



# The allocation and misallocation of economic housing in Beijing: Target groups versus market forces



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## ABSTRACT

Commencing in the 1990s, market reforms, high rates of urban growth and dissolution of public-subsidized housing created cumulatively a speculative property boom in Beijing. Economic housing was meant to provide affordable housing to low and middle income residents. But with the state earnest in using property market to promote GDP growth, political commitments were weakened and resources allocated went scarce. Non-target middle class “free riders” were also let into economic housing by developers to generate higher profit. The paper investigates the causes of misallocation of economic housing in Beijing. A housing survey was conducted to look into the competing interests in two starkly contrasted economic housing clusters — inner city resettlement and middle-class neighbourhoods. This paper aims to address the importance of balancing the growth-led policy with social equity and redistribution of public resources. An excessive emphasis of the former would deprive the latter of social justice and more equitable distribution. Short-term and longer term solutions are proposed.

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## 1. Introduction

In China towards the late 1990s, the newly introduced economic housing had met with competing demands following pro-market reforms and dismantling of subsidized housing for public servants and employees of state enterprises. By its very basic principle, economic housing was meant to be “affordable, secure and practical” designated for low and middle income families. It should be a modest multi-level apartment building constructed by state enterprises with small profit margins, and land and housing cost would be capped low enough for the target groups. Yet, several forces emerging at that historical juncture had deviated economic housing from moving towards its set target groups: fast rising land and property prices and municipal governments relying on land revenues as a main source to finance their booming city projects (He & Wu, 2007; Hsing, 2010).

Indeed, as economic housing is often seen by public authorities as a trade-off to public revenues, it has widely experienced problems of underinvestment and low efficiency in management. Consequently, genuine low-income qualified applicants have great

difficulties in accessing it (Huang, 2012; Zou, 2014). In Beijing, the advent of privatization reforms of *danwei*<sup>1</sup> housing and profit-led public-private partnership made the allocation of economic housing, presumably the most affordable scheme, quite confusing. Earlier, when *danwei* housing was privatized in late 1990s and sold to public servant tenants at a nominal rate, not all however were given that opportunity. Thus, besides having to accommodate the rest equitably, there was also a large number of inner city residents who had lost their residence during massive renewal projects. Under this political urgency, whether economic housing should be purely targeted at low and middle income groups and also a low-priced public asset transferable to the old *danwei* residents and those dispossessed in the renewal process became a heated debate between the “rightful” and “unlawful” claimants.

At the time of a booming property market and strong demand, liberalized market forces had also exerted tremendous pressure on

<sup>1</sup> Prior to the reforms, *danwei* was the dominant institution and urban workplace in the public-oriented and distributive economy. *Danweis* acted as state agencies in cities, responsible for the subsistence, political life and social welfare (e.g. housing, medical care, kindergarten and entertainments) for their respective employees (Lu & Perry, 1997). The public authorities accountable for welfare-based rental housing allocation included the central government departments, municipal governments, state-owned enterprises and other public institutions.

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housing production and distribution, characterized by developers' pursuit for high profit.<sup>2</sup> Consequently, power of allocation and distribution became an instrument to make additional gain by taking in high income groups into economic housing (Meng, 2004; News.Dichan.Sina, 2011).

This paper investigates the “operating theatre” in which conflicts between the qualified and the non-qualified of economic housing were at stake. It aims to shed light on the *modus operandi* in the allocation of economic housing impacted by the above-cited factors, using Beijing as a case. To help interpret the findings of the study, an explanatory framework is set by addressing a few relevant questions, which are: a) who were the actual beneficiaries and why?; b) what were the causes of misallocation to those who were not real target groups?; and c) why did the Beijing poor lose out in the allocation process?

This study will first make a policy review under which lies the *modus operandi* of economic housing distribution and the power process. To provide a better understanding of this process, a housing survey was conducted in 2011 on two differentiated types of economic housing neighbourhoods — resettlement neighbourhoods with low-income resettlers and middle-class neighbourhoods with a high proportion of managerial and professional level middle-class. Finally, short-term and longer term solutions are brought up in response to the economic housing dilemma in Beijing.

## 2. Economic housing programs in Beijing: a review and assessment

### 2.1. Official interpretations and designated target groups

By virtue of the State Council's Document No. 23 of 1998, state housing provision to state employees was formally ended. As a replacement, economic housing schemes were created with an aim to increase homeownership by setting their prices around 40 per cent lower than the commercial housing and a low profit margin capped at three per cent for developers. With public support, economic housing was to absorb 70 to 80 per cent of urban residents who would enjoy a 70-year lease period. Owners were entitled to sell their units in the open market after a five-year residency period (State Council, 1998; Wang, 2001). Contradictorily, the State Council issued a substantively different decree in 2003 to encourage the real estate industry to promote economic growth (State Council, 2003), which implicitly covered economic housing schemes. Since then, the property market has been made part of the state-directed growth-led development path, generating substantial revenues for city governments (Lin, 2010). The results saw public housing including economic housing being sidelined and its social welfare component significantly lost.

The 2003 State Council decree was followed by a series of action plans which broadened the scope of economic housing, as a low-capitalized asset, to absorb: a) state *danwei* employees; b) low- and middle-income families; and c) resettlement for uprooted inner-city residents. While qualified applicants must be those with Beijing *hukou*<sup>3</sup> status, each category of supply would have its own

management and each was moved into respective differentiated schemes (see Fig. 1).

### 2.2. Actual beneficiaries: the qualified and unqualified beneficiaries

As said earlier, the allocation process was twisted in practice from preset principles. Though officially classified as “affordable housing”, Beijing's economic housing has benefited upper-income groups with stronger purchasing power, rather than low-income groups. Multiple factors have been attributable to misallocation in an immature housing market emerging since the 1980s.

The first was the direct transfer of power in building capacity within state authorities. Following the termination of *danwei* welfare housing provision in 1998, some powerful state units/enterprises sought to establish themselves as developers for their employees as well as for the free market, an undertaking which may be called “collective collusive action” by using their own public land and assets for such purpose (Liu, 2000: 367–371). Records show that during the late 1990s Beijing's *danweis* built almost half of the economic housing, and they were also the largest buyer (above 60 per cent) in housing market (Kuang, 2003: 127). Their “share for all” practices benefited not only a large group of low-rank and low-salary state workers, but also the cadres and upper-income groups.

Secondly, public-private partnership deployed by *danweis* and municipal authorities in managing economic housing projects has given both developers and local governments incentives to promote sales and seek cost cutting measures. This partnership has also unlocked the small profit margin set earlier as a welfare-based control measure. The middle-class with stronger purchasing power, rather than the urban poor, are naturally deemed to be more reliable buyers. In response to their demand, economic housing apartment sizes were increased, among others, to 120–140 square metres. Fewer small units of 60 square metres targeted at the very low income earners were built (see Baidubaik, 2014; Meng, 2004: 121). The middle-class buyers thus became “free-riders” in Beijing's economic housing market.

Thirdly, among the three diversified economic housing suppliers (see Fig. 1), only the resettlement housing aimed at ordinary families with limited financial resources. Resettled inner-city residents are mostly laid-off or unemployed former state workers, a typical group of ‘poverty of transition’ created by institutional and urban spatial change (Wu, 2004b, 2007). Here, economic housing acts as a carrier moving inner-city *hukou* residents to more inferior locations with poorly equipped amenities in the city fringe, while non-*hukou* migrants are denied compensations and resettlement rights.

Table 1 shows the overall picture of demolished units and economic housing constructed in Beijing during the period 2000–2010. It also shows the weakening commitment towards economic housing, falling from 7.3 per cent to 1.7 per cent of the total real estate investment against a rising floor area demolished over the decade. A sharp fall took effect from 2006 after the State Council's announcement in 2003 that all real estate industry ought to promote economic growth (Deng, 2005; State Council, 2003). As economic housing is a low-income housing scheme and is seen as a great drain on public finance and municipal funds in Beijing, it is greatly underfunded (Huang, 2012). As a result of underinvestment and under-provision, Beijing's economic housing has turned into a “scarce” semi-public product.

The next section will examine how some uprooted residents have been denied resettlement rights in the midst of mismanagement, rent-seeking and property speculative activities. Results show that low-income groups not only had to wait for several years to get resettled but also many would end up empty-handed.

<sup>2</sup> By 2013, Beijing's economic housing was priced above 10,000 yuan per square metre, far exceeding the affordability of the low- and middle-income groups (Caixun, 2013). In early 2013, 1 US dollar was equivalent to 6.28 Chinese yuan.

<sup>3</sup> *Hukou* system is a residency permit system that separates the rural population from urban population, and the local population from the non-local. It is generally acknowledged that the *hukou* system confers a wide range of welfare benefits and rights on the urban population, while denying them to the rural population. A migrant worker has the right to work in the city with a temporary residency permit renewable every one or two years subject to employment evidence. The migrants maintain their non-local residency status and enjoy practically quite few welfare benefits in the host city (Wang, 2005).

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