

A model for inclusive, pro-poor urbanization? The credibility of informal, affordable “single-family” homes in China

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ABSTRACT

Internationally, there is considerable debate on the desired institutional form of informal housing, i.e. whether it needs to be formalized, prohibited or left informal. This debate is driven by demands for better functioning markets, urban planning, and sustainable development. Contrarily, we argue that the endogenous emergence of informal, untitled housing in China (known as Small Property Rights Housing or SPRH) may constitute a successful, albeit unintentional example of inclusive, pro-poor urbanization. To substantiate the argument, we examine how the property rights of SPRH function. In so doing, we draw on the “credibility thesis” and its underlying theory. This study is based on qualitative and quantitative fieldwork conducted in medium and large-sized cities distributed over North, Middle and South China. Despite lacking formal title, SPRH enjoys significant credibility ascertained through: 1) investment; 2) access to credit; and 3) the perceived likelihood of eviction. Noteworthy, most respondents (93 %; n = 291) deem themselves owners, with the rights to inhabit (98 %), rent out (87 %), and sell (58 %). Lastly, opposed to the notion that informal housing equals low-quality, disordered slum housing, SPRH functions as affordable, single-family homes, consisting of professionally-built apartment buildings with multiple-room units averaging over 80 m².

1. Introduction

Lack of tenure security is often regarded as a distinguishing feature of informal housing and settlements (UN-Habitat, 2006, xi). Across different countries, informal settlements go by different names, such as the Brazilian “favelas”, Peruvian “barradas”, Indonesian “kampung”, or “slums” in Anglophone countries (Sietchiping, 2008). In China, such settlements are known as “urban villages” (or *chengzhongcun*) while informal housing is dubbed “*xiaochanquan fang*”, which translates as “Small Property Rights Housing” (hereafter: SPRH). Its name derives from its formal, opposing pendant, i.e. housing with “large rights” or “full ownership.” SPRH is generally located in “urban villages” enclosed within municipal boundaries or in informal, gated communities at the peri-urban fringe. Their scale and proportions are massive, with some reports estimating it accounts for over 30 percent of the total housing stock in urban China (Sun and Ho, 2018).

Extensive research has been conducted on Chinese informal settlements, primarily focusing on the rental market, tenants’ livelihood

(often migrant workers), and the (positive) impact of urban villages on migrants (Ma & Xiang, 1998; Wang, Wang, & Wu, 2009; He, Liu, Wu, & Webster, 2010; Liu, He, Wu, & Webster, 2010; Li & Wu, 2013).¹ Instead of renting, however, an increasing number of low and middle income groups has purchased informal housing over the years (Liu, 2008). In this light, studies have examined housing prices in local informal markets, such as in Beijing and Shenzhen (He, Wang, Webster, & Chau, 2019; Lai, Zheng, Choy, & Wang, 2017; Zhang & Zhao, 2018). At the same time, few studies investigate SPRH by examining the buyers themselves, which is the scholarly gap that the current study aims to fill.

Yet, there is another reason why this study could make a significant contribution: the Chinese government launched a major effort to title real estate, which includes all urban and rural land, the built structures on top, and the resources and infrastructure underneath. This formalization effort, unprecedented in scope and resources, was launched since 2013 and has profound implications for urban and regional planning. At the same time, the predecessor of the competent and,

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¹ Some studies also examined the varying stakeholders’ coalitions that led to the development of informal housing (Paik & Lee, 2012; Zhao & Zhang, 2016).

greatly for this purpose, newly established Ministry of Natural Resources² ruled that SPRH ought *not* be formalized.

The debate on the necessary (or desired) institutional form of informal settlements and housing is a core, albeit divisive topic. Some maintain formal property rights are conditional to positive institutional performance, as measurable, for instance through investments, income, or asset value (e.g. Deininger, 2003; Mooya & Cloete, 2007). Others, indicated the importance of the *perception* of rights as opposed to an objectifiable form (Calderon, 2004; Gilbert, 2002; Varley, 1987).

In this context, the emerging literature on credibility might be of relevance, which argues to move beyond the form of institutions – be these formal or informal; private or public; and secure or insecure – in lieu of studying their function (Davy, 2018; Ho, 2017; and Miyamura, 2016). By drawing on the “credibility thesis” (explained below), we examine the question whether titling or formal registration matters from the perspective of SPRH buyers. Put differently, could the property rights of informal SPRH be perceived and experienced as credible by those who buy it? And if so, could SPRH perhaps provide us with an alternative example of pro-poor, inclusive urbanization?

Following this introduction, Section 2 reviews how the (neo-classical) arguments in favor of formal institutions and property rights create a triple paradox, while discussing in greater depth how credibility and institutional function might provide a more plausible, theoretical framework to account for it. Section 3 presents the methodology, sample features and research sites. The empirical results of the analysis of the survey and interviews are presented in Section 4, while the theoretical ramifications of this study are discussed in the final section.

2. A review of credibility theory: Positioning, ontology and methodology

2.1. A triple argument on formality

UN-Habitat (1997: 43) defines an informal settlement as housing units “constructed on land that the occupants have no legal claim to” and “[u]nplanned settlements and areas where housing is not in compliance with current planning and building regulations.” From this perspective, SPRH is evidently informal. For one, only state-owned, urban land is designated for commercial construction of residential property, while SPRH is built on rural collectively owned land. For this reason, it cannot be granted formal title (Huang & Tao, 2015). In addition, SPRH does not comply with relevant regulations, such as the Urban and Rural Planning Law.³

De Soto (2000) is arguably regarded as one of the main proponents of the formal title of housing, maintaining that the poor only hold assets in informal, defective forms, which he termed “dead capital”. He, of course, is in turn influenced by the neo-classical premise that the form of institutions (formal, and by extension, also private and long term property rights) is a precondition for economic growth (Alchian & Demsetz, 1973; Coase, 1960). This premise is entwined with the notion that institutional change is a teleological, Rostowian process from traditional, informal, and common property rights to modern, formal and private property rights (North & Thomas, 1973).

De Soto and his advocates point to several benefits of formal title. For our purposes, we will focus on three. One, it reduces residents’ fear of eviction, and therefore, their sense of tenure security. Two, as a result

of the first benefit, individuals are more inclined to invest (i.e. home improvements and renovations).⁴ Three, it enhances the access to credit, more specifically mortgage, as formal title allows the use of the property as a collateral (Deininger, 2003; Galiani & Schargrodsky, 2006; Mooya & Cloete, 2007).

2.2. The paradox of formality

Contrarily, when examining the literature on informal housing and settlements, a triple paradox becomes apparent. The argument favoring formal property rights is contradicted on three accounts:

- 1) Tenure security is found to be a measure of actors’ perceptions thereof, rather than an “objective” indicator related to institutional form (2004, Angel, 1983; Payne, 2001; Martin, 2003).⁵ Put differently, social and economic actors may feel perfectly secure *without* formal rights;⁶
- 2) Regardless of the informality of tenure, a geographically wide range of studies, such as on Peru (Calderon, 2004), Mexico (Varley, 1987), and Hong Kong (Smart, 1986) demonstrate that residents do invest in and improve their homes;
- 3) Lastly, research shows that formal rights may not improve residents’ access to credit (Buckley & Kalarickal, 2006; Payne, Durand-Lasserve, & Rakodi, 2009), which, again, has been ascertained for a wide range of geographical settings, such as Columbia (Gilbert, 2002) Peru (Field & Torero, 2006), Botswana, Trinidad and Tobago (Home & Lim, 2004).

To account for these paradoxes, a steadily growing group of scholars has called for a recalibration of the research that is (perhaps, overly) focused on the form of institutions – be they formal, informal, public, private, or collective. Instead, it is argued that one should move away from analyses in which we “merely describe the characteristics or attributes” of institutions (i.e., form variables) when, instead, it is the “performance or quality measures” (i.e., function variables) that are plausibly more important (Aron, 2000:128). Researchers echoing this call include Fold, Allotey, Kalvig, and Moeller-Jensen (2018); Agrawal, Wollenberg, and Persha, 2014: 277), Dixon (2012) and Chang, 2007: 19).

2.3. Towards a new paradigm of credibility

In the context of the above, the credibility thesis posits that:

“[W]hat ultimately determines institutions’ performance is not their form in terms of formality, privatization, or security, but their spatially and temporally defined function. In different wording, institutional function presides over form; the former can be expressed by its credibility, that is, the perceived social support at a given time and space” (Ho, 2014:13-14) (see: Introduction to this Special Issue).

The concept of credibility, researched in China under the notion of “kexindu” (Qian & Hong, 2015: 26; Huang & Rong, 2014: 9; Chen & Liu,

⁴ Equally implying that “dwellers without titles are assumed not to enjoy a high enough level of tenure security to invest significantly in their housing” (Van Gelder, 2007, 220).

⁵ This led others to argue that reducing residents’ fear of eviction could be more important to increase the perceived security of tenure (UN-Habitat, 2007).

⁶ In this context, research has sought to pinpoint the factors that affect perceived tenure security. These include the duration of occupation, the settlement’s size, level of service provision, perception of past and current policies, cohesion of community organization, and employment opportunities (Kiddle, 2010: 888; Calderon, 2004; Durand-Lasserve and Royston 2002; Porio and Crisol 2004; Savant-Mohit 2004; Taylor 2004; van Gelder 2007).

² Before March 2018, it was known as the former Ministry of Land and Resources, which later subsumed the planning departments and duties of the National Development and Reform Commission, the Ministry of Housing and Urban Rural Development, the Ministry of Agriculture, the Ministry of Water Resources and the State Bureau of Forestry.

³ It needs mentioning that SPRH also refers to the housing, which is (illegally) sold to individuals whose formal residence (or *hukou*) is not registered in the corresponding rural collective or village.

2011), can be traced back to the 1970s, when it was used as a lens to study the effectiveness of human action in different fields, ranging from economics (Fellner, 1976) to sociology (Altheide & Gilmore, 1972). However, as Blackburn and Christensen (1989):2) noted: “The concept of credibility is not well defined (...) and has received different interpretations.” A bone of ontological contention is whether credibility can be *exogenously* designed and enforced (in effect, enforced *as designed*), or whether it is achieved *endogenously* (enforced with *unintended* consequences, Grabel, 2000). Markedly, the former position (on the exogeneity of human action) comes with an immediate contradiction:

“[I]f institutions are nothing more than codified laws, fiats, organizations, and other such deliberate human devices, why can’t badly performing economies design (emulate) ‘good’ institutions and implement them?” (Aoki, 2007: 2)

Precisely because of the tantalizing question aptly posed by Aoki above, we believe that credibility needs to be redefined:

- One, the thesis’ focus on institutional function in lieu of form rejects axioms of exogeneity, externality or rational agency, because credibility is a measure of how institutions are formed and perceived as a result of autonomous, endogenous patterns of bargaining, conflict and power.
- Two, credibility excludes that a “fully credible institution” – if that exists – would be conflict-free, stable or harmonious. Instead, credibility presumes an ever-present destabilization of institutions due to conflict. Put differently, conflict is “inherent in any property rights arrangement, even those with important efficiency implications” (Libecap, 1989:2).
- Three, credibility is best conceptualized as a continuum varying between “fully” or “partially credible” and “non-credible” or even “empty” institutions. Moreover, that continuum is spatio-temporally defined, implying that any credible institution may well be non-credible or empty at other times and spaces.

Considering the three dimensions, we define credibility as:

The perception of endogenously, autonomously shaped institutions as a common arrangement.

Around the position forwarded by the credibility thesis, studies have examined the function of institutions as applied to a variety of sectors that include, but are not limited to, water management (Gomes & Hermans, 2018; Mollinga, 2016), notaries and property (Monkkonen, 2016), real estate (Mengistu and Van Dijk, 2018), and informal, artisanal mining (Fold et al., 2018). The theoretical approach posited by the credibility thesis has obvious synergies with, for instance, the seminal studies by Payne (2004); Varley, 1987, 2002), and (Doebele, 1983) who propose that tenure security is more a state of mind (i.e. perceived or targeted security) than a measure of the form of institutions.

2.4. Measurement of credibility

Apart from the ontological issue of credibility, another critical question revolves around its measurement. In this context, Fan, Yang, Liu, and Wang (2019: 214), duly noted that:

“The ability to measure credibility is key to determining whether the credibility thesis has been established and is feasible (...). Consequently, we need more standardized quantitative indicators for the measurement of credibility before we can measure institutional credibility objectively and provide reliable evaluations of institutional efficiency.”

Noteworthy in this light is Davy’s study (2018: 861) in furthering the credibility thesis as a “tool for explaining and evaluating different degrees of (in)formality”, for which he suggested a set of parameters under which property is credible, which include: 1) “the property

system serves the social function well”; 2) “the property system addresses the most suitable rights-bearers and duty-bearers, establishes a right to property, and provides venues for settling property claims; and 3) “property claims are widely respected apart from the degree of formality” (Davy, 2018: 861)⁷

In addition to Davy’s work, studies on the theory have led to the development of various methodologies to arrive at the credibility of institutions:

- The calculation of transaction costs (particularly, the ratio of endogenous transaction costs to transaction costs, and that of transaction costs to total cost; Fan et al., 2019);
- Institutional conflict analysis (measurable through proxies, e.g. origin, frequency, nature, length, outcome, intensity and timing; Yang and Ho, 2019; Ho, 2014);
- Assessment of actors’ perceptions of the function of institutions (through use of the FAT Framework or Formal, Actual and Targeted Institutional Framework; Arvanitidis and Papagiannitsis, this volume; Nor-Hisham & Ho, 2016).

Following the latter methodology, this article adopts the FAT framework to examine the institutional arrangements of SPRH in Formal, Actual and Targeted terms (explained below). The method is further refined by adding perspectives through the study of actors’ perceptions on investment, access to credit, and the likelihood of eviction. Having reviewed the theoretical underpinnings of this article, we will now turn to the methodology and survey sample.

3. Methodology

3.1. Pilot, interviews and survey sampling

For the data, we applied multi-angulation, or more in particular, the analysis of information by pooling methods and data sources (Ho, 2017: 12). The following methods were employed: in-depth interviews, participant observation and textual analysis during the pilot phase, to be followed by a full survey to validate and quantify the main findings of the pilot study.

The textual analysis focused on the relevant laws, policies, and regulations at different administrative levels. For the participant observation – carried out in Beijing, Tianjin, Guangzhou and Chongqing – one of the authors participated as a potential buyer interested in purchasing SPRH. In this manner, information was collected about the procedures and workings of the informal property market, while interacting with developers, real estate agents and other buyers. A series of 13 in-depth interviews in Guangzhou and Chongqing was done with representatives of each of the stakeholders: three with developers, three with real estate agents, five with buyers, and two with local government officials. After the pilot was completed, a quantitative survey was executed on the basis of data collected from the aforementioned methods.⁸

The survey tested the H₁ hypothesis, which was purposively *counter-intuitively* formulated as: informal property rights of SPRH are **not** perceived as credible by its buyers.⁹ The H₀ hypothesis was formulated

⁷ Davy’s fourth point, “land policy provides a diversity of land uses with plural property relations” falls outside the scope of this paper and is, in fact, a part of the paper by Liu and Zhang (this special issue).

⁸ The pilot and survey were conducted over a period of 4 months from November 2013 until February 2014. To protect the rights and interests of the respondents, the survey and interviews did not record or store personal data. The research was overseen by the Ethics Officer of the European Research Council and an independent Human Research Ethics Committee of the university. No interview or survey was carried out without informed consent from the respondent.

⁹ In effect, as we assumed on the basis of the literature review that informal property rights would be perceived as credible. Thus, to avoid bias the main hypothesis was formulated in opposition of that assumption.

as its opposite: informal property rights of SPRH are perceived as credible. The sample consisted of 291 non-probabilistically selected buyers and home-owners of SPRH (each representing 1 household),¹⁰ with 50 in Beijing, Tianjin, Guangzhou, Chongqing and Xi'an, 30 in Qingyang and 20 in Nanchang. These seven large and medium-sized cities were chosen to represent China's urban and regional variation. There are various motivations that guided the selection of these cities as shown in Table A1 (see Appendix A).

First, the cities are spread over different macro-regions, thus representing the major geographical differences of the Chinese nation. Guangzhou and Nanchang are located in southeastern China, Chongqing in the southwest, Beijing and Tianjin in the northeast, and Xi'an and Qingyang in the northwest.

Second, the selected sites present different levels of economic development. Based on municipal GDP per capita in 2013, Guangzhou is the highest at 120,105 yuan, followed respectively by Tianjin (101,689 yuan), Beijing (94,237 yuan), Nanchang (65,009 yuan), Xi'an (57,105 yuan), Chongqing (42,615 yuan), and Qingyang (27,790 yuan).¹¹

Three, seen from a provincial level, Beijing, Tianjin, and Guangdong can be classified as receiving areas of migrant workers, while, Shaanxi, Gansu, Jiangxi and Chongqing are sending areas. In the year 2014 it was estimated there were 274 million rural residents migrating to more prosperous cities for employment (National Bureau of Statistics, 2011). Purchasing SPRH is regarded as an optimal option if migrants decide to settle down in the receiving cities.

Four, to curb speculative investment, Chinese cities have set restrictions on the purchase and sale of formal housing (e.g. on the number of properties that can be held per legal person, or the term within which a property can be resold after purchase). These policies affect the accessibility to the formal housing market for low and middle income groups, but at the same time, also vary greatly per municipality. Beijing and Guangzhou have set very stringent policies; Tianjin, Nanchang, Xi'an, and Chongqing also have restrictions, but leave more space than in Beijing and Guangzhou; Qingyang has no restrictions.¹²

Five, Zhao and Zhang (2018): 134) maintain that in Chinese cities there are two basic types of informal development where SPRH plays a significant role: i) the urban village; and ii) informal gated communities. The field sites of this research represent these two types (i.e., SPRH in Beijing, Tianjin, and Xi'an are located in informal gated communities, while the SPRH in Guangzhou, Nanchang, Chongqing, and Qingyang are part of urban villages). See also Plate 1 below.

Although the data from the survey sample cannot be generalized for the total low income and middle income population, it may have a certain representativeness ($n = 291$).¹³ Of the sample, 62 percent were male respondents and 38 percent female respondents; 76 percent were between 21 and 49 years old, 22 percent above 50 years older and 1 percent below 20 years old. Regarding education, 6 percent attended primary school or was illiterate, 55 percent received a high school degree, 38 percent obtained college or a university degree, and 1

percent obtained a PhD degree. As for occupation, the majority of the respondents (75 percent) was employed in the urban informal sector, 16 percent in the urban formal sector, and 9 percent in agriculture. Lastly, in terms of *hukou* (or residential registration status), 57 percent had a local urban registration, while the remaining 43 percent represents those without permanent residential status in the city (distributed as: 19 percent with a local, rural registration; 11 percent with a non-local urban registration, and 13 percent with a non-local, rural registration (see Table A2 Appendix A).

3.2. Data analysis

The analysis of the survey and interview data will proceed in three steps. First, we will consider the basic features of SPRH with reference to its location, the developer, number of floors, size and rooms, and inhabitants. Second, we will proceed to examine the property rights of SPRH along three analytical dimensions, i.e. the Formal, the Actual, and the Targeted, or what may be abbreviated as "FAT" rights (see Fig. 1 below).¹⁴ These dimensions can be condensed in the following questions:

- Formal: What property rights should one enjoy? (e.g., what rights have been officially accorded?);¹⁵
- Actual: What property rights does one have? (e.g., what rights are enjoyed in practice?);
- Targeted: What property rights does one want or believe existing? (e.g., what rights are perceived to be or ought to be in one's possession?)

Third, after analyzing the FAT, we will assess the institutional credibility of SPRH in comparison with three (neo-classical) arguments for formal property: increased investment; greater access to credit and mortgage; and a safeguard against eviction. Based on all of the above, the research process and methodology of this article can be visualized in the analytical framework below (see Fig. 2).

4. Empirical results

4.1. Basic features

The basic characteristics of SPRH will be reviewed around a set of concrete questions: i) where and by whom is it built?; ii) what does it look like?; and iii) how and by whom is it used?

4.1.1. Where and by whom is it built?

Most of the SPRH (47.5 percent) has been built on village construction land, which is formally set aside for public and industrial use (such as for schools, infirmaries, collective enterprises, or village committee offices).¹⁶ Another important portion occupies rural housing land (33.1 percent). This type of land is legally designated for housing by members of the village collective, but misused by tearing down the original farm house and building larger housing or small apartment buildings in its place. The remainder occupies farmland (16.5 percent) and other land (2.4 percent), which generally pertains to wasteland, ditches, roads, or orchards. The two latter types of land are formally meant for agricultural or infrastructural use.

¹⁰ The respondents were thus not randomly selected, but interviewed when people were willing to participate. This was generally done by starting a causal chat with SPRH dwellers in the public spaces of the community. After gaining their trust, they generally became the first interviewees. Through snowball sampling, these interviewees, in turn, facilitated in approaching additional respondents in the community.

¹¹ This includes state council-level administered municipalities, such as Beijing, Chongqing and Tianjin. One Chinese yuan (or RMB) was approximately 0.16 US Dollar during the fieldwork period.

¹² For more information on the effects of the restrictions on the purchase of formal housing, see also (Yan & Ouyang, 2018).

¹³ The estimated number of SPRH is 70 million units (Li, 2014). The required representative sample for a population of this size would amount to 385 households at an error margin of 5 percent and a confidence level of 95 percent. Throughout the paper the actual percentages of the survey are reported, unless there were significant missing percentages.

¹⁴ Practical implications of the FAT Framework are discussed at www.recoland.eu/methodology/fat-framework/.

¹⁵ Formal meaning extending beyond the legal and statutory.

¹⁶ The village committee is the governing body of the village collective, although technically speaking not a part of the government. Within the Chinese administrative system, the village is namely defined as a "self-governing" unit, meaning that the members of its governing body – the village committee – are not paid by the Chinese state.



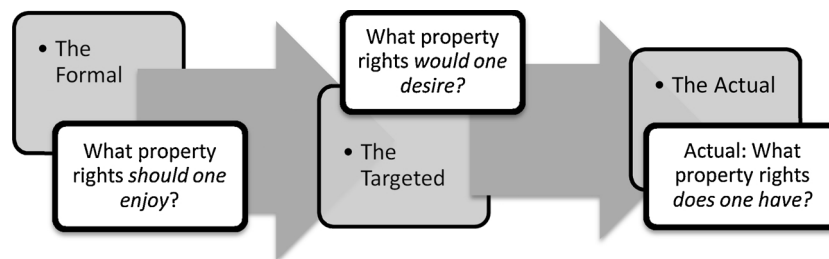
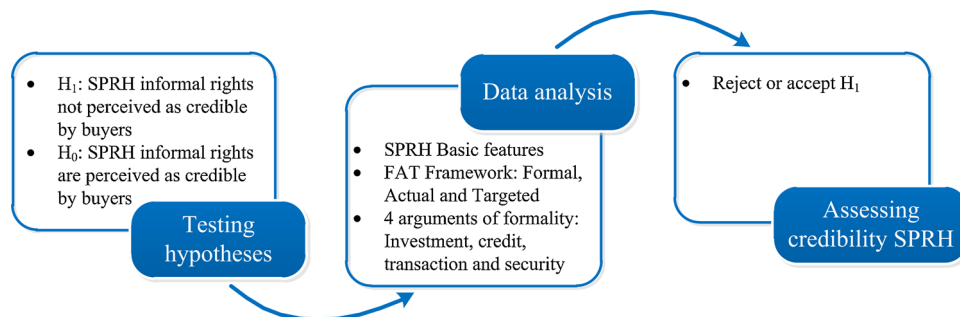
Urban village in Guangzhou



Informal gated community in Xi'an

Plate 1. Two basic types of informal settlements.

Source: taken by author

**Fig. 1.** The FAT Institutional Framework.**Fig. 2.** Research process and methods.

As can be ascertained from Table 1 below, SPRH is built by (in order of importance):

- 1) small-scale county construction companies (42.2 percent);
- 2) town/township construction teams (36.5 percent);
- 3) selling household or village contractors (10.8 percent);
- 4) other ways (6.1 percent);
- 5) provincial-level large construction companies (4.3 percent).

4.1.2. What does it look like?

Contrary to the idea that SPRH consists of crammed, poorly built, and disorderly planned housing units, it actually consists of professionally built constructions. The overall majority of SPRH consists of multi-storey apartment buildings. Over half comprise 7–9 floors (51.7 percent), followed by 4–6 floors (35.1 percent), while another 9.0

percent even has 10 or more floors. Only a small percentage (3.8) has 1–3 floors, with the remaining 0.3 percent consisting of other housing types (e.g. villas). See Plate 2.

Over half contains three (52.9 percent) or two bedrooms (41.6 percent), while only 5.2 percent is a single-bedroom property. As Table 2 shows, SPRH is relatively spacious. The majority (46.0 percent) measures between 81–100 m², and one-third (27.0 percent) 101–120 m². Another 11.8 measures occupies a space between 121–150 m², and 0.3 percent even over 150 m². A small proportion is between 60–80 m², or lower than 60 m².

4.1.3. How and by whom is it used?

One of the noteworthy outcomes of the survey is that over 95.5 percent of the respondents use the SPRH as their own home. Only a very limited proportion uses the SPRH as an investment asset for rental (3.5

Table 1

Builders of SPRH.

Source: this survey

Builder	Cases	Valid %	Cumulative %
Selling household or village contractor (<i>maifang nonghu / cunnei baogongtou</i>)	30	10.3	10.8
Town/township construction team (<i>xiang/zhen jianzhudui</i>)	101	34.7	36.5
County construction company (<i>xianji jianzhu gongsi</i>)	117	40.2	42.2
Provincial construction company (<i>shengji jianzhu gongsi</i>)	12	4.1	4.3
Others	17	5.8	6.1
Total	277	95.2	100.0

**Plate 2.** A gated community of Small Property Rights Housing.

Source: taken by Li Su

percent) or for sale (1.0 percent).¹⁷ In combination with the earlier findings on the size, quality and lay-out of SPRH, it may not come as a surprise that SPRH functions as the average “single family home.”

Interestingly, SPRH functions in this capacity both for *low income*, as well as for *middle income* groups. As reflected in the survey sample, most SPRH buyers consist of the able-bodied working population, including migrants, blue and white collar workers employed at the lower end of the (informal) job market (such as in factories, construction, deliveries, and transportation), but also at a higher end (such as in hotels, restaurants, shops, medium- and small-sized companies, and other services). This heterogeneity of SPRH buyers is corroborated in other research (e.g. Zhao & Zhang, 2018).

4.2. FAT analysis

Having reviewed the basic features of Chinese informal housing, this sub-section continues to analyze its property rights by use of the FAT Framework. We will start by first examining the formal side, or the property rights that have been officially accorded to the buyers of SPRH.

4.2.1. First aspect of FAT framework: the formal

The development of commercial, residential property in China needs to adhere to law along the following: 1) land ownership and use;

¹⁷ This proportion likely concerns the larger-sized units of between 120–150 m² and over 150 m².

Table 2

Size of SPRH.

Source: This survey

Size	Cases	Valid %	Cumulative %
< 60m ²	13	4.5	4.5
60–80m ²	30	10.3	10.4
81–100 m ²	133	45.7	46.0
101–120 m ²	78	26.8	27.0
121–150m ²	34	11.7	11.8
> 150m ²	1	.3	.3
Total	289	99.3	100.0

2) spatial planning; 3) regulations and standards for construction and infrastructure. Consequently, the informality – or the extra-legality¹⁸ – of SPRH is apparent in these very three dimensions: the *illegality* of land use; *non-compliance* with planning regulations; and *non-compliance* with construction and infrastructure regulations (Cheng, 2012; Yang, 2013). Let us examine this.

First, the illegality of the land upon which SPRH is built. According to Article 43 of the 1998 Land Administration Law, only state-owned land may be used for commercial construction.¹⁹ Therefore, prior to

¹⁸ See the Introduction to this special issue for an explanation of these different terms.

¹⁹ With the exception of land for township and village enterprises of the

commercial property development, rural collective land should have its ownership altered from the collective to the state. A developer must subsequently apply to the local government (i.e. municipality, prefecture or county) for the right to use land to construct housing. Following approval and upon payment of the land conveyance fee, a “State-Owned Land Use Certificate” is provided to the developer. Since SPRH is built on rural collectively owned land *without* altering ownership and paying the land conveyance fee, it is not legally recognized.²⁰ Based on different types of land, SPRH can be categorized into three forms: 1) rural housing land; 2) arable land; and 3) construction land (see also: Basic features in Section 4.1).

Second, SPRH does not comply with planning laws and regulations. According to Article 2 of the 2007 Urban and Rural Planning Law, all construction should be within the “planning area”, which refers to the built-up areas of cities, towns/villages and other areas that must be under the planning control for urban and rural construction. According to the same law (Article 37), legal entities can apply for a “Permit for the Planned Use of Land for Construction” provided that the construction meets requirements in terms of the project’s position, height, and plot ratio. To apply for the permit, the relevant documents on the project’s land use, engineering and design must be submitted for review and approval.

Third, non-compliance with building regulations and infrastructure standards. When a buyer purchases formal housing, the “Quality Guarantee for Housing” should be obtained, which lists the various items under warranty and their warranty period.²¹ Within the respective warranty periods, repair services must be provided by the developer free of charge. However, buyers of SPRH do not receive the “Quality Guarantee for Housing”, and need to take personal responsibility for repairs. Generally speaking, the standard of building and infrastructure is not equivalent, or at least, not guaranteed, to the degree of formal housing.

According to the 2007 Urban Real Estate Administration Law, any legal entity constructing housing must apply for what is popularly abbreviated as the “five certificates and two permits” (*wushu liangzheng*) (see Table 3 below). Without these, housing cannot be issued legal titling. Unlike formal housing, SPRH lacks these certificates and permits.

At the time of writing, there is no unified set of measures or policies dealing with SPRH at the national level. Some pilots have been carried out in Guangdong Province, for example, in Shenzhen – a city infamous for its large number of SPRH, estimated at 50 percent of its total housing (Chen, this volume). In 2009, Shenzhen Municipality published the Decision on Disposing of Historical Illegal Buildings due to Urbanization. This notice made the far-reaching stipulation that informal buildings that meet the requirements of planning and safety should in principle be legalized (Szgov, 2009).

4.2.2. Second aspect of FAT framework: the actual

This sub-section proceeds to analyze the actual property rights as held by the buyers of SPRH, in other words, an analysis of the question:

(footnote continued)

collective. The rural collective is also entitled to use land for the non-commercial use of its public offices and housing land for its members.

²⁰ It is noteworthy that a significant portion of the respondents (76 percent; $n = 272$) was interested to pay for formal recognition of their housing, although most of them were not very realistic about the sum to compensate for the land conveyance fee (69 percent indicated a sum below 50,000 yuan, 7 percent between 50,000 – 100,000 yuan, and 6 percent above 100,000 yuan; $n = 287$).

²¹ For example, the warranty period for roofs against leakage is a minimum of 3 years, while the bathroom, kitchen, and outer walls need to be waterproof for at least 1 year; the quality of plaster, wall surfaces and ceilings are covered for a minimum of 1 year; an equal period applies for electricity wiring, water pipes, sewage and their installation, air conditioners and heating; lights and switches are covered for a minimum of 6 months. Water/sewage pipes are covered against blockage for a minimum of 2 months.

Table 3

Required certificates and documents of Chinese housing.

Source: This research

Scope	Document name
Land	Certificate of State-owned Land Use
Planning	Certificate of the Construction Land Planning Permit Certificate of the Planning Permit on Construction
Building standards	Document of the Quality Guarantee for Housing Document of the Instructions for newly built housing
Others	Certificate of the Housing Selling (Pre-selling) Permit Certificate of the Working Permit on Construction

What property rights do SPRH buyers have? When purchasing formal housing, the buyer is to be issued a Property Owner’s Certificate and Land Use Certificate by the housing administration of the county or higher government (Plate Plate 3). As for SPRH, common practice is to provide a proof of purchase instead of home ownership and land use (Plate 4). Zhang and Zhao (2018): 121) argue that such evidence may effectively reduce political and market uncertainties at the informal housing market.

From the survey, it was found that 41 percent of the SPRH purchasing contracts are signed and/or sealed by the village committee, 28 percent by the developer, seven percent by the township government, seven percent by individual villagers, and 11 percent by others.

Although the purchasing contract is not legally binding, 73 percent of respondents believed it would prove ownership of the SPRH. As explained by an interviewee:

“My purchasing contract shows I have bought this apartment from Mr. Wang²² and paid the price. I don’t mind **not** having a Property Owner’s Certificate since it is a proper transaction between Mr. Wang and me” (oral communication, 28 December 2013, SPRH buyer, Guangzhou).

It needs emphasis that the greater majority of the respondents (62 percent) was aware of the difference between the purchasing contract and formal title of ownership and land use. Furthermore, according to 85 percent the level of property-related conflict of SPRH did not significantly differ from that of conventional homes. Of those who did encounter conflict because of the SPRH, their attitude was as follows: three percent stated it was similar to others’ experience, and they would await their response; five percent did not care; seven percent would never buy SPRH again; and 11 percent thought a few conflicts were worth the affordability of SPRH.

4.2.3. Third aspect of FAT framework: the targeted

In this sub-section, we will examine the third aspect of the property rights of SPRH as structured around the question: what property rights do SPRH buyers *want or believe existing*? When probing the respondents about the ownership of SPRH, 93 percent felt they and their family are the owners (see Fig. 3 below). In addition, a consistent majority of SPRH buyers responded they felt entitled to: i) inhabit the SPRH (98 percent); ii) rent out (87 percent); iii) inherit and bequeath (71 percent); and iv) sell (58 percent) (Fig. 4). From the data it can be inferred that a majority feels housing rights to be complete, and thus, credible. Interestingly, some interviewed buyers believe SPRH has more advantages than formal housing, with particular reference to the duration of the land lease. For example, a Mr. Zeng said:

“This is my housing. [laughingly] I and my families can live here for an unlimited duration, while formal housing is only up to 70 years.” (oral communication, 20 November 2013, SPRH buyer, Beijing).

²² Mr. Wang built 20 units of SPRHs on his residents’ plot and sold these to others.

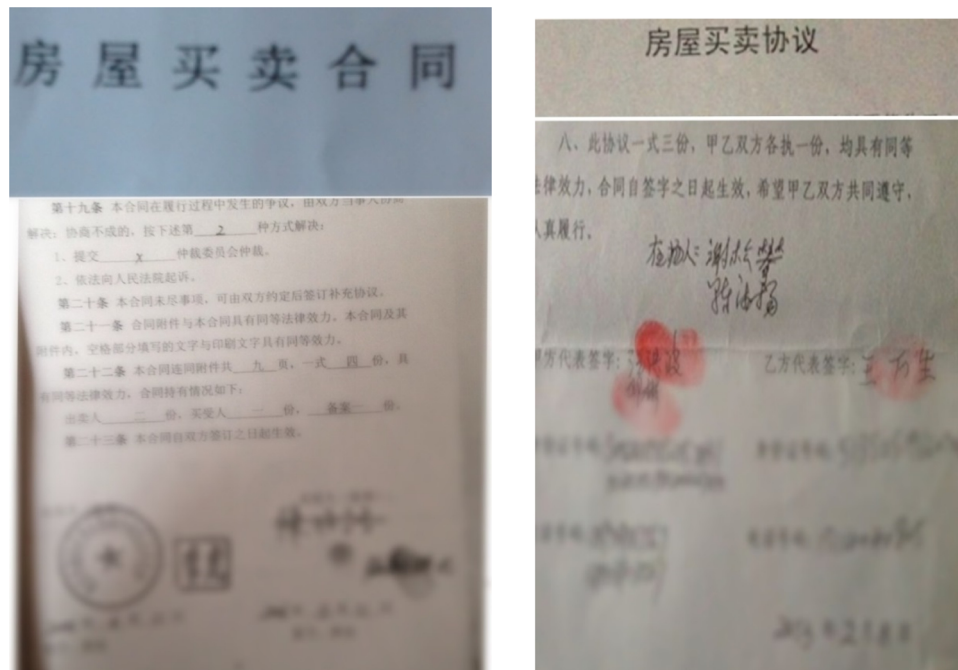


Plate 3. Legal certificates for formal housing.

Note: Left: State-Owned Land Use Certificate of the PRC. Right: Property Owner's Certificate of the PRC. Source: <http://www.mohurd.gov.cn/>



Plate 4. Proof of purchase of SPRH.

Note: Two forms of SPRH purchasing contracts. Left: signed and sealed by the developer. Right: Signed and fingerprinted by the villager, who sold the SPRH built on his residential plot. Source: taken by author. Personal details blurred for privacy reasons.

The above interviewee's statement refers to the different terms of land use in the countryside vis-à-vis the cities. In the latter case, the term for land use is 70 years (see: contribution on China's urban property rights by Zheng and He in this Special Issue). In the former

case, however, villagers enjoy life-time land use rights provided that one's residence is registered within the corresponding rural collective.

From Fig. 4, one can ascertain that only 12 percent of the respondents feel they have the right to collateral. In other words, the

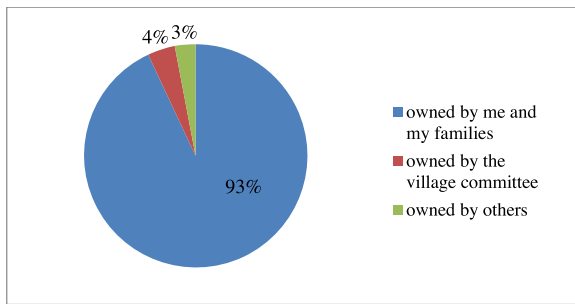


Fig. 3. SPRH buyers' perception on ownership.
Source: This survey (n = 291)

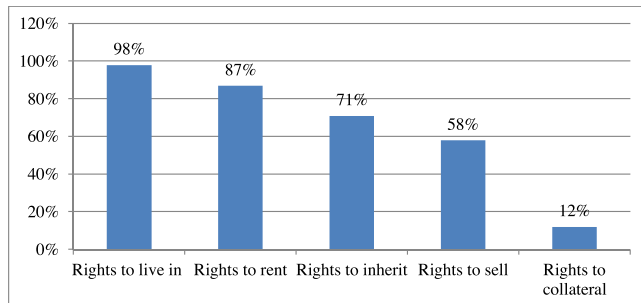


Fig. 4. SPRH buyers' perceptions on housing rights.
Source: This survey (n = 291)

greater majority of buyers feels – and correctly so – that they do *not* possess the right to use SPRH as a collateral. This, however, does not deter them from buying SPRH. All of the respondents stated they had paid off the house *without* mortgage. When probed into the source of finance the respective responses were (multiple answers possible): 82 percent through personal savings; 40 percent via relatives and friends; 36 percent from parents; two percent through informal borrowing; and 3 percent other than aforementioned.

4.3. Examining a three-fold claim on formality

In this final sub-section, we will assess the credibility of SPRH as compared to the three neo-classical claims on formal property. Various scholars maintain that formal rights have a positive impact on institutional performance, amongst which: a) an increased sense of tenure security; b) a heightened incentive to invest in the house; and c) improved access to credit. Contrarily, through an analysis of these aspects we found no evidence for such claims.

Firstly, we found little fear of eviction among the buyers of SPRH, with a mere one percent being concerned that the government may evict them. There are several reasons that may explain why the respondents deem eviction unlikely:

- i Compared to the slums, favelas, and other forms of informal settlements around the developing world, SPRH is a relatively decent form of housing, and in fact, an average family-home, in terms of building quality, location and infrastructure (see also: contribution by Liu and Zhang, this Special Issue).²³ Its massive demolition would entail a substantive waste of financial and material resources. Note that our survey ascertained that only seven percent of the respondents deemed SPRH of inferior quality;
- ii Due to their sheer scale, the eviction of SPRH residents would pose a liability in terms of mass demonstrations, civic disobedience and

social unrest. It is a prospect that the (central) authorities are likely to avoid. Tellingly, despite the formal ban on SPRH, it has to date been condoned by the local and central government. Of the respondents, practically all (97 percent) claimed they had never encountered a government official questioning them about their informal property;

Secondly, our empirical data demonstrate that despite the lack of legal ownership and land use rights, SPRH buyers make significant investments in their homes. All respondents stated that additional funds were spent on home improvement and furnishing, such as the plastering of walls and ceilings, a new kitchen, bathroom, lighting, flooring and curtains. The average amount spent totaled 61,569 yuan – equivalent to one-third of the housing price. Furthermore, some respondents even bought a garage close to the property. In some cases, the amount that was spent on home improvement was higher than the house price. Close to half (44 percent) said they would have invested more if they would have disposed of more financial resources;²⁴

Thirdly, in contrast to the assumption that formal title can improve individuals' access to credit, the question arises whether and why SPRH buyers need formal credit (through banks or insurance companies). According to the China Household Finance Survey, the participation rate of informal finance is substantially higher than that of the formal finance sector (Gan, 2013). Other reports have found that 67.4 percent of rural residents, including migrant workers, participated in informal borrowing, mainly based on mutual negotiation, of which a surprising 83.3 percent was extended free of interest (likely due to family and other personal relations) (Sinanet, 2014). In this context, it becomes obvious that SPRH buyers do not need to rely on formal mortgage to buy property.

5. Conclusion: Formalize, demolish, or leave what is credible?

In the early 1990s, informal constructions in Beijing and elsewhere were mostly built by the autochthonous urban population, often consisting of minor home extensions (Zhang, 1997). Yet, a quarter of a century later, informal homes – popularly termed Small Property Rights Housing or SPRH – have become omnipresent, sheltering a major part of China's low income groups (such as rural migrants), but equally important, also the middle income groups (Liu, Yi, & Zheng, 2018; Zhao & Zhang, 2018). A major reason why this has so happened is because the decades' long property boom in Chinese cities,²⁵ has excluded a vast proportion of the population from the housing market.

Many (neo-classically inspired) economists, lawyers and decision-makers have expressed concerns that the informality of SPRH might have adverse effects on its owners, leading to dissipated rents and incomes, dampened investments and loans, and increased risk for arbitrary eviction and expropriation. However, our research established no ground for such concerns. In fact, the presented data corroborate the notion that SPRH constitutes a credible, good-quality and affordable alternative for those for whom buying formal property is out of reach, or for whom formal, social housing belongs to a virtually closed off arena exclusively catering to local citizens.

The manner in which we substantiated this has proceeded in three steps. First, we examined the basic features of SPRH (e.g. their location, size, contractors, and inhabitants). This examination found that SPRH, *in all its informality*, is a typical "single-family home", located in multi-storey apartment buildings, built by professional developers or under the auspices of collective township/village authorities. The greater part

²³ It is in this regard also why Liu and Zhang (this volume) have noted the relative absence of slum formation in the Chinese context.

²⁴ This finding is consistent with other research in China. For instance, Wang, Sun, and Li, 2014: 1132) found that the rate of investments in informal homes is actually only 15% lower than for formal homes.

²⁵ For a detailed analysis of the formation of the Chinese property bubble see (Ho, 2017: 175-8).

of them measures over 80 m², and includes two or more bedrooms. The survey also ascertained that only a minute fraction of respondents (7 percent) regard the quality of SPRH as inferior, while an overwhelming majority (95.5 percent) indicates to use the SPRH as primary home.

Second, we analyzed how the property rights of informal housing are experienced, used and perceived by its buyers by use of the FAT Framework. By analyzing these Formal, Actual and Targeted aspects of property rights, we observed a marked discrepancy between the three. Formally speaking, SPRH contradicts statutory regulations in terms of land use and planning, and as a result, lacks any formal title or other proof of ownership. In actual terms, local authorities, developers and individual, selling farm households provide an alternative proof (an evidence of purchase). In targeted terms, SPRH buyers see no reason to doubt their ownership and, by and large, feel entitled to inhabit, rent out, bequeath, and even, sell their property.

In the third and final part of the analysis, we contrasted the data with a triple (neo-classical) premise on the relation between institutional form and performance. More in particular, the premises posit that formal rights lead to higher investments, improved access to credit, and greater tenure security. Conversely formulated, *informal* property rights lead to *less* investments, *less* access to credit, and *less* tenure security. Yet, the data tell otherwise:

- 1) SPRH buyers do invest in their homes, and in significant ways;
- 2) Informal property rights do not deter buyers from obtaining credit – or buying property – as a large proportion (40 percent) relies on borrowing from relatives and friends (at times, even *without* interest);
- 3) Tenure insecurity plays no significant role in the perceptions of SPRH buyers, with just one percent being afraid of eviction.

On the basis of all of the above, we reject the H₁ hypothesis of this study: informal SPRH is perceived as *non-credible* by its buyers.

At this point, it might be helpful to return to Davy (2018) indicators on credibility cited in the introduction of this article. For one, within an arena in which housing is informally developed, sold and purchased through an amalgamated network of social actors constituted by rural collectives, real estate companies and individual farmers, SPRH effectively “addresses the most suitable rights-bearers and duty-bearers, establishes a right to property, and provides venues for settling property

claims.” Moreover, as the level of conflict was not significantly different from that of conventional housing, one may ascertain that SPRH’s “property claims are widely respected apart from the degree of formality.” Finally, based on the above, one can safely conclude that SPRH “serves the social function well” by the provision of affordable housing for low and middle income groups.

The political setting in which informal housing and settlements were tacitly condoned, albeit formally prohibited, appears a hydra-headed dilemma for the Chinese authorities. If it is continued to be condoned, would that not jeopardize the credibility of government prohibition without enforcement? If law is enforced and SPRH demolished, what alternative housing could be found for the numerous low and middle income groups that currently inhabit it? Yet, if it is formalized, would that not open up the gates for even more extra-legal or downright illegal constructions?

When examining the credibility of China’s informal SPRH the answer is obvious: why intervene in an institutional fabric that demonstrably, evidently *and* effectively fulfils a function amongst social actors? Either formalization or prohibition would be ill-advised. The former would require some form of compensation for evaded taxes (i.e. the land conveyance fee) that most SPRH buyers do not possess. The latter would, first and foremost, necessitate solving the dire need for affordable homes, which central and local government have been unable to address to date. In this context, condoning, while stepping up the supervision and control over the provision of affordable homes, both in a formal and informal way, seems to be the wisest option. Or, as Chinese, by a twist of historical fate, taught themselves for over two millennia: “By doing nothing, nothing is left undone.”²⁶

In the context of all of the above, we would argue that the endogenous, spontaneously ordered emergence of informal, untitled SPRH has formed a fairly successful – although not completely intentional – example of inclusive, pro-poor urbanization with unique “Chinese characteristics.”

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Appendix A

Table A1

Features of research sites.

Source: Authors’ fieldwork and (Shan, 2014b, b; National Bureau of Statistics, 2011).

Selected cities	Location	GDP per capita in 2013	Migration	Restriction on formal housing purchase	Field site type
Guangzhou	Southeast	120,105 yuan	Receiving area	Very restricted	Urban village
Tianjin	Northeast	101,689 yuan	Receiving area	Restricted	Informal gated community
Beijing	Northeast	94,237 yuan	Receiving area	Very restricted	Informal gated community
Nanchang	Southeast	65,009 yuan	Sending area	Restricted	Urban village
Xi’an	Northwest	57,105 yuan	Sending area	Restricted	Informal gated community
Chongqing	Southwest	42,615 yuan	Sending area	Restricted	Urban village
Qingyang	Northwest	27,790 yuan	Sending area	Not restricted	Urban village

²⁶ Following the philosophical Taoist principle of “wu wei er wu bei wei” (2009b, Liu, 2009a: 233).

Table A2
Characteristics of survey sample.
Source: This survey (n = 291).

Gender composition	Gender type	Number	Percentage of total
	Male	177	60.82 %
	Female	111	38.14 %
	Missing	3	1.03 %
	Total	291	100.00 %
Age in years	Age cohort	Number	Percentage of total
	< 20	2	0.69 %
	21-49	222	76.29 %
	> 50	65	22.34 %
	Missing	2	0.69 %
	Total	291	100.00 %
Education	Level of education	Number	Percentage of total
	Primary school and lower	16	5.50 %
	High school	160	54.98 %
	College/university	111	38.14 %
	Graduate school	3	1.03 %
	Missing	1	0.34 %
	Total	291	100.00 %
Occupations	Sectors	Number	Percentage of total
	Farming	27	9.28 %
	Urban informal sectors	217	74.57 %
	Urban formal sectors	45	15.46 %
	Missing	2	0.69 %
	Total	291	100.00 %
Hukou	Registration status	Number	Percentage of total
	Local urban hukou	166	57.04 %
	Local, rural hukou	54	18.56 %
	Non-local, urban hukou	32	10.99 %
	Non-local, rural hukou	37	12.72 %
	Total	291	100.00 %

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