

Towards Efficient Market

Strategies on China Urban Housing Market

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Introduction

In 1978, China began to perform the economic reform. From then on, the national economy has changed greatly from the planning economy to the market economy. Housing reform is one of the economy reforms. The traditional welfare housing system is not fit the demand of the market economy. The housing market needs to open to the society. From the early 1980s, China been to perform the housing reform at some small area. Now, Nearly 20 years has passed. The China housing market has emerged and developed. But it is still at the first stage. There are many problems need to solve.

Under traditional urban housing system, there was no housing market, or no legal market. The traditional housing system is that the employer built the houses then rent them to the employees. The fund came from the government. Since the salary of employees did not include the housing cost, the rent was at a low level, almost nothing. The housing is a kind of welfare to the employees. After housing reform, the basic market for housing has been established. The investment subject has change from only the government to government, employers and people.

With the proceed of economic reform, the people's living condition has improved. The people's need has changed from the basic psychological need to the high non-psychological need. To have a better housing has come into the people's need. Yet, it is impossible for only the government and employers to fit such a high and large need. But the people's investment to the housing both for the ownership and usership is still very low. To some degree, it is the low efficient housing market makes it difficult for them to invest. An efficient housing market is badly needed.

The present condition of the housing market is far from the efficiency. The hosing finance is at a primary stage. It has very strict loan requirement that keeps the common people away. The housing supply does not fit the people's need. When people looked for houses, it is difficult for them to find the fit house. The housing information is limited. All the participants of the market, including the seller, buyer, mediator and the government can not have enough information. Such a low efficient

housing market has affected the housing transaction both for sell and rent.

Therefore an efficient housing market need to be established. The development of the market needs the support from all t he participants. This paper tries to focus on the problems the housing market faced, and tries to provide some proposals for the housing market development.

Background

Basic Information

China is a large country in the East Asia. From 1949, the People's Republic of China performed the planning economy all around the country. Such economy system seriously constricts the economic development. From 1978, the economic reform began to perform. The economy system began to change from the planning economy to the market economy.

During the 20 years economy reform, there have been many great changes in China. The primary market economy system has been established. The people's income has increased. At present, the poor people with annual household income below 5,000 RMB¹ is only 4 percent of the whole urban population; the low -income people with the income between 5,000-10,000 RMB is 34 percent; the middle-income people with the income 10,000 to 30,000 RMB is 55 percent; the high-income people with the income 30,000 to 50,000 RMB is 6 percent; and the rich people with annual household income above 50,000 RMB is 1 percent. The overall living condition has much improved.

Housing Reform

During the period of planning economy, the government provided and supported all the housing. But during that time, there was a policy - first produce then consume. This policy meant that little fund could be used in the housing area. Therefore, the *people's living* condition is quite poor. In 1949, the living area per person was 4.5

¹ 1 USD = 8.0 RMB

m², but in 1978, this figure dropped to 3.6 m². In addition, most of the housing has been out of the condition.

The traditional housing system was established at the context of planning economy. It had two identified characters.

- Almost all housing is public low rent housing
- Housing assignment is by the means of house instead of money.

In such system, the employer funded by the government supplied almost all the new houses. The housing maintain was provided by both the government and employers. In the *meantime*, the employee's salary is low, not including the housing cost. The consequence is that no rebuild fund come from the stock housing.

From 1978, with the economy reform, China came into a fast growing period. The living condition needs to improve. But the traditional housing system can not fit the need. On the one side, the government does not have enough funds to build new houses; on the other side, the maintenance of the stock housing is too heavy. Only depending on the government to improve the living condition has been impossible. More people should be involved in this area. Therefore, housing system needs to reform.

Housing reform came into consideration in 1980. Since it relates to huge changes in the assign area, and involves in the benefit of every urban resident, it is difficult to perform. It was not until 1987 did that the central government issue the formal file about the housing reform. It took a very long time to *prepare*, and it is performed very slowly. But it really has improved the living condition of *people*. In 1993, the living area per person has increased to 7.5 m², and in 1998, it has been 8.8 m².

The housing reform opens the housing market to the society. Anybody can invest in the housing area. New housing system *encourages private* investment, and promotes the housing commercialisation.

The investment diversity

In middle 1980-s, the housing development companies began to come up. The source of *development fund* changes from only the government to include the other source. The government, employers and the developers became the main subject of the housing development. With the diversity of the *development fund* and with the housing reform later, the sources of investment changed from only the government to both the government and the *employer*, and then to all the government, the employer and people. People began to have their own houses or rent a house at the market.

Public stock housing sale

The direct method to increase the housing fund and to reduce the maintenance fund for the public stock housing is the sale of the public stock housing. The public stock housing is usually sold to their tenants. It is sold at a lower price. The price is called the housing reform cost (HRC). It is little lower than the construction cost. Such price including subsidies from the government.

Therefore, each household only can buy one house and the house does not have *exclusive ownership*. Such house only can come into the market five years later after purchase. By 1997, about the 50 percent of the city households have bought their public house. Such house is called reformed house.

Public housing rent

A method to *reduce the* maintenance fund and encourage people to buy the public houses is to increase the rent of the public stock housing. Increasing the public housing rent is one of main policies in the housing reform. At the early stage of the housing reform, the rent is at a quite low level, far lower than the maintenance. With such a low rent, the housing maintenance has become a huge burden to the government and the employer. To increase the rent can relieve the burden to some degree.

In addition, with such a low rent, it would be very difficult for the public stock housing to *commercialise*. The rent raise will help the people to make a decision to buy their own house and help the sale of public stock housing.

Housing public fund

Housing public fund (HPF) is another policy in China. It focuses on the finance of the housing commercialisation.

HPF is collected through the employment. The *employees each* will have a HPF account. They will submit 5 to 10 *percent of* their salary to the HPF account through their employer every month. In the meantime, employer, will also submit same amount to the account for the employee. To some degree, it is a kind of subsidies from the employer to the employee.

HPF is reserved as the fund to help the low -income housing construction and aid the *employees to* buy house. When the employees want to build or buy a house, they can get loan at a relatively low rate. When the employment stop, all amount of HPF at the employee's account will be return to him/her.

New house

In order to reduce the amount of public stock house, the new houses are applied to new policy. The new houses refer to the new buildings that just have been completed and the old buildings that have just become vacant.

To such new houses, the policy is that only sale not rent, first sale then rent, and new house new rent. This is to say that the people who want to buy the house have the propriety. Some houses are only for sale; some houses are both for sale and rent, the sale prior to the rent. When the house is for rent, the rent must be new rent that can be close to the maintenance cost.

Housing Market

The housing market develops with the housing reform. Before the housing reform, almost all of the houses are belong to the country. At that time, no market or legal market existed.

Main Characters

Housing type

Before the housing reform, all the urban housing is the public low rent housing. After the investment diversity, some new kinds of housing come up. They are can be classified into two catalogues.

- The commercial housing.
- The low-income housing

The commercial housing is developed by the housing developer It is the real market housing. Anyone can buy or rent the house from the market. This kind of housing is usually targeted to the high -income people. They usually work at a high rank in the private area, such as the private companies and the co-venture companies. Their salaries are high enough to include the housing cost.

The low-income housing has the subsidies from the government and the employer. Usually, the land usership is free, the infrastructure cost and the taxes and fees are low. This kind of housing focuses on the low -income people. With the little difference of the target group, it still can be divided into four sorts of housing. The poorest housing The well -living housing The common fund housing The economic suitable housing

The poorest housing came up at the early stage of the low-income housing development. It targeted to the poorest. First, only the poorest households living in less than 2 m² per person were qualified to buy such house, then with the improvement of the living condition, the requirement lowered to 3 m², then 4 m². The poorest housing aims to improve the living condition in a short time, therefore such houses are only a shelter. The poorest housing development almost has been stopped.

The well-living housing targeted to the low-middle income people in the city. Most of them are the employees in the public area, state-owned companies and low rank employees in private area. They are usually called common people. The fund for the well-living housing is included in the construction loan budget of the government, 40 percent from the central government and 60 percent from the municipality. The buyers can have loan from the HPF, with 40 percent down payment and a ten-year repay term. Since the construction is constrained by the budget, and there is a very strict requirement to the city's qualification to build such house, very few such houses are built.

The fund of the common fund housing comes from the employer and employees. Usually, they share the cost half and half. By this way, the employers can partly relieve of the pressure on providing the house for the employee. Recent years, many housing constructed by the employer is through this way, especially the housing for the young people. The young people are usually the main workers in the company, but they are at the end of the waiting list just because they are young. So from housing reform, many housing is constructed in this way. Such kind of housing also has the benefit from the government.

A new low-income housing called economic suitable housing has been performed in some area. It faces to all

the common people, and is not restricted by the financial budget.

The catalogue of housing market

We can classify the housing market by the right exchanged at the market. There are three kinds of housing markets.

- Public housing exchange market
- Housing sale market
- Housing rent market

The public housing exchange market bases on the traditional housing system. At this market, people only exchange the right to rent public house.

At the first stage of the housing reform, the exchange is between the similar valuation house. At that time, the money for the difference is forbidden. Then with the indepth of housing reform, the exchange between different valuation house, with the money for the difference, is allowed. At fact, this market is second-hand lease market.

Housing sale market includes the commercial housing sale market and low -income housing sale market. The commercial housing sale market is the market for the commercial housing. They are sold at the market cost, including the land cost, the infrastructure cost, construction cost, some fees and taxes, and profit. In addition, since the low efficiency of housing market, the development risk is quite high, so the return must be high. Therefore, this kind of housing has a relatively high price.

Low- income housing sale market is different from the commercial housing sale market. The poorest housing, the well-living housing, the common fund housing, the economic suitable housing and even the reformed housing all belong to this market. The buyers are the poor or low-middle income people. The house can get subsidies from the government. The price is lower than at the commercial market. The ownership that the buyer gets is not the whole right. It is limited. It usually has time limitation. After purchase, the house can come into the housing market only five years later.

The price of the poorest housing is lower than the construction cost. The price of well-living housing, the common fund housing and the reform housing is at the construction cost, not including the land usership cost and some infrastructure cost which will be supported by the government. All these housing forbid the buyer to sell the houses within five years after they bought the house. There is no definite restriction to the economic suitable house; it is a new comer to the low-income housing.

After passing the time limitation, and submit the land usership cost, the reformed housing and low -income housing can come into the commercial housing market for sale.

The housing rent market includes private housing rent market and the public housing rent market. The rent at the private housing rent market is the market rent. At present, since the investment return of the rent housing is not as soon to receive as that of the sale housing, very few investors in private area to supply such housing. Most of the supply at the commercial market is the low-

income housing having passing the time limitation and some illegal rent of public housing.

The public rent housing includes the new developed low-rent housing and the public stock housing. The rent is quite low. The transfer of such housing is forbidden. At fact, such housing supply and demand are not the market behaviour, since such housing attract some demand from the market, it also need be take into consideration when we talk the market.

Housing finance

The housing finance has existed in China. People can loan from the commercial bank or from the HPF. The load from the bank usually requires 30 percent down payment, ten percent fixed deposit in the bank, and loan term no more than ten years.

The loan from the HPF has more restriction. It requires the loaner must participate in the HPF, the loan is usually no more than 30 percent of the payment, and the repay term is no more than 10 years.

Market service

The housing agents are active in the market. Some large companies deal with the commercial housing. The small agent focuses on the second-hand housing. The fee usually is very high even if the exchange does not happen. The staff usually has little knowledge on the finance, contract, structure and land.

From 1995, the real estate appraisal system began to set up. In 1995, the first examination for real estate appraiser was held, about 3,000 people passed, then became the registered real estate appraiser. From now on, more than 10,000 people have become the registered real estate appraiser. Only the registered real estate appraiser can participate in the housing evaluation. They worked in the appraisal company. The project that the appraiser can take is based on the grade of the company. Such grade is decided most on the number of the appraiser working in the company.

The housing information service has made a great progress in the recent years. From 1997, the real estate yearbook has published every year. From 1998, the real estate index has begun to announce on the main newspaper and magazine every month.

We would say, the primary structure of the housing market has been set up. But we must notice that there are many problems still existed at the housing market.

Main Problems

Low **effective demand** 20 years economic reform has increased the income of the common people. Advanced commodity has come into the common household, including the most advanced the electronic, such as TV, refrigerator, air-conditioner and computer. But the consumption of the housing is relatively low. The living condition can not fit the modern living style.

For example, the air-conditioner has been an ordinary consumption. Most people can afford it, but not most houses can hold it. The houses completed a few years ago and the house for the low-income people did not

take the air-conditioner into consideration in design. The electricity can not afford such big facilities.

Living condition needs to change. The dream to have a good house has come into the common people's life. This forms the huge demand for the better house. But this is only a potential demand. It is still a long way to turn into the effective demand.

Considering the demand, it is determined by the want and the purchase power. When the people want to have a house and they have the purchase power to have a house, the effective demand comes up. There are some factors that can directly influence the people's purchase want and purchase power.

- The traditional housing concept
- Housing reform
- Salary
- Second hand housing market
- Society security

In the traditional housing concept, people do not need to have their own house, and they can live in the public house with low rent. Such concept seriously constricts the people's want to invest in the housing. Although the deadline to stop the welfare housing has been announced to be at the end of year 1998. People are still in the waiting to see what would happen at last. The slow of the housing reform also give the people the hope to wait for the welfare housing. The housing reform is very slow. The rent reform has been carried out for many years, but the rent is still quite low. The goal of the housing rent increase is that the rent account for 15 percent of the income of a double-worker household in the year 2000, but at fact, the rent in 1996 only account for 3.2 percent, and in 1997, 4 percent. In the meantime the house price grows very fast. In the late 1980-s, the ratio of rent to price is 1:120. Now, the ratio has go up to 1:140. The high price and low rent keep people from the new housing system. The people would rather live in a poor public house than have their own house.

Another problem also restricts the people's want to the new house. That is the disposal of the old houses. If the owner did not buy the old public house, he can not sell it legally at the market, otherwise if he bought the old public house, he also can not sell it within five years. So the disposal of the old house have prohibited the owner to come into the new housing market.

Without second hand housing market, the richer poor can not sell their old house to buy a new one, and the poorer can not buy the old house from the richer. This reduces the total demand for the houses at the market.

The employees in the state owned companies have a quite low salary. It has not included the cost of the house. With such a low purchase power, it is impossible for them to come into the market for themselves. They still need depend on their employers for the house

The delay of society security also affects the people's budget. Recent years, many large state-owned industries have been in lose. Many employees lost their job. Some in employment also feel the pressure. The society security program was announced last year, but almost no proceed by far. Such situation also restricts the people to use their money in their pocket.

High housing price

A main problem for the market is the too high. In 1990, the average price of the commercial housing in the state is 703 RMB. It went up to the 1976 RMB in 1997.

The price is too high relatively to the income. In market economy country, the price of a common house is usually 3-6 times the year income of a middle-income household, but in China, it is 10 times in general, even more than 15 times in large city. The consequence is that the common people can not afford the house, then the potential demand can not become the effective demand.

The high price most comes from the unreasonable composition. In general, the house cost includes the land cost for 20 percent, construction cost for 40 percent, infrastructure cost for 20-30 percent and the tax & fee for 10-20 percent.

High land price and high tax and fee are more responsible for the high house cost. At present, the land cost includes the cost to have the 70-year usership from the government and the cost to re-house the previous residents. Both the two entity are very high, especially the redevelopment of slum. The usership is very high in city area and two third of the new houses will return to previous habitants. The houses left for sale is only one third. The tax & fee are also very high. In Guangdong province, the fee and tax even account for 25-30 percent of the house cost, together with the land price, it can account to about 50%. The cost of infrastructure is also very high. Some lucrative public facility is included in the cost of infrastructure.

Although the price of the low -income house is relatively low, there are still many unreasonable cost are included in the housing cost, such as the high re-house cost and some cost for lucrative facility.

Unfair competition

Most development companies at the market are established by the government at the early stage of housing reform. Even now, some companies still belong to the government or large state-owed construction companies. Such close relationship between the government and the development company has some fault. First, the manager is designated by the government. He/she is responsible for the government not for the company. This leads to some low skill in the management.

The close connection between the government and the development company also results in the unfair competition between the companies. The privileged companies can have the best development project.

Such problems also exist in the field of housing evaluation. In some city, if people want to buy the public house or to sale or lease the reformed house, the house must be evaluated by the appraisal companies designated by the government. If people want to loan from the bank with the house as collateral, the house must be evaluated by the appraisal company designated by the bank. Such situation led the brew easy to happen. It also led to the unfair competition between the companies and an unfair price to the house.

Lack of market service

Information service is in badly demanded. Although some information can be found in China, but it is very limited. Basic information is very difficult to get. For example, the price of the standard land can not been published in time, same to the rebuilt cost. The information that can be access to is usually too outdate. Other information, such as the information about the housing exchange is also very difficult to get.

Lack of the basic information, it is impossible for the housing appraiser to have an accurate evaluation. It is also difficult for the developer to analyse the market.

The housing mediation is at quite low level. Most large agent focus on the first-hand market, dealing with the commercial housing newly completed. The agents facing to the common people are usually small and provide low quality service. Lack of necessary knowledge, they can not give the clients enough service. The role of such agent is only to be noticeboard. Driven by the profit, some cheats are easy to happen. In Harbin city, a boss of a such agency even run away with the advanced deposit money from the clients.

The housing consultation is also very rare in China. At present, the housing consultation just existed in a few well-developed cities in the coast area, such as Shenzhen, and Guangzhou city. The consultation is still blank in most area. This leads to the problems both for the suppliers and buyers. To the buyer, especially the common people, lack of experience at the housing market, they are difficult the get some necessary advise.

As to the supplier, the problem is much serious. Housing market is a new area to all the people in China. Some developers lack of necessary knowledge in the development area. This makes the development more lack of consideration and more risk.

For example, in 1992, Beihai City is one of the hottest places for developer. All the land in the city was sold to the developer by the government. Even the land at the far suburb was also sold to build a new development cone. Only Vonke Company itself, has a 40 sq. km to develop in the far suburb. Beihai City just is a middle city in China. At fact, it does not have such capability to hold such a large development. Overheated enthusiasm lead huge investment come to Beihai City, most of which was for high standard residential area. Such a bulb soon broke. What left to Beihai City is a great amount of half-developed land and a lot of deserted houses, finished or unfinished. Most of such houses have been used as store for the chicken, duck or other domestic animals. Fortunately, advised by an economist, Vonke Company aborts its development program at the early stage. Now, this company has become a very famous housing development company.

Unfit housing

The new houses do not fit the people's demand very well. Most of the commercial housing focus on the high-income people. The high price and too comfortable design keep the common people away from them. Most of the low -income housing usually has bad function. In order to reduce the cost, they usually ignore the people's basic need. Some of them are built at the suburb without

good public transportation, and some of them are built in the outdated layout. They are not comfortable to live in. Such situation leads the common people **difficult to find the** house suitable to them.

The housing quality is usually very low, especially to the hidden part. After the people move in, the problems emerge, but constricted by the high cost to move and some limitation in returning the house, it has been too late for the residents to rethink his choice in house.

There are many reasons for the bad quality. Lack of the quality control is a main reason. The quality control was in charged by the municipality, but they do not responsible for the quality. This also make it possible for the official to have a brew with the developer. Another main reason is the heavy cost on the housing development. This make the price too high to sale, therefore, some developer driven by the profit low the quality to reduce the price.

Lack of rent house also restricts the demand for the commercial housing. At present, very few commercial housing is for rent. When people come into the market, they usually only have the choice to buy house. But, some people do not have the purchase power to buy a house, or some people do not like to have a permanent resident. They need some rent houses

Without fit housing, the people have nothing to buy or rent even they have the want and purchase power. Without satisfied quality, people dear not invest a great amount of money to buy a house.

Difficult housing finance

There are two channels for the people to have the money to buy the house in addition to his saving. One is the HPF. The subsidies from the employer are included **in the HPF**. Since the employers need to subsidy the employees every month, and the return can not be seen at a short time, most of the employers are not interested in the HPF. The participation of the employers is not high. As a result, most of people are not qualified to apply for the HPF.

The other channel is the bank mortgage. The high mortgage rate, high down payment, the short loan term, and the complicated process keep most people away.

At present, the bank has a lot of money, but can not be loaned out. On the other hand, the people badly need the money but can not borrow them out from the bank. Such situation results from the risk consideration of the bank. Only is the risk reduced, the high requirement for the mortgage could be lowed.

Huge stock housing

In the housing development, the developer lack of accurate analysis to the market. in such blind development, many houses can not be sold out in the market. This results in the large housing stock at present. some of them come from the wrong positive to the growth. Such as what happened in Beihai. Some of them come from the wrong decision on the people's need. They are too luxury. Such as many unused Garden Housing areas around Beijing. But some of the stock housing are not bad. They are needed by the common

people. Only because of the high price, low purchase power or little unfit, these houses were left.

The huge stock influences the capital flow. Some approach need to do, especially to the last kind of housing.

Lack of community organization

There is no non-government community organization in China. If the household have some trouble with house, no community organization will help them. For example, a developer constructed some housing facing to the sea in the city of Shenzhen. The houses were sold out as seaside houses at a high price. After the sale, the developer build some houses in front of the previous houses, then sell them as seaside house. The new seaside houses bloke the sea view of the previous houses. Because of no strong community organization, the previous residents are strong enough to against the new development program.

The existed community organization is called the resident commission. It belongs to the government. Since it was set up at the context of planning economy, its mission is to help the government to manage the household. It is usually made up of some senior women and has very low efficiency. They are not the real organization of the residents. It can not represent the benefit of residents. Because of the low efficient, it also has no capability in protecting the benefit of the residents.

Lack of a strong community party, the residents are usually at the disadvantage situation in the communication with the developer. This also is a main' reason for the poor housing quality to happen.

Inappropriate government regulation

Housing market is very different to other market. The housing is the basic need of the human being. Everybody needs to have a house. It also involves in huge amount of the investment. To own a house is not as easy as to have, a television. It is impossible for the market to solve the housing problem for all the people by itself. It is also impossible to solve the housing problem only by the power of the government. The housing market should be a market under the macro regulation of the government.

Before the housing reform, the solution to the housing all depends on the government. After the reform, the market has come in, and the power of the government has reduced. But, at present, the role of the government is not very appropriate.

The government has too much power in some areas. For example, a development program needs to be approved by many offices, sometime up to tens of office. Almost every office has a fee on the program. Such a long proceed makes the housing development difficult, and also increases the cost of housing.

Sometimes, the government forgets to regulate. Such as in the city of Beihai, when the market need the Government to interrupt, then to reduce the heated development, the government did not to interrupt but to increase the heated development by giving out more land.

In other area, the government has too little regulation. Such as the housing quality, it should be under the control of the government, but at fact, it has lost of the control.

Proposals and Actors

Objective

From 1978, China economy has a great change. High growth rate and widely open to the world has changed the domestic market from the seller market to the buyer market. This implies that the demand driver to economy have been weak. The continue development needs some new demand drivers. In the meantime, the bank deposit of the residents has gone up to 4.6 thousand of billion RMB. The consumption should be in the period changing from the low level need to high level need, from the basic need to the comfortable need. In such situation, the housing consumption would be the new consumption focus after the consumption of other advanced commodities.

But the low efficiency has hampered the potential demand to turn into effective demand. Something needs to do to increase the efficiency. Housing market is a complicated system. It relates to all the actors at the market. Every actor has different role at the market. In order to establish an efficient housing market, every actor need to do something.

Proposals

Reduce the housing cost

High price is a main reason for the low demand, and high stock. Such a relation between the demand and the supply requires the price to go down, but the high housing cost restricts the price to down. From the housing cost composition, we have known the housing cost is made up of four parts. Perhaps, there are some thing can do to reduce the cost.

The rehouse cost is a big part of the land cost. The prevail policy requires the residents to be rehoused as the population with 8m² live area for one person. Since one household usually has more registered people than it really hold, it is a large cost. In City of Harbin, a new policy is in implementation, that the rehouse is based on the size of the previous house not by the population. This make the land cost reduces very much.

The 70-year usership cost also needs to adjust. To some house the government can reduce the price or provide the land free. Although the government's income from the land would be lower, the low price of the housing will lead to more consumption in the housing, then such consumption will lead to more consumption in aggregate economy. In such circle, housing promotes the macro economy. From the total consumption, the overall tax income will increase.

The tax and fee is another big part of the housing cost. Since the too low demand relative to the high price, it has been the time to adjust the tax and fee, especially the fee. Most the fee is unnecessary. The long approve proceed creates a lot of fees. Simplifying the proceed is not difficult. Some offices can be combined together, thus reducing the fee. From another view, the officials

are supported by the tax. It is unreasonable to take fee for their routine work.

The infrastructure cost can be reduced. The cost for some lucrative facility can be charge from the user not from the house. Such as the water, developer need pay a lot to the water company to have the water come to the building, then this cost is added on the house cost. In the mean time, the household still need to pay for the water when they use. This makes a double charge to the house.

Develop the suitable housing

Most potential buyers at the housing market are the common people, middle or low income. They have the want to have a better house. Such group prefer the house not too luxury and not too poor. They are more practical. They care for the quality and the function. In a word, they need the suitable house.

Lack of suitable housing is also responsible for the low demand and high stock of the housing market. The suitable housing is not just the shelter. It should be a better house towards the 21st century.

The economy of China is growing at a high speed with low inflation. The annual increase of GDP is about 8 percent. With such a situation, the income of people will have a good increase in the future. The housing design needs to consider the trend of income increase.

The suitable housing does not need the fund from the government, so that it is not restrict by the budget. Such housing can be developed from many sources.

The municipality is the main role to conduct some development. With the government participation, the land can be provided free or at a lower price, and some tax and fee can be reduced. Such housing can open to all the low-middle income people, or only some particular groups.

For example, in 1995, the municipality of Harbin needed to construct some new roads in the city. This involved with rehouse of tens of thousands of residents. How to solve the problem? The municipality decided to construct the suitable house. Such housing is toward the previous residents. The planning considered the need of common people. It tries to provide a better house lay out and a better outdoor environment. Such thought is quite different from the previous low-income house that more focus on the shelter provision. The municipality reduces the tax, fee and the land price to the house.

The house was developed by some developer chosen through bid, with a term that the profit must be lower than 3 percent. Since the house can have definite buyers, the developer accepts the term. Therefore, with the participation of the government and the developer, the price of the house is only 1050RMB per building area, while the price for commercial house near the location is about 1800 RMB. The suitable housing get warm welcome from the habitants.

The commercial housing is also can be the suitable house if the house is facing to the low -middle income people. There are large stock commercial houses now. Some of them that the common people can access to by public communication, could be redeveloped to be suitable housing. This can help the suitable housing

provision and also benefit much to the digest of stock houses.

Another kind of suitable housing could be developed by the employer and employee through the common fund. In such development, the common people can have more participation in the house development. They can participate in the planning and construction process. Since they can control the location, design, and the quality. The people would be more interested in such housing. Since the employer usually only need to invest half of the cost, and the investment will soon become the house, the employers are also interested in such house. Such kind of house has specific buyers, thus it has low sale cost and it does not have the risk of sale. Such housing is not the house for sale in the market, but since the people need to have the ownership, it reduce the possibility for them to go back to the traditional housing system, and this house will come into the market in the future, this kind of housing also need be considered when we talk about market.

Regulate the housing market

The lack of unfair competition is seriously damaging the efficiency of the housing market. Since some development companies and appraisal companies belong to the government, they often can have many advantages in the competition. Without fair competition, an effective market cannot be set up.

It is helpful to the market that the government withdraws from the profitable area, then focus on the public service and macro regulation. To make such change the plan of land supply need to open to whole society. Everyone can have the ability to access to such information. Good development location should be given out by the auction or bid.

Appraisal is a basic service to the housing market. It involves the huge benefit of the people concerned. The appraisal market should open to any qualified appraisal institute.

Housing transaction involves huge capital. It is very important to everyone concerned. But the transaction of housing is usually depends upon the location and the location is different between each other. The detailed information is very difficult to have. In addition, the chance to participate in housing transaction is very few to most people, the information is difficult to spread. Considering the huge amount of capital involved, the information is very important to every person at the market.

Some basic information, such as the information on all the transaction price, the basic land price and the basic construction cost, only can be get by the government. The Government should provide the basic information for the market. They need to organise the necessary research in the information and conduct some project to collect analysis information and publish the update information.

Some non-official information company should be encouraged to come up. They can give the advanced the market information, such as the trend analyse of the price, the demand, and the supply. The academic and research institute can come into this area.

The mediation service needs regulating. The housing purchase is very difficult to most people, especially to the common people. There are very few opportunities, perhaps only one for whole life, for the common people to buy a house. They are not familiar to the housing purchase. In addition, they will use up almost all their saving or much of their salaries in the future and may be they will live in that house for all their life. Such expensive, precious and unfamiliar value make the decision to buy a specific house very difficult. They need the help from the housing agent.

On the other hand, the housing development company also needs excellent marketing mediator to give them information about the housing market and help them sell the house. But now, the low quality of the house agent, together with the confusing housing mediation market can not fit the demand. Some regulation should be made. Like the real estate appraiser system, the house agent system should be set up. Only the qualified agent can get the licence to work in the market.

Housing consulting industry just emerges. It has bright future. It acts as the doctor to the housing development company. With the high-skilled and much-experienced professionals, the consulting company can help the developer to make more accurate predict to future and make more profitable investment. With the help of the consulting industry, the supply of the market would be more rational, and the common people will have more chose. This industry just come up, it need encourage and also need regulation.

Increase housing purchase power

The salary of the low-middle income people does not include the housing cost, therefore it is very difficult for them to have enough purchase power for the house. How to increase the purchase power? One is to increase the salary, and the other is to subsidize the people.

Now, in the non-state-owned the company, the housing cost has been included into the salary, but in the public area and the state owned company, it has not. The Salary increase is not easy to do. The salary increase will result in huge budget to the government and a large burden to the old state owned company, most of which are not in good condition now. In addition, the salary increase can not ensure all the increase come into the housing area. If such a great deal of money immediately come into the market, the inflation easy to happen. Therefore, the salary increase is the basic solution but not the best. To some degree, the housing subsidies maybe a good alternative.

When the people want to buy a house, they can apply for the subsidies from the employer. The amount of the subsidies could be based on the time the employee has worked for the employer. This approach can ensure the subsidies used in the housing and the employers do not need to provide a huge amount of money for all the employees at one time.

Housing finance could be the indirect method to increase the purchase power. The Housing Public Fund and the commercial bank both can be depended on. The HPF includes the subsidies from the employers. But this kind of subsidy is allotted according to salary, not the

need for house. Therefore it is not as helpful as the subsidy to the people in need. In addition, when the people submit the money to the HPF, they can not see the consequence, so they are not active to the HPF. But it is really a good financial channel. The best-performed city in HPC is the city of Shanghai. By 1997, in Shanghai, there are 83 thousand households have loan from the HPF, and the total amount is about 4.6 billion RMB.

The commercial finance will also be an important channel to increase the purchase power. At present, the amount of deposit is more than the amount of the loan. The bank has a burden to pay for the interest. But it is still difficult for the common people to have the loan from the bank. The high loan rate and down payment, and short term keep away the common people. Such situation results from the uncertain to the future, or the consideration for the risk. The government can participate in this area to establish the housing financial insurance, and set up the housing second hand financial market, thus reducing the loan risk.

Promote new housing concept

Stopping the welfare housing is a way to increase the housing purchase want. But I think changing the people's housing concept would be more effective. The housing purchase want is influenced most by the traditional housing concept.

In traditional concept, people just wait the employer to give them the welfare house, they do not need to buy or rent house from the market. The promotion of new house design can be a way to change the people's concept. With the income increase, people are looking forward to comfortable living. New housing design promotes a new living style. This could help the people to change. Some channel could be used to encourage the people to participate in the new house design and construction, thus making them more attracted by the new house.

To open the second hand housing market to the reformed housing and some low-income housing also can help people to make their decision to have new house. Some people want to sell their reformed house to buy a new one. Allowing such house come into the second hand market can let these people come into the new house market. In Shanghai, such housing has been permitted into market with some requirement. If the house was bought at the construction cost, it can come into the market directly. If it was bought at the housing reform cost, it can come into the market after the owner submit the difference between the HRC and house construction cost. When such housing were sold out. The previous owner will submit 6 percent to the government including 5 percent for tax and 1 percent for land. If the previous owner bought a new house within six months, then the 5 percent for tax will be return to him/her. This policy has get warm welcome from the residents and it has largely increased the demand for houses.

Of course, some passive method also could be used. The housing reform is help to stop the hope to return to the tradition system. Some change in the re-housing policy could be useful. In the prevailing re-housing

policy, the residents are re-housed in the low rent public house. This results in that a great amount of new houses come into the traditional housing system. In Harbin, a new policy has been made. Most of the previous residents will receive some money based on the area of the old house instead of re-housing in new public house based on population. With the money, the previous residents can buy or rent new houses as they like from the market. This policy help the people come into the market.

Other security system can also help people to make their decision in the housing market. Now, the worry to the future, to the medicine reform, to the retire security and to the unemployment security, leads the people to save the money for the future. Establishing the necessary society security system is much emergent to increase the housing purchase want.

Establish the community organization

In past, since the house belong to the government, and people can change their house with their work experience increased, they do not care about the house condition. But when they become the owners of their house, the situation change. They need to protect the house, which is their property. They need to have some organization to speak for them.

In some area, some small groups consisted of the house owner has come up. But it is very weak. They need some strong organization. Since the residents commission has good connection with the community, disconnecting the residents commission from the government and changing them to be the community organization will be a feasible solution. In Shanghai, some such commission has change the organise structure. Some high-qualified people have come into the area.

Encourage the commercial rent housing market

With the economy-development, market mechanism become more and more effective. The flow of resource has increase. More people begin to move from one city to another. Especially in recent years, the main subject of the moving has changed from only the poor seasonal farmer to include the high -skilled professional. They both usually need to have a temporal house. A potential demand for the rent house has come up.

Increasing the supply of the rent housing will benefit both the developer and the people. Some such development has come up in some city along the coast, such as Shenzhen, Haikou. They are the main immigrate city.

Role of Actors

The establishment of an efficient housing market needs all the actors to participate. The actors can be divided into three sectors.

Government

The housing is a most important problem to China, especially in the fast growing and transitional period from the old traditional economic structure to the new modern structure. The market is important, but the

regulation can not be ignored. The role of the government changes from the market controller to active participant.

Many aspects of the market need regulated. The government, especially the centre government is the policy maker.

The municipality could more participate in the operation of the market. With the development of the market, the municipality would be more involved in the housing market. With the land supply plan and low-income housing policy, they can regulate the market, and to supplement the insufficiency of the market.

There are some blind areas in the market that need the municipality to fill. It is impossible for the market to provided houses for the poor. They need the support from the government. The low-rent housing would be a solution. The low-rent housing has been implemented in some city. Such housing is provided by the government. Only the poor people are qualified to rent. When their income increase, they must move out. The housing could come from the new development house, the old public house and the commercial stock house. It is the necessary complementation to the market.

Public area

The community organization is the necessary power of the market. They pay their attention to the benefit of common people.

The participation of academic and research institute is an important part of the market. They provide necessary information and research for the market, thus keeping the market more efficient.

Private area

The participation of residents needs to highlight. They can participate in everything involving housing. Only by this way, can they be attracted by the new house, and to participate in the market.

Many policies need the support from them. Only this, can the market comes into efficient operation.

The participation of developer and investor is also very important. They are the main suppliers of the market. The goal of the supply is for the profit. Only when the investment risk is low, can the profit be low. The suitable housing area is a relatively low risk area. They also can participate in the low-income housing provision.

Conclusion

The efficiency of housing market is important to solve the housing problem. It can increase the housing demand, provide fit housing, and therefore improve the people's living condition. The development of housing market will benefit the national economy.

In the proceed from the planning economy to market economy, we need to highlight the role of the market. But we can not ignore the role of the government in the market, especially the housing market. The housing market needs regulation from the government. The blind area of the market more needs the government to fill.

It is a long way to solve the housing problem in China. To set up an efficient housing market needs the participation of all the actors.

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