

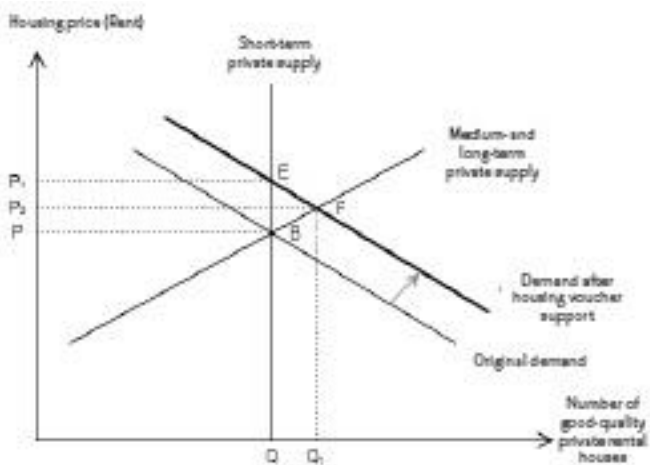
Seoul Type Housing Voucher Program

Written by: Eun-Cheol Park of the Seoul Institute
Policy Area: Housing

Background of Housing Subsidy Program

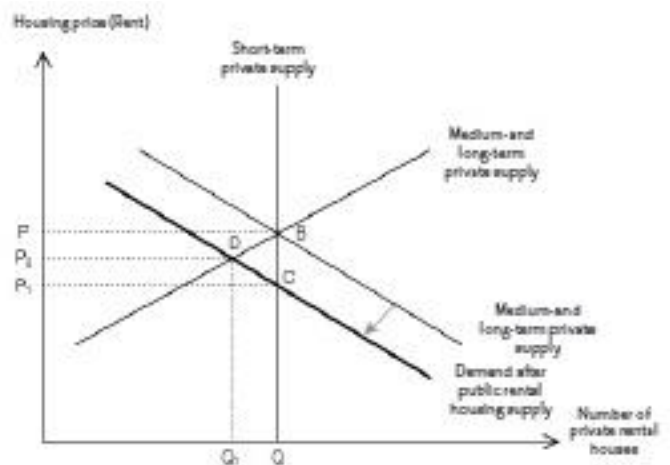
A housing welfare program, which serves as a housing policy for low-income brackets, can be roughly divided into two types; public rental housing and a housing subsidy. Until early 2000, South Korea's public rental housing program including a permanent rental housing project, which was introduced in 1989, formed a main part of the housing welfare policy. In most of the developed countries, which have run both types housing welfare programs so far, the public rental housing policy was put into implemented first, and the housing subsidy was introduced later on. When it comes to public rental housing, its construction and operation require a lot of money. However, it has a large effect as a program by providing houses directly to policy recipients. On the contrary, the housing subsidy system produces a lower effect because the subsidy given to recipients can be used for purposes other than housing expenses. Furthermore, the public rental housing program tends to lower rental rates in the housing market, while the housing subsidy system actually increases the rental rates. Therefore, in most of the advanced countries, the former has been put into force first, and the latter has been introduced and reinforced later from the 1980's after undergoing financial crisis.

<Figure 1> Housing Voucher's Effect on Short-Term and Medium-and Long-Term Markets



Source: O'Sullivan, A., 1996, Urban Economics, Boston: Irwin/McGraw-Hill, p.427

<Figure 2> Public Rental Housing's Effect on Short-Term and Medium-and-Long-Term Markets



Source: O'Sullivan, A., 1996, Urban Economics, Boston: Irwin/McGraw-Hill, p.420.

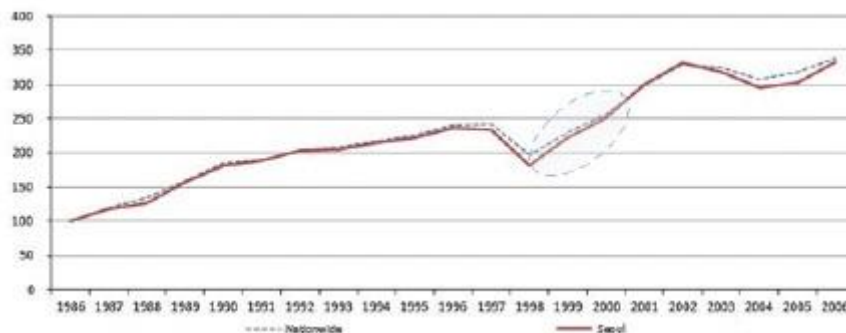
In the Republic of Korea, the protection of fundamental human rights to live was legalized through the Livelihood Protection Act in 1961. Afterwards, this law has been improved partially through several amendments. However, it has failed to take a step further than simply remaining as the residual/beneficent livelihood security, which shifts the responsibility for poverty to individuals. When it comes to the housing problems of poor people, its responsibility has been attributed to individuals, too. Since the 1980's, the suicide rate among low-income people who were kicked out onto the streets due to the rapid increase of housing prices and rent has become a social issue. In response, the government could not leave the housing issues of the poor to the mercy of market mechanisms. Under these circumstances, the public rental housing program was launched in earnest from 1989 as a way to alleviate social discontent and realize social integration. As for housing expenses support, the Secured Loan Rental Housing Program for low-income people was introduced from 1990, while the Secured Loan Rental Housing Program for workers and common people was introduced from 1994.

Then, with the social security system not yet matured, the financial crisis (IMF bailout loan) occurred in 1998, causing a social problem of mass unemployment. Accordingly, the National Basic Livelihood Security Act was put into effect from 2000 in order to overcome the limits of the "Livelihood Protection Act" and guarantee that all people living with less than the minimum cost of living shall reach the minimum standard of living and support themselves.

In the early stage of this system, those who were entitled to benefit from the National Basic Livelihood Security Act received living allowances including housing expenses. Setting aside the existing living allowances, a new system for housing allowances was established so that recipients could receive appropriate allowances according to their actual housing conditions and live in better residential environments. However, its low level of allowances fell short of giving substantial assistance to poor people and also failed to consider their regional and household characteristics. What is worse, there was no clear division between living allowances and housing allowances. So, in many cases recipients could not afford to move into better houses by using their housing allowances.

Before the IMF financial crisis, the rent of private rental houses continued to rise, thus imposing a heavy financial burden not only on the poor, but also on most low-income tenants. Unlike other regions, it was not easy to secure a new housing site in Seoul. Due to its relatively high land prices, it was also difficult to supply more houses there. Under these circumstances, the rent rose drastically while household incomes dropped sharply since the IMF bailout loan. So, those in the low-income group could not receive help while suffering from an increasingly heavy burden of housing expenses.

<Figure 3> Changes of House Leasing Price Index



Note: The prices were scored out of 100 in 1986.
Source: Kookmin Bank, KB House Price Movements (<http://nland.kbstar.com/>)

In 2000, the ratio of public rental housing compared to all housing in Seoul amounted to 4.9%, which was higher than the nationwide ratio of 2.3%. However, in a situation where both housing stock and public rental housing inventory were not enough to cover all demands for housing on a national scale, a heavy burden was laid on low-income people who resided in private rental houses. Against those backdrops, there was a growing demand for introducing a housing subsidy system in order to complement the public rental housing program, which required an enormous amount of financial resources as well as significant time investments to construct houses.

Since the 2000's, the existing lease system also underwent a significant change in such a way that the deposit-based lease decreased and the monthly rent increased. What is worse, the problem lay not only with the recipients of national basic livelihood guarantees, but also with low-income people. They could not benefit from the government assistance, even if they were having financial difficulty and felt heavily burdened by monthly rent. Therefore, the Seoul government launched a monthly rent aid system that supports housing expenses for low-income tenants by using only its own budget from 2002. Its financial resources came from the housing fund (currently named the "housing assistance account of the social welfare fund") installed by the Seoul government itself. However, the Seoul Type Housing Voucher takes on a type of lump-sum grants with a small amount of money due to the limits of financial resources and the difficulty in figuring out actual household incomes. Therefore, it can be considered a housing subsidy system, putting more focus on income support rather than giving housing vouchers.

Currently, the housing subsidy system has not been implemented nationwide yet in the Republic of Korea. As the national basic livelihood security system was transformed into individual benefit modes in 2014, the housing voucher system will go into effect beginning next year after undergoing a pilot project.

Content of Seoul Type Housing Voucher System

Policy Overview

The Seoul type housing voucher system was put into execution using the name "monthly rent aid system" from 2002 in order to lighten the housing cost burden on low-income citizens living in rental houses. From 2010, it was used under the name "housing voucher," but provided a subsidy not as a coupon but in cash. In fact, it is not regarded as a "housing voucher" but "housing allowance" or "income subsidy." It gives aid to households classified in the bottom 20% of income brackets (whose recognized incomes represent at most 150% of the minimum cost of living), excluding the recipients under the "National Basic Living Security Act."

Eligible Households and Amount of Subsidy

When the "monthly rent aid system" began in 2002, its assistance went to the social vulnerable class out of those households whose incomes represented less than 120% of the income criteria for selecting recipients under the "National Basic Living Security Act" (less than the bottom 15% of income brackets), and lived in private rental houses on a monthly basis, but excluding those who received housing allowances under the "National Basic Living Security Act." The subsidy was provided on a fixed amount basis according to the number of household members; 33,000 won for single or two-person households, 42,000 won for three or four-person households and 55,000 won for at least five-person households.

Then, in 2008 the subsidy was increased to 43,000 won for single or two-person households, 52,000 won for three or four-person households, and 65,000 won for at least five-person households. The criteria for rental rates were made in 2010, excluding those whose rent-converted security deposit value (= security deposit + monthly rent × 50) exceeded a fixed amount. In other words, the subsidy for rent was provided only to households whose rent-converted security deposit value was less than 60 million or 70 million won.

From November 2010, the existing rent subsidy was renamed to "general voucher," and a "specific voucher" and a "temporary housing voucher (coupon)" were newly established to convert into the Seoul type housing voucher system. It used the word "voucher," but actually supported subsidy with cash without using a voucher or coupon. In other words, it took on a housing allowance system under the name of "housing voucher." This new Seoul type housing voucher system was reformed to support housing expenses, even to households whose incomes were higher than the existing income cutoff through a specific voucher. The temporary housing voucher was a program for allowing free residence in public houses for three to six months, and targeted tenants who faced a housing crisis due to their rental house being put up for auction or the exhaustion of security deposit.

From 2013, the Seoul government has started to integrate the general voucher and the specific voucher into one and abolished the temporary housing voucher. In other words, the current Seoul type housing voucher has been simplified to target only the households whose incomes represent the bottom 20% of income brackets (within 150% of the criteria for selecting beneficiaries under the "National Basic Living Security Act") while residing in private rental houses on a monthly basis. However, it excludes the recipients under the "National Basic Living Security Act" and households whose rent-converted security deposit values exceed 70 million won. The subsidy is determined according to the number of household members; 43,000 won for single-person households, 47,500 won for two-person households, 52,000 won for three-person households, 58,500 won for four-person households, 65,000 won for five-person households, and 72,500 won for at least six-person households.

Application of Rent Subsidy and Payment Method

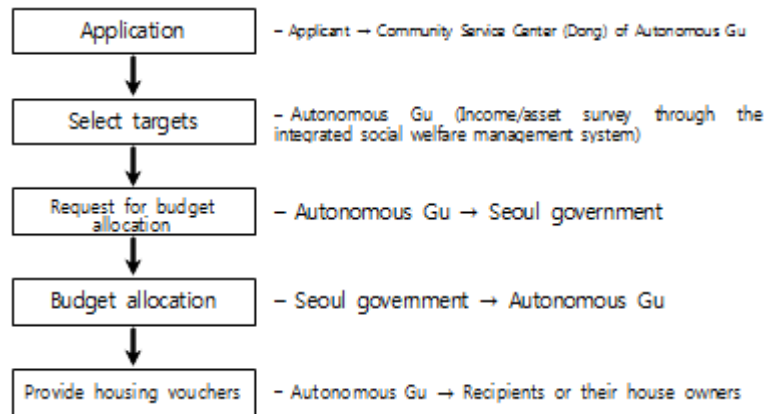
To benefit from rent subsidy, tenants have to complete an application only after concluding a lease agreement. At that time, the required documents include a copy of the lease agreement, a document for proving subsidy qualifications and a copy of a deposit book.

In the early stage of this system, it paid money to those eligible for rent subsidy on a monthly basis by depositing the money into their bank accounts. From 2010, however, the system was reformed to deposit money directly to the lessor's account and the money could be sent to tenant's account for inevitable reasons only. In fact, more than 90% of housing voucher beneficiaries has received the subsidy through bank accounts. If their monetary claims are put under attachment due to defaults of obligation, the subsidy could go to spouses, linear relations and collateral relatives with three degrees, instead.

Payment Procedure

Until 2009, subsidy recipients were selected after due deliberation of the basic security committee installed in autonomous regions (Gu). From 2010, however, its selection procedure was transformed into selecting recipients based on the income survey conducted through the integrated social welfare management system (Haengbok-eUm). To receive the housing voucher, recipients must complete an application directly at their community service centers (Dong). The autonomous Gu has decided its subsidy recipients through their income surveys and has made a request for budget allocations in order to give subsidies to house owners or subsidy beneficiaries.

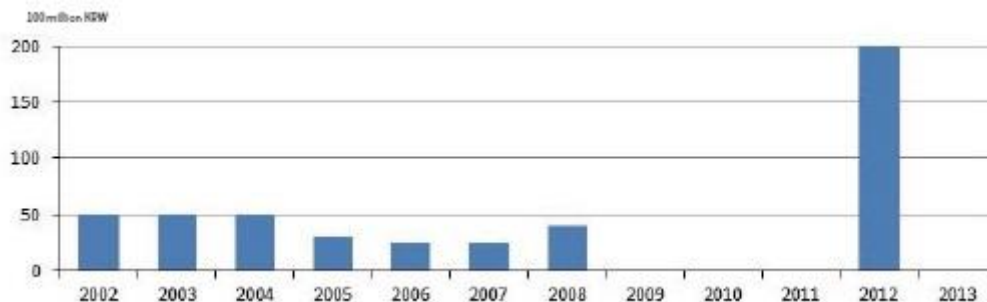
<Figure 4> Housing Voucher Supporting Procedure



Financial Resources for Housing Vouchers

Currently, the financing source for the Seoul type housing voucher is the "housing assistance account" of the Seoul Social Welfare Fund. Its main resources come from contributions from the general account budget of the Seoul government, in which 47 billion won was raised from 2002 until 2013. The Seoul government contributed 5 billion won to that account continuously between 2002 and 2004. However, its deposits were decreased to 3 billion won in 2005, 2.5 billion won in 2006 and 2007 and 4 billion won in 2008. It even failed to make any contributions from 2009 to 2011. However, with the election of a new Seoul mayor, 20 billion won was deposited to the housing assistance account from the general account budget in 2012.

<Figure 5> Contributions from Seoul Government's Budgets



Subsidy Results

The number of households supported by the Seoul type housing vouchers has increased continuously. For example, only 963 households could benefit from this system on an average monthly basis when this system was first launched in 2002. Then, the number was increased by 500 or so every year from 2004 to 2007. That number decreased in 2008, but was increased again to 4,982 in 2010, 1,600 more than the previous year. As the extension of Seoul type housing voucher was included in the "Seoul Citizens' Welfare Standards" from 2012, the number of households supported was increased by 2,000 or more from the previous year. Then, such number reached 10,094 on an average monthly basis in 2013.

An annual grant also continued to increase drastically from 340 million won in 2002 to 5.56 billion won in 2013. The

total amount of subsidy was 23.24 billion won from 2002 to 2013 and an annual grant by households rose as much as 200,000 won from 352,000 won in 2002 to 551,000 won in 2013.

<Table 1> Seoul Type Housing Voucher (Monthly Rent Subsidy) Assistance Results by Years

Classification	Monthly Average Households Supported	Total Annual Subsidy (1 million KRW)	Annual Subsidy by Households (10,000 KRW)
2002	963	338.8	35.2
2003	1,040	453.4	43.6
2004	1,537	679.5	44.2
2005	2,231	976.4	43.8
2006	2,782	1,268.2	45.6
2007	3,255	1,497.1	46.0
2008	3,175	1,461.6	46.0
2009	3,382	1,992.0	58.9
2010	4,982	2,611.5	52.4
2011	5,540	3,102.9	56.0
2012	7,685	3,299.0	42.9
2013	10,094	5,562.0	55.1
Total	46,666	23,242.4	49.8

Source: Internal Data from Seoul Government, 2013

Tasks in Promotional Process

The housing subsidy system including housing voucher and housing allowance was designed to basically raise a low-income household's ability to pay rent. The ultimate goal of this policy may be to help recipients move into better houses by using its subsidy. It is also capable of reducing the government's expenditures in comparison with the public rental housing program, so many developed countries have maintained a policy of reinforcing housing subsidies since the 1980's. However, it may increase the rent of private rental houses, if the number of houses is less than that of households, or there are a number of policy recipients. What is worse, it may cause problems of unfair or delayed benefits, if it fails to determine accurate household incomes and rent needed for calculating housing subsidies.

Therefore, it may decrease the rent of private rental houses, if there is a lack of housing stock or there are many people living in poor houses. It is also required to extend the supply of public rental houses, which has a large effect on the beneficiary's residential stability and benefits. In many advanced countries, the public rental housing program was implemented first, and then the housing subsidy program was introduced later on. Most of them have experience supplying public rental houses from the 1940-50's, while reducing the supply of public rental houses and extending the housing subsidy system after undergoing a financial crisis in the 1970's. However, they had the large stock of public rental houses. So, in spite of their reduction of supply, they still owned a sufficient level of housing inventory. Recently, however, there is also an argument that the cost efficiency of the housing subsidy system may be lower than that of the public rental housing program in the long term, especially in countries that have run the housing subsidy system for more than 20 years. As a result, for the residential stability of low-income renter households, it is required to preferentially secure a sufficient stock of public rental houses, then it is desirable to utilize the housing subsidy system later on as a complementary policy.

Results and Suggestions

According to the report on "Seoul Citizens' Satisfaction Survey on Administrative Housing Policies," the satisfaction with the Seoul type housing voucher appeared to be relatively good. About 73.2% of respondents said that the housing voucher's subsidy was "helpful (very + somewhat)" in reducing the housing cost burden, while about 26.6% of respondents said that it was "not helpful (very + somewhat)." As a result, the positive answers were double the negative ones. For housing/residential stability, however, what they wanted from the Seoul government was "more supply of public rental apartments (45.4%)" and "more subsidy for housing vouchers (12.2%)" in order. The dissatisfaction with housing vouchers was mainly caused by the amount of subsidies.

<Table 2> Satisfaction with Seoul Type Housing Voucher

Satisfaction with Housing Voucher System	Very satisfactory	Somewhat satisfactory	Somewhat unsatisfactory	Very unsatisfactory	No idea/answer
	11.0%	51.0%	34.6%	2.6%	0.8%
Contribution to Reduction of Housing Expenses	Very helpful	Somewhat helpful	Somewhat not helpful	Not very helpful	No idea/answer
	6.4%	66.8%	21.4%	5.2%	0.2%

Source: The Opinion, 2012, "Report on the Seoul Citizens' Satisfaction Survey on Administrative Housing Policies."

Due to too a high level of private housing rent in Seoul, the housing voucher subsidy cannot play a substantial role in reducing the rent burden on low-income tenants. However, the Seoul type housing voucher is different from the U.S. housing choice voucher that encourages beneficiaries to consume housing-related goods and services more by supporting a part of the rent based on the household income. It is similar to a housing allowance that focuses on how appropriate residential services are needed rather than the actual housing services they have consumed. On the contrary, the Seoul government's housing voucher seems to be a fixed-amount subsidy system designed to complement household incomes because its subsidy amount is small due to budget limits.

From now on, the level of subsidies must be increased by 20-30% of reference or actual rents so that the housing subsidy system can lead to actual residential stability or upward housing mobility. In this case, we need to build a new system that can figure out the low-income tenants' incomes and rent accurately. Like the U.S. Housing Choice Voucher and the U.K. Local Housing Allowance, we need to increase the amount of subsidies considerably enough to link with the recipients' incomes and rent. However, the program that involves giving cash directly to recipients requires not only a large budget but also public consensus.

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