

Sustainable Affordable Housing Provisions for Young Urban Households in Chinese Cities  
Teck Hong Tan, Sunway University

Author Note

Correspondence concerning this article should be addressed to Teck Hong Tan, Sunway University, 5, Jalan Universiti, Bandar Sunway, 46150, Petaling Jaya, Selangor, Malaysia. E-mail: [waltert@sunway.edu.my](mailto:waltert@sunway.edu.my); [waltertanth@gmail.com](mailto:waltertanth@gmail.com)

**Abstract**

The rate of homeownership in Chinese cities increased from less than 20% in the 1980s to 82% in 2007. However, such a high rate mainly resulted from the welfare housing policy which was abolished in 1998. In recent years, it has become much more difficult to become a homeowner in China, particularly for the 1980s generation who neither could qualify for public rental housing units nor afford private houses for self-use in urban areas. The sharp hike in housing prices in the past few years in Chinese cities has made homeownership a great challenge to lower income groups. The purpose of this paper is to discuss the challenges of promoting homeownership among young urban households. This paper also offers suggestions regarding sustainable housing provision for them.

**Keywords:** homeownership, young urban households, housing reform, Chinese cities

## **Sustainable Affordable Housing Provisions for Young Urban Households in Chinese Cities**

According to Tan (2011), housing is a human right and a basic need that must have priority. Housing is not a homogeneous good as compared to other goods such as food, or clothing, but is composed of thousands of households in different locations. Housing provision is one of the major challenges faced by many developing countries, and China is not an exception. Despite efforts by the Chinese government to promote homeownership, an enormous number of issues relating to the housing delivery system still exist that have undermined the success of housing reform for the past 30 years.

Over the years, housing provision has always been an important agenda for the Chinese government because it is a visible output where the development can be seen. This in turn creates jobs and generates taxes and wages that positively influence the quality of life (Sheng & Fang, 1999; Kim, 2004). Furthermore, the property industry is a significant sector of the high growth of the Chinese economy, contributing more than 5% growth to its GDP since 2008 (National Bureau of Statistics of China, 2008). Buying a house has a powerful consumption multiplier (Leung, 2004). The economic impact of housing does not end when a home is sold and the new house owner moves in. In fact, through activities such as furnishing, decoration, renovation, repairs, home appliances, or landscaping, housing continues to be an economic force long after the sale is closed (Tan, 2008). Macroeconomic modeling in the United States suggests that the consumption multiplier is between 1.34 and 1.62 in the first year or two after the purchase of a new home (Tan, 2010a).

The efficiency and effectiveness of the housing delivery system requires sustainable housing provision for all. It has become much more difficult to become a homeowner in China (Yang, 2010). In addition to low income groups, disadvantaged groups may include young Chinese households in urban area aged between 25 and 34 years. The housing needs of this age group will continue to increase because young households, who were born after the 1980s, have started to form their own families. Generally, the proportions in the age group 25-29 and 30-34 years old constitute an important and active segment of the population in terms of household formation (Saw, 2007).

With prices of houses at an all-time high, especially in Chinese cities, the environment has become difficult for young urban homebuyers born after 1980 to own property. Most of them have problems financing the purchase of homes without the help of their parents or relatives. In fact, most of young urban families are getting married without owning a house. 'Naked marriage' is a rising phenomenon and has become a social problem in China (Xu, 2013). This social disparity could become a source of discord among the younger generation. In the face of the high cost of living and inflated property prices, the government should pay more attention to ensure young urban households have a roof over their heads.

Given the sharp hike in housing prices in the past few years, the government, however, has taken measures to curb speculative activities in the housing market. The recent government intervention has made homeownership a great challenge to young urban households who neither qualify for public rental housing units nor are able to afford commodity housing for own use in Chinese cities. In an effort to meet basic housing need for low and middle income groups, housing policies and programs must be formulated to ensure that all Chinese have access to adequate housing. In the 1994 reform, the Chinese government created the

Economical and Comfortable Housing program (ECH: *Jingji Shiyong Fang*) as part of the housing supply system. This program has become a major source of affordable housing as the Chinese government is committed to building the ECH as part of its effort to satisfy 80% of Chinese households in urban centers (Deng, Shen, & Wang, 2011). Furthermore, the ECH program has to become an important social agenda to address the steep housing prices and rising cost of living if societies are to continue to be functional and sustainable. Since the ECH should be made available to the majority of urban Chinese households, this paper only focuses on the affordable housing provision issue. High cost housing and rental housing are not examined in this paper. This paper is undertaken to study the cloud of issues relating to affordable housing available for young urban households in China.

## **Methods**

This research draws data and information from a variety of statistical yearbooks, literature, reports, and property news to discuss sustainable affordable housing provision in China. A review on the housing delivery system in the context of China is conducted. The aim of this paper is to address the following questions: how successful is the Chinese government in meeting the housing need of most young urban households? If not successful, what are possible ways to achieve sustainable housing provision in the country? In order to answer these questions, this paper is organized as follows. The paper will first look at the development of China's housing reform for the past 30 years to give the necessary background of housing problems in China. This investigation will be followed by the discussion of issues regarding homeownership for young urban households. The third section will examine China's affordable housing program to determine how effectively the Economic and Comfortable Housing Program (ECH) has been used to promote homeownership. Next, this paper will highlight possible recommendations for the homeownership program with

regard to the concept of sustainable housing provision. The final section of this paper presents conclusions.

### **Housing Development in China**

Homeownership is beneficial not only to households but also societies (Cummings, DiPasquale, & Kahn, 2002; Dietz & Haurin, 2003; Tan, 2010b). Benefits of homeownership to both owners and society can be found in many housing studies, ranging from social benefits to economic benefits. Haurin, Parcel and Haurin (2002) and Tan (2008) prove that homeownership improves the home environment in which a child lives, improves the child's cognitive ability, and reduces behavior problems. Balfour and Smith (1996) and Rossi and Weber (1996) both point out that homeownership increases household members' self-esteem and life satisfaction. Increased parental self-esteem has resulted in a greater emotional support for the homeowners' children. Green and White (1997) also find that children of homeowners stay in school longer than children of renters. Tan (2009) and Tan (2012) confirm that a higher rate of homeownership is often thought to promote neighborhood stability. Glaeser and Sacerdote (2000) support their views as homeownership creates incentives for homeowners to improve the quality of their communities and also to improve homeowners' connection to their neighbors. From a financial perspective, it has become important to consider homeownership as an investment for which homeowners will receive an attractive and positive financial return. Besides the financial return, owning a house has proved to be an effective instrument to hedge against inflation as compare to other assets (Tan, 2008).

The rate of homeownership in China increased from less than 20% in the 1980s to 82% in 2007 (Huang, 2004; Huang & Yi, 2011). However, such a high homeownership rate was due

to the welfare housing policy which abolished in 1998. China's public housing system was traditionally characterized by a centrally planned welfare system. Under the welfare system, houses were allocated to the employees who worked in state-owned enterprises (work units). Employees were only required to pay a nominal rent. The old housing distribution system, however, failed to provide adequate housing for all because the rent received was not sufficient to cover the maintenance cost of public housing stock. The Chinese government decided to stop the welfare system and implemented a market-oriented reform by allowing households who had access to public rental housing to purchase their units at subsidized prices starting from the 1980s. At the same time, the Chinese government gradually increased the rent for urban households who could not purchase highly subsidized units. However, this reform was not well received by most households as they could not afford to buy the houses owing to their low salaries. Furthermore, the work units are still actively involved in the housing distribution as part of their responsibilities (Deng et al., 2011).

The establishment of a functional housing market only came in 1994 when the government decided to advance the entire housing process of production, distribution, and consumption (Zhao & Bourassa, 2003; Huang & Yi, 2011). For example, different types of housing are supplied to the market. High income urban households would purchase commodity housing from the market, while middle and low income households would purchase subsidized affordable housing through various affordable housing programs such as the Economical and Comfortable Housing Program (ECH). The government also established a housing finance system in which households could get either unsubsidized mortgage loans by commercial banks or subsidized mortgage loans through a compulsory housing provident fund (HPF). HPF is a mandatory housing saving program in which employees and employers both

contribute a certain percentage of employees' salaries to HPF accounts (Zhao & Bourassa, 2003; Deng, Zheng, & Ling, 2005).

The Chinese government continued its effort to privatize the housing system by introducing the concept of full and partial property right. As stipulated in China's constitution, the transfer and circulation of land ownership by private households is prohibited. With the recent housing reform, homebuyers can purchase a 70-year land-use right for residential purposes. Homebuyers who purchased previously public housing at market prices are entitled to full property rights, which include right of occupancy, right to dispose through resale, and right to transfer the property to others. But, they have only partial right if they purchased previously public housing or private housing at subsidized prices (Hou, 2010).

The objectives behind all these initiatives, however, were not fully accomplished. Chinese households have been accustomed to the old system of housing allocation. Instead of buying units from the market, they continued to rely on their work units for housing allocation by purchasing units at discounted prices (Wang & Murie, 1996). This purchase behavior has significantly distorted the functioning of the market mechanism in both housing production and consumption. In 1998, the Chinese government decided to cut the link between work units and housing provision. Work units were not allowed to buy housing units in the market for their employees, but contributed either through cash-based housing subsidies or cash contributions to the HPF to assist home ownership. In an effort to improve housing affordability by supplying quality affordable housing in urban areas, the Chinese government proposed to expand the ECH program which was introduced in 1994 to target low and middle income groups to acquire their homes. For migrant households who suffer from housing poverty, the social rental housing sector was developed to cater to their housing needs.

## **Challenges of Promoting Homeownership for Young Urban Households**

The market-oriented reform in 1998 completely changed the role of work units in housing provision. One of the great achievements of the housing reform was the transformation of homeownership from collective ownership to private ownership. According to the report in the National Bureau of Statistics of China (2004), the change in the purchased housing units in terms of the total floor area has increased extraordinarily from 287 million square meters in 1991 to 946 million square meters in 2003.

Despite efforts by the Chinese government to provide adequate and accessible houses to all levels of society, the market-oriented reform has contributed to the problem of housing and income inequality (Ye, Song, & Tian, 2010). Mainly low and middle income groups do not qualify for public rental housing units and cannot afford commodity housing in the market. As a result, home purchase is a distant dream for buyers whose income barely exceeds the ceiling for application for public rental housing.

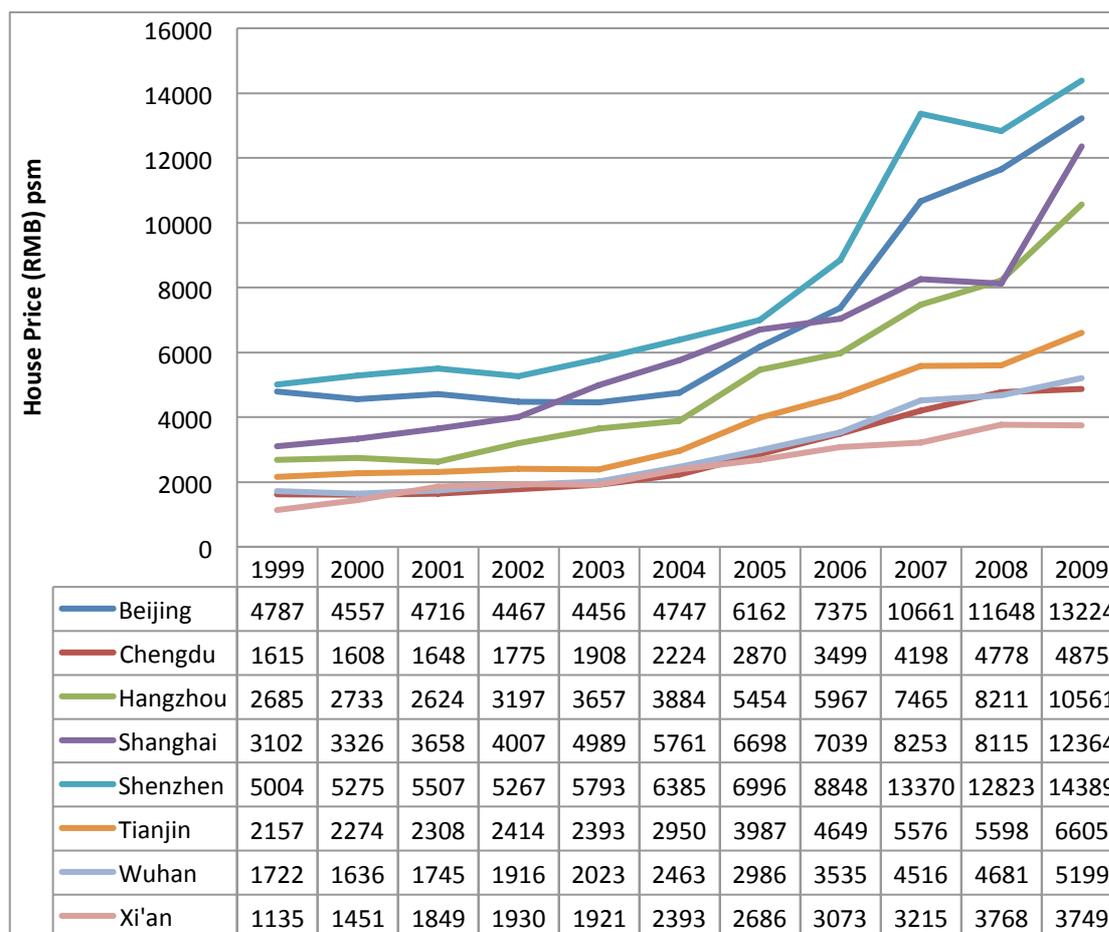
In recent times, it has been a stretch for the average Chinese to purchase a house. Rising house price pressures appear to be a significant challenge to the efforts to increase homeownership among young urban households with comparatively lower income. For example, the average housing prices increased by 176% in Beijing, 299% in Shanghai, 293% in Hangzhou, 188% in Shenzhen, and 230% in Xi'an in the period between 1999 and 2009 (National Bureaus of Statistics of China, 2010). Figure 1 shows house prices across eight major cities in China.

One of the main factors contributing to the high prices of houses in Chinese cities is the strong urbanization development in China (Ye et al., 2010). Fast urbanization has caused the

urban population to increase during the last decades. In 1980 the population residing in the urban centers numbered 19.4% as against 80.6% in the rural area. Since then, a pronounced shift in the population between these two areas has occurred, with respective proportions moving towards 26.4% and 73.6% in 1990 and 36.2% and 63.8% in 2000 (Figure 2). According to the latest census conducted in 2009, the population living in the urban area had increased to 46.6%, while the number in the rural areas stood at 53.4% (National Bureau of Statistics of China 2010).

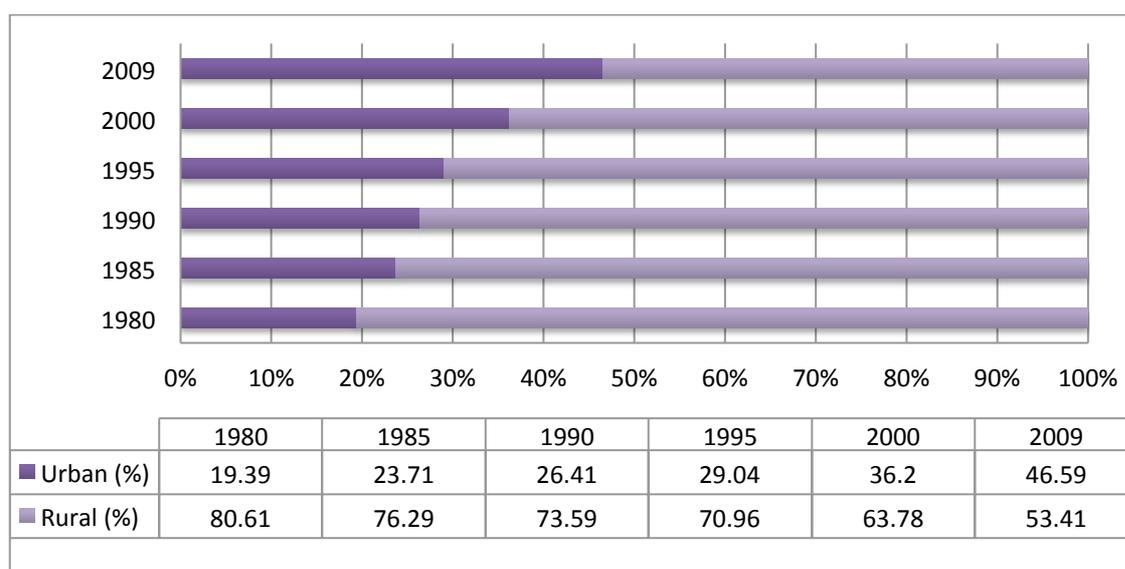
The rapid increase in the urban population throughout these years can be traced partly to the movement of people from the rural sector to the urban conurbation and partly to the relocation of small town dwellers to the bigger cities. This urbanization trend, a common worldwide phenomenon, has been exerting intense pressures in the urban conurbations with regard to meeting the essential needs of the dwellers, particularly housing (Wang, Wang, & Bramley, 2005).

**Figure 1: House Prices (RMB per square meter) in Eight Major Chinese Cities**



Source: National Bureau of Statistics of China (2010)

**Figure 2: Urban and Rural Population Proportion in Percentage (1980 – 2009)**



Source: National Bureau of Statistics of China (2010)

With the rapid urbanization process, the land supply area has decreased in most Chinese cities. This has resulted in the expectation of the decrease of land supply in the future. The decreasing land supply has a significant negative effect on home prices (Yu, 2010). As pointed out by Mengjie, Reed and Hao (2008), the estimated growth in land prices is almost an eight-fold increase since 2003. Another contributing factor to the land price is due to the land lease policy (Deng et al., 2011). In China, the state government has completely monopolized the land supply. Lands for residential and commercial use can only be transferred through bidding, auctioning, and listing if housing developers would like to undertake housing development projects. Long before 2002, land leases were normally conducted in a closed door manner. This type of the closed-door negotiation, however, was easily susceptible to corruption and lack of transparency in land deals. As a result, the government terminated the transfer of land through closed-door negotiations. As shown in Table 1, the ratio of the land leased by tendering, auction and listing went up from less than 17% in 2002 to 45% in 2008.

**Table 1: Types of Land Lease (Total Transaction)**

Year	Land Area Leased (Total)	By Tendering	By Auction	By Listing	Percentage of Land Leased by Tendering, Auction and Listing
1999	99,017	2,682	12,643	-	15
2000	108,846	3,357	15,875	-	18
2001	170,157	4,509	20,426	-	15
2002	242,763	8,270	24,901	5,726	16
2003	207,387	3,067	18,499	28,440	24
2004	184,850	1,540	14,540	30,659	25
2005	162,112	1,542	13,495	29,433	27
2006	186,667	953	12,724	32,057	25
2007	160,404	884	10,190	39,582	32
2008	123,358	1,074	10,085	44,106	45

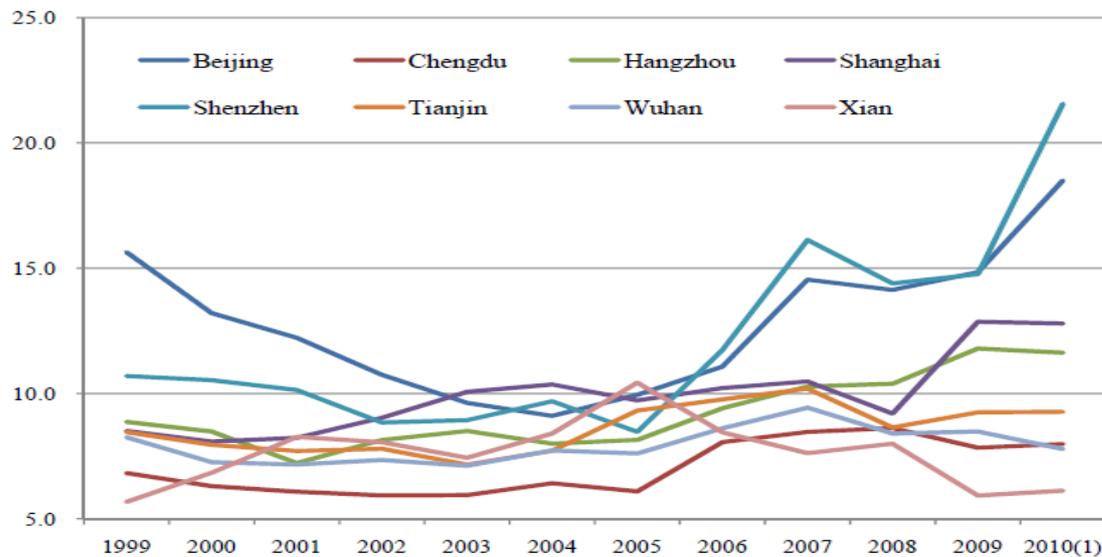
*Source: Ye et al. (2010)*

Although the income of the average household in urban areas is increasing, it appears that house prices have been rising at a faster rate, causing an affordability problem. Homebuyers are believed to encounter housing affordability problems when they are required to pay a large portion of their income to achieve adequate levels of housing. The house price to the median annual household income ratio constitutes the most commonly used affordability benchmark (Tan, 2011; Peattie, 1987; Mengjie et al., 2008). It is commonly accepted that a desirable Price-to-Income Ratio (PIR) ranges between 3 to 6. This ratio depends on individual cities and their actual locations. If the ratio is above 6, it has surpassed the general affordability for one to own a house.

Although China's housing reform has enhanced the efficiency of the housing delivery system, it has also created increasingly unaffordable housing prices. Over the past few years, house price appreciation has outpaced the high income growth in urban areas (Hou, 2010; Ye et al., 2010). The most recent data show price-to-income ratios have reached their highest levels ever in Chinese cities. As shown in Figure 3, PIR in Shenzhen, Beijing, Shanghai and Hangzhou are above 10, indicating the mismatch between income and prices is considered one of the biggest obstacles to increasing homeownership among young urban first-time homebuyers.

Although state-owned work units are not allowed to build and buy directly for their employees, they continue to play a significant role in their employees' housing consumption by taking land and housing development projects. Some of the housing developers in China come under cooperative housing development that is supported by state-owned work units (Wang et al., 2005). These work units were interested in setting up a subordinate real estate development company because it could easily raise the start-up capital to finance the housing development projects for their employees through a pre-sale process (Wang et al., 2005). Due to the strong link between work units and local government, these state-owned work units' (SOE) developers could acquire land easily through free allocation or purchase at very low costs from the local government. Many of those spin-off development companies have later grown into large private housing developers in China (Zhao & Bourassa, 2003; Wang et al., 2005).

**Figure 3: Price to Income Ratio in Eight Major Chinese Cities**



Source: Wu et al., (2010)

Affordability conditions in Chinese cities are highly related to SOE developers' involvement in land bidding. As mentioned earlier, the Chinese government has completely monopolized the land supply, and the housing market was not recognized on the basis of private land ownership. All urban lands for residential and commercial use could only be transferred through bidding, auction, and listing. SOE developers generally paid the highest prices to win the tender. As reported by Wu et al (2010), the average price of land parcel by the winning SOE developers was 2.7 times higher than the average price of land parcel by non-SOE developers. The involvement of state-owned work units in the housing delivery in Chinese cities is very common, particularly Beijing (Huang, 2004). This has distorted house prices by basing work units on their ability to pay more than urban households. The continuous participation of work units, in fact, has resulted in the increasing housing inequality in China, and this could be a major cause of low homeownership among the low income urban families.

## **Affordable Housing Programs in China**

Rising house prices are evident in the property market around the world. In less than a decade, house prices have increased to levels that are out of the reach of the lower income group. This seems to be the situation faced by many countries in different continents of the world today (Kim, 2012). During such time, more affirmative policies need to be undertaken by the government to help young urban households overcome the difficult and challenging times. As mentioned earlier, the Chinese government started to expand the housing supply system to improve housing availability for its urban dwellers by offering various types of housing schemes, such as commodity housing, the Economic and Comfortable Housing Program (ECH), and public renting housing (subsidized renting housing). Private housing by housing developers sold at market price is often called commodity housing, which offers house buyers full property right. ECH, on the other hand, are built to serve lower-middle and middle-income urban households who may not be able to purchase commodity housing (Yang, 2010). Affordable houses are developed by private housing developers with the support by local government in terms of development subsidies (Yang & Yue, 2008). In the case of Beijing, private housing developers can become involved in the provision of affordable housing by either acquiring the housing contracts in special projects, or turning the second-hand market housing into affordable housing (Ye et al., 2010).

The price of ECH is controlled and regulated by the local government in the following ways: (a) free or low-cost government land for development, (b) no administrative and development charges, (c) waiver of half of real estate taxes and (d) keeping developer's profits at no more than 3% of the development cost (Niu, 2008). There are no significant differences between ECH and private commodity housing in terms of housing characteristics such as location, period of construction, housing size, number of rooms and plot ratio (Pan, 2003). The only

difference is the average price of affordable housing, which is 40% to 50% lower than the average market price for all housing units (Deng et al., 2011).

Although affordable houses are built to help middle and lower-middle income groups, these houses still remain out of reach for the targeted group. Due to the lax and ineffective enforcement of qualifying households into the ECH scheme, a lot of affordable house are frequently sold to families who can afford commodity housing instead of families who genuinely need help for basic housing. It is known that the qualifying requirements of the affordable housing program are different for many cities. As highlighted by Ye et al (2010), the qualifying standards for purchasing economical and amenable housing in Beijing include the following: (a) homebuyers have to be local residents who have more than 5 years of registered residency in the city, (2) total assets limit, (3) age requirements, and (4) per capita living space below prescribed standard.

Because of a lack of investment options in China, affordable housing has become an investment tool for some high-income Chinese (Yang, 2010; Mengjie et al., 2008). Despite three decades of housing reform, people's political power continues to be important factor in determining housing consumption. In some cases, high-income households with high political status who are in resourceful work units as well as have party membership are more likely to easily purchase affordable housing than those with no rank or party membership (Zhao & Bourassa, 2003). This demonstrates that the delivery of affordable housing in Chinese cities is problematic since affordable housing often ends up in the hand of the unintended beneficiaries.

Similar to the problem of enforcing the qualifying criteria, the development standard of affordable housing in terms of built-up area has been an issue for the government to supply adequate housing to meet the housing needs of urban families. Housing developers are generally inclined to build affordable housing by raising the built-up areas and quality living space to attract the rich. The intended and targeted beneficiaries, on the other hand, are not able to buy an average affordable home as these houses became larger and more luxurious even though there is no increase in the price per square meter (Duda, Zhang, & Dong, 2005). This has resulted in the disparity between the stated objective and the actual outcomes of the affordable housing programs.

Furthermore, the supply of ECH declined significantly over the past few years. This could be due to the adjustment made by the government to control the land supply as well as the low profits of constructing affordable houses. These factors could dampen the housing developers' interest in participating in the affordable housing programs (Kou & Shu, 2007). Private property developers have been giving low priority to the affordable housing program, which fall below the targeted level. The proportion of affordable houses in total supply has never exceeded 25%. It only accounted for less than 10% of the total housing supply for the period of 2004 – 2006 (Niu, 2008). The share dropped even lower to less than 5% in 2007 (Deng et al., 2011). Another contributing factor to low supply of ECH is that most local governments are reluctant to support ECH program as they have to bear most of the subsidy cost (Deng et al., 2011).

### **Promoting Homeownership among Young Urban Households**

The Chinese government should look into sustainable ways to provide affordable housing to cater to the needs of young urban households. To ensure this noble measure gets off on the

right footing, it should be planned based on a long-term and holistic approach. Furthermore, there is a need for sustainable social housing policies that are capable of complementing the market-oriented housing market. If these sustainable policies are well planned and executed, the affordable housing will turn out to be among the best efforts in improving the quality of life and encouraging homeownership among low-income first-time homebuyers in China. Furthermore, these policies are able to stabilize housing prices by increasing supply on one hand and increasing social housing for the low income groups on the other (Lim, 1987).

### **Affordable Housing Financing**

Homeownership requires affordable financing (Quercia, McCarthy, & Wachter, 2003). In light of rising house prices in the urban areas, the government should make home financing more available and more affordable. This can be achieved by providing incentives in terms of lower minimum down payments and mortgage rates to first-time homebuyers who do not afford commodity housing in the market. Housing incentive is a central issue in the housing policy for the lower income group. The public housing policy in Singapore constitutes a good example. This policy prices the 3-room flat to the affordability level of 90% of Singaporean households (Tan, 2008). This substantial financial incentive represents a major commitment by the government, and is an important aspect of the Singapore housing policy to improve living condition of the lower income households.

Recently, the Chinese government has increasingly tightened controls on the housing market in an effort to rein in sky-high house prices. The government has introduced a series of tightening measures to cool the property market with the focus switching to existing homebuyers from the supply of new housing coming on the market. However, these tightening measures could prevent low-income first-time homebuyers from owning their own

homes. For example, first-time homebuyers in China are being hit with tightening measures such as higher minimum down payments and mortgage rates. As reported by Zhou (2011), Chinese banks have raised minimum down payments on first homes ranging from 30% to 40% and controlled home loan amounts. Furthermore, the banks have stopped offering discounts on mortgage loans for first-time homebuyers by raising mortgages rates for first home purchases by 5% to 10% above the benchmark lending rate. Chinese banks used to offer first homebuyers a 15% discount on the lowest mortgage rate.

Efforts are needed to make home financing more available and affordable by providing incentives to young urban households. Policies are developed to cheapen the cost of homeownership through financial assistance with down payment and mortgage interest payments. The Chinese government should consider the experience of the affordable housing scheme in Malaysia as an effort to improve housing affordability by supplying houses for first-time homebuyers. In the case of Malaysia, the government has recently announced My First Home Scheme which is targeted at first-time homebuyers earning RM 5,000 (1US = RM3) and less per month to acquire apartment units costing from RM 100,000 to RM 400,000 (Tan, 2013). This scheme also allows 100% financing for first-time homebuyers. The government subsequently launched the 1 Malaysia People's Housing Scheme (PR1MA) later. This scheme, which is an addition to the My First Home Scheme, will only focus on apartment units priced between RM 220,000 and RM 300,000 being built for first-time buyers with a household income of RM 6,000 per month. Under this scheme, eligible buyers can apply for a loan of up to 105% from financial institutions with a 30-year payment scheme. The extra 5% from the loan is to assist the homebuyers in paying for the cost of insurance and legal aspects of the purchase.

## **Housing Provident Fund (HPF)**

The government should make home financing more available and affordable by fully developing alternative home financing, such as Housing Provident Fund (HPF) to meet the housing needs of young urban households. As pointed by Tan (2008), the housing provident fund appears to be an important determinant of homeownership. Similar to the Employee Provident Fund (EPF) in Malaysia and Central Provident Fund (CPF) in Singapore, China's HPF is an obligatory housing saving program in which employers and employees both are required to contribute a certain percentage of employees' salaries to HPF accounts. As stipulated in the guideline for HPF, the minimum contribution ratio imposed by the central government is 5%. In addition to the withdrawal of HPF savings, employees can borrow low interest mortgage loans from HPF to finance home purchase, improvement, or construction. The interest rate is usually one percentage point lower than conventional loans due to the fact that there is a strong local government intervention in this type of mortgage.

Although Chinese households could withdraw HPF to buy, build, or improve their homes, the actual beneficiary pool is only a small number of employees. Since the HPF contribution is tied to salary, only employees with higher incomes receive larger contributions from their employers. In the case of low income employees, they receive either less or no contribution owing to the lower-end of the income distribution which may discourage them from applying for HPF loans. It is reasonable to believe that it has been difficult for low-income families to apply for HPF loans as the majority of them could not take advantage of HPF loans. According to Deng et al (2011), the ratio of loan beneficiaries is only 25% on the national level.

In order to increase HPF support to low-income families, the central and local governments should explore ways to increase the contribution from first-time homebuyers' employers. The central government has laid down the minimum requirement of 5%, but the contribution ratio is different from many cities. Some employees may not even receive 5% of their salaries in places other than Beijing or Shanghai (Deng et al., 2011).

Another contributor to low participation rate from employees is the approval process of HPF loans. As compare to conventional mortgages, HPF loans generally have the complicated procedure and stricter underlying criteria in getting approval from the HPF management centre of local government (Yang, 2010). In this case, the local government should liberalize and simplify the withdrawal process. As such, rules and regulations of HPF withdrawal, particularly documentations submitted for the application, need to be relaxed in order to enhance the efficiency of the withdrawal system. Also, a better HPF withdrawal information system is required to facilitate the approval process.

### **Affordable Housing Provision**

The rate of rural-urban migration for the past 30 years has caused the growing demand for affordable housing. However, housing developers in China are not keen to produce houses at prices which are affordable enough for homebuyers. It is partly due to the fact that the increased compliance and regulatory costs relate to the whole value chain of housing production (Mengjie et al., 2008). The central government is aiming to increase a record 36 million units of affordable housing in the coming years to cover 20% of China's housing market. However, most housing developers claim that their profit margins will shrink to a range of 3% to 8% down if they build affordable housing (The Star, 2011).

In order to achieve sustainable affordable housing provision, the local government should provide incentives in terms of preferential treatments to attract self-funded housing developer to undertake the ECH program. Furthermore, the government should look into ways to help ease the housing developers' burden caused by rising construction costs and land prices in urban areas. It is important for the local government to work together with housing developers to build affordable housing. Instead of leaving the responsibility to build these homes to housing developers, it should be a joint initiative between the local governments and housing developers. Since land matters in China fall under the jurisdiction of local governments, it is advisable that local governments provide and allocate enough parcels of land for the projects, while the developers provide their expertise.

Affordable housing provision requires a collaborative effort from different parties. As indicated earlier, local governments are generally not interested in supporting the program as these housing developments generate little fiscal revenue for them. In this case, the central government should explore ways to support the local governments who are actively involved in the provision of ECH. There is a need for the central government to provide preferential treatment to local governments for the production of ECH. These treatments come in the form of tax incentives, facilitation of funds, and development subsidies. These incentives could become another source of budgetary revenue for local governments. All the while, the local governments heavily depend on the land revenue from the auction. In this aspect, the local governments are more likely to commit to tightening policies to contain further house price increases if they are able to reduce dependence on land auctions as a crucial budgetary revenue source.

While pricing the property affordably is one of the main objectives of the government, there should not be any compromise on the quality of affordable low-income houses. It is also vital to ensure that these houses are accessible to good public transportation facilities and are close to public amenities such as retailing centers, hospital and education facilities. This is because the lower income group is most dependent on these amenities to improve their standard of living. There is insufficient space within the city to house all urban dwellers. Therefore, it is important to plan and undertake well-connected residential housing development projects in the suburban areas to avoid the centralization of economic activities in the few core areas. This sustainable planning is needed in order to keep up with the rapid urbanization and rising housing needs of inhabitants. There is a need to have a well-integrated public transportation system to facilitate travel between the city suburbs and the city centre. As pointed by Tan (2012), affordable housing should be built and equipped with good amenities. Therefore, housing developers should develop areas near the public transport system for affordable housing in order to address rising house prices in urban areas so house prices in the city suburbs are not way above the affordability of young urban first-time homebuyers.

### **Stringent Enforcement of Housing Delivery System**

In addition to efforts by the government to promote homeownership among first-time homebuyers, the government has to be very careful to ensure that only the deserving first-time homebuyers benefit from affordable houses. China's housing reform policies have benefited some socially and economically advantaged groups. Nevertheless, it aggravates the economic polarization between the rich and the poor. The delivery of affordable housing has been susceptible to abuse as many people buying up several units for profit (Huang and Yi, 2011). Therefore, stringent enforcement of the regulation of qualifying households into the affordable housing program in terms of the eligibility and the development standard is needed

to prevent affordable houses ending up in the hands of homebuyers who want to make quick profits. Additionally, first-time homebuyers should not be allowed to sell their homes on the market for profit within the first few years in the hope that this type of housing only benefits homebuyers who need help for basic housing need. Furthermore, a detailed and comprehensive housing information system is needed in the country to allocate affordable housing and monitor its consumption. This system is crucial to prevent speculative buying among investors moving from one city to another.

The Chinese government should also enact strict laws and regulations for the real estate market. At present, China's legal system for real estate is inadequate and immature, and the government usually makes only temporary provisions such as regulations, notices, and government documents. The Chinese government needs to enact an appropriate legal system for the real estate market, and make full use of the market mechanism rather than administrative order to regulate the housing market.

## **Conclusion**

Homeownership is an important objective in the China's social and economic development programs. However, this objective is especially tough for Chinese households, whose income increases have in no way kept pace with house price inflation since 2005. The scale of house price appreciation has become a source of widespread popular discontent among homeowners. Despite efforts by the Chinese government, there are various issues relating to housing provisions that have undermined the success of housing achievement for urban families. Even though the Chinese government started the housing reform in the 1980s, they should now work tirelessly in various capacities towards improving the housing delivery system.

Property developers in China have been giving low priority to the affordable housing program, which falls below the targeted level. The construction of high-end housing, on the other hand, has contributed to the problem of double digit vacancy rates. In order to achieve sustainable housing provision, housing policies and programs should be economically viable, socially acceptable, and technically feasible (Choguill, 2008). Housing policies based on sustainability criteria – meeting basic housing needs – must be viewed as a necessity (Tan, 2011).

One way to address the housing needs of urban households in China is to increase the supply of basic and affordable housing units. It is important for China to raise the supply of ECH. Affordable housing is regarded as a public duty, not a commercial operation, and the government's housing policy is to sell homes to the people at prices they can afford. The sale of affordable housing needs to be expedited to ensure that those who are eligible will be provided houses that they can buy. In this regard, more stringent and appropriate policy guidelines of the sale of affordable housing must be drawn up to facilitate the implementation of the sale of affordable housing to urban families.

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