URBAN LAND MARKET AND THE EFFECT OF REGULATION ON REAL ESTATE DEVELOPMENT IN THE PRC: A CASE STUDY OF SHANGHAI

by

Zhizhong Yang

B.E., Architecture
Tsinghua University, 1984

M.E., Urban Planning
Tsinghua University, 1989

Submitted to the Department of Urban Studies and Planning in Partial Fulfillment of the Requirement for the Degrees of

Master of City Planning
and

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Signature of Author

Department of Urban Studies and Planning
December 26, 1993

Certified by

Thomas Steele, Chairman
Center for Real Estate, Thesis Supervisor

Accepted by

Ralph Gakenheimer, Professor of Urban Planning
Head, MCP Program

Accepted by

William C. Wheaton, Chairman
Interdepartmental Degree Program in Real Estate Development

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Abstract

As China's economic reforms proceed, the Chinese government has made great efforts to introduce market mechanisms in the country's urban land-use and management system. Urban land markets are emerging in many Chinese cities, contributing to huge amounts of investment in real estate, from both domestic and overseas sources.

This thesis examines the urban land markets and the effect of regulation on real estate development in the People's Republic of China (PRC) through a case study of Shanghai, one of the first and most entrepreneurial cities to experiment with the reform in the management of urban land. The main objective of this thesis is (1) to learn and understand the complexities and contradictions of the market as an institution and its implications for development initiatives, and (2) to estimate how both market forces and institutional arrangements affect future development.

I argue that China's urban land market has distinctive features that are likely to remain in the foreseeable future; and these features have had a significant impact on the prospect for real estate development/investment from overseas.

Review of literature on property rights, history of land-use reforms, and interviews with government officials, developers, and professors help to identify five basic features of China's urban land market. They are (1) an emergent market, (2) a unique property-rights structure, (3) a strong and multifaceted role of the government, (4) a multiple price system, and (5) a wide participation in real estate activities.

In the context of these market features, the effects of government regulation on the present and future development activities are examined, both from a macro and micro perspectives. Finally, conclusions are drawn and recommendations made. Some recommendations are provided to overseas developers and investors who are interested in venturing into China's real estate market; others are made to public agencies responsible for managing urban land and designing real estate policies.

Thesis Supervisor: Thomas A. Steele
Title: Chairman, Center for Real Estate
Biographical Note

EDUCATION

MASSACHUSETTS INSTITUTE OF TECHNOLOGY (MIT)  Cambridge, MA
CENTER FOR REAL ESTATE/DEPT. OF URBAN STUDIES & PLANNING
Doctoral candidate (1992 - ), focusing on urban and regional economics and real estate
development. Master of Science in Real Estate Development (MSRED) and Master of
City Planning (MCP), 1993. Coursework included economics, finance, management,
law, statistics, and computer application in real estate and public management. The

TSINGHUA UNIVERSITY  Beijing, PR China
SCHOOL OF ARCHITECTURE
Master of Engineering in Urban Planning, 1989. Bachelor of Engineering in

TECHNICAL UNIVERSITY OF SZCZECIN  Szczecin, Poland
Certificate of Post-graduate Course on Town and Regional Development, 1985.
Coursework included integrated planning methodology, development possibilities
analysis, and planning for coastal and cities.

EXPERIENCE

MASSACHUSETTS INSTITUTE OF TECHNOLOGY  Cambridge, MA
DEPT. OF URBAN STUDIES & PLANNING
Research Assistant, 1990-91
Compiled data on China's national and provincial economies. Helped edit a book on
input/output analysis.

TSINGHUA UNIVERSITY  Beijing, PR China
INSTITUTE OF URBAN STUDIES & ARCHITECTURE
Research Associate & Assistant Professor, 1984-90
Researched and lectured in urban and regional planning methodologies and techniques.
Studied urban development strategies and ways to reform the land-use planning system.
Edited a book on planning policies in China.

MINISTRY OF CONSTRUCTION  Beijing, PR China
TRAINING CENTER/URBAN PLANNING BUREAU
Lecturer and Special Assistant, 1985-89
Lectured each year on part-time basis in refresher courses for senior Chinese officials
from opened coastal cities and special economic zones. Assisted in workshops in which
new approaches to land use planning and management were explored. Awarded a
Letter of Commendation from the Ministry.

SKILLS
Proficient in major word processing, spreadsheet, database, and statistical analysis
applications software (i.e., Word, Excel, dBase4 and SPSS PC+). Courses in Geographic
Information System (Arc/Info), relational databases, PASCAL, UNIX system, and desktop
publishing. Fluent in Chinese and English (Acted as a simultaneous translator in Chinese
and English). Have a working knowledge of French and Japanese.

BACKGROUND
Born and raised in P.R. China. Awarded the honor of Model Student and Model Employee
many times in China. Enjoy long distance running, martial art (Kungfu and Kae Kwon Do),
traveling, and reading.
Acknowledgement

In the course of preparing and writing this thesis, I have received encouragement, support, and constructive critiques from many people.

First of all, I wish to thank Mr. Thomas A. Steele, Chairman of MIT's Center for Real Estate (CRE). I was lucky to have him as my thesis advisor. During my stay at the CRE, I enjoyed his presence and help in many respects. He encouraged me to take on this topic, marshalled resources to support my research, and gave me many critical comments in the whole thesis process.

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As this thesis marks a closure of my joint-master's program at MIT, I cannot refrain from thinking of Professor Karen R. Polenske, who guided me along the way. As my academic advisor, Karen has been continuously giving me academic, moral and logistic support on numerous occasions. I appreciate her help very much.

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Thanks to my parents, who have selflessly encouraged their son to pursue an education abroad in a time when they need me most; to my brother and two sisters for taking good care of our parents.

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Chapter 1
Introduction

Since the People's Republic of China (hereinafter referred to as the PRC or China) adopted the reform and open-door policies by the end of the 1970's, the Chinese government has made great efforts to foster the development of the country's real estate industry. Accompanying the country's remarkable economic performance, its real estate industry has been growing by leaps and bounds. The year 1992 saw an ever larger real estate boom all across the country (See Table 3-4, p. 47). The government has considered that a well developed real estate industry is important for the health of the national economy and the success of the economic reform program. Developers and investors, on the other hand, have found that investments in real estate give them almost a guaranteed high rate of return.

Many overseas developers/investors have been attracted to China's booming real estate market. By the end of 1992, there were more than 2,000 "Sanzi" development companies. With abundant supply of capital and technical know-how, these companies have, as a whole, become an active and important player in the country's property market. Their involvement has not only helped to meet the huge demand for space, but also

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1 According to Rohwer (1992), the annual growth rate of China's Gross Domestic Product (GDP) from 1978 to 1992 is 9 percent, the highest in the world during the same period. Statistics from the Ministry of Construction show that, in the decade of the 1980's, a total of Rmb 600 billion ($128 billion, using 1990 official exchange rate) was invested in construction in all cities and towns nationwide. Twenty-five thousand square kilometers (9,650 square miles) of land was developed, and 6.6 billion square meters (71 billion square feet) of built space added.

2 "Sanzi" enterprises refers to three kinds of business entities that are related to foreigners, namely, equity joint-venture companies, cooperative joint-venture companies, and wholly foreign-owned companies. Joint-ventures are mostly composed of Chinese and international partners. The statistic comes from the Ministry of Construction.
contributed to the reform of the country's policies and regulations concerning real estate development. Lured by the tremendous opportunities, many others that have not yet been involved in China's real estate are contemplating doing so.

The rapid increase of investment in real estate is undoubtedly due to the tremendous demand for space arising from the economic growth; it is also a direct result of the ongoing reform in the country's urban land-use and management system. This reform is aimed at changing the free land-use system to a paid land-use system, and has created necessary conditions for the emergence of a land market.

In any development project, the acquisition and disposition of land is very important. Land acquisition accounts for a large share of the initial development cost. Acquiring land is more important for development projects in China than perhaps in anywhere else, because the market for land is not yet well defined and mechanisms in place for transactions are imperfect. Legal and financial risks can be high, but so far most gains from real estate development and investment have come from increases in the value of land rather than the structures put on it. Because urban land is owned by the State, land deals have been high-profile and politically sensitive; how the market mechanisms are

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3 Hang Lung Development Company, a major Hong Kong-based real estate company that has established a significant presence in China, estimates that in the two projects they have in progress in Shanghai, land acquisition costs constitute more than 30% of the total project costs. See Miu-Yu Cecilia Wan, *A Case Study of the Planning Process of Real Estate Development in Shanghai, China: A Hong Kong Developer's Perspective* (Master's thesis, MIT, 1993). According to Mr. Li Jian, an employee of Investec, a leading real estate consulting firm in Taiwan, land acquisition costs in Shanghai amount to 40-50% of the total project costs.

4 According to Mr. Zou Jiahua, Vice Premier, the focus of the current real estate boom is on land, rather than buildings. It manifests itself in the rapid growth in grants of land-use rights (LURs) and the number of development zones of various kinds. His speech was delivered at the closing ceremony of the National Conference on Construction, held on April 24, 1993, in Beijing. See *Urban Planning News* (No. 9, 1993), p. 2. The newsletter is published by the Chinese Academy of Urban Planning and Design.

5 In 1989, a plan was prepared that involved the transfer to a Japanese multinational Kumagai Gumi (H.K.) Ltd. of the use right of 32 sq km of land in Hainan Province for a price of Rmb 12,200, or $2,600 per acre. The term of the lease was 70 years. This plan angered some members of the Chinese People's Political Consultative Committee. More than a hundred people signed on a petition letter to the State Council, condemning the act as bartering away the country's sovereignty. The deal was shelved until 1992 when it received the direct support of Deng Xiaoping and other top political leaders.
crafted affects public interest. Therefore, the land market commands special attention by real estate developers/investors as well as public officials.

During the past few years, many research projects have been conducted on China's reform of the urban land-use and management system. Both domestic and international institutions, such as the Chinese Ministry of Construction, China Academy of Social Sciences, the World Bank, have devoted considerable resources to such research. It seems that most researchers have examined the land market in China from a public-policy point of view; few have looked at the market in relation to real estate development. Research projects that examine the emergent urban land market in China and from the perspective of foreign developers and investors are even harder to find. In addition, most of the research seems to be descriptive, rather than analytical.

As of today, a majority of Chinese and foreign researchers hold that, by and large, an urban land market does not yet exist in the PRC. Nevertheless, formal land transactions have happened all across the country, contributing to an unprecedented development boom. To the development community and government officials involved in land administration, arguing whether or not there already exists an urban land market is not helpful; it is more important to examine the characteristics of the institution that has been created to facilitate the exchange and management of urban land. The

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6 See the reference for the research project conducted by the World Bank, and the project jointly conducted by the Chinese Academy of Social Sciences and the New York's Institute of Public Administration. Professor David Dowall of U.C. Berkeley has also written on China's urban land market.

7 By urban land market I mean market for land designated for urban uses. In China, all urban land is owned by the State, and rural land by collectives. It is stipulated that only municipal and higher-level governments have the right to dispose of land for valuable consideration. If a parcel of rural land is to be transacted, it has to be incorporated as urban land by municipal or higher-level government.

8 This is mentioned in the report prepared jointly by the Chinese Academy of Social Sciences and the New York Institute of Public Administration (1991). Professor Zhu Xijin of Tongji University held the same view when I interviewed him during my field trip to China.

9 The word institution is used in its broader definition. It means the rules of the games in a society, or humanly devised constraints that shape interaction (North, 1990).
institutionalization of the urban land market in China, plays a critical role in the current real estate development boom. It has also caught the attention of both policymakers and the general public in the past few years due to its perceived imperfections.

In this thesis, I argue that China's urban land market has distinctive features that are likely to remain in the foreseeable future; these features have had a significant impact on the prospect for development activities. The main objective of this thesis is (1) to learn and to understand the complexities and contradictions of the market as an institution and its implications for development initiatives, and (2) to estimate how the distinctive characteristics of the market arising from institutional arrangements will affect future development.

The examination of the urban land market is accomplished through a case study of Shanghai, one of the first and most entrepreneurial cities to experiment with the reform in the management of urban land. The case of Shanghai helps understand the land market in China as a whole because Shanghai's experience has been used as a model for other municipalities. To keep this thesis more focused, I put the emphasis on urban land market for housing. This is because housing occupies by far the largest share of land in development. Specifically, I intend to answer the following questions: What are the key elements of the urban land market in Shanghai? What determines these features, and why are they important? In what ways are they different from those in other countries? What are the driving forces behind the workings of the land market and how does their interaction have a bearing on the market in the future? How do these land market features affect current and future prospects for development? Clearly, I examine both the economic and the behavioral aspects of Shanghai's urban land market.

The methods I use to explore the above questions include review of existing literature and case study via personal interviews with government officials and developers (foreign and domestic). The literature contains two parts: part one is more theoretical, dealing with neoclassical theories of urban land market assessment, and the property rights
approach to institutional behavior; part two consists of existing research on land markets, real estate laws, regulations, and market data for Shanghai and the country. I conducted the interviews during my recent trip to the PRC. The trip also allowed me to attain most of the supporting evidence and vivid first-hand impressions in favor of my argument.

After this introductory chapter, I review the existing literature related to my thesis and outline the methodology of my research. In Chapter 3, I give a general overview of urban land markets and regulations in China. I then examine the rationale for fostering an urban land market, market activities in recent years, major players, perceived problems and the direction of policy development.

Chapters 4 through 6 are devoted to a closer study of Shanghai. Chapter 4 looks at several important aspects of land market in Shanghai, including the general economic and demographic conditions of the city, the evolution of her land-use system, recent land transactions, future demand for and supply of urban land, and the operating mechanisms of the land market. Chapter 5 summarizes the key elements of Shanghai’s urban land market and analyzes how they might evolve. This is followed by a chapter examining the effects of government regulation on real-estate development, both at a macro and micro level.

Chapter 7 presents conclusions and recommendations. I summarize findings in the previous chapters and discuss their applicability to other urban places across the country. Recommendations are made to overseas developers/investors on how they can formulate a successful business strategy for real estate development in China, particularly Shanghai. I also make some recommendations with regard to how government regulations can be improved so as to develop a more efficient and equitable land market.

This thesis addresses the concerns of two groups of people. First of all, it is targeted toward overseas property developers/investors who have started business operations in the PRC, especially in Shanghai, or those who are contemplating doing so. A correct and adequate understanding of the workings of the urban land market, or at least some knowledge thereof, will help them to make sound business decisions and to
choose appropriate business strategies both in the long run and in the near future. Secondly, I hope to provide some useful insights and recommendations to Chinese reformers, land administrators, urban planners, and numerous others in the public sector who have a keen interest in the use and management of urban land. The dual purposes of this thesis are not incompatible. As I show in the thesis, the relationship of the development industry and the public sector is not necessarily an uneasy one as often portrayed in more mature market economies; it is more collaborative than adversarial in the PRC. As a student pursuing a dual degree in city planning and real estate development, I feel it is fitting to address both audiences.
Chapter 2
Literature Review and Methodology

Two types of literature are reviewed in order to assist the examination of the urban land market in Shanghai: literature on urban land market assessment characterized largely by neoclassical economic approach, and literature on institutional analysis, particularly, the property-rights approach.

Literature on land market assessment is important for us to see how the economic fundamentals such as land price are determined. This literature can be found in many textbooks and papers on urban and real estate economics. However, since most of these textbooks or papers are written with the implicit assumption that there are private property rights in land, the theories contained therein have been essentially an analytical apparatus applicable to well developed capitalist or free enterprise economies. An example of the work in this area is *The Economics of Real Estate Markets*, a forthcoming book written by Denise DiPasquale and William C. Wheaton.

Other scholars have studied urban land markets in developing countries. David Dowall, for example, has written on the urban land markets in Thailand, Indonesia and China. In his work, he devotes much of his discussion to the institutional aspects of the market such as property rights, entitlement and government regulations. He clearly realizes that land markets in these countries are different from those in Western industrialized economies.
China is reforming its economic system by introducing market mechanisms as a basic means of resource allocation. Yet it still proclaims to be a socialist country with constitutionally established State ownership of the means of production such as urban land. Indeed it has a very different property-rights system than that in capitalist countries. Even if China were determined to follow the Western model of capitalism, neoclassical analysis of urban land markets would not find the same degree of applicability in China as in highly developed capitalist countries like the United States. This is because the system of private property rights in land in these countries is the product of centuries of economic, social, political and legal change; such a system has not been established in China.

A few authors seem to realize that the urban land markets in China are different from those familiar to the capitalist world. A simple illustration of China’s imperfect urban land market is the fact that urban land is disposed of largely by means of a series of closed consultations and negotiations. Open bidding or auction that allows competition is seldom practiced. It is realistic to assume that China’s land market cannot be understood without due regard to the institutional arrangements and influences.

Property rights are an important part of social institution in the human society. Because there are systematic differences in people’s behavior and economic results among different property organizations, a property-rights approach can be used to better understand the workings of China’s urban land market. The development of the modern

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11 According to the people I interviewed, more than 90% of the cases of grant of use rights of State-owned land in Shanghai was conducted through negotiation. The percentage is even higher in Beijing.

theory of property rights is considered to represent one of the most important advances in economic thinking in the past few decades. In the literature on property rights, different behavioral models have been presented under different property-rights systems, including centralized and decentralized socialist economies and less developed economies.

Next I review the existing literature on both the neoclassical economic approach to land market assessment, and the institutional analysis, particularly, the property-rights approach.

2.1 Literature on Land Market Assessment

Of vital importance in the conduct of real estate business and government land administration is the price of land. Urban land price is perhaps the most important determinant of the type and intensity of development at particular locations. The value of land is also a major element in the value of property.

Despite the importance of urban land price, even in highly developed capitalist countries there is a dearth of theory by which to understand the forces at work, and only a meager amount of empirical data.

Most economic analyses of urban land markets presume Western-style exclusive, transferable, alienable, and enforceable private property rights in land. In this case, institutions can be omitted without seriously distorting the analysis.

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13 Ibid.

14 In 1968, Grace Milgram prepared a report for the consideration of the National Commission on Urban Problems. Interestingly, a major point of the report, entitled "Land Prices--Directions and Dynamics", is the surprising lack of detailed, solid information about land value.

Because urban land is a fully differentiated product, it is difficult to speak about the supply of, or demand for, land at any particular location. The supply of land or housing is quite price inelastic because it is fixed at each location. On the other hand, the demand for a particular site is quite price elastic. Based on the above features of the urban land market, economists developed a simple approach to determining land and housing prices. They argue that land must be priced at each site to exactly "compensate" its occupant for the locational advantages existing at the site. This theory of "compensating prices" assumes that only demand considerations determine the relative prices of land for housing at different locations. The regional supply of land plays a role only in setting the overall regional level of prices.

In this model, land value depends on the expected returns from the use to which it is currently put, the expected time of change of use, and the expected returns from the more intensive use of the future. People or firms with different utility functions compete for locations and all land goes to the highest bidder.

In the case of housing, expected returns from housing projects is called housing rent. At any location, it is the sum of three parts: housing capital costs, agricultural land rent, and locational rent. Urban residential land rent is a hypothetical rent containing locational rent and agricultural land rent. It can be thought of as a residual -- rent you receive after you subtract the rent for housing capital from the rent for housing. Prices for urban residential land are nothing but the capitalized value of the annual expected net stream of rentals. Such prices also have three components: the present discounted value (PV) of the agricultural rent, the PV of the locational rent, and the PV of the expected

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17 Ibid.
future increases in locational rent.  

According to this theory, it is not proper to assess the demand for, and supply of, urban land per se; it is appropriate to study the demand for, and supply of, a particular use to which the land is, or will be put, say residential or industrial. Therefore, land and its use are not separable.

In the case of residential land markets, a generalized market assessment for valuation purposes usually contains the following:\(^{19}\)

* Delineation of the housing market area;
* Demographics describing household income; distribution, household size, tenure, population growth rate, population density and characteristics;
* Current market conditions including housing stock composition, vacancy rates, current prices, rental rates, and absorption rates;
* Future market demand and supply. Changes in demand can be examined through net immigration, new household formation and household mobility. Supply factors include current new construction activity and current vacancy rates;
* Particular institutional factors and directions of urban growth.

By comparing demand and supply factors for housing development, an estimate can be made of the total value of the housing unit based on its market price. The market price net of housing capital costs should be the price for land.

The model is theoretically sound, but it is yet to be tested by empirical data. The reasons for insufficient empirical support are manyfold. First, practical difficulties with

\(^{18}\)Ibid.  

getting land value data are very hard to overcome. A land price index, an important tool for assessing land markets, does not exist in the U.S. In addition, the following factors are often cited as the major difficulties for gathering data to do empirical research: (1) At any time only a small amount of land is transacted, therefore, such sales may not be representative; (2) There are hardly any repeated sales of an identical piece of land in terms of improvement and environment; (3) Sales prices are often hidden; (4) It is hard to separate land value from the total value of the property. 20

Second, cases of market failure exist in highly developed market economies. This can be shown in Bacow's analysis (1990) of the forces behind the escalating land prices in Tokyo, and the consequences thereof. 21

If land market assessment is difficult in well-developed market economies, it can be imagined how such attempts can be handicapped in developing countries where institutional arrangements of urban land markets are different, and good and reliable data is almost nonexistent. Recognizing the difference and limitations, some scholars who study urban land markets in developing countries tend to pay considerable attention to the institutional aspects of the market.

In his study of land markets in Indonesia, Ferguson (1992) finds that government regulations and other factors such as the structure of the development industry limit the supply of developable land and impose other costs on development. He examines four aspects of the regulatory procedure: location permits, the price of land in areas permitted for development, processing delays and informal and formal fees, and the duration of land...

20 v. Milgram, op. cit.

21 v. Lawrence S. Bacow, "The Tokyo Land Market," Center for Real Estate, MIT (Working Paper #26, 1990). In his paper, he examines a multitude of factors, including tenant rights, overutilization of land for agricultural purposes, inheritance and capital gains taxes, and cultural values, that contribute to extraordinarily high land price in Tokyo. His main point seems to be that institutions and policies regarding land do matter.
rights. He also calculates the regulatory cost of formal development and concludes that the total cost of the above regulations is approximately one-third of the total project cost.

David Dowall (1991) also stresses the importance of institutional arrangements for urban land markets. In a discussion paper, he points out that in order to develop an urban land market in Shanghai, the city needs to carry out necessary fundamental reforms in property-rights arrangements and to put in place land-market inducing mechanisms such as taxes and auctions.

2.2 Literature on Property Rights and Economic Behavior

The presumption of exclusive, transferable and alienable rights in land is frequently inaccurate and potentially misleading. This is particularly true in a developing country like China that is undergoing a realignment in property-rights in land. In this case, the complex nature of institutional arrangements in general, and property rights in particular, needs to be described and its impact on economic behavior of various parties needs to be studied. Fortunately, economists have developed abundant literature in this regard. In fact, a type of institutional analysis, characterized by property-rights approach, has been regarded as a major development of economic thinking since the World War II.  

Institutions are rules of the game that shape human interaction in a society. In consequence, they structure incentives in economic, social and political exchange. North (1990) in his recent book Institutions, Institutional Change and Economic Performance, provides an analytical framework to integrate institutional analysis into economics. He maintains that a useful model of the macro and even the micro aspects of an economy must build into it the institutional constraints.

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22 Major contributors to the development of economics of property rights include, to name a few, Armen A. Alchian, Ronald H. Coase (Nobel Laureate), L. De Alessi, Harold Demsetz, and Douglass North (Nobel Laureate).
Feder and Feeny (1991) classify institutions into three basic categories, namely, constitutional order, institutional arrangements, and normative behavioral codes. Property rights in land is included in institutional arrangements which are created within the rules specified by the constitutional order. As a social institution, property implies a system of relations between individuals. Such a system involves certain kinds of rights, duties, powers, privileges, forbearance, etc.\(^{23}\) Property rights are a bundle of characteristics: exclusivity, inheritability, transferability, and enforcement mechanisms (Alchian and Demsetz 1973).

The property-rights approach emphasizes the interconnectedness of ownership rights, incentives, and economic behavior. In explaining why property rights impact the performance of the economy, Libecap (1989) states two reasons:

*First, by assigning ownership to valuable assets and designating who bears the rewards and costs of resource-use decisions, property rights institutions structure incentives for economic behavior within the society. Second, by allocating decision-making authority, the prevailing property rights arrangement determines who are the actors in the economic system.*\(^{24}\)

Of particular interest to this thesis is the literature on property-rights analysis of organizational behavior. Property rights analysis is based on the view that behavior depends on the appropriability of income streams, that is, on the effective rights to various kinds of income, pecuniary or nonpecuniary. These rights are actually rights to control the use of resources and to enjoy the benefits arising therefrom. Appropriability is then determined by a set of constraints, such as monitoring and policing from the outside. If


direct monitoring cost is high, and there is no extra policing device, the decisionmaker in an organization is apt to use the power to gain personal benefits. This means he/she may not align his own interest with the interests of property owners. If his/her behavior is not value-maximizing for property owners, the market prices will be distorted.

Numerous authors have applied the property-rights approach to different situations. In fact, one of the strengths of the approach is that it provides testable propositions about economic behavior. In socialist countries, it is found that due to the egalitarian compensation scheme, government officials and firm managers are more likely to pursue unwarranted personal interests. The attenuation of rights to net income reduces the costs of their seeking other satisfactions, including perquisites of office, public reputation, power, and patronage.

2.3 Methodological Framework

The urban land market in China is the direct result of the country's comprehensive economic reform. Its emergence was only possible after the reform of the country's land-use and management systems, which substantially changed the property-rights relations in urban land. This reform began to introduce market mechanisms into the system of urban land allocation only in the late 1980s. There is a long, long way to go to build a true market-based system, if the Chinese government so desires.

Because China's emergent land markets are based on a property-rights structure in transition, it is unlikely that the urban land markets and the behavior of the various parties can be fully understood within the neoclassical framework. Supply and demand is not all there is to the Chinese market. Because urban land market is also a man-made institution, we cannot separate its form and outcome from the property-rights arrangements, and the incentive structure derived therefrom, of the various players and stakeholders. Therefore,
it is absolutely crucial to incorporate institutional analysis, particularly, the property-rights analysis, into the economic analysis of the market.

This thesis uses an integrated economic and institutional analysis as its methodological framework. Integrated means that the two types of analysis are combined into one. Emphasis is placed on the hypothesis that demand and supply are not the only factors that determine land prices; of equal importance are the institutional arrangements that affect the behavior of market participants.

This combined approach should be more useful to the potential developers and investors from overseas who want to venture into China's real estate market, as well as policymakers responsible for the development process in the country. I hope that this approach will not only help explain the factual evidence of the market (thus, identifying the special features, or imperfections, of China's urban land market), but also estimate the directions and dynamics of future market conditions. Such an ability to explain and predict is important to strategic business decisions.
Chapter 3
Urban Land Markets and Regulations: A National Perspective

3.1 Introduction

This chapter examines the land markets and government regulations on urban land disposition and development from a national perspective. It serves two purposes. First, it provides contextual information that will help, in the subsequent chapters, the discussion on, and the analysis of, the urban land market in Shanghai. Without this context, it would be difficult to understand why Shanghai's land market operates as it does, and to estimate to what degree the case of Shanghai is generalizable. Second, by outlining the major goals and objectives for the development of the real estate industry at the national level, we can make an educated guess of where the urban land market in Shanghai may be headed.

The analysis begins by giving a brief history of the evolution of the country's urban land-use system, paying special attention to property-rights changes in land. Then I look at market transactions in recent years and the perceived problems. This is followed by an analysis of major players and their roles in the process of land disposition and real estate development. Finally, an overview of the directions of national policies regarding urban land-use reform is presented.
3.2 Reform of the Urban Land-Use System and the Land Market

3.2.1 Chinese Cities in Perspective

By the end of 1992, China had a population of 1.15 billion.25 There was a total of 517 statutory cities with a population of 163.3 million. In addition to these cities, there was a total of 14,191 statutory towns across the country. The total population in cities and towns was about 231 million, accounting for about 20% of the total population.26

By population size, Chinese cities are officially classified into four categories: extra-large cities, large cities, medium-sized cities and small cities. Table 3-1 shows the number of cities in each category in 1991 and 1992 and the definition of the classification method. Geographically, most cities are located in the eastern and central part of the country where the population is concentrated (See Figure 3-1, p. 31).27

In terms of land use, the built-up areas of cities occupied 13,400 sq km (5,174 sq miles) of land in 1992. An additional 8,300 sq km (3,205 sq miles) was under development in towns in 1990. By contrast, cultivated land in China totaled about 1 million sq km (386,100 sq miles) and the built-up area of rural villages and townships occupied an additional 140,000 sq km, or 54,054 sq miles (1985). Cities and statutory towns cover an area equivalent of 2 percent of China's cultivated land area.28

A major research conducted by Lin Zhiqun (1992) shows that though the average share of urban built-up area per urban resident in China is lower than the world average,

25 People in Hong Kong and Macao, and people in military services are not included.

26 These statistics come from Urban Planning News, No. 9, 1993. It is a newsletter prepared by the Chinese Academy of Urban Planning and Design.

27 China can be roughly divided into three parts: eastern, central and western China.

28 The statistics was quoted from a World Bank Report presented by a preparation mission headed by Andrew Haymer. The report was entitled "China Urban Land Management: Options for an Emerging Market Economy."
Table 3-1  Number of Chinese Cities by Population Size, 1991 and 1992

<table>
<thead>
<tr>
<th>Category</th>
<th>1991</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra-large cities</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>Large cities</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Medium-sized cities</td>
<td>122</td>
<td>141</td>
</tr>
<tr>
<td>Small cities</td>
<td>292</td>
<td>314</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>475</td>
<td>517</td>
</tr>
</tbody>
</table>

Note: Chinese cities are officially classified into the above 4 categories according to the non-agricultural population residing in urban districts and suburbs.

- Extra-large cities: 1 million or more
- Large cities: 500,000 to 1 million
- Medium-sized cities: 200,000 to 500,000
- Small cities: 100,000 to 200,000

China's urban land-use structure has several significant drawbacks. First, industrial land occupies too much urban land. Second, land for highways and roads is a surprisingly small percentage. Third, there are no clearly defined Central Business Districts (CBDs). In fact, land for commercial uses, usually a significant designation in other countries, is not even included as a separate category in the official statistics.

Although Chinese cities do not encompass a very large portion of the country's population and land area, these cities have been growing rapidly and are making significant contributions to the national economy. During the 1980s, economic activities within China's cities and statutory towns, which accounted for more than half of the Gross Domestic Product (GDP), grew well over 10 percent per annum. The urban population grew at 5 percent per year between the census of 1982 and that of 1990. The size of built-up areas of cities and towns expanded at 6 percent per year in the aggregate. The scale of urban residential and nonresidential investment grew at equally dramatic rates, adding 6 percent to the existing stock each year and accounting for 10 to 15 percent of urban GDP.

Of all the Chinese cities, two groups are particularly important to mention here. They are Special Economic Zones (SEZs) and Opened Coastal Cities, all situated in

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29 According to statistics of the Ministry of Construction, industrial land constituted about 26.43% of urban built-up areas in 1990. In contrast, the corresponding number was about 10% in Japan in 1981 (Zhou, 1992).

30 In 1991, land used for inter and intra urban transportation in all Chinese cities occupied less than 12% of all urban built-up area. The statistics was 43% for Japan in 1981 and 20% for the Tokyo region in 1979 (Zhou, 1992).

31 Such uses have been incorporated into the "residential" and "public facilities" categories.

32 v. Institute of Finance and Trade Economics (IFTE), Chinese Academy of Social Sciences (CASS); Institute of Public Administration (IPA), USA, "Urban Land Use and Management in China," Draft for Discussion, 1991.

33 The first SEZs were established in 1980 to attract foreign capital. Foreign investments in these cities enjoy special preferential treatment in land use, taxation, foreign exchange, etc. There are four SEZs, namely, Shenzhen, Zhuhai, and Shantou in the Guangdong Province and Xiamen in the Fujian Province. In 1984, the State Council designated 14 cities Opened Coastal Cities in order to attract foreign capital and technology. Foreign-funded enterprises, or "Sanzi" enterprises in these cities enjoy tax
coastal provinces. These cities contribute significantly to the national economy. Together they accounted for 20% of the urban GDP in 1991.\textsuperscript{34} They are among the first to experiment with the reform of urban land-use systems. Figure 3.1 shows the location of these major Chinese cities.

The increasingly important role the Chinese cities play in the national economy results from the national policy of economic reform; it is also apparently attributable to the reform of the country's urban land-use system. This reform, started in the early 1980s, substantially changed the property-rights arrangement in urban land and consequently created conditions for the emergence of today's urban land and property market.

3.2.2 Land Policy Evolution and Property-Rights Changes in Urban Land

Before the communist takeover in 1949, China had a private property-rights system in land. As a subsistence agrarian economy, property rights in rural land was characterized by a highly unequal private ownership and a highly fragmented use and management.\textsuperscript{35} Urban land, constituting only a small portion of the nation's total land, was owned by foreigners, the Kuomintang government, and private individuals.\textsuperscript{36} According to Cai (1986), 90% of urban land was privately held, among which 20% was owned by foreigners. Land and property leasing and the real estate businesses were developed to a considerable degree in cities.\textsuperscript{37}


\textsuperscript{35} According to Dong (1991), the landed class constituted less than 10% of the rural population, but occupied 70-80% of cultivated land.

\textsuperscript{36} V. IFTE/CASS and IPA, \textit{op. cit.}

\textsuperscript{37} Please refer to Chapter 4 for a brief discussion of real estate in Shanghai before the founding of the PRC.
Figure 3-1 Location of Provinces and Major Cities, PRC.

Under the private land-ownership system, the ownership and use rights of land were separated. Land transactions were relatively active, but the land market did not seem to function well. Land speculation was rampant; land prices were exorbitantly high in cities, and the taking of land by force or trickery was a common phenomenon. Excessive concentration of proprietary rights in both rural and urban land led to serious social conflicts. It can be said that the modern history of China is beset by struggles to solve land problems.\textsuperscript{38}

In response to the social and economic crises of the time, various political interests put forth a great many reform proposals. However, none had been successfully implemented except that of the Chinese communists, whose approach to land reform was characterized by expropriation and equal distribution of land (Yang, 1993).

The Land Reform of the Chinese communists continued until 1952, three years after the founding of the PRC. The 1950 "Land Reform Regulation of the PRC" provided for the deprivation of landlords' rights in land and distribution of land to poor peasants. It stipulated that land users have no right to lease or sell land or leave it idle and that the State has the right to condemn land with due compensation.

In urban places, communists took over land and other properties that were possessed by foreigners, the Kuomintang government and "bureaucratic capitalists".\textsuperscript{39} The government also requisitioned suburban land as State-owned land to meet the demand for urban development. Land owned by "nationalist capitalists", urban workers, and residents was basically untouched. Land transactions, leasing, and mortgaging still occurred. State land and private land coexisted in Chinese cities.


\textsuperscript{39} The word "bureaucratic capitalists" and the subsequent word "nationalist capitalists" were used by Mao Tse-tung to differentiate capitalists who maintained close connections with the old regime and those who did not.
This period was quickly superseded by a period of so-called "socialist transformation" that drastically changed the ownership system in land. In cities, this was realized through joint State-private ownership.

For the properties of the "nationalist capitalists", urban workers and residents, the State adopted a redemption policy. The redemption process began with the State taking control of the supply of inputs to private producers and the distribution of their products and profits. Later, private firms, together with underlying land and other fixed assets were incorporated into "joint State-private ownership," in which private owners received dividends according to their shares.

Then, their land and other properties were purchased by the State with an annual interest on the appraised value for several years. Most real-estate companies were taken over by the State, and the owners were paid 20-40% of the rental income for a certain period of time. By the end of 1956, State ownership of industrial property was established.\(^{40}\) The bulk of urban land by then belonged to the State. Residential land owned by a small number of urban residents was still privately owned, but without clear legal protection.

In 1958, "People's Communes" began to emerge in rural areas. These communes owned all farmland. The year was also remembered for the "Great Leap Forward" movement. People were led to believe that communism, with its accompanying material abundance, could be brought about overnight once more public property rights were established.

Following a period of recovery and readjustment, the country fell into another tumultuous era, the "Great Proletariat Cultural Revolution" from 1966 to 1976. By the end of this period, as a practical matter only two economies existed in cities: the State economy and the collective economy. Property rights in land changed accordingly. All

urban land was owned by the State, and rural land by communes. Interestingly, these ownership rights were *de facto* rights. Only in 1982 was it written into China's Constitution that "Urban land belongs to the State. Land in the countryside and in the suburban areas belongs to collective ownership."

For more than two decades starting in 1956, it was believed that State ownership of urban land dictated the concentration of all rights in land in the hands of the State (the so-called theory of inseparable rights), which meant that the State should have total control over the supply, use, management, and disposition of land.

Through a central planning system established after the Soviet model, urban land was allocated to users administratively, permanently, and free of charge. Urban land users had no rights to transfer the land they acquired and the structures on it. There was practically no formal property market. Housing was assigned to urban workers at a minuscule rent that was not even sufficient to cover the maintenance expenses.

The free land-use system, plus low rent for urban housing, resulted in many problems that were acutely felt by everyone. Managers of State-owned firms had no incentive to use land efficiently and conserve it, because land did not enter into production cost accounting. This led to waste and underuse of valuable urban land.\(^41\) Residential areas quickly became run down, and redevelopment was practically impossible because existing residents were guaranteed most *de facto* rights to their properties and they could not be easily dislocated or evicted. Accommodating them on the same site would render any housing redevelopments financially infeasible (Dowall, 1991). Besides, municipal governments never had enough funds to maintain the existing infrastructure, let alone build new one.

\(^{41}\) According to *People's Daily* (overseas edition, May 20, 1992), four percent of urban land distributed administratively to firms lay vacant; another four percent was underused, resulting in an annual loss of Rmb 80 billion.
It is worth noting that though a formal property market was not in existence, illegal transactions in land and buildings had never ceased and they grew in volume once the general economic reform began in the late 1970s. For example, the rapid growth of Chinese cities and the consequent demand for land since then has led villagers to negotiate under the table with prospective users/developers for sale or lease of their collectively owned land. Incidents of urban institutions transferring their land-use rights for consideration were not infrequent. These transactions have precluded municipal governments from capturing an important source of revenue.42

In addition to the above problems, the government realized that the economic reform program could not succeed without reforming the existing land-use system. According to Ma (1988), an influential Chinese economist, this was so because (1) preventing land from participating in exchange and value generation as an important factor of production hinders efficient allocation of resources; (2) a free land-use system in disregard of land value puts firms on an unequal footing in the competition, because the land they occupy has widely differing locational advantages; (3) the adjustment of urban industrial structure was extremely difficult to carry out in the absence of a land market; and (4) the whole price system of the economy cannot be straightened out without treating land and buildings as commodities. Thus, a reform of the urban land-use system was clearly viewed as key to the success of economic reform.

The urban land-use reform was designed to change the free land-use system into a paid land-use system. The immediate goal was to strengthen government control of urban land use and to generate much-needed revenue for urban (re)development. Two distinctive stages can be identified. In stage one (1982-87), a land-use fee system was established, and groundwork laid for a more intensive reform; stage two (1988 to present)

saw the transfer of land-use rights for valuable consideration and the emergence of a formal land market in the PRC. In both stages, property rights in land have been changed.

In stage one of the urban land-use reform, land was reconsidered within the economic framework of the Marxist State. It was recognized after protracted debate that urban land and the use of land contain a value to the user, and that many of the urban problems arise from the free land-use system.

Then, the notion that ownership, use, and management rights in land are inseparable was abandoned. In 1982, Shenzhen SEZ began an experiment of collecting land-use fees from new users according to the different grades of land they acquired.43 This was the first step toward changing the free urban land-use system to a system with compensation. In the next year, the city of Fushun in the inland Liaoning Province was approved for experiments with a similar land-taxation system for existing users. By 1988, more than a hundred cities across the country had established the land-use fee system.44

In September 1988, the State Council (China's cabinet) promulgated the "Provisional Regulations on Land-use Fee in Cities and Towns of the People's Republic of China," effective the same year. In this system, indigenous and foreign enterprises are charged for the use of the land they occupy on an annual basis. There are different rates for different uses and locations, and the fee is waived in many circumstances.

The land-use fee system has helped bring in revenue for local governments, but it was far from being able to affect the economic allocation of land, which is the longer-term goal of the reform. To do that, it was realized that a land market needed to be nurtured where property rights in land could be exchanged according to economic laws. In 1987, Shenzhen SEZ took the lead, with State approval, in selling the use rights of State-owned

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land to foreign developers, signaling the beginning of the second stage of the urban land-use reform.

After some initial experiments, several land-mark pieces of law and administrative orders were adopted, which further clarified and defined property rights in land.

In 1988, the First Plenary Session of the 7th People's Congress passed a most significant amendment to the PRC Constitution, which says:

No organization or individual may appropriate, buy, sell or lease or unlawfully transfer land in other ways. The right to land use can be transferred in accordance with the law. 45

At the end of the same year, the 5th Session of the Standing Committee of the 7th National People's Congress subsequently amended the "Land Administration Law of the People's Republic of China." According to Walker (1991), it further clarified the legality of transferring land-use rights; it also laid down the policies within which subsequent more detailed legislation was to be drafted. Significant provisions included:

* the land-use right of State- or collective-owned land may be transferred through legal procedures.

* the State practices a paid land-use system for State-owned land.

* prohibition of any occupation of State- or collective-owned land, or any sale or letting thereof, except in accordance with the provisions of the law.

* prohibition of the use of land other than in line with the permitted use.

* forfeiture of any monetary gain from any illegal letting or illegal transfer of land together with fines meted out on the people responsible for such transaction.

* provision that the use of land by joint venture companies or foreign companies will be regulated by other rules to be made by the State Council.

45 The underlined text is the new addition to the previous version of the Constitution. The underline is added by the author.
These amendments have been seen as heralding the formal establishment of a new system of property rights in land. The State Council was entrusted to initiate detailed methods regarding land-use right transfers and the paid land-use system.

In May 1990, the State Council issued two significant administrative ordinances. The first one was entitled "Provisional Regulations on the Granting and Transferring of the Land-Use Rights over the State-owned Land in Cities and Towns." The second ordinance was entitled "Provisional Measures for the Administration of Foreign Investors to Develop and Operate Large Parcels of Land."

According to these regulations, land-ownership rights can be separated from land-use rights (LURs). The LURs can be granted by municipal or higher-level governments to domestic or international users for valuable consideration (a premium). Sales of LURs can be carried out in one of the three forms: negotiation, tender and auction.

Those who acquire the use rights of State-owned land also enjoy, within the terms of LURs, various other rights: LURs and improvements on land can be sold, leased, subleased, swapped, mortgaged, bequeathed, or inherited. Unless otherwise stipulated, LURs can be extended upon expiration of the term.

Municipal governments, by maintaining ownership of land as fiduciary of the State, exercise the right to benefit from the ownership rights (collecting a premium for the grant of LURs, and land-use fees), to claim all rights when the term expires, and even to condemn the LURs for public purposes or in case of breach of Grant Contract on the part of the grantee.

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46 An English translation of the Regulation can be found in Appendix 1 in Walker, op. cit.


48 The process of direct sale of LURs by Chinese governments is called Churang, as opposed to Zhuanrang, which refers to sales of LURs between land users. To avoid confusion, I will consistently use the English word "grant" in case of Churang and assignment in case of Zhuanrang.
The term of the LURs usually lasts between 50 to 70 years, depending on the nature of the property to be developed. A Grant Contract must be signed, in which the municipal government stipulates the terms of the grant, total amount of the premium for the grant of the LURs, form and schedule of the payment of the premium, development directives (e.g. maximum allowable Floor Area Ratios), and other conditions. Penalties are specified in case of breach of the contract by all interested parties.

To sum up, it can be said that China's reform in the urban land-use system is an integral part of the comprehensive economic reform program (See Table 3-2 for a chronology of major events in general economic reform and the reform of the land-use system). The reform is incremental in that it is based on a consideration of historical circumstances and institutional changes. It is just this consideration that conditions the features of China's land market. Notwithstanding, ten years of reform of the country's urban land-use system has significantly changed the property-rights arrangement in land.

It is safe to argue that the reform is irreversible despite the many perceived problems to be discussed later in this chapter. The government is more likely to adjust the pace and fine-tune the contents of the reform, rather than to stop it all along or go back to the previous system.

### 3.3 Market Transactions, Major Players and Regulations

Figure 3-2 is a simple model of China's land market. In this model, three levels of land markets are differentiated. Level-one (or primary) market refers to the purchase and sale of the use rights of State-owned land. The State attempts to monopolize this market. In the level-two (or secondary) market, LURs and improvements on land are transferred from the original grantee to new users. Level-three (tertiary) market refers to the transactions among new users. Both the level-two and the level-three markets will be
### Table 3-2 Economic and Land-Use Reforms in China: A Chronology

<table>
<thead>
<tr>
<th>Year</th>
<th>General Economic Reforms</th>
<th>Land-Use Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>China embarks on ambitious program of reforms in foreign trade, banking, enterprise management and rural development. Guangdong and Fujian Provinces are given autonomy to develop foreign trade.</td>
<td>Most arable land begins to be divided among peasant households which contract to grow crops for the State under the so-called &quot;Family Production Contract and Responsibility System&quot;. Such a system is widely practised by 1983.</td>
</tr>
<tr>
<td>1979</td>
<td>China formulates first Joint Venture Law, signaling its desire for foreign capital and expertise.</td>
<td>----</td>
</tr>
<tr>
<td>1980</td>
<td>Shenzhen, Zhuhai, Shantou and Xiamen are granted Special Economic Zone status. They provide preferential treatment to foreign and domestic investors and traders.</td>
<td>A land-use fee system was proposed at the National City Planning Convention. The proposal won support of the State Council.</td>
</tr>
<tr>
<td>1981-83</td>
<td>All prices for industrial products are allowed to float in a prescribed range. By 1983, a total of 510 commodity items are freed from price controls.</td>
<td>Shenzhen Special Economic Zone (SEZ) begins collecting fees from new land users according to different grades of land they occupy.</td>
</tr>
<tr>
<td>1984</td>
<td>The four specialized State banks are allowed to conduct business outside their traditional areas of operation. Nonbank institutions are set up.</td>
<td>The City of Fushun, Liaoning province is approved to experiment with a new land taxation system, in which existing users of state-owned land within its jurisdiction are charged land-use fees. State calls for establishment of comprehensive development corporations.</td>
</tr>
<tr>
<td>1985</td>
<td>Reacting to criticisms of bureaucratic interference, China promulgates rules giving foreign investors more flexibility. Tentative steps are taken to establish stock markets in Shanghai and Shenzhen.</td>
<td>----</td>
</tr>
<tr>
<td>1986</td>
<td></td>
<td>The Land Administration Act is enacted and begins to take effect in 1987. It is subsequently revised in 1988.</td>
</tr>
<tr>
<td>Year</td>
<td>Event Description</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------------</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>China calls on coastal areas to go all out for an export-led growth strategy.</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>Foreign trade system is decentralized from Beijing to provincial governments, and foreign trade corporations are required to be financially independent.</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>Sweeping economic retrenchment is carried out after rampant inflation breaks out and the military cracks down on dissents.</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>The People's Republic of China's first stock exchange is officially opened in Shanghai.</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>The State announces removal of all export subsidies as part of an effort to meet entry requirements for the General Agreement on Tariffs and Trade. The second official stock exchange is opened in Shenzhen.</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>The 14th Communist Party Congress calls for implementation of a &quot;socialist market economy.&quot; Trade authorities agree to publish and make freely available all tariff rates, rules and regulations. Import tariffs are lowered on 225 items. Only a handful of daily necessities, including cooking oil and grain, remain under price control.</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>The central government adopted a partial austerity program in mid-1993 to curb excess credit and investment, widespread speculation in property and securities, and import binge. Shenzhen takes the lead in experimenting with new land-use reform measure that allows new users to buy the right to use and develop state-owned land. It is said that the last forbidden zone in China's reforms is dismantled. The Constitution is modified to make transfer of land-use right legal. Transfers must be directly administered by the State and must follow procedures established by local government authorities. State Council publishes the Provincial Regulations Concerning Sale and Transfer of the Right to Use State-owned Land in Cities and Towns. State Council promulgates Regulations for Implementation of the Land Administration Law. The use right of two thousand tracts of land is sold within the first eight months of the year, twice the volume realized in the previous four years. State Council calls to speed up the development of real estate industry by deepening the reform of the country's land-use system.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled by Zhizhong Yang, 1993
Note: 1) The solid line means the transfer of use right of land, and the dotted line means the transfer of ownership right of land.
2) The notation I, II, and III indicates, respectively, the primary, secondary and tertiary land markets.
3) The letters C, M, and IM mean competition, monopoly, and incomplete monopoly, respectively.

Master's thesis, Tongji University

Figure 3-2 A Model of China’s Land Market
gradually freed from government intervention.\textsuperscript{49}

Clearly, the three levels of urban land markets are interrelated. Among the three, the level-one market has been the most active and is the priority concern of overseas developers/investors.\textsuperscript{50} This section will therefore focus on land transactions in the primary land market.

3.3.1 Market Transactions

Since the grant of LURs was first experimented with in Shenzhen SEZ in 1987, the practice gradually and steadily spread to other cities. It suffered a short period of retrenchment after the Tiananmen Incident in 1989. Then it picked up momentum after Deng Xiaoping's visit of Shenzhen SEZ in April 1992, endorsing a speedier reform of the economy.

At the end of 1988, the central government decided to adopt the paid transfer of LURs in a larger scale. By the end of 1989, grant of LURs had been practiced in more than 20 cities, though the absolute amount of land involved was small. According to the National Bureau of Land Administration, 250 parcels of land were involved during this period, totaling an area of 1,030 hectares (2,544 acres) and a premium of Rmb 899 million (US$160 million).\textsuperscript{51} Table 3-3 is a breakdown of grants from 1987 to 1989.

The setback due to the crackdown on demonstrations in 1989 did not last long. Land leases began to pick up speed in 1991. By the end of 1991, a total of 1,071 parcels


\textsuperscript{50} Among the many ways of land acquisition available to international developers, obtaining the land-use rights from local governments by paying a premium is the predominant. Other methods include paying a land-use fee to the government or the farmer; getting the land-use rights at the level-two or level-three markets; giving out certain amount of developed space in exchange for land; and entering into a joint-venture with a local partner in which the Chinese side uses land as its interest.

Table 3-3  Grant of Land-Use Rights from 1987 to 1989

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of parcels</td>
<td>5</td>
<td>118</td>
<td>127</td>
<td>250</td>
</tr>
<tr>
<td>Area in hectare</td>
<td>15.73</td>
<td>389.08</td>
<td>625.22</td>
<td>1,030.03</td>
</tr>
<tr>
<td>(Area in acre)</td>
<td>38.85</td>
<td>961.03</td>
<td>1544.29</td>
<td>2544.17</td>
</tr>
<tr>
<td>Premium in Rmb million</td>
<td>35.15</td>
<td>416.24</td>
<td>447.19</td>
<td>898.58</td>
</tr>
<tr>
<td>Average premium (Rmb/sq m)</td>
<td>223.46</td>
<td>106.98</td>
<td>429.49</td>
<td></td>
</tr>
<tr>
<td>(Rmb/sq ft)</td>
<td>20.76</td>
<td>9.94</td>
<td>39.90</td>
<td></td>
</tr>
</tbody>
</table>

Grant to foreigners

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of parcels</td>
<td>31</td>
<td>49</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td>Total area in hectare</td>
<td></td>
<td></td>
<td></td>
<td>65.18</td>
</tr>
<tr>
<td>Percent of total area granted</td>
<td></td>
<td></td>
<td></td>
<td>6.33%</td>
</tr>
<tr>
<td>Premium in Rmb million</td>
<td></td>
<td></td>
<td></td>
<td>556.48</td>
</tr>
<tr>
<td>Percent of total grant rent</td>
<td></td>
<td></td>
<td></td>
<td>61.93%</td>
</tr>
<tr>
<td>Countries or regions involved (by no. of parcels)</td>
<td>Hong Kong (50), Taiwan (14), Japan (5)</td>
<td>Singapore (5), the Philippines (3), U.S.A (2), Thailand (1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A breakdown by form of grant

<table>
<thead>
<tr>
<th></th>
<th>Negotiation</th>
<th>Tender</th>
<th>Auction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of transfer</td>
<td>212</td>
<td>22</td>
<td>16</td>
<td>250</td>
</tr>
</tbody>
</table>

of State-owned land had been transferred, covering an area of 2,500 hectares (6,175 acres).52

In 1992, grant of LURs saw astronomical growth following Mr. Deng Xiaoping's call for bolder and speedier reform. According to Zhou Ganzhi, Vice Minister of Construction, it is difficult to know exactly how much land was transferred, but figures from some (most sought-after) cities and regions show substantial growth. Guangdong province granted 2,503 parcels with an area of 7,374 hectares (18,214 acres). In Shanghai, a total of 2,010 hectares (4,965 acres) of land (201 parcels) was transferred, 16 and 1.86 times, respectively, the amount achieved in the previous four years.53 Estimated figures for the whole country vary widely. According to the State Bureau of Land Administration, an area of 50,000 hectares (123,500 acres) was granted in the first half of 1992, bringing in Rmb 4.5 billion (US$820 million).54 In my interview with Mr. Song Chunhua, Director of the Bureau of Real Estate Industry of the Ministry of Construction, he mentioned that State-owned land whose use-rights were granted amounted to 22,000 hectares (54,340 acres) in 1992; the amount of premium collected could be around Rmb 50 billion (US$9 billion).55 The apparent contradiction in the numbers may indicate that growth was too fast and government agencies have lost control.

It is hard to trace the pattern of average premium per unit of land over time. Little research has been done in this area at the national level. Sporadic and anecdotal city-specific information is available, though its accuracy is questionable. For example, it is


55 The interview with Mr. Chunhua Song was conducted on June 18, 1993, in the Ministry of Construction in Beijing.
said that "land price" in the city proper of Chengdu increased tenfold in the past decade.\textsuperscript{56}

Real-estate investment and development grew by leaps and bounds in 1992. Table 3-4 shows that completed investment, area of land developed, and the number of real estate companies have all grown by more than 100% over 1991. Foreign investment in real estate registered a 228% growth; its share of total investment was about 10 percent.

Real-estate development was so profitable that a great many people and organizations wanted to get in (See next section for major players). According to Mr. Song, after-tax return was about 50% on average.\textsuperscript{57} This partly explains why in one year the number of real-estate development companies trebled.

\subsection*{3.3.2 Major Players and Their Roles}

Several important players in the primary land market can be identified, e.g., the government as landowner, planner and regulator; the foreign-related firms and domestic firms as developer/investor; firms and residents as existing user. Each player has multiple roles to play in the transactions process. The ones I have listed are far from being exhaustive. For example, the Chinese government is also a large user of land. I made the above classification based on the major stakes each player holds. It is the interaction and behavior of these players that affect the outcome of market mechanisms.

First of all, Chinese government and its agencies play an important, sometimes, determining role in the land disposition process. Before the land-use reform, the government had even greater power, because a majority of Chinese businesses were controlled by the government at one level or another, and housing was owned by either the government or the business enterprises. As a result of the reform, enterprises and residents are beginning to have more influence as major participants in the market.


\textsuperscript{57}Mr. Song provided the number during my interview with him.
Table 3-4 Real Estate Development in China 1991-92

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>1992</th>
<th>%change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Completed Investment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As Percent of Total Fixed-Asset Investment</td>
<td>Rmb 33.7 billion</td>
<td>Rmb 73.1 billion</td>
<td>117%</td>
</tr>
<tr>
<td><strong>Area of Land Developed</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rmb 6.34%</td>
<td>Rmb 9.64%</td>
<td></td>
</tr>
<tr>
<td><strong>Space for Sale or Lease Completed and under Construction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New starts</td>
<td>84.9 sq. km</td>
<td>233.4 sq. km</td>
<td>175%</td>
</tr>
<tr>
<td>Completion</td>
<td>120 million sq m</td>
<td>190 million sq m</td>
<td>57.75%</td>
</tr>
<tr>
<td></td>
<td>65 million sq m</td>
<td>115 million sq m</td>
<td>78.10%</td>
</tr>
<tr>
<td></td>
<td>53 million sq m</td>
<td>71 million sq m</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Foreign Capital Utilized</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As Percent of Total Foreign Investment</td>
<td>US$216 million</td>
<td>US$710 million</td>
<td>228%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of real estate development companies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,000</td>
<td>12,000</td>
<td>200%</td>
</tr>
<tr>
<td>Foreign-related development companies(1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>--</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td><strong>Number of companies that have had projects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>--</td>
<td>7,066</td>
<td></td>
</tr>
</tbody>
</table>

Note: (1) Foreign-related development companies include those either soly-owned by foreign investors, or joint-venture companies, or jointly-managed companies.

Source: Compiled from data provided by the Chinese Ministry of Construction, 1993.
Among government agencies, the Economic Planning Commission, the Urban Planning Bureau, and the Bureau of Land Administration are the three most important. They are responsible for planning and managing the disposition of urban land. All of them have central offices and local progenies. The municipal government plays a central role in assigning and coordinating the functions of each agency at the local level in the land disposition processes. It represents the State in exercising the ownership rights of urban land.

The Economic Planning Commission still manages all investment activities despite the diversification of investors and sources of capital due to reform. But its power has been weakened. Major grants of LURs have to be coordinated by this agency. The commission makes decisions in accordance with land utilization plans and national economic development plans.

The Urban Planning Bureau is responsible for determining physical parameters of the development projects such as location, density, setback, FAR and other planning control requirements. It reviews and approves the project design plans. Its decisions are to be made in accordance with the Master Plans and Zoning Plans for the city or its districts. The Bureau of Land Administration actually executes the power to requisition rural land and transfer the LURs to the new land user on behalf of the municipal government. It decides if the land requested can be accommodated in the year's quota designated for construction. The quota, in turn, is derived from a land conversion system pursuant to the Land Utilization Plan of 1987.

The division of rights and responsibilities of the three major government agencies

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58 Practically all Chinese cities have a Master Plan, primarily a rough physical land-use plan. It contains a long-term plan (15-20 years), a short-term implementation plan (5 years), and a set of technical plans for urban infrastructure and public utilities. All of these plans specify very broad land-use goals, locations and phasing of development. The Master Plan is now supplemented with Zoning Plans for some or all of the districts in some major cities.
responsible for land disposition and management is not clear. There have been intense arguments, especially between the Urban Planning Bureau and the Bureau of Land Administration, over who should have a final say regarding the matter of urban land. Different solutions have been worked out. Some cities established a taskforce to oversee and coordinate all the matters relating to land leases; some consolidated the functions of both agencies. All too often, however, no one particular agency is made responsible for the disposition and management of urban land and the problem remains unsolved.

The foreign-related firms and domestic firms, as developers of, or investors in, real estate, lease the land-use rights from the municipal government. They are for-profit organizations, basing their decisions on price signals resulting from the interplay of supply and demand at the marketplace. But there is a big difference between a domestic real-estate firm and a foreign-related real-estate firm.

The latter operates outside of the government and is treated as a private sector business. The former has intricate links with various governmental agencies. In fact, many Chinese real-estate development companies are spinoffs of government agencies. These companies tend to have many advantages. For example, most foreign-related companies have to acquire urban land through grants of LURs, whereas many domestic firms are still allocated land by municipal governments without paying the premium for LURs. In addition, domestic development companies are poorly regulated. Practically any organization wishing to set up such a company can do so. As a result, many such companies are really subsidiaries of government agencies, government-owned financial institutions, party organizations, army, non-profit organizations such as Women's Federations, etc. Lured by high rates of return, many organizations want to be involved in the real-estate business.

59 Real-estate development companies began to appear in the PRC in the 1980s. Financially independent, they are in many ways like public authorities in the United States.

60 Interview with Mr. Song Chunhua.
Finally, firms and residents (urban and rural) as existing users of land are affected by the land disposition decisions because they will either be relocated or bear other social, economic, or environmental impact arising from the decision. There are both gainers and losers within this group. Farmers are usually gainers because they can become urban residents and are entitled to a variety of compensation when their land is requisitioned by the city. Urban residents and firms often see themselves as losers, because more often than not, the land they currently occupy will be converted to other users and they will have to be relocated to urban fringes. In both situations, there is little public participation in the process. The bargaining power of urban residents is particularly limited.

3.4 Perceived Problems

As more and more urban land is disposed of by means of grants of LURs for valuable consideration, a formal urban land market is emerging. This market, in turn, has given a strong impetus to the growth of real-estate industry. The Chinese government viewed the accelerated growth of the real estate industry in recent years as positive for the building of a "socialist market economy." However, it also perceived problems. Mr. Zhou Ganzhi, Vice Minister of Construction, identified three major problems.61

First, there is lack of appropriate control of the supply of land, leading to serious disruption of urban planning. Sometimes local governments transfer LURs to developers in the absence of development plans or programs, and without due consideration of their ability to develop the land. The ministry considers that the speed of sales was too fast, the total quantity supplied and the size of certain parcels transferred too large, and the price (premium) too low.

The ministry believes that land price is in a rather chaotic situation. More often than not, price is not determined by demand and supply, but rather by some non-market

61 v. Zhou, op. cit. The following is a synopsis of the speech.
factors such as personal connections with government officials. The behavior of some officials is erratic. For example, the offered price for the LUR in a city was so low that the international developer who acquired the LUR did not believe it was real. He did not develop the land for fear of no legal protection.\textsuperscript{62} Low prices created conditions for speculation. Some firms and individuals made obscene amounts of money from "stir-frying" the land thus obtained; while those who have a real interest in development find it hard to keep up with the changing land prices.\textsuperscript{63} Supplying a large amount of land within a short period leads to a weakening of the government's ability to regulate the real estate market; it also means a forfeiture of future appreciation in land value on the part of the government before measures to capture the appreciation are put in place.

Second, Zhou indicates that far too many areas have been designated as development zones to attract investment capital. It would be practically impossible to have them developed in the foreseeable future. A conservative estimate shows that by the end of 1992, a total of 2,000 development zones of various kinds has mushroomed across the country, with the total area incorporated in these zones amounting to about 15,000 sq km (5,792 sq miles). To develop them all, Rmb 30 trillion (about US$5.5 trillion) would be required, an equivalent of 40 times the total amount of investment in fixed assets nationwide in 1992. Some of the development zones were initiated in the absence of any feasibility studies. As a result, large areas of land claimed from agricultural uses lie vacant with significant amount of sunken capital already spent on infrastructure development.\textsuperscript{64}

Third, a large amount of unearned income from land transactions had gone to firms

\textsuperscript{62} Interview with Mr. Song Chunhua.

\textsuperscript{63} According to Mr. Song Chunhua, speculation was particularly serious in Guangdong and Hainan provinces, and Beihai city in the Guangxi Zhuang Autonomous Region.

\textsuperscript{64} According to Zhu Rongji, China's Vice Premier in charge of economy, each square kilometer of a development zone requires an investment of at least Rmb 300 million in basic infrastructure provision. He criticized the blind initiation of development zones at the expense of agriculture. \textit{v. Urban Planning News} (No. 6, 1993), p. 3.
and individuals when it should really belong to the local government. This is because (1) land valuation has not been widely practiced, making it hard to determine a baseline land price, and (2) a taxation system that allows the government to recapture the appreciated value in land has not been put into effect. The central government is gravely concerned that funds earmarked for key projects in the inner provinces were used for property development in coastal regions.

3.5 Directions of National Policy Development

Despite the above-mentioned problems, the Chinese government sees the rapid growth of real-estate investment as a natural result of rapid economic growth: the invisible hand is at work. It figures that real-estate investment has grown so fast because the market for real estate has been in disequilibrium and built space in short supply. For example, commercialized housing units being developed in Shanghai have been presold till 1994. The central government considers that the real estate boom sweeping across the country is normal and there should be no reason for panic.

On the other hand, the central government sees an urgent need to solve the problems. The Ministry of Construction diagnosed the causes of these problems to be:

- insufficient market mechanisms
- lack of legal provisions, and
- underdevelopment of supporting institutions.

Plans based on a consideration of future demand for space have been made to strengthen government regulation of the real-estate industry at a macro policy level.

3.5.1 Demand for Urban Land

Demand for urban land in China in the future will remain high. Future demand will arise from urbanization, an increase of per-capita land-use standard, and a need to adjust the existing land-use structure of urban places.
China's urbanization is still at a very low level compared with the world average. Experts forecast that by the year 2000, urban land will cover an area of 41,800 sq km (16,140 sq miles), almost twice the size of 1990.

The average per-capita allocation of urban land in Chinese cities is very low. Lin (1992) reports that the average amount of urban land allocated to each urban resident was only 78.7 sq m (847 sq ft) in 1991; the figure for the world in 1980 was 83.3 sq m (897 sq ft). The situation for big cities in China is even worse. Even Tokyo and Osaka in Japan have a per-capita land-use standard 20% higher than the average figure for China's million cities.

To adjust the land-use structure, more roads need to be built. New housing space will be added in huge quantities and the existing housing stock will be redeveloped.

All the above three factors indicate the trend of potential demand for urban land.

3.5.2 Directions of Policy Development

To cope with the perceived problems in the real estate industry, the Chinese government believes that the following actions should be taken:

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65 In 1980, the average urbanization level (defined as the ratio of urban population to total population) in the world was 48 percent, while the figure for China then was only 15 percent.


68 v. Li, *op. cit.*, p. 100. A million city is a city with a population over 1 million.

69 According to Lin (1993), per-capita allocation of urban land for transportation and communication was only about 5.5 sq m in 1991. In many foreign countries, the figure is 20 sq m. He maintains that a modern transportation system requires a minimum of 10 to 12 sq m.

70 The average allocation of urban land for residential use was 33 sq m in Chinese cities in 1991 (Lin, 1993). The goal set by the State for the year 2000 is 40-50 sq m. A simple calculation shows the magnitude of the shortfall.

71 The following is a summary of a speech of Mr. Zhou Ganzhi, Vice Minister of Construction. The
The government's capacity to regulate the real estate market at the macro level should be strengthened.

First, the supply of urban land needs to be controlled. Land will be made available in accordance with an inventory of the resource, the goals of social and economic development, and industrial policies, as well as market demand. LURs will be granted only when conceptual development plans are available.

Second, the direction of investment will be guided. Residential development targeted toward ordinary residents will be encouraged.

Planning and management of the transfer of LURs should be enhanced.

The urban planning agency will participate in the preparation of the plan for grants of LURs. The total area to be transferred, the number of parcels, and their locations must be determined under the guidance of urban planning. Zoning plans must be prepared in order for the urban planning agency to provide project planning and design requirements when LURs are granted. Proposed changes of land-use and FARs must go through a stringent approval process. If changes are approved, the distribution of economic interest must be adjusted accordingly.

The pricing system for real estate using market price signals and fiscal instruments such as taxation should be improved.

Baseline prices need to be determined for different grades of land; they should be established on the basis of location, zoning requirements, and demand and supply forecasts. Before a national effort is made on taxing the appreciated value in land, cities are encouraged to design ways to recapture part of that appreciation.

Operating rules for real estate markets should be established.

These include rules for the acquisition of LURs, for the registration and management of property-rights, for valuation and brokerage services, and for accreditation.

speech was delivered on April 25, 1993 at the National Conference on Construction and Development.
of real estate firms. Grant of LURs through tender will be encouraged. Grant by means of negotiation must be based on a valuation conducted by a government agency. LURs cannot be transferred before the terms set in the Grant Contract are met. Buildings cannot be presold before a certain proportion of the contracted investment has been actually made and construction has proceeded to a certain stage.

The goal is to nurture a real estate market and to establish market mechanisms. To fulfill the above objectives, the central government considers that establishing laws and regulations is of paramount importance. Since 1992, drafting a "Real Estate Law" became the top priority work at the Ministry of Construction.72

At this time (December 1993), a comprehensive law governing real estate is not yet in existence. According to Mr. Song Chunhua, besides two broadly defined laws, e.g., the Land Administration Law and the Urban Planning Law of the People's Republic of China, what exist now are only government regulations or administrative measures. He believes that a comprehensive law is necessary to deal with a variety of issues such as property rights and land titling. A draft of this Real Estate Law was submitted to the State Council in mid-1993. Approval of the People's Congress will be needed for it to establish legal status.

In the new law, foreign businesses engaged in real-estate operations in the PRC will no longer be entitled to many preferences they now enjoy. They will be treated equally with domestic enterprises. To acquire land, they have to show that they are committed to certain developments.

Mr. Song Chunhua mentioned that before this law takes effect, some emergency measures would be adopted. Local governments may not transfer land in large parcels and prices for LURs (premium) must be higher. Local governments must also adopt measures

72 Mr. Hou Jie, Minister of Construction, was reported as saying at a meeting on January 15, 1993, that drafting laws in accordance with a socialist market economy is top priority and the work should be completed in 1993. v. Urban Planning News, (No. 2, 1993), p. 2.
to control speculation in land and buildings. For example, LURs cannot be transferred before 20% of the total contracted investment is made. If two years has passed since the grant of the LURs and no development has been undertaken, the LURs shall unconditionally revert to the State. In the case of buildings to be developed for sale or lease, 20% of the structural work has to be completed before the developer can presell the property.

3.5.3 Development Plan for the Real Estate Industry

Recently, the Ministry of Construction proposed a Development Plan for the Real-Estate Industry. In this plan, objectives are set for the years 1995 and 2000 regarding the supply of land, growth of the industry, quantity of urban housing to be built, etc. Table 3-5 contains some highlights of the plan.\(^73\)

The plan points to the general direction in which China's reform of her land-use system is headed. One can read from the numbers that the ministry has set very ambitious goals. For example, an 18% growth rate is phenomenal. If such growth can be sustained, it will create tremendous opportunities for both domestic and overseas developers and investors.

The plan also indicates the central government's determination to introduce, gradually, market mechanisms in real estate, in general, and land allocation, in particular. For a long time, disposition of urban land by grant and assignment will coexist with the traditional means of administrative allocation. This has bearings on the basic features of China's urban land market, which will be discussed in Chapter 5.

<table>
<thead>
<tr>
<th><strong>Table 3-5 Highlights of the Development Plan of the Real Estate Industry 1993</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Yearly growth of total industry product</strong></td>
</tr>
<tr>
<td><strong>Percentage share of GNP</strong></td>
</tr>
<tr>
<td>1993: 18%</td>
</tr>
<tr>
<td>By the end of 1995: 18%</td>
</tr>
<tr>
<td>By the end of 2000: 5.50%</td>
</tr>
<tr>
<td><strong>B. Annual amount of taxes</strong></td>
</tr>
<tr>
<td>Rmb 200 billion</td>
</tr>
<tr>
<td>Rmb 400 billion</td>
</tr>
<tr>
<td><strong>C. Total employment</strong></td>
</tr>
<tr>
<td>2.4 million</td>
</tr>
<tr>
<td>4 million</td>
</tr>
<tr>
<td>6 million</td>
</tr>
<tr>
<td><strong>D. Share of societal investment (1)</strong></td>
</tr>
<tr>
<td><strong>Share of private housing investment</strong></td>
</tr>
<tr>
<td>1993: 17%</td>
</tr>
<tr>
<td>By the end of 1995: 60%</td>
</tr>
<tr>
<td>By the end of 2000: 80%</td>
</tr>
<tr>
<td><strong>E. Land supply per year</strong></td>
</tr>
<tr>
<td>15,000 hectare</td>
</tr>
<tr>
<td>(37,050 acres)</td>
</tr>
<tr>
<td>25,000 hectare</td>
</tr>
<tr>
<td>(61,750 acres)</td>
</tr>
<tr>
<td><strong>F. Share of land to be disposed of through grant (lease)</strong></td>
</tr>
<tr>
<td>Percentage of cities to adopt the lease system by region</td>
</tr>
<tr>
<td>Coastal region: 60%</td>
</tr>
<tr>
<td>Central China: 40%</td>
</tr>
<tr>
<td>Western China: 20%</td>
</tr>
<tr>
<td>&gt;1%</td>
</tr>
<tr>
<td>5%</td>
</tr>
<tr>
<td>10%</td>
</tr>
<tr>
<td><strong>G. Share of land to adopt the paid assignment system (3)</strong></td>
</tr>
<tr>
<td>20%</td>
</tr>
<tr>
<td>65%</td>
</tr>
<tr>
<td><strong>H. Building space for sale or lease as percentage of total built space in cities</strong></td>
</tr>
<tr>
<td>35%</td>
</tr>
<tr>
<td>50%</td>
</tr>
<tr>
<td><strong>I. Yearly construction of urban housing</strong></td>
</tr>
<tr>
<td>150 million sq m</td>
</tr>
<tr>
<td>(1.67 billion sq ft)</td>
</tr>
<tr>
<td>180 million sq m</td>
</tr>
<tr>
<td>(2 billion sq ft)</td>
</tr>
<tr>
<td><strong>Per-capita living area</strong></td>
</tr>
<tr>
<td>7.5 sq m</td>
</tr>
<tr>
<td>(83.3 sq ft)</td>
</tr>
<tr>
<td>8 sq m</td>
</tr>
<tr>
<td>(88.9 sq ft)</td>
</tr>
<tr>
<td><strong>J. Building space subject to specialized property management and maintenance (4)</strong></td>
</tr>
<tr>
<td>20%</td>
</tr>
<tr>
<td>40%</td>
</tr>
</tbody>
</table>

**Note:**
1) This includes all investment except that made by the government.
2) Including rural land designated for urban development and the redevelopment of the existing stock of urban land.
3) Paid assignment of land and the improvement refers to "Zhuanrang", relative to grant, which corresponds to "Churang", or lease of land-use rights (LURs).
4) Now most buildings are managed by either government agencies or by "work units", e.g. different organizations, whether they are business or non-business entities.

**Source:** Urban Planning News, No. 7, 1993. Published by China Academy of Urban Planning and Design.
Chapter 4
The Urban Land Market in Shanghai

Chapter 3 examined the urban land markets in the PRC from a national perspective. This chapter turns to a case study of Shanghai. It begins with a general survey of Shanghai, highlighting the city's economy, the evolution of her land-use system, and the land market activities in recent years. This is followed by an examination of the demand for, and supply of, urban land in the future. Emphasis is placed on the study of land for residential purposes. Finally, I look at the operating mechanisms of the land market, including property rights in urban land, procedures for acquiring the Land-Use Rights (LURs), major players, and the behavior of government officials.

4.1 Shanghai in Perspective

4.1.1 History and Geography

By the eve of World War II, Shanghai had become the most important economic and financial center in China, and perhaps even in Asia. The rise of Shanghai as an important city in Asia was due to its geographic location and a specific set of historical circumstances. Situated at the apex of the Yangtze River Delta, one of the most developed regions in China, Shanghai was the hub of transportation (Figure 4-1). Before the First Opium War in 1840, the city was already an important port in the Chinese economy. After China's defeat in the war, Shanghai was forced to open to foreign trade and residence. Concessionary Zones were initiated in the city for businesses and civilians of Western powers.
From its very beginning, Shanghai's economy had a tint of colonial and capitalist nature. Known as the "Paradise for the Adventurers," many foreign businesspeople made big fortunes in Shanghai. Foreign trade and commerce was the lifeline of the economy. The real estate industry, largely controlled by foreigners, played a very important role in the rise of the city. A stroll along the Bund and inside the old residential neighborhoods of the city (lilong) today allows one to see the architectural heritage from that time.

After the founding of the People's Republic of China, Shanghai was closed off to the Western world along with the rest of the country, but it remained the most important industrial and commercial center of China. Currently, it is the country's largest city in
terms of population. It occupies an area of about 6,400 sq km (2,470 sq miles), of which 12% lies in urban districts and 88% in suburbs and counties. There are altogether 12 urban districts and 8 counties under the jurisdiction of the Shanghai municipal government. The older part of the city, sitting to the west of the Huangpu River, is where the population and economic activities are concentrated (See Appendix 3, p. 145).

4.1.2 Demographics and the Economy

By the end of 1991, Shanghai's total population was 12.87 million, 61% of which lived in urban districts. This population is relatively well-educated: in terms of educational attainment, Shanghai is ranked second in the country, next only to Beijing. Population density in Shanghai is the highest among all Chinese cities. The figure for 1991 was 2,030 people per sq km, or 5,258 per sq mile (See Table A3-1 for a breakdown of land area and population density by districts and counties).

Shanghai is the most important economic center of China. Its manufacturing, agriculture, and services industries (such as domestic and international trade, finance, tourism, etc) are among the most efficient; products and services produced in Shanghai are widely consumed all across the country. The city's share of Gross National Product (GNP) in 1991 was Rmb 82.5 billion (current price). Per-capita GNP was Rmb 6,410 (about US$1,200), three times the national average.

Shanghai's economy is closely linked to those of foreign countries. Import and export value handled by the city alone in 1991 reached a total of US$8.04 billion. Export value in the same year accounted for 36% of the city's GNP. Besides international trade, the city drew US$450 million in 1991 in direct foreign investment, mostly from Hong


75 If floating population is included, Shanghai's population by the end of 1992 was 14.3 million, of which 68% are non-agricultural. v. Xinmin Evening News (April 6, 1993).
Kong (47%), Japan (13%), and the United States (10%). Since 1992, Shanghai has seen an upsurge in foreign investment, largely due to the accelerated pace of the granting of land-use rights (LURs). A resultant real-estate boom is transforming both the older city on the western bank of the Huangpu River and the Pudong New Area on the eastern bank.

Due to its strategic location, the city was designated by the State Council in 1984 as one of the 14 Coastal Open Cities to attract foreign capital and technology. The central government, however, did not give priority to Shanghai until 1990; instead it focused on the development of cities in south China. In 1990, the central government announced the establishment of the Pudong New Area in Shanghai, a 200 sq km area east of the Huangpu River (See Figure 4-2). This is considered a strategic move of the Chinese government after its decision to build the Shenzhen Special Economic Zone (SEZ) in south China.

Ambitious plans have been drawn to make Pudong the center of foreign investment in the 1990s. Special policies to attract foreign investment have been adopted and large sums of money have been invested to build the infrastructure necessary for an economic takeoff.

4.1.3 Reform of the Urban Land-use System

The real estate industry in Shanghai dates back to 1843 when China was forced open by Western powers and the city became a trading port. Foreign capitalists


77 In April and May 1993, many top Chinese leaders, including General Party Secretary Jiang Zemin and Premier Li Peng, visited the Pudong New Area in Shanghai. They reiterated the determination of the central government to build Shanghai into an economic, financial and trading center in China and in the Far East. They also stressed that the policy to open Pudong New Area would not change. *v. People’s Daily* (overseas edition), May 12, 1993, p. 1 and April 19, 1993, p. 1.

78 The central government accorded to Pudong New Area “10 preferential policies” and “5 unique policies” that the special economic zones (SEZs) in south China do not enjoy. Ten large infrastructure projects costing about Rmb 20 billion (US$3.7 billion) will be completed ahead of schedule. *v. People’s Daily* (overseas edition, April 14, 1993), p. 2.
established "Concessionary Zones" in the city where they acquired proprietary rights in the land. By 1863, a majority of foreign banks in Shanghai invested a significant amount of funds in building housing which they leased to wealthy Chinese refugees from wars, making a 30-40% return. This marked the beginning of Shanghai's real estate industry characterized by a domination by foreign business interests. From 1863 to 1895, specialized real estate development and brokerage companies emerged. The wealthy and privileged Chinese began to get into the business as well, but they often retained foreigners as agents so that they could hedge political and other risks. The period from 1896 to 1918 was a developmental stage during which the number of foreign firms specializing in real estate grew substantially. It is reported that there were about 30 of these firms on the eve
of World War I (1914).

From 1919 to 1931, Shanghai's real estate industry was at its peak. Rapid increase in business activities and population led to a construction boom.\textsuperscript{79} Land prices soared. Real estate finance developed; a dozen major real estate firms financed their projects by issuing stocks and bonds. Mortgage financing was well developed.\textsuperscript{80} This period was followed by worldwide economic recession and the Japanese invasion of China. Real estate in Shanghai fell into a period of decline. Land prices plummeted and many real estate companies went bankrupt.

Immediately after the Chinese communists took over Shanghai, they appropriated only 12.4\% of the city's building space from the old regime; the remaining 87.6\%, or 41 million sq m (441 million sq ft) in floor area, remained privately owned. However, the situation did not last long. After a period of "socialist transformation", 78\% of the city's buildings were publicly owned by the end of 1958.

From that time on, a highly centralized planning system was established in the allocation and management of urban land and buildings. Land was allocated to users administratively, permanently, and without due consideration. Investment, design, construction and distribution of buildings were all controlled by the government and public agencies. Individuals and firms had the right to use land and buildings, but not the right to alienate them for their benefits. Real estate as an industry ceased to exist.

The reforms and the open-door policy since 1978 gradually changed the highly centralized planning system. To alleviate the acute housing shortages, a total of 47.22 million sq m (508.3 million sq ft) of housing was built from 1979 to 1990, three times the

\textsuperscript{79} It is estimated that foreign trading companies numbered 1,077. The city's population increased to 3 million. During the period from 1919 to 1931, an average of 5,000 buildings was added each year in the foreign concessions. High-rise buildings of steel and concrete structure were built in large quantities. v. Yang Xiaolin, \textit{op. cit.}, p. 313.

\textsuperscript{80} A survey of 14 banks in 1930 showed that more than 50\% of their lending used real estate as collateral. v. Yang Xiaolin, and Huang Jianzhi, \textit{op. cit.}, p. 314.
amount built in the previous 29 years. Work units (firms, nonbusiness organizations, and
government agencies) were responsible for a lion's share of the investment. They either
built housing themselves for their employees, or bought commodity housing built by State-
owned development companies.

Shanghai is one of the first cities to consider adopting the paid land-use system.
Since the early 1980s, it has taken a steady and cautious approach toward the establishment
of an urban land market and a market for building properties. The municipal government
has made great efforts to provide the necessary legal and institutional conditions for a land
market.

Before 1987, Shanghai municipal government focused on building institutions and
the infrastructure necessary for a more comprehensive reform. The Shanghai Bureau of
Land Administration was established in 1985 to take over the functions of managing both
urban and rural land, previously under the jurisdiction of two separate government
agencies.\footnote{Previously, urban land was managed by the real estate agency of the government, and agricultural
land was managed by the agricultural agency.} In 1986, the Shanghai municipal government adopted the Regulations on
Land Use by Sino-Foreign Joint-Venture Businesses in Shanghai, which began to charge a
land-use fee for foreign businesses investing in Shanghai. In 1986, the municipal
government began registering the land-use rights of land users in Shanghai and issuing
certificates for their land use; in 1987, the city began registering the title of buildings in the
city and issuing certificates to the owners.

The Shanghai municipal government promulgated a set of laws and regulations
important for the functioning of a real estate market. The laws and regulations cover
areas such as purchase and sale of existing and new buildings, auctions of buildings,
management of publicly-owned buildings, arbitration for building-related disputes, and
demolition and resettlement.\footnote{Full texts of these laws and regulations can be found in Yang Xiaolin, and Huang Jianzhi, \textit{op. cit.}, pp.
149-309.}
The year 1987 is a turning point for Shanghai's reform of her land-use system. The municipal government issued the Regulations for the Transfer of Land-Use Rights for Valuable Consideration in Shanghai City, the first of its kind in China (See Appendix 1, p. 134, for a translation of the text). This legislation allows for the transfer of LURs. It specifies the rights and obligations of interested parties, terms and conditions of the grants of LURs, and penalties in case of breach of the Grant Contract. The Regulation marked the birth of an urban land market as well as a real estate industry that comprises both land and buildings in Shanghai.

The first deal in land was closed in August 1988. A Japanese firm (owned by a Chinese Japanese) succeeded in bidding for the right to use 1.29 hectares (3.19 acres) of land in Shanghai's Hongqiao Economic and Technological Development Zone for 50 years. The premium for the LURs was US$28.05 million (US$434/sq m, or US$40/sq ft, of buildable floor area). Other deals followed.

After the initiation of the Pudong New Area in 1990, the Shanghai municipal government adopted the paid land-use system for the whole area. It stipulates that organizations and individuals who invest in Pudong should acquire land through a grant of LURs by paying a premium. Users of land that was previously allocated by administrative means should pay, retroactively, the premium for the LURs when there is a change of land use or a sale of the building on the land.\(^3\) (See section 5.2 for more information on LURs and property rights) Foreign investors in industry, agriculture, energy, transportation, and infrastructure projects are exempted from paying the premium. Instead, they are required to pay a land-use fee.

The year 1992 saw tremendous growth in the grant of LURs. A total of 201 parcels of land were transferred, a substantial increase compared with only 14 parcels granted in the previous four years. Thus far, an emergent urban land market in Shanghai

has become the vital force in the redevelopment of the older city and the development of the Pudong New Area.

4.1.4 Grant of LURs Since 1992

Before 1992, the grant of LURs in Shanghai was not significant in volume; however, the practice accelerated in 1992 (See Table 4-1). Of the 201 parcels of land transferred in the year, 95 parcels in the older part of the city had already been built on; the others would be developed for the first time. According to Ms. Yan Mengying, Deputy Director of the Office of the Shanghai Municipal Committee for Land-Use System Reform, buildable floor area associated with the 201 parcels of land transferred in 1992 totals 9 million sq m (about 97 million sq. ft). Of this, 39% is for residential, 4% for industrial, and 57% for retail and office developments.\(^8^4\) Total contracted investment amounted to US$2.67 billion and Rmb 1.53 billion.\(^8^5\)

Table 4-2 presents some descriptive statistics of grants of LURs in Shanghai in 1992. Of the 201 parcels of land that were effectively transferred through grant, only 195 parcels are included in this analysis; the remaining 6 parcels were left out either because no data is available for them or because I consider the cases outliers.\(^8^6\) The table shows that the size of most parcels granted is quite small: 50% of the grants of LURs involve parcels that are smaller than 1 hectare (2.5 acres). The largest parcel among the cases selected is 24.5 acres; the smallest is only one-fourth of an acre. The average size of the parcel is about 9 acres.

The table also tells us that 50% of the grants have a buildable area of more than

\(^8^4\) Interview with Ms. Yan Mengying, June 1993.

\(^8^5\) V. Yang Xiaolin and Huang Jianzhi, eds., op. cit., p. 115. Part of the investment will be made in U.S. dollars, and part in Renminbi.

\(^8^6\) For example, parcels of land in large areas were granted to Chinese firms (semi-government agencies) for comprehensive development. In these circumstances, no allowable buildable area was specified.
Table 4-1  Grant of Land-Use Rights in Shanghai, 1988-92

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Number of Parcels Granted</strong></td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>8</td>
<td>201</td>
<td>214</td>
</tr>
<tr>
<td><strong>Total Area of Granted Parcels (hectare)</strong></td>
<td>1.29</td>
<td>0.36</td>
<td>8.08</td>
<td>971.22</td>
<td>2060.00</td>
<td>3040.95</td>
</tr>
<tr>
<td></td>
<td>(Acre)</td>
<td>3.19</td>
<td>0.89</td>
<td>19.96</td>
<td>2398.91</td>
<td>5088.20</td>
</tr>
<tr>
<td>Area of Parcels for Single Projects</td>
<td>1.29</td>
<td>0.36</td>
<td>8.08</td>
<td>7.48</td>
<td>675.00</td>
<td>692.21</td>
</tr>
<tr>
<td></td>
<td>(Acre)</td>
<td>3.19</td>
<td>0.89</td>
<td>19.96</td>
<td>18.48</td>
<td>1667.25</td>
</tr>
<tr>
<td>Area of Parcels for Multiple Projects</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>963.74</td>
<td>1385.00</td>
<td>2348.74</td>
</tr>
<tr>
<td></td>
<td>(Acre)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>2380.44</td>
<td>3420.95</td>
</tr>
<tr>
<td><strong>Number of Parcels Granted by Type of Use</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing (Apartments and Houses)</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>2</td>
<td>98</td>
<td>101</td>
</tr>
<tr>
<td>Mixed-Use (1)</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td>1</td>
<td>89</td>
<td>92</td>
</tr>
<tr>
<td>Industrial</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>3</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Others</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total Amount of Premium Received (2)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US$ Billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.68</td>
</tr>
<tr>
<td>Rmb Billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.67</td>
</tr>
</tbody>
</table>

**Note:**
(1) The commonly seen mixed-use buildings contain office and retail space.
(2) Part of the premium was paid in U.S. dollars and part in Chinese currency (Rmb).

**Source:** Based on data in Yang, Xiaolin, and Huang, Jiangzhi, eds., op. cit., p. 12.
Table 4-2 Grants of Land-Use Rights in Shanghai in 1992: An Analysis

<table>
<thead>
<tr>
<th>Total Number of Grants (1)</th>
<th>201</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Area of Granted Parcels</td>
<td>2,060 hectares</td>
</tr>
<tr>
<td>Total Number of Grants Included in the Analysis (2)</td>
<td>195</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Land Area of Parcels Granted</th>
<th>7.19 million sq m</th>
<th>77.40 million sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>1,070 sq m</td>
<td>11,490 sq ft</td>
</tr>
<tr>
<td>Maximum</td>
<td>992,150</td>
<td>1,067,980</td>
</tr>
<tr>
<td>Mean</td>
<td>36,890</td>
<td>397,080</td>
</tr>
<tr>
<td>Median</td>
<td>10,080</td>
<td>108,500</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>86,060</td>
<td>926,410</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Gross Buildable Area of all Parcels</th>
<th>8.75 million sq m</th>
<th>94.19 million sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>747 sq m</td>
<td>8,040 sq ft</td>
</tr>
<tr>
<td>Maximum</td>
<td>451,400</td>
<td>4,858,950</td>
</tr>
<tr>
<td>Mean</td>
<td>44,860</td>
<td>482,910</td>
</tr>
<tr>
<td>Median</td>
<td>29,970</td>
<td>322,550</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>52,510</td>
<td>565,210</td>
</tr>
</tbody>
</table>

Average FAR | 1.22

Note: (1) There were altogether 205 grant contracts signed in 1992 in Shanghai, of which 4 of them were later cancelled.
(2) Ten grant contracts were excluded in this analysis because no data were given about the buildable area.

Source: Calculated from data in Yang, Xiaolin, and Huang, Jianzhi, eds., op. cit., pp. 116-135.
29,970 sq m (322,550 sq ft). The largest buildable area for a single parcel is about 4.9 million sq ft, and the smallest is about 8,040 sq ft. The average buildable area for all of the parcels granted is 483,000 sq ft.

Based on the above information, the average FAR is estimated at 1.22:1. This figure is quite low for a city with the population density of Shanghai. Parcels situated in the older city, however, were allowed to be redeveloped with a much higher FAR. According to Mr. Zhu Xijin, professor of urban planning at Tongji University, the figure is around six.

It is hard to identify any pattern in the premium (price) for the parcels of land granted because such information is not available in any consistent and complete form. According to my interviewees, land in the commercial area of the older city commanded a much higher premium than land in the Pudong New Area. On average, land in the older city was transferred for a premium of US$600 per sq m (US$56 per sq ft) of buildable floor area, the highest premium being US$888 per sq m (US$82.49 per sq ft) of buildable floor area. On the other hand, the highest premium paid for land in Pudong was US$280 per sq m (US$26 per sq ft). Land within the Central Third Ring Road of the older city commanded a premium of US$350-700 per sq m (US$32.5-65.0 per sq ft). The gradient for the premium of LURs is not steep.

More than 85% of the parcels of land granted were to foreign businesses or business entities with foreign participation. Among these foreign interests, Hong Kong firms take up a large proportion. A small number of parcels was granted to domestic development companies. Some of these companies, however, acquired large parcels of land for comprehensive development. For example, the Zhangjiang High-tech Park Development Corporation acquired the LURs for a parcel 4.2 million sq m in area (or 1,038 acres) for comprehensive development. Furthermore, of the 201 parcels, only two

87 Interview with Ms. Yan Mengying, June 24, 1993.
were granted through open bidding; a majority were granted through one-on-one negotiations between the responsible government agencies and the interested developers/investors. The reason for this practice and its implications are discussed later.

So far, a majority of parcels of land whose LURs were granted for valuable consideration are being used to develop properties that are targeted to buyers from overseas. The market is brisk. For all of the 201 parcels granted in 1992, no grantee has so far reported loss, though it might be still too early to tell. Starting in 1993, Shanghai will open its domestic market by allowing foreign developers/investors to sell developed products to local consumers. 88

Grants of LURs in 1993 continue to grow in Shanghai, though the speed slowed down after June due to the implementation of a mini-austerity program nationwide by the central government to curb the rapidly growing inflation of the economy. It is estimated that there were about 100 parcels of land whose LURs were transferred for valuable consideration during the first half of 1993. 89

4.2 Demand and Supply of Urban Land

In the future, demand for urban land in Shanghai will be strong despite the current national policy to tighten credit for property development. On the other hand, the supply of urban land by the government will be made increasingly subject to planning and control by the municipal government. The interaction of demand and supply may exert an upward pressure on land prices, or the premium for the LURs, in Shanghai. However, land price will not be solely determined by these market forces. Other factors such as the behavior of government officials will play an important role. This section analyzes factors that determine the demand for, and supply of, urban land for residential development in Shanghai.

88 Ibid.

89 Interview with Daniel D. Yang, Deputy Manager of Hang Lung's China Division.
Shanghai. The behavior of local government officials and how it affects prices for land are analyzed in the next section.

4.2.1 Demand for Urban Land

The growing demand for urban land for residential development in Shanghai arises from the demand for space due to economic development. The increase in the demand for space which must be met either by development or redevelopment, in turn, is due to the following factors: increasing domestic and foreign investment, growing disposable income of households, and the policy to improve housing conditions and to commercialize housing. Some of the above factors are common to all Chinese cities and some are unique in Shanghai. Most Chinese cities are experiencing rapid growth due to economic reform and the open-door polices; the uniqueness comes from the fact that Shanghai has certain endowments and at the same time enjoys a set of special policies not available elsewhere.

Increasing investment in Shanghai follows the decision of the central government to restore the city's position as a leading economic and financial center in China and Asia. In order for Shanghai to become China's leader in international competition, the central government is paying a special attention to the development of its tertiary industry, including finance, commerce, trade, information, and technology. Corresponding to this strategy, "five markets" are being nurtured, namely, the markets for stocks, currencies, commodities, futures, and real estate.\(^{90}\)

The opening up of these markets attracts a huge amount of investment from other provinces as well as from abroad. According to *People's Daily*, the number of foreign companies investing in Pudong surpassed 800 by the end of the first quarter of 1993 (including 20 transnational corporations); total investment was about US$4.5 billion.

More than 1,600 domestic firms had invested Rmb 11 billion.\footnote{Ibid.}

Consequently, these investments generate huge demand for space at different quality levels. For example, more than a hundred high-rise buildings will be built in Pudong alone in the next four to five years.\footnote{Ibid.} While most of these buildings are office and commercial developments, housing for sale or lease is also in high demand. Domestic and international firms need to provide housing for their employees. Because this demand comes from business entities, land on which to build housing as well as commercial space will have to be acquired through market mechanisms, e.g., the grant of LURs.

Increasing disposable income of households is another factor contributing to the demand growth. Shanghai's average household income is among the highest in all cities across the country; average income of households in the urban districts was Rmb 7,000, or about US$1,200, in 1991.\footnote{The number is based on \textit{Statistical Yearbook of Chinese Cities} 1992.} This amount is apparently not sufficient for households to consume housing at the market price without subsidies because spending on food and other life necessities takes up a lion's share of the income. With the increasing liberalization of the economy, however, some people are fast becoming much richer than others. For example, employees of "Sanzi" firms and private enterprises, returnees from overseas, self-employed people, and professionals with special skills have more cash to spend than the average wage earner.\footnote{For example, a cab driver in Shanghai makes about Rmb 36,000, or about US$7,000, per year.} The 6,300 registered private enterprises in Shanghai employ about 90,000 people.\footnote{See \textit{China Daily} (Business Weekly, October 4, 1993), p. 4.} Also, people have various kinds of "grey" income.\footnote{"Grey income" means income that is often not captured by official statistics of income. This income is derived from many sources, among them, second jobs, and foreign remittance. The amount of savings captures part of this income. According to the \textit{Statistical Yearbook of Chinese Cities}, 1992, the amount}
has been formed in Shanghai; to people who belong to this class buying housing with a little help from financial institutions is no longer a dream.

The municipal government's policy to improve housing conditions and to commercialize housing is yet another factor creating demand for urban land. Housing conditions in Shanghai's urban districts are extremely poor: average per-capita living space is only 6.8 sq m (73.2 sq ft), lower than the national average (See Table A3-3, pp. 149). Shanghai set a goal of reaching 10 sq m (107.6 sq ft) by the end of the year 2000.97 This is a formidable task because increasing the living area on average by 1 sq m will create the need for 8 million sq m (86 million sq ft) of new housing construction, a volume beyond the capacity of the existing development companies.

In addition to the need to create new housing, a large portion of the existing housing stock is obsolete and redevelopment will generate a huge demand for housing space to resettle the people to be dislocated from densely populated urban districts. Sub-standard housing desperately in need of repair or replacement amounts to 12 million sq m (129 million sq ft).98 Grants of LURs in the older city in 1992 generated demand for housing in the range of several million sq m, to resettle the residents dislocated due to those grants.99

To ease housing shortages, the Shanghai municipal government is trying to reform the housing delivery system by encouraging residents to buy housing and by gradually raising the rental rate to a level that can compensate for the costs of housing construction and maintenance, a reform called "housing commercialization." To encourage housing

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97 Interviews with Professor Zhu Xijin and Mr. Ma Renjing.


99 Interview with Prof. Zhu Xijin of Tongji University, June 24, 1993.
purchases by residents, a housing mortgage loan scheme is being designed. With the availability of this complementary service, demand for housing will increase. Furthermore, the increasing rental rates that the residents have to pay the government is changing people's preference in housing consumption. More and more people are willing to buy housing of their own, rather than live in assigned apartments and pay an increasingly high rent. The changing consumer preference generates greater demand for commercialized housing as well.

For housing demand to be effective, the market price for housing must be affordable. The economics of affordability is usually determined by comparing monthly housing costs to monthly current household income. Commodity housing is currently sold at Rmb 3,000-4,000 per sq m (US$50-68 per sq ft) for medium-rise apartments in the suburbs, and Rmb 10,000 per sq m (US$170 per sq ft) for high-rise apartments in the older city. This price is undoubtedly far from being affordable to the average household whose sole income is from wages.\footnote{\text{For a typical two-bedroom apartment unit of 40 square meters, its current market price will be about Rmb 140,000 (or US$24,000). Suppose the buyer is able to take out an 80\% self-amortizing 30-year mortgage loan at an annual interest rate of 10\%, this means the cost of owning an apartment is about Rmb 12,000 per year, excluding tax and other possible costs. While the downpayment of Rmb 28,000 might be reachable, the annual payment is well beyond most households.}}

However, the current practice is that households pay only one-third of the total housing price; the remaining two-thirds is more or less equally paid by the State and the work unit to whom the head of the household belongs.\footnote{\text{A recalculation shows that if the buyer is also accessible to the same type of mortgage loan, he/she now needs to pay less than Rmb 4,000 per year.}} Many work units are able to pick up the costs because they are subject to a much softer budgetary constraint. Besides, Shanghai is designing an experiment with a residential mortgage loan scheme. According to this scheme, potential home buyers pay 30\% of the housing price as downpayment at the time of the purchase, the remaining 70\% is paid by a mortgage loan which the
mortgagor must pay back in 7 years. This form of financing will not provide much help in making housing affordable. Using the example of a Rmb 112,000 mortgage at 10% annual interest rate, a 7-year amortization schedule requires an annual payment of Rmb 23,000.

Though at the present price levels, the average urban household in Shanghai cannot afford to buy an apartment of its own, some households and individuals can. The number of these households is likely to increase in the future, with the rapid growth of the urban economy and the availability of longer-term financing instruments.

4.2.2 Supply of Urban Land

While demand for urban residential land is strong, supply is constrained. Supply depends on the availability of land, the costs of furnishing land, and the number of suppliers. A brief look at these factors seems to suggest that supply of residential land will not grow substantially in the near future.

First, the supply of land, unlike that of other goods, is fixed. In Shanghai, available land for new residential development is limited because most areas are already built up. Redeveloping the older residential quarters of the city is another way of increasing the land available for residential development, but the competing demands for land are so strong in the older city that it does not make much economic sense to continue the existing residential use. Residential developments are increasingly squeezed to the fringe areas of the city. Resettlement housing for dislocated residents in the older city is being built in the suburbs and counties so far away from the city center that it often

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102 Interview with Mr. Ma Renjing, Deputy Secretary General of Shanghai Real Estate Association, June 26, 1993. Shanghai issued the Provisional Regulations on the Administration of Mortgage Loans in 1988, but the mortgage loans mentioned in the regulations are not specifically home mortgage loans. So far, home mortgage loans are not yet available to ordinary urban households.

103 In 1992, about 1 million sq m of residential space in Shanghai was converted into office space. See Zhou Ganzhi, op. cit.
requires workers to commute 2 to 3 hours each day between places of residence and places of work.\textsuperscript{104}

Secondly, the costs of preparing land for residential developments are on the rise. These costs are for land requisition and infrastructure provision. Requisitioning land from farmers is increasingly difficult because the costs are growing higher and higher. Such costs include various Compensations (for land, crops, buildings and other improvements, nursery stock, and livestock and aquatic products), Resettlement Subsidies (for unemployed labor, and pension for the aged), and different taxes and fees.\textsuperscript{105} Although Shanghai has set standards for these charges, the actual amounts paid often depend on the negotiating power of the farmers. Infrastructure provision represents another factor constraining land supply. Plagued by lack of capital, the Shanghai municipal government has to turn to new sources of financing for the provision of infrastructure needed for development.\textsuperscript{106}

Making land available by redeveloping the run-down residential quarters in the older city is even more costly. The government incurs demolition, resettlement, and basic infrastructure costs. Such costs can be quite high. If housing is built on an existing site, the government has to forego the possibility of capturing a much higher price that could be realized if the LURs are granted for commercial purposes. The government, therefore, prefers requisitioning farmland to demolishing the existing structures in the older city.\textsuperscript{107}

Thirdly, the supply of residential land as well as other land will be constrained because the number of suppliers is not likely to increase. Theoretically, the right to

\textsuperscript{104} Interviews with Ms. Yang Mengying and Mr. Ma Renjing.

\textsuperscript{105} v. Cai Yutian, and Gu Changhao, eds., \textit{op. cit.}, pp. 15-25.

\textsuperscript{106} For example, using foreign capital to develop infrastructure by granting LURs of large areas of land to overseas developers.

\textsuperscript{107} In 1991, land requisitioned was 2,127 hectares (5,254 acres), 98% of which was in suburbs and counties and 74% of the total was farmland. \textit{v. Statistical Yearbook for Shanghai's Fixed-Asset Investment and Construction Industry, 1922}, p. 244.
dispose of urban land belongs to the municipal government. In reality, however, this right has been delegated to the government of each urban district. This decentralization of decision-making with respect to grants of LURs is now considered to have weakened the role of the municipal government in regulating the land market. It is likely that the municipal government will recentralize some of the power of land disposition. If this is carried out, the supply of land will be more tightly controlled.

A growing demand for urban residential land and a constrained supply will produce an upward pressure on price. But the price is also subject to the influence of other factors. To understand the non-market factors that influence land price, we need to examine the operation of the urban land market in Shanghai.

4.3 Operation of Shanghai’s Land Market

The operation of the land market is examined from four aspects: the property-rights arrangements in urban land, procedures for obtaining LURs, major players, and finally, the behavior of government officials.

4.3.1 Property-Rights Arrangement in Urban Land

As explained in Chapter 2, the property-rights relationship affects the way people behave; it defines the rules of the game by which people play. It is important to remember that such rules of the game are not completely dictated by law; they also derive from conventions, customs, etc. Therefore, there are *de jure* and *de facto* property rights.

According to the Regulations for the Transfer of Land-Use Rights for Valuable Consideration in Shanghai City (See Appendix 1, p. 134), urban land is owned by the State, but its use rights can be transferred to business organizations and individuals. Ownership of urban land entails that the State also has the right to collect taxes, condemn the LURs for public purposes, and repossess the LURs when the term of the Grant Contract expires. To the Shanghai Bureau of Land Administration is delegated the power
to act as the representative of the State in the granting of LURs in the city. Terms of the grant are jointly determined by the Bureau of Land Administration, the Bureau of City Planning and the Bureau of Building-Property Administration.

Grantees of LURs have the right to sell, lease, swap, or bequeath the LURs within the term. They can also use the LURs as a pledge to obtain mortgage financing. In the Detailed Implementation Rules for the Operation and Administration of Building Properties Developed on Land Whose Use-Rights Have Been Transferred for Valuable Consideration in Shanghai City (See Appendix 2, p. 141), it is stipulated that the LURs must be transferred along with rights in any buildings on the site.

The definition and assignment of property rights in urban land in the above-mentioned legislation are quite vague. In reality, governments at the district and county level are the true grantors of LURs (Shanghai has 12 districts in the city proper and 9 counties in the suburbs). The district and county governments have a lot of power. They decide on the number and location of parcels to be granted, and the baseline prices. They also choose the grantee, and negotiate with him/her on the terms of grants. They are responsible for preparing the site for development, including demolition and resettlement, and provision of basic infrastructure. After the deal is consummated, they retain 85% of the premium payment for the LURs; the remaining 15% goes to the municipal government.

The Shanghai Urban Planning Bureau approves the project proposal and the Bureau of Land Administration signs the Grant Contract. Getting approval from these

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108 The decision on supply is based on the availability of infrastructure and resettlement housing; the decision on price takes into consideration the baseline price determined by factors such as location, accessibility, business profits due to location, and the grading of urban land.

109 Note that the District is responsible for delivering a "clean" site, plus the infrastructure improvement. See discussion below.
agencies is usually not a problem.\textsuperscript{110}

Within the district governments, decisions are made by district governors and other officials responsible for land administration and urban planning. Usually, they form an Office for Land Grant. In a sense, these officials are the true owners of property rights in urban land.

Legally, grantees of LURs cannot transfer the LURs before improvements are made. However, speculation in land does happen. In the absence of a Company Law in the PRC, some grantees sold off the whole company which was established for the project, in another country. In doing so, the LURs they had acquired were transferred as well.\textsuperscript{111}

4.3.2 Procedures for Obtaining LURs

LURs can be obtained through auction, tender, and negotiation. Since, so far, a great majority of deals have been conducted through negotiation, I focus on the procedure for negotiating the LURs.

First, prospective grantees approach the municipal Bureau of Land Administration or the district or county government requesting information about the parcel of land which is of interest. More often than not, prospective grantees are overseas developers/investors or domestic development companies. The district government is represented by an Office for Land Grant. This office is often headed by the district governor and consists of a dozen officials from the district bureaus of finance, land administration, building-property administration, the district construction commission, and the district economic planning commission. Potential grantees are often introduced to grantors through connections, i.e. friends, colleagues, or employees. Sometimes, they are referred to the district by people in the higher-level government.

\textsuperscript{110} Interview with Professor Zhu Xijin and Mr. Cao Feimin, Senior Engineer of Shanghai Shenda Corporation.

\textsuperscript{111} Interview with Li Jian, Manager of INVESTEC Ltd., June 26, 1993.
Second, the prospective grantee should, within a specified period of time, submit a development proposal and other documents specifying the premium for the LURs and form of payment to the municipal Bureau of Land Administration. This bureau should reply to the prospective grantee within 30 days of the receipt of the documents.

The above-mentioned documents are submitted after negotiations with the district or county officials. The negotiation process usually takes a couple of months. Terms of grants are first negotiated on. They include: type of land use, FAR, plot coverage, number of parking spaces, building setback, location of major ingress and egress, and amount of greenery. The district or county officials base their decisions on these parameters on a zoning plan prepared for the district. Then, both parties move to the negotiation of the premium for the LURs, or land price.

The district government considers many factors when determining the baseline price for the LURs. They include the location of the parcel, its accessibility, the level of profits that existing or potential businesses on the site could generate, and the grading of land by the municipal government.\textsuperscript{112}

In this process, it is possible to raise the FAR of the proposed project, as long as the request is considered reasonable by the planning agency. A concern of the district government is their lack of knowledge of the financial strength of the negotiating party. The government sometimes asks for a certification of assets by the bank of the potential grantee. Another strategy is to pick well-established developers/investors.

Third, after an agreement is made following further negotiations, it is time to sign the Grant Contract. On the grantor's side, only the Shanghai municipal Bureau of Land Administration is authorized to sign the contract, though most decisions are made at the district level.

\textsuperscript{112} All urban land within the jurisdiction of Shanghai municipal government has been graded, according to location and other criteria. Figure 4-3 (a) and Figure 4-3 (b) show, respectively, land grading in Puxi (older city) and the Pudong New Area. There are seven grades in Puxi and eight grades in Pudong. Usually, the smaller the grade, the higher a premium a unit of land commands.
Figure 4-3 (a) Grading of Urban Land in Shanghai, 1991: Puxi (Older City)
Source: Shanghai Real Estate Market, op. cit.
Figure 4-3 (b) Grading of Urban Land in Shanghai, 1991: Pudong New Area
Source: Shanghai Real Estate Market, op. cit.
Fourth, the grantee makes the premium payments according to the term specified in the contract, gets a Land-Use Certificate from the Bureau of Land Administration, and registers the LURs at the Shanghai Real Estate Registry. Usually three payments are made: a certain percentage of the premium is paid within 15-20 days after the signing of the contract; the second payment is made when all the existing structures are demolished and residents are resettled; the last payment comes after the basic infrastructure is provided.

The district government is responsible for 1) demolishing existing structures on the parcel and relocating the existing residents and organizations; 2) providing basic infrastructure, called "Qitong Yiping." It includes road access, water supply, sewerage and drainage, electricity, telecommunication, gas, heat, and site leveling. For the demolition and relocation, the district government often contracts out the job to a development company in the same district.\textsuperscript{113}

### 4.3.3 Major Players

The major players in the recent land-use rights transactions can be classified into three groups: (1) government agencies; (2) domestic development companies, and (3) overseas developers/investors.

Group one are grantors of LURs and regulators of real estate development. In this group, besides the municipal and the district governmental agencies responsible for the grant of LURs, there are a host of regulatory agencies that are responsible for overseeing real estate development and operation after the LURs are granted. First, there is the planning approval process that involves the following government agencies: planning, land administration, fire, environmental protection, water supply and sewage, municipal facilities, and transportation. Only after the specific requirements set by these agencies are

\textsuperscript{113} Interview with Mr. Chen Yewei, Deputy Governor of Nanshi District, June 22, 1993.
met will the planning agency issue a planning permit to the project developer.

Second, there is the construction approval process after the design development stage. Approval from the above agencies plus the epidemic prevention agency must be obtained before the project proceeds to the working drawing stage.

Group two and group three are grantees of LURs and real estate developers/investors. At the end of 1992, there were 849 domestic and more than 80 overseas real estate development companies in Shanghai. By May 1993, the number of domestic companies had grown to 1,172.114

In group two, most real estate development companies are State-owned firms that are affiliated with one or more government agencies. Since 1992, many trades have got into the real estate business. Many of them are affiliated with regulatory agencies, such as the Bureau of Land Administration and the Construction Commission. However, not all of these companies are qualified and serious.115

Group-three companies are private entities. According to my interviewees, so far a majority of overseas developers in Shanghai are not "big players" in the industry. Many of these companies do not have strong financial clout. They want to make quick profits and run away.116 Long-term developers/investors are still concerned about the imperfections in the market mechanisms.

4.3.4 Behavior of Government Officials

With the present property-rights arrangements in urban land, local government officials have every incentive to use non-market criteria to dispose of urban land. One tendency is to speed up the process of granting LURs and to lower the land prices. In the

114 Interview with Mr. Ma Renjing, June 26, 1993.

115 In my interview with Mr. Ma Renjing, he estimated that only about half of the more than one thousand development companies in Shanghai are serious developers.

116 Interview with Mr. Cao Femin, June 25, 1993.
process, they gain many benefits.

On the one hand, district officials are very powerful since much of the decision-making with respect to the disposition of urban land is delegated to the district government. On the other hand, their performance in striking the land deals is hard to measure in the absence of any substantive knowledge of the true land value, or even a benchmark for it. Furthermore, compensation of government officials are not related to how well they perform in the land transactions. They do not gain if they can negotiate a better price; they also do not lose much if they fail to do so, because monitoring is difficult.

Property-rights analysis suggests that under these circumstances, the costs for government officials to appropriate whatever they can for their own interests are small, and therefore, they have the incentive to do so.

This explains why local governments favor negotiation, rather than tender and auction as a means of granting LURs, though the latter can command a much higher premium. During the many rounds of negotiation, local officials gain close contacts with businesspeople from overseas. There are good chances for pursuing their own interests or their group interests.

In my interviews, I find that district officials are very enthusiastic about grants of LURs. According to an interviewee, "each district gives out the best land." One reason is that 85% of the premium is kept by the district government. But this is not the whole story. Within the confines of law, officials accept gifts and presents. Other benefits include travels outside of the country at the invitation of overseas developers/investors with all expenses paid by them, a very rare opportunity for district officials had there not been the grants of the LURs. District officials sometimes also sit on the board of directors

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117 Study of grants of LURs in the Shenzhen SEZ shows that through tender, the local government can get a premium twice as much as that realized by negotiation; through auction, the premium is often three times as much.
for joint-ventures formed for the project development.\footnote{An example is Hang Lung's Siping Lu project. The general manager of the joint-venture is also the Vice Director of the Construction Commission of the district in which the project is located. v. Wan, \emph{op. cit.}, p. 55.}

### 4.4 Conclusion

Both demand and supply are important determinants of prices for LURs in Shanghai. But market forces are seriously disturbed by non-market factors that determine the operation of the urban land market in the city. This chapter identified what these forces and factors are and why they are important in determining land prices. A careful study of how these factors interact to affect prices is necessary for a more in-depth analysis. Next I summarize the key features of the urban land market in Shanghai and analyze how they might evolve over time.
Chapter 5
Key Elements of Shanghai's Urban Land Market

Chapter 3 and Chapter 4 examined, respectively, the urban land markets in the PRC, in general, and the case of Shanghai, in particular. This chapter summarizes and distills the key elements of Shanghai's urban land market, and analyzes how they might evolve over time. The criteria I use to identify these key elements are their distinction and importance. A feature is considered distinct if it is different from typical land market features one often finds in other countries; an important feature is one that I believe will remain a significant influence on the prospects of the real-estate development industry.

The purpose of this chapter is to consolidate our understanding of the urban land market in Shanghai in comparison with those in some other countries or regions with different land systems. This chapter also serves as a stepping stone towards an assessment of the urban land market in Shanghai and the effects of these features on real-estate development opportunities, which is the subject of Chapter 6.

I argue that the urban land market in Shanghai has five basic features. First, it is an emerging market. Second, there is a unique property-right structure in urban land relative to other countries. Third, the government (at the national, municipal, and district levels) has a strong and multifaceted role in the operation of the market. Fourth, the market is segmented, with a multiple-price system. Fifth, there is a wide participation in land and real-estate development activities. I also propose that most of these features are likely to remain in the foreseeable future.
With the findings and discussions in the previous two chapters on urban land markets in the PRC, in general, and that of Shanghai, in particular, the following discussion of the market features can be put in perspective, and understood better.

5.1 An Emerging Market

The urban land market in Shanghai is an emerging market. As such, it exhibits the many characteristics common to other emerging markets. Typical features include limited scope of market activities, rapid growth, a transition from a few to many entrants, relative lack of rules, and inconsistency in rules and regulations.

If the first case of transfer of land-use rights is taken as the sign of the birth of a land market in Shanghai, the market is only 5 years old. Rules of the game are being defined and redefined. For example, realizing the drawbacks of transferring land-use rights through negotiations, the forthcoming real estate law will require that more competition be introduced into the land granting process. In this state of flux, there are no clear sets of rules to follow, a situation that is very confusing to outside developers and investors who have limited knowledge of China's system. Commenting on the land market in Wenzhou, Zhejiang Province, Mr. Zhang Youyu, Secretary of the city's Party Committee, said that "(land transactions) are dishonest in the primary market, inflexible in the secondary market, and hidden in the tertiary market."119

Residential market activities are so far limited in scope. According to Professor Zhu Xijin, a vast majority of the existing land users in Shanghai cannot transfer their land-use rights. Of the total housing space built in 1990 in the city, only 5% was commodity housing.120 However, the market is growing very fast, as shown in Chapter 4. Early entrants into the market are multiplying in number, though big industry players are not

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120 Interview with Professor Zhu Xijin, June 24, 1993.
many. This is particularly true of overseas investors/developers. According to Mr. Cao Feimin, Senior Engineer of Shenda Corporation, except for a few heavyweights, most overseas developers who have ventured into Shanghai so far are "a bunch of nobodies" in the industry in their home countries and regions. 121

5.2 A Unique Property-Rights Structure

The property-rights structure in urban land in Shanghai is characterized by State ownership, a separation of land-use rights (LURs) from ownership rights, and a double-track system for the allocation of rights.

In Shanghai, as in other cities across the PRC, all urban land is owned by the State; no domestic and overseas entities are entitled to the ownership rights per se. The municipal government, as the representative of the State, can either allocate certain property rights to land users for an unspecified period of time at little cost (an act called administrative allocation or appropriation, which is still widely practiced), or "grant" (Churang) the land-use rights (LURs) to either domestic or international developers/investors for a specified period of time (up to 70 years) for valuable consideration (the grantee has to pay a premium). Table 5-1 compares the differences in these two ways of land disposition. The grants and purchases of LURs comprise the primary land market. What is exchanged in this market is, therefore, not the full ownership rights of land, but a limited bundle of rights to the land for a limited period of time.

Once this bundle of rights, called land-use rights (LURs), have been acquired and adequate improvement made to the land, land users have the right to sell, lease, mortgage, and bequeath the LURs. This means that LURs are, to a certain degree, independent of the ownership rights. Activities involving the exchange of LURs among land users are

121 Interview with Mr. Cao Feimin, June 24, 1993.
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<thead>
<tr>
<th></th>
<th>Administrative Allocation of LURs</th>
<th>Grant or Assignment of LURs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Who are eligible?</td>
<td>Government and non-profit organizations; domestic firms.</td>
<td>All overseas and domestic firms and individuals. So far most are overseas developers, certain domestic developers, and overseas firms without property interest.</td>
</tr>
<tr>
<td>B. What rights are transferred?</td>
<td>Right to use. Domestic development companies are subject to price controls when selling developed product.</td>
<td>Right to use AND transfer. Prices of developed products are usually not controlled.</td>
</tr>
<tr>
<td>C. How much should be paid?</td>
<td>Land user often needs to pay to compensate for the existing users, usually the farmers.</td>
<td>A premium has to be paid, which is often much higher than the compensation alone.</td>
</tr>
<tr>
<td>D. Who actually receives the payment?</td>
<td>The payment goes through the municipal government to the existing users to compensate for their loss.</td>
<td>The local government can retain the premium to meet its fiscal obligations after necessary costs of compensation and infrastructure provision are deducted.</td>
</tr>
<tr>
<td>E. How long is the term of the LURs?</td>
<td>Unspecified. Can be considered permanent.</td>
<td>Ranges from 50-70 years, depending on the type of use the land will be put to.</td>
</tr>
<tr>
<td>F. How are the LURs obtained?</td>
<td>Land user applies for land allocation to local government. If it is approved, land is assigned administratively.</td>
<td>Three forms: negotiation, tender, and auction. So far negotiation is most widely used.</td>
</tr>
<tr>
<td>G. Must development project be incorporated into plan?</td>
<td>Yes. Project must be incorporated into the annual fixed-asset investment plan before land acquisition.</td>
<td>No.</td>
</tr>
<tr>
<td>H. How are profits from development distributed?</td>
<td>About 50% is retained by the development company, the remainder is submitted to the district and municipal governments.</td>
<td>Developer retains all profits after taxes and fees are paid.</td>
</tr>
</tbody>
</table>

Source: Compiled by the author, 1993.
called "assignment" (Zhuanrang) of LURs, and they comprise of secondary land market.\footnote{Primary and secondary land market together form the land market in the PRC. This thesis focuses on the primary land market because for overseas developers/investor it is the major source from which urban land is obtained.}

Upon the expiration of the term of the LURs, the municipal government takes back the land as well as the structures on it without compensation.

Table 5-2 is a simple illustration of the property-rights distribution in urban land in Shanghai as well as in other cities across the country. It shows the separation of the two bundles of rights: ownership rights and use rights. A land user, no matter if it is domestic or overseas, basically has two ways of acquiring urban land. The first is simply to apply for administrative allocation from the municipal government. Once it gets the land and begins to use it for productive activities, it has to pay a land-use fee on a yearly basis. A majority of Chinese-foreign joint-ventures in Shanghai that are not in the real-estate business acquired land either this way, or from their Chinese partners as their contribution to the joint-venture. In either case, they need only pay a land-use fee, rather than a premium. Land users who get land this way usually do not enjoy the right to lease, transfer, and mortgage the land.

The other way of getting urban land is to buy the LURs either from the primary land market via grant, or from the secondary market via assignment. In both cases, a premium has to be paid. In return, the land user enjoys more property rights. So far, Shanghai's urban land market has been dominated by activities in the primary land market, i.e., grant of LURs. Most overseas real-estate developers or investors in Shanghai have to acquire land this way.

This unique property-rights system in urban land has many implications. First, the double-track system allows the government to distribute property-rights in land discriminately. Land users are assigned different property rights in land, depending on the way they acquire their land-use rights. Some users can transfer their property rights in
Table 5-2 Property-Rights Structure in Urban Land, PRC

<table>
<thead>
<tr>
<th>State Allocation</th>
<th>State Local Government</th>
<th>Domestic Land User/Developer</th>
<th>Overseas Land User/Developer</th>
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<tr>
<td>Possess</td>
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<td>Use</td>
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</tr>
</tbody>
</table>

Note: An overseas land user is eligible for State allocation of urban land and thus enjoys restricted rather than the full bundle of property rights, as long as such user's principal activity is not real estate.

Source: Compiled by the author.
land, while others cannot. For example, a large portion of urban land cannot be freely exchanged in the market because the existing land users are prohibited from doing so. The system is a double-edged sword. It can be used, at least in theory, to influence incentives so as to achieve desirable results in terms of allocative efficiency and distributional equity. In reality, it often makes the definition and enforcement of property rights complicated. As a consequence, *de jure* rights and *de facto* rights often lie in different parties. In reality, many land users who have obtained their land-use rights through administrative allocation get around the system and engage in the transferring, leasing, and mortgaging of their LURs.

Second, property rights are highly concentrated in the hands of the State. Its monopolistic role in the primary market gives it extraordinary market power. Under this system, government bureaucrats, as the agent of the State, can wield considerable influence in the process of defining and enforcing property rights.

China's property-rights structure in urban land is very different from those in other countries. In the United States, for example, most urban land is privately owned. Property rights in land are well established and freely exchanged in the marketplace. The government's role is limited to regulating the land market as the guardian of the public interest. Land prices are largely determined by market supply and demand. Private property institutions in urban land are also found in most newly industrializing economies in Asia.

At the first glance, China's property-right system is not much different from the land leasehold system in Hong Kong (indeed, China's system drew heavily from Hong Kong's), however, on close scrutiny, the two systems are different. In Hong Kong's system, which is based on a private property system in general, rights and obligations are better defined and more completely assigned. China's experiments with the new property-

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123 See Li Shangjie, *op. cit.*, p. 64.
rights system in urban land so far have revealed internal contradictions. For example, the government finds it difficult to mitigate the negative effects arising from the existence of two kinds of use rights in land. The dilemma is how to design a system that will allow the trading of use rights obtained via administrative appropriation so as to achieve allocative efficiency, without sacrificing equity.

5.3 Strong and Multifaceted Role of Government

In Shanghai, the role of the government (at the central, municipal and district-levels) in the urban land market is not regulatory only. The government assumes many more roles. It is the creator and an active promoter of the market for land and other real properties; it is the regulator and planner of market activities; it is the most important supplier of land; and very often it is also a competitor in the market. This multifaceted role of government in the land and real-estate market is the result of China's unique historical circumstances, especially, the evolution of China's land-use system, which I have described in the previous chapters.

First of all, the government is the creator and an active promoter of the urban land market. In this regard, the Shanghai Municipal Government is one of the pioneers in the country in "designing" the preconditions of a land market. From the drafting of legislation to the building of institutional capacity (establishment of the Bureau of Land Administration in 1985) and legal infrastructure (registration of land-use rights and building titles in 1986 and 1987) necessary for a land market, the whole process was initiated by the government. The action of the government is perhaps in response to the pressing problems in urban land uses and the growing demand for space, but direct participation of the public has been extremely limited.

Local governments in Shanghai have actively sought to promote the development of a market for land and building properties. This is manifested in the rapid growth of grants of land-use rights to overseas developers/investors, in legislation giving certain
privileges to foreign firms (such as preferential tax treatment), and in the enthusiasm with which government officials undertake land deals with prospective investors. Issues involving the transfer of land-use rights are almost guaranteed to receive top attention by all levels of government.

It is true that all markets are based on socially determined rules and regulations. But in the world's democratic societies, market mechanisms were developed through years of evolution and the market has long established itself as a strong institution fairly independent of the State and the civil society. In the United States, the role of government is believed to be to ensure the functioning of the market and to correct market failures through regulations. Governmental agencies are usually prohibited from having equity interests in real-estate ventures. In many developed countries, government regulations and the politics of interest groups have created a hostile, rather than favorable, environment for real-estate development.

Second, the government is the regulator and planner of market activities. Regulation is a normal role of the government. In Shanghai, the municipal government drafts laws concerning the transfer of land-use rights, and stipulates the procedures for real-estate development. One reason why the government has not used auctions to sell land-use rights, according to some officials I interviewed, is to prevent the land prices from being bid up too high.

Not only does the government regulate the land market, but also it tries to incorporate some planning mechanisms in the land market. This is a formidable task, but may not be totally impossible because the government controls the supply of land in the primary market. It also has considerable influence on the issuance of credit for real-estate development. Many urban districts in Shanghai have plans for the grant of land-use rights, which specify guidelines regarding the amount and locations of land to be granted, and broad conditions to be met. These plans reflect the plans prepared by the municipal government.
The Chinese government and academia believe that planning and the market are interdependent. They are trying to combine both mechanisms to serve a same goal, i.e., promoting the development of the real-estate industry. While regulations of land markets are a familiar phenomenon in many industrialized countries, attempts at direct planning of market activities are rare. In these countries, planning and the market are often seen as incompatible with each other.

Third, the government is the most important supplier of urban land. The reason is that the government is not only the sole representative of the State, the legal owner of urban land, but also an important user of urban land. This is certainly not the case in many other countries.

Fourth, the government is often a competitor in the land market, meaning that it often holds equity interest in land deals, like any business entities. In Shanghai, many government agencies have established their own real-estate development companies. This is more common among those agencies directly responsible for land and building management, such as the bureaus of land administration and building administration at the municipal and district levels.¹²⁴

These government sponsored real-estate development companies are for-profit organizations that invariably submit certain amount of profit to their sponsors. Often, the heads of the government agencies serve as the general managers (chief executive officers) of the companies. What this means is that governments, with their business interest in real estate, compete with other developers both domestic and from abroad; it also means that various governmental agencies also compete with each other.

The role of government as an equity partner in real-estate is perhaps the most salient feature of Shanghai as well as China's urban land markets. The potential for conflicts of interests is so high that similar practice would be totally unacceptable in many

¹²⁴ For example, China Enterprise Co. is attached to the Shanghai Bureau of Building Administration. v. Yang Xiaolin, and Huang Jianzhi, eds., op. cit., p. 326.
5.4 A Multiple-Price System

A multiple-price system exists for urban land and buildings in Shanghai. It stems from the double-track land allocation system and active government intervention in the market. As a result of the double-track land disposition system, a land user who acquires a parcel of land via administrative allocation usually pays a price much lower than what it has to pay if it acquires the parcel via grant of land-use rights, even though the parcels are identical. This multiple-price system segments the market for land and buildings. It favors certain producers and users and discriminates against others. For example, domestic real-estate development companies often get land at a favorable price.

In Shanghai, there are three types of commodity housing, according to pricing schemes. There is the so-called general commodity housing, which is targeted to urban ordinary residents and their employers. This type of housing can be purchased with Chinese currency (Rmb). Another type is available to overseas Chinese and their families in Shanghai. Purchase payment of this type of housing has to be made in either Foreign Exchange Certificate (FEC) or in hard foreign currency. The third category is sold to general overseas people for foreign currency, usually U.S. dollars.

Maintaining the multiple-price system is the deliberate policy of the Chinese government. Mr. Zou Jiahua, a Vice Premier, recently called for the adoption of a triple-price system for land and buildings nationwide, namely, a State-controlled price, a State-guided price, and a free-market price.\(^\text{125}\)

5.5 Wide Participation in Real-Estate Activities

Nowadays, real estate seems to be everybody's business in Shanghai. This can be

\(^{125}\text{See Zou Jiahua, April 24, 1993.}\)
seen in the diverse background of the real estate companies present in the city. They came from practically all corners of the country and represent many parts of the world. There are local firms, firms from other provinces of China, from other Asian countries and regions, and from faraway places like America and Europe. The conventional wisdom that real estate is a local business does not apply.

As for domestic firms, they have widely differing backgrounds. Except for the companies that were established by government agencies responsible for development, most others have never had any experience in real estate at all. For instance, steel works and grain companies run real estate firms in Shanghai; some agriculture and personnel departments of the government are also engaged in the real estate business. It is common for government-owned banks to set up a real estate company of their own.

One reason why there is such widespread participation in real estate is that people are attracted by the high rates of return and great growth potentials of the market. Another reason is the favorable policies and regulations for real estate development, which attract capital from other parts of the country and other parts of the world to invest in Shanghai.

In addition to the above reasons, I believe that another has to do with the existing property-rights structure in urban land. This reason, which may exert long-lasting impact on the market, is that the existing property-rights arrangement makes it possible for organizations to get into the real-estate business. Why? The double-track system of urban land allocation does not allow most existing land users who acquired the land via administrative allocation to transfer their land to specialized real estate companies that are better equipped to develop built space. This places a constraint on the ability of these companies to get access to land. If an organization has a real estate operation of its own, it can take advantage of its land holdings and develop space to meet its internal demand and sell the surplus on the market. Because the demand for space from the society is so high and legal loopholes abound, most land users have the incentives to do so.
5.6 How Might the Market Features Evolve over Time?

In all likelihood, the above key elements of the urban land market in Shanghai will remain in the foreseeable future. This is largely because these characteristics are derived from the existing property-rights and other institutions ingrained in China's social and political systems, in general, and urban land, in particular. The institutions have evolved gradually. Any drastic change in one aspect of them will require corresponding changes in all the other dimensions. In view of the widely acknowledged successes of China's economic reforms, the prospect for radical change is small.

The prediction of relative stability, however, does not mean that the existing structure will not change. The contradictions intrinsic to the present land-use system call for solutions. Otherwise, they will hamper the development of a healthy real-estate industry. One example is that the double-track system of land allocation will, in the long run, put those who acquire land for a premium at a serious disadvantage relative to those who pay little for land. In the end, Shanghai may end up having a land market that is a compromise between market and planning forces, a market with distinctively Chinese characteristics.
Chapter 6
The Effects of Government Regulation on Development in Shanghai

Chapter 5 summarized the key structural elements and practices of Shanghai’s urban land market. This chapter looks at the effects the market and government regulations impose on real-estate development in the city. Again, emphasis is placed on the analysis of regulatory and other impacts on residential development. The effects on development are analyzed at both the macro and the micro levels. At the macro level, I assess the effects of market forces and land regulations on real-estate development opportunities and risks in Shanghai as a whole. At the micro level, I analyze the impacts on the costs of individual development projects.

This chapter is intended to shed light on the overall vision of real-estate development and investment in Shanghai in terms of profit potentials measured by long-run return on invested capital. Findings of this chapter, as well as those presented in the previous three chapters, will help draw conclusions and recommendations in the final chapter.

6.1 Macro-impact on Real-estate Development

Market demand-and-supply conditions and government regulations jointly determine the prospect for the real estate industry. Particularly, they define the long-run growth rate of the industry and the competitive forces influencing industry profitability.
6.1.1 Long-term Growth

As an emerging industry, real estate has tremendous potential for growth in Shanghai. Growth can be the main theme for decades ahead. However, the path of growth will not be smooth: the salient characteristics of Shanghai's land and property markets seem to contribute to a pattern of cyclical growth characterized by boom-and-bust of real estate activities. All real-estate developers/investors are subject to the impact of the cycles, but domestic firms may continue to be more susceptible to the cyclical forces than their overseas counterparts.

Growth is determined by pent-up demand for space and new space demand generated by economic development. As illustrated in chapters 3 and 4, in the absence of a land and building-property market there is a serious shortage of space. People's surplus income is either saved or consumed on durable goods. It is reasonable to think that had there been alternative investment instruments, extra funds would have been channeled into real estate. Housing conditions in Shanghai, for example, are so dismal that many residents are willing to improve their living conditions on their own expenses if they had the opportunity.

As long as new demand for space is concerned, it is forecasted that China's economy will grow at impressive rates for a long period of time if the current reform and open-door policies are continued. The national policy of unbalanced growth will favor certain parts of the country that are designated as growth centers. Shanghai is one of the most important of these centers.

Growth will also come from the fact that the real estate industry is just emerging in Shanghai. According to the product life cycle theory, an industry passes through a number of phases in its lifetime, namely, introduction, growth, maturity, and decline.\textsuperscript{126} It

\textsuperscript{126} There is controversy about whether the life cycle applies only to individual products or to whole industries. Porter (1980) applies the theory to industries. Real estate is usually considered a cyclical industry experiencing growth and decline; but over a longer horizon, it does seem to follow the path the theory describes.
exhibits certain characteristics at different stages. In the PRC, real estate is in the introduction or the growth stage, depending on the geographic location of the market. In most cities situated in the inland provinces, real estate is just being introduced; in some cities in South China such as Shenzhen Special Economic Zone and Guangzhou, the industry is perhaps in the growth period of the cycle. In Shanghai and many other cities, the real-estate industry is more likely in a transitory stage from introduction to growth.

Shanghai's market has shown many features typical of such a transitory stage. There is a shift from overcapacity to undercapacity, and from a few to many competitors. Profit levels are high. Risks are also high, but can be taken because growth covers them up.

The cyclical pattern of growth is a possible consequence of the key features of Shanghai as well as China's urban land markets. Because China's financial institutions as well as the rules of the game for the real-estate industry are not yet well established, domestic funds from all sources are likely to be poured into real estate in face of the huge demand and profit potentials. In fact, since China began economic reforms, real estate has experienced three cycles along with the national economy. Each time the industry boomed before the economic upturn and was the first to be clamped down when inflation ran high and the economy became overheated. This is different from the situation in the United States, where, according to Burchell and Listokin, real estate is the last industry to descend into, and the first industry to rise out of, a recession.

The cyclical forces do not seem to impact domestic and overseas firms equally.

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127 There have been three real estate "recessions" since 1978. They happened in 1981, 1984, and 1989. In mid 1993, the central government began to adopt measures to tighten credit controls and crack down on financially weak property development companies. This could bring about a new recession in the industry.

Domestic firms are usually the harder-hit. This is because projects undertaken by overseas firms are often financed by sources of capital outside of the country; therefore, an overseas firm suffers less than a domestic firm in case of a domestic credit squeeze. Another reason is that projects with overseas financing often serve niche markets that are not oriented to domestic customers.

In summary, the long-run growth rate of the real estate industry is expected to be high, but growth will be cyclical. Domestic firms are likely to be harder hit than overseas operations due to the basic features of the market. Past experience is evidence to this argument.

6.1.2 Competitive Forces

The identification of competitive forces, plus the long-run industry growth potential, will help reveal profit opportunities. Professor Michael E. Porter of Harvard Business School presents a framework for analyzing industries and competitors. He proposes that the following aspects of an industry determine the intensity of competitive forces, and consequently, profitability. They are: barriers of entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors. This framework is used here to analyze Shanghai’s urban land and building-property market.

Barrier to entry into Shanghai’s real estate market has been low. This is shown by the proliferation of real estate companies in the recent past. Low entry barrier is because of the favorable government policies toward real estate development and the entrepreneurial nature of the industry.

The reform of the urban land-use system and housing commercialization programs

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have been specific measures the government has taken to foster the development of a real-
estate industry. Access to urban land and buyers are not difficult. So far, very few
regulations exist to check the qualifications of new entrants into the market. As a result,
many newly-formed companies have little experience in real estate development and
investment, and tenuous financial strength.

Real estate has traditionally been the domain of entrepreneurs. Development
projects are usually financed with debt rather than equity capital. Therefore, easy money
makes it easy to enter the industry. This has been the case in Shanghai and many other
cities across the country. Though entry is easy, it does not mean new entrants will stay to
compete. In Shanghai, many entries are ephemeral. There are many quick-in-quick-out
firms, because of lack of experience or sporadic government crackdown. For example,
about 20 of the 100 real-estate companies were dissolved in the 1989 "retooling" of the
economy. It is believed that of the more than 1,200 companies existing by the first half of
1993, only half of them are serious developers.\footnote{Interview with Ma Renjing, June
26, 1993.}

For overseas developers/investors, barrier to entry can be higher due to
unfamiliarity with the business environment. This unfamiliarity may rise out of regulatory,
cultural, or language differences. But these difficulties have not prevented overseas firms
from entering Shanghai's urban land and property market. If the overseas Chinese firms
are successful because they share the same culture and languages with the mainland
Chinese, Japanese firms have also been quoted as very successful.\footnote{Interview with
Cao Feimin, June 25, 1993.}

Real estate is purchased either for final consumption or as investment. The threat
of substitution depends on the purpose of the buyer, though the property market and the
credit market are interconnected. The threat is low if space is needed for various
activities: there are few substitutes for space. If, however, real estate is treated as

\footnote{Interview with Ma Renjing, June 26, 1993.}
\footnote{Interview with Cao Feimin, June 25, 1993.}
investment, the threat of substitution can be high if there are alternative investment instruments, such as stocks and bonds or other securities. One reason why the real estate industry is booming in Shanghai and other Chinese cities is that it is treated both as a highly-demanded good and as a highly-demanded investment. Because there are few investment alternatives (the country's financial market is just beginning to emerge), people like to invest in real estate to hedge inflation.\textsuperscript{132}

The bargaining power of buyers is weak because of the demand-and-supply imbalance. Also, most domestic buyers are enterprises and agencies having less severe budgetary constraints, and their relative insensitivity to price reduces their incentives to bargain hard. In addition to these, as an emerging industry, accompanying real estate service institutions such as brokerage firms are just beginning to emerge. As a result, buyers often do not have full information when they make a purchase decision.

The bargaining power of suppliers is a different story. Real estate development needs the inputs of land, capital, building materials, services (architectural, engineering, legal, etc.) and construction labor. In the land acquisition process, the bargaining power of the supplier can be high if sites of particular location are desired. This is because urban land is monopolized by the local governments and they can charge monopoly rents. But there are many other less costly ways for acquiring urban land for development. For example, prospective developers can approach existing land users and jointly develop the sites they occupy. Besides, competition among municipalities and their subdivisions reduces the negotiating power of the land suppliers.

The prices for building materials in Shanghai have been increasing rapidly. According to Mr. Cao Feimin, the State-set prices for building materials have been adjusted upward nine times in the past few years, but they still cannot keep up with the market prices. For some projects, the bulk of construction materials are imported from

\textsuperscript{132} This is true in many places in developing countries.
abroad, in which case local suppliers are bypassed. Services and construction labor are not expensive—one of the major benefits for using local labor and services.

Lastly, rivalry among current competitors varies with each submarket since the whole real-estate market is so segmented. Competitors are extremely diverse: there are State-owned firms, numerous owner-operators of small firms, speculators, and large publicly-held companies from overseas. In certain submarkets in Shanghai, for example, high-end residential, rivalry may be high, as expressed by advertising battles. Huge billboards advertising garden houses are seen on major streetfronts in the city.

In general, it seems that competitive forces present in the real estate industry in Shanghai are not particularly strong. Overseas developers may have a distinct competitive edge, if they have easy access to capital, can bring high-quality product, technology and management expertise.

6.1.3 Industry Profitability

The expected long-term growth of the industry and the relatively weak competitive forces promise high profitability in the future.

In the current real estate boom, everyone seems to do well. The industry as a whole is reaping a bonanza. The continuous inflow of capital into real estate in Shanghai indicates the presence of rates of return higher than the free market rates of return adjusted by the risk of capital loss. The following is some anecdotal information about prices and costs of different projects in Shanghai.

According to Mr. Ma Renjing, a total of 1.8 million sq m (19.4 million sq ft) of high-end high-rise apartment housing targeted to overseas buyers was built in 1992. This type of housing was of simple design and construction. The asking price is US$1200-1,500 per sq m (US$110-140 per sq ft) and the construction cost was about US$700 per sq m (US$65 sq ft). However, due to the amount of product on the market, sales are
currently slow. \textsuperscript{133} Professor Zhu Xijin and Mr. Cao Feimin said that apartment housing usually commands prices in the range of US$800-1,000 per sq m (US$74-93 per sq ft) in good locations, and US$600 per sq m (US$56 per sq ft) in poorer locations. Apartment housing targeted to domestic buyers sells for Rmb 4,000 per sq m (US$46 per sq ft). \textsuperscript{134}

Some residential units were sold at very high prices. According to Mr. Wu Shengmou, Senior Engineer of East China Architectural Design Institute in Shanghai, in the Dingxiang Garden Project, an overseas investor developed an 8-story residential property. Units situated on the best floor were sold at US$3,272 per sq m (US$304 per sq ft); the least expensive units were sold at US$2,200 per sq m (US$204 per sq ft). The total construction costs (including land cost) was US$1,400-1500 per sq m (US$130-140 per sq ft). The project return was more than 100 percent. \textsuperscript{135}

It is said that high-quality office space in Shanghai is sold at US$2,200-2,500 per sq m (US$204-232 per sq ft). \textsuperscript{136}

In face of the increasing supply of high-end residential and office space targeted to overseas buyers or users, some international developers began to construct housing targeted to Chinese buyers in the latter half of 1992. Now more and more developers are contemplating ways to tap into this potentially huge market. \textsuperscript{137} According to Ms. Yan, the domestic housing market will be open to foreigners in 1993. The municipal government guarantees a return of about 20 percent on these projects. \textsuperscript{138}

In summary, we can say that market conditions and government regulations

\textsuperscript{133} Interview with Ma Renjing, June 26, 1993.

\textsuperscript{134} Interviews with Mr. Zhu Xijin, June 24, 1993, and Mr. Cao Feimin, June 25, 1993.

\textsuperscript{135} Interview with Mr. Wu Shengmou, June 24, 1993.

\textsuperscript{136} Interview with Mr. Cao Feimin, June 25, 1993.

\textsuperscript{137} Interviews with Mr. Li Jian, and Mr. Ma Renjing, June 26, 1993.

\textsuperscript{138} Interview with Ms. Yan Mengying, June 24, 1993.
together exert a fairly favorable impact on real-estate development. The expected long-run growth rate of the industry is high and competitive forces limited. Profitability is therefore likely to be high. Despite these, there are serious risks to heed. Because the urban land market is not yet institutionalized, government regulations and policies are expected to change often, causing variable risks and returns in the industry. As a result, real-estate activities and profitability can be very volatile in the short-run.

In addition to the regulatory risks, overseas investors, particularly those from the Western countries, are worried about the political risks of investing in China. It is true that such risks must be taken into consideration, but more often than not, they are exaggerated. A relapse is always possible, but it is more reasonable to believe that China's reforms have passed the point of no return because too many people have benefited. According to a Western observer of China, after Deng Xiaoping, the contest will be between personalities, not policies.\(^{139}\)

### 6.2 Micro impact on Development Projects

The preceding section assessed the larger picture of real-estate development and investment opportunities in Shanghai. This section examines the impact of government regulations at the project level. It begins with an outline of the array of existing government regulations in the different stages of the development process. Then the discussion focuses on two aspects of regulation: the way in which land-use rights are granted, and the planning and architectural review and approval processes. Specifically, we see how these regulations impact the costs of development projects.

Table 6-1 outlines the different government regulations a developer in Shanghai is likely to encounter in the whole development process. The list is far from exhaustive. Throughout the process, a developer interacts with local government on a regular basis

\(^{139}\) The source is unknown.
Table 6-1: Regulations in Different Stages of Real Estate Development in Shanghai

<table>
<thead>
<tr>
<th>Stages</th>
<th>Regulations</th>
<th>Regulating Agencies</th>
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<tbody>
<tr>
<td>1) Land Acquisition</td>
<td>&gt; Payment of a premium for land-use. &gt; Registration of grant contract. &gt; Preparation of bids in case of bidding.</td>
<td>Bureau of Land Administration</td>
</tr>
<tr>
<td>2) Forming a Business Entity</td>
<td>&gt; Submittal of an application for forming a business entity and the right to engage in real estate activities. &gt; Review of the quality of the business entity.</td>
<td>Commission for Foreign Investment Bureau of Building Administration Bureau of Business Administration</td>
</tr>
<tr>
<td>3) Project Design</td>
<td>&gt; Planning and architectural review approval processes.</td>
<td>Urban Planning Bureau</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A host of other agencies affected by development.</td>
</tr>
<tr>
<td>4) Project Construction</td>
<td>&gt; Application for presale. &gt; Presale registration.</td>
<td>Bureau of Building Administration Rotary Public Real Estate Registry</td>
</tr>
<tr>
<td>5) Project Completion &amp; Opening</td>
<td>&gt; Approval for occupancy. &gt; Verification of property dimensions.</td>
<td>Quality Control Department</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bureau of Building Administration Real Estate Registry</td>
</tr>
<tr>
<td>6) Lease or Sale</td>
<td>&gt; Application for sale. &gt; Registration of leasese.</td>
<td>Bureau of Business Administration Real Estate Registry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Notary Public</td>
</tr>
<tr>
<td>7) Asset and Property Management</td>
<td></td>
<td>Bureau of Building Administration</td>
</tr>
</tbody>
</table>

Source: Compiled by the author.
and is subject to different kinds of regulations that are designed and enforced by different departments of the local governments. But at certain stages, the interaction is more crucial for the success of the project. Two such stages can be identified: land acquisition and project approval.

The cost of land acquisition can vary widely, depending on how and for what purposes land is acquired. So far most grants of land-use rights in Shanghai have been conducted through one-on-one negotiations between the prospective developer and the local governments; public tender and auction are seldom used. Moreover, most land granted is for commercial developments primarily targeted to overseas customers. Because land is not privately-owned, the public sector is able to influence development priorities by deliberately changing the proportions of land costs. For example, local governments in Shanghai have a great latitude in setting the prices of land-use rights. To encourage residential development to meet the huge demand for housing from local residents, the Shanghai municipal government is ready to grant land-use rights at prices significantly lower than they would be if the same land was granted for other purposes.

It is estimated that costs of obtaining land-use rights in the built-up area of the city currently constitute 40 to 50 percent of total project costs in case of commercial developments.\textsuperscript{140} In Hang Lung’s Siping Lu project, a mixed-use commercial development, land-use rights cost was US$1,890 per sq m (US$176 per sq ft) of land, or US$420 per sq m (US$39 per sq ft) of buildable floor area. Total land-use rights costs were estimated to be 37\% of the total project costs.\textsuperscript{141}

The magnitude of such land costs is considered fairly high by developers and real estate consultants. In the United States, land cost might represent anywhere from 10 to

\textsuperscript{140} Interview with Mr. Li Jian, June 26, 1993.

30 percent of the project's total costs. Nevertheless, such costs are likely to rise in the near future for land designated for certain uses, such as high-end commercial and residential. The reason is that the central government has recently mandated that more competition be introduced into the process of granting land-use rights. Local governments will have to use tender and auction more in the future.

Compared to the United States, land acquisition in Shanghai not only constitutes a higher proportion of the total project costs, but also means more financial exposure. In the United States, a developer can tie up the land before physical, legal, political, and design feasibility is proven. If the development idea proves infeasible, the site can be resold. In Shanghai, as well as other cities in the PRC, a developer can only resell the site after all premium of land-use rights is paid and up to 30% of the total planned investment in the project is actually made. This means that land acquisition is riskier and a developer has to be extra cautious in making a commitment to purchasing land, unless he/she is willing to forfeit the land-use premium and/or incur penalties.

A grant contract is assigned between the municipal government and the developer upon payment by the developer of certain percent of the total land-use premium (usually 30%). The grant contract provides that local governments should deliver a clear site with necessary infrastructure connected. According to the interviewees, more often than not, site preparation and infrastructure provision are not complete. A certain amount of public-relations cost is necessary to expedite the process, or the developer has to wait, or put in extra money to prepare the site. This could mean loss of time and capital.

In addition to the costs associated with land, the planning and architectural review and approval processes are lengthy and costly. The planning review and approval, similar to the site plan review in the United States, occur before a planning permit is issued. A

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developer is required to prepare and submit a development proposal for approval. Such a development proposal should meet the basic site planning conditions provided by the urban planning bureau when the land-use grant contract is signed. The document specifying these conditions usually covers the following aspects:\textsuperscript{143}

- Location and area of the site;
- Permitted land use;
- Intensity of land use, including FAR and plot coverage ratio;
- Planning and design requirements or guidelines. These include height limit, setback, distance between major structures, open space, major ingress and egress, and parking.
- Urban design (aesthetic) conditions.

The approval from many agencies must be obtained, including planning, land administration, fire, environmental protection, transport, water supply and sewerage, etc. Each agency has its own rules and guidelines to be met by the developer, in addition to above conditions.

The site planning conditions are based on the master plan of the city and the district plans (similar to zoning, except that they do not have a legal status). A prospective developer should realize that the above conditions are negotiable, rather than final. A good developer starts the negotiating process before these conditions are drawn and makes sure that these conditions are laid out in such a way that they do not seriously hamper his/her ability to reap the upside potential of the project. Even when a change of site planning conditions is needed, negotiations between the developer and the government are sufficient; no special hearings or other procedures are required.

Another round of review and approval is needed after the preliminary architectural design stage is finished. Architectural approval must be sought from the same set of agencies mentioned above plus the epidemic prevention department. These agencies use more detailed requirements and codes to evaluate the project design.

\textsuperscript{143} This document is attached to the grant contract.
Only after these review processes are finished and approvals obtained can the project proceed to the working drawing stage. According to Mr. Zhu Xijin, the review and approval processes in Shanghai take from several months to a couple of years.\textsuperscript{144}

Without detailed information, it is hard to make a quantitative estimate of the regulatory cost imposed on development, though such an estimation is possible given certain assumptions. My impression is that these costs are considerable, but not to the extent that they significantly reduce profitability, or undermine the project. Compared with some markets in the Unites States, the magnitude of these costs appears to be small. In certain Asian countries, the regulatory costs are also quite high. According to Ferguson (1992), the total cost of regulations in Indonesia is approximately one-third of the total project cost.\textsuperscript{145}

To assess the effects of regulation on development, one needs to look at not only the proportion of the regulatory costs in the total project costs, but also two other aspects, namely, 1) the economic-efficiency effect of the regulation, particularly, how the premium of land-use rights is used; and 2) the distributional effect, that is, who eventually bears the costs of the regulation. This is because public regulation of the development process is justified only if it produces a more efficient and equitable system of allocating land use and higher-quality developments than that produced by a purely private system.

A regulation is considered efficient if it minimizes excess burden arising from redistribution. A regulation is efficiency-enhancing if it increases the value of the project. In the case of land-use premium, most part of it should not be considered regulatory cost at all. A developer needs to purchase or lease the site, and prepare it for development anyway. In Shanghai, the bulk of the land-use premium is used to relocate the existing

\textsuperscript{144} Interview with Professor Zhu Xijin, June 24, 1993.

residents and organizations on the site and provide necessary on-site public facilities. The remainder is often used to provide off-site infrastructure. This part of the land-use premium could be considered exactions and impact fees in the United States, except that it is not separately administered. In this system, more administrative efficiency could be achieved.

A regulation is considered equitable if the cost of it is borne more by people in the higher-income category. In Shanghai, the costs of regulation could be borne by the overseas developer, the public, or the final user of the developed products. Careful study is needed to find out who actually bears the brunt of the costs. Though in most cases, the developer pays, he/she could pass the cost to other parties. It is reasonable to suspect that in Shanghai's booming real estate market, a developer is able to pass on most of the costs to consumers. This is supported by the fact that the level of profitability from development is quite high, which is due to the relative inelasticity of demand. The local government is concerned that the inflated property prices makes space increasingly unaffordable for local residents and organizations.

6.3 Conclusion

It seems that both market conditions and government regulations create a favorable environment for real estate investment and development in Shanghai. At the macro level, long-term profitability of the real estate industry promises to be high, though the short-term return and risks can be quite volatile. At the micro level, government regulations impose certain costs to development, but these costs are not extraordinarily high.
Chapter 7
Conclusions and Recommendations

Not long ago, a Chinese poet wrote of his visit to the city of Shenzhen with great reverie. He found himself admiring the "magnificent scaffolding and huge cranes that were continually etching the outlines of buildings on the horizon." The urbanscape the poet depicted can now be seen in almost all major Chinese cities. To real-estate developers/investors and public officials involved in development, the poet's feeling of excitement could never have matched theirs.

This chapter concludes the thesis and provides some recommendations to overseas developers and investors who are interested in venturing into the real estate market in the PRC. Competitive strategies that I think are appropriate and helpful are presented. Recommendations are also made to public agencies responsible for managing urban land and designing real-estate policies. In presenting these recommendations, I believe that a major goal of the public sector in the PRC in formulating land-use and development policies should be to enhance the efficiency with which the precious urban land is allocated and used, keeping in mind the social and environmental impacts of their decisions.

These conclusions are drawn from the previous chapters, particularly from the case study of Shanghai. The applicability of these conclusions to urban land markets in other Chinese cities is also discussed.

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146 China Today, Volume and number unknown.
7.1 Conclusions

After some thirty years of practicing a centrally-planned economy, China began to realize the importance of market mechanisms in the efficient allocation of resources. Beginning in 1978, a series of reforms were launched to reinstate market and competition in order to revitalize the national economy. Spectacular economic growth has been achieved as a result of these reforms.

The Chinese government considers the reform of the country's urban land-use system essential for the success of the whole reform initiative. Reforms of the land-use system are therefore made an integral part of the reform program. China's approach to land policy in the current reforms is not one of wholesale and spontaneous privatization that is being vigorously pursued by the former socialist countries in central and eastern Europe. Instead, the State remains to be the sole owner of urban land; meanwhile, a separate category of rights including the rights to develop, sell, lease, mortgage, bequeath, etc., is created and can be purchased from the municipal or higher level governments for a premium. Existing rights have been more clearly specified and assigned. A rudimentary land taxation system has also been designed and implemented.

China's reforms of the land-use system are characterized by pragmatism, and gradualism. Pragmatism means that the choice of specific policies is based on considerations of practical concerns, historical contexts, and institutional constraints, rather than certain dogma. In this regard, planning and markets are both taken as legitimate instruments for the allocation of urban land as a valuable resource. Stable and swift economic growth and minimization of contention in the process of transforming property relations and assigning property rights were given top priority.

Gradualism refers to the strategy of muddling through and incrementalism. Before important policies are introduced, experiments are first conducted in some areas to see if they are feasible. If the initial response is favorable, they are tried out in greater depth and breadth. An example is the adoption of land-use rights. Such an approach has the
advantage of being flexible and keeping the State in control. Having control over the reform process affords the central government the necessary authority to implement its programs.

The reforms of the urban land-use system changed property-rights relations in urban land, creating necessary conditions for the emergence of urban land markets in the PRC. The emergent urban land markets have, in turn, spurred the development of the country's real estate industry, one of the important goals of the reforms.

This thesis examined the urban land markets and the impact of government regulations on real estate investment/development in the context of changing property-rights arrangements in urban land and rapid economic growth. In doing so, I believe that a favorable urban land market is a crucial determinant for successful real estate investment/development, and an examination of the market in an economy in transition must contain not only economic fundamentals, but also institutional arrangements, such as property rights. Property rights and other institutional arrangements condition the characteristics and, to a certain extent, the trends of an urban land market. The thesis used Shanghai, a city whose urban land market is considered one of the best developed and having the greatest potential for development and investment in the country, as a case study.

The urban land market in Shanghai emerged after 1988, when the municipal government began to grant the land-use rights to developers. The practice of grants of land-use rights intensified in 1992. So far, most market transactions of urban land occur in this form, in the so-called primary urban land market.

Five distinctive characteristics of the urban land market in Shanghai are identified. First, urban land market is an emerging market, characterized by limited scope of market activities, rapid growth, many early entrants, and relative lack of rules and regulations.

Second, there is a property-rights structure in which all urban land is owned by the State; land-use rights (LURs) and ownership rights are separated; and a double-track
system for the allocation of rights exists.

Third, governments at all levels have a strong and multifaceted role in the operation of the market. They are the creator and the active promoter of a market for land and other real properties; they are the regulator and planner of market activities; they are the most important supplier of urban land for development; and often they are competitors in the market.

Fourth, the market is segmented, with the existence of a multiple-price system. State-controlled prices, State-guided prices, and free-market prices coexist.

Fifth, competitors in the land and real estate development industry have more diverse background than is the case in many other countries. Current developers and investors represent a wide spectrum of organizations, public and private, domestic as well as overseas.

The above characteristics of the urban land market in Shanghai are believed to result from the existing property rights and other institutions pertaining to China's social and political systems, particularly, urban land. Political and economic situations in China will continue to evolve, but, due to the structural nature of these systems and the success of China's reforms, these land market characteristics are predicted to be relatively stable, shaping the prospects for real estate development and investment.

In view of these characteristics of the urban land market, as well as the demand-and-supply conditions, this thesis predicts that the real estate industry has tremendous potential for growth in Shanghai. Growth could be the main theme for decades ahead, but the pattern of growth is likely to be cyclical. The residential properties targeted to domestic residents is a huge market which is until now untapped. The development of this market is likely to receive more and more attention by developers and government officials alike.

While the expected long-term growth of the industry is high, it seems that competitive forces present in the real estate industry in Shanghai are not particularly
strong. Overseas developers may have a distinct competitive edge, provided they have access to capital, and can bring high-quality product, technology and management expertise.

In general, it is safe to say that market conditions and government regulations together exert a fairly favorable impact on real estate development/investment in Shanghai. Profitability may continue to be high, though there are serious risks to be taken into consideration. Changes of government policies and regulations may cause volatile real estate activities and profitability in the short-run. On the long run, Shanghai’s real estate market holds great promises for developers and investors. This is because it is growing rapidly; the existing firms are very profitable; and the ultimate industry size promises to be large.

The case study of Shanghai helps understand the urban land markets in the PRC as a whole. It is obvious that most other Chinese cities are not comparable to Shanghai in terms of size and economic strength. Furthermore, government officials in Shanghai seem to be more competent in providing the necessary preconditions for the urban land market in Shanghai and regulating it. Nevertheless, the five basic features of the land market are found in other places as well. The reason is that though China's reforms have significantly decentralized the power of the central government, China remains a rather centralized system: major reform efforts still need to be endorsed by the central authority.

In most Chinese cities with an urban land market, market activities are spearheaded by grant of land-use rights by municipal governments. Land users and property developers lease State-owned land directly from municipal or higher-level governments through the grant of land-use rights. These lessees are called primary lessees. Then private individuals, and domestic or foreign firms lease the land (by purchasing or leasing the improvements on it) from property developers through the assignment of land-use rights. In this case, the lessees are called secondary lessees. Primary lessees enjoy, during the term of the Grant Contract, the de jure land-use rights, while the secondary lessees...
enjoy the *de facto* land-use rights. Figure 7-1 illustrates how urban land is transferred among different parties. The primary lessees deal with governments as the lessors and usually pay out the premium in a lump sum, while the secondary lessees do not deal with governments and can pay out the premium on a yearly basis.

Figure 7-2 on page 122 is an expanded diagram of urban land transfers in the PRC. It shows the complex economic and legal relationships of different parties in the transfer of land-use rights. Governments sell the land-use rights for a limited period of time via grant (1). The buyers can be private individuals (domestic or overseas), domestic and foreign firms (not engaged in the land and property development business), domestic and foreign property developers. They acquire the land-use rights and become land users after a premium is paid to governments (2).

Domestic or foreign property developers, and individuals and domestic or foreign firms not specializing in the development business, develop the land they acquire and sell the improvements to the consumers, namely, individuals, domestic, and foreign firms. By paying a price, these consumers acquire the right to own the improvements as well as the right to use the land (3).

Land-use rights can be transferred among individuals, domestic and foreign firms (4). Similarly, land and property developers can directly purchase land-use rights from the existing land users such as individuals, domestic and foreign firms (5). Property developers again can sell the improvements on land to new consumers, as long as the terms of land-use rights are not expired (6). When the terms expire, the land-use rights, as well as the salvage value of any fixed assets on the land, are taken back by the governments without compensation, in case the land-use rights are not extended (7).

The complicated legal and economic relationships in the transfer of land-use rights imply that, first, there are many ways of acquiring urban land for development: leasing from the governments through grant is only one way of acquiring land; second,

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147 The number in parenthesis corresponds to the number in the diagram on page 122.
Note: 1) Grant of the right to use state-owned land
2) Lease of the right to use state-owned land


Figure 7-1 Transfer of Land-Use Rights in the PRC: A Schematic Diagram
Figure 7-2 Urban Land Transaction in the PRC: An Expanded Diagram

governments have significant control of the transfer of land-use rights.

Urban land markets in the PRC are far from being fully competitive in nature. The likelihood of its becoming fully competitive is small in the current model of development, as long as the government continues to be the sole owner of all urban land, and wants to use its ownership rights to control land use. It is, therefore, safe to say that China's urban land markets are controlled markets. Any recommendations to the government and potential developers/investors must take this into account.

7.2 Recommendations

7.2.1 Government Agencies

The urban land-use system that the current market-oriented reforms are creating in China has both strengths and weaknesses. It is the task of the public sector to realize and reinforce the strengths, and ameliorate the weaknesses.

I would argue that the system affords the government means or opportunities to control urban growth, enhance economic efficiency, achieve fiscal security, and provide for certain predictability for developers and investors.

First of all, by retaining ownership of urban land in the hands of the State, local governments have a strong vehicle to manage urban growth. For example, the Shanghai municipal government coordinates the development of urban infrastructure and buildings by controlling the total amount of land and specific locations of parcels to be leased within a certain period of time; it also adjusts the mix of property types to be developed by writing into the Grant Contract specific uses the land must be put to. The public ownership of urban land also allows the government to address equity issues, for example, providing affordable housing for the majority.

The system is also potentially more efficient. Here efficient means that goods and services that are demanded by the society can be produced at low social costs. There are
at least two pieces of supporting evidence. First, in some cases development projects can be completed more quickly than in many other countries. Large-scale developments take about 3-5 years to finish in China, from land acquisition to completion of the projects. Comparable developments could take 11 years and 10 months in Japan (of which 4 years and 4 months are needed before construction begins).\footnote{148} In certain parts of the United States, a developer may have to go through years and years of limbo before she/he is able to have the project built.

Second, the government has the potential of recapturing the unearned increment of the land value that is naturally inherent or socially created in land.\footnote{149} This recaptured value can be put to productive use, such as providing public goods or services that the market will generally not provide.

Granting the land-use rights (LURs) to developers provides an important source of revenue for local governments. They can use this revenue to meet many of their fiscal obligations. The proceeds from the grant of LURs in Shanghai from January 1992 to October 1993 have reached US$3.8 billion,\footnote{150} a phenomenal amount. In fact, government officials consider the grant of LURs as providing a way out of the dilemma of increasing urban decay and incessant lack of funds for urban redevelopment.

Last but not least, the Chinese system currently provides for certain predictability of time and costs for development projects. Once the approval has been obtained, the costs of completing the development in China are fairly predictable relative to many


\footnote{149} Economists say that the rental value of land comes from two sources: the inherent natural productivity of land, combined with the fact that land is a limited resource; and the growth of communities and the provision of public services. They believe that citizens have equal claims on the former, and the latter should be used to finance public services such as infrastructure that raises the rental value of surrounding land. See A Letter to Mikhail Gorbachev from 30 Famous Economists, November 7, 1990.

\footnote{150} Interview with Mr. Tan Qiqun, Director of Shanghai's Bureau of Land Administration, November 1993.
countries. It is true that the upfront costs for acquiring the LURs are high; but once land is secured, the pre-construction and construction process normally will not take an unpredictable amount of time.\footnote{There are holdouts in the land clearance process, but local governments usually will ensure that they will not delay the project for too long.}

Having summarized the strengths of the urban land-use system in China, it is important to point out that they can be potential, rather than real strengths. Many things need to be done to turn potential strengths into real benefits. What about the weaknesses of the system? At least two aspects can be identified. First, there is an underdevelopment of institutional capacity to cope with rapid growth. Grant of LURs in China is still at an experimental stage; thus it can be handled by a moderate change of the existing institutions. However, the rapid growth of the system can easily stretch the capacity of existing institutions. The Shanghai government has increasingly felt the need to address issues such as estimating demand for space, exercising planning control, and determining the baseline prices of LURs, in the new market-oriented system.

Second, the system is rather personalized and ad hoc. So far there has been no adequate provision of laws and regulations governing the behaviors of parties involved in the market processes. Personal connections and the will of government officials are important in striking deals. Again, when things are happening at a relatively small scale, the system is perhaps efficient. But when more players are involved and the scale of development expands, a personalized system will exhibit serious drawbacks: it will become less and less efficient and leaves room for corruption and abuse of power.

In view of the pros and cons of the system, I recommend the following:

1) **A consistent legal and regulatory framework pertaining to land use and the behavior of the affected parties should be established.** The laws and regulations must clearly and adequately define the rules of the game by which both the public and private sectors are expected to play. In formulating these rules of the game, the
government needs to understand and anticipate correctly how businesses respond to changes in competitive environment.

One issue that needs to be addressed by laws and regulations is property rights in land and buildings. Though the transfer of rights to use land and own buildings is allowed, there is considerable ambiguity in terms of how those rights are defined, how they can be exercised and protected by law, and if there is an order of subordination. This ambiguity has contributed to the reluctance of urban residents to purchase housing, has increased the potential risks overseas businesses face by investing in China, and may hinder the further development of a real estate industry. Hopefully, the forthcoming real estate law will provide some useful guidelines.

The issue of property rights is of extreme importance because it will affect the behavior of organizations and individuals, and consequently, has significant efficiency and equity implications. In the process of designing reform programs, it is crucial that the Chinese government have a grand vision as to what kind of a social contract the reforms intend to create. In doing so, it needs to draw on the experience of other countries, not only the more mature market economies in the West, but also the newly industrializing economies. Letting the government retain the ownership of urban land is perhaps a desirable public policy. The politicians interested in building a land system that strikes a better balance between efficiency and equity concerns of the government can learn from the more advanced economies where the modern contractual relationships have developed for a long time. Developed countries have a lot to offer in terms of the institutions and instruments that are needed to forge a new contractual relationship.

In addition, the land disposition process needs to be made more open and competitive. It should serve to foster a market-driven entrepreneurial environment. A higher degree of transparency in the process reduces uncertainty and attracts competition. Competition is beneficial from both efficiency and equity perspectives because it drives prices and profits down. Certain standards should be set to guide the officials involved in
the process. Their rights to manage urban land should be subject to restrictions and monitoring of the general public.

2) Institutional capacity should be developed quickly. The building of institutional capacity entails changes in values and norms, adaptation of existing organizations to a market orientation of the economy, and the creation of new institutional forms.

The importance of value changes cannot be emphasized too much. For example, urban planning must be increasingly viewed as providing an adaptive, regulatory service, rather than a State tool to control material production. Institutions should be designed that allow developers and managers of property to retain value they have created, and at the same time, secure for public use the naturally inherent and socially-created value of land.

China's reform of her land-use system needs the support of two kinds of institutions: those that guarantee the smooth operation of the market (assessment and registration agencies, arbitration and mediation), and those that serve the broader public interest by seeking to minimize social inequalities. Examples include environmental protection, historical preservation, and the provision of shelter for the economically or physically disadvantaged.

Not only must new institutions be created, but those now in existence need a shift in their functions. For example, planning agencies may go through a period of identity crisis before they realize that they have to seek new roles to play in a market economy, rather than sticking to their traditional role of preparing physical plans in accordance with central directives.

To perform their new functions well, one tool that planning agencies will need is land market assessment (LMA), a system to build an accurate and up-to-date database on the operation of the urban land market. According to Dowall, a LMA provides vital information for public sector planning and decision-making, for evaluation of government
policies and actions, for structuring land-based taxation systems, and for investment and

Many things need to be done to develop institutional capacity: For example, the
alignment of functions of different organizations for the same activities, creation of a
congruent motivational system, and, most importantly, training and education. This last
area merits special attention. There is a dire shortage of people with expertise in the
various aspects of real estate in China. Training and education of high-level government
officials and company executives should be a high-priority issue.

The focus of any training or education program should be on a comprehensive
understanding of real estate investment, development, and management. Issues such as
how the real estate market works, the role of the public and private sectors, and the legal
aspects of development should be addressed. Most of these concepts are new to Chinese
officials and business managers. To guarantee the quality of the training program, China
should tap into the resources in well-established graduate programs in the field, such as
MIT's Center for Real Estate. Successful practitioners from different countries should
also be brought to the classroom to share their experiences.

3) A certain form of public participation needs to be introduced into the
development process. Public participation need not slow down the development process.
On the contrary, well-managed public participation can expedite the process, minimize
tension among the stakeholder, and create value to be shared by all.

The current scale of development in China ensures that many people's lives are
affected. The fact that property rights are vague in China makes it more likely that
people's legitimate concerns are ignored. Development projects, in the name of public
interest, can be carried out in a callous way. It is therefore especially important to get the
public involved in the decision-making process. A example is the large-scale demolition
and relocation of existing residents when redevelopment projects are undertaken. All efforts should be made to ensure that residents understand the purpose of the project, and that they are justly compensated for the damages done to them.

Public participation in China is unlikely to suffer the gridlock often seen in developed economies. This is because the general public is pro-development when their living standards are low and they see they can share the benefits. Thus, the pros of participation tend to be more obvious: increased accountability of the government, public support of development projects, and social stability.

7.2.2 Overseas Developers/Investors

In consideration of the distinct characteristics of the urban land markets in China, and particularly in Shanghai, a potential overseas developer/investor might ask: How can an overseas firm enter the market, compete, and win? What can be done to hedge the risks?

Unfortunately, there are no cut-and-dry answers, as specific situations in particular markets warrant specific answers. One of the purposes of this thesis is to provide background information and preliminary analysis of the "investment climate" in Chinese cities. Nevertheless, some general principles can be derived from the preceding chapters. Overseas developers and investors may find these principles useful when they consider entering the Chinese market, particularly, Shanghai.

1) A cautious/flexible overall business strategy is perhaps the most appropriate. Choosing a general strategy is the first step in starting or restructuring a business operation. The recommended strategy requires positioning the business in a way that gives it maximum defense against existing array of market and regulatory risks. At the same time, the business is placed in a position responsive to changing forces.

Caution needs to be exercised because risks in China are real and can be quite high. Political risks aside, no one can precisely predict the regulatory risks arising from
new changes in government policies and regulations pertaining to land and real-estate development. Flexibility is important because there are many scenarios of the changes that might occur. The actual scenario that will occur is very much beyond the resources of any firm to exert any significant impact.

Frequent regulatory changes are due to the instability of China's real estate as a typical emerging industry populated by many new firms with short-time horizons. However, conditions surrounding the industry have evolved to a point that short-time horizons may no longer be the best policy. The local government in Shanghai is increasingly reluctant to deal with developers' short-time horizon. Therefore, specific strategies with longer-term horizons are called for if overseas businesses want to succeed.

2) **A strategy that includes multiple options is preferred to a singular focus.**

Until recently, many overseas developers have pursued a narrowly defined strategy. They have focused their business on a particular type of product (such as single detached housing, tourist hotels, etc.) and/or a certain group of consumers (foreign tourists, Chinese diaspora). While a focused strategy is viable, the market has progressed to the point where greater flexibility may be appropriate. This is important considering that many early participants have creamed the market.

Other strategies include cost leadership and differentiation. Cost leadership is worth attention because the Chinese government has become interested in utilizing overseas capital to develop housing targeted towards domestic users. An overseas residential property builder wanting to tap into this market is doomed to failure if she/he ignores the issue of affordability. Differentiation refers to a firm's efforts to provide products or services that are different from those provided by others. It has become increasingly important for developers to provide different products and services to meet the diverse needs of consumers or investors.

Therefore, while a focused strategy continues to be relevant in some Chinese markets, the above-mentioned strategies have gained more importance. Both seasoned
developers and newcomers in China need to recognize the wider choice of specific strategies available to them. While small firms may be better-off employing a single strategy, large firms can afford to pursue more than one strategy at the same time.

3) **Industry structure should be studied from the perspective of institutional arrangements as well as the market fundamentals.** The purpose of such studies is to identify development/investment opportunities. For example, the results can be used to identify which market(s) the business wants to enter and compete in, the location and size of potential projects; they can also help ferret out early buyers, both internationally and domestically.

In conducting these studies, it should not be a surprise if data are found inadequate and inaccurate. So far, little effort has been made to collect market data in any systematic manner. However, this should not be an excuse for giving up the whole effort. Rather, it means that opportunities and risks have to be assessed more creatively. One way is to place more emphasis on understanding the institutional arrangements that affect industry structure. Efforts should be made to understand how changes of government policies and regulations shape the industry.

The above discussion implies that if an overseas real estate entity intends to enter the Chinese market, it should be prepared to examine a broad range of strategies. Some recommendations regarding tactics are in order.

4) **Joint-venture is a preferable business form.** A joint-venture business entity can bring numerous benefits to the overseas partner: it can share risks (business and otherwise), expedite the approval processes, and reduce costs. Often, forming a joint-venture with a local firm is the only way to gain entry into the Chinese market. One advantage of having a local partner is the significant reduction in costs of land acquisition: many Chinese developers are large State enterprises that have land holdings themselves. Another is having access to a local partner to lead the navigation through the regulatory process. The experience of several major Hong Kong real estate developers in Shanghai
has proven the value of local partners\textsuperscript{153}.

In selecting a joint-venture partner, it is important to make sure that it has sufficient capacity and influence to contribute to the venture. Their in-house expertise, track record, and political clout should be carefully examined.

\textbf{5) Long-term commitment is desirable.} Timing is important. Entry at the right time may give a firm an edge relative to others due to regulatory changes. However, evaluating the right time requires a big dose of luck as well as careful study.

As the Chinese governments become more and more sophisticated in regulating and managing the real estate market, it is advisable for firms to adopt the posture of long-term investors. The government now favors firms with an image of stability, professionalism, and credibility. Being ready to play long-term can create opportunities for overseas firms with vision and strength. If such commitments are to be made, timing is less of a crucial issue. The long-term payoff can overcome short-term market volatility. In addition, willingness to stay in the market adds to the businesses' bargaining power in the negotiation processes.

\textbf{6) Consultants and/or employees who have access to both local people and information should be retained.} There is no doubt that successful development depends on talented people and reliable information. For most overseas developers/investors, China is completely a new world, with a different culture, language, and social system. Even overseas Chinese find it difficult to adjust to the new environment. It is, therefore, absolutely necessary to retain consultants and/or employees who have access to both local people and information. They can add significant value to the venture.

\textbf{7.3 A Final Remark}

The above conclusions and recommendations are based on a preliminary study of the urban land markets in Shanghai and the effects of government regulations on

\textsuperscript{153} See Wan, \textit{op. cit.}
development. The topic is an extremely important and complicated one; it warrants more in-depth study. This thesis should be viewed as only a first step towards understanding and explaining the emergent urban land market in the PRC. Further research will require more systematic data and a stronger focus. With adequate data and a proper theoretical framework, regulatory costs and its implications for development can be better assessed. Another interesting topic could be the two-track land allocation system. Is it a viable public-policy option, or is it merely a transitory phenomenon? Answers to these questions and more that are based on well-structured research will make a contribution to theory; they will also be of significant value to both the public and the private sectors in China.

A decade from now, history will probably record this as the most exciting period for real-estate development in China. This period will be characterized by an alliance between local governments and the development community, domestic and overseas alike. The Chinese governments are encouraging participation of overseas developers in the country's emerging real-estate industry. This presents overseas developers and investors with a unique opportunity to make a significant contribution as well as generating a profit. For overseas firms, particularly those from the West, it is important to realize that the government, and government-related entities, play a significant role in the Chinese market. The government should be looked upon as an ally, not an adversary.
Appendix 1

Regulation for the Transfer of Land-use Rights for Valuable Consideration in Shanghai City (1987)

(Promulgated by the Shanghai Municipal People's Government on 29th November, 1987)

Chapter I General

Article 1 To promote comprehensive reform and the open door policy, to reform the land-use system, to implement the Transfer of Land-Use Rights for Valuable Consideration, and to foster economic developments of Shanghai, these Regulations are enacted in accordance with relevant provisions of the State.

Article 2 In these Regulations:

(1) "Transfer of Land-Use Rights for Valuable Consideration" means economic activities related to the development of land and buildings through the grant (Churang) and assignment (Zhuanrang) of land-use rights for valuable consideration.

(2) "Grant of Land-Use Rights for Valuable Consideration" (hereinafter referred to as "Grant") means the provision by the Shanghai Municipal People's Government (hereinafter referred to as "Government") of specific lots of land owned by the State, under stipulated term of years, use and any other conditions for a grantee or grantees to explore and develop, in consideration of the payment of premium and ground rent.

(3) "Assignment of Land-Use Rights" (hereinafter referred to as "Assignment") means the passing of land-use rights by a grantee or grantees after such land-use rights have been granted.

(4) "The Premium for Land-Use Rights" (hereinafter referred to as "Premium") means the monetary consideration payable to the Government in return for the grant of land-use rights.

(5) "Grant Rent" means the annual monetary consideration payable by a grantee or grantees to the Government in return for the continuous right to the use of the land.

(6) "Grantee" means an enterprise, other economic organization, or person that obtains land-use rights by way of Grant, and shall where the context permits, include his assignees and other successors in title.

Article 3 Ownership of land by the People's Republic of China is not affected by the Transfer of Land-Use Rights for Valuable Consideration. Underground natural resources, minerals, and objects buried or hidden in the land shall not form part of the Transfer of Land-Use Rights for Valuable Consideration.

Article 4 No enterprise, economic organization, or person shall be a Grantee unless such enterprise, economic organization, or person are registered in or are nationalities of states or territories with which the People's Republic of China maintains diplomatic relationship or with which trade delegation or delegations is maintained.

Article 5 The lawful rights of Grantees are protected by law. All activities arising out of the Transfer of Land-Use Rights for Valuable Consideration shall comply with the relevant laws and regulations of the People's Republic of China and with regulations of Shanghai.

Article 6 The Shanghai Land Administration Bureau (hereinafter referred to as the "Land Bureau") shall be responsible for matters relating to the Transfer of Land-Use Rights for Valuable Consideration in Shanghai. The Grant Contract of Land-Use Rights (hereinafter referred to as the "Grant Contract") shall be signed between the Land Bureau and the Grantee.
**Article 7** The Shanghai Land and Building Registration Office (hereinafter referred to as the "Registration Office") shall be responsible for matters relating to registration of the Transfer of Land-Use Rights for Valuable Consideration. Documents registered shall be made available for public inspection.

**Article 8** The maximum term of any Grant shall be determined by the Land Bureau subject to the following limits:

<table>
<thead>
<tr>
<th>Use</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>land for entertainment use</td>
<td>20 years</td>
</tr>
<tr>
<td>land for industrial use</td>
<td>40 years</td>
</tr>
<tr>
<td>land for private residential use</td>
<td>50 years</td>
</tr>
<tr>
<td>land for hotel, commercial, office use</td>
<td>50 years</td>
</tr>
<tr>
<td>land for scientific, technological, cultural and medical use</td>
<td>50 years</td>
</tr>
<tr>
<td>land for composite or other use</td>
<td>50 years</td>
</tr>
</tbody>
</table>

Terms exceeding the above limits shall require approval by the Government on application by the Land Bureau.

**Article 9** Unless otherwise stated in the Grant Contract, or disallowed for city planning reasons, the term may be extended on application by the Grantee. The maximum period of extension shall be determined by the Land Bureau in accordance with Section 8 of these Regulations. Extension of the term shall be granted under a new Grant Contract and in consideration of a Premium.

**Article 10** Unless otherwise stated in the Grant Contract, any Grantee may assign, mortgage, charge, or generally pledge land-use rights as security. Such assignments, mortgages, charges, or pledges shall be invalid unless made in accordance with these Regulations. Land-use rights can be succeeded.

**Article 11** Grantees that are foreign enterprises engaged in investment shall have the privilege under certain regulations of not paying Grant Rent as provided for in "Procedures of Shanghai Municipality for the Administration of the Use of Land in Chinese-Foreign Joint Ventures".

**Article 12** Operators of economic activities on any land the right to use of which is obtained under these Regulations shall, according to provisions, apply to relevant authorities for approval, and conduct business registration and tax registration.

### Chapter II Grant of Land-Use Rights for Valuable Consideration

**Article 13** Lots that form the subject of Grant shall be identified and the conditions of Grant shall be prepared by the Bureau of Shanghai City Planning and Building Construction Administration (hereinafter referred to as the "Planning Bureau") and the Shanghai Municipal Housing Administration Bureau (hereinafter referred to as the "Housing Bureau"). Implementation shall proceed after approval by the Government.

**Article 14** Grants of land-use rights may be made by the Land Bureau by means of direct grant through consultation or tender by invitation, etc..

**Article 15** The Land Bureau shall supply all prospective Grantees with the following information and provisions:

<table>
<thead>
<tr>
<th>Information/Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) the location, bearing, measurement area and topographical plan of the lot;</td>
</tr>
<tr>
<td>(2) the planned use, building covenant period, minimum building cost to be expended and the minimum floor area to be developed;</td>
</tr>
<tr>
<td>(3) floor area ratio (FAR), site coverage, height limit and such other planning requirements;</td>
</tr>
</tbody>
</table>
environmental protection, greener, sanitary and hygiene provisions, traffic and fire prevention and fighting requirements;

(5) the existing state of public utilities and planned construction or construction requirements;

(6) surface conditions of the construction lot;

(7) form of Grant and the term;

(8) qualifications of tenderers;

(9) location for depositing tenders, tender closing date and tender procedures, requirements, conditions and criteria for selecting tenders;

(10) the amount of initial deposit to be paid at the time of tendering;

(11) payment terms and requirement of the Premium and the financial obligations of the Grantee;

(12) specific conditions and methods regarding Grant and Assignment;

(13) form of the Grant Contract;

(14) requirements regarding the sale and management of buildings;

(15) others.

**Article 16**  Procedure of direct Grant through Consultation

(1) Necessary details of the lot to be granted and the conditions for the proposed Grant are provided by the Land Bureau to be intending Grantee of the land-use rights.

(2) The intending grantee having obtained such information as in (1) above, shall within the prescribed time limit submit to the Land Bureau, a scheme of the proposed development, the Premium proposal and the payment terms.

(3) On receipt of the documents submitted under (2) above, the Land Bureau shall communicate its decisions to the intending Grantee within 30 days.

(4) The Grant Contract shall be signed between the Land Bureau and the Grantee on payment by the Grantee of a second deposit, the amount of Premium having been agreed upon by both parties through consultation and negotiation.

(5) The Grantee shall pay the Premium as prescribed in the Grant Contract, obtain from the Land Bureau a Land-Use Rights Certificate and register the land-use rights with the Registration Office within the prescribed time.

**Article 17**  Procedure of Tender by Invitation:

(1) The Land Bureau shall issue invitations to tender, tender documents and specific information regarding the tender t parties so invited, having taken into account the requirements of the subject lot.

(2) Tenderers shall before the prescribed time, deposit duly sealed tenders into a specified tender box, and pay to the body specified the initial deposit which shall not bear any interest.

(3) A Tender Assessment Panel shall be formed and shall be constituted of the Land Bureau, appropriate Government departments and experts, and shall be responsible for opening, assessing and selecting tenders. The Tender Assessment Panel may invalidate tenders that are submitted by unqualified tenderers, or that are not in accordance with the conditions of the tender documents or that are submitted our of the prescribed time.

The Land Bureau shall issue to the successful tenderer at the address shown in the Tender Form an Acceptance Notice after a Selection Notice has been issued by the Tender Assessment Panel Tenders shall be opened, assessed and selected before the Shanghai Notary Public Office, which shall issue certification to this effect.

(4) The Grant Contract shall be signed before the prescribed time with the Land Bureau and the second deposit paid by the successful tenderer who shall present at the same time the Acceptance Notice.

(5) The successful tenderer shall pay according to the Grant Contract the Premium, obtain from the Land Bureau a Land-Use Rights Certificate and register the land-use rights with the Registration Office within the prescribed time.
Article 18 The right to a Grant shall be canceled if the successful tenderer does not sign the Grant Contract with the Land Bureau within the prescribed time and the initial deposit shall be forfeited. However an extension may be applied for to the Land Bureau within 10 days before the expiration of the prescribed time and any extension so permitted shall not exceed 30 days.

The initial deposit submitted by the successful tenderer may be applied towards the Premium. Initial deposits submitted by unsuccessful tenderers shall be returned within the prescribed time at the tenderer's address.

Article 19 The second deposit may also be applied towards the Premium. Grantees shall not be entitled to a refund of such deposit if obligations under the Grant Contract are not fulfilled. The Land Bureau shall repay an amount equivalent to two times the second deposit if obligations on its part are not fulfilled.

Article 20 The Grant Contract signed between the Land Bureau and the Grantee shall be notarized by the Shanghai Notary Public Office.

Article 21 The Premium shall be paid in the currency specified in the Grant Contract.

Article 22 Ground Rent the amount of which as prescribed below shall be payable for each year by the Grantee:
(1) Rmb 1,000 in respect of any lot having an area of 1,000 square meters or below;
(2) Rmb 1 per square meter for any lot having an area in excess of 1,000 square meters.

Article 23 Any proposal to modify any condition of the Grant Contract in respect of the nature of land-use and planning requirements shall be submitted to the Land Bureau. The Land Bureau shall refer any such applications to the Planning Bureau for approval. Consent to modify shall only be given after payment by the Grantee of a modification premium, whereupon a new Grant Contract or a Supplementary Contract shall be signed and registered.

Article 24 Any proposal to erect buildings or install services on land granted shall be submitted for prior approval in accordance with the planning, construction management, building management, traffic, environmental protection, hygiene, sanitation, fire prevention and fighting and such other provisions for the purposes of municipal administration.

Article 25 A fine may be levied by the Land Bureau according to circumstances and ultimately land-use rights may be taken back without compensation by the Land Bureau if the Grantee fails to complete the development as specified in the Grant Contract.

Chapter III The Assignment of Land-Use Rights

Article 26 Land-use rights shall not be assigned before completion of the development as specified in the Grant Contract. Assignment of the right to use only part of the land originally granted shall require the prior approval of the Land Bureau.

The right to use land and the improvements on it shall be assigned together.

Article 27 Assignment of land-use rights shall also mean gift, sale, or exchange of the same.

Article 28 The right to use the part of the land occupied by the building (including courtyards, gardens and boundary walls) shall be assigned at the same time as such building is assigned by the Grantee. In the event of a building being subdivided and so assigned, the owners of parts of the building shall own corresponding portions of the land-use rights, and the land-use rights of the whole building shall remain in unity.
Prior to sale of a building by subdivision, the vendor shall specify the share of land-use rights allocated to the purchasers of the various parts and draw up a Deed of Mutual Covenant in accordance with the requirements of the Housing Bureau.

Sale of buildings prior to completion of construction shall require the prior approval of the Housing Bureau.

Article 29  The Grant Contract together with all rights, liabilities and obligations duly registered in the register shall run with the Assignment or succession of land-use rights.

Article 30  The Assignment may be conducted within or outside the territory of China, except in countries or territories with which the People's Republic of China has no diplomatic relationship or with which no trade delegation or delegations are maintained.

Assignments conducted outside China shall be notarized locally, and duly confirmed by the foreign affairs department and the consulate or trade delegation of the People's Republic of China. Assignments conducted within China shall be notarized by the Shanghai Notary Public Office or any other duly authorize organ.

The succession of land-use rights except as a result of the mediation or judgement of the law courts shall be notarized by the Shanghai Notary Public Office.

Article 31  Any Assignment shall be invalid unless the assignee of land-use rights and buildings in accordance with Section 30 of these Regulations carries out transfer procedures by producing to the Land Bureau and the Housing Bureau notarized or confirmed Assignment Contracts or probate documents. A transfer fee and tax shall be payable.

Article 32  The Assignment and succession of land-use rights (including any building etc.), having been duly signed by the assignee on the Assignment Contract or notarized in the case of succession, shall be registered in the Registration Office.

Article 33  Any proposal to modify any condition of the Grant Contract in respect of the land-use and planning requirements shall be treated in accordance with Section 23 of these Regulations.

Article 34  Land-use rights are deemed to be assigned when the ownership of any enterprise or economic organization is transferred, and such deemed assignment shall be treated as Assignment and in accordance with these Regulations.

Chapter IV  Mortgage

Article 35  The right to use land and building and other improvements on the land may be mortgaged. Mortgages shall be registered at the Registration Office.

Article 36  The rights and obligations of mortgagees and mortgagors shall be stated in the Mortgage Deed which shall not contravene any provision in the Grant Contract.

Article 37  The tenancy relationship in respect of part or the whole of a building or buildings shall not be affected by a mortgage or mortgages of the same.

Article 38  Mortgagees have a preferred right to repayment. The order of repayment among mortgagees of the same building or part of a building shall be in accordance with the order of registration.

Article 39  Mortgagees may, acting in accordance with provisions of the laws and the Mortgage Deed, dispose of mortgaged property in the event that the mortgagor does not repay the mortgage loan as provided, or enters into liquidation or becomes bankrupt during the mortgage term.
Assignees who obtain Assignment together with any building or buildings and other improvement on the land by way of mortgage action shall obtain notarization and confirmation in accordance with Section 30 of these Regulations and shall proceed with transfer and registration procedures in accordance with Section 31 and Section 32 of these Regulations.

**Article 40** Mortgagors and mortgagees shall register cancellation of mortgages at the Registration Office as and when mortgages are canceled as a result of repayment of loan or for other reasons.

### Chapter V Re-Possession of Land-Use Rights

**Article 41** On expiration of the term of years as contained in the Grant Contract, the land-use rights in respect of the land shall be re-possessed by the Land Bureau. The Land Bureau shall simultaneously cancel the Land-Use Rights Certificate and notify the Registration Office for the lot to be de-registered. Building or buildings on the lot together with any other improvement shall pass on to the Land Bureau without compensation.

The Grantee shall demolish and remove technological equipments as required by the Grant Contract. Unless otherwise stated in the Grant Contract, building or buildings not designed and constructed for general use shall be demolished and removed at the expense of the Grantees.

**Article 42** Land-use rights before the expiration of the term granted shall not be re-possessed. Under special circumstances the Land Bureau acting in the interest of the public and in accordance with lawful procedure may re-possess in consideration of reasonable compensation.

The Land Bureau shall, six months before the repossession of any land-use rights, serve a notice on the Grantee giving reasons of the re-possession, the bearing and the boundary of the lot, and the date of re-possession. Such notice shall also be affixed on the lot concerned. The land-use rights together with building or buildings and any other improvement shall pass onto the Land Bureau as from the date stated in the notice.

**Article 43** The amount of compensation for re-possession before expiration of the term shall be subject to consultation between the Land Bureau and the Grantee, account to be taken of the remaining term, the nature of land use, the values of the building and buildings and any other improvements on the land, and the Premium paid for the Grant. In case of dispute, either party may instigate legal proceedings. The re-possession date specified in the notice shall not be affected by any proceeding that may have been instigated.

**Article 44** Subject to consultation with the Grantee and in exchange for the unexpired land-use right of a lot, the Land Bureau may offer to the Grantee the land-use right of another lot. The monetary consideration of such an exchange shall be based on the difference in value between the original lot and the new lot. A new Grant Contract shall be signed between the Land Bureau and the Grantee in respect of the new lot so exchanged. The Grantee shall thereafter proceed with the procedures of registration and exchange of Land-Use Rights Certificate.

### Chapter VI Taxation

**Article 45** Following the signing of the Grant Contract or Assignment Contract, the Grantee shall register for tax purposes with the Shanghai Tax Office (hereinafter referred to as the "Tax Office") and pay contract tax in accordance with Rules for the Implementation of Shanghai Municipal Provisional Regulations on Contract Tax. The rate of contract tax shall be half of the rate specified therein. Contract tax in respect of any Grant by the Government is hereby exempted.

**Article 46** The following rates of contract tax shall apply in cases of Assignment together with building or buildings, the purchase price or the prevailing market value of which shall be reported by the
assignee and subject to confirmation by Shanghai Municipal Taxation Bureau:

Sale -- 3% of transaction price
Gift -- 3% of prevailing market value
Exchange -- 3% of prevailing market value

Article 47
The Grantee shall pay, in respect of building or buildings erected on the lot granted and in accordance with the Provisional Regulations Governing Urban Housing Property Tax, real estate tax which shall be at the annual rate of 1.2 percent of the original value of the building or buildings less 20%, and shall be payable by two installments.

Newly-constructed buildings in the Economic and Technological Development Zone shall be exempt from real estate tax for five years beginning from the date when the construction has been accomplished.

Article 48
The Grantee shall pay, in the event of assignment or lease of the building or buildings with the land-use rights, in accordance with the Regulations of the People's Republic of China on Consolidated Industrial and Commercial Tax, Consolidated Industrial and Commercial Tax after the completion of the buildings at the following rates:
3% of the income from selling in the case of sale;
5% of the income from the rent in the case of rent.

Besides, a Grantee shall pay income tax for his/her own business proceeds in accordance with the relevant tax laws. In the case of sale or rent by individuals the income tax shall be paid pursuant to the Individual Income Tax Law of the People's Republic of China.

Chapter VII Supplementary Provisions

Article 49
Tax payable by Grantees who are business enterprises or economic organizations of the People's Republic of China shall in the first instance be in accordance with provisions applicable to such enterprises.

Article 50
Economic disputes arising out of the Transfer of Land-Use Rights for Valuable Consideration may be referred to a Chinese arbitrator or other arbitrators in accordance with the arbitration clause in the Grant Contract or any other written arbitration agreement entered into by parties concerned.

Parties to a dispute may, in the absence of any arbitration clause in the contract or of any arbitration agreement subsequent to the dispute, refer the matter to the law courts in accordance with the laws of the People's Republic of China.

Article 51
These Regulations shall be interpreted by the Legal Affairs Office of Shanghai Municipal Government.

Article 52
Implementation of these Regulations shall be determined by the Land Bureau and other Government departments and shall be carried out on approval by the Government.

Article 53
Any amendment to these Regulations shall not have retroactive effect on contract signed prior to such amendment. Any amendment that confers privileges onto a Grantee provided they are not disallowed by laws of the State may take retroactive effect on application by the Grantee.

Article 54
These Regulations shall take effect on 1st January, 1988.
Appendix 2
Detailed Implementation Rules for the Operation and Administration of Building Properties Developed on Land Whose Use-rights Have Been Transferred for Valuable Consideration in Shanghai City

(Approved by the Shanghai Municipal Government on October 12, 1988)

Chapter 1: General

Article 1. In accordance with the Regulations for the Transfer of Land-Use Rights for Valuable Consideration in Shanghai City (hereinafter referred to as the Regulations), and in consideration of the specific conditions of this city, the following Detailed Rules are formulated.

Article 2. The Shanghai Bureau of Building-Property Administration (hereinafter referred to as the Building Administration) is the responsible agency for overseeing activities concerning the operation of building properties developed on land whose use rights have been transferred for valuable consideration.

Article 3. All presale, sale, lease, and other business activities in respect of building properties conducted on parcels of land whose use rights have been transferred for valuable consideration in this city must abide by these Detailed Rules.

Article 4. Business operations in respect of building properties developed on parcels of land whose use rights have been transferred for valuable consideration in this city must abide by the following criteria:

(1) land-use rights and the title of the Building must be transferred simultaneously;

(2) when the title of the Building is transferred, the rights, obligations, and responsibilities, as stipulated in the "Contract for the Grant of Land-Use Rights for Valuable Consideration" (hereinafter referred to as the Grant Contract), must be transferred all together;

(3) the term for Presale, Sale, or Lease of the building must be in conformity with the term of the land-use rights, as stipulated in the Grant Contract. When the land-use rights expire, land-use rights as well as the building and other improvements on the parcel shall be reclaimed without compensation in accordance with the Regulations.

Article 5. In these Detailed Rules:

(1) "Building" means the structure built in accordance with the Grant Contract on parcels of land whose use rights have been transferred for valuable consideration.

(2) "The Operator of the Building Property" means the owner of the building property who engages in Presale, Sale, or Lease of the Building developed on land whose use rights have been transferred for valuable consideration.

(3) "Presale of the Building" means sale of the Building before its construction is completed by the Operator of the Building Property, with approval from the Building Administration.

Article 6. Business enterprises, other organizations, and individuals who acquired land-use rights in accordance with the Regulations must possess a license for business operation, and report to the Building Administration for the record.

Plan for Sale, Presale, and Lease should be reported to the Building Administration for the record on a yearly basis.
Chapter II Sale of the Building

Article 7. The grantee, who acquired the land-use rights in accordance with the Regulations, after completion of the Building, must report to the Quality Control Station for Construction Projects in Shanghai (hereinafter referred to as the Quality Control Station) for examination and acceptance; the Sale cannot be conducted before he acquires a Certificate of Acceptance and registers his Building Property.

Article 8. The Building can be sold in whole, by floor, or by apartment. Before a Sale by floor or by apartment is conducted, the seller must clearly define the floor areas of each floor or apartment and its corresponding share of land-use rights.

In case that the Building will be sold by floor or apartment, the seller must prepare a Covenant for the Use, Management, and Maintenance of the Building before the Sale of the Building.

Article 9. A Sale of the Building can be conducted either within the territory of the People's Republic of China, or outside of the territory of the People's Republic of China, except in countries or regions who do not have diplomatic relations with the People's Republic of China, or do not have a business representative office in the People's Republic of China.

Article 10. The sale price for the Building can be determined by the buyer and the seller through negotiation. The seller of the Building should report the consummated price to the Building Administration for the record.

Article 11. The buyer and the seller of the Building should conclude and sign a Purchase and Sale Contract, which should include the following:

(1) the name, nationality, address, and identity of each party;
(2) the location, number, floor area and plan of the Building;
(3) the proportion and scope of the land-use rights to be transferred along with the Building;
(4) sale price;
(5) the form of payment of the sale price;
(6) the use of the Building, and the contents of the property rights to be transferred;
(7) the Covenant for the Use, Management, and Maintenance of the Building, by which the title holder must abide;
(8) the assignment of responsibilities in case of breach of the contract;
(9) other clauses as agreed upon by both parties.

Chapter III Presale of the Building

Article 14. The Building-Property Operator, in conformity with the provisions in Article 6 of these Detailed Rules, must receive an approval from the Building Administration before the Presale.

Article 15. The Building to be pre-sold must satisfy the following conditions:

(1) the availability of working drawings that have been examined and approved;
(2) the availability of a construction permit;
(3) completion of infrastructure below the ground level;
(4) finalization of construction schedule and date of completion;
(5) other conditions specified in these Detailed Rules.

Article 16. The Building-Property Operator must submit the following documents when he files the application with the Building Administration for Presale:

(1) General Contract or Construction Contract, concluded and signed with the contractor or the builder.
(2) Certificate of Acceptance for the basic structure of the Building by the Quality Control Station.
(3) a plan for the Presale;
(4) Covenant for the Use, Management, and Maintenance of the Building
(5) the name of the agency responsible for the supervision and control of the proceeds from the
Presale and plan for controlling the use of the proceeds;
(6) other documents that should be submitted as specified elsewhere.

After the application for the Presale is approved, the Building-Property Operator should take the approval
and other related documents to the Real Estate Registry for registration.

**Article 17.** In the Presale, interested parties should sign a Presale Contract, which should include
the following items:
(1) the name, nationality, address, and identity of each party;
(2) the location, number, floor area and plan of the Building;
(3) the proportion and scope of the land-use rights to be transferred along with the Building;
(4) price of the Building;
(5) the form of payment of the presale proceeds, and the form of delivery of the Building;
(6) the use of the Building, and the contents of the property rights to be transferred;
(7) the Covenant for the Use, Management, and Maintenance of the Building, by which the title
holder must abide;
(8) the assignment of responsibilities in case of breach of the contract;
(9) other clauses as agreed upon by both parties.

**Article 18.** The presale proceeds obtained by the Building-Property Operator before the completion
and delivery of the Building, in accordance with the provisions of these Detailed Rules, must be used to pay and
pay off all costs related to the Building presold (including the costs for acquiring the land-use rights) before it can
be used for anything else.

**Article 19.** After the Presale Contract is signed and in effect, the buyer of the Building should take
it to the Real Estate Registry for registration.

After the completed Building has been examined and accepted, the Building-Property operator should go
to the Real Estate Registry to register for the completion and delivery of the Building, and go through the building
delivery procedures in accordance with the Presale Contract.

After the Building is delivered, the buyer should go through the procedure of registering the building
property with proof of the Building Presale Contract and the Certificate for Building Delivery, transferring the
title, and paying the title-transfer fee.

**Article 20.** The Building-Property Operator may not repeatedly sell the Building that has been
presold.

Other matters concerning the Presale of the Building should be handled in accordance with relevant
provisions contained in Chapter II of these Detailed Methods.

**Chapter IV Lease of the Building**

**Article 21.** When leasing the Building developed on a parcel of land whose use rights have been
transferred for valuable consideration, the lessor and the lessee must conclude and sign a Building Lease Contract,
and must go the Real Estate Registry for registration.

The Building Lease Contract, concluded and signed by the lessor and the lessee, should include:
(1) the name, nationality, address, and identity of each party;
(2) the location, number, floor area and plan of the Building;
(3) intended use of the Building;
(4) rental sum and form of payment
(5) use and maintenance of the leased Building;
(6) liabilities in case of breach of the contract;
(7) other clauses as agreed upon by both parties.
Article 22. The lessor should check and repair, without delay, the Building and its facilities to ensure safety.

Article 23. The lessor may not violate the original Lease Contract by repeatedly leasing the Building already leased.

Article 24. In case of sale of the leased building, the rights of the lessee are not affected within the term of the lease specified in the Lease Contract, unless the lessee agrees to terminate the Lease Contract. The buyer and the lessee should conclude and sign, separately, a new Building Lease Contract in accordance with the existing Lease Contract.

In case of sale of the leased building, the lessee has the first right of refusal under similar conditions, unless otherwise specified in the Lease Contract.

Chapter V Supplementary Articles

Article 25. The property rights in the Building and the Building Presale Contract can be used as a pledge. When using the property rights in the Building and the Building Presale Contract as a pledge for a mortgage loan, relevant provisions in the Regulations, the Provisional Measures for the Administration of Mortgage Loans in RMB in Shanghai, and the Provisional Measures for the Administration of Mortgage Loans in Foreign Currency, should be followed.

Article 26. In the case of Sale, Presale, and Lease of the Building, a tax must be paid in accordance with the provisions in the Regulations.

Article 27. If the buyer and the lessee of the Building use the said Building for business activities, he who conducts the business should go through the procedure of filing with the various responsible agencies for approval, business registration, and tax registration.

Article 28. If sale, purchase, lease, and other business activities in respect of the Building are entrusted to a third party, a letter certifying the willingness to entrust the business activities to an agent should be furnished; and notarization and confirmation should be provided in accordance with the provisions in the Detailed Rules for Notarization of the Transfer of Land-Use Rights for Valuable Consideration in Shanghai City.

Article 29. Business enterprises, other organizations, and individuals, must abide by, within the term of the land-use rights, the Covenant for the Use, Management and Maintenance of the Building; and ensure that the Building and related facilities are adequately maintained and repaired and kept in a usable state.

Article 30. Should any disputes regarding the contracts for the Presale, Sale, or Lease of the Building arise, both contending parties should proceed in accordance with Article 50 of the Regulations.

Article 31. In case of violation of these Detailed Rules, the Building Administration or the agencies responsible for business administration have the right to order a redress within a time limit, to confiscate the illegal gains, to assess a fine, or even to effect a repossession of the land-use rights by the Shanghai Bureau of Land Administration in accordance with the Regulations.

Article 32. These Detailed Rules shall be interpreted by the Building Administration.

Article 33. These Detailed Rules shall take effect on the 1st of November 1988.

(Unofficial translation by the author for reference only)
Appendix 3

Land Use, Housing, and Construction in Shanghai:
Some Statistics

This appendix presents a group of statistics on land use, housing, and construction in Shanghai relative to some other Chinese cities or provinces. The data in the following tables and figures are compiled in such a way as to assist the reader in his/her own evaluation of the potential construction market in Shanghai and other places.

Table A3-1 Land Area and Population Density of Shanghai and Its Lower Level Administrative Units, 1990

Population density in Shanghai varies a great deal by districts and counties. The table gives a glimpse of where the population is concentrated. Land in higher-density districts in Shanghai usually commands a higher price (premium). See p. 147.

Table A3-2 Urban Land Uses in Shanghai and Some Other Cities in China, 1991

A break-down of land use by conventional categories in Shanghai and some other major cities allows one to make comparisons. Shanghai’s per-capita land use is the lowest among the seven cities (in fact, only 53% of the average). However, the share of residential land in total land use is the highest in Shanghai among all of the cities chosen. See p. 148.

Table A3-3 Urban Infrastructure and Facilities in Shanghai and Some Other Regions in China, 1992

Data on urban infrastructure and facilities in Shanghai are compared with that of six coastal provinces. The table reveals that Shanghai is in a better position in some public services (for example, public transportation, gas, drainage, sewage treatment), and very poor in others (such as housing, roads and streets, open space, and garbage treatment). See p. 149.

Table A3-4 Investments and Construction Costs in Shanghai and Some Other Regions in China, 1991

Fixed-asset investments and construction costs in 1991 in Shanghai and six other provinces are presented. Investments in fixed-assets and housing in Shanghai contribute a significant percent of the national total. The share of State investment in Shanghai is much higher than in other provinces. This is perhaps because Shanghai is a city and therefore has a smaller rural population. Completion rate in Shanghai is lower than any other province in the table, but the construction costs there are the highest among all the places. See p. 150.
Table A3-5 Total Floor Area Completed in 1991 by Type of Use in Shanghai, 1991

This table indicates the magnitude of construction activities in Shanghai in 1991. Housing construction has by far the largest share of completed space. Most of housing space is in apartment buildings; more than half of them are built through redevelopment. See p. 151.

Table A3-6 Capital Construction in Shanghai: Total Floor Area and Construction Cost, 1991

This table presents total floor areas completed via capital construction, and construction costs by building types in Shanghai in 1991. See p. 152.

Table A3-7 A Percentage Breakdown of Construction Costs in Shanghai, 1991

This table gives a rough idea of the composition of construction costs in Shanghai. Note that labor costs are very low, especially for State-owned firms. See p. 153.

Table A3-8 Total Floor Area of Buildings by Ownership in Shanghai, 1991

Most built space in Shanghai is owned by the State (83%). Privately-owned space constitutes about 11% of the total. Of all the built space, about half is residential. See p. 154.

Figure A3-1 Housing Space in Shanghai, 1980-91

Part (a) of this figure shows the growth of total population and living area (living area is the effective space for living, defined as the residential floor area minus the space occupied by structure and utilities) within the urban districts of Shanghai from 1980 to 1991. Housing construction is growing faster than the population. Part (b) illustrates the change of per-capita living area during the same period. The absolute number is very small (less than 7 sq m in 1991), though it has increased considerably from the 1980 level (about 4.5 sq m). See p. 155.
Table A3-1 Land Area and Population Density of Shanghai and Its Lower Level Administrative Units, 1990

<table>
<thead>
<tr>
<th></th>
<th>Land Area (sq km)</th>
<th>(sq mile)</th>
<th>Pop Density (per sq km)</th>
<th>(per sq mile)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total in Shanghai</td>
<td>6,396</td>
<td>2,470</td>
<td>2,024</td>
<td>5,242</td>
</tr>
<tr>
<td>City Proper (12 Districts)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Huangpu</td>
<td>20</td>
<td>8</td>
<td>34,150</td>
<td>88,449</td>
</tr>
<tr>
<td>Nanshi</td>
<td>28</td>
<td>11</td>
<td>28,564</td>
<td>73,981</td>
</tr>
<tr>
<td>Luwan</td>
<td>8</td>
<td>3</td>
<td>56,099</td>
<td>145,296</td>
</tr>
<tr>
<td>Xuhui</td>
<td>47</td>
<td>18</td>
<td>15,382</td>
<td>39,839</td>
</tr>
<tr>
<td>Changning</td>
<td>29</td>
<td>11</td>
<td>19,604</td>
<td>50,774</td>
</tr>
<tr>
<td>Jingan</td>
<td>8</td>
<td>3</td>
<td>60,459</td>
<td>156,589</td>
</tr>
<tr>
<td>Putuo</td>
<td>30</td>
<td>12</td>
<td>25,546</td>
<td>66,164</td>
</tr>
<tr>
<td>Zhabei</td>
<td>28</td>
<td>11</td>
<td>24,404</td>
<td>63,206</td>
</tr>
<tr>
<td>Hongko</td>
<td>23</td>
<td>9</td>
<td>36,120</td>
<td>93,551</td>
</tr>
<tr>
<td>Yangpu</td>
<td>60</td>
<td>23</td>
<td>18,040</td>
<td>46,724</td>
</tr>
<tr>
<td>Minhang</td>
<td>43</td>
<td>17</td>
<td>3,514</td>
<td>9,101</td>
</tr>
<tr>
<td>Baoshan</td>
<td>425</td>
<td>164</td>
<td>1,466</td>
<td>3,797</td>
</tr>
<tr>
<td>Suburbs (9 counties)</td>
<td>5,526</td>
<td>2,133</td>
<td>894</td>
<td>2,315</td>
</tr>
<tr>
<td>Shanghai</td>
<td>378</td>
<td>146</td>
<td>1,103</td>
<td>2,857</td>
</tr>
<tr>
<td>Jiading</td>
<td>484</td>
<td>187</td>
<td>1,052</td>
<td>2,725</td>
</tr>
<tr>
<td>Chuangsha</td>
<td>446</td>
<td>172</td>
<td>1,383</td>
<td>3,582</td>
</tr>
<tr>
<td>Nanhui</td>
<td>688</td>
<td>266</td>
<td>1,015</td>
<td>2,629</td>
</tr>
<tr>
<td>Fengxian</td>
<td>681</td>
<td>263</td>
<td>757</td>
<td>1,961</td>
</tr>
<tr>
<td>Songjiang</td>
<td>606</td>
<td>234</td>
<td>825</td>
<td>2,137</td>
</tr>
<tr>
<td>Jinshan</td>
<td>586</td>
<td>226</td>
<td>937</td>
<td>2,427</td>
</tr>
<tr>
<td>Qingpu</td>
<td>516</td>
<td>199</td>
<td>672</td>
<td>1,740</td>
</tr>
<tr>
<td>Chongming</td>
<td>1,041</td>
<td>402</td>
<td>705</td>
<td>1,826</td>
</tr>
<tr>
<td>Water Surface</td>
<td>122</td>
<td>47</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

# Table A3-2 Urban Land Uses in Shanghai and Some Other Cities in China, 1991

<table>
<thead>
<tr>
<th></th>
<th>Shanghai</th>
<th>Beijing</th>
<th>Tianjin</th>
<th>Guangzhou</th>
<th>Nanjing</th>
<th>Hangzhou</th>
<th>Qingdao</th>
<th>Total (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Non-agricultural Population (million)</td>
<td>7.50</td>
<td>5.54</td>
<td>4.54</td>
<td>2.91</td>
<td>2.09</td>
<td>1.10</td>
<td>1.34</td>
<td>60.04</td>
</tr>
<tr>
<td>B. Total Urban Land Use (sq km)</td>
<td>240.80</td>
<td>397.40</td>
<td>316.80</td>
<td>183.70</td>
<td>105.10</td>
<td>69.20</td>
<td>94.30</td>
<td>3,653.80</td>
</tr>
<tr>
<td>(sq mile)</td>
<td>92.97</td>
<td>153.44</td>
<td>122.32</td>
<td>70.93</td>
<td>40.58</td>
<td>26.72</td>
<td>36.41</td>
<td>1410.73</td>
</tr>
<tr>
<td>C. Per-capita Urban Land Use (sq m)</td>
<td>32.12</td>
<td>71.68</td>
<td>69.86</td>
<td>63.04</td>
<td>50.29</td>
<td>62.91</td>
<td>70.64</td>
<td>60.86</td>
</tr>
<tr>
<td>(sq ft)</td>
<td>345.75</td>
<td>771.58</td>
<td>751.99</td>
<td>678.58</td>
<td>541.33</td>
<td>677.18</td>
<td>760.39</td>
<td>655.11</td>
</tr>
<tr>
<td>D. Urban Land Use by Category</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial (sq km)</td>
<td>64.10</td>
<td>63.90</td>
<td>87.10</td>
<td>50.60</td>
<td>21.40</td>
<td>17.60</td>
<td>20.40</td>
<td>945.30</td>
</tr>
<tr>
<td>Percent of total</td>
<td>26.62%</td>
<td>16.08%</td>
<td>27.49%</td>
<td>27.54%</td>
<td>20.36%</td>
<td>25.43%</td>
<td>21.63%</td>
<td>25.87%</td>
</tr>
<tr>
<td>Warehouse</td>
<td>10.60</td>
<td>16.00</td>
<td>26.80</td>
<td>18.70</td>
<td>2.60</td>
<td>3.40</td>
<td>5.80</td>
<td>195.10</td>
</tr>
<tr>
<td>Percent of total</td>
<td>4.40%</td>
<td>4.03%</td>
<td>8.46%</td>
<td>10.18%</td>
<td>2.47%</td>
<td>4.91%</td>
<td>6.15%</td>
<td>5.34%</td>
</tr>
<tr>
<td>External roads (sq km)</td>
<td>17.80</td>
<td>22.00</td>
<td>16.00</td>
<td>31.90</td>
<td>3.70</td>
<td>4.50</td>
<td>4.20</td>
<td>245.50</td>
</tr>
<tr>
<td>Percent of total</td>
<td>7.39%</td>
<td>5.54%</td>
<td>5.05%</td>
<td>17.37%</td>
<td>3.52%</td>
<td>6.50%</td>
<td>4.50%</td>
<td>6.72%</td>
</tr>
<tr>
<td>Residential (sq km)</td>
<td>117.60</td>
<td>155.20</td>
<td>143.20</td>
<td>67.50</td>
<td>41.70</td>
<td>25.60</td>
<td>29.00</td>
<td>1,491.30</td>
</tr>
<tr>
<td>Percent of total</td>
<td>48.84%</td>
<td>39.05%</td>
<td>45.20%</td>
<td>36.74%</td>
<td>39.68%</td>
<td>36.99%</td>
<td>30.75%</td>
<td>40.82%</td>
</tr>
<tr>
<td>Other (sq km)</td>
<td>30.70</td>
<td>140.30</td>
<td>43.70</td>
<td>15.00</td>
<td>35.70</td>
<td>18.10</td>
<td>34.90</td>
<td>776.60</td>
</tr>
<tr>
<td>Percent of total</td>
<td>12.75%</td>
<td>35.30%</td>
<td>13.79%</td>
<td>8.17%</td>
<td>33.97%</td>
<td>26.16%</td>
<td>37.01%</td>
<td>12.25%</td>
</tr>
</tbody>
</table>

Note: (1) All cities selected are extra-large cities, e.g., those with a urban population of more than a million. The last column includes totals and averages that are calculated for all of the cities (29) in this category.

Table A3-3 Urban Infrastructure and facilities in Shanghai and Some Other Regions in China, 1992

<table>
<thead>
<tr>
<th></th>
<th>Shanghai</th>
<th>Jiansu</th>
<th>Zhejiang</th>
<th>Guangdong</th>
<th>Hainan</th>
<th>Fujian</th>
<th>Shandong</th>
<th>National Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Urban population density</td>
<td>10,004</td>
<td>1,338</td>
<td>590</td>
<td>1,003</td>
<td>260</td>
<td>977</td>
<td>639</td>
<td>317</td>
</tr>
<tr>
<td>(persons/sq km)</td>
<td>25,910</td>
<td>3,465</td>
<td>1,528</td>
<td>2,598</td>
<td>673</td>
<td>2,530</td>
<td>1,655</td>
<td>821</td>
</tr>
<tr>
<td>B. Per capita share of urban maintenance fees (Rmb)</td>
<td>222.50</td>
<td>77.80</td>
<td>98.00</td>
<td>98.50</td>
<td>108.70</td>
<td>85.80</td>
<td>85.40</td>
<td>75.90</td>
</tr>
<tr>
<td>C. Housing Conditions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per-capita floor area (sq m)</td>
<td>9.00</td>
<td>11.90</td>
<td>17.00</td>
<td>12.00</td>
<td>12.00</td>
<td>13.70</td>
<td>12.20</td>
<td>10.70</td>
</tr>
<tr>
<td>(sq ft)</td>
<td>96.88</td>
<td>128.09</td>
<td>182.99</td>
<td>129.17</td>
<td>129.17</td>
<td>147.47</td>
<td>131.32</td>
<td>115.18</td>
</tr>
<tr>
<td>Per-capita living area (sq m)</td>
<td>6.80</td>
<td>8.00</td>
<td>11.20</td>
<td>7.40</td>
<td>9.00</td>
<td>7.90</td>
<td>7.90</td>
<td>7.90</td>
</tr>
<tr>
<td>(sq ft)</td>
<td>73.20</td>
<td>86.11</td>
<td>120.56</td>
<td>79.66</td>
<td>96.88</td>
<td>85.04</td>
<td>85.04</td>
<td>78.58</td>
</tr>
<tr>
<td>D. Water supply</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per-capita daily water consumption (litre)</td>
<td>246.60</td>
<td>182.10</td>
<td>149.60</td>
<td>348.00</td>
<td>401.30</td>
<td>209.30</td>
<td>138.50</td>
<td>186.00</td>
</tr>
<tr>
<td>Tap water availability (%)</td>
<td>100.00</td>
<td>96.00</td>
<td>92.00</td>
<td>95.90</td>
<td>100.00</td>
<td>94.00</td>
<td>87.80</td>
<td>92.50</td>
</tr>
<tr>
<td>E. No. of public buses per thousand residents</td>
<td>14.20</td>
<td>5.10</td>
<td>4.40</td>
<td>6.30</td>
<td>11.20</td>
<td>5.10</td>
<td>5.10</td>
<td>5.90</td>
</tr>
<tr>
<td>F. Gas availability (%)</td>
<td>71.00</td>
<td>53.50</td>
<td>62.70</td>
<td>63.10</td>
<td>44.10</td>
<td>52.00</td>
<td>52.30</td>
<td>52.40</td>
</tr>
<tr>
<td>G. Municipal facilities</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per-capita share of road surface (sq m)</td>
<td>2.40</td>
<td>7.00</td>
<td>10.50</td>
<td>6.20</td>
<td>12.90</td>
<td>7.40</td>
<td>12.10</td>
<td>6.20</td>
</tr>
<tr>
<td>(sq ft)</td>
<td>25.83</td>
<td>75.35</td>
<td>113.02</td>
<td>66.74</td>
<td>138.86</td>
<td>79.66</td>
<td>130.25</td>
<td>66.74</td>
</tr>
<tr>
<td>Density of drainage pipelines (km/sq km)</td>
<td>7.80</td>
<td>5.60</td>
<td>5.30</td>
<td>6.80</td>
<td>5.60</td>
<td>5.70</td>
<td>4.80</td>
<td>4.50</td>
</tr>
<tr>
<td>(mile/sq mile)</td>
<td>12.55</td>
<td>9.01</td>
<td>8.53</td>
<td>10.94</td>
<td>9.01</td>
<td>9.17</td>
<td>7.72</td>
<td>7.24</td>
</tr>
<tr>
<td>Percent of sewage water treated</td>
<td>56.30</td>
<td>16.70</td>
<td>12.50</td>
<td>8.10</td>
<td>--</td>
<td>5.80</td>
<td>6.00</td>
<td>17.30</td>
</tr>
<tr>
<td>H. Gardens and greenery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per-capita public greenery (sq m)</td>
<td>1.10</td>
<td>4.50</td>
<td>4.20</td>
<td>8.70</td>
<td>10.30</td>
<td>4.60</td>
<td>4.50</td>
<td>4.20</td>
</tr>
<tr>
<td>(sq ft)</td>
<td>11.84</td>
<td>48.44</td>
<td>45.21</td>
<td>93.65</td>
<td>110.87</td>
<td>49.52</td>
<td>48.44</td>
<td>45.21</td>
</tr>
<tr>
<td>Coverage of greenery in built-up area (%)</td>
<td>19.90</td>
<td>21.40</td>
<td>9.40</td>
<td>31.10</td>
<td>18.90</td>
<td>24.30</td>
<td>27.10</td>
<td>21.00</td>
</tr>
<tr>
<td>I. Percent of garbage and wastes treated</td>
<td>0.60</td>
<td>56.10</td>
<td>18.60</td>
<td>63.60</td>
<td>7.70</td>
<td>30.70</td>
<td>39.60</td>
<td>25.10</td>
</tr>
</tbody>
</table>

Table A3-4 Investments and Construction Costs in Shanghai and Some Other Regions in China, 1991

<table>
<thead>
<tr>
<th></th>
<th>Shanghai</th>
<th>Jiangsu</th>
<th>Zhejiang</th>
<th>Guangdong</th>
<th>Hainan</th>
<th>Fujian</th>
<th>Shandong</th>
<th>National Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Fixed-assets Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (Rmb billion)</td>
<td>25.83</td>
<td>45.04</td>
<td>32.50</td>
<td>50.66</td>
<td>4.43</td>
<td>13.25</td>
<td>44.01</td>
<td>550.88</td>
</tr>
<tr>
<td>Percent of National Total</td>
<td>4.70%</td>
<td>8.20%</td>
<td>5.90%</td>
<td>9.20%</td>
<td>0.80%</td>
<td>2.40%</td>
<td>8.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>A Breakdown by Ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned</td>
<td>83.47%</td>
<td>37.92%</td>
<td>29.75%</td>
<td>67.38%</td>
<td>91.71%</td>
<td>62.29%</td>
<td>53.23%</td>
<td>65.86%</td>
</tr>
<tr>
<td>Collective-owned</td>
<td>10.77%</td>
<td>24.41%</td>
<td>26.22%</td>
<td>14.54%</td>
<td>3.64%</td>
<td>11.77%</td>
<td>23.81%</td>
<td>12.67%</td>
</tr>
<tr>
<td>Private</td>
<td>5.73%</td>
<td>37.66%</td>
<td>44.03%</td>
<td>18.08%</td>
<td>4.65%</td>
<td>25.93%</td>
<td>22.96%</td>
<td>21.47%</td>
</tr>
<tr>
<td><strong>B. Housing Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (Rmb billion)</td>
<td>4.89</td>
<td>18.27</td>
<td>12.43</td>
<td>14.30</td>
<td>1.25</td>
<td>4.07</td>
<td>10.85</td>
<td>141.74</td>
</tr>
<tr>
<td>Percent of National Total</td>
<td>3.50%</td>
<td>12.90%</td>
<td>8.80%</td>
<td>10.10%</td>
<td>0.90%</td>
<td>2.90%</td>
<td>7.70%</td>
<td>100.00%</td>
</tr>
<tr>
<td>A Breakdown by Ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned</td>
<td>72.16%</td>
<td>13.41%</td>
<td>11.64%</td>
<td>44.97%</td>
<td>85.93%</td>
<td>33.49%</td>
<td>24.05%</td>
<td>34.91%</td>
</tr>
<tr>
<td>Collective-owned</td>
<td>1.39%</td>
<td>1.79%</td>
<td>1.79%</td>
<td>3.22%</td>
<td>1.44%</td>
<td>3.98%</td>
<td>4.80%</td>
<td>2.70%</td>
</tr>
<tr>
<td>Private</td>
<td>26.47%</td>
<td>84.80%</td>
<td>86.58%</td>
<td>51.80%</td>
<td>12.63%</td>
<td>62.51%</td>
<td>71.15%</td>
<td>62.39%</td>
</tr>
<tr>
<td><strong>C. Total Floor Area and Construction Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized through Capital Construction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Space under Construction (million sq m)</td>
<td>11.75</td>
<td>11.91</td>
<td>8.10</td>
<td>21.63</td>
<td>3.18</td>
<td>5.95</td>
<td>14.49</td>
<td>272.63</td>
</tr>
<tr>
<td>New Starts This Year (million sq m)</td>
<td>3.86</td>
<td>6.20</td>
<td>4.45</td>
<td>11.12</td>
<td>1.69</td>
<td>2.80</td>
<td>8.62</td>
<td>144.46</td>
</tr>
<tr>
<td>Completion Rate (1)</td>
<td>34.90%</td>
<td>49.40%</td>
<td>53.80%</td>
<td>42.70%</td>
<td>47.90%</td>
<td>46.20%</td>
<td>50.90%</td>
<td>46.20%</td>
</tr>
<tr>
<td>Construction Costs (Rmb/sq m)</td>
<td>814</td>
<td>424</td>
<td>404</td>
<td>496</td>
<td>577</td>
<td>447</td>
<td>386</td>
<td>437</td>
</tr>
<tr>
<td><strong>D. Total Floor Area and Construction Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized through Renewal and Redevelopment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Space under Construction (million sq m)</td>
<td>10.34</td>
<td>3.84</td>
<td>2.23</td>
<td>6.96</td>
<td>0.36</td>
<td>1.41</td>
<td>5.77</td>
<td>92.70</td>
</tr>
<tr>
<td>New Starts This Year (million sq m)</td>
<td>37.70</td>
<td>2.11</td>
<td>1.19</td>
<td>3.24</td>
<td>0.24</td>
<td>0.62</td>
<td>3.48</td>
<td>46.58</td>
</tr>
<tr>
<td>Completion Rate (1)</td>
<td>39.40%</td>
<td>54.10%</td>
<td>48.10%</td>
<td>52.10%</td>
<td>82.20%</td>
<td>50.70%</td>
<td>53.10%</td>
<td>51.70%</td>
</tr>
<tr>
<td>Construction Costs (Rmb/sq m)</td>
<td>651</td>
<td>447</td>
<td>385</td>
<td>494</td>
<td>399</td>
<td>427</td>
<td>424</td>
<td>436</td>
</tr>
</tbody>
</table>

Note:  
(1) This is defined as the amount of space completed divided by the total amount under construction.  
Sources: Based on data in Statistical Yearbook of Shanghai's Fixed- assets Investment and the Construction Industry 1992.
<table>
<thead>
<tr>
<th>Type of Use</th>
<th>Capital Construction</th>
<th>Redevelopment</th>
<th>Other Sources of Investment</th>
<th>Collective-Owned Enterprises</th>
<th>Commercial housing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family apartments</td>
<td>1,578</td>
<td>2,133</td>
<td>--</td>
<td>96</td>
<td>970</td>
<td>4,777</td>
</tr>
<tr>
<td>Office</td>
<td>188</td>
<td>83</td>
<td>--</td>
<td>13</td>
<td>16</td>
<td>300</td>
</tr>
<tr>
<td>Industrial plant</td>
<td>761</td>
<td>1,207</td>
<td>--</td>
<td>191</td>
<td>--</td>
<td>2,159</td>
</tr>
<tr>
<td>Warehouse</td>
<td>166</td>
<td>178</td>
<td>13</td>
<td>33</td>
<td>--</td>
<td>391</td>
</tr>
<tr>
<td>Commerce</td>
<td>126</td>
<td>38</td>
<td>--</td>
<td>35</td>
<td>14</td>
<td>213</td>
</tr>
<tr>
<td>Services</td>
<td>131</td>
<td>30</td>
<td>--</td>
<td>5</td>
<td>--</td>
<td>166</td>
</tr>
<tr>
<td>Education</td>
<td>445</td>
<td>79</td>
<td>--</td>
<td>14</td>
<td>--</td>
<td>538</td>
</tr>
<tr>
<td>Culture and sport</td>
<td>18</td>
<td>11</td>
<td>--</td>
<td>4</td>
<td>--</td>
<td>33</td>
</tr>
<tr>
<td>Medicine</td>
<td>95</td>
<td>26</td>
<td>--</td>
<td>4</td>
<td>--</td>
<td>125</td>
</tr>
<tr>
<td>R &amp; D</td>
<td>111</td>
<td>29</td>
<td>--</td>
<td>0.2</td>
<td>--</td>
<td>140</td>
</tr>
<tr>
<td>Other</td>
<td>489</td>
<td>266</td>
<td>--</td>
<td>36</td>
<td>70</td>
<td>859</td>
</tr>
<tr>
<td>Management</td>
<td>157</td>
<td>67</td>
<td>--</td>
<td>11</td>
<td>0.8</td>
<td>235</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,106</strong></td>
<td><strong>4,079</strong></td>
<td><strong>13</strong></td>
<td><strong>432</strong></td>
<td><strong>1,070</strong></td>
<td><strong>9,700</strong></td>
</tr>
</tbody>
</table>

Note: (1) Housing includes two types: family-type housing for employees and dormitories. Numbers may not add to the total due to rounding.

Source: Based on Statistical Yearbook of Shanghai's Investment in Fixed-assets and the Construction Industry 1992, p. 44.
### Table A3-6 Capital Construction in Shanghai: Total Floor Area and Construction Cost, 1991

<table>
<thead>
<tr>
<th></th>
<th>Floor Area Under Construction (1,000 sq m)</th>
<th>New Starts This Year (1,000 sq m)</th>
<th>Completed Floor Area (1,000 sq m)</th>
<th>Construction Costs (Rmb/sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family housing</td>
<td>5,192</td>
<td>1,929</td>
<td>1,501</td>
<td>638</td>
</tr>
<tr>
<td>Dormitories</td>
<td>199</td>
<td>75</td>
<td>77</td>
<td>464</td>
</tr>
<tr>
<td>Office</td>
<td>380</td>
<td>65</td>
<td>188</td>
<td>1,517</td>
</tr>
<tr>
<td>Industrial plant</td>
<td>1,493</td>
<td>402</td>
<td>761</td>
<td>1,018</td>
</tr>
<tr>
<td>Warehouse</td>
<td>342</td>
<td>143</td>
<td>166</td>
<td>549</td>
</tr>
<tr>
<td>Commerce</td>
<td>452</td>
<td>190</td>
<td>126</td>
<td>403</td>
</tr>
<tr>
<td>Services</td>
<td>491</td>
<td>18</td>
<td>131</td>
<td>1,554</td>
</tr>
<tr>
<td>Education</td>
<td>1,091</td>
<td>510</td>
<td>445</td>
<td>498</td>
</tr>
<tr>
<td>Culture and sport</td>
<td>114</td>
<td>55</td>
<td>18</td>
<td>1,001</td>
</tr>
<tr>
<td>Medicine</td>
<td>346</td>
<td>66</td>
<td>95</td>
<td>746</td>
</tr>
<tr>
<td>R &amp; D</td>
<td>434</td>
<td>49</td>
<td>111</td>
<td>865</td>
</tr>
<tr>
<td>Other</td>
<td>1,222</td>
<td>356</td>
<td>489</td>
<td>1,109</td>
</tr>
<tr>
<td>Management</td>
<td>453</td>
<td>105</td>
<td>157</td>
<td>1,320</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,754</strong></td>
<td><strong>3,858</strong></td>
<td><strong>4,106</strong></td>
<td><strong>814</strong></td>
</tr>
</tbody>
</table>

**Note:** Numbers may not add to the total due to rounding.

**Source:** Based on Statistical Yearbook of Shanghai's Investment in Fixed-assets and the Construction Industry 1992.
### Table A3-7  A Percentage Breakdown of Construction Costs in Shanghai, 1991

<table>
<thead>
<tr>
<th></th>
<th>Shanghai As a Whole</th>
<th>State-Owned Firms</th>
<th>Collective-Owned Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Construction Costs</strong></td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Direct Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>12.06%</td>
<td>10.60%</td>
<td>15.99%</td>
</tr>
<tr>
<td>Material</td>
<td>64.02%</td>
<td>62.65%</td>
<td>67.69%</td>
</tr>
<tr>
<td>Machine</td>
<td>9.13%</td>
<td>11.09%</td>
<td>3.86%</td>
</tr>
<tr>
<td>Other</td>
<td>2.09%</td>
<td>1.88%</td>
<td>2.65%</td>
</tr>
<tr>
<td><strong>Indirect Costs</strong></td>
<td>12.71%</td>
<td>13.78%</td>
<td>9.81%</td>
</tr>
</tbody>
</table>

Table A3-8  Total Floor Area of Buildings by Ownership in Shanghai, 1991

<table>
<thead>
<tr>
<th></th>
<th>State-Owned</th>
<th>Collective-Owned</th>
<th>Private</th>
<th>Trusteeship</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Floor Area (million sq m)</td>
<td>147.76</td>
<td>7.33</td>
<td>19.31</td>
<td>0.99</td>
<td>1.87</td>
<td>177.26</td>
</tr>
<tr>
<td>Percent of total</td>
<td>83.36%</td>
<td>4.14%</td>
<td>10.89%</td>
<td>0.56%</td>
<td>1.05%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Residential</td>
<td>71.35</td>
<td>0.35</td>
<td>18.84</td>
<td>0.71</td>
<td>0.60</td>
<td>91.85</td>
</tr>
<tr>
<td>Percent of total</td>
<td>40.25%</td>
<td>0.20%</td>
<td>10.63%</td>
<td>0.40%</td>
<td>0.34%</td>
<td>51.82%</td>
</tr>
<tr>
<td>Non-residential</td>
<td>76.41</td>
<td>6.98</td>
<td>0.47</td>
<td>0.28</td>
<td>1.27</td>
<td>85.41</td>
</tr>
<tr>
<td>Percent of total</td>
<td>43.11%</td>
<td>3.94%</td>
<td>0.27%</td>
<td>0.16%</td>
<td>0.72%</td>
<td>48.18%</td>
</tr>
</tbody>
</table>

Figure A3-1 Housing Space in Shanghai, 1980-91

(a) Population and Total Living Area

(b) Per-capita Living Area
Appendix 4
A List of People Interviewed (June 15-28, 1993)

IN BEIJING

Ms. CHEN Baorong, Professor of Urban Planning and Deputy Director, Institute of Architectural and Urban Studies, Tsinghua University.

Ms. HE Hongyu, Ph.D, General Manager, Urban-Rural Development Consultants.

Mr. LIN Zhiqun, Research Fellow; Deputy Director, Center for Policy Research; Commissioner, Committee of Science and Technology; Senior Advisor, China Academy of City Planning and Design; Professor, Tsinghua University and Institute of Cadres Administration; Ministry of Construction, PRC.

Mr. SONG Chunhua, Director and Senior Architect, Real Estate Department, Ministry of Construction, PRC.

Ms. WANG Xiaomei, Beijing Department of Real Estate Market Administration, Beijing Institute of Real Estate Appraisal.

Mr. WEN Guowei, Associate Professor, Institute of Architecture and Urban Studies, Tsinghua University.

Ms. WU Chun, Director, Institute of Information Studies, China Academy of Urban Planning and Design.

Mr. YANG Baohua, Senior Engineer and Head of Business Department, Tsinghua Technical Services Co. (QHTSC)—A wholly owned subsidiary of Tsinghua University.

Mr. YIN Zhi, Ph.D, Lecturer, Institute of Architecture and Urban Studies, Tsinghua University; Director of the Development Division and the First Office, Institute of City Planning and Design, Tsinghua University.

Mr. ZHENG Guangzhong, Professor and Head, Department of City Planning, School of Architecture, Tsinghua University; Chief Planner, Institute of City Planning and Design, Tsinghua University; Vice President, Beijing Chapter of the Institute of Planners; Vice President, Center of Associated Research for Tourism Planning and Development.
IN SHANGHAI

Mr. CAO Feimin, Senior Engineer, Shanghai Shenda Corp.

Mr. CHEN Yewei, Deputy District Governor, Nanshi District Government, Shanghai.

Mr. HE Mingjie, Deputy Director, Planning and Land Administration Bureau of the Huangpu District Government, Shanghai.

Mr. HUANG Fuxiang, Professorial Senior Planner, Shanghai Urban Planning and Design Institute (SUPDI); Member of Specialist Board, Shanghai Construction Commission; Adjunct Professor, Tongji University.

Mr. LI Jian, Manager, INVESTE (Taiwan) Ltd, Property Consultant.

Mr. MA Renjing, Council Member, Deputy Secretary General (Executive), Shanghai Real Estate Association.

Mr. WU Shengmou, Senior Engineer, East China Architectural Design Institute; Council Member, Science and Technology Committee, Shanghai Construction Commission; Vice President, Shanghai Academic Committee for Building Economics; Senior Economists, Shanghai Green Garden Real Estate Development Co., Ltd.

Ms. YAN Mengying, Deputy Director, Office of the Shanghai Municipal Committee for Land-Use System Reform; Land-Use Compensation Department of the Shanghai Municipal Land Administration Bureau.

Mr. Daniel D.S. YANG, Deputy Manager, Hang Lung (Shanghai) Properties Ltd.

Mr. ZHU Xijin, Professor, Urban Planning and Design Institute, Tongji University.
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