

## **Recent Housing Development in China**

(January 17, 2006. Tokyo, Japan)

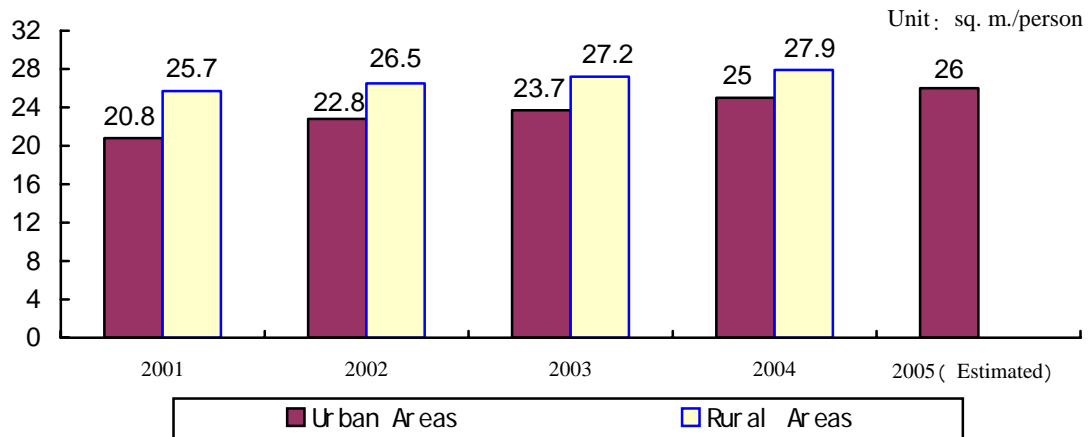
China has just completed “the 10th Five-Year Plan” (2001-2005). With the ever deepening reform of housing system and the increasingly higher urbanization during the period of “the 10th Five-Year Plan”, the housing consumption of Chinese citizens kept on expanding, and real estate market took on an obviously faster process of marketization; Moreover, the macro-economic regulation and control over the market were strengthened, thus real estate industry, mainly residential housing, has become the pillar and the focus of consumption in the national economy.

### **I. Housing conditions of citizens in urban and rural areas have been obviously improved.**

— Steady development of residential house construction in urban and rural areas. During the period of “the 10th Five-Year Plan”, the average annual construction scale of houses in urban and rural areas was nearly 1.3 billion square meters, including 0.57 billion square meters in urban areas and 0.73 billion square meters in rural areas.

— Housing level per capita keeps increasing. Based on the sharp increase of the population in urban areas during the “the 10th Five-Year Plan”, the floor space of houses per capita in urban areas in China increases by 1.2 square meters per year, and it was estimated to be 26 square meters in 2005. In 2004, the floor space of houses per capita in rural areas in China reached 27.9 square meters, an increase of 3.1 square meters over that of 2000.

**Chart of Changes in Floor Space of House Per Capita in Urban and Rural Areas during “the 10th Five-Year Plan”**



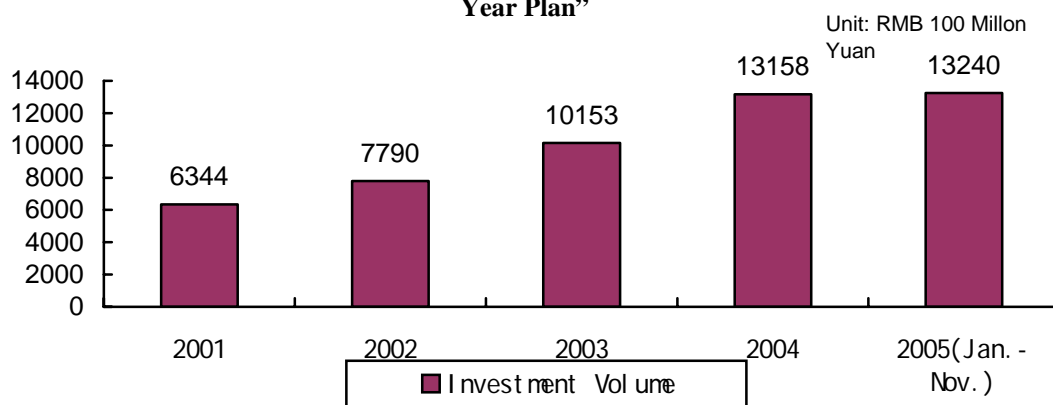
— The planning, design of the residential communities and building designing levels of the houses in urban areas were upgraded sharply, and the comprehensive quality of the houses was improved on all fronts with the functional quality, engineering quality and environmental quality of the houses have been improved. The rate of apartments to residential buildings in urban areas rose from 67% in 2000 to 82% in 2004. And the proportion of the brick-wood structure and brick-concrete structure in houses of residents in rural areas reached 80%.

— Public facilities, such as water supply, gas supply, garbage and sewage treatment etc. have been popularized and perfected. The popularization rates of the above four public facilities in urban areas reached 89%、82% and 46% respectively in 2004, up 25%, 36% and 11% respectively over those of 2000.

## **II. Real estate market development**

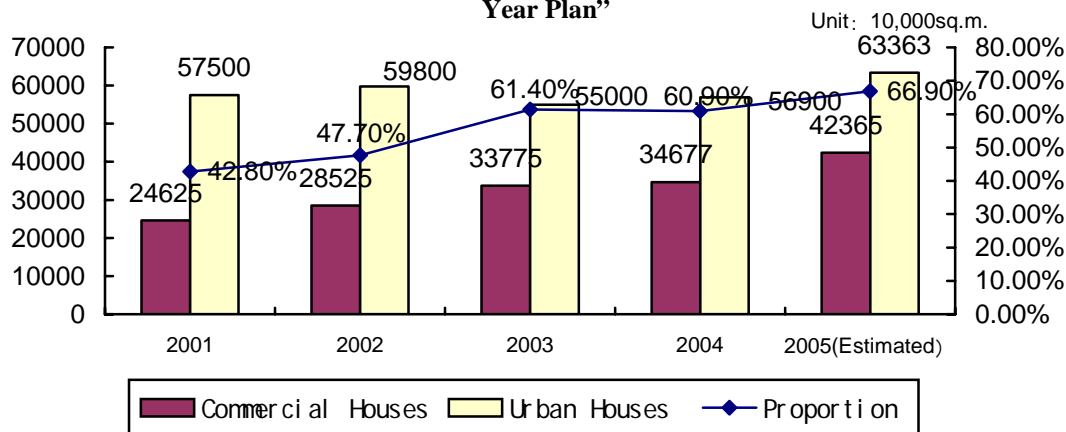
— The scale of investment in real estate market keeps on increasing. The total amount of investment for the development of real estate had exceeded RMB 5,000 billion Yuan (USD 620 Billion) during the period of “the 10th Five-Year Plan”. The investment for the development of real estate in 2004 was RMB 131.58 billion Yuan (USD 16 billion), which was 2.6 times the figure in 2000 with an annual growth rate of 27.1%; the investment for the development of real estate from January to November in 2005 exceeded RMB 1,300 billion Yuan (USD 160 billion).

**Chart of Investment for Development of Real Estate during “the 10th Five-Year Plan”**



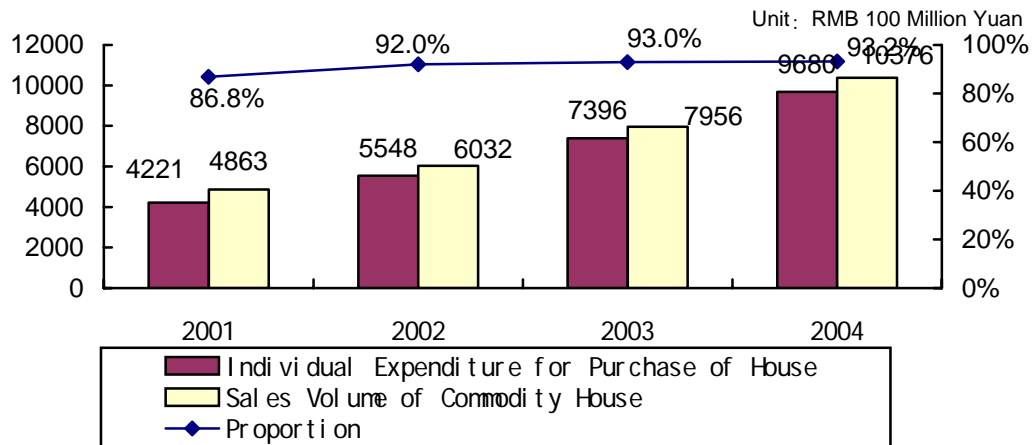
— The marketization of real estate market has been speed up. Calculated according to the completed floor space of newly-built houses, the marketization rate rose from 38% in 2000 to 67% in 2005 in urban areas.

**Proportion of Commercial Houses in Urban Houses during “the 10th Five-Year Plan”**



— Individual House Consumption keeps on expanding. Calculated according to the sales volume of commercial house alone, the proportion of houses purchased by individual residents rose from 80.5% in 2000 to 93.2% in 2004; and the amount of consumption expenditure for the purchase of commercial houses reached RMB 968 billion Yuan (USD 120 billion), increasing by 2.1 times compared with that of 2000. It is estimated that the accumulated consumption expenditure for the purchase of house during the Five years from 2001 to 2005 will exceed RMB 4,000 billion Yuan (USD 500 billion).

**Proportion of Individual Expenditure for Purchase of House in Sales  
Volume of Commodity Houses from 2001-2004**



— Credit business for real estate industry developed rapidly. The balance of loans for the development of commercial real estate and that for purchase of individual houses had increased by 2.4 times and 4.4 times compared with those the end of “the 9th Five-Year Plan” by the end of November, 2005. And the balance of entrusted loans of housing reserve rose by 4.5 times compared with that of 2005.

— The number of employed persons in real estate development, agencies and property management exceeded 4 million. The value added in real estate industry in 2004 was RMB 717.4 billion Yuan (USD 90 billion), accounting for about 4.5% of GDP, which has developed into an important pillar industry and the focus of consumption in the national economy.

### **III. Urban Housing Security System has gradually developed**

The Affordable Housing system, Rental Housing system and House Provident system have become the central parts in the urban housing security system in China.

— Affordable Housing system has been further developed and regulated. Affordable Housing refers to the policy commercial houses with preferential policies, fixed construction standards, fixed objects for supply of Affordable Housing and fixed selling prices by the government. And the Affordable Housing system, since implemented, has played an important role in solving the difficulties in acquiring houses of families with medium and low incomes, improving the mix of houses supplied and keeping down house

prices etc... The completed area of Affordable Housing from 1998-2004 exceeded 0.5 billion square meters, and had solved the housing problem of over 7 million families with medium and low income in the aggregate. Meanwhile, Chinese government further standardized the construction and management of Affordable Housing, and strengthened management of such links as construction standards, objects for supply of houses and transaction in the market etc, especially to guarantee that the relevant preferential policies of Affordable Housing system would be implemented for families with medium and low income.

—— Rental Housing system has gradually become an important way to solve the housing problem of families with the lowest income in urban areas. Rental Housing refer to the common houses with relatively low rent provided for the families with permanent residence and the lowest incomes, for which the government implements function of social security. At present, Chinese government has established low-rent housing system through various manners such as rent subsidy, supply of basic houses and fee reduction etc... The accumulated funds for low-rent housing nationwide has reached RMB 1.85 billions (USD 228 million) since 2000, and has improved housing conditions for 276,000 families with the lowest income in urban areas.

—— House Provident system has been developed. House Provident refers to the long-term reserve funds paid by state organs, state-owned enterprises, urban collective enterprises, foreign-funded enterprises, urban private enterprises and other urban enterprises, institutions and the employees on the job. The House Provident of the employees includes two parts paid by the individual employee and the working unit of the employee respectively, which belongs to the relevant employee. A relative standard policy-making mechanism, management system and administrative supervisions system on House Provident have been established through Chinese government. With the sharp increase in the amount of paid-up House Provident, the consumptive capacity of the houses of the employees has been improved to a certain extent, which has played an important role in improving the housing conditions of residents. By the end of September, 2005, the accumulated number of employees who paid House Provident nationwide had exceeded 80 million, and an accumulated House Provident of RMB 908.2 billion Yuan

(USD 112 billion) had been concentrated; Moreover, the accumulated amount of RMB 429.6 billion yuan (USD 53 billion) had been granted for individual housing loan to support 5.1 million employee's families in total to purchase or construct houses. Meanwhile, the benefits from the value added of the House Provident have provided some funds for the construction of low-rent housing system.

#### **IV. The capacity of government in regulation and control of the market has been improved.**

There are some problems in the development of real estate market in China in recent years: the supply of low and medium price houses is insufficient; some speculative purchase of houses increased rapidly; a small number of developers and agencies drove up house price and disturb the market, which has led to constant tense relation between supply and demand and excessively rapid increase of house prices. Therefore, Chinese government has attached great importance to such situation, and has followed the principle of carrying out work positively and steadily while laying stress on important issues, and has implemented two-way control from the perspectives of supply and demand in the market; Moreover, emphasis has been laid on checking irrational demand while rectifying and regulating the order of real estate market.

—— Regulate and control supply with emphasis on improving mix of supply of houses in the market and make effort to increase supply of common commercial houses and affordable houses with medium and low prices and house styles. The major measures are as follows: Make definite the recent construction scale of common commercial houses and affordable houses, layout of the projects and arrangement of progress to stabilize the expectation in the market; Strengthen planning, regulation and control, and increase the supply of land for construction of common commercial houses and affordable houses to a suitable extent; strengthen regulation and control of the prices of common commercial houses and affordable houses with medium and low prices; perfect the Housing Security System.

—— Regulate and control demand with emphasis laid on checking speculative demand, controlling demand for investment, properly guiding demands for improving housing

conditions and strictly controlling the passive demand for houses due to resettlement. Major Measures: Properly adjust the interest rate of the individual housing loan and the lowest proportion of the initial payment; Adjust the tax policies in the link of transferring real estate, and forbid transfer of forward houses; Go on controlling the resettlement scale in urban areas.

—— Rectify and Regulate market order with emphasis laid on investigating and prosecuting such behaviors as sales in violation of law and regulations as well as driving up house prices maliciously. Moreover, it is necessary to perfect the rules for releasing information and strengthen the transparency of the market to promote the rational development of the market.

Chinese government has stuck to economic laws in regulating and controlling the real estate industry, and has mainly adopted economic and legal methods while implementing necessary administrative methods, laying emphasis on solving the outstanding problems in the housing market while paying attention to consolidate the position of Housing industry in real estate industry. The structural contradiction between supply and demand of commercial houses has been somewhat eased up so far, and the real estate market is developing in the expected direction on the whole.

## **V. Existing problems**

At present, following problems exist in the rapid development of housing real estate industry, compared with demand of social development in China, especially with the demand for constantly improving housing conditions of families with medium and low incomes.

—— The structural contradiction between supply and demand of commercial houses is still outstanding. At present, the structural contradiction between supply and demand of commercial houses, though somewhat eased up, has not been solved completely, the outstanding manifestation of which is the low proportion of supply of common commercial houses and affordable houses with low and medium prices and house styles, which are consistent with the undertaking capacity of massive families with medium and low incomes.

—— The construction of housing security system has lagged behind to a certain extent. The affordable housing system has not been sufficiently implemented in some areas, and some low-income families can not or can not afford to purchase affordable houses; And the low-rent housing system has just been launched in some cities; The development of house provident system in such aspects as coverage, capital operation and supervision system etc. can not meet the requirements of the development.

—— The industrialization of houses has been promoted slowly. The problems such as waste of resources, energy and environmental pollution incurred in the process of production and use of houses are still rather outstanding. And there is quite a distance in comprehensive quality and service life of the houses between China and developed countries.

—— The order of housing market needs to be further regulated. Such problems as individual real estate development enterprises cornering houses, publicizing and diving up house prices maliciously and cheating loans etc. still exist in housing market, which has disturbed the market order and has damaged the legal interest of consumers.

—— There is lack of innovation in house finance. The financing channels of real estate enterprises are monotonous, which excessively depend on bank loans; Substantial development has not been made in securitization of individual house mortgage loans and construction of security system of individual housing loans.

—— There is an urgent need to strengthen management and guidance of planning and construction of houses in rural areas. The construction of houses in most rural areas in China lacks planning and guidance, and suffers from disorderly layout with a serious waste of land resources; The construction manners of the houses are backward, which is hard to guarantee the house quality; And the investment in infrastructures and public facilities is seriously insufficient, while the functions and supplementary facilities of the houses seriously lag behind with poor housing environment.

## **VI. Development direction**

—— Adjust and perfect house supply policy, strengthen construction and management of economy houses, increase supply of common commercial houses, and gradually realize

the situation that most of the families purchase or rent common commercial house; Lay emphasis on arranging projects of common commercial houses and affordable houses with medium and low prices and house styles to meet the housing demands of medium and low-income families. Meanwhile, go on stopping supply of land for villas, and strictly control supply of land for high-grade commercial houses.

—— Strictly implement the current various housing security systems, further expand the coverage of housing security; Positively explore the problem of housing security for people who have come from rural areas to work in urban areas during the process of urbanization; Encourage low-income families to solve housing difficulties through depending on preferential financial and tax policies etc. and effort of their own.

—— Improve engineering quality, functional quality and environmental quality of houses on all fronts through promoting modernization of housing industry as well as strengthening implementation and supervision mechanisms on house quality standards; Strengthen technical guidance and service for farmers in constructing houses to improve house quality; meanwhile, increase investment in construction of infrastructures in rural residential communities, and improve housing environment, architectural quality of rural houses on all fronts with emphasis laid on outstanding problems such as treatment of rubbish and sewage etc...

—— Explore pluralistic financing manners, scatter bank credit risks; Adjust financial policies, improve and innovate individual house loan and security mechanisms while laying emphasis on supporting demands for purchasing houses with medium and low prices and house styles; Further amplify and improve policy-making, management, supervision rules and operating mechanism of house provident to improve the capacity for defense against risks and service levels and support low-income families to rent common commercial houses.

—— Illegal activities should be punished, with emphasis on false advertisements, unfair competition, cornering houses, driving up house prices and behaviors in violation of planning and controlling requirements; to improve the information transparency in combination with the construction of information system and credit file in real estate market; to strengthen the house pre-sales (sales) contract management system and

perfect the house purchasing rules with real names; Strengthen construction of credit system in real estate market and establish credit supervision rules and punishing rules for breaking promise to promote self-discipline in the industry.

Moreover, research and development of technologies and economic policies for Energy-efficient and Land-saving houses will be speed up to promote the modernization of housing industry; to innovate housing development model for better saving and recycling resources; and to improve housing quality; And the taxation reform in real estate industry will be speed up, and property tax will be levied in a suitable chance to guide residents in consuming houses rationally.