

Chapter 4

Housing Security in China: History and Future Trend



Xuemei Jiang

With the social development and the progress of human civilization, the issue of housing for disadvantaged groups has evolved from the level of poverty alleviation to that of social security, and housing right has become a basic right for urban residents and a human right that draws international attention. At the International Symposium on Housing and Urban Issues held in London in April 1981, the Declaration on Housing Right was passed that stated that “it is a basic human right for all residents to enjoy a pleasant environment and livable residence”.

The housing security system has developed and evolved constantly along with social changes. A multi-layered security system has taken shape, and the focus of housing security policies has shifted to fostering and improving a system that improves the paying capability of low- and middle-income groups. The old model that the government built housing and rented it at low price is replaced by the model that residents buy housing on installment payment while the government provides rent subsidy and favorable financial and tax policies. In this process, the government plays the dual role of a participant and a regulator, and the regulatory role gradually becomes dominant as the security system is improved.

4.1 Evolution of Housing Security System in China

From the establishment of the People’s Republic of China to the present day, the urban housing system in China has roughly gone through the following four periods.

X. Jiang (✉)

National Academy of Economic Strategy, Chinese Academy of Social Sciences, Beijing, China
e-mail: jiangxuemei@cass.org.cn

4.1.1 The First Period (1949–1978): Welfare Housing Was Distributed at Low Rent

After the People's Republic of China was founded, it implemented the low-rent public housing system. Before the reform began, China was a society of highly planned economy, in which housing was distributed as a kind of benefit and the government, enterprises and public institutions invested in urban housing construction in a centralized manner. In 1949, the central government issued the *Decision on Implementing Centralized Management of Public Housing and Assets*, which defined urban housing as publicly owned and under centralized management. Later the land reform movement was launched, whereby the CPC and the government took over a large amount of housing left by the old government and foreign powers, and renovated the private housing previously owned by land owners and bureaucratic capitalists, which constituted the earliest public housing in China (Liu 2009). However, as the housing was publicly owned and China implemented a strict planned economy, they were not available in the market, so government investment was the only way of new housing development and construction. At that time, housing was an indispensable living material, and the investment in its development and construction either came from government finance or the welfare fund of enterprises and public institutions.

Under the philosophy of “production before consumption”, housing production and supply was in serious shortage. Regarding housing supply, the welfare housing distribution in the period of planned economy was arranged under national finance in a centralized way. Welfare housing was built by many employers with government fund and its distribution had to be approved by the government as well. Since housing construction was categorized as non-productive construction (urban construction includes productive and non-productive construction), China invested RMB37.4 billion in housing construction accumulatively in the almost 30 years from 1949 to 1978, averaging less than RMB10 per person per year, and 530 million square meters of housing was built in that period. In 1978, the per capita construction area was 6.7 m², 0.9 m² less than in 1949, and 8.69 million households didn't have housing, accounting for 47.5% of the total urban households at that time (Ma 1995).

Regarding the distribution of public housing, employees on different levels were entitled to public housing of different standards. Welfare housing was a basic benefit granted by the government and enterprises to employees given the low salary in the planned economic system, and its purpose was not solving employees' housing difficulties. Welfare housing was distributed only to employees and the recipients and order of housing selection were determined based on conditions such as title, position and years of work, while families' housing difficulty wasn't a main consideration. Besides, the criteria for welfare housing distribution were not unified but varied largely from industry to industry and from one employer to another.

The operation and management cost of public housing was high and couldn't be covered by the rent income. Rent on welfare housing was determined and adjusted by the government without considerations for such factors as housing location, construction standards, floor and the direction a building faces or the income difference among individuals and families. Self-managed housing (owned by the employer) and directly managed housing (owned by the housing authority) took up 80% of all public housing, and public housing rent took up only 1% of personal salary. All these resulted in the serious shortage in housing repair capital and the vicious cycle in public housing operation.

Under such circumstances, housing demand was suppressed. For a very long time after the People's Republic of China was founded, housing for urban residents was completely distributed according to centralized government plan, and everyone had to wait for it to be distributed by the government or employer. Once they lived in public housing, the recipients only had to pay very little rent to live in it indefinitely and could even pass it on to their children and grandchildren.

Welfare housing distribution was an inevitable outcome of the socialist public ownership and a planned economy implemented in China. Such a housing security system basically ensured housing for all urban employees, but it had the following problems:

First, centralized housing investment resulted in national financial strain. Under the welfare housing system, most of the housing fund, from construction to maintenance, was allocated from national finance (usually more than 90% and the rest was raised by the employer), putting a huge burden on it. Public housing, as immovable property, became a heavy burden on the country (Ma 1995).

Second, low distribution efficiency couldn't effectively meet residents' housing demand. In the highly centralized planned economic system, private investment couldn't access the real estate sector and public housing operation was in a vicious cycle, so no more public housing could be supplied, but residents had no other choice but to wait until units of housing became available.

Third, there was no legislation for the housing security system, and unequal housing distribution for urban residents could lead to power rent seeking and corruption. Employers of different nature and position had different degrees of occupation and control of resources, thus leading to unequal housing distribution among them. According to a questionnaire survey of 1000 households in Beijing conducted by China's social survey system in 1988, housing distribution varied greatly between employers owned by the whole people and those of collective ownership, the former with a per capita usable area of 6.75 m² and the latter 5.65 m².

In the period of welfare housing distribution, there was too little housing but too many employees. The biggest drawback of this system was that it provided benefits for a small number of people, which implied serious inequality and dampened employees' enthusiasm. Since the "benefit" was reflected through housing, those

who got it had the benefit whereas those who didn't lost the benefit. This created the space for people who were responsible for housing distribution to seek personal gains and consequently resulted in corruption and serious inequality in the process.

The welfare housing system in China before the reform and the housing benefit in western countries were both secondary distribution of "counter-market" nature, so they both carried the "non-capitalist" or "socialist" elements but with drastic differences. In China, most farmers and employees engaged in secondary light industry were not entitled to welfare housing, and the commitment to providing housing for employees in large- and medium-sized state-owned enterprises (SOE) was mostly not honored. The real beneficiaries of the welfare housing system were Party, political, military and educational personnel. The housing system in European and American countries followed the principle of "ensuring housing for the disadvantaged and prioritizing those most in need" whereas the principle in China was "guaranteeing housing for the advantaged and prioritizing those on top".

Fourth, the system seriously impeded corporate development. Enterprises had to build, buy and distribute housing and were also responsible for their management and repair. This impaired SOE's capability to compete with enterprises of other ownership and impeded their development.

Besides, the land tenure system then was another important reason for the housing problem. Land transaction of any kind was prohibited at that time according to the old Constitution.

4.1.2 The Second Period (1979–1997): Market-Oriented Institutional Reform

The conflict between housing demand and supply became sharper because of the drawbacks of two welfare housing system, which was worsened by the massive return of educated youths from the countryside to cities in 1979. Therefore, the reform of housing system was put on the agenda, especially housing construction and supply. The central government began to make great efforts in 1978 to solve the housing problem for urban residents. In August that year, a central meeting on urban housing construction was held, at which Vice Premier Gu Mu passed on Deng Xiaoping's instructions on that issue, namely the problem could be solved through multiple approaches, including allowing individuals to build housing via installment payment with or without public aid. This lifted the curtain on China's urban housing system reform and initially pointed out the direction for it.

Self-built housing was encouraged: to promote the sales of public housing and private housing construction to main cities around China, Deng Xiaoping pointed out in April 1980 that urban residents could buy or build housing, both new and old housing could be sold, and buyers could make lump-sum payment or 10-year or 15-year installment payments.

In June 1980, the State Council approved and forwarded part 7 of the *Outline of the Report to National Capital Construction Meeting* drafted by the National Construction Committee Party Group, which called for efforts to accelerate urban housing construction, allowed employees to build or buy and possess their own housing, and officially announced to implement housing commercialization policies, lifting the curtain on China's urban housing system reform. There were mainly four ways of private housing construction. (1) Individuals built housing with public aid. (This meant individuals were responsible for part of the capital and materials and the housing bureau or enterprise provided some capital for the construction or renovation of the original residence. Or the government allocated land in a centralized way and unified the design, and individuals raised money to build their own housing according to the plan. The government was responsible for the expenses on land requisition and public facilities and the individuals' employer provided assistance). (2) The authority built housing with private aid. (This meant those who lived in public housing helped the housing authority to renovate or expand the public housing they lived in by providing part of the capital and labor force required, which would be calculated to offset the rent. Or the housing authority collected money from residents to build new housing and then prioritized the investors when distributing it). But the property right of such housing belonged to the government. (The investment by residents would be refunded within several years or used to offset rent). (3) Individuals built housing through mutual help, (meaning with the help of relatives and friends). (4) Individuals built housing with self-raised money.

In 1983, the State Council issued the *Regulations on Private Urban Housing*, which encouraged urban residents to build housing themselves and advocated housing construction through capital raising and cooperation.

Public housing sold at full price or with subsidy: in 1979, the State Administration of Urban Construction earmarked funds from the national subsidy for housing construction to Shaanxi and Guangxi to build housing in such cities as Xi'an, Nanning, Liuzhou, Guilin and Wuzhou and then sell them to private buyers at the full price of RMB120-150/m² on a trial basis. There weren't many buyers due to the low salary, low rent and the absence of related home sale policies back then.

In 1980, Deng Xiaoping outlined the framework of housing system reform, namely urban residents could buy public housing and private real estate development should play the central role. In April 1982, the State Council approved on principle the *Report on the Symposium of Trial Home Sale* submitted by the National Construction Committee and State Administration of Urban Construction, and decided to try this work in the four cities of Changzhou, Zhengzhou, Shashi and Siping. This time urban housing was sold with subsidy instead of being distributed. By early 1984, 12,140 apartments were sold with subsidy in the four cities, totaling the construction area of 114,500 m² and investment of RMB16.4 million. About 30% of the investment was recovered and there was more demand than supply.

As the State Council approved the *Report on the Symposium of Trial Housing Sale*, the sale of newly built housing at cost price basically stopped, and the policy of subsidized home sale was implemented on a trial basis. This meant that the government, employer and private buyer were each responsible for one-third of the housing

price that was determined based on the civil engineering cost. It was provided that construction cost of public facilities, construction tax and energy and transport fee shouldn't be included in the cost, so the housing price was RMB150-200/m², and the part borne by private buyers was only twice as much as the annual family income.

However, as the old system of public housing rent wasn't abolished and the salary system wasn't reformed, the rent-price ratio wasn't reasonable, individuals had no motivation to buy housing and housing construction fund wasn't circular. Therefore, the subsidized sale of public housing was called off in 1985, and housing reform shifted to the study and design of renting system reform.

Subsidized rent increase: the reform of salary system was launched in 1985, and the government began to reform the low-rent housing approach in 1986 and implement the policy of subsidized rent increase on a trial basis. In 1986, the State Council set up the Leading Group of Housing System Reform and its office, which met for the first time on July 25 that year to discuss the reform plan. At that meeting, it was decided that the focus of housing reform for a certain period to come was gradually increasing the rent (first to cost level and then to commercial level), and the contents of the reform included housing supply, distribution and consumption. Cities including Yantai, Tangshan, Bengbu, Changzhou, Jiangmen and Shenyang were selected as pilot cities to carry out the reform, which was referred to as "subsidized rent increase, rent + sale, promoting sale with renting and auxiliary reform measures", before it was promoted nationwide. The monthly rent was raised from RMB 0.07-0.08/m² to more than RMB1/m², which was equivalent to 70-80% of the cost (comprising the five items of repair fee, management fee, depreciation fee, investment interest and housing property tax). Public housing was sold at the standard price that included construction cost, land requisition cost and compensation for demolition. The Shenyang-based Northeast Pharm implemented the policy of "higher rent, higher salary", whereby rent was increased from RMB0.17 to RMB1.42/m² but extra housing subsidy that was 22% of the basic salary was also provided. The company could recover RMB1.25 million through rent every year, which was used to build more housing, thus realizing a benign cycle. As of 1987, the company sold 150 newly built commercial apartments to employees and more than 500 employees applied to buy housing.

On the basis of the trial reform, the State Council printed and distributed the *Plan for Gradual Promotion of Housing Reform in All Cities and Towns Nationwide* in February 1988, which stated that the government would promote the reform nationwide within 3-5 years from 1988. The low-rent public housing system would be reformed, whereby housing distribution in kind would be replaced by monetary distribution, residents could obtain the ownership or use right of housing through the exchange of goods, and housing, as a bulk commodity, could enter the consumer market. As a result, a benign cycle was created between housing input and output. Not only was the housing problem for urban residents solved and employees were better able to afford the housing, but the housing commercialization and socialization (the first overall housing reform plan issued by China) was also advanced. From then on, housing system reform in China evolved from trial

implementation to nationwide promotion and corresponding financial measures were adopted (Kang 2013).

A serious inflation hit China in 1988, when the general retail price index (RPI) increased by 18.5%, bank reserves began to drop and national finance was unable to provide the start-up capital for rent and salary increase. In fact, during the housing system reform, public housing was sold at a very low price to recover capital. Incomplete statistics show that 6.54 million square meters of old public housing was sold that year, and only RMB65.7 was recovered per square meter. The implementation of “subsidized rent increase” encountered major difficulties, the housing reform plan to be promoted in 3–5 years failed, and housing reform was basically in a halt in the next 3 years.

From 1979 to 1990, local governments reformed the original housing system by increasing rent, selling welfare housing that was originally distributed to employees, and encouraging employees to buy new housing directly. For the first time in history urban residents could obtain housing in the market. However, as their income was generally low at that time, they couldn’t obtain the full property right through purchase, so in most areas, individuals only had to bear part of the housing price (about one-third to one-half while the rest was subsidized by the employer and the government). The housing system reform in this period was of a strong security nature and should be viewed as a transition (Jin 2004).

4.1.2.1 The Period of Overall Auxiliary Reform: Subsidized Rent Increase and Housing Provident Fund Pushed Housing Commercialization

The housing system reform began to unfold in full swing in 1991, meaning housing distribution was more market-based and subsidy from the government and employer decreased step by step. In June 1991, the State Council issued the *Notice on Continuing the Reform of Urban Housing System Actively and Prudently* (GF [1991] No.30), which rolled out a series of measures, including increasing the existing rent on public housing to cost level according to the plan step by step, selling public housing, applying new system to new housing, and building housing through capital raising or cooperation.

The State Council issued the No.11 document in 1988, according to which the housing reform would be promoted to the whole nation by stages and by batches, and the main measure to change the old system was placing equal stress on renting and sale, namely subsidized rent increase and sale of public housing. This policy was promoted throughout the decade from 1988 to 1997, although subsidized rent increase was prioritized before 1992 while the other was prioritized after 1993.

In the transformation from planned economy to market economy, housing construction was sure to be governed by market rules. In the late 1980s, China’s housing system reform came to the stage of overall design and comprehensive implementation, a period when policy-based welfare housing took up a large proportion and commercial housing increased gradually.

In that period, urban housing reform took initial effects, and the approach of urban housing supply by the government alone was changing into one “dominated by government supply and complemented by market supply”.

In 1991, Shanghai launched the new housing provident fund system and adopted a series of measures including paying housing provident fund, subsidized rent increase and home sale at favorable price. Housing provident fund was used to grant loans for housing construction projects, provide the capital for housing construction for employees, and consequently mitigate the conflicts resulting from short housing supply. Cities like Beijing, Tianjin, Wuhan and Nanjing followed in Shanghai’s steps from 1992. In January 1992, Tianjin launched the housing provident fund system, and at the end of March that year, more than 2.2 million employees working at 14,300 enterprises and public institutions across the city had opened housing provident fund accounts at CCB and nearly RMB30 million funds had been paid.

The subsidized rent increase and initial housing provident fund system implemented in this period made housing a more commercial, socialized and professional work, and made people begin to accept the notion that housing was also a commodity. Pushing housing into the consumer market through the exchange of goods in a way realized a benign cycle between housing input and output.

Most of the capital for housing construction was raised by enterprises and public institutions themselves, but those organizations had different economic conditions, so their housing gap widened. Public housing, although being sold, was still considered a kind of benefit to a large extent, and low-price sale emerged several times. Meanwhile, the ancillary systems weren’t reformed accordingly, and the real estate market was far from being standard, so the economy got overheated and real estate industry had a bubble boom.

During the reform and opening-up and in the new stage of socialist modernization, urban housing policies went through constant explorations and changes, from allowing individuals to build housing themselves, selling public housing at full price or with subsidy, to subsidized rent increase and then the equal emphasize on that and the housing provident fund system. In this process, housing became increasingly commercialized.

Article 2 in the Constitutional amendment on April 12, 1988 provided that “the right of land use can be transferred according to law”. In December that year, the *Land Law* was revised according to the amendment and the system of paid use of state-owned land was implemented. On May 19, 1990, the State Council issued the *Provisional Rules on the Grant and Transfer of the Use Right of State-owned Urban Land*. On July 25, 1994, the standing committee of the National People’s Congress (NPC) issued the *Law on Urban Real Estate Management*, and in the same year, the State Council issued the *Decision on Deepening the Reform of Urban Housing System*, which specified the goal of housing reform. It was to establish a new urban housing system consistent with the socialist market economy, commercialize and socialize housing, accelerate housing construction and improve living conditions, so as to meet the growing housing demand of urban residents.

After the trial housing reform in the early 1980s and its deepening in the 1990s, housing changed from a benefit distributed by the government into a commodity that individuals could buy from the market freely.

4.1.3 The Third Period (1998–2007): The System of Monetary Housing Distribution

The State Council issued the *Notice on Further Deepening the Reform of Urban Housing System and Accelerating Housing Construction* in July 1998, which determined that the reform should be centered on housing monetization. The *Notice* stated that “housing distribution in kind should be stopped and gradually replaced by monetary housing distribution. A multi-layer housing security system with affordable housing in the center will be established and improved, and efforts will be made to develop the financial market and cultivate and standardize the housing market.”

As the system of monetary housing distribution was implemented in 1998, China began to establish the housing security system, including comprehensively implementing housing provident fund, affordable housing and low-rent housing.

The housing provident fund system is a policy-oriented financing channel adopted by the Chinese government to solve the housing problem for employees and a compulsory security system for individuals. In the *Decision on Deepening the Reform of Urban Housing System* issued by the State Council on July 18, 1994, it is stated that housing provident fund system should be promoted nationwide across the board. In 2002, the State Council revised the *Regulations on Housing Provident Fund*, printed and distributed the *Notice on Further Strengthening Housing Provident Fund Management* and a series of guiding documents such as *Guiding Opinions on Several Specific Issues Concerning Housing Provident Fund Management* and *Notice on Several Specific Issues on Housing Provident Fund Management*. The Ministry of Construction, Ministry of Finance, People’s Bank of China (PBC) and China Banking Regulatory Commission (CBRC) successively printed and distributed documents, such as *Methods of Administrative Supervision of Housing Provident Fund* and *Methods of Performance Assessment of the Housing Provident Fund Management Center*, to standardize the fund management according to law and push the fund’s sustained and healthy development.

Affordable housing and price-capped housing are policy-oriented commercial housing with security function targeting low- and middle-income families.

The security function of affordable housing is reflected by favorable government policies, such as land allocation, tax break, and limitation of construction standard, target of supply and sales price. In the *Notice on Continuing the Reform of Urban Housing System Actively and Prudently* issued by the State Council in June 1991, it is stated that “affordable commercial housing should be developed and provided first and foremost to those without housing or living in poor conditions”, which primarily positioned affordable housing on the state policy level. The *Decision on Deepening the Reform of Urban Housing System* issued by the State Council in 1994 made it clear that development and construction of affordable housing should be accelerated. Then in July 1998, the State Council issued the *Notice on Further Deepening the Reform of Urban Housing System and Accelerating Housing Construction*, which called for the establishment and improvement of a new nationwide housing supply system that was centered on affordable housing. In 2004, the Ministry of

Construction, National Development and Reform Commission (NDRC), Ministry of Land Resources and PBC jointly issued China's first *Regulations on Affordable Housing*, which defined affordable housing as "policy-oriented commercial housing with security function" mainly targeting low- and middle-income groups. In August 2007, the State Council issued *Several Opinions on Solving Housing Problem for Low-income Urban Families*, which stipulated the "limited" property right of affordable housing and conditions for it to enter the market. In December 2007, the Ministry of Construction, NDRC, Department of Inspection, Ministry of Finance, Ministry of Land Resources, PBC and State Administration of Taxation jointly issued the *Regulations on Affordable Housing*, which set down rigorous construction standards and entry and exit mechanism, and incorporated housing construction by employers through fund raising or cooperation in the scope of affordable housing management for the first time.

Price-capped housing came into being against the policy background of stabilizing housing price and "developing real estate through public bidding on the basis of limited apartment size and price and competition in land price and housing price" as stated in the *Opinions on Adjusting Housing Supply Structure and Stabilizing Housing Price* (May 2006).

Low-rent housing means that to ensure housing for families in need, local governments build this type of housing mainly with government fiscal budget while raising money through multiple channels. There are several approaches of this system, namely housing rent subsidy (the main approach), rental housing in kind and rent reduction (the auxiliary approach).

The Ministry of Construction issued the *Regulations on Urban Low-rent Housing* and *Housing Regulations for Minimal-income Urban Families* in April 1999 and November 2003 respectively, according to which low-rent housing would be provided to the minimal-income group. *Several Opinions of the State Council on Solving Housing Problem for Low-income Urban Families* issued in August 2007 stressed stepping up this effort and prioritized low-rent housing as a way of housing security. The *Methods of Low-rent Housing* and *Regulations on Low-rent Housing Fund* issued in September and November 2007 respectively specified the targets, standards and approach of low-rent housing and the source, use and management of low-rent housing fund, further improving the policy system.

However, the housing security system still had much to improve, problems such as limitation of household registration and poor implementation existed, and low-income housing was in serious shortage. To address them, great efforts were made to improve and increase low-income housing.

4.1.4 The Fourth Period (2008–Present): Establishment of a Housing Supply System with Equal Stress on Security and Commercial Housing

Several Opinions of the State Council on Solving Housing Problem for Low-income Urban Families issued in August 2007 stressed accelerating this work and prioritized low-rent housing as a way of housing security. This indicated that China's urban housing system reform proceeded from the stage of housing commercialization, socialization and marketization to the new stage of establishing a housing supply system with equal stress on security and commercial housing. The government and the market would re-adjust their position and role in housing supply.

The *2008 Work Plan for Low-rent Housing* made it clear that by the end of 2008, low-rent housing should be provided to all urban households receiving subsistence allowances and having housing difficulties. This goal was achieved on time and low-rent housing was provided to 4.88 million eligible households.

In 2008, the Ministry of Construction issued the *Guiding Opinions on Making Overall Plan and Annual Plan for Housing Construction*, in which low-income housing was the focus. At the end of 2008, MOHURD put forth the “900-billion housing security program”, according to which two million low-rent apartments and four million affordable apartments would be built in the next 3 years (Zhang 2009).

In May 2009, three ministries including MOHURD issued the *Low-rent Housing Security Plan 2009–2011*, which set the goal of solving the housing problem for 7.47 million low-income households with housing difficulties by the end of 2012. On December 14, 2009, the State Council executive meeting decided that “efforts should be made to basically solve the housing problem for 15.4 million low-income households with housing difficulties by the end of 2012”.

According to the 12th Five-Year Plan, 36 million sets of low-income housing would be built in the next 5 years. From 2011 to September 2014, 31.08 million sets started construction, accounting for 86.33% of the goal, and 22.41 million sets were basically completed.

4.2 Problems

After the reform and opening-up started, China's urbanization drive picked up speed and the ratio of urban population increased from about 18% in 1978 to about 49.7% in 2010. If it is to exceed 75% in the next 30 years, more than ten million farmers will enter cities every year in that period. The rising urban population in the urbanization process results in a growing housing demand and land finance, which, combined with the imperfect housing security system, leads to the rapid increase of housing price in China, and more residents have housing difficulties, especially the low-income group. As migrant workers are the low-income group in cities, they can only live in low-rent housing that is far away from the city proper and in poor

conditions. The *2009 Survey Report on Migrant Workers* by the National Bureau of Statistics showed that 17.1% of migrant workers rented housing independently in 2009, and only 0.8% of them bought housing at the place where they worked.

In the current housing security system, low-rent housing, affordable housing and price-capped housing are for residents with urban household registration only, and resettlement housing and housing for rundown and old urban area renovation are mainly for local residents. Local governments have adopted the “laissez-faire” approach toward urban housing for migrant workers, a problem that is not tackled by the urban housing security system. With the rapid increase of housing price and rent, housing actually begins to impede urbanization, and to achieve the new type of urbanization, not only the housing security system has to be improved, but more efforts should be made to provide low-income housing.

The current housing security system has the following problems.

4.2.1 First, Unitary Security Model and Household Registration Discrimination

Low-rent housing, affordable housing, price-capped housing, resettlement housing and housing for rundown and old urban area renovation are only for people with local household registration or living locally and not accessible to migrant population without local urban household registration. Meanwhile, the current housing security system focuses on the unitary model of low-income housing with property right. Of the 10 million sets of low-income housing that started construction in 2011, for example, 1.65 million sets were low-rent housing, 2.27 million were public rental housing, 1.1 million were affordable housing, 830,000 were price-capped housing, and 4.15 million were housing for rundown urban area renovation; 60.8% were low-income housing with property right. Such a housing security model further intensified household registration discrimination. At present, most cities are working hard to ensure housing for people with local urban household registration, but China is in a period when urbanization is proceeding at a faster pace, urban residents increase sharply, population is more mobile and population structure is changing. The housing security system has to adapt to such social changes and needs.

4.2.2 Second, The Housing Security System Isn't Systemic Enough and Has Major Loopholes

There is a wide variety of forms of housing security at the moment, including low-rent housing, public rental housing, affordable housing, price-capped housing, resettlement housing and housing for rundown and old urban area renovation, but low-income housing with property right is dominant. However, the form of housing

security doesn't match the per capita income distribution. For example, for low-income housing projects for rundown and old urban area renovation, a universal subsidy standard is adopted instead of a differentiated one based on family income. The inclusive housing provident fund has a low coverage ratio and is preferential to the high-income group, and price-capped housing, affordable housing and low-rent housing all have an income criterion. Meanwhile, the access threshold to different low-income housing forms is not well-aligned and has wide gaps, making it hard for the "sandwich class" to access low-income housing, and how to guarantee their housing remains a big problem. Regulations issued by different places on low-income housing are neither well developed nor systemic, and governments are still exploring on specific matters such as the target of housing security, supply standard, capital raising and implementation.

4.2.3 Third, The Generally High Rent for Public Rental Housing Easily Leads to Effects That Cannot Meet Expectations

A major characteristic of public rental housing is that it sets no limitation on household registration and migrant workers are also covered. According to the *Guiding Opinions on the Construction and Management of Low-income Housing Projects*, public rental housing is accessible to lower-middle-income urban families with housing difficulties, newly employed employees without housing and migrant workers with stable employment in the city. Therefore, the rent should be bearable by the sandwich class and be set according to the target group's income range, but the reality is that in some cities, the rent for public rental housing is only slightly lower than that for nearby commercial housing and is unaffordable for the sandwich class. It actually makes public rental housing inaccessible to the low- and middle-income group, especially migrant workers.

4.2.4 Fourth, Uneven Coverage of Low-Income Housing in Different Regions Leads to Unfair Income Redistribution

According to the *Guiding Opinions on the Construction and Management of Low-income housing Projects* issued by the General Office of the State Council, by the end of the 12th Five-Year Plan period, the national coverage of low-income housing will reach 20% or so, and housing difficulties of lower-middle-income and low-income urban families will be basically solved. As one of the effective ways of income redistribution, housing security should be implemented according to actual needs and difficulties. The affordable housing coverage in Urumqi, Xi'an, Harbin,

Taiyuan and Hohhot was higher than 20% in 2009,¹ but in 2011, some of them undertook a heavy task of low-income housing construction and consequently got more central subsidies for that, which was obviously unfair for residents in other cities. Housing security must be promoted across the country, the central government should grant subsidy according to actual needs, and local governments have to keep the housing supply structure balanced. The construction of low-income housing should effectively solve housing difficulties nationwide. Its effect shouldn't be gauged by quantity alone, but also by how well its distribution meets effective demand. Therefore, while a lot of low-income housing had to be built, it didn't have to be built on such a large scale in all cities, but should be based on the construction volume in previous years. During the 12th Five-Year Plan period, cities with high or low affordable housing coverage should decrease or increase the construction of low-income housing respectively, and enclosed management should be intensified to ensure the source of low-income housing and their security capability.

4.2.5 Fifth, Low-Income Housing Is Concentrated and Mostly in Suburbs

A lot of low-income housing is built in far suburbs because of the low land cost. As a result, low-income group lives in relative concentration and are separated from middle- and high-income groups. This, combined with poor auxiliary facilities, forces low-income group to live far away from the suitable employment market, reduces their job opportunities and increases commute cost. This doesn't help them increase the income. Instead, it may cause living segregation. If active efforts are not made to develop communities, those low-income housing neighborhoods may degrade to new ghettos and directly affect social stability.

4.2.6 Sixth, Low-Income Housing Is Under Heavy Capital Pressure

Local governments are under capital pressure for low-income housing construction in general. They have to invest a lot of money in urban infrastructure and also have to

¹Coverage rate of affordable housing in 2009=(completed area of affordable housing 1999–2009)/(completed housing area 1999–2009) × 100%. At the end of 2008, more than 18 million households in the country lived in better conditions thanks to affordable housing, of which more than 5 million households were low-income families. This means that the coverage rate of affordable housing partially reflects the strong efforts of the government have been made in housing security for low- and middle-income residents.

provide capital for education, medical care and other livelihood projects, so they have a wide capital gap. Deficient capital will affect the progress on low-income housing construction and may cause “unfinished buildings”.

In the next 20 years, China not only has to solve the housing problem for 400 million migrant workers, but also to repair and manage the existing low-income housing, which means an immense capital demand both for construction and management. However, there are very few financing models for low-income housing at the moment, mostly government investment and bank credit with very little private investment.

4.2.7 Seventh, Massive Construction Has Quality Hazards

Because of the lack of planning and construction experience and the difficulty in regulation, low-income housing has revealed a lot of problems. Although local governments were firm about the quality of low-income housing project and took many quality-guaranteeing measures, regulation seemed very weak against the background of “massive construction on a tight schedule”. As a result, quality problems such as subgrade caving, wall cracking and water leak appeared one after another in low-income housing. “Longer and thinner rebar” was used in low-income housing in Guangxi and Hainan, and the Ming Yue Wan project in Jiugong Town of Beijing’s Daxing District was ordered to be rebuilt due to outrageous quality problems.

4.2.8 Eighth, Some Low-Income Housing Gets Cold Shoulder and Fair Distribution Faces Challenge

Low-rent housing, affordable housing, price-capped housing, resettlement housing and housing for rundown and old urban area renovation are only for people with local household registration or living locally and not accessible to migrant population without local urban household registration. However, low-income housing with property right takes up a much larger proportion than rental housing, but only the latter is accessible to population without local household registration. The result is that while household registration is used as a threshold to the distribution of low-income housing, some low-income housing gets cold shoulder. In March 2012, only 210 of the 913 public rental apartments located in Nanhu New Area in Wuhan were occupied, while the rest 700-plus apartments were left vacant. The first two public rental housing projects built in Shanghai under government leadership had 5100 apartments in total, but only about 2000 applications (less than 40%) were filed. To address this, cities like Beijing, Shanghai and Wuhan have issued the subsidy standard for public rental housing.

Under an unsound credit system, low-income housing distribution saw a series of malpractices such as violation of rules, fraudulent purchase or rent and sub-letting or sub-sale. For example, six affordable housing applicants in Wuhan had “housing purchase license with continuous numbers”, and in Xinzhou city of Shanxi Province, Meixian County of Shaanxi Province, Changsha County of Hunan Province, Haikou city of Hainan Province and Rizhao city of Shandong Province, low-income housing almost became the welfare housing for civil servants.

4.2.9 Ninth, Low-Rent, Low-Quality Low-Income Housing Is in Short Supply and Rental Low-Income Housing Is of a Small Proportion

The key to housing difficulty doesn't lie in the inability to buy it, but the inability to rent it. China has to solve the housing problem for 400 million migrant workers and their families from 2010 to 2030. Most migrant workers who just come to the city have low skills and low income. They cannot afford urban commercial housing, and the market doesn't provide low-rent low-quality housing that fits their needs, but they can make more money and live in a better environment by improving their working skills. Therefore, the government should provide transitional rental low-income housing for them, so they can have a stable living space, improve their skills, and consequently earn more and move for better housing. However, housing with property right makes up the majority of the 36 million low-income apartments, while rental housing only takes a small part. In 2010, 400,000 new public rental apartments were planned nationwide, accounting for about 7% of the total 5.9 million low-income apartments. In 2011, 2.2 million public rental apartments were planned, 22% of the total 10 million low-income apartments, and in 2012, 2.3 million rental apartments were planned, about 33% of the total 7 million low-income apartments. This shows that rental low-income housing takes up a small proportion in general.

After rounds of urban construction and renovation, there is very little low-quality housing. As both housing price and rent are going up, the financing for low-rent and low-quality low-income housing will be a real challenge.

4.2.10 Tenth, Housing Statistics and Long-Term Housing Security Plan for a New Type of Urbanization Are Absent

At present, we have no statistics of the income distribution of urban residents or the housing statistics, so it's hard to accurately grasp the actual situation of housing deficiency and take targeted measures and make long-term plans. Housing security

system should be a medium- and long-term basic system that is adjusted according to economic and social changes rather than a 3–5-year plan. Although most cities have established a multi-layered housing security system, it mainly serves people with local household registration. With social development, we should break the limitation of household registration, work out various housing security systems that cover all families of general income, lower middle income and low income, improve corresponding policies and measures, and guarantee their earnest implementation, so as to provide better social benefits for urban residents.

4.2.11 Eleventh, New Ghettos and Community Management Problems May Appear

The concentration of low-income housing has largely increased the density of low- and middle-income residents in a certain area. If we only focus on improving the living environment and pay no attention to income increase, those low-income housing communities will degrade to be new ghettos. The high-density concentration and separation from other communities is bad for communication among neighbors, and can easily create blind spots in social supervision and court crimes.

4.3 Future Trend

In light of the requirements of a new type of urbanization, a transparent and equitable new-type low-income housing system that focuses on monetary subsidy to consumers, features multi-layer and multi-channel housing sources and capital input and covers all population will be established. According to the theory of rational urban growth under urban growth management, urban growth should observe the following principles: creating multiple housing opportunities and options, making urban housing more affordable, fostering pedestrian-friendly neighborhoods, cultivating characteristic and attractive communities with a strong spatial appeal, setting community development and construction standards, achieving fiscal profits, environmental quality and health benefits all at once, and reinforcing the development of existing communities.² Therefore, the new-type low-income housing system should serve the sustainable economic, social and environmental development of a new type of urbanization.

As shown in Fig. 4.1, the current housing security framework only covers people with local household registration and focuses on low-income housing with property

²Qian, Yingying, and Wang, Zhenshuai (2009). “Strategy for Sustainable Development of Low-income Housing according to Urban Growth Management Theory.” *China Real Estate*, 3, 58–61.

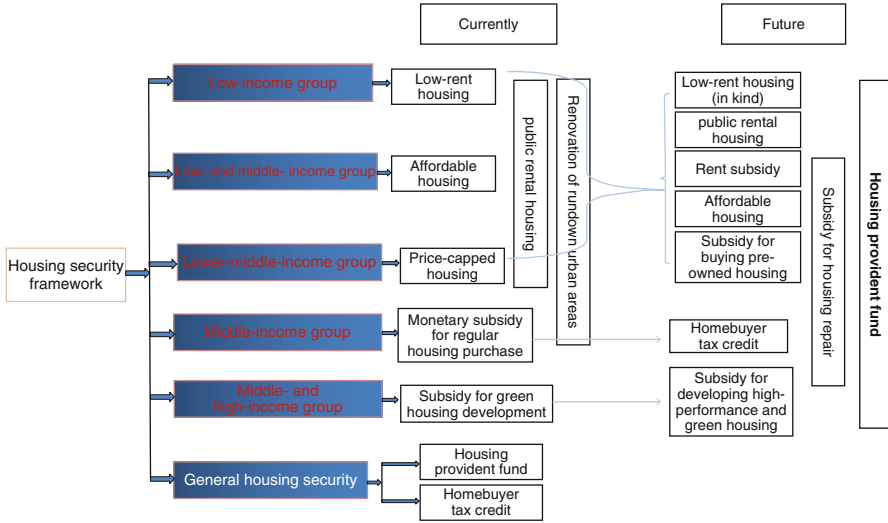


Fig. 4.1 Housing security framework

right, meaning that the main approach is the subsidizing the supplier. It consists of several housing forms: low-rent housing for low-income group, affordable housing for low- and middle-income group, price-capped housing for lower-middle-income group, and public rental housing and rundown urban area renovation housing for the sandwich class. A long-term and stable execution mechanism isn't in place yet for policies on regular housing purchase subsidy targeting middle-income group. Instead, invisible benefits such as tax credit are implemented, which are in conflict with the current policy on housing purchase restriction, but they were once adopted anyway by cities like Changsha as a countermeasure against the financial crisis. Moreover, subsidy for green housing development targeting middle- and high-income groups is too limited in scope, and housing provident fund, although it's an inclusive housing security policy, has a very low coverage rate.

Based on the historical trajectory of housing policies, the housing security system in Europe and America has evolved dynamically along with social changes, and a multi-layered security system has gradually taken form with expanding coverage. At first the government built public housing for low-income group directly, but after decades of development, consumer subsidy became the mainstream housing policy, and policies were aimed to gradually establish and improve a system that can enhance the paying capacity of low- and middle-income groups. In that process, the government served the dual role of a participant and a regulator, and its objective stepped up from guaranteeing housing for all citizens to providing "decent and comfortable housing" and "sustainable community environment" for the residents to help eliminate poverty.

As mentioned above, the execution of China's housing security policies in the urbanization process was completely different from, even opposite to that in

developed countries. In developed countries, a lot of public housing was built in step with urbanization, and then reform was launched to gradually reduce public housing. But in China, the system of housing distribution in kind was replaced by monetary housing distribution when urbanization picked up speed, the housing market was completely open, private housing especially leasing of private housing played a leading role, and cities were run based on “land finance”. As a result, housing became overly commercialized and its function as a livelihood commodity for social security was neglected.

As low-income housing was built massively and housing inventory increased during the 12th Five-Year Plan period, the conflict between housing supply and demand is no longer a problem in the 13th Five-Year Plan period, and housing quality will become a new focus of concern. Therefore, the main models of housing security will change, the housing security framework will be more mature, and the system will be further improved and refined.

China will improve the all-inclusive housing security framework step by step, establish a multi-layered and multi-channel housing security system whereby people in all the low-, middle- and high-income ranges can enjoy the benefits of social development, and improve the living environment in order to make sure “all Chinese people live in their own housing” and in a “decent and comfortable” environment. It will make full use of the 36 million low-income apartments to be built during the 12th Five-Year Plan period as well as existing ones, improve the housing filtering mechanism, and encourage stepped housing consumption. China will strive to not only guarantee housing for low-income group, but also improve the living environment for most residents, achieving the goal of “housing for all” and “decent and comfortable” living environment.

Low-income housing, primarily rental housing, will be open to all local residents (including migrant workers and other floating population) regardless of their household registration status. With a broader eligibility range and a housing provident fund that is expanded to cover the entire workforce, an equitable and more affordable system will be put in place to ensure access to housing for all. Existing low-income housing programs will be optimized and integrated. The new schemes will pay closer attention to the roles and effects of market, providing subsidies to low-income households who choose to live in public housing (including low-rent housing) or affordable housing units. Government will provide more subsidies and tax incentives to a wider range of tenants and pre-owned home buyers, allowing them more choices on where to live. Subsidies will also be provided to developers of high-performance and green housing, to encourage these projects to be built with higher construction and environmental standards, and to cater to the varying needs of buyers. Households in the lower or lower-middle income range will, too, receive subsidized assistance to help them maintain their housing units on a regular basis. This will not only prolong the life of buildings, but also save on resources and provide a better environment for people to live in. These and other policies will be implemented to ensure the sound interaction between the housing market and housing security programs, and ultimately promote social sustainability.

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