

An Institutional Analysis of the Provision Process of Market Housing in a Transitional Economy: the Case in Guangzhou, China

Abstract

The determination of welfare housing in 1998 could be deemed as the watershed of Chinese housing development, by which the public sector was scaled down dramatically and the private sector came to dominate the stage. Housing provision in the private sector, as a newly emerged issue in China, had attracted interest for both researchers and practitioners. This paper explored the housing provision system in the private sector in a regional housing market, by an in-depth exploration of the development process of a market housing project, using an analysis of actor and structure dualism approach from an institutional perspective. It concluded that the housing provision system was dynamic under the multi-enforcing relationship between the changing wider housing structure and an interest group formed by certain powerful actors under the transitional economy. Particularly the Local State with great economic power played a dominating role in the housing operation. It was the institutional political arrangement that had led to the dominance of market housing, which had caused housing affordability problem and social chaos in China today. It suggested that a fundamental re-organized institutional structure was needed for housing development. At a theoretical level, the institutional theory was identified to be applicable to reveal the complexity of housing development process in China.

Key Words: private housing operation system, actor, structure, China, institutional analysis

1. Introduction

Chinese economic reform from central-planned economy to market-oriented economy has brought about significant changes in the housing industry nationwide. The termination of welfare housing in 1998 can be deemed as the watershed of Chinese housing development, by which the public sector scaled down dramatically and the private sector came to dominate the stage.

The provision system of market housing attracted interest from researchers and practitioners because of its dominant status in overall housing provision, pertinent concerns with human's life and great contribution to economic development. It will be meaningful to carry out an in-depth exploration of the provision process of market housing operated under the new housing institutional arrangements, as it can provide empirical reference for practitioners, implication for policy makers and academic evidence for researchers.

There have been numerous studies on Chinese housing with different focuses, e.g. housing affordability (Chen, et al, 2006; Wu, 2002), regional variation (Huang, 2004), specific housing

actor (Han, 2000; Tang et al, 2006; Zhu, 1999a), the structural environment (Huang and Clark, 2002; Li and Li, 2006; Liu et al 2002; Wang, 2001), public housing provision (Wu, 1996). None has presented a systematic exploration for the provision process of private housing, despite its prosperous development and dominant status. This research will try to fill the gap, taking an institutional analysis to investigate the provision process of market housing, from physical site construction and resource organization to the different strategies of key actors and their interaction process with the wider institutional structure in Chinese newly-emerged private housing market.

The structure of the paper will be as follows. Section 1 introduces briefly the research issue. Section 2 provides background message on the new housing institutional rearrangements caused by housing reform. Section 3 is a theoretical review, seeking for a theoretical approach and a conceptual framework for the fieldwork analysis. Research methodology will be proposed in Section 4. The empirical fieldwork analysis in Section 5 will take an in-depth exploration of the provision process of a market housing project in the case city of Guangzhou. Section 6 summarizes the fieldwork at practical and theoretical levels.

2. Housing revolution in China

The Chinese economic reform has brought about the institutional arrangement changes across industries from a socialist economy to a market-oriented economy. The housing industry is with no exception.

2.1. Restructuring housing institutional arrangements

In many capital economies in private sector, developers normally serve as the dominant housing providers and employers have no direct housing responsibilities to their employees. State affects individuals' housing behavior by providing tax incentives and supervising the housing operation.

In Chinese planned-economy, housing was considered to be welfare benefit rather than commodity. The institutional housing arrangement was simple: state or state-owned enterprises provided housing units for their workers. Workers were allocated housing units according to their ages, ranks and positions, etc, while receiving low wages and paying about 1% of monthly income to their employers for housing maintenance.

In Chinese transitional economy, the housing system is in the process from a welfare housing system with strong relationships among state, state-owned enterprises and households to a market-oriented housing system with relatively weaker administrative relationships among the above three actors. State and state-owned enterprises would be no longer responsible for housing provision for their employees directly. Instead citizens should buy private housing with increased wages. Housing reform brought the emergence of private housing market and a variety of

property intermediary services such as property valuations, mortgage loans, property management and property agencies.

2.2. Re-defining the roles of housing actors

When a market for housing transaction was absent, many market-related actors did not exist. The commoditization of housing created new market intermediaries to service the new-born housing market and redefined the roles of old and new housing actors, mainly including state at central and local levels, investors, developers, land-providers, financial institutions, lawyers, estate agents, builders, buyers, etc.

Housing revolution has generated a new housing environment involving new actors and re-structured arrangements. The nature of housing is being transformed from welfare to commodity. Housing inevitably became complex, linked with characteristics of households and changes of socioeconomic factors under Chinese transitional economy.

3. Theoretical Review

Theoretical review is important as it not only enriches the understandings of the applied theory but also locates theoretical position for empirical fieldwork analysis.

3.1. The institutional approach for housing studies

Housing, as a multi-disciplinary field, affected by ideas from many sources (Doling, 2001). Housing analysis should consider the determinants of housing market changes, using pluralist research methods and analytic techniques (Hickman et al., 2007, Smith et al., 2006).

Institutional approach derives from a broad range of enquiry across the social sciences, e.g. economics, sociology, political science and economic geography (Hodgson, 1988). It regards the economy as fundamentally 'processual' with emphasis placed on the process rather than the achievement of some ultimate equilibrium. The institutional market is broad, involving social norms, customs, instituted exchange relations and consciously organized-information networks (Hodgson, 1988). Institutionalism acknowledged the importance of habits, custom, and psychology factor on individual's conception and strategies (Commons, 1934). "Each market context must be approached separately, with reference not to abstract forces, but to the real, historical interaction among actors and between actors and institutions" (Brandson, 2001, p.6).

Institutional analysis of urban planning environment concentrates on the conditioning of decisions by institutional arrangements and the influence of power on the functioning of markets (Krabben and Lambooy, 1993). It appreciates the complex processes involved in the provision of the built environment and reveals the social interactions and mechanisms by which the market is shaped. "At its weakest form, the institutional approach dominates general property histories"

(Ball, 1998, p.1506).

Many researchers have made contributions to urban geography environment from institutional perspective, revealing the different goals and ideologies of agents and institutions, their relative power in the urban development process, the nature of interactions among agents and institutions and constraint they impose on each other which characterize the property market and also shape the built environment (i.e. Amin, 1999; Ball, 1986, 1998; Bassett and Short, 1980; Brandsen, 2001; Bondi et al.2000; Healey, 1991, 1997; Healey and Barrett, 1990; Rugg et al 2002, etc).

Although institutional approach offers an alternative to the “positivist theories, which reify, idealize and isolate economic structures and individual behaviors” (Guy and Henneberry, 2000, p.2400), it can degenerate into extensive data-gathering and naive empiricism, Hodgson (1998) calls for an emphasis on developing operational principles of categorization as a basis for analysis. As institutionalism does not provide a concrete analytical framework, a “workable” framework to guide the exploration for the housing provision system is needed.

3.2. Set of framework models on housing provision sector

Sophisticated models of the development process are reviewed by Gore and Nicholson (1991) and Healey (1991a). Based on their work, three models, using actor and structure dualism and covering social, economic and political factors emphasized by institutionalism, will be reviewed.

Actor and Structure Model (Healey, 1992)

Healey (1992) devised a model by applying the concepts of structure and agency to explain the complex process of land development process from her study of regeneration of a Tyneside dockyard. The model recognizes the variety of agencies, actor relations, activities and events involved in development process by establishing the link between structure and actor empirically through relating the construction of roles, and the strategies and interest of agencies, to the material resources, institutional rules and organizing ideas which agents acknowledge implicitly and explicitly (Healey and Barrett, 1990).

Although Healey (1992) did not outline the specific housing actors involved in the property development process, she did point out that “the range of actors which could be involved is potentially vast” (p.34). ‘*Structure*’ is said to be the material resources, institutional rules and organizing ideas which actor acknowledged. *Material resources* referred to the primary ingredients of the production process—land rights, labor, finance, information and expertise. *Institutional rules* then governed how resources were used and set by the institution or the political process. *Organizing ideas* influenced the dynamics of resource use and rule formulation in shaping the development process (Healey, 1992, pp. 34–38).

Healey (1992) proposed a four-level framework (Figure 1): Level 1: a description of the events which constitute the process, and the agencies which undertake them; Level 2: identification of the roles played in the process and the power relations between them, Level 3: an assessment of the strategies and interest which shape these roles, and the way these are shaped by resources, rules and ideas, and Level 4: the relation between these resources, rules and ideas and the wider society (p.37).

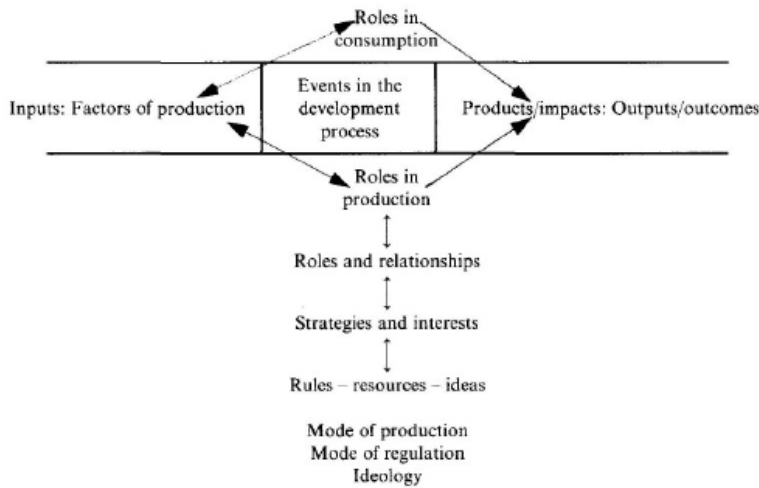


Figure 1: a consolidated model of the development process (Healey, 1992, p.37)

Four-dimensional model (Fisher and Collins, 1999)

Fisher and Collins (1999) proposed a four dimensional model for project development process. Figure 2 illustrates the main components of each of the four dimensions of the process and shows the major interactions between them: “within each dimension the various components interact. the structure influences the actors through the media of resources, rules and ideas; the structure influences the site by, for example, designation under a grant regime; the site’s location and condition influence the actors; the actors pursue their aims and adopt a role(s) consistent with their status; the actors take decisions, make agreements and sign contracts; the actors control the events which occur and the physical change on site; and the events and physical changes that occur feed back to the actors and the structure which then evolve in response” (p. 228).

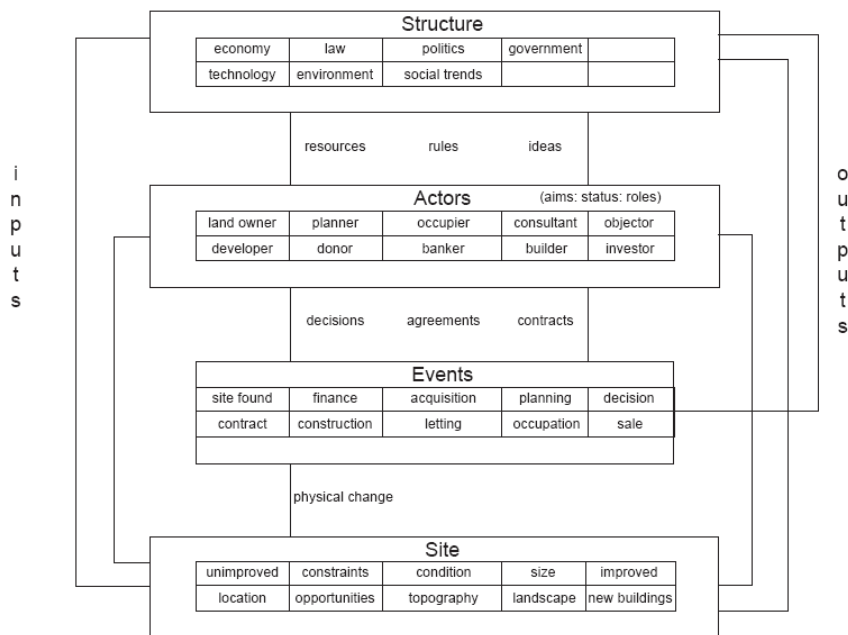


Figure 2: a four-dimensional model (Fisher and Collins, 1999)

Structure of Provision Model (Ball, 1986a)

Structure of provision refers to “the contemporary network of relationships associated with the provision of particular types of buildings at specific points in time” (Ball, 1998, p. 1513). The production and consumption of buildings are not only the physical process of creating and transferring such artifacts to their occupiers, but also a social process dominated by the economic interest involved, in which social relations are formed into the “structure of provision” (Ball, 1986b). In residential property, “a structure of housing provision describes an historically given process of providing and reproducing the physical entity housing, focusing on the social agents essential to that process and the relations between them” (Ball, 1986a, p. 158).

“Contingent contexts are the core of the SOP approach” (Ball, 1998, p. 1514). SoPs are subject to continual change, arising from factors like market pressures, changes in technologies, tastes and policies, and because of the strategies of the organizations involved, which often happen during the development process. Ball (1983, 1986a) stresses that it is the relationships (the arrows in Figure 2) that are the most important element.

Different types of development are operated under different financial, legislative frameworks and socioeconomic and cultural contexts between countries and over time “there could be different types of provision which were country-specific and historically dynamic” (Ball and Harloe, 1992, p.3). Each type of development is seen to have its own distinctive “structure of provision” and can be built into a separate model. This implies that there will be a comprehensive set of specific models (Ball, 1983, 1986, 1998).

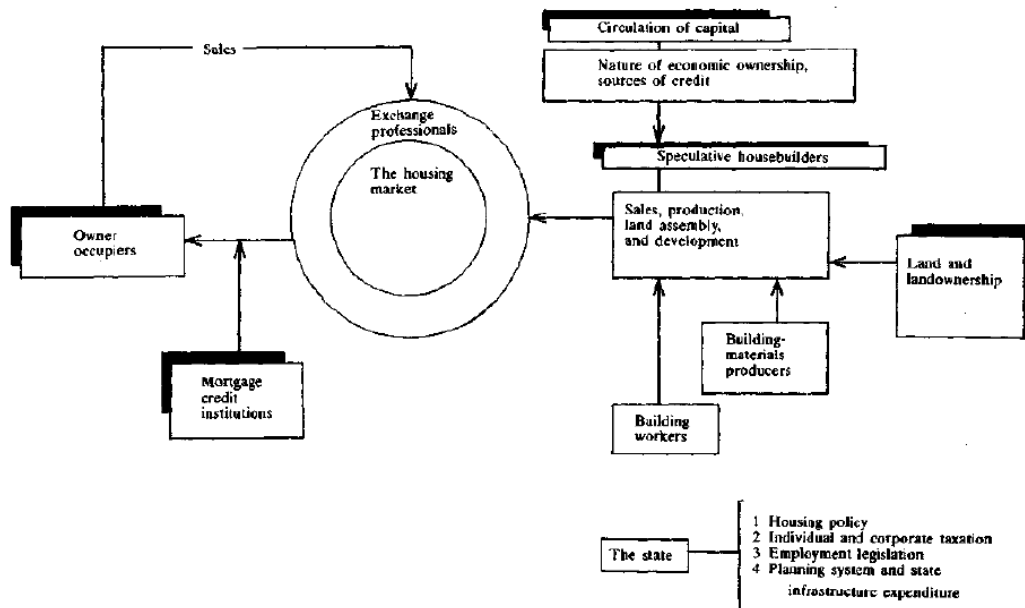


Figure 3: the structure of owner-occupied housing provision (Ball, 1986a)

3.3 A Conceptual framework

The reviewed models provide rich insights into the variety and complexity of the property development. They address the way which the interest and strategies of actors are constituted as circumstances change and how this relates to broader structural environment. They provide full possible context of development process by taking into consideration of the institutional structures within which development activity takes place and the social agencies involved.

Following a methodological model developed by previous studies will set kind of examples for empirical interpretations. Unfortunately such institutional housing provision model for Chinese market housing analysis was not found by the theoretical review. It is naive to try to find a perfect model which could be directly applied to the Chinese housing provision analysis, as these models all were developed in capital economy. An alternative way is to bridge up the theoretical review of housing provision models in market economy with the Chinese institutional scenario and develop a workable model incorporating the following principles: 1). The model should not be devised at an abstract level but focuses on the process; 2). Because “the institutional structure of a property market is place- and time-specific” (Ball, 1998, p.1514), it is impossible to generate a universal applicable model to all kinds of conditions; 3). The context of the model should include “the identification of agents and institutions, their different goals, ideologies and relative power in the urban development process; the nature of interactions among agents and institutions and the kinds of constraint they impose on each other; and the effect of these interactions on the development process” (Bassett and Short, 1980, p.1).

This research will explore the whole development process of a market housing project stressing

on both actor and institutional structure from an institutional approach by using a HAS based-SoP-extended framework, which based on the HAS model with an extended SoP model at Level 2 and Level 3, comprising some crucial factors in Chinese unique social-economic context.

4. Methodology

Many researches appreciate qualitative approach for housing analysis. Qualitative research is concerned with process rather than outcomes or products (Merriam, 1988). “It was evident that various agents drew upon qualitative skills or subjective perceptions in their processes of calculation in their market activities, and at times these outweighed formal market signals, causing conflicts within a changing market” (Miller, 2002, p.231). A qualitative analysis of the perceptions and strategies of key actors, e.g. interviews with housing professionals, consumers, officers and private sector panels, may contribute to whole market quantitative data collection and analysis by providing additional explanations for numerical indicators, providing evidence in the absence of data at the appropriate scale or appropriate relevance (Kauko, 2001).

Case study design is “often seen as prime examples of qualitative research, which adopts an interpretive approach to data, studies ‘things’ within their context and considers the subjective meanings that people bring to their situation” (de Vaus, 2001, p. 10). In general case studies will be the preferred strategy when: 1). *how* or *why* research questions are being proposed, 2) the focus is on a contemporary phenomenon within some real-life context, and 3) the researcher has little control over events (Yin, 2003).

Single case study “can be appropriate when we have a single case that meets all the requirements of the theory” (Yin, 2003, p. 39). Project development process can be regarded as a whole unit. It could be sub-classified into two broad levels: actor and structure, with further sub-divisions respectively. A multi-embedded case study will “avoid examining just some of the constituent elements and ignoring the others. When taken together, it will build up a picture of the case by taking into account information gained from many levels” (de Vaus, 2001, p. 221). A deep-insight exploration of a project development process by an embedded-multi-level single case could reveal the behaviors and strategies of actors and their relationships with the wider world, on condition that the selected project represents the common features of the market housing projects in the case city.

The selected project is a long-term market housing project (15 years) and similar to most other market housing projects do in Guangzhou. Long-term project can increase the explanatory power of the case study because of the more complicated development process under frequent changing housing policies and regulations. In China many pieces of land were offered with large size. It is a usual strategy for developers to split up the whole site into several stages. Within the same site there might be residents occupied already while the surround buildings are under construction and

units are available in the market. The selected project for this research is an example. Thus project development process in China is not limited to housing provision but also production, exchange and usage of the products.

“A major strength of case study data collection is the opportunity to use many different sources of evidence.... finding by case study is likely to be much more convincing and accurate if it is based on several different sources of information” (Yin, 2003, p. 97-98). Five methods will be employed to explore the contextual and situational structure involved in the development process of a market housing project in the case city of Guangzhou, including semi-structured interview, participant-observation, archival records, documentation and secondary data analysis.

5. The Case Study

5.1. Level 1: Structure analysis

In project development process, the range of structure included resources (construction materials, land site, capital and finance, market conditions, information, etc), formal rules in the form of legal documents and administrative decrees and informal rules in the form of customs, habits, “under-table” rules and constraints imposed from other actors.

1). Significant events in development process

There will always be difficulties over the minimal list of events which need to be identified. Careful research is needed to identify the significance of events. Significant variations over different projects may be found, depending on the nature of the project. Referencing Healey (1992)’s treatments, a set of significant events in the project development process were illustrated in Figure 4.

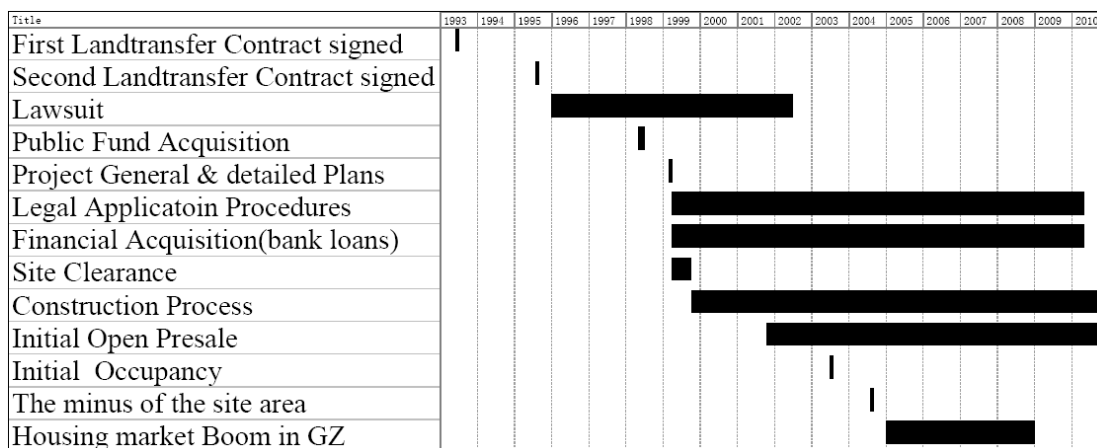


Figure 4: The sequence of events in project development process

2). Input and outcome resources in the project development

In project development process, the essential factors of production included *land, labour, capital, building materials, information* and *professional skills*. In this project *Land* referred to both the land-use-right (granted issue 1992/39) and the physical form of the site. *Labour* included the effects in site clearing, construction work, capital acquisition, marketing exploration and sale, service provision, etc organized by Builder, Investor and Developer, etc. Most labour in the construction sector was immigrants from outside Guangzhou organized by Builder. Experienced staffs with *professional skills* in construction, engineer, marketing and finance were hired. Investor established a sub-company as Developer to operate the project. Developer set up a department as Estate Agency for marketing explorations. *Capital* in this project included five parts: public fund raised by the listing in Stock Exchange in Hong Kong by Investor; bank loans; self-hold capital secured from previous business operations, and presale income. *Building materials* were wholesale-purchased by Builder from unknown providers.

The output of the project development process included 1) property rights. Buyers were entitled the *Ownership Certificate*; 2) physical building structures with symbolic and aesthetic qualities. For example, the 450-meter TV Tower was one of landmarks of Guangzhou (Picture 1); 3) jobs were created; 4) demands generated for other industries, i.e. financial services and facilities, construction materials; 5) profits were made from land purchase, development and construction; 6) environmental qualities were created (Picture 2: view before site development; Picture 3: site under construction and Picture 4: buildings occupied); 7) certain in-site facilities were established, i.e. supermarkets, schools, infirmary, gyms, etc; 8) increase in housing price around the site because of the better environmental qualities by the development.



Picture 1: 450m-high TV Tower in Guangzhou



Picture 2: View before the site development



Picture 3: Buildings under construction



Picture 4: Occupied buildings in the site

5.2 Level 2: roles and relationships of actors

5.2.1. Roles of actors

Actors were involved at different stages with different weights in the development process of this long-term project.

Investor

Zhujiang was one of the biggest property companies registered in Guangzhou in 1993, the very beginning of the prosperity of property industry in China. Being engaging in property industry for 15 years, *Zhujiang* had established good relationships with Local State (and various sub-departments) and financial institutions in Guangzhou.

Foreign Investor

Foreign Investor referred to those companies or individuals from outside Mainland China. In the research project, *Henda*, as a company registered in Hong Kong in 1993, was treated as Foreign

Investor at documentary level. It successfully listed in *Hong Kong Stock Exchange* in 1998 by the afflux of capital from *Zhujiang*, implying its brother relationships with *Zhujiang*. This explained their collaborations in property industry nationwide.

Both *Zhujiang* and *Henda* expanded quickly and set up good reputations after jointly developing over 60 projects nationwide in last two decades. *Zhujiang*, as a local-registered company, normally dealt with land purchases and application procedures by making use of its close relationships with Local State. *Henda*, as a company registered in Hong Kong, could benefit from preferential tax polices. It had an experienced professional team in site designs and marketing strategies from Hong Kong, a city with a developed property operation system.

Developer

It was a popular way in Guangzhou for Investor to register a company exclusively for one project and dis-registered it once the project development completed. The joint Investor established a developer company (*Xinhuang*) for the project operation. In the development process *Xinhuang* acted more likely a performer following instructions from Investor due to the direct administrative relationship. It would be more appropriate to say that Investor took up the role of Developer defined in many western countries.

Xinhuang played a run-through role in initiating the project and organizing collaborations among various parties under resource conditions. It understood clearly its objective in project development: to maximize profits without conflicting with Local State. It compiled project proposal, initiated physical construction, responded to external changes such as housing policies and organized activities (i.e. money lending, permit application and marketing exploration, etc) while avoiding breaking governmental regulations. It made use of the relationships with local organizations by Investor established in their previous business operations.

Although Developer played an all-through role, it was naive to regard that Developer was the most important role in the development process of market housing project in Guangzhou. The role of Developer could be summarized as:

1). High profits: the profit of phase 1 of this project is 38 %, much higher than other industries. *Xinhuang* grabbed every chance to make more profits. It managed to increase the ratio of gross floor area to plot area for the third phase. It designed large-size units which could bring more profits than small ones under same conditions.

2). State-oriented behaviors: All developer interviewees admitted the significance of Local State in the development process and their attempts to please officers as “we are willing to pay

‘small’ to get ‘big’, not only for the existing project but also for future projects”. Developer believed that good relationships with Local State meant saving time and extra income: the project was unlikely to experience delays or rejections in its permission applications.

3). Reliance on bank loans: The capital channels for Developer were limited, including payments form buyers, public fund by stock listing, bank loans and self-raised fund. Capital form banks (loans and mortgage) had constituted big portion of operational capital for developers (Figure 5). Because of the over-reliance on bank loans, *Zhujiang* and *Henda* actively established good relationships with banks. In 2007 with less bank loans available due to the tight monetary policies, *Zhujiang* planned to list in *Shanghai Stock Exchange*, trying to change its strategy of over-reliance on bank loans.

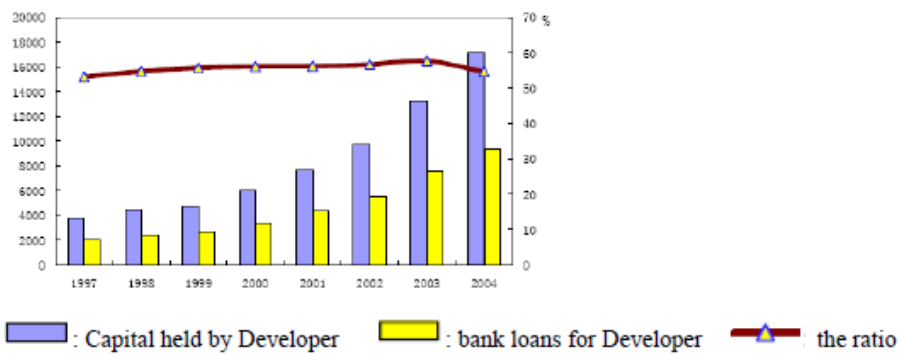


Figure 5: the ratio of bank loans for Developer to Capital held by Developer (RMB 000 million)

Data source: 2004 Central Bank Annual Financial Report p.13 (<http://www.pbc.gov.cn/detail.asp?col=1840&ID=407>)

4). Idle lands: Archive documents showed that 26 out of 31 projects developed jointly by *Zhujiang* and *Henda* in Guangzhou were obtained in 1990s by negotiations. Investor held idle land for future development as kind of business strategy. By holding land in hand, Investor could determine the housing supply and the housing price in a seller market in Guangzhou. Large pieces of land were developed by steps. In the research project, although site was purchased in 1993 and the construction work started in 1999, the forth phase of the site were actually kept idle until 2007.

5). Quality of housing units: In this project, four of six buyer interviewees were unsatisfied with the qualities of housing units. Developer interviewees excused this as “for presale units something by imagination will always be better than the real ones” or “some customers are too critical to be served”. One developer interviewee was straight: “in the development process there are so many issues for developers to do, i.e. apply for numerous permits, carry out the construction work, please officers, apply for bank loans, conduct marketing explorations, preparing for the point-checks from officers, attract customers to buy houses, etc. We are just too busy to care for anything. We are not able to make everything perfect”.

Local State

The strong economic power of Local State decentralized from Central State by economic reform had determined its core position in housing operation system. In the development process Local State played triple roles: 1) governor that supervised the whole development process. According to Clause 29 of Urban Planning Act 1989, local planning authorities must assure construction security and the accordance of project development with the socioeconomic environment. Planning officers jointly or separately, formally or informally, inspected the site frequently to ensure that planning regulations had been properly followed. Some finance institutions scrutinized the project accounting book from time to time with or without notice, to find out any default behaviors or inconsistencies between the accounting book and their actual business operation. Such planning and financial officers could also liberate such inspection work at their own discretion. Fieldwork indicated there were numerous stamps from different authorities in project development. Good relationships with officers were necessary as it could speed up application procedures and smooth the progress; 2) land-provider; 3) close relationship with the previous state-owned banks who provided most capitals for property operation.

From property development Local State received monetary rewards from fiscal income including 1) land-added-value tax, 2) business taxes, 3) administrative fees and related charges from other state-owned departments. It gained also in non-monetary terms. The scale-up of geographical territory of Guangzhou had brought the burdens of infrastructure provision for Local State. By property development, Local State could benefit from low cost or free infrastructure provision by developers. The traditional role of building up infrastructure was moved to Developer. There was a loop among housing development, fiscal income, GDP growth and city outlook: the higher land price was, the more Local State could gain. The faster property development was, the greater contribution from property industry to GDP growth and the more beautiful the city outlook would be. This was also one of the important indexes for career assessments for local officers by Central State. In the case project, Local State served not only as an agency of Central State who bridged up the Central State and Local housing actors, but also an enterprise by taking city planning as business operation.

Because of property-led economic development, Local State, more like an enterprise instead of a governor, collaborated with developers rather than acted as the regional agency of Central State. The immature of newly-emerged housing operation and complicate application procedures for permissions created spaces for bureaucracy. In the “up-bottom” decision making process in Chinese political regimes, individual senior officers were endowed with great powers and discretions in making decisions for some public resources. They might gain personal interest by making use of their powers under active encouragement of developers. Although no evidence from the empirical fieldwork, the corruptions of senior officers related to property industry were

frequently reported by public media.

Empirical fieldwork evidenced that Local State played a dominated role in the market housing operation. State intervention in housing operation was necessary because of the complexity of housing. But an interest-involved role of Local State in a bureaucratic political regime would easily lead to problems in housing operation. It was the political structure for property development that created chances for bureaucracy.

Bank

Bank provided main capital resource for both housing suppliers and consumers (mortgages up to 80 % of total amount). The involved banks included four previous state-owned banks and three commercial banks. It was difficult to point out their contributions to this project by exact figures because bank loans were not project-exclusive: bank loans applied in name of the project (pledged by land or site units) could be used for other projects. As Investor had over thirty joint-projects in Guangzhou, capital flows within projects were frequent. It was believed that *Industrial and Commercial Bank of China Guangzhou Branch* had cooperated best with Investor and it became the designated mortgage bank for the project.

Banks released huge loans to property industry because: 1). As independent enterprises, bank had to make profits from its business operation in the competitive financial market with over twenty banks in Guangzhou. Chinese households kept the traditional habit of putting their savings into banks. With the wage increase by economic development, high savings generated pressures for bank business. At the beginning of every year, bank staff worked in *Lending Department* would receive annual task from headquarters. Their income would depend on the quantity and quality of loans made. Because of “profit present and risk tomorrow” character of bank business operation, bank staff concerned more about the performance of annual task and ignored the potential risk of over loans into property industry either deliberately or unconsciously; 2) the average default rate of property loans was lower than general bank loans. Property loans with housing units as pledges were regarded to be safe and good-quality.; 3) some bank loans were made under pressures from Local State; 4) encouragements from developers.

Buyer

Buyers for the first phase of the site could be classified into up-middle class by income. Most of them were not first-time buyers, either benefited from housing-welfare system or lived in market housing already. 34 % of the buyers paid off the total amount directly to Developer while 63 % chose mortgage services. 30.1 % units were re-sold within one year after the owners received *Property Ownership Certificate*. The average unit size was 136 , although the average size of urban household was 2.69 people and the average living area per capita was 18.87 in 2005 in Guangzhou.

Buyer were criticized for their irrational behaviors in the purchase process, i.e. buying over large units at young age, borrowing money from relatives or friends to afford luxurious house, etc. Buyers purchased large units because “we don’t want to spend time and energy to buy a bigger house in ten years. That might be time-consuming and cost more commission and mortgage fees”. “We are immigrants. Without permanent IDs of Guangzhou our child could not enter local primary school. We borrow money and bought it for the in-site education facility”. “We had been searching for a small ideal unit for one year but no result. Developers will only build large units”. 29 % of buyers were between the age of 20 and 30, who were supposed to have difficulties to afford large-size units. Interviews showed that large-size units purchased by young couple actually were afforded by three households (young couple, parents and parents in law). Normally the parents, who already solved their own accommodations by welfare-housing system, paid the down-payments with life-long savings and the young couple paid for the mortgage. This attributed to the Chinese “only child” policy and close relationships between generations by Chinese culture. The unique 6:1 purchase behaviours boosted up the purchase power of buyers.

Speculative (investment) behaviors of buyers also contributed to the high price in the housing market of Guangzhou. It was claimed that in China the rich (5% of total urban population) held 45 % of the total social wealth due to income inequality. The available personal investment channels were limited, including stock market and property market. Interviews showed that people preferred the latter, believing that it would have more value appreciation space along with the increasing housing demand.

5.2.2 Relationships between key actors

Local State - Central State

In central-planned economy, the relationship between Central State and Local State was consistent: Central State organized all the public sources and responsible for the citizens nationwide. Local State, acting as a regional performer, followed the instructions by Central State and submitted all local income or claimed for deficits from Central State.

In the restructuring of central-local state relationships in 1980s, Local State possessed great economic, financial and administrative powers in regional development. According to the fiscal reform in 1994, annual fiscal income of Local State would be treated as Budgetary Revenue and shared with Central State at the ratio of 60 % (Central State) and 40 % (Local State) respectively (Table 1).

Table 1: the ratio of income shared by Central State and Local State nationwide

Year	Total (billion)	Central State (billion)	Local State (billion)	Central State %	Local State %
1978	113226	17577	95649	15.5	84.5
1980	115993	28445	87548	24.5	75.5
1985	200482	76963	123519	38.4	61.6
1989	266490	82252	184238	30.9	69.1
1990	293710	99242	194468	33.8	66.2
1991	314948	93825	221123	29.8	70.2
1992	348337	97951	250386	28.1	71.9
1993	434895	95751	339144	22.0	78.0
1994	521810	290650	231160	55.7	44.3
1995	624220	325662	298558	52.2	47.8
1996	740799	366107	374692	49.4	50.6
1997	865114	422692	442422	48.9	51.1
1998	987595	489200	498395	49.5	50.5
1999	1144408	584921	559487	51.1	48.9
2000	1339523	698917	640606	52.2	47.8
2001	1638604	858274	780330	52.4	47.6
2002	1890364	1038864	851500	55.0	45.0
2003	2171525	1186527	984998	54.6	45.4
2004	2639647	1450310	1189337	54.9	45.1
2005	31649.29	16548.53	15100.76	52.3	47.7

Data source: China Yearbook 2006; <http://www.stats.gov.cn/tjsj/ndsj/2006/html/H0810e.htm>

Despite great economic powers decentralized from Central State, Local State had been struggling in their regional development with heavy burden of state-owned enterprises who used to rely on allowances and subsidies from Central State via Local State. The document of “Disposal of Income from Transfers of the Land-use-right of the State-owned Land” (issue No: 1992/192) stipulated that taxes from land transfers would be treated as “*Out-Budget Income*”, in which the share ratio was 95 % (Local State) and 5 % (Central State) if payments made in currency of RMB.

The share of fiscal income between Central State and Local State had decided the attitude of Local State towards property development. As taxes from the individual citizens and enterprises could not cover the expenditure on basic infrastructure, education, health, welfare pensions etc in Guangzhou, claimed by the officer interviewee, Local State actively promoted property development because it could bring returns in monetary and non-monetary terms, as stated earlier. Income from property development had contributed greatly to the fiscal income in Guangzhou. Such income, as *Out-Budget Income*, was not recorded in *Official Statistic Yearbook*. But according to the speech on 14th Jan 2008 on the *Eighth Municipal Meeting* held by the Mayor of Guangzhou, the head of *Bureau of Fiscal of Guangzhou* reported that income from land sale was

207,000 million *yuan*, accounting for 44.5 % of total annual fiscal income of Guangzhou in 2007.

Central State and Local State were supposed to be consistent in regional economic development. But fieldwork implied inconsistencies between them. As Local State could benefit more from market housing, social housing and subsidized housing were poorly performed in Guangzhou, despite strong requirements from Central State. “Local State selectively performs Central State policies. Those that could increase the income of Local State were better performed, e.g. tax policies and land bidding policies”, stated by the researcher interviewee.

Local State - Developer

Developer, who aimed to make more profits and Local State, who was desired for more income from property development, easily collaborated in the project development. Close relationships between Developer and Local State were grounded in personal relationships with officers in charge. It could be in monetary or non-monetary terms, e.g. “frequent dinners, gift cards on various holidays (the value of gifts will range according to their positions), helping their children enter into reputable schools (by paying sponsor fees) or even abroad, arranging for their visits to Europe or America”. Keeping good relationships with Local State could also be in the form of employment. Expenditure on such activities would be deemed as administrative fees in the accounting book but most was treated as construction cost where taxes were comparatively lower. The higher construction cost no doubt would lead to higher housing prices in a seller market.

Local State -Bank

As a result of the financial reform, Central Bank would be governed by Central State only and independently carry out monetary policies and financial regulations. Its sub-banks (regional banks) were governed only by Central State in their business operation and no longer controlled by Local State in administrative terms.

But regional banks showed their obedience with Local State in this project. For example, in 1999 *Construction Bank of China* made a loan of 10 million *yuan* following informal instruction from Local State because Developer was going to undertake certain pipe infrastructure work inside the project. In 2004 after the withdrawal of part of the site land by Local State for public use, *Commercial and Industrial Bank of China* made a loan of 12 million *yuan* at a special interest rate as a kind of compensation from Local State. In short-term interventions from Local State could not eliminate as regional banks had to rely on Local State due to geographic reasons.

Developer-Bank

Both as profit-pursued enterprises, Developer and Bank were active in keeping close relationships in the development process. Statistical data showed that Bank had released huge amounts of capital into the property industry, turning the property industry into a capital-clustered field. It was the bank who has

actually constructed the housing units: except for interest gains, Bank released capitals to Developer and Buyer pledged by units under construction or occupied by buyers. Because of the huge bank loans to property industry, boom or recession in property industry were significant to bank business operation.

Developer-Buyer

In the project development process many buyers were hostile to Developer because: 1) during the development process Developer only cared for their profits and did not pay much attention to its service; 2) conflicts raised from the quality of presale housing units, delay in construction work, delay in the issue of Ownership Certificate, etc; 3) Developer, collaborating with Local State and bank, dominated the housing market. Housing price was decided by Developer rather than supply and demand in the market.

Local State - Buyer

Local State failed to provide information for its citizens in their purchase process. Local State was criticized for the poor performance of social housing and subsidized housing projects for the poor and middle class group. There were only seven subsidized housing projects and no completed social housing in Guangzhou by the fieldwork time (May, 2007). Land in city centre, was designed for market housing purpose, which could bring more income for Local State.

5.3 Level 3: Strategies of actors under structural constraints

5.3.1. Wider structure shaped actors' behaviors in project development

Projects were not carried out in vacuum and housing industry was influenced by the transformation of institutional social structure, the ups and downs of the economy and other social changes, which constrained actors' strategies.

Economic context

Statistic data indicated property industry had made big contribution to GDP development and became the core industry in economic development. Housing industry related to many other industries, e.g. finance, labor, steel, concrete, decoration. Slumps or booms in housing industry would be significant for economic development. Central State had to maintain the balance between property development and trade industry for currency appreciation. Central State issued limitations on foreign investment into property market to restrain international capital flows. Central Bank increased interest rate and reserve ratio to control capital flows into property industry. Income inequality promoted speculative behaviours of the rich and weakened the purchase power of the middle income group.

Political context

Political context was embodied by complicated application procedures and various housing policies in property development. Planning guidelines, administrative decrees and housing policies were endorsed by Local State, defining the formal rules in development process. The permit application procedures complicated the development process, implying the necessity for a close relationship between Local State and Developer in which chances of bureaucracy might create.

Social context

Empirical fieldwork did not provide evidence on the influences of culture, informal rules, habits and psychology on Local State and Bank, but they did affect Developer, Buyer in their decision-making process. For example, actors' confidence about market was important in their decision making process. In a booming climate people might act crazily and in a down-turn they might be very conservative. Such prediction forms kind of informal "feeling rules" that drive people to do or not to do. Habit of saving affected the purchase power of buyers and banks' business operation.

Environmental context

Actors had to take into account of environmental effects by project development. Local State felt pressures from public on its city business operation. For example, Officers did not grant the applications of the revised plan from Developer in 2005, as the original plan was already released to public by internet. Although housing development brought a new look for Guangzhou, Local State were criticized by high density of blocks lacking of a "green" dwelling environment. Chaos about housing quality mainly rose from buyers. The predominance of market housing caused social controversies. Some professionals claimed that the life of some housing units would be no more than 40 years, which in a long term wasted energy and resource, against global sustainable development.

5.3.2. A favored housing structure created by key actors

Although constrained by the wider changing world, actors were not just obedient to structural environment in project development. Instead they tried to change the conditions towards the direction which they could get more interest and benefits. Developer, Local State and Bank collaborated and formed a triangle interest group in the property market in Guangzhou. The formation of such interest group had created a new housing environment characterized with the predominance of market housing. Local State was reluctant to develop social housing or subsidized housing projects, instead they show great interest in market housing development through which they could raise more fiscal income and public infrastructure provided by developers and even personal interest gains. Developer gained higher profits from market housing development. Bank made huge loans into housing industry. Crash of housing would lead to same destiny for banking system. As key actors could benefit from market housing, the market housing

development had been prosperous and the construction of social housing had been depressed in Guangzhou. The subsequence of the predominance of market housing would lead to housing affordability problems of expensive large-size market housing units for the middle income group (70 % of the urban population), which would threaten security for whole the society.

6. Conclusions (Level 4)

6.1. Research findings

The exploration of the development process of a market housing project indicated the physical producing process in Guangzhou, such as the building construction, the input and outcome of development process, was similar to that in many western countries, except for the complex application procedures and the constraints on certain resources (e.g. land ownership and capital flow channels). Significant variations were found on the distinct roles and relationships of actors and the involvement of the unique political and economic conditions and the diversified Chinese culture and history background.

1). the dominating role of Local State in the development process

In housing operation process key actors had benefited from housing reform in monetary or non-monetary terms. Central State got rid of the heavy burden of welfare housing provision; Local State got fiscal income from property development and also personal interest; Developer initiated project developments with high profit returns; Bank released “safer” loans to property industry to ensure the profitability of its business operation; Buyers were getting rich by either frequently selling houses as speculators or increasing value in property asset. On the other hand, the middle income group (majority of urban population) was left behind experiencing affordability problems of market housing.

Powerful actors managed to form an interest group to maximize their specific interest. Inside this interest group both the behaviors of Developer and Bank were submissive to Local State with absolute administrative and economic powers. It was the institutional political arrangement by economic reform that had formed the dominating status of Local State in market housing operation. To change the dominating role of Local State and create market-oriented actors, a fundamental re-organized institutional structure was needed by Central State.

2). the dynamics of project development process

Multi-enforcing relationships between housing structure - actors - wider structure - elite actors - favored housing structure were found (Figure 6): 1) the housing reform re-structured the institutional arrangements and redefined the role of actors in housing operation; 2) actors drove events in the housing operation and tried to maximize their interest under resource constraints, e.g. business profits (Developer and Bank), GDP growth and personal political futures (Local State),

remove of the burden of welfare-housing (Central State), cheap good-quality housing units (Buyer); 3) actors were impacted by information around them either consciously or unconsciously. Economic, social, political and environmental contexts outside housing structure affected their strategies in decision making process. 4) elite actors created a favored housing structure. Local State, Bank and Developer formed a triangle interest group, which was strong enough to reshape the structure towards the favored direction and created a market-housing-dominant environment in which they could benefit most from in the housing operation in Guangzhou. On the other hand, the interest of middle income group (majority of urban population) was left behind experiencing housing affordability problem.

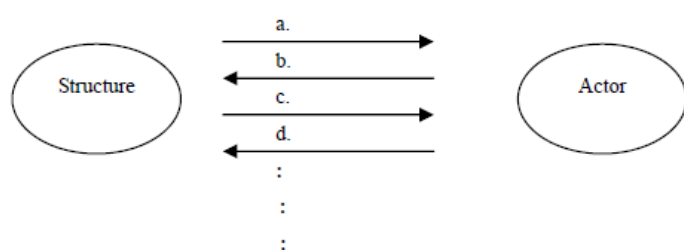


Figure 6: multi-enforcing relationship between actor and structure in market housing development process

The multi-enforcing relationships between interest-maximized elite actors and the changing wider structure in housing operation would continually (shown by the dots in Figure 6). Such relationship would not cease until some significant changes happen in housing institutional arrangements, e.g. land ownership, role of Local State, financial resource. By such multi-enforcing relationship, the overall project development process became unfixable and unpredictable: dynamics was the feature of development process. This accorded with Fisher and Collins (1999): “rational project planning for such development is not well advanced...the development process is infinitely flexible and cannot be prescribed; circumstances alter cases” (p.219).

6.2. Theoretical contribution

1). the application of institutional approach for Chinese housing analysis

Mainstream economists contend that actors pursue their interest within a context set by market signals, in particular by the price mechanism through which supply and demand are brought into equilibrium. Yet the empirical fieldwork had revealed a different story. Actors in the development process were not always to respond to market signals. In certain circumstances actors might compromise in sake of future interest. The obedience of Developer and Bank to Local State were examples.

Empirical fieldwork suggested that housing development in Chinese transitional economy was embedded with economic, political and cultural characters. Institutional approach served well in

this research to delineate a clear picture of behaviours and strategies of key actors within their social-economic-political constraints in the housing operation. Both formal and informal rules imposed considerable constraints on the project. Influences from habits and custom, psychology factors on actors' decision making process, which was acknowledged by institutionalists, was evidenced by the empirical fieldwork. Institutional approach was able to accommodate the complexity of housing analysis in Chinese transitional economy where housing was experiencing revolution with the new emergence of housing market.

2). A proposed framework for Chinese private housing provision analysis

This research tried to synthesize three housing provision models established in capital economics and incorporate them with Chinese research scenario, aiming to build up a model for Chinese housing provision studies. A framework was proposed, which was structured by the HAS model as a basic model with Level 2-3 extended to be SoP-model-like, highlighting the significant factors in Chinese case.

Therefore 1) following the theoretical principles of institutional approach, 2) referencing the theoretical housing provision models established in capital economy and 3) taking into account the Chinese housing scenario, a framework model for housing provision sector in Chinese transitional economy addressing actor and structure dualism from institutional perspective was finally arrive at a clear format (Figure 7). This is a HAS-like-SoP-extended model incorporating with certain crucial social-economic-political factors in Chinese housing operation: 1). *Housing Production Process* at the left side is in form of HAS model; 2). In some cases some background information and knowledge is necessary (especially for regional studies), this constitutes *Housing Constraints*. 3). Analysis of *Housing Market* will be essential for any market-related studies, although here market has a different definition from that in mainstream approach. 4). Although the focus of this research is the housing provision sector, the product consumption also carries weights to illustrate the whole development process of long-term project and understand the formulation for the strategies of the key actors on supply side. This constitutes *Housing Consumption* in the model. The above 2) - 4) actually constitutes a SoP model at the Level 2-3 of HAS model.

This framework is supposed to be able to address the dynamics of development process in which actors and structure multi-enforced each other. It is supposed to be appropriate in applying for the situations where development was strongly influenced by social, political or environmental factors (e.g. China). However it might not be the only framework for similar researches. As Ball (1998) argued that, every housing provision model will be unique for different individual projects. Then main principle is that it could explain clearly the concepts of various disciplines in development process and provide a clear structure which could be easily followed in interpreting the physical development process and analyzing the strategies of actors and the interactions between the actors

and the wider social world. Thus there should be many frameworks in different formats which could be applied into similar researches.

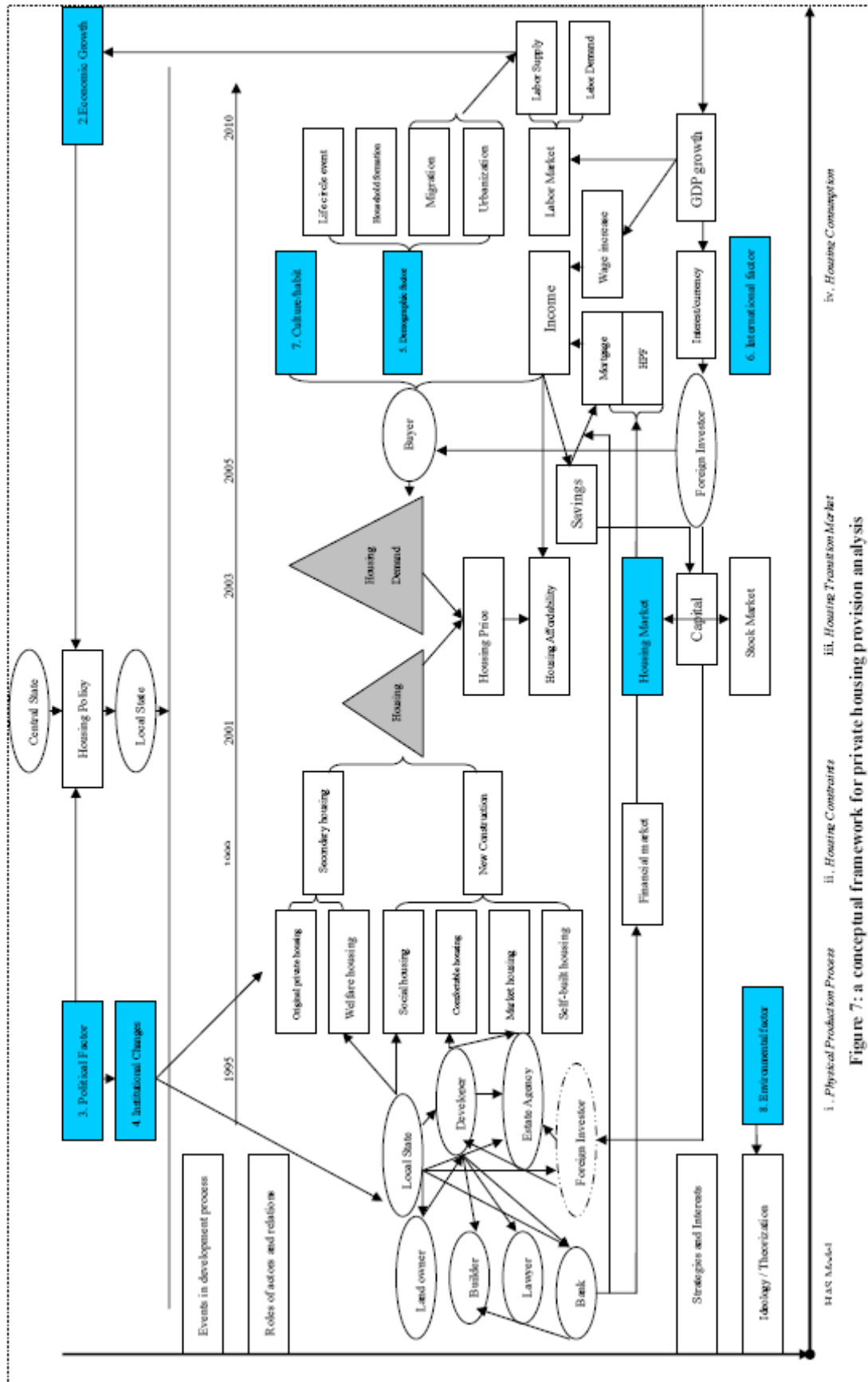


Figure 7: a conceptual framework for private housing provision analysis

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