
China Housing Policy and Housing Market

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Abstract: The paper briefly reviews the process of reforming China's housing system, then explores in greater detail the issue of housing policy, the supply and demand structure of housing markets, and the affordability of for China's urban residents. Based on this analysis, it concludes that, to build a real housing market, China needs a comprehensive series of reforms, including strengthening its property right system, financial markets, reform of the wage system, the household registration system, and the standardization of market management. Finally the paper gives reasonable proposals for the establishment of a fully-functioning housing market in China.

Key Words: Housing, system, housing market, property right, housing finance

Housing is one of the fundamental demands for living. Access to acceptable housing is also one of the elementary human rights as well as one of the keys to peace and happiness. In every country, resolving housing issues has political, social and economic significance. To solve housing issues, every country has formulated its own specific housing development program and developed its unique program operating mechanisms. Many countries have especially drawn up the development program of public housing to assist low and middle-income groups solve their particular housing-related issues. It is believed that housing of low and middle-income groups is the major housing issue and the primary subject of housing policy in Urban China.

I Preview of China Housing Policy

Four stages can be distinguished in China's housing system reform process.

1. Welfare Allocation Period (1949-1978)

China's traditional housing system was characterized by a highly centralized planning system in housing investment and supply, rigid administrative control over housing distribution, and welfare policy in housing consumption. Composition of housing factors in workers wages was deducted by the State. At the same time housing investment funds as an element of basic capital investment financed by the government budget expenditure, was allocated to various state-owned enterprises and institutions (simplified as work units hereafter). Then housing was allocated to the employees. The housing was owned by the State or work units. Employees only had a bundle of rights of possession, use and benefit, not of disposition. User-residents were only required to pay a nominal rent. The rent was so nominal that the State had to subsidize maintenance fees and other expenditures related to housing

services. Therefore, housing investment became a one-way capital flow and a drain on the State's resources. On the other hand, low-rents policy stimulated great demand and prompted residents for more and better housing. However the chance of obtaining a housing allocation was unequal. An individual's housing allocation depended on the work unit to which he belonged and additional factors such as his rank, years of service, family size, and existing living area. This caused unfairness and corruption in the housing distribution process. Moreover, undesirable attitudes towards housing consumption had been created. Individuals has begun regarding housing as a welfare benefit for which the State and work units should be responsible.

2. Experiment Period (1978-1987)

Along with population growth and economic development, the State didn't have the power to supply adequate housing to meet the great demand of households. This fact can be mainly attributed to a lack of State resources. Because of this, the State initiated reform of the housing system in some cities. In some cases, rents of "publicly-owned housing"¹ were gradually raised. In other cases, publicly-owned housing was sold to individuals at a subsidized price.

3. Comprehensive Reform period (1988-1998)

Based on the results of its experience during the Experimental Reform Period, the State took comprehensive measures to advance the progress of housing commercialization. These measures can be summarized as follows:

1) Changing the structure of the housing investment. The State encouraged private investment in housing, and looked for mechanisms through which housing investment could be shared by the State work units and individuals.

2) Along with rent increases, the State encouraged employees to purchase publicly-owned housing. Publicly-owned housing was sold at cost price or standard price and would be allowed to enter the market after five years.

3) Developing and perfecting Housing Funds. The primary desire of setting up the Housing Funds is to resolve several difficult problems related to low wages, low composition of housing factors in workers wages and irrational structure of household consumption.

In this period, a lot of funds were withdrawn from circulation by increasing rent and selling publicly-owned housing, which led to a healthy cycle of housing construction. However, due to the much lower price of publicly-owned housing than that of "commodity housing"² in the market place, selling publicly-owned housing was still similar to welfare distribution (see Table 1). Workers are still waiting for the chance to acquire publicly-owned housing, and the state is still financing housing construction, so the housing market is hard to establish.

Table 1: Prices of Different Types of Housing in Suburban Beijing (RMB)

Standard price	Cost price	Comfortable Housing price	Commodity-housing price
943-1363(yuan)	1450(yuan)	1733(yuan)	4116(yuan)

Note: 1. Commodity housing's price in the table is the average price

¹ Publicly-owned housing: Housing is allocated to the employees free of charge, and it is produced by the State or work units.

² Commodity housing: People get commodity housing by open market, and price is market-oriented.

of commodity housing sold to individuals by different real estate development companies.

2.1US\$=8.27Yuan(RMB)

Sources: China Urban Construction Yearbook 1997

4.Nurturing and Establishing a Fully-Functioning Housing Market (1998-)

In July 1998, the central government promulgated a new document clarifying the basic outline of recent reform of urban housing systems and housing development. Its purpose is to establish a housing market according to high, medium and low income groups: high income households should buy commodity housing, low and middle-income households will buy "economical housing" whose prices are limited by the government, and low income households will rent low-rent housing provided by the government. The government will no longer distribute housing to the public and will only provide low-rent housing to low-income households. The market will adjust to the residents' housing demand.

. A Supply-Demand Analysis of China Housing Market

1.Housing Supply Analysis

China is making the housing industry a focal point in the national economy, by facilitating bank loans and supporting central and local government projects. According to relevant statistics, vacant area of new completion is 70,000,000 m² by 1997, among which vacant housing area is 50,000,000 m². It seems that supply surpasses demand, but is this actually the case? The cause of this situation is not greater supply than demand, but the inadequate effective demand (because of too high housing prices), and vacancy caused by problems in engineering quality, architecture design, traffic inconvenience, insufficient complementary facilities, and so on. Such high vacancy levels will cause bad bank loans and have a negative effect on housing market establishment and steady development of China's economy in the long run. Therefore, in order to develop the housing market, strong measures must be taken to absorb the vacant housing, such as lowering prices, improving complementary facilities, and traffic conditions. Some can be purchased at cost price and be turned into economical housing, then be sold to medium-income households, or turned into low-rent housing and rent to low-income households by the government or private companies. The local government and banks should take strong measures to supervise and urge development companies to pay off loans in limited time, or force them to sell commodity housing at lower prices for getting back loans. If companies can not pay off the debts on schedule, loans must be recovered by auctions.

2.Housing Demand Analysis

Although housing conditions of city residents in China have improved significantly in recent years, housing issues are still critical to the improvement of city residents' lives. Firstly, there are still 3,310,000 families lacking housing, among which the average living area of 750,000 families is less than 4m² per person. There is dangerous housing of 27,060,000 m² construction area needing prompt reconstruction. 45% of urban housing has no relevant complementary facilities. Secondly, the process of industrialization and urbanization is speeding. According to relevant materials, national town population will increase by 10,750,000 from 1995 to 2000. There will be 13,000,000 new couples every year. By 22m² construction area per person, there will be a increase

of 810,000,000 m² every year to satisfy the demand of these two types of urban dwellers. Thirdly, the level of Chinese living area is still low. American housing usable area is 40 m² at the end of 80's, and that of European developed countries is 35 m²; but that of Urban China is less than 13 m². Moreover, the housing's functions, quality, and environment are far inferior to developed countries and some developing countries. The housing problem is still a big problem infesting Chinese town residents. Therefore, the government has decided to develop the housing industry with a strong hand.

3. Supply-demand Contradiction Analysis

How did supply become divorced from demand in China's housing market? Why can't the housing consumption be hot in China? What factors are impeding the housing market from development in China? Now we can find several reasons from the following four respects:

Supply. Some development companies didn't sufficiently investigate or study the market. Many development enterprises are owned by the state, whose achievements sometimes are measured not by returns but by the completed housing areas. This has caused disjointed supply and demand. Furthermore, high construction costs, high commodity-housing prices, inferior geographical situation, property management and infrastructure are all causes for housing vacancy. For example, commodity-housing price has increased by 30% per year in Beijing in recent years. The price is RMB 8000-10000yuan/m² within the "2nd ring road", 4500-6500 between the "3rd ring road" and "4th", 4000 near the "5th", and about 2500 in the distant suburbs. Average income households can't afford these prices.

Demand. Low-income levels and income expectations are another factor impeding housing market development.

System. The traditional housing system impedes the commercialization of housing by maintaining low rents for publicly-owned housing and unreasonable ratios of rent to price. For example, the national average monthly rent for publicly-owned housing in 1997 is between RMB 0.8-1.5yuan/m² of usable area. Taking RMB 1.5yuan/m², the annual rent of a 100m²-construction-area housing (75m² usable area) is RMB 1350 yuan, but the sale price of commodity housing with the same area is RMB160,000 yuan (sold at a price of RMB1600 yuan/m²). Because the annual interest on the purchase of such housing will be RMB 9600 yuan (at a 6% interest rate), residents would rather wait to receive housing through distribution than buy a house on the market.

Housing transactions. Currently, housing transactions are neither normal nor unimpeded, due to a series of factors including ambiguous property rights, time limits on reselling, heavy tax burdens, complicated transaction processes, and unclear tax policies. Residents have rights of possession and use on their publicly-owned houses, but do not have rights of profit and disposal. In addition, they have to pay more taxes (see table 2). These factors all work to prevent housing transactions.

Table 2 Taxes on Real Estate Transactions

Categories of taxes	Tax base	Tax rate	Taxpayer	Notes
Business tax	Volume of business	5%	Seller	

City maintenance tax	Volume of business tax	1~7%	Seller	
Additional tax for education	Volume of business tax	3%	Seller	
Land appreciation tax	Appreciation volume of land	30%~60%	Seller	
Stamp tax	Volume of business	0.03%	Buyer and seller	For contract
		RMB 5 yuan per certificate	Buyer	For certificate of property right
Contract tax	Volume of business	3~5%	Buyer	
Management tax	Volume of business	1.5%	Buyer and seller	Difference in regions
Individual income tax	Volume of business minus original value and rational fees	20%	Seller	
House tax	Original house value × 70~90%	1.2%	Lender	
		Rent income 12%		
Land use tax	Using area	0.2~10 yuan/m ²	Lender	
Individual income tax	Rent income	20%	Lender	
Corporation income tax	income	33%	Lender	

. An Analysis of Housing Affordability for Middle Income Households in China

Based on the factors discussed above, housing's production and supply, as the object of China housing market, also has great potential for consumption and has strong supply channels. Nevertheless, residents' housing-consumption desire and affordability, which is the subject of housing market, are relatively low and should be strengthened. Although consumption desire will increase with the abolition of the traditional housing distribution system, affordability will continue to be restricted by relatively low family incomes compared to housing prices. The following section analyzes the affordability of housing for middle-income households in China.

By relevant statistics, high-income households (average annual household income: more than RMB 35,000 yuan) has occupied a portion of 10% of China's total population, while middle-income households (average annual household income: RMB 10,000-35,000 yuan) occupy about 80% of total population and low-income households such as unemployed people (average annual household income: lower than RMB 10,000yuan) also occupy about 10%³. From these statistics it is clear that middle-income households form the main consumption group and that the housing consumption power of medium-income family must be raised in order to establish a fully-functioning housing market. Only when the potential housing demands of middle-income households become effective and turn into housing consumption activity can the housing market be really developed. If half of all existing middle-income households currently

³ The data is an estimate.

have their own housing, when added to the portion of the high-income families, the self-owned rate of housing in Urban China will be higher than 50%.

International experience shows that residents' housing consumption will enter a peak period when GNP per person reaches US\$1000-2000. By statistics, Chinese GNP per person has reached US\$1000, and that of the coastal area and some big cities has reached US\$2000-3000. According to data from Beijing, in 1997, average annual household income of Beijing urban residents (for 3 persons per household) reached RMB23,400 yuan. In addition, the number of high-income households with incomes of over RMB 400,000 yuan reached 17%--20% of Beijing urban. These high-income households have the power to purchase commodity housing and are the majority of current consumption and investment in Beijing commodity housing market. At present, families having an annual income between RMB16,000 and 35,000 yuan in Beijing City number more than 1,600,000 and occupy 70% of Beijing's urban households. These households provide a large potential market for developing the real estate industry⁴.

A further question is whether the existence of the objective conditions for establishing housing consumption market means the establishment of a housing market? The answer is "no". A market can't be established without government's support and regulation, rational development companies, and rational consumers. In other words, on one hand, the commodities developed should be cheap, good, and easily accepted by the consumers. On the other hand, the consumers must have the desire and power to buy and have to acquire housing by a purchase. Then it is possible to establish the housing market.

Different market survey reports indicate that the number of individuals who "want to buy a house" are increasing. However, can they afford it? Let us do the following analyses:

1. Average Market Rent. By international experience and some estimates in China, the conversion coefficient of housing price to monthly rent is 100-150:1, for example, 100 yuan of housing price is converted to 1 or 0.7 yuan of monthly rent. The average price of a 60m² housing will be RMB 90,000 yuan, by the average commodity-housing price of RMB 1500 yuan/m² at present and an average construction area of 60 m²/per flat. According to the coefficient, the average monthly family rent is RMB 900 or 630 yuan (monthly rent of RMB 15 or 10.5 yuan/m² construction area), the annual rent is RMB 10800 or 7560 yuan.

2. Affordability. If the national average annual income of employees is RMB6800 yuan, a two-employee family's annual income is RMB13600 yuan. If the monthly rent is RMB 170-283 yuan, that is a monthly rent of 2.8-4.7 yuan/m² construction area, the housing affordability of a two-employees family is annual rent of RMB 2040-3400 yuan, when composition of housing consumption takes 15%--25% of the total household expenditure.

3. Mortgages. According to "Table of Monthly Payment of Individual Housing Guarantee Trust Loans by Beijing Management Center of Housing Funds", the average monthly payment is 73.38 yuan by a term of 20 year and an annual interest of 6.5%. If the down-payment is 30% of the price, then monthly payment can be calculated as following:

Down-payment: $90,000 \times 30\% = 27,000$ yuan ;

Loan : $90,000 - 27,000 = 63,000$ yuan ;

Monthly payment: $0.007338 \times 63,000 = 462$ yuan.

⁴ Jing Fang ,A Analysis of potential and status quo of Beijing real estate market, China Land Newspaper, 6/4/1998

4. Comparison of Four Calculating Methods. As the rate of housing price to household income is 3~6: 1, a worker family can at most afford a price of $13600 \times 6 = 81,600$ yuan, which is close to the market price of 90,000 yuan. Therefore, if some preference or subsidies and bank loans can be given, most urban households will be able to afford to purchase housing.

Table 3 Comparison of Four Calculating Methods Monetary Unit: yuan

Method	Price	Annual rent (Payment)	Monthly rent (Payment)	Difference from market price
average market price	90000	7560	630	0
sixtimes family income	81600			8400
rent (25% of income)		3400	283	347(monthly)
bank loans	90000	27000 (down-payment)	462	168(monthly)

The minimal difference between market rent and affordability is 347 yuan/month, which should be taken as a basis for wage system reform. If banks provide low-interest loans, the monthly payment will be reduced to 462 yuan and the remaining difference will only be 168 yuan/month. Therefore, low-interest loans could be extremely helpful in raising the purchasing power of workers (see Table 3).

According to the sample survey of commodity-housing price in 222 cities conducted by the Ministry of Construction, housing of an average price of lower than RMB 1500 yuan/m² occupies 88% of the total housing market; housing with an average price of 1500–3000, 11%; and housing with an average price higher than 3000, 1%. Housing prices in some areas are higher than 3000 yuan/m² (8000 yuan/m² can be found in Beijing), and some is lower than 1000, but the difference of annual income isn't so distinctly like difference of housing in these areas. So the government allowance can't be the same and the rate of self-owned housing should differ in different regions. In some regions, such as most small coastal towns, commodity housing market and economical housing market has become an integral whole and government allowances are no longer needed. In some regions, the price difference between commodity housing and economical housing is so great that the government will need to increase allowances. In these areas, the survey shows that the rate of housing self-ownership remains relatively low, which conforms to international experience: in areas with high housing prices, the housing self-ownership rate is consistently low. However, according to the prices of publicly-owned housing in 1997, the highest price is in Beijing, 1450 yuan/m²; but in Nanjing, the price for similar housing is only 795 yuan/m². A medium-income family can afford this. Of course, the level of affordability will be based on the government preference and the bank loan rate.

The subsidy to welfare housing was RMB 1960 yuan⁵ per person in 1996⁵, which was calculated on Urban China's population. Therefore, a three-person family will gain a subsidy of RMB 5880 yuan per year (490 yuan/month). By adding a subsidy to wages, the affordability of housing can be greatly improved. Thus a strong foundation could be

⁵ Meng Xiaoshu, Understanding of development of real estate industry, Real Estate Information of China, Mar. 1997

established for developing China's housing market.

IV Recommendations for Developing China's Housing Market.

From the above analyses, it is clear that factors have been ripe for developing housing market. Yet many problems remain to be resolved, including: 1) the housing provident system, 2) the affordability of housing to average households, 3) the tax system, 4) market systems, 5) and property right systems. In addition, the following measures can be taken to solve these problems.

1. Developing a Market-oriented Supply System.

Housing will be produced totally according to the marketing rules. And newly completed construction may be classified as commodity housing and economical housing, the former is destined for high-income group and the latter is destined for medium-income group. The State only lays down the restrictions and requirements for the economical housing in order to control the cost and price of housing units. Moreover, prices of economical housing have been set in line with construction costs and include:

- 1) Land acquisition and compensation for resettlement
- 2) Survey, design, and overhead expenses
- 3) Construction
- 4) Infrastructure in the residential area
- 5) 1~3% of management fees
- 6) Loan interest payments
- 7) Taxes
- 8) Below 3% of profits

These eight items are only the guidelines for the composition of housing price. There is no indication of any percentage ratio for all these items.

As for low-income households, the State provides them with low-rent housing whose standard and rent is very low.

2. Abolishing Welfare Housing Allocation and manifesting the Real Labor Cost.

It's time that the State abolish the housing allocation system and reform the wage system at present. Bringing housing consumption into line with household consumption and manifesting the real wage cost are the core of housing reform and a essential prerequisite of bringing individuals into the housing market. Only by transforming housing consumption into individual monetary consumption does China realize the commercialization of housing.

3. Formulating Housing Transaction Rules

Housing Markets are still uncompleted and unsound at present. Only about 15% of urban households do their home purchase in the market; most households still buy publicly-owned housing at a subsidized price. However, this publicly-owned housing, which have been sold at a subsidized price (simplified as sold publicly-owned housing hereafter), can't go directly into the market even after five years. Therefore, laying down sound rules to facilitate transaction of those sold publicly-owned housing is urgently needed. In addition, equality, freedom and efficiency are the principles of building a fully-functioning housing market. Consequently, rent-increases should go hand in hand with the sale program now. The State should look for multiple forms of housing market, which include commodity housing, economical housing, and low-rent housing. Then we can bring the commodity housing market and

economical housing market into one integral housing market. The State will be only responsible for providing housing to low-income households.

Moreover, to build a housing market, the housing sold at a subsidized price should be allowed to go into the market and be traded at full market price. Thus, housing affordability can be improved. And for equality, most part of the differential land gains should be handed in to the State when this housing goes into the market, because the housing was initially sold at a subsidized price without taking land prices into consideration. The differential gains from excellent location may become much bigger than those from bad location.

4. Housing Finance System

-- Housing Funds. The employees and work units will respectively hand in 10% of wages for Housing Funds.

--Developing individual mortgages and loans for housing.

--Founding more guarantee patterns for housing.

5. Property Right System

--Perfecting property right system, designing ownership of private housing and using right of state-owned land.

--Registration of property right and changing registration of property right.

6. Tax System

--Building an equal, rational, and efficient tax system for operation of housing market.

--Levying regulating tax on differential land gains.

--Exempting from transaction tax for activating the housing market.

Conclusions

It's clear that factors have been ripe for developing housing market in the P.R.C. Yet developing housing market is a systematic engineering, which needs common efforts of government, individual, and enterprise. Firstly, China must do her efforts to change the antiquated consumption mindset of housing and develop a market-oriented consumption mindset. Secondly, the State should make great efforts on reforming the wage system, perfecting property right systems, formulating and perfecting rules for transactions, and building housing finance market. Along with development of China's economy and increase of employees' wages, economical housing and commodity housing will come into line. Markets will gradually dominate the progress of housing production-consumption--reproduction. Then China's housing market will enter a positive cycle and the housing industry will really become a new growth point of national economy.

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