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# Affordable Housing Policies: What China Could Learn From Canada

Jingyuan Sun  
Western University

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# Affordable Housing Policies: what China could learn from Canada

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## A Case Study of Shanghai

**Jingyuan Sun**

**7/31/2013**

MPA Research Paper

Submitted to

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Department of Political Science

The University of Western Ontario

## **Executive Summary**

This paper attempts to discuss what Shanghai affordable housing system could learn from Canadian experience. The development of affordable housing in China did not start until the late 1990s, and then was promoted to the whole country. After releasing a series of policies, the affordable housing policy formulation is still at its early stage. Thus, learning from other advanced experiences could help to improve its own policies. Shanghai has been chosen as a case study to analyze. Shanghai, as the biggest city in China, lagged behind in promoting the program due to various factors. Though Shanghai gained success in the process, there are still many issues the municipality is facing. Canada, as a social welfare country, has a long history of social affordable housing and definitely more experience to share with other developing countries. The specific comparison city in Canada would be Toronto, and the findings are mainly from the experience from the Toronto affordable housing system. From the history of the development of affordable housing in Canada, we find that what China's government is lacking is the pattern of partnerships with other organizations, and during the process, the power of communities and target groups also need to be paid more attention to. Also, the issue of public engagement is also a hard nut to crack in front of the government.

**Acknowledgment**

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## **1. Introduction**

Adequate and affordable housing is directly linked to individual health, social cohesion and equality, and economic prosperity. Precarious housing is linked to poor health, shorter lifespans, and growing levels of inequality. Lack of access to good housing is a barrier to participation in the social and economic life of the community and impacts the economy not least because employers count on good homes and neighborhoods to attract highly qualified workers.

Shanghai, as the earliest city which developed its market mechanism, has seen the tremendous increase of its finance and economic so that more and more people want to come to Shanghai making a big fortune under such nice circumstances. Though more talents have been absorbed in the city, the city capacity is facing challenges from every aspect, especially the housing area as the housing prices keep going up and less and less people can afford it. Since Shanghai initiated its affordable housing plan in 2009, it has gone through a lot of challenges. However, it is still exploring its own way to offer affordable housing to those low- and moderate-income households. Thus, learning from a variety of models would benefit Shanghai to enlarge its views and take advantage of those models to form a spectacular model for Shanghai to call its own.

### **1.1 Research Question**

Every year, the Chinese central government introduces several housing policies in order to solve the nationwide housing affordability issue. Shanghai started its experimental affordability housing program in 2009, which was a bit later than other provinces, and the municipality selected two districts as pilot spots. The affordable housing programs in Shanghai have been effective by incorporating both supply and demand approaches and successfully targeting at extremely low income groups. Despite the achievements, there is still some room for further improvement. Learning more patterns of affordable housing systems from other countries would assist Shanghai to explore a more fit way for itself.

The housing prices in Canada are also undergoing an increase and more affordable housing is in need. Canada has a complex pattern of affordable housing which has been developed over many years and the system itself is modifying constantly. Thus, the research question this paper will answer is “What can the Shanghai affordable housing system learn from the Canadian experience” With this question, I would like do some research and hope to find out some methods that Shanghai could integrate into its own system.

## **1.2 Theory Sources**

First of all, the idea of affordable housing will be identified in the context of both western and Chinese environment. In the process of research, Canadian government applies public-private partnership to many affordable housing programs, thus the theory of public-private partnership will also be looked into. During the promotion of the affordable housing program, community engagement is worth to be discussed as well because it is not only an important part of public participation but also assist the operation of social service programs. With the implementation of the *Open Policy*, the transfer of the economic regime in China was regarded as the impact of neoliberalism, so the theory of neoliberalism will be applied to examine the change in the housing reform. Applying these theories to the research will enrich the discussion of the paper but also guide the direction of the research.

## **1.3 Methodology**

The main methodology of this paper is case study. The affordability housing policy of Shanghai would definitely be the main focus of the research, and policy of Toronto would be selected as the case study of Canada due to its similar economic development and population. To learn the current policies of both cities, the history of the policies formation of countries need to be examined first and then focus will be put on local policies. The necessary information has been sourced from existing research papers, government released documents and government websites.



#### **1.4 Case Selection**

Shanghai is the biggest and most influential city in China, and its economic development could have a significant effect on China's whole economy and state figure. With its prosperous development, Shanghai has always been used as an advanced example to other provinces. With more and more immigrants crowding into Shanghai, providing affordable housing has become the priority issue of the municipality affairs, especially with high market-rated housing prices. Thus, setting a comprehensive and insightful affordable housing policy not only benefits the municipality but also brings positive effect to other provinces' affordable housing development. Toronto, one of the biggest and busiest cities in Canada, is also the home of tremendous immigrants and has been going through tremendous reforms and changes of its affordable housing and now has consistent affordable housing policies with occasional modifications. Therefore, choosing a similar city offers more reference to the development of Shanghai.

#### **1.5 Study Limitations**

The main limitation of the study is that lacking data to do a more comprehensive quantitative analysis, and most of the research is based on experience research. Question like "if Shanghai government enlarges its public participation, would it be more effective in promoting affordable housing" could not be answered thoroughly, but only on a scale of suggestion.

## 2. Literature Review

The definition of housing affordability by the shelter poverty measure, uses a sliding scale to reflect that upper income group and small households can afford to spend much more than 30% of their incomes on housing and still have enough income left over to satisfy other basic needs, whereas for extremely low income households to pay even 10% of their incomes on housing costs may be forced to forgo essential medical care and healthy food.<sup>1</sup>

Affordable housing includes, but is not restricted to, “social housing”—housing that receives public subsidies but is owned and operated by the government or by nonprofit and cooperative housing organizations (generally known as the “third sector”).<sup>2</sup> In Canada, with the financial support withdraw of the federal government in the early ‘90’s, some not-for-profit and co-operative organizations have chosen to respond to the challenge of providing affordable housing by building a sustainable business model with minimal reliance on government financial support.<sup>3</sup>

The BC Ministry of Finance offered a straightforward definition of P3s: “Public-private partnerships (P3s) are contractual arrangements between government and a private party for the provision of assets and the delivery of services that have been traditionally provided by the public sector”.<sup>4</sup> P3s sees the private sector gradually taking on activities previously considered the exclusive responsibility of the government, as the government becomes the consumer rather than the supplier of services.<sup>5</sup> With the consumer-supplier relationship, P3s is a form of cooperation and collaborative activities in which public organizations are always involved in partnership with private organizations, including business organizations, non-profit organizations, development agencies and international organizations. Besides, there is commitment in a P3s, where a

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<sup>1</sup> Nelson, 2002

<sup>2</sup> Carter, 2009

<sup>3</sup> Svedova, Jana, et al., 2010

<sup>4</sup> Partnership British Columbia, 2002

<sup>5</sup> Colverson, Samuel, et al., 2012

partnership is arranged for long-term duration resulting in some specific goods or services.<sup>6</sup> In the process, the sharing of rewards is clearly necessary if the private sector is to be involved voluntarily, and the idea that P3s permit the optimal allocation of risk is pervasive.<sup>7</sup>

Community has received more and more in recent years, as it plays a vital role in delivering social services. Community engagement is the process of meaningful two-way dialogue and participation in forming decisions that affect the community. The community engagement process is transparent, responsive, inclusive and empowering and is based on realistic expectations, mutual respect and trust.<sup>8</sup>

In China, economically affordable housing has become one form of the indemnificatory housing. Economically affordable housing is ordinary housing constructed uniformly by the government, targeted for those middle and low-income families and constructed according to the national housing construction standard, which is commodity housing of a certain extent of social security. It is the special commodity housing with some preferential policies from the government. Its costs is under strict control, and the price is composed by the compensation of land acquisition and demolition, exploration designing and architecture installation project fee, the early project fee, the taxation, the loan interests and profits under the control of 3%.<sup>9</sup>

The housing reform in China was regarded as the impact of neoliberalism, given its history and its continuing status as a nominal ‘communist’ state.<sup>10</sup> According to Hayek and Friedman’s interpretation, neoliberalism is centered on three main ideas. Firstly, the individual is the normative center of society and should be as unencumbered by rules and collective responsibilities as possible. Secondly, the market is the most effective means through which

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<sup>6</sup> Akhter Khanom, 2010

<sup>7</sup> Ross and Bettignies, 2004

<sup>8</sup> City of London, Community Engagement Policy

<sup>9</sup> Zeen, 2013

<sup>10</sup> Lee and Zhu, 2006

individuals can maximize their own utility functions. Lastly, state actions that interfere with either individual autonomy or market relations lead to an autocratic society.<sup>11</sup> In other words, the markets should be free from state and bureaucratic controls.<sup>12</sup>

As Canada has a rather long history of developing affordable housing system that local government started to seek for cooperation with various organizations and associations under the pressure of fund withdraw of senior governments. In China, as policies are made by the central government and because of the hierarchical structure of the government, local governments have to follow the instructions so that only a portion of related business could be selected to have a partnership relationship. However, with the social regime transfer in China, more and more mechanism is being accepted. The market is open and the impact of neoliberalism could be discovered gradually. Thus, if Shanghai could learn the pattern of developing multi-level partnership would be answered through the research.

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<sup>11</sup> Hayek, 2006; Friedman, 2009

<sup>12</sup> Boudreau, 2009

### **3. Affordable Housing in Canada**

Canada has a long history of affordable housing which initiated almost from 1940s, though going through several ups and downs, affordable housing area is flourish these years. If Shanghai needs to learn its successful experience, then it has to learn the history first. Thus, in this part, the housing policy development history in Canada will be discussed first, and then the focus will turn to Toronto, the case of affordable housing policy that has been chosen for this paper. Alternative affordable housing policies of Toronto will be discussed and a conclusion made of its unique characteristics.

#### **3.1 The Development of Affordable Housing in Canada**

To learn the social housing policy in Toronto, a discussion of social housing policy in Canada could not be skipped, so here is a brief overview of the development of social housing policy in the context of the country.

Starting from the 1950s, and continuing through the 1970s, Canadian government assumed an active role in promoting affordable housing.<sup>13</sup> The early 1950s witnessed the foundation of Canada Mortgage and Housing Corporation (CMHC), when major amendments were made to the National Housing Act that facilitated large scale public housing construction. The priority of policy were: to get the private mortgage market working; to build new dwellings to overcome the backlog from years of low building during the Depression and the War; and to meet the needs of the returning war veterans and the families of the baby boom.<sup>14</sup>

For about a fifteen-year period from 1964 to 1978, Canadian governments moved toward a comprehensive housing policy, including significant programs for the construction of new social

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<sup>13</sup> Van Dyk, 1995.

<sup>14</sup> Fallis.G, 2010

housing units, creating about 20,000 to 25,000 per year.<sup>15</sup> This was a flourish period for the development of housing as there was sustained economic growth and support from levels of governments. Provincial governments stepped into the shared-cost arrangements with CMHC for the construction and ongoing support of public housing. Most of the financing was provided directly through the federal housing agency, CMHC (Canada Mortgage and Housing Corporation), with provincial governments contributing 10 to 25 percent of the capital. The residents paid rent based on income, and the difference between this revenue and the full project operating costs (including mortgage repayment) was covered by an operating subsidy whose cost was shared between the federal and provincial (and sometimes municipal) governments.<sup>16</sup> An additional innovative financing feature was included in the program. Households with incomes more than 4.5 times the rent paid a surcharge that was used to create a subsidy pool for households with lower incomes.<sup>17</sup> However, these reforms led to some criticism because such program often required land in downtown area which aroused panic of crime and vandalism, also limited locations and strict requirements of applicants made the critics harsh.<sup>18</sup> Then reform came. Non-profit and co-op housing programs replaced public housing as the main way to deliver social housing with CMHC and the provinces sharing the mortgage finance and the ongoing subsidy, but often initiated with community support.

However, in next 20 years, public housing program was stagnated. During 1980s, the CMHC no longer provided mortgage loans to non-profit and co-op housing providers in financing the construction of new units, but these groups were required to secure mortgages through the private markets. The federal government declared that it no longer provided funding for new social

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<sup>15</sup> Ibid.

<sup>16</sup> Van Dyk, 1995

<sup>17</sup> Carter, 1997

<sup>18</sup> Fallis.G, 2010

housing units in 1993, and removed itself completely from the funding and management of housing in 1994.<sup>19</sup>

Then it came to the late 1990s, when Canadian's economy surged rapidly so that the voice called for the construction of new social housing became increasing strong, thus, the social housing construction returned to the table. After arguing about what policy should be ranked first in housing area, tackling down the issue of homelessness was put top of the new housing agenda. Both federal and provincial governments took major initiatives to address homelessness through the Supporting Community Partnerships Initiative (SCPI), begun in 1999, which has been regularly renewed and is in place through the Homelessness Partnering Strategy (HPS). And the other initiative was the Affordable Housing Framework Agreement of 2001 as a means of stimulating the increased production of affordable housing. This represented its first significant commitment to affordable housing construction since its exit from the housing sector in the early 1990s. This was based on a multilateral agreement with the federal, provincial and municipal governments on a cost-matching basis of federal grants. Under this initiative, the federal government has decided to decentralize decision making as to where federal monies can be spent to the provinces, municipalities, and the private sector.<sup>20</sup> Thus, municipality service managers have been given granted the authority to use the fund in determining to support their priority housing projects without federal oversight. However, not enough fund has been attained from federal and provincial government as expected, thus the responsibility of providing affordable housing was mainly transferred to municipality governments.

As diverse municipalities have alternative situations, so the priorities and policy could differ a lot. In Ontario, when the fund drawback of upper level government, housing responsibilities fell on municipality governments but without additional revenue generating authority, municipalities had

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<sup>19</sup> Ibid.

<sup>20</sup> Carter, 1997

to operate and deliver additional social services using their existing tax base to promote the affordable housing program. Also, how to cooperate with non-profit and private sectors in addressing the issue of affordable housing is another issue municipalities need to face.

From the history of affordable housing in Canada, it represented a trend of responsibility download. It was put forward by the federal government first and aimed to stimulate the private market as well. The flourish of the program in the 1970s was largely due to the share-partnership among three levels governments. The prosperous economy in the 1990s boosted redevelopment of affordable housing in Canada. However, with the lesson learnt from the financial burden, municipalities played the leading role in promoting the program. Making use of the existing tax base and seeking for public-private partnership are the two main methods that municipal governments use to develop their own affordable housing program. In conclusion, only with strong economy will the government to develop affordable housing. The sharing system among three levels of governments not only expanded funding resource but also decrease the risk and financial burden. However, taking advantage of public-private-partnership for the government, especially the municipal government became a sustainable way to assure the implementation of the affordable housing program because of the human resource and precious experience.

### **3.2 Affordable Housing in Toronto**

In 2001, the federal government introduced the Affordable Housing Initiative (AHI) which marked as a return to affordable housing. The program involved an investment of over \$1 billion spread over 5 years. In Ontario, the AHI is operated under the Canada-Ontario Affordable Housing program (AHP) which was signed by the federal and provincial governments in 2005. Under this commitment, the federal, provincial and municipal government will invest at least \$734 million through the Canada-Ontario Affordable Housing Program (AHP). Over \$364 million was directed towards the production of rental and supportive housing, of which Toronto



received some \$79 million. This has resulted in the construction of some 1,135 new affordable rental units in Toronto. The main objective of this program is to increase the supply of affordable housing in Ontario through partnership with all levels of government and housing stakeholders. There are four main components to the program: housing allowance/rent supplements, rental and supportive housing, northern housing and homeownership. This program relied a lot on municipality service managers for housing delivering AHP Rental and Supportive housing in their areas. Municipalities have great authority in the process of project implementation.

In 2009, the Municipality of Toronto released *Housing Opportunities Toronto Action Plan 2010-2020* (HOT) to set targets that were responsive to the needs of affordable housing. In the plan, it called for \$484 million in annual investments over the next 10 years to assist 257,700 households struggling with high housing costs or inadequate accommodation. It intended to create 1,000 new affordable rental homes annually and extend financial incentives to encourage more affordable rental homes mixed within market housing developments, as well as to increase homeownership opportunities.<sup>21</sup>

A blend of partnership has been engaged in the HOT that a remarkable range of organizations – private, charitable and public – assisting people to find and keep homes in Toronto. Community groups play a vital role in providing valuable services for homeless and vulnerable households, such as the Out of the Cold program; Some humanity organization would help to identify families in need and potential sites as well as volunteers to work on Habitat construction sites; A large number of social housing providers, around 250, are funded and overseen by the City, including Toronto Community Housing; Also, tenants associated together to retain the availability of affordable rental accommodation; And developers continue to create a mix of market and affordable housing.<sup>22</sup> Also, in the research of Griffin, he pointed out that as long as senior

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<sup>21</sup> Housing Opportunities Toronto Action Plan 2010-2020, 2009

<sup>22</sup> The power of partnership, Toronto affordable office website.

government support for housing remains low, the use of intergovernmental and public-private partnerships will be the most realistic and effective way for municipalities to bridge the gap between local public resources and the costs of housing development.<sup>23</sup>

In 2010, the City of Toronto approved 1,073 new affordable rental and ownership homes, supported by funding from other levels of government. In mid-2011, 313 new units of affordable rental housing had been recently completed; 14 projects (2,198 units of affordable rental housing) were in various stages of construction; and 704 units of affordable ownership homes were ready for move-in. The City is on track to surpass its goal which is 1,000 new units of rental housing and 200 units of affordable homes for ownership every year. The HOT Charter states that “All residents should be able to live in their neighborhood of choice without discrimination”, which is corresponding to the City’s Official Plan which recognizes adequate and affordable housing as a basic requirement for everyone. The program states itself as the first of its kind to offer assistance to target people with its initiative, which is impressive that blending the community into the government affairs instead of a top-bottom bureaucratic administration method that communities are no more than passive recipients to take instructions. Enabling the community to participate into the procedure of the administration procedure is no doubt a successful action to enlarge the public engagement.

As homeownership and rental and supportive housing are the two major components of Toronto’s affordable housing system, so a further discussion of these two is as following.

### **3.2.1 Homeownership**

Under the Homeownership component of AHP, lower-income renters can apply for interest-free down-payment assistance loans to purchase a home. Under the AHP, every region in Ontario has been allocated a specific amount of funding to assist low to moderate-income rental households to

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<sup>23</sup> Griffin, 2003

purchase affordable homes through interest free down-payment assistance loans. It will be up to each municipality to determine the value of the loan for each purchaser, in accordance with mandatory program requirements.

According to terms of AHP down-payment loans, the period of the loan is 20 years and there is no interest charged. The unit must not be leased to another party. If the unit is sold within 20 years less than the original purchase price, down-payment assistance would be waived provided the unit is sold at fair market value and the purchase and sale of the unit is an arm's-length transaction.<sup>24</sup> These terms put specific timelines on the loans and regulate a series of punishments for default and violations. Thus, these terms concludes almost circumstances that AHP loans might meet.

In 2011, City of Toronto released a policy called *Home Ownership Alternatives* (HOA) to support the creation of ownership housing for low and moderate income households that contributes to healthy and economically diverse communities. It initiated to assist those who often face challenges finding affordable housing, from newcomers and single parents to seniors and those with disabilities. It provided initial development financing, and avoided high-cost areas and expensive building amenities.<sup>25</sup> Mortgage and shared appreciation repayments to HOA provide the funds for developments and homebuyers loans. Table shows the funding and loans distribution of HOA. And according to their study, the median income of purchasers buying home with the support of HOA is \$48,000, and over 60% of HOA's buyers had incomes below \$67,000 (the Toronto median income at the time).

**Table 1: HOA Program Funding and Loans**

	Government Support	HOA Support	Total
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<sup>24</sup> The Canada-Ontario Affordable Housing Program (AHP) Homeownership Component, 2008

<sup>25</sup> Home Ownership Alternatives, 2011.

Funding	Federal/Provincial: \$3.3 million Municipality: \$2.5 million	2 <sup>nd</sup> Mortgages: \$16.8 million	\$22.6 million
Loans	426	2,354	2,780

Resource: Home Ownership Alternatives, 2011

### 3.2.2 Rental and Supportive Housing

The rental and supportive housing component is primarily focused on providing financial assistance to non-profit and private developers. It required a total of \$364 million in federal and provincial contributions, representing the largest share of the four components. Within the City of Toronto, over \$79 million have been allocated towards the creation of new affordable rental housing under the program. This has resulted in creation of some 1,135 affordable rental units. The rental and supportive housing component is therefore a remarkable aspect of the AHP as it generated the most affordable units of the various components.

Through Toronto Community Housing, tenants could apply a home in 3 ways, which are Rent-gear-to income (RGI), affordable rent and market rent. The average annual income of social housing residents is \$14,854.<sup>26</sup>

About 93% of Toronto Community Housing tenants pay rent-gear-to-income (RGI). RGI is about 30 per cent of the applicant's gross income.<sup>27</sup> The City of Toronto currently administers 93,198 units of social housing, 70,379 of which are RGI.<sup>28</sup> However, with the surge of income, there is administrative burden for tenants, housing providers and municipal Service Managers. Thus, the Ministry of Municipal Affairs and Housing suggested that they would start to simplify the calculation process using an annual income-tax-based RGI system. Although the calculation

<sup>26</sup> Toronto's Vital Signs Full Report, 2011.

<sup>27</sup> Rent at Toronto Community Housing

<sup>28</sup> Toronto's Vital Signs Full Report, 2011.

formulation and administration process is complex, there is still a long waiting list for such kind of rental housing.

For affordable rent, its price is set at or below average market rent that acquires income restrictions to qualify for an affordable rent unit. To qualify for an affordable rental unit, an applicant's household annual gross income cannot exceed four times the annual rent of the unit applicants are applying for.

### **3.3 Summary**

In the history of the affordable housing development in Canada, there is significant relationship with the support of the government. Affordable housing program was put on the top page of the government issues at the beginning so that strong support was offered from every level of the government. However, with the economy recession and policy adjustment, it was laid aside by the government due to the financial burden. Though the program is in stagnant for almost 20 years, the need for affordable housing never stopped. After all, offering affordable housing is the responsibility of the government. When the program was put on the table for the second time, the responsibility was basically downloaded from senior-level governments to the municipal government as upper-level governments reduced the financial support to the program. Every coin has two sides. Having support or not did affect the efficiency and quality of the implementation of the program, but cutting the linkage giving municipalities more authority to conduct their own programs without the permission from senior-level governments.

Through the case study of Toronto's affordable housing program, the government focuses on two things that one is forming benign relationship with public and private and the other is organizations assure sufficient public engagement. With limited funding resources, the City developed a series of programs aiming at different groups of people, especially low- and moderate-income groups, by forming partnerships with a blend of for-profit and non-profit

organizations, associations and developers. Through the public-private-partnership, affordable housing program has been attracting various resources, such as volunteers to assist those low-income people and provide feedback, non-profit organizations to provide consistent help and education program. With the implementation of the HOT, the power of community plays an important role to offer assistance and education to promote the program. Though the construction speed does not parallel to the housing need amount, just as one research pointed out that public-private partnership was a realistic and efficient way to help the City of Toronto to bridge the gap between local public resources and the costs of housing development.

#### 4. Affordable Housing Development in China

In this section, the focus will be put on the development of China, dating back to the original period when the central government first started similar program. And then the section would introduce the most three important affordable housing programs in current China and what the influence of these programs. Shanghai, as one of the four municipal cities in China, also developed its own affordable housing system on the basis of those programs. Thus, the development of affordable housing in Shanghai will be introduced after that.

##### 4.1 The Policy Measures under Different stages of Economic Development

This part examines the changes over time in housing measures towards affordability in relation to different stages of economic development. From 1949 to now, China's urban housing policy has undergone a number of profound changes, which influenced the housing intervention in Shanghai in relation to economic development.

**Table 2: The Development of Affordable Housing in China**

	1949~1957	Regulation of the private rental market, rent control and confiscation of properties owned by warlords.
<b>Socialist welfare housing provision: 1949~1977</b>	1958~1977	Nationalization of properties owned by large landlords; development and distribution of public housing by the government through work units as a welfare service.
<b>Reform Experiments with Commercialization: 1978~1993</b>	1978~1987	Major period of expansion of public housing, particularly work-unit housing. The government conducted pilot urban housing experiments in selected cities, aiming to diversify the

welfare housing provision by restoring private property rights and encouraging individuals to share housing costs.

	1988	It's the turning point of housing reform from pilot experiments to comprehensive implementation in all urban areas, aimed to realize housing commercialization according to the principles of a socialist planned market economy.
	1991	The State Council increased housing investment from different sources, focused on rent reform in the public sector, encouraged sales of public housing and increased housing construction.
	1993	The government modified the 1991 strategy, giving priority to sales of public housing over rent reform.
<b>Move from Welfare Provision to Housing Market: 1994~1998</b>	1994~1997	For the first time, policy aimed to establish an urban housing market to change the housing investment and distribution systems. Establishing a two-track housing provision system, with social housing for middle-income and low-income households and commercial housing for high-income families.
	1998	The government ended direct housing distribution by employers and introduced housing cash subsidies to new and essential employees.
<b>Housing Market Formation: 1999~2006</b>	2003	The government adjusted affordable housing approach and promoted an extreme market system based on so-called ordinary commercial housing in which majority of the urban



population would rely on the market.

		Housing affordability problem emerged, particularly among low-income groups; housing problems began to cause social and economic instability in cities; policies focused mainly on stabilizing urban housing prices through taxation and land and planning policies.
	2005~2006	
<b>Multiple Housing Provision Systems: Since 2007</b>		
	2007	To make strategy for the housing provision system, the government reemphasized the requirement of social housing provision.

Table 1 concludes major policy changes from the foundation of the People's Republic of China in 1949 to 2007 when basic policy of affordable housing was established. At first, housing was regarded as social welfare goods that the government took the responsibility to provide housing with low rent to people. As all the lands were belonged to the states and housing was distributed through working units, so there was no private transaction or housing market before 1978. However, large financial burden was also put on the government as the low rent could not cover the maintenance or develop miscellaneous styles of housing units.<sup>29</sup> This was the reason that urged the government to take actions to make the housing no longer a burden of the country.

Since the launch of the 'Open Door Policy' in 1978, privatizing housing became one of the major concerns of the central government. From 1980 to 1987, some experiments were introduced in selected areas to see the feasibility of various public housing reform measures such as rent adjustment and privatization of the existing stock.<sup>30</sup> In 1988, housing reform started as

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<sup>29</sup> Deng, 2009

<sup>30</sup> Wang and Murie, 2000

government encouraged people to buy their own homes and meanwhile, the government also established housing development funds and to reform the rent system in the public sector.<sup>31</sup> With the implementation of the policy, nationwide public housing units started to be sold to their living tenants at heavily discounted prices. And the units could not be sold would be raised the rent; the increase, however, was much more symbolic than practice because such payment could still not cover basic maintenance costs.<sup>32</sup> In this period, linkage between work units and employees was still strong as living in the units provided by employers had become a mindset and it was not that easy to adopt new methods.

In 1994, the government decided to construct a multi-layer housing provision system for different income groups, like moderate- and low-income households. They could purchase subsidized affordable housing units produced through a program called Economical and Comfortable Housing (ECH), while encouraging high-income families to purchase regular market housing. Meanwhile, a dual housing finance system was also established to combine both social saving and private saving.<sup>33</sup> Potential homebuyers would get subsidized mortgage loans through a compulsory housing saving program called Housing Provident Fund (HPF) as well as by applying for commercial mortgage loans offered by financial institutions. However, work units still play as the major home purchaser during the early 1990s, and employees bought them at a price much lower than the market price,<sup>34</sup> which distorted the market order expected by the government.<sup>35</sup>

Thus, in 1998, the Chinese central government decided to take abrupt action to cut the link between work units and housing provision by prohibiting work units from building or buying new housing units for their employees. Instead, employees had to participate in HPF to get subsidy for buying housing units.

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<sup>31</sup> Liu, 1989

<sup>32</sup> Deng, 2009

<sup>33</sup> Wang and Murie, 2000

<sup>34</sup> Wang and Murie, 1996

<sup>35</sup> Deng, 2009

With the implementation of the 1998 reform, the welfare-housing allocation was officially stopped in early 1999. To boost the housing market, the Central Bank of China in the same year employed a series of policies to stimulate housing demand, including lowering the interest rate substantially and encouraging all state and commercial banks to provide mortgage loans to individual purchasers.<sup>36</sup> Urban residents' living conditions have also significantly improved. The floor space per capita has increased from 18.7 square meters in 1998 to 24.97square meters in 2004.<sup>37</sup> Developing from such cornerstone reform, housing industry has been one of the pillar industries of China's economic development. From 2000 to 2004, China's annual investment in real estate averaged about 746 billion RMB (approximately 109 billion dollars) and accounted for almost 7 percent of the nation's GDP.<sup>38</sup> In this period, a free housing market was gradually formed that people could buy their own home with own will. A little sign of neoliberalism could be seen in this procedure as the market was opened to individuals to have free transactions and without the control of working units, the passion of owning a housing unit climbed to the peak. Since 2007, with the increasing investment in real estate and soaring housing prices, the government released a series of policies to intervene such overheating progress and tried to regulate the housing market. The new regulations were heavily relied on administrative means, such as increasing the deed tax or transaction fees. As a result, the housing price just decreased a little then bounced back. As middle- and low-income families also need their own housing, thus, the central government emphasized the reestablishment of a "social security housing system" and announced the new policy of *The Observations of State Council on the Housing problems of Low-Income Families* in 2007. Ministry of Housing and Urban-Rural Construction clarified this new framework for an urban housing provision system, in which the majority of social –oriented housing included limited-price market housing, affordable housing, and low-rent housing.

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<sup>36</sup> Ibid.

<sup>37</sup> Ye et al., 2006

<sup>38</sup> Ibid.

## 4.2 Affordable Housing Development in Shanghai

Shanghai, located on the western coast of the Pacific Ocean, is the largest city in China. In the past 40 years, the city has evolved from an industrial and commercial city into the largest comprehensive international finance and economic center. In 2010, its GDP reached USD 256.3 billion, with an annual growth rate of 9.9 percent.<sup>39</sup> By 2010, the city has a permanent residential population of over 23 million, 37.5% increase from the population in 2000.<sup>40</sup>

Before 2000, private housing market in Shanghai is in a lukewarm status that citizens didn't even have the sense of purchasing a home of their own, which could be resulted from they were so used to the welfare housing system. However, when the metropolitan stepped into the new century, the housing market became vibrant like a rocket. Since then, the average price of private housing market has always ranked first of the country. From 2005, the price grew into wildness. In 2010, the average residential price in the city reached RMB 20,995 per square meter (approx. USD 300 per square meter) and average housing unit price was RMB 2.6 million (approx. USD 400,000).<sup>41</sup> Besides, the average household disposable income per annum in 2010 was only about RMB 79,277 (approx. USD 12,197).<sup>42</sup> From this, we could see that purchasing an own housing unit has exceeded the ability of most families with own savings or even with a large quantity of loans. It is because that the commodification of housing is the main target of policy measures in Shanghai. The top-down approach to increase the rate of home ownership is one of Shanghai's main housing policies, which affects the housing affordability of lower and middle income groups.

From 2000, Shanghai government has introduced low-rent housing mechanism to the housing market, which is targeted at low-income households. However, affordable housing programs was launched later than most major cities across the country as the private housing market were in its

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<sup>39</sup> [www.shanghai.gov.cn](http://www.shanghai.gov.cn)

<sup>40</sup> China Census, 2010

<sup>41</sup> [www.shanghai.gov.cn](http://www.shanghai.gov.cn)

<sup>42</sup> China Census, 2010

boom and large quantity of private housing was in need in the last decade. Though there was rental subsidy policy, such as HPF, no official plan for affordability housing has ever been released. However, in mid-2009, with the accumulating demand of affordable housing and a series of surveys and public consulting, Shanghai municipality finally release the affordable housing policy to alleviate the housing issues for low- and moderate-income families. In mid-2010, public rental housing policy was also launched by the municipality government.

There are two major programs within the framework of the affordable housing policy, which are *Economic Affordable Housing, Low-rent Housing and Public Rent Housing*.<sup>43</sup>

#### **4.2.1 Economic Affordable Housing**

According to the *Shanghai Economic Affordable Housing Management Trial Practice*, this program is administered by a housing affordable team set by the municipality and each districts government.<sup>44</sup> The construction principle of Economic Affordable Housing is *Led by Government, Run by Market*, which means the construction lots are allocated by the government and bid by qualified housing development companies with good social credit to develop and construct. Meanwhile, in some market housing projects, economic affordable housing would also be built corresponding. In principle, economic affordable housing should stand for at least 5% of the total amount of market housing projects annually.<sup>45</sup> Actually, the ownership of Economic Affordable Housing is shared between the government and purchasers.

The qualified households must meet the following criteria:

- All the household members have to physically live in the Shanghai Municipal Area, and to have a “hukou” for at least seven years as well as in the applying district for at least 5 years.

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<sup>43</sup> [www.shfg.gov.cn](http://www.shfg.gov.cn)

<sup>44</sup> [www.shanghai.gov.cn](http://www.shanghai.gov.cn)

<sup>45</sup> Shanghai Economic Affordable Housing Management Trial Practice, 2010

- The average floor area per capita of the household should be no more than 15 square meters.
- In the past five years from the date of the application, none of the household members has bought any properties.
- Household annual disposable incomes per capital should below 27,600 RMB (approx. USD 4,502), and household asset per capita should below 70,000 RMB (approx. USD 11,419).

To make the EAH connected to low-rent housing, the *Policy* also suggested that in the near future, this kind of affordable housing could be rent. The price is tagged by affordable housing office and should not be higher than the standard price decided by projects cost, areas and the affordability of low-and moderate-income households. In case of applicants apply for the housing making profit, there is limit ownership of the housing. But if applicants do have life improvement or other irresistible factors, the Housing Management Bureau could purchase it back according to normal market-rate price; if the Bureau doesn't decide to purchase back, applicants could make a transfer to others.

#### **4.2.2 Low-Rent Housing**

This is not a new topic to Shanghai citizens because as early as in 2000, this program has been first introduced to Shanghai across the country. The low-rent housing at that time was provided by the government or work units to employees, the living condition of which is not very well. In 2010 October, Shanghai Municipal Government announced a new Low-rent Housing Program. This program aims to provide financial subsidy to qualified applicants when they choose to rent a household in housing market. There is a specific funding item in the municipality's budget for the low-rent housing, also funding from Housing Reform Value Increment, and some second-hand

housing donated by housing owners. However, the policy also keeps some latitude in the case of insufficient rent resources which may be exploit in the future.

A qualified applicant or a family needs to meet a bunch of requirements which are most income limits. According to the *Shanghai Low-Rent Housing Policy Standard Regulations*, there are three levels of income limits, and correspondingly, there are also three ways of subsidy accordingly.<sup>46</sup> For example, if the disposable income per capita in a 3-member family is below 14,400 RMB or 2-member below 15,840 RMB, then the family could get 86 RMB per square meter monthly in city districts, 46 RMB in suburbs areas. If the disposable income per capita in a 3-member family is between 14,400 RMB to 20,400 RMB or 2-member between 15,840 RMB to 22,400 RMB, then the subsidy would be 60 for center districts and 32 suburb districts.

Besides that, rent fee paid by applicants vary according to their disposable incomes. For the first level, family only needs to pay 5% of their disposable income as the rental fee, the second level 6%, the third level 7%. And if the rent housing's space exceed the limited rent area 1.5 times, then the exceeding area need to be paid by applicants as 30% of the rent standard of the low-rent housing. After a certain years of living in the low-rent housing, if the applicants have the ability to afford the current housing, they could apply for ownership-sharing purchasing that transferring the low-rent housing into economic affordable housing.<sup>47</sup>

These low-rent housing mostly are scattered in the northern part of the city, which are a little far away from the downtown area. Considering the high traffic cost in Shanghai, it may add burden to people who live far away from their work places.

#### **4.2.3 Public Rent Housing**

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<sup>46</sup> Shanghai Low-Rent Housing Policy Standard Regulations, 2013

<sup>47</sup> Ibid.

In 2012, a new housing policy has been released which was *Public Rent Housing*. Different with Economic Affordable Housing and Low-rent Housing as their target are only registered citizens in Shanghai, Public Rent Housing successfully includes city migrants with no *hukou* in Shanghai, which making the city more friendly to immigrants and strategically attract talented people come to Shanghai. The ownership of the units belongs to the government and there is no sign that tenants could buy the units.

This policy is set up to solve the housing issues for those who are not in the spectrum of low-income neither could afford to purchase the economic affordable housing currently. The basic requirement is that applicants must have jobs in Shanghai as the first term of the requirements is that the applicant must pay social insurance at least one year which means you must contribute to the construction of Shanghai, otherwise there is no chance for you to enjoy the welfare provided by the Shanghai government. However, the lease could not exceed 5 years as the principal of the policy is to solve short-term housing issues.

Till mid-2013, with the expansion of the construction of public rental housing and limitation of applicants' requirements, around 30,000 units have been finished, and 75% of which have come into use.<sup>48</sup> However, no much information could be found about how large is the gap of the public rental housing, as every year new immigrants come to Shanghai and the price of market housing keep surging.

As the program has only been implemented for 2 years, it may tackle some people's concern and the requirements are not that strict like the former 2 programs. The most challenge it faces is still how to provide enough housing resources to those applicants and the government need to find out a connection with other two programs or a balance point for the funding resources.

### **4.3 Summary**

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<sup>48</sup> Zhang, 2013



Housing has transferred from social welfare to market goods in decades with the economic reform implementation. Though setting housing as social welfare is a tremendous welfare to Chinese people, the central government seemed to be unprepared to afford such huge financial and material support. Despite the quality and style of the social welfare housing, the maintenance cost could spare a large portion of the state's finance which aggravated the financial burden in the post-war period and only relying on the low-scale rent could not even enable the housing sustain. Thus, giving up the idea was predictable. Work unit played an important role in the housing provision all along. It not only linked their employees with the operation of the state machinery, but also took the responsibility of the housing allocation. However, in the proceeding of the housing reform, it became an obstacle to the housing market because employees were connected so close to it that cut off was not that easy.

With the implementation of the *Open Policy* in 1978, housing market was opened along with that. To alleviate the central finance burden, people were encouraged to buy their own house. However, when getting social welfare housing had become a tradition, abrupt change met boycott was reasonable. Propelling the housing privatization for years finally made people to get used the pattern and then the market began to bloom. As there is need, then supply would appear. Housing market has become one of the pillar industries since 1990s. Housing developers, agencies, even work units tried to share the market when there was huge demand of the housing units. Under this circumstance, the housing price went up so high that only high-income or higher-moderate income people could afford to own a house.

Then the regulations of price control came out, followed by affordable housing program as high price and housing shortage became increasing severe. After decades of development, accomplishment could be seen through the development of affordable housing people now have more access to own a home. However, the issue arising from the program could also not be ignored. Though every year, the government put great effort in expanding the affordable housing

scope, there is still huge financial gap to the whole affordable housing program in China. Lower income groups and a portion of middle income group has created housing need, on the other hand better off middle income and upper income groups create housing demand.<sup>49</sup> How to fulfill the needs is still a big challenge for the governments.

Shanghai has developed several programs in respond to the central government's policy, but the gap also exists. Without strong support from the central government, the financial burden stuck the municipality to accelerate the pace of the construction. Also, strict requirements make the application preparation complex that many applicants are confused what is the proper documents need to be prepared. The transfer from low-rent housing to affordable housing still has argument like the increment of the value of the units and whether the unit should be consistent for only one program. Thus, with such many concerns, there is a huge demand that the municipality should learn from advanced experience from other areas and countries.

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<sup>49</sup> Mostafa et al, 2003

## **5. Findings and Suggestions**

In this section, the findings of the research after comparing the affordable housing models of these two countries would be discussed. There are three parts in this section: enlarge public participation, reinforce community engagement and expand the range of public-private partnerships.

### **5.1 Enlarge Public Participation**

Strong control of the Chinese government seems to have been criticized for a long time, though it has been approved a lot in recent years. In the progress of looking for materials and information, there was a big difference between two governments. For funding aspect, especially, Canada government would list the step clearly, from public consulting, councillors voting to the final reports. There are also documents about where the fund came from and how it had been implemented and what the budget would be, precisely to the decimal number. In contrast, there is barely such comprehensive report I could find on Shanghai's government website, all the number is integral and even those portion is vague. So here is the gap between two countries and Shanghai governments really need to improve the public acknowledgement of social housing operation and administration progress.

Governments have always declared that building a democracy society is the priority in every aspect of public affairs, and I think that if referring to new public service would be helpful to explain the benefit and progress of the procedure. According to new public service, public servants serve citizens to enhance the common good, extend the responsibilities of citizenship into their life's work and the government needs to put great value on democracy, citizenship and the public interest.<sup>50</sup>

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<sup>50</sup> Denhardt et al., 2000

Usually, the municipalities' policies and decisions are made according to the guide of the central government. However, as the specialty of the social housing, the central government downloads most of the authority to the municipality government, which could be utilized adequately.

Government should keep in mind that "Serving rather than Steering" to serve citizens rather than manipulate citizens.

Many citizens complain the requirements of the low-rent housing are strict and complex and the government has not considered comprehensively about the real situation of many low-income population. The poverty line the program offered is based on the census which was conducted 3 years ago, but with the inflation and the adjustment of the basic salary, many people are above just a little of the line, however, in that case they are not qualified to apply. Though the formulation of RGI seems equal to people with different income groups, there is still disjunction with the reality. Including the target people more into the conducting progress would definitely promote the program to cover the need of targeted people. Under such circumstance, the government should not only refer to the official document to set the income line, but also considering the income reality of the annual changes to modify the requirements frequently. Like City of Toronto, they acquired the rent should be 30% of gross income of the applicants that it varies according to individuals, which put individuals at the first consideration. Thus, such pattern could be copied to Shanghai case as the rent is charged according to incomes. However, the risk of doing that could be that some people will take advantage of this to make up income to fraud the subsidies.

Furthermore, involving the citizens into the procedure acquires transparency of the government. Transparency not only establishes personal relationships and achieve accountability, but also meets the need more efficiently.<sup>51</sup> A clear report is definitely beneficial for the promotion of the program, not only representing equability for the applicants but also a huge attraction to those

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<sup>51</sup> David, 2011

developers. As most developers are from private housing market and making profit is their priority when they step into a project. If they don't know how much support they would get, why they would bother to consider invest it? Thus, making efforts on increasing public engagement is mutual beneficial to the government and citizens.

## **5.2 Reinforce Community Engagement**

In Toronto, the power of community always plays a significant in social affairs. For the affordable housing, community also stands for a large portion of the partnership, as there are 254 community-based not-for-profit and co-op housing organizations provide social housing in the city.<sup>52</sup> Though the percentage is not very remarkable if relating it to the whole population in Toronto, however, this is a growing force and its work and effect could not be neglected. As an important component of the city, community engagement is also important and Shanghai should not set aside the power of community but could also learn from this to excavate the power of communities. Community engagement is the process of meaningful two-way dialogue and participation in forming decisions that affect the community. The community engagement process is transparent, responsive, inclusive and empowering and is based on realistic expectations, mutual respect and trust.<sup>53</sup> It put community at a positive position not just a passive recipient and the government also needs to encourage communities to engage in the public affair because 'involving citizens in government planning and decision-making is crucial to the legitimacy and responsiveness of government, the quality of public policies and programs, and the effectiveness of services'.<sup>54</sup> Thus, excavating the power of community is crucial to the development affordable housing program in Shanghai, not only expanding the realm of the equability of the policy decision-making progress but also increasing the accountability of the government.

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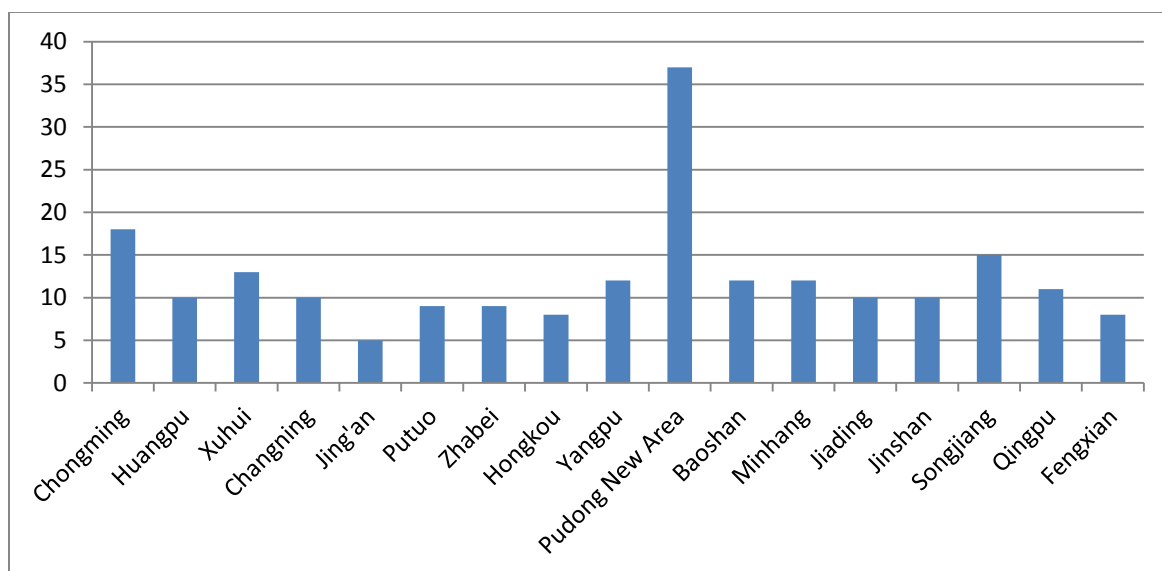
<sup>52</sup> Toronto's Vital Signs Full Report, 2011.

<sup>53</sup> City of London, Community Engagement Policy

<sup>54</sup> Queensland Government, 2005

The administration framework of Shanghai has two levels, the first level is the Shanghai Municipality Government, and the second level is the District Governments, the number of which is 17. However, the district government divides its jurisdiction into several parts where set community center to organize the area affairs. In Chinese, it has a specific name called *Jiedao*. Each district has several communities, take Hongkou District as an example that it has 8 communities with over 700,000 people scattered on the area of 23 square kilometers. If there is at least one community-based organization focusing on affordable housing in each community, then not only the administration burden of the governments could be alleviated, but also people who are in need could get constant and update information more quickly.

**Table 3: The Community Number of Each District**



Linking with the community-based non-profit organizations, the government could conduct comprehensive survey about the low-income populace and know what they exactly need. The most severe question Shanghai social housing faces is not that the quality of the program, but the equality of engaging in the program.

Some public consulting references regarding the social housing are held occasionally, and there are professionals from the policy maker, application center and other volunteers to provide assistance and answer questions. However, as the interval is always several months and with limited area and the number of specialists, many people run over there but have to wait for hours to get answered. And as these programs are still in its preliminary period, government would release some revised documents to fix the policy so that applicants may have to do some changes accordingly. However, as the requirements mentioned in previous chapter are strict and applicants may not always fit to apply for that so they need professional guidance to help them to find the most appropriate program for themselves. Under such circumstance, establishing community-based social housing organizations are necessary, so there is a constant location offering help to accelerate the progress of the application. Also, the community could lean on such organizations to explore appropriate locations for affordable housing within its own area, like those second handed vacant public housing. It could be recorded and reported to upper-level government as a method to develop new area of affordable housing. However, such pattern could not leave the support of both levels of governments and a promotion of such organizations would also need great effort.

### **5.3 Expand the range of public-private partnerships**

Since the 1990s saw the establishment of the P3s as the key tool of public policy across the world as an outcome of New Public Management, public-private partnership has always been an important topic and pattern when government set up projects, especially in western countries. In the history of Toronto affordable housing development, partnership with multi organizations plays a vital role to deliver affordable housing to low- and moderate-income people. There are community groups, charitable organizations, housing providers and tenants associations. A blend of partnership makes the whole program like a net that connections could be linked at every step so that tenants could get enough information and providers could learn the exact need of current

situation. P3s not only enlarged the vision of the government, also saved the energy and time of it as non-government organizations could provide specialists, volunteers and precious experience when conducting similar programs.

China is always regarded as a centralized country that the central government controls all the stuff and the market is suppressed. However, things have changed if explained by the neoliberalism as the times of government to put people's need first is much more than before. And with the development of market economy, housing marketization proved to be the most efficient way to fulfill the housing needs of people, though it also brought about a series of urbanization issues. There is no chance for the government to sit aside and let the housing become luxuries to low- and moderate-income people. As the situation was formed under the influence of the market, the government could also lean on the market to alleviate the tension. As described in former chapters, the affordable housing construction is led by the government, but each site would be constructed by qualified companies. Though the partnership is limited, it could not be regarded as non-partnership.

The Affordable Housing Program could learn from Toronto its partnership mechanism that including a variety of organizations to make the progress more diverse. Though a good relationship with the market investor is important, however, developing non-profit or non-government organizations could make big difference because they could find many potential applicants to offer more help to those who don't learn the policy very well. As the affordable housing program is not aimed at making profit, so are NGOs and NPOs. Same ideas could bind these two parts together to make the program more practice and comprehensive. Besides, as Shanghai is an open international city, there have been hundreds of NGOs and NPOs flourishing in Shanghai now. In Toronto, 254 community-based not-for-profit and co-op housing



organizations provide social housing in the city.<sup>55</sup> In Shanghai, however, there are few non-profit organizations regarding with social affordable housing at present. One reason is that there is no space for such kind of NGO to grow as the affordable housing affair is mainly occupied by the government and those large-scale housing development companies. The other reason is that NGOs lack encouragement from the government and confidence from applicants.

Single funding resource is the main obstacle that the affordable housing is facing. Seeking for the assistance and subsidy from the central government is one way for the government, however, as the richest city in China, the gap I believed would finally filled by the municipality itself.

Exploring a multi-partnership could be another method to reduce administration cost or expand funding resources.

#### **5.4 Summary**

These three findings and suggestions are all based on the research of Toronto's affordable housing policies, from which there is a lot that Shanghai government could refer to. Enlarge public participation has always been an appeal from people, though the situation has been improved a lot during these years, the participation is still limited. Increasing participation not only making the process more practice but also the idea of democracy could be interiorized into the public. Community is gradually becoming a conspicuous force that influencing not only on people living in the community but also having impact on government's decision progress. If Shanghai municipal government put more effort on including community engagement, the affordable housing program could tie closer to the targeted groups. Seeking multi-partnership not only limiting to private housing developer gives the government more choice and chance to develop affordable housing, but the selection and requirements are also another issue when government chooses to have partnership with other organizations. As there are about a hundred

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<sup>55</sup> Toronto's Vital Signs Full Report, 2011.

communities in Shanghai, so if the forces of these communities could be made use of, then the administration burden and the confusion of applicants could both be alleviated a lot. All in all, there is a lot for Shanghai government to do to improve the affordable housing system.

## **6. Conclusion**

Providing affordable housing has become one basic requirement for the government, not only because it has significant relation with people's life quality, but also it affects the safety and economic development of the city. Shanghai, with a rocketing economic development city in China, starts its affordable housing program in 2009, attaining some accomplishment in short period, but it is still in the exploring period. Learning from the experience of Canada, especially from Toronto, not only giving Shanghai a lot experience, but also could learn from the drawbacks. With the impact of neoliberalism, new public management and new public service, there is a lot that Shanghai municipal government could refer to. Learning the experience in Canada of enlarging public management, increasing community engagement and expanding public-private partnership will benefit the development of Shanghai's own policy, however, the situations are not exactly the same, including culture, population, religion, etc. Hence, in the procedure of implementation, Shanghai government needs to consider its feasibility and efficiency.

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