

Article

Establishing a new system of affordable housing

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Abstract: The current housing security system plays a crucial role in improving people's livelihood and promoting social equity and justice. However, the high eligibility criteria for affordable housing and its limited coverage have resulted in unsatisfactory outcomes of the affordable housing model. This paper introduces and analyzes the Korean Jeonse right system, and, in light of the current state of affordable housing development in China, proposes a new housing rental model. The aim is to address the core issues of the real estate market, alleviate the contradiction between "housing difficulties" and social progress, and offer suggestions for the future evolution of the housing rental market.

Keywords: affordable housing; Korean Jeonse rights; institutional conception

1. Problem statement

Since China has comprehensively deepened the reform of its housing system, it has achieved remarkable results in practical exploration, and the real estate market has also shown a trend of rapid development. Excessively high housing prices not only obstruct China's goal of "housing for all", but also limit the purchasing power of residents. The housing problem faced by low-income groups in cities has undoubtedly become an issue that warrants widespread social attention (Ding and Wang, 2023). In a society characterized by rapid economic development and accelerated urbanization, the existing affordable housing policies face challenges, especially for young people entering the workplace, such as migrant workers and college graduates. Due to financial constraints and difficulties in securing housing, many choose to leave the city and return to their hometowns for work, leading to a significant outflow of urban talent. Therefore, there is an urgent need for a new housing system that aligns with the times. This article will introduce the Korean Jeonse rights system and propose a housing model that fits within the context of affordable housing construction in China, aiming to alleviate housing pressure while curbing the excessively rapid increase in housing prices.

2. Main problems of Chinese current affordable housing system

Affordable housing, unlike ordinary commercial housing that is priced by the market, is an essential component of the national social system and plays a significant role in reducing income inequality. Over the past 20 years, China has primarily implemented a vertical distribution model for its affordable housing system, from the national to the local level. During different periods, changes in government focus have led to institutional issues within affordable housing policies that are at odds with social development.

First, the Chinese affordable housing policy is predominantly controlled by government administrative power, which mainly involves direct investment and

management in construction and operation (Hao and Wang, 2018). This results in a lack of active participation from social organizations and the public, as well as a deficiency in incentive mechanisms and legal oversight. Secondly, from the perspective of the current affordable housing policies, the limitations of local finances mean that they cannot fully address the housing needs of low-income groups. In some regions, only those with local household registration are included in the protection scope, which excludes non-local populations and perpetuates regional protectionism (Lu, 2019). For instance, migrant workers, who are often referred to as “new citizens,” face significant challenges in securing adequate housing due to economic pressures. Although local governments have been pushing to break down household registration barriers and include migrant workers in the protection scope, they still impose strict requirements on residency duration and job stability, further complicating the issue.

3. Introduction to the Korean Jeonse system

“Jeonse” is a housing rental system unique to Korea. This system reflects Korea’s distinct housing tradition and culture, and its uniqueness has attracted widespread attention and research from other countries and regions (Tang et al., 2016).

3.1. Concept and operation process of renting a Jeonse house in Korea

A Jeonse house arrangement means that the lessee can occupy the house after paying a relatively high deposit to the lessor. The lessee enjoy the right to reside in the house “for free” without paying rent during the contract period, and the deposit is fully recovered once the lease agreement ends (Li, 2019). Generally, the term of a Jeonse contract is more than one year, typically two years. The amount of the deposit varies based on the housing area, environment, surrounding transportation, and other living service facilities. For a property with poor overall conditions, the deposit may be less than 50% of the market value, whereas for a superior property, it may exceed 90% of the market price or even surpass the market value of the house.

South Korea has established a comprehensive set of laws, policies, systems, management agencies, operating procedures, and document templates that support the Jeonse model. Additionally, there is a full range of consulting, intermediary, financial, and insurance services available. The specific operation process is as follows:

- The lessor registers the property with a real estate agency, which then markets the listing.
- The potential lessee can locate a suitable property through rental software and contact the agency, or they may go directly to the agency to discuss their rental requirements and preferences. Under the guidance of the agency, the lessee inspects the basic configuration of the house, along with the surrounding living facilities, environment, and transportation options.
- If the lessee is satisfied with the property, they should visit the local “dong office” (similar to a neighborhood office in China) to verify the basic information about the house and the owner’s registration details.
- Upon confirmation, the lessee signs a “Jeonse transfer contract” with the lessor, facilitated by the intermediary. Additional terms, such as the handling of any defects, the need for additions or repairs, pet policy, parking space usage, and

other specifics, can be negotiated between both parties. After signing the contract, the lessee pays the lessor a “contract fee” (initial deposit), typically around 10% of the total security deposit, and begins to negotiate the move-in date and other related matters.

3.2. Legal provisions of the Jeonse system in Korea

The sustained development and use of the Jeonse system in Korea are not only due to the traditional values ingrained in Koreans but also because of the country’s well-crafted laws, regulations, and policies that provide strong protection for the system. In 1981, Korea enacted the “Residential Lease Protection Act”, which, despite addressing many aspects positively, still had some gaps in tenant protection. Subsequent revisions in 1983, 1989, and 1998 addressed these issues by increasing the deposit amounts, extending the lease term for Jeonse arrangements from one to two years, and allowing tenants to remain in the property and apply for an auction if the lessor fails to return the deposit in full upon lease expiration (Tang et al., 2016).

In April 1984, the long-standing debate over whether Jeonse rights should be recognized as a form of property right was resolved. This revision clarified the priority of payment for Jeonse rights, significantly affirming and protecting the status and interests of the lessee (Tang et al., 2016). According to Article 303 of the Korean Civil Code: “The holder of a Jeonse right can take possession of another person’s real estate after paying the Jeonse money and use the proceeds according to the purpose of the real estate. The successor to the real estate owner has the right to obtain jeonse money first. Agricultural land cannot be used as jeonse property.” This implies that, after the lease expires, if the lessor cannot return the deposit, the lessee can recoup their economic losses through the auction of the property (Li Zhongxun, 2019).

3.3. Advantages of Korea’s Jeonse system

As a special housing rental system that integrates savings, renting, and financing, Jeonse arrangements have played a crucial role in alleviating housing problems for middle-income groups in South Korea (Li Zhongxun, 2019). For middle-income tenants who lack the means to purchase a home, saving up a sufficient security deposit enables them to move into a chosen property. The security deposit can be viewed as a “compulsory savings fund.” Jeonse is advantageous for lessors, providing them with stable funds for financing, while for lessees, it acts as a “compulsory savings fund” for future home purchases. After the lease contract ends, the security deposit can be used as a down payment for a new property or for other investments (Tang et al., 2016).

From the perspective of the lessor, the collected deposits can be utilized for market financing, making the Jeonse system an integral part of the housing financial market. Lessors can leverage

the deposit to make financial investments and gain economic benefits. Moreover, when facing economic difficulties and finding it challenging to secure bank loans for purchasing additional properties, lessors can alleviate the financial burden of buying a home by collecting Jeonse deposits. Furthermore, since the deposit is not considered operating income, it is not subject to taxation. Homeowners can anticipate property appreciation and rising house prices, and invest in the construction of affordable rental

housing, thereby benefiting from additional policy and financial support. In principle, lessors must ensure that the property is adequately furnished with basic necessities, including kitchen appliances, air conditioning, refrigeration, washing machines, and essential utilities like water, electricity, gas, and internet. These provisions increase the lessor's investment costs. When the lease agreement ends, the lessor must return the full deposit, bearing the risk of liquidity challenges if house prices decline or demand decreases.

In summary, Jeonse are popular and enduring in the Korean housing market because, for landlords, the system serves as an effective means of financing. However, the system is particularly beneficial to tenants, especially during periods of low interest rates on bank savings, as low-income tenants can use loans to pay for deposits, thus securing housing at a lower cost. At the same time, the deposit functions as a form of forced savings, setting aside a sum of money for future home purchases.

4. Practical factors that China needs to learn from the Jeonse house system

4.1. Problems in Chinese housing rental industry

In large and medium-sized Chinese cities, where the floating population is concentrated, the overall scale of the housing rental market is relatively small, making it difficult to meet the rental needs of urban residents. For example, in Shenzhen, it is estimated that the city's homeownership rate is only 20%. Additionally, there are issues with the disorganization of the housing rental market, and the lack of a comprehensive legal system makes it challenging to effectively protect tenants' interests (Hao and Wang, 2018). As key players in the housing rental market, real estate intermediary companies often face criticism for falsifying housing information, which directly leads to unstable relationships between landlords and tenants and frequent rental disputes, thus making it hard to safeguard the interests of both parties.

With the rapid development of the market economy, various real estate developers, housing agencies, and property management companies have entered the housing rental market to address significant economic challenges. Some operators have also innovatively launched projects such as long-term rental apartments. However, the ambiguity in industry standards and regulations hinders the effective protection of tenants' rights and complicates administrative oversight and regulation. Furthermore, the housing rental market, predominantly supplied by individual investors, lacks specialized technical support, such as strategic planning, and tends to focus on short-term economic gains, leading to low overall investment efficiency in the rental market.

4.2. Excess vacant houses in China

In recent years, the vacancy rate of commercial housing in China has been on the rise. The primary reason many developers and homeowners choose to leave their properties vacant rather than renting them out for profit is the urgent need for capital recovery among real estate developers, as the capital return cycle for rentals is too long and does not align with their investment costs. From the perspective of the current

supply in the housing rental market, the issue is not a lack of available homes but rather a high number of vacant units. According to the Shell Research Institute's "2022 Survey Report on Housing Vacancy Rates in Major Cities in China," a study was conducted on vacancy rates across 30,000 neighborhoods in 28 cities. The findings indicate that the average housing vacancy rate in these large and medium-sized cities is 12%, which is relatively high. If these vacant properties were transferred to the rental market, the severe imbalance in the supply and demand structure could be significantly improved. By exploring the causes of vacant houses and integrating them with the relevant theories from the Jeonse housing system, it is possible to connect vacant properties with growing housing demand, thereby creating a practical and feasible affordable housing system to enhance the balance of the housing supply and demand structure.

4.3. The housing rental market can accelerate urbanization

As urbanization accelerates, the number of migrant workers in cities continues to grow, making housing a critical issue in their transition to urban citizens. According to the 2017 National Health Commission's dynamic monitoring survey on the floating population, approximately 76% of migrant workers cannot afford to buy a house in the city. Currently, the construction of affordable housing, with public rental housing at its core, is a fundamental measure to improve the living conditions of migrant workers and integrate them into urban life. Although research indicates that including migrant workers in the housing security system faces numerous challenges, the benefits are substantial, and the approach is highly feasible.

Affordable housing reflects the city's care and consideration for migrant workers, demonstrating "tolerance" and "closeness". However, the reality is that after entering the city, the rural migrant population often faces unequal treatment in both life and work. The welfare benefits they receive are significantly low compared to those of urban residents, and their overall quality and education level are relatively low. This results in a lack of a sense of "belonging" to the city, which seriously hinders the healthy development of new urbanization. The application process for affordable housing typically involves stringent restrictions, including the requirement to pay social insurance, a minimum number of working years, and income below a certain threshold. Consequently, the group of migrant workers who apply for affordable housing is likely to be a disadvantaged one, with a weak willingness to remain in the city due to their limited urban integration. In many areas, affordable housing may exist more in theory than in practice, and there is still a long way to go before social security housing can play a meaningful role in the urbanization of migrant workers.

5. The institutional conception of Jeonse housing under Chinese affordable housing system

Although the central government has strengthened the top-level design of the affordable housing system from a macro perspective to effectively address housing and other livelihood issues, most affordable housing policies have overly stringent requirements for applicants and do not include the aforementioned migrant population, leaving hundreds of millions of migrant without stable housing. I believe that in the

process of establishing affordable housing construction with Chinese characteristics under the Korean Jeonse system for reference, it is necessary to put forward rules, procedures, implementation methods, policies and regulations that conform to China's real estate market according to the specific situation of China's current real estate. It is suggested that the following rules should be established first:

1) Term of contract

When piloting affordable housing in China, the period can be selected within one to three years according to the wishes of both parties to the contract. If it is affordable housing provided by the government, it can set a retention period of up to 20 years (the qualification of the housing owner is reviewed every 2 years or so).

2) Qualifications of the subject matter

Houses that have been mortgaged or have other creditor's rights in advance shall not be used as affordable housing, and it is stipulated that the subject matter shall not be mortgaged during the contract period. Houses purchased by individuals by mortgage loans, such as houses whose down payment has been paid and the value of loan repayment is lower than the housing guarantee deposit, shall not be put on the market as affordable housing. Houses with disputed ownership shall not be put on the market in the form of affordable housing.

3) Qualifications of the lessor

The qualification examination of the units or individuals that rent affordable housing shall be conducted, and the units or individuals with serious social credit misdeeds shall not be the lessors of affordable housing. When the lessor of affordable housing seriously breaks the contract or is unable to return the housing security deposit, the arbitration institution or local court shall decide the auction subject matter through summary procedures to safeguard the legitimate rights and interests of the lessee.

4) Margin floating

According to the government's regulations, if the lessor of the house proposes to increase the total amount of security deposit or rental fee, the average annual maximum shall not exceed 2%.

5) Responsibilities of intermediary companies

The intermediary company is responsible for comprehensively and accurately providing important information about the subject matter and the owner. If economic losses are caused to the parties due to mistakes, compensation must be made according to a certain proportion.

6) Commercial banks act as third-party institutions to collect margin deposits

Generally speaking, the security deposit may be a huge sum of money for groups in urgent need of renting affordable housing, so it is necessary to fully protect the security deposit to protect the interests of all parties. Only in this way can affordable housing develop steadily and rapidly in the market economy. In order to avoid the unsafe factors caused by direct money transactions between lessors and lessees of affordable housing, commercial banks can act as third-party institutions to build a bridge of trust for both parties and realize affordable housing transactions safely and quickly.

The previous section briefly described the Korean jeonse system and its advantages. The author believes that integrating the benefits of the jeonse system with

the affordable housing initiatives led by the Chinese government would be conducive to the rapid development of China's housing rental industry. Implementation should be carried out in the following aspects:

First, if China relies too much on local finances in the construction of jeonse housing, it will be difficult to achieve the expected results of affordable housing projects. Therefore, the government should raise funds for affordable housing construction through multiple channels, integrate scattered external capital via public-private partnerships, and invest it in affordable housing. The local government can collaborate with real estate developers to implement preferential policies in the bidding process for preliminary projects. Developers could allocate a portion of the housing stock to be returned to the government for a specified number of years. The government could then designate these homes for qualified recent graduates or highly educated professionals who have been employed for a few years but do not yet meet the criteria for homeownership. This approach would not only attract talent and enhance regional economic competitiveness but also address the housing challenges faced by this demographic, thereby improving local economic cohesion. By attracting talent and fostering economic competitiveness, the government alleviates housing pressure on this group, enabling them to focus on their work without worries, and contribute to regional development. In return, the government could offer clear and robust policy support to real estate developers, including favorable land supply agreements, tax relief, subsidies, and loan financing. By providing developers and social institutions with incentives to engage in building protective housing, the government can encourage their participation in social responsibility while also reaping economic benefits.

Second, a large number of vacant houses have significantly distorted the relationship between housing supply and demand, leading to frequent shortages of rental housing. Building on this foundation, the advantages of housing intermediaries can be fully utilized. Owners of vacant properties or real estate developers can share information about available housing resources with qualified housing intermediaries. These intermediaries will conduct a thorough review to determine whether the housing listings meet the criteria for protected housing. If the listings are deemed eligible, the information will be forwarded to the relevant government departments for final approval. Once the review is complete, this information will be passed to specialized commercial banks or high-rated financial institutions that manage the financial aspects of protected housing. If real estate companies transfer their vacant properties to the rental market, it could alleviate the imbalance between current rental supply and demand, thereby promoting the prosperity and development of the rental market.

Third, China urgently needs to establish professional and specialized real estate agency companies to achieve a high degree of industry self-discipline. According to the 2023 Blue Book on the Development of China's Urban Long-Term Rental Market (hereinafter referred to as the "Blue Book"), the current number of renters in China is nearly 260 million. The composition of real estate agencies in China is complex, and most employees lack full-time experience and adequate training. Some enterprises do not possess sufficient qualifications, leading to more disagreements and misunderstandings among staff during interactions with tenants. Consequently, many

potential homebuyers have a low level of trust in real estate agencies. The real estate intermediary industry is still an emerging sector in China, characterized by low overall development. Specific issues include the relatively low quality of the industry, a large number of small-scale agencies, and unsatisfactory business practices. If a housing system with Chinese characteristics is to be established, housing agency companies will play a critical role. During “affordable housing” transactions, housing agents should prioritize conducting thorough qualification reviews of properties offered by individuals and real estate companies. They must evaluate housing listings based on principles of fairness, justice, and transparency, and subsequently transfer this information to relevant government departments for a second round of scrutiny. This review process should assess the qualifications and creditworthiness of the housing listings, as well as those of affordable housing applicants and tenants (companies), to ensure secure transaction practices for all parties involved. The real estate agency, as a subordinate executive agency of relevant government bodies, must earn public trust and demonstrate reliability. Currently, however, China’s real estate agency companies often lack the necessary qualifications. To promote the affordable housing system at the national level, it is essential to upgrade the structure of housing intermediary companies.

Finally, the real estate agency industry is an emerging industry in China. Generally speaking, if a housing security system with Chinese characteristics is to be established, real estate agencies play a vital role. As a subordinate executive bodies of relevant government agencies, real estate agencies must be enterprises trusted by the general public and worthy of their confidence. However, at present, Chinese real estate agencies lack the necessary qualifications, and the industry remains at a low level. Specifically, the overall quality of the industry is low, with a large number of small scale, poorly managed, and non- standardized businesses. If the Jeonse system is to be promoted at the national level, the structure of real estate agencies must be upgraded.

Establishing a new affordable housing construction mode can provide more tasteful transitional housing for people who don’t have enough funds to buy an ideal house. And it can provide convenient housing for people who work in different places and are not ready to buy houses in their workplaces within a certain period of time, that is, the new affordable housing can not only alleviate the housing difficulties for low-income groups who can’t afford houses but are worried about high rents. The promotion of new affordable housing is expected to inhibit the excessive growth of house prices and rents.

Conflict of interest: The author declares no conflict of interest.

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