

Urban and Rural Housing Reform in China

By Gu Yunchang

BY April 1989, the total population in China was up to 1,100 million. Under the circumstances of such a heavy population, backward economy, and economic and social differences from one region to another, how to solve the housing problem for the Chinese is not only the matter of the great importance to the people of the whole country, but also a difficult problem before the Chinese Government.

The urban and rural structure of China is classified into the city, designated town, township and village, first two of which is called the city and town, the last two the township and village. By the end of 1989, the combined population of cities and towns in China was up to 200 million accounting for 18% of the total population of the country.

In cities and towns, 70% of the residential houses belong to the local government and other units, known as the public houses, and the other 30% are private houses, the vast majority of which are owned by citizens. In townships and villages, almost all the residential houses are owned by local citizens.

During the 10 years from 1979 to 1988, housing construction in China, following development of the economy, was greatly developed. By way of example, 1,240 million square metres (sq.m) of residential houses in towns and cities were completed within these ten years, or twice the total area of housing construction completed in the 30 years following the found-

ing of the People's Republic of China (1949-1978). Within these ten years from 1979 to 1988, 2.3 to 2.4 million households in cities and towns moved into the newly-completed residential houses annually, and five million households also in cities and towns improved with their residential conditions.

While undertaking large-scale housing construction, the Chinese government also pays great attention to the reform of the housing system in the cities and towns. The practices over the last 30 or 40 years have shown that the old housing system has greatly hampered solutions to the housing shortage in cities and towns, and has also affected the harmonious development of the economy and social life.

Urban and rural housing reform in China started with housing investment. In 1978, the state, in view of the inadequate investment for urban housing construction by the central government in the past 30 years, raised the policy that the central government, local government, enterprise, and private citizen should all bring their initiatives into urban housing construction. Such a reform transforms the urban housing construction from the single-investing structure to the pluralistic-investing structure, which made housing construction in China unprecedentedly developed. Since then, the investment for urban housing construction of the whole country has increased. For instance, the housing investment in 1979 was 97% higher than that of 1978 and in 1980, 62% higher than that of 1979. During the following eight

years, the housing investment maintained a stable increased level. According to the statistics, the investment for the urban and rural housing construction of China during the ten years from 1979 to 1988 accounted for 6.74% of GNP, out of which the housing investment for the urban citizens (18% of the total population of the country) made up 3.14% of GNP. That is to say, the proportion of this scale of investment was rather high, and the structure of the housing investment was changed. Although the absolute value of the housing investment from both central and local finances was less changed, the proportion of their investments for housing construction has dropped from 90% of the total to 15% - 18% and more investments from enterprises and individuals were made instead. The investment in housing construction from enterprises was particularly important, which accounted for 60 to 70% of the total housing investment of the country.

The reform of the urban and rural housing investment is still under further development, which is only one of the areas relating to housing reform in China. The urban and rural housing reform also consists of the housing distribution and its usage of right, housing rent, housing price for sale, housing management, housing maintenance, housing finances, real estate market, etc.

The urban and rural housing reform now under way in China is classified into two aspects: first, mobilizing the initiatives of citizens as well as encouraging, promot-

ing and organizing individuals to invest in housing construction or the purchase of housing and second improving the housing distribution system, changing the situation of the free-housing distribution in order to promote the reproduction of houses in a good circle.

For individual investments in housing construction, the major efforts have been made on the self-raise-finance and self-construction, individual construction and grant-in-aid by the government, and cooperative. The individual investments in housing constructions are rapidly developing in the small-sized and mid-sized cities because of the tradition of individual housing constructions, sufficient land for housing constructions, and the simple structure of houses. Now there are more than 100 housing cooperatives established in more than 30 cities all over the country, and over million sq.m have been completed by these cooperatives. In 1988, the housing construction areas financed from individual investments were over 40 million sq.m, which made up 30% of the total completed building areas that year, and also in 1988 the housing construction areas from individual investments were 16 times that of 1979.

The sale of public residential houses to individuals falls into two categories the newly completed house and the occupied house. The newly completed residential houses for individual buyers adopt with two prices - the market price and the preferential price, the former applying to the minority of high-income individuals and the latter to ordinary-income workers and citizens. A standard suite of the newly completed flat (preferential price) is equal to the total six-to-seven-income of an ordinary staff (worker). Generally speaking, the preferential price is only half of the market price. The pilot reform on encouragement of residents to buy their occupied houses is only found in some of the small-sized and mid-sized cities in China. The price of these occupied houses is much cheaper than that of the newly

completed residential houses as the residents already had their usage of right. From the statistics, during the period from 1981 to 1988, there were over 18 million sq.m of newly completed houses and 13 million sq.m of occupied houses sold to individuals.

The low rent system has been practised up to now in China, namely staff, workers and citizens provided with residential houses constructed by the government or enterprises pay a considerable lower rent (only about 1% of the total expenditure of a family) for the housing management and maintenance. The disadvantages of such a housing distribution system, without the payment and subsidies given to the management and maintenance, have been now realized extensively. The most serious one, however is that more and more burden has to be taken by the government or enterprises while residents are stimulated to possess more spaces of the house so that the gap between the housing supply and housing demand is sharpened. The Chinese government and citizens have come to realize that it is imperative, as part of housing reform to increase the housing rent. But there is much concern over the vital interests of citizens as they relate to a number of issues: the low-salary system now in practise in China, how to raise the housing rent, the range of the rent to be increased, whether to give subsidies or not, and how to make the relevant reforms on salary, commodity price, tax revenue, finance, etc., which leaves much comprehensive work to be done. Through the work of recent years on such a housing reform, several ways of increasing the housing rent have been practised in the different cities of the country as follows:

(1) "half-step-increase rent". 0.10 Yuan (RMB) per square meter/month (the occupied house) is increased by 1 - 5 times, which is close to covering the

housing management and housing maintenance. There is no subsidy under this "half-step-increase rent".

(2) "increase-rent with subsidy". 0.10 Yuan (RMB) per square meter/month (the public residential house) is increased to over 1.00 Yuan (RMB) while the subsidy is given. From one city, the increased rent is more or less equal to that of the subsidy given, which may restrain the excessive demand by residents for the house.

(3) "more increase-rent with less subsidy". While the rent is increased, the subsidy is given. But the subsidy is less than the rent increase, which reflects the principle that the government, enterprises and residents share the rent.

(4) "new house and new rent". The newly completed residential houses and unoccupied houses are paid by the new rent. The new rent of these houses is higher several times (up to over ten times) than that of the occupied house. This rent is generally paid by residents themselves.

(5) "interests taken to make up for the rent". Before the residents move into the public residential houses, they should hand in a certain amount of "rent cash deposit" (20.00 Yuan to 80.00 Yuan (RMB) per square meter). When the lease terminates, the "rent cash deposit" will be returned to residents from the housing authority alongwith the property right, but the interest earned on this deposit will not be included but rather used to cover the inadequate part of the low housing rent.

China is a country with over 10,000 cities and towns. There are great differences among these cities and towns because of the social, cultural and housing conditions. Under the general policy of the country, the housing reform among these cities

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Mr. Chairman, distinguished participants, Ladies and Gentlemen:

Once again, on behalf of Dr. Arcot Ramachandran, I wish this Seminar a successful outcome and share your hope that its deliberations will take this region a step further towards the stated objectives of the Global Strategy for Shelter to the Year 2000 as laid out by the United Nations. ■

This paper is adapted from a paper entitled "Housing Finance and the Global Strategy to the Year 2000" delivered by Mr. George S. Joseph at the Asia Pacific Federation of Housing Finance Institutions Conference in Bangkok in September.

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The paper concludes that the favourable tax treatment of housing assets is common to many OECD countries. While many housing tax expenditures have emerged as tax systems have evolved, rather than being specifically designed to encourage housing consumption or production, they have accorded favourable treatment to housing asset owners. In recent years, there has been growing concern about the impact of housing tax expenditures. While many of the adverse impacts of housing tax expenditures have created pressures for reform, governments have demonstrated an unwillingness to reform tax subsidy mechanisms fundamentally. In reviewing recent reform measures, there appear to be four objectives guiding reform -

- (a) Efforts to curb the cost of tax subsidies and reduce their progressivity
- (b) A willingness to use tax subsidies to encourage the maintenance and improvement of private housing.

(c) A wish to eliminate negative gearing in the private rental sector.

(d) The removal of tax privileges favouring specialist housing finance institutions.

It is concluded that such reforms will suppress but not eradicate the major adverse consequences of housing tax expenditures. ■

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and towns has proceeded in different ways, which is classified into the following three categories:

- (1) Starting with the "increase-rent with the subsidy, the housing funds have been established, which promotes citizens to buy their houses and build up their houses. This way of housing reform is found in the cities of Yantai, Bengbu, Tangshan, Chengdu, etc.
- (2) Starting with the preferential price for those occupied public houses, the housing funds have been established, which promotes the increase of the rent and encourages individuals investing for the housing construction. This way of housing reform is found in some small cities and towns such as Haicheng, Jinxian and Liaozhong in Liaoning Province, Dalad Banner in inner Mongolia Autonomous Region, and Runan in Henan province.
- (3) Starting with the newly completed residential houses to sell to individuals with the "new house and new rent", this housing distribution has given an impetus to the reform on the occupied residential houses. This way of the

housing reform is found in the big cities such as Beijing, Zhengzhou, etc.

The patterns and concrete methods of the housing reform are different from one city to another in China, but the aim of this housing reform within these cities and towns is the same: that is, to find the best solution to the housing shortage problem facing citizens, to reform the old housing system, and establish an appropriate new one.

This new housing system will further reflect "one guiding principle and two policies" as follows; one guiding principle is to rely upon the efforts and initiatives made from the central government, local government, enterprise and individuals to further promote housing construction.

Two policies are that the housing distribution without payment should be transformed into the paid-housing distribution by way of the rent-increase, and encouragement of individuals possessing their own houses will be made by way of organizing and promoting residents to invest in housing construction and purchase their own houses.

We firmly believe that the new housing system will be soon established in the cities and towns of China through our unremitting, firm and unshakable efforts, which realize our target that each family in every city and town will have its own inexpensive but substantial suite of the living space by the year 2000 in China. ■

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