



Housing Policy in Korea: Part II

Housing Market Dynamics and Role of Governments

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Contents



- **Housing situation and housing market dynamics**
- **The Role of Government and Intervention in Housing Markets**
- **Policy Issues, Implications**
- **New Approaches**

● Research Questions:

1. Why the paradox has arisen?
2. How have governments played their role in the housing market?
3. Does government achieve the policy goals through housing market intervention?



● Housing situation and housing market dynamics

Table 1 Housing conditions in Korea

	1980	1990	2000	2010
Housing supply ratio (%)	71.2	72.4	94.1	101.9
Dwellings per 1000 inhabitants	142.1	169.5	248.7	363.8
Per capita floor space (m ²)	10.1	13.8	20.2	28.48
House price-to-income ratio (Seoul)	N/A	N/A (9.2)	5.0 (7.9)	6.6 (9.4)

-overall housing conditions have improved substantially since the beginning of the 1980s



Ensuring minimum housing standards for low-income households and the disadvantaged is another important objective of housing policy. The Republic of Korea has established minimum housing standards and has been trying to reduce the number of households living in substandard housing units. The minimum housing standards, first introduced in 2000, were specified in terms of the number of rooms and floor area, differentiated by the size and composition of households. The minimum standards were upgraded in 2011 by increasing the minimum floor area as well as requiring a modern kitchen, toilet, and bath/shower (Table 10).

Table 10: Minimum Housing Standards, 2000 and 2011

Number of Household Members	Household Composition	Number of Rooms and Facilities	Floor Area (square meters)	
			2000	2011
1	Single	1 K	12	14
2	Couple	1 D K	20	26
3	Couple + 1 child	2 D K	29	36
4	Couple + 2 children	3 D K	37	43
5	Couple + 3 children	3 D K	41	46
6	Couple + parents of the couple + 2 children	4 D K	49	53

D = dining room, K = kitchen.

Source: MOLIT (2015).



Table 2 Dwelling Stock by Housing types in Korea, 1970-2010 (Unit: No. of dwelling units, %)

	1970	1995	2010
Detached house	254.1(89.7)	2,751.9(37.1)	4,146(27.9)
Apartment	31(2.2)	43,348.4(45.2)	8,671(58.3)
Row house	93.2(6.7)	1,021.1(13.7)	1,885(12.7)
Etc¹⁾	19.2(1.4)	292.8(3.9)	175(1.2)
Total	1,397.9(100.0)	7,414.2(100.0)	14,877(100.0)

Table 3 Housing Tenure in Korea (1975–2010) Units: (%)

	1975	1995	2005	2010	2014
Owner occupied	63.6	53.3	55.6	54.3	53.6
Chonse (or Jeonse)	17.5	29.7	22.4	21.7	19.6
Bojeongbuwolsse (Monthly rent with deposit)	-	10.3	-	18.2	21.8
Wolsse (Monthly rent without deposit) and Sakwolsse	15.6 ^a	4.2	19.0 ^b	3.1	23.9
Others(no rent)	3.3	2.5	3.1	2.7	2.8
Total	100.0	100.0	100.0	100.0	100.0

Choose is a rental system in which the tenant pays a lump sum to the landlord and receives the same money back when he or she leaves the rental unit.

Bojeongbuwolsse is a kind of rental involving a security deposit and monthly rent. At the beginning of the contract period, the tenant provides a refundable deposit and pays a monthly rent.

Sakwolsse is a type of declining Chonse. The tenant makes a one-time deposit from which a given amount is deducted.

Wolsse is the monthly rental system found in most countries.

Chonse has diminished, while that of Wolsse has drastically increased

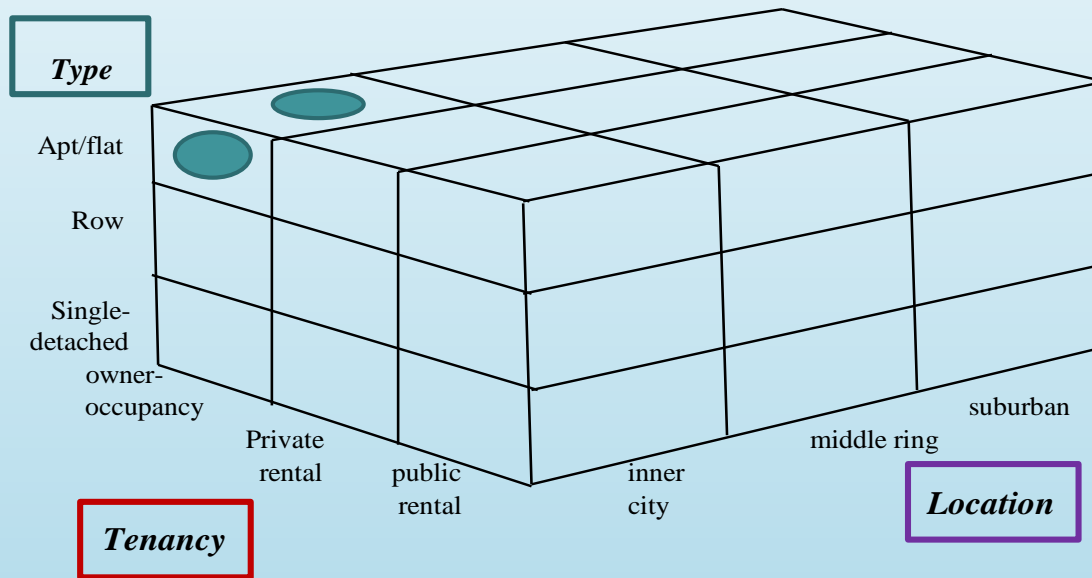


The nature and types of housing submarkets in Korea

- ◆ The housing market can be better analyzed interrelated submarkets rather than a single homogeneous market (Wu & Sharma, 2012; Watkins, 2001; Bourassa, Hoesli, & Peng, 2003; Palm, 1978).

Figure 1 Characteristics and dynamics of urban housing submarkets

1) By housing type (stock) / tenancy / location (neighborhood)

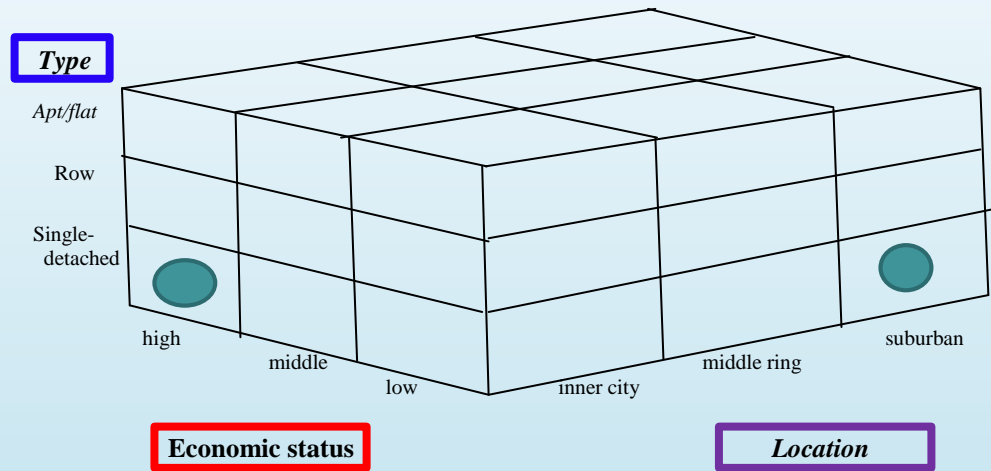


-27 submarkets (segments) being formed

-The most active submarket ?

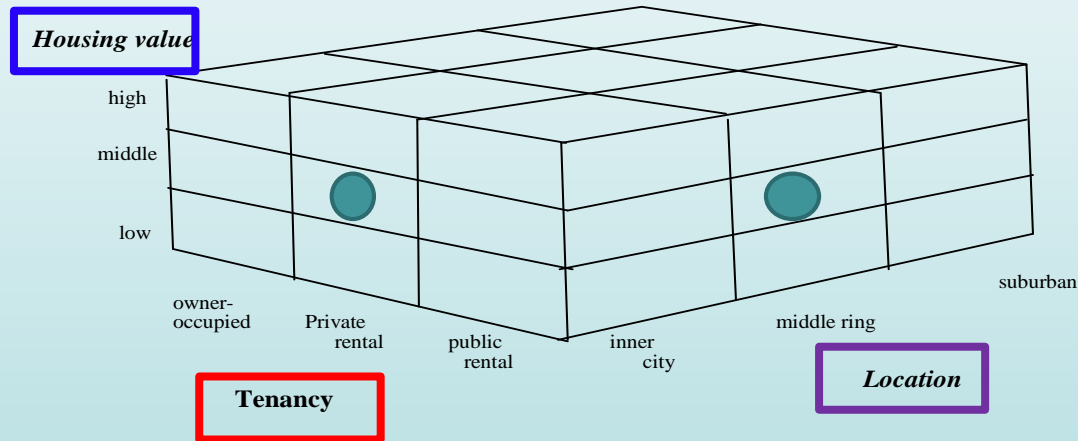


2) By housing type (stock) / economic status / location(neighborhood)



-high income family's single detached houses in suburban areas.

3) By housing value / tenancy / location(neighborhood)



-The most crucial factor: the location and tenancy

-Geographically subdivided into “spatial submarkets, and operates a series of linked submarkets”.

-The apartment submarket plays a pivotal role in the housing sector.

-Chonse has diminished, while that of Wolse has drastically increased



● The Role of Government and Intervention in Housing Markets



1. The role of governments

Two principal mechanisms for housing production and allocation:

1) traditional private market

2) public sector

-Land and Housing Corporation (LH)

-act as financiers, regulators, administrators, builders, landlords, frequently destroyers.



◆ Government efforts:

The expansion of housing production:

- Two Million Houses Construction Project (1988-1992)
- Stabilize home price and rent.





2. Government intervention in the housing markets

Price control on new apartment submarket

Purpose: to meet the demand of prospective home owners and to control skyrocketing housing price.

Major instruments: called the construction cost linkage system. And sale prices varied in accordance with land values

Table 4. Historical transition of price ceiling regulation in Korea

Contents	Year
Price ceiling regulation was adopted to public housing	Nov.1963
Extended to private apartment	Oct. 1977
Deregulation to apartment over 85m ²	June 1981
Reintroduce in Seoul	Aug. 1981
Reintroduce over whole country	Jan. 1983.
Complement: Introduction of the bond bidding system	March 1983
Introduction of apartment parcel price interlocking system	Nov. 1989
Deregulation to several region.	Nov. 1995
Deregulation except capital area and metropolis	Dec. 1996
Deregulation except capital area	May 1997
Deregulation to apartment built in private land	Feb. 1998
Deregulation to apartment over 85m ² built in public land	Oct. 1998
Deregulation entirely	Jam. 1999
Reintroduction of the price ceiling regulation	April 2007
Acknowledgement of the additional costs in multipurpose building and private land	Aug. 2008
Abolition of the price control in private sector housing	April 2014



The UN Habitat argued that:

*The Government controls all the major elements of the housing sector which include housing prices, land supply, size distribution of housing units, housing loans with subsidized interest rates; and even the customers of private developers are controlled by the Government. The private sector can only sell housing units to those selected according to the Government's rules. **The degree of intervention in South Korea may be higher than in China.** The South Korea case demonstrates that attribution of South Korea's success in the housing sector to the free market model is misleading, rather the state can play a more constructive role in meeting the housing demands at the earlier stages of economic development and in conventionally state-dominated countries (UN Habitat, 2008, p.4).*

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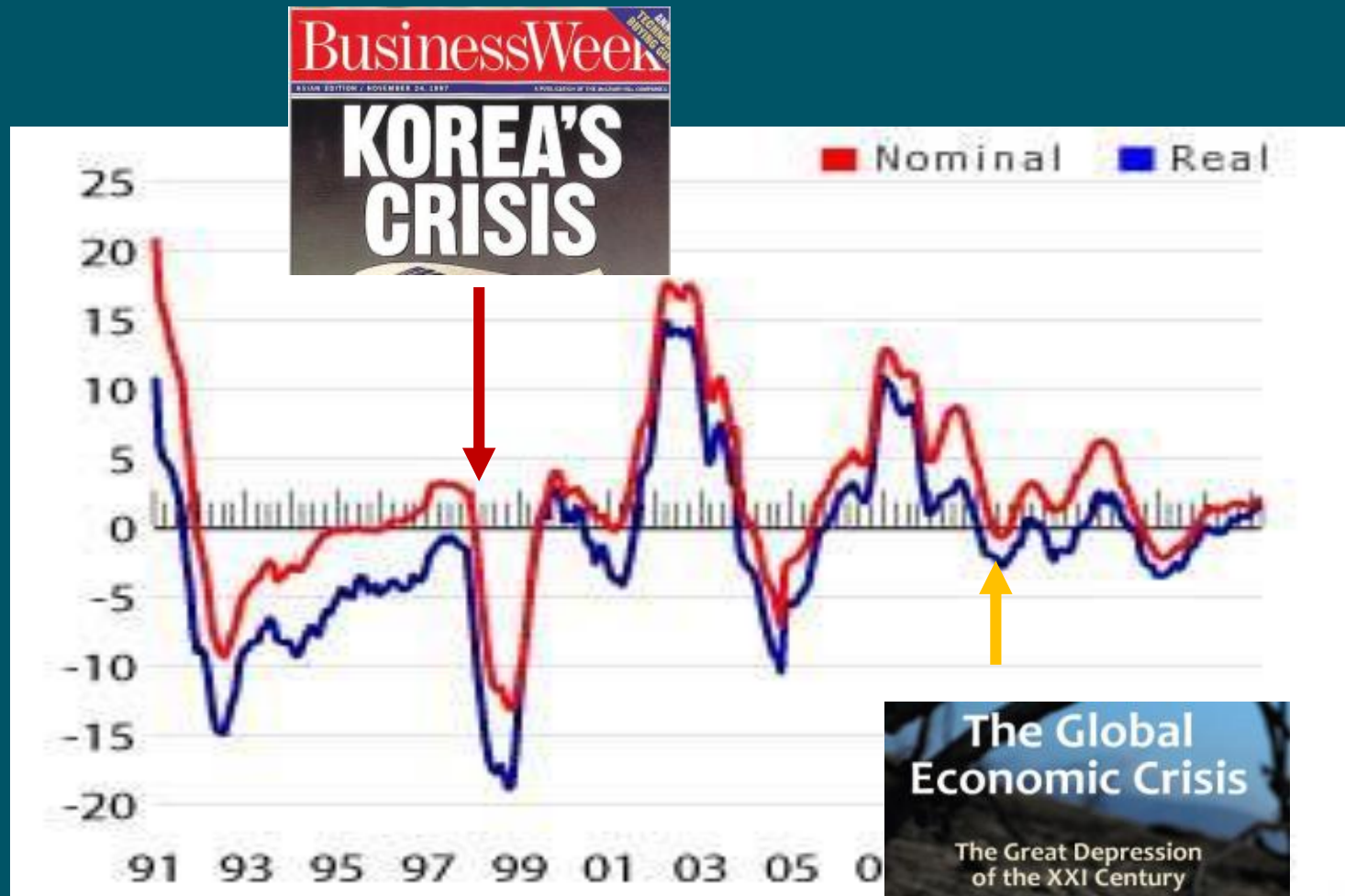
◆ **Measures to boost housing market**

- Since the global financial crisis(2008), and housing price collapsed.
- Boost the housing sector in an attempt to stimulate economic recovery.
- Many regulations were removed or amended.

Eased real estate lending restrictions :

- Tax incentives for real estate investment trusts that buy unsold housing.
- Abolition of punitive capital gains taxes on owners of more than one property.

Figure 2 Percentage change over a year earlier



-Two global economic tsunamis

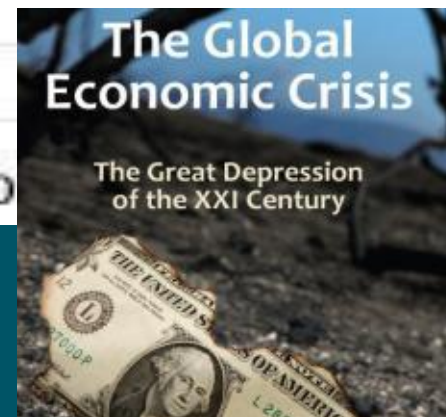


Figure 3 Housing Purchase Price Index (June 2011=100)



Adopted various policies in attempt to deregulate real estate speculation

The National Assembly's passing of major real estate deregulations.

LTV increased: stimulate housing supply & demand, transactions

Annual transactions of houses grew

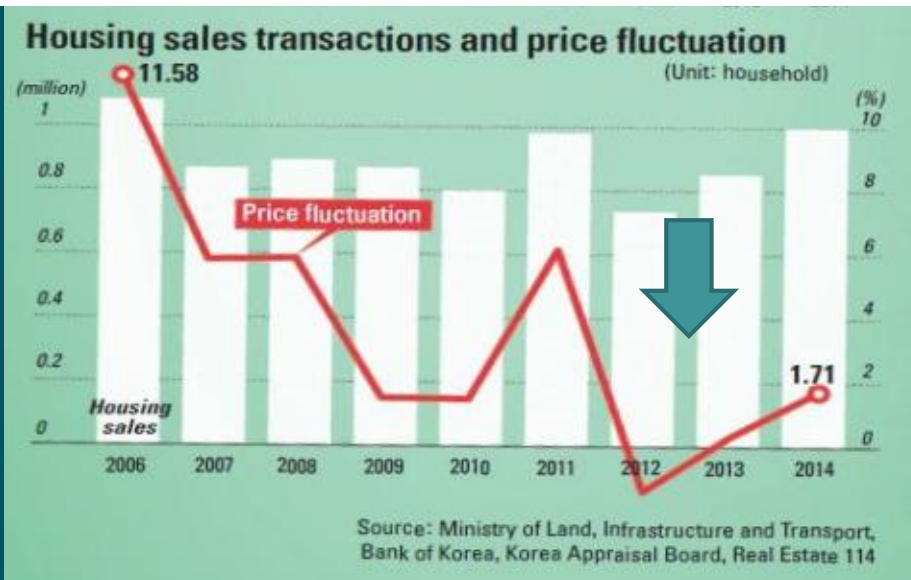


Figure 4



Public housing provision

Three categories of policy measures have been adopted for the housing needs group:

- (1) public housing provision,
- (2) the control of housing prices and sizes,
- (3) financial assistance to home-buyers and tenant households.

public housing programs:

- (1) the permanent rental housing
- (2) Fifty-year rental housing
- (3) Company employees housing
- (4) National rental housing
- (5) The five-year rental housing
- (6) Maeip public rental housing

Demand-led programs:

- the Chonse Deposit Loan Program
- the Monthly Rent Assistance Program (voucher programs)

Table 5 Public rental housing stock in 2014

unit:'000

Types (in Korean)	Permanent Rental (Young gu)	Public rental (Gong Gong)	National rental (Kookmin)	Company employee rental(Sawon)	Public & private Keunseol rental	Public purchase and rent(maeip)	Total
Rental period	50 years	50 years	30 years	(50/10/5 years)	5 years	3/5 years	
No. of housing units	193	106	521	30	385	358	1,709

Proportion of P. H: 10.7%, Long Term P. H: 5.1% in 2014



Housing Programs:

1) Happiness housing

- ◆ Target groups: newly-weds, young workers, and college students. Happiness housing is also set to be provided at a lower rate compared to the market prices.
- ◆ Provide 140,000 units of 'happiness housing' by 2017.
- ◆ Happiness housing will be designed not just primarily for the residential purposes but will strive to contain a wide range of areas, such as accommodations, commercial districts, and office buildings.



2) “New Stay,” a new type of long-term apartment rental program



President Park said, “Unlike existing public rental houses, **anyone can apply for these**, without consideration of whether they own a house or their income level. Its residents can live there without having to worry about moving for up to eight years. The **annual increase of rental fees will be limited to a maximum of five percent**. The government will supply 18,000 New Stay units this year, and more than 60,000 units by 2017.



● Policy Issues, Implications and Conclusions

1. Disputes over price control: Pros and Cons

main criticism of price control :

- the supply of new apartment housing has been reduced
- the residential area has expanded to the outer rings
- it may have raised the housing price in the long run as it has impaired the financial position of the builders

Since the International Monetary Fund (IMF) program and the global financial crisis, the government has removed the price control system.

2. Housing polarization

- The gap is ever growing
- Income inequality, poverty rate of people over 65 years old, middle-class household shrank, the world's highest suicide rate, to unemployment and an increase in household debt
- Supply of affordable housing
- public-private partnership approach



3. The Role of public sector

- Lack of affordable housing (public housing)
- The public housing for sale?**
nominally targeting low-income people have often been allocated to middle income households
- The public housing for sale program should be switched to rental housing.
- The role of the public sector in housing **should be clearly different from that of the private sector.**



◆ 4. Social mix (social cohesion)

To achieve mixed, balanced community, cohesion

Two major strategies:

- 1) 40% of newly developed land should be used only for rental housing construction.
- 2) Purchase housing across a range of already established privately developed neighborhoods for use as public housing.



◆ Oppose to mixing

- ◆ About half of homeowners responded by saying “they oppose to the mixing social housing and non-social housing within the same estate” compared 15% of public rental tenants. This is one of crucial issues that locating residents with different income levels in the same estate (neighborhood) may raise awareness of class differences and create tensions, rather than the sought after social cohesion.
- ◆ “Birds of feather flock together”





◆ 5. A desirable policy direction: Enabling Approach

- ◆ The concept of “enabling shelter strategies” calls for a fundamental shift in the role of government, from provider to enabler..
- ◆ Decentralization, privatization, and deregulation, demand-driven development



◆ Korean Housing Policy:

- Government-regulated market system
- ‘A housing provision-led and anti-speculation-driven approach’

6. The role of the government

The government's excessive intervention in housing markets may result in a government failure. It is important that there be proper involvement, transparency and accountability.

-To achieve three goals:

- 1) to see that economic growth continue, that incomes increase,**
- 2) to reduce social and spatial inequalities ,**
- 3) to minimize the fluctuations in the economic system**



● New Approaches



New Approaches

The Moon Jae-in government's five-year "housing welfare roadmap" unveiled in 2017 is right on target as it focuses on dissolving such an imbalance.

The plan calls for, among other things, supplying 1 million rental homes to

- homeless young people,
- newlyweds and
- low-income working families at prices far lower than market rates.

The sharp increase in rental homes, if combined with an anti-speculation policy of tighter bank lending and heavy taxation on multiple homeowners, will likely help ease the polarized home ownership.

The roadmap also introduces a system, in which elderly people who have homes but little fixed income can hand over their properties to the state housing agency.

The agency will then remodel the houses and sell or rent them to young workers while paying pensions to the former owners, solving the generational imbalance.



New Approaches

Tackling the Housing Shortages

**1960s–
1970s**

- Absolute shortages
- Rapid urbanization & industrialization

- Lack of housing programs

1980s

- Government : goal of supplying 2 million housing units

- Five new towns in the area around Seoul
- Joint Redevelopment Project(JRP)

1990s

- New towns in suburbs & public housing provision

- stabilize the housing market and anti-speculation measures

2000s
~

- The second phase new town development (urban renewal) in the capital area

- Housing welfare programs, voucher program

●Housing Supply through urban and housing regeneration

Urban Regeneration

: a Major Means of Housing Supply

① urban redevelopment

- Since the early 1980s, the most popular redevelopment project was Joint Redevelopment Project (JRP).
- In JRPs, the government designates clearance areas and authorizes building removal, large construction companies provide capital, and homeowners form an association,

② new town

- The second regeneration project is a new type of urban renewal that emerged in the 2000s is 'new town in town', in Seoul.
- The new town project set out to improve underprivileged housing areas, turning them into a high-quality residential environment by improving the infrastructure and the retraction of various urban functions.

③ housing reconstruction

- The third type of regeneration is the housing reconstruction projects which implemented to improve residential environments in the area wherein rearrangement basis facilities are good, but the worn-out and inferior structures are concentrated.

Role of LH and SH public housing Provision

LH and SH is supplying permanent rental, people's rental and various kinds of tailored rental houses for low-income people.

As a public enterprise, LH has been working towards its mission of providing better housing and work facilities by building affordable and quality housing while developing land efficiently.

Established in 1 October 2009, LH shares the same core values with Korea National Housing Corporation and Korea Land Corporation. These public enterprises, established in 1962 and 1975 respectively, have tried to improve residential stability of ordinary people and develop land for economic growth.

LH has built 2.43 million housings and established residential areas, new cities, industrial complexes, etc.

LH Overview

Purpose of establishment

- LH was established to spearhead the improvement of the quality of life and development of the national economy through the realization of stable housing for the country's citizens and the efficient utilization of the national land.

Major Duties

- To construct and supply decent and affordable housing units to the vulnerable and to improve their residential environment, as well as to implement tailored residential welfare programs
- To develop housing land, new towns, Multi-functional Administrative City and Innovation Cities, as well as to execute projects aimed at regenerating cities in a bid to create comfortable residential spaces and urban environment.
- To develop industrial and logistics complexes, Kaesong Industrial complex, FEZs, and overseas land to boost national competitiveness and to create employment.
- To perform land reserve and management, rental housing management, and land and housing informatization.

Capital

- LH has received an investment of 10.6 trillion won from the government and Korea Development Bank to stabilize the people's residential welfare and help national economic development. LH has a legal capital of 30 trillion won, a paid-in capital of 15. 2 trillion, allowing it to perform the public projects in the interest of the people.

Organization and Workforce

- LH's organization consists of HQs (9 divisions, 1 research institute, and 47 departments), 12 regional HQs, and 21 project divisions. Its 6,100 staff members specializing in land and housing are striving to systematically implement national land and housing policies.

Major Projects

- Construction of Korea's first apartment complex (Mapo)
- Construction of Korea's first rental apartments (Gaebug-dong)
- Construction of the first-phase new towns in the Greater Seoul area (Bundang, Ilsan, Pyeongchon, and Jungdong)
- Construction of the first permanent rental houses (Beondong)
- Construction of the second-phase new towns in the Greater Seoul area (Pangyo, Dongtan, Kimpo, etc.)
- Development of Kaesong Industrial complex (the first stage has been completed, and the basis for the second phase established)
- Development of Sejong City and Innovation City (9 of ten innovative cities, being developed with an area of 44.2km)
- Completion of construction of 2.18 million houses (the first achievement by a single company)
- Development of industrial complexes and FEZs
- Execution of overseas land development projects
- Establishment of the Land Bank (strengthening the centralized land supply and demand control function to stabilize the realty markets)

SH Corporation:

The predecessor to SH Corporation was Seoul City Development Corporation founded in 1989, which was a public corporation established and fully financed by the City of Seoul to contribute to stability and welfare of Seoul citizens.

Its main scope of work included: land acquisition, development, supply and other related matters; housing construction, renovation, supply, leasing and management; redevelopment in areas designated by the mayor of Seoul; implementation of urban and infrastructure plans; work commissioned by the national or local governments; and other urban development-related responsibilities.

In 2004, the Corporation changed its name to SH (Seoul Housing) Corporation. Its responsibilities include: building lease housing for low-income families; conducting urban readjustment programs and pursuing the Eunpyeong New Town project; implementing SHIFT programs, which changed the housing market paradigm;



Major Achievements:

In total, SH Corporation has developed 16,946,000 m² of land and built or supplied 230,000 housing units. It has also continued to pursue programs of its own (improvement of the urban environment, apartment-type factories, the Southeast Distribution Complex, urban planning and facilities) as well as urban restoration (development) programs commissioned by the City of Seoul.

National Housing Funds

- ◆ The National Housing Fund is a government based fund established in 1981 with the enactment of the Housing Construction Promotion Act. The National Housing Fund was the third largest public fund in terms of total assets at the end of 2004. In 2005 its net profits were KRW322 billion (USD322 million);
- ◆ During the period of rapid economic development the National Housing Fund was a major mortgage provider, offering more favorable terms than other lenders. Until the mid 1990s, the government played a significant role in the mortgage market.

Table 11 National Housing Fund Housing Support (Unit: thousand units)

	1981-1990	1991-2000	2001	2002	Total
Newly Constructed Houses (A)	3,079	5,457	530	667	9,733
Constructed by Public Sector(B)	1,340	1,953	128	-	3,421
Housing Supported by the NHF (C)	1,017	2,176	148	131	3,472
C/A (%)	33.0	39.9	27.9	19.6	35.7

- ◆ The National Housing Fund is an active lender that takes the majority of public development lending programs. After 1998, the National Housing Fund emphasized its rental housing development program.
- ◆ Commercial banks are leading the mortgage market. They redesigned the market in a different way from what had been in place the previous decade.
- ◆ The National Housing Fund focus on the rental housing supply (rather than for-sale housing) for low-income groups and proposes generating new demand through new markets such as senior citizens.


● Conclusions



● Reflects policy and self-examination

Various approaches have been taken since the early 1960s to alleviate the substandard housing problem in Seoul. **We learn by trial and error.**

- 1) The housing authorities failed to understand the real needs of the poor. Therefore, it is becoming widely recognized that comprehensive approaches including not just the improvements in physical condition of dwelling but also welfare considerations for the poor such as vocational training for the jobless, preservation of positive characteristics of the squatter areas should be pursued to actually alleviate the housing problem.**
- 2) During the 1960s and 1970s, in the absence of targeted minimum standards it was not yet possible Seoul. The absence of targeted minimum standards indicates that the authorities of Korea have not yet prepared serious plans to tackle directly the worst housing conditions of the urban poor in the capital.**
- 3) Substandard housing must be accepted as inevitable in the short term. To bulldoze squatter housing is nothing but an authoritarian and repressive exercise incapable of making any positive contribution to the solution of Seoul's housing problems.**



3) Many of the difficulties are rooted in the very notion of governments building housing for the poor. An important error has been that housing authorities have built at standards too expensive for the poor and without a clear understanding of the needs of the recipient population.

4) An important feature of the housing policy was that public sector institutions played a key role in housing supply. The major public sector players were the Korea National Housing Corporation and Korea Land Development Corporation, which were merged to form the current Land and Housing Corporation in 2009. The two state-owned enterprises accounted for 81% of the volume of residential land development and 14% of total housing stock as of September 2013.

Over the past 40 years or so, housing conditions in Korea have improved enormously in terms of both quantity and quality.

Table 12 Selected Housing Quality Indicators, 1980–2010

	1980	1990	2000	2010
Average number of rooms per household	2.2	2.5	3.4	3.7
Average floor area per person (square meters)	10.1	14.3	20.2	25.0
Average floor area per household (square meters)	45.8	51.0	63.1	67.4
Dwellings per 1,000 inhabitants	142	170	249	364
Share of dwellings with piped water (%)	56.1	74.0	85.0	97.9
Share of dwellings with modern toilets (%)	18.4	51.3	86.9	97.0
Share of dwellings with bathroom (%)	22.1	44.1	89.1	98.4
Share of dwellings with hot water (%)	9.9	34.1	87.4	96.9

Table 13 Percentage of people living in vinyl house villages (%)

(Percentage of people living in slums)

1996		2004		2011	
Nationwide	Urban areas	Nationwide	Urban areas	Nationwide	Urban areas
n.a	n.a	0.031	0.035	0.017	0.019

Notes:

* Slums have been replaced with vinyl house villages (where five or more households have formed a group residential area)

* The data for 2004 and 2011 were about vinyl house villages in the capital area. Outside the capital area, no vinyl house villages have been found (4,931 households in 2004, 2,964 households in 2011)

* The percentages of people living in vinyl house villages were calculated based on the total households and household counts in urban areas (dong areas + eup areas) of the population and housing censuses in 2005 and 2010

* Sources: Korea Housing Corporation (2005), A study on the housing status of residents in vinyl house villages and residence stability measures; Ministry of Health and Welfare (2011), National status survey for the house underprivileged group.

Percentage of urban population with access to adequate housing

Table 14 Percentage of households above the minimum dwelling standards (%)

1995		2006		2012	
Nationwide	Urban areas	Nationwide	Urban areas	Nationwide	Urban areas
53.7	n.a	83.4	n.a	92.8	n.a

Notes:

* Based on the Minimum Dwelling Standards revised in 2011.

* The data for 1995 were estimated from the population and housing census, and the data for 2006 and 2012 were estimated from the sample housing survey results.

Sources: Statistics Korea (1995), Population and Housing Consensus; Ministry of Land, Transport and Maritime Affairs (2012), Housing Survey 2012


Korea has established minimum housing standards and has been trying to reduce the number of households living in substandard housing units. The minimum housing standards, first introduced in 2000, were specified in terms of the number of rooms and floor area, differentiated by the size and composition of households. The minimum standards were upgraded in 2011 by increasing the minimum floor area as well as requiring a modern kitchen, toilet, and bath/shower

● Policy Directions

(1) The enabling approach in Korea has been more important than the other approaches.

One of the major reasons why the emerging paradigm of the enabling approach seems so attractive is that it not only conforms with but also requires democratic participation. Popular participation now receives more official support. Civil society is also given a much greater role through NGOs and CBOs and citizens movements.

(2) The role of the public sector in housing should be clearly different from that of the private sector. From the point of view of multiplying social capital and revitalizing poor neighborhoods, it is highly desirable that government public housing programs try to keep the poor community's social networks and patterns of interactions, and culture.



Yet in developing policies which favor social capital investment, government needs to avoid the risks of either inadvertently undermining existing sources of social capital, or of producing connections that have more negative than positive consequences.

3) In devising future public housing programs, housing authorities have to take into account applicants' needs relating to **maintaining “bottom-up” or popular participation in housing planning**. To make the enabling process successful, the planners, residents and NGOs (or CBOs) must work together to promote community empowerment and revitalization.

4) The government cannot be expected to provide the necessary solutions alone.

There is a necessity for the private sector, civil society and the government to **work together in close partnership** to produce a more practical housing and community scheme.

This should lead to the serious consideration of the “cooperative housing” concept. It encompasses the nature of social housing, in which a cooperative organization is formed by the voluntary association of low-income groups or underprivileged citizens.



5) Direct government intervention in the housing market in most countries has focused on the rental market for low-income groups through various support programs such as rent control, housing allowance, and public housing.

The middle- and upper-income housing should be the main concern of the private sector. Accordingly, the public sector should focus on greater equity, the extension of social welfare, and the provision of adequate housing for all according to need.

