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Review

Inclusionary Housing: An Evaluation of a New Public Rental Housing Governance Instrument in China

Juan Yan *, Marietta Haffner and Marja Elsinga

Department of Management in the Built Environment, Faculty of Architecture and the Built Environment, Delft University of Technology, Julianalaan 134, 2628 BL Delft, The Netherlands; M.E.A.Haffner@tudelft.nl (M.H.); M.G.Elsinga@tudelft.nl (M.E.)

* Correspondence: J.Yan-2@tudelft.nl

Abstract: Inclusionary housing (IH) is a regulatory instrument adopted by local governments in many countries to produce affordable housing by capturing resources created through the marketplace. In order to assess whether it is efficient, scholarly attention has been widely focused on its evaluation. However, there is a lack of studies evaluating IH from a governance perspective. Since IH is about involving private actors in affordable housing production, the governance point of view of cooperating governmental and non-governmental actors governing society to achieve societal goals is highly relevant. The two most important elements of governance—actors and interrelationships among these actors—are taken to build an analytical framework to explore and evaluate the governance of IH. Based on a research approach that combines a literature review and a case study of China, this paper concludes that the ineffective governance of Chinese IH is based on three challenges: (1) The distribution of costs and benefits across actors is unequal since private developers bear the cost, but do not enjoy the increments of land value; (2) there is no sufficient compensation for developers to offset the cost; and (3) there is no room for negotiations for flexibility in a declining market. Given that IH is favored in many Chinese cities, this paper offers the policy implications: local governments should bear more costs of IH, rethink their relations with developers, provide flexible compliance options for developers, and perform differently in a flourishing housing market and a declining housing market.

Keywords: affordable housing; land use planning; local governments; planning gain; private sector

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1. Introduction

Inclusionary housing (abbreviated hereafter as IH), also known as inclusionary zoning, refers to a regulatory instrument that uses the land planning system to create affordable housing (Although 'affordable housing' has various meanings in different contexts, for the discussion in this paper, we take the definition from the work of Calavita and Mallach [1] and define affordable housing as "any housing explicitly designed to be affordable to and occupied by households who fall below an officially defined income level".) and foster social inclusion [1]. The basic approach of IH is to require (or encourage) private actors to incorporate affordable housing into their market-rate residential development [2,3]. Instead of actually constructing affordable housing units, several alternatives might be offered for developers, such as "off-site construction" (to construct affordable housing elsewhere), an "in-lieu fee" (to contribute an amount of money for financing other housing programs, particularly affordable housing programs), and "land dedication" (to donate the equivalent in land assumed to be used to construct affordable homes) [1,4].

The first IH initiatives were undertaken in Virginia and Maryland in the US in the early 1970s to deal with the social and spatial segregation caused by the exclusionary zoning plan (The term "exclusionary zoning" refers to those methods of land use regulation which have economic segregation as the objective; a practice which effectively prevents low- and middle-income households from finding affordable houses.) [2]. In the 1980s, IH emerged

in the UK, where it has been widely implemented to secure new affordable housing since the 1990s [5,6]. IH came about as a response to decreasing housing affordability caused by fast urbanization and booming housing prices. Later, the shrinking role of central governments worldwide in financing affordable housing provision under the ideology of neo-liberalism paved the way for IH. In IH, the responsibility of housing vulnerable groups is that of the local authorities, which involve the private sector to increase the construction capacity. IH has become popular in many countries and regions of the world, such as Italy, Spain, Sweden, the Netherlands, Canada, South Africa, India, Brazil, and China [1,7–11].

Advantages of IH for local governments in those countries have further enhanced its popularity: It increases the production of affordable housing without direct governmental expenditure and aims to maintain social stability by mixing different income groups in a project. The mixed communities enable low-income households to benefit from access to schools, public services, and better jobs, which in the end, benefits the whole society [7,12].

Scholars have regarded IH as an innovative idea to help deliver affordable housing and they have shown great interest in the study of IH. They have discussed the background for the development of IH, see for example, [2,12], and the IH practices in different regions in the world, see for example, [13–18]. Most of all, researchers have indicated that IH has gain mixed results in its 40-year history since its first application in the US [7,19,20].

The literature regards it as positive that IH can produce affordable houses by using the expertise of private developers. For instance, scholars indicate that IH has produced quite a lot of affordable housing units in many US states, including California, Maryland, Washington DC [21–26]. Through comparing affordable housing units produced by IH with the number of affordable units produced by other programs (e.g., Low-Income Housing Tax Credit created in 1986 is the largest source of new affordable housing in the United States), Mukhija, Regus and Slovin [23] argue that IH is more effective than other instruments in the same region in the US.

Studies have also shown that IH might have adverse economic effects on private developers, if the cost offsets they obtain are insufficient to mitigate the profits lost by building affordable units, rather than units with a market rate [8]. In an extreme situation, the developer could decide to build less or decide not to build at all. Rather than producing an increased supply, the supply is thus depressed, and the prices or rents of the market-rate units are likely to increase [7,19,27].

However, systematic evaluations of IH are lacking. Since IH is about how governments and private developers cooperate and interact to produce affordable homes, this paper takes the governance perspective for the analysis. The concept of "governance" emphasizes a governing mode of steering based on or drawn from, but also going beyond, the government to achieve some societal goals [28,29] (see the next section for details). Since IH involves private actors in affordable housing provision, the governance arrangement will be highly relevant. Calavita and Mallach [1] state, in their most citied work in the field of IH, "inclusionary housing may also be viewed as a result of public-private partnerships in the perspective of governance".

By adopting a comparative methodology of theory and practice, Calavita and Mallach's study [1] examines how land-use planning is used in seven counties to generate affordable homes. This study discusses the reasons behind the adoption in the selected countries and analyze "what works under what circumstances". Therefore, it goes beyond the former studies based on vague descriptions about IH [30]. This study, as argued by Wegmann [31], "is sure to stand as a landmark reference in housing policy for years to come". However, aiming at providing IH practices from an international perspective, Calavita and Mallach's work [1] has spent little efforts on the "governance" perspective of IH. The study is not underpinned by an explicit theoretical foundation from the governance perspective, nor has it evaluated IH in a relevant governance framework. This is also the case with many other IH studies referring to the term "governance"; see for example [32–36].

To shed light on such public–private cooperation, this paper aims to fill the gap in IH research by evaluating IH from a governance perspective. To fulfil this aim, this paper uses the methods of a literature review and a case study. The literature review consisted of a study of scientific literature relevant to IH, as well as policy documents and government reports relevant to the practice of IH in China.

China was selected as a case study as IH in this country is a relatively new phenomenon compared to other countries [37–39], as is the involvement of private actors in the provision of Public Rental Housing (PRH). PRH was introduced to tackle the increasing urban affordability problems and has become a national housing priority since 2011, when the 12th Five-Year Plan of PRH provision was launched [35].

Regarding the research aim, the specific research question formulated in this paper is as follows: What are the problems associated with Chinese IH from a governance point of view and how are they caused? To answer this question, an analytical framework of governance comprised of the key elements of actors and their relationships is presented in order to be able to evaluate the performance of the IH scheme(s). For the challenges that are identified, future options for adaptation of the governance framework of IH are discussed.

The remainder of this paper is organized as follows. Section 2 elaborates on the governance literature and how it relates to IH. Section 3 presents an introduction to the selection of China as a case study, the operationalization of the governance analytical framework based on actors and their interrelationships, and the materials of this study. Section 4 provides a brief history of Chinese IH and analyzes Chinese IH programs from two important governance elements: The way to engage private developers and the relations among developers and local governments. Then, in Section 5, we compare Chinese IH with other countries' IH practice, and propose future options for Chinese IH based on our findings. We conclude the study in Section 6.

2. Governance and Its Relevance to IH

The term governance originates from Latin, meaning "to rule or to steer" [27]. The influence of the concept on scholarly thinking was limited until the end of the mid-1970s [28]. In recent years, governance has been widely discussed in association with governments worldwide in order to cut public expenditure and promote efficiency [29,30].

By including different actors in the management of societal issues, governance, in some scholars' eyes, differs from hierarchical management and is not based on unilateral decisions made by governments; see for example [1,40,41]. They argue that the government has pulled back as its functions and power are broadly transferred to non-governmental actors. The most widely cited works in the governance area, such as [42], Pierre [43], and Sørensen and Torfing [44], show different opinions. They emphasize that the idea of governments not being the only relevant actors might not necessarily lead to reducing the governments' steering capacity or a weakened state. Governance can range from a hierarchical mode to a self-governance mode, with many possible co-governance forms lying in between [45,46]. Indeed, the essence of governance is viewed as the extent to which governmental and/or non-governmental actors are involved in governing [47]. As such, many argue that governance is a mode of steering based on or drawn from, but also going beyond, the government governing society to achieve societal goals [28,29].

For the purpose of this study, the term governance is perceived as cooperating governmental and non-governmental actors steering the provision of affordable housing throughout the provision column, involving the acquisition of land, the construction of housing units, the allocation of housing to households, and maintenance of the dwellings.

An IH program either encourages or requires real estate developers to provide affordable housing as part of their residential developments [12]. In other words, local governments work together with private developers to increase the supply of affordable housing and in the meantime, to create socially and economically integrated communities.

Rather than a full retreat by the government, IH relies on public-private partnership to provide affordable homes. By cooperating government and private actors, IH consists of (a) multi-actor complexity; (b) public and private actors' responsibilities and roles in such complexity; (c) interactions among private developers, governments, and maybe some other third sectors. Since the governance perspective emphasizes a governing mode of steering based on or drawn from, but also going beyond, the government to achieve societal goals [28,29], scholars define "public-private partnership as a particular form of governance" [48]. The concept "governance" is highly relevant with IH.

In terms of governance, the literature shows two mainstream approaches of IH for encouraging private actors to get involved: (1) The Land Value Recapture (LVR) approach, which uses LVR as the principle to motivate private actors, and the (2) Incentive approach, which uses a well-designed financial instrument to compensate developers who suffer a loss due to participating in the IH programs [1,5,16,27,49,50]. The two approaches are adopted in different countries.

Countries such as the UK, Ireland, and Spain are operating LVR in affordable housing provision [1]. The concept of LVR in the affordable housing provision field refers to a way to finance affordable housing by taxing the increased value of land [50]. The rising land prices generated from land use regulations are the result of public action through the planning system. As these rising prices (also called "the increment of land value" or "planning gain") are not the result of productive efforts of the landowners, the argument is that the increased value should be returned to the wider community [18]. IH requires developers to pay for the construction of affordable housing units. The cost of developers increases in this regard. However, in order to be competitive in the real estate market, developers cannot increase their commercial housing price. Over time, land prices will drop as developers avoid projects without profits. This means that landowners need to bear the cost of IH programs because the land price has been reduced [1,51].

The Incentive approach is popular in countries such as the US, Canada, Australia, and New Zealand, while LVR is not favored [49]. Unlike the UK, with a national-level guideline of IH, IH in the US is enacted at the local level (municipal or county) [19]. Under the predominance of market ideology, if there are not enough incentives to offset the cost of IH units, profit-oriented developers opt out, or develop less housing to increase the commercial housing price and negotiate to pay less for land [52]. The incentives are calculated through complex formulas and come in several forms, including the right to build at a higher density (also called density bonus), an expedited permitting process, lowered development fees, etc. [12,53].

Scholars have pointed out factors that contribute to effective governance. Factors are different between IH programs applying the LVR approach and IH programs applying the Incentive approach [2,25,54].

For IH programs using the first approach to be effective, LVR, as the principle, should be believed by the actors involved [18,55]. In countries such as the UK and Ireland, recapture of the land value increment created by public action is legitimated and even written in national policies (see, for example, Section 106 of Act 1990 in the UK) [18].

As for IH programs adopting the second approach, substantial incentives should be in place to sufficiently address the gap relating to developers providing affordable homes instead of commercial housing [53,56]. These incentives include, for instance, density bonuses and fast track permitting.

For both approaches, negotiations between involved actors should be in place, especially when the housing market is declining [18,25,57]. IH having private developers produce affordable homes in their market-rate developments is inherently linked to the housing market. A decrease in market-rate construction will change land values and construction costs and will lead to cash flow problems for developers. This can result in a decrease in affordable housing production [7,13,25]. In order to make it viable to developers in the economic downturn period, it is necessary for governments to negotiate with the developers and offer them flexible compliance options. These flexible compliance

options include the requirement that private actors provide cash or land in lieu of building affordable housing units [25].

3. Materials and Methods

3.1. Selection of China as a Case Study Area

The selection of China as a case study was based on two criteria. The first and foremost criterion was that China has been experiencing a shift from "government" to "governance" in PRH provision in recent years. IH is one of the results of this shift. Second is that, although many cities have utilized IH in China, there are few studies in the English language evaluating Chinese IH.

Traditionally, "government" means that the central government is responsible for policy-making and establishing operational methods for the whole country of China, and local governments are in charge of local policy formulation and implementation [58]. This model of PRH provision to low- and middle-income households who cannot access housing on their own has been criticized in terms of the imbalanced responsibility distribution between different levels of government: The central government delegates responsibilities, without providing adequate financial support for local authorities. In response to this, in around 2011, local governments started to adopt market resources and cooperate with non-governmental actors to provide PRH [59,60]. This is supported by schemes issued by the central government see for example [61,62].

The increased delegation of government tasks to other non-governmental actors has made the PRH provision a "governance" model. IH requiring private developers to incorporate PRH into their market-rate residential development [37] is a manifestation of the governance model. This model implies that governments are no longer the only relevant actor catering for the housing needs of vulnerable households as the privatization of activities gives more room to private actors than before [63]. The governance model of PRH provision has led to many non-governmental actors getting involved and generated complex interactions between governments and private actors. This parallels the trend worldwide where the direct production of affordable housing on the part of the central (federal) government has largely diminished, while a multisectoral, decentralized housing provision system has emerged in its place [64–67]. The evaluation of IH in the context of China can thus bring new insights to the international study of affordable housing provision and IH.

The second selection criterion was that there is a lack of studies evaluating Chinese IH. IH is not only perceived to increase the supply of PRH without direct government expenses, but is also expected to alleviate the spatial marginalization of PRH by creating mixed income neighborhoods. Given these advantages, it is not surprising that many first and second tier cities with a severe housing affordability problem, for instance, Beijing, Shanghai, Shenzhen, Nanjing, and Fuzhou, implemented IH as the new promise of housing governance [68,69].

With its implementation for one decade, some scholars and practitioners have indicated that it is a useful instrument generating quite a number of PRH units [38,70]. Taking Hangzhou, a second-tier city in China, as an example, the number of PRH units built through IH had reached more than fifteen thousand at the end of 2017 [71].

However, there are evolving disputes regarding IH on social media in China. PRH units usually lie in less desirable locations in the project compared to commercial units. In addition, physical boundaries (e.g., different entrances, fences or walls as barriers, and barricades) are quite commonly placed between the two types of housing within one project. This has happened quite often in cities such as Beijing [72] and Shenzhen [73]. Therefore, the aim of building mixed income communities is far from being reached. Moreover, developers are hesitant to bid for land with IH, resulting in aborted land bids (*liu pai*) in some cities. In this case, the expected increase in PRH units will not be achieved [74].

The above indicates that an IH evaluation is needed. However, systematic analyses of Chinese IH in the English language are rare, let alone an evaluation from a governance point of view. This study can fill this gap.

3.2. Operationalization of the Governance Analytical Framework: Actors and Interrelationships

When it comes to the implication of governance in the real world, the concept has been a fuzzy concept. It sometimes serves as a "theoretical approach" and sometimes as an "ideological stance" [63]. Additionally, the concept relates to other broad and sophisticated notions, such as deregulation and neo-liberation, also contributing to the vagueness of the concept of governance in its use.

This paper aims to make the concept applicable in various housing provision situations in the range of activities from the construction to maintenance of housing. Two of the most important elements extracted from the governance literature see for example, [42,47,63,75]—actors and interrelationships—are adopted as an analytical framework (see Figure 1 for details).

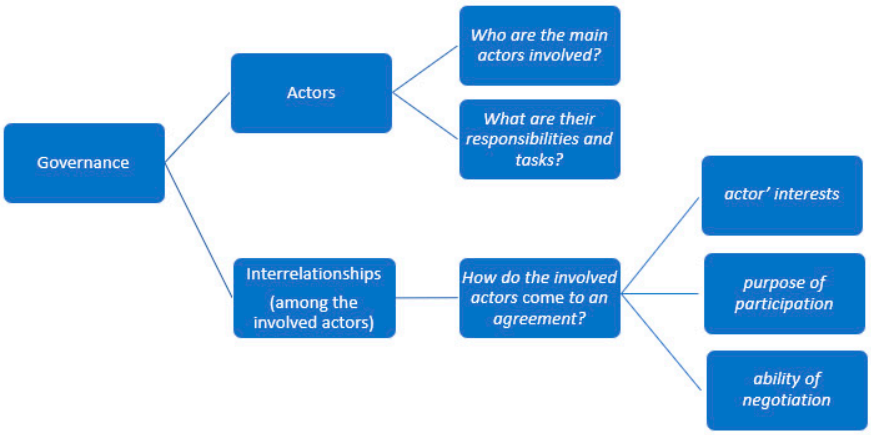


Figure 1. The analytical framework based on two governance elements (actors and interrelationships).

The "actors" perspective of housing governance underlines that other actors are often involved, next to the state, in catering for the housing needs of low- to middle-income households. A number of studies have attempted to investigate the specifics of the miscellaneous actors involved in public service delivery, including housing (e.g., PRH) [42,43,46,75–77], in the following aspects: Who are the main actors involved in PRH governance? What are their responsibilities and tasks?

The investigation of actors' responsibilities and tasks requires clarifying which actors are involved in which phases of housing governance. The phases, as aforementioned, range from the acquisition of land, the construction of housing units, and the allocation of housing to households, to maintenance of the dwellings. Furthermore, an explanation of the ownership of key resources (e.g., land, finance, and housing units) is necessary. The study of actors is the first step and provides background information for the analysis of interrelationships.

Interrelationships, generated from frequent communications and complex interactions among the actors involved, could determine the authoritative allocation of values in society—the focus of the governance debate [42,78]. Different interrelationships amongst actors may contribute to diverse governance features and may also affect the decision-making, policy implementation, and thereby the outcomes of policy [78].

The interrelationships between government and non-governmental actors are intensively discussed in the literature [45,75]. Nuhu [79], for instance, discusses peri-urban land governance by analyzing the power relations among actors involved. In order to understand the governance outcomes of climate change, Hamilton and Lubell [80] examine the collaborative interactions among actors. Although scholars address different

aspects associated with "interrelationships", most of them argue that the investigation of how the involved actors come to an agreement is crucial [41,47,81]. The analysis thus involves a discussion about actors' interests, purposes of participation, and the ability of negotiation [82,83].

As indicated before, to use both elements of governance allows one to go beyond an abstract discussion of the concept of governance. The study of who is involved and how they are interacting enables one to elucidate the authority allocation, resource distribution, and policy process (formulation and implementation) with housing provision. Conventional studies focusing on housing policies, finance, construction, and management see for example, [84–86] are thus embedded in these aspects. Section 4 analyzes the aforementioned aspects concerning the actors and interrelationships of Chinese IH.

3.3. Materials

This paper is not a not a typical study with fieldwork or quantitative data analyses. The materials used in the paper include two groups of literature: An international study of scientific literature relevant to governance and IH, and national and local policy documents reflecting Chinese IH.

The English-language articles, books, and government reports were extracted, irrespective of time, using Web of Science, Scopus, and Google Scholar search engines. The following key words were used, alone or in different combinations: Inclusionary housing; governance; evaluation; Chinese Public Rental Housing; affordable housing provision; land use planning; and housing market effects. The review was complemented with a manual search. A manual search helps to narrow down the numbers of relevant articles. The literatures that are not appropriate are excluded from the those generated from the search engines for the review. These deleted literatures are, e.g., literatures clearly off topic; invalid type of literature (poster, presentation, etc.); Duplicate papers (redundant versions of the same paper). Key policy documents from a national and local level were reviewed. These documents are referred to in this paper when they fit the line of argumentation to provide a relatively complete picture of Chinese IH. In addition, we assembled data from academic publications, city websites, public reports, and documents.

4. Results

4.1. Chinese PRH Governance through IH: A Brief History

With the termination of the distribution of housing by employers in 1998, housing privatization and commercialization in urban China have been promoted [59]. This has resulted in a rapid-growing urban real estate market, causing house prices to increase [87,88]. The average house price in 2018 had increased by 3.5% compared to 2000 according to the National Bureau of Statistics of China [89]. The average house price-to-income ratio was around 14 in the 50 biggest Chinese cities in the first half of 2019 [90]. In big cities such as Beijing, Shanghai, and Shenzhen, the ratio has reached more than 25, causing a severe housing affordability problem [91].

As a result, low- and middle-income households were excluded from accessing urban housing as their incomes did not increase to the extent that house prices and rents did [69,87]. The central government has been under severe pressure to provide affordable homes, especially in the form of Public Rental Housing (PRH) [84]. PRH is a housing type for which the central government controls rents, in order to make the unit affordable to low- and middle-income households, new employees, and migrants with stable jobs [62]. In March of 2011, the central government issued an outline of the 12th Five-Year Plan (2011–2015), with the target of building 18 million new PRH units within this period. Since then, PRH has become a national housing policy priority [92].

Usually, the implementation of PRH projects in China follows the following process: The central government designs policies and sets mandates, while local authorities are responsible for implementation of the policies [59,87]. In the financing of new construction, the central government usually pays for 10% of the total investment, while local

authorities are responsible for the rest [93]. As local governments are fully responsible for achieving new construction targets, and are almost fully responsible for financing new construction, they have turned to market resources for financing affordable housing. They have cooperated with state-owned actors for the production of PRH [94] in the widely implemented *Tongjian* mode of PRH. Within *Tongjian* mode, local governments entrust investment organizations, which are state-owned enterprises, to develop and construct concentrated, large-scale PRH projects on the land mainly provided by the government. These investment organizations, backed by government guarantees, can get loans and social investment to finance PRH projects [38]. This mode has been criticized due to the following drawbacks: It heavily relies on local government subsidies; it marginalizes low- to middle-income families by excluding them from the urban center, where good public facilities are located; and it might cause social problems (e.g., crime and violence) in large-scale PRH projects [3].

To reduce the "too heavy" perceived budgetary involvement of local governments and given the large targets of the Five-Year Plan, over the last decade, local governments have resorted to IH (the usage of IH is also known as "*Peijian*" in Chinese).

In 2011, the national government pronounced in its notification that PRH units should be mainly provided through IH in new commercial housing projects [95]. Cities using IH in China established their own regulations. These regulations lead to a varied practice of IH between cities in terms of aspects such as the percentages required for PRH (5% in Shanghai and Nanjing, while 30% in Beijing) [96–98], the selection of commercial housing projects (IH adopted in all commercial housing projects in the city or only in specific commercial housing projects), etc. [37].

4.2. Actors

Urban land is owned by the state in China [99]. Local governments are the monopolistic supplier in the land market and they grant development rights by leasing land to developers who want to develop commercial housing and earn profits [37,100]. This process requires open bidding or an auction. In this regard, local governments require developers to contribute to IH units [37].

There are two ways for private developers to produce IH units according to local governments [37]. In the first way, local governments decide the share of units to be devoted to PRH for a specific piece of land, while via the second way, they decide the maximum price for the piece of land for leasing. In the first situation, private developers win the bidding by paying more than the competition, while in the second situation, they win by offering to build more PRH units [37]. Incentives such as density bonusing, lowered development fees, and fast-tracking permits are provided for developers to participate in IH programs.

After winning the bidding, developers pay the land leasing fee and tax [100], for instance, the Land Value Appreciation Tax (The land appreciation tax is imposed on the increment value of the transfer of land use rights, aboveground structures, and their attached facilities in China.) at the land transaction stage and the Urban Land Use Tax at the possession stage [101]. Developers are also responsible for the construction of PRH units [69]. After the completion of construction, local governments take over the PRH units [37]. Local governments own the PRH units and distribute the units to vulnerable households [37]. PRH tenants and private tenants enjoy the same property services provided by the property management company in the IH project. The difference is that local governments pay the service fee for PRH tenants compared to the fee private tenants pay [102].

The implementation of Chinese IH indicates that the main actors involved are local governments and private developers. Local governments participate in IH programs from policy-making to policy-implementation processes. They set regulations, own the land, own the property rights of PRH units, and distribute PRH units. Private developers pay the land leasing fee, construct PRH units, pay all or most of the construction fee for PRH units, and get incentives from local governments [69,103,104].

Local governments benefit from IH in two ways: IH helps to reduce their budgetary pressure for PRH provision and IH prevents large-scale social unrest [105]. The prevention of social unrest can help to build social stability, which is important for economic growth [106]. Developers benefit from the development rights authorized by the local governments, as they otherwise cannot develop commercial housing and earn their profits in a good market.

4.3. Interrelationships

In IH programs, the objective of local governments is to fulfil the PRH production targets assigned by the central government whilst enabling new market-rate housing development to take place [37,104,107]. The developers, through participating in IH programs, aim to gain economic returns to their investment from the development rights [69]. Developers concern the financial viability of IH [18].

In the real estate market, by leasing land to real estate developers, local governments garner land revenues. These revenues are not included in the fiscal budget to be shared with the central government and thus are favored by local authorities [108]. Local governments spend these land revenues on large-scale construction projects, which are often considered as the main manifestation of economic growth in China [99]. Since the central government evaluates local officials for promotion based on economic growth, local officials have a strong incentive to lease land. According to the China Statistical Yearbook, land revenues rose from 40 billion yuan in 1995 to 6.51 trillion yuan in 2018, accounting for approximately 51% of the total government fiscal revenue [109].

The above system has incentivized local officials to promote the real estate market by, for example, giving strong official support in bank loans and urban planning to motivate developers to invest in the real estate market [93]. Additionally, local governments, as the monopoly supplier of land, can control the land supply to maximize the land price to benefit their revenues. This, together with the housing privatization and commercialization promoted after 1998 [87] and the rapid urbanization, have brought about a rapidly-growing urban real estate market.

The prosperous housing market has ensured that real estate developers absorb the cost of PRH construction and still make profits from the support of local governments by incorporating IH units in market-rate development. Therefore, this booming market can also ensure that local governments impose IH requirements on developers to produce PRH units and promote local development by fiscal revenues generated by leasing land to the developers. Therefore, in the rapidly-growing urban real estate market, private developers and local governments have a joint-interest relation in IH programs and can fulfil their objectives [110].

However, this is not the case in a declining market. The last two years have witnessed a decline of land prices [111], a reduced number of land transactions [112], and a slowdown in the rate of increase in the housing price [113] in China. This is primarily due to the many measures that have been adopted after President Xi announced the idea that "houses are for living in, not for speculation" at the 19th party congress in 2017 in response to the overheated housing market [114]. Given the recent coronavirus outbreak, which caused the Chinese economy to shrink by 6.8 percent in the first three months of the year 2020 [115], the housing market in many cities has cooled down.

Developers, who are sensitive to market changes, remain quite cautious about the land leasing market and conducting their development projects. Considering that it is difficult for developers to recoup their investment in PRH units, they could be more reluctant to participate in IH programs. However, local governments still want to achieve both economic growth through the land-leasing business and the construction of PRH units assigned by the central government. Negotiations between involved actors, as argued by many scholars, are rarely offered to developers [37,69,103]. As a result, flexible compliance options are rarely offered to developers. Local governments still require on-

site developments [37]. IH is thus "a government-driven campaign" in China due to the dominance of local governments [37].

The above can cause tension between both actors and lead to aborted land bids (*liu pai*). In 2011, one developer gave up the parcel of land with a 32-percentage requirement for PRH units [74]. The *liu pai* could deny or hinder the housing production of IH units, as well as commercial housing units, and defeat the purpose of an IH program. Therefore, in a decreasing market, local governments and private developers have a divergent-interest relation in IH programs and cannot fulfil their objectives [110].

5. Discussion

In terms of governance, this paper concludes from the literature that there are two mainstream approaches of IH that can encourage private actors to get involved: The LVR approach and Incentive approach. The two approaches have their own factors influencing the effectiveness of IH governance. For the first approach to be effective, LVR should be legitimated and even written in national policies. Besides, LVR should be believed by the actors involved [18,55]. For the Incentive approach, developers involved in IH programs should be well compensated [53,56]. In addition, for both approaches, negotiations between involved actors should be in place, especially in a declining market [18,25,57].

At some point, the way Chinese IH works seems like the LVR approach, within which private developers produce PRH units to exchange for development rights [39]. However, the Chinese case is different to countries who use the LVR. This is due to the fact that LVR is neither acknowledged by actors nor has been written in policy. According to the idea of LVR, the actors who enjoy the increased land value should give some or all of the increment back to the society in the form of, for instance, affordable housing [116]. Therefore, in the UK and many European countries, IH is paid for by the landowners instead of the developers [18]. Nonetheless, local governments retain the land value increment in China because they are the owner of land [110], while private developers pay for the PRH construction.

The Chinese approach of IH also cannot be considered as the Incentive approach. This is because there is no well-designed system to offset the cost of private developers for delivering PRH units. Chinese local governments take the PRH units at pre-agreed prices or for free [103,104]. In the first situation, it is pronounced that developers pay for PRH units. In the second scenario, the price usually only covers the cost for the construction of such units and does not cover other fees related to PRH (e.g., land transaction fee and tax) [81]. In both situations, the incentives provided for developers are argued as not being enough to recover their costs, let alone make a profit [117]. The investment for IH units is considered as an extra cost for developers [102,118].

In contrast to the two mainstream approaches, through IH, Chinese PRH governance might not be considered effective due to three challenges: (1) The distribution of costs and benefits across government and private actors is unequal, since private developers bear the cost, but do not enjoy the increments of land value; (2) there is no sufficient compensation for developers to offset their cost for IH units; and (3) there is no room for negotiations for flexibility in a declining market. These challenges demonstrate the "unequal playground" between local governments and real estate developers [119] and could lead to undesired outcomes of the IH instrument. Huang [102], a Chinese scholar whose expertise is urban housing governance, argues that there is still a long way to go in terms of IH in China, as local governments benefit at the expense of developers.

The above is in line with the argumentation that China has its own form of involving private actors in affordable housing provision [81,85,120] and this is mirrored in the governance of IH. Although Chinese IH is a relatively new instrument compared to the experience of other countries or regions in the world, it shows different practices. This paper reveals that Chinese IH is embedded in a government-dominant type of governance, as also indicated in many other studies [84,93,106,120,121]. We observed that the domi-

nant role of local governments has built on its monopolistic power to dispose urban land development rights, as also suggested by Chen and Wu [122].

If China is going to follow the LVR approach of IH, local governments should bear more costs for IH programs since they retain the land value increment. If China goes for the Incentive approach, sufficient compensation should be provided for private actors to reduce the economic impact of providing PRH units. For instance, in the US, the selling price of market-rate units, how many market-rate units can be sold, and construction costs are calculated with a complicated formula to decide the cost offsets [12]. In other words, no matter which approach is to be followed, Chinese local governments should take more responsibility than before.

Furthermore, flexible compliance options should be put in place for developers in a declining housing market, where developers find it not viable to produce IH units [27,57]. Local governments need to rethink their relations with developers and take developers' financial viability into consideration. It is not effective for local governments to simply impose costs on developers for producing IH units. In the UK, in a downturn, local planning authorities carry out a lot of actions, including reassessing IH requirements, rephasing the planning obligations to redesign affordable housing development, approving a change in payment schedule, etc. [18]. Another aspect of the flexibility relates to the local variations in China. As China is such a big country, it is possible for each local government to adapt their version of IH to their circumstances. For instance, in regions with a booming housing market and a strong housing demand, the cost of providing PRH units by developers can be accommodated by otherwise profitable development projects. It is more conducive to developers to accept the IH requirements than it is in declining market.

An important limitation of this paper relates to the methodology. This paper argues that the analytical framework based on two important elements of governance (actors and interrelationships) can help to elucidate the authority allocation, resource distribution, and policy process (formulation and implementation) with housing provision. However, the study of "actors" by discussing main actors involved and their responsibilities and tasks, and the study of "interrelationships" by analyzing their interests, purposes, and abilities of negotiation are not the only approach for IH governance analysis. For instance, scholars argue that to discuss tenants' involvement in housing, the changing role of different actors, the power relations among involved actors are important aspects related to the governance debate, see for example [123–127]. Due to the constraints of time, staff capacity and finances, there is a lack of first-hand material of IH based on in-depth interviews with practitioners in Chinese cities with IH programs. The interview data would have allowed us to build a comprehensive understanding of PRH governance through adopting IH on the ground.

6. Conclusions

Inclusionary housing (IH) is an instrument utilized by local governments to require or encourage real estate developers to include affordable housing units in otherwise market or commercial projects. With an indirect cost to the public sector and the provision of housing for a combination of different income groups, IH has been favored by many local governments in the world since its first adoption in the US in the 1970s.

Along with its wide application, however, an evaluation of IH from the governance perspective is missing. As IH requires a cooperative approach by involving private developers in affordable housing provision next to governments, the concept of governance is very relevant here. This research thus aims to fill the knowledge gap by evaluating IH by taking a governance perspective. The methods used to fulfil the aim are a literature review and a case study focusing on the Chinese practice of IH, as China is a newcomer to the IH-scene.

Providing decent and affordable homes in the form of Public Rental Housing (PRH) is high on the Chinese government agenda. Since the central government delegates responsibilities to local governments without providing adequate financial support, local

governments have taken a major role in financing PRH provision. Therefore, they turn to the market and employ the instrument of IH to realize the PRH mandates assigned to them by the central government.

This evaluation of Chinese IH has analyzed the problems associated with IH from a governance point of view. Based on the findings, this paper seeks to sketch future options for Chinese IH from a governance perspective that will prevent the identified problems with the current IH instrument.

The results show that the Chinese PRH governance might not be considered as effective through utilizing IH. Based on the analytical framework, actors and their interrelationships are related to this finding in terms of three aspects: First, the distribution of costs and benefits across government and private actors is unequal, since private developers bear the cost, but local governments enjoy the increments of land value; the second aspect is that there is no sufficient compensation for developers to offset their cost for IH units; and third, it is difficult for developers to negotiate with the local governments for flexibility in a declining market.

As many Chinese cities favor IH because it allows them to produce PRH units without many government financial inputs, the result of this study is meaningful for local governments reassessing the adoption of IH. If IH is still a choice for localities to help provide PRH, some policy implications can be provided for its future development and attractiveness for developers based on the results of this paper. Local governments should bear more costs of IH or provide a well-calculated offset system to compensate developers. Local governments need to rethink their relations with developers and provide flexible compliance options for developers in a declining housing market. Given the variations in local housing markets, different localities in China might need to develop different strategies for their IH implementation.

Overall, the main contributions of this study are three. First, evaluating IH from a governance point of view is new for the literature. In essence, as IH is about private and government agents cooperating to produce affordable houses, an evaluation from the governance perspective can help to monitor and systematize affordable housing provision from a fundamental basis. Second, this paper formulates an analytical framework based on two important elements of governance: Actors and interrelationships. It argues that to study "actors" means to discover who the main actors involved are and what their responsibilities and tasks are, while the study of "interrelationships" is about how the involved actors come to an agreement based on their interests, purposes, and ability of negotiation. The analytical framework thus helps to move beyond abstract discussions of governance to investigate the practices of PRH governance on the ground.

Last, but not least, this paper brings the Chinese case of IH into the global discussion. Although the PRH governance of China via IH is embedded in a different constitutional framework than in other countries, the governance in China has also come to engage private sectors in the provision of PRH. This means that there are more similarities at present than in the past between China and other countries. However, the experience of Chinese IH has not arrived at a position conforming to using the two mainstream approaches of engaging private actors: The LVR approach or Incentive approach. As no systematic analysis in English exists regarding the evaluation of Chinese IH, especially from a governance point of view, this study of Chinese IH can thus provide meaningful insights to the international literature regarding IH and affordable housing governance.

It is worth noting that, in order to evaluate IH from a governance perspective, a case study of China is never completely representative. Rather, the Chinese practice of IH in PRH provision shows how to apply the two governance elements in the analysis. The literature will benefit from further empirical data and a systematic review of IH practices to evaluate IH from the governance perspective also in other countries and regions in the world. An investigation on how multiple factors (economic and social) influence the effectiveness of Chinese IH is another important future research topic.

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