

## China Economy

### What Can China's Three Projects Accomplish?

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- China's "Three Projects" will have a much smaller impact on the housing market than the shantytown redevelopment campaign of 2015; this is likely intentional to avoid more painful adjustments in the future
  - These projects could shape China's economy more significantly in the long term by affecting urbanization and housing costs
  - If China's urbanization hits 76% in 2030, it would have 60mn more urban residents and require 2.4bn sqm more housing than if 72% urbanized
  - Lowering housing costs could release substantial consumer spending power
  - More public housing risks crowding out commercial units or pushing their prices up, which could be counterproductive to Beijing's goal of more affordable housing
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In 2024, and probably beyond, China's real estate sector will continue to struggle and pose significant risks to its overall economy. At the Central Economic Work Conference last December, top leaders identified "Three Projects" as key tools for stabilizing the sector. These are the development of more affordable housing, renovation of urban villages, and construction of infrastructure designed dually for routine and emergency purposes. **The impact of these projects will likely be felt more in the long than near term.**

#### Shantytown Redevelopment 2.0?

The Three Projects may evoke China's "shantytown" redevelopment campaign, which was launched in 2015 and boosted housing sales in subsequent years. Many hope that the Three Projects will have a similar impact, especially after the central bank resumed its pledged supplementary lending (PSL) facility. The facility injected low-cost liquidity into policy banks, supporting loans to local governments that in turn paid cash compensation to relocated residents. The PSL thus raised China's housing demand and sales by private developers.

There are three key differences between the two initiatives, however. **First, while the 2015 campaign focused on small localities, the Three Projects are aimed at large cities.** Last July, the State Council approved guidance calling for the renovation of urban villages in cities with more than 3mn residents in their central districts. Media recently [reported](#) that the scope may be widened to all provincial capitals and cities with over 2mn. If so, 52 out of 683 cities will enjoy relevant support, a much narrower range than the 2015 campaign.

**Second, the Three Projects may require more time to materialize.** In the 2015 campaign, over 24mn housing units were redeveloped in just four years. By contrast, a typical urban-village renovation project could take 7-10 years. Moreover, vice premier He Lifeng last July [urged](#) local governments to clear all land-related fees and duties, such as relocation and demolition, before selling parcels for redevelopment. In 2021, the housing ministry also tightened rules on relocation and redevelopment. These new requirements may elongate projects' development time even more.

**Third, state-owned enterprises (SOEs) will likely play a bigger role in the Three Projects.** In the 2015 campaign, roughly 60% of affected residents received cash compensation to relocate, supporting over 20% of all housing sales in the period. With

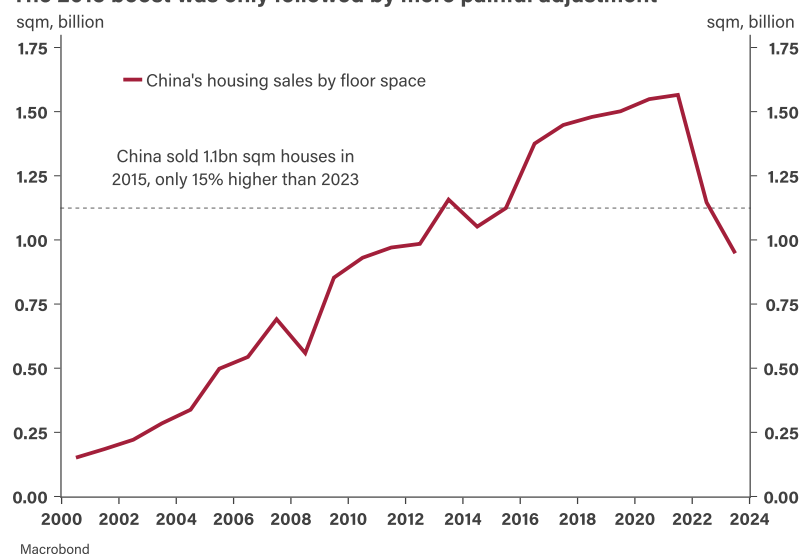
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the Three Projects, however, the government is emphasizing affordable housing more and cash payouts less, even with PSL. This signals lower returns on investment for and thus less attraction from private developers. The government may have little choice but to rely on SOEs to deliver the projects.

Ultimately, **these differences suggest that the Three Projects will have a much smaller impact on China's housing market than the 2015 campaign**, especially for private developers. **This is likely intentional**, as the 2015 campaign ended up boosting China's housing sales to an unsustainable level, only delaying and making more painful an inevitable adjustment.

**The 2015 boost was only followed by more painful adjustment**



## Faster Urbanization?

The Three Projects may yet have a significant long-term impact on China's economy. **Namely, a greater supply of affordable housing in cities may hasten urbanization.**

In 2023, 66.2% of China's 1.4bn people lived in cities, 1ppt higher than in 2022. Though significantly up from the 0.5ppt increase from 2021 to 2022, the earlier was largely an aberration of the COVID-19 pandemic. **The 2021-23 increases average to just 0.8ppt, well below the mean 1.4ppt per year seen in the past two decades.**

Housing costs are a clear obstacle to residing in cities. In Beijing and Shanghai, purchasing a new 100-sqm unit would require 20 years' worth of combined income for local families, and much more for migrants from lower-income localities. The figure is lower but generally still exceeds 10 in 2nd-tier cities like Wuhan and Chengdu. In comparison, the national average is just eight, meaning much cheaper housing in smaller cities. This is a likely reason for the Three Projects' focus on large cities.

**Faster urbanization will mitigate risks associated with a shrinking population.** If China continues to urbanize as quickly as in the past three years, 72% of its population—or 988mn—would be urban by 2030. This would mean 55mn more urban residents from 2023, even given a decrease of 30mn in the total population. If these residents seek to grow their living space per capita as quickly as the average 2.4% per year seen from 2010 to 2020,

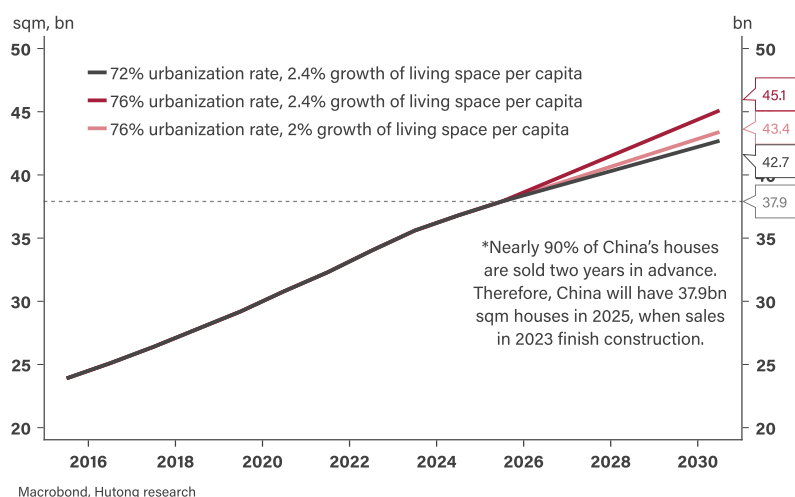
we estimate that they would need 4.8bn sqm in additional housing. (See **Appendix** for a detailed methodology.)

If the Three Projects draw more people to cities, China’s urbanization may accelerate. In the case that the country urbanizes as rapidly as in the previous decade, 76% of its population—or 1.05bn—will be urban by 2030. This would be an increase of 115mn urban residents from 2023. The amount of additional housing needed would jump to 7.2bn sqm, or 2.4bn sqm more than in the 72% scenario.

Actual demand could be less, as housing units in large cities are usually smaller. If more people settle in smaller units, growth in living space per capita may slow. If this rate decelerates to a mean 2% annually from 2020 to 2030, China would require just 5.5bn sqm in additional housing by 2030, even if urbanization hits 76% by that year.

### Urbanization will have a significant impact on China's housing demand

Housing demand of China's urban residents  
By urbanization rate in 2030 and average growth of living space per capita in 2020-30



### More housing sales?

Higher housing demand may not automatically translate into greater sales, however, especially with more demand met by affordable housing. Urban housing in China may be classified in two broad categories—commercial units sold by property developers, and noncommercial ones that include everything else, such as shantytown and public housing, minus depreciated housing of all types. An increase in supply of the latter may well decrease demand for the former.

From 2015 to 2020, China’s noncommercial housing stock increased by only 0.8% per year, down from 1.7% annually in the previous five years. This decrease was likely connected to the 2015 shantytown campaign, which accelerated the depreciation of noncommercial and encouraged the purchase of commercial housing.

**If the Three Projects encounter stricter rules for redevelopment and / or entail greater support for public housing, sales of commercial housing may not grow as quickly as without said rules or support.** If China’s urbanization hits 76% by 2030, living space per capita grows by 2% per year, and noncommercial stock increases as slowly as before (0.8%

per year), then commercial housing sales would need to average 1bn sqm annually in the coming five years to meet demand.

If the noncommercial stock increases by 1.2% annually, however, the amount of commercial housing sales needed per year would only be 860mn sqm. This is roughly the same outcome as if China’s urbanization hits 72% by 2030, living space per capita grows by 2.4% per year, and the noncommercial stock increases by 0.8% annually (i.e., without the Three Projects).

Demand for commercial housing could be higher if strict eligibility requirements and / or low quality prevent noncommercial housing from meeting residents’ needs. If the supply of commercial housing is insufficient, though, China’s housing costs may increase even more, as has happened in Hong Kong. **In other words, there is a risk that poor implementation of the Three Projects may well counter Beijing’s own goal of increasing the supply of affordable housing.**

### Support for public housing may crowd out commercial housing

Assuming 76% urbanization by 2030 and 2% annual growth of living space per capita

Housing space (bn sqm)	0.8% annual increase in noncommercial housing		1.2% annual increase in noncommercial housing	
	Commercial*	Noncommercial	Commercial*	Noncommercial
Stock in 2020	16.7	14.1	16.7	14.1
Annual increase	1.31	0.11	1.31	0.17
Stock in 2025	23.2	14.6	23.2	15.0
Annual increase	1.00	0.11	0.86	0.18
Stock in 2030	28.2	15.2	27.5	15.9

\* Because nearly 90% of commercial units are sold two years in advance, stock in 2025 has already been largely determined by sales in 2023. Similarly, annual increase from 2025 to 2030 will be largely determined by annual sales from 2024 to 2028 (inclusive).

(Sources: NBS, Hutong Research)

### More consumption?

The Three Projects may also impact China’s consumption. As more people are drawn to cities, they will consume more. **In addition, if the Three Projects can lower housing costs with more affordable options, urban residents may reallocate more income towards consumption.**

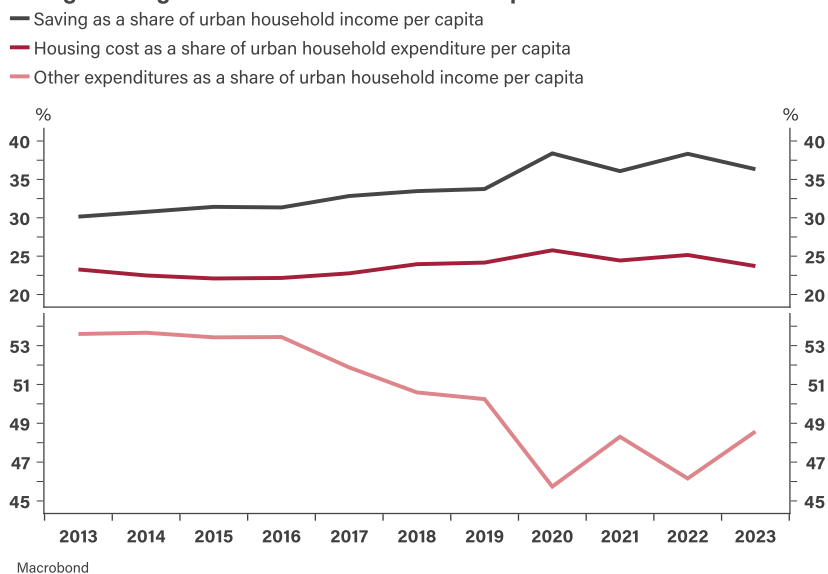
The precise effect of rising housing prices on China’s propensity to consume is a matter of debate. One camp argues that they increase homeowners’ wealth and, in turn, willingness to consume. The other contends that they incentivize more savings and investment in real estate, decreasing overall consumption.

**As of today, the latter camp appears to have won.** In 2023, urban households saved 36% of their income, up by 6ppt from 2013. Of the amount that they spent, housing costs amounted to 24%, up by 1ppt. As such, households directed 49% of their income on expenditures other than housing, down by 5ppt in the period. The decline accelerated after 2015 when Beijing’s shantytown campaign boosted housing sales. This result discredited the former camp.

**The situation is much worse in large cities.** In Beijing, urban households saved 46% of their income in 2022, up by 15ppt from 2015. Of the amount that they spent, housing costs constituted 41%, up by 10ppt. As a result, households allocated only 32% of income to other expenditures, down by 16ppt. In Shanghai, similarly, urban household saving as a share of income rose by 13ppt to 43% in 2022, while expenditures on items other than housing fell by 11ppt to 35%.

If the Three Projects can lower the ratio of housing costs to household expenditure per capita by 1ppt for China's more than 900mn urban residents, this would release RMB 300bn for other spending purposes. The impact could be even more substantial if the Three Projects can induce households to save less. Notably, this does not require a reduction in housing costs or savings; rather, these figures need only grow less quickly than other expenditures and household income.

**Rising housing costs have made households spend less on others**



## Appendix: Methodology of estimating China's urban housing demand

We estimate China's urban housing demand using three parameters—population, urbanization, and growth of living space per capita—in comparison with its housing stock.

First, we estimate China's urban housing stock based on sales and census data. As of the 2000 census, China had 9.1bn sqm in urban housing, with 15% of households residing in commercial units (1.3bn sqm). From that year to 2020, 17.9bn sqm in commercial housing was sold. Because nearly 90% of China's housing units are sold two years in advance, 2.5bn sqm of this was delivered after 2020. Thus, an estimated 16.7bn sqm was sold and delivered as of 2020, comprising the entire commercial housing stock.

For noncommercial housing, 7.8bn sqm was available in 2000. Subsequent census data indicate that China had 17.9bn sqm, 23.9bn sqm, and 30.7bn sqm in urban housing by 2010, 2015, and 2020, respectively. Excluding the commercial housing stock as computed above, we calculate that the noncommercial stock was 12.5bn sqm, 13.6bn sqm, and 14.1bn sqm for the same years, respectively.

	Commercial	Noncommercial
Stock in 2000	1.3	7.8
Annual growth	14.8%	4.9%
Stock in 2010	5.4	12.5
Annual growth	13.9%	1.7%
Stock in 2015	10.3	13.6
Annual growth	10.0%	0.8%
Stock in 2020	16.7	14.1

Stock figures are in bn sqm.

(Sources: Census, NBS)

Second, we project changes in the three parameters over time. As regards population, census data show that China's population was 1.41bn in 2020. China's National Bureau of Statistics (NBS) recorded 12mn, 10.6mn, 9.6mn, and 9mn births for 2020, 2021, 2022, and 2023, respectively. Death figures approximated 10mn for each of those years except for 2023, when they rose to 11mn, likely as a result of the lifting of pandemic restrictions.

If the number of births declines by 9% annually—mirroring the average in the past three years—only 4.5mn births would occur in 2030. Further assuming that deaths remain at 11mn per year, China's population would decline to 1.38bn in 2030. This is a rather pessimistic projection, though, as China's births fell by only 6% in 2023.

Year	Population	Births	Deaths	Urbanization	Urban population
2020	1,412	12.00	N/A	64.0%	902
2021	1,412	10.62	10.1	64.7%	914
2022	1,412	9.56	10.4	65.2%	921
2023	1,410	9.01	11.1	66.2%	933
2030	1,380	4.51	11.0	71.6%	988

Except for urbanization, figures above are in mn of persons.

(Sources: Census, NBS)

For urbanization, the NBS recorded 66.2% for 2023—up from 65.2% in 2022, 64.7% in 2021, and 64% in 2020. This amounts to an average annual increase of 0.8ppt over this period. In 2010, China's urbanization was only 50%, yielding an average annual increase of 1.4ppt until 2020.

If China continues to urbanize at the same rate as in the past three years, urbanization will reach 72% by 2030. If it instead urbanizes as quickly as from 2010 to 2020, the urban population share will hit 76%.

As for living space per capita, census data recorded 38.6 sqm in 2020. Notably, this figure only considers urban residents registered as households and excludes members of collective units, such as students or workers in dormitories; the latter comprise roughly 12% of China’s urban population. Dividing housing stock by residents registered as households, we calculated living space per capita at 22.6 sqm, 30.4 sqm, and 34.3 sqm for 2000, 2010, and 2015, respectively. This translates to average annual growth of 3% from 2000 to 2010, and then 2.4% from 2010 to 2020.

Assuming continued annual growth of 2.4%, living space per capita will reach 49.1 sqm by 2030. In China, this measure includes common areas such as elevators and gardens, which usually account for 20% of the total. Excluding them, actual living space per capita in 2030 will only be 39.2 sqm—comparable to Japan’s 39.5 sqm as of 2018.

Assuming a population of 1.38bn and 72% urbanization, China would have an urban population of 988mn by 2030. Of them, 869mn would be registered in households. To provide these 869mn with 49.1 sqm of living space per capita by 2030, China would need 42.7bn sqm more housing. If 15.2bn sqm thereof is noncommercial—following an average annual growth rate of 0.8% from 2020 to 2030—the amount of commercial housing needed would be 27.5bn sqm. This means annual sales of 860mn sqm in the coming five years.

	Urban household population (mn persons)	Living space per capita (sqm)	Total housing (bn sqm)	Noncommercial housing (bn sqm)	Commercial housing (bn sqm)
2020	796	38.6	30.7	14.1	16.7
2021	803	39.6	32.3	14.2	18.1
2022	810	40.5	34.0	14.2	19.7
2023	817	41.5	35.6	14.4	21.2
2025*	951	45.5	37.9	14.6	23.2
2030	869	49.1	42.7	15.2	27.5

\* Nearly 90% of China’s commercial housing is sold two years in advance. In other words, most housing up to 2025 has already been sold, whereas sales from 2024 to 2028 (inclusive) will determine the actual stock increases from 2025 to 2030.

(Sources: Census, NBS)