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01 The Impact of Gap Investment on the Increase in Housing Market Volatility and Policy Response Directions

Jinbaek Park

1. Overview of Korea's *Jeonse* System

■ *Jeonse* system

Korea's *Jeonse* (lump-sum deposit lease, or key money) system is a form of residential lease contract in which the tenant pays the landlord a large lump-sum deposit for a fixed contractual period in exchange for the right to use and occupy the dwelling, instead of paying monthly rent. The *Jeonse* deposit typically corresponds to a certain proportion of the property's transaction price and is paid in full when concluding the contract. During the lease term, the lessor may freely utilize the deposit, while the lessee secures housing without incurring additional monthly payment obligations. Once the contract expires, possession of the house is returned to the lessor, and the deposit is fully refunded to the lessee. Thus, the *Jeonse* system has a structure in which residential use and the transfer of financial capital occur simultaneously. Owing to this nature, the *Jeonse* system is understood as a distinctive system that integrates a housing contract with a financial transaction.

The *Jeonse* system entails risks associated with the recovery of the deposit, as the lessee prepays a substantial lump-sum deposit. To mitigate such risks, *Jeonse* loans and *Jeonse* deposit return guarantee schemes operate concurrently within the *Jeonse* market. A *Jeonse* loan is a system that enables the lessee to borrow the funds necessary to finance the *Jeonse* deposit from a financial institution. Financial institutions extend loans secured by the *Jeonse* contract, and in this process, they consider both the lessee's repayment capacity and the likelihood of deposit recovery, given the property's value.

The *Jeonse* deposit return guarantee system serves as a safeguard against situations in which the lessor fails to return the deposit upon expiration of the lease. When the lessee pays a guarantee fee to the guarantor, the guarantor assumes responsibility for refunding the deposit on behalf of the lessor. Through this arrangement, the lessee transfers the risk of deposit non-recovery to the guarantor. This guarantee structure reinforces the financial asset characteristics of the *Jeonse* deposit and functions as a channel through which the *Jeonse* system becomes closely interconnected with the financial system.

■ Operating mechanism of the *Jeonse* system

The operating mechanism of the *Jeonse* system can be explained based on how the lessor utilizes the *Jeonse* deposit. The operating income hypothesis and leverage hypothesis are two representative frameworks. The operating income hypothesis focuses on the high interest rate environment prevailing during the period in which the *Jeonse* system was created. Under this hypothesis, the lessor could manage the *Jeonse* deposit as a financial asset to generate interest income, and such financial returns served as the primary incentive for choosing the *Jeonse* arrangement. In this interpretation, *Jeonse* was a contractual form under which the lessor could secure sufficient returns through deposit management even without receiving monthly rental payments. According to this reasoning, a decline in interest rates reduces the returns from managing *Jeonse* deposits, thereby weakening landlords' incentives to offer *Jeonse* contracts. The leverage hypothesis explains *Jeonse* in connection with the lessor's asset accumulation process. Even in a situation where the interest rates have declined, the lessor can utilize the *Jeonse* deposit as a source of financing for housing purchases, if the demand for *Jeonse* is sustained or expands and expectations of housing price appreciation are formed. In this case, the *Jeonse* deposit functions not as capital for generating financial returns, but as a funding instrument for expanding housing assets. The lessor may use the deposit to purchase additional housing units and increase the scale of assets, while anticipating capital gains from rising housing prices. Under this structure, the supply of *Jeonse* can be maintained even in a low interest rate environment.

2. *Jeonse* Gap Investment

■ Concept and operational structure of *Jeonse* gap investment

Jeonse gap investment is an investment strategy in which housing is acquired with a relatively small amount of equity capital by exploiting a structure in which the gap between the transaction price and the *Jeonse* deposit is minimal. The purchaser acquires the property while simultaneously entering a *Jeonse* contract, receives the deposit from the lessee, and utilizes that deposit as part of the acquisition financing. Consequently, the investor's actual equity contribution is effectively limited to the amount obtained by subtracting the *Jeonse* deposit from the transaction price. Under this structure, legal ownership of the housing unit is vested in the purchaser, while the lessee continues to occupy the dwelling under the same terms as that of the existing *Jeonse* contract.

Jeonse gap investment could be understood as a concrete manifestation of the aforementioned leverage hypothesis in the actual market. *Jeonse* functions as a financial instrument for expanding housing assets beyond a lease contract in that the *Jeonse* deposit is used to finance housing purchases. In an environment where housing price appreciation is expected and *Jeonse* demand remains stable, housing purchases are made possible through the deposit mobilized from the lessee without the need for additional borrowing.

Jeonse gap investment tends to become particularly active in market conditions where the *Jeonse* deposit approaches the housing transaction price. In particular, in a low interest rate environment, the declining borrowing costs further increase the incentive to pursue housing acquisition strategies that minimize equity contributions. On the other hand, when housing prices or *Jeonse* demand declines, the burden of having to return the deposit arises concurrently, leading to a sharp escalation in the lessor's liquidity risk.

■ Trends in *Jeonse* gap investment

Gap investment may be defined as a case in which the purchaser does not directly reside in the acquired housing unit. Based on this characteristic, this study seeks to identify gap investment transactions using data from the Real Estate Transaction Management System (RTMS). Specifically, the study uses RTMS data to identify cases in which a *Jeonse* contract was concluded following a housing purchase.

According to the identification results presented in the table below, cases in which a *Jeonse* contract was concluded in the same month as a housing purchase generally amounted to 10,000–20,000 cases per month. However, during 2020-2021, when an ultra-low interest rate stance persisted and housing prices rose sharply, the number of such cases increased substantially. The figure expanded to approximately 43,000

Table 1. Estimated results for Jeonse gap investment (conclusion of a *Jeonse* contract following a housing purchase contract)

(Unit: 10,000 housing units)

Year	The same month	+1 month	+2 months	+3 months	+4 months	+5 months	+6 months
'11	2.6	5.2	6.9	7.5	7.9	8.3	8.6
'12	1.5	3.1	4.0	4.5	4.8	5.0	5.3
'13	1.6	3.3	4.3	4.9	5.3	5.6	5.8
'14	1.8	4.1	5.5	6.4	6.9	7.3	7.6
'15	2.6	5.5	7.5	8.6	9.3	9.8	10.2
'16	2.6	5.5	7.5	8.8	9.6	10.1	10.5
'17	2.3	5.1	7.0	8.3	9.0	9.5	9.9
'18	2.1	4.4	6.1	7.2	7.9	8.3	8.7
'19	2.1	4.4	6.1	7.2	7.8	8.2	8.6
'20	4.3	8.5	11.0	12.7	13.8	14.5	15.2
'21	3.6	7.1	9.4	10.9	11.9	12.6	13.2
'22	1.5	2.9	3.8	4.5	4.9	5.2	5.4
'23	1.0	2.3	3.2	3.8	4.2	4.4	4.6

Source MOLIT RTMS, as cited in Park (internal report, 2024)

cases in 2020, and it remained elevated at around 36,000 cases in 2021. Subsequently, the number declined again to the 10,000-range per month in 2022-2023, with the onset of rising interest rates and a full-fledged correction in the housing market. A marked increase was also observed in cases where a *Jeonse* contract was concluded within six months following a housing purchase during the 2020-2021 period. During this period, the annual total expanded to approximately 130,000-150,000 cases, followed by a rapid contraction in subsequent periods. Table 1

3. Analysis of the Impact of *Jeonse* Gap Investment on the Housing Market

■ Predictive power of *Jeonse* gap investment in the housing sales market

The figure below presents the estimation results of the time-varying predictive power of *Jeonse* gap investment for housing transaction prices using the Dynamic Model Averaging (DMA) methodology. Here, *Jeonse* gap investment is restricted to cases—among the previously defined gap investment transactions-in which a *Jeonse* contract was concluded within one month following the housing purchase contract.

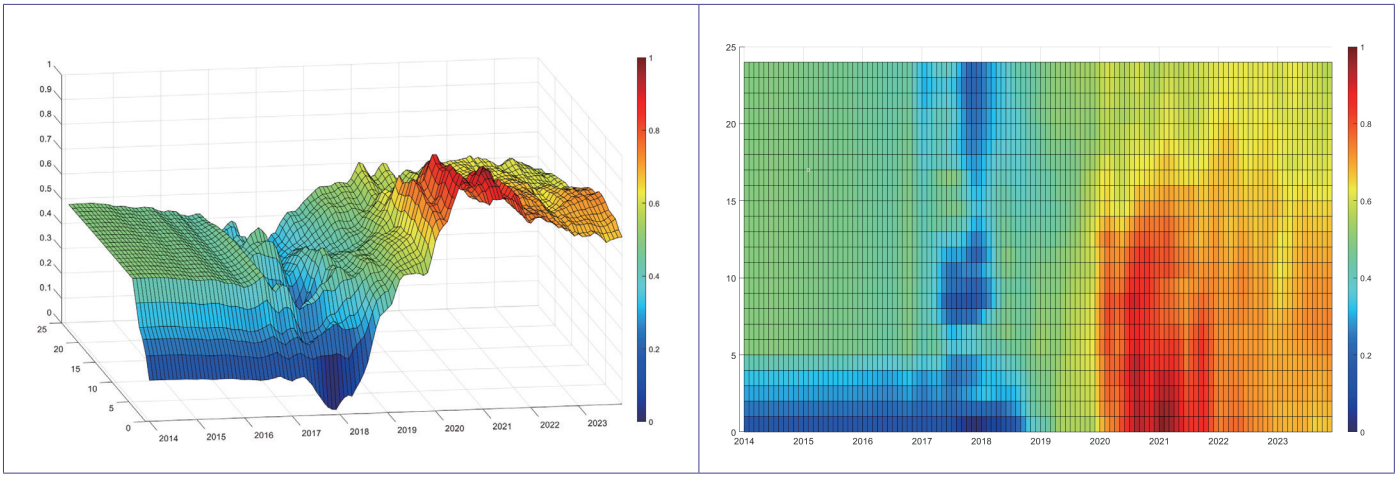
The estimation results indicate that prior to 2019, *Jeonse* gap investment did not function as a significant variable in predicting subsequent housing transaction prices. However, from 2020 onward, its predictive power increased markedly, and a pattern is exhibited in which the predictive power for housing transaction prices increased substantially with a lag of approximately one to one-and-a-half years through 2021.

This indicates that the likelihood of subsequent increases in housing transaction prices tends to rise during periods in which *Jeonse* gap investment increases. The analysis results of this study indicate that the expansion of such speculative demand exerts a substantial effect on fluctuations in housing transaction prices. Considering these findings, when speculative demand centered on *Jeonse* gap investment expands, it is highly likely to function as an amplifying factor for price volatility in the housing market. Figure 1

■ Impact of *Jeonse* gap investment on housing transaction prices

The table below presents the analysis results for housing price determinants in Korea. Column (1) presents the analysis results based on the full sample covering all regions nationwide, Column (2) presents the results for the Seoul metropolitan area, and Column (3) reports the conditional analysis results with the sample restricted to non-metropolitan regions. Columns (4) and (5) present the conditional analysis results in which the housing market is divided into high-volatility and low-volatility periods.

Figure 1. Estimation results of the time-varying predictive power of speculative demand for housing transaction prices



Note 1 The x-axis represents time, the y-axis represents the forecast horizon, and the z-axis represents the variable's posterior inclusion probability in predicting the dependent variable.
Note 2 In the figure, darker shades of red indicate stronger predictive power, whereas darker shades of blue indicate weaker predictive power.
Source Park (internal report, 2024)

Column (1), which reports the analysis results for the full sample, indicates that *Jeonse* prices exhibit a positive (+) relationship with housing prices. This is because an increase in *Jeonse* prices may lead to higher housing prices by increasing demand from households that choose to purchase a home in response to rising *Jeonse* costs. Gap investment is likewise estimated to have a positive (+) relationship with housing prices. This may be interpreted as reflecting the increase in housing demand driven by gap investors who acquire housing units with relatively low equity contributions, which may contribute to the increase in housing prices. Interest rates are found to have a negative (-) relationship with housing prices. As interest rates rise, borrowing costs increase, which tends to reduce housing demand; thus, interest rates generally function as downward pressure on housing prices. Mortgage lending is estimated to have a positive (+) relationship with housing prices. When credit availability improves, housing purchases become more accessible, leading to an increase in demand and, consequently, upward pressure on housing prices. The number of households also exhibits a positive (+) relationship with housing prices. An increase in the number of households raises housing demand, which can contribute to an increase in housing price; hence, it may be regarded as a key demand-side factor in the housing market. Housing completions are estimated to have a negative (-) relationship with housing prices. This is because an increase in housing supply may stabilize or reduce housing prices. Real economy showed a positive (+) relationship with housing prices, but was not statistically significant.

Notably, for gap investment, not only was a positive (+) relationship with housing prices observed, but it also appeared to contribute to an increase in housing market volatility. Since gap investment involves acquiring housing with minimal equity by leveraging *Jeonse* deposits, buyer demand can concentrate rapidly in periods when expectations of housing price appreciation are formed. This investment behavior accelerates

Table 2. Analysis results for the determinants of housing prices

	(1)	(2)	(3)	(4)	(5)
	Total	Seoul metropolitan area	Non-metropolitan regions	High volatility	Low volatility
Jeonse price	0.655*** (0.011)	0.582*** (0.020)	0.681*** (0.012)	0.706*** (0.024)	0.312*** (0.012)
Gap investment (*Jeonse* contract within one month of purchase)	0.148*** (0.010)	0.179*** (0.022)	0.128*** (0.011)	0.198*** (0.033)	0.155*** (0.007)
Interest rate	-0.040*** (0.008)	-0.106*** (0.017)	-0.024*** (0.008)	-0.077*** (0.024)	-0.023*** (0.005)
Mortgage lending	0.016 (0.020)	0.651*** (0.056)	-0.030 (0.021)	-0.081 (0.064)	-0.021 (0.013)
Number of households	0.200*** (0.028)	0.256* (0.150)	0.172*** (0.028)	0.104 (0.138)	0.123*** (0.017)
Housing completions	-0.016** (0.007)	-0.005 (0.019)	-0.016** (0.007)	-0.043** (0.020)	-0.005 (0.004)
Real economy	0.191 (0.120)	0.867*** (0.230)	0.043 (0.132)	-0.539 (0.410)	0.081 (0.077)
Constant	-0.541** (0.218)	-8.145*** (0.709)	-0.032 (0.216)	0.549 (0.688)	-0.329** (0.143)
Number of regions analyzed	17	3	14	17	17
Observations	2,604	463	2,141	606	1,998
R-squared	0.725	0.822	0.735	0.810	0.528

Note Figures in parentheses indicate standard errors. *** p<0.01, ** p<0.05, * p<0.1
Source Park et al. (2024)

the pace of demand growth during housing price upswings, serving as an amplifying factor for price volatility. Regional analysis more clearly reveals the effects of gap investment in the Seoul metropolitan area. Leveraged investment using *Jeonse* is relatively active in this area, showing a pattern in which increases in gap investment are associated with both rising housing prices and heightened volatility. In contrast, the impact of gap investment was relatively limited in non-metropolitan regions, and its effect on housing market volatility was relatively small. The role of gap investment also becomes clear in the analysis segmented by housing market volatility levels. Gap investment has a substantially larger effect on housing prices during high-volatility periods than low-volatility periods, which can be interpreted as resulting from concentrated demand for gap investment during phases of heightened expectations of price appreciation. Consequently, gap investment appears to function as speculative demand that amplifies price volatility, rather than contributing to housing market stability. Table 2

4. Policy Response Directions

The analysis results of this study indicate that *Jeonse* gap investment has acted as an amplifying factor for housing market volatility during periods of rising housing prices and high volatility. This phenomenon cannot be attributed solely to the behavior of individual investors; rather, it can be interpreted as the outcome of an institutional environment centered on *Jeonse* loans and *Jeonse* deposit return guarantees, which has excessively expanded liquidity within the *Jeonse* market.

Jeonse loans were originally introduced with the policy objective of alleviating the housing cost burden on lessees, but they have actually functioned as a channel supplying large-scale liquidity throughout the *Jeonse* market. In an environment where access to loans is widely available and interest burdens remain low, *Jeonse* demand expands regardless of household income or repayment capacity. When combined with *Jeonse* deposit return guarantees, lessees perceived little risk of deposit non-recovery, which weakened their cost sensitivity when choosing *Jeonse*. Consequently, upward pressure on *Jeonse* prices accumulated, and a structure emerged in which *Jeonse* deposits approached housing transaction prices.

This environment facilitated leveraged purchases using *Jeonse*. Rising *Jeonse* prices lowered the entry barrier for *Jeonse* gap investment, which, as confirmed by the empirical analysis in this study, acted as a channel that simultaneously drove increases in housing prices and market volatility. In other words, rather than functioning as stabilizing mechanisms for the *Jeonse* market, *Jeonse* loans and guarantee schemes largely operated as a foundation that promoted the inflow of speculative demand into the housing sales market.

Accordingly, policy approaches to *Jeonse* loans need to move beyond the conventional perception of *Jeonse* as a uniform housing option for ordinary households. Considering that *Jeonse* loans have a dual character—serving both as a housing support tool and as a source of investment leverage—the focus of regulation should not be on controlling the overall supply, but rather on a selective approach based on borrowers' repayment capacity and the housing purpose.

From this perspective, the gradual application of the DSR framework to *Jeonse* loans could serve as an important policy tool. Although the October 15 real estate measures have already introduced DSR limits for *Jeonse* loans to single-home owners, the analysis in this study shows that the spread of *Jeonse* gap investment has occurred across *Jeonse* demand overall, including households without homeownership. This suggests that granting *Jeonse* loans universally based solely on non-homeowner status may be insufficient to control liquidity expansion and price increases in the *Jeonse* market.

Therefore, future *Jeonse* loan policies need to be differentiated based not on homeownership status but on household income, repayment capacity, and the housing purpose of the loan. In particular, for high-value *Jeonse* contracts or contracts where the *Jeonse* deposit constitutes an excessively large share of the housing transaction price, restrictions on *Jeonse* loan availability and guarantee provision could be considered. This approach would maintain the function of housing stabilization for genuine demand while also blocking channels through which speculative leveraged demand using *Jeonse* could expand.

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02 Impact of *Jeonse* Loan Guarantees on the Housing Market and Policy Directions

Minjoon Oh

1. Problem Statement and Significance

The Korean *Jeonse* loan guarantee system serves as a key policy instrument designed to alleviate the housing cost burden on low- and middle-income tenant households. By enhancing the creditworthiness of tenants through government and public institutions, the system enables households to obtain *Jeonse* loans without collateral. Consequently, tenants can access loans at relatively low interest rates with limited personal capital, reducing their short-term housing expenses. Owing to these positive effects, the supply of *Jeonse* loan guarantees has expanded rapidly in recent years. The outstanding balance of *Jeonse* loan guarantees provided by the Housing and Urban Guarantee Corporation more than doubled over the period from approximately KRW 66.5 trillion at the end of 2018 to KRW 143.0 trillion by the end of 2024. Similarly, the balance of guarantees issued by the Korea Housing Finance Corporation surged from KRW 50.4 trillion to KRW 83.6 trillion over the same period (Bank of Korea, 2025). This expansion of liquidity through public guarantees has significantly increased the scale and accessibility of the *Jeonse* rental market.

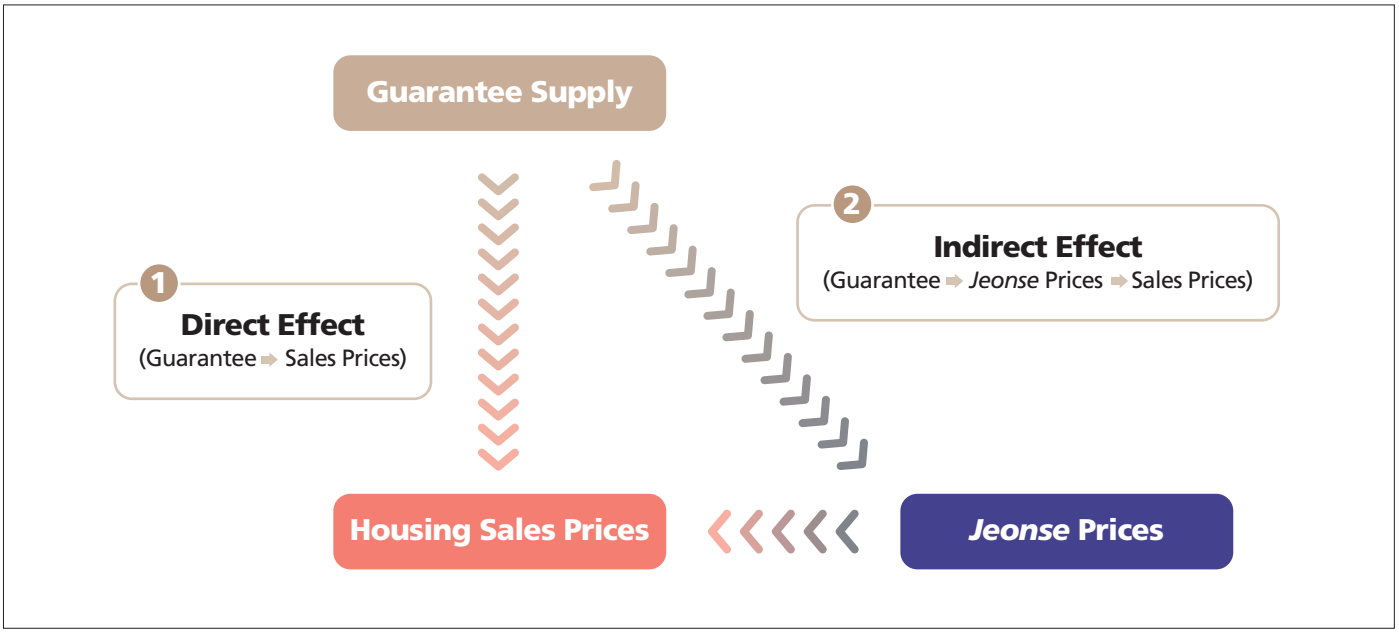
However, the rapid expansion of *Jeonse* loan guarantees has also raised concerns and sparked debate regarding their broader impact on the housing market. Some market observers argue that excessive liquidity may stimulate *Jeonse* prices and, in turn, spill over into the housing sales market, contributing to price increases (Oh et al., 2024). A guarantee system originally intended to support tenants could inadvertently drive up rental and purchase prices. This concern is particularly salient in Korea, where a distinctive structural mechanism links rising *Jeonse* prices to subsequent increases in housing sales prices. By reinforcing this pathway, *Jeonse* loan guarantees may heighten overall price instability in the housing market. Oh Minjoon et al. (2024) further support this view, showing that when the supply of guarantees expands, housing sales prices rise more sharply than *Jeonse* prices-the impact of guarantees is greater on the sales market than on the rental market. Thus, beyond their intended role of assisting tenants, *Jeonse* loan guarantees may inadvertently encourage speculative "gap investment"—purchasing homes with minimal equity by leveraging *Jeonse* deposits-inflating housing price bubbles. In summary, the paradox of expanding *Jeonse* loan guarantees—the boomerang effect of a tenant-support policy—underscores the need to analyze whether such guarantees are exerting structural spillover effects across the rental and sales markets.

2. Interpretation of the Structural Transmission Mechanism

Examining how *Jeonse* loan guarantees transmit their effects to the rental and sales markets will help clarify the pathways linking the two. The expansion of guarantee supply first produces a direct effect by facilitating tenants' access to *Jeonse* loans, increasing demand, and raising *Jeonse* prices. Simultaneously, higher *Jeonse* prices indirectly stimulate housing sales prices by encouraging landlords to engage in gap investment—purchasing homes with minimal equity using tenants' deposits—or prompting tenants to shift their demand toward homeownership. Moreover, the liquidity that tenants secure through guarantees can flow directly into the housing sales market, exerting a further upward influence. Collectively, these direct and indirect channels indicate that the expansion of *Jeonse* loan guarantees functions not merely as a support measure for the rental market but as a mechanism generating structural spillover effects across the entire housing market. Figure 1

The increase in guarantee supply operates through two channels simultaneously: an indirect pathway (illustrated by the blue dashed line), in which rising *Jeonse* prices affect housing sales prices, and a direct pathway (depicted by the green solid line), in which guarantees influence the sales market

Figure 1. Conceptual pathways of spillover effects between *Jeonse* prices and housing sales prices under expanded *Jeonse* loan guarantees



Source Created by the author

immediately. This structural transmission mechanism represents a distinctive linkage unique to the Korean housing market, demonstrating how the effects of *Jeonse* loan guarantees can be amplified into the sales market.

To empirically verify the existence of these structural pathways, this study employed the Seemingly Unrelated Regression (SUR) model. Although *Jeonse* prices and housing sales prices are distinct dependent variables, they are highly likely to respond simultaneously to common macroeconomic shocks and policy factors. In such cases, estimating the two regression equations separately may lead to correlated error terms, reducing the efficiency of ordinary least squares estimation. By accounting for the covariance structure of the error terms, the SUR model enables efficient estimation based on generalized least squares and is thus well-suited to capturing the simultaneous interdependence between the rental and sales markets.

The basic structure of the SUR model specified in this study is as follows:

(Equation 1)

$$\Delta J_t = \alpha_1 + \beta_1 \Delta HF_{t-1} + \gamma_1 \Delta r_t^J + \delta_1 \Delta SDI_t^J + \varepsilon_{1t}$$

(Equation 2)

$$\Delta S_t = \alpha_2 + \beta_2 \Delta HF_{t-1} + \gamma_2 \Delta r_t^S + \delta_2 \Delta SDI_t^S + \varepsilon_{2t}$$

Here, ΔJ_t denotes the monthly rate of change (%) in the *Jeonse* price index, while ΔS_t represents the monthly rate of change (%) in the housing sales price index. ΔHF_{t-1} refers to the month-on-month growth rate of the outstanding balance of *Jeonse* loan guarantees. Δr_t^J and Δr_t^S indicate the changes (in percentage points) in *Jeonse* loan interest rates and mortgage loan interest rates, respectively. ΔSDI_t^J and ΔSDI_t^S capture changes in the supply–demand indices for the *Jeonse* and sales markets, respectively.

The error terms ε_{1t} and ε_{2t} are assumed to be correlated —$\mathrm{Cov}(\varepsilon_{1t}, \varepsilon_{2t}) \neq 0$. Although the two regression equations have different dependent variables, the assumption of correlated error terms is central to the SUR framework.

This reflects the notion that the two markets jointly respond to common macroeconomic shocks or policy factors. By applying the SUR model, efficient estimation of the regression coefficients can be achieved.

In this study, the Breusch–Pagan test was conducted, and the covariance between the error terms of the two equations was found to be statistically significant, confirming the validity of adopting the SUR model. By incorporating the cross-equation correlation of error terms, the SUR approach allows for more efficient estimation of the regression coefficients.

To examine the potential existence of an indirect pathway through which guarantee supply influences housing sales prices via *Jeonse* prices, this study applied structural equation

modeling (SEM). SEM allows for the simultaneous estimation of causal relationships and mediation effects among multiple dependent variables. In particular, it is well-suited for identifying the mechanism by which the expansion of *Jeonse* loan guarantees indirectly affects housing sales prices through changes in *Jeonse* prices.

The SEM framework specified in this study is structured as follows:

(Equation 3)

$$\Delta J_t = \alpha_J + \beta_J \Delta HF_{t-1} + \gamma_J Z_t + \varepsilon_J$$

(Equation 4)

$$\Delta S_t = \alpha_S + \beta_S \Delta HF_{t-1} + \theta_S \Delta J_t + \gamma_J Z_t + \varepsilon_S$$

Here, Z_t denotes the vector of control variables including interest rates and supply–demand indices, while represents the path coefficient capturing the effect of *Jeonse* prices on housing sales prices.

The total effect of guarantee supply can be decomposed as follows: Total Effect=Direct Effect (β_S)+Indirect Effect ($\beta_J \times \theta_S$). The total effect is derived as the sum of the direct impact of guarantee supply on housing sales prices and its indirect impact mediated through *Jeonse* prices.

The SEM estimation conducted in this study indicated that the overall model fit was satisfactory.

According to the empirical analysis using the SUR model, increases in the outstanding balance of *Jeonse* loan guarantees significantly raise the growth rate of *Jeonse* prices and that of housing sales prices. Notably, the effect of guarantee expansion on housing sales prices is statistically larger than its effect on *Jeonse* prices-market shocks induced by guarantees are amplified on the sales side. Specifically, a 1% increase in the outstanding balance of guarantees is estimated to raise the growth rate of *Jeonse* prices by approximately 0.083 percentage points, while the growth rate of housing sales prices rises by about 0.131 percentage points. Thus, the expansion of *Jeonse* loan guarantees, while providing positive support for tenants' financing, simultaneously generates a boomerang effect by fueling housing asset prices through the spread of gap investment and the shift of tenant demand toward home purchases.

Furthermore, the analysis using SEM clearly identified the existence of an indirect pathway through which guarantee supply exerts its effects via *Jeonse* prices. The results statistically confirmed a sequential mechanism in which guarantee expansion directly raises *Jeonse* prices, and the elevated *Jeonse* prices subsequently drive housing sales prices upward. Within the SEM framework, the *Jeonse* price variable emerged as a key mediating factor in the sales price equation, illustrating how shocks from guarantee supply are transmitted from the rental market to the sales market. In sum, the close interlinkage between the *Jeonse* and sales markets implies that the expansion of public guarantees does not remain confined to one segment but acts as a force that disrupts price dynamics across the entire housing market.

3. Recent Structural Changes in the Market: Why This Matters Now

The transmission mechanism of *Jeonse* loan guarantees has taken on heightened significance in the context of recent shifts in the housing market environment. During the sharp price upswing of 2020–2021 and the subsequent correction in 2022, *Jeonse* prices and housing sales prices exhibited a substantial degree of co-movement. This pattern demonstrates the close linkage between the two markets, both responding jointly to factors such as interest rates, supply–demand dynamics, and broader economic conditions. In the upswing phase, abundant liquidity and policy support drove simultaneous surges in *Jeonse* and sales prices, while in the downturn phase, interest rate hikes and tighter lending regulations led to adjustments in both markets. Such synchronized fluctuations clearly illustrate how the spillover effects of *Jeonse* loan guarantees can manifest in practice. The structural importance of rental-market policies—including *Jeonse* guarantees—has been confirmed, as they influence tenant financing and the macro-level stability and cyclical dynamics of the housing market as a whole.

Notably, the *Jeonse* market itself has recently undergone a structural transformation. With the rise in interest rates, tenant preferences have shifted increasingly toward monthly rent, and cases of existing *Jeonse* contracts being converted into *wolse* (monthly rent) or *banJeonse* (mixed rent) have surged (The Korea Economic Daily, 2025). For example, by November 2025, the number of renewed contracts for Seoul apartments that converted from *Jeonse* to *wolse* reached 3,818, representing a 59.9% increase compared to the same period in the previous year and an 85.3% increase relative to 2023. Consequently, the share of monthly rent transactions has continued to rise,

surpassing 50% in 2024 after remaining in the low-40% range in 2021. In 2025, among Seoul apartment rental transactions, *Jeonse* accounted for approximately 52.8% and *wolse* for 47.2%, a sharp decline in the share of *Jeonse* compared to just one year earlier (61.3% *Jeonse* vs. 38.7% *wolse*). This trend of "converting *Jeonse* into *wolse*" signifies that the traditional *Jeonse*-centered structure of the rental housing market is undergoing a fundamental change.

Structural changes in the rental housing market call for a reassessment of the role and influence of the *Jeonse* loan guarantee system. Although the growing preference for monthly rent may dampen demand for *Jeonse* loans, tenants who continue to rely on *Jeonse* face the burden of higher interest costs on their loans. If the function of public guarantees remains unchanged under these circumstances, the limited guarantee resources could be disproportionately concentrated on a shrinking segment of *Jeonse* transactions, exacerbating market distortions. Conversely, if the contraction of the *Jeonse* market reduces opportunities for guarantee provision, the policy effectiveness of the system may also become constrained. Accordingly, it is now necessary to adjust the operational direction of the guarantee system, considering its policy objective—ensuring housing stability for low- and middle-income households-and the realities of structural change in the rental market, from micro- and macroeconomic perspectives. Moreover, risks that have emerged around the *Jeonse* market since 2023, such as large-scale fraud and the phenomenon of "reverse *Jeonse*," further underscore the need to improve the design of public guarantees. To prevent protective mechanisms from being misused or from amplifying market instability, there is a growing need to strengthen institutional safeguards and focus more intensively on protecting vulnerable tenant groups.

Furthermore, financial authorities have recently moved to strengthen regulations on *Jeonse* loans as part of broader household debt management. Traditionally, *Jeonse* loans have been exempt from the Debt Service Ratio (DSR) regulation on the grounds of supporting housing stability for low- and middle-income households. However, growing concerns that unchecked loan expansion may stimulate housing prices have led to active consideration of applying DSR requirements. In practice, regulators have begun discussing extending the DSR rules to cover high-value *Jeonse* loans and loans below KRW 100 million, as well as reducing the guarantee coverage ratio, which currently approaches 100%. This shift indicates that *Jeonse* loan guarantees are no longer confined to the realm of housing welfare policy but have become a critical variable directly tied to macro-financial stability and real estate market regulation. Consequently, a thorough review and reconsideration of the *Jeonse* loan guarantee system at this juncture constitutes a timely policy task for ensuring housing market stability and managing financial risks in Korea.

4. Policy Implications: Directions for Improving the Guarantee System

Considering the structural spillover effects of *Jeonse* loan guarantees, several directions for policy design emerge. As the preceding analysis has shown, the expansion of guarantee supply influences the rental and sales markets and, in particular, may generate a boomerang effect through rising housing sales prices. Based on these findings, it is necessary to redefine the operating principles of the *Jeonse* loan guarantee system and introduce complementary measures that minimize market distortions. The key policy implications are listed below.

- Refining Guarantee Support to Focus on Genuine Tenant Demand: Guarantee benefits should be more selectively targeted so that they do not spill over broadly into investment or speculative demand. The present analysis shows that increases in the outstanding balance of guarantees significantly raise *Jeonse* and housing sales prices, with the effect on sales prices being particularly pronounced—guarantees may have supported tenant financing and speculative demand, driving market prices upward. If broad-based guarantees continue to be provided regardless of income level or *Jeonse* deposit size, limited public resources may paradoxically offset their intended housing support effect by fueling price increases. Accordingly, guarantees should be concentrated on genuine demand segments such as mid- to low-priced housing and middle- to low-income tenants, while differentiated strategies-reducing guarantee limits or raising guarantee fees—should be applied to overheated regions or high-value *Jeonse* contracts. This would enhance the efficient allocation of guarantee resources while curbing adverse price effects.

- Preventing Guarantee Misuse and Strengthening Financial Soundness: The current structure of full guarantees for *Jeonse* loans should be reformed by introducing partial guarantees, and the application of DSR regulations to *Jeonse* loans should be considered. Currently, *Jeonse* loan guarantees are close to 100% coverage, leaving financial institutions with little risk exposure and potentially encouraging excessive lending and

leverage. This study also found that increases in guarantee balances exert particularly strong effects on housing sales price fluctuations—guarantees stimulate liquidity in the housing market and contribute to price escalation. To counter this, financial institutions should bear part of the risk under a partial guarantee system, reducing moral hazard, while DSR regulations should ensure that loans remain within borrowers' repayment capacity. Additionally, expanding the disclosure of rental market information and strengthening monitoring of loan usage and multi-homeowner activity are necessary to prevent misuse of guarantees as a tool for market disruption. Such measures would enhance the sustainability of the *Jeonse* loan guarantee system while improving the soundness of the financial system.

- Linking Rental Market Stabilization Measures with Housing Sales Market Policies: Given the confirmed structural pathway through which rising *Jeonse* prices lead to higher housing sales prices, rental and sales market policies should not be operated in isolation. In practice, rental market stabilization measures (e.g., the expansion of *Jeonse* loan guarantees and stronger tenant protections) and sales market stabilization measures (e.g., real estate taxation and lending regulations) have often been pursued separately, although the two markets function as an interconnected ecosystem. Therefore, policy design must adopt a package approach that anticipates the impact of rental stabilization measures on the sales market and vice versa. For instance, adjustments to *Jeonse* loan guarantees should be accompanied by forecasts of their effects on housing purchase demand, with preemptive countermeasures prepared accordingly. Similarly, housing price stabilization policies should be linked to mechanisms that alleviate rental burdens. By adopting this macro-level perspective that encompasses both markets, policymakers can minimize balloon effects between the *Jeonse* and sales markets and foster a more stable housing environment overall.

In summary, the *Jeonse* loan guarantee system plays a dual role within the interconnected structure of Korea's housing market. It serves as a stepping stone that supports tenants in securing housing while acting as a supplier of liquidity that amplifies upward pressure on housing prices—a double-edged sword. Therefore, recognizing and refining policy in light of these structural characteristics is crucial. As confirmed through quantitative analysis, the expansion of guarantee supply entails short-term benefits for housing stability and long-term risks of price volatility. It is imperative to design more sophisticated policies that preserve the original purpose of the guarantee system while minimizing its unintended consequences. Guarantees must be carefully targeted so that benefits reach those households most in need, institutional safeguards must be strengthened to mitigate market risks, and policy packages should be crafted from a macro perspective that encompasses the rental and sales markets. Through such measures, the *Jeonse* loan guarantee system can evolve toward achieving a balanced outcome—simultaneously enhancing tenant housing security and contributing to the overall stability of the housing market.

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03 The Impact of Real Estate Tax on the Housing Market: Empirical Analyses and Policy Direction

Jinbaek Park

1. Background of Real Estate Taxation Debates and Housing Market Structure

■ Background for review

Recent policy discussions have focused on strengthening real estate taxation at the transfer stage to stabilize the housing market, including the possibility of adjusting tax burdens at the holding stage. These discussions reflect a policy perception that tax reinforcement can encourage homeowners to sell, thereby increasing the supply of properties on the market.

However, whether such policy debates can actually translate into changes in the decision-making of market participants requires further examination. For tax changes to influence transaction choices, the market structure itself must be able to accommodate such adjustments. In a single-market structure where only the sales market exists, tax burden adjustments are more likely to directly affect transaction incentives.

In contrast, the Korean housing market operates with both the sales and *Jeonse* markets functioning simultaneously. In this case, even if the decision to sell is delayed, homeowners retain the option of adjusting their holding costs through rental arrangements. The perception of heavier transfer-stage taxation may weaken incentives to sell, while the associated holding costs could be passed on to tenants. Such adjustment pathways may lead to outcomes that diverge from the intended policy goal of stabilizing the sales market.

■ Structure of real estate taxation and its transmission channels in the housing market

Real estate taxation serves not only the fundamental function of securing government revenue but also operates as a policy instrument to support housing market stability and macroeconomic regulation. In particular, housing embodies both asset and residential characteristics, meaning that tax changes affect the market broadly through multiple channels—prices, transactions, and rental choices.

Real estate taxation can be divided into three stages: acquisition, holding, and transfer, with different types of taxes imposed at each stage. At the acquisition stage, the acquisition tax is levied, directly influencing decisions at the point of purchase. When acquisition tax burdens rise, households with limited purchasing capacity are more likely to postpone or abandon home purchases. This shift suppresses demand in the sales market while simultaneously redirecting demand toward the rental market.

At the holding stage, property tax and the comprehensive real estate tax are imposed. These taxes represent recurring costs during ownership and influence long-term decision-making. For owner-occupied housing, higher holding tax burdens are less likely to trigger immediate sales decisions, considering limited substitution possibilities in residential choice. In contrast, for investment-oriented housing, increased holding taxes can be passed on to tenants through rent adjustments. In such cases, the stabilizing effect expected from stronger holding taxation may be weakened.

At the transfer stage, capital gains tax is imposed on profits from housing sales, with the burden arising only when transactions occur. If capital gains tax rates are raised or the scope of heavy taxation is expanded, homeowners may avoid transactions to mitigate tax burdens. This tends to delay sales decisions, and in the short term, reduce transaction volumes in the housing market.

Thus, real estate taxation influences the decision-making of housing market participants in different ways across the acquisition, holding, and transfer stages. Notably, in a market structure where the *Jeonse* system coexists with the sales market, changes in tax burdens are not confined to the sales market but can also be adjusted through rental conditions. Therefore, understanding the policy effects of real estate taxation requires not only examining the isolated impacts of

individual tax items but also considering the interlinked structure across stages and the interactions between the sales and *Jeonse* markets.

2. Theoretical Effects of Real Estate Taxation

■ Theoretical analysis using a two-period utility maximization model

This study employs a two-period utility maximization model to theoretically analyze how real estate taxation at the acquisition, holding, and transfer stages affects both the housing sales and *Jeonse* markets. Economic agents are assumed to allocate consumption across two periods, adjusting their resources through decisions to buy, sell, rent out, or lease housing. Within the model, the sales and *Jeonse* markets are determined simultaneously, and real estate taxation at each stage is directly incorporated into agents' choices.

The theoretical results indicate that an increase in the acquisition tax rate raises the cost of home purchases, leading to a decline in housing sales prices. At the same time, reduced demand in the sales market shifts demand toward the rental market, thereby driving up *Jeonse* prices. This demonstrates that acquisition-stage taxation can exert opposite effects on the sales and *Jeonse* markets.

In the case of higher holding tax rates, the increased cost of ownership tends to lower housing sales prices. However, the effect on *Jeonse* prices is indeterminate. If higher holding taxes reduce rental supply, *Jeonse* prices may rise; conversely, if rental demand adjusts downward, *Jeonse* prices may fall. Thus, the theoretical direction of *Jeonse* price changes under higher holding taxes cannot be specified with certainty.

For capital gains taxation at the transfer stage, the concentration of tax burdens at the point of sale generates a lock-in effect, whereby homeowners avoid transactions to mitigate tax liabilities. In this scenario, the sales market experiences reduced transaction volumes, making it difficult to determine the direction of price changes. In contrast, delayed sales increase the number of properties remaining in the rental market, and consequently, pushes *Jeonse* prices upward. Table 1

■ Numerical optimization simulation

Based on the theoretical model, the numerical optimization simulation confirms that acquisition, holding, and transfer-stage real estate taxes affect the housing sales and *Jeonse* markets in distinct ways. In particular, capital gains taxation exerts relatively stronger effects on the *Jeonse* market than on the sales market. This suggests that the adjustment pathway—combining transaction avoidance with continued holding—can be amplified through the rental market.

When the acquisition tax rate is increased, the cost of home purchases rises, leading to a decline in transaction volumes in the sales market. Consequently, housing sales prices adjust downward. As demand in the sales market contracts, households shift their housing choices toward the rental market, resulting in increased *Jeonse* transactions. Consequently, the rise in rental demand drives up *Jeonse* prices. This demonstrates that acquisition-stage taxation can exert opposite effects on the sales and *Jeonse* markets.

In the case of higher holding tax rates, the increased cost of ownership induces more homeowners to sell, thereby raising transaction volumes in the sales market. However, the resulting increase in supply leads to a decline in sales prices. In the rental market, contrasting dynamics are observed. Rather

Table 1. Theoretical impact structure of real estate taxation by stage of tax rate increase

Category	Sales Price	*Jeonse* price
Acquisition Tax	Decrease	Increase
Holding Tax	Decrease	Indeterminate
Capital Gains Tax	Indeterminate	Indeterminate
	Indeterminate (Under lock-in assumption)	Increase (Under lock-in assumption)

Source Park et al. (2023)

than reducing rental supply, the higher holding burden prompts conversion to sales, thereby decreasing the volume of *Jeonse* transactions. Consequently, *Jeonse* prices also decline.

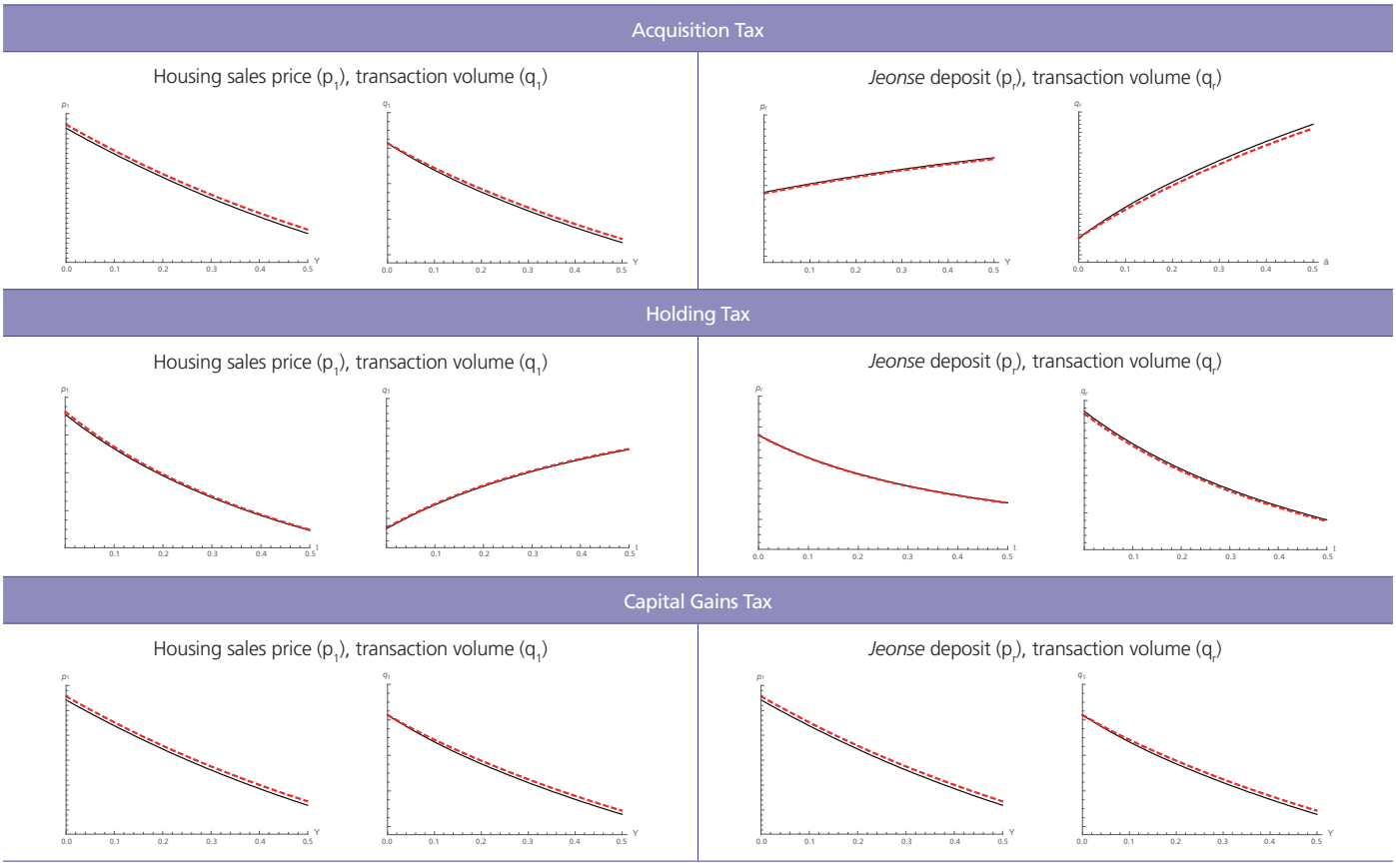
For capital gains taxation, the concentration of tax burdens at the point of sale strengthens the tendency to avoid transactions, producing a lock-in effect. Consequently, transaction volumes in the sales market decrease. However, no consistent directional effect on sales prices is observed, as both transaction contraction and price adjustment forces operate simultaneously. In the rental market, clearer changes emerge. Delayed sales increase the number of properties remaining in the rental sector, leading to higher *Jeonse* prices. Particularly in high-tax scenarios, *Jeonse* transaction volumes rise again, indicating that stronger capital gains taxation can transmit additional pressure into the rental market. **Table 2, Figure 2**

Table 2. Simulation results of market impacts by stage of real estate tax rate increase

Category	Sales Market		*Jeonse* Market	
	Price	Transactions	Price	Transactions
Acquisition Tax	Decrease	Decrease	Increase	Increase
Holding Tax	Decrease	Increase	Decrease	Decrease
Capital Gains Tax	Stable	Decrease	Increase	Stable, then Increase

Source Park et al. (2023)

Figure 2. Simulation results of market impacts by stage of real estate tax rate increase



Note 1 In the graphs, the horizontal axis represents the tax rate for each category, while the vertical axis represents the responses of prices (deposits) and transaction volumes.
Note 2 In the graphs, the solid line indicates simulation results under an interest rate of 10%, whereas the dashed line corresponds to an interest rate of 1%.
Source Park et al. (2023)

3. Empirical Analysis of the Housing Market Effects of Real Estate Taxation

■ Empirical evidence from OECD countries

Examining the panel regression results using data from 30 OECD countries over the period 1970–2021, acquisition taxes are found to have a positive relationship with both housing sales and rental prices. Based on this evidence, increases in acquisition-stage taxation may lead to higher housing sales prices, and when such properties are rented out, landlords may have incentives to pass the additional tax burden on to tenants. In contrast, holding taxes demonstrate a negative relationship with housing sales prices. This suggests that if the policy objective is to lower housing prices, raising holding taxes could be an appropriate direction. However, the analysis finds no statistically significant relationship between holding taxes and rental prices. Capital gains taxation demonstrates no statistically significant effect on housing sales prices, but a positive relationship with rental prices. In the OECD sample, increases in capital gains taxation appear to induce a lock-in effect, encouraging homeowners to retain properties rather than sell, however, this does not exert sufficient influence to move sales prices. However, the statistically significant effect on rental prices deserves attention. The increase in capital gains taxation encourages continued ownership, and the resulting holding costs may be transferred to tenants in the form of higher rents. Table 3

■ Empirical evidence from Korea

Panel regression analysis using data from 17 metropolitan local governments in Korea over the period 2005–2021 reveals heterogeneous price effects of real estate taxation across different tax categories. Acquisition taxes relative to GRDP indicate a positive relationship with housing sales prices. However, this is not interpreted as acquisition tax increases driving prices upward, but rather as reverse causality—higher

Table 3. Empirical results of real estate taxation on housing markets in 30 OECD countries

Category	(1) Dependent Variable: Housing Sales Price Growth	(2) Dependent Variable: Rental Price Growth
Acquisition Tax to GDP Ratio	5.279*** (1.159)	2.071** (0.894)
Holding Tax to GDP Ratio	-1.625** (0.789)	-0.378 (0.587)
Capital Gains Tax to GDP Ratio	1.663 (1.145)	1.746** (0.874)
Short-Term Interest Rate	0.074 (0.055)	0.587*** (0.039)
Population Growth Rate	2.311*** (0.550)	1.138*** (0.408)
Economic Growth Rate	1.261*** (0.067)	0.245*** (0.049)
Constant	0.222 (1.268)	-0.692 (0.909)
Number of Countries	30	30
Observations	907	907
R-Squared	0.342	0.269
Hausman Test	63.99*** [0.000]	31.69*** [0.000]

Notes Figures in parentheses denote standard errors; figures in brackets denote p-values. *** p<0.01, ** p<0.05, * p<0.1.
Source Park et al. (2023)

housing sales prices leading to increased acquisition tax revenues. As acquisition taxes are levied at the point of transaction, they have limited explanatory power as direct determinants of price formation. Property taxes exhibit a negative relationship with housing sales prices. However, considering that property tax is a local tax, its institutional characteristics suggest limited direct influence on price formation. This outcome is considered to reflect measurement limitations associated with using GRDP-based tax revenue indicators. Comprehensive real estate taxes demonstrate a positive relationship with both housing sales and *Jeonse* prices. This indicates that the burden of comprehensive real estate taxation may be linked to asset price levels. The positive relationship with *Jeonse* prices, in particular, suggests the existence of a transmission pathway through which the tax burden is shifted onto tenants. Notably, this effect was not clearly observed in the international analysis. Capital gains taxation is not statistically significant in relation to housing sales prices, however, it demonstrates a positive relationship with *Jeonse* prices. This implies that capital gains tax burdens are less likely to directly adjust sales prices, but instead influence the rental market by delaying sales decisions. Thus, capital gains taxation exerts its impact primarily through the *Jeonse* market. Table 4

Table 4. Panel fixed-effects estimation results of real estate taxes relative to GRDP

Category	(1) Dependent Variable: Housing Sales Price Growth	(2) Dependent Variable: *Jeonse* Price Growth
Acquisition Tax to GRDP Ratio	5.386** (2.107)	-0.628 (2.264)
Property Tax to GRDP Ratio	-19.708*** (3.965)	-5.741 (4.260)
Comprehensive Real Estate Tax to GRDP Ratio	17.972*** (4.119)	8.226* (4.424)
Capital Gains Tax to GDP Ratio	0.089 (0.639)	1.227* (0.687)
Mortgage Loan Growth Rate	0.071* (0.040)	0.095** (0.043)
Log of Unsold Housing Units	-1.325*** (0.312)	-0.545 (0.335)
Household Growth Rate	-0.192 (0.381)	-0.389 (0.410)
Economic Growth Rate	0.122 (0.101)	0.219** (0.109)
Constant	15.807*** (3.907)	7.981* (4.197)
Number of Regions	16	16
Observations	240	240
R-Squared	0.296	0.124
Hausman Test	32.88*** [0.000]	12.17 [0.144]

Notes Figures in parentheses denote standard errors; figures in brackets denote p-values. *** p<0.01, ** p<0.05, * p<0.1.
Source Park et al. (2023)

4. Policy Directions for Real Estate Taxation

Based on the findings of this study, the policy directions for real estate taxation can be summarized as follows:

First, a coordinated policy mix that accounts for market impacts is necessary. The effects of real estate taxation on the housing market differ across tax categories. Changes in transaction volumes, housing sales prices, and *Jeonse* prices are not uniform. Therefore, rather than operating individual taxes in isolation, a comprehensive policy mix that considers their combined influence on the housing market is required. Failure to adequately reflect the interconnections among taxes may lead to market responses that diverge from policy intentions.

Second, tax burden relief for single-household owner-occupiers is required. Real estate taxation should not discourage the purchase or holding of housing for residential purposes. For the housing market to stabilize around the choices of genuine residents, policies that reduce the tax burden on single-household owner-occupiers are essential. This approach simultaneously addresses speculative demand while protecting genuine demand. In particular, for acquisition taxes, introducing exemptions that reflect the household life cycle is reasonable. Expanding the current exemption for first-time homebuyers to include cases of marriage, childbirth, or other family composition changes would allow tax relief for owner-occupiers, thereby supporting residential relocation and improvements in housing conditions in response to household growth.

Third, measures are required to prevent the transfer of tax burdens to tenants. For housing market stability, easing tax burdens at the transaction stage while strengthening them at the holding stage should be considered. In this process, ensuring that the burden on owner-occupiers is not increased is crucial. Equally important is preventing the effects of tax reforms from being shifted onto tenants, which is a key condition for maintaining policy effectiveness. To achieve this, institutional design should aim to reduce operating costs for landlords. A structure can be created that alleviates burdens for both landlords and tenants, by combining policies that enhance incentives for rental housing supply while lowering the incentive to pass tax burdens onto rents.

Fourth, policy rules for real estate taxation is required. Frequent changes in real estate taxation risk amplifying housing market volatility and undermining trust in policy. Accordingly, clear policy rules should be established to provide long-term guidance for taxation policy. Such rules may include the basic direction of tax operation as well as criteria for the scope and magnitude of institutional adjustments. This would enhance the predictability of policy for market participants and reduce uncertainty arising from tax changes.

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