

Korean Housing Policy

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1. Trends in Housing Policy

Housing Policy Shaping Period: 1970s

- Substantial capital inflow into property markets, due mainly to five-year economic development plan, the mid-east Asia construction boom, and money supply expansion since the mid 1970s.
- As construction of new residential type, “apartments,” became active, land prices rose 49% nationwide in 1978.
- Announcement of “Measures for 8/8 Property Speculation Control and Land Prices Stabilization” in 1978
 - Land demand control and urban land supply expansion

2. Trends in Housing Policy

Mass housing construction: 1980s

- Reduction of capital gains tax rate as a part of economic support to overcome the second oil crisis, and economic depression, and measures implemented to revitalize property markets from 1980 to 1982
- Property prices soared and craze for speculation of housing was boom, because of over-liquidity stemming from surplus of international balance and uptrend price sentiment spread, since 1988 Seoul Olympics.
- “8/10 Measures for Property Markets,” was announced to eradicate real estate speculation in 1988, and “Plan to Build 2 Million housings (1988 – 1992)” was also released in May 1988.

2. Trends in Housing Policy

Housing market system rearrangement: 1990s

- In the early 1990s, a policy simultaneously implemented to control demand for land through an adoption of public concept of land, and a land supply expansion policy.
 - Land price was decreased between 1992 and 1994 thru subsequent speculation control measures.
 - Improvement of housing supply rate thru construction of 2 million housings, and housing markets got stabilized.

2. Trends in Housing Policy

- Rearranged system, such as introduction of real name trading system in real estate on Mar. 30, 1995, in addition to reorganization of various regulations
- Turned into property markets activation, due to concern on economic slump coupled with property market price crash after the foreign exchange crisis in 1997.
 - Implementation of full autonomy in APT selling prices.

2. Trends in Housing Policy

Providing tools for market stabilization: 2000s

- Housing prices jumped centered on Gangnam area in Seoul, due mainly to low interest rates, and ample liquidity.
- Subsequent implementation of measures to stabilize property markets, including 10/29 Measure for Market Stabilization(2003), 8/31 Measure for Property Markets(2005) and 3/30 Measure(2006).
- Execution of compulsory real price transaction reporting to enhance transparency in real estate markets.

2. Details of Housing Policy in Each Sector

1) Continuous expansion of housing stock

- 2 million housing construction plan(1988-1992)
- Establishment of 1 million National Rental Housing supply plan (2003-2012)
 - National Rental Housing supply plan is changed to nest housing supply plan in 2008
- Five million housing plan including 1.5 million Nest Housing units
By 2018(800 thousands of public rental housings)

2. Details of Housing Policy in Each Sector

□ Implementation of Plan to Build 2 Million Housings (1988 – 1992)

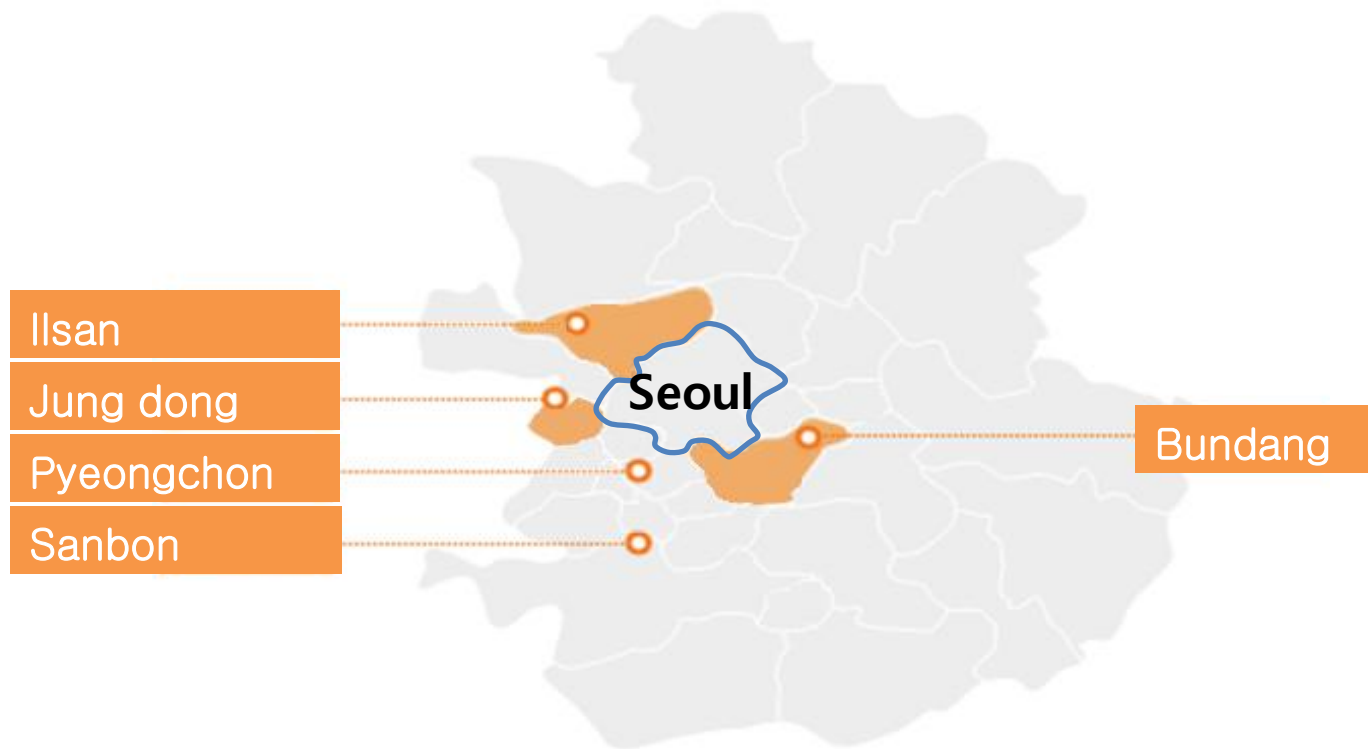
- Implemented a plan to supply large quantity of housings to solve a fundamental problem of insufficient housing supply.
 - With promotion of the plan to build 2 million housings, the housing supply which stood at 220,000 housing units on annual average in the early 1980s, rose to more than 500,000 housing units during the plan period.
- Housing supply rate rose from 69.2% in 1987 to 72.9% in 1992.

Plan to Build 2 Million housings and Results

Category	Results of Housing Construction (1,000 units)		Housing Site Supply (1,000 km ²)
	Plan ('88-'92)	Results ('88-'92)	
Total	2000	2720	168
Public Sector	900	910	121
Private Sector	1100	1810	47

2. Details of Housing Policy in Each Sector

- Five new towns for supplying mass housing
 - Bundang, Ilsan, Pyeongchon, Sanbon and Jungdong - constructed in the Capital Region within a 2-kilometer radius around Seoul since 1989 (a total of 289,000 units, 1.176 million people).



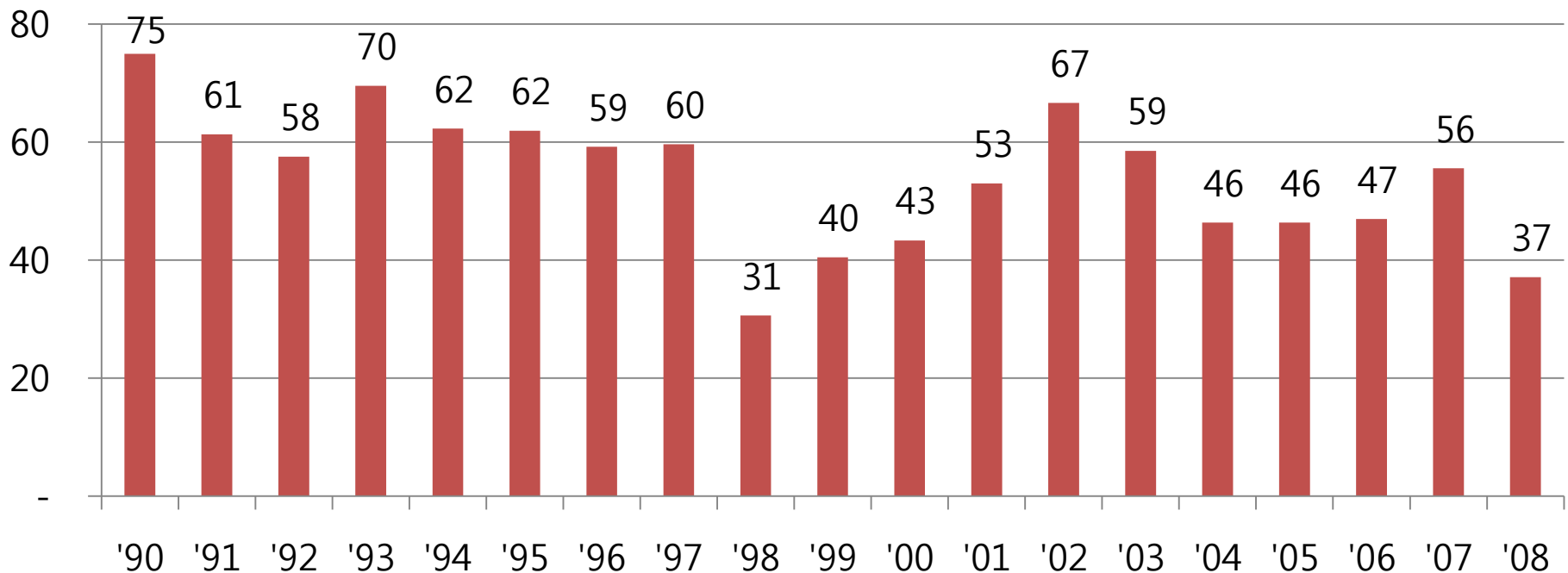
2. Details of Housing Policy in Each Sector

□ Housing stock increase thru continuous supply in the 1990s

- Housing stock went up to 14,169 thousand units in 2008, because of housing supply of 550,000 units on annual average since the 1990s

New Housing Construction Results

(Unit: 10 thousand)



2. Details of Housing Policy in Each Sector

☐ Expansion of housing construction for urban poor

- Adoption of National Rental Housing system in 1998 : permanent rental housing for 30 years rental period in 1998
- A total of 670,183 National Rental Housing units, including 585,301 units supplied during 1998-2007, were supplied, which greatly contributed to residential stabilization of low income household that did not own housing.
- Public rental housing stock was 1,341 thousand units as of 2008 (9.5% of total housing units), and among these, long-term rental housing units (permanent, public housing for 50 years of rental, national rental, rental with key money) rose to 549 thousand units (3.9% of total housing units)

2. Details of Housing Policy in Each Sector

2) Background of Nest Housing policy

☐ The purpose of nest housing supply

- Supplying affordable housings to low-income families around cities,
- Providing housings customized in accordance of income levels,
- Promoting low-carbon, green growth and building self-sufficient, compact cities where housings are close to work.

2. Details of Housing Policy in Each Sector

- Nest Housing planed as environment-friendly “City in Forests” such as green home, eco- city.

- Revitalizing proximity of residence by optimizing transportation facilities, and developing as a complex city meeting educational, cultural and business functions

- Promoting customized housing supply in the mode of pre-reservation so that consumers can select occupancy date, selling price, and location.
- Supplying Nest Housing program by type

2. Details of Housing Policy in Each Sector

Nest Housing Supply Program

Type		No. of Housing Units	Program outline
Housing units to sell		700,000	• Supply of mid- and large size low price housing
Rental Housing	Public rental (Rent for 10 years)	200,000	<ul style="list-style-type: none"> • Convert into sale after rental for 10 years • Supply focused on stake type rental housing, and gradually promote common people's home ownership (Realization of active welfare)
	Long-term rental with key money (Rent for 10-20 years)	100,000	<ul style="list-style-type: none"> • Supply in the mode of long-term rental with key money without monthly rent, and thus provide various selection opportunities to consumers (Supply focused on city center)
	Long-term rental (30 years and more)	500,000	<ul style="list-style-type: none"> • 400,000 units of national rental: Supply at 60-70% level of market prices (Differentiated rent system depending on income) • 100,000 units of permanent rental: Resume supply for the lowest income household (Supply at 30% level of market prices)

2. Details of Housing Policy in Each Sector

- New Nest-Housing districts :The government seeks to develop four nest-housing model districts
 - An eco-friendly garden village in a city downtown,
 - A green growth model district,
 - A content media park
 - And a clean, green city.
 - The nest housing policy will enable the government to provide comfortable housing services at affordable costs

2. Details of Housing Policy in Each Sector

☐ The plan of constructing 5 million housing units by 2018

- 1.5 million Nest Housing units for low-income families
 - Including 0.1 million permanent rental units, 0.4 million national rental units and 0.3 million public rental units (partial ownership and deposit-basis rental housing) for those who are in the bottom 40 percent of the income scale.
 - 1.7 million ownership housing units including 0.7 million publicly built housings, 0.4 million small and medium-size privately built housings and 1 million multi-family and single-family houses
 - By region, 1 million units will be built in the Capital Zone while 0.5 million units will be constructed in other region

2. Details of Housing Policy in Each Sector

3) Housing supply in suburban areas and revitalization of city center

☐ Housing supply expansion in suburban areas

- Development of residential areas in the suburban areas has progressed quite a lot in the large city areas since the 1960s.
 - Especially, in case of Metropolitan Seoul Area, many new towns or housing site have been developed in the suburban areas centered on Seoul.
- Although new town development solved housing site problems in large cities, and greatly contributed to housing market stabilization by dispersing housing demand
 - it is faced with limitation, due to the lack of available land and preference change.

2. Details of Housing Policy in Each Sector

☐ Revitalization of city center

- Increasing housing demand on areas with good access to city services require housing supply on city contents
- The existing housing redevelopment projects, residential environmental improvement projects, and reconstruction projects have been implemented for city center without proper plans on the city space dimension.
- Promoting broad and planned city center restoration by implementing new town projects for existing city center's reorganization
 - Promoting balanced city development and benefit improvement in terms of quality of life
 - Seoul city has been implementing new town projects in 33 districts since 2002.

2. Details of Housing Policy in Each Sector

4) Policies for housing market stabilization

- **Housing market stabilization measures thru speculation control**
 - Supply price control including cap system of sale price, cost revelation, and designation of speculation area/overheated speculation area, housing trading reporting system, reconstruction regulations, etc.
 - Tax system consolidation including heavy imposition of capital gains tax toward multi-housing owners, adoption of comprehensive property tax, and financial regulations, such as mortgage loans(LTV, DTI).

2. Details of Housing Policy in Each Sector

☐ Economic support policy thru housing business activation

- Housing market revitalization measures like autonomy in sale prices, temporary exemption of capital gain tax, permission of APT ownership right sale for activation of economic activities, which were depressed during the foreign exchange crisis.
- To solve economic downturn, arising from global financial crisis at the end of 2008, the following housing business revitalization measures are implemented: Relief in reconstruction regulations, appeasement in financial and tax system, and ease in unsold housing.

2. Details of Housing Policy in Each Sector

- System reorganization for market transparency
 - 'Real name registration system' in property' trading (1995), and 'housing price public announcement system(2005)' , 'a compulsory real trading price reporting system' was introduced in 2006.
 - Real estate information has been established, and real estate trading system (RTMS), and real trading price system have been used
 - These systems are contributed to enhance market transparency.

2. Details of Housing Policy in Each Sector

5) Expansion of housing finance and tax system reorganization

☐ NHF(National housing fund) operation for urban poor's residential support

- NHF promote housing construction thru smooth supply of housing construction capital, and provide low rate housing funds to low income families.
 - Various functions are carried out including housing construction for common people, rental housing construction for low income families, and support for housing rental with key money
- NHF played a role in supporting capital to housing suppliers and consumers during the 1980s and 1990s.
 - Housing construction fund is supported for about 3.47 million housings(35.7% of the total housing supply from 1981 to 2002).

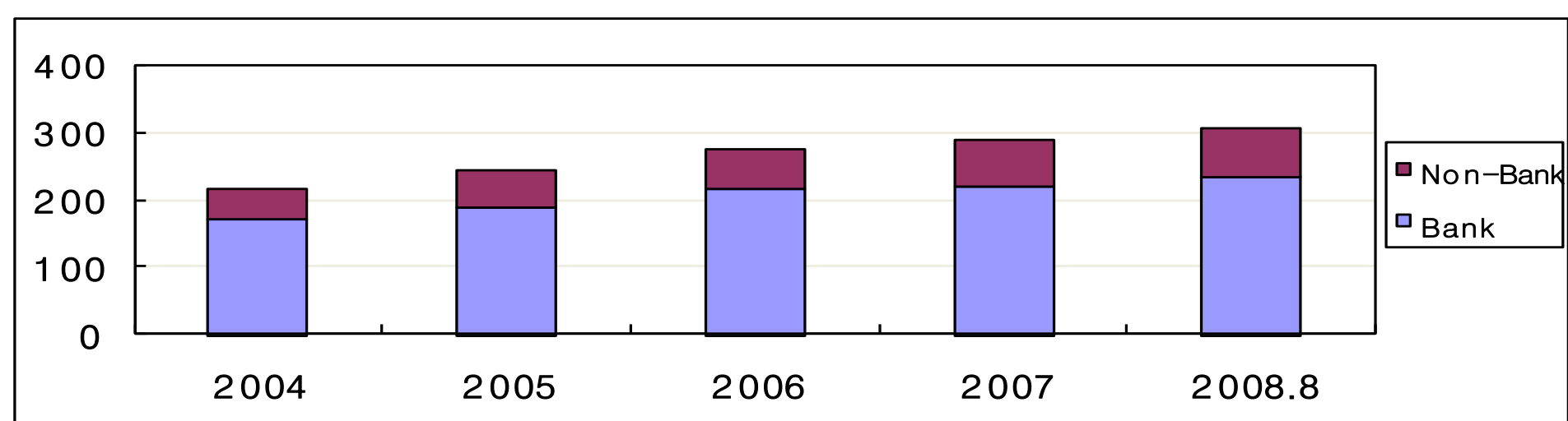
2. Details of Housing Policy in Each Sector

☐ Expansion of mortgage loans

- Since the foreign currency crisis, the financial institutions including banks have sharply consolidated mortgage loans business, whose risk of non-performing loans is low.
 - Mortgage loans have shown rapid growth in the 2000s, after the foreign currency crisis.

Trend in Mortgage Loans Balance Change

(unit: trillion won)



2. Details of Housing Policy in Each Sector

□ Introducing Mortgage securitization

- As KoMoKo was established under the Mortgage Securitization Company Act in 1999, MBS (Mortgage-backed security) was issued for the first time
 - It merged into Korea Housing Finance Corporation in 2004.
- MBS products have been issued by KHFC in full scale for long-term stable housing fund formation.

MBS Issue Results

(unit: 100 million won)

Category	2004	2005	2006	2007	2008
KHFC	30,160	38,610	17,531	21,884	26,480
Bank	20,305	7,694	20,135	20,902	18,048 (June)
Total	50,465	46,304	37,666	42,786	–

Source: For bank, the issue results are by SC First Bank Korea.

Monthly Report for Housing Finance of KHFC (April 2009), Press release of Financial Supervisory Service (2008))

2. Details of Housing Policy in Each Sector

☐ Tax system reorganization

- In the 2000s, tax system reorganization has been implemented including property holding tax consolidation, and 'trading tax cut' so as to prevent speculation in real estate.
- holding tax burden to the level of advanced countries through introduction of comprehensive property tax, and assessment standard have been increased at realistic level in 2005.
- Trading tax rates cut including acquisition tax and registration tax
 - Cut acquisition tax and registration tax by 0.5%, respectively, in individual housing trading: 3.5% → 2.5% (2005)

2. Details of Housing Policy in Each Sector

- Consolidation of capital gains tax for redemption of speculation profits in 2005.
 - Based on declared prices (However, tax real trading prices in case of speculation area, high price housing, and 3 housings owned by one household)
 - Heavily tax on the households owing multi housings (Tax rate in case of owning 2 housings per household: 9 ~ 36% → 50%)
 - Tax rates are differentiated depending on capital gain amount, and holding period, etc.

2. Details of Housing Policy in Each Sector

- Reasonable tax system measures in the process of overcoming global economic crisis.
 - Flexible operation of capital gains tax
 - Consolidating tax break requirements for household owning one home
 - Temporary ease in capital gains tax for multi home owners:
50% for 2 home owners → general tax rate, 60% for 3 home owners → 45% (2008.12)
 - Adjustment of holding tax including comprehensive property tax(2008.9)
 - Expansion of acquisition/registration tax break and appeasement of capital gains tax as the measure to solve unsold housings(2009.2)

3. Housing Market Index

1) Housing Diffusion Rate

○ Housing diffusion rate nationwide exceeded 100.7% in 2008, it improved to 101.2% in 2009.

※ In case of foreign countries, France showed 120.5% in 2004, Japan 114.3% in 2003, and U.S. 110.1% in 2006.

The Change of Housing Diffusion Rate

(Unit: %)

Year	Diffusion Rate
2006	99.2
2007	99.6
2008	100.7
2009	101.2

3. Housing Market Index

2) Dwellings per 1,000 persons

- Dwellings per 1000 persons are 330.5 units in 2005, it improved to 350.2 units in 2009.

※ In case of foreign countries, U.S. showed 428 units in 2008, U.K. 418 units in 2008, and Japan 451 units in 2008.

3) Average Number of Family Members

- Average number of family members is 3.12, it was decreased to 2.67 units in 2010.

3. Housing Market Index

4) Housing Types

- Total Housing Stock in Korea was 14,877 thousands.
 - The ratio of apartments was changed from 47.7% in 2000 to 58.3% in 2010.
 - The ratio of single family houses was changed from 37.1% in 2000 to 27.9% in 2010.

5) Housing Tenure

- The ratio of home ownership was 56.4% in 2005. Jeonse was 22.3% and monthly rent was 14.8% in 2005.

(unit : one thousand households, %)

Total	Homeowner ship	Jeonse	Monthly Rent & Hybrid	Etc
15,887	8,828	3,557	3,012	490
(100.0)	(55.6)	(22.4)	(19.0)	(3.1)

3. Housing Market Index

6) Residential welfare level

- Although the households below minimum residential standard in 2000 were 3.34 million(23.4% of total households), they fell to 2.06 million in 2005(13.0% of total households).
 - The reduction of the households below minimum residential standard is attributable to new housing supply and reorganization of old housings
- Residential area per person rose from 20.1 sqm in 2000 to 27.8 sqm in 2008.
 - ※ In case of foreign countries, U.S. showed 68m sqm, Japan 61 sqm, and Sweden 46 sqm as of 2003.

3. Housing Market Index

7) Housing Price and Trade

- Housing Price Fluctuation is getting smaller.
 - Annual increase rate of housing price was 14% in 1986~1990, 1%(1991~1997) , 7%(1999~2007).
In 2010, the increase rate of housing price was 1.9%.
 - It results from the decrease of the population of urban area and the increase of housing stock.
- The peak of housing trade was in 2002. After that, housing trade has been going down at annually 8%.