

FORMULATION OF NATIONAL
HOUSING POLICY IN THE REPUBLIC OF KOREA

Contract Number: AID/otr-C-1333
Project Number: 912-15-890-477-73

FINAL REPORT

Prepared for:

Office of Housing
United States Agency for International Development
Washington, D.C.

Prepared by:

PADCO, Inc.
1834 Jefferson Place, N.W.
Washington, D.C. 20036

BEST AVAILABLE COPY

PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL

1834 JEFFERSON PLACE, N. W. • WASHINGTON, D. C. 20036 • (202) 296-0004

December 30, 1974

Mr. Peter Kimm
Deputy Director
Housing and Urban
Development Division
Agency for International
Development
Washington, D.C. 20523

Dear Mr. Kimm:

Attached are five memoranda prepared by me during my last visit to Korea in December, 1974. These memoranda cover the current status of the progress on the preparation of a Korean National Housing Policy. It can be seen that we do not yet have a draft housing policy which meets our expectations for content and commitment.

This is, of course, discouraging, but should not be interpreted as an overall failure of the project effort. There is now an excellent data base assembled and ready for use in policy formulation. There is already evidence that there has been a fundamental shift in Korean housing priorities as shown in their 1975 housing program. Housing overall is receiving a higher priority within the Korean Government and, more importantly, a greater effort is being made to make the housing program more relevant for lower income groups. There is still a long way to go in order to reflect AID housing priorities, but we nonetheless have come a long way. The Korean officials in the Ministry of Construction have told me that these changes in the 1975 program are a direct result of the discussions with AID officials and consultants during 1974.

The next six weeks will be crucial in determining the success of the project. I have requested that the MOC set up a housing policy drafting committee to prepare the document for discussion. I have asked that the senior level policy committee start a series of meetings to begin the discussion of the central issues. They have all of the background needed both in terms of concepts as provided in the series of AID consultant memoranda

P A D C O

AN INTERNATIONAL COLLABORATIVE FORMED TO PROVIDE GOVERNMENTS AND PRIVATE CLIENTS IN AFRICA, ASIA, LATIN AMERICA AND THE NEAR EAST WITH INTEGRATED RESEARCH, PLANNING AND MANAGEMENT SERVICES FOR URBAN AND RURAL DEVELOPMENT.

Mr. Peter Kimm -- page 2

and data as provided by the Korean consultants. This is a time consuming task, but not an impossible one if the Government assigns it sufficient priority.

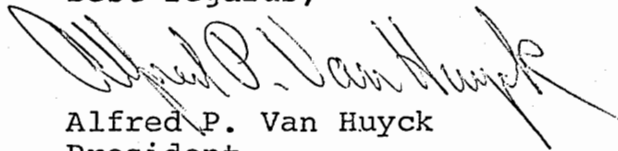
It has been generally agreed that a draft housing policy should be ready for review by me on January 10, 1975 in Korea. We meet the Koreans again at the housing conference in Zaire for an additional review.

I have been informed by your office that the steps requested have been taken by MOC and they expect to be ready for a meeting on January 10, 1975. I have arranged my schedule to return to Korea for that meeting at no additional cost to AID.

The PADCO services to be provided under our contract are now complete. We are, of course, keenly interested in bringing this housing policy to the maximum level of completeness and competence. We will be most happy to review future drafts and discuss the status of work with your office informally. If it is desirable, we will return to Korea in 1975 under an amendment to our present contract.

This has been a most rewarding opportunity to work with the Korean Government on the challenging task of developing a national housing policy. The policy is not complete, but the progress has been considerable.

Best regards,



Alfred P. Van Huyck
President

TABLE OF CONTENTS

	<u>Page</u>
LETTER OF TRANSMITTAL	
<u>SUMMARY OF WORK.</u>	1
Background	1
PADCO Consultancy.	1
Next Steps	5
<u>NOTES ON THE CURRENT STATUS OF THE</u> <u>KOREAN NATIONAL HOUSING POLICY WORK PROGRAM.</u>	6
<u>MISCELLANEOUS TECHNICAL NOTES</u> <u>ON THE KOREAN NATIONAL HOUSING POLICY.</u>	10
<u>THE PROPOSED 1975 KOREAN HOUSING PROGRAM</u>	15
<u>SEOUL CITY REHABILITATION PROGRAM.</u>	22
Background	22
Seoul City Program	23
Ahun Number 2 Project Area	24
Analysis of the Seoul City Program	26
Implications for AID Housing Guarantee Program	29

SUMMARY OF WORK

Background

The Office of Housing, AID, determined in late 1973 that it would be desirable to stimulate the preparation of a National Housing Policy in Korea. The purpose of this effort from AID's point of view was to insure that the funds generated under the Housing Guarantee Program would be spent in such a way as to assist in the implementation of an overall strategy for housing in Korea. The Korean Government welcomed this suggestion and agreed to support the preparation of the housing policy.

It was mutually agreed that a housing policy had to be prepared by the Koreans themselves because of its broad implications for the economy and social life of the country. AID agreed to provide a small level of technical assistance throughout the preparation period in order to bring outside experience and perspectives to the work, assist in the definition of the work program, and to monitor and comment on the progress. PADCO was given the contract to provide this level of support.

PADCO Consultancy

An initial visit was made to Korea in November, 1973 to establish the general concept and outline the initial work program. This was followed by a second visit in April, 1974 (Contract Number AID/otr-C-1308) which reviewed the initial progress. By April,

P A D C O

1974 the Korean Government had established a senior level housing policy committee which included representatives of the Ministry of Construction (the Vice Minister was Chairman), the Ministry of Finance, the Economic Planning Board, the Korean Housing Bank, and the Korean Housing Corporation. They had also set up a housing policy task force committee with the same inter-ministerial representation but at a lower, more technical level and with four outside private consultants. This latter group was to undertake the technical work. This committee structure was in accord with the previous recommendations of PADCO and represented a good start. On the disappointing side was a failure to have completed negotiations with the consultants and to commence work on the actual work program previously set forth. This problem was overcome and a new time schedule was established and actual work on preparing the data base commenced.

PADCO was then retained under the present contract (AID/otr-C-1333) to provide the minimum level of technical assistance thought necessary to support the Korean effort. This was to consist of the participation of a housing economist (James Wright) and a housing legislation specialist (James Magavern) for a three-week mission in July, 1974 and two visits by Mr. Van Huyck as an overall housing policy adviser.

When Mr. Wright and Mr. Magavern arrived in Korea in July, 1974, they realized that the work was behind schedule and recommended the delay of Mr. Van Huyck's visit. They then proceeded to work actively with the Korean consultants to develop the data

P A D C O

base and basic housing policy concepts. Their respective reports were previously submitted to SER/H in August, 1974. During their visit, substantial progress was made and the overall direction of the data collection and analysis work set. The final reports submitted by the Korean Industrial Development Research Institute (copies of which have been submitted to SER/H) reflects the work of this period of consultancy.

Mr. Van Huyck then visited the project in September, 1974. He reported that work continued to fall behind the original schedule, but that the work being undertaken in the data collection and analysis area was of good quality. The point of most concern noted in September, 1974 was the failure of either the two inter-ministerial committees to hold meetings and initiate the discussion of the major issues which had already been identified. During his visit, one meeting of the task force committee was held and a good discussion developed. A revised work program was developed with the Koreans and the urgency of continuing meetings was stressed. A series of memoranda prepared by Mr. Van Huyck was submitted to SER/H after this visit.

Mr. Van Huyck made his second visit in December, 1974. This time the data collection and analysis was completed and in generally excellent shape. The data base covers the full range required for the development of a housing policy. In particular, it includes estimates of household income by individual income groups through 1981, which is the first time that this has been attempted in Korea. It includes a review of the construction industry which had not

been done before, and it has the best estimate of the housing requirements through 1981 ever prepared. It includes an econometric model which relates the housing sector to all other sectors of the national economy and to the employment generation effects of the housing sector. This model can be used to test the effects of alternative levels of investment in housing on the economy and on employment. It is an innovative piece of work which will be of considerable value.

Unfortunately, what had not been accomplished was the Government agency review meetings to analyse the results of the analytical effort and form the basis of policy decisions. This point is further developed in the memoranda prepared by Mr. Van Huyck attached to this final report.

At this point in time it can be said that a great deal of useful work and discussion has taken place which provides the basis for the formulation of a national housing policy. Some of the ideas for a national housing policy have already been reflected in the proposed 1975 Ministry of Construction housing program. Nonetheless, the hard review work and negotiation between the various Government agencies with housing responsibilities has not yet started in earnest. This job can still be accomplished if the Government assigns it sufficient priority and if a consensus of housing policy can be reached without undue interagency dispute. The direction already established is clearly useful.

Next Steps

The Ministry of Construction has now formed a new inter-ministerial committee to undertake the actual draft of the Korean National Housing Policy. This group is committed to have a draft ready for review and discussion by January 10, 1975. Mr. Van Huyck will arrange his schedule to be in Korea that day to review the draft policy and attend the first review meeting. He will also meet with representatives of MOC at the housing conference in Zaire, which will be a second opportunity to review progress on the draft. This participation by Mr. Van Huyck is outside of the present contract which has been completed with this report. Nonetheless, in the interest of bringing this work to the most satisfactory level of completion, Mr. Van Huyck will undertake these additional review functions at no additional cost to AID.

NOTES ON THE CURRENT STATUS OF THE KOREAN
NATIONAL HOUSING POLICY WORK PROGRAM
(left with MOC by Mr. Van Huyck)

December 13, 1974

1. The work of the main consultant (Korean Industrial Development Research Institute) is now essentially complete. KID has produced three major reports in English and Korean and is now preparing their final report, which they expect to complete by the end of December, 1974. The reports completed to date include:

A. BASIC DATA

This report consists of 125 pages of tables and statistical analysis on all aspects of housing data that have been requested. Overall it provides a major statistical resource for future housing policy development. It brings together all of the data from many diverse sources and provides some imaginative analysis of key issues.

B. REPORT ON METHODOLOGY

This report of 95 pages presents the methodologies for the analysis and projections made in the basic data report. It will be of significance in the future for maintaining housing data and for monitoring changes in the housing situation. It is a clear summary of the methodologies used and indicates the depth and seriousness of the work that has been done.

P A D C O

C. DRAFT NATIONAL HOUSING POLICY

This report of 98 pages is primarily a compilation of additional valuable data (in some cases summarized from the Basic Data report) and a very sketchy statement of generalized policy directions. It is not a workable draft of a national housing policy which is ready for review by the policy committee.

KID expects to strengthen the Draft Housing Policy statements in their final report, which is not now available. Nonetheless, it is unlikely that it will be possible to sufficiently strengthen the policy statement to achieve the expectations originally set.

2. In summary it can be said that we now have the required data base to prepare a housing policy, but the Government has not analyzed carefully, if at all, the central issues, and they have not yet structured a housing policy related to the data base. In retrospect, it is clear that the original work program was much too optimistic and that the data collection and analysis was a much bigger job than contemplated. On the original work schedule the data collection was to have been completed by July 30, 1974. It was completed November 30, 1974, a difference of four months.

3. The work done by KID has been of high quality and fully meets the initial requirements outlined for data collection. In addition there soon will be the results of a 15,000 interview sample of urban and rural households which should further augment the data base.

4. The major shortcoming in the work to date has been the lack of discussions among the policy committee and the working

task force committee. Apparently the only meetings held have been the initial meeting to start the work and a single meeting of the task force committee last October which was held at my request. In part this has been caused by a complete reorganization of the leadership of the Ministry of Construction. The new appointments are as follows:

Minister	:	Kim, Tae Kyu
Vice Minister	:	Kim, Chou Nam
Director Urban Planning and Housing	:	Kim, Hak So

The other posts have remained the same (Deputy Director: Tae, Bum Shik; and Section Chief, Housing: Kim, Chang Kohn).

These new officers have been in their posts for a little over a month and, of course, have many duties in settling in to their work. The work on the housing policy therefore has not received the priority it might otherwise have enjoyed.

5. It is now essential to stimulate the inter-ministerial discussion that has been lacking so far and at the same time, start a committee to work specifically on drafting the housing policy. It was originally suggested (see my memo of October 11, 1974) that a revised final draft of the Korean National Housing Policy could be completed by the end of January, 1975. This target can still be achieved if an urgent priority is given to the work by the Ministry of Construction.

The kind of policy drafting committee which seems appropriate would consist of one or two members from MOC, one or two

P A D C O

of the KID staff who have been active in the project, and a representative of EPB, KHC, KHB, and the Seoul City housing staff. This group, under the chairmanship of MOC, should be provided with office space where they could meet regularly until the draft is completed. They should be holding meetings on a daily basis and undertaking specific analytical assignments. The work should start with a careful review of all of the data and analysis done to date and with the full set of memorandums prepared by the AID consultants during the year.

This drafting committee is really a substitute for the Task Force Committee which has not been meeting. It is necessary to have a working committee now, not just a discussion committee.

6. The Housing Policy Committee should also be meeting during January to review progress on the draft Housing Policy, give guidance on the major issues, and become familiar with the issues.

It is suggested that the first meeting of the Housing Policy Committee be set for January 10, 1975. By that date the drafting committee should have prepared the central issues report for discussion.

7. The draft Housing Policy should be completed in time for review in Zaire at the AID-sponsored housing conference which Mr. Kim and Mr. Lee of MOC are to attend.

MISCELLANEOUS TECHNICAL NOTES ON
THE KOREAN NATIONAL HOUSING POLICY
(left in Korea by Mr. Van Huyck)

December 14, 1974

The following are more or less miscellaneous observations regarding the basic data work which has been completed and to assist in the preparation for drafting the national housing policy.

1. I suggest that the report "Draft National Housing Policy" not be used as a guide for the future work. Its format is not appropriate and it is very incomplete. The report does contain good material which should be included, but the draft to be undertaken should be a fresh start. It might be worthwhile to review again the format we suggested in earlier memorandums.

2. All of the work done by KID, which is generally excellent, should be reviewed page by page. Each table or item should be reviewed and the questions asked: What is important in the data? What is the conclusion to be drawn? What is the implication for the national housing policy? The results of these questions should be recorded. A summary should be prepared of the conclusions and possible policy statements. These should be reviewed for internal consistency and to insure that there is full coverage of all issues (see our various memoranda and comments below on the coverage required). It is particularly important to check all of the future estimates or targets suggested by KID to see that in fact they are realistic and that the resources (both capital and managerial) will be available to realize them.

P A D C O

3. Be sure to review carefully all of the memoranda prepared by Mr. Van Huyck, Mr. Wright, and Mr. Magavern to insure that all of the policy issues raised are considered in light of the data now available.

4. The next few paragraphs deal with specific subject areas which I found perhaps a little weak yet in the basic data analysis. It is probably not necessary to do any detailed work on the data in these areas, and there is not time in any case, but serious thought should be given to their possible policy implications.

5. SUBSIDY: We have stressed the importance of understanding the implications of subsidy in the housing programs and policy. I cannot find any analysis of current levels of subsidy in the basic data report. The main area of subsidy is in interest rates in Korea and this can be very substantial. The housing policy must take a position in regard to interest rate subsidies and if they are to be used in determining who is going to get the benefits (target groups) and how abuses, of which there are now many, can be controlled.

6. SPECIAL INTEREST GROUPS: I have just realized while reviewing the MOC 1975 building program that there are many interest groups represented in public sector building besides the traditional "low, middle, high" categories. The housing policy needs to take a specific position regarding each special interest group. Are they to be supported? If so, how much? In what form? etc. The special interest groups I noticed, and there may be more, include: Flood Relief housing, military housing, civil servants'

P A D C O

housing, industrial workers' housing, miners' housing, and farmers. Each of these groups involves other ministries besides MOC. My experience is that special interest group housing programs are generally to be discouraged. They are usually heavily subsidized. They favor certain groups over others for no particular reason (other than political power of the group itself). They require special administration and management which diverts this scarce resource from the central objectives of the housing programs. They fragment funds into many small special categories which loses the economies of scale. Nonetheless, special interest group housing frequently has very powerful backing politically and may not be ignored. The housing policy should attempt to place the special interest group housing in perspective and set limits and controls on it if possible. In any case it cannot be ignored in the housing policy.

7. PREFABRICATION AND INDUSTRIALIZED BUILDING: The importance of prefabrication and industrialized building systems in the future of Korean housing should be fully considered. There is already one significant industrialized building system in use by KHC. What is its future influence? Will there be more such systems? Should they be encouraged? If so, under what circumstances? What is the significance of the trade-off between capital and labor implied in the use of industrialized building systems? In the case of prefabrication, consideration should be given to what elements can be prefabricated. How can standardization of

components be achieved? How can business enterprises dealing in prefabricated components be stimulated?

8. LAND POLICY: Acquiring urban land for low income groups is probably the most difficult problem to be faced. Korea has given a lot of attention to this and has prepared various policy statements and regulations. Do these policies make sense? Are they workable? How do they relate to housing policy? Are there new suggestions to be considered? As a minimum the housing policy should integrate land policy considerations. At the moment there is little in the KID work other than an identification of the problems.

9. HOUSING TYPOLOGY: It is necessary to identify the actual kinds of housing to be supported by the policy and their geographic implications (i.e., apartments, duplexes, single family, core houses, sites and services, etc., and by large city, other urban, and rural). The information for this is readily available, but needs to be analyzed.

10. Also, be sure that the housing policy sets a permanent team for evaluation and monitoring the housing policy and for preparing the annual housing plans. This is discussed in my paper, but is extremely important for insuring the success of any policy which is finally established.

11. I would suggest that you first establish the general subject outline, or format, for the housing policy. Then as you reach conclusions or tentative policy statements, that they be

listed in the appropriate category in the format. This will allow for checking and focusing discussion later on. Remember it may be desirable to identify alternative policies which can be discussed by the Policy Committee as central issues. Wherever possible, each policy statement should be supported by the basic data and analysis.

THE PROPOSED 1975 KOREAN HOUSING PROGRAM

The Ministry of Construction has recently completed their proposed 1975 building program for publicly supported housing. The program is summarized in Table I and Table II.

The 1975 proposed program recognizes certain policy shifts which are in keeping with the directions of the emerging new National Housing Policy. The main points are as follows:

1. There is a dramatic shift from rural housing to support of urban housing.
2. There is a general tendency to support smaller housing units. The legal limit for publicly supported housing is 25 pyongs, but the 1975 program is almost entirely made up of units between 12 and 18 pyongs.
3. There is the start of a shift from single family units to higher density apartments and duplex units. Single family units are mostly limited to secondary cities and towns where land costs are lower and there is less justification for high housing densities.
4. There is a new program introduced whereby rental housing units are to be sold off to their occupants after a one to two year period. This is to encourage home ownership and reduce the amount of public housing stock to be managed and maintained by the public sector. This program is a direct result of the

discussions with AID consultants on the disadvantages of committing the public sector to a major rental housing program.

5. Overall housing is receiving a much higher priority in the Korean development program in 1975. During 1974 the program called for the support of the construction of 50,000 units for a public sector total cost of 42 billion won. This program was 94 percent implemented during the year. The 1975 program consists of the construction of 70,000 units at a total public sector cost of 88 billion won. This is a doubling of the public sector allocation of funds. Unfortunately, mainly because of inflation in construction costs, there is only a 40 percent gain in the number of units to be built. The percentage of public lending per unit is increased in 1975 on the assumption that because of inflation the individual home buyer can not increase their downpayment to fully cover the higher costs.

The officers of the Ministry of Construction attribute these policy shifts in part to the results of the studies for the National Housing Policy and the discussions with AID consultants. In this sense, the AID supported work is already having a direct influence on the housing program in Korea.

Table I has been prepared from the original 1975 housing program prepared by MOC. A total of 88,203 million won is to be raised from all sources as shown in Table I. On a percentage basis this works out as follows:

Central Government Budget and Capital	18.5%
National Housing Bonds	27.2
National Housing Lottery	2.3
Repayments on previous loans	4.9
KHC new AID Housing Guarantee Loan	16.3
KHC other sources	9.9
KHB Contract Savings	18.1
Local Government Budgets	<u>2.8</u>
Total	100.0%

These funds are to be allocated as shown in Table I. It can be noted that 19.7 percent of the funds are to go to rental housing and provide only 10.4 percent of the total units to be built. This is because the other programs are loans and require the buyer to make a downpayment thereby obtaining more total units for the investment. The biggest single program will be for sales apartments representing 36.6 percent of all the units and 41.8 percent of the funds. It should be noted that the total AID Housing Guarantee program allocation is designated by the KHC sales apartments at present. This is equivalent to US\$30,000,000 and is 16.3 percent of the total proposed building program for Korea.

The duplex houses are scheduled for secondary cities for the most part and represent the lowest cost units in the program, excluding the small number of farm houses. Consideration might be given to encouraging this program as the most efficient for secondary cities and towns in the future.

The majority of the single family units proposed will be financed by the Korean Housing Bank. It should be noted that the units to be financed by the KHB will have an average loan of 1.16 million won while the single family units to be financed out of the national housing bonds will have an average loan of .78 million won. It might be useful to investigate the reasons for this difference and, if feasible, seek to reduce the average KHB loan in order to support more total housing units.

The farm housing program is almost a negligible part of the total program.

The special programs listed under "Other" consist of a program for building 2,000 "company houses" which are not specified further; 2,000 "flood damage" units which is in fact a reserve fund to be used in emergency rebuilding after future floods; and a budget for making mortgage loans to households wishing to buy their rental apartments. There is also an item for 3,000 units which was not translated from the original Korean.

Overall this represents a sensible and useful program for 1975. The only major new area not represented which would be in line with the National Housing Policy as it is currently being considered is a fund to support rehabilitation of existing housing areas in major cities. Since this program is not yet officially recognized, however, it is reasonable that it not yet be shown in the budget. It can be hoped that a rehabilitation program can be prepared in 1975 and be initiated starting in the 1976 housing program.

P A D C O

Table II is also developed from the original Korean table and presents the unit data on the proposed building program. Table I and Table II are not exactly integrated, but the differences are not so extreme as to warrant further investigation. It can be seen that an inflation factor of about 23 percent is expected between 1974 and 1975 costs. The inflation in smaller cities is expected to be somewhat less.

Taking the full program proposed in Table I and applying the unit cost information proposed in Table II it can be seen that the public sector investment represents about 65 percent of the total investment to be made in the proposed 70,000 dwelling units. This means that the buyers will be expected to raise 43,787 million won to match the public sector investment of 82,263 million won (a minor part of the public sector investment is not included in Table II which explains the difference in total public investment between the tables).

Unfortunately, no information is available on the possible building program of the private sector without public support.

TABLE I

1975 KOREAN HOUSING CONSTRUCTION PLAN
(Amounts in Million Won)

Sources of Funds	Amount	Allocation of Funds and Units Financed											
		Rental Apartments		Sales Apartments		Duplex		Single Family		Farm House		Other	
		Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amounts
I. Central Gov.													
A. Budget & Capital													
KHC Capital	6,400		6,400										
Mining Corp.	2,000					2,500	2,000						
MOD Budget	5,200			5,350	5,200								
MOHA Budget	234									670	234		
MOC Budget	500			128	500								
B. Nat. Housing													
Bonds	24,000		5,495	7,000	9,100	5,500	3,779	7,700	5,970				
C. Housing Lottery	2,000											2,000	2,100
D. Repaid Funds	4,284											2,000	740
												3,000	1,900
													1,200
II. KHC													
A. AID Guarantee	14,400			8,300	14,400								
B. Repaid Funds	5,000			2,500	5,000								
C. Others	3,700		3,700										
III. KHB Contract													
Savings	16,000			1,500	2,250			13,500	15,750				
Central Gov. Capital	2,000												
IV. Local Gov. Budget	2,485		1,805	900	450	30	17	240	185	80	28		
TOTAL PUBLIC SECTOR	88,203		17,400		36,900		5,796		21,905		262		5,940
TOTAL UNITS	70,198	7,300		25,678		8,030		21,400		750		7,000	
PERCENT AMOUNT	100%		19.7%		41.8%		6.6%		24.8%		.4%		6.7%
PERCENT UNITS	100%	10.4%		36.6%		11.4%		30.5%		1.1%		10.0%	

1. Divided into: Secondary City - 4,500 units
Towns - 3,200 units

2. Company Housing

3. Flood Damage Housing

4. Fund for Converting Rental to Sales Apartments
5. Not Translated in Original Chart

TABLE II

 UNIT DATA ON PROPOSED KOREAN BUILDING PROGRAM
 (amounts in thousand won)

TYPE OF UNIT	SIZE IN PYONGS	BUILDING COSTS		TOTAL COST		PUBLIC SECTOR LOAN AMOUNT		PERCENTAGE OF LOAN TO TOTAL COST		TOTAL UNITS	TOTAL COST	PUBLIC SECTOR TABLE I	PRIVATE SECTOR	
		1974	1975	1974	1975	1974	1975	1974	1975					
RENTAL APARTMENTS	13	162	200	2,100	2,600	1,250	1,000	60%	38%	7,300	18,980	17,400	1,580	
SALES APARTMENTS										25,678	55,464	36,900	18,564	
-Big City	12	147	180	1,764	2,160	1,100	1,400	62%	65%					
-Small City	12	126	150	1,512	1,800	900	1,200	60%	66%					
SINGLE FAMILY	18	95	110	1,600	1,980	700	900	44%	45%	21,400	42,372	21,905	20,467	
DUPLEX														
-Big City	12	91	90	1,100	1,080	650	700	60%	65%	8,030	8,672	5,796	2,876	
-Small City	12	78	85	940	1,000	550	650	60%	65%					
FARM HOUSE	15	40	50	600	750	350	400	58%	53%	750	562	262	300	
TOTALS												126,050	82,263	43,787
PERCENTAGES												100%	65%	35%

SEOUL CITY REHABILITATION PROGRAM

Background

During the previous visit to Korea, Mr. Van Huyck suggested that consideration be given to the initiation of a rehabilitation program for Seoul City and perhaps Pusan. Such a rehabilitation program might be integrated into the future AID Housing Guarantee Loan.

The term "rehabilitation" as used by Mr. Van Huyck means essentially the environmental upgrading of existing housing areas through improvements in water supply, sanitation, minimum essential roads, street lighting, and essential community facilities. The concept is to retain the maximum amount of existing housing stock and provide credit facilities for small loans to the existing house owners. Where land is illegally occupied, procedures for regularizing the area through its sale or lease to the occupants should be undertaken and loans made available for this purpose.

Mr. Van Huyck visited the Seoul City Housing Department in December, 1974 to discuss the city's current program for illegal settlements. The interview was held with Mr. Kwak, Hoo Sup, Director of Housing, Seoul City. Mr. Kwak was generous with his time and discussed the city's program fully.

Seoul City Program

The Seoul City program is called a "rehabilitation program", but it is in fact a clearance and rebuilding program. The city has surveyed all of its illegal housing areas. Each area which conforms to the city master plan for residential use and which is below the 100 metre contour level has been designated for "rehabilitation" (clearance with a residential re-use of the land after roads and utilities have been installed). The other areas are scheduled for clearance with a non-residential re-use of the land.

The survey has identified 196 areas for "rehabilitation" which together total an area of 6 million pyongs of land and contain 110,000 illegal structures. It is estimated that each structure is occupied by two households, one of whom is usually the owner occupant. There are another 50,000 illegal structures in areas designated for clearance without residential re-use of the site.

In the "rehabilitation" areas, it is estimated that 70 percent of the land is in public ownership and the remainder is primarily in institutional ownership (church groups, etc.).

The city's "rehabilitation" program consists of the following steps:

1. Clearing the designated site of all houses without compensation.
2. Replotting the site to give a road and utility grid and open space.

P A D C O

3. The sale of the residential area remaining (after replanning) back to the original occupants, as a matter of first preference, or to outsiders.
4. Arranging for KHB loans for the rebuilding of four unit, two storey structures (each unit generally to consist of 15 pyongs).

During 1974 the program was started in four areas. There were 11 areas scheduled, but funds were only available for the first four. When completed these four areas will provide building sites for a total of 800 units.

Ahun Number 2 Project Area

Mr. Van Huyck visited Ahun Number 2 Project Area. This area consists of a total of 5,627 pyongs of land. When rebuilt it will provide for 195 dwelling units of between 10-15 pyongs each mainly in four unit, two storey structures. The announced average lot size per structure is 50 pyongs or 12.5 pyongs per unit. The re-use of the site will consist of road area of 1,244 pyongs (22 percent), public park area of 503 pyongs (9 percent), and residential lots of 3,880 pyongs (69 percent). Mathematically, the average plot size (195 units divided into 3,880 pyongs) works out to 19.9 pyongs which would make the overall density much lower than the announced program.

The announced project cost for infrastructure improvements is 54 million won (US\$ 113,207). This works out to an average

cost of 13,917 won per pyong of residential area. The selling price of the land has been set at 30,000 won per pyong. Assuming the average purchase is 12.5 pyongs as announced, the total cost is 375,000 won or US\$ 786. The purchase price is financed to the buyer at 15.5 percent annual interest with a repayment period of five years.

The land values in the area reported by local people are 70,000 won per pyong (without the improvements), so the land sale represents a major subsidy to the buyers.

The housing being constructed is reported to cost 1.5 million won per unit or US\$ 3,145. The housing is supposed to be financed by the KHB, but the residents reported that no loans had yet been made and the housing was being contractor financed. The KHB loans were supposed to carry a 14 percent annual interest. Considerable housing was well along in construction. The families were presently either staying with friends or living in tents on the site.

A lengthy interview was held with one of the former residents who was going to be the owner of a new unit on the site. He was very favorably inclined toward the project in spite of the fact that his previous dwelling was taken without compensation. He valued the dwelling at one million won. He was paying for the new dwelling with loans from his family and his only complaint was the fact that the KHB financing had not come through. Some of the dwellings have been completed by the contractor, but the families were not allowed to occupy them because of the lack of financing.

P A D C O

The resident estimated that approximately 300 units were destroyed on the site. Their average value was between 800,000 and 1 million won. He thought each unit had contained two families, the owner and a renter. Approximately 150 families from the old site had taken the option to have a new home in the project. All of the old houses were illegal occupants of the site. The 150 owner occupants of the site and the estimated 300 rental households who did not participate have simply disappeared. He felt almost all of the occupants of the new houses will also have one renter family. He expected to receive about 300,000 won in key money from his renter when he moves in. There are about 45 outsiders buying houses in the project who have bought rights from the previous residents.

Analysis of the Seoul City Program

Obviously, since only one day was devoted to the investigation of the program and projects there is a high risk of incomplete knowledge and perhaps faulty conclusions. The following comments should be considered tentative until further review can be made. Nonetheless, it is likely that the Seoul City "rehabilitation" program should be fully reconsidered. The following are the primary points of concern:

1. If the Ahun Number 2 Project Area is indicative, the program means that approximately 50 percent of the occupants of the sites are simply removed without compensation or the opportunity to participate in the rebuilding part of the program.

P A D C O

There is an effort by the City of Seoul to force families to leave Seoul and return to their original areas. This program, I believe, has been suspended at the moment, and experience elsewhere in the world suggest that such programs are not successful. Therefore, it can be assumed that families which are forced out are either going to move into other houses as renters, thereby increasing densities and raising rents, or are going to become squatters in other areas.

2. When the magnitude of the problem is considered -- 110,000 households (with approximately another 110,000 renter households)-- it can be seen that the program overall will be self defeating. Some 110,000 structures destroyed and only 55,000 replaced in the same area means a major reduction in the existing housing stock. This is clearly against the central principle of the proposed National Housing Policy as currently conceived. The disruption and financial damage (because of no compensation for the destroyed houses) to the affected households is enormous. If, for instance, the average value of the structures (less land value) is about 400,000 won each, the property value destroyed in the program will be 44 billion won or US\$ 92 million.

3. The cost of 55,000 new housing units at 1.5 million won each will 82.5 billion won or US\$ 172.9 million.

4. Excluding land subsidies and values, it can be seen that the 44 billion won in property value destroyed and the 82.5 billion won in new housing means a total of 126.5 billion won (US\$ 264.9 million) to complete a program which yields a net

reduction of 55,000 housing units from the existing housing stock. Given the overall housing shortage in Korea and the shortage of capital, these numbers underscore the need for reconsideration of the program.

5. It was a mystery to me as to why any of the families would consider the program favorably, as did my main respondent. The explanation I was given was that for those households which are able to participate, the program offers considerable potential for financial and environmental gain. First, the new house will generally be of better quality and with much better city services. Second, the land purchase represents a major subsidy and the market value of housing is rising, therefore it is likely that the new owners can make a very substantial capital gain. The estimate given was an immediate gain of 1 million won if they resold the house. Third, they can get a higher level of key money from their renter. Therefore, even discounting the loss of the original structure they would consider themselves better off. Unfortunately, only the wealthier residents in the old area can avail themselves of the program because of its high capital costs.

6. Some of the residents of the old area who sell their rights to the new housing can also make out reasonably well, at least to the extent of covering the loss of their original structure. It is not clear to me, however, how the families are selected for the rights to the new housing. This should be checked.

7. There is also the question to be considered as to what is going to happen to the 50,000 owners and their renters in

the areas to be cleared without a housing re-use. I did not check into this issue, but it is worthy of consideration.

Implications for AID Housing Guarantee Program

There is an extremely good opportunity to support a meaningful rehabilitation program in Seoul along the lines discussed in the background section of this note. I have visited several of the illegal housing areas in the city and have found the housing stock to be generally of acceptable quality. It certainly does not justify clearance. It is overcrowded and lacking in adequate infrastructure. There is a need for improvement in the housing in the true sense of rehabilitation.

It is recommended that such a program be developed during 1975. It will take considerable technical study even though the City Housing Department has done much useful background analysis of the areas in question. The program could then be commenced in 1976.

The City of Seoul will, of course, have to be convinced that the program is a preferred solution to their present "rehabilitation program". No discussion with them has yet been held. If their approval is given the prospects seem very good indeed for the use of AID Housing Guarantee funds. If the land is being sold with financing at 15.5 percent annual interest and KHB is involved with financing at 14 percent interest the AID funds could be made available at below these rates.

The program would have two major parts. First, the installation of improved infrastructure and the sale of the land to the present structure owners; and second, loans for the rehabilitation of the individual dwelling units as required. Such a program, though involving perhaps US\$ 30 million total, would be insignificant compared to the kinds of costs involved in the present program. It also would make the implementation scale realistic and still offer the promise of a significant improvement in living standards for over 1 million people in Seoul.