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**More doesn't mean better:
inefficiencies in China's
affordable and social
housing sector**





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Report for Royal Institution of Chartered Surveyors

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Abbreviations

ECH	Economic and Comfortable Housing Subsidised housing available for sale, introduced in the 1994 policy with land provided free of charge and multiple exemptions from taxes.
LPH	Limited Price Housing Housing introduced in the 2007 policy, sold at prices close to the market rate.
LRH	Low Rent Housing Subsidised rental housing introduced in the 1998 policy.
PRH	Public Rental Housing Subsidised rental housing introduced in the 2007 policy, let at rents close to market rates.
RIH	Redeveloped and Improved Housing Housing introduced in the 2007 policy which replaced substandard dilapidated accommodation and shanties.

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Executive Summary



China's urban housing provision system has experienced a transition from state-dominated to market-dominated provision since 1980. The marketization of housing did include the provision of affordable housing in the national housing policies enacted in 1994 and 1998, but these were not adhered to, leading to lower levels of affordable and social housing (ASH) for low to lower-middle income urban households. In particular, Economic and Comfortable Housing (ECH), the main form of affordable housing, was often captured by medium to higher income families. To tackle worsening housing affordability, a new ASH provision system was established in 2007 by the central government at the constitutional level. This comprised of a combination of housing for rent and sale, ECH and Low Rent Housing (LRH), and was expanded to include Limited Price Housing, Redeveloped and Improved Housing and Public Rental Housing (PRH) by 2010. Increased investments since 2006 by the government have substantially increased

the availability of ASH in Chinese cities, and greatly improved the housing conditions of low to lower-middle income urban households. In particular, the programme of building 36 million units of ASH between 2011 to 2015, has made significant progress and is likely to be achieved. However, the rapid expansion of China's urban ASH sector has raised concerns around the efficiency of provision and management, with problems of planning, design, construction, distribution and administration being identified.

Through an extensive literature review, desktop research and intensive fieldwork in Guangzhou (South China), Wuhan (Central China) and Beijing, this study gathers and examines evidence of inefficiency in China's ASH sector and investigates its causes. It uses a three-level analytical framework. Institutional analysis is conducted at the constitutional choice, collective choice and operational choice levels to examine rules, property rights and incentives.

The conclusions drawn from the analysis are as follows:

1. Inefficiencies in ASH distribution and management

- Insufficient finances and inadequate legislation lead to ASH projects being built in less favourable locations, with a lack of public infrastructure in the early years.
- Certain construction quality problems exist mainly due to the use of cheap materials under tight budgetary control. However, this is not found to be a significant problem at present.
- Exclusion of migrant workers from ASH coverage is widespread in Chinese cities and contributes to units being left vacant.
- Concentration of ASH in large housing estates creates significant management problems.
- ASH distribution still suffers from ineffective credit checking systems and insufficient manpower to screen applications.
- Estate management is often rendered less effective due to unclear rights and responsibilities, for both management staff and occupiers. In particular, there are no effective sanctions against occupiers who exhibit anti-social behaviour, lack financial discipline and refuse to leave when found unqualified on income and assets grounds.
- In addition, lack of competition and alternative ASH provision reduce choices and satisfaction among occupiers.

2. Inefficiency in Institutional Arrangements

Inefficiencies in China's ASH are also created through poor institutional arrangements. The constitutional level, represented by the parliament and central government, has not enacted the required collective choice rules for local governments to prioritise ASH provision and management, and to provide a comprehensive set of arrangements for the inclusion of migrant workers in ASH coverage. Ambitious ASH building targets were not accompanied by sufficient financial support. This led to some of the inefficiencies in the distribution and management of ASH, such as the building of large ASH estates, which created management problems, and in some cases led to manipulation of numbers to achieve targets.

Without clear and sufficient legal frameworks, authority and obligations, local governments could not provide adequate and effective operational rules to guide the ASH sector. Consequently, local governments often exhibited delay, inaction and inability in ASH provision and management. This had a knock on effect for estate management staff and occupiers at the operational level.



3. Reforms at Constitutional and Collective Level

Reforms that result in the removal of institutional barriers are necessary to solve the problems that lead to inefficiencies in China's ASH provision and management. Key reforms should be conducted at the constitutional and collective choice levels, i.e. by the central and local governments, to provide the necessary status, authority, and rules for the operational level.

4. The British Experience:

The British experiences in ASH provision and management are worthy of study in China. In particular, British practices in establishing a complete set of institutional arrangements for ASH provision and management, explicit and stable financial provision by the central government, and empowerment of the voluntary sector to provide and manage ASH are found to be relevant for China in efforts to increase the efficiency in ASH provision and management.

A number of recommendations are offered as follows:

- A stable funding formula with clear commitment by the central government needs to be in place before local governments are required to include migrant workers into the ASH system.
- The development of large ASH estates should be replaced by small estates and mixed communities. Market housing projects obliged to include a percentage of ASH should be provided with clear definition of property rights and management rules.
- Reforms should be introduced to encourage private and voluntary sectors to participate in ASH provision. Competition should be introduced among state sector providers.
- The rights and obligations of occupiers and management companies and their staff should be clearly delineated for all housing estates, with sanctions and rewards clearly indicated.
- A system of rules should be set up to prevent unqualified applicants and occupiers from committing fraud in obtaining and remaining in ASH, and for residents who exhibit anti-social behaviour.

On a more positive note, some progress in reform has been made. At the constitutional level, the central government has released a draft ordinance on ASH for public consultation. At the collective choice level, a merger of the two low income rental categories, LRH and PRH, in 2014 has removed the stigma associated with LRH. Some local governments have also shifted focus to subsidised rental housing as opposed to sub-market housing. New local innovations include shared ownership housing, the inclusion of migrant workers into the ASH system, en bloc renting of private housing as PRH and the development of construction, distribution and management information systems. In both Guangzhou and Wuhan, officials and management staff working on ASH provision and management are keen to embrace change to increase efficiency.



1.0 Introduction



1.1 Background

Urban housing was regarded as a state responsibility following the establishment of the People's Republic of China in 1949 (Zhang, 2009). In the period between 1949 and 1978, China's urban housing policy was closely related to its national economic development strategy. This strategy gave priority to industrial projects to rapidly develop the very low industrial base inherited from before 1949, while resource allocation for housing was limited (Wu et al, 2007). During this period, China's urban housing was provided mainly by the public sector with an ever decreasing role for the market sector. Urban housing was distributed at very low rent, thus urban housing production and management was a drain on resources which could have contributed to economic growth. Limited resources devoted to housing production and maintenance by the state, prevented large improvements from being made on the very low housing standards inherited from before 1949. Such a situation prevailed during a period of significant population growth, with the urban population growing from 57.7 million in 1949 to 172.5 million in 1978 (NBSC, 2013). As a result, the urban housing condition was poor throughout this period. By 1978 national average per capita living space, (internal floor area excluding kitchen, toilet and shower), in urban areas was 3.6 m² (Zhang, 1998), the size of a double bed. Furthermore, housing distribution was determined by people's contribution to society, influenced by social status, and to a lesser extent based on actual housing needs. People of low social status, thus had to suffer very low housing standards.

To reduce the state's burden of urban housing provision and alleviate housing shortage, China's urban housing policies have experienced fundamental changes since 1979, after the reform and opening-up campaign. Housing reform, introduced from 1980, had sought to change urban housing as a welfare good provided by the state, to a market good provided by the market (Wu, 1996; Ho & Kwong, 2002; Logan et al, 2009). At the same time, an urban housing market has been developed under government auspices with state-owned and private companies providing housing at market prices (Wang & Murie, 1999; Cao & Keivani, 2014). Over the years, significant achievements have been made in urban housing production and housing standards, with per capita gross floor area (GFA) in urban areas rising from 6.7 square metres in 1978 (MOHURD, 2011) to 32.9 square metres in 2012 nationally, against the backdrop of urban population growth from 172 million to 712 million (NBSC, 2013).

In evaluating China's urban housing policy from 1998 to 2011, Cao and Keivani (2014) indicate that the country has gone through a process of deviating from its housing policy proposed in 1998, a system of housing provision dominated by subsidised market housing, to a new system with market housing supplemented by a significant element of subsidised public housing. The housing provision blueprint proposed in 1998 consisted of three tiers,

- market housing for high income households to buy
- affordable housing for low to middle income households to buy
- public housing for very low income households to rent

Affordable housing formed the core of the 1998 blueprint (Wu, et al, 2007; Cao & Keivani, 2014) and was delivered as *Jingji Shiyong Fang*, Economic and Comfortable Housing (ECH) by market housing developers. ECH received subsidies including free land and exemption from many taxes, and thus could be sold at a discount to market prices. However, ECH was marginalised when the emphasis of housing provision was shifted to ordinary market housing in 2003 (Cao & Keivani, 2014). Subsidised rental housing supplied by local government, delivered as *Lianzu Fang*, Low Rent Housing (LRH), had limited endorsement by local governments and was provided in very small numbers. As a result, the system of affordable and social housing (ASH) planned in the 1998 housing policy was not established by 2005, the end of the Tenth Five-Year Plan. Market housing affordability kept declining as a result of rapid housing price inflation in most large and medium-sized cities in the relatively developed coastal provinces (Chen et al, 2010; Li & Ge, 2008), leading to rising frustration among the low and lower-middle income households.

To address the worsening housing affordability problem, the Chinese government has enacted a series of new urban housing policies since 2006 to re-establish a system of ASH, referred to as security housing, *Baozhang Fang*, which runs parallel to the housing market, and targets low to lower-middle income urban households (Wang & Murie, 2011; Cao & Keivani, 2014). The new system is designed to focus on subsidised rental housing, including LRH and *Gongzu Fang*, or Public Rental Housing (PRH), let at rents close to market rents. It provides sub-market housing, including ECH and *Xianjia Fang*, or Limited Price Housing (LPH), to a lesser extent for purchase. To improve the accommodation conditions of households living in substandard housing in urban areas, large tracts of dilapidated housing and shanties have been designated as Penghuqu, shanty towns, and state funding provided to generate Redeveloped and Improved Housing (RIH), which is incorporated into ASH provisions.

Since the set-up of the new ASH system, large scale acquisition, demolition, improvement and development of land and housing have been conducted. In the Eleventh Five Year Plan period (2006-2010), the building of 16.3 million units of LRH, PRH, ECH, LPH and RIH was started, 11 million completed and 10 million occupied (Ren, 2013). The Twelfth Five Year Plan, published in 2011, proposes building 36 million units of ASH between 2011 to 2015 (State Council, 2011) to achieve coverage for 20% for all urban households (MOHURD, 2011). Since 2011 the central government has been pressing all local governments to meet the allocated local targets, and tens of millions of ASH units are under construction.

Nevertheless, problems have emerged in the planning, construction, distribution and management of ASH that have raised concerns around the efficiency of the regime. The most notable of those problems include poor location and lack of amenities, construction quality, vacant units, distribution resulting in capture by ineligible households,

management issues among ASH estates, and an absence of exit mechanism for tenants no longer eligible for ASH. There are claims from practitioners that the policies regulating ASH are not prudently formulated to define appropriate target areas, and there is no quality monitoring regime in place (Li, 2011). In particular, the continued provision of ECH is controversial because of concerns that much of ECH was captured by the relatively better-off.

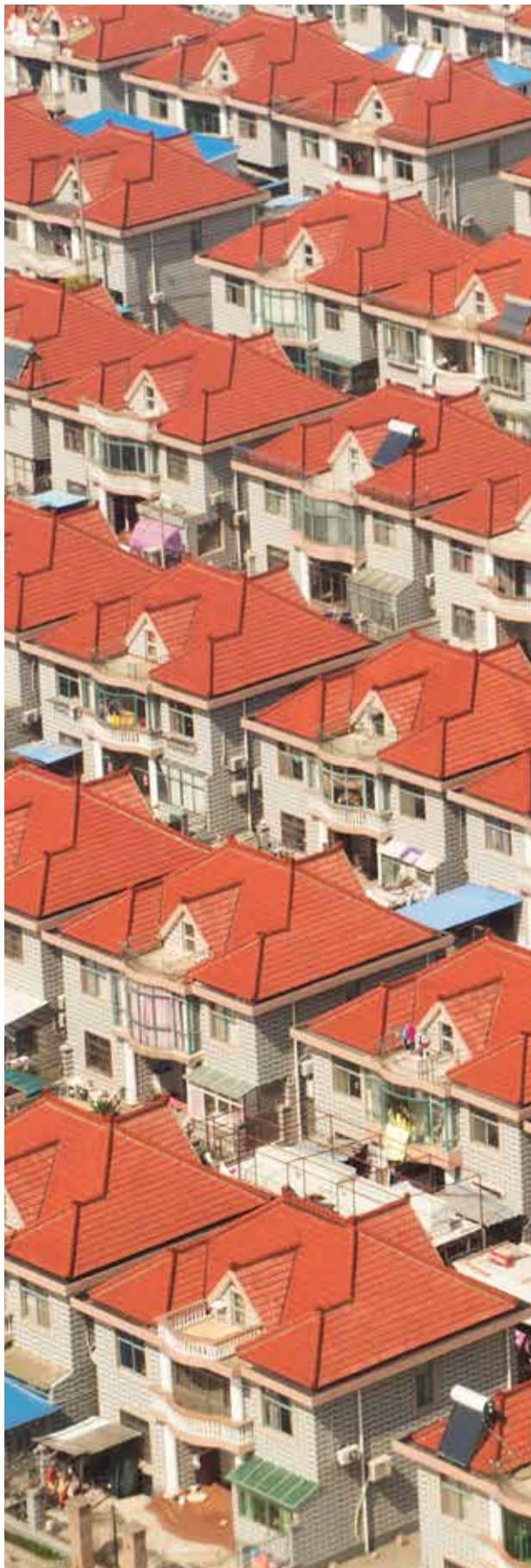
Although urban housing reform and urban housing market development in China has received widespread scholarly interest (Wang & Murie, 1996; Ho & Kwong, 2002; Wu et al, 2007; Wang & Murie, 2011; Cao & Keivani, 2014), there is a lack of literature assessing the efficiency of China's massive ASH building program. This research helps to fill this gap of knowledge.

1.2 Aims and objectives

The study scrutinises empirical evidence of inefficiencies in China's ASH sector, explains the causes of the inefficiencies and identifies possible policy solutions. Data was generated from desktop research, fieldwork in selected cities, interviews and focus group meetings. An institutional approach was used to interpret and analyse the data to understand the causes of inefficiencies and identify where improvements can be made. The results from this study can assist practitioners and policy makers to develop policy responses to deal with the inefficiencies in China's ASH sector. The report will touch on the UK experiences with low income housing policy, which provide useful references for developing more effective policy recommendations. The research questions (objectives) in this study are as follows:

- What is the current status of China's ASH provision?
- What is the evidence of inefficiencies in China's ASH provision?
- Why do such inefficiencies persist after several years of learning through practice and improved policy guidance and enforcement?
- What lessons can be learnt by China from housing policies in the UK?
- What policy improvements and innovations can raise the efficiency of China's ASH sector?

The following section provides an explanation on the research methods adopted, including the analytical framework and primary and secondary data generation. Chapter 3 presents a brief account of the establishment of the ASH system in China after the housing reform. Chapter 4 investigates the experiences of providing ASH in the two case study cities, Guangzhou and Wuhan. Chapter 5 analyses the problems that caused inefficiencies in the two cities and the country as a whole, and Chapter 6 conducts an institutional analysis on the causes of those problems through a three-level analytical framework. Chapter 7 explores lessons China can learn from the UK and Chapter 8 concludes the report and provides recommendations directed towards policy makers for addressing the problems that cause inefficiencies.



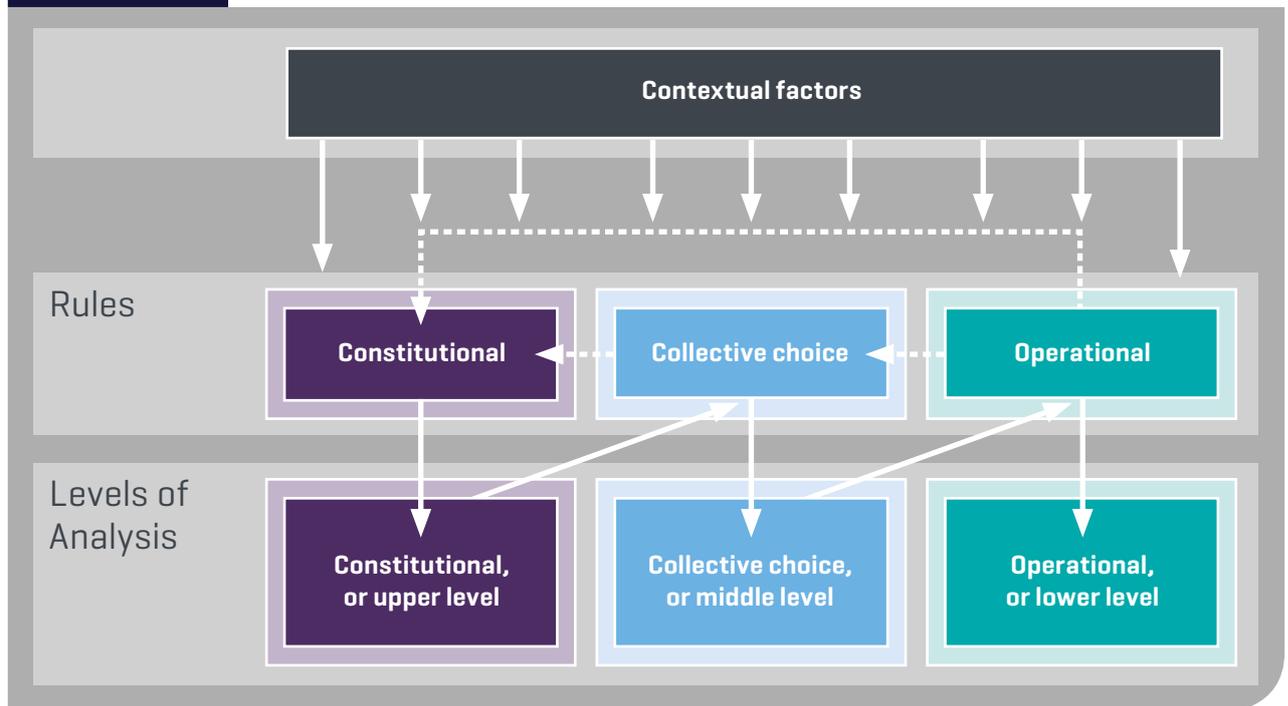
2.0 Research methods

Urban housing supply in China, both market and non-market, has been affected by the specific institutional arrangements, the structure of housing provision (Ball, 1998) constructed by national and local rules, and influenced by the dominance of property-led urban development (Cao & Keivani, 2007; Wu et al, 2007). The development of the ASH sector, part of the urban housing supply under state funding, has been the result of interaction of institutional arrangements at local and national levels.

To address the myriad of rules at different levels, a three-level institutional analytical framework, based on the theory of new institutional economics (North, 1990) and the meta-theoretical synthesis of institutional approaches (Kiser and Ostrom, 1982), is employed in this study (Figure 1).

- The operational level is the bottom level where individuals, firms and operational arms of government agencies make decisions, e.g. development of a new ASH estate on a suburban site and management of an ASH estate.
- The collective-choice level is the intermediate level where officials administering ASH provision make decisions, e.g. setting the criteria for deciding service charges in ASH estates. Decisions made at collective choice level form the rules bounding decisions at the operational level and are enforceable against non-conforming individuals, firms and operation arms of government agencies.
- The constitutional level is the top level, where decisions made by politicians in turn set the institutional arrangements for the collective choice level. For example, the central government requires the local governments to focus on providing subsidised rental housing like PRH rather than sub-market housing like ECH. Thus these decisions form the rules that officials at the collective choice level should obey when they formulate regulations for the market.

Institutional arrangements and their impact on transaction costs, property rights and incentives are analysed at each level and across levels. For example the research demonstrated that a lack of property rights, i.e. legal authority, for ASH estate management staff increased transaction costs, and added to the difficulties of management. It also came to light that limited state funding encouraged some local governments to build LRH rather than PRH, because the former could be sold to recoup capital more quickly.

Figure 1 The three-level analytical framework and the contextual factors.

Source: Cao & Keivani [2008]

Within a three level analytical framework, lower levels can provide feedback to higher levels to affect decision making at higher levels. For instance, LPH is sold at a price closer to the market price thus involves less subsidies as compared to ECH, which is sold at higher discounts. With limited funding, local governments designated LPH as a form of ASH, a practice later accepted by the central government. Furthermore, the three level framework is by no means a closed system. The existence of contextual factors, e.g. the insufficiency of income and wealth checking facilities in the taxation and finance sectors affects the decisions taken at all three levels in the ASH sector.

This analytical framework has been tested in previous research (for example, Walters and Kent, 2000; Cao, 2003; Cao & Keivani, 2008) to allow a scrutiny of the incentives, rules, actions and outcomes at a multi-scalar level. It is particularly useful in analysing complex systems like housing provision in China where local discretion is allowed.

Collection of secondary data in the UK and China included statutes, policies and regulations, plans and statistics, books, professional reports and studies, and news reports and analysis, obtained through desk top research. Some statistics and documentary evidence were obtained in the course of fieldwork and were voluntarily released by government agencies and commercial service providers.

Data from fieldwork was used to interpret, triangulate and supplement qualitative data and statistics collected through desktop research. The inadequacy of official statistics in China is thus alleviated if not eliminated.

Fieldwork in China was conducted in August 2013 and covered three major cities, i.e. Guangzhou, the capital city of Guangdong Province, Wuhan, the capital city of Hubei Province, and Beijing. Guangzhou and Wuhan are the case study cities for detailed investigation and intensive fieldwork, including semi-structured interviews (10 in Guangzhou and 9 in Wuhan), focus group meetings (10 participants in Guangzhou and 11 in Wuhan) and site visits (one site visit in Guangzhou and 2 site visits in Wuhan). Interviewees and focus group participants consisted of ASH policy makers, estate managers, developers, academics, tenants and bankers. Three interviews were conducted in Beijing to obtain data at the national level (with policy makers and academics).

3.0 The affordable and social housing regime in China

3.1 Affordable and social housing policies: 1980 to 2005

China's housing reform since 1980 was designed to relieve the state from the burden of housing provision, generate more economic activity and mobilise non-state resources. This principle was embedded in China's housing policy until 2006. Table 1 lists major housing policies related to ASH enacted by the central government of China.

Early attempts to reform housing provision, between 1980 to 1984, involved trials to encourage urban residents to buy subsidised public housing (Zhang, 1998; Cao, 2003). However, no rights were granted to those home buyers to sell the housing, as state-owned land on which the housing was built was not alienable by law. Home buyers became tied to the housing they bought. As a result, the enthusiasm for homeownership soon faded.

New impetus was generated for the housing reform, when in 1988 at the constitutional level (Table 2), the Central Government and the National People's Congress, the Land Administration Law and the Constitution was amended to make land use rights, (equivalent to leasehold

interests on land), of state-owned land alienable. This authorised entities at the collective choice level, the local governments, to establish local rules at the operational level governing the sale of land use rights, (LUR), (Wang & Murie, 1996; Wu, et al, 2007). Marketisation in housing provision was first put forward in this reform (State Council, 1988), along with increase in rents and subsidised sale of public welfare housing. An interviewee commented on the second approach:

State retreat from housing responsibility and the use of the market for housing production, exchange and management to boost economic growth, was the core principle of Chinese housing policy until recently.

Under the marketisation principle, the solution for the half a million urban households in extreme housing poverty in 1990, (with less than 2 m² per capita living space), was to provide multiple forms of assistance to buy housing (MoC, 1990). Such housing was referred to as 'economic and practical' in 1991 (State Council, 1991), a predecessor of ECH.

Table 1

Major Housing Policies on ASH provision, Constitutional Level

Years	Policy Documents	Policy Maker	Key Policies
1988	Circular on conducting housing reform in cities and towns in stages and batches	State Council	Marketisation in housing provision to reform welfare housing
1994	Decisions on deepening urban housing reform	State Council	A two tier housing provision system: <ul style="list-style-type: none"> • Market housing • ECH
1998	Circular on further deepening urban housing reform and accelerating housing construction	State Council	A three tier housing provision system: <ul style="list-style-type: none"> • Market housing • ECH • LRH, ECH is the core component of this system.
2003	Circular to promote healthy development of the real estate market	State Council	Ordinary market housing formed the core component in housing provision
2006	Opinions on adjusting the structure of housing supply and stabilising housing prices	State Council	Compulsory establishment of LRH system by local governments
2007	Opinions on solving the hardships of urban low-income households	State Council	Establishment of an ASH system to parallel the market housing system

Table 2

Actors at different levels of institutional analysis

Levels of analysis	Actors (Organisations and Individuals)
Constitutional Level	<ul style="list-style-type: none"> National People’s Congress State Council (Central Government) Ministries
Collective choice level	<ul style="list-style-type: none"> Provincial, municipal and county/ district governments and associated bureaux
Operational Level	<ul style="list-style-type: none"> Local government housing management offices Companies owned by local governments involved in ASH provision and management; Other developers and management companies involved in ASH provision and management; Buyers and tenants.

Deepening the Urban Reform, 1994 and 1998 Policy

The marketisation principle was upheld in the State Council’s plan entitled, Decisions on deepening urban housing reform, 1994 policy (State Council, 1994), which for the first time designed a housing provision system with the housing market at the centre. A two tier housing provision system under the 1994 policy comprised of ECH, as affordable housing available to purchase for low to middle income households, and market housing for high income households to purchase. Privatisation and rent increase in public welfare housing were measures which facilitated the transfer to the two tiers system. State subsidised renting as a major tenure choice was not mentioned, although rent reduction or waiver was available for those who could not afford the increased rent, such as retired individuals or those receiving social relief.

Changes in contextual factors sped up the transformation of China’s housing provision system. The 1997 East Asian Financial Crisis prompted the Chinese government to enact the *Circular on further deepening urban housing reform and accelerating housing construction*, 1998 policy, (State Council, 1998; Ho & Kwong, 2002). This initiated a full-scale privatisation of public welfare housing to boost the housing market and maintain economic growth. The 1998 policy for the first time recognised the role of state subsidised rental housing (LRH), and put forward a three tier housing provision system, i.e. market housing, ECH and LRH, to replace the two tier system of the 1994 policy, assigning ECH for low to middle income families and LRH for the lowest income households. ECH was the main pillar of the housing provision system set in the 1998 policy. LRH was different from welfare housing provided

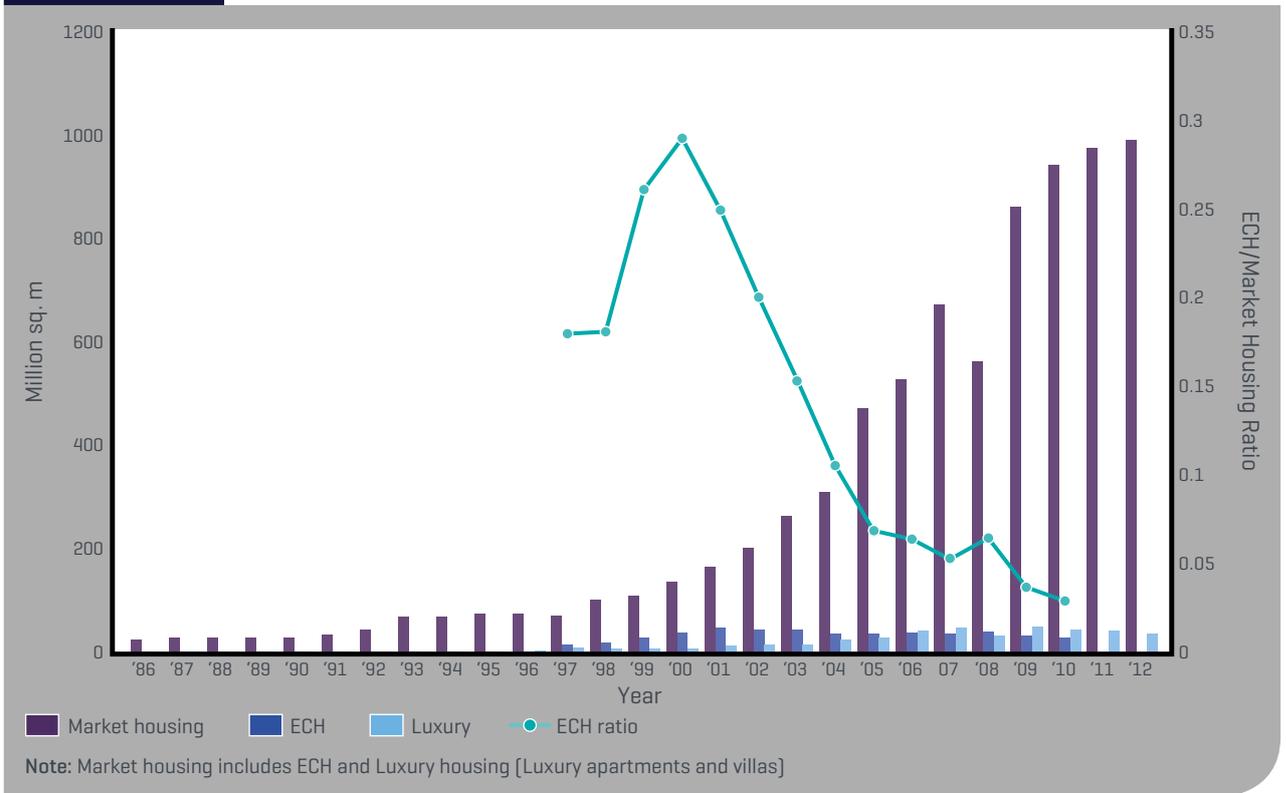
prior to the reform period, with the former for very low income households, and the latter for medium to high income households. Existing public housing or new build could be converted to create LRH by the government. The 1998 policy required households applying to purchase ECH or rent LRH to be means-tested against their incomes and assets.

A major problem with both the 1994 and 1998 policies is that no detailed rules to achieve the policy objectives were provided, leaving local governments to interpret the policy and set rules of implementation. This is effectively a delegation of power from the constitutional level, the policy maker, to the collective choice level, which makes the rules of implementation and often prioritises local interests. A couple of interviewees indicated that local responses to the 1998 policy were varied with one province delaying the full privatisation of welfare housing for 5 years. Another example of the autonomy provided to local government is the case of national regulation on LRH promulgated in 1999, which authorised local governments to set operational rules without any targets and obligations (MoC, 1999). A consequence of this was that many local governments simply ignored LRH.

The Marginalisation of ECH

Implementation of the 1998 policy resulted in rapid expansion of the housing market and large scale ECH construction from 1998 to 2003 (Figure 2). Nevertheless, ECH failed to become the main housing choice of urban residents. From 1998 to 2003 the sale of market housing stood at 964 million m², significantly higher than that of ECH, which was only 202 million m² (NBSC, 2011, see Figure 2). Furthermore, much of the ECH was designed for and sold to high income households. Many low to lower-middle income households could not afford ECH even though it was cheaper than market housing. A few interviewees indicated that some developers, who were delegated the authority to screen applicants by the local government, sold ECH to anyone who could pay to promote sale. Because there were no size standards set by national regulations (MoC, 1994) at the constitutional level or by local governments at the collective choice level, there were no rules on the maximum sizes of ECH, which were built to the same size as ordinary market housing, with some ECH units over 150 to 200 m² (Ren, 2013; data from interviews). Thus lack of proper institutional arrangements resulted in some ECH sold in the open market (Figure 3). In addition, many ECH units did not enter the market at all. During the period from 1998 to 2003 the total completion of ECH was actually 477 million m² (Ren, 2012). Apart from the 202 million m² sold in the market, the remaining was captured by various government agencies and state-owned enterprises for distribution among its employees, as a continuation of welfare housing distribution in the unfinished housing reform of 1998 (Ren, 2012).

Figure 2 Sale of market housing, including Economic and Comfortable Housing in China



Source: China Statistical Yearbook, 1986-2013

Figure 3 1998 Policy: Constitutional and Collective-Choice Levels' impact at Operational Level



The success of the housing market from 1998 to 2002 had led to national policy makers recognising its importance in economic growth. In contrast, ECH played a limited role in helping low to lower-middle households buy housing. Feedback from lower levels triggered major policy change at the constitutional level. The *de facto* main housing choice, market housing, received formal recognition in the *Circular to promote healthy development of the real estate market*, enacted in August 2003 by the central government, 2003 policy, (State Council, 2003), which stipulated that ordinary market housing should be ‘for the majority of households to buy or to rent’. Such a change substantially lowered the importance of ECH. On the other hand, a major change in land sale was imposed by the Ministry of Land and Resources and Ministry of Supervision which required all land for market-oriented development to be sold in the open market (Wu et al,2007), which significantly raised land prices and the importance of land sales as a means for local governments to generate revenue. With land provided for free, as one interviewee put it, ECH could not generate land sale incomes and became less favoured by local

governments. Both regulatory changes resulted in a relative decline of ECH in terms of the percentage of total housing sales, and an absolute decline of ECH in terms of square meters sold (Figure 2).

LRH never received enough attention from local governments. By 2005, only 221 out of 280 cities at or above prefecture level established LRH system, with 329,000 households receiving support for LRH or support to rent private housing. There was very limited investment in converting existing public housing into LRH and building LRH. Following the enactment of 2003 housing policy that required local governments at the collective choice level to use rental support as the main form of LRH, very little LRH was built.

As a result, from 1998 to 2005 housing support for the urban poor had deteriorated. With rapid urbanisation and fast housing price inflation since 2003 (Figure 5), more households were priced out of the market, but not included in ASH coverage. As many interviewees and focus group participants put it, there was increasing discontent among low to middle income urban households.

Figure 4 Decline of ECH: Constitutional Collective-choice and Operational Level

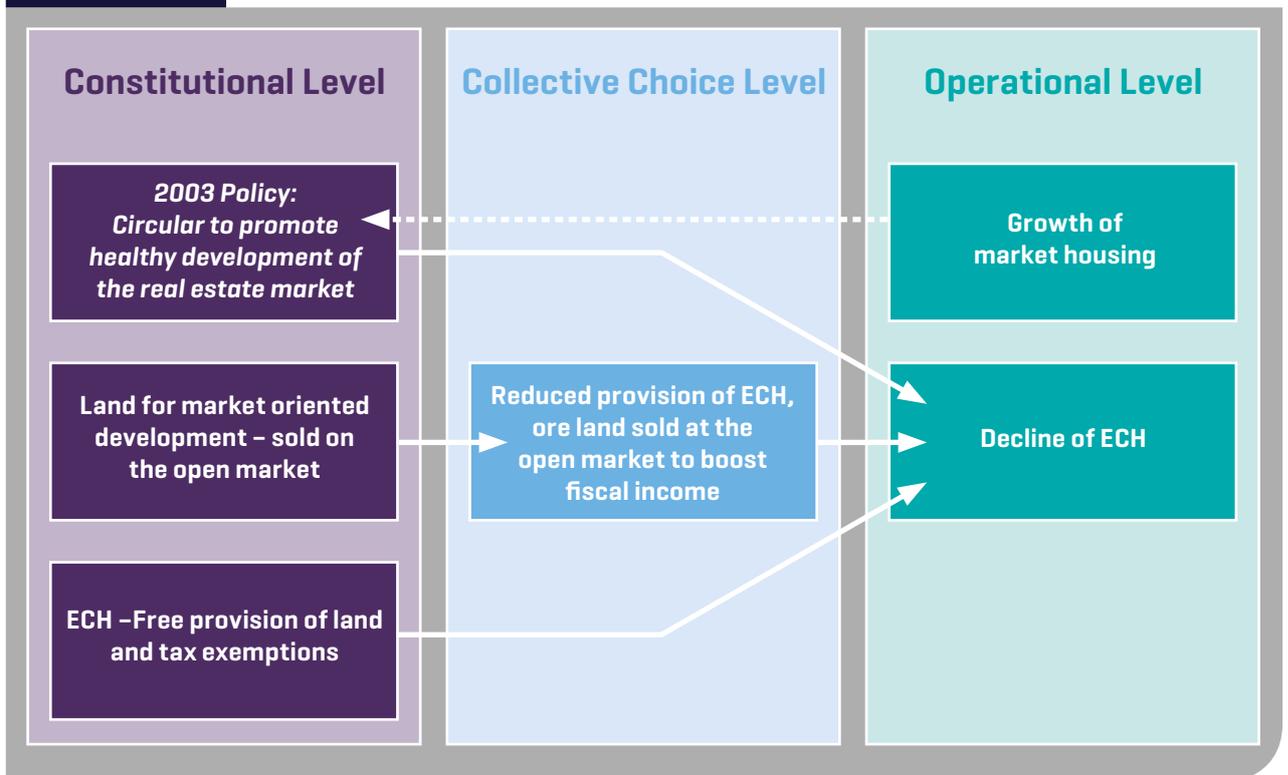
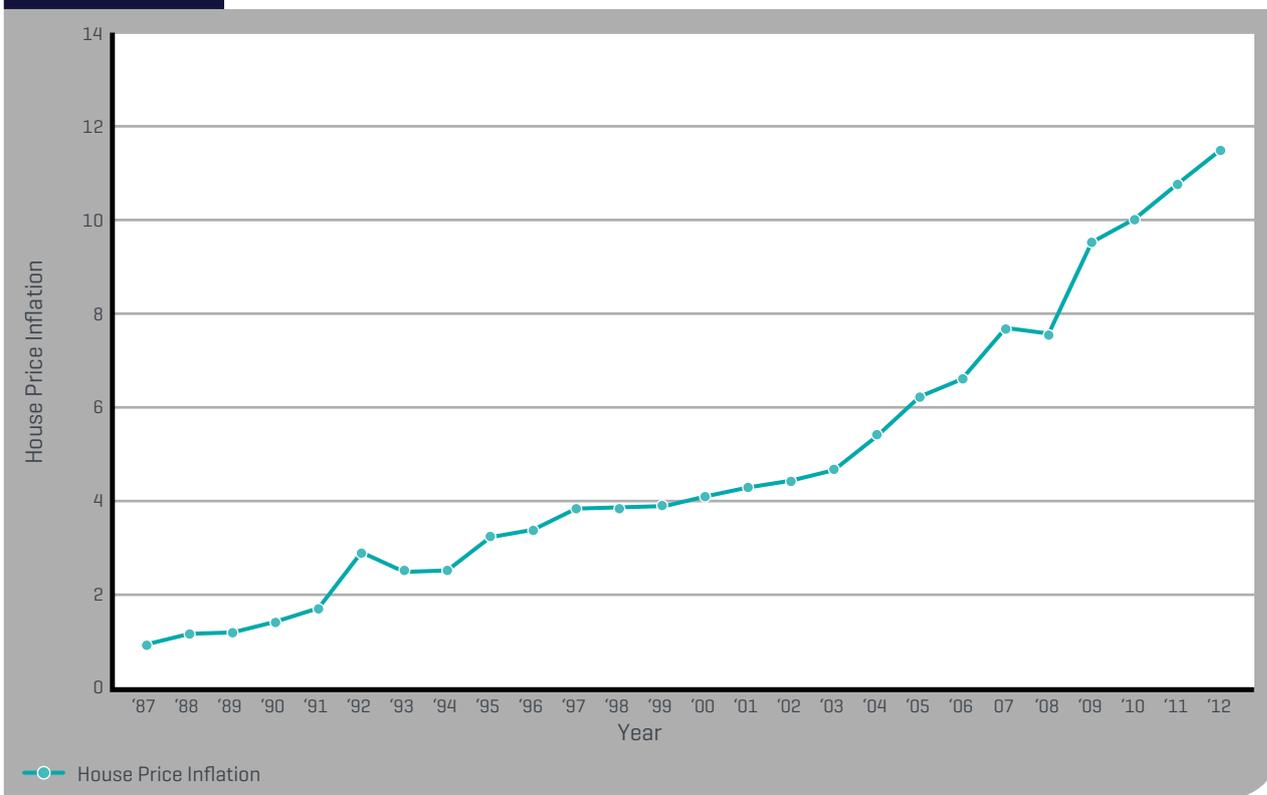


Figure 5 House prices inflation as measured by national average housing prices



Source: NBSC, 2013



3.2 The affordable and social housing regime from 2006 to 2010

Housing price inflation and deteriorating support for the urban poor prompted the constitutional choice level to modify collective choice level rules to enable local governments to improve ASH provision. From 2005, the central government and its ministries intervened in the housing market in an attempt to arrest the rapidly rising housing prices, and increase affordability of middle income households (Wu, et al, 2007; Cao & Keivani, 2014). In May 2006 the Central Government enacted a set of measures to regulate the demand for and supply of market housing and to promote non-market housing provision such as LRH and ECH (State Council, 2006). The 2006 policy required cities without an LRH system to install such a system by the end of 2006, made arrangements for local government land sale revenues to support the construction of LRH and urged further ECH provision through better distribution arrangements, to prevent capture by government agencies and state-owned enterprises. Furthermore, the 2006 policy paved the way for local governments to interpret it so as to create LPH to help families not qualified for ECH. LPH allowed local governments to receive a significant part of land sale revenues, as land is sold with a price cap, not provided for free. To keep LPH prices low, sizes of housing units and building specifications were controlled, and an operational rule was designed to reinforce the income and asset check regulation to lower the chances of capture by developers and housing investors. As some interviewees pointed out the small sizes and suburban location make LPH less attractive as housing investments.

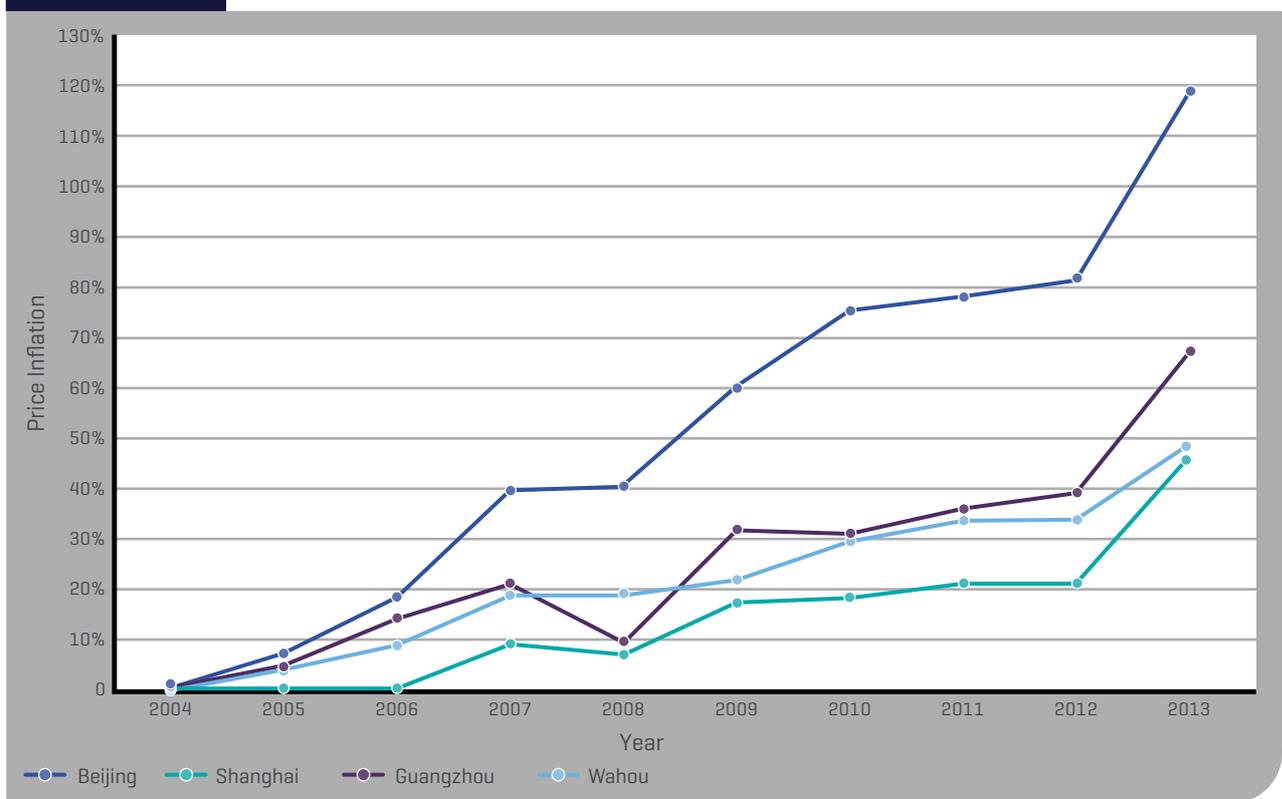
The enactment of the Opinions on solving the hardships of urban low-income households, 2007 policy, by the central government (State Council, 2007) and subsequent developments marked the most important decision at the constitutional level to set the rules for an ASH system. The 2007 policy focuses on LRH with ECH playing a supplementary role, which is different from the 1998 policy that focused on ECH with LRH playing a supplementary role, and the 2003 policy that focused on ordinary market housing. It extends the coverage of the ASH regime to families living in dilapidated housing and shanties, and to rural migrant workers who seek better paid jobs in urban areas. It set an ambitious target for the ASH sector to meet the basic housing needs of low income households in the urban areas and replace Penghuqu by RIH by the end of 2010. Unlike previous housing policy documents that failed to set binding collective choice level rules and left too much discretion to local governments, the 2007 policy stipulated maximum sizes for all LRH at 50 m² and ECH at 60 m², a hard constraint for local governments in the setting of operational rules. To ensure a minimum level of funding, the 2007 policy stipulates that 10% of the net receipts from land sale are to be used for building LRH (State Council, 2007).

The implementation of housing policy between 2006 and 2010 has resulted in a step change in ASH provision.

- For the first time the local governments are bound by rules set by the central government to deliver ASH. An administration framework has been installed within all levels of government, with a Department of Housing Security set up within the Ministry of Housing and Urban-Rural Development (MOHURD) for policy development and administrative oversight. Similar branches have been set up by local governments to address local policy development and implementation.
- Large-scale LRH construction and conversion has been initiated because of the requirement by the central government to expand the stock of LRH rather than relying on rental subsidies (State Council, 2008). In most cities, funding and land for building LRH were secured to meet completion targets set by higher levels of governments. A few interviewees saw it as a sensible decision because of the lack of small housing units in most Chinese cities, and rental subsidies not being sufficient to entice more market provision.
- ECH has been redefined with the implementation of size standards and transparency requirements. The distribution of ECH has thus been significantly improved in terms of fairness. As some focus group participants indicated, the ECH is now truly for low to lower-middle income families.
- The inclusion of RIH and general increase in ASH stock has extended the coverage of ASH to lower-middle income families not on the housing ladder, and to families living in substandard accommodation but unable to improve their housing conditions. RIH was formally included into ASH in 2009 (MOHURD, 2009). In 2010 LPH also became part of the ASH provision (State Council, 2010). 2010 also saw the institutionalisation of PRH by MOHURD, let at affordable rent to new employees working in both the private and public sectors, and lower-middle income migrant workers, with sizes ranging from 40 to 60 m² (MOHURD, 2010). Qualified tenants can only stay in PRH for a maximum of five years.

The 2006 and 2007 policies have paved the way for rapid development and expansion of ASH. By using new build, new acquisition, existing stock and investing in improvements, nearly 22 million low and lower-middle income families in cities and towns were housed in ASH by the end of 2010, which amounts to 9.4% of all registered urban resident families. In addition, nearly 4 million families of registered urban residents received rental subsidies for private sector housing (Ren, 2013).

Figure 6 Housing price inflation in four main cities in China, 70 Cities Housing Price Index



Source: National Bureau of Statistics of China: 2004-2013 press releases on housing price inflation

The establishment of the ASH sector has been regarded by some interviewees and focus group participants as timely because urban housing prices continued to grow in the same period (Figure 6 and Table 2). The 70 Cities Housing Price Index, compiled by the National Bureau of Statistics of China and the State Development and Reform Commission, shows significant housing price inflation (see Figure 6 for accumulative inflation from 2005 to 2013 for four major cities). Other non-governmental housing statistics show higher levels of housing price inflation, which are closer to what buyers and sellers experience in the market, as revealed by many interviewees and focus group participants. For example, House Price Net (Fangjia Wang) shows that

Beijing's house prices have risen 224% in the last six years, rather than for 122% as indicated by the 70 Cities Housing Price Index (Table 3).

Meanwhile, China's ASH sector still faces challenges. According to data released by MOHURD, there were still more than 20 million low income and lower-middle income households living in accommodation that is not self-contained and without sufficient facilities. Among them, more than 10 million lived in Penghuqu housing. Housing conditions for the tens of millions of rural migrants is particularly poor, and this has become the largest challenge to the government keen on further urbanisation (Ren, 2013).

Table 3 Housing price differences, 2007 to 2013 in four main cities

	RMB per m ² (GFA)		Growth	
	15th November 2007*	15th November 2013	Annual growth	Accumulative growth
Guangzhou	7,702	18,044	15%	134%
Shanghai	18,061	29,193	8%	62%
Beijing	12,931	41,840	22%	224%
Wuhan	5,011*	9,005	15%	80%

Note: * Wuhan result recorded in August 2009

Table 4

Progress of ASH building in the Twelfth Five Year Plan (million units)

Years	2011	2012	2013*	2014**	2015***	2011-4 Total	2011-5 Target
New Starts	10.43	7.00	6.66	6.00	5.91	30.09	36.00
Completions	3.42	5.20	5.40	4.80	-	18.82	-

Note: * Numbers up to November 2013; ** Targets; *** Number to be delivered to meet the overall target of 36 million units

Source: People, 2013; Ren, 2013a

3.3 The implementation of 2011 mass building programme

The Twelfth Five Year Plan, produced by the Chinese government, sets out the development targets of ASH from 2011 to 2015 (State Council, 2011).

- First, the central government plans to build 36 million ASH units to cover 20% of urban households.
- Second, the coverage of ASH is to extend to graduates and rural migrant workers as well as low income and lower-middle income households.
- Third, PRH will become the main form of ASH.
- Fourth, RIH will take a larger share of the overall ASH building.

Significant progress in meeting the target of the programme to build 36 million units of ASH has been made from 2011 to 2013 (see Table 4). Among the new starts in 2011, PRH accounted for 22%, LRH for 16%, ECH and LPH for 20%, and RIH for 42%. In terms of geographical distribution, 44% of the new starts in 2011 were in the relatively poor Western China, 21.7% in Central China, and 30.4% in the relatively wealthy Eastern China. In 2012, 22% of new starts were PRH (Ren, 2013). In 2013, the national target for new starts was 6.3 million units and that for completion was 4.7 million, which was exceeded in November 2013 (People, 2013a). Total new starts achieved from 2011 to 2013 indicates that the ambitious target of 36 million units is likely to be achieved because the number of units planned for 2014 and 2015 are lower than those for 2011-2013.

3.4 Affordable Social Housing Regime 2013

Significant institutional changes in ASH occurred in 2013.

1. An increasing number of cities conducted trials to merge LRH and PRH for unified management, which led to a change in national policy in 2013 to merge LRH and PRH in 2014 (MOHURD, 2013). The merged LRH and PRH are let at market rents with different subsidies paid to tenants according to their levels of income.
2. Some local governments like Zhengzhou and Yantai have stopped providing ECH and focused on provision of LRH and PRH, a development endorsed by MOHURD. As some interviewees and focus group participants indicated, ECH will probably be phased out in the near future.
3. Shanghai and some local governments in Jiangsu Province have set up trials to develop shared ownership accommodation between households and local governments, which has been endorsed by MOHURD as a new innovation (YCWB, 2013).
4. Some cities, including Wuhan, have expanded ASH to urban residents who are migrant workers, as planned in the Twelfth Five Year Plan. This initiative is a source of strong local resistance according to some interviewees and focus group participants because extending ASH to migrant workers has implications on local financial and other resources.
5. Interviewees indicated that some local governments, including Wuhan and Guizhou Province, have carried out experiments to provide PRH by en bloc renting of private housing as PRH, which opens up another channel of PRH provision in addition to new build, acquisition and conversion.
6. Experiments were carried out to develop construction, distribution and management information systems to offer transparency in housing standards, in the applications made, and in approvals by the authority. Approved lettings are made public online and regular review of the qualification of tenants is conducted by some local governments (Ren, 2013).

4.0 Case studies: affordable and social housing in Guangzhou and Wuhan



4.1 Guangzhou

Guangzhou, the capital city of Guangdong Province, has a population of 12.84 million, including 8.22 million registered residents and 4.62 million migrants who do not have registered resident status. Administratively the Guangzhou is a semi-provincial level city, consisting of 10 urban districts and 2 county-level cities. The city has the third largest urban economy in China and is usually grouped with Beijing, Shanghai and Shenzhen among the four most important cities in the country, with a per capita GDP of RMB105,909 (£10,752) in 2012, the highest among China's major cities (Elivocity, 2013).

4.1.1 Housing market conditions and affordable and social housing provision

Like most cities in the country Guangzhou's housing conditions were poor before 1978, with per capita living space at 2.8 m² in 1960 and 3.82 m² in 1978 (Lin, 1994; GSB, 2013). After the reform and opening up campaign started in 1979 Guangzhou became the frontier of reforms, including housing reform. China's first market housing sale took place in the city in 1980, with buyers having foreign currencies remitted from Hong Kong (Wu et al, 2007). Large scale housing development, both market and non-market, has transformed Guangzhou's housing conditions. For registered residents in the urban districts, per capita living space had risen to 22.46 m² in 2012 (GSB, 2013). Per capita residential floor space, (Gross External Area), grew from 4.64 m² in 1978 to 32.11 m² in 2012 when the population in the urban districts grew from 2.83 million to

6.78 million (GSB, 2013). House price-earnings ratio in Guangzhou was 9.8 in 2011 (E-house China, 2011), and is set to rise as housing price in the city rose very quickly in 2013 (see Table 3).

Poverty Relief Housing and Affordable housing

Guangzhou started to tackle urban housing poverty in 1986. A housing conditions survey in 1985 revealed that up to 11,642 households had a per capita living space less than 2 m², a very desperate housing condition (Lin, 2013). Following the survey, the municipal government offered *Jiekun Fang* (poverty relief housing), a form of subsidised housing for those families to purchase from 1987 to 1989. By the end of 1991, 10,864 households purchased the subsidised housing (Lin, 2013).

After solving the housing problems of families with most extreme housing poverty, entry thresholds in terms of per capita living space were gradually raised (Table 5) to target more families. *Anju Fang* (affordable housing), identical to ECH, was available for families with per capita living space less than 5 m² to purchase from 1995. New affordable housing estates were built in the suburbs to reduce costs of provision, and 8364 units in Tongde and Datang, and Tangxia Estates in Tianhe District were sold by the first half of 1996. One interviewee indicated that at that time a 60 m² market housing unit cost on average RMB180,000 but a similar affordable housing unit cost less than RMB70,000. Thus buyers, many of whom were not in financial poverty, were incentivised to borrow from their relatives or friends. However, these estates were built on sites without adequate infrastructure, namely, the water supply, electricity and gas, and provision of

kindergarten, primary schools and even paved roads. This made them uninhabitable. Once buyers became aware of these problems they were reluctant to occupy the housing units. This led to the municipal government taking action. It spent 9 months to coordinate the provision of the necessary infrastructure to make the units livable (Lin, 2013).

Many families improved their housing conditions in Guangzhou’s massive urban renewal programme. Lin (2013) described the scale of such demolition from 1996 to 2000 noting that 42.4% of the urban households or 44% of the urban population had to be relocated due to en bloc demolition of dilapidated housing. In housing terms such relocation proved to be beneficial, with 95% of affected families improving their housing conditions. The average per capita living space rose from 7.61 m² to 9.74 m² and the proportion of self-contained housing units rose from 27% to 100%.

Nevertheless, some households were in both housing and financial poverty and unable to purchase the heavily subsidised affordable housing. For example, 778 families were unable to purchase *Jiekun Fang* by the end of 1991 (Lin, 2003). As a result, some of the completed affordable housing had to be let to such households, and the city enacted regulations to formalise the letting in 1995. Such letting represented the emergence of *de facto* low rent housing. However, the majority of households unable to buy affordable housing were provided with rental subsidy for market housing because of the lack of purpose-built public housing for rent.

1998 and 2007 Policy: LRH and ASH

After enactment of the 1998 policy, the provision of LRH in Guangzhou was further formalised with the publication of qualification criteria (See Table 6). From 1986 to 2005, the city built approximately 30,000 units of ASH and provided housing subsidies to satisfy the housing needs of more than 40,000 families (GHSO, 2012).

Following the enactment of the 2007 policy by the central government the Guangzhou Municipal Government sped up the provision of ASH.

1. A local regulatory framework for ASH has been established, with regulations enacted for LRH and ECH in 2007, for LPH in 2008, for land banking in 2009 and for PRH in 2013. It is worth noting that the new PRH regulation stipulates the abolition of LRH regime and requires all existing LRHs to be merged into PRH.
2. Guangzhou Housing Security Office (GHSO) was set up to oversee policy making, provision and management of ASH. This agency has the same power as the Guangzhou Land and Building Administration Bureau, the government agency to administer land and real estate.
3. Coverage by the new ASH regime has been expanded substantially by raising qualification standards. To extend the coverage of LRH, qualification criteria regarding annual disposal income was raised in 2007 for the first time since 1998. This was raised again in 2010 and 2012 (Table 7). In 2013, the merger of LRH and PRH further raised the qualification thresholds (Table 7).

Table 5 ASH living space qualification standards, Guangzhou

Years	1985	1992	2004	2006 onwards
Per capita living space below (m ²)	2	5	7	10

Source: ChinLin, 2013; GHSO, 2012

Table 6 LRH income qualification standards, Guangzhou

Years	1998	2007	2010	2012	2013*
Per capita disposal income (RMB)	4,680	7,680	9,600	15,600	20,663

Note: * Before the enactment of PRH regulations in 2013.

Source: GHSO, 2012; data from fieldwork, 2013

Table 7 Types of ASH and qualification standards, Guangzhou

Types	Target population	Eligibility		Unit size standards	Rents & prices
		Space	Income		
PRH	Low to lower-middle income households	< 10 m ² per capita living space or < 15 m ² GFA	Annual disposable income: < RMB24,795 for one-person family < RMB45,458 for two-persons family < RMB61,989 for three-persons family < RMB74,388 for four-persons family	40-60 m ²	Set with reference to market rents; subsidies provided to low income families
ECH*	Low income registered residents	< 10 m ² per capita living space	Per capita disposal income < RMB18,287	60-80 m ²	Sold at development costs, with profits for builders less than 3%
LPH	Lower-middle income registered residents	Non-home owners	Annual disposable income : < RMB200,000 for families < RMB100,000 for individuals	< 90 m ²	about 70% of market prices

Note: * ECH will be phased out in 2014.

Source: GHSO, 2012; data from fieldwork 2013

Since 2007 the ASH sector has experienced rapid expansion in Guangzhou. From 2006 to 2010, the city started building approximately 80,600 units of ASH. It further built and acquired a total of 85,000 and 45,000 units as ASH in 2011 and 2012. By the end of 2011, the 77,177 low income households identified in 2008 as having housing problems had been provided with ASH (GHSO, 2012; data from fieldwork in 2013). An interesting development is the participation of non-governmental elements in provision of affordable housing. First, real estate developers became involved in ASH following the 2007 policy which required the majority of LRH to be built in housing estates designated for the market. In Guangzhou, such requirements are normally incorporated into land sale contracts, and developers buying new sites have no choice but to commit to build the required quota of LRH. Second, major employers participate in the provision of PRH to take advantage of preferential policies. Their target population is their employees who meet the income qualification criteria.

The municipal government decided to phase out the provision of ECH in April 2013. The last offer of ECH in October 2013 was mainly from Ruidong Garden, Huangpu District, at RMB4,708 per m² GEA. 10,141 qualified families applied to purchase the 1,418 ECH units (China News, 2013), where the cost was significantly lower than that of nearby market housing which stood at RMB17,000 per m² GEA.

4.1.2 Fanghe Garden: the model affordable and social housing estate

A site visit to Fanghe Garden was conducted during fieldwork in Guangzhou to obtain first-hand information on the typical practice of ASH estate management.

Fanghe Garden is a purpose-built ASH estate on Dongjiao Street, Liwan District, close to city centre. It was first chosen for housing government employees but was later built as an ASH estate. Fully financed by the municipal government and built by the GHSO, it was occupied in November 2011 by approximately 18,000 people living in 3,988 units of ECH and 1,947 units of LRH. The estate occupies a site of 119,600 m² with 40% covered by trees and lawns, and has a total floor space of 477,800 m². According to interviewees, ECH at Fanghe Garden was pre-sold in October 2010 at about 30% to 35% (approximately RMB4,000 per m²) of neighbouring market housing prices. Buyers of the ECH units at Fanghe Garden were registered as applicants and qualified to purchase in 2008 and 2009.

The estate is divided into three functional areas, i.e. residential, school and business and culture. The residential area contains 21 high-rise apartment buildings measuring 28 to 32 storeys. The school area accommodates a kindergarten, which is a branch of a renowned chain accredited by the municipal education bureau as a class 1 kindergarten, and a school, which is a branch of a reputable primary school chain accredited by the provincial educational department as a class 1 primary school. The business and cultural area has a municipal exhibition hall for the housing on the ground floor and a community service centre on other floors (Figure 7 & 8).

Figure 7 Fanghe Garden in August 2013



Source: data from fieldwork 2013

Figure 8 Master Plan of Fanghe Garden



Source: data from fieldwork 2013

The estate has many desirable features:

1. It is equipped with solar energy system combined with a heat pump to provide hot water at lower costs, and with a rain water collection system to irrigate its vast lawn which reduces estate management fees.
2. The ground floors of all buildings are made public space for parking of bicycles and motorcycles, leisure, sports and cultural activities, providing shaded space in Guangzhou's long and hot summer.
3. The housing units were carefully designed to achieve high levels of efficiency in space use (Figure 9). To obtain optimum comfort and utility from small size flats typical of ECH, LRH and PRH, the municipal government organised a design competition in late 2007 and obtained over 80 submissions from all over the country. According to an interviewee, the design at Fanghe Garden incorporated many useful features from the competition.
4. Necessary services are easily accessible from the estate. For example, the nearest metro station, Kengkou Station on Line One, is only two hundred metres away. Many other amenities, like shops, restaurants and parks, are all within easy walking distances.

Rents for LRH were low in Guangzhou. According to several interviewees these were between RMB1.0 to RMB2.0 per m² GEA, depending on the financial situations of tenants. With the minimum size of LRH in Guangzhou being 35 m², monthly rental could be as low as RMB35.0 for the poorest tenants, which was less than 5% of the income support provided by the municipal government. However, there was an estate management charge to pay for all the services, e.g. lifts, security, green space maintenance. At Fanghe Garden this charge was RMB1.3 per m² GEA per month. For older estates with less services and maintenance work, estate management charge could be as low as RMB0.55 per m². This is much lower than in market housing estates where charges are normally RMB3.0 per m² or more.

According to interviewees, tenants' satisfaction at Fanghe Garden was high as indicated by the willingness to pay for the management charge in Fanghe Garden, with 99.6% compliance. Since occupation, no one has applied for relocation. Many people relocated from older buildings in the city centre were very happy with their living situation in Fanghe Garden. However, there were still some minor problems. Some of the LRH tenants had personal problems like poor health, poor education and lacked the skills required for modern living.

Figure 9

Compact design of a two bed ECH flat at Fanghe Garden



Source: data from fieldwork, 2013 [specification provided by the authors]

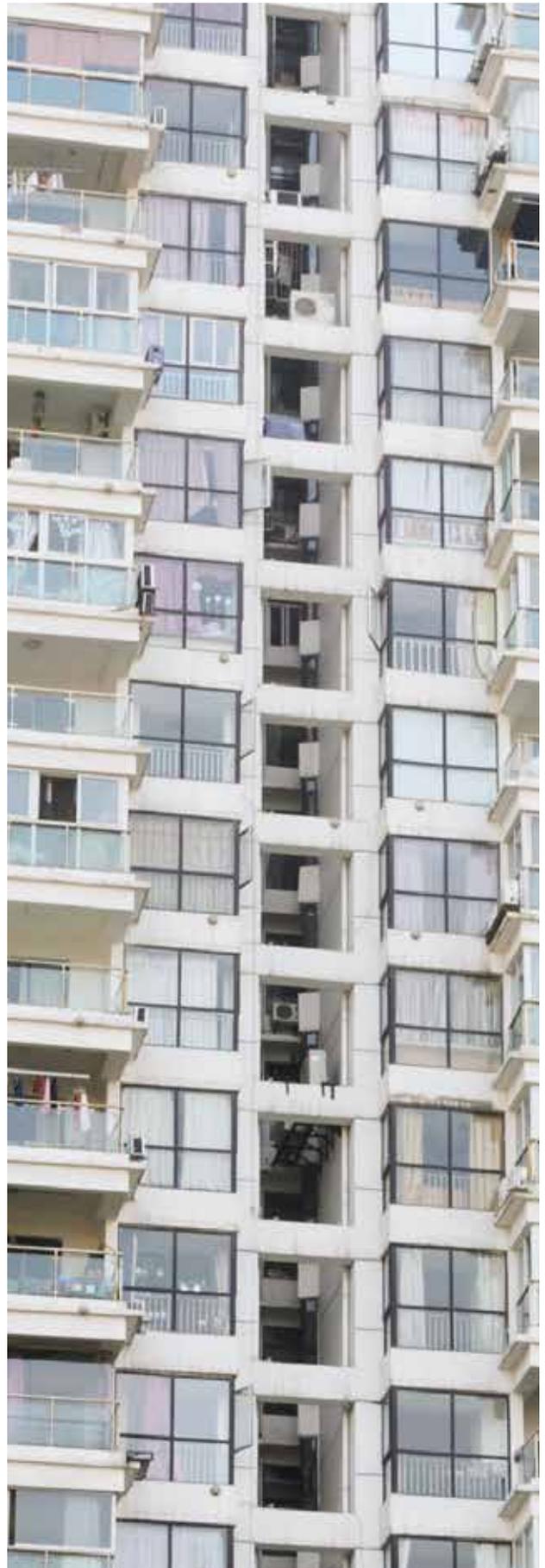
Some had past criminal offences. People who face such problems were brought together in the estate, and rendered problems for themselves and for the management, including anti-social behaviour, (e.g., throwing objects from flats on to communal areas), in a set up where there were insufficient sanctions and a limited capacity for management to actually evict anti-social families. Moreover interviewees also noted that management had to take some responsibility for caring of tenants with long-term sickness.

One interviewee pointed out:

Although staff members were happy to help, caring for people with the long-term sickness should be the responsibility of the healthcare system. Estate management would like to be able to coordinate the support provided by the healthcare system, police and others for the tenants so that staff members do not have to perform a job which they cannot do.

In addition, a couple of interviewees lamented that the media seemed unsympathetic to some of the management measures adopted by estate management staff to better manage the estate, which increased the difficulties of management.

Despite its problems, Fanghe Garden is a model estate in Guangzhou's ASH sector. Several interviewees indicated that the development and management of other housing estates had experienced more problems. For example, Jinshazhou Estate, a large and now successful LRH estate in Baiyun District, had teething problems when it was completed in 2007. Problems also occurred in the Tongde, Datang and Tangxia Estates in 1996, with insufficient infrastructure like access to roads, shops and hospitals. Resolving such problems required delivery of infrastructure and a follow-up to be conducted after initial development. Fanghe Garden is thus more the exception rather than the norm.



4.2 Wuhan

Wuhan, the capital city of Hubei Province, has a population of 10.12 million, including 8.21 million registered residents and 1.9 million migrants who do not have registered resident status. It has 13 districts, with 7 central districts and 6 remote districts. The city is the ninth largest urban economy in China, with a per capita GDP of RMB79,878 (£8,109), ranked 9th in China's major cities (Elivecity, 2013).

4.2.1 Housing conditions in Wuhan and affordable and social housing provision

Wuhan's housing conditions were poor before 1978, with per capita living space at 3.43 m² in 1978 and much of the housing stock in poor conditions (Li & Ding, 1989). After the reform and opening up campaign started in 1979 Wuhan followed the practices from cities at the frontier of the reforms such as Guangzhou in transforming its housing provision. The first market housing sale occurred in the city in 1983 with prices ranging from RMB200 to RMB600 per m² GEA. It was conducted by a government agency which later became a state-owned enterprise on housing construction (Changjiang Times, 2013). Large scale housing development, both market and non-market, improved Wuhan's housing conditions. For registered residents in the urban districts, per capita residential floor space (GEA) grew from 5.1 m² in 1978 to 32.71 m² in 2012.

1988 and 1994 Policy: Poverty Relief Housing, Housing Cooperatives and ECH

Wuhan is renowned for its innovation which led to the establishment of housing cooperatives and ECH. The Wuhan Municipal Government started the provision of Jiekun Fang in 1988 and supported the operation of housing cooperatives following the 1988 policy that called for the establishment of housing cooperatives (State Council, 1988). The provision of Jiekun Fang was aimed at relieving 6,600 households in extreme housing poverty in 5 years. Housing cooperatives, on the other hand, were designed to help low and lower-middle households to pool capital to build housing purchased by its members at prices lower than market housing.

According to an interviewee, the first housing cooperative was initiated by Yangzi Housing Industry Corporation, Yangzi, a private company with strong connections to government, in 1986. In the following year, the company established China's first non-governmental housing cooperative, Chang Dock Housing Cooperative, which built housing and sold the units at RMB280 per m² to members. Because urban land is owned by the state, the cooperative had to rely on administrative allocation of land by the government. By 1991, Yangzi created Fuxingcun

Housing Cooperative and built the first housing estate, Fuxingcun, for 1,700 household members. The success of housing cooperatives in Wuhan and other cities led to a national regulation being promulgated to provide regulatory guidance on housing cooperatives in 1992 (MoC, 1992). The 1994 policy encouraged the further development of housing cooperatives. The municipal government provided policy and regulatory guidance for enterprises to organise cooperative housing construction. However, by doing so it reduced the autonomy of enterprises to function as housing cooperatives.

Building on the experience of Jiekun Fang and housing cooperatives, Wuhan Municipal Government started large scale provision of subsidised market housing in 1994 by allocating 180.6 hectares of land exempt from land prices and providing exemption and reduction of taxes for developers to build housing for sale at low prices. According to some interviewees and focus group participants, Wuhan's practice made significant contribution to the definition of ECH in the 1994 policy and to the national regulation on ECH (MoC, 1994). The emergence of ECH fundamentally altered the way public housing was provided, with state investment recouped and affordability of low to middle income households taken on board. In Wuhan, Hongguang Estate in the central district of Hankou District, the first ECH housing estate in China, was completed in 1995. However, the widespread adoption of ECH as an alternative to market housing led to the phasing out of housing cooperatives by the 1998 policy. Without government support, housing cooperatives could not overcome the constraints in land, finance and management resources and gradually ceased in operation in Wuhan and throughout the country.

1998 Policy: LRH

LRH was introduced to Wuhan after the 1998 policy. In 1998 housing conditions were still not satisfactory in the city, with per capita living space at 7.8 m² (WBS, 1999). 80,900 households were in need of housing support and 11,000 households had per capita living space under 4 m². Much existing housing lacked proper maintenance and only 58% of housing units were self-contained (WBS, 1999). On the other hand, average sale price of ECH in 2000 was RMB1350.0 per m² and that of market housing RMB1983.5 per m², which was beyond the reach of low income households (WHAB, 2001). To solve the housing problem of low income families, Wuhan Municipal Government tabled a regulation on LRH in August 2002 to cover households with per capita living space less than 6 m² (WMG, 2002). The sizes of LRH were to achieve a minimum per capita living space of 8 m². For those living in public housing not designated as LRH, rents were reduced. Discretion was given to some households who did not qualify but had special conditions. For example, a case which stands out is that of an old couple with medical problems who were offered a new ECH unit of 60.84 m² GEA in Tianshunyuan

Estate as LRH at a monthly rent of RMB34.3, because the LRH unit (over 20 m²) they previously lived in was not self-contained (Changjiang Daily, 2008). In 2005, rental subsidies were provided to low income households so that they could rent private housing. By the end of 2007, 21,596 families with per capita living space lower than 10 m² were all covered by LRH units, rental reduction or rental subsidies (Changjiang Daily, 2008).

2007 Policy: ASH

Since the enactment of the 2007 policy Wuhan has built an ASH system with PRH, LPH and RIH being new components. According to an internal government document, by the end of 2012 the city's ASH sector has completed 20.49 million m² of ECH covering 218,100 families and spent about RMB4.0 billion to provide LRH support to 82,000 families. All households with a per capita disposal income lower than RMB600 per month and per capita GEA lower than 12 m² have been covered by LRH (China Daily, 2013). 28,000 families were provided LRH units and 54,000 families offered rent reduction and rental subsidies. With the participation of enterprises, 17,754 PRH were completed. 17,290 units of LPH were completed for those qualified. In addition, 110,620 families were relocated under RIH improving their housing conditions. Table 8 sets out the qualification standards for various types of ASH in Wuhan.

To achieve 20% coverage of the city's registered residents in the Twelfth Five Year Plan the municipal government needs to provide 400,000 new units of ASH. In 2011 and 2012, 224,000 units were started, leaving a further 176,000 to be started between 2013 and 2015 (China Daily, 2013).

4.2.2 Baibuting Garden and Wenhuiyuan Estate

Site visits to Wenhuiyuan and Huiminju were conducted during fieldwork to obtain first-hand the typical practice of ASH estate management in Wuhan.

Situated in the centre of Jiangnan District and occupying four square kilometres, Baibuting Garden is a collection of housing estates developed by a private developer. Its current population of 130,000 residents will increase to 300,000 when Baibuting expands to seven square kilometres. Metro lines 3 and 8, currently under construction, will run through Baibuting.

Before 1995, the area was a site with abundant fish ponds and small streams but without infrastructure like roads, electricity and mains water supply. Baibuting Group, the current developer, was the 8th company to commit to develop the area. Taking the lessons of the previous failures to attract home buyers, Baibuting Group took advantage of the ECH policy to sell housing at lower prices and focused on providing comprehensive community services in addition to producing quality design and construction. Now Baibuting has become a national exemplar in community services, a strong attraction to low to middle income home buyers.

Construction of Wenhuiyuan Estate started in August 2010 following the local government's decision to build large LRH estates in 2009. This was to accommodate all LRH applicants whose applications were approved that year as well as some LRH applicants who were approved

Table 8 Types of ASH and qualification standards, Wuhan

Types	Target population	Eligibility		Unit size standards	Rents & prices
		Space	Income		
LRH	Low income households	< 12 m ² GEA	< RMB600 per month	< 50 m ²	RMB0.75-1.5/m ²
PRH	Lower-middle income households;	< 8 m ² GFA	< RMB3,000 per month	< 60 m ²	Set with reference to market rents
	Migrant workers with required skills	Non home owners	< RMB3,000 per month	< 60 m ²	Set with reference to market rents
ECH	Low income registered residents	< 16 m ² FGA	< RMB824 per month	60 m ²	Sold at development costs, builders' profits < 3%
Enterprise housing cooperative	Employees of qualified enterprises	none	none	60 m ²	Sold at development costs; non-state builders' profits < 3%
LPH	Households affected by relocation	none	none	60 m ²	Sold at discounts to market prices

Note: * ECH will be phased out in 2014.

Source: data from fieldwork, 2013

Figure 10

LRH tower blocks and communal garden at Wenhuiyuan Estate, Baibuting Garden



Source: data from fieldwork 2013

in 2010. The site has an area of 80,800 m², with a plot ratio of 2.72 and 38% green space. The estate provides 2,640 LRH, 770 ECH and 55 RIH units and can accommodate about 12,000 residents. ECHs with sizes from 50 to 88 m² were pre-sold at an average price of RMB2,950 per m² in 2010 (Jiangan Government, 2010), and staff on site indicated that comparable market housing was offered at above RMB6,000 per m² at the time. All buildings were between 16 to 28 storeys, with common areas like entrance hall and community centres found at ground and first floors (Figure 10). The estate was wheelchair friendly and run like a gated community for safety and comfort. The LRH units in the estate were occupied in October 2012.

A fieldwork visit was made to a two bedroom LRH flat on the estate. The flat was self-contained, consisting of a living room, a small double bedroom with a balcony and a split-part air conditioner installed by the tenant, a single bedroom with a bunk bed, a kitchen with gas-fired cooker and a toilet/shower. The husband earned about RMB1,500 a month by working in the docks on temporary contracts and paid no income tax. The wife, who did not work,

participated in voluntary work in the estate. The son went to the free government primary school neighbouring the estate and had an old desktop. Their former home was old, not self-contained and without green open space, so they were happy to live in a modern building with an electronic security system. The family paid RMB75 a month as rent (RMB1.5 per m²) on a five year contract and paid their utility bills, with estate management fees waived.

Interviewees noted that even with community services mainly supported by volunteers, the estate management felt pressurised by the numbers of disabled people, people with criminal records and single old people with dementia. Staff tried hard to encourage people to work and find sustainable jobs and offered those willing and able to perform community services, stable jobs as community management workers, with salaries at RMB1,300 per month to replace their income support of less than RMB600 a month. In addition, staff often organised campaigns to encourage donation of air conditioners and other white goods such as TV sets and old PCs.

Figure 11

Huiminju PRH Estate in August 2013



Source: data from fieldwork 2013

4.2.3 Huiminju PRH Estate

Huiminju PRH Estate is a purpose-built PRH estate situated in Jiangnan District developed by the municipal government (Figure 11). It occupies a 36,500 m² site and planning permission has been granted to build 2,145 units of PRH, whose occupation was delayed from August 2013 to November 2013. When applications were opened in October 2013, 4,641 families applied (Changjiang Daily, 2013).

Regulated by national standards on PRH, Huiminju estate provides mainly two types of accommodation:

1. Units with one living/bedroom, a toilet/shower and a kitchen which account for 80% of the stock, and are normally 40 m² (GEA).
2. Units with one living and one bedroom, a toilet/shower and a kitchen. These are normally 50m² (GEA).

Besides these two types, there are also 138 one living room and one bedroom units up to the size of 61m² (GEA) for families with disabled persons. Rent is set at RMB15 per m² (GEA), and estate management charge RMB1.4 m² (GEA), about half the market rent for comparable housing.

Nevertheless, successful applicants for PRH like those at Huiminju estate face very high up-front payments before occupation. Tenants need to pre-pay rents and estate management fees for the first 3 months, and pay a no-default guarantee, equivalent to 2 months of rent plus a deposit of RMB1,000. The total amount of all these payments is equivalent to two months total income of an average applicant. An interviewee pointed out that the high up-front payment was to prevent default by tenants, many of whom are mobile in terms of jobs and places to live. In addition, Wuhan started to accept applications in mid-2013 from migrant workers who could prove they had stable jobs in the city. Migrant workers were regarded as the most mobile, and were required to supply references from employers, who were found reluctant to provide these in order to avoid trouble.

5.0 Problems in the affordable and social housing sector

After the central government established the ASH system in 2007 the provision of ASH has had rapid progress in China, benefiting millions of low to lower-middle income urban families throughout the country. In both Guangzhou and Wuhan housing poverty among registered residents has virtually been eliminated and housing standards for the poor are now set at over 10 m² of per capita living space in self-contained housing units. Waiting time for ECH and LPH in the two cities is normally less than 2 years. Waiting time for LRH is rather short due to the availability of rental subsidies to help with the renting of private housing, which is in abundant supply. Interviewees in Beijing confirmed that similar progress has been made throughout the country.

Despite the above achievements in addressing low income housing needs since introduction of the new ASH regime in 2007, a number of important areas of concern remain.

5.1 Priority given to affordable and social housing provision

A number of problems that have implications for efficiency are identified in the research. ASH provision in both cities has not been regarded as important as short-term economic growth. Local policies are often biased to projects that generate fast economic growth even though such growth is achieved at the expense of housing provision for the less well-off residents. As a result, there have been an insufficient number of sites in good locations and inadequate levels of funding, institutional oversight and coordination in providing ASH. After the implementation of the 2007 policy, large scale construction and provision of ASH has been imposed by the central government. However, interviewees and focus group participants still expect their municipal governments to further prioritise ASH provision so that sufficient power, funding, suitably located land and staff are available. In particular, the municipal government agencies in administering ASH in both cities are seriously under-staffed, a problem not easy to solve due to a tight quota on government employees. In Wuhan, there is a need to unify the provision of ASH, currently segmented in districts, within the city as a whole.

The location choices for ASH projects need more attention. Poor location and lack of infrastructure has been associated with ECH, while market housing has been provided with good locations and sufficient infrastructure. Many interviewees and focus group participants agreed that many large projects were far away and poor in terms of accessibility at least in the early years of development, but indicated that those sites were deliverable because they enjoyed a lower cost of development. However, two interviewees familiar with processes of land supply by land administration agencies argued that sufficient land parcels with good locations were supplied to local governments to develop. The decision to use sites which were less suitably located was not because of a shortage in supply, but a preference for well-located sites to be put to more profitable use, leaving the less accessible ones for ASH.

Funding and land supply for ASH are interrelated and affect the provision of ASH in Guangzhou and Wuhan. The central government provided financial assistance to local governments for developing LRH, PRH and RIH, but the amount of payment is not sufficient and local governments need to cover significant proportions of the funding. Furthermore, central funding is intended primarily for the west and central parts of the country due to the lower level of economic development there. Interviewees indicated that Guangzhou received little central funding due to its fiscal capacity. In Wuhan, the central government's payment to help ASH provision for 2013 stood at RMB400 per m² for LRH, RMB29,000 per unit for PRH and RMB9,000 per unit for RIH in urban areas and RMB100 million for rental subsidies, as indicated by an interviewee. Local governments have to raise funds, much of which comes from land sales. Hence, sites in better locations have to be allocated to market housing to raise funds for ASH, infrastructure and other local spending. This is also why local governments in Guangzhou and Wuhan, and across China, favoured subsidised market housing like ECH and LRH over building LRH, as the solution to the housing problems of low income households, after the enactment of 1998 policy.

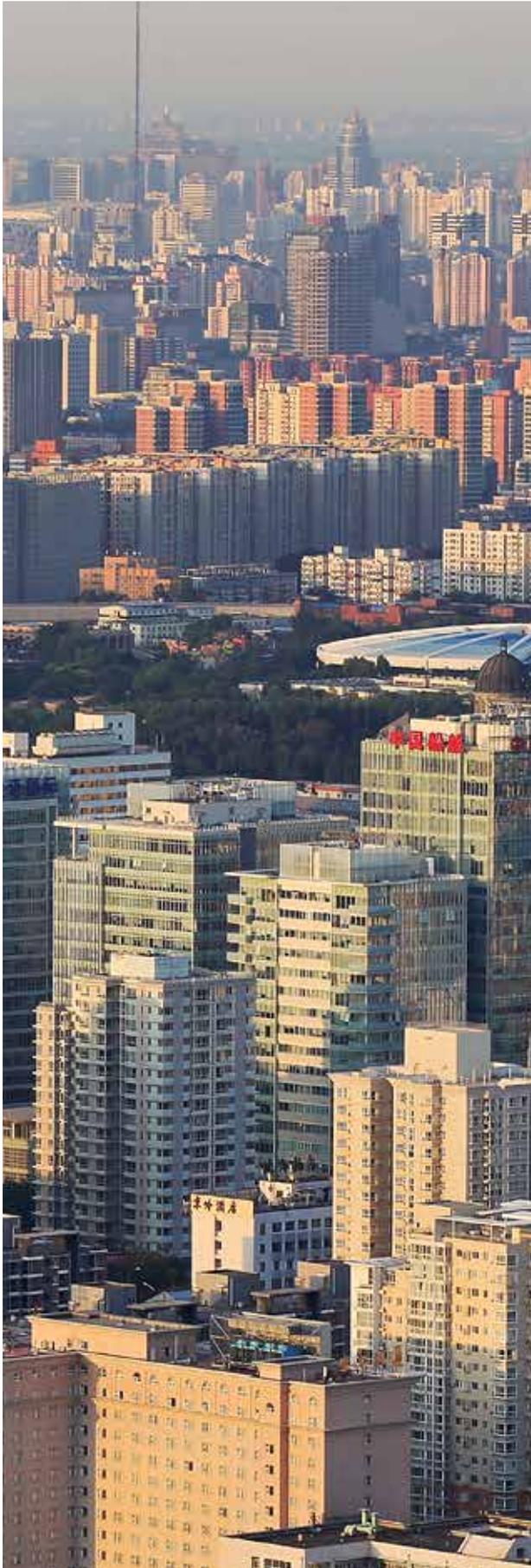


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5.2 Provision of affordable and social housing to migrants

Housing conditions and entitlements to registered and non-registered residents are a world apart. Migrant workers cannot benefit from ASH provision in Guangzhou. The new PRH regulations in Guangzhou enacted in 2013 still fully exclude migrants. In Wuhan, migrant workers can apply for PRH under very strict conditions. Interviewees and focus group participants indicated that the treatment of migrant workers on housing was similar in the rest of the country. As a result, many migrant workers experience poor housing conditions, with many staying in urban villages and suburbs where sub-standard housing built by farmers without appropriate building regulation control are let at affordable rents. This is a contrast to the continuous relaxation of qualification thresholds to make more registered residents eligible for ASH. Many interviewees and focus group participants commented that without a relaxation of thresholds there would be a surplus of ASH. They understood that the large numbers of ASH units required by the central government were for the inclusion of migrants, to help them settle down as urban residents, and not subsist as a 'floating' population. Yet they pointed out many practical issues which had to be solved in order to include migrants into ASH. A focus group participant explained:

It is not that simple. It is not that the municipal government is not willing to reward those migrants who work for the city. What follows providing LRH or PRH to migrants are expenditures on education, healthcare, pensions, social security... The city has limited resources.

An interviewee expressed the follow views:

Many migrant workers do not intend to stay for long in a city they have no relatives, don't share the same culture and don't speak the same dialect. They are footloose. They will go back to set up their own businesses, buy their housing and enjoy a better life when they have earned enough money.

A few interviewees argued that it was important to develop a national policy framework in order to provide institutional arrangements to solve the issue of welfare entitlements to migrants. It was not helpful to single out housing when an overall policy framework was missing.

5.3 Measures simply to meet targets

The local governments adopted certain measures from 2011 simply to meet targets imposed on them due to pressure from the central government. However, such measures had a negative impact on the efficiency of ASH delivery. These are analysed below.

Large ASH estates were built to hit targets but these led to management and social problems. The experiences of Fanghe Garden in Guangzhou and Wenhuiyuan Estate in Wuhan clearly demonstrate that large ASH estates, even well located and managed, tend to cause social and management problems due to a concentration of people with low income, poor health and complex backgrounds. Yet large ASH estates with poorer locations are planned for both cities. For example, Luogang Central Area Project in Luogang District, aimed to deliver 20,820 housing units (6,112 LPH, 13,940 PRH and 768 RIH), for a huge self-contained community of low-income families on the borders of the built-up area in Guangzhou. Another example is Nanyue Garden in Baiyun District with 17,005 units, (2,040 ECH, 10,993 PRH, 3,012 LRH and 960 RIH), which is also near the border of the built-up area of Guangzhou, and 2 kilometres away to the nearest metro station. In Wuhan, many ECH projects provide more than 2,000 units per project. For example, Lujingyuan Estate in the central district of Hongkou District, partially completed in 2012, aimed to provide over 6,000 units of ECH, PRH and LRH at a relatively good location near the second ring road.

Another tactic to meet targets was to convert existing housing to boost the numbers of new build. For example, in Wuhan, former student housing was converted to PRH and declared as new build (BJNEWS, 2012). This move was later corrected and classified as a conversion. In Guangzhou, among the 85,000 new units delivered in 2011, only 15,078 were new ASH units. The rest were 'acquired' or converted from existing housing. When reporting the 85,000 units of new build and new acquisition, the actual proportion was rarely reported. The central government policy did encourage acquisition and conversion of housing under other uses to ASH, but required such conversions to be reported independently from new build. Furthermore, such conversions were to be planned within a wider housing delivery policy. By using them to meet targets for ASH, conversions can potentially distort the wider housing market and delivery in other important areas (e.g., student accommodation) by withdrawing supply and creating shortages elsewhere.

The inclusion of ASH offered by enterprises in public ASH represents another way through which targets are skewed. Several interviewees indicated that a significant number of the 'built and acquired' housing was owned by large companies, which distribute the units to their employees. Such housing units, counted as PRH, were actually not available to the public. One interviewee indicated that this practice of including the 'private' ASH

in the number of 'public' ASH units delivered, has often led to frustration among applicants who cannot acquire units despite the numbers delivered.

5.4 Construction quality

Fieldwork observations indicated that construction quality in Guangzhou and Wuhan was found to be under strict control. Nevertheless, a couple of focus group participants in Guangzhou noted that minor quality problems were occasionally found. They pointed out that due to tight budgets cheap materials were used in the construction of LRH in some cities. But Guangzhou has built a very effective quality control system to make the construction quality of ASH at least as good as that of market housing. And with construction quality of ASH on the agenda of MOHURD (MOHURD, 2008), construction was not deemed a significant issue.

5.5 Estate management

There were problems in screening applicants and managing the residential units. An interviewee with very good knowledge of screening indicated that the screening process was under-staffed, resulting in much of the work being performed by inadequately trained temporary staff members. Another problem, indicated by an interviewee, was the unavailability of applicants' income and financial assets data, as such data was with other government agencies rather than GHSO. The GHSO is connected to the Guangzhou Land and Buildings Administration Bureau and has property information only. Data on personal assets are poor due to the under-developed system of property registration and taxation. Interviewees and focus group participants agreed that data problems and inter-governmental information exchange needed urgent action in the city. In fact, the problem was widespread throughout the country, with 106 cities and towns being found to have significant problems in screening applicants (Audit Commission, 2013). For Guangzhou, the Audit Commission found that 3 unqualified applicants were successful in LRH application, 25 unqualified applicants successfully bought ECH, and 189 LRH residents who no longer met the conditions for LRH remained in occupation. Yet an interviewee thought the findings from the Audit Commission might be an underestimation.

The distribution of ECH was particularly problematic before enhancement of control. A couple of focus group participants noted that the limited sizes of ECH, (imposed by the 2007 policy), and stricter screening helped to reduce capture by wealthy investors.

There were management problems on ASH in both Guangzhou and Wuhan. For purpose-built ASH estates, estate management was under-resourced as the management fees were set at low levels. Some residents refused to pay their fees based on claims of insufficient income despite receiving income support and rent subsidy.



Yet estate management often lacked the power and measures to enforce collection. Antisocial behaviour in ASH estates were difficult to tackle because management staff has limited guidance and authority to take the necessary actions. Some occupiers who no longer qualified refused to move because the units they occupied were of a higher standard in density and landscaping terms than the market housing they could afford. Some claimed to have the right to inherit the LRH from their deceased relatives. However, both officials and management company staff found it difficult to evict the occupiers. In Guangzhou, officials could increase the rent from RMB1.0 per m² to RMB6.75 per m² or even RMB13.75 per m². However, charging higher rents still represented a misuse of resources, as LRH units are intended for households in greater need.

A significant development is that more ASH is being built by developers within market housing estates as a condition in land sale. How to manage those ASH units, however, needs to be explored. There are already complaints from estate management firms and also from occupiers of market housing on the ground of unfairness, as they pay more in property management for the same level of services.

Vacant ASH units in significant numbers were found in many cities. Although not a significant problem in Guangzhou and Wuhan due to the high local demand the issue of vacant ASH has been closely monitored by the audit commissions and recently audits found about 57,000 units of ASH units were vacant in nearly 100 cities in Shangdong, Hainan, Guangdong and Yunnan Provinces (People, 2013b). The main cause for vacant units is poor location, and other causes are poor construction quality due to use of cheap materials and poor estate

management as a result of the lack of estate management funding. It is obvious that the existence of significant amounts of empty units is a consequence of problems in site selection, funding, construction quality management and estate management.

5.6 Competition and alternative providers

There is limited competition among suppliers and managers of ASH, and there are no alternative suppliers besides the government and large organisations. In Wuhan, non-governmental housing cooperatives were developed to help the less advantaged in the 1990s but not sustained due to competition from government provision and lack of government support. What remains in Wuhan is cooperative house building which only benefits employees of qualified enterprises. Some interviewees indicate that the current system of supply and management does not provide sufficient diversity in housing types, space design, management styles and community services. Some tenants in LRH interviewed during fieldwork also indicated that they would like more choice. If there were greater competition among state providers, many of the problems in design, construction and the provision of amenities would be alleviated or overcome. The inclusion of non-state providers would certainly promote completion and provide greater variety.

In the next section an institutional analysis is conducted to examine the causes of the problems discussed above.

6.0 Increasing efficiency: removing institutional barriers



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The problems identified above have persisted for many years. The fact that the 36 million units target is likely to be met indicates that given sufficient institutional support, local governments in China are able to deliver ASH on a large scale without great difficulty in technology, construction capacity, land and manpower. The arguments from the interviews and focus group meetings indicate that there needs to be a major change in the rules of the game, i.e. institutional arrangements, to overcome barriers and provide solutions to the problems discussed above. This section examines the institutional barriers that are the causes of the problems identified in the report and explores ways to remove these barriers.

6.1 Constitutional level

The key institutional barrier is the lack of national legislation or national ordinance to set the rules for ASH and to empower and oblige local governments to provide and manage ASH efficiently. Since full housing privatisation and housing market development in 1998, there have been attempts to enact a Housing Law by the Parliament, National People's Congress, but so far no draft law has been published. Some focus group participants mentioned the consultation for a national ordinance on ASH, whose authority is only lower than a parliamentary law. The consultation, albeit delayed, was conducted from 28 March to 28 April 2014. If the draft is eventually adopted and enacted, guidance and rules on the provision and

management of ASH will no longer only rely on the 2007 policy and ministerial regulations, which are of low legal and administrative authority.

It is imperative that the constitutional level acts to provide legal and administrative guidance and rules. The constitutional level, in this case the National People's Congress and the State Council, has not clarified the status of ASH and set relevant rules for the collective choice level, i.e. the local government and some central government agencies. Without such rules, local governments at the collective choice level continue to prioritise short-term economic growth because other existing collective choice rules require them to deliver fast economic growth, which is also in line with the wishes of local people, both registered residents and migrants. If a conflict emerges between short-term economic growth and ASH provision, local governments prioritise short-term economic growth.

The Twelfth Five Year Plan to build 36 million ASH was a constitutional level decision to change collective choice rules to oblige local governments to alter rules at the operational level so as to increase ASH supply. However this was not accompanied with sufficient financial assistance resulting in local governments providing ASH at the expense of other projects. For example, Fanghe Garden in Guangzhou was once planned as a housing project for local government employees and Wenhuiyuan Estate at Baibuting Garden was originally planned for market housing. From this it is evident

that a change in the rules binding local governments to give priority to ASH will result in changes that can help solve the problems this report has identified. For instance, if the local governments are required to support non-governmental housing cooperatives and encourage competition among state sector providers, rules must be set at the constitutional level allowing alternative providers to participate and foster competition in ASH provision.

The important issue of providing ASH to migrants should be tackled by a series of constitutional level decisions to develop a new regime of urbanisation whereby migrants can be settled in places of their choice without bankrupting local governments. ASH is only one component of the new regime of urbanisation. One major reason for local governments not including migrants in the ASH regime is the uncertainty of funding from the central government. A constitutional decision to establish rules on funding that include ASH for migrants will incentivise local governments to make ASH available to migrants. The funding rules can also help to resolve problems in ASH provision for registered residents. For example Guangzhou does not subsidise property management fees associated with LRH due to the lack of rules around funding. If funding were available, Guangzhou Municipal Government could be more flexible in setting operational rules to provide subsidies for estate management fees.

6.2 Collective choice level

The lack of clear collective choice level rules regarding local governments' powers and obligations has led to reluctance and confusion on the part of local governments to set operational rules to guide ASH provision and management. This has led to inefficiency at the operational level. Several consequences ensued.

First, local governments often chose easy but short-term or inefficient options in ASH provision. The slow progress of LRH prior to 2007 was due to the lack of clear guidance or obligations for local governments to provide subsidised public rental housing to very low income households. Local governments either provided ECH for those families to buy, which led to heavy borrowing from relatives and friends, or offered rental subsidies, often leading to families living in low-end market housing with poor services.

Second, local governments chose inaction on certain problems in ASH provision time and again, leading to a persistence of such problems. Designed for low to low-medium income households, ECH was subject to capture by medium or even high-income households. However, local governments have not acted to reform the way ECH was distributed, because they are not obliged to do so by the collective choice level rules. In fact, local governments tacitly allow such capture by government employees.

Third, local governments were unable to deal with some problems in ASH provision due to a lack of guidance or power. Policy makers interviewed, who set rules for ASH provision and management, revealed that they could not

provide solutions to some problems at estate management. For example, they could not allow estate management staff to evict tenants with anti-social behaviour because they were not sure if they had the legal authority to do so, and once eviction was executed there were no options for the evictees.

The insufficiency of rules does not prevent the collective choice level from exploring solutions to some problems, which led to institutional innovation and an increase in efficiency in ASH provision. The phasing out of ECH, merger of LRH & PRH, development of construction quality management systems have all been initiated by local trials. In particular, the merger of LRH and PRH solved the problem of stigmatisation of LRH and facilitated more efficient management. Local initiatives have been important in China's reforms and the ASH sector is no exception.

6.3 Operational level

Many problems in ASH provision and management can be solved by better and more effective operational rules, which are set by local governments at the collective choice level. During fieldwork interviewees performing management duties for ASH provision and administration noted that they simply did not know what to do in certain situations because of insufficient or a lack of guidance, regarding some duties.

When interviewing a manager responsible for operational management of dozens of housing estates, a tenant tried to force his way into the office to complain about the unfair treatment he received. The interviewee later explained that this tenant often visited without prior notice for very trivial issues, which should be dealt with at the reception desk in the housing estate he lived in. However, there was no mechanism to prevent the tenant, from making a complaint through an unsuitable channel. Clearly, the rights and obligations of the parties involved were not well communicated or defined.

Without clear rules on operations, estate management becomes inefficient. An interviewee managing a large ASH estate spoke in earnest for rules to empower the management staff to punish behaviour such as refusals to pay rent on time or pay property management fees. The lack of rules to remove unqualified tenants led to management staff wasting time persuading and negotiating compliance. When higher rents were charged to tenants found unqualified for LRH, additional time and effort was required to deal with non-compliance. On the other hand, management staff members did not have a clear understanding of what their rights and obligations were; they sometimes over-managed and at other times under-managed the buildings and the behaviour of occupiers/tenants.

The lack of rules spelling out the property rights for tenants also causes inefficiency. Several interviewees pointed out some LRH tenants behaved poorly in the housing estate they lived in and treated their units badly because there were no clear rights and obligations made explicit to them.

6.4 The relevance of the British experience

The history of ASH provision in China is short compared to many developed countries like the UK. Interviewees and focus group participants indicated that they were keen to study UK experiences in ASH provision to learn the lessons from failed attempts and benefit from successful practices. British experiences have been taken into consideration in the formulation of housing policies in China. For example, the 2007 policy which required LRH to be built in ECH and market housing estates has part of its origin from a similar British practice.

The study briefly captures a few facets of U.K. housing policy which could be useful learning points for China. However a more detailed analysis of the relevance of the British experience is an important area for future research. Some observations include:

First, a relatively complete and functioning institutional framework has been formed in the UK to define property rights and provide guidance and sanctions for ASH provision. Very detailed rules for the collective choice level are set by various acts of parliament, including many housing acts, town and country planning acts and local government acts. One example is the Prevention of Social Housing Fraud Act 2013, which set penalties for anyone found guilty of committing particular tenancy frauds of a fine and a custodial sentence of up to 2 years, rather than the previous requirement to hand back the keys of the property. Many interviewees and focus group participants indicated that such rules would greatly facilitate their work and increase the efficiency of ASH provision and management.

Second, in the UK, there is explicit financial commitment from the central government, which provides certainty and obligation to local governments. In China, local governments need to finance much of ASH spending by extra-budgetary income like land sale revenues, which are not stable.

Third, the UK's voluntary sector in ASH provision which consists mainly of housing associations creates competition and provides choice for tenants. Interviewees and focus group participants in Guangzhou and particular in Wuhan were interested in the voluntary sector providers, because of the history of housing cooperatives in Wuhan. Interviewees in Beijing were interested in housing associations as non-governmental providers to increase competition and choices for tenants.



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7.0 Conclusions and recommendations



China's urban housing provision system has experienced a transition from state to market domination since 1980. A housing provision system focusing on affordable housing as designed by the 1994 and 1997 policies was not adhered to, leading to shrinking coverage of ASH for low to lower-middle income urban households. In particular, ECH, the main form of affordable housing, had often been captured by medium to higher income families. To tackle worsening housing affordability, a new ASH provision system was established in 2007 by the central government at the constitutional level comprising of ECH and LRH, and expanded to include LPH, RIH and PRH by 2010. Increased investments since 2006 by the government has substantially increased the availability of ASH in Chinese cities and greatly improved the housing conditions of low to lower-middle income urban households. In particular, the programme of building 36 million units of ASH from 2011 to 2015 had made significant progress by 2013 and the target number is likely to be achieved. However, the rapid expansion of China's urban ASH sector has raised concerns around efficiency of provision and management, with problems in planning, design, construction, distribution and management of ASH coming to light.

Drawing on a three-level analytical framework, institutional analysis was conducted at the constitutional, collective and operational levels to examine rules, property rights and incentives in China's ASH sector. The following conclusions are drawn from the analysis:

1. Significant inefficiencies have existed in China's ASH sector. ASH projects tend to be built in less favourable locations and in the early years of occupation are likely to suffer from a lack of amenities like efficient public transports, schools and hospitals etc. With strict control regimes applied nationally, construction quality is not found to be a significant problem at present, but certain quality problems exist mainly due to the use of cheap materials under tight budgetary control. Unfavourable locations, construction quality and management problems due to insufficient funding and monitoring give rise to vacant units. Exclusion of migrant workers from ASH coverage is widespread in Chinese cities and contributes to the vacancy problem. Although ECH capture by wealthy households has been alleviated after the definition of ECH size standards, ASH distribution in general still suffers from ineffective credit checking systems, insufficient manpower to screen applications and an absence of effective sanctions against frauds. Estate management is often rendered less effective due to unclear rights and responsibilities for both management and occupiers. In particular, there are no effective sanctions against occupiers who exhibit anti-social behaviour, lack financial discipline and refuse to leave when found unqualified on income and asset grounds. Concentration of ASH in large housing estates creates additional management problems. In addition, lack of competition and alternative ASH provision reduce choices and satisfaction among occupiers.

2. Inefficiencies in China's ASH are rooted in institutional arrangements rather than in shortage of production capacity, lack of funding and inadequate manpower. The constitutional level, represented by the parliament and central government, has not enacted the required collective choice rules for local governments to prioritise ASH provision and management and to provide a comprehensive set of arrangements to include migrant workers in ASH coverage. Ambitious ASH building targets were not accompanied by sufficient financial support and caused local governments to resort to measures like building large ASH estates that led to management problems and in some cases manipulation of number to achieve targets. Without a clear and sufficient legal basis, authority and obligations, local governments could not provide sufficient effective operational rules to guide the ASH sector and often exhibited delay, inaction and inability in ASH provision and management. Estate management staff and occupiers at the operational level are affected by unclear definition of rights and responsibilities and lack of effective authority, incentives and sanctions in dealing with distribution and management of ASH.
3. The British experiences in ASH provision and management are worthy of study by China. In particular, British practices in establishing a complete set of institutional arrangements for ASH provision and management, explicit and stable financial provision by the central government and empowerment of the voluntary sector to provide and manage ASH are found to be relevant for China to increase the efficiency in ASH provision and management.

4. Reforms that result in the removal of institutional barriers are necessary to alleviate and solve the problems that lead to inefficiencies in China's ASH sector. Key reforms should be implemented at the constitutional and collective choice levels, by the central and local governments to provide the necessary status, authority, and rules for the operational level, so as to increase efficiency in ASH provision and management. Some advancement in reforms has been made. At the constitutional level, the central government has released a draft ordinance on ASH for public consultation. The merger of LRH and PRH has become effective in 2014 to remove the stigma attached to LRH and to simplify management. Some local governments have stopped provision of ECH to focus on PRH provision. New local innovations include shared ownership housing, inclusion of migrant workers into the ASH system, en bloc renting of private housing as PRH, development of construction, distribution and management information systems. In Guangzhou and Wuhan, officials and management staff working on ASH provision and management are keen to embrace change to increase efficiency.

A number of recommendations are offered as follows:

- A stable funding formula with clear commitment by the central government needs to be in place before local governments are required to include migrant workers into the ASH system.
- The development of large ASH estates should be replaced by small estates and mixed communities. Market housing projects obliged to include a percentage of ASH should be provided with clear definition of property rights and management rules.
- Reforms should be introduced to encourage the private and voluntary sectors to participate in ASH provision. Competition should be introduced among state sector providers.
- The rights and obligations of occupiers and management companies and their staff should be clearly delineated for all housing estates, with sanctions and rewards clearly indicated.
- A system of rules should be set up to prevent fraudulent practices of obtaining and remaining in ASH and unacceptable behaviour from housing estate residents.



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