

The Study of Finance Mode on the Construction of Low-rent Housing in China

Liqin, Yan

Business School, University of Shanghai for Science and Technology, Shanghai 200093, China

Email: yanlq1990@163.com

Abstract: Housing problems have been one of puzzles which disturb Chinese residents. The construction of low-rent housing is used as an important measure adjusting the structure of housing. However, shortage of funds becomes the biggest bottleneck during the construction of low-rent housing. Our government shouldn't be the only funders but should act as multiple roles like owner of housing, guarantor of capital credit, provider of low-priced land, multi-party coordinator. The article analysis on present situation of low-rent housing and further propose appropriate finance mode on the basis of foreign experience.

Keywords: Low-rent Housing, Construction ,Finance Mode.

I. Introduction

Low-rent housing is the housing project which provided by state in a way of capital subsidies or directly housing rented in a relatively low price for low-income families, which meet minimum living standards and have difficulties in living. Whether in developed market economy countries or in emerging industrialized countries, there are special policies of housing subsidies for socially vulnerable groups.

In America, the solution to the living problem of low-income families is capital subsidies. When the low-income family rent low-rent housing, they should only pay 25% of the rent and the American government will pay lessor the rest. Compared with USA, the low-rent housing in French not only has a long history but also has an amazing quantity. There are almost a quarter French residents living in the low-rent housing. The central government pays all the cost during the construction but transfers its management to local government after its completion. The local low-rent housing management offices are responsible for renting, on the other side, making known to public and accepting public supervision.

1.1 Characteristic of low-rent housing system in china

1.1.1 Quasi-public goods

As social welfare, the low-rent housing has exclusivity with performance in preventing other income

groups to share this social welfare and competing in priority of renting between poverty groups. The low-rent housing has non-competition with performance in failing to solve housing shortage problems by price completion which will increase price and offset the welfare effects. Therefore, it's important to define groups who should get help from government which is responsible for guaranteeing rent in a low price.

1.1.2 Social security

In order to make up for deficiencies of market, the low-rent housing aims at helping the weak in market competition and relieving low-income groups. The lowest income families in the town who rely on social security can't afford commercial housing or even affordable housing.

1.1.3 Government-led

Our government plays an important role on national macro-controlling, which assumes the responsibility of building urban low-rent housing system. It not only provides law and policy support but also builds rational sources of funding and creates financial channel. The further important task is administrative management.

1.1.4 Non-profit

Its objective of construction is not for economic benefits but for social benefits. The government allocates land freely and reduces taxation greatly aimed at cut construction costs. Managers who are engaged in

planning and design, building, managing, maintenance service mustn't seek profits but should lower costs as possible as they can. Besides, the housing rent is regulated strictly by government.

It's widely known that the construction of low-rent housing is a big problem concerning huge numbers of families enjoying a good and prosperous life, which is also one of the most concerned about, most direct, and most realistic benefit problems of the mass people at present. Along with the large scale construction, where the money will come from remains the most serious problem to be solved.

II Current situation of low-rent housing construction in China

2.1 Analysis on funds demand of low-rent housing construction

2.1.1 Newly-constructed low-rent housing area

According to the national authority material prediction,

the urban housing area in the end of 2011 is 15.5 billion square meters. Meanwhile according to data from the sixth census released by the NBS, the data of the urban population is 665.6 million. So that per capita living space in urban is 23.29 square meters. 《Town lowest income family low-rent housing management measures》 sets a rule that the per capita low-rent housing space of town lowest income family is no more than 60% of local per capita living space. We can calculate the per capita low-rent housing space is about square meters. On the other hand, the number of people who enjoy the minimum living guarantee is about 22.687 million, most of which need government's help. If all of the low-rent housing is newly-built, the area we need is about $13.974 \times 2268.7 = 317.03$ million square meters. The data is only showing people who has been living in the town. If we take the crowd transferring from countryside to cities into consideration, the data will be unimaginable huge.

2.1.2 per unit area cost of newly-constructed low-rent housing

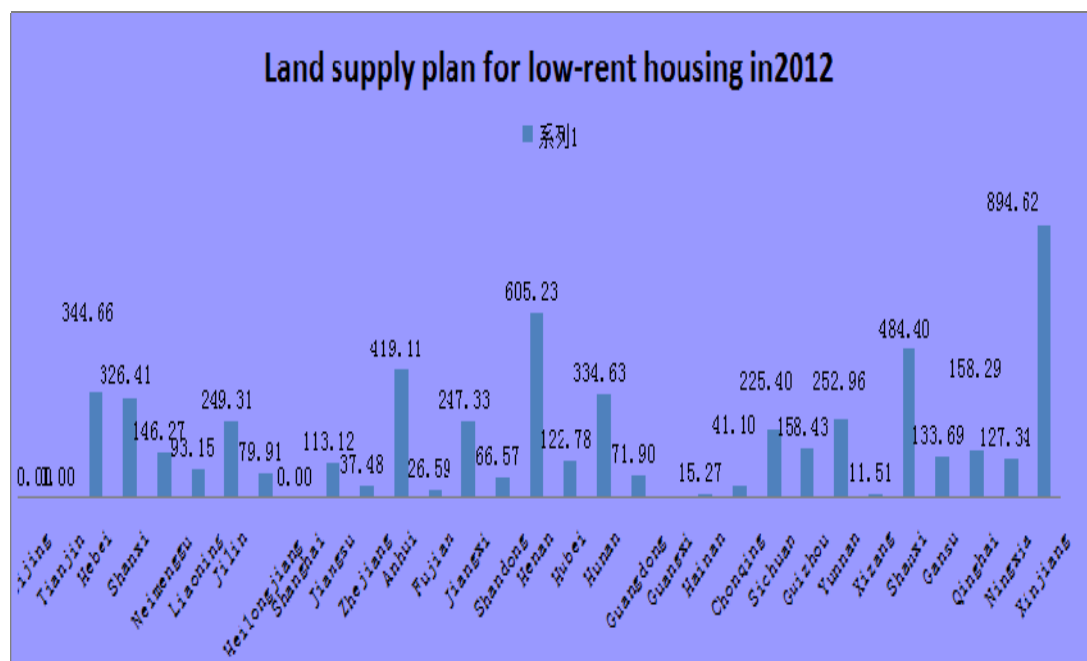


Figure1: The Land Supply Plan for Low-rent Housing of All Provinces in China

As can be seen from the graph, here is land supply plan for low-rent housing of 31 provinces. The highest area is 894.62 hectares and some big cities like Beijing, Shanghai has no plan for the low-rent housing construction. Even though, we take such situation out of consideration. Supposed that the land is provided by government free of charge or some commodity houses are divided into low-rent housing. So the cost of land is so low that we can even ignore it and the main question to consider is the cost of construction. According to the average level around the country, a small spaced household costs per square meter on average in 1795yuan or so, which means that our government should input 1795yuan one-time for per square.

2.1.3 Fund demand of newly-constructed low-rent housing

It's easy to draw a conclusion now that the total fund demand is in terms of physical subsidies. Faced with such big fund demand, our government is challenged if only depending on the current mode of financing.

2.2 Current sources of fund

2.2.1 Local Finance

Low-rent housing is part of public goods. The finance supply of government is naturally important to its

construction, but huge funds demand puts our financial sector on the spot. A deeper look says local governments lacking motivation is the result of Interests Game. Welfare houses under performance evaluation based on GDP does little to local finance in the interests and achievements aspects. Therefore, local governments often derive from the policy requirement of central government.

2.2.2 Land-transferring Fee

In 2011, Land-transferring fee of 130 cities all over the country is 1.86trillionyuan in total, 10% of which will be used for constructing housing, declined by 13.3% over the previous year. That is to say, 0.186trillionyuan can be occupied to relieve the huge financial gap. However, Land-transferring fee belongs to non-budgetary income so that it will leave a large operating space for local finance and cause Rent-Seeking Behavior.

2.2.3 Housing Provident Fund

Building Department statistics show that by the end of 2011, the total of housing provident fund is 2.1 trillion. Via its accumulation and management, housing provident fund can create added value. Inefficiency operation and collect difficulty in China, which leads to less benefits or inconsistent results.

2.2.4 Social Security and Social Donation

As low-rent housing is constructed for the poorest people in the country, social security funds are important source of funds. However, in recent years, social welfare funds have faced a period of slowing growth so that have little contribution to construction of low-rent housing. On the other hand, social donation, which can only be as an auxiliary tool, lacks stability.

III Strategic thinking of perfecting the financing source in China

3.1 analysis of BOT mode

BOT, namely a mode of building, operating, transferring, refers that government make an agreement with contractor through negotiation and transfer operating concessions of a project to investment enterprise, allow which to raise funds at a set time. During this time, the enterprise can operate projects meanwhile provide supporting service. Finally it gets profit to cover costs in the previous time up to the expiration date and transfers project to the government. Follow this approach, BOT mode can help government relieve burden of capital scarcity prior to the construction of low-rent housing and share investment risk. On the other hand, under BOT mode, projects are large in scale so that it can produce economies of scale, which lows the cost and attracts private capital easily.

3.2 analysis of REITS mode

Real estate investment trusts come from capital trust financing tool of America in 1960s. REITS substantially ramp up financing in the means of issuing income receipts taking organizational form of company or trust fund. Specialized investment institutions take responsible of managing real estate investment and distributing comprehensive income to investors in proportion. REITS is a kind of investment system which is specifically used for the real estate industry and collect spread money with expertise and professional management. Under this mode, housing industry chamber of commerce purchases housing in the town through the relevant channels to raise funds. Real Estate Investment Trust is a typical form of securitization of real estate asset, which mostly occurred at the mature stage of real estate market and finance market, to give real estate strong liquidity. Besides, it's easy for investors to join in or out. The rent of low-rent housing is so stable and the risk is so low that have great appeal to those who tend to sound investment.

3.3 analysis of PFI mode

Private Finance Initiative was put forward by John Major's government in 1982, which aimed at providing infrastructure services in the system of public-private partnership. It means that government takes measures to allow private sector have chance to construct infrastructure and produce public goods. PFI mode is a new output mode of building up basic infrastructure, which have changed traditional mode undertaking only by government. Private sector undertake the responsibility of building and the government undertake the managing. Such cooperation contributes to realize resource allocation optimization, maximum efficiency and output maximization.

PFI mode raise funds according to expected returns and government support, taking the assets of private enterprise or private consortium as loan security. The source to pay the debts capital come from direct investment income and the government support income. It can solve the problem of capital shortage in the use of private capital, relieve burden of early stage, reduce debt ratio. The government and private sector can also work together and do a feasibility study on the construction. Through control its operation efficiently, the construction period is shorted and financial risk is eliminated.

IV Conclusion

It's unshakable responsibility of our government to provide affordable housing for low and moderate-income groups. Sound housing security system is the main component of social security system, and also a precondition of building a harmonious society. The construction of low-rent housing is an effective way of reducing real estate bubble. Housing security with focus on low-rent housing system for the urban low-income families has been an important part of China's housing system reform. Enhancing information management and improving access to financing are the main urgent question to solve for the current subsidized rental

housing systems.

In accordance with Chinese characteristics of low-rent housing construction, we must combine the social capital with government help and make use of the multi-channel financing mode.

Reference

- [1] Huang Xuhui, Study on Financing Mode of the Low-rent Housing in China", Chongqing University. (2008).56-58.
- [2] Yi Zhong .“Urban low-rent housing problems and countermeasures”, Productivity Study. (2007),77-78.
- [3] Zhang Yuxin and Liu Wei. Study on Low-rent House's Financing Channels-Application of BOT", Economic Tribune. 7(2007)54-55.

[4] Hu Jinxing and Lu Ya. Study on The Situation, Problems and Countermeasures of Low-rent House's Financing Channels in China, China Real Estate Finance. 8(2009)12-14.

[5] Huang Chengjuan. Study on financing mode of low-rent housing, Economy and Management. 22(2008)94-97.

Vitae

Liqin, Yan, was born in 1990, in Anhui province, China. She is studying for her Master degree majoring in Finance in University of Shanghai for Science and Technology.