

JOURNAL of the
ASIAN REAL ESTATE SOCIETY
1998 Vol. 1 No 1: pp. 127 - 149

Government Intervention and Performance of the Housing Sector in Urban China

Liu Hongyu

Institute of Real Estate Studies, Tsinghua University, BEIJING 100084,
PRC or liuhy@tsinghua.edu.cn

The housing system in urban China is now undergoing a process of transition. Housing policy is one of the most popular topics under public discussion. This paper gives a brief review of the recently implemented housing policies and provides some basic information about the current situation of the housing market and housing system reform in urban China. It appears that China is very successful in improving the housing conditions of urban residents. However, there are still a number of problems related to housing disposition and consumption. Based on accepted criteria, this paper makes an assessment of the performance of current housing policy, resulting in several suggestions.

Keywords

China, Housing Market, Housing Policy, Housing System Reform.

1. Overview

China is a country with a population of more than 1,200 million. The country's birth rate is 20.38 million per annum and the net population growth was 12.37 million in 1997. The scale and increase of the population has resulted in massive pressure on the demand for housing.

To solve the housing problems in China, a series of policies for accelerating housing construction has been implemented by the Chinese government.

The economic reforms carried out and the open door policies started in 1979 have resulted in rapid housing construction in urban and rural areas. Significant achievements are being secured in improving human settlements. Over the period of 1979 to 1997, the country constructed about 14.9 billion m² of dwellings of which 3.2 billion m² are in urban areas. During the same period, a total of 160 million households have improved their housing conditions and living environments by moving into the new houses.

1.1 Socio-economic Background of China

1.1.1 Rapid Growth of the National Economy

Since 1978, the country's social economy has been developing rapidly. The growth rate of the nation's GDP has been kept at around 10% (Figure 1). The inflation rate of the country's economy has been declining since the beginning of 1994. At the end of 1996, the inflation rate fell to 4.4% (Figure 2). The country's economy has successfully achieved a "soft landing". The contribution of the non-state-operated enterprises made up 70% of the nation's GDP in 1996. Since 1986, and especially after 1992, the retail sales of consumer products have increased considerably. For example, in 1996, the retail sales of consumer products increased to RMB246.14 billion yuan¹, an increase of 19.4% compared to previous year's figure. The growth rates of the retail price index (RPI) and the consumer price index (CPI) have declined continuously during the same period. In 1997, the RPI and CPI were growing at 0.8%p.a. and 2.8%p.a. respectively.

The balance of total saving deposit as at the end of 1997 was RMB4628 billion yuan or 62% of the nation's GDP in 1997. In addition, the income of residents in both urban and rural areas has increased continuously. In 1997, the average disposable income per person was RMB5160 yuan representing a net growth rate of 17.9% over the previous year (Table 1).

1.1. The Urbanization Process of China

Up to the end of 1995, there were 640 cities within the built up urban area occupying over 20,000km² of land in China. Amongst these cities, there were 32 cities with the population over 1 million, 43 cities with a population ranging from 500 thousand to 1 million, 192 cities with a population size ranging from 200 thousand to 500 thousand and 373 cities

¹ 1 US\$=8.3 RMB yuan.

Fig. 1: Growth Rate of GDP in China (1977 ~ 1997)

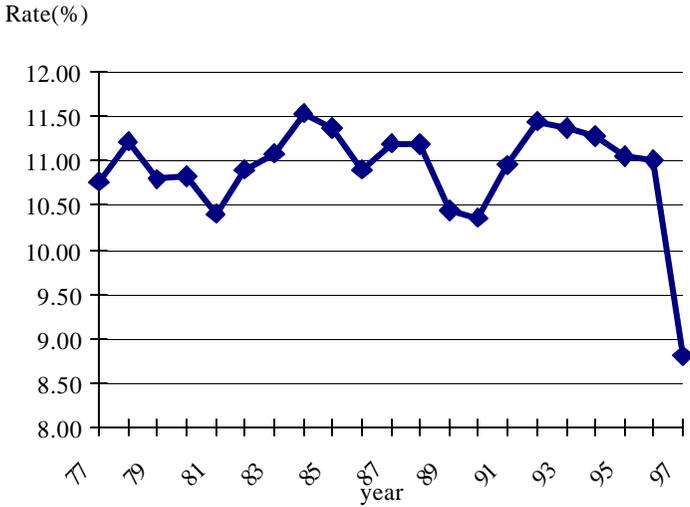
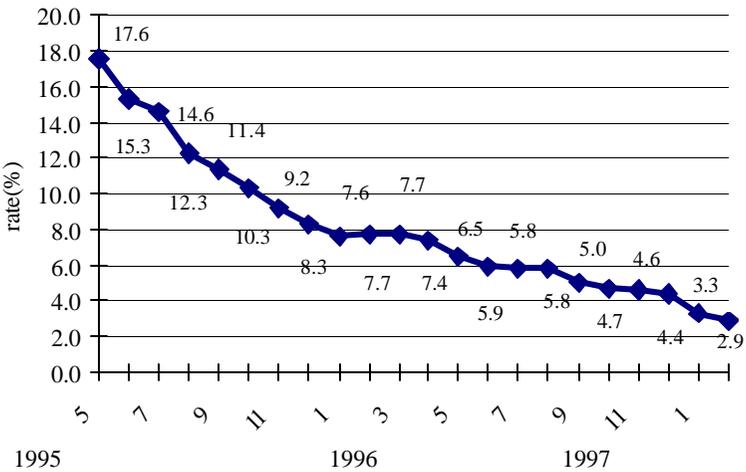


Fig. 2: The trend of Inflation rate in China



with a population less than 200 thousand. In addition, there are 16,992 towns in the country. As at the end of 1997, the number of residents living

in urban areas is 369,890,000, representing an urbanization level of 29.9% at the end of 1997. It is estimated that the urbanization level will rise to 35% (450 million people) by the year 2000 and 45% (630 million people) by the year 2010.

Table 1: Average Income in Urban China

Year	1980	1985	1990	1995	1996	1997
Income	439	685	1387	3893	4377	5160

Sources: China Economic Yearbook of 1997, China Statistics Press, Beijing, 1997.

1.1.3 Housing Construction

During the years 1979 to 1996, China invested RMB1137.9 billion yuan in the construction of 45,000,000 housing units. The investment in commodity housing² during the years 1995, 1996 and 1997 was RMB175.8, RMB174.6 and RMB170.7 billion yuan respectively, and accounted for approximately 55% of the total volume of real estate investment. Investment in housing has accounted for 10% of GDP in recent years. Since 1993, the newly completed GFA (gross floor area) of housing space has been more than 200 million m² p.a. The completed gross floor area (GFA) of housing units in 1997 was over 380 million square meters (Table 2). The newly completed housing units per thousand residents has increased from 13 to 15 in recent years.

1.1.4 Improved Housing Conditions

The average living space (about 52% of GFA) per resident has increased from 3.9m² in 1980 to 8.5m² in 1996 (Table 3). The percentage of households living in a single-family house is 1.62% and there are 61.3% households living in units with two or more two bedrooms in multi-family buildings. The percentages of households having an individual bathroom and toilet, city gas, private tap water and private cooking area, are 72.5%, 69.6%, 91.8%, and 92.7% respectively.

In addition, the Chinese Government has paid a great deal of attention to improving the housing conditions of middle and lower income households and households with poor living conditions. There are 9 million households considered to be in poor conditions. The government is helping them to solve their housing problems.

² Commodity housing means housing properties provided by developers including high standard apartments and villas.

Table 2: Housing Investment and Completion in Urban China

Year	Housing investment (billion yuan)	Housing Investment in % of total capital investment(%)	Completed floor area (million m ²)
1950~1952	0.830	10.6	14.620
1953~1957	5.379	9.1	94.540
1958~1962	4.956	4.1	110.120
1963~1965	2.909	6.9	42.710
1966~1970	3.932	4.0	54.000
1971~1975	10.074	5.7	125.730
1976~1980	29.449	11.8	266.880
1981~1985	100.750	21.0	648.459
1986~1990	162.490	12.9	649.642
1991	52.300	9.4	140.000
1992	75.070	*	178.000
1993	162.800	13.8	205.000
1994	230.800	14.4	240.000
1995	320.700	16.5	270.000
1996	298.723	13.1	300.000
1997	301.600	11.9	380.000

* Data not available

Sources: China Urban Construction Yearbook 1986~1987, China Construction Yearbook 1990~1991; Urban Housing Construction and Real Estate Industry; Five Year Plans From 1996 to 2000 and the Development Goals in the Year 2010, Ministry of Construction, 1996.

Table 3: Average Living Space, Using Space and GFA per Capita in Urban China

Year	1980	1985	1990	1995	1996
Average Living Space (m ² /person)	3.9	5.2	6.7	8.1	8.5
Average Using Space (m ² /person)	5.2	6.8	8.9	11.8	12.4
Average GFA (m ² /person)	7.4	9.8	12.5	15.7	16.5

Sources: China Economic Yearbook of 1997, China Statistics Press, Beijing, 1997.

1.2 Natures of the Housing Market

1.2.1 Variances of Housing Prices between Cities

The substantial difference in social and economic development has caused significant variation in housing prices among cities in China. In 1995, the average price of commodity housing was RMB1612.59 yuan/m², whereas the prices in Shenzhen were more than 5 times of that in Chongqing (Table 4 and Table 5). The former is 4.2 times more than the later.

Table 4: The Trend of Average Prices of Commodity Housing in Urban China

Year	87	88	89	90	91	92	93	94	95	96	97
yuan/m ²	408	503	573	703	802	996	1209	1194	1613	1666	1767

Sources: China Real Estate Development Statistics 1986~1997, MOC, Beijing, 1998.

Table 5: Average Housing Prices in Selected Cities of China (yuan / m² of floor area)

Year	Beijing	Shanghai	Tianjin	Chongqing	Shenzhen	Ningpo	Guangzhou	Wuhan
1994	2740	1921	1681	776	5209	1192	3240	1257
1995	3226	2478	2119	1016	5478	1369	3791	1543

Sources: China Real Estate Development Statistics 1986~1996, MOC, Beijing, 1997.

1.2.2 Increase in the Proportion of Individual Housing Buyers

According to the statistics from the Ministry of Construction (MOC), the percentage of individuals purchasing domestic commodity housing³ has been increasing in recent years. The percentage of individual commodity housing buyers was 32.3% in 1989 and increased to 53.1% by the year 1995 (Table 6). In general, the smaller the city, the higher the percentage.

1.2.3 The Trend of Housing Price Indices

According to the information provided by the China Real Estate Index System (CREIS), there is a softening trend for the rapid growth in the prices of commodity housing in the last few years. In the first half-year of 1997, in some cities like Shanghai, Dalian and Wuhan, housing prices have declined due to over supply.

³ Domestic commodity housing means housing property provided by developers for local residents excluding high standard apartments and villas.

In other cities, such as Chongqing (the newly established city directly under the Central Government), and Shijiazhuang (the capital of Hebei Province) housing prices continue to go up (Table 7). The consumer's interest in the housing market has changed from being only quantity orientated to both quantity and quality orientated.

Table 6: Floor Area of Housing Units Brought by Different Types of Buyers (million m²)

Year	1989	1990	1991	1992	1993	1994	1995
Individuals	8.0	7.3	9.3	14.6	29.4	33.4	35.1
Organizations	16.9	18.1	18.2	2356.2	30.9	27.7	31.0
Total	24.9	25.4	27.4	3812.2	60.4	61.2	66.2

Sources: China Real Estate Development Statistics 1986-1996, MOC, Beijing.

Table 7: China Urban Housing Price Indices

	95.12	96.3	96.6	96.9	96.12	97.3	97.6	97.9
Beijing	833	828	833	835	838	839	847	848
Shanghai	829	817	808	807	810	808	800	769
Tianjin	419	416	411	414	415	417	415	414
Chongqing	247	247	242	249	256	266	272	272
Shenzhen	908	894	895	898	896	902	911	912
Dalian	495	480	482	477	476	471	474	475
Wuhan	302	293	293	290	289	287	285	284
Xi'an	419	413	410	406	411	416	422	424
Chengdu	237	237	235	230	229	226	228	229
Shijiazhuang	196	196	197	199	201	204	204	205

Note: Remark: CREIS takes the comprehensive real estate prices of Beijing in Nov. 1994 as 1000.

1.2. *Housing Transactions*

As a result of the long term housing shortages and the traditional housing system, transactions of newly completed commodity housing play a dominant role in the country's housing market. The low transferability of existing stock leads to an inefficient utilization of housing resources.

1.3 **Housing Problems**

Although enormous achievements have been made by the Chinese government in promoting housing construction and improving housing

conditions, there are still a number of problems within the housing sector that need to be solved (Liu, 1998).

1.3. *Housing Shortage in Urban Areas*

The large scale housing construction does not change the condition of the housing shortage in urban China substantially. The living space per capita is still at a very low level. Compared with most developed countries, there are still 3 million households living in very poor housing conditions or whose average living space per capita is less than 4m². The average living space per capita in the urban areas of 19 provinces or autonomous regions is below the level of the national average. Nearly 40% of housing estates do not have basic facilities such as tap water or flushing toilet. There are more than 30 million m² of housing stock which are in dangerous condition waiting to be redeveloped (MOC, 1996).

1.3.2 *Vacancy of New Completion*

Increasingly important is the problem of high vacancy rates for newly built commodity housing (Liu 1996). According to the statistics from the State Statistical Bureau, the vacancy rate of newly completed commodity properties (including all kinds of properties) has increased from 23.6% in 1994 to 51% in 1997. Commodity housing exhibits the same increasing trend (Table 8).

Table 8: Vacancy Situation of Newly Completed Commodity Properties

Years		1994	1995	1996	1997
All Commodity Properties (‘000m ²)	New completion	13950	15110	15207	13787
	Total	3289	5031	6203	7038
	vacant				
	Property Vacancy rates	23.6%	33.3%	40.8%	51.0%
Commodity Housing (‘000m ²)	New completion	11370	12219	12118	10886
	Total	2512	3882	4662	5283
	vacant				
	property vacancy rates	22.1%	31.8%	38.5%	48.5%

1.3.3 Disparity between Housing Price and Income

The market price of housing space increased from RMB408 yuan/m² in 1987 to RMB1767 yuan/m² in 1997. The average rate of increases is 15.8% p.a., which is a lot higher than that of the household income during the same period. The ratio of the unit price of a 56m² commodity housing unit (the average size of newly completed commodity housing is 74.8m²) to household income is still higher than 6:1, the internationally accepted upper limit of housing prices to income ratio (Cheng, 1996).

Furthermore, we can observe that the larger the city, the higher the ratio. In Beijing for example, the ratio was approximately 9:1 in 1995 (Table 9). One of the major obstacles for households to purchase their dwellings is the large difference between the housing prices and low incomes.

Table 9: Housing Price to Household Income Ratio in Urban China in 1995

cities or regions	Household income		household income (yuan)	average housing market prices		price to income ratio
	average income per person (yuan)	Average households size (persons per family)		average prices (yuan/m ²)	Average price of a 56 m ² unit (yuan)	
China	4288	3.23	13850	1612	90272	6.52
Beijing	6238	3.16	19712	3226	180656	9.16
Shanghai	7196	3.16	22739	2479	138824	6.11
Tianjin	4931	3.16	15582	2119	118664	7.62
Jiangsu	4647	3.52	16357	1247	69832	4.27

Source: Annual Statistics of China (1996) and the Department of Real Estate of the MOC.

1.3.4 Prices to Rents Ratio

As most residents in urban areas are accommodated in public rental estates that are priced at below market rates, rental adjustment has been very slow for obvious reasons. This leads to very high price to rent ratio. For example, the monthly rent for usable space (about 75% of the GFA) in public rental housing in Beijing is RMB1.3 yuan/m², while the average prices are RMB1450 yuan/m² and RMB4250 yuan/m² for public housing⁴ and domestic

⁴ Public housing means the housing units constructed and owned by the

commodity housing respectively. The price to annual rental income ratios are 124:1 for public housing and 363:1 for domestic commodity housing respectively. Since rents are controlled, the rental adjustment is slow and behind housing prices which is not controlled, the gap between rental and price trends has been increasing during the past decade. The low public-housing rent means that the majority of households prefer to stay in allocated public housing rather than to buy the commodity housing in the market.

There are market rent indices in urban China, but they only reflect the 'official' market subsidized rent rather than actual market rent. For example, the monthly 'black market' rent in Beijing ranges from RMB20 to 50 yuan/m², which is 15-40 times that of official rent. These units are sublet by residents who have spare space or units to people without sufficient space. These kind of rental activities are strictly prohibited by the government. How to legalize such black market activities with little social and political resistance is a key topic of housing system reform.

1.3.5 Imperfect Housing Finance System

The system of housing development and finance is not in tandem with the rapid development of housing market. The credit scale control policy by central government makes it very difficult for local developers to obtain finance from the banking system. The large scale housing construction projects in previous years were financed mainly by presale and loans from the black market with high interest rates. Such a financial arrangement is very vulnerable when the pre-sale housing market is not favorable.

It is also difficult for residents to apply for private housing mortgage loans as China still does not have enough qualified professionals nor a proper regulatory system for the development of a housing mortgage market sector. The lag of a housing finance system has become another key factor affecting the future development of housing market in urban China (Liu, 1997a).

1.3.6 Backward Construction Technology

The housing construction industry in China is still relatively backward. Problems relating to lowering energy consumption and improving the performance and quality of housing components still need to be resolved.

The construction processes and the production of structural components and fittings are not efficient and economical. Many efficiency indicators like energy consumption, the wastage of land resources and construction materials in housing production are much higher than those in the developed countries. Industrialization and development of a standardization system in housing production could be a way forward to modernization.

2. Housing Policy and Government Intervention

2.1 Government Policies in Solving Housing Problems

2.1.1 Developing a Real Estate Market

The government needs to regulate the behavior of market participants and nurture a competitive market. Increasing the percentage of commodity housing in the housing market and smoothing housing transactions should further enhance the role of the market mechanism in the distribution of housing resources.

2.1.2 Reducing the Vacancy Rate of Newly Completed Buildings

The high vacancy rate of newly completed units has locked up a huge amount of capital and other resources invested by the state-owned development companies. As a result of the property rights system, the decision maker of the companies would rather keep the vacant properties than sell them and realize the loss, even though stocking a large amount of vacant property is not an optimal decision for the company. This is because realizing the loss would have an immediate effect on the balance sheet and profit and loss accounts of the company. In the worse case, the company may go bankrupt and the decision makers are held responsible. The high transaction costs and illiquidity of the housing market also make it difficult for developers to dispose of the vacant stock. As a result, the central government has developed a series of policies to deal with this problem.

a. Reduce the Costs of Housing Development and Transaction

The development cost is one of the major factors affecting housing prices and profitability of housing development. Various taxes and fees are charged during development processes by different government organizations and are important components of the development cost. Last year the Chinese Government conducted a review on the taxes and fees

levied on the developers by different government bodies during housing development and transaction. This resulted in 48 kinds of taxes and fees being repealed nationwide. Local governments are also reducing their rates of taxes and fees. To facilitate housing development and transaction, the government is now modifying the policies of land acquisition, demolition and resettlement so as to reduce the proportion of land cost in the development cost. Policies on pricing of land for residential use are also under review by the government. Instead of charging the developer an up-front lump sum for the land use rights, the developer should be allowed to have the choice to pay land use right fees on an annual basis.

b. Forced Sale after Bankruptcy

Insolvent developers, who keep vacant buildings, are encouraged to declare bankruptcy. In this case, the unoccupied newly completed unit should be forced to be sold through auction.

c. Increase the Ability of the Market to Absorb Newly Units through Wage Reform and Encouraging Housing Consumption

As a component of the wage system reform, local governments are being encouraged to transfer the money previously used for provision of housing to the employee's salary, so as to increase their capability to buy their own housing units. At the same time, the policy of the administrative allocation of subsidized public housing is being abolished gradually. As a supplemental policy, the control of the scale of housing mortgage loans is also being softened.

2.1.3 Accelerate Housing Reform

Housing reform is the focal point of housing policy in urban China. The newly introduced policies for housing system reform are designed to: (a) eliminate the allocation of subsidized or welfare public housing; (b) raise the rents of existing public housing stock; (c) sell the public housing to the sitting tenant at discounted prices; (d) set up the Housing Provident Fund (HPF), and (e) construct a social housing welfare system for the lower income group.

2.1.4 Establishing a Housing Finance System

The HPF system for housing, initiated in 1995 was set up to finance housing development and mortgage loans. Under the HPF system, each employee

must contribute 10% of his/her salary into their personal account with the fund. 5% is deducted directly from the employees' salaries and another 5% from their employer. The fund is owned by the depositors, but managed and used by the administrative organization. According to the administrative regulations, the major uses of the fund are for financing construction of subsidized housing projects for the lower income families and provision of mortgage loans for qualified home buyers.

The original policy for controlling the credit scale of commercial banks has been postponed since the beginning of 1998 in alignment with the banking system reform. The central government will change its means of control from direct intervention to examination of financial status using various financial ratios as indicators. This is in line with the financial system reform and the development of the commercial banking system. This policy allows the commercial banks to make full and efficient use of their funds in the market. It is expected that there will be a large amount of funds previously allocated for high risk and inefficient uses such as loans to deficient state industrial enterprises which will be transferred to the housing finance. If this is the case, the financial costs of housing developers would be lowered and a commercial mortgage loan system will be developed.

2.1.5 "Anju" Scheme

To solve the housing problem of lower income families, the "Anju Scheme" was initiated in 1995. Under the Anju Scheme, with the approval from the central government, commercial banks provide construction loans and the local government provide free serviced land for developing low cost housing construction. The completed housing (Anju housing) will be sold without profit to the middle and lower income families. The households with poor housing conditions will get preferential rights to buy Anju housing. There are 163 cities carrying out the Anju Scheme as a pilot projects. Approximately 26.65 million m² of Anju housing were being constructed in 1997. The target of the Anju Scheme is to construct 150 million m² of housing from 1995 to 2000.

2.1.6 Development of Housing Districts

To improve the overall quality of the housing units, China began to conduct experiments and pilot tests in developing housing districts in 1985. Human needs are the priority when planning and designing the pilot housing districts. New technologies, new materials, new equipment, and the results of recent academic research have been widely used and adopted in these

districts. The physical, functional, environmental and operational qualities of the pilot districts have been highly improved by using the energy saving scheme and well planned land uses. By the end of 1996, the number of the pilot housing districts has exceeded 380 and the completed GFA in these districts has exceeded 80 million square meters.

2.1.7 Pursuing Demonstration Program in Housing Construction Facing the Year 2000

China has begun to carry out the Demonstration Program in Housing Construction Facing the Year 2000 in view of the future development of housing needs in the next century. The objectives of this program are to:

- I. research housing construction to further improve the living conditions of Chinese residents.
- II. carry out advanced research in building technology and products development in order to improve the quality of human settlements.
- III. research on new housing policies suitable for China.
- IV. play a demonstration role in raising the housing standards of Chinese residents in the next century.

The program is a more proactive means of solving housing problems in China.

2.2 Goals of Housing Policy

The overall objectives of housing policy in China are:

- I. to provide every household its own appropriate housing units,
- II. to ensure that the housing system develops and grows in a healthy manner and thereby maintaining a development of the housing market in China.

2.2. Housing Condition Goals

According to data from MOC, China will construct 1.2 billion m² of housing space during the period 1996 to 2000. Houses with functional defects will be renovated or redeveloped. The percentage of independent domestic units with exclusive function space will be raised from 60% to 67%. The respective living space and using space per capita will increase to 9 m² and 14 m² respectively. There will be no households with living spaces less than 6 m² per person.

The provision of urban infrastructure and public facilities will be increased in line with the conditions of social and economic development. It is estimated that the total investment in public facilities will account for RMB480 to 600 billion yuan during the period 1966 to 2000. The popularization rate of tap water will increase to 98.5%. The respective average road area and public green area per capita will be raised to 8 m² and 6 m² respectively. According to the MOC data, 75% of the housing units will be supplied with town gas.

2.2.2 *Housing Supply Policy and Goals*

The traditional housing supply system in urban China is self-constructed with the land or housing administratively allocated. The tenant only needs to pay nominal rent to the government, state enterprises or other public organizations. These housing units are not freely transferable in the market. Commodity housing which can be sold and rented in the market will become the major resource of the new housing supply in the future. The supply of subsidized housing by housing cooperatives and the Anju Scheme will only pay a minor role.

The government divides the housing supply into high and middle class commodity housing, normal domestic commodity housing, and subsidized affordable housing (including the Anju Scheme). The reason for the government doing this is to work out policies on land supply, tax and fee system for each category of housing. The government will focus its attention mainly on the supply of housing for the lower income group.

2.2.3 *Housing Distribution Policy and Goals*

To incorporate the principles of efficiency, justice, equity and social acceptability in housing distribution, market mechanisms have to be introduced. The prices and mechanism will be the major means of housing distribution, especially in case of the commodity housing market. The government will replace the direct administrative intervention with indirect monitoring and control using economic and regulative means. Different methods of acquiring housing space will be developed for different income groups.

2.2.4 *Housing Consumption Policy and Goals*

The mentality of waiting for, relying on and asking for housing provision from the government, as well as the concept of “the larger, the better” in

housing consumption has to be changed. In the future, affordability should become the major consideration in deciding the level of housing consumption. Housing privatization is another goal in the course of housing system reform. To comply with the housing privatization policy, "Housing Law in the PRC" is now being drafted. Property rights such as use rights, possession rights and disposition rights shall be identified and secured by laws. In order to develop the housing transaction and rental market, the government is working on regulations to solve the problems created by the black rental market.

2.2.5 Goals of Housing Finance Policy

The realization of the standardized administration of HPF through legislation is the major objective of the policy for housing finance (Zhang, 1997). Besides the development of the political housing finance system, the market for commercial housing mortgage loans has to be developed at the same time.

2.3 Supply Side Regulations

Four sources of housing supply currently exist in urban China (Lu, 1997). Professional development companies including state-owned enterprises, private-owned enterprises, foreign investors and joint venture companies provide commodity housing in the market. The government or quasi-government bodies are responsible for the provision of public housing or subsidized housing for lower income households. Housing cooperatives and similar organizations provide cooperative housing for their members with the help from the government. Some enterprises or organizations, especially those state owned enterprises, still construct staff quarters on the land they previously occupied.

It should be emphasized that all kinds of housing development projects need approval from local government departments in charge of investment planning, land administration, urban planning and design, building construction, real estate administration and public utilities management. All documentation including permission for investment, the land use right certificate, urban planning certificates for land use and construction works, permission for land acquisition, & demolishing and resettlement, permission for start of construction, approval for completion, permission for occupation, permission for leasing, and the property ownership certificate should be obtained by the developer throughout various stages of the development process.

For the self-constructed staff quarters, the capital construction investment administration still apply. However, these kinds of self-construction projects disappear gradually during the housing reform. To decrease the development costs of housing dwellings under the Anju Scheme, a series of supporting policies have been embraced. These include the free charge of land premium, reducing the shares of investment in urban infrastructure and public facilities and provision of government subsidized construction loans.

3. Evaluation of Housing Policy

3.1 Achievements of Housing Policy Goals

Generally speaking, the achievement of the country's housing policy has been the improvement of housing conditions in urban areas. A good example is that the average living space per capita had increased from 3.9 m² in 1980 to 8.5 m² in 1996. However, uneven distribution of housing stock is still a very serious problem. There are 3 million households who have very poor housing conditions and with living space at less than 4 m² per capita on average.

The implementation of the Anju Scheme will benefit the middle and lower income families and improve housing conditions. The replacement of subsidized rental policy to subsidized homeownership is facing difficulties due to the large gap between house prices and the purchasing power of middle and lower income families. The problem become even more serious as the mortgage market is not well developed. The existence of a large number of vacant housing under the Anju Scheme suggest that the distribution policies of the Anju Scheme needs to be adjusted (Liang, 1997).

3.2 Housing Finance

The HPF will play a very important role in solving housing problems in urban China. The estimated size of HPF will be more than RMB80 billion yuan up to the end of 1997. It has been mentioned before that the depositors collectively own the fund, but government decides the fund's usage. Under the current practice, it is difficult to apply for a mortgage loan from the fund. Even if the application is successful, the loan is small and does not give sufficient finance for home purchase. Keeping the fund away from the depositors' needs is unfair. It is even more unacceptable if the fund is used for commercial development and investment purposes.

3.3 The Beneficiaries of Housing Policy

Government housing policy has focused on promoting home ownership by middle and upper income groups and, in recent years, greater attention has been paid to addressing housing problems of the lower income households. From this point of view, the housing policy of China intends to benefit all households. However, housing reform aims at assisting the lower income groups and the households with poor housing conditions. Another aim of the housing reforms is to relieve the government from the heavy financial burden in providing and maintaining public housing.

Under the current housing system reform policy, public housing occupiers can purchase their currently occupied public housing units at a subsidized price (about one third of market price). The larger the space they occupy, the more subsidy they can obtain. This kind of policy has been publicly criticized as it means that housing assets are transferred from the state to the individual occupiers. The immediate beneficiaries of the reform are the households living in the state owned public housing. During the transition period of the housing system, the government should pay more attention to the overall social benefits in view of the long term development of the society. The wealth transfer and the resulting complaints are inevitable during the transition period. However, if the government can convince the people about the long term total welfare gains, such short term difficulties should be tolerated by the society.

The subsidized Anju Scheme housing is targeted at the lower income groups or households with poor housing conditions. However, the “sale rather than rent” policy means that only a small fraction of qualified households can move into the Anju flats. Most of the lower income households cannot afford the price, even though it is only half of the market price. As a result, a large proportion of the Anju flats is left uninhabited which has created financial problems for many developers. To solve the financial problems, some Anju housing developers have changed their targeted buyer from lower income families to institutions, companies or middle income families.

3.4 Side Effects of Government Intervention

As was mentioned previously, the Chinese government has relied heavily on direct intervention to achieve its housing policy objectives. The policy of abolition or reduction of taxation and fees has been adopted to lower the price of commodity housing with an aim to reduce vacant units. However, after the promulgation of these policies, many potential home buyers have changed their strategies from buying to waiting in the anticipation of further decline in housing prices. (Liu, 1997b). As a result, the problem of vacant housing has become even more serious.

In the housing development process, government's policies on land levying, demolishing, compensation and resettlement make it very difficult for developers to start commodity housing projects in urban redevelopment areas. Many developers have turned to sub-urban and rural areas instead. This has led to an over spill of urban areas and the invasion of precious agricultural land (Zou, 1997).

The long established rent control policy has led to a decline in new housing construction, as well as deterioration in existing rental housing units. Under this policy, rents are set by the government at an arbitrarily low level and have little relationship with the cost of housing production or housing service provision. The rent control policy has resulted in serious problems such as housing shortages, poor management and maintenance of existing housing stock and has imposed a heavy financial burden on the state. China has begun to solve these problems by increasing rents and moving towards housing commercialization or privatization since 1980. However, progress was slow and only recently (in the last 5 years), bigger steps have been taken to accelerate the speed of solving these very serious problems.

The housing market in China did not exist before 1987 due to strict government control of housing prices. During the period 1988 to 1997, government control on the prices of commodity housing was relaxed. This resulted in a rapid growth of housing price and speculations in the housing market. Starting from 1998, the government intervention on housing prices will be classified into different categories, namely, strict control for subsidized housing, indicative pricing for domestic commodity housing and no control for market prices of high quality housing (with size over 120 m²/unit).

China is a big country. Substantial differences exist between cities in social and economic development and the pattern of housing consumption. The same policy can be very successful in some cities and yet fail in other cities. If the housing policy at the national level is stipulated in detail, it might

become impractical at local levels. Therefore, within the limits of the Central Government policies, local governments should have the flexibility in working out their practicable local policies that are appropriate for individual cities.

3.5 Effectiveness of Housing Policy and Market Efficiency

The success in solving housing problems in urban China depends on how the country's housing policy can support the economic reform, open door policies and the development of a socialist market economy. In general, the goals of housing policy match the long term interests of urban residents and are also compatible with the present and expected future conditions economic development. Therefore, the goals of housing policy in China are feasible and attainable.

The sensitivity of market price to the changes of supply and demand is the major indicator of market efficiency. In China, most of the market data is collected for official use only and are not available to the general public (Liu et. al., 1997). The development of an on-line housing transaction data base, which facilitates the collection and dissemination of real estate market data using network technology is still in its infant stage. The under utilization of real estate data means that the market has lost some efficiency. On the other hand, the high fees and taxes in housing transaction (mainly consists of 3%~5% deed tax, 1% administrative fee, 2% agency fee as well as 0.3~0.6% stamp duty) also have negative impact on the efficiency of the market.

Difficulty in assessing the actual individual income is the key problem in implementing the policy of distributing subsidized houses such as Anju Housing. A system needs to be put in place to ensure that the subsidized houses are distributed to the right households.

4. Lessons and Policy Implications

4.1 Responsibility of Government

The responsibility of the government in solving housing problems is to provide basic housing, the standard of which is compatible to the social and economic conditions. The basic objective of housing policy in China is to guarantee a certain minimum level of housing conditions for middle and

lower income households by administrative measures. However, because institutional buyers such as government departments and state owned enterprises or organizations are not constrained by the purchasing power of the end-users, they will purchase units that are not compatible with the economic conditions of the individual households. The housing units they brought will consequently be rented or be sold to their staff at a nominal rental or price. This leads to people demanding higher housing standards. As a result, the size of housing unit supplies to the market has increased. According to the statistics from MOC, the average size of a domestic commodity housing units increased from 69 m² in 1992 to 74.8 m² in 1995 (Table 10). The average size of an Anju Housing unit is over 60 m² in Beijing. Given that the construction capacity cannot be easily increased, the larger the size of a unit, the fewer the number of units that can be built. This would move further away from the objective of "one family, one suitable home" if the problem of increasing unit size continues. The problem of equity in housing distribution will be hampered by a lack of sufficient supply of housing units. It is therefore suggested that the government should pay more attention to monitor the size of units and the production of sufficient number of unit to solve the housing problem. (Lu, 1996).

Table 10: Average Size of Newly Completed Housing Units in Urban China

Year	1992	1993	1994	1995	1996
Domestic Housing(m ²)	69.14	72.89	76.28	74.80	75.62*

* Provisional figure

Sources: China Real Estate Development Statistics 1986~1996, MOC, Beijing, 1997.

4.2 The Pace of Housing System Reform

One of major objectives of housing reform is to provide guidance on housing consumption and improve housing conditions by increasing the percentage of expenditure on housing. Yet, the key problem that can not easily be solved is that the lower income groups spend most of their earnings on food. Even if the percentage of housing expenditure increases 15%~25%, the absolute amount, is still too low for purchasing commodity housing. It is suggested that the increase housing consumption should be kept in pace with growth in household income. Setting unrealistic goals will result in affordability problems, especially for the middle and lower income families.

Information on the distribution of the households with regard to their income, current housing conditions and the career of the resident will be

helpful in formulating policies for different groups of households. There is also a need to collect information of the resources and standards of housing supply. For the open housing market, we can rely on the market mechanism to adjust demand and supply. For the government subsidized affordable housing, policies or regulations related to construction standards and development costs, taxes and fees, rental and price have to be worked out by the government. The government should design policy based on both demand and supply information. As a result, individuals can improve housing conditions more effectively.

4.3 Welfare Housing

Some researchers and government officials favor the termination of the supply of welfare housing (Qi, 1997). News about terminating the welfare housing supply in some cities has also been reported by the media. For example, the Nanjing government has decided to sell all the public housing to the existing tenant at discounted prices. Every family has to buy their flats from different resources including the housing under the Anju Scheme. It is incorrect to regard the practice in Nanjing as termination of supply of welfare housing. Regardless of the feasibility of housing policy in Nanjing, the discounted prices of the existing housing and the Anju housing certainly possess welfare characteristics. It is impossible to terminate the supply of welfare housing. There are always households in need of help from society.

References:

Cheng Z., Chai, Q., Qin, H. and Wen, L. (1996), Review on the Prices and Development Fees of Domestic Commodity Housing, *Real Property Strategies*, **20**, 38-46.

CREIS Office, (1997), *China Real Estate Market Report*, China Real Estate Index System Office, Beijing.

Liang, Y., (1997), "Anju Scheme" and Housing Market, *Chinese and Foreign Real Estate Times*, **198**, 10-12.

Liu, H. (1996), Vacancy Rate and Its Influence on the Real Estate Market, *Beijing Real Estate*, **72**, 27-29.

Liu H., (1997a), Government Policy on Housing Mortgage Loan for Individuals, *China Real Estate Information*, **136**, 4-5.

Liu H., (1997b), Government Policy in Reviewing Fee Collections and Its Effects on Real Estate Prices, *China Real Estate Information*, **137**, 9-10.

Liu, H. Wheaton, W., Brady, P., Tu, X. Chen, J., Jun, F., and Long, S., (1997), *Real Estate Data Systems: Comparing China and the U.S.*, Center for Real Estate of MIT, Massachusetts.

Liu H., (1998), Challenges and Opportunities of the Chinese Housing Industry, *Market Newspaper of People's Daily*, March 15, 7.

Lu, F., (1997), Housing Supply System and Housing System, *China Real Estate Information*, **129**, 44-46.

Lu, Y., (1996), Affordable Housing System and Anju Scheme, *China Building Industry Press*, Beijing.

MOC, (1997), The Ninth-Five Year Plan and Objectives of the Year 2010 for Urban Housing Construction and the Real Estate Industry, *Beijing Real Estate*, **1997**, 1, 13-17.

Qi, M., (1997), Review on the New Viewpoints of the Housing Reform Targets, *Housing and Real Estate*, **30**, 8-11.

Zhang Q., (1997), The Current Situation of Housing Provident Fund System and its Future Development, *China Real Estate Finance*, **3**, 22-25.

Zou Y., (1997), Land Management Policies the Protection of Agriculture Land, *Chinese and Foreign Real Estate Times*, **190**, 8-12.