Real Estate Companies Can be the Main Force in the
Residential Rental Market of China

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Abstract

The residential rental market of China is not developed. While the price on the trading market is extremely high in the big cities of China, still more people prefer buy instead of rent. The high price of the dwellings lowered the living condition of a large group of people. The local governments also feel it hard to help the low income families to get suitable dwellings.

The thesis compared the advantages and disadvantages of leasing for both tenants and the landlords. It presented the current situation of the real estate market in China, for both the rental market and the trading market. The rental market should be developed, and China can learn from the experiences of some western developed countries.

The legal system should be built up firstly and the rules of the market have to be listed before the development of the market. An arguments list was collected for the current rental market. It helped to conclude the problems in the rental market, and find the necessary clauses in the rental contracts.

It was discussed that the real estate companies run businesses in the rental market. Xi’an was chosen to be a sample to do the case study. Two models were set up to check whether it is profitable for both of the real estate companies and the tenants. The models did calculations based on the data of the past 5 years. The thesis designed different ways of developing rental market for different districts in Xi’an.

The thesis also suggested the government provide some new policies to encourage real estate companies to develop the rental market, and also find other ways to solve the housing problems.
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1. Introduction

1.1 Background

Although the financial market of the world is in the downturn now, the consuming speed in China has not slowed down. We can see the price of the consumer goods has increased 20%-100% compared to two years before, however this does not impact much on the consumers’ demand. The consuming for real estate and the car is increased and will continue increasing in the following several years (Yan 2005). The government also encourages the purchasing of real estate and the car by lower the interest rate.

The real estate market of China is very hot in these days. We can see constructions all over the country. The price has been doubled in the passed five years. The residential market is the most important part in the real estate market. It depends on the huge population of China. For example, in 2008, until November, the investment in residential market is about 2275.2 billion that is 85.71% of the total investment in real estate. (National bureau of statistics of China)

When the trading market is so hot, the rental market is not developed. There is no big project for rental market, only rental cases from households to households.

1.2 Objectives

This study aims to argue that rental market is very important in real estate market based on the market background of China. This market should be developed as well when the trading market is developing very quickly. The development of rental market in China can not only help a part of people to use their money properly and at the same time upgrade the standard of their living, but also help real estate companies to find a good way to manage their properties. It is also a good way to avoid speculations in residential market so as to stop the malignant increase of the price. Development of a rental market is very important when keeping the market to be healthy.

The objectives of the study are to find out:

1. What kind of legal base we need, if develop the rental market?

2. Whether rental market is real profitable for the real estate companies?

3. How can the real estate companies combine rent with sell, and how can they
manage the rental part?

4. What kinds of persons or families prefer to rent instead of buy dwelling? What kinds of services they need?

5. How the development of rental market helps the trading market developing better?

1.3 Methods used

There are three parts in the real estate market: government, real estate companies, and consumers. For the government, it considers the situation in a macro level. It need a stable market which developing towards a complete market. It can use policy to lead consumers and the companies to perform in the way it likes. For the real estate companies, they will consider about the demand in the market and how much they can offer. What they are looking for is just profits. For the consumers, why they buy or rent? It depends on their conceptions, economic conditions and the situation of the market. The three parts are related to each other very closely.

When we want to develop the rental market, a complete legal system is an elementary condition. We should know what kind of problems the market will have in advance. A problem list will be made after a survey from numbers of owners and tenants. Then the legal system will be built up aims at solving all the problems. It means both the owners and the tenants know in advance the standard way to solve those problems. In this case they will avoid them happen or accept the solutions without argument. This system will protect the rights of both the owners and the tenants.

There will be a case study in one of the big cities in China. It uses the general knowledge about the city based on the author’s experience. In this case study, we will focus on the objectives of the thesis. Demand and supply are the basic and most important things which push the development of the market. In different districts of the city, or for different groups of the consumers, the demands are different. The real estate companies should develop suitable properties to match the consumers’ demand. They should find the best combination of all kinds of real estate products. This article will do analysis on the demand and supply of the selected city by different districts, to see how the market will be built and whether the market can run well in reality. The present market price and the rental level are checked by the author after visiting numbers of housing agencies and on sale dwellings. The historic market price and the rental level are collected from people who live in different areas of the city. Other data is collected from previous articles on the internet or statistic database.
At last, there will be a final analysis about how the development of rental market helps the real estate market developing better; and what needs to be done to encourage the real estate companies to develop the rental market.

1.4 Location

In big cities, there are a lot of universities and big industrial companies. As a result, big cities will have large floating population. It is hard to say how long these people will stay in these cities. Moreover, because of the scale of the cities, the cities are usually divided into several districts. It takes time for people to travel, so it increases the possibility for people to move from one district to another, if they feel inconvenient. For these reasons, the residential markets of big cities are more active. If we want to do some studies on the residential market, it is better to choose more active market, so that the result will be more obvious.

Xi’an will be chosen as an example. All the analysis in this article will base on studies in Xi’an.

1.5 Limitation

First of all, the real estate market of China is not a mature market. There are not enough regulations to make the rental market running in right track. This research is based on amount of assumptions that the government is ready to develop the rental market and will build the regulation system for the market.

Second, this research is based on the assumption that people will change their preferable according to the situation, and they will not insist on owning. In other words, all the residents are rational. But in reality, it cannot always be the truth. They will consider about some other factors besides economy, and make decisions that are unpredictable.

Third, when doing the research, the factors outside of rental market are assumed to remain unchanged. For example, interest rate, tax rate, etc. Any changes of the factors may change the result.

Fourth, there are limitations for collecting information and data. Due to not all the information and data is exposed in the market and some of the information and data used in this research is secondhand because of the distance, there would be some error in the result.

However, these limitations do not mean the research is wrong. The result still can be good model of the future rental market.
2. Leasing compared with owning

Although the tenants will abuse the dwellings and cause loss of the landlords, the landlords are encouraged by other incentives to participate in the rental market. Some market imperfections cause both landlords and tenants to gain from a lease rather than a sale. There are a number of rationales for the existence of leasing. For example, taxes, transaction costs, risk shifting, etc. (Benjamin, Torre, and Musumeci 1998)

2.1 For Residents

For the residents, both leasing and owning has advantages and disadvantages. From the aspect of investment, maybe the tenants will pay less rent amount than the owners pay interest amount. But the value of the properties goes up and down, and so do rent and interest rate. So no one can say one is absolutely better than the other. But for certain groups of people, or for the certain period, we can say which one is better to choose. The advantages will be more than offset the disadvantages if people choose one that suits them.

2.1.1 Advantages for leasing

Tenants pay rents monthly, so leasing is more flexible than owning. The owners spend their cash for real estate, but the tenants can have more cash in their pockets. Not only on this aspect, but also tenants may easy to decide whether to stay or move. On the converse, if house owners decided to move, they must sell the old properties before they buy new ones, unless they have enough money to afford two properties. Moreover, they have to consider about the taxes and the agent fee which has to be paid when they sell and buy. In some countries, the owners also have to pay property tax every year, but the tenants do not have this kind of expenses.

The tenants do not have to worry about repairing, because their landlord will help them to do this. They should just pay the maintenance fees, or the fees are already included in the rents. The owners should take care of the houses themselves.

It is hard to know the quality of a new building. If the building is in bad quality, the tenants can change to another place. But for the owners, it will be difficult to sell.

2.1.2 Disadvantages for leasing

The market price is changeable; the prices in most of the real estate markets nowadays are upwards. So the tenants should prepare for the rents increase. It is a risk for the
tenants. (Casas-Arce and Saiz 2006) But for the owners, if the price goes up, the value of their properties also goes up. It will be good news for them.

When the landlords don’t want to rent out their properties any longer, the tenants have to move. There will be some cost for them to transfer from one place to another, and there will be some difficulties for them to find new place in short period. If people own properties, they can make the decision themselves whether they should move or not, and they can take their time until they find new places which they are satisfied with.

2.2 For real estate companies

When the companies consider whether to sell or lease, the most important thing is their forecast of the market price. If they forecast the market price will go up, they will not sell the properties immediately. Compared to leave the properties empty, they prefer to rent them out.

2.2.1 Good choice for investment

The market prices are changeable. The real estate companies can forecast the market and lease the properties. At the same time, if the market price goes up, the companies will own more value. Leasing is also a good way for the real estate companies to diversify risks. Properties have both lower risks and lower returns than stocks, but have both higher risks and higher returns than bonds. So holding a certain amount of properties can be a good choice when the company is doing investment.

2.2.2 Problems for leasing

For real estate companies, selling will take the cost back quickly, and then they can invest the money into other projects. But if they choose leasing, the companies get rents from the tenants monthly and at the end of the leasing periods they get a salvage value. This cycle is much slower than for selling it.

The tenants may abuse the properties, because the properties do not belong to them, and they don’t care about the damages. The companies have to consider about the damages when they choose the rent level. If the salvage value in the end is less than that they have estimated, they will get a loss.

The companies may not be able to fully charge the expected future cost in advance through raise initial rents. Bargaining over future rents may be very costly. This could arise if the user can make threats of non-payment, delay the payments, abuses the property, and so on. The companies, on the other hand, can threaten with legal action,
stop making repairs, or make unpleasant unexpected visits to the property. But all these will add to the costs of leasing. (Casas-Arce and Saiz 2006)

The companies have to avoid tenants defaulting on the rents. If the legal system is inefficient, there will be some risks when leasing. The cost for the companies to take back the defaulted rents or the properties will be high. (Casas-Arce and Saiz 2006) But when the companies choose to sell at the beginning, they will get the payments while the buyers get the properties. There will be no problems about default and cost for court.
3. The current situation of owning and leasing in China

3.1 Residential trading market

In the past several years, the price increased tremendously in the real estate market of China. In 2005, the average price was 2937 CNY per square meter (/sqm). It was already doubled compared to the price in 1995. The average price of 2007 was 3645 CNY/sqm. Now in 2009, the average price for the first half year was already over 4500 CNY/sqm. The price increased more than 10% each year. However, this was only the average price for the whole country, if we look at the price increase of the big cities, it was much bigger. For example, in Shanghai, the average selling price in some separate months of the first half of 2009 reached 18000 CNY/sqm. (National bureau of statistics of China)

Most of the Chinese people prefer to buy dwellings instead of rent, and they prefer to buy new dwellings instead of secondhand dwellings. Even though the price is high and they will pay big amortization amount every month, they want to have their own properties. This kind of method is not easy to change. This should be the main reason that the residential trading market is so hot and the constructions of the new buildings never stop.

China is still a developing country, and the standard of living is not high. In the statistics of 2005, 42.03% of residences’ spending money is used on the food; only 13.8% can be used on the housing (Fan and Zhang 2005). The social insurance is not complete; as the results of this, the residents should save money for their children’s education, for the illnesses of the family members, and for some other unknown factors in the future. So the housing expense should not be the main expense of the Chinese people. But it is very strange that the percentage of urban residents to own their dwelling is up to 87.8%. (National bureau of statistics of China) Compared to some developed countries, it is a high rate. That is 71% in UK, 60% in USA, and 43% in Germany. Although the average income is low, the price of the house is high. So one third of the buyers who take mortgage will use more than 60% of their income to pay the amortization. (Wang 2006) What is more, about 40% of the buyers are between the ages from 20 to 30, they have only worked for a few years, and their savings are hard to afford high percentage of the down payment. According to the regulations of the central bank, the buyers can only borrow 80% of the total price for the new dwellings, and 70% of the total price for the second hand dwellings. Normally, the buyers prefer to borrow 50% or less percentage for 5-10 years. They pay the down payment with their savings to avoid paying interest. But for young people, they will borrow more percentage from the banks and borrow for 10-20 years. That means they have to pay more interest every month with higher interest rate. They also need help from their parents for the down payments.
The speculators’ action pushed the price going up. In the past 10 years, real estate investment has the biggest possibility to be successful in the personal investment area. The housing price increased 4-5 times during this period. Considering the mortgage loan, it is not strange that people get yield of 10 times of the principal if do investment 10 years ago. While the speculators are increasing their wealth, most of the dwellers are suffering. This makes it hard to buy, and further more enlarged the distance between the rich and the poor. In December of 2007, all the commercial banks increased their long-term lending rate for properties according to the increase of the basic lending rate of the central bank. Actually, it was not the first time that the central bank increase lending rate during the recent several years, in order to slower the increase of the demand and cool down the real estate market. The government also has established some regulations to limit speculation in real estate market. For examples, tax policy: people have to pay tax if they want to sell their properties, no matter if they earn or lose money; if sell the dwelling which is bought less than five years, the owner’s name cannot be changed, etc. The market situation after five years is uncertain, and it will increase the risks for speculation. All these actions of the government and the central bank have slowed down the increase of the price in some of the cities, but not much. Because of the high base, the price is still on a high level especially in the big cities such as Shanghai and Beijing.

While the economic crisis from September 2008, in order to recover the financial market, to make the real estate market more active is the first step. But the interest rate was too high after the increasing in December. 2007. From the September of 2008, the interest rate decreased five times from 7.83% to 5.94%. However, even if the interest rate is lower, the high price still makes buying dwelling a tribulation to most of the families. The situation cannot be changed by simply change the interest rate or tax policy.

### 3.2 Residential rental market

Opposite to the trading market, the rental market in China is not so hot. The standard proportion for the monthly rent per square meter (sqm) comparing to the selling price per sqm in a well-run real estate market is between 1:200 and 1:250. The proportion of 1:300 is the alarm level. If we compare the monthly rent per sqm with the selling price per sqm in China, it is over 1:400. This is not only caused by the high selling price, but also because the rent level is too low. In the first half year of 2009, while the selling price increased after the economic crisis, the rent level even dropped a little.

Most of the rental dwellings in the market come from individuals. Very few real estate companies or organizations supply on the rental market. It is running by thousands of housing agencies. Most of the agencies are small scale, only have information in very limited area. So it is hard for the tenants to find suitable place:
they have to visit different agencies if they have several preferable districts, not convenient. There are a few websites that help the agencies and the landlords to put advertisements, where people can search rental information. This is a big progress in the recent years. But the information for each dwelling is not complete, and not all the dwellings for rent can be found on the websites. Since the information is not well transferred between landlords and tenants, the rental market is not efficient.

The landlords normally have two or more dwellings. They prefer rent out the ones they don’t usually live in. In this case they will get more or less income. However they are afraid the dwellings will be damaged somewhere, so they will not renovate the dwelling before they rent out. They also think even if they renovate the dwellings, the rent will not be higher. So, most of the dwellings for leasing are either quite old or poor decorated.

Most of the tenants are taxi drivers, waiters of restaurants, workers of manufactories and new graduated students. Almost all of them leave their hometown and stay in other cities. They have common characteristics: low income, not much savings and easy to change working place. Their characteristics can be the reason why the price of the rental market is so low.

The landlords and the tenants will sign contracts for the rental agreements with the help of the housing agencies. The contracts will include description of the dwellings and the matters about duration, rents, electricity, water, gas and so on. Each agency has its own standard contract template. Whether the contract template is well written, depends on whether it is an experienced agency. Although the contracts are made, there still will be some dissensions between the landlords and the tenants. The arguments are always hard to be interceded, because not all the accidents happen in the leasing period will be written into the contracts in details. For example, who will be in charge of the damage? Of course the housing agencies will not answer for the damage. If the roof is leaking, the tenants would be worried and want to repair it as soon as possible. However, the landlords is not suffering, so they will take their time, even forget about this the next day. For most of the buildings, the tenants can call the management company of the building directly, but some old buildings do not have such kind of management companies. The service for the dwelling mostly depends on what kind of owner it has.

It is usual that the rental contract has a beginning date, as well as an ending date. The owners cannot make sure when they will use the dwellings in the future, or they want to increase the rent in the close future, so the duration of the contract will be a short term, they prefer to prolong it when they need. Most of the tenants don’t like moving, but unfortunately they still have to do this once and once again. They always think it is not easy to find a suitable new place, and moving is costly and make them tired. After they moved, they have to spend a period of time to adapt themselves to the new environment. Maybe several months later, they have to spend
another period of time to do the same thing. This is the main reason that people want to have their own houses or dwellings as soon as possible. They want to settle down, although the housing price is not low.

In 2007, the State Department pointed out that low rent level housing from the government was the main path to help the low income families. So in 2008, a lot of provinces and cities began to carry it into execution. However, there are a lot of problems. First, the fund is not enough for the construction of so many new dwellings. The government and the researchers are now discussing how to find new source of the fund and how to use this fund efficiently. Second, the location of the projects are always far away from the city center. Although the rent is very low, the total cost of the families is not decreased because the travelling cost increased. It also takes too much time for travelling. The low income families are always big families, with elders and children. They spend much time on taking care of the elders and children. If they live in the suburb, their live will be even tougher. Third, if enlarge the area of the construction, provide job opportunities in the area and complete the education and health care system to solve the travelling cost problem, probably the area will be treated as a new slum district. There is a risk for the future that the children who grow up in this district will be discriminated.
4. Rental market in western country

The rental markets in western countries are more developed than in China. They are running under various regulation systems.

4.1 The rules in the Swedish rental market

In the end of 2008, there are about 1.47 million rental dwellings in Sweden, in which 0.77 million dwellings are from the municipal housing companies, and the other 0.69 million dwellings are from privately owned properties. The unlet dwelling is only 26 thousand. The population at that moment is about 9.26 million. If we consider each household contains 2-4 persons, then around half of the population lives in the rental dwellings. (Statistics Sweden)

The tenants have to pay the rents in advance. The landlords are required to notify the tenants if they want to increase the rent. If the tenants agree, or are passive for more than two months, the new rent will be applied. But the tenants have the right to reject the rental increase, and the landlords have to appeal to the Rent Tribunal for the increase to take effect. (Global Property Guide)

Tenancy contracts are almost always standard form contracts, pre-formulated by landlords associations, after having gained the approval of tenants’ associations. Tenants have the right to prolong their contracts. If the tenants want to terminate the agreements, they may at all times serve three month's notice, even when the contract is fixed for a certain time. The landlords cannot terminate the contracts if the contracts are for a certain period, unless the tenants have disobeyed the contracts, for example, non-payments. If the contracts are not fixed for a certain time, the landlords have to inform the tenants 3 months in advance if they want to terminate the contracts. Even if in the contracts, the notice period may be less than 3 months, only the tenants can use this notice period, but the landlords have to use 3 months. The landlord’s reasons to terminate a contract should be exceptionally strong, for example, a need to carry out construction work. But the landlord would in many cases have to provide an alternative apartment. (Lind 2001)

Before the tenants move, the landlord will check the dwellings to find out whether there is any damage. The tenants have to pay for the damages if they are caused by the tenants. It is insured by the social security system. All the tenants should offer their social security numbers to the landlords. So it is difficult for the tenants to refuse to pay and escape when the damages happen.
4.2 Rental market in Germany

In the past 10 years, the price level in Germany increased 2% every year in average. But the housing price only increased 1% every year in average. In other word, the real housing price decreased 1% every year. If people buy a dwelling of 70 square meters, the average price is 88.5 thousand Euros. It is not difficult to own a dwelling in Germany, but more people still choose rent instead of buy. 57% of the people in Germany rent dwellings, especially the young people, 77% of them rent.

How can the market offer so many dwellings to rent? Actually, only 1-2% of the rental dwellings belong to the government. This percentage is very low, so the government uses some compelling rules to insure the supply of the dwellings for rent. For example, the constructions of tenant cooperatives can only used for rent, and this occupies one third of the total constructions in Germany. Such huge quantity of dwellings can only be used for rent, no doubt helps a lot for stable the rental source. Another example is certain percentage in the constructions of the real estate developers should be rent out for low income residences. In order to encourage the investors contribute to the rental dwellings, the government also offers some preferential treatment. The rental dwellings which constructed by tenant cooperatives are tax-free. While constructing or repairing the rental dwellings, the real estate developers can get loan with very low interest or even without interest. The government will also stake the investors, to encourage them to provide low price rental dwellings to the low income groups.

The government has a lot of protection policies for the tenants. The rent level is not determined by the supply and demand of the market. Local rent levels for different sizes and standards of dwellings must be determined annually by all local authorities: municipality, association of landlords and tenants, housing agencies and some other organizations. This is called mirror rent. (Kemeny 1995) It is illegal if the rent is 20% higher than the mirror rent level. While the rent is 50% higher than the mirror rent level, the landlord is guilty. (Zeng 2008) Eviction notice can only be given if the tenant has not fulfilled the contractual duties, if the owner or the owner’s near relative wants to live in the dwelling, or if the dwelling is going to be used for other purpose. (Kemeny 1995) At the same time, in order to prevent the speculators get profit from the rental market, second hand rental is forbidden by law.

The government provides subsidies to the low income group. The difference between the real rent and the 25% of the family income will be paid by the government. Both the federal government and the local government will undertake half of the subsidy amount. At the same time, the government also provides welfare rental housing. The government marks out the area, and the real estate developers construct. When the construction is finished, the dwellings will be rent to the low income group with low rent level. The difference between the rent and mirror rent level will be paid to the
real estate developers by the government as subsidy.

4.3 The tenants have the priority to own in UK

The rental market occupies about 29% of the residential real estate market in UK. There are three different kinds of dwellings for rent in UK: privately owned dwellings, dwellings owned by local government, and dwellings belong to the tenant cooperatives.

There is a policy in UK that the tenants of the dwellings which belong to the government have the priority to buy and become the owner. This is the main reason that the size of the rental market of UK is smaller than other European countries. When the tenants buy, they can also get a discount compare to the market price. There are different starting percentage levels for dwellings with different quality. The dwellings with poorer quality can get higher discount in percentages. If the tenants live in the dwellings for long time, they can have 1% or 2% more discount for each year, which can be added onto the starting percentage level. The maximum percentage levels are also set for different types of dwellings. But the dwellings which are built for elders or people with disabilities are exceptive. Tenants cannot buy them. About 1/3 of the tenants bought the dwellings under this policy.

The housing organizations of the local governments have been rebuilt as non-profit housing associations. These associations bought all the dwellings from the government and became the landlords. The rent will be used for maintenance and management. The government appropriate funds to these housing associations for constructions. An advantage for the housing associations compare to the organizations of the local governments is they can use financing. When the government wants to build dwellings, it will be restricted by the finance status of the government, even if the fund is for housing construction only. But for a housing association, it can get loan from the bank, if the fund from the government is not enough. In this way, the fund for construction and repairing is easier to be collected.

For the dwellings which belong to these housing associations, the tenants also have the right to acquire. That means the tenants can buy the dwellings with a discount. But there are some conditions for the tenants and the dwellings. The dwellings should have been constructed after the 1st April of 1997 with the funds from the government, or have been bought from the local governments after the 1st April of 1997. The tenants should be living in the dwellings which can be acquired, and they have lived in these dwellings for longer than 5 years. Only one tenant or one family live in the dwelling, and this dwelling is the only place the tenant can live. (Zhang 2007).
5. The situation of the real estate market in Xi’an

Xi’an is the capital of Shaanxi Province, locates at the center of China. It was the capital of China in 13 dynasties, famous for its culture. The total area of Xi’an is about 10 thousand square kilometer. The population of the city is 8.31 million. There are several famous universities. Many graduates want to stay in Xi’an after the graduation. It is the huge human resource, so the big companies choose Xi’an. For example, Huawei Technologies and ZTE Corporation, the famous Chinese IT companies, set up their research center here; Capgemini, Oracle, Infineon, and some other famous international IT companies set up their offices here in Xi’an; and there is also an airplane manufactory. A great amount of people need to settle down, that means the city needs more constructions.

Map 1: Location of Xi’an.

Xi’an can be divided into several districts. The city center is the business district and the old residence area. In the south, Yanta district, there are many famous high schools and universities. In Qujiang district, there are several new developed squares and parks, so the housing price in this district is the highest in Xi’an. In the east, Baqiao district, there is a new developed area with the name Chanba. This is a big real estate eco-project. In the west, there is the Gaoxin district. It is the high-tech industry area. Most of the local IT companies, famous international companies, and the new founded companies are in this district. In the north, Weiyang district, most of the residences are from other cities or from rural area. This district is not well developed, but the government has the plan to move part of their offices to Weiyang district, in order to bring more chance to this area. The price of the real estate market in the CBD, south and the Gaoxin districts, are much higher than in the others. These
districts are more popular than the other districts, because they are convenient for shopping, working, or closer to the children’s school.

Map 2: Districts in Xi’an

The real estate market in Xi’an is active. The author has discovered the selling price and also the leasing price in different area in Xi’an. The average selling price in Qujiang is the highest, more than 10 thousand CNY per square meter. Compare to the average income level, which is 12662 CNY per year, the price is very high. Although the price is much higher than before, it has not been raised by the speculators. So the price now is more reasonable than the cities in the southeast of China. The rise of the price is mainly because of the improvement of the amenity. The rental market is more active in Gaoxin and Yanta district than in other districts. The rent level changes together with the selling price. If the selling price is higher, the rent will also be higher in the same district.

From September of 2008, the price for the trading market went down, although it has risen a little until now but still has not reached the level before it went down. There are around 140,000 dwellings on sale in Xi’an now. However according to the purchasing power of the market, they could not be sold out within two years. It is mainly caused by the global economic crisis. The real estate companies lowered the selling price one by one since September 2008 in order to sell more. This price competition is good for the consumers, but it is damage for the real estate companies.

On the rental market, there are two kinds of dwellings. One is from other residents in this city. The other is from the government. For the dwellings from other residents, the situation is the same as any other cities of China. Tenants find the dwellings from
agencies or from internet, and sign contract with landlord. For the dwellings from the government, they are only for the low income families with very low rent. From 1997, the local government appropriated 2.5 million CNY each year for the construction of the dwellings for low income families. But when the dwellings are built, there comes other problems.

The first project of the government was finished in 2001, includes 264 dwellings. There are around 40 to 50 thousand families are low income families, in which at least 10 thousand families have problem with housing. The government input much work on investigating the qualification of the families. Until the end of 2006, there were still 192 dwellings empty, because the government could not make fair decisions. From the beginning of 2007, the remained dwellings were rented out in succession, but the government met other problem. Although the government takes out 2.5 million each year, the fund is not enough for construction. Only 20 dwellings can be built with this fund. Compare to the number of the families, it is almost nothing. Some researcher suggested that the government should use subsidy policy to help low income families rent from the market, instead of constructs dwellings. Now the construction is still going on; and the subsidy to the low income families is a supplement. (Yan and Zhang 2009)
6. Contract design and legal framework

If we want to develop the rental market, we should complete the legal system for this market first. This will make both the landlords and the tenants feel secured. So that more people are willing to provide dwellings for rent and also more people change their ideas from buy to rent.

The current situation is that the rental contracts do not cover all the issues that will happen in the rental period. So a lot of arguments appear between the landlords and the tenants. If we have a standard rental contract which can cover all the issues, the problems will be solved very soon by the responsible party, and there will be less and less arguments.

6.1 Main arguments

A survey has been done in Xi’an, and the cases for arguments are collected. Some of the cases are very similar, so only one of them is chosen. All the cases that have been chosen are listed in the annex. Seven problems that always happen in the rental market are generalized from the list.

1, The landlord wants to terminate the contract before it expires. Maybe the dwelling will be rented to another tenant with higher rent. Or the dwelling has been sold, and the new owner wants to live in the dwelling.

2, The tenant defaults on the rent. The reason can be the tenant has problem with cash, or he (she) is not satisfied with the landlord’s service and refuses to pay.

3, The landlord turn off water and electricity. Main reason is the landlord does not receive the rent on time.

4, Neither the landlord nor the tenant is willing to pay for the damage. It includes the damage of the electric devices, and the damage of the walls, windows and doors.

5, The landlord forgets to ask for the deposit while signing the contract, so when the tenant move the landlord has to pay for damage and bills (telephone, electricity and water) caused by the tenant.

6, The tenant renovates the dwelling, but the landlord don’t want to pay for anything.

7, Second hand rental bring problems. The owner is not informed about the second hand rental. Fire, theft or other unexpected issue happens during this period.
6.2 Contents of rental contract

The reason that the arguments appear is because the contract is not well written. A normal rental contract should contain the following details:

- Length of the agreement, with the term of notice (3 months is normal),
- Rent amount, the amount of deposit and the interest it earns,
- Conditions for rent increases
- Amount of additional costs (water, electricity, heating, cable TV, broadband, garbage disposal etc.),
- An agreement on redecoration when the tenants move in or move out (if needed),
- In the case of furnished rooms, an inventory of all items (the landlords list all the items; and the tenants check whether all of them are in good order. If not, this has to be documented in writing, so that the tenants don't have to pay for the damage when they move out)
- The general house rules, defining the repairs that the landlord is responsible for and those which tenants have to pay for.

Eviction is very normal in the rental market. This is also the main reason that more people prefer buy instead of rent. While the length of the agreement and the term of notice are determined in the contract, the landlords cannot terminate the contract at any time they want. The rules that Swedish rental market uses can be referred here. If the contracts do not have a termination date, the landlords have to inform the tenants 3 months in advance if they want to terminate the contracts. If the contracts are for a certain period, the landlords cannot terminate the contracts unless the tenants disobey the rules, for example they have not paid the rent or disturbed their neighbors. In this case the notice period can be less than 3 month, but both the landlords and the tenants have to agree on the length of notice period before the contracts are signed. The tenants also can use the rules of notice period if they want to terminate the contracts.

The reasons that the landlords want to terminate rental contracts are either they want to find new tenants with higher rent or they want to use the dwellings for other purposes. The rules that German rental market uses can be referred here. The rent levels for different location and size are always determined by the market. The rent levels list for each year should be published by an organization which is doing statistics and analysis of the rental market. The landlords should always refer to this list when they ask for a rent. If the rent is more than 2% lower than the published rent level, the landlords have the right to raise the rent. But the rents should not be more than 2% higher than the published rent levels. In this case, even if the landlords change tenants and sign new contracts, they still cannot raise the rents to higher levels. For the tenants, they can accept the reasonable rent increase according to the published rent level. The landlords cannot terminate the contracts if they don’t change the use of the dwellings. In another word, if the tenants have not disobeyed the rules,
the landlord cannot drive them away and rent the dwellings to other tenants. If the landlords terminate the contracts and change the use of the dwellings, the dwellings cannot be rented out again in one year. The sitting tenants also have the priority to prolong the contracts when they expire.

The landlords can ask for a deposit of one month's rent. Or if the dwellings are furnished, the deposit can be higher according to the value of the furniture. The interest of the deposit can be calculated with the interest rate of the commercial bank if the period is longer than half year. The tenants should pay for water, electricity, heating, broadband, cable TV and all the other living costs themselves on time. If they don’t pay, the landlords can pay for them with the deposit, but the tenants have to pay the same amount back. The landlord should provide the instructions if there are any electric devices in the dwelling. The damage of the furniture and the electric devices caused by using incorrectly should be paid by the tenants.

The tenants can redecorate the dwellings, but they have to inform the landlords and get their agreement. The redecoration should not change the structure of the dwelling, or cause damage. The tenant has to pay for the repair work of the damages. This redecoration can also be done in another way. The landlord redecorates the dwelling before the tenant move in, and the rent on the contract has already considered this service.

The landlord should be informed about the second hand rental. The agreement of the second hand rental should not only be signed by both of the tenants but also be signed by the landlord. Otherwise it is invalid, and the first tenant should take all the risks in the rental period.

The landlord should provide the basic services. The lack of service should not disturb the tenant’s normal life, and the tenant can charge the landlord for their loss because of this. For example, if no heating in winter and the tenant has to use electric heating appliance, then the landlord has to pay for the extra electricity fee.

### 6.3 A standard rental contract

The first page is the details of the dwelling and the rental agreement.

1. The landlord’s name, ID number, post address, telephone number and email address.

2. The tenant’s name, ID number, current post address, telephone number and email address.

3. The object’s address and size, whether furnished or not.
4. The rental period, and the normal notice period is 3 months. If the tenant disobeys the rules and the landlord wants to terminate the contract as punishment, the notice period is 1 month.

5. If furnished, the list of the furniture and the electric devices; the status of the furniture and the electric devices; the checklist for the instructions of the electric devices.

6. The monthly rent amount and the deposit amount. The interest rate for the deposit is the same as the half year’s fixed rate of the bank. If the tenant needs the landlord to redecorate the dwelling, tick in front of the items: repaint the walls, repaint the floors, carpet the floors, change tiles, change electric devices (list which devices). The rent added amounts for each redecorating item are listed together. Then the rent amount after redecorating.

7. How to pay the fees for water, electricity, gas, if they are not included in the rent? Heating, cable TV and broadband are included in the rent.

8. The signature of both the landlord and the tenant.

The second page is the services that the landlord should provide and the rules that both the tenants and the landlord have to obey.

1. The landlord should make sure the tenant can access the water, electricity, gas, heating, cable TV, and broadband at any time. If the landlord needs to cut off the water electricity, gas, heating, cable TV and broadband, the tenant has to be informed one day in advance. The landlord may cut off all these services no longer than 8 hours, otherwise the tenant may ask for the compensation for their loss caused by the cutting off services.

2. The landlord should in charge of the repairing work of the dwelling, including the water pipes, wires, cables, floors, walls, roofs and ceilings.

3. The landlord can increase the rent only if the inflation rate increased or the market rent level increased. The rent cannot be increased 2% higher than the market rent level.

4. If the contracts do not have a termination date, the landlords have to inform the tenants 3 months in advance if they want to terminate the contracts. If the contracts are for a certain period, the landlords cannot terminate the contracts unless the tenant disobeys the rules, for example he or she has not paid the rent or disturbed the neighbors. The tenant always can use the 3 months’ notice period, and also can use the one month’s notice period if the landlord does not provide necessary services. If the contract has a termination date, the tenant has the priority to prolong the contract if the landlord still wants to rent out the dwelling.
5. The tenant has to pay rent and other payments before the first date of the month. If they don’t pay for the water, electricity or the other fees, the landlords can pay for them with the deposit, but the tenant has to pay the same amount back at the latest while making the rent payment the next month. If the tenant still doesn’t pay, the landlord can treat it as default of rent payment, and the landlord has the right to terminate the contract after a notice period.

6. Any damage of the dwelling caused by the tenant can be taken care of by the landlord, but the tenant has to pay for the cost, including the material and the man hours. The landlord has provided the instructions for all the electric devices. So the damage of the furniture and the electric devices caused by using incorrectly should be paid by the tenant. The landlords can deduct the cost from the deposit when the contracts are terminated.

7. The tenant can ask the landlord to redecorate the dwelling before moving in. The rent can be increased because of this. The tenant can also redecorate the dwelling after move in, but the landlord has to be informed and agreed. The redecoration should not change the structure of the dwelling. When the tenant leaves, there should not be any holes or other damages on the walls, the floors, the windows and the doors, as a result of the redecoration. Otherwise, the tenant has to pay for the repair work of the damages. If the landlord terminates the contract not because of the tenant disobey the rules, and the tenant has redecorated the dwelling no longer than one year before, the landlord has to share the cost with the tenant for the part which increases the dwellings value.

8. The landlord should be informed about the second hand rental. The agreement of the second hand rental should also be signed by the landlord. Otherwise it is invalid, and the tenant should take all the risks in the rental period. The rent increasing of more than 2% in a second hand rental is not allowed.

9. When the tenant move out, the dwelling should be cleaned. Otherwise the tenant will be charged for the man hour of the cleaning work.
7. Current problems

As it is introduced in the Chapter 5, there are only two kinds of dwellings for rent. One is from normal residents, who have vacant dwellings; the other is from the government which is only for low income families. The part for the low income families is a very special part in this market, and can not be the majority. So the main part of this market is running by individuals. If we want to develop the rental market, the supply from individuals cannot be sufficient. This rental market cannot be big scale, and it will still be a supplement of the trading market in this case.

7.1 Who should develop the rental market?

From the July of 2008, there is a real estate company that helps the owners to put advertisements for leasing on their website. Before that, only housing agencies do this kind of work. This means the real estate companies want to have multiple businesses. Real estate companies can break a new path in the rental market, not only help to put advertisements, but also to be one part of the rental market. The trading market has not recovered from the down turn. The real estate companies can diversify risks in this down turn by developing the rental market. They can keep the price, rent out and wait. However this does not mean real estate companies should always build the whole building only for rent.

There are many famous real estate companies in China; each of them not only has one project in one city. Even if they have many successful projects, they will have several dwellings hard to sell for each project. Instead of lower the price or spend more money for more advertisements, they can rent the dwellings out. These real estate companies will be the main developer of the rental market.

7.2 How do the real estate companies run the business?

The real estate companies have their Homepage already. It is not hard for them to list all the dwellings for rent in their Homepage. All the dwellings should be sorted by location, size and price. It will be easier for the tenants to search suitable object. The companies should also standardize the fitments of all their dwellings. In this case, the tenants don’t have to visit all the dwellings before they give the choice. It’s easier for the tenants to do the decision and at the same time very efficient for the companies. Because if one person is satisfied with the dwelling and the service from one real estate company, next time, when the person want to move and still want to rent dwelling, the dwelling from this company will be the first choice. It will be a good circle. The potential tenants will get the information about the landlord easily from the other tenants in the building. The companies can make long term contracts
with the tenants, so that the tenants will not always worry about the questions of where to move and how to move.

If the whole building is for rent, it is easier to do management. But how to do management for so many dwellings in different location is kind of problem. We have the solutions for the management work below.

1. Some of the real estate companies have the departments or subsidiary companies for property management and service. For these companies, they don’t have any difficulties. Their subsidiary companies can help to maintain the dwellings and help to collect rental payments.

2. For the real estate companies which don’t have property service, they can use outsourcing. Each property has the property management company. The real estate companies can outsource all the service for the rental part to those companies, even for signing rental contracts and rental payment collection. The only thing the real estate company should do is to clear the balance amount each month or each year.

3. The real estate companies which don’t have property service can also manage all the rental dwellings themselves. For the daily maintenance, they may pay the maintenance fee to the property management companies as the same as other owners, so for this part they don’t have anything to worry about. For the other issues, they can have a team in the city to manage. The team is responsible for inside maintenance, change fitments, contract signing and also rental payments collection. If there is any dispute with the tenants, this team should also in charge to solve the problem.

7.3 Rent to buy

A lot of people have the earnings or will have earnings soon, but do not have enough cash deposit. For example the new graduates. For this group of people, they will be able to buy a dwelling in the future. We can refer to the situation in UK here. The tenants will have the priority to buy the dwellings in the future. Then a rent to buy contract can be used.

The tenants can have a certain period of time (normally three to five years), and during this period, the tenants can choose to buy the dwellings. The price of the dwelling will be set at the beginning in the contract. 1% or 2% of the price will be the deposit the tenants have to pay at the beginning. The rent for the rent-to-buy contract will be higher compare to the market rental level. But if the tenants choose to buy the dwelling, the rent can be returned or partly returned (depends on when the decision is made) to be down payment. If the tenants don’t choose to buy until the
end of the period, the landlords have the option to evict them and keep all the payments. The tenants do not have the right to rent the dwellings to others if they have not bought the dwellings yet.

This is a good way for the real estate companies to sell dwellings. It will help the real estate companies to find potential buyers. Although the dwellings are not sold at once, the real estate companies can get stable cash inflow every month, and get the payment for the total price at the latest the end of the period.
8. The profitability of leasing

Is leasing better than selling the dwellings? Or is leasing better than buying? To answer these questions, we have to set up models. The author picked dwellings in both high housing price and low housing price districts to do the compare.

8.1 Model A

The dwelling A locates where Yanta district connects with Qujiang district. The price at the beginning of 2005 is CNY 4300 per square meter (sqm), and in the end of 2008, the price reach CNY 6800/sqm. The monthly rental fee for the dwelling of 55 sqm is about CNY 1500.

8.1.1 From the aspect of the real estate company

If the real estate company chooses rent out the dwelling from the beginning of 2005 for four years and sell at the end of 2008, how much present value the company can get? The monthly maintenance fee is CNY 1/sqm, and for a 55sqm- dwelling is CNY 55. The normal fitment for this size’s dwelling is around CNY 55000, electrical device included. We assume a team of 5 persons can manage 200 dwellings; the average monthly salary for each person is CNY 3000. So the salary cost for the property management work of each dwelling is CNY 900 per year. The average yearly interest rate is 6.642%.

<table>
<thead>
<tr>
<th>Date</th>
<th>Interest rate for 3-5 years (%)</th>
<th>Days in use for each rate Jan. 2005- Dec. 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>23/12/2008</td>
<td>5.76</td>
<td>8</td>
</tr>
<tr>
<td>27/11/2008</td>
<td>5.94</td>
<td>26</td>
</tr>
<tr>
<td>30/10/2008</td>
<td>7.02</td>
<td>28</td>
</tr>
<tr>
<td>09/10/2008</td>
<td>7.29</td>
<td>21</td>
</tr>
<tr>
<td>16/09/2008</td>
<td>7.56</td>
<td>23</td>
</tr>
<tr>
<td>21/12/2007</td>
<td>7.74</td>
<td>270</td>
</tr>
<tr>
<td>15/09/2007</td>
<td>7.65</td>
<td>97</td>
</tr>
<tr>
<td>22/08/2007</td>
<td>7.38</td>
<td>24</td>
</tr>
<tr>
<td>21/07/2007</td>
<td>7.20</td>
<td>32</td>
</tr>
<tr>
<td>19/05/2007</td>
<td>6.93</td>
<td>63</td>
</tr>
<tr>
<td>18/03/2007</td>
<td>6.75</td>
<td>62</td>
</tr>
<tr>
<td>19/08/2006</td>
<td>6.48</td>
<td>211</td>
</tr>
<tr>
<td>28/04/2006</td>
<td>6.12</td>
<td>113</td>
</tr>
<tr>
<td>29/10/2004</td>
<td>5.85</td>
<td>482</td>
</tr>
</tbody>
</table>

Source: Industrial and Commercial Bank of China
When we calculate the present value, we may simplify that the company get rent and pay cost at the beginning of each year. Then we can get the table below.

<table>
<thead>
<tr>
<th>Period</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitment</td>
<td>-55,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
<td></td>
</tr>
<tr>
<td>Maintenance cost</td>
<td>-660</td>
<td>-660</td>
<td>-660</td>
<td>-660</td>
<td></td>
</tr>
<tr>
<td>Salary for management team</td>
<td>-900</td>
<td>-900</td>
<td>-900</td>
<td>-900</td>
<td></td>
</tr>
<tr>
<td>Price of selling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>374,000</td>
</tr>
<tr>
<td>Present Value at 6.642%</td>
<td>-38,560</td>
<td>15,416</td>
<td>14,456</td>
<td>13,556</td>
<td>289,173</td>
</tr>
<tr>
<td>Net present value</td>
<td>294,041</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If the company sells the dwelling with the price CNY 4300/sqm in 2005, it may get in total CNY 236500 at the beginning of 2005. Compared to leasing, the company gets 57541 CNY less present value.

So for dwelling A, leasing is better than selling from the aspect of the real estate company.

8.1.2 From the aspect of the tenant or buyer

If the person wants to buy the dwelling A, the total price was CNY 236500 in 2005, and the fitment was CNY 55000. The person has to pay maintenance cost of 660 per year. If the person sells the dwelling at the end of 2008, he or she can get CNY 374000. The present value of the housing cost in this case is like below.

<table>
<thead>
<tr>
<th>Period</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitment</td>
<td>-55,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance cost</td>
<td>-660</td>
<td>-660</td>
<td>-660</td>
<td>-660</td>
</tr>
<tr>
<td>Price of buying</td>
<td>-236,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price of selling</td>
<td></td>
<td></td>
<td></td>
<td>374,000</td>
</tr>
<tr>
<td>Present Value at 6.642%</td>
<td>-292,160</td>
<td>-619</td>
<td>-580</td>
<td>-544</td>
</tr>
<tr>
<td>Net present value</td>
<td>-4,730</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

If the person want to rent the dwelling A for four years from 2005, he has to pay the rental fee of CNY 18000 each year. The present value of the housing cost is like below.

<table>
<thead>
<tr>
<th>Period</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>-18000</td>
<td>-18000</td>
<td>-18000</td>
<td>-18000</td>
</tr>
<tr>
<td>Present Value at 6.642%</td>
<td>-18,000</td>
<td>-16,879</td>
<td>-15,828</td>
<td>-14,842</td>
</tr>
<tr>
<td>Net present value</td>
<td>-65,548</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
From the calculation, we can see the housing cost is CNY 60818 more if persons choose rent.

8.2 Model B

The dwelling B locates in Weiyang district. The average price for the building is CNY 1700/sqm in April 2005. In March 2009, the average price is CNY 2600/sqm. The monthly rental fee for the dwelling of 84 sqm is about CNY 1200.

8.2.1 From the aspect of the real estate company

The monthly maintenance fee is CNY 7 per household. The normal fitment for this size’s dwelling is around CNY 60000, electrical device included. We keep the same assumption for the property management work with dwelling A: salary cost for each dwelling is CNY 900 per year. Then we can do the calculation for the present value if rent out the dwelling from April 2005 for four years. We may use the same interest rate as Model A for this calculation which is 6.642%

<table>
<thead>
<tr>
<th>Period</th>
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<th>1</th>
<th>2</th>
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<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitment</td>
<td>-60,000</td>
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<tr>
<td>Rent</td>
<td>14,400</td>
<td>14,400</td>
<td>14,400</td>
<td>14,400</td>
<td></td>
</tr>
<tr>
<td>Maintenance cost</td>
<td>-84</td>
<td>-84</td>
<td>-84</td>
<td>-84</td>
<td></td>
</tr>
<tr>
<td>Salary for management team</td>
<td>-900</td>
<td>-900</td>
<td>-900</td>
<td>-900</td>
<td></td>
</tr>
<tr>
<td>Price of selling</td>
<td></td>
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<td></td>
<td>218,400</td>
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<tr>
<td>Present Value at 6.642%</td>
<td>-46,584</td>
<td>12,580</td>
<td>11,797</td>
<td>11,062</td>
<td>168,865</td>
</tr>
<tr>
<td>Net present value</td>
<td>157,720</td>
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<td></td>
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</tbody>
</table>

If the company sells the dwelling with the price CNY 1700/sqm in 2005, it may get CNY 142800 in April 2005. Compared to leasing, the company will get CNY 14920 less present value.

So for dwelling B, leasing is also better than selling from the aspect of the real estate company.

8.2.2 From the aspect of the tenant or buyer

If the person wants to buy the dwelling B, the total price was CNY 142800 in 2005, and the fitment was CNY 60000. The person has to pay maintenance cost of CNY 84 per year. If the person sells the dwelling at the end of March 2009, he or she can get CNY 218400. The present value of the housing cost in this case is like below.
If the person want to rent the dwelling B for four years from April 2005, he has to pay the rental fee of CNY 14400 each year. The present value of the housing cost is like below.

<table>
<thead>
<tr>
<th>Period</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>-14,400</td>
<td>-14,400</td>
<td>-14,400</td>
<td>-14,400</td>
</tr>
<tr>
<td>Present Value at 6.642%</td>
<td>-14,400</td>
<td>-13,503</td>
<td>-12,662</td>
<td>-11,873</td>
</tr>
<tr>
<td>Net present value</td>
<td>-52,439</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We can see the housing cost for rent this dwelling is CNY 18198 more than buy the dwelling.

### 8.3 Results for Model A and Model B

From the aspect of the real estate companies, both of the models show leasing is better than selling. It is no doubt that the real estate companies can earn more from the rental market.

From the aspect of the tenants and the buyers, the housing cost is more if leasing. However we should also notice the housing cost of the first year for both models. If the person rent the dwelling, he or she only has to pay monthly rent in advance. If buy the dwellings, 20% of the total price had to be paid by cash and the remained part could be borrowed from the bank. The total cash the person had to pay for dwelling A in the beginning of 2005 was CNY 47300 + CNY 55000 = CNY 102300; and for dwelling B in the beginning of April 2005 was CNY 28560 + CNY 60000 = CNY 88560. Both of the amounts are not small amounts. As it was mentioned in the chapter 3, most of the tenants in China either have low income, or are new graduates just begin to work. Any person who considers about rent normally does not have such big savings. So leasing is a good choice for this group of people.

The difference of the housing cost between leasing and buying has much to do with how much the price changes. The trading market is very hot these years, so the price increases a lot every year. If the trading market will be cooled down, then the housing cost for leasing will be less than buying.
9. How to develop the rental market in different districts?

9.1 The CBD and the districts close to the CBD

In the city center, many old buildings are dismantled recently; new high buildings, squares and big roads take the place. We can see the advertisements for leasing out office rooms and stores all over the city center. The city center becomes more and more crowded. Although living in the city center is very convenient for shopping and entertainment, it is lack of green land and water. The development for residential market slows down in the center. However we can develop the residential market in another way. Combine the residential with the office part, to develop the residential rental market. While develop office buildings, some of the offices can be changed into residential use. High income young people are the potential tenants.

Young people, who just begin to work, don’t have so much saving to buy dwellings. But most of them want to live separately from their parents. They prefer places with more entertainment facilities, where there are restaurants, night clubs, and massage and spa places. So city center is the best choice. However city center not suits all the young people, because the price of the land is high, the rent should be high. Not all the young people can afford the high rent, that’s why only young people with high income are the target.

The size of the dwellings should be small, can be one-room dwelling. There are two reasons. First, the price of the land in the city center is high, if the dwelling is big, the rent will be too high. Even the target group people have high income; they will not spend so much for dwellings. Second, the young people will not spend much time at home. They spend their day time at the offices, dinner time at the restaurants, other free hours go for relax. So there will not be many activities in the dwellings.

Small dwelling could also be comfort for live if it has good structure and suitable furniture. For example, make the bath room and the kitchen more compact, and then the room will be bigger for activities. Use snack table, one-seat sofa, single bed and other necessary furniture with small size in the room, then the person living here will feel convenient but not so crowded.

The term for each rental period will not be long. Because in one or two years, the young people maybe will have enough saving to buy dwellings, or they will think about get marry and have a child. At that time, the dwellings will be too small for them, and they will also prefer other environment which suits family life.
9.2 The Yanta district

In this district, there are a lot of famous schools. Almost all the parents hope their children can have good education; they choose schools very carefully, so the schools in Yanta district are very popular. The children who live close to the primary schools or secondary schools have the priority to be matriculated as their students. In order to send the children into the schools which the parents like, some of the families move to the area where close to the schools before they hand in the application. After the children have registered in the school, their parents still would like to live close to the schools, because in this case the children could be taken good care of. For example, they can have lunch at home everyday; they can arrive home earlier in the afternoon and have more rest… Some secondary schools have dormitories, but the parents prefer the children live home. The parents always think if so many children live together, they will not keep their mind on study, so there will be better environment for study at home. Since there are so many reasons for the families with children to live close to the school, the rental market in this district should be developed as the response of this demand.

The size of the dwellings should be suit for the one-child families with school age children. Three-room dwelling will be popular. One room is for the parents as bed room, one is for the child as bed room and study room, the other is living room. The term for the rental agreement can be fixed term of three or six years, or even longer. Because in China primary school takes six years, middle school and high school take three years each. The schools in Yanta district are famous and hard to be enrolled; normally the children will not transfer out. Once the family has chosen a place close to the school, they will live there until the child has graduated.

If a family has a school age child, the family probably has its own dwelling. The couple must have worked for at least ten years, when their child is seven years old. Most of them think about buying dwelling at the latest when they have worked for five, six years, because they have enough saving and stable income at that time. When they rent dwellings in the area close to the school, they must be glad to rent out their own dwellings. So the real estate companies can give a special offer to the tenants: help them to find tenants for their own dwellings. The companies can not only help them to find tenants but also prepare the rental agreements. This service can be free of charge for the first time; the next time, can ask for a market price with a discount. The companies also can help their tenants to do maintenance for their own dwellings. Some people don’t want to rent out their own dwellings, because they are afraid of damages, and don’t want to spend extra time and energy on the dwellings. If the real estate companies can help to do the maintenance, they will be happy to pay some monthly or annual fee to the companies.
9.3 The Weiyang district

The province government will move their offices from the city center to the Weiyang district. This is a good chance for developing the residential market of this district.

Since more people will work here, more people will move here in the future. But in the beginning, people will not buy dwellings here, because the environment in this area is not so attractive, and they don’t believe the dwellings are worth the price. For the people who own dwellings in other districts, when they move here, they will not sell the dwellings they have and at the same time rent in this district. After the government offices moved in, there will be a new center. Then the area will be better developed. Shopping malls, restaurants, schools, hospitals and gardens...all the facilities will be constructed better. At this moment, the tenants will begin to consider about whether should buy dwellings here.

The real estate companies can construct whole buildings for rent, and also take the way that UK uses. If the tenants rent the dwellings for more than 1 year, they can get a discount on the buying price. If they live there for longer time, they can get more discounts. Of course the real estate companies have to calculate how much rent and discount is suitable, and it will be profitable for both the real estate companies and the tenants. It will be helpful for the development of this district also.
10. How can the government help the rental market?

If we put this question on the market: to rent or buy a dwelling which one is better, it is hard to get the answer. It depends on the knowledge of the residents, their economic conditions and their preferences. For some of the residents who have bought dwellings, they maybe did not consider about the risk of interest rate and the risk of unemployment. They maybe did not consider about the opportunity cost also. If they have realized these things and they also have the ability to compare, I am sure a lot of them will change their ideas and make different decisions. Although all the decisions are made by the residents themselves, it does not mean that the government has nothing to do with the situation of the market. On the converse, the government can use the way that changing some policies to lead the residents think in different way, and then help the real estate market become a more mature market.

10.1 The central government

The real estate companies have not realized the rental market is also profitable as the trading market, since the price of the trading market is very attractive for them. On the other side, the government needs the real estate companies to develop the rental market; otherwise the supply of the market will not be enough. New policies has to be provided to attract the real estate companies to the rental market, make the real estate companies to be the main force of developing the rental market.

One suggestion is: the government can consider about lower the tax rate for the rental market. For example the Increment Tax on Land Value and the Land Use Tax in Cities and Towns. Lower the rate of Increment Tax on Land Value for the rental market can make leasing more profitable; in this case the real estate companies may change their plans from selling to leasing. Lower the Land Use Tax in Cities and Towns if the land is for rental use, can not only attract the real estate companies to the rental market, but also lead the companies to the area the government wants to develop. The government cannot force any real estate company to develop the area they want to develop. But if the government lowers the Land Use Tax in Cities and Towns for that area, probably some real estate companies will go to develop it. When the central government has a decision of decreasing the tax rate, the local government can execute the decision according to different situation in different cities.

Another suggestion is a certain percentage or amount of the Corporate Income Tax can be returned every year for the rental income part. The return part can be more if the rental income is higher than a certain percentage of the total income of the company.
In a word, if the real estate companies can get more advantages in rental market than in the trading market, more and more real estate companies will begin to develop this market. Of course the government will lose some tax income. But the market will bring more than this part of tax income.

The well running of the rental market needs the central government helps to build the legal system. Any rental contract cannot leave the support of the law. Some clauses in the standard contract can be written into the law, so that they don’t need to be always mentioned in a contract. For example, how the rent increases. If we want the rental market to be stable, the rent should be well controlled. The law can regulate the maximum percentage of the rent increasing every year, and in which case the rent can increase. To protect both the landlords and the tenants, the law can also regulate cases that the landlords can evict tenants.

10.2 The local government

I have mentioned in the chapter 5 that the local government of Xi’an has some projects for low income families. However the fund is not enough; and the projects can help a very limited number of families. The fund of 2.5 million can only build 20 dwellings each year. If the local government will change the method from build the dwellings for low income families to give subsidies to these families and let them rent dwellings from the market, what will happen? We can use CNY 1400 as the monthly rental cost for each family to calculate. This fund can support 150 families to rent dwellings from the market. The average rental fee in Xi’an is less than CNY 1400 actually, so more families can get help every year. It is a more efficient way to solve the housing problem of low income families.

The development of the rental market should be encouraged by the local government. When the real estate companies apply for the using permission of the land, the local government can give priority to the companies which have the plan to build rental dwellings. The price of the land can also be different for different use. If the land is for rental use, the price can be lower than for trading use. However, the local government should always avoid the rental area be secluded from the areas around it. The tenants normally don’t have enough savings to buy dwellings. They either have lower income, or have income for short period. As it is discussed in Chapter 3, if there is a big area for rental dwellings, risks for discriminations will come. That means the rental dwellings should be combined with dwellings for sell in any area of the city. If these two kinds of dwellings are mixed in different areas, the tenants and the owners in the same area will have the same living environment. People will not refuse to rent dwelling because of worse environment.

The local government can also mark out an area to build rental dwellings. The government can let the real estate companies bid for the project. The company which can provide best layout and best combination of families with different income level
can get the project. In this kind of projects, the companies can get some advantages from the local government. For example, loan with low interest rate, or stable tenants who get subsidies from the local government, etc.
11. Conclusion

We can imagine what will be changed if there are some real estate companies doing business in the residential rental market.

There are more long term rental dwellings on the market. The rental dwellings are in good condition. The rental fee of the dwellings and the terms of the contracts are restricted by the rules of the market. Tenants don’t worry about rents increasing unreasonably or to be evicted without disobeying the rules. People are more willing to choose leasing. The companies have to improve the maintenance work of the buildings in order to attract the tenants. The owners and the tenants are mixed in the same building or same residential area. In this case, the owners also can receive the improved service from the real estate companies.

Some social problems can be relieved while real estate companies begin to develop the rental market. The real estate companies can help the government to solve the housing problem of low income families. They collect funds in different ways and construct more efficiently. The living condition for low income families can be improved faster than before. The development of the rental market can also provide a lot of working positions, for example, the real estate companies will organize a group of employees to manage the properties for rent. They take care of the rent collection, cleaning works for the public spaces, repairing and other services that the tenants require for.

In some of the big cities, the prices of the trading market are too high. It enlarged the distance between the rich and poor. The government tried to control this by changing the interest rate and the tax rate, but the progress is not so obvious. If people will turn to rent dwellings when the price in the trading market is too high, the demand in the trading market will decrease. In this case the increasing of the price will be slowed down. In another word, the development of the rental market can help to control the over hot situation of the trading market.
Reference


Annex

I. Argument cases

1. Miss Li, she rented a dwelling. The heating was not good, so she asked the landlord to solve the problem. But the landlord didn’t solve the problem in time, so she stopped paying rent. However the landlord shut off the water and the electricity as reply, instead of fixed the heating problem. Miss Li thought the heating fee was included in the rent. If the landlord could not fix the heating problem, he should return part of the rent.

2. Miss Li saw an advertisement about a dwelling for rent, with very nice location but not high rent. She signed contract with the landlord and paid rent for a quarter. However after she moved in for one week, another person knocked at the door and asked for rent. The person showed his ID and the certification of owning the dwelling, and then Miss Li realized this is the real landlord, and the former one is just a tenant. Miss Li had a lesson that the tenant must check whether the landlord is the real owner when rent a dwelling.

3. Mr. Zhang rent his own dwelling out. When the contract expired, he went to check the dwelling and found some of the electric devices missing. The tenant said they were not in the dwelling since the very beginning, and refused to pay. Mr. Zhang thought next time the devices must be listed in the contract.

4. Mr. Liu installed an air conditioner in the room which he rent, because during the summer he could not fall in sleep without it. When he moved, the landlord asked him to remove the air conditioner. But there was a hole on the wall after the air conditioner was removed. The landlord asked him to pay for fixing the hole also. Mr. Liu thought the best way was leave the air conditioner on the wall and the landlord paying him some money for the device.

5. The person signed a rental contract with two years’ period. The landlord sold the dwelling during this period without notice this tenant. The new owner wanted to move in, but the tenant refused to move because the contract was not expired. At last the former owner helped the tenant to find new place to live and paid the moving fee to the tenant. This tenant asked help from some experts of law, and know he has right to live in the dwelling until the contract expire. So he asked for compensation for moving.

6. Mr. Chen signed a rental contract with one year’s period. The landlord promised
he can live in the dwelling for at least three years. The contract can be renewed after a year. However, one year later, the landlord asked him to move. The three years’ period is just an oral agreement, and there is no proof for this. Because Mr. Chen did not prepare for moving, he had to find new place in short period. He wasted extra money and time. He got the conclusion that all the agreements should be write down in the contract.

7. Ms. Wang rent her dwelling to a young girl. The girl left after half year. But Ms. Wang received a bill of several hundred for the telephone fee. She forgot to check it before the girl leave. She said next time she would ask for a deposit and hold it until checked all the bills.

8. Someone broke into the dwelling with a key, and take away all the valuable things during the rental period. Then the tenant regretted about had not changed the lock when he moved in.

9. Tenant A think the dwelling is too big for her, so she found tenant B to share the dwelling and informed the landlord. However, tenant B caused a fire. The landlord think tenant A should answer for this, but tenant A think the landlord agreed to rent the dwelling to tenant B, so the landlord should also share the loss.

10. While the water heater stopped working, the tenant asked the landlord to repair. But the landlord thought he didn’t use this machine, so the tenant should pay for the repair work or change a new one. The tenant thought the water heater was old when he moved in, and it was normal that an old machine stopped working. He also thought the status of the electric machines should be described in the contract, the status should be checked by the tenant before move in; who was responsible for the broken of machines should also be written in the contract.