

Chapter 2

Housing Reform and the Housing Market in Urban China

The housing market in Urban China has experienced many important changes since the Communists came to power in 1949. In general, we can divide China's housing reform into three significant stages: the pre-reform process (between 1949 and 1978), the reform process (from 1978 to 1998) and the post-reform process (after 1998). Table 2.1 highlights the relevant milestones in China's housing reform process from 1980 to 2012 that have had a profound effect on the housing market (additional public housing policies can be found in Chap. 6). In the following sections we provide further descriptions of the housing reform and development in each phase.

2.1 Housing System in the Pre-reform Era: 1949–1978

From 1949 to 1978, consistent with socialist ideology and the central-planning economy system, China's housing sector was designed to be “social” rather than “economic”. The Chinese communist government nationalised the ownership of land. Public rental housing became the predominate form of housing provision in urban China. In addition to the superiority of socialism over capitalism (Lim and Lee 1990; Hegedus 2006), there were also several economic reasons related to the predominance of public housing, including low housing affordability, the low capacity of the construction sector, the importance of ensuring the health and productivity of SOE workers and the urgent need to accommodate growing urban residents at a low cost (Huang 2004; Zhang 2000; Rosen and Ross 2000).

Under this housing welfare system, the state acted as a landlord and developer, solely responsible for housing provision, distribution and management. The state provided housing at extremely low rental standards, determining at the initial level that the price covers the maintenance costs without influencing households' living standards (Zhang 2000). This resulted in an average rent for public housing of 0.3 RMB per square metre of living space (Zhang 2000). The rent level was fixed for a long period without any corresponding increase to match the growth of household income and economic development. On average, rent accounted for

Table 2.1 Milestones of housing reform and development in China (1980–2012)

Date	Milestones/events	Objectives/implications
1980.04	Deng Xiaoping, China's paramount leader, speaks on housing issues, suggesting that "Urban residents should be allowed to purchase houses, or build their own house"	Symbolises a major shift in the CCP's ideology regarding housing and paves the way for subsequent new policies and local trial reform experiments on urban housing
1980.06	The central committee of CCP and State Council's opinions on "The report outline of national construction conference"	Private urban participants are formally allowed to build, purchase and own their housing
1983.09	State Council: "The implementation regulations of sino-foreign equity joint venture" (SC [1983] No. 148)	Promulgates provisions about land use rights and the related costs of the joint venture. Land use begins to be charged and can be traded on the market
1983.12	State Council: "Regulations on urban private housing" (SC [1983] No. 194)	Establishes the first legal protection for private households to own, purchase, sell and rent private homes in urban areas
1986.2	The State Council's housing reform steering group is established	Housing reform proceeds with a national-level design
1988.02	State Council: "Implementation plan for a gradual housing system reform in cities and towns" (SC [1988] No. 11)	One of the most important steps in housing reform that officially launches housing commercialisation as a target for housing reform
1991.06	State Council: "The resolutions of the state council about actively and appropriately carry out urban housing reform" (SC [1991] No. 30)	The property rights of privatised housing from the public sector is officially recognised for the first time, laying the foundation for further housing reform reliant on market forces
1992	"South-Tour Speech" of Deng Xiao-ping and the fourteenth national congress of the Chinese communist party	Formally recognises marketisation as the aim of nation-wide economic reform. China's housing market takes off
1994.07	State Council: "The decision on deepening the urban housing reform" (SC [1994] No. 43)	Aims to establish market mechanism for the building, allocation, maintenance and management of housing. The direction of housing reform is shifted from a welfare to a market system, establishing a multi-level provision
1998.07	State Council: "A notification on further deepening the reform of the urban housing system and accelerating housing construction" (SC [1998] No. 23)	Symbolises the end of the welfare housing system and the beginning of a new era for housing market development
2002.05	Ministry of land and resources: "Regulation of granting state-owned land use right by tender, auction and quotation" (MLR [2002] No. 11)	Aims to phase out the negotiation process long-used in the transfer of land and begin granting land use rights based on public tender, auction, or listing. Is hailed as the beginning of a new land market revolution

(continued)

Table 2.1 (continued)

Date	Milestones/events	Objectives/implications
2003.03	State Council: “A notification on promoting the sustained and healthy development of the real estate market” (SC [2003] No. 18)	Is intended to curb the excessive growth of housing prices and lead the housing market in a long-term healthy development direction
2003.06	People’s bank of China: “Notice on further reinforcing real estate credit business management” (PBC [2003] No. 121)	Formulates land reserve loans, working capital loans and mortgages to suppress the price and trading volume in an effort to avoid potential property bubbles
2003.09	State Council: “Regulations on property management” (SC [2003] No. 379)	Specifies, for the first time, the rights and responsibilities of all parties involved in the housing market and the steps taken to address legal disputes over property management
2004.08	Ministry of land and resources and the ministry of supervision jointly issue: “Notification on the continuation of business land use rights for transferring auction listing of law enforcement work notice” (MLR [2004] No. 71)	States that all land for commercial use, tourism, entertainment and commodity housing development must be granted by way of public tender, auction, or listing. Introduces a market mechanism into the land transaction process in urban China designed to create a fair and transparent land allocation system
2004.10	State Council: “Decisions on deepening strict land management reform” (SC [2004] No. 28)	Intends to build a strict land management system in accord with China’s situation
2005.03	The general office of the State Council: “Notice of the circulation on stabilising housing price” (GOSC [2005] No. 8)	The so-called old “Guo Ba Tiao”. The stability of housing prices in the form of administrative accountability is focused for the first time, encouraging the sustainable and healthy growth of the real estate market with a view to reducing the level of speculative demand on housing
2005.05	The general office of the State Council: “Suggestions on making efforts to stabilise housing prices” (GOSC [2005] No. 26)	Demands that local governments treat stabilising housing prices as an important task, aiming to restrain short-term speculation on commodity housing and strengthen the supply of affordable housing to low income families
2006.5.29	The general office of the State Council: “Opinions on adjusting housing supply structure to stabilise housing prices” (GOSC [2006] No. 37)	The so-called “Guo Liu Tiao”, aims to curb over-rapid housing prices by adjusting housing supply and structure through an increase in the weight of affordable housing construction. Through the role of taxation and credit loans, land-use supervision is further strengthened to regulate the housing supply market

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Table 2.1 (continued)

Date	Milestones/events	Objectives/implications
2006.07	MOHURD: "Several opinions about implementing of new constructed housing ratio" (MOHURD [2006] No. 165)	Regulates that units with a floor area of less than 90 square metres must cover 70 % of the total floor area of all newly constructed projects in an effort to slow the soaring housing prices prompted by supply restriction measures
2007.08	State Council: "Opinions on solving the housing difficulties of urban low income families" (SC [2007] No. 24)	The provision of public housing is again added to the government's agenda. Capped and Restricted Housing (CRH) and Economical and Comfortable Housing (ECH) are introduced as public housing schemes
2008.12	The General Office of the State Council: "A notification on promoting the healthy development of the real estate market" (GOSC [2008] No. 131)	Cuts property transaction taxes and relaxes market regulations, sending a strong signal to stimulate the housing market in response to the global financial crisis
2009.05	The General Office of the State Council: "A notification on the adjustment of capital proportion of fixed assets investment project" (GOSC [2009] No. 27)	Reduces the minimum capital reservation for the first time since 2004
2010.01	The General Office of the State Council: "A notification on the promotion of stable and healthy development of the real estate market" (GOSC [2010] No. 4)	Re-stresses the need to control property speculation; that is, aims to provide affordable housing for low to medium income households to meet the housing needs of all 15.4 million vulnerable urban families by 2012
2010.04	State Council: "A notification on resolutely curbing the soaring housing prices in some cities" (SC [2010] No. 10)	The so-called new "Guo Shi Tiao". Shifts the priority of housing policy from stimulating housing development growth to controlling speculative demand for housing and supplying affordable housing (reserving 70 % land supply). Proposes, for the first time, that cities in which house prices rise too fast should impose "mortgage restrictions" on non-local households and set "house sale restrictions" on all
2011.01	The General Office of the State Council: "A notification on further work of real estate market control" (GOSC [2011] No. 1)	Emphasises the standardisation of the various residential mortgage loan policies and regulates the minimum down payment for additional residents to not be less than 60 %. Formally, calls for "house sale restrictions"

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Table 2.1 (continued)

Date	Milestones/events	Objectives/implications
2011.01	Shanghai Government: “An interim measure of levying housing property tax from parts of personal housing in Shanghai” (SG [2011] No. 3). Chongqing Government: “An Interim Measure of levying housing property tax from parts of personal housing in Chongqing” (Orders of Chongqing Government, No. 247)	Property tax begins to be levied in Shanghai and Chongqing for selected property. The two cities adopt different property tax rates and tax base measurements
2011.05	National Development and Reform Commission: “A notification on the issue of ‘regulation of selling commercial housing with definite price’”(NDRC [2011] No. 548)	It is decided that listed prices should be announced to the public. Developers are not allowed to add any extra costs in an effort to regulate developer behaviour
2011.07	Premier Wen Jiabao chairs a State Council executive meeting on 12 July and raises five opinions that are now called the new “Guo Wu Tiao” by some media sources	Suggests that second- and third-tier cities in which housing prices rise too fast should restrict housing sales to local or migrant residents who have lived or held a stable job in the city for a minimum number of years
2011.09	The General Office of the State Council: “Guiding opinions on constructing and managing social security housing” (GOSC [2011] No. 45)	Stresses that “social security housing” (public housing) is a key component of economic and social development. Public rental housing is established as the central driver of public housing development
2012.05	MOHURD: “Regulations on public rental housing” (MOHURD [2006] No. 11)	Sets regulatory details on building and running public rental housing

This table presents speeches made by Chinese leaders, turning-point events, important issues and key official documents with far-reaching effects on housing reform and market developments in China

Note Authors’ summary based on the government documents that are available to the public

about 1 % of an average worker’s annual income (Wang and Chen 1991) in the mid-1950s, and it was too low to cover even the cost of maintenance (Zhang 1996). Rent in this system had less economic significance and was characterised as the natural welfare of public housing.

In the old-style public housing provision, the allocation system involved two stages: the state allocated public rental housing to work units, then the work units distributed the housing to individual households. Unlike in the Soviet Union and Eastern European socialist countries, China’s state-owned housing units played distinctive roles and served many economic, political and social functions. A “work unit” in this context is not simply a place to work, but rather it is directly connected to housing services. Most of China’s public housing is financed, built, owned and managed by work units. Public rental housing was allocated as an in-kind welfare to employees of the public sectors and SOEs based on criteria such

as occupational rank, years of working experience, number and ages of family members and the current amount of living space (Kim 1987). In this provision system, social status, rather than economic contribution, merit and need, serves as the determining factor in housing distribution (Wu 1997). This system lays the foundation of inequality between the households in the various work units. Some key work units that were given a higher priority in resource allocation were normally able to provide better housing services for employees, whereas other less prestigious work units had fewer opportunities to obtain housing from the state and, thus, less chance of improving the living conditions for their employees (Zhang 2001). This initial inequality in housing distribution has expanded with the housing reform and market development (additional details in Sect. 2.5).

The welfare housing system achieved a kind of success in the rapid expansion of the public housing sector in the 1950s–1960s. However, the entirely administrative planning and management of the housing market instead of market force causes housing supply to deviate from housing demand. Housing as “welfare” goods financed solely by the state through budgetary funding placed a huge financial burden on the government. During that period, the annual income from rents was about RMB1 billion, whereas the government spent an average of RMB25 billion on new housing construction and another RMB10 billion on maintenance (Cui 1991). This inevitably resulted in low investment in housing and a continuous housing shortage. For instance, the living area per capita in urban China decreased from 4.5 m² in the early 1950s to 3.6 m² in the 1970s (Liu 1998). In addition, the tight link between work units and housing services also led to a low level of labour mobility (World Bank 1992; Bian and Logan 1996) and gender equality between men and women (World Bank 1992, 1993).

2.2 Housing Reform in Urban China: 1978–1998

In the economic reforms of the 1990s in China, the acute conflict between the old housing welfare system and marketisation was recognised as the most important problem posed by urban housing reform. To strengthen the influence of the real estate sector and make it an effective driving force for nation-wide economic development, the Chinese central government launched market-oriented housing reform as an indispensable component of the transition from a planned to a market economy since 1978. The operation of the housing market was implemented step-by-step and involved several key processes.

- Establishing the ideological fundamentals of housing reform and launching pilot reform projects (1978–1987).

Since the Third Plenum of the Eleventh Central Committee in 1978, there had been a furious debate on the reform of housing regime. In April 1980, Deng Xiaoping, the nation’s paramount leader, spoke delivered a speech to central

government leaders regarding urban public sector housing. He raised the issue of the private sector's participation in housing, which sowed the seeds for the subsequent 20 years of housing reform and paved the way for various experiments.

During the trial stage that followed, cities such as Xi'an, Nanning, Changzhou, Siping, Shashi, Zhengzhou and Yantai were selected for the implementation of rent increase and public housing sales experiments designed to provide incentive for private housing consumption and to prompt public housing sales that would ensure a sufficient return on housing investments. However, due to low affordability and the lack of a financial market, these attempted pilot reforms did not successfully achieve their objectives in the majority of the trial cities. Consequently, urban housing problems such as housing shortages and insufficient investments still exist to the point of prevalence (Wang and Murie 1996). In 1986, the Housing System Reform Leading Group of the State Council was founded to lead and coordinate the reform of the national housing system. In the same year, the Land Management Bureau was established to administer the national land and comprehensively arrange urban and rural land.

- Clarifying the housing reform target and pursuing nation-wide reform (1988–1991).

The State Council issued document No. 11, "Implementation Plan for a Gradual Housing System Reform in Cities and Towns", in 1988 (SC [1988] No. 11), 6 years after the reform pilot. It officially identified the nature of housing as commodity-based and laid the foundation for housing reform to target housing marketisation. In 1991, the Housing System Reform Leading Group of the State Council issued document No. 73, "The Resolutions of the State Council about Actively and Appropriately Carrying-out Urban Housing Reform" (SC [1991] No. 73), which announced a new phase of housing reform on a national level.

- Deepening reform through the concept of a multi-level housing supply system (1992–1997).

In 1994, the State Council issued "The Decision of the State Council on Deepening Urban Housing System Reform" (SC [1994] No. 43). It identified the final goal of housing reform as the creation of a new urban housing system that suited socialist market economics. It called for the establishment of two distinct systems of housing provision. The first was the provision of "economic and affordable housing", which targeted low-to-medium income households. The second was "commodity housing", which was provided for the upper income group at market transaction prices. The Decision also suggested that rental prices be increased to 15 % of the average household income for low income families in 2000. The central government further issued "The Urban Economically Affordable Housing Construction Management Approach" in December 1994 (MOC [1994] No. 761). It aimed to regulate the construction, application and trading processes involved in economical and affordable housing. In 1995, the Housing System Reform Leading Group of the State Council issued the "National Comfortable

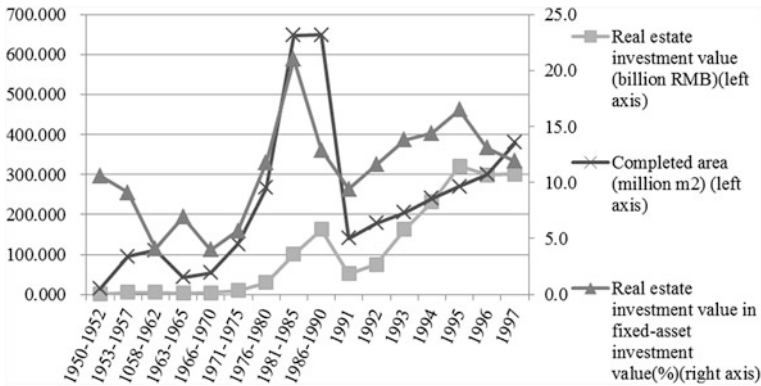


Fig. 2.1 Real estate investment in urban China, 1950–1997. *Source* Liu (1998) and China statistical year book (various years). *Note* Real estate investment in this figure refers to the total investment used in building construction, land development and land purchase

Housing Project Implementation Plan” (GOSC [1995] No. 6), emphasising the importance of supplying affordable housing for households with low-to-medium income, particularly giving priority to those without housing and teachers’ families. The pricing of such housing was to be fixed by local government upon consideration of local income levels and development costs.

This period was characterised by the initial development of commodity housing markets and China’s real estate industry. As Fig. 2.1 reveals, total housing investment increased from RMB162 billion to RMB301 billion with a growth rate of 85.80 % from 1990 to 1995. Correspondingly, the living space per capita exhibited continuous improvement, from 4.5 m² in 1950 to 13.7 m² in 1990 (MOHURD 2009).

However, the reform in this period did not manage to shift the system away from the work unit (Wang 2001), which continued to dominate the housing provision scene. Thus, this period is referred to as the “double-track” stage, in which work units continued to build or purchase new housing for employees while the sitting renters were encouraged to purchase public housing rented from the work units at highly subsidised prices. To support this reform, following Singapore’s experience, Shanghai established public housing provident funds (PHFs) that were later shared nationwide (details in Chap. 7). The purchased public housing, meanwhile, was restricted to resale and only maintained partial property rights, which limited the process of the privatisation of public housing. By the end of 1995, only 30.5 % of public housing had been sold (Zhang 1996).

- A housing policy milestone and a full marketisation stage in housing reform (1998).

In July 1998, the new State Council issued an official document titled “The Resolution on Continuing Urban Housing System Reform, Accelerating Housing

Development” (SC [1998] No. 23). It announced that welfare housing distribution would be abandoned at the end of 1998 and completely replaced by monetary distribution, implicating a full marketisation stage in housing reform. Subsequently, governments formally abolished the previous work-unit-welfare housing system and vigorously encouraged residents either to purchase housing from the market or to buy their sitting public-sector housing from the SOEs before the end of 1998. For this purpose, certain policies were designed to offer public housing to origin tenants at reduced cost, allowing them to either purchase the property at its direct construction cost or at a “standard price” determined through the buyer’s income and years of employment. Local governments and particular work units were given the right to influence pricing and after 1 January 1999, all new residential housing units were to be sold on the open market with SOEs prohibited from building any more welfare housing for their employees.

To promote privatisation, the government further increased rents to make them less attractive and set up a new housing finance system to help individuals with mortgages. As a consequence, within a year and a half, more than 60 % of urban public housing was being sold to individuals. The privatised public housing stock was estimated at 2.5 million m² and associated with an implicit market value of approximately RMB2.5 trillion, or roughly 32 % of China’s GDP in 1998 (Adams 2009). By 2002, 80 % of public housing had been sold to its occupiers (Wang 2001).

The 1998 housing reform brought profound and fundamental changes to China’s urban housing system, significantly shifting the central role of government from directly providing housing to separate housing distribution based on employment and the social benefit system. In addition, it framed a basic urban housing system model in China based on home ownership (Wang 2007), laying the foundation for a multi-level system. However the development of public housing as originally intended by policy had not been successfully achieved.¹

2.3 Housing Development in the Post-reform Era

Housing reform paved the way for the development of a market-oriented housing sector in urban China, and the Chinese housing market has grown with dazzling speed for more than a decade. The residential housing industry has played a significant role in mainland China’s economy. Over the past 2 years (2010–2012) in particular, it has proven a very proactive function in tackling the global financial crisis. According to the National Bureau of Statistics of China, the investment in the Chinese housing sector was RMB3.62 trillion in 2009 (including non-

¹ According to the initial policy, 15 % of the population would occupy social rental housing and 70 % would occupy government-supported ECH, with the rest entering the full-price commercial housing market.

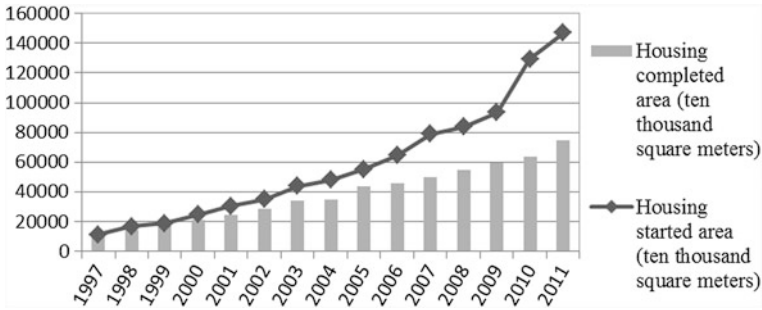


Fig. 2.2 Supply of new commodity residential housing in China, 1997–2011. *Source* China statistical yearbooks (1998–2012)

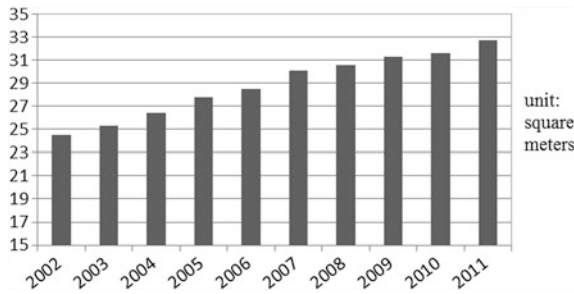


Fig. 2.3 Average size of residential housing per capita in urban China, 2002–2011. *Source* China statistical yearbooks (2003–2012). *Note* The sizes recorded in this figure refer to construction areas. In China, the size typically refers to the construction area with the understanding that the living area is roughly 80 % of the construction area

residential housing investment), contributing a share of 16.1 % in total fixed investment. Further, the share of housing investment as a percentage of the GDP has continuously increased, reaching 10.64 % in 2009—almost 2.5 times that in 1997 (Fig. 2.2).

The vast increase in housing supply led to substantial additions in housing stock and significant improvements in housing conditions for households in urban China. For example, the living space per capita in urban China has grown an average of 1 m² annually since 1998. By the end of 2009, the average space per capita in urban China was 30 m², which was four times that recorded in 1978 (Fig. 2.3).

The home-ownership ratio in urban China, while fairly high, does tend to exhibit little substantial difference between income groups. This is largely attributable to the massive wave of public housing privatisation in the late 1990s. Figures 2.4 and 2.5 further confirm this fact. The majority of Chinese urban households can survive under seemingly intolerable high housing prices. However, affordability issues remain important in China, both for the generations who formed independent families after the privatisation reform and those who have

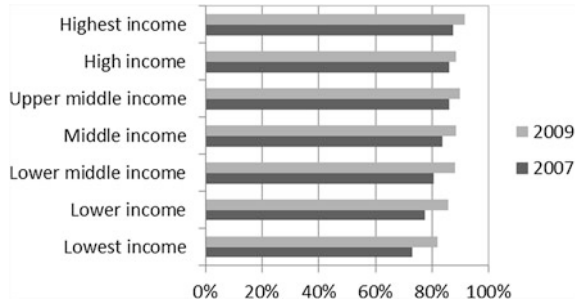


Fig. 2.4 Homeownership rate by income category in urban China in 2007 and 2009. *Source* Chinese National Bureau of Statistics Survey (NBS) (2007, 2009). *Note* Nine Chinese provinces were included in these surveys. There were 17,320 responders in the 2007 survey and 17,269 in the 2009 survey. The report divides the entire sample into seven income groups of equal size, based on personal income. Thus, the *top* 14 % is the highest income group and the *bottom* 14 % is the lowest income group

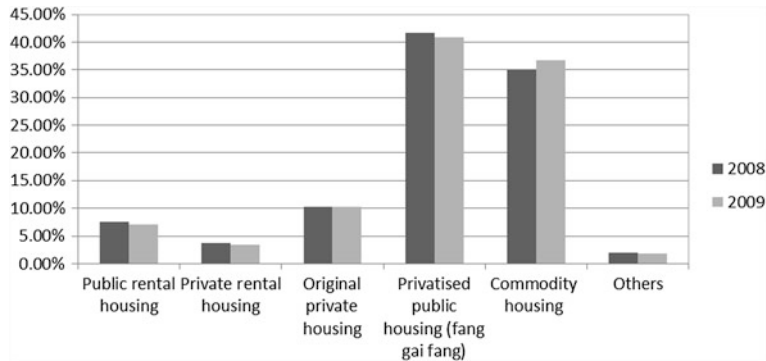


Fig. 2.5 Structure of housing tenures in urban China in 2008 and 2009. *Source* RECIO report on 2010–2011 Chinese real estate market

benefitted from the public privatisation due to the common low living standards of previous public housing (additional details in [Chap. 6](#)).

Since 1991, housing prices have maintained a strong upward trend, with the exception of a slight downward price adjustment in 2008 due to the shock of the global financial crisis. From 2002 to 2010, the housing prices in 35 major Chinese cities increased by 12.68 % annually on average, which is 4.09 % higher than the corresponding rate from 1998 to 2002. In large cities such as Beijing and Shanghai, housing prices rose even higher than the national average, where the annual price inflation rates were 15.76 and 14.93 % respectively from 2002 to 2010 (All data are extracted from the National Bureau of Statistics of China) (Fig. 2.6).

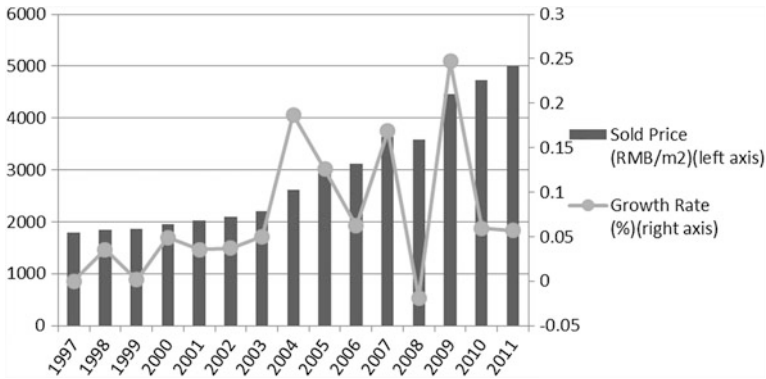


Fig. 2.6 Sold price of new commodity residential housing in urban China, 1991–2011. *Source* China statistical yearbook (2012)

Increasing housing prices attracted the attention of central officials. Some have feared that a potential slump in the housing market could affect the healthy growth of the economy and put the financial market at risk. Therefore, the central government launched a wide range of regulation policies including mortgage, land use reform and supply structure regulation, with the hopes of reining in the residential prices that had been rising since 2004. Meanwhile, prompting public housing supply and enhancing housing affordability for low-to-medium income households have become priorities of Chinese public policy since 2007, and particularly after 2009. In [Chap. 6](#), we introduce China's housing policies and affordable housing programmes. In the following section, several major government regulation policies are described from 2003 to 2010.

2.3.1 Land Use Rights Reform

China's urban land reform is an important measure and has, itself, experienced several important reforms. All of the land reforms have been based on the Chinese fundamental lease system, which defines urban land in China as belonging to the nation while residents only have land use rights. For residential property, land use rights go up to 70 years, whereas for industrial and commercial use the range is up to 50 and 40 years, respectively, according to the Land Administration Law of 1998.

Before the market-oriented economic reform in 1978, the government banned all land transactions and land use rights were allocated to state units with no time limit and virtually free of charge. Under this central planning system, there were no land transactions or markets. Land allocation, while effective, lagged far behind the needs of the urban development stimulated by nation-wide housing reform.

Subsequent to 1982, the government began to reform the land use system. Beijing and Shanghai were among the first cities to set up land use fees for

industrial and commercial land. Further reforms were carried out in 1987 in Shenzhen city, a neighbour of Hong Kong. It was the first time that land use rights were granted to an enterprise. Eventually, the granting of such land use rights, similar to the land leasehold system in Hong Kong, was introduced to foreign enterprises, allowing them to pay rent and access land use for a certain period. Although this reform was initially restricted to the special economic development zones (SEDZs), its effect on the national land market was profound (Ding 2003). During 1988, a regulation on land use tax was promulgated and the Land Administration Law of the PRC was amended in the fifth section of the Standing Committee of the National People's Congress. These legislations legally separate land use rights from land ownership, paving the way for further land reform.

In 1991, the State Council announced "The Provisional Regulation on the Granting and Transferring of the Land Rights over State-Owned Land in Cities and Towns" (Order No. 55 of the State Council). Since then, land use rights have been widely assigned in two ways: allocation (*huabo*) and conveyance (*churang*). Allocation is a continuance of the old land system that dispenses land use rights to state-owned or non-profit uses without paying anything. Conveyance, however, transfers the lands between local governments and land users (enterprises, real estate development corporations and government agencies) at privately negotiated or auction prices. The "conveyance price" comprises allocation price (the expropriation cost and the stipulated land fees) and the conveyance fee (*churang jin*), which is negotiated between the state and land users. Under this transaction mechanism, real estate developers nominally paid agreed-upon transaction prices that were much lower than the equilibrium land market prices for land transfers (Xie 2002). Before 2004, private negotiation was the dominant ways to obtain land use rights, whereas only a handful of lands were sold through auctions based on market value (Xie 2002). For example, in Beijing, 98.6 % of the total parcels were granted through negotiation by the end of 2004 (Beijing Municipal Bureau of Land and Resources). This resulted in widespread land speculation and corruption, along with low allocation efficiency.

On 31 March 2004, the Ministry of Land and Resources and the Ministry of Supervision issued Notification No. 71, "On the continuation of business land use rights for transferring auction listings of law enforcement work notice" (MLR [2004] No. 71). This notification requested that all state-owned urban land appropriate for real estate development be granted through tender (*zhaobiao*), oral auctions (*paimai*), or listing auctions (*guapai*) after 31 August 2004. This was a milestone in China's land market development because it ushered-in a time in which auction mechanisms played a dominant role in the leasing of land for real estate development. The new land transaction reform introduces a market mechanism into the land transaction process in urban China, aiming to create a fair and transparent land allocation system.

The format of a listing auction follows the typical English auction, the use of which originated in Guangdong Province, Jiangsu Province and Chongqing Municipality where local government had been historically used to granting land supply. Before bidding occurs in a listing auction, preliminary examinations of the

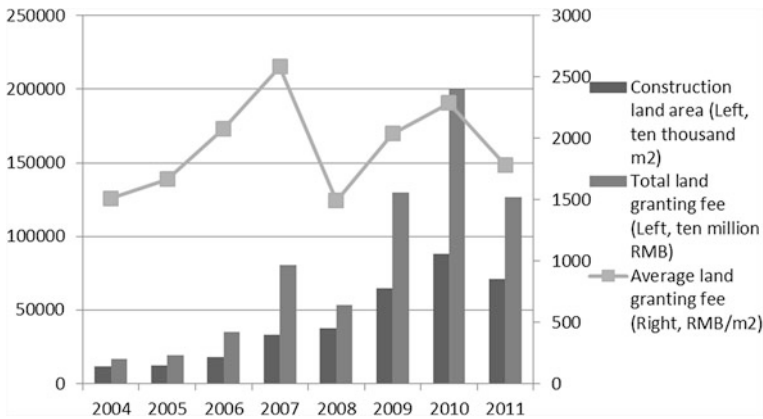


Fig. 2.7 Land sales in urban China, 2004–2011. *Source* Chinese ministry of land and resources (various years)

qualifications of interested bidders are conducted and only those who meet the expected qualifications may attend the land bidding process. In bidding, the price must increase by a required minimum amount exceeding the last offered price. At the end of the auction, the site is sold to the bidder who offered the highest price. This price must either equal or exceed the reserve price. At closing time, if two or more bidders want to increase the offer in hand, the listing auction will be preceded by an oral auction that will be held on the spot. All qualified bidders who registered for the bidding are allowed to attend the oral auction. At the end of the auction, the highest bidder wins the parcel.

Tender auctions, in contrast, are more akin to sealed-bid auctions but with different rules on how the winning bidders are determined. Under a tender auction, each bid is scored by the bid evaluation committee based on a comprehensive comparison of factors such as the bidding price, payment conditions, the proposed development plan, the bidder's financial solvency and the corporation's performance and reputation. The site is leased to the bidder who obtains the highest score from the combination of these factors. Under this system, the bidder offering the highest price may not always win the auction. It should be noted that such tenders are only conducted if there are more than three bidders at the opening of the bidding process. Furthermore, the reserve price is hidden in such a system (Fig. 2.7).

2.3.2 Housing Market Regulations Between 2005 and 2006

In response to the country's soaring housing prices, the government launched a series of regulatory policies between 2005 and 2006. On 26 March 2005, the General Office of the State Council (GOSC) issued the Circulation on Stabilising

Housing Price (GOSC [2005] No. 8), a notification also known as the old “Guo Ba Tiao”. This document was the first to highlight the importance of housing price stability in the form of administrative accountability. On 12 May 2005, seven ministries, including the Ministry of Construction (MoC) and the People’s Bank of China (PBC), issued the Suggestions on Making Efforts to Stabilise Housing Prices, also known as the new “Guo Ba Tiao”, reinforcing the government’s housing market regulations (GOSC [2005] No. 26). This raised a series of regulation policy in 2005 that is focused more on restraining the housing demand.

As a summary, there are three critical policies issued in 2005. First, the PBC adjusted the preferential mortgage interest rate from 5.31 % to the benchmark long-term loan interest rate of 6.12 %. Meanwhile, it also initiated a lower limited management scheme. Under the new scheme, commercial banks were allowed to give borrowers a maximum discounted rate of 10 % of the benchmark rate, which at the time was 5.51 % (a 0.20 % premium over the old preferential interest rate). The minimum ratio of down payment was also increased from 20 to 30 % in the places where housing prices grew sharply. Second, house owners who resold their houses within 2 years of occupancy would be charged a sales tax of 5.5 % on the gross re-sale price. Houses sold after 2 years from the date of purchase, however, would be exempt from this sales tax policy. Third, the government stopped re-selling the pre-sale housing units bought by individuals from developers, which increased the opportunity costs of potential speculators, squeezing them out of the market.

After the first round of demand-side regulation policies, the government launched a second round of supply-side regulation and a foreign investment regulation in 2006. On 17 May 2006, the State Council Executive Meeting proposed six measures including the adjustment of housing supply structure, strengthening tax, credit, land regulation and increasing the construction of low-rent housing and ECH (GOSC [2006] No. 37). On 24 May 2006, seven ministries including the MoC issued the Suggestions on Adjusting Housing Supply Structure to Stabilise Housing Prices, also known as the “Guo Liu Tiao” (GOSC [2006] No. 37). This document required that units with floor areas of less than 90 m² (including ECH) must cover more than 70 % of the total floor area in all newly registered or constructed projects. This policy was similar to that adopted by the Korean government in the 1970s (Kim and Kim 2000). This new rule aimed to increase the small-and-medium sized housing supply in the market and enhance housing affordability for low-to-medium income households. Furthermore, on 11 July 2006, the MoC issued new proposals to regulate foreign investment in the property market. The proposal stated that foreign institutions and individuals could not purchase apartments for their own use unless the institutions had established branches or representative offices in China and the individuals had worked or studied in China for more than 1 year. The proposal also indicated that foreign developers could only receive the settlements from exchange deals if the principal capital investment was greater than 35 % of the total project investment. This ensured that foreign developers had no access to further financing if the “down payment” was not enough, because all of the cross-border money transfers were

restricted by the State Administration of Foreign Exchange. On 18 July 2006, a new individual income tax policy on the transfer of housing property was issued by the State Administration of Taxation. Subsequently, sellers had to pay 20 % on the capital gains during housing transactions.

The aforementioned measures have significantly influenced China's housing market. Real estate investment maintained steady growth in 2006. The national real estate investment arrived at an average level of RMB1.94 trillion with a year-on-year growth of 21.8 %, which was lower than the growth of fixed asset investment in the same period. It also arrived at a relative low level of property investment during those years. In addition, the supply structure was improved to some extent. The residential investment growth rate reached 25.3 %, among which the investment in ECH grew by 32.7 % in 2006. In addition, housing prices in 2006, compared with those from the previous several years, presented a slower rising pace in a shorter period.

2.3.3 Central Government Measures for an Overheated Property Market Since 2008

A persistent increase in housing prices, particular in China's major cities after 2008, challenges both the sustainability of the property market and social stability. The central government took several measures to curb the soaring housing prices, including monetary policies, household purchasing restrictions and regulations related to the behaviour of real estate developers.

Beginning on 1 November 2008, the title deed taxes for individuals' purchasing first housing units smaller than 90 m² were cut from 3 to 1 %, with stamp duties also waived for the individual sale or purchase of housing property. The period that a property owner must wait before selling a property without sales tax was extended from 2 to 5 years after the day the house is purchased.

Moreover, since 2008, land supply in the residential market has tightened due to stricter land price and use regulations. Bidding deposits were raised from 10 to 20 % of the minimum sale prices, and 50 % of the land transfer price must be paid within a month after signing the contract. No less than 70 % of housing land must be reserved for subsistence housing and owner-resident small-sized housing units. The supervision of housing land use has been emphasised in terms of establishing an open system for housing information and launching ad hoc inspections for land use projects.

Further on 17 April 2010, the China State Council announced "The Notification Regarding the Steady and Healthy Development of the Real Estate Market" (SC [2010] No. 10), in which several measures were delivered to deal with the increasing housing prices. The required down payment for first mortgages was raised to 30 % of the purchase price, or 40 and 50 % for second and third homes, respectively. Housing purchases made by families who were not local residents or by local

residents owning two or more homes, were restricted. In addition, the 1-year benchmark interest rate for a mortgage from a financial institution was raised by 0.25 % (from 5.31 to 5.56 %) as of 19 October 2010. On the same day, the interest rates for the 5-year-or-less and more-than-5-year period public provident funds were raised by 0.17 and 0.18 %, respectively. All of these were attempts to control the speculative demand on housing and cool off the property market.

From the supply side, the policies put huge pressure on increasing the housing supply, particularly affordable housing, requiring that more than 40 % of the total construction area be used to construct affordable and moderate-sized units. The implemental amount of affordable housing has been one of the crucial indicators used in the performance evaluation of local governments. Moreover, experiments in some forms of property tax were introduced in Shanghai and Chongqing.

2.4 Growing Housing Inequality in Urban China Since 1998

The acceleration in China's economic reform over the last two decades has prompted great changes in urban Chinese households. Household income has increased substantially. The annual real disposable income per capita in urban China increased from RMB890 in 1986 to RMB21,810 in 2011 (deflated by urban CPI). Similarly, from 1990 to 2011, household saving deposits per capita increased from RMB623 to RMB25,505 (China Statistic Yearbook 2012). The net urban total wealth per capita was RMB2.47 million in 2010, whereas the share of financial assets only counted for 8.76 % with the biggest share of household net wealth being housing assets (China household financial report by Southwestern University of Finance and Economics 2010).

A marked increase in inequality coincided with this rapid rise in household income and wealth. Income and wealth inequality started to increase in urban areas during the early stages of urban economic reform in the 1980s, especially after 1992. The Gini ratio, which used to measure urban household income inequality, rose to 0.33 in 1995—10 % higher than it was in 1988 (Gustafsson et al. 2008) and it reached to 0.425 in 2010 (World Bank 2011). The Gini coefficient for the distribution of wealth was 55 % in 2002, whereas the distribution of housing wealth contributed two-thirds of the overall urban wealth inequality (Gustafsson et al. 2008).

With respect to the causes of housing inequality in China, the role played by social transitions from state socialism is important. The emergence of a market economy introduced a mechanism of resource allocation that created new opportunities outside the redistributive system (Nee 1989, 1991). This increased the urban income gap between private businesses and public sectors, urban registered households and rural-to-urban migrants (Gustafsson et al. 2008; Wang 2000).

Even within the state-owned sector, wage inequality was significant after the economic reconstruction. A profitable enterprise could provide its employees with higher base wages, bonuses and better services. An unprofitable enterprise could lay off employees who only received a monthly benefit or a proportion of their wages from their employer. These income gaps would eventually lead to inequality in housing consumption.

However, marketisation alone cannot explain the significant inequalities of the urban property regime. Housing privatisation under housing reform laid the foundation for growing housing inequality as its most important cause in China. Since the 1990s, the central government has vigorously promoted the sale of public sector housing to existing tenants. Certain policies were designed to offer public housing to the tenants at considerably reduced costs. Such housing was generally operated through work units and a tenant's ability to purchase depended on the household's working units or occupation, not its demands or income. Those who received better housing in the old redistribution system benefited from more discounts and could realise remarkable capital gains when purchasing houses in the emerging housing market. Poor households that had been privileged under the old housing system and could not move to public housing were even worse off after privatisation. They have had to face continuing rental increases and policy uncertainties (Zhang 2000). As a result, wealth distribution in urban China became unequal in the early stages of housing reform and the persistence of inequality is based on the existing organisational hierarchies (Walder and Oi 1999; Wader et al. 2000).

Although homeownership in Beijing increased from 30 % in 1992 to 83 % by 2007 (BSB 2005a, b), 87 % of homeowners owned privatised public housing, whereas only 3.5 % owned houses that had been bought on the open market by individual households and 4.5 % were low to medium income households that owned "economic housing" (*jingji shiyong fang*) that partook of subsidies from the local government. Due to its large number of SOEs, institutions and government departments, Beijing had much more privatised public housing than any other Chinese city. For this reason, housing inequality tended to be more pronounced in Beijing.

We note that although the privatisation of public housing brought many households into owner-occupied housing, it did so at a substandard level. According to the 1999 Chinese Academy of Social Sciences (CASS) survey, the average living area per person in public housing is only 17 m², which is lower than the adequate housing size defined in our affordability measure (details in Chap. 6). The demand for improved housing conditions and living environments remains high among the owners of purchased public housing. Therefore, they should be included in affordability studies conducted in China.

The initial uneven distribution in housing prompted by privatisation was subsequently exacerbated as marketisation accelerated. China has experienced steady increases in housing prices driven by growing demand and the speculative purchasing of domestic and overseas investors (Yang and Shen 2008; Yang and Wang 2011). According to the MacroChina Database, 2010 housing prices in China

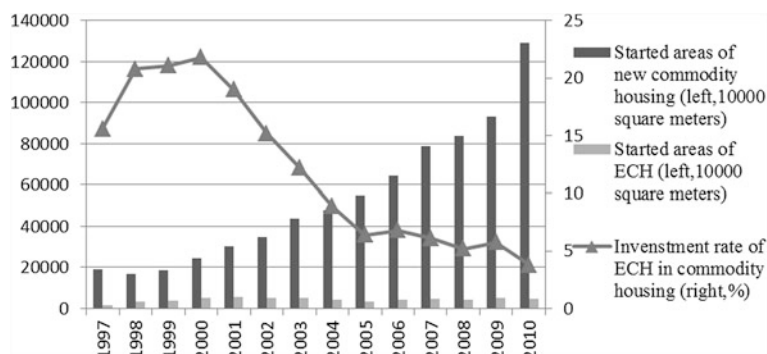


Fig. 2.8 Investment of new commodity residential housing and ECH in urban China, 1997–2010. *Source* National Bureau of Statistics of China (1998–2011)

were 2.54 times higher than those in 1998. Homeowners who purchased commodity housing, including discounted public housing and unlike other low to medium income households, have benefitted from the housing price inflation, building more robust financial capacities and tending to engage in speculative trading as property prices rise (Wu FL, 2005, *Regulating the booming housing market: China's transition toward a property-based regime of accumulation and regulation shifts*, "Unpublished").

The reduction of government subsidies in the housing sector was the main policy instrument before 2007 (Zhang 2001). There are only two types of homeownership-oriented policy: ECH and Housing Provident Fund (HPF) before 2007. ECH (detailed in Chap. 6) has continued to represent a proportion of the total housing construction (shown in Fig. 2.8). From 2001 to 2005, the total investment in ECH dropped by 15 % on average. HPF (described in Chap. 7) however is only limited to high or medium income households (Wang 2000). Medium to low income households, particularly those that are ineligible for subsidised housing, tend to be the most vulnerable groups in China's housing market during that period.

2.5 Regional Housing Market in China

Similar to the global trend in spatial disparity, China's pronounced income and wealth inequity has become one of its most important regional inequality patterns (Gustafsson et al. 2008), and a key policy issue (Meng 2004; Benjamin et al. 2005). Households' purchasing power varies significantly across the regions (Fan et al. 2008) and widening differences in regional economic growth and housing investment have created a volatile context for local housing prices. The social transmission that occurred in China in the 1990s further enhanced the disparity in housing wealth across the regions, even if indirectly (Yang and Wang 2011).

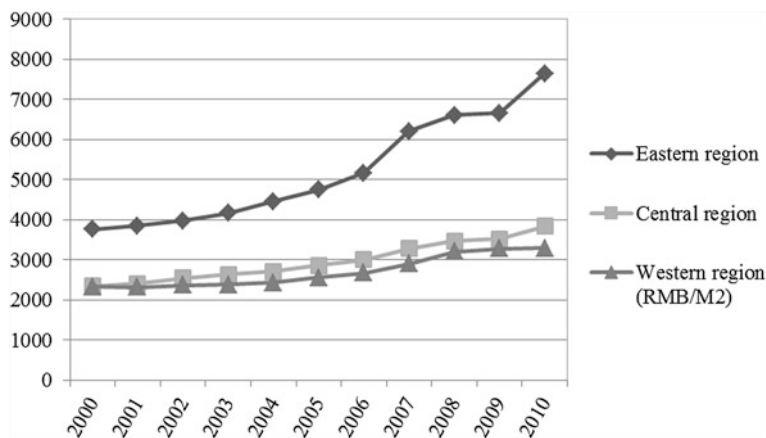


Fig. 2.9 Transaction prices of commodity residential housing prices in urban China in three regional divisions, 2000–2010. *Source* Authors' calculations based on the China Price Index Research Institute. *Note* The housing prices for each region are the weighted averages of the residential housing prices for each city included in the respective region. The price for each city is obtained from the China price index research institute and adjusted as the quality-consistent price

In Fig. 2.9, regional housing prices are plotted across three regions: the eastern, the central and the western regions. The eastern region comprises 11 provinces (Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan); the central region comprises 9 provinces (Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan); and the western region comprises 12 provinces (Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang, Guangxi and Inner Mongolia). Clearly, these three regions share similar movement patterns, but with significant differences in magnitude. The housing prices in the eastern region are much higher than those in the other two regions.

The variability of regional housing prices generally reflects the diversity of regional economics, such as GDP and housing investment, as shown in Fig. 2.10. Therefore, the affordability analysis in this book covers both national and regional perspectives.

Corresponding to the regional price differences, homeownership in China's urban areas is heterogeneously proportionate across regions. The homeownership rate is highest in the central region (94.42 %) and lowest in the eastern region (87.35 %). However, when we look at second-home ownership across the regions, we find that the highest proportion of homeowners have second homes in the eastern region while the lowest proportion is in the central region. Even without a precise assessment of household inequality across regions, the inconsistent distributions of homeownership rates (Table 2.2) and second-home ownership rates (Fig. 2.11) suggest inequality at the regional level.

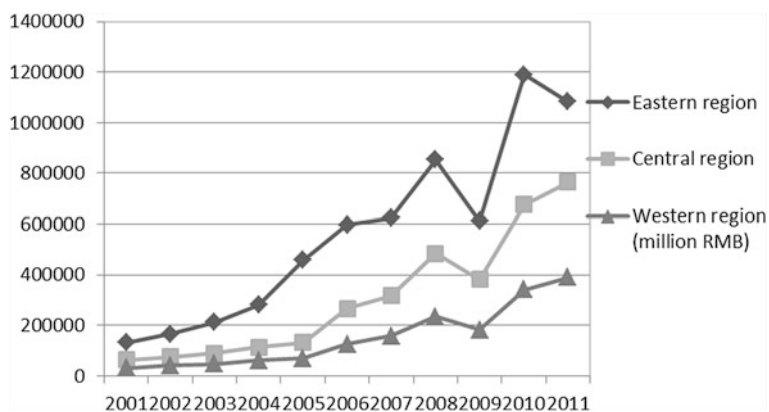


Fig. 2.10 Real estate investments in the three regional divisions of urban China, 2001–2011. *Source* statistics bureau of various cities from 2000–2012

Table 2.2 Simplified balance sheets for four Chinese state-owned banks

	Agricultural bank of China	Bank of China	China construction bank	Industrial and commercial bank of China
Total assets	11.677	11.830	12.282	14.372
• Loans	5.335	6.343	6.496	7.330
• Corporate loans	3.834	4.725	4.446	4.964
• Personal loans	1.305	1.618	1.684	1.823
• Investments in securities and other financial assets	2.628	2.001	2.742	3.673

As of 31 December 2011, in trillion RMB

Source 2011 annual reports from each bank

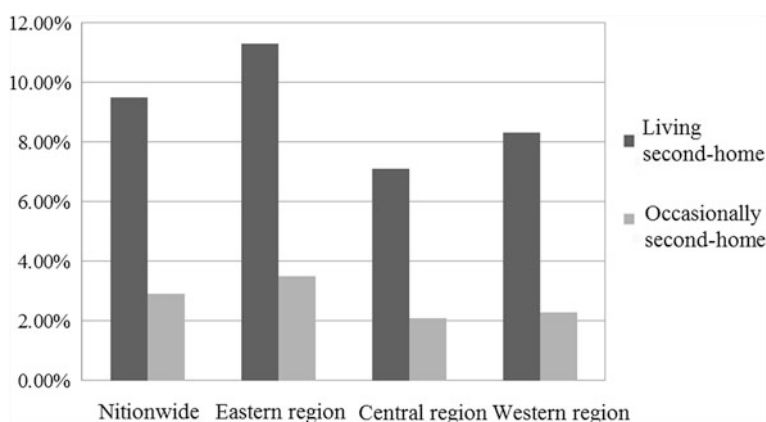


Fig. 2.11 Proportion of occasional and second-home ownership of housing stock in China's central, eastern and western regions, 2008. *Source* The national bureau of statistics of China and the REICO database

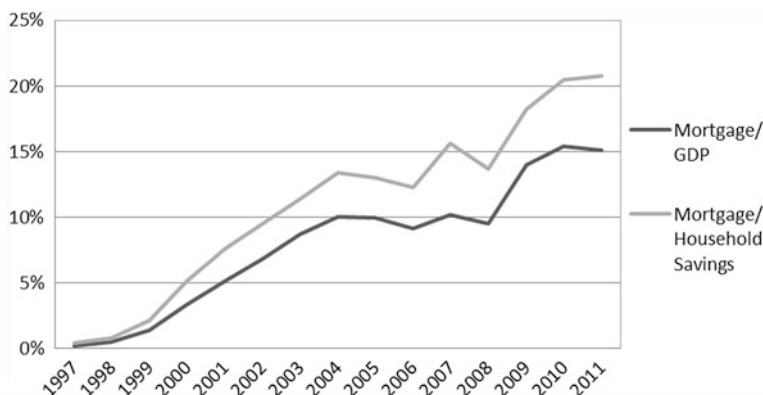


Fig. 2.12 Mortgage depth and rates, 1997–2011. *Sources* PBC; The China statistics yearbook. *Note* The mortgage rate refers to the benchmark mortgage rate for mortgages with a maturity of five or more years

2.6 Housing Finance System in Urban China

The first mortgage in China was issued in 1986, funded largely by retail deposits. Since the 1998 abolishment of the welfare housing system, mortgage loans have been fervidly promoted among common urban households as a key tool in mobilising their purchasing power, quickly becoming the primary financing mechanism for Chinese citizens to purchase housing. According to the PBC, the outstanding balance for housing mortgages increased by more than 411 times between 1997 and the end of September 2012, soaring from RMB19 billion to RMB7,800 billion. At the end of September 2012, the housing mortgage loan consisted of 12.68 % of all RMB banking loan balances. When the banking loans to developers are included, the outstanding balance of the property-related credit stood at RMB11,740 billion at the end of September 2012, and consisted of 19.09 % of the total banking loan balance. The dependence of banking loans on housing activities presents a high systematic risk for the entire Chinese financial system that is one of the driving reasons behind the Cabinet's recent cooling-down policy (see more below). Figure 2.12 plots the mortgage depth, or the ratio of the mortgage balance as a percentage of the GDP. At the end of 12, the mortgage depth in China was 22.1 %, about 10 times the level recorded 10 years ago.

The majority of housing mortgage services in China is currently provided by commercial banks. The prosperity of these services not only injects liquidity into the housing market, but also brings massive profitable business opportunities to commercial banks. China's housing mortgage loan has developed rapidly since 1999, attracting increasing attention due to its diversified risk and low default rate. Commercial banks are now legally independent, although the sector is still dominated by four state-owned banks and the banking system has become an important instrument for the government's financing of policy lending targets.

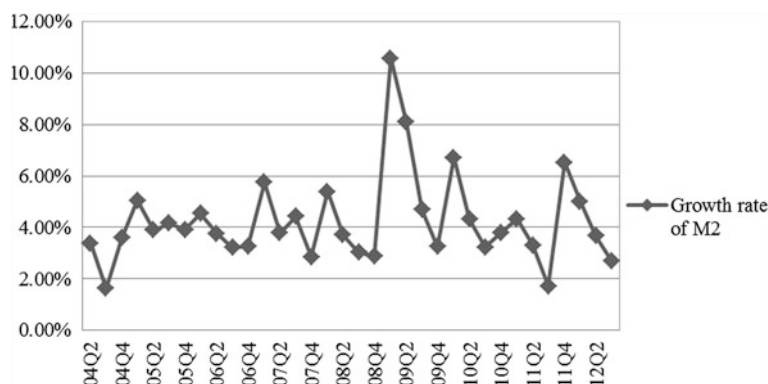


Fig. 2.13 Growth rate of M2 in China (2004Q1–2012Q2). *Source* PBC website and authors' calculations

China's banking sector was previously dominated by four wholly state-owned policy banks: the Agricultural Bank of China (ABC), the Bank of China (BOC), China Construction Bank (CCB) and the Industrial and Commercial Bank of China (ICBC). In addition, there were several smaller wholly state-owned policy banks, such as the Bank of Communications, the State Development Bank of China, the Export Import Bank of China (China Exim Bank) and Huaxia Bank. China began transforming these wholly state-owned banks into joint-stock corporations, a process known as "equitisation", allowing them to operate as commercial banks starting in 2005.

The 2011 annual reports of the four equitised banks² (see Table 2.2) suggest that the largest assets for four banks were loans, with the value of corporate loans being three or more times the value of personal loans. The personal loans provided by the four state-owned banks were predominately mortgage loans.

The government branch with the power to control monetary policy and to regulate financial institutions in China is the PBC. According to its law, effective in 1995, the objective of monetary policy is to maintain the stability of the currency and promote economic growth. However, PBC Governor Zhou Xiaochun emphasised³ that during the transitional period of economic reform, the PBC exercised a multi-objective monetary policy focused on achieving low inflation, economic growth, high employment and balanced payments. To succeed, the primary instruments of monetary policy used by the PBC, similar to the most advanced central banks, include open market operations, changes in discount rates and reserve requirements, and "window guidance" regarding banks' lending operations. In 1994, the PBC defined and announced three layers of money supply indicators: M0, M1 and M2. In 1996, the PBC formally treated money supply as an intermediary target and in 1998, credit ceilings were eliminated, leaving money

² Another equitised bank is the Chinese Communication bank.

³ Details at <http://pbc.gov.cn/english/huobizhengce/objective.asp>.

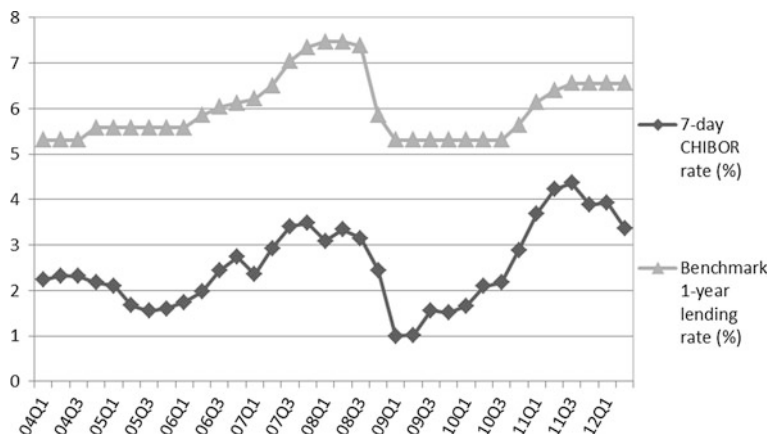


Fig. 2.14 One year lending rate and 7-day CHIBOR rate (2004Q1–2012Q2). *Source* one year lending rate: tsinghua financial database; 7-day CHIBOR rate: macrochina database

supply (M1 and M2) as the single intermediate target. Dai Genyou (2002), the director of the Chinese Central Bank's monetary policy department in 1994, noted that M1 is mainly related to short-term output growth while M2 is more related to long-term inflation and economic growth.

Figure 2.13 plots the growth rate of M2 in China from 2004 to 2012. The country's monetary policy remained stable from 2004 to 2008. The annual, newly increased bank lending was about RMB2 trillion, on average, during this period. In 2008, in response to the global financial crisis and subsequent shocks to the domestic economy, the Chinese authorities announced an enormous stimulus package and introduced credit relaxation and several interest rate cuts. The country's credit volumes increased by more than 10 % year-on-year from 2008 to 2009, during which lending amounted to more than RMB90,000 approaching RMB140,000 of lending from 2004 to 2008. The "moderate loss monetary policy" played a significant role in bolstering the country's economy and prevailed until 2009. Since then, China has begun a normalisation of policy as its recovery has gathered steam. The banks' reserve requirements were raised four times and interest rates were lifted once. In addition, restrictions have been placed on bank lending in response to the pressure of increasing inflation and an overheated economy. As a consequence, the pace of credit growth slowed in 2010.

In addition to the market orientation of the national economy and the globalisation of the financial market, the PBC started to apply indirect instruments, such as required reserve ratios and interest rates, in adjusting macroeconomics. In China, the interest rate is still regulated by the PBC, but the progress made towards liberalisation has been slow. Interest rates in the money market have not been used as benchmarks; instead, the 1-year deposit rate administered by the central bank is widely used as a benchmark interest rate in China. Figure 2.13 plots the trend of interest rates and Fig. 2.14 plots the 7-day CHIBOR and the benchmark 1-year lending rates.

Table 2.3 Summaries of the several major credit policies and related regulations on mortgage terms in China (2001–2011)

Date	Policy document	Regulation on mortgage terms
2001, Jun	People's Bank of China: Notice of regulating home financing business (PBC [2001] No. 195)	The ratio between the loan amount and the actual value of the security shall never exceed 80 %
2005, Mar	People's Bank of China: Notice of the adjustment of commercial bank housing loan policies and deposit interest rate of excess reserve (PBC [2005] No. 61)	The down payment on a household mortgage increases from 20 to 30 % in cities and areas where property prices grow too quickly
2006, May	State Council: Opinion of the Ministry of Construction and other departments on adjusting the housing supply structure and stabilising property prices (SC [2006] No. 37)	Individual purchasers who apply for mortgage loans shall pay a minimum of 30 % of the purchase price as down payment. However, if the size of the purchased unit is 90 sq m. or less, 20 % of the required down payment remains unchanged
2007, Sep	People's Bank of China and China Banking Regulatory Commission: Notice of strengthening the management of commercial property credit loans (CBRC [2007] No. 359)	For those who apply for a second loan, the down payment shall not be less than 40 % of the purchase value and the interest rate of such a loan shall not be lower than 1.1 times the benchmark interest rate of the same grade for the same period
2008, Oct	People's Bank of China: Notice of extending the downward movement of interest rates for loans to residential premises of a commercial nature for individuals in support of first time purchase of ordinary residential premises by residents (PBC [2008] No. 137)	Reduces the down payment requirements from 30 to 20 % and adjusts the lower limit of the lending rate for residential properties to 70 % of the benchmark lending rate
2010, Jan	State Council: The circular on promoting the stable and healthy development of the real estate market (SC [2010] No. 4)	The minimum down payment of a mortgage loan for additional residential property shall be 40 % of the property value. The interest rate of a mortgage loan for an additional residential property shall reflect the associated risk level
2010, Sep	Ministry of housing and urban and rural development, Ministry of Finance, People's Bank of China and China Banking Regulatory Commission: Notice of issues relating to standardising different residential mortgage loan policies (MOHUR and MF [2010] No. 179)	The minimum down payment for residents' first purchase shall be increased to 30 % and all commercial banks shall suspend granting loans to customers purchasing a third or subsequent residences. For those purchasing a second residential property, the down payment shall not be less than 50 % of the value and the interest rate shall not be less than 1.1 times the benchmark interest rate
2011, Jan	State Council: Notice of issues relating to further regulating the control of the property market (SC [2011] No. 1)	The minimum down payment for additional residents shall not be less than 60 % of the total property value
2011, Mar	China banking regulatory commission: Notice of China Banking Regulatory Commission on the strengthening of the financial services and risk management of property market (CBRC [2011] No. 55)	All financial institutions and banks shall determine down payments and interest rates that reflect the relevant risk level and strictly execute the policies of local governments on purchase restrictions

Table 2.4 Percentage of families purchasing housing with mortgages from 2002 to 2009

	2002	2003	2004	2005	2006	2007	2008	2009
Families with mortgage loans (%)	12.20	16.85	16.58	13.96	19.64	17.57	16.96	26.56

Source Urban households survey data in China (2002–2009)

Note Only those households that purchased housing in the current year are included in the analysis. Those that purchased housing in the previous year are not included

Pursuant to the 2001 guidance on the risk management for the property loans of commercial banks, the PBC announced its intention to regulate the credit market for both residential development loans and individual residential mortgage loans, in terms of the maximum loan-to-value ratio and the maximum mortgage term. The terms, however, were adjusted by the central bank in the following years, based on their risk perception in the property market. In 2007, by warning of the potential speculative demand for housing consumption, the PBC and the China Banking Regulatory Commission (CBRC) issued the Notice on Strengthening and the Management of Commercial Property Credit Loans (CBRC [2007] No. 359), which further stipulates stringent requirements for the various residential mortgage loan policies that differ in down payment and preferential interest rate in respect to individuals’ second and subsequent housing purchases. This policy is further emphasised in 2010 and continually reinforced in 2011, even when it presented signs of “loss” (Table 2.3).

To understand household mortgages in China, Tables 2.4 and 2.5 illustrate family finances in urban China based on a national household survey (survey details in Chap. 5). Although the mortgage ownership for urban households increased from 12.20 to 26.56 % from 2002 to 2009, on average, among those who purchased housing, only 17.66 % had mortgages from 2002 to 2009.

Given that families with different characteristics hold various attitudes towards mortgages, the sample families are grouped by the demographic characteristics of the head of a household in terms of gender, date of birth, marriage status and the number of household members (Table 2.5). Mortgage ownership was higher for both married families and families with three members. Cohorts seem to be a significant factor in household mortgaging choices. Families with older heads of household are less likely to adopt mortgage loans when buying houses. Heads of households born after 1970 had the highest debt among all of the age groups.

The mortgaged homeownership rates vary between occupation and education groups (Table 2.6). The mean value of the SOEs debt was the highest (RMB15,371,551), of which even the mortgage ownership was only 19.54 %, which is comparatively low. More than 23 % of the financial industry group had housing purchase mortgages. This ratio was the lowest in the non-SOE group (12.42 %). The proportion of household holding mortgages was more than 22 % for the graduated group, which was the highest among all of the education groups both in proportion and debt amount, followed by the college groups (21.35 %).

Given the regional differences in mortgage ownership levels, the proportions are slightly different between the regions. Households living in the central region

Table 2.5 Mortgaged ownership by household characteristics from 2002 to 2009

Household characteristic	Mortgaged ownership (% of household purchased housing)	Debt amount
<i>Gender</i>		
Male	17.97	157,322
Female	16.88	178,530
<i>Date of birth</i>		
<1940	3.37	168,333
1941–1950	13.42	125,362
1951–1960	17.35	173,106
1961–1970	22.59	141,010
>1970	21.41	230,626
<i>Marital status</i>		
Married	17.87	163,543
Otherwise	12.87	148,004
<i>Household type</i>		
One-person household	18.52	79,307
Two-person household	11.65	152,081
Three-person household	19.91	163,737
Others	17.30	177,378

Source Urban households survey data in China (2002–2009)

Note

1 Gender and date of birth refer exclusively to the head of household

2 Only households that purchased housing at the current year are included in the analysis. Those that purchased housing in the previous year are not included

Table 2.6 Mortgaged ownership by household employment, education status and region, 2002–2009

Household characteristic	Mortgage ownership (% of total household who purchased housing)	Debt amount
<i>Employment</i>		
State-owned enterprises (SOEs)	19.54	153,715,351
Non-SOEs	12.42	20,416,280
Finance industry	23.08	24,041,612
Real estate industry	20.00	18,713,811
<i>Education level</i>		
Less than high school	13.51	131,425
High school diploma	15.54	134,701
College degree	21.35	176,949
Bachelor's/associate's degree	20.20	182,283
Master's/doctoral degree	22.22	337,500
<i>Region</i>		
Eastern region	16.87	250,615
Middle region	19.55	176,986
Western region	17.23	139,870

Source Urban households survey data in China (2002–2009)

(19.55 %) had the highest mortgage ownership, followed by the households in the western region (17.23 %) and those in the eastern region (16.87 %). However, it is notable that the mean value of debt amount tended to be highest in the eastern region. This could be related to the fact that the eastern region also featured the highest housing prices among the three regions.

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