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Housing Choices and Changing Residential Patterns in Transitional Urban China

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## **1. Housing Choices and Changing Residential Patterns in Transitional Urban China**

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### **Abstract**

Aiming to introduce market mechanisms to an administratively managed and heavily subsidized housing system, the ongoing housing reform in urban China has brought dramatic changes in housing provision and consumption. Chinese households have started to enjoy freedom of housing choice that was not possible in socialist China. Yet, their choices are constrained because of the transitional nature of the current housing system where both institutional forces and market mechanisms operate. It is the goal of this research to examine how these two types of forces interact and how households make their housing choices in the transitional housing system. In contrast to the economic and socio-demographic perspectives on housing choices in the Western literature, I argue that a framework incorporating social relationships between the state, work units and employees is needed to understand households' housing choice in transitional urban China. Associated with housing choices, the homogenous residential pattern in socialist China is gradually changing and a residential sorting is in process. It is also my goal to study the change of residential patterns and its dynamics in urban China.

Four research questions are proposed: (1) What kinds of individual and household characteristics affect housing choice, and how relevant are the existing Western theories? (2) What are the roles of work units in housing choice in transitional urban China? (3) What is the role of the central state in constraining housing choice in transitional urban China? (4) Is a new form of residential pattern emerging? What factors contribute to the change of residential patterns and how relevant are the existing Western theories? A complementary methodology combining both quantitative and qualitative analyses, both national studies and case studies will be employed. The data include a national survey data, in-depth interviews in three cities, and archival data such as housing policies and housing statistics. A multi-level logistic model will be used to examine individual, household, work unit level and state level factors affecting households' housing choices, and maps on residential patterns will be created.

## **Introduction**

In socialist China, urban housing was considered a welfare benefit, which was mainly provided at nominal rents by work units and municipal housing bureaus. Although they benefited from the low costs, urban residents had few housing choices and had to wait for subsidized rental housing (also called "public housing") in a long queue based on a set of criteria (e.g. seniority, job rank and marital status). Correspondingly, the urban space has been organized around work-unit compounds (Gaubatz 1995) with little spatial and socio-economic differentiation. Thus Chinese cities in the socialist era were characterized by the lack of housing choices and homogeneity of residential patterns.

Housing reform was designed to introduce market mechanisms to the welfare-oriented housing system. The nature of housing in urban China is in the process of being transformed from a welfare good to a commodity, and households are given certain freedom to choose different types of housing and tenures (Tolley 1991). By providing housing choices, housing reform is also breaking the traditional residential landscape based on work units, and a spatial sorting of neighborhoods is in process. Yet, while a housing market is emerging, the institutional forces in the housing system persist. A dual system with "new policies for new housing stock, old methods for the old housing stock" (State Council 1998) is promoted to ensure a smooth transition. It is this combination of market mechanisms and institutional forces that creates the transitional nature of China's current housing system and sets a unique context for households to act.

My dissertation aims to study how the emerging market system works in China in comparison to models in the West, and how this market system interacts with the continuing institutional factors in the housing system. While most existing research studies macro aspects of housing system in China, such as housing provision (Tolley 1991), housing problems (Zhang 1998), and housing policies (Lee 1988), my research will focus on individual behaviors in the transitional housing market – housing choices – and their social and spatial impact on the urban landscape. Western literature on housing choice and residential patterns are not applicable in transitional urban China because they assume the freedom of housing choice and consider housing as a commodity. Different from the economic and socio-demographic approach in Western literature, I propose a framework based on the social relationships between key actors

in the housing system, such as the state, work units and households, for a better understanding of housing choice in transitional urban China.

### **Theoretical Issues in the Chinese Housing System**

The transitional housing system in China, characterized by the coexistence of institutional forces and market mechanisms, embeds a different set of social relationships between major actors in the housing system and sets a unique context for households to make choice.

First, the social relationship between employees and work units in the transitional economy has been changing away from previous symbiotic and interdependent relationship in socialist economies towards a simpler wage-based economic relationship in market economies. The previous interdependency between employees and work units is characterized by work units' responsibilities of providing cheap housing, stable employment and other services to exchange for employees' low wage and loyalty (see Figure 1 at end).

Though the housing relationship between employers and employees is weakening with the ongoing reform, employees are unwilling to give up their "right" for subsidized housing, which imposes pressure on work units to continue their responsibility for cheap housing. Several temporary methods have been employed by work units to balance the subtle relationship during transitional era. 1) Housing vouchers are issued to compensate increasing rent for work unit provided housing (Wang 1996: 2) Work unit provided housing is sold to employees at heavily subsidized prices; 3) Monetary housing subsidies (*zhu fang bu tie*) are issued for households to purchase housing (State Council 1998); 4) Housing fund (*zhu fang gong ji jing*) is created to help households purchase housing (State Council 1999: 5) Work units buy commodity housing at market prices and then distribute them to their employees with subsidies. These practices are testimonies of continuing, though changing, interdependent relationship between employers and employees, which is shaping residents' ideology and behavior of housing consumption.

Second, the changing social relationship between the central state and work units also affect individual's housing choice. In the socialist housing system, the central state allocated housing investment among work units and the latter served as the managers of state funded housing (Wu 1996). In the transitional period, the state no longer provides housing investment and work units are now responsible for housing investment out of their own budgets. Thus work units with

more resources are able to provide more and cheaper housing to their employees, and employees in these work units are unlikely to turn to other types of housing such as commodity housing. In contrast, employees who are unfortunately working in "poor" work units with little housing resources have no choice but to turn to the "private" housing market for shelter. The discontinuity of the central state as housing investor signifies the role of work units and thus affects households' housing choice, which may lead to work unit-wide pattern of housing choice.

Third, though the state is no longer a housing provider, it still directly affects households' housing choice through policies such as those on property rights and housing consumption. While the property rights of homeowners are limited and ambiguous, the rights enjoyed by renters of public housing are far more than tenant rights such that some call them *de factor* owners (Tolley 1991). Without clearly defined property rights, residents' tenure shift from renting to owning is likely to be constrained. In addition, though households begin to enjoy housing options, the freedom of their housing choice is limited by policies such as those on the requirements of accessing public housing (e.g. holding local urban *hukou* and being employed in state-run enterprises and government agencies).

With the unique social relationships between work units, the state and employees, a multi-layer housing system is formed in urban China (see Figure 2 at end). While work units continue to provide housing, private developers are becoming more important. They provide commodity housing not only directly to households but also to work units who then distribute them to their employees with subsidies. This process of transforming commodity housing into "public housing" integrates the public and the private housing sector. Furthermore, institutional forces operate together with market mechanisms within both the public and private sector. In the private sector, only a part of commodity housing is sold at market price targeting high-income households, while the rest is sold at government controlled price – called affordable housing (*jing ji shi yong fang*) – targeting low-medium income households with local urban *hukou*. In the public sector, cheap rental housing (*lian zu fang*) is welfare oriented housing, whose rent is controlled by the local government to meet the housing needs of households with minimum income and housing consumption. Yet, the majority of public housing is subject to the impact of market forces. Tenure choice is granted to sitting tenants and housing price is increasing. Thus

the interaction of institutional forces and market mechanism has created different housing ranging from market-oriented commodity housing to welfare-oriented cheap rental housing to meet the needs of different households. Yet, households' housing choice is constrained not only by affordability but also institutional forces such as *hukou* and work units.

Fourth, residential patterns in transitional urban China are also different from those in the market economies. While income is becoming a major force for residential separation as is true in the West, institutional factors such as work units and housing policies are also shaping residential patterns in urban China. On the one hand, households who are able to afford expensive commodity housing can choose preferred neighborhoods and thus create and re-enforce the formation of affluent neighborhoods. The emergence of gated wealthy communities is a sign of emerging residential segregation based on socio-economic status. On the other hand, work units continue to play a significant role in shaping residential patterns through building or purchasing housing for their employees. Work units with high housing budgets can choose better locations for their housing, while those with low budgets have to choose places with cheaper land. In addition, housing policies, ranging from housing investment to policies on consumption (e.g. requirement of local urban *hukou*) will also shape residential patterns.

### **Research Questions**

Based on above framework, the following research questions are proposed.

1) *What kinds of individual and household characteristics affect housing choice, and How relevant are the existing Western theories?*

I will evaluate the effects of demographic and socio-economic factors on housing choice in urban China and compare the results to Western models. I will also examine the effects of institutional factors, such as households' *hukou* status and their relationship with work units, on housing choices. In urban China, though the demographic and socio-economic factors are becoming more and more important, the institutional factors are expected be more influential on households' housing choice.

2) *What are the roles of work units and municipal government in housing choice in transitional urban China?*

While the central state sets the framework for housing reform, it is the work unit and local

government who design the specific reform programs for housing under their jurisdiction. In addition, the resources work units/municipal government have can affect their ability to subsidize and provide housing to their employees. Thus, households linked to different work units/municipal governments may have quite different housing consumption behavior. I wish to evaluate the roles of these agents in households' housing choice. It is expected that households associated with work units with more housing resources and work units who had and have maintained strong social relationship with their employees are likely to make their choices within public housing sector.

3) *What is the role of the state in constraining housing choice in transitional urban China?*

I wish to evaluate the effect of state housing polices on housing choice. Policies such as those on permission for homeownership, the end of subsidized housing and those on *hukou* system and property rights, could significantly affect households' housing consumption behavior. I also wish to evaluate state policies on allocating resources (e.g. land and loans) to developers and work units, through which the state can influence housing provision in different sectors, types and regions, and set up the context from which households are making choices. I wish to argue that though the introduction of market mechanism has brought certain degree of freedom of housing choice, the state has a significant role in constraining housing choice through policies and resource allocation.

4) *Is a new form of residential pattern emerging? What factors contribute to the change of residential patterns and how relevant are the existing Western theories?*

I wish to map the current residential landscape in Chinese cities and compare it to that before housing reform. I will also examine the driving forces for the change of residential patterns. It is expected that both market-oriented forces such as income and institutional factors such as work units as housing provider contribute to the formation of residential patterns with the former becoming stronger and the latter weaker.

## Methodology and Data

I propose a methodology combining qualitative and quantitative methods, national studies and case studies of cities to understand households housing behavior in transitional urban China. Different types of complementary data, including a national survey, in-depth field interviews and archival data such as government policies and housing statistics will be utilized. A multi-level logistic model will be applied to the survey data to examine factors affecting housing choices, which is expected to answer the first three research questions. The model is listed as following:  $H = f(i, h, w, s)$

Dependent variable (H) is housing choices. It includes owning private housing, owning public housing, renting public housing, renting private housing, and others.

Independent variables have four levels:

- Individual level (i): including individual's demographic (age, marital status, education), economic (income, occupation), and institutional (*hukou*, migration status, job rank, party membership) variables.
- Household level (h): including household's demographic (spouse's and parents' education, number of workers), economic (family members' occupation, family income, family business; family property), and institutional (family members' *hukou*, migration status, job rank, party membership).
- Work unit level (w): includes the size, type and rank of the work unit, the welfare benefits and housing subsidies the work unit offers to its employees.
- State/City level (s): includes housing investment, housing policies, per capita income, per capita housing consumption.

In addition, a list of housing address, together with type of housing, size and average price, is obtained from the Ministry of Construction (*jian she bu*), which will be used to map residential landscape. The spatial separation of different types of housing will serve as an indicator of residential separation.



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	Socialist Economies	Transitional Economies	Market Economies
<b>Goal</b>	Welfare benefit, no profit	Privatization, equality and profit	Profit
<b>Supplier</b>	Work unit, the state	Work unit, the state, private agents	Private agents
<b>Ownership</b>	Mainly state owned	Increasing share of private owned	Mainly private owned
<b>Rationing mechanism</b>	Point system based on seniority, job rank, marital status, family size etc.	Point system AND price	Price
<b>Tenure</b>	Mainly subsidized rental, some private owned, no private rental	Increasing share of private owned and rental, decreasing share of subsidized rental	Private rental and owned
<b>Mobility</b>	Very low	Medium	High
<b>Landscape</b>	Work unit compounds, little socio-economic differentiation	Work unit compounds; certain degree of residential separation; emergence of gated affluent communities and migrant enclaves	Residential segregation based on income, race, and tenure; central city-suburban contrast

Figure 1 Housing Systems in Different Societies



