

Low Income Housing Policies in Korea: Evaluations and Suggestions

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Abstract

In this paper, current housing conditions of low income households as well as institutional arrangements for low income housing policies are carefully analyzed. Also, current housing policies for low income households in Korea are systematically evaluated and suggestions are made for future directions of policy changes.

For several decades, direct provision of public rental housing has been the main vehicle of low income housing policies in Korea for which favorable treatments are provided in terms of land acquisition, long-term below-market-rate financing, and tax deductions and exemptions. There has been a steady increase in the volume of Chonseil deposit loans for low income households from the National Housing Fund. In 2003, the volume of the loans was about 12 times larger than that in 1996. Also, with the enactment of National Basic Livelihood Security Act in 1999, a housing benefits program was newly introduced in which housing benefits are made based on the number of household members.

In spite of these efforts, housing conditions of low income households have not been much improved as expected and the gap of housing conditions between income classes is still large. Analysis of the data of the Population and Housing Census in 2000 shows that about 3.3 million households, approximately 23 percent of the total number of households, are living in deteriorated and very poor dwellings which do not meet the minimum housing standards. Also, their burden of housing costs has been growing heavier due to a sharp increase in housing price after 2001 and the inequality of housing wealth distribution has become worse than that of income distribution.

About 15% of newly constructed housing units after 1982 are public rental housing units. The ratio of public rental housing units to the total of newly constructed housing units has been higher during the period of 1996 to 2001. However, as of 2003, the total units of public rental housing take about 8.3% of the total housing units in the nation. If long-term rentable units are counted only, the units are just 2.4% of the total housing units. Policies of direct provision of public rental housing have been faced several problems such as inconsistent and unsystematic policy implementations, provision of public rental housing with short-term rental periods, and the resultant shortage of long term public rental housing units. These were inevitable results of the policies which failed to carefully select appropriate target groups of households. Also, because regional and household characteristics have not been fully taken into account in assistance criteria, benefits from public rental housing have been inequitably distributed.

In terms of demand-side policies, in spite of a steady increase in the volume of Chonsei deposit loans for low income households, the volume of the loans are not sufficient compared to the total volume of the National Housing Fund. The volume of the loans takes only 18% of the total volume of the National Housing Fund. Even though the introduction of the housing allowance program provided a new dimension for low income housing policies, the current level of housing allowances does not only guarantee the minimum housing costs but it does not take account of regional differences and household specific needs.

Recently, the government has put more emphasis on low income housing policies. Enactment of the Housing Act and the consequent establishment of long term housing plans and the minimum housing standards are good examples. Introduction of housing support system based on households' affordability and the plans for increasing long-term public rental housing units are regarded as equally important.

While all these efforts should contribute to improve housing welfare of low income households to a great extent, there remain many tasks to be discussed and resolved. For example, more specific action plans should be prepared to reduce the number of

households living below the minimum housing standard by as much as one million households within five years. Possibility of providing 1.5 million public rental housing units within 10 years should be carefully examined in terms of households' demand, possibility of securing sufficient residential land at appropriate locations as well as financing plans.

In addition, public rental housing should be integrated into one large public program, recipient households should be selected based on their economic ability, and the level of rents should be determined not by the construction costs but by their affordability. These ways will eventually improve vertical and horizontal equities of the program. Further efforts should also be made to set the amount of housing benefits at a more realistic level and in the long run housing allowance system should be separated from the general public assistance program.

1. Introduction

Government intervention in housing markets is mostly based on efficiency and equity grounds. From the viewpoint of efficiency, it is for reducing market failure in housing markets and enhancing efficient allocation of resources. From the equity viewpoint, it is for providing adequate housing services for those who cannot afford themselves on their own in housing markets. It is generally believed that most countries emphasize the equity aspects of housing policies on the grounds that a number of low income households are not capable of consuming the 'socially agreed' minimum level of housing services and that it is one of duties of the government to provide them with adequate housing and therefore to improve their housing conditions and to increase their housing stability.

Housing stability has significant impact on the quality of life; Housing is one of basic necessities for living and housing stability encourages work incentives and relieves pressure of wage and price increases caused by excessive costs of housing. Also, fair distribution of housing wealth alleviates feeling of deprivation and distrust among social classes. For these reasons, most countries place a high value of housing policy on providing people with adequate housing and favorable living environments. This is based on the belief that housing policies toward these directions will contribute to social cohesiveness and to economic development.

Housing stability and improvement of housing conditions have been the main goals of housing policies in Korea for the last several decades. In the past, in the face of housing shortages, the government's main policy had been to provide abundant housing. Solving housing shortage problem was the prior consideration. Due to continuing efforts, the housing supply ratio measured by dividing the total housing units by the number of households reached over 100 percent in 2002 and the average housing conditions have been greatly improved.

Unfortunately, however, it is reported that the differences of housing conditions are still quite significant among different income classes. Analysis of the data of the Population and Housing Census in 2000 shows that about 3.3 million households, approximately 23 percent of the total number of households, are living in deteriorated and very poor dwellings which do not meet the minimum housing standards. About 1.12 million households, approximately 8 percent of the total number of households (730 thousand households except one-person households), are living in a single room housing. Furthermore, their burden of housing costs has been growing heavier due to sharp increases in housing prices since 2001 and housing wealth distribution has

become worse than that of income distribution.

Low income housing policies in Korea have been pursued mostly by providing public rental housing. Demand-side policies such as Chonseil deposit loans by the National Housing Fund (NHF) have been operated, but the volume of the program is not quite large. Also, following the National Basic Livelihood Security Act, housing benefits are provided to the extremely low income households, but the amount of housing benefits is not sufficient.

In this paper, various low income housing programs in Korea are reviewed and current housing conditions of low income households are analyzed. Based on these discussions, current low income housing support system is evaluated and policy directions in the future are suggested.

2. Low Income Housing Programs in Korea

As in developed countries, low income housing programs in Korea are largely divided into two parts: supply-side programs and demand-side programs. The major type of supply-side programs is to construct and provide public rental housing for low income households. Construction of public rental housing is regarded as one of effective ways to support low income households in that the government directly provides them with decent rental housing at the below-market rents. Various kinds of supports are implemented including provision of residential land at the below-market prices, financing construction costs at the below-market interest rate through the NHF, and charging below-market rents to the recipient households. Demand-side programs aim at reducing housing cost burden of low income households. The programs include Chonseil¹ deposit loan programs and housing benefits program.

2.1 Public Rental Housing

Public rental housing programs began in 1988 on a full scale when the “two million housing units construction project” was initiated. This project planned construction of 1.5 million new housing units for sale and construction of 500 thousand units for rental housing. 500 thousands rental unit construction plan included 25 thousand units for Permanent Public Rental Housing², 15 thousand units for Five-Year Public Rental

¹ Chonseil is a unique form of rental contract in Korea whereby a tenant pays an up-front lump-sum deposit at the beginning of the contract period with no requirement for paying monthly rent. The deposit is fully refunded at the end of the contract period.

² Permanent Public Rental Housing is a publicly-constructed rental housing which can be rented for 50 years. Rents for this housing are very low so that the recipients of the livelihood benefits (extremely low

Housing, and 10 thousand units for Rental Housing for Workers. Among these public rental housing programs, the Permanent Public Rental Housing program had been regarded as a typical public rental housing program for low income households because 85 percent of construction costs was assisted by the national government budget and the beneficiaries were confined to the extremely poor households such as the recipients of livelihood benefits.

From 1992, the government provided public rental housing for the households with income higher than the extremely poor. The public rental housing was of two types with regards to the rental period: five years and 50 years. For 50-Year Public Rental Housing³, 50% of construction costs were supported by the national government budget and 20% financed by the NHF. However, the assistance from the national government budget was stopped in 1994 and that was replaced by the financing from the NHF. For Five-Year Public Rental Housing⁴, only the NHF financed the construction costs in the form of loans from the beginning. Households who were not homeowners and who held national housing subscription savings accounts⁵ were qualified for the public rental housing.

From 1998, the National Public Rental Housing program was introduced. In the beginning, this public rental housing had two different rental periods: 10 year and 20 year. For 10-Year National Public Rental Housing, households who were not homeowners, held national housing subscription savings accounts and earned income less than 70% of the average income of urban households were qualified for application. In the case of 20-Year National Public Rental Housing, applicants should not have home and their income should be less than 50% of the average income of urban households. There was no requirement for holding national housing subscription savings accounts.

This program was revised in 2002 in such ways that qualification requirements were differentiated by the size of the public rental housing and the rental period was unified to 30 years. Current government regards the National Public Rental Housing

income households) are affordable.

³ The 50-Year Public Rental Housing can also be rented for 50 years. However, rents for this housing is relatively higher than those for the Permanent Public Rental Housing.

⁴ The Five-Year Public Rental Housing should be rented for five years and then can be sold to existing renter households at the government regulated price. This program was introduced with the purpose of allowing renter households to pay rents for five years, inducing them to accumulate wealth during the rental period and then giving them opportunities to purchase the unit.

⁵ Due to excess demand for housing, the government introduced a system to ration newly constructed housing to households. Under this system, households who want to rent or buy publicly-provided rental housing or housing for sale should open national housing subscription savings accounts and deposit some money every month. Based on number and amount of deposits, households obtain opportunities for subscription to newly constructed housing.

program as the most important low income housing program and plans to provide one million units for the period of 2003 to 2012. Also, depending on the size of the public rental housing, 10% to 40% of construction costs are now assisted by the national government budget. Table 1 describes the shares of construction costs by involved parties and qualification requirements for the National Public Rental Housing.

Table 1: Qualification Requirements and Shares of Construction Costs of National Public Rental Housing

Size of Rental Housing	Qualification Requirements	Shares of Construction Costs
Less than 50m ²	Non-homeowners with income less than 50 % of the average income of urban households	National Gov't Budget 40% NHF 40% Recipient 10% Construction Firm 10%
50m ² ~ 60m ²	Non-homeowners who have national housing subscription savings accounts and whose income less than 70% of the average income of urban households	National Gov't Budget 20% NHF 40% Recipient 30% Construction Firm 10%
Greater than 60m ²	Non-homeowners who have national housing subscription savings accounts and whose income less than 70% of the average income of urban households	National Gov't Budget 10% NHF 40% Recipient 40% Construction Firm 10%

In addition, construction of 500 thousand units of the public rental housing with 10-year rental period (10-Year Public Rental Housing) is under progress. While the National Public Rental Housing is constructed by the government-sponsored enterprise such as the Korea National Housing Corporation (KNHC), 10-Year Public Rental Housing is constructed by the private sector to which favorable conditions in terms of residential land purchase prices, deductions of taxes, financing construction costs through the NHF at the below-market interest rate are provided. The 10-Year Public Rental Housing program was designed for the moderately low and middle income households. Table 2 shows the 10-year plan for supplying the public rental housing.

Table 2: Government Plan to Supply Public Rental Housing (2003-2012)

(thousand units)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
National Public Rental Housing	8	10	10	11	11	10	10	10	10	10	100
10-Year Public Rental Housing	-	3	5	6	6	6	6	6	6	6	50

Table 3 shows the housing construction from 1982 to 2003. About 10.5 million housing units were constructed during the period. Among them, 14.7% (1.54 million units) were constructed as public rental housing: 190 thousand units for the Permanent Public Rental Housing, 1 million units for the 5-Year or 50-Year Public Rental Housing, 70 thousand units for the Rental Housing for Workers, and 190 thousand units for the National Public Rental Housing.

While the share of public rental housing varies across years, the share was relatively higher in the period of 1996 to 2001. However, the share has been decreasing since 1998. In 1998, total units of housing construction were about 0.3 million in which public rental housing took 30.6%. However, the share gradually decreased so that it was less than 20% in 2001 and less than 15% in 2002 and 2003.

Looking at the composition of public rental housing by types, it can be said that the share of 5-Year or 50-Year Public Rental Housing has been decreasing and gradually replaced by the National Public Rental Housing. With the start of constructing 2,500 units of the National Public Rental Housing in 1998, supply of the National Public Rental Housing is gradually increasing with the exception in 2000. Especially, its volume of construction has increased at a faster rate since 2001.

Table 3: Housing Construction 1982-2003

Year	Total Units Constructed	Public Rental Housing				
		Subtotal (share%)	5-year or 50-year	Permanent	Workers	National
'82-'86	1,155,071	77,719(6.7%)	77,719	-	-	
'87	244,301	51,918(21.3%)	51,918	-	-	
'88	316,570	52,218(16.5%)	52,218	-	-	
'89	462,159	82,475(17.8%)	39,222	43,253	-	
'90	750,378	144,544(19.3%)	64,890	60,004	19,650	
'91	613,083	76,391(12.5%)	15,074	49,607	11,710	
'92	575,492	62,679(10.9%)	15,121	36,706	10,852	
'93	695,319	41,525(5.9%)	30,912	507	10,106	
'94	622,854	74,862(12.0%)	65,751	-	9,111	
'95	919,057	82,032(13.2%)	77,584	-	4,448	
'96	592,132	111,063(18.8%)	104,648	-	6,415	
'97	596,435	108,728(18.2%)	108,115	-	613	
'98	306,031	93,795(30.6%)	91,294	-	-	2,501
'99	404,715	109,417(27.0%)	89,107	-	84	20,226
'00	433,488	95,932(22.1%)	85,923	-	-	10,009
'01	529,854	102,557(19.4%)	66,980	-	350	35,227
'02	666,541	86,586(13.0%)	35,767	-	-	50,819
'03	585,382	86,005(14.7%)	12,977	-	-	73,028
Total	10,468,862	1,540,446(14.7%)	1,085,220	190,077	73,339	191,810

On the other hand, contribution of the private sector to rental housing construction has been decreasing after reaching a peak in 1997. Table 4 shows rental housing construction by local governments, the KNHC, and private companies. In 1998 and 1999, the private sector has constructed about 79 thousand rental housing units, which further decreased to about 63 thousand units in 2000, and to about 27 thousand units in 2002, and to about 10 thousand units in 2003. While the private sector contributed to 84.4% of the total rental housing construction in 1997, its contribution has gradually decreased, being only 11.6% in 2003.

Table 4: Rental Housing Construction by Project Initiators

Year	Total			5-Year or 50-Year			Workers			National	
	Local Govt	KNHC	Private	Local Govt	KNHC	Private	Local Govt	KNHC	Private	Local Govt	KNHC
'97	1,057	15,941	91,730 (84.4)	1,057	15,941	91,117	-	-	613	-	-
'98	160	13,958	79,677 (84.9)	160	11,457	79,677	-	-	-	-	2,501
'99	441	30,115	78,861 (72.1)	441	9,889	78,777	-	-	84	-	20,226
'00	1,714	30,953	63,265 (65.9)	1,714	20,944	63,265	-	-	-	-	10,009
'01	2,438	40,908	59,211 (57.7)	2,088	5,681	59,211	350	-	-	-	35,227
'02	4,033	55,403	27,150 (31.4)	1,831	6,786	27,150	-	-	-	2,202	48,617
'03	10,331	65,698	9,976 (11.6)	1,816	1,185	9,976	-	-	-	8,515	64,513

As of 2003, the total rental housing stock in Korea is about 1 million units⁶, taking 8.3% of total housing stock. However, as can be seen from table 5, a huge portion of rental housing stock has relatively short rental period; the Five-Year Public Rental Housing stock takes 61.2% of total rental housing stock and rental housing operated by private landlords which has three years of rental period takes 5.7%. Also, the Rental Housing for Workers which lacks public nature takes 4%. Hence, the public rental housing units in which long-term rental contracts are possible are about 300 thousands, just 2.4% of the total housing stock.

⁶ This is officially announced figure in the formal rental sector. There is an informal rental sector in Korea in which owner households rent their houses informally. There is no official figure of how many households live in the informal sector rental housing. According to Korean Population and Housing Census in 2000, 6.15 million households (33% of the total number of households) are renters.

Table 5: Composition of Rental Housing Stock

Types	Permanent	50-year	5-Year	National	Workers	Private	Total
						Landlords	
# of Units	190,077	92,730	640,031	20,862	42,392	59,994	1,046,086
%	18.2	8.9	61.2	2.0	4.0	5.7	100

2.2 Demand-Side Programs

The major demand-side programs for low income households in Korea are two types: Chonsei deposit loan program and housing benefits program. The demand-side programs have been widely used in developed countries because of several advantages. Under demand-side programs, beneficiaries can select their locations, housing types and housing sizes depending on their preference for rental housing. Also, such programs can better guarantee residential mobility of households and improves the usage of existing housing stock.

2.2.1 Chonsei Deposit Loan Program

Chonsei deposit loan program means that the public sector (NHF) lends some portion of Chonsei deposit to low income households at the below-market interest rate. This program has been developed because a large number of low income households are tenants under Chonsei contracts. The beneficiary low income households obtain implicit rent subsidies as much as the difference between market interest and interest actually paid. The program is operated for two different target groups.

Chonsei deposit loan program for the extremely low income households has been introduced in 1990, in which the extremely low income households can borrow some portion of Chonsei deposit at the below-market rate through the NHF. There are some qualification restrictions on this program. Their Chonsei deposit should not exceed the caps imposed by the government. The caps depend on their residences. In 2004, Chonsei deposit should not exceed 50 million Won (about 50 thousand dollars) in Seoul, 40 million Won in the other metropolitan cities, and 30 million Won in small and medium cities and rural areas. Also, they have to make Chonsei rental contracts for rental housing of the size under 60m². But the size restriction can be extended up to 85m² under the authority of the local governments. If they are qualified, they can borrow up to 70% of Chonsei deposit at the annual interest rate of 2% but have to fully repay their loans in four years. The other qualification criteria are determined by the

local governments.

Chonsei deposit loan program for the moderately low income households are for those who are not homeowners and whose annual income is less than 30 million Won (30 thousand dollars) in 2004. They have to rent a housing of the size under 85m² and the maximum amount of borrowing is 70% of the contracted Chonsei deposit with the maximum of 60 million Won. The borrowing rate is 6.5% per year and loans have to be fully returned in four years.

Table 6 provides some information on Chonsei deposit loan programs operated by the NHF. The NHF's funding on Chonsei deposit loans has been continually increasing. In 1996, Chonsei deposit loans for the extremely low income households were merely 73 billion Won. But the loans have increased to 480 billion Won in 2003, six times larger than the amount in 1996. Also, Chonsei deposit loans for the moderately low income households, which were just 50 billion Won in 1996, has increased by as much as about 19 times in 2003.

Table 6: Chonsei Deposit Loans for Low Income Households by NHF (billion Won)

Year	'96	'97	'98	'99	'00	'01	'02	'03
Loans for Extremely Low								
Income Households	73	75	75	300	169.2	244.2	488	485.4
Loans for Moderately Low								
Income Households	50	70	130	0	960.8	716.9	480.8	964.7
Total Funds	4,628.3	4,627.1	5,589.4	7,449.2	8,419.9	10,209.2	7,003.6	7,889.7

In spite of this tremendous increase in the amount of Chonsei deposit loans, the portion of Chonsei deposit loans in the total NHF funds is unfortunately small. In 2003, Chonsei deposit loans for the extremely low income households took just 6% of the total NHF funds, and Chonsei deposit loans for the moderately low income households took 12%. Hence, the two loan programs together took only 18%.

2.2.2 Housing Benefits Program

Housing benefits program in Korea is not independently operated. Rather it is a part of the general public assistance system. Housing benefits program was newly introduced under national livelihood protection system established in 1999 with the

purpose of providing adequate housing benefits to the recipients and leading them to better housing conditions. Housing benefits are made in the forms of either cash (rental payments) or in-kind (housing repair and maintenance services).

According to the National Basic Livelihood Security Act, housing benefits consist of explicit housing benefits and implicit housing benefits included in livelihood benefits, both of which are paid depending on the household size. The procedure to determine livelihood benefits and housing benefits are as follows: First, the minimum living costs are determined for each household depending on the household size. Then, the cash subsidy basis is calculated by subtracting the minimum living costs by in-kind transfers such as medical care and educational services. Finally, subtracting the recognized income from the cash subsidy basis results in livelihood benefits and implicit housing benefits. Table 7 shows minimum living costs, cash subsidy basis, and minimum housing costs in 2004.

Table 7: Minimum Living Costs, Cash Subsidy Basis and Minimum Housing Costs (Won)

	One person Household	Two-person Household	Three-person Household	Four-person Household	Five-person Household	Six-person Household
Minimum Living Costs (A)	368,226	609,842	838,797	1,055,090	1,199,637	1,353,680
Other Transfers (B)	44,040	72,937	100,321	126,189	143,477	161,900
Cash Subsidy Basis (C=A-B)	324,186	536,905	738,476	928,901	1,056,160	1,191,780
Explicit Housing Benefits (D)	33,000		42,000		55,000	
Livelihood Benefits (E=C-D)	291,186	503,905	696,476	886,901	1,001,160	1,136,780
Implicit Housing Benefits (F)	38,436	85,309	120,726	162,687	177,730	207,614
Minimum Housing Costs (=D+F=A×19.4%)	71,436	118,309	162,726	204,687	232,730	262,614

The minimum living costs vary across the household size: 370 thousand Won for the one-person household and 1.35 million Won for the six-person household. The cash subsidy basis is about 320 thousand Won for the one-person household and 1.2 million Won for the six-person household. The livelihood benefits are 290 thousand Won for the one-person household and about 1.1 million Won for the six-person household.

The amount of explicit housing benefits are rather small: 33 thousand Won for one or two-person household, 42 thousand Won for three or four-person household, and 55 thousand Won for five or six-person household. While the amount of implicit housing benefits included in the livelihood benefits varies over the household size to a greater degree, the amount of overall housing benefits (explicit benefits plus implicit benefits) appears to be still small, taking 19.4% of the minimum living costs.

3. Housing Conditions of Low Income Households

In spite of improvement of housing conditions on the average, it appears that housing conditions of low income households have not been much improved. According to the survey results of the Korea Research Institute for Human Settlements (KRIHS) in 2002, the average housing size of households under lowest 10% of income distribution is 15.7 Pyung (51.81m²), which is 74% of the average housing size of all households (21.2 Pyung, 70 m²), and the average number of rooms of those households is 2.7, which is 77% of the average number of rooms of all households (3.5). Furthermore, over 60 % of households under lowest 20% of income distribution live in relatively inferior and deteriorated housing such as old single-detached houses or multi-family houses. 34% to 40% of those households are tenants under pure monthly rental contracts or monthly rent-with-deposit contracts⁷, which are rental contracts inferior to the usual Chonseil contracts. In terms of facilities, many of those households do not live in houses well equipped with western-style kitchens, flushing toilets, and hot-water supplied baths and live in very old houses. According to the statistics published by the Ministry of Construction and Transportation, the price-to-income ratio (PIR) of the households under the lowest 10% of income distribution is 6.7, which is twice higher than that of the average PIR of all households, indicating that they are not able to afford

⁷ Under the monthly rent-with-deposit contract, a tenant pays a substantial amount of the up-front deposit (but smaller than the deposit in Chonseil contract) at the beginning of the contract period during which a comparatively small amount of monthly rent is paid to fill the gap between the corresponding Chonseil deposit and the deposit in the monthly rent-with-deposit. As with the Chonseil, the up-front deposit is refunded to the renter at the end of the contract period.

themselves on their own. Also, their rent-to-income ratio (RIR) is very high implying that they cannot afford adequate housing without appropriate public assistance.

Table 8 shows per capita housing size Gini coefficients, housing-related assets Gini coefficients, and income Gini coefficients in 1993 and in 2002. The per capita housing size Gini coefficients have decreased during the period from 0.35 to 0.235, but the housing-related assets Gini coefficients have rather increased from 0.489 to 0.51. In 2002, the housing related assets Gini coefficient is greater than the income Gini coefficient, indicating that housing-related asset distribution is worse than the income distribution.

Table 8: Distributions of Per Capita, Housing-related Assets, and Income

Gini Coefficients	Per Capita Housing Size	Housing-related Assets	Income
1993	0.35	0.489	-
2002	0.235	0.51	0.351

As of 2000, the number of households who do not meet the minimum housing standards⁸ is about 3.3 million households, 23.4% of the total number of households. Table 9 shows the percentage of those households by the criteria of minimum housing standards. The largest percentage (71.3%) of those households does not meet the facilities criterion. The percentage of the households who do not meet the housing size criterion is the next (39.1%), and the percentage of the households who do not meet the number of rooms criterion is 14.8%. 5.3% of the households do not meet all the criteria.

In terms of household types, 40% of one-person households, 50.8% of child-headed households, 31.4% of single male-headed households, 26.3% of single female-headed households do not meet the minimum housing standards. Especially, for the one-person household, the aged households, and child-headed households, the percentage of not meeting the facilities criterion is 95.8%, 94.1%, and 86% respectively, showing that they are residing in houses with very poor facilities.

⁸ The minimum housing standards were established by the Ministry of Construction and Transportation in 1999. But the standards have not been used as a policy indicator so far. There are three criteria for evaluating whether housing is below the minimum standards: size, number of rooms, and facilities. The first two criteria are established by the characteristics of households such as the number of household members and the composition of households. For a representative household composed of 4 members (parent, a male child and a female child), the minimum housing size is 37m² and the minimum number of rooms is 3 together with a dining room and a kitchen. The housing should be equipped with a western-style kitchen, a flushing toilet, and a hot water-supplied bath (the third criterion).

Table 9: Size of Households not Meeting Minimum Housing Standards by Household Types

Type of Households		Ordinary	One-person	Child-headed	Single Male-headed	Single Female-headed	Aged
# of households (thousand)		14,311.80	2,224.40	18.7	220	903.7	523.3
# of households below Minimum Housing Standards(thousand)		3,344.00	890.2	9.5	69	237.4	189.8
Reasons for not meeting minimum standards (%)	Below Minimum Standard for Housing Size	39.1	12.3	41.7	46.8	42.9	10.8
	Below Minimum Standard for Facilities	71.3	95.8	86	76.7	73.8	94.1
	Below Minimum Standard for # of rooms	14.8	1.6	19.9	17.2	18.8	2.7
	Below All Standards	5.3	3.2	11.5	10.4	9.4	1.1

Table 10 compares housing conditions between ordinary households and households below the minimum housing standards in terms of housing size, housing tenure, and facilities.

Table 10: Comparison of Housing Conditions

	Ordinary	Below Minimum Standards
Number of households (thousand)	14311.8	3344
Average number of household members	3.1	2.8
Average housing size (Pyung)	19.1	13.1
Per capita average housing size (Pyung)	7.3	6.2
Average number of rooms	3.4	2.5
Number of household members per room	0.98	1.23
Housing Type Single Detached	27.6	58
(%) Apartment	36.6	6
Tenement	5.8	1.8

	Detached for Multi Families	22	25.8
	Multi-Family	3.2	1
	OfficeTel	0.1	0.1
	Others	4.5	7.3
	Owner-Occupied	54.2	42.9
	Chonsei	28.2	22.5
Housing Tenure (%)	Monthly Rent with Deposit	10.7	18.7
	Pure Monthly Rent	2	5.9
	Declining Rent	2.2	6
	Others	2.8	4.1
Facilities (%)	Western-style Kitchen	93.9	71.2
	Flushing Toilet	87	29.1
	Hot Water-supplied Bath	87.4	50.7
Average Age of Housing (Yrs.)		13.3	22.2

The average housing size of the households below the minimum standards is 13.1 Pyung (43.2m²), which is just 68.5% of the average housing size of the ordinary households, and the per capita housing size and the number of family members per room are 6.2 Pyung (20.5 m²) and 1.23 rooms. Compared with those statistics for ordinary households, it can be understood that the residential conditions of households below the minimum standards are very inferior. Among the households below the minimum standards, 83.8% reside in detached houses, while 49.6% of the ordinary households reside in that type of houses. Furthermore, 42.9% are owner-occupiers, and 51.1% are renters. Especially, the percentage of tenants under the contracts of monthly rent with deposit or pure monthly rent is twice higher than that of renters in ordinary households.

In terms of housing facilities, the table shows that over 87% of ordinary households reside in such houses equipped with western-style kitchens, flushing toilets, and hot water-supplied baths, while only 29 % of the households below the minimum standards reside in houses with flushing toilets and 50% of them in houses with hot water-supplied baths. The average age of houses for them is 22 years, about nine years older than the average age of houses for ordinary households (13 years).

4. Evaluation of Low Income Housing Policies

4.1 Evaluation of Public Rental Housing Programs

Even though public rental housing provision has been the primary low income housing policy, several problems have been raised. Various public rental housing programs operated under different government regimes have no continuity. Those programs have not been systematic in selecting appropriate target groups and the size of rental housing for them. The Five-Year Public Rental Housing program under which 530 thousand rental units have been constructed for the period of 1992 to 2001 did not contribute to the accumulation of public rental housing stock, raising a question of what the purpose of that program was (Kim et al., 2003).

The primary reason for these problems is that those policies did not clearly recognize and classify the target groups for each program. That is, there have not been serious considerations on what the levels of their income were, how much they were affordable, what programs better fitted to improve their housing conditions. Yoon and Kim (1997) showed based on the survey results of rental housing tenants that 10%~50% of households residing in public rental housing were middle income households who were no longer qualified for public rental housing. They also argued that there has been mismatch between target households and tenants in the public rental housing. Among the tenants of public rental housing provided from 1991 to 1996, only 46% of them could have been qualified as target households. This mismatch problem caused a leakage of public rental housing provision, and also caused the government to provide additional units of public rental housing for those qualified households who did not obtain public rental housing.

Another critical problem is that favorable treatments for public rental housing through below-market rate construction loans and below-market rents do not take account of the differences between regions and income classes. For example, the amount of construction loans made by the NHF depends on the types of programs and the size of public rental housing. There is no consideration about market conditions of the regions where public rental housing is constructed. The amount of construction loans is uniform across regions. Because the total construction costs composed of land costs and building costs are relatively higher in metropolitan cities than in small and medium cities due to higher land acquisition costs in metropolitan cities, the ratio of construction loans to total construction costs is lower in the metropolitan cities. Considering that there is more demand for public rental housing in the metropolitan cities, it had to be more desirable to provide more loans for constructing public rental

housing in the metropolitan cities (Chung, 2001).

The amount of rents actually paid by tenants in public rental housing is not differentiated among regions and income classes. In the case of the Permanent Public Rental Housing, different amount of rents are imposed based on the types of households. In the case of the 50-Year Public Rental Housing, rents are calculated based on construction costs. This suggests that the income level of tenants is not taken into consideration when rents are determined for each tenant.

Therefore, there has been criticism that public rental housing programs do not improve horizontal and vertical equity. Chung (1999) and Oh (2000) empirically showed that benefit distribution of the Permanent Public Rental Housing and the 50-Year Public Rental Housing programs was income regressive and these programs did not maintain regional equity. Also, there is another equity problem between recipient households and qualified non-recipient households. While the recipient households pay below-market rents for public rental housing, non-recipient households who have the same characteristics and the same income as do recipient households have to pay relatively higher market rents for consuming the same amount of housing.

4.2 Evaluation of Demand-Side Programs

As introduced in the previous section, demand-side programs are Chonsei deposit loan program and housing benefits program. In spite of continual increase in the volume of Chonsei deposit loans, its share in total volume of the NHF is not yet sufficient (18%). Even though the volume of loans for other low income housing programs is included, the total volume of the NHF operated for low income households has to be increased.

Housing benefits program newly introduced under national livelihood protection system can be evaluated to be in the right direction. However, there are rooms for improvement. Koh et al. (2002) suggests the following: First, explicit housing benefits do not actually guarantee the minimum housing costs. The explicit housing benefits are just 33 thousand Won to 55 thousand Won per household. Also, even though implicit housing benefits included in the livelihood benefits are taken into consideration, the total housing benefits are 19.4% of the minimum living costs. Considering that housing costs of low income households takes 20% to 30% of their minimum living costs, the amount of housing benefits is not yet appropriate. Second, because the total living costs do not take account of differences of regions and household characteristics except household size, housing benefits are not also differentiated among regions and household characteristics. Further modification has to be done to improve equity across

regions and households.⁹

4.3 Evaluation of Recent Low Income Housing Policies

Low income housing policies under current government have been improved to a large extent. A representative example is the enactment of the Housing Act. The Housing Construction Promotion Act, which played an important role in mass production of housing in the past, was not appropriate to meet diversified housing demands and to improve housing conditions of low income households. Enacting the Housing Act means a change in policy direction from supply-oriented policies to welfare-oriented policies. The Act stipulated to establish comprehensive and long-term housing policies for improving housing welfare and living environments. Especially, the Act requires the government to set up the minimum housing standards and to use the standards as one of major policy indicators.

In 2003, the Ministry of Construction and Transportation announced the 10-year comprehensive housing plan for the period of 2003 to 2012. Because of its comprehensiveness, the plan deals with many aspects of housing problems and policies. However, much of the plan is focused on improvement of housing conditions of low income households such as plans for continual provision of public rental housing and classification of target groups and housing programs appropriate for them (see table 11 and table 12).

Table 11: Classifications for Public Assistance

Target Households	Classifications
Households for Prior Assistance	Below minimum housing standards Income less than the lowest 30% RIR to reach minimum housing standards greater than 0.3
Households for Direct Assistance	Below minimum housing standards Income less than the lowest 40% Excludes households for prior assistance
Households for Indirect Assistance	Below minimum housing standards Income less than the lowest 40%-60%

⁹ Letting the value of the minimum living costs in small and medium cities as 1, the value in Seoul was 1.29 and the value in rural areas was 0.65 in 1999.

Table 12: Target Households and Related Assistance Programs

		Owner-Occupiers		Renters	
		One-Person HS	Over Two-Person HS	One-Person HS	Over Two-Person HS
HS for Prior Assistance		Assistance for house renovation		Demand-side housing assistance	
HS for Direct Assistance	Cities	Assistance for house renovation	Provision of national public rental housing	Demand-side housing assistance	Provision of national public rental housing
	Rural Areas	Assistance for house renovation		Demand-side housing assistance	
HS for Indirect Assistance		Provision of 10-year public rental housing, assistance for home purchase or assistance for renovation			

In addition, the government announced housing welfare improvement measures for low income households in May 2003, in which various different programs are applied to different income groups, and in September 2003, 10-year plan for providing 1.5 million units of long-term public rental housing was announced (see table 2). It is expected that introduction of minimum housing standards, housing programs differentiated by income classes, and continual provision of public rental housing can contribute to enhance housing conditions of low income households.

5. Suggestions and Conclusion

The fundamental direction for low income housing policies in Korea is to improve housing conditions of low income households by establishing a ‘household-based’ housing assistance system to meet their housing needs. For this direction, continual provision of public rental housing including the National Public Rental Housing, expansion of housing benefits, and assistance for house renovation will be important policy instruments. The minimum housing standards will be an effective policy evaluation criterion. In fact, the government plans to reduce the number of households below the minimum housing standards by as much as 1 million by 2007.

Introduction of the minimum housing standards is considered as the government’s promise to make efforts to accomplish the goal that every household resides in a house which meets the minimum housing conditions. Even though the government announced that various policy instruments can be used to achieve this goal, it is yet unclear that

what policy instrument can be used to reduce how many households below minimum housing standards and whether it can be possible to accomplish such task. Further action plans have to be prepared in order for the minimum housing standards to be an effective system for improving housing conditions of low income households.

According to the long-term comprehensive housing plan, the government will provide 1 million units of the National Public Rental Housing, thereby increasing the ratio of public rental housing stock to total housing stock to 10%. Additional 500 thousand units of 10-Year Public Rental Housing will be provided, further increasing the ratio to 15% by 2012. Considering that the major criticism on public rental housing programs was centered on the lack of continuity and systematic operation and on the provision of short-term rental housing which did not contribute to the accumulation of public housing stock, the government's plan can be evaluated as appropriate.

However, the long-term comprehensive housing plan states that about 480 thousand units of the National Public Rental Housing are needed in Seoul metropolitan region. It is wondering whether it is possible to acquire residential land to accommodate such huge volume of housing units in the Seoul metropolitan region where the shortage of residential land has already been a big problem.¹⁰ This leads to questions of whether construction of 1.5 million units of public rental housing is a realistic plan and whether the government adheres too much to the 'maybe' impossible goal. Also, the plan for construction of 500 thousand units of 10-Year Public Rental Housing by the private sector has to be thoroughly investigated to find out whether demand for such type of rental housing exists as much as that large volume and whether it is profitable enough for the private sector to participate in the construction of rental housing.

In order for existing public rental housing programs to be effectively operated, a consolidated management system has to be established. Under the consolidated management system, beneficiary households from the existing public rental housing programs should be pooled and have them pay rents based on their affordability. This system will ultimately enhance horizontal and vertical equity. Also, current criteria for selecting beneficiary households for public rental housing should be completely modified in such a way that household's income and the minimum housing standards are major selection criteria and that the cost-based rent determining rule is replaced by the income-based rent determining rule.

Under the current condition that the public rental housing stock is not sufficient, efforts to increase the public rental housing stock should be continued for the time being. However, additional efforts to expand demand-side programs have to be made. For the

¹⁰ 3 million units of housing construction have also been planned in the region.

extremely low income households most of whom are beneficiaries of the national basic livelihood protection system, housing benefits should be adjusted to the realistic level. The present level of implicit and explicit housing benefits is not sufficient to cover market rents. Together with this, housing benefits system has to be separated from the current national livelihood protection system in the long run. Under the current system, only those who are the beneficiaries of national basic livelihood protection system are eligible for the housing benefits. Even though housing cost burden of the households at the next income level is high, they are not eligible. And the level of housing benefits should be determined by their income and the minimum housing standards.

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