Bolstering Inclusionary Housing in Chinese Cities

Youqin Huang

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About the Author

Youqin Huang

Youqin Huang is Associate Professor of Geography and Planning at the State University of New York (SUNY) Albany, where she is also a Research Associate at the Center for Social and Demographic Analysis. Huang's research focuses on the spatial and demographic analysis of the impact of market transition in China. Her work has focused on three areas: housing and neighborhood change, migration and urbanization, and market transition in China. She is the author of *Housing Inequality in Chinese Cities* (Routledge, 2014) and numerous articles in *China Quarterly, Urban Geography, Housing Studies, Urban Studies,* and other journals. She received her PhD and MA in geography from UCLA and is a graduate in urban and environmental studies of Peking University.

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Introduction

China's breakneck economic growth in recent decades has been accompanied by spectacular achievements in housing consumption, with the rate of homeownership in Chinese cities increasing from 20 to 70 percent and per capita living space increasing from 4 m^2 to 29 m^2 during the period of 1980–2010.[1]

Yet these dazzling improvements have not been enjoyed by all social groups, and those at the bottom of China's social hierarchy have basically been excluded from this success story. In 2010, more than 9 percent of Chinese households still lived with less than 8 m^2 per capita of floor space. Meanwhile, the unprecedented housing and land reforms in Chinese cities have yielded skyrocketing housing prices and a severe shortage of affordable housing. Despite decades of massive provision of subsidized rental housing, the Chinese government has failed to provide adequate housing for the country's poor.[2]

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Faced with intensified public discontent, the central government made a significant shift in housing policy in 2010: it moved away from stimulating economic growth to an emphasis on achieving social goals.[3] Specifically, the central government established ambitious goals for subsidized housing (with 5.84 million additional units of subsidized housing in 2010 alone, and another 36 million units for the period 2011-2015), set quotas for local governments to develop subsidized housing, and included subsidized housing in the performance evaluation of officials.[4]

The government's goal has been to provide 20 percent of all urban households with subsidized housing. Beijing has also directed that low-income households should enjoy 13 m^2 per capita by 2015.

Even though the government *reports* that it has fulfilled (and even surpassed) annual targets, actual performance is hard to evaluate as local governments often use various types of housing development, such as resettlement housing and housing developed by work units, to meet their numerical targets.

But there is no doubt that China has entered a new era for low-income housing. Faced with a mandate from the state to ensure a certain amount of subsidized housing amid severe budgetary pressures, local governments have explored different strategies to fulfill their quotas and provide subsidized housing.

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This has led to projects beyond the traditional concentrated, large-scale projects built by the government. A new strategy is the so-called *peitao jianshe* (or *pei jian*, for short), which requires developers to provide a certain number of subsidized housing units as part of their development of private housing. *Pei jian* is equivalent to inclusionary housing in the West.

"Inclusionary housing" refers to "a means of using the planning system to create affordable housing and foster social inclusion by capturing resources created through the marketplace," providing "incentives to private developers to incorporate affordable or social housing as a part of market-driven developments."[5]

The adoption by China of inclusionary housing can potentially offer an important new strategy to meet the country's massive need for low-income housing.

This strategy is primarily used to meet goals of housing affordability and social inclusion, often targeting economic integration and poverty alleviation as well.[6]

In the United States and Europe, inclusionary housing was introduced and grew in popularity during the 1970s and 1980s, when existing social housing, built through earlier government programs, were being restructured. New programs were rolled out to encourage more *private* market involvement in the provision of low-income housing.

But in China, unlike the United States and Europe, private developers have played a very limited role in providing subsidized housing and it is the government that has been the main provider.

Traditionally, subsidized housing in China has been developed in concentrated, large-scale projects containing units for low-income households only. Developers may build such units at the request of the government, but they are managed by government agencies. And since local governments provide urban land at no charge for subsidized housing, these concentrated subsidized housing projects tend to be located at the urban fringe, with poor access to public services and economic opportunities.[7] In China, this has contributed to the social and spatial marginalization of the poor, in addition to other social problems related to large subsidized housing projects.

But with China's rapid effort to urbanize, demand for subsidized housing will continue to surge, raising the question of how to address rapidly rising housing inequality and residential segregation.[8] The adoption by China of inclusionary housing, relying more heavily on private developers, can potentially offer an important new strategy to

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meet the country's massive need for low-income housing, while at the same time reducing social and spatial segregation.

This policy memorandum makes this case by addressing several issues: It begins by asking, how successful has inclusionary housing been in China? It suggests that while the supply of subsidized housing has increased, it has not achieved social and spatial inclusion and has yielded new problems for Chinese cities. The memo then identifies the specific mechanisms and incentive systems that will be needed to make inclusionary housing successful and sustainable in China.

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Low-Income Housing: Severe Shortage, Marginalized Location

In China, "indemnity housing" (*baozhang xing zhufang*) is used to refer to all types of subsidized housing for low- and middle-income households, including:

- Cheap Rental Housing (CRH) (*lian zu fang*);
- Public Rental Housing (PRH) (*gonggong zulin zhufang)*;
- Economic and Comfortable Housing (ECH) (*jingji shiyong fang*);
- Housing with Controlled Price and Size (*liang xian fang*);
- Housing with Shared Ownership (*gongyou chanquan fang*); and
- Recent resettlement housing for displaced households in shantytown redevelopment and urban renewal (*dingxiang anzhi fang*).[9]

In other words, "indemnity housing" is a much broader concept than simply *low-income* housing. In general, only the first three types listed above qualify as low-income housing in Chinese cities (see Table 1).

CRH refers to rental housing subsidies to "low-income households facing housing difficulty," which can be provided in the form of public housing offered by the government or work units, or else monetary subsidies to low-income households who rent private housing on the market.[10] CRH has been a major source of housing for the poor since 1998, when the Chinese government started to deepen its housing reforms.

By contrast, ECH is provided by developers on free land, allocated by local municipal governments. It is then sold to qualified households at government controlled prices and with partial property rights.[11] Developers are allowed to have only a 3 percent profit margin, and the average price for ECH has been roughly 50-60 percent of the average price for all housing during 1998-2006. ECH was designed as the main type of housing for the majority of Chinese urban households, but in 2003 was redefined as policy-oriented housing and, since 2007, strictly as low-income housing.[12]

PRH is rental housing provided by either public or private agencies at government-controlled rents. It targets mainly lower-middle income households facing housing difficulties, new employees, and qualified migrants who have stable jobs and residency permits to live in cities.[13] PRH did not start until 2010 but it is becoming the focus of China's low-income housing program. Since 2014, CRH has been combined into PRH.[14] Indeed, in many cities, such

as Guangzhou and Beijing, more PRH has been built in recent years than CRH and ECH combined.[15]

While China has experienced an unprecedented housing construction boom, with 33.2 million units of residential housing completed during 1999–2008,[16] the provision of low-income housing has been very limited. By the end of 2006, the cumulative provision of CRH was just 550,000 units, despite the fact that there were 10 million low-income households with housing difficulties and 4 million Minimum Living Standard Assistance (*di bao*) households facing housing difficulties.[17] The provision of CRH increased significantly in 2007, with cumulative units of CRH reaching 950,000 by the end of 2007,[18] but according to 2010 census data only 2.7 percent of all urban households lived in CRH.

Before 2003, ECH was considered to be the main housing type for the majority of urban households, thus there was a large number constructed each year,

Table 1. Types of Low-Income Housing in Chinese Cities

Housing Type	Cheap Rental Housing (CRH)	Economic and Comfortable Housing (ECH)	Public Rental Housing (PRH)
Starting Year	1998	1998, but redefined as low-income housing in 2007	2010
Ownership	Public or private	Private	Public or private
Housing Tenure	Rental	Mostly owned, a very small share is rental	Rental
Providers	Municipal government, work units, developers, households	Developers, work units	Municipal government, work units, developers
Subsidies	1) Housing provision with controlled rents; 2) Rent subsidies; 3) Rent reduction	Free land provided by municipal government; price controlled by the government, with 3% profit margin	Land may be free; regulated rents; fee/tax reduction
Target	Low-income households with housing difficulty	Low and middle income households; later changed to low income households with housing difficulty	Lower-middle income households, new employees, and qualified migrants who have housing difficulty

Source: Compiled by the author from Chinese government policy documents.

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accounting for more than 20 percent of all housing completed in China. By the end of 2003, there were about 2.7 million units of ECH completed cumulatively. But the provision of ECH declined sharply after it was subsequently redefined as low-income housing, since developers focused more on market rate commodity housing and the government aimed to create a low-income housing focused on rentals.[19]

By the end of 2007, cumulatively, therefore, there were only 4.2 million units of ECH, and less than 4 percent of all Chinese urban households were living in ECH. And since ECH was not strictly low income housing until 2007 and there were serious problems in allocation, less than 20 percent of ECH was occupied by low-income households in 2007.[20]

To see what this has meant for China's housing situation, let's assume that 20 percent of ECH is intended for low-income households. By that measure, the total provision of low-income housing (CRH and 20 percent of ECH) by 2007 was less than 1.8 million units, even at a time when more than ten *million* urban low-income households faced housing difficulties.[21] In short, by 2007, the rate of coverage was only 18 percent at most.

In 2008, China's economic stimulus gave the low-income housing program, and CRH in particular, a major push, with cumulative provision reaching 4 million units/households. The central government planned to add another 7.09 million units of CRH and 3.6 million units of ECH during 2009–2011,[22] but abandoned this plan after poor performance in 2009.

The shortage of low-income housing in China is further compounded by problems in allocation. For example, the lack of complete and reliable income information in China has made it very difficult to control who is entitled to—and who must exit—low-income housing. "Public display" (*gong shi*) of applicants' information has been used to discourage false claims. But apart from having to return the property after detection, the penalty for false applications is negligible. Not surprisingly, low-income housing often ends up in the hands of unqualified households. In 18 prefectural cities, for example, there were 533 units of CRH and 4.13 million yuan of rent subsidies distributed to unqualified households during 2007–09.[23]

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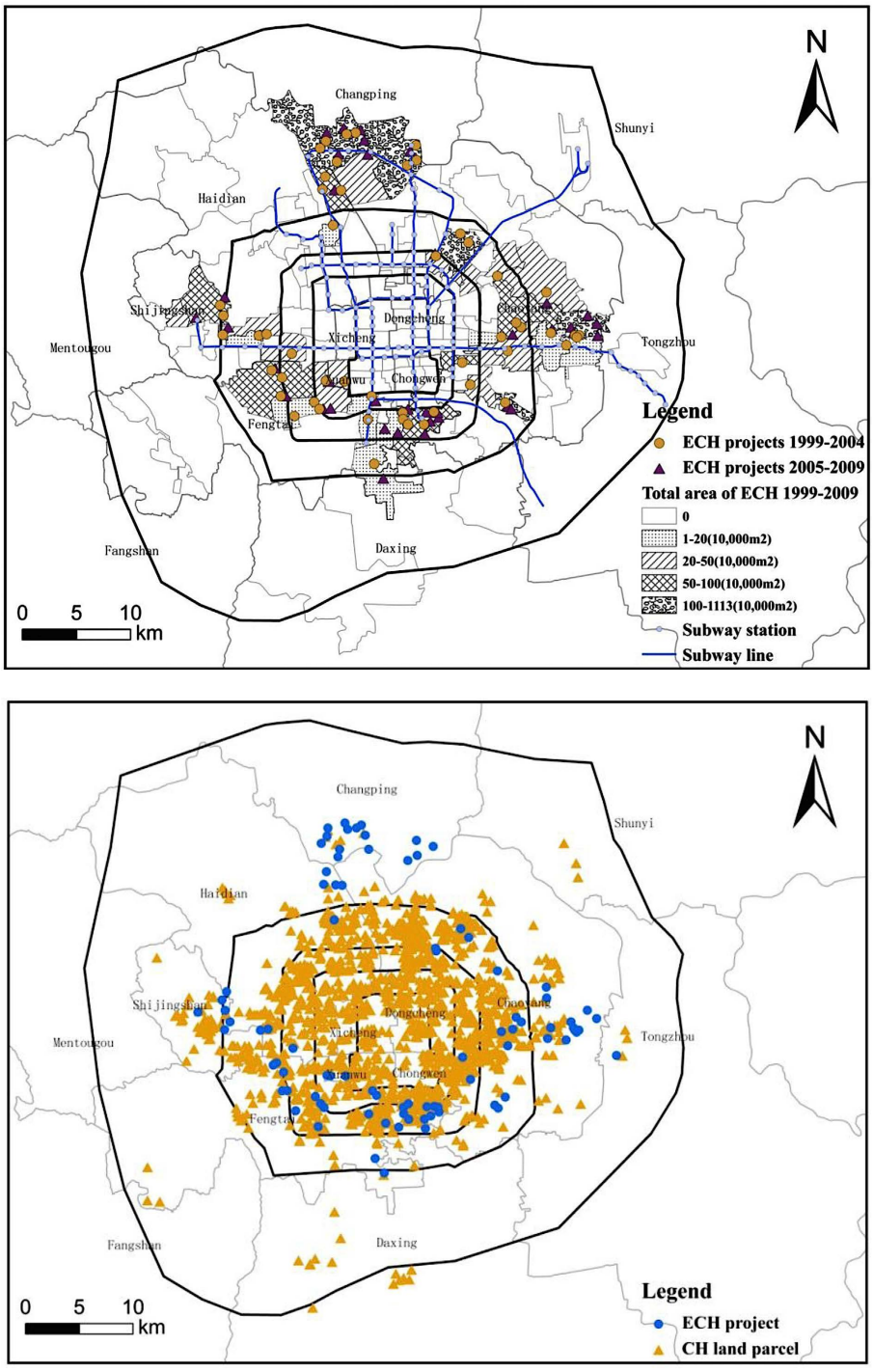
Misallocation of ECH is an even greater problem since its property rights and lower-than-market prices make it attractive to even *high*-income households. Indeed, in 2007, the majority of ECH in China was allocated to middle-income households, and high-

Figure 1. Spatial Distribution of ECH Projects and Land Parcels for Commercial Housing



Source: Dang et al., 2014.

income households actually occupied more ECH than low-income households.

In addition, although ECH was classified as low-income housing in 2007, local governments often used it for other purposes, such as settling displaced households and attracting skilled workers. Not surprisingly, corruption and fraud are common in ECH allocation.[24]

What is more, land-centered urban development and local governments' dependence on land-related revenues have led to low-income housing being developed mostly at marginalized locations on the urban fringe. As shown in an example of ECH in Beijing: about 70 percent of all units built during 1999-2004 and 90 percent built during 2005-2009 were located outside the Fifth Ring Road, which circles the city from about 6.2 miles away from the center. In comparison, less than 10 percent of land parcels leased for commercial hosing development were outside the Fifth Ring Road (see Figure 1).[25]

This fundamental lack of accessibility, services, and employment opportunities has created a problem of "spatial mismatch" in the suburbs of Chinese cities. For the same reason, many low-income households give up their right to rent or purchase low-income housing at marginalized locations, leaving many low-income housing developments vacant. For example, in Inner Mongolia, less than 39 percent of all subsidized housing built since 2008 is occupied.[26] The low occupancy rate in an already limited pool of low-income housing further compounds problems in this sector.

Inclusionary Housing: A New Strategy

To mitigate some of the problems of low-income housing, many local governments in China have experimented with inclusionary housing. For example, in 2005, the Bureau of Construction in the city of Nanjing for the first time required developers to provide about 10 percent of low-end commodity housing (including ECH) in regular commodity housing developments that have more than 50,000 m^2 residential land.[27] In 2006, the Shenzhen Municipal Government required developers to devote 15 percent of that city's private housing development to public rental housing. More cities adopted the practice in 2007, including Beijing, Changzhou, Harbin, and Qingdao. These pilot experiments with inclusionary housing at the local level have paved the road for national adoption. In 2007, the State Council required that new CRH and ECH should be provided mainly through inclusionary housing in private housing projects, supplemented by concentrated development.[28]

With this national embrace of inclusionary housing, it is clear that the central government is interested in reducing housing inequality and residential segregation. From the government's perspective, this would serve two purposes: to avoid the social problems associated with large scale low-income housing projects, and to ease intensified public discontent due to skyrocketing housing prices and the severe shortage of low-income housing. To meet these objectives, the central government has established ambitious goals for low-income housing since 2010, and allocated quotas among local governments.

With this national embrace of inclusionary housing, it is clear that the central government is interested in reducing housing inequality and residential segregation.

But this new mandate exerted more budgetary pressure on local governments, which were already stressed as a result of the 1994 fiscal reform that required local governments to should an increased burden for public services while receive a smaller share of revenues.[29] As a result, local governments have adopted inclusionary housing with great enthusiasm; they view it as a means to alleviate their financial and political pressures.

For example, in Shandong province, inclusionary housing has been implemented in all commodity housing projects since 2010. In Beijing, all housing projects since 2010, except high-end commodity housing such as villas, have been required to include subsidized housing, and the share of subsidized housing in inclusionary

housing projects has been increased to at least 30 percent.

Urban land in Chinese cities is owned by the state and local municipal governments are the sole providers of land lease rights on the primary land market, thus giving municipal governments a monopoly on land supply. In addition to generating massive land conveyance fees, which often account for more than 50 percent of the local revenue,[30] local governments are using their monopoly of land supply to channel *private* investment into low-income housing development. This, in turn, guarantees the development of inclusionary housing within market-rate residential developments.

To fulfill their quota for low-income housing, municipal governments set up annual targets for inclusionary housing and then allocate low-income housing among the appropriate residential land parcels that they are going to put up for leasing. Not every parcel of land is destined to be inclusionary housing but, in most cases, developers have to comply with the requirements in order to access urban land for housing development since urban land is, after all, in short supply. The percentages required for low-income housing vary significantly between projects, locations, and cities, ranging from 5 percent to 30 percent. Many cities have utilized project-based inclusionary housing while others, such as Qingdao, have implemented a citywide inclusionary housing program, requiring compliance from all new housing projects.

Municipal governments use two models to determine how much low-income housing must be built: In the first model, the government determines the percentage to be devoted to low-income housing in a specific project, and private developers then bid for the lease rights of the land. This model gives municipal governments full control of the amount and location of low-income housing.

The second model is called "controlling land price, bidding inclusionary housing units" (*xian di jia, jing pei jian*). Here, the government sets up a "reasonable maximum land price" for the specific parcel of land. When the bidding price reaches that price, developers begin to bid for floor space for low-income housing in that project. This method guarantees the local government receives a reasonable land conveyance fee but, at the same time, tries to maximize the floor space for low-income housing. In inclusionary housing projects, developers receive not only lower land conveyance fees, but also other incentives, such as various tax and/or fee waivers.

In Western countries, there are different models for inclusionary housing, including on-site development, off-site development, and payment-in-lieu.[31] But in China, on-site development is usually required, while the other two alternatives are rare.

Still, exceptions are made for residential land deemed to be not appropriate for inclusionary housing. In these cases, developers are allowed to pay a lump sum to local governments, who then use the money for the off-site development of low-income housing projects.[32] In Beijing, over 8 billion yuan ($1.25 billion) have been collected for the off-site development of PRH.[33]

The strong preference for on-site development aims to create mixed-income communities and increase the supply of low-income housing. The guiding principle for inclusionary housing in China is "scatter on a large scale, concentrate on a small scale" (*da fensan, xiao jizhong*) in an effort to avoid the large-scale concentration of poverty and low-income housing. Mixed communities are the goal.

Photo: Flickr/Kimo Toyama

After the completion of low-income housing projects, local governments may choose to purchase inclusionary housing units from developers at pre-agreed prices. This is similar to the French turn-key model.[34] In some cases, developers build and manage inclusionary housing for five years, then transfer the housing to local governments at a fee. In other cases, local governments take over inclusionary housing units for free. The model here is to "Build and Transfer" (BT)—a model that has been used in Panzhihua, a prefecture-level city in Sichuan province, and Shenzhen in Guangdong province.

A developer can access urban land in China only through the government and via the primary market. Thus developers often have no option but to adopt inclusionary housing as it is the only way to acquire urban land.

For this reason, there can be no doubt that developers have supplied the required amount of low-income housing in their market-based housing developments. But the amount of low-income housing provided through inclusionary housing is still relatively small when one considers the fact that only appropriate new housing developments will comply with inclusionary housing and the overall percentage of inclusionary housing units is relatively low.

Other factors have reduced the supply of inclusionary housing as well: For instance, in the model that Chinese call "controlling land price, bidding for inclusionary housing units"—through which the government does not set up percentages for inclusionary housing—

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there have been cases of developers able to access urban land with as little as 100 m^2 allocated for low-income housing units in their private housing projects.[35] Another such example involved the many so-called "aborted bids" (*liu pai*) for land, where developers avoid bidding for land that carries inclusionary housing requirements.

Taken together, it is clear that the overall share of low-income housing provided through China's inclusionary housing effort is relatively small. It is true that the actual scale of inclusionary housing at the national level is difficult to ascertain since housing statistics are compiled by *type* of housing rather than the mode of provision. For example, in Guangzhou, of a total of 85,000 units of low-income housing planned for 2012, only 8.2 percent were inclusionary housing units in private developments and another 9.6 percent were in housing developments by work units, so the majority would have had to be provided by the government.[36] Still, in Beijing, eight PRH projects involve inclusionary housing, and more than 50 percent of the 70,000-plus units of PRH are inclusionary housing.[37]

Problems with Inclusionary Housing

Inclusionary housing has the potential to bring many benefits to residents, developers and the Chinese government. And these benefits are in addition to the prospect of increasing the supply of low-income housing.

To see why, it is useful to take a comparative look at inclusionary housing. US-based studies, for instance, show that low-income residents may access improved social networks, higher levels of informal social control, higher rates of employment, enhanced respect for property, and improved access to services and infrastructure.[38] Meanwhile, private developers can use inclusionary housing to develop housing projects at an increased density while enjoying faster-track permit processing and tax and/or fee waivers. Local governments, too, might benefit politically and economically from the successful provision of diverse housing options for the local labor force.[39]

However, inclusionary housing in China thus far has been a government-driven campaign, mainly aiming to meet low-income housing targets set by the central government in Beijing. Thus there are many problems and challenges with inclusionary housing in China.

For one thing, while numerical targets for inclusionary housing may have been met, the overall effort has not achieved the goal of social and spatial inclusion. Indeed, the guiding principle of "being scattered on a large scale, being concentrated on a small scale" aims to avoid large concentrations of low-income housing at the *city* level but does not target social and spatial inclusion at *neighborhood* level. The concept of "small scale" is very vague, which in turn makes implementation difficult.

In Beijing, for example, local planners and officials aim to have low-income housing in every residential area of about 30,000 people in size, and that is a very large spatial scale for social inclusion. Not surprisingly, then, low-income housing provided through inclusionary housing ends up being marginalized at both city and neighborhood level. Since municipal governments are under fiscal pressures to maximize land-related revenue while fulfilling policy mandates to provide low-income housing, they usually designate cheaper land on the urban fringe for inclusionary housing projects rather than doing so in prime, central locations where higher fees can be demanded.

At the neighborhood level, since developers have complete control over the location of low-income housing within their developments, it is common for them to build low income housing building/units at marginal, less desirable locations on the project. In fact, the concentration of low-income housing on a small scale is required to "facilitate management." In cities such as Panzhihua

in Sichuan province and Zhengzhou in Henan province, the government requires that developers put low-income housing in their inclusionary housing projects into separate buildings from market rate housing; if that proves impossible, then they are required to place it in the same building but separate wings of the structure to, as the phrase noted above put it, "facilitate management."[40] The bottom line, however, is that inclusionary housing in China is spatially marginalized—within a city, within a single development, and even within a single building.

An example is Ocean Vista (*yuanyang qin shangshui*), the first inclusionary housing project in Beijing that includes PRH. It was built in 2011 and has served as a showcase project because of its relatively good location and quality. Yet it is located between the Fourth and Fifth Ring Roads, several miles away from the city center. Its 550 units of PRH are all concentrated in a single 24-story building (denser and higher than other buildings), at the corner of the project, and it faces a noisy high-speed railway and a major thruway. Residents of this PRH project complain that it is too noisy for them to open their windows.

And even though the government has forbidden developers to physically separate low-income housing from private housing,[41] it is common to see various types of physical barriers between the two, ranging from barricades, to different entrances, to different zones, to the use of green spaces as a barrier, to fences and walls (see Figure 2). Thus, despite good infrastructure in private housing projects, residents in inclusionary

Figure 2. The "Beautiful Garden" (*qingxiu yayuan*) Development in Beijing

An iron fence separates public rental housing (L) from private commodity housing (R).
Source: Author.

housing usually cannot access them, even when they are located nearby.

This spatial marginalization and isolation has not yielded social inclusion and economic integration of inclusionary housing residents within the housing development as a whole. In addition to differences between low-income and upper-income households in terms of culture, language, and use of community facilities, spatial marginalization and isolation may stigmatize residents in inclusionary housing units in the eyes of residents in market-rate housing. So it also inhibits the development of social networks and social capital.[42] My fieldwork in Beijing revealed that there is virtually no interaction between low-income households in inclusionary housing and their counterpart residents in private housing.

But that is not all: the government requires "separated management" (*fenkai guanli*) of low-income housing from private housing in inclusionary housing projects, which further exacerbates social exclusion. Low-income housing in inclusionary housing projects is managed by municipal Affordable Housing Centers (*baozhang fang zhongxin*), a government agency that often has an on-site office to take care of the rental business of low-income housing and serve low-income households. But by comparison, private housing in the same project is sold by developers and managed by a private Property Management Company (PMC). The PMC is supposed to provide the same property services to low-income households in inclusionary housing as well; yet, the government pays a much lower property management fee for low-income households than homeowners pay out of their pockets.[43] Naturally, the services the two categories of residents receive are different. So the separation of management further reinforces the separation of the two social groups.

At the same time, inclusionary housing fails to include and integrate migrants to Chinese cities. Due to the persistence of China's household registration system (*hukou* in Chinese), which ties territorial welfare goods to *hukou* status, migrants have conventionally been excluded from low-income housing in cities.

In 2010 when China first established PRH, "qualified migrants" were part of the target population. The State Council also required prefecture and higher-level cities to include qualified migrants with stable jobs into the urban low-income housing program by the end of 2013.[44] Still, other low-income housing programs, such as ECH and CRH, remain inaccessible to migrants. Thus PRH, and especially PRH units provided through inclusionary housing, offers a unique opportunity to integrate migrants into mainstream urban society.

The problem, however, is that with the exception of cities such as Chongqing, in most cities migrants' access to PRH remains a policy on the paper only, and

few migrants have actually benefited from it. Take Beijing as an example: all districts and counties are required to incorporate qualified migrants into their PRH program before the end of 2013.[45] Yet only Shijingshan District has a real policy on migrants and there have been just 118 migrant households who have accessed PRH. That is out of a total population of over 7 million long-term migrants in Beijing in 2010. According to a field interview with one official in Beijing, the Beijing Municipal Government is trying to upgrade its economy and wants to drive out the "low-end" population. Thus there is no real intention among local officials to offer low-income housing to migrants; instead, population control remains the bigger goal for large cities.

Another factor is the government itself is currently the main beneficiary of inclusionary housing, while both developers and residents are not benefiting much. This in turn threatens the success and sustainability of inclusionary housing.

The central government benefits politically from the program by being able to declare that it has met its ambitious low-income housing target. For their part, local governments benefit by actually meeting central government quotas and increasing their provision of low-income housing. Local governments are also somewhat relieved from the financial pressure to develop low-income housing by channeling *private* investment into low-income housing provision, although they do sacrifice some land conveyance fees and taxes and other fees, in the bargain.

But developers *do not* benefit much from inclusionary housing, except insofar as they are able to assure their access to land. With higher profit margins in the high-end housing submarket and in the ownership sector, few developers have invested in rental and low-end ownership housing. Their recent participation in inclusionary housing is more a forced behavior than a self-motivated action.

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Developers take on various risks by participating in inclusionary housing schemes. For example, the presence of low-income housing in their developments may jeopardize a given development's brand, lower the perceived quality of market-rate housing, and thus negatively affect sales and profits. In other words, even though developers may benefit from a lower land conveyance fee and enjoy tax and/or fee waivers, they may still suffer financially from the lower prices for their market-rate housing and the difficulty of making sales.

Developers also have to pay for low-income housing developments in their projects upfront, and then sell to the government later at a predetermined price. The subsequent transfer of low-income housing to the government can be a lengthy bureaucratic process, and

prices for building materials may increase, so it takes a long time for developers to recover their cost. In some cases, developers have had to transfer low-income housing to local governments for free, thus they cannot even recover their costs, let alone make a profit. Ultimately, the presence of two vastly different socioeconomic groups in the same development poses big challenges to property management. For both financial and management reasons, developers are hesitant to invest in projects with inclusionary housing, as evidenced by the large number of aborted land bids (*liu pai*) in recent years.

Similarly, low-income households do not necessarily enjoy additional benefits from inclusionary housing. Since low-income housing quotas are set by the central government, inclusionary housing only changes the *share* of low-income housing established by the government as opposed to private developers. For the ordinary tenant, therefore, it does not really affect their chances to access low-income housing.

Rents and prices for low-income housing are regulated by local governments, thus low-income households pay similar rents/prices for their housing regardless of whether it is in an inclusionary housing project or in a concentrated low-income housing project. In other words, viewed as an economic issue, residents do not really benefit from inclusionary housing policies. Private housing projects may be better located than concentrated low-income housing projects, and may also provide better access to public services and job opportunities.

As discussed earlier, inclusionary housing in its current form does not automatically lead to social inclusion thus the benefits of living in mixed-income communities and improved social capital and economic opportunities are not necessarily evident. On the contrary, to cut costs, developers often build poorer quality housing for low-income households and situate their buildings at marginal locations with poor orientation. So ironically, some low-income households in inclusionary housing are actually in a worse position than those who live in concentrated developments built by the government.

High-income residents in inclusionary housing projects fare no better. By and large, such residents worry that the presence of low-income housing in their development will devalue their property, even as the high density of low-income resident populations overcrowd the public spaces and overburden public services in the development. High-income residents also tend to be concerned about practices among low-income people such as group renting (*qun zu*). In reality, high-income residents tend to believe it is they who must "pay" for low-income residents, insofar as their fees are contributing to shared public services, property management, and housing subsidies.

Designing a Better Policy and Incentive System

Inclusionary housing in China needs a better policy design and a better incentive system. Only in this way can China make it an important and sustainable strategy for providing a large share of low-income housing while encouraging social and spatial inclusion.

First, local governments should shift their focus from fulfilling housing quotas and facilitating management to forging social inclusion. The guiding principle of "being scattered on a large scale, being concentrated on a small scale" should be changed to "being mixed on a small scale." Only mixing on a small scale, such as at the neighborhood level, can lead to social and spatial inclusion.

Inclusionary housing in China needs a better policy design and a better incentive system.

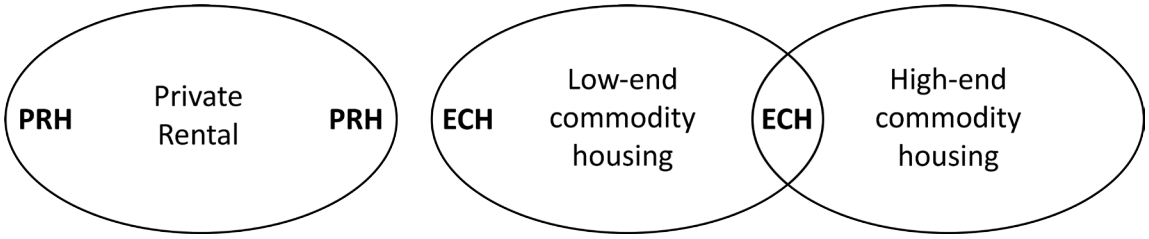
While the provision and management of low-income housing are both important, social and spatial inclusion has to be at the center of policy design and implementation to achieve social harmony. Local officials' performance evaluation on low-income housing should not be focused only on the *quantity* of low-income housing provided, as is the case now, but also on the social goals that their low-income housing program has achieved. For example, measures could be adjusted to better evaluate whether low-income housing has achieved its social goals: these could include the percentage of low-income households at the neighborhood level, low-income households' employment rate, and the occupancy rate of low-income housing.

Second, mixed-income and mixed-tenure developments that layer multiple programs together, rather than simply mix two types of units (such as PRH for the poorest households and market-rate ownership housing for the wealthiest ones) may provide greater financial benefits to developers while also providing social benefits to residents.

Here is an illustration: PRH, private rental housing, ECH and low-end and high-end private commodity housing can be all included in one project, with PRH mixed in private rental housing and ECH mixed in low-end commodity housing (see Figure 3). In this scenario, residents would live with people of similar income but also have increased exposure to residents from different income brackets and with different social and economic connections. Developers could benefit by improving marketability of higher-income units through reduced stigma, while recouping a larger part of their financial investment.

With PRH mainly mixed in private rental housing, and ECH mixed in with low-end commodity housing, property

Figure 3. Schematic for Mixed-Tenure, Mixed-Income Inclusionary Housing Project



Source: Author.

management should be relatively easier too. For instance, a two-tier property management fee can be charged to renters and homeowners, and the government could pay for the difference between fees for private renters (or homeowners) and public renters (or homeowners). Such a scheme would also ensure that low-income households enjoy the same property management and services as higher-income households. Inclusionary housing is much more likely to prove sustainable if both developers and residents benefit it.

Third, at the project level, the government should have detailed policies and requirements about the location and distribution of low-income housing units in inclusionary housing. This would further the goals of social and spatial inclusion.

For example, the government should require developers to spread out low-income housing buildings among private housing buildings in the project, and also to mix low-income housing units within the same buildings as market-rate ownership units. That would help to avoid marginalization and concentration within the project. Currently, the government has no requirements at the project level. When requirements do exist, the government requires the developers to concentrate low-income housing in separate buildings from market-rate housing. Not surprisingly, developers tend to concentrate all low-income units in separate buildings, clustered at marginalized locations in the project. This exacerbates the negative stigma associated with low-income housing provision, making this model unsustainable and unprofitable.

Mixing at the project level—and even at the building level—may bring challenges to housing development and property management. But the Western experience has shown that it can be feasible. For instance, small units in the building can be used for low-income housing, while large units are private housing. Only through mixing at the project and building level will Chinese inclusionary housing projects assure social and spatial integration.

Fourth, the central government should introduce measures to ensure that local governments incorporate qualified migrants into low-income housing programs, especially PRH, as inclusionary housing is developed. Currently, both the central and local governments in China acknowledge migrants' rights to PRH, yet few cities have actually incorporated migrants into their PRH programs. Thus specific measures will be needed to better ensure local implementation.

One way to do this would be for the central government to require local governments to allocate to migrants a certain percentage of PRH in inclusionary housing. As low-income households with urban *hukou* are increasingly covered, migrants would gradually become the focus of China's low-income housing program.

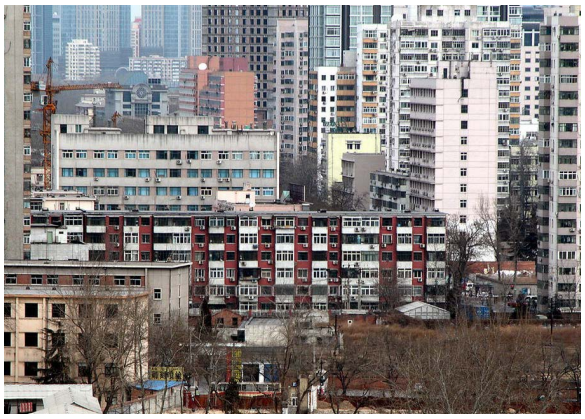


Photo: Flickr/Peter Morgan

Fifth, given the fact that the government cannot provide sufficient low-income housing to meet the huge demand, better incentives are needed to encourage the active participation of private developers (instead of the forced participation that currently is the norm). Beyond cheaper land conveyance fees and taxes/fee waivers, developers should be rewarded for engaging in inclusionary housing. For example, they should be able to obtain low-interest loans, develop their projects at a higher density, receive faster permit approvals, receive installments from the government while building low-income housing to ease financial pressure, and receive a low but guaranteed rate of profit from low-income housing development.

Balancing private profit with social gains is always a challenge but will be needed to increase developers' active participation and promote social inclusion in a sustainable manner. With the lower profit margins in the owned housing sector and the slowdown of the housing market in recent years, Chinese developers may be motivated to invest in private and public rental housing for low but stable profits. In short, incentives from the government can further encourage developers to engage in the public rental sector.

Finally, both the central and local government should avoid frequently changing housing policies. While adjusting policies is common and healthy, drastically changing policies often leads to uncertainties and confusion in policy implementation.

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For example, in the provision of low-income housing—in other words, concentrated development and inclusionary housing—the Chinese government has shifted its position multiple times. Since 2007, for example, the central government has required that new low-income housing be provided mainly through inclusionary housing, supplemented by concentrated development.[46]

But since 2013, concentrated developed has been considered the main method and the central government has stressed that the government itself should be the main provider of low-income housing.[47] This certainly does not encourage developers' participation in low-income housing efforts.

Meanwhile, existing policies need to be implemented more effectively. Currently, there is a misallocation of ECH to higher income households, while low-income households in China are actually *surrendering* their rights to low-income housing due to poor housing quality and marginalized locations.

With a better model of inclusionary housing, low-income households would be less likely to give up their chance to move into low-income housing. And the gradual shift to mainly PRH, low-income housing would be less attractive to higher-income households due to small units and the lack of homeownership.Stricter entry criteria need to be established. As income and asset figures are less likely to be accurate, actual housing consumption should be used as a main criterion for allocation. Ongoing property registration will ensure that low-income housing is allocated only to those without housing.

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