

Dilemma and Countermeasure for the Policy of
Transferring Assigned Land into Commercial Land

—— Retrospection and Introspection for Policy
Experiments in Xiamen

He zizhang & Zhan liting

Xiamen Urban Planning & Design Institute

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1、Dilemma of Transferring Assigned Land into Commercial Land

Dilemma 1: The potential asset loss for assigned land

The treasured place is used for warehouse.

Most assigned lands are used for warehouse, car dealer and coaching grid without giving full play to the land value, causing potential loss of state-owned assets.

Dilemma 2: Low efficiency and chaos of urban spatial structure causing by assigned land

There appears the confusing situation that residential and commercial lands are mixed up with industrial lands in city center.

Dilemma 3: Illegal constructions that are difficult to contain

Although assigned land can not be transferred into commercial land by legal way, such land and its buildings can be rent, co-developed and self-rebuilt for profit by the real users who are lured by economic interests as the land's shadow price has sharply increased with urban development. The real users of assigned land, most of whom are the state-owned enterprises with government background and usually have countless ties with the government, have more opportunities for rent sinking.

Dilemma 4: Limitations of current land replacement policy

According to the current standard, the price of industrial land and its buildings is undervalued. It is based on depreciated calculation of the original investment on the land and on the construction of buildings without considering the compensating profits from land appreciation.

The enterprises do not have intentions and motivations to replace the land unless bankruptcy or restructure by the original standard.

2 Policy Experiment in Xiamen

2.1 Retrospection of policy process

Financial storm at the end of 2008 has seriously struck the development of Xiamen which depends on export-oriented economy. Economic growth remained declining. The properties held by the enterprises were difficult to sell due to the dramatically declined housing price impacted by economic crisis; the financial chain of the enterprises would be broken down. Therefore, how to revitalize the fixed assets of these enterprises and enhance the ability of financing are meaningful.

2.1 Retrospection of policy process

The construction projects on the assigned land or conditional assigned land could be transferred into commercial use under the premise of meeting planning conditions by way of paying the land premium. The land premium would be injected back to the municipal state-owned enterprises in the manner of increasing the capital funds for them.

The assigned land or conditional assigned land belonging to municipal state-owned enterprises, which needs to change the land status and land use under the premise of enterprises' voluntary application, can be reconfirmed the land status, land use and plot ratio according to the current planning conditions and land policies, then transferred into commercial land by way of non-pure land sale on the basis of appurtenance reappraisal.

2.2 The Fundamental Concept of Policy Design

2.2.1 The applicable object of the policy: the assigned land belonging to the municipal state-owned enterprises.

2.2.2 The innovated points of the policy

Firstly, the money from land auction sale is not turned in to the public finance but injected into the state-owned enterprises, which is the key point of the policy.

Secondly, according to ‘Preliminary Work Standard of Xiamen State-owned Land Public Bidding, Auctioning and Nominal Quotation (trial implementation)’ , the land to be auctioned must be pure land while the policy allows the land with buildings to be auctioned.

2.2.3 Land alteration

The first one is to demolish the current buildings after auctioning and rebuild them on the basis of land granting requirements. The land will be altered to commercial land.

The second one is to change the land use after auctioning but keep the current buildings to finish the alteration into commercial land.

The third one is not to change the land use and other land use conditions after auctioning to become the commercial land.

2.3 The influence of the policy

2.3.1 The influence on the market and the countermeasure

- 1) For the lands keeping the original buildings and use but changing the property right, there has no influence on the market
- 2) For the lands that keeping the original buildings but changing the land use, it almost has no impact on the market as well and should be permitted to transfer into commercial land.
- 3) For the vacant land, some of which have already had the developing plans or have finished the related procedures, they should also be regarded as having less influence on the market.

2.3.2 The influence on public finance

1) The construction programs of the government for pulling the investment still need the aid of the enterprises, thus the public finance has to inject funds to them.

2) The lands with large numbers of buildings on them have been used by the enterprises. Many lands are unlikely be taken over basically, and the enterprises have no enough capital to buy them. Besides, the policy does not allow any new lands to be developed; hence it has less influence on the public finance.

2.3.3 The influence on the enterprises

For the state-owned enterprises, when transferring the assigned land into commercial land, their capital funds will greatly increase, which means the substantial rise of the operation cost. As a result, the operational performance of the enterprises will be affected, and so will the achievement appraisal of the administrator by SASAC.

2.3.4 The influence on the districts

The policy suggests that the much larger lands should be plotted to a scale, some of which should be taken over by the district government then auctioned while some should be put under the enterprises and developed by them based on this policy.

The smaller lands (having few numbers) should be united to develop under the guidance of the municipal government after negotiation between the enterprises and the district government.

3. The Value of the Policy: from Informal Property Right to Formal Property Right

3.1 The secret for vitalizing the capital: from informal property right to formal property right

The use right of assigned land should not be transferred, rent, mortgaged and invested in capital in principle, hence it couldn't be seen as formal property in full sense. Once transforming the lands into commercial lands, they would become the assets that can be mortgaged and exchanged. Since the land assets have huge scale, they will improve the balance sheet of the enterprises and enhancing their borrowing capacity.

3.2 Transferring secondary industry into tertiary industry to promote the adjustment of urban spatial structure

4 The Analysis of the Reason Why the Policy is Difficult to Promote

4.1 The window phase of the policy are not seized

The concept of the policy that transferred the assigned land into commercial land was proposed under the context of economic crisis. It was until the midyear of 2009 when land market got warm, the golden window period of promoting the policy was missed.

4.2 Sectional interests are hard to be balanced

For land department and financial department, it means that the funds from land appreciation will never be controlled by them.

4.3 The ideological understanding is not unified

People always forget the huge value increment of the objects with same assets after transferring the informal property right into formal property rights.

Thank you!