



## Affordable Housing Provision in Urban China: A Solution for Whom?

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Access to adequate and secure housing is a basic human right. This requires government to play a role in housing provision to ensure basic housing needs, particularly for the most vulnerable social groups. In practice, however, tackling housing affordability and its associated social inequality problems has been a challenging task for governments in today's economic environment.

In China's case, a housing affordability crisis has emerged alongside its extraordinary economic boom and urbanisation since the late 1970s. In the early days of the People's Republic, housing was a form of welfare consumption. Under the principles of state socialism, work units (单位 *danwei*), as representatives of the state, took direct responsibility for the construction, distribution and management of housing for their employees. Although access to housing was generally guaranteed, public spending on housing over this period was constrained by a single-minded commitment to industrial growth, resulting in a housing shortage and poor living conditions across the country. Throughout the 1980s and 1990s, reforms to urban housing provision were considered indispensable to the transformation towards a market economy. Post-1998, with the gradual abolishment of the employment-based housing allocation system, the policy goal was to establish an owner-occupier dominated housing system through market provision. By 2004, as commercial housing development took off and real estate emerged as a key engine of China's urban economy, [housing prices began to skyrocket in cities](#). Concerns about an overheated housing market, affordability, and housing inequality loomed large.

### Unpacking China's housing affordability challenge

The complexity of China's housing affordability challenge can be summarised by three key issues: deep-rooted social inequality on the basis of urban-rural division; land financing and the local fiscal dilemma; and intergovernmental dynamics in social policy provision.

The introduction of the household registration (户口 *hukou*) system in 1958 has in many ways sown the seeds for China's current social inequality problems, including housing. Back in the days of China's command economy, such a policy measure to control people's movement was considered necessary. With access to basic daily necessities and public services such as health care and education inextricably linked to a person's birthplace, the *hukou* system reinforced urban-rural and regional disparities. Post-reform, while the gradual liberalisation of the labour market witnessed hundreds of millions of rural migrants finding their way to urban employment, *hukou* restrictions persisted in public service provision. When municipal governments claimed to have lifted people's living standards, the sub-standard rental conditions of many low-paid migrant workers were often overlooked, given their "non-*hukou*" status. Over the past decade, as the impact of soaring housing prices spilled over to the rental

market, driving up demand and prices, [housing inequality issues on the basis of this urban-rural division](#) have been exacerbated.

The controversy of land financing highlights the unique nature of China's urban housing problems. The historical milestone that set the stage for China's rapid urban expansion and booming real estate market was the urban land reform of 1988, in which cities were allowed to sell land-use rights to investors, while retaining public ownership. In essence, this land leasing policy is an [infrastructure-financing strategy](#), whereby Chinese municipalities have kick-started massive urban infrastructure development. The risk, however, lies in the fact that land financing in China also involves borrowing against the *future* value of land, relying on a continually booming property market for viability. Following [the 1994 tax-sharing reform](#), the reliance of local governments on land sales for public finance intensified, with land-leasing revenues spilling over to become part of the operating budget for service provision. As a result, the housing market was distorted and speculation ensued: between 2000 and 2010 house prices in Chinese cities rose by as much as 250%. A lack of alternative financial assets for China's growing middle class to invest in has also contributed to the explosion of housing demand.

The third critical aspect of China's affordable housing challenge is the complexity of institutional arrangements for social policy provision. The current intergovernmental fiscal system has essentially turned local governments into "land entrepreneurs", distorting their motivations for managing housing issues. Post-1998, while central government policies have promoted affordable housing as a key component of overall housing provision, city governments generally view these programs as costly, temporary, and resource-draining, often being reluctant to address housing inequality concerns. A common strategy is to impose strict criteria on applicants for affordable housing programs so that fewer needy households become eligible. The absence of a sufficient performance appraisal and supervision system for local government officials has further compounded these issues, making the public housing sector vulnerable to both [wasteful spending](#) and [exploitation](#). It was not until 2010 that provincial and municipal governments were required to sign [contracts with the Ministry of Housing and Construction](#) to deliver the targets pledged.

### **Government response: Toward adequate housing for all**

Acknowledging the risks of a housing bubble and its implications for socio-economic stability (and thereby the political legitimacy of China's party-state), in [2007](#) the central government reoriented its policy rhetoric from "enabling home-ownership" (住者有其屋 *zhuzhe you qiwu*) to "ensuring adequate housing for all" (住有所居 *zhu you suo ju*). Committed to addressing housing affordability issues, particularly for lower-income populations, the government kick-started a large-scale expansion of public housing.

Significantly, the housing issues of rural-to-urban migrant workers, who had long been excluded from social protection by their host cities, were for the first time directly addressed. While urging enterprises to take responsibility for ensuring and improving housing conditions for their migrant employees, the Public Rental Housing (公租房 *gongzu fang*) program, launched in 2010, also included the migrant population as potential beneficiaries of government rental assistance.

From 2008 to 2010, as a key component of China's [stimulus package \(4 trillion RMB\)](#) following the global financial crisis, about 400 billion RMB was directed towards various affordable housing programs, resulting in the delivery of 11 million new affordable housing units nationwide. In 2011, coinciding with the release of China's 12th Five-Year Plan (2011-2015), the new Xi-Li administration pledged an even

more ambitious target: to build 36 million new affordable housing units by the end of 2015. To achieve this, the central government's annual expenditure on affordable housing increased from 122.87 billion RMB in 2010 to 390.7 billion RMB in 2015. A total of nearly 40 million affordable housing units were constructed, with more than 70% completed within the five-year period.

However, these impressive figures notwithstanding, policy implementation has been far from a success. In fact, housing affordability and inequality challenges have persisted in most cities, if not intensified. During my recent fieldwork I observed some of these problems first-hand. In Guangzhou, the trading hub of southern China, block after block of affordable housing apartments sit vacant on the urban fringe, attracting little interest from needy populations due to poor accessibility and insufficient public facilities. In Shanghai, public rental projects have been largely taken over by a local talent-attraction strategy, where "employer sponsorship" and "high-skill qualification" have been introduced as a "quick-pass" for housing allocation. In contrast, a large number of low-income migrant workers remain excluded from government assistance, given their often unstable employment status. In Chongqing, the rising economic star of central China, although the city's affordable housing provision has been widely praised for its [social welfare-oriented inclusive approach](#) by targeting all under-housed populations regardless of their *hukou* or income status, the sustainability of its financing model, with a reliance on bank loans assured by local government (typically secured by future land sales), is yet to be tested at a time of economic downturn. There are glimmers that China's economic downturn may be opening an opportunity for a breakthrough. In Shenyang, a city in China's economically depressed northeast, the looming risk of a housing bubble is leading the government to use affordable housing provision to boost demand, with governments not only granting an allowance but also loosening borrowing restrictions to assist low-income households to purchase a home from the market.

China is at a crossroads in addressing its housing affordability challenge. The central government is committed to ensuring adequate housing for all. However, until the key issues discussed above are properly addressed, with a consolidated effort from both central and lower levels of government, problems will persist. Affordable housing provision may be a short-term solution to various economic issues, but ultimately the success of policy implementation has to be judged on its contribution to people's wellbeing. The extent to which the goal of adequate housing for all is achieved will shape social stability in the coming decades.