



# Contradictions in China's affordable housing policy: Goals vs. structure



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## ABSTRACT

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Affordable housing  
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Though China has achieved great strides in improving housing provision, it is still plagued by a lack of affordable housing. Over the last two decades, China has launched several affordable housing programs to help low- and moderate-income households own or rent decent homes. However, critics argue that those programs increase housing inequality. This research analyzes the contradictions in China's affordable housing policy. Based on a comprehensive and critical assessment of the country's major affordable housing programs, this research finds that the division of powers, incentives, responsibilities, and revenue sources between the central government and local governments has worked against the state's affordable housing goals. This research also examines the innovations that the government has introduced to improve affordable housing policies in recent years.

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## Introduction

Over the past three decades, China has achieved great strides in improving urban housing provision. In urban areas, the average per capita living space in 2011 was 31.6 m<sup>2</sup>, compared to only 6.7 m<sup>2</sup> in 1978 and 18.7 m<sup>2</sup> in 1998 (Xinhua Net, 2011a). In 2012, China's rate of homeownership reached 85% in urban areas, far outstripping many other nations in the world (Gan, Yin, Jia, Xu, & Ma, 2012). Chinese cities, however, are still plagued by low levels of housing affordability. From 2003 through 2010, urban housing prices increased 115% nationwide (National Bureau of Statistics of China (NBSC), 2011; Fig. 1). Many large cities, including Beijing, Shanghai, Hangzhou, Shenzhen, and Xiamen, had housing price-to-income ratios that exceeded 10-to-1 in 2010 (Wu, Gyourko, & Deng, 2012). For low- and moderate-income households, housing affordability is an especially serious challenge. They need an effective affordable housing policy to help them secure adequate housing.

Before the 1980s, a private market in urban housing was practically non-existent in China. Under the socialist housing system, affordability had not become a challenge, but housing inequality had been a persistent problem. By the end of the 1980s, approximate 82% of urban residents lived in publicly-owned housing (Wang, 2011; Wang, Shao, Murie, & Cheng, 2012). Work units allocated housing to employees as a kind of welfare – tenants paid low rents as compensation for low wages. However, employees in inferior work units had no way of accessing high-quality housing units. During the 1980s and the 1990s, China enacted housing

privatization – selling housing units to sitting tenants at a discount. As work units dominated the housing provision system, sitting tenants who had occupied high-quality housing benefitted significantly from the public housing privatization, while sitting tenants in inferior housing benefitted slightly, and the unemployed did not benefit at all. Research has confirmed that low-income households suffered disproportionately during the process of housing privatization reform (Huang & Jiang, 2009; Logan, Fang, & Zhang, 2010).

In the 1990s, housing affordability became a challenge as the housing provision system shifted to a market-oriented one. To coincide with the housing reform, China launched two successive affordable housing programs in 1995 and 1998. Especially after the government cut the link between affordable housing provision and work units in 1998, more and more ordinary households had to rely on government-assisted affordable housing to solve their housing problems. However, critics observed that too large a portion of subsidized affordable housing units went to upper-income households rather than low-income ones.

From 2004 through 2010, affordable housing provision badly lagged behind market housing provision. Due to skyrocketing housing prices, low- and moderate-income households not only missed an opportunity for asset accumulation, but also faced an increasingly unaffordable housing market. Under these circumstances, housing affordability became such a pressing issue that it resulted in tremendous social discontent. Starting in 2010, the government put affordable housing issues back on the agenda as a way to maintain social stability.

Many factors help to explain why government policies failed to supply enough affordable housing, but the root cause is deeply embedded in the fragmentation of China's inter-governmental

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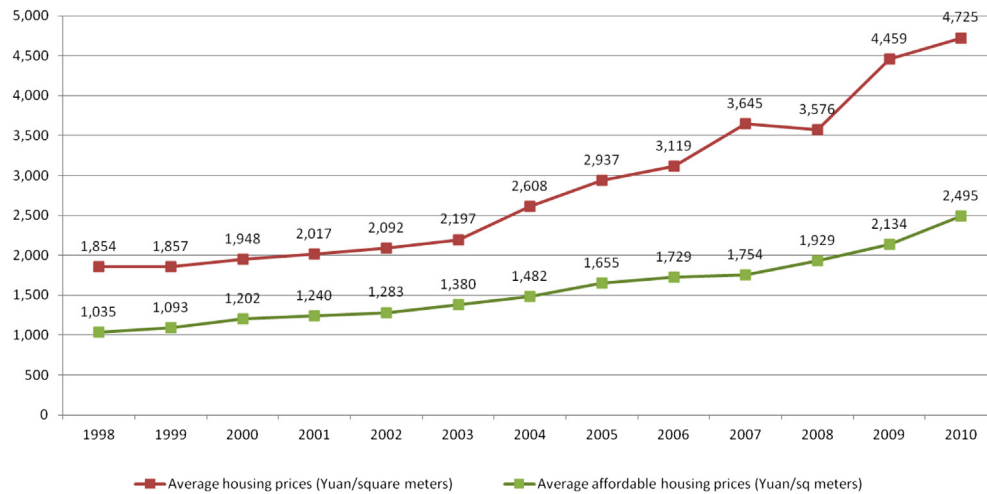


Fig. 1. Average housing prices and average affordable housing prices in China (1998–2010). (Data Source: China Statistical Yearbook 2011).

structure. Under the current political and fiscal structure, the division of powers, incentives, responsibilities, and revenue sources between the central government and local governments has worked against the state's goal of efficient and effective affordable housing provision.

There is a burgeoning literature that examines China's housing issues. Most researchers focus on how government policy has changed from the 1980s to the present (Deng, Shen, & Wang, 2011; Huang & Clark, 2002; Wang, 2011; Wang & Murie, 1999; Wang et al., 2012; Wu, 1996, 2001; Zhu, Deng, & Hu, 2009), analyze the unequal outcomes of housing reform (Huang & Jiang, 2009; Logan, Bian, & Bian, 1999; Logan et al., 2010), or examine how market forces of supply and demand have interacted to create shortages, bubbles, and other market conditions (Hou, 2010; Hui & Shen, 2006; Li, 2010; Wu et al., 2012; Zhang, 2000; Zheng & Kahn, 2008, 2012). However, few researchers have examined how inter-governmental structures have impacted affordable housing policies.

This research focuses on analyzing the contradictions in China's affordable housing policy and examining recent innovations that the government has introduced. The contribution of this paper is threefold. (1) It provides a comprehensive and critical assessment of all affordable housing programs so far. (2) It argues that the inter-governmental structures have become a barrier to affordable housing provision. (3) It examines what innovations the government has introduced to improve affordable housing policies in recent years.

The paper is organized as follows. The next section assesses the nation's affordable housing programs. Section 3 examines how China's inter-governmental structure has worked against national policies to increase affordable housing provision. Section 4 examines innovations in affordable housing policies, followed by a conclusion.

### Affordable housing programs in China: an assessment

Over the last two decades, China has launched some affordable housing programs, including the Peaceful Living Project (PLP) program, the Economic and Comfortable Housing (ECH) program, the Cheap-Rent Housing (CRH) program, the Price-Cap Housing (PCH) program, the Public Rent Housing (PRH) program, and the Social Housing program. Table 1 exhibits the periods, housing tenures, and target groups of different programs. In the early stages, the government treated its affordable housing program as a mechanism to support housing reform. Recently, affordable housing programs have played an increasingly significant role in the social welfare and social security systems. The early programs, such as PLP, ECH, and CRH, have been widely examined in the existing literature (Deng et al., 2011; Huang & Clark, 2002; Huang, 2012; Lee & Zhu, 2006; Li & Huang, 2006; Logan et al., 2010; Man, 2011; Rosen & Ross, 2000; Wang, 2000, 2001; Wang & Murie, 1999, 2000; Wu, 1996, 2001; Zhu et al., 2009). However, the study about the latest programs, such as PCH, PRH and the Social Housing program, is very limited. In this section, I focus on examining the latest programs, and briefly introduce the early programs for readers who are not familiar with the history of housing reform in China.

#### Peaceful Living Project (PLP, Anju Gongcheng)

Before the 1980s, the central government had been responsible for the majority of housing investment. During the 1980s, China decentralized the housing provision burden to local governments and work units. Policymakers intended to combine this decentralization with a move to privatize housing, accounting in 1988 that China would change the socialist housing allocation system,

Table 1  
Affordable housing programs in China.

Programs	Period	Housing tenure	Target groups
Peaceful Living Project (PLP)	1995–1998	Ownership	Low- and moderate-income households
Social Housing	1994–present	Rental	Very poor households
Cheap-Rent Housing (CRH)	1998–present	Ownership	Low- and moderate-income households (before 2007); Low-income households (after 2007)
Economic and Comfortable Housing (ECH)	2007–present	Ownership	Middle class who cannot afford market housing
Price-Cap Housing (PCH)	2010–present	Rental	Low- and moderate-income households; new employees, and eligible migrants in some cities
Public Rent Housing (PRH)			

(Source: Compiled by the author; Huang, 2012)

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