

**CHINA'S NEW AFFORDABLE RENTAL
HOUSING STRATEGY**

YU Lei

EAI Background Brief No. 1655

Date of Publication: 17 June 2022

Executive Summary

1. The decade from 2010 to 2020 witnessed a “great leap forward” in China’s public housing development, with more than 47 million units of government-subsidised affordable homes built nationwide. In terms of service delivery, however, the levels of benefits received across social groups varied.
2. In this period housing prices continued to surge, driven by demand from upgraders and investment speculation. While policy intervention could cool the overheated housing market, challenges remain for the market’s long-term stability and sustainability.
3. High housing prices and market distortion also contributed to a growing ‘spatial disequilibrium’ problem of jobs-housing imbalance (职住失衡). Migration flow from underdeveloped to developed regions and across urban-rural boundaries has led to the situation of housing shortage in some locations and over-supply in the others.
4. In July 2021 the Chinese government introduced a new initiative titled, *Affordable Rental Housing* programme (ARH 保障性租赁住房), to bolster rental housing in major cities where housing affordability is a prominent issue for the young and new citizens.
5. The official policy explanation portrayed ARH as a new policy approach that differs from previous iterations of the policy, standing out in terms of target population, role of city governments in programme implementation and interlinks with other housing security provisions to provide “adequate housing for all”.
6. The ARH differs from the means-tested and *hukou*-based social provision model in that there are no income limits or *hukou* status restrictions. “Affordable rental” offers transitional support to young working households – the more productive and economically active population – by assisting them in renting at subsidised rates while they become part of a market-ready and financially capable workforce.

7. The role of city governments in ARH development is no longer that of a direct provider through public funding and provision of land resources, but as a facilitator using policy incentives to leverage societal and commercial partners and investment.
8. With government under mounting pressure to de-risk the real estate sector, much hope has been placed on the prompt and effective implementation of the new ARH programme to help maintain investment activities for economic stability, while meeting housing demand with improved affordability.
9. Targeting larger cities with continued migrant influx leaves room for new demand and investment opportunities. However, little has been mentioned about how the new policy framework will be applied to other cities. The adaptation will be much more challenging and painful in laggard regions facing population decline, housing inventory, debt and fiscal revenue problems.
10. While the ARH programme embraces broad eligibility requirements and is theoretically inclusive, its reliance on commercial investment and emphasis on targeting the young in order to safeguard economic future and competitiveness of urban economy may render this unlikely.

CHINA'S NEW AFFORDABLE RENTAL HOUSING STRATEGY

YU Lei*

Is China's Affordable Rental Housing Strategy Reshaping China's Housing Security System?

- 1.1 In July 2021 the Chinese government introduced a new initiative, the *Affordable Rental Housing* programme, to bolster rental housing in major cities where housing affordability is a prominent issue for the young and new citizens.¹ Since the 1998 housing market reform, the real estate sector has become the main driver of China's economy, with housing prices driven by strong demand and investment speculation. In recent times, China's urban housing has been plagued by the geographical mismatch² between jobs and housing supply or the 'jobs-housing' imbalance issue (职住失衡). In response, the State Council issued the *Opinions about Accelerating the Development of Affordable Rental Housing*.³
- 1.2 Director General of the Housing Security Department of the Ministry of Housing and Urban-Rural Development (MoHURD) Cao Jinbiao portrayed Affordable Rental Housing (ARH 保障性租赁住房) as a new policy approach that differs from previous iterations of the policy.⁴ Based on the principle of "housing is for living in, not for speculation", the changes cover aspects such as target population, role of city governments in programme implementation and interlinks with other housing security provisions to provide "adequate housing for all".

* Dr YU Lei is Research Fellow, Centre for Contemporary Chinese Studies at the Asia Institute, University of Melbourne.

¹ http://www.gov.cn/zhengce/content/2021-07/02/content_5622027.htm, accessed 27 February 2022.

² <http://finance.sina.com.cn/zl/china/2021-09-02/zl-iktzscyx1786354.shtml>, accessed 27 February 2022.

³ http://www.gov.cn/zhengce/content/2021-07/02/content_5622027.htm, accessed 27 February 2022.

⁴ <http://www.gov.cn/xinwen/2021zccfh/26/wzsl.htm>, accessed 27 February 2022.

- 1.3 The approach now has a clear target: the young and new citizens. In an explicit departure from the traditional social provision model that has been typically means-tested and *hukou*-based, there are no income limits or *hukou* status restrictions for ARH applicants. In practice, “affordable rental” offers transitional support to young working households – the more productive and economically active population – by assisting them in renting at subsidised rates while they work towards becoming part of a market-ready and financially capable workforce.
- 1.4 Affordable housing provision aims to also attract skilled talent to cities marred by population ageing and inter-city competition amidst economic rebalancing and on-going industrial upgrading.⁵ From the outset, local governments have enthusiastically embraced the initiative. By early 2022, 30 provinces had published their implementation plans and 40 major cities were enlisted as the focus areas for ARH development. They are earmarked to build a total of 6.5 million ARH units by 2025,⁶ of which 1.9 million, or nearly 30%, are to be delivered within the first year of implementation. In first-tier cities such as Beijing and Shanghai, ARH construction will account for 40% of the city’s total residential construction plan through 2025, demonstrating a strong alignment in priorities with national goals.
- 1.5 The role of city governments in ARH development is no longer that of a direct provider through public funding and provision of land resources, but as a facilitator using policy incentives to leverage societal and commercial partners and investment. Particularly for land supply, ARH will mainly resort to using existing idle land stock, converting and revitalising idle land stock of rural collective construction land, industrial parks, large enterprises, and underutilised factories and commercial spaces into affordable housing floor space. The expectation is to not only relieve city governments of resource constraints, particularly in areas with dense population and land scarcity, but improve location options, such as closer to built-up areas and/or places of employment for affordable housing.

⁵ https://www.thepaper.cn/newsDetail_forward_2154350, accessed 9 April 2022.

⁶ http://www.gov.cn/xinwen/2022-01/15/content_5668330.htm, accessed 27 February 2022.

- 1.6 Depending on local government direct funding and land allocation, many large-scale public housing projects during the 12th Five-Year Plan period (FYP, 2011-2015) were built on newly acquired urban fringe sites, with limited accessibility and insufficient service facilities. The extra cost and time for commuting and the living inconvenience dissuaded many eligible applicants, resulting in overall low application rates and high vacancy levels in many cities. Local officials often justified their land allocation choices on practicality reasons, pressure to meet the ambitious target set by the central government within a strict timeline and constrained by resource capacity (for example, the lack of available land in developed areas).
- 1.7 In practice, however, converting underutilised land and space into affordable housing floor space is not necessarily a straightforward process as it largely depends on the willingness and cooperation of the current collective and/or commercial landowners/holders. In this process, city governments will be playing a primarily gatekeeper role, facilitating business interest while controlling permits and approvals for project proposals. Notably, the “conversion” in this context involves only functional change in land use, exclusively for the purpose of ARH development. Simply put, there will be no change to the existing land ownership status or will there be any opportunity for other types of housing or tenure arrangement.
- 1.8 Cao also argued that enterprises stand to gain in making use of their underutilised industrial land to relieve housing affordability pressures for their new employees.⁷ This seems to assume a “win-win” situation for enterprises to attract and retain their workers and for city governments to showcase their commitment to affordable housing targeting the young population in particular. The question is whether enterprises would devote long-term resources to develop rental properties, as opposed to providing rental allowance or cash subsidies and/or through bulk tenancy agreements to help boost employees’ rental affordability in the market, as is the current practice. From the market perspective, employment-bound housing provision reduces job market activity and availability of new talent, thus

⁷ <http://www.gov.cn/xinwen/2021zccfh/26/wzsl.htm>, accessed 27 February 2022.

undermining the government’s efforts to drive economic productivity and competitiveness.

1.9 The policy also outlined the ARH’s role within the new housing security framework and the top-level design for the national affordable housing strategy for the first time.⁸ Centred around the ARH provision, the new framework (Table 1) includes Public Rental Housing (PRH 公租房) and Shared-ownership Housing (SOH 共有产权房). Working collaboratively, the idea is for the three to complement each other in offering various affordable housing solutions to the government’s ultimate goal of “adequate housing for all”.

TABLE 1 NATIONAL HOUSING SECURITY FRAMEWORK (2021~)

	Public Rental Housing	Affordable Rental Housing	Shared-ownership Housing
Target population	Permanent urban residents with low income and housing difficulties	New urban residents and young graduates	Urban lower-middle income first home buyers
Implementation scope	National essential public services	Targeted provision in 40 large cities approved	Experimental provision in 20+ cities across 10 provinces
Service provision	Low-cost rental (small unit under 60 sqm), and/or cash subsidy	Affordable rental (small unit under 70 sqm)	Partial ownership (50% or more) (small-medium unit under 90 sqm)
Funding sources	Primarily government (local fiscal)	Primarily market	Local government and individuals
Provision targets by 2025	Guaranteed provision for all eligible applicants 应保尽保	Locally defined target	Locally defined target

Source: Author’s compilation.

1.10 In targeted major cities, the PRH ensures minimum levels of housing security for the socio-economically disadvantaged, whereas the ARH relieves young people of housing affordability stress, helping to mitigate crowding-out effects of high home prices on consumption for overall economic wellbeing. Although both programmes offer government-subsidised rental assistance, the PRH programme is enlisted under the National Essential Public Services (国家基本公共服务), binding city

⁸ Ibid.

governments to commit to a “guaranteed provision for all eligible citizens (应保尽保)” and funding through local government budgetary expenses and investment, whereas the ARH programme delivers targeted transitional housing support to the young in major cities who are experiencing severe jobs-housing imbalance by leveraging commercial investment and enterprises input.

- 1.11 However, with the official declaration that “the national target (of PRH) has mostly achieved at all localities, with eligible urban *hukou* lowest-*(Dibao)* and low-income families experiencing housing difficulties covered by the provision as much as possible”,⁹ it suggests a shift in the PRH agenda, deviating from the aforementioned commitment¹⁰ to continue expanding minimum levels of housing security for broader social groups. As the ARH targets specifically young and new citizens, access of low-income migrant workers, especially those from the uneducated older generation, to public housing assistance remains far from reality.
- 1.12 In 2014, the MoHURD introduced SOH on an experimental basis. The programme, as a new variation of government-subsidised home ownership assistance, offers eligible first home buyers with the opportunity to purchase a share (typically 50%) of a newly built or an existing home from the local state, which comes with full occupancy rights and significantly reduced home costs. Differing from its precedent, Economic Housing, SOH could not be sold in an open market, and the government, as the co-owner, retains the right to buy back the share and resell to other applicants, in order to prevent rent-seeking.
- 1.13 Like ARH, SOH is designed as a solution to jobs-housing imbalance issues in major cities where soaring housing prices are driven by both strong demand and investors’ speculative behaviour. The ARH is typically for single-family home units (maximum 70 sqm), built to rent to young graduates and newly arrived migrants, and SOH is a larger unit (maximum 90 sqm) and suitable for young families as a step-up opportunity towards homeownership. The expectation is that SOH will be an upgrade for ARH recipients who have passed their early career stage and are

⁹ Ibid.

¹⁰ http://www.gov.cn/zhengce/2014-03/16/content_2640075.htm, accessed 9 April 2022.

ready and willing to purchase a home but still cannot afford the market prices.¹¹ The policy, however, offers little insight into the exit mechanism for SOH recipients in order to prevent welfare dependence and improve social efficiency.

The Evolution of China's Housing Security System

2.1 Prior to the market reform, housing in Chinese cities was predominantly owned by state-owned enterprises (SOEs) and allocated to workers as wage goods at nominal rates. The dismantling of this employment-based housing system progressed alongside SOE reforms in the 1990s, with SOEs' housing stock privatised and sold almost entirely to current occupants at highly subsidised prices.¹² In late 1994, the State Council released the *Decision on Deepening the Urban Housing Reform*,¹³ pledging to speed up the establishment of a private housing market. Enabling measures were introduced to facilitate the tenure shift towards private home ownership, alongside continued rent reform and public housing sales. Measures included policies on the demand-side to develop property rights and the Housing Provident Fund (HPF) system, and on the supply-side to establish regulatory framework for market operation, land supply and financing instrument. Commercial home loans and mortgage lending were introduced to help individuals finance their home purchase.

2.2 The housing market reform also involved the rolling back of the state in direct housing supply and the reconceptualisation of housing as an asset and an opportunity for capital appreciation. At the announcement of the final termination of the work-unit housing provision in 1998, the plan to establish a three-layered housing tenure system was laid out, stratified by income status as below¹⁴ (State Council 1998, Document 23).

- Public provision of social rental: lowest-income households to rent Low-cost Rental Housing (LRH 廉租房) supplied by local state or enterprises;

¹¹ Ibid.

¹² Kroeber, A and Yao, R, 2007, "Housing: a room of one's own", *China Economic Quarterly*, Q4; pp 53-58.

¹³ http://www.gov.cn/zhuanti/2015-06/13/content_2878960.htm, accessed 14 April 2022.

¹⁴ <http://zfjs.km.gov.cn/c/2013-06-21/1981389.shtml>, accessed 14 April 2022.

- Government-subsidised home ownership: low- and moderate-income households to purchase government subsidised Economic Housing (EH 经济适用房), with restricted property rights; and
- Market provision: high-income households to purchase or rent commercial houses (商品房) from market directly.

2.3 Under this initial system homeownership was favoured over rental housing, even in public housing programmes. In practice however, this initial plan, with its dependence on local government subsidies to boost homeownership, soon proved problematic. Particularly, the development of EH, which aimed to reach 70% of urban households, continued to lag behind demand. At its initiation, the programme required city governments to provide free land, tax and fee reduction for housing construction; financial institutions to provide preferential loans to the developer; and developers to accept a maximum 3% revenue cap on pricing.¹⁵ It aimed to enhance affordability by reducing costs and imposing price controls. From city governments' perspective, however, the programme was a not only fiscal burden, but also distraction to the market-enabling agenda.

2.4 By the mid-2000s, almost 90% of the pre-reform public housing was privatised,¹⁶ pushing China's urban owner-occupier rate to hit almost 80%.¹⁷ In the decade from 2000 to 2010, the share of urban households living in market-purchased commercial housing increased from less than 10% to over 30%, whereas the proportion of EH homeowners not only remained marginal but also declined from 6.5% to 5.1%.¹⁸ By year-end 2006, only 550,000 units of public rental housing had been provided nationwide, while there were over four million households receiving urban *dibao*

¹⁵ Ibid.

¹⁶ Stephens, M 2010, "Locating Chinese urban housing policy in an international context", *Urban Studies*, vol. 47, no. 14, pp. 2965-2982.

¹⁷ Man, Joyce Yanyun (ed) 2011, *China's housing reform and outcomes*, Lincoln Institute of Land policy, Cambridge.

¹⁸ National Census data 2000 and 2010, <http://www.stats.gov.cn/tjsj/pcsj/>, accessed 14 April 2022.

and with housing assistance entitlement.¹⁹ In 2010, LRH tenants comprised less than 3% of urban households, compared with 16.3% in 2000.²⁰

- 2.5 Meanwhile, continued market expansion has coincided with surging housing prices in most cities, buoyed by extraordinarily rapid urbanisation and economic growth that boosted household incomes at double-digit annual rates. Housing prices continued to increase, driven by demand from upgraders, the dearth of alternative investment opportunities for the growing middle class and speculative moves. Adding to this inflation in housing prices is the heavy reliance of local governments on land sales to finance local development, which has distorted the cities' motivation in managing the housing market.²¹
- 2.6 With fears of an overheated real estate sector leading to greater risk of social and economic instability, the national policy directives began to shift from the late-2000s to rectify market distortion and prevent a 'housing bubble' from growing. Monetary tightening and policy measures were introduced to dampen speculative demand, while new programmes were initiated to improve housing safety net provision. Under the banner of Building a Harmonious Society, the State Council released a policy document *Suggestions on Solving Urban Low-income Households' Housing Difficulties*²² in 2007, announcing the scaling up of public housing development through direct government investment.
- 2.7 From 2007 to 2012, the central government's grants for the sector surged from RMB7 billion to RMB217 billion, along with tax reductions, exemptions and financial sector support amounting to several times as much.²³ A nationwide ambitious target of building 35 million affordable housing was announced as part of

¹⁹ Huang, Youqin 2012, "Low-income housing in Chinese cities: policies and practices", *China Quarterly*, Vol. 212, December 2012, pp. 941-964.

²⁰ <http://www.stats.gov.cn/tjsj/pcsj/>, accessed 9 April 2022.

²¹ Wong, C 2013, 'Paying for urbanization in China: challenges of municipal finance in the twenty-first century'.

²² http://www.gov.cn/zwqk/2007-08/13/content_714481.htm, accessed 5 March 2022.

²³ WB and DRCSC 2014, Urban China: towards efficient, inclusive, and sustainable urbanisation. <https://openknowledge.worldbank.org/handle/10986/18865>, accessed 9 April 2022.

the 12th FYP²⁴ across multiple programmes, including subsidised rental and home ownership support, as well as urban “shantytown” upgrading projects. These have also been accompanied by a top-down push to delink *hukou* status from access to public services and promote inclusive development with the deepening of urbanisation.

2.8 Launched in 2010, the PRH programme²⁵ was originally designed to tackle the housing difficulties of the “sandwich class (夹心层)”. The “sandwich class” consists of mainly lower-middle income first home buyers who were priced out in the market boom and excluded as ineligible for the existing stringent means-tested housing safety net assistance. Qualified migrant workers²⁶ have been included in the target population for PRH since newcomers to the cities comprise a large part of the “sandwich class”.

2.9 Half-way through the 12th FYP, a merger of the LRH and PRH programmes was announced by the MoHURD in late 2013.²⁷ At a press interview, the then Deputy Director of the Policy Research Centre of the MoHURD Zhang Feng explained that the decision was to improve programme capacity and administrative efficiency that would allow for better policy coordination, eliminate confusion with eligibility criteria and give local governments greater flexibility in service delivery aligned with local needs.²⁸ On the ground, however, merging the two programmes has brought diverse social groups into a shared space, with the combined target population covering broader income, *hukou* status and demographic categories. The central government requested, as a binding commitment, that city governments ensure that all eligible households for the former LRH programme be protected

²⁴ http://www.gov.cn/2011lh/content_1825838.htm, accessed 9 April 2022.

²⁵ http://www.gov.cn/jrzq/2010-06/12/content_1626864.htm, accessed 9 April 2022.

²⁶ “Qualified migrant workers” is a rather broad concept. In practice, it applies to both rural-to-urban and urban-to-urban migrants, across age and skill sets. In some localities, the application process further categorises the cohort into ‘graduate employees’ and ‘migrant workers’ groups. A case in point was Guangzhou’s announcement of *the Implementation Rules for Migrant Workers in Guangzhou Applying for City-level Public Rental Housing* 《来穗务工人员申请承租市本级公共租赁住房实施细则》, http://www.gz.gov.cn/zwgk/zdly/zfbz/zfbzgzxx/content/mpost_3094470.html, accessed 14 April 2022.

²⁷ http://www.gov.cn/zwgk/2013-12/09/content_2544854.htm, accessed 9 April 2022.

²⁸ <https://business.sohu.com/20131206/n391397830.shtml>, accessed 14 April 2022.

under the new (post-merger) PRH provision while granting considerable discretion to city governments to determine their own provision priorities within the programme scope in practice.

- 2.10 As a result, the levels of benefits received across eligible groups varied. For most rural to urban migrants who gathered in large cities for the better job opportunities, their access to government-subsided housing assistance remained a distant reality. Many still have to resort to informal housing solutions, often in dilapidated and overcrowded conditions in marginalised locations. However, city governments are more willing to support the educated young workforce who have certain housing location preference. High rise towers often standing alone on the outskirts of cities and lagging in public services and commercial facilities are low in the priority of home-seekers.
- 2.11 At the Central Economic Work Conference in November 2015, reducing real estate inventory was stated as one of the top supply-side reform tasks for the 13th FYP (2016-2020).²⁹ According to the sector’s annual report, by the end of 2015, unsold housing stock had exceeded 700 million square metres nationwide as a result of the lukewarm market demand.³⁰ In early 2016, the central government began to relax regulations on the housing market; the change was reflected in the public housing sector’s preference for cash rental subsidies/transfer over in-kind provision. Policy priority for PRH then shifted from new builds to ongoing maintenance and vacancy reduction.³¹ However, cash subsidies as a form of public rental assistance remained exclusive to local *hukou* applicants in practice (100% local fiscal funding) was a further hindrance to programme entry for migrant applicants.
- 2.12 Meanwhile, policy and fiscal support to “shantytown” upgrading projects continued (Figure 1), with a nationwide upgrading target of 20 million units rolled out for the 13th FYP period.³² The national policy preferences were given to “monetary

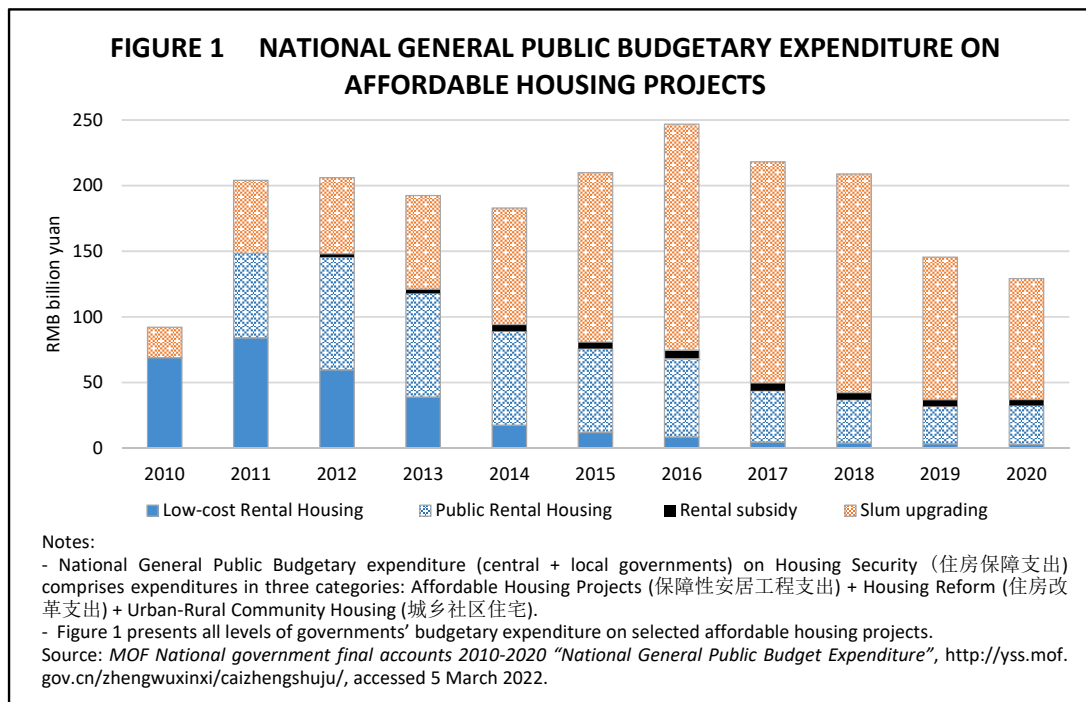
²⁹ http://www.xinhuanet.com/politics/2015-11/10/c_1117099915.htm, accessed 14 April 2022.

³⁰ http://www.stats.gov.cn/tjsj/zxfb/201601/t20160119_1306094.html, accessed 5 March 2022.

³¹ http://dz.jjckb.cn/www/pages/webpage2009/html/2018-10/16/content_47662.htm, accessed 14 April 2022.

³² http://www.gov.cn/zhengce/content/2017-03/01/content_5172013.htm, accessed 14 April 2022.

resettlement” (货币化安置), through cash compensation to promote the purchase of homes from the market by relocated households. The proponents cite considerable advantages in this approach, such as quick resettlement, freedom of choice, less constraints on local resources, and importantly, improve people’s housing conditions while reducing developer inventories of unsold housing stock.³³ Critics, however, express concern that the provision of cash subsidies has in effect contributed to a continued housing price spike from 2016 and the beneficiaries may not be households most in need.³⁴ According to China Household Finance Survey (CHFS) data, from 2013 to 2017, 7.9% of urban households experienced home demolition and resettlement (拆迁), of whom nearly 32% were offered monetary compensation and more than half of these recipients owned multiple homes before the resettlement plan.³⁵ This points to an unintended consequence of the programme, which is exacerbating the inequalities in wealth and income in urban China.



³³ <http://www.news.cn/talking/20150717a/wzsl.htm>, accessed 5 March 2022.

³⁴ <https://www.caixinglobal.com/2019-01-23/china-spent-less-last-year-on-shantytown-renovations-101373386.html>, accessed 5 March 2022.

³⁵ <http://finance.sina.com.cn/zl/china/2018-07-02/zl-ihespqry6408002.shtml>, accessed 5 March 2022.

2.13 Table 2 summarises the evolution of China’s affordable housing programmes since the market reform. The details of major policies of these various programmes, including time of the policy issuance, major objectives and measures can be found in the appendix.

TABLE 2 THE EVOLUTION OF CHINA’S AFFORDABLE HOUSING PROGRAMMES

Government assistance types Housing policy priority	Public Rental Assistance	“Shantytown” upgrading Assistance	Home-ownership Assistance
Programmes enacted under <i>Homeownership Enabling (1994-2006)</i>	- Low-cost Rental Housing (1998-2014)		- Economic Housing (1994-)
Programmes enacted under <i>Public Housing Expansion (2007-2015)</i>	- Public Rental Housing (2010-2014) - Public Rental Housing (Post-merger 2014-)	- SOE Mining Shantytown Upgrading (2009-2020) - Urban Shantytown Upgrading (2013-2020)	- Price-capped /Relocation Housing (2007-) - Shared-ownership Housing (2014-)
Programmes enacted under <i>Urban Housing Destocking (2016-2020)</i>	- Public Rental Housing (Preference for Rental Subsidy/Deduction)	- Urban Shantytown Upgrading (Preference for Monetary resettlement)	
Programme enacted under <i>Targeted Affordable Rental (2021-)</i>	- Affordable Rental Housing (2021-)	- Old Residential Renovation (2021-)	

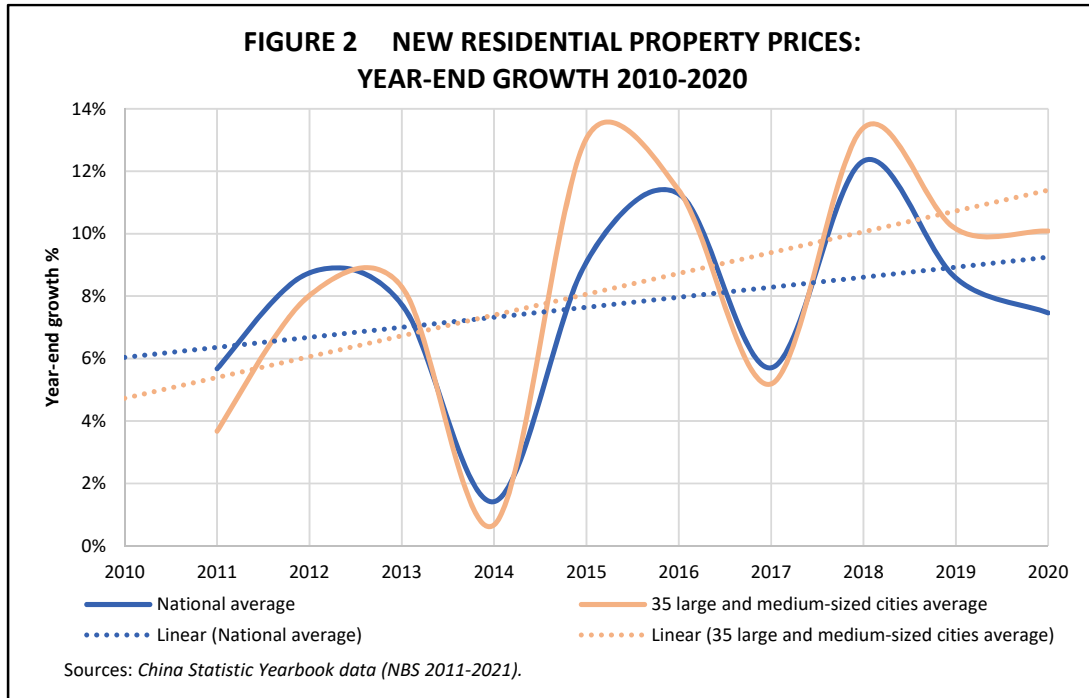
Source: Author’s compilation (see also Appendix: Timeline of China’s urban housing policy development).

Towards a New Era of Affordable Rental: Whither the Chinese Housing Policy?

3.1 The decade from 2010 to 2020 witnessed a “great leap forward” in China’s public housing development, with more than 47 million units of government-subsidised affordable housing and shantytown upgrading relocation homes built nationwide, benefitting over 100 million urban residents with improved housing conditions.³⁶ In this period housing prices continued to surge, albeit with considerable year-on-year fluctuations in line with policy cycles characterised by the tightening and subsequent easing of restrictions in order to constrain or stimulate activities in the real estate

³⁶ Ni, Hong 2021, Taking the development of affordable rental housing as a breakthrough to solve outstanding housing problems in big cities, Administrative reform 2021-09 DOI: 10.14150/j.cnki.1674-7453.2021.09.004.

sector (Figure 2). Clearly, policy intervention has been effective in throwing circuit-breakers to cool the overheated housing market; however, challenges remain for the market’s long-term stability and sustainability.



3.2 Residential property makes up over 70% of household wealth in China today.³⁷ Such a high concentration of household assets in the sector means that urban public opinion is highly sensitive to fluctuations in housing prices: whilst the young fear being priced out of the market, middle-class homeowners worry about depreciation of their most valuable asset. As such, any significant decline or increase in housing prices could weigh on consumption trends, leaving policymakers with a delicate balance to maintain in order to satisfy both groups.

3.3 Housing wealth also constitutes the largest source of inequality, both inter-regionally and across social groups in China today. This points to a growing ‘spatial disequilibrium’ problem of jobs-housing imbalance, a situation brought about by rapid urbanisation in the context of China’s unbalanced urban-rural and regional

³⁷ Wu, L, Bian, Y and Zhang, W 2018, “Housing ownership and housing wealth: new evidence in transitional China”, *Housing Studies*, Vol 34(3), pp.448-468, <https://doi.org/10.1080/02673037.2018.1458291>, accessed 18 March 2022.

development. On the demand side, migration flow from underdeveloped to developed regions and across urban-rural boundaries has led to the situation of housing shortage in some locations and over-supply in the others. On the supply side, the construction boom driven by the post-GFC (Global financial crisis) stimulus package has entailed rising levels of housing inventory and debt among corporations and local governments. The government response to tackling housing inflation and inequality issues using unified national policies is increasingly problematic. As an example, the 2016 nationwide real estate destocking policy was less effective than expected, resulting in soaring home prices in first and second tier major cities, but high housing inventory in less developed third and fourth tier cities.³⁸

3.4 In 2017, at the 19th Party Congress, Xi Jinping commented that “housing is for living in, not for speculation” (房子是用来住的, 不是用来炒的), setting the tone for challenging China’s post-reform homeownership biased housing policies.³⁹ Tightening policies have become more targeted (“one city, one strategy” [一城一策] property controls⁴⁰) with stricter restrictions placed on larger cities and looser controls in smaller cities. There has also been a new policy push to develop the rental markets, a long-underdeveloped sector in the Chinese housing system.⁴¹ Preferential tax and financing policies were introduced to incentivise developers to build and manage rental homes. From 2018 to 2020, China’s rental housing market took off significantly, doubling the rental units operated by the top 10 developers in the sector.⁴² However, a market survey⁴³ shows that investors have primarily focused on major cities with stronger economies, higher demand and growing barriers to

³⁸ Zhou, Yixiao 2016, Reining in China’s property frenzy, East Asia Forum, <https://www.eastasiaforum.org/2016/10/25/reining-in-the-chinas-property-frenzy/>, accessed 18 March 2022.

³⁹ http://www.xinhuanet.com/politics/19cpcnc/2017-10/23/c_1121845769.htm, accessed 19 April 2022.

⁴⁰ <http://www.rmlt.com.cn/2019/0711/551615.shtml>, accessed 19 April 2022.

⁴¹ http://www.gov.cn/zhengce/content/2016-06/03/content_5079330.htm, accessed 11 March 2022.

⁴² Hu and Hua 2021, “China’s rental housing market enters a new golden age of promising opportunities”, <https://www.joneslanglasalle.com.cn/en/newsroom/China-fast-developing-rental-housing-market-expansion-heavy-asset-is-the-new-fashion>, accessed 11 March 2022.

⁴³ Ibid.

home ownership, showing more interest in the mid-to-high-end market segment and targeting young professionals and higher income tenant groups.

- 3.5 In part, the ARH programme aims to address this supply-side bias in the market. While commercial investors favour tenants who are able to pay the highest rent prejudicing less “well-off” individuals, ARH calls on them to house young and migrant tenants priced out of the market, rewarding them with preferential offers⁴⁴ including access to low-cost land (tapping into underutilised collective/industrial land within the urban growth boundary) and financing sources (through pilot scheme of infrastructure real estate investment trusts [REITs]).⁴⁵
- 3.6 Following the programme announcement, Chinese mainstream media quickly latched on, asserting that China has entered the era of affordable housing.⁴⁶ Shenzhen was lauded as a leader in this transition; while it is one of the most expensive cities in mainland China, Shenzhen pledged to build one million affordable homes by 2035.⁴⁷ The goal, inspired by the Singaporean model of housing system, is to eventually have 60% of its residents living in government-subsided housing through affordable rental or assisted homeownership.
- 3.7 Shenzhen however is a unique case in terms of land scarcity and ownership complexity, housing affordability and inequality challenges. The city has a particularly low homeownership rate of under 24% in 2019, a decrease from 34% in 2015.⁴⁸ As China’s largest migrant city that has a floating population of over 12 million, Shenzhen has a particularly large and active rental market, with a great

⁴⁴ http://www.gov.cn/zhengce/content/2021-07/02/content_5622027.htm, accessed 12 March 2022.

⁴⁵ <https://www.scmp.com/business/companies/article/3151217/reits-seen-viable-funding-source-chinas-rental-home-builders>, assessed 9 April 2022.

⁴⁶ <http://www.lifeweek.com.cn/2021/1103/55710.shtml>, accessed 18 March 2022.

⁴⁷ http://www.sz.gov.cn/cn/xxgk/zfxgj/zwdt/content/post_7929828.html, accessed 18 March 2022.

⁴⁸ https://m.21jingji.com/article/20210705/herald/fb8a83ceffacbeccc7c9ab2697c0ab32_zaker.html, accessed 18 March 2022.

majority (70%) of its residents living in cheap rental homes in urban villages that are mostly extensions to former village houses constructed by landless farmers.⁴⁹ The collective land ownership has shielded these residential pockets from urban development regulations; most rental extensions are poorly structured and lacking in adequate infrastructure and public services. The remarkably fast development of Shenzhen requires the city to adapt and accommodate to the new growth and demand and upgrading urban villages has become a priority task. The renovation model through government subsidy and partnership with real estate developers to convert urban village rental homes into ARH has become the preferred approach in recent years.⁵⁰ In practice however, this process of comprehensive upgrading and partnership with commercial interests may affect affordability for vulnerable social groups, particularly migrants from the uneducated older generation with low skill level and low incomes in the face of rent hike.

3.8 So, whither the Chinese housing policy? With government under mounting pressure to de-risk the real estate sector, much hope has been placed on the prompt and effective implementation of the new ARH programme to help maintain investment activities for economic stability, while meeting housing demand with improved affordability.⁵¹ Upholding the principle of “housing for living in, not for speculation”, the strong policy push to accelerate rental market development (租购并举) suggests a possible path towards a tenure neutral housing system.

3.9 In an ideal “tenure neutral” world, consumers do not see any difference between owning or renting a home. A real-world example is Germany’s housing system where the rental sector houses almost half of its population, 40% of whom are not considered to be ‘poor’.⁵² A well-developed rental market with comprehensive rent

⁴⁹ Wang, Yuchen, 2019, “Demolition or Renovation: which is better to preserve urban form in Shenzhen, China?” PennIUR, https://penniur.upenn.edu/uploads/media/13_Wang.pdf, accessed 18 March 2022.

⁵⁰ <https://gz.leju.com/news/2019-03-28/21536517030712053645731.shtml>, accessed 18 March 2022.

⁵¹ <https://www.chinadaily.com.cn/a/202203/07/WS62254fb3a310cdd39bc8ab98.html>, accessed 18 March 2022.

⁵² Stephens, M 2020 “How housing systems are changing and why: a critique of Kemeny’s theory of housing regimes”, *Housing, Theory and Society*, 37(5), 521-547.

control is an important factor in low homeownership in Germany, which is evidently less prone to overheating and speculative bubbles. Nonetheless, a tenure neutral system does not necessarily mean consumers spend less on housing. In reality, a low homeownership rate tends to be associated with high wealth inequality.⁵³ In the case of China, on top of facilitating rental market development, a fundamental policy change must involve removing ownership incentives, if there is to be any move to Germany's model. To date however, such policy indication has yet to be seen; instead, there is continued emphasis on mortgage incentives for first home buyers⁵⁴ to help maintain the steady and healthy growth of the real estate market.

3.10 The affordable rental strategy gives targeted attention to larger cities with continued migrant influx; there is therefore room for new demand and investment opportunities despite heavy handed market cooling intervention. However, there has been little mention about how this new policy framework will be applied to other cities. The adaptation will be much more challenging and painful in laggard regions facing population decline, housing inventory, debt and fiscal revenue problems. As top tier cities are now actively in a “war for talent”, it only makes economic rejuvenation of weaker regions more difficult, resulting in their increased dependence on central government transfer.

3.11 Other root causes of Chinese housing inequality were also seemingly left untouched in this round of reform. For example, the controversy relating to China's dual-landownership system and state monopoly of farmland conversion remains unaddressed. It has been bypassed through a special policy arrangement allowing asset conversion to boost affordable housing supply without dealing with complex and expensive land ownership transactions. Fundamentally, however, it is this unsettled property rights that has disadvantaged the rural population in the process of China's rapid urbanisation, feeding into the ever-widening urban-rural divide.

⁵³ <https://www.bundesbank.de/en/publications/research/research-brief/2020-30-homeownership-822176>, accessed 18 March 2022.

⁵⁴ <http://www.xinhuanet.com/house/20211022/2d22a302c87341c587f62e3fa58c7d78/c.html>, accessed 18 March 2022.

3.12 While affordable housing programmes present great potential for supporting and facilitating housing market stability, it also has welfare and distributive consequences. Under the new framework, *hukou* remains an eligibility barrier to housing safety net provision in Chinese cities as the new version of PRH emphasises the government's binding commitment to needy *hukou* households, hence reversing its progress towards inclusive provision. Although the ARH programme embraces broad eligibility requirements and is theoretically inclusive, its reliance on commercial investment and emphasis on targeting the young may render this unlikely. "New urban residents and the young" is a rather diverse cohort in terms of education, income and experiences, ranging from well-educated young professionals to low-skilled new migrants. When safeguarding economic future and competitiveness is prioritised, it is more likely that the programme will focus on meeting the demands of young talents with desired skillsets. The more likely result is that vulnerable low-income migrants remain "invisible" in the welfare system. Ultimately, while the redistributive nature of government subsidised housing can help to reduce inequality, it will only be effective if the most vulnerable in society is prioritised.

APPENDIX

TIMELINE OF CHINA'S URBAN HOUSING POLICY DEVELOPMENT

Housing marketisation reform 1978–1997: promoting private homeownership and market-orientated urban housing provision system

<i>Dec 1978</i>	The third Plenary Session of the 11th Central Committee of the CPC: the initiation of economic reform and opening up strategies.
<i>Apr 1980</i>	<i>Deng Xiaoping's talk on the development of China's urban housing and construction industry</i> sets the path towards housing reform.
<i>Feb 1988</i>	The State Council released <i>the Implementation Plan for a Gradual Housing System Reform in Cities and Towns</i> (State Council 1988, document 11), which signalled the initiation of China's nationwide housing reform. <i>Urban land reform</i> : set the stage for property market development. Land use rights became separated from urban land ownership, allowing urban developers to obtain land use rights from the government by paying land transfer fees.
<i>Oct 1992</i>	The 14th National Congress of the CPC announced the establishment of a "Socialist Market Economy".
<i>Jul 1994</i>	<i>The Decision on Deepening the Urban Housing System Reform</i> (State Council 1994, Document 43): to establish a dual housing provision system – Economic housing (经济适用住房) and Commercial housing (商品房).
<i>1997</i>	Asian Financial Crisis: reduced export demands put the Chinese economy under pressure. The housing sector was promoted as a key driving force to sustain China's economic growth and reduce the impact of the international crisis on the Chinese economy.

Pro-market housing provision 1998–2006: Real estate boom and addressing market overheating

<i>Jul 1998</i>	<i>Further Deepening of the Urban Housing System Reform and Accelerating Housing Construction</i> (State Council 1998, Document 23): formally abandoned the employment-based housing provision system and move on to the establishment of a multi-layered urban housing supply system: lowest-income households to rent government or work unit-supplied <i>Low-cost Rental Housing</i> ; middle- and low-income households to purchase <i>Economic Housing</i> ; and the remaining high-income households to purchase or rent <i>Commercial houses</i> at market prices.
<i>Aug 2003</i>	Notice on <i>The Promotion of Sustainable and Healthy Development of Real Estate Market</i> (State Council 2003, document 18): the development of the Ordinary Commercial housing (普通商品住房) replaced Economic Housing to become the focus of urban housing development.
<i>May 2005</i>	<i>Suggestions on Stabilising Housing Prices "Guo Ba Tiao"</i> (General office of the State Council 2005, document 26): measures to curb surging housing prices.
<i>May 2006</i>	<i>Suggestions on Adjusting Housing Supply System and Further Stabilising Housing Prices "Guo Liu Tiao"</i> (General Office of State Council 2006, document 37): tightening measures on both demand and supply side to dampen speculative activities.

Government-led public housing expansion 2007-2015: solving low-income housing problems and promoting inclusive development

<i>Aug 2007</i>	<i>Suggestions on Solving Urban Low-income Households' Housing Difficulties</i> (State Council 2007, Document 24): prioritising “solving low-income households’ housing problems” as the top agenda of housing policy. Three programmes constitute the basic strategy of the regime: the Low-cost Rental housing (廉租住房), Economic Housing (经济适用住房) and Urban Slum and Shanty Town Regeneration (棚户区改造).
<i>2008-2009</i>	Post-GFC RMB4 trillion ‘Stimulus Plan’: a large proportion (about RMB400 billion) was channelled to the construction of affordable housing projects.
<i>Apr 2010</i>	<i>Tougher Measures to Curb Surging Housing Prices in Some Cities</i> (State Council 2010, Document 10): the developing of rental housing market as a solution to moderate rising housing affordability challenges.
<i>Mar 2011</i>	The 12th Five-Year Plan (2011-2015): sets target of developing 36 million new units of affordable housing through 2015. It emphasises the importance of public housing provision as a key component of government responsibility for public services.
<i>Jul 2012</i>	The 12th Five-Year Plan for the National System of Basic Public Services (State Council 2012, Document 29): the first national plan for public service, the document lays down new requests and implementation targets for the building of China’s basic housing security system to ensure access to adequate housing for all (住有所居).
<i>Mar 2014</i>	The State Council released <i>The National New-type Urbanisation Plan</i> (2014-2020), signifying the shift in policy focus from speed to quality, and from land-centred to human development-oriented urban transition. The plan calls for a coordinated effort across levels of government to reform the existing <i>hukou</i> , rural land, and intergovernmental fiscal and transfer systems, promoting urban-rural integrated development. It emphasises the importance of enabling permanent settling in of rural migrants and their families with adequate social protection in the cities and towns where they work, including housing assistance.
<i>Nov 2015</i>	At the 11th Central Economic Work Conference, reducing real estate inventory (房地产去库存) was brought up as one of the top supply-side reform (供给侧改革) tasks for the 13th FYP.
<i>Supply-side structural reform 2016-2020: urban housing destocking and monetary resettlement compensation</i>	
<i>Feb 2016</i>	<i>Suggestions by the State Council on Further Promoting New-type Urbanisation Programme</i> (State Council 2016, document 8) sets the goal to establish a tenure (ownership-rental) balanced housing policy (购租并举的城镇住房制度): encourage financially capable urban residents to purchase commercial housing (商品住房); for those who are not willing or able to purchase, encourage them to rent from the rental market; for eligible low-income households under housing stress, provide government assistance to meet their basic housing needs through public rental housing programmes and Rental Subsidy Scheme. In terms of policy instruments for the provision of affordable housing, the document indicates a clear intention of the government to shift from providing both physical and monetary housing rental assistance to focusing on rental subsidy scheme only.

<i>Mar 2016</i>	Premier Li Keqiang's <i>Annual Government Work Report</i> sets a target of upgrading 20 million urban slum residential housing over the 13th FYP period (2016-2020). Provision preference was given to monetary resettlement (货币化安置) through cash compensation to motivate relocated households to purchase homes from market supply.
<i>Jun 2016</i>	<i>Opinions on Accelerating the Development of the Rental Housing Market</i> (the General Office of State Council 2016, Document 29) sets out preferential policies (land, tax and financing measures) to promote and facilitate commercial developers to build and manage rental homes.
<i>Oct 2017</i>	President Xi Jinping's speech at the 19th Party Congress commented that "housing is for living in, not for speculation (房住不炒)", setting the tone to challenge China's post-reform homeownership biased housing policies – towards ownership-rental balance.
<i>Affordable Rental Strategy 2021- : target affordable rental and public-commercial partnership</i>	
<i>Jun 2021</i>	<i>Opinions on Accelerating the Development of Affordable Rental Housing (State Council 2021, Document 22)</i> defines ARH (保障性租赁住房) as government-subsidised rental assistance, targeting young people and new citizens under housing stress in major cities plagued by high housing prices and large migrant population. The Opinions also outlines the new version of national housing security system, comprising three programmes: PRH (essential public services), ARH (target population and location) and the SOH (pilot programme).

EAI values your feedback and inputs ...

We would appreciate if you can spare a few minutes in giving us your feedback and comments on EAI Background Brief No. **1655** that you have just read.

Please visit <https://forms.office.com/r/gS1fmpL6mR> to access a short survey form. Your inputs would be tremendously helpful to us in improving this series. Once again, thank you for your continuous support.

Best regards,
East Asian Institute,
National University of Singapore