

Space & Environment is a quarterly magazine published by KRIHS. Its purpose is to introduce current issues on territorial planning in Korea and disseminate research achievements and international activities of KRIHS and other Korean institutes.

ISSUES & TRENDS

Changing Landscape of
Private Rental Market in Korea 01

An Analysis on the Economic Impacts
of Changes in Property Tax 06

Developing Housing Finance Policy
in a Changing Housing Market 11

IN-DEPTH LOOK

2014 KRIHS Research Projects 16

GLOBAL PARTNERSHIP NEWS 19



KRIHS (Korea Research Institute for Human Settlements) was established in 1978 with a mission of creating a beautiful and pleasant living environment. To achieve the mission, KRIHS has been committed to enhancing the quality of life and well-being of the people in the nation with its spatial planning studies and policy suggestions.

Since its foundation, KRIHS has carried out a variety of studies on the efficient use, development, and conservation of territorial resources. Its research areas range from sustainable and balanced territorial development and conservation of the territory to the provision of housing and infrastructure.

Vol. 62 July 2015

SPACE & ENVIRONMENT

ISSUES & TRENDS 01

Changing Landscape of Private Rental Market in Korea

Park Miseon

1. Introduction

Private rental markets in Korea have experienced dramatic changes recently. While *chonsei*, Korea's unique lease system that provides an immediate large lump sum deposit to landlords, has been losing its dominant share in the private rental market, it has been difficult to see and scrutinize a detailed picture of the changing rental market landscape due to the unavailability of data. However, the Korean government has implemented lease contract reporting system since 2011, which has made analyzing the changing landscape of private rental market conditions possible by using the total population of lease contract reporting data, which include over a million units every year.

This study is the first attempt to depict the landscape of private rental market changes from 2011 to 2014 using the whole population of lease contract data. The author aims to analyze the trend of changing rental tenure types, to provide the characteristics of the private rental market by deposit amount, housing type, and age group, and finally to suggest policy implications for low-income renters.

The structure of this paper is as follows: the paper first explains *chonsei*, the unique rental tenure type in Korea, followed by its changing share in the private rental market. In addition, it illustrates several factors related to recent market changes. Next, the paper presents a detailed analysis on the characteristics of private rental market transactions in terms of transaction volume, deposit amount, housing type, and age group. Finally, based on the analysis, this paper provides several policy implications that would serve vulnerable renters, especially those living on a monthly rent with deposit (MRD hereafter).

2. Characteristics of private rental market transaction

Transition from *chonsei* to MRD

Analysis indicates that recent *chonsei* contracts are tending to decrease, while recent MRD leases are increasing. During the past four years from 2011 to 2014, *chonsei* decreased its share of transactions from 67 percent in 2011 to 59 percent in 2014, while MRD share for the same period rose from 33 percent to 41 percent. The total volume of private rental transactions amounted to 1.3 million units in 2011 and increased to over 1.4 million units in 2014. Therefore, the tendency trends toward more households entering into the private rental market and living in MRD than into *chonsei* contracts.

Table 1. Rental contract transaction volume and share of tenure type from 2011 to 2014

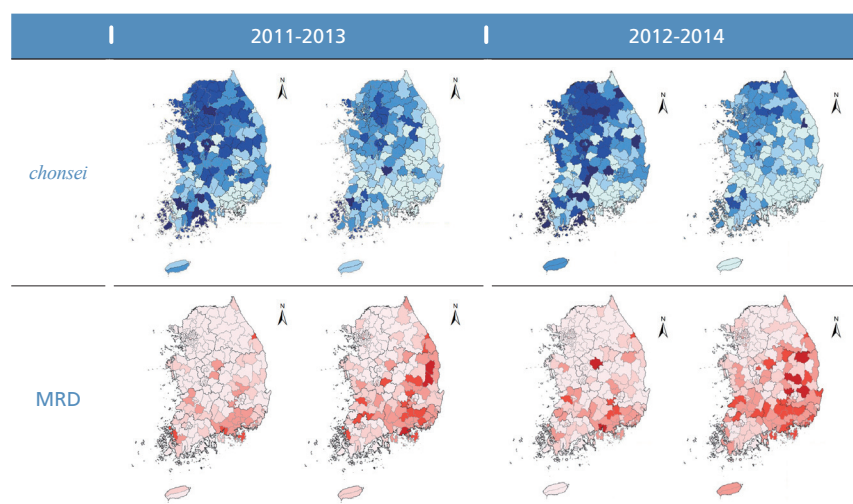
Year	2011	2012	2013	2014
Total rental contracts [thousand units]	1,321	1,324	1,373	1,467
Share of <i>chonsei</i> contract [%]	67.0	66.0	60.6	59.0
Share of MRD contract [%]	33.0	34.0	39.4	41.0

Source

Ministry of Land, Infrastructure, and Transportation (MOLIT), Lease contract data (2011–2014)

However, the degree of shifting share differs by region. Figure 1 below shows the spatial differences of *chonsei* transactions between the two years preceding 2013 and 2014, respectively. Regions close to Seoul and vicinity metropolitan areas located in the northeast region of the Korean peninsula have experienced a sharp decrease in their share of *chonsei* transactions, while the southeast regions of the country have also experienced the fall of *chonsei* leases to a lesser degree even though these areas are already predominant in MRD lease contracts. Indeed, the MRD has gained share during the same period. The opposite is true for the MRD shares in the private rental markets.

Figure 1. Spatial difference of *chonsei* and MRD transactions by region from 2011 to 2014



Source

MOLIT, Lease contract data (2011–2014)

Note Blue depicts *chonsei* transactions and red depicts MRD transactions. The darker the colors, the more concentration of transactions in each region.

Characteristics of rental market changes in detail

In terms of deposit amount, the number of *chonsei* transactions that require a small deposit have decreased, while *chonsei* contracts with expensive deposits such as over \$300,000 (U.S. dollars) have been on the rise. The share of *chonsei* contracts of less than \$50,000 declined from 27 percent in 2011 to 19 percent in 2014, while the proportion of expensive *chonsei* that required more than \$300,000 rose from 4 percent in 2011 to 10 percent in 2014. In Seoul, almost a quarter of *chonsei* contracts required a deposit of more than \$300,000 in 2014. As a result, affordable *chonsei* units have decreased substantially. Table 2 below shows the annual proportion of each deposit category and its change over time. *Chonsei* with a relatively small deposit below \$50,000 has decreased its share by 30 percent for the past four years, while expensive *chonsei* over \$300,000 has increased by 150 percent. In effect, such a sharp contrast can be summarized as decreasingly affordable *chonsei* and increasingly expensive *chonsei*.

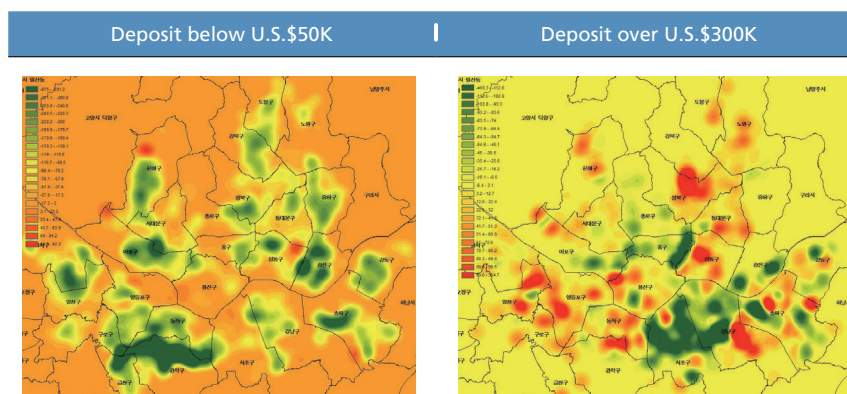
Table 2. Share of *chonsei* contract by deposit amount (%)

Deposit range (unit: 1,000 US dollars)	2011	2012	2013	2014	2011–2014 changes
Less than U.S. 50,000	27	24	24	19	-30
50,000 – 100,000	30	29	28	25	-17
100,000 – 200,000	29	31	30	31	7
200,000 – 300,000	9	11	14	14	56
Over 300,000	4	5	7	10	150

Source

MOLIT, Lease contract data (2011–2014)

More interestingly, this phenomenon shows locational differentiation by deposit amount. Even though affordable *chonsei* transactions have decreased and expensive ones have increased as a whole, the gain or loss depends on location. Kernel density analysis reveals that places where affordable *chonsei* transactions decreased and concentrated are illustrated as dark green in Figure 2 below. Red depicts the places where tenants have more chances to find *chonsei* units with a deposit in the same amount compared to that of the last two years, i.e., 2011–2012 and 2013–2014, at the end of the rental contract. The darker the area, the more concentrated *chonsei* units with the same amount of required deposit. Therefore, increasingly expensive *chonsei* units have become highly localized, which is also the case for decreasingly affordable *chonsei*. This change implies a localized housing policy for housing sub-region regardless of administrative boundaries.

Figure 2. Changes to *chonsei* deposit amount by location

Source

MOLIT, Lease contract data (2011–2014)

Note Green colors indicate areas where transactions of units decreased compared to two years ago. Red colors are areas where transactions of units increased. The darker the color, the more concentrated the same amount of *chonsei* units.

MRD is a type of rental contract requiring some amount of deposit and a monthly payment. The MRD shares 41 percent of total private rental transactions in Korea as of the end of 2014. In terms of deposit amount, the MRD is quite different from *chonsei*. Most MRDs require less than \$50,000 for deposit, which claimed an 82 percent share of total MRD from 2011 to 2014. On the other hand, *chonsei* transactions of less than \$50,000 deposit were only 25 percent of total transactions. The most prevalent type of *chonsei* deposit range is between \$100,000 and \$200,000.

Table 3. Differences in deposit amounts between *chonsei* and MRD(%)

Deposit amount (unit: 1,000 US dollars)	<i>chonsei</i>	MRD
Less than 50,000	25	82
50,000 –100,000	29	12
100,000 –200,000	30	4
Over 200,000	17	1

Source

MOLIT, Lease contract data (2011–2014)

Over the last four years, MRD contracts requiring small amount of deposit has increased dramatically. Most of the MRD transaction increase is attributable to a deposit range less than \$20,000, especially less than \$10,000. The issue that arises here is that small amount-deposit-MRD is more likely to require more monthly rent than MRD requiring large amount of deposit. This implies that it would be more burdensome for those who have trouble scraping together the deposit, which indicates that they have few assets and financial resources. Unfortunately, this is the typical picture faced by both newcomers to private rental markets and existing tenants renewing rental contracts.

One of the interesting findings the lease contract data shows is the generation gap in the rental housing market. While young adults have been entering the rental housing market at a growing pace, a huge gap exists between those living in *chonsei* and those in MRD. Young households living in *chonsei* usually have a higher deposit

and enjoy a better residential environment and housing quality as well. Considering their age of under 30, a questionable economic situation, and uncertain job security as a whole, their deposit is likely to be transferred from their parents' generation. This reflects increasing concerns over not only the present inter-generational gap but also a future intra-generational gap in the under-30 group's credibility as potential and sustainable owner-occupiers.

Table 4. MRD contract by age group

Age group		20–29	30–39	40–49	50–59	60–
MRD (%)	Korea	56	34	39	38	35
	Seoul	62	32	34	34	32

Source

MOLIT, Lease contract data (2011–2014)

Table 5. Gap in deposit amount by housing type

Average deposit amount (U.S. dollars)		20–29 age group	All age groups
Chonseil deposit	Apartment (a)	123K	170K
	Other type (b)	61K	65K
	Ratio (a/b)	2.0	2.6
MRD deposit	Apartment (a)	29K	30K
	Other type (b)	18K	13K
	Ratio (a/b)	1.6	3.0

Source

MOLIT, Lease contract data (2011–2014)

3. Implications and policy recommendations

Over the past four years housing rental market conditions have changed dramatically. The prevalent type of rental contract has shifted from *chonsei* to MRD. There are growing concerns over the housing cost burden for low-income renters, especially those living in a month-to-month rental contract. Notwithstanding, low-income renters in the private rental housing market have been hardly the first priority of policy consideration.

This study analyzed the trends and characteristics of recent private rental market changes by adopting spatial analysis tools. Based on the findings, the research aims to provide pragmatic and targeted policy recommendations responding to rental market change that contribute to relieving the severe rent burden on low-income households. This study recommends that the focus of housing policy change from *chonsei* to MRD. Further, policy makers should consider various aspects of the rental situation such as the range of the required deposit, age group, localities, life cycle, and household income.

Tailored strategies should be put into place to respond to changing characteristics of the rental market. This study proposes five categories of policy recommendations that take the following factors into account: i) rental type (*chonsei* vs. MRD), ii) income level (focused on low-income households), iii) affordable rental units for the underprivileged, iv) stage of life cycle, and v) local uniqueness. Finally, responding to



rental housing market change, the author recommends introducing the following policy measures to relieve the rent burden for low-income households:

- consider shifting policy focus from *chonsei* to MRD;
- develop a deposit accumulation account program for low-income MRD households;
- create a government-sponsored deposit guarantee program;
- institute a lump-sum rent discount program backed by a government loan;
- provide discount interest rates for families raising children;
- construct an emergent rent subsidy for vulnerable households; and
- offer a temporary housing rent subsidy for young adults in their 20s.

This is a summary of the research paper of *A Study on Customized Policy Measures Addressing Low-income Renters' Housing Cost Burden Responding to Rental Market Change*. The study was awarded as the Best Research of the Year in 2014 by the National Research Council for Economics, Humanities and Social Sciences. This study can be found at KRIHS English Web site (<http://eng.krihs.re.kr>).

Park Miseon

Associate Research Fellow, Korea Research Institute for Human Settlements
mspark@krihs.re.kr

ISSUES & TRENDS 02

An Analysis on the Economic Impacts of Changes in Property Tax

Park Joon

1. Possibility for PNV reorganization and expected changes in property tax

The Korean government is considering overall reorganization of the Publicly Noticed Value of Real Estate Price (PNV) System using actual sales price. By reorganizing the system, it is expected that the ratio of PNV to actual sales price will rise leading to an upturn of the tax base and the amount of property tax since the PNV is used for calculating the tax base. Property tax is a major concern not only for households, but also for local public finance, the construction industry, and real estate industry. The purpose of this study is to estimate the changes to the