

# The Low-rent Housing System in China

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## Introduction

China started to reform the housing system since 1995. **The old housing system** was implemented from 1949 to 1995. In this period of 40 years, the national government allocated funds to the organizations to construct housing for their employees. The employee's salary was low but they can get houses allocated to them as welfare; at the same time the organizations were responsible for their health treatment and the retirement pay.

From 1995 **the new housing system** changed from allocation to market driven. The employees have to buy the house they live in with a relatively preferential price, or rent it. There are 120 million households and 381 million people living in the urban area, 70% of them live in the house which was allocated to them before 1995, and which was already bought by them. Housing subsidy was added to the employee's salary. Today people who want to get a new house have to buy it in the market.

*Average Housing Area per person*

Year	1995	1997	1999
Area (m <sup>2</sup> )	8.10	8.60	9.10

After 1999, the strategy of Chinese housing construction changed from quantity to quality and the residential environment.

*Average Sale Price*

Year	1991	1995	1999
USD \$ (m <sup>2</sup> )	98	203	250

In 1999, the average sale price of China amounted to 250 USD. But the price varies a lot in different areas. For example, it is about 650 USD in Beijing, 150 in some inner areas.

*Sold Housing Area*

Year	1991	1995	1999
Area (million m <sup>2</sup> )	25	67	93

The urbanization caused mass immigration to the city area, in 2010 there will be 0.63 billion Chinese people live in the urban area, this will bring mass demand of housing.

*Proportion of the Apartments purchased by Individuals*

Year	1991	1995	1999	2001
Proportion %	30	55	75	94

(The data above was announced by the information centre of the construction ministry of China.)

Nowadays the housing provision system is composed in three levels.

**The commercial house** – for the high-income class with the price completely driven by the market.

**The economical house** – for the middle low-income class with the price of low profit. The developers are supported by the government with preferential policies. The price per square metre is cheaper at least \$70 than the commercial house.

**The low-rent house** – for the lowest-income class. The government provides subsidies. The low-rent house is a kind of social security for the urban poorest.

The commercial house and the economical house system have been implemented for many years in China, and we have got a lot of experience in these fields, but the low-rent house is a new housing system. It began to be implemented in some major cities from mid 2001. The government announced that the low-rent house system should be spread through the whole country as social housing security this year, and it will benefit more urban poor in the future.

## Problem Definition

Due to the rapid development of **industrialization and urbanization** in China, industries and population centralize in the city. It brings huge housing demand in the city, drives the rise of the housing price, and makes the market price unaffordable for the low-income people.

From 1990 the **industrial structure changed**. In China from 1950 to 1978 the main industry was heavy industry, the petrol chemical, iron and steel industry, textile industry, etc, developed fast, especially in the big cities. Many urban people are employees of these heavy industry factories. From 1980, the industry structure began to change towards light type, such as manufactory industry, electronic industry, telecommunication industry, etc. From 1990, the industry structure changed greatly towards manufactory industry and the tertiary industry, manufactory industry, IT industry, financial industry, and trade industry became unprecedented flourish. But at the same time, most of the traditional industry factories closed, this led to a great deal of unemployed. Most of these unemployed people are above 40 years old, they have no new knowledge and new skill which is required by the new industry, so it is relatively difficult for them to find a new job. They become the new urban **low-income class**, and live in poor life.

In the last few years China reformed the housing system. The housing market became important and flourishing. Though the market can adapt well to the complex housing requirement it is unavailable to the low-income people, especially for the lowest. Some of these low-income families live in one small room with three generations; some of them cannot afford the rental fee of the house that they are living in. So the government establish the new social housing security system **low-rent housing** from mid 2001. The government provides subsidies or some apartments to upgrade the living conditions of the lowest-income class; it is a social objective, one kind of the reallocation of the social income. It makes it possible for the low-income to benefit from the progress of the society.

## Motivation for the Choice of Study

Being an architect, I have worked in the fields of housing design for eight years. I have always been concerned about the new housing policy and new trends, the low-rent housing system is a new part of Chinese housing provision system, and I believe it will play a very important role in the future, so I choose this topic and try to find the correct way in my point of view.

## Method of Study

Collect information and study some typical cases about the implementation of the low-rent housing system in different cities in China (Beijing, Shanghai, Xiamen, Chengdu, etc) and the data of low rent house in foreign countries (Germany, France). Compare the difference and analyse the strong point and shortcomings. Find out the difficulties or some new flexible and practical methods.

## Background

The low-rent housing system is an important addition to the Chinese housing provision system. Now it is in the very outset; compared to the huge demand of the low rent house, only a small number was benefited from this policy. Though there are a lot of difficulties, the low-rent housing system should be improved gradually, and finally become a basic social security.

### Country Level

The low-rent housing system started to be implemented in the mid of 2001. Only several municipalities of the big cities carried out this plan, but the national government announced that the low-rent house system should be spread through the whole country as a social housing security in 2002.

Now the population of China is 1.2 billion, there are 14 million urban population are below poverty line (the poverty line is different depending on the local living standard, the highest is \$40 per month per person, the lowest is \$10 per month per person), but only 6.04 million got financial support from the government, and only thousands families in this 6.04 million populations became beneficiary of the low-rent housing system.

### Regional Level

**Shanghai** is the first city carried out this plan in China. In September 2000, there were 1081 low-income households benefited from the low-rent house.

**Beijing** established the low-rent house management regulation in 2001; 598 low-income households benefited from the plan till February 15th, 2002. But the number of the low-income family that annual total family income below \$850 is 20 thousand, and the total city population is 12 million, 50% lives in the urban area. Only 3% of the lowest-income families have benefited from this plan, that is 0.01% of the total urban population. The municipality announced to construct some new low-rent houses in 2002.

**Chengdu** settled 800 low-income households till November 25th, 2001, but the total number of low in-come families is 11 thousand, only 7% of these lowest-income families were beneficiaries. From the data above we can see that only a very small number of the low-income families benefited from the new system, we can compare with some data of the development in Germany and France (registered from the Shanghai Real Estate Market Report 2001.07)

**In Germany** 15% of the total housing supply is social house (for the low-income people). In Munich, there are 678 thousand houses; 83 thousand are low-income houses, about 12%. In Frank fork the percentage is 12.5%; in Cologne is 12.9%.

**In France** 12% of the families live in the social house.

We can find from the above that the Chinese low-rent housing system is in a relative low level; more efforts should be done to complete and improve this system.

## The Procedure of Gaining the Low-rent House Subsidy

### The Application

The low-income family should fill in the application form faithfully, and then hand in these documents to the district's management group:

- The application form,
- The family member's ID card
- The family member's registered permanent residence card
- The proof of the monthly income,
- The proof of the living area,

### Confirmation of Qualification

After the low-income family handing in the application form, the management group will give them the answer if they can get the qualification in 30 days.

### Proclamation of the Qualified Family

The management group will proclaim the facts of the qualified family to the public in the district, including: the name; the number of the family member; the income; and the living area, etc. So the public will supervise if there are some untrue facts in the qualified family. They can use telephone or mailbox to contact with the management group, if there is no demurral in 15 days, the management group will submit to the government, then register the low-income family and give them the qualification prove; if there any demurrals, the management group will recheck the facts of the family, and give the final answer in 20 days.

### Waiting Period and the Allocation

Due to the large demand and the small supply of the low-rent house at present, the qualified low-income families have to wait in queue according to the poor degree; normally they will wait for at least several months for the allocation of the low-rent house or the subsidy.

In some cases, for example in Beijing, because there were too many families waiting in the queue, it had to be decide by lot in different groups, when the day came all the qualified families in this group came to the specified place to draw cuts, the whole process will be shown on the local TV program at the same time, and will be supervised by the notary public to ensure the justice.

And the qualified family must get to the specified bank with their qualification prove to get the monthly subsidy.

#### **Auditing of the Qualification**

The management group is responsible for rechecking the family's status every year or every half year, if there is any change in the status (the income, the living area, the number of the family member, etc), and the family is no longer accordant to the qualification demand, the management group must report to the municipality, then cancel the qualification of the family, the family must quit from the low-rent housing system.

During living in the low-rent house, the family must obey the following rules: First, they have no right to change the function of the low-rent house, for example change the low-rent house into commercial use. Second, they cannot rent the house to others. Third, they cannot deal in the house in the housing market. If the low-income family break any of these rules, their qualification will be cancelled for three years.

## Strategies

The establishment of the Chinese low-rent housing system was put forward in the *Announcement on Deepening the Housing System Reformation Further in Urban Areas (No. 23)* issued by the State Council of China on the third of July 1998. But it is in the mid 2001 that this plan is really carried out by some municipalities.

To achieve the goal of 'everyone has a house,' the government emphasised that the low-rent housing system should be spread through the whole country as social housing security in 2002.

There are three practical strategies for implementing this system in different cities, that is providing rental subsidy as main strategy; providing low-rent house directly as secondary strategy; rent rebate as the tertiary strategy. The target group of these three strategies are the urban poor who live below the poverty line.

### **1. Main strategy: providing rental subsidy**

The municipality defines the qualification of the benefited family in two aspects, first is that their living area is below the local minimum standard, second is their income is below the poverty line. The difference between their living area and the local minimum standard should be calculated. The municipality would provide them a subsidy, which is the market rent cost for the difference in living area (subsidy for the area difference: Shanghai \$5/m<sup>2</sup>, Beijing \$3/m<sup>2</sup> Qingdao \$2/m<sup>2</sup>). Then the family can rent the house that meets their needs well in the housing market. Actually most of the low income families choose this way to improve their living condition. Compared with the other strategies, it is the most efficient one.

### **2. Secondary strategy: providing low-rent house directly**

The municipality provides low-rent house directly. Most of these low rent-houses are second hand houses bought in the housing market by the municipality, but the target group of this strategy is mainly the disabled or the old who cannot improve their income in the future. The rent for the house is below 5% of the total income of these poor families.

### 3. **Tertiary strategy: rent rebate**

This strategy is made for the people who now live in the house allocated to them before 1995, and the living area is normally above the local minimum standard, but because of the low salary or unemployment, they now live below the poverty line. It is unaffordable for them to buy the house, even to pay the rent, for example with the implementation of the housing system reform in Beijing, the rent of the public house (not the house in the market) increase from \$0.17/m<sup>2</sup> month to \$0.38/m<sup>2</sup> month. It is a heavy burden for the low-income families. So the municipality will regard the house they live in as low-rent house, then they can continue to live in it with nominal rent or free.

### Analysis of strategies

1. **Providing rental subsidy** – It is the main and most efficient strategy for the following reasons:
  - With the same amount of money it can benefit more families than providing low-rent house directly. For example, the municipality can buy or construct a house with \$50,000, but this money is equal to one year's rental subsidy for 100 households.
  - It can adapt to different needs of each family. Most of these low-income families have their special difficulties. Many families have member who is ill or disabled or old, they need to live near the hospital; most of these families have kids below 18 years old who need go to school conveniently; in these families most of the manpower are doing temporary works such as milk man, news vendor, bicycle repair man, etc. these jobs need suitable location of their house. So by the rental subsidy they have initiative to choose the location of the house.
  - It is good for the 'Quit' system. Today many people become low-income because of changes in the country's industrial structure. The income of these unemployed men can be improved quickly when they find a new job, so when the family's status (income, number of the family member, etc) changes and does not meet the level for qualification, they must quit from the system. It is easier to stop providing the rental subsidy than persuading them leaving the low rent house.
  - Avoid creating new slums. If the low-rent housing is built massively and concentrated, the low-income families will be concentrated in that area. It will bring disbenefit to the children's education and the creation of good environment, but when the family get subsidy to rent their house, the houses are always dispersed in the city.
  - The most important for this subsidy strategy is the source of the subsidy. It is a long-term issue because of the dynamic increase of the urban poor. It must be a long period before the needs and supply can be balanced, and the financial support of the subsidy must be constant and stable, so the government must create a sustainable housing finance.
2. **Providing low-rent house directly**

The municipality constructs or buys houses as low-rent housing. This is the most expensive way to solve the problem, but it is absolutely

necessary, because the low-rent house is social housing security, and it is necessary for the poorest people who are disabled or old. They have little chance to improve their income, so the municipality should provide low-rent house directly to them. The rent will be below 5% of the family's total income.

In some cases, the municipality did not only provide the low-rent house, but also some facilities like the CATV to make the living condition better.

But these low-rent houses should not be too concentrated in one place. It is better to provide old second hand houses than to construct new ones, and providing old house to the low-income family can reflect the social justice, can accord with the step-by-step housing provision system.

### 3. Rent rebate

This strategy needs the support of the organization that the low-income family member belonged to (the previous employer), and the house was allocated by the organization before. Because the house that the family live in is unaffordable for them. They did not buy it; the house still belongs to the organization; the organization gives rent rebate to the low-income family and actually shares in the subsidy burden of the municipality.

## Actors

The main relative actors are as follows:

- The central government
- The municipality
- The management group
- The social organization
- The developers
- The low-income families

### The Central Government

The central government first establish the regulations and plans on the low-rent housing system, for example, in 1999 made out *Methods of the Management of Low-rent Housing in Urban Areas* (Construction Ministry's regulation of No. 70); second, organize and supervise the implementation of the municipalities; third, give support in policy, land, tax, etc, in the projects relevant to the low-rent housing, and give practical advice to the municipalities.

### The Municipality

The municipality carries out the policy and plan made by the central government; provides subsidy to low-income families, establishes the management system: 'municipality—district—street'. The head officer of the district organizes the leading group of 'low-rent house management group', collecting suitable house for low-rent and setting the procedure of gaining the low-rent house subsidy.

Different cities have different conditions, so the central government gives power to the municipalities to regulate their own low-rent housing rules, so the municipality can make different local minimum living area standard, low rental fee, beneficiary qualification, the

source of low-rent house, etc. So the municipalities can flexibly change the low-rent housing rules.

## The Management Group

The management group is responsible for the implementation (define the qualification of low-income family, check up the family's income, ensure the 'quit' system) in the district, report to the municipality every year, training the staff on the low-rent housing system, publicize the low-rent policy to the people.

The management group always cooperate with the residential committee of the street to ensure that all the low-income families can get the information (some family members are disabled or old, sometimes are relative isolated from the outside).

In some cases the management group compiled brochures about the low-rent housing, sent them out to the people, then organized some free lectures to answer questions.

The management group will participate in the procedure of signing the rent contract, the contract signed by the landlord and the low rent family will be copied and kept by the management group.

## Social Organizations

The municipality accredit some social organizations (such as house agency) to find the suitable house for the low-income families. In some cases the house agency played an important role in the process. They have more information and experience in this and can find the suitable house in short time. They can give the low-income families practical advice. For example, Mr Lee's family (the first household to benefit from the low rent house in Beijing) had a one room house 12m<sup>2</sup>, four family members: the husband was unemployed for one year, the wife was seriously ill, the son was in his middle school, the grandmother was 73 years old. After the family got the low-rent qualification, the agency helped them find a house of 50m<sup>2</sup>, which is near to the hospital and the school, then persuaded the family to rent out their old house to get some money. They use this money and the subsidy provided by the municipality, and then could afford the rent of the new house. And the landlord was very happy when he knew that the house would be rented to the low-income family, he provided all the furniture free for the family.

Most of the house agency wants to get the qualification of helping the low-income families, on the one hand they can get money from the municipality, on the other hand they can get good reputation in the society, and this will benefit their business a lot in the future. But they have to help certain number of the low-income families that the municipality allocate to them; otherwise the municipality will cancel their qualification of helping the low-incomes.

## The Developers

They can build some social low-rent houses when a new residential district is built, and because of this they can get tax rebates. For example, in Jinhua city, one state real estate company developed two residential districts, the land was allocated to them free, but the municipality wanted them to build at least 500 low rent houses. The total land area is 93 300m<sup>2</sup>; the construction area is 113 700m<sup>2</sup>; there

are 1237 apartments. To get the money for the low rent house in this project, the developer arranged the proportion in three levels. They built:

Commercial house	409 units, 33.1% of total – gets big profit
Economical house	314 units, 25.4% of total – gets small profit
Low rent house	514 units, 41.5% of total – no profit

The money to built these low rent houses came from the profit that got from the commercial and economical house, and after the whole project finished, the developer still could get some profit, because of the free land and the tax rebate.

### The Low-income Families

They must apply to the management group. They can rent a house through the housing agency or they can find it themselves in the housing market. After living in the low-rent house, they must report the status of their family faithfully every year, obey the rules that regulated for the low rent house, and quit from this low rent housing system when they are not qualified (when their income improved, number of the family member decrease, or get house from other ways, or break the rules of the low rent house).

## Design

### The Source of Low-rent Houses

1. The house that the low-income family lives in now which was allocated to them before 1995.
2. The municipality buys some second hand old houses to use as low-rent houses.
3. The municipality buys some commercial houses that were not sold many years after the houses were completed.
4. The low-income family use the rental subsidy provided by the municipality to rent the adapted houses in the housing market.
5. The national developers provide some houses as a proportion of all the houses constructed every year.
6. The houses donated by the social organization or the private sector.

No matter where the low-rent house comes from, the house must be in accordance with the area standard (construction area), that is:

The house with 1 bedroom and 1 living room should below 35 m<sup>2</sup>  
 2 bedrooms and 1 living room should below 50 m<sup>2</sup>  
 3 bedrooms and 1 living room should below 60 m<sup>2</sup>.

Each house has kitchen, bathroom and balcony. The characteristic should be small but complete, it may be a little crowded but can satisfied their daily life needs. This type of small house has its inner priority: when the family's income improved, they spontaneously want to live in a bigger house, and then they will quit from the low-rent house system initiatively.

Due to the inadequate source of low-rent house, some municipalities now promulgate affiche to the public to recruit the house source in all possible ways. For example the municipality of Beijing recruit these house: first, accordant to the area standard of the low rent house, second, the location should be in the urban area or in

the near suburban, third, it can be apartment, bungalow or even the half basement, but all of them must be suitable to live in.

### Financing of the Low-rent Housing System

1. The special low-rent housing finance provided by the government.
2. The profit got from the value increase of the public housing fund.  
For example, the municipality of Beijing appropriating funds of \$12 million for low-rent housing system (buy low rent house; provide subsidy; the maintenance and management of the low rent house, etc) this fund came from the profit got from the value increase of the public housing funds.
3. Some proportion of the profit got from the sale of the allocated house.
4. Some proportion of the profit got from the sale of welfare lottery.
5. The social donations.

### Target Group for the Low-rent House

The beneficiaries of this plan are low-income families.

1. At least one of the family members has the formal citizen qualification of having lived in the city legally at least five years, and others have the qualification at least two years.
2. The family has at least two family members, and they must have mutual support relationship.
3. The family's monthly income is below \$35 per person, and the family has received the support from the civil administration for more than six months.
4. The family's living area is below 5m<sup>2</sup> per person. This index is set by the municipalities and can be different in different cities: Shanghai 5 m<sup>2</sup>, Xiameng 6 m<sup>2</sup>, Chongqing 7 m<sup>2</sup>, Jinhua 8 m<sup>2</sup>.

### The Standard of the Rent

The low-rent house is non-profit and the rent is composed of maintenance and management. Normally the low-rent fee is 35% to 40% of the rent in the housing market. For example, in Xiamen the average rent of the brick and concrete house is \$0.5/m<sup>2</sup> month, and the low-rent house is \$0.2/m<sup>2</sup> month.

## Conclusions and Recommendations

### **The provision of rental subsidy should be constantly improved**

Compared with the other two strategies, provision rental subsidy to the low-income families is the most efficient and economical way to solve the low-income family's housing problem, and can improve the housing rental market.

The central government should pay more attention and give more financial and policy support to this strategy. Because nowadays in China most of the municipalities are lack of financial support in the provision of low rental subsidy, and this has become the bottleneck in the implementation of this policy. So only by giving more support to the provision of rental subsidy can this strategy be spread through the whole country and be improved constantly.

**The low-rent housing system should be a long-term system**

The low-rent housing system is a necessary complementarily to the present housing provision system, and it will play a key role in the urban poor housing problem in the future. The urban poor will exist no matter how advanced the country developed; and these low-incomes should have the housing right, they can only be benefited from the social housing system.

Nowadays in China some municipalities promise to solve all the low-income families' housing problem in 3 to 5 years, this is not according with the facts of the dynamic existing of the low in-come families. Now China is in the initial period of the construction of the low-rent housing system, the key problem is to find the most appropriate and efficient way that can adapt to the special Chinese conditions.

**Special low-rent housing fund should be created**

Now in China most of the municipalities got money for low-rent housing from the value increase of the public housing fund. Though the value increase of the public housing fund can be one component of the low-rent housing financial frame, the special low-rent housing fund provided by the government should be the main part, because the low-rent housing should belonged to the social security system, and like other social security, health treatment; education; the retirement pay; they are all public products provided by the government, and only by the low-rent funds can this plan be sustainable in the future. Other financial support will be the complementarities.

**The cooperation of all the actors is important**

The successful implementation of the low-rent housing system needs contribution from all the actors, only when all the actors try their best can this plan be pushed to the best direction. If any parts of the link breach their duties, the final lost is the low-income families, and it will bring negative effects in the society and in the future implementation.

**The low-rent housing system should be flexible**

China is a big country; the geographic and economical difference in different cities is big. And because of the economical reform, some cities may get great changes in several years. So the system should be flexible, only some basic rules should be made by the central government, the details must be made by the municipalities themselves. The central government should encourage the municipalities creating new methods to solve this problem.

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