

Circular on Adopting the Public-Private Partnership Model to Promote the Investment, Construction and Operation Management of Public Rental Housing

(21-APR-2015)

Note: English version for reference only, Chinese version shall prevail.

Cai Zong [2015] No. 15

The finance departments (bureaus), the land and resources departments (bureaus) and the housing and urban-rural development departments (commissions or bureaus) of all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan; the Shanghai head office, all branches and operation administrative departments and all central sub-branches in provincial (capital) cities and sub-provincial cities of the People's Bank of China; the offices of the State Administration of Taxation, local taxation bureaus and the banking regulatory bureaus of all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan; and the Finance Bureau, Land Resources Bureau and Development Bureau of the Xinjiang Production and Construction Corps:

In order to implement the spirit of the Third Plenary Session of the Eighteenth Central Committee of the CPC, and improve the efficiency of supply of public rental housing, it is hereby notified as follows with respect to the matters concerning the promotion of the investment, construction and operation management of public rental housing by adopting the Public-Private Partnership model in accordance with the relevant requirements of the Circular of the Ministry of Finance on Issues concerning the Promotion and Application of the Public-Private Partnership Model (Cai Jin [2014] No. 76) and the Circular of the Ministry of Finance on the Operational Guidance for Public-Private Partnership Model (for Trial Implementation) (Cai Jin [2014] No.

I. Fully recognize the significance of adopting the Public-Private Partnership (“PPP”) model to promote the investment, construction and operation management of the public rental housing

The PPP model is a long-term partnership established between the government and corporate partners in the public service field. By such cooperation and management process, the government may provide public services for the society more efficiently. The adoption of this model to promote the investment, construction and operation management of public rental housing is conducive to transforming the government functions, and improving the resources allocation efficiency of security housing; destocking the commercial housing, and promoting the stable and healthy development of the real estate market; and enhancing the government governance ability, and improving the housing security services. The adoption of PPP model to promote the investment, construction and operation management of public rental housing, as policy and mechanism innovation, is of great importance in stabilizing the growth, adjusting the structure and improving people's livelihood. Various regions shall fully recognize the importance of this task, and carry out pilot programs in an active and orderly manner.

II. Basic goals and principles of adopting the PPP model to promote the investment, construction and operation management of the public rental housing

(I) Basic goals. The basic goals are: by adopting the PPP model, bringing the superiorities of the government and the corporate partners into full play, and combining the government's policy intentions and housing security objectives with the operational efficiency of the social capital, to gradually create a new model for the investment, construction and operation management of the public rental housing, under which, the housing is built by enterprises, leased by residents, subsidized by the government and managed by the society, so as to improve the service quality and management efficiency of the public rental housing.

(II) Basic principles.

1. Organization by the government and participation by the society. The government shall, in accordance with the demands of this region for the public rental housing, formulate the public rental housing development plan and annual plans, organize the appropriate public rental housing projects for conducting pilot PPP programs, and select the corporate partners to participate in the investment, construction and operation management of public rental housing.

2. Defined power and responsibilities and performance of their respective duties. The contracts on the public rental housing projects shall clearly specify the responsibilities of the government and the corporate partners, both of which shall undertake their respective rights, obligations, responsibilities and risks according to the contractual agreement.

3. Incentive compatibility and efficiency improvement By comprehensively taking a variety of policy means, a dynamic rental adjustment mechanism is established to ensure that the corporate partners has a stable and reasonable return on investment; a rigorous performance evaluation mechanism is set up to

conduct a comprehensive appraisal on the project operation, housing security services, capital usage efficiency and other aspects, ensuring that the construction and operation of the public rental housing projects achieve the desired effect.

III. PPP model and conditions for public rental housing projects.

(I) Basic model for public rental housing projects under PPP model The adoption of the PPP model to promote the investment, construction and operation management of public rental housing is mainly: firstly, the government chooses the corporate partners to form a public rental housing project company; secondly, the project company signs a contract with the government to undertake the design, investment, construction, operation, maintenance and management tasks, obtains a reasonable return on investment from payment of rental by the lessee and by necessary governmental policies, and takes the relevant risks in accordance with the law during the contract period; the government is responsible for providing policy support, adjusting the rental of the public rental housing regularly, and strengthening the supervision over the construction, operation, maintenance and quality maintenance over the public rental housing works. Upon the expiration of the contract, the project company shall be closed, and the matters arising from such closure shall be treated according to the contractual agreement. The government shall undertake the limited liabilities for the project company without providing any guarantee or commitment.

(II) Basic conditions for public rental housing projects under PPP model. A public rental housing project suitable for application of PPP model should meet the following conditions at the same time: 1. which has been included into the housing security plan and annual plans. 2. which is planned to be located in the region with convenient transportation, and complete supporting public infrastructure such as schools and hospitals. 3. whose house type and building area comply with the conditions for the public rental housing. The housing is mainly a small-sized apartment with an area of about 40 square meters, and the building area of a single set of housing is no more than 60 square meters. 4. which has a steady amount of security objects leasing the public rental housing. 5. whose security objects pay the rental to the project company at the market price. 6. for which, the government offers subsidies by grades and other policy support based on the payment ability of security objects. 7. whose operating period is no less than 15 years.

IV. Application scope of public rental housing projects under PPP model

A public rental housing project suitable for adoption of PPP model mainly include: (I) a project established and managed by the government; (II) a commercial housing project in stock purchased by the government which satisfies the public rental housing conditions; (III) a shutdown and unfinished project satisfying the public rental housing conditions, going through all the necessary formalities and have clear liabilities; or (IV) a public rental housing project constructed and managed mainly by enterprises.

For projects in stock and construction, especially the public rental housing held by the government financing platform company with large scale of debts, based on the scientific assessments, the bidding, auction and

listing and other ways specified by the laws and regulation should be adopted to transfer the public rental housing assets to the project company; the standardized PPP model should be carried out for operation; and the revenues from such transfer shall be used for repayment of the corresponding existing government debts on a priority basis; For projects proposed to be newly constructed and acquired, the PPP model should be taken for operation through the whole process from planning, design, investment, construction, operation to management.

V. Regulate the adoption of the PPP Model to promote the investment, construction and operation management of public rental housing

(I) Establish a project library for public rental housing projects under PPP model Various regions should carefully sort out and scientifically identify the public rental housing projects appropriate for the PPP model, and set up a project reserve library. The public rental housing projects under the PPP model shall be screened by the city or county finance departments in concert with the housing security departments at the same level from existing and new projects.

(II) Do well in early-phase demonstration and preparation of projects. The city or county finance departments, in concert with the housing security departments at the same level, introduce the third-party intermediaries and experts to conduct an assessment over the public rental housing projects under PPP model in terms of the necessity, feasibility, economy, compliance and value for money, and demonstrate that whether such projects meet the indispensable conditions for the PPP projects. On this basis, the finance departments shall organize to implement the financial affordability assessment of the PPP projects, and scientifically evaluate the effect of the implementation of projects on the annual financial expenditures in the current year and subsequent years, and provide basis for project budget management by identifying and measuring the financial expenditures responsibilities for the projects to ensure the fulfillment of the contractual obligations by the government

(III) Select the partners. In accordance with the provisions of the Government Procurement Law of the People's Republic of China, the Circular of the Ministry of Finance on Printing and Issuing the Administrative Measures for Government Procurement under Public-private Partnership Projects (Cai Ku [2014] No.215) and other relevant laws and regulations, the enterprise qualification, business performance, technology and management ability, financial strength, service quality, reputation and other factors shall be taken into comprehensive consideration to select the best partners for the public rental housing projects.

(IV) Prepare and organize project companies. According to the principles of government guiding, enterprise leading, market operation, benefit sharing and risk sharing, the project company organized and established by the cooperative enterprise shall be in charge of the design, investment, construction, operation, maintenance and management of the public rental housing projects.

(V) Sign a cooperation contract. The main contents of the contract shall include: the project name, construction scale, investment scale, fund raising, cooperation term, type and structure, operation term and maintenance responsibility for the public rental housing; quantity, quality and standard of the housing security services; the rental of the public rental housing and its adjustment mechanism; the contents, way, procedure and acceptance standard for transfer of the projects upon expiration of the contract, among which, if the disposal of assets is involved, an agreement on the proportion of the profits sharing between the government and the corporate partners shall be made in advance; the risk-sharing mechanism of the construction and operation management; the conditions, process and the compensation for the termination of projects; liabilities for breach of contract; and ways for disputes settlement and other contents.

(VI) Establish a monitoring and performance evaluation mechanism. The governments shall conduct supervision and comprehensive evaluation over the operation, service quality and capital usage efficiency of the public rental housing projects under the PPP projects through the whole process, carefully control and determine the service prices and the project earning indicators, strengthen the costs supervision and examination, the performance assessment and the examination of the price adjustment, introduce the third party to conduct social evaluation, publicize the evaluation results to the society and regard such results as the basis for the adjustment of the project prices, government subsidies, cooperation terms and other aspects.

VI. Build a policy system for PPP model in public rental housing supported by the government

(I) Fiscal policies. The city and county finance departments shall make overall arrangement to apply the funds used for the public rental housing under the arrangement of the governments at all levels, support the acquisition, construction and operation management of the public rental housing projects under the PPP model by interest subsidies. The implementation of the specific interest subsidies measures shall be subject to the Measures for Interest Subsidies for Urban Low-cost Housing Projects (Cai Zong [2014] No.76) issued by the Ministry of Finance. Meanwhile, the city and county finance departments offer subsidies by grades based on the payment ability of the security objects of the public rental housing, focus on giving the lease subsidies to the urban families with low-income that are struggling with housing, and cooperate with the housing security departments at the same level to urge the security objects to pay the rental to the project company at the market price as agreed in the contract. For pilot areas for the public rental housing projects under the PPP model, the central finance will not change the fund distribution way for the urban low-cost housing projects.

(II) Tax policies. The construction of the public rental housing shall be exempted from paying various official receipts and administrate charges in accordance with the relevant provisions of the State in effect; the preferential tax policies concerning the acquisition, construction and operation management of the public rental housing in effect shall be implemented.

(III) Land policies. Firstly, the land for new public rental housing may be acquired under an operating lease, and the rental income may be put under the government-managed fund budget management as the revenue from the land transfer. Secondly, upon the approval of the city or county people's government, the government may become a shareholder of the new public rental housing project company or public rental housing inventory project company carrying out works on the allocated land, by contributing the land use right, to support the public rental housing projects and PPP projects, with the right to dispose the proceeds instead of the participation in the sharing of proceeds during the operation of public rental housing. Thirdly, it is advisable to plan and construct the commercial service facilities covering a certain proportion of building area in the new public rental housing under PPP model, in order to realize the cash balance and a reasonable profit from the leasing and operation, however, it is not allowed to sell or transfer the same.

(IV) Acquisition policies. In case of acquisition of any commercial housing inventory project meeting the conditions for public rental housing, the acquisition price shall be determined free from loss at the free will of both parties, in which the companies dominate and the government serves as the go-between; or otherwise at the cost of local public rental housing construction and reasonable rate of return.

(V) Financing policies. Firstly, the banking financial institutions shall establish the checking of detail of public rental housing development loan under the major item of real estate development loans, to subject the public rental housing loan to separate accounting, separate management and separate appraisal, and give more support to the credit loan to the pilot public rental housing project under PPP model according to their own actual status, in the premise of legality, compliance and controllable risk. Secondly, the social security funds, insurance funds and other public funds are encouraged to finance through debt, equity financing and other methods. Thirdly, the project companies are supported to issue corporate bonds to moderately reduce the threshold of long-term corporate bonds issue. Fourthly, it is supported to issue the Real Estate Investment Trust by covering the financing principal with the future earnings, to explore the establishment of the sustainable public rental housing investment and financing model on the basis of market mechanism.

VII. Do well the public rental housing project implementation in the PPP model

(I) Implementation of the responsibilities. The Ministry of Finance shall work with the Ministry of Housing and Urban-Rural Development, the State Administration of Taxation and other relevant authorities to improve and implement the policies on the support to finance and taxation; the Ministry of Land and Resources shall work with the Ministry of Finance to improve and implement the policies on the support to land supply; and the People's Bank of China and China Banking Regulatory Commission shall guide and urge the financial institutions in the financial services. The local finance authorities at all levels, housing security authorities, land authorities, the People's Bank of China, China Banking Regulatory Commission and other departments shall perform the duties according to the division of responsibilities. Meanwhile, the local finance departments at all levels shall work with the housing security departments to develop the plan for the pilot public rental housing project in the PPP model, so as to guide the specific implementation of the projects.

(II) Establishment of work mechanism. The finance authorities, housing security authorities and land authorities at all levels, the People's Bank of China and China Banking Regulatory Commission Governments at various levels, housing and land, the people's bank of China, the China banking regulatory commission and other departments shall establish the joint meeting for the PPP public rental housing department, to study and resolve the issues during the adoption of the PPP model to promote the investment, construction and operation management of public rental housing, and the departments involved in the joint meeting shall strengthen the coordination and cooperate with each other to ensure the practice of all the policies and measures and regulate the pilot public rental housing in the PPP model.

(III) Initiation of pilot projects. In 2015, the regional authorities shall pay close attention to the initiation of pilot public rental housing projects in the PPP model, which shall be selected by the finance departments with the city or county housing security department of and then reported to the provincial finance department for implementation after the approval of the provincial finance department along with the housing security department. Each province may choose certain public rental housing projects from those selected by the authorities of city and county to initiate the pilot work. The provincial finance departments and the housing security departments shall report the project location, investment scale, construction area and properties, method of cooperation, cooperation term, funding sources and other information of the pilot project to be implemented to the Ministry of Finance and the Ministry of Housing and Urban-rural Development for filing.

Ministry of Finance

Ministry of Land and Resources

Ministry of Housing and Urban-rural Development

People's Bank of China

State Administration of Taxation

China Banking Regulatory Commission

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