

Housing System Reform Based on Housing Properties

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Abstract. Currently, various problems including excessive housing price, overburdened housing and serious speculation occur in the housing market of China, which are rooted in the commercial and market properties of housing that have been emphasized by the reform of housing system for many years, while this ignores the necessity, durability, high value, maintenance and appreciation of value, and other properties of housing. By means of analysis on different properties of housing, the thesis concludes that as housing has commercial property, the market-oriented reform of housing in China is correct, which must be carried on in the future. However, the reform of housing system shall also integrate other properties, so as to carry out it by enhancing the construction of housing security system, controlling the housing price, improving the supply structure of housing, restraining the investment demand of real estate, and encouraging graded expenditure in housing.

Introduction

During the planned economy period, the housing in urban areas in China was a kind of welfare, and there was no commercial housing. In 1980, the general idea of commercial housing was put forward for the first time in China, which started the continuous exploration in housing system reform.

However, the commercial and market properties of housing that have been emphasized by the reform of housing system for many years ignore the necessity, durability, high value, and other properties of housing, and thus lead to a series of severe problems in China's real estate industry, such as excessive housing price, outstanding conflict in supply and demand structure of housing, slow development of second-hand house market and leasing market, and disordered real estate market.. The housing system reform of China is caught in an unprecedented trouble.

In order to seek the fourth breakthrough in housing system reform, China must review the housing system for urban residents at present. The thesis focuses on analyzing the housing properties, so as to clarify the idea of deepening reform of housing system and promoting development.

Housing Properties and Orientation of Housing System Reform

Housing, which provides people with a place to keep out wind and rain, to rest and build up strength and to breed and raise later generations, is an essential material for people to survive and live, and the housing conditions of residents in an area is an important mark to identify the social and economic development and people's living standard in the place.

As a special commodity, housing has multiple properties including commodity, necessity, durability and high value. Housing system reform must base on the multiple properties of it and integrate them in system design.

The Relation between Commercial Property of Housing and Housing System Reform

According to the Theory of Marxism, both housing and other commodities gather undifferentiated human labor, so housing has value; meanwhile, housing can satisfy people's demand for living and use, so housing has use value. Housing has both value and use value, which

equips housing with commercial property, so housing system belongs to market economy and housing system reform needs to be operated in line with the rules of market economy. The commercial property of housing means that the commercialized and market-oriented reform of housing in China since 1998 is undoubted.

As of the end of 2008, the area of per-capita housing reached 28 square meters and above in urban areas, which was 4.2 times of that in 1978, and the rate of suite housing for urban residents reached 81%, which means that the rural and urban living environment has been improved greatly. The added value of real estate occupied about 5% of GDP in 2008, [1] and real estate has become one of the pillar industries in China and a new economic growth point.

The Relation between Necessity of Housing and Housing System Reform

Housing is one of the necessities for human life. However, under the condition of market economy, there is a huge gap between the housing payment ability of low-income and middle-income residents and the price of suitable housing, and it is difficult for them to solve the problems merely with their own ability. At present, almost all governments of the world are providing different degrees of help to low-income and middle-income people to solve the problems in housing, and governments assume important social and economic responsibilities in solving the housing problems of people with low and middle income.

In recent years, Chinese government has published a series of policies and measures on housing security which include the enhancement of construction of low-rent housing and economically affordable housing. Nevertheless, problems still exist, such as unsound investment mechanism, imperfect supporting measures, insufficient supply of low-rent housing and economically affordable housing, and weak construction of security housing in some cities. Investigation Report on Implementation of Security Housing Construction Projects issued by Standing Committee of NPC shows that the construction of security housing, among the major public investment projects contained in the budget of the central government, progresses slowly, and only RMB 39.49 billion has been invested up to August, 2009, which indicates a completion rate of 23.6%. Economic Bluebook of Analysis and Prediction of 2010 Chinese Economy states that 85% of Chinese households fail to afford a house.

In future housing system reform, government shall extract the housing problem of low-income and middle-income urban residents from the market and include the rigid demand of this part into the scope of housing security, so that the development goal “everyone enjoys appropriate housing” can be realized, which is quite significant to control the excessive housing price at present. However, the housing security shall ensure that all the low-income and middle-income residents have a house to live, rather than own a house, and the system design of housing security shall solve the problem in renting a house for low-income and middle-income residents. Meanwhile, the policy design of housing security that focuses on “renting a house” shall consider the security by means of issuing rent subsidies, which can facilitate the establishment of exit mechanism and dynamic regulation mechanism of housing security.

The Relation between Durability of Housing and Housing System Reform

Different from ordinary commodities, housing has long durability. Generally speaking, the service life of a house is several decades or over a hundred years at least. Due to the durability of housing, most consumers change their house not because the house cannot be used any more, but for the reason that the demand factors based on income, family structure, work, environment and aesthetic standard are changed. Therefore, as time goes by, the quality of the housing that used to be constructed for high-income consumers in the beginning changes; meanwhile, the newly-built housing increases, which results in the reduction of housing price. At this time, in order to pursue better living conditions, the high-income consumers will abandon the existing housing, while the low-income consumers will continue to use this type of housing, which is a process known as “housing filtering”. The phenomenon of housing filtering is common in the housing market in well-developed cities, and “filtering” often happens more than once over the life cycle of housing.

The rule of “housing filtering” caused by the durability of housing inspires the housing system reform of China: on the basis of basically satisfied demand for housing in China, the housing supply system shall transfer the focus on overall updating and construction of new houses into that on long-term application of old houses and develop the second-hand house market and leasing market, so as to provide different classes with different quantity of service and create a rational housing supply structure and graded consumption idea.

Housing security system plays an important part in housing system reform. The rule of “housing filtering” inspires the establishment of housing security system: as the main objects of housing security are low-income and middle-income residents, old houses shall be mainly supplied as security housing. Due to the durability of housing, housing security in kind (such as low-rent housing and economically affordable housing) is always accomplished once and for all and shows a static state, but the income level and housing demand of the residents who require security in reality have an obvious dynamic feature. As a result, the design of housing security system must be equipped with good entrance and exit mechanism and dynamic adjustment mechanism, so as to realize the balance between dynamic income and demand and static trade. This requires changing the way of housing security from “supplementing the number of brick” into “supplementing the number of people”. Specifically, the current housing security system of China shall be changed toward subsidies in renting and purchasing housing, which means that low-rent housing shall be turned into subsidies in renting and the coverage shall be expanded; and economically affordable housing shall be turned into subsidies in purchasing for the security objects to purchase housing in the market, and economically affordable housing in kind shall be cancelled.

The Relation between High Value of Housing and Housing System Reform

Housing is a commodity with high value, and the value of it will generally reach several times of the annual income of a household. In developed countries, whether purchasing a house by mortgage or renting a house, the resident expenditures including water and power rate and property management cost occupy 20% to 35% of the income of a household.

According to the international experience, the average housing-price-to-income ratio is normal as 3 to 6, which means that most people are able to rent a house in the market or to obtain the ownership of a house by using the savings. This is the balance reached by long-term interaction between the supply and demand parties, and it's generally known that when the housing-price-to-income ratio exceeds 6, it will be difficult for residents to afford a house. The research from Shanghai Yiju Real Estate Research Institute shows that, with the growth of per capita disposable income and per capita living space during 1997 to 2003, the housing price rose reasonably and the national housing-price-to-income ratio maintained about 6.2 stably; with the rapid rise in housing price which exceeded the per capita disposable income from 2003 to 2007, the housing-price-to-income ratio increased obviously, and it reached the peak 7.44 in 2007.

It is thus clear that there are two major conflicts in the housing market of China at present: one is that between the high housing price and low income, and the other is that between purchasing and renting a house among the ways to meet living demand. In order to solve the two conflicts successfully, the following aspects shall be dealt with:

Control the Housing Price. First, control the housing price by reducing the revenue of local governments that depends too much on housing market. In terms of the requirements of market-oriented reform of housing, the government shall act as a regulator, administrator and server of housing market, instead of obtaining excessive economic benefits from the housing market, but the practice of housing system reform in China is done contrarily. Since 1994 when China practiced the reform of tax sharing system, the uneven distribution of tax between central and local government has caused that the local governments regard the land income as the core of local financial revenue.

In recent years, the negative effects of local governments' excessive dependence on housing market become more and more obvious. On the one hand, many governments regard land sale as the first choice to increase government revenue, which results in unlimited expansion of city size

and waste of land resource; on the other hand, in order to achieve high income, governments always wish a high price of land. This will affect the normal operation of land market and then the real estate market and will facilitate the rise in housing price. The future housing system reform shall focus on the exit of economic benefit of government, speed up the role transition of government, and eliminate the benefit relationship among land-transferring fees and taxes, government performance and property developers.

Second, break the monopoly in land market and establish a real estate market with urban and rural integration. The current pattern of land market with oligarchic land sale and several purchasers is an important reason for the continuous rise in housing price in addition to the reason that the land supply is lower than the land demand.[2] The housing system reform shall reform the system of bid, auction and listing, so as to create a competitive land supply market and restrain the state-owned monopolistic capital from making prime lots frequently.

According to the statistics, the entire urban construction land in China covers an area of 7 million hectares, while the rural collective construction land covers an area of 17 million hectares. The latter is over 2 times of the former. [3]Once the man-made division between urban and rural real estate market is broken, the gross land supply will be changed from 1 portion into 3 portions, and then the price of land which is an important of integrant of housing price will be bound to decrease correspondingly.

How to strengthen the research and guidance on housing problem for peasants, deal with the issue of limited property house and realize the integrated development of urban and rural real estate market has become an unavoidable and important task for housing system reform.

Third, regulate and control the housing supply structure. According to the income condition of all levels of society, the low-income households which occupy the majority among the population can only purchase or rent a small-sized or middle-sized commercial housing. Therefore, the housing system reform shall enhance the macroeconomic regulation and control, expand the land supply for ordinary commercial housing, practice the policy that the house type with an area of less than 90 square meters occupies 70%, and increase the supply of small-sized and middle-sized house type and low-price and middle-price commercial housing. Currently, the urbanization of China is developing rapidly, which confronts China with the largest scale of urban and rural migration, excessive demand for urban housing, and insufficiency in resources carrying capacity. Increasing the supply of small-sized and middle-sized house type can also facilitate land conservation and environment protection.

Complete Finance Support and Improve Housing Affordability of Residents. As a commodity with high value, housing can solve the living problem of all residents and must be supported by the system of finance, tax revenue and credit. Moreover, the financial innovation shall be strengthened, and the financial system of housing security shall be founded. The establishment of financial system of housing security is an important and essential link. For the low-income and middle-income households that have weak housing affordability and cannot solve the living problems merely by themselves, the measures focusing on financial subsidies shall be taken, so the establishment of financial system of housing security shall focus on improving the ability of low-income and middle-income households to purchase and rent a house and increasing the quantity of household that purchases and rents a house.

Optimize the Structure of Housing Property and Develop Housing Renting. Since the reform and opening-up policy, the housing system reform of China has emphasized the privatization of housing and the improvement of private ratio of housing. Statistics shows that: in western countries, the private ratio of housing in Canada is 67%, America 69%, and Europe about 40%. Comparing with the western countries that emphasize privatization, China owns the highest private ratio of housing. The accessible data shows that the private ratio of housing in urban areas has reached up to 82% during the 11th Five-Year Plan.

Developing a standard renting market and promoting the industrialization of housing renting is an important direction of housing system reform as well as an important condition to realize the healthy and sustainable development of Chinese real estate market. Developing the housing renting

market can not only solve the housing problems for residents, but also give play to other positive effects.

The Relation between Maintenance and Appreciation of Value of Housing and Housing System Reform. Housing, with many effects, is both a consuming property and a capital property, and can be used both as a production factor for productive consumption and for living consumption. The long-time short supply of housing results in the general tendency of continuous rise in housing price, and it is always greater than the rise in commodity price. In general, ownership of housing can not only maintain the value, but also appreciate the value. Of course, if a region is poorly developed in finance and capital and there is few investment channel, housing is usually regarded as a high-quality investment, and the promotion of excessive financial liquidity and benefit pursuance tends to result in the negative situation of speculation in housing and rapid rise in housing price.

As housing has the dual attributes of consumption and investment, the design of housing system must be compatible, and the balance between consumption and investment in real estate market shall be realized through the design of tax and financial system. In terms of the nature of housing, the consumption demand of residents shall be taken into first account. In terms of overseas experience, in order to better meet the living demand of residents, the developed countries or regions generally control the investment in housing, especially speculation, by means of tax revenue and finance in housing construction, ownership and transfer.

At the present stage of China, as real estate is an important industry about people's livelihood, the housing policy of the government shall support independence, encourage improvement and control investment to direct the housing demand.

Conclusion

To sum up, the thesis has reached the following conclusions:

①Housing has commercial property. The market-oriented reform of housing system in China is correct, which shall be adhered to, while other properties of housing shall also be taken into consideration.

②The necessity of housing decides that “having a house to live in” is the basic right of residents, and the housing system reform shall enhance the construction of housing security system, which is the primary responsibility of the government.

③The durability of housing decides that the housing system reform shall emphasize the development of second-hand house market and housing renting market and encourage and promote residents to realize the graded consumption in housing.

④The high value of housing requires that the housing system reform shall control the housing price effectively, increase the housing affordability of residents, and develop the housing renting market.

⑤The maintenance and appreciation of value of housing decides that housing has the function of both consumption and investment, while the function of consumption is the basic one. The housing system reform shall control the investment demand in housing market effectively and restrain the speculation demand.

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