

# Survey on Harbin Affordable Housing Program

## Investigation on Policy Issues and Recommendations

Zhu Cheng  
August 08 2014  
Department of Urban & Regional Planning  
University of Wisconsin-Madison



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## **Executive Summary**

Harbin government has pursued various economic and housing reforms to expand benefit of affordable housing since 1998, however, affordability of, accessibility to, and quality of affordable housing projects are still major issues in Harbin. The research attempts to discover policy deficiencies and difficulties in implementing Affordable Housing Program by reviewing housing regulation, investigating relevant projects, interviewing stakeholders.

Major issues in Harbin Affordable Housing Program:

- Non-guaranteed land appropriation, inadequate land supply, overheating housing market
- Impractical task of Affordable Housing Program and authenticity of applicants
- Inoperative censorship and defective property management
- Uncontrollable floor plan and incomplete services and facilities

Recommendations at last part of this report discuss potential improvement in policy formulation, government administration, project management, and design standards to accomplish quality affordable housing projects in Harbin. For the purpose of affordability and livability in Harbin Affordable Housing Program, challenges arises attention and support from municipal government. The government needs to intensify efforts to curb affordable housing activities, increase land supplies for construction.

## **Introduction**

As a fact of urban housing prices skyrocketing since 2005, housing affordability has become a major issue influencing on both commercial and affordable housing, and do spread in a number of large cities including Harbin. Harbin municipal governments have been called upon to increase the provision of affordable housing to middle- and low-income households. Government policies have been implemented in an attempt to stabilize urban housing prices, to discourage speculative behavior of homebuyers, and to reduce both the excessive lending practices of state-owned banks and the possible financial risks associated with the housing sector.

Although, outcomes of government`s efforts have impacted on real estate industry during past decade and a number of affordable housing projects has been seen in Harbin urban landscape, a large middle- and low-income population is confronting challenges of housing affordability and quality. Thus, the objective of the research is to explore issues on land supply policies of Harbin Affordable Housing Program, difficulties in program implementation, and deficiencies in project management based on collections of policy reviews, case investigation, interviews and surveys.

Current affordable housing system in China is targeted only at urban residents who have city residence permits as part of its household registration system. Migrant workers, floating populations, and others without urban residence permits are not covered. These people have to find shelter in the informal housing market, such as urban villages with substandard living and sanitation conditions. The rapidly rising housing prices and increasing demand for affordable housing in Harbin pose both risks and opportunity to achieve a stable society as sought by the Chinese central government.

### **Status Quo of Harbin Affordable Housing**

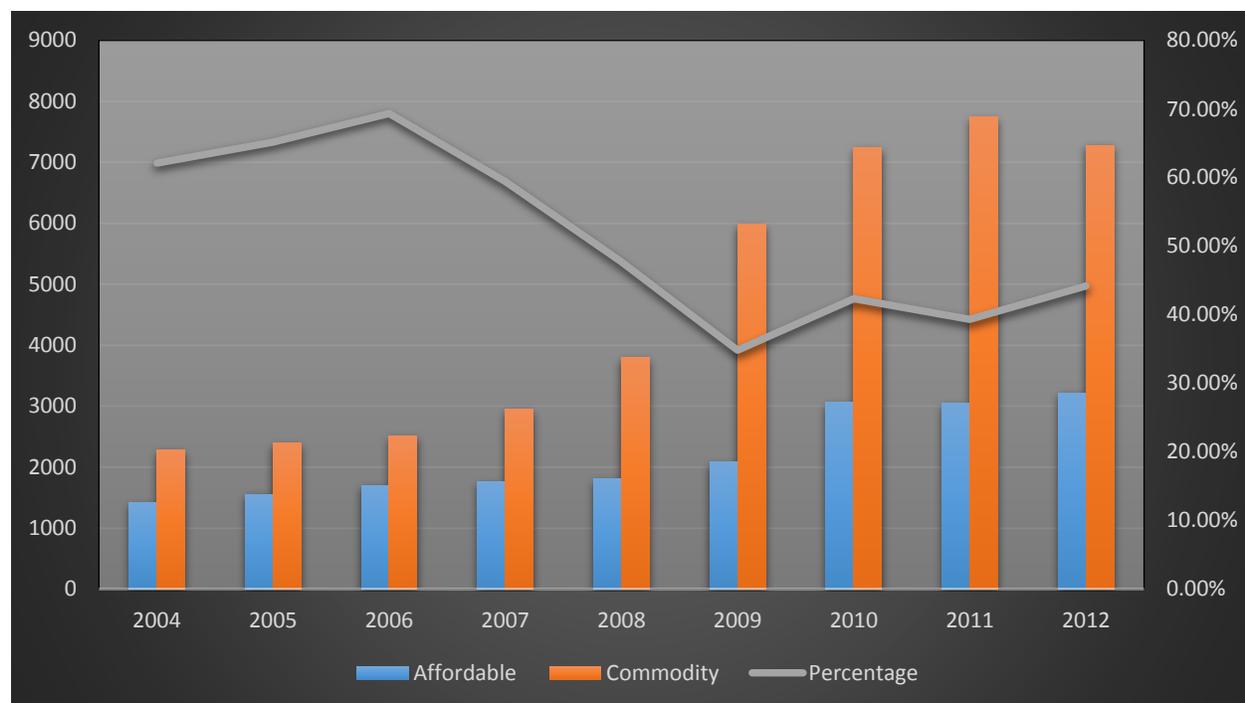
In order to promote urban housing reform, Regulation of Affordable Housing was enacted on April, 1<sup>st</sup> 2008 in Harbin. Eligible householders are able to submit their applications to sub-district administrative office or local government. By 2012, approximately 46,000 low-income households were approved through Affordable Housing Program or received housing subsidy. Through a lottery system, a subsidy of 30,000 RMB/per household was issued to 1,000 households. Those unselected ones are able to maintain their eligibility as long as their applications are approved through verification process.

Harbin municipal government took charge in implementing Affordable Housing Program, verifying affordable housing projects for eligible low-income households. In 2012, 1,686 billion RMB investment streamed into affordable housing projects with 0.228 million m<sup>2</sup>. Huayuan Project in Zhengyi St providing 960 apartments through Affordable Housing Program was the largest affordable housing district in Heilongjiang Province. The project incurred an enormous impact on Harbin real estate industry, which involved a great portion of low-income population. According to Harbin Bureau of Statistics (2012), since 1998, 50.1% floor area is less than 3,000 RMB/m<sup>2</sup> and 70% floor area is below 3,500 RMB/m<sup>2</sup>. 3% fluctuation rate applies to affordable housing with cap rate of 4,000 RMB/m<sup>2</sup>. Affordable housing supply showed a downward trend in 2005 with investment 1.21 billion RMB, 20.7% drop from 2004. Floor area of affordable housing took up 11.4% total area of commercial housing in Harbin, declined by 11.1% compared to 2004. 12.6% of completed commercial housing was affordable housing, 7.6% fewer than last year. 0.15 billion RMB investment was accomplished for the purpose of affordable housing

project, 63.6% decrease from the corresponding period of previous year. Land availability was enhanced in 2008. Land appropriated by municipal government exceeded 60% that of the previous year. In comparison to 2007, affordable housing program took up the majority of residential land, up to 200.49 hectare, projected floor area was 2.68 million m<sup>2</sup>. Based on 90 m<sup>2</sup>/household, 30,000 apartments would be offered. In 2009, Harbin Affordable Housing Program completed over 2.6 million m<sup>2</sup> floor area. 3,000 Eligible buyers of affordable housing was subsidized with 30,000 RMB/buyer. In 2008, The Regulation of Affordable Housing Trading was enacted and initially affirmed 18% of residential floor area appropriated to Affordable Housing Program as a supplement to the subsidy. The government proposed to establish sufficient supply of affordable housing for low-income households, who live in density below 10m<sup>2</sup>/person by 2012 and involved middle-and-low rather than lowest income populations into Affordable Housing Program. During “Eleventh Five Year”, affordable housing construction was integrated into projects of shantytown transformation. The targeted population was largely the re-settlers from shantytown transformation. Based on Harbin Benchmark of Household Income and Housing (2009), applicants are identified: Annual disposable income was below 30% of average income; Net floor area/person was less than 16m<sup>2</sup>. 2007 to 2009, 5,000 households received affordable housing subsidy of 0.15 billion RMB. In 2010, 1000 households were projected to be subsidized with 30 million RMB. Table 1 and Figure 1 show 10-year price variation of Harbin real estate industry. Largely, affordable housing was half price of commercial housing from 2008 to present.

**Table 1. Harbin Affordable Housing Price**

	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Affordable</b>	1416	1557	1704	1753	1813	2083	3065	3045	3217
<b>Commercial</b>	2280	2390	2510	2950	3800	5980	7240	7740	7280
<b>Percentage</b>	62.11	65.15	69.32	59.42	47.71	34.83	42.33	39.34	44.18

**Figure 1. Price Composition of Harbin Real Estate Industry****Table 2. Eight Affordable Housing Project, Harbin**

Name	Location	Floor Area (m <sup>2</sup> )	Completion Date	Price(RMB/m <sup>2</sup> )
<b>Jingyang</b>	Within 2 ring	30,000	Oct/2004	1410
<b>Xiangshan</b>	Within 2 ring	260,000	Nov/2003	1350
<b>Longxin</b>	Within 2 ring	47,000	Jan/2003	1300
<b>Haishun</b>	Along 2 ring	100,000	Nov/2006	1820
<b>Sanheyuan</b>	City outskirts	134,000	Dec/2005	1430
<b>Huayuan</b>	City outskirts	633,000	Dec/2009	1880
<b>Taihai</b>	Within 2 ring	303,400	Nov/2004	1430
<b>Jun`an</b>	New area	400,000	Aug/2007	1550

**Table 3. Public Transit serving Affordable Housing in Harbin**

Name	# of Busline	Transfer	Time to Downtown(min)
<b>Jingyang</b>	12	1	15
<b>Xiangshan</b>	9	1	20
<b>Longxin</b>	14	1	40
<b>Haishun</b>	5	2	45
<b>Sanheyuan</b>	4	2	50
<b>Huayuan</b>	5	2	50
<b>Taihai</b>	13	2	45
<b>Jun`an</b>	3	2	60

### **Affordable Housing Impact**

#### (1) Fulfilling low-income home buyers` demand

Since the implementation of Affordable Housing Program in 1999, affordable housing development has been completed at 11.09 million m<sup>2</sup>; 4,732 households received subsidy of 0.14 billion RMB in total from local government; Over 100,000 households benefited from the program; Net floor area rose from 18.74 m<sup>2</sup>/person in 1999 to 29.36 m<sup>2</sup>/person in 2008.

#### (2) Stimulating housing market

2004-2012, completed transactions of affordable housing achieved over 18.5 billion RMB.

#### (3) Improving urban environment

Generally Harbin Affordable Housing Program were integrated into Shantytown Transformation Projects, affordable housing projects can be integrated into other parallel developments within jurisdiction. Affordable housing development generates or maintains land value and sustainability, and requires equal distribution throughout the jurisdiction.

Recreational space, green infrastructure, grocery and services are components of affordable housing project in order to create improved quality life. As a consequence of governmental organizations, enterprise operations, and large-scale development, residents may benefit from improvement of surrounding built environment and city functions

### **Issues on Affordable Housing Program**

#### (1) Non-guaranteed land inventory, inadequate land supply, overheating housing market

Objectively, as rapid growth in construction, land is in high demand for increasing constructions and land availability becomes a major concern for new development. On the other hand, affordable housing is subject to land pricing and acquisition which reduce land availability. Generally, potential housing lots are located remotely on the outskirts of town where transportation and utilities might be residents' concern. It can raise homebuyers' expenditures, but also expand investment in infrastructures. Subjectively, affordable housing land is cost-free (no land transfer fee), whereas the land transfer fee is a major source of local government's revenue, thus once government suffers a fiscal drain, land supply would be inevitably restrained against affordable housing.

Four categories of applicants for Affordable Housing Program have been identified as follows:

(1) Harbin had an estimated population of 9.94 million in metropolitan area, and 4.75 million in municipal area. Population of lower middle and low income reached around 2.7 million (approximately 900,000 households) by mid-2012. With 86,000 anticipated growth rate and 60m<sup>2</sup>/household standard, 54 million m<sup>2</sup> floor area is in demand involved in Affordable Housing Program.

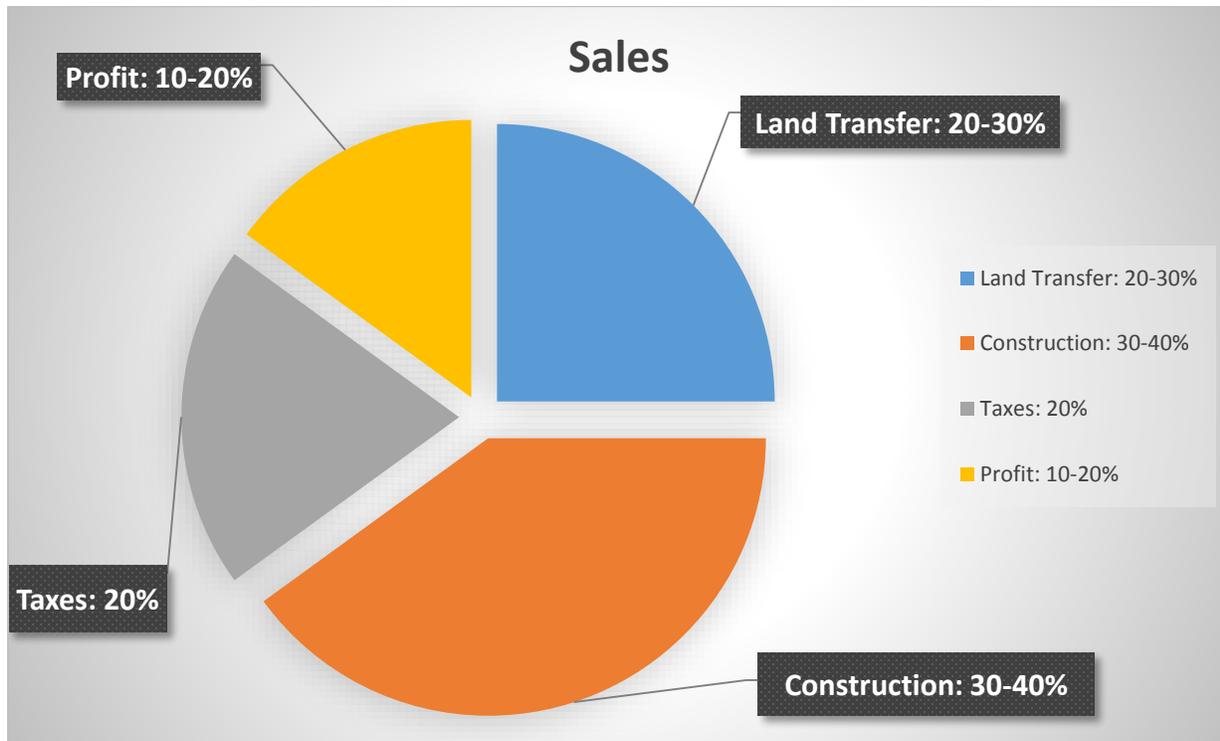
- (2) An emerging population of 445,000 middle and low incomes who are largely fresh employees calls for up to 8 million m<sup>2</sup> affordable housing.
- (3) A substantial housing trouble confronted with a large number of demobilized army cadres and district-level civil servants who are in low-income working class.
- (4) Due to recession of nation-owned corporation, blue collar workers, who are generally low income class, are still dealing with housing troubles.

As a result of unidentified targeted population, Harbin affordable housing supply cannot be quantified. In addition, the central government defined three classifications of housing provision: commercial housing, affordable housing, and low rental housing, whereas proportion of each single classification is not explicitly announced. Affordable Housing Program states that 70%-80% of total housing supply is appropriated to Affordable Housing Program. As a matter of fact, since 2000 Harbin has been experiencing a downside at affordable housing supply, 8.61% of total provision ended up with affordable housing in 2008. There was a significant difference between affordable housing demand (2-3 million m<sup>2</sup>) and supply (net floor area 1 million m<sup>2</sup>) (statistics 2012).

60% Harbiners stated affordable housing was unaffordable. In General, composition of commodity housing price was land transfer fee (20%-30%), construction cost (30%-40%), taxes (approximately 20%), profit (10%-20%) (As in Figure 2). In other words, affordable housing is 30%-50% lower at price than commercial housing. However, based on sales report (2012), Harbin affordable housing reached medium-level commercial housing in term of price range. The average disposable income was 177,60 RMB per capita, median income of lower middle

class was 6,974 RMB per capita and of low income was 4,962 RMB per capita. 2012 affordable housing project was priced from 2,600 RMB/m<sup>2</sup> (in Ping Fang district) to 4300 RMB/m<sup>2</sup> (in Nan Gang district), averaged at approximately 3,000 RMB/m<sup>2</sup>.

**Figure 2. Expenditure Structure of Affordable Housing Project**



(2) Impractical task of Affordable Housing Program and authenticity of applicants

Definition of “middle and low income” is unspecific. Provided limited resource, low income class is supposed to constitute targeted population in Affordable Housing Program, then establish particular process to expand extra affordable housing resource. Affordable housing takes up a small portion in residential housing project, unspecific “middle and low” income, however, involves a considerable number of local residents beyond government’s financial capacity for affordable housing. Lax scrutiny results in unequitable resource distribution

which may thereupon involve market targeted population in welfare system. Subsidy is diverted from low income population which violates the objective of Affordable Housing Program or government subsidies. It is arduous to verify applicant`s income based on application form. The lack of particular sector to ensure authenticity of the applicant results in complication through application process. Even though government spends considerable funds in scrutiny process, expected outcome would not be generated without income tax monitoring. As a matter of fact, approximately 40% of entire applicants were ineligible for affordable housing in 2012. Therefore, informational non-transparency causes inequity in this case.

### (3) Inoperative censorship and defective property management

Harbin Affordable Housing Program maintains a large amount of censorship expenditures in affordable housing planning, development and construction, pricing, publicity, transaction, and maintenance etc. The situation caused deviation in government administration and led to ineffective censorship in Affordable Housing Program. Harbin Affordable Housing Program offers reduced-value land and features regulated profit margin, however some unprincipled developers illegally augmented the profit margin under the malfunctioning censorship. Hence, a number of affordable housing projects were actually “unaffordable” as a consequence of the developers` manipulation. As a part of welfare system, affordable housing turns out to be a private property through a valid transaction. Even though the affordable housing owner`s income is substantially increased, the welfare resource is still occupied by the owners. 10% charge of difference between commercial and affordable housing prices would not offset consumption of welfare resource when selling affordable housing in regular market.

(4) Uncontrollable floor plan, and incomplete services or facilities

Affordable Housing Program features “affordable” and “livable” that fulfills essential living condition. Regulation of Affordable Housing Pricing specifies the average of net floor area: 80 m<sup>2</sup>/household, up to 120 m<sup>2</sup>/household. The fact shows that a large number of for-sale affordable housing apartments exceeded 100 m<sup>2</sup>, and some others of 120 m<sup>2</sup> did exist in Affordable Housing Program. Threshold was established by large apartments that prevented low income households from advantage of affordable housing. Middle or high income population turned out actual buyers. Harbin Affordable Housing Projects normally had excessive FAR, inadequate daylighting, incomplete infrastructure and services. In addition to fitness center, gymnasium, bookstore, barbershop, services such as grocery, supermarket, dining, banking, pharmacy, and laundry have to be developed with affordable housing program so as to fulfill essential life quality.

## Recommendations

Improvement in land structure would enhance sustainability of Harbin Affordable Housing Program. The interaction between land supply and demand reveals economic activities, which particularly delivers impact on Harbin real estate industry. City government ought to reconfigure land structure and establish restrictions on land supply for commercial housing projects. As a major beneficiary, city government seems to be drawn attention to commercial housing due to significant land transfer fee, hence, affordable housing is commonly disregarded in respect of land supply. Supervision from upper level governments could be a straightforward solution to land use plan by stipulating a major task of housing supply for low-income population in lower level government`s administration. Legislation of Land Withdrawal created a legal process of retrieving undeveloped land lots from developers for the purpose of affordable housing supplement. Legitimacy of FAR rise for affordable housing project possesses a leverage impact on land scarcity and housing demand. With increased FAR, the government is capable to improve impact of Affordable Housing Program. Affordable housing requires specificity in building code as reference sources. Inconformity of building code causes jerry building diverting Affordable Housing Program from affordability and quality. Harbin city government is recommended to improve administrative structure, lower cost of construction and operation as to bring housing price down. Renowned companies may take advantage of their reputation and status in real estate industry to ensure quality and efficiency of large-scale affordable housing projects.

Site selection is at the focal point of cost reduction process. The site selection in Harbin Affordable Housing Program is subject to City Comprehensive Plan and Environment Evaluation. The site for affordable housing projects ought not to be formerly constructed massive floor structure considering demolition and resettlement cost. Floor height and building height are critical to project cost calculation. Generally, 10-centimeter decrease in floor height creates 1% reduction in building cost. Harbin Planning committee suggested 2.7-meter floor height and 7 or 8 stories for affordable housing construction. The utilities and infrastructures in the residential district contain electricity, water, sewage, heating, gas, cable etc. They are subject to several independent sectors with authority of implementation through design, construction and management. Municipal government is in charge of diminishing incoordination across the sectors, offering particular technical supports. Although developers take the responsibility of Pavement, green building, fencing, drainage system, and landscape architecture, Caps on design and construction expenditures are critical to cost control in Affordable Housing Program. Specific sectors or corporations are recommended for property management of Harbin affordable housing projects. The sector`s mission is to standardize planning, design, construction and building code across affordable housing projects to achieve efficient and quality property management.

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