

Research on the Financing of Affordable Talent Rental Housing Based on the REITs Model

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Abstract: This article through the domestic and foreign literature research in this field, related concepts and theoretical review, as well as the analysis of our country's security talent rental housing and REITS development situation, discuss the prospect and development direction of our country's security talent rental housing public REITs, and put forward suggestions.

Keywords: REITs; Rental housing; Financing

Online publication: April 28, 2025

1. Introduction

This paper makes an in-depth discussion of the development of the affordable rental housing and REITs in our country, and probes into the necessity of developing the affordable rental housing^[1]. At the same time, it will point out the practical problems faced in promoting affordable rental housing in our country. From the practical point of view, it analyzes the advantage of the REITs model in the financing and development of affordable talent rental housing and puts forward some relevant suggestions.

2. The development situation of affordable talent rental housing in our country

REITs (Real Estate Investment Trusts) are financial instruments that securitize real estate assets, allowing investors to invest indirectly in the real estate market by purchasing fund shares and share rental income and capital appreciation. In many countries and regions around the world, REITs have become an important capital market tool, but the introduction and development process in China is tortuous and challenging^[2].

In 2003, China Securities Regulatory Commission (CSRC) proposed to study the securitization of real estate and began to explore the relevant laws and regulations of real estate investment trusts (REITs). At that time, China's capital market was still in the early stage of development, and the real estate market was also growing rapidly, but the legal framework and regulatory system of REITs were still immature, and the speed of promotion was slow^[3].

In 2005, the CSRC released a research report on real estate securitization and proposed the feasibility of REITs products. However, due to the imperfect market environment, legal system and financial supervision at that time, REITs did not gain policy support in China and failed to enter the substantive implementation stage.

In 2014, the Chinese government began to attach importance to the capital market and financial innovation, and in this context, REITs were put back on the policy agenda. The State Council made clear its support for real estate securitization in Several Opinions on Accelerating the Development of Modern Insurance Service Industry, while the China Securities Regulatory Commission also released a Research Report on Policies related to real estate Securitization in 2014, which provided a policy foundation for the pilot of REITs products. At this stage, the CSRC conducted some preliminary explorations in the pilot areas, mainly to test the feasibility of REITs in China and meanwhile accumulate experience for improving relevant regulations, market mechanisms, and regulatory frameworks.

Since 2015, the CSRC has officially launched the pilot work of REITs and selected some regions and specific industries for the pilot. During this period, the introduction of REITs focused on the infrastructure sector, such as transportation, warehousing, and other fields of asset securitization, and some local governments also began to promote the securitization of land, commercial real estate, and other real estate. In August 2018, the State Council issued the *Opinions on Further Making Good Use of Foreign Capital*, which proposed to promote the pilot work of REITs. Since 2019, China's securities market has gradually improved, and REITs have become an important part of the capital market reform. The government has issued several policy documents paving the way for the legalization and marketization of REITs. At the same time, the market's attention to REITs has increased significantly, and more enterprises and investors have begun to study the REITs model and explore how to finance real estate assets through securitization. At this stage, the product design, laws and regulations and market environment of REITs were gradually improved, and although China's REITs market was still in the pilot stage, the market's recognition of it gradually increased ^[4].

In June 2020, the China Securities Regulatory Commission (CSRC) officially approved the pilot of infrastructure REITs, and the first batch of infrastructure REITs products were successfully listed on the A-share market. This marked the official opening of China's REITs market.

Since 2021, the REITs market has ushered in rapid development opportunities in China. With the successful listing of the first batch of infrastructure REITs products, more and more enterprises have begun to pay attention to this market, and REITs have gradually been accepted and expanded as part of the capital market. More REITs launch: In 2021, more REITs will be launched one after another, covering not only infrastructure but also commercial real estate, industrial real estate, and many other sectors. These products have begun to attract more investor participation while also promoting the continuous improvement of relevant laws and regulations.

3. The construction mode of rental housing for the guarantee talents in China

In China, there are four main business models in the process of project development, which include: government-led, market-oriented cooperation model and enterprise participation model ^[5].

3.1. Government-led model

In this model, the government takes the lead in the construction and operation of low-income rental housing through policy guidance, financial support, land supply, and other means, and the government assumes the main responsibility. The main features include:

- (1) Policy guidance and capital input: The government has set aside land specifically for rental housing for talents in urban planning and has provided special financial support to reduce the burden on development

enterprises. The government can adopt the form of public construction or private or public construction public, and cooperate with real estate development enterprises or property companies. The government provides land and financial support, and the development enterprises carry out construction and management, or the government directly builds and operates.

- (2) Preferential policies: Provide tax relief and preferential land transfer policies for development enterprises to reduce construction costs and improve the attractiveness of rental housing. For example, Shenzhen, through a government-led way, has built some affordable talent rental housing projects in specific areas, giving priority to high-end talents, talents in short supply, and innovative talents. The government provides support in terms of land transfer, fiscal and tax subsidies, etc., to ensure the low cost and relatively favorable rent of the projects.

3.2. Market-based cooperation model

The market-oriented cooperation model is mainly to attract social capital and enterprises to participate in the construction of talent rental housing under the guidance and policy support of the government. In this model, the government does not directly participate in the development of residential buildings but promotes the participation of market forces through policies, financial support, and tax incentives. The government cooperates with enterprises. The government provides land, policy support, or financial subsidies to attract real estate developers or enterprises to participate in the construction. At the same time, the enterprises can obtain stable profits through the long-term rent guarantee provided by the government. Rent control and market-oriented operation: In this model, the government will supervise and control the rent to a certain extent, but the operation and management mode depends more on the market-oriented mechanism, and professional property companies or real estate enterprises are responsible for the management and operation ^[6].

Social capital is introduced to guide the investment of social capital through the public-private partnership (PPP) model. The government will share the development proceeds through long-term leases or equity partnerships. For example, Beijing and Shanghai.

3.3. Enterprise participation model

Under the enterprise participation mode, some large enterprises or innovative enterprises themselves will participate in the construction of affordable talent rental housing. By providing housing security for employees, enterprises can attract and retain core talents and help the government ease the pressure on talent housing.

Enterprises build their housing. Some large enterprises, such as high-tech companies, internet companies, and manufacturing companies, provide their employees with special affordable rental housing, which usually includes temporary accommodation and long-term rental ^[7].

In cooperative development, enterprises can cooperate with the government or real estate developers to jointly build housing that meets the needs of talents. Enterprises are responsible for a certain amount of capital input and project management, while the government provides land or policy support. For example, Alibaba, Tencent, and others. These enterprises use their resources to build rental housing for talents in major cities, especially in cities where talents are concentrated, not only to meet the housing needs of their employees but also to enhance their attractiveness and competitiveness.

4. The development of affordable talent rental housing in China

Affordable rental housing is an important work put forward in the field of real estate in China ^[8]. Since all localities actively responded to the unified deployment of the country, they have formulated corresponding construction

plans and plan to launch a large number of affordable housing units for talents.

At present, the layout of talent rental projects around China mainly focuses on the first and second-tier hot cities, which have a large demand for talents and relatively high population inflow. To attract more talents to live here, these projects are usually located in areas with convenient transportation and complete supporting facilities. As a result, the purchase cost of the affordable talent rental project is high, and a lot of capital needs to be invested. Because these projects are for public welfare, the rent is generally lower than that of ordinary apartments in the surrounding areas. As a result, these projects face considerable difficulties in financing, requiring the support of long-term, low-cost, and large funds.

Affordable talent rental housing has been launched in many cities in China, and the following are some major cities^[9].

In recent years, Beijing has intensified its efforts to attract high-end talent, and the affordable talent rental housing project has gradually increased. For example, “Beijing Talent Apartment” is a rental housing for newly introduced high-level talents and innovative talents. Through policy support, the Beijing municipal government encourages developers to build talent apartments and ensures the reasonableness of rents through market-based leasing.

Shanghai has also adopted talent apartment and rental housing projects. As an international metropolis, Shanghai has a huge demand for talent, and affordable rental housing is seen as an important way to enhance its talent appeal. Shanghai’s “talent apartments” mainly cater to outstanding talents with high education, high technology, and high skills, offering them housing options with relatively low rents and longer rental terms. Shenzhen has been one of the most active cities in the construction of affordable rental housing for talented people in recent years. Guangzhou and Hangzhou have also actively rolled out relevant policies to promote the construction of affordable rental housing for talented people^[10].

5. Prospect of public offering REITs for affordable talent rental housing in China

5.1. Providing credit enhancement support

The government may, according to the actual conditions of REITs, provide appropriate operational subsidies to their operators to enhance their daily profitability; At the same time, the original stakeholders should, according to the specific conditions of the project, implement credit enhancement strategies such as rent compensation arrangement, credit rating upgrade buyback program to reduce the investment risk of the REITs project. The adoption of a credit enhancement mechanism can help to adjust the rate of return of affordable housing products more accurately, meet the requirements of open market REITs and the expectations of investors, and attract investment funds more effectively^[11].

5.2. Providing relevant support to reduce the cost of asset acquisition

To improve the operating profit of low-income rental housing, reducing the cost of asset acquisition is regarded as an extremely important part. Among the various expenses involved in ensuring the construction and operation, and maintenance of rental housing, land expenditure occupies the most important share. From the perspective of land. First, administrative agencies can continuously increase the supply of land for rental talent housing projects to ensure the maximum utilization of land resources; Secondly, it is necessary to improve the quality of land and provide land with good location and convenient transportation for the construction of rental housing for talents, to ensure that the supply of rental housing for talents can meet the actual needs. In addition, the price of land transfer should be properly planned, and appropriate compensation and financial policy support should be provided to the party who purchases land^[12].

5.3. Reasonable operation of underlying assets to improve operational capacity

To better meet the needs of investors, real estate investment trust (REITs) products need to provide a satisfactory rate of return and have a stable and reliable cash flow. To ensure this, companies operating rental housing need to be committed to improving their business, relying on efficient operations and management to control costs, and constantly improving product quality ^[13].

5.4. Improving the management mechanism and internal control mechanism and training new management talents

At present, the transaction structure of real estate investment trusts (REITs) is relatively complicated, including more market participants. Therefore, on the one hand, investors need to clearly define the allocation of management responsibilities and hierarchical relationship between special plan managers, fund managers and underlying asset operators, and clarify the details and regulations of due diligence, management responsibilities and fees, to truly, comprehensively, accurately and timely reflect the operation status of REITs products and ensure their healthy operation. On the other hand, given the unclear rights and responsibilities between the fund host and the operator, it is necessary to clearly define the boundary of rights and responsibilities, improve the overall ability of managers, and cultivate comprehensive asset management professionals who are both familiar with the operation of the financial market and have the ability to manage rental projects to ensure its benign operation ^[14].

5.5. Improving special legislation and introducing preferential tax policies

China's REITs development is limited by two main aspects, namely insufficient legislation and strict tax policy. To solve this problem, special legislation needs to be perfected. A sound system of laws and regulations should be established to ensure the orderly operation of affordable talent rental housing financing under the REITS model, and to clarify the rights, responsibilities and obligations of all parties and relevant institutional arrangements; Standardize the order of the talent rental housing market, and establish the leasing and transaction access system to ensure the healthy and orderly operation of the market; At the same time, strengthen the supervision of relevant institutions and subjects of affordable talent rental housing financing under the REITS model to ensure that they carry out activities according to law and compliance ^[15]. Appropriate tax policies will be formulated to promote their sound development.

Disclosure statement

The authors declare no conflict of interest.

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