

# The Development of New-Style Public Rental Housing in Shanghai

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**Abstract:** *This paper studies the roles of the new-style PRH (public rental housing) programme in Shanghai's socio-spatial dynamics. It shows that the development of PRH in Shanghai is mainly a result of a deliberate urban development policy in line with other strategies such as city marketing and gentrification. The analysis is augmented with data from a questionnaire survey of PRH tenants in Shanghai. Finally, this paper identifies challenges for the future development of the public rental housing sector in China.*

**Keywords:** public housing, housing policy, urban development, Shanghai.

# 1 Introduction

As Wu (2001) has noted, there are two contradictory objectives embedded in China's post-reform housing policy: on one hand, the objective to increase the supply of affordable housing sufficiently to accommodate rapid urbanisation; on the other hand, to stimulate local growth through profit-driven real estate investment. In recent years, this contradiction embedded in housing policy has become even more pronounced and has produced a number of threats to the state's political legitimacy, which include a general worsening of housing affordability (Chen et al. 2010), rampant property speculation and increased macro instability.

To confront these threats, since 2009 the Chinese central government has been mandating all municipalities to construct large-scale public housing projects (Wang and Murie 2011). In spring 2011, the State Council promised to deliver 36 million units of public housing during the period of 'the 12th Five-Year Plan [FYP]' (2011-2015) and within this trend the new Public Rental Public (PRH) programme has become a national housing policy priority. Since 2011, the provision of PRH has become one of the key indicators with which to evaluate the performance of local municipalities.

However, it is still widely believed that in China 'state housing provision is seen as important economic drivers rather than socially necessary' (Wang and Murie 2011). As we show in this paper, the new PRH (Public Rental Housing) scheme in Shanghai is the result of a deliberate urban development policy aimed at contributing to city marketing and making new gated neighbourhoods for the middle class. Overall, we claim that the public housing programme of the Shanghai municipal government is mainly directed at reinforcing local economic competitiveness and providing stability.

## 2 Housing conditions and housing policy in post-reform Shanghai

According to the sixth population census, Shanghai had 23 million residents (8.25 million households) in 2010. Among residents, permanent households (those with the local registration status of *hukou*) account for 61% and migrants (those without *hukou*) account for 39%. Most of the migrant population in the city are migrants from rural areas.

An investment boom in the housing sector was stimulated by neo-liberalist policy. By the end of 2011, the total housing stock in Shanghai amounted to 550 million m<sup>2</sup>, which is 13.4 times what it was in 1978 and 2.9 times the amount in 1998. The average living space per person in the urban area was 18.7 m<sup>2</sup> in 2011, double the size in 1998.

Despite the dominant role of the market in post-reform housing provision, the Chinese government has never fully withdrawn from the housing sector. Until 2009, municipalities in China had almost full autonomy over decisions regarding the quantity and mode of affordable housing provision. The incentive to provide public housing was primarily

driven by internal pressures and objectives, subject to the constraints of the local government's resources.

In 2001, Shanghai became the first city in China to set up the Cheap Rent Housing [CRH] system. The poorest households living in overcrowded dwellings are entitled by right to receive subsidised rents or cheap accommodation from the local housing authority. However, the CRH is proposed as a residual welfare scheme with strict entry requirements. In 2008, Shanghai reintroduced the Economically Affordable Housing [EAH] programme, which is similar to EAH programmes in other Chinese cities (Wang and Murie 2011). In 2010, nearly twenty years after the termination of welfare rental housing, Shanghai Municipality adopted the Public Rental Housing [PRH] Programme. The PRH programme is the only scheme open to non-*hukou* holders, but still with an eligibility condition of possession of a long-term residence permit.

### **3 Key concepts and theoretical background**

As argued in some of the literature, Shanghai has embraced a state-led development approach but functions as an entrepreneurial city when paving its way to reclaim its global status (Wu 2003; He and Wu 2005; Zheng 2010).

The state has assigned Shanghai the role of 'dragonhead'; it is to lead the 'opening up' policy in the post-reform era, with the ambitious aim of its becoming a global financial centre. It has been suggested that globalisation and competitive strategies are indelibly intertwined in the effort to reshape the landscape of Chinese cities (Xu and Yeh 2009). Significant literature exists on the diverse city marketing and place promotion methods used in Shanghai (F. Wu 2001; Wei et al. 2006; Yang and Chang 2007).

To meet the growing demands of an entrepreneurial city, Shanghai needs more human inputs to drive the city. However, if one considers only permanent residents (*hukou* holders), Shanghai has been an ageing city since the early 1990s. The latest Census in 2010 shows that the ratio of people aged 60 and over was as high as 23 percent amongst permanent residents. The rate of natural population growth among permanent households was -0.6 ‰ in 2010. The ageing issue not only has the effect of reducing the labour force but also puts pressure on the social insurance fund.

Decentralisation of the fiscal system has enabled Shanghai to embark on its entrepreneurial journey. However, a decreasing number of contributors to the social insurance fund has weakened the fiscal system. In addition, Shanghai is faced with growing competition from neighbouring cities in the Yangtze Delta for high-skilled workers. As summed up by Sager, 'the creative class needs places for consumption, recreation, and living.... Furthermore, housing the creative class requires a shift from working class quarters to hip, varied and good quality residential areas' (Sager 2011: 157).

## 4 The development of new public rental housing in Shanghai

In Shanghai, the supply plan of PRH units in the 12th FYP (2011-2015) is 200,000 units, half of which are to be provided at the city level and half at the district-level. By 2012, 21 PRH companies were established in Shanghai.

These PRH companies are legal independent entities, with investments shared equally between the city and the district. The PRH company is responsible for the investment, planning, design, administration, and management of the PRH. It is financially independent, which means that for additional costs beyond the initial investment, they have to finance themselves. In this respect, the PRH Company in Shanghai resembles the municipal housing company in Sweden and social housing cooperatives in the Netherlands.

According to a governmental policy statement, the principles of PRH in Shanghai can be summed up as ‘led by the government, supplied by multiple sectors, provided at market price, and subsidised by multiple means’. Specifically, the government is responsible for policy-making, planning, organising and coordinating different sectors in the implementation of policy. Suppliers can be from both the public and private sectors. Rental prices are at market level and the gap between market price and affordability should be covered by a subsidy shared by the municipality and employers.

It should be noted that although permanent registration status (*hukou*) is not a precondition, an applicant for PRH has to possess a long-term residence permit and have continuously contributed to the social insurance account for at least 12 months. Since summer 2013, application for a residence permit has changed into a points-based system, which gives higher scores for candidates who are of younger age, have higher education, are higher skilled, and who work in sectors within short-listed or remote new towns. In the following sections, we borrow the term ‘talented professionals’ (*rencai* in Chinese) to refer to these groups, who are welcomed (or selected) by the city of Shanghai.

In short, the new PRH programme in Shanghai is tailored for:

1. Talented professionals who cannot afford homeownership via the market while not eligible for other affordable housing programmes, for instance, the EAH;
2. Residents who live in overcrowded housing; this implies that homeowners can also apply for PRH, as long as their construction space per person is less than 15 m<sup>2</sup>.

It is important to stress that PRH rental rates in Shanghai are only slightly lower than private rental market prices. We will elaborate on the implications of this point in later sections.

### 4.1 PRH and the competition for talented professionals

The importance of providing decent housing to talented professionals has been repeatedly highlighted in government documents and meeting minutes. The 12th FYP Development

Plan of Shanghai states that, *'it is a crucial time for Shanghai to fulfil its goal of becoming "four centres" and a global metropolitan, but we are faced with many challenges..... we need more innovative public policy for talented professionals, and improve the living and cultural environment for talented professionals.'*

The slogan above is not an initiative, but represents the formal recognition and adoption of recent practices that link housing to employment. As early as the late 1990s, many joint ventures in Shanghai bought 'commodity' housing for their employees to attract capable staff (Wu 2001). Since the mid-2000s, Zhangjiang High-Tech Industrial Park has provided 'apartments for high-skilled professionals' (*rencai gongyu*) with a total area of 270,000 m<sup>2</sup> using mainly industrial land. Recently, the mass media have reported on a new phase in the development of work-unit housing (for example, the Shanghai Baoshan Iron and Steel group, Shanghai Railway Group provides dormitories for their employees by using their own land for industrial purposes). By contrast, another type of apartment, 'the apartment for high-skilled professionals' (*rencai gongyu*), has also emerged in Shanghai in recent years. In 2011, the Changning District collected 500 units of apartments for 'talented professionals' mainly by making adaptive reuse of vacant office buildings, hotels, and industrial buildings. The tenants are eligible to receive a heavy rent subsidy from the government.

These initiatives have helped to frame the new PRH programme. The 12th FYP of the Talent Development Plan in Shanghai highlights the preferential approach in PRH as a way of attracting the high-skilled class: '[We need] to improve the living environment for the high-skilled people. [We need] to build public rental housing and to moderate the **temporary** housing problem for young talented professionals.'

The official document of the municipal housing authority also clearly states that the main aim of PRH in Shanghai is 'to relieve the housing pressure for young employees, talented professionals and other migrant workers residing in Shanghai'. However, a rent level close to the market rate has excluded those low-income households from the PRH programme. From this perspective, PRH is a very selective programme that has the clear aim of attracting 'talented professionals' but gives little consideration to solving the affordability problems of low-income migrants.

#### **4.2 PRH projects and a survey of PRH tenants**

This section provides basic information on the first two municipal-level PRH projects in Shanghai (Shangjing Gardern and Xinning Apartment). The two projects provide 5,100 units of apartments in total and have been available for rental application since March 2012. Unlike most commodity housing in China which is unfurnished at the delivery stage, the PRH apartments are furnished and approved applicants can move in immediately. By the end of 2012, roughly 2,400 tenants were living in the two projects.

The investment costs of PRH projects in Shanghai are very high, around 10,000 RMB per m<sup>2</sup> in both cases. Because PRH rent has to be capped at market level, the annualised rent-price ratio is much less than 1:20, which implies that the investment cost needs at least 20

years to be recovered from the cash flow of rent revenue. Moreover, since PRH rent rate does not offer much of an advantage over nearby private rental housing, the two PRH projects have not been met with much of a welcome among potential users.<sup>1</sup> A high vacancy rate causes financial problems for PRH owners. However, so far the municipality has largely treated the provision of PRH as a political task (a pilot project) and little consideration has been given to cost recovery or the sustainability of PRH projects.

In order to better understand who has been attracted by the new PRH project, we provide an analysis of the characteristics and housing satisfaction of PRH tenants based on a survey of the residents of the two PRH in Shanghai (sample size 333 in total, 128 from Shangjin Garden and 205 from Xinning Apartment). This survey was conducted from June to October 2012 by the Centre for Housing Policy Studies (CHPS) at Fudan University.

The survey shows that most PRH tenants are middle class: 64% of survey respondents report their personal annual disposable income as higher than 60,000 RMB, 30% higher than 90,000 RMB and 13% higher than 120,000 RMB (note that the mean level of annual disposable income of Shanghai residents in 2011 was 36,230 RMB). Further, PRH tenants are mostly young and middle-aged: 65% of respondents are aged below 35 and 44% younger than 30; only 14% are older than 50. In addition, a high education level is one of the main features of PRH tenants: 65% of respondents have a Bachelor's degree or a higher qualification.

The recent survey also shows that the majority of PRH feel satisfied with the overall quality of the PRH project: 59% of respondents think PRH meets their expectations and 17% think PRH is beyond their expectations. However, 24% feel PRH failed to meet their expectations. The aspects of PRH that respondents are most satisfied with include security of tenure (30%), housing quality (18%) and community security (17%). The aspects that tenants felt least satisfied with include rental rate (3%), convenient location in relation to the workplace (4%) and layout and design (6%).

Because there is very limited security of tenure in the private rental housing market in China (Man 2011), PRH has strong attractions for the middle class, who highly value residential stability. Further, the high ratio of housing satisfaction among PRH tenants can also be attributed to the fact that PRH projects are 'gated communities'. Wu (2005) suggests that the primary reason for the emergence of new gated communities is to protect the lifestyle and identity of the middle class, and it occurs in a context 'wherein the local government fails to provide differentiated services to those who are better-off in the market transition'. In this respect, PRH provides an alternative to homeownership with an affordable and guaranteed leasing contract offering decent housing to the newly-emerged middle class.

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<sup>1</sup> For example, at the end of 2012, the occupancy ratio of Xinning Apartment was only 30%; Shangjin Garden's occupancy rate was much better, around 72%, largely due to large rental demand from the employees of the universities and research institutes around it.

However, the survey also identifies several challenging issues for the PRH programme in Shanghai. For example, about one-half of respondents complained in the survey questionnaires that the rent is too high. Taking the ratio of rent-to-income of 0.3 as the threshold of housing affordability, the survey shows that about 25% of respondents could not afford to pay PRH rent. In addition, PRH tenants bear other, additional costs. More than one-half of respondents (51.52%) reported that their commuting time from home to work had increased compared to their previous residence; 90% of respondents needed to spend more than half an hour to get to work after moving into a PRH project (in contrast to only 57% before moving in).

Field work also shows that the two PRH projects are located in areas with limited job opportunities and where access to the subway and other mass means of transport is not good. It is clear that, besides the high rent level, the low occupancy rate of PRH projects can also be attributed to a disadvantage in terms of their location. The latter, however, is a common problem in the history of public housing development in Western countries (Green and Malpezzi 2003). To save investment costs, municipalities worldwide tend to place newly-built public housing projects in areas where land is less valuable. Such a strategy, however, makes these projects unattractive to working households.

Although the large-scale construction of PRH projects can be justified on cost-reduction grounds (economics of scale), we argue that it should be carefully avoided. It is difficult to attract a large pool of applicants for any one given community. Instead, we recommend scattering small-size PRH projects across developed urban areas with good transport connections. We also believe it is cost-ineffective to provide all PRH through new construction, and we support purchasing or adapting old vacant properties to be used as PRH apartments. Furthermore, a selective rent subsidy policy should be implemented by the municipality to increase the affordability of PRH for tenants of PRH tenants and make PRH more attractive to low-income households.

## **5 Conclusion**

The provision of affordable housing has become a political task in China aimed at alleviating the level of inequality and income disparity generated by market and growth-led development in the post-reform era. This paper uses Shanghai as a case study to elaborate the multiple purposes behind public housing programmes in China. A close examination of the new Public Rental Housing (PRH) scheme demonstrates that the recent revival of public housing in Chinese cities is mostly driven by economic growth motives.

The PRH programme is a city-marketing measure aimed at attracting new talent and it also involves the development of gated communities for the middle classes. Existing PRH projects have in particular helped to alleviate the pressure of homeownership for 'young white-collar workers' by providing them with a decent place to live at a price they can afford. These PRH projects represent a temporary substitute for the homeownership in gated communities that the middle class long for. According to our survey, most PRH residents are young, middle class, and with a high education level, a group that highly

values the amenities and privatised landscape of gated neighbourhoods with high a level of security.

However, the rents of PRH are beyond the affordability range of low-income households. With rent levels close to market prices and with its other conditions, PRH is a very selective programme that has the clear objective of attracting and keeping ‘talented professionals’ to enhance the city’s competitiveness. Nevertheless, more consideration should be given to the housing difficulties of low-income households if the housing policy’s long-term aim is to provide decent housing for all. Furthermore, the cost efficiency issue currently seems to receive very little attention in the PRH programme. There is a serious shortage of funding sources for the construction and management of PRH projects. The design and the locations of PRH projects remain obstacles to attracting tenants.

Finally, although the PRH projects in Shanghai are still in an early stage, we believe further investigation of PRH development in Shanghai can produce many valuable policy lessons for other major cities.

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