Housing Policy in the Republic of Korea

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Capacity Building Program
Outline of Presentation

1. Improvement in Housing Conditions
2. Evolution of Housing Policy
   Brief Overview and Key Features
3. Changing Environment and Policy Challenges
I. Improvement in Housing Conditions

Past and Present
Increases in Housing Stock and Improvement of Quality

- **Total Housing units**
  - 1980: 5,434 thousands
  - 2010: 14,677 thousands

- **Average Housing size**
  - 1975: 47.7 m²
  - 2010: 83.8 m²

- **Housing area per person**
  - 1975: 8.2 m²
  - 2010: 25.0 m²

- **Substandard Housing**
  - 2000: 3,340K (23%)
  - 2010: 1,840K (10.6%)
Housing Quantity: Supply expansion to address housing shortage

- Housing supply increased faster than the growth of the number of households

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</thead>
<tbody>
<tr>
<td>No. Housing Units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(thousand): A</td>
<td>4,360</td>
<td>5,319</td>
<td>7,357</td>
<td>11,472</td>
<td>14,677</td>
</tr>
<tr>
<td>No. Households</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(thousand): B</td>
<td>5,576</td>
<td>7,470</td>
<td>10,167</td>
<td>11,928</td>
<td>12,995</td>
</tr>
<tr>
<td>Housing Supply Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(%) 100 x A/B</td>
<td>78.2</td>
<td>71.2</td>
<td>72.4</td>
<td>96.2</td>
<td>112.9</td>
</tr>
</tbody>
</table>

Housing supply ratio
- Measurement of housing shortage
- Number of housing units/Number of households
Housing stock, No. of Households, and Housing supply ratio

- Housing stock
- No. of Households
- Housing supply ratio

- Housing stock (thousand)
- Household (thousand)
- Housing supply ratio (%)

Graph showing trends from 1970 to 2010.
## Housing Quality

### Improvement in Housing Conditions

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average number of rooms per household</strong></td>
<td>2.2</td>
<td>2.5</td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Average floor area per person (㎡)</strong></td>
<td>10.1</td>
<td>14.3</td>
<td>20.2</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>Average floor area per household (㎡)</strong></td>
<td>45.8</td>
<td>51.0</td>
<td>63.1</td>
<td>67.4</td>
</tr>
<tr>
<td><strong>Housing units per 1,000 persons (units)</strong></td>
<td>142</td>
<td>170</td>
<td>249</td>
<td>364</td>
</tr>
<tr>
<td><strong>Percentage of HH with Piped Water (%)</strong></td>
<td>56.1</td>
<td>74.0</td>
<td>85.0</td>
<td>97.9</td>
</tr>
<tr>
<td><strong>Equipped with modern toilet (%)</strong></td>
<td>18.4</td>
<td>51.3</td>
<td>86.9</td>
<td>97.0</td>
</tr>
<tr>
<td><strong>Equipped with bathroom (%)</strong></td>
<td>22.1</td>
<td>44.1</td>
<td>89.1</td>
<td>98.4</td>
</tr>
<tr>
<td><strong>Equipped with hot bath (%)</strong></td>
<td>9.9</td>
<td>34.1</td>
<td>87.4</td>
<td>96.9</td>
</tr>
</tbody>
</table>

*Significant improvement due to condominium(apartment) supply*
### An International Comparison of Selected Housing Indicators

<table>
<thead>
<tr>
<th></th>
<th>Korea</th>
<th>Japan</th>
<th>U.S.</th>
<th>U.K.</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwellings per 1000 inhabitants</td>
<td>363.8 (10)</td>
<td>451 (08)</td>
<td>421 (10)</td>
<td>441 (10)</td>
<td>532 (10)</td>
</tr>
<tr>
<td>Owner-occupancy rate (%)</td>
<td>54.2 (10)</td>
<td>61.1 (08)</td>
<td>65.1 (13)</td>
<td>64.6 (13)</td>
<td>64.3 (13)</td>
</tr>
<tr>
<td>Floor space per person (m²)</td>
<td>25 (10)</td>
<td>37.3 (08)</td>
<td>74.3 (10)</td>
<td>44 (02)</td>
<td>39.9 (06)</td>
</tr>
<tr>
<td>Public rental housing as a share of total housing stock (%)</td>
<td>5.0 (12)</td>
<td>6.1 (08)</td>
<td>0.9 (12)</td>
<td>17.5 (10)</td>
<td>19.0 (07)</td>
</tr>
<tr>
<td>House price to income ratio (PIR)</td>
<td>4.9 (13)</td>
<td>4.0 (13)</td>
<td>3.5 (13)</td>
<td>4.9 (13)</td>
<td>n.a.</td>
</tr>
<tr>
<td>GDP per capita (US $)</td>
<td>23,838 (13)</td>
<td>39,321 (13)</td>
<td>52,839 (13)</td>
<td>39,049 (13)</td>
<td>42,991 (13)</td>
</tr>
</tbody>
</table>

Note: Figures in the parentheses represent the year of reference.

Change in the Composition of Housing Stock Since 1980

Changes in housing types 1980–2010

Single detached housing was prevalent until 1980s
Apartments represent almost 60% of housing stock in 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Single Detached</th>
<th>Apartment</th>
<th>Town House</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>'80</td>
<td>Single 87.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>'90</td>
<td>66.0%</td>
<td>Apt 22.8%</td>
<td>6.8%</td>
<td></td>
</tr>
<tr>
<td>'00</td>
<td>37.2%</td>
<td>Apt 47.8%</td>
<td>7.4%</td>
<td>7.5%</td>
</tr>
<tr>
<td>'10</td>
<td>27.3%</td>
<td>Apt 59.0%</td>
<td>3.7%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>
Households Living in Substandard Units

- Households living in substandard units are decreasing

<table>
<thead>
<tr>
<th>No.</th>
<th>Composition</th>
<th>Room</th>
<th>Area (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Single</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>2</td>
<td>Couple</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>3</td>
<td>Couple+1 child</td>
<td>2</td>
<td>36</td>
</tr>
<tr>
<td>4</td>
<td>Couple+2 children</td>
<td>3</td>
<td>43</td>
</tr>
<tr>
<td>5</td>
<td>Couple+3 children</td>
<td>3</td>
<td>46</td>
</tr>
<tr>
<td>6</td>
<td>Couple+2 children+1</td>
<td>4</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: Korea Housing Survey
II. Evolution of Housing Policy

- Brief Overview
- Key Features
1962~1980 Housing Shortage, Speculation, and Policy Experimentation

**Socio-economic situation**
- Industrialization and rapid growth

**Housing issues**
- Housing shortage due to rapid urbanization
- Housing price hike and speculation

**Policy remedy**
- Massive production of high-rise apartments, Gangnam Development
- Housing Construction Promotion Act

**Program**
- Institutions for financing housing: Korea Housing Bank, housing lottery
- Price ceiling on newly built apartments, housing allocation system
1) 1950 - 1961: Post Korean War

Public Homes Built by the Korea Housing Group (1957)

First Apartment Built in Seoul JongAm apt (1958)
1) 1950 - 1961: Post Korean War

- GNI per capita: $110
- Life Expectancy: 54.5
- Infant Mortality rate: 70.9%
- Housing Supply: 866K (1962~1971)

As of 1962
2) 1962 - 1980: Housing shortage and foundation for housing finance

Ma-Po Apt (1962)

Eun-Pyung Village (1967)

Koo-Ro Apt (1972)

Jam-Shil Apt (1976)
2) 1962 - 1980: Housing shortage and foundation for housing finance

- GNI per capita: $340
- Life Expectancy: 62.8
- Infant Mortality rate: 32.7%

187K/year As of 1972
1981~1997 Massive Expansion in Housing Supply

Socio-economic situation
- Democratization, Seoul Olympic Games, Economic boom
- Housing shortage emerged as a core social issue

Housing issues
- Demand and supply mismatch, housing price hike
- Overheated housing construction; unsold housing; lack of rental units

Policy remedy
- Construction of two million housing units, including 5 New towns
- Provision of rental units for different income groups (250K permanent)

Program
- Expansion of funding for housing: National Housing Fund, Housing Finance Credit Guarantee Fund), Expanding private fund by banks
## Two Million New Housing Project

<table>
<thead>
<tr>
<th>Category</th>
<th>Income Class</th>
<th>Housing Type</th>
<th>No. of Units Built (1,000 Units)</th>
<th>Financial Assistance</th>
<th>Project Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td>Urban poor</td>
<td>Permanent rental (20 ~ 36㎡)</td>
<td>250</td>
<td>Government fund</td>
<td>LH, local government</td>
</tr>
<tr>
<td></td>
<td>Potential middle class</td>
<td>Long-term rental (33 ~ 50㎡)</td>
<td>350</td>
<td>National Housing Fund</td>
<td>LH, local government private company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small house (40 ~ 60㎡)</td>
<td>250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td>Middle class</td>
<td>Medium-sized house (60 ~ 85㎡)</td>
<td>480</td>
<td>Private housing fund</td>
<td>Private company</td>
</tr>
<tr>
<td></td>
<td>Above middle class</td>
<td>Medium-sized or large (85㎡ or above)</td>
<td>670</td>
<td>Housing owners’</td>
<td>Private company</td>
</tr>
</tbody>
</table>
3) 1981 - 1997: Housing supply expansion

Asian game Apt (1983)

Mokdong Newtown in town (1985)

Kodeok (1988)

Bundang Newtown (1996)
* New Town Development

Bundang

Ilsan

Pyungchon

before

after
3) 1981 - 1997: Housing supply expansion

- GNI per capita: $1,960 in 1982 ($3,500 in 1987)
- Life Expectancy: 66.8
- Infant Mortality Rate: 10.5%
1998~2002 Overcoming Crisis and De-regulation

**Socio-economic situation**
- Asian Financial Crisis (1998): housing market suffered, bankruptcy among home builders
- Soaring housing price after 2002 due to recovery and unmet demand

**Housing issues**
- Housing became less affordable for low-income households
- Overheated housing market and concerns over housing bubble

**Policy remedy**
- Policy cycle of regulation, de-regulation, and re-regulation
- LTV, DTI regulation; plan to increase rental housing units (12% of total stock by 2018)

**Housing Finance**
- Financial assistance to home buyers and homebuilders
- Secondary mortgage market (MBS, MBB), reverse mortgage
4) 1998 - 2002: Overcoming crisis and deregulation

- Greener apartments
- Rental housing complexes
- High-rise mixed use residential building
4) 1998 - 2002: Overcoming crisis and deregulation

- GNI per capita: $10,770
- Life Expectancy: 72.2
- Infant Mortality Rate: 5.5%
  - 490K/year

As of 1995
2003~present Housing Welfare and Normalization of Market

Socio-economic situation
- Redevelopment for old housing complexes

Housing issues
- Instable housing market; Rental market changes
- Affordability issue for low-income households

Policy remedy
- LTV, DTI regulation; Housing welfare roadmap
- Diverse public rental housing provision efforts (GB, Purchased, Happy)

Housing Finance
- Housing Fund subsidies for the first time homebuyers & working group
- Rent subsidy program for very low-income households (Housing Voucher)
5) 2003 - present: Focus on housing welfare

- GNI per capita: $22,670
- Life Expectancy: 80.9
- Infant Mortality Rate: 3.3%

478K/year  As of 2012
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Extremely low</td>
<td>Permanent PRH</td>
<td>National PRH (small-size)</td>
</tr>
<tr>
<td>2</td>
<td>Low</td>
<td>Long-term PRH</td>
<td>National PRH</td>
</tr>
<tr>
<td>3</td>
<td>Mid-low</td>
<td>Small-size for sale units</td>
<td>Small-size for sale units</td>
</tr>
<tr>
<td>4</td>
<td>Mid-low</td>
<td>Mid-size for sale units</td>
<td>Small-size for sale units</td>
</tr>
<tr>
<td>5</td>
<td>Middle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7~10</td>
<td>High</td>
<td></td>
<td>Private market, Mortgage program</td>
</tr>
</tbody>
</table>

PRH: Public Rental Housing constructed with subsidy
Key Features

- **Owner-occupation bias**
  - Promote ownership through massive supply and incentives

- **Focus on housing price stability**
  - Curb speculation to stabilize housing price

- **Interventionist approach**
  - Government control of supply of developable land and finance, regulations

- **Institutions to support policy**
  - Comprehensive Housing Plan, Housing & Land Corporation, National Housing Fund, House Construction Promotion Act, Korea Housing Finance Corporation
III. Changing Environment and Policy Challenges
Changing Environment and Policy Challenges

Demographic Shift
- Low & falling fertility rate
- Rapidly growing elderly population
- Increase in 1~2 person households

Housing and Macro economy
- Importance of housing in the macro economy
- Increasing household debt after financial crisis
- Sluggish growth affecting housing demand

Structural Change in Housing Market
- From Chonsei to Monthly rental contract
- Housing price stability & increase in renters by choice
- Managing and upgrading existing housing stock

Housing Welfare & Regeneration
- Affordability for low- & low- to middle-income HH
- Housing Voucher program to be launched in 2015
- Redevelopment of old housing complexes
Demographic Shift

- Population Pyramid: From Tree to Kite?
- Low and declining fertility rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Fertility Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>1.2</td>
</tr>
<tr>
<td>United States</td>
<td>2.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.3</td>
</tr>
<tr>
<td>India</td>
<td>2.6</td>
</tr>
<tr>
<td>Egypt</td>
<td>2.9</td>
</tr>
<tr>
<td>Kenya</td>
<td>4.0</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>5.4</td>
</tr>
<tr>
<td>Mali</td>
<td>6.4</td>
</tr>
</tbody>
</table>

**Total fertility rates, 2012**

Average births per woman in her lifetime

Based on CIA World Fact Book

From Economist.com
Changing Distribution of Households composition (1980~2010)

Source: 2010 Populations and Housing Census
Changes of one person household distribution (1985~2010)

Source: 2010 Populations and Housing Census
Housing and Macro-economy: Household Debt and Systemic Risk

- Increasing importance of the housing sector for financial and macro stability
- Large and increasing household debt (with Mortgage Debt Outstanding to GDP low among OECD countries) vs financial inclusion
- Sluggish economic growth negatively affects housing demand
Structural Change in Housing Markets

- **Owner-occupied housing**
  - Sluggish economic recovery
  - Pessimistic expectation about housing price due to demographic shift
  - More would-be home buyers choose to stay as renters

- **Rental housing**
  - *Chonsei*: uniquely Korean deposit-based lease without monthly payment
  - Transition from *Chonsei* to monthly rent contracts caused by low interest rate and pessimistic expectation about housing price appreciation
  - Increasing rent burden for low-income households
The shares of *Chonsei* and MRD in 2012 and 2014

### Rental contract transaction by lease type (2011~2014)

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</tr>
</thead>
<tbody>
<tr>
<td>Total lease contracts (thousand)</td>
<td>1,321</td>
<td>1,324</td>
<td>1,373</td>
<td>1,467</td>
<td>771</td>
</tr>
<tr>
<td>Chonsei (%)</td>
<td>67.0</td>
<td>66.0</td>
<td>60.6</td>
<td>59.0</td>
<td>56.6</td>
</tr>
<tr>
<td>MRD (%)</td>
<td>33.0</td>
<td>34.0</td>
<td>39.4</td>
<td>41.0</td>
<td>43.4</td>
</tr>
</tbody>
</table>
Housing Voucher introduced to Address Affordability Issue

- The context of policy change

Current Integrated allowance system

- No support in the event of loss of qualification for allowance ('all or nothing' problems arise)
- Allowance payment for seven categories including livelihood, housing, medical and education
- Comprehensive support according to the single criterion of the minimum living cost

Customized separate allowances

- Multilayered selection standards for allowances of each sector based on the median income
- Selection Standard (subject of support)
- Median income: 50%
- 40~50%
- 40%
- 30%
- 20%

Selection Standard (subject of support)
Housing Allowance Program (Integrated Allowance)

- Previously a part of general public assistance system (Ministry of Health and Welfare)
  - Introduced in 1999 under national livelihood protection system
- General purpose income subsidy
  - About 20% of total subsidy was for housing allowance
- Form: cash or in-kind
  - Either cash (rental payments): renters
  - or in-kind (housing repair and maintenance services): home-owners
- Number of recipients and benefit per person
  - 730,000 HH (2013), approx. $8 / month subsidy
- Issue
  - Housing Allowance was unrelated to rent level or local housing market conditions
- Housing Voucher Program (Customized Allowance)

- Independent housing subsidy program (MOLIT)
  - Regional pilot experiments conducted in 2014, National program to be launched in 2015
  - Customized to fit households characteristics
    - Consider HH income level, tenure type, rent level, and local rental market conditions
    - Rent subsidy standard considering minimum rent level, varying across household size and region (fair market rent considering regional differences)
    - Different subsidy formula between private market tenants and public rental housing tenants

- Number of beneficiaries and size of benefit per person
  - 970,000 HH (2015), approx. $11 / month subsidy

- Purpose
  - Promote housing conditions, ensure residential mobility, effective rent subsidy (lowest income)
- Urban Regeneration and Upgrading (redevelopment and reconstruction)
  - 30% multifamily units are 30 years or more after completion
  - Need for upgrading, retrofitting, renovation

![Composition of Multi-family Dwellings by Building Age]

- less than 10yr (built after 2004)
- 10-20 yrs (built between 1994~2003)
- 20-30 yrs (built between 1984~1993)
- over 30yrs (built before 1983)
Thank you
감사합니다 (gam-sa-ham-ni-da)