



## Affordable Housing in China

Nuparp Noksakul<sup>1</sup>

Sman Ngamsnit<sup>2</sup>

Surin Niyamangkoon<sup>3</sup>

### Abstract

This article aimed to investigate the affordable housing context in China. Since 1978, the Chinese government has pursued various economic and housing reforms to expand private property rights in housing and to promote home ownership through the commercialization and privatization of urban public housing. This has involved terminating the old system of allocating housing units through public-sector employers and establishing a more market-based system of housing provision. The government now provides affordable housing by subsidizing commercial housing purchases or by offering low-rent public (social) housing to middle and low-income families.

**Keywords:** Affordability, Public housing

### Introduction

Recent Housing Reform and Outcomes of China's housing policies experienced a drastic change in 1998 when the central government ended direct housing distribution to employees through the former danwei or employer-based system. According to government plans, the affordable housing system targeted at middle-income households was established to provide support to nearly 70 percent of urban families. It also introduced housing cash

---

<sup>1</sup> Ph.D. Student, Public Administration International Program, Faculty of Social Sciences, Mahachulalongkornrajavidyalaya University

<sup>2</sup> Lecturer in Public Administration, International Program, Faculty of Social Sciences, Mahachulalongkornrajavidyalaya University

<sup>3</sup> Lecturer in Public Administration, International Program, Faculty of Social Sciences, Mahachulalongkornrajavidyalaya University



subsidies to new employees and set up a Housing Provident Fund, a compulsory housing savings system to provide subsidized loans to employed homebuyers. Low-rent public housing is provided by the government to low-income urban households, while commercial housing is provided by the market to meet the needs and demands of high-income families at the top 15 percent of the economic spectrum that have access to mortgage financing<sup>4</sup>. This housing reform has resulted in a vigorous and fast-growing urban housing market and greatly improved housing conditions for urban residents. For example, the floor area per capita in urbanized areas increased from 6.7 square meters in 1978 to 28.3 square meters in 2007, and the home ownership rate reached to 82.3 percent in urban China in 2007<sup>5</sup> (Man, Zheng, and Ren, 2011). However, with urban housing prices skyrocketing since 2005, housing affordability has become a major issue in several large cities, and municipal governments have been called upon to increase the provision of affordable housing to middle- and low-income households. Government policies have been implemented to stabilize urban housing prices, to discourage speculative behavior of homebuyers, and to reduce both the excessive lending practices of state-owned banks and the possible financial risks associated with the housing sector

Urgent Need for Affordable housing is often defined as an adequate dwelling where less than 30 percent of monthly household income is devoted to rent, or where the dwelling's purchase price is less than three times a household's annual income. The housing price-to-income ratio (PIR) is the basic affordability measure for housing in an urban area. It is generally defined as the ratio of the median house price to the median family income. In the Global Urban Observatory Databases of UN-HABITAT, PIR is one of the important urban indicators, and a ratio between 3 and 5 is considered normal or satisfactory. In the United States and Canada, the PIR is 3.2 and 3.5, respectively, which meet the international standard for a normal or affordable level of housing<sup>6</sup>

---

<sup>4</sup> Wang, Ya Ping. 2011. Recent Housing Reform Practice in Chinese Cities: Social and Spatial Implications. In China's housing reform and outcomes, ed. Joyce Yanyun Man. Cambridge, MA: Lincoln Institute of Land Policy.

<sup>5</sup> Man, Joyce Yanyun, Siqi Zheng, and Rongrong Ren. 2011. Housing policy and housing markets: Trends, patterns, and affordability. In China's housing reform and outcomes, ed. Joyce Yanyun Man. Cambridge, MA: Lincoln Institute of Land Policy.

<sup>6</sup> Demographia. 2009. The Fifth annual Demographia international housing affordability survey. <http://www.demographia.com/dhi.pdf>



### Affordable housing in China

Affordable housing is often measured in terms of median values and incomes, but the concept is applicable to both renters and purchasers in all income ranges. Based on the study of Man, Joyce, Yanyun<sup>7</sup>, Affordable housing in China, commonly known as “economical and comfortable housing,” is designed to be available to middle to low-income households, including public-sector employees, to encourage home ownership. In general, the Chinese central government sets policies and mandates with respect to affordable housing, and the subnational governments, cities in particular, are responsible for the construction, financing, and management of that housing. The central government does not provide financial support to provincial and local governments for affordable housing through its budgetary spending or intergovernmental transfers, except for a few subnational governments in the fiscally strained and underdeveloped central and western regions. Local governments are required to provide free land, reduce government charges and fees, and control developers’ profits to lower the housing price for those who are qualified based upon government eligibility standards. In some cities, such as Beijing, affordable housing also includes price controlled commercial housing whose price is held down by the provision of reduced land use fees and charges, as well as favorable land allocation by the government to help lower-and middle-income families become homeowners. The Housing Provident Fund, a compulsory saving plan with contributions by both employers and employees for housing purposes, helps employees buy a house with subsidized loans. Local governments provide state-owned land to affordable housing projects through appropriation mechanisms. They usually appropriate land to developers who finance, construct, and sell the economical and comfortable housing units to the people considered eligible according to government standards and regulations. Middle-income families seeking market-oriented commercial housing may receive a subsidized loan from the Housing Provident Fund. With housing prices lingering at levels inaccessible even to average salary earners, the current affordable housing system has encountered a number of serious challenges. According to the National Bureau of Statistics of China, 200 indicated that public rental housing 7% Economical and comfortable housing 4%. Private rental housing 8%. Original private housing 12%, Privatized public housing 34%, Commercial housing 32% and Other 3%. With housing prices lingering at levels inaccessible even to average salary earners, the current affordable housing system has encountered several serious challenges. According to the study by Man

---

<sup>7</sup> Joyce Yanyun Man (2011) Affordable Housing in China, Land Lines, January 2011



(2011)<sup>8</sup>, it was found that first, there is an enormous and growing demand for affordable housing in China. By the end of 2008, there were about 7.4 million low-income urban households in need of government support for housing. Second, affordable housing accounts for only a small portion of the total housing stock, underscoring inadequate government support for middle and low-income households in urban China. Our research reveals that government-sponsored low rent housing, as well as heavily subsidized economical and comfortable housing, accounted for only 7 percent and 4 percent of the total housing stock on average in urban areas, respectively. In contrast, the two most prevalent types of housing are commercial housing (32 percent) and privatized public housing (34.2 percent). Among the 256 prefecture-levels cities we studied, the median share of the total housing stock that was affordable housing was 5.57 percent. One-third of the cities had less than 5 percent of affordable housing in the total housing stock, indicating a seriously inadequate supply of affordable housing for low-and middle-income urban households. The underdeveloped private rental market in China further aggravates this problem. Reveals that investment in economical and comfortable housing has barely increased in contrast to the rapid rise of investment in commercial housing during the period between 1997. Third, local governments in China lack incentives and financial means to provide affordable housing. The fiscal reform of 1994 left subnational governments with the obligation to provide nearly 80 percent of total government expenditures, but with direct receipt of only 47 percent of total government revenues<sup>9</sup> (Man, 2010). Such fiscal imbalances, plus many unfunded central government mandates and expenditures related to interjurisdictional competition, have driven many local governments mandates and expenditures related to interjurisdictional competition, have driven many local governments to finance infrastructure investment and economic development. Local governments prefer offering state-owned land to the highest bidder among developers through the auction process to maximize revenue, and they have little incentive to provide land for the construction of affordable housing for low and middle-income families. In addition, the financing of affordable housing in China depends upon funds from the Housing Provident Fund, but its deposits come from sources such as fees from land transfers that are unstable and inadequate to sustain affordable housing investment. According to a recent report of

---

<sup>8</sup> Man, Joyce Yanyun (2011) Affordable Housing in China, Land Lines, January 2011

<sup>9</sup> Man, ibid



the Chinese National Auditing Office (CNAO, 2010)<sup>10</sup>, some cities, including Beijing, Shanghai, Chongqing, and Chengdu, have failed to collect the 10 percent of funds from the net profit of land transfer fees earmarked for low-rent housing construction as required by government regulations.

The current affordable housing system in China is targeted only at urban residents who have city residence permits as part of its household registration system (commonly known as the hukou system). Migrant workers, floating populations, and others without urban residence permits are not covered. These people have to find shelter in the informal housing market, such as urban villages with substandard living and sanitation conditions.

According to the 2011 report of the United Nation,<sup>11</sup> the rationale of the new public housing program Official statistics suggest that China is currently experiencing the largest scale of urbanization ever known in human history: the urbanization ratio in China will reach 69 percent in 2030, and the urban population will increase by more than 300 million over the period of 2011-2030<sup>12</sup> which implies that there will be a strong and sustained momentum for the expansion of housing demand in urban China. However, the land available for urban residential use in China is small compared to its fast-growing urban population. Moreover, to ensure its own food security, China has a strict quota on agricultural land development<sup>13</sup> Thus, there is a decreasing supply of suitable sites for residential development. The expansion of low-cost public housing programs, however, is expected to increase the supply of affordable housing to meet the accommodation needs of a growing number of new entrants who have little hope of purchasing homes at market prices. As World Bank and DRC<sup>14</sup> indicated that the recent emphasis on public housing for the poor is a good example of how government resources can be used to address a pressing social need. Nevertheless, there continues to exist a wide suspicion that in China, state

---

<sup>10</sup> Chinese National Auditing Office (CNAO). 2010. Audit report on 19 municipalities and provinces for government-invested affordable housing during the period 2007 to 2009. No. 22. <http://www.audit.gov.cn/n1992130/n1992150/n1992500/2596931.html>

<sup>11</sup> United Nations, 2012 World Urbanization Prospects: The 2011 Revisions, New York

<sup>12</sup> United Nations, ibid

<sup>13</sup> Ding & Lichtenberg 2011, Land and Economic Growth in China, Journal of Regional Science, 51(2), pp.299-317

<sup>14</sup> World Bank and DRC, 2013, China 2030, Building a Modern, Harmonious and Creative High-Income Society, Washington D.C.: The World Bank



housing provision is just an important economic driver rather than socially necessary<sup>15</sup>. The new public housing program was once more commonly considered a regulation tool to control spiraling housing prices after several rounds of regulations failed to cool down the overheating residential property markets as well as an economic vehicle to counteract the shocks of the global economic downturn. It appears that the Chinese central government juggles the provision of low-income housing towards conflicting economic and socio-political goals and, therefore, creates constant changes in low-income housing policy

## Discussion

Urban development concerns for local governments, the major interest in supplying public housing is driven by the urgent need to smooth relocation costs, which have soared due to the rapid increase in market housing prices. The emphasis on shanty-town resettlement is thus a striking feature of the Chinese public housing program. There are reasons to believe that the dominance of Shantytown Renovation Housing (SRH) in recent public housing development is directly tied to the local governments' goal to promote urban redevelopment by providing low-cost housing to relocated residents. This finding, however, should not be surprising because the state provision of resettlement housing has been a critical factor underlying the so-called property-led massive urban redevelopment in China ever since the mid-1990s<sup>16</sup> Assistance for shanty-town dwellers is linked to resettlement, which can take the form of low-cost home ownership, low-cost rental housing, or cash compensation. The local governments simply cannot afford for compensation to grow at the same rates as the soaring prices of market housing. Thus, the main function of SRH is to re-house expropriated urban and rural households at low costs and thus help to facilitate “growth-promoting” urban regeneration. It should be noted that the primary objective of the Chinese 36-million public housing program is to ensure the success of the new urbanization strategy<sup>17</sup> The shift in housing policy after 2007 recognized the importance of cheap rental housing for the segment of the migrant population that cannot afford to purchase subsidized-ownership housing, which is reflected in the relatively high priority

---

<sup>15</sup> Wang & Murie 2011, The New Affordable and Social Housing Provision System in China. *International Journal of Housing Policy*, 11(3), pp.237-254

<sup>16</sup> He & Wu 2005; Shin 2009, Property-Led Redevelopment in Post Reform China, *Journal of Urban Affairs* 27(1), pp.1-23

<sup>17</sup> MOHURD 2011; Li 2011.



attached to it within the program.<sup>18</sup> The main qualifications for eligibility include residence status (hukou), household income, the number of people, average living area per capita and the total value of assets of a family. For PRH, however, the general rule regarding qualification is not very clearly defined by the central government, which leaves local governments with substantial freedom to make their own allocation policies. The eligibility conditions are much broader and vary substantially from city to city. In Beijing, Guangzhou and Shenzhen, income per capita, total assets and current living floor space are assessed. In Beijing, applicants who are qualified for the CHP, ECH and CPH can apply for PRH. However, in Shanghai and Chongqing, the current living area is the only eligibility condition for PRH. In addition, urban migrant workers without local hukou, but with a stable job and income sources are allowed to apply for PRH in Beijing, Shanghai, Chongqing, and Chengdu, but not in Guangzhou, Shenzhen or Hangzhou<sup>19</sup>. The variations in allocation criteria for PRH reflect different local political preferences.

## Conclusion

This study could be concluded that rapidly rising housing prices and lack of affordable housing for low-and middle-income urban households in China, particularly in big cities, have posed risks and challenges for a stable and harmonious society as sought by the Chinese central government. The current issues and challenges in the affordable housing system warrant attention and support from the Chinese government and the entire country to search for cost-effective and equitable public policies to deal with affordable housing needs to ensure sustainable development and a harmonious society in the future. The government needs to establish an efficient and effective local public finance system and a modern property tax to diversify local government revenue sources to help reduce reliance on the leasing of public land for revenue and should accelerate the development of private rental markets and encourage the private sector and nonprofit organizations to participate in the construction, financing, and management of housing for middle and low-income families

Since 1999, the housing prices in urban China have maintained a strong upward trend, except for a slight downward price adjustment in 2008 due to the shock of the global financial crisis. Clearly, rapid urbanization is one of the fundamental driving forces behind the recent developments in the urban housing market. According to the study of Yang &

---

<sup>18</sup> Chen, Yang, et al. 2014. New Chinese Model of Public Housing: A Step Forward or Backward?, *Housing Studies*, 29(4), pp.534-550

<sup>19</sup> Chen, Yang, et al. 2014. Ibid





Chen 2014 it was found that at the national level, the mean housing price in 2014 was approximately 3.15 times that in 1999 and 1.6 times that in 2008. In large cities such as Beijing and Shanghai, housing prices have risen much higher than the national average. A persistent increase in housing prices, particularly in China's major cities after 2008 affects both the sustainability of the property market and social stability. Nonetheless, Chinese households' incomes also grow substantially since the 1998 housing reform. At national level, it appears that the housing affordability index has not worsen much since 1999. However, households' purchasing power varies significantly across regions, and widening differences in regional housing market have created a volatile context for local housing affordability

Affordable housing development in post-reform China A clear shift in political priorities occurred in 2006 when President Hu Jintao's doctrine of the 'harmonious society' was adopted by the ruling Communist Party. According to the 2013 World Bank report, (World Bank and DRC, 2013). Initially, housing did not feature significantly in the doctrine of 'harmonious society' in urban areas. However, a rapid upsurge in housing prices in most major Chinese cities since 2003 has made housing affordability issues become one of China's top social concerns. In 2008, a program of 7.5 million units of public housing was formed as part of China's stimulation package in response to the Global Financial Crisis. At that time, this was widely thought to have been a temporary intervention in much the same manner as the intervention in response to the Asian Financial Crisis a decade earlier. Ministry of Housing and Urban-Rural Development (MOHURD) revealed that in 2009, the target was doubled and in 2011, a huge 36 million units public housing program was later announced for the plan period 2011-2015. With this, the proportion of the country's formal housing stock through public provision would almost double from 11 percent to 20 percent by the end of 2015 The Chinese public housing program includes a mix of 'products' for different segments of the market. Approximately 60 percent of public housing provisions are forms of subsidized ownership and 40 percent are for rent.

### Acknowledgement

Special thanks to Joyce Yanyun Man for information and data about affordable housing in China that I used for writing this article. Joyce Yanyun Man is senior fellow and director of the Program on the People's Republic of China at the Lincoln Institute; director of the Peking University– Lincoln Institute Center for Urban Development and Land Policy in Beijing; and professor of economics in the College of Urban and Environmental Sciences at Peking University





### References

- Adams, B. (2009). Macroeconomic Implications of China Urban Housing Privatization, 1998-1999. *Journal of Contemporary China*, 18(62), pp.881–888.
- Chen, J., Yang, Z. & Wang, Y.P. (2014). The New Chinese Model of Public Housing: a step forward or backward? *Housing Studies*, 29(4), pp.534–550.
- Chinese National Auditing Office (CNAO). (2010). *Audit report on 19 municipalities and provinces for government-invested affordable housing during the period 2007 to 2009*. No. 22. <http://www.audit.gov.cn/n1992130/n1992150/n1992500/2596931.html>
- Demographia. (2009). *The Fifth annual Demographia international housing affordability survey*. <http://www.demographia.com/dhi.pdf>
- Ding, C. & Lichtenberg, E. (2011). Land and Urban Economic Growth in China. *Journal of Regional Science*, 51(2), pp.299–317.
- He, S. & Wu, F. (2005). Property-led Redevelopment in Post Reform China: A Case Study of Xintiandi Redevelopment Project in Shanghai. *Journal of Urban Affairs*, 27(1), pp.1-23.
- MOHURD. (2011). The Minister of MOHURD's report of latest progress of public housing program on the meeting of the 11<sup>th</sup> NPC (National People's Congress) Standing Committee held in October 27, 2011. Sina. Available at: <http://finance.sina.com.cn/focus/rdxwbzf/index.shtml> [Accessed November 28, 2011]
- Man, Joyce Yanyun. (2010). *Local public finance in China: An overview*. In China's local public finance in transition, eds. Joyce Yanyun Man and Yu-Hung Hong. Cambridge, MA: Lincoln Institute of Land Policy.
- Man, Joyce Yanyun, Siqi Zheng, and Rongrong Ren. (2011). *Housing policy and housing markets: Trends, patterns, and affordability*. In China's housing reform and outcomes, ed.
- United Nations. (2012). *World Urbanization Prospects: The 2011 Revision*, New York.
- Wang, Y.P. & Murie, A. (2011). The New Affordable and Social Housing Provision System in China: Implications for Comparative Housing Studies. *International Journal of Housing Policy*, 11(3), pp.237–254.
- World Bank and DRC. (2013). *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*. Washington, D.C.: The World Bank.
- Wang, Ya Ping. (2011). *Recent Housing Reform Practice in Chinese Cities: Social and Spatial Implications*. In China's housing reform and outcomes.