The Financialization and De-financialization of Rental Housing in China: how the state's governance capacity affects financialization

Xin QI, Jie CHEN*, Tingting LU, Bo LI[1]

Abstract: China's rental housing sector has emerged and experienced significant transformation in recent years, primarily driven by the state's varied financialization governance strategies. As shown in the paper, the governance of rental housing financialization has exhibited a fluctuating trajectory, unfolding in four distinct stages: non-financialization (2010-2015), financialization (2015–2019), de-financialization (2019–2021), and segmented re-financialization (post–2021), thereby forming a 'pendulum swing' pattern. Furthermore, the paper suggests that the state's governance capacities—including compliance, extraction, and coordination capabilities—serve as mediating factors in determining the specific modes of (de-)financialization. In response to the literature of Chinese-style state entrepreneurialism, we argue that the state's changing governance concerning the (de-)financialization of rental housing sector functions as statecraft strategies, which are deployed to achieve two key goals: fostering economic growth and ensuring socio-political stability; however, the prioritization of the two goals dynamically shifts over time. This reflects the principles of 'adaptive governance' and underlines the inherent flexibility of state entrepreneurialism. This study provides new insights into the diversity and dynamic nature of the state's financialization strategies, uncovering the complex underlying mechanisms that shape the governance of rental housing in China.

Keywords: financialization; de-financializaton; rental housing; urban governance; governance capacity

[1] Xin Qi, PhD Student, China Institute for Urban Governance & School of International and Public Affairs, Shanghai Jiao Tong University. Email: chisensen@sjtu.edu.cn;

Jie Chen (corresponding author), Professor, School of International and Public Affairs & China Institute for Urban Governance, Shanghai Jiao Tong University. E-mail: chenjie100@sjtu.edu.cn;

Tingting Lu, Associate Professor, School of International and Public Affairs & China Institute for Urban Governance, Shanghai Jiao Tong University. E-mail: tingting.lu@sjtu.edu.cn.

Bo Li. Post-doctor Research Fellow, John F. Kennedy Institute for North American Studies, Free University of Berlin, Berlin, Germany. Email: bo.li@fu-berlin.de.

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Keywords: (de-)financialization; state capacity; governance goals; rental housing；governance strategy

1. Introduction

The proliferation of financialization, albeit in variegated forms, has profoundly reshaped housing regimes across different regions (Gotham, 2009; Grubbauer & Mader, 2021; UN-OHCHR, 2017). While a broad consensus in the literature acknowledges the state's critical role in influencing a country's financialization process (Bernt et al., 2017; Dow, 2020; Feng et al., 2022; Wang, 2020; Wu et al., 2022), the underlying motives, constraints and rationales driving the state's changing strategies in the financialization of the housing sector remain insufficiently understood.

In China, the rental housing sector has undergone significant processes of financialization and de-financialization in the recent decade. This sector was traditionally far less permeated by financial capital, with its provision overwhelmingly dominated by private individuals before the mid-2010s (Chen et al., 2022; CRIC, 2022), contrasting to the full-fledged financialization of the owner-occupied housing that developed after the 1998 market-oriented reform (Chen & Wu, 2022; Wu et al., 2020). It was between 2015 and 2019 that the rental housing sector began to embrace rapid financialization, signified by the emergence of standardized rental housing services provided by private firms in the newly established long-term apartment rental (LAR) industry. Not too long after the rental housing sector became a lubricant asset target for capital investment (Ba & Yang, 2016; Chen et al., 2022), many leading private LAR firms encountered capital chain ruptures and even bankruptcies towards 2020 (XinhuaNews, 2020). Thousands of tenants residing in properties managed by private LAR firms found themselves threatened with the risks of becoming homelessness, leading to fierce social unrests in several megacities during the winter of 2022 (BejingNews, 2020). The chaotic situation within the disordered private LAR industry compelled the state to put the brakes on the excessive financialization of this sector (MOHURD, 2019, 2021). Nevertheless, since July 2021, the Chinese central government has launched a state-led affordable rental housing (ARH) programme and actively sought to attract social capital to invest in ARH projects through a series of incentivizing policy packages, including ARH Real Estate Investment Trusts (REITs), fiscal funding, etc.(GOoSC, 2021; GOoCSRC, 2022; IOoSC, 2021).

A fundamental question raises from observing the oscillation between financialization and de-financialization of the rental housing sector: what rationalizes the Chinese state's choice of different strategies at different times? To answer this question, this study employs the state capacity theory (Berwick & Christia 2018) to investigate the dynamic conditions and changing mechanisms underlying the recurring (de-)financialization. Based on a longitudinal tracking of rental housing policy changes over this decade, field visits to 18 affordable rental housing projects, and interviews with 30 relevant stakeholders of these rental housing projects, this work contributes to the field by discovering the state's governance rationales underneath a temporal evolvement of financialization, de-financialization, and segmented re-financialization. It unfolds the complex interplay between financialization and the state's evolving capacity - an issue that previously receiving scarce attention.

2. Related Literature

2.1. Financialization and de-financialization of (rental) housing

While housing financialization presents variegated motivations, the extant literature highlights that the relentless process of financialization harbours at least two crisis-prone tendencies stemming from its contested nature (Gotham, 2006, 2009; Botzem, 2013). The first is its bubble-triggering tendency (Langley, 2008). Financialization often degenerates into pure asset speculation, leading to herding and market overshooting (Aglietta, 1998; Foster, 2008). Thus, a financialized housing regime prone to bubbles may generate more volatile housing cycles, thereby increasing the fragility of the housing sector (Schwartz & Seabrooke, 2009; French et al., 2011). This feature has been identified as "profits without investment" (Van Treeck, 2009:920) or "profiting without producing" (Lapavitsas, 2013:792). Beyond triggering affordability crisis (Rolnik, 2013; August & Walks, 2018), the recurrent boom-bust cycles of housing bubble also exacerbate tenure insecurity and tenants' precarity through heightened risks of eviction (García-Lamarca & Kaika, 2016; Lima, 2020). The second is its inequality-widening tendency (Lin & Tomaskovic-Devey, 2013). Tomaskovic-Devey & Lin (2011) conceptualize financialization as a system of income redistribution where "winners" extract "rents" with the support of the government. Extensive literature demonstrates that the predatory practices of financialized actors in the *dehumanized* provision of housing exasperate class-based residential inequality (Dewilde & De Decker, 2016) and socio-spatial segregation (Walks, 2014; Smit et al., 2017).

Considering these two crisis-prone tendencies, housing financialization has been deemed as a devasting threat to housing rights in most cases (UN-OHCHR, 2017; Reynolds, 2024). This transformation of housing financialization, in its various forms, has triggered long-lasting conflicts among different stakeholders worldwide (Wijburg, 2021; Norris & Lawson, 2023).

Unregulated housing financialization not only jeopardizes the sustainability of the state's governance(Vercelli, 2013), but also poses threats to the accumulation regime itself.

In response, increased attention has been paid to the theory of policy of housing de-financialization (Wijburg, 2021; Norris & Lawson, 2023), which refers to how to counteract the negative consequences of financialization. Recently, scholars have inspected how the aggressive expansion of housing financialization has been met with resistance and contestation by both public and private actors in various contexts, for example, Spain (Gil García & Martínez López, 2023), and cities such as New York (Fields & Uffer, 2016), Dublin (Reynolds, 2024) and Vancouver (Thompson, 2022). On most occasions, de-financialization does not necessarily imply "the negation of any form of finance" but just signify "the re-embedding of finance in a more regulated form" (Wijburg, 2021: 1288).

Traditionally, rental housing was considered unattractive to financial investors (DiPasquale & Cummings, 1992). Yet, a confluence of advances in financial technology, innovations in financial products, deeper integration of global financial markets, and the growing prominence of neoliberalism in housing policymaking as well as governments' retrenchment from the responsibility of providing affordable housing (Rolnik, 2013; Lima, 2020), have transformed rental housing into a new type of globally recognized financial asset (Byrne & Norris, 2022; Lima, 2020; Reynolds, 2024).

2.2. The role of the state in housing (de-)financialization

The existing literature generally suggests that the state, as the orchestrator of neoliberal policymaking in processes of (de-)financialization, prioritizes the interests of the financial sector to attract global financial capital in a coordinated manner (Gil García & Martínez López, 2023; Jacobs & Manzi, 2020). Governments are often described as "active agents" of financial institutions (Weber, 2010) or "market-makers" (Aalbers, 2017), with their governing rationalities increasingly influenced by the pressures of global investors in the "invasive processes of financial colonization" (Peck & Whiteside, 2016). Given housing's distinctive dual nature as both a commodity and a right (UN-OHCHR, 2017), the state's attitudes towards housing financialization may vary significantly across historical and political arrangements, as well as levels of governance (Bernt et al., 2017).

China is widely conceived as a country with a strong vision of developmentalism, which broadly refers to the state's guidance of economic growth toward the collective well-being of all citizens (Midgley & Tang, 2001). Since the transition towards a "socialist market economy" in the 1990s, "financializing as a governance shift" has emerged, emphasizing that financialization serves as a market-based governance instrument created by the state to enhance the statecraft (Wu, 2023, Wu et al., 2024). Scholars generally agree that China's state-led financialization has strengthened the state's governing capability and effectually facilitated the achievement of its long-term strategic goals (Wang, 2020; Wu, 2023). For example, the financialization of owner-occupied housing is recognized as the state's crucial strategy in serving property-led urbanization and urban redevelopment, capital accumulation (Chen & Wu, 2022), credit expansion (Wu, 2023), and economic crisis management (He et al., 2020). However, the research on state-led financialization in China has largely overlooked the evolving nature of the state's governance capacity over time.

3. Governance Goals and State Capacities in the Financialization Strategy: A Conceptual Framework

This work proposes a holistic framework (cf. Figure 1) to systematically show the motives, constraints and rationales underlying the Chinese state's shifting choices among various modes of rental housing financialization.

3.1 Understanding the Chinese-style developmental state's governance goals

Several studies have stressed that financialization in China is never an end in itself but rather a means; it is deployed as an instrument by the developmental state to achieve both capital accumulation and political goals (Wu et al., 2022; F. Zhang & Wu, 2022). Following this vein of research, our framework broadly categorizes the state's governance goals into economic growth and socio-political stability.

The goal of economic growth emphasizes the expansion of housing supply through the attraction of capital and cultivation of a robust market, ultimately driving urban economic growth. On the one hand, this goal mobilizes substantial financial resources, from which to boost the construction and provision of high-quality rental housing units to meet increasing demand for quality rental housing among the youths and new citizens (The State Council, 2016). On the other hand, it fosters the standardization and institutionalization of rental housing services (MOHURD, 2015; Shao, 2020), promoting a new outlet for the excessive capital that has recently outflowed from the increasing volatile real estate market (Ba & Yang, 2016; CRIC, 2022). The expanded provision of high-quality rental housing units could not only alleviate housing affordability challenges for low-income households through market or semi-market approaches (The State Council, 2016), but also enhance the attractiveness of cities particularly for high-skilled populations(C. Li & He, 2025).

The goal of socio-political stability emphasizes realizing equitable housing rights for all citizens, which is integral to enhancing the overarching legitimacy of the state and the Chinese Communist Party (CCP). In an era marked by stark polarization of income and wealth within the market economy, CCP's current leader Xi Jinping has openly cautioned that, economic growth failing to demonstrably improve the wellbeing of vulnerable groups will inevitably jeopardize the party-state's ruling legitimacy (Xi, 2021; Z. Zhang, 2023). Indeed, both Deng Xiaoping and Xi Jinping have stressed that a failure to ensure "common prosperity" (*gongtong fuyu*) would stand for the collapse of socialism ideology (Deng, X., 1993; Xi, 2021).

According to the CCP's "new development ideology", formally launched at its 19th National Congress in 2017, these two seemingly disparate goals are, in fact, not conflicting but mutually complementary within the framework of the Chinese-style modernization path (Xi, 2021; Z. Zhang, 2023). Nonetheless, strategic statecraft is needed to integrate both goals in a balanced and harmonious combination.

3.2. Locating the state capacity in the analysis of financialization

State capacity, defined as a state's effectiveness in executing its functions and delivering public goods and services, fundamentally arises from the interactive relationship between the state and society (Berwick & Christia, 2018). Drawing upon the framework developed by Berwick & Christia (ibid), we conceptualize state capacity as comprising three critical dimensions: *compliance capacity*, *extraction capacity* and *coordination capacity*. This framework is particularly salient as it effectively integrates both the administrative (policy approach) and the political (collaborative approach) facets of governance.

Compliance capacity refers to the state's ability to ensure that its policies and laws are effectively implemented and adhered to by its agents, notably local governments. *Extraction capacity* refers to the state's proficiency in acquiring and securing resources, including information, knowledge and expertise to fulfil its governmental functions (Brambor et al., 2020; Van Popering-Verkerk et al., 2022). *Coordination capacity* refers to the state's ability to organized collective action, entailing the seamless coordination of information, interest and action coordination among diverse actors.

Overall, this paper analyzes the state's logic in choosing financialization strategies for the rental housing sector, examining this decision-making through the dual lenses of "governance goals" and "state capacity". We hypothesize that the state's choice of financialization strategies is primarily based on its governance goals, with the continuously evolving nature of state capacity playing an intermediary role. Specifically, "governance goals", that including relative priority of economic growth and socio-political stability, determine the *type* of strategy the state adopts. Meanwhile, "state capacity"—comprising compliance capacity, extraction capacity, and coordination capacity—acts as an intermediary, determining both the feasibility of choosing a particular strategy and the likelihood of its successful implementation. Additionally, the prioritization of governance goals dynamically shifts across different stages in response to varying governance circumstances, while state capacity concurrently develops to facilitate more effective governance decisions. This complicated interplay aligns with the concept of "adaptive governance" (Folke et al., 2005; Janssen & van der Voort, 2016). Based on the above consideration, we propose the analysis framework of this paper (cf. figure 1).

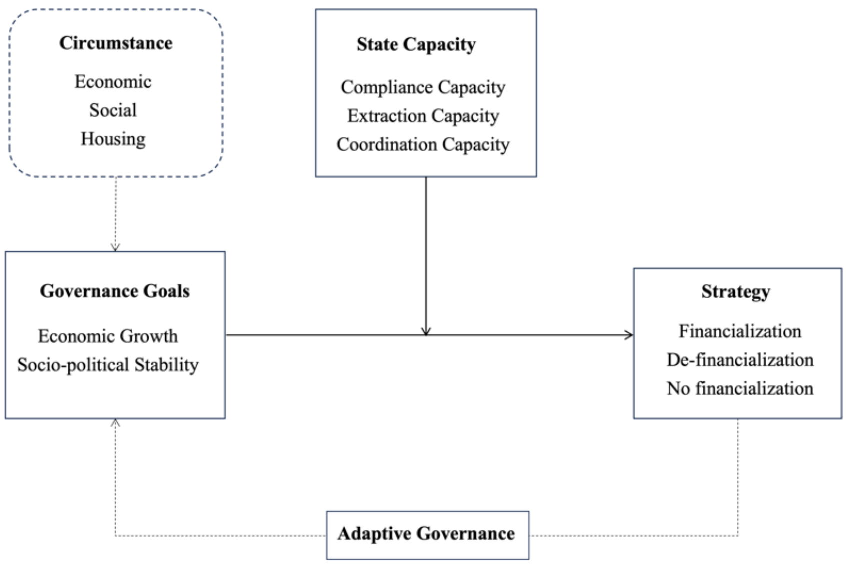

Figure 1: The Analytic Framework of Financialization Mode

Source: authors.

4. The Pendulum Swing of the Financialization and De-financialization in the Case of Rental Housing in China (2010 to present)

Since the early 1980s, China's urban housing sector has experienced a strategic transition towards a market-oriented paradigm, which is characterised by both the massive privatization of public housing stock and the increasing penetration of financial products (Chen & Wu, 2022). Nevertheless, a stark imbalance persists between the rental and ownership segments in China's housing sector. As of 2010, public tenants accounted for a mere 2.5% of Chinese urban households, while those renting private housing constituted 19%, contrasting with a homeownership ratio of 75% in the same year (according to the fifth population census data). Nearly all private rental housing (PRH) in urban China in that period was provided by individual landlords (CRIC, 2022; C. Li et al., 2023; Shao, 2020). This unattractiveness of PRH was at least partly attributed to the state's deliberate strategy of promoting households' inclination towards owner-occupied housing (Chen & Wu, 2022; Su & Qian, 2022).

From the demand-side perspective, the need for a decent private home (Theurillat, 2022), the increased pursuit for "privatized lifestyle" (Pow, 2007), and the concern over family assets accumulation (Wu et al., 2019) are major incentives that fuelled financialization of owner-occupied housing. Meanwhile, a net annual growth of 20-30 million migrants in the early 2000s triggered the skyrocketing housing price across major cities (K. Li et al., 2020). Confronting the crisis of housing affordability, rural-to-urban migrants bore the lack of homeownership in host cities, while having to concentration in the informal rental housing sector, often found in "urban villages" or through various forms of "group renting" security (Gong, 2016). These conditions not only jeopardized their health but also posed risks to public security (Gong, 2016). Meanwhile, the burgeoning demand for quality rental housing services among highly educated, new-generation migrants in Chinese megacities has begun to attract substantial interest from investors. These confluence of factors from the demand-side compelled the state to formally recognize the significance of a robust and institutionalized PRH sector for both social stability and economic prosperity (MOHURD, 2015; Shao, 2020).

This paper identifies that, over the past decade, China's rental housing sector has traversed four distinct stages: non-financialization, financialization, de-financialization, and re-financialization, showing the characteristics of pendulum swing. This cyclical pattern resonates strongly with Polanyi's concept of the "pendulum", which suggests that there is an inherent tension between the expansion of the market economy and the imperatives of social protection, a tension perpetually manifesting as a pendulum swing (Polanyi, 1944). Below we present the transition of these four stages.

4.1. Stage I (2010-2015): non-financialization period

Since the early 2010s, a growing scale of capital funds, including global and domestic venture capital (VC) and private equity (PE), began to flow into the Chinese PRH sector. Companies established by these new investors usually brand themselves as Long-term Apartment Rental (LAR) firms, a designation that serves to differentiate them from those individual landlords who usually decline to offer leases exceeding one year. LAR firms generally operate under two main business models: the asset-heavy model, wherein firms run business using apartments they directly own; and the asset-light model, where firms manage properties leased from legal owners (Ba & Yang, 2016). The annual number of newly-registered LAR firms climbed sharply between the year of 2012 and 2014 (cf. Figure 2). However, till 2015, only VC and PE were willing to provide funding for these high-risk LAR businesses, while traditional financial institutions largely stepped away from involvement due to the unfavourable business and policy environment (CRIC, 2022). As a result, the equity funding attracted by private LAR firms during this period remained limited in this period (cf. Figure 3).

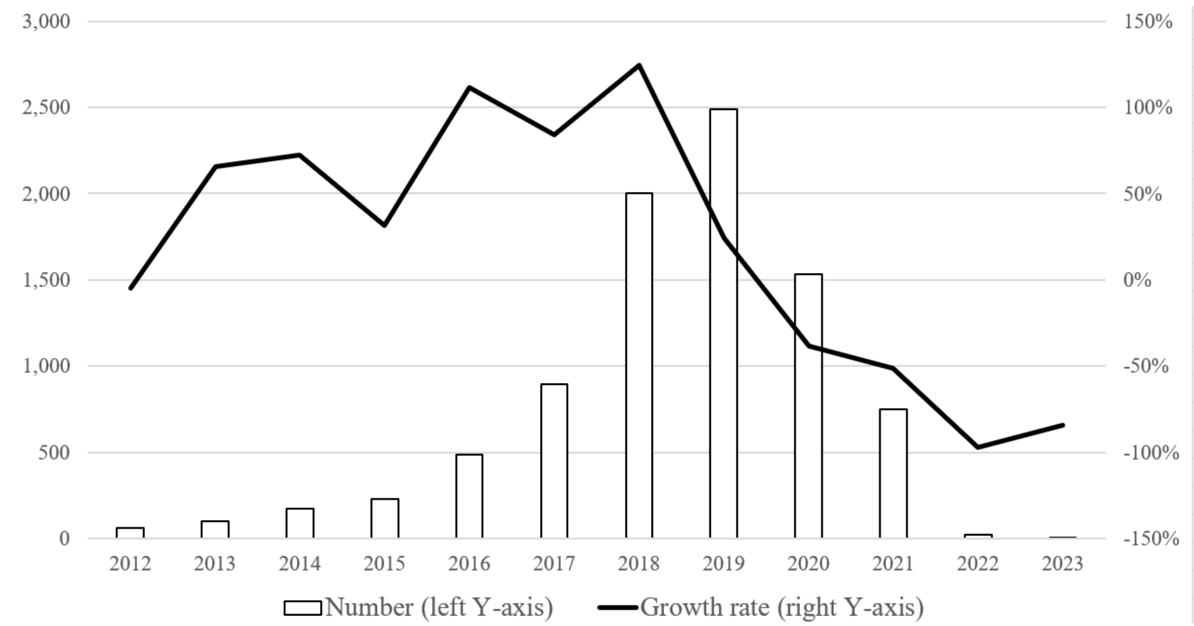

Figure 2. The number of newly-registered LAR firms in China (2012-2023)

Source: Based on authors' own search results from Qichacha (online firm registration database): https://www.qcc.com/

Note: LAR firms in this figure refer to enterprises whose business scope includes "apartment leasing" and belong to one of the following industries: real estate, accommodation and catering services, leasing and commercial services. Further, subsidiaries are excluded.

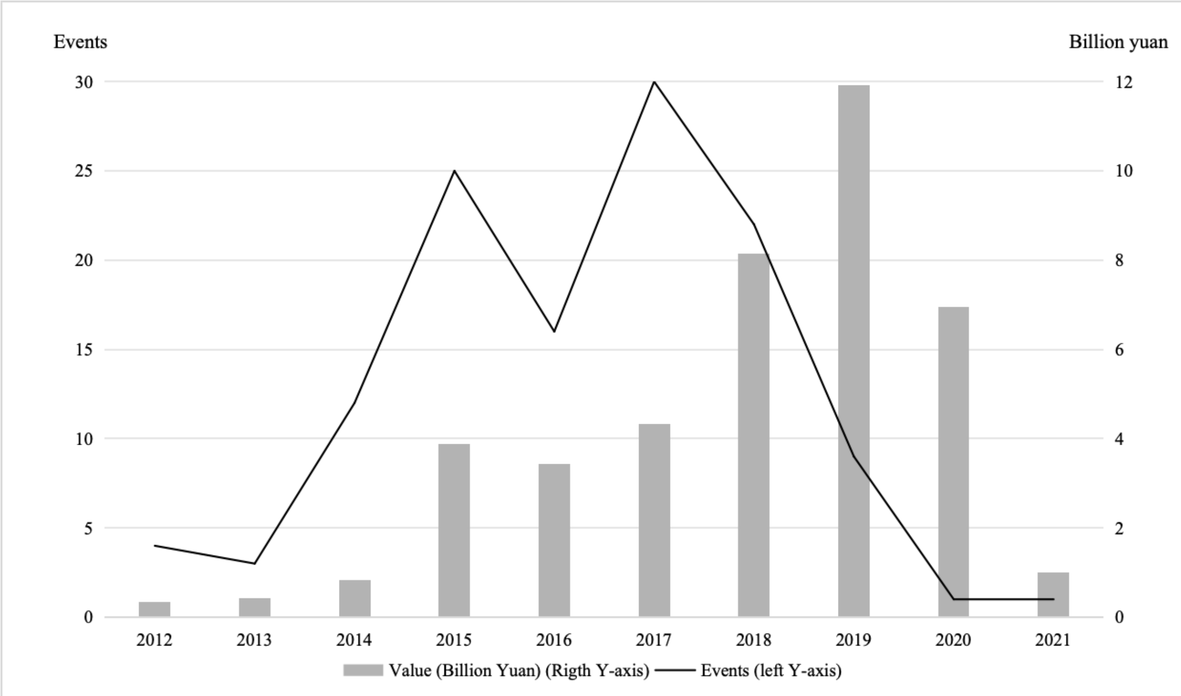

Figure 3. Major equity funding events of private LAR firms in China (2013-2021)

Source: The China's Housing Finance Development Report(NIFD, 2023).

4.2. Stage II (2015-2019): financialization period

In January 2015, the central state of China officially launched the campaign to boost the development of the PRH sector, especially in mega cities (MOHURD, 2015). This commitment was further solidified in May 2016, when the Office of State Council released a package of stimulus policies, including fiscal supports, preferential tax treatment, land supply and financial innovations, all designed to accelerate the development of the rental housing market. Table 1 summarizes milestone policies regarding the rental housing sector in China from 2015 to 2024.

Table 1: Major policy documents of rental housing development in China (2015-2024)

Time	Policy Document or Event	Key elements
Jan, 2015	The Guidelines on the Cultivation and Development of Rental Housing Market (MOHURD [2015] No.4)	Stress the importance of rental housing provision; Call for pilot experiment programs of REITs
May, 2016	The Opinions on Accelerating the Cultivation and Development of the Rental Housing Market (GOoSC [2016] No.39)	Promise to apply preferential tax treatments and encourage innovative financial products (i.e. corporate bond, ABS and REITs) to support rental

		housing companies; Require all municipal governments to reserve land supply for rental housing construction; Approve conversions of commercial buildings into rental housing when legally
Jul, 2017	The Notice on Speeding Up the Development of Rental Housing Market in the Cities with Large Inflow of population (MOHURD [2017] No.153)	Encourage more fiscal and financial supports to support rental housing companies
Aug, 2017	Notice on Further Preventing Risks, Strengthening Supervision and Serving the Real Economy in the Field of Corporate Bonds (Office of NRDC)	Approve rental housing companies to issue cooperate bonds
Apr, 2018	The Circular on Promoting the Securitization of Housing Lease Assets (CSRC [2018] No.30)	Support rental housing companies to revitalize their assets and attract more funding through asset securitization
May, 2018	Notice on Matters Related to Insurance Funds' Participation in the LAR (CBIRC [2018] No.26)	Encourage insurance funds to participate in LAR.
Dec, 2019	Opinions on Rectifying and Standardizing the Order of the Housing Rental Market, jointly issued by MOHURD and other five ministry-level government agencies (MOHURD [2019] No.10)	The housing broker platform shall verify the information of rental housing listings and provide such information to the supervision agency. The supervision of the financing of housing leasing business shall be strengthened. Housing leasing enterprises needs to set up bank account under supervision.
Dec, 2020	The Central State's Annual Economic Affairs Conference	Call to devote great importance to the construction of affordable rental housing (ARH).
Apr, 2021	Opinions on Strengthening the Supervision of Light Assets Housing Leasing Enterprises (MOHURD [2021] No.2)	Housing leasing enterprises shall put all operations of rent and deposits through the bank account under supervision. The banks should provide the real-time cash flow information of this account to the supervision agency.

Jul, 2021	Opinions on Accelerating the Development of ARH (GOoSC [2021] No.22)	ARH is set up as a cornerstone of the Chinese new housing guarantee system; Urge to provide financial support for construction and operation of ARH
Feb, 2022	Notice on the ARH Related Loans Are Not Included in The Real Estate Loan Concentration Management (CBIRC [2022] No.30)	Encourage financial institutions to provide funds and credits to ARH.
May, 2022	Notice on the Pilot Issuance of REITs for ARH (CSRC [2022] No.53)	The issuance of ARH-based REITs can revitalize existing assets, recycle funds and help to broaden the financing source of ARH development.
Jan, 2024	Opinions on Financial Supports for the Development of Housing Rental Market (PBC [2024] No.2)	Encourage financial lending to support the construction and operation of rental housing services, including loans to purchase rental housing projects
May, 2024	The State Council Policy Briefing	Set up 300 billion yuan in government-affordable housing re-loans to support local state-owned enterprises in purchasing completed and unsold commercial housing for use as affordable housing including ARH.

Note: GOoSC stands for the General Office of the State Council, CSRC stands for China's Security Regulation Commission, NRDC stands for the National Development and Reform Commission, CBIRC stands for China Banking and Insurance Regulatory Commission, and PBC stands for People's Bank of China, which is China's central bank.

During this period, the state actively sought to maximize the benefits of financialization, driven by expectations that it would significantly boost the investor incentives within the PRH sector. Furthermore, the state also made concerted efforts to stimulate rental housing consumption from the demand side. For example, the State Council underscored the importance of preferential policies for rental housing consumption, including provision of rental subsidies, encouraging the use of HPF (housing provident fund), and advocating tenure neutrality in the provision of social welfare (GOoSC [2016] No.39).

The robust policy stimulus attracted a multitude of corporate landlords and institutional investors into the PRH sector, leading to a sharp expansion of the LAR industry. According to Qichacha, the number of newly-registered LAR firms rocketed from around 250 in the year of 2015 to more than 2,700 in the year of 2019 (cf. Figure 2). By the end of 2018, LAR firms managed business on 3.75 million housing units and accommodated roughly 17% of renters in Chinese cities, with approximately 80 major branded LAR firms overseeing the majority of these apartments (Ziru, 2019). The LAR sector became a highly lucrative asset target, attracting over 30 billion Yuan in funds and equity capital between 2015 and 2019 (cf. Figure 3).

Besides conventional financing such as banking loans, corporate bonds, and overseas Initial Public Offerings (IPOs), innovative financial instruments were also introduced to ensure ample funding for rental housing companies, including the utilization of and asset-backed securities (ABS) that are based on capitalization of future rental income streams, and quasi-REITs (CRIC, 2022). Meanwhile, some novel financial products, like ‘rental loans’ that pooling advance rent payments from tenants, were created by commercial banks specifically for asset-light LAR firms (Chen et al., 2022). During this stage, China's rental housing sector attracted a wide variety of investors (cf. Table 2).

Table 2: The Investment Institutions of rental housing sector in China (2015 to 2019)

	Types of Investment Institutions	**Examples**
Long-term Investors (lV)	Developers	Vanke, CIFI Holdings, China Merchants Property, Longfor Properties, China Resources Land, Poly Real Estate, etc.
	Insurance Companies	Ping An Insurance, China Reinsurance (Group) Corporation
	Bank	China Construction Bank, etc.
Short-term Investors (SV)	Private Equity Funds	Warburg Pincus, Sequoia Capita, Tencent Industry, Tiger Global Management, etc.
Between IV& SV	Real Estate Internet Companies	Ziroom, Danke Apartmen, Mofang Apartment, Qingke, etc.

Note: authors’ summary based on various online industry reports.

4.3. Stage III (2019-2021): de-financialization period

However, between 2018 and 2020, this industry encountered a rapid explosion of firm bankruptcies, with over 170 branded LAR firms representing 15% of the total stock being disbanded or revoked (Xinhua News, 2020). The collapse of several leading LAR firms, such as *Danke* and *Qingke*, marked a critical turning point. Subsequently, the once-thriving LAR industry lost its appeal to both global and domestic investors, leading to a precipitous decline in financial capital inflow (cf. Figure 3). The downfall of these firms is generally attributed to their aggressive use of various speculative financial instruments, especially “rental loans” (Chen et al., 2022).

Beyond the substantial capital losses incurred by investors, the widespread instances of fraud related to “rental loans” and the escalating complaints from both landlords and tenants have significantly catalysed social unrests. Tens of thousands of renters faced the imminent threat of eviction (BeijingNews, 2020; XinhuaNews, 2020). The high bankruptcy rate within the LAR industry, particularly among asset-light LAR firms, suggested the systemic risks embedded in the previous financialized development model of rental housing provision.

In response to these challenges, the central government was compelled to introduce a de-financialization of the LAR industry (Li et al., 2023), rigorously restraining the leverage, liquidity, and velocity of financial investments in the LAR industry. In December 2019, policy MOHURD [2019] No.10 was issued to bolster the supervision of LAR firms’ financial activities. Furthermore, the state categorized asset-light LAR firms as the segment with the highest financial risk, leading to the introduction of a special regulatory framework in April 2021(MOHURD [2021] No.2). Strict supervision over “rental loans” was implemented, and financial institutions that providing credit to asset-light LAR firms were required to share information with public authorities. The state further intensified its supervision of the rental housing market in July 2021, announcing policies that prohibited asset-light LAR firms from issuing consumption credit to tenants and from accumulating capital pools through high-risk strategies, such as collecting large amounts of advance payments from tenants. Additionally, asset-light LAR firms were forbidden from pursuing high-risky expansion through renting properties at prices below their costs paid to landlords (MOHURD [2021] No.25).

To incentivize policy implementation at the local level, pilot programs and direct funding support from the central government were launched between 2019 and 2020. A total of 24 cities were selected to participate in a three-year pilot program through two competitive rounds of evaluation. Under this initiative, each city's efforts in developing of its local rental housing market would receive annual support ranging from 0.6 to 1 billion Yuan from the central government's fiscal budget (SJTU-CHURD, 2020). Additionally, seven cities established strategic collaborations with policy banks, such as the National Development Bank, to enhance funding for the development of the rental housing sector.

Since 2020, the LAR industry has largely lost its previous explosive expansion. The number of newly-registered LAR firms heavily plummeted after 2019 (cf. Figure 2), and as of early 2025, the alive number of LAR firms stood at around 4,000.

4.4. Stage IV (2021 to present): segmented re-financialization period

In July 2021, the Chinese state has rebooted its financialization strategy for the rental housing sector. However, this strategy diverged from previous approaches by championing a new state-led "Affordable Rental Housing" (ARH) program (GOoSC, 2021). The ARH program sharply distinguishes itself from traditional public rental housing in two aspects. First, unlike public rental housing (PRH), ARH does not impose an income threshold requirement, specifically targeting the "housing poor", or "new citizens and young people". Second, ARH is designed for investment, ownership, and operation by a diverse range of investors, contrasting with PRH that is exclusively managed by local public housing authority. Therefore, ARH possesses significant potential for financialization.

In September 2022, MOHURD announced a target to provide 3.3 million ARH units (rooms) nationwide between 2021 and 2022. The broader ambition for the "Fourteenth Five-Year Plan" period (2021-2025) anticipates the construction or acquisition of 6.5 million ARH units (rooms) across 40 major cities, aiming to stimulate investment totalling 3 trillion yuan and accommodating approximately 20 million residents. By September 2023, MOHURD reported vital progress, with over 5 million ARH units (rooms) constructed or acquired nationwide in the preceding two years, accommodating 15 million residents, and attracting investments exceeding 150 billion Yuan (WeiFangRI, 2024).

A series of preferential policies has been adopted to strengthen financial supports for ARH. Firstly, the state implements lenient credit policies and diverse financing options for ARH. For example, while the central government imposed stringent credit controls on real estate developments between late 2020 and early 2022 to curb the real estate bubble, ARH financing remained exempted from these constraints (URI, 2024). In January 2024, policy document PBC [2024] No.2 outlined a comprehensive array of financing options, including loans, corporate bonds, covered bonds, and REITs, to meet various financing needs of rental housing providers in terms of construction, conversion, operation, and purchase of rental housing properties. Although this policy document nominally sets its target to the entire rental housing sector, the market generally believes the majority of new funding stimulated by the this new round of financialization would be directed towards fostering the expansion of ARH (URI, 2024). Secondly, in January 2023, the state announced the establishment of a "rental housing loan support scheme" with a credit quota of 100 billion Yuan. This scheme, experimented in eight pilot cities, essentially functions as a refinancing strategy for banking loans issued to finance rental housing development, offering a remarkably low refinancing interest rate of 1.75%. Thirdly, the state introduced Pledged Supplementary Lending (PSL) and re-lending for affordable housing. In May 2024, PBC announced a 300-billion-Yuan re-lending facility to enable local state-owned enterprises to use these funds to turn commercial housing into affordable housing, including ARH. By September 2024, PBC further increased its funding proportion in the affordable housing re-lending policy from the original 60% to 100%.

The state also actively encouraged the participation of social capital, and urged financial innovation to fund ARH development. Particularly, ARH properties have been granted top priority in all applications for publicly-traded REIT (GOoSC, 2021). In May 2022, the CSRC formally approved the REITs pilot program of ARH properties (OoSRC [2022] No.53). On 31 August 2022, the first three public REITs that backed by ARH properties were listed and traded simultaneously on two Stock Exchanges in China, with a fourth one listing in December 2022. These initial four ARH-based REITs received enthusiastic capital market interest, each being oversubscribed by more than 100 times among investors, collectively raising a total funding of 5 billion Yuan (BoCS, 2023). One of these REITs underwent a successful re-raising in May 2024, with the other REITs planning similar re-financings (Pengpai News, 2024). The fifth ARH-based REIT was listed in early January 2024, independently raising 3 billion Yuan (ICCRA, 2024). In October 2024, the sixth rental REIT was released. As of September 2024, ARH REITs have demonstrated robust performance, increasing by 14%-36% compared to their issue prices, significantly surpassing other sectors such as warehousing logistics and consumer infrastructure (ICCRA, 2024). As a result, during this stage, China's rental housing sector attracted a wide variety of investors (cf. Table 3).

Table 3: The Investment Institutions of rental housing sector in China (2021 to present)

	The Types of Investment Institutions	Examples
Long-term Investors(lV)	REITs	Hongtu Innovation Shenzhen Affordable Housing REIT CICC Xiamen Affordable Housing REIT Huaxia Beijing Affordable Housing REIT Huaxia Fund China Resources Nest REIT Shanghai Urban Investment Holdings Affordable Housing REIT China Merchants Fund Shekou Rental Housing REIT
	Insurance Companies	China Life Insurance, Taikang Insurance, Ping An Insurance, etc.
	Developers	China Resources Land, Longfor Properties, Vanke, CIFI Group, Shanghai Urban Investment, etc.
	Bank	China Construction Bank, etc.
Short-term Investors (SV)	Private Equity Funds	CDH Investments, Zhonglian Fund, StayHere, Gaohe Capital, etc.
Between IV& SV	Real Estate Internet Companies	Ziroom, Beike.

Source: Rental Housing Market in China: Investment Potential and Value Insights (Cushman &Wakefield, 2024) and other online sources;

5. How state capacity affects the swing in the financialization strategy of the rental housing sector

5.1 Transition of the state's governance strategies on rental housing financialization

Below we analyse the evolving phases of financialization through lens of the shifts in the Chinese state's governance goals and its state capabilities (cf. Figure 4).

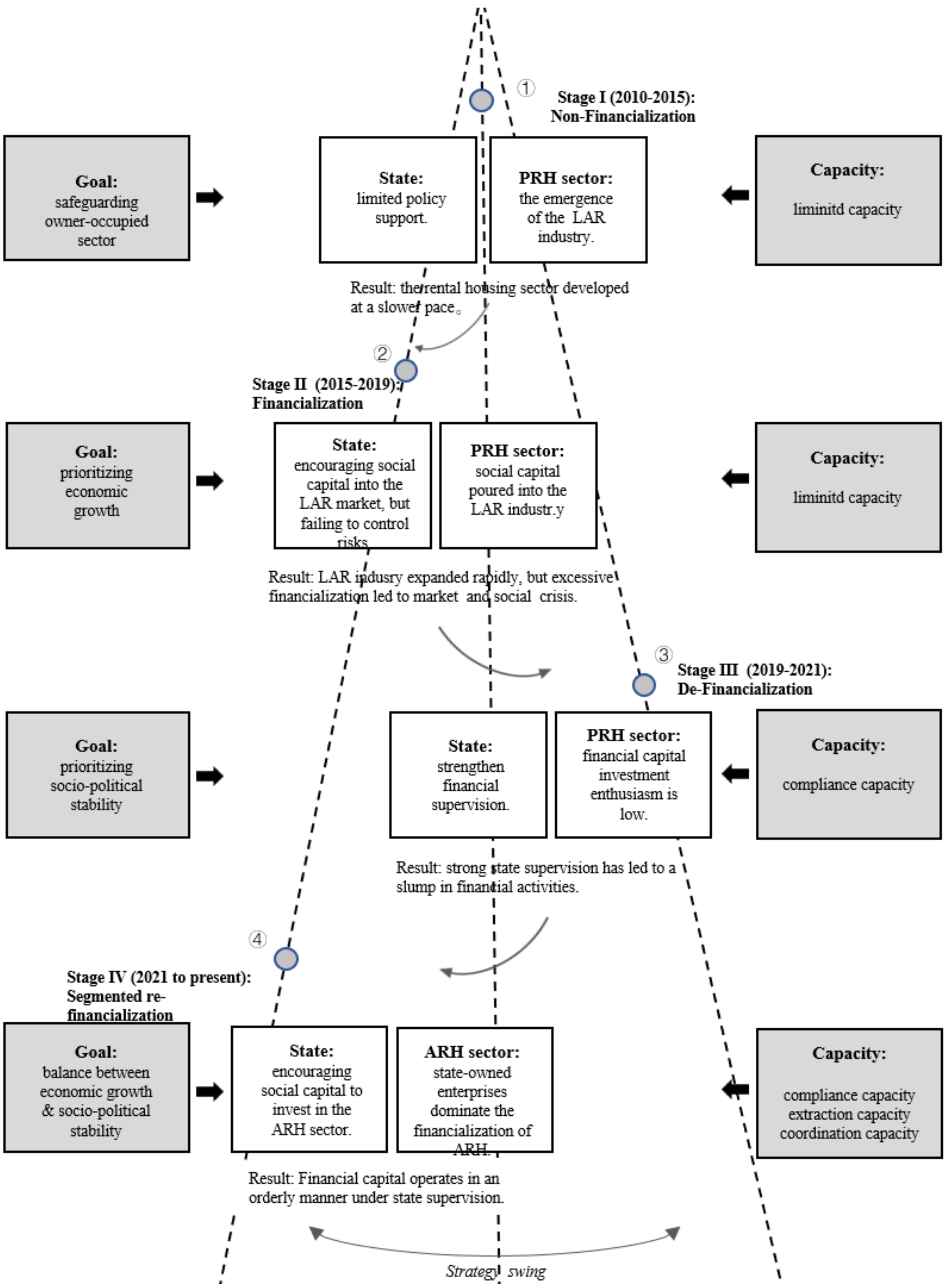

Figure 4: The impact of governance goals and state capacities on the swing in the financialization strategy of rental housing in China

Source: compiled by authors.

(1) Stage I (2010-2015) non-financialization: safeguarding owner-occupied sector, limited state capacity

Between 2010 and 2015, China's rental housing market remained largely non-financialized. This can be reasoned to two primary factors. First, the state extremely prioritized homeownership within the housing sector during this period, for its instrumental role in underpinning China's broader economic growth (Wu et al., 2020). Second, the state lacked practical experience in the financialization of rental housing and possessed insufficient governance capacity in this domain. During this period, the prevailing focus was on addressing the housing needs of low-income groups through public rental housing (Shao, 2020).

(2) Stage II (2015-2019) financialization: Prioritizing economic development goal, limited state capacity

Driven by the dual imperatives of addressing the housing affordability crisis and promoting urbanization, the state proposed a vision for a housing system that achieves "a balanced development between purchasing and renting" (*gouzu bingju*) (GOoSC [2016] No.39). Specifically, LAR was envisioned not only as a crucial supplement to meet housing needs, but also as a conduit for excess capital and a stimulant for consumption across an expansive industry chain encompassing home furnishings, property management, etc. Furthermore, it was perceived as a catalyst for talent aggregation and a pivotal instrument for cities to attract industrial investment (Li, et al., 2023).

However, constrained by the limited state capacity in the financialization of rental housing, the state largely emulated the pre-existing financialization strategies from past real estate developments in China. Contrary to the state's expectations, the confluence of beneficial policies and a lenient financial environment inadvertently fostered conditions conducive to the unrestrained operations of LAR firms and financial institutions. A notable absence of relevant standards led to inadequate supervision over high-leverage and high-risk practices employed by LAR firms (Chen et al. 2022; Li & He, 2023). The failure of timely anticipation and prevention of LAR firm collapses led to widespread public dissatisfaction and, at times, street protests (BeijingNews, 2020), threatening social and political stability.

(3) Stage III (2019-2021) de-financialization: Prioritizing socio-political stability goal, enhancement of compliance capability

In response to the social crisis triggered during the previous stage, the state prioritized socio-political stability as its primary goal in the rental housing sector, emphasizing the enhancement of its compliance capabilities. To this end, a series of de-financialization policies were implemented, aimed at curbing the unchecked expansion of capital within the rental housing sector, thereby restoring market order and ensuring a more equitable distribution of housing resources. The enhancement of the state's compliance capabilities is reflected in several aspects:

Firstly, the central government established teams of specialists to probe the causative factors behind the bankruptcies of LAR firms (CRIC, 2022), endeavouring to discern and mitigate risks. Secondly, the central government mandated coordinating efforts among various departments to formulate a collaborative suite of de-financialization policies (MOHURD [2021] No.2). Furthermore, the central government repeatedly emphasized the primary responsibility of local governments in policy implementation, establishing rigorous evaluation and accountability mechanisms to ensure alignment between local governments' actions and the central government's directives. As policy document MOHURD [2021] No.2 underlined,

"The housing rental market regulatory work of relevant departments will be incorporated into the government performance evaluation system." (MOHURD [2021] No.2)

In addition to these policy mandates, the central government has adopted incentive measures to enhance the effectiveness of local governments' implementation. In 2019, the central government announced an investment of approximately 40 billion Yuan over a three-year period to support the growth of the rental housing market in 16 pilot cities (B. Li et al., 2021). Cities supported by these pilot fiscal initiatives established distinct eligibility criteria for rental housing firms seeking financial assistance, requiring them to complete comprehensive information disclosure, secure entry into the enterprise database, employ standardized lease contracts, disclose their housing stocks on designated leasing platforms, and subject all rental housing contracts to online scrutiny (SJTU-CHURD, 2020).

(4) Stage IV (2021 to present) segmented re-financialization: Focusing on both goals, joint enhancement of state capacity

After successfully navigated the social crisis surged during previous stages, the state further refined the functional role of the rental housing sector, recognizing that the advancement of the ARH program could achieve the dual goals of socio-political stability and economic growth.

ARH contributes to socio-politicall stability through four avenues. Firstly, ARH not only provides affordable and stable rental options for middle- and low-income groups but also proactively addresses the volatility of market rental prices. The state strictly mandates that the rent price of ARH should not exceed 90% of the reference rent for comparable units in the same area and period. As a government official commented, *"One of the functions of the ARH is to act as a 'price stabilizer', especially during price increases, it can slow the rapid rise in market prices. "* (Interviewed on January 5, 2024). Secondly, all ARH information is officially registered to the local government, effectively preventing tenant eviction. Thirdly, ARH fosters a sense of collective identity among tenants, transitioning them from "atomisation to structural power" (Appel et al., 2024). This facilitates the breakdown of social barriers between different groups of tenants. Fourthly, ARH, as a state-led program, effectively circumvents excessive speculation and bubbles under state planning and supervision.

ARH could foster economic growth in three aspects. Firstly, ARH serves to absorb excess properties and capital, which would sustain the development of relevant industries. Secondly, the favourable housing conditions, stable rental prices, and secured rental relationships offered by ARH attracts the youth talents to settle, who composed the vital labour for urban development. Moreover, ARH offers diverse housing options tailored to different employment types, family structures, and the income levels of tenants, such as "single bed", "single room", "on-suite room"," and "family room", catering to a wide spectrum of residential needs. For example, in the "New Era Constructors and Managers Home" at Youchao Maqiao, an ARH community in Minhang District, Shanghai, blue-collar workers could rent a bed in a four-person room for 500 Yuan per month. Thirdly, ARH developments are predominantly located near industrial parks, thereby supporting the housing needs of these industry. Evidences have been given to suggest that ARH developments enhance the quality of life and integration of migrant workers into mega-cities (Lu & Lou, 2024).

At this stage, the state significantly augmented its compliance capability, extraction capability, and coordination capacity in the governance of rental housing sector, resulting in a segmented re-financialization process.

5.2 Transition of state capacity throughout four stages of financialization

(1) Compliance capability

Throughout the four stages of rental housing financialization, the Chinese state has largely enhanced its compliance capability by delegating the construction and development tasks of ARH to local governments, heightening assessment, and innovate mobilization mechanisms.

First, various policy documents were issued to establish a more systematic framework to incentivize local governments, as for example, the document GOoSC [2021] No.22 stated,

"To scientifically determine the goals and policy measures for the construction of ARH during the 14th Five-Year Plan, formulate annual construction plans, and publicly disclose them to society…Local governments are primarily responsible for the development of ARH in their respective regions. Provincial-level governments bear overall responsibility for the development of ARH, enhancing organizational leadership and supervision, monitoring and evaluating the development of ARH in their regions". (GOoSC [2021] No.22)

In direct response to this policy, for instance, Shanghai's 14th Five-Year Plan for Housing Development explicitly outlined its commitment to supplying over 420,000 rental housing units, comprising 220,000 rental rooms (apartments) and 200,000 rental beds, collectively constituting 40% of the total housing supply.

Second, the state stresses a transparent assessment mechanism to evaluate the outcomes of rental housing governance. The performance of local governments is subjected to the supervision of higher authorities and, more importantly, to public scrutiny. Additionally, the state promulgates clear regulations to the public regarding the target beneficiaries, rental standards, housing types, and the nature of land utilization for ARH construction.

Third, the state innovates mobilization measures such as "incorporating LAR into the government management system" (*na guan*) and "including qualifying LAR in the list of ARH" (*na bao*), granting government authorities over the unified management of rental property, deposits, rents, and online filing and registration of lease contracts. LAR firms listed in the state's ARH program are eligible for policy incentives, while their tenants benefited from rent subsidies and stability guarantees, thereby creating a win-win situation for all stakeholders. According to Vanke's BoYu, the largest provider of concentrated apartment rentals in China, it has officially enrolled 50 projects across eight cities, including Beijing and Shenzhen, into the state's ARH program as of July 2022, representing nearly 25% of its operational projects (The Economic Observer, 2022).

(2) Extractive capacity

Throughout the four stages of rental housing financialization, the state has continued renovating its ability to secure resource through developing new relationships with resource holders, including investors (both private investors and state-owned banks and funds), village economic cooperatives (representing collective land ownership), LAR firms, and rental housing online platforms. More importantly, the state has kept updating resources with its new needs, encompassing not only traditional tangible assets such as capital and land, but also emerging intangible resources like information and knowledge.

First, the state's capacity to extract capital is primarily manifested through the provision of innovative financial support for the construction, acquisition, and operation of (affordable) rental housing projects. For example, policy document GOoSC [2021] No.22, proposed support for financial institutions in the banking industry to issue financial bonds, from which to raise funds for the deployment of loans for ARH developments. This document also encouraged rental housing firms to issue corporate bonds, company bonds, and other corporate credit-based financing instruments specifically for the construction and operation of ARH developments. These policies collectively enhance not only the ability of housing rental firms to acquire capital from financial institutions and the public, but also the state's capacity to attract private capital for the efficient implementation of ARH programs. The six REITs issued for ARH projects served as a compelling illustration of how the state's extraction capacity facilitated the financialization of rental housing.

Second, the state's assets extraction capacity is demonstrated through the absorption and utilization of assets and land from multiple owners. On one hand, the state actively revitalizes inactive state-owned asset stocks. According to available statistics, local state-owned and central government-owned enterprises accounted for as much as 80% of the land acquired for ARH in 2023 (cf. Figure 5). On the other hand, the state encourages risk-averse social capital to reinvest in the rental housing sector. The successful operation of ARH-REITs presents a sustainable financialization model that not only increases the proportion of direct financing but also reduces leverage and financial risks.

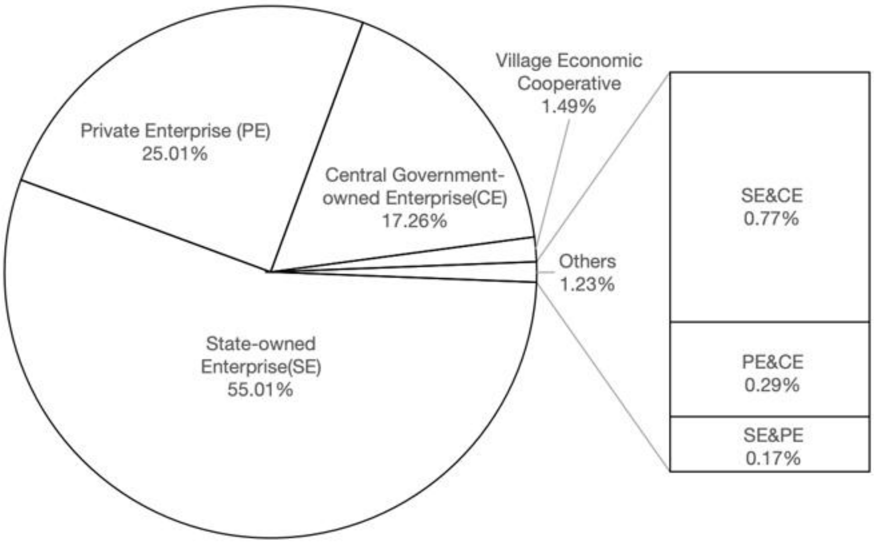

Figure 5: Distribution of ARH land among types of enterprises (2023)

Source: The White Paper of China's Affordable Housing Policy and Marketization Model Research in the Era of Big Capital Management (CRIC & W. Bridge. Group, 2024)

Notably, the state strategically reforms its ability to extract collective land. Land ownership in China operates under a dual urban-rural system, where urban land is state-owned, while rural land is collectively owned by villagers. In Document No. 22 of 2021, the Office of State Council explicitly proposed that *"While respecting the collective wishes of farmers, exploring the use of collectively operated construction land for the construction of ARH."* Thus, this policy evidently enhances the state's capacity to extract rural land plots that were previously restricted from entering the housing market, then facilitating the financialization process of rental housing.

Third, the state's capacity to extract critical information and knowledge regarding rental housing gains significant enhancements. After 2021, the state strictly stipulates that *"Rental housing firms must establish a housing rental fund supervision account with a commercial bank, register with the local housing and urban-rural development department, and publicly disclose information through the platform."* (see MOHURD [2021] No.2). Local governments have responded positively to these policy mandates. For instance, the Hangzhou Rental Housing Supervision Service Platform incorporates multiple functions, including property listing, online contract signing, lease filing, and fund supervision.

(3) Coordination capacity

The state's coordination capacity presents its ability to integrate various stakeholders' interests into collective actions at a large scale. Firstly, the state propels the coordination of various stakeholders in land requisition and utilization. This is particularly true in reconciling interests concerning village collective land. In Beijing, the municipal government encouraged a cooperative model between village economic collectives and ARH firms. Under this agreement, village economic collectives transfer land use right and revenue-generating rights to ARH firms, which, in turn, bear the construction costs and guarantee a fixed dividend income to village economic collectives. In contrast, Shanghai's municipal government chose to list the use rights of village collective land in the open land lease market, which is similar to the leasing of state-owned land. The municipal government designates this approach as a special type of residential land (coded as R4 in land use planning), and thus supports ARH firms to muddle through the intricate process of land acquisition.

Secondly, the state actively fosters relationships between the government, ARH firms and tenants through the issuance of a comprehensive set of supportive policies. Many of these policies concentrated on alleviating the financial burden of both ARH firms and tenants, manifested through measures such as tax incentives, subsidies, and ensuring that ARH was billed at civilian rates for essential utilities like water, electricity, and gas. For example, to attract tenants to ARH projects, the municipal government of Shanghai provided a variety of subsidies to target groups, primarily skilled labour, and coordinated with ARH firms in implementing talent attraction initiatives. We interviewed a key manager of the Youchao Sijing ARH project, and as he stated:

"*Our apartment also bears the label of talents' apartment in Sijing Town... Government talent subsidies are mainly divided into two types. One is the subsidy from Sijing Town, which is part of the settlement plan for recent graduates, benefiting professionals such as teachers and doctors in Sijing. The other is the subsidy from the G60 Science and Technology Innovation Valley, which is available to personnel from both enterprises and public institutions... The government subsidy is disbursed every three months and is directly transferred to us*." (interviewed on June 15th, 2021)

Thirdly, the state coordinates with various financial institutions in the listing and subsequent operation of ARH REITs. The policy document CBIRC [2023] No.5 explicitly emphasizes the role of the state to "guide insurance institutions to provide financial and guarantee support for ARH", with processes of project evaluation, operational supervision, and standard formulation controlled by the state. For example, according to the fund prospectus for the CR Land Youchao Rental Housing REITs, which was successfully listed on the Shanghai Stock Exchange in December 2022, institutional investors held approximately 96% of the shares. Among them, a significant portion consists of state-controlled investment banks, and state-owned insurance institutions, which coordinated by the state to invest in this REITs. This demonstrates the profound impact of the state in ARH-REITs. Additionally, many local authorities encourage ARH projects to contract with enterprises, especially state-owned enterprises, to lease a large number of ARH for employee accommodation (WeiFangRI, 2024). This strategy ensures a high occupancy rate for ARH, contributing to the market value stability of ARH-REITs.

6. Conclusion

While extensive research attention has been paid to state-led financialization (He et al., 2020; Wang, 2020; Wu, 2023), a critical gap remains in understanding how and why the state strategically adjusts its financialization approaches over time. This paper addresses this gap by unveiling a significant "pendulum swing" pattern in the financialization of China's rental housing sector over the past decade. The dynamic is characterized by four distinct stages: non-financialization (2010-2015), financialization (2015-2018), de-financialization (2019-2021), and coordinated coexistence of financialization and de-financialization (2021- present). This pattern evidently reveals that financialization in China is not a linear process; rather, it serves as a strategic governance tool actively deployed and retracted by the state in response to changing circumstances. While scholars have acknowledged the "historically contingent and geographically specific" nature of financialization (Jacobs & Manzi, 2020), our analysis extends this understanding by explicating the mechanisms through which state capacity and governance goals shape the fluctuating pattern.

To understand the dynamic pattern, we propose an analytical framework examining the state's strategic choices through two critical dimensions: governance goals and state capacity. First, our analysis reveals that the Chinese state has continuously adjusted its priorities between economic growth and socio-political stability in response to shifting circumstances and past governance outcomes. In contrast to a prevailing perspective interpreting state actions as primarily driven by revenue maximization (Robinson & Attuyer, 2021), we find that the

Chinese state has exhibited more intricate motivations, including maintaining "state sovereignty" through the protection of public interests. Second, we demonstrate how three key aspects of state capacity—compliance, extraction, and coordination—mediate the implementation of financialization strategies. This finding challenges the conventional Western view that financialization necessarily undermines state authority (Peck & Whiteside, 2016). Instead, our evidence suggests that, in China's context, the state can enhance its legitimacy while mitigating financial risks through strategic (de-)financialization (Wu, 2023; Wu et al., 2024).

While our study offers important insights into China's state-led (de-)financialization process, several limitations suggest promising avenues for future research. First, cross-national comparative studies could help identify commonalities and variations in how different institutional contexts shape state-led (de-)financialization patterns. Second, future research could explore the roles of various stakeholders, including market actors and social agents, and their interactions with the state in shaping financialization outcomes. While our findings highlight the complicated relationship between state capacity, governance goals, and financialization outcomes, the dynamic power relationships in the evolving financialization governance merits further investigation.

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