

Comparative Study on Affordable Housing Policies of Six Major Chinese Cities

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Affordable Housing Policies of China's Six Major Chinese Cities

Abstract: Affordable housing aims at providing low to moderate income households with housing units at lower costs; In addition to the central government agendas, the major responsibilities and implementation of affordable housing policies have shifted into local levels, especially the municipal governments in China. Policy makers at the level strive to search effective ways for fulfilling the goals. Thus, it is necessary to identify the reliable approaches at non-central levels to provide affordable housing for relative low income groups. This paper tries to make descriptive analysis of situations of affordable housing through comparative case studies in China's six major cities in term of utilizing the aggregated dataset derived from the combined data of China Real Estate Statistic Yearbook and Municipal Bureau of Statistics of each city. Even though there are some local characteristics in their housing markets respectively, the six major cities are selected based on "the size doesn't matter" principle because of their similar economic and demographic features. As a result, some common and distinctive trends and findings can be summarized in order to generate the further solution and implications of the affordable housing policies in China.

Key words: Affordable Housing, Descriptive Analysis, Major Cities

Introduction

In China, gradual but significant changes have taken place in the Chinese urban housing system since early 1990s. Accompanying three decades of market-oriented housing reform, there have been improvements in the quality and living space of urban residents, as well as the rise of homeownership with about 80% of urban

households were reported as homeowners compared to about 20% in the 1980s, 46% in 1996, and 72% in 2003 (Huang and Clark, 2002; National Bureau of Statistics of China, 2003). On the other hand, the marketization of the housing system has led to a real estate boom in terms of dramatic housing price inflation and lack of housing affordability, which have generated severe concerns in Chinese society. And The problem is worsening by the ongoing process of urbanization and industrialization in the country. Therefore, affordable housing policies have been placed significant emphasis on improving housing affordability and solving the difficulties on gaining living places for low- and moderate-income households.

Since housing is the essential ability of residents to participate the economic mainstream, affordable housing programs are established to provide low-moderate and low income households with housing units at lower costs owing to eschewing social and economic segregation (Yang and Wang, 2011). In general, the comprehensive goals of affordable housing are as follow: ensuring the supply of good-quality housing units; making existing housing more affordable and available; helping households build wealth; strengthening families; promoting balanced metropolitan growth; and linking housing with essential supportive services (Katz, Turner, and etc. 2003).

Other than the central-planned housing allocation system before housing reforms, the major responsibilities of affordable housing provision have shifted from central government to municipal governments (Kats, Turner, and etc, 2003; Goodman, 2001). Thus, it is of importance to figure out the situations in providing affordable housing

for relative low income groups at municipal levels. In the following sections, the paper is mainly discussed on theoretical perspectives on housing affordability and practical implication of affordable housing policies in China's six major cities: Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, and Chongqing. All of the cities encounter housing affordability problems and reflect distinctive opinions on affordable housing policies based on their implementation.

Literature Review

The problem of housing affordability has undergone in many countries during the past several decades, the efforts and implementation of affordable housing policies have places more and more emphasis on the agendas of numerous governments. Prior to analyzing the rationale, form and consequences of affordable housing policies, it is necessary for us to take into account the meaning of housing affordability.

Theoretical perspectives on measuring housing affordability

With respect to simple way, housing affordability relates partly to the ongoing cost of housing, and partly to household income levels (Leishman and Rowley, 2012). This is also saying that this definition of housing affordability is based on the cost of housing, given household income; hence, housing can be more affordable by reducing expenses or increasing income (Schwartz, 2010). In the U.S., households spending 30% or more of their pretax income on housing are viewed as having an excessive housing cost burden, while 50% or more of income is considered as severe housing cost burdens. Although this concept discussed above is easy to understand and measure in practical way, it is of significant importance to note that the term ought to compose of

housing, social and economic issues. As Stone (2006) pointed out, housing affordability is also "an expression of the social and material experiences of people, constituted as households, in relation to their individual housing situation."

Right now it is universally accepted that the term "housing affordability" is a complex set of social-economic issues, nonetheless, the indicators of measuring "affordability" is still lack of consensus. Owing to the previous studies done by different researchers with distinctive academic backgrounds, there are three major approaches of assessing housing affordability.

1. Housing cost related system

The approaches related to housing cost system are set up from the fundamental assumption that housing affordability is based on the cost of housing, given household income. The most popular measurement is the housing expenditure-to-income ratios, which is original utilized by mortgage lenders in North America and later decades adopted as the official indicator in the U.S. census (Hulchanski, 1995).

Moreover, two detailed ratio criteria have been employed in the recent research, which are house price-to-income ratio and rent-to-income ratio. With respect to the former one, house price to income ratio refers to the level of median price of a standardized unit in the market relative to the median annual income of an average household (Ndubueze, 2007). This ratio is generally based on the fact that house price is a key determinant of home ownership affordability. The other one, rent-to-income ratio refers to the percentage of fair market rent relative to household's monthly income (Schwartz, 2010). Affordable rental-housing ought to cost less than a certain

percent of the total monthly income of a household.

2. Non-housing cost relative to housing cost

This alternative measure of housing affordability removes the focus from housing costs to the ability of households to pay for other living expenditure rather than housing expenses (Leishman and Rowley, 2012). According to the "budget standards" approach, the overall quality of living for households are determined not only by income alone but also by housing cost along with income (Stone, 2006). There is a minimum level of necessary non-housing expenditure constituting the fundamental living costs, which is the cost of a standardized basket of household consumer items. In this sense, when it comes to identify housing affordability issues, the level of non-housing necessities should be in advanced of housing expenditures relative to household income.

3. Combination with locational, social and economic issues

In the further exploration of measuring housing affordability, location-related elements have been attracted an increasing attention. As Bieri pointed out that local housing affordability conditions and amenity location tend to be negatively related, as there are significant differences between high-amenity and low-amenity areas in household's housing expenses and the standards of living costs (Bieri, 2012).. Moreover, Maliene (2012) concluded 20 indicators to develop the criteria system for housing affordability. All of the variables, which are selected based on the two stages survey and identification, are associated with the welfare of residents and location-related attributes. In addition to including two simple ratios are there are

other indicators involving availability of rental and ownership products, mortgage availability and its interest rates, safety and health services, employment, public transport services, education and child care, shopping and leisure facilities, energy and waste management, and other environmental features (Maliene,2012).

4. China's two major components of expenditures

Briefly reviews on China's affordable housing policies

Before 1990s, there was no actual housing market in China's urban areas, housing was considered as one of several urban residential welfare issues, which was allocated by government institutions and state-owned enterprises (SOE) in major cities. Thus, households in urban areas were able to live in their allocated houses for free or with nominal rents, which were obtained according to standards of their work status.

Along with market-oriented reforms and the failure of the public allocated housing system, the State Council of China issued The Decision on Deepening the Urban Housing Reform in 1994 to build a comprehensive framework for housing reform as well as a housing market. Moreover, two affordable housing programs were introduced in the decision: The Economic and Comfortable Housing (ECH) and The Housing Provident Fund (HPF). The ECH program was designed to provide housing for low to moderate income households in terms of limiting prices of these affordable housing projects. The HPF program was established to combine both social savings and private savings for potential home buyers (). These supply-side and demand-side

programs were aimed at establishing a viable housing market in which households could purchase housing in property market (Deng, Shen, and Wang, 2009). Hence, affordable housing policies was the first time written into official documents in Chinese government.

In order to diminish central government leadership and shift responsibilities into local governments, a string of decentralized guidelines were adopted in name of better implementation on the two programs by considering local conditions. Moreover, some further extension on both ECH program and HPF program, and Cheap Rental Housing (CRH) program was also established for the extreme low and low income groups; however, a majority of urban inhabitants are still facing problem of affordability, even worse, leading to social instability and political problems. In response, the State Council of China issued The Notification and Opinions on Adjusting the Housing Supply Structure as well as Stabilizing Housing Prices, which included “Six Property Control Policies” in 2006. The purpose was to involve the 70/90 Principle and the Limited Priced Housing Policy (LPHP) in the ECH Program. The 70/90 Principle represents that all new housing construction projects have at least 70% of the units no larger than 90 square meters. The LPHP refers that developers in ECH projects earn no more than 3% marginal profits so as to offer more discounted (usually half) prices (). As a result, affordable housing policies were composed of three major programs until 2013: Economic and Comfortable Housing Programs, Housing Provident Fund Program, and Cheap Rental Housing Program.

There is a major shift in affordable housing policies since 2013, several major

cities including Beijing, Guangzhou, and Shenzhen have stopped developing new ECH project according to the announcement of Ministry of Housing and Urban-Rural Development (MOHURD). In the mean time, Public Rental Housing has enforced as the new form of affordable housing program, which combined with Cheap Rental Housing.

Practical research on affordable housing policies in China