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Housing Policies in the U.S. and Korea

Public Rental Housing History in Korea

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Introduction

This paper review Korea's PRH development to explore its achievements and draw out their implications for us today

- In 1962, Korea National Housing Corporation (changed to Korea National Land & Housing Corporation, or **LH**, after its consolidation with Korea Land Corporation in 2009) constructed 450 units of the first **public rental houses (PRH)**
- Since the 1980's, the concept of PRH was systematically established in Korea and full-fledged government intervention began to take shape.

Legal definition of PRH is provided by the Rental Housing Act(1993). PRH refers to

- housing newly constructed with support from the government, the National Housing Fund or public housing site,
- and existing housing purchased by LH or local governments to be provided for rent.

I will review the development of the PRH policy after 1962 in 8 periods.

- PRH policy development in Korea tends to show sharp distinctive characters depending on the political power of the relevant period, and it is also connected with other higher-order plans such as the Economic (Social) Development

Brief History

1960's ~ 1970's

The major mission of the state was economic development and industrialization

- the investment of national resources and finance was concentrated into implementing the Economic Development Plans.

The real estate policy focused on massive land provision necessary for economic development and systematic development of the national lands

- Green Belts were established in 1971, and the Act on the Utilization and Management of the National Land was enacted in 1972
- Also, policies were mainly interested in qualitatively expanding housing supply, so as to solve the housing deficiency issue in the major cities caused by population movement into the urban areas (the Housing Construction Promotion Act was enacted in 1972).

The directions and objectives of PRH policy were not clearly defined.

- From 1971 to 1979, 1,515 thousand of houses were built (540 thousand by the public sector, and 975 thousand by the private sector).
- The number of PRH constructed was only 48 thousand units, which consisted of only **one-year PRH's** (after one year, sold to tenants or market)

Brief History

1980 ~ 1992

The PRH policy was implemented as a part of means to promote social stability.

- the Chun Doo-hwan regime and the Roh Tae-woo regime after that needed social stabilization policies to mitigate the socio-political unrest at the time.
- The Chun regime established strong legal protections(the Housing Lease Protection Act, 1981) for tenants within the private rental housing market(Korea's unique system of Chonseil)
- The Roh Tae-woo regime implemented a plan to construct two million houses from 1988 to 1992.

The '2 million housing construction plan' included 250 thousand YongGu PRH's

- YongGu(permanently rented) PRH's was for under-privileged urban residents. 85% of the construction budget was provided from the national treasury.
- A total of 2,718 thousand houses were supplied from 1988 to 1992 (905 thousand by the public sector and 1,812 thousand by the private sector), which represented over-achievement of the original plan by 36%.

Brief History

1993 ~ 1997

The real estate policies were directed at decreasing intervention from the public sector.

- The Kim Young-sam regime was backed up by its status as the first civilian-led government, decreased social instability, high annual economic growth rate and stabilization of the real estate prices.
- implemented the New 5-year Economic Plan : the keynote of the 'New Economy' policy was civilian initiative and de-regulation.

the government spurred construction of 5-year PRH's for those in the mid-to-low income brackets by the private sector.

- The government promoted construction of 5-year PRH's by the private sector.
- Loans were made to such constructors from the National Housing Fund, and public housing sites were also provided at a lower price.
- The number of houses actually constructed was 3,120 thousand in total (1,160 thousand by the public sector and 1,960 thousand by the private sector) during 1993~1997
- 387 thousand 5-year PRH's were constructed, of which the private sector constructed 309 thousand units.

Brief History

1998 ~ 2007

The housing issue was treated from the welfare policy perspective, moving from its status as a complimentary part of the economic development strategy.

- The Kim Dae-jung government came into power in 1998 right after the Foreign Currency Crisis at the end of 1997. At the beginning of the regime, the government accepted the demand for Neo-liberal economic restructuring from the IMF, however, shifted the gear at the middle of its term, enhancing the social welfare system
- The Roh Moo-hyeon government, which took over the Blue House in 2003, succeeded its predecessor's policy by implementation of the **One Million Kookmin PRH Construction Plan (2003~2012)**, and legislation of the national minimum housing standard.

Other strong measures were taken including the mandatory reporting system of the actual real property price, regulation on LTV(Loan to Value ratio) & DTI(Debt to Income ratio) and revision of the taxation system(additional transfer tax on persons with multiple houses and the Comprehensive Real Estate Tax).

Brief History

2008 ~ 2012

The Lee Myung-bak government focused on normalization of the market function and de-regulation

- The government implemented the Bogeumjari(sweet home) Housing Policy, which revised the public housing policy from rental-centered to parallel with promoting affordable housing(for sale) construction

The 1.5 Million Bogeumjari Housing Provision Plan (2009~2018)

- included 800 thousand PRH's (including 500 thousand YongGu and Kookmin PRH's).
- During the 2009~2011, 437 thousand units of Bogeunjari housing were constructed, and the number of PRH's actually constructed was 232 thousand, nearing its original goal of 240 thousand.

Brief History

Summary

Korea's PRH policies went through

the 1960~1970's period (the 5-year Economic Development Plan System) when there was no specified direction or key objectives.

the 1980~1992 period (the 5-year Socio-Economic Development Plan System) when the housing policy came to be recognized as a policy means for social stability.

the 1993~1997 period (the 5-year New Economy Plan System) when the private-led PRH policies were implemented so as to achieve the policy objective of 10% PRH stock ratio.

the period after 1998 when the 'welfare paradigm' came to be emphasized in response to the lower growth rate and polarization in this age of global competition, resulting in continued PRH expansion led by the public sector despite the regime change.

Brief History

Overview the development of PRH policy in Korea

	1961~1979	1980~1992	1993-1997	1998-2007	2008~2012
Government	Park Jung-hee	Chun Doo-hwn Roh Tae-woo	Kim Young-sam	Kim Dae-jung Roh Mu-hyeon	Lee Myung-bak
Policy Direction and Purpose	Lack of specified direction, objective (subject to the goal of economic growth)	Lack of mid/long-term direction and vision (a part of the social stabilization policy)	PRH stock ratio of 10% (by the early 2000's)	PRH stock ratio of 10% (by 2012)	PRH stock ratio of 10% (by 2018)
				Rental-centered public housing policy	Rent & Ownership parallel public housing policy
Major Policy Menas	public-led 1-year PRH's	public-led 250 thousand YongGu PRH's	private-led 5-years PRH's	public-led one million Kookmin PRH's	public-led 800 thousand PRH's (YongGu, Kookmin, 10-years, 20-years)

Brief History

The Ratio of PRH Construction among the Total Housing Construction

Regimes	Total Number of houses Constructed	Number of PRH's Constructed	The ration of PRH among Total
Park Chung-hee (71-79)	1,645,291	47,947	3.0%
Chun Doo-hwan (80-87)	1,760,746	146,638	8.3%
Roh Tae-woo (88-92)	2,717,682	418,307	15.4%
Kim Young-sam (93-97)	3,425,797	418,237	12.2%
Kim Dae-jung (98-02)	2,340,899	488,287	20.9%
Roh Mu-hyeon (03-07)	2,538,118	561,873	22.1%
Lee Myung-bak (08-12)	2,276,452	548,870	24.1%
Total	16,704,985	2,613,175	15.6%

Achievements & Tasks

- ▶ **Despite contribution to residence stabilization for the low-income class, promotion of beneficiaries' satisfaction is required**
 - especially, Noises through Floor(Newly constructed APT), Parking space & Ambient noises(purchasing existing houses at the urban centers.)
- ▶ **PRH construction concentrated around suburban areas, resulting in limited capability to provide a buffer for the private rental(Chonsej-Wolsej) market at the urban centers.**
- ▶ **Issue of Collectivization** (or in other words, '**the urban island**' issue)
 - The one issue requiring immediate intervention is the class-separation of the low-income people who have been collectivized by PRH provision in the form of large complexes.
 - Some efforts are being made to create spaces for self-help activities through such means as operation of social welfare centers, housing welfare centers and fostering of social corporations

Achievements & Tasks

► Acquisition of housing sites and financing have reached the limit

- The **government expenditure** on housing construction was around 14~15 trillion KRW in the period of 2006~2009, with more than 90% coming from the NHF(National Housing Fund.)

The **NHF** was able to carry forward surplus fund of 4 trillion KRW every year from 2004 to 2006, but the size of the surplus fund has been rapidly decreasing since 2007.

- Furthermore, **LH**, the main undertaker of the PRH construction projects, is faced with financial difficulties. As of the end of 2010, LH owned 582 thousand (72%) of the total 806 thousand long-term(YongGu, Kookmin, 10-years) PRH's in Korea.

Because of these PRH's, the LH has financial dept of 33 trillion KRW (total dept 130 trillion KRW, total asset 150 trillion KRW)

It is expected that construction of one Kookmin PRH will be equal to 90 million KRW addition to LH's total financial debt.

Conclusion

The recent changes of **population/household structure**(stagnant population growth, aging, etc.) greatly reduced the need for new large-scale development projects.

The real estate market has been suffering from recession since 2008.

So far, LH has invested the development revenues gained from massive housing site developments into public projects including PRH construction, but this **financing cycle** is expected to be harder to achieve in the future.

In conclusion, **Korea's PRH policy is now facing an important juncture, where we need to seriously reconsider and review the existing policy paradigm through assessment on both demand and supply side.**

Thank You