

APPROACHING HOMEOWNERSHIP:
THE HOUSING DECISIONS OF YOUNG WHITE-COLLAR WORKERS IN
REFORM-ERA BEIJING

by

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Abstract

Since housing choice and strategy are the result of both an individual's financial capability in a particular life stage, as well as overall political-economic circumstances, the study of housing behavior has been used to emphasize processes of urban development and social change. However, housing behavior in the Chinese context has not attracted much research attention. Although many studies have been done on various topics surrounding China's housing reform, only several quantitative studies have touched upon the topic of individual housing behavior. All of the existing literature is based on statistics before 1998 when work-unit housing distribution was officially repealed. This thesis offers an update of qualitative information on how young white-collar workers approach homeownership after 1998. Ten young homeowners from Beijing, together with some practitioners in the housing market and two governmental officials were interviewed. Based on the information offered by the interviewees, this thesis examines how state policies, market situations, family structure, and special characteristics of Beijing as a capital city impact the housing choices and strategies of young homeowners.

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Chapter I: Introduction

If you have been to China in recent years, you will not have missed the big billboards advertising new condos or housing complexes. New real estate information is readily available in major Chinese newspapers and many Chinese websites. Such concepts as “spending money from next life time¹”, “housing slaves²”, and “boomerang kids³” seem to have become a sheer reality in China. Home purchasing has become such a hot topic among young adults who are in the 20s or 30s. Although it seems to be such a joy for those who can afford it, for the majority of young adults who enter the workforce not long ago, purchasing a condo or a house poses a formidable financial burden. With the escalating housing prices in China, it would be extremely difficult for those in need of housing for marriage purposes to find affordable housing without the financial help from their families. Therefore, it is worthwhile to look into home purchasing strategies among young adults in order to gain some insight into China’s changing housing market since housing reforms in early 1990s and the impacts of such changes on young adults.

Although housing reform has been carried on for about two decades, the transformation has been rather slow. Work units (danwei)⁴ continued to play a significant role as the housing distributor and subsidizers for their employees until 1998 when the welfare housing distribution was officially repealed. In Beijing where larger work units and governmental institutions are concentrated, discounted housing from work units has always been the most desirable option for their employees. The commodity housing market was underdeveloped in this city. Growing up in Beijing, I am amazed by the emerging housing market boom and the transformation in people’s attitudes towards home purchasing. Forces that push forward such a

¹ A phrase is commonly used in Chinese newspaper referring to the new phenomenon of borrowing housing loan for home purchasing. Housing loan has been seen as a dramatic change of Chinese people’s consumption. It overturns Chinese tradition on “saving first, spending later”.

² This concept has started to be used recently referring to people who are tortured psychologically by the financial burden of a housing mortgage. When housing spending is in excess of one third of people’s income, it is considered to be low housing affordability and would affect people’s life in a negative way.

³ The term refers to young people who are heavily dependent upon their parents. Some young people in China do not even have a stable job but still purchase luxuries, such as house and car, with support from their parents.

⁴ Work units are the organizations one works for. In the pre-reform days, all social welfare, such as housing service, public education, as well as healthy insurance, were provided by the work units.

transformation fascinate me. I am particularly intrigued by the factors that affect one's housing choice. In spite of their complaints about unreasonable high prices, most people still choose to buy a condo or house, which I learned from many of my Chinese friends. Why do young adults choose to buy a property instead of renting? What are the factors that affect such a decision? And how do they deal with affordability issues? These are some questions asked in this study.

1.1 Objectives of Study

Housing reform in China has caught a great deal of academic attention since it began. Academic research has been done to provide comprehensive background information on the process of China's housing reform, the rationale of specific policies, and the social and economic impacts. However, individual housing choice and strategies have not received sufficient attention, except for a few. For example, Huang (2003) analyzed factors that limited renters' choice on whether to rent from their work units house or from the private market. In 2004, Huang and Clark (2004) identified the important factors that affect people's willingness of approaching homeownership. At the same time, Huang (2004) published another study on housing choice of residents in three Chinese cities in order to find out how political atmosphere and economic status in a particular city shape the residents' choice. Pan's statistical analysis (2004) showed that income was not as much of a determinant factor that affects housing consumption for Chinese as it was in Western society. Instead, the status in one's work unit (state-owned, cooperatively-owned, or private-owned) was more significant. Liu (2000) also completed a study on housing choice in Guangzhou, and he compared his finding in Guangzhou with that in Beijing in a later study. In all of these studies housing choice is seen as a choice between two major providers: the open market and work units.

However, since the official repeal of welfare housing distribution was announced in 1998, purchasing discounted housing from work units is no longer an option. Therefore, it is necessary to look into how individuals are affected by such changes in housing provision. As most existing studies are mainly based on statistics, which provide little understanding of how

individuals experience such policy changes and the strategies to accommodate such changes, a study using qualitative research method would be useful to offer personalized information.

Therefore, the purpose of this study is to offer a qualitative analysis of housing behavior of Chinese urban residents after the repeal of welfare housing distribution. Interviews were conducted in Beijing in the summer of 2007 with ten young homeowners (at age between 25 to 35). In addition, a developer, a marketer, two local officials, and one group of bank workers were also interviewed. These interviews intend to answer the central research question: What are the factors that influence housing decisions of the young white-collar workers in Beijing within a fully commercialized housing market? To answer this question, a couple of subsidiary research questions were addressed: To what extent has the housing market achieved full-term commoditization? Why and how the young adults approach homeownership under current market condition? What characteristics can be generated from young people's housing behaviors and how these characteristics have changed in comparison with older generations? In the following chapters, four objectives will be fulfilled in order to complete my analysis of the main research question:

1. To briefly lay out the historical background of China's housing reform and the current condition of China's housing market;
2. To find out the rationale behind housing choices and housing strategies of young white-collar workers;
3. To determine the factors affecting the housing choice of these young adults;
4. To compare and contrast young people's housing behaviors with that of the older generations and housing behaviors in Western market economies.

1.2 Definition of the Terms Used

“Housing behavior” is a term usually used in housing studies (e.g. Huang, 2003, Huang & Clark, 2002, Pickvance & Pickvance, 1994) to describe the actions people take to meet their housing need. In this particular study, “housing behavior” refers to both housing choice and housing strategy. Housing choice includes to choices in location, dwelling type, room size, and

most importantly choice in tenure type—renting or owner-occupancy (Li&Wu, 2004). Housing strategy (Pickvance & Pickvance, 1994) refers to the strategy the young adults used to approach homeownership such as methods to search for suitable housing opportunities, strategies to save up down payment, and ways to manage to pay back mortgage.

1.3 Structure of the Paper

The thesis consists of eight chapters. Chapter one is the general introduction of the reasons for conducting this study and the objectives of this thesis. Chapter two introduces the methodology including reasons why the research site is chosen and how the interviewees were selected. The interview questions are introduced in this chapter as well. Chapter three discusses the reasons, process and social impacts of housing reforms in China by reviewing some of the existing literature. Chapter four and five discuss the important findings from the interviews with the young home purchasers. Chapter six analyzes major findings from interviews with governmental officials and market practitioners in order to understand China's housing market from the perspectives of the government and private sectors. In chapter seven, research findings from previous chapters will be analyzed using concepts from western society and will be compared with previous studies in Chinese context in order to show the changes as well as the uniqueness of Chinese housing market. In the conclusion of Chapter eight, key findings are summarized and the limitations of the study are reflected upon.

Chapter II: Methodology

2.1 Research site selection

Beijing was selected as the research site for the following reasons: First of all, as a local Beijinger, I still keep social connections with family and friends there, which allows me to access potential interviewees more easily and obtain valuable qualitative information. In addition, the data on Beijing are well documented and ready for accessing to foreign researchers. There are abundant studies on housing reform already done in Beijing, which offers better academic background. Most importantly, Beijing is an excellent site to examine the change of housing behavior in the transition period. As the capital city, Beijing is the location of many institutions and large work units. Living in work-unit housing used to be the common residential form in Beijing in pre-reform era. Huang's (2004) study on three cities showed that work-unit housing was not necessarily the common residential choice in other cities, especially not in the secondary cities due to limited numbers of large state-owned work units there. The impacts of housing reform might be more obvious in Beijing than in other cities.

2.2 Interviewees

In total, seventeen people were interviewed for this project: ten young homeowners (at ages 25 to 35) and seven other people including a developer, a marketer, bank workers and government officials. Besides accessibility, there are several other considerations when I selected the ten young adults. First of all, this is a study about homeownership; thus, these ten young adults were selected from homeowners rather than renters. Furthermore, the previous studies on housing behavior in Western and Chinese society offered some criteria for selecting interviewees. In Western society, income, age, marital status, and educational attainment were identified as factors that influence a person's housing choice and strategy. Since I intend to see whether there are unique characteristics of homeownership after the 1998 repeal of welfare housing distribution, the age of interviewees were controlled between 25 to 35 years old, an age group which can barely access welfare housing since most of them had not yet started to

work in 1998. Because these homeowners are at one particular age group, there are some similar personal characteristics of them even though I deliberately keep some variations among them. The monthly income of the interviewees varies from 2000 *yuan* to 6000 *yuan*, but in generally, their incomes are all higher than average. The interviewees are at an age to form their own families. Except for two who are single and one who cohabits with his partner, all other interviewees are married. Among the seven married interviewees, two of them have children. All of the interviewees have some post-secondary education. Four interviewees are educated in occupational school while the others are all university graduates. In Chinese society, some unique factors need to be added when analyzing housing behavior. The status of one's work unit and *hukou*⁵ status are considered two of the most important factors. Thus, I selected interviewees from different kinds of work units, which varied from governmental institutions and state-owned enterprises to foreign-invested firms and private companies. In term of *kukou* status, three of the ten interviewees grew up in Beijing. Among the seven migrants, four of them do not hold a permanent Beijing *hukou* while other three people have obtained a permanent *hukou* from their work units. (An introduction of the interviewees is included in Appendix I.) This study intends to examine whether these personal factors that identified in pervious researches still affect housing behaviors in post-1998 Chinese urban society.

This research was first conducted with couple of my close friends. When they heard that I was interested in how young people manage to meet their housing needs in current urban China, some of my friends who had already bought a property agreed to share their stories with me. Through their introduction, I was able to contact some of their friends and colleagues who like to talk about their housing strategies. By the end, ten young homeowners were interviewed through different methods upon their personal preference. Three people accepted the interview by phone while the other three were done through MSN Messenger, an online

⁵ *Hukou* is the Chinese term for household registration. Under the planned economy, the household registration system was use to calculate the distribution of food and other social services. Up until now, *hukou* is still the key for people to get all sort of welfare. The migrants and peasant workers who do not have local *hukou*, are disadvantaged because they cannot access public health, education, and welfare housing in their working cities.

chatting program. Only four interviewees were able to meet me in person. All of these interviewees are represented by their initial except that one who preferred to be called by her nickname Muzi on MSN. Notes were taken for the face-to-face and the telephone interviews. Conversations over MSN were saved. These notes were organized and translated into English. The reorganized Chinese notes were sent to the interviewees to check the accuracy.

Besides the young home purchasers, I was also able to conduct face-to-face interviews with some practitioners in the housing market and government officials. The practitioners include one developer, one marketer, and a group of bank workers who are responsible for housing mortgage administration. These practitioners affect housing behavior through housing production, delivery, and offering financial support respectively. In China, there are three types of developers, namely, foreign companies, private companies, and companies affiliated with the state. In order to see the different reaction of practitioners with various backgrounds, I selected the developer and the market from different companies. The developer I interviewed holds a large-scale, well-established private company with development projects all over China. The marketer, in contrast, is from a small private marketing company, who has served as a contractor for many middle to small-scale developers in Beijing as well as other cities in North China. The group of bank workers is the Housing Mortgage Administration Group of the Commercial and Industrial Bank of China (CIBC), Beijing Xuanwu district branch. CIBC is one of five national banks which started personal housing mortgage business in the early 1990s. Workers have rich experience in mortgage business and are familiar with the reform policies.

Since institutional conflicts are often mentioned in China's housing reform studies, I picked two officials from different levels of government and institutions in order to examine the previous findings. One of the officials is a director of social work department from the city government while the other is the chief of the fixed asset investment section in one of the district governments. The former is involved in policymaking regarding social welfare while the latter is a practitioner who makes direct contact with the developers. They represent the ideology of different levels of state institutions. The officials and the practitioners were

reached through social connections of my family, some of whom worked in real estate industry.

2.3 Interview Questions

1. The purpose of interviewing young home purchasers is to examine the difference in housing choice and strategies of young adults with various social backgrounds; thus, the interview questions include:

- a. Personal information: Where are you from? When did you come to Beijing? Have you gotten the Beijing *hukou*? Which college did you go to? What is your occupation now? Do your parents live with you? If not, where do they live? If you don't mind, may I ask your income level?
- b. Housing conditions: How large is your new unit? Where does this unit located? How did you find this unit? What is the reason you decide to buy this particular unit?
- c. Paying strategies: Do you apply a housing loan? If not, how do you manage to pay for the house? Is the down payment mostly from your savings? How do you manage to pay back the mortgage?
- d. Impacts of one's level of self-satisfaction: How satisfied you are with your new home so far? Do you feel stressful to pay back the mortgage?

2. The purpose for interviewing the officials is to figure out state policies regarding the development of the housing market, as well as the different attitudes held by different levels of state officials. Questions asked are:

- a. The existing housing policy: What kinds of policies have been implemented to facilitate the commoditization of housing service? Do we still have a social housing system after the repeal of housing distribution by work units? If so, who is covered under this social housing system, and who is responsible for this system?
- b. Social and economic impacts: How does the boom of the housing market

influence the economy? Housing affordability has raised some concerns now, what is the state's attitude on housing price? Is affordability considered as a social issue?

- c. The future improvement of housing policies: Do you think the state can solve the problems surrounding housing development? Are there any loopholes in the current housing policies?

3. The interview with the developer and the marketer aimed to offer information on the supply side of the housing market; thus, questions include:

- a. The Role of young adults in housing market: What do you feel about the purchasing power of the young adults? Are they important customers in the housing market? What is their housing preference?
- b. Ideas on the state's role and reform policies: Do you think the state has taken an expected position in regulating the housing market? What are you satisfied about the current housing policies and what do you think can be improved?
- c. Predictions of housing market development: What is your opinion on housing price? Do you agree that the housing price has been beyond the affordability of the average population? What are the factors affect housing price? How do you think these factors will change? What is your prediction on housing price?

4. Bank workers were interviewed in order to understand the financial options available to the young home purchasers for approaching homeownership. Their interview questions include:

- a. Housing loan policies: What requirements on income and social status do applicants need to meet to get a housing loan? How do they need to prove their status?
- b. The role of the young adults: What is the proportion of the young adults in individual housing loan business? Are they able to pay back mortgage on time? What is their paying-back strategy, in terms of size of loan and paying-back schedule?

2.4 Limitations

As the study involves a small number of interviewees, the research findings are therefore insufficient to be attributed to the general situation in urban China. First, as mentioned in the previous section, Beijing is unique in the sense that most government institutions and large-scale work units are located there. Housing choice and strategy of Beijing residents can hardly be representative of other Chinese cities.

Second, since the purpose of this study is to find out why young adults choose to buy a property, all the interviewees I selected are young homeowners. They can only represent one particular social class who are relatively advanced compared with the average people at this age group. They tend to be people with education in post-secondary or occupational school and hold an office job which offers relatively stable income. Plenty of the “peasant workers” and urban low-skill laborers, who can hardly participate in the homeownership, are omitted in this study of homeownership. The term “migrants” in this thesis only refers to people who is originally not from Beijing but have a relative stable office job in this city now (not including peasant labor workers). In other word, though the interviewees participating in my study are diverse in term of income, career, family background, and *hukou* status, they still represent one specific slice of the society of Beijing, which we may refer as “young white-collar workers”.

Chapter III: Housing Reform in China

In order to address my questions, we should first learn more about China's housing reform. The housing reform has been a long process that dates back to 1978. Extensive literature has been written since the beginning. The existing studies provide a comprehensive introduction and analysis about this reform from different perspectives. One of the most popular streams of the literature is policy analysis. Quite a number of publications have addressed the process of housing reform since 1978. Many key policies are also well examined. Another stream of literature explores the impacts of the economic reform on housing. Social impacts such as issues of affordability, property-based inequality, change of urban landscape by real estate development, and physical segregation of social classes have also caught the attention of sociologists and geographers. The third stream of literature that is worth looking at are those studies that dig more deeply into the political-economic background that has shaped the development of housing market. Various actors and their relationships are analyzed in these studies. In this chapter, all of these streams will be reviewed in order to build up the background knowledge about China's housing market development: what reforms have been taken, who the major actors are, and what social impacts are worthwhile to notice.

3.1 Reasons for Reform

Since late 1950s, housing had been a form of social welfare. The private sector was eliminated from housing provision. Housing services were distributed by two major sectors: work units and housing bureaus. Work units were the most important housing provider while the housing bureau was responsible for those residents who were not employed or whose work units were not able to provide housing service. Various housing problems started to show up by the time of 1979 economic reforms (Shaw, 1997; Y. P. Wang & Murie, 1996). Summarizing by the previous studies, the most noticeable problems are:

- 1) ***Housing shortages and low-quality living conditions.*** The most direct result from the pre-reform years was a shortage of housing. Per capita living space in cities declined from 4.5 sq. m in the 1950s to 3.6 sq. m in 1978 (Shaw, 1997). Housing construction

obviously did not match the rate of population growth. It was common to find large families living in an overcrowded home. The physical design of work-unit housing was often poor. Many households needed to share washrooms and kitchens with their neighbors. Privacy hardly existed under such condition (Fleischer, 2007).

- 2) ***Lack of investment in housing and financial burden on the state.*** In the pre-reform years, policy usually favored development in production facilities rather than housing services, which created a shortage of investment in housing development. Since 1980s, more effort has been taken for housing improvement. Yet because the state provided housing service solely, it became a serious financial burden for the state. The expenditure on housing construction went up consistently from 18.23 billion yuan in 1984 to 31.86 billion in 1988 (Shaw, 1997). Besides, the cost of management and maintenance was also a large pressure.
- 3) ***Ambiguous ownership and responsibility.*** The old system caused ambiguities in ownership. Technically, the land was owned by the state but land-use rights were assigned to each specific work unit. The work units were the owners of the residential buildings, but the workers were the users. Because of the ambiguous ownership, the responsibility for maintenance was also unclear. The state did not offer services directly. The work units who were supposed to be responsible for maintenance usually could not hire professionals because the low rental rate caused serious shortages in fund. Most of the work-unit residential buildings were in bad condition.
- 4) ***Inequality in housing distribution.*** Because the work units were different in degree of importance in the national economy, their funding from the state was different. The state-owned enterprises usually had more fund for housing development than those owned by the collectives. The workers from large work units usually enjoy better housing conditions. In addition, inequalities existed within each work unit. The housing was usually not distributed according to people's need but rather based on people's position in their work unit. Also, the distribution system could easily cause corruption. People who had better relationships with the distribution officers might be

able to obtain housing more easily.

3.2 Process of Reform

The problems listed above pushed the Chinese government to privatize and commercialize urban housing. Based on different purposes and mechanisms, housing reform in urban China was usually divided into different stages in the studies that focused on the reform process explicitly:

1) *Pre-1988: Experimenting stage*

Four cities, Xi'an, Nanning, Liuzhou, and Wuzhou were selected for commercial housing construction in 1979. However, as shown in Wang's (1995) study in Xi'an, very few families could afford to buy commercial housing at that time. In 1984, another experimental policy was carried out in Siping, Shashi, Changzhou, and Zhenzhou. Under this new policy, the work units, the state, and individual residents are each responsible for one third of the cost of housing construction, which is called 'three one-third system' (Shaw, 1997).

2) *1988- 1998: Reducing state's direct involvement in the provision and management of housing*

The announcement of "The Implementation Plan for a Gradual Housing System Reform in Cities and Towns" in 1988 is regarded as a milestone in housing reform. Since then, this reform has been implemented nation-wide. Though the ultimate goal of the reform is to pull back the state's direct involvement in the housing market, the state and the work units continuously took an active role during this period. Most of the early studies recognized gradualism as one of the unique characteristic in China's housing reform (e.g. Shaw, 1997; Y. P. Wang, 2001; F. Wu, Xu, & Yeh, 2007; X. Zhang, 2002). Some studies admired that this gradualism could be helpful in making housing affordable to the majority (Shaw, 1997)

3) *Post-1998: Making real estate a pilot industry to accelerate economic growth*

The year of 1998 is another benchmark in China's housing reform. Prime Minister Zhu

announced an official end of the direct distribution of welfare housing by work units. The gradualist attitude was thus implemented. In his 2006 study, Fulong Wu called 1998 as a beginning of “rapid full marketization” (F. Wu et al., 2007). After the 1997 Asian financial crisis, the state aimed to enlarge the internal demand in order to maintain high-speed economic growth. Real estate was selected as the pilot industry. Financial support and favoritism were given to the commercial housing market.

Specific policies were highlighted by some studies and the economic rationality of the policies was examined.

- 1) ***Increasing the rental price*** for public housing was an important method to encourage people to shift to homeownership in the early stages. The rental price in the public sector was increased to a level which could cover the standard cost⁶. Justified by Chen (1996), actual price-rent ratio (purchasing price/ rental price) in China (512.8 for subsidized housing and 961.5 for commercial housing) was unreasonably higher than the international standard ratio 17.36, which made it impossible for the majority to purchase private house. In order to reach market equilibrium, there was more room for China to raise rental fees.
- 2) ***Housing-subsidy coupons*** were given to compensate for the loss that was caused by the increase in rent under the low-wage system. These coupons had equal value to Chinese currency but could only be used for housing consumption. Shaw (1997) pointed out some problems of the original low-rent, low-wage system. He argued that the wage withholding had no direct relation with public housing provision. There was no evidence that the wages withheld were used for housing development. Even if it was used for housing purposes, not all workers benefited equally due to the uneven distribution system. The new high-rent with subsidies system, on the other hand, gave more financial benefit to the individuals and relieved some housing obligations from

⁶ Standard Cost includes five elements: building cost, repair and maintenance cost, investment interest, management costs, and property tax

the work units. Thus, new high-rent with subsidies was justified as a rationale for measuring the future privatization of housing (Shaw, 1997).

- 3) ***Preferential sale of public housing*** with discounts was the next significant step toward housing commercialization. The 1988 Implementation Plan prescribed that (1) new housing distribution should follow the rule of “sale first, rent second” and the limited rental housing should first be given to low-income families; (2) sale price should cover standard price; (3) price for existing housing should not be less than 120 *yuan* per sq. m.; and (4) the individual should pay more than 30 percent of the price at the outset, and with the remainder paid out over 10-20 years. As Chen (1996) analyzed, although large discounts were given, work units and the state still made some revenue to cover the fiscal deficits held over from early years of cheap renting. For the buyers, they enjoyed a one-time capital gain by obtaining property. On the other hand, other scholars criticized that the sale of housing to on-site residents exacerbated the inequality caused by early uneven distribution. Since the discount was based on the amount of floor space, the already better-off families who had a larger unit received more discounts. In addition, they also got relatively high-quality units (F. Wu et al., 2007).
- 4) The establishment of ***Housing Provident Fund (HPF)*** is considered one of the most important policies that implemented since 1990s. The housing provident fund was modeled after Singapore and was first applied experimentally in Shanghai in 1991. The individuals and work units each were required to pay 5% of individuals’ salaries to their HPF accounts which would later be used for housing purposes. By 1996, HPF raised 11.4 billion *yuan* in Shanghai alone and was responsible for one fourth of total social housing construction in the city (X. Q. Zhang, 2000:343). Encouraged by the Shanghai experience, the HPF was required to be set up in cities across the country after 1994. Since then, the HPF has become one of the most important measures for social housing development. However, the development of the HPF was uneven geographically. The participation rate in the HPF was not even among cities. By the

end of 1990s, for example, the participation rate could be higher than 90% in some coastal cities while in most cities the rate was below 50%. In Beijing, the rate was even less than 20% (X. Q. Zhang, 2000:343). In addition, there was a tendency for under-utilizing the HPF. By 2005, only 3.27% of the expenditure on home purchasing in cities and towns was financed by withdrawals from HPF savings by 2005. The extreme case happened in Guangzhou. According to Li and Yi's 2005 survey, 13.7% of homeowners in Guangzhou held a mortgage, but the use of the HPF mortgage was almost not existent (S. M. Li, 2007). Li and Yi pointed out two reasons for this situation. First, the coverage of the HPF was limited to residents who had local urban *hukou* and who were full-time employees. As such, many buyers in need could not apply for HPF. Second, the application process for HPF mortgage was complicated which turned many HPF participants away. A developer who intended to sell out his/her units as soon as possible tended to encourage people to apply for commercial loans rather than going through the HPF.

- 5) Economic and Suitable Housing (ESH) is another important housing program that aims to spread homeownership to lower-middle income population. Although ESH has not been analyzed systematically in the English literature, some Chinese scholars paid much attention on this topic. In Beijing, 15% of the area of developed residential land should be left for ESH. ESH will be sold to qualified residents (low-income people with a permanent *hukou* or residents displaced for urban development projects) at a regulated price that is lower than the market price. Each district government is required to include ESH in their community plans. The funds for ESH are shared between the local government and the developers doing a project in this district. The efficiency of this program has been criticized. Since ESH is designed to be owner-occupied rather than renter-occupied, the units would be sold at a market price later. It becomes a one-time investment that benefit very limited number of people. The state invests heavily in ESH but by the end, they create more commodity housing for the market instead of social housing for the poor. Meanwhile, since there are some

loopholes in the application process, corruption surrounding the ESH has sometimes been reported by the media. How much it can benefit the ones in need is always questioned.

3.4 Actors in Housing Reform

China's housing reform is a complicated task. A variety of actors are involved in housing development; in addition, their roles and the power relationships among them are dynamic over time. Many studies have been done to dig into the complicated nature of housing reform. Some macro-level political economic factors are identified as forces that shape the development of housing market. As identified in studies, the major actors include the state, the developers, the work units, and the financial institutions.

1) The State

The state is still the most important actor. Although it is a reform toward marketization, the new market mechanism grows out of the centrally planned system (X. Zhang, 2002). Under this top-down reform model, the state has considerable power over housing development as a regulator. At the same time, the state is also a direct player. First, the state is the major land supplier in urban region. Wu, Xu and Yeh (2007) introduced China's land policies and how land became a profitable property for the state. The municipal state has always been the only legal owner of urban land. But land was not profitable before 1979 since land was administratively allocated through to various work units and military without paying anything to the local state. Land was only seen as a profitable commodity after leasing to foreign investors since 1979. It is not until 1986 that the first land law was issued. Since then, entrepreneurs and developers, including foreign, private, as well as state-owned, are required to pay a land leasing fee and land-leasing, which has become an important source of state revenue (F. Wu et al., 2007). Besides controlling the land, the state is also directly involved in housing development through state-owned development companies. Actually, many of the early developers emerged from city or district "unified

construction office” (*tongjianbangongshi*). To Zhang (2005), these state-owned developers keep close ties with the state and still have administrative responsibility. Rather than seen as a fully market actor, these developers are arms of the state acting in the market.

Another important point to keep in mind is that “the state” does not represent a party with unified interests. Because of decentralization, the central state and each local state have different interests that compete with each other. It is difficult for land regulation and housing policies to be pushed down from the central government (F. Wu et al., 2007). Though the central state has limited the area of luxurious housing development and agricultural land acquisition, local states continue to convert agricultural land for luxurious housing projects to gain revenues. The local states can always get through by dividing large land acquisitions into smaller pieces. The officials of the local governments also have their own personal concerns (Lai, 1998). They want good performance. Developing more housing and generating high GDP growth from real estate will all count towards their “achievement”. Thus, overdevelopment is common under this attitude.

2) *Work units*

The second key actor besides the state is the work units. The role of work unit was mentioned in many studies (Chen, 1996; Shaw, 1997; X. Zhang, 2002). First, the work unit was a housing distributor. Initially, the work unit was the direct distributor of the rental welfare housing, even though the original construction cost was allocated by the state. Bonding housing with work units is seen as the reason for housing inequality. The larger, more important units could usually access more resources and their workers therefore usually received better housing (Shaw, 1997; Y. P. Wang & Murie, 1996). Later, when the work unit housing was opened for sale, the work unit became a distributor of commercial housing. Until late 1990s, the work units were the largest housing purchasers. Work units also had some financial function in housing provision. In the late 1980s, the three-party structure was adopted. The work unit was

responsible for one third of the housing construction cost (Shaw, 1997; X. Q. Zhang, 2000). By the time the Housing Provident Fund was introduced, work units started to be responsible for part of their employees' housing purchasing fund (Tang, Liu, & Wong, 2006).

Competition for resource has always been severe and resources are never evenly allocated among work units. Some large work units control large amounts of land. In order to maximize their profits, some small development companies were formed within work units as branch companies in early stage of the reform. Many of the branch companies are not capable of doing projects independently but make profit from reselling land use rights (F. Wu et al., 2007; X. Q. Zhang, 2005). The relationship between the work units and the local state is also worthwhile to look at. The work units, especially the large state-owned enterprises, are not under control of the local state. Instead, they usually report directly back to their superior units. The administrative system (central-local) forms a vertical political link in China and a hierarchy of work units forms another horizontal link (F. Wu et al., 2007). Although this horizontal link is considered a balancing force for rising localism (Yang & Wei, 1996), it makes it more difficult to regulate land use and housing development.

3) *Developers*

Existing studies show that the importance of private real estate developers has been increasing since the beginning of the reforms. To Doi Haruhiro (2005), the increasing importance of developers was indicated by two factors: (1) the number of real estate development enterprises significantly increased from 1997 to 2001, while the number of state and collectively owned enterprises decreased. (2) The developers acted on a wider spatial range. Not only did real estate projects increase in large coastal cities, but they also showed growth in small towns and inland cities.

There are three types of developers who act differently in China's housing market. The first are state-owned companies or the ones that have the state as a controlling stockholder. This type of company is able to access greater state resources and thus is

more privileged than private or foreign enterprises. At the same time, they also have administrative responsibilities as part of the state. The second type is the domestic private developers. They usually have good personal relations with local officials, which allow them to acquire cheap land. However, most of these developers lack financial ability to develop the land. They usually make profit from reselling land-use rights. These developers are important players in the secondary land leasing market (F. Wu et al., 2007; X. Q. Zhang, 2005). It is sometimes criticized that because these developers make the land price so high, it is impossible to control the rate of the housing price raising. The high land price in secondary markets becomes a factor preventing housing prices from decreasing. The third type is foreign developers, among which the developers from Hong Kong are the majority (F. Wu et al., 2007). The importance of foreign developers is not based on their amount of investment which accounts for only 3.1% of the total housing investment in China in 2001 (Doi, 2005:739). Rather, Wu (2001a) believes that foreign developers are the ones who encourage China to form a land and housing market. Because foreign players joined the game, the rules of the game were forced to change accordingly. In other word, globalization pushed land and housing marketization.

4) *Financial institutions*

The role of financial institutions is relatively straightforward. Since banks in China are mainly state-owned, the banks generally serve the state's financial goals. By extending loans to developers, the direct investment in housing by the state is reduced and the growth of housing construction is facilitated. Meanwhile, individual housing loans have been established as an alternative to the Housing Provident Fund to fund individual home purchasing (X. Q. Zhang, 2000). Tang, Liu, and Wong (2006) introduced the development of a housing mortgage market in China. The first mortgage was issued as early as 1986 by the Construction Bank, but the mortgage market did not achieve significant growth until 1998. Through 1999 to 2004, the total amount of housing mortgage loans increased by more than 500% (Tang et al.,

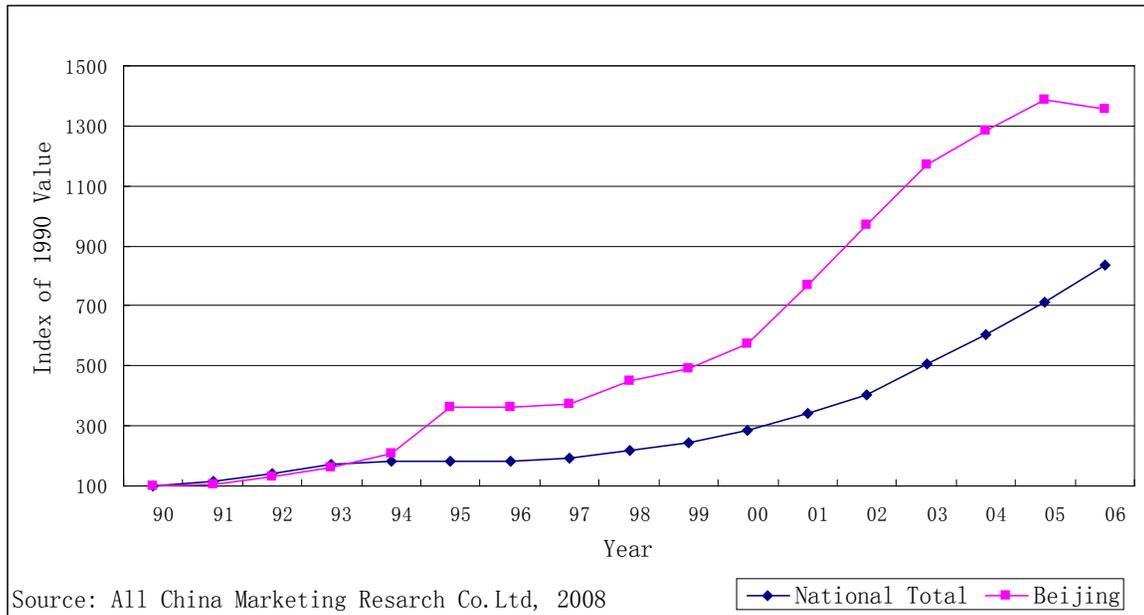
2006:34). Although they have increased so quickly, housing mortgage loans still count for only 8.5% of total lending. Since the bad loan rate is low; however, Wong believes that mortgages will continue to grow healthily. Due to some legal constraints, the existing mortgage evaluation favors buyers of new housing which led to an uneven development between the first and second-hand housing market.

3.5 Results of Reform

The marketization of housing has stimulated the development of residential housing in urban China. The following figures show some development at both national level and at our research site, Beijing.

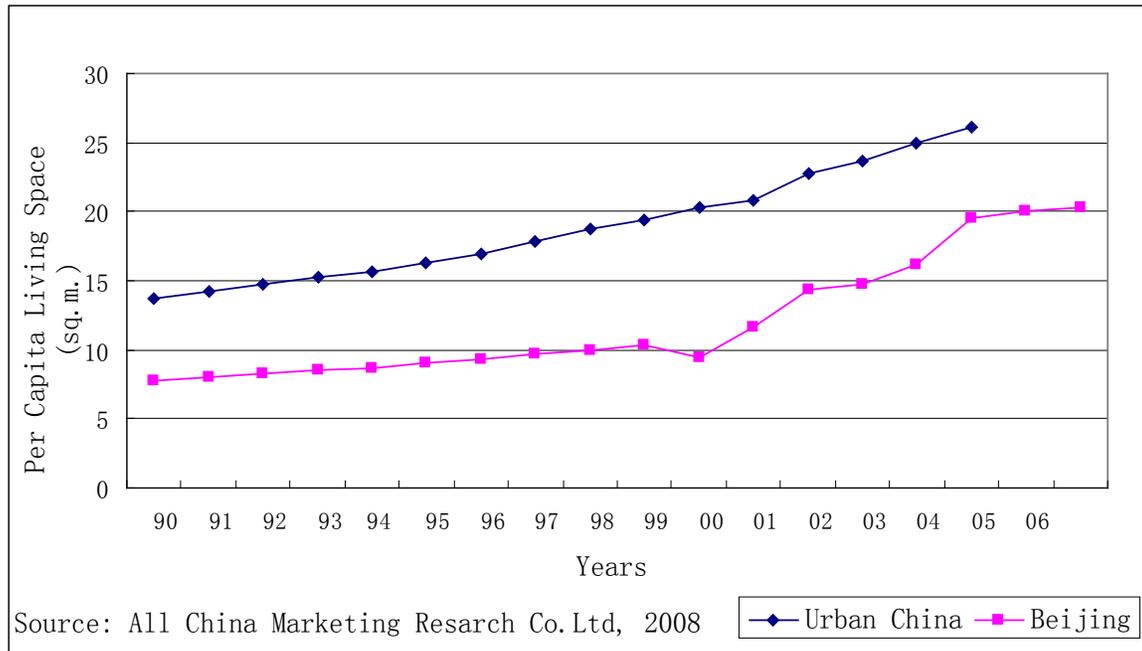
- a) ***Reform has encouraged an increase in construction.*** Figure 3.3.1 is an index of floor space under construction compared to that in 1990. Along with the housing reform, the pace of construction is increasing rapidly each year. Beijing is obviously a hot place for construction, as the rate of increase in construction is much higher than the national average, especially after 1998. In 1998, the floor space under construction was around five times that in 1990 in Beijing which shows an annual average increase of over 60%. From 1998 to 2006, the annual average increase rate was as high as 120%.

1 Figure 3.3.1 Index of Floor Space under Construction



- b) Following the increase of construction, *people, on average, enjoy an increase in living space*. Figure 3.3.2 is a graph of per capita living space in each year from 1990 to 2007. The living space per capita has been increasing constantly both at the national level and in Beijing since 1990. The increase of living space in Beijing became more rapid after entering the new century. Through the 1990s, the living space per capita only increased by two square meters, but since 2000 to 2005, the living space has increased an average of ten square meters. Despite the rapid change in the 21st century, the average living space is still much lower than that of the national level which indicates that Beijing continues to be a crowded city to live in.

1 Figure 3.3.2: Change in Per Capita Living Space



c) *Individuals, replacing the work units, become the major house purchasers.* As shown in Figure 3.3.3, the change has been rapid. At the national level, only 30% of commercial houses were purchased by individuals in 1990, but by 2003, the rate has risen to 85%. The change is even more rapid in Beijing. Since Beijing is the location of many large state-owned work units, the work units had always been the largest housing purchasers and distributors. In the beginning of the 1990s, individual purchasers of commercial houses almost equaled zero. By 2004, individuals count for more than 90% of the purchasers which even exceeds the rate at the national level. From this change, we can see not only a rise of ownership, but more importantly, a withdrawal of work units from housing market.

2 Figure 3.3.3: Percentage of Commercial House Purchased by Individuals



3.6 Social Impacts

The impact of housing marketization is much more complicated than just a boom in real estate development. The change of housing in its nature from welfare to commodity has deeply influenced the economic power structure. New social inequality is built based on homeownership. Meanwhile, the separation of housing distribution from work units also forms new social spaces in urban society. Rapid land development, at the same time, has changed the landscape of the cities forever.

a) Uneven Impacts of Reform

Many studies show that the impact of the housing reform is unevenly distributed over geographical regions and among different social groups. Zhou Yu (2006), for instance, confirmed the over-all improvement of housing conditions with 1995 and 2000 census data from four provincial cities, Beijing, Tianjin, Shanghai, and Chengdu. However, this study also showed that living conditions and rates of homeownership were very different among the four cities. Within each city, housing conditions in the central city are better than they are in the suburban towns. Among the residents in each city,

the ones with high job positions were more likely to purchase well-built private housing.

Affordability is also very different for different social groups. As shown in Mak, Choy, and Ho's study of Shanghai (2006), the commercialization of housing has benefited the high-income group much more than the low and middle income classes. For high-income groups, their income increased faster under steady economic growth than the increase in housing price. Thus, the commodity housing has been more affordable for them and the increase of property price has given them a greater financial advantage. On the other hand, although the incomes of the low- or middle-class also increased, they did so at rates slower than the increase of housing prices. Housing, thus, became less affordable for these income groups. Wang's (2000) study on the urban poor showed that peasant workers had the hardest time in the newly built urban housing market since they did not qualify for the benefits received by urban *hukou* holders.

b) Changes in social space

The other impact of housing reform is the change in social space in urban China. Before the reform, housing was tied to work units. Each work unit formed a gated community which provided a variety of services to its residents. With the development of private commercial housing, the old work-unit communities were broken. New gated communities have been formed based on social class (Wester, Wu, & Zhao, 2006). Using Beijing as an example, Webber and Wu (2004) observed that foreign communities were clustering in the northeastern area. As the middle class gained more home purchasing power, middle class neighborhoods are formed (Fleischer, 2007). New social organizations, such as homeowners' committee, are established to replace the work unit as a new form of urban governance in communities (e.g. Read, 2003).

The functions of the central city and the suburbs are also changing. The high-income groups and middle classes tend to move outward from the central city. Meanwhile, migrant workers who cannot afford housing in central cities are also

concentrated in suburban villages (Y. P. Wang, 2000). These patterns of migration make the suburbs and peri-urban regions ambiguous social spaces in which social inequality and conflicts are visible. The social space of central city is also changed by redevelopment projects. Wu and He's (2006) study on two central city neighborhoods in Shanghai showed that redevelopment projects usually involve displacement of on-site residents and breaking existing social networks.

c) Changes in landscape

The landscape of Chinese cities have also been drastically changed by real estate development. The most visible change is the increase of built-up area. Residential suburbanization is an obvious feature in Chinese cities since late 1980s. Doi (2005) believed that real estate development encourages the increase of the built-up area in the outer layer of Chuangchun, the capital city of Jilin Province . Tian, Liu, and Zhang (2002) observed a change in the land use pattern on the Chinese cities. Residential land and land for financial and commercial use started to replace some land that used to be occupied by factories.

Besides the change in land use, more variation in architectural forms are also brought into Chinese cities by the structural design of housing developments. Fleischer's interviewees pointed out "to choose a house means to choose a lifestyle" (2007). Various residential buildings and surrounding physical landscapes are designed to attract different consumers. For instance, F. Wu (2004) reported that new housing projects in Beijing like to adopt foreign names and modeled after some projects in Western society. An "imagined globalization" has become a means to market housing products.

3.7 Chapter Summary

Before moving on to the field research, we should notice several key points from the literature review. First, the marketization of housing service is a state-led process. Ever since 1980s, the state has taken an active role to establish a housing market. For example, increasing rent made

homeownership a more acceptable housing choice. Later, the preferential sale to on-site residents made homeownership a possible choice for a large number of urban residents and contributed to the rapid increase of homeownership in urban China. Encouraging private and foreign investors to participate in housing construction increased housing supply and partially freed work units from housing-providing obligations. Meanwhile, the establishment of the Housing Provident Fund and the establishment of individual housing loans prepared financial support for individual housing purchasing. All these policies are efforts that the state has taken to build an open housing market.

However, the impacts of these policies and efforts are not always as expected: new social inequality exists based on homeownership. The ones who were advanced during welfare housing system benefit more from the reform. The workers from large and powerful work units got to buy better units as on-site residents; on the other hand, the peasant workers or workers of small work units, who did not access welfare housing in pre-reform era, barely benefit from the reform. People in higher job positions, who usually access better and larger units, get the chance to purchase more valuable housing with on-site-resident discounts. In the following empirical study, we would like to examine whether or not existing inequalities continue their impact in post-1998 era.

Even more importantly, we have to recognize that the housing reform is a part of economic reform. Besides providing living place, development of housing market serves larger political economic goals. At the beginning, removing the obligation of housing service from work units was a method to reduce the cost of state-owned enterprises. Also, it helped to release the bonding relationship between work units and the workers. In the late 1990s, real estate development was encouraged as a means to stimulate economic growth. The attitude of the state and the change of political-economic situation would all affect the development of housing market. Furthermore, because of decentralization and marketization, other interested parties, such as the local state and private developers would take more and more important roles in housing development. The interactions between each interested party would certainly have impacts on individual housing choice as well.

Chapter IV: Housing Choice

Individual housing choices include three categories: tenure choice, location choice, and style choice. All my interviewees are home purchasers who chose homeownership rather than renting. This chapter intends to explore the reasons why many young adults choose to buy a property instead of renting one. It also investigates factors that influence their choice on housing location and style.

4.1 reasons for homeownership

Life cycle is seen as a determinant factor for tenure choice. Following marriage and the birth of children, the family is more likely to switch from renting to homeownership (Clark & Dieleman, 1996). *Marriage* seems to be the most significant reason for my interviewees to approach homeownership. Six of my ten interviewees mentioned that getting married is the major reason for them to purchase a home. It has been a cultural norm that owning a house is a necessary step for marriage, especially for the groom's family. All of the six interviewees who purchased a home for marriage said the groom or his family paid the full or a substantial part of the down payment, whereas the bride's family covered the costs of renovation and decoration.

Besides marriage, a *sense of security* is another cultural reason that motivates young adults to buy a property. Compared with migrants, such a need for the sense of security is less significant for those who grow up locally, since local Beijing interviewees have their family and childhood friends to fall back on. On the other hand, migrants who move to Beijing for work usually consider homeownership as a strategy to acquire stability. As the marketer I interviewed mentioned:

“I market a project in Tongzhou to target young urban professionals. Small size studio, around 20 square meters per unit. The theme is ‘in the age of floating, let’s have a more active lifestyle’. Floating, not settling down, not secure, that is the common point shared by many young adults in our generation. ‘Active lifestyle’ emphasize that we still have ability to choose. ...owning a property is way to feel secure. ”

Interview findings with young property purchasers confirm the marketer's emphasis of homeownership as a strategy to acquire the sense of security. Mr. Z (see Appendix I for a brief description of the interviewees), a 33-year old website designer from one of China's biggest portal websites, mentioned that he felt very insecure since he moved to Beijing in 1999. When asked the reasons for purchasing his apartment, he said "I just want a home". Ms. L, a 28-year old editor who moved to Beijing for a university degree, has stayed since then. She also mentioned the major reason for her to purchase her new apartment is to feel secure and belonging.

Author: How do you feel about owning your own place?

Ms. L: I feel I finally settle down, finally have my own home, which makes me feel I belong to this city. I feel stable and secure with my own place.

A *sense of success* is another cultural reason to approach homeownership. For example, the 20-square-meter studios were sold out quickly for the marketer's project, which, as he explained, met the need of young adults to feel that they are successful:

"Purchasing a property is a way to show off your success. It is especially true for young people. Most of the young adults who cannot afford a large size apartment may have to opt for small lot for transition first"

However, none of the young home purchasers I interviewed mentioned this as a reason. Most of them see housing as a living necessity rather than a luxury to show off one's success.

Besides these preferences towards homeownership, the existing condition of the housing market also pushes young adults towards homeownership rather than renting. Firstly, the *rental rate* in Beijing *is very high* and most of the private companies do not offer accommodation for their employees. For example, Ms W told me that her fiancé, who came to Beijing from Northeast China, spent 700 *yuan* per month (around 1/4 of his monthly income) on a small, bad-quality courtyard room without a private toilet. Her parents-in-law felt it wiser to buy instead of renting, so they bought a three-bedroom apartment for them at full price. Two other migrant interviewees, Ms. L and Mr. Z also mentioned that the continuously increasing rental price was a factor pushing them toward purchasing an apartment. Ms. L said that she

always had to share an apartment with friends so that she could afford a comfortable unit, even though that means little privacy for her. In contrast, the four interviewees from governmental institutions and large state-owned enterprise have the advantages in tenure choice. They were provided with free accommodations from their work units, which allowed them to save enough money to purchase their own properties eventually.

At the time when the interviews were conducted, the housing market was booming. A frantic rush to buy a property took place in several cities in southern China. As reported in the news (MSN China, 2007/7/23), thousands of people had been lining up since midnight for one commodity housing project that were opened for sale in Xiamen, Fujian province. A total of 1900 units were sold out within four hours. The *escalating housing price* is definitely the most significant reason for my interviewees to rush in for homeownership. The anxiety to buy a property before housing prices reach the point when they would not be able to afford any more explains why they rush to buy. For example, Ms. T., the wife of a military official who already had a 3-bedroom apartment provided for free by the military, bought a new apartment not long ago for 14,000 *yuan* (about CAD \$2,000) per square meter. When asked her why she wanted another property, she explained that the new apartment would be a nice investment for their nine-year-old daughter:

“We worry that the housing price will keep going up, and we will not be able to buy one any more... We hope to leave the apartment to our daughter...that is a little too early... but we really are concerned about affordability. We have little confidence in state’s efforts to control the price.”

People also tended to purchase larger units than they need. Several people mentioned, “The housing price is going up so quickly that I don’t think I can afford to change to a bigger unit later when I have children.” Price inflation in the housing market caused a lot of anxiety among the young adults.

Whereas some people buy a property for the fear of being left out, some see buying as a lucrative *investment*. For example, Ms. Tang, who purchased an apartment explained why:

“I bought it as an investment. It looks like the housing price will not go down... ”

we bought one now and expect to make some profit by selling it later on. Also, we can rent it out now. The rental is a big income.”

However, Ms. Tang’s situation is an atypical case. Most of my interviewees did not see housing as an investment. They see no likelihood of benefiting from the skyrocketing housing price, which seems to be an imperative to buy as soon as they can afford it, rather than an incentive for profits. For example, when talking about housing, most of them see it as a need, rather than an investment.

Author: Were you able to make some profit by purchasing a property since the price has gone up so much by now?

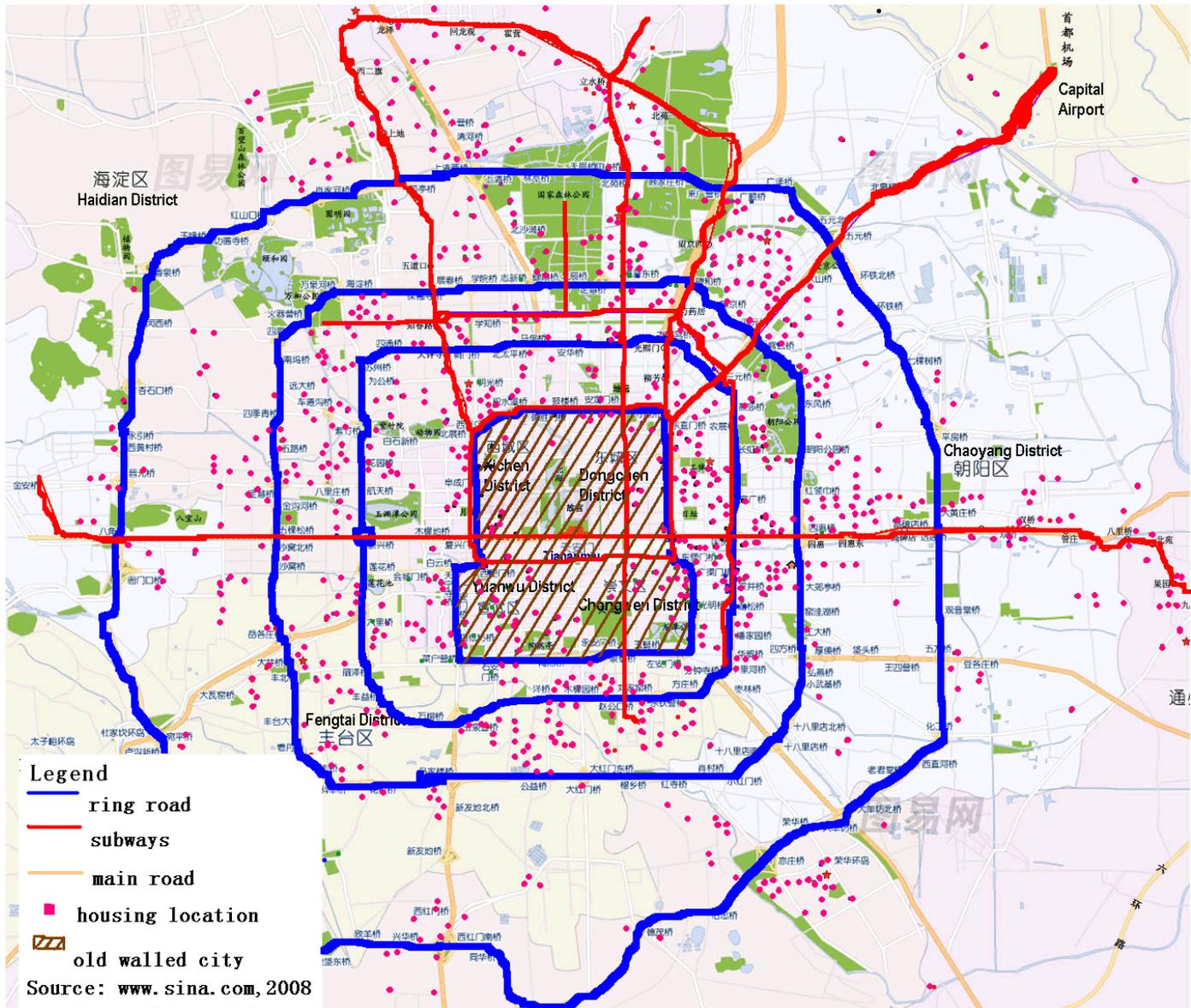
Mr. Z: I don’ t feel I earn anything. This is not for investing. I never thought of selling it... I bought it so I can have a decent place to stay... if I sell this unit, I would have to sleep on the street.

From Mr. Z’s words, we can see that for some young people owning their first home is a means to solve their basic need for shelter rather than an investment. Few young adults have the financial ability to purchase a property for investment purposes. Obviously, the housing price inflation benefits those who are already well off.

4.2 Choice of Location

The trend towards residential suburbanization has taken place since the 1980s, which coincided with the housing reform (Feng and Zhou, 2003; Zong, 2002). As shown in Map 4.2.1, a ring-road system is in place in Beijing. The traditional walled city, or the central city, refers to the four districts within the second ring road (the ring-road system starts with the second ring road). Since 1990s, population growth in central city has lagged behind that in inner suburb (within third or fourth ring road) (Wang and Zhu, 1999). Map 4.2.1 from 2005 also shows that housing projects were mostly concentrated between second and fourth ring roads.

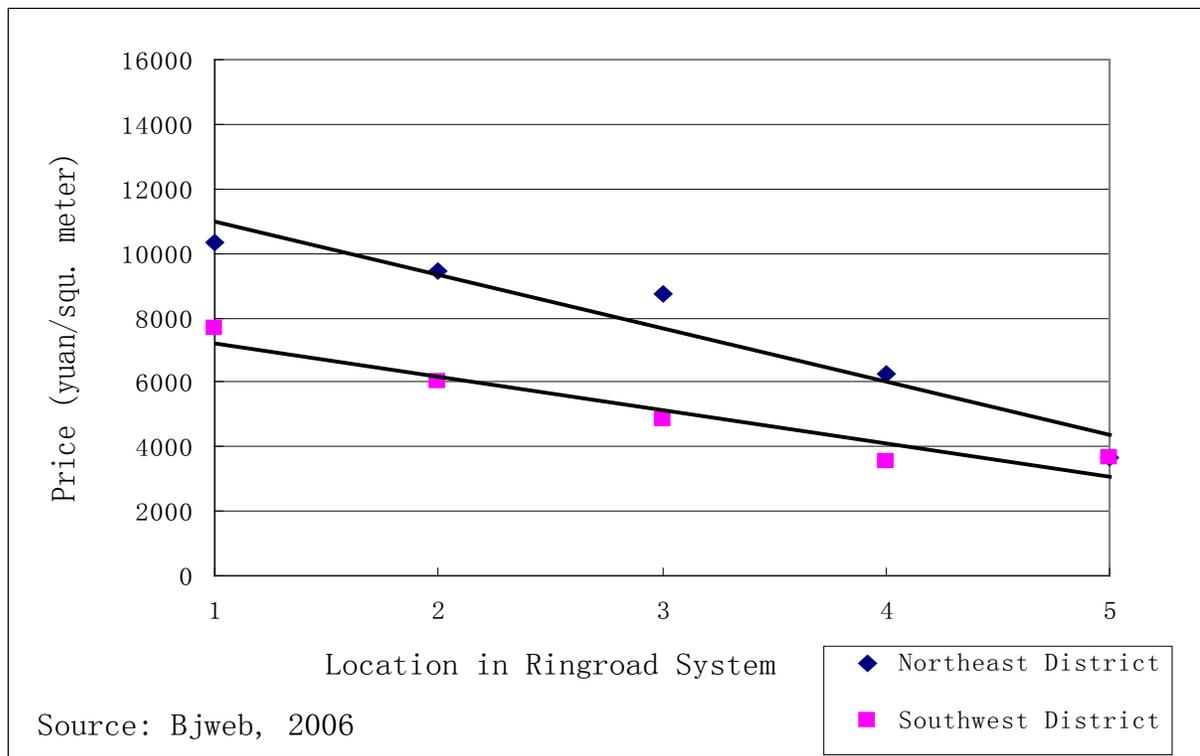
1Map 4.2.1 Map of Beijing with Ring Road System and Housing Locations



One of the reasons for residential suburbanization is the high housing price in the inner city. As shown in Figure 4.2.1, housing price shows a negative correlation with the distance from central city. Housing that targeted the average income group were developed mostly in the inner suburb (third—fourth ring roads). My interview findings are consistent with these studies. Except for two interviewees who bought apartments within the second ring road, *most of my interviewees bought a place outside of the third ring road*. One of them even lives as

far as Yanjiao County in Hebei Province. Neither of the two interviewees who purchased homes within the second ring road bought from a newly developed project. One of them chose to buy second-hand housing while the other purchased first-hand housing but developed years ago and sold it for a big discount. The rest of the interviewees all agreed that it was very hard to find affordable housing in the central city that could satisfy their needs. Consistent with my speculation, the lack of new housing development and the high housing price in the central city are the two factors preventing young people from buying properties in the city-centre.

3 Figure 4.2.1: Average Price for Locations in Ring Road System and NE-SW Division⁷



However, not everyone considers living in the suburb as a disadvantage. Mr. Z provided me with an interesting view about distance. His 6,200 yuan/m² apartment is located in Zhongguancun, which is in the north fourth ring road, but he never considered it as far:

Author : Where is your new apartment located??

M. Z : Around 4th ring-road.

Author : Quite far from the central city, why bought a unit there? In order to stay

⁷ The data were collected from a housing commercial website, BJweb, in 2006. The number on the x-axis represents the location of dwellings in ring-road system. 1= within 2nd ring road, the original central city, 2= between 2nd and 3rd ring road, 3= between 3rd and 4th ring road, 4= between 4th and 5th ring road, 5= outside 5th ring road

closer to your job?

Mr. Z: Closer to working place, for me it is not far at all. Are you local Beijing resident? You must live in old central city. In your opinion forth ring road is far away.

Lang : Yeah, I grew up in the city.

Mr. Z : Everyone' s psychological distant for a location is different. Everyone has a ruler in their head. You use your ruler to measure the distance from your home to my place. So you feel it is far away.

You cannot catch up to the speed of Beijing' s development. Now many Beijingers buy house in Yangjiao. Do you know where that is? That is not even part of Beijing, that is Hebei province. And some other people buy collective owned housing development in some village in south fifth ring road. That is more far away for you.

Author : You are right. I should not judge the distance from my point of view.

Mr. Z: The antenna of the city has reached a far distance. Actually Zhongguancun may be even considered as part of downtown.

I have always considered high price and lack of choice in central city as two factors that drive people out of the central city. By contrast, Mr. Z's view indicated to me that the process of suburbanization is multi-faceted and is not necessarily a disadvantage for some groups.

The first pull factor is *job opportunities* in the suburbs. As Mr. Z mentioned, his reason for living in the northwest fourth ring road is to be close to his working place in Zhongguancun⁸. Ms. J, an engineer in an airport, also chose to buy a unit in northeast fourth ring road in order to live close to work. The second pull factor is the *expanding services* in the suburb. With the opening of large supermarkets such as Carrefour and Wal-Mart, many neighborhoods between third and forth ring roads have become more livable and convenient. As Ms. W described, "The services of this new community are getting better and better. There are many local stores and one supermarket. Quite convenient." Better schools and health care institutions have also been established. Many people who grew up in suburbs all had the experience to register their *hukou* with relatives' addresses in order to be enrolled in better schools in the central city. Traveling back and forth for school was quite common for suburban children. Nowadays, my interviewees have expressed that they were rather satisfied

⁸ A suburban center in Northwest of Beijing. Benefiting from the surrounding universities and research institutions, Zhongguancun became a concentration of high-tech industries. It is known as China's Silicon Valley.

with the school in their suburban neighborhood. Mr. A, a driver of a small private company, even said that the elementary school was one of the reasons he chose to buy his apartment near fifth ring road. The *development of transportation* is also made living in the suburbs acceptable for young home purchasers. Even though most of my interviewees do not own cars, the subway system has developed rapidly in Beijing. Four new lines were completed before the 2008 Olympics. Key to one's choice of home location is its proximity to subway stations. The development of transit further lure people to move to the suburbs where housing price there are much lower than the city central.

4.3 Choice of Style

In spite of higher prices, *new commodity housing is preferred over a second-hand one by young adults*. All of my interviewees, except for two, chose newly-built units rather than second-hand. The major reason is that second-hand housing is usually as expensive as the newly developed ones because its premium location. Interviewees did not feel it worthwhile spending so much on an old place. The lack of regulation on second-hand housing transaction also discourages people from buying. As Mr. Z described, sometimes purchasing second-hand housing might involve some complicated financial issues:

“Second hand housing is also expensive. I don't feel it is worth buying an old house. Also buying a second hand house can get very sticky sometimes. Some second-hand house is sold to more than one buyers at one time...Sometimes, the previous owner may still owe money to the property company or utility fees to the hydro company, and things like that. After you purchase, the companies come to you and ask you to pay for all these historical debts. (The regulation is) quite chaotic. The price can rise up three times a day”

These sticky situations were proved by the developer and bank workers as well. Though they did not mention it directly, I suspect that the preference for new over old in Chinese culture also plays a role in affecting people's decision. Especially for marriage, everything is expected to be new for the couple.

Certainly, the preference for new things does not mean that there is no demand for

second-hand homes. There are still people who can see the advantages of owning a second-hand house. For example, Ms. L explained that she was tempted to buy a second hand house because of its proximity to the central city.

“I think second-hand housing has more advantages. They are usually located in a better place, usually not too far away from the central city. Also, second-hand housing is usually located in well-developed community. Life will be much more convenient because of the matured management and services available there. Another incentive is that you can move in immediately, without worrying about renovation.”

Ms. T also chose a second-hand home for the purpose of investment. She thought it was not wise to buy a new unit and then rent it out. Thus, second-hand housing market opens the door for people who want to earn rental income and those who prefer close proximity to the city center.

One interesting finding is that *couples at younger ages are more likely to purchase larger units*, which is out of my expectation. As studies in Western society shown, the size of a house is usually positively correlated to one's age (Clark and Dieleman, 1996). Since the people of older age usually have a longer career history, they tend to be financially secure and thus have the means to buy a bigger house. However, this is not the case for my Chinese interviewees. The three people who are over thirty chose to purchase apartments around 80 square meters; on the other hand, the four younger interviewees between the age of 25 to 26 each bought three-bedroom apartments of more than 100 square meters, even though they had only worked for one or two years. Most likely, as the only child in the family, each of the interviewees received financial support from the parents. They also expected that their parents would move in with them eventually, which explains why they want a large unit.

Ms. W: Because he (my husband) is the only child in his family, his parents are going to live with us eventually. We think we want to get everything ready at one time. So we prepare one room for us, one for our child and another one for his parents. The housing price is going up so fast. I don't think we can afford to switch to a bigger one down the road.

...

Ms. M: We did not think that much. It is just a good chance. And both of us are

not from Beijing. What if our parents come to visit us? If I have a larger unit, they can have a room when visit us.

The unique family structure in China could be one of the factors that shape people's housing choice. The unique family structure in China and the tendency for children to live with their parents are important reasons for young adults to buy large units.

Another characteristic for young people's housing choice is that they *all choose apartment units*. This may be due to the lack of options. Low density, single-detached housing is not allowed to develop within the urban center in Beijing. The villa projects (people in Beijing call all single-detached house a "villa") can only be found outside the fifth ring road in outer suburb. In addition, these houses were designed in extremely large size and sold at an extremely high price, which is far beyond the affordability of the working class.

We should also notice that while all of my interviewees purchased commodity housing, *none of them chose subsidized housing of any kind*, such as Economic Suitable Housing or Double-Limited Housing. It may be because my interviewees were mostly from well-off families and do not need to apply for subsidized housing. Nonetheless, it also indicates that subsidized housing only benefits limited amount of people due to the high threshold to apply.

4.4 Chapter Summary

Price inflation in the housing market is an important reason for young people to approach homeownership. The high rental price discourages people from renting for long periods of time. Meanwhile, increasing housing price has made people feel the urge to buy. Moreover, many young people decide to buy properties for cultural reasons. In Chinese culture, owning a home gives one a sense of security, which is particularly true for people who are not originally from Beijing. Owning a place of one's own makes people feel "settled down" and feel they "belong" to the city.

The current housing policies, such as the lack of regulation in the second-hand market and the limitation on developing single-detached dwellings, have limited the choice of young

purchasers to newly-developed high-rise apartments. The particular “4-2-1” family structure⁹ makes people more likely to purchase an apartment with larger size than the young couple may need. As both the husband and wife tend to be the only child in their family, they would like to choose larger size units with more rooms for preparing their aged parents to move in in the future.

Suburban locations have become very popular among young people. It is certainly because they are limited by the high housing price and the lack of housing sources in the central city, but their choice of location also indicates that there are new sub-centers developed in suburban regions. As the interviewees described, more complete communities started to form and better transportation has been established. Suburbs have now become a favorable location to live.

⁹ “4-2-1” means four parents, a young couple, and one child. Since most young people at late twenties and early thirties are the only child in their family. When they get married, the couple needs to take care of four aged people (parents from both sides) and one child of their own. Usually, parents from one side would move in with the couple to take care of the child especially if the couple is not living in their home city. It is usually the parents of the migrant partner move in with the couple. This family structure has caused extra pressure on the young couple especially when the socialization of care service for aged people is low in China.

Chapter V: Housing Strategy

In this chapter, I analyze the housing strategies of the young adults, including the methods for housing search and their financial means to approach the homeownership. Since the young home purchasers I interviewed come from very different personal backgrounds, including the financial condition of the parents, their careers, and migrant status, my goal here is to understand how one's personal background impacts their housing strategies.

5.1 Housing Search

Advertisement is the main source of information. Six of my ten interviewees get the information about housing source either from TV advertisement or commercial billboards. They all agree that searching for housing is exhausting. Most of them have visited many openings before making the final decision. As Ms. W says, "We take a long time to make the decision. We have looked through many different housing sources. Quite an exhausting work!"

News on real estate development is also a source for people to collect information. For example, Ms. M got to know of the townhouse they bought from economic TV news:

"We watched TV one Friday. It advertised about how the housing price is much lower in Yanjiao and many young people bought house there. The new train line will connect Yanjiao to the central city. It looks like a rather nice place."

The following weekend, she and her fiancé visited the site and bought a unit of apartment there. This news directs them to find their suitable home by the end. Beside Ms. M, other people also mention that they somewhat depend on news for advice on location and housing style.

Personal social connections are another important information source, especially for people who work in the field closely related to housing development. For example, Mr. R, the chief of the fixed asset investment section in one of Beijing's district governments, informed that he could easily get first-hand information about new housing projects. Because of his job, he knew many developers in his district. Some of them had become good friends with him and

were able to give him information about cheap housing sources. The new apartment he bought was developed by one of his friends who offered him a large discount. It is not uncommon for local Beijing people to have strong social connections. For example, one of my interviewees, Muzi, reported that her family bought two units at a much cheaper price than the market price through family friends.

The housing distribution through work units still exist in some form. Many powerful governmental institutions and large state-owned enterprises still provide their workers with discounted housing. As the government officials mentioned in the interview, they did know some friends who work for other institutions obtained apartments from their work units for reduced prices. Even some private companies would like to subsidize housing for their workers as some sort of welfare. Mr. Y, a driver of a small private company, informed that his family just bought an apartment heavily subsidized by his father's employer. His father is a chef. His father's boss, the owner of a restaurant, also has some business in real estate. Sometimes the employees are given a huge discount to buy property, which is considered to be a substantial reward.

Only one of my interviewees sought help from housing agencies. Ms. T, who bought a second-hand apartment for investment, got the information from a housing agent. She mentioned that she had spent a lot of time searching before she turned to this agent, whom she was rather satisfied with and whom she could count on for tenant sources. Though some studies show that housing agencies in China play a positive role in facilitating transactions (Tang, Liu, & Wong, 2006), *using an agency has not yet become a common housing searching method* among the young adults I interviewed.

5.2 Housing Loans

Taking a mortgage has become a widely acceptable payment practice. Except for three people, all other interviewees have taken housing loans in various sizes from commercial bank.

However, no one from my interview *borrowed loans from the Housing Provident Fund*. This under-use of HPF has reconfirmed the result from Li and Yang's previous study (2007). None of my interviewees mention HPF as an option to finance their home purchasing, which may be for two reasons. Firstly, most of my interviewees are young and have only worked for short period of time. They have not contributed a lot to HPF which makes them easily ignore HPF as a strategy. Secondly, it may be due to the lack of popularity. Li and Yi's study (2007) showed that realtors tend to persuade people to get commercial loans rather than HPF loan, which involves a lengthy process of application.

There are two ways to finance home purchase. *On one hand, those who are financially capable would like to pay full price*. Though mortgages are accepted as a common strategy, it is still seen as a very insecure. Many people believe that paying back their mortgage is a big financial burden. Three of my interviewees paid for their house all at once. Ms. T, who bought an apartment for investment, mentioned:

“Since it is for investment rather than living and we don't want to apply for a housing loan, which can be rather stressful... But now I regret this a little. The rental income from this apartment is high enough to cover the mortgage if we took a long-term loan. Then we can get our input back much sooner. It is actually less stressful than investing so much money at once.”

Obviously, Ms. T's anxiety was not caused by financial pressure. With more careful calculation, applying for a mortgage could benefit her in the long run. Ms. T's case is not atypical among Chinese. Being in debt causes psychological pressure on them. Thus, they usually try to avoid borrowing loan if they are capable of doing so. In addition, people tend to *pay back the mortgage sooner than later* if they are capable, especially when the interest rate of housing loan has been raised for several times recently in order to slow down the overheated real estate market. Ms. J, an airport engineer, told me:

“At first, we decided to pay back in 20 years. Then we get to pay 2800 yuan per month. That is just a small proportion in our income. But the interest rate increased ever since. The monthly mortgage rises to 3100 yuan/ month now. We are afraid it will go up again. So we have paid back twice in ahead, about 120,000 yuan. Now the paying period is shortened to 10 years.”

Like Ms. J, Mr. Z also expressed the anxiety about the rising interest rate for the mortgage.

“I have to save money. ... The mortgage has been increased several times since I bought it.” The potential rise in interest rates is another factor that encourages those who can to pay back a mortgage sooner.

On the other hand, for those whose income is relatively low and whose jobs are unstable, a longer paying term is preferred. Ms. M, who just bought a two-story townhouse, explained that since their income was not very stable, they would rather choose a long-term loan:

“We borrowed 210,000 yuan (from the bank), which we expect to pay back in 30 years. So each month the mortgage will be 1300. The total of our income is only 4000 now, so we cannot afford to pay more for the mortgage. I don't want too much pressure. Later if our income increases, I can pay back more ahead of time.”

By taking the long-term loan, Ms. M managed to relieve some of the financial pressure for the time being. This has become rather common, especially to those whose financial capability is low. In Muzi's word, “We are spending the money from the future”.

5.3 Family Support

Besides self-saving and commercial housing loan, family support is probably the other important financial source, which is particularly true for those who approached homeownership at a young age. All but two interviewees informed me that they got some sort of help from their parents. Whereas interviewees over 30 years old barely received help from their parents, those who are around 26 had to depend on their parents' financial assistance. This is also because, as the only child in the family, they do not need to share his or her parents' wealth with other siblings.

Most of my interviewees informed me that they count the family support as the most important source for financing. The belief that parents would take care of their children gives many young adults the confidence to purchase an apartment, in spite of the high housing rate. For instance, Ms. M made the decision to buy a townhouse without too much

consideration. The monthly income for Ms. M is 2000 yuan, and her partner does contract jobs without a stable income. They rushed to buy a two-storey townhouse:

“(After learning that the housing price is low in Yanjiao from TV news) We decide to go for a trip in that weekend. But we did not intend to buy a house. When we got there, we found there were only a couple of units left from one housing project. So it was sold in a lower price. Normally it should be 3100 yuan/square meter; the remaining one is only 2620 yuan/square meter. My boyfriend just started bargaining for an even lower price. You know, he loves bargaining for fun. Surprisingly, the seller really agreed to give us 2400 yuan/m². We were quite shocked. We asked her to hold this unit for one day. Then we both called our parents and they agreed to offer some help for the down payment, which we paid the next morning”

Obviously, they seemed to have made an impulsive decision, but without the help from their parents, it would not have been possible for them to pay the down payment. With this down payment from their family, they were able to get a 210,000 *yuan* housing loan with a 30-year repaying period.

Nevertheless, Ms. M is still willing to take most of the financial obligation of homeownership, unlike some other interviewees who entirely depend upon their parents for approaching homeownership. For example, Mr. Y, a driver in a private company with a stable income of 2000 yuan/ month, does not want to bear the pressure for home purchasing at all but turn to his parents:

Mr. Y: We (he and his bride) just finished renovation of my parents’ old unit.

My parents bought it in 1997 from my mom’ s work unit with a big discount.

Author: So are you going to live with your parents after you get married?

Mr. Y: No, we two will live there alone. That is just a small, one-bedroom apartment, only 50 square meters. My parents had bought another unit.

Author: Then why do they live in the new apartment now? You want them to live better, so you decide to live in the old one?

Mr. Y: No, no. I am not that good. I don’ t want to worry about the mortgage.

If we live there, I would feel guilty to ask my parents to pay for the mortgage.

But I really don’ t think I can afford it. …I only have 2000 *yuan* per month.

My wife earns more, around 5000 yuan per month. The unit is under my parents’ name, so I don’ t want to ask my wife to help with mortgage.

Mr. Y does not seem have any interest in taking the responsibility for homeownership. His parents put up with the financial burden instead of himself. We can see in both cases

family support is one of the most economic and countable strategies for the young people and it makes possible for young people to purchase houses that are beyond their capability.

From the perspective of the parents, helping their children out with paying down payment seems to be a way to express love for the children even when the children have high financial capability. As Ms. J mentioned when she talked about her strategy to finance home purchasing:

Author: You graduated with your husband only one year ago, didn't you? Can I ask how you managed to buy an apartment?

Ms. J: My husband's family paid the down payment, which is half of the full price. The apartment is under his name. We two pay the mortgage together. It is about 10,000 yuan/ month... We don't feel much financial pressure now. Though we only worked for one year, we've saved quite a bit. Neither of our parents needs our financial support. We never give them money. Now we live in the dorm given by the airport. Not a lot of expenditure.

Author: Have you thought about returning the down payment that was paid by your parents-in-law?

Ms. J: No, I guess we don't need to. They actually wanted to pay in full price for us but we don't want them spend too much for us.

Ms. J and her fiancé are actually financial independent. They could have saved up enough for the down payment, but instead, the parents would like to release their pressure as much as possible. In Chinese culture, it is acceptable for children to turn to parents for help. It is also an expectation for the parents to give as much help as they can, especially when the child is the only child they have.

5.4 How Local People Benefit from Housing Reform

The local Beijing people have more advantages than migrants. Previous studies have mentioned that *hukou* (household registration) is the biggest constraint for the migrants to enjoy housing benefits from work units. Nonetheless, my interviewees did not mention *hukou* as a problem for them. *The advantage of the local people lies in the social connections and the family roots they have in this city rather than their hukou. The social connections and*

family roots give the local people greater flexibility. Many local families own more than one unit. The families can pass down to the next generation their courtyard rooms or work-unit dwellings, whose value increased significantly when the lands were claimed for urban development. Most local families have made some profit by selling it to the developers or the government. This income made many families able to afford new houses.

Mr. Y is a typical example. He comes from a local working class family with moderate income. He told me that his parents have owned three units—one room from the central city courtyard which is passed down through the family, one small apartment bought from her mother's work unit with a great discount as an on-site resident, and a new apartment bought from his father's boss with a employee's discount.

Mr. Y: My parents bought it (the apartment he lives in) in 1997. This is the unit they get from my mom's work unit. They bought it as an on-site resident with a big discount.... My parents had bought another unit. My father is a chef. He works in a high-end clubhouse. Their club funds housing construction. Some units were sold to their employees at rather cheap price.

Author: Is that why they bought the second unit? Because it is cheap?

Mr. Y: No this one is actually the third unit they own. You know we are from Beijing originally, so we own a room in a traditional courtyard. We have no longer lived there after I got to grade 5, but our hukou is still there. Just recently, a developer has bought the courtyard for redevelopment and we received a rather significant amount of compensation. With the compensation and the discount, my parents decided to buy the new apartment for me for marriage.

Though Mr. Y's family is not interested in buying a house for investment, they did save a lot by living in work unit housing in the pre-reform era. In addition, because of the increased land value in the central city region, their ownership in the old courtyard allows them to profit by selling the old unit to a developer.

Muzi has similar experience as Mr. Y. Her parents were able to make some money by selling work-unit dwelling, thus allowing them to own more than one unit:

Muzi: My mother's work unit wanted to buy this building (where her apartment is located) before. But welfare housing distribution was prohibited then. My mother had always wanted to buy a unit in this building. To think about it,

it is in Anding Gate (within second ring road), only 6000 *yuan* per square meter

Author: Wow, that is cheap. Which year was that?

Muzi: The year before last year (2005). We are so lucky to buy this apartment.

It is already 15000 *yuan*/ m² now.

Author : So is the apartment your parents living in now bought for the on-site sale of welfare housing?

Muzi: No. The one they live in now is already the second one. They sold the one they bought from their work unit and then bought this one.

Author: If your parents did not know about this building for selling, would your family still want to buy a third unit?

Muzi: Yes, probably, we heard from friends there are many good sources these days in Beijing. We probably would buy another unit from other projects.

Muzi's case tells us not only how local people have made profits from previous homeownership, but also shows how the local people benefited from their social connection for more market information.

5.5 Housing Options from Work Units

Another advanced group among my interviewees are those who work for governments and military. *The military is the only organization in China that can still enjoy welfare housing distribution.* As I mentioned previously, Ms. T is married to a military official, which allows them to enjoy free housing provision from the military life long. Ms. T has the least financial pressure in terms of housing, compared with my other interviewees. She is the only one who purchased an apartment solely for investment. No one but Ms. T feels that they have benefited from the increased property value.

In addition to free housing for high-ranked officials, the *military also offers dormitories to the young officials.* Among my interviewees, Ms. M and her partner both served in the army for six years. Though they have recently left the army, they still live in the dorm. It seems there are many loopholes in the management of such free housing. Ms. M informed that before they rushed into buying this two-storey townhouse, they hardly felt any financial pressure. By contrast, workers of private companies, such as Ms. L and Mr. Z, have spent a large part of their income on renting. Their attitude toward paying mortgage is quite different. For Ms. L, it

is not a big deal to change from paying rent to paying mortgage:

“It is also not cheap to rent. You are paying money to other people but what you pay for never belongs to you. On the other hand, even though I still need to pay back the mortgage, I feel that the apartment is my own. I pay for myself.”

In contrast, paying mortgage does cause some stress for Ms. M:

“Just to think about it already make me nervous. One third of our income is gone. And the interest rate has been raised, which means we are going to pay more each month starting from next year. I really need to spend less.”

Ms. M has more freedom in terms of housing choice than Ms. L. For Ms. M, purchasing a dwelling is not out of necessity. It is her choice to put up with the financial pressure for better living conditions. But for Ms. L, purchasing a home is a wiser decision so that what she is paying now will eventually contribute to her own place.

Some public institutions and large state-owned enterprises also offer free dormitories to their employees. Ms. J mentioned that the dormitory offered by the airport has helped her save a lot in Beijing. Without the pressure of paying rent, she and her husband can pay back the mortgage much faster. According to Mr. R, he can afford his new apartment because he was living in a free dormitory from the district government he works.

Mr. R: The mortgage is about 50% of my income. I don't feel that much pressure now because I have rented it out. The rent is good. I don't even do any renovation yet. The roughcast unit only with a toilet can rent 1200 yuan/ month, which is used to pay the mortgage.

Author: Then where do you live now?

Mr. R: I still live in the dormitory. I share an apartment with another colleague.

Author: But do you also need to pay for the dorm?

Mr. R: I never paid anything. No one ever collect rent from us. But probably I will have to return this room if they even find out I bought a unit myself. Then I will lose the rent. I will have to pay 50% of my income for the mortgage. That would be a bit stressful. (Almost one year has passed since my interview, and Mr. R is still living in his dorm.)

If Mr. R were not provided with free accommodation, he would not have been able to rent his apartment out. Without the rental income, he would not have been able to afford the mortgage. Free accommodation has significantly relieved his financial pressure and makes it possible for him to buy a new unit.

5.6 Chapter Summary

Strategies young people take to approach homeownership are very diverse but we can still generalize some characteristics from the interviews. The popularity of housing loans indicates that the housing loan system is getting mature. It also shows changes in the consumption behaviors among many Chinese. Spending before saving is a trend among my young interviewees. Nonetheless, the Chinese cultural norms still play an important role in one's housing behavior. When people decide to buy a condo or house, they would rather avoid being in debt. Only when they do not have the stable financial capability, they would use housing mortgage as a means.

The concentration of governmental institutions and large state-owned enterprises in Beijing still shapes Beijing residents' housing strategies even after the repeal of the welfare housing distribution. During the early state of reform, many local families bought more than one property from their work units for reduced price. When the housing price skyrockets, these local families were able to "trade up" for better living or afford more homes for the parents and the child. Meanwhile, some large work units offer the young workers with free dormitories, which relieves some financial pressure and give them more flexibility in contrast to those who work in private sector.

It is noteworthy to look into the One Child Policy. Most of the interviewees under 30 years old were born after this policy was implemented. Their generation is always referred to as spoiled "little kings" and "little queens" whose parents invest heavily in them. When these "little kings" and "little queens" are old enough to approach homeownership, some of them tend to turn to their parents for financial help. The parents are usually willing to offer as much help as they can. This makes family support one of the most popular strategies among young adults, especially those under 30-years-old.

Chapter VI: Stories from Other Actors

As analyzed in Chapter III, there are multiple actors in the housing market: the developers, marketers, realtors, banks, and the governments have all shaped the development of the housing market. In my study, I interviewed a developer, a marketer, two government officials, and a group of bank workers. Their opinions on the current housing market and their suggestions for improvement deserve some discuss in this chapter.

6.1 Interest Conflicts within the Government

The two government officials I interviewed come from different institutions. One of them, Mr. Q, is the deputy director of the newly established Beijing Social Work Committee while the other one, Mr. R is the section chief of the Fixed Asset Investment Section from one district in Beijing. It is easy to find that their attitudes on housing market are very different and sometimes even conflicting.

Mr. Q, a researcher and social policy maker who aims to create a “harmonious society”¹⁰, expressed deep concern about the overheated housing market. In his opinion, the nature of housing as a commodity is overemphasized but the nature of housing as a social welfare has generally been overlooked. The “fangdichan shili” (forces of real estate), of which the state, the developers, and the media all play a role, have caused *new social inequality based on unequal homeownership*. Mr. Q saw this situation as “*a sharp sword stuck into ‘harmonious society’*”. On the other hand, Mr. R, who was representative of *the district government, was glad about the rising housing price*. He said:

“We will have more revenue in the district by charging higher tax and transaction fees. More importantly, we hope people with higher income will move into our district. Those people have stronger purchasing power, which will definitely attract more commercial activities.”

¹⁰ “Building Coherent Society” is the political slogan in President Hu Jintao’s regime. Social polarization, conflicts between different social classes and between local and central state have become the new social problems in China after the living condition improved after the economic reform. The goal of the new regime is to minimize differences between social classes and to mitigate the conflicts.

The district where Mr. R works for is experiencing an economic decline when heavy industries, once the pilot of the district's economy, moved out from the city. Real estate has become the new engine for GDP growth and the main source of state revenue. In the short term, the district office is hoping that the burgeoning housing market can compensate for what they have lost from the decline of heavy industries. In the long term, it is hoped that the new home purchasers can replace the working class residents who previously lived in the neighborhood. In other word, "gentrification" caused by housing redevelopment seems to be welcomed by government officials.

As a social worker, Mr. Q believes the government should take a more active role in regulating the housing market:

"Unquestionably, housing is a commodity, but we should not neglect the increasing need for social housing. The number of high-end, luxurious houses should be controlled and more social housing should be developed."

Mr. Q believed that housing is a basic need that everyone has a right to access. He suggested *the government to take a more active role in developing "secure" housing for the low income group*. One solution Mr. Q suggested is to divide the market into different sub-markets with each of the sub-market targeting a different income group. He divided five social classes based on their economic conditions: low-income, lower-middle income, middle income, upper middle income, and upper income group. In order to meet the housing needs of those in extreme poverty, Mr. Q suggested that the state should step in to regulate the low-price rental market:

"The secure housing should mainly target the low and lower middle income groups. Now we have "low-rent housing" for low-income people. Later, we may have "zero-rent housing" for the poorest of the poor. These houses should be owned and managed by government."

Since homeownership is unrealistic, a well-regulated and affordable rental market will benefit the poor. The government may also try to subsidize those who are financially challenged. It is considered that the existing Economic and Suitable Housing System is a big failure, Mr. Q suggested:

“A ‘buying-back system’ [should be established]. The owner of economic and suitable housing should not be allowed to resell their property in the market. Instead, only the governments should be allowed to buy back those properties for below market prices. We should calculate the price with the same proportion as the discount rate at the time when the unit was sold. For example, if they bought the unit at 20% discount, we could buy it back at a price 20% lower than the market price at the time they sold.”

Mr. Q thought this buying-back system could create a win-win situation. This system would allow the lower-middle class to realize the dream of owning properties and could ensure them of gaining profit from ownership. Meanwhile, the state could make sure the subsidized social housing continues to serve the poor rather than becoming a one-time investment. The other social classes, the middle, upper middle, and upper class are major buyers of commercial housing. In order to constrain the development of luxurious housing, Mr. Q suggested that those high-end markets should be taxed heavily to fund “secure housing”. He called this practice “revenue transfer.”

Though Mr. Q has good intentions and a detailed plan, it is not easy to implement. In contrast to Mr. Q’s solution, *Mr. R told me the district office was trying to minimize “secure housing” development in order to maximize the profit from real estate development.* Development for commercial use is preferred over residential development while among the residential development, high-end luxurious housing is favored rather than average commodity housing, and welfare housing is of insignificant importance. Though the district is obligated to develop 15% of each residential project into “secure housing”, the district state always has its own way of getting around this. As Mr. R mentioned,

“We are not going to put welfare housing in the valuable locations. Actually, so far the welfare housing in our district is to fulfill the housing needs for this district only, such as low-income people who do not have place to live in our district, or resettled residents. They all have *hukou* in our district. We do not intend to take more low-income residents in. ... We even thought about moving all this low-income residents to the neighboring outer suburban districts. We are willing to pay for that. ...Of course, this kind of attitude cannot be publicized.”

Local practitioners usually do not share the same interest with policy makers. In order to save

urban land for more profitable use, it is very likely that the district office would remove the welfare housing to disadvantaged locations. If possible, the district wants to serve only those low-income residents who have been living there for a long time, rather than seeing more disadvantaged groups, which will certainly bring in more burden on social services. Without the willingness of local officials, the prospect of secure housing is not promising.

6.2 Voice of the Developer

The developer Mr. X I interviewed is undeniably a leading figure in the real estate industry. His company has been selected as one of the top ten best developers by some media for four years. Various projects have been successfully developed by this company in many Chinese cities. Mr. X has contributed in promoting the concept of “healthy living”¹¹ and is one of the major patrons for the “clean water program”¹² in the countryside of western China. Based on his experience, Mr. X made several interesting points about housing market.

Firstly, Mr. X did not think that housing price is a problem; on the other hand, he thought that ***the housing price would not and should not decrease, which for him meant a shrinking of purchasers’ wealth:***

“I don’ t think anyone really want to see a decrease in price. Many people have spent most of their savings on homes. If the housing price really goes down, that means the property owners’ fortunes are shrinking.”

Mr. X, then, predicted that since the demand is still high in Beijing, the housing price would not go down. ***The best thing Mr. X expected is that the housing price increases at a less rapid rate and people can consume in a more rational way:***

“The demand is still very high in Beijing. That will keep the price at a high level. I do not see a down turn of this industry. After a while, the consumers may become more rational when they make housing choice. The consumers may not rush into the market as a couple years ago. ... The housing price will still go up, but probably at a less rapid rate.”

¹¹ A concept proposed by the World Health Organization. There are fifteen basic standards of “healthy residence” which prescribes the materials to use and the quality of construction in order to produce safe, low-pollution, energy-saving living space.

¹² A program that aims to build wells in desert region to provide clean water for residents in the countryside in West China.

For most buyers, they have spent their life-long savings for home purchasing. In Mr. X's opinion, the decreasing housing prices would equally cause social problem as the rapid increase does. Stabilizing housing prices is more acceptable than keeping the price down. A steadily increasing rate would ease people's anxiety. Hopefully, consumers would make more rational choices. At the same time, owners who already purchased a home would not have to suffer from depreciated housing values.

Secondly, Mr. X did not think that the developers are to be blamed. He believed that *the problem in the housing market was not a failure of market but a failure of the state*. He talked about the government's failure in three aspects. First, he believed the government as the biggest landowner had kept the cost of housing development too high. Second, the regulation policies have been very ambiguous. In Mr. X's opinion:

“All the policies are quite ambiguous, sometimes even conflicting with each other. We are quite confused about what to do. The government often makes arbitrary decisions, which leads to the ineffectiveness of the state. It hurts both the developers and the customers.”

Sometimes, as Mr. X explained, the government might give misleading predictions:

“I think the government is misleading the public for their own benefit. With the advancement of communication technologies, the more inequality is going to be found in accessing information. The market usually does not follow the direction as the government predicts. ...Right now, some policies are intended to control the housing price, which actually put more burdens on the purchasers.

To Mr. X, government had played a wrong role when serve the customers. In his opinion, “it is not the responsibility of the government to predict the market, but they should tell the public what they are going to do.” Knowing the state's policies the consumers could make more effective choice.

When I mentioned the young adults, Mr. X agreed that most of young adults were negatively affected by the high housing price. The low affordability pushed young people away from central city. However, he also pointed out that *in order to maximize the profit, it was not possible for the developers to target the needs of the young adults solely*.

“When we do a project, we would not target one specific group only. We are businessmen. Maximizing our profit is our goal, so we do our best to attract all potential buyers. Geography is important for real estate. If I were doing a project in Chaoyang District¹³, I would definitely consider the young adults more when I do marketing. But if I do a project elsewhere, young adults may not be that important.”

Mr. X made clear that it was not the developers’ obligation to help those disadvantaged groups. There is pressure for doing business. He is responsible for the loans from the banks and needs to report back to the investors. In order to ensure smooth flow of capital, his aim is to maximize profit. It is only after he survived his business, he is willing to carry out some social obligations.

6.3 Observations from the Financial Institutions

Since major financial institutions in China are still controlled by the government, to a certain extend, the state can regulate the market through housing loans. Looking at the rules and principles of individual housing loans, we are able to sense the attitude of the government. Through my interview with four bank workers from a branch of Commercial and Industrial Bank of China in Beijing, I found that *the attitude toward home purchasing is becoming more supportive*. As the bank workers introduced:

“We use to have some limitations for ‘shuang wai’ people to get mortgage in Beijing but not anymore. ‘Shuang wai’ means those that they neither have a *hukou* nor a job in Beijing. We used to ask them pay at least 10% more down payment than local Beijing people. We were also required to review their application more careful and strictly.”

But these restrictions have already been removed. Now anyone who has a stable income is welcome to apply for a mortgage that is around 1/3 of his/her monthly income:

“The basic requirement is to prove that you have stable income, which should be higher than the mortgage rate they apply for, and the applicant should be older than 18. ... Usually we will require proof letters from the company they work for and the banks where they opened their accounts respectively. Of course, we also need to check the standing of the company, as well as the applicant’ s educational background and how long they have been working.”

¹³ The northeast inner suburb of Beijing, where the new CBD located. It is a district known as favorite housing location of young white collar workers.

As we can see, the requirements for housing loans are very flexible. Since China does not have a personal tax system like that in Canada, the only way to check of one's income is from the proof letter to be provided by the company. Unfortunately, there are few effective ways to verify the authenticity of the proof letter, so it is hard to provide a letter that exaggerates income. Such loopholes allow people to enter the housing market.

Fortunately, the rate of bad loans is low, despite the fact that there are many loopholes in the application process. ***The repayment rate among young people is particular good.*** The bank workers believed that it was because “most young people buy a unit for living rather than investment. They cannot afford to lose this unit. They usually pay off the mortgages on time.” Not only do they pay back on time, but “many people also like to pay back sooner than later. I mean about 90% young people like to pay off the debts before the agreed timeline.” The bank workers also mentioned that it was common for the parents to sign a loan for purchasing houses for their children. They thought in such cases, “the bank feels more secure” . The parents are supposed to be in more stable financial situations. And since it is for their children, they will definitely pay off on time.

According to the banker, ***young adults account for a bigger share in second-hand market than in the new commodity housing market:***

“Based on our investigation, young adults are more significant in second-hand housing market than in new commercial housing. People in middle age count a bigger share in new commercial housing. The purpose for middle-age people is to improve living conditions, so they are more likely to choose new buildings with better-quality, while young people with limited resources tend to choose second-hand housing.”

This finding is ***contrary to my observations of young home purchasers.*** Among my ten interviewees, only two of them bought second-hand housing. This can be explained by the small sample I interviewed for the study. The bank workers also remind me that this might be unique in their branch. A statistical study is needed for an accurate rate of young people's share in housing market. What is important is that the bank workers agree with some of my

interviewees on the complicated situation of the second-hand housing market. The bank workers expressed a lack of interest in handling second-hand housing because:

“It is certainly easier to handle cases for new houses than for second-hand ones. The cost is higher to process second-hand housing mortgage. We have to send out staff to check the condition of the previous owners’ financial status, like whether the previous owners still owe the bank mortgage, or whether they still have other debts. Sometimes, we have to spend too much time verifying information, and then the seller changes his or her mind. It is a lot more complicated to deal with second-hand house buyers anyway.”

More efforts are needed to check the credit of the previous owner as well as the potential buyer.

The buyers may change their mind after all the work is done, which discourages the bank from accepting cases regarding second hand houses. *On the part of the buyers, the banks’ reluctance to deal with them also discourages them from considering second hand houses.*

By the time I did this focus group, the policy toward housing loan had changed its direction. As sensed by the media, the state policy has turned from promoting to limiting house-purchasing. As mentioned by the bank workers, the *deflationary policies* includes raising of interest rate five times, increasing the down payment for the second unit purchased, and encouraging small-unit purchasing by giving larger loans at lower interest rates to unit smaller than 90 square meters. However, they also believe that these policies *would not have determinant effects on the housing loan business* because “the demand is still there. People still need a place to live.” and “few investment opportunities are available for people in China. Property ownership is still one of the most stable investments.”

6.4 Chapter Summary

Young adults are facing some constraints when they approach homeownership. Affordable housing is limited. In order to maximize profit, it is unlikely that developers would build more suitable and affordable housing for the young adults whose financial capability is limited. Local governments, who intend to generate revenue and promote long-term GDP growth, are not interested in including low-price residential development into their community plan. The limited land resource is usually left to more profitable commercial-use or luxurious residential

development.

The current policies to cool down the housing market put more burdens on young home purchasers. The interest rates for housing loan was raised several times already, which means that young adults who are paying a mortgage have to spend more money on housing than they planned. For someone who is looking forward homeownership, the increased interest rate may force some potential young purchasers who have less financial capability to postpone approaching homeownership.

Although all the parties I interviewed have conflicts of interest, they all agreed that the housing price is beyond the capacity of the state to control. Developers and the local governments who can directly benefit by the price increase certainly lack the incentives to intervene. The social policy-maker who is concerned about the poor did not see that the policies he suggested would be implemented.

Chapter VII: Analysis and Interpretation of the Stories

This chapter compares my research findings with studies on housing choice and strategies done in western societies as well as pre-1998 Chinese cities. Two goals are to be achieved: to identify the characteristics of homeownership in China in comparison with that in Western society and to find how things have changed over time in China.

7.1 Conceptualization by Western Theories

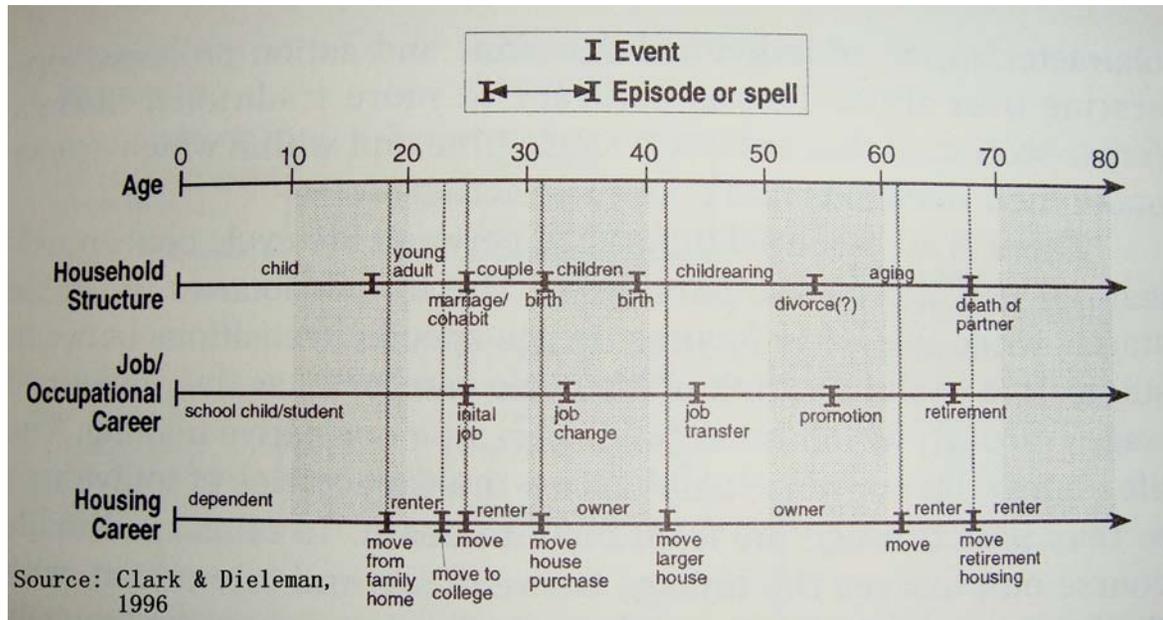
Housing behaviors are well studied in Western contexts. The literature on housing choice is voluminous. As Fulong Wu and Si-ming Li (2004) point out, there are three major ways to conceptualize housing behaviors, namely, as part of a life course, the result of consumption equilibrium, and subject to various regulations. When I try to conceptualize the housing behaviors of the young home purchasers, I find there are some differences to the housing behavior of Chinese young adults compared with that in Western societies.

7.1.1 Life Course Explanation

Earlier studies by geographers and sociologists look at housing behaviors in relation to individual life course in Western contexts (e.g. Clark and Dieleman, 1996; Kendig 1990). This stream of study considered that residential mobility and transition to home ownership is a result of housing needs and life-style expectations during different stages of their lives. Since Rossi (1955) first related family life cycle with residential mobility, voluminous studies have been done in this direction. Rossi's studies emphasized the impact of household structures on housing choice. Events like marriage and childbearing generate demands for larger space and usually push people into homeownership. However, due to the change of traditional family form in Western society, the family life-cycle explanation started to show some limitations. Other events, such as education and occupational career, were added into the analysis. As shown in the life event map (Figure 7.1.1) created by Clark and Dieleman (1996), the transition to homeownership usually takes place during young adulthood (late 20s to early 30s) when the first child is

born and when there is a change of job. Childbearing increases the demand for homeownership which may bring larger living space and more sense of stability (Clark et al, 1994; Davies and Pickles, 1991; Kendig, 1990). The change of job might cause a need to move. The change from initial job often provides more stable income which is a fundamental determinant of home purchasing (Boehm, 1981; Rosenthal, 1989). Later in their life course, with the enlarging of one's family and improving of career, people would trade up for a larger dwelling. Finally, when the mature children move out and people retire, they would move again to a smaller place.

4 Figure 7.1.1 The Life Course and Household/ Housing Trajectories



According to the life course trajectory, my interviewees are right at the stage when the transition toward homeownership is likely to take place. *It is particularly true in the China that marriage is a significant turning point that is likely to lead one to homeownership.* According to Chinese tradition, the groom is expected to offer a new house as a marriage gift. Such a practice was dismissed until China's economic takeoff, as most people in the cities suffered from overcrowded living conditions. *However, the impacts of income and occupational career are sometimes not very relevant to this group of Chinese young adults.* Many of my interviewees only entered the labour

market for two to three years, but they are still able to approach homeownership. Family help is the determinant reason. Family help is always an important strategy that young adults use to approach homeownership (Pickvance and Pickvance, 1994). The intergenerational transmission of wealth is particularly significant for this group of Chinese young adults. This group of young adults is from middle-class family with good financial condition. Most of their parents are all capable to offer some help. In addition, since the interviewees that are under thirty years old are the single child in their family; they do not need to share with other siblings, which makes the help from parents a significant amount of wealth. ***Furthermore, these young adults may not prepare to move as the life course trajectory predicted.*** When my interviewees make a housing decision, they are more likely to see it as a permanent move rather than a transitional phrase. Some single people or young couples like to purchase three-bedroom, large-size units with the hope to raise their children and to have their aged parents to move in with them in the future. Although whether or not they will move or upgrade to larger house depend upon their future development, it looks like they do not have such a plan at this stage of their life.

7.1.2 Market Explanation

To economists, housing choice is a rational action taken by people who take market circumstances into consideration. Thus, the economists explain housing behaviors as subject to the rule of market (Arnott, 1987s; Quigley and Weinberg, 1997; Quigley, 1976). As a basic need, the demand for housing exists inelastic to people's income and housing price in the market (Henderson and Ioannides, 1989). However, income and housing price are the determinants that limit housing choice. Housing consumption shows an obvious positive correlation with the increase of total wealth and the increase of income (Henderson and Ioannides, 1983). Besides being a consumption good, housing is an investment good as well. Housing choice in this sense would be sensitive to potential profit. When the rate of return for the purchasing of housing is more certain,

people are more likely to transform from renting to ownership (Henderson and Ioannides, 1983), and the transition to ownership would be earlier compared to stylized life course analysis (Plaunt, 1987). Rudel's study (1987) of the U.S. housing market during a period of housing price inflation also confirms that young people are more likely to advance the time of homeownership as an investment. Meanwhile, other investment opportunities would also influence home purchasing decisions. When people can get more stable and higher revenue from a financial asset investment, the rate of housing consumption would be lower (Henderson and Ioannides, 1983) and the transition to homeownership would be postponed (Plaunt, 1987).

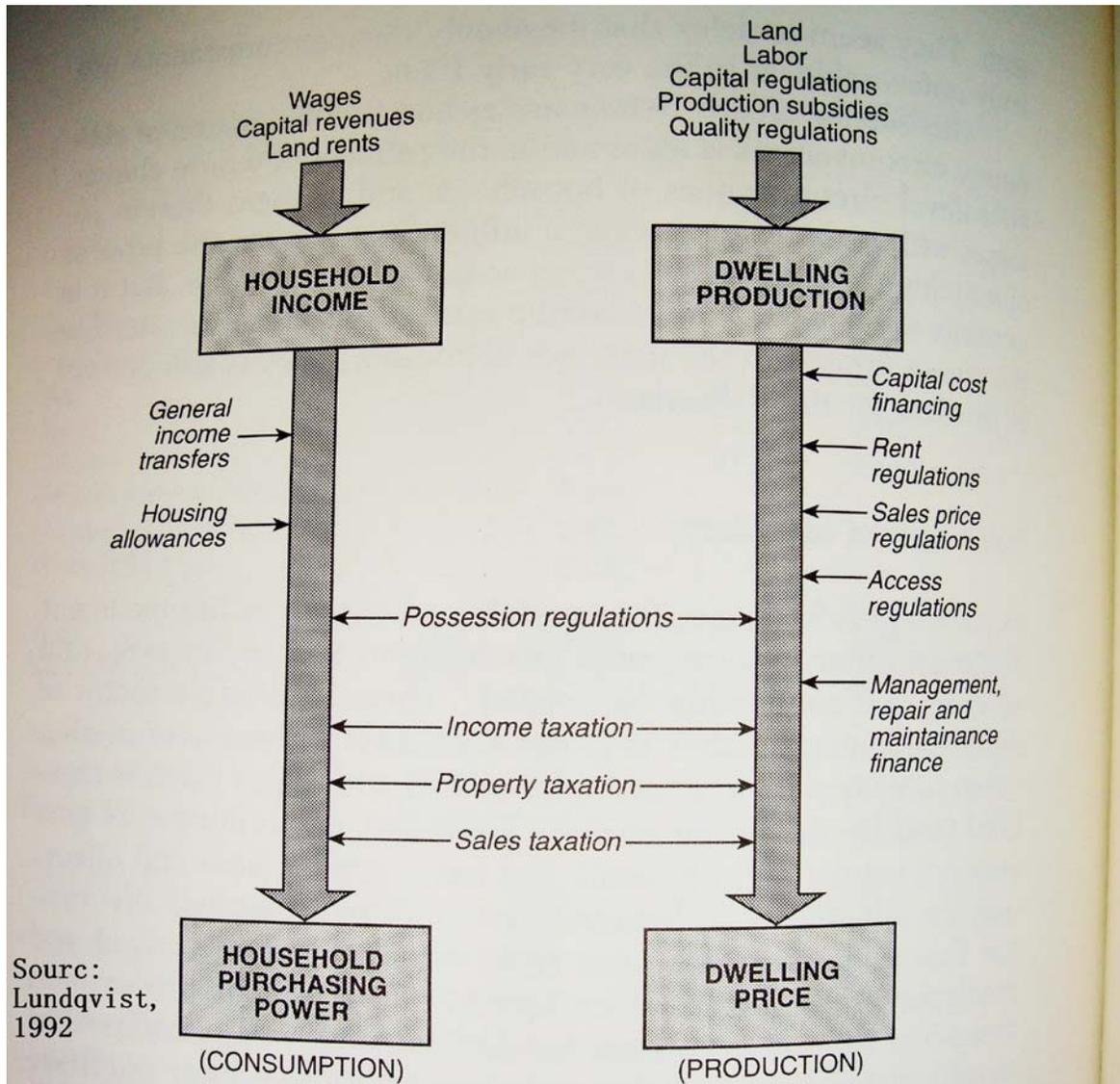
These models are also used by market practitioners and planners to explain the situation in China's current housing market. For the developers, the biggest reason for housing price increase is the disequilibrium between demand and supply. The practitioners I interviewed all pointed out that the large demand would continuously keep the price at a high level. However, the home purchasers, who suffer from the lack of professional knowledge and limited accessibility to market information, do not always act "rationally". There are some exceptions that I found in my interviews. First, though the income and price are still an important concern in housing consumption, *some young people are not limited by their income due to the intergenerational transmission of wealth*. Helped by their parents, some young people with limited income and savings can still purchase large size dwellings in a convenient location. The developer and the bank workers I interviewed all explained that the immaturity of insurance and financial asset markets makes housing the only profitable investment options available to most people, so the rapid increase in property value stimulates people to approach ownership. However, with the exception of two, none of the interviewees see housing as investment good. The young homeowners were focused more on the use value of housing. They explained that they bought houses because they need a place to live. If they sold their dwelling now, they would not be able to afford another place; thus, they did not recognize the increase of their property value benefited them directly. In addition, they

could not invest the money in the stock market even though it provided an opportunity for quick profit gain at the time of my interview. *Buying a house is not an investment opportunity but a basic need; thus, the availability of other investment options is not an important determinant for their home-purchasing decisions.*

7.1.3 Regulation Explanation

Housing choice is also subject to various regulation policies. Figure 7.1.2 shows a summary of possible state interventions on the housing market (Lundqvist, 1992). The state can affect housing choice by controlling the supply as well as the demand side. As Lundqvist (1992) summarized, the control of supply can be fulfilled by regulating development capital, accessibility, sales price, and availability of alternatives. For example, in European countries, the availability of the state-owned social renting housing reduced people's interest to approach homeownership. The rate of homeownership in Europe is much lower than in U.S.. Only recently, the rate of homeownership started to increase in European countries because the wave of privatization has reduced the availability of social renting housing in Europe (Clark and Dieleman, 1996). Taxation is an effective means to affect the housing market. As analyzed by economists, the U.S. tax system favored owner-occupancy. The current tax system makes the benefit of owning greater than that of renting, which encouraging more people buy a property (Henderson and Ioannides, 1983). Changes in financial institutions policies can also shape people's housing behavior. Generally speaking, when the mortgage interest rate gets higher and the amortization period gets shorter, young people would postpone the transition to homeownership (Plaut, 1987).

5 Figure 7.1.2 Possible State Interventions of Housing Market



Until recently, all state policies in China have favored homeownership rather than renting. The reform is a process of commoditization of housing services. The housing market itself is a creature of the state. *First, the state has created more homeownership opportunities.* In the 1990s, selling work-unit houses to on-site residents was the key policy that increased China's homeownership rate rapidly. Some of my interviewees, especially those from Beijing, reported that the first home their family owned was a work-unit house that distributed to their parents in pre-reform times.

Today, the Economic and Suitable Housing (ESH) program, in which dwellings are sold at a discount price to low income groups, is another policy that helped to expand homeownership to the lower-middle class. *Second, the state encourages financial institutions to offer financial support for homeownership.* As reported by the bank workers, the process to obtain housing loans has been simplified over time. It aims to spread the accessibility of financial support widely among home purchasers. It was evident in my interviews that the idea of obtaining housing loans from commercial banks has been widely accepted by young purchasers. In addition, the Housing Provident Fund (HPF) is also designed to favor homeownership. It is mandatory for workers to pay the HPF but they can only get repaid from HPF if they purchase a home, while rental is not covered by HPF. *On the other hand, the government's effort to regulate the rental sector is minimal.* There are basically no regulations on rental price and housing quality. Most of my interviewees had renting experience. They all refer to renting as an expensive and low-life-quality choice. It is only recently, the state began to rent some affordable housing, but it only targets the poorest of the poor who hold a local *hukou*. The beneficiaries are very limited. In the absence of a well-regulated rental sector as an alternative, young people more likely prefer homeownership.

7.2 Compare and Contrast with Pre-1998 Conditions

Most of the studies on the formation of China's housing market focus on the macro-level; on the other hand, the micro-level study of individual housing behavior is underdeveloped. There are still several researchers worth noticing: Youqin Huang has contributed in analyzing the effective factors of rental choice (2003), identifying important determinants of housing consumption (2003), and comparing housing behaviors in three Chinese cities (2004). Pan (2004) also identified the social-economic characteristics of commodity house purchasers by analyzing 1995 statistics. Si-ming Li brings statistical analysis of housing consumption into the specific city Guangzhou, where the degree of marketization is higher than national average (2000). In a later study, he compared Guangzhou with Beijing, where the open housing market

hardly existed in the 1990s (2000). These studies have identified several unique factors that affect housing consumption in China: accessibility to work-unit housing, availability of rental housing, type of *hukou* one holds. Determinants in Western societies are not as significant in shaping housing choice in China. Compared with these studies, the results of my interviews show some changes, as well as continuities.

7.2.1 Role of Work Units

The housing options in the previous studies are usually divided into choice of renting or owning, from private sector or from public sector. One of the conclusions we can draw from the pre-1998 studies is the dramatic role the public housing played in fulfilling housing needs. Work units in particular are the biggest provider or distributor of housing. Pan's study (2004) of 1995 statistics showed that only two groups of people would purchase commodity dwellings: young people who had a low ranking job that prevented them from accessing work-unit housing and the ones who were permanently employed at a high ranking position that provided them stable financial capability. The majority of people chose to rent work-unit housing or purchase with on-site resident's discount. Until 1996, work units were still the largest purchasers of commodity housing in Beijing and Guangzhou (Li, 2002). Individuals were more likely to purchase houses that were redistributed from work units rather than purchase directly from the open market since the price was much lower. Only in secondary cities where few large work units were located, people depended more on commodity housing. Thus, up until the late 1990s, inter-work-unit housing inequality still existed.

The biggest difference in the post-1998 housing market is the elimination of work units. By the time my interviews were conducted, *redistribution of welfare or discounted house by work units was not a housing option anymore*. All of the home purchasers I interviewed bought their units from the open market. *However, the advantages of workers in large state-owned enterprises (SOE) and governmental institutions continue to exist*. Some of my interviewees reported that their family had

made some profit from selling the units their parents bought with heavy discount from the work units. This profit made it possible for the young people to buy their own property. The advanced families in the pre-reform era continue to benefit because of the previous uneven system. In addition, work units still offer welfare or discount housing in certain forms. The military and some powerful work units are also able to offer discounted housing in various acceptable forms. Some work units also offer free dormitories to their young workers. The workers from these work units reported that access to a free dormitory helped them to save up for a down payment for their own home.

7.2.2 Changes in Rental Market

The rental sector has changed a lot recently. In previous studies, the public sector is identified as the major provider of rental services (Huang, 2003). Only those who cannot rent subsidized house from work-units seek to rent in the private sector. The private sector, on the other hand, was underdeveloped because there are few private owners available (Lai, 1998). The other characteristic was the low rental price. Since the work units provide housing to their workers as one kind of welfare, they kept the rental price low. At the beginning of the housing reform, several policies were adopted that were intended to raise the rental to levels that are comparable to that of the market economy. However, up until Huang's study in 1996, rental prices were still very low. The low rental price was seen as the major reason that held people back from approaching homeownership (Chen, 1996).

However, the situation has become quite the opposite now. *Ever since the withdrawal of work units from rental housing, renting has changed from a favorable to an unfavorable option.* The rental price in the private sector is subject to market rule without any regulation. Due to high demand by migrants, the rental prices are increasing rapidly in Beijing. All of my interviewees who had ever rented informed me that the high rental rate is an important factor pushing them to approach homeownership. Furthermore,

the renters are concerned about the lack of regulation surrounding housing quality and tenants' rights. Of course, work units have not withdrawn completely. As mentioned before, a lot of large work units were able to offer their workers dormitory housing. Nonetheless, these dormitories are only targeted to limited numbers of people and they are only designed for short-term rather than for long-term dwelling.

7.2.3 Impacts of the *Hukou* System

The other important factor identified by previous studies that impacts tenure choice is *hukou*. People with rural or temporary *hukou* are considered disadvantaged in the pre-1998 housing system. Huang (2003) identified that people with unfavorable *hukou* are usually prevented from accessing cheaper rental houses from the public sector. Huang's study of housing consumption also shows that all the consumption options available at that time, such as commodity housing, affordable housing, work-unit discount housing, require that the purchasers have a permanent urban *hukou*. Li also mentioned *hukou* as a determinant of housing choice by the time he conducted his study (2003). People without permanent *hukou* are usually limited in their housing choice to renting from the open market.

This constraint of hukou in housing consumption seems at least partially removed until now. The bank workers informed me that they used to have to follow strict rules to offer housing loans to applicants who do not hold permanent *hukou* in Beijing; however, this constraint has been lifted completely now. Instead, the young temporary residents, including the newly graduated non-Beijing students and those newly moved to Beijing for jobs, have become one of their major sources of clients as their need to find a living space is more urgent than for local Beijing youth. ***However, local residents have benefited from family roots and better social connections in this city.*** The local interviewees in my study are more likely to know about inexpensive housing sources through their social connections, while the migrant interviewees rely on commercial advertisements. Meanwhile, local families often own more than one dwelling, including

a central-city courtyard house passed down from family and a work-unit house purchased by their parents as on-site residents at the beginning of reform. Two of my local interviewees report that they raise money for purchasing new commodity houses through “trade-up” of work-unit houses or compensation given by developers during the redevelopment of the central city.

Chapter 8: Conclusion and Direction of Future Research

I began this study with a question in mind: What are the factors that influence housing decisions of the young white-collar workers in Beijing within a fully commercialized housing market? According to the findings from the interviews, I have come to see housing behavior of my young interviewees is affected by three major factors: the particular political-economic condition in China, aspects of family structure, and the special history of Beijing. This final chapter examines several key points from my empirical findings. In addition, the limitations of this thesis and suggestions for future research will also be touched on in this chapter.

8.1 Key Points from the Finding

- 1. Political-economic force.** Generally speaking, the current policies favor homeownership. In order to facilitate the real estate industry, the state encourages people to purchase their homes by limiting other choices. After work-unit housing distribution was repealed in 1998, public rental housing is usually underdeveloped since the local governments hope to save land for profitable development of luxurious housing. For most young white-collar workers, affordable rental housing from the state is not an available choice. The private rental market has not been effectively regulated. In addition to the high rental price, poor housing quality and unsecured tenant's rights have made renting an unfavorable choice. Furthermore, financial support is also given to fulfill people's dreams of homeownership. The requirements to receive individual housing loans are simplified. Policies, such as returning Housing Provident Funds to homes purchasers, also encourage people to buy home rather than to rent. While they are encouraged to approach homeownership, the young home buyers are suffering from low affordability. The local governments usually give more priority to projects targeting high income groups. Not only do these high-end projects bring back high revenue for the governments from land transactions, but they also bring in a population with great consuming power. My young interviewees, on the other hand, have little choice but to purchase a unit that is beyond their affordability. Although with some financial help from parents, many young adults still suffer from the financial

pressure caused by home purchasing.

2. **Family structure.** Besides being affected by the market conditions, young homeowners' housing behavior is also influenced by the "4-2-1" family structure that has resulted from the One Child Policy. To draw upon family resources has always been a more tolerable behavior in Chinese society; thus, parents' financial support is a commonly used strategy for young adults to achieve homeownership. Obviously, when we analyze the financial ability of the young home purchasers, we have to take the financial condition of their parents into account. Furthermore, it is traditional for Chinese to have an extended family household, which impacts people's decision when purchasing home. Many interviewees expressed that they would like to purchase a larger unit to prepare for housing their parents in the future. These two characteristics were strengthened after the One Child Policy was adopted. With only one child, the parents would like to and are capable to offer their children financial support even after they enter their young adulthood including helping them to meet their housing needs. In addition, since socialization of old-age support is relatively low in Chinese society at the current stage, moving in to live with their only child is a more available choice for the parents. This makes the parent more likely to support their children to purchase large and comfortable units, which can be seen as an investment for their own future. Therefore, homeownership is often not only a choice of the young adults and his/her partner but a decision involving their extended family. Because it often involves the whole family, the young homeowners are more likely to see the purchasing as a long-term decision. This decision often emphasizes the use value of housing rather than the exchange value. Except two interviewees who purchased their house for investment purpose, most people would like to choose a dwelling not only to meet their current needs but also their needs in the future. Certainly, when these young adults get older and with more accessible financial resources, their attitude might change over time. The exchange value of housing will be more likely to be taken into account.
3. **Special history of Beijing.** The other factor that shapes my interviewees' housing behavior is the special history of Beijing. Beijing as the capital is the location of many

large state-owned enterprises and governmental institutions. These work units prepared relatively good housing services to their workers in the pre-reform era. My local interviewees informed me that many of their parents purchased one or two units as on-site residents. Since these units were bought with a heavy discount, some families made big profits from selling the work-unit dwellings at market price. Another advanced group are the owners of private houses in the inner city. When rapid development took place in Beijing, a number of old-style courtyards were demolished. The owners of these houses which were acquired by the state or the developers usually got a considerable amount of compensation. One of my interviewees also informed me that the compensation helped his family buy the unit he lived in. Although the young home purchasers did not consider much about the exchange value of housing, some actually benefited by the rising price of their old dwellings. In addition, although welfare housing distribution was repealed officially, many young people in Beijing still get to live in free dormitories that are offered by large work units and governmental or military institutions that they work for. This helps these young workers to save up more easily and quickly for approaching homeownership.

8.2 Direction of Future Studies

This thesis only targets a small slice of people which represent a particular social class in a particular city. Limited by the time and resources available, there are several interesting questions I am not able to touch on in this study. These omissions and limitations can be the new directions for the future qualitative studies on housing behavior:

The results of this study are limited by its regional characteristics. In Beijing, private homeownership only started to increase when the work-unit welfare dwellings were sold to on-site residents. However, in some secondary cities, renting from private-owned dwellings has always been the major tenure form (Huang, 2004). How do people in these cities react to the 1998 policy? Repeal of the welfare housing distribution might not affect other cities in the same way as it has in Beijing. Without the influential work units, is the marketization of

housing services more easily applied? In the South, the economic reform took place much earlier than in Beijing. People in southern cities generally act more mature in the market economy. What are their purposes for homeownership? Would they consider the exchange value of housing more than my interviewees?

Furthermore, class differentiation is another limitation of this thesis. Though the income level of these young homeowners varies from 2000-3000 *yuan* per month to 6000-8000 *yuan* per month, it is not accurate to claim them as a different social class only based on personal income. As mentioned earlier, these young adults often continue receiving financial support from their parents even when they arrive at early adulthood (that is one reason why people who only make 2000 *yuan* per month can afford units larger than 100 square meters). Due to their parents' financial contributions, most of these young adults, local Beijing residents as well as migrants, come from a class whose living standard is much higher than average. How do the young peasant workers meet their housing needs? Besides renting poorly equipped flat dwellings in the peri-urban region, do they have another choice available? How do the low-income urban residents approach their housing needs when bank loans might not be accessible for them? Do they really benefit from the subsidized housing? How does the second generation of those "who got wealthy first" react to the housing price inflation? What does homeownership mean to them and do they also have financial pressure caused by homeownership?

This thesis does not pay much attention to the gender differentiation as well. The tradition of housing behavior study is to use the household as the unit of analysis. In this study, four male and six female homeowners participated. Except for two males and one female, all other people purchased the dwelling with his/her partner. Thus, this study pretty much shows housing choice and strategies of the family rather than the individual. According to the interviews, males seem to face more pressure on fulfilling homeownership. In all of the families, it is the male or the male's family who pays the larger part of the down payment. This may be due to the tradition that the groom's family should prepare a new dwelling for the newly married couple. However, we don't know the role that gender plays when the couple is

making housing-related decisions or saving up for the mortgage. If we import the concept of social class into this concern for gender, other interesting questions need to be asked. For a young male who cannot afford homeownership, will he delay his marriage? For a female with little financial ability, can marriage be a method for gaining better housing services or even a way to approach homeownership?

The overall economic condition and state policies in China are changing now. High inflation is making living expenses go up. The pace of development will slow down after the Olympic Games. State policy was shifted toward inflation control rather than promoting housing construction. China's housing market is full of uncertainty. Individual housing behaviors might alternate in reaction to these new changes. As an effective way to underline much of the urban growth and social changes, housing behavior study will continue to be a useful and interesting method for better understanding China's housing reform.

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Appendix I: Young Home Purchasers Participated in the Interview

Mr. Z, male, 35 years old, website designer of a well-known portal website. Personal income over 6000 *yuan* per month, unmarried but living with a partner, does not have a Beijing *hukou*

Ms. L, female, 28 years old, editor of a well-known portal website. Personal income around 5000 *yuan* per month, newly married, does not have a Beijing *hukou*

Muzi, female, 24 years old, single, worker in property-management department in a Japanese software designing company. Personal income is around 3000 *yuan*. Locally from Beijing

Mr. Y, male, 25 years old, driver of a small private company, occupational school graduate, served in army for three years. Personal income is around 2000 *yuan*, preparing for marriage. Locally from Beijing

Mr. A, male, 35 years old, officer of a small private developing company, served in the military for six years before get the current job. Already married and having a newly born son. Personal income is about 4000 *yuan* per month. No Beijing *hukou*

Ms. M, female, 25 years old, accountant in a small private company, served in army for three years. Personal income is around 2000 *yuan* per month. Preparing for marriage, no Beijing *hukou*

Mr. R, male, 28 years old, chief of the section responsible to investment in fix assets in one of Beijing's district government. Single, not locally from Beijing but already hold a permanent *hukou* from work unit. Personal income is about 3000 *yuan* per month.

Ms. T, female, 32 years old, official from one of Beijing's district government. Married, with one seven-year-old daughter. Not locally from Beijing, but hold a permanent *hukou*. Personal income is around 3000 *yuan* per month.

Ms. J, female, 25 years old, engineer from Beijing airport, monthly income is more than 5000 *yuan*. Preparing for marriage, not locally from Beijing but hold a permanent *hukou*

Ms. W, female, 25 years old, bank worker, with a monthly income around 3000 *yuan*. Newly married, locally from Beijing.

Appendix II: Governmental Officials and Market Practitioners

Mr. Q, the Vice Director of Beijing Social Work Committee, a newly established bureau-level committee which is responsible for making social policies. Ph D in Public Administration, Chihua University.

Mr. R, chief of the fix assets investment section in one of Beijing's district governments. MA in economy, People's University

Mr. X, CEO of one of best-established developing companies, which has successfully developed various projects in different Chinese cities. MBA, University of Singapore

Mr. H, manager of a marketing company that has marketed several housing projects that target the young adults

Workers of Individual Loan Section, four bank worker from Xuanwu District Branch, Industry and Commercial Bank of China.

Appendix III: Certificate of Approval from Behavioural Research Ethics Board



The University of British Columbia
Office of Research Services
Behavioural Research Ethics Board
Suite 102, 6190 Agronomy Road,
Vancouver, B.C. V6T 1Z3

CERTIFICATE OF APPROVAL - MINIMAL RISK

| | | |
|---|---|--------------------------------------|
| PRINCIPAL INVESTIGATOR: Michael Leaf | INSTITUTION / DEPARTMENT: UBC/College for Interdisciplinary Studies/Community & Regional Planning | UBC BREB NUMBER: H08-00082 |
| INSTITUTION(S) WHERE RESEARCH WILL BE CARRIED OUT: | | |
| Institution | | Site |
| N/A | | N/A |
| Other locations where the research will be conducted: The interview will be taken place in Beijing, China. The site of interview will be selected according to the preference of the interviewees, such as the interviewee's home, offices, or preferred public places. | | |
| CO-INVESTIGATOR(S): Lang Lang | | |
| SPONSORING AGENCIES: N/A | | |
| PROJECT TITLE: Housing Choice of Young Adults in a Fully Commodified Housing Market in China | | |

CERTIFICATE EXPIRY DATE: March 27, 2009

| | | |
|--|---|-------------------|
| DOCUMENTS INCLUDED IN THIS APPROVAL: | DATE APPROVED: March 27, 2008 | |
| Document Name | Version | Date |
| Protocol: | | |
| Proposal | N/A | January 16, 2008 |
| Consent Forms: | | |
| main study consent | N/A | January 16, 2008 |
| Consent form in Chinese | 1 | February 18, 2008 |
| Questionnaire, Questionnaire Cover Letter, Tests: | | |
| Interview Scripts | N/A | January 16, 2008 |

The application for ethical review and the document(s) listed above have been reviewed and the procedures were found to be acceptable on ethical grounds for research involving human subjects.

Approval is issued on behalf of the Behavioural Research Ethics Board

and signed electronically by one of the following:

Dr. M. Judith Lynam, Chair
Dr. Ken Craig, Chair
Dr. Jim Rupert, Associate Chair
Dr. Laurie Ford, Associate Chair
Dr. Daniel Salhani, Associate Chair
Dr. Anita Ho, Associate Chair