Managing Overaccumulation: China's New Affordable Rental Housing Program and Its Financialization through REITs

Bo Li[1], Manuel B Aalbers[2], Jie Chen[3*], Sebastian Kohl[1]

1 Sociology Department, John F. Kennedy Institute, Freie Universität Berlin, Berlin, Germany
2 Division of Geography & Tourism, KU Leuven, Leuven, Belgium
3 School of International and Public Affairs & China Institute for Urban Governance, Shanghai Jiao Tong University, Shanghai, People's Republic of China
*Corresponding author

Abstract

Social housing has been experiencing a global trend toward residualization, primarily targeting vulnerable groups through non-market methods. Meanwhile, it is undergoing a parallel trend of financialization, where it is increasingly treated as a financial asset for trading and speculation. In contrast, social rented housing in China is transitioning to a mass model and embracing financialization, exemplified by the government's proactive promotion of the Affordable Rental Housing (ARH) program and the introduction of Real Estate Investment Trusts (REITs) for social housing investment. However, the combination of seemingly non-profit social housing with profit-driven REITs remains an understudied phenomenon. This paper addresses this gap by drawing on theories of overaccumulation and state entrepreneurialism. We explore the rationales driving the promotion of ARH (-REITs) and investigate the state's role in facilitating this process. We argue that China's development and financialization of ARH is increasingly adopted as a national strategy to mitigate the overaccumulation crisis in the homeownership sector through a 'spatial fix' wherein capital circulates within the secondary circuit rather than switches between circuits of capital. This strategy involves establishing legal frameworks and institutions to make ARH profitable, stimulating demand by expanding target groups to include middle- to high-income "talents" with additional benefits, stimulating supply by reducing costs and political directives, and promoting financial innovation and credit enhancement. We conclude with concerns about the potential long-term 'crisis-magnifying' effects of this spatial fix and its implications for vulnerable households.

Keywords: Overaccumulation; REITs; Financialization; Social Rented Housing; State Entrepreneurialism; Spatial Fix

Introduction

Financialization, understood as the process through which real estate is increasingly transformed into a liquid financial asset for trading and speculation (Fainstein, 2016; Gotham, 2009), has occurred within the homeownership and private rental sectors, spanning the Global South, East and North (Aalbers, 2016; Aalbers et al., 2020; Chen et al., 2022; Fields, 2018). Traditionally, social housing, intended for low- and moderate-income or vulnerable populations and administered or subsidized and supervised by governments, has been seen as less prone to financialization because of its nonprofit status and strict governmental supervision. However, within particular conditions and contexts, social housing manifests certain characteristics that position it as a 'quality asset' sought after by investment institutions. For instance, the reliable cash flows linked to government-supported social housing render social housing bonds appealing investments for risk-averse stakeholders aiming for sustained, long-term yields, such as insurance funds (Wainwright and Manville, 2017). Social housing allowances may make low-risk rent flows from social tenants particularly attractive, , as evidenced by research in the UK (Wainwright and Manville, 2017) and Germany (Bernt et al., 2017). Driven by a convergence of factors including reductions in public welfare funding, restricted bank lending following the Global Financial Crisis, the globalization of capital markets, and the standardization and enhancement of housing valuation techniques (Fernandez and Aalbers, 2016), social housing has emerged as a burgeoning arena of financialization in recent years (Aalbers et al., 2017; Belotti, 2023; Goulding, 2024; Wijburg et al., 2024).

A number of scholars have documented the variegated patterns and processes of the financialization of social housing, focusing on the role of different stakeholders. For instance, Aalbers et al. (2017) detail how Dutch housing associations delved into finance, utilizing their asset-rich portfolios to engage in derivatives trading, including using their assets as collateral to purchase complex financial products from foreign banks. These actions resulted in risky financial decisions and ultimately necessitated a bailout. Similarly, Wainwright & Manville (2017) showcase how diminished state funding has driven social housing providers to issue bonds, increasing their dependence on capital market intermediaries. More recently, scholars have focused on the emergence of Real Estate Investment Trusts (REITs) or Real Estate Investment Funds (REIFs) entering the social housing sector (Belotti, 2023; Goulding, 2024). This phenomenon presents a notable departure from the previous speculative practices of social housing operators. The expansion of REIT markets necessitates state involvement in establishing regulatory frameworks, policy directives, legislative support, and financial system liberalization - often extending to direct financial assistance. States have moved beyond mere market facilitation, assuming active roles in shaping REIT market development across numerous jurisdictions (Aalbers et al., 2023; García-Lamarca, 2021; Gotham, 2006; Waldron, 2018; Wijburg, 2019). We see this pattern not only in the Global North countries with REITs, but also in Global South and Global East countries that have introduced REIT regimes (Aveline-Dubach, 2022; Sanfelici and Halbert, 2019). Hence, the penetration of REITs into social housing should not be viewed merely as an economic activity driven by self-interest and individual incentives but rather requires analysis within a broader social and political context (MacKinnon and Cumbers, 2018), underscoring the central role of housing in political economy (Aalbers and Christophers, 2014). The state plays a crucial role in transforming social homes into a new asset class (Gabor and Kohl, 2022) and we will demonstrate this is also the case in China, where social housing REITs were introduced as part of a state-directed capital switching program to manage overaccumulation crisis.

In recent years, particularly since the Evergrande debt crisis in 2021, China's real estate market has faced an unprecedented downturn. From 2020 to 2023, residential sales areas plummeted by 39%. Numerous real estate and related enterprises have experienced declining profits or even bankruptcy. In contrast, the social rental housing sector has witnessed an extraordinary resurgence. Following 2020, the government began to vigorously promote the Affordable Rental Housing (ARH) program. Unlike previous "image projects", this initiative aims to substantially expand the stock of ARH, aiming to build or acquire 8.7 million ARH units for the "14th Five-Year Plan" period (2021-2025) (CRIC, 2023). Various measures have been implemented, with the most notable being the establishment of Affordable Rental Housing Real Estate Investment Trusts (ARH-REITs) in 2022 and the central aid plan piloted in 2023 and expanded in 2024 to help local government-owned enterprises acquire unsold commercial housing as ARH. To our knowledge, such policy measures are rare in any other countries. Understanding the Chinese government's motivations in promoting the financialization of ARH and its role in this process not only significantly enriches our comprehension of the "variegated financialization of housing" (Aalbers, 2017) across Global North, South and East, but also reveals how financialization spreads and shifts between different housing tenures in the context of a depressed real estate market.

As we will argue in this paper, the Chinese case of financialization diverges substantially from cases documented in the literature in terms of both policy goals and implementation processes. Social rented housing in China has been redefined and assigned a new mission, serving as a national strategy to address the crisis of capital overaccumulation. Additionally, the state has effectively utilized its legislative, financial, and political power to achieve the financialization of social rented housing. Through REITs, the real estate development model in China has shifted from being debt-driven to equity-driven. Theoretically, this paper extends the understanding of capital circulation by demonstrating that capital switching occurs not only between primary and secondary circuits, but also within the secondary circuit itself. Through the case of ARH, we reveal how specific sectors within real estate markets can emerge as distinctive spatial fixes, driven and modulated by state initiatives and policy choices.

This study utilizes a mixed-methods approach, employing both longitudinal data and in-depth qualitative insights. Our data sources encompass official statistics from the National Bureau of Statistics, ARH-REITs' public disclosures (prospectuses, annual, and quarterly reports), policy documents, news reports, and statements from central and governmental officials. We analyze trends through longitudinal datasets and employ simple regression analysis to investigate the relationship between the development of ARH and overaccumulation in the homeownership sector on the city level.

The paper is structured as follows. The subsequent section presents the theoretical framework underpinning this study, which encompasses concepts such as overaccumulation, spatial fix, and state entrepreneurialism. This is followed by a brief overview of the historical trajectory of social rented housing in China. Subsequently, we examine how the ARH (-REITs) program functions as a spatial fix in displacing the overaccumulation crisis within the homeownership sector. Following this, we scrutinize the role played by the state in actualizing ARH-REITs, drawing insights from the theory of state entrepreneurialism. The paper culminates with our reflections on the implications of employing ARH as a spatial fix, particularly concerning vulnerable demographic segments, and offers policy recommendations accordingly.

Overaccumulation, Fixing and State Entrepreneurialism

Housing is capital-intensive and therefore its production and ownership have always been dependent on finance. Yet the phrase “financialization of housing” suggests that housing is increasingly becoming more dependent on finance (Aalbers, 2017). In this paper we combine the conceptualization of financialization as a new regime of accumulation with David Harvey’s ideas of overaccumulation, capital switching and the spatial fix.

According to Arrighi (1994: 232–233), overaccumulation can be broadly defined as a condition in the capitalist system where the amount of capital in the market exceeds the level necessary to maintain or prevent a decline in the rate of profit. This excess of capital is not due to a lack of investment opportunities but because the volume of capital surpasses what the market can effectively absorb and generate satisfactory returns from (Ibid). In a specific territorial system, overaccumulation refers to ‘a condition of surpluses of labor (rising unemployment) and surpluses of capital (registered as a glut of commodities on the market that cannot be disposed of without a loss, as idle productive capacity, and/or as surpluses of money capital lacking outlets for productive and profitable investment)’ (Harvey, 2012: 64). While Marxist theory identifies overaccumulation as a central consequence arising from the internal contradictions inherent in capitalism, Lefebvre (2003 [1970]) and Harvey (1982) developed the concept of the 'secondary circuit of capital' to analyze how these crises are temporarily resolved. Through what Harvey terms ‘capital switching’ or ‘displacement’ (Jones and Ward, 2002), surplus capital is redirected from the primary circuit (industrial production) to the secondary circuit (built environment). The regulationists focus on the role of the state in searching for and ensuring new accumulation processes by changing functions, forms, and institutions when an overaccumulation crisis occurs (Jessop, 1990; Zhang et al., 2021). Harvey (2012) introduced the concept of the ‘spatial fix’, suggesting that these surpluses can either be absorbed by temporal displacement through long-term projects or social programs like education and research, or by spatial displacements through exploring new markets, production capabilities, and resources in different locations, or a combination of both approaches.

Also in China, state policies are sometimes seen as a response to overaccumulation crises (He et al., 2020; Jones and Ward, 2002; Li and He, 2024; Zhang et al., 2021). For instance, Zhang et al. (2021) argue that the surge in suburban property development in China after 2016 resulted from state intervention targeting the nation's post-2008 overaccumulation crisis, redirecting surplus capital from the industrial production sector towards the urban built environment. While these studies have significantly advanced our understanding of capital switching between circuits, they have predominantly focused on inter-circuit movements. We argue that capital circulation also occurs within the secondary circuit itself, as specific sectors within real estate markets can emerge as distinctive spatial fixes. Current research predominantly emphasizes the homeownership sector as the primary absorber of surplus capital. However, with heightened market volatility and increased risk exposure in these traditional sectors, surplus capital is actively seeking safe havens rather than high returns. In this context, social rental housing emerges as an attractive destination for capital redeployment. Its appeal lies in the state's institutional guarantees that significantly reduce systematic risks, its competitive advantage in tenant attraction due to below-market rents, and its relatively stable demand and revenue streams even during market downturns. These characteristics, combined with various policy instruments that optimize risk-adjusted returns, make social rental housing a unique spatial fix within the secondary circuit. Despite these advantages, the potential of social rental housing to absorb surplus capital and its role in intra-circuit capital circulation remains an underexplored area.

To examine the role of Chinese government in facilitating the development of ARH (-REITs), the theory of state entrepreneurialism will be adopted, which is built on the concept of 'urban entrepreneurialism' originated from the accumulation school. In his seminal paper, Harvey (1989) discusses the shift in urban governance from a managerial to an entrepreneurial approach in the context of late capitalism. According to Harvey (1989), before 1970s, urban managerialism is the mainstream governance approach, which primarily focused on the local provision of services, facilities and benefits to urban populations (Harvey, 1989, p. 3). However, driven by factors such as deindustrialization, unemployment, fiscal austerity, and the declining power of the nation-state, urban managerialism evolved into urban entrepreneurialism, focusing on speculative construction of place. Urban entrepreneurialism can be seen as embedded in a framework of zero-sum inter-urban competition for resources, jobs, and capital, which may have implications for future growth prospects and transitions. Harvey's work has inspired numerous followers to further develop and reappraise the concept (Jessop and Sum, 2000; Lauermann, 2018; Phelps and Miao, 2020).

A variant of urban entrepreneurialism coined 'state entrepreneurialism' gained substantial attention in recent years. State entrepreneurialism refers to states' strategic use of financial instruments and market mechanisms to pursue statecraft objectives (Belotti, 2023; Lagna, 2016; Pillay Gonzalez, 2024). Researchers found it especially useful when analyzing less market-oriented transitional societies (Wu, 2020; Yılmaz and Aktas, 2021). Duckett (1996) is among the first to use the term state entrepreneurialism to describe the 'profit-seeking, risk-taking activities of individual state bureaux as they set up businesses in the emergent Chinese market economy'. State entrepreneurialism differs from traditional entrepreneurialism by emphasizing the proactive use of market instruments for strategic and developmental objectives, where the state acts through the market rather than just being market-friendly (Wu, 2020). State entrepreneurialism goes beyond mere profit-seeking behavior, aiming to achieve multifaceted goals such as implementing socio-economic policies, maintaining state power, and extending the state's position into the market sphere.

Notably, state entrepreneurialism and the recently emerged "new state capitalism" framework, while sharing an emphasis on the active role of the state in market dynamics, differ significantly in their focus and application. While new state capitalism examines the state's role as a promoter and owner of capital in the global capitalist restructuring, emphasizing mechanisms such as sovereign wealth funds and large-scale infrastructure investments (Alami and Dixon, 2023; Ward et al., 2023), state entrepreneurialism focuses on how states strategically use market tools at local and national scales to achieve developmental and governance objectives (Wu, 2020). Drawing on Harvey's spatial fix theory, state entrepreneurialism emphasizes how the state actively adapts its governance practices to ensure the continuation of capital accumulation through market mechanisms (Wu, 2020). This theoretical framework has proven valuable in understanding various state-market interactions across different contexts, from Italy's use of derivatives for the Economic and Monetary Union admission criteria (Lagna, 2016) to South Africa's public pension funds' strategic investment in property markets (Pillay Gonzalez, 2024). While "new state capitalism" often engages with macro-level geopolitics and transnational capital flows, as evidenced in China's Belt and Road Initiative (Szabó and Jelinek, 2023) and London's financial governance (Eagleton-Pierce, 2023), state entrepreneurialism typically focuses on domestic governance solutions. This is particularly evident in China's urban development, where scholars have extensively applied this framework to analyze urban redevelopment, suburban development, and housing (de)financialization (Shen et al., 2022; Wang and Wu, 2019; Wu, 2018; Wu and Phelps, 2011).

A Brief History of Social Rented Housing in China

To analyze the entry of REITs into ARH, it's helpful to review the evolution of social rented housing in China, which reflects changes in the nation's housing welfare system and governmental policy approaches. Throughout China's history, social rented housing has taken on various forms, names, and rental levels during different periods (see Table 1). during Mao's socialist period, 72% of urban households in 1978 lived in welfare housing provided by their employers, considered an element of state company welfare rather than a commercial asset (Deng et al., 2017). However, the welfare housing system faced various challenges in its later stages, including housing shortages, insufficient investment, issues with distribution and corruption, and poor management (Wang and Murie, 1996).

In response to the housing crisis, Deng Xiaoping spearheaded Housing Reform in the 1980s as part of broader economic reforms, shifting towards a market-oriented system. A major reform was selling work unit housing to tenants at first market and later subsidized rates (Deng et al., 2017). Additionally, the 1988 constitutional amendment legalizing land use rights commercialization propelled the for-profit construction of commodity housing, paving the way for China's current land-based development model.

In 1998, China's government ceased providing work unit housing, compelling most urban residents to buy homes from real estate developers. To support low-income families during this transition to a market-driven system, a dual social housing system was introduced, consisting of Low-Rent Housing (LRH) for rent and Economic Comfortable Housing (ECH) for purchase, both initiated in 1998 (Chen et al., 2013). Despite these measures, social rented housing fell from 16% of the market in 2000 to just 4% by 2010 (Li, 2023: 36).

To address the severe housing affordability issue and ensure political consolidation and social stability (Yan et al., 2022), the Chinese government launched an ambitious Public Rental Housing program around 2010. In 2011, Premier Wen Jiabao announced a 5-year plan to build 36 million public housing units by 2015, aiming to house one-fifth of the urban population. Despite these efforts, by 2020, only 4% of urban households resided in social rental housing, according to the seventh census. Li et al. (2024) attribute this shortfall to the persistent productivism model, which has emphasized homeownership as a key economic driver and source of government revenue. This model has led to soaring housing prices in major cities, making homes increasingly unaffordable for many, especially young people and migrants.

2015 was a pivotal year in the evolution of China's housing policy when the Ministry of Housing and Urban-Rural Development (MOHURD) for the first time advocated for boosting the rental housing market. At the Central Economic Work Conference in late 2016, President Xi Jinping declared that "housing is for living, not for speculation" (Central Economic Work Conference, 2016), underscoring a shift towards de-financializing the housing sector. Post-2015 reforms included financial subsidies to local governments for rental housing development, tax benefits for rental companies, crackdowns on rental market abuses, and the promotion of REITs and asset securitization for financing. At the end of 2020, the Central Economic Conference first introduced the concept of Affordable Rental Housing (ARH), emphasizing the importance of prioritizing ARH construction to address prominent housing issues in major cities and curb housing speculation. In 2021, the State Council Office released a directive to boost ARH development, providing detailed financial, land, and tax support and allowing the use of both collective and state-owned land for ARH construction.

ARH fundamentally differs from public rental housing in several aspects, notably in rent levels. Rents of public rental housing are typically 30% to 60% of market rates, whereas ARH rents must be "less than the rent for market rental housing of the same quality in the same location," (State Council Office, 2021) with local governments setting specific prices. Our review of local government policy documents shows that ARH rent caps are typically set at 80% to 95% of market rents. This makes ARH significantly less affordable than the previous public rental housing program. Moreover, unlike the previous program that specifically targeted low-income groups, ARH targets a broader social group, including new citizens and young people of any income level, further diminishing the distinction between ARH and market rentals. The trend towards marketization in public rental housing's investment, construction, and management is evident, driven by principles like "whoever invests, whoever owns" and "give full play to the role of market mechanism" (State Council Office, 2021).

Table 1. Type of social rented housing in urban China

Type	Launch time	Providers	Target groups	Eligibility requirements	Rent level	Size of the sector
Welfare housing	1950s	Municipal housing authorities and employers (work units)	Urban households employed by work units	Local hukou, employee of work units	Nominal, around 2-3% of total household income	72% in 1978
Low-Rent Housing	1998, incorporated into public rental Housing in 2014	Municipal housing authorities	Lowest-income households	Local hukou, income and asset threshold, living space per person threshold	Nominal	7.1 million households (deduced from the Seventh Population Census)
Public rental housing	2010	Municipal housing authorities	Low- to middle-income households including migrant workers and fresh graduates	No urban Hukou required, stable job required for migrant workers and fresh graduates, loose or no income threshold	Varies substantially across cities, generally between 30-60% of market rent	
Affordable Rental Housing	2021	Various providers including municipality-owned companies, real estate companies, state-owned and private rental companies, industry and high-tech parks, village collectives, etc.	New citizens, young people	Employees who are legally employed in the city and do not own properties in the district	60% to 95% of the rent of market rental housing in the same location and of the same quality	3.3 million units in 2022, claimed to reach 8.7 million units in 2025

Data and methods

This study employs a mixed-methods approach to examine how ARH and ARH-REITs serve as a spatial fix for China's real estate overaccumulation crisis and how state entrepreneurialism facilitates this process. Our research design combines primary and secondary data sources to examine three interrelated aspects: the manifestation of overaccumulation in China's homeownership sector, how ARH-REITs function as a spatial fix for this crisis, and how state entrepreneurialism shapes the institutional arrangements and policy initiatives that facilitate this process.

The primary data consists of two rounds of six in-depth interviews with Long-term Rental Apartment operators. The first round was conducted in early 2022 with three managers and founders of market rental apartments in Shenzhen. Although these apartments operate under market principles rather than ARH guidelines, their operations share considerable commonalities with ARH projects, and the comparison between market rental housing and ARH provides deeper insights into ARH's profit model and policy objectives. Each interview lasted approximately one hour and was conducted online. The second round of fieldwork was carried out in January and May 2024 at China Resources Youchao's ARH project in Minhang District, Shanghai, where we interviewed three key personnel including the store manager and project directors. This project, developed on R4-designated rental land[1] acquired in 2019 and operational since March 2023, was preparing for inclusion in CR Youchao's REIT portfolio through a follow-on offering of 1.04 billion yuan. In Shanghai alone, CR Youchao was operating nine ARH projects with another three under development. This was part of their broader national expansion, with 42 projects and 56,000 rental units across 15 cities, of which 28,000 were designated as affordable housing units.

Additionally, we conducted a site visit and workshop in June 2025 at a Beijing Public Housing Center project. During this visit, we received operational briefings from project management staff and participated in Q&A sessions covering management practices, profitability mechanisms, and operational models. While not yet included in the Huaxia Beijing ARH-REIT portfolio, this project is operated by the same originator and represents typical ARH development patterns, providing critical empirical insights to validate our theoretical framework.

Given the multi-scalar nature of our research question, secondary data sources play an equally important role. To understand the institutional framework of ARH-REITs, we analyzed policy documents from multiple government bodies, including the State Council, National Development and Reform Commission (NDRC), Ministry of Housing and Urban-Rural Development (MOHURD), China Securities Regulatory Commission (CSRC), China Banking and Insurance Regulatory Commission (CBIRC), as well as local governments. These documents reveal how different state actors coordinate to establish legal frameworks and create favorable conditions for ARH-REITs. To examine the actual implementation of

[1] R4-designated land refers to a special type of state-owned land exclusively for rental housing development, introduced by Shanghai Municipal Government in 2017. Priced significantly lower than land for homeownership development, R4 land can be used for various rental housing types including dormitories, talent apartments, public rental housing, and market-based rental housing. By mid-2021, Shanghai had released 137 R4 land parcels with a potential capacity of 176,000 rental apartments. Over 90% of these parcels were acquired by state-owned enterprises.

these policies, we conducted comprehensive analysis of all five existing ARH-REITs through their prospectuses, periodic reports, and market performance data.

Furthermore, to contextualize ARH-REITs within China's real estate crisis, we collected quantitative data from multiple sources. From the People's Bank of China, we obtained LPR and outstanding mortgage data to track the evolution of the real estate crisis. Housing construction and sales data from the National Bureau of Statistics help quantify the overaccumulation in the homeownership sector. Additionally, we collected data from 35 municipal statistical yearbooks, including housing sales growth, land revenue growth, and planned ARH construction volumes. These city-level data enable us to examine potential trade-offs between planned ARH development, land revenue growth, and housing sales growth across 35 cities. Given the emerging nature of ARH-REITs and China's real estate crisis, we also incorporated analysis of financial institution reports and authoritative media coverage to capture market dynamics and implementation challenges that are not yet documented in academic literature.

ARH as a spatial fix

In this section, we will demonstrate that the development of ARH transcends mere alleviation of housing affordability concerns; rather, it represents a spatial fix aimed at navigating crises of the homeownership sector, local government revenue, and overaccumulation.

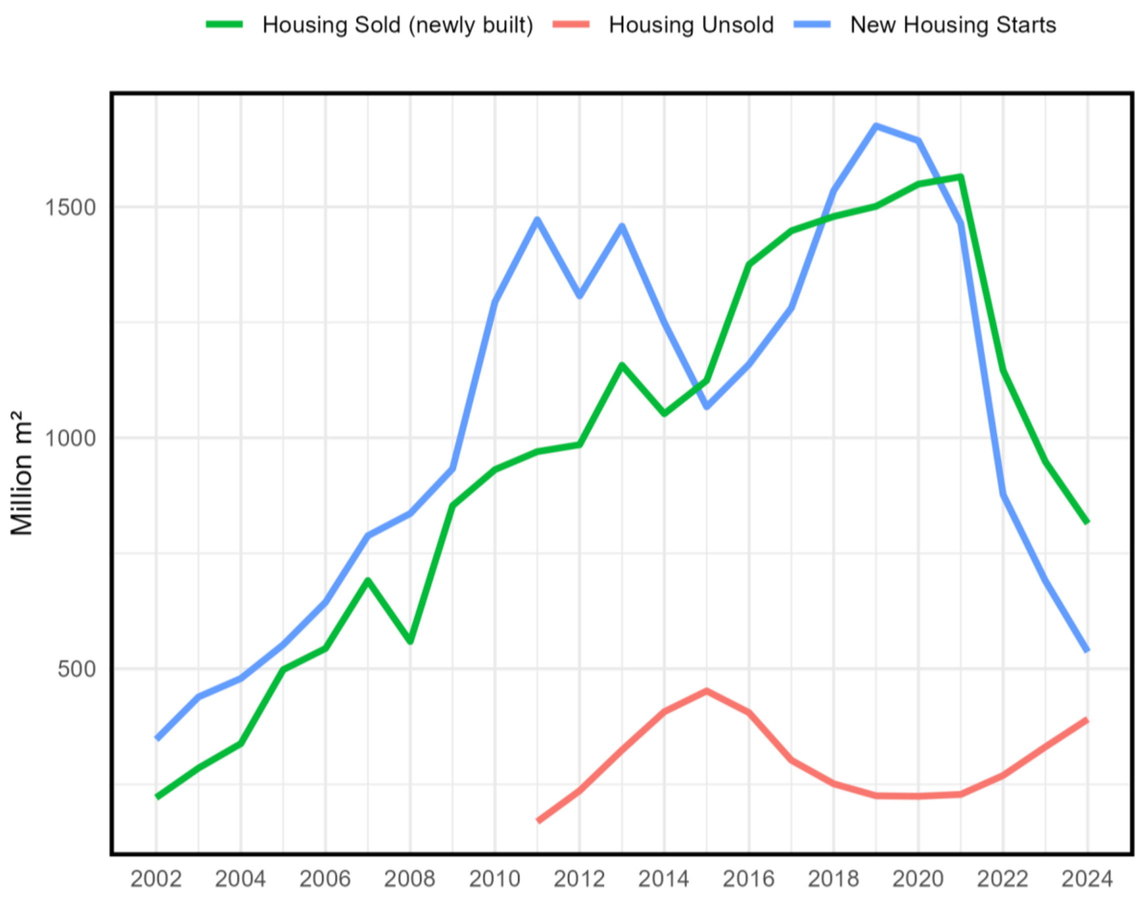
Property Market Crisis

Between 2000 and 2015, China's state-backed productivism model heavily promoted homeownership, leading developers to rely on credit and bond financing, which escalated debt costs. This model pushed real estate companies toward a high-turnover development-sales approach to maintain profitability through quick asset turnover. Initially, this strategy enabled rapid corporate growth, but over time, it led to substantial financial risks as developer debt levels became excessively high. This period also saw the property market overheat (Kohl et al., 2025), with surging prices, increasing debt burdens, and high vacancy rates. A study by the Southwest University of Finance and Economics reported a 21.4% housing vacancy rate in urban China in 2017. The excess of unsold, vacant properties highlighted the challenges for real estate companies reliant on debt financing. From late 2018, there was a marked increase in bankruptcies among developers due to debt defaults (People, 2019).

To counteract financial instability caused by excessive leverage among real estate firms, the government implemented stringent controls, including the "Three Red Lines" policy in 2020. This policy mandates that real estate companies maintain specific financial ratios: a liability-to-asset ratio (excluding advance receipts) of less than 70%, a net gearing ratio of less than 100%, and a cash-to-short-term debt ratio of more than 1.0 (Chu et al., 2023). This has led developers to adopt a more cautious approach, slowing down land acquisitions. Additionally, banks have become hesitant to extend financing, compounding the difficulties for property firms in obtaining necessary funds. This reluctance in financing has caused many developers to face financial shortfalls and halt construction projects, resulting in numerous unfinished buildings. The situation worsened with the COVID-19 pandemic outbreak in 2020, further depressing the real estate market amid increasing developer bankruptcies and halted projects. Consequently, public interest in purchasing homes has significantly declined, with a mere 14.3% of people considering buying a home in 2023 (36KR, 2024a). Figure 1 shows a substantial decrease in the area of both newly initiated and sold residential housing starting in 2020 and 2021 respectively.

Figure 1. Annual newly started, sold, and unsold residential housing area in China, 2002-

2024



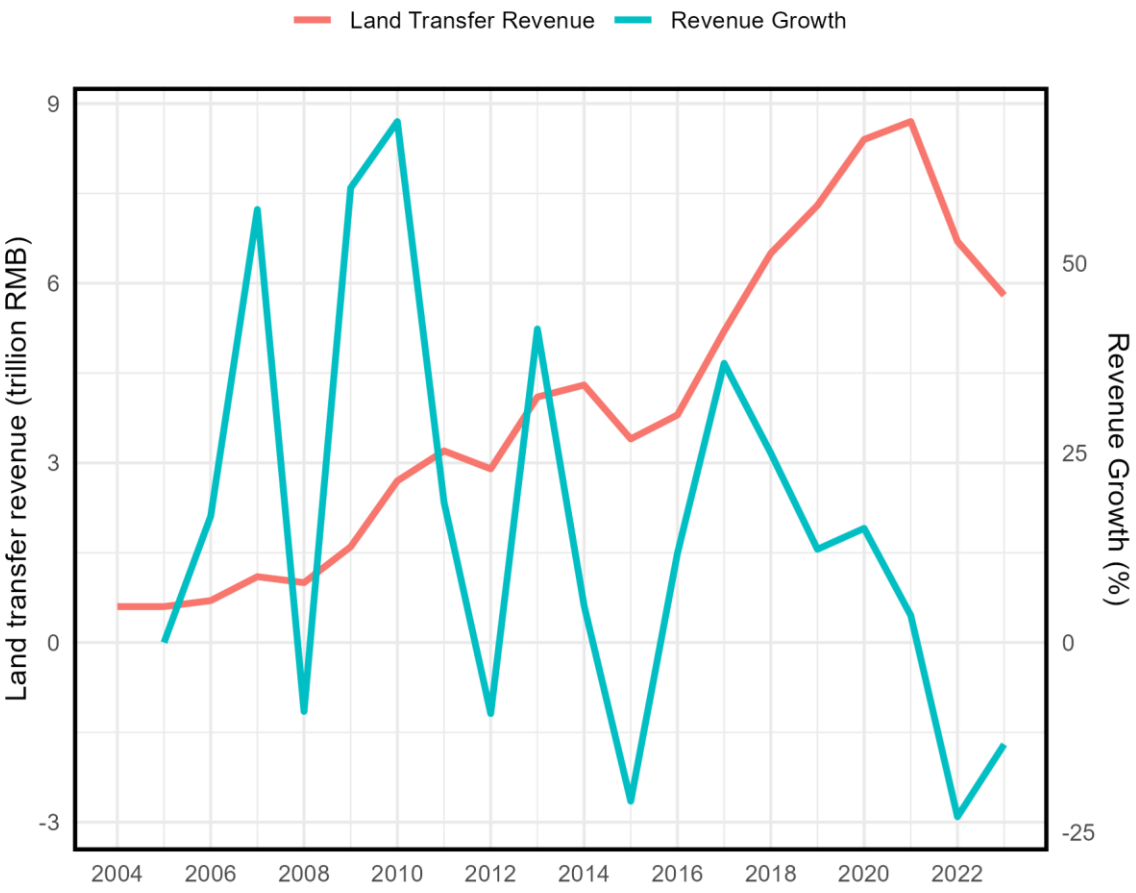
Data source: National Bureau of Statistics

In 2020, the real estate sector and its related industries accounted for 17% of China's GDP through direct and indirect contributions (Bank of China Research Institute, 2021), exerting significant influence on the national economy and providing substantial employment opportunities. On the employment front, China's real estate industry saw significant expansion, with employment numbers increasing from 3.96 million to 12.64 million people between 2004 and 2018, and reaching approximately 15 million by 2021 (People.cn Financial Research Institute and 5i5j Group, 2023). Given its economic importance, maximizing the production capacity of the construction sector is essential for sustaining the broader economy and employment levels. However, developers facing low demand often enter liquidity crises, forcing them to lower property prices to maintain cash flow. While this strategy addresses immediate financial needs, it can destabilize long-term market prices and provoke protests from homeowners who see their property values diminish (NBD, 2024). Government policies typically discourage drastic price cuts, sometimes imposing sanctions to prevent them (Sina News, 2023), reflecting a commitment to socio-economic stability. A significant drop in property prices risks driving many homeowners into negative equity, increasing the likelihood of mortgage defaults and potential systemic threats to the financial system. This situation highlights a critical conflict between maximizing production and maintaining price stability, indicating that the current productivism model is running out of steam and essentially finds itself in a state of crisis.

Local Government Revenue Crisis

The depressed real estate market has led to a significant contraction in local government fiscal revenue. Following the tax-sharing reform in 1994, land transfer fees became a major source of off-budget fiscal revenue for Chinese local governments, with their proportion rapidly increasing. In 2021, land grant premiums accounted for up to 41% of fiscal revenue for local governments in China (Shen, 2022). Due to the sluggish real estate market, the land transaction market has also considerably slowed down, resulting in a substantial reduction in the revenue from land grant premiums for local governments. As shown in Figure 2, recent years have witnessed an unprecedented decrease in land transfer fees. In the absence of other established sources of fiscal revenue, the sharp drop in land grant premiums has placed immense pressure on local government finances, prompting some local governments to embark on significant organizational downsizing to reduce public expenditure (Souhu News, 2024).

Figure 2. Revenue from the transfer of state-owned land use rights and annual growth rate



Data source: Ministry of Finance, Official News

Overaccumulation Crisis

The essence of the real estate market and fiscal crisis lies in the crisis of overaccumulation of capital, as defined by David Harvey. This overaccumulation manifests in several key areas: 1) Significant surplus labor, which leads to waves of layoffs and closures of companies. The previously booming real estate market attracted a large number of professionals, but the sudden downturn led to a severe surplus of labor, prompting enterprises to engage in mass layoffs or even direct closures [2]; 2) Large quantities of unsold housing, unable to be disposed of without incurring losses. As of April 2024, the total unsold residential floor area in China amounted to 390 million square meters. Among 30 key cities, the average inventory digestion period was 27.79 months, with over 80% of these cities exceeding the warning line of 18 months for inventory turnover (Sina Economics, 2024); 3) Surpluses of money capital lacking profitable investment outlets, as evidenced by the Loan Prime Rate (LPR) in China dropping from 5.7% in 2013 to all-time low 3.35% in 2024 (Figrue3); 4) Rapidly declining industry profit margins. As reported by CRIC (2023), profit margins of typical listed Chinese real estate companies have significantly declined since 2018, with the net profit margin decreasing from 13% in 2018 to -0.2% in 2022.

According to spatial fix theory, in order to sustain capital accumulation, Chinese governments must explore alternatives to traditional real estate models or diversify beyond property sales. Recent developments in industries like electric vehicles and photovoltaics are promising but geographically limited, making them impractical for nationwide application. Alternatively, the housing rental market offers a viable solution for most local governments. Between 2015 and 2020, efforts focused on promoting private rentals, but low rent-to-sale ratios made profitability challenging. Aggressive financing by rental companies led to numerous bankruptcies post-2019, destabilizing the market and society (Chen et al., 2022; Li et al., 2024). Since 2021, policy has shifted towards ARH as one of several strategies to redirect capital into the secondary circuit. While ARH represents a significant initiative in the housing sector, the scale of capital investment across urban infrastructure sectors reveals a more diversified approach. As of December 2024, infrastructure REITs span eight sectors, with ARH ranking sixth in terms of market capitalization (125.1 billion yuan). The capital allocation is notably larger in transportation (561.1 billion yuan), industrial parks (268.7 billion yuan), consumer infrastructure such as shopping malls and commercial complexes (241.3 billion yuan), clean energy (219.8 billion yuan), and logistics (139.9 billion yuan). This distribution demonstrates that while ARH is an important policy tool, it operates within a broader strategy of channeling capital into various urban infrastructure sectors.

How does ARH alleviate the crisis of overaccumulation? The growth of ARH occurs mainly through two avenues: new construction and the acquisition of existing housing. Constructing new ARH can channel excessive capital into the built environment, achieving a spatial fix through the *geographic expansion* of space. However, the conversion of owner-occupied housing into ARH is essentially a process of *reorganization or reconstruction* of space. If constructed houses remain unsold, it signifies an incomplete capital circulation loop and overaccumulation, threatening the devaluation of capital (Jessop, 2006). Transforming these properties into ARH essentially represents the ‘export of surplus money capital, surplus commodities and/or surplus labor-power outside the space(s) where they originate enables capital to avoid, at least for a period, the threat of devaluation’ (Jessop, 2006: 149).

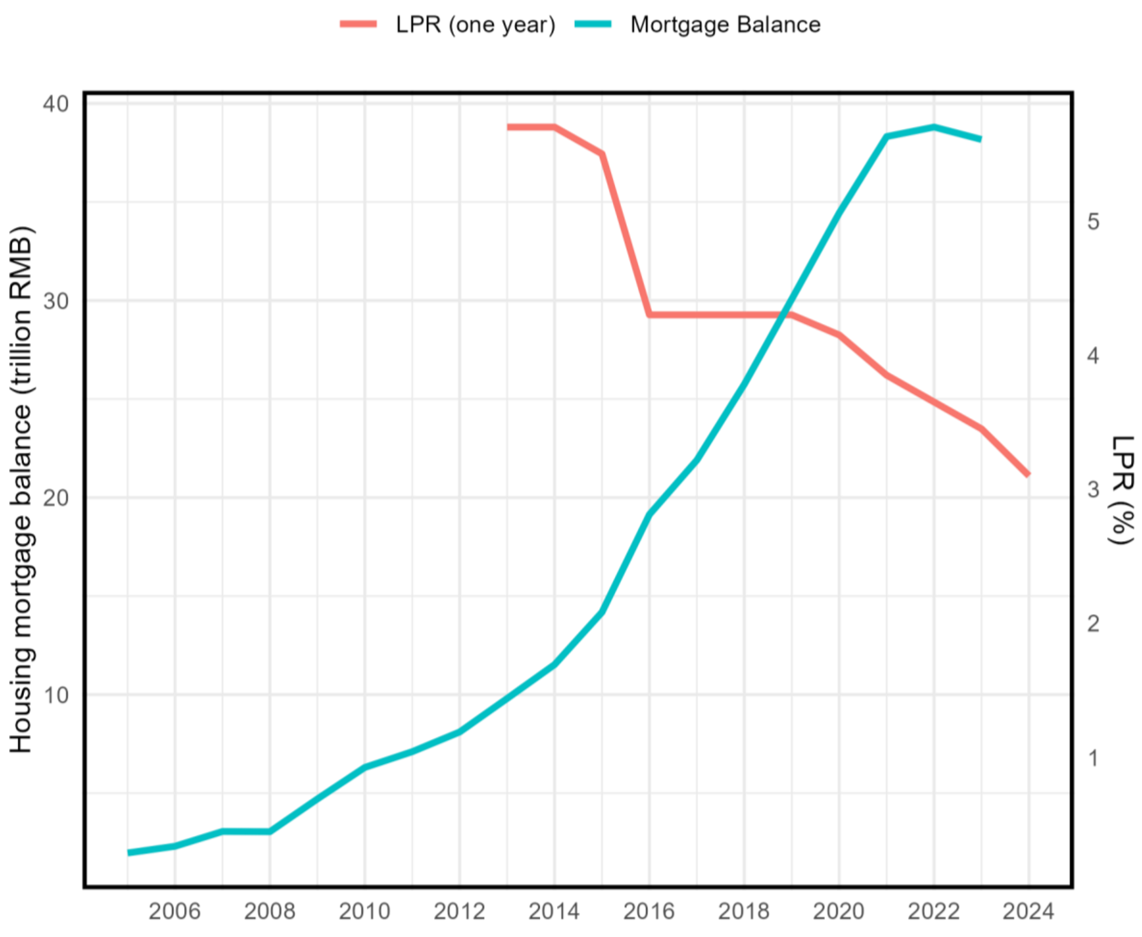
It should be noted that in the initial stages of ARH deployment (2021-2022), the policy did not encourage local governments to acquire commodity housing for conversion into ARH. Instead, the main methods involved building on collective land and transforming vacant commercial office spaces into ARH. However, with a substantial decline in property sales post-2022 (Figure 1), the central government endowed ARH a new role: reducing housing inventory. Therefore, the role of ARH in alleviating the overaccumulation of homeownership should be understood as a dynamic and escalating process, contingent on the severity of the real estate market crisis.

[2] According to Sohu News (2023), among the top 50 real estate enterprises in China, 43 disclosed their staff numbers for 2022, with 34 of them reducing their workforce, amounting to nearly 200,000 job cuts.

Acquiring housing at lower prices enables local governments to easily achieve primitive accumulation within new accumulation spaces. Local governments, supported by the central bank, are increasingly buying commercial properties to convert into ARH (Sina News, 2024). For example, in early 2023, the People's Bank of China launched a 100 billion yuan "Rental Housing Loan Support Plan," trialed in eight cities with large real estate inventories, to facilitate the bulk purchase of existing housing by municipal companies for rental use. This initiative aimed to reduce inventory by about 7% in these cities (36KR, 2024b). In May 2024, the Deputy Governor announced a new 300 billion yuan re-lending facility targeting affordable housing, which will encourage financial institutions to support local state-owned enterprises in purchasing unsold commercial properties for affordable housing purposes (China Daily, 2024).

Purchasing and constructing ARH serve as avenues for directing excess capital from banks and financial institutions, helping mitigate overaccumulation crises. Since the COVID-19 pandemic, there's been a notable increase in residents' savings rates coupled with a decline in their investment appetite. Despite lower deposit interest rates, savings deposits grew over 10% annually from 2020 to 2023. Meanwhile, with mortgage rates surpassing potential investment returns, many opted to pay off mortgages early, resulting in stagnant or even declining mortgage balances (Figure 3). This trend has left banks burdened with excess liquidity, necessitating interest payments to depositors. Therefore, the core objective of ARH development lies in displacing capital overaccumulation through a new spatial fix.

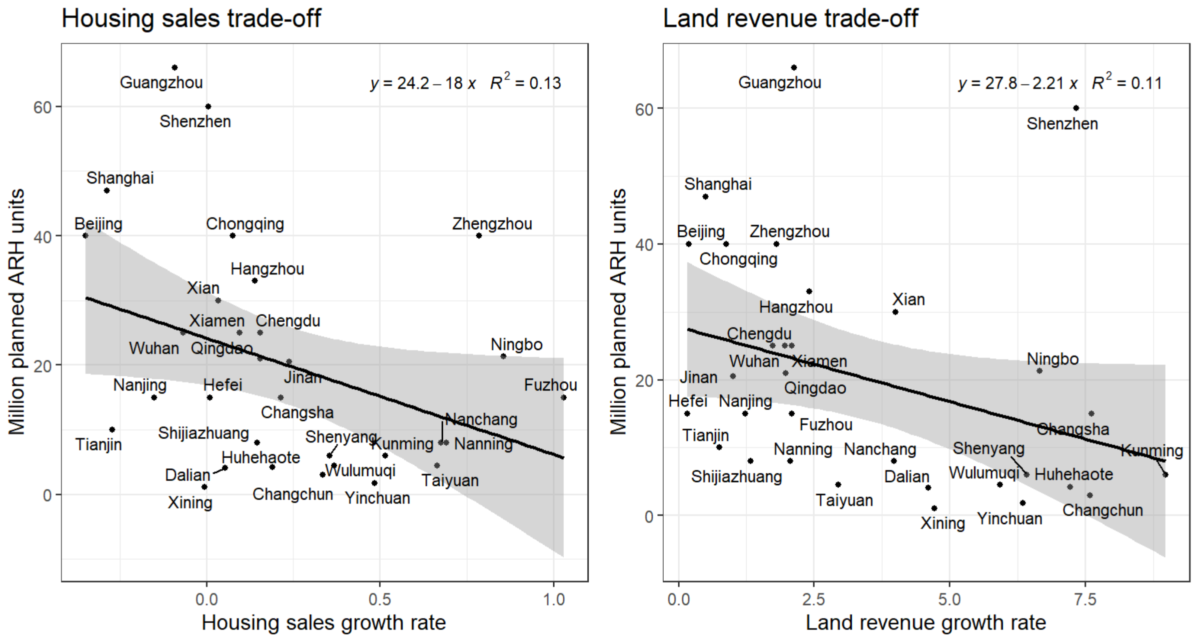
Figure 3. Housing mortgage balance and LPR trends in China



Source: People's Bank of China

To test the hypothesis that the development of ARH addresses the crisis of overaccumulation in homeownership, we conducted a simple OLS regression analysis using data from 35 major cities during the 14th Five-Year Plan (Figure 4). We examined the planned number of ARH units, housing sales growth rates from 2015 to 2020, and land revenue growth rates over the same period, controlling for urban population. The analysis revealed a significant negative correlation between ARH units planned and both housing sales and land revenue growth rates. This suggests that local governments are using ARH development as a dual strategy to reduce excess housing stock and its associated idle capacity, while also enhancing local fiscal revenues.

Figure 4. Trade-off Between Planned ARH Units and Housing Sales Growth (a) and Land Revenue Growth (b) between 2015 and 2020



From debt-driven to equity driven: The emergence of REITs in China

The history of REITs dates back to the early 1960s when the first REIT legislation was introduced in the US. Since the late 1970s, the sector has expanded rapidly, with the number of REITs increasing to 223 listed US REITs with a combined market capitalization of US$1.25 trillion by 2020. By 2023, more than forty countries in Global North, South and East have introduced REIT regulations, with many more currently preparing or discussing REIT regulation (Aalbers et al., 2023).

The development of REITs in China started relatively late. Prior to 2013, there were no formal REITs products listed domestically. From 2014 to 2019, China began to generate REITs-like products based on ABS structures. However, these products were essentially debt-financed and issued privately. After 2020, the Chinese REITs market began to transition from privately issued debt-financed products with REITs-like attributes to publicly issued REITs products with equity financing attributes. Since 2020, REITs have experienced significant and rapid development in China, driven by a series of intensive policies issued by the central government. In 2021, the Shanghai Stock Exchange and the Shenzhen Stock Exchange formally released supporting rules for REITs business, clarifying relevant business processes, review criteria, and offering procedures for infrastructure public REITs, marking the official launch of the public REITs market. In May 2021, China's first batch of nine public infrastructure REITs projects completed fundraising and successfully listed for trading.

In July 2021, the National Development and Reform Commission issued a document expanding the scope of assets for public REITs to include ARH. In August 2022, the first batch of three ARH-REITs were listed and traded. In December of the same year, another ARH-REIT was successfully listed, marking another significant milestone in the development of China's REITs market. In March 2023, the China Securities Regulatory Commission issued a circular further promoting the normalized issuance of REITs in the infrastructure sector. This circular aimed to enhance the basic system and regulatory arrangements while encouraging the issuance of more ARH-REITs. Moreover, it mentioned expanding the size of assets to be no less than two times the size of the initial offering. In January and September 2024, the market witnessed the successful listing of the fifth and sixth ARH-REITs. The fifth ARH-REIT, comprising asset projects in Shanghai, raised 3.05 billion yuan, while the sixth, with projects located in Shenzhen, secured 1.36 billion yuan. Additionally, several other ARH-REITs are actively bidding and preparing for listing. Table 2 presents an overview of the five ARH-REITs, highlighting their focus on rental housing situated in cities characterized by exceptionally high property prices, namely Beijing, Shanghai, Shenzhen, and Xiamen.

Table 2. Overview of the five ARH-REITs

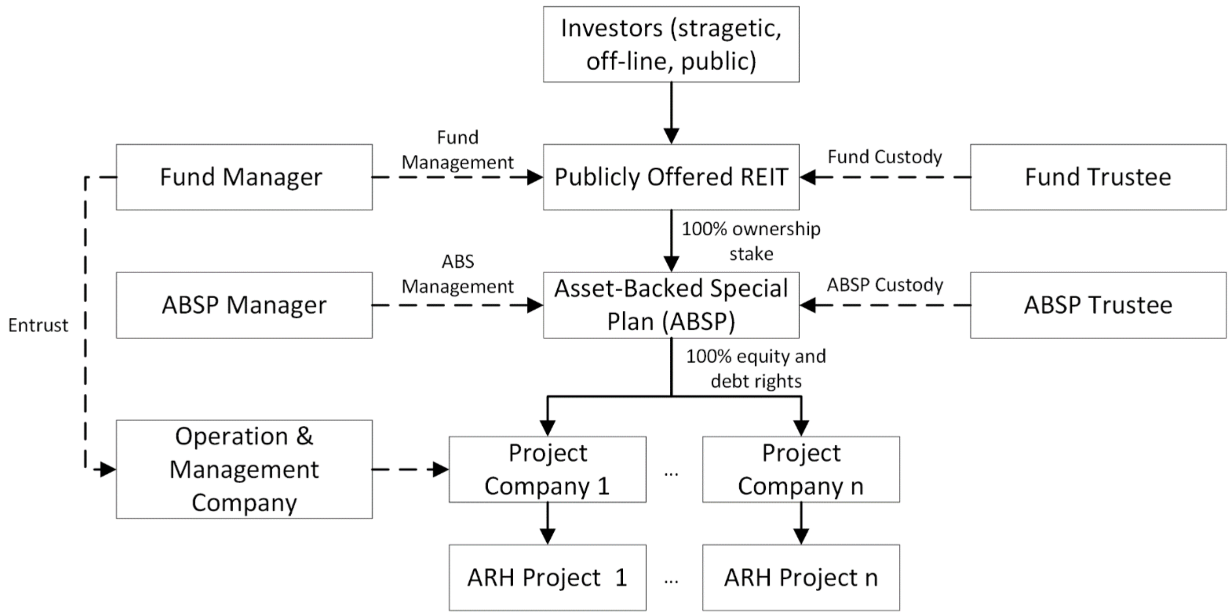
Short Name of REIT	Hongtu Shenzhen (180501)	Zhongjin Xiamen (508058)	Huaxia Beijing (508068)	Huaxia Youchao Shanghai (508077)	Chengtou Kuanting Shanghai (508031)
Time of listing	2022.08	2022.08	2022.08	2022.12	2024.01
Public Offering Fund Raised (million RMB)	1,242	1,300	1,255	1,209	3,050
Number of ARH units	1830	4665	2168	2612	2953
Location	Shenzhen	Xiamen	Beijing	Shanghai	Shanghai
Originator (original owner of ARH)	Shenzhen Futian/Luohu Talent Housing Group (owned by Shenzhen Municipality)	Xiamen Affordable Housing Group (owned by Xiamen Municipality)	Beijing Affordable Housing Centre Ltd. (owned by Beijing Municipality)	Youchao Rental (Shenzhen) Ltd. (100% owned by China Resources Enterprise, Ltd.)	Shanghai Chengtou Housing Rental Ltd. (owned by Shanghai Municipality)
Letting rate 2023	> 98%	>99	97%	94%	92%
Actual avg. rent 2023 [3] (RMB/m²/month)	60; 45; 15;17	31; 33	52; 65	78; 58	141;145
Strategic placement : Institutional placement : Public placement	60:28:12	62:26:11	60:28:12	60:28:12	76:17:7

[3] The average rent levels are presented separately for each property project, as each REIT owns and operates multiple properties (ranging from two to four projects) across different locations.

Originator share ratio (%)	51	34	35	34	20
Net income/ Distributable income 2023 (million RMB)	25/51	26/57	31/55	5/60	/
Distribution rate of cash flow 2023	4%	4.55%	4.26%	4.92%	/
EBITDA 2023 (million RMB) [completion rate]	46 [101.99%]	59 [108.81%]	58 [103.92%]	54 [110.25%]	/
Secondary market price appreciation (IPO price / 2024 year-end price, %)	+33.3%	+41.7%	+42.9%	+20.0%	+18.6%

In terms of institutional design, China's ARH-REITs operate through a three-tier structure: a publicly offered REIT, an asset-backed special plan (ABSP), and project companies (see Figure 5). The REITs use the raised funds to acquire all shares of the asset-backed securities issued by ABSP. The ABSP then acquires 100% equity of the project companies and provides shareholder loans to them. Post the consolidation and absorption of these entities by the project company, the specialized vehicle is dissolved, while the project company continues its operations. Through this structure, the ABSP acquires 100% equity and debt rights of the project companies, which directly own and operate the ARH properties. The holistic structure of the REIT post-merger is depicted in Figure 5.

Figure 5. Structure of ARH-REITs



It is pertinent to note that among the five listed ARH-REITs in Table 2, four have local government owned companies as their original owners, whereas the Shanghai REIT is owned by a state-owned enterprise, specifically China Resources Group. While not categorized as a private entity, it is reasonable to assert that the Youchao REIT adopts a more market-oriented approach compared to its counterparts. The original owners maintain significant involvement in two ways: they hold at least 20% of the REITs shares (in most cases around 50%), and they typically serve as operation and management entities through their subsidiaries. The governance framework establishes clear roles for different actors: fund managers handle investment and financial management, operation companies manage daily operations and maintain the properties, while trustees and custodians provide oversight. This structure represents an innovative shift from a debt-driven to an equity-driven model in China's affordable housing sector, allowing for market-based operation while preserving public welfare functions through a combination of partial ownership retention, contractual obligations, and regulatory oversight.

The investor composition of ARH-REITs exhibits a distinct three-tier structure characterized by substantial institutional participation. The strategic placement tier, constituting 60-76% of total shares, encompasses originators[4], their affiliated entities, and qualified institutional investors, including commercial banks, securities firms, insurance companies, and private equity funds. These original owners typically maintain significant stakes with 36-60 month lock-up periods and generate returns through both asset appreciation and rental income streams. The institutional placement tier represents 17-28% of shares and is allocated to professional institutional investors through a price discovery mechanism. The public placement tier accounts for 7-12% of shares and is accessible to both qualified institutional and individual investors. Notably, within China's state-centric financial landscape (Wu, 2023), the majority of these institutional investors are state-owned entities, as banks, securities firms, and insurance companies in China are predominantly state-owned. This ownership structure further reinforces the state's role in the ARH-REITs market.

It is important to note the distinctive return characteristics of China's ARH-REITs. Returns primarily come from two sources: rental income from the underlying assets and trading premiums in the secondary market, rather than asset value appreciation. The underlying assets are valued solely using the income approach (100% weighting), and their book value actually decreases over time due to depreciation charges. The original owners can benefit significantly from the initial asset securitization, as it allows them to monetize existing projects and recycle capital into new affordable housing developments. Theoretically, all investors can benefit from secondary market trading after their lock-up periods expire. The secondary market valuation may reflect operational improvements such as rental growth, enhanced occupancy rates, and cost reductions through economies of scale, as well as broader market conditions and alternative investment opportunities in the capital market.

While both the original owners and institutional investors are predominantly state-owned entities, they are not purely charitable organizations but rather operate with a dual mandate: fulfilling policy objectives while pursuing financial returns. This dual mandate is reflected in their investment decisions and operational strategies. As state-owned entities, they respond to administrative directives to support affordable housing development; as market participants, they must maintain financial sustainability and generate reasonable returns for their shareholders. This balance between policy compliance and commercial viability distinguishes ARH-REITs from traditional public housing projects.

Table 2 illustrates several critical portfolio and operating metrics of the five REITs, encompassing the number of ARH units, net profit, distributable income, distribution rate of

[4] The term "originator" refers to the initial equity holders of the underlying assets in ARH-REITs. These originators are state-owned enterprises or central enterprises that transfer their legally held assets into a special purpose vehicle (SPV) for securitization. The originators retain significant ownership post-transfer, as mandated by legal requirements that prohibit the sale of their shares in the REITs for a period of 3 to 5 years post-listing.

cash flow, occupancy rate, and EBITDA[5]. Notably, the aggregate portfolio of these five REITs comprises only 14,228 units, representing a mere 0.4% of the total ARH sector, indicating substantial room for market expansion. Despite their relatively modest scale, these REITs demonstrate robust operational performance, maintaining occupancy rates above 90% and achieving cash flow distribution rates exceeding 4%. These operational metrics surpass the regulatory threshold established by the China Securities Regulatory Commission (CSRC, 2023), which mandates that non-franchise, operating income rights projects maintain a minimum annual cash flow distribution rate of 3.8%. Such performance appears even more impressive when contrasted with the struggles faced by housing sales companies and private rental housing companies, most of which are still striving to achieve profitability. For instance, China's third largest housing rental company, Mofang, reported net losses of 228.7 million yuan in 2020 and 203.97 million yuan in 2022, with only a temporary return to profitability in 2021[6]. As of June 2025, the ARH-REITs market continues to demonstrate robust performance. Notably, Huaxia Beijing ARH-REIT became the first ARH-REIT to successfully complete a follow-on offering, raising 946.2 million yuan and achieving a dividend-adjusted return of 95.1% since its IPO in 2022, further validating the market appeal of this asset class[7].

State Entrepreneurialism in the Implementation of ARH-REITs

How the State Actualized ARH-REITs

As Harvey (2012) contends, the reallocation of capital and labor surpluses to the built environment such as ARH requires the intermediary assistance of financial and/or state institutions. In this section, we will demonstrate how the state facilitates the implementation of ARH-REITs by establishing legal frameworks and institutions, stimulating demand and supply, and promoting financial innovation and credit enhancement. The exact way in which China promotes REITs is unique, but in more abstract terms the act of establishing legal frameworks and institutions, stimulating demand and supply, going beyond regulation and taking an active role in the market is something that we also see in other countries (Aalbers et al., 2023; García-Lamarca, 2021; Sanfelici and Halbert, 2019; Waldron, 2018; Wijburg, 2019). However, we would argue that the active role of the Chinese state is more akin that of the Brazilian state in securitization (Abreu et al., 2024), as both are active on the demand and supply sides of the market.

Establishing legal frameworks and institutions

Clear legal frameworks and institutions are essential for the successful establishment and operation of ARH-REITs. REIT assets must have definitive property rights, free from disputes or legal encumbrances, and the capacity to generate consistent, stable income for dividend distribution. The state has introduced a series of institutional innovations through multiple policy documents to enable ARH-REITs.

First, the state has established comprehensive eligibility criteria and regulatory standards. ARH projects should primarily consist of small units not exceeding 70 square meters, with rents set below market rates for similar properties in the same location (State Council Office, 2021). Original equity holders must be independent legal entities engaged in ARH

[5] EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is presented with its completion rate against the prospectus forecast in brackets. This metric reflects the operating cash flow generation capacity of the underlying rental housing assets, adding back non-cash expenses like depreciation and amortization.
[6] https://statichk.iqdii.com/stockdata/notice/newprospectus/sehk23042804481_c.pdf
[7] https://www.cfbond.com/2025/06/25/wap_991091463.html

operations and are explicitly prohibited from developing commercial housing and real estate (CSRC & NDRC, 2022). Projects must demonstrate clear property rights, mature operational models, and sustainable market-based returns, with official certification as ARH projects. To ensure financial sustainability while maintaining affordability, CSRC (2023) stipulates that for non-franchise rights and operating rights projects, including ARH, the annual net cash flow distribution rate should not be less than 3.8% for the next three years.

Second, the state has significantly expanded eligible assets for REITs through land use reforms, which crucially reduces land acquisition costs for ARH development. The State Council's 2021 directive permits multiple land sources: collectively-owned operational construction land (subject to collective consent), enterprises' existing land (without additional land premium payments), and increased proportions of industrial park land (from 7% to 15% for administrative and service facilities). The policy also allows conversion of non-residential properties such as commercial offices, hotels, factories, warehouses, and research facilities into ARH, maintaining original ownership rights without additional land premiums. For instance, as revealed in our workshop with public housing management officials, their ARH projects were developed on former industrial land, which was acquired at substantially lower costs than residential land, providing a crucial foundation for financial viability despite below-market rents (Workshop with Beijing Public Housing Center, June 2025). This land cost advantage demonstrates how institutional reforms create the economic conditions necessary for ARH-REITs to operate successfully.

Third, to enhance operational efficiency, the state has streamlined approval processes (State Council Office, 2021). Local governments can conduct joint departmental reviews for projects utilizing existing non-residential properties. Upon receiving ARH project certification, relevant departments can simultaneously process various approvals including project establishment, land use, planning, construction, and fire protection requirements. Projects not involving land ownership changes can utilize existing documentation, with construction and work permits merged into a single phase.

Fourth, the state has established a comprehensive supervision system. Sponsors must submit quarterly reports on fund utilization to relevant stock exchanges, CSRC branches, and provincial development and reform commissions. Controlling shareholders and actual controllers must commit to supervising the sponsors' use of recovered funds. Fund managers are required to improve their business systems and publicly disclose information about sponsors' fund utilization. Stock exchanges are mandated to develop detailed business supervision rules to ensure implementation of these requirements.

Finally, to ensure efficient operation and reduce transaction costs, the state has established integrated rental housing management and service platforms. These platforms serve as official intermediaries connecting tenants with ARH properties, integrating functions including property listing, online contract signing, lease filing, and fund supervision.

These comprehensive institutional frameworks transform ARH from a traditional public welfare product into a standardized, market-oriented financial asset while maintaining its affordability mandate. The detailed standards, expanded asset pool, streamlined procedures, rigorous supervision system, and efficient platforms collectively provide the essential foundation for successful ARH-REIT operations. We have seen similar state practices in other countries, but as we will explain, we argue that the Chinese state takes this a step further.

Stimulating demand and supply

The state has implemented a comprehensive set of policies to stimulate both the demand and supply of ARH. These measures aim to ensure stable rental income streams and improve project financial viability, thereby creating favorable underlying conditions for ARH-REITs development.

On the demand side, ARH targets a broader population group than traditional public rental housing. While applicants must demonstrate employment and housing difficulties in the city, the eligibility criteria are not limited by income levels. Instead, ARH aims to provide housing support to both young professionals and other eligible urban residents who face housing challenges. Our field interviews revealed that ARH attracts a diverse tenant base, including young professionals working in high-tech enterprises like aerospace and shipbuilding companies, with average tenant age around 30 years old and relatively high education levels (Interview with CR Youchao managers, Shanghai, January 2024). ARH tenants can access higher Housing Provident Fund (HPF)[8] amounts for rent, with limits in Shanghai increased from 3,000 to 4,500 RMB for ARH compared to private rentals. Additionally, select "talents" receive rent subsidies, easier access to residence permits, and priority in public services like school enrollment for children. Local governments also encourage group leasing agreements between large employers and ARH providers, using these incentives to attract investment and foster economic growth through housing welfare initiatives.

On the supply side, the state has implemented comprehensive supportive measures to reduce costs and expand provision channels. Various entities are encouraged to participate in ARH development under the principle of "who invests, who owns". Most notably, the state has introduced substantial tax incentives that significantly lower both development and operational costs (Zhong Lun, 2022). For VAT, housing rental enterprises can choose a simplified taxation method with a reduced rate of 1.5% (reduced from 5%) when renting to individuals. For property tax, when enterprises, institutions, and other organizations rent housing to individuals or professional rental enterprises, a reduced rate of 4% applies. Additionally, utility costs (water, electricity, gas, and heating) for certified ARH projects are calculated at residential rather than commercial rates during the operational period. These tax and fee reduction policies, combined with central and local government subsidies, have played a crucial role in making ARH-REITs commercially viable. Our field research confirmed the critical importance of these supportive measures. As noted by project managers during our Shanghai site visits, "the government subsidies and tax incentives are essential for maintaining operational sustainability while keeping rents affordable for tenants" (Interview with CR Youchao managers, Shanghai, January 2024). Indeed, without such comprehensive tax support policies, it would be challenging for ARH-REITs to achieve the required 3.8% annual net cash flow distribution rate stipulated by CSRC (2023).

The central government also drives local enthusiasm through political directives and performance evaluations, mandating ARH construction targets as part of the 14th Five-Year Plan. Local governments' efforts are assessed against 19 criteria worth 100 points, a strategy that has significantly accelerated ARH development nationwide (CRIC, 2023). Earlier attempts at similar housing initiatives often failed (Huang, 2012), but the current strategy considers regional needs more flexibly, allows for more transparent policies, and enhances the scrutiny of these government efforts.

Furthermore, to ensure sustainable development, funds recovered from REITs issuance must be prioritized for new ARH project construction. As the CSRC [2022]53 document states, "The net recovered funds from ARH-REITs issuance should be preferentially used for ARH project construction" (CSRC and NDRC, 2022). The policy encourages sponsors to direct these

[8] China's HPF is a mandatory savings program where both employers and employees contribute a percentage of employees' monthly salary to individual housing accounts, providing subsidized housing loans to participants while serving as a key instrument in China's housing finance system since 1991 (Chen and Deng, 2014).

funds toward "projects with clear investment objectives, mature conditions, and ability to form effective investment in the short term" to promote a positive investment cycle.

Promoting financial innovation

The state promotes financial innovation through multiple channels to facilitate the development of ARH-REITs. First, the state has implemented differentiated regulatory policies for ARH financing. Notably, ARH-related loans are excluded from real estate loan concentration management, and can be deducted when calculating "real estate loan proportion," providing banks with greater lending flexibility (CBIRC and MOHURD, 2022).

Second, innovative financing mechanisms have been introduced. Banks are allowed to accept rental receivables and collective operational construction land use rights as collateral (CBIRC and MOHURD, 2022). Syndicated loans are encouraged to provide financing, and financial institutions can issue specific bonds for ARH loans. The state also supports various debt instruments including corporate bonds and non-financial enterprise debt financing instruments.

Third, the central bank has introduced targeted lending facilities to support ARH development. As previously mentioned, in early 2023, the "Rental Housing Loan Support Plan" allocated 100 billion yuan to support municipal companies in eight pilot cities. This initiative was designed to enable bulk purchases of existing housing, thereby facilitating the development of ARH (36KR, 2024b). Following this, in 2024, the central bank established a 300 billion yuan re-lending facility at a favorable 1.75% interest rate, with a one-year term renewable up to four times. This facility was directed towards national banks, including policy and commercial banks, which in turn provide loans to local state-owned enterprises for the acquisition of commercial properties to be converted into affordable housing units (China Daily, 2024). These measures effectively link ARH development with efforts to reduce real estate inventory, as local state-owned enterprises utilize these funds to purchase unsold commercial properties, transforming them into affordable housing.

Fourth, multiple financial institutions, predominantly state-owned, are encouraged to participate through coordinated innovation. Given that China's financial sector is primarily controlled by state capital, even for listed financial institutions, this institutional arrangement ensures strong policy implementation and resource mobilization. Policy banks like China Development Bank (CDB) provide medium and long-term credit support, state-owned commercial banks offer specialized financial services, and state-controlled insurance institutions can participate through direct investment or by subscribing to debt investment plans, equity investment plans, and insurance private equity funds. Under the framework of legal compliance and risk management, these state-backed financial institutions are encouraged to invest in ARH-REITs, thereby ensuring a stable institutional investment base - a strategy that parallels state interventions in other markets such as Brazil and Italy (Abreu et al., 2024; Belotti, 2023).

Finally, the state has strategically combined subsidized land provision with depreciation accounting to make ARH-REITs financially viable. Despite China's low rent-to-price ratios of 1-2%, ARH projects access below-market land costs while depreciation accounting enables distributable cash flow to exceed reported profits, achieving 4% distribution rates with below-market rents. This transforms unprofitable rental investments into attractive financial products, exemplifying how the state creates new accumulation spaces through direct subsidies and accounting mechanisms.

Credit enhancement

The state has established multiple credit enhancement mechanisms to boost investor confidence in ARH-REITs, reflecting its crucial role in facilitating financial innovations given the high financial demands of ARH construction and operation.

First, direct credit enhancement is achieved through asset-based mechanisms. Projects with stable rental cash flows can use property mortgages and future rental income as collateral. This approach has been further strengthened by a 2021 State Council document that promotes long-term, market-oriented loans from banking and financial institutions to ARH entities. The policy also supports enterprises with stable ARH cash flows in leveraging these properties as credit enhancements for issuing ARH Bonds.

Second, structural credit enhancement is implemented through institutional arrangements. Controlling shareholders and actual controllers of sponsors must supervise fund usage, while fund managers are required to maintain rigorous business systems and transparent information disclosure. To strengthen this mechanism, new measures were introduced in January 2024, including the adoption of interest rate derivatives for managing risks. The central government has also prioritized ARH loans in real estate credit management, demonstrating its commitment to structural support.

Third, China's state-dominated financial sector provides implicit credit enhancement. The involvement of state-owned banks, insurance companies, and securities firms as both investors and guarantors effectively reduces perceived investment risks through implicit state backing. This is evidenced by the extensive credit support provided by major institutions like China Construction Bank and China Development Bank to ARH projects by mid-2022. Notably, state-owned capital comprises over 95% of ARH financing, distinguishing ARH-REITs from similar products in markets dominated by private financial institutions. Commercial insurance funds are also encouraged to participate, further diversifying the state-backed financial support system. This substantial state involvement, through both explicit support and implicit endorsement, has become a key factor in ARH-REITs' popularity in the capital market.

Advantages of ARH-REITs for the State

The introduction of REITs into the ARH sector offers several key advantages for the state. First, ARH-REITs represent a strategic shift from debt-driven to equity-driven financing, which helps mitigate systemic financial risks in the real estate sector. By transforming real estate debt financing into equity financing, REITs reduce the banking system's exposure to real estate risks, particularly significant in the context of China's broader deleveraging campaign in the real estate sector. This transformation allows for a more sustainable financing model that aligns with both financial stability objectives and the long-term nature of rental housing operations.

Secondly, ARH-REITs enable originators—often local government entities or state-owned enterprises—to divest and reinvest in new projects, thus accelerating the expansion of the ARH sector. These originators can use the capital raised from the REITs to fund further developments, boosting the construction industry and stabilizing the real estate market. Additionally, private rental companies are encouraged to participate in the ARH program, seeing it as a stepping stone to entering the public REITs market, as they anticipate future opportunities to issue ARH-REITs (Guandian, 2022).

Thirdly, REITs have significantly broadened the ARH sector's investor base, attracting a diverse pool of institutional investors. While traditional social rented housing investment was concentrated in local government entities using debt instruments such as land-backed loans and municipal bonds, ARH-REITs have successfully attracted various institutional investors such as commercial banks, securities firms, insurance companies, and private equity firms. These investors are attracted by the REITs' value proposition of stable dividend yields and relatively low risk premium in the current low-yield environment. The strong market reception of the five

ARH-REITs is evidenced by their significant oversubscription rates, reaching 100-200 times during the book-building process, reflecting investors' appetite for yield-generating assets with government backing and substantial growth potential given the current underpricing.

Fourthly, the introduction of REITs can improve the transparency, efficiency, and profitability of Affordable Rental Housing (ARH) projects. Previously, public rental housing management often suffered from opacity and corruption, with insufficient information on pricing, occupancy, and allocation, and frequent corruption reports (Zeng et al., 2017). In contrast, ARH-REITs, as publicly listed entities, are required to regularly disclose comprehensive details such as financial statements, portfolio changes, dividend announcements, and governance issues. Moreover, by managing multiple properties under one portfolio, REITs achieve economies of scale that enhance both operational efficiency and profitability.

In summary, ARH-REITs represent an equity-driven model, diverging from the past debt-driven model. This transformation not only relieves operators from debt pressures and enables longer-term operational strategies, but also contributes to the overall stability of China's financial system by reducing concentrated risks in the banking sector.

Discussion and conclusion

Against the backdrop of neoliberalism and fiscal austerity, some countries have witnessed the emergence of social housing providers or governmental initiatives aimed at leveraging financial markets to bolster the supply of social housing. This paper aims to elucidate the rationale behind China's advocacy for ARH (-REITs) and the approaches employed. We argue that the promotion of ARH is increasingly aimed at mitigating the overaccumulation crisis in the homeownership sector by absorbing its excessive capital, characterized by an extensive inventory of unsold housing, monetary capital in search of profitable investments, unutilized productive capacity in the construction sector, and surplus labor. Additionally, the introduction of REITs acts as a catalyst by enabling originators to quickly recoup and reinvest capital, while transforming debt-based financing into equity investment to reduce the banking sector's risk exposure. This market-based mechanism not only accelerates ARH development but also strengthens financial stability by diversifying funding sources and enhancing operational efficiency.

Prior research has indicated that China's governmental interventions, such as the shantytown redevelopment scheme post-2008 and the suburban property boom post-2016, sought to facilitate the switching of capital from the primary circuit to the secondary circuit to address the overaccumulation crisis in the production sector (He et al., 2020; Zhang et al., 2021). We demonstrate that after one decade of accumulation (2008-2018), overaccumulation has occurred in the homeownership sector, signified by surplus money capital (surging M2), surplus commodities (large real estate inventory) and surplus labor power (increased unemployment rate). Our perspective demonstrates that ARH development represents capital's internal circulation within the secondary circuit. While Zhang et al. (2021) showed how state intervention redirected surplus capital from industrial production to suburban property development, and Li and He (2024) examined property conversion into rental apartments as a spatial fix strategy, our study reveals how capital circulates and is repurposed within the secondary circuit itself. In this process, surplus capital switches from the homeownership sector to the ARH sector, embodying a process of creative destruction that simultaneously dismantles the homeownership-dominated housing provision system while creating new spatial and institutional configurations centered on rental housing.

Moreover, we emphasize that the substantial contraction in local fiscal revenues has significantly heightened local government enthusiasm for ARH construction. ARH proves to be an enticing profitable business opportunity for local governments as its rental rates are positioned just below the market level. This advantage is further complemented by access to subsidized land at below-market rates, including repurposed industrial land, R4-designated rental land, and collective construction land, resulting in lower overall construction costs, along with reduced acquisition expenses due to the depreciation of housing prices. Our findings align with Harloe's (1995) division of social housing into 'residual' and 'mass' models, demonstrating that social housing is typically developed under conditions not conducive to profit-making, with the primary concern being the relative profitability of housing.

We then analyzed how the Chinese government, from the perspective of state entrepreneurialism, managed to introduce profit-seeking REITs into what was originally intended to be de-financialized social housing within a short timeframe. In this sense, our findings differ from Goulding (2024), who observes that social housing financialization in England has been enabled by investors offloading their exposure to risk onto providers and tenants. Instead, China's ARH-REITs feature a more balanced risk-sharing mechanism, where state-owned entities (as both original owners and institutional investors) maintain substantial control while bearing dual mandates of policy implementation and commercial returns. Our research indicates that this was achieved through the government's establishing legal frameworks and institutions, stimulating demand and supply, and promoting financial innovation and credit enhancement, thereby effectively de-risking investment in the new ARH asset class (Aalbers et al., 2023; Gabor & Kohl, 2022). The strategies we identified align with Wu's (2018) core characteristics of 'state entrepreneurialism' in the context of China, namely 'planning centrality' and 'market instruments’.

However, we have observed some novel practices that the state has not previously employed. Wu's concept of market instruments refers to governments financing through land collateralization with financial institutions. In contrast, our investigation into ARH-REITs reveals that market instruments involve securitizing future rental income for financing. This signifies a transition for the government from debt-driven to equity-driven approaches, an innovative move amidst the backdrop of the local debt crisis. This shift aligns with broader observations in the literature about states' use of financialization for statecraft purposes (Belotti, 2023; Cordilha, 2023; Lagna, 2016; Pike et al., 2019; Pillay Gonzalez, 2024). For instance, the Chinese approach mirrors the strategy of Brazil's state housing bank, Caixa Econômica Federal, which employed securitization as a political strategy to counteract sluggish economic growth and falling investment rates caused by prolonged austerity measures (Abreu et al., 2024). Additionally, by introducing state-owned capital into ARH-REITs, the central government can exercise control over ARH-REITs. This finding resonates with the conclusion drawn by Shen et al. (2022), which suggests that state entrepreneurialism in China encompasses the delicate balance between economic growth imperatives and the maintenance of social stability.

Furthermore, the central government has politicized ARH construction/acquisition and REIT promotion by issuing political tasks to coordinate local government efforts. While task assignment is a routine practice by the central government, what distinguishes the ARH instance is the central government's establishment of a highly detailed set of assessment criteria to evaluate local government performance. This marks a significant departure from the previous sole reliance on GDP growth as the metric for assessing the achievements of local government officials (Zhou, 2007). Moreover, the recent increase in central government authority, particularly post-COVID-19 pandemic, has also contributed to the success of these measures. Our findings deepen the understanding of state entrepreneurialism (Wu, 2018) by revealing the strategic role of government in coordinating urban transformation while enabling market mechanisms. The central government maintains its planning centrality by establishing a comprehensive regulatory framework that extends beyond GDP metrics to incorporate social housing objectives, and setting strategic development directions. Within this framework, local governments are granted autonomy to develop and deploy market instruments, as evidenced by their experimentation with REITs as an innovative financing mechanism.

However, we contend that while this spatial fix strategy may offer short-term crisis mitigation, it could exacerbate future crises through several mechanisms. First, the financialization structure creates long-term affordability risks. While current state-owned investors maintain dual mandates of policy compliance and commercial returns, the ability of originators and institutional investors to divest shares after lock-up periods raises concerns about future private capital acquisition, which could prioritize profit maximization and lead to rent increases and tenant displacement. Second, ARH development continues to focus on supply expansion without addressing underlying demand constraints caused by income stagnation and demographic shifts, potentially creating oversupply across housing markets. This supply expansion not only intensifies competition within the rental sector (Lennartz, 2016) but also poses challenges to the homeownership market, particularly as declining birth rates reduce young people's demand for property ownership traditionally tied to access to quality education resources for children. Third, the dominance of state-owned enterprises as both originators and investors creates competitive advantages that systematically crowd out private rental operators, leading to market concentration and over-dependence on state-directed investment.

Our findings align with broader theoretical insights about how crises drive neo-liberalization processes that displace rather than resolve underlying contradictions (van Gent and Hochstenbach, 2020). These trends appear to confirm the crisis of crisis management perspective advanced by Jones & Ward (2002). This confirms the crisis of crisis management perspective that delineates scenarios where expanded state functions emerge as new sources of crisis, potentially challenging effective economic crisis management (He et al., 2020; Jones and Ward, 2002). The state's approach to managing the balance between economic growth imperatives and social welfare objectives will be crucial in determining whether ARH-REITs serve as a sustainable solution or merely defer crises to the future while potentially undermining their original affordability objectives.

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