South Korea’s Jeonse Crisis

When Lee Cheol Bin realized he’d probably never recover the 210 million won ($163,000) deposit on his apartment rental in Seoul when his lease expires in November, the 29-year-old was gripped with anxiety and began avoiding friends and family. “I couldn’t sleep at night or focus on work for a few months,” says Lee, who had taken out a 120 million won loan to cover a portion of the deposit.

Lee’s landlord was found dead in a hotel room in October. A police investigation ruled out suicide or foul play, but local media reported that the man, whom they’d dubbed the “Villa King” because he owned more than 1,100 rental units across Seoul, was behind on tax payments and was being investigated for fraud. (“Villa” is what Koreans call small apartments in often dingy five- to six-story buildings that lack the amenities of those in better-appointed, sleek residential towers.) “I’ve heard a lot of things like ‘You should’ve done your homework,’” says Lee, who works at a real estate startup. “Realistically, I don’t believe I will get everything sorted by November, when my jeonse expires.”

Under a system that’s unique to South Korea, landlords collect a deposit called jeonse that’s equal to anywhere from 50% to 90% of a property’s value at the start of the lease period, which typically runs for two years. Tenants usually pay no rent for the duration while the property owner profits by investing the funds, often to buy or build more apartments. Landlords are contractually obligated to refund the deposit at the end of the lease term.

Historians have traced jeonse’s roots to the 19th century, but it didn’t really take off until the 1970s, when South Koreans were pouring into cities as the country industrialized. Jeonse endures because mortgages remain out of reach for many. Nathan Park, a lawyer at Kibler Fowler & Cave LLP in Washington, calls it “a jerry-rigged financial system” that’s a holdover from another era. An expert in East Asian politics and economics, Park has fielded inquiries from tenants asking for his help in tracking down their deposits since he wrote an article on South Korea’s housing market for Foreign Policy in 2020.

What’s essentially a government-sanctioned pyramid scheme—in which landlords pay back the deposits of tenants whose leases are expiring with funds obtained from new renters—worked relatively smoothly when property prices in the country’s major cities were climbing. But that decades-long trend was thrown into reverse when the Bank of Korea began aggressively raising interest rates in 2021 to tame inflation.

Since reaching a peak last year, prices in Seoul—home to about one-fifth of the country’s population—have dropped 9% in the year through March, the biggest decrease among Asian cities. Bill set to return, the Los Angeles resident, who’s a freelancer in entertainment media, is planning to take on additional gigs. But Paul’s biggest concern is no longer being able to help relatives with bills: “I was looking at my bank account this morning and thinking I need to tighten stuff up. If my mom or brother needs help, it may take me a minute.” —Claire Ballentine and Augusta Saraiva

THE BOTTOM LINE The end of a three-year pause on payments for 27 million student loan borrowers will act as a drag on consumer spending, which is already showing signs of flagging.
that period, according to a Knight Frank report. Some neighborhoods saw drops as big as 30%. The upshot: Landlords are collecting smaller deposits from new tenants, which is making it harder for some to pay back renters whose leases are expiring.

What started as a trickle of defaults has swelled into something bigger. The number of court cases filed by tenants against landlords for unreturned deposits topped 19,200 in the first half of 2023, a 60% increase compared with all of 2022, according to data from the Supreme Court of Korea. In a report from May, the central bank estimated that more than half of the 2 million people who have paid jeonse are at risk of losing a portion of their money.

The expectation is for a surge in defaults later this year and through 2024, because the two-year contracts coming due were signed when prices—and hence deposits—were at record highs. A national index of the value of jeonse deposits compiled by KB Kookmin Bank has dropped more than 9% in the 12 months through June.

The crisis has had tragic consequences in a nation where the high cost of shelter means households are among the most indebted in the world. At least five tenants who’d lost money died by suicide this year, according to police.

The government body that offers insurance on deposits, the Korea Housing and Urban Guarantee Corp., paid out a record 1.17 trillion won in compensation in 2022 and may need to pay as much as 4.7 trillion this year, according to Eunyoung Choi, executive director of the Korea Center for City and Environment Research. Only some 20% of jeonse renters have fully insured their deposit.

President Yoon Suk Yeol’s administration has created a task force to crack down on jeonse fraud. Authorities say they’ve investigated 2,900 individual landlords and real estate brokers and have uncovered several criminal rings in the process.

The government has also taken steps to bolster protections for renters in a system that’s notoriously opaque, including releasing an app that prospective tenants can use to look up landlords to see if they have tax liens on their properties.

The Ministry of Land, Infrastructure and Transport, which oversees the system and is leading reform efforts, has floated a proposal to have a third party, such as a brokerage, act as a custodian for jeonse deposits, but unsurprisingly landlords haven’t warmed to the idea. An official at the ministry who declined to be named because they’re not an official spokesperson said that unrefunded deposits are a “side effect” of the jeonse system.

Sim Sang-Jung, an opposition lawmaker from the Justice Party, says the government must shoulder some of the blame, because it didn’t act to curb a surge in borrowing on the part of jeonse renters. “A huge amount of money has been released into the housing market—and in particular, jeonse loans,” she says. “At some point the bubble will burst.”

For some, it feels as if it already has. Hong Su-min diligently socked away part of her office job salary for six years and borrowed 88 million won from a major Korean bank to afford the 110 million won deposit on her studio just outside Seoul. She’s supposed to get the funds back when her lease ends in September, but her landlord has struggled to keep up with tax payments and hasn’t lined up another tenant. “If I can’t get the deposit back, all the money I saved in my 20s will be gone,” the 29-year-old says one afternoon in May outside a bustling rental fraud service center temporarily set up by the government near Seoul. “I just want to get my jeonse deposit back.”

—Whanwoong Choi, Kyungji Cho and Sangmi Cha, with Myungshin Cho

THE BOTTOM LINE More than half of the 2 million South Korean renters who paid large deposits called jeonse at the start of their leases are in danger of losing their money, as property prices drop.