

The difficulties of housing the Chinese “sandwich class”

Jie Chen and Bernard Vorms

In China, young people from the middle classes are said to belong to a “sandwich class”: they do not have enough resources to buy a property, and yet there are not enough rental properties to accommodate them. In areas where pressure on the property market is particularly high, state benefits fail to compensate a lack of assets.

China has chosen to make home ownership for all an unqualified priority, as well as the basis of its social protection and welfare system. Since 1998, and in less than a decade, there has been a shift from a publicly administered housing system, in which property was a component of the social protection that large companies provided to their employees, to a market economy. The first step in this transformation was to sell rental housing stock belonging to large public companies to their occupants,¹ as did most of the countries in the ex-Soviet bloc; China then encouraged the development of measures to facilitate access to home ownership.

Aside from the need to relieve these companies of responsibilities not directly linked to their competitive activities, the justifications are, in part, the same as in Western countries: property ownership reflects the preferences of most households, and it appears to encourage integration, social stability and individual responsibility. But the primary objective is to encourage the accumulation of households’ private assets and to use these assets as the foundation of the welfare system.²

Market choice and the choice of home ownership

The result of this massive privatisation is that the proportion of homeowners in urban China is today very high – close to rates in Spain or Italy. This proportion is relatively homogeneous, regardless of income level; indeed, this is the reason advanced to explain why there is not more homelessness among urban households, despite the fact that prices have today attained levels beyond the reach of households on modest incomes.

¹ See: Bernard Vorms. 2000. “La politique du logement en Chine : le grand bond en avant vers l’accession”, *L’observateur de l’immobilier*, n° 46, <http://www.anil.org/fileadmin/ANIL/publications/Etudes/2223.pdf>.

² See: Chiu, R. L. H. 2008. “Government Intervention in Housing: Convergence and the Asian Dragons”, *Journal of Urban Policy and Research*, 26(3), pp. 249-269; and Zenou, Yves. 2010. “Housing Policies in China: Issues and Options”, IFN (Research Institute for Industrial Economics, Stockholm), working paper no. 824.

Home ownership status (%) as a function of income in urban China in 2005

Income decile	D1	D2	D3 + D4	D5 + D6	D7 + D8	D9	D10
Homeowners (%)	76.3	81.9	85.0	87.2	88.3	88.7	90.0
Homeowners with 2 or more properties (%)	3.4	4.6	5.3	7.0	9.9	13.7	21.0

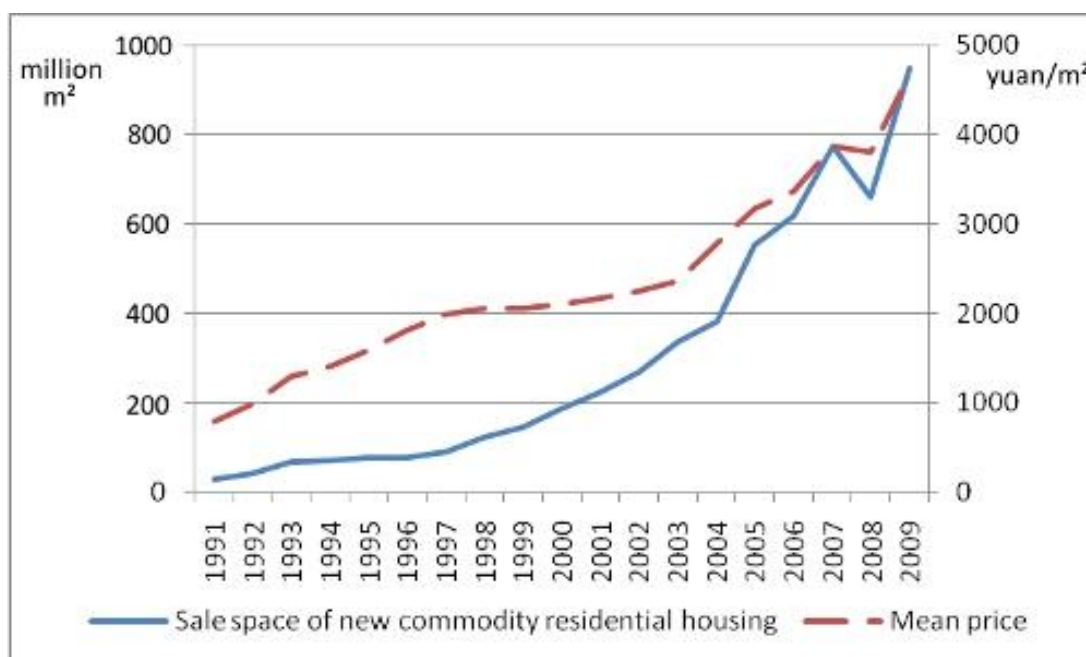
Source: 2005 Housing Survey, China Statistics Bureau (REICO Database)

The question that remains is whether a housing policy founded solely on access to home ownership will have a place for young people from these middle classes. In Asia and Europe, a part of these so-called middle classes, and particularly young people, have difficulty purchasing their first property in the most expensive cities. Members of the “sandwich class”, to use the term employed in Asia, have incomes that are too high to qualify for state benefits, but not high enough to be able to buy a property at market prices.

Very rapid increases in both housing stock and prices

The development of the Chinese economy has been accompanied by growth in the number of properties available at rates had never before been attained, and by the improvement of a certain proportion of existing properties (at the end of 2009, according to official figures, the average surface area per capita was 30 m² (323 sq. ft), a more than fourfold increase since 1978³).

Total annual surface area and average price of new properties sold in China, 1991–2009



Source: *China Statistics Yearbook*.

At a time when most world property markets were experiencing sharp rises in prices, the value in yuan of new-build properties grew by a factor of 27 between 1997 and 2009. This increase in China was particularly spectacular for two reasons: urban household incomes rose sharply, and the population influx into certain megalopolises significantly increased pressure on the housing market.

³ Source: *China Statistics Yearbook*.

The volume of property purchases made by households looking to invest money in real estate has further increased demand: in a country where pensions systems are still very basic and where there is little diversity in the savings products on offer, many well-off households have instead chosen to buy brand-new properties. However, it appears that many of these dwellings are not even rented out. The authorities have adopted a range of measures to limit this trend, first by increasing the minimum down-payment requirements for borrowers, and then by raising interest rates, but prices continued to increase until the effects of the world financial crisis caused a slight dip.

The rise in property prices has made existing homeowners richer, but prevents access to the market for a significant proportion of potential first-time buyers from the middle classes; furthermore, there is no rental sector to speak of to accommodate them. Since 2003, when price rises started to accelerate in China's largest cities, the combination of rising prices and more stringent conditions imposed by banks, which have set repayment rates⁴ at 50%, has made home ownership an impossibility for 60% of new entrants on to the market – the “sandwich class”. And yet the well-being of the middle classes is of key importance for China, which is counting on them to take the place of American and European consumers as an outlet for Asian industry.

Assisted property purchase policies with limited effects

Various systems intended to assist potential first-time buyers have been put in place at national level, as well as by certain city councils. These systems, in some cases similar to certain procedures used in Europe, highlight the limits of home ownership assistance policies when they are implemented on very expensive markets.

This is the case with the measure known as “capped-price housing”,⁵ which aims to develop a housing supply at below-market prices, and consequently bring down prices overall. In exchange for land provided by local governments at highly discounted prices, developers must agree to sell homes at below-market prices to households with modest incomes. Guangzhou, with 14 million inhabitants, was the first city in China to adopt this policy, in 2007.

This scheme is exclusively for first-time buyers with permanent resident (*hukou*)⁶ status and who are aged over 25 (for men) or 23 (for women). Their annual income must be less than 200,000 yuan (€22,000⁷) for multi-person households or 100,000 yuan (€11,000) for single-person households. Prices may not exceed 70% of market prices, and the surface area of the housing units concerned is limited to 90 m² (969 sq. ft). Where demand outstrips supply, dwellings are allocated by drawing lots. Buyers may not sell their property for at least five years and, in the case of a sale after this period, they must pay back to the city council the 30% reduction that they benefited from when they bought the property. The number of sales completed to date under this scheme (8,000) remains very modest. However, a survey conducted in 2009 allows us to analyse the characteristics of candidate households and the difficulties facing young people in Chinese cities.⁸

In 2010, the average annual income per capita in Guangzhou was 30,658 yuan (€3,370) and the average annual salary was 45,575 yuan (€5,000) – among the highest in China. According to the banks' credit criteria, which fix repayments at 50% of available income, the maximum property

⁴ Ratio of monthly mortgage repayments to the borrower's monthly income.

⁵ Initiated in 2006 by the Ministry of Construction and eight other ministries.

⁶ The term *hukou* refers to the residency permit system in force in China. Anyone without a *hukou*, regardless of the duration of residence in the city concerned, is excluded from all social services, healthcare services, education services, etc. Migrants have little chance of obtaining the permanent resident status conferred by the *hukou*.

⁷ Conversions into euros depend on variations in the yuan–euro exchange rate and are given as an approximate guide only.

⁸ The policy led by the city of Guangzhou is particularly well documented, as it gave rise to a survey of candidates in late 2009. See: *Guangzhou Municipal Land Resources and Housing Administrative Bureau (MLRHAB) Survey on the Demand for Capped-Price Housing*, November 2009–February 2010.

price open to questionnaire respondents is around 500,000 yuan (€55,000). The majority of respondents could finance a property priced between 300,000 and 600,000 yuan (€33,000–66,000), with only 10% able to go beyond 600,000 yuan. However, according to the *Year Book of Guangzhou Real Estate* (2010), the average cost of a property in the city is 9,340 yuan (€1,027) per square metre, or around 800,000 yuan (€88,000) for an 85 m² (922 sq. ft) property, which excludes most of the middle classes.

Access to home ownership in expensive cities: assets before income?

In order to finance their projects, households can benefit from housing provident funds. This measure was launched by the Chinese government in 1994 (similar to the French system of 1% housing-fund contributions) whereby employees' contributions to their provident funds are matched by their employers. In Guangzhou, employers can fix the contribution rate at 5% to 12% of salaries, up to a limit of five times the average local salary. The contributions collected are used as pension funds or in order to offer mortgages at rates 1% to 2% lower than the market rates. These mortgages are limited to 800,000 yuan (€88,000) for a couple and 500,000 yuan (€55,000) for a single person.

Furthermore, a number of companies and agencies with close links to the public authorities grant bonuses to their employees to facilitate access to home ownership; indeed, the amount that first-time buyers are able to provide as a down payment is particularly important. Some 44% of those surveyed will be relying primarily on their own savings, while 47% will be able to count on assistance from family. Those able to benefit from family financial support will typically have the greatest purchasing power.

As in France, the stability of one's income – and therefore seniority in one's job – matters just as much as income level. Government employees or employees of national public agencies have the best chances of becoming homeowners, followed by university lecturers and researchers, while employees of private and foreign companies are least likely to succeed. However, in all cases, it is mainly for young people that property prices represent an insurmountable obstacle.

Home ownership assistance in a market under pressure: for inheritors only?

To what extent is it possible to opt for a policy almost exclusively founded on property ownership without excluding young people? If we compare the Chinese context with the situation in Paris – bearing in mind that in Paris, as in most large European cities, rental is the more common option⁹ – we see that, as house prices rise, so does the proportion of tenants.

Next, let us consider the link between property prices in Paris proper (€10,000 per square metre for new property and €7,500 per square metre for existing property, albeit with significant variations in the latter) and the borrowing capacity of households in the whole Paris urban area: banks limit mortgage repayments to 30% of income, which means that, in the absence of a substantial personal contribution – which, in the case young people, will most likely take the form of assistance from family – only households in the tenth decile of the Paris urban area can afford to buy property in Paris proper.

As prices rise, access to property depends less on income and more on either personal or family assets, for which property is a vehicle for investment. In the case of both European metropolises and Chinese megalopolises, when demand exceeds potential growth in new supply, placing too high a priority on access to home ownership can serve only to exclude those young people who have not inherited significant assets from family. In Europe and China alike, young people encounter the

⁹ In 2006, 32.6% of residents of the city of Paris proper were homeowners, compared with 44.1% in the wider built-up area, 48.4% in the Île-de-France (Paris) administrative region and 57.6% in France as a whole (source: Institut d'Aménagement et d'Urbanisme d'Île-de-France).

same sorts of obstacles when it comes to becoming a homeowner on the most expensive markets. And yet the respective situations of the middle classes in France and China could not be more different: in the former, the prospect of downward social mobility¹⁰ is a real and worrying risk, while in the latter, the middle classes are enjoying considerable upward mobility. The economic crisis is not to blame here – quite the opposite is true, in fact: when excessive demand goes hand in hand with low elasticity of supply, an overall increase in the wealth of the population is accompanied by an increase in the value of assets, and in particular of property. This enriches those generations that are already homeowners and creates growing obstacles for new entrants on to the market – especially young people.

This brief comparison shows that, on expensive markets, public policies that give too much weight to assisted purchase schemes fail to improve ownership access conditions for young people who cannot count on financial help from their families. When it comes to determining the fate of potential first-time buyers, the importance of assets grows in direct proportion to market tension.

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¹⁰ See: Louis Chauvel. 2006. *Les classes moyennes à la dérive*, Paris: Seuil, “La République des Idées”.