

Policies and Measures on Housing of Chinese Low-income Households

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Housing problems of low-income households have been attached much attention by Chinese Government who formulated series of policies to solve the housing problems and adopted different kinds of measures to ensure the implement of these policies. Chinese Government has launched many policies in succession, like Welfare Housing Project, affordable housing policy, low-rent housing policy, etc. since the Mid 1990s to try solving the housing problems of low-income households and has made great achievement.

Housing security system for urban moderate and low-income households is an important part of social security system and embodies the predominant function of the governments. State Council Document [1998] No.23 *Notice of the State Council on Further Deepening Urban Housing System Reform and Speeding Up Housing Construction* put forward to use different housing supply system for different income households, i.e. provide government- or organization-funded housing for the lowest income households at low rents, affordable housing for moderate and low income households at moderate price, and commodity housing for high-income households at market price.

Affordable housing and Welfare Housing Project are both common houses constructed to solve the housing problems of moderate and low-income employees. The distinction is that in Welfare Housing Project the houses are sold at cost price and its emphasis is put on households with housing difficulties of low-income households while affordable houses are sold to a great many moderate and low-income households at meager-profit price.

I. Welfare Housing Project

Welfare Housing Project has been performing since the mid-1990s. It is a way to solve the housing problems of moderate and low-income inhabitants accompanied with the function of regulating the housing market and income distribution. Housing System Reform Leading Group of the State Council formulated *Executive Plan for Welfare Housing Project* in 1995.

The *Plan* indicates definitely that the houses of Welfare Housing Project can be sold to moderate and low income households directly at cost price and should give priority to the households without home and the households with dangerous houses or housing difficulties, and under the equal conditions, the retired staff and workers and teachers with housing difficulties should take precedence but no high-income households are allowed to buy such houses. The standards for the floor space of each house are generally kept less than 55 square meters. The proportion of the houses with 2 bedrooms should be more than 60%.

The cost price of houses in Welfare Housing Project are constituted with 7 factors, i.e. land acquisition fee and compensation for demolition, survey, design and primary engineering fee, cost on construction and allocation, cost for construction of infrastructure facilities of housing districts, 1%~3% management cost, loan interest and tax.

The Welfare Housing Project has been in effect since 1995. The total finished area of Welfare Housing Project has reached 71.577 million square meters from 1995 to 1998.

State Planning Commission and People's Bank of China arrange the loan program of Welfare Housing Project within fixed assets load scale of that year and distribute these loans to each related special bank in time according to the current practice.

The cities in Welfare Housing Project provide the counterpart funds under the proportion of 4:6 between loan funds and counterpart funds of the state. The urban counterpart funds can be raised through housing fund provided by government, housing fund provided by employer, housing accumulation fund, advance receipts and other housing reform funds. The bank won't provide a loan without the counterpart funds well placed in total amount. The Welfare Housing Project conducts mortgage loan all and singular in order to ensure the turnover of these loans. And the lending rate follows the same period state rate (forbidden to float upward) that People's Bank of China specified with the longest duration of 3 years.

The urban housing reform of China has realized the historic change from welfare housing system to marketing system within the whole country since 1998. The Welfare Housing Project went under the general name of affordable housing in China after 1998.

II. Affordable Housing

Affordable housing refers to the commodity housing with the nature of social security

and has the features of economy and applicability. Economy means the housing price is moderate and affordable for moderate and low-income households compared with the market price. Applicability means the emphasis on the effect of housing utilization in housing design and building standard specification rather than lowering the building standard specification. It belongs to common housing constructed by the state government to solve the housing problems of moderate and low-income households.

The affordable housing can't be distributed unlimitedly in the society due to its nature of social security. The state government will not charge commission of land remise and will derate 50% for other chargeable expenses meanwhile lay limitation on transaction value, purchasers, floor space and profits of exploitation and construction organizations. The profits of exploitation and construction organizations are usually less than 3%. The trigger price of affordable housing consists of three parts, i.e. development cost, tax and profit.

The local governments are actively pushing the construction of affordable housing forward and have made the following prominent achievements:

- Meet the requirements of moderate and low-income households to purchase houses. The accumulative total floor space completed of affordable housing reached 477 million square meters in 1998-2003, which resolved the housing problems of over 6 million moderate and low-income households.
- Promote inhabitants' housing consumption. The accumulated outlay that inhabitants spent on purchasing and constructing affordable housing (including to collect funds for cooperative house-building) exceeded 500 billion RMB in 1998-2003.
- Optimize the market supply structure of real estate and stabilize the irrational increase of prices of commodity housing.
- Alleviate the conflicts between old city reconstruction and housing demolition. Over 30% affordable housing in Beijing, Qingdao, Nanchang, etc. are used to resettle the residents after demolition.
- Improve the city environment. Generally, the affordable housing has always been constructed in the urban and suburban connections. The governments organized the enterprises to operate with scale exploitation and complement construction, which improved the surrounding environment and urban function.

The construction funds of affordable housing are raised and collected through multi-sources according to the principle of the reasonable share among the governments, enterprises and individual. The main resources include:

1. The special appropriation and loan that are arranged by the financial institutions at all levels to be used in affordable housing construction.
2. The funds used in the affordable housing construction of the housing reform policy-related housing funds.
3. A proportion of funds from the income of paid utilization of urban land used in the city construction.
4. The construction loan of affordable housing that banks dispense.
5. The policy-related and commercial individual housing mortgage loan.
6. Individual funds to purchase houses (employees' wages, individual housing accumulation fund, housing subsidies, etc.).
7. Other funds.

III. Urban Low-Rent Housing

Administration Rules on Urban Low-rent Housing was issued in 1999. Urban low-rent housing means governments (unit) conduct social security function in housing field, providing rent subsidy or low-rent common housing that is of social security nature for the lowest income households with urban non-agricultural permanent residence permits and other special households that need guarantee.

Administration Rules on Low-rent Housing for Urban Lowest Income Households formally enforced on March 1, 2004 and worked out definite regulations on principles, applicants and standards.

1. Guaranteed level of low-rent housing for urban lowest income households should follow the principle of meeting basic housing need and be rationally determined according to local financial bearing ability and residents' housing conditions. In principle, guaranteed floor space of low-rent housing for urban lowest income households should not exceed 60% of local floor space per capita.
2. The guarantee method of low-rent housing for urban lowest income households should give priority to the distribution of housing rent subsidies with housing space and rent deduction as supplement.
3. The condition and standard of guaranteed residents of low-rent housing for urban

lowest income household should be established by city or county people's governments according to the local situation.

On the whole, the construction of China's low-rent housing system is still in an initial stage, the funds channel instable, the guarantee method imperfect, the coverage small, and the current policy falling short of the requirements of practical development.

After several years' exploration, Shanghai, Beijing and Chengdu etc. have formed a thought of establishing low-rent housing system with "rent subsidy as predominance and housing space as supplement", which is proved to be quite useful. Low-rent applicants who take housing rent subsidy must meet certain qualifications. For households whose income exceeds revenue standard for more than one year successively, the low-rent qualification can be cancelled to form effective exit system. Meanwhile, housing space mainly directs toward special groups such as orphaned, aged, disabled and ill people. Housing source is predominated by excavated and returned old public housing or purchased secondhand housing to avoid possible new problems caused by centralized construction of new low-rent housing.

Low-rent housing funds are mainly raised through the following channels:

- (1) Special funds of city or county financial budget;
- (2) Urban low-rent supplementary funds extracted as required from housing accumulation fund's value-added benefits;
- (3) Funds donated by the society.
- (4) Funds raised through other channels.

The funds of low-rent housing must be brought under housing guarantee fund, be entrusted to bank to be specially deposited and managed by special account, and be used for the raise of low-rent housing, distribution of subsidy, and the subsidy of low-rent housing's maintenance and administrative expenses.

4. Housing finance

As there are differences in economic development level, financial system, and political setup, etc. among different countries throughout the world, the housing finance models vary correspondingly to form different types of housing financial system. The followings are three typical ones:

- (1) U.S.A. housing financial system featuring developed housing mortgage loan market.
- (2) German housing financial system with the characteristics of voluntary housing savings and loan covenant;
- (3) Singapore public accumulation fund system -- obligatory saving plays an important role in housing financial system.

China's current housing financial system directing towards low-income households is principally housing public accumulation fund system. In addition, the establishment of bank system for housing savings has been under exploring.

1. Housing public accumulation fund system

China's housing accumulation fund system was firstly set up in Shanghai in 1991. On November 23, 1994, Ministry of Finance, Housing System Reform Leading Group of the State Council, People's Bank of China jointly issued *Provisional Regulations on the establishment of Housing Public Accumulation Fund*, emblemizing the establishment of housing public accumulation fund system in China.

Housing public accumulation fund refers to the long term housing savings deposited by state organs, state owned enterprises, urban collective enterprises, foreign-funded enterprises, urban private enterprises and other urban enterprises and public undertakings, as well as in-service workers. Housing public accumulation fund consists of two parts: the part that deducted from workers' wages and deposited every month as required; and the other part that deposited by units every month as required, which is the conversion part from housing space welfare distribution to wage currency distribution and is equal to workers' wages. Both the two parts fall to the workers' ownership, and housing accumulation fund are only used for workers to purchase house and are paid off and returned to workers at one time when workers leave office or retire.

The administration of housing public accumulation fund exercises the decision of housing public accumulation fund management committee, the operation of housing public accumulation fund administrative center, bank special account deposit, and the principle of financial supervision.

According to the latest statistical data, the nationwide total public accumulation fund is 501.6 billion RMB.

2. Housing savings bank

In December 2003, the first housing savings bank--Sino German Housing Savings Bank, which was established according to the operation model of international practice, started business and came into operation. This bank introduced housing savings products oriented toward individuals, the housing saving service featuring “deposit before loan, low interest rate for saving and loan, fixed interest rate, awarded consumption” which is quite flexible and convenient. The optimum loan annual interest rate that is about to be launched is 3.3%, which is the lowest one among various domestic individual housing loan rates. Fixed interest rate means that once the housing savings contract is signed, the customer’ saving and loan rates are fixed without being affected by the fluctuation of market rate.

In a word, the Chinese government has always been devoting itself to solving the housing problems of low-income households, and has adopted advanced experience of other countries to realize “Home Ownership Scheme”.