

Studies on the Exit Mechanism of the Economically Affordable Housing in China

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Abstract

Economically affordable housing, as an important part of indemnificatory housing system, is to highlight its economical efficiency and guarantee and to provide housing for the middle and low-income families. However, the access to economically affordable housing is not perfect in many aspects currently. Besides, the demand for economically affordable housing keeps increasing constantly, which makes the sources of economically affordable housing tight. Recently, Chinese government has advocated enhancing the construction of indemnificatory housing vigorously, but there are many problems in increasing construction such as raising capital. Therefore, we need to find another way out, establish exit mechanism for economically affordable housing and circulate economically affordable housing to relieve the tight situation.

Keywords: indemnificatory, China, economically affordable housing

1. What Is Economically Affordable Housing

Economically affordable housing is the housing faced to the middle and low-income families and enjoying preferential policies, which belongs to policy housing. It is the social security housing provided by the government for those middle and low-income families, which is usually called public housing or social housing globally. In China, economically affordable housing has become one form of the indemnificatory housing. Economically affordable housing is ordinary housing constructed uniformly by the government, targeted for those middle and low-income families and constructed according to the national housing construction standard, which is commodity housing of a certain extent of social security. It is the special commodity housing with some preferential policies from the government. Its costs is under strict control, and the price is composed by the compensation of land acquisition and demolition, exploration designing and architecture installation project fee, the early project fee, the taxation, the loan interests and profits under the control of 3%.

In China, the existence of economically affordable housing does make sense. The statistical data of the new construction area of the economically affordable housing from 2006 to 2009 is shown in Figure 1.

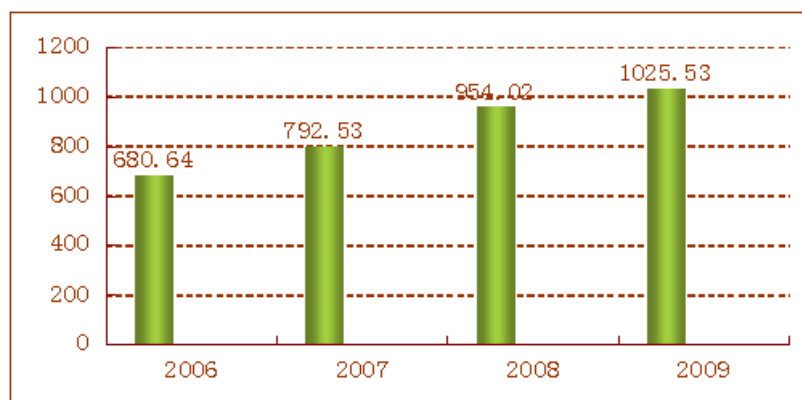


Figure 1. The new construction area of the economically affordable housing (million m²)

Seen from Figure 1, it can be found that the construction of Chinese economically affordable housing has a

steady increase tend, which reflects that Chinese government pays more and more attention to the economically affordable housing and people have greater demand for economically affordable housing. In addition, a random survey is carried out to determine which kind of guarantee housing is required more by people. According to the result, 57.9% of people choose economically affordable housing, 32.3% of people choose low-rent housing, and 9.8% of people choose other kind of guarantee housing, which directly introduces the importance of economically affordable housing in China.

Economically affordable housing is the meager profit ordinary commodity housing existing between commodity housing and low-rent housing with support from the government. Besides, it is the important part of China's multilevel housing indemnificatory housing system. It plays an important role in relieving the increasing housing need and stabilizing the housing market.

2. The Deficiency of Exit Mechanism for the Economically Affordable Housing

Another form to provide indemnificatory housing is low-rent housing, which means that the government provides social indemnificatory housing by means of renting subsidies and physical renting matching for those families that is eligible for the minimum living standard and have difficulty in housing. The distribution of low-rent housing mainly takes form of renting subsidies and takes supplementary form of physical renting matching and abatement of rent. Economically affordable housing is of great difference from the low-rent housing. Firstly, most of the economically affordable housing is newly constructed while the sources of low-rent housing include vacant houses, reconstructed dilapidated building, and old public houses. Secondly, economically affordable housing is for sale while low-rent housing is for rent instead of sale. Besides, economically affordable housing controls costs by the support from the land, taxation policy, controlling of architecture standard, and limiting of profits. And it is designed for those urban residents who could not afford commodity housing at a lower cost. The buyer of economically affordable housing has part of the house's property right while the low-rent housing is designed for the urban population who are in exceptional poverty. In the latter case, symbolic amount of rent is collected and the renter has no property right on the houses. Finally, the low-rent housing has exit mechanism while the economically affordable housing does not.

The indemnificatory exit mechanism for low-rent housing is designed by the government to allocate limited housing resources reasonably, to illustrate the principle of fair and justice. Restrict the qualification of the indemnificatory housing groups through the examination of specific administrative organization. Make those indemnificatory housing groups who have their living conditions improved to exit the whole set of system arrangement, program as well as the matching measures to ensure the housing demands of those lowest-income groups. No matter what form of indemnificatory housing the groups are enjoying, once their family income or living conditions are improved, they have to exit the indemnificatory housing range and let the opportunities to those residents who are in more difficulties. The exit mechanism is one of the specific measures to guarantee the living rights of the lowest-income groups in the society and it is one necessary method for the government to regulate and manage the sources of indemnificatory housing. The exit mechanism of the low-rent housing makes houses circulate and it can relieve the problem of housing to a certain extent. Besides, reasonable exit mechanism is the illustration of fair and justice. When the income of the renters increase and they could afford ordinary rent, on one hand, it would be a waste of indemnificatory housing resources if they continue occupy the low-rent housing; on the other hand, it is unfair to those who are eligible to move in.

Economically affordable housing, in turn, is mainly to restrict the previous unreasonable transactions of the economically affordable housing, though there is provision of the transferring and transaction of economically affordable housing in the 13th provision of the Management Methods of Economically Affordable Housing and the Notice to Enhance the Management of Economically Affordable Housing. Most of the residents escaped from the examination and stole the national resources in order to make transactions on economically affordable housing for profits. Besides, there is no specification on exit mechanism. According to the author, low-rent housing is the outstanding guarantee for those who are in the lowest of the society while economically affordable housing has both guarantee and connection. The guarantee of economically affordable housing is to ensure that the low-income families could afford houses and its connection is the link between indemnificatory housing and commodity housing. The changes of the income of the indemnificatory families may not be large within short period. However, years or decades later, it is certain that the income of part of the families will be higher or far higher than the standard of access to the economically affordable housing. If there is no exit mechanism, waste of resources will be caused and the sources of economically affordable housing will decrease (the sources cannot be returned or circulated). Therefore, it is necessary to build comprehensive exit mechanism for economically affordable housing.

3. Policy Suggestions

3.1 *The Standard for Economically Affordable Housing Should Not Be Too High*

Currently, the standard of economically affordable housing in China is too high. The construction standards of housing, the environments (artificial lake, garage and entertainment facilities) in some economically affordable housing community reach or even surpass the level of those in ordinary commodity housing community. On December.1, 2007, the construction department, along with other six departments released the 15th provision of the Management Methods of Economically Affordable Housing. The construction unit of one set of economically affordable housing is controlled within 60 square meters. This method only stipulates the areas and it does not evolve other matching facilities and it is too general, which makes the construction standard of economically affordable housing higher. After the applicants move in, the living conditions are optimized greatly and their exit will decrease. Therefore, the construction standard of economically affordable housing should be under control in order to take the direction of meeting the basic housing demand of families and providing basic living demand, which is, providing basic housing.

The advantages of providing basic housing are as follows:

First of all, it saves costs. Over high construction standard costs a lot. With the same capitals, the less economically affordable housing is, the high standard economically affordable housing will need more resources in the condition of providing the same amount of economically affordable housing. Besides, some unnecessary facilities such as artificial lake are also a waste of valuable land resources. Providing basic housing could make use of limited resources to build more houses. This does not only save cost, but also add the housing resources directly and could relieve the shortage of housing sources to a certain extent.

In addition, providing basic housing can reduce the purchasing desire of those who are not guaranteed and increase the efficiency of the economically affordable housing. Those who are not guaranteed buy economically affordable housing represents the phenomenon that we usually see or hear, such as 'drive BMW while live in the economically affordable housing' or 'millionaires buy economically affordable housing'. The reason why those who are not guaranteed or high-income groups tried every effort to buy economically affordable housing is to get the house that is of no large differences to the ordinary commodity houses with extremely low prices. Driven by the profits, some people will submit false applications to get economically affordable housing. If the economically affordable housing provides the basic housing, the attraction of basic housing will decrease to the above groups so that this kind of phenomenon is less likely to take place.

Finally, providing basic housing can improve the eligible residents to exit actively after their incomes increase. Before talking about this problem, let us have some basic knowledge of ratchet effect. Ratchet effect, which is also called wheel function, refers to the inconvertibility after the formation of people's consumer habits and its habitual effect is large. This kind of habitual effect makes consumption depend on the relative income, which is the relative income to one's past peak income. The consumers tend to increase consumption as their income increases, but it is not easy for them to decrease consumption as their income decrease so that short period consumption index with plus intercept is resulted. This particularity is called ratchet effect. To be easy, ratchet effect is that people prefer to buy better things. For instance, one with a 50,000 RMB car would like to replace the car with a more expensive and better car when he has adequate economic power. As to the residents, ratchet effect also works. If the economically affordable housing provides basic housing, the residents will prefer housing that is larger, better, more comfortable and more convenient when their income increases. In this way, they will exit from the economically affordable housing so that the economically affordable housing sources could be used in a circulated way.

3.2 *The Examination Must Possess Consecutiveness*

Currently, the examination of the qualification of economically affordable housing is limited to whether each item of the applicants is qualified for the access standard of economically affordable housing, such as the 25th provision in the Management Method of Economically Affordable Housing. It stimulates that examinations should be made on the applicants' residence of registration, family income standard. However, there is no definite stipulation on examinations after the applicants move in. Once their income skyrockets and they are able to solve their housing problems, there will be waste of economically affordable housing sources. According to the income distribution theory, the initial distribution pattern the market formed is changing constantly and the identities of middle, high and low-income classes can alternate. Therefore, the families that have already moved into the economically affordable housing may have changes in their income class. When family income optimizes enough to cope with the commodity housing, they should exit. This is because economically affordable housing is targeted at the low-income families.

Therefore, in order to make sure that economically affordable housing sources are distributed in a fair and reasonable way, constant examinations should be made on the moved-in families to ensure whether their items accord to the standard of economically affordable housing. The author thinks that the examinations mainly on their registered residence and their family income during that period could be conducted three years once or five years once. If there is any change of their registered residence or their fixed living sites change from one city to another, the houses will be vacant and they can be recycled. The moved-in city provides housing. To be strict, this is not an exit; instead, it is an alternation. When the residents' income increases enough to handle the housing, they should exit the economically affordable housing. However, to what extent their income increases when they should exit? The author thinks that the following aspects should be taken into consideration: first, the increasing trend of the family income should be stable and constant instead of fluctuating. Secondly, the level of family income should exceed the standard of access to economically affordable housing to a certain extent. This extent should be decided according to different conditions in different cities and whether it will cause severe influences on the exit families after their exits. That is to say, the exit families can live a normal life after their exits. When the residents live up to the above conditions, they should exit economically affordable housing. In addition, pay attention to those families whose income is at a low level in long term (more than one decade or even longer) during the examination. They should be allowed to possess the economically affordable housing forever. On the one hand, they could live on the house when they are old; on the other hand, it can narrow the economic gap of the next generation to a certain extent.

3.3 How to Exit Economically Affordable Housing

There are two ways to exit economically affordable housing: government exit and resident exit. Due to the particularity of the economically affordable housing, the housing that the residents get is housing with limited property right, which is occupied by both the government and the resident. Therefore, government exit is that the resident got the property right of the government so that they possess the complete property right of the housing; resident exit is that the government recycles the housing property right. It is clear that both exit ways involve the property right, so it requires figuring out the property right before the economically affordable housing exit.

The 13th provision of the Management Methods of Economically Affordable Housing stipulates that the purchasers of the economically affordable housing possess limited property right, but there is no explicit provision on how to divide the property right. As to this, the 'Common Property' mode in Jiangsu, Huai'an is advocated. Economically affordable housing is not transferring any more; instead, it is selling. Make the government financing explicit by combining the price difference between selling and transferring and the government preferential policy on the economically affordable housing to form the government property right. The family financing forms individual property right, which is the combined financing mode of family and government. The ratio of the property right could be divided into 7:3 or 5:5 according to the capital by family and government. This mode determines the property right of family and mode in an explicit and quantitative way, which pushes the exit mechanism of economically affordable housing to the right path. In addition, government could abandon the original thought and sign contract to deal with the problem of the common property of economically affordable housing in the identity of independent legal entity. In this way, current Chinese law could handle it once there is any dispute so that it is not bothering to make independent legislation.

Government exit is that the residents obtain the government property right so that they obtain the complete property right of the housing. The obtaining methods of the property right are various: when the income of resident family improves so that they are able to acquire the government property right, they can acquire the government property right directly, which makes the government capital withdraw rapidly and continue to circulate. When the income of resident family improves, but they can still not afford to acquire the government property right, the Huai'an mode in Jiangsu is not to force them to move out. Instead, the government property right withdraws part of the capital. The advantage of this mode is that it guarantees the families in 'Critical Point'. Meanwhile, it withdraws part capital. When the income of the resident family is at a low level for long time, and it is impossible for them to increase, the government should exit and transfer their property right for free. Because these families need real guarantee and it can narrow the economic gap of the generations indirectly, which also demonstrates the guarantee of the economically affordable housing.

Resident exit is that the government withdraws part of the resident's property right. When the living conditions of the residents increase and they want to pursue housing of high standards, the government can make payments to purchase part of the residents' property right in turn. The residents can use the payments to purchase commodity housing that accords more to their standard. And the housing the government pays for can be used in the economically affordable housing and low-rent housing projects so that economically affordable housing can be used in a circulated way. This, to a certain extent, relieves the tight situation of the housing sources, which

demonstrates the connection function of economically affordable housing.

4. Conclusion

On whether the economically affordable housing system should continue or not, we can not cancel economically affordable housing system just because some existing problems in the operation of the system. On the contrary, we should optimize the system further, check shortcomings and fill blanks in order to formulate more targeted provisions and relevant operation specifications. The construction of effective exit mechanism plays an important role in the optimization of the economically affordable housing system. It can be said that a good exit mechanism is effective measure in compensate the shortages of the economically affordable housing system. Therefore, this article has a discussion on the current exit mechanism. First, the current situation and existing problems of the current economically affordable housing system in China is discussed. On this basis, countermeasures and suggestions to cope with existing problems are put forward in order to construct highly effective exit mechanism.

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