

Low and Moderate Income Housing Policy in the People's Republic of China

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Authors

Jianbo Lou
Joyce Palomar
Patrick A. Randolph, Jr.
Xin Zhang

This study was prepared as part of a series of studies organized by the International Housing Coalition (IHC) for presentation at the World Urban Forum III to be held June 19-23, 2006 in Vancouver, Canada. It is the joint intention of the Peking University Law School Center for Real Estate Law and the IHC that the paper contribute ideas and review the results of experience to assist in the search for solutions to the problems of housing low-income families and slum dwellers around the world. Both organizations subscribe to the goal of "Housing for All" as an essential element to ending poverty throughout the world.

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INTRODUCTION:

Chinese housing issues can only be viewed as a part of China's unique and dramatic land reform measures over the past half century. Unlike the market driven real estate markets in most western countries, the real estate market in China is established and fostered by the government. It has not naturally evolved through economic development, but is an outcome of Chinese urban land reform, which has been advanced by the government step by step in a style of "crossing the river by touching each stone." Even when the government has resorted to market techniques (as it has in housing in the past decade), it has endeavored in many ways to control and direct the market.

We have prepared a comprehensive, heavily annotated, series of reports that develop the whole picture of housing in China. Scores of footnotes supporting the statements made in this report have been deleted for space conservation reasons, and are available in a more heavily annotated version of this report on the Center's website.

Any discussion of Chinese efforts to provide housing for its poorest citizens requires first a consideration of development of the housing market in general. Chapter One discusses overall housing issues pre-1978. It is reality that, even as late as 1988, virtually all Chinese citizens were low-income and living in substandard housing, although Chapter Two discusses efforts to change that fact. The fact that, in the space of less than twenty years, China has brought about an economic miracle in housing policy by providing new and reasonable quality owner-occupied housing for as much as 80% of the urban population (by some estimates) is the truly relevant story of Chinese housing policy. In some cases, the market dynamics associated with that activity undoubtedly have had some negative impact on China's simultaneous efforts to provide housing for the most needy urban poor – a class that may have grown during this period. Our longer report draws out many of the linkages between China's overall housing policy and its low-income activities, but they are only

touched on briefly in this report. Chapter Three specifically addresses low and moderate-income housing security issues.

CHAPTER 1: Chinese Housing in the Early Socialist Period: 1949-1978

1.1. Public Welfare Housing System

Immediately after announcing the founding of the People's Republic of China, the new government of People's Republic of China confiscated the land and buildings belonging to the Kuomintang government and bureaucratic capitalists and laid the foundation of State-owned real estate. The Communist Party began implementing a policy to encourage investment in the sphere of production rather than consumption.¹ Ultimately, in the process of socialist transformation of industry and commerce, virtually all real property owned by urban capitalist companies — whether it was industrial, commercial or residential — was converted to state-owned property by means of State redemption, State trusteeship and State-private joint management. Commercial property of self-employed merchants and residential property of urban dwellers remained technically privately-owned and privately-used, despite the lack of laws protecting their rights,² but the chaotic period of the Cultural Revolution led to the effective elimination of many of these rights, and today such properties that remain likely are State-owned and allocated to the original users as revocable rights.

Implementation of socialist policy eliminating consumption included eliminating the private house-building industry.³ The Party saw the provision of urban housing as the responsibility of the socialist system.⁴ Under this system, the government or public entities began to build and hold title to most urban housing.⁵ Rather than being

¹ ShuZe Gao, *Socialist Politics and Economy Studies* (2002).

² The discussion in this paragraph relies heavily on: Institute of Finance and Economics of Chinese Academy of Social Sciences, American Institute of Public Management of New York: *Chinese Urban Housing System Reformation*, Economy and Management Press, 1996, p.19.

³ YaPing Wang & Alan Murie, *The Process of Commercialization of Urban Housing in China*, URBAN STUDIES, Vol. 33, No. 6, 971-989, 972 (1996) (hereinafter "Wang & Murie").

⁴ Ibid. See also Bin LI, *Severability of Chinese Housing Reform, Social Study* (Vol.2, 2002). Chinese Version is available online at http://www.usc.cuhk.edu.hk/wk_wzdetails.asp?id=2502.

⁵ Wang & Murie, at p. 972. The entire paragraph draws heavily from Wang & Murie.

managed by a centralized housing authority at the national level, local public entities and work units became responsible for the distribution, maintenance and administration of housing. Housing was distributed primarily to a household head free of cost as welfare from his or her employer according to government determined standards based on the household head's work status. When an employee retired from the post, the employee and immediate family members still could live in the house for life.

Public housing fell into two categories: Directly-managed Housing (*zhi guan fang*) directly managed by the local government housing administration, and Self-managed Housing (*zi guan fang*) built, distributed and managed by Stated-owned enterprises and institutions for their employees and families. In practice, those enterprises who needed land or housing applied to the government instead of purchasing from the market. Once the government approved the use, the government would allocate land to the applicant for free. Moreover, the applicant would also receive funds from the government to construct buildings for their business or for the accommodation of their employees. Once completed, the residential building would be leased to occupants at nominal rents.⁶ In fact, until 1990, under this welfare housing policy most urban Chinese families spent only one to three per cent of their total income on rent.⁷

The welfare housing policy and system functioned effectively in the early stage of the development of the People's Republic of China. After 18 years of continuous warfare,⁸ the reconstruction of the country required a large influx of urban employees.⁹ Most individuals could not have afforded their own residences. And, because the

⁶ See Fan Hengshan (ed.), *Chinese Real Estate Market*, Hu Bei People's Publishing House, 1999, p.30. The discussion of the whole paragraph draws heavily there.

⁷ Wang & Murie, at p.973; Mark Duda, Xiulan Zhang, & Mingzhu Dong, *China's Homeownership-oriented Housing Policy: An Examination of Two Programs Using Survey Data from Beijing*, p. 2 (Harvard University Joint Center for Housing Studies 2005) (Hereinafter "Duda, Zhang and Dong").

In 1988, the national average annual spending on rent was 7.83 RMB per person, while the average annual living expense was 1103.98 RMB per person. *Chinese Social Statistics Report* (China Statistic Press, 1990). Even as late as 1998 Chinese families spent only 4% of their income on rent. Kathy Chen, *Beijing to Encourage Home Ownership*, Wall Street Journal, A13 (Mar. 27, 1998) (reporting comments of Mr. Zhao Chen, director of the State Council's Office for Housing Reform.),

⁸ Japan invaded China on September 18, 1931. The Sino-Japan war ended on August 15, 1945, which was followed by the Chinese Civil War until 1949.

⁹ Dongping Yang, *Monsoon of the Cities – Culture Spirit of Shanghai and Beijing*, p. 253 (East Publish, 1994).

urban population was small in those early years,¹⁰ government's economic burden was bearable.

The welfare housing policy also intended to provide an incentive system for employees.¹¹ The kind of residence an employee received depended on his or her work status.¹² The longer the service time and the higher the position in the place of employment, the better housing the employee would earn. Some scholars claim that "political control" also was a motivator for linking housing to peoples' performance at work.¹³

To summarize, China's urban housing system before the 1978 reform was a government-invested-and-run-welfare-housing system, in which no interests in land could be granted or transferred. Although Chinese law regards ownership of buildings as separate from land, neither could buildings normally be sold or bought. In other words, there was no normal real estate market. The market was suppressed, and government policy was the sole factor in the distribution of housing resources. But socialism here did not produce the hoped for advantages. Circumstance, human nature, and the inherent frailties of planning in a dynamic society combined to frustrate the planned objectives.

First, the urban population grew significantly, from 57.6 million in 1949 to 172.45 million in 1978. The shortage of housing one might expect for a rapidly growing urban population was worsened in China by the government's prior policy to slow the building of new housing in order to focus resources on industrial production. The result of these and other problems, discussed below, was that urban housing problems

¹⁰ Chinese urban population in 1949 was 57.65 Million, 10.6% of the total population. In 1978, the numbers increased to 172.45 Million, 17.92% of the total population. The numbers for 1990 were 455.94 Million, and 36.1% of the total population. (*Statistical Yearbook of 2000*, National Bureau of Statistics of China).

¹¹ Hongxiang Xu, *The Loops in the Incentive Mechanism of the State Owned Enterprises*, China Oil Enterprises Monthly Journal (Sep. 2003).

¹² Wang & Murie at 973.

¹³ Duda, Zhang, & Dong, at p. 2.

significantly worsened.¹⁴

1.1.1. Overburdened Government Finance and the Unhealthy Real Estate Operation

After receiving allocated housing, tenants were required to pay rent to housing administrations (or their work units). The original idea was a policy of “maintaining the housing with rent revenue.” *i.e.*, the rent received should have been sufficient to cover the cost for housing maintenance and management.¹⁵ In reality, however, the rent paid by the public housing tenants gradually had been reduced to a negligible level after 1955.¹⁵ The welfare housing system became more and more a burden on the employers rather than an incentive to the employees.¹⁶ Maintenance expenses became increasingly costly. Employers also had to bear all the expenses for retired employees and their families. Because the employer received so little in return for what it spent under the low-rent system, employers had no incentive to invest in housing. Thus, the quality and management of the housing typically were at a very low standard, which, in turn, increased maintenance expenses.¹⁷

As a result, maintenance and management costs had to be supplemented from fiscal subsidies or other sources in addition to the rent revenue. For example, 19.4 million square meters of residential housing had been built in Shanghai for the period from 1950 to 1979, with a total investment of RMB 1.47 billion, accounting for 7.1% of the overall infrastructure investment for that period in Shanghai. Due to the

¹⁴ The national average per capita housing area for urban residents in 1976 was 3.6m², decreased from 4.5 m² in 1949. *Chinese Statistics – Social and Economic Development 1949 – 1989* (Hong Kong Yangde Tang, 1990). The authors have seen other reports that indicate that state the 1976 figure for 1978.

¹⁵ Jian Jin, HOUSING LAW OF CHINA, p.14 (Law Press, 2004) (hereinafter cited as Jian Jin)..

¹⁵ Bin LI, *Severability of Chinese Housing Reform, Social Study* (Vol.2, 2002). Chinese Version is available online at http://www.usc.cuhk.edu.hk/wk_wzdetails.asp?id=2502.

According to the Statistical Yearbook of 1983, in the early 1950s, the average cost of housing construction was approximately 40-50 RMB per square meter. However, the average rent at that time was around 0.2-0.3 RMB per month for each household. Housing was considered a kind of social welfare in China. Accordingly, the national income distribution bore the characteristics of low salary, high welfare in kind, and allocation of low-price basic consumption goods. See Institute of Finance and Economics of Chinese Academy of Social Sciences, American Institute of Public Management of New York: *Chinese Urban Housing System Reformation*, Economy and Management Press, 1996, p.14.

¹⁶ Jian Jin, HOUSING LAW OF CHINA, p.14.

¹⁷ Wang & Murie at 973.

low-rent policy, however, the maintenance and management costs input by the housing administration accounted for 127.2% of the after-tax rent income. State-owned real property therefore became a burden on the government.¹⁸ To make things worse, because of the lack of a market relationship between real estate input and output, it became difficult even for the government to maintain the simple reproduction or expansion of real estate.¹⁹ The existence of a large amount of dilapidated and old buildings seriously impaired the life quality of people.

Zoning also began to present a problem.²⁰ Because housing was distributed by the employer, the residences typically were within or near the work unit. In order to encourage their employees to be more productive at work, the employers would usually build other facilities such as kindergartens, schools, and stores near the residence area and hire the spouses of their employees to work in those facilities. The work units soon became mini-villages within a city. It became common to find the downtown area of a large city dominated by poor quality single-story employer-owned houses mixed with modern state-owned shops and offices.

Additionally, the lack of a central housing authority together with employers' use of primarily subjective criteria – such as an employee's social status – to determine housing needs led to complaints from the public of corruption in the process of distribution and allocation.²¹ The rank-seniority-based-distribution system not only applied to government officials and those working in state-owned enterprises or state-run institutions, but also applied to those who worked in the non-public sector. But with the power to allocate land and distribute housing, government officials or

¹⁸ See *The 1996 Chinese Real Estate Market Yearbook* (China Planning Publishing House, 1997), P. 4.

¹⁹ In the Notice on Urban Housing Maintenance and Repair (issued by the former State Planning Commission, it was stated: “urban housing must be well maintained and repaired so that they can be fully utilized. Given the difficulties in raising funds and obtaining necessary materials, however, priorities should be given to repair those housing which have serious safety problem or ruined or roof-leaked housing, making sure that the wall won't fall, the roof won't leak and leaves other problems along. If a building won't fall, the roof of which can be water-proof after repair, the building shall not be demolished. For a building which could be strengthened by partial repair, no capital repair such as changing the roof, rebuilding the wall, changing the beam or column, or rebuilding the house building shall be taken... The plan for housing maintenance and repair shall only be made after thorough investigation, so that all the buildings can be maintained in the right order, at the right time according on the basis of necessity and possibility.” That shows the difficulties faced by the government then.

²⁰ This entire paragraph relies on Yaping Wang & Alan Murie, *Social And Spacial Implications of Housing Reform in China*, INT'L. J. URBAN & REGL. RESEARCH, Vol. 24.2, 397-417, 410 (2000).

²¹ Wang & Murie, at 973.

working unit officials were very susceptible to corruption, especially when there were no laws to restrain the power. To make things worse, due to the unfair allocation of housing funds, public housing controlled by different work units was unfair as well. Some work units controlled more than enough public housing for their employees, while others were not able to provide each employee's family with a decent unit of housing. This disequilibrium between different entities resulted not only in inequality among people working for different working units, but also in waste of land and housing resources. It was not uncommon to find three-generation or four-generation families sharing a single flat.²²

1.1.2. Widespread Black-market Transactions

After 1966, the abolition of open-market real estate sales and leasing resulted in the spread of "hidden market" practices of land-housing-swap, underground transfers and sub-leases, and illegal cooperation in real estate development.²³ Although renting a "legitimate" unit might be preferred, it might prove more difficult to get a decent place.

1.2. Summary and Conclusion:

As described above, after new China built its own housing system, a system that reflected socialist techniques with national policies and associated plans, concern for the general welfare, in-kind distribution, and extensive administrative supervision, similar to the system in former Soviet Union and Eastern European countries. The basic theory then recognized housing as a form of national welfare, negating the concept of housing as merchandise.²⁴ The Chinese approach made government the "sole housing supply channel." The Government acquired the land for housing, did the design, planning and construction of the housing, and managed the housing once built. In fact, this system of housing supply was completely government-controlled and housing

²² The novel *Zhang Damin's Happy Life* written by Liu Heng gave a vivid description of this situation.

²³ See *The 1996 Chinese Real Estate Market Yearbook* (China Planning Publishing House, 1997), P. 4.

²⁴ See Cheng Bogeng, Gu Zhimin and Lu Kaihe, *China's Urban Housing System Reform: Theory and Practice*, Shanghai People's Publishing House (2003), p.17.

distribution was a part of the overall welfare package supplied to each urban inhabitant.²⁵

As further indicated above, this approach did not result in the desired goal of “housing for all.” Further, political, social and economic policy in China began to embrace the concept of a socialist market economy.²⁶ To implement that policy, China began to consider laws and regulations to permit transferring, leasing and mortgaging private rights to property, including housing.²⁷

CHAPTER 2: A Brief History of China’s Urban Housing System Since 1978

In 1978, the State Council approved and issued a Report from the National Construction Committee on Speeding Up Urban Housing Development which recognized that “housing has become a critical problem around the nation. It has severely affected not only daily working, studying, living and resting, but also the production and stability of the nation as well as the relationship between the Party and people.... In one sentence, the urban housing problem has reached a stage that has to be resolved.”²⁸ Reform began.

2.1. China’s Urban Housing System After 1978

The current reform of China’s housing system has lasted for nearly 30 years,

²⁵ See Yang Lu and Wang Yukun, *Housing Reform: Theory and Reality*, Tianjin People's Publishing House, 1992.

²⁶ See generally XIANFA [CONSTITUTION] Amendment Two ¶ 7 (1993): “The state has put into practice a socialist market economy.” Amendment Three: “Individual, private and other non-public economies that exist within the limits prescribed by law are major components of the socialist market economy.” *Translation from* ISABELLE I. H. WAN, ZHANG PU, JESSE T. H. CHANG & PHILIP QU, A PROFESSIONAL’S GUIDE TO P.R.C. LAND LEGISLATION 103 (1999).

²⁷ XIANFA [CONSTITUTION], art. 10, sec. 4 (amended 1988) (P.R.C.) (“Land use rights may be assigned in accordance with the laws and regulations.”), *translated in* ISABELLE I. H. WAN, ZHANG PU, JESSE T. H. CHANG & PHILIP QU, A PROFESSIONAL’S GUIDE TO P.R.C. LAND LEGISLATION 103 (1999); Pursuant to the Law of the People’s Republic of China for the Administration of Urban Real Estate, 8th Sess. of 8th National People’s Congress, ch. 2, § 1, art. 7 (adopted July 5, 1994), “land use rights” may be granted by the State for specific terms of years to corporations, enterprises, other entities and individuals, and may be transferred in the market as property. Land use rights also can be leased and mortgaged.” *Ibid.* at ch. 4. Residential “land use rights” may be granted for terms up to seventy years.

²⁸ The October 19, 1978, *Report from the National Construction Committee on Speeding up Urban Housing Development* also requested and the State Council approved that the national government allocate RMB 400 Million in 1979 to the local governments for constructing new housing units.

starting with the discussion²⁹ of housing problems in the late 1970's, to the proposal for an overall urban housing reform at the end of the 1990s, and eventually resulting in a growing real estate market. This period has witnessed the transition of China's economic structure from a planned economy to a planned commodity economy, and eventually to the socialist market economy. Therefore, "[t]he housing system reform, as part of the overall economic system reform, bears transitional characteristics."³⁰ China's urban housing reform can be divided into the following stages.³¹

2.1.1. The Early Pilot Trial Stage from 1978 to 1988

Sparked by a government determination to focus on economic development through an "opening up era," the National Urban Housing Construction Conference in 1978 decided that "the enthusiasm of the central government, local governments, enterprises and individuals on building and purchasing housing shall be fully mobilized, private individuals shall be allowed to purchase their home or build their home themselves, so as to commercialize the housing gradually."

On April 5, 1980, Mr. Deng Xiaoping made an important statement,³² marking the beginning of preliminary preparation and pilot trial stage of China's housing system reform. The pilot trial was carried out locally in limited areas without overhauling the "low-rent policy" under the traditional housing system. The pilot trial took the form of selling housing to occupants at full prices or subsidized prices, self-construction of housing, charging extra rent for "luxury" housing – *i.e.*, more space than the size of the family warranted -- and applying new rent standards for newly-built housing, etc.³³ These pilot trials on housing reform, focusing on rent increases and sale of

²⁹ Su Xing, 'A Quick Solution to China's Housing Problem' *Red Flag Magazine*, January 1980. In the paper, Su suggested that housing is part of the individual consumption good and should be consumed as a commodity. This paper triggered the discussion on the properties of housing in China.

³⁰ See Cao Zhengliang & Gao XiaoHui, *The Development and Management of Chinese Real Estate Market*: Peking University Press, 2002, p.480.

³¹ On the division of those stages, there are differences between different authors. The reporters noticed, however, all the divisions are based upon the promulgation of the same important policy documents and therefore decided to follow the division by Cao Zhengliang and Gao XiaoHui in their 2002 book. *Id.*, at 481.

³² On the construction industry and housing, Deng Xiaoping stated : "urban residents are entitled to build or buy their own home. Not only can the new housing be sold, but also the old ones."

³³ Those local pilot trials did not achieve a lot. The house-selling pilot trials in 50 cities in Shanxi (Xian), Guangxi (Nanning, Guilin and Liuzhou) and other provinces, starting from 1979, were forced to end due to the over-high

public housing, were carried out without touching the free land allocation system.

2.1.2: Problems in the Early Pilot Programs:

The experiment with privatization actually had begun in 1979,³⁴ several months before the announcement, but the result of the first try was far from encouraging.³⁵ Xi'an and Nanning were the first two cities in which a housing reform experiment was attempted.³⁶ The central government provided the funds, construction equipment and materials needed so that those cities could build homes to sell to local residents. The sales price was based on the actual cost to build the residence. Despite a flurry of purchases initially, the ultimate demand for purchase was disappointingly low. One reason was that, although the price was set at the cost of construction, most families still could not afford the homes because of their low salaries and miniscule savings. The cost of a typical housing unit was the equivalent of ten to twenty years' salary at that time. In addition, the method of payment was too restrictive. For example, in Xi'an the only options were for people to purchase in full or make payments over five years. The most important reason for the low demand for the residences, however, was that the low rent for public housing to a very large extent discouraged home purchases.³⁷ Because of the disappointing results, the experiment was abandoned in 1982.

The second experiment was implemented immediately after the first in the cities of Zhengzhou, Changzhou, Siping and Shashi. Learning from the first failure,

price, low-rent (people prefer to rent a home when the rent is low) and corruption of local officials. In April 1982, four cities (Zhengzhou, Siping, Changzhou and Shashi) were approved by the State Council to sell public housing at subsidized price. The individuals were only required to pay one third of the full price, with their working unit paying another one third and the government bearing the last one third. The trials were also forced to end in 1985 due to similar problems. The policy to encourage urban residents to build their own home achieved something. See Cao Zhengliang & Gao XiaoHui, *The Development and Management of Chinese Real Estate Market*: Peking University Press, 2002, p.481.

³⁴ See generally the October 19, 1978 *Report from the National Construction Committee on Speeding up Urban Housing Development*.

³⁵ Jian Jin, at 15.

³⁶ Much of this paragraph relies on Wang & Murie at 974.

³⁷ Id. at 975. In 1988, the national average annual spending on rent was 7.83 RMB per person, while the average annual living expense was 1103.98 RMB per person. Chinese Social Statistics Report (China Statistic Press, 1990). See also Wang & Murie supra Note 3 at 973 stating that until 1990, most urban Chinese families spent only one to three per cent of their total income on rent. Even as late as 1998 Chinese families spent only 4% of their income on rent. Kathy Chen, Beijing to Encourage Home Ownership, *Wall Street Journal*, A13 (Mar. 27, 1998) (reporting comments of Mr. Zhao Chen, director of the State Council's Office for Housing Reform.).

the government required the buyer to pay only one-third of the total price this time. The buyer's employer and the city government funded the remaining two-thirds of the price. In addition, the ability to purchase was extended to not only newly-built homes, but also to the residences that public sector tenants were occupying at the time.³⁸ Once a house was purchased, a property right certificate was issued showing title in the employer, with a limited title in the purchaser.³⁹ The purchaser's limited title gave the right to possess, to use, and a limited right to dispose so that the property could be transferred through inheritance or family division. Purchasers could not re-sell the property on the open market, however, and if a purchaser no longer wanted the residence, it must be returned to the employer or public entity that originally sold it, with only a portion of the original purchase price re-paid to the purchasers.

The 1983 reform experiment's cut in purchase price for homebuyers still was insufficient to attract most tenants because of the low rent they still were paying.⁴⁰ Additionally, the local governments and employers expressed concern about their responsibility for such a high mandatory subsidy -- for each house sold they would lose 5000-6000 RMB. In 1985, the central government had to call off this second experiment in housing reform.

2.2.1 The Shenzhen Program:

Shenzhen addressed the problem from another perspective, with some reported success. In 1982, the Shenzhen Special Economic Zone changed the free land

³⁸ *Id.* The Report also recommended a reform in the renting of existing publicly-owned housing. The Report said that, for those houses that could be sold, they should be sold at the appraised price and the individuals should bear 1/3 of the price. For those houses that were not suitable for sale, the rent should include the actual expenses for depreciation, maintenance and management. *See also* Wang & Murie, *supra* Note 3, at 975.

³⁹ Such property right is called a limited title because the individual purchaser shares the title of the house with the government and/or the employer. Such limited-title houses were products of the unique subsidy method employed by this particular housing reform. Some of the characteristics of this limited title were that the employer and employee shared the construction cost of the house; the title was kept under the name of the employer; and the employee had the right to possess, to use, and limited rights to dispose. The right to possess and right to use was inheritable. Because the title of the house was under the name of the employer, the employer could manage the house pursuant to its Internal House Usury Certificate. Upon returning the house to the employer, the employee would receive any balance of the value of the house less the input from the employer. *The Disposition of the Limited Title Houses in the Appeal of Divorce Cases* (The People's Court in Huichun City, Jilin Province, 2004). Chinese version of the article is available online at <http://www.hrbmzj.gov.cn/mzbc/05/LWJC/1024.htm>. *Also see* Jin, *Supra* at 15.

⁴⁰ *See also* Wang & Murie, at 975.

allocation to a compensatory land use system, starting to charge land users on the basis of land grade. Although details are sketchy, the authors believe it likely that these rights were viewed as transferable. This compensatory land use system was implemented in cities such as Fushun and Guangzhou, laying a solid foundation for the development of a real estate market. By the end of 1983, in coastal cities such as Shenzhen and Foshan, real estate developers and intermediaries had their debut. Thus private developers had private incentives to develop and market housing. The significance of the coastal cities' trials was important in influencing subsequent national efforts.

2.3.1. The Yantai Program:

In 1986, a third major experiment was carried out in Yantai city.⁴¹ Its objective was to “gradually implement the housing commercialization.” including the entire process of housing production, distribution and consumption.⁴² The government, on one hand, increased rents sufficiently to cover construction costs for the houses.⁴³ On the other hand, to compensate employees' losses due to said rent increases, the government issued special housing-subsidy coupons that could not be used for purposes other than the family's housing consumption.⁴⁴ The amount of the subsidy was to be reduced gradually, while salaries were to be increased gradually to the level where employees could afford their own housing costs.⁴⁵ The goals of this mechanism were both to progressively convert in-kind distribution of housing to

⁴¹ Yantai was selected as a experimental city by the State Council on March 15, 1986. (100 Years of Yantai City, JiaoDong.net, 2000).

⁴² Yantai City Urban Housing Reform Experiment Plan became effective on August 1, 1987. The preamble of the Plan states: “In order to reform old urban housing system, and gradually implement the housing commercialization, this Plan is drafted.”

⁴³ The third part of the Plan set the standard rent at a number constituted by five factors: “1) 60 years of depreciation, 2) maintenance expenses at 2.1 RMB per square meter per year, 3) investment interest at 3% annually, 4) management fee equals 10% of the sum of the previously mentioned three factors, 5) tax, 12% of the rent.” The standard rent was calculated based on a standard house of average living condition, the actual rent was to be adjusted according to the living standard of the actual house. Yantai City Urban Housing Reform Experiment Plan (effective August 1, 1987) *See also* Wang & Murie, *supra* Note 3..

⁴⁴ The Plan stated that the goal of the experiment was “to raise the rent to the cost level, to provide the employees with housing-subsidy coupons, and to convert material distribution to monetary distribution.” Yantai Housing Reform Experiment Plan (effective August 1, 1987). *See also* Wang & Murie, *supra* Note 3.

⁴⁵ *See* Wang & Murie, *supra* Note 3 at 976-977. The Plan stated that “the principle for the coupon was that the total amount for the monthly issued coupon should equal to the raise of monthly rent. That is, the coupon issued to the employees should be recovered from the monthly rent.” Yantai City Urban Housing Reform Experiment Plan (effective August 1, 1987).

monetary distribution *for* housing, and to encourage the public to acquire housing only of a size that they could afford.⁴⁶ When a family's rent was less than the employer-provided subsidy, the balance of the subsidy would go to a special housing fund administered by a bank. The family would be permitted to apply those funds only for their future home purchase.⁴⁷ Wang and Murie suggest that this mechanism marked the first step to cut off the direct housing link between employers and employees.⁴⁸ In addition to the increases in rent, the Yantai housing reform applied more flexible financing options for home purchases⁴⁹ Downpayments of at least thirty percent of the purchase price still were required, but special discounts were offered to encourage higher downpayments.⁵⁰ The term of the loan for the remainder of the purchase price was increased to ten to fifteen years.⁵¹ Further, the Yantai housing reform experiment created independent neighborhood housing service companies to provide repair services and manage common areas of the residences, with the costs thereof allocated to the property owners.⁵²

2.4. National Reform Efforts

In 1984, an NPC report proposed that "urban housing construction should be

⁴⁶ See Wang & Murie, *supra* Note 3 at 976-977. The Plan suggested that the rent should be automatically withheld from employees' salaries (the housing-subsidy coupon included). "When the coupon value is more than the rent to be paid, the balance should be deposited into funds for individual housing purchase and construction." Other than the balance of the rent, the sources of the housing fund should come from "1) government allocated housing funds, 2) housing funds gathered by the work units, 3) the maintenance and depreciation expenses that are already calculated into the costs of the enterprises, 4) a portion of the rent of the newly built houses, 5) proceeds from the sale of the houses.

⁴⁷ Wang & Murie, at 977; Ya Ping Wang & Alan Murie, HOUSING POLICY AND PRACTICE IN CHINA, p. 147.

⁴⁸ Wang & Murie, at 977; Wang & Murie, HOUSING POLICY *supra* note 48, at p. 147.

⁴⁹ The Plan explained that "Encouraging the employees to purchase is one of the most important objectives for housing reform. At the early stage of the reform, because of the wide difference between cost-level rent and the commercial rent, in addition to the influence of the consumption ideas, there is still a process for mental adjustment for the citizens to purchase houses. A mere raising of the rent is not enough to warm up the employees' enthusiasm to purchase houses. Some methods are necessary." According to the Plan, "the employees should pay a 30% of the sale price out front. The balance should be paid by the low interest mortgage loan offered by the banks. The banks should decide the term of the loan according to the actual ability of the purchaser to repay, but both the principal and interests should be collected within ten to fifteen years. The able work unit should subsidize the low-income employees with interests."

⁵⁰ For those who made down payment of more than 30%, the Plan provided that "for each 10% over the 30%, there is a 2% discount on the total sale price." Yantai City Urban Housing Reform Experiment Plan (effective August 1, 1987).

⁵¹ See *supra* Note 51.

⁵² The Plan required that the community management should achieve the standard of "professional management, uniform maintenance, reasonable price and convenient services." Yantai City Urban Housing Reform Experiment Plan (effective August 1, 1987). See also Wang & Murie, *supra* Note 3 at p. 977; Wang & Murie, HOUSING POLICY, *supra* Note 48, at p. 147-148.

further commercialized, and the real estate business needs to be developed," clarifying the intention of commercializing the housing supply and consumption. In 1986, a "Housing System Reform Leading Group," as well as "the leading group office," was set up under the aegis of the State Council. At its first meeting, the group decided that the focus of further housing reform was to raise rent gradually nationwide, first up to cost recovery and eventually up to the market rent.

The process discussed above consisted mainly of attempts by the State Council, ministries and commissions subject to the State Council, as well as local governments and their functional departments.⁵³ The Constitution and laws⁵⁴ were very conservative during that period, failing to react to the pilot trials. The new Constitution adopted in 1982 stipulated: "Land in the cities is owned by the State. No organization or individual may appropriate, buy, sell or otherwise engage in the transfer of land by unlawful means." "The Land Administration Law" adopted in 1986 contains similar regulations.⁵⁵ Strictly speaking, the pilot trial of charging land use fees in some cities violated the Constitution and laws prohibiting transferring of land. The pilot trials, however, possibly because they were only local, were not criticized⁵⁶ at that time. The Constitution and laws ultimately were amended to keep pace with changing practices in the following decade.

In February 1998, the State Council issued its *Implementation Plan for a Gradual Housing System Reform in Cities and Towns* ["the National Plan"].⁵⁷ The National Plan incorporated many of the elements of the successful Yantai Program. The

⁵³ Documents issued during that period include Opinions on Strengthening Urban Public Housing Administration (issued by the Ministry of Construction on July 19, 1980), Administrative Measures on Urban Residents Home Self-Construction (issued in May 1983), Administrative Regulations on Urban Private Housing (promulgated by the State Council on Dec. 7, 1983), Regulations on City Zoning and Planning (promulgated by the State Council on Dec. 7, 1983), Temporary Measures on the Administration of Companies Doing Comprehensive Urban Construction and Development (jointly issued by the State Development and Planning Commission, Ministry of Urban and Rural Construction and Environmental Protection, as well as Opinions on Issues Arising from the Socialist Reformation of Private Housing for Rent (issued by the Ministry of Urban and Rural Construction and Environmental Protection).

⁵⁴ The Law here is in its narrowest sense, i.e., laws adopted by the NPC and its Standing Committee.

⁵⁵ Articles 2, Land Administration Law (1986), which prohibits any entities or individuals from encroaching upon, selling, leasing or transferring land in other illegal ways.

⁵⁶ The law was lagging behind the practice.

⁵⁷ The National Plan was issued on February 15, 1988. The Chinese version is available at <http://www.law110.com/law/guowuyuan/2083.htm>.

National Plan's policy goal was to achieve "housing commercialization according to the principles of socialist planned market economy" in not merely a few cities, but on a national stage.⁵⁸

To accomplish this objective, the National Plan suggested the following actions: 1) adjusting the rent for public housing so as not to be higher than individuals might afford, but not so low as to be a disincentive for individuals to buy homes,⁵⁹ 2) issuing housing-subsidy coupons,⁶⁰ 3) establishing a housing fund,⁶¹ 4) establishing the principle of "more house more rent, less house more benefit,"⁶² 5) organizing the sale of public housing,⁶³ 6) reforming the financial system and adjusting the structure of loans for home purchases,⁶⁴ 7) providing favorable tax treatment to the construction

⁵⁸ *Supra* Note 55.

⁵⁹ The National Plan indicated that "the setting up of a standard of rent plays an important role in the housing reform. If the rent is set too high, it will be a burden for the government, enterprises, and individuals. If the rent is set too low, it will be difficult to attract individual house purchases, and the unreasonable demand will not be restrained, the reform will thereby lose its meaning. The standard rent should be calculated according to the depreciation of the house, maintenance expenses, management fee, investment interests and property tax." Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>.

⁶⁰ According to the National Plan, "housing-subsidy coupons are necessary after the rent is raised." Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>. The National Plan adopted the issuance and calculation of the coupons from the Yantai Plan. *See* discussion *supra*.

⁶¹ The National Plan suggested that "the housing fund should focus on the conversion of the now accessible funds. The funds for construction, management, consumption of the housing industry should be gathered together, and be examined and verified separately under the finance authorities, be organized, rationalized, stabilized and standardized. Three levels of funds should be established, city level, work unit level, and individual level." Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>.

⁶² Under this principal, "the area and standard of housing should be determined by one's financial ability." For the low-income households who had housing difficulties, the Plan suggested that "for a period of time, the newly raised rent should be discounted, waived or subsidized." Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>.

⁶³ The National Plan called for an end to the sale with subsidy and the sale with limited title. The price of newly built houses should include construction costs and condemnation and demolition costs. The price of the old public houses should take into account depreciation and environmental factors. According to the Plan, the purchaser should make at least 30% of the price as down payment, the balance could be paid by long-term mortgage loans. The term for the loan should be less than 20 years for newly built houses and 10 years for old public houses. Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>.

⁶⁴ The National Plan suggested that the Central Bank of China establish a commercial housing loan index and gradually adjust the loan structure. Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>.

See generally Kathy Chen, *Beijing to Encourage Home Ownership*, Wall Street Journal, A13 (Mar. 27, 1998):

Beijing hopes to pressure more Chinese to buy homes by stopping allocations of subsidized housing beginning in the second half of the year. Mr. Zhao [Chen, director of the State Council's Office for Housing Reform,] said the government will back a large-scale sell-off of already-allocated housing. . . . Chinese who don't have the money to buy their apartments outright will be able to apply for low-interest loans generated by provident funds or commercial loans from banks such as the China Construction Bank. . . . The government is to

and management of housing,⁶⁵ and 8) required registration of house sales.⁶⁶ A three-year implementation schedule to bring the majority of the nation into compliance with the National Plan also was suggested.⁶⁷ This schedule proved to be too ambitious, however, and in 1991 it had to be extended.⁶⁸

2.3. The Medium-term Trial Stage from 1988 to 1991

After issuance of the National Plan in 1988, a medium-term housing reform trial was carried out in some large and mid-size cities, including Tangshan, Yantai, Changzhou, Bangbu, Foshan, Shanghai and Guangzhou, focusing on “raising the rent and salary simultaneously,”⁶⁹ and selling housing at a “three one thirds system,” *i.e.*, the buyer only paid one-third of the price, while the employer and the government split two-thirds half and half.. “Sale” in this case meant sale of the building and occupancy rights, but the land remained State-owned.

In 1988, Constitutional Amendments abolished the original ban on land transfers, stating that “land use rights may be transferred according to law.” “The Land Administration Law” was amended correspondingly. On the basis of the above amendments, the State Council promulgated Regulations specifying the assignment, transfer, leasing, and mortgage of state-owned land use rights.⁷⁰ The introduction of

begin paying cash subsidies to make up for rising rents – families are expected to spend 15% of their income on rentals by the year 2000, compared with 4% now – so home buyers will also be able to draw from those funds. To further stimulate China’s housing market, the government will for the first time allow people to more freely buy and sell their homes, Mr. Zhao said.

⁶⁵ The National Plan suggested that within three years after the reform, housing construction taxes and property taxes would be collected as the city housing fund. When selling houses to individual employees, the construction tax and sales tax could be waived. Individual employees could waive the deed tax of the first house purchased. Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>.

⁶⁶ The National Plan required that the sale and/or transfer of the houses must be registered and recorded at the housing authorities. Implementation Plan for a Gradual Housing System Reform in Cities and Towns, Chinese version at <http://www.law110.com/law/guowuyuan/2083.htm>.

⁶⁷ *Ibid.*

⁶⁸ Shangchuan Gao, Housing Reform: Report of an Interview with Construction Daily Newspaper, republished by CHINA CITY PLANNING REVIEW, 4(1), pp.77-82.

⁶⁹ “To raise the rent” was to raise the rent to the cost (depreciation + maintenance and management cost + insurance premiums). Meanwhile, the money originally set aside for housing depreciation and the maintenance and management of the housing was paid to working unit employees as their housing allowances. “To raise the salary” was to raise the salary of each employee corresponding to the increased rent.

⁷⁰ There had been other important regulatory documents promulgated during that period, such as “Temporary Provisions on Raising, Using and Managing Housing Funds” (jointly issued by the State Council Housing Reform

state-owned land use rights laid the foundation for the Chinese real estate market. Before the introduction of this new form of “granted land use right,” obtaining allocated land use rights was the only way to get land for urban housing. Afterward, land for urban housing could be obtained either by applying for an allocated land use right, or by paying the price for a granted land use right. Moreover, these granted land use rights were transferable, which solved the conflicts between public ownership of land and private ownership of housing. This innovation sparked the development of the Chinese real estate market within socialist control.

These changes mirrored “extra legal” pilot programs in Shenzhen and elsewhere over the prior three years. On December 1, 1987, long before the change in the law, Shenzhen Special Economic Zone had already granted the first piece of land through auction. That auction is considered a “Milestone of the Chinese Economic Reform.” Subsequently, cities like Fuzhou, Xiamen, Guangzhou, Shanghai, etc. granted State-owned land use rights with charge as pilot trials.

The period from 1986 to 1990 constituted a complete cycle of national economic development. 1987 was an ascending phase with the GDP increasing at a rate of 11.6 at its highest; 1988 marked the “sustained growth” period with a GDP growth rate of 11.3%; 1990 was the rock bottom with the rate at only 3.8%.⁷¹ That was also the infant period of Chinese real estate industry. The characteristics of China’s real estate market can be summarized as follows: (1) the scale of investment, development and transaction became larger than the previous period, but far from mature; (2) the operation of the market was simple with lots of illegal behaviors; (3) the market was crowded with many small players and the economies of scale were far from achieved; (4) there was a big imbalance among different regions, with the southeast and eastern

Leading Group and the Ministry of Finance), “Opinions of the State Council Housing Reform Leading Group on Encouraging Staff and Workers Purchasing Existing Public Housing” (issued by the State Council Housing Reform Leading Group in February 1988), “Notice on Enhancing Price Control in Selling Public Housing” (jointly issued by the State Council Housing Reform Leading Group and the Ministry of Construction), “Notice on Urban Real Estate Title Registration” (issued by the Ministry of Urban and Rural Construction and Environmental Protection), “Provisional Measures on Urban Housing Title Registration” (issued in 1987), and “Interim Procedures for the Administration of Foreign Investment in the Development and Management of Whole Areas of Land” (promulgated in accordance with State Council Order No. 56 on May 19, 1990.)

⁷¹ See Feng Yu, *China's Economic Fluctuation from 1978 to 1996*, Economic Science Press, March 1998, p. 8.

coastal areas the most developed; and (5) laws and regulations governing the real estate industry and real estate market were yet to develop.⁷²

2.4. The Comprehensive Advancement Stage from 1991 to 1993

In 1991, following a series of directives and conferences, a State Council group's "Opinions on Advancing Housing System Reform Comprehensively," specified critical targets,⁷³ basic principles and other policy issues regarding the reform. Those opinions significantly boosted the reform. The National People's Congress or its Standing Committee had adopted some laws, but the reform was still advanced mainly via administrative regulations and administrative rules.

1992 was a turning point in China's real estate market development. Strictly speaking, the nationwide real estate market was not formed until that year. The real estate industry developed rapidly afterwards under favorable political and economic environments. In 1991, the growth rate of GDP reached 9.2%; and the rate reached 13.5% in 1992 and again in 1993, peaking the economic cycle. That period saw a very active real estate market. Real estate became a new investment point and attracted billions in the first several months of 1992. Compared to the same period of the previous year, the gross industry output value for the first four months of 1992 rose by 18.3%. Fixed-asset investment by enterprises owned by the whole people increased at a rate of 38.6%, and the value of commodity housing sales increased by 63.3%. The real estate market kept its rapid expansion for the entire year. The all-year value of commodity housing sales rose 80%. The number of real estate companies was three times that of the preceding year. The real estate market reached its peak in the first half of 1993, with completed national commodity housing development investment increasing 143.5% compared with the same period of the preceding year, and more than

⁷² See Fang Hengshan (ed.), *Chinese Real Estate Market*, Hubei People's Publishing House, Sept. 1999, p.41.

⁷³ It prescribed that, "The primary purpose of the urban housing system reform is to relieve the housing difficulties of urban residents, to improve the housing condition, and to carry out housing commercialization and develop real estate industry gradually, to shift the in kind housing distribution to in cash housing distribution via reforming the low-rent system according to the principles of socialist commodity economy, so that the residents can really enjoy their housing ownership by purchasing the housing or tenant's right by renting, eventually making the housing a special consumption commodity and realizing virtuous cycles of housing investment and output."

6000 new real estate development companies were established in that period. As a result, there were 19,000 real estate development companies nationwide.⁷⁴

Meanwhile, the rapid expansion of the market also resulted in many problems in the real estate market, including but not limited to: the out-of-control scale of real estate development,⁷⁵ the imbalanced structure of the real estate industry,⁷⁶ and the prevalence of irregular market practices.⁷⁷

2.5. The Deepening Stage from 1993 to 1998

A State Council pronouncement in 1994 marked the beginning of a new stage of housing reform. The Resolution suggested that the welfare in-kind housing distribution system be shifted to distribution of cash as part of the salary; that both a commodity (market) housing system for high and middle-income families and an affordable housing system for low-income families be established; that an accumulated housing fund system be set up; and that housing finance and housing insurance be developed. The major thesis of this stage was to establish a new housing system that fit the socialist market economy by carrying out housing commercialization and speeding housing construction in order to both improve housing conditions, and satisfy the increasing urban housing demand.

A new law responded to the phenomenon that many developers, in order to grab high profits, tried to increase construction volume and density in breach of building planning during the fast real estate expansion around 1992-3. This new law required

⁷⁴ The statistics cited in this paragraph are based on *The 1996 Chinese Real Estate Market Yearbook* (China Planning Publishing House, 1997), p.5.

⁷⁵ In 1992 alone, 2800 land use rights were granted, with a total size of 2, 2000 hectares, which were three times and eleven times than that of last year respectively. The size of land, which was developed in 1992, reached 2,3000 hectares, a 175% increase year-on-year. About 90% of the land were granted by bilateral agreement reached by private negotiation, resulting in “grey-box” transaction at the discretion of individual government officials, unreasonably low granting price and land income loss on the part of the State.

⁷⁶ There were about 20,000 real estate development companies by mid-1993. Most of them, however, were small companies and did not have any economy of scale. The quality of the developers was another problem, with only a small number of Grade A developers. In terms of regional structure, the Southeast coastal areas were enjoying the fast real estate development, while there is almost no real estate market in the inland areas. In other words, the nationwide market is yet to develop.

⁷⁷ There was almost no macro-control and supervision, let alone any self-discipline. The prevalence of real estate speculation not only destabilized the real estate market, but also resulted in unfair distribution.

that developers strictly comply with city planning⁷⁸ and restricted developers from changing land usage in their development.⁷⁹

China began to “land bank” property for identified uses, including housing. It would reclaim allocated land use rights and retain them in “land reserves” to be redistributed later for critical purposes. The first Land Reserve institution, the *Shanghai Land Development Center* was established in 1996, followed quickly in Hangzhou and Qingdao. In 1999, The Ministry of Land and Resources circulated internally the Hangzhou and Qingdao rules on land reservation, recommending the two cities’ experience be expanded to the nation.⁸⁰ As a result, land reserve organizations were established in many other large cities.

At the beginning of 1995, the State Council promulgated “The Implementing Scheme of National Comfort Residence Project”⁸¹ which first mandated the development of low-income housing .

On July 3, 1998, the State Council initiated a further round of urban housing reform — to replace in-kind housing distribution by pecuniary subsidies gradually; to establish and improve a multi-layered urban housing supply system with affordable housing as the dominant element; to develop housing finance; and to foster a well-regulated housing transaction market.

The GDP kept rising at a high rate in 1993 and 1994. The general housing market price, however, had been also rising gradually since 1992 and peaked in 1994 with a 24.1% increase in consumers’ price for a residence. In view of the “four-high” (i.e., high investment, high money supply, high general price, and high import) and “two

⁷⁸ See Art. 24, Urban Real Estate Administration Law.

⁷⁹ See Art. 17, Urban Real Estate Administration Law, which reads as follows:

Where a land user needs to change the purposes of land as specified in a contract for the grant of land use rights, he must obtain the consent of the grantor and the administrative department in charge of urban planning of the municipal or county People’s Government, an agreement on alteration of the contract for the grant of land use rights or a new contract for the grant of land use rights shall be correspondingly adjusted

⁸⁰ The Ministry of Land and Resources circulated the “Implementing Measures of the Hangzhou City on Land Reservation” and “Circular of the People’s Government of Qingdao on the Establishment of Land Reservation System” to land and resources bureaus nationwide, recommending the system.

⁸¹ For details of the comfort residence project, please see Chapter 5.

chaos” (i.e., financial disorder and turbid market for capital goods), in the first half of 1993, focusing on the financial disorder, the State Council took 16 counter-measures to control inflation and general market prices, while at the same time making necessary reforms of the fiscal system, financial system, foreign trade system, and foreign exchange system. As a result, the Chinese economy achieved a “soft landing” in 1996.⁸²

Thus, during this cycle, China achieved success through macro-economic adjustment and control since July 1993, and the promulgation of important national laws, resulting in a balanced real estate market with rational development. During that period, more than 2,000 *Mu* land that could not be developed according to plan was taken by the government; the over-heated real estate investment slowed down; speculative transactions slackened; and bubbles broke (for instance, in 1993, real estate bubbles of Hainan province and Beihai city of Guangxi broke one after another and caused many problems.⁸³) All over the country, one-third of development areas and one-third of enterprises closed down. Another one-third of enterprises scaled down. During this painful process, the real estate development structure was rationalized gradually, with the proportion of housing investment rising distinctly—the proportion of normal housing accounted for up to 80% of the total size of newly-developed projects or projects under construction. There also was a gradual enrichment in real estate legislation and normalization of the real estate market.⁸⁴

2.6. The Substantial Development Stage after December 1998

In early 1999, following local trends, the national government decided that there

⁸² See Feng Yu, *China's Economic Fluctuation from 1978 to 1996*, Economic Science Press, March 1998, p.23-24.

⁸³ Beihai's investment fever, especially real property investment fever, started around 1992. When the central government carried out macro-economic adjustment and control in 1993, real estate developers in the city was caught into big trouble. According to incomplete statistics, there were more than 20 billion Yuan money from all over the country invested in Beihai, with 16 billion Yuan as direct financing. See <http://info.westpower.com.cn/cgi-bin/GInfo.dll?DispInfo&w=westpower&nid=107682> (last visited on April 4, 2006). The burst of bubble left Hainan with more than 4500,000 square meters vacant commodity housing, uncompleted building with planned construction size of about 16 million square meters buildings, about 20,000 hektare idle land, and 50 billion Yuan overstocked capital. That caused a long-term negative impact on Hainan's Economy. See <http://www.people.com.cn/GB/news/37454/37462/3244036.html> (last visited on April 4, 2006).

⁸⁴ See Fan Hengshan (ed.), *Chinese Real Estate Market*, Hu Bei People's Publishing House, 1999, p. 43.

should be no more welfare-housing-distribution in-kind by the end of that year, with the in-kind housing distribution replaced gradually by pecuniary subsidies.

According to this new policy, the future housing requirements of public-sector employees should be met directly and entirely by property developers or the housing market, rather than by employers, who thereafter were to only issue housing subsidies.⁸⁵ Nevertheless, because most people preferred having their employers distribute housing to spending their own money to buy houses in the market, the demand in the housing market plunged sharply after this announcement.⁸⁶ An often-heard phrase on the street at that time was “to catch the last shuttle towards material distribution.”

In response to this situation, the Central Bank of China in the same year employed a series of policies to stimulate the housing market, including lowering the interest rate substantially and encouraging all state and commercial banks to provide mortgage loans to individual purchasers.⁸⁷ Some banks and developers for a period of time even provided loans for up to the full amount of the purchase price with zero down-payments.⁸⁸ Also, in 1999, the central government introduced the Provident Fund Loan, which is available to whomever has savings in the Provident Fund.⁸⁹ The rate of these loans usually is kept one percent lower than the interest rate for commercial loans.⁹⁰

⁸⁵ *Ibid.*

⁸⁶ *See generally* The Central Bank of the People’s Republic of China, 2004 China Real Estate Financial Report (2005).

⁸⁷ *Ibid.* at p. 16.

⁸⁸ *Id.*

⁸⁹ Management Regulations of the Housing Provident Fund, (1999). Article 26 provides that:

The employee who has savings in the housing provident fund may apply for the housing provident fund loan for the purchase, construction, renew, repair of the residential house. The management center of the housing provident fund should notice the applicants of the grant or denial of the application within 15 days after it is filed. The banks should be delegated to arrange the loan proceeds should the application be approved. The risk of a housing provident fund loan should be born by the management center.

Chinese version of Article 26 is available online at

<http://www.chinalaw.gov.cn/jsp/contentpub/browser/contentpro.jsp?contentid=co2090752634>.

⁹⁰ *See generally* The Central Bank of the People’s Republic of China, 2004 China Real Estate Financial Report, p. 19 (2005).

The preceding measures successfully attracted numerous purchasers,⁹¹ and the Chinese housing market began a period of rapid and stable development.⁹² The real estate industry today has become one of the pillar industries of the Chinese economy.⁹³

2.7. Government Policy in Land Distribution for Housing Development:

In 2001, the State Council expanded the “land bank” concept, requiring that local governments at various levels (not just large cities) establish and implement a land reservation system on a pilot trial basis.⁹⁴ Despite problems such as the lack of law and regulations, the restrictions of finance, and the misuse of the system for purposes of pushing up the land price by some local governments, it is undeniable that this system now helps the government carry out macro-control over the land and real estate market, mobilizes the stock of needed land in urban areas, enhances the efficient use of land, and promotes the implementation of city and town planning.

During most of this period, land use rights had often been sold on a negotiated basis, which in theory gave the government the ability to dictate specific requirements in development practices, but in fact led to both the fact and the appearance of corrupt practices. In 2004, the State Council issued the famous “August 31 deadline,” declaring that no business land use right should be granted by means of private bilateral negotiation. The task of controlling the characteristics of development was left to land use planning and licensing, and developers bid for land use rights in anticipation of being required to build according to these separate restrictions.

2.7. Summary and Conclusion:

To summarize, by 2004, after more than two decades of urban housing system reform, there appeared to be in place a design for an urban housing system under which

⁹¹ *Ibid.* at p. 6.

⁹² *Id.*

⁹³ *Id.*; Comments attributed to Liu Zhifeng, Vice Minister of Construction, in Asia Times (Sept. 20, 2003), at <http://www.atimes.com/atimes/printN.html> (last visited 2/24/2006).

⁹⁴ By the end of 2004, there had been more than 2,000 land reserve organizations, which together spent 196.3 billion Yuan and acquired more than 2300,000 *Mu* land, invested 74.1 billion Yuan for the preliminary development of those land, and supplied 710,000 *Mu* land at the total price of 206.3 billion Yuan.

high-income families purchase commodity housing, middle-income and low-income families purchase affordable housing, while the lowest-income families are secured with low-rent housing. The commodity housing system is a result of pecuniary housing allocation and commercialization of housing. The commodity housing system is the largest part of the market. The “housing security system” comprising affordable housing and low-rent housing is there to supplement the market as a remedy to market failures.

It should be noted that China began its quest with an entire population of low-income citizens with substandard housing. Any evaluation of how China has addressed housing issues over recent decades must take into account the huge improvement of housing opportunities for all Chinese. Although incomes have grown, housing opportunities to meet that income would not have occurred within the socialist economy without continual commitment on the part of the Chinese government to assist the market in growing to supply housing needs. In fact, the decision to permit incomes to increase was in part a decision to permit residents to have more income to make independent housing choices.

Within this context, China has paid attention to housing for its poorest citizens. But the overall priority of decent and satisfactory housing for all sometimes intersected the objectives of the “housing security system” for the poor. The experiences in development of this system are detailed in the next chapter.

Table 1—1 The Situation of Urban Population and Their Housing Situation

Year	Population Size		Per-capita living space		Increased amount of Per-capita living space		increasing rate of Per-capita living space	
	urban	rural	urban	rural	urban	rural	urban	rural
	10,000	10,000	Square meter	Square meter	Square meter	Square meter	%	%

1978	17245	79014	6.7	8.1				
1979	18495	79047	6.9	8.1	0.2	0	3.0	0
1980	19140	79565	7.2	9.4	0.3	1.3	4.3	16.0
1981	20171	79901	7.7	10.2	0.5	0.8	6.9	8.5
1982	21480	80174	8.2	10.7	0.5	0.5	6.5	4.9
1983	22274	80734	8.7	11.6	0.5	0.9	6.1	8.4
1984	24017	80340	9.1	13.6	0.4	2	4.6	17.2
1985	25094	80757	10.0	14.7	0.9	1.1	9.9	8.1
1986	26366	81141	12.4	15.3	1.4	0.6	24.0	4.1
1987	27674	81626	12.7	16.0	0.3	0.7	2.4	4.6
1988	28661	82365	13.0	16.6	0.3	0.6	2.4	3.8
1989	29540	83164	13.5	17.2	0.5	0.6	3.8	3.6
1990	30191	84142	13.7	17.8	0.2	0.6	1.5	3.5
1991	30543	85280	14.2	18.5	0.5	0.7	3.6	3.9
1992	32372	84799	14.8	18.9	0.6	0.4	4.2	2.2
1993	33351	85166	15.2	20.7	0.4	1.8	2.7	9.5
1994	34301	85549	15.7	20.2	0.5	-0.5	3.3	-2.4
1995	35174	85947	16.3	21.0	0.6	0.8	3.8	4.0
1996	37304	85085	17.0	21.7	0.7	0.7	4.3	3.3
1997	39449	84177	17.8	22.5	0.8	0.8	4.7	3.7
1998	41608	83153	18.7	23.7	0.9	1.2	5.1	5.3
1999	43748	82038	19.4	24.2	0.7	0.5	3.7	2.1
2000	45906	80837	20.3	24.8	0.9	0.6	4.6	2.5
2001	48064	79563	20.8	25.7	0.5	0.9	2.5	3.6
2002	50212	78241	22.8	26.5	2.0	0.8	9.6	3.1
2003	52376	76851	23.7	27.2	0.9	0.7	3.9	2.6

Sources: Ye JianPing & Xie jingrong(ed.),*Studies on Coordinated Development of Real Estate Industry and Social Economy*, China Renmin University Press, 2005, p.40.

CHAPTER 3: Chinese Urban Affordable Housing Policy and the Low-rent Housing Policy

3.1. Introduction: Welfare Housing Policy Blended into Market-Oriented Housing Policy

Under the pre-1978 socialist welfare housing system described in Chapter One, there was no housing market. The government saw urban housing as a kind of widespread welfare (rather than social guarantee), providing the residents with housing through an administrative allotment. Yet, because China placed a priority on rapid industrialization - a strategy focusing on heavy production – in fact, during the first decades of the establishment of new China, the government spent little on resolving the housing problems of urban residents. From to 1949 to 1978, the average proportion of urban housing construction investment in the gross national product was only 0.78 % (see Table 5—1). So, although government was the sole supplier of housing, housing construction investment was not based on actual need, but the perceived investment ability of the government. When the housing investment ratio is not fixed as a priority, capriciousness of investment is a real possibility (see Table 5—2). In this situation, as stated earlier, the urban housing condition relative to the increasing population worsened rapidly. By 1978, the average per person floor space dropped from 1949 4.5 m² to 3.6 m².

Table 3—1 Chinese urban dwelling house construct investment major quotas (1949-1988)

year	Urban dwelling house construct investment	urban dwelling house completion area (floor space)	The urban dwelling house construct	urban average per

	/hundred million Yuan	/hundred millionm ²	investment occupies the proportion of GDP / %	person floor space (floor space)/ m ²
1949 - 1978 (Annual mean)	12.31	0.1774	0.78	/
1978	39.21	0.3752	1.09	3.6
1979	78.33	0.3752	1.96	3.7
1980	127.36	1.0211	2.85	3.9
1981	149.23	1.1661	3.13	4.1
1982	190.91	1.3890	3.68	4.4
1983	193.75	1.4090	3.34	4.6
1984	208.19	1.4718	3.00	4.9
1985	314.81	1.8780	3.67	5.2
1986	327.21	1.9302	3.36	6.0
1987	368.21	1.9302	3.36	6.1
1988	449.67	2.0334	3.21	6.3

Note: The data above sorts all previous years according to *Chinese Statistics Yearbook* of the state statistical bureau. Data resource: Tian Haidong, *Housing policy: The international experience and the Chinese reality choice*, Tsing Hua University publishing house, 1998□226

**Table 3—2 housing investment and construction, the housing situation
before Beijing reforms**

periods	The urban dwelling house construct investment occupies the proportion of GDP / %	urban dwelling house completion area (floor space) /ten thousand m ²	urban average per person floor space (floor space)/ m ²
restores periods	/	156.9	4.50
“The 1 st Five” periods	4.32	759.4	4.49
“The 2 nd Five” periods	1.62	538.7	3.7
1963-1965	1.99	265.5	3.68
“The 3 rd Fifth” periods	0.33	218.9	4.36
“The 4 th Fifth” periods	0.83	375.0	4.4
“The 5 th Fifth” periods	3.02	1126.4	4.64

Note: The above data sorts, according to The National Economy of Beijing City and the General Situation of Social Development (1981-1985), by each province, autonomous region, and direct jurisdiction city statistics (1949-1989) .

After 1978, with the restoration and economic system reforms of the Chinese economy, the Chinese government started to enlarge the investment (see table 1) in urban housing construction, in order to resolve the increasingly vexing urban housing

problem. At the same time, academic circles also started to think whether housing within the socialist framework ought to be seen as a form of welfare or a form of merchandise, and to consider housing system reform.⁹⁵ Since 1980, the Chinese government tried to improve urban residents' housing condition, by allowing residents personally to construct their own housing,⁹⁶ establishing the dwelling house allowance,⁹⁷ raising the rent,⁹⁸ and more; but the result of the experiments was of small scope, primarily because the welfare housing policy nationally never changed. As a result, any improvement of urban residents' housing condition was at the cost of a huge financial pressure on the government and the government's ability was limited. (See table 3-3)

Table 3—3 Chinese urban housing construction, subsidy scale and deficit situation from 1981 to 1988

year	Expenditure (hundred million Yuan)	Housing investment (hundred million Yuan)	Housing allowance (hundred million Yuan)	Housing investment and subsidy/expenditure (%)	Financial deficit (hundred million Yuan)
1981	1138.40	111.19	97.27	18.31	-37.81
1982	1239.00	141.05	121.22	21.32	17.65
1983	1409.50	125.07	150.63	19.56	42.57
1984	1701.00	134.50	197.87	19.54	58.16
1985	2004.30	215.18	292.94	25.35	-0.57
1986	2004.90	189.41	376.91	25.68	82.90

⁹⁵ Wu Yafei & Guo Qinghan, Housing System Reform Review and Reconsider, *the Social Sciences Tendency*, 1999(11), p.40.

⁹⁶ In 1980, the Chinese Central Committee, State Council were forwarding "outline of national infrastructure working meeting report" to point out that, Person is allowed to construct housing, purchase houses, own housing. On December 7, 1983 promulgated " Administrative Regulations on Urban Private-owned Houses " the 3rd stipulate that, the country protects the citizen have the property rights of private house. Any unit or individual does not have to invade, to destroy the citizen private house.

⁹⁷ In 1982, the State Council authorized Changzhou, Zhengzhou, Shashi, Siping four cities to carry on the experiment site of housing subsidy to sell and expanded this kind of experiment site in the nation in October, 1984.

⁹⁸ In March, 1985, the national housing rent reform leading group was established, afterward in localities such as Yantai, Tangshan carried on the experiment site of housing rent.

1987	2262.20	181.24	470.56	28.81	62.83
1988	2491.20	204.37	590.13	31.89	133.97

Note: The above data is from "the Chinese Statistics Yearbook (1991)" and "the Chinese Statistics Yearbook (1997)."

As stated in Chapter Two, the government came to realize that it was necessary to move to a market approach. The State Council held the first conference on national housing system reform in 1988 and comprehensively implemented the China housing system reform project, "to carry out a National Urban Housing system reform Implementation Plan by stages" by the State Council housing system reform leading group. Because of the serious financial pressure (with the Chinese economy booming and urbanized advancement speeding up, this pressure was inevitably more and more heavy), it was difficult for the Chinese government to maintain the old welfare housing policy. It was thought that in the process of the Chinese economy developing quickly and the market economy system growing, China should reform the old housing welfare policy and establish the urban resident as individually responsible for arranging his or her housing as the primary concept of the housing system. Thus, the government would gradually cultivate the dwelling house market, in order to effectively promote housing commercialization, socialization, and privatization.⁹⁹ This was a reasonable choice for resolving overall housing problems. On the one hand, the market economy benefited by having housing as an essential economic factor; on the other hand commoditization of housing is a virtually inevitable choice in the economic development process.¹⁰⁰

But the consequence of abandoning welfare housing for a market approach is that,

⁹⁹ Li Yonghui, *Cities Inhabitant Housing Expense Safeguard System*, Chinese Economical Publishing House, 2005, p.30.

¹⁰⁰ The degree of national or the local economical development directs proportion to government social security supplies ability, but had the inverse ratio with the social security demand. The economy of our country is still underdevelopment, the supporting capabilities of government is limited, but the public to the social security demand is huge, in this situation, "the expansion welfare" inevitably causes the government finance pressure and the urban residents housing insufficient. Seeing Deng Honggan., About Housing Security System Policy Choice, carrying *the Chinese Real Estate* 2000(6), p.29.

at the low end of the market, those who cannot compete in the marketplace may find themselves squeezed out of housing entirely. Such a consequence is theoretically intolerable to a socialist system committed to “housing for all.” Thus, as the market displaced welfare housing, it was also necessary to establish a housing security system - addressing the mid and low-income family as the object.

3.2: Housing Security System Design: Local Authority under Unified National Direction

Housing security, unemployment safeguards, care for the aged, availability of guaranteed medical services – all are important parts of the social security system. As to housing, the essential notion is that the government makes use of the nation’s and the society’s strengths, and solves the mid and low-income family accommodation issues that cannot be solved through the commodity apartment market by means of policy. The plan for a housing security system was that the government is responsible for housing those unsuccessful in the market. This problem was not to be resolved simply by market supervision and management. In China, the main idea for realizing housing security is that the central authority will unify and instruct by formulating basic law and policy, and the local authority may choose suitable ways to achieve housing security on the basis of the actual local situation.

Aside from housing projects for low-income families, the central authorities did not regulate local authority rigidly with regard to affordable housing allocation. Nevertheless, with the “Resolution on Deepening the Reformation of Urban Housing System ” and "The Method of Urban Affordable Housing Construction Management" appearing, some areas (for example Shanghai) started to construct local affordable housing under these two directives.

In 1998, the State Council provided a basic platform for China’s national housing system reform: "Notice of Further Deepening Cities Housing System Reform and Speeding Up Housing Construction" (the "Notice"). The “Notice” stopped the actual

public provision of housing and proposed "establishing and carrying out an urban housing supply system of affordable housing, primarily multi-level;" namely: "the lowest income families will have low-rent properties provided by the government; mid and low earning family will have the opportunity to purchase affordable housing; other high income family will purchase or rent commodity housing at the current market price."¹⁰¹ The Notice spurred a series of necessary rules and regulations of various departments. Low rent housing officially became an important constituent of the national housing supply system. In 1999, the Ministry of Construction issued "The Method of Urban Inexpensive Rental Housing Supervision." (Superceded by more comprehensive rules in 2003). Under the Method, each local government formulated a plan for low-rent housing construction, managed corresponding to the local economy.

The State Council, in 2003, and the Ministry of Construction, in 2004, issued even stronger and more comprehensive regulations to implement affordable and low-income housing. Thus, it is clear that the national government has performed its role in guiding the establishment of a housing security system mainly via normative documents and the State Council's administrative regulations, and such guidance has played the role of promoting China's building a housing security system.

3.3. Lag in Implementation

Although China's housing security system accompanied the reform of the housing system generally, the two processes have not been synchronized. The major State Council housing statements in 1988 did not include a housing security system.¹⁰² There was a six year lapse between the comprehensive reform of the housing system enforced in 1988 and the promulgation in 1994 of the "The Method of Urban Affordable Housing Construction Management." It was eleven years before the promulgation of "The Method of Cities Inexpensive Rental Housing Supervision" in

¹⁰¹ The State Council "Notice of Further Deepening Cities Housing System Reform, Speeding up Housing Construction" 2nd.7th.

¹⁰² Jiao Jianguo Lang Dapeng, Housing Social Security System: Origin, Question, Model and Improvement Suggestion, *Economical Research Reference*, 2005(76), p.40.

1999. We think the main reason for these delays is that, although housing system reform generally unfolded in 1988, the traditional welfare housing distribution model did not end, and even today, for some work units, housing distribution through a kind of "group buy" remains a mainstay in the commodity housing market (see table 4). Even more, urban workers can buy a "house in housing reform" at low prices, and even low-income persons can meet basic shelter needs through the above channels. Thus, in some areas there has been the perception that the demand for affordable housing is not strong.¹⁰³ The number of persons having the lowest income increased in the process of economic reform, as people's employment, health and living situations changed, and the housing problem is being gradually revealed, but it was not known in early housing system reform how many people's needs would not be met by the commodification and marketization of housing.

Table 3—4 “Group buy” in Beijing & Shanghai in 1991-1998

Yearly	Beijing			Shanghai		
	Total sale of commodity housing (10000m ²)	“Group buy” (10000m ²)	Proportion of the “Group buy”(%)	Total sale of commodity housing (10000m ²)	“Group buy” (10000m ²)	Proportion of the “Group buy” (%)
1991	152.5	148.1	97.11	70.53	51.83	73.49
1992	153.0	143.6	93.86	60.30	46.00	76.29
1993	182.0	170.9	93.90	151.00	110.00	72.85
199	149.0	113.3	76.04	165.67	90.97	54.91

¹⁰³ The marketing difficulties of anjufang sales in local areas imply the situation on this issue to some extent.

4						
1995	180.0	145.0	80.56	536.31	351.62	65.56
1996	183.1	139.3	76.08	528.56	283.73	53.68
1997	256.2	154.5	60.30	617.02	213.58	34.61
1998	377.0	225.1	59.71	1056.77	269.83	25.53

Note : The above figures are based on the *Beijing construction-area development statistics (1991-2000)*, *China Real Estate Development 1986-1995, a compilation of statistical information*, *Shanghai Statistical Yearbook (2001)*, collated. Source: Beijing University, Guanghua Management Institute, 02-grade students Hongshanshan's graduation thesis: China real estate status and the sustainable development research.

Therefore, that the Chinese central government's measures in the establishment of housing support systems "lagged behind" the housing system reform measures should not be attributed to slow government decision-making, but rather to considered judgment after full observation of the housing system reform problems. The government then could make a truly coordinated long term response to make more efficient, if not more timely, Chinese urban housing reform.

3.4. Specific Programs:

3.4.1. Affordable Housing

Starting from 1998, the Government has been making plans and building up affordable housing – housing that may be bought by persons with relatively low incomes. By the end of 2002, the investment in affordable housing had reached 378.1

billion Yuan, and the sales area of affordable housing had reached 0.32 billion square meters. Moreover, the Government established a low-rent housing system comprised of granting of house rent (a system under subsidies which the people's governments of the cities and counties grant subsidies to applicants who meet the conditions, and the applicants rent houses on the market) supported by house space guarantees (a system under which the people's governments of the cities and counties directly supply houses to applicants who meet the conditions, and collect rents according to the standard of rents for subsidized housing) and reducing of rents (a system under which the proper entities, in accordance with the provisions of the local people's governments of the cities and counties, reduce or exempt rents for urban families with the lowest income that pay rent.

It was not until 1994 that the State Council raised “establishing economy housing supply system taking the mid and low earning family as the object” in the “Resolution on Deepening the Reformation of Urban Housing System” and stipulated that there would be “affordable housing construction land,” and in principle adopted the form of transferring such land. The government also identified the need to provide a support plan including relocation and tax issues in the policy regarding construction items of affordable housing.¹⁰⁴ In the same year, the Department of Construction and Ministry of Finance jointly promulgated “The Method of Urban Affordable Housing Construction Managing,” defining affordable housing as “providing ordinary housing by the appropriate department - which price is lower than the current price on market according to housing hardship family of the mid and low earning family and according to the national housing construction standard.”¹⁰⁵

3.4. Low Income Housing

¹⁰⁴ The State Council “Resolution on Deepening the Reformation of Urban Housing System“ 25th. At the same time, 26th proposed “encouraging to gathering capital to cooperate constructs housing, continuing to develop the housing cooperative society, under the unified plan premise, fully displaying all quarters area polarity, speeding up the cities danger old housing transformation”, takes it as auxiliary measure of speeding up the affordable housing development construction.

¹⁰⁵ The Ministry of Construction, the State Council housing organizational reform leading group, Ministry of Finance “Urban Affordable Housing Construction Policing method” 3rd

In 1995, the State Council issued "The Implementing Scheme of National Comfort Residence Project," developing a housing scheme for low-income families. The housing project for low-income families was very similar to affordable housing.¹⁰⁶ But this project also was a response to macroeconomic needs (expanding building material through civil residence construct expense).¹⁰⁷ "The Implementing Scheme of National Comfort Residence Project" itself also focused upon "unifying the urban housing system reform, transferring various incentives, speeding up urban housing commercialization and socialized advancement, promoting the urban housing construction," but the overall plan did not target expressly providing housing security exclusively for mid and low earning families, and this led to a problem in its implementation. In many places, in order to sell out, the government permitted open sale, not only to mid and low earning families.¹⁰⁸

Ultimately, local governments have turned to more direct approaches to low-income housing. Soon, major cities such as Shanghai and Beijing established their *Cheap Rent Housing* Projects.¹⁰⁹ In 2004, the Cheap Rent Housing project was introduced to cities throughout China.¹¹⁰ Under this system, the local government

¹⁰⁶ According to "The Implementing Scheme of National Comfort Residence Project," it must in construct housing 150 million m² from 1995 to 2000, in order to solve the mid and low earning family housing problem. "The Implementing Scheme of National Comfort Residence Project" stipulated "the national housing project for low-income families development construction does not have to gain"; "The national housing project for low-income families housing sells directly by the cost price to the mid and low earning family, and firstly sells for no-house residents, the danger tenant and the housing hardship family, firstly sells for the retirement staff, teacher's housing hardship family under the same level condition, does not sell the high income family".

¹⁰⁷ Li Yonghui, *Housing Security System for Urban Residents*, China Economy Press, 2005, p.165.

¹⁰⁸ Yin Fanghua & Hu Bin, The Exploration of the Affordable Housing Policy, *Finance and Economics Research*, 1999(11), p.56.

¹⁰⁹ Cheap Rent Housing Project started in Shanghai in October 2000, in Beijing in August 2001.

¹¹⁰ Regulations on the Management of the Cheap Rent Housing for the Lowest-income Families in Cities and Towns (2004).

Article 1 states that the purpose of the legislation is to:

“establish and improve the low rent urban housing system, and to secure the basic housing needs for the lowest income families in the urban areas.”

Article 3 states that:

“the principle should be focused on the satisfying of the basic housing needs...In principle, the per capita living space for the cheap rent houses should be no more than 60% of the average local per capital living space.”

Article 5 states that:

“such guarantee of the low rent housing should be principally provided by issuing housing subsidies, supplemented by actual material houses or rent waiver. The issuance of housing subsidy means the local government issues subsidy to the qualified applicants for them to rent houses at market price. The provision of material houses means the local government provides the qualified applicants with actual houses and charges a rent according

would provide either rent subsidies or houses with nominal rent to those lowest-income residents who had housing difficulties. By the end of 2005, Shanghai had approved 17,999 households' applications, of which 17,200 households had been allocated their residences.¹¹¹

3.6. Basic Principles Today

In the provisions in the 1994 "Method of Urban Affordable Housing Construction Management" and the provisions in the 1999 "Method of Cities Inexpensive Rental Housing Supervision," we can find the standards defining low-income families and the construction standards for affordable housing. They contain a large number of principle provisions as well as provisions delegating authority to provinces, autonomous regions and municipalities, and even to city and county building or real estate administrative departments. When we compare these two regulations with the "The Administrative Measures for Economically Affordable Houses" and the "Measures for the Administration of Urban Subsidized Housing for Families with the Lowest Income" promulgated in 2004 to replace them, we find that the latter two regulations, which reflect experience with development of affordable housing in recent years, have become even more specific and detailed. But the basic principle of national uniformity carried out through local responsibility is very clear.

The provisions in the latter regulations themselves state the basic idea: "Developing affordable housing should adhere to the principle that 'under the national macro-policy guidance, suitable to the local area, every city and county government according to local economic and social development level, residents' housing conditions and income levels and other factors, is to determine policy objectives of affordable housing, building standards, the scope of supply and the supply target

to the cheap rent housing standard. The provision of rent waiver means the local government provides the qualified applicants with a waiver of the rent within a limited period of time."

Chinese version is available at <http://www.china.org.cn/chinese/PI-c/484552.htm>.

¹¹¹ Shanghai Housing and Land Bureau: 17,200 Cheap Rent Houses were allocated in 2005, *East Daily Morning Newspaper*, Jan. 19, 2006.

reasonably, and is responsible for organizing.”¹¹² "Local governments should be guided by the policy of national unity, according to local economic and social development . . . to establish urban lowest-income families' low-cost housing system"; "urban low-cost housing for the lowest-income families to meet the basic housing needs should be the level of principle, and according to the financial capacity of local government and the residents' housing situation . . ." ¹¹³ The principles of the central government normative documents taken into account are all public houses in stock, commodity housing price levels, income levels, and fiscal capacity of local governments in different areas, and provide autonomy and flexibility for local government to solve the housing problems of low-income and lowest-income families.¹¹⁴ Although laws and regulations imposed by the central government through the unified guidance are highly principled, more power is given to local governments to determine the manner and level of housing support and to formulate and implement local housing security policies in light of the local governments' situation and the characteristics of the local housing market. So a contrast emerges: when the first 19 affordable housing projects started in Beijing, Shanghai made affordable housing applicable to commodity housing ¹¹⁵ (see table 3—5); and there was "a tremendous contrast" with Shenzhen, which achieved housing distribution by money first in the nation in 1988, but began to develop its own low-cost housing policy by the end of 2005.

Table 3—5 Beijing & Shanghai Commodity housing price and other elements comparison table in 1999

City	The average sales price of commodity housing (yuan/ m ²)	Ratio of incoming to housing price
Beijing	5647	13.9
Shanghai	3422	8.4

¹¹² "the Administrative Measures for Economically Affordable Houses" article 4, promulgated by Ministry of construction and other ministries.

¹¹³ "Measures for the Administration of Urban Subsidized Housing for Families with the Lowest Income ", article 2 and 3, promulgated by Ministry of Construction and other ministries.

¹¹⁴ Inferring from Gu Junqing: ,Housing security from low-cost housing, from *Chinese real estate*, 2004, p. 40.

¹¹⁵ "Several Provisions for Domestic Commodity Housing Types Getting Together" promulgated in Shanghai, 1999, which decide that affordable housing apply to domestic commodity housing from November 30, 1999.

Note: The average sales price of commodity housing data are from the "China Statistical Yearbook (1999)." Housing is at 90m² each apart; income is calculated by the average disposable income of every household according to average population in urban families.

Table 3—6 Comparisons of the four regulations of central government

Contrast content	The method of Urban Affordable Housing managing (1994)	the Administrative Measures for Economically Affordable Houses (2004)
Definition of affordable housing	Housing supply for the targets of families of low-income families, and building according to national residential construction standards (not including villas, senior apartments, and residential export) of the ordinary residential building	Government provide preferential policies, and limit construction standards, supplying targets and selling prices, with the security nature of the housing policy
Modes of land supply	Transfers	Transfers
Preferential taxation	Local governments should establish policy measures to support the construction of affordable housing in the planning, designing, relocation, taxation and so on.	Administrative fees of construction and operation of the affordable housing levying by half; Infrastructure costs out of the affordable housing projects area borne by the government.
Development mode	It tender to choose construction units generally	It should be in accordance with the principles that organized and coordinated by governments, marketed by enterprise, and implementing the project legal corporate tender.
Restrictions on types of house	None	Strict restrict to small types: middle types to about 80 square meters and small types to about 60 square meters.
Developers profit control	Be determined by the affordable housing construction management department in	It should not exceed 3% of the total costs of land acquisition, relocation compensation, survey

	conjunction with the pricing management department according to the construction costs.	and designing, preliminary engineering costs, residential construction and equipment installation costs, infrastructure and non-commodity and public facilities construction costs ¹¹⁶
Purchase conditions	Low-income families housing tenants; And it should prioritize to retired workers, teachers family housing tenants	(1) Having local towns accounts (including compliance with the conditions of the resettlement of local military personnel), or target recognized by city and county governments; (2) Having no house or families with difficulties of having housing area less than the standards set by city and county governments; (3) Family income consistent with the income demarcation line standards set by city and county governments; (4) Other conditions set by city and county governments.
Purchase method	none	Purchase of affordable housing applies to approval, permission system and publicity system.
Title registration	Title registration of housing property in accordance with the related regulations	Authority registration should be in accordance with the related stipulations; In the management of registration for the authority, Housing, land registration departments should apply with affordable housing, land allocation separately.
Listing circulation restrictions	none	After a certain age of owning the housing ownership and land-use permits, they can sell at market listing; When selling, it should pay to the government a certain proportion of revenue in

¹¹⁶ According to the provisions of "Management Approach of Pricing of Affordable Housing" implemented January 1, 2003, article 6.

		accordance with the housing price post of ordinary commodity housing and affordable housing at the similar area. Specific age and proportion determined by city and county governments.
Provisions on fund-raising and cooperative housing	None	Fund-raising and building by cooperation are part of the construction of the affordable housing, and the building standards, preferential policies, listed conditions, the examination of the supplying targets are all in accordance with the relevant provisions of the affordable housing, and enforced strictly.
Contrast content	The method of Cities Inexpensively Rent Housing Policing (1999)	Measures for the Administration of Urban Subsidized Housing for Families with the Lowest Income (2004)
Subject of providing low-cost housing	Government and units	Government
Targets which providing low-cost housing for	Permanent residents of the towns of the lowest income families' account, which standards develop by city and county governments.	The lowest-income families with housing difficulties determined by city and county governments.
Way of low-cost housing security	Rent allocated by things	Rental housing subsidy should be granted mainly, while rent allocated by things and rent reduction
Restrictions on types of house	Size standards and decoration standards must be strictly controlled, and specific provisions develop by provincial, autonomous regional and municipal governments.	Size standards should not exceed 60% of the local per housing area.
Housing	(1) Leased houses which are	(1) The government-funded

sources	original public houses with the low-cost housing standard according to local governments; (2) Currently public houses leased by the lowest-income families apply to the construction size or the used areas and the decoration standards develop by local governments; (3) Governments and the units build for low-cost housing; (4) Purchased by the governments and units for low-cost housing; (5) Houses donated by the society apply to the low-cost housing standard; (6) Houses raised by city and county governments in the light of local conditions which consistent with the standards of low-cost houses using other channels.	acquisitions houses; (2) Social donation houses; (3) Vacated public owned houses; (4) The government-funded building low-cost houses; (5) Other channels raised houses. Rent allocated by things source of low-cost housing should be available mainly by purchasing the old houses, and strictly control the concentrated construction of low-cost houses.
Capital sources	none	The fiscal budget for primary and multi-channel financing principles, including: (1) City and county fiscal budget for the funds; (2) Extraction from value-added of housing accumulation fund in urban as supplementary funds for low-cost housing; (3) Social donated funds; (4) Funds rose by other channels.
Operational procedures	Applications → "notice" → registration →waiting for rent allocation after overall balance	Applications→examinations →publicity→registration→investigation→verifying→queuing→results

3.6. Examples of Differences in Regional Decision Making:

High-level direction from the central government allows regional governments, who are the real performers of the housing security policy, more rights of

self-determination, which brings about significant differences in regulations and policies on housing security in different regions. We will study two cities as examples:

3.6.1. Shanghai: A housing security model in which market modulation plays a major role, while subsidized housing plays a minor role

Shanghai, which was one of the earliest cities to implement the policy of economically affordable houses, began its work in this area in 1995. It has made great progress with a rate of 1 million to 3 million square kilometers per year for more than 3 years. Economically affordable apartments, typically 70 to 100 square meters in size, are mainly supplied to administrative officials, teachers and staff in state-owned enterprises whose incomes are lower than the average income level of Shanghai citizens. Owners of these affordable houses enjoy such benefits as a free land use right (allocated land use right), 80% reduction in the cost of basic services such as water, electricity, postal service, sewage and road construction, and additional tax privileges. In other ways the properties are similar to commodity housing. The difference between the price of the affordable houses and that of commodity housing is not so obvious, since housing standards overall are rising and have a bigger impact on price than the subsidies. In the meantime, the average yearly income of employees in Shanghai has reached 16,296 Yuan; the average national income comes to 10,932 Yuan.¹¹⁷ The average price of commodity houses in Shanghai at the same time is 3422 Yuan per square kilometers, and the ratio of the two is only 8.4 (see table 5). Taking into account the higher income and lower housing price existing together, People's Government of Shanghai Municipality made a determination that the construction of economically affordable houses should not enjoy a free granted land use right any more, the housing supply should be modulated absolutely by the market, and finally different types of commodity housing should be unified. As a result, the economically affordable housing policy was terminated effective November 30th, 1999.

¹¹⁷ Resources: *Shanghai Statistics Yearbook*: See Shi Lei, *Houses in Shanghai*, Shanghai University Press 2005, P.24-34

From November 30th, 1999, the housing supply of Shanghai was completely relegated to the market and subsidized housing became the most important form of the housing security system in Shanghai. A workable operation system and procedures for subsidized housing were established, mainly including □an eligibility approval system, □means of raising money, which is mainly by rent subsidy, supported by housing space guarantee, and □normative termination policies.¹¹⁸ The housing problems of 12,588 families had been resolved in this way by September, 2004: rent subsidy has been provided to 12,336 families and housing space guaranteed to 252 families, accounting for 93.9% of all families who are the object of housing security.¹¹⁹

3.6.3. Beijing: A housing security model in which economically affordable housing plays a major role, while subsidized housing plays a minor role

The situation is quite different in Beijing, compared to Shanghai. Land prices in Beijing are higher due to historical reasons and the price of commodity housing has been much higher than in Shanghai in 1990s. Consequently, reductions in the cost of land use rights result in significant reductions in the price of housing, unlike the case in Shanghai. Thus, in order to make commodity housing affordable by middle-income residents, People's Government of Beijing Municipality adopted a housing security policy that mainly includes economically affordable houses. Although the construction of the economically affordable houses of Beijing started in 1998, 3 years later than in Shanghai, the scale is much larger: by October, 2004, 54 affordable housing projects had been approved in Beijing, with a constructional scale of 26,900,000 square kilometers in number and a cumulative total of 13,170,000 square kilometers. Moreover, the housing problem of more than 100 thousand middle-or-low-income urban families had been resolved.

During this same period, 220 projects of affordable housing using land owned by the government itself were completed, comprising 4,690,000 square kilometers.

¹¹⁸ See Gu Junqing, *On Housing Security from Low-rent Housing*, See *Chinese Real Estate*, 6th, 2004, P. 41

¹¹⁹ See Wen Linfeng, *Policy Thinking on Improvement of Housing Security System*, See *Chinese Real Estate*, 3th, 2005, P. 51

Beijing Municipality has determined that affordable housing construction shall be organized by the government, supported by the government and then carried out by the enterprises. Administrative fees associated with affordable housing construction are reduced or exempted. For example, the management fee for demolition and relocation is halved, as well as the management fee for land requisition and the procedural fee for the sale of buildings. Furthermore, the developer's sale profit from affordable housing is capped at 3%. The average price of the affordable housing in Beijing was limited to about 3153 Yuan per square kilometer, those houses the price of which is under 3500 Yuan per square kilometer taking up 66% of the whole construction production.¹²⁰

Meanwhile, "Measures for Administration of Urban Low-rent Housing in Beijing" came out in 2001. The measures establish that public finance shall be the main source of funds, and that rent subsidy, rent reduction and exemption, rent subsidy loan and house space guarantee go together.¹²¹ In Beijing, low-rent housing was to be offered to those families who had been identified as deserving of a relatively low guarantee or support, confirmed by the Ministry of Civil Affairs. They were served under a policy in which rent subsidy was the main method, supported by house space guarantee. By December 31st, 2003, there had been more than 10 thousand families who were beneficiaries of low-rent housing policy; the total amount of rent loan came to 7,630,000 Yuan. From 2000, another policy of rent reduction and exemption for newly added housing for low-income families was put into practice. The rent reduction and exemption every year for 11 thousand families who lived in public-straight-owned houses alone was 6,120,000 Yuan. Therefore, low-rent housing policy was an important complement of affordable housing policy in Beijing.

3.7 Problems and Reflections:

Although clearly the housing problems of the middle or low income residents,

¹²⁰ See Wen Linfeng, *Policy Thinking on Improvement of Housing security System*, See *Chinese Real Estate*, 3th, 2005, P.52-53.

¹²¹ See Beijing Bureau of Land Resources and Management of Housing, *The situation and Implementation of Low-rent Housing in Beijing*, *The construction of Cities and Countries*, 4th, 2004, P.47.

especially the lowest-income people, have been resolved to a certain extent in the development of economy, some problems remain.

3.7.1. Problems in the enforcement of affordable housing policy

3.7.1.1. Who are the beneficiaries of affordable housing?

The State Council has declared that a complex system of urban housing supply should be established and improved. (1998 “Note of the Reform of Urban Housing System and Accelerating Housing Construction”.) The State Council further stated that affordable housing was a measure of social security for middle and low income families (2003 Circular of the State Council” on promoting the Continuous and Healthy Development of the Real Estate Markets”). The 2004 “Administrative Measures for Economically Affordable Houses” stated that the term “economically affordable houses” as mentioned in those measures refers to the safeguard-policy-oriented market housing¹²² for which the government offers preferential policies and sets limits on the construction size, target purchasers and sales prices. But were affordable houses intended to become a major part of Chinese supply system of urban housing or just a measure for housing security?

This ambiguity as to whether low cost housing is a market development objective or a limited form of social security is found in various laws and regulations. The fact that government targets as the beneficiaries of housing safeguards “middle or low income families,” a term at once ambiguous and sweeping, causes uncertainty in affordable housing policy. To make the concept more definite, the Central Government has established guidelines, and special standards are to be set up by regional governments. But in fact most urban families belong to either the middle or low income level. Take Beijing Municipality for example: the purchaser families of affordable houses must, under the guidelines, have yearly incomes of less than 60 thousand Yuan. But the average income in 2005 of each person in Beijing was 17,653

¹²² Ministry of Construction etc. “The Administrative Measures for Economically Affordable Houses” article 2

Yuan. Average numbers of family members being 2.9, most families are in the range of affordable housing security.¹²³ Therefore, an issue is which part of “middle or low income families” should be the target object of affordable housing.

3.7.1.2. Poor monitoring of development and sales of affordable housing

In China, affordable housing is developed and then sold by real estate development corporations after they win the bid. The profit of the developers is restrained to no more than 3% of the development cost. (See table 6) On one hand, developers tend to construct affordable houses with large areas and high standard in order to get more profit; on the other hand, the potential families prefer larger affordable houses to get more subsidy, the subsidy being essentially the fee for the grant of land use right and part of the tax fee. As a result, affordable houses are becoming larger and larger, more and more luxurious, owing to the interests of the two parties, whereas true low-income families who have a critical need to resolve their housing problems are squeezed out of the system due to the higher prices.”¹²⁴ The Administrative Measures for Economically Affordable Houses “set a maximum size on affordable houses of about 80 square meters for middle range and low range about 60 square meters. The regulation, however, has not proven practicable and is even challenged by some regional governments.”¹²⁵

Meanwhile, the review of income levels in connection with sales has little real effect because information about individual income in China is imperfect. Only a certificate of income from purchasers’ work units is required to prove eligibility, and the authors’ hearsay information is that most employees can obtain an appropriately low certificate of income from their employer, regardless of true income. Even this does not even take into account the fact that many Chinese citizens enjoy a “shadow income” in this still mostly cash economy. Affordable housing is frequently

¹²³ Resources from: Website of Beijing Statistics Bureau, bulletin of the 5th population Statistics in Beijing <http://www.bjstats.gov.cn/>

<http://www.happyhome.net.cn/llread.asp?subjectid=222&infoid=5709&forumid=90970>

¹²⁴ See Li Yonghui, *Housing Security System for Urban Residents*, China Economy Press, 2005, P.179

¹²⁵ For example, the size of affordable housing should be 54—117 square kilometers in Beijing, by The Designing Standard of Affordable Housing in Beijing

transferred to wealthy urban residents. The spectacle of newly purchased cars filling parking areas outside affordable housing buildings is common. Affordable housing purchase has become an investment method for some high-income families instead of an effective channel to improve housing conditions for the families in housing trouble.¹²⁶

3.7.1.3. Resale of affordable housing threatens technical confusion in China's system:

The 1999 “Interim Administrative Measures for Purchased State-owned Houses and Affordable Houses Coming into Market” promulgated by the Ministry of Construction in 1999 indicated that those provided with affordable housing ultimately would be permitted to sell them into the market. Under current regulations, this can happen in three to five years time. What happens when those who acquire affordable housing units elect to resell their units?

Unfortunately, the land use rights involved in these projects - allocated rights - have no time limit and allocated land use rights cannot be sold. If the homes are sold, a fee must be paid to “convert” the allocated land use right to a 70-year, transferable, granted land use right. The registration of the allocated land use right for an affordable housing unit must be modified upon resale. As virtually all affordable units are in large multi-unit structures, the ownership of the land will be in disorder as a result of the regulations. In a given building, those affordable homes that never go into market have no time limit, while the underlying land use right of the homes that became commodity housing on sale will have a time limit of 70 years. But all will be in the same building!

Furthermore, the development cost and the price of affordable houses in some areas are much less than that of general commodity houses because the fee for the grant of land use right is not included in its development cost, and, in some areas, even when the unit comes into market, the fee will be only 10% of the marked land price for its

¹²⁶ See Li Yong & Li Tao, *On Problems of Chinese Affordable Housing, Price Theory and Practice*, 10th, 2005, P. 46-47

location.¹²⁷ Further, affordable housing enjoys privileges on all kinds of taxation fees. This leads to the conclusion that affordable houses will influence the prices of general commodity houses and even be harmful to the general commodity market if they are allowed to come into market after a period of time.¹²⁸

3.7.2. Problems in the implementation of low income housing

3.7.2.1. The range of the beneficiaries of affordable housing is too small

Contrary to the large and ambiguous range of beneficiaries of affordable housing, the policy of low-rent housing has too limited a range of beneficiaries. The beneficiaries of low income housing are to be the “lowest-income families.” The right to determine the standard of families with lowest income and of the housing security is awarded to regional government. (See table 6) Regional governments set the range of eligibility for low-income guaranteed families in housing trouble, confirmed by the local department of civil affairs. Families whose income levels are too high to meet the criteria for low-rent, but who cannot afford to improve their housing conditions through affordable housing, are still in housing trouble.¹²⁹

3.7.2.2. Neither the resource for housing nor funds for rent subsidy is enough

The government still hopes to raise housing resources and resolve housing problems for the lowest-income families by house guarantee as described in “The Method of Cities Inexpensive Rental Housing Management.” However, house space guarantee through public housing has proven ineffective as the main form of the system of low-rent housing, in that a large number of public-owned housing buildings have turned private-owned. Rented public-owned facilities were hard to allocate and the

¹²⁷ Ministry of Construction, “Regulations on Fee of Grant of Land Use Right and Management of Profit for Purchased Public-owned Houses and Affordable Houses,” Article 2

¹²⁸ In many cities, such as Beijing, Affordable Housing is seen as a means simply to lower the price of housing, whether the method is proper is uncertain.

¹²⁹ See Qian Yingying, Study on Rent Subsidy System of middle or low level of houses in Shanghai, *Chinese Real Estate*, 12th, 2005, P. 35-36.

new construction of low-rent housing had many difficulties.¹³⁰ 2004 Measures for the Administration of Urban Subsidized Housing for Families with the Lowest Income”¹³¹ concluded that the primary method of housing security guarantee will be rent subsidies, supported by house space guarantee public housing and reduction of rents “which requires more contributed funds for house subsidies and reduction of rents by governments.” Though regional governments raise money in different ways, they have been unable to satisfy the need generated by families with the lowest income.

3.8. Some thoughts on the reasons for China’s current problems

The system of housing security in western market economy countries was gradually established through government interference with a market system that had proved ineffective. The Chinese housing security approach has been completely different: at first, housing was seen as welfare and a condition of the planned economy. The government offered housing welfare through housing that was extremely low level, but that covered the needs of urban residents, and kept the housing level of urban residents equalized (though not always completely fairly) by administrative means. The government could not improve housing conditions for all urban residents and the housing conditions of urban residents became worse and worse with larger urban populations. Thus, Chinese government had to open up housing to the market, and attempted to resolve housing problems through the power of the market along with housing security to residents with housing troubles. That is, the process of the establishment of Chinese housing policy went from welfare to guarantee, with the government withdrawing while the market was expanding. So the reason for the problems with establishment of a Chinese housing security system is that China has not yet managed well the new relationship between the government and the market in the

¹³⁰ Beijing Government built concentratedly 400 low-rent houses at Guang Qu Men Bei Li from 2002 to 2003. The construction faced many problems with investment and infrastructure, and have the danger of becoming a slum. So the local governments hardly attempt that, and this kind of building low-rent house has been forbidden by “Measures for the Administration of Urban Subsidized Housing for Families with the Lowest Income,” 2004. See Beijing Municipal Land and Resources Administration and Housing Administration Bureau: the Implement Information of Low-rent Housing Policy of Beijing, *Urban and Rural Development* 4,(2004), p.47.

¹³¹ Ministry of Construction “Measures for the Administration of Urban Subsidized Housing for Families with the Lowest Income” article 5th

provision of housing security.

The government does not have a clear view of its role in a housing policy that is mainly determined by the market. Some market methods have been adopted in the process of the establishment of housing security -- for example, the developer of affordable housing is determined by bidding and the rent subsidy is taken as the main form of the system of low-rent housing. Another example, is that the government strongly encourages the construction of affordable housing for “middle-or-low-income families,” which are the majority of urban families. The construction of affordable houses also is seen as a means to promote development of the economy and reduce the price of houses. A “guarantee system,” however, is no longer a real system of guarantee for the majority of urban residents, but a system of welfare that badly damages the commodity market that the Chinese government has been fostering.

The aim of housing security policy is to satisfy basic living conditions for residents, rather than to improve the living conditions for the majority. The present problem of the Chinese housing security system is that the government interferes in housing markets too much by means of affordable housing, hoping to improve living conditions for most urban residents in an administrative way. Unfortunately, the aim has not been turned into reality, but rather there has been a blockage of the opportunity for housing security for residents with lowest income.¹³² We consider it a better choice for the Chinese government to reduce the range of housing security, and concentrate on better housing security for families with low income in the form of low-rent housing, leaving housing problems of families of middle income to be resolved by the market.

3.8. Some Hopeful Signs

¹³² The ineffectiveness and the negative influence of the policy of affordable housing is quite large all to the common people, the media and the officials. Even during the period of “two meetings”, Fu JiDe, committeeman of Chinese People’s Political Consultative Conference and former President of Xi’an People’s Political Consultative Conference, submitted a proposal of *On Stopping the Development and Construction of Affordable Houses*, in which it was pointed out that affordable housing shall be terminated, because it contradicted the original meaning of the policy and thus made a damage to the economy of the country.

See Kong Qixue, the going way of affordable housing and low-rent housing, *Information of Chinese Real Estate*, 11th, 2005, P.7.

It was reported by some media in September, 2005 that Beijing Municipality, which had the largest number of affordable houses and whose policy of affordable housing was most typical, had stopped selling affordable houses, and was preparing a new policy of affordable housing, which would sell affordable houses mainly to families who were victims of demolition and relocation. The officials of Beijing Committee of Construction immediately refuted this claim, declaring that Beijing had not stopped the sales of affordable houses and a new policy of affordable housing was in formulation, not only for families facing demolition and relocation.¹³³ Though the incident soon quieted down, it was a sign that Beijing Municipality Government began to consider the present policy of affordable housing in a more cautious attitude.

The following facts also provide some evidence to support the report made in September, 2005, by some media: the director of Beijing Committee of Development and Reformation Ding Xiangyang revealed at the working meeting for development and reformation of Beijing Municipality on December, 29th, 2005 that the 2 million square kilometers of affordable houses of Beijing completed in 2006 would completely be reserved for the sale to families facing demolition and relocation,¹³⁴ while the new Measures for Administration of Affordable Housing of Beijing Municipality directive that was to be released in November, 2005 had been delayed due to too many disputes. It was pointed out by the experts participating in the discussion of the new Measures for Administration of Affordable Housing of Beijing Municipality that the purchasing power for those eligible for affordable houses in Beijing may be reduced to 40 thousand Yuan from 60 thousand Yuan. Affordable houses would be mainly for families in demolition and relocation and were permitted to be transferred, originally, only to the management department of affordable housing. The problem disputed most at present, however, is whether the rent mode can replace the original selling mode of affordable

¹³³ See Zheng Mingming, Terminated Sale of Affordable Housing in Beijing, *21st Economy Report*, September, 12th, 2005; Xie Wei & Wu HaiHua, Sale of Affordable Housing in Beijing not Terminated, *New Beijing*, September, 11th, 2005.

¹³⁴ See Guo Xiaojun, 2 Million Square Kilometers Affordable Houses for Directional Sale the Next Year, *New Beijing*, December, 30th, 2005.

houses.¹³⁵ It seems that Beijing Municipality is changing the present policy of affordable housing to aim at its problems: narrowing the scale of the objects supplied, lowering the income standard of the objects supplied, separating the market of affordable housing and that of commodity housing, etc. Undoubtedly, all the acts are good faith attempts.

As opposed to rethinking and revision of the policy of affordable housing, the policy of low-rent housing is now being encouraged by the Central Government. An April 2, 2006 Bulletin of the Ministry of Construction described the administrative experiences of 18 regions in making the construction of low-rent housing a target of governmental obligation.¹³⁶ This suggests that such housing will be a factor in evaluating public officials' political achievements and, thus, demonstrates the Central Government's interest in strengthening low-rent housing for urban families with the lowest income.

¹³⁵ See Ye Jia & Chang Jing, Affordable Houses Transferred Closely, Sales Only to Respective Departments, *First Finance Daily*, March, 23rd, 2006, Affordable Houses in Beijing May Transferred Closely, Uncertain Whether for Rent or for Sale, *First Finance Daily*, January, 1st, 2006.

¹³⁶ See China View notice on April, 2nd, 2006, "the Bulletin of the Construction and Implementation Situation of the System of National Urban Low-rent Housing by Ministry of Construction", the website of the Center Government http://www.gov.cn/jrzq/2006-04/02/content_242851.htm, April, 2nd, 2006, visited on April, 4th, 2006.