



Living on the edge: financing post-displacement housing in urban redevelopment projects in Seoul

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1. Kim, Kwang-Joong, In-Jae Lee and Sang-Hyuk Chung (1996), *Sub-standard Housing Redevelopment in Seoul: 1973–1996* (in Korean: *Seoul-si Jutaeg Gaelyang Jegaebal Yeonhyeog Yeongu*), Seoul Development Institute, Seoul, page 188.

2. Ha, Seong-Kyu (2001), "Sub-standard settlements and joint redevelopment projects in

ABSTRACT This paper examines the displacement experiences of urban poor tenants in Seoul, South Korea, and the constraints on their financing of post-displacement housing. Since the mid-1980s, urban renewal of slums and dilapidated neighbourhoods in Seoul has been geared towards clearance and wholesale redevelopment. This approach is accompanied by legalization of land tenure for dwelling owners without de jure property rights, and is based on profit-led partnerships between property owners (both on-site dwelling owners and absentee landlords) and developers. Since the end of the 1980s, tenants have been given the option, if eligible, of in-kind compensation (access to a public rental flat) or cash compensation. Neither choice, however, reflects the needs of poor tenants who still find it difficult to finance inevitably increased housing expenditures. Policy measures are necessary to increase the range of options available to tenants upon displacement.

KEYWORDS displacement / housing finance / redevelopment / Seoul / South Korea / urban poor / urban renewal

I. INTRODUCTION

Over the last two decades, South Korea has experienced urban redevelopment on an unprecedented scale. Around 17 per cent of all the dwellings provided between 1973 and 1995 were the result of the redevelopment of urban slums and dilapidated neighbourhoods.⁽¹⁾ Most dwellings were constructed through a profit-led, partnership-based approach, dominant since the mid-1980s, that brings together developers and property owners (both absentee landlords and on-site owner-occupiers irrespective of their possession of legal land tenure) from the earliest stages of project design and implementation. Exploiting the development potential of dilapidated neighbourhoods is essential. Maximum density, therefore, is sought in order to sell as many flats as possible in the new housing market so that property owners and developers can recover costs and increase profits. If dwellings are built on public land and the owners do not have land tenure, they must purchase the public land in order to gain de jure property rights before redevelopment takes place.⁽²⁾

Those most negatively affected by this process have been poor residents. In particular, tenants were evicted initially without any redevelopment compensation. In the face of violent protests and worldwide condemnation,⁽³⁾ from 1989 the government provided tenants with a choice

of either compensation in-kind (a right to rehousing in public rental flats provided on-site) or cash compensation. The provision of public rental flats for rehousing was one of the main demands made by tenants, and could be considered a big step forward in a country where long-term public rental housing was scarce. From this perspective, redevelopment compensation schemes could be said to have improved security of tenure for poor tenants.

But is this really the case? How does the provision of public rental flats as redevelopment compensation actually affect poor tenants' displacement and relocation decisions? Has the provision of public rental flats really improved security of tenure for poor tenants? This paper provides an updated understanding of Seoul's poor tenants and their experience of displacement. It identifies trends that have emerged in poor tenants' responses to displacement and examines structural constraints faced by those displaced. The findings are based on a case study of a redevelopment neighbourhood in Seoul called Nangok, located about 15 kilometres south of the city centre, where the author conducted field research.

II. DATA COLLECTION

The displacement of local Nangok residents started in October 2000 and was completed in May 2003. In total, 2,450 households, or about 10,000 people, were displaced during this period. For this study, field visits were made between 2001 and 2003 to review local archives and conduct in-depth interviews with local residents and key actors. Two groups of local residents were recruited to share their experiences of displacement and relocation. One group, consisting of 11 households, had already been displaced and relocated when the fieldwork began; nine households were yet to be displaced.

The interview data were supplemented by survey data kindly supplied by a local welfare centre, the Sillim Welfare Centre. The centre conducted a survey in June 2002 to gather information on former Nangok residents who had been displaced as part of the neighbourhood redevelopment. The author took part in collecting responses from the sample population in the survey, and a total of 138 valid responses were subject to analysis. Thanks to the Sillim Welfare Centre, the raw data set was re-analyzed by the author to determine the trends that emerged in the course of the displacement of the Nangok residents.

III. CASE STUDY NEIGHBOURHOOD BEFORE REDEVELOPMENT

The Nangok neighbourhood was initially established as a relocation site for evictees from central Seoul, and had grown in the 1970s and 1980s to become an overcrowded informal settlement. A web of narrow alleys ran through the neighbourhood, often not more than two to three metres wide at the most. Few roads allowed traffic through, thus hampering access by fire or medical emergency vehicles. As in other informal settlements, unemployment and informal jobs were common among the residents.

The majority of households had no formal land tenure. Close to two-thirds of all dwellings measured less than 26 square metres in area – far less than the municipal average – and they had not changed since the

Seoul", *Habitat International* Vol 25, pages 385–397.

3. In 1987, UN–Habitat named South Korea as one of two countries that had exercised forced eviction in the most brutal and inhumane manner. See ACHR (1989), *Battle for Housing Rights in Korea: Report of the South Korea Project of the Asian Coalition for Housing Rights*, Asia Coalition for Housing Rights and Third World Network, Bangkok, 72 pages.

4. SMG (1991), *Research Report on Housing Policy for the Urban Poor in Seoul* (in Korean: Seoul-si jeosodeugcheung-ui jutaegjeongchaeg-e gwanhan yeongu bogu), Seoul Metropolitan Government, Seoul, page 188.

5. NSO Korea (2001a), *2000 Population and Housing Census Report: Volume 1, Whole Country*, Korea National Statistical Office, Daejeon.

6. Ha, Seong-Kyu (2002), "The urban poor, rental accommodation and housing policy", *Cities* Vol 19, No 3, page 197.

original residents' resettlement in the late 1960s.⁽⁴⁾ Each dwelling consisted of one or two bedrooms and a kitchen area. They lacked basic facilities and there were very few indoor flush toilets. Wherever possible, residents built a backhouse to allow private access to a toilet, but the odour was hard to endure. Over the years, the local authority provided public toilets and, where permanent structures were difficult to build, installed temporary ones. An interviewee commented with humour that "...the public toilets are the finest" in Nangok. For the most part, owners of dwellings in the neighbourhood lacked formal land tenure. When landlords anticipated a redevelopment project in the immediate future (as was the case in the 1990s), they carried out just enough housing maintenance to prevent dwellings from collapsing so that they would not forfeit their redevelopment rights. For the most part, however, tenants bore the burden of maintenance and repair work, often with very poor or useless equipment and facilities.

According to the data provided by the Housing Bureau of the Gwanak district government, there were a total of 2,450 households in Nangok at the end of 2000. Of these, only 421 households, or about 17 per cent, were owner-occupiers, suggesting a very high proportion of absentee landlords. The dominant form of rental tenure in Nangok (also accounting for two-thirds of tenant households in Seoul as a whole) is known as *chonsei*.⁽⁵⁾ *Chonsei* tenure requires a substantial up-front payment as key money or deposit when signing a contract, and does not involve paying a monthly rent. This key money is usually invested by landlords in formal and informal financial markets and the "...interest earning represents an imputed rent."⁽⁶⁾ The real value of the key money may be depreciated in line with price inflation, and the tenants relinquish the opportunity to make any



PHOTO 1
Nangok neighbourhood before demolition
© Hyun Bang Shin, December 2001

interest on the income. For the landlords, *chonsei* tenure works as a “source of funds” and “...exemplifies the inherent qualities of residential real estate as collateral. Instead of borrowing from a bank against this collateral, the owner of the dwelling is receiving a loan from his tenant (or tenants).”⁽⁷⁾

Because the *chonsei* key money is returned to tenants in full when their rental contracts expire, tenants favour this system over other rental systems; and the fact that they don't have to pay a regular monthly rent provides tenants with relatively stable security of tenure during the contract period even when they lack a regular income. *Chonsei* works as a “contractual savings scheme” by functioning as “...a vehicle for self-imposed savings and asset accumulation.”⁽⁸⁾ A monthly rent payment system is more likely to be chosen when tenants are financially incapable of paying the full *chonsei* key money. Tenants also equate monthly rent payments with a reduction in their monthly household disposable income and thus consider it as an irrecoverable “waste” of their financial assets. As one interviewee paying monthly rents stated, “...if you are a tenant in someone else's house, no matter what other conditions you face, *chonsei* is still better.” The Sillim Welfare Centre survey data indicated that at the time of the displacement, 89.4 per cent of all respondents who were tenants had *chonsei* tenure. The remaining tenants mostly had deposit-based monthly rental tenure.

Before displacement, Nangok residents had two major advantages, namely low housing costs and the relative security provided by *chonsei* tenure. According to the Sillim Welfare Centre survey data, while in Nangok, the average *chonsei* deposit was estimated at KRW 7,834,000 (or US\$ 6,930).⁽⁹⁾ This was about 80 per cent of the average annual disposable income for the bottom 20 per cent of salary and wage earners' households in 2000.⁽¹⁰⁾ In South Korea, personal savings and financial support from parents and relatives play a significant role in financing housing costs. For instance, a social statistics survey conducted by the government in 2001 revealed that personal savings and financial support from parents or relatives were the two major sources of funding for the purchase of a house in Seoul.⁽¹¹⁾ Loans from banks were only the third source for homebuyers. The author's interviews with residents suggest that personal savings, financial support from parents and relatives, and loans are also the main means of financing *chonsei* deposits for tenants.

IV. REDEVELOPMENT COMPENSATION AND THE DISPLACEMENT OF TENANTS

a. Redevelopment compensation for tenants

Eligibility for legal compensation is based on tenants' residency status; in order to qualify, tenants must have lived in the redevelopment neighbourhood for at least three months by the time their neighbourhood is designated as a redevelopment district, and its final blueprint – called the “comprehensive redevelopment plan” – is officially approved. For eligible tenants, compensation is either in-kind or cash. In-kind compensation refers to a public rental flat built on site, and if this option is chosen, tenants have to finance the temporary relocation costs themselves. Public rental flats for rehousing eligible tenants are purchased by the municipal government, thus imposing no costs on developers and property

7. Renaud, Bertrand (1989), “Understanding the collateral qualities of housing for financial development: the Korean *chonsei* as effective response to financial sector shortcomings”, Discussion Paper INU-49, The World Bank, page 13.

8. See reference 7, page 12.

9. According to the Korea Exchange Bank, the average annual closing exchange rate in 2000 was about US\$1 to KRW (Korean Won) 1,131.

10. The average annual disposable income in 2000 was KRW 25,362,000. For the bottom 20 per cent, it was KRW 9,854,400. See NSO Korea (2001b), *Annual Report on the Household Income and Expenditure Survey 2000*, Korea National Statistical Office, Daejeon.

11. NSO Korea (2002), *Report on the Social Statistics Survey*, Korea National Statistical Office, Daejeon, page 102.

12. See reference 1, pages 109–110.

owners.⁽¹²⁾ If cash compensation is chosen instead of a public rental flat, tenants receive an amount equivalent to three months' average monthly expenditure for wage- and salary-earning urban households. The sum increases incrementally to take into account household size. At the time the formal displacement of Nangok's residents began in October 2000, cash compensation for a four-person household was 23 per cent of average annual household disposable income for salary- and wage-earning households in cities. For those in the bottom two deciles of income distribution, the figure reached 51 per cent of their average annual disposable income.

Ineligible tenants receive only a token fee to pay for their house-moving expenses and do not enjoy any priority access to public rental flats. If they wish to access the public rental sector, they have to go through a time-consuming centrally administered application process, competing with other tenants from the whole city. Even if an applicant is allocated a public rental flat, there is no guarantee that the flat will be in or near the neighbourhood where the applicant has been living.

Formal approval for a comprehensive redevelopment plan for Nangok was given on 12 November 1997. In accordance with redevelopment regulations, any tenant household that had not been living there for at least three months on this date was ruled ineligible for any legal compensation. The full-scale displacement of on-site residents was prolonged until the end of 2000, one of the main reasons being the withdrawal of the private developer who was selected to undertake the project. The developer's financial status was threatened by a national financial crisis at the end of 1997 and the company was no longer able to carry out the project. Following



PHOTO 2
Reconstruction in progress, Nangok
© Hyun Bang Shin, July 2004



PHOTO 3
Redeveloped Nangok
 © Hyun Bang Shin, September 2007

efforts to salvage the embryonic redevelopment project, the property owners succeeded in involving a public development corporation called the Korea National Housing Corporation (hereafter KNHC). Its main aim was to provide homes for low-income families and manage public rental flats. This meant that those tenants eligible for redevelopment compensation could be rehoused in public rental flats managed by the KNHC elsewhere, without going through time-consuming temporary relocation. An official agreement between the KNHC and the redevelopment steering committee was signed at the end of February 2000 and was then acknowledged by on-site and absentee landlords in a general assembly three months later. The construction work took three years to complete and the new homebuyers moved in at the end of August 2006. Upon project completion, the redeveloped Nangok comprised 3,322 flats in total, including 512 public rental flats.

b. Nangok tenants' displacement and its characteristics

Five major trends characterized the Nangok tenants' displacement, which took place between October 2000 and May 2003.

First, for the majority of eligible tenants, cash compensation was favoured over in-kind compensation. In Nangok, two-thirds of all tenant households were eligible for compensation at the time of their displacement. The remaining one-third were not eligible either because they had failed to register their residential status with the local administrative office when they moved in, or because they had registered after 12 August 1997,

the cut-off date that determined tenants' eligibility for compensation. Fewer than half the eligible tenant households exercised their right to access public rental flats. The majority took the cash compensation and chose to live in private rental dwellings elsewhere.

Second, better-off households were more likely to choose public rental flats than poorer households. As shown in Table 1, economically worse-off households who received means-tested social security benefits (NBLs benefits) tended to remain in the private rental sector.⁽¹³⁾ Non-recipients of NBLs benefits were more likely to become public rental tenants by choosing in-kind redevelopment compensation. This went against conventional wisdom, according to which public rental flats would appeal to poorer households who experienced affordability problems in the private rental sector.

Third, most eligible tenants who moved into public rental flats experienced tenure change from the much-preferred *chonsei* tenure to a deposit-based monthly rental tenure (Table 1). Tenants who remained in the private rental sector were more likely to remain in *chonsei* tenure.

Fourth, after displacement, the majority of tenants failed to enjoy housing conditions that conformed to the national minimum housing standards. The Sillim Welfare Centre survey data show that one-third of all respondents had too few bedrooms or inadequate dwelling space. Overcrowded conditions were more prevalent among those displaced who moved to public rental flats (40 per cent), a much higher rate than the national average (23 per cent).⁽¹⁴⁾ The size of these flats partly explains the lack of willingness among eligible tenants to choose in-kind compensation when displaced.

Fifth, the displacement of Nangok tenants led to a significant increase in their housing costs. For instance, in the case of those *chonsei* tenants who managed to retain the same tenure after displacement, the average amount of *chonsei* key money required almost trebled (Case A, Table 2). Tenants whose tenure changed from *chonsei* to deposit-based

13. In South Korea, the major means-tested social assistance programme is called the National Basic Livelihood Security (NBLs) system. The programme takes into account household income and assets to determine eligibility. A household is eligible if it earns less than the national minimum cost of living set by the government and if it does not have any other family members on whom to depend. For more information, see OECD (2000), *Pushing Ahead with Reform in Korea: Labour Market and Social Safety Net Policies*, Organization for Economic Cooperation and Development, Paris, pages 127–143.

14. Ha, Seong-Kyu (2004), "Housing poverty and the role of urban governance in Korea", *Environment and Urbanization* Vol 16, No 1, April, page 141.

TABLE 1
Nangok *chonsei* tenants and their post-displacement residence

Category	Post-displacement residence						
	Public rental sector		Private rental sector			Owner-occupation	Total
	<i>Chonsei</i>	Deposit-based monthly rental	<i>Chonsei</i>	Deposit-based monthly rental			
TOTAL	43 (46.2%)	4	39	44 (47.3%)	35	9 (6.5%)	93
NBLs beneficiaries	8 (23.5%)	0	8	26 (76.5%)	23	3 (0.0%)	34
Non-beneficiaries	35 (59.3%)	4	31	18 (30.5%)	12	6 (10.2%)	59

SOURCE: Table prepared by the author using survey data from the Sillim Welfare Centre, Seoul.

TABLE 2
Changes in rent deposit for tenants displaced from Nangok

Tenure change upon displacement (39 responses for Case A and 48 for Case B)				Mean ^(c) (standard deviation)	Deposit as a proportion of annual household disposable income for bottom 20%
Case A ^(a)	Pre-displacement	<i>chonsei</i>	Deposit	6,706.70 (4,016.28)	68.1%
	Post-displacement	<i>chonsei</i>	Deposit	20,884.60 (10,500.29)	211.9%
Case B ^(b)	Pre-displacement	<i>chonsei</i>	Deposit	7,260.40 (4,878.29)	73.7%
	Post-displacement	Deposit-based monthly rental tenure	Deposit Monthly rent	12,657.50 (4,821.62) 168.96 (48.21)	128.4%

^(a) Case A refers to those tenants who kept their *chonsei* tenure after displacement.

^(b) Case B refers to those tenants who changed their tenure from *chonsei* to deposit-based monthly rental tenure after displacement.

^(c) Unit in '000s KRW.

SOURCE: Table prepared by the author using survey data from the Sillim Welfare Centre, Seoul.

monthly rental tenure (Case B, Table 2) experienced a smaller increase in rent deposit but had to pay monthly rents for their post-displacement housing.

V. CONSTRAINTS FACING TENANTS IN THE PROCESS OF RELOCATION

A large number of tenants found it difficult to relocate to decent housing and keep their much-preferred *chonsei* tenure without facing a much higher deposit. What difficulties did they face?

a. Limited access to formal funding

For residents from redevelopment neighbourhoods seeking private rental dwellings, access to financial arrangements within formal institutions was important. The prospects, however, were not bright.

In 1990, a housing finance programme to assist low-income tenants was established by the government under the name "National Housing Fund (hereafter the NHF) Housing Loan Programme to Subsidize *Chonsei* Deposits for Low-income Households". The programme taps resources from the NHF, which was established in 1981, and pools resources to finance affordable housing construction nationwide. Applications for NHF housing loans are made to the local district government by tenants, who have to meet two conditions: they need a valid rental contract with a private landlord before making the application; and they have to pay 10 per cent of their *chonsei* deposit in advance. The local district government then reviews the eligibility of applicants and recommends successful

15. MoCT Korea (2002), "Implementation criteria of the housing loan scheme to subsidize *chonsei* deposits for low-income households" (in Korean: "Jeosodeug yeongsemin jeonse jageum sebu jiwon gijun"), Ministry of Construction and Transportation of Korea, Seoul; also SMG (2002), *Housing White Paper* (in Korean: *Minseon 2-gi sae-Seoul juttaeg baegseo*), Seoul Metropolitan Government, Seoul, pages 95–96.

16. See reference 15, SMG (2002), page 95.

17. SMG (2001), Documents requested for National Assembly inspection on government offices: "Construction and transportation committee, Vol 7–1" (in Korean: "2001 Nyeondo geonseol gyotong wiwonhoe: gugjeong gamsa yogu jalyo"), Seoul Metropolitan Government, Seoul, page 11.1014.

18. See reference 15, SMG (2002), page 96.

19. For these studies, see reference 4; also Sillim Welfare Centre (2000), *Examination of the Needs of Residents in Nangok Area* (in Korean: *Nangok jijeog jumin yoggu josa*), Sillim Welfare Centre, Seoul; and Sillim Welfare Centre (2002), *Redevelopment of Nangok Low-income Area and the Relocation of Residents* (in Korean: *Nangok jeosodeug miljib jijeog-ui jaegaebal-ettaleun jumin-iju*), Sillim Welfare Centre, Seoul.

applicants to the local branch of Kookmin Bank, which administers the distribution of NHF housing loans. The bank reviews the credit standing of each applicant before depositing the loan into their account.⁽¹⁵⁾ Since the 1997 Asian financial crisis, the amount a household can take out as a loan has increased substantially several times, in an attempt by the government to assist housing finance for low-income tenants. In the case of Seoul, since mid-2000 this NHF housing loan has been open to those who sign a tenancy contract that involves a *chonsei* deposit of less than, or equal to, KRW 50,000,000. These tenants can borrow as much as 70 per cent of their *chonsei* deposit at a competitive annual interest rate of 3 per cent. The borrowers are required to pay back the loan in a lump sum payment after a two-year grace period. The loan is renewable twice.⁽¹⁶⁾

Although this housing loan programme does ease low-income households' housing difficulties to some extent, there are limitations. First, the programme still has limited funds despite its expansion since 1997, and it benefits only a fraction of tenant households in South Korea. For example, in Seoul, 9,756 households reportedly took out loans in 2000, but this accounted for only 0.5 per cent of all tenant households in the city.⁽¹⁷⁾

Second, the redemption period, i.e. repayment of the lump sum after two years (or six years if the loan is renewed twice), is often considered to be too short for many low-income households whose insecure and irregular income status makes it difficult for them to save enough money before the grace period expires. Irregular workers and unemployed residents, as well as those on means-tested social security benefits, require more flexibility if they are to benefit from this programme. In fact, one of the requests from Nangok tenants was for a long-term, low-interest loan repayable in instalments over 10 to 20 years after a several-year grace period.

A third limitation is that the NHF housing loan is not available to those moving into public rental dwellings.⁽¹⁸⁾ The logic behind this restriction is that these units have already received construction subsidies from the NHF, which have been paid out to the builders. This restriction places significant constraints upon those low-income households (including those displaced from Nangok) who do not have sufficient financial means at their disposal, and makes it difficult for them to take public rental flats as an alternative relocation option. Therefore, even if eligible candidates from Nangok opted for a public rental flat instead of cash compensation, they would have had to finance the increased deposit without relying on an NHF housing loan.

b. The weak socioeconomic status of the displaced

Access to formal financial opportunities for most of the displaced was also limited by their weak socioeconomic status. A high percentage of Nangok residents (as in other urban renewal areas) depended on non-regular jobs and unemployment, as shown in Table 3, which summarizes the findings of three studies⁽¹⁹⁾ and compares the occupational status of Nangok residents before and after displacement with that of Seoul residents about a decade earlier. Between 40 and 55 per cent of residents were either unemployed or engaged in jobs that could be regarded as precarious and unstable in terms of job security (see the shaded rows in the table). The proportion of office or factory workers (top three job categories in the table)

TABLE 3
Occupational structure of residents in urban renewal areas

Job category	1991 ^(a) (All household members)		April 2000 ^(b) (Household head only)		June 2002 ^(c) (All household members)	
	Residents in Seoul urban renewal areas		Nangok residents before displacement		Displaced persons from Nangok	
Administrative work	190	(12.7%)	12	(4.5%)	22	(5.5%)
Factory work	95	(6.4%)	23	(8.7%)	10	(2.5%)
Managerial/supervisory	57	(3.8%)	9	(3.4%)	4	(1%)
Service and sales	109	(7.3%)	50	(18.9%)	34	(8.5%)
Self-employed	67	(4.5%)	n.a.	n.a.	10	(2.5%)
Peddlers/handicraftsmen	21	(1.4%)	n.a.	n.a.	2	(0.5%)
Manual labour	154	(10.3%)	68	(25.8%)	54	(13.5%)
Unemployed ^(d)	420	(28.1%)	54	(20.5%)	78	(19.5%)
Unpaid family work	n.a.	n.a.	n.a.	n.a.	70	(17.5%)
Public work (NBLs-based)	n.a.	n.a.	n.a.	n.a.	16	(4%)
Students	320	(21.4%)	n.a.	n.a.	72	(18%)
Other	62	(4.1%)	48	(18.2%)	29	(7.2%)
Total	1,495	(100.0%)	264	(100.0%)	401	(100.0%)

^(a) SMG (1991), *Research Report on Housing Policy for the Urban Poor in Seoul* (in Korean: Seoul-si jeosodeugcheung-ui jutaegjeongchaeg-e gwanhan yeongu bogo), Seoul Metropolitan Government, Seoul.

^(b) Sillim Welfare Centre (2000), Examination of the needs of residents in Nangok area (in Korean: Nangok jiyeg jumin yoggu josa), Sillim Welfare Centre, Seoul.

^(c) Sillim Welfare Centre (2002), *Redevelopment of Nangok Low-income Area and the Relocation of Residents* (in Korean: Nangok jeosodeug miljib jiyeg-ui jaegaebal-e ttaleun jumin-iju), Sillim Welfare Centre, Seoul.

^(d) The number of unemployed workers may also include unpaid family workers in the case of the studies by the Sillim Welfare Centre in 2000 (see (b) above), and the Seoul Metropolitan Government in 1991 (see (a) above), as unpaid family workers do not appear as an independent category.

reached 23 per cent in the 1991 study, but was much lower in the case of Nangok residents.

To some extent this reflected the characteristics of South Korea's labour market, which was noted for its low proportion of employees in regular/permanent jobs.⁽²⁰⁾ Even so, the rate of unemployment shown in Table 3 was far higher than the national average. The national unemployment rate was effectively below 3 per cent from 1988 until the national economy was hit by the Asian financial crisis in 1997.⁽²¹⁾ The unemployment rate of 6.8 per cent in 1998, the highest in the last three decades, was still much lower than that experienced in Nangok, as well as in urban renewal neighbourhoods more generally.

By the end of 2000, the total number of NBLs beneficiaries in Gwanak district reached 4,570 households, that is 2.4 per cent of all households in the district. The proportion of NBLs beneficiaries was much higher in Sillim 7-dong, the sub-district where Nangok was located, where it reached 14.1 per cent.⁽²²⁾ The second highest figure, in Bongcheon 5-dong, was only 6.7 per cent.⁽²³⁾ This suggests that poverty was more prevalent among the residents of Sillim 7-dong than in any other sub-district within Gwanak district. The high proportion of NBLs beneficiaries was also notable among the displaced of Nangok. Of the 2,067 households displaced from the neighbourhood between September 2000 and March 2002, 12 per cent were NBLs beneficiaries.⁽²⁴⁾

20. See reference 13, pages 33–39.

21. NSO Korea (2001c), *Social Indicators in Korea* (in Korean: Hangug-ui sahoe jipyo), Korea National Statistical Office, Daejeon, page 196.

22. GDG (2001), *Gwanak Statistical Yearbook 2001* (in Korean: *Gwanak Tonggye Yeonbo*), Gwanak District Government, Seoul, see pages 38–39 and 138.

23. See reference 22.

24. See reference 19, Sillim Welfare Centre (2002), pages 10–11.

c. Means of financing and the reliance on cash compensation

The large difference between pre- and post-displacement rent deposits was not compensated for by loans from formal financial institutions. Tenants' limited access to the formal financial sector led to heavy dependence on their own savings or on informal sector borrowing (e.g. loans from relatives, friends or usurers operating in the informal sector). According to the Sillim Welfare Centre survey data, only about one-third of the displaced of Nangok took out NHF housing loans or other loans from formal financial institutions; these loans were the least used means of financing residents' increased housing costs upon displacement. For those tenants who moved to non-KNHC dwellings, cash compensation was cited as the most commonly used source of housing finance. Since the *chonsei* key money for residents' pre-displacement dwellings was used to pay for part of the post-displacement dwellings' rent deposits, it could be concluded that the displaced persons' personal financial assets and borrowing from their support network played a more major role than formal sector borrowing.

d. Increases in housing expenditure

Upon displacement, residents experienced an increase in their household expenditure. Specifically, 86.8 per cent of the Sillim Welfare Centre survey respondents reported an increase in their housing maintenance costs and monthly rents; utility bills were the next most frequently cited increased expenditure item, followed by debt repayment and interest. Thus, all housing-related expenditure had increased for most residents. The residents were driven towards a higher level of consumption forced by the residential redevelopment and displacement from their neighbourhood, which used to offer affordable housing.

Nangok tenants who chose public rental flats as compensation signed two-year renewable rental contracts for 39 square metres of dwelling space, and paid a deposit and a monthly rent of KRW 13,319,000 and KRW 161,200, respectively. Tenants could increase their monthly rental payments if they wished to reduce the amount of their deposit, and vice versa. If a full deposit (about KRW 33,000,000) was paid, then rental payments were waived. When recipients of NBLs benefits were eligible for redevelopment compensation, they tended to choose cash compensation rather than a public rental flat because they were anxious about the pressure of paying a monthly rent.

It was noted earlier that most of those who transferred from *chonsei* to deposit-based monthly rental tenure were public rental tenants. These residents had to face the new challenge of regular monthly payments, equivalent to 19.6 per cent of the average monthly disposable income of those in the bottom 20 per cent of income distribution for salary- and wage-earning urban households in 2000.⁽²⁵⁾ Housing maintenance fees imposed by the estate management office, and other bills paid by tenants (e.g. phone bills, medical insurance), brought the regular monthly expenditure up to roughly 40 per cent of household income.

For many households, the high costs of living in the public rental flats hindered them from moving in during the early stages of displacement from Nangok. For those who had not anticipated the increase in household expenditure, life in the public rental units has been difficult to sustain

25. See reference 10, NSO Korea (2001b).

financially. One of the public rental tenants interviewed stated that she initially applied for a public rental flat but soon gave it up, and now lives in a semi-basement unit in *chonsei* tenure to avoid the high monthly expenditures.

e. Housing market: a mismatch between supply and demand

The majority of tenant households in Seoul live in individual houses (*dandong jutaeg* in Korean). The population and housing census of 2000 found that only 22 per cent of tenant households nationally, and 32 per cent of all households in Seoul, lived in apartment flats.⁽²⁶⁾ The majority of renters (64 per cent of all tenant households in Seoul) lived in individual houses. It was also more common for renters in individual houses to double up with other families. On average, each individual house was home to 2.38 tenant households, while fewer than half of all apartment flats (41 per cent) housed tenant households.⁽²⁷⁾ These figures indicate that apartment flats in Seoul were clearly oriented towards single households and owner-occupation.

This concentration of tenants in individual houses could partly be explained by the fact that individual houses have experienced the lowest price increases since the mid-1980s. Annual surveys of the urban housing price index conducted by Kookmin Bank indicate that sale prices for apartment flats increased by 240 per cent in Seoul between 1986 and 2004, whereas the increase was only 44 per cent for individual houses.⁽²⁸⁾ In the case of the *chonsei* index, apartment flats again experienced a much higher rate of increase (345 per cent) compared to that of individual houses (103 per cent).⁽²⁹⁾ This relatively moderate increase in the price index in the individual housing sector would have been more attractive to low-income residents.

While tenants were largely concentrated in the individual housing sector, housing production was largely in favour of apartment construction and, in particular, high-rise flat construction. As shown in Figure 1, individual houses became less popular with builders and apartment construction became the norm in the construction industry. In the 1990s, around 80 per cent of all new dwellings were high-rise flats.⁽³⁰⁾ Urban redevelopment in dilapidated neighbourhoods has also resulted in the construction of high-rise flats, almost without exception.

There is further evidence of an increasing orientation towards the construction of flats. First, an increasingly large share of planning permits issued for new housing construction has been for high-rise flats. In 1975, high-rise flats (i.e. more than five storeys) constituted 21 per cent of the 131,850 units that received construction permits from the central government.⁽³¹⁾ The share rose further to 66.8 per cent by 1990.⁽³²⁾ Second, the public housing agency, the KNHC, also focused mostly on medium- and high-rise flat construction. The share of apartment flats in the company's annual housing production was on average 34.8 per cent between 1962 and 1966, but increased to 97.8 per cent between 1972 and 1981. Since 1987, the company has been producing apartment flats only.⁽³³⁾

This orientation towards high-rise flat construction places heavy constraints upon tenants and low-income owner-occupiers when they have to move out of dilapidated neighbourhoods due to redevelopment. Upon displacement, they have limited housing choice and tend to look

26. See reference 5, pages 484 and 645.

27. See reference 5, pages 484 and 645.

28. See reference 21, page 327; also Kookmin Bank (2005), "Housing price index: time series data, 1986–2005" (in Korean: "Jutaeg gagyeog jisu siggyeol jalyo"), Kookmin Bank, Seoul.

29. See reference 28.

30. KNHC (2004), *Housing Statistical Yearbook* (in Korean: *Jutaeg Tonggye Pyeonlam*), Housing and Urban Research Institute, Korea National Housing Corporation, Sunghnam.

31. Kim, Woo-Jin (1996), *Economic Growth, Low Income and Housing in South Korea*, Macmillan, Basingstoke, page 145.

32. See reference 30, pages 222–223.

33. See reference 30, pages 486–487.

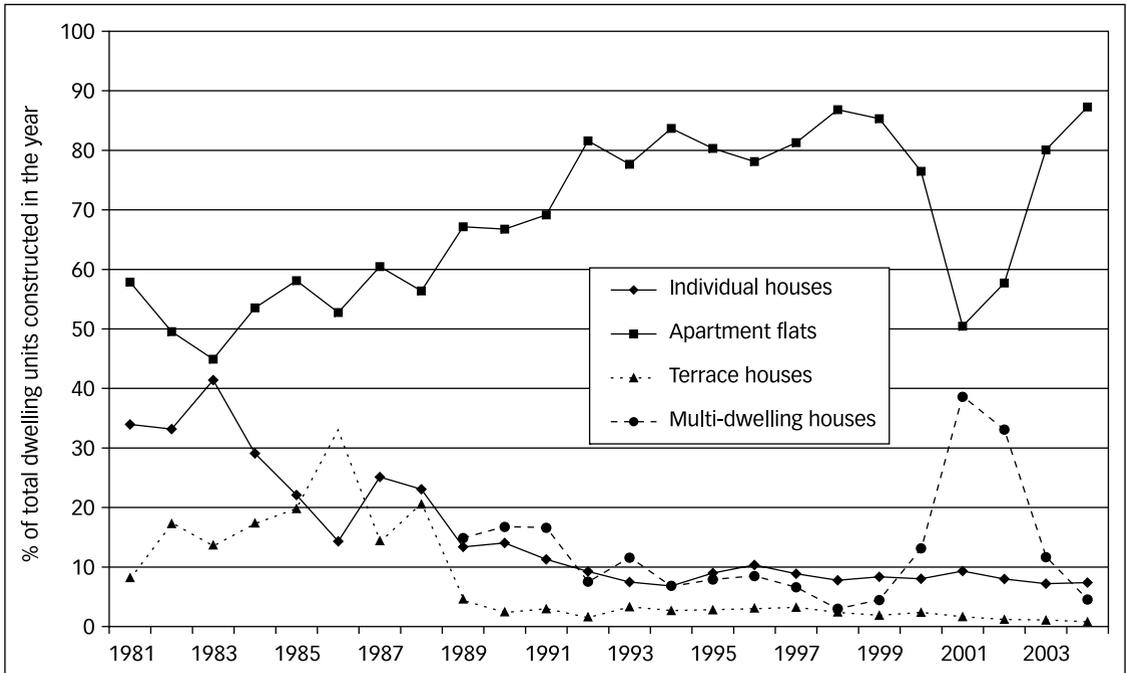


FIGURE 1
National housing construction by dwelling type in South Korea

SOURCE: NSO Korea (various years), *Korea Statistical Yearbook*, Korea National Statistical Office (NSO), Daejeon; also Kookmin Bank website: http://est.kbstar.com/quics?page=s_est.

for dwellings in neighbourhoods where individual houses are more likely to be found with affordable rents. Given both the context of housing price increases since the late 1990s, and the fact that tenants from redevelopment neighbourhoods were accustomed to paying as little as one-quarter of what tenants paid in adjacent neighbourhoods as *chonsei* key money, their displacement clearly resulted in considerable financial pressure.

f. The orientation towards home ownership and the limited supply of public rental housing

While the average urban owner-occupation rate in the country had increased to 49 per cent by 2000, the share of owner-occupied units in Seoul remained at 41 per cent.⁽³⁴⁾ Despite the greater proportion of renters, new housing production has been targeting prospective homebuyers, and long-term public rental housing is scarce. A vivid example is the relative share of housing produced by the KNHC for rental and sale. Of the 682,988 units produced by KNHC between 1962 and 1991, about one-third were for sale on the market.⁽³⁵⁾ One might mistakenly conclude that the public agency has focused on producing rental units to supplement the homeownership-oriented private market. The reality is that the majority

34. See reference 5.

35. See reference 30, pages 486–487.

of rental units produced were available for up to only five years' rental, after which they were subject to purchase by sitting tenants at the end of their leases. For this reason, these rental units could not be regarded as "public" in real terms and were often seen as a route to home ownership. (Rental units with longer leases appeared only in the late 1980s.³⁶)

Although an overwhelming majority of urban redevelopment rental housing is concentrated in Seoul, which has been at the centre of urban redevelopment, most of the limited supply of public rental housing in South Korea has been built outside Seoul (Table 4). While 22 per cent of total national households (or 28 per cent of all national tenant households) were living in Seoul by 2000,³⁷ only about 15 per cent of public rental flats were located in Seoul. These benefit 5.4 per cent of all municipal tenant households.

More than half of these public rental flats countrywide are available for only five-year short-term leases. But in Seoul, these make up a small percentage of what is available. Far more common is *yeong-gu* rental housing (meaning "permanent" in Korean), 50-year lease public rental housing built for low-income households from the late 1980s until the mid-1990s, and which make up two-thirds of all public rental housing in Seoul. The central government budget funded 85 per cent of the construction costs.³⁸ Nowadays, these units mostly accommodate recipients of NBL benefits and those who meet the criteria stipulated in Article 19 of the Ordinance on Housing Supply.³⁹

VI. CONCLUSION

Since the mid-1980s, through a partnership-based redevelopment approach, developers and property owners in dilapidated neighbourhoods in South Korea have worked together to transform these neighbourhoods into modern, high-rise estates. When homeowners lacked legal land tenure because their dwellings were on public lands, they were invited to purchase these public lands in order to obtain full title for their properties. In this

36. See reference 30, pages 486–487.

37. See reference 5.

38. See reference 15, SMG (2002).

39. These criteria include, for example, veterans, North Korean refugees, disabled persons and victims of natural disasters.

TABLE 4
Public rental housing stock in South Korea (2000)

Regions	50-year rental housing				Total
		<i>Yeong-gu</i> rental housing	Urban redevelopment rental housing	5-year rental housing ^(a)	
National total: supplied by	235,095	190,077	34,021	366,747	635,863
KNHC	164,106	140,078	0	56,439	220,545
Local governments	70,989	49,999	34,021	7,613	112,623
Private companies	0	0	0	302,695	302,695
Seoul total	63,992	45,828	33,010	547	97,549
% of national total	27.2%	24.1%	97.0%	0.1%	15.3%

^(a) These units are subject to sale after five years rental. They are built by the public sector (KNHC and local governments) and private companies, and are heavily subsidized by the National Housing Fund.

SOURCE: KNHC (2001), *Housing Handbook 2001*, Korea National Housing Corporation, Sunnam.

40. For more discussions on improving tenure security for urban poor residents, see Payne, Geoffrey (2005), "Getting ahead of the game: a twin-track approach to improving existing slums and reducing the need for future slums", *Environment and Urbanization* Vol 17, No 1, April, pages 135–145.

41. ACHR (2004), "Negotiating the right to stay in the city", *Environment and Urbanization* Vol 16, No 1, April, pages 9–26.

42. du Plessis, Jean (2005), "The growing problem of forced evictions and the crucial importance of community-based, locally appropriate alternatives", *Environment and Urbanization* Vol 17, No 1, April, pages 123–134.

43. Budds, Jessica (2005), "Ensuring the right to the city: pro-poor housing, urban development and tenure legalization in São Paulo, Brazil", *Environment and Urbanization* Vol 17, No 1, April, pages 89–114.

44. Power, Anne (1993), *Hovels to High-rise: State Housing in Europe*, Routledge, London and New York.

45. See reference 43.

respect, the partnership-based redevelopment approach was intended as an effective way of improving dwelling owners' access to legal land and housing in informal settlements. The provision of public rental flats for eligible tenants was also intended as a way of improving tenure security.⁽⁴⁰⁾

The case of Nangok tenants and their displacement, however, indicates that the intended objectives for poor tenants displaced as part of urban redevelopment are not so easily met. It is apparent that the provision of public rental flats, without close attention to poor tenants' housing and tenure needs, does not in fact effectively improve their tenure security upon displacement. For most displaced tenants in Nangok, their post-displacement housing consumption was in conflict with their preferred household expenditure portfolio (that is, minimized expenditure on housing to release financial resources for other uses). Although it could not be verified in the short term, it appeared that their displacement would have detrimental impacts on their allocation of household resources to meet their various needs in the future.

An examination of various constraints experienced by these tenants points to a need for the government to design policy measures to increase the housing options of poor residents. This needs to start from the recognition that "...the poor have a right to live in the city."⁽⁴¹⁾ Cities experiencing rapid changes face the task of urban restructuring in order to accommodate the growing need for improved infrastructure, facilities, housing and so on. This often leads to the forced eviction and displacement of poor residents, which has seriously negative impacts.⁽⁴²⁾ In order to protect poor residents, critics advocate pro-poor housing and urban renewal policies that build on the assets that poor people have already invested.⁽⁴³⁾

Since redevelopment projects target dilapidated neighbourhoods where poor physical conditions are usually linked to lower rents, displaced residents are often left with no option but to move to higher quality dwellings, which command much higher rents (whether *chonsei* deposits or monthly rents). An expansion in the number of public rental flats is necessary, as only about 5 per cent of municipal tenant households in Seoul have access to the public rental sector. The experiences of public housing provision in Western European countries such as Britain and France suggest that the state has a role to play in providing affordable dwellings to the socially excluded population.⁽⁴⁴⁾ However, this method of providing "bricks-and-mortar" subsidies to producers and landlords may place too many financial constraints on central and local governments in low- and middle-income countries.

The design of housing finance systems for poor tenants needs to take into account their household situation. Financial support for tenants in difficulty (such as the National Housing Fund housing loans for *chonsei* tenants) can help tenants pay for their increased housing costs, but this kind of support needs to be implemented with a longer redemption period so that it is more responsive to the needs of poor tenants. Other more people-oriented financial subsidies may also be necessary to address poor families' difficulties in paying increased rents upon displacement. Personal subsidies such as social rent schemes would help allow poor tenants to stay in the city centre where rents are higher.⁽⁴⁵⁾ Recently, the Korean government put forward a revised approach to increase the supply of public rental housing in the individual and multi-household housing sector. This measure is also expected to increase housing choices for poor tenants upon their displacement, but its real impact has yet to be analyzed.

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