

## **Part III**

# **Rebuilding residential space**



## 9 Residential redevelopment and social impacts in Beijing

*Hyun Bang Shin*

Nowadays, people say that high-level cadres live around the second ring road, while paupers live around the fifth or sixth ring road . . .

(A resident subject to displacement from an inner city neighborhood)

### Introduction

The ongoing reform practices in mainland China have dictated profound socioeconomic and political changes, altering the way of living for many urbanites. Housing reform and urban redevelopment were at the center of these changes, governing urban residents' housing consumption practices and transforming dilapidated neighborhoods into a modern, commoditized space. In social terms, urban redevelopment focuses largely on those dilapidated neighborhoods where residents have been increasingly marginalized in the process of implementing housing reform. Since the 1980s, various reform measures were centered on the promotion of homeownership through the commodification of urban housing (Wang and Murie 1999a; Zhou and Logan 2002). These included subsidized sale of public rental dwellings and new commercial units. Employees in state enterprises and institutions that could maneuver their budgets for such expenditure mostly benefited from the sale. Those residents in dilapidated neighborhoods, however, were excluded from enjoying such benefits. Dwellings therein were often too run-down to be considered for any subsidized sales. Most dwellings were owned by municipal housing bureaus or work units that were financially too weak to provide their employees with dwellings of better standard. Dilapidated neighborhoods were often loci of urban poverty as residents "remained in a peripheral position in the state occupation-based welfare system" (Wu 2004: 415). In short, those dilapidated neighborhoods have become the "space of marginality" in the midst of the reform process, eventually being subject to wholesale redevelopment and displacement.

In terms of urban development, such neighborhoods illustrate a different picture. They have been increasingly recognized by real estate developers for their valuable development potential (Wu 2002). This was possible with the implementation of urban land reform that allowed the transfer of land-use rights for commercial development (Zhang 1997). In Beijing, most redevelopment neighborhoods are

located in and around the inner city districts that have become the major loci of domestic and international business and financial activities (Gaubatz 2005).

For those residents in dilapidated neighborhoods, residential redevelopment seems to provide differing degree of opportunities and costs. How likely is it for the residents to find an affordable house in the market after their displacement? What constraints would they face when entering the housing market for the first time? Does the whole process of redevelopment and displacement shed any light on our understanding of the housing reform and spatial changes? Based on the findings from a case study of a redevelopment neighborhood, this chapter argues that residential redevelopment is successful in transforming dilapidated neighborhoods into a more profitable space; that the residents therein are effectively pushed towards the urban periphery upon displacement; that it is much less likely for future displacees to become owner-occupiers due to various policy and market constraints; and that their marginal position in both social and spatial terms is predicted to continue.

## **Housing reform and residential redevelopment**

### ***Housing reform and the promotion of homeownership***

Housing reform was introduced with an emphasis on sharing responsibilities between the state, enterprises and employees to diversify sources of investment (Li 2005). A strong emphasis was placed on introducing market components in the housing sector so that housing was no longer treated as a welfare good but as a commodity (Zhou and Logan 2002). The promotion of homeownership was at the center of these reform policies. Homeownership was thought to release the state and underperforming state enterprises from their overstretched burden of welfare provision, and transfer the responsibility to the individuals. It largely progressed on dual tracks: first, the supply of commercial and affordable housing; and second, the privatization of existing public rental dwellings.

First, relatively better-off households were directed toward the commercial and affordable housing sectors. The latter (known as *jingji shiyongfang*) was supplied at a lower price than commercial housing, this reduction being made possible through various government subsidies to developers (e.g. tax redemption) (Lee 2000). In general, households whose income fell into the top 20 percent of the income deciles distribution were expected to buy commercial housing at full market price. Those households whose income was above the lowest 20 percent were considered as potential buyers of both commercial and affordable housing. Over the years, the sales volume of new residential units to individuals in urban China has increased substantially. According to the National Bureau of Statistics, 88 percent of urban housing sold in 2000 went to individuals instead of institutions, the sales volume reaching 295.4 billion yuan (People's Daily 2001). In 2002, Beijing also witnessed a high rate of market participation by individuals in housing purchase: 97 percent of 16 million sq. mtr of residential dwelling space sold in the market was bought by individuals (Beijing Municipal Bureau of Statistics 2003).

Second, the homeownership rate has also increased through the privatization of public rental dwellings, which were sold to sitting tenants at a discounted price based on employees' work history and ranks. The privatization was emphasized by the State Council as an essential component of housing reform policies. Throughout the 1990s, the sales volume had been rising steadily, and a big push came in 1998 when all kinds of welfare housing allocation were terminated. A case study on three cities, by Huang, found that nearly half of the homeowners became such in 1998, suggesting that many urban residents rushed into the queue for subsidized sales in order to "catch the last train" of welfare housing allocation (Huang 2004: 62–63). In August 2002, the then Deputy Minister of the Ministry of Construction was proud to announce that "since the mid-1990s, 80 percent of China's public housing has been sold to local residents" (Xinhua News Agency 2002).

In Beijing, the concentration of government institutions hampered the rise of homeownership during the early years of housing reform, but homeownership has been on the increase noticeably since 1998. Surveys by the municipal statistical bureau indicate that the proportion of owner-occupiers was just over 20 percent in 1998, but had reached 54.1 percent by 2001. The proportion of public rental tenants in 2001 was 44.5 percent (Beijing Municipal Bureau of Statistics 2002). It appears that the prereform dominance of public rental tenure has shifted towards a polarized system of owner occupation and public rental tenure. Private rental tenure was marginal and constituted less than 2 percent of the sample population. Although the strengthening of reform measures in the housing sector was intended to create diversity in the existing tenure structure, this much hoped for outcome seemed to have occurred only within the owner occupation sector, which was divided into homeownership with full and partial property rights. Although the public rental sector in Beijing occupies an important position in the tenure structure, its long-term prospects are not promising due to increasing urban redevelopment that replaces public rental units with commercial flats.

#### *Deteriorating housing conditions in inner city districts*

By 1978, the housing conditions in cities were in need of urgent attention. Per capita living space had declined from 4.5 sq. mtr in 1952 to 3.6 sq. mtr in 1978 (Kirkby 1990: 295). Despite the increased housing investment during the early years of reform implementation, the conditions of older dwellings in cities worsened. One of the major problems was the lack of maintenance and management funds. For instance, in Beijing, the maintenance and management fees in 1987 were, on average, 0.46 and 0.10 yuan per sq. mtr, respectively. The average rent of dwellings, however, was 0.11 yuan per sq. mtr in 1987, and the rent for *pingfang* dwellings was even lower, causing further deterioration due to near negligence (Sun and Zhang 1989: 7).

In Beijing, according to a nationwide survey on urban housing conditions in 1985, more than half of the residents (52.7 percent) did not have a private kitchen (Fan 1989). Nearly two-thirds (62.7 percent) had no access to private toilets, and only half (49 percent) had in-house tap water connection. Beijing's per capita floor

space turned out to be 8.77 sq. mtr, placing the capital city as one of the regions with the worst conditions. One quarter of Beijing residents were classified as the housing poor, and the incidence of “housing poverty” was much more severe in inner city districts (Fan 1989: 32–33).<sup>1</sup>

### ***Implementation of the Old and Dilapidated Housing Redevelopment Program***

In 1991, the Beijing municipal government issued a plan to demolish and redevelop old and dilapidated dwellings. The specific program to initiate this work was known as the “Old and Dilapidated Housing Redevelopment Program” (hereafter ODHRP). The core idea behind it was to bring in real estate developers as the main financiers and project implementers, while local authorities provided administrative support. This was seen as an inevitable solution to the severity of dilapidated housing problems and the limits of public finance. According to Sun and Zhang (1989: 7), the total investment necessary to redevelop old and dilapidated dwellings in the Old City of Beijing in 1989 would be “more than 200 percent of total urban housing investment in the Old City since the Liberation.”

The turning point was the speech by the mayor of Beijing on April 30, 1990, which emphasized the ripening opportunity for the redevelopment of inner city districts (Beijing Municipal Government 1990). It was stressed that a series of new estate developments in suburban districts was providing new dwellings that could be used for the relocation of inner city residents. In the ODHRP, demolition and wholesale redevelopment was the main method of transforming old and dilapidated neighborhoods. High-rise flats and commercial buildings were favored as the end products. To facilitate the program, an ODHRP office was opened at the municipal government to supervise and support the overall process. Furthermore, the municipal government set aside 200 million yuan to lend to those four inner city districts (namely Dongcheng, Xicheng, Chongwen, and Xuanwu), which were to receive particular attention due to the severity of their housing problems.

The progress of the ODHRP was also facilitated by land-use reform since the late 1980s, which created favorable conditions for real estate investment. Legislation such as the 1988 Amendment to the Constitution and the Land Administration Law enabled dealing in land-use rights, leading to the establishment of a property market (Fang and Zhang 2003: 150). Furthermore, local governments in mainland China were given greater decision-making powers, and more incentives through fiscal reform, to manage and proceed with local investment to meet their regional needs and achieve local economic growth (Wei 1996). The sale of land-use rights by the municipal government was an effective means for securing extra-budgetary revenues to invest in elements of the urban infrastructure such as motorways, metro connection, electricity and water supply, all of which required immediate public intervention for the benefit of the growing population and economy.

By 1999, the number of ODHRP projects reached 279 (Fang and Zhang 2003). An official estimation suggested that by the end of 1999 160,900 households were displaced, of which 43.8 percent (70,500 households) were relocated elsewhere,

and 29.8 percent (48,000 households) rehoused (UCCBMPPCC *et al.* 2003). Between 2001 and 2005, it was reported that Beijing anticipated that another 340,000 households would be displaced as part of urban redevelopment projects (People's Daily 2002). Considering the number of inner city residents (Beijing Municipal Bureau of Statistics 2003), the scale of displacement indicated that approximately 14 percent would be affected by the redevelopment.

### **Field research and data collection**

The discussion in this chapter is based on the author's research data collected from a series of field visits to Beijing in 2002 and 2003. The field research took place in Dongcheng, one of the inner city districts of Beijing. Within the district, a neighborhood called Xinzhongjie was selected as the main case study area. Xinzhongjie lies across the Workers' Stadium outside the eastern section of Beijing's second ring road. The dwellings subjected to redevelopment in Xinzhongjie showed the typical characteristics of old and dilapidated dwellings found in other redevelopment neighborhoods in Beijing (Figure 9.1). According to the director of the Dongzhimen street office that administered Xinzhongjie, most dwellings found in Xinzhongjie were public rental housing. The privatization of existing public housing units was not applied to these dwellings, as their condition was too dilapidated for them to be considered appropriate for such transfer of ownership.

The redevelopment of Xinzhongjie was phased in, presenting ample opportunities for examining the differing degrees of impact upon residents due to changing compensation policies. Xinzhongjie's first phase redevelopment started at the end of 1999 and was completed early 2002. In total, 550 households were displaced.<sup>2</sup> The end product of this first phase redevelopment was a commercial housing estate



*Figure 9.1* A cul-de-sac in Xinzhongjie's second phase redevelopment area.

Source: Photo by Hyun Bang Shin.



*Figure 9.2* The Sun City Estate, the end-product of Xinzhongjie's first phase redevelopment.  
Source: Photo by Hyun Bang Shin.

called the Sun City Estate (*Yangguang Dushi*) (Figure 9.2). At the time the author interviewed local residents, the second phase redevelopment was yet to be implemented. A household survey was undertaken in May 2003 by the developers in coordination with the local authority in order to estimate each household's level of compensation. Therefore, the remaining Xinzhongjie residents had all the reasons to anticipate demolition and redevelopment in the near future.

The research conducted was essentially qualitative, focusing on neighborhood conditions and residents' experiences under different compensation policies. For this chapter, the interviews with local officials and eighteen households were analyzed against the backdrop of housing and redevelopment policies in Beijing. The interviewed residents consisted of three different groups. The first consisted of those who were still residing in Xinzhongjie, awaiting displacement in the near



future as part of the second phase redevelopment. The second comprised those who were displaced from Xinzhongjie as part of the first phase redevelopment. The third group consisted of those who were displaced from other redevelopment neighborhoods near Xinzhongjie within Dongcheng district. They were recruited to supplement the diversity of displacement experiences.<sup>3</sup>

## **The compensation practice in redevelopment**

### ***From in-kind to monetarized redevelopment compensation***

Since 1991, residents displaced from redevelopment neighborhoods have been compensated in accordance with the State Council's Ordinance on the Management of Urban Housing Demolition and Relocation (hereafter 1991 State Council Ordinance). It called for in-kind compensation, combined with cash compensation if necessary, when residents were to become subject to demolition and relocation. Developers in charge were to provide rehousing or relocation dwellings elsewhere, guaranteeing the continuation of residents' existing tenure in a relocation dwelling. Such practice, however, led to high project costs and low profitability, eventually becoming a hindrance to the rapid expansion of redevelopment programs (Dowall 1994; Leaf 1995).

A major revision took place in 1998. While the 1991 State Council Ordinance was still in its place, the Beijing municipal government produced a revised compensation policy by announcing the implementation of the Measure for the Management of Urban Housing Demolition and Relocation (hereafter 1998 Compensation Measure). It became effective as of 01 December 1998 (Beijing Municipal Government 1998a). The key to this revision was the monetarization of redevelopment compensation by taking two factors into consideration: the number of registered household members, and formal dwelling space. The 1998 Compensation Measure did not rule out off-site relocation or on-site rehousing, but, in its actual implementation, cash-based compensation was accepted as the norm under the new regulation, as an official explained:

The biggest difference was that [redevelopment compensation] was not based on the allocation of relocation dwelling. All was monetarized... It also took the household element into consideration, but it mainly considered dwelling space . . .

(Official from the Displacement and Relocation Department,  
Dongcheng district government)

Under the 1998 Compensation Measure, households were more likely to receive a larger amount of compensation if their household size was larger, and if they occupied a bigger dwelling space. Only those who were formally registered as Beijing residents were eligible for compensation. Informal self-built space was in principle not subject to compensation. If a household lived in a non-self-contained unit with no indoor kitchen or toilet facilities, the household was entitled to the

receipt of an additional space subsidy of 25 sq. mtr (Beijing Municipal Government 1998b). For instance, when the 1998 Compensation Measure was applied, a three-person household living in a non-self-contained dwelling with a construction space of 20 sq. mtr would have received around 300,000 yuan as cash compensation upon displacement (see Table 9.3 later in this chapter for more details on the calculation method). For an average Beijing household whose annual household disposable income reached 37,391.7 yuan in 2002 (Beijing Municipal Bureau of Statistics 2003), this would be equivalent to nearly eight years' accumulation of their household income.

### ***Rehousing difficulties***

Due to the poor conditions of their dwellings public rental tenants in redevelopment neighborhoods were excluded from taking part in the privatization process that swept the nation in the 1990s. When redevelopment takes place in their neighborhoods, residents would aspire to homeownership, as one of the interviewees vividly explained:

It's always no good to rent. In the end, you place this burden on your children, and it's not realistic either. Still want to have a place of one's own regardless of the size.

(Middle-aged female in Xinzhongjie, subject to displacement)

Given the practice of monetarized redevelopment compensation, did the displaced residents manage to use the compensation to stay in their neighborhood and join the rank of homeowners upon redevelopment? The scale of displacement and the high prices of redeveloped flats in central Beijing suggests that this was not easy. A vivid example of how the compensation limits displacees' transfer to homeownership in inner city districts is the case of Xinzhongjie's first phase redevelopment that resulted in the construction of the Sun City Estate. As noted earlier, among the 550 households displaced from the neighborhood, only twenty of them were rehoused upon project completion – a rehousing rate of less than 4 percent.

At the planning stage, in-kind allocation of dwelling units was considered for residents' relocation, but the announcement of the 1998 Compensation Measure influenced the final decision to adopt cash-based compensation. This meant that those displaced residents had to buy a redeveloped flat on-site if they wished to be rehoused. The full market price of a redeveloped flat averaged 8,200 yuan per sq. mtr, but those returning residents were given a preferential price of 5,500 yuan per sq. mtr. This price, however, appears to have been still too high for most residents. The rehoused households interviewed by the author purchased two-bedroom flats with a construction space of between 107 and 116 sq. mtr. To purchase a 107 sq. mtr flat at full market price, would cost 880,000 yuan. For average Beijing households, the price-to-income ratio (hereafter PIR) would reach as high as 25 to 1, making it difficult for them to buy a flat in the Sun City Estate. As for those rehousing households, the discounted price of the same flat would be 588,500 yuan, one-third cheaper than its full market price. This, however, would still lead

to a PIR of about 28 to 1, as the displaced residents' annual disposable income was significantly lower than that of average Beijing households.<sup>4</sup> Given the high PIR, it was not surprising at all that few original residents returned to the neighborhood upon project completion. The Director of Dongzhimen Street Office recollected:

While carrying out the first phase of redevelopment [of Xinzhongjie], our original estimate was that about 10 to 20 per cent [of the existing residents] would be able to return, but the final result was that the number was not as many as expected. At the time of initiating [this project], it was to demolish and carry out in-kind compensation. Afterwards, it was based on cash. In between, the policies have changed many times. I feel the policies change a bit too rapidly.

(Director of Dongzhimen Street Office)

### ***Suburbanization of displaced residents***

Given the inability of displaced residents to purchase redeveloped flats for rehousing, the remaining option was to use their cash compensation to finance homeownership elsewhere. There were no available official statistics or registration data to reveal where the residents relocated, but interviews with some of the displaced households and neighborhood committee leaders all suggest that most residents moved to near suburban or outer suburban districts outside the fourth ring road. One of the Xinzhongjie neighborhood committee leaders recollected:

At the time of displacement [as part of the neighborhood's first phase redevelopment], after real estate developers heard about the news, they all came, each of them with a coach, pulling us into the car to take us to view their houses. So, for a while, because it was free of charge, all the residents got on the car everyday, taking a view of those houses, checking out which area has more convenient transportation, whether the sales price is relatively affordable, etc...[At that time] so many companies came. They came...from all over the city, but mostly from the [near and outer suburban] northeast, because we are geographically located at the north-eastern corner of the city ...

(Xinzhongjie neighborhood committee leader)

In fact, the displaced residents were confronted with the acute affordability problem experienced in inner city districts. Table 9.1 summarizes the PIRs of commercial housing at various locations in Beijing by taking into account the annual household disposable income. According to the table, an average Beijing household would have to pay almost 20 years' accumulation of their household disposable income to buy a 80 sq. mtr self-contained commercial flat. In particular, the average housing price was highest within the second ring road, and dropped away toward suburban areas. The PIR outside the fourth ring road for an average household turned out to be 7.7 to 1, less than half of what it was within the second ring road. The displaced residents, having much lower incomes, experienced higher PIRs.

*Table 9.1* Commercial housing prices and household income in Beijing

<i>Location</i>	<i>Average price<sup>a</sup> (as of July 2001)</i>	<i>Interviewed residents</i>	<i>Beijing households</i>	
<i>Annual household disposable income (in 2002, yuan)</i>		<i>Average (N = 13) 21,003.7</i>	<i>Average 37,391.7</i>	<i>Bottom 20% of income decile 19,384.0</i>
Beijing as a whole	381,680	18.2 : 1	10.2 : 1	19.7 : 1
Within the second ring road	620,240	29.5 : 1	16.6 : 1	32.0 : 1
Between the second and third ring roads	561,600	26.7 : 1	15.0 : 1	29.0 : 1
Between the third and fourth ring roads	414,480	19.7 : 1	11.1 : 1	21.4 : 1
Outside the fourth ring road	288,000	13.7 : 1	7.7 : 1	14.9 : 1

Sources: Household interviews by the author in 2003; Beijing Municipal Bureau of Statistics (2003); Xia (2002).

Note

a The average sale price of commercial housing in Beijing was based on the data produced by the National Statistical Bureau of China (Xia 2002), applied to a self-contained flat with a 80-square-meter construction space which was the average size of dwellings purchased by the interviewed households upon displacement.

The excessively high prices of commercial flats in central Beijing meant that most displaced residents from inner city districts had no choice but to move to near or outer suburban districts. This becomes more evident when the housing prices in Table 9.1 are compared with the cash compensation displaced residents actually received (Table 9.2). The interviewed residents received cash compensation which was 5 to 13 times the average annual household disposable income in Beijing (or 14 to 41 times the reported disposable annual household income of the interviewees), but the compensation was still far short of financing homeownership in central Beijing. Most interviewees were unable to find additional resources to bridge the affordability gap, and, thus unable to reap the benefits of their neighborhood redevelopment, were driven out of their neighborhoods to make way for more affluent members of society.

### Constraints upon displacees

The previous section so far has focused on the affordability problem in the commercial housing sector in Beijing. There are, however, additional constraints that place greater pressure upon residents, further preventing them from staying in central Beijing and becoming owner-occupiers upon displacement. These constraints include the reduced cash compensation since 2001, high prices in the affordable

Table 9.2 Cash compensation received and housing price paid by displaced interviewees

Interviewees	Displaced date	Reported annual household disposable income (yuan) <sup>①</sup>	Cash compensation		Housing price paid (yuan)
			Total (yuan) <sup>②</sup>	Proportion to reported income ②/①	
Moved to a near suburban estate	Dec. 1999	n.a.	340,000	n.a.	315,000
	Jan. 2000	n.a.	275,000	n.a.	310,000
	Jan. 2000	19,800	300,000	15	320,000
Moved to an outer suburban estate	May 2001	20,400	280,000	14	210,000
	May 2001	5,040	205,000	41	210,000
	May 2001	17,448	490,000	28	215,000
Re-housed in the Sun City Estate	Jan. 2000	n.a.	295,000	n.a.	535,500
	Jan. 2000	n.a.	n.a.	n.a.	580,000
Temporary residence after displacement	Dec. 2002	29,640	296,000	10	n.a.

Source: Household interviews by the author in 2003.

Note

a 37,391.7 yuan was the annual disposable household income by the end of 2002 in Beijing (Beijing Municipal Bureau of Statistics 2003: 179).

housing sector, limited formal financial opportunities, and the increased housing costs in redeveloped flats.

***Reduced cash compensation since 2001***

The 1998 Compensation Measure allowed developers and local authorities to go ahead with cash-based compensation instead of more time-consuming and expensive relocation of existing residents. In May 2001, the municipal government revised its compensation criteria (hereafter 2001 Compensation Measure), which stipulated that the estimation of compensation should be based solely on two factors: first, the construction space of one's formal dwelling; and second, the market-appraisal value of the occupied land (Beijing Municipal Government 2001a, 2001b):

The purpose of this [that is, 2001 Compensation Measure] is to follow the principle of market appraisal value. In other words, the dwelling space and the market appraisal value determine how much one gets. Basically, there is an evaluation company that completes the appraisal and submits a report to the Displacement and Relocation Department of the Housing Management Bureau. One copy is also given to the displacee.

(Official from the Displacement and Relocation Department,  
Dongcheng district government)

The 2001 Compensation Measure would lighten the burden on developers by decreasing the total costs of residents' displacement and relocation at the expense of residents' benefits. Table 9.3 shows how much the total compensation would be reduced under the new measure when the 2001 Compensation Measure was applied to three-person households in non self-contained dwellings of different sizes. It suggests that the application of the 2001 Compensation Measure would result in as much as a 36 percent reduction of the total compensation. The table also shows clearly that the rate of reduction would be greater for those in smaller dwellings, disadvantaging those who had been allocated smaller dwellings in the prereform era.

***Unaffordable "affordable housing" sector***

The affordability problem in Beijing also engulfs the affordable housing sector, which was originally proposed by the government to make homeownership more affordable for low- and middle-income households. Affordable housing had its roots in the "comfort housing" (known as *anjufang*) program in the mid-1990s, and commenced in 1999 with the aim of building flats on government-allocated lands. A set of preferential policies, such as tax reduction, were implemented to set the sale price within the range of between 2,400 and 4,450 yuan per sq. mtr. In general, the price of an affordable housing flat was set to be 600 yuan lower than the price of other commercial flats nearby (China Daily 2001). The

Table 9.3 Estimation of redevelopment compensation as per 1998 and 2001

Policy Doc.	Calculation method	Compensation	Non self-contained dwelling for a three person household with a construction space of		
			20 m <sup>2</sup>	30 m <sup>2</sup>	40 m <sup>2</sup>
1998 Compensation Measure	Cash compensation = ① + ②5) × ③ <sup>a</sup> ①: Dwelling construction space ②: Space subsidy for a non self-contained unit ③: Compensation unit price, determined by the local government	(① + 25) × 6300 <sup>a</sup>	283,500	346,500	409,500
2001 Compensation Measure	Cash compensation = ① × (② + ③ × K) + ④ ①: Dwelling construction space ②: Base dwelling price ③: Base land price ④: Building replacement value K : Plot ratio adjustment co-efficient Rate of reduction (compared to the 1998 Compensation Measure)	① × (1,000 + 5,600 × 1.3) + (24,255/29.66 × ①) <sup>b</sup>	181,955	272,933	363,910
			36%	21%	11%

Note

a The compensation unit price (6,300 yuan per square meter) was taken from an official at the Displacement and Relocation Department, Dongcheng district government.  
 b The values for ②, ③, ④ and K were from the compensation contract provided by an interviewee who was in temporary residence after displacement at the end of 2002. In the case of building replacement value ④, the author assumed for the sake of simplicity that the building replacement value was in linear proportion to the dwelling space. The building replacement value of the 29.66 square-meter dwelling occupied by the interviewee before displacement was 24,255 yuan.

sale price of affordable housing was regulated by local governments, and differed from one district to another. In the case of Dongcheng district, according to a local housing official interviewed, its price in 2003 was 5,000 yuan per sq. mtr. For an affordable housing unit with a 70 sq. mtr construction space, the sale price would be equivalent to about 10 years' average household disposable income.

Major affordable housing sites were mostly located in outer suburban districts, and their availability within and around the second ring road was limited (People's Daily 2000). Moreover, although the total number of affordable housing flats completed between 1999 and 2002 in Beijing reached 71,731 units, this could only benefit less than three per cent of 2,472,000 households registered within inner and near suburban districts (Beijing Municipal Bureau of Statistics 2002, 2003). Such limited supply of affordable housing stock spurred severe competition among Beijing residents (People's Daily 2001). Furthermore, the affordability problem in the affordable housing sector was fuelled by the developers' practice of building more spacious flats. The amount of profit a developer could retain from affordable housing development was set by the central government regulation at a fixed rate of three per cent of total housing costs (People's Daily 2000). Because of this, developers were lured into supplying more spacious flats in order to increase the transaction volume. For instance, the average construction space of an affordable housing unit turned out to be 95.3 sq. mtr in 1999, but had increased to 110.9 sq. mtr by 2002 (Beijing Municipal Bureau of Statistics 2002, 2003: 133).

#### ***Limits with formal financial opportunities***

With the emergence and development of the housing finance system in mainland China, one would assume that the affordability gap could be addressed by housing loans. This requires a brief discussion of the Housing Provident Fund (hereafter HPF), which has been the backbone of mainland China's new housing finance system since its inception in Shanghai in 1991. The HPF receives monetary contributions from both employers and employees (World Bank 1992: 30–32). The HPF account holders are eligible to withdraw their accumulated funds when they retire or upon making a down-payment on a new house as a first-time buyer.

The HPF, however, has been criticized as having a serious equity problem. It is very much employer-based, which meant that those in nonregular jobs or out of work would be likely be excluded. Workers with underperforming employers were also unlikely to receive employers' contributions, thus having their access denied (Rosen and Ross 2000). Moreover, because the contribution to the HPF is based on a fixed rate, the growing wage gaps in the labor market would lead to a situation in which a higher income earner would enjoy a higher contribution from his or her employer (Lee 2000).

When it comes to home buying, HPF account holders, if eligible, would be able to apply for HPF housing loans (Rosen and Ross 2000). This has been a completely new experience for urban residents in mainland China. To be eligible, an applicant must have a stable job and income, and have kept the HPF account for at least the preceding 12 months. The applicant must have also made contributions to the



account consecutively during the last 6 months before making a loan application. Furthermore, before submitting a loan application, the applicant must have made a down-payment of at least 20 percent of the full price of a dwelling (*Beijing Daily* 2003). HPF housing loans thus provided are on preferential terms with lower interest rates (about 1 percent lower in 2002), offering advantages over commercial bank loans.

The HPF housing mortgage, however, would still be too much of a burden upon low-income households. According to the mortgage conditions at the China Construction Bank, for instance, for borrowing 100,000 yuan over a 15-year loan period at an annual percentage rate of 4.05 percent, an applicant would have to repay 742 yuan each month. This would be equivalent to about one quarter of the average monthly household disposable income in Beijing; but for those in the bottom 20 percent of the income decile distribution, the monthly repayment would reach three quarters of their household disposable income. It would also be a burden upon average Beijing residents if they were to become owner-occupiers by purchasing a new dwelling in central Beijing, where housing prices are far more expensive than elsewhere.

Reflecting such circumstances, a housing mortgage was regarded as an “unrealistic” option by displacees in redevelopment neighborhoods, as some of the interviewees from Xinzhongjie explicitly stated:

Who would provide you with mortgage? No way to take out a loan. ... My husband doesn't have a job, and I don't have one either. It's for sure that they wouldn't grant us any mortgage. I've never thought of that. Don't you ever say mortgage again!

(Middle-aged female in Xinzhongjie, subject to displacement)

Where would I get a loan from? Once you retire, then nobody gives you loan. If I have to get a loan, the only way is to depend on my elder son [who has a HPF account]. My second son doesn't have a job, and the third son is laid off. They all can't apply for a loan.

(Retired couple in Xinzhongjie, subject to displacement)

Such concerns would be more prevalent if displaced residents did not have regular employees among their cohabiting household members; were dependent on the social safety net (i.e. Minimum Livelihood Security System); and did not have HPF account holders within the household either (see Table 9.4). In fact, when the interviewed households' occupational structure was examined, 16 per cent of all the household members (excluding students and children under schooling age) were found to be either laid-off or unemployed, and 27 percent, retired. The proportion of household members engaged in temporary or informal employment reached 20 percent.<sup>5</sup> Under these circumstances, many families would be unlikely to have employer-based HPF accounts and creditable income-generating activities, and therefore likely to experience difficulties in accessing the formal loans or housing mortgage opportunities that favor those with proven credit records.

*Table 9.4* Household circumstances of Xinzhongjie residents subject to displacement in relation to their opportunities for housing loans

<i>Number of households responded</i>	<i>Regular employee(s) among co-habiting household members?</i>	<i>Minimum Livelihood Security System beneficiaries?</i>	<i>Any Housing Provident Fund account holder(s) among co-habiting household members?</i>	<i>Any expectation for formal housing loan?</i>
Yes	4	6	3	0
No	5	3	6	8
n.a.	0	0	0	1

Source: Household interviews by the author in Beijing in 2003.

### ***Increased housing expenditure***

Those interviewed households subject to displacement reported that their monthly rents averaged less than two per cent of their monthly household disposable income. This was much lower than reform policies anticipated. While the reform measures aimed at increasing the level of rent to reach 15 percent of household income, the rent level in Beijing had not risen to meet this target. The standard rent in the public housing sector at the beginning of reform policies in the late 1980s was 0.11 yuan per sq. mtr. It was increased to 1.3 yuan in 1999, and was further increased to 3.05 yuan per sq. mtr as of 01 April 2000, but this still constituted only about 6.3 percent of the interviewed households' monthly disposable income (China Daily 2000a, 2000b).

While the residents expressed their desire to become homeowners to maintain their housing security, life as owner-occupiers in modern flats would require far more increased expenditure. Given the low level of household income and rents they experienced while residing in dilapidated public rental units, the increased monthly housing costs might turn out to undermine their ability to maintain their homeownership in the future. An interviewee who moved to a walk-up flat in an outer suburban district commented:

[Before displacement] we didn't have to spend much. Our rent was just over thirty yuan, and water and electricity bills were cheaper there. Now, things are not well. At the moment, I'm telling you, I just don't have the three hundred yuan [to pay for the bills]. I just don't eat or drink, but no three hundred yuan, and that's embarrassing.

(Female retiree, moved to an outer suburban estate after displacement)

In order to examine how much pressure housing costs might have exerted upon residents after moving from their old neighborhoods, Table 9.5 made a summary of monthly housing costs incurred by the interviewed households in comparison

Table 9.5 Monthly housing costs and their proportion to household disposable income

Interviewees	Household disposable income (yuan) ①	Monthly housing costs reported by interviewees			Heating <sup>c</sup>	% of household disposable income ②/①	% of Beijing's average household disposable income <sup>d</sup>
		Total (yuan) ②	Rent or management fee <sup>a</sup>	Utility bills <sup>b</sup>			
Moved to suburban districts	4 households 1,306	375	51	179	145	28.7%	12.0%
Re-housed in the Sun City Estate	2 households n.a.	834	391	155	289	n.a.	26.8%
Displaced and in temporary residence	1 household 2,470	525	0	300	225	21.3%	16.8%
Ximzhongjie residents subject to displacement	7 households 1,866	216	28	149	39	11.6%	6.9%

Source: Household interviews by the author in 2003

Notes

a Monthly management fees for the households re-housed or moved to suburban districts.

b Utility bills include electricity, water and gas bills.

c For the households re-housed or moved to suburban districts, this refers to the annual central heating costs, divided by twelve months.

d 3,116 yuan per household in 2002 (Beijing Municipal Bureau of Statistics 2003).

with their reported household income. The table only includes those households whose housing costs and monthly household disposable income were all reported to the author during the interviews.

In the case of households who were still residing in dilapidated dwellings in Xinzhongjie, the total housing costs incurred each month were on average 11.6 percent of their reported monthly household disposable income and 6.9 percent of Beijing's average monthly household disposable income in 2002. As for the households relocated to suburban districts, they experienced a significant increase in housing costs. The total housing costs of those four interviewee households constituted on average 28.7 percent of their monthly household income.

The proportion of housing costs to Beijing's average monthly household disposable income was highest in the case of those two households rehoused in the Sun City Estate. As mentioned earlier, these households are the wealthiest among the residents displaced as part of Xinzhongjie's first phase redevelopment. However, even for them, the monthly housing costs in redeveloped flats were beyond expectation. The high cost of living in the Sun City Estate caused most of the 20 rehoused households subsequently to leave the Sun City Estate. By August 2003, about 18 months after their rehousing, only six families remained in the estate, and they were also considering moving out in the near future.

## **Conclusion**

Urban redevelopment in mainland China has been transforming dilapidated dwellings in prime locations into commercial flats, attracting wealthier sections of the urban population. Displaced local residents were in principle guaranteed a relocation dwelling in which they could continue their existing tenure and maintain housing security (before 1998) or offered cash compensation to become owner-occupiers elsewhere (since 1998). Homeownership, however, involved displacement to suburban estates. Inner city residents in dilapidated neighborhoods found it extremely difficult to be rehoused under the monetarized compensation policy. Most commercial flats, especially in central Beijing, were affordable only to the high income groups of urban residents (Wang and Murie 1999a, 1999b; Wu 2002). For some displacees, suburban relocation might enable them to sustain their financial assets (i.e. redevelopment compensation) in the form of property assets (i.e. homeownership), which could then be used at a later stage as a bulwark (e.g. collateral) against any potential economic difficulties. For many others who became subject to displacement since 2001, this would no longer be applicable.

The new environment since the implementation of the 2001 Compensation Measure undermined residents' homeownership aspiration and their housing security. The new policy effectively reduced the total cash compensation, imposing harsher constraints upon public sector tenants who were facing entry into the housing market. Given the high prices in both commercial and affordable housing sectors, one alternative for the displacees would be to look for a private rental unit. This option, however, was also very much restricted due to the underdevelopment of the private rental market. As of 2001, private rental tenure was marginal in Beijing's tenure

structure. One of the major reasons was the prohibition of resales or subletting for a certain period in the case of those properties with partial property rights. For instance, affordable housing was prohibited from resale or letting to a third party for a government-designated period (until homeowners gained full property rights) (Ministry of Construction China 1995, 1999). The same rule applied to those privatized former public housing units. The Ministry of Construction also prohibited subletting or leasing of state allocated public rental housing and any of those old and dilapidated housing units subject to redevelopment. Given the restricted supply of affordable rental units, private renting in inner city districts was often beyond the reach of most local residents.

In the reform process of realigning the role of the state, employers and individuals in housing provision, local governments and real estate developers have reaped the benefits of extensive urban redevelopment by generating revenues, “modernizing” cityscape and making development profits. In contrast, poorer sections of the urban population have become increasingly vulnerable in terms of financing and securing dwellings in the housing market. The development of the housing finance system (e.g. housing mortgage and employment-based Housing Provident Fund) would in principle fill the affordability gap and enhance poor residents’ purchasing power, but their weak socioeconomic status keeps them from making use of such opportunities. With the shrinking public housing sector, residential redevelopment could no longer serve as a pathway to homeownership but simply force an exit to the much constrained private rental sector. This, however, could only be a short-term solution, as the limited income of poorer residents and their weak position in the urban labor market would pose a threat to their prolonged exposure in a private rental sector that demands much higher rents than the public rental sector.

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### **Notes**

- 1 See Hong (1993) for the definition of “housing poor.”
- 2 Unless otherwise stated, the information on the status and progress of Xinzhongjie redevelopment is from the web site of the Dongcheng district government, and also from the author’s interviews with local officials and a former manager closely associated with the developer in charge of Xinzhongjie’s first phase redevelopment.
- 3 The recruitment of residents for in-depth interviews was designed to maximize the opportunity to learn about the redevelopment processes and residents’ differentiated displacement experiences unfolded in local contexts. For this, the author tried to ensure,

within the local constraints, the diversity of recruited residents in terms of their household income, employment status, and displacement and rehousing status. In this way, the research aimed at acquiring a comprehensive picture of the problems faced by local residents upon displacement, enriching our understanding of the social impact of Beijing's residential redevelopment.

- 4 Interviewees were asked to provide the actual disposable income of each cohabiting household member. This income mainly referred to the regular income, including monthly salaries if employed, social insurance and security benefits (if in receipt of such), and any other income generated from informal jobs claimed to have been engaged in. It is possible that income might have been underreported by the survey not being able to identify incomes from any concealed informal activities or financial support from social networks (e.g. next of kin). The reported income, however, would still serve the purpose of allowing comparison between relative differences in living expenses before and after displacement from dilapidated neighborhoods.
- 5 The high incidence of unemployment was characteristic of Xinzhongjie neighborhood. As of March 2002, the summary record of household registration data supplied by the neighborhood committee indicated that 29 percent of all the residents (excluding students and children under schooling age) turned out to have retired, and 10 percent lost their jobs by being laid-off or unemployed. This was in contrast with the official unemployment rate of Beijing, which was reported to be only 1.18 percent by the end of 2001 (Beijing Municipal Government 2002: 216).

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