

## Management, Valuation, and Revenue Generation of Korean State Properties

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### Executive Summary

At the end of the fiscal year 2021, Korea's state properties were valued at 1,337 trillion KRW (1.1263 trillion USD<sup>2</sup>, book value), and 25,355 km<sup>2</sup> of this was land, which accounted for approximately 25% of the national land area. The government uses state property for administrative purposes, and state property management policies have changed over time. These changes can be broadly divided into the era of passive management policy prior to 1994, followed by the era of active management policy.

Korea has formed a system of laws and management institutions related to state property, enacting and operating a single fundamental law, the State Property Act; the Minister of Economy and Finance exercises general authority over all state-owned property. Some of the central government's authority over state property management, including that of the Minister of Economy and Finance, is delegated to the Korea Asset Management Corporation (KAMCO) and local governments.

As with ordinary properties, it is essential to value state property, which can be classified into valuations for internal accounting and reporting and valuations for external transactions. The former refers to accounting assessment and is also referred to as book value, and the principle is to sum at acquisition cost. The latter can be divided into the valuation of rent and of disposal, such as a sale. Rent valuation involves multiplying the price published by the government (typically the individual declared land value announced by the government for land nationwide) by a certain factor, and disposal valuation is calculated by an expert who estimates the market price.

South Korea generates revenue by establishing the transaction's object and the transaction price following the State Property Act and returns it to the relevant national account. Several incentives are provided for effective state-owned property management, which prefers state property to remain under state ownership, such as leasing, rather than losing ownership through a sale. There is also a recent tendency to prefer sale or lease after increasing the current value through development.

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<sup>2</sup> The dollar amount in this section is based on the closing exchange rate of 1,084.47 (digits after the dropped decimal place) on December 31, 2020, the base year.

## I. State Property Management

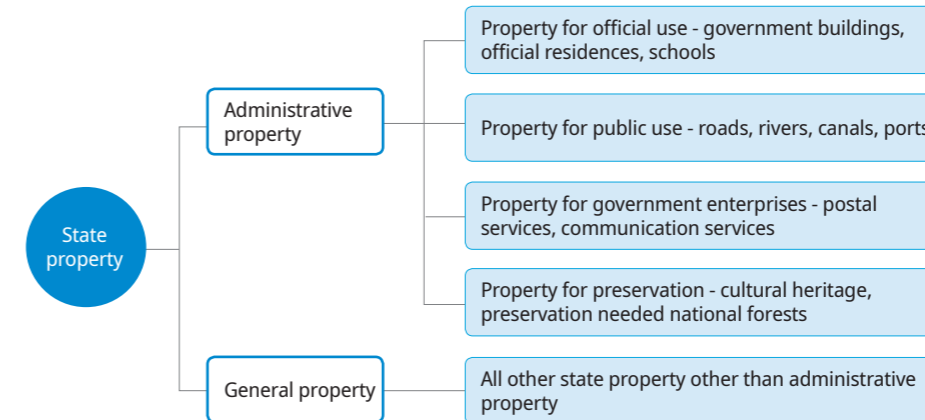
### 1. The Concept and Types of State Property

State property generally refers to all state-owned property in a broad sense. However, the National Property Act only applies to state property in consultation (Article 2, Section 1) and that listed in Article 5, Section 1, such as real estate, prescribed movable assets, and securities. State property is broadly divided into administrative property and non-administrative property, and administrative property is further classified into property for official use, public use, government enterprises, and preservation (Article 6, Sections 1 and 2).

Administrative property is property directly used by the state for official, public, or industrial purposes, or preserved by the state according to law and other necessities (Article 6, Section 2); general property is all state property that is not administrative property (Article 6, Section 3).

Property for official use refers to property the state uses directly for administrative or business purposes or the residences of public officials; it includes government buildings, courts, and prisons. Property for public use is property the state directly uses for public benefit, including roads, rivers, parks, and ports. Property for government enterprises refers to property that any government enterprise directly uses for administrative purposes. Government enterprise refers to post offices, procurement, and the grain business. Property for preservation is property that the state preserves according to statutory requirements or other necessities, including cultural property, national forests, and islands.

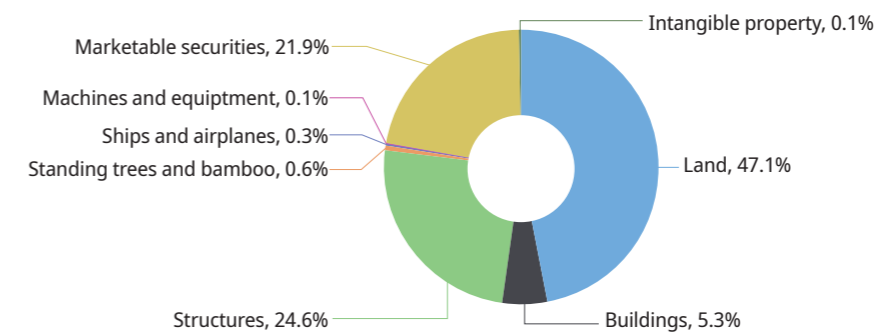
Figure 1. Classification and types of state property as of 2022



Source: KAMCO website.

Of approximately 1,337 trillion KRW (1.1263 trillion USD)—the book value of South Korean state property—administrative property was valued at approximately 1,000 trillion KRW (844.5 billion USD, 74.8%) and general property was valued at approximately 337 trillion KRW (283.9 billion USD, 25.2%). By property type, land amounted to 630.7 billion KRW (530.7 billion USD, 47.1%), structures to 329 trillion KRW (277.1 billion USD, 24.6%), marketable securities to 293 trillion KRW (246.8 billion USD, 21.9%), and buildings to 71 trillion KRW (59.8 billion USD, 5.3%).<sup>3</sup>

Figure 2. Ratio of the amount of state property by type at the end of the 2021 fiscal year



Source: Korea Property Information System.

<sup>3</sup> General Report on the Management and Operation of State Property for the 2021 Fiscal Year, Ministry of Economy and Finance.

## 2. Transitions in State Property Management Policies

The central government's state property management policy has broadly transitioned through three stages following contemporary requirements: 1. The era of establishment and disposal of state property from the 1950s to circa 1976; 2. The era of passive management from 1977 to 1994; and 3. The era of active management after 1994.<sup>4</sup>

### (1) The Era of Establishment and Disposal of State Property

From the 1950s to about 1976, the privatization of the devolving property<sup>5</sup> transferred from the U.S. military government was the core of the state property management policy. Of the devolved property, only that required for administrative purposes was retained as state property and the rest was disposed of to the private sector. Amounts from the disposal were invested in state projects.

### (2) The Era of Passive Management

This period endured from circa 1977 to 1994. State management by tax revenue was established by the success of government-led economic development from this period onward. Therefore, the government refrained from disposing of state property and transitioned to a policy of maintaining and preserving it. A system of annual management and disposal of state property was introduced (1976) and developed (1981), and various legal measures (e.g., imposition of indemnity and administrative enforcement) against unauthorized occupants of state property were established (1976).

### (3) The Era of Active Management

After 1994, the policy was changed from maintaining and preserving state property to its active utilization for national administrative purposes. The Ministry of Economy and Finance began management of state property under its direct control (1994), introduced property trust (1994) and entrustment development (2009), and further added fund and private participation development (2011). The grounds under which a third party could

<sup>4</sup> 2022 Comprehensive State Property Plan, Ministry of Economy and Finance.

<sup>5</sup> With the surrender of Japan on August 15, 1945, all Japanese assets in the Korean Peninsula were attributed to the U.S. military government, and these assets were transferred as they were to the Republic of Korea government in 1951. All of these assets are referred to as devolving property.

build permanent facilities on state property were expanded (2011). The State Property Management Fund was established to use the profits generated from state property to control its supply and demand (2011).

## 3. System of Relevant Laws

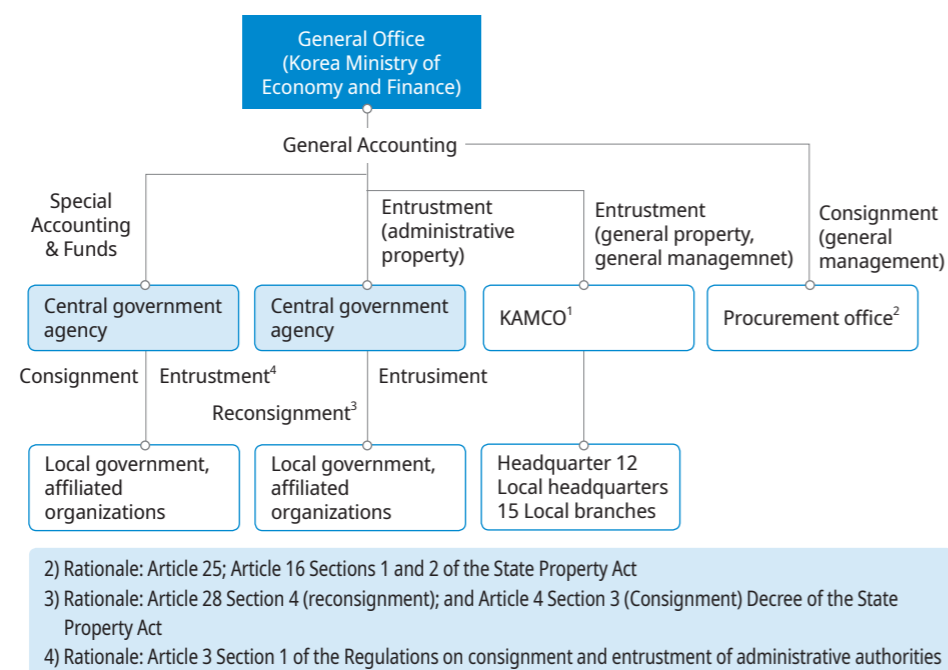
The State Property Act (the Act) features various regulations to realize the publicity of state property or to promote the public function of state property, and the Act is the fundamental law generating such public regulations (Articles 1 and 4 of the Act).

State Property Act regulations often govern areas entrusted to private autonomy with a certain direction, such as permissions for use and sale, decisions of users and buyers, calculation of usage fees, and sales payment. It may also contain elements outside of civil law, such as restriction on flexibility, compulsory collection, and vicarious administrative execution. In many cases, there are individual fundamental laws governing state property in the broader sense not listed in Article 5, Section 1 of the Act, such as the Commodity Management Act, Act on the Management of Military Supplies, State Credit Management Act, and Management of the National Funds Act. There also are cases where individual fundamental laws are established for state properties listed in Article 5, Section 1 of the State Property Act (e.g., national forests). Contracts and lawsuits related to state property are subject to statutes regarding state contracts and litigation. All state property, as part of state finances, is subject to the National Finance Act.

A particular regulatory system also takes precedence over these fundamental public law regulations. This includes the regulations related to state property in various public property, public utility, and special state property laws that exclude or restrict the Act's application for the greater public interest beyond its legislative purposes and individual fundamental laws. Public law regulations in the special regulatory system mainly limit the authority of property management agencies or exclude and relax fundamental law regulations.

## 4. System of State Property Management Agencies

<Figure 3> State property management system as of 2022



Source: KAMCO website.

### (1) Relationship Between the General Office and the Central Government Office

The Minister of Economy and Finance oversees all state property as the general office (Article 2, Section 10 of the Act) and manages and disposes of state property (managed with general accounts) under its jurisdiction. Since 1994, a series of measures were introduced to strengthen general office authority while implementing an active management policy of expanding and utilizing state property.

The general office performs a series of functions in relation to all state property, including enactment and amendment of relevant statutes, interpretation of authority, formulation of a comprehensive plan for state property, and the command and supervision of the heads of each central government office.

The head of the central government agency uses state property under general account management as administrative property and is entrusted with property management and disposal (Article 8 of the Act and Article 4, Section 3 of the Decree). The head of the central government agency bears jurisdiction over all state property belonging to the special accounts and funds (Article 8, Section 3 of the Act).

### (2) Delegation and Entrustment of Government Authority

The state property affairs of the Minister of Economy and Finance and the head of the central government agency are delegated to affiliated public officials and KAMCO.

#### 1) Delegation of State Property Affairs

The Minister of Economy and Finance delegates parts of general affairs and state property management and disposal, under the general account, to the heads of the Public Procurement Service and central government agency.<sup>6</sup> The head of the central government agency delegates parts of state property administration and disposal affiliated with special accounts or funds to local government heads.<sup>7</sup>

#### 2) Consignment of State Property

State property management and disposal by the heads of the Ministry of Economy and Finance and the central government agencies are often consigned to KAMCO. In addition to property management and disposal (Article 42, Sections 1 and 2 of the Act and Article 38, Sections 3 and 4 of the decree), state property development affairs (Article 59 of the Act) and a series of general affairs, such as administrative property investigation and operation of the State Property Management Fund (Article 25 of the Act, Article 16, Section 2 of the decree), are also consigned to KAMCO.

The State Property Act has not established a separate public institution dedicated to state property management and disposal, but it has appointed KAMCO as the agency in charge of state property management by consigning KAMCO various affairs in management, disposal, and general affairs related to state property.

<sup>6</sup> Article 8, Section 6 and Article 25 of the Act; Article 4, Section 3 and Article 16, Section 1 of the Decree.

<sup>7</sup> Article 28 and Article 42, Section 4 of the Act.

The entrusted agency (the Minister of Economy and Finance and head of the central government office) must conclude an entrustment contract with KAMCO. The contents of the contract must include the purpose of consignment, consignment fees and expenses, consignment period, the obligations of the delegated agency, liability in case of contract violation, and other necessary matters (Article 13 of the Regulations on Administrative Delegation and Consignment). The Ministry of Economy and Finance developed and manages the “Rules on Entrustment of State Property” (Ministry of Economy and Finance Decree) to prescribe matters necessary for consigning state property affairs to KAMCO.

The consigning agency directs and supervises the delegated agency and, if deemed necessary, may give instructions or order reports and measures regarding the consigned affairs. The consigning agency may also cancel or suspend any administrative affairs of the delegated agency if deemed illegal or unjust (Articles 14 to 16 of the Regulations on Administrative Delegation and Consignment).

### (3) Relationship Between the Central and Local Governments

Although both central and local governments have their own resources, the central government’s resources overwhelm that of local governments both quantitatively and qualitatively. In the case of land, about 25% of the total land area is state-owned and about 7% is municipally owned.

The central government consigns relevant state property location management and disposal to local governments and often pays prescribed remuneration. Furthermore, the central government not only prioritizes the use or sale of state property for the local governments to help with smooth administration, but also reduces or waives usage fees and sale payments in special cases. The granting of preferential rights and monetary benefits to these local governments is based on laws such as the State Property Act.

By contrast, local governments may impose constraints under public law, such as establishing or changing urban plans for state property, designating or annulling public facilities, or permitting state property development projects.

## 5. State Property Management Digital Systems and Website

The major established and active state property management digital systems are as follows: 1. Next Generation Digital Budget Accounting System (dBrain), 2. Korea Property Information System’s “State Property Portal” (www.k-pis.go.kr), 3. KAMCO Next Generation State Property Management System, and 4. Onbid (www.onbid.co.kr). Of these, 2 and 4 are available to the public on the website.

KAMCO Next Generation Property Management System manages general property falling under general accounting, and the remainder of state property (general property and administrative property under general accounting, special accounting, and fund-ownership) is managed through Next Generation dBrain. Onbid is a processing system of state property disposal information designated and announced by the Minister of Economy and Finance and provides general property under general accounting to all citizens. Korea Property Information System’s “State Property Portal” discloses to the public data on general accounting and land and buildings under special accounting and funds.

**Table 1. Main State Property Management Systems**

Classification	Management Authority	Users	Main Function	Year of Establishment
Next Generation dBrain	Korea Fiscal Information Service	Central and local government finance officials	- Management of administrative property under general accounting, and administrative and general property under special fund accounting - Support general financial affairs, such as budgeting, execution, settlement, and state property management, and provide integrated management of state financial information - State property management is divided into comprehensive planning, acquisition and disposal, management of the accounts, and price evaluation	2007
Korea Property Information System (State Property Portal)	Korea Fiscal Information Service	All citizens	- Statistical information on state property, the general status of state property, and guidance services	2015
KAMCO Next Generation State Property Management System	KAMCO	KAMCO state property personnel	- Disposal management of the general property under general accounting	2007
Onbid	KAMCO	All citizens	- State property disposal system (loan and sale of competitive bidding)	2006

## II. Valuation of State Property

Ordinary properties have prices recorded in accounting records and market prices. Additionally, Korean properties have prices disclosed by the central or local governments to promote fair pricing and equity, such as taxes and levies. State property is also valued at variable prices to the extent that they do not deviate significantly from the above.

### 1. Valuation in Accounting

The price of state property recorded in the ledger of state property (Article 12, Section 2 of the Act) is also referred to as the book value. In principle, state property's book value is summed up as the acquisition cost, and when there is no acquisition cost, or it is difficult to obtain, the book value is recorded as the fair market value (Article 32, Sections 1 and 2 of the National Accounting Standards). The acquisition cost is the sum of the purchase price of the property or the cost of manufacturing and incidental costs related thereto, and the fair market value is a price that can be traded between independent parties with reasonable judgment and willingness to trade (Article 2, Section 3 of the National Accounting Standards), which is similar to the market price.

As the book value of state property is a historical cost concept and is necessarily lower than the current public or market price, it does not apply to monetary interests such as use or trading permissions. It is only used as a decision making criterion without applying various statistics, reports, and monetary interests.<sup>8</sup> It is also revalued at the fair market value (market price) by stipulating a period.<sup>9</sup>

### 2. Valuation for Transactions

#### (1) Declared Price

The Minister of Land, Infrastructure and Transport must examine and evaluate the appropriate price (officially assessed reference land price) and announce it on January 1 of each year for reference land selected from a group of lands generally deemed of similar

<sup>8</sup> Articles 42, Sections 1, 2, 8, and 10 and Article 2, Section 2 of the Decree.

<sup>9</sup> Article 38, Section 2 of the Korean National Accounting Standards and Article 47 of Guidelines for General Tangible Assets and Infrastructure Accounting (Ministry of Economy and Finance).

land use situation, surroundings, and other natural and social conditions. Meanwhile, mayors and county governors must determine and announce the current prices of individual lands (individual declared land values) on January 1 of each year to be used for the imposition of various taxes, such as national and local taxes, and the calculation of the price for other purposes prescribed by other Acts and subordinate statutes. They must also provide these to the relevant administrative agencies.<sup>10</sup> Additionally, the Minister of Land, Infrastructure and Transport must disclose standard and individual housing prices apart from the announcement of land prices.<sup>11</sup>

The State Property Act links usage and loan fees<sup>12</sup> for state property to announce prices, such as individual declared land value. That is, in principle, usage fees are calculated by multiplying the announced price by a specific rate.<sup>13</sup> The State Property Act links usage and loan fees for state property to declared prices, such as individual declared land value. That is, in principle, the usage fee is calculated by multiplying the announced price by a specific rate. The usage fee should be calculated at the market price because the usage fee is the rent. However, the posted price is used instead because the exact market price is unknown, and yearly appraisal of the usage fee is difficult. As such, the usage fee resembles characteristics of utility bills rather than those of rent. The imposition and compulsory collection of overdue charges for non-payment of usage fees are an extension of this aspect.

#### (2) Appraised Value

In principle, the price of state property disposal is calculated as the appraised value (Article 42, Section 1 of the Decree). It would be correct to use the market price as the fair market value of state property disposal, but it is impossible to determine the market price through negotiation with the counterparty, and the fair market value is not easy to deduce. Ultimately, an appraiser evaluates and determines the market or fair price. Exceptionally, the disposal price may be fixed at a price other than the appraised value.

<sup>10</sup> Article 3, Section 1 and Article 10, Section 1 of the Act on the Public Announcement of Real Estate Values.

<sup>11</sup> Article 16 of the Act on the Public Announcement of Real Estate Values.

<sup>12</sup> Money paid by persons other than the state in exchange for using and profiting from state property is referred to as usage fee in the context of administrative property and loan fee in general property. Hereinafter, the usage and the loan fees are collectively referred to as the usage fee.

<sup>13</sup> Article 32, Section 1 of the Act; Article 29, Sections 1 and 2 of the Decree; Article 47, Section 1 and Article 51 of the Act.

For instance, individual declared land value is used as disposal price when selling a land area of 100 m<sup>2</sup> or less (excluding those located in special cities and metropolitan cities) or state property with a book value of 10 million KRW by competitive bidding (Article 42, Section 10 of the Decree).

### III. Revenue Generation Through State Property

#### 1. Revenue Types

In 2020, South Korea generated approximately 2.4 trillion KRW (22 billion USD) through property disposal and 36 billion KRW (332.1 million USD) through property management.<sup>14, 15</sup> Income from disposal refers to income generated in exchange for the transfer of ownership of state property to a third party because of sale or exchange, and income from management refers to income generated by lease or collection of indemnity<sup>16</sup> for state property, as the state maintains property ownership. In addition, the development of state property or gratuitous devolvement may be considered revenue from state property in a broad sense, and the amount of gratuitous devolvement in 2020 was approximately 5.8 trillion KRW (53 billion USD).<sup>17, 18</sup> As the current basis of the management policy is the active utilization of state property, the Ministry of Economy and Finance attaches more importance to revenue generation through management than disposal.

The State Property Act<sup>19</sup> prescribes detailed regulations on determining the counterparty to which state property is sold or leased and calculating the sale price or rent.

#### 2. Revenue Attribution and Expenditure

Revenues generated from state property management and disposal are attributed to the respective national accounts (i.e., the general account, special account, and funds). The

14 2022 State Property Comprehensive Plan, Ministry of Economy and Finance.

15 The dollar amount in this section is based on the closing exchange rate of 1,084.47 (digits after the dropped decimal place) on December 31, 2020, the base year.

16 Refers to collecting 120% of the lawful rent from the unauthorized occupants of state property.

17 2022 State Property Comprehensive Plan, Ministry of Economy and Finance.

18 The dollar amount in this section is based on the closing exchange rate of 1,084.47 (digits after the dropped decimal place) on December 31, 2020, the base year.

19 Articles 31 through 34 regarding lease and Articles 43 and 44 regarding sale.

Ministry of Economy and Finance ensures that the amount from state property disposal is attributed to the State Property Management Fund for the purpose of ensuring that it is spent exclusively on the acquisition of new state property. The main expenditure of the State Property Management Fund is the cost necessary to acquire state property.

Expenditures such as costs necessary for managing and disposing state property are carried out by allocating an expenditure budget. However, where public institutions other than the State, such as the KAMCO, are consigned and entrusted with management, an exception is allowed so that the remaining amount can be attributed to the national accounting and expenditures, such as expenses directly related to the proceeds thereof.

#### 3. Efficient Management of State Property and Incentives

There is no individual incentive for employees' efficient management of state property, but only for property management agencies. In other words, KAMCO has established and operated a compensation system so that the compensation amount can increase according to how much it meets the state property management policy terms of the Minister of Economy and Finance.

Currently, greater compensation is allowed for KAMCO when it generates more income from state property management, such as lease and indemnity charges, rather than the disposal of state property, such as a sale. In the past, when numerous municipalities managed state property, they preferred compensation through sales because they were compensated without inquiring into the income source.

Additionally, state property development has recently been undertaken, for example, efficient management of the sale and lease of state property after development or the creation of value higher than its existing state. KAMCO not only receives development commissions after developing state property under its management but also rewards for expanding managed property generated by development (e.g., newly constructed buildings).

## IV. Conclusions and Policy Implications

### 1. Conclusions

The Republic of Korea owns state property amounting to approximately 1,337 trillion KRW (1.1263 trillion USD) in book value, accounting for approximately 25% of the total national land area. Legislative and administrative efforts are being made to ensure that these properties serve various functions in the public interest.

The South Korean Government has changed the state property management policy according to the transformation of the government's role, the financial and economic situation, and national living standards, and made state property generate as much for the public as possible. To this end, a separate law, the State Property Act, was enacted to provide a strong and effective legal basis for state property management policies. The Act was legislated in April 1950 and has a long history.

The Ministry of Economy and Finance (the general office) is at the center of the systematic and unified management of Korean state property. The Ministry of Economy and Finance is responsible for laws, policies, and supervision, while public agencies affiliated with the central and local governments, as well as KAMCO, conduct specific property management tasks, forming an organic management system.

State property valuation is dualized into an accounting valuation and a transaction valuation, and efforts are made to derive fair and appropriate values from the leasing and sale of state property involving parties other than the state.

South Korea prefers to use state property for administrative purposes to create value in the public interest rather than selling state property to generate income. Revenues from state property are allocated to a separate state fund for the acquisition of new state property.

## 2. Policy Implications

### (1) State Property Management

South Korea rose from being one of the world's poorest countries to a developing country and then to the rank of an advanced country. This economic development process was reflected in state property management policies and has undergone a transformation. PEMNA member nations still in the early stages of economic development can use Korea's state property management policies as a reference.

South Korea has a system of legislating and implementing distinct laws governing the management and disposal of state property, a legislative practice also seen in France and Japan. The central government exercises relatively strong public regulations of state property within this legal system. Such a legal system is worth considering for countries that adopt a central government system other than the federal system, such as France, Japan, and the Republic of Korea.

South Korea initially adopted a classic and passive management policy, such as selling, maintaining, or preserving state property, then started actively utilizing state property, and is now showing a tendency to consolidate a management agency system centered around the general office. This integrated management system is valuable in the contemporary welfare state era. In particular, professional management institutions under the jurisdiction of the general office, such as KAMCO, have significant implications.

### (2) Valuation of State Property

Most countries undergo a complex calculation process to infer and approach market rental prices to the greatest extent possible when calculating state property rental amounts. This not only incurs many economic and administrative costs for assessing the rental of state property but also the issue of differing amounts according to who is in charge of the calculation.

When rent and the declared price of state property are linked, as in Korea, the value can be easily and quickly calculated at any time, and credibility is increased because the calculated amount is the same regardless of who calculates it. The rigidity of price fluctuations can be resolved largely by imposing various rental rates. South Korea

calculates state property rents by multiplying the declared price, such as individual declared land value, by the rental rate and the lease rate varies from 1% to 5%, depending on the purpose of use.

### (3) Revenue Generation Through State Property

State property is important for the central government for administrative purposes. Therefore, rather than disposal through a sale, it is worth considering the method of collecting rent while maintaining state property ownership or selling or renting after development to create higher value.

Meanwhile, the income only belongs to the general state expenditure unrelated to state property if state property income is attributed to the general account. Therefore, it is worth considering how to attribute it to a special account or fund for purposes of acquiring and supplementing state property.

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#### References

- Ministry of Economy and Finance (2021). [General Report on the Management and Operation of State Property for the 2021 Fiscal Year](#)
- Ministry of Economy and Finance (2022). [Comprehensive State Property Plan](#)

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#### About the Author

Hochil Kang passed the bar examination in 2002, completed training at the Judicial Research and Training Institute in 2005, and obtained attorney qualification the same year. He then worked at a Korean law firm before joining Korea Asset Management Corporation as an in-house attorney in 2006. He has been responsible for state property affairs at the Corporation since 2007. He previously served as the head of the State Property Judicial Affairs Team and is currently the head of the State Property Research Team. He received a master's degree from Korea University's graduate school for research on stateproperty in 2012 and a doctorate in 2021.