

Housing Reform in Southern China: Shenzhen and Guangzhou

Mr. Francis Wong
Associate Professor
Department of Building and Real Estate
The Hong Kong Polytechnic University

and

Dr. Eddie Hui
Assistant Professor
Department of Building and Real Estate
The Hong Kong Polytechnic University

Abstract

The objective of this paper is to provide an up-to-date review of housing reform in Southern China, by taking the two wealthiest cities of Shenzhen and Guangzhou as case studies. Firstly the paper attempts to investigate the housing reforms in Shenzhen's SEZ. It starts by reviewing welfare housing development over the past twelve years in Shenzhen. Then it looks at the current situation in Shenzhen, and followed by an examination of the problems associated with housing reform in general and the sale of welfare housing programme in particular. The second section reviews welfare housing reform in the reformists' city - Guangzhou. This is followed by an examination of the "Housing Allowance Scheme" (HAS) against its objective of "Home Purchase". It highlights the opportunities and challenges facing the government. Finally, the concluding section gives suggestions for accomplishing the objective of "Home Purchase" for HAS.

Keywords

Housing Reform, Shenzhen, The Centre for Sale, Guangzhou, Housing Allowance Scheme.

Housing Reform in Shenzhen

Shenzhen is regarded as a stratified immigrant society. Since it was announced to be a Special Economic Zone (SEZ) in 1980, a massive immigration was mobilised for the new economic development. Given this, the Shenzhen government has a heavy burden of housing provision.

The first official housing reform document entitled "Housing Reform Scheme in Shenzhen Special Economic Zone" was announced in July 1988. It included two objectives:

1. Transformation of welfare in-kind benefit to monetary distribution in the housing sector. Housing should be tradable in the market.
2. Households' participation in housing investment should be encouraged.

In 1988 rent was increased from RMB 0.14 to RMB 2.06 per square metre. Besides, the programme of the sale of welfare housing was carried out. The basic unit purchase price was RMB 264.15 per square metre. Such programme was regarded as an important step towards housing marketisation (Shenzhen Construction Engineering Costs Management Department, No.2, 1998, p.46).

Housing Direction in Shenzhen

A new housing directive was adopted by the Shenzhen government in the early 1990s and to be a major direction towards 2000, that is, "Dual-Track, Three Categories and Multi-pricing System" (Shenzhen Construction Engineering Costs Management Department, No.2, 1998, p.47). The new direction aimed to accommodate different kinds of people including high, middle and low-income groups. The official interpretation of the new direction is in Table 1:

Table 1 New Housing Direction in Shenzhen in 1998

1. Dual-Track	It refers to the sources of housing investment from both the local government and private developers. The local government is responsible for building welfare housing and low-profit housing. Private developers are responsible for the construction of commodity housing in the market.
2. Three Categories	There are three categories of housing provided. Welfare housing will be provided for the civil servants. Low-profit housing will be offered to the staff and workers in state-owned enterprises and government subsidized institutions. Commodity housing could be purchased in the market by anyone.
3. Multi-pricing System	It aims to provide different housing prices with regard to the affordability of various income groups. The price of welfare housing would be set in line with construction cost (RMB 1,000-2,000). Low-profit housing would be sold at slightly above construction cost (RMB 2,800-4,400). Commodity housing would be purchased at market price (at an average RMB 5,500) (Li, 1999).

Source: The Shenzhen Housing Bureau

The Centre for Sale

Shenzhen Housing Bureau is in charge of both of production and transaction of welfare housing. Development companies, which owned by the government, are responsible for housing construction. The Shenzhen Housing Bureau directly manages the Centre for Sale. It is responsible for the transaction of welfare housing and low-profit housing. Its duties include evaluation of the applicants, preparation of the list of eligible applicants, and signing of the contract. It serves as a middleman between the government and potential buyers. Under this new arrangement, work units are no longer responsible for housing allocation. The link of social obligation of work units and employees is separated. The sale of welfare housing is centralized and coordinated by the Centre with an advantage of effective management of housing transactions.

Problems of the Welfare Housing Development in Shenzhen

Affordability

Although stratification of housing prices is created in order to accommodate different income groups, it is believed that most individuals are still unable to afford the 30% down payment, for example, even the smallest unit in a typical welfare housing development (e.g. Mei Lin Yi Cun).

According to the 1996 official statistical data (Shenzhen Statistical Bureau, 1996, pp.440-441), the monthly income of middle-lower income household was RMB 2,444.4 (RMB1,222.2 x 2)¹ whereas the monthly living expenditure was RMB 1,455.6 (RMB 727.8 x 2). In fact, the middle-lower income household was able to afford monthly repayment according to the following calculation. However, the 30% down payment would be a problem for most households.

The price of Mei Lin Yi Cun ranges from RMB 1,576.6 to RMB 1,839.3 per square metre for multi-storey housing without lift. Given that a three-bedroom apartment with total 84.6 square metres gross floor space, which is the smallest unit in this housing development, the housing price would be (84.6 square metres x RMB 1,576.6) = RMB 133,380.4. The 30 % down payment would be RMB 40,014.1 and the balance was RMB 93,366.3. According to the terms provided by the China Construction Bank in Shenzhen in 1996, the monthly interest rate for 15 yearly installments is at 9 %. If RMB 10,000 were made available from the bank, the amount of monthly repayment would be RMB 101.4.

In other words, income of the household must be at a minimum of RMB 1,893.4 per month in which repayment will constitute not more than 50% of a household's monthly income. In this case, the middle-lower income household was able to afford monthly repayment, as their monthly income was RMB 2,444.4, though they were in the margin. However, the 30% down payment (RMB 40,014.1) would be a problem, especially for young couple. According to the statistical data, the amount of the household monthly

¹Individual monthly income was RMB 1,222.2. Assume that a couple formed a household.

savings was RMB 121.02 (Shenzhen Statistical Bureau, 1996, p.441). Households will have to wait more than 27 years (excluding the factor of inflation) before they can afford to make the first payment.

Insufficient Housing Production

According to the 1995 statistical data, total investment on infrastructure was RMB 14.01 billion in which housing investment only accounted for 6.2 % of the total investment. In addition, the rate of completion of housing was low. The total area under construction in 1995 was 9.51 million square metres in which 27.5% of the housing construction were completed in 1995. In average, 2.06 million square metres of housing were provided each year (Shenzhen Statistical Bureau, 1996, pp.241-242 & 249).

Between 1990 and 1995, the growth rate of households was 75.8% (Shenzhen Statistical Bureau, 1996, p.77). It is estimated that 0.53 million households (3 persons per household) would be formed in the year 2000. If the target of living area per person is 13 square metres (Shenzhen Statistical Bureau, 1996, p.240), 20.67 million square metres of housing space should be provided.

Insufficient Land Supply

The insufficient provision of usable land for welfare housing is also a major concern. The Shenzhen Municipal Planning and Land Bureau has tightened the control of land supply for welfare housing development as compared with the land supply for commodity housing development to a ratio of 30:70.

Housing Reform in Guangzhou

China's government plays a dominant role in housing, being involved in direct provision and welfare subsidies. In 1997, there were nearly 80% of the population living in state-owned housing. In addition, each household received a subsidy of approximately RMB 1,960 annually - representing 59.6% of households' total welfare subsidization (Chen, 1997). China has since 1995 carried out a number of different new housing programmes in major cities such as Beijing, Shanghai, Tianjin, Shenzhen and Guangzhou. These new programmes include the National Comfortable Housing Project and the Housing Provident Fund. The former targets on the provision of low cost housing for middle and low income groups while the latter aims to accumulate capital for individual home purchase (State Land Administrative Bureau, 1997; Mao, 1997, pp.32-35). Now, the major direction of housing reform is to encourage individual home purchase.

Recently, the Chinese leaders realized that housing problems in China were associated fundamentally with its traditional housing allocation system. During the Ninth National People's Congress held in March 1998, they regarded housing market as "a key engine of growth" in China (South China Morning Post, 20 March 1998). The new Prime Minister, Zhu Rongji, announced that housing reform was one of the five major tasks of the State. He said that the government was determined to eliminate its in-kind welfare housing

allocation system. He saw home purchase as the major direction for housing reform. To this end, housing benefits (in cash) would be given, instead of providing in-kind welfare.

The Guangzhou government in 1997 had announced an innovative housing initiative - "Housing Allowance Scheme" (HAS). This scheme attempts to eliminate completely the welfare in-kind housing system. Civil servants who appointed after 30 September 1997 would no longer receive housing from the State. Instead they would be provided monthly housing allowances in cash starting in 1998.

The establishment of "Housing Allowance Scheme" was then viewed as the remedy of housing problems in China. It was expected that the provision of housing allowance in cash would gradually help China shift away from its traditional housing allocation practice (Hong Kong Economic Times, 20 March 1998). Guangzhou is one of the pioneers of housing reform in China, formulating and establishing "Housing Allowance Scheme" for the State even before the Ninth National People's Congress. Following Guangzhou, similar home purchase schemes have been put on the working agenda of other major cities in China including Shenzhen, Beijing and Shanghai.

The Housing Allowance Scheme (HAS) - A New Housing Initiative

The objective of the "Housing Allowance Scheme" is to cut the link of work units to housing provision. It also aims to help the households purchase their homes. Starting from 1 January 1998, housing allowance has been made available to civil servants who has joined the government after 30 September 1997. Meanwhile, they will no longer receive housing units from government. The amount of allowances for which civil servants are eligible is determined by many factors: for example, their rank. This is an experimental programme. At the present time, there are 2,000 civil servants participating in the new housing programme. All the civil servants and staff of those institutions, which are supported by the government budget, are entitled to the housing allowances. The following section discusses the key features of the HAS, in context of eligibility and subsidy payments.

Eligibility

The main criteria of participants are listed below (Nanfang Feng Di Chen, 1997):

Civil servants who were appointed after 30 September 1997 should join the HAS; and civil servants who were appointed before that date are given an option to join the HAS or to continue to enjoy the existing housing benefits.

Under the scheme, if the husband has already enjoyed one of the housing benefits, such as the allocation of housing unit or housing allowance, then his wife is not entitled to any housing benefits provided by the government. This is to avoid giving double housing benefits to eligible participants.

In parallel with the HAS, the Guangzhou Government has issued a new housing directive that work units are no longer required to build for their employees. Instead, the

government would provide new housing. If housing units were built before the directive, they could be allowed to continue at the existing rent levels - until 31 December 1999. Meanwhile, sitting tenants are allowed to purchase their units at a discount. Starting from 1 January 2000, housing prices and rent levels should be set in line with the construction cost of Comfortable Housing Projects. This evidence shows clearly the Guangzhou government's efforts in housing reforms, in an attempt to shift away from its in-kind welfare benefit system and rent policy to the Housing Allowance Scheme.

Subsidy Payments

Under the HAS, housing allowances are payable for a period of 20 years. The rates of allowances are largely determined by the staff's rank. The assessment of housing need was based mainly on the status of the household head in government. It did not have a direct link with the person's income or housing situation.

The higher rank and longer years of service, the better off is the civil servant, in terms of both the area entitled and monthly allowances. For example, a mayor's entitlement is much higher than a junior staff, representing a difference of as much as 13 times. Money for these subsidies came mainly from the government financial budget. They previously meant for and under the headings of, for example, housing maintenance and housing management. The money is now used as "Housing Allowance". Both the government and work units have to make contributions. The levels of subsidies would be reviewed and adjusted annually.

Recommendations

It seems that during the implementation of the HAS, the government has made great efforts in putting forward the scheme. However, the HAS is still facing many problems that policy makers may need to tackle, if they want to make it a success. These problems are - low affordability, lack of a second-hand market and the rental sector, and insufficient housing supply. The following are some recommendations for policy change.

1. Additional Financial Help

According to the HAS in Guangzhou, housing allowances are given in cash for a maximum period of 20 years. However, there are no controls over how to use the allowance. It is suggested that to ensure housing consumption, the government should make clear about the use of housing allowances. For example, at least 50% of the money given should be used on mortgage repayments. Though people in Guangzhou are getting richer, not all the people can afford the down payment, i.e., 30% of the property price. Therefore, along with the HAS, a down payment loan should be provided to individuals who lack the money to settle the down payment in full. To further help those in need, the mortgage interest rate may be set below the market level.

2. Second-hand Market

The government should gradually develop a second-hand residential property market. Households could buy and sell their housing units through the market. Without it, housing filtering is not possible. It could also in theory be able to offer an alternative for those with low affordability.

3. Mortgage Loans Market

A market for mortgages and mortgage-backed securities should be developed. It is able to help individuals on home purchase. In addition, more channels for housing loans should be provided (World Bank, 1992, p.132). Mortgage contract terms should be redesigned from 10 yearly installments to 20 - 25 yearly installments. By doing so, it is able to improve the affordability of the people.

4. More Investments

The government should seek more foreign investments to facilitate more housing developments. Capital from foreign investors is proved to be important and significant in housing development in Guangzhou. In March 1998, the People's Bank of China announced to release restrictions on the amount of loans to the Comfortable Housing Projects. The banks are now allowed to provide loans to development companies, if the development companies have 60% of the construction finance in hand (Sing Dao Daily News, 27 March 1998). This may help encourage participation of private developers in comfortable housing development.

Conclusions

Housing Reform in Southern China is in a right direction by steering away from the traditional allocation arrangement. There are now indications that people are in favor to buy their own houses. However, the housing markets in both Shenzhen and Guangzhou are still far from perfect. In order to increase affordability, proper supportive measures have to be taken. The above recommendations would complement the central government's effort to implement its policies for housing reform not only in Guangzhou and Shenzhen, but also in other major cities in China.

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