

# Affordable Housing in China



The Huilongguan affordable housing project is a large community of middle- and low-income families, including civil servants and teachers. It is located in the northeastern part of Beijing and has subway connections.

Photo courtesy of Juan Jing

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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. At the same time, it

relies on the private commercial housing market to meet the needs of higher-income groups.

## Recent Housing Reform and Outcomes

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 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 (Wang 2011).

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 (Man, Zheng, and Ren 2011).

However, with urban housing prices skyrocketing since 2005, housing affordability has become a major issue in a number of 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 in an attempt 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**

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 (Demographia 2009).

Our study used the Large-Sample Urban Household Survey data collected by the National Bureau of Statistics of China to calculate the PIR in 2007 for urban China, and found it to have a value of 5.56 nationwide (Man, Zheng, and Ren 2011). This ratio falls in the category of "severely unaffordable" according to the criteria proposed by

UN-HABITAT, and is well above the normal range of 3 to 5. It indicates that the median price of the housing stock in the sample of 600 Chinese cities (based on the survey of 500,000 urban households) is more than five times annual household median income.

### **The Current Situation and Challenges**

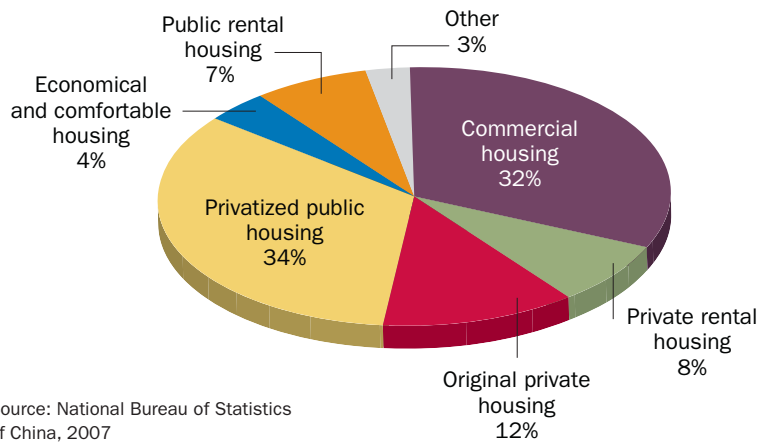
Affordable housing is often measured in terms of median values and incomes, but the concept is applicable to both renters and purchasers in all income ranges. Affordable housing in China, commonly known as "economical and comfortable housing," is designed to be available to middle- to low-income households, 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

**FIGURE 1**  
Housing by Tenure Type in Urban China (2007)



Source: National Bureau of Statistics of China, 2007

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.

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 (Lin, forthcoming). In addition, government population and labor statistics indicate that cities have an estimated “floating population” of 147 million, most of whom are migrant workers who often fall within the low-income group. At

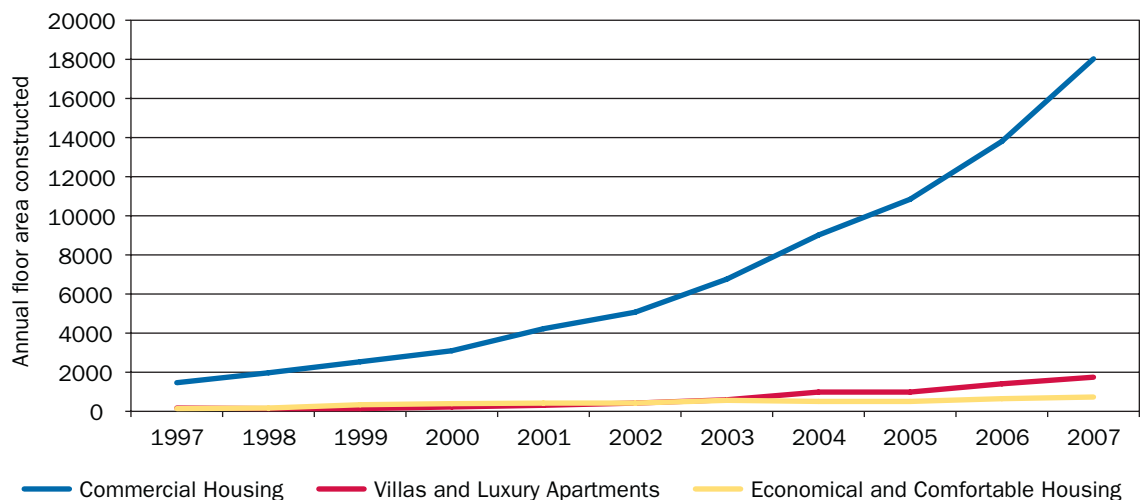
the current rate of urbanization, there will be an increase of about 10 million people in cities every year. Most of them will be unskilled and semi-skilled workers in the low- and middle-income levels in need of housing assistance.

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 (figure 1). 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-level 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.

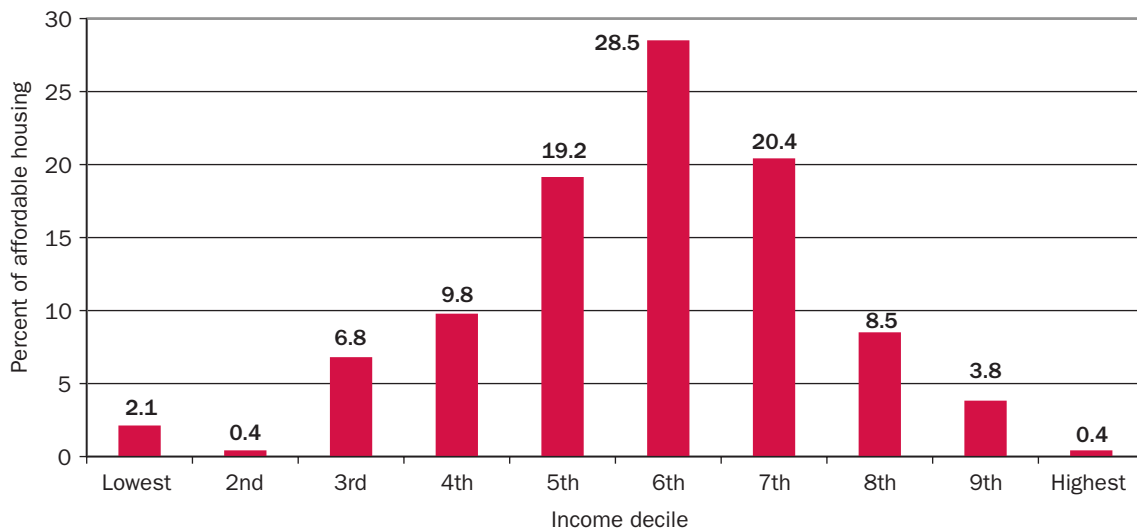
Figure 2 reveals that investment in economical and comfortable housing has barely increased in contrast to the rapid rise of investment in commercial housing during the period between 1997

**FIGURE 2**  
Constructed Floor Area Trends by Housing Type



Source: Chinese Statistical Yearbook, 2008

**FIGURE 3**  
**Percent of Affordable Housing by Income Decile**



Source: National Bureau of Statistics of China, 2007

and 2007. The completed floor area of economical and comfortable housing as a share of the total decreased between 1999 and 2007, contributing to the chronic shortage of affordable housing in large cities. In addition, the eligibility criteria is either too high or the enforcement is problematic. As a result, figure 3 shows the coverage of affordable housing is overly broad, benefiting more high- and middle-income families than lower-income households, and thus causing accusations of corruption and calls for reform.

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 (Man 2010). Such fiscal imbalances, plus many unfunded central government mandates and expenditures related to interjurisdictional competition, have driven many local governments to rely on land leasing fees for revenue to



Photo courtesy of Juan Jing

**Affordable housing projects on Niu Street in the southeastern part of Beijing, where there is a concentration of Muslim communities and some low-income urban families.**

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 the Chinese National Auditing Office (CNAO 2010), 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. A total of 14.62 billion yuan (about US\$2.2 billion) was not collected during the 2007–2009 period, accounting for about 50 percent of the total 29.68 billion yuan

(\$US4.47 billion) that was due, according to CNAO's survey of the 32 major cities.

Finally, 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.

Furthermore, this system suffers from poor administration, widespread corruption, and even fraud. For example, many ineligible applicants have received low-rent housing, and a number of high-income households own government-subsidized economical and comfortable housing units. At the same time, many qualified families have been denied housing assistance.

## Conclusions

The 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 redouble efforts to curb speculative housing activities, increase land supplies for affordable housing construction, and use fiscal policies and tax incentives to encourage private developers to participate in the provision and management of affordable housing. Moreover, China should establish an efficient and effective local public finance system and a modern property tax to diversify local government revenue sources. This would help reduce reliance on the leasing of public land for revenue and would encourage the supply of more land for low- and middle- housing. Chinese governments also 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. **L**

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