

Current Issues of Real Estate Assets in Korea

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01

The Current State and Issues of Real Estate Asset Inequalities in South Korea

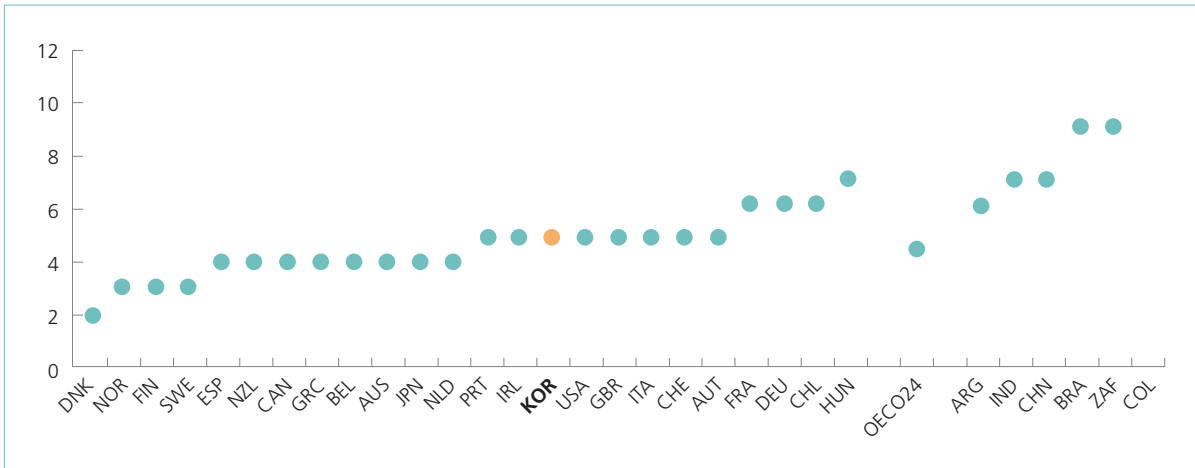
Hyungchan Lee

1. Why is inequality a problem?

■ Economic inequalities hinder economic growth

Throughout history, there has always been inequality, but recent phenomena such as an “uneven playing field” or “kicking away the ladder” restrict social mobility. This in turn reduces economic vitality, ultimately leading to a breakdown in the community. Low social mobility distorts the allocation of talent and resources, decreases economic growth, and negatively affects life satisfaction and social cohesion (OECD 2012). While “sticky floors” make it much less likely for families at the bottom of the ladder to move upward, at the same time, “sticky ceilings” protect those born in richer families from moving downward along the ladder. Taking into consideration the current state of South Korea’s inequality and inter-generational mobility, it would take at least five generations for a family from the bottom 10% of income in Korea to approach the mean income family in society. This is slightly longer than the Organisation for Economic Co-operation and Development (OECD) average of 4.5 generations (OECD 2018). [Figure 1](#)

Figure 1. Expected number of generations for the offspring from a low-income family (bottom 10%) to reach the mean income family in society



Source
OECD (2018, 27)

■ The need for policies to combat inequalities, including income and real estate assets

When discussing economic inequalities, inequalities of income and real estate assets must be taken into consideration to accurately diagnose and propose effective policy measures. Monopolization and privatization of real estate allow for financial rent-seeking, regarding which Stiglitz (2013, 52) argued that rent-seeking makes “efforts directed toward getting a larger share of the pie rather than increasing the size of the pie.” The recent collapse of efforts to build a socioeconomic foundation by acquiring real estate assets via income wages has led to a decline in social cohesion due to real estate asset inequalities. Disillusioned that an individual would be able to own a house one day through income wages and savings, many have given up entirely on ever owning their own property. This leaves the possibility of moving up the social ladder in residential areas available only to a select few. Thus, the property acquisition model is changing from acquisition via income wages to a bank-loan-led model or through inheritance or gift giving. Concerns have thus arisen over the cycle of inequality in

Korean society and the entrenchment of socioeconomic status as largely that of the previous generation, with inequalities tied to real estate assets generating social stratification that hinders social mobility and impairs social cohesion.

2. How unequal are real estate assets?

■ Current state of real estate asset inequality

Asset inequality levels are highest in real assets, followed by financial assets and gross assets. The capital region had higher inequality levels than non-capital regions, and higher levels in families living in rental properties than in families owning their homes. The asset inequality levels (Gini coefficients) are as shown in Table 1; gross assets at 0.5936, financial assets 0.6402, real assets 0.6491, real estate assets 0.6655, and residential housing assets 0.6684 (Statistics Korea, Financial Supervisory Service and Bank of Korea 2019). The asset inequality level is higher in the capital region than elsewhere, and this discrepancy holds for most asset items such as financial assets, real assets, real estate assets, and residential housing assets, with residential housing assets showing the highest inequality level among the indicators. [Table 1](#)

The gross asset inequality level differs drastically depending on whether a family owned (0.4833) or rented (0.7145) their

residential property (Statistics Korea, FSS and Bank of Korea 2019). Between 2012 and 2019, the year with the biggest gross asset inequality level was 2012 (0.6087), and owner-occupied residential housing also showed the highest Gini coefficient in 2012 (0.5172). Alternatively, rental housing was highest in 2019 (0.7145) due to the difference in real assets. [Table 2](#)

Asset inequality tended to be higher the longer individuals owned their own house, and lower when the size of capital gains was larger. The longer individuals owned their houses, the higher the inequality levels were for real estate and residential housing assets, due to the increase in residential housing property values, while the larger the capital gains, the lower the real estate and residential housing inequality levels.

■ Real estate asset inequality factor analysis

Residential housing assets and capital gains from residential housing affected gross asset inequality levels the most. This suggests that along with asset values spurring increasing inequality, rising housing prices contribute as well. The largest contributor to gross asset inequality is residential housing assets (67.0%), followed by financial assets (15.9%), real estate assets excluding residential housing (14.0%), and other assets (2.4%). Residential housing assets can be divided into purchase price and capital gains, with purchase price contributing 45.0% and (unrealized) to-date capital gains 22.0% of gross asset inequality levels. [Table 3](#)

Table 1. Gini coefficients of capital- region and non-capital-region asset classifications (2019)

Classification	Gross Assets	Financial Assets	Real Assets	Real Estate Assets	Residential Housing Assets
Country	0.5836	0.6402	0.6491	0.6655	0.6684
Capital Region	0.5865	0.6470	0.6598	0.6729	0.6787
Non-capital Region	0.5601	0.6147	0.6141	0.6300	0.6064

Source
Written by the author based on the Analysis of the Survey of Household Finances and Living Conditions (SFLC; Statistics Korea, FSS and Bank of Korea 2019)

Table 2. Gini coefficients of gross assets by type of housing (2019)

Classification	2012	2013	2014	2015	2016	2017	2018	2019
Owner-occupied Housing	0.5172	0.5020	0.4879	0.4818	0.4744	0.4690	0.4740	0.4833
Rental Housing	0.6973	0.6775	0.6751	0.6787	0.6911	0.6996	0.7075	0.7145

Source
Written by the author based on the SFLC (Statistics Korea, FSS and Bank of Korea 2012-2019)

Table 3. Contribution of indicators including capital gains to gross-asset Gini coefficient contribution

Gini Coefficient Contribution	Financial Assets	Residential Housing Assets		Real Estate Assets Excluding Residential Housing	Other Real Assets	Gross Assets
		Purchase Price	Capital Gains			
Absolute Contribution	0.0885	0.2509	0.1224	0.0824	0.0132	0.5574
Relative Contribution	15.9%	45.0%	22.0%	14.8%	2.4%	100.0%

Source
Written by the author based on the Analysis on Korea Housing Survey (MOLIT and KRIHS 2019)

3. How is real estate inequality perceived?

■ Generational differences in wealth accumulation via real estate and attitudes on asset gains

To investigate the generational differences of asset accumulation via real estate, the demographic groups were defined as follows: baby boomers (born 1955-1963; 58-66 years), post baby boomers (born 1964-1978; 43-56 years), and echo-boomers (born 1979-1992; 29-42 years). An in-depth examination of each demographic group's real estate possession status was conducted, with the following findings.

■ Accumulation of wealth via real estate assets

Generational differences were noted in the ownership process of real estate assets, especially in how the asset was initially obtained. Baby boomers raised initial funds to purchase (or rent) a property through financial assets, such as their (or spouse's) income wages and savings. The accumulated financial gains of a baby boomer were supplemented by socioeconomic conditions and structures, specifically, the economic boom of the 80s and early 90s, coupled with the first new town policy offered large-scale housing; in addition, the housing subscription system and lump sum renting made it easier for a 30-year-old to purchase property and accumulate wealth through property assets than for other generations.

Conversely, echo-boomers rely more on loans and on the previous generation in the form of inheritance or gift-giving to purchase (or rent) real estate. Echo-boomers who were in their 30s after the 2008 financial crisis face low economic growth as the norm. Due to skyrocketing housing prices without income growth, echo-boomers find it difficult to purchase real estate, especially housing, without parental assistance.

■ Attitudes toward using real estate for financial growth: Younger generations are more assertive

Echo-boomers are more enthusiastic about utilizing real estate for financial gains, whereas baby boomers and post baby boomers are more conservative. Echo-boomers and later generations readily invest in real estate because they think that "no other investment method has better financial gains than real estate," as they forecast a continuing rise in the real estate market.

On the other hand, baby boomers and post baby boomers already own real estate, have a conservative attitude towards real estate investing, and anticipate a decline or a maintenance in the real estate market. Personal restraints such

as an unavailability of surplus funds also contribute to the conservative attitude. Baby and post baby boomers assume "an uncertain outlook on the future of the real estate market when prices are already skyrocketing" and "a decline in real estate prices is bound to happen as the future population declines."

■ Inequalities caused by real estate inheritance

On the whole, all groups felt the inequalities caused by inheritance and gift giving of real estate, but had differing attitudes toward taxation policies.

Unlike the baby boomers, who accumulated wealth through income and savings, echo-boomers rely on parental support and thus feel a deeper sense of comparative deprivation. The groups all felt that this negatively affected equity of opportunity in a competitive society, suggesting a need for regressive equity and a policy providing a more stable housing service rather than asset-increasing opportunities such as owning property.

Excessive capital transfer taxes conflict with the fundamentals of a capitalistic society and potentially drive people to resort to expedients. Due to the current reality of children being unable to stand on their own feet financially without parental aid, inheritance and gift-giving of an individual's personal assets are considered logical under the general consensus. Alternately, some have voiced the need to raise inheritance and capital transfer taxes in order to relax taxes on windfall profits and alleviate wealth inequality.

4. How to mitigate and reduce inequalities in real estate assets?

■ Measures to mitigate and reduce real estate asset inequalities

This paper recommends implementing a policy project categorized into taxation policies regarding real estate, fiscal (supply), financial, and development gains restitution policies to alleviate real estate asset inequalities.

First, taxation policy should be examined with an eye to reducing tax burden inequity by restructuring the transfer income, inheritance and capital transfer, and comprehensive real estate holding taxes, as for instance by imposing interest on capital transfer tax deferrals, or setting the existing tax deduction to once a lifetime to bolster tax burn equity. Another example would be to reduce deduction rates for capital transfers or inheritances or incorporating them into

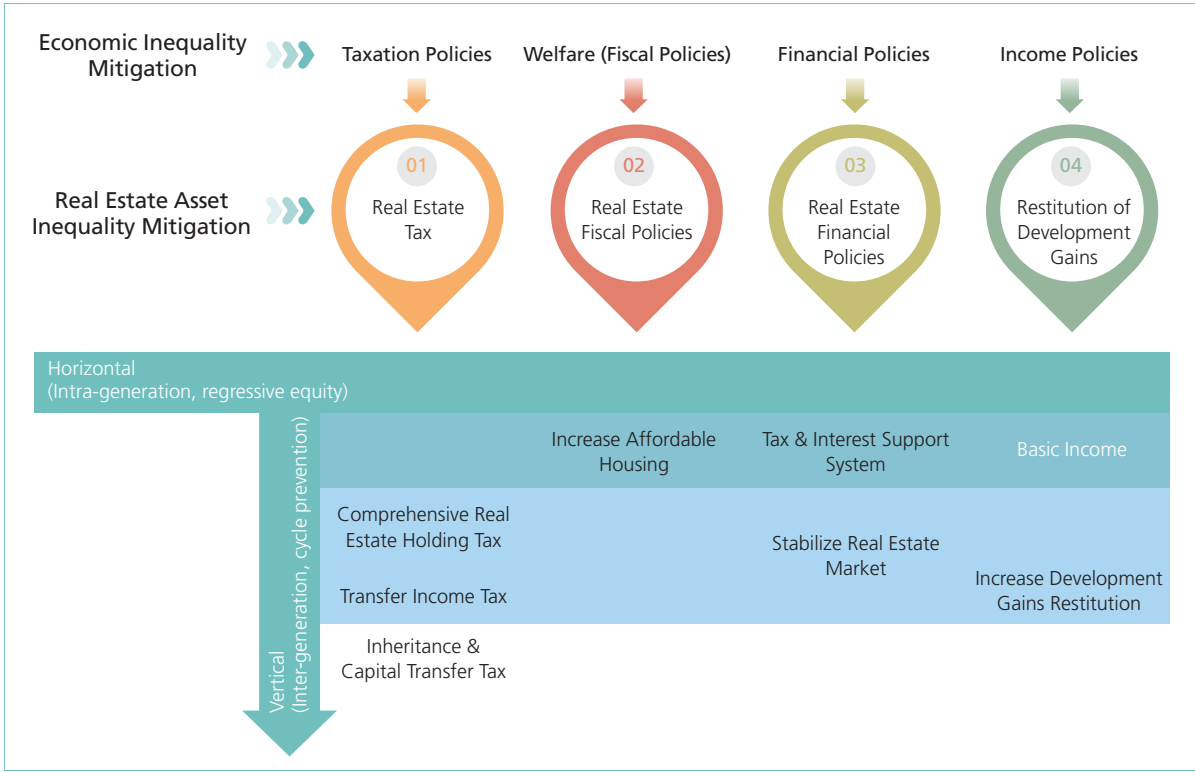
the individual income tax. Working to raise the fair-market-value ratio in stages or establishing a stable and predictable realization of the declared value of real estate is also recommended.

Second, fiscal policies should be implemented to spur a continuous supply of affordable housing and to expand support for social economic organizations and the residentially marginalized. A continuous expansion of public and affordable housing is needed, and new ways should be sought for social economic organizations to provide and run social housing, such as publicly funded programs and financing. Increasing support for the residentially marginalized class through housing welfare policies such as public housing and housing benefit support

based on the housing welfare roadmap is also necessary. Third, a fiscal policy is needed to aid the low-income and low-asset class through interest rate and tax support as well as a continuous effort to implement measures to balance real estate. Fourth, a development gains restitution policy should be implemented to expand the target extent of projects and a comprehensive application of applicable projects. [Figure 2](#)

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Figure 2. Policy measures to reduce inequalities in real estate



Source
Lee Hyungchan et al.
(2020, 128)

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02

Vacant Houses as Neglected Resources:
The Current Status and Policy Recommendations

Jung Hee Cho

1. Background and significance

Recently, the South Korean government is trying to increase the housing supply in urban areas to reduce rapidly increased housing prices. Paradoxically, however, the Korean government has encountered an increase in the number of vacant houses and in the ratio of vacant houses to the entire housing stock in this country.

Data of the population and housing censuses conducted by Statistics Korea (KOSTAT) show that the number of vacant houses in all of South Korea in 2018 was 1.26 million or more units,⁰¹ 3.4 times higher than in 1995. Accordingly, the ratio of vacant houses to houses as a whole increased from 3.87% in 1995 to 8.05% in 2018. Based on the data indicated above, this study classified all the *eup* (towns), *myeon* (townships), and *dong* (neighborhoods) in Korea in 2015 into 10 groups

Table 1. Comparison of change in the numbers of *eup*, *myeon*, and *dong* according to sections based on the number of vacant houses (2015–2018)

Number of vacant houses	2015		2018	
	Number of <i>eup</i> , <i>myeon</i> , and <i>dong</i>	Ratio	Number of <i>eup</i> , <i>myeon</i> , and <i>dong</i>	Ratio
Group 1: 0~42	983	28.29	372	10.63
Group 2: 43~100	647	18.62	249	7.11
Group 3: 101~166	711	20.46	473	13.51
Group 4: 167~ 243	536	15.42	547	15.62
Group 5: 244~333	311	8.95	484	13.82
Group 6: 334~451	157	4.52	379	10.83
Group 7: 452~ 643	93	2.68	370	10.57
Group 8: 644~953	24	0.69	283	8.08
Group 9: 954~1620	9	0.26	199	5.68
Group 10: 1621~	4	0.12	95	2.71
Sum	3475	100.00	3451	100.00
Number of missing data	17	-	50	-
Total	3492	-	3501	-

Source
Reorganized by the author based on data of Microdata Integrated Service (MDIS), data of population and housing censuses, and micro data provided by KOSTAT

01. In the population and housing census conducted by KOSTAT, a vacant house is defined as a “house in which any person did not live at the time of investigation” (KOSTAT 2019). For this reason, the range of vacant houses in this census consists of unsold houses, houses into which occupants have not moved yet, and houses temporarily unused due to other reasons, such as moving out and fixi ng. Thus, this census has a limitation in that it might overestimate the number of vacant houses that need to be managed.

according to the number of vacant houses in the same year. It then applied the same classification standard to classify all the *eup*, *myeon*, and *dong* in Korea in 2018 and compared the results, finding that the number of *eup*, *myeon*, and *dong* included in Group 10, which exhibited the highest number of vacant houses, increased 24 times from 4 in 2015 to 95 in 2018. As this comparison shows, the number of vacant houses has increased rapidly in numerous regions of Korea. Table 1

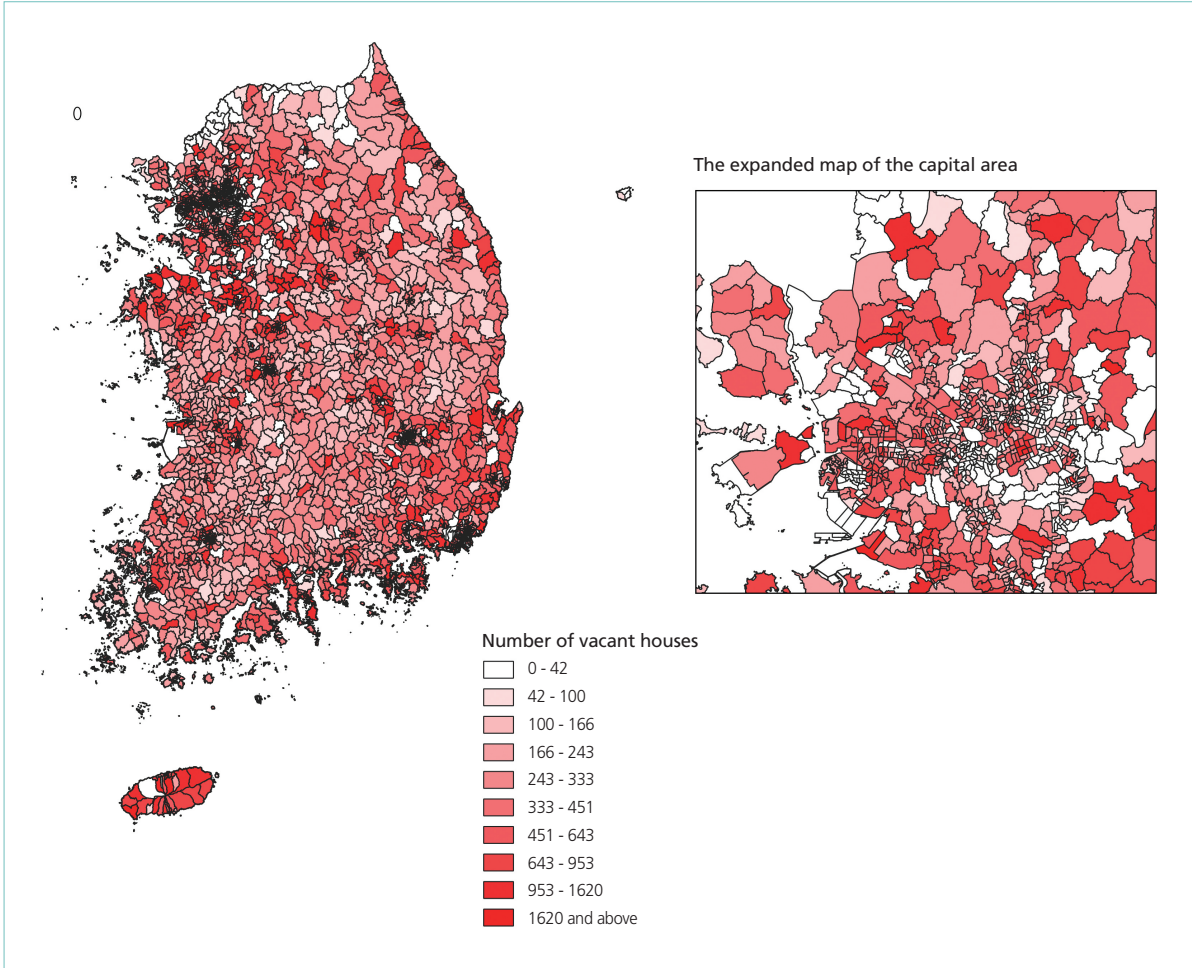
In particular, it should be noted that a large number of vacant houses were distributed across urban areas including the capital area, the main area facing the problem of insufficient supply of houses (Figure 1). The various causes of the occurrence of vacant houses imply that spatially the occurrence of vacant houses is not limited to certain declining regions, such as farming and fishing villages. These causes also indicate that systematic management of vacant houses should be implemented to effectively use housing resources on a national scale. Figure 1

2. Influence of vacant houses and necessity of policy-based Management

■ Damage to neighbors caused by neglected vacant houses

Vacant houses could negatively affect the conditions of the surrounding areas, such as public order and security and housing environment, thereby causing damage to nearby residents. This study conducted a field investigation to analyze the negative effects of vacant houses. The results indicate that nearby residents complained of problems associated with vacant houses, such as risks of the collapse of neglected and deteriorating vacant houses (Figure 2) and odors and noises caused by trash piled in vacant houses, as well as insects or animals inhabiting vacant houses. Thus, vacant houses aggravate the housing environment of nearby residents. Figure 2

Figure 1. Distribution of *eup*, *myeon*, and *dong* by sections based on the number of vacant houses (2018)



Source
Reorganized by the author based on data of Korean Statistical Information Service (KOSIS) and population and housing census data as of 2018

■ Spatial spread of vacant houses and development of regional slums

Vacant houses disrupt the efficient use of houses and land, reducing the overall value of the region where these houses are located and of nearby regions. This study analyzed the reduction of the value of the houses neighboring vacant houses in the target area, finding that the price of neighboring houses to vacant houses decreased by approximately 10% under the probabilistically same conditions applied. This result also showed significantly high spatial autocorrelation of vacant houses in the target area, which indicates a concentration of vacant houses in this region. Moreover, when the number of vacant houses within a 100m radius of a certain occupied house increased, the probability of this occupied house turning vacant also increased. This result implies that house vacancy can be spatially transmitted and spread.

■ Capital gains and intentional neglect of vacant houses

This study conducted a field investigation of the section of densely concentrated vacant houses in the capital area that

showed that numerous investors engaged in intentionally purchasing houses and maintaining them as empty houses while ignoring demands to lease them to earn development profits in the area where a redevelopment project was planned. When house owners allow lessees to live in their houses, they might experience a delay in execution of development projects or need to provide additional compensation for lessees to guarantee the right of lease. For this reason, house owners prefer leaving their houses empty. In addition, this study found that the probability of houses turning vacant increased in the target section of the capital area in this study, when the actual transaction price per square foot increased in the corresponding section under the same other conditions applied. This result indicates that the occurrence and fixed conditions of vacant houses were affected not only by the physical condition of these houses and their environments but also the behaviors of house owners. Fiona (2018) coined the new term “buy-to-leave,” which refers to the behavior of those who possess houses in areas with high land prices in London and leave them unoccupied despite the demand for leases in order to realize

capital gains. That is, when individuals regard the cost required to leave their houses vacant as being offset by the land price that will increase after development of the areas where their houses are located, they tend to intentionally keep their houses unoccupied. This tendency of house owners thus leads to the problem of the inefficient use of habitable housing and land resources for residential use.

■ Necessity of policy-based intervention to correct the external effect of vacant houses

As indicated above, policy-based management should be conducted to control vacant houses that can cause damage to nearby houses and reduce the efficient use of houses and land. When house owners determine whether they will leave their houses occupied or unoccupied, they do not consider the external effect of vacant houses, such as damage to nearby residents and the inefficient use of houses and land. Since the owners of vacant houses ignore the aforementioned external effect, the problem of market failure caused by vacant houses cannot be solved without policy-based intervention. In other words, it is difficult to correct the external effects of vacant houses without aggressive policy-based interventions due to the behavioral characteristics that are associated with the spread of vacant houses.

and Fishing Villages Improvement Act is applied by priority to vacant houses in agricultural and fishing villages.

■ Problems

Korea has established the political foundation and systems for managing vacant houses based on relevant laws, as described above. Nevertheless, these political measures still exhibit limitations in effectively managing vacant houses due to ineffective management tools and a lack of detailed consideration of the types of vacant houses and vacant house management measures. Article 11 of the Act on Management of Small-Scale Houses stipulates the exercise of official authority to demolish “vacant houses that are likely to cause safety accidents, such as demolition and fire, and occurrence of crime, are harmful for public interests, or can significantly spoil urban landscape or housing environment.” However, this act requires extremely abstract conditions for the exercise of the aforementioned authority and lacks specific standards for determination and regulations on implementation procedures. Furthermore, public organizations should receive the consent of owners of vacant houses to execute the improvement of these houses. For this reason, local governments might find it difficult to implement projects to purchase or remodel vacant houses for use as public rental houses or affordable houses.

■ International cases

Accordingly, this study examined international cases on the management of vacant houses. The United States clearly specifies the owners of vacant houses as the managing entities of these houses and makes registration of vacant houses mandatory based on Vacant Property Registration Ordinances (VPROs). This country also requires owners of vacant houses to perform the duties of managing, regularly inspecting, and maintaining their vacant houses and purchasing the minimum liability insurance.

The U.S. and the U.K. have prepared various types of political measures and incentive systems to encourage owners of vacant houses to have their houses occupied. For example, the American regulation on vacant property registration fees and the British regulation on Empty Homes Premium, which imposes a heavy property tax on vacant houses, have been designed and operated based on the behaviors of owners of vacant houses, as shown in the sub-regulations of these regulations imposing progressively increasing fees upon the owners of vacant houses according to the period that their

Figure 2. Safety risks and hygienic issues caused by collapse of neglected vacant houses



3. Current status of policies on the management of vacant houses and improvement issues

■ Current status

The Korean government enacted the Act on Special Cases Concerning Improvement of Vacant Houses and Small-Scale Houses (the Act on Management of Small-Scale Houses hereinafter) in 2017 in response to a demand for such policy and established the political basis for vacant house management. This act defines the roles of public organizations related to research on the current status of vacant houses, the operation of information systems on vacant houses, the establishment of vacant house improvement plans, and the implementation of vacant house improvement projects. This act also suggests the direction for vacant house management, such as demolition and remodeling. As for policies on vacant houses in Korea, the Act on Management of Small-Scale Houses applies by priority over other acts due to the characteristic of the former act as a special law. Contrariwise, the Agricultural

houses have been vacant.

Besides the regulation imposing a heavy tax on vacant houses, the U.K. has also implemented Empty Dwelling Management Orders (EDMOs), a system designed to allow local governments to serve as entities managing and using vacant houses instead of house owners that can rent these houses to solve the problem of the demand for housing.

■ Direction for improving policies on the management of vacant houses

The Korean government should formulate policies on the management of vacant houses by developing various methods of public intervention and different types of management measures and preparing specific conditions for the application of each measure to provide owners of vacant houses with incentives and disincentives in consideration of their choices and behaviors. Demolition-oriented management policies exhibit limitations in solving the essential issues of vacant houses, given that the causes of vacancy and damage to nearby houses caused by vacant houses can differ according to their specific characteristics. To facilitate more effective management of vacant houses, the Korean government should expand the range of vacant house management methods by adopting various types of relevant measures, such as monetary systems based on taxes, support funds for management, and charges, the removal of hygiene-threatening and dangerous elements to prevent damage to nearby houses, and reinforced authority of public organizations to manage and use empty houses. The Korean government should also devote efforts to developing vacant house management measures by applying different types of physical and financial methods according to the behaviors of owners of vacant houses to encourage them to perceive their actions of managing their empty houses so as to encourage the occupation of these properties as the optimal choice for themselves.

However, since political intervention into vacant houses has elements that violate the property rights of the owners of these houses, the Korean government should also strive to avoid excessive violation of their property rights. To this end, the Korean government should classify vacant houses by considering the properties of vacant houses multi-dimensionally, such as physical properties of these houses, characteristics of house owners, their willingness for managing these houses, damage to nearby houses caused by these houses, and regional characteristics. Accordingly, it is necessary to differentiate

vacant property management measures according to the classification of empty houses.

In addition, the Korean government should implement a comprehensive and structured vacant house management system by establishing national policy goals and vision, setting a long-term direction for vacant house management, adopting strategies based on specific policy tasks, and connecting these strategies with the plans of relevant public organizations.

4. Conclusions

Korea is expected to encounter an accelerated increase in the number of vacant houses due to changes in socio-economic conditions, such as a decline in population, aging, and unbalanced regional growth. Thus, the Korean government should adopt preemptive and active policies on the management of vacant houses in response to regional decline. It should also develop a system for preventing damage to nearby residents arising from vacant houses, and effectively managing and using vacant houses as neglected resources.

Furthermore, it should be considered that issues on unused resources, such as vacant houses and neglected housing sites, can take place in both declining areas and areas that are being or are expected to be developed. As explained above, the central capital area with its high demand for housing has observed the behavioral pattern of investors who intentionally take possession of and neglect houses for the purpose of investment so as to gain capital profits through redevelopment and reconstruction in the future. Historically speaking, the Korean government imposed a heavy tax to regulate the behaviors of investors who purchased and neglected land on purpose in order to obtain profits accruing to increased land prices in the period of economic growth in the late 70s.

Thus, with regard to the utilization of limited resources such as houses and land, society in the phases of both growth and maturity might witness a phenomenon where the optimal selection of individuals results in waste and neglect of social resources. Therefore, the Korean government should implement public intervention considering individual behaviors and design detailed policies to rationally address this issue.

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The Korean government should implement public intervention considering individual behaviors and design detailed policies to rationally address vacant housing issue.
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03

Diagnosis and Resolution of the Causes of Regional Instability in the Housing Market

Jeehye Kim

1. Background and significance

■ Regional instability in the housing market

The South Korean government has implemented various policy measures such as stricter housing finance regulations, expansion of the housing price ceiling system and resale regulations, and designation of regulated areas to stabilize the country's real estate market. However, with high short-term liquidity and low interest rate trend continuing for a significant period of time, people's expectations for an increase in asset prices climbed. The real estate market saw a concentrated inflow of capital as its rate of return was greater than that of more traditional investment assets like stocks and bonds, which were dwindling. Given such a capital inflow, coupled with the government's policies to stabilize the market, housing prices in certain unregulated areas soared.

■ The need to explore regional market instability and

analyze causes for the occurrence to achieve long-term housing market stability

Despite the government's policy efforts to stabilize the real estate market in the long run, when regional market instability and its transfer effect occurs, an array of problems surface: decrease in confidence toward government policies, excessive purchasing behavior triggered by anxiety over the housing market, and a sense of relative deprivation among residents living in stagnant areas. It is therefore necessary to analyze the causes of regional market instability and patterns of transfer effect, and establish countermeasures to achieve a stable housing market in the long run.

2. Exploring areas of regional market instability

■ Identification of regional differences

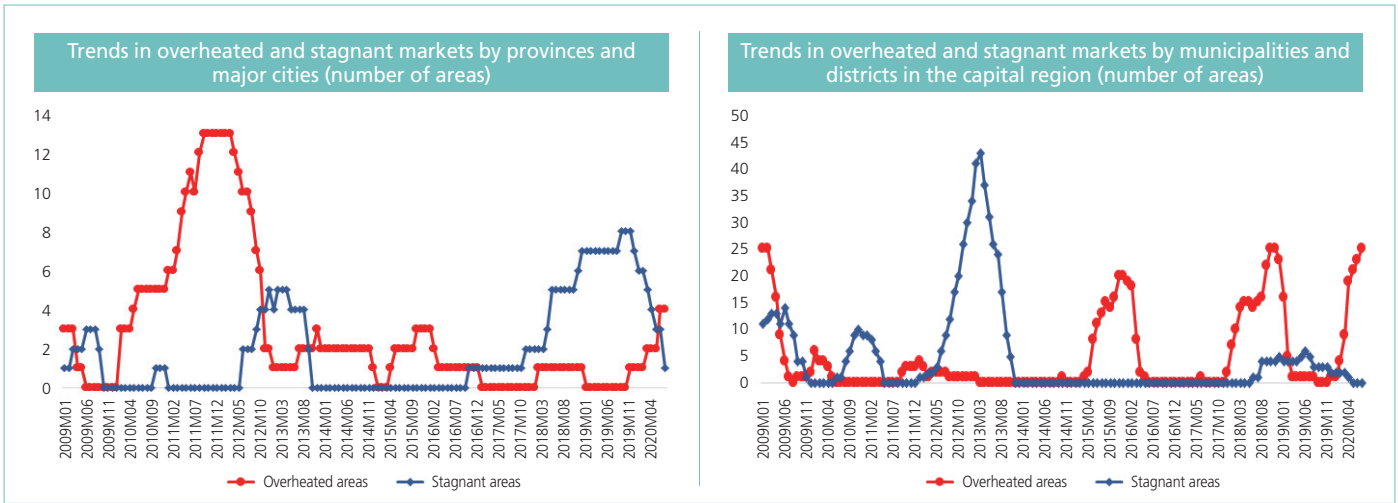
Upon investigating regions with overheated and stagnant

markets according to provinces and major cities, the number of areas with a stagnant market increased in noncapital regions starting in 2018 but has been falling recently. The number of areas with an overheated market increased after the 2008 global financial crisis but was almost non-existent after 2012. However, the number has been rising again in the country's capital region since 2019. The aforementioned investigation confirms the phenomenon of regional differences between capital and noncapital regions. Furthermore, after analyzing the capital region where an overheated market was observed by municipalities and districts, the number of areas with a stagnant market was most numerous in March 2013 with 43 municipalities and districts. Conversely, the number of overheated market areas was the greatest in July 2020 with 25 municipalities and districts, as shown in Figure 1. [Figure 1](#)

■ Spatial migration of regional market instability areas

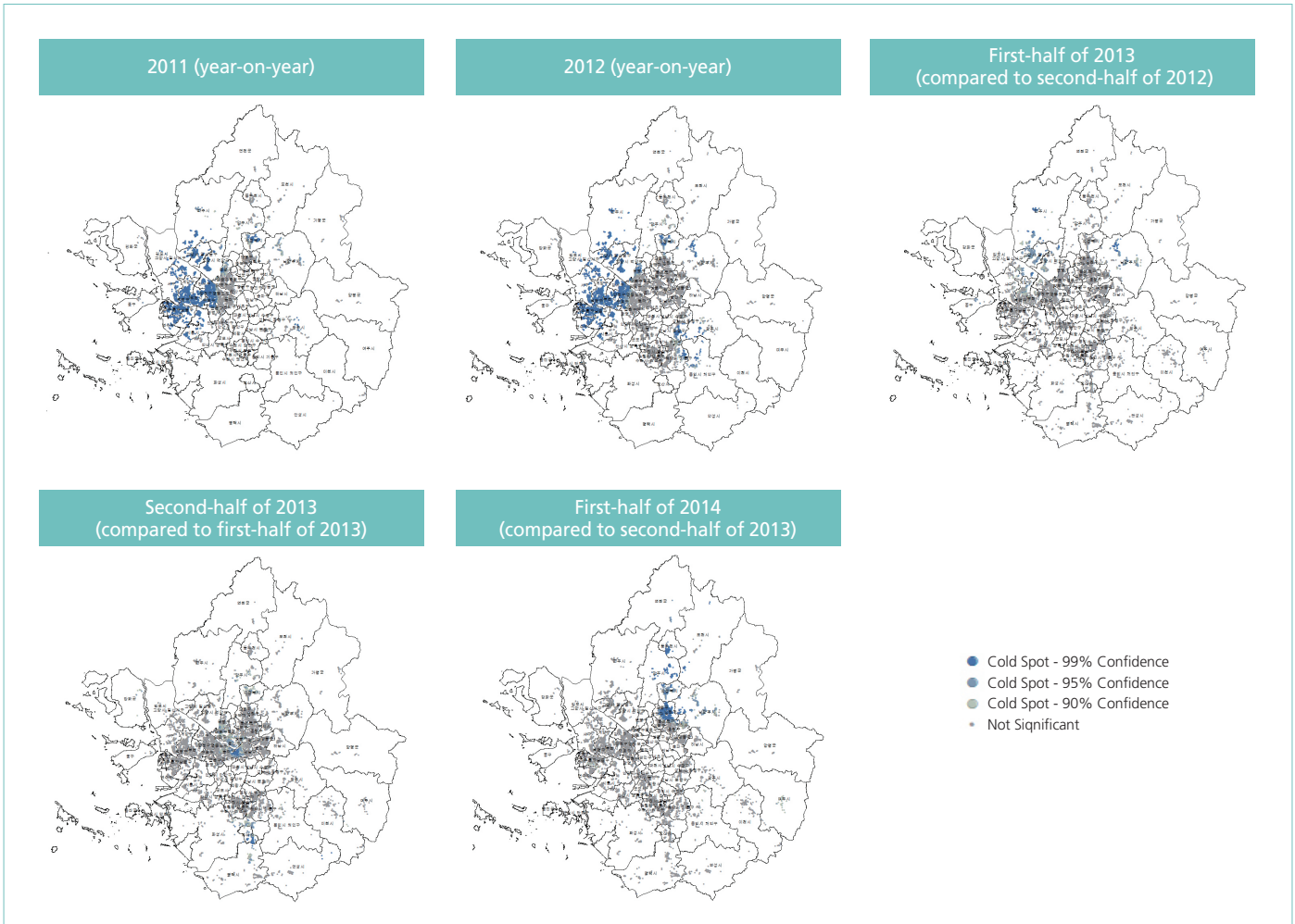
Between 2011 and the first-half of 2014, when Korea's housing market was in a slump in general, stagnant areas in the capital region's apartment market shifted in the order of Gyeonggi-do and Incheon (2011~2012) → Seoul (2013) → Gyeonggi-do (first-half of 2014) (Figure 2). On the other hand, between 2017 and the first-half of 2020, when the country experienced an overheated housing market, overheated areas migrated regions in the order of Seoul (2017~2018) → Seoul and Incheon (first-half of 2019) → Seoul (second-half of 2019) → Gyeonggi-do (first-half of 2020) (Figure 3). In particular, the duration of the overheated market was longer in Seoul than in Gyeonggi-do and Incheon regions. Recent changes in real estate policies have brought forth the migration of overheated market areas from regulated to unregulated areas, highlighting the transfer effect of market instability. [Figure 2](#) [Figure 3](#)

Figure 1. Trends in areas with overheated and stagnant markets



Note The upper and lower limit of nationwide threshold to determine areas of market instability were set as 6.9% and -3.4%, respectively. Likewise, the capital region threshold limits were 7.1% and -5.4%, respectively.
Source Kim, Jeehye et al. (2021, 44, 46)

Figure 2. Analysis results on cold spots for volatility in actual sales price of apartments in the capital region



Note Getis-Ord's Gi* method was applied to analyze cold spots for rates of change of housing price per unit area
Source Kim, Jeehye et al. (2021, 52)

3. Causes of regional market instability

■ Macroeconomic factor: Liquidity expansion and decrease in stock return

A decline in stock return, a macroeconomic factor, leads to an increase in demand in the apartment market in the capital region, adding to the volatility of apartment prices. Such a phenomenon indicates that apartments in the capital region act as an investment asset to many people. In addition, based on money stock volatility that expands the circulation of capital in the market, the demand for apartment increases, causing higher volatility in apartment sales prices.

■ Regional factor: Increases in consumer price volatility, transaction volume volatility, jeonse price rate and sentiment index, and expansion of supplies

Greater apartment sales volume and increased consumer price changes lead to a rise in apartment sales prices, while an abundance of housing supply in a given area decreases volatility in apartment sales prices. Furthermore, the apartment sales price was found to become more volatile either when the jeonse price rate was relatively high compared to sales price or when housing consumers expect sales price to increase.

4. Policy proposal to resolve regional market instability and promote market stability

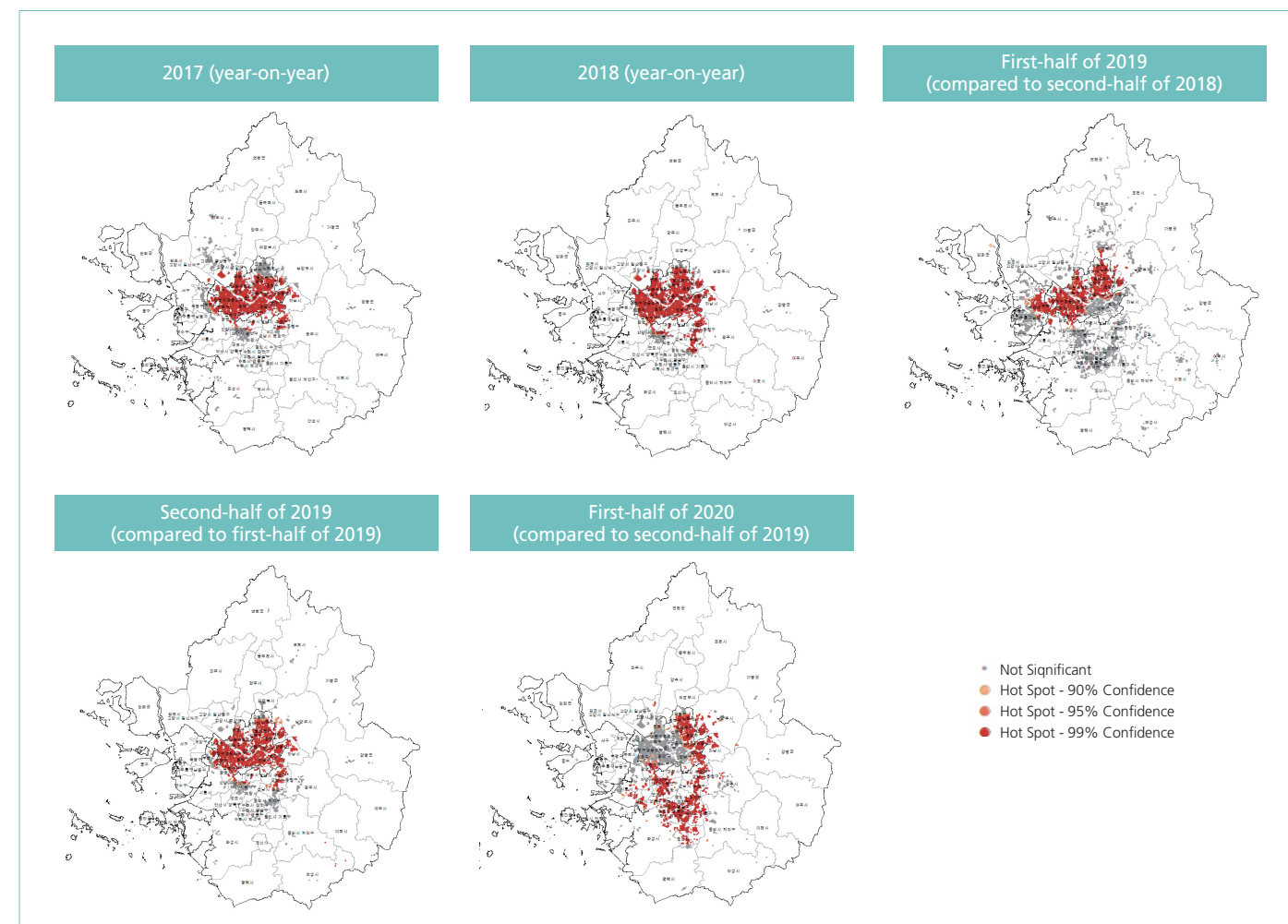
■ Establishment of a regional monitoring system and institutional improvements

It has become necessary to establish a monitoring system that investigates areas of regional market instability, strengthens

the use of the consumer sentiment index for the real estate market, and improves the institution of regulated areas to steady regional market instability in a relatively short amount of time. The regional market instability investigative monitoring system will utilize data on actual sales prices that are perceived to be high to find areas of regional market instability, and would monitor changes in trade volumes, which is known to be a pre-indicator of housing price. Furthermore, the consumer sentiment index should be utilized more widely in a way that the consumer sentiment index for housing sales market, a major factor that influences the change rate of the apartment sales prices in Korea's capital region, can closely monitor trends in changes that occur in areas of regional market instability and that it is incorporated in the development of psychological indices that can forecast future outlooks of housing prices. Lastly, since the current institution of regulated areas is intertwined too complexly into financial regulations and real estate taxation policies to comprehend easily, its restructuring is necessary and it has become necessary to substantiate the process of designating and lifting regulated areas.

should cover liquidity management and stable housing supply. First, as a liquidity management measure based on improvements in the effectiveness of housing finance regulations, these regulations should switch to consumer-oriented financial regulation of debit-service ratio (DSR) policy. It is also necessary to prepare measures that can suppress *jeonse* price leverages while taking the relationship between the lessee and lessor in to consideration. Second, to facilitate the stable supply of housing, a mid-to-long-term housing supply and demand index that reflects cohort effects and preferred housing types should be developed. Additionally, information on privately owned housing sites should be further gathered by offering incentives in exchange and a simulation system tracking changes in land use should be established. Furthermore, by deriving a plan for a housing reserve bank system that considers major issues like policy targeting certain social classes and means of resource preparation, it would be possible to secure public rental housing to actualize housing stability for the common people and to reduce housing market's volatility by encouraging the sale of housings during periods of price upsurge. **Figure 4**

Figure 3. Hot spots for volatility in actual sales price of apartments in the capital region



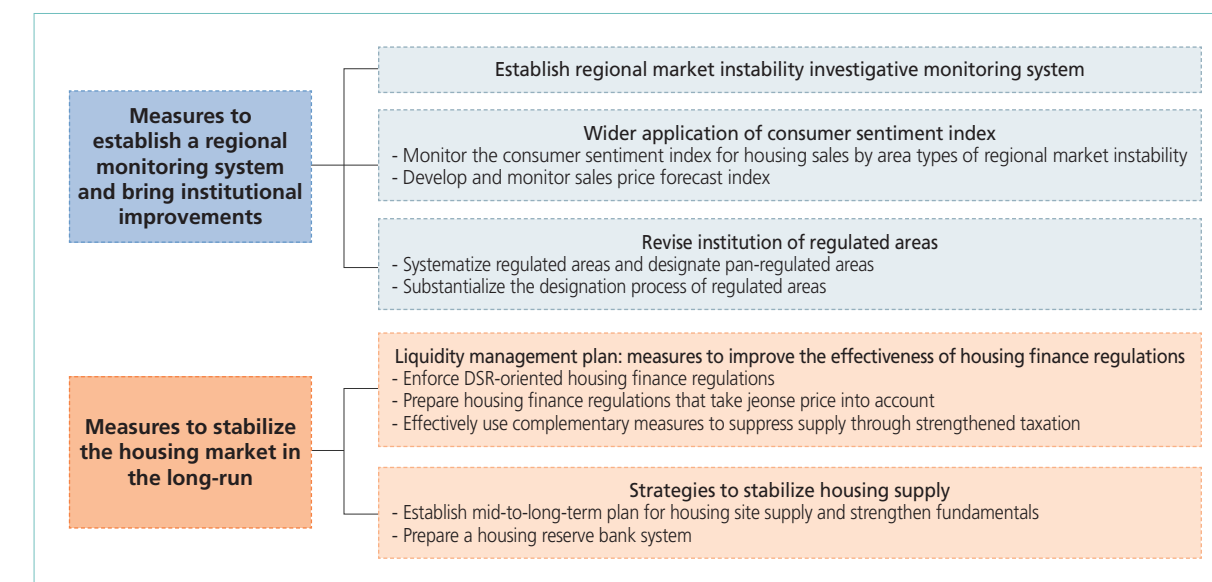
Note Getis-Ord's Gi* method was applied to analyze hot spots for rates of change of housing price per unit area
Source Kim, Jeehye et al. (2021, 56)

■ Pursuing long-term housing market stabilization

Policy measures that aim for long-term market stabilization focusing on factors that influence the overall housing market

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Figure 4. Measures to resolve regional market instability and achieve market stability



Source
 Kim, Jeehye et al.
 (2021, 134)

References

- Kim Jeehye, Hwang Gwanseck, Go Younghwa, Park Chungyu and Noh Minji. 2021. *Diagnose of the Regional Housing Market Anxiety and Market Stabilization Policy*. Sejong: Korea Research Institute for Human Settlement.



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