



China's consumption is set for a boost from social housing by Martha Wang, Portfolio Manager of the Fidelity China Fund



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"Creating social harmony" is a buzz phrase from China's 12th five-year plan that was approved in March. A big part of fulfilling that goal will be the government's plans to create more social housing. What's more interesting is that the boost to social housing is a key plank for achieving another central goal of the five-year plan; that of rebalancing China's economy.

China wants to boost the role of consumption as a percentage of GDP from about 40% now to a more developed-nation-like number (generally around 70%), thereby lowering the profile of investment and exports. And investing in social housing is seen as a key way to do that.

Social-housing projects are expected to help the government bolster consumption in the short term because they will increase property-related consumption such as purchase of white goods as more people move into newly built housing over the next one to two years. The investment required to fulfil the social housing project's goals will employ thousands and give them the means to boost their consumption.

Building more social housing is also seen as a way to boost consumption over medium to long term as people who cannot afford to buy a property now will be able to afford to own their home. This is expected to reduce precautionary savings in the lower-income groups and boost consumption.

The social-housing program will also serve to transfer wealth from public to private sector and to the new owners of social houses. Moreover, social housing promotes sustainable urbanisation by allowing migrant workers to settle in the cities where they have found work.

The lack of residential status and suitable housing have prompted migrant workers to undertake frequent job and location changes in recent years, movements which have hindered sustainable urbanisation and disrupted the supply of labour in major cities that rely on migrant workers.

By providing affordable housing at reasonable rents in convenient locations, the social-housing program should not only improve living conditions and the quality of life for migrant workers but also help them integrate better into the cities, thereby preventing social unrest.

The breakdown

With regard to the large-scale property developers, the initial concern was that the large social-housing project might overcrowd the market and dry up sales for the large-scale property developers since the majority of the public rental properties to be built would be concentrated in large cities in the coastal region, which host the most migrant workers.

However, the details of the social-housing projects reveal that the risk of crowding out is low because properties being built are aimed at different end users.

Around 43% of the social housing to be built in the central region is expected to be in the form of slum-area reconstruction. The idea is to offer affordable housing to those who cannot afford commodity housing.

The current allocation for 2011 social housing is 10 million units. Of these, 1.6 million units are to be allocated to low-rent housing. These are homes owned by the government and rented to low-income households. They are to be built on land provided by the local government free of charge and the rents are to be set lower than market rates.

Another 2.2 million units are slotted for public rental. The targets here are migrant workers and not necessarily low-income households. The rents are to be higher than those on low-rent housing but still lower than market rates. This is the kind of social housing the government would like to build more of in the future as it would help facilitate sustainable urbanisation.

About 4 million units are for slum-area reconstruction for relocation/resettlement housing while 2.2 million units will be for economic housing. These properties will form part of the general housing market that can be bought and sold. Buyers will be able to get a mortgage from banks to finance the purchase. New owners have to fulfil specific eligibility criteria to be able to purchase these homes. The prices are in general one-third of the market prices of comparable commodity housing.

The effect on the property market

As this breakdown shows, the government's aim is to expand the capacity of housing for lower income earners while reducing the supply at the top end. Initially, the sales volume for commodity housing will be dampened due to current purchase restrictions in 35 major cities that prevent residents from buying more than two properties.

However, numbers are expected to recover given the unabating demand for property, both for investment and living purposes. Despite tightening measures since last year, property prices in China have been resilient because of ample liquidity and expectations that property will retain its value. This is due to the fact property is one of the best investment options among the limited number of such opportunities in China.

Until recently, and due to the size of the ambitious project, land supply and financing was a concern, especially for local governments. However, the recent innovation in financing through REITs and insurance companies viewing social housing as income-yielding projects, as well as the traditional bank loans and subsidies from central and local governments, should be able to see the plan through.

Most importantly, the government's recognition of the paramount importance of social housing to rebalance the economy from being investment-led to consumption-driven and the central government's unprecedented political commitment to deliver on the project should ensure that the objective of the government is achieved.

Important information

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