

Bottlenecks and Countermeasures about the Raising Mechanism of Public Rental Houses in Shanghai

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Abstract. Shanghai focuses on building public rental houses, while it will get the work into trouble for the shortages of land and lack of funds. Therefore, we need to make some adjustments on the existing raising mechanism. The main idea is to establish a reasonable market leasing mechanism, to lease social idle houses for a long-term from the market as a necessary supplement and form the equilibrium between building and leasing. As to the construction of the leasing model, we propose two leasing modes like as the centralized leasing mode and the sporadic leasing mode. Meanwhile, we recommend that the districts in Shanghai can choose the leasing mode according to their idle housing resources in the region.

Introduction

When talking about the quaternity system of houses security in Shanghai, public rental houses have played an important role. Shanghai government has planed to collect 200000 sets of public rental houses and their gross area is approximately 10 million square meters in the twelfth five-year development plan. An important case to point out here that most of them should be fulfilled by the districts' and counties' governments and partly constructed by the municipal government. Analyzing from the actual implementation, we found that all the districts and counties had basically completed the assigned tasks in 2011 and collected about 40000 sets of public rental houses, which their gross area was approximately 2 million square meters. Among them, the percentage constructed by the municipal government was 16.5% and social existing property, like enterprise rental houses, accounted for a large proportion. Meanwhile, some new projects have not been made any substantial progress even if they got the commencement permissions. As to the task in 2012, the situation was still not optimistic. Up to the end of September, the work sheet for construction just reached 30% and most districts in center city were fallen in trouble. Consequently, we think, Shanghai will have a long way to go to complete its raising tasks in the next three years.

The bottlenecks of the raising mechanism

According to the current programmatic documents, Shanghai government proposes to raise public rental houses through different channels [1]. Here lists six ways: (1) New-built way. (2) With the construction of a certain proportion in some real estate projects. (3) Renovation. (4) Acquisition. (5) Transformation. (6) Leasing social houses. In practice, most districts and counties in Shanghai usually take the new-built way and the renovation way to raise houses; they also take the acquisition and the transformation ways as supplements; they hardly take the 6th way into consideration. Except the 6th way, other ways mentioned above have in common to invest a lot of money, which would greatly increase the local government's financial pressure. For example, Yangpu district plans to raise 5000 sets of public rental houses in the 12th five-year plan period. The government has three ways to obtain the funds for construction: one is the special subsidy of the nation's finance; the others are the financial support of Shanghai municipal government and the matching funds of the district's finance. The investment ratio of the three ways accounts for 1:3:6. In the next five years, Yangpu government will raise about one billion yuan for the construction of public rental houses. Among

them, the matching funds of the district's finance account for the majority and it mainly comes from the income of land transfer. However, as a district in the center city, the land available for transfer in Yangpu is very scanty and the income of land transfer is very limited. Therefore it will lead to an uncertainty for the matching funds of the district's finance. In 2011 and 2012, Yangpu government raised a total of 640 million yuan, but there were still a financial gap about 150 million yuan to fulfill half of the construction tasks in these two years. According to a preliminary estimate, Yangpu government needs to invest about 5.1 billion yuan in all to reach their construction goals, while the figure is higher than its fiscal revenue in 2010[2]. The financial gap reaches 4.1 billion yuan.

Another reason has also restrained Shanghai government to develop public rental houses. The regulation that public rental houses can only be rented and not be sold has prolonged the investment cycle. It made the input funds keep in a long-term precipitation and can hardly return to other investments. For this reason, some financial institutions (like banks) are not interested in investing public rental houses, which limits the financing space of public rental houses. In general, the bottleneck for Shanghai to raise public rental houses derives from its raising mechanism tending to the new-built way. Therefore, it is necessary to make some appropriate adjustments on the way.

Countermeasures

Among all raising ways mentioned above, leasing social houses tends to be ignored for its cumbersome of management. Here, we recommend taking the 6th way as a necessary supplement. There are two reasons to support our recommendation.

Firstly, compared with other five ways, the most obvious advantage is that the cost will be greatly reduced. According to a preliminary estimate, the cost of the new-built way is about dozens of times higher than that of leasing social houses [3]. For example, Changsha government (Hunan province) once invested two items of public rental houses. One takes the new-built ways and the other leases the surplus housing in a village as public rental houses. The cost comparison between them is shown in Table I. From Table I, we can estimate that the cost of the former is 12.5 times higher than that of the latter.

Table I the cost comparison between the new-built way and leasing social houses

Raising type	Input cost	gross area
the new-built way	280 million yuan except for the cost of land	75000 square meters
leasing social houses	15 million yuan	50000 square meters

In addition, to take the way of leasing social houses as a supplement can promote the regional idle housing resources to a rational use. Meanwhile it can also meet the lessees' differentiated needs in geographical location. Currently, some provinces and cities such as Beijing, Shanghai, Anhui and Guizhou conducted some pilot work. Changning district (Shanghai) once leased back the resettlement houses of residents as public rental houses, which achieved good social effects. Therefore, we propose to reduce the proportion of the new-built way and long-term lease some social houses as public rental houses. In practice, we need to establish a sound market leasing mechanism. Combining with some pilot experiences in the provinces and cities mentioned above, we propose two leasing model, which is called the centralized leasing mode and the sporadic leasing mode. Details are as follows.

A. The centralized leasing mode

The centralized leasing mode is that the governments introduce some corresponding preferential policies and encourage enterprises or other social institutions to participate in investment. These participants usually need to convert their idle workshops or warehouses within the region into public rental houses. After the identification by the governments, the governments need to sign a long-term agreement with these participants and all the converted houses are took a unified leasing and management by a designated operation mechanism. The raising mechanism is shown in Fig. 1.

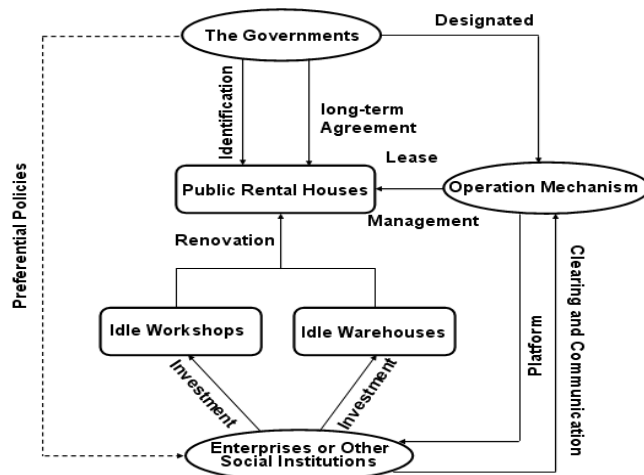


Fig. 1. the raising mechanism of the centralized leasing mode

In the centralized leasing mode, the governments, enterprises or other social institutions and the operation mechanism make up the main participants. The governments need to develop some supporting policies and leasing access system, also need to designate the operation mechanism. Enterprises or other social institutions are the investing principals and the providers of public rental houses. The operation mechanism is responsible for the leasing and management of public rental houses. The most obvious feature of the model is to mobilize the enthusiasm of enterprises or other social institutions and can effectively revitalize the idle housing resources in the area. The key point is that the governments needn't invest a large amount of money every year. Meanwhile, the converted houses are relatively concentrated, which can help to reduce the management costs of the operation mechanism. The inadequacy lies in that it relates to the transition from non-residential houses to residential houses and must go through some formalities for approval. Generally, the formalities tend to be a complex, lengthy process and the success rate is very low, and it will decrease the participants' investing enthusiasm. Therefore, the governments need to regulate it and open up a green channel for approval without changing the original nature of construction land planning and the use nature of housing [4]. The governments also need to introduce some financial policies to attract and strengthen these investing behaviors. In abroad, many countries provide financial subsidies and tax incentives to attract enterprises or institutions to develop housing for low-income families. In the United States, the central government is carrying out a low-income housing tax plan. All states are authorized to provide a preferential card of federal tax for the construction of low-cost housing. For this, the central government needs to provide three billions dollars of financial subsidies. In Germany, the housing providers (enterprises or institutions) of low-income families can turn to the federal investment bank to apply for interest-free loans. Additionally, when constructing the social welfare housing and their own funds reaching above 15 percent, the German housing investors can also apply for interest-free or low-interest loans [5]. In accordance with the practice in Shanghai, we firstly propose to cut some taxes or reduce tax rates to release the investors' tax burden. We also propose to carry out some financial policies and give a priority for the investors to apply for the preferential operating mortgages. As to the public policies, we suggest to manage the water, the electricity, the coal and other utilities according to the housing standard.

B. The sporadic leasing mode

The sporadic leasing mode is that the governments also introduce some corresponding preferential policies and encourage the residents in the region to configure their idle houses according to the standards of public rental houses. After the identification by the governments, the governments need to sign a long-term agreement with these residents and all the converted houses are took a unified leasing and management by a designated operation mechanism. The raising mechanism is shown in Fig. 2.

In recent years, the topic that converting the idle houses into public rental houses continued to be mentioned in some occasions. During the 2011's NPC and CPPCC of Shanghai, Zhu zhirong

(Municipal People's Congress, the secretary of housing authority of Xuhui district) recommended to integrate social idle housing resources and further to expand the supplying scope of public rental houses. At the same time, Taiwan Association in Shanghai also proposed that the governments should build intermediary organizations of public rental houses in all districts and counties and convert the residents' idle houses into public rental houses. At present, some cities in our country also proposed a similar concept. At the beginning of 2012, some Municipal People's Congress of Hefei city recommended the governments to collect many private idle houses.

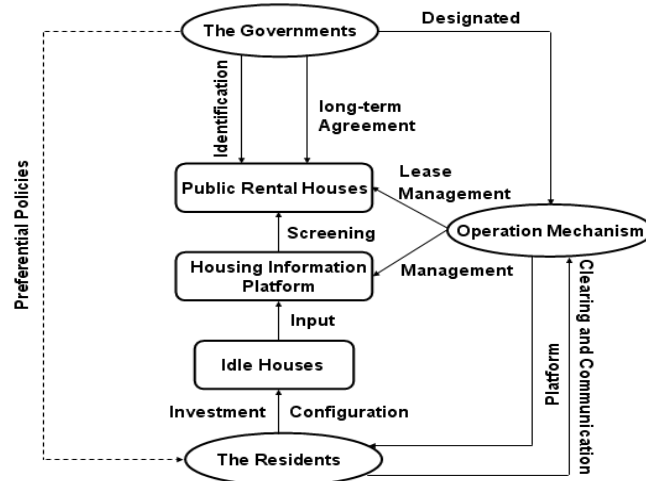


Fig. 2. the raising mechanism of the sporadic leasing mode

The governments could subsidize the difference between the rent price and the market price; the governments could also sign a long-term agreement with these residents and convert these houses into public rental houses. An early start in Guiyang city and Beijing city, they had entered a pilot phase. The housing bank originally proposed by Guiyang was a typical sporadic leasing mode, which focused on the core ideas to convert social idle houses into public rental houses [6]. Since 2010, Daxing district (Beijing) has piloted to lease back the idle resettlement houses of the farmers as public rental houses. The government promoted an agent rental system and commissioned the intermediaries free to lease and manage these houses, which formed the famous mode named the official intermediary. In general, the sporadic leasing mode proposed in this paper is the combination of the housing bank and the official intermediary mode. In the sporadic leasing mode, the governments, the residents and the operation mechanisms make up the main participants. The mission of the governments is to set a leasing access system and some corresponding preferential policies to encourage the residents' investment behaviors. Meanwhile, the governments also need to designate an operation mechanism and build a unified housing information platform to improve housing collection efficiency. When setting a leasing access system, the governments need to regulate the housing condition, including its construction area, decoration standards, equipment and facilities, limitation of lease time, as well as rent price, etc.. The residents are the investors of public rental houses. They need to configure their houses to reach the requirements of the leasing access system and apply for the identification via the housing information platform. In order to raise the investment enthusiasm of the residents, the governments' supporting policies must keep pace with it. Here, we propose to learn from the successful experiences in Hong Kong and Singapore. They mainly use tax incentives, such as the reduction of property tax and personal income tax, to encourage landlords to lease their own houses to low-income or middle-income families. The advantage of this approach is that the investment of the governments is not financially, but the social effect reflects very well. Therefore, we propose to reduce or remit some kinds of tax, such as personal income tax, stamp tax, business tax or property tax and establish the advantages of public rental houses. Meanwhile, for individuals whose signed long-term agreements, the government may grant a one-time award. Overall, the advantages of the sporadic leasing mode include three aspects: for the governments, they no longer have much financial pressure; for the residents, they can get more preferential policies to revitalize their idle housing resources; for the lessees, the converted houses can meet their

differentiated demands in geographical location and living facilities. The deficiency is that the converted houses locates sporadically, which may increase the difficulty of managing and management costs for the operation mechanisms. A further suggestion is to specify some mature areas, where the transportation is convenient and the living facilities are easy available, as the collection objects. Moreover, we propose to manage these houses by regional divisions and outsource some services like daily supervision responsibilities and maintenance services to some residential neighborhood committees or property management companies.

Conclusion

Among the six ways of public rental houses mentioned above, the way of leasing social houses is a necessary supplement. The most ideal result is to form a balance between the new-built way and the leasing way. For the governments whose financial pressure is relatively large, we recommend to take the latter. The most advantage of leasing social houses is that greatly reduces the raising costs and helps the governments to come out from the development bottleneck caused by shortages of land and lack of funds. Therefore, we recommend the districts and countries of Shanghai, especial the districts in the center city, to take this way to avoid being worn down by the tasks. As to the selection of the centralized leasing mode or the sporadic leasing mode, it depends on their idle housing resources in the region. If the idle workshops or warehouses in the region are abundant, we suggest take the centralized leasing mode; conversely, we suggest vigorously promote the sporadic leasing mode. Of course, these two kinds of modes can also be combined with each other. In short, the way of leasing social houses as public rental houses is a new thing and it has not much experience in China. So we need to practice constantly and explore a sustainable development road.

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