers said they'll go ahead with legislation targeting the yuan as the United States and Chinese leaders prepare to meet at a Group of 20 summit this month in Canada.

Floating the yuan won't rebalance the trade deficit, Roach said.

"It's just bad economics to pretend we can fix the lives of middle-class American workers by getting the Chinese to revalue its currency vis-a-vis the dollar - it's a horrible misconception," Roach said.

"If we don't boost our national savings rate, with trillion dollar deficits as far as the eye can see, the Chinese piece of our multilateral trade deficit just goes somewhere else. It goes to a higher-cost producer and that taxes the American people."

US Treasury Secretary Timothy Geithner said last week that a more flexible yuan would allow China to pursue "a more effective, independent monetary policy, which is particularly important now, with China's economy facing a risk of inflation in goods and in asset prices".

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