



# Audit of the Supply Management of Public Housings for Vulnerable People

Disclosed on March 20, 2017

## 1. Audit Background

The Board of Audit and Inspection of Korea (BAI) conducted an audit of four government agencies, including the Ministry of Land, Infrastructure and Transport (MoLIT), and the Korea Land & Housing Corporation (LH), to examine the supply management of public housing for vulnerable people from October 31 to December 2, 2016. The objectives of this audit were to improve the supply system of public rental housing, and to enhance the transparency in the selection process of tenants.

## 2. Audit Findings

### 2.1. Inappropriateness in the supply of Permanent Rental Housing and National Rental Housing

In 2013, the MoLIT established a plan to supply 10,000 Permanent Rental Housing<sup>1</sup> and 38,000 National Rental Housing<sup>2</sup> every year.

However, in the last three years, the MoLIT allotted three trillion KRW less in budget for the National Rental Housing than its original plan (about 6 trillion KRW), while it allocated 1.5 trillion KRW more to the Rental Shift to Pre-sale Housing.<sup>3</sup> Furthermore, the MoLIT diverted 50,000 suites, which had originally been approved as National Rental Housing toward Happiness Housing.<sup>4</sup>

During the period of 2013 to 2016, the supply rates of the Permanent Rental Housing and the National Rental Housing stood at only 21.8% and 61.7%, respectively, of their original schemes. Consequently, it became **difficult to ensure stable residence for the low-income class**.

### 2.2. Improper conditions in the “eligibility for public rental housing”

When considering the incomes of prospective tenants of public rental housing, the MoLIT **applied the same standard** to all families of **up to three members**, regardless of the number of family members in the household.

Therefore, **such a contradiction was observed that** a person living alone with his/her

income at 4.8 million KRW was qualified to receive public housing, while a family consisting of three members, each of whose income was at less than half of the one-person household, was deemed unqualified.

### **2.3. Mismanagement of the tenants of public rental housing**

**Three public housing providers, including the LH did not utilize the social security information system**, which enables them to check whether any of the tenants of public rental housing had become deceased or if they had moved to nursing facilities.

It was found, for example, that **certain unqualified tenants** who had passed away **were still listed as residing at the suite**, on paper.

\* **Seoul Housing and Communities Corporation** misappropriated five suites of permanent public rental housing to be used as accommodation for its associated athletic team.

### **3. Recommendations**

The BAI released 22 audit results, including recommendations that the Minister of MoLIT establish responsive measures to expand the supply of Permanent Rental Housing.

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\* Translator's Note:

1. As being public rental houses, whose construction was financed by central/local governments, they are to be rented out to low-income households for 50 years or more.
2. They are to be rented to low-income households for 30 years or more. The central/local governments finance the construction of such housing with a view to ensure stable residence to economically vulnerable people.
3. They are to be rented based on monthly payment. After a certain period, tenants can buy the house at about 90% of the house's price.
4. They are to be provided for young adults (i.e. undergraduates and recent college graduates, newly employed and newlyweds).

# Annex

- Supply objectives and targeted tenants of each type of public rental housing

<b>Supply objectives</b>	<b>Securing stable residence for people</b>				<b>Helping people own homes</b>		<b>Stabilizing prices of homes</b>			
<b>Class of income</b>	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	Class 9	Class 10
<b>Intended target groups</b>	Renters who feel burden in paying rent		Renters who have difficulties purchasing a house		People who can buy a house with public financing		People who can afford to buy a house on their own			
<b>Type of public rental housing</b>	<b>National rental housing</b>				<b>Rental shift to pre-sale housing</b>					
<b>Earnings</b>	Approximately 50% or less in comparison to the average income of urban workers		Approximately 70% or less in comparison to the average income of urban workers		Approximately 100% or less in comparison to the average income of urban workers					
	<b>Permanent rental</b>									

● Characteristics of the type of public rental housing

Type	Rental housing to be constructed					Acquisition-based rental housing	<i>Jeonse</i> -based rental housing
	Permanent rental housing	National rental housing	Happiness housing	Rental shift to pre-sale housing		Existing houses	Existing houses
				Less than 85 m <sup>2</sup>	Greater than 85 m <sup>2</sup>		
Objectives	First welfare-driven housing for the lowest income households to help them secure their homes	To secure homes for those in Classes 1-4	To address the insecurities of people (early to late 20s) regarding housing	To stockpile long-term rental housing; To support potential homebuyers	To stockpile long-term rental housing; To meet the demand of the middle-class and up for rental housing	To help the lowest-income class stay in their current location by providing them with public rental houses	To help the lowest-income class stay in their current location by providing them with public rental houses
Duration of lease	50 years	30 years	Up to 20 years	10 years	10 years	20 years	20 years
Size of house	Less than 40 m <sup>2</sup> (exclusive area)	Less than 60 m <sup>2</sup>	45~60 m <sup>2</sup>	Less than 85 m <sup>2</sup>	Less than 149 m <sup>2</sup>	Less than 85 m <sup>2</sup>	Less than 85 m <sup>2</sup>
Eligibility	<ul style="list-style-type: none"> <li>■ Basic living-cost beneficiaries</li> <li>■ Medical beneficiaries</li> <li>■ Persons of distinguished service to the State</li> </ul>	People who earn less than 70% of average monthly income of the workers in urban areas	People who earn less than 100% of average monthly income of the workers in urban areas	Holders of savings account for buying an apartment	Holders of deposit account for buying an apartment	<ul style="list-style-type: none"> <li>■ Basic living-cost beneficiaries</li> <li>■ Medical beneficiaries</li> <li>■ Single-parent families</li> </ul>	<ul style="list-style-type: none"> <li>■ Basic living-cost beneficiaries</li> <li>■ Medical beneficiaries</li> <li>■ Single-parent families</li> </ul>

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Rate of lease	30% of market price	55~83% of market price	60~80% of market price	90% of market price	At/around market price	30% of market price	(Security deposit) 5% of <i>Jeonse</i> rate (monthly rent); Annually 1~2% from central/local gov'ts
Saleability Y/N	No	No	No	Sale after 10 years (for incumbent tenants)	Sale after 10 years (for incumbent tenants)	No	Privately-owned homes
Construction financed by	<ul style="list-style-type: none"> <li>■ Central/local gov'ts: 85%</li> <li>■ Tenants: 2.5%</li> <li>■ Developers: 12.5%</li> </ul>	<ul style="list-style-type: none"> <li>■ Central/local gov'ts 30%</li> <li>■ Fund 40% (interest rate 2.0%)</li> <li>■ Tenants 20%</li> <li>■ Developers 10%</li> </ul>	<ul style="list-style-type: none"> <li>■ Central/local gov'ts 30%</li> <li>■ Fund 40% (interest rate 2.0%)</li> <li>■ Developers 20%</li> <li>■ Tenants 10%</li> </ul>	(Less than 60 m <sup>2</sup> ) <ul style="list-style-type: none"> <li>■ Central/local gov'ts (interest rate 2.5%) (60~85 m<sup>2</sup>)</li> <li>■ Fund (interest rate 3.0%)</li> </ul>	Not applicable (self-financing)	<ul style="list-style-type: none"> <li>■ Central/local gov'ts 45%</li> <li>■ Fund 50% (interest rate 1%)</li> <li>■ Tenants 5%</li> </ul>	<ul style="list-style-type: none"> <li>■ Central/local gov'ts 95%</li> <li>■ Tenants 5%</li> <li>* Loan from Housing and Urban Fund</li> <li>■ Capital area 85 million KRW</li> <li>■ Metropolitan area 65 million KRW</li> <li>■ Others 55 million KRW</li> </ul>