

Towards an inclusive and developmental housing regime in Chinese megacities? Evidence from the implementation of the Affordable Rental Housing Programme in Shanghai

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Abstract

Affordable Rental Housing (ARH) is the latest social rental housing programme proposed by the Chinese government, which forms part of the social housing system and is primarily designed to alleviate the housing difficulties of the inflowing new citizens and young people in megacities, thus moving towards a developmental housing regime. Focusing on the implementing process of the ARH program in Shanghai, this study observed the location of ARH in the housing system, the project types, provision mode, spatial distribution, and affordability of ARH, then explored the tensions between the government and stakeholders through the conceptual lens of governance structure. This study enriches the conceptual and empirical understanding of ARH in China and enriches the understanding of housing regime transformation in China.

Keywords housing regime; rental housing system; affordable rental housing (ARH); public rental housing (PRH); Shanghai

1. Introduction

It has been long argued that the East Asia region is embarking on the so-called 'productivism welfare regime', however, certain East Asian societies such as Singapore witnessed the emergence of a developmental welfare regime. More recently, some scholars considered an ongoing transformation from a productivist housing regime to a more inclusive and developmental housing regime in China since 2016 when the central government encouraged the simultaneous development of the rental and sales markets. Particularly since 2020, the Affordable Rental Housing (ARH) programme was initiated as one of the three programmes that make up China's current social housing system, the housing regime transformation has become a debatable issue, stimulating debate over whether China is moving towards a more inclusive and developmental housing regime.

Esping-Andersen's "Worlds of Welfare Capitalism" has provided a powerful framework for comparative welfare state analysis (Esping-Andersen, 1990, Esping-Andersen, 1999). Upon this, Holliday introduced a fourth "productivist" welfare regime, which has subsequently become dominant in explanations of social policy and welfare system development in the more recently

industrialized East Asian economies(Holliday, 2000, p.706-723). The productivist welfare regime is characterized by the subordination of social policy to the overarching goal of economic growth. It entails minimal social rights that are contingent upon productive activity, the strengthening of productive elements, and the growth-oriented relationships among the state, market, and family (Holliday, 2000, p.706-723, Kim, 2015). But recently, scholars suggested Singapore as a developmental welfare regime. In the developmental regime, universal social investment underpins welfare provision, and social policy has proven to be an effective instrument for averting economic crises (Kwon, 2005, p.477-497). The developmental welfare regime offers a conceptual formula that goes beyond facilitating economic growth and aims to promote the simultaneous integration of economic and social development through significant social investment(Midgley and Tang, 2001, p.244-252).

The salience of the housing system to the welfare regime has been widely recognized in comparative research(Zhou and Ronald, 2017, p.253-276), and researchers have increasingly considered state approaches to housing as a welfare regime pillar(Kemeny, 2001, p.53-70, Ronald and Kyung, 2013, p.452-474). The housing regime refers to a typology of systems of power, which is determined by varying degrees of corporatism in economic and political decision-making. According to Kemeny's application of Esping Andersen's approach to housing systems, the main characteristics defining housing regimes are related to the rental sector, and the basic distinction lies between dualistic and integrated (or unitary) rental systems(Kemeny, 2006, p.1-18). Societies with a dominant homeownership culture exhibit a 'dual rental market', where the private sector is strictly means-tested and always restricted to the poor. In contrast, countries with a 'unitary social rental market' have both private and public sectors operating under the same institutional arrangements and competing with each other. The dual system tends to marginalize renting, whereas the unitary system presents renting as a competitive alternative to homeownership. Singapore and Germany are widely considered as typical representatives of the unitary rental system. Some Chinese scholars suggested ARH programme will be an effective approach to compete with the private sector, which may help to turn China's rental system from a dualistic to a unitary system and shift from productivist welfare to a developmental welfare regime(Chen et al., 2014, p.534-550).

There has been a considerable amount of research related to China's rental housing system, housing regime, and long-term rental apartments (Lin, 2018, p.96-105, Chen et al., 2022, p.105442, He and Chang, 2020, p.592-616, Huang et al., 2021, p.102967, Li and He, 2023, p.1-25, Li et al., 2023, p.102715). A few researches are focusing on the emerging ARH programme in China(Li and He, 2023, p.1-25). However, as the newest rental housing project proposed by the central government, the implementation process of the ARH programme has received insufficient scholarly attention, particularly the roles of various agencies and several modes of governance in producing ARH.

Focusing on the implementing process of the ARH programme in Shanghai, this study observed the tensions and contradictions between the central and the local government and then explored the transition of provision modes in two stages through the conceptual lens of governance structure, to understand local government's adaptive strategies, which strive to balance top-

down political pressure with local fiscal interests, and the dilemma for different stakeholders.

The paper proceeds in a number of subsequent parts. The following section reviews China's housing system evolution in the past 30 years and the characteristics of ARH such as relevant policies, its concept, and target groups, and then locates ARH in China's current housing system. Section 3 introduces the methodology of qualitative and quantitative analysis of the ARH programme in Shanghai. This is followed by ARH provision modes in Shanghai, including two major provision modes, the spatial distribution of ARH projects and the affordability through in-depth field investigation. Section 5 aims to explain the institutional and governance transition of ARH provision in Shanghai through the conceptual lens of governance structure. The final section concludes the above empirical findings and considers how our findings and analysis of China contribute to theoretical debates on housing regime transformation.

2. Locating ARH in Chinese Housing System

2.1 Housing Regime Evolution in China

Before 1998, China's housing system was undoubtedly a productivist housing regime. Housing, as a basic benefit, was provided by State-owned work units to house their employees and was allocated based on hierarchy. By the 1980s the housing system was able to cover more than 90% of the urban labor force (and dependents) through public housing (Gu, 2001, p.91-111). This was like other socialist economies where low-cost housing functioned as a form of social wage (Huber and Stephens, 2010). Beginning in 1998, China completely abolished welfare housing and began to encourage market ownership housing and its financialization, in response to the 1997 Asian financial crisis. The transformation of urban housing from a welfare good to a commodity good greatly helped drive a consumption boom and economic prosperity in urban China. Local state revenue from the sale of residential housing land has played a crucial role in financing urban infrastructure investment since the 1998 reform (Man, 2011). This seems to be a shift from a productivist welfare regime to a liberal welfare regime. Under these circumstances and institutional arrangements, local governments were reluctant to implement large-scale public housing programmes.

The Economic Comfortable Housing (ECH) programme, which began in 1994 and was cancelled in 2013, was a national housing guarantee scheme designed to promote homeownership among low-middle-income households but has been flexibly implemented by local governments as a housing allocation for key workers¹. The Cheap Rental Housing (CRH) programme, which started in 1998, had a very limited supply and was strictly limited to the poorest local citizens with serious living difficulties.

Between 2000 and 2010, the Chinese government's efforts in the housing security system

¹ Key workers Normally defined as providers of essential local (usually public) services whose pay cannot be adjusted to reflect variations in the local cost of living – particularly in the cost of housing. Essentially public sector workers on national pay scales; most commonly teachers, nurses and police officers but who is included can vary between authorities.

included two other kinds. One is Capped Price Housing (CPH), which is targeted at middle-income households, and the sale price is set at around 70-75% level of comparable nearby market housing. The other one is Shanty Town Renovation Housing (SRH), which is reserved for households relocated due to urban renovation projects.

Public Rental Housing (PRH), which was started in 2010, aimed to accommodate a fifth of the Chinese urban population by 2015, as a significant progress in China's housing system. While CRH covers only the poorest local households, PRH is targeted at both low- and middle-income households who cannot afford decent housing at the market price and is accessible by not only permanent residents but also migrant workers. In 2014, the CRH was merged into PRH.

However, China still had a predominantly ownership housing system until then, with rental markets mainly existing in mega-cities with an inflowing population, and mainly consisting of the private rental sector. Public housing was substantially downgraded to a supportive role in the whole housing system (Chen et al., 2014, p.534-550). However, with the rapidly increasing market housing purchase and investment, the incredibly high housing prices exclude new citizens² and migrant workers, which may restrict the industrial development of mega-cities in China, and make home purchases increasingly unaffordable for low- and middle-income households. In 2016, President Xi Jinping asserted a new fundamental principle for housing policy, emphasizing that 'housing is for living, not for speculation' (Xinhua News, 2016³). For the first time, the Central Government has proposed the development of a housing rental market and the establishment of a housing system that combines renting and purchasing. To facilitate the simultaneous development of the rental and sales markets, the State Council (SC) and the Ministry of Housing and Urban-Rural Development (MHURD) issued a series of policies, with the intention of cultivating the private rental sector and accelerating the provision of long-term rental apartment (LRA).

The years from 2016 to 2019 witnessed China's central government supporting the construction of rental housing, guiding local governments to increase the supply of rental housing through a variety of approaches, including the construction of rental housing on new construction land, the compulsory allocation of rental housing in new market housing projects, and the conversion of idle and inefficiently utilized industrial plants and commercial office buildings into rental housing. A large amount of LRAs invested by market institutions have emerged. However, LRA was facing a crisis in China due to unsound financial regulation, and a considerable amount of literature has already examined in detail the rapid growth of LRAs in China in those years, and the broken capital chains and bankruptcies of LRA companies.

As a result, starting in 2020, China's central government proposed to carry out the construction of the affordable rental housing (ARH) programme, which aims to provide adequate and

2 The term 'new citizens' mainly refers to individuals who have relocated to cities for permanent residence due to factors such as employment, entrepreneurship, children's schooling, or seeking refuge with children.

3 Xinhua News. (2016). Housing is for living, not for speculation. http://www.gov.cn/zhengce/2016-12/16/content_5149066.htm.

affordable rental housing. For the first time, the national state clarified the top-level design of China's social housing system, put forward the construction of a social housing system with PRH, ARH, and Shared Ownership Housing (SOH) as the mainstay, and clarified the basic system of ARH and the relevant support policies (Fig.1).

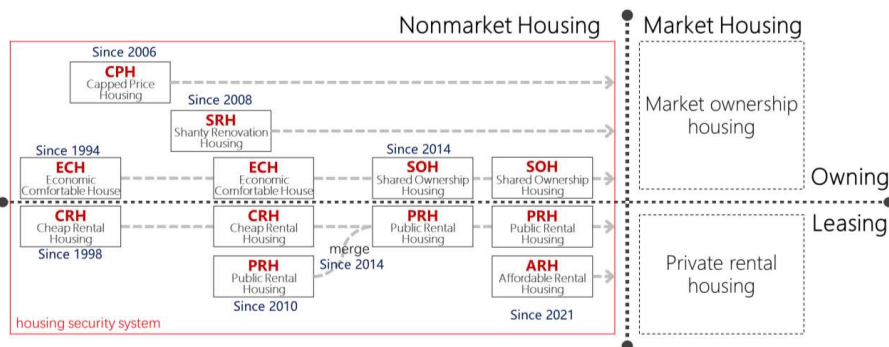


Fig.1 Evolution of Chinese housing system

2.2 The characteristics and roles of ARH in Shanghai

In the Chinese context, the ARH programme aims to provide comfortable, secure, and affordable rental housing with a price set around 90 percent level of comparable nearby market rents, to alleviate acute housing affordability problems faced by new arrivals and young working-class who migrate to megacities.

In the state's top-level design, PRH and ARH are two types of social rental housing, targeting different groups. PRH is provided to key workers, newly-employed workers and migrant workers, and low-income local households with limited per capita living space. ARH is provided to newly employed workers and migrant workers with fewer limitations. In Shanghai, for example, these two types of rental housing are also different in terms of the application process and rental price, but to fulfil the task indicators issued by the central government, PRH is also merged into ARH for quantity counting.

Taking Shanghai as an example, as a mega-city with serious housing difficulties for the inflowing population, Shanghai has been vigorously developing LRAs, talent rental housing (special discounts for highly educated groups), and rental communities since 2017, and designated some of these rental housing projects as ARH programmes later. Currently, the Shanghai Municipal Government has proposed a four-type housing system, including nonmarket rental housing, market rental housing, nonmarket ownership housing, and market ownership housing. Among them, the rental market is mainly divided into ARH (except PRH), PRH, LRA, and the former CRH (which has been merged into PRH) (Figure 2). Only the PRH projects are owned by the local government. The operators of LRA and ARH are similar, with a mix of private companies (real estate companies, hotel companies, rental agencies, etc.) and state-owned enterprises (SOEs), with SOEs generally operating a larger proportion of ARH

according to government directives. The centralized LRA can be added to the ARH by application of the operating company, subject to certain conditions. The provider, regulation, subsidies, rent price level, and target groups of these types of rental housing are differentiated, as can be seen in Table 1.

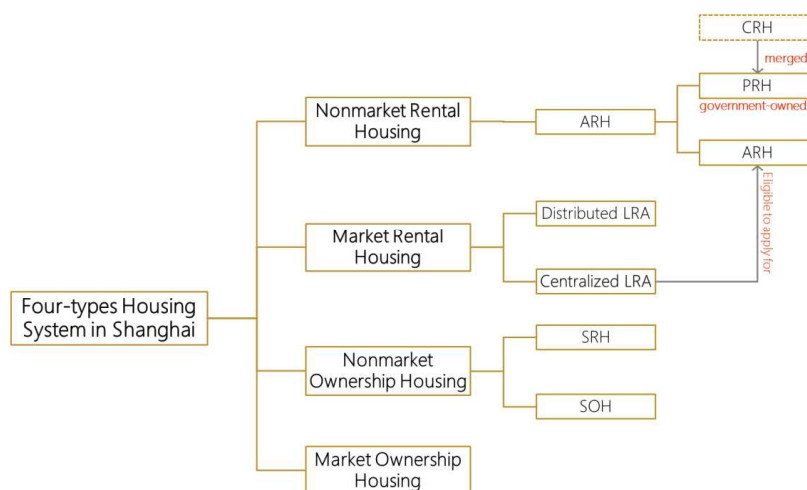


Fig2. Four-types housing system in Shanghai

Tab.1 characteristics of 4 types of public rental housing in Shanghai

	CRH (Cheap Rental Housing)	PRH (Public rental housing)	LRA (Long-term rental apartment)	ARH (Affordable rental housing)
since	1998	2010	2016	2021
Provider	Government	Government	SOEs & private companies	SOEs & private companies
Regulation	enclosed management	enclosed management	less regulation	overall supervision
Subsidies	High (land freely allocated, rental price subsidies, tax incentives)	High (land freely allocated, rental price subsidies, tax incentives)	Low (tax incentives)	Medium (Land supplied at cost, tax incentives, discounts on utilities)
Rental Price	Much lower than comparable nearby market housing	50-80% level of comparable nearby market housing	Market price	90% level or almost equal to comparable nearby market housing
Target Group	•very low-income local households	•Key workers •newly-employed	•Senior management of	•newly-employed workers and migrant

		workers and migrant workers •low-income local households with limited per capita living space	foreign enterprise •newly-employed workers and migrant workers	workers •middle-low-income local households with limited per capita living space
Floor Area Per Household	≤45m ²	40-60 m ²	Without limitation	≤70 m ²

2.3 ARH designed to change China's dualistic rental system

According to official newspaper reports, at the end of 2022, there were approximately 8 million housing units in Shanghai, of which 2.1 million were rental housing, and these were made up of 1.8 million private rental housing, 100,000 LRAs, and 200,000 ARHs and PRHs. So, the rental market accounted for 26 % of the overall housing market, with social rental housing accounting for approximately 14 % of the rental market⁴. The municipal government of Shanghai committed to providing 400,000 units of affordable rental housing by the end of 2025, which consists of nearly 20% of the whole rental housing market. According to Kemeny's theory, the housing system in Shanghai was once a dualistic rental system, but the implementation of ARH driven by the state seems to be a step towards an integrated rental system, by improving rental housing quality and affordability to become a competitive alternative to homeownership.

3. Research design

3.1 Study area

We chose Shanghai's ARH project as the object of study because Shanghai, as China's economic centre, mega-city, and famous global city, has faced a large inflowing population for a long time, and therefore the housing problem is very serious, then the process of ARH implementation, the motivation of the local government, and the social impacts generated by the project will also become particularly noteworthy.

3.2 Methodology

This research employed both qualitative and quantitative methods. Firstly, we reviewed publicly available policies, legislative documents, and official news at both the central and municipal government levels. Then we collected land conveyance data from the official website⁵, mapping urban rental lands from 2019 until now in Shanghai, and collecting statistics on new ARH assignments to each district in Shanghai from official planning documents.

⁴ Liberation Daily, report in Feb. 2023

⁵ www.landchina.com

Additionally, we conducted in-depth field investigations of 6 ARH, 2 PRH, and 5 LRA Projects (Tab.2, Fig.3) in Shanghai during June and July 2023, including participation observation, and semi-structured interviews with front-line staff of ARH operating companies. We also posted recruitment on the social network Xiaohongshu (Chinese top 3 popular social media applications) for tenants of PRH, ARH, and LRA in Shanghai, and collected 48 questionnaires of tenants from ARH programme, and 37 questionnaires from PRH tenants, as well as 67 questionnaires from LRA tenants.

Tab.2 details information on 13 projects for in-depth field investigation

No.	ARH project	Location	Operator	Types	Rental Units
1	Pujiang V-linker Community	No.20, Lane 131, Kanghua Road, Pujiang Town, Minhang District, Shanghai	V-linker	ARH	3116
2	City Wonder Community-Jiangyue Road	No.55, Nan Jiang Zhou Road, Pu Jin Sub-district, Min Hang District, Shanghai	City Wonder (SOE)	ARH	1080
3	Mofang Luheng Road Community	No.18, Linheng Road, Minhang District, Shanghai	Mofang	ARH	1255
4	Anxin Community Long dream Hongkou	760 Xijiangwan Road, Hongkou District, Shanghai	Anxin	ARH	440
5	Mofang (Ningguo Road Metro Station)	No.7, Lane 29, Longkou Road, Yangpu District, Shanghai	Mofang	ARH	250
6	SIUD-Xin Community	Lane 555, Xiulian Road, Xinzhuang Town, Minhang District, Shanghai	SIUD (SOE)	ARH	2562
7	Chenpin Apartment	No.1234 West Yan'an Road, Changning District, Shanghai	District government	PRH	116
8	Baodi Hongleyuan	Lane 76, Guangyue Road, Hongkou District, Shanghai	Baodi (SOE)	PRH&ARH	747
9	Creative Apartment - Bay Valley Community	Lane 1566 North Guoquan Road, Yangpu District, Shanghai	Creative Apartment (SOE)	LRA	852
10	Poyu hongkou Jiangwan Apartment	1400 Xinshi North Road, Hongkou District, Shanghai	Vanke	LRA	256
11	Yi-Mofang Apartment(Wujing ECNU)	No.5395 Longwu Road, Minhang District, Shanghai	Mofang	LRA	200
12	Pujiang OCT Umihome	Lane 339, Pukang Road, Minhang District, Shanghai	CIFI Group	LRA	1869
13	City Wonder Community - Huashan Road	No.161, Lane 1038, Huashan Road, Changning District, Shanghai	City Wonder (SOE)	LRA	104

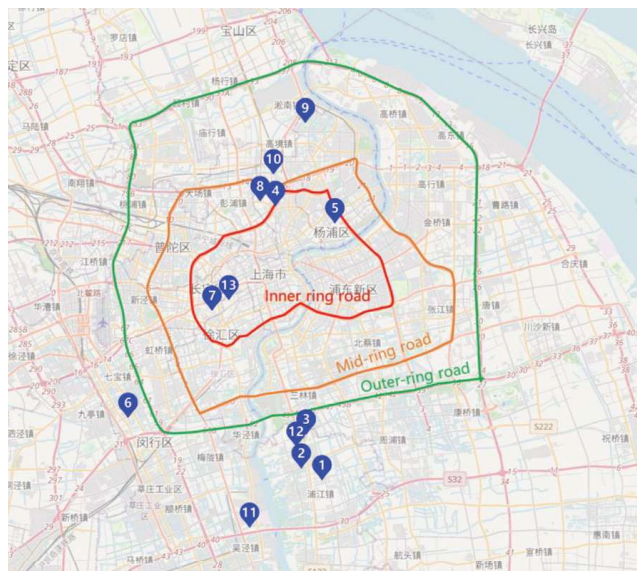


Fig.3 13 projects for in-depth field investigation

It is worth noting that LRA has access to ARH, while PRH and ARH could co-exist within one site or project, so all three types of rental housing were researched, for a better comparative study and a better understanding of the rental housing system in Shanghai.

4. ARH Provision and distribution in Shanghai

4.1 Two types of ARH Provision modes

ARH can be mobilized through two main channels: new construction and stock building conversion. There are five modes of land supply for new construction, including supporting land for industrial parks, collective construction land supply, unused land owned by enterprises and institutions, direct supply of Rental Housing Land('R4' in Shanghai, which means that the land can only be used to build housing for rent), and mandatory allocation of a certain percentage in market ownership housing). Of course, the most efficient way is to build ARH communities directly in R4 land, which often brings in several thousand units of rental housing in a single project, such as the SIUD-Xin Community (Fig.4; No.6 in Fig.3). Stock building conversion refers to the conversion of existing buildings that were not originally intended for residential use into ARH, or LRAs that have been converted from other types of buildings (industrial, commercial, office building) and can be incorporated into ARH through application, such as Mofang Luheng Road Community, which was converted from factory building (Fig.5; No.3 in Fig.3).



Fig. 4 SIUD-Xin Community



Fig.5 Mofang Luheng Road Community

LRAs applying for ARH need to meet several conditions. Firstly, the rent price needs to be no more than 90% level of the same type and quality of housing nearby (but this can be operated flexibly). Secondly, the products should be mainly small households under 70m² (at least 70% units of the project). Thirdly, the stability and the total living units are important, if the property rights of the building do not belong to the operating company, then the operating company needs to sign a lease contract with the property owner at least for 5 years, and generally need at least 50 rooms to be operated within the same plot. Fourthly, the rent will be regulated by the government's housing management department after being included in the ARH, and the price increase shall not be more than 5% per year.

By designing policies, the Government encourages former LRA companies to join the ARH and be subject to stricter regulation. One point is tax incentives and utility concessions. After joining the ARH, those former LRAs converted from non-residential buildings, which were originally required to charge utility bills according to industrial and commercial functions, can now be charged according to residential use (in terms of electricity tariffs, for example, the residential tariffs are about 60% of those for industrial use, and 40% of those for commercial use), which may be more attractive to potential tenants. The second point may be more important, after joining ARH, it is equivalent to getting the endorsement from the government, and the company can then issue REITs with this project as the underlying assets. therefore, at present, for LRA projects in Shanghai, unless they don't meet the conditions such as the household area, we have found in our interviews with front-line staff of LRAs, that the majority of the property owners and operating companies are willing to join the ARH, however, it is not easy to join the ARH even if meeting all the conditions, there is still a waiting list.

4.2 Three types of ARH projects in Shanghai

In terms of building form, ARHs can be categorised into community-type, apartment-type, and dormitory-type. The community type often consists of several buildings forming a gated community containing hundreds or even thousands of living units, such as Baodi Hongleyuan (Fig.6). This type of ARH is mainly located outside the Outer Ring Road in Shanghai. Apartment-type is generally composed of a single building, often originally used as factory

buildings, factory dormitories, office buildings, hotels, etc., such as Mofang (Ningguo Road Metro Station) (Fig.7). The dormitory-type is generally 4 and 6 beds in one room, serving blue-collar workers and employees in the service industries (waiter, courier, housekeeper, etc.), such as Anxin Community Long dream Hongkou (Fig.8), with the rent generally paid by the employers. If dormitories are not provided, this type of company may not be able to recruit a suitable labor force in Shanghai.



Fig. 6 Baodi Hongleyuan



Fig. 7 Mofang (Ningguo Road Metro Station)

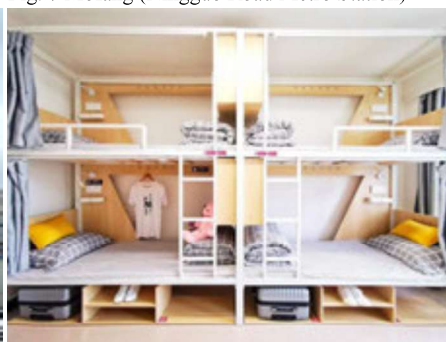


Fig.8 Anxin Community Long Dream Hongkou (outside and inside)

4.3 ARH Distribution in Shanghai

The Shanghai Municipal Housing Authority has split the overall target of building 400,000 units of ARH down to the district level under the Five-Year Plan, setting individual targets based on the available land and the existing PRH and LRA. Among them, Pudong New District will build 120,000 units, and Minhang and Songjiang districts will build more than 100,000 units, with these three districts taking on more than half of the task. Since this quantity is a task that each district must complete, we can take the target value of 2025 as definite (Fig.9; Tab.3), and according to the news on the Internet, the districts have completed 80% of the target by the beginning of 2024.

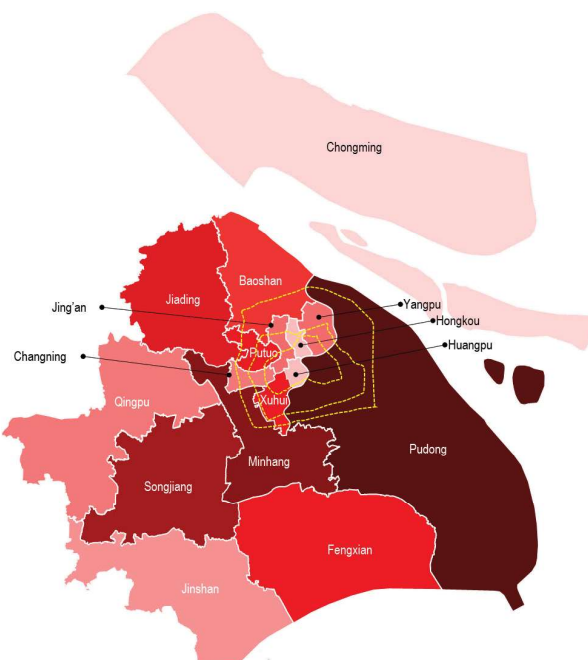


Fig.9 ARH units in 2025 targets split to district level

Tab. 3 ARH units in 2020 and 2025 targets split to district level

District	Current ARH by the end of 2020 (thousand units)	Goals by the end of 2025 (thousand units)	New ARH mandates within 5 years (thousand units)
Pudong	33.4	120.3	86.9
Minhang	16.1	62.9	46.8
Songjiang	23.00	44.4	21.4
Jiading	5.8	23.4	17.6
Putuo	13.0	21.4	8.4
Xuhui	11.8	21.0	9.2
Fengxian	7.2	20.0	12.8
Baoshan	3.7	18.2	14.4
Yangpu	4.9	13.4	8.5
Jing'an	2.4	12.6	10.1
Qingpu	3.9	10.7	6.8
Changning	1.5	10.2	8.7
Jinshan	5.2	9.6	4.4

Hongkou	1.8	6.2	4.3
Huangpu	1.0	5.8	4.8
Chongming	2.2	4.0	1.8
Total	137	403.9	266.9

There are manufacturing companies gathering in Pudong, Minhang, and Songjiang districts, thus gathering a large number of industrial workers and R&D personnel, who are often migrant workers and willing to live near their workplace, and the ARH project provides them with a convenient and comfortable rental environment. At the same time, the majority of these areas are located outside the Outer Ring Road and have lower land costs. In our field research, we found that large ARH communities such as Pujiang V-linker Community and SIUD-Xin Community, for example, are located outside the outer ring road of these districts, and generally have a metro terminal nearby, with at least half of the tenants in the community need to commute to the city centre for work via the metro. Even so, young people are still willing to endure a long commute, as there are not many ARHs in the central city (only more expensive LRAs). That means housing segregation and discriminatory site selection do exist in ARH programme.

When choosing ARHs in the suburbs, but not private rental housing in the city center at the same price, people in the questionnaire reflected that stability and privacy are their primary considerations. The fact that private rental housing may need to be shared with 1-2 roommates, may be suddenly withdrawn, may experience sudden price increase, and may require frequent negotiation with the landlord are not favored by the surveyed group.

4.4 Effect of the ARH Programme on Housing Affordability

The rising housing affordability crisis in urban areas has constituted a major threat to the future sustainability of urbanisation in China (Chen et al., 2010, p.877-901). Housing affordability in Shanghai and other Chinese mega-cities is very poor worldwide. According to the Numbeo website⁶ in March 2024, the Price to Income Ratio (PIR) in the city centre of Shanghai remains outstandingly high among the global cities (Fig.10). So have ARH projects improved housing affordability in Shanghai?

6 <https://www.numbeo.com/>

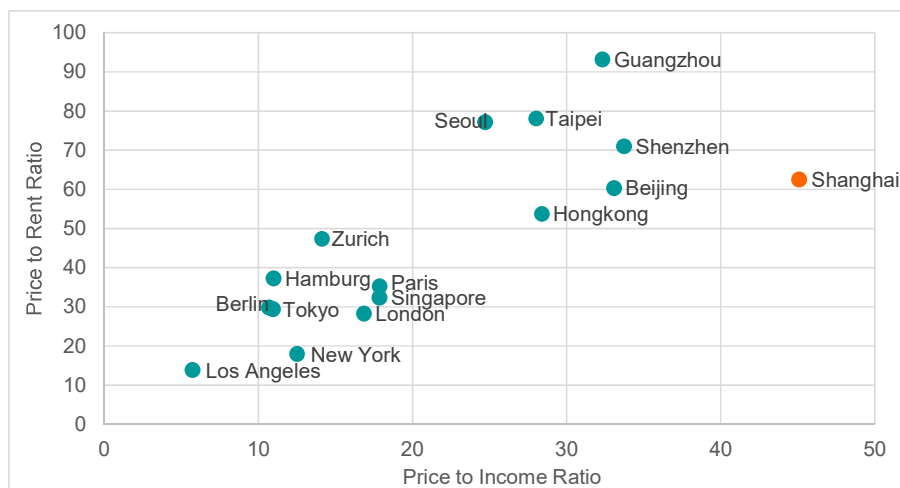


Fig.10 PIR and PRR of 16 global cities in 2024

According to Shanghai's policy on the ARH programme, the rental price of ARH shall be set by the ARH institutes or companies and reported to the housing management department of the local government for record. For ARH suppliers, the rental price should be less than 90% of the rent of market rental housing of the same quality in a similar location.

At the same time, it is stipulated that applicants for ARH are required to meet two conditions: firstly, they are legally employed and working in Shanghai; secondly, they have housing difficulties, which is precisely delimited, in principle, according to the family's per capita housing floor area of less than 15m² within the city centre of Shanghai.

However, according to our findings in field research, the rental price per square metre of ARH is not cheaper than that of ordinary private rental housing nearby. The policy provides for a 10% discount on the assessed price, but the assessed price can be declared by the ARH companies themselves. Sometimes, even the rental price will be higher since it comes with some additional service charges and higher-than-civil utilities. However, the total rental price is relatively low as ARHs are generally smaller, around 20 m² (usually for 1-2 persons living). This is because it is difficult to divide an ordinary private house or apartment into 20 square metre living units for rent. So as rents are not significantly cheaper, the application threshold in practice is often applied flexibly and does not require proof of housing difficulties.

Even so, the affordability of the ARH programme in Shanghai remains bleak. According to our questionnaire distributed to 48 ARH tenants, 37 PRH tenants, and 67 LRA tenants, only 18% of the tenants pay more than US\$620 in monthly rent, which is also consistent with our interviews with housing agents, where a total rental price of RMB 4,000 (about US\$620) is a clear watershed in Shanghai (Fig. 11). But even if total rental prices are kept in a reasonable amount due to small floor area, their housing affordability remains a challenge, with 23 ARH tenants' rent to income ratio above 30%, exceeding the international warning line(Fig.12).

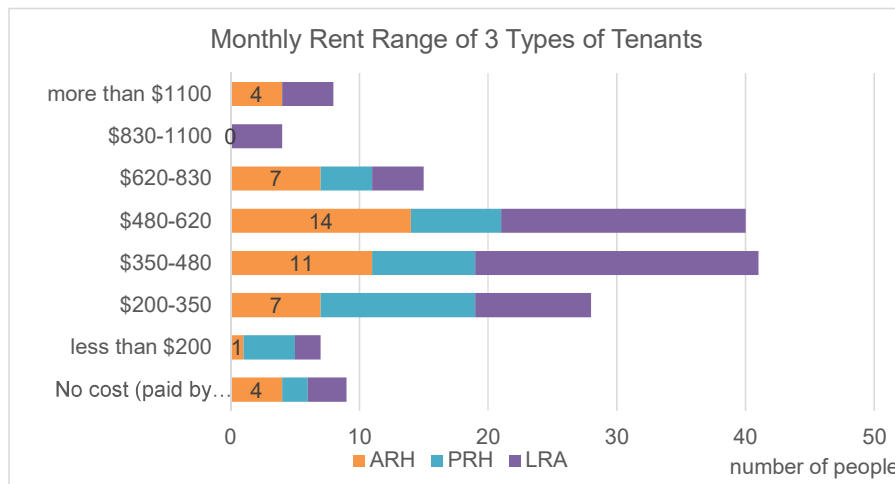


Fig. 11 Monthly Rent Range of 3 Types of Tenants in Questionaries

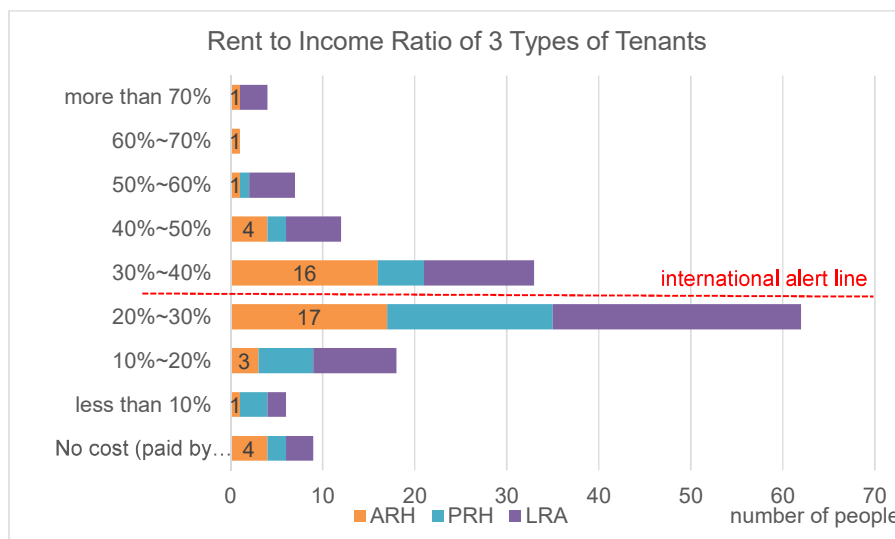


Fig. 12 Rent to Income Ratio of 3 Types of Tenants in Questionaries

A comparative study shows that the PRH is the most affordable (Fig.11; Fig.12). While it is worth noting that although the target groups of ARH and PRH seem to be relatively similar, the difficulty of applying for PRH is much more than ARH due to the more favorable price. PRH requires submitting a series of supporting documents and applications from the official system and queuing up for a limited number of units, and the waiting time is generally over 6 months for Shanghai, and you have to withdraw after 6 years of residence. Based on interviews, PRH can be categorised into two types, provided by the municipal government or district government.

PRH projects provided by municipal government are often available for all applicants, while PRH projects provided by district government are built with revenues from district governments and are more inclined to be rented to those who are conducive to the development of the districts. In the field investigation, we find that PRH projects may have a priority application channel. According to the interviews, we learned that the PRH programme in the district has priority access to key companies and key workers in the district and that the employers apply PRH together, often without a waiting list. In contrast, PRH is more affordable than ARH, but the supply amount of PRH is smaller than that of ARH because it requires higher government subsidies.

5. The Institutional and Governance Transition of ARH Provision

5.1 Two-stage development of ARH in Shanghai

According to the main provision modes, we divide the implementing process of the ARH programme in Shanghai into 2 stages——SOEs-led newly-built large-scale rental communities (from 2017 to 2021), and public-private governance to encourage converting previously underutilised commercial or industrial properties into ARH (from 2022 onwards).

Stage 1: SOEs-led newly-built large-scale rental communities (from 2017 to 2021)

We counted the supply of ARH, PRH, and LRA land supply on official websites from 2019 to the present (Fig. 13), and the most obvious supply peak occurred in 2021 when Shanghai supplied 2.7 square kilometres of R4 land (a type of land exclusively dedicated to the construction of rental housing, as mentioned earlier). The Central Economic Work Conference at the end of 2020 identified the construction of ARH as one of the key tasks of the economic work in 2021, proposing to mobilise 8.7 million units of ARH within five years, and requesting municipalities to prepare a five-year plan for ARH supply. In Shanghai, for example, only 137,000 units were available by the end of 2020, while 400,000 units will need to be completed by 2025. Under this intense political pressure, newly-built community-type ARH or PRH is a solution as each project can provide thousands of living units and the construction duration often takes two to three years, so local governments have seized on 2021 as a critical point to supply a large amount of land for rental housing.

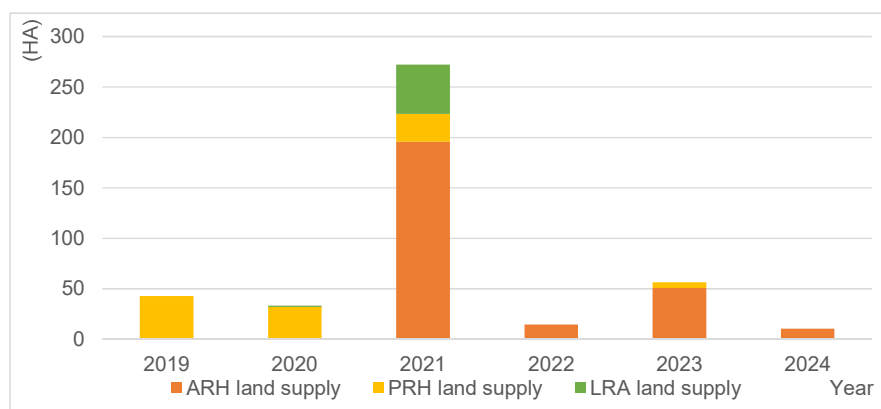


Fig.13 Land supply for rental housing from 2019 in Shanghai

In Shanghai, for example, R4 land is typically priced at one-third the price of market residential land nearby, but in practice, real estate companies are still reluctant to auction land to build ARH communities, and in our interviews with rental institutions, we found that the return on investment cycle for ARH building and operation is generally around 20 years. Against the backdrop of China's rapid economic growth over the last 20 years, few companies could accept this rate of return on investment. As a result, local governments have urged SOEs to act as the mainstay of ARH community building, auctioning off the R4 land. For example, two of the biggest SOEs in Shanghai, Shanghai Land (Group) CO., LTD created a new brand *City Wonder*, as well as Shanghai Chengtou Group Corporation created *Creative Apartment*, to build and operate the ARH community on their rental housing land.

Stage 2: Encourage converting previously underutilised commercial or industrial properties into ARH (from 2022 onwards)

On the one hand, it seems too late to fulfil the 2025 mandate by building new ARH communities after 2022. On the other hand, the supply of R4 land is almost at cost, in which local governments do not receive any land appreciation gain, and therefore have no incentive to continue supplying. At Stage 2, the local governments mainly focus on incorporating the original LRA into ARH, and converting the stock of vacant buildings into ARH projects through renovation and refurbishment. This may involve negotiating with the property owner of the vacant buildings and brokering a deal for them to cooperate with the LRA company to renovate it (Fig.14). The Shanghai Municipal Housing Bureau introduced incentives related to the conversion of non-residential stock into ARH in 2022, including the implementation of residential prices for water, electricity, gas and cable TV, as well as tax incentives such as value-added tax and property tax, low-interest loans and government subsidies, and the latest trend in 2023 is that only ARH can be used as an underlying asset for the issuance of publicly-funded REITs. This trend is also present in other Chinese mega-cities and super-large cities exist, with an intensive batch of local policies from 2022 to 2023.

This transformation poses higher governance requirements for local governments. First, it is not simple to find a stock of houses suitable for transformation, which tests the local government's familiarity with the current situation of real estate in the city and how to incentivise the owners of vacant buildings in the stock to participate in the transformation. Secondly, there are many difficulties in the process of renovating the stock buildings. China currently only has normative standards for new buildings, such as sunlight, sanitation, and fire protection standards, but no standards for the renovation of old buildings, and it is difficult for these buildings to meet the standards, which leads to the inability of many vacant buildings in the central urban areas to be converted into ARHs, which requires breakthroughs and innovations against the national standards from the local governments.

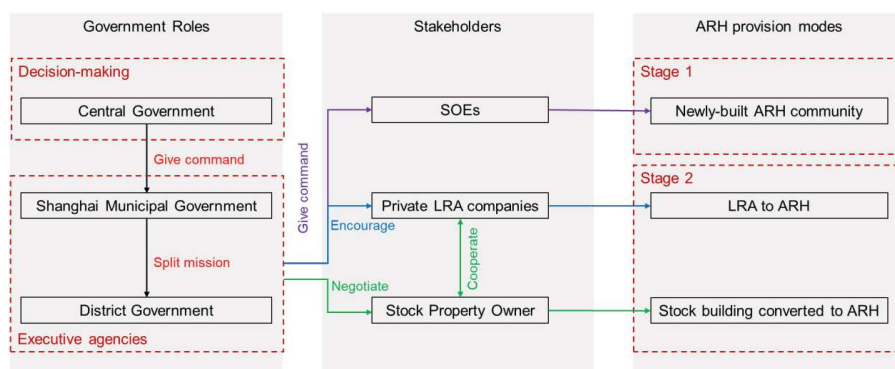


Fig. 14 Two-stage development and governance structure of ARH in Shanghai

5.2 The Institutional and Governance Transition in ARH Programme

The transition of provision modes between the two stages is due to several reasons, including the fiscal burden of local government, lack of available construction land, and the pressure under strong central government mandatory command. The role of the local government shifted from dominant to market resource coordinator, which requires less subsidies but higher demands on governance capacity. From interviews with the operators, we learned that the ARH programme is still a dilemma for local government, SOEs, and institutional investors, due to the lack of land value capture and limited return on investment.

6. Discussion and Conclusion

This study systematically examines the emerging ARH projects in China, taking Shanghai as an example, and systematically comprehends the policy background of the ARH proposal, its positioning in the housing system, the target groups, the provision modes, etc. It also carries out social investigation on the types of products, spatial distribution, and affordability of ARH, conducts a comparative study among ARH, PRH, and LRA, and then carried out interviews with operators, tenants, etc. The conclusion is that ARH is an attempt by the Chinese government to move the rental housing system from a dualistic to a unitary system. However,

ARH is still not enough affordable at present, and there is spatial segmentation for new citizens and young people.

More importantly, local governments and stakeholders are skeptical about the implementation of ARH projects. Local governments are more interested in fulfilling the tasks of upper-level governments, in which they will adopt alternative strategies, such as Shanghai's inclusion of PRH in the ARH statistics and urging SOEs to undertake ARH construction tasks. Due to the low return on investment, SOEs and private enterprises are less willing to participate in the construction of new ARH communities. In terms of converting stock or vacant buildings into ARH, or converting LRA into ARH, local governments have taken some incentives, but institutional innovations are needed before they can be rolled out on a wide scale.

This study enriches the conceptual and empirical understanding of the latest housing policies and the implementation process in China and enriches the understanding of the stage of the housing regime transformation in East Asia societies. It is still doubtful whether China has moved towards a developmental regime. As it stands, PRH is supplied at a lower price to the highly skilled and educated people that the city hopes to attract, employees of large companies, etc., while ARH is more expensive, which is still a productivist welfare regime. Whether ARH and PRH can be truly integrated and expanded in the future may be the path toward a developmental regime in China.

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