

Chapter 4

Housing Market in China

Housing sector is exceedingly related to political, social and economic issues within every country around the world. To solve the housing problems, each country has formulated the specific programs to ensure the housing market operates well. Since the People's Republic of China had been established in 1949, China's real estate industry has gone through a very long and complicated transformation from a welfare allocation system that totally controlled by the government to a commercialized housing market that the government solely applies a macro-control.

4.1 The development of the housing market in China

4.1.1 The developing stages of housing system

China's housing system has gone through approximately four stages that can be identified as follows (Jianping Ye, 2001):

i) The initial welfare allocation (1949-1978)

China's traditional housing system was highly centralized by the government under a system called the planned economy system during this period. Under such a housing system, the government totally controlled the land and distributed the housing units by the housing welfare allocation policy to households who work for the government sector. The welfare housing allocation system operated by deducting a certain portion of worker wages, which related to the composition of housing factors, and submitted to the State. At the same time, the government put the finance as the capital budget expended into housing constructions. The housing units which had

been built were allocated to various state-owned enterprises and institutions. Such work units allocated housing units to the employees at an economical price by applying welfare allocation system on the condition that housing units were still owned by the State or work units. Employees only had a bundle of rights of possession and use, not of disposition that without self-ownership. However, households could be allotted what kind of housing unit depending on the work unit and the status such as the position, length of the working experience of each head of households in such work unit. However, the unfairness and corruption in the housing distribution process was gradually noticed.

ii) The reform and opening-up policy (1978-1987)

Gradually, some households were not satisfied with the housing unit obtained by the welfare housing allocation system. On the other hand, the welfare housing allocation system created these households' demand and stimulated the consumption of the housing units with a better living condition. On the other hand, with the population growth and economic development, the state had escalating difficulty supplying enough housing units to meet the demands of households under this system.

Because of this phenomenon, the government gradually began to realize the problem caused by such a welfare housing allocation system. The state initiated a reformation of the housing system in some cities by increasing the price to offset the cost on allocated housing units with the better conditions.

Such welfare housing allocation system was greatly reformed by the leader of the Communist Party of China, Deng Xiaoping, who transformed China's planned economy to a market economy by carrying out the opening up economy policy.

iii) Comprehensive Reform period (1988-1998)

With 10 years of experimental reform on the housing system, the government took the comprehensive measures to promote the housing market forward to the commercialization. The government began to change through the three factors as follows:

1) The State government encouraged housing investment in housing system. In some cities, the government began to allow the trading of housing units with using rights and ownership. Individuals were encouraged to purchase on housing.

2) Along with the reform of the housing system, the government allowed employees to purchase housing units which belonged to the state or work units called “public-owned housing”. The public-owned housing was sold at a standard price and would be allowed to enter the housing market after five years.

3) The government improved the Housing Funds which aimed to solve the problems of low-wage and low welfare workers to deal with the lack of finance on housing investment.

However, the price of public-owned housing was still much lower than the price of commodity housing unit in the housing market. The public-owned housing was still seemed to be under a welfare distribution policy. As a result, some workers were still willing to pay for a public-owned housing, which blocks the step towards the establishment of a commercial housing market.

iv) New housing market system (1998-present)

In July 1998, the central government cancelled the welfare distribution policy. The basic purpose of this housing system reform was establishing a commercial housing market and stimulating the housing development in China. To satisfied the

households with different income levels and perfect the operation of this housing market, the government also formulated a welfare program to support the low and middle income household groups. These households were allowed to buy the “economical housing” which was quite similar to the welfare allocation housing built by the government sector and the prices of such housing units were determined by the government. Meanwhile, the government provided the housing units for the lower income households to rent at a certain economical price. Due to such a reform, the real estate investment began to increase dramatically since 1998, which boosted the development of the real estate market in China.

Overall, the real estate industry in China had transformed from a totally public-controlled by the government several decades ago to a commercialized products in the market nowadays. Although the government is still being the owner of the land, the using rights of land can be owned by households. The commercialization of the housing market has boosted the investments of housing units and makes a great effort on development of the housing market in China.

4.1.2 The current real estate system in China

Figure 4.1 shows the real estate system in China, which illustrate the relationships among these participants.

As can be seen in figure 4.1, the central government is the leader in the real estate system which has the responsibility to maintain the steady economic growth in the housing sector and to improve the people’s livelihood. The central government holds the macro-control measurements and makes use of them whenever there appears a great inflation or deflation in the housing market.

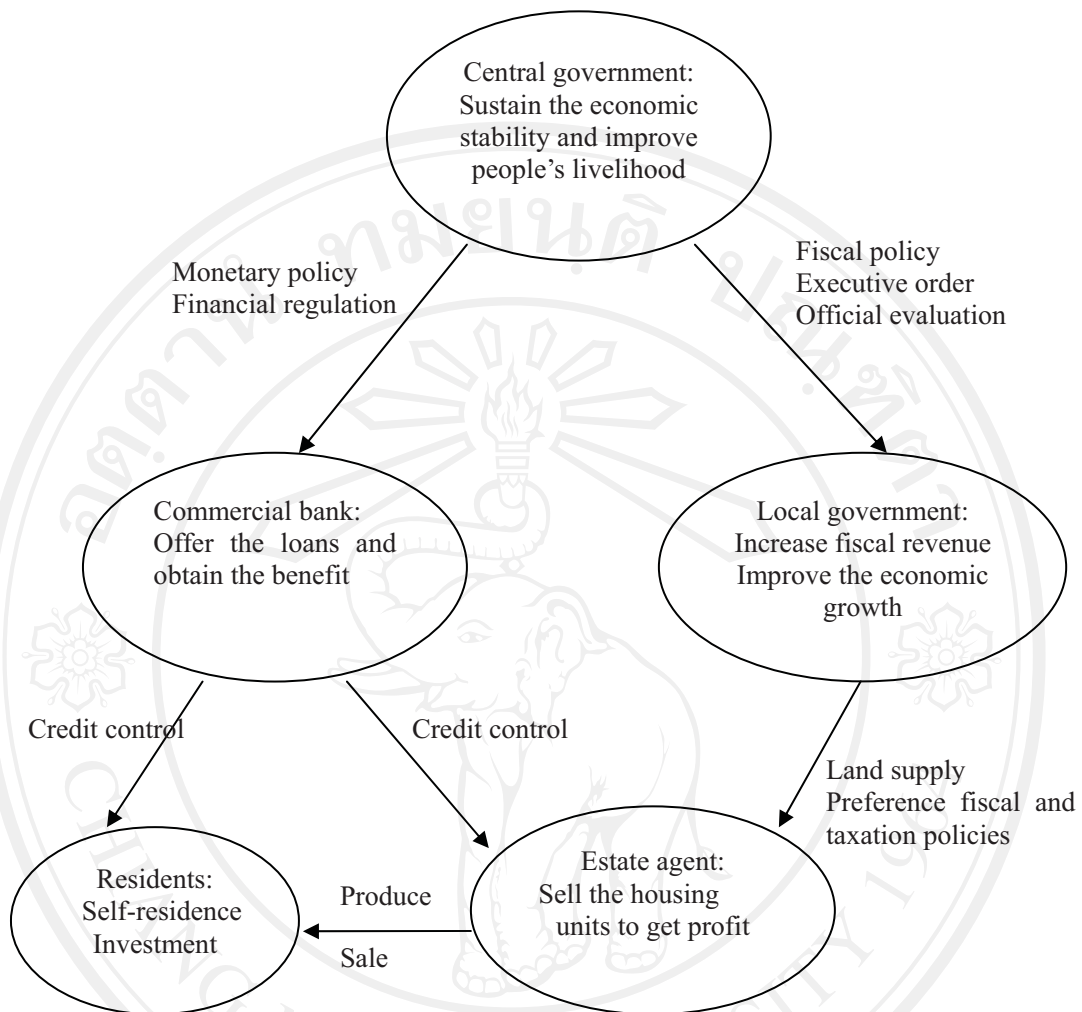


Figure 4.1 The real estate market system in China

Source: “China’s real estate market policy and outlook” (2009), Ma Zihui, Liu jinshuo, Translated by the author

The local government under the administration of the central government has similar authority as the central government. The local government, which distributes each place directly, controls and sustains the housing market to maintain adequate performance levels. On one hand, the local government carries out the policies of the central government, and formulates the principles that are fit for the local real estate market to deal with various occurrences. The local government controls the land

supply and adjusts the market by preferring of the fiscal and taxation policies to regulate the local real estate market.

The commercial bank is another institution under the administration of the central government by monetary policy and the financial regulation. The commercial bank plays an important role in the housing market by exercising credit control, which normally offers loans to both the real estate agents and households to get the benefits from such services. When housing price inflation occurs, the commercial bank will increase the loan rate to tighter the credit, otherwise, it will offer some preferential policy on the credit.

The real estate agents supply the housing sources to consumers in the real estate market and aim to get the maximal profit by selling such housing units. When the housing price increases, the housing agent will invest more into the housing product to get more benefit, or otherwise decrease investment. But if it appears that over investment or speculation from the housing agent has occurred, both the local government and the commercial bank would take some action against the real estate agent to control the housing price.

The residents in the housing market consumed the housing units with two purposes, which are self-residence or investment. If there is speculation in the housing investment by residents, the commercial bank would make use of the credit control measures to restrain the residents purchase more housing units.

4.1.3 The residential housing in China

The most remarkable issues of China's housing markets are the reform in 1998 and China's entrance into to WTO in 2001 (Zhang M., 2010). In figure 4.2, the growing rate of residential real estate investment is faster than that of others. Residential real estate

investment contributes to the largest proportion both in 1996 and 2009.

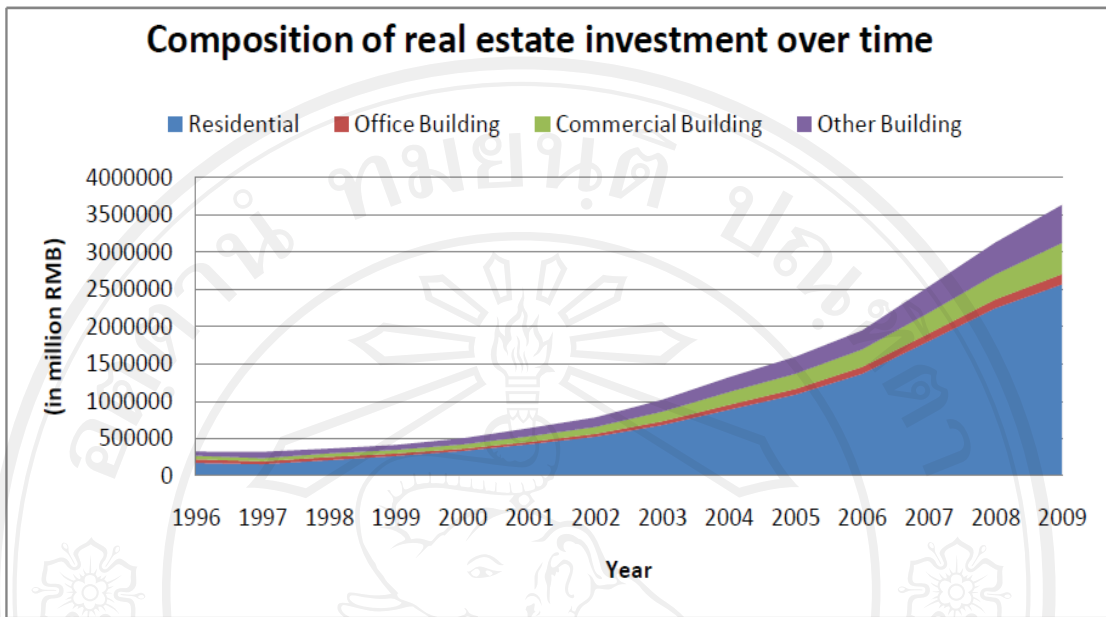


Figure 4.2 The composition of the real estate investment from 1996 to 2009

Composition of Investment in 1996

Composition of Investment in 2009

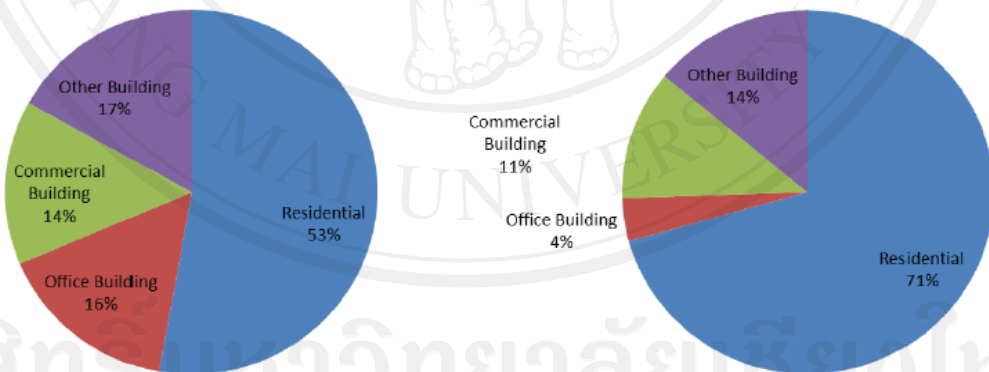


Figure 4.3 The comparison of the composition of investment in 1996 and 2009

Source: CEIC (Lau Yuen Hoi, Tony *et al.* (2010), "Housing market in China", China's Economic Development and Reform 2010)

Figure 4.2 shows the composition of the real estate investment from 1996 to 2009. The total investment rose from 300,000 million in 1996 to over 3,500,000 million in 2009, of which the residential investment took the large proportion and this

proportion increased dramatically over time.

The pie chart 4.3 shows that the residential sector is the most important part in the real estate investment both in 1996 and 2009. In 1996, the residential investment took more than half at 53% of the total investment, and this proportion dramatically increased to 71% in 2009, which is over two times of the total of other investments. Thus, the residential aspect plays a key role in economics of the city, it will become more significant over time as increasing number of the population in China.

4.2 Housing market in Kunming

4.2.1 The development of the economy in Kunming

Kunming holds three distinct economic advantages over other cities in southwest China which are the abundant natural resources, an excellent local consumer market and the mildest climate in the region (Wikipedia, 2009). Kunming was ranked at forty-eighth of all Chinese cities by GDP in 2009.

Table 4.1 The GDP and per capita disposable income of Kunming from 1998 to 2009

Year	GDP (billion Yuan)	Per capita disposable income (Yuan)
1998	54.88	7,054
1999	59.38	7,239
2000	64.37	7,563
2001	69.84	7,790
2002	76.27	7,795
2003	84.12	7,979
2004	94.21	9,046
2005	106.23	9,616
2006	120.30	10,766
2007	139.37	12,083
2008	160.54	14,482
2009	180.00	16,500

Source: Yunnan, Kunming Statistics Bureau from 1998 to 2009

Table 4.1 shows that GDP in Kunming which has a dramatically raising trend since 1998. It was 54.88 billion Yuan in 1998 and up to 180 billion Yuan in 2009. The per capita disposable income presents an increasing trend as well. It steadily increased from 1998 to 2003, and accelerated increasingly from 2004 to 2009 when it reached to 16,500 Yuan in 2009. The development of the economic in Kunming has a great effect on developing of the housing market, the increasing of per capita disposable income stimulate the household consumption on housing unit with the better condition, which push the increasing of the housing price in Kunming.

4.2.2 The housing price in Kunming

With the national real estate industry development, Kunming's real estate industry also went through a long history from total government management to commercialization. Since the 1998 nationwide cancellation of the welfare housing allocation policy, Kunming also established a commercial housing market. One year later, the "The Garden of World Horticulture Exposition 99" was held in Kunming in 1999, which attracted large numbers of people visiting and investing in Kunming, which also stimulated the real estate development in Kunming. As of 2001, China joined in the World Trade Organization (WTO), which attracted a lot of foreigners to settle in Kunming for trading and promotion of the development of the housing market. However, China was affected by out-break of SARS (Serious Acute Respiration Symptom) in 2003. Such a disaster both threatened the people's lives and economy in China. The real estate market had been retarded by SARS to some degree. After that, the U.S. fell into the sup-rime crisis in 2007 which finally led a global financial crisis. Interestingly, it looks like nothing can change the increasing trend of

the housing price in China, including the city of Kunming. Table 4.2 shows the housing price per square meters concerned by the recent years.

Table 4.2 The average housing price in Kunming from 2003 to 2009

Year	Average price in Kunming / m ² (Yuan)
2003	---
2004	2,916
2005	3,012
2006	3,304
2007	4,547
2008	5,131
2009	5,533

Source: Yunnan field investment agent statistic from 2004 to 2009

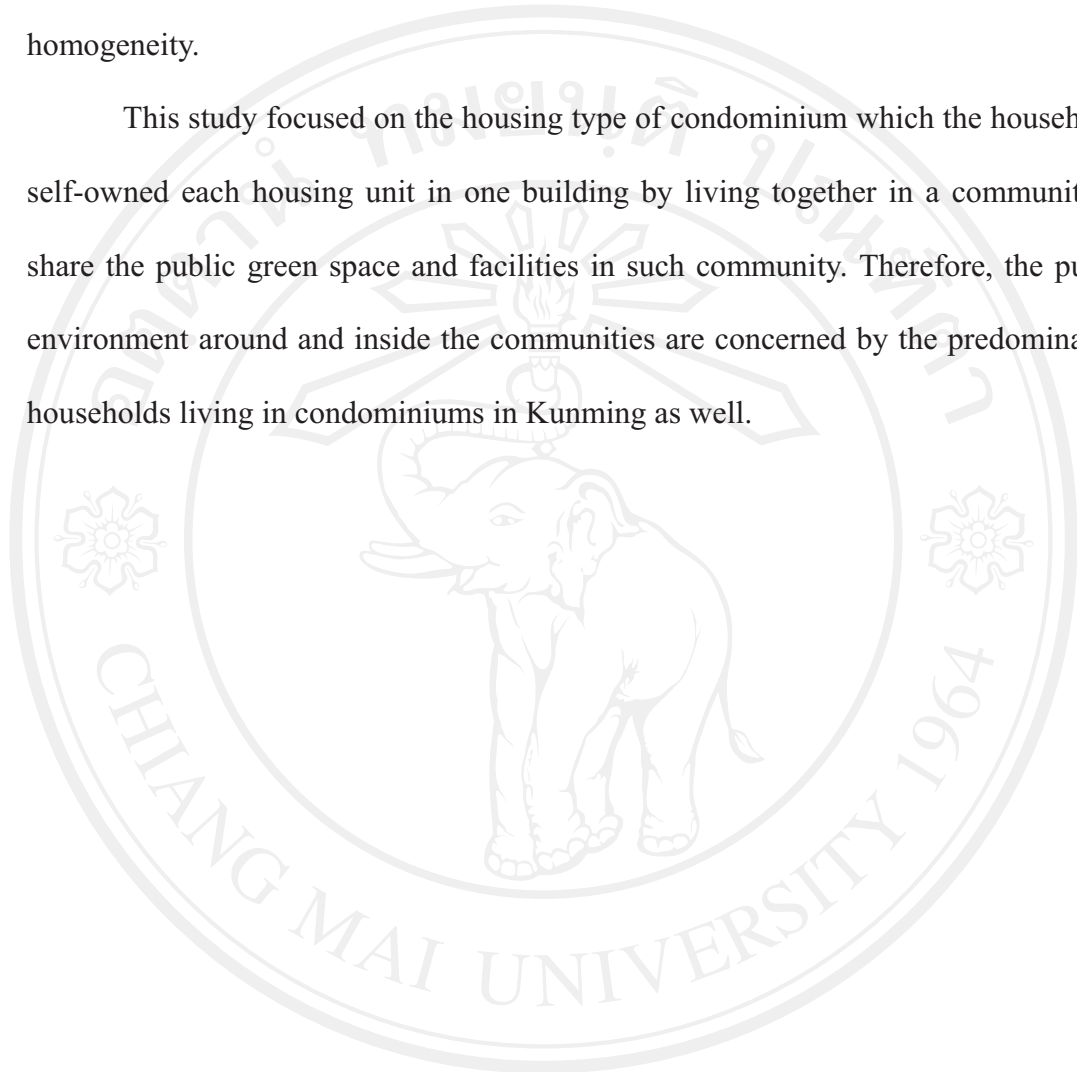
Table 4.2 shows that the average housing price per square meters from 2004 to 2009 which has a accelerated increasing trend. It increased from 2,916 Yuan in 2004 reached to 5,533 Yuan in 2009. The residents in Kunming seldom pay attention to the housing price at previous years since the average price per square meter over 3,000 Yuan per square meters in 2005. With the increasing of the housing price, households has a increasing demand to purchase a self-owned housing unit due to the raising of housing rent force them worrying about the future spending on living. The housing price has become a key focus point for the households' life in Kunming, with the rapid development of the housing market in recent years.

4.2.3 The housing type in Kunming

The housing type for selling in Kunming are generally divided into two types that the villa and condominium. The villa is the luxurious housing type with a large space, high-quality and high price. The most consumers cannot afford it, which is not popular in housing market in Kunming. Condominiums are the most common housing

type, consumed by most of the households in Kunming which differed from the total height of the buildings, most of the condominiums in Kunming are 7 stories of a homogeneity.

This study focused on the housing type of condominium which the households self-owned each housing unit in one building by living together in a community to share the public green space and facilities in such community. Therefore, the public environment around and inside the communities are concerned by the predominantly households living in condominiums in Kunming as well.



ลิขสิทธิ์มหาวิทยาลัยเชียงใหม่
Copyright© by Chiang Mai University
All rights reserved