

Chapter 5

Corresponding Housing Policy

In recent years, in light of the new situation of accelerating housing price, the state has made appropriate macro-control readjustments in the relative policies concerning China's real estate market. This research briefly reviewed the framework of China's current housing policy. In particular, to discussing the three major programs that the Chinese government has developed to make housing more affordable for its citizens. In addition to developing these affordable housing programs, to address concerns about real estate bubbles and to stabilize the housing market. The Chinese government has also made significant efforts to develop its housing finance system from scratch. Thus housing policy chapter will also discuss China's housing finance system. It would be useful to review recent government efforts to regulate the housing finance sector.

5.1 The Transformation of China's Public Housing System

In 1998 the Chinese central government decided to take abrupt action to cut the link between work units and housing provision. Specifically, it issued A Notification from the State Council on Further Deepening the Reform of the Urban Housing System and Accelerating Housing Construction. This notice prohibited work units from building or buying new housing units for their employees. Instead, they would have to provide monetary subsidies to their employees to help them buy homes on the market. The 1998 reform was thus characterized as the monetization of the housing allocation system. The reform immediately followed the Asia Financial Crisis in 1997, which posed serious challenges to the Chinese economy. Due to the decline in the export industry, millions of Chinese workers were laid off from state-owned enterprises. It became obvious that China needed a new growth strategy that would stimulate domestic demand. With its tremendous pent-up demand, the housing industry was chosen as the new growth engine. On the other hand, the poor

performance of many state-owned enterprises during this period also made it clear that housing provision, along with other welfare responsibilities, had become a major liability to these enterprises and had thwarted their competitiveness in a global economy. As a result, the Chinese government decided that it was time to terminate the old system and switch from in-kind housing provision to a cash-based housing subsidy. The 1998 reform also calls for significant expansion of the three major housing programs.

5.2 China's Current Housing Policy Framework

This section will discuss China's current housing policy framework, with particular focus on three major affordable housing programs that the Chinese government has developed to improve housing affordability for its citizens. The programs are: the Economical and Comfortable Housing (ECH) Program, the Housing Provident Fund (HPF) Program, and the Cheap Rental Housing (CRH) Program.

5.2.1 Economical and Comfortable Housing (ECH)

The Chinese government created the ECH program, which has become a major source of affordable housing for urban families. The program aims to serve lower-middle- and middle-income urban families who may not be able to purchase market-rate housing. According to Di et al. (2008), ECH differs from both previous public housing and private housing initiatives in two ways. First, all the affordable units are developed for sale, not for rent, so that the government does not need to subsidize their operation. Second, most of the ECH units were built by for-profit real estate developers and sold to eligible families through market transactions. ECH relied heavily on the generosity of local governments, which provided most of the development subsidies (Rosen and Ross 2000). Local governments are expected to provide free or low-cost land to ECH developers as well as reduce or even waive various development fees and real estate taxes. In exchange, local governments regulated the sales price of ECH units, keeping the profit margin no larger than three percent. Nationwide, the prices of ECH units were usually 15 to 20 percent lower than market prices (Liu and Xie 2000).

5.2.2 Housing Provident Funds (HPF)

HPF is a compulsory housing saving program in which both employers and employees contribute a certain percentage of the employees' salaries, initially set at 5 percent, to HPF accounts administered by the China Construction Bank. In return, employees get low interest mortgage loans from the HPF for their home purchase. HPF has played a major role in facilitating the transformation of China's housing system. It allows work units to contribute a cash subsidy instead of directly building public housing units for their employees. Employees are then expected to purchase market housing using the HPF loans, along with their own financial resources and commercial mortgage loans. In addition to a home purchase, HPF can also be used for other housing-related activities such as home improvement, housing repairs and self construction (Zhang 2000). When the program was first created, it was offered only to public-sector employers. Since 2005, the program has required the participation of both the public and private sectors. Employers who do not participate have to pay a fine (State Council of People's Republic of China 2002).

5.2.3 Cheap Rental Housing (CRH)

A lot of China's housing reform has focused either on reducing the government burden or on promoting homeownership, with little attention to the housing needs of low-income renters. This is because China's housing policymaking has been driven as much by the need to promote economic growth as by the need to meet families' housing needs (Lee and Zhu 2006). Given increasing concerns about urban poverty and how it might threaten both social stability and economic prosperity, In 2004 the Chinese central government issued an order on Ways to Provide Cheap Rental Housing for the Poorest Urban Residents with the goal of strengthening the social rental housing system and renaming it the Cheap Rental Housing (CRH) program. In fact, the program asks for the combined use of both new production and rent subsidies. Unfortunately, while it urged local governments to establish the CRH program, the government order of 2004 did not dedicate funding for this purpose. Instead, local governments were asked to look for multiple funding resources. Yet the Chinese model is very interesting since it requires the central and local governments

to share such social welfare spending. Whether this model will success remains to be seen.

5.3 Recent Regulate the Housing Finance Sector

As analysts have been arguing there is a bubble in China's property market. Using records from 21 major cities this column finds evidence of a housing bubble. It compares sale house prices to cointegrated rental house prices and finds that risk property in China. So this research also discuss how the Chinese government has regulated its housing finance sector and what efforts it has made to address concerns about real estate bubbles and to stabilize the housing market.

There are several indications that the market might have overheated in recent years. In some cities, buyers are picked up by the seller in a lottery. The rapid increase in house prices trigger exuberant expectations and speculation. Some real-estate developers have started hoarding houses by delaying their sales hoping for higher profits. Due to higher-price expectations, families are stretching to pay prices at the edge of their means or beyond.

To dampen the evolution, The State Council has requested an increase in down payments on loans for second homes. Buyers looking to purchase a second home less than 90 square meters must make no less than a 50 percent down payment. The ratio for properties over 90 square meters is set at no less than 30 percent. Loans for the purchase of third homes have been temporarily stopped, as have loans to buyers from outside regions who cannot prove a year of local tax or social insurance payment. This is the first policy to regulate the purchasing of third homes. The measures come as an attempt to regulate and suppress the real estate speculation that many believe has distorted healthy market signals and driven prices sky-high.