

**THE HOUSING DELIVERY SYSTEMS IN BEIJING**  
**-- AN INSTITUTIONAL PERSPECTIVE**

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## ABSTRACT

This dissertation is concerned with the dynamics of housing delivery in Beijing, the capital city of China. Over the past four decades, perceptions of housing problems in Beijing and historical conditions have changed. Housing shortages, run-down housing in inner city areas, affordability of commodity housing, and informal housing developments are some examples of housing problems that have developed over the years. However, during the current transition towards a "socialist market system", developing and formulating effective organizational and institutional arrangements to address these substantive housing problems have become the more challenging tasks.

The purpose of this study is to elucidate the dynamic changes of organizational and institutional arrangements in housing delivery in Beijing and to identify factors contributing to their performances. Based on the "housing delivery analytical framework" derived from the literature review, the dissertation identifies five housing delivery systems in Beijing: (1) work-unit housing, (2) commodity housing, (3) inner city housing, (4) the "Comfortable Home" housing programme and (5) informal housing. Based on extensive interviews and field research, the dissertation analyzes the unique combination of actors in each housing delivery system, their goals and how they fulfil their role in the process of producing, distributing, and consuming housing. The changes among these arrangements and the reasons for these changes are also discussed.

The findings of this study suggest that outcomes of housing delivery systems do not correspond well with the stated objectives or general goals of availability, adequacy, affordability, accessibility, and viability. The dissertation discovers several major reasons for this imperfect correspondence: (1) policy objectives overstress quantitative requirements; (2) policy objectives represent compromises between conflicting values; (3) key interests within the implementation structure are different from policy objectives; and (4) underlying forces beyond housing delivery influence the behaviour of actors.

In light of the findings, the chief pragmatic implication of the study is that improving housing accessibility should be the key in future housing reforms in Beijing. Housing policies should focus more on managing land, transforming the role of work-units, integrating informal developments, linking comprehensive planning with housing development, forming new community organizations, building housing finance systems, and coordinating housing administration.



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## CHAPTER 1. INTRODUCTION

"If there were spacious houses, thousands and more,  
Sheltering all the world to the joy of the poor,  
Unshaken like the mountains in the storm's uproar!  
Alas! I'd prefer my cot ruins, I myself frozen to death,  
To the towering houses that one day stand in my face!"<sup>1</sup>

This famous poem written by the prominent Chinese poet Du Fu in 761 has since become the motto of those who concern themselves with the problem of housing the poor in China. It presents the dream for an ideal society that we describe in the 1990s as "adequate housing for all" (UNCHS 1990). From generation to generation, people have struggled to realize this dream. However, the urban housing problem in China has never been so serious as it is today. The government of China has put the task of resolving this problem at the top of its urban policy agenda.

Since the Chinese Communist Party took power in 1949, urban housing in China has experienced several development stages: de-privatization and the establishment of a public housing dominated system in the 1950s; neglect and deterioration of public housing under the administrative housing system in the 1960s and 1970s; reform of the administrative housing system in the late 1970s and early 1980s, and establishment of the market-oriented housing system in the 1980s and 1990s. In the past four decades, the housing problem was basically interpreted as an "availability" problem, namely, how many square meters were needed. In the 1970s, the cost of housing provision was recognized as problematic because the central government found that it alone could not afford to house all urban citizens. As a result, extensive institutional change and reform efforts were undertaken to ensure cost recovery of housing investments. The major efforts include mobilizing financial resources

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<sup>1</sup> See "Ode to My Cottage Unroofed by the Autumn Gales" in *Du Fu: One Hundred and Fifty Poems*, translated by Wu Juntao. 1986.

from individual households, work-units, and local governments; reducing the role of the central government in housing delivery; developing real estate markets for commodity housing; privatizing existing public housing; and increasing rents to recover the costs of housing provision. In the early 1990s, affordability of ordinary households emerged as one of the major housing problems. The housing needs of low-income households attracted the attention of Chinese policy makers. The "Sheltered Home Programme" introduced by the State Council in 1993 reflected this change in perception. The task of the Programme was to establish an affordable housing system especially for low and moderate income groups.

To establish or sustain a housing system which provides adequate, affordable and accessible housing to all citizens in a viable manner is a challenge faced by many developed and developing countries. Given that the historical conditions composed of social, economic, political and cultural factors vary in these countries, the perceived housing problems are different. The housing solutions employed also vary greatly by nation. Currently, China is in transition from a centrally planned system to a "socialist market system." The process of housing delivery is changing simultaneously. Given the historical condition of Chinese society, reforming the housing delivery system to accommodate the increasing demand of housing for all is an immense task, particularly under the stringent limitations of public resources for housing. It is important for policy-makers to understand China's own experiences and learn from other countries. With regard to China's own experience, the following questions must be answered. How have housing delivery arrangements changed over time and what are the dynamics of China's housing delivery process? What are the fundamental reasons for these changes? Are the current arrangements effective in providing adequate, affordable, and accessible housing in a viable manner? These questions are critical because a systemic and operational account of actual housing delivery in China is rarely found. Further, the answers to these questions reflect current housing practices and thus cast light on the direction of China's transition towards a "socialist market system".

This dissertation makes a contribution to this reflection of experiences in China by studying the case of Beijing. The dynamics of the housing delivery system in Beijing are



studied with a framework that is useful for future comparisons with other cities. The system of housing delivery in Beijing is as complex as in any other city, ranging the entire realm of social and economic organizations and institutions. Analyzing and evaluating the workings of this complex system marks the first step to identifying and solving housing problems. The vast housing task confronting policy makers will be simplified considerably. The dissertation purports to review the housing delivery process in Beijing and analyze this process by focusing on institutional and organizational arrangements, their dynamic changes, and strengths and weaknesses in achieving specific housing objectives. These research objectives are accomplished as follows:

Chapter 2 establishes the theoretical framework that the dissertation is based upon. This chapter briefly reviews the general perceptions of housing problems and the perspectives on housing (delivery) systems used by various researchers. The focus of this chapter is to construct an analytical framework around the key concept of the "housing delivery system", clarify the research perspective of this dissertation, and establish specific housing objectives for evaluation of the systems. The research objectives and the assumptions underlying the framework are identified and the research methodology is outlined. The strategy used, the selection of Beijing as the case study and the methods of data collection and analysis are also briefly discussed. Finally, the chapter sets the methodological criteria of the dissertation and discusses several problems specific to this research.

To better understand the complicated processes of housing delivery in Beijing, Chapter 3 provides an overview of Beijing's housing developments and policies from 1950 to present. The chapter identifies three general forms of housing development patterns and policies in chronological order -- the administrative housing system, the housing system in transition, and the target housing system. By emphasizing the "flows", especially the fund flows in the systems, the major characteristics and problems in housing delivery processes (from production, distribution, redistribution, to maintenance and management in each system) are concisely identified and discussed.

Chapter 4 to Chapter 8 further analyze and evaluate each major housing delivery system in Beijing. Focusing on actors in the housing delivery system, each chapter identifies the process functions that the actors take, the relationships between actors, and the goals and interests of actors when they participate in the housing process. At the end of each chapter, the dynamics of each housing delivery system and its strengths and weaknesses in achieving housing objectives are outlined.

Chapter 9 summarizes the research findings. The housing problems perceived, policies and programs deployed to solve these problems, difficulties facing policy-makers, and dynamics and interactions of housing delivery systems are presented. Based on these findings, the chapter outlines several policy implications on which to focus future housing policies and programs.

## CHAPTER 2

### THEORETICAL FRAMEWORK AND RESEARCH METHODOLOGY

The Chinese character for housing (住房) is made up of two symbols. The first, 住, literally means "to dwell", "to reside" or "to stay at". The second symbol, 房, stands for a "house", a "room" or a "building". The Chinese, therefore, see housing both as an activity and as a structure. In other words, housing is both a structure and a series of activities which provide accommodation. This is the definition of housing employed in this dissertation.

#### 2.1 Housing Problems

Walking along the streets of Beijing or any city in a developing country, a wide variety of housing conditions can be observed, each with specific problems demanding specific solutions. However, people may perceive housing problems differently and disagree on solutions.

##### *Perceptions of Housing Problems*

The perception of what defines a housing problem has changed with historical conditions.

For many centuries, the provision of housing all over the world has been the responsibility of individual households or small mutual help groups. A housing problem was an individual problem. Though not much information is available on urban housing issues in pre-industrial cities, the few existing studies, such as Mumford's (1961), suggest that housing conditions and development processes in feudal or medieval cities may not have differed greatly from those in the rural areas.

Housing is becoming a problem of the city as a whole due to industrialization. In the process of industrialization, urban housing becomes a social-economic problem related to

the redistribution of national income between investment and consumption. It becomes a problem related to the delivery of this consumption item in a manner most suited to the accumulation of wealth. In many countries, urban housing has become a public concern that requires action by public and private organizations operating at the city level and above.

In recent years, housing has gradually developed into a human right as articulated in the Universal Declaration on Human Rights. This notion is further emphasized by the UN Declaration on Human Settlements (1976) and HABITAT II (1996). However, it seems unclear how this notion fits into overall social and economic development processes. It is also not clear how this notion is executed through well coordinated organizational and institutional arrangements.

Given that the historical conditions composed of social, economic, political, and cultural factors vary amongst countries and cities, perceived housing problems based on these conditions are substantially diverse. The result is a diversity of housing studies. Considering the general principles of economic organization, political ideology, resource bases, levels of technological development, and demographic trends, three broad categories of countries can be identified: market-oriented capitalist societies, socialist societies, and market-oriented developing societies.

Capitalist countries. Generally speaking, market oriented capitalist countries began their industrialization period 200 years ago. These countries experienced vigorous economic growth for at least two decades following the Second World War. High rates of residential construction accompanied the rising prosperity during that period. As a result, most of these countries eliminated their absolute housing shortages while managing to improve the quality of their housing stock. However, affordability of housing became a growing concern.

In many capitalist countries, residential construction has typically been undertaken by small enterprises using labor-intensive technologies. Housing provision has relied heavily on "free" market mechanisms driven by private interests for profit maximization. The most common mechanism of market, price or rent, is a function of the interaction between supply and demand. It is assumed that a well functioning "free" market would house every family, including the disadvantaged, through the process of "filtering down" (Beyer, 1958 & 1966).

The degree of specialization and professionalization in housing provision increased along with the growth of market economy. A diversity of roles such as planners, architects, builders, and realtors, has been established and institutionalized. While urban communities grow larger and more complex, governments in capitalist countries have intervened directly or indirectly in the building process to varying degrees and extents. A basic premise underlying government involvement is that private market mechanisms cannot address the needs of economically disadvantaged population groups, especially in welfare states. Many governments have been involved in the direct provision of public and subsidized social housing.

Since the 1980s, construction has declined in many capitalist countries. Private investors are moving to alternative investment opportunities with higher yields. Public authorities have increasingly withdrawn from housing provision due to pressures of the economic recession combined with fiscal austerity and conservative political ideologies (Van Vliet 1990). Governments now have to weigh the best possible and cost-effective uses of their increasing limited resources for housing against other uses such as education and health care.

Socialist countries. There are important variations in housing conditions within socialist countries (including the advanced [former] East Bloc and developing states) mainly because of the level of industrial development. Most of these countries have adopted an egalitarian ideology in which the state distributes costs and benefits, resulting from national functions and development, equally among all population segments. Housing, viewed as a social good, thus must be provided by the state. Many socialist countries have nationalized land or at least attempted to control the transfer of land in order to safeguard the optimum use of the land and prohibit the practice of land speculation.

In the industrialization process, housing expenditures have to compete with other areas of production or social services due to limited state resources. Often the latter generally receives priority. Consequently, residential construction in socialist countries reflects compromises in terms of quantity as well as quality. The traditional approach of socialist states regarding housing needs is to supply mass housing, often restricting the

methods and extent to which the demand for housing is articulated (Andrusz 1984, DiMaio 1974, van Vliet 1990).

Within the administrative structure of socialist states, a tension often exists between community level of grass roots democracy and the central bodies of the national government, as well as between local resource mobilization and centralized coordination and planning. In many countries, other forms of housing provision such as co-operatives or private developments are discarded or contained because they do not fit the official ideological mold. Nonetheless, these forms are tolerated mainly because they help alleviate housing shortages. Some exceptions such as Cuba and Nicaragua encourage unique co-op or community housing programs (Mathey 1990).

Though information on housing in socialist countries is incomplete, it seems apparent that most of these countries still face absolute housing deficits. In addition, many are experiencing the trend of privatization and transition to market-oriented systems, particularly after the breakdown of the Berlin Wall (Renaud 1991). This historical change has generated more complicated housing problems.

Market-oriented developing countries. The common characteristics that most market-oriented developing countries share are: low levels of industrial development; inadequate organizational and physical infrastructure; high economic dependency resulting from colonial legacies; large low-income populations; formidable population growth; and massive urbanization. Information on housing in these developing countries is fragmented and most of the research is empirical, action-oriented, and especially concerned with low-income housing (Abrams 1964, Ward 1982, Angel et al 1983, Dunkerley 1983, Rodwin 1987, Hardoy & Satterthwaite 1989, Baross & van der Linden 1990, van Vliet 1990, Mathey 1992). The information available does not dispute that rapid household formation, massive rural-urban migration, and its resulted concentration in large urban centers poses a challenge to housing provision in market-oriented developing countries. Severe shortages exist and there is little or no realistic prospect that formal housing provision, either through the public or the private sector, will eliminate problems. Residential construction frequently takes place in an irregular and piecemeal manner. Typically, spontaneous settlements of

different types like slums and squatter housing have sprung up in most of these countries, often housing a large proportion of the urban population. The pervasive lack of basic facilities and poor dwelling quality are common and further exacerbate housing shortages.

No matter the historical conditions of a country, the housing problems perceived and studied seem to include one or more of the following subjects (Van Vliet 1990):

- ♦ Building standards
- ♦ Shortages
- ♦ Quality and rehabilitation
- ♦ Self-help
- ♦ Affordability
- ♦ Site planning and hazard mitigation
- ♦ Institutional organization and resourcing
- ♦ Inequities, discrimination, and polarization.

The preceding highly general description of perceived housing problems attempts to demonstrate a simple fact - housing problems are perceived against certain standards and expectations. It would be too exhaustive for this paper to explore the fundamental values and historical conditions that form these expectations<sup>2</sup>. However, it is clear that five distinct (though inter-related) criteria are pervasive in the various housing studies. They include: availability, adequacy, affordability, accessibility, and viability.

**Availability** is a standard of quantitative requirements indicating whether there is enough housing units in stock to meet household needs. The antonym of availability is "shortage", including the absolute shortages in which population outnumbers total housing space and the relative shortages to the characteristics of needs.

**Adequacy** is a standard of the physical qualitative requirements for a civilized living environment for human beings. Adequacy indicates whether housing units are in physically fit condition for shelter or whether they are in disrepair, at risk of abandonment, or should be removed from use.

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<sup>2</sup> Analyses of this type can be seen in, for instance, Marcuse 1980.

**Affordability** is a standard of a family's financial ability to afford necessary housing services. Affordability can be measured in several ways: unitary housing costs against the minimum wage or other standard wage lines; against actual wages derived from questionnaire analysis; or against a "basket" of basic commodities. There is also a distinction between short term affordability and long term affordability relative to the life cycle of a family, or between different forms of tenure such as home ownership affordability.

**Accessibility** is a standard for housing distribution based on the principle of social equity. Accessibility indicates whether households of all types are able to gain access to the available units in their affordable range. There is no commonly accepted measurement of this standard. However, what is often used is accessibility either against spatial distance, particularly the proximity to work or amenities, or against social classes resulting from discrimination or attitudinal barriers.

**Viability** is a standard for financial performance of housing projects, indicating whether these projects can recover their costs without outside subsidies, particularly from public resources.

### *Housing Problems and Housing Research in China*

Perceptions of the housing problem in China have changed with historical circumstances during the past five decades. The focus of housing research has also changed.

During the period from 1949 to 1978, the urban housing system in China was a state-controlled administrative system. The public sector was the dominant player in all aspects of housing delivery process -- construction, distribution, maintenance, repair and management. Housing was regarded not as a commodity, but as a social good. Housing was an item of welfare that was allocated according to needs, an in-kind benefit that represented the social status of the occupier. As such, public housing rents were nominal. In addition, under the policy of building "producer cities", government investment into urban housing was far behind investments into such productive sectors as industry and agriculture. This



long-time neglect of housing provision resulted in a serious housing shortage in virtually every city in China.

Reforms beginning in 1978 launched a transition from a centrally planned system to a "socialist market economy". In the urban housing sector, reforms were directly provoked by the fact that the central government could not afford to house all of its urban citizens. Several programs of "commercialization" including rent increases, privatization of public housing, and development of a commodity housing market, were first experimented within a few pilot cities and then expanded to other cities. These, in turn, sparked further reform practices through chain reactions. In essence, the central purpose of urban housing reforms is financial. Reforms unload government responsibilities -- especially those of the central government -- to other actors including individual households, the private sector, work-units, community groups, etc.

The housing research that emerged in China in the earlier 1950s was a result of the rapid industrialization of the time. During the chaotic two decades between 1958-1978, housing research virtually disappeared with other scientific and social research and did not resume until after the economic reforms inaugurated by Deng Xiaoping in 1978.

Housing research after 1978 began with the ideological onslaught on low rent policies. Theoretically, most articles debate the "fundamental nature" (基本属性) of housing. Three schools of thoughts can be identified dependent on their belief that (1) welfare character is the fundamental nature of housing; (2) commodity character is the fundamental nature of housing; or (3) housing possesses a dual function as both a commodity and welfare item. These different beliefs lead to different designs of housing delivery processes in which government, work-units or community groups, and individuals play different roles. Consequently, each school leads to different economic results in terms of cost recovery (Su 1987, Cai 1987, 1991).

Housing research in China since 1978 has mushroomed and covers a broad range of issues. Most articles are reform-oriented. They identify, evaluate and recommend various housing reform policy options and often discuss one or several subjects as follows:

- ♦ different methods of increasing rents or selling public units.
- ♦ sequence and focus of reform measures -- Whether to increase rent, sell public units, or apply a new system to new housing units first (Yun *et al* 1990).
- ♦ the meaning of commodification and its relation to privatization.
- ♦ components of housing reform.
- ♦ the relationship between the housing system and other parts of the economic system.
- ♦ impacts of housing reform on the changes in wage structure, labor force, public enterprise system, and others.
- ♦ experiences in cities where housing reform experiments were in place and several "reform models" such as the "Yantai model", "Shengzhen model", "Shanghai model" and "Beijing model" (Zhang *et al* 1992).
- ♦ theoretic alternatives to housing systems as a whole (Dong 1988, Cai 1991, Zhang Q *et al* 1990).

Housing reforms initiated for the simple purpose of recovering costs lead to a complicated and revolutionary process of organizational and institutional changes toward the establishment of a market-oriented housing system. However, after more than a decade of experimentation in the early 1990s, some housing policy-makers and practitioners in China realized that a market housing system might respond efficiently to housing demand but cannot serve the housing needs of low-income groups who often lack the economic capacity to transform their needs into effective demands. The harsh reality that hundreds and thousands of households are still living in appalling conditions while many commodity housing units are vacant has forced the Chinese government to search for alternative mechanisms. This is especially true for the majority of urban residents -- the moderate and low-income households. The establishment of a "two-track housing system" -- for commodity housing and for affordable housing -- has been the focus of the most recent experiments.

Housing research reflects these new trends and is beginning to become diversified. While the questions on specific themes like inner city redevelopment or low-income housing are intriguing, a systemic study on the **actual** structure and process of housing delivery as a

whole is more urgent for policy-makers. Particularly as new programs are being put forward and new social forces are emerging, it is necessary to identify the new forces at work and evaluate policy programs for future development. This type study is rarely found in the current housing research in China.

### *Redefining the Housing Question Perspective*

The United Nation Centre for Human Settlements (UNCHS) summarized an evolutionary history of most developing countries in terms of their official response to housing policy and practice (UNCHS 1987). Three major phases over the last 30 years are identified by UNCHS:

- (1) The first phase consisted of large-scale public sector investment into housing production with concentration on the construction of standardized dwelling units for the poor by government agencies.
- (2) The second major phase took the form of "aided self help" - official support for upgrading sites-and-services and inner city rehabilitation during the 1970s and early 1980s.
- (3) The third phase began to emerge in the late 1970s with signs of a more fundamental shift to what is now know as "enabling" strategies. This policy phase focuses on managing the framework in which people are able to build or find their own accommodation and on directing scarce public and private sector resources to areas which the poor cannot develop for themselves. It is in essence based upon "institutional actions" (Turner 1987).

However, interpretations of "who shall be enabled" are as divergent as those of the fundamental ideologies on which these interpretations are based. Some suggest enabling the "popular sector" (Turner 1976), some suggest enabling the "market" (World Bank 1993), while others seek to enable "local governments".

Though China is facing similar challenges of institutional rebuilding, it is difficult to accept the popular two-party paradigm between the poor and the state in the complex Chinese context. In addition, the solution cannot simply be chosen between the market, the popular sector and the state because each of these sectors have to be defined within the changing urban societies of China. Particularly, the "state" is not a unitary entity which

represents the interests of a ruling elite. It cannot speak with a single voice with respect to policies concerning such complex issues as affordable housing. The "state" in China is an extremely complex set of institutions and agencies with overlapping, contradictory and not always enforceable powers that is increasingly decentralized and geographically distributed.

Nonetheless, enabling strategies hold an important assumption that housing delivery must rely heavily on energies other than the governments. It needs the support of others to foster housing improvements, including individual households, local communities, and interest groups. The support of others will not be forthcoming unless their specific interest are tapped. If the government wants their support for certain housing programs, the programs have to take actions which support the interests of the people or organizations involved.

China is undertaking the vast task of reforming the housing system to be compatible with a "socialist market economy". From the perspective of enabling strategy, this housing reform is a task to design and implement enabling housing policies and practice in the Chinese context. In general, a policy or practice, including housing policy and practice, often includes four basic components: objectives, content or options, structures, and processes. This suggests an analysis centered upon the idea that:

- 1) housing policy or practice is consciously directed towards a certain end or ends.
- 2) it consists of an identifiable set of principles and actions.
- 3) it involves a set of actors, institutions and relationships which determine objectives, content, and delivery.
- 4) it is constructed, implemented and received through certain processes.

As mentioned in the previous section, current housing research in China has extensively discussed the issues generally related to the first two areas: the objectives and content of housing reform. Research on the structures and processes are weak and fragmented. There is no dispute that such a comprehensive study is necessary to improve China's housing reforms.

In addition, to test the assumptions that the state in China is not a unitary entity and that the enabling strategy must tap into the interests of the actors involved, a study is

required. In specific, the study focuses on how urban housing is delivered by specific "sectors" in China (Beijing as the case), and whether the delivery arrangements are effectively reaching housing goals. This study should both identify the diverse organizational and institutional arrangements in housing delivery and explain the reasons for the dynamic changes of these arrangements.

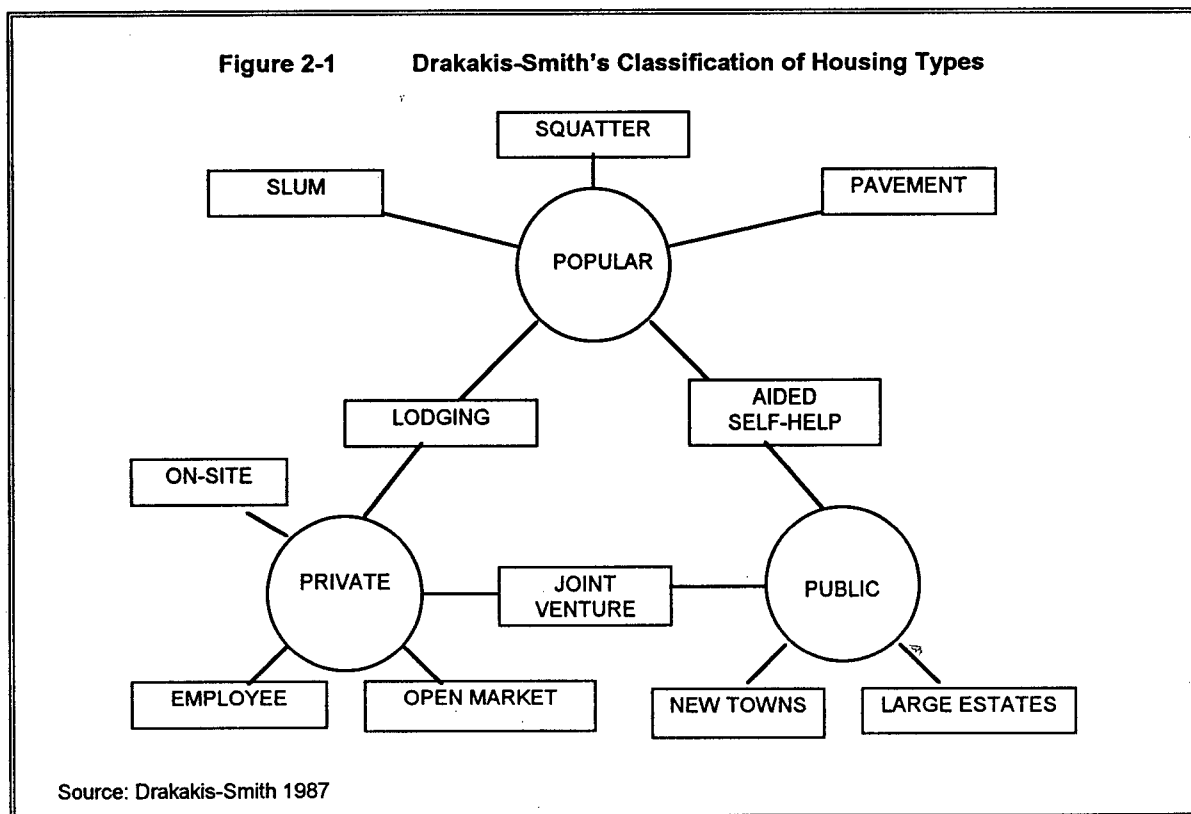
## **2.2 A Housing Delivery System and Its Relation to Social Structure**

### *The Concept of A Housing Delivery System*

The concept of a housing (delivery) system is found in a number of publications. To some, a housing system is a list of various types of housing. Others use related concepts which concentrate on the delivery of essential components of the housing process.

In the first group, most authors generally agree on the basic distinction between three types of housing: private sector, public sector, and a third type variously labeled as illegal, popular, or informal sector housing. A study of Angel (1977) identified more than three sectors (subsystems) of low-income housing delivery in Asia: squatters housing, temporary land tenure, private housing, employees housing, commuters housing, public construction, and public assistance. Drakakis-Smith (1982, 1987) also provides a classification of various housing types. As shown in the graph below, a basic distinction is made between the public, private and popular sectors which form the angles of a triangle as the point of departure. The housing types are grouped around the respective sectors they connect to (Figure 2-1).

In the second group of publications that uses the concept of a housing delivery system, Angel (1983), Doebele (1987:12), Baross (1983) and Baross & van der Linden (1990) discuss land delivery systems. Baross (1983) discussed the articulation of land supply in third-world countries. A volume edited by Baross & van der Linden (1990) deals with land supply systems. Renaud (1984, 1987) classifies finance systems in a developing economy and housing delivery systems. Linn (1983) contributes to the study of the housing delivery system from an economic perspective. He establishes a matrix of housing supply agents and activities to show the income categories which various agents provide housing supply activities to. These activities include subdivisions, provision of on-site services, provision of off-site services, shelter construction and provision of tenure security. The supply agents include private and public categories. The private sector consists of developers, owner occupants, squatters and occupants of illegal subdivisions, absentee owners, renters and service providers. The public sector includes urban governments, providers of public utilities and housing agencies.



The definition of a housing delivery system by Prins (1994) may be the most satisfactory. Based on a review of the concept of others, he concludes that,

"A housing delivery system can be considered as a social configuration relating to the production and distribution of housing, with more or less formalized relations between the actors performing the necessary functions in the housing process" (Prins 1994:39).

He emphasizes that the housing delivery is not limited to the provision of shelter, but rather to the creation of a housing environment which includes housing and the related physical infrastructure at the neighborhood level.

In Prins' view, the process of housing delivery requires the input of a number of resources. The ways in which these resources are made available in this process are labeled "process functions". Prins identifies nine process functions: initiation of the project, provision of land, financing, planning and design, authorization, construction, access mediation, rights of occupancy, and management (Prins 1994:43).

To fulfil of these functions, a number of roles are defined within the social structure of the housing delivery process, including the initiator, the architect/planner, the builder, and the administrator. These roles are filled by the actors who, depending on their specific goals, take their position in the social structure of the housing delivery process. The actors have a certain degree of control over one or several of the resources in the housing process and may be individuals or organizations.

Thus, a housing delivery system is characterized by the unique combination of actors, their goals and the ways in which they fulfill their role in the housing process.

Not all actors have equal power in the housing process. The complexity of bringing the various resources together to produce the housing environment usually requires the coordinated efforts of several actors controlling one or more resources. As a result, the housing process is also characterized by the formation of coalitions. It is a process of negotiation between actors controlling resources. The position and negotiation power of actors depends on a number of factors including the level of control over one or more resources, the scarcity of the resource(s), willingness to acquire control over additional resources, and whether they play an active role in the process of coalition formation.

Furthermore, Prins stresses that various actors participate in the housing process with a variety of goals in mind, goals which may not be directly related to the creation of housing. It is thus important to discover what motivates each actor. To better understand the actions of actors, Prins distinguishes three different institutional domains based on the goals of the actors. In the subsistence domain, residents either collectively or as individuals, perform housing delivery functions for their own benefit. In the commercial domain, the provision of housing is subordinated to profit making. In the public domain, including all institutions which form part of the local, regional or national government and international agencies, often act for the purpose of providing housing at moderate costs. Of course, usually other motivations such as political legitimization are also at stake.

In summary, rather than attempting to construct an overall typology which includes complete housing delivery systems, Prins uses the "matrix of housing delivery functions" to analyze a housing delivery system (Figure 2-2).

**Figure 2-2**      **Matrix of housing delivery functions**

<i>Process functions</i>	<i>Institutional domains</i>		
	Subsistence domain	Commercial domain	Public domain
Initiation of the project			
Provision of land			
Financing			
Planning and designing			
Authorization			
Construction			
Access mediation			
Rights of occupancy			
Management			

Source: Prins (1994), page 43.

### *The Relation of Housing Delivery System and Social Structure*

Housing delivery systems are not created within a vacuum. They exist in a general, wider societal context where housing plays certain roles and in which various social, economic, political, and cultural forces shape the interests of the actors in housing delivery. To understand the dynamics of the process it is therefore necessary to understand the relationship between a housing delivery system and its context.



Several theories give directions towards this end. A Marxist approach, especially as it is presented by Castells and Harvey, is one of the most useful tools for casting a light on this issue.

The Marxist approach views the housing delivery system as interconnected with the wider social system in the following important ways well-summarized by Basset and Short (1980): First, housing is a commodity and a source of surplus value for certain forms of capital. Second, housing is part of the necessary consumption of workers and, as such, is an aspect of the reproduction of labor power. Third, the forms in which housing is provided are interlinked with the reproduction of the social relations of capitalism. Fourth, in so far as it is embedded in a system of contradictory forces, the housing system will be an arena for social class conflicts and a locus for various forms of state intervention (Basset & Short 1980:174).

Based on an analysis of urbanization in advanced capitalist countries, Castells developed a theoretical perspective on capitalist urban systems (Castells 1977, Castells & Godard 1974). According to Castells, a capitalist system must reproduce its means of production, its labor power and its relations of production in order to survive. In order for capital accumulation to proceed, it is necessary that labor power be continually reproduced, both in terms of total quantity and of the different components required by different branches of industry. On one hand, the basic needs of private capital accumulation and profit always dominate and the system of private production draws capital and resources towards itself. On the other hand, as capital concentrates and centralizes, labor process becomes more and more interdependent and production becomes increasingly socialized, dependent on a wide range of consumption needs. Most of these consumption needs, such as the back-up of public transport, public housing, health and education services, cannot be met efficiently or profitably through private capital. Thus, the responsibility of their provision has been increasingly given to the state. The state is forced to regulate or repress the contradictory forces at work and solve the crises and bottlenecks created by them. However, state intervention is primarily on behalf of dominant fractions of capital and crisis management is often partially unsatisfactory.

Housing is a major element of consumption within this urban system. The provision of housing is not just a quantitative problem. It is also qualitative in the sense that (a) housing must contribute to the reproduction of the different components of labor power with their different incomes and housing needs, (b) housing must contribute to the reproduction of social relations through correspondence between signs of residential status and position within a social hierarchy based on class divisions, and (c) housing also has a more overtly political role in isolating and disorganizing potential working class movements through a dispersal of working class concentrations and a fragmentation of social areas by status differentials and modes of consumption (Castells 1977, Basset & Short 1980:188).

Another theme within the Marxist approach to housing is related to class conflicts. Under Marxist approaches, the housing system is part of a contradictory social system and is an arena for class conflicts rooted in the contradictions. The pattern of conflict will ultimately reflect the fundamental contradictory relationship between capital and labor. However, a series of secondary conflicts within and between classes revolves around this central conflict. Conflicts within the capitalist class over housing issues can be related to the different forms of capital, such as industrial capital, commercial capital, financing capital, (Harvey 1975) and / or "property capital" (Lamarche 1976). The laws governing the circuits of specialized capitals also define particular places to be filled by different levels of institutional agents and the functions to be performed by those agents. In this sense, institutional agents pursue their own specific interests which are structured by the underlying processes of capital accumulation. These interests may be contradictory and force the state to intervene, resulting in the development of "collective consumption". The state's responsibility for collective consumption reflects the process of politicising the economic contradictions that necessitate this intervention. It also reflects the process of producing social cleavages between urban populations which cut across class lines. These are new forces at work, which are labeled "urban social movements" (Castells 1977). Traditionally, work-based struggles over wages and working conditions are separated from community-based struggles over housing and collective facilities. Today, urban social movements displace the class struggle from the work area to the communal living space.

This process is regarded as an organized claim on the part of the dominated class for more indirect wages (Castells 1977).

The simplified sketch above of a Marxist approach to housing is important if one is to understand that organizations in a housing process cannot be simply regarded as actors obeying some logic peculiar to themselves. Their behavior is structured by the deeper, underlying logic of capitalism and its laws of accumulation and circulation in a specific mode of production. It is this logic that shapes the form of values and the distribution of power.

However, there are some critical difficulties in directly applying the above-mentioned Marxist theories without revisions into a socialist urban context such as Beijing. First, class delineation according to the means of production is now ambiguous in Beijing because in theory, the major means of production in Beijing are owned by the state. Consequently, it is difficult to separate capital from labor as done in the traditional Marxist sense. Second, the view of the state as the representative of the dominant class oversimplifies the reality of Beijing. Although many government apparatuses are organizations of the state, they are not a unified voice representing the interests of a ruling elite.

In order to analyze and explain the dynamics of the housing process in Beijing, new concepts may have to be developed. This attempt is taken in the next section.

### **2.3 Housing Delivery Systems as Social Configurations for Urban Space**

Following the literature review above, this section will address the development of an institutional concept of housing delivery systems which will be used to analyze the housing process in Beijing.

A housing delivery system can be considered an organizational and institutional arrangement within a broad social structure that is related to the production, distribution and consumption of housing. It should be stressed that housing delivery is not limited to shelter. It refers to the overall housing environment which includes shelter as well as the related physical infrastructure at the neighborhood level.

In this definition, organization is specifically distinguished from the institution even though they both provide structure to human interaction. Institutions are software while organizations are hardware. Alternatively, institutions are the rules of a game while organizations are the players.

A distinction between production, distribution and consumption needs to be clarified. Production relates to all the activities through which the housing environment is created. It is not limited to the construction of new dwellings. Production also includes the extension or improvement of existing structures and the construction or improvement of infrastructure. Distribution refers to how housing units are transferred to their inhabitants. It also includes the process of redistributing existing units. Consumption is the process through which the housing environment is used for certain purposes by its inhabitant. Consumption also includes the activities of management and maintenance that direct the forms of housing consumption.

Production, distribution and consumption represent the three basic phases of the housing process. These phases then identify "process functions." Process functions, as used in Prins (1994), are the ways in which a number of resources are made available to produce the housing environment. In Beijing, the basic process functions are: initiation of a project, planning and design, acquisition of land, financing, authorization, construction of building, provision of infrastructure, transfer of units, access to occupancy, maintenance, and management.

Process functions are fulfilled by numerous actors who may be individuals or organizations. They participate in the housing process with a variety of objectives and have a certain degree of control over one or several of the resources. One actor may adopt one or several functions. A single function may be carried out by one or several actors. The major actors in Beijing include various levels of government, its apparatus, work-units, development corporations, housing co-ops, and individuals. The roles of the actors in housing delivery can be summarized in the following matrix.

Table 2-3 Process Function Matrix			
Process function	Actor 1	Actor 2	Actor n
Project Initiation			
Planning & Design			
Land Acquisition			
Authorization			
Financing			
Building Construction			
Infrastructure Provision			
Transfer of Units			
Access to Occupancy			
Maintenance & Management			

The relationship between actors and the ways that actors carry out process functions are defined by institutional arrangements, the humanly devised constraints that shape human interaction. Since numerous actors participate with a variety of goals in mind and these goals may conflict with each other, the actors may form coalitions or fight against each other. Consequently, housing delivery systems are the result of decision-making and strategic actions by various actors in the housing process.

The five general housing policy objectives derived from the experiences of most countries in the world -- availability, adequacy, affordability, accessibility, and viability -- are applicable to China. However, above all, China is a developing country. As Marxist theories state, industrialization and accumulation of wealth are part of the fundamental forces that set the conditions for housing delivery systems. How these forces function to influence the goal-setting and decision-making by actors are not always apparent. On the surface, it looks like actors struggle in their daily lives to search for opportunities that serve their fundamental purposes. Institutions, together with other constraints, such as technology, income, and preferences, determine the opportunities in society. Organizations are created to take advantage of societal opportunities. In the course of pursuing these opportunities, organizations incrementally alter institutions. Meanwhile, incremental change comes from the perceptions of entrepreneur actors in organizations that they can do better by altering the existing framework to some extent. However, perceptions depend critically on both the information that the actors receive and the way they process the information. Once a development path is set on a particular course, the transaction costs, the learning process of organizations, and the historically derived subjective modeling of the issues reinforce the course. In other words, these forces also determine the circumstances under

which actors, with their bargaining power, produce institutional solutions that turn out to be efficient ones (North 1990).

Specifically, in the industrialization process, all actors in the housing delivery process are compelled to search for opportunities to consolidate, strengthen or create their bargaining powers and controls over resources in order to survive. Holding various interests, actors struggles to meet other immediate goals without sacrificing their position for wealth accumulation. Their goals may conflict with specific housing objectives. These conflicting interests, of course, would be reflected in the performance of the actors and in the effects of their actions.

Table 2-4 is a preliminary evaluation table that will be used in the following chapters to identify the actual objectives that actors are pursuing and the nature of the consequent effects of their actions.

Table 2-4 Evaluation Table		
	Objective	Effect
Housing Specific Objectives	Availability Adequacy Affordability Accessibility Viability	
Other Objectives		

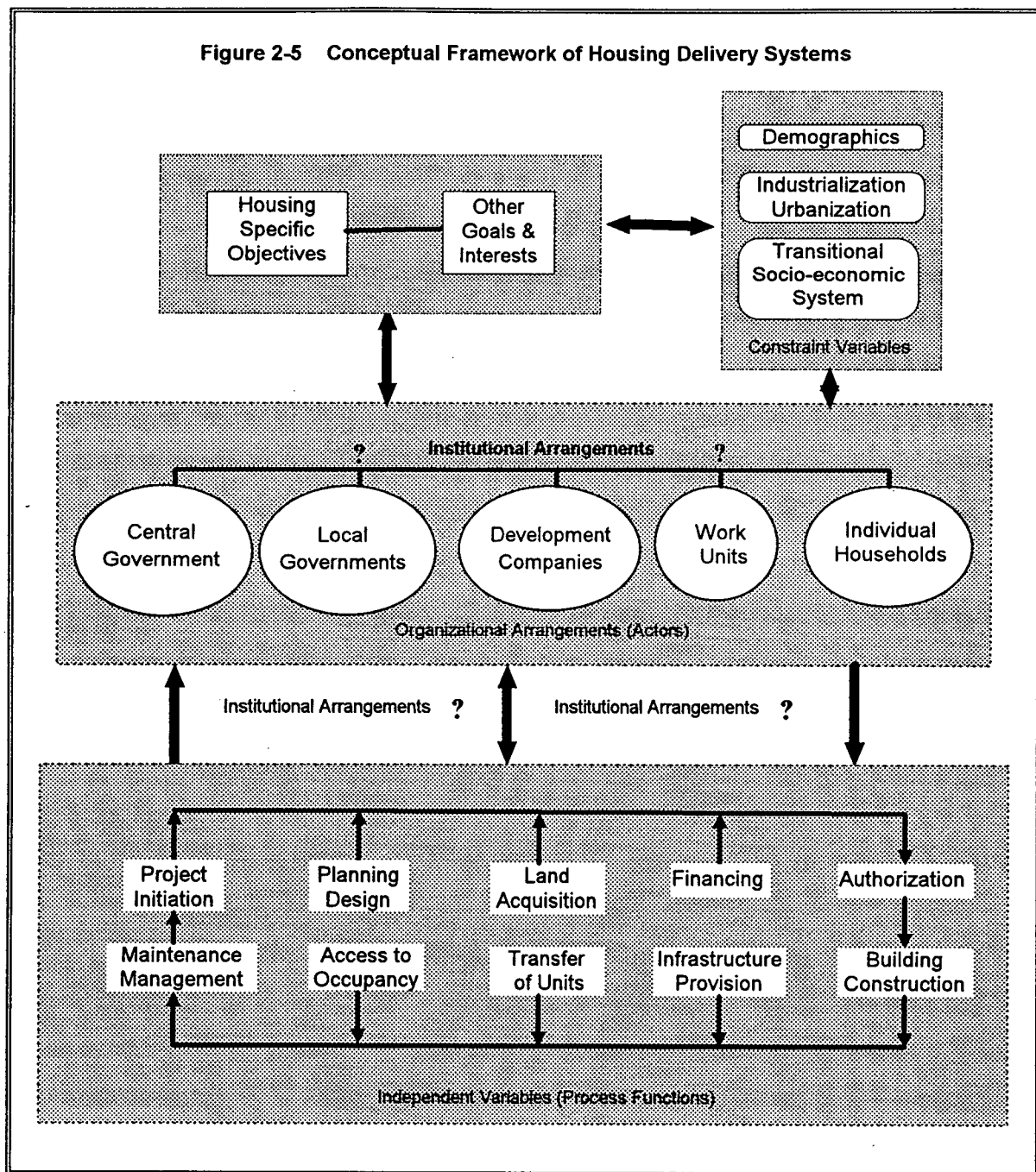
Figure 2-5 illustrates the structure of the conceptual framework as stated above.

## 2.4 Summary of Theoretical Framework

The provision of adequate, affordable, accessible urban housing for all residents in a viable manner is a vast task for housing policy makers. This dissertation looks at the Beijing example to examine the dynamic changes of housing delivery systems in Beijing, explore reasons for these changes, and effects of the performances of housing delivery systems. The research answers the following questions:

- 1) What are the organizational and institutional arrangements (housing delivery systems) for the provision of housing in Beijing?

Figure 2-5 Conceptual Framework of Housing Delivery Systems



2) How have these arrangements been changed in the past, or how are they currently changing, and why?

3) Do these delivery systems work effectively to achieve specific housing goals?

Specifically, the major objectives of this dissertation are to:

O-1. Explore a conceptual framework for housing delivery in Beijing based on a literature review (summarized in the foregoing sections).

O-2. Describe and summarize the dynamic changes of housing delivery systems in Beijing based on surveys and field research; especially, to investigate the functions of governments, work-units, individual households and other relevant actors in the housing process and the institutions shaped by these actors; and identify the patterns of housing fund flows in the housing process.

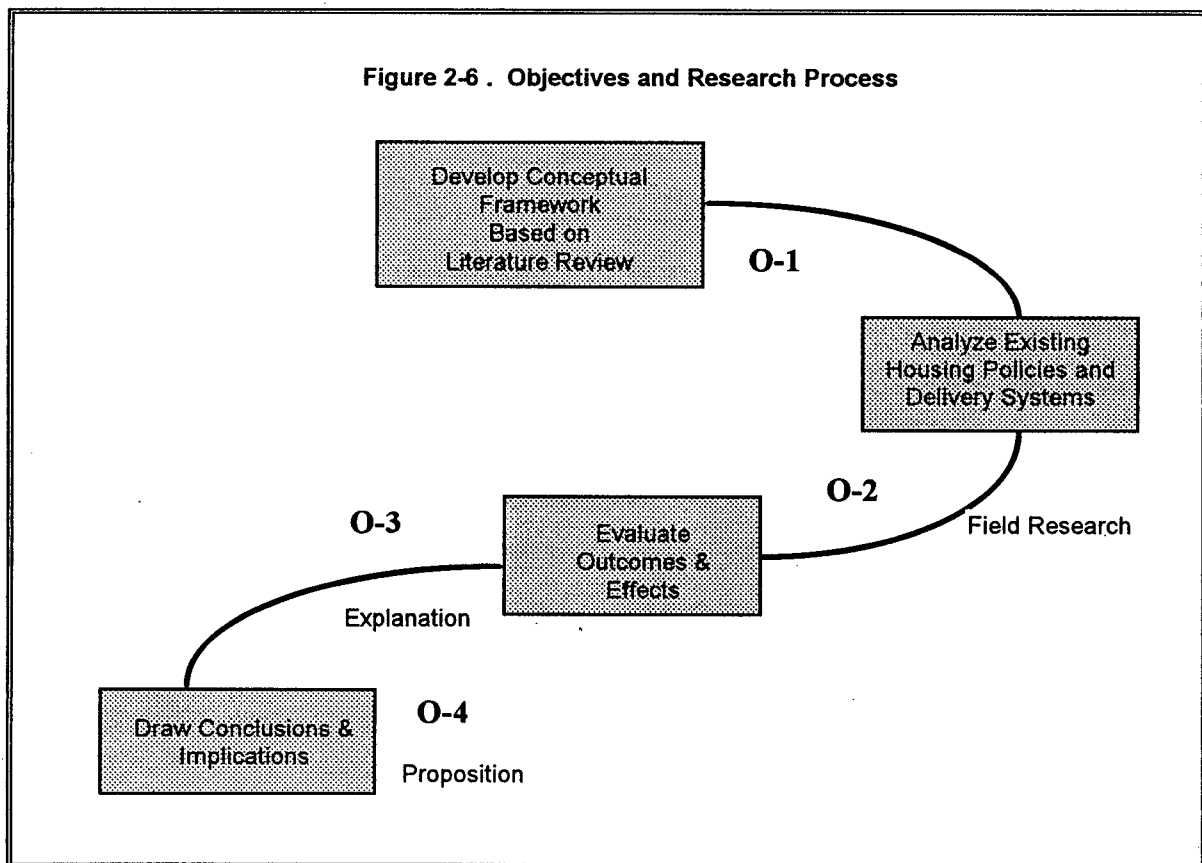
O-3. Explore the reasons for the dynamic changes of the delivery systems and evaluate the effects of the housing delivery systems.

O-4. Identify the policy implications for further urban housing system reform in Beijing.

Figure 2-6 illustrate the objectives and the research process.

There are several assumptions underlying the conceptual framework:

1) Housing problems occur when housing conditions and delivery do not meet the





standards of availability, adequacy, affordability, accessibility, and viability.

- 2) The "state" in China is not a unitary entity representing the general public interest and speaking with a single voice on housing policies. It is an extremely complex set of agencies and institutions, with overlapping, contradictory and not always enforceable powers.
- 3) The actors in the housing process, including various government agencies, do not have a logic peculiar to themselves. In the industrialization and modernization stage of development, their behavior in housing delivery is structured by the deeper, underlying logic of capital and laws of accumulation. This logic, in conjunction with the composition of other social, economic, political and cultural factors, also shapes the forms of values and the distribution of power between actors.
- 4) Any policy, including housing policy, intent on mobilizing the resources of other social groups or actors, has to tap into the specific interests of these groups or actors to be effective.

## 2.5 Research Methodology

### *Strategy*

A strategy of inquiry connects the conceptual framework and objectives to specific approaches and methods for collecting and analyzing data. In this dissertation research, an embedded single-case study defined by Yin (1989) is the most appropriate strategy.

According to Yin, a case study normally is used to investigate a contemporary phenomenon within its real-life context when the boundaries between the phenomenon and its context are not clearly evident. It is the preferred strategy when "how" and "why" questions are being posed and when the researcher has little control over events.

The perspective on housing delivery proposed in this study is primary research and has not previously been accessible for investigation. Many processes and structures are still

emerging and some of them have not been documented. Some are even "invisible" from public awareness. These characteristics match well with the rationale to conduct an embedded single-case study.

### *The Case and Analysis Units*

The researcher chose Beijing as the case study area based on the following considerations. First, entry is possible. The researcher lived and worked in Beijing for about seven years and is familiar with the local situation. It was comparatively easy for her to access relevant formal and informal organizations and establish relationships with informants. In addition, the researcher was able to devise an appropriate role in order to maintain the continuity of her presence in Beijing as long as was necessary.

Second, Beijing is the capital of China and the second largest city of the country with an officially registered population of 10.5 million (1994). It contains a rich mix of many of the housing delivery systems that the research questions explore. As the capital, Beijing is often the example which other cities look to when seeking references for housing reforms.

Third, some research on housing issues in Beijing has already been done. This provided a certain amount of secondary data. Using these studies as references, this dissertation research can better assure the quality of data and credibility of the study.

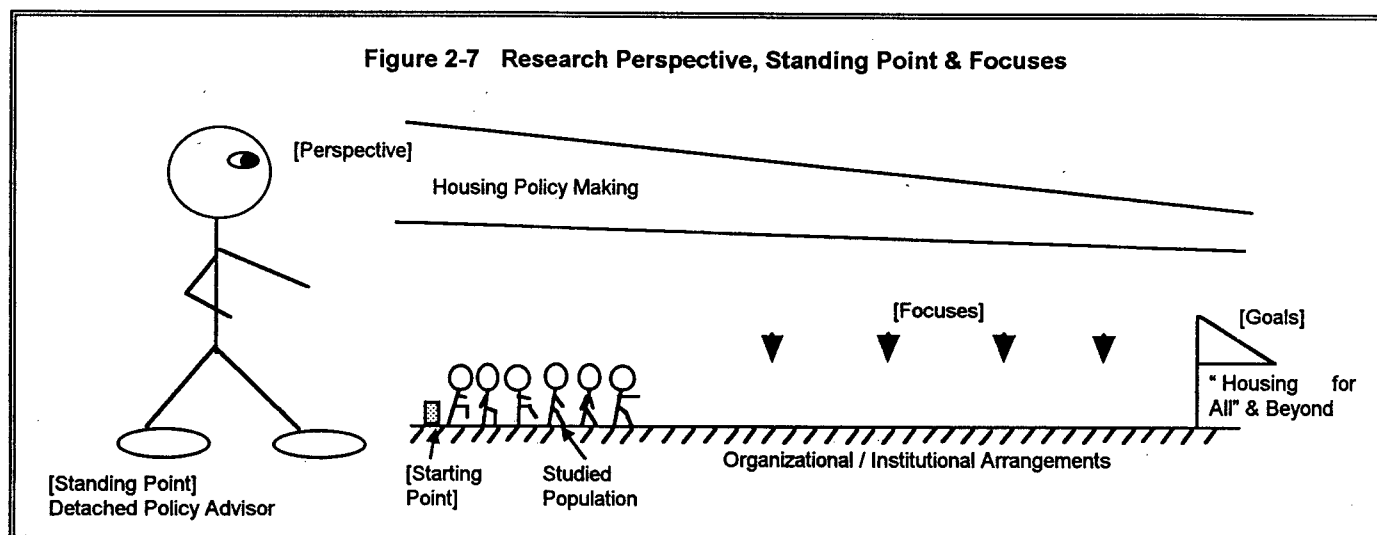
### *Scope and Study Population*

The intended beneficiary population of this research is the urban residents in Beijing. Two groups of people are included: the legitimate registered urban resident group and the floating population. The former group is the targeted population for housing policies of the Beijing Municipal Government. Their housing needs are addressed by various official housing programs. The latter group includes those who are not registered with the Public Safety Bureau as permanent urban households in Beijing and thus are outside of any level of government jurisdiction.

city subgroup, housing-poor subgroup, and floating population subgroup, as reviewed in Chapter 3. These subgroups comprise the major units (housing delivery systems) which are observed and analyzed. In other words, the definition and scope of these sub-groups are part of the research question and are discussed in the respective chapters.

Given limited time and resources, this research assumes that the members of each subgroup behave in a homogeneous manner when housing is concerned. The difference between them is thus ignored. In order to thoroughly study the common features of each type of housing delivery system and provide an in-depth understanding, one case study for each type of housing delivery system is ideal. Unfortunately, the original field research design focused heavily on the segment of low-income housing which mainly covers housing-poor, floating population and old-city subgroups. Consequently, the case analyses are conducted only on old-city redevelopment, the official low-income housing program - "Sheltered Home Programme", and the informal housing of the floating population. Further on in the research process, the researcher realized that a comprehensive account of Beijing's housing delivery structure and process as a whole was necessary before any detailed analysis on low-income housing would be done. As a result, the research plan was adjusted to include studies on work-unit housing and commodity housing through general surveys, interviews and secondary data. However, case studies for these two subgroups have to be left for future research.

It has to be emphasized that the researcher is a detached advisor to Beijing municipal policy-makers. It is assumed that "housing for all" policies and programs shall include all urban residents. It is thus convenient to begin from the target population of policies - individual households and look into how housing is delivered to them. This is accomplished by focusing on the institutional and organizational arrangements, evaluating the strengths and weaknesses of a delivery system to serve the target population, and exploring alternatives by exposing the weaknesses of current policies and practices. The entire analysis is based on the perspective of policy making (Figure 2-7).



### *Data Collection and Analysis*

Data was collected through several methods including: interviews, surveys, field observations, and research using secondary data. Based on the conceptual framework developed in the last chapter, the guiding concepts of the research objectives and their indicators are identified in the following chart which also links each indicator to the data collection techniques and instruments (Table 2-8). The actual field research heavily depended on the interview methods. During the period of November 15, 1994 to April 30, 1995, the researcher conducted interviews with more than 50 people, including real estate corporation developers, work-unit associated development corporations, planners, architects, policy-makers in governmental organizations (the Old City Redevelopment Office and the "Comfortable Home Programme" Office under Beijing Construction Committee, the Housing Reform Office under the Municipal Government, the Housing & Property Management Bureau, the Urban Planning & Design Bureau, the Civil Management Committee), academic researchers (particularly in Tsinghua and Peking Universities), developers and residents of the floating population, Public Provident Fund managers, property managers, managers in charge of work-unit housing distribution, statisticians in the Beijing Statistic Bureau, and others. The researcher cooperated with the Urban Planning

Table 2-8 Data Collection

Guiding Concepts	Indicators	Techniques & Instruments
Urbanization	City population	Statistics, research reports
	Floating population	Interviews, statistics, research reports, observation
	New households formation	Statistics, research reports
Economic conditions	City GDP per capita	Statistics
	Household annual income	Statistics, questionnaires
Living conditions	Floor area per capita	Statistics, documents
	Persons per room	Statistics, documents, observation
	Journey to work	Interview, questionnaires, observation
Ownership & Tenure	Type of owners and tenures	Interview, observation
	Square meters of private housing	Interview, statistics, documents
	Square meters of municipal housing	Interview, statistics, documents
	Square meters of work-unit housing	Interview, statistics, documents
	Square meters of other type of housing	Interview, statistics, documents
Housing production	Square meters annually completed	Statistics, interview, research reports
	Housing investment	Statistics, interview
	Infrastructure expenditure	Statistics, interview
	Development costs	Interview, observation, various reports
Housing distribution	Sale prices	Telephone interview, documents, reports, observation
	Percentage of commodity housing	Statistics, reports
	Mortgage rate and duration	Documents, interviews
	Provident Fund coverage	Interviews, documents
	Subsidies	Interviews, documents, observation
	Various Taxes	Documents, interviews
Affordability	House-price-to-income ratio	Documents, survey, observation
	Rent-to-income ratio	Documents, survey, observation
Access to Occupancy	Return rate of inner city renewal residents	Interview, questionnaires
Housing maintenance	Rent standards	Documents
	Actual rent levels	Interview, survey

and Design Institute of Tsinghua University in a resident survey of the Ju'er Hutong Project (Phase II & III), and conducted two other surveys on commodity housing prices and informal rental housing. She also participated as an observer in the activities of the "Loving Heart Association" of Zhejiang villagers, a grass-roots non-profit organization.

Qualitative and quantitative data were equally important in this research. Qualitative data was particularly useful for understanding the processes of housing delivery. Quantitative data was mainly used for understanding the magnitude and certain dimensions of housing delivery systems. A note must be made regarding the numbers used in this dissertation. First, there was a lack of comprehensive data. Second, another limitation was that some of the figures obtained in interviews and from published sources remain dubious because of the ambiguity of measurement concepts and the need to make adjustments for inflation. For these reasons, the quantitative estimates should be viewed as only general indicators of magnitude. However the major conclusions still hold true.

Another note also must be made regarding language. Language is value loaded and culture specific. Translating Chinese data into English is challenging not only because some concepts do not have equivalent words in English, but also because the same concept literally used in Chinese may have different underlying assumptions in English. The more difficult problem with language is that the same Chinese words used in different periods of time may have different connotations. To avoid misinterpretation, this researcher tries to define every key concept or word when introducing it and clarifies the assumptions associated with it. Sometimes, the original Chinese word is attached for clarification.

During data collection, special attention was given to distinguishing rhetorical political statements from actual action and implementation. It was found that distortion between these two cases is common. Assuming that these distortions reflect the conflicting interests of the actors who make policies and actors who implement policies, the analysis on why the distortion occurs becomes a major part of the discussion on the dynamics of housing delivery systems.

### *Justifiable Criteria*

This dissertation research is action-oriented. Whether this research would have an impact on the consciousness of policy-makers is judged by three prerequisites. First, it must resonate with issues that have priority on the agenda of the policy-makers concerned. Second, it must have the ability to be predictive. Third, it should be in a form that suggests a proposition for future policy. The researcher kept these three criteria in throughout the research process. It was confirmed that this research is in the interest of the housing policy-makers in Beijing. It is hoped that quality of sound prediction and proposition is achieved by improving the logical consistency of analysis.

This dissertation is also required to meet academic standards. Trustworthiness of all research, including this thesis, can be evaluated by asking the following questions:

- (1) How truthful are the particular findings of the study? By what criteria can we judge them?

- (2) How applicable are these findings to another setting or group of people?
- (3) How can we be reasonably sure that the findings would be replicated if the study were conducted with the same participants in the same context?
- (4) How can we be sure that the findings are reflective of the subjects and the inquiry itself rather than the product of the researcher's biases or prejudices? (Lincoln & Guba, 1985)

These four questions reflect the four conventional criteria of evaluation: internal validity, external validity, reliability, and objectivity. These are also called the "truth of value" of a study, its applicability, its consistency, and its neutrality in the qualitative paradigm<sup>3</sup>.

Several efforts have been made to ensure that the research meets these criteria. For instance, strategies and methods for data collection and analysis are made explicit. The original theoretical framework is clearly stated and the guiding concepts derived from it are made explicit to guide data collection and analysis. Data is used to document analytic constructs; and a strategy of "triangulation" is used to bring more than one source of data to bear on a single point. The research findings and raw data have been preserved for future inspection. Moreover, possible biases are discussed, including the biases of interest and theoretical biases and assumptions.

It has to be noted that the replicability of institutional and organizational housing research is limited. Institutional and organizational arrangements seldom work the same way in different political and cultural circumstances. Nor is it possible to replicate the social conditions prevailing in one place and time period when a policy is introduced in another place and at another time. Only the research methodology is transferable to other cities in China and to those in other countries. Since the theoretical parameters of the research are explicitly stated, those who design research studies within the same parameters can determine whether or not the Beijing case study described can be generalized for new research policies and transferred to other settings.

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<sup>3</sup> See Lincoln and Guba, 1985, p. 290.

## **CHAPTER 3.**

### **OVERVIEW OF HOUSING DEVELOPMENT AND POLICIES IN BEIJING**

Before we go into the details of each type of housing delivery system, an overview of the evolution of housing development and policies in Beijing is needed. Three forms of housing development and policies are identified in this chapter: Administrative housing systems, housing systems in transition and target housing systems.

#### **3.1 The Administrative Housing System**

The type of housing developments and policies labeled as the "administrative housing system" were in practice roughly during the period between 1949-1978.

When the Chinese Communist Party (CCP) came into power, its leaders had developed strong animosities toward the conspicuous consumption and privileged life styles of the pre-1949 urban elite and foreign residents. Begging, starvation, homelessness, and other symbols of the breakdown of the pre-1949 system were vivid reminders of what the new system sought to eliminate. China's new leaders saw their legitimacy dependent to a considerable extent on their ability to create a system that would enable even the urban poor to have reliable access to food, schooling, health care, housing, and other resources needed for a decent life. The socialist inclinations of the new leaders convinced them that the solutions to this problem lay in using direct allocation of goods and services to ensure desired equities. This was the starting point from which the CCP built the "administrative housing system".

The first thing that the CCP did to address housing after they took office was to register all property estates, occupy buildings and properties left behind by the former government and confiscate property from the members of the "exploiting class". These properties were then redistributed to cadres and officials of the CCP according to needs and status. After the mid-1950s, urban landlords were pressured to turn over their rental units to the state. Throughout the 1966-1976 Culture Revolution, a considerable amount of

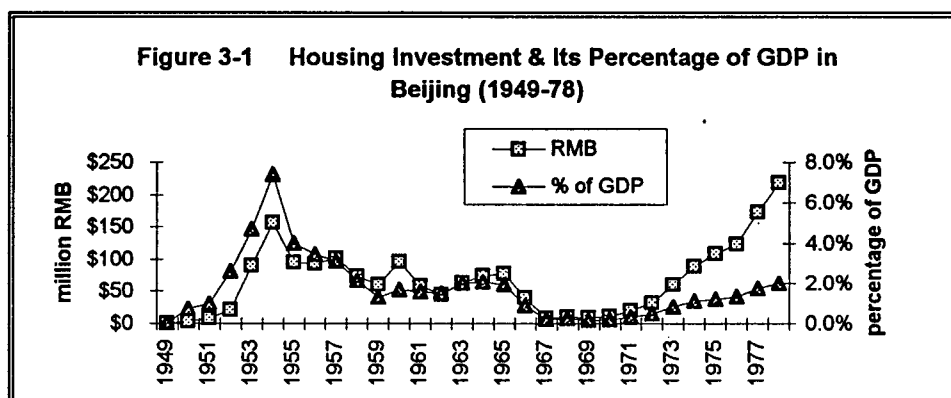


privately owned housing was "contributed" to, or simply "expropriated" by the state. Consequently, private estates in Beijing were dramatically reduced from 70% of the total housing stock in 1949 to less than 10% in 1976 (5% in 1985)<sup>1</sup>. Confiscated housing units were one of the major components of the public housing stock between 1949-1978.

The second major component of Beijing's public housing stock was built by the authorities. In the early 1950s, soon after the revolution, the government moved quickly to clear some of the largest slums in Beijing such as the Long-Xu-Gou area. Meanwhile, in accompaniment the accelerating pace of industrialization, new housing was built according to the state economic plan.

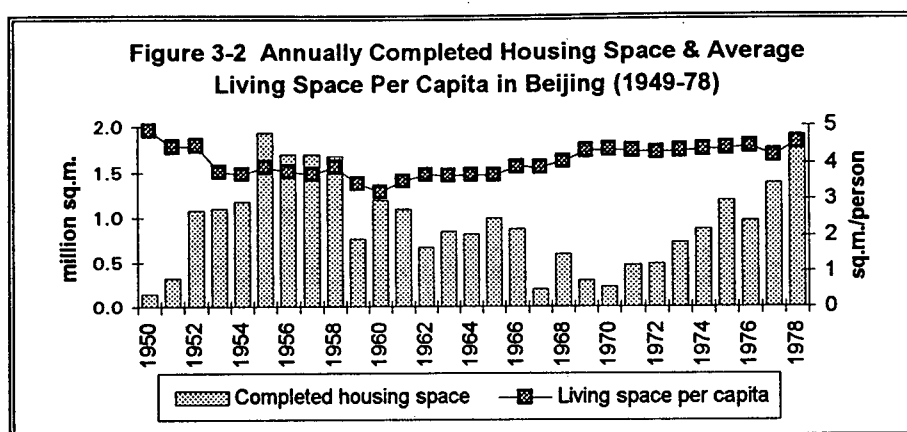
By the mid-1950s, national leaders began to have doubts regarding the heavy investment in housing and thus shifted policy priorities away from housing development. This was influenced in part by the worsening Soviet-China relationship and by Mao's stress on an agriculture-industry balance. As a result, the pace of residential development declined sharply and remained slow through the mid-1970s. The state provided only minimal floor space ratios per person and spartan services. Long waiting lists for new units was the norm.

As Figure 3-1 shows, housing investment, defined as a "non-productive" investment, was low. Housing investment as a proportion of Gross Domestic Product (GDP) in Beijing averaged only 1.5 percent from 1949 until 1978. In physical terms, the floor space completed each year in Beijing was between 1 and 1.9 million square meters from 1952 to



Source: Based on figures from the *Statistics Yearbook of Beijing*.

<sup>1</sup> These figures come from the document of Beijing Municipal Government, 1987, *Investigation Report for Housing System Reform*. The 1949 figure was based on a calculation in the then urban area, equivalent to today's inner city area.



Source: Based on figures from the *Statistics Yearbook of Beijing*.

1958. This reduced to between 0.2 and 0.87 million square meters during the Cultural Revolution period (Figure 3-2). This pattern of housing investment lasted until 1973, when the Beijing municipal government was forced to deal with the urban housing crisis by increasing investments in housing projects, including the notorious high-rises along the Qian-san-men Street which were built without careful planning and design consideration.

Neglect of housing production resulted in the deterioration of housing conditions in Beijing. The average living space<sup>2</sup> per capita decreased from 4.75 square meters in 1949 to 4.55 square meters in 1978. Between 1953 and 1967, the average living space per capita was around 3.7 square meters per person, only about the space of a king-size bed (Figure 3-2).

### *Housing Production*

Housing production under the administrative system was highly centrally controlled and planned. The process functions to build new housing -- from initiating a project to planning and design, acquisition of land, financing, authorization, and building construction -- were undertaken according to economic plans of the state. Economic plans determined how many square meters of housing would be built and where. They also assigned certain

<sup>2</sup> Three concepts of housing space are commonly used in China as measurements of housing development. Living space (居住面积) of a housing unit is comprised of bedrooms, living rooms, dining rooms. Usable area (使用面积) of a housing unit includes the living space plus washrooms, kitchen, and partial enclosed balcony. Floor area or constructed space (建筑面积) is the total area of a housing unit bounded by the outside of walls. The converting ratio of these three is 0.5:0.75:1.

funding for projects. It has been estimated that over 95 percent of all investment in housing was financed by a "unified" state-local budget.

In the early 1950s, at the peak of industrialization, the municipal government drafted a General Plan for the city which directed the development of some carefully planned large scale residential areas. Concurrently, land was acquired by the government specifically for these projects. However, since the policy change in the late 1950s, housing development was no longer planned as stand-alone projects. Land was not specifically assigned to projects but as part of the overall land allocation for factories, institutions, and other type of work-units. Housing construction was small in scale and often within the boundary of each work-unit. Particularly during the Cultural Revolution (1966-1976), the general plan was ignored. Under the influence of the then ideologies to neglect housing and prepare for national defense and great housing demand pressures, local officials had to reach a compromise which was expressed in the housing development pattern called "driving a pin into any visible gaps" (见缝插针). It precisely and vividly described the severe shortage that helpless work-units or local residents had to deal with. Structures were squeezed into any open space which they could find. While work-units built their new housing buildings, the provision of relevant infrastructure and "support" facilities (public schools, health facilities, commercial outlets, etc.) was left to the city authorities. In the absence of appropriate financing tools to recover such investments, the relevant infrastructure and "support" facilities often could not be built as planned.

One noteworthy feature of housing production in Beijing's administrative housing system is the quality of housing. The majority of housing units built during 1949-1978 were uniformly four to six story brick apartment blocks. Though unattractive in appearance, these "match-boxes", as they are often called, are of a fairly good quality in general. Comparatively, the quality of other type housing, such as self-help housing and buildings built for other purposes later transformed into housing were much poorer. The worst occurrence was the appearance of the so-called "gan-da-lei" (干打垒) buildings during 1966-1976 that were constructed simply with compressed earth and shallow roofs. At the time,

some cheap four to six story structures were also built to ease the housing need pressure. Called "simplified buildings" (简易楼), these housing units often do not have sufficient facilities. Dwellers on the same floor have to share water taps, kitchens, and/or toilets. Many of these low quality constructions are dilapidated today and in need of replacement.

### *Housing Distribution*

By the mid-1970s, the major proportion of Beijing's housing stock was owned by the state. Private housing was reduced to and remained at the level of no more than 10%<sup>3</sup>. In theory, private houses could be bought, sold or rented to others, as long as the annual property taxes were paid. However, virtually all private homes were simply inherited from parents rather than purchased on the open market. What little space was rented tended to be restricted to close friends and family. In the political atmosphere of the time, people were afraid of being accused of being landlords or were afraid of new tenants claiming space and refusing to leave. Through both direct supervision by the local housing bureaus and general fear of being criticized, rents remained so low that there was little economic incentive to rent one's house to others. Consequently, private housing was mainly owner-occupied.

Public housing in Beijing fell directly under both city and work-unit control. City-owned housing, administered by local housing bureaus, includes buildings taken over from former private owners and newer housing built by the city. Work-unit-controlled housing includes both large estates or compounds adjacent to the working area of a work-unit and detached housing units scattered throughout the city often at some distance from the site of the work-unit.

Under the administrative system, public housing was distributed to all registered urban citizens based on personal needs and their contributions to the state. In the 1950s, the city government issued several documents to guide the distribution of public housing to public sector employees. The principle of this distribution policy was based primarily on the

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<sup>3</sup> According to an interview with officials from the Municipal Housing and Property Management Bureau.

individual's current work position and status. Work-units and local housing bureaus often developed their own working standards for distribution, the score system.

Generally speaking, housing distribution during this period is characterized as 1) free allocation; 2) non-monetary; 3) classification standards; 4) egalitarianism; and 5) high administrative control.

The fourth characteristic, egalitarianism, merits some elaboration given that it is seriously debated by current housing practitioners. Data on housing conditions in Beijing during the 1950s to 1970s is sparse. The few studies done in the 1970s show that urban residents in Beijing generally shared equally in the available housing stock. Compared with cities in other developing countries and socialist states such as Hungary and Poland, the cadres in Beijing received only slightly better housing than the average urban resident<sup>4</sup>. Particularly during the Cultural Revolution (1966-76), cadres suffered "criticisms" and personal attack by the young Maoist rebels. Given the political atmosphere of the time and severe housing scarcity, it was impossible for bureaucrats to fully enjoy the housing benefits systematically provided by government set Housing Standards. However, the housing distribution policy and system did give privileges to those in power and in senior positions. Some of these people in turn abused their power and took advantage of easy access to housing resources for their personal benefit. Corruption and abuse of power in housing distribution is perceived to be much more serious than what is revealed by statistics.<sup>5</sup>

Redistributing housing after the initial allotment remained a grass-roots initiative. There were two major types of activities. First, given the difficulty of finding housing directly through local housing bureau or work-units, people sometimes arranged housing

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<sup>4</sup>. One reference is a report in 1987 which is the earliest official publication the author could find on urban housing condition in Beijing. It shows that, among the 1,000 households surveyed in 1983, 1.7% were homeless, 15.8% had less than 4M<sup>2</sup>/person; 55.9% had between 3-8M<sup>2</sup>/person; and 26.6% had over 8M<sup>2</sup>/person. Among the latter, 7.6% households had greater than 12M<sup>2</sup>/person and 0.7% had greater than 30M<sup>2</sup>/person. (Research Team on Housing System Reform of Beijing, 1987, p.176-177).

<sup>5</sup> In 1980, the State Urban Construction Bureau (the predecessor of the Ministry of Construction) issued a notice nation-wide to emphasize the "mass-line" principle of housing distribution. In this notice, the corruption problem was identified and criticized. The notice asked for transparency of the distribution process. It required the cadres to follow the moral standards of selflessness and give priority to the housing-poor households. This notice, to some extent, reflected the widespread problem of corruption and abuse of power (不正之风) in the late 1970s.

swaps. They normally posted notices on street corners or utility poles. Many housing bureaus provided space for posting notices and negotiating exchanges. This initiative rested with the families involved. If a family was able to locate another family that was willing to exchange housing with them, they simply had to process the required forms through their local housing bureaus and police stations in order to complete the transfer.

A second type of activity is classified as self-help and includes the somewhat illegal activity, squatting. The most common squatters at that time were young people who came back to the city in the late 1970s, after having been sent to the rural areas for "re-education" in the early stage of the Cultural Revolution. They normally subdivided their parents' units, put up sheds attached to existing houses, or built simple structures in the open space of a courtyard or back lane. Alternatively, people hard-pressed for extra space watched for housing left vacant or utility rooms or other non-residential space and secretly moved into these premises. When a family "squatted" in this manner, the housing bureau or work-unit authority generally acquiesced and allowed them to stay if the authority could not find them alternative housing.

### *Housing Maintenance and Management*

Both the city and work-units were responsible for maintaining public housing stock. In the early 1950s, the new CCP government issued a policy of "recouping costs through rent income" regarding the maintenance of existing housing. The first ever standard rent for public housing, established in May 1950, was calculated based on five factors: depreciation, maintenance fees, management fees, rent for land, and property tax (Liu 1992:77). The average monthly rent was about 0.21 yuan/M<sup>2</sup> of the usable space. In 1952, the standard monthly rent was increased by 60% to 0.34 yuan/M<sup>2</sup> of the usable space. This rent was approximately equal to 8 percent of the then monthly wage.

As listed in Table 3-3, the standard rent was changed several times between the late 1950s and 1979. Average rents decreased to such a level that it was said "one month's rent

Table 3-3 Changes in the Standard Rent in Beijing (1949-79)

Title	Issuing date	RMB/sq.m.	Coverage
"49 Standard"	Jul. 1949	0.20-0.40	Public housing managed by housing bureaus
"50 Standard"	May. 1950	0.21	Public housing managed by housing bureaus
Public property rent	Jul. 1952	0.34	Public housing managed by housing bureaus
New housing rent	Aug. 1954	0.34	Newly built public housing
Rent for the dormitory of central government	Aug. 1955	0.12	Dormitory for central government agencies
Civil public housing rent	Sept. 1958	0.22	Public housing managed by housing bureaus
Rent for apartments of work-unit partnership	Apr. 1966	0.19	Apartment of work-unit partnership
Public apartment housing rent	Jul. 1966	0.27	Apartment housing managed by housing bureaus
Public courtyard housing rent	Sept. 1966	0.21	Courtyard housing managed by housing bureaus
Urban apartment housing rent	Jul. 1979	0.16	All urban public apartment housing
Urban courtyard housing rent	Jul. 1979	0.12	All urban public courtyard housing

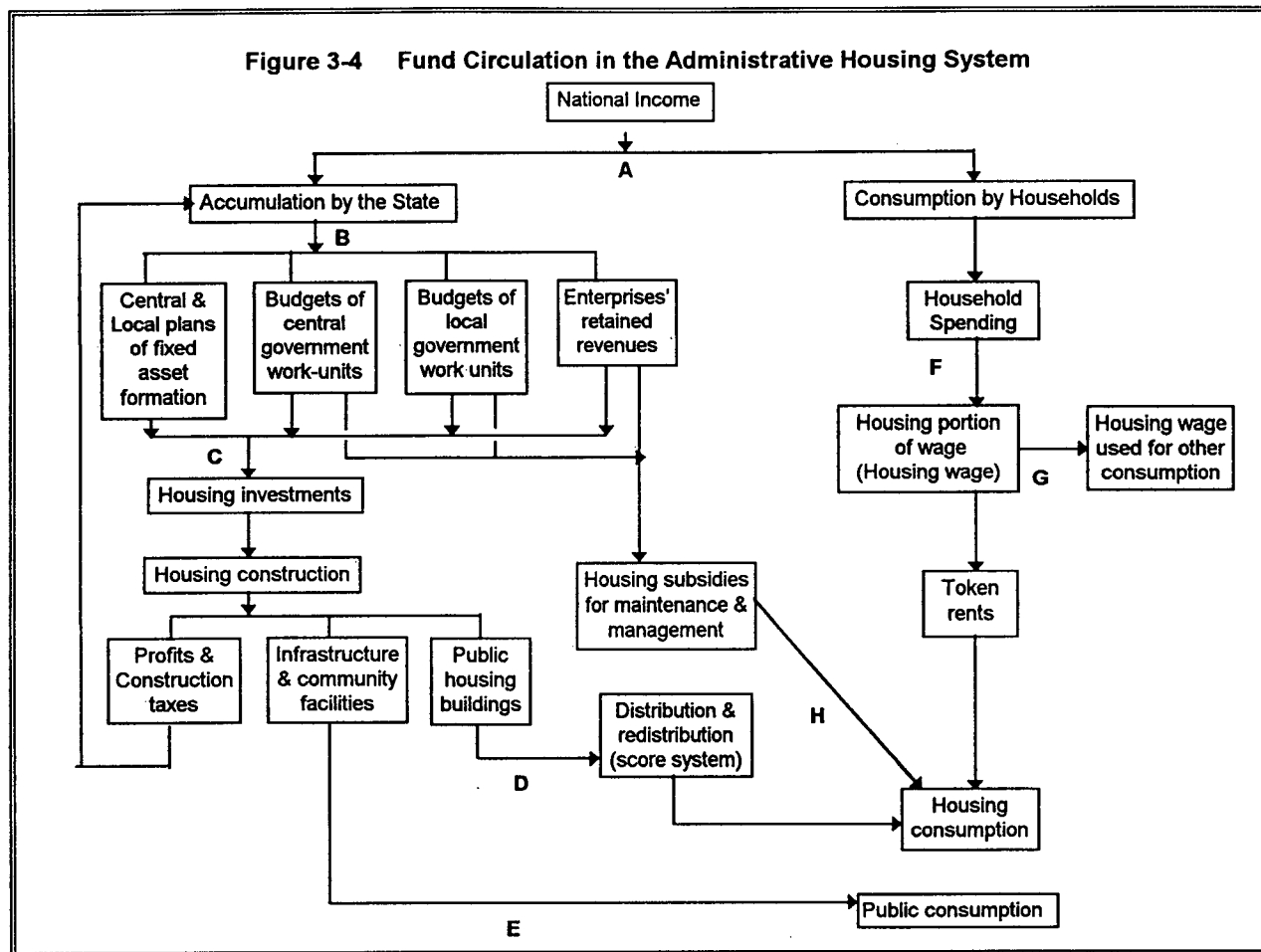
Source: Compiled by the author based on Liu 1992, etc.

is equal to the cost of a package of cheap cigarettes (一月房租一包烟钱)." Rent incomes alone could not support the maintenance and management of the existing housing stock.

#### *Fund Flows in the Administrative Housing System*

Figure 3-4 presents another angle for looking at the housing process under the administrative housing system through a chart of the fund flows in the system. Rather than reiterating where funds came from and where they went, the following notes explain some important features which could not be shown in the figure.

- A. The fund to be used for public consumption (infrastructure, public housing, social services, etc.) was retained by the state. The state also deducted partial funds from one's wage that was supposed to be used for individual consumption.
- B. The annual central or local plans of fixed asset formation were the major sources for housing investments. The central government work-units, local government work-units, and enterprises' retained revenues occasionally complemented the government's investments to alleviate housing shortages.
- C. Construction companies pooled investments both from planned and non-planned sources to build housing units and infrastructure and facilities. Housing units were then transferred to respective local housing bureaus or work units for distribution.



- D. Distribution and redistribution are processes of administrative allocation and exchange because no housing market exists and no currency is involved.
- E. Infrastructure and community facilities go directly to public consumption.
- F. A certain portion of wages is supposed to be allocated for housing expenditures. We may call this "housing wage."
- G. Since the rents paid by households are so low, part of the "housing wage" goes to other types of consumption.
- H. Central and local governments and their work-units have to find financial resources to subsidize the management and maintenance of existing housing stocks.



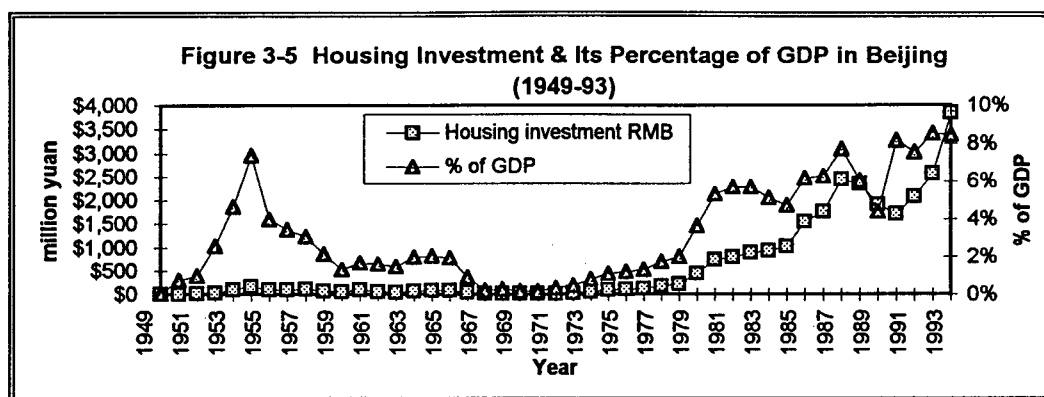
### *Criticism of the Administrative Housing System*

Since the late 1970s, critics of the administrative housing system have pointed out its obvious shortcomings. While the experiment of reforming the system proceeds, further criticisms begin to bring in new perspectives of alternative systems and, in turn, fuel the process of the reform. Major issues raised through criticisms included:

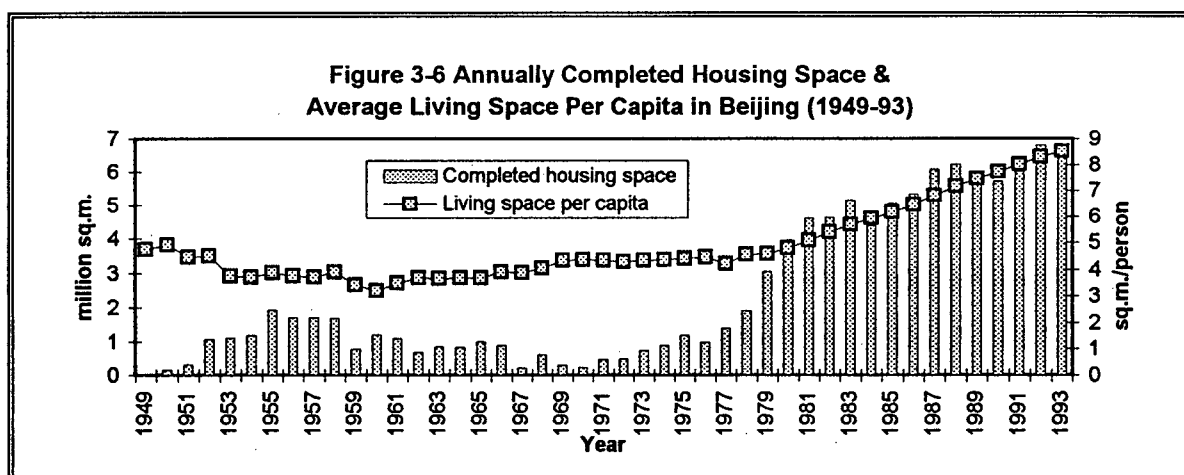
- (1) Housing funds do not circulate in a sustainable manner. The government not only failed to keep the existing housing stocks from rapid and severe deterioration, but also was unable to accommodate the growing demand.
- (2) The cost of delivering housing by administrative means was too high. The layers of red tape made bureaucracies much slower to respond to changing tastes and needs than would be true in a market system. In addition, with no financial incentives, those who deliver the services lose major incentives to give their best efforts.
- (3) The welfare housing system created pent-up demand and dependency of households on government. It also created long waiting lists, frustration, and corruption. Perhaps worst of all, the bureaucratic distribution system did as much to instill hidden privileges for a new class of bureaucrats as it did to create equality or the guarantee of basic housing.

## **3.2 Housing System in Transition**

Resolving the housing shortage crisis has become one of the key policy priorities of the Beijing municipal government since 1978. Investment in housing has been increased at a sensational rate as have the resulting housing production and living standards. As Figure 3-5 shows, housing investment in Beijing as a proportion of the Gross Domestic Product averaged 6.3 percent per year between 1979 and 1993. In physical terms, housing floor space completed annually jumped from 1.9 million square meters in 1978 to 3 million square meters in 1979 and steadily increased to more than 6 million square meters in the 1990s. In other words, the housing built during the 15 years from 1979 to 1993 is approximately three



Source: Based on figures from the *Statistics Yearbook of Beijing*.



Source of the figures: *The Statistics Yearbook of Beijing*, 1994.

times that built during the 30 years from 1949 to 1978. About 70 percent of today's housing stocks is under 15 years old. Average living space per capita has improved steadily from 4.55 square meters in 1978 to 8.51 square meters in 1993 (Figure 3-6).

Along with this change, piecemeal improvements of the administrative housing system were undertaken. Sporadic experiments of reform took place in several work-units beginning in 1988 after the central government issued its first housing system reform plan. Four major experimental programs were undertaken. First, 11 work-units were selected to pioneer the sale of public housing beginning in 1988. This program had expanded to more than 100 work-units in 1989. Second, in 1990, the 10 outer suburban districts and counties formulated their own reform plans to adopt such reform mechanisms as the sale of public housing and the establishment of housing co-ops. The third program was the municipal government's initiative of inner city redevelopment in 1990. In 1991-1992, most city-owned

work-units and some centrally-administrated work-units joined housing reforms. The fourth reform experiment was the formation of work-unit housing funds and provident funds by several work-units. Based on these experiments, Beijing's Comprehensive Plan of Housing System Reform was put forward in April 1992. A distinctive system, which may be described as a housing system in transition, has begun to take shape gradually in the ongoing incremental reform process.

The overall goal of Beijing's 1992 Housing System Reform Plan is to speed up the process of providing adequate housing for all citizens, and particularly to solve the "housing-poor" problems. Decision makers are convinced that the conventional administrative housing system was not able to achieve this goal. The only option was to establish a new housing system. The principles that guide the new system in the 1992 Plan include:

- ◆ Three parties - the state, the "collectives", and individuals - should share the responsibility for housing development.
- ◆ A goods-to-currency, monetary distribution should replace the goods-to-goods, non-monetary distribution.
- ◆ Family consumption structures should be adjusted to increase the housing consumption to a "reasonable" proportion.
- ◆ The low-rent system must be changed.
- ◆ Housing funds should circulate in a healthy manner, particularly in terms of positive recycling of housing investment.
- ◆ A market-oriented real estate industry should be developed.
- ◆ The housing system should be "commodified" and "socialized".

In accordance with these principles, five key components of housing reform were developed:

- 1) Establishing government and work-unit housing funds.
- 2) Establishing the Public Provident Fund.
- 3) Privatizing public housing.

4) Increasing rents.

5) Producing housing through fund raising, co-operatives, and partnership.

Housing reform is seen as part of the economic system reforms. Housing reform must thus be accompanied by alternative supplementary reform measures in other parts of the economic system, such as economic planning, urban land use planning, finance, the insurance and banking system, taxation, price control, labour and human resources. Two supplementary reform measures are specified in Beijing's 1992 Plan. One is targeted at market regulations and the other at property management. The former includes the establishment of a registration system of property sales and transfers, and the adjustment of rent control and price control systems. The latter includes the establishment of building management entities composed of dwellers and the creation of public maintenance funds.

All of these measures have been in operation to varying degrees since the 1992 Plan was put forward. Compared to other cities such as Yantai, Bangbu, and Shengzhen, the pace of housing reform in Beijing has lagged behind slightly. There are several reasons for this phenomenon. First, Beijing is the capital city where the central government is located. The interwoven relationship between the central and city governments complicates the process of housing system reform, especially where final decision-making power and financial implications are concerned. Second, Beijing is the city where most senior officials and high-ranking intellectuals are concentrated. They are often the beneficiaries of the old housing system and their living standards might be adversely affected by reforms. Third, the *de facto* ownership and tenure structure of housing in Beijing is one of the most complicated in China. Fourth, there are a total of 18 districts and counties under the municipal government's administration, which differ substantially from each other. Therefore, housing system reforms in Beijing are more challenging than in any other Chinese city.

The details of housing delivery systems under the housing system in transition will be discussed in following chapters. In the remaining part of this chapter, an overview is provided to summarize the major characteristics of the housing process in transition. This

overview focuses more on policy statements than on the actual results and effects of the policies.

### *Housing Production in Transition*

A steady and rapid expansion of housing stock is the most notable result of the housing policy changes since 1978 (as illustrated earlier in the figures 3-5 and 3-6). Meanwhile, several significant organizational and institutional changes in housing production have emerged in the past 15 years that are distinct from the old housing production process.

First, there is more than one way to build housing. In addition to constructing housing or piecemeal expansion of a work-unit's site, *en bloc* residential area development, satellite town centre development, and old city redevelopment are new forms of housing development undertaken by various government construction agencies.

Second, housing process tends to be more specialized and professionalized. More distinguishable roles between the planner, architect, land developer, and builder have been established. Various "real estate development corporations", as the specialized developers and builders, are separated from their mother administrative units. However, most remain associated with respective levels of government in the administrative hierarchy. The Beijing municipal government encourages all large scale residential development to operate in a comprehensive and coordinated manner. Consequently, piecemeal development by work-units were not permitted after 1986. Instead, work-units are urged to contract their housing projects to the specialized real estate corporations.

Meanwhile, urban planners have more power in deciding the future shape of the city. In 1983, the second city master plan was formulated and endorsed by the People's Congress of Beijing and approved by the State Council. In 1992, the third master plan was put forward and endorsed.

The third significant change in housing production was that informal housing developments, defined as those not approved by the government, are taking place

everywhere in Beijing. The magnitude of informal developments is unknown at this time since no official statistics measure such projects. However, it is a fact that informal housing has accommodated approximately 3 million floating migrants in Beijing, above and beyond the legitimate Beijing urban households who are hard-pressed themselves to find shelter. Many distinctive informal residential concentrations have emerged in the urban-rural fringe. They are called "Zhejiang village", "Xinjiang village", etc., in reference to the native origin of the majority of tenants. Although squatter housing is common in many developing countries, it is foreign to the socialist Chinese capital. The emergence of the informal housing poses a tremendous challenge to urban planning and management in Beijing.

The fourth change regards financing. The funds to build housing presently come from not only the state-local budgets, but also from various sources including enterprise retained profits and bank loans. In the City's 1992 Housing System Reform Plan, one of the five components requires local governments and work-units to establish housing funds. These housing funds are specially designated for financing housing reforms. Each fund has its own resources and specified functions and is managed independently by its owner. The Housing Funds Management Centre, a public corporation established in 1992, is responsible for managing and coordinating the use of the funds.

The fifth major change is the method of land allocation for housing projects. This change needs to be discussed in detail because this is a new policy not yet having been fully implemented in practice.

The concept of land as a free good in the traditional land allocation system began to change in the late 1980s. In 1988, the State Council amended the *Constitution* and the *Land Administrative Law*, making it legal to "lease at a price and transfer the right of use of state land." This legal breakthrough was further codified in May 1990 in "provisional regulations" and in the Beijing municipal government's Implementation Guidelines to the regulations in May 1992. The new practice, "uses of land with charges" (土地有偿使用), has since been established. It includes two processes: the lease of land use rights (出让) and the transfer of land use rights (转让). The former refers to the activities of land administration authorities

in selling the right of using state land to developers or land users. The latter refers to the activity of exchanging land use rights among developers or land users.

There are three methods for leasing land use rights: negotiation, bidding, and auction. For ordinary residential use, leases are normally determined through negotiation. For other types of residential use such as luxury apartments, leases should be determined through bidding or auction.

In the absence of a well developed land market, the process of determining the price of land use rights is not transparent. A price tag might be given to a plot using various methods: by black market property transactions; the price paid for land acquisition from rural communities; the compensation paid to those land users involved in reuse and redevelopment projects; or the value of land assets transferred by bankrupt enterprises in the process of a merger with profitable enterprises. Understandably, the municipal government wants to establish the price of land use rights itself.

In 1988, the Beijing municipal government divided urban land within planned areas into six grades in order to introduce and collect the "urban land use tax". In 1993, the government further divided urban land into ten grades, with a "normative land price" (基准地价) given to each type of land use within each grade. The "normative price" is intended to function as the base value for the determination of the final land price. (See Table 3-7).

Table 3-7 Normative Land Prices (yuan/sq.m.)									
Area	Lease fee				Infrastructure fees		Land development costs		
	Commercial	Office	Residential	Industrial	Offsite	Neighborn'd facilities	Removal cost in urban districts	Acquisition cost in inner suburbs	outer suburbs
	a	a	a	a	b	c	d	e	f
I	3200-5400	3000-4600	2000-2700	320-540	460-800	150-400	5900-7800	150-450	
II	2400-3200	2200-3000	1500-2000	240-320	460-800	150-400	5900-7800	150-450	
III	2000-2400	1800-2200	1000-1500	180-240	460-800	150-400	5900-7800	150-450	
IV	1500-2000	1400-1800	800-1000	140-180	460-800	150-400	5900-7800	150-450	
V	1000-1500	1000-1400	600-800	100-140	460-800	150-400	5900-7800	150-450	
VI	500-1000	500-1000	400-600	70-100	460-800	150-400	5900-7800	150-450	75-180
VII	400-500	300-500	150-400	30-70	460-800	150-400	5900-7800	150-450	75-180
VIII	70-400	70-300	50-150	25-30	460-800	150-400			75-180
IX	50-70	40-70	30-50	20-25	460-800	150-400			75-180
X	40-50	30-40	20-30	15-20	460-800	150-400			75-180
Normative land price = a x coefficient of FAR + [b+c] x FAR + d x coefficient of demolished housing type + e or f									
Source: According to the document in Beijing Municipal Government 1994.									

*Housing Distribution in Transition*

The most significant departure of the system in transition from the old administrative housing system is the introduction of market mechanisms in housing distribution.

Along with the increase of specialization and monetarization in housing production, new housing units are not simply conveyed to work-units or local housing bureaus for allocation upon completion. Rather, these new units are sold to work-units or directly to individual households. This is one component of the "commercialization" policy.

Another component of this policy later included in Beijing's 1992 Housing System Reform Plan is to privatize existing public housing units. These units are sold at the cut-rate, the "quasi-cost-recovery" price (准成本价) or "standard price" (标准价). Regardless, the sale of public housing has been slow. The rationale of privatization relates to the belief that individual households must pay for the housing services they are enjoying. From a financial point of view, the sale of public housing could effectively unload the governments' burden and responsibilities and recover partial costs of housing provision.

Various housing prices have emerged since the sale of public housing began. In the absence of a competitive market, these prices are determined not by the forces of supply and demand, but based on a cost approach.

The commercial price (商品房价) is supposed to be the price which includes all of the costs involved plus profits. In the case of Beijing, a commercial price has taken account of a total of 71 cost items, including off-site infrastructure exactions and costs for "support" facilities.

The comprehensive-costs price (综合造价) reflects an adjustment to the commercial price by deducting profits, some taxes, and exactions.

The standard price (标准价) includes construction costs, on-site infrastructure expenditures, and compensation paid for land acquisition. This is the price that the State approves to use when work-units sell housing units to their employees.



The single-cost price (单方造价) includes only building construction costs in the form of yuan per sq.m.

The preferential price (优惠价) is a cut-rate sale price which has been banned since 1993.

The existence of these various housing prices reflects the high degree of government intervention and market regulation.

To most Beijing wage earners, the standard price remains too high. Partially devised to solve the affordability problem, the City's 1992 Housing System Reform Plan proposes to establish a Public Provident Fund. This Public Provident Fund is a forced saving scheme modeled on the Singapore Central Provident Fund. It requires all participants to set aside up to 10% of their total wage incomes while their work-units add the same amount in each worker's name as a contribution to the flow of the Fund. The Fund may be used by each participant to purchase, construct, or improve owner-occupied units. It can also be used to pay the proportion of rent that is over 5% of the participant's household income. The interest rates for the fund are set at low levels that equal the rates on a current deposit: 3.15% for those renting public housing and 10% for those owning housing units<sup>6</sup>. According to estimates of the Municipal Housing Funds Management Centre, until March 1995, the Public Provident Fund has accumulated 260 million yuan with 60% of the workers in Beijing having participated in this forced saving scheme.

Parallel to the above mentioned formal market mechanisms to distribute housing, administrative allocation of housing units to employees by work-units remains practiced. The distribution standards and the score systems are developed and refined. Meanwhile, two other methods of distributing and redistributing housing have become more important. One is grass-roots housing swaps. The other is "underground" rental activities, a market beyond the rent control of the government. The Beijing government encourages and facilitates the former type of activities, but it does not have an explicit policy towards the latter.

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<sup>6</sup> These are 1994 rates and may be changed annually. 3.15% is the rate for a current saving account and 10% is the one-year fixed saving rate.

### *Housing Maintenance and Management in Transition*

The responsibilities for maintaining and managing public housing estates remain under the control of both the city and work-units. As Table 3-8 shows, the housing controlled by the Municipal Housing and Property Management Bureau and its subordinates represents about 18.3% of the total housing estates, and that controlled by work-units represents about 62.3%.

<b>Table 3-8 Ownership &amp; Tenure Structure of Urban Housing (1994)</b>		
<b>Ownership / Tenure</b>	<b>Square Meters</b>	<b>Percentage</b>
Public		
controlled by work-units	75 million	62.30%
controlled by local housing bureaus	22 million	18.30%
Real Estate Corporations owned / managed	15 million	12.50%
Private	8.3 million	6.90%
Total	120 million	100%
Sources: Interviews with officials of the HPMB. The category of the privatized housing has not been identified and listed as a separate item <sup>7</sup> . Some privatized housing therefore is still reported under the category of "public" or "real estate corporations owned/managed".		

The situation of under-financing maintenance has not changed substantially. The earlier generation of public housing stock has deteriorated to the degree that it is unsafe to live in. A great majority of the pre-1949 courtyard housings are especially dilapidated. Without sufficient maintenance, even the new units built after 1978 have begun to experience premature deterioration.

The Beijing municipal government is very aware of the resulting potential crisis. Since the present maintenance standard is dictated by rental collection, rent increases have become one of the major components of the City's 1992 Housing System Reform Plan. The Plan determined to raise the rent in stages to 0.55 yuan/m<sup>2</sup> of usable space per month by 1994, all of which is spent on management (0.09 yuan) and maintenance (0.46 yuan). The latest municipal "Implementation Measures" of the central government's policy of

<sup>7</sup> It is estimated that to the end of 1993, about 32,000 units of public housing managed by housing bureaus have been sold. Among them, 19,981 units are located in the four city districts (*Beijing Yearbook 1994*). Another estimate is that about 7% of total stock of public housing had been sold by July 1993 (*Beijing Real Estate*, 1994, No.2:152). If the latter estimate is true, then the percentage of privatized housing has exceeded that of the conventionally defined "private housing" category, that is the housing deemed as "private" before 1949.

"Deepening Housing System Reform" issued in March 1995 determined to further increase monthly rents annually as listed in Table 3-9. Meanwhile, other methods have been introduced:

Table 3-9 Rent Increases	
Year	Rent (yuan/m <sup>2</sup> usable space)
1994	0.55
1995	0.87
1996	1.30
1997	1.80
2000	3.86
Source: Interview with officials of HPMB.	

(a) charging rent deposits for rehousing former tenants in a new unit if they elect to pay the old rent;

(b) charging higher rents for space in excess of the standard. The surcharge must be not less than 1.34 yuan/m<sup>2</sup> of usable space per month for apartment

units and 1.05 yuan/m<sup>2</sup>/month for courtyard units; and

(c) requiring both developers and buyers to pay an agreed lump sum for maintenance when selling new apartment units.

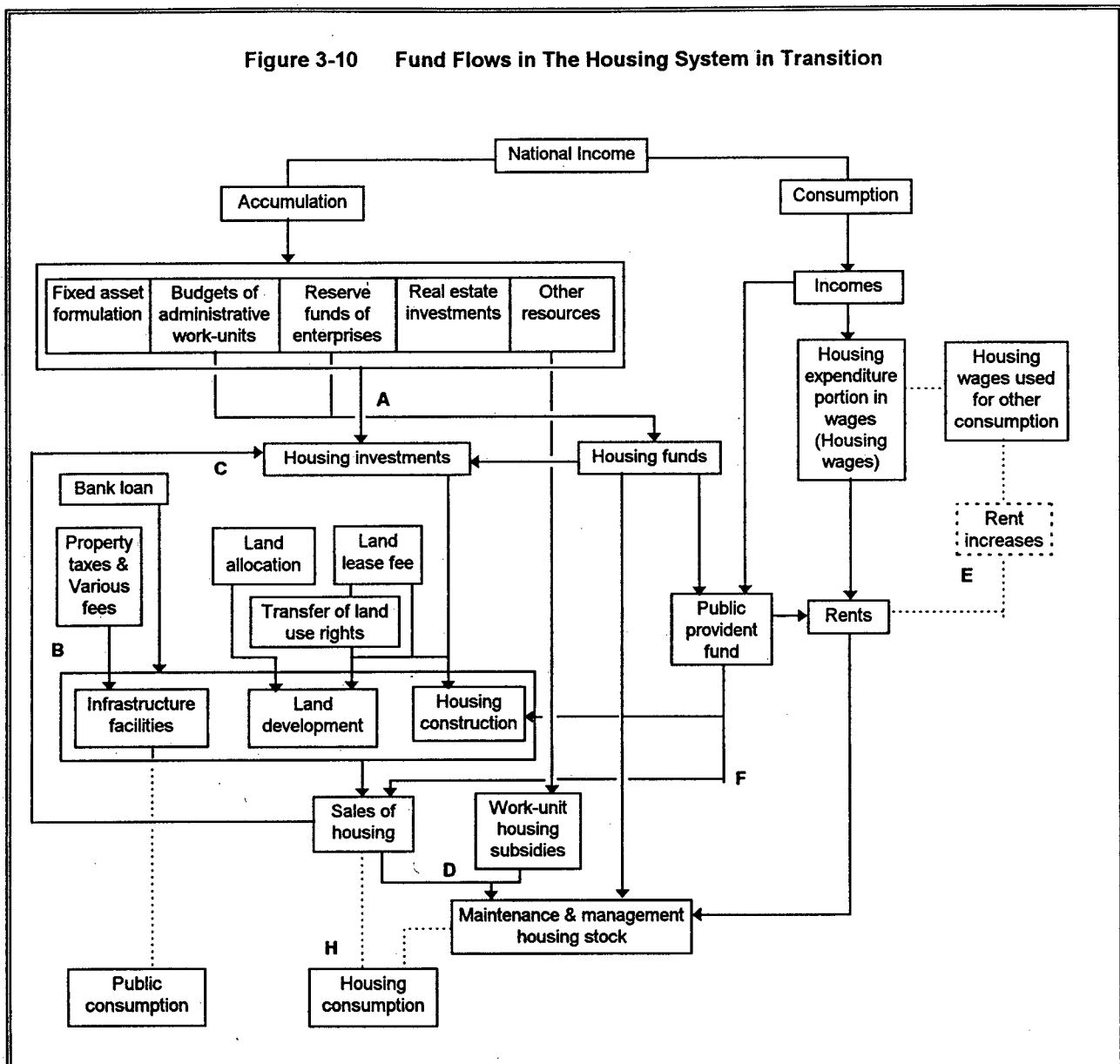
Another significant change in the field of housing maintenance and management has been the emergence of quasi-commercial property management. As shown in Table 3-8 above, about 12.5% of the total housing stock is managed by real estate companies. The strategies for collecting financial resources for maintenance often follow the user-pay model.

### *Fund Flows in the Housing System in Transition*

Figure 3-10 presents the fund flows for housing in the transitional stage. Compared to Figure 3-4, the following characteristics are significantly different:

- A. The planned means of housing investment, such as fixed asset formation, play a less important role in housing production. The input of work-units to housing investments have increased significantly. As a result, the central government shoulders less financial responsibility for housing provision than do work-units. Individual households contribute to housing investments mainly through co-ops. The downside of this change is that it strengthens and exaggerates the disparity of the ability of work-units to finance housing production. Centrally-owned work-units,

**Figure 3-10 Fund Flows in The Housing System in Transition**



profitable *danweis*, and government administrative *danweis*, often build more housing than others.

- B. The provision of developed land, infrastructure, and housing units tend to be independent processes. Each is beginning to formulate its own channels of financial resources.
- C. Sales of public housing partially recover the costs of housing production. The housing units are sold at different prices including comprehensive-costs price,

standard price, and others. Thus, they bear different implications to the healthy circulation of housing funds in the long run.

- D. Work-units that buy commercial housing and allocate it to their employees must find resources for housing subsidies for the maintenance and management of these commodity units.
- E. Rent increases convert the portion of "housing wage" used for other consumption to its original purpose -- rent payment.
- F. In theory, the Public Provident Fund sets up strategic backward linkages and completes the circulation of the housing funds.

#### *Evaluations of the Housing System in Transition*

The city government has set up four criteria to judge the success or failure of housing reforms. First, whether living standards of ordinary households improve, especially housing-poor households. Second, whether funds for housing are increased and self-sustaining. Third, whether maintenance and management of housing is improved, especially for common properties of buildings and community facilities. Fourth, whether a real estate market guarded by well-developed laws and regulations is fostered.

Statistical data shows that housing investment has been increasing. Housing conditions in terms of living space per capita are also improving and the number of housing-poor households are decreasing. It is not surprising that the city government and many others proudly announce these achievements as a great success. To some extent, it is an impressive accomplishment which has, at least temporarily, solved the housing availability problem. The housing pie has now been enlarged and seems big enough to accommodate the housing demand.

If one evaluates the current housing practices from a systemic rather than production point of view, some serious problems emerge which might diminish the accomplishment perspective. First, the municipal government declared that a major objective of the reform was to increase and self-sustain housing funds by encouraging urban

residents to "pay for housing", including not only recurrent expenditures but also capital construction. If judged by this criterion, reforms failed to live up to expectations. The viability of housing development remains a central problem to the reforms.

The second alarming problem is the issue of housing affordability. It is obvious that the current commercial housing prices are beyond the capabilities of ordinary wage-earners. The often cited phenomenon is the co-existence of the "over-built" modern garden apartments and villas on one hand, and the hundreds and thousands of housing-poor households waiting to get new units on the other. Though this kind of co-existence does not look as severe as situations in many other southern cities<sup>8</sup>, the nature of this co-existence is already undermining the government's ambition to solve the housing-poor problem.

The third problem, housing accessibility, may be the most serious given that it has not even caught enough attention of the government. Mainly because of China's urbanization policy and household registration system, migrant households (流动人口), whether legitimate with a temporary resident card or non-legitimate without a card, are at a disadvantage relative to Beijingers due to discrimination. It is difficult for them to gain access to available units within their price range. The number of migrants is not a few hundreds or thousands, but is greater than 3 million, approximately half of Beijing's registered non-agriculture population.

The biggest accomplishment of housing reform so far is likely the attempt to reposition the government's role in housing delivery systems. On one hand, the government wants to reduce its direct provision of housing and run housing delivery mainly along commercial lines. On the other hand, the government cannot totally withdraw from housing services delivery while the dream and belief of "housing for all" still holds solid ground. As the Minister of Construction, Hou Jie concludes: "given the concrete circumstances of China, a total marketization of housing at present would prove to be a failure"<sup>9</sup>.

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<sup>8</sup> This is partially due to the Vice Mayor's price control policy which limits the supply of commodity housing, especially those targeted to foreigners and overseas Chinese (外销房). As a result, the prices and rents on the commodity housing market, especially those for foreigners are sky high. At the same time, the surplus of commodity housing units has not run out of control as has been the case in other cities.

<sup>9</sup> Cited from the *Economic Daily*, June 14, 1994.

Consequently, some researchers recommend to distinguish three categories of housing: welfare, low-cost, and commodity housing. It is suggested that welfare housing includes those households who have less than 4 square meters of livable space per person. The basic financing principle for this type of housing is to "preserve capital". Low-cost housing is "low-profit" since the selling price is composed of production costs and a profit ranging from 5 to 30 percent. Commodity housing, as the name suggests, follows market prices and is for profit.

While it is not yet clear how these three types of housing should relate to each other, the central government introduced a new programme for affordable housing in 1993 called "the Sheltered Home Programme". This indicates that the government has begun to both separate low-income housing from other types of housing, particularly commodity housing, and give special policy treatment to the housing-poor problem.

### **3.3 Target Housing System**

There are several scenarios for the target housing system being put forth by researchers and policy-makers. The following is a summary of official statements or the most popular viewpoints.

#### *Goals of Housing Reform and Development*

According to a document of the Housing Reform Office of the State Council, the central government has clear targets of housing reform development for the 8th Five-year Plan (1990-1995), the 9th Five-year Plan (1996-2000), and the long-term plan. The Beijing municipal government endorsed these objectives and specified these targets to best suit the local situation.

Beijing's targets for the 8th FYP include:

- ♦ Increase public housing rents to a level that recovers at least maintenance and management costs. Some work-units should try to recover three cost items including maintenance, management, and depreciation.
- ♦ The contribution rate of participants in the Public Provident Fund should be no less than 5% of their total incomes.
- ♦ The average living space per capita should reach 8 square meters, and 70% of housing should be in the form of self-contained suites.
- ♦ A focus on resolving the "housing-poor" problem (including homeless households, "inconvenient" households, and households in dilapidated dwellings).

Targets for the 9th FYP include:

- ♦ Increase public housing rents to the cost-recovery level, recovered from at least five items: depreciation, maintenance, management fee, interest on investment, and property taxes.
- ♦ The contribution rate of participants in the Public Provident Fund should reach 10% of their total incomes.
- ♦ The average living space per capita should reach 9.5 square meters or 14 square meters in terms of usable space, and 80% of housing should be self-contained suites.
- ♦ the elimination of the "housing-poor" problem by the year 1997.

Targets for long-term development include:

- ♦ Public housing rents should reflect market rents, recovered from eight items of costs: depreciation, maintenance, management fee, interest on investment, property taxes, land use fees, insurance, and profits.
- ♦ Housing conditions should reach a "comfortable" standard. That is, the average living space per capita should be over 10 square meters or 16.5 square meters in terms of usable space and every family should have a complete dwelling unit.
- ♦ The housing delivery system is fully commercialized and socialized.

It is safe to say that all government officials agree that the ultimate goal of housing reform and development is to provide adequate housing to meet increasing demands (Zhang



Jing *et al* 1992). Many also agree that the major means of achieving this goal is to establish a "commercialized and socialized" housing delivery system.

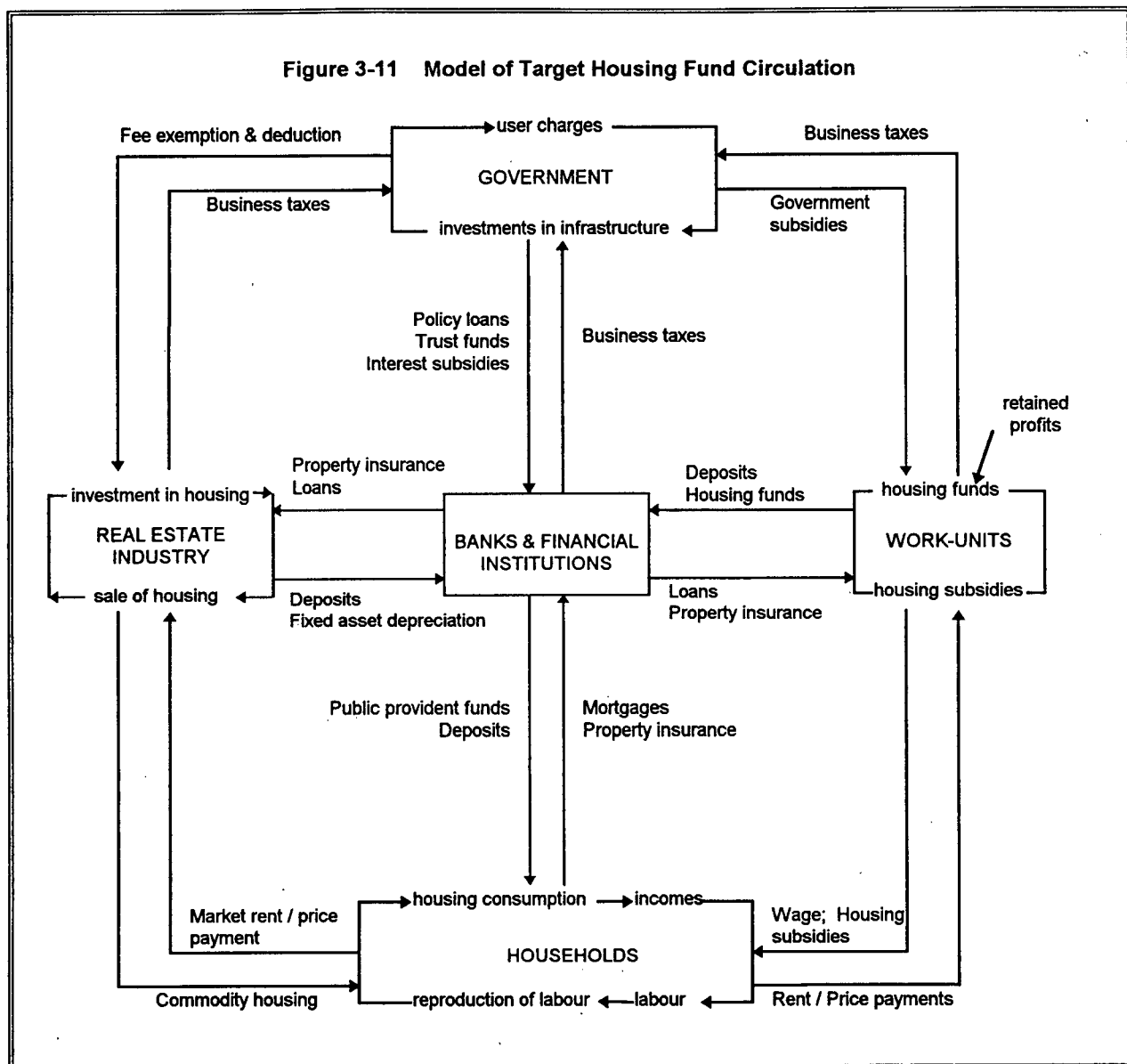
A note must be made here to clarify the meaning of "commercialization" and "socialization". The notion of "commodification" or "commercialization" is the first clear principle that describes the future scenario of the target housing system. In a commercialized housing system, housing is delivered as a commodity. It is produced, rented or sold at a market rate and these rent/price signals function as coordinators for the production, distribution and consumption of housing (Su 1987: 51). The notion of "socialization" emerged in the late 1980s and was adopted in the State Council's 1988 Plan for Housing System Reform. There are various versions of the meaning of this concept, but the main interpretation is that housing should be provided by the specialized housing industry and delivered directly to the consumers. The role of work-units in housing provision and distribution should be eliminated (Zhang Jing *et al* 1992).

#### *Target Housing Fund Circulation*

Figure 3-11 presents the model of an "ideal" housing fund circulation suggested by housing reformers. In the center of the model are the core players -- the banks -- which operate along commercial principles. They attract deposits, issue loans, gain interest (profits), and repay deposits.

#### *Shortcomings of the Official Goals*

The goals of housing reform and development in Beijing are quantitative. Living space estimates do not consider household income or preferences, affordability, or willingness-to-pay. In addition, these targets are average figures which include few distribution objectives. Specially, they do not account for the increasing floating population and are thus distorted. In short, there is no indication in these targets of whether the housing affordability and housing accessibility problems -- two of the major problems to emerge during reforms -- will be addressed.



### 3.4 Population Groups and Housing Arrangements

Since the late 1970s, Beijing's housing policy had to be changed to accommodate the increasing demand for housing resulting from accelerated population growth. The municipal government has since paid much more attention to residential developments. In the early 1980s, influenced by economic reform programs and the national policy for

housing system reform, housing delivery in Beijing became more diversified. The adoption of the City's 1992 Housing System Reform Plan accelerated the process of diversification and differentiation. By 1995, more than 15 years of housing reform had created greater than 10 types of housing tenure forms, including:

- 1) Public rental housing owned and directly managed by work-units.
- 2) Public rental housing owned and directly managed by the municipal Housing and Property Management Bureau (HPMB).
- 3) Public rental housing owned by work-units and managed by the HPMB.
- 4) Housing owned and managed by large real estate corporations.
- 5) Private ownership.
- 6) Private with public-subsidy (stringent property right): privately purchased housing which received financial subsidies from work-units and/or municipal and district governments. These include relocation housing in old city redevelopment projects and privatized housing sold at preferential or standard prices.
- 7) Strata titled private housing (commodity housing) managed by real estate development companies or dweller-organized "building management committees".
- 8) Public with private-aid: Work-units which do not have enough housing investment may pool funds from employees to develop housing. This housing basically belongs to the work-units.
- 9) Co-operatives: including the collective ownership of the co-operatives and the private ownership of co-operative members.
- 10) Foreign ownership.
- 11) Informal self-help housing built by individual households with or without assistance from work-units and / or governments.
- 12) Informal rental housing: including illegal constructions by local housing offices, work-units, or individual households, and housing that is legally owned but illegally sublet by owners or users.

When comparing this list with the official records listed in Table 3-8, it becomes obvious that the actual housing tenures and thus the methods of housing delivery in present-day Beijing are greater than the four forms recognized and reported by the municipal government.

In the following seven chapters, several major organizational and institutional arrangements in housing delivery process in Beijing are discussed. The starting point for discussion begins from individual households. Based on the answer to the question, "if I am a Beijing resident, how can I get a housing unit?", Beijing households can be divided into the following five partially inclusive groups:

- ♦ Ordinary wage-earning households
- ♦ High income households
- ♦ Households living in the old-city area
- ♦ Eligible housing-poor households
- ♦ The floating population

These five groups are served by six major arrangements of housing delivery in Beijing:

- ♦ Work-unit housing
- ♦ Municipal housing
- ♦ Commodity housing
- ♦ Old-city redevelopment
- ♦ The comfortable housing programme
- ♦ Informal housing

As will be discussed in the following chapters, the first two arrangements have been created since the early 1950s. Three housing delivery systems -- commodity housing, old-city redevelopment, and the comfortable housing programme -- are deliberately designed by policy makers to replace the first two and serve specific target groups. The final housing delivery arrangements -- informal housing -- are spontaneous activities that are currently beyond the control of municipal policy-makers. Nonetheless, it is important to understand the dynamics in each housing delivery system, the role of this system in serving housing

policy goals or other objectives, and the future changes required to better achieve the goal of “housing for all”.

## CHAPTER 4

### PUBLIC HOUSING DELIVERY

When asking the majority of Beijing residents where they get their housing, the most likely answer is: either "from our dan-weis (work-units)" or "from local housing bureaus." Work-unit housing and municipal housing are two major forms of public housing which have been existed since the 1950s.

#### 4.1 Work-Unit Housing

*Danweis*, work-units, are very loosely defined economic organizations in China. They roughly refer to any social economic units other than individual and family. A work-unit may be a government agency, an industrial factory, a trading company, a school, a barber shop, a restaurant, etc. Two sets of divisions of work-units are relevant to urban housing (Table 4-1). First, according to ownership structures, work-units are divided into state-owned, collective, private, and others (including joint-ventures). Among the state-owned, work-units are further divided into the central-administered, city-administered, and district or county-administered units. Other division of work-units is according to the major

Table 4-1 Types of Work-units in Beijing (1993)			
<b>Total</b>	<b>37,151</b>		
<b>Ownership</b>		<b>Administration Line</b>	
State-owned	16,946	Central government	6,967
Collective	16,785	Municipal government	6,914
Partnership	556	District & county gov'ts	12,389
Stock-shared	240	Street Administration	3,544
Foreign investments	2,065	Towns & Townships	3,849
Private & Others	363	Others	3,488
<b>Nature</b>			
Enterprises	19,368		
Institutions	16,060		
Administrative units	1,723		
Source: Compiled from the <i>Statistical Yearbook of Beijing</i> 1994.			

functions of a work-unit, either enterprise work-units, non-profit institutions<sup>1</sup>, or administrative work-units. The former implies that they are for-profit economic organizations. Financially, they must stand on their own feet and thus are net contributors to the national income. The latter, "administrative work-units" and institutions, are non-profit economic organizations, financially dependent on the state which are net consumers of national income. In reality, many enterprise work-units depend on government subsidies because filing for bankruptcy is not easily permitted. Many administrative work-units and institutions are engaged in profit-making business (创收) to expand their own, sometimes secret, "small coffers" (小金库).

Work-unit housing is the housing controlled (either owned or managed) by these various work-units. They may be on the site of work-units adjacent to the work areas, or scattered throughout the city. There is a broad variety of physical forms of work-unit housing, mainly including:

- ◆ completely self-contained high-rise apartment units
- ◆ completely self-contained walk-up apartment units
- ◆ rooms in "simplified buildings" with shared washrooms, kitchens, and other facilities
- ◆ cottage houses
- ◆ on-site dormitories for young single workers
- ◆ itinerant housing, particularly for construction workers,

Not all work-units have housing. Particularly small work-units often do not own or manage any real estate assets. The meaning of "ownership" needs to be clarified. Given the complexity of original sources of investment in work-unit housing, [to be discussed in the following section], at present, many of work-unit owned housing are actually work-unit managed housing in stewardship for the state.

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<sup>1</sup> Non-profit institutions (事业单位) are a diverse group of organizations which are neither enterprises nor governmental administrative units. However, they are not equivalent to the non-profit organizations in western countries, either. Examples of non-profit institutions include schools, research institutions, office service companies to governmental administrations, etc.,

*The Roles of Work-units in the Housing Process*

In the early 1950s, as part of industrial expansion, the state built housing for work-units according to overall economic plans. From the initiation of a project, to planning and design, financing, authorization, acquisition of land, and construction, all functions were carried out by the government and its agencies. The management and administration of these properties then transferred to work-units upon construction completion. In this sense, work-units were the executors or implementors of government plans and policies.

In 1974, after the city government issued a policy that allowed work-units to build housing on their sites, work-units in Beijing began to play a more independent role in employee housing provision. Due to population growth pressures and demands to alleviate deteriorating housing conditions, many work-units were forced to build housing within their boundaries. The development pattern labeled as "driving a pin into any visible gaps" (见缝插针) thus emerged. Work-units mobilized any possible funds and often built four to six story brick structures. Some structures are called "simplified buildings" (简易楼) because the units are not self-contained. The facilities are insufficient and dwellers have to share the communal kitchens and washrooms. Frequently due to lack of careful planning, supporting infrastructure and facilities were not concurrently built. During this time, the production process was extremely simple and rapid. If a work-unit had funding, it could initiate a housing project, contract a builder, and finish the construction within a few months. Authorization from the planning bureau or other government agencies was skipped or easily obtained.

Work-units tend to build housing environments with a complete set of public facilities and utilities, no matter how small the project. This leads to duplication, inefficiency and an overall lack of coordination. In addition, many of these four to six story brick structures disrupt the continuity of the traditional courtyard housing in Beijing's inner city. From the point of view of heritage conservation, this is disastrous.

Considering these problems of work-units built housing, the Beijing municipal government issued another policy in 1986 to discourage work-unit built housing in favor of



"comprehensive development" by real estate development corporations. Several changes occurred in the housing production process. First, strict planning regulations were put forward to control the building process. The large work-units with their own "courtyard" were required to make comprehensive plans for their sites. For instance, Peking University was asked to make its campus plan. Second, undeveloped land lots became more difficult to find. In conjunction with the diversification of financing, more work-units have to form partnership to jointly build housing. Simultaneously, additional work-units, particularly small and poor work-units with low administrative ranks, were simply forced out of housing production and were forced to buy commodity housing on the market.

By the end of 1994, according to the official data, the housing space managed by work-units was about 62% of the total housing space in Beijing, including both the space built and bought by work-units (See Table 3-8).

The function of work-units in housing financing needs some elaboration. Table 4-2 lists the costs and revenues of typical work-unit housing. On the revenue side, the funds allocated from the superior administration, normally included in the "non-productive capital investment" of the state budget, were almost the only source of revenue for housing before enterprise finance reforms in 1984. After reforms, state-owned enterprises attained certain autonomy to keep part of the revenues generated for housing construction. By now, other revenue sources for housing such as work-units' reserves and loans become more important than the allocation funds from the state.

Table 4-2 Housing Revenues & Costs of A Typical Work-Unit	
Costs	Revenues
1 Total (1=2+8+9+10+11)	12 Total (12=13+15+18+19+20+21)
2 Earmarked expenditures on self-managed housing (2=3+4+5+6+7)	13 Fund transfers from superior administration
3 Depreciation	14 from state budget
4 Overhaul fund	15 Listed in product costs
5 Property tax & fixed asset occupancy fee	16 earmarked expenditures on self-managed housing
6 Maintenance fee	17 employees' welfare fund used on housing
7 Management fee	18 Loans and borrowing
8 Investment in newly built or bought housing	19 Self funding
9 Rent subsidies to employees	20 Rent income from self-managed housing
10 Differences between market rents and rents charged to employees	21 Others
11 Subsidies to employees on purchasing & renovating housing	
22 Surplus or Deficit (22=12-1)	
Source: Compiled from the survey questionnaire designed by the Municipal Statistics Bureau of Beijing, 1986.	

It should be clarified that most work-units do not yet have such a clearly stated housing balance sheet and are in the process of establishing their special housing funds. Even those work-units who have established Public Provident Funds for their employees, did not establish housing funds simultaneously or special accounting for housing. Consequently, housing investments, either from the state budget or from the enterprises themselves, are **irregular** and **unreliable**. Many enterprises continue to take funds from overhauling, technical and equipment renovation, and welfare for employees and invest them in housing. Some divert spare income into housing. Some exchange their products or raw materials for housing construction materials. Some bring spare lands into partnership with others who have capital to jointly build housing.

It is highly questionable whether these irregular and unreliable housing investments by work-units can be sustained. When the reform measures in other fields such as finance, auditing, and taxation are enforced, many of these financing methods of work-unit housing will become illegal. Housing investments from work-units may therefore significantly decrease.

The complexity and ambiguity of work-unit housing funds creates a problem in identifying the ownership of these assets. Particularly in the process of inventorying of state assets, there is confusion over whether work-unit housing belongs to the state or to the work-unit itself. The clarification of the concept of "work-unit housing" would result in the transfer of the housing assets or equivalent value of these assets from one organization to another. However, at present, work-units still hold *de facto* ownership rights.

Through whatever channel a work-unit acquires housing units, it has full autonomy in deciding how to distribute these units among their employees. Public housing is generally distributed to all registered urban citizens based on their personal needs and contributions to

**Table 4-3 Policy of Housing Standards (1985)**

Category	Unit Size (sq. m.)	Distribution target groups
I	1-bedroom unit 45 sq.m.	Ordinary citizens, workers and cadres
II	2-bedroom unit 56 sq.m.	Cadres at the level of "chu" and above; lecturers, assistant research fellows, assistant engineers, doctors, and other intellectuals at similar level.
III	3-bedroom unit 70 sq.m.	Cadres at the level of "ju" and above, professors, research fellows, senior engineers, senior doctors, and other senior intellectuals at similar level.

Source: Based on an interview with Mr. Hong Qiang, Chief Planner of the Beijing Urban Planning and Design Institute.

the state. These distribution standards were formulated in the 1950s by the state. They were revised in 1985 to reflect improvements in housing conditions within the city (Table 4-3).

Based on these general housing standards, work-units often develop their own working standards for distribution -- the score systems. A typical score system normally considers the following set of criteria measuring household needs and contributions: current living space, household size, household composition (such as number of generations, age, gender of children, etc.), official position of household head and his/her spouse, job title, rank and seniority within a work-unit, family planning requirement, and sometimes political contributions (Figure 4-4).

Table 4-4 A Sample of Score System (Beijing Urban Planning and Design Institute)			
Item	Score	Item	Score
1 Years of work	1 / year	5 Unlisted cadres	3
2 Years of working in the work-unit	0.8 / year	(soldiers)	1
3 Position in the work-unit		6 Two wage household	2
Director of the Institute	8	7 Who vacate their housing to the Institute	2
Vice Director	7	for second-round distribution	
Chu level cadres, general engineer	6	8 Outstanding achievements	
Vice Chu level cadres	5	National level	3
Chief engineers, planners	4	Municipal level	2
Senior engineers	3	9 Minority	2
Engineers, Ke level cadres	2	10 Who disobeys family planning	-2
Other employees	1	11 Who is punished for poor performance	-3
4 Age	0.4 / year		

After a housing unit is allocated to an employee, the work-unit continues its responsibilities for maintenance and management. Though the city government has set up rent levels (see Tables 3-3 and 3-9), many work-units are not bound by standard rents and often charge less than the city level. Apparently, the rents collected are far from sufficient to recover the cost of maintenance or housing acquisition.

The city's housing reform policies originally intended to use monetary measures to allocate housing units. That is, households should buy housing directly from the market. If housing units are built by work-units, employees are supposed to buy these units from their work-units. Work-units should not be involved in the housing delivery process anymore. However, in practice, it is impossible for wage-earning households to buy the commodity

housing units, which are priced 30-50 times the average household's annual income. Work-units are inclined to intervene and subsidize the purchases of commodity housing. Interestingly, work-units are not only obligated to provide a buffer zone between market housing suppliers and consumers, they also seem inclined to continue administrative methods of housing distribution. The reasons for this are explored in the next section.

### *Problems Associated with Work-unit Housing*

As the major housing delivery system in Beijing, work-unit housing does not meet the demand for housing all employees. In addition, it generates some problems in the housing delivery process.

The most discussed issue regarding work-unit housing is the unequal distribution between work-units. Many surveys and investigations have shown that centrally administered work-units, state-owned administrative units, and large-scale state-owned enterprises are often in an advantageous position to receive housing funds and therefore build or purchase housing. Profitable enterprises and those controlling certain amounts of resources such as financial reserves or lands are also better equipped to provide housing to their employees.

Ongoing market-oriented economic reforms exacerbate rather than alleviate this inequality problem. Many of the common resources for funding work-unit housing, as listed in Table 4-2, are not available for small sized, collective (community owned) work-units. If work-units do not have previously built housing stock, they cannot receive the earmarked depreciation and overhauling funds for housing. If work-units do not have spare land, they cannot convert it to stock shares and enter into partnerships with other work-units. If work-units make little or no profit, they cannot retain any revenues for housing. Consequently, rich work-units become richer and poor work-units become poorer. Employees in rich work-units may obtain comfortable apartments. Some even can attain more than one unit. Employees in poor work-units, on the other hand, find it very difficult to obtain even one room from their employers.

The second factor influencing distribution is government housing standards and score systems. It is apparent that these standards and score systems give legitimate privileges to those in power and in senior positions. Moreover, because of the lack of coordination between work-units, it is common that a husband may obtain a unit from his work-unit while a wife gets another from hers if both are high ranking officials and work in the "housing-rich" work-units.

The score systems reflect a conflict of distribution principles. On one hand, work-units are intended to treat housing as a reward or inducement. On the other hand, work-units are obligated to regard housing as one item of compensation to the employees' basic needs. These two principles often compete with each other, especially in a housing shortage situation. It seems that the reward or inducement principle always prevails in the end. In the example of score systems given earlier in this chapter, it was demonstrated that contribution criteria are often given a higher weight than need criteria in the design of score systems.

The third problem associated with work-unit housing regards the issue of efficiency of use of urban space. As mentioned earlier, every work-unit is intended to build a complete set of public utilities and facilities which are convenient to the employees. However, from the viewpoint of urban planners, work-unit settlements are a waste of space, full of duplication, inefficient and overall lack coordination. Particularly in market-oriented reforms, there is a strong demand for rearranging urban land according to "best use" in the emerging real estate market. This reflects the conflicting forces between decentralization and centralization of urban space use.

The fourth problem with work-unit housing is linked to the general role of work-units in the social structure. It is argued (particularly by those reform minded individuals) that work-units, enterprises in particular, should not take all responsibilities beyond production. When enterprises take money from the funds intended for improving productivity, efficiency of the enterprises is severely hindered. Some also argue that the work-unit housing system makes employees dependent on their employers for housing. Not

surprisingly, workers are not inclined to make work-related moves for fear of losing their housing (Lee 1993:170).

### *Fundamental Forces for the Persistence of Work-units in Housing Delivery*

The work-unit is a peculiar type of social organization in Chinese society. The ideology of socialism at the time when Chinese society was restructured after 1949 emphasized industrialization and the administrative allocation of goods and services to ensure desired equity. Above all, the Communist Party's independent purpose was **accumulation** at the national level (Hua *et al* 1988; Kirkby 1985). The notion of the "producer city" and the policy of "production first, consumption later" dominated the 1950s, 1960s and 1970s. Various work-units were formed around this ideology and policy.

The abolition of private ownership of the means of production created a tendency for the large state enterprises, who possess a set of property rights in the productive sphere, to engage in the production (and maintenance) of objects of collective consumption in order to ensure the reproduction of their labor needs. In other words, work-units directly delivering housing and other goods and services were thought to be necessary to reproduce the work force in the industrialization process. At the same time, the work-unit delivery system also reproduced the central control and other social relations that are necessary to sustain industrialization and accumulation after the abolition of private markets. The reproduction of social relations is well capitulated by the theory of "communist neo-traditionalism". This theory explains that the delivery of public goods and services by large state enterprises is one of the reasons for the tendencies of dependence, deference, and particularism in enterprises' authority relations (Walder 1987: 23). Moreover, it can explain how the "corruption problem" in work-unit housing allocation occurs, and why the principle of regarding housing as reward / inducement prevails over the principle regarding housing as a basic need. The culture of "principled particularism" and "clientelist bureaucracy"<sup>2</sup> in

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<sup>2</sup> These are terms defining the network of patron-client relations between the management and workers in Chinese work-units. The management not only controls the work force through vertical, formal, and impersonal relations created by standard recruitment and leadership practices, but also through informal, personal relations based on loyalty and cooperation of a small group of workers (Walder 1987).

work-units on one hand reward personal loyalty to one's patron before adherence to universal communist ideals. On the other hand, it forces workers to cultivate private relationships as a means to advance a career or gain access to scarce goods such as housing. The clientelist bureaucracy of work-unit managers also provides a solid explanation of the reason why work-units continue to divert funds for purchase or construction of housing, even though they know that their behavior may not be legitimate. As reported often in Chinese documents, many managers explain themselves by claiming that they owe their employees housing services because of neglect during the Cultural Revolution (Liu 1992:181).

Several forces currently function to break the dependency of employees on employers for housing provision created by the patron-client relations. The introduction of the market makes available alternative delivery channels of housing and other goods and services. The criticism against favoritism and the demand for transparency of distribution processes results in the popular adoption of score systems. Another factor, which has not been recognized, is the effect of inter-generation transfer of housing units compounded by the *de facto* property rights of inhabitants of work-unit housing.

In Beijing, tenants in work-unit housing have been given the right of continued tenancy, including passing on the tenancy to their heirs without eviction. When workers pass away or leave work-units, in most cases they or their heirs still occupy the units. This termination of employment changes the nature of work-unit housing as a reward to the employee to a simple commercial relation between landlord and tenant. However, since the low rent policy persists, the work-unit continues to subsidize the employee's heirs for housing services. The *de facto* property rights of the heirs prevent the work-unit from disposing or reallocating the unit at its will. Mainly due to the inter-generation transfers, it is estimated that about 30% of work-unit housing in Beijing do not house the work-unit's own employees<sup>3</sup>. Consequently, the work-unit is subsidizing housing for other work-units.

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<sup>3</sup> According to an interview with a Housing Reform Office official.

If it hopes to hold on its work force or to induce qualified new comers, a work-unit has to expand control of housing stock rather than restructuring the allocation of existing housing stock. Therefore, the tendency of breaking the dependency of employees on work-units for housing provision does not necessarily result in the relinquishment of work-units of their property assets, regardless of if the burden of subsidizing housing becomes heavier.

The peculiar relationship between work-units and the state (represented by the administrative agencies) is another reason for the persistence of work-units engaging in housing delivery. The deeper reasons for this behavior may lie in the current relationship between the state and state-owned work-units. For most work-units, the state budget and grant is still one of the major sources for housing funds. Some managers find that if they clearly earmark their housing funds sources, the result is self-destructive because they may lose the opportunity to attain future government funds<sup>4</sup>. This is a typical result of the "soft-budget" constraints in the socialist system. The relationship between the state administration and state-owned enterprises is akin to the relationship between father and son (Kornai 1986). If an enterprise constantly complains about the shortage of funding for housing, the state administration might eventually help the work-unit to solve its housing problem by some means such as increased funds allocation.

Market oriented reforms generate social and political forces independent of and standing against work-unit housing delivery whenever the latter violates certain presumptions of the nature of the "socialist market" society. However, work-units would not transfer resources (housing and others) and accompanying administrative responsibilities to other new organizations if they regard these transfers as disadvantageous to them. While work-units are beginning to recognize they stand economic gains from a more coordinated spatial planning policy, they are unwilling to relinquish their title to housing and other resources. This applies particularly to enterprises which possess substantial housing assets and those who exercise these rights to attract and keep labor.

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<sup>4</sup> Source comes from an interview with an informant from the City Management Centre of Housing Funds.



## 4.2 Municipal Housing and Housing Management

Municipal housing (直管公房) is public housing managed by the Municipal Housing and Property Management Bureau (HPMB) and its subordinate local housing offices. Strictly speaking, municipal housing is only one type of housing rather than an independent housing delivery system. The HPMB and local housing offices mainly fulfill housing management function in the delivery process. It is important in this section to compare two major sets of housing related social institutional complexes and community management: the work-based housing organization and the residence-based housing organization.

### *Municipal Housing*

One major component of municipal housing is the traditional courtyard housing located in inner city areas, many of which were confiscated in the early 1950s by the previous government. Another major component of municipal housing is the residential quarters and districts built in the 1950s. By the end of 1994, municipal housing accounted for 18.3% of the total housing stock in Beijing.

The major actors managing municipal housing are organized into a three tier hierarchy: the Municipal Housing and Property Management Bureau, housing and property management bureaus at the district and county level, and local housing offices. Created along with the administrative housing system, this three tier hierarchy was designed specifically to maintain and manage housing stock in Beijing. Its major functions include

- ◆ Establishment of standard rent levels.
- ◆ Collection of rents from tenants.
- ◆ Upkeep and repair of housing stock under its control.
- ◆ Management of registration records of all urban housing in Beijing.
- ◆ Allocation of housing units to local residents under its administration.
- ◆ Organization and assistance of housing swaps.
- ◆ Management of land leases and transfers in the built-up area.

Traditionally, housing and property management bureaus and local housing offices were required to be financially independent. Since rent levels are very low, most of rent collected from municipal housing has been used to pay wages of employees of the housing bureaus and offices. After further deductions for various administration costs, the remaining portion of rent income is used to repair or improve housing stock.

Since the introduction of market oriented reform policies, many housing bureaus and offices have engaged in various commercial businesses. The most common business is to sign contracts with other work-units or individuals for renovating, improving, repairing or managing housing. Another type of business is to provide informal rental housing in the "hidden market". Because the assets under the control of the housing bureaus and offices are often situated in excellent central city locations or along busy streets, many housing bureaus and offices have remolded their housing property for commercial uses and lease to shops, restaurants, and others.

#### *Work-based Community and Residence-based Community*

In the administrative housing system, there are two distinctive forms of public housing management: work-unit managed housing and municipal housing. They represent two types of social organizations of housing environments: work-based communities and residence-based communities. These management forms correspond to the vertical, functional relation and the horizontal relation of the central planning system.

In the centrally planned economy, work-units functioned not only as basic economic organizations, but also as deliverers of various social goods and services. As such, work-units are often called "small societies". In spatial term, in the "courtyard" of each work-unit, housing and other service facilities are located adjacent to the workshops or office buildings. In such spatial proximity, the social interactions of workers are dominated by relationships in workplace, either authoritative relationships or co-operative relationships due to labor division. Compounded by this functional relationship, casual community interactions based on kinship, locality, personal or mutual interests become intense and

complicated. To a large extent, these tight social connections in work-based communities provided a convenient channel to the central administration.

As early as the 1950s, the idea of urban spatial organization along residence-based social relations was adapted from the Soviet model. The physical form of residential districts and quarters was intended to socially organize urban masses toward collective living and consumption. Through street administration offices and neighborhood committees, households in residential areas were practically integrated into the socialist control system. However, these grassroots political and administrative organizations were not in congruence with municipal housing offices. They often had different service areas. Because they belong to different administration lines, residence-based communities did not have a real sense of community. Households were inclined to identify themselves with their work-units.

In short, in the central administrative system, organizations of residential areas are predominately work-based communities.

#### *Trends of Residence-based Housing Management*

The dominance of work-based housing organization began to change during the course of market oriented reforms. While more housing units have been produced through a real estate corporation centered delivery system and while more public housing units have been privatized, there is a strong demand for new forms of housing management organizations.

One experiment that the Beijing municipal government currently encourages is to set up "building management committees" comprised of building residents in fully privatized buildings. The tenure of these privatized buildings is similar to condominiums in developed countries. Individual occupants are required to be responsible for managing and upkeeping private space while sharing the costs of managing communal areas through the "building management committees."

Meanwhile, two new forms of housing management are emerging:

- ♦ Real estate corporations managed housing is increasing. By the end of 1994 it was approximately 12.5%. These corporations operate along commercial lines and exercise property management as do property management companies in a market economy.
- ♦ In some large residential districts, housing management is done by both a neighborhood committee and a property management company. The former is an administrative organization and the latter is an enterprise. This model of housing management is very new in Beijing.

In the face of these emerging new organizations, housing management of both work-unit housing and traditional municipal housing has to be transformed. The tendency appears to indicate that future housing management will be dominated by residence-based organizations.

However, the current tendency contains a strong commercial orientation of property management. Community relations surely are not just commercial interactions. Two questions require some serious thought. Whether future residence-based organizations will continue to embrace social, political or administrative functions? Whether the notion of collective living is still valid under the "socialist market system"? Unfortunately, they are beyond the scope of this paper.

One final note is critical. Housing management has never been pure property management. It is more inclined to be community management. As such, the current real estate corporation form of housing management might be a temporary phenomenon.

### *Summary*

Work-unit housing is the dominant housing delivery system in Beijing. At present, it controls more than 60% of Beijing's housing stock. Municipal housing occupies another 18.3% of the stock. Together more than 80% of housing space in Beijing is publicly owned.

The work-unit delivery system was a creation of the centrally planned socialist economy. Work-units were passive executors of state policies and programs aimed at equally allocating goods and services (housing included) to all urban families. Policies

between 1958 and 1978 neglected housing development and consequently generated a severe housing shortage. It was not until the late 1970s that the central government found it almost impossible to solve this housing deficit through the state's budget alone. Work-units were thus encouraged to mobilize their resources to produce employee housing. This policy fuelled a boom of mass production in the late 1970s and 1980s and helped to alleviate the housing shortage.

However, the work-unit housing delivery system itself has contributed to inequity problems due to the administrative allocation of housing. Workers of small, poor or low administrative rank work-units face greater restraints to access to housing than those in large, rich or high rank work-units. From the viewpoint of urban planners, the work-unit housing delivery system impedes the city-wide adjustment for rational land use and endangers the conservation of inner city historic characteristics. From the viewpoint of market oriented reformers, the work-unit housing delivery system does not help to create a labour market that allows workers to move freely according to the need for job changes. It hinders the improvement of enterprise production efficiency. In this sense, the work-unit housing delivery system creates negative effects on market oriented reforms.

Housing reforms initiated by the central government suggest a move to a new market driven system. Various subsequent commodification measures intend to break the dependency of workers on their work-units for housing and hope that workers will buy their housing units from the open market. In addition, reform measures to remove work-units from housing delivery were expected to solve inequity and other problems associated with work-unit housing delivery.

The implementation of reforms in Beijing does not appear to move in the direction that the central government had hopes. While the central government is withdrawing from direct housing provision, the municipal government is compelled to require work-units to fill in the gap. Without being able to increase rents and housing prices to a cost-recovery level, work-units are now responsible for providing subsidies to their employees for

obtaining housing. As a result, particular poor work-units, the burden of housing their employees becomes heavier for work-units.

Meanwhile, market oriented reforms did not rectify, but rather exacerbated, the inequity problem. Under reforms, housing-rich work-units are becoming richer while housing-poor work-units are becoming poorer. Housing-rich families are becoming better housed while the chances for housing-poor families to obtain housing are becoming more remote.

Table 4-5 summarizes the dynamic changes of the role of work-units in the housing delivery process.

**Table 4-5 Work-units' Roles in Housing Delivery**

Process Function	1951-58	1958-1978	1976-86	1986-present	
				Type A	Type B
Projection Initiation	N	N	H	H	N
Planning Design	N	N	H	M	N
Land Acquisition	N	N	H	M-H	N
Financing	N	N	M	H	M
Authorization	N	N	L	L	L
Building Construction	M	L	H	M	N
Infrastructure Provision	N	N	L	M	N
Transfer of Units	H	H	H	H	L
Access to Occupancy	H	H	H	H	L
Maintenance & Management	H	H	H	H	H
N= No involvement, H=High involvement, M= Medium involvement, L=Low involvement Type A = Resourceful work-units, Type B = Resourceless work-units					

The rationale for the persistence of work-units in housing delivery is understandable. Under the socialist system, work-units delivered housing and other social goods and services as part of the social functions to reproduce the work force and social relations according to the demand of industrialization and wealth accumulation by the central government. The neglect of housing production and consequent scarcity fostered the dependency of employees on their employers. A social relationship labelled as "communist neo-traditionalism" was generated within work-units.

In the transitional stage, market oriented reform has weakened the government's administrative control over work-units. Now there is room for work-units to identify and pursue their own interests. However, the institutional arrangements of "neo-traditionalism" persist and manifest itself in new forms. Although the specialization and commodification in the housing process under reforms function as forces to change and contain the role of

work-units in housing delivery, two fundamental forces continue to push work-units involving in the housing process. The first is the "clientelist bureaucracy" which is partly responsible for voluntary subsidies provided by work-units as a buffer between commodity prices and affordable prices for their employees. The second force is the desire of work-units to control and expand their housing and other resources in order to attract and hold onto their work force and to sustain their position within social structures. Internally, it is the desire of work-unit management to expand their control over housing, partly as symbols of their authority and social status.

Table 4-6 summarizes the effects of the work-unit housing delivery system regarding specific housing objectives and other objectives.

Table 4-6 Objectives and Effects of Work-unit Housing Delivery System		
	Objective	Effect
Housing Specific Objectives	Availability	+
	Adequacy	+
	Accessibility	-
	Affordability	+
	Viability	-
Market Oriented Reform Objectives	Mobile labor market	-
	Production efficiency of enterprises	-
Other Objectives Actually Pursued by Work-units	Resource retainment	+
	Consolidation of existing social relations	+

In short, the work-unit housing delivery system mobilizes the resources of work-units to solve employee housing problems. However, it seems not to fit in a market based economy. This is not only because work-unit housing delivery itself creates other housing problems such as unequal distribution, but also because it conflicts with other reform objectives beyond housing specific goals. There is no dispute that the work-unit housing delivery system needs reform. Nonetheless, reform that attempts simply to push work-units out of housing delivery cannot succeed if the specific interests of work-units are not recognized. Policy makers must take the fundamental forces of work-unit's persistence into consideration in their policy design.

In the field of housing management, new forms of commercial oriented organizations are emerging. Housing management of both work-unit housing and traditional municipal housing has to be transformed. The tendency appears to strongly indicate that

future housing management will be a residence-based organization dominated structure. However, housing management has never been pure property management. It is more inclined to be community management. Whether future residence-based organizations will continue to embrace social, political or administrative functions or whether the notion of collective living is still valid under the "socialist market system" requires some serious thinking.



## CHAPTER 5

### COMMODITY HOUSING AND REAL ESTATE CORPORATIONS

Beijing residents not working for a work-unit or belonging to a work-unit without housing have been able to buy commodity market housing since 1980.

The commodity housing delivery system is created by the "commodification" process and several other on urban development policies. "Commodification" is defined as a policy that requires delivery of "housing according to its commodity nature, namely to produce, rent or sale housing at a market rate and use these rent/price signals to coordinate the production, distribution and consumption of housing" (Su 1987: 51). Initiated in June 1980 by the State Council, its major contents include:

- 1) Establishment of an independent housing production industry;
- 2) Selling of housing to individuals at "the price that is equal to the value" (等价交换);
- 3) Increasing rents to interim cost recovery levels and then market levels;
- 4) Establishment and development of a housing market;
- 5) Inclusion of the housing consumption into wages; and
- 6) Reform of the housing investment and financing system (Cai 1993: 109-112).

The commodity housing delivery system in Beijing which resulted from the above policy is marked by four major characteristics: comprehensive development according to master plans, a specialized building industry, independent land and infrastructure financing, and high prices for sale of commodity housing. Each characteristic is discussed in detail in the following sections:

#### *City Master Plans and Comprehensive Development*

Urban planners in Beijing use the concept of comprehensive development for residential developments. Developed in the 1950s from the inspiration of the Soviet "*mikroraion*"<sup>1</sup> model, this concept guided Beijing's first housing construction boom between

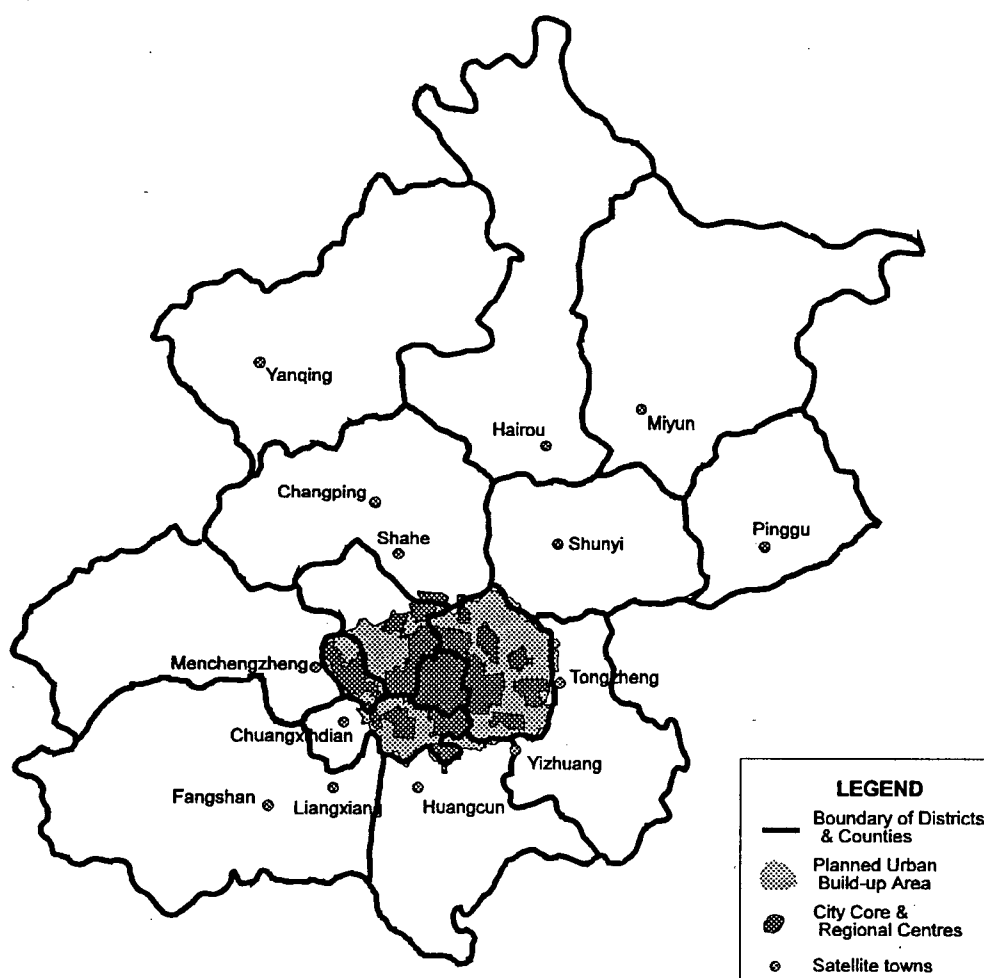
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<sup>1</sup> See Andrusz 1984, pages 127-132.

between 1952 and 1958. After the Cultural Revolution, planning-driven developments resumed as one of the basic features of housing production in the 1980s. The first official city comprehensive plan (master plan) was drafted in 1954 and revised in 1958. The second master plan was formulated and formally endorsed by the People's Congress of Beijing and approved by the State Council in 1983. The third master plan was put forward in 1992 and endorsed by the People's Congress of Beijing in 1993.

One of the common themes in the master plans is that urban developments should follow nodal patterns and green belts should be preserved to separate the city center from

Figure 5-1 City Core, Regional Centers, & Satellite Towns



Sources: Adapted from *Beijing Striding Forward to The 21st Century*, an illustrated document of the city's Master Plan 1992.

its twelve surrounding regional centers and fourteen other satellite towns. Some areas are designated as residential zones where comprehensive housing development is to take place. Location of housing and workplace in close proximity to each other is also stressed. (Figure 5-1)

The concept of residential zones, called "residential districts" and "residential quarters" (居住区, 居住小区) is unique to Chinese contemporary urban planning, and thus requires detailed discussion.

The concept of "residential quarters" as basic planning units of housing development was first put forward in the 1950s. Residential quarters are a group of housing estates occupying an area of approximately 30 to 60 hectares with an average population of 10,000 to 20,000. There are commercial service facilities, primary schools, nurseries, cultural establishments, parklands and children's playgrounds in the area.

By the 1970s the idea had developed to build larger residential areas in order to promote economies of scale, save investment in urban construction, reduce the number of intersections, create a quiet living environment, and install comprehensive community facilities and services. The concept of "residential districts" as the basic planning unit for housing development thus replaced the concept of "residential quarters". A residential district generally occupies 60 to 100 hectares with a population of 30,000 to 50,000 people. Every residential district has administrative authorities and fairly complete commercial service facilities, including food and vegetable markets, restaurants, food shops, department stores, bathing houses, post offices, savings banks, bookstores, cinemas, cultural centers, youngsters' and children's houses, hospitals and outpatient departments. A residential district also must have more than two hectares of parklands and sports grounds. In the 1982 Master Plan, the Beijing government explicitly stated that a residential district should be an independent "social cell", an integrated residence-based community, exercising management functions to meet the demands of residents. In this sense, a residential district is more than an organizational device for providing a variety of services conveniently. It should also be a

construct directed at achieving specific social objectives. Table 5-2 outlines some basic planning features of residential quarters and residential districts.

<b>Table 5-2 Residential District and Residential Quarter</b>				
	Residential district		Residential quarter	
Area(1)	60 - 100 ha		30 - 60 ha	
Population	30,000 - 50,000		7,000 - 15,000	
Number of households(2)	9,375 - 15,625		3,125 - 6,250	
<b>Category</b>	<b>Major types</b>	<b># of items</b>	<b>Major types</b>	<b># of items</b>
Education facilities	Middle & primary school, etc.	Total of 4	Combined in district's types.	Total of 14
Health facilities	Clinic	one	Health station	one / 500 households
Commercial services	Shops, bookstore, etc.	Total of 30	Combined in district's types.	Total of 14
Entertainment, culture	Cinema, sport ground, etc.	Total of 4	Cultural center	one
Administration	Street Administration Office	one	Neighborhood committee	one / 500 households
	Public Safety Office	one		
	Housing Office	one	Housing office	one / 120,000 sq.m. hous'g
	Others	Total of 9		Total of 3
Public facilities	Factory for the disabled, etc.	Total of 7	Bicycle parkade, etc.	Total of 4
Utility facilities	Heating station, etc.	Total of 6	Combined in district's types.	Total of 5
Sources: Regulation of Beijing municipal government on <i>Community Facilities Quotas for Residential Districts and Quarters</i> , 1985.				
(1) According to Dong Guang-qi 1987.				
(2) These numbers are based on population divided by an average household size of 3.2 persons.				

According to city regulations, residential development must occur in the form of comprehensive development (综合开发) unless specially approved by the city. At the municipal level, a Comprehensive Development Leading Group exists composed of senior officials from the Construction Committee, Planning Committee, Municipal Administration Committee, and Capital Planning and Construction Committee. Each year the Planning Committee and Construction Committee prepare a plan for development projects. The Urban Planning Bureau and land administration agencies are responsible for project planning, design and land acquisition. Only certain licensed real estate development corporations can implement planned projects. As the name suggests, comprehensiveness means that housing units should not be isolated from the environment. Instead, "the construction of on-ground buildings must be integrated with the construction of underground facilities; the construction of housing units must be integrated with the construction of support facilities; and the construction of on-site infrastructure must be integrated with

the construction of off-site infrastructure" (Beijing Municipal Government, 1993:329)<sup>2</sup>. The finished products, housing units, are inspected upon completion by the Construction Committee and then transferred to designated work-units for distribution. If the units are commodity housing, they must be sold to designated buyers according to sale plans at pre-set prices. Table 5-3 lists the major agencies involved in the development process and their relevant management duties.

**Table 5-3 Municipal Government Agencies in Charge of Commodity Housing Delivery in Beijing**

Vice Mayor in charge of urban development	Overall supervision
Planning Committee	<ul style="list-style-type: none"> <li>• Preparing Economic and Social Development Plans and annual development plans.</li> <li>• Approving development proposals for fixed capital investments.</li> </ul>
Municipal Administration Committee	<ul style="list-style-type: none"> <li>• Coordinating infrastructure and public facility developments of roads, post and telecommunication, environment, real estates, and disaster management.</li> </ul>
Capital Planning Committee	<ul style="list-style-type: none"> <li>• Coordinating physical planning and design of urban and rural developments.</li> </ul>
Construction Committee	<ul style="list-style-type: none"> <li>• Implementing development plans.</li> <li>• Administrating building industry and building material industry.</li> </ul>
Housing & Property Management Bureau	<ul style="list-style-type: none"> <li>• Administrating real properties and estates.</li> <li>• Managing land leases and transfers in urban built-up areas.</li> </ul>
Land Administration Bureau	<ul style="list-style-type: none"> <li>• Administrating all land in the city.</li> <li>• Acquiring land for new area developments and managing land leases and transfers outside built-up areas.</li> </ul>
Urban & Rural Planning Bureau	<ul style="list-style-type: none"> <li>• Managing physical planning and design, inspections, and surveying.</li> <li>• Approving development planning proposals.</li> <li>• Managing development project archives and files.</li> </ul>
Public Utility Bureau	<ul style="list-style-type: none"> <li>• Managing planning and construction of water, gas and heating facilities.</li> <li>• Supplying water, gas and heating services.</li> </ul>
Electricity Bureau	<ul style="list-style-type: none"> <li>• Planning and constructing electricity facilities.</li> <li>• Supplying power.</li> </ul>
Civil Engineering Bureau	<ul style="list-style-type: none"> <li>• Constructing and managing roads and the sewage system.</li> </ul>
Environmental Protection Bureau	<ul style="list-style-type: none"> <li>• Managing environmental protection activities.</li> <li>• Environmental assessment of development projects.</li> </ul>
Parks and Landscaping Bureau	<ul style="list-style-type: none"> <li>• Developing and managing parks and landscaping in the city.</li> <li>• Approving tree-cutting or transplanting in built-up areas.</li> </ul>
Taxation Bureau	<ul style="list-style-type: none"> <li>• Collecting, monitoring, and managing tax-related affairs</li> </ul>
Price Administration Bureau	<ul style="list-style-type: none"> <li>• Approving and managing commodity prices including prices for commodity housing.</li> </ul>
Industry & Commerce Administration Bureau	<ul style="list-style-type: none"> <li>• Registration of development corporations.</li> <li>• Monitoring their activities.</li> </ul>

So-called comprehensive development is specially designed to replace piecemeal work-unit compound housing developments. These projects are often large in scale, dominated by high-rise buildings and high density. One result of comprehensive residential development is that home-based communities where employees from various work-units mix and live in the same building are being created. The separation of land uses forces

<sup>2</sup> The quotation is cited from the Decree No. 3, 1992 of the Beijing Municipal Government, "Regulations on Management of Urban Comprehensive Developments" in *Collection*, 1993.

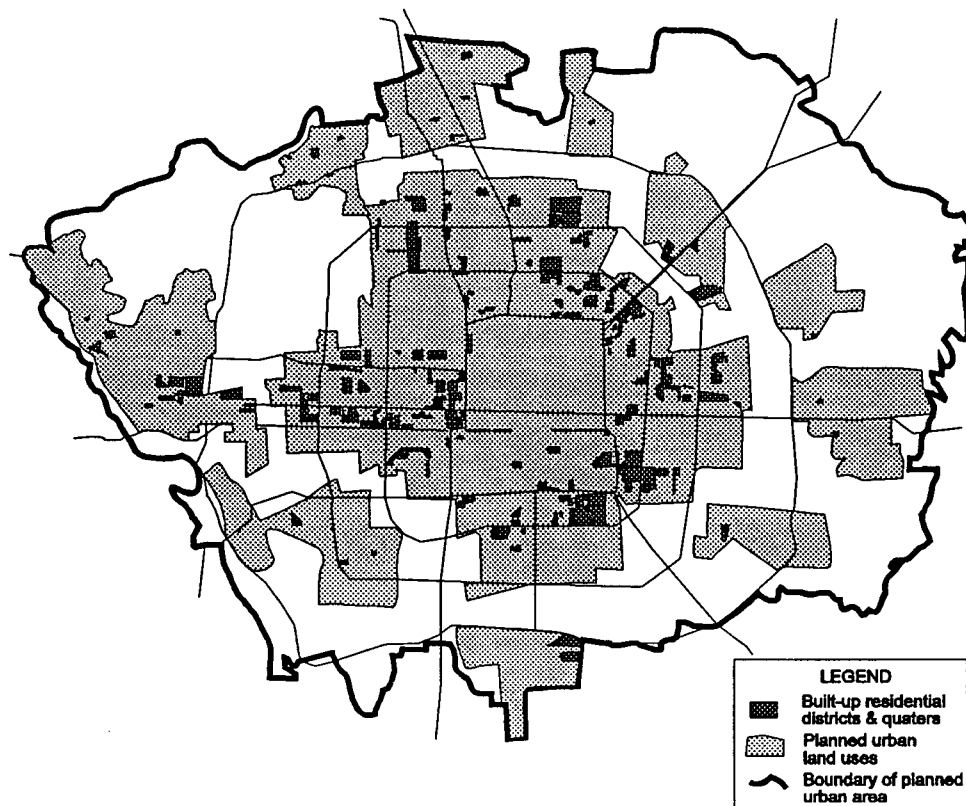
residents to spend more time commuting to work. The third difference between comprehensive residential development and work-unit compound development is that housing is built by specialized development and construction companies, most of which are publicly owned by various levels of governments.

In 1993, housing completed as comprehensive projects reached 45.5 percent of the total completion of housing floor space (Table 5-4). Geographically, comprehensive residential projects are mainly spread outside the Second Ring Road and are filling in spaces between the

Table 5-4 % of Comprehensive Development	
1986	17.00%
1987	30.15%
1988	36.63%
1989	42.42%
1990	43.30%
1991	n/a
1992	44.20%
1993	45.48%

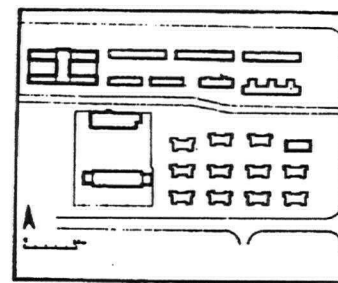
Third and the Fourth Ring Roads. The projects also contribute to the formation of satellite towns in counties surrounding the city core (Figure 5-5).

**Figure 5-5 Residential Districts and Quarters Built through Comprehensive Development**

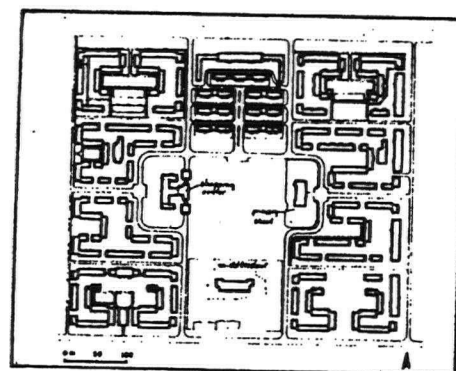


Sources: Adapted from *Beijing Striding Forward to The 21st Century*, an illustrated document of the city's Master Plan 1992

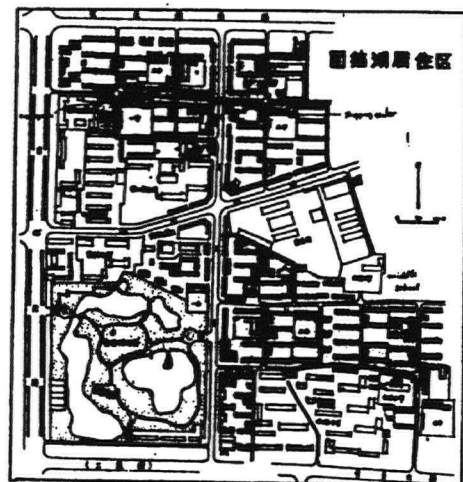
Figure 5-6 Samples of Comprehensive Development Projects



He-ping-II Residential Quater



Bai-wan-zhuang Residential Quater



Tuan-jie-hu Residential District

Source: According to Dong 1987.

*Land Allocation and Infrastructure Financing*

Land allocation for residential developments is a two-track practice. Land is conventionally allocated free of charge based on a Master Plan. A medium-term development plan is prepared every five years containing a list of projects to be implemented and their land requirements. The Construction Committee also prepares a short-term development plan each year to set the targets. The Urban Planning Bureau selects the sites for these housing projects. The Construction Committee allocates the sites to real estate development corporations through negotiation. If the sites are rural land owned by local villages the Land Administration Bureau is responsible for acquiring them according to the plan. Real estate corporations then implement a plan and fulfill the required housing construction targets.

Real estate development companies that wish to build commodity housing or work-units that wish to expand operations may also receive land plots. Both must first submit a proposal to the Economic Planning Committee and Construction Committee for approval of their development intents. They must request a specific parcel of land from the Urban Planning Bureau. The Bureau reviews requests according to land use designations, regulations and planning targets. When the Bureau approves a request and awards a land use planning license (建设用地规划许可证), companies can obtain permission from the Housing and Property Management Bureau or the Land Administration Bureau to acquire land lots. Companies must pay the cost of acquisition.

In May 1992, the Beijing municipal government issued a document, *Implementation Measures of "Provisional Regulations on the Lease and Transfer of Urban Land Use Right in the People's Republic of China"*, to regulate the practice of land leases and transfers. According to this document, land for residential developments should be leased through negotiation while land for infrastructure and other public facilities should be allocated without charges. The city further determined the scale of "normative land prices", composed of three items: a land lease fee, an off-site infrastructure fee, and compensation for land acquisition or the relocation of households (See Table 4-7). Through this



"normative land price" scale, the city hopes to control land speculation and collect land value increases.

Currently, the practice of land leases and transfers in Beijing is in an experimental stage. The majority of residential development projects already approved have not paid their lease fees. In theory, current land users should re-negotiate with land owners or their representatives (namely, the Land Administration Bureau and Housing and Property Management Bureau), sign contracts, and pay lease fees. However, this measure cannot be implemented given that the majority of current land users -- various work-units -- cannot afford to follow this process.

The most recent experiment has been to collect land lease fees to finance land development and infrastructure construction. Prior to the introduction of this financing tool, since the early 1980s, the Beijing municipal government had adopted various taxes and fees to channel funds for infrastructure.

The urban maintenance and construction tax (城市维护建设税), established in 1985, is collected from enterprises, individuals, and other work-units who pay product tax, value-added tax, and business tax. The current rate is equal to 7% of the sum of the three taxes. Though designed specially to maintain and construct urban infrastructure, the urban maintenance and construction tax is, in essence, an addition to the three taxes which are based on revenue levels of enterprises and individuals. The more revenue generated, the more tax that are collected. This calculation bears no relationship to the beneficiaries of infrastructure. Its rationale is thus questionable.

Table 5-7 Land Use Tax in Beijing (1988)	
Grade*	Rate (yuan/sq.m./year)
I	7
II	5
III	4
IV	3
V	1
VI	0.5

Source: Compiled from the *Collection of Laws and Regulations on Real Estate Developments in Beijing*, 1993

\* The city divided its planned urban area into 6 grades in 1988. It further divided the planned urban area into 10 grades to calculate "normative land price". Please see Table 4-15.

The land use tax (土地使用税) was introduced in 1988. The current rates in Beijing are listed in Table 5-7. This tax was meant to accomplish a variety of objectives: to raise revenues to recover portions of city expenditures on infrastructure; to provide land users with

incentives to return underutilized land to the city land administration without compensation; and to encourage spatial restructuring given that work-units which found themselves in "high-rent" districts would voluntarily relocate to "low-rent" districts. The land use tax is designed based on the principle that those that benefit from infrastructure should bear the cost. However, this tax is calculated on the size of the land parcel rather than the value of land which is not fully consistent with the intended principle. In addition, the rate of tax is too low to be a major source of infrastructure financing.

Charging development companies a variety of fees for on-site and off-site infrastructure is one of the major ways to finance infrastructure. The types of fees include:

- Development fees for four major utilities: water supply plants, gas plants, heating stations, and sewage treatment plants.
- Development fees for other off-site infrastructure such as roads.
- Connection fees to on-site infrastructure.
- Development fees for community facilities including neighborhood committee offices, daycare centers, bicycle parks, public toilets, etc.

In addition, development companies may be required to build some facilities, such as portions of a road as a condition to the land lease. The fees for on-site infrastructure and some relevant off-site facilities are based on the benefit principle. The relevance between other off-site facilities and the beneficiary is not very clear. Almost all of these fees are finally transferred into the price of commodity housing. It is the buyers of commodity housing who eventually bear the costs, reasonable or unreasonable.

The traditional methods of infrastructure financing remain function. They include grants from the central and city governments; funds raised from beneficiary work-units; and revenues from user charges.

The city has now begun to consider new methods for financing infrastructure. The "build-own-transfer" scheme is the latest approach introduced to attract investments from private companies, especially foreign capital. The city is also considering increasing user charge rates for water, electricity, gas, and others utilities.

The city uses a mixture of all the above mentioned methods to finance the construction of infrastructure. However, the composition of this mixture normally differs year to year with no co-ordination among the methods used. If user charges are increased, it will not necessarily lead to the reduction of development fees for off-site infrastructure.

### *Real Estate Development Corporations*

A specialized real estate development industry emerged in the early 1980s. It has now become the major supplier of housing in Beijing. By the end of 1993, the total number of real estate companies registered in Beijing was 444. Of these, 292 companies were joint-ventures with foreign investors<sup>3</sup>.

There are generally three types of real estate development corporations. The first is those under the administration of construction committees of municipal and district governments. Prior to 1980, these government run organizations were fewer in number and their major function was to carry out construction plans of urban development projects, either residential, commercial, or public facilities. After project completion, they simply passed them on to municipal or district governments for allocation and management. Since the reforms in 1980s that required separation of administration functions from business functions (政企分开) of enterprises, these government owned organizations have been restructured to become real estate development corporations. Although they are still state owned companies and management is comprised of government officials, these corporations (about 47 in 1993) are required to operate along commercial lines and be financially independent. These corporations have gradually become an independent force within the housing industry and play a more significant role in urban development. They are not merely builders, but also engage in a full range of development activities. They initiate projects on their own as well as carry out government plans. Their are diverse and often large scale. The development of new residential districts and new towns are carried out almost solely by these government associated real estate corporations. Because of their close ties with

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<sup>3</sup> According to *Beijing Yearbook 1994*, page 87.

government construction committees, these real estate corporations attain approval, acquire land, and secure financing and building materials for their projects comparatively easily. They may only exercise their expertise in construction management and take contracts for construction projects without engaging in the initial stage. According to government plans, some of the housing units produced by these corporations are conveyed to the city or district government for distribution. Others can be sold at "comprehensive cost prices" to designated work-units. The remaining units are sold as "commodity housing" on the market.

Another type of real estate development company is mainly derived from or associated with work-units. Particularly during the Beijing real estate market boom period in 1993, more than 100 work-units set up their own subsidiary real estate branches or companies. These companies are taking advantage of emerging opportunities created by the Beijing municipal government's policy to encourage real estate development. Though they may get initial investments from their parent work-units, the major source of financing is from bank loans. In theory these companies do not necessarily bear the responsibility to house employees of their parent work-units. However, they always set aside a portion of their products for the benefit of their employees, especially high rank managers<sup>4</sup>.

The third type of real estate development company is joint ventures with foreign investors. As mentioned earlier, there were 297 of joint ventures as of 1993. Most of these companies function similar to the second type of real estate companies. The major difference is that joint ventures may enjoy preferential government policies for tax exemptions as well as other explicit or implicit benefits.

There is a specialized group of construction companies in Beijing in addition to the above mentioned types of corporations. These construction companies vary in size and only operated based on construction contracts. Very few large scale construction companies can engage in other activities in the building process. The unique feature of this type of

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<sup>4</sup> For instance, the real estate branch of the Fangzheng Group, a subordinate corporation of Peking University built an additional 50 single family houses in the Northeast area of Beijing. They set aside approximately 15 units for the leaders of the University and top managers of the Group. The rational for these real estate companies keeping close ties with their parent work-units is a very interesting question. However, this question is beyond the scope of this dissertation.

company is that the majority of their construction workers are young, male, and originate from the countryside or other provinces. These workers often live on site and move around according to project availability. The relationship between the companies and society is based simply on straight-forward business associations.

While more and more housing has been built by these specialized real estate development corporations, they have begun to see a demand for engaging in housing management and maintenance. Corporations are inclined to set up their own property management entities to maintain control of the estates, especially in the areas where the proportion of commodity housing is high. By the end of 1993 the portion of housing stock controlled by real estate corporations had reached 12.5% (see Table 3-8). Interestingly, commercialized property management is foreign to Beijingers. It is presently unclear how these kinds of organization are related to the existing system of residential districts.

### *Sale of Commodity Housing*

Along with the emergence of comprehensive development and formation of specialized real estate companies, new housing units are not simply conveyed to work-units or local housing bureaus for allocation upon completion. Rather, these new housing units are sold to work-units or directly to individual households. As a result, while individual real estate companies could survive on their own, the financial burden of recovering housing costs is now to a great extent shifted on the shoulders of work-units and directly to consumers.

One source estimates that the total commodity housing sold until the end of 1993 was 8.4 million  $M^2$ , or about 140,000 units<sup>5</sup>. Table 5-8 lists the commodity housing built since 1988.

It must emphasize that the commodity housing market is a highly regulated market where commodity housing prices are calculated based on a government formula and the supply and demand for this housing type is regulated through sale plans.

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<sup>5</sup> According to *Beijing Yearbook 1994*, page 87.

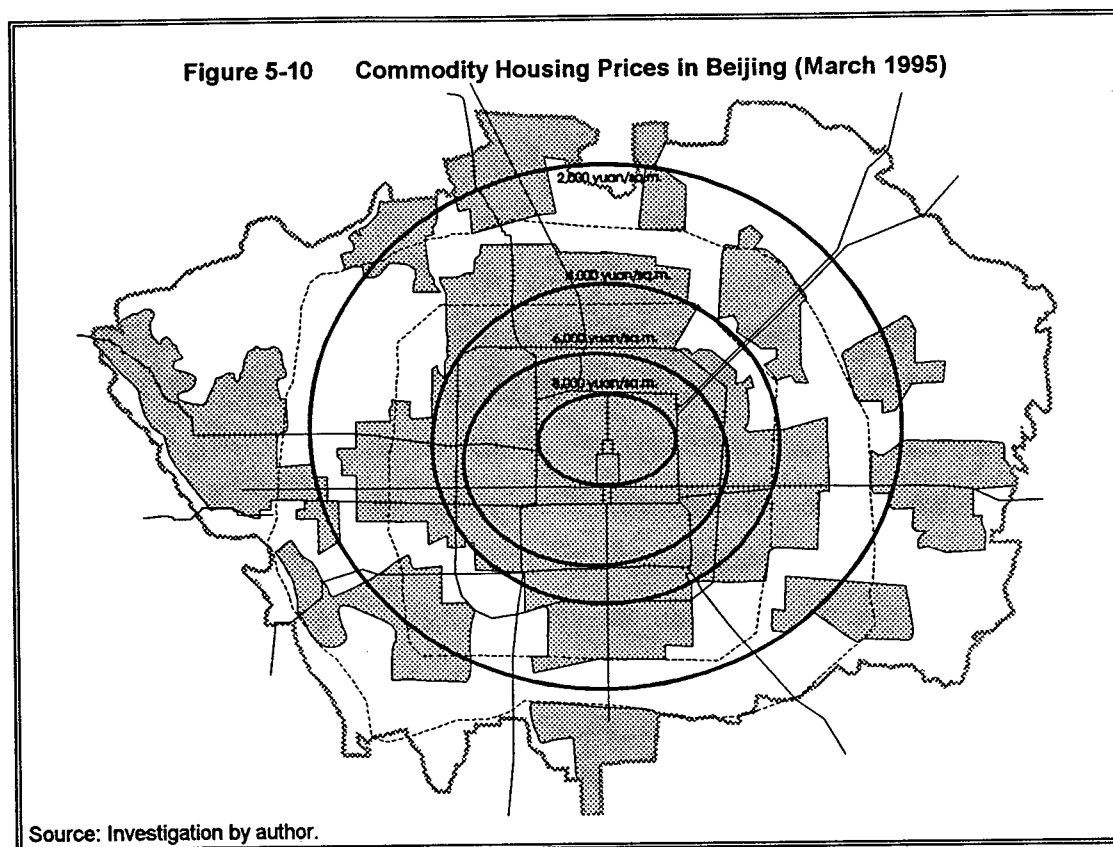
Table 5-8 Commodity Housing for Sale in Beijing				
Year	Completed Space	% of Total Housing Completed	Number of Units	Number of units sold
1988	1,964,000 sq.m	31.50%	30,211	
1989	1,837,000	30.53%	33,000*	
1990	2,265,000	39.53%	37,000*	50,000# units in
1991	n/a	n/a	n/a	1988-1992
1992	1,591,000	23.36%	25,000*	
1993	1,654,000	25.26%	24,300	90,000# units
Sources: <i>Beijing Yearbook</i> 1989, 1990, 1991, 1993, 1994.				
* these numbers are converted using a unit size of 56 sq.m.				
# these numbers are only estimates. The reason why 1993 sold more than the previous five years combined is unknown.				

A commodity housing price includes all of the costs involved plus profits. As shown in Table 5-9, there are 11 major types (representing a total of 73 items) of costs required reflected in this calculation.

Table 5-9 Cost Items in the Commodity Housing Price		
1	Land acquisition costs 征地及拆迁补偿	11 items
2	Pre-construction costs 前期工程费	3 items for feasibility study; planning and design; and site clearance.
3	Infrastructure costs 基础设施费	21 items inside and outside the "red line"
4	Construction costs 建安工程费	
5	Costs for support facilities and utilities 公共配套设施费	11 items for public facilities
6	Management fee 管理费	wages, administration cost, interests on loan
7	Profit	
8	Exactions for expansion/construction of four major facilities: water supply plant, gas plant, heating station, and sewage treatment plant 四元费	4 items
9	Exactions for other off-site infrastructure 大市政费	15% of total price
10	Electricity connection fee 用电权费	
11	Two taxes and One fee 两税一费	business tax, education sur-tax, and urban maintenance fee.
Source: According to the document on commodity housing price collected by the Beijing Municipal Government, 1992.		

Figure 5-10 illustrates the price range of commodity housing based on the survey conducted from November 1994 to March 1995.

The focus of controversy regarding the commodity prices is whether development charges should be included in the price. This is directly linked to the methods of land and infrastructure financing.



### *Strengths and Weaknesses of the Commodity Housing Delivery System*

The commodity housing delivery system is a real estate corporation centered system which responds to the production targets set by governments. With their specialized expertise in construction and development, these corporations are capable of excelling in housing production at a rapid pace and massive scale. In this regard, the specialized housing industry is more advantageous than work-unit housing production.

However, the commodity housing delivery system is more administratively commanded rather than consumer commanded system. Every phase of the delivery process is highly influenced by various government agencies. The roles of governments and REDCs in commodity housing delivery are summarized in Table 5-11. For comparison, the roles of governments between 1949 and 1980 are also listed in the table.

The multiple body management structure of government agencies, compounded with the conventional vertical (work-unit) and horizontal (local housing bureau) institutional

Table 5-11 Roles of REDCs & Government in Commodity Housing Delivery			
Process Function	1949-1980	1980-present	
	Government Apparatus	REDCs	Government Apparatus
Project Initiation	H	H	H
Planning & Design	H	H	L
Land Acquisition	H	M	H
Authorization	H	N	H
Financing	H	M	M
Building Construction	H	H	N
Infrastructure Provision	H	H	M
Transfer of Units	H	H	M
Access to Occupancy	H	n/a	M
Maintenance & Management	H	L	N
Note: N= No involvement, H= High involvement, M= Medium involvement, L= Low involvement.			

complexes, generates large concern for coordination and integration. For prudent and efficient operations, the performance of these government agencies has conventionally been measured entirely against aggregate production targets. Housing needs other than completed floor space are often ignored if they do not address some specific policy targets. It is already recognized that the role of the government in housing delivery must be reduced. Multiple body management appears to control everything, but actually controls little.

Close ties with government agencies provides government associated real estate corporations with advantages to access scarce resources such as developable land, desirable building materials and construction financing. Simultaneously, as with for-profit enterprises, operation normally requires pursuing business opportunities or even speculating the emerging real estate market. There is thus a tendency for these corporations not to be bound by government policies and plans. The increasing number of "ultra-planned" projects (计划外项目) by these corporations demonstrates this tendency.

In conclusion, the advantage of close relationship between government agencies and real estate corporations contributes to the effective implementation of some government policies. However, there are some alarming disadvantages that emerge from this relationship. One concern is that the multiple management might not be efficient to satisfy households needs. The other is that privileges given to government associated corporations may not foster an open market in which all builders can fairly compete. Opportunities for private small builders to build and market housing units are negligible.



In addition, criticism that this development corporation centered housing delivery system does not factor household preferences and willingness to pay (World Bank 1992) has some merit. Particularly, without considering a household's ability to pay, commodity housing is far from "affordable" to most ordinary households. The commodity housing system only serves the demands of segments of high income households in Beijing. Since work-units are compelled to provide subsidies to employees purchasing housing, the commodity housing delivery process is presently not a fully commercialized process. Meanwhile, highly inflated commodity prices (including the costs for support facilities and infrastructure) also demonstrate the lack of government capability to take full responsibility for infrastructure financing and development. This further indicates the direction in which government efforts should be concentrated.

The effects of commodity housing delivery in comparison to housing policy and other objectives are summarized in Table 5-12.

Table 5-12 Objectives and Effects of the Commodity Housing Delivery System		
	Objectives	Effect
Housing Specific Objectives	Availability	+
	Adequacy	+
	Affordability	-
	Accessibility	+/-
	Viability	+/-
Market Oriented Reform Objectives	Commercialization	+
	Socialization	+
	City-wide coordinated land use	+
Other Objectives	Profit-making	+

In general, the commodity housing delivery system effectively eases the housing shortage problem and provides high standard adequate housing. However, it generates mixed impacts on projects viability (mainly due to infrastructure financing methods) and on housing accessibility (due to the multiple body government administration). It affects housing affordability negatively. However, as it was specially designed to carry out market oriented reforms, this delivery system functions positively in achieving reform objectives.

## CHAPTER 6

### OLD CITY HOUSING AND HOUSING CO-OPS

If a Beijing resident currently lives in designated "old city redevelopment areas", he or she may expect to be relocated through old city redevelopment projects or another type of housing delivery program.

#### *Political Importance of Old City Redevelopment*

Old city redevelopment is a unique form of housing provision and has received special policy treatment from the city government, particularly since 1990. The city government then began to pay great attention to this form of urban development.

According to the Old City Redevelopment Office under the Municipal Construction Committee, there is total of 13.62 million square meters of dilapidated urban housing in Beijing, representing more than 11% of Beijing's total urban housing stock. Of this total, 7.62 million square meters is concentrated into 202 clusters (the size of a cluster is equal to or larger than one hectare). These clusters are designated as Housing Renewal Areas (危改小区) and are redeveloped through comprehensive development by real estate corporations. The other 6 million square meters are scattered within the inner city and can only be renovated by the Housing and Property Management Bureau and district housing offices (Table 6-1).

Table 6-1 Inventory of Old & Dilapidated Housing (1990)						Unit: million m <sup>2</sup>
Location	Total courtyard housing	Old & Dilapidated (Grades III, IV, V)	Clustered Scattered	Dilapidated (Grades IV, V)	Clustered Scattered	# of HRAs
4 city districts	21.92	10.19	6.30 3.89	4.59	2.83 1.76	128
Inner suburb districts	26.68	3.43	1.32 2.11	1.51	0.57 0.94	74
Total	48.60	13.62	7.62 6.00	6.10	3.40 2.70	202
Source: Lu Xiaoxiang, 1991.						
Note: The minimum size of HRA this table is 10,000 square meters.						

Many low-income, housing-poor households live in the dilapidated dwellings within old city areas. The percentage of housing-poor households in these dilapidated clusters

averages about 15-20% with some reaching more than 40%. This is why Chen Xitong, the former Secretary to the Communist Party Committee of Beijing, stated that "the key to solving housing-poor problems lies with the redevelopment of the dilapidated housing"<sup>1</sup>. However, the actual importance of old city redevelopment as a channel to solving housing problems does not seem to match the political importance advocated by the head of the municipal government.

### *Process of Old City Redevelopment*

Old city redevelopment projects may involve various types of developers such as district-owned real estate development corporations, foreign investors through joint-ventures, and housing co-operatives. Beijing municipal government policy issued in 1990 requires district governments to take the leading role in redevelopment. Therefore, district-owned real estate development corporations are the major actors in the process.

Old city redevelopment in Beijing is a government controlled process. Various complicated government policies and regulations have been formulated to basically establish the scope and rules that the actors involved should follow. In turn, government policies heavily impact the economic performance of redevelopment projects and welfare of concerned households. Currently, the governments act as a gatekeeper to guarantee basic housing needs of affected households. At the same time, government does not want to discourage the incentives of real estate development companies. In addition, they must also consider preservation of the historic value of Beijing's old city. In their own words, "old city redevelopment must be considered in the context of new area developments, real estate developments, housing reform, and urban conservation."<sup>2</sup>

Generally, there are four types of policies and regulations directly impacting the viability and affordability of housing redevelopment in these areas: (1) planning regulations, especially building height and floor area ratio (FAR) density, (2) relocation and

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<sup>1</sup> According to an interview with an official in the Inner City Redevelopment Office under the Construction Committee.

<sup>2</sup> *Beijing Municipal Government*, 1993.

compensation policies; (3) preferential policies for fee and tax exemption; and (4) policies on land and infrastructure provision in old city redevelopment projects.

Land Use Regulations. As the imperial capital for several dynasties in China, Beijing was a well-planned and very orderly city. Its historical value is priceless. In 1982, the city government decided to "conserve the historic townscape while modernizing the city." The conservation plan by urban planners is concerned mainly with the control of physical and design features of development. For instance, the new 1992 Beijing City Comprehensive Plan lists ten points for integrating conservation of the historic city, including concerns regarding the central city axes, street patterns, color and building height, skylines, and other criteria.

Many other government agencies, particularly real estate development corporations and their administrator, the Construction Committee, hold reservations regarding many of these regulations. Real estate development corporations have been constantly attempted to increase height controls within the inner city, which presently vary from 9m to 18m. For these companies, increasing height and density would result in a significant increase of floor space and thus an increase in profit. Though urban planning is currently in the mandate of city policies on preservation, the struggle between these conflicting interests will continue. Development companies will not stop trying to find methods of circumventing these regulations, as did Li Kai-hsing's controversial Eastern Plaza project<sup>3</sup>.

The primary goal of real estate development corporations owned by governments is to make profits. Redevelopment projects undertaken by these real estate corporations normally receive initial funds from government, although they are required to operate self-sufficiently. Government policies allow and encourage development companies to develop commodity housing, commercial shops, and/or offices to offset the subsidized housing for returning residents. They are also encouraged to take advantage of government preferential

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<sup>3</sup> The example of the Eastern Plaza is more complicated than typical open conflicts between conservation and real estate development. It also reflects serious government corruption and the weakness of the system in dealing with conflicting interests.

policies including exemptions from several types of fees and extractions, to reduce the project costs.

The Relocation Policy. The municipal government requires development corporations to relocate original residents. The major components of this policy include:

- 1) All legitimate residents who own or use property should be compensated and relocated by the body who has license to tear down the property in question.
- 2) Compensation is paid to owners or *de facto* owners either in cash, or by exchange of equal amount of space in newly built units, or both. (作价补偿, 产权掉换)
- 3) Households eligible for relocation must have registration cards in that neighborhood AND live in official public housing (excluding self-built housing). A household may also qualify for relocation if: (a) they have lived in official housing for an extended period of time, have no other housing in the city, and are not registered in this neighborhood; or (b) they are registered in the neighborhood, but do not have an official housing unit there or anywhere else in the city.
- 4) Generally, the relocated space should equal the existing living space. For housing-poor households, the amount of relocated space should be increased to standards according to family structure.
- 5) A household may receive a larger unit or be compensated in cash if moved from a good location in the old city to an inconvenient area in the suburbs.
- 6) Households can receive allowances for moving and temporary relocation.
- 7) Relocated households are encouraged to buy their relocation units. The price of on-site units for returning households is a quasi-cost-recovery price (准成本价) and the price of off-site units for households moving-out is a standard price (标准价).

The basic tone of the government relocation policy is to encourage households to move out of old city districts. The rationale behind it is multi-faceted. When the land and property market was emerging in Beijing, urban planners began to consider more "reasonable" land use patterns in areas that could capitalize on potential land values. Given the limited residential land area and control of building density, urban planners believe that

the old city with its 1.8 million people occupying 32 square kilometers. of residential land is overpopulated. According to planning calculations, the old city should have only 1.15 million residents. The surplus 0.65 million, about 36% of the total, should be relocated to the suburbs<sup>4</sup>. Some studies echo this assessment and further argue that the less population pressure the redevelopment area bears, the more financially viable redevelopment will be<sup>5</sup>.

According to data from the Old City Redevelopment Office, between 1990 and 1994, about 82,800 households were moved due to housing renewal, with 67.7% of them relocated by development companies<sup>6</sup>. Among the relocated households, 61% were rehoused in new development areas and 39% were returned to the original neighborhoods. The government generally requires that no less than one third of the number of original households should return.

Table 6-2 Old City Redevelopment Projects									
Year	Investments (million yuan)	# of HRAs renewal areas	Completed floor space (sq.m.)	Pulled down space (sq.m.)	Removed households	Total	Rehoused households		% of returned
	a	b	c	d	e	f	g	h	h/e
1990	400			210,000	7,000	2,100	2,100	0	0%
1991	700	1	500	190,000	8,000	2,900	2,100	800	10%
1992	900	4	800,000	520,000	20,627	16,867	9,285	7,582	37%
1993	1,500	3	860,000	550,000	21,141	13,452	9,380	4,072	19%
1994	3,500	13	1,000,000	750,000	26,000	20,175	11,547	9,168	35%
<b>Total</b>	<b>7,000</b>	<b>21</b>	<b>3,160,000</b>	<b>2,220,000</b>	<b>82,768</b>	<b>66,034</b>	<b>34,412</b>	<b>21,622</b>	<b>26%</b>

Source: Interviews with the officials of the Old City Redevelopment Office of the Construction Commission.  
Note: The minimum size of HRA accounted in this table is 40,000 square meters.

The return rate represents the focus of conflict between development companies and affected households as well as the conflict between economic efficiency and social equity.

Not surprisingly, almost all development companies reject this one-third return rate working policy for obvious reasons. The price for commodity housing units of 3000-4000 yuan/m<sup>2</sup> is about five times the price for subsidized housing units of 620-761 yuan/m<sup>2</sup> (1992

<sup>4</sup> Source: Zhang in Leaf, 1993, page 14.

<sup>5</sup> See He Hongyu 1990. A study by geographers Prof. Hu Zhaoliang and Peter Foggin published in Urban Problems No.4 1994 compares the population distribution data of the 1990 Census to that of the 1982 Census. It concludes that the population in the old city (i.e. within the second ring road areas) actually decreased from 1.86 million in 1982 to 1.67 million in 1990. The main reasons for this are: The adjustment of land use structure which tried to move out the 91 factories in the old city, occupying a total of 1.9 square kilometres. The second reason is the strict control of building heights and densities which resulted in limited population density in the old city.

<sup>6</sup> The remaining households are rehoused through other channels rather than development companies. For example, they might receive a dwelling unit distributed by their work-units.

rate of quasi-cost-recovery price). The fewer original households that return, the more units that are sold at commodity prices. Thus, the greater the profits. Even when including the compensation given to moving households, the opportunity cost of relocating a household to new areas is less expensive than the cost of returning households to their original neighborhoods.

Many real estate development corporations find themselves facing a dilemma. They must operate along commercial lines to improve competitiveness, but they also must take responsibility for rehousing displaced households because they are owned and administrated by governments. The common strategy of these companies is therefore to shun redevelopment projects with high household return rates, or form joint-ventures which circumvent the political pressure of the one-third return rate requirement. For instance, the Shisha Sea Courtyard Rehabilitation Project, a joint-venture between the Xi-cheng District and a Hong Kong developer, is rebuilding traditional courtyard houses on the north shore of the Shisha Sea. The units will be sold to overseas Chinese or the "newly rich" at more than one million US dollars per unit. No original dwellers will be able to return.

For the residents in inner city districts, the expectation of return is subject to their housing conditions and the cost of the new units. The majority of the inner city households would prefer to stay in their familiar neighborhoods and rebuild the houses themselves. Given the severe limits on financial capacity, this option is obviously an unattainable dream. The more pragmatic option for residents is to find a trade-off between the gains from better physical housing conditions and losses from poorer public and commercial facilities and increased commuting time. Normally, housing-poor households are in a more disadvantaged position in this trade-off given that they have nothing to bargain with. Consequently, these households tend to accept whatever compensation redevelopment companies offer much more easily and are thus rehoused in new areas. From their point of view, residents are afraid that this move might be final chance to acquire a decent home during their life time.

The most crucial element of the return rate is not whether or how many residents should return, but rather who should return. If only those able to afford a unit reside in the

old city, gentrification and social segregation might occur in Beijing. There is already an informal expression arising which says that "the first ring (area) belongs to the emperors; the second ring to the influential; common folk live in the third and fourth; and the fifth and sixth go to the newly rich." This rhyme reflects the patterns of the urban landscape in Beijing today. The Forbidden City is located in the centre and "belongs" to the emperors. Within the second ring road, rebuilt traditional courtyard housing or "quasi-courtyard" housing (类四合院) such as those in Ju'er Hutong is the dominant housing type. Areas along the third and fourth ring roads are mainly comprised of high-rises and walk-up apartments. In the future fifth and sixth ring road areas, western style single family houses, villas, and garden apartments are mushrooming<sup>7</sup>.

The potential social effects of current old city redevelopment policies have not yet caught the attention of the government<sup>8</sup>. Instead, the government is listening to arguments mainly coming from redevelopment companies which believe that the relocation policy is too "generous" in not only covering the "reasonable" costs of tearing down properties, but also including a portion of implicit housing subsidies. The subsidies should be paid by government. Current practice in fact transfers this burden of rehousing returned households to the purchasers of commodity housing.

In addition, an elitist viewpoint seems to be gaining favor within the circle of policy makers<sup>9</sup>. This point of view questions whether demands to return to original neighborhoods are truly the demands of housing-poor households or are instead words that cynical intellectuals have put into the mouths of poor households. It further questions whether original households have the right to be compensated and return to their old neighborhoods. It is claimed that housing units where households live are public housing and households already enjoy the benefit of the welfare rent. To arrange other housing units for these

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<sup>7</sup> Social urban areas have changed so significantly in recent years that the description given by Sit (1995) based on 1982 is outdated.

<sup>8</sup> A recent report in *Sing Dao Daily*, Nov. 20, 1995, shows that more than 100 Beijing residents protested in front of Zhongnanhai against their removal from the inner city areas to the suburbs by realty developers. This may pass an alarming message to the government.

<sup>9</sup> More than two informants in district governments in charge of old city redevelopment expressed this viewpoint during the interviews.



households is already a generous state action. Dwellers' requests to return to their traditional neighborhoods seem unreasonable.

This discussion on redevelopment policies is intended to answer one question: who actually benefits from the old city redevelopment housing delivery system?

Municipal government intentions for old city redevelopment are at least threefold. First, land use pattern in inner city areas should be adjusted to capitalize on the potential land value in these areas. Second, deteriorated infrastructure and facilities should be upgraded in the inner city. Third, housing problems of households in inner city areas should be solved. Initially, the municipal government hoped to achieve these objectives simultaneously through real estate development in the areas. However, preliminary results demonstrate that these objectives are not mutually compatible. To achieve these objectives requires separate and different actions. Real estate development corporations cannot play the conflicting dual role of Santa Claus for low-income households and speculator for maximum profit returns.

The most compelling evidence supporting this argument is a phenomena recognized by some practitioners (Lu, 1991). Old city redevelopment projects undertaken thus far are mainly located in areas where dilapidated housing is less concentrated. These projects do not necessarily improve the conditions of Grade III, IV, and V type housing because commercial interests and incentives strongly influence the designation of housing renewal areas (HRAs). In other words, these projects are taking advantage of old city redevelopment policies but are mainly targeted at capturing the land value in these areas. The majority of dilapidated housing, particularly those scattered within the inner city, is left unchanged without any government encouragement to upgrade.

#### *Housing Co-ops -- the Example of Ju'er Hutong*

Can a different type of organization -- the housing co-operative -- present an alternative for old city redevelopment? A comprehensive study of this type of experiment is

beyond the scope of this dissertation. However, the case of Ju'er Hutong might cast some light on the subject.

The Ju'er Hutong Project is divided into four phases. Only Phase I has organized as a "housing co-op". The pre-construction study, planning and design for Phase I began as early as 1987 and involved 44 households and 139 people. The construction of the 46 Phase I units finished in the summer of 1990. All of the 46 households had moved in before the end of 1990. Among the 44 original households, 13 returned to Ju'er Hutong; 17 swapped with other families, and 14 were relocated in other areas.

The whole development process for Phase I was first undertaken by the Dongcheng District Government, particularly the Dongcheng District Housing Management Bureau. The Dongcheng District Housing Development Corporation later took over the lead role, becoming virtually the sole player for Phase II development. It will continue to assume total responsibility for Phases III and IV.

The Ju'er Hutong Housing Co-op was established in April 1989. Originally, the Housing Co-op assumed responsibility for collecting funds for constructing, maintaining and managing housing. It was to be a democratic, non-profit organization with resident participation. In practice, the Housing Co-op only played the role of facilitator between residents and Dongcheng District Government. Its actual functions included:

- 1) Assisting the Housing Management Bureau to coordinate the exchanging of original households and assisting the Bureau to facilitate the relocation process.
- 2) Assisting the collection of payments for housing unit purchases from member households and their corresponding work-units.
- 3) Providing inputs and suggestions to project planners and architects.

After households moved in, the task of day-to-day administration and property management was taken over by the commercial-oriented Property Management Office of Ju'er Hutong, an affiliate of the Dongcheng District Housing Development Corporation. The Housing Co-op now exists in name only.

The lesson of the Ju'er Hutong Housing Co-op appears to be that housing co-ops cannot be an alternative organization to REDCs in old-city redevelopment projects. Housing co-ops cannot function independently without government support.

Organizationally, co-ops may need to infiltrate the fairly complex social apparatus of the urban development control system. To do so, they must find or create their own unique functions. Some functions may already be provided by existing organizations such as various levels of government, work-units, and families. To survive competition, housing co-ops must have certain necessary financial and human resources. The Ju'er Hutong Housing Co-op lacked both the sufficient capital and human skills.

A brief list of the costs and revenues for Phase I is illustrated in Table 6-3.

Table 6-3 Costs and Revenues of Ju'er Hutong Project (Phase I)			
<b>COSTS</b>		<b>REVENUES</b>	
Corporation (direct costs)	2.842 mil.	Sale of housing units	
preliminary work	0.371 mil.	payments by returned + swapped households	1.017 mil.
building costs	1.910 mil.	payment by work-units	0.234 mil.
taxes	0.561 mil.	commodity housing	3.302 mil.
Average direct cost per unit	61,783 yuan	Purchase subsidies by the municipal gov't	0.776 mil.
District government (in-kind costs)		Subtotal	5.329 mil.
taxation reduction	0.632 mil.	Average price per unit	115,848 yuan
34.5 rooms for relocation*	1.568 mil.		
Subtotal	5.042 mil.		
Average total cost per unit	109,609 yuan		
Sources: (1) <i>Beijing Ju'er Hutong New Courtyard Housing Experiment</i> , Tsinghua Univ., 1994.			
(2) Interview with the workers of the Ju'er Hutong Property Management Office.			
* This is based on assumptions that the 34.5 rooms are allocated to 14 units; the average size of units is 56 m <sup>2</sup> ; and the average commodity housing price at that time was 2000 yuan/m <sup>2</sup> .			

It must be added that project land value is not listed in the cost column because it is owned by the state and allocated to the project free of charge. The share of Phase I for upgrading and expanding infrastructure costs is also not included because these costs will not occur until Phase IV.

Information in Table 6-3 indicates that households could afford only about 36% of the direct costs of development. This project could not be completed by the Co-op without the financial support of government and work-units.

All of the Co-op members are work-unit employees who participated in Co-op activities on a volunteer basis. Old-city redevelopment is a complicated process which involves various agencies. None of the co-op members have knowledge of the process or

expertise in dealing with these various agencies. As a result, the specialized Housing Development Corporation had to take over these responsibilities.

In short, a housing co-op may play a role as facilitator or coordinator in old-city redevelopment, but it is not practical to expect that it will be an alternative to the REDCs.

### Summary

Housing delivery through old-city redevelopment projects is a product of the Beijing municipal government 1990 policy on old city redevelopment. This policy's original intention was to rehabilitate dilapidated housing and improve the living conditions of households in the inner city area. The district government owned real estate development corporations have been granted the leading role in the process. Various government policies regulate and constrain this leading role to achieve its intended targets.

The municipal government conservation policy restricts the type and height of buildings which can be built. The relocation policy requires development corporations to shoulder the financial responsibility of relocating original households and thus significantly increases the cost of redevelopment. Relocation costs often amount to 40-50% of total development costs. Led by their drive to make profits, development corporations struggle to reduce the return rate of residents to as low as possible in order to reduce costs. At the same time, they echo government policies and encourage affected households to relocate in the newly developed suburban residential districts.

The roles of major actors in this delivery process are summarized in Table 6-4.

<b>Table 6-4 Roles of REDCs, District Government &amp; Housing Co-op in Old-City Redevelopment</b>			
Process Function	District Government	REDCs	Housing Co-op
Project Initiation	H	H	M
Planning & Design	M	H	L
Land Acquisition	M	H	L
Authorization	H	L	N
Financing	M	H	L
Building Construction	N	H	N
Infrastructure Provision	M	M	N
Transfer of Units	M	M	M
Access to Occupancy	M	M	M
Maintenance & Management	N	H	N
N= No involvement, H=High involvement, M= Medium involvement, L= Low involvement.			

At the end of 1994, five years after the housing delivery system was put in place, about 3.16 million square meters of floor space had been completed, approximately 2.6% of Beijing's housing stock. These redevelopment projects do improve the living environment within the inner city. Through commercial development and commodity housing development, most of these projects have at least broke even and seem financially viable. However, success is realized with government subsidies and work-unit assistance. Without assistance, even the cost-recovery prices of these housing units would be too high for ordinary inner city households.

In addition to affordability concerns, the accessibility problem resulting from the social effects of replacement of original neighborhoods is alarming. Gentrification and social segregation tendencies are obstacles to ordinary families being able to access better housing in the inner city.

The effects of old-city redevelopment projects are presented in Table 6-5.

Table 6-5 Objectives and Effects of Old-City Redevelopment		
	Objectives	Effects
Housing Specific Objectives	Availability	+
	Adequacy	+
	Accessibility	-
	Affordability	-
	Viability	+
Reform Oriented Objectives	Overall land use adjustment	+
	Infrastructure upgrading	+
Other Objectives	Profit-making	+

As showed in the table, old-city redevelopment projects serving more than housing specific objectives. The governments intentionally hope to disperse small industries in the inner city and reduce density of the area through redevelopment. They also hope to upgrade infrastructure and public facilities in the inner city area. Constrained by their financial capacity, the governments have to mobilize multiple resources to achieve these goals. The major prudent financial solution is to sell commercial properties. However, this practice unavoidably invites strong influences from the commercial capital and speculators on redevelopment projects. Consequently, redevelopment projects must yield these interests and achieve the goals of land use adjustment and infrastructure upgrading at the expenses of

inner city households to a large extent. The fact that the majority of dilapidated housing has not been rehabilitated supports this phenomenon.

Mobilization of individual household resources is experimented through such newly formed organization as housing co-ops. As demonstrated in the Ju-er Hutong project, this effort can fail as an alternative development entity. Mainly constrained by the lack of financial and human power capacities, the functions of co-ops are easily taken over by other powerful actors such as real estate development corporations and work-units. Meanwhile, governments are not eager to encourage self-help redevelopment because they believe that piecemeal renovation and improvement will not help and may even block the overall goals of land use adjustments and infrastructure upgrading.

To enhance the effectiveness of redevelopment projects in serving their target groups, it is first necessary to harmonize objectives. In addition, innovative solutions to mobilize and organize the initiatives of households are also required.

## CHAPTER 7

### "COMFORTABLE HOME" PROGRAMME

If a Beijing household lives in appalling conditions and is eligible for status as "housing-poor" it can expect to obtain housing from the Beijing municipal government official low-income housing program known as the "Comfortable Home Programme".

#### *Emergence of the "Comfortable Home Programme"*

The first official policy targeted explicitly at low-income households was the "Sheltered Home Programme" (安居工程). Initiated by the State Council in July 1993, this Programme was aimed at accelerating the construction of ordinary, low-cost "decent" apartments for the benefit of those who live in exceptionally appalling conditions. According to the "Management Regulations on Urban Affordable Housing"<sup>1</sup> issued by the Ministry of Construction, the major components of the "Sheltered Home Programme" include:

- 1) A goal to establish a social safety-net affordable housing (经济实用住房) provision system.
- 2) The target group is those moderate and low-income households with housing difficulty problems and retired workers or teachers living in poor conditions.
- 3) Affordable housing units should be ordinary, economical and practical apartments which meet national residential building standards.
- 4) Municipal governments should formulate preferential policies such as tax exemptions to assist with the development of affordable housing.
- 5) Municipal governments should allocate land free of charge to affordable housing projects.
- 6) The financing resources of the projects should originate mainly from local government housing development budgets, policy-oriented loans, and other funds.

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<sup>1</sup> Published in *Beijing Real Estate*, 1995, No. 3.

- 7) A special development agency should be designated or established to be responsible for developing, selling, and managing affordable housing projects.
- 8) The prices of affordable units should be determined by the Municipal Housing and Property Management Bureau and Price Management Bureau and should equal development costs (建设成本).

The Beijing municipal government put forward its "Implementation Plan of the Comfortable Home Programme in Beijing" in September 1993 to implement this program. City officials changed the "sheltered home" (安居) slogan to "comfortable home" (康居). This has done to reflect the fact that the target of the "Sheltered Home Programme" -- an average of 8 square meters living space per capita by the year 2000 -- had already been achieved by 1991. The target of the "Comfortable Home Programme" (CHP) was higher -- to achieve "comfortable living standards" (小康水平)<sup>2</sup>. As far as housing is concerned, the "comfortable living standards" in Beijing are based on:

- ◆ Quantitative standards: usable space per capita should be 14 square meters.
- ◆ Qualitative standards: self-contained units should represent over 80% of total housing space.
- ◆ Equity standards: the housing problem of residents with less than 4 square meters of living space per capita must be eliminated. (Ding & Qiao, 1995:13)

Beijing's implementation plan is basically in line with the guidelines of central government management regulations with the exception of its financing principle. The Beijing municipal government emphasizes that funds for affordable housing development should come from "the state, work units and individuals" rather than mainly from local governments. This subtle change reflects the reluctance and difficulty of municipal government to be financially involved in developing affordable housing. It also reflects conservative attitudes of the city government regarding its role of establishing an affordable housing system.

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<sup>2</sup> The latest initiative of the city government encourages the attainment of "comfortable living standards" three years ahead of the year 2000. Therefore, the actual implementation plan of the "Comfortable Home Programme" is scheduled to the end of 1997 to solve the housing problems of those with less than 4 square meters per person.



The following sections discuss several major issues involved in the implementation process of the "Comfortable Home Programme" (CHP).

### *Concepts of the Housing-poor and Income poor*

The concept of "households in difficult housing conditions" or "housing-poor" existed prior to the introduction of the CHP. As early as 1980, three types of housing-poor households were identified: the homeless, households in inconvenient conditions, and overcrowded households (无房户, 住房不便户, 住房拥挤户). In 1990, households living in dilapidated dwellings (危房户) were included in the housing-poor category and received top priority for the allocation of new units. When budget permitting, the municipal government occasionally built housing especially for teachers whose work-units were often unable to provide accommodation, and who suffered a real loss in income in the dramatic inflation created by market-oriented reforms.

The CHP is the first scheme which puts income standards into the determination of government policy priorities on housing provision and distribution. This change reflects the reality of income polarization in Beijing over 16 years of economic reform. It may also indicate municipal government adoption of a market economy based welfare ideology for housing policy.

### Housing need standards

In principle any urban household whose living space per capita is less than 8 square meters should be considered "housing-poor household". However, according to the Implementation Plan, the CHP can only solve the housing problems of those with 4 square meters or less of living space per capita by the year 2000. Capacity permitting, households under 6 square meters of living space per capita will also be served.

As a part of implementation action programs, an exhaustive city-wide survey of eligible housing-poor households in Beijing was undertaken by the municipal government in February and March 1994. Initially, the municipal government hoped a registration system

of housing-poor households would be established through this practice. A survey was required to be carried out as a "political assignment". Survey forms were collected through existing administrative hierarchies (both vertical and horizontal, 条块结合)<sup>3</sup>. Within the vertical hierarchy, survey forms were completed by heads of the households registered as non-agricultural residents and submitted to their work-units. The work-units collected these forms, calculated sums and submitted data to their respective administration superiors. The administrative superiors submitted the data to the Housing and Property Management Bureau of Beijing (HPMB). The horizontal hierarchy covered those urban household heads who were unemployed, self-employed, or employed by collective work-units. Their completed survey forms were collected by neighborhood committees, then local (neighborhood and district) housing management offices, and finally the HPMB. The data compiled by the HPMB shows that, by the end of May 1994, there were a total of 75,046 low-income households with living space per capita under 4 m (3.3% of the total registered urban households in Beijing)<sup>2</sup>. The structure of these housing-poor households is illustrated in Table 7-1.

Table 7-1 Inventory of Housing Poor Households in Beijing (1994)								
Administration Line of  Work-units	LSPC under 3 m2		LSPC under 4 m2		LSPC under 5 m2		Subtotal	Total
	Crowded*	Inconvenient*	Crowded*	Inconvenient	Crowded*	Inconvenient		
	1	2	3	4	5	6	1+2+3+4	1+2+3+4+5+6
Beijing local	15,093	6,358	24,489	6,946	20,936	4,149	52,886	77,971
Districts & Inner suburbs	3,962	1,989	5,456	1,686	4,223	1,071	13,093	18,387
Outer suburb counties	1,011	214	1,696	405	1,505	474	3,326	5,305
Ministries, bureaus, etc.	10,120	4,155	17,341	4,855	15,212	2,604	36,471	54,287
Central government	7,547	1,649	11,204	1,760	15,080	2,076	22,160	39,316
Total							75,046	117,287
Source: Municipal Housing and Property Management Bureau, 1994								
LSPC = living space per capita								
* The original categories are "LSPC under X m2; two couples per room; parents and 18 year old child per room; and three generations per room". The "crowded" category in this table is the first in the original. "Inconvenient" includes the last three. It is not clear whether homeless households are included in these categories. Some work-units might not report married couples living in dormitories for example.								

### Income standards

The average monthly wage of a worker in Beijing steadily increased from 56 yuan in 1978 to 377 yuan in 1993. Traditionally, these numbers exclude in-kind subsidies and

<sup>3</sup> See "The Notice of The City Government General Office on Undertaking the Survey of Housing-poor Households", in *Collection of Real Estate Laws and Regulations in Beijing II*, 1994.

benefits. Most Beijing urban families have two incomes (双职工). Thus, the average household wage income is roughly around 754 yuan<sup>4</sup>. In March 1995, the municipal government issued its first ever *Minimum Wage Law* requiring that a worker's monthly wage could not be less than 200 yuan (Beijing Daily, 1995). A sample survey of 1000 households in 1993 showed that about 17.5% of the households earned less than 500 yuan monthly; 45.5% earned between 500 and 1,000 yuan; 34% earned greater than 1,000 yuan; and about 3.1% earned greater than 10,000 yuan (Beijing Yearbook 1994:734). In comparison to the average monthly wage income of a household of 754 yuan, these surveys both more accurately reflect the real incomes of Beijing families and match this author's impressions.

The income standard which determined the eligibility of moderate and low income households to benefit from the CHP in 1994 was set at 800 yuan per month (1993 rate) and made adjustable every year. The rationale for this rate was not explicitly clear. However, it was suggested that it reflects the average monthly wage of a worker in 1993 (377 yuan)<sup>5</sup>.

There are some other income standards adopted in State Council and City housing policies which function implicitly and explicitly as measurements of affordability and are thus noteworthy.

The first is the monthly rent to income ratio of 15% set by the State Council in July 1994. According to the State Council's *Resolution on Deepening the Urban Housing Reform*, the monthly rents of public housing should be raised to the level of 15% of monthly household incomes by the year 2000<sup>6</sup>. The rationale for 15% is based on comprehensive studies on "comfortable living standards" and consumption economics. These studies conclude that a "comfortable living level" is defined when the Living Standard Coefficient

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<sup>4</sup> According to the 1994 *Statistics Yearbook of Beijing*, the average urban family size in Beijing is 3.21 persons per household. The average number of employed people per household was 2.04 in 1993. Therefore, it is safe to calculate the average household wage income by doubling the average wage of a worker.

<sup>5</sup> Information comes from interviews with an informant from the Comfortable Home Programme Office of the Urban and Rural Construction Committee. It was confirmed by another informant from the Housing System Reform Office.

<sup>6</sup> This document of the State Council, *Resolution on Deepening the Urban Housing Reform*, was published in *Beijing Real Estate*, 1994.

of a country falls in the range of 40-50%. Thus the consumption level of housing should be about 15% of total income (Liu Qi 1992:104-122).

However, it is not clear how this 15% rent-to-income ratio is related to rent increase targets based on the cost-recovery principle set by the State Council in 1988. From the viewpoint of reformers in the State Council, the 15% ratio may function as an interim working measurement which would help accelerate rent increases to the rate of full cost recovery, or possibly market rates. Reformers believe that 15% is the minimum requirement rent rate for public housing.

The Beijing Municipal government is more ambiguous towards the 15% ratio. In the document *Notice on Implementing the Resolution of the State Council on Deepening Urban Housing Reform*, the Municipal government continued to use the rent-to-income ratio of 5% set by the 1992 City Housing Reform Plan. The notice states that if the actual rent paid by a urban household is over 5% of their income, the household can apply to pay outstanding portions through their contributions to the Public Provident Fund. If a household is retired or on welfare, they can apply for rent subsidy or exemption from portions above 5%. It implies that: 1) wages before rent increases should contain about 5% of housing consumption; and 2) worker salary should include higher proportions of the "housing wage" currently subsidized by work-units. Beijing adopted a policy that rent increases should not be compensated by wage increases in order to minimize the negative impact of rent increases and account for the ability of ordinary households to pay rent. Since that time, Beijing has opted for indirect compensation through the Public Provident Fund. If an individual's contribution to the Public Provident Fund reaches 10% of his/her income, then housing expenditures could reach 15%. Meanwhile, work-units match the 10% contribution to the Public Provident Fund. The total housing expenditure is thus 25%. In short, the 5% ratio appears to establish a 25% ratio of rent to income as the affordable level. In addition, the 5% ratio implicitly separates the retired and those on welfare providing them *de facto* status of "housing-poor". To some extent, this contradicts the 15% rent-to-income ratio.

The implications of these different rent-to-income ratios on the future development of an affordable housing system have not yet been identified by municipal government or other policy researchers. It is thus not clear to what extent low-income households may benefit from the yet to be established affordable housing delivery system. This indicates that income standards are secondary to housing need standards in current practice.

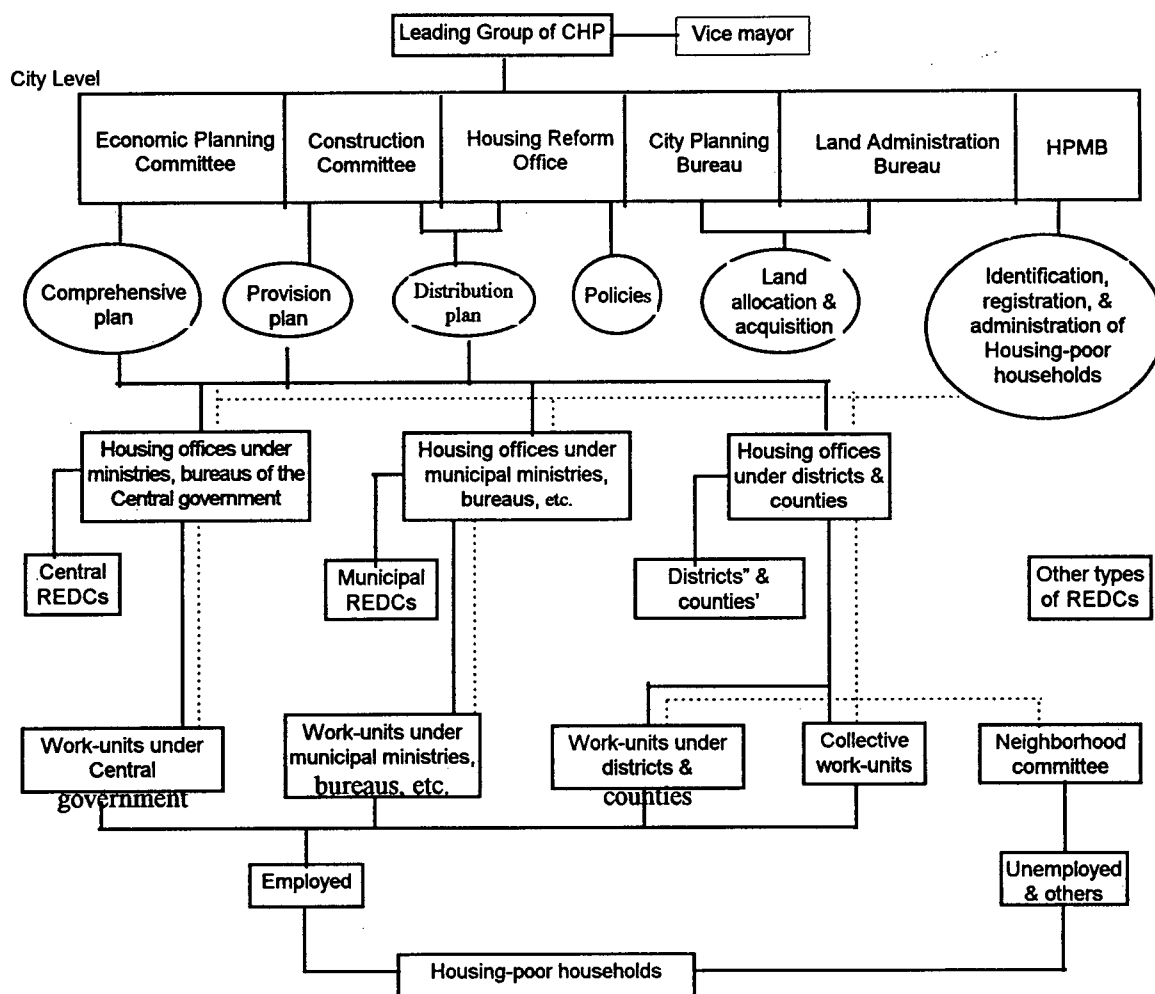
### *The Administrative Structure of the CHP*

Implementation of the CHP is carried out through existing administrative structure composed of two interrelated sets of hierarchies horizontal and vertical. As illustrated in Figure 7-2, the broad organizational groups involved include municipal level government agencies, district-level housing related government agencies (the horizontal system), housing agencies related to the ministries of municipal government (the vertical system), real estate development corporations (REDCs) associated with the different levels of governments, individual work-units, and housing-poor households.

The demands for CHP housing units originate from the bottom-up. Each work-unit or neighborhood committee identifies housing-poor households under its administration and submits a "demand plan" to the respective ministerial or district housing agencies. These agencies collect all the demand information, draft their provision plans, and submit them to the municipal government for adjustment and approval.

At the city level, the Leading Group of the CHP, directed by a vice-mayor, oversees the CHP. The Housing Reform Office is responsible for related policy development. The Construction Committee is responsible for coordinating and approving the submitted provision plans and directing construction by real estate development corporations. The Housing and Property Management Bureau is responsible for confirmation and registration of housing-poor households. The City Planning and Management Bureau and Land Administration Bureau are responsible for the allocation and co-ordination of land acquisition for CHP projects. Together, the Construction Committee and Housing Reform Office determine the distribution plan for CHP housing units.

Figure 7-2 Administrative Structure of the "Comfortable Home Programme"



HPMB = Housing and Property Management Bureau  
 REDC = real estate development corporation

----- Applications for housing-poor household status.

### *Six Methods of Providing Affordable Housing Units*

To implement the CHP in Beijing, the municipal government has identified six channels through which to provide affordable housing units:

- 1) self-built housing by work-units for employees (自建);

- 2) joint-built housing through co-operation or partnership of work-units for their employees (联建);
- 3) housing constructed by government associated (in-system) real estate development corporations for employees within respective administrative hierarchies, either ministries, districts or others (系统开发);
- 4) housing built through old city redevelopment projects (旧城改造);
- 5) housing collected by the municipal government from real estate development corporations (REDCs) (康居房); and
- 6) housing redistributed by work-units or local housing offices through a "filtering" or "second-round distribution" (二轮房) process.

Table 7-3 lists the City's Provision Plan (1994-1997) to supply CHP housing units through each channel. Even these general figures reflect the diversity of approaches that various agencies adopt to deal with their housing-poor problems. In all of Beijing, 59% of CHP housing units will be built by real estate development corporations, 30% by work-units

Table 7-3 Provision Plan of the Comfortable Home Programme (1994-97)														Unit: Household	
		Self-built		Joint-built		In-system		Old city		REDCs		2nd Round		Total	
		a	b	c	d	e	f	a+b+c+d+e+f							
City&Inner suburb districts	1	406	3%	390	3%	2,450	19%	968	8%	7,874	61%	780	6%	12,868	100%
Ministerial work-units	2	7,599	24%	4,877	15%	540	2%	530	2%	15,980	50%	2,207	7%	31,733	100%
Subtotal	1+2	8,005	18%	5,267	12%	2,990	7%	1,498	3%	23,854	54%	2,987	7%	44,601	100%
Outer suburb districts	3	480	13%	448	12%	1,957	54%	537	15%	0	0%	222	6%	3,644	100%
Total	1+2+3	8,485	18%	5,715	12%	4,947	10%	2,035	4%	23,854	49%	3,209	7%	48,245	100%

Payment Types of Purchasing "Comfortable Home" Housing Units								Unit: Household
	Total1		Fully by households		Shared with work- units		Total2	
	a+b+c+e		g		h		g+h	
City&Inner suburb districts	11,120		1,805 16%		9,315 84%		11,120 100%	
Ministerial work-units	28,996		396 1%		28,333 99%		28,729 100%	
Outer suburb districts	2,885		235 8%		2,841 92%		3,076 100%	
Total	43,001		2,436 6%		40,489 94%		42,925 100%	

Source: Interviews with officials of the Comfortable Home Programme Office under the Construction Commission.

Notes: 1. Comparing the total number of households in this plan with that in Table 5-1, the difference is 4,641 households which have not found ways to solve their housing problems.

2. Housing poor households under central government owned work-units are not included in this provision plan.

3. According to statistical standards, the sum of households who buy "comfortable home" housing units should equal the total number of households excluding those through old city redevelopment and 2nd-round distribution. In other words, Total1 should be equal to Total2. The figures obtained from the interviews do not match each other. Obviously, there are some reporting errors from the ministerial work-units and outer suburb districts. Without the original data, these errors cannot be corrected. However, the overall significance remains intact.

themselves (alone or through cooperation), 4% through old city redevelopment projects, and the remaining 7% by "second round" redistribution. For city districts and inner suburb districts where work-units are often small and poor, about 80% CHP housing units will be provided by real estate development corporations. For city directly administrated ministerial work-units, about 39% of CHP housing units will be built by themselves.

In this Provision Plan, work-unit self-built or joint-built housing delivery follows the same process as discussed in Chapter 5. This is true for the old city redevelopment process. However, real estate development corporations deliver CHP housing in a different way from that of commodity housing discussed in Chapter 7.

The Beijing municipal government divides real estate development companies into three groups.

- 1) Group 1 is specially designated real estate development companies owned by the eighteen district and county governments or the 38 ministerial agencies;
- 2) Group 2 is two real estate development corporations, Sunlight and Xinxing, owned by the municipal government and specifically set up for affordable housing developments; and
- 3) Group 3 is other real estate development companies owned by various levels of governments.

Municipal government policies require Group 1 real estate development companies to provide CHP housing units to their subordinate work-units. The number of CHP housing units should reach 70% of total housing units built by companies each year.

Group 2 real estate development corporations are also required to allocate 70% of their annually completed housing space for CHP housing units. Among these types, the Sunlight Real Estate Development Corporation supplies directly to those low-income housing-poor households working for city owned governmental agencies and administrative work-units. The Xinxing Real Estate Development Corporation specifically serves unemployed, self-employed, and low-income housing-poor households whose work-units are too poor to assist their workers in obtaining housing.



The municipal government requires Group 3 to sell 10% of their completed housing space each year to the city as affordable housing units. Another 20% must be allocated as "transitional housing units" for relocation projects (周转房).

Funds for CHP projects built by groups 1 and 2 real estate development corporations mainly come from the following sources: special "Sheltered Home" loans from the central government, the Public Provident Fund, and housing funds of city, district or county governments. Group 1 and 2 development corporations may also use their own funds or sell the housing units before they are built, using these pre-payments to finance projects.

Group 3 real estate development companies finance projects on a more commercial basis. Normally, financial methods for commodity housing cannot be separated from financing of CHP housing. Finances mainly come from company funds, commercial loans from banks, and pre-payments from prospective buyers. Some companies may issue bonds or debentures as well. Each CHP project is expected to break even financially. To do so, the development company can use 30% of housing space for commercial purposes.

All CHP projects are permitted to exemption and deduction of ten tax and fee items (Table 7-4). On average the sum of exemption are about 800 - 1,000 yuan/m<sup>2</sup>, or approximately 40% of the total costs.

To further encourage real estate development companies to engage in CHP projects, any development company building more than 70% of its completed housing space as CHP

Table 7-4 Tax and Fee Exemptions for CHP Projects	
Name	Standard Rate
1 Development fee for 4 major facilities	800-460 yuan/sq.m. floor space depending on land grades in
2 Infrastructure fee for comprehensive develop'ts	the Normative Land Price Table 4-15.
3 Parks development fee	40 yuan/sq.m. green space
4 Development permit/license fee	1-3/1000 of engineering design cost
5 Fund for development of construction materials	2% of building construction cost
6 Electricity connection fee	40 yuan/sq.m. floor space
7 Fund for new vegetable land development	30,000 yuan/mu in inner suburbs; 10,000 yuan/mu in outer suburbs
8 Management fee for comprehensive development	1/1000 of annual housing investment
9 Tax for cultivated land occupancy	9 yuan/sq.m. in inner suburbs; 8-7 yuan/sq.m. in outer suburbs
10 Land lease fee	20 - 2,700 yuan/sq.m. floor space depending on land grades in the
	Normative Land Price Table 4-7.
Source: According to the Implementation Plan of the CHP in Beijing, 1993.	

units can also enjoy the ten items of tax and fee exemption on the remaining 30% of commodity housing.

### *Affordable Prices and Distribution Process*

All CHP units must be sold to eligible housing-poor households, according to the *Implementation Plan of the CHP*. Work-units buy CHP housing units from development companies at a cost-recovery price (成本价) and sell units to their individual housing-poor households at a "quasi-cost-recovery" or "standard" price (标准价). The difference in price is paid for by work-units.

The so-called "cost-recovery" price includes seven development costs:

- a) compensations for land acquisition, removal and resettlement;
- b) survey and planning expenses and other pre-construction costs;
- c) construction costs;
- d) costs for on-site infrastructure and other non-revenue-earning community facilities;
- e) interest on bank loans;
- f) taxes; and
- g) a management fee of about 1-3% of the sum of a), b), c) and d).

This price was around 2,000 yuan/sq.m. in 1994 and may be fluctuate according to the quality of housing, location, complementary infrastructure and facilities, and other factors. Occasionally, price is determined at a level less than that of true "cost-recovery" because of affordability considerations. For instance, CHP housing units in the Fangzhuang (方庄) Residential Area, the showcase of the municipal government's large scaled comprehensive development, are priced at 2,400 yuan/m<sup>2</sup> while the actual cost is about 2,700 - 2,800 yuan/m<sup>2</sup>.

The standard price is determined considering three major factors: increase of construction costs, household income, and the loss on interest if a household purchases housing instead of placing money in a savings account. The 1994 price is set at 750 yuan/sq.m.

Even at this price level, many work-units and housing-poor households cannot afford to buy. The city government thus has adapted a distribution policy and adopted the following measures:

- ♦ To encourage households and/or work-units to apply for mortgage loans from the Real Estate Division of the Beijing Construction Bank or the Housing Funds Management Center.
- ♦ To allow households to keep their existing dwellings and only purchase part of their housing space from CHP housing. This is not to exceed the standard of 14 square meters of usable area per person in the combined existing and newly bought areas.
- ♦ To allow work-units or administrative agencies responsible for CHP projects to purchase CHP housing units, distribute them to other employees and allocate "second-round" units (二轮房) to housing-poor households.
- ♦ To allow housing-poor households to exchange dwellings with other households and permit the latter group to purchase CHP units.

As mentioned earlier, the so-called "second-round" distribution is one of the six channels to solve the housing-poor problems in Beijing's Provision Plan.

### *Implementation Results Update*

Since the introduction of the CHP in late 1993, a total of 400,000 square meters of floor space has been built as CHP housing, representing approximately 4.5% of the housing space completed during the same period. Until May 1995, a total of 7,000 housing-poor households had moved into affordable housing or improved their living conditions.

Though the accomplishment of the CHP in Beijing is impressive, some problems are apparent:

- 1) In 1994, only 23 real estate corporations submitted affordable housing space to the CHP. These corporations were all government owned or directly influenced. In other words, obtaining affordable housing space is heavily dependent on the relationship between municipal and districts governments and real estate corporations.

- 2) These CHP housing units are mainly located outside the Third-Ring Road in newly development areas which are often far away from employment in the inner city. These CHP housing units are not served by complementary community facilities and amenities.
- 3) Work-units are facing a dilemma of whether they should distribute newly built space to employees based on the principle of "according to one's contribution" or "according to one's need". Many work-units try to balance these principles using the "second-round" distribution approach and adjustment of weighing in the score system. However, the "second round" approach also implies a bias that housing-poor households can only obtain second-class housing.
- 4) People are not accustomed to mortgage financing. Of the 56 districts, counties and ministerial agencies, only 5 have considered taking out mortgages to buy CHP housing units. The total amount of mortgages issued to individual households is only about 1.5 million yuan, less than 0.6% of the total amount of the Public Provident Fund.

### *Summary and Evaluation*

The "Comfortable Home Programme" (CHP) is an impressive and plausible action taken by government to meet housing needs of low-income households. Aimed at building an affordable housing delivery system, the municipal government selected some existing housing delivery systems and development practices and combined them with new techniques. The characteristics of the CHP distinguishing it from other housing delivery processes can be summarized as follows:

#### (1) Public assistance through land allocation and tax exemptions

The most critical features of the CHP are free land allocation and tax exemptions. Since these exemptions amount to 40-50% of development costs, the municipal government provides a significant subsidy for the provision of low-income housing. Using this subsidy as an incentive, the municipal government encourages work-units and development corporations to engage in affordable housing development.

#### (2) Price restrictions to ensure affordability.

Prices for CHP housing units are established using a predetermined formula based on the cost-recovery principle and consideration of affordability. At different levels of sale prices, different contractual constraints are placed on home owners to gain profit by reselling or renting. It is hoped that housing units are reserved for and affordable to these low-income occupants.

(3) Private ownership to align with commodification reform.

Title to CHP housing units is held by private households that will assume responsibilities for paying for the housing consumption they enjoy. This feature conforms with the philosophy of China's commodification reform that directly matches the consumption of housing services with the costs of providing these services.

(4) New organizations to improve efficiency.

Non-profit housing development corporations, such as the Xinxing Housing Development Corporation, are new devices for affordable housing provision. By design and intent, these new development corporations are effective and sophisticated professional developers. At the same time, they are committed to the construction of low-income housing on a continuing basis. The role of these new institutions in low-income housing delivery is hoped to be at least equally important as that of the other two major types of players -- real estate development corporations and work-units.

There are some apparent limitations of the government's official low-income housing programme. The programme itself seems insufficient to build a city-wide "affordable housing provision system" as originally intended.

(1) Limitations to accommodate urbanization.

The first apparent limitation is that the CHP might not be capable of accommodating the increasing housing demands brought by urbanization.

According to Beijing's General Plan (1991-2010), the average net annual increase of the registered urban population is forecasted to be 105,000. Without detailed information of household formation in Beijing, we can only assume that half of this annual increase or about 50,000 people might need housing space each year. It is further assumed that two-

thirds will be ordinary wage-earners and might qualify as potential housing-poor households. In other words, about 33,333 persons or 10,000 households each year will be waiting for the CHP or a similar program to solve their housing needs (given an average household size of 3.3). By the year 1997 when this CHP is fulfilled (assuming it meets all of its targets) approximately another 100,000 persons will be on the waiting list for affordable housing units. This represents about 30,000 households in total which have emerged between 1995 and 1997 as in need of affordable housing.

While the numbers are intuitive, the number of eligible housing-poor households are increasing and the demand for official affordable housing will not stop when the CHP ceases. Further, the magnitude of the housing-poor problem (even accounting only for those officially defined) will not be less severe than the current problems faced by the CHP.

#### (2) Limitations to cost-recovery.

The CHP will have difficulty in achieving cost-recovery targets if they are implemented as currently practiced.

According to the above description, the average selling price for CHP housing units was 2,000 yuan/m<sup>2</sup> in 1994. Individual household paid 750 yuan/sq.m. and work-unit paid the remaining 1,250 yuan/m<sup>2</sup>. The tax and fee exemptions granted by municipal government equals about 1,500 yuan/m<sup>2</sup>. Assuming the average size of a unit is 56 square meters, the total price is 196,000 yuan, of which the household, work-unit and municipal government would pay 42,000 yuan, 70,000 yuan, and 84,000 yuan respectively. In other words, the cost shares amongst the three entities is 21.4%, 35.7%, and 42.9%. For 43,000 CHP housing units (this number excludes the units provided through old city redevelopment projects and second-round distribution listed in Table 7-3) to be built by real estate corporations and work-units, the total cost will be around 8.428 billion yuan, given a unit size of 56 square meters and development cost of 3,500 yuan/m<sup>2</sup>. Of the needed investments, 4.816 billion yuan should be directly invested in housing projects and 3.612 billion should be in the form of tax and fee exemptions.

According to the CHP Provision Plan (1994-1997), 2,500 households will pay cost-recovery prices (average 2,000 yuan/m<sup>2</sup> in 1994) and the remaining 40,500 households will pay standard prices (average 750 yuan/m<sup>2</sup>). Assuming these prices will remain the same in upcoming years, the total cost recovered from individual households would be 280 million yuan from 2,500 households plus 1.701 billion yuan from 40,500 households, or 1.981 billion yuan in total. This represents 41% of the direct cost. Work-units will subsidize the difference between cost-recovery and standard prices totaling 2.835 billion yuan or 59% of the direct cost.

Interestingly, in the Provision Plan many work-units have proposed to arrange funds to pay the 750 yuan/m<sup>2</sup> required to be paid by individual households. This reflects the expectations of work-units that housing-poor households might encounter difficulties when they try to find the funds to pay standard prices. It will not be a surprise when the final implementation results show that the cost recovered from individual households is far less than 41%, or even less than 33% (the general target of housing reform). It should be noted that the percentage is calculated only based on direct cost without accounting for infrastructure costs exempted in taxes and fees.

In addition, if work-units are permitted to purchase CHP units at subsidized cost-recovery prices, allocate them to other employees, and then use the vacated units to distribute to housing poor households (i.e. the so-called "second round" approach), many housing poor households would choose to rent "second round" units rather than to buy new CHP units. As a result, the CHP would remain as in other publicly built housing projects which sell at subsidized prices. Whether a housing poor household could improve its condition will continue to largely depend on the prosperity of its work-unit. Although households who buy apartments are responsible for their operating costs, work-units and the municipal government will continue to bear the burden of recovering their subsidized capital investments. In the long-term, this vicious circle will continue. The more "affordable" housing units built, the more subsidies allocated, the less resources available for work-units or governments to pay.

### (3) Limitations of enforceability.

The CHP designed six channels to supply affordable housing. The proportion of housing space provided by each channel is roughly as follows: 59% by two channels of REDCs, 30% by two channels of work-units, 7% through second-round redistribution of work-units, and 4% by old-city redevelopment. Though these figures are clearly stated in the municipal government's Provision Plan, it is unclear whether these targets will actually be met. The ambiguity of enforceability is mainly derived from the unclear relationships (or unclear understanding of the relationships) between government and the various REDCs and between government and work-units.

Without a full understanding of these relationships what we see at the surface of the CHP's implementation is a lack of consistency and co-operation among the six channels to service the same goal. The decreasing ability of old-city redevelopment in solving the needs of low-income households is one example. As argued in an earlier chapter, old-city redevelopment projects are often serving multiple yet conflicting goals. The goal of improving the living conditions of needy low-income households is often compromised due to tradeoffs.

A similar problem exists with work-units. Whether a work-unit uses housing as an inducement to reward its employees or uses it first to solve the housing needs of low-income employees is at the discretion of a work-unit. Commonly, needs criteria are often not given high priority as reflected in a work-unit's score system. It is often the position and status of an employee in the work-unit that receives a higher weight in scoring.

REDCs have vague incentives to comply with rulings for affordable housing provision. Mandated to make profits, REDCs are reluctant to submit 10% of their annual production to the municipal government in an inflating real estate market. The municipal government does not have effective methods to enforce its request for CHP housing submissions unless it places administrative pressures on the managers of REDCs.

Among the hundreds and thousands of REDCs and work-units which can build housing, only two newly established housing development corporations have the specific



mandate to supply affordable housing. Even for these newcomers, their duties are constrained to the limited numbers of low-income households divided by administration feuds. One corporation may provide CHP housing only to unemployed households while another may provide only to housing-poor households under its administration line.

In conclusion, the limitations of enforceability result in a distortion of CHP implementation from its original purposes. Each REDC or work-unit may circumvent requirements for affordable housing provision and deliver units according to its own agenda. At the same time, the inequalities of low-income households distribution between work-units persist.

#### (4) Limitations of exclusion.

The CHP, targeting only 75,000 identified low-income housing-poor households, limits its own ability to build an affordable housing provision system for the city as a whole. This is mainly because it has excluded two of the more significant segments in any would-be affordable housing system: existing public rental housing and informal housing.

The existing public rental housing, that is about 80% of the current urban housing stock in Beijing, accommodates more than 6.5 million urban residents. Any change to this segment of the housing system will significantly influence the affordability and viability of housing as a whole. The strategy of the CHP is to avoid the complicated issue of transforming the existing stock by developing new mechanisms through "incremental" building. However, without addressing the relationship between existing public housing and newly built "incremental" housing, the CHP cannot contribute much to building an effective affordable housing system.

In addition, approximately a 1.2 million floating population has settled into informal housing. The intended affordable housing provision system would be incomplete without addressing this segment of the housing system and taking into account its relationship to the formal housing development process.

#### 5) Limitations to long-term affordability.

The current CHP attempts to be "affordable" to low-income households. However, from a long range perspective, the CHP may not be affordable. Current CHP practices are concerned only with initial affordability for the first time home-buyers. The strategies of the CHP are to waive taxes and fees so that developers will build more housing for low-income households and to record the costs of purchasing a home with public subsidies which are later recaptured (perhaps with a share of the home's appreciation). These strategies allow first-time home-buyers to resell their publicly assisted houses for market prices. They assume that affordable housing later lost to the market on resale will soon be replaced by new construction. This is an impractical assumption because there are severe limits to growth, particularly in terms of a scarcity of buildable sites. The construction of housing on empty sites in urban-rural fringe areas is constrained by the shortage of land that is vacant, the protection of lands that are open, or by agricultural reserves. The construction of housing on occupied sites in the build-up area is constrained by the development costs of demolishing buildings and relocating households or by the protection of buildings with historic or cultural value. The government strategy to solve the housing-poor problem mainly by enlarging the number of houses available may not prove to be a long-term solution.

In conclusion, Table 7-5 summarizes these effects through an evaluation table.

Table 7-5 Objectives and Effects of the Comfortable Home Programme		
	Objectives	Effects
Housing Specific Objectives	Availability	+
	Adequacy	+
	Accessibility	+/-
	Affordability	+/-
	Viability	-
Reform Oriented Objective	City-wide low-income housing system	+/-

## CHAPTER 8

### INFORMAL HOUSING

Faced with a severe housing shortage, households have several alternatives to satisfying their housing needs. There are principally two options which are summarized by Hirschman's phrase "voice and exit".

- 1) The voice option: This option is available to registered urban households who rely on government or work-units for housing provision. A common strategy is to use their social influence to increase access to official public housing.
- 2) The exit option: If there are extreme housing shortages and households cannot access to official housing provision, the exit option (represented by two informal provision forms: self-help and informal rental housing) may help.

The voice option has already been analyzed in previous chapters on the "formal" housing delivery systems in Beijing. The following discussion thus focuses predominately on self-help and informal rental housing processes. This study is particularly important because, until now, informal housing delivery processes have been neglected in the research on Beijing's housing provision. While the informal sector is becoming (or has been) quantitatively significant, policy-makers have begun to realize that understanding of this sector is far from adequate to develop appropriate management responses. In order to develop management policies, the following six categories of information needs are basic:

- 1) The scale or size of the informal housing sector;
- 2) Patterns of informal housing developments;
- 3) The quantity, pattern, and sources of finance in the informal housing sector;
- 4) The actors involved and their interactions in the sector;
- 5) The nature of constraints under which the informal sector functions;
- 6) The nature and extent of linkages between informal housing development and the overall housing economy.

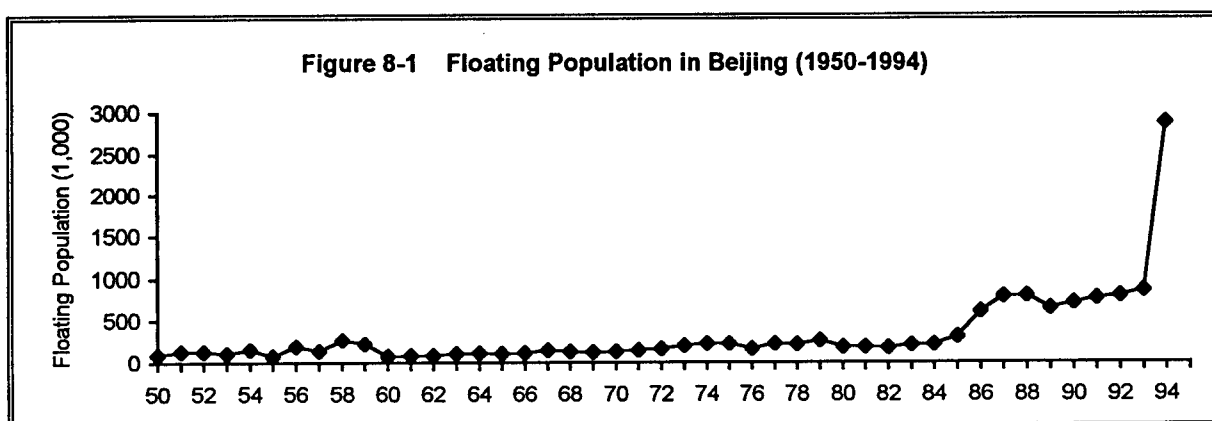
A comprehensive study of these questions is yet to come. This chapter presents only the preliminary results of research on this information by explaining the accommodation process of the "floating population" and identifying various types of informal housing.

### 8.1. An Overview

#### *The "Floating" Population and Its Accommodations*

A city-wide extensive survey conducted on November 10, 1994 discovered that there was a "floating" population of 3.29 million people in Beijing. Among them, 2.83 million came from other cities and provinces with the majority living in the city for more than six months. The total 2.877 million live-in "floating" population represents about 42% of Beijing's registered urban population of 6.84 million.

The floating population figure of 1994 was more than three times that of 1993 (Figure 8-1 "Floating" Population by Year). According to the *Statistics Yearbook of Beijing*, there were 0.86 million temporary residents (暂住人口) in Beijing in 1993. To compare with the 1994 data (Table 8-2), Table 8-3 illustrates the composition of residents in 1993 in terms of spatial and accommodation distribution. It should be noted that the 1993 figures are admittedly "underestimated".



It is important to understand the way that people migrate from one place to another in China to comprehend the form of accommodation they choose. By and large, people

Table 8-2 Survey of the Floating Population in Beijing (Nov. 1994)			
<b>Total</b>	3,295,000	100%	<b>Accommodation status</b> 100%
Living in Beijing	2,877,000	87.3%	Living with local residents 256,000 8.9%
From other cities & provinces	2,833,000		Provided by work-units 1,301,000 45.2%
From abroad	44,000		Self found accommodations 1,320,000 45.9%
Passing through	418,000	12.7%	
<b>Spatial distribution</b>		100%	Frequently move 1,197,000 41.6%
Living in city districts & inner suburbs	2,380,000	82.7%	Stay in one place, including: 1,680,000 58.4%
Living in urban-rural fringes	n/a	about 50%	On construction sites 469,000 27.9%
Living in outer suburbs	497,000	17.3%	In Beijing work-units 429,000 25.5%
Source: Compiled from data provided by Beijing Municipal Statistics Bureau, 1995.			Hotels, guests houses, etc. 208,000 12.4%
			Commercial services shops 148,000 8.8%
			Training centers with universities & schools 93,000 5.5%
			On farms 72,000 4.3%
			Contact offices of non-Beijing work-units 54,000 3.1%
			Hospitals, recovery centers, etc. 25,000 1.5%

Table 8-3 Temporary Residents in Beijing (1993)			
<b>Total temporary residents</b>	860,000	100%	<b>Accommodation types*</b>
<b>Spatial distribution</b>			On construction sites 248,000 27.56%
In city districts	208,000	24.29%	Hotels, guest houses, etc. 190,000 21.11%
Inner suburbs	489,000	56.86%	In work-units 158,000 17.55%
Outer suburbs	163,000	18.95%	Rental dwellings 145,000 16.11%
Source: <i>Beijing Yearbook 1994</i> , page .			Live-in with local residents 99,000 11%
			Commercial services shops 44,000 4.89%
			Others 16,000 1.78%
* The sum of temporary residents under this classification is 900,000.			

visiting Beijing are sponsored either by their work-units or themselves depending on the purpose of the visit. They usually contact their hosts in Beijing before departure who arrange accommodation for the newcomers. Consequently, the type of dwelling lived in by temporary residents is a function of the purpose of their move to Beijing. For instance, construction workers usually live in temporary dwellings on construction sites. Contract workers usually stay in work-unit dormitories. Domestic workers usually live with the local residents who hire them. Civil visitors usually stay with their relatives. Business visitors able to reimburse their expenses (报销) usually stay in hotels or guest houses. The self-employed usually live in rental housing.

It is believed that the majority of those who find their own accommodations (about 1.2 million or 41.6% of total live-in floating population in the 1994 survey) often live within the urban-rural fringes. The data available also indicates that there are 25 areas within the

administration boundary of a Public Safety Office (派出所) having a registered temporary population of more than 10,000. If we also take into account the non-registered floating migrants, the number of areas with more than 10,000 migrants would be much higher.

### *Self-help Housing and "Hidden" Rental Housing*

Beyond the broad, clean and tidy boulevards of Changan Street and the Second and the Third Ring Roads, simple structures with brown brick walls and black tile or asphalt slate roofing can be seen almost everywhere. For example along less important arteries, streets, or lanes, within the open grounds of residential quarters, or in the corners of traditional courtyards, these structures are visible. Such structures are so wide-spread that people are accustomed to them and take them for granted. To many ordinary Beijingers, these buildings have become an indispensable part of their daily life. To many non-registered migrants, these buildings are a cozy and free "harbor" where they can be sheltered from the harshness and hostility of the outside world.

Generally, there are two forms of informal housing: self-help housing and informal rental housing.

Self-help housing refers to all housing that is built by Beijing urban households themselves for their own use. There is a broad variety of actual forms of this type of housing. They may be self-rebuilt private housing, self-subdivided or renovated public rental housing, or simple shed extensions to existing houses.

The physical characteristics of self-help housing in Beijing are often similar. They are generally low-rises which are geographically concentrated in the inner city areas, especially in the rundown courtyards. The scale of self-help housing in Beijing is unmeasurable at this time. Based on a survey of a typical inner city neighborhood, one estimate is that informal construction (mostly self-help) represents about 15.8% of the total building stock. When this percentage is applied to all inner city areas, it becomes equal to at least 3.3 million square meters (Zhang Jie 1995).

Self-help housing is usually built within households plots or illegally acquired neighboring plots. Families often mobilize their own savings or borrow from relatives to finance such activities. Frequently, with help from friends and relatives, households can acquire some free, used or "borrowed" materials or purchase new materials on the market. Friends and relatives sometimes provide manpower as well. Occasionally, families may receive financial or labor help from their work-units. In the above mentioned survey, about 16% of self-help housing was built with help from work-units (Zhang *ibid.*). Self-help housing built in the inner city areas is mostly used for kitchens, but may also be used for storage and bedroom purposes.

Though they do not have a specific policy toward self-help housing, the government generally tolerates its existence and under certain circumstances the government even encourages its development. For instance, after the Great Tangshan Earthquake in 1976, families were allowed and encouraged to live in the temporary shelters erected within open courtyard areas. However, government tolerance does not equate approval for these spontaneous activities. Particularly when old city redevelopment is concerned, self-help housing itself is seen as a problem. Physically, self-help housing contributes to the "slum" image of rundown inner city areas. Politically, self-help housing is a constant reminder of the government's inability to serve its citizens. Due to these perceptions, self-help housing is slated for replacement. Self-help renovation and upgrading is not regarded as a major alternative to substantially improve the living conditions of the rundown areas.

'Hidden' rental housing. In legal terms, all rental housing, either public or private, is subject to rent control. In 1994, when the standard rent for public rental housing was 0.55 yuan/sq.m., the rate for private rental housing was set at 0.76 yuan/sq.m. In theory, owner of rental housing should sign a tenancy contract with tenants as well as attain approval and register the contract with the Housing and Property Management Bureau. The owners and tenants should equally share processing and registration fees, 2% of total annual rents and 2 yuan respectively. They should also pay 5% of total annual rents for sales tax, 12% for property tax and individual income tax if rents increase landlord's monthly income to more

than 800 yuan. If a rent is higher than standard rents, the government will confiscate the exceeding portion and fine the owner.

However, a highly active, "hidden", illegitimate rental housing market is ubiquitous. The major characteristics of this market are summarized as follows.

**High rents.** Determination of rents is a process of negotiation between the landlord and prospective tenant, influenced by the supply and demand forces. Rent reflects many factors including the quality of the unit, land value, land use pattern, infrastructure and facilities, location. Normally, rents in the hidden rental market are much higher than standard government rents which are based simply on cost-recovery of maintenance, management, and depreciation. A survey conducted by the Housing and Property Management Bureau in July 1993 collected 204 samples and found that the average rent was 10.11 yuan/sq.m. of usable space per month. The highest was 33.33 yuan and the lowest was 1 yuan per square meter per month. These prices may be lower than actual prices because the interviewees fear of penalization may have resulted in lying to the interviewers from the Bureau<sup>1</sup>. In a random sample survey from December 1994 to March 1995 investigating five places, the author found that rents ranged from 10 to 40 yuan/sq.m of usable area per month (Table 8-4). These rents are much higher than the standard 0.55 or 0.76 yuan/sq.m of usable area per month.

**"Hidden" transactions.** An overwhelming majority of rental transactions are not

**Table 8-4 A Random Survey of the Hidden Rental Market (12/94-03/95)**

	Area (sqm)	Type	Facility	Location	Ownership	Tenant occupation	Monthly rent yuan/month
1	46	1-brm high-rise	complete suite	Beijing library	limited private	foreign student	1000 (30/sqm)
2	12	1 rm courtyard	public toilet, stove in room piped water	Liubukuo	sublet public rental	street retailer from Anhui	150 (12.5/sqm)
3	10	1 rm dormitory	share with others	Out of Fuxingmen	sublet from friend	employee of a state owned publishing house	200 (20/sqm)
4	58	2-brm walkup apt	complete suite	Hepingli	sublet public rental	employees of joint venture & self-employed	500 (11.6/sqm)
5	52	1 brm high-rise apt.	complete suite	Yayuncun	private commodity housing	employee of joint-venture	1500 (38/sqm)
6	95	3 brm high-rise apt.	complete suite	Fangzhuang	limited private	N.A.	5000 (70/sqm)

Source: Survey conducted by the author.

<sup>1</sup> Source: the article by Yang Qingwei on *Beijing Real Estate*, No. 1, 1994.



registered with the Housing and Property Management Bureau. The Bureau's 1993 survey discovered that 95% of the surveyed public housing and 91% of surveyed private housing had not been reported to authorities.

**Mixed uses.** Many units are not rented merely for residential use. They often take into account the possibility of combined business and residential use in the same unit. Particularly for those who do business in "third sector" industries, the street side area is often used as a shop or office and the rear is used for housing.

**Sources of residential rental housing.** Almost every household can be a supplier of rental housing if it has spare space. Work-units, either state-owned or collective, often rent space that they own or manage to "generate revenues" (创收). These transactions are made under the umbrella of "internal contract" (内部承包), a loophole in regulations and policies. Neighborhood committees are another group of major supplier in the rental housing market. In the name of "providing convenient services to residents" (便民服务), neighborhood committees squat on open spaces within neighborhoods and build simple shelters (often brick structures). The committees rent spaces to migrants from other provinces who are usually work in service industry vendors such as beauty shops, shoe repairs, bicycle repairs, tailors, restaurants, and others. The major supplier of informal rental housing are those households living in city outskirts or urban-rural fringe areas. They often expand housing into their yards or squat next to their houses in order to put up sheds for rent to migrants from other provinces. Lured by high profits, many residents even rent their own units and live in crowded conditions with their relatives.

**Tenant types.** The majority of consumers in the hidden rental housing market are people without Beijing "urban residence" status. They may be employed by work-units in other provinces and cities which have business in Beijing. They may also be individuals from various places, employed or self-employed, studying or working in Beijing. If the migrants are not closely attached to a host work-unit, they are likely to stay nearby friends from the same native village or town. As a result, several concentrations of rental housing sites are named after the origin of the tenants, such as Zhejiang, Xinjiang, or Henan village.

Several comments must be made at this point in the discussion. First, the suppliers of rental housing may not necessarily own the premises, but may be tenants themselves. Second, the rental housing market described thus far is mainly concerned with the residential portion of a more appealing property rental market in which the sources of suppliers and tenants are somewhat different. Third, there are at least two types of informal rental dwellings. The first can be called "illegal rental housing" and the second "illegal construction". "Illegal rental housing" refers to illegally sublet public rental housing, most of which is located in legitimately constructed buildings. "Illegal construction" refers to those structures officially called "temporary" and "illegal" (临时建筑, 违章建筑) which are not approved by government. Table 8-5 provides a comparison of the three types of informal housing.

Table 8-5 Comparison of Three Types of Informal Housing					
	Providers	Consumers	Status of buildings	Government attitude	Examples
Self-help	Households	Households	Ambiguous	Tolerant	Extension sheds in inner city courtyards
Illegal rental	Households, work-units	Homeless households, floating in-migrants	Legal	Helpless	Commonly seen
Illegal construction	Households, work-units, neighbor'd committees	Floating in-migrants	Illegal	Tear down	Along streets; in residential quarters; in the urban-rural fringes

Beijing housing officials are fully cognizant that though rent control regulations and policies are comprehensive on paper they lack enforcement capabilities. The city has neither the flexible system nor the human and financial resources to monitor and manage activities of the hidden rental market. Some argue that it is the regulations and policies themselves which should be changed. This is because in severe housing shortage conditions, informal rental housing positively impacts on the reduction of the gap between supply and demand. Some alternative measures under consideration include a shift from "rent-control" to "rent-guidance" by establishing an "average guiding rent" and to allow market rents to fluctuate around "guiding rent".

Unfortunately, Beijing housing officials fail to realize that rents are only symptom of the problem and the hidden rental market differs fundamentally from the public housing system. It is arguable that the public housing system itself, combined with the government's

failed migration control measures, is the most important determinant of the dynamics of the hidden rental market. Rationed public housing only serves registered urban households and places greater pressure on the demand side of housing. Consequently, activities are pushed underground. Furthermore, economic reforms have loosened administrative controls on enterprises and organizations. Encouraged to improve efficiency and gain profits, work-units and individuals have inevitably turned to finding methods to optimize use of the most precious resource in a large city such as Beijing: space. It is not uncommon to hear stories of a state-owned institution operating at a loss for years and close to bankruptcy forced to rent a portion of its office space to pay employee wages. In addition, the growth of illegal rental housing is stimulated by the side-effects of some policies in other areas. For example street administration offices, the lowest unit of government, have been encouraged to engage in commerce and community economic development.

There is an urgent need for comprehensive, city-wide studies of the rental housing market. As far as this dissertation is concerned, the discussion is focused on self-employed individual migrants given that these individuals pose a challenge to be embraced in social organizations. In the next section, a case study of Zhejiang village is analyzed in order to identify whether the informal rental housing process can be a reliable channel for affordable housing delivery.

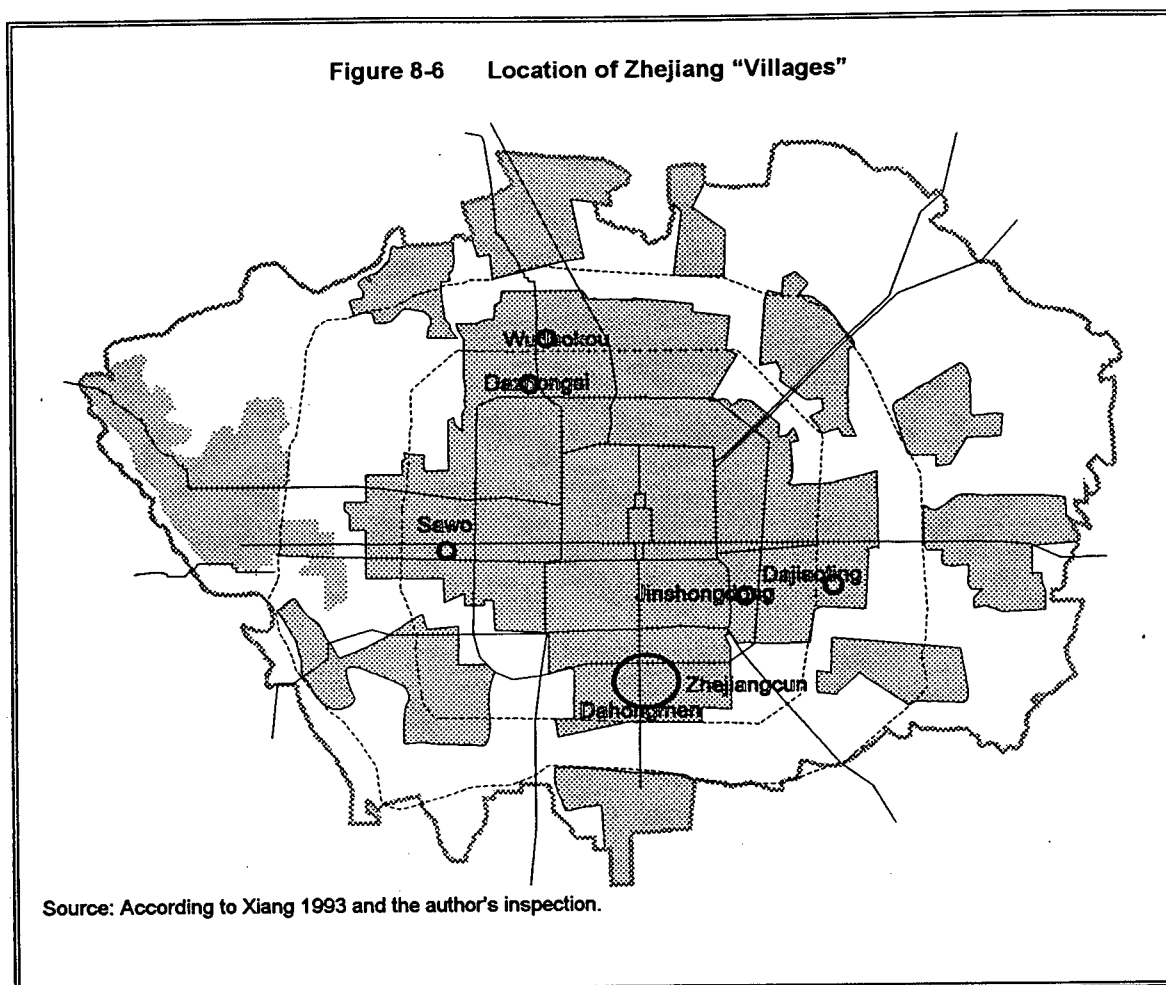
## 8.2 A Case of Zhejiang Village

"Zhejiang village" refers to the concentration of migrants from the same origin, namely Zhejiang Province. The village actually is comprised of six places in Beijing: two in the Fengtai District (Dahongmen and Sawo), two in the Haidian District (Dazhongshi and Wudaokou), and two in the Caoyang District (Dajiaoting and Jingsong-dongkou)<sup>2</sup>. The largest Zhejiang village (*Zhejiangcun*), also the single largest concentration in Beijing of migrants from any other province, is located at the southern periphery of the city core in the

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<sup>2</sup> According to Xiang Biao 1993.

Figure 8-6 Location of Zhejiang "Villages"



Dahongmen area. Geographically, it is roughly bounded by the Third Ring Road to the north, the Fourth Ring Road to the south, Puhuangyu Street to the east, and Majiabao Street to the west. *Zhejiangcun* is less than five kilometers from Qianmen, one of the largest commercial centers of Beijing (Figure 8-6).

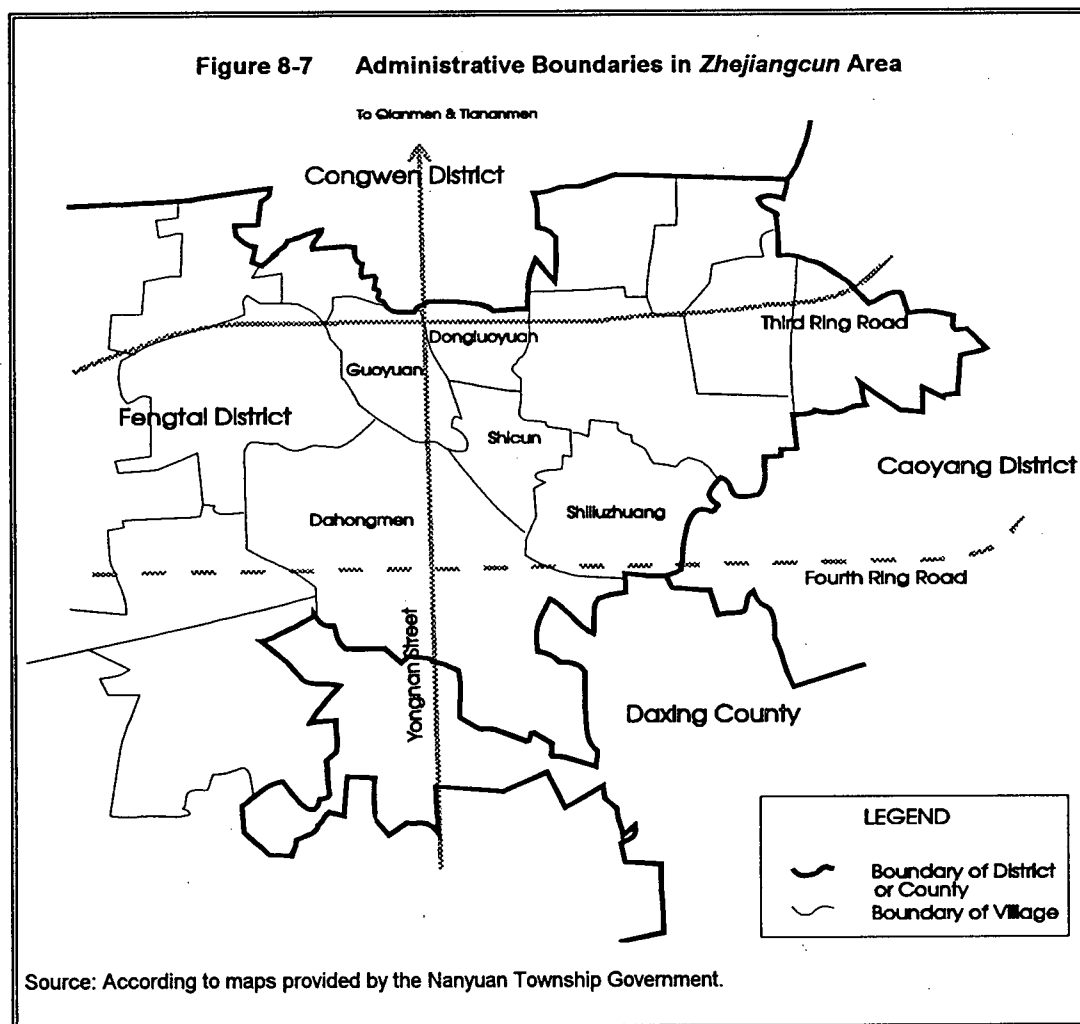
Administratively, the *Zhejiangcun* area falls within the boundaries of eight street administration offices (街道办事处) and one township (乡). "Zhejiang villagers" are concentrated in five administrative villages (村公所) under the Nanyuan Township<sup>3</sup>:

<sup>3</sup> Street administration offices are the lowest level of state administrative units in the governmental hierarchy and are in charge of managing "urban residents". Their counterparts, townships, are in charge of "rural residents".

The hierarchy of townships, administrative villages, and natural villages, is equivalent to the hierarchy of the people's commune, production brigade, and production team under the old administrative system in

Dahongmen, Shicun, Guoyuan, Dongluoyuan, and Shiliuzhuang (covering about 26 natural villages) (Figure 8-7). This is a vibrant urban-rural mixed zone, both physically and administratively, although rural characteristics such as agricultural land are disappearing.

The first "Zhejiang villagers" were said to be two tailor brothers from Leqing County, Zhejiang Province in 1983. When they wandered into Beijing with clothing they had made and sold in just a few hours, they accidentally discovered the massive market in Qianmen and decided to stay in Beijing. They then rented a room in Haihutun (part of *Zhejiangcun*), set up their sewing machine, and began the legend of *Zhejiangcun*. As



rural areas. In fact, many villagers still call the head of their village "shengchan duizhang", literally meaning "the head of the production team".

business increased, more people were recruited from their native village to Beijing<sup>4</sup>. In 1986, *Zhejiangcun* had a population of about 12,000. By 1990, prior to the Asian Games, the population of Zhejiang villagers was estimated at more than 30,000. In order to get ready for the Asian Games, the governments "cleared" (清理) this area and pushed the Zhejiang villagers out. However, these "illegal" migrants came back right after the Games, and the population has since increased to over 110,000, about three times that of the local population<sup>5</sup>.

*Zhejiangcun* could be called "Wenzhou village" because the majority of Zhejiang villagers came from two counties under the City of Wenzhou: Leqing and Yongjia. Economically, *Zhejiangcun* copies the Wenzhou Model of urbanization where former farmers developed market-oriented light industries (such as making buttons) based on comparative advantages to serve a nation-wide market<sup>6</sup>. The majority of Zhejiang villagers are engaged in the garment industry. They produce, wholesale, and retail their products home based. According to estimates the Fengtai District's Industrial and Commercial Administration Office (工商所), the value of daily transactions in the *Zhejiangcun* garment market is over 5 million yuan with annual transaction values over 1.5 billion yuan. When compared to the annual retailing value of state-run commercial stores in Beijing of 40.7 billion (1993), these sales are astonishing. The Zhejiang villagers supply garments not only to the Beijing market but also to many parts of northern China. Their business is so successful that they raised funds, coordinated by the Fengtai District Industrial and Commercial Administration Bureau, to build the landmark Jingwen Garment Market in 1993, a six floor commercial and office space building (Picture 8-8).

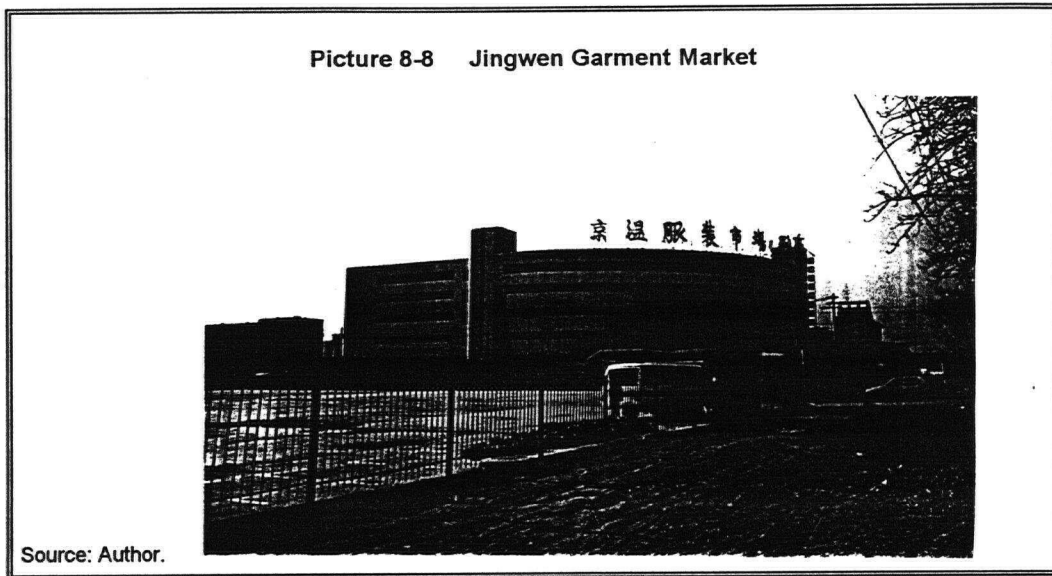
Today's *Zhejiangcun* is a peculiar, self-contained community. People here speak Wenzhou dialect, ride red Wenzhou-type tricycles, and eat Wenzhou style food. Zhejiang villagers operate their own restaurants, beauty shops, convenience stores, food markets,

<sup>4</sup> According to Xiang Biao 1993.

<sup>5</sup> These figures were provided by the Nanyuan Township officials. Local residents (i.e. those whose registration booklets (户口) are in the area) both rural and urban total 37,614.

<sup>6</sup> Some good discussions of the Wenzhou Model of urbanization in China include Chen Xiangke 1986, Chen Xiubao 1986, CASS 1986, Fei Xiaotong 1986, Hu Zhaoliang 1987, Lin Bai et al 1987, Yang et al 1987, Ye Dayuan 1987, Sun & Lin 1988.

Picture 8-8 Jingwen Garment Market



clinics, kindergartens, etc. Residents have their own recruitment brokerage firms to hire labor from their native towns and transport them to *Zhejiangcun*. A long-distance bus lines to transport people and goods exists between *Zhejiangcun* and Wenzhou. Remittance services to send their savings back to relatives in Wenzhou exists as well as their own patrol teams to take care of the safety of their clients, Zhejiang villagers. The Leqing County Government has even set up a liaison office in *Zhejiangcun* to coordinate the activities of their fellow Zhejiang villagers with Beijing governments and local residents. It appears that the Wenzhou culture and life-style has begun to dominate the dynamics of this area.

### *The Process of Housing Development in Zhejiangcun*

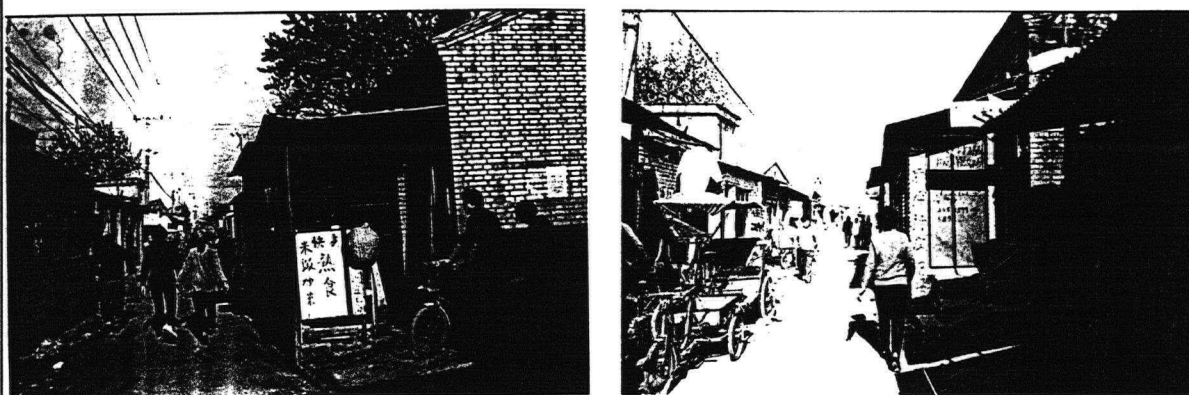
Early Zhejiang migrants settled in *Zhejiangcun* not only because of its close proximity to Qianmen, but also because of low rents. In 1984, the monthly rent for two rooms of about 25 square meters was only 80 yuan. In 1987, the rent was doubled and 80 yuan only meant one room. In 1991 and 1992, the monthly rent for one room of about 10-15 square meters was 250-280 yuan. Today, rent varies between 15 and 35 yuan/sq.m/month (i.e. 225-525 yuan/month for a room of 15 square meters).

Local residents are the major suppliers of rental housing to Zhejiang villagers. Rural residents are particularly active in converting their dwellings for rental purposes. With

demand for rental housing constantly increasing, the simple conversion and/or subdivision of existing dwellings can no longer satisfy demands. Local residents build sheds attached to their dwellings to function as rental units. Obviously, space for attached sheds is very limited. They have thus occupied the roads, yards and any open space meant for public use (Picture 8-9). Data from the Nanyuan Township states that there are 5,608 rural households in the five administrative villages. Each households rents an average of two rooms. The total number of rooms rented by rural households to Zhejiang migrants is greater than 11,000.

Beginning in 1991, lured by the potential profits, the village administration offices (村公所) joined the team of suppliers for informal rental housing. These collective organizations usually raise funds from their rural residents and build groups of brick and tile structured cottage houses (called "big courtyard" 大院) on the collective-owned open space including agricultural land. For instance, Donluoyuan Village built 240 units on an open lot in 1991 and rented them at a monthly rate of 280 yuan per room. Haihuishi in 1992 and Macun in 1993 built similar rental housing. It is estimated that more than 20 such "courtyards" have been built by the collective villages in *Zhejiangcun*. All of these housing units are rented to Zhejiang migrants. Rental incomes enter the coffers of the collective villages.

Picture 8-9 Views of Squatting Sheds in *Zhejiangcun*



Source: Author

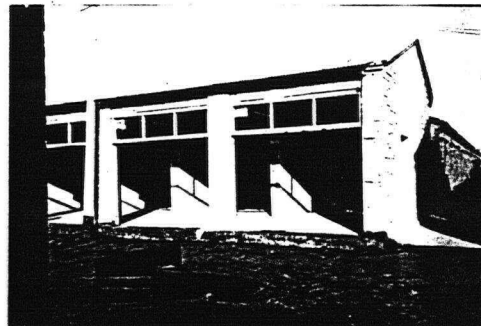


The most recent development of informal rental housing in *Zhejiangcun* takes the form of a partnership between private Zhejiang migrants and local collective villages. Usually, migrant developers provide the funding and the villages provide land. Sometimes, the villages may also ask a land rent of 10,000-20,000 yuan per *mu* (about 667m<sup>2</sup>) each year. The term of the partnership is typically 3-5 years. Within this period, migrant developers collect rental incomes. At the end of this period, construction will be returned to village ownership and rental incomes thus belong to the villages. Some villages may have the option of renewing land lease contracts and continue to give developers responsibility for the property management of these constructions. It is estimated that there are more than 20 of these projects in *Zhejiangcun*. The largest one is located at Jiujiangzhuang village. It occupies more than 60 *mu* (about 40,400m<sup>2</sup>). The estimated initial investment was about 5 million yuan. (Picture 8-10).

Picture 8-10 Views of "Courtyards" in *Zhejiangcun*



(1) (2) Views of a courtyard in Macun.



(3) (4) Construction sites in Jiujiangzhuang.

Source: Author.

Secondary subdivisions exist as well, but they are sparsely dispersed, occur occasionally and predominantly in commercial properties.

It must be emphasized that informal housing development in *Zhejiangcun* is hardly called "squatting settlements" because squatting by definition implies the direct appropriation of land without the consent of its owner. The Zhejiang migrants seem rarely to squat on a piece of land without any form of involvement of local residents or villages. It is normally not Zhejiang migrants but local residents or villages who are the main squatters on state or communal land. According to the "Implementation Measures of Land Administration Law of the People's Republic of China" issued by the Beijing municipal government in 1991, "it is forbidden to undertake land development or commodity housing development on communal land"<sup>7</sup>. A rural household can only have an average of 0.25 *mu* (about 167m<sup>2</sup>) land for its own residential use. It is clear that, according to this law, all of the above mentioned types of rental housing development are illegal.

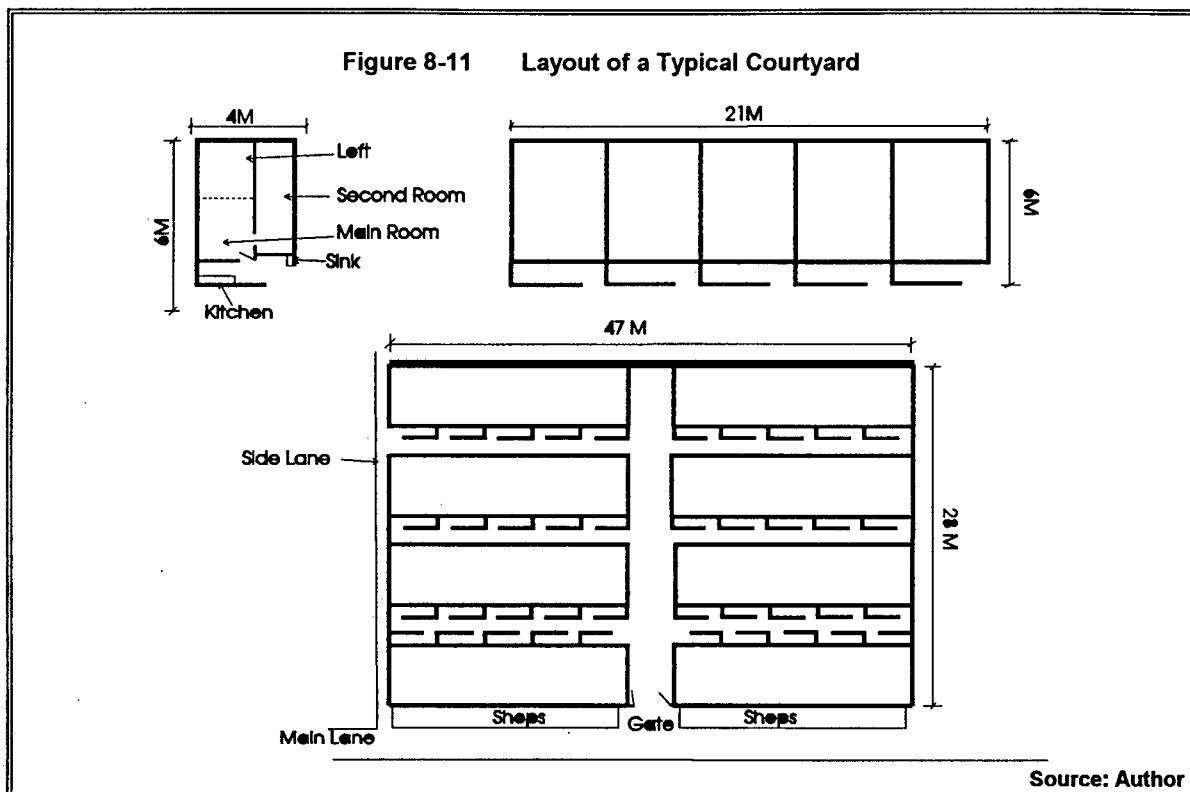
### *Housing Conditions and Problems*

The quality of informal rental housing does not comply with government standards for urban housing. It is estimated that the average living space per capita is 3.75m<sup>2</sup> in *Zhejiangcun*<sup>8</sup>. A typical unit often has a loft in the main room. The household works on the main floor and sleeps in the loft above. If the loft cannot accommodate all household members, the young men and women may have to sleep under the cutting table. Living conditions do not differ greatly between the boss of a household-based workshop and the workers employed (normally relatives of the boss from the hometown in Zhejiang). Ordinary workers earn about 200-300 yuan per month plus free room and board. This does not give them enough incentive to rent and live alone unless they want to be their own boss.

Each rental unit has space outside the main room to set up a small kitchen with a tap and sink adjacent to it. However, households must use public toilets. The newly built

<sup>7</sup> See *Collection of Real Estate Laws and Regulations in Beijing*, 1993.

<sup>8</sup> According to an interview with a Nanyuan Township official.



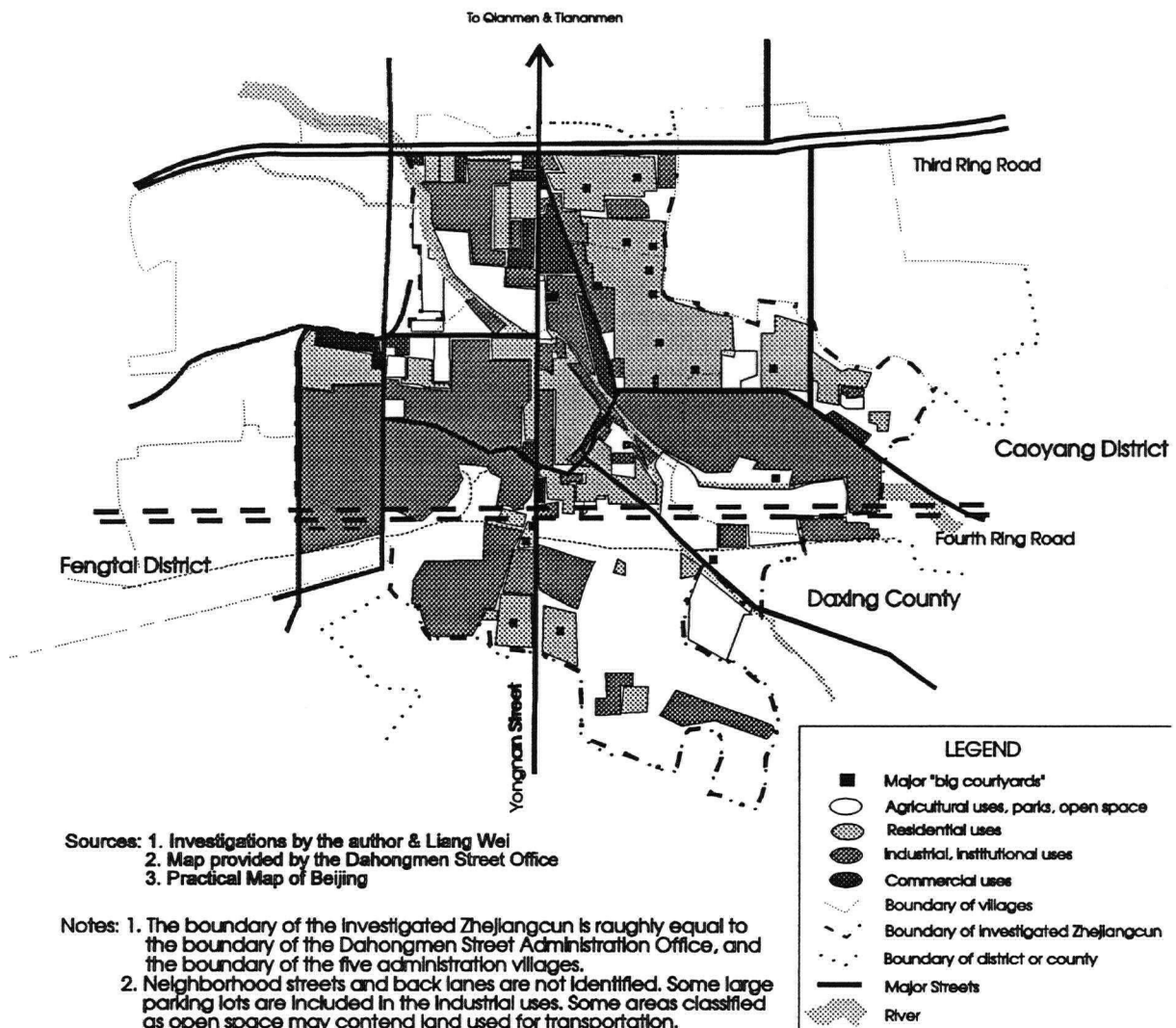
“batched” courtyards have a simple underground sewage system, but the shed units outside local resident houses often do not have treatment. As a result, the overcrowded *Zhejiangcun* is a dirty place with sewage blockages, standing water on roads, toilet blockages, and garbage scattered everywhere. Though each migrant is required to pay a cleaning fee of 5 yuan per month to its village, hired cleaning services do not appear to make any apparent difference. (Figure 8-11)

Terrible traffic jams and narrow streets are another often quoted problem associated with *Zhejiangcun*. Yongnan Street was planned as the main artery of Beijing connecting the city center to the southern suburbs with Dahongmen Street as is its supplementary branch (Figure 8-12). However, with many small stalls spread on the street sides and pedestrians and bike carts shuttling back and forth, the traffic simply cannot move faster than 20 km per hour. At its worst, it can take two hours to get through the three kilometer long street (from Dahongmen to Muxiyuan) by bus. Neighborhood roads are no better. Mainly because shed houses occupy the roads, many formerly five to six meters wide roads are now less

than two meters wide and only one bike cart can pass at a time. This raises safety concerns: "The fire trucks can not go through", said one worried official.

In the eyes of government officials and ordinary Beijing residents, the most frightful problem in *Zhejiangcun* is public security. Unfortunately, *Zhejiangcun* is not only a place of opportunity, where hard-working and productive individuals search for a better life, but also an asylum where criminals or those with trouble at home escape to and take refuge. With

Figure 8-12 Land Uses in *Zhejiangcun* Area (1995)



limited resources, police cannot stop the rampant gangs. The government seems to neglect these severe conditions and are indeed helpless to deal with them. Consequently, some villagers buy guns or organize patrol teams to protect themselves. However, these methods are not very effective.

Segregation between Zhejiang migrants and local residents are discussed as a problem by some researchers (Wang 1995). Neither the migrants nor residents truly want to mix with one another. They enjoy separate life styles and see no reason to change. If possible, the two groups would prefer to live in separate courtyards<sup>9</sup>.

It could be argued that these problems are interrelated. Overcrowding and lack of infrastructure create traffic problems and further increase factionalism. Segregation attitudes lead local governments to the philosophy of "only clearing the snow from the front of your own doorway" and not intervening in the lives of Zhejiang villagers regardless of their responsibility.

### *Different Responses to Housing Problems*

Zhejiang villagers acknowledge that overcrowding is a problem. Nonetheless, they are more concerned about their children's education, business, harassment by officials, crime and security. As far as housing is concerned, residents are basically attempting to cope with the problem and make the best of the status quo. Very few Zhejiang villagers intend to invest in housing or plan a long-term stay, though some have been living in Beijing for more than a decade. Their savings are often used as floating capital, or sent back to their hometown to build houses. The uncertainty of government policies toward their status in Beijing prevents them from taking any risks such as purchasing a commodity housing unit.

The few investors in the housing development partnership in *Zhejiangcun* are exceptionally brave risk takers. Even for them, the partnership is short-term business. With the average total cost of development of less than 500 yuan/m<sup>2</sup>, investment could break even in two years if the rent rate is set at 20 yuan/m<sup>2</sup>/month. In fact, by adopting techniques

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<sup>9</sup> According to conversations with several migrants and residents in Zhejiangcun.

such as financing through pre-payment and phased development, initial investments are often returned in one year. Based on the prospect of a rapid rate of return, investors may invest in the development of informal rental housing if convinced that policies and actual practices of informal housing would not change in the next few years<sup>10</sup>.

If they have the freedom to choose, Zhejiang villagers would prefer to stay in *Zhejiangcun*. It seems that attachment has begun to emerge among some Zhejiang villagers. Perhaps partly because of this, some self-employed villagers have organized a volunteer-based "Loving Heart Society" to routinely clean the public toilets and streets. These grassroots initiatives are encouraging signs that migrants can and are willing to organize themselves and provide services for themselves at their own expense.

The Beijing municipal government has recognized the existence and magnitude of informal development and has begun to consider alternative policies and regulations to accommodate its evolving needs. However, without any experience in dealing with such a widespread "problem" and, in fear of the possible disorder that might undermine the political stability of the society, government has taken a policy position of "control". This implicitly views the informal settlements as a blight on the city and thus government constantly tries to "clean" squatting constructions. Recently, the city has admitted that the "control" policy does not work and an alternative, "managing with guidance", might be a more suitable option. The city has thus urged the four inner suburb districts to take initiatives and select one or two townships as experiments for the new theory. As a result, the Nanyuan Township government has drafted a proposal for "planning" (治理) *Zhejiangcun*, which would become the position of the Fengtai District Government if adopted.

The proposal suggests to recreate *Zhejiangcun* through "renewal of old villages" (旧村改造). Based on the Comprehensive Plan of Beijing, the proposal recommends planning the five administrative villages of *Zhejiangcun* together. As well, a commercial and trade

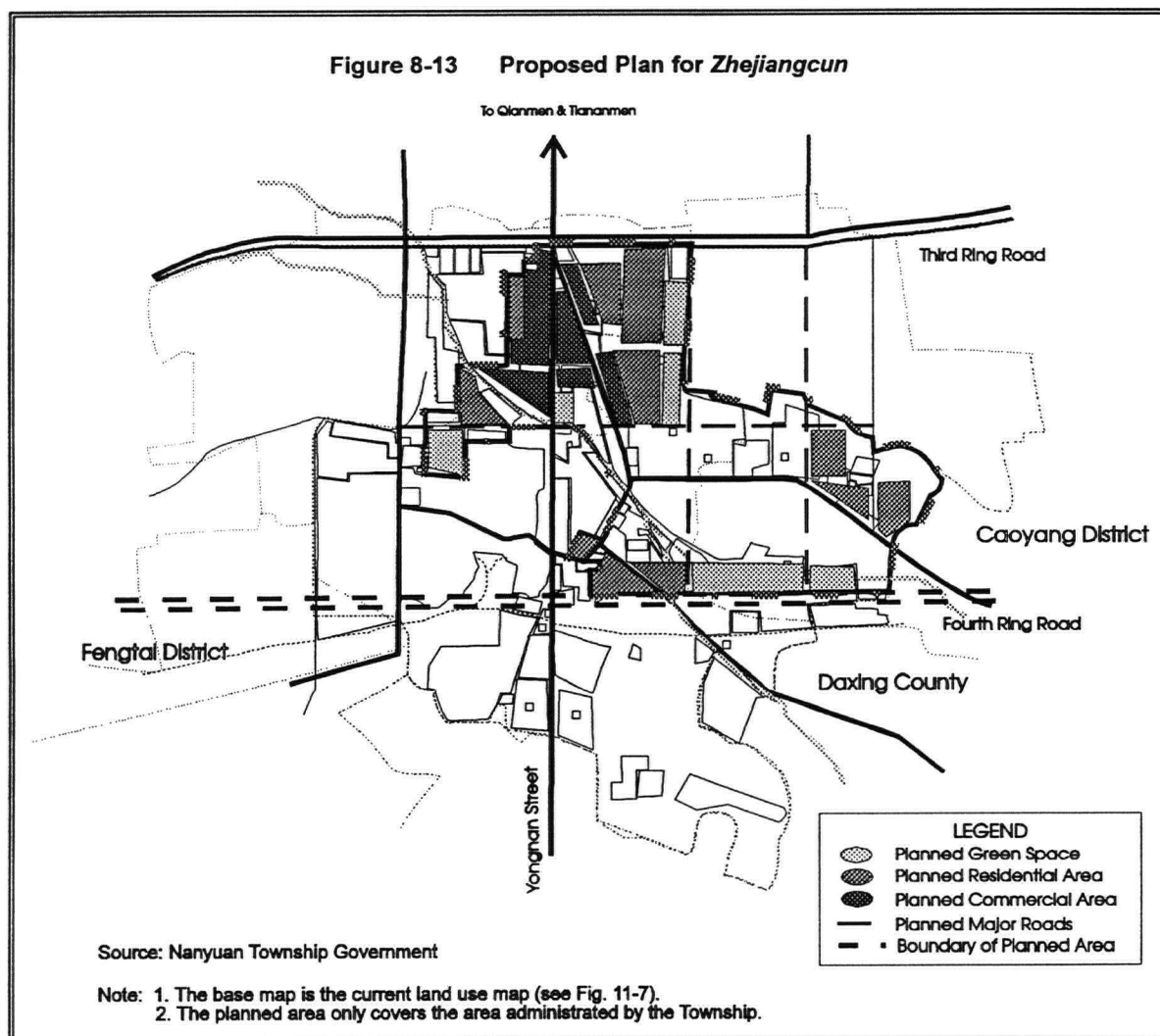
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<sup>10</sup> According to the estimate of a Zhejiang villager, the total number of investors in the informal rental housing development is less than 20 persons. Many were very reluctant to reveal any more information to the writer because of the fear that the information might leak to government officials who have already torn down similar constructions in a nearby village.

center, a long-distance bus station centered transportation complex, and five residential areas would be developed in several phases (Figure 8-13).

According to this proposal, current cottage houses will be replaced by walk-up and high-rise apartment buildings. Rural households will thus change their residence status from "rural" to "urban" and move into these apartments with compensations. Several apartment buildings are reserved for rental housing and are separated from local Beijing residents. Zhejiang migrants must have legal "temporary residence cards" to rent the units. It is believed that all of the problems of *Zhejiangcun* can be wiped out through this program.

According to the proposal, a development company partnered with the five



administrative villages will be established to undertake development. Five methods of financing are proposed:

- raising funds from villages;
- attracting foreign investment;
- cooperating with other enterprises;
- syndicating; and
- financing through pre-payments.

The proposal specially claims that development of a "modernized commercial center in southern Beijing" will cost municipal government nothing.

This plan was still at the proposal stage when the author conducted interviews in March 1995. However, whether it can be implemented already presents another problem. The Nanyuan Township officials themselves expect rejection by the City Planning and Management Bureau. In the view of urban planners from the Bureau, the plan for "renewal of old village" is, in essence, another project of new area developments that would consume green belts favored by planners. In addition, to freely allow rural residents to become urban residents, even though this does not involve arranging jobs for these residents<sup>11</sup>, would take urbanization out of planner's jurisdiction. Many measures suggested in the plan would mean the decentralization of authority to townships and the coordination of various bureaus and agencies at the township level. These are foreign concepts and difficult for the bureaucracy of the municipal government to adopt.

Two other obvious flaws of the plan can be easily identified. First, in the planned area of 7,500 *mu* (500 hectares), more than 30 work-units, either central government owned or city owned, occupy about 3,461 *mu* (231 hectares). Failure to integrate the land use of these work-units into the plan would place residential buildings unreasonably adjacent to malodorous food processing plants. Another serious flaw is that the apartment units are not suitable for household-based garment businesses where work and shelter are combined in one room. Though those migrants in wholesaling or retailing might rent such

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<sup>11</sup> It is called "changing status without changing occupation" (转居不转工)



apartment units, they would not stand for a policing type of property management. Unfortunately, the Township has no intention of involving the Zhejiang villagers in the planning process.

Before the proposal was fully discussed and approved by the district government, the municipal government issued an eviction order "Notice on the clearance and reconstruction of Dahongmen in Fengtai District" on November 10, 1995. It is said that this initiative came directly from the central government after an internal investigation report described *Zhejiangcun* as a hotbed of serious crime<sup>12</sup>. Under the terms of the eviction order, those migrants without legal documents had to leave within 15 days. All land lease contracts made between Zhejiang migrants and local villages were pronounced illegal and thus invalid. As a result, all illegal constructions were required to be demolished before November 30 by the owners themselves. According to a report on November 29, 1995, in the *Beijing Daily*, 5,000 people had been moved, 1432 rooms had been demolished, and 22 out of 47 courtyards had been evacuated, by November 25, 1995. Comparing these numbers with the total migrant population of over 110,000 and the number of illegal dwellings at more than 30,000 rooms, this "clearance" campaign can hardly claim victory.

Some Zhejiang migrants had already anticipated that this kind of "clearance" action would occur. Prior to the issuance of the notice, they had made some precautionary moves. The best example is the Jin-ou project in Jiujingzhuang village. Located in the planned green-belt area and close to the boundary of another county (Daxing County), the project is a clear indication from Zhejiang migrants that if the situation in *Zhejiangcun* gets worse, migrants will move further south to the Daxing County where the county government welcomes them. The county government has also promised them more autonomy in constructing and managing their own "big courtyards". In this project, some self-organized community management measures will be the subject of experiment.

It is unclear what the future of *Zhejiangcun* is at present. However, two determining factors can be identified. The first is whether the four different levels of government

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<sup>12</sup> According to Beja & Bonnin, *China Perspectives*, No. 2 1995, page 24.

involved (central, municipal, district, and village) can reach consensus on policies towards illegal construction in *Zhejiangcun*. The second is whether government policy and Beijing citizen attitudes towards migrants will change to encourage integration and assimilation rather than repression and marginalization. In the short term, informal developments in the current *Zhejiangcun* area are likely to be wiped out. A new "Zhejiangcun" or the like will emerge in another area of Beijing and bring with it the problems associated with illegal construction.

### *Different Interests of Various Levels of Government in Informal Housing*

A common feature of all types of informal housing is their "illegality". However, what is legal and what is not is a moot point for most cases of urban development, particularly so given the "mass line" politics of the Beijing urban administration. Illegality lies in the acts of the lawmakers and is a matter of negotiation. In other words, the existence of illegal housing development is partly attributable to the differences that various levels of government have in the informal housing process. One may gain from it while another sees it as a threat. These different interests result in disagreements about the need for action on informal housing.

The lowest level of government, the street administration office or the administration village, is the direct beneficiary of informal housing developments. In the context of economic reforms, this level of government is required to engage in community economic activities. As such, every street administration office or administration village must do their best to mobilize potential resources to generate revenues.

To administration villages, particularly those on the urban fringe, land as communal property is their most valuable resource. To develop the land as the market demands, even though certain planning and land use regulations must be circumvented thus becomes a rational choice.

The situation for street administration offices is more complicated because they do not own land and have only few properties and limited economic bases. If they operate any

community enterprise, the business is usually established to provide job opportunities for the disabled in the neighbourhood and is non-profit in nature. This kind of enterprise normally cannot contribute to the general revenue of the offices. Alternatively, the "hidden" real estate business poses such a great attraction that they are inclined to circumvent land use regulations. The regulations themselves are ambiguous and contradictory. Some regulations encourage any type of business that would benefit the residents in the community. Some define "illegal construction" in general but fail to specify whether those brick-structured cottage housing in residential courtyards are "illegal". In other words, informal housing under street administration offices is a "grey zone" where policies do not point in any clear direction.

The district governments respond differently to different types of informal housing, as do the different agencies under district governments. The Housing and Property Management Bureau seems the most tolerant agency toward self-help housing, because self-help construction eases pressing demands from residents for adequate shelter. The bureau might also tolerate illegal or irregular construction but deems them "illegal" because it cannot prevent them. The Bureau is constantly requested by the municipal government to "clear" such constructions.

The development sector of district governments (represented by the Construction Committee, its REDCs and the Planning Bureau) are advocates for well-planned comprehensive developments. They regard this type of development as the only solution to the housing problem. They often reject any attempt to legalize self-help housing and illegal construction because legalization would increase the cost of removing and relocating households residing in the premises. More and better built self-help housing might also discourage residents from moving to other places as the old-city redevelopment process requires.

District governments generally have mixed feelings regarding migrant concentration. On the one hand, migrants would increase district revenues through various taxes and fees.

On the other hand, governments fear the tension between the local community and new "villages" would become out of control and threaten social order and stability.

The municipal government benefits least economically from informal housing. It often bears the responsibility of mitigating the externalities of informal housing development. Concerned with urban living standards, such as city beauty and order, public safety, and social stability, the municipal government usually presses district governments to deal with these problems in their boundaries.

However, the municipal government may benefit from informal housing politically. These potential political gains prevent it from taking strict actions against informal housing. The existence of informal housing allows government to concentrate on rewarding registered urban residents and ignoring non-registered residents. Illegality also gives the government an excuse to ration services insofar as the government is short of resources. Finally, illegality opens up other routes for discriminatory action against a particular settlement because such an action can divert public attention and outrage away from the government.

## CHAPTER 9

### CONCLUDING OBSERVATIONS AND POLICY IMPLICATIONS

Much useful information has been assembled in previous chapters. It has demonstrated that the perception of the urban "housing problem" in Beijing has gone through several phases since 1949. In response to the housing problem, housing policies and programs have been deployed accordingly through various phases. Some policies and programs have been successful while others have experienced difficulty in achieving their intended results. It is argued that under specific historical conditions, the process of identifying the housing problem and taking action to solve it is strongly influenced by dominant social interests. Housing delivery systems reflect this influence. To improve the housing delivery process and realize the goal of "housing for all", it is necessary to refocus policy efforts towards enabling social groups to transform and perfect housing delivery systems.

#### *Perceptions of the "Housing Problem" and Policy Responses*

At the beginning of socialist China, urban housing was first seen as a social goods and service item to be distributed city-wide and consumed equally by urban residents. Urban housing was thus a social problem. At the same time, in an industrializing society like China, urban housing became an economic problem related to the redistribution of national income between investment and consumption. In Beijing, housing and residential development was also a city planning concern related to the formation of a new land use pattern and the conservation of the character of the ancient capital. From this perspective, mass production of public housing in the form of residential quarters and workers' villages was undertaken with careful planning.

Influenced by "Production Prior to Consumption" and "Producer Cities" policies of industrialization in the late 1950s, the goal of accumulating wealth as quickly as possible,

became dominant. As a result, consumption in general and housing in particular was neglected. The demand and need for housing were repressed through political campaigns and "ideological re-education", especially during the Cultural Revolution.

To the late 1970s, the absolute housing shortage and poor living conditions deteriorated to the point that housing provision could no longer be ignored. At this time, the housing problem was perceived primarily as an availability problem. There were not enough housing spaces available to urban households. It is termed an "absolute housing shortage" when households outnumber dwellings. In response, mass production of public housing was undertaken at a large scale and rapid pace unprecedented in Beijing's history.

Along with the process of mass production and development of new residential districts, the issue of housing quality (housing adequacy) was not overlooked by policy-makers. Two major aspects of improving housing quality have been addressed in official policies. First is building standards. The average housing unit size set at 30-38 square meters in 1972 was raised to 56 square meters in 1985. At the same time, new housing was required to be self-sustained and often built as high-rise structures. The second aspect of improving housing quality was the old-city renewal policy endorsed in 1990 to redevelop dilapidated housing. At this point, the housing issue was not only to build MORE but also to build BETTER housing.

Shortly there after, dramatic policy changes aimed at encouraging housing production through addressing financial and viability problems of residential developments began to occupy policy-makers. Under the influence of the "open door" policy and market oriented economic reforms, housing delivery systems were under scrutiny. It was believed that the basic root of the housing shortage problem was "state construction, administrative allocation and low rents". A reform of the administrative housing system became inevitable. However, a pilot housing reform program could not be designed without changing perceptions regarding the housing problem. The ideological onslaught in the early 1980s on the concept of housing as a welfare item and the subsequent low rent policy paved the way for this kind of thinking. After more than 15 years of debate, it is now commonly accepted

that housing is a commodity. Therefore, various commodification and commercialization policies and programs have gradually been put forward. Particularly, the first Comprehensive Housing System Reform Plan of Beijing was adopted in 1992. Five different approaches were to be used to attack the long-standing housing problems according to this plan: (1) establishing government and work-units housing funds; (2) establishing a Public Provident Fund; (3) privatizing public housing; (4) increasing rents; and (5) producing housing through a variety of financing fund pools, co-operatives, and partnerships. Though motivation for the reforms stemmed from concerns in a number of areas (such as inequities between work-units, and labor mobility), the primary concern was for cost recovery, namely the financial viability of housing delivery.

The first round of reform towards commodification invokes the question of affordability given that the price of commodity housing is so high it is beyond the reach of an ordinary wage earning family. There is a general realization that development of commodity housing cannot solve the housing shortage problem itself. Families living in appalling conditions need special attention. In other words, it is acknowledged that there is no one unified housing problem representing the interests and needs of all social groups. Each major social group has its own specific problems requiring specific solutions. Low-income housing programs such as the "Comfortable Home Programme" reflect this understanding.

Meanwhile, it is also acknowledged that housing reform must be accompanied by reform measures in other relevant areas. These include creating a labour market, enterprise reforms, adjustment of the consumption structure of households, macro-economic control of inflation, taxation, government budgetary and financial arrangements.

Table 9-1 summarizes the perceived housing problems and the major policy responses.

### *Successes and Difficulties*

Since the Communist Party came to power and established the administrative urban

<b>Table 9-1 Perceptions and Major Policy Responses in Beijing</b>				
	<b>&lt; 1950s</b>	<b>1960s-70s</b>	<b>1980s</b>	<b>1990s</b>
<b>Social, Economic Context</b>	Rapid industrialization	Constant "class struggle" Strict population and urbanization control	Market-oriented economic reform, Massive urbanization	Toward socialist market system reform. Massive urbanization
<b>The Housing Problems</b>	Shortage	Housing not perceived as problem.	Housing availability Housing viability	Housing availability Housing adequacy Housing affordability
<b>Major Solutions</b>	Mass production of public housing	Neglect of housing	Mass production of housing Experiment of housing commodification	Continuing mass production, Diversified housing reform measures Old city redevelopment Comfortable Home Programme
<b>Spatial Pattern</b>	Residential quarters in suburbs; Worker's villages	Piecemeal expansion and development, "Driving a pin into available space"	Piecemeal expansion and development continued until the mid of 1980s. Residential districts in suburbs, regional centres and satellite towns	Residential districts in new areas, Inner city renewal
<b>Major Delivery System</b>	Centrally planned administrative housing system	Centrally planned administrative housing system	Work-unit housing Commodity housing	Commodity housing Work-unit housing
<b>Dominant Actors</b>	Economic planners City planners	Work-units Individual self-help	Work-units REDCs	REDCs Work-units

housing system, the right to shelter and other basic human needs were offered for the first time to the masses of urban residents. Compared to other developing countries, China did not experience problems of open homelessness, squatter settlements, and shanty towns normally associated with a market economy. This phenomenon itself is already an impressive accomplishment. Though housing development had gone through different phases corresponding to the various perceptions of the housing problem, it is evident that the Chinese government can make great achievements in improving living conditions of urban residents when there is the political will. In the case of Beijing, the city landscape has changed dramatically, particularly in the past two decades as a result of unprecedented large scale rapid public housing development. The average living space per capita has increased impressively from 4.55 square meters in 1978 to 8.51 square meters in 1993. Based on this criteria alone, Beijing residents have already reached a comfortable living standard.

In addition, the planning concepts of residential development in Beijing bear at least two qualities that are still admired by many city planners in other countries. The first is the use of the concept of residential districts which are comprehensive or a "complete community". In these areas, the necessary day-to-day shopping and recreational facilities



and other community services are evenly spread and integrated with residential uses. The second quality is the emphasis on a balance between housing and employment and close proximity between the two to decrease commuting time and the volume of intra-urban traffic. This pattern is best materialized in the form of work-unit housing. Although new land use policies intend to dismantle work-unit housing, the principle of balancing housing and employment still persists in Beijing planning initiatives.

The acknowledgement of other types of housing problems and policy responses to them (such as old city redevelopment, reform of the housing delivery system, and low-income housing development through the "Comfortable Home Programme") are examples of plausible efforts made by the government. They demonstrate government commitment to realizing the goal of "providing each household a housing unit with reasonable standards" (Beijing Municipal Government 1992).

Despite success in achieving high levels of housing investment and completed floor space each year, housing problems are far from solved in Beijing. There are several crucial difficulties and challenges impeding the achievement of satisfactory results from current housing policies and programs, even though they were designed with good intentions.

The first challenge is the acceleration of urbanization at the same time as personal movement controls are relaxed and the household registration system is weakened. The urban population in Beijing has increased dramatically, particularly the so-called "floating population". At the same time, housing standards have risen higher and higher. Consequently, shortages have persisted and are aggravated when the unregistered floating population is included. Overcrowding and lack of basic facilities are widespread in informal developments where the majority of the floating population is concentrated. Here we must distinguish absolute housing shortages from relative housing shortages. The former are shortages of total housing stock while the latter are shortages related to need characteristics. Currently, the absolute housing shortage has eased significantly as a result of mass construction in the past two decades. However, relative housing shortage problems are apparent. Criticism of the World Bank has certain merit in this regard. Critics argue that the

existing housing system generates no pressure to adjust production to consumer preferences in terms of price, floor area, number of rooms, location, or tenure. Stress on achieving "living space per capita" targets combined with other land norms and regulations and the real estate corporation centered delivery system jointly create a set of monotonous and often inefficient housing solutions (World Bank 1992).

Another difficult persistent problem is the problem of inequity and discrimination. As discussed in Chapter 4, housing inequities among work-units and employees in the same work-unit result from discriminatory rather than inadvertent practices. This discrimination is not based on prejudice but more on apparent rational judgement. It is mainly rooted in the deep conflict over whether housing should be delivered based on the industrialization oriented principle "to each according to contribution" or the humanitarian oriented principle "to each according to need". This internal conflict makes a single work-unit housing reform itself difficult to achieve the intended results.

In addition, inequity exists between registered urban residents and the floating population also result from discriminatory practices. However, this discrimination bears as many elements of prejudice as utilitarian pragmatism (as discussed in Chapter 6). To policy makers, whether and how to integrate the "floating population" into mainstream housing delivery poses a new challenge to social restructuring and reorganization -- a challenge that they have little experience dealing with.

The more difficult challenges are in the field of housing system reform. The general objectives of this reform are to produce a system where:

- ♦ Rents should cover the total cost of providing housing.
- ♦ Fiscal subsidies to housing should be sharply targeted to provide a safety net for indigent families, not to subsidize all or most urban residents. The housing-poor problem should be eliminated.
- ♦ Housing delivery is fully commercialized and socialized. Specifically, work-units should be separated from housing provision. An independent real estate industry should be the major housing provider. Government involvement in housing development should be

confined to planning the use of urban space and providing supporting infrastructure for well-planned, well-organized neighbourhoods.

Current housing reform actions do not seem to be advancing significantly in these directions.

Rents have not recovered the total cost of providing housing. In fact, the weight of housing subsidies increased from 7% of total compensation to 16% in one decade (1978-1988) according to World Bank estimates (World Bank 1992). Because of nominal low rents, the majority of Beijing residents still enjoy housing benefits as part of an in-kind wage compensation. Rents have increased at a conservative pace because of government concerns regarding the affordability of an ordinary household and its "psychological affordability" to absorb increases without endangering the social and political stability of the state.

Housing-poor problems seem difficult to eliminate by the year 2000 because the current housing program that directly targets housing-poor households -- the Comfortable Home Program (CHP) -- has several critical limitations. As discussed in Chapter 7, the capability of the CHP is limited to accommodate urbanization. The current practices of CHP might have difficulty attaining cost recovery even though it was intended to do so. CHP housing units are difficult to obtain from real estate development corporations. Finally, the CHP might not serve the need for long-term affordability and might not benefit the targeted population.

Work-units have not withdrawn from housing delivery as housing reformers would hope. They are more deeply involved in the process because of the impetus for resource control and retainment of the labour force and the preoccupation of work-unit management for consolidation of their authority. Work-units are unlikely to be totally separated from housing provision in the near future.

The government's direct role in housing provision has been significantly reduced. However, there are many government bureaus and agencies remain involved in every aspect of housing development. Often these bureaus and organizations lack coordination and cooperation in implementing programs. In addition, many newly created organizations,

particularly those real estate development corporations, which have partially taken over government responsibilities have close ties with their supervising administrations. As a result, they are not fully operated along commercial lines as the direct influence of political power is still strong. This creates both advantages and disadvantages for the performance of these organizations. This influence makes it difficult to distinguish the social interest represented by these organizations and thus further obscures the intended results of housing programs delivered by these organizations. A good example of this is found in the old-city redevelopment program. As discussed in Chapter 6, real estate corporations are required by governments to relocate affected households and return some original households while improving their competitiveness and maximizing profits. As a result, these corporations often circumvent relocation regulations and reduce return rates as much as possible.

While the central government downloads its responsibility for housing provision to others, the present set of housing delivery systems provides very few actual opportunities for the private sector to build and market housing units. Suppliers outside the city-managed family of real estate corporations are effectively limited and handicapped in the building process. Though household initiatives are encouraged through such forms as housing co-ops, without sufficient supports from government, these functions will likely be taken over by the powerful real estate corporations, especially in inner city redevelopment where conflicts between profit-making REDCs and affected households are intense. As a matter of public policy, self-help and other types of private development are discouraged due to their high dependency on the availability of land.

The virtual discouragement of private efforts in housing provision is also reflected in the underdevelopment of the Public Provident Fund (PPF), the compulsory saving scheme. Institutional building in this area is far from adequate to pool individual savings and channel them to housing development. In addition, the PPF system is operated through existing work-unit structures. As a result, the PPF enhances the involvement of work-units but fails to foster alternative institutions such as direct private development.

*Institutional Changes and the Dynamics of Housing Delivery Systems*

Various substantive housing problems have been identified along with changes in contextual factors such as demographics, economic resources and ideological values. Composition of these factors constitutes a historical or strategic situation in which different social groups see opportunities. To serve the general interest of urban residents and provide adequate, affordable, and accessible housing to urban families governments set up policies, regulations and programs to solve the acknowledged housing problems. At the same time they create new conditions. Responding to these opportunities and conditions, other groups formulate their strategies and options based on their interests to pursue prospective benefits. Under certain strategic situations, new groups or organizations may also be created to pursue opportunities. These result in institutional changes and dynamics in the housing delivery process.

Summarizing the discussions in the previous chapters, Table 9-2 presents the quantitative aspects of the housing delivery systems in Beijing until the end of 1994 in terms of total square meters provided and persons housed. It is clear that work-unit housing delivery remain the dominant arrangement of housing provision for Beijing urban residents.

Table 9-2 Quantitative Aspects of Housing Delivery Systems in Beijing (1994)		
	Square Meters (million)	Persons Housed ('000)
Work-unit Housing	-75	-4,410a
Municipal Housing	-22	-1,294a
Private Housing	+8.3	+488a
Commodity Housing (REDCs' controlled)	+15	+880a
Old-city Redevelopment		
Completed by 1994	2.22b	27c
Plan to 2000	7.62b	436a
Comfortable Home Programme		
Completed by 1994	0.4	22d
Plan to 2000 (1997)	1.43e	240d
Informal Housing	+10.8f	+2,500g

- Note: a. These figures are converted from official "square meter" data of the four types of housing by giving the average floor space per capita of 17.  
b. These are turn down spaces. The rebuilt housing space may be different from these figures.  
c. This is the amount of persons removed, based on an average household size of 3.2 and converted from official data of 82,768 (Table 6-2) removed households.  
d. These are converted from official data in households of 7000 and 75046 (Table 7-1), respectively, based on an average household size of 3.2.  
e. This is calculated based on the CHP target of average floor space per capita of 19 square meters.  
f. The amount of informal housing space is estimated that, self-help in inner city of 3.3 million square meters and 7.5 million for illegal constructions. It is assumed that self-help housing does not house more families in inner city areas, and illegal constructions house more than 2.5 million migrants, based on an average of floor space per capita of 3.  
g. Deducting those migrants who live in hotels, guest houses, or other formal arrangements, the floating population living in temporary and informal housing is estimated at 2.5 million. This includes approximately 1.2 million living on the urban-rural fringe, 0.47 million on construction sites, and 0.43 million in work-units dormitories.  
+ The plus sign means that the actual figure may higher than the one in this table.  
- The minus sign means that the actual figure may lower than the one in this table.

The amount of commodity housing has become indispensable. Meanwhile, informal housing not documented in official data, in fact houses more people than any other delivery systems with the exception of the work-unit housing system.

However, the comparative importance of housing delivery systems is not a constant. Rather, it has shifted and is shifting from one to another over the years mainly due to changes in the roles of the major actors in housing delivery. Table 9-3 and Table 9-4 illustrate these changes. As discussed in the previous chapters, work-unit housing and municipal housing deliveries are two systems created under the centrally planned economy. Market oriented reforms have loosened administrative controls but have not yet set up consistent control mechanisms compatible with the emerging market system. Driven by their own interests, work-units significantly are shifting their roles in housing delivery from passive executors to active developers and buyers. More importantly, both work-units and local housing offices are active in the informal housing market, because opportunities therein are more lucrative.

While market oriented reforms proceed, governments have realized the diversity of

<b>Table 9-3 Roles of Actors in Housing Process Functions in the Administrative System</b>				
	Central Government	Local Governments	Work-units	Individual Households (Self-help)
Project Initiation	H	H		L
Planning Design	H	H		
Land Acquisition	L	H		
Financing	H	H		L
Authorization	H	H		
Building Construction		H	H	
Infrastructure Provision	H	H		
Transfer of Units		H	H	
Access to Occupancy		H	H	
Maintenance & Management		H	H	

<b>Table 9-4 Roles of Actors in Housing Process Functions in the Transitional Stage</b>									
	Formal Domain					Informal Domain			
	Central Gover't	Local Gover'ts	Work units	REDCs	Individ'ls	Work units	REDCs	Local Gover'ts	Individ'ls
Project Initiation		H	H	H		H	M	M	H
Planning Design		H	M	H		H	L	L	M
Land Acquisition		H	M	M					H
Financing	M	M	H	M	L	H	M	M	H
Authorization		H	L	L					
Building Construction		L	L	H		H	H	H	H
Infrastructure Provision		H	L	M			L		
Transfer of Units		M	H	M	L	H	H	H	H
Access to Occupancy		M	H	M	L	M	M	M	H
Maintenance & Manag't		M	H	M	M	L	L	L	H

In these two tables, H= High involvement, M= Medium involvement, L= Low involvement.

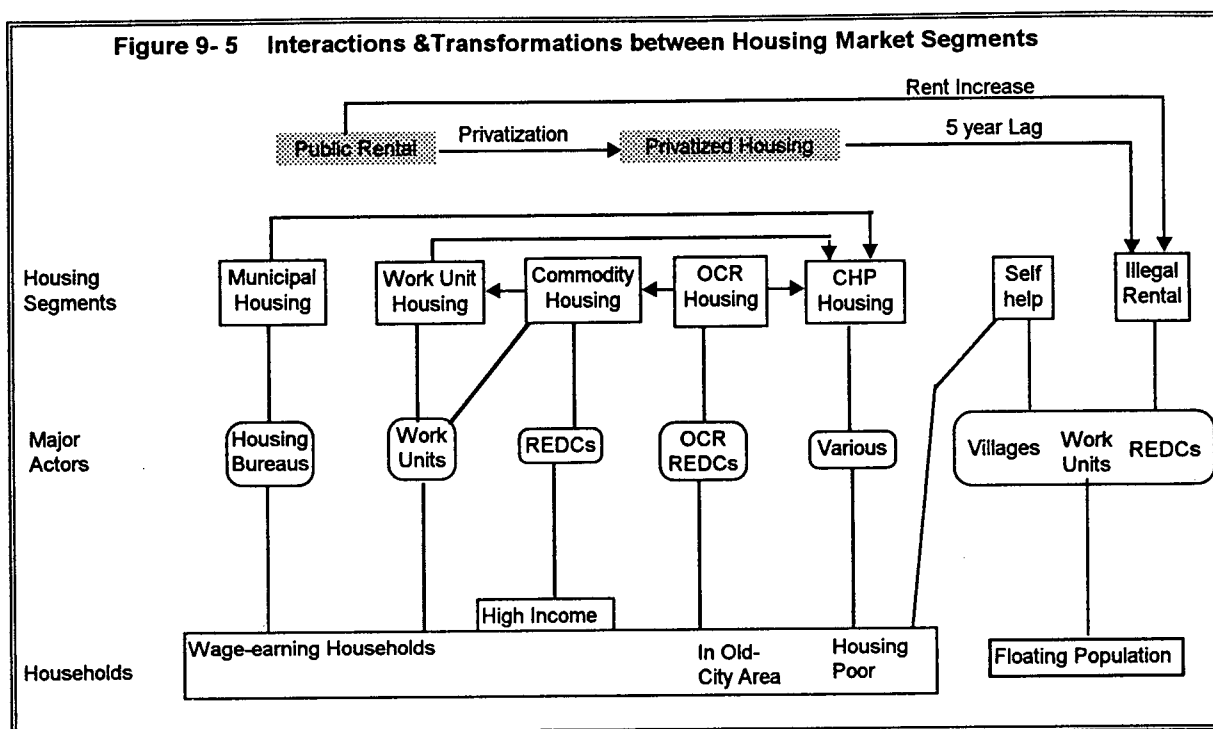
housing needs of different groups in Beijing. In response, housing delivery systems including commodity housing, old-city redevelopment, and the Comfortable Home Programme are designed for specific segments of the population. Particularly, government wishes to foster a real estate corporation centered system in the hopes that it will replace work-unit housing as the dominant housing delivery system in the future.

Although it is still too early to realize results from these programs, a short period of experimentation has indicated an alarming tendency. Commodity housing, old-city redevelopment, and the CHP may not serve the target groups as planned.

Simultaneously, the emergence of informal housing developments may prove to have even more profound impacts than what is currently expected. This housing delivery system is a spontaneous creation by various groups pursuing their specific interests. It is also a reflection of the failure of formal housing delivery systems to meet the needs of households. Since supply of the formal housing market cannot meet demand, households are forced to shift their demands and move to other markets -- in this case -- the informal market. However, the existence of this market is not a blight or mistake of society. Instead, the informal market may function well to put pressure on the formal housing delivery system and force its correction and reform as well as providing alternative solutions to specific housing problems of particular groups.

It must be noted that, unlike the situations in many developing countries, the informal housing market in Beijing is more lucrative than the formal market because of the high level of rent and price partly derived from the government's regulation of the formal market. The positive side of this gap is that the informal market puts upward pressure on the formal market to increase rent, but the negative side is that speculators on the informal market benefit more than the needy families. Figure 9-5 illustrates the shifts and dynamics between the various markets.

The preliminary evaluation of the housing delivery systems suggest that outcomes of these arrangements do not correspond well with the stated objectives and goals of availability, adequacy, affordability, accessibility, and viability (Table 9-6).



Based on discussions in previous chapters, several major reasons are identified as responsible for this imperfect correspondence:

- 1) Housing policies and programs of Beijing have overstated quantitative requirements and have not considered the arrangements of actors and processes.
- 1) Policy objectives often represent compromises between conflicting values, particularly regarding old city redevelopment.

Table 9-6 Summary of Preliminary Evaluation of the Housing Delivery Systems						
		Work-unit HDS	Commodity HDS	Old-City Redevel't	CHP	Informal Housing
Housing Specific Objectives	Availability	+	+	+	+	+
	Adequacy	+	+	+	+	-
	Accessibility	-	+/-	-	+/-	+
	Affordability	+	-	+/-	+/-	+/-
	Viability	-	+/-	+	-	+
Reform Objectives	Commercialization		+	+		+
	Socialization	-	+		+	+
	Mobile labor market	-				+
	Efficiency of enterprises	-				
	City-wide land use planning		+	+		-
	Infrastructure upgrading			+		-
	Low-income housing provision				+/-	+
Other Objectives pursued by Actors	Resource retainment	+				
	Consolidation of social relations	+				
	Profit-making		+	+		+



- 2) Actors within the implementation structure bear different interests from those representing policy objectives.
- 3) Housing administration in government lacks coordination, especially regarding enforcement powers over the various actors.
- 4) Housing reform policies are framed without sufficient attention to the underlying forces beyond housing delivery which influence behaviour.

### *Redefining the Housing Problem and Policy Implications*

The housing problem has never been either a purely quantitative problem or qualitative problem. Nor has it been purely a problem of the provision of a consumer item. Particularly in China's transitional stage toward a market based social and economic system, housing must first be seen as a problem of social reorganization of urban space. This concept has two main elements. First, housing delivery is a reflection of how a community is organized, either as a work-based or residence-based community. Second, the location of housing is a result of the dominance or balance of powers of social interest groups. Land for residential use in competition with other land use purposes reflects the interactions of different interest groups striving for wealth accumulation in the industrialization process.

The delivery of adequate, affordable, and accessible housing in a financially viable manner is a tremendous task. The Beijing government appears to have been preoccupied with adequacy standards and concerns of cost recovery. The essential theme of housing system reforms have been downloading government financial responsibilities and mobilizing potential resources to achieve housing standards. Housing system reforms are moving in the right direction for mobilizing the resources of households and groups in order to solve their own housing problems. However, efforts towards this mobilization will not succeed without tapping into their interests and initiatives.

By recognizing the interests of various social groups, it is also important to break the myths that government represents the united, single interest of the general public and the various apparatuses of government bear the same interests and work towards achieving the

same goals. The interests of various government apparatuses are diverse and not always focused in the same direction. A full understanding of the interactions of these different interests is a prerequisite for formulating clearly defined and compatible policy objectives and for articulating non-conflicting options and strategies. It will also help to find compromises with key interests within the implementation structure and to provide control over implementing actors.

If adopting the perception that the housing problem at its current stage is a problem of social reorganization, policy-makers must realize that this is not a task of government alone. Rather, it is a task of society as a whole. However, only the government is in position and has the capacity to guide, coordinate and facilitate undertaking this task. As experience has already demonstrated, government adopting a direct role may not be as effective as when it plays an enabling role. Housing system reforms of the government therefore should be to set well-defined "enabling strategies".

It must be noted that current housing system reforms incorporate some elements of enabling strategies. However, those housing programs have been carried away by preoccupation of development standards and cost recovery. If adopting the notion of enabling, housing accessibility should be the top priority of housing issues.

Housing accessibility is not only an issue of accessing the end product - housing units - at the distribution stage but also is an issue of accessing development opportunities. Government policies and regulations may play a vital and catalytic role for the latter.

It is beyond the scope of this dissertation to articulate actual strategies or reform plans. Nevertheless, discussions and analysis of Beijing housing delivery systems in the previous chapters indicated several implications for future housing policies:

- 1) Land. Land is the most powerful leverage of the city because of state ownership. Policy-makers should focus their efforts on the control of land. Development of a well coordinated and integrated planning and regulatory system is necessary in determining

the land delivery process and, consequently, development opportunities available to housing delivery participants.

- 2) The role of work-units. Work-units as a historical creation exist, whether visible or not, within a complex social fabric. Policy-makers should pay more attention to transforming the role of work-units in housing delivery rather than restraining their involvement. It has already been shown that policies which attempt to simply push work-units out of the system are not feasible. Rather than ignoring the interest of work-units and the fundamental forces that lead to work-units persisting in a housing delivery role, policy-makers should take advantage of their existing financial capacities and experiences in housing provision. The work-unit housing system could become the basis of a non-profit social housing system serving the housing needs of the majority of urban residents.
- 3) Informal development. Informal housing developments normally associated with the Third World market economies have become reality in Beijing. Policy-makers should first acknowledge the merits of informal housing development rather than repressing them. More importantly, policy makers should abandon their discriminatory perceptions of the floating population which underlie repression policies. Every resident living in Beijing has the right to be properly housed, especially if they contribute to the prosperity of the city. To protect their rights and interests, governments (particularly the municipal government) should intervene constructively to control speculation and exploitation by local villages and households. The municipal government should in conjunction with representative governments from their native places, encourage the formation of self-regulated organizations of migrant communities and increase the bargaining power of these communities.
- 4) Linkage between comprehensive planning and housing development. Housing development is not an isolated process. Housing should be put in the general context of overall comprehensive land use planning. Particularly, in spatial terms, the proximity of residences in work-unit housing has been gradually replaced by specially zoned

residential developments. This results in the aggregation of traffic problems. Urban planners and policy makers should insist on the principle of work-residence proximity and endeavor to balance various requirements for land use.

- 5) The formation of new community organizations. Privatization of public housing and reform of work-unit housing has gradually changed the nature of traditional community organizations such as neighborhood committees. Policy-makers should continue establishing residence-based organizations such as "building management committees". At the same time, they should pay more attention to transforming existing neighborhood committees and their relations with the emerging "building management committees".
- 6) Housing finances. To strengthen housing system reforms, further development of a housing finance system is necessary. The current "Public Provident Fund" is still contractual system by nature. This has the shortcoming of consolidating inequality between work-units. It is important to merge divisions between work-units to develop a mortgage banking system.
- 7) Housing administration. While government shifts its role from a direct provider to an enabler for housing, it is very important to strengthen a well coordinated and integrated municipal administration on housing. The current multiple-headed administration structure of government agencies must be reformed.

#### *A Note*

This dissertation can make contributions to the knowledge of three groups of policy makers. The first group is housing practitioners in other Chinese cities. They may directly refer Beijing's experience while identifying their own policy options for housing reform. The second group is housing practitioners in other socialist developing countries such as Vietnam and Cuba. These practitioners may find that some of the problems faced in Beijing are relevant to their own issues. Understanding the Beijing example can aid in formulating their own policies and programs. The third group is housing researchers and practitioners in general. They may not be concerned with the substance of the Beijing case study, but may

find the analytical framework of the housing delivery system is transferable to other cities in China and other countries. By applying this framework in comparative studies, they may discover discrepancies and thus lead to the reformulation of theory on a more general level or to the specification of conditions under which more curtailed theories apply to the implicated relationships. The application of the analytical framework or the implementation of some Beijing methods is more of an art than a science to housing policy practitioners and researchers in all three categories.

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