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**Home Ownership for the Urban Poor under  
Hu-Wen Administration: Issues and Challenges**

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# **Homeownership for the Urban Poor under Hu-Wen Administration: Issues and Challenges**

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## **Abstract**

Under Hu-Wen administration, the government has taken a series of housing tightening measures to rein in sky-high house prices with the focus switching to curb speculative demand for housing from the supply of new housing coming on the market. Despite efforts by the government, the price is ironically still remained high. The sharp hike in house prices in the past 10 years has made homeownership a great challenge to vulnerable groups of people, particularly the urban poor in China. The purpose of this paper is to highlight a number of issues that have undermined the success of these tightening measures. There is insufficient space within the city to house all urban inhabitants. Therefore, it is important to plan and undertake proper and well-connected housing development projects to keep up with the rapid urbanization and rising and housing infrastructure needs of urban inhabitants. To ensure there is no disparity between the state objective and the actual outcomes of the noble measure, more bold changes need to be introduced by the new leaders in the housing delivery system to stabilize house prices in China.

**Keywords:** *Homeownership, Urbanization, Low Income Urban Households, China*

## 1. Introduction

Promoting homeownership among low-income households is a major objective for most of the governments. Owning a house is a basic right and must have priority. Housing forms an important and integral part of either developed or developing countries because the housing sector contributes directly and significantly to overall production activity as it can generate economic growth through the building and construction industry. Housing activity is closely linked to macro-economic activities. An increase in housing starts indicates an upward swing in economic performance and a downward trend precisely the reverse. There is an increasingly realization globally that housing is a productive sector of the economy rather than a form of welfare. The building industry is crucial to the performance of the Chinese economy. It is one of the largest sectors of the economy. It provides million of Chinese with jobs and generates billion of dollars of economic output each year. As a result, the housing construction gets priority in the national economic development in China.

Many housing researchers argue that homeownership is beneficial not only to households but also societies (Tan, 2010). Therefore, housing policies and programs in China are formulated to increase the homeownership rate in the country. The rate of homeownership in China was 82% in 2007 (Huang & Yi, 2011) and such a high rate was mainly due to the welfare housing policy. The housing allocation system was originally characterized by a centrally planned welfare system. Under this welfare system, houses were distributed to the employees who attached to state-owned enterprises (SOE). In 1998, the market-oriented housing reform through the Notice on the Deepening of Housing Form and Fasten Housing Construction completely changed the housing delivery system that state-owned enterprises were not allowed to buy houses for their employees and households were required to purchase their houses from the market.

The rapid rate of rural migration to urban centers in China has resulted in a severe shortage in housing, particularly affordable housing. Rural people are usually in the low-income bracket and their continuing migration to urban areas means that a large segment of urban population will continue to be low-income households. Knowing the fact that the scale of house price appreciate has become a source of widespread popular discontent among Chinese, the Wu-Hen

administration has implemented several rounds of house price control policies during the period of 2003 – 2013. These include lowering loan-to-value (LTV) for second property, and proposing real property gain tax and stamp duty. The objective of this paper is to determine how effectively housing tightening measures under the Hu-Wen Administration has been used to promote homeownership among low-income urban households in China? If not, what are issues of meeting the housing needs of most low-income urban households?

## 2. Hu-Wen’s Housing Control Policies

The housing disadvantaged group includes young urban households born after the year 1980, households outside the place of their household registration, rural migrant workers and sandwich class. This is especially tough for these vulnerable groups of people to own a house in urban areas, whose income growths have in no way to increase at the same pace as the house price over the years. Traditionally, governments in developing countries deal with the problems of housing provision by controlling prices (Lin, 1987). The rationale is that housing is too costly for low and mid-income urban households, and therefore price control will make housing more accessible to them. In an effort to improve affordability in the country, the government under the Wu-Hen administration has imposed several rounds of tightening measure to control the price and to ensure that all have access to adequate housing. Table 1 shows the summary of cooling measures being implemented since 2003.

**Table 1: Housing Control Policies during the Wu-Hen Administration**

Year	Policies
2003	Six Real Estate Control Policies
2005	State-Eight Policies
2006	State-Six Policies
2013	State-Five Policies

Based on the analysis of the evolution of housing control policies, the land supply, home financing and the housing delivery system are the main factors affected by government policies. As stipulated in China’s constitution, the land in city and town areas is state-owned and the rural area land is collectively-owned. Under the constitutional framework, the transfer and circulation of land ownership by individuals is prohibited and the land users can only purchase the land-use

right for a certain number of years. Since land ownership cannot be transferred, China's land supply is constantly affected by government housing control policies.

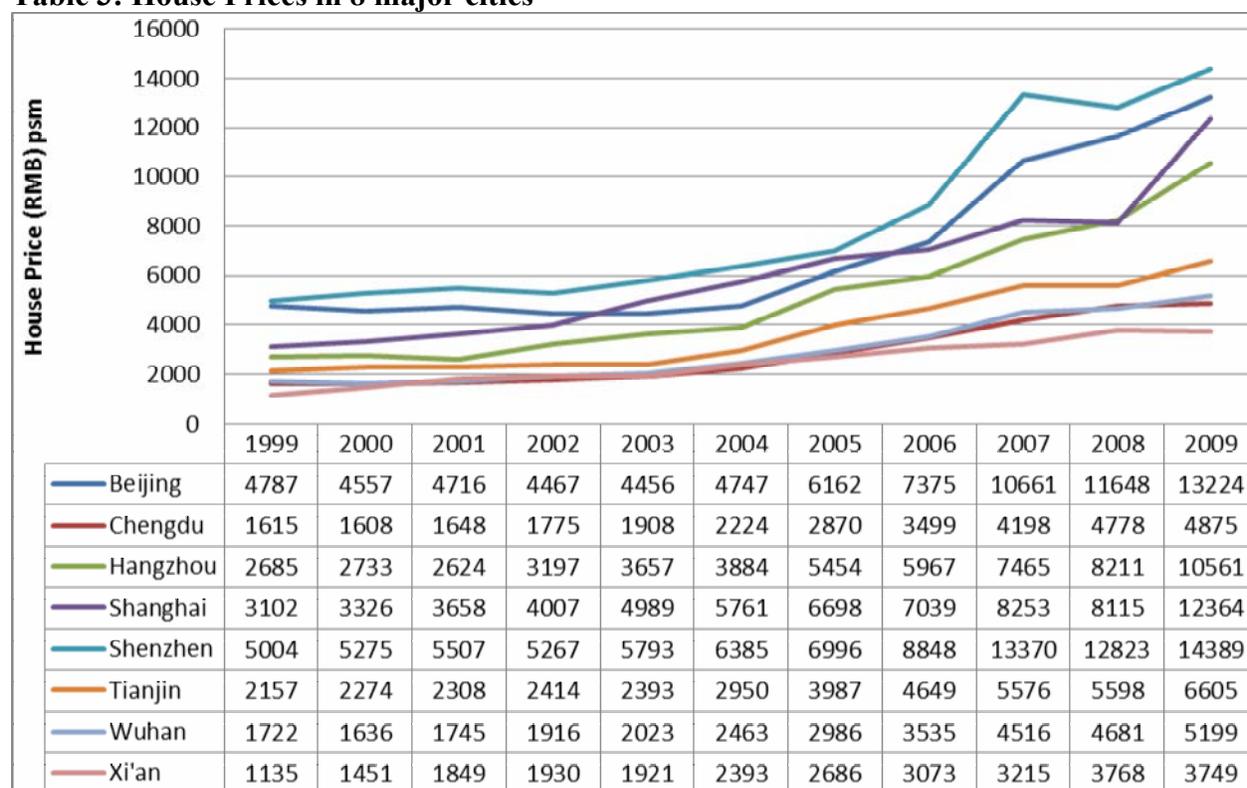
In addition to land policy, the government has made some specific rules for home financing. The recent financial tightening measures before Premier Wen ended his 10-year tenure include lowering loan-to-value (LTV) ratio for second home, raising interest rates for second mortgages in cities where price gain has been excessively fast, and instructing banks to stop offering mortgage loans for third property onwards. In order to restrain home buying from speculation and investment, 20% rate hike of real property gain tax (RPGT) was imposed on homeowners intending to sell their properties. These measures obviously were implemented to assist the less affluent, who constitute the majority of the population, have been marginalized with those having more than others accumulating property far in excess of their needs.

Government policies also affect greatly the housing delivery system by offering different types of housing, such as commodity housing (商品房), economic and comfortable housing (ECH 经济适用房), price-restricted housing (限价房), public rental housing (公租房) and low-rent housing (廉租房). High income households are encouraged to purchase commodity housing, while middle and low income households could purchase economic and comfortable housing and price-restricted housing depending on their eligibility. Homebuyers who purchased commodity housing at market price are permitted to have full property rights, which include right of habitation, right to dispose through resale, and right to transfer the property to others. On the other hand, homebuyers have only partial rights if they purchased ECH and price-restricted housing at subsidized prices. There are no significant difference between affordable housing and commodity housing in terms of housing characteristics such as location, period of construction, housing size, number of rooms and plot ratio. The only difference is the average price of affordable housing, which is 40% lower than the average market price for all housing units (Deng et al., 2011). For migrant households who are poor, public rental housing and low-rent housing are developed to cater their needs.

Even though the government has sent a signal that they are serious about the tightening, home prices still climbed 1.5 times from 2003 to 2012 to the highest since China privatized

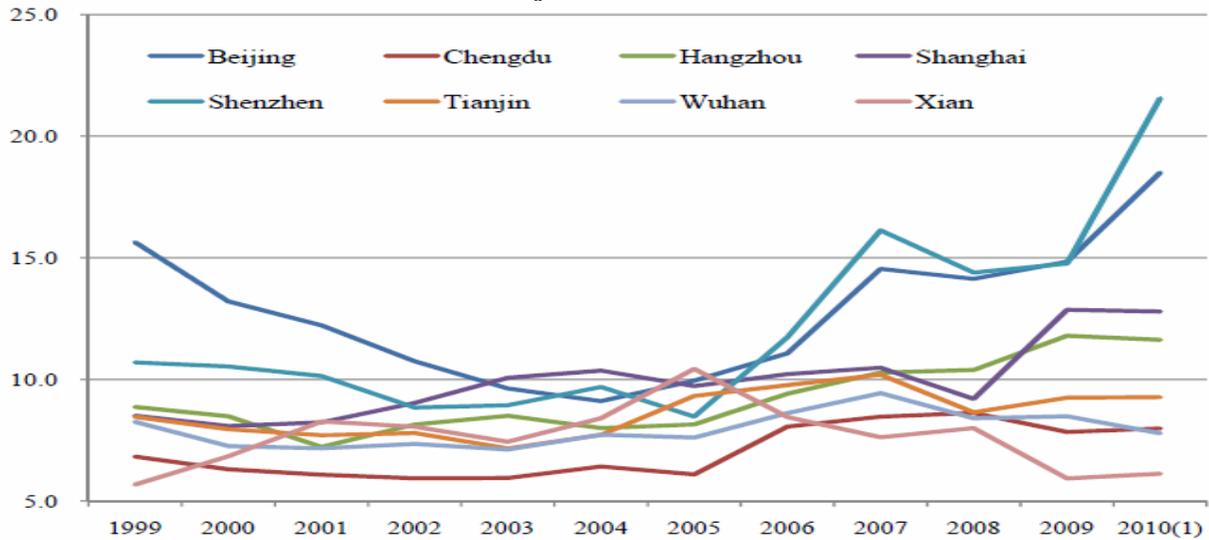
homeownership in 1998 (Bonnie, 2013). It appeared that Hu-Wen’s housing control policies in the past 10 years couldn’t be counted as successful as there has been no and less effect in controlling house prices. The house price in eastern cities is generally higher than in the mid-western cities. As shown in Table 3, house prices in 8 major cities have been soaring dramatically over the last 10 years. Although the income of average Chinese household in cities is increasing, the property prices have been rising at an unprecedented rate. As mentioned by Peattie (1987), affordability is concerned with owning a home at a price which leaves households enough income to live on without falling below appropriate standard of living. Homeowners generally have housing affordability issue only if they are required to pay more 30% of their income to consume adequate levels of housing. Additionally, price-to-income ratio (PIR) is frequently used as a good affordability yardstick. Depending on the location of the house, the affordability ratio is between 3 and 6. In the case of 8 major Chinese cities, the ratios are well beyond 10, suggesting that house price inflation has outpaced the income growth of households (see Table 4).

**Table 3: House Prices in 8 major cities**



Source: National Bureau of Statistics of China (2010)

**Table 4: Price-to-Income Ratio in 8 Major Cities**



Source: Wu, Gyourko and Deng (2010)

### 3. Housing Issues under the Hu-Wen Administration

Hu-Wen's housing measures have been restated over and over again in the past 10 years, but they are only targeting the superficial problem of house prices. Initially, the measures appeared to have worked. House prices fell for nine straight months from September 2011, but they picked up again in the second half past year as these measures have not effectively tackled the fundamental and real issues of home prices in the Chinese real estate market. The following section discusses the challenges and issues facing housing affordability in Chinese urban areas.

#### *Urbanization*

One of the main reasons contributing to a high property price is the strong urbanization growth in China. China's level of urbanization began to increase dramatically right after the beginning of the 'reform and opening up' programme. China has been undergoing rapid urbanization from 19.4% in 1980 to 36.2% in 2010. In 2011, China's urbanization rate reached 51.3% and it is estimated that more than 55% of the national population will be living in urban areas by 2020, but the urbanization rate still remains about 20% lower than that of developed nations. This high population growth in cities will be fundamental obstacle in securing a better of quality of living in the long term as the growing population will see strong demand for housing and infrastructure

needs (Tan, 2012). For a city to be livable and sustainable it is necessary to raise the quality of life index for the people. However, the Chinese government faces a great difficulty in increasing the Chinese quality of life index as the people's crucial social services are most pressured in urban areas. A broad range of various problems include poor public health, lack of clean water and food, bad sanitation, urban sprawl, slums, traffic congestion and environmental pollution (Yang, 2010).

The urbanization that has been achieved to date in China can only be seen in material form, such as an increase in the number of cities being built. As reported by China Data Online (2013), there were 140 'extra large cities' and 'large cities', 232 medium-sized cities, 283 small-sized cities and 19, 234 'administered town' in 2007. The 'extra-large cities' have populations of over one million people, while the 'large cities' have populations between 500, 000 and one million people. The 'medium-sized cities' has populations between 200, 000 and 500, 000 and the small-sized cities with populations under 200, 000. The fast increase in the urban population throughout these years can be partly due to the relocation of people from the rural area to the metropolitan area and partly to the movement of small town dwellers to the bigger cities. As reported by Hu (2012), 71.8% percent of China's increase in urban population over the period of 2000 – 2005 can be attributed to rural migrant workers who still have rural household-registration status but are working in cities.

This 'dual economy' system with a strict separation between urban and rural areas prevailed for almost two decades from the late-1950s in China. Households with urban household registration status generally were attached to state-owned enterprises (SOE) in the city and households in the rural areas were engaged in agriculture. Some rural residents began to leave rural areas for jobs in cities when the system controlling the flow of the labor force from the rural into urban areas was gradually relaxed starting in 1984. This group of people is known as 'rural migrant workers' and became the primary body of labor in Chinese industries. In 2009, there were 230 million rural migrant workers working in cities. Of these, 145 million were workers who had left their native towns to seek work elsewhere, while 85 million were workers who were employed within their nature region (International Labor Organization, 2013). Rural migrant workers, once worked in the agricultural sector, have now shifted to secondary and tertiary occupations recently.

Table 5 shows the number of rural migrant workers and the process of economic restructuring for the period of 2000 – 2006. Furthermore, the flow of rural migrant workers has mainly concentrated in the fastest growing areas along the east coast (see Table 6). In 2009 about 62.5 percent of all rural migrant workers were employed in the eastern part of the country, while 17.0 percent were in the central part of the country and 20.2 percent were in the western part of the country.

**Table 5: Number of Rural Migrant Workers and Ratio of Urban Employment (2000 – 2006)**

Year	Number of rural migrant workers (10,000)	Ratio of urban employment (%)	Ratio of employment in secondary & tertiary industry (%)	Ratio of urban-rural employment (%)
2000	7,849	36.9	21.8	10.9
2001	8,399	35.1	23.0	11.5
2002	10,470	42.3	28.4	14.2
2003	11,390	44.4	30.1	15.3
2004	11,825	44.7	29.6	15.7
2005	12,578	46.0	30.1	16.6
2006	13,212	46.7	30.1	17.3

*Source: China Development Research Foundation (2013)*

**Table 6: Regional Distribution and Change (%) of Rural Migrant Workers**

Year	East Region	Central Region	West Region
2003	69.9	14.9	15.2
2006	70.1	14.8	14.9
2009	62.5	17.0	20.2

*Source: China Development Research Foundation (2013)*

Urbanization was not as simple as relocating rural people to cities or turning them into urbanites but rather providing them with the best social, security, housing and other recreational facilities, in cities. Many rural migrant workers have worked and lived within cities for a long time, but they are not allowed to receive public benefits such as workers' compensation, children's education, social security and housing that are associated with urban Hukou (household-registration status). China has suffered an acute housing shortage due to every-increasing needs created by urban migrant workers. The following analysis is only focused on housing issues as housing is one of the greatest obstacles to achieve the full extent of quality of living in the urban

area as far as rural migrant workers are concerned. Rural migrant workers are not included in the urban housing security that applied to regular dwellers with urban household-registration status despite their contribution to China's economic growth over the past 30 years. Many rural migrant workers usually live from hand-to-mouth and they would be considered fortunate if they were allocated a place of residence. Furthermore, subsidized public housing has not been made available to them. As mentioned in China Development Research Foundation (2013), 33.9 percent of rural migrant workers who were surveyed were living in hostels provided by their employers; 10.3 percent were living in 'containers' adjacent to construction sites; 7.6 percent were living on-site in production facilities; 17.5 percent were living in communally rented housing; 17.1 percent were living in independently rented housing; 9.3 percent were living in their own homes after working daily in location outside their place of origin; and 0.8 percent were living in housing they had purchased (*refer to picture 1 and 2*). Since rental prices are higher than workers can afford, most rural migrant workers live within villages within cities, the housing conditions of rural migrant workers are far worse than those of local urban residents. They feature high-density populations and poor sanitary conditions. Furthermore, housing lacks proper public facilities and is also crowded and miserable (*see Picture 3 and 4*).

***Picture 1 & 2: Housing for Rural Migrant Workers in Cities***



**Picture 1**



**Picture 2**

Source:

Picture 1: <http://www.thenational.ae/business/industry-insights/economics/equality-for-chinas-rural-migrants-is-all-important>

Picture 2: [http://i.dailymail.co.uk/i/pix/2013/03/28/article-2300153-18F3A51E000005DC-344\\_964x639.jpg](http://i.dailymail.co.uk/i/pix/2013/03/28/article-2300153-18F3A51E000005DC-344_964x639.jpg)

***Picture 3: Housing Conditions of Rural Migrant Workers***



**Picture 3**

**Picture 4**

Source:

Picture 3: <http://blogs.wsj.com/chinarealtime/2012/02/24/mysterious-document-gives-new-rights-to-chinas-migrant-workers/>

Picture 4: <http://www.scmp.com/news/china-insider/article/1296315/pickle-index-measures-chinese-worker-migration>

***Housing Delivery System***

China is counting on its massive effort to build affordable housing for the low income group to satisfy their needs. The Hu-Wen administration has set a target to build 36 million affordable housing by 2015. The vision to build affordable and low-cost housing is applauded, but the government has not devised a comprehensive mechanism to determine where to build affordable housing, how to make these houses affordable to the low income group and what regulations need to be put in place in order to determine qualified and deserving families. Although affordable houses are built to help middle and lower-middle income groups, these houses still remain out of reach for the targeted group. A lot of affordable houses are frequently sold to households who can afford commodity housing instead of households who genuinely need help for basic housing. In some cases, high income households with high political status who are in resourceful state-owned enterprises as well as party membership are more likely to easily purchase affordable housing than those with no rank or party membership (Zhao & Bourassa, 2003). Furthermore, housing developers are generally inclined to build affordable houses by raising the built-up areas and quality living space to catch the attention of the rich. The intended

and targeted beneficiaries, on the other hand, are not able to buy an average affordable home as these homes became larger and more luxurious even though there is no increase in the price per square meter (Duda, Zhang & Deng, 2005). Furthermore, many low and middle income groups do not qualify for affordable housing and cannot afford commodity housing (sandwich class). This has revealed that the delivery of affordable housing is problematic since affordable housing ends up in the end of unintended beneficiaries.

Private house builders are not interested to construct houses at prices which are low enough for these housing disadvantaged groups. The proportion of affordable houses in total supply has never exceeded 25%. It only accounted for less than 10% of the total housing supply for the period of 2004 – 2006 (Niu, 2008). The percentage dropped even lower to less than 5% in 2007 (Deng et al., 2011). Private house builders have been giving little attention to the affordable housing program, which fall below the targeted level. It is partly due to the fact that the adjustment made by the government to control the land supply through land lease policies. Land is the most crucial element in any housing development. With the rapid land urbanization process, the land supply area has decreased in most Chinese cities. Scarcity of land leads to costly land prices in the city, which in turn push home prices to go up.

Each level of government in China wants to get profits from the real estate market by relying on land sales to raise revenue. As pointed earlier, the state government has completely monopolized the land supply. Lands for residential and commercial use can only be transferred through bidding, auctioning and listing if private house builders would like to undertake housing development projects. As reported in Table 7, the ratio of land leased by tendering, auction and listing went up from less than 17% in 2002 to 46% in 2008. The local governments are highly dependence on land sales as a main budgetary revenue source. Additionally, they could derive revenue from turning farmland into land used for urban construction. This has been a massive temptation to local governments which generally lack any stable revenue streams use land as the source of public revenues.

**Table 7: Types of Land Leases**

Year	Land Area Leased (total)	By Tendering	By Auction	By Listing	Percentage of Land Leased
1999	99,017	2,682	12,643	-	15
2000	108,846	3,357	15,875	-	18
2001	170,157	4,509	20,426	-	15
2002	242,763	8,270	24,901	5,726	16
2003	207,387	3,067	18,499	28,440	24
2004	184,850	1,540	14,450	30,659	25
2005	162,112	1,542	13,495	29,433	27
2006	186,667	953	12,724	32,057	25
2007	160,404	884	10,190	39,582	32
2008	123,358	1,074	10,085	44,106	46

Source: Ye et al 2010

Another contributing factor to low supply of affordable housing is that most local governments are reluctant to support affordable housing program as they have to bear most of the subsidy cost. Similarly, local governments are not interested in supporting the construction of low-rent housing as these housing developments generate little fiscal revenue for them. New housing being built that is devoted to low-rent housing currently comes to less than 1 percent of the total (Hu, 2012).

#### **4. The Way Forward**

The rapid rate of urban dwellers migrating to urban centers has created a growing demand for housing. Great effort should be put into affordable housing in order to lessen housing shortages for middle to low-income families and newlywed young couples, as well as laborers who come in from the outside to work. There is a need for the new administration government to prevent the housing disadvantaged groups from emerging, especially in urban areas. In times, China will face a social crisis with serious political implications if the majority of low income groups do not own their home. The need to promote affordable housing under the new administration is considered timely, given escalating property prices that do not commensurate with salary increments in the country. The new leaders could materialize its vision by formulating policies and guidelines for continuous development of liveable urban cities and rural towns for a better

quality of life. Furthermore, the regulators will need to impose rules and regulations, and insist on local authorities and builders to improve affordable housing development planning.

Since a lot of land resources are owned by the government, the government can offer subsidies or incentives to private housing developers to use the land for public housing development. In view of high land prices in urban areas, another good policy would be to encourage the development of affordable housing in outlying areas, such as farmland at the fringe of cities rather than focusing on already developed and highly populated areas. The government can build transportation infrastructure along with other amenities such as schools and commercial hubs, to allow these new townships to prosper. There are also many opportunities for the older apartments to be revived. Some of the older buildings could be torn down and rebuilt into affordable housing in order to ensure that they move with the times. The redevelopment of the ageing apartments in some part of the city will be able to upgrade and improve living conditions for urban households. It is also important to retain healthy balance between the built and un-built. There should be the right time to undertake the green cause by having environmental and sustainable concepts and designs in the urban development plans to reduce the carbon footprint of the country. It is not just about building skyscrapers and new structures which make up the hardware, but more importantly will be the intangible side of development that makes up the overall environment and quality of life of the people. Nowadays, cities are actively making changes to become more sustainable, often aiming to promote development that is line with the principle of economic, social and environmental sustainability (Tan, 2011).

Although there have been various efforts by the Hu-Wen administration, more bold changes need to be introduced in the housing delivery system to provide better protection for housing disadvantaged groups. The present legislation, administration and urban management have to be reviewed to work toward a fool-proof housing delivery system that promotes homeownership among the lower-income groups. The authority could avoid the typical problems of duplication and fragmentation of duties, and bureaucratic rivalries associated with multi-agency implementation by centralizing its housing delivery system under a single authority.

China's housing reform policies have benefited some socially and economically advantaged groups, which exaggerates the economic divergence between the rich and the poor. The delivery of affordable housing has been susceptible to abuse as many people buying up several units for profits. Therefore, stringent enforcement of the regulation of qualifying households into the affordable housing program in terms of eligibility and the development standard is needed to prevent affordable house ending up in the hands of speculators who want to make quick profits. The Chinese government should enact stringent laws and regulations for the housing market. At present, China's legal system for housing market is not fully developed and formed, and the government usually makes only temporary provisions such as regulations, notices, and government documents. The Chinese government needs to enact an appropriate legal system for the housing market, and make full use of the market mechanism rather than administrative order to regulate the housing market. Additionally, a detailed and comprehensive housing information system is required in the country to allocate affordable housing and monitor its consumption. This system is crucial to prevent speculative buying among property investors moving from one city to another

Any reform of the housing system in urban areas should take into consideration the needs of rural migrant workers. Local governments should be encouraged by various means to build low-rent housing and to incorporate rural migrant workers into the criteria of people authorized to rent the housing. They should actively satisfy those needs, rather than being undertaken as a way to display the achievement of an area's government. China's social security system is linked in to the whole system of household registration. The Hukou system should be further reformed in line with urbanization processes. There is a process of turning rural migrant workers into legitimate urban residents, but the process is incapable of complementing the market-oriented housing market. In this regard, farmers and their families who have been in a city for many years can truly take up residence and enjoy public services and political rights of urban residency. There is also a need for sustainable affordable housing policies that are capable of complementing the market-oriented housing market. These policies are able to stabilize housing prices by increasing supply on one hand and increasing affordable housing for the urban poor.

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