

Doc Type	HA
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CONTENTS	<p>PAPER NO. HA 36/95</p> <p>THE HONG KONG HOUSING AUTHORITY</p> <p>Memorandum for the Housing Authority</p> <p>Report on Housing Authority's Visit to Beijing and Shanahai</p> <p>A delegation, led by the Chairman, the Hon Rosanna Wong, CBE JP, and comprising 13 other Housing Authority Members and three departmental staff, visited Beijing and Shanghai from 29 November 1994 to 4 December 1994. A copy of the Report on the visit is enclosed for Members' information.</p> <p>---O---O---O---</p> <p>File Ref.: CHA/PRP/2/13 Date : 30 June 1995</p> <p>BACKGROUND</p> <p>The Housing Authority (HA) first visited China in October 1991, and was deeply impressed by the achievements of the Construction Commissions in Beijing, Shanghai and Guangdong. Another HA delegation visited Shenzhen in March 1993 and the visit was of equal success. To gain further understanding on the latest housing development in Beijing and Shanghai, HA visited Beijing and Shanghai again in late 1994.</p> <p>THE VISIT</p> <p>2. The HA delegation comprised the following members, who visited Beijing and Shanghai from Tuesday 29 November 1994 to Sunday 4 December 1994 -</p> <p>Hon. Rosanna WONG Yick-ming, CBE, JP (Chairman and Leader) Mr FUNG Tung, OBE, JP (Director of Housing) Mr PAO Ping-wing, JP Hon HUI Yin-fat, OBE, JP Rev Sean Patrick BURKE, JP Mr Victor SO Hing-woh, JP Mr Hau Shui-pui Hon FUNG Kin-kee Mr Daniel LAM Chun Mr YEUNG Ka-sing Mr Authority WONG Luen-kin Mr Joseph CHOW Ming-kuen, JP Ms HO On-nei Mr WONG Sing-wah, OBE, JP (Secretary for Housing (Designate)) Mr HO Chung-cheung (Housing Manager)) Secretaries Ms Rosa LOK So-fun (Senior Architect)) to the Mr KO Kim-hung (Committee's Secretary)) Delegation Ms Tina LIEM Hoi-yin (Chinese Language Officer I), Official Interpreter Ms LEUNG Chiu-yin (Assistant Public Relation Officer), Official Public Relation Officer</p> <p>The Delegation was accompanied by Mr LI He-xie, Deputy Head of Foreign Affairs Department of Xinhua News Agency, who provided official escort throughout the visit. The programme included courtesy visit to the Municipal Governments of Beijing and Shanghai, and discussions with principal officials on the aspects of housing, planning, construction and management to exchange ideas on housing development and policies. Visits to some of the latest housing projects were arranged. A detailed itinerary is attached at Annex A.</p> <p>I. LAND AND HOUSING ADMINISTRATION IN CHINA</p> <p>3. Land Administration and Property Management in China are under two separate government offices, namely, the State Land Administration Bureau and the Ministry of Construction. Both offices are under the State Council of People's Republic of China and have their distinct area of responsibility, though in many respects their functions are interrelated. Other than these two offices, the municipal governments have a coordinating role in land administration, property management and housing construction within their municipalities.</p> <p>STATE LAND ADMINISTRATION BUREAU</p> <p>4. The State Land Administration Bureau was founded in 1986. It is an executive department of the State Council responsible for the formulation of unified nationwide land management and land policy (Annex B refers). Its main functions include :-</p> <p>(a) formulation of land policy, legislation and implementation procedures;</p> <p>(b) regulation of land supply, research on land demand and supply, and maintenance of related statistics and information;</p> <p>(c) land registration and ownership arbitration;</p> <p>(d) land development planning and its implementation;</p> <p>(e) land requisition, sales, allocation and leasing; and</p>

(f) land market administration.

MINISTRY OF CONSTRUCTION

5. The Ministry of Construction is under the State Council (Annex C refers). Its main responsibilities are :-

(a) formulation of policy and drafting of legislation relating to city/town planning and development, construction industry, real estate industry, engineering industry and urban services;

(b) establishment of performance standards in construction and engineering field;

(c) town planning and survey;

(d) monitoring of water and gas supply, public transport, urban services, landscaping, environmental hygiene and sewage; and

(e) administration of real estate industry, including transfer of lease, regulation of market, promotion of domestic flat production, housing system reform, urban renewal, property ownership registration and housing management work.

II. LAND FOR HOUSING DEVELOPMENT

6. Housing is in critical demand in China. Despite so, housing production is constrained by land supply, inadequate construction capital and high cost for clearance. Land disposal in China is made through negotiation, tender and recently public auction. They are one of the main responsibilities of the State Land Administration Bureau. Land supply based on demand forecast by the State Land Administration Bureau is limited and controlled. Following the booming economy, land supply lags behind demand.

7. Land speculation prevails, which is difficult to curb although land speculation is unhealthy for land market development. Often land was allocated through negotiation to a government subsidiary company, which subsequently transfers the land use right to a third party for profit. Such land transaction leads to the escalation of land price rapidly as experienced in Hai Nan Province. Administrative measures and legislations are therefore necessary to plug the loopholes. Coupled with Central Government's Macro-Economical Adjustment, the situation was being suppressed.

8. Other measures enforced since 1994 to address the problem include land re-entry by government, if left undeveloped for over one year after leasing, and prohibition of transfer before fulfillment of stipulated requirements on actual monetary investment and physical development of site.

PRESERVATION OF FARMLAND

9. Preservation of farmland is another headache of State Land Administration Bureau. To support a large nation as China, it is necessary to ensure adequacy of farmland for food production. However the prosperous land and real estate markets led to the conversion of farmland for other use, which is contrary to the Central Government's directive. There is an increasing concern of State Land Administration Bureau and every step is being taken to curb the problem.

III. LEGISLATION ON LAND MARKET ADMINISTRATION

10. China has just started with land market administration and recognized the need to introduce a proper legal framework. Such works require time and expertise before an effective legal system could be developed. The land market administration includes legislation on land transaction, land investment by foreign investors, land evaluation, land disposals, land survey and enforcement of related legislations.

REAL ESTATE MARKET ADMINISTRATION

11. Administration of the real estate market is under the Ministry of Construction. Capital investment on real estate in the past has been enormous. In 1991, the capital investment was 37.5 billion Yuan, which then built up to 150 billion yuan in 1993. There was a further net growth of some 55% in 1994. Real estate market is new in China and as in the case of land market, legal system is not entirely effective to put the market under proper control.

12. Many real estate developers are subsidiary of government offices at different tiers and fail to recognize the market need. As a result, commodity flats beyond the affordability of the people turn out to be the main stream of construction, while housing at-cost or with marginal profit is in serious shortage. Hotels are built in excess of actual demand. Some developers engage themselves into projects beyond their financial capability because they are over optimistic in assessing market demand. To overcome all these inherent problems currently exist in the real estate market, efforts need to be spent on establishing an effective legal system.

URBAN RENEWAL

13. In large cities as Beijing and Shanghai, large scale urban renewal programmes are underway to maximize the land resources. Large tract of land in the down town area is covered by single-storey dilapidated brick buildings. Through Urban Renewal Scheme, the municipal governments intended to replace the derelict areas with multi-storey buildings and improved facilities. Clearance is unavoidably a complicated task because people tend to seek local rehousing with larger flats and improved facilities. Obviously, such arrangement is always difficult. Yet upon clearance, the affected households will be rehoused to new flats of a space standards not less than 8 sq.m/person. More relaxed allocation is given to people who are willing to take up reception flats in remote sub-urban districts. Normally a threeperson family will be allocated with a two-bedrooms flat. On top of rehousing, cash allowance may be granted.

14. For owner-occupier premises affected by clearance, the owner will be compensated with a flat of equal size. For owners wishing to acquire a larger flat, extra space up to 5 sq.m will be provided free of charge. Additional space not exceeding 8 sq.m will be sold at at-cost price, while further additional space exceeding 8 sq.m will be sold at market price. Resistance to clearance is seldom because most affected households are satisfied with the prevailing arrangement. Persuasion is very useful in the tough cases and law enforcement as the last resort is extremely rare.

NEW DEVELOPMENT ZONE - PUDONG DEVELOPMENT

15. Alongside with urban renewal is the development of new town to cater for the needs of the ever expanding old cities. In Shanghai Pudong district is on the other side of Huang Pu River opposite to the old Shanghai town centre. To complement the urban renewals in the old Shanghai town centre, Pudong has been developing into a new financial, commercial and high-tech centre. Since some part of Pudong was used to be farmland, factories

and warehouses, the new financial, commercial and high-tech centre will be developed at areas with the least scale of clearance.

IV. HOUSING REFORM IN CHINA

16. Housing stocks in China are used to be owned predominantly by the Government. There are also housing owned by enterprises or corporation, who are responsible for the provision and allocation. Following the social and economical changes in the recent years, reform in housing system is found necessary to cope with the changes and to address the problems arisen.

HOUSING STANDARDS

17. Owing to the once torpid construction industry, housing is inadequate both in terms of quality and quantity in many places. Thus improvement in living condition and increase in housing provision are high on the agenda of the Government's housing mission. The Government aims to improve the housing standards by upgrading the current households standards below 2 sq.m/person across the country to 4 sq.m/person by 1997. At present, the average density in Peking and Shanghai is about 8 sq.m/person, and the target set for 1997 and 2000 is 14 sq.m/person and 20 sq.m/person respectively.

18. To meet people's rising aspiration, most of the new housing stocks are 50 to 60 sq.m, with 2 bedrooms and self-contained facilities. Some larger flats are designed with 3-bedrooms from 80 to 120 sq.m. Old housing stocks, which are sub-standard in facilities provision and in state of disrepair, will be demolished through urban renewal scheme. In Shanghai, it is targeted to reduce non-self-contained housing from the current 50% to 30% of the total stock by the year 2000.

RENT POLICY

19. Low return from rental income is one of the factors hindering capital re-investment into housing construction. On average, monthly rent is as low as 0.50 yuan per sq.m, and payment on rent for each household is just around 2% of the family income. Repairs, improvement and maintenance of basic services have to rely on heavy government subsidy which is not always available or just limited. It is necessary to carry out rent policy reform. In a meeting of the office of Leading Group for Housing Reform under the State Council in 1988, to establish a new housing policy including review of rent policy is one of the main targets of the Group. Rent adjustment is therefore introduced by stages, and by 2001, household expenditure on rent should be 15% of the family income.

COMMERCIAL PROPERTY

20. Currently, administration of non-domestic properties does not come under the Municipal Housing Administration Bureau. Hence revenue generated from non-domestic properties such as shop premises cannot be utilized to subsidize the deficit on domestic side. Take Shanghai for example, the revenue generated from shops in 1993 is over 200 million yuan whilst that from domestic housing is just 470 million yuan. This is not enough to cover the recurrent housing expenses, although stock of shopping premises is 8.3 million sq.m. in comparison to the domestic stock of 110 million sq.m. The current arrangement practiced by Hong Kong Housing Authority to make use of the income generated from commercial properties to fund further housing investment is considered to be an inspiring approach. China will explore its feasibility to adopt similar measure in order to generate more revenue for domestic housing construction.

ENCOURAGING HOME OWNERSHIP

21. To minimize the heavy subsidy and scale of commitment on rental housing, home ownership is highly encouraged in the recent years. Two prong approach is adopted, through the sale of newly constructed flats to selected classes of purchasers and the sale of existing housing stocks to the sitting occupiers.

22. New housing stock can be classified broadly into two main categories, namely, those for sale as commodities either in foreign or domestic market, and those to cater for home demand to solve housing need as rental housing or flats for sale. In Shanghai, 30% in value of the new housing production are sold as commodity flats to overseas Chinese, foreign investors and Chinese citizens who run their own business.

23. The remaining 70% in value of the new housing production are mainly allocated to families living in congested condition or sub-standard housing, those with housing entitlement through their employing organizations, and those affected by urban renewal schemes. To encourage home ownership in particular in the middle and lower income groups, new flats are sold at an almost at-cost price. In some cases, families with less income but affected by urban renewals scheme are given a right-to-buy. The rights can be transferred to other families in housing need so that the vacancies subsequently recovered can be used to rehouse the former.

24. Home ownership is also encouraged within the enterprises and corporation through staff loan and price discount. In 1993, a central provident fund scheme for housing was introduced with contribution rate at 5% to 10% of the monthly salary from both staff and employer side. This scheme provides financial resource for staff mortgage loan and also for capital investment into housing production. Flats built with fund provided by an organization to meet housing need of its staff will be sold at a very favourable price to staff. The discount rate depends on the length of service and the performance of the staff concerned. Housing normally priced at some 1,000 yuan per sq.m. might be sold as low as a quarter of the original price. The actual selling price of a 60 sq.m. flat will be around 15,000 yuan, which is approximately 36 months salary. Mortgage can be arranged up to 20 years to more. For example, in 1993, monthly repayment at an interest rate of 14% p.a. takes up about 15% to 20% of a family's income. This preferential treatment is also applicable to employees who wish to buy the quarters they presently occupy. Flats purchased in this manner cannot be sold in the open market in the initial five years. Upon resale after the limitation period, any profit obtained will go entirely to the owner. Under the encouragement scheme, some 15% of the housing stock has so far been sold and the figure was expected to rise to 20% by end 1994.

25. Although the scheme is popular, employees' organizations who are not enjoying prosperous business are not benefited due to the organizations' financial constrain to provide mortgage funding and capital for housing production. Moreover, the existing low rent level hampers the desire to own a flat because interest generated from the down-payment might already be adequate to cover the current rent.

"AN JU GONG CHENG (HOME SETTLEMENT ENGINEERING)" SCHEME

26. In addition to the above, the state owned development companies have developed a housing scheme named "An Ju Gong Cheng" (Home Settlement Engineering) The scheme is similar to the Home Ownership Scheme in Hong Kong and it is also open to overseas investors. Flats constructed are sold at cost or with minimal profit, and the land cost is not included into pricing calculation which looks primarily at the building cost and the purchasers' affordability. Land cost will be recovered as a surcharge tax when the flat is subsequently leased out or sold.

HOUSING BOND

27. To facilitate better cash flow for housing re-investment, from 1991 onwards, families in Shanghai who are allocated with rental housing are asked to buy housing bond. The interest rate of the housing bond is 3.5% p.a. and will mature in five years. The subscription rate is 50 yuan per sq.m of the allocated flat area. The response is good because the rental tenants are willing to contribute towards production of more housing. Moreover, rent is low in government funded rental housing in comparison to market rent.

HOUSING MANAGEMENT

28. Management of residential buildings, overwhelmingly owned directly or indirectly by Government, is used to be the responsibility of Municipal Housing Administration Bureau. With more multi-storey buildings coming up on the stream, many of which are mixed tenure, the role of professional housing management becomes more important.

29. Shanghai is one of the leading Chinese cities practising professional housing management. Housing management companies are introduced to take over the work of Housing Administration Bureau and work jointly with the government and the management committee. The appointment of housing management company is on contract term and contract renewal will depend on work performance.

FUTURE GOALS

30. Principal officials handling land and housing matters find an urgency to set up a comprehensive legal frame work to remove the grey areas and to plug the loopholes leading to the problems identified. To effectively administer the land market and real estate market is accorded with high priority in work, and so is provision of land and capital for further development. In Shanghai new offices will be set up to materialize these aims. There has been an office set up to integrate both land and housing administration in view of their close relationship. Another one will soon be set up to improve the administration of the housing provident fund.

31. Provision of more affordable housing will continue and ownership will be highly encouraged. The Government is intending to overcome the housing problem of the most needy families speedily, and to promote and introduce professional housing management across the nation.

MEMBERS' OBSERVATION AND COMMENTS

32. The Delegation was very impressed by the housing achievements in Beijing and Shanghai, and was enlightened by some of the experience in China. However the different political and socio-economical background and the incompatibility in the stages of housing development, it is inappropriate to attempt any direct comparison of the housing situation in China with that of Hong Kong. However in the visits made to the various housing organizations, new residential estate such as Kang Le Estate in Shanghai, and the new town development at Pudong, the achievement made by the Chinese housing counterparts is noticeable and admirable, in particular in the ensuing aspects.

HOME-OWNERSHIP

33. To encourage home ownership is an effective way to release the central government from the heavy burden on housing provision, and is highly advocated in China and Hong Kong. The various methods adopted in China is inspiring particularly the setting up of a housing provident fund scheme. Home ownership can also achieve stronger sense of belonging and promote participation in the management of building which enhances quality of management work. However in view of the differing context, the provident fund system of investing on housing is found not yet applicable to Hong Kong.

URBAN RENEWAL

34. The Chinese experience in urban renewal provides opportunity to review the problems encountered by and expectation of the affected families. Clearance work with scale as those carried out in Shanghai old town and Pudong would unlikely be found in Hong Kong, and experience sharing will lead to in-depth thoughts when similar situation arises.

OVERALL PLANNING AND COORDINATION

35. The problems encountered in China reminds the Delegate the need for an overall planning in housing programme, and close co-ordination among parties involved. The identification of working goals and the setting up of new legislations and offices to cope with actual demand is an encouraging move towards healthy development of both land and real estate market.

V. CONCLUSION

36. The Chinese officials bear an open attitude towards the housing matter. They treasure the experience in Hong Kong, Singapore and countries with advanced housing development, and are prepared to arrange mutual visits to strengthen communications.

37. Finally, the visit to China was a valuable experience in providing an opportunity for the housing personnel in China and Hong Kong to exchange views, promote mutual understanding and pave the way for further co-operation.