

The Price-limited Commercial Housing Policy in China: Main Problems and Ways of Solutions

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Abstract: Analysis on the Price-limited Housing Policy and its practice by local governments shows that the policy objective including market goals and people's wellbeing, but objection of people's wellbeing has been diluted and the policy risk has been pulled high due to indistinct understanding of policy decision basis. Fuzziness in product attribute positioning of price-limited house and absence of capability-constructive policy approaches have become the primary obstacles in coordination of the policy tools and policy goals. Varied difficulties during policy implementation occurred due to ambiguous policy boundaries and man-made obstacles in boundary coordination. Based on the analysis, arguments are made about the main directions of policy modulation, in various aspects such as policy goal formulation, ratio of product supply, constructions pattern, allocation mechanism, supervising system, and integrate direction.

Key Words: Price-limited Housing; Policy; Problems; Modulation

I. Introduction

In 2009, a *Second Housing System Reform* (SHSR) launched by the real estate scholars in China caused widespread concern in society,^① which directly led to a thorough discussion and research about the gain and loss of the ten-year marketization of the *housing system* reform launched by the Ministry of Housing and Urban-rural Development. In the second half of 2009, Yi Xianrong (2009) expressed that China needs a *Second Housing System Revolution* which attracted much media attention. In January 2010, the General Office of the State Council (GOSC) issued *Circular on the promotion of stable and healthy development of the real estate market*, the Circular stipulate: *In cities where prices of commercial housing are too high and rise too rapidly, price-limited commercial housing (PLH), economically affordable houses (EAH) and public rental houses supply should be cogently increased.* This policy is reaffirmed in *Circular on issues relating to further regulation of the real estate market* proclaimed by the GOSC in January 2011. During the National People's Congress and Chinese People's Political Consultative Conference (NPC and CPPCC) in March 2010, the SHSR is included in the formal proposal by the NPC and turned into the focus of the media. PLH, as the core product of the SHRH and the essential part of the public policy in residential housing market, has become the heart of the concern of both the government and the populace. It is of great practical significance to further study the main features, problems and the direction of perfection of this kind of policy.

In foreign literature, researches on housing price limits are mainly focused on rent control and its effects. Olsen (1991) and Zheng (2007) studied housing rents restriction in New York and rent restriction of mobile home parks in California. Dirk (2007) conducted an empirical analysis on the relationship between rent control, rental housing supply and the distribution of the tenant benefits. Robert and Shirley (2005) investigate the effects of rent control on commute times. Based on a vision of social welfare, Xu Defeng

① In 2009, 14 experts in real estate signed a petition to launch SHSR, the content of which can be summarized as 'three housing systems, three pattern of land supply, and three parts of participants.' The three housing mechanism represents commercial housing system, public housing system, and indemnificatory housing system.

(2009) considered that restricting the lessor's right is absolutely not a problem of abuse of legal power, and may lead to certain denial and even loss of property right. Literature directly on sales price restriction of houses is rarely seen. Among the vast number of literature viewed, we found that only the Singapore government made restrictions on the public housing prices. Yong (2002) provides some empirical evidence on that the prices of Singapore public resale housing market are largely determined by public policies rather than by economic variables.

Many big cities in China are presently implementing a price-limited housing policy which is a new housing price restriction practice and brings about quite a few comments and academic articles. Comments focus on reporting the policies, the impact on the market and analysis on the feasibility of caring the low-income people. Academic articles focus on discussing the control approach and the effects of the policies.^① Among the academic literatures against price-limited housing policy, Peng Xingting (2009) and Chen Jie (2009) think that administrative restrictions on housing price will lead to market behavior distortion, expected goals cannot be achieved by simply restricting housing price and there will be multiple welfare loss. In the case of asymmetric information, problems during the implementation of the policy might confirm this kind of viewpoint. However, it is unfair to negate the policy because of the imperfection of the policy and the difficulty in the process of policy implementation. More researches prefer study the property, pricing, and management mode of PLH and market effects of the policy. Du Jinfeng and Feng Changchun (2009), Zhang Hongyan (2009), Zhong Tingjun (2008) carried a preliminary discussion on the basic content, attributes and orientation of PLH. Wang Hao, etc. (2008) summarized the practical experience of the PLH policy in cities and explored the management model of PLH. Based on the value connotation of PLH, Zhang Hongyan (2008) discussed the specification of the base price of PLH. Cheng Guoqiang (2010) discussed the top and bottom price of PLH in theory. Cheng Feng (2007, 2008) studied the specific pricing methods of varied policy practices in many cities in China and conducted a comparative analysis on different PLH products in practice. Wang Xiazhong (2007) made a thorough analysis on the market efficiency of different pricing methods from a game theory perspective. Wu Yue'e (2008) conducted deep analysis on the PLH price control patterns in practice. Among the other works concerning PLH policy, Liao Junping (2011) presents the main influence factors of the residents' affordability on housing based on the PLH need survey data. Ling Weici (2009) starts from the PLH purchase contract and analyzes the theoretical foundation and legal basis for the conclusion that the responsible party for the return request for the government land grants is the local government rather than the developers in a legal perspective. Ding Lieyun, Chen feng (2008) present the theoretical foundation for the construction of a housing supply system for middle income groups on account of the hierarchical housing supply and the basic property of PLH and designed preliminarily the specific institution arrangements for the hierarchical housing supply system.

The literature shows that the price control practice is different in China and abroad. Although the housing problem in big cities of China is similar to some stage of western countries, the fundamental

① See: Pen Yong, "Pricing Level of Price-limited housing has been criticized for Lifting the price level of commercial housing markets," *XinHua Daily Telegraph*, 2007-05-01; Xia Ye. "Will the Two-restrictions-two-bidding Land Auction Curb the Rising Housing Price?" *China Bussiness Herald*, 2006-12-14; Zhao Haiyan. "Guangzhou Will Sell Two Three-restriction-three-bidding Lands Next Month," *Yangcheng Evening News*, 2006-12-05; Lai Renqiong, Wang Jianxin. "Price-limited Housing are By No Means equal to Low Quality," *People's Daily*, 2008-02-27; Lai Weixing, "Will the three-restriction-two-bidding policy lower the housing price?" *People's Daily*, 2008-02-27; Wang Wei, "Solving the Housing Problems of Middle Income Households by Promoting the Development of Price-limited Housing and Economical Rental Housing," *People's Daily*, 2008-02-25.

realities and the housing development stage of China is different from western developed countries. It is necessary that we need to base our study on the fundamental realities of China and explore independently the specific discipline of housing price restriction. However, the literature shows that the studies of PLH policy in China are incomprehensive, mainly in the following three aspects. First, there lacks a thorough research for the policy mechanism which results in an unclear understanding of the basis for the introduction and retreatment of policies, it also results in ambiguity in targeting policy goal whether to solve people's housing problem or to emphasize the market transmission mechanism of policy in order for the promotion of a healthy market development or both. Second, restrictions on some properties of PLH, as a policy tool, emphasize regulation but the regulation methods are incomprehensively understood. There are still arguments about the fundamental property of PLH and the control approaches are not fully in place. Furthermore, there is a lack of capability-constructive policy approach in the PLH policy design. Third, such problems are not solved yet, as supervision on building quality, credential examination of the targeting groups, and withdraw system, which are similar to that in EAH system. Therefore, this paper is focused on these main problems of the on-going PLH policy and give some suggestions of policy adjustment and perfection.

The remainder of the paper is organized as follows. Part II summarizes the PLH policy establishment and its practice in varied local governments and analyzes the main characteristics of the PLH policies. Part III is dedicated to the analysis of the problems in the PLH policy. Based on these, the policy adjustment and integration approaches are discussed in Part IV.

II. The Price-limited Housing Policy and Its Practice

Price-limited housing policy was first seen in local government files in 2003 and didn't appear in the official documents of central government and its ministries until 2006. After that, the PLH policy is extended to more cities and put into implementation.

i. Price-limited Housing Policy

The PLH policy starts from local government practices.^① In September 2003, Ningbo municipal government initiated a paper (No.96 [2003]).^② The paper stipulates: *EAH and common multilayer residences should be built more rapidly..... Land pricing operation should be better preceded with the use of bid with limited price and listing-for-sale. Explore methods of rational regulation on real estate developers profit level.* This is an official document that firstly explored a PLH policy. In April 2005, Ningbo municipal government document No.86 [2005] stipulates: *EAH is policy based house and has such features as controlling the fee for the transfer of land use, or administratively transferring the land use rights, and restricting the construction standard, targeting groups and sale price. It is a housing supply mode both commercial and with care for the low income groups. On the basis of the differences in the price formation mechanisms, the EAH is classified into two forms which are the limited price EAH and government pricing EAH.*^③ PLH policy is firstly expressed in the preceding context of the official

① In the existing literature, the PLH policies mainly refer to laws and regulations that concerning price-limited housing policies issued by central government and its functional departments, among which rare discussions and analysis are made for local governments' beforehand exploration of policy.

② Specifically, it refers to Ningbo Municipal People's Government forwards *the notice of the City Planning Commission to implement the central spirit of carrying out current economic work issued by the central government's 10th document.*

③ Specifically, it refers to *Notice and Observations on Improving the Urban Housing Supply System* issued by General Office of Ningbo Municipal Government.

document. Qingdao government has similar statements in the documents in 2004. Therefore, the price-limited EAH proposed by the Ningbo municipal government can be considered the source of the PLH policy.

On May 9 2005, the GOSC issued a document named *Opinion on Doing a Good Job of Stabilizing House Prices*. (No. 26 [2005] of the GOSC) The document stipulates: *The administrative department of real estate shall, in collaboration of the relevant departments, put forward such controlling requirements as the sales prices of houses and the areas of dwelling sizes, which shall be the precondition of any land transfer, so as to ensure an effective supply of small or medium-sized houses at moderate and low prices.* This is the origination of PLH policy on the nation level. In May 2005, *the Circular on Adjusting the Housing Supply Structure as well as Stabilizing Housing Prices* (No. 37 [2006] of the GOSC) states that land supply shall take restrictions on the dwelling size, land price and house price when determining construction units through public bidding. This is the formal expression of PLH policy which can be broadly summarized as *Double Restriction and Double Bidding* policy. This document is a guidance file that results in introduction of PLH policy into big cities. After that, the *Opinions of the State Council(SC) on Solving the Housing Difficulties of Urban Low-Income families* (No.24[2007] of the SC) is issued on 7th August 2007 which again stressed the supply of small or medium-sized houses at moderate and low prices. The *Notice on Promoting the Stable and Sound Development of the Real Estate Market* (No.4 [2010] of the GOSC) is issued on 7th January 2010 and states that we shall speed up to build PLH and public rental houses (PRH) in order to solve the housing problem of middle and low income families in the process of promoting the affordable housing construction project. The document explicitly defined the targeting group of the PLH supplies. The *Notice on Further Improving the Real Estate Market Regulation and Work-related Issues* (No.1 [2011] of the GOSC) is issued in January 2011 to reaffirm this policy.

ii. **The Practice of Price-limited housing Policy**

On the basis of summarizing varied practice modes of the PLH policy, we now analyze the regulation approach and product property of the PLH policy.

1. The practice modes of PLH policy

From the above policy documents we find no unified complete definition of *price-limited housing*. There is only an abstract concept in the No. 37 [2006] document of the GOSC. Since 2007, each city makes its own interpretation about the meaning of the PLH in many possible ways based on its actual situation. Table I summarizes the various practices.

Table I The PLH policy practices in main cities in China

City	Policy kernel	Main implementation practices				
		Housing type restriction	Housing price restriction	Target population restriction	Bidding housing price	Bidding land price
Ninbo	Four restriction two open	Mainly types of 50-90 m ² , max area less than 100 m ²	Government pricing, generally 15%-20% lower than houses of same district	Registered permanent residence (RPR) Area per capita less than 18 m ² Families with housing difficulty Families with no house	—	Land transferring with attached conditions, highest price won the bid
Qingdao	Three fixation, four restriction, two open	Have Relevant standards for big, medium and small type housing, appropriate proportions	Mean top price is 20% lower than that of the house of same quality in the same district, oscillation within 10%	RPR Annual income per capita less than 1.5 times last year DPI Families with no house or under-standard area house	—	Land transferring with attached conditions
Guangzhou	Two bidding, two restriction	Mean type area of housing less than 90 m ²	Limit the highest price, final price made by the bidder	—	Mean value of bidding price as the highest limited price (government make the price in the abnormal situation)	Highest price of bidder in to the second round wins the bid
	One bidding, two restriction	—	Limit the highest price, final price made by the bidder	Available to residence in limited region	Mean value of bidding price as the highest limited price (government make the price in the abnormal situation)	Highest price of bidder in to the second round wins the bid
	Two Bidding, three restriction	90% of the total developing region should build types under 90 m ²	Limit the highest price Consider the price rise in two years	RPR Low and medium income families priority Relocating due to reconstruction families priority	Bid with low house price and bid with high land price under highest house sale price restriction	
Fuzhou	PLH	100% of the total developing region should build types under 90 m ² [unimplemented]	Mean top price is 20% lower than that of the house of same quality in the same district, oscillations sum up as zero	RPR Married	—	Bidding land price (fail to be sold at auction)
Chengdu	PLH	Area less than 90 m ²	Refer to the same quality, same region, same time and type house last year and 5%-10% lower, lower than the overall price rise	Urban RPR, Married or not Construction area per capita less than 16 m ² Family house area less than 55 m ²	—	Government assigned state capital developer, land transfer with agreement
Beijing	Two Restriction house	Area less than 90 m ²	Mean top price is 10%-15% lower than that of the house of same quality in the same district, oscillation within 5%	RPR Low and medium income family priority Relocating due to reconstruction families priority	—	Bidding land price, but lay emphasis on product construction and sales

From table I, we can see that there comes up many different PLH-related viewpoints during the exploration and policy implementation in each city. Ningbo proposes a PLH policy centered with *Four-limitation-two-openness*. Qingdao proposes a concept of *three-fixation four-restriction and two-openness*. Scholars in Fuzhou put forward a *Three Limitation Housing* notation that contains the PLH concept.^① Guangzhou issued various operation modes such as two-auction-one-restriction, two-auction-two-restriction and two-auction-three-restriction.^② Beijing also has its two-restriction houses.^③ In these various implementations, some of them unscramble different approaches of restriction such as dwelling size restriction and housing price restriction while some has varied approached of bidding such as bidding for land price and bidding for purchase price. All these notations are centered on the PLH notation issued in the No.37 [2006] document. However, there are slight differences and even diametrically opposed social attributes.

2. Practice characteristics of PLH policy

The different PLH notation of those cities enriched the PLH definition, but knowledge of the main characteristics of the PLH policy remains incomplete which leads to questions about the policy because the objective defects of the PLH policy cannot be identified in advance. Therefore, the main characteristics of PLH policy need an in-depth analysis.

(1) Information asymmetry and housing price regulation tools

The pricing of PLH is reflected in the policy as housing pricing prior to housing construction. The pricing process involves not only restrictions and bidding but also the partial cost pricing during the price formation process. This is a new extension of the price regulation mode.

Housing pricing can be directly regulated when the government has a good knowledge of the real estate company's cost. Price-cap regulation considering the rate of ROI of developers (the Beijing model and Ningbo Model) and combination of price-cap regulation and ROI rate regulation (the Zhengzhou model) are mechanisms that have strong incentive for the developers. These models take the developer's reasonable profit in account and regulate the upper limit of the price, but there is a risk of poor quality of houses. The pricing can be indirectly regulated on the asymmetrical information condition between the government and the developers. The bidding process is an example and has several forms. The two-auction-and-two-restriction model of Guangzhou city is similar to the franchise bidding regulation in which the lowest price win the bid. The three restrictions and two auctions model of Guangzhou takes the mean value of the bidding prices as the upper limit of house price is similar to the regional comparative competition regulation in which the government introduces competition to control the housing price when they are not familiar with the developers' cost information. However, there is a risk of too few bidders, low competition, failed bidding or housing quality problems.

Housing price regulation models are significantly different from those models in the theory of economic regulation and the key factor of the difference lies in the cost element of houses, the pricing of land.

(2) Land price regulation tools and product property

Let's consider two extreme cases. One is that the land is transferred and the price is zero which is the most similar with the EAH and is typical government subsidized housing. The other is that only the monopoly profit of the developers is controlled and fully competition is introduced into the land

① See: Tian Guidan. 'Heated Debate Sparked by the Coming Transferring of Two-bidding-two-restriction Land in Guangzhou.' Information Times 2006-01-04.

② See: Lai Weixing. "Will the 'Three-restriction-three-bidding' Lower the Housing Price?" People's Daily, 2007-02-01.

③ See: Sun Rongfei. "Two-restriction Housing Supply Program Shaped in Beijing with Ceiling price of 7000 Yuan per square," CHINA's First Financial Daily, 2007-07-07.

transferring, other things being equal. Theoretically, the government gives no land subsidization in this case. If there is no other tax and fee subsidization, the housing is common commodity housing. The difference with the commodity houses on the market is that the developers' monopoly profit is controlled. Therefore, the government can determine whether give land subsidization or not, or how much land subsidization should be offered in the PLH land pricing. Obviously, this is directly related with the property of the housing products.

The government price-limited EAH in Ningbo is a typical case of land subsidization in practice. In this case, the developers' profit is controlled, and the land subsidies may be transferred to the consumers. There is no practical example of the other extreme case, and PLH is granted land subsidization in most cities. However, in the three restrictions and two auctions model in Guangzhou where the government gives little or even no land subsidization, *Vanke* real estate developer takes the PLH land through a high house price with high land rice strategy, and its products are more like common commodity house because of little land subsidies. Obviously, the product property of the PLH has connection with land subsidies which depends on such differential land transferring pricing models as the government pricing directly (like the land transferring by consent in Chengdu), or bidding for the price (like many cities' practices), or bidding while considering the qualifications and product quality of the developers (like the Beijing Model). These models essentially represent different product properties. More land subsidization, more security, otherwise more commodification.

(3) Boundary of targeting population and multi-restriction on product

The PLH policy is targeted towards lower middle income households in China. The boundary of targeting group directly leads to multiple restrictions of the level of PLH product, such as production, sales, tenure, and circulation.

In the process of production, house quality and the floor space should be severely restricted in order to meet target group's basic needs for a comfortable and affordable house; The floor space restrictions is also coherent with the conservation of land use in China due to its basic conditions. In the process of sales, a restrict both on housing price and targeting consumer is necessary to facilitate improving the housing affordability, and transferring land subsidies to the targeting group, which is the core and essential part of the PLH policy. In the process of tenure, the consumable attribute of PLH must be hold to ensure shelter for the targeting group, avoiding as a speculation tools in the case of PLH renting or vacancy; Subsidy share in PLH should be distinct and restricted, which should facilitate housing property rights clearly. In the circulation of PLH products, the restrictions on PLH's ownership time and circulation direction should be set accordingly with local conditions, ensuring a sustainable development of PLH policy.

III. Main Problems of the Price-limited Housing Policy

On the basis of PLH policy and its characteristics in practice, we now analyze the potential problems of the policy and its practice. The analysis stretches from the three perspectives: policy goal, policy instrument, policy environment and the coordination among them.

i. Problem of the policy goal position

Policy goal is the core element during the course of policy making, and policy implementation and evaluation have directly connection with the clearness of the policy goal position, which is the biggest problem of our PLH policy making.

What is the goal of the PLH policy? The objective is *promoting the stable and sound development of the*

real estate market or *stabilizing the price of the housing market*, which is considered from the angle of the guidance document issued by the nation and its ministry, such as No.26 [2005] of the SC, No.37 [2006] of the GOSC, No.4 [2010] of the SC, No.1 [2010] of the GOSC, in the different period from the origination period to formation period, and the strengthen period of the PLH policy. And the goal is resolving housing problem of the group under the lower middle income, which is considered from the angle of the firstly policy practice, such as the price-limited economical affordable housing in Ningbo. This goal is expressed in the No.24 [2007] of the SC. Obviously, the latter objective is conducive to the realization of the former goal, but there is distinct difference. That is, the former focus on the merchandise property of housing and the latter focus on the social property of housing. However, the real goal usually includes the both, even the objective of the economic growth. Furthermore, the goal probably includes the social stabilization in the specific implementation of the local government, which is realized through connection between the PLH and the housing resettlement of the city relocation.

Now, is it necessary to firstly think about whether the PLH objectives are single? If there are dual or multiple objectives, what are the pros and cons, or what is the priority ordering? Will the target priority change if the macroeconomic environment has changed? Clearly, the incomprehensive understanding of this issue has a direct impact on the normal operation of the policies and goals achievement, and even leads to the risk of policy termination.

ii. Problems of the coordination between policy goal and policy tool

Policy goal is achieved by way of policy tools. Incomprehensive understanding of the coordination between the two, and a fuzzy understanding or absence of policy approach will directly hold up the practical effect of the policy.

1. Fuzzy understanding in the property of policy tools

Arguments are made about the property of PLH product, whether it is commercial or indemnificatory, because of the fuzziness of the limiting policy instrument. Analysis based on PLH policy practices shows that when the product is strong-commercial or weak-indemnificatory, fully competition should be introduced into the land transferring. In this model, the government gives no or rare land subsidization. Housing price restriction is achieved by controlling the monopoly profit of the developers within the social average profit rate. When it is a strong indemnificatory common commodity, the government should deliver most or even entire land subsidization. In this case, auction is not the advisable means of setting land pricing. Administrative transfer of land use rights and transferring by agreement are preferred means. Based on the fee of land transfer, The PLH price can be set by downward housing price bidding, or the successful tenderer will not be the one with highest land price, but give full consideration of factors like construction standards and public facilities. That is, the different attributes of the policy tools forms different pricing models, and result in different constraint in the subsequent management and circulation.

The fuzzy understanding of the property of policy tools also lies in confusing the distinction between the PLH and the *small or medium-sized houses at moderate and low prices*.^① Six types of housing are listed in the document No.4 [2010] of The GOSC: commercial housing, *small or medium-sized houses at moderate and low prices*, PLH, economical affordable rental housing, economically affordable housing, and low-rent housing. No clear definition is made for the *small or medium-sized houses at moderate and low prices* in the document. It had been interpreted as equal to the PLH policy by local enforcers in practice, from the

^① One interpretation is shown in a pilot project started in April 2010 in Beijing, which defines the PLH units as Price-limited ordinary commercial housings with medium and small dwelling size.

origination of the concept in No.26 [2005] of The GOSC, to the document of [2007]24 of The GOSC. That really creates a blur on the PLH products and *small or medium-sized houses at moderate and low prices*. The six-category sorting in the No.4 [2010] muddles the way to supply the *small or medium-sized houses at moderate and low prices* products. Various constraints under the market mechanism, including the strictly-controlled housing land supply, a robust own-occupied housing demand for houses, and a limited investment channel for residential surplus funds, will surely result in great difficulties of supplying houses *at moderate and low prices*, especially in top domestic cities (the first-tier cities) in China. On the other hand, expectation on the profit-driven developers to lower the housing prices is unrealistic, and that bonds to the failure of supplying houses *at moderate and low prices*. Presently, only the price-limiting actions taken by government can achieve the goal. A question needs to be answered clearly is that whether the *small or medium-sized ordinary commercial houses at moderate and low prices* are in the manner of commercial-oriented PLH products? If not, what is the way to *moderate and low housing prices*?

As a policy instrument, different property-locating of the PLH products will not only leads to different choices in price-setting model, but also the discrepancy in management mode and the circulation of the products. It is the direct cause for ambiguous ratio of product supply. In all, these are the important exemplifies for the hard coordination between policy goal and its instruments.

2. The absence problem of policy tools

In the PLH policy practices, regulative policy tools are widely applied like the housing price-cap regulation, and restrict on the floor area. In the existing regulative policy tools, there has been a noticeable absence of the prescribed minimum above which the ratio of product supply should be kept.^① The absence is bound to trigger the unsteadiness of the market expectation. The uncertain life-span of the policy triggered by the blur policy target and the absence of the products supply ratio exert profound influence on the behavior of policy enforcers, target group, and the developers, especially on the housing developers. One of the key elements that determine the enforcement of the PLH policy is whether the developers engaging in the bid for land with price-limiting conditions. Developers' decision-making is based on weighing the expected proceeds from the future against the retaining benefits. The expected proceeds refer to the forecasting on future sale of the products; in price limited condition, the smooth sale becomes the key factor in achieving the expected proceeds from future. The retaining benefits which the developer gained from other investment instead of engaging in the bidding are similar to the social average profit. However, in the present circumstance it does not equal to it because the retaining benefit also contains developers' expectation on government's determinacy on enforcing price-limiting policies (product supply ratio is one of the important signals) and the life-span of the policy. The developers may perceive the blur or clearly low product ratio as a clue indicating the government's fence-sitting attitude towards implementing the policy.^② In this logic, no real effect will be made in the real estate market. The developers may even sever as a lobbyist to change the policy. If they expect the policy as a temperate one, they may choose to survive the tough time by keeping hoarding lands till the end of the policy. On this basis, the retaining profit refers to the lucrative monopoly profit. Obviously, the absence of ratio control or

① Although emphasis on production ratio is made in the No.4[2010] document, the local governments may not severely carry out the policy due to retaining its own benefits. Caused by the obscure property positioning of the policy tools, the regulative policy concerning on lower limit of the ratio is doom to be blur or even no-exist.

② This attitude may stems from the blur policy target, or the discorded positioning of multiple goals. It provides the local governments a chance to take self-beneficial policy operations according to its own needs while not against central government's policy.

non-execution of the ratio requirements would surely result in a premature end of the PLH policy in its implementing course.

The absence of policy tools also occurs in the vacancy of non-regulative policy tools and capability-constructive policy tools. Allowing non-profit organizations engaging in the PLH project is one of the main implementation forms of non-regulative policy. The reality is that China's housing construction and housing supply system shows over-dependence on the market mechanism. The main body of the construction force is market-oriented. While the social attribute of housing is focused on its consumption functions, the market mechanism or market entity prefers its investment function under the limited resource condition. Benefits conflict determines that the effect of compulsive policy tools is seldom satisfactory. Looking for and cultivating non-profit housing construction organizations will become a beneficial supplement of the regulative policy tools.^① On the other hand, focusing too much on the regulation of product supply, the policy tools pay less attention to cultivate the capability of the demand side. The core idea of price limiting, land-price limiting and floor area limiting is the aim of matching the price with the purchasing power of the middle and low income families by lower the total price of a house from the supply side. However, the question is that can all target groups afford the house. If these conditions are not met, capitalization of the purchase rights is doom to appear because qualified purchaser cannot afford the house. They may sell the purchasing rights secretly. We can then conclude that capability-constructive oriented policy tools from the demand side are in great shortage.

The absence of policy tools will inevitably hinder the policy goals to achieve its expected effects. This is another important symptom for the hard coordination between policy goal and its instruments.

iii. The problem of coordination between policy operation and policy environment

An effective operation of PLH policy must be conducted in the congruent policy environment. New policy often faces the problem of coordinating with the other policies which mainly reflects in identification of policy boundaries.

1. The problem of policy boundary identification

A policy must have its implementing boundary. The boundary of PLH policy includes the boundary of policy tools as well as the boundary of target group. Only these two boundaries cohere with each other and make corresponding supply rules can lead to the favorable operation of the policy.

Identification of policy tools' boundaries often includes boundary of product quality, floor area and price. The product price boundary directly formed the next level policy tools, which is the core policy tool. The housing quality boundary is set based on the minimum condition that the house is hospitable housing or decent housing, including requirements on construction quality, community environment. As the important mark of product boundary, the edge of floor area setting directly link up with target groups' purchasing power, which is also a core policy tool. In sorting out the boundary of target group, income and floor area are considered.^②

However, there is difficulty in identifying the boundaries mainly because of the information asymmetry between behavior subjects. Benefit-driven initiative subjects (including policy enforcer and the untargeted groups) will conceal information deliberately. The profit-driven developers will try to cut down the

^① China has the excellent conditions for cultivating non-profit organizations, such as SOEs. Although there are various problems in its operation, SOE's contribution to the social stability cannot be ignored; neither can we repudiate its achievements. The key lies in improving the management and operation modes in the course of transformation to non-profit organizations.

^② Some cities also make the family assets as one important standard for identification of targeting groups.

development cost by lowering the housing quality or selling the products to untargeted group. The failure of product boundary identification will surely result in disqualified housing products, oversized housing by profit-driven developers, and increasing difficulty in identifying target groups. The profit-driven non-target group will try every means to get relevant qualification certificates, and conceal truth of family information. In the circumstance of lagging construction of information system, the difficult of policy tools boundary and target group boundary identification has become the fatality of the policy, and the main cause of public blame for PLH policy. It is also the main reason of high frequency of problems in the enforcement of the EAH policy.

2. The problem of policy operation boundary coordination

Governments serve as an arbitrator in identifying the boundaries of policy operation. They supervise the quality and floor areas of the housing developed by real estate developers, and review the list of qualified buyers in order to coordinate the boundaries between products (tools) and target people.

The basis of transferring process from product resources to target group must be fair and justice, and the effective transferring can only reached when governments putting a large amount of financial resources on it. However, government constrained by the limited financial resource in reality which leads to a general shortage of funding on supervision and review, a brash identifying in operation cannot be avoided, which lead to various problems.

Moreover, the identifying power of products boundary and target group boundary are collected in governments' hands, which provides favorable conditions for artificially imposed blur identification. According to Principal-Agent Theory, *rational* officers, for their own interests, may have a strong intention in capitalizing the power of housing construction supervising and reviewing qualified list. In this way, rent seeking and rent setting constitute the major obstacles to the success of the policy, especially in huge profit conditions. Obviously, a clear and effective identification of the policy powers cannot be made with these obstacles, and a blur one is doomed to be formed. Problems occurred in EAH policy will also emerge in the PLH policy operation.

3. Abnormalities problem of policy operation boundary and its identification

As Economic environment varies with time, it will surely bring modification of the policy boundary which requires the boundary identification to be updated with the current economic conditions as far as possible. The relative stationary PLH policy design will result in an obvious lagging compared with the market vibration. Market vibration will result in the abnormalities of policy operation.

An important manifestation of relative variability of policy boundary is commercial housing price undulated with macroeconomic fluctuations. Many factors exert influence on housing prices like market demand and market supply, macroeconomic, expectations, and speculations. When the price is growing, no impact will be made on the PLH policy operation. Aversely, these factors are important basis for a strong-enforced PLH policy. When the commercial housing price declines to an extent lower than the price of PLH products, abnormalities of policy operation will arise. During 2008-2009, the plummeting regional housing price triggered by global financial crisis directly led to the ending of PLH policy in Guangzhou. Followed by the ending is the soaring price, added to a more prominent housing problem for middle and low income families.

The abnormalities of policy boundary identification often reveal itself in the post management process. When people's income varies, especially in upward trend, abnormalities in identifying target group arise.^①

① Presently, this especially comes into the institutional risk of low-rent house, or the exiting of the house. Same problem will arise in LPH if there are property house for sale or lease.

In this case, people with higher income who are supposed to quit from the target group continue to hold the government-supported housing. According to policy operation boundary, return of houses and exit of people should be ensured in certain ways, in order to facilitate the virtuous circulation of houses or capital. Due to information asymmetry, reluctance in exiting the houses by former dwellers has become the main obstacles for exit loop of the policy-supported house; the ambiguous setting of the property of products also sowed the seeds of incompetent withdrawal mechanism. As a consequence, governments have difficulty in withdrawing the subsidies which will impede the problem of sustainable development in housing security policy.

IV. Adjustment path of PLH policy

An unclear policy goal, fuzzy understanding of policy instruments or absence of them, and incoordination between policy and policy environment accounts for the various problems occurred in policy operation. Based on that, we will discuss the adjustment and optimization of PLH policy.

i. PLH policy goal adjustment

Presently, the goal of PLH policy may be: (1) to solve the housing problem of residents whose housing units has been renovated in run-down areas, forest areas, and shantytown. (Renovation in Three Areas) (2) to solve the housing problem of middle-low income citizens; (3) to stabilize housing price or promote steady and sound development of real estate market; (4) to promote growth of national economy. Obviously, the listed objectives are interrelated with each other; in policy practice, different local governments have different priority list of the four goals, and different practices in consequence. The first two focus on social attribute (people's wellbeing) of the housing, while the latter two emphasizes the role of the housing market to the national economy. For a policy with multiple objectives, the priority of objectives should depend on basic properties of the policy and the root of decision-making. Clearly, housing has priority to meet residents' basic needs for housing according to the basic property of housing. On this basis, objective concerning people's wellbeing should be given priority in PLH policy.

Top priority should also be given to social property of housing perceived from the decision basis of PLH policy. However, there exists a serious absence in understanding the basis of policy and decision making. The basis for decision making should be divided into two parts: policy decision cause and policy decision root. Analysis on policy mechanism shows that PLH policy caused by high housing price in real estate market, in particular, the high growth rate. What is the root for booming housing price? Many factors can affect the housing price, such as speculation, housing investment, demand, macroeconomic fluctuations, quantity of supply and supply structure. Up-roaring price is the cause of a fresh policy. Yet not every factor that affects the price can be included into the root of the new policy. In Guangzhou practice, abnormal macroeconomic fluctuation cause momentary descending movement of the housing price, which are the main cause for abandoning the PLH policy by Guangzhou government. Of course, over-setting price of PLH products is among the main factors. Later, the once again rising price verified its decision making mistakes. The decision making basis of PLH policy stem from (rooted from) the fundamental reality that China's real estate market will be faced with an imbalance structure of effective supply and demand in a long term future, especially in big cities like Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou where the limited supply of new housing and robust effective demand for housing coexist. This imbalance scene will remain unchanged at least in the coming five years, and the up-roaring price will become the normal situation in market mechanism context. Considering the low income level of general middle and low income residents, price-curbing measures come to be the optimal choice for a period of

time in the future. In the goals concerning social well beings, priority should be given to *Renovation in Three Areas* project, for it involves more social contradictions and needs to be settled urgently.

In conclusion, the priority of policy goal should be focused on attending people's wellbeing. The starting point should be based on solving housing problems of re-settled residents which are acute social contradiction. This setting will contribute to stabilizing price, economic growth, and social stability.

ii. Adjustment of PLH policy instrument

As the media between policy enforcer and policy goal object, policy instrument and its operation model directly decide the quality of policy results. Based on analysis on the shortcomings of the policy instruments, we will discuss the modulating path as follows.

First, set the basic property of PLH products and their supply ratio. The basic property should be set according to the different essence of high price in different regions. In the market where effective demand far outweighs the supply, the basic property should be indemnificatory one, aversely, commercial attribute is the premium

Firstly, in big cities (first-tier cities) with roaring housing price, indemnificatory property is preferred, while in second-tier and third-tier cities, commercial attribute of PLH products is appropriate, especially in the third-tier cities. In the latter cities, PLH policy is practically not required. For those applying PLH Policy, the policy concerning curbing speculations should be combined.

For the PLH product supply ratio, the minimum level should be set based on the expected total housing stock of *Renovation in Three Areas* project or a certain percentage of it. The upper limit level must be the share of housing within 90 square meters in total market (approximately 70%) minus the share of public rental houses, economically affordable houses and low-rent houses. Local governments should set a reasonable supply ratio between the max and mini level, according to their local conditions. That is, according to the actual gap between supply and effective demand, to determine whether to include the amount of small or medium-sized houses at moderate and low prices in the proportion of the PLH products.

Secondly, adjust the constructing mode and allocation mode of PLH products. In the constructing model, semi-compulsory and non-compulsory instruments should be explored and encouraged, while underlying the role of compulsory instrument. Due to limited profit, the developers' engagement in PLH program is poor.

It should be improved, through appropriate semi-compulsory channels, such as conducting reform on enterprise performance evaluation to guide the central government-owned enterprises, or State owned enterprises participating in the construction of PLH, by which they will achieve their dual goal of social responsibility and profit in a coordinate way. On the other hand, government's support for the non-profit organization^① engaging in the PLH construction will bring the non-profit organizations a virtuous funding circle.

In the existing allocation model, rent-seeking and rent-setting phenomena in assessment of eligibility are hard to avoid due to price gap in commercial houses and price-limited houses. On the other hand, large parts of target group have payment difficulty. Therefore, the sale-oriented allocation model should be modified and diversified to a combined interconverted form which include rent, semi-rent and semi sale as a whole. In the new model, PLH renting will reduce the rent-seeking and rent-setting phenomena to the

^① Non-profit organizations, like Zhongbang urban housing investment founded by Huangshi government in Hubei Province invests in constructing indemnificatory housing in Huangshi city, and is responsible for the operation and management of the indemnificatory housing.

extreme extent by minimizing the total rental value in the renting PLH allocation. Half-rental-half-sale model is conducive to solve target group's payment difficulty. Obviously, measures taken in transformation allocation model can be a good policy instrument oriented in capacity building for target group, and it should be the core of PLH policy. Presently, based on the acknowledgement that both housing rental and sale are important ways of housing consumption, exploration on the practicability of rental-sale combined property in PLH products should also be a key strategy.

iii. Adjustment of PLH supporting policy (supervision and examination mechanism)

On the basis of clearly positioning policy goal, coordination between the policy and its operation environment are the important factors for the success of policy. Neglect of building supporting policy of PLH will lead the program to repeat the same mistakes that had been made in EAH policy.

Analysis on policy problem showed that identification of policy boundary requires the government to conduct effective supervision and examination on the quality of houses, floor area, supporting facilities, and to carefully verify the qualification of buyers. Clearly, during this process, the government should promote the construction of housing-related information system. Accompany with the lagging development of information system, policy boundary identification spends a large amount of manpower, material resource and financial resources. Ever so, the boundary identification yet faced several problems, such as the man-made blur of policy boundary because of the power excessive concentration in governments' hands. In the absence of power supervision, capitalizations of power will surely occur due to rent-seeking that happened in EAH policy. Consequences similar to *six consecutive numbers in a roll event* during EAH target qualification in Wuhan City and that *the residence live an EAH while driving a luxury car like BMW* in Chongqing City will be inevitable. Therefore, introducing public supervision and examination on housing quality and purchasing qualification will be a new renovation in supervision and examination mechanism. Obviously, public supervision and examination on housing quality and qualification of target group will effectively reduce the government executive cost. On the other hand, increasing the public supervision and examination in the government will prevent rent-seeking activities, which indirectly promote the public image of the government.

Although, the introduction of social forces will lead to the expansion of supervision strength, it will also increase the time cost correspondingly. Consequently, in policy design, qualification assessment of purchaser should be started before the housing construction, which is an effective solution of prolonging the time for supervision and examinations. That is, when the government is transferring the PLH land, the sale price of housing is settled. Before the construction started, the qualification list of purchasers should be completed through fair procedures, thus making the purchase group an important part of public supervision in housing construction course. In this case, the interest of purchase group is correlated with housing construction force. It will strengthen the purchase group's supervision initiatives, which can effectively constraint developers' violations, as long as reasonable guidance is conducted on the way of supervision and the context of it by the governments. On the other hand, the government should bulletin the qualification list of purchase group and the qualifications required, and they should also encourage the public especially people at the board of target group to distinguish the unqualified buyer from the list with incentive measures. This will enhance an efficient transferring of subsidy policy to people who really are badly in need of the subsidy. In conclusion, advanced procedure of qualification assessment of purchaser should become the preconditions of introducing public supervision into the public rights of supervision and examination mechanism. This model will practically evade policy operation risk which is resulted by difficulties in policy boundary identification.

iv. The adjustment direction of PLH policy content

According to the development trend of indemnificatory housing, now we should provide some analysis on the integration of PLH policies with current housing system and promoting sound functioning of PLH policy. In major cities' practice, the target group of PLH policy is relocated households in the *Renovation in Three Areas* project and lower middle income residents. The next context analyses the direction of PLH policy from the category of policy targeting group.

In public interest of city, property placement or property guaranteed of the relocated households in the *Three Areas* are supported and protected by China's law and regulations. That is, *the owner of the property right of the house should be offered with fair compensation, when government expropriates housing that belongs to units and individuals on state-owned land for public interest.*^① For relocated household in the three areas, many face the problem of property replacement. They may be divided into two groups. One is that the relocation can swap at least one set of house. Such families do not need the government to provide housing support. The other group which account for most is the ones that cannot get a decent housing through replacement or fail to buy a decent house unit off-site. Government should provide moderate housing property rights protection for this group. For the former type of family, rehousing by currency is generally advised. If the families ask for housing remedy, thus supplying PLH's for them should focus on its commercial attribute, and these PLH's are for sale. Therefore, it is advisable to list the housing for remedy to the category of small or medium-sized houses at moderate and low prices. For The latter type, often one family of this kind contains one or several natural families. Constraint by their limited source of income, they are not able to afford housing replacement with appropriate floor space and appropriate number of units which equals to the size of the family.

But these families also have strong desire for housing property. As a result, housing settlement for this group can be in semi-rent and semi-sale manner, which meets their needs of certain property rights and reduce the excessive amount of housing subsidies delivered by governments. Base on that, group in the latter category should be listed in the target group of housing property guaranteed.

For the lower middle income families, as their housing problem are not as urgent as the relocated ones. Property guaranteed for this group will bring various problems like rent-seeking and rent-setting. Therefore, providing rental housing or half-rental-half-sale housing to them is a workable solution. It not only reduces the total rent value by the rent-seekers, but also provides backup conditions for missed identification in target group. In housing circulation, the rental model and half-rental-half-sale model can be transferred to half-rental-half-sale, and sale model respectively. And selling these rental or half-rental half- sale PLHs have such functions as regulating real estates market, being in favor of a virtuous cycle of funds of the developer, and holding up the abnormality risk of housing price. Obviously, the targeting group can divide into two levels according to their income. For the higher level of lower middle income receivers, half-rental-half-sale model is advisable, and they should be listed the target group of guaranteed housing property. For the lower level, rental model and half-rental-half-sale model (rental share takes more proportion) are advisable due to their weak affordability. Through these models, the government should ensure those houses to shelter and list them the target group of guaranteed rental housing or guaranteed housing property. Furthermore, EAH houses with guaranteed property, a specific form of PLH, can be merged with this mechanism in practice. In order to maintain the continuity of existing EAH policies, qualified purchaser in the older EAH policy can be brought into half-rental-half-sale model of PLH policy

① Regulation on Expropriation of Houses on State-owned Land and Compensation (Decree of the GOSC No.590) Article 2.

system. The qualified purchaser for EAH can be brought into the rental model or semi-rental and semi sale model of PLH policies after the adjustment of EAH policies.

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