

# Low-income Housing in Chinese Cities: Policies and Practices\*

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## Abstract

This paper argues that the low-income housing programme in China has so far failed to provide adequate housing for the poor for three main reasons: the central government's failure to define a clear mission; a lack of commitment from local governments; and an exclusionary policy towards migrants. A systematic review of low-income housing policy in China shows that the central government juggles its economic and socio-political goals thereby causing constant changes in low-income housing policy. Meanwhile, the existing public finance system, the performance evaluation system and localization in policy implementation have all resulted in a lack of commitment from local governments to low-income housing. Inadequate provision is made worse by problems with allocation. Despite encouraging changes since 2010, many factors underlying the government's failures remain unchanged, thus the fate of low-income housing remains uncertain.

**Keywords:** low-income housing; housing policy; housing; government failure; China

## Introduction

Low-income housing is a relatively new concept in China despite its long history of providing subsidized housing.<sup>1</sup> Ongoing housing reform has fundamentally changed the production and consumption of housing, and spectacular achievements have been made with the rate of homeownership increasing from 20 to 70 per cent, and per capita living space increasing from 4m<sup>2</sup> to 29m<sup>2</sup> during 1980–2010.<sup>2</sup> However, these dazzling improvements have not been enjoyed by all social groups, and those at the bottom of the social hierarchy have been excluded from this success story. With skyrocketing housing prices and the loss of affordable housing owing to urban renewal/expansion, housing affordability and housing poverty

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1 Despite heavy subsidies, public rental housing in the socialist era was provided for the majority of urban households, not just low-income households.

2 Housing reform in China has been well documented. See, for example, Huang and Clark 2002; Wang and Murie 1999; Li and Yi 2007; Zhou and Logan 1996. Data for 2010 is calculated from data from the 2010 census.

are becoming increasingly acute problems for low-income households. In recent years, the Chinese government has begun to use the term “housing indemnity” (*zhufang baozhang* 住房保障) to refer to its effort to provide low-income and lower-middle income households with subsidized housing in the so-called “indemnity and comfortable living project” (*baozhang xing anju gongcheng* 保障性安居工程).<sup>3</sup> “Indemnity housing” (*baozhang xing zhufang* 保障性住房) refers to all subsidized housing for low- and middle-income households. To be consistent with the Western literature, “low-income housing” is used in this paper to refer to subsidized housing for low-income households only. Low-income housing policy is also a moving target in China, as the government constantly changes its policy. After pushing hard for housing privatization for almost two decades and after several rounds of regulations failed to control spiralling house prices, the central government changed tack and established a new system of low-income housing in 2007 and has set up ambitious plans for low-income housing provision.<sup>4</sup>

Currently there are two main types of low-income housing in China: (1) “cheap rental housing” (*lian zu fang* 廉租房, hereafter CRH), and (2) “economic and comfortable housing” (*jingji shiyong fang* 经济适用房, hereafter ECH) (see Table 1). CRH refers to housing subsidies in the rental sector to “low-income households with housing difficulty” (*dishouru zhufang kunnan hu* 低收入住房困难户), which can be provided in different forms: 1) “housing provision with controlled rents” (*shiwu peizu* 实物配租) – public housing provided by the government or work units with government-controlled rents; 2) “rent subsidies” (*zujin butie* 租金补贴) – monetary subsidies to low-income households who rent private housing on the market; 3) “rent reduction” (*zujin hejian* 租金核减) – a further rent reduction for households who already live in public rental housing. Since 2007, “rent reduction” has been combined with “rent subsidies.” Recently defined as low-income housing, ECH is ownership-oriented housing provided by developers on free land allocated by local municipal governments, and sold to qualified households at government-controlled prices.<sup>5</sup> ECH offers only partial property rights, which constrains homeowners from selling on the open market for profit.<sup>6</sup>

Since 2010, the Chinese government has been promoting “shanty town redevelopment” (*penghuqu gaizao* 棚户区改造), “public rental housing” (*gonggong zulin zhufang* 公共租赁住房, hereafter PRH), and “commodity housing with controlled

3 Officials in the Office of Housing Indemnity in MOHURD are unclear about the exact meaning of “zhufang baozhang,” and an English equivalent has not been found. However, it is similar to low-income housing policy in the West (interview with central level officials, Beijing, May 2009).

4 State Council 2007; State Council 2008.

5 State Council 1998. Developers are allowed only a 3% profit margin; the average price for ECH was roughly 50–60% of the average price for all housing during 1998–2006.

6 Housing in China is sold with different bundles of property rights. If households purchase their houses at market prices, they enjoy “full property rights,” which include right of occupancy, the right to extract financial benefits, the right to dispose of the property through resale, and the right to bequeath it to others. If households purchase their housing at subsidized prices, eg. as ECH, they have only “partial property rights,” which means homeowners only have the right of occupancy and use; they are not permitted to sell their homes on the market for profit within the first five years unless they pay the difference between the discounted and market prices. See State Council 2007; Davis 2003.

Table 1: Types of Low-income Housing in Chinese Cities

Housing type	Cheap Rental Housing (CRH)	Economic and Comfortable Housing (ECH)	Public Rental Housing (PRH)
Ownership	Public or private	Private	Public or private
Housing tenure	Rental	Mostly owned, a very small share is rental	Rental
Providers	Municipal government, work units, developers, households	Developers	Municipal government, work units, developers
Subsidies	1. Housing provision with controlled rents; 2. rent subsidies; 3. rent reduction	Free land provided by municipal government; price controlled by the government, with 3% profit margin	Land may be free; regulated rents; fee/tax reduction
Target	Low-income households with housing difficulty	Low and middle-income households (before 2007); low-income households with housing difficulty (after 2007)	Lower-middle income households, new employees, and qualified migrants with housing difficulty

Source:

Data compiled by author from various government policy documents.

prices” (*xianjia shangpin fang* 限价商品房, hereafter controlled housing) as part of its “indemnity and comfortable living project.” Shanty town redevelopment aims to improve housing conditions in shanty towns in state-owned mining and forest areas and state farms, and it includes CRH, ECH and commodity housing.<sup>7</sup> PRH is rental housing provided by either public or private agencies with government-controlled rents, targeting mainly lower-middle income households with housing difficulties, new employees, and qualified migrants with stable jobs and residence in cities.<sup>8</sup> In contrast, controlled housing is owned, small unit commodity housing (usually <90m<sup>2</sup>) provided by developers with full property rights, but with government-controlled prices. It is targeted at lower-middle income households.<sup>9</sup> Despite subsidies, controlled housing is not low-income housing, while PRH is accessible to low-income households and is increasingly considered as low-income housing by the government. As lowest-income households have mostly been covered by CRH, PRH is the focus of future low-income housing programmes.<sup>10</sup>

7 While dilapidated neighbourhoods, especially those in inner cities, have often been redeveloped as commercial and high-end housing developments, this round of shanty town redevelopment focuses on improving residents’ housing conditions and shanty towns in non-prime locations.

8 The name of “public rental housing” is somewhat confusing as it is not necessarily public in ownership. In theory, whoever invests in PRH owns the property. See MOHURD 2010, No. 87.

9 Prices are usually 15–20% lower than the market price for housing in the same neighbourhood (interview with officials in Beijing, May 2009).

10 State Council 2011; MOHURD 2011b.

Problems in ECH have been well documented, including the shortage of housing supply, problems in allocation, and rent-seeking behaviour among homeowners.<sup>11</sup> However, there has not been a systematic assessment of low-income housing policy and practice. This paper aims to provide a critical review of China's low-income housing policy, and answer the question of why it has so far failed to provide low-income households with adequate housing provision. My main argument is that it is a result of government failure on multiple fronts, including 1) its inability to set clear goals and a policy framework for low-income housing; 2) the existing public finance, the performance evaluation system and localization in policy design and implementation resulting in local governments not committing to low-income housing; and 3) the systematic exclusion of migrants from accessing low-income housing. While policy changes since 2010 give cause for some encouragement, the outcome for low-income housing policies is still uncertain.

In addition to examining numerous housing policy documents, empirical analyses were conducted using existing datasets, including the 2000 census, the 2005 One Per Cent Population Survey, the 2007 Urban Household Survey, and statistics published by various government agencies. In-depth interviews with housing experts and government officials at both central and local government agencies, such as the Bureau of Housing Indemnity and Policy Research Centre in MOHURD, the Ministry of Civil Affairs, Beijing Municipal Bureau of Land and Resources, were also used in this research. The following sections include an analysis of why the low-income housing programme has failed, an examination of the current status of low-income housing provision and consumption, and concluding remarks.

### **Structural Reasons for the Failure of Low-income Housing Provision**

Although the Chinese government has demonstrated an impressive commitment to low-income housing in recent years, it is fair to say that the low-income housing programme implemented in cities so far has failed. As noted above, the first reason is that the central government has not defined clear objectives for low-income housing. It has multiple but often conflicting goals for the housing sector in general, and for low-income housing in particular. This has resulted in the lack of a strategic plan for low-income housing, and fosters constant policy changes. The central government has at least two sets of goals: 1) economic goals – to extend housing reform, encourage the housing market and promote economic growth; and 2) socio-political goals – to ensure housing affordability and social justice, and thus maintain political stability. This echoes the “double movement” between economic growth and protective policies in China as identified by Wang.<sup>12</sup> The central government has been juggling these goals in response to

11 For example, Li 2009; Lin 2007; Qian 2003.

12 Wang 2008.

the macro-economic condition. While mainly fulfilling socio-political objectives, low-income housing can also contribute towards economic targets and the government often “uses” it to serve these conflicting goals. For example, after the 1997 Asian financial crisis, the Chinese government considered the housing sector a new growth pole for the national economy, and hoped massive construction and consumption of private housing would promote economic growth.<sup>13</sup> ECH – then defined as “commodity housing with a small profit margin” (*weili shangpinfang* 微利商品房) – was vigorously promoted. It targeted low- and middle-income households, while CRH for the lowest-income households was virtually ignored in practice. The following years were characterized by rapid market expansion in the housing system and the end of public housing provision in 1998. In 2003, “ordinary commodity housing” (*putong shangpinfang* 普通商品房) was defined as the main housing form, and while huge increases were made in housing investment there was a declining share for ECH, and housing prices rose rapidly<sup>14</sup> (see Figure 1). The signs of a destructive market expansion were clear and a “protective countermovement” was needed to reduce inequality and provide social security.<sup>15</sup> However, instead of launching aggressive low-income housing policies, the Chinese government chose the so-called “macro-regulation” (*hongguan tiaokong* 宏观调控) route to correct housing structure and control housing prices by imposing restrictive policies on credit access and land supply.<sup>16</sup> But macro-regulation was unsuccessful in preventing housing prices rising,<sup>17</sup> and housing affordability among the poor became increasingly difficult. The price–income ratio was 5.56 nationwide in 2007, which put China in the category of “severely unaffordable.”<sup>18</sup>

Sensing strong discontent from the public, the central government started to shift its focus to its socio-political goals in 2007, by reinvigorating and expanding the CRH programme.<sup>19</sup> For the first time, it set up a “programme-specific subsidy fund” (*zhuanxiang buzhu zijin* 专项补助资金) for CRH through two agencies: the National Development and Reform Commission (NDRC) for the new construction of CRH, especially in regions with fiscal difficulties; and the Ministry of Finance for rent subsidies.<sup>20</sup> The fund totalled 10.6 billion yuan in 2007<sup>21</sup> and

13 For example, in document No. 154 issued by MOHURD in 1998, the development of both ECH and the housing sector was defined as a measure of economic growth .

14 State Council 1998, State Council 2003.

15 Wang 2008.

16 For example, in 2004, the government increased the capital ratio of real estate development projects to 35% in 2006, the State Council required that more than 70% of newly developed commodity housing should comprise of units with floor space  $\leq 90 \text{ m}^2$ , and that more than 70% of annual land supply for housing should be devoted to CRH, ECH and small–medium sized commodity housing. State Council 2006, No. 37.

17 Ye and Wu 2008; Su and Tao 2010.

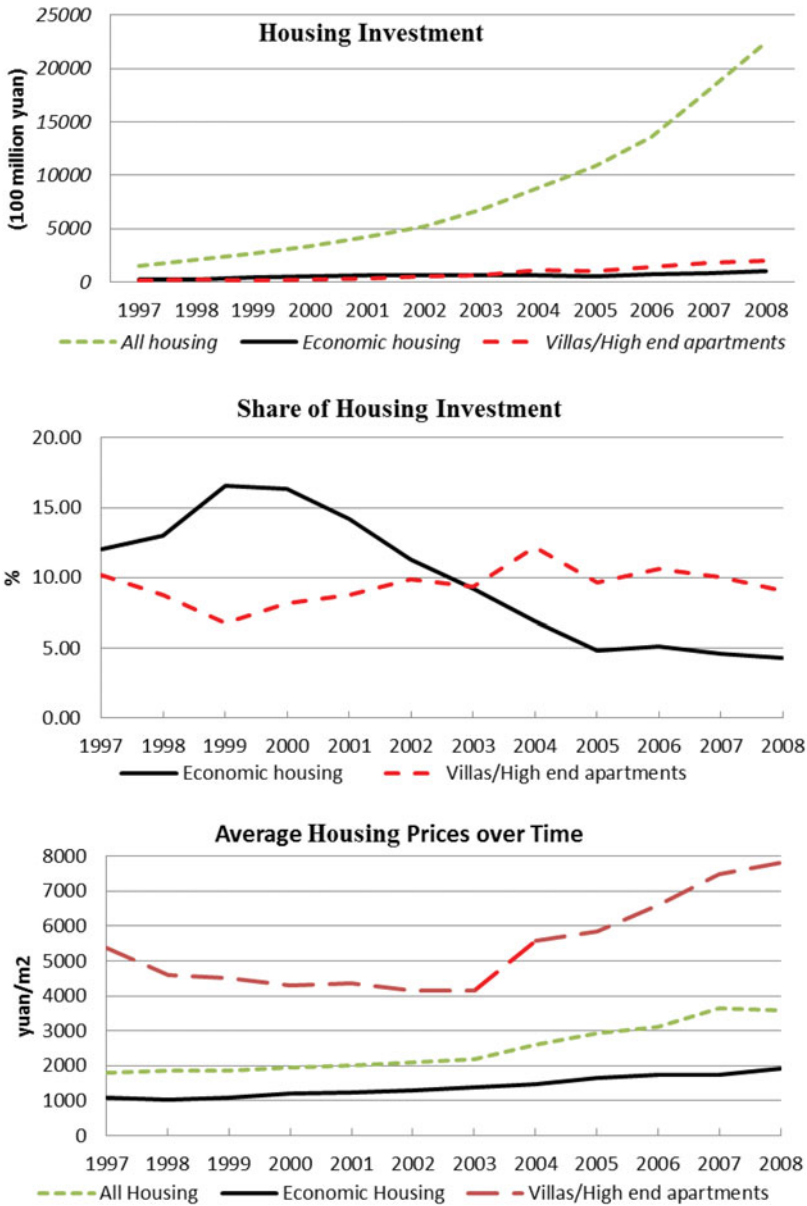
18 Man et al. 2011.

19 State Council 2007.

20 NDRC 2007; Ministry of Finance 2007.

21 5.8 billion yuan came from the Ministry of Finance and another 4.8 billion yuan from the NDRC (interview with central level officials).

Figure 1: **Housing Investment and Housing Prices during 1997–2008**



Sources: NBSC. 2010. *China Statistical Yearbook 2009*, tables 5-32; NBSC. 2010. *Annual Statistical Report 2009*. (colour online)

37.5 billion yuan in 2008,<sup>22</sup> while the total investment in CRH (from both the central and local governments) up until 2006 had been only 7 billion yuan.<sup>23</sup> After the

22 Interview with central level officials, MOHURD, 27 February 2009.

23 MOHURD 2006, No. 63.

2008 global financial crisis, the Chinese government devoted 10 per cent of the stimulus money (400 billion yuan) to subsidized housing development, aiming to meet its economic and socio-political goals simultaneously.<sup>24</sup> But the housing industry was over-stimulated, with housing prices growing rapidly and rising to a level higher than that prior to the crisis.<sup>25</sup> Meanwhile, the ambitious goal for low-income housing in 2009 was not accomplished.<sup>26</sup> With skyrocketing housing prices, intensified public discontent and the threat of losing its credibility, the central government was forced to concentrate on its socio-political goals and issued the landmark New 10 Articles (*xin shi tiao* 新十条) policy on 17 April 2010, which outlined ten measures to control the rapid increase in housing prices.<sup>27</sup> This marked a turning point in housing policy with the government shifting away from stimulating growth to controlling speculative housing demand, and to increasing land supply for affordable housing.<sup>28</sup> More importantly, a strong commitment was made to provide 5.84 million additional units of subsidized housing in 2010, and in 2011 a further commitment was made to provide another 36 million units for the period 2011–15.<sup>29</sup> While it is questionable whether the government can realize this ambitious plan, it is clear that the central government is politically committed, and the “protective countermovement” in housing seems to have finally emerged.

Owing to the lack of a clear strategic goal for low-income housing from the outset, the central government has been constantly adjusting its low-income housing policies, especially regarding who qualifies and how housing subsidies are provided. Figure 2 outlines the major housing policies since 1998, and the changes generally reflect the “double movement” of rapid market expansion which then triggers the emergence of protective countermeasures.<sup>30</sup> Although housing reform was officially launched in 1988, true marketization did not happen until 1998 when the State Council ended public housing provision.<sup>31</sup> Despite heavy subsidies, ECH was not considered low-income housing and targeted mainly middle and low-income households. Aimed at the lowest income households, CRH was deemphasized and was provided mainly through housing provision. In 2003, the government widened marketization and concentrated on providing ordinary commodity housing.<sup>32</sup> ECH, now defined as “policy-oriented commodity housing that has subsidies,” was aimed at a smaller but vaguely defined group. In addition, the provision method for CRH concentrated on rent subsidies to facilitate marketization. The following few years witnessed an

24 NDRC 2009.

25 NBSC 2010.

26 In 2009, only about one third of the low-income housing target was achieved and the government no longer mentioned the plan (interview with central level officials).

27 State Council 2010.

28 Naughton 2010.

29 State Council 2011.

30 Wang 2008.

31 State Council 1998.

32 State Council 2003.

Figure 2: **Low-income Housing Policy in Chinese Cities since 1998**

Lowest-income	Low-income	Lower-middle income	Middle-income	Upper-middle income	High-income	Highest-income
<b>1998 policy</b>						
CRH (housing provision)	Economic and Comfortable Housing (ECH)				Commodity housing	
<b>2003 Adjustment</b>						
CRH (rent subsidies)	ECH	Ordinary commodity housing			Luxury commodity housing	
<b>2007 Adjustment</b>						
CRH (rent subsidies + housing provision)     Add "housing difficulty" requirement	ECH	Small commodity housing		Ordinary commodity housing	Luxury commodity housing	
<b>2010 Adjustment</b>						
CRH (mainly housing provision)     Add "housing difficulty" requirement	ECH	Public Rental Housing   Controlled housing	Small commodity housing	Ordinary commodity housing	Luxury commodity housing	

*Notes:*

CRH (Cheap rental housing). The classification for income groups is based on seven groups defined by the NBSC.

overheated housing market and unsuccessful macro-regulations, which motivated the central government to look again at its low-income housing policy.

In 2007, protective housing policies started to emerge. The State Council issued a watershed document, “Suggestions for Solving Housing Difficulties of Low-income Households in Cities and Towns,” in an attempt to establish a new low-income housing system with CRH at its centre.<sup>33</sup> The target group for CRH was expanded from the lowest-income households to low-income households with housing difficulty, and its provision method included both “rent subsidies” and “housing provision,” an adjustment in response to the lack of affordable housing on the market. This document also outlined the goal of “*ying bao jin bao*” 应保尽保, which means that all households that need housing assistance should be covered by the CRH programme. Focusing on households with Minimum Living Standard Assistance (MLSA) (*dibao hu* 低保户)<sup>34</sup> and housing difficulty, the government aimed to achieve 100 per cent coverage in large cities by the end of 2007 and in all county-level cities by the end of 2008. In 2007, the State Council also eliminated the ambiguity in ECH and redefined it as housing for low-income households with housing difficulty only. Thus, in 2007 a low-income housing system with CRH and ECH was finally established.

33 State Council 2007.

34 The MLSA programme was launched nationwide in 1999 as a last safety net for the urban poor. Households who qualify for MLSA receive a monthly allowance from the government to ensure their basic standard of living.



Despite efforts to provide all needy households with CRH and ECH, some households are still excluded, for example households which do not qualify for CRH, yet cannot afford to purchase ECH; or households which do not qualify for ECH, but yet cannot afford commodity housing. These are often called “sandwiched households” (*jia xin ceng* 夹心层). In addition, the rental housing market in Chinese cities is underdeveloped; accommodation in housing estates built by developers is marketed for sale only and rental housing is mainly provided by individual households. In 2010, the central government decided to promote the development of PRH and controlled housing to help sandwiched households,<sup>35</sup> and the criteria for eligibility for housing subsidies, having been narrowed a few years prior, has now been expanded to include lower-middle income households. Meanwhile, the provision method for CRH shifted back to “housing provision” in 2010 to promote economic growth and to increase the amount of affordable rental housing on the market. Thus, in a short span of just over a decade, the provision method of CRH basically made a U-turn from mainly housing provision in 1998 to rent subsidies in 2003 and then back to housing provision.

In summary, during the last decade, housing policy in China has shifted from promoting marketization to providing subsidies to needy households. Although the process has not been smooth, the Chinese government has muddled through, and finally settled on a housing framework with CRH, ECH and PRH for low-income households, PRH and controlled housing for lower-middle income households, and commodity housing for the rest.

Secondly, the interests of local governments have often conflicted with those of the central government, which has led to the former’s lack of commitment and even resistance to the low-income housing programme. The central–local relationship in China has been a hotly debated topic among scholars, with a large body of literature on the fiscal/economic relationship, political control, and cadre management.<sup>36</sup> While some scholars argue that the central state capacity has been severely undermined by decentralization and economic reform, others argue that the central government has adapted to new conditions and maintained a strong and even increased state capacity. A recent study on the real estate industry in China shows a more complicated central–local government relationship, with local governments serving as either an amplifier or damper of the central government’s efforts depending on whether their interests are in alignment or contradiction.<sup>37</sup> Owing to the public finance system, the performance evaluation system, and the principle of localization in policy design and implementation, local governments have so far proven to be less than keen to fall in line with the central government’s plans for low-income housing provision.

35 MOHURD 2010, No. 87; No. 91.

36 For example, Wong 1991; Huang 1996; Li 1998; Wang and Hu 2001; Edin 2003; Yang and Naughton 2004; Chung 1995.

37 Su and Tao 2010.

Fiscal reforms in 1994 allow the central government to take away an increasingly large share of tax income, while local governments shoulder greater fiscal responsibility for social security, health care, education, and many non-funded mandates from the central government.<sup>38</sup> Subnational governments receive only about 47 per cent of total government revenues but have to provide 80 per cent of total government expenditure.<sup>39</sup> In addition to strengthening the collection of local taxes, local governments, as the *de facto* owners of urban land and the only proprietors allowed to convert rural land to urban land, have depended on land-related revenue, such as land conveyance fees and taxes related to real estate, to meet their budgetary needs. Land conveyance fees have become increasingly significant to local revenue, making up 40–55 per cent of provincial government's budgetary revenue, and land and housing related taxes increased from 7 per cent of total local taxes in 2001 to 16 per cent in 2008.<sup>40</sup> Thus, local governments have strong financial incentives to promote the development of real estate. Compared to commercial and private housing developments, which bring in handsome fees and related taxes, low-income housing is a resource-draining sector with local governments not only providing free land and reducing or waiving taxes, but also paying for the development and management of low-income housing. It is not surprising that local governments often resist the push for low-income housing by the central government.

For example, the central government required municipal governments to establish a system of CRH by 2006, yet 145 out of 657 cities have yet to do so.<sup>41</sup> In particular, local governments are unwilling to make financial commitments to low-income housing under the current public finance system. The State Council requires local governments to commit no less than 10 per cent of the net gains from land conveyance to CRH. This is in addition to the annual budget and special funds provided for CRH, net capital gains from the Housing Provident Fund, rents from existing CRH, and donations. However, by 2006 only 4.4 per cent of net gains from land conveyance were devoted to CRH nationwide (see [Figure 3](#)). Surprisingly, in the developed Eastern region, only 1 per cent of net gains from land conveyance was set aside for CRH, and the most developed cities, such as Beijing, Tianjin, Shanghai, and cities in Zhejiang and Fujian provinces, gave nothing from the gains from land conveyance to CRH, despite having collected large revenues during the recent real estate boom. Notwithstanding an increase in investment in CRH since 2007, local governments are still not complying with the State Council on this point. In 2009, only 1.5 per cent of the net gains from land conveyance were earmarked for CRH nationwide.<sup>42</sup> According to the National Audit Office, 22 out of 32 audited prefectural cities, including Beijing, Shanghai, Chongqing, and Chengdu,

38 Tsui and Wang 2004; Li and Yi 2011.

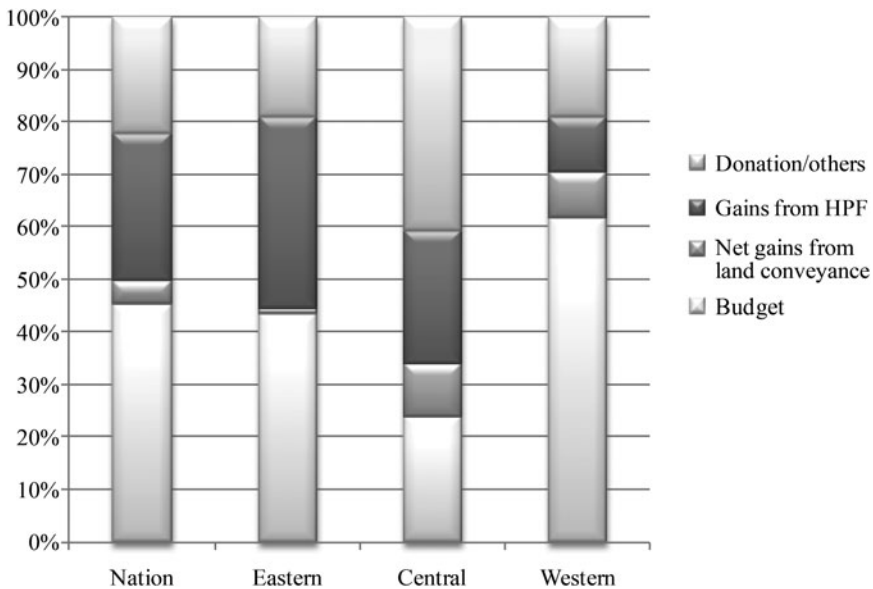
39 Man 2010.

40 Su and Tao 2010.

41 State Council 2006, No. 37; MOHURD 2006, No. 63.

42 Ministry of Finance 2010.

Figure 3: Funding Sources for Cheap Rental Housing by 2006



Source:

MOHURD. 2006. No. 63. A report on the development and implementation of cheap rental housing in cities and towns.

committed less than 10 per cent of net gains from land conveyance to CRH during 2007–09, which means they committed 14.6 billion yuan less than they should have.<sup>43</sup> In addition, local governments have been unwilling to allocate land for low-income housing, as they have to forgo the lucrative land conveyance fees and real estate taxes that they would otherwise receive. For example, in 2010, the central government planned to provide 24,500 hectares of land for low-income housing; yet by November, only half (13,400 hectares) was provided.<sup>44</sup>

The performance evaluation system for government officials further encourages local governments to focus on their immediate goals, which are often economic targets. Government officials in China are appointed, evaluated and dismissed by the upper level government, which means that they answer to their superiors instead of to their constituents. Under the Target Responsibility System (*mubiao zerenzhi* 目标责任制), local officials are appraised based on their performance in meeting a set of specific social, economic and political targets.<sup>45</sup> Social targets are often internally regarded as less important “soft targets,” “hard” economic targets, on the other hand, may result in bonuses and political rewards, and political targets such as family planning and social order are “priority targets with veto power,” which implies that if leaders fail to meet these

43 National Audit Office 2010.

44 Liu 2011.

45 Edin 2003; Tsui and Wang 2004.

targets, it would cancel out all other work performance.<sup>46</sup> Despite the importance of priority targets, performance evaluation usually focuses on economic objectives, but this can change to reflect the priorities of both the central and local governments. The lack of performance targets in low-income housing before 2010 shows that it was not a priority for the central government. While economic growth per se does not necessarily result in promotion,<sup>47</sup> economic targets are clearly easier to measure and achieve than social targets. Furthermore, mayoral tenure has been significantly shortened in the reform era,<sup>48</sup> which encourages mayors to focus on immediate results. Not surprisingly, local governments are more concerned about short-term economic growth and visible achievements, such as developing fancy shopping districts and large public squares, which not only bring in handsome land conveyance fees but also present concrete evidence of their efforts. In comparison, low-income housing does not contribute to the local government's revenue and economic growth, and significant progress is difficult to achieve within their short tenure period. It was not even included in the performance evaluation system until 2010. Thus, from both fiscal and political perspectives, local governments lack the incentives to commit to low-income housing.

The Chinese government also adopted an approach of localization in designing and implementing low-income housing policies. The current principal is “same policies with local adjustments,” with provincial governments taking on overall responsibility, and municipal/county governments taking charge of the implementation.<sup>49</sup> Given the large regional variation in China, it is prudent to allow local adjustments. However, the term “local adjustments” is vague and leaves room for local governments to remain uncommitted to the policies. For example, while central government considers “low-income households with housing difficulties” a priority group, it does not clearly define this target population except for pointing out that household income, assets and existing housing conditions should be used as the qualifying criteria. Instead, it suggests local governments define their own targets based on local economic and social development levels, their financial resources, per capita disposable income, minimum wage levels, minimum living standard assistance, and local housing conditions.<sup>50</sup> Since municipal governments need to provide the funds and/or land for low-income housing, they are more likely to narrow the qualifying criteria for low-income housing in order to reduce their financial responsibilities.<sup>51</sup>

46 Edin 2003.

47 Bo 2002; Landry 2003; Tao et al. 2010.

48 Landry 2003.

49 State Council 2007.

50 Ministry of Civil Affairs 2008.

51 The target populations vary widely between regions and local governments have also altered their qualifying criteria over time. For example, in Beijing, CRH criteria in 2007 included a monthly income less than 580 yuan/person, housing consumption less than 7.5 m<sup>2</sup>/person, and clearly specified household assets based on the household size (BBHURD 2007); in Wuxi (Jiangsu province), the 2008 criteria included a disposable monthly income less than 750 yuan/person and housing consumption less than

Finally, the exclusion of hundreds of millions of poor migrants from low-income housing marks another dimension of government failure.<sup>52</sup> Currently, migrants without local urban registration (*hukou* 户口) are unable to access low-income housing, including PRH,<sup>53</sup> even in Shenzhen, the city of migrants.<sup>54</sup> In some cities such as Beijing several years of local registration are required before applying for low-income housing.<sup>55</sup> Even though qualified migrants are allowed to access PRH in some cities, strict criteria make it accessible only to a small proportion of skilled migrants, such as those working in industrial parks.<sup>56</sup> Except for employer-provided temporary housing such as dormitories, migrants have relied on private housing provided mostly by individual households in (sub) urban villages.<sup>57</sup> Migrants' housing had not been a concern for the government until recently. In 2006, the State Council recognized for the first time the need to improve migrants' housing conditions, and in 2007, MOHURD issued a document specifically concerned with that issue.<sup>58</sup> However, the central government demanded that work units had to provide migrants with housing, which left it free of this responsibility. In 2010, MOHURD (No. 87) indicated that migrants who have stable jobs and who have lived in cities for a number of years may be eligible to apply for PRH. In a few cities, such as Chongqing and Xiamen, migrants are allowed to apply for all types of low-income housing.<sup>59</sup> While these are encouraging signs, migrants continue to face institutionalized discrimination and are still systematically excluded from the low-income housing programme. Any low-income housing policy that excludes such a large segment of the poor population defies the ultimate purpose of that policy – social justice – and thus can be considered to have failed.

Since 2007, the central government has attempted to establish a new system of low-income housing focusing on CRH. In particular, 2010 may mark a turning point as the government tries to correct some of the structural problems of the programme. First, the New 10 Articles policy links solving the problem of low-income housing to the goals of promoting economic growth, expanding domestic consumption, and improving people's livelihoods.<sup>60</sup> With the potential to meet both its economic and socio-political objectives, low-income housing naturally becomes a priority for the central government. Secondly, reflecting this change

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*footnote continued*

16 m<sup>2</sup>/person (Wuxi Municipal Government 2008). In 2010, the monthly income criterion was adjusted to 960 yuan/person in six urban districts in Beijing (BBHURD 2010).

52 The exact number of poor migrants is unknown. It was estimated that there were 140–225 million migrants in 2008, and the majority of them were assumed to be poor (NBSC 2008).

53 See MOHURD 2007, No. 162; No. 258.

54 Shenzhen Municipal Government 2010.

55 Beijing Municipal Government 2007.

56 Beijing Municipal Government 2011.

57 Solinger 1999; Zeng et al. 2009.

58 State Council 2006, No. 5; MOHURD 2007, No. 256.

59 CMG 2007; CMG 2010; Xiamen Planning Bureau 2006.

60 State Council 2010.

in priorities, the central government has included low-income housing in its performance evaluation system to ensure the commitment of local governments. In May 2010, MOHURD obliged provincial governments to sign a “low-income housing work target and responsibility contract” (*zhufang baozhang gongzuo mubiao zerenshu* 住房保障工作目标责任书) requiring them to develop a specified number of low-income housing units by the end of that year.<sup>61</sup> How well local governments performed in fulfilling the terms of the contract formed part of the evaluation and accountability system administered by MOHURD and the Ministry of Supervision. As a result, local officials’ political status and careers were linked to their performance in meeting low-income housing development targets. Not surprisingly, the annual target of 5.84 million units of subsidized housing was met, in sharp contrast to previous years.<sup>62</sup> In 2011, the central government set up an even more ambitious annual target of an extra 10 million units of subsidized housing<sup>63</sup> and again required provincial governments to sign a low-income housing work target and responsibility contract. While these are encouraging developments, many factors such as the public finance system, the emphasis on economic growth, localization in low-income housing policy and discrimination against migrants, remain unchanged, and so the fate of low-income housing in China is yet to be determined.

### Provision and Consumption of Low-income Housing: Too Little to Go Around

China has experienced a housing construction boom with 33.2 million units of residential housing completed during 1999–2008.<sup>64</sup> However, owing to the problems noted above, not enough low-income housing has been provided, leaving many low-income households without adequate provision.

Despite the central government’s ambition to provide CRH for all MLSA households with housing difficulty, the CRH programme failed to cover even the lowest-income households with housing difficulty. By the end of 2006, cumulatively only 0.55 million units of CRH had been provided, while there were 4 million MLSA households with housing difficulty (see Table 2). This is testament to the low priority given to low-income housing in the first few years of the 21st century. As a result of policy adjustments in 2007, the provision of CRH increased significantly that year, reaching 0.95 million units/households (cumulatively); yet it still accounted for less than 25 per cent of the number of MLSA households with housing difficulty. By 2007, the goal of “*ying bao jin bao*” was not realized for even MLSA households, let alone other low-income urban households and the hundreds of millions of migrants. According to the

61 MOHURD 2010a.

62 Shanbei Net 2011.

63 MOHURD 2011b.

64 NBSC 2009.

Table 2: The Supply of and Demand for Low-income housing

Year	Cheap Rental Housing (CRH)	Economic and Comfortable Housing (ECH)			Housing Need		
	Cumulative provision (number of units/ households)	Units completed annually <sup>4</sup>	% of all housing units completed	Total units completed	% of urban households in ECH	MLSA households with housing difficulty <sup>8</sup>	Low-income households with housing difficulty
1999		484,978	24.92	484,978			
2000		603,573	28.21	1,088,551	6.54 (city), 4.88 (town) <sup>5</sup>		
2001		604,788	25.05	1,693,339			
2002		538,486	20.48	2,231,825			
2003		447,678	14.82	2,679,503			
2004		497,501	12.31	3,177,004			
2005	328,625 <sup>1</sup>	287,311	7.80	3,464,315	6.52 (city), 4.36 (town) <sup>6</sup>		
2006	547,292 <sup>1</sup>	338,040	8.44	3,802,355		4 million	10 million
2007	950,000	356,580	8.10	4,158,935	3.9 <sup>7</sup>		
2008	4,070,000 <sup>2</sup>	353,782	7.16	4,512,717			
2009	4,670,000 <sup>3</sup>	Planned to add 1.3 million, but the actual provision was low and not released to the public <sup>9</sup>					
2010	5.8 million (including CRH, ECH, and shanty area redevelopment)						
2011	Plan to add 10 million (including CRH, ECH, PRH, shanty area redevelopment, and controlled housing)						15.4 million
2012–2015	Plan to add 26 million units						

Notes:

1. MOHURD 2006, No. 63; 2. MOHURD 2009, 2/27; 3. MOHURD 2009, No.91; 4. NSBC 2009, tables 5–42; 5. 2000 Census tabulation; 6. 2005 1% survey tabulation; 7. 2007 Urban Household Survey; 8. housing difficulty is defined as having 10m<sup>2</sup> or less per capita; 9. State Council 2008, No. 131.

2010 census data, only 2.7 per cent of all urban households lived in CRH. The paucity of CRH is further demonstrated by a case study of Beijing using the Cheap Rental Housing Applicants' Database, which shows that less than 3 per cent of all urban low-income households (including migrants) have access to CRH.<sup>65</sup>

During 1999–2002, about 500,000 units of ECH were built each year, which accounted for more than 20 per cent of all newly-completed housing units. After the State Council redefined ECH as low-income housing in 2003, the provision of ECH declined sharply. In 2005, less than 300,000 units were developed, which accounted for only 7.8 per cent of all newly completed housing. Cumulatively, just over four million units of ECH had been developed by 2007, and less than 4 per cent of urban households were living in ECH. But ECH was not strictly low-income housing until 2007, and less than 20 per cent of ECH (in both number of units and amount of floor space) was occupied by low-income households (the bottom two income deciles) in 2007 (see [Figure 4](#)).

If it is assumed that 20 per cent of ECH is for low-income households, by 2007 the total provision of low-income housing (CRH and 20 per cent of ECH) was less than 1.8 million units, while there were at least ten million urban low-income households with housing difficulty.<sup>66</sup> Thus, by 2007, the rate of coverage was at most 18 per cent. The economic stimulus in 2008 gave the low-income housing programme, and CRH in particular, a major push with cumulative provision reaching 4 million units/households. The central government planned to add another 7.09 million units of CRH and 3.6 million units of ECH during 2009–2011,<sup>67</sup> but abandoned this plan after poor performance in 2009.

The problem of not enough low-income housing is compounded by difficulties in correct allocation. For example, the lack of reliable income information in China has made it very difficult to control who is entitled to and who must vacate low-income housing. Currently, the procedure is “application – screening – public display – waiting in turn.”<sup>68</sup> Households are responsible for providing proof of their income, assets and housing conditions. This is then submitted to various government agencies for screening. No government agency has complete and reliable information about applicants and so they are visited and interviewed, and their application information is then made public for scrutiny in order to discourage false claims. However, apart from having to return the property after detection, the penalty for false applications is negligible.<sup>69</sup> Not surprisingly, low-income housing often ends up in the hands of unqualified households. In 18 prefectural cities, there were 533 units of cheap rental housing and 4.13 million yuan

65 Yi and Huang 2012.

66 MOHURD 2008.

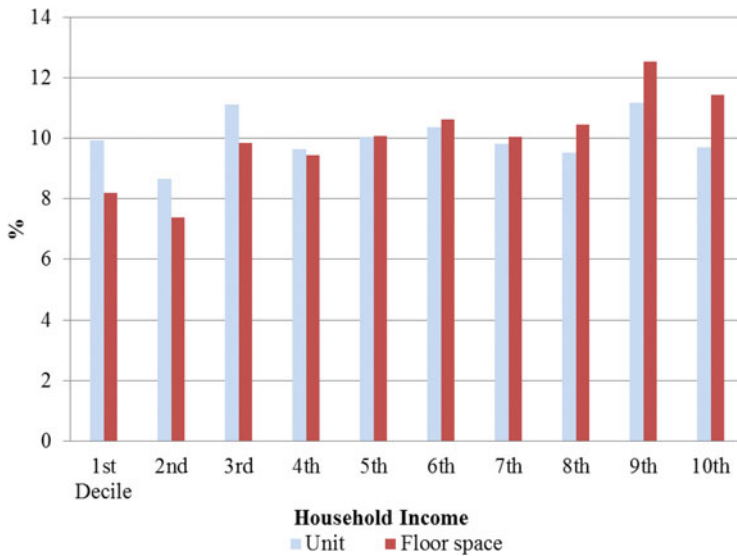
67 State Council 2008, No. 131; MOHURD 2009.

68 MOHURD 2007, No. 162, No. 258.

69 MOHURD 2010, No. 59. If caught, fraudulent claimants must return their housing immediately, and must wait five years before re-applying for low-income housing. In Jinan (Shandong province), the penalty is less than 100 yuan, see Li 2009.



Figure 4: Percentage of Economic and Comfortable Housing by Income Deciles, 2007



Source:

Author's calculation based on Urban Household Survey by NBSC, 2007.

(colour online)

of rent subsidies distributed to unqualified households during 2007–09.<sup>70</sup> Misallocation of ECH is an even greater problem as its property rights and lower-than-market prices make it attractive to even high-income households. In 2007, the majority of ECH was allocated to middle-income households and high-income households actually occupied more ECH than low-income households (see Figure 4). Although ECH was classed as low-income housing in 2007, local governments often use it for other purposes such as settling displaced households and attracting skilled workers to the area, and so corruption and fraud are commonplace in its allocation.<sup>71</sup>

As discussed above, 2010 marked a turning point in low-income housing provision, with 5.9 million new units under construction, of which 3.7 million units were basically completed by year end.<sup>72</sup> Another 36 million units of subsidized housing is planned for 2011–15, including 10 million units in 2011 alone, which will include 1.6 million units of CRH, 2.2 million units of PRH, 4 million units of shanty town redevelopment, and about two million units of ECH and controlled housing. The goal is to provide subsidized housing for 20 per cent of all urban households, with low-income households enjoying at least 13m<sup>2</sup>

70 National Audit Office 2010.

71 Li 2009.

72 State Council 2010; Ruan 2011.

per capita floor space by 2015.<sup>73</sup> In addition to massive investment from the government, various tax incentives and waivers and free land allocation have been provided to encourage developers and other non-government agencies to provide low-income housing on the principal of “the government leads, the society participates;”<sup>74</sup> yet so far they have not taken the plunge.<sup>75</sup> Whether the Chinese government achieves these ambitious goals is yet to be seen; however, the central government appears determined, and the future seems to be a little brighter for the poor.

## Conclusion and Discussion

This article has discussed the three main factors behind the government’s failure to provide adequate housing for low-income households in China so far. The turning point in low-income housing provision came in 2010 when the central government turned its attention towards socio-political issues and, in addition to setting ambitious targets for low-income housing, it invested massively in low-income housing development, and included it in the performance evaluation system to ensure that local governments supported the programme. It is also gradually allowing migrants access to certain low-income housing programmes, such as PRH. While encouraging, these developments cannot guarantee the success of the low-income housing programme in China, and more profound reforms are needed.

First, the existing public finance system, with local governments taking a small share of budgetary revenue but shouldering the majority of expenditure, has to be reformed to ensure that local governments commit funds to low-income housing. In principle, low-income housing is financed by local governments; subsidies from the central government, while large in the total number, cover only a tiny fraction of the actual cost of housing development.<sup>76</sup> Although local governments are required to contribute at least 10 per cent of the net gains from land conveyance to CRH, limited budgetary revenues mean that the revenue acquired from land conveyance goes towards funding many other public services as well. While the change in 2010 of the performance evaluation system does force local governments to comply reluctantly with this stipulation, better economic incentives are needed to guarantee the long-term commitment of local governments.<sup>77</sup> Thus, the public finance system has to be reformed to give local

73 MOHURD 2010, No. 91.

74 Ministry of Finance 2008.

75 The largest developer in China, Vanke, has recently begun development of low-income housing in several cities; their primary motive is not profit, but to form good relations with local governments to facilitate future land access.

76 For example, NDRC provides the funds for the construction of CRH, which currently stands at 500/400/300 yuan/m<sup>2</sup> for the Western/Central/Eastern regions, while the actual construction cost is at least several thousand yuan/m<sup>2</sup>. See MOHURD 2009.

77 In 2010, local governments were able to hit their targets. However, instead of building CRH and ECH in cities, many local governments built resettlement housing for shanty town redevelopment in the suburbs, which is easier and cheaper (interviews with central level officials).

governments a larger share of budgetary revenue and to allow them to have more diversified local revenue sources other than land conveyance fees. The latest experiment with property tax in Shanghai and Chongqing is a step in the right direction, but much more needs to be done before local governments are willing to commit sufficient financial resources to low-income housing.

Secondly, more profound reforms in the land system are needed to curtail rising housing prices and to ensure greater provision of affordable housing. Under the current system, local municipal governments are the de facto land owners and the sole providers of land in Chinese cities. In order to maximize land conveyance fees, they have released only a limited amount of urban land for housing and commercial development (and a small fraction of land for low-income housing development) which in turn results in high housing prices. It is not surprising that the central government's efforts to control housing prices have failed time and again. The government decided to increase land supply in 2011, especially land for low-income housing. Yet, only 13 per cent of planned land supply is for CRH, ECH and PRH.<sup>78</sup> The monopoly local governments have over land supply, and their dependency on land for revenue have to be broken. Increasingly, scholars argue that suburban farmers and rural collectives should be allowed to lease their rural land and to develop commercial housing.<sup>79</sup> This will significantly increase the supply of land and affordable housing, thus relieving the pressure on local governments to provide large amounts of low-income housing, and at the same time provide local governments with stable revenues through land and housing-related taxes, which in turn will help them to fund low-income housing.

Thirdly, a change in the *hukou* system is needed to ensure social justice and allow migrants to access low-income housing in cities. Currently, PRH may be available to qualified migrants, but still CRH and ECH remain out of reach for migrants. Experiments are being conducted in places like Chengdu and Tianjin where migrants can access low-income housing and other welfare benefits as urban households if they give up their rights to farm land and rural residential land.<sup>80</sup> Most migrants maintain two dwellings, one in the city and another in their home village. This not only discourages their assimilation into urban society but is also a waste of housing and land resources.<sup>81</sup> A housing/land rights exchange could be beneficial to both migrants and the urbanization process, and should be carefully studied. However, caution needs to be exercised to avoid this process becoming another opportunity for local governments to access valuable land while migrants' rights to housing and other welfare benefits in cities are not guaranteed. The Chengdu municipal government is establishing a unified *hukou* system to allow migrants to enjoy the same rights and benefits as local

78 Ministry of Land and Resources 2011.

79 Tao and Wang 2010.

80 Long 2010.

81 Huang and Yi 2011.

residents, and is extending the low-income housing programme to its rural residents.<sup>82</sup> In other words, where people live and what kind of *hukou* they have no longer matter. This is a very encouraging development that points the way for *hukou* reform. While it may be unrealistic at this time for many local governments to include all migrants in the low-income housing programme, efforts are needed to incorporate the most vulnerable migrants and to encourage the market to provide affordable housing to other migrants. The above mentioned land reform in urban villages could result in a massive provision of non-government affordable housing to migrants.

The success of the low-income housing programme could be dependent on implementing reforms such as those listed above. Without tackling the failures in government, the central government's ambitious goals for low-income housing would be more a political stunt than a feasible plan. At present, the government has chosen a housing framework incorporating CRH, ECH and PRH, with the focus increasingly on PRH, although there are many concerns regarding funding for PRH. This reflects a change in the government's ultimate goal from "every household owning a home" (*ju zhe you qi wu* 居者有其屋) to "every household having a dwelling" (*zhu you suo ju* 住有所居). However, rather than going back to the mass provision of subsidized rental housing as was the case in the socialist era, the government should focus on providing CRH and a small amount of ECH for low-income households only, and improve the operation of the low-income housing programme with a better application and eviction system, a credible information system for income and housing, and a means-tested policy evaluation system. In addition, the existing provision methods for low-income housing are somewhat singular, especially when compared to the US.<sup>83</sup> Other methods, such as the use of financial instruments (for example, mortgage programmes for and tax credits to low-income homeowners) should be adopted, and developers and other agents (for example, suburban farmers and collectives) need to be encouraged to provide low-income housing. A diversified low-income housing programme not only provides households with more options but also reduces the pressure on local governments.

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82 Chengdu Municipal Government 2010; 2011.

83 See, for example, Schwartz 2006.

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