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Abstract

This paper evaluates housing policy in the Republic of Korea over the past several decades, describes new challenges arising from the changing environment, and draws lessons for other countries. The most important goals of the housing policy have been to alleviate housing shortages and to stabilize housing prices. To achieve these goals, the government has been engaging the private sector while establishing public sector institutions and legal framework, providing developable land, and allocating housing units to intended target groups. Thanks to the sustained and massive provision of new housing since the 1980s, the country's absolute housing shortage has been resolved, and overall housing conditions have improved substantially. Since the turn of the new millennium, enhancing the housing welfare of low-income households and the underprivileged has been added to housing policy goals. The supply of public rental housing was increased, and a housing benefit was introduced to address the new policy goal, but more work needs to be done. Today, the Republic of Korea also faces new housing challenges regarding the country's demographic and socioeconomic changes.

JEL Classification: P25, R21, R28, R31, R38, R52

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1. INTRODUCTION

The housing policy of the Republic of Korea shows how the government has responded to housing problems as they have emerged. In the early phase, the most pressing housing problem was a shortage caused by the increased demand for housing thanks to the country's rapid economic growth and urbanization. Beginning in the 1980s, the Republic of Korea addressed this challenge through a pragmatic approach of engaging the private sector within a regulatory framework. The government provided developable land on a large scale through public sector developers, extended financing through the National Housing Fund, implemented regulations on the production and allocation of new housing, and provided tax incentives and subsidies to suppliers and consumers where appropriate. The government also pursued the goal of one house for each household by giving priority to potential first-time homebuyers in the distribution of new housing. Investment demand for housing by owners of more than one house was considered an undesirable act of speculation responsible for sporadic house price hikes and, hence, was subjected to sanctions.

Thanks to these policies, the absolute housing shortage was resolved by the early 2000s. The quality of the housing stock and, hence, overall housing standards improved remarkably. Housing also became more affordable in general, although not necessarily in and around Seoul. In fact, soon the problem of mismatch between demand and supply arose with respect to the location, dwelling type, and size in Seoul and other large cities. As the prices of apartments for owner-occupation rose rapidly in Seoul between 2002 and 2005, especially in popular submarkets such as Gangnam, the government mobilized various instruments to suppress demand and to stabilize housing prices.

Yet by the time the housing market stabilized, the impact of the global financial crisis took a toll. The market sentiment turned against homeownership due to the economic slump and concern about the rapid aging of the population and slowing population growth. The demand for owner-occupied housing softened, and housing prices stagnated. As more households looked for rental options instead of ownership, stabilizing the rental market became a major policy challenge. As of 2015, the level of housing market activity continues to recover, and the rental market remains tight in the Republic of Korea.

Although overall housing conditions have improved substantially over the past several decades, enhancing the housing welfare of low-income households and the disadvantaged remains a pressing issue. The first policy measure specifically targeted at these groups was a program to build 250,000 public rental units as an integral component of the Two-Million Housing Drive (TMHD), 1988–1992. A more systematic program, started around 2000, encompassed a 10-year plan to supply 1 million public rental units, but this has imposed a serious financial burden on the Land and Housing Corporation, the state-owned enterprise in charge of providing and managing most of the public rental units. Another policy instrument of the housing welfare policy is a housing benefit program. The current housing benefit was transformed from the housing component of the general welfare grant for the lowest income groups and became a stand-alone program in July 2015.

Currently, the Republic of Korea is going through some fundamental changes that affect the housing market and housing policy environment. The rate of economic growth is slowing down, income distribution is becoming more concentrated, the total fertility rate is declining, and the population is aging rapidly. In addition, the housing policy needs to consider its linkages with the wider economy and environmental sustainability. The political landscape of housing policy is becoming more complex as well.

2. TRENDS IN HOUSING CONDITIONS AND HOUSING AFFORDABILITY

2.1 Housing Quantity and Quality

Over the past 40 years or so, housing conditions in the Republic of Korea have improved enormously in terms of both quantity and quality (Table 1). The housing supply ratio is the most popular measure of the housing policy of the Republic of Korea and is defined as the ratio of the number of dwellings to the number of households. This ratio has increased significantly since 1990, as the pace of the increase in housing stock exceeded that of households by a wide margin. By the early 2000s, there were as many dwelling units as households in the country, and the housing supply ratio increased past 100%.

However, originally, this definition was somewhat flawed, because the numerator used to count multidwelling structures registered under one owner as a single dwelling unit, and the denominator excluded single-member households. The definition was modified in 2005, and the 2014 figure of the new housing supply ratio was 103.5%, which is substantially lower than 118.1% that is presented in Table 1.

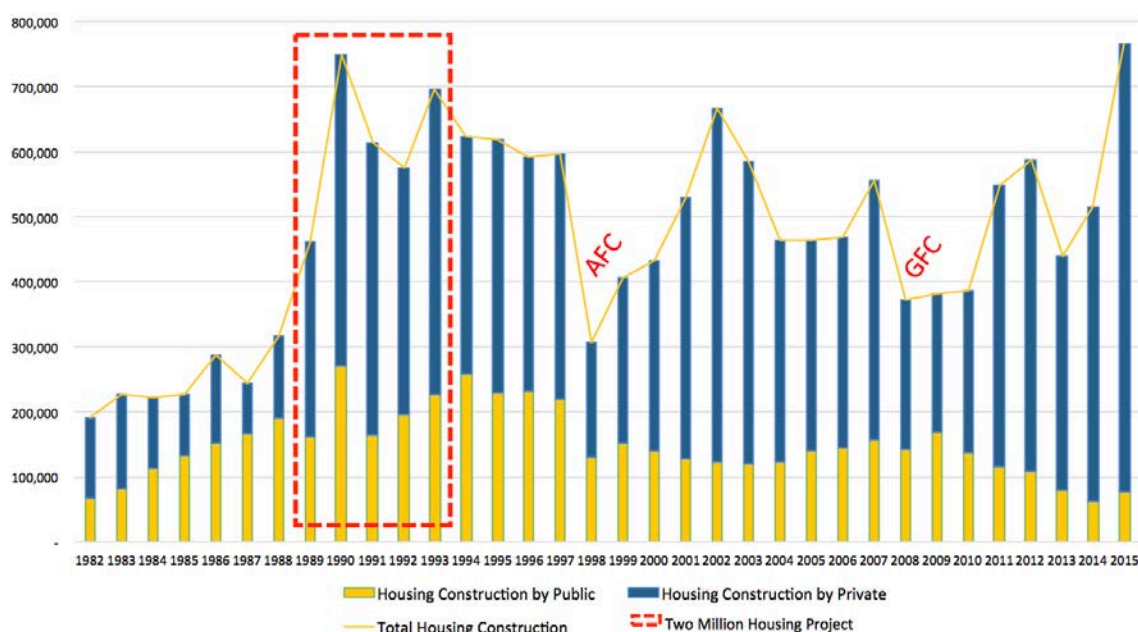
Table 1: Housing Stock, Number of Households, and Housing Supply Ratio

	1970	1980	1990	2000	2010	2013	2014
Number of housing units ('000) \equiv A	4,360	5,319	7,357	11,472	14,677	15,628	15,989
Number of households ('000) \equiv B	5,576	7,470	10,167	11,928	12,995	13,395	13,395
Housing supply ratio (%) \equiv (A/B) \times 100	78.2	71.2	72.4	96.2	112.9	116.7	118.1
Housing supply ratio (new) (%)					101.9	103.0	103.5

Source: Statistics Korea. <http://kostat.go.kr>; MOLIT (2015).

The rapid expansion of housing stock is attributable to the high level of new housing construction¹ due to the TMHD; annual housing construction increased from 200,000–250,000 units to over 500,000 until the 1997/98 Asian financial crisis (Figure 1). As the economy recovered, housing construction picked up in 2002 and settled within 400,000–500,000. New housing construction fell again due to the global financial crisis, but has subsequently bounced back.

¹ The data on new housing construction presented here are based on building permits. The data on housing starts and completions are available since 2005.

Figure 1: New Housing Construction, 1982–2014

AFC = Asian financial crisis, GFC = global financial crisis.

Source: MOLIT, <http://stat.molit.go.kr>

Another measure of new housing construction is the share of housing investment as a percentage of gross domestic product (GDP). Housing investment includes the value of the structure (but not the land) of new housing and renovation of existing housing. For the Republic of Korea, the long-term average for the ratio over 1970–2014 was 5.1%, which is comparable with the United States figure of about 5.0%.

Table 2 presents the average annual ratio of housing investment to GDP over a 5-year period since 1988. This indicator was highest during the early 1990s, took a dip due to the Asian financial crisis, bounced back during the housing boom of 2003–2007, and then fell again in the wake of the global financial crisis. This is consistent with the behavior of new housing construction.

Table 2: Housing Construction and Housing Investment, 1988–2014

	1988– 1992	1993– 1997	1998– 2002	2003– 2007	2008– 2012	2013– 2014
Housing investment to GDP (%)	6.5	6.7	4.6	5.3	3.9	4.0
New housing construction (units)	543,602	625,159	468,126	507,624	455,218	477,684
Gross national income per capita (\$)	7,983	12,059	12,735	23,033	24,696	28,180

GDP = gross domestic product.

Source: MOLIT, <http://stat.molit.go.kr>; Bank of Korea, <http://ecos.bok.kr>

Burns and Grebler (1977) posited that there is an inverted U-shaped relationship between per capita income and the housing investment–GDP ratio, yet such a relationship is not found in the Republic of Korea. This is understandable given the fact that the level of housing market activity was influenced strongly by government policy (Kim 2004). Regarding the allocation of capital between the housing and nonhousing sectors, Kim and Suh (1991) found evidence of underinvestment in housing relative to nonhousing capital until the mid-1980s in the Republic of

Korea. This underinvestment reflected the low priority given to housing in the allocation of resources.

In tandem with the expansion of the housing stock, housing quality has improved steadily since 1980. Table 3 presents selected indicators of housing quality since 1980. Consumption of housing space has more than doubled between 1980 and 2010, as has the number of dwellings per 1,000 inhabitants. The share of dwellings equipped with piped water, modern kitchens, modern toilets, and hot water all increased dramatically during the same period. The main reason for such improvements is that most new dwellings were apartments with modern facilities.

Table 3: Selected Housing Quality Indicators, 1980–2010

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

Source: Statistics Korea, <http://kostat.go.kr>.

Between 1980 and 2010, the share of apartments in the total housing stock increased from 23% to 59%, whereas that of single-family detached houses decreased from 66% to 27% (Table 4).

Table 4: Change in the Composition of Housing Stock, 1980–2010
(%)

	1980	1990	2000	2010
Single-family detached houses	87.5	66.0	37.2	27.3
Apartments	7.0	22.8	47.8	59.0
Townhouses	3.0	6.8	7.4	3.7
Others	2.5	4.4	7.5	10.0

Source: Statistics Korea, <http://kostat.go.kr>.

Despite the remarkable improvement in the overall housing conditions over the past 4 decades, international comparison of key indicators suggests that there is room for further improvement (Table 5). The two most important indicators are the number of dwellings per 1,000 inhabitants and floor space per person. In both indicators, the Republic of Korea falls short of high-income countries. As for housing tenure, the owner-occupancy rate in the Republic of Korea is substantially lower than those of the France, Japan, the United Kingdom, and United States.

Table 5: International Comparison of Selected Housing Indicators

	Republic of Korea	Japan	United States	United Kingdom	France
Dwellings per 1,000 inhabitants	364 (2010)	451 (2008)	421 (2010)	441 (2010)	532 (2010)
Floor space per person (square meters)	25.0 (2010)	37.3 (2008)	74.3 (2010)	44.0 (2002)	39.9 (2006)
Owner-occupancy rate (%)	54.2 (2010)	61.1 (2008)	65.1 (2013)	64.6 (2013)	64.3 (2013)
Public rental housing as a share of total housing stock (%)	5.0 (2012)	6.1 (2008)	0.9 (2012)	17.5 (2010)	19.0 (2007)
GDP per capita (\$)	23,838 (2013)	39,321 (2013)	52,839 (2013)	39,049 (2013)	42,991 (2013)

GDP = gross domestic product.

Note: Figures in the parentheses represent the year of reference.

Source: CECODHAS (2011); Demographia (2015); Dol and Haffner (2010); EMF (2014); Ministry of Land, Infrastructure, Transport and Tourism, Government of Japan, http://www.mlit.go.jp/statistics/details/t-jutaku-2_tk_000002.html

Two points must be noted. First, the homeownership rate in the Republic of Korea was 61% in 2010, which was about the same as that in Japan and not much lower than those in the United States, United Kingdom, and France. The reason for the large gap between the owner-occupancy rate and homeownership rate in the Republic of Korea is the separation of residence and ownership by many renters, which is detailed in the next subsection. Second, there is neither an optimal homeownership rate nor a direct relationship between the homeownership rate and housing standards across countries.

The Republic of Korea's public rental housing sector is also smaller than those of many European countries, but the share of public rental housing as a percentage of total housing stock varies considerably across countries depending on the approach to housing policy. There is also no universally accepted norm for this indicator.

2.2 Housing Prices and Affordability

Housing prices have been and continue to be one of the most important variables for housing policy in the Republic of Korea. Systematic housing price data are available only from 1986. The housing price index was first compiled by the Korea Housing Bank and was taken over by Kookmin Bank in 2001, when the two entities merged. Figure 2 illustrates the trend of the housing price index and the *chonsei* (i.e., a unique rental lease, detailed in the next subsection) deposit index, as well as that of the consumer price index since 1986.

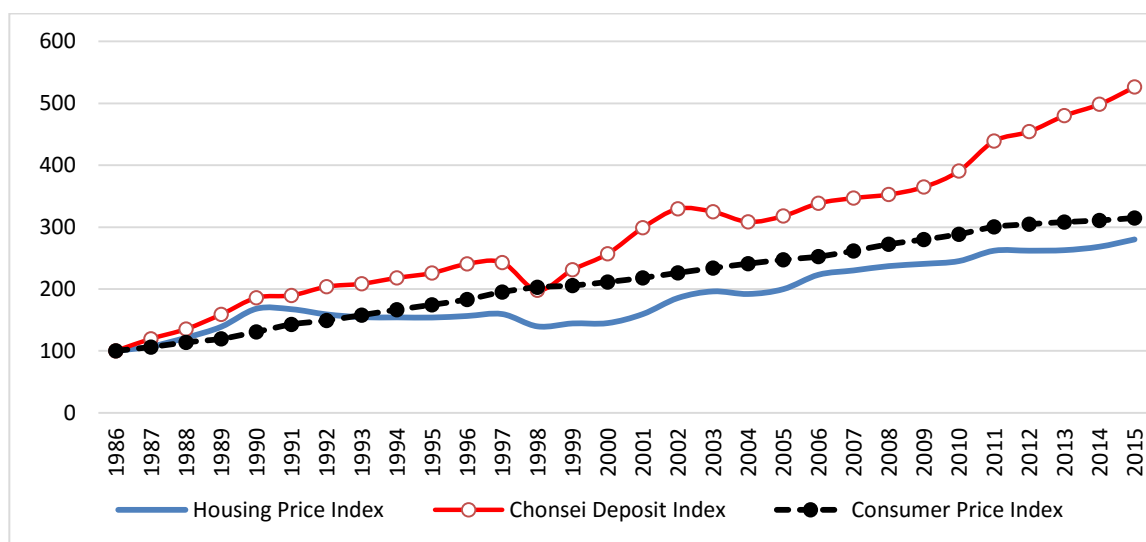
Figure 2: Housing Price Indexes and Consumer Price Index, 1986–2015

Table 6 shows their average annual rates of change over subperiods since 1988.

Table 6: Changes in Housing Prices and Consumer Prices, 1988–2014

	1988– 1992	1993– 1997	1998– 2002	2003– 2007	2008– 2012	2013– 2014
Change in housing price index (%)	9.3	0.1	3.5	4.8	2.7	1.3
Change in <i>chonsei</i> deposit index (%)	13.7	3.8	7.4	1.1	6.2	4.8
Change in consumer price index (%)	7.4	5.0	3.5	2.9	3.3	1.3

GDP = gross domestic product.

Source: MOLIT, <http://stat.molit.go.kr>; Bank of Korea, <http://ecos.bok.kr>

Several points must be made on the behavior of the price indexes. First, the increase in the inflation-adjusted housing price of the whole country was moderate during the two housing booms (i.e., 1988–1992 and 2003–2007) and was negative during the years following the massive increase in housing supply through the TMHD and, in recent years, affected by the global financial crisis. Second, the *chonsei* deposit index increased much faster than the housing price index, except during 2003–2007. Another point relates to the co-movement of the housing price index and the *chonsei* deposit index. The correlation coefficient between the rates of changes in the two indexes was 0.83 for Seoul and 0.86 for the Capital Region during 1999–2008. The figures changed to -0.65 and -0.77 , respectively, between 2009 and 2014. This pattern of decoupling is a new phenomenon in the housing market.

There is a perception that housing prices are too high relative to income in the Republic of Korea. The two most popular measures of housing affordability are the house price–income ratio (PIR) and the housing affordability index. The PIR is the ratio between the median house price and median household income. The housing affordability index measures the debt service burden by the median income household purchasing the median priced house using a standard mortgage loan. It is defined so that a smaller value represents greater affordability. Table 7 shows that housing affordability has improved in recent years.

Table 7: Key Housing Affordability Indicators

	2006	2007	2008	2009	2010	2011	2012	2013	2014
House price–income ratio	4.2		4.3		4.3		5.1		4.7
Rent–income ratio	18.7		17.5		19.2		19.8		20.3
House affordability index	66.1	73.1	75.3	70.7	63.8	66.9	59.9	53.8	54.3

Source: MOLIT, <http://stat.molit.go.kr>; Korea Housing Finance Corporation. <http://hf.go.kr/>

International comparisons of the PIR are not straightforward due to possible differences in its definition and the quality of available data across economies. Demographia (2015), however, located data on the PIRs for Australia; Canada; People's Republic of China; Hong Kong, China; New Zealand; Singapore; United Kingdom; and United States (Table 8).

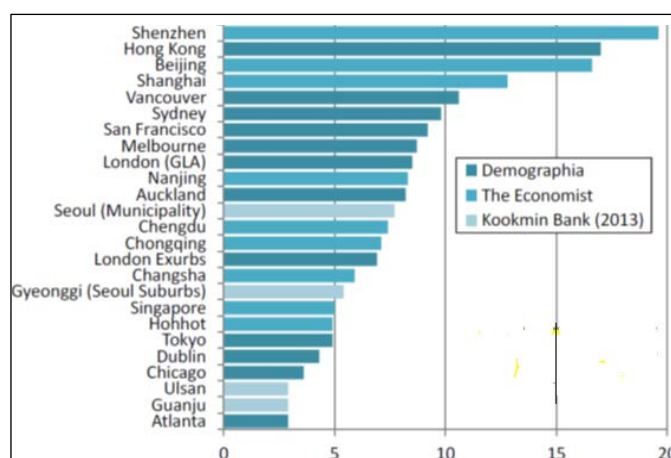
Table 8: House Price–Income Ratio: International Comparison

	Affordable (3.0 and under)	Moderately Unaffordable (3.1–4.0)	Seriously Unaffordable (4.1–5.0)	Severely Unaffordable (5.1 and Over)	Total No. of Cities	Median Ratio
Australia	0	0	0	5	5	6.4
Canada	0	2	2	2	6	4.3
Hong Kong, China	0	0	0	1	1	17.0
Ireland	0	0	1	0	1	4.3
Japan	0	1	1	0	2	4.4
New Zealand	0	0	0	1	1	8.2
Singapore	0	0	1	0	1	5.0
United Kingdom	0	1	10	6	17	4.7
United States	14	23	6	9	52	3.6
Total	14	27	21	24	86	4.2
Republic of Korea	0	2	0	3	5	3.7

Source: Demographia (2015).

The PIR for the Republic of Korea was computed by Demographia using data compiled by Kookmin Bank. The national average PIR is 3.7, which is almost the same as that of the United States, the country with the most affordable housing among the sample. Seoul's PIR is 7.7, which is slightly lower than that of London, while the figures for Incheon and Gyeonggi Province were 5.1 and 5.4, respectively (Figure 3). Thus, housing in the Republic of Korea cannot be said to be less affordable than in most other economies, nor is Seoul among the most expensive metropolitan cities in the world.²

² In a highly regulated market, housing affordability may not necessarily equal housing accessibility, because available housing options may not best suit consumer demand although they are affordable. Rent control is one example. In the Republic of Korea, the size distribution of new apartments was distorted by government regulation (Kim and Kim 2000).

Figure 3: House Price to Income Ratio, Major Metropolitan Areas

Note: "Hong Kong" refers to the entire urbanized area within Hong Kong, China.
 Source: Demographia (2015: 25).

2.3 Housing Tenure

It was an accepted presumption, until recently, that the population in the Republic of Korea has strong aspirations for homeownership. In that context, the rental-housing sector was considered a residual of the owner-occupied sector, which accommodates those who cannot afford to buy homes. In recent years, however, an increasing number of households have chosen to rent homes—although they are capable of purchasing homes.

Rental tenure in the Republic of Korea is more complex than in other countries because *chonsei*, monthly rentals with deposits (MRDs), and monthly rentals with small security deposits exist. For many years, the dominant rental lease in the housing market was *chonsei*, an asset-based lease. Under a *chonsei* contract, the tenant makes a large upfront deposit to the landlord at the signing of the lease and does not pay monthly rent throughout the lease period. The landlord then invests the deposit to generate a return equivalent to rents. The deposit is fully refundable at the termination of the lease. *Chonsei* emerged naturally during the times of housing shortages, high interest rates, rising house prices, and inadequate mortgage financing.

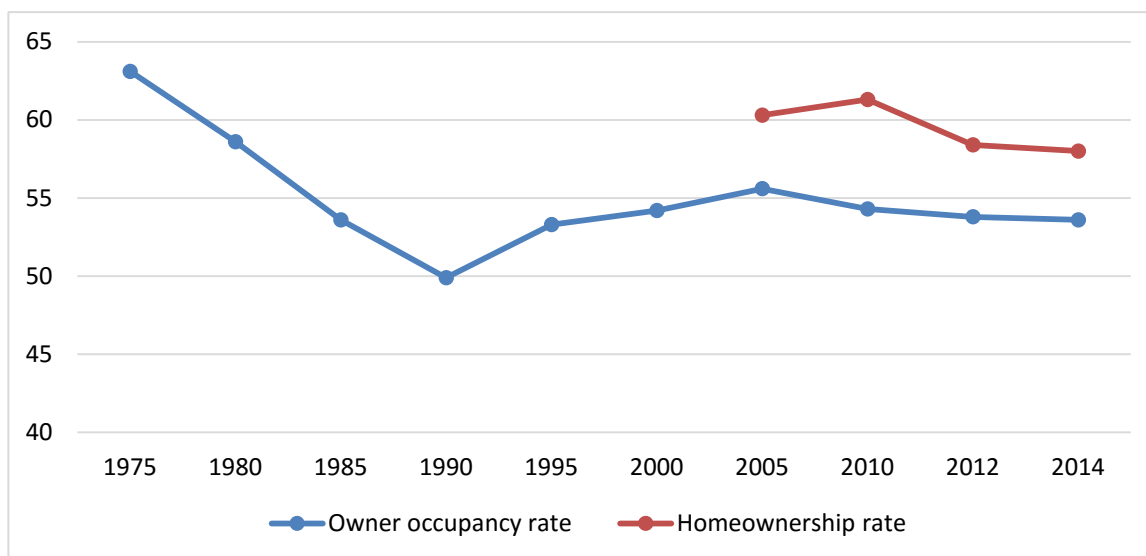
When housing was in short supply, landlords had greater bargaining power than tenants, and the sizable upfront deposit eliminated the risk of rental delinquency. High interest rates provided the landlord opportunities for profitable investment of the deposit. Increasing house prices were a major source of investment return for the landlord, which kept the deposit smaller than the price of the house. *Chonsei* was also used by some landlords to finance the purchase an extra house to rent out when mortgage loans were difficult to obtain. In this context, *chonsei* represents an informal loan to a landlord extended by the tenant in return for the right to reside in the rented house during the lease period. As for the tenants, *chonsei* was considered a step toward homeownership, because the accumulated deposit could later be used as seed money for home purchases.

Another unique feature of housing tenure in the Republic of Korea is the substantial discrepancy between the homeownership rate and owner-occupancy rate. According to the 2010 Population and Housing Census, 54.2% of the housing stock was occupied by owners, but 61.3% of households owned at least one house (Statistics Korea 2011). Over 20.0% of renters owned houses somewhere else. Since the public rental sector accommodates only 7.8% of

households, about 38.0% of households live in the extra houses owned by individuals (Son 2014).

Figure 4 shows the trend in owner-occupancy rate and homeownership rate. The owner-occupancy rate fell from 63% in 1975 to 50% in 1990, and then it rose to 55% by 2005. The current figure is slightly lower than 55%.

Figure 4: Trends in Owner-Occupancy Rate and Homeownership Rate (%)



Source: Statistics Korea, <http://kostat.go.kr>.

The discrepancy between the homeownership and owner-occupied rates can be attributed to the separation of residence from ownership. Table 9 shows the share of renters who own at least one house somewhere else as a percentage of all households and of all renters in 2005 and 2010. The figures are presented for Seoul, Incheon, and Gyeonggi Province (surrounding Seoul) with highs and lows among the districts and municipalities within each.

Table 9: Separation of Ownership and Residence

	Owner-Renters/All Homeowners		Owner-Renters/Renters	
	2005	2010	2005	2010
Republic of Korea	4.2	5.6	10.2	15.2
Seoul	5.6	10.0	10.5	17.4
high	11.3	17.3	21.1	31.2
low	3.3	5.7	5.9	10.1
Incheon	3.9	6.7	10.6	15.7
high	5.9	9.0	16.5	23.7
low	1.8	3.2	8.1	12.7
Gyeonggi	5.4	8.9	12.3	18.3
high	16.2	19.7	28.7	34.6
low	2.7	3.3	5.7	12.0

Source: Jang and Hwang (2011).

The number of renters who own elsewhere as a share of all households and all renters increased between 2005 and 2010. This trend is most marked in Seoul, where such “renting

owners” represent 10% of all households and 17% of all renters. Moreover, there is a wide variation in the figures across districts in Seoul and Incheon and across municipalities in Gyeonggi Province. In 2010, the share of renting owners in total renters ranged from 10% to 31% in Seoul, from 12% to 23% in Incheon, and from 12% to 34% in Gyeonggi Province.

There are several drivers underlying the behavior of these renting owners, such as better access to workplaces, more convenient means of transport, and better-quality schools for their children. The relative importance of these factors tends to vary across locations.³ Kim, Choi, and Ko (2009) found that the incidence of separation of residence from ownership is higher in submarkets with higher housing prices due to better public schools and other urban services. They also report that the phenomenon is more apparent among younger households and larger dwellings. Renting owners may own houses to benefit from tax advantages available to owners of one house and from possible capital gains.

The separation of residence and ownership has several implications. First, all renters cannot be classified as the less-well-to-do who require policy attention, since a substantial share of renters choose to rent although they could buy houses if they wished. Another implication is that these renters may call for a raise in the deposits on the units that they lease out to finance the increase in the deposits on the units in which they reside, which may impose further pressure on the *chonsei* deposit.

2.4 Housing Welfare

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

Table 10: Minimum Housing Standards, 2000 and 2011

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

D = dining room, K = kitchen.

Source: MOLIT (2015).

The indicator regarding reducing the number of households living in substandard dwellings has improved substantially over the years. Choi, Kim, and Kwon (2012) computed the number of households living in houses not meeting the 2011 standards using census data. They reported

³ To the extent that most new houses are developed in the suburbs where public sector developers provide serviced land for housing, the separation of residence and ownership is inefficient.

that the share of such households as a percentage of all households dropped from 46.3% in 1995, to 28.7% in 2000, 16.1% in 2005, and 11.8% in 2010.

2.5 Current State of the Housing Market and Government Response

The housing market in the Republic of Korea has gone through several cycles in the past 3 decades for which period systematic data are available. There was a price hike between 1988 and 1991, a short-lived collapse in 1997–1998, a housing price run-up during 2002–2006, and a spell of stagnation from 2009 until 2013 due to the global financial crisis. It has been recovering since 2014. The number of building permits issued, housing construction starts and completions, and subscriptions of new houses offered for presale are all increasing, while the number of unsold units has decreased to the lowest level since 2006. The number of transactions of existing dwellings in 2015 was the highest since the government started publishing transactions data in 2006.

Housing prices have appreciated at a moderate pace and have fallen short of the general inflation rate in recent years but the pace accelerated in 2015. The rental market remains tight for *chonsei*, but the rent on MRDs has been falling. Table 11 shows the recent trends in housing prices, *chonsei* deposits, and MRDs, showing how the sluggish housing market coexists with the tight *chonsei* market and soft MRD market.

Table 11: Key Housing Indicators since 2008

	2008	2009	2010	2011	2012	2013	2014	2015
Housing permit (unit)	371,285	381,787	386,542	549,594	586,884	440,116	515,251	765,328
Housing transaction (unit)	893,790	870,353	799,864	981,238	735,414	851,850	1,005,173	1,193,691
Change of price index (%)	3.11	1.46	1.89	6.86	−0.03	0.31	1.71	3.51
Change of <i>chonsei</i> index (%)	1.68	3.39	7.12	12.3	3.52	4.7	3.4	4.85
Change of MRD index, Seoul (%)				1.01	−0.81	−2.33	−2.37	0.09

MRD = monthly rental with deposit.

Source: Onnara Real Estate Information Portal, <http://onnara.go.kr>

The current state of the housing market described above reflects the close linkages among the owner-occupied housing market, *chonsei* market, and MRD market in the context of the structural changes taking place. As the housing shortage was resolved, housing prices have stabilized, and interest rates have fallen to record lows. *Chonsei* has become economically unviable due to conflicts of interest between landlords and tenants. Today, the tenant prefers a *chonsei* to an MRD because the former offers a lower user cost. To be more specific, the interest rate that is used to convert a deposit into monthly rent is much higher than the interest rates banks charge on loans for *chonsei* deposits. At the same time, however, the landlord prefers an MRD to a *chonsei* because the former generates a larger cash flow for the same reason.

The interaction between demand and supply forces has resulted in increasing *chonsei* deposits and a shortage of houses available on *chonsei* leases. Stabilizing *chonsei* deposits has become an important policy issue, as a *chonsei* lease has long been the most popular rental tenure for the middle class. *Chonsei* deposits will stabilize only if either demand decreases or supply increases. Thus, the government has tried to divert the demand for *chonsei* to homeownership by providing tax incentives and favorable mortgage terms to homebuyers. The government has also encouraged the supply of rental housing by investors who own two or more houses by removing disincentives for rental housing, such as a high rate of taxation on capital gains for these owners. It has also increased the supply of public rental housing. Recently, the government introduced a package of incentives to promote large-scale private rental business by attracting major developers and financial investors. At the same time, the government is trying to alleviate the increasing burden borne by moderate- and low-income households through tax deductions on rental payments and a housing benefit, respectively.

3. EVOLUTION AND ASSESSMENT OF HOUSING POLICY

3.1 Evolution of Housing Policy and Major Achievements

In the 1960s, the housing policy was carried out as a component of the 5-year economic development plan, which was initiated in 1962. The institutional structure of the housing policy and its implementation began to emerge. The Ministry of Construction (now the Ministry of Land, Infrastructure and Transport [MOLIT]) was in charge of housing policy, and the Korean National Housing Corporation and Korea Housing Bank began operations in 1968 and 1969, respectively. Some important laws and regulations, such as the Housing Bank Law and Emergency Measures to Deter Real Estate Speculation, were established in 1967. In this regard, the 1960s was a period of institution building for housing policy.⁴

The biggest challenge of the housing policy was to address the problem of housing shortages, which became particularly serious in the 1970s, as supply failed to increase to meet the growing demand caused by the growing urban population and rising incomes. The government drafted a 10-year plan for housing construction to expand supply and to stabilize prices. More institutions were created, and a legal framework was established to facilitate housing production by public sector developers. Two pairs of housing and land development laws and institutions were critical in this regard: the Housing Construction Promotion Law (1972) and the Korea National Housing Corporation (1973); and the Land Development Promotion Law (1980) and the Korea Land Development Corporation (1979). Vested with the power of eminent domain in land acquisition, the Korea National Housing Corporation and Korea Land Development Corporation played crucial roles in land development and housing production thereafter. The two organizations merged to form a new entity, the Land and Housing Corporation, in 2009.

The shortage of decent housing cumulated over a period of rapid economic growth, resulting in a sharp increase of housing prices across major cities in the late 1980s. Political pressure on the government also grew, following the wave of democratization. The government responded by announcing the TMHD, a plan to supply 2 million new housing units between 1988 and 1992 to expand supply, including the development of five new towns in the suburbs of Seoul. To implement the plan, the government expanded the supply of developable land through the Korea National Housing Corporation and Korea Land Development Corporation, and increased the provision of housing loans through the National Housing Fund.

⁴ See Cho and Kim (2011) for more details.

The TMHD was a milestone in housing policy because it entailed a quantum leap in the annual volume of housing construction. It was also the first attempt to allocate housing units by target income groups according to their ability to pay (i.e., permanent public rental housing for the lowest-income households, small for-sale units and rental housing for low- to moderate-income groups, and larger for-sale housing for the middle class by the market) (Table 12). At the same time, mechanisms were put in place to steer new housing to the target groups, including mandatory savings for housing subscription, an application system for prospective buyers, and counterspeculation measures.

Table 12: Two-Million Housing Drive, 1988–1992

Category	Income Class	Housing Type	No. of Units Built	Financing	Developers/Suppliers
Public sector	Urban poor	Permanent rental units (20–36 m ²)	250,000	Government budget	KNHC, local government
	Potential middle class	Long-term rental units (33–50 m ²)	350,000	National Housing Fund	KNHC, local government, construction companies
		Small houses (40–60 m ²)	250,000		
Private sector	Middle class	Medium-sized houses (60–85 m ²)	480,000	None	Construction companies
	Above middle class	Medium-sized or large (85 m ² or above) houses	670,000	None	Construction companies

KNHC = Korea National Housing Corporation, m² = square meter.
Source: Ministry of Construction and Transportation (2002).

As shown in Table 13, the TMHD delivered more than 2 million units within 5 years. Private sector homebuilders surpassed the goal by more than 30%, whereas the public sector came short of its goal. It is important to note that there was effective demand for housing supported by income growth to absorb the large number of new houses supplied through the TMHD. Moreover, thanks to the successful implementation of the TMHD, housing prices remained stable throughout the 1990s.

Table 13: Goals and Achievement of the Two-Million Housing Drive

	Goals		Achievements			Ratio	
	1988–1992 (A)	1988	1989	1990	1991	Total (B)	B/A (%)
Total	2,000	317	462	750	613	2,143	107.2
Public Sector	900	115	161	270	164	700	79.0
– Permanent rental units	190		43	60	50	153	80.5
– Houses for working class	250			61	37	98	39.2
– Long-term rental units	150	52	39	65	15	171	114.0
– Small-sized houses for sale	310	63	79	84	63	289	93.2
Private Sector	1,100	202	301	480	449	1,432	130.2

Source: Joo (1994: 295).

The 1997/98 Asian financial crisis was a turning point in housing policy (Kim 2000). In the wake of the unprecedented economic crisis, unsold apartments piled up, and housing prices fell sharply while many homebuilders went bankrupt. The government intervened to boost the housing sector by stimulating demand with financial support through the National Housing Fund. In addition, acquisition and registration taxes were temporarily lowered. Reduction in the volume

of new housing supply during 1998–2001, and the expansion of mortgage credit, resulted in escalating housing prices in Seoul and its suburbs from 2002.

The government, however, mobilized various policy instruments to contain the housing price increases (Kim 2004). It legislated a new, highly progressive national tax on real estate holdings (i.e., the Comprehensive Real Estate Tax); introduced a special levy on unrealized income from redevelopment of old apartments; raised the capital gains tax on owners of two or more houses; and expanded the coverage of the price ceiling on new apartments. In addition, macroprudential regulations, such as ceilings on the debt–income ratio and loan–value ratio, were introduced or tightened to prevent excessive lending.

Another important thrust of housing policy was to enhance the housing welfare of vulnerable households. The government drafted a housing welfare road map in 2003 with a plan to supply 1 million public rental units over a 10-year period (Table 14).

Table 14: Housing Welfare Road Map

Income Decile	Characteristics	Assistance
1 (bottom)	Unable to pay market rents	Small public rental units Housing benefit
2–4	Unable to purchase homes	Small or medium-sized public rental units Concessional loans for <i>chonsei</i> deposits
5–6	Able to purchase homes with some assistance	Small or medium-sized houses at subsidized prices Concessional mortgage loans
7 and above	Able to purchase homes with own means	Tax benefits

Source: Ministry of Land and Transportation (2003).

Housing prices peaked in 2007 and remained stable until they started to decline in real terms in the aftermath of the global financial crisis. The housing market plunged into a downturn, which was aggravated by the spread of pessimism about future housing prices. In response, the government tried to stimulate the market through deregulation and easing of the taxation and macroprudential regulations introduced by the previous administration (Kim 2012). In addition, a two-tiered supply strategy was implemented. In the inner cities, areas for new “town-in-town” developments were designated, and regulations on redevelopment projects were lifted. On the periphery, a small fraction of greenbelt land was released to accommodate public housing, known as *Bogemjari Jutalk* (“sweet homes”).

The incumbent government, which took office in 2013, has focused on normalizing the housing market and enhancing housing welfare. It has implemented a round of packages, including deregulation and modification of tax laws, to encourage new housing supply and to facilitate home purchases. It has also introduced a new brand of public housing called *Haengbok Jutalk* (“happy homes”) targeted to the younger generation, and promulgated a law to promote the institutionalized private rental-housing sector. The government further initiated a new version of a housing benefit scheme for the lowest-income group.

3.2 Housing Policy Programs and Their Beneficiaries

Housing policy programs in the Republic of Korea can be classified into four distinct categories: supply side, demand side, finance, and macroprudential regulations (Table 15). The most important example of the supply-side policy is the TMHD to overcome the severe housing shortage and to provide public rental housing for the most vulnerable households. Major instruments to implement the TMHD were the provision of developable land by public sector developers and expansion of funding through the National Housing Fund. The TMHD also helped stabilize housing prices by increasing new housing supply on a large scale and improving the quality of the housing stock. However, the massive supply scheme resulted in a lack of diversity and overstretched the capacity of the construction industry.

Regarding demand-side policy, the new housing benefit scheme that started in July 2015 is the latest and most important. It originated from a component of the general welfare grant under the National Livelihood Protection Law, which was designed to ensure that every person can meet minimum living costs. Unlike the old scheme that provided the grant regardless of rent level and local housing conditions, the new housing benefit is differentiated according to household income, family size, tenure type, rent level, and location of residence.

Housing finance programs through the National Housing Fund offer affordable mortgages to assist home purchases by moderate- to middle-income households. A housing credit guaranty is provided through the Housing Credit Guaranty Fund operated by the Korea Housing Finance Corporation, a government-owned institution in charge of issuing mortgage-backed securities to tap the capital market as well as reverse mortgages to qualified elderly homeowners.

Finally, macroprudential regulations were introduced in 2003 to suppress the demand for housing loans in an overheated housing market and to prevent systemic risk that could arise from the mortgage market. The government has also changed the debt-income ratio and loan-value ratio ceilings according to housing market conditions. This is believed to have helped prevent the boom-bust in housing prices but might have reduced opportunities for home purchases by some households.

Table 15: Housing Policy Matrix

	Supply-Side Policy	Demand-Side Policy	Housing Finance Policy	Macroprudential Regulations
Program	Two-Million Housing Drive	Housing benefit	Liberalization of housing finance market Establishment of secondary mortgage market	Ceilings on loan–value ratio and debt–income ratio
Timeline	1989–1992	2015 (first introduced in 1999 as a component of general welfare grant)	1999–2004	Since 2003
Policy Goals	To overcome housing shortage and housing price hikes To provide public rental housing to the lowest-income group	To relieve rent burden To ensure the minimum housing standard be met	To assist home purchases To expand housing finance by tapping the capital market	To suppress the demand for housing loans in an overheated housing market To prevent systemic risk from the housing market
Intended Target	All income groups	Low- and moderate-income groups	Middle-income households	Borrowers of housing loans
Instruments and Contents	Supply of developable land through public sector developers Expansion of funding for housing (National Housing Fund)	Monthly cash subsidy based on household income, rent, family size, and location New Housing Benefit Act Public inspection of housing conditions and monitoring of rents	Interest-rate deregulation Creation of the secondary mortgage market institution (Korea Housing Finance Corporation) Introduction of reverse mortgage	Adjustment to loan–value and debt–income ratios ceilings
Merits	Helped stabilize housing prices and improve the quantity and quality of the housing stock	Too early to evaluate (targeted demand subsidy)	Helped increase home ownership	Helped prevent the boom-bust in housing prices
Demerits	Massive supply resulted in the lack of diversity and overstretched the capacity of the construction industry	Too early to evaluate	Increase in household debt	Limited the opportunity for home purchases for some households

Since the inception of the TMHD, housing policy programs have been designed to meet the needs of different income groups with different programs. Figure 5 illustrates the structure of housing programs with the intended target income groups. The government utilized three types of subsidies for different income groups to provide homes and/or to relieve rent burdens by (i) providing public housing for renting and owner occupation as a conventional and direct method, (ii) providing housing benefits as demand-side assistance, and (iii) low-interest loans for *chonsei* deposits.

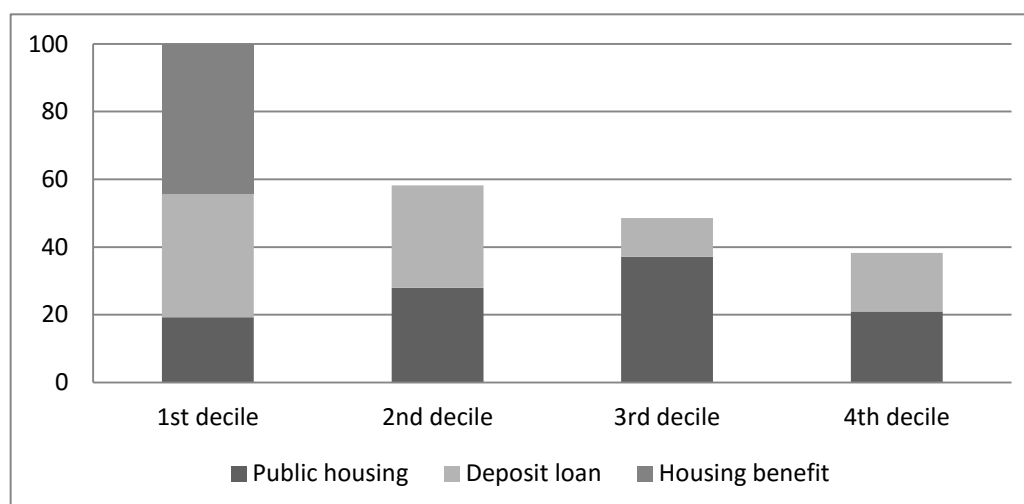
Figure 5: Housing Programs by Target Income Group

Income bracket	1988–1992 (Two million project)	2003–2007 (Housing welfare roadmap)	2008–2012	2013–present
1 Extremely low	Permanent PRH	National PRH (small-size)	Permanent PRH	Permanent PRH
2 Low	Long-term PRH	National PRH	National PRH	National PRH/ Chonseil rental/ Purchase Lease
3 Mid-low		Small-size for sale units	Loan for chonseil deposit	for sale (public) units
4				PRH
5 Middle		Mid-size for sale units	Small-size for sale units	PRH (Happy House)
6			Private Rental	Private Rental (New Stay)
7 High	Private market, Mortgage program			

MRD = monthly rental with deposit, PRH = subsidized public rental housing.

Regarding the beneficiaries of the various policy programs, the lowest-income group is eligible for at least one of the above-mentioned subsidies. Among the lowest-income group, almost 20% live in public rental housing, 33% borrow a *chonsei* deposit loan, and over 50% receive the housing benefit. It implies that most households belonging to the lowest-income group could enjoy at least one eligible subsidy scheme and that some may benefit from two. For example, a substantial portion of tenants residing in public rental units also receives the housing benefit.

However, because the housing benefit narrowly targets the lowest-income group, the recipients decrease substantially for the second-lowest 10% group; only 53% of them receive a subsidy. Also, 44% of the third-lowest income group and 35% of the fourth-lowest group are either public housing residents or borrowers of low-interest *chonsei* deposit loans. The incidence of benefits of housing programs decreases with income, which is consistent with the principle of vertical equity. Yet the proportion of households covered by the subsidy programs falls drastically going from the lowest-income group to the next lowest-income group (Figure 6).

Figure 6: Coverage of Housing Subsidies by Income Group (%)

4. THE CHANGING ENVIRONMENT AND POLICY CONDITIONS

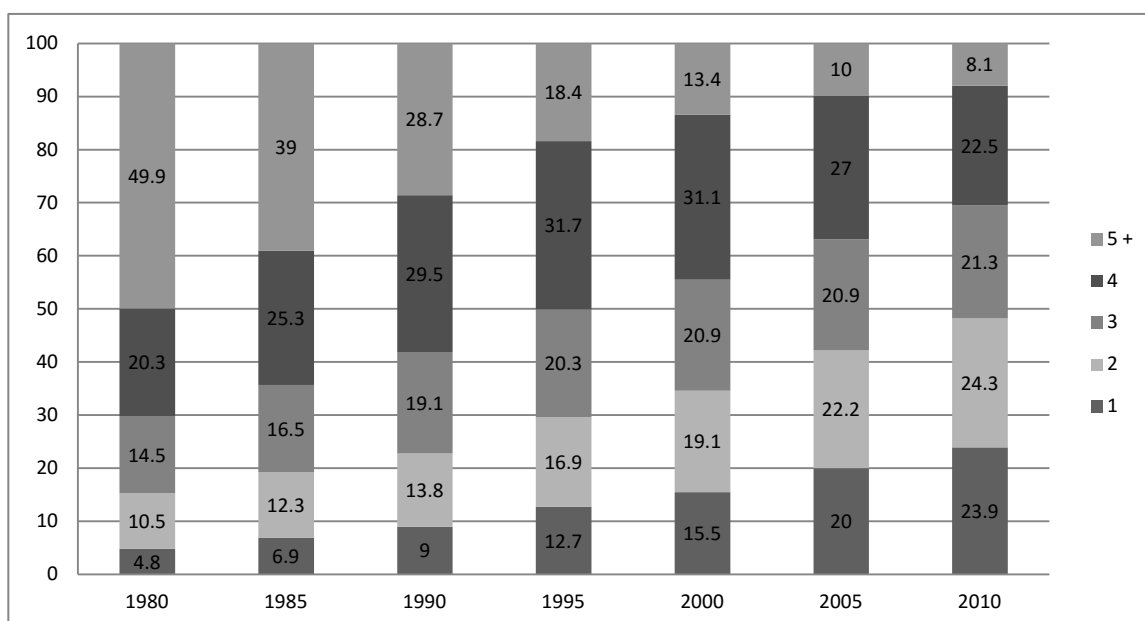
Today, the housing policy is at a crossroads, as the environment surrounding the housing market undergoes major socioeconomic changes related to demographics, the housing–macroeconomy nexus, linkages between owner-occupied and rental markets, composition of rental lease types, and political economy of housing policy.

4.1 Demographics

The Republic of Korea has been experiencing rapid aging of its population and declining fertility, slowing population growth and shrinking household sizes. Total population growth is expected to continue until 2030, but the productive population (i.e., ages 15–64 years) is expected to reach its maximum in 2016 and start falling thereafter. In addition, population aging is proceeding very fast. The percentage of the population that is 65 years or older was 12.2% in 2013, and it is expected to rise to 14.0% (i.e., an aged society) in 2018 and 20.0% (i.e., a super-aged society) by 2026. The pace of population aging is faster than even that of Japan.

Further, the total fertility rate is 1.2, among the lowest among Organisation for Economic Co-operation and Development (OECD) countries. Household size is shrinking rapidly (Figure 7). Between 1980 and 2010, the share of one- or two-member households increased from 15% to 48%, and that of four- or five-member households dropped from 70% to 30%. The number of households is projected to increase until 2040, but the trend in shrinking household sizes is expected to continue.

Figure 7: Changing Distribution of Households by Size, 1980–2010 (%)



Source: Statistics Korea, <http://kostat.go.kr>.

Other things being equal, the slowdown in population growth and household formation, rapid aging, and shrinking household size will have a negative effect on housing demand and, hence,

future housing prices. In fact, Takats (2012) predicted that the Republic of Korea would suffer most seriously from the impact of demographic changes on housing prices.

Demographic factors are not the only determinant of housing demand. Income is another key determinant, because growing incomes increase demand for new housing and for upgrading of existing housing. Changing aspirations about homeownership among the younger generation is also a factor. Survey data show that the proportion of renters who want to become homeowners has declined in recent years. It is unclear whether this is a permanent change in the propensity to own homes or a temporary disruption caused by stagnant housing prices and the insecurity of incomes and employment in recent years. Obviously, demand for owner-occupation is driven by investment demand, which, in turn, is affected by the expectation about housing prices in the future. That said, the observed decrease in aspiration for homeownership may be reversed if the housing market turns for the better.

Population aging creates additional challenges to housing policy. Providing adequate housing for the elderly requires modifications to physical design in new housing and retrofitting existing houses to make them safer to live in. Another major concern about population aging is the high incidence of poverty among the elderly. About 35% of elderly people, many of them living alone, are in absolute poverty based on the disposable income criterion. The relative poverty rate among people aged 65 years and above is 49%—more than three times higher than the rate for all age groups, which is 15% (KIHSA 2014). In light of the large percentage of the elderly population in relative poverty, providing affordable rental options is another important task of housing policy.

For elderly homeowners who need to finance their retirements, mainly with their housing assets, unlocking housing wealth is also a significant issue. Housing is the dominant asset in the portfolio held by the elderly. According to the 2010 census, 70% of people aged 60–70 years and 75% of people aged 70 years and above were homeowners (Statistics Korea 2011). The average share of assets in real estate was 68% (including 36% in owner-occupied houses) in 2014, but the share among the elderly was 82% according to the 2014 survey of household finance and welfare.

In 2007, the government introduced a reverse-mortgage system (called the “housing pension” in Korean) with a guaranty provided through the Korea Housing Finance Corporation. The initial response from the potential subscribers to the program was lukewarm. The government relaxed the requirements for eligibility, such as age and the value of the house, to make the product more attractive. As of the end of June 2015, about 25,700 people have joined the program.

4.2 Housing–Macroeconomy Nexus and Household Debt

One important dimension of housing policy is the nexus between housing and the macroeconomy. Housing represents the largest asset for households, and the level of housing activity influences those in various other industries, such as furniture and home appliances as well as real estate-related services. Housing prices and housing investments affect aggregate demand of an economy, and the macroeconomic performance, in turn, affects housing prices and level of housing market activity.

Housing affects aggregate demand through three major channels. The first channel is housing investment. Housing investment, defined as the market value of a new housing structure and that of an improvement of existing housing stock, represents a substantial share of GDP. Although the share of housing investment in GDP in the Republic of Korea has fluctuated around 5% over time, it has been falling since the late 2000s and has been slightly below 4% in

recent years. The share of housing investment in total fixed capital formation also shows a declining trend.

A second channel is the wealth effect on consumption. Housing prices affect the value of housing wealth and, hence, private consumption expenditure. Although the estimates of the magnitude of the housing wealth effect in the Republic of Korea are not as large as that in the United States, the housing wealth effect is sizable and larger than the wealth effect from stocks.

A third channel is the collateral effect. Changes in housing prices affect the collateral value of housing and, hence, access to mortgage credit. The scope of the second and the third channels is conditioned by the housing finance system.

Housing finance lagged behind economic development in the Republic of Korea. The housing finance market was dominated by the National Housing Fund, government housing fund, and Korea Housing Bank (i.e., the state-owned housing bank) until the outbreak of the Asian financial crisis. Access to mortgage loans was very limited, with a loan–value ratio of about 30%, and the interest rate was subsidized. It was not until the early 2000s that a market-based housing finance system was established following financial liberalization. Currently, commercial banks are the major lenders in the housing finance market. The ratio of the mortgage debt outstanding to GDP, which is a measure of the size of the housing finance market, is 31%, and the ratio increases to 36% if housing loans held by the Korea Housing Finance Corporation are included.

Table 16: Household Debt and Mortgage Debt Outstanding since 2000

	2000	2004	2008	2010	2012	2014
A. Consumer credit	266.9	474.7	688.2	843.2	963.8	1,089.0
Household debt	241.1	449.4	648.3	793.8	905.9	1,029.3
Deposit banks	157.6	355.5	515.3	593.5	660.0	745.8
Housing loans			254.7	289.6	318.2	
Mortgages		169.2	239.7	284.5	318.2	365.6
Nonbank deposit-taking financial institutions	50.4	79.2	126.7	162.1	192.6	
Housing loans			56.4	73.2	86.0	
Mortgages			56.0	73.1	85.9	95.0
Credit card loans	25.8	25.3	39.9	49.4	58.5	59.6
B. Mortgage debt outstanding		169.2	295.7	357.6	404.1	460.6
C. Nominal GDP	635.2	876.0	1,104.5	1,265.3	1,377.5	1,485.1
A/C (%)	42.0	54.2	62.3	66.6	70.0	73.3
B/A (%)		35.6	43.0	42.4	41.9	42.3
B/C (%)		19.3	26.8	28.3	29.3	31.0

GDP = gross domestic product.

Source: Bank of Korea, <http://ecos.bok.kr>

There is a concern about excessive indebtedness of the household sector. In fact, the Republic of Korea ranks high among OECD countries in terms of the ratio of household debt outstanding to per capita income. However, the current size of the mortgage market, adjusted for the size of the economy (i.e., the mortgage debt outstanding–GDP ratio), is about on par with other countries with similar levels of development (i.e., per capita GDP on a purchasing power parity base) (Kim and Cho 2014).

In addition, the so-called mortgage loans include home-equity loans as well as loans for home purchases. In fact, just about 50% of mortgages are for home purchases, and the remaining half are for financing working capital and livelihood expenses. The problem is that the mortgage market is dominated by the adjustable-rate mortgage with bullet payments that require

a lump-sum payment for the entire loan at maturity. Aware of the potential weaknesses of the current structure, the government has been implementing measures to encourage the transformation of adjustable-rate mortgages into fixed-rate mortgages repayable in equal installments. Recently, the government also introduced new loan products through the National Housing Fund, such as shared appreciation mortgages and equity loans such as in the United Kingdom (Miles 2013).

Macroprudential regulations are playing an important role in recent years, as large and increasing household debt is considered a potential risk to the macroeconomy. These regulations are designed to contain the systemic risk that can arise from abrupt changes in housing prices. Ceilings on the loan–value ratio and debt service–income ratio were established as a key policy instrument. The current limit on the loan–value ratio is 70%, and the actual average of the loan–value ratio on existing loans is about 50%. There is some empirical evidence in support of the effectiveness of the macroprudential regulations (Igan and Kang 2011) but additional research is needed to establish their full impact (Jácome and Mitra 2015).

4.3 Structural Change in the Rental Housing Market

Since the nature of structural changes taking place in the rental-housing sector was explained in section 2.5, some data are now presented showing the magnitude of the changes in this section. Table 17 shows that the share of *chonsei* in total rental lease contracts dropped from 67% to 56%, whereas that of MRDs rose from 33% to 44% during the past 4 years. The decline in *chonsei* is expected to continue in the current market environment.

Table 17: Rental Contract Transactions by Lease Type

	2011	2012	2013	2014	2015
Total rental contracts ('000)	1,321	1,324	1,373	1,467	1,472
<i>Chonsei</i> (%)	67.0	66.0	60.6	59.0	55.8
Monthly rent with deposit (%)	33.0	34.0	39.4	41.0	44.2

Source: MOLIT, <http://rt.molit.go.kr>.

An analysis of more detailed data reveals that the composition of rental leases as well as that of *chonsei* leases by deposit amounts vary across regions and across submarkets within each region. For example, the share of *chonsei* leases is higher in Seoul and the Capital Region, while the share of MRDs is higher in the southeastern part of the country (Park 2015).

4.4 Political Economy of Housing Policy

Housing policy is a sensitive matter, and the process of its formulation and implementation is influenced by the interplay among various stakeholders. The dynamics of the political economy of housing policy in the Republic of Korea is changing in significant ways. The legislature is becoming a dominant power over the administrative branch of government. Thus, the housing policy has become more politicized, and some policies announced by the government may not be realized as planned, due to delays in passage of relevant laws.

Relationships among key players in housing policy are also changing. The Ministry of Finance and Strategy, Bank of Korea (i.e., the central bank), and Financial Supervisory Committee are playing greater roles, while the role of MOLIT is somewhat decreasing as taxation and finance become more important policy tools compared with land-use control and development

regulations. Coordination among the government units and between the central and local governments is also becoming crucial in implementing housing policies.

The housing policy is an important intergenerational issue as well (Kim 2015). A substantial portion of the “baby-boomer” generation has accumulated housing wealth in the past, and they are concerned that housing prices may fall and erode their purchasing power. On the other hand, the younger generation is frustrated by the fact that homeownership is beyond their reach. They want to see housing prices fall further, and housing become more affordable.

Another dimension relates to intergenerational transfer of housing wealth. People in their 20s and 30s rely heavily on their parents and relatives for raising funds for home purchases and mobilizing deposits for *chonsei* leases. A 2012 Housing Conditions Survey showed that 48% of homebuyers in their 20s and 22% in their 30s received financial assistance from their parents, and that the size of the financial assistance was 77% and 59% of the total funds for home purchases for the two respective age groups. The same survey also showed that 42% and 21% of *chonsei* tenants in their 20s and 30s received 75% and 54%, respectively, of the deposits in financial assistance from their parents (Kim 2015). This has two important implications. The transfer of wealth will widen the inequality in wealth distribution among the younger generation. It also imposes a serious financial burden on parents who have already financed the educations of their children and are ill-prepared for their own retirements.

5. CONCLUSIONS

Originally, the fundamental housing problem in the Republic of Korea was that of absolute housing shortages. The government did not allocate many resources to housing, however, because housing was regarded as a low-priority sector compared with manufacturing or infrastructure in facilitating economic development; underinvestment in new housing was a major reason for the chronic housing shortage in the 1960s through the mid-1980s (Kim and Suh 1991). It was not until the late 1980s that the government initiated a program involving massive supply to meet the increasing demand for quality housing by the middle class and allocated a significant amount of the budget to address the housing needs of low-income households.

The approach to housing policy was to engage the market system, supplemented by the public sector monopoly in the supply of developable land, government regulations, and incentives, to expand the housing stock and to distribute the incremental stock to intended target groups according to the rules set by the government. This approach succeeded in improving overall housing conditions in terms of quantity and quality as well as facilitating the formation of wealth by the middle class through housing.

A key element of the housing policy was also to contain speculation. The first example of this endeavor was the legislation of a special tax to discourage real estate speculation in 1968, which was consolidated into the capital gains tax later. The guiding principle was to encourage each household to own one house; it treated owning two or more houses, often regardless of the value of the houses, as an act of speculation and, hence, imposed sanctions and levied heavy taxes. For example, the capital gains tax law had a provision for a higher rate (40%) for the owners of two houses, and an even higher rate (60%) for those owning three or more houses. The provision, which was abolished in December 2014, has an important implication for the private rental-housing sector dominated by the unorganized market, in which houses to let are provided by owners of two or more houses. The abolition of the punitive capital gains taxation means that these owners are to be treated as legitimate suppliers of rental housing.

The housing policy in the Republic of Korea was integrated with urban planning as new supplies of housing were made available through large-scale land development with adequate infrastructure. The best examples are the five new towns developed as an integral component of the TMHD in the suburbs of Seoul, and the second-generation new towns developed in locations farther from Seoul in the 2000s. New housing was provided in large quantities together with onsite infrastructure as well as access to the transport network connecting the new towns to Seoul and other cities in the region surround the capital.

Another feature of the housing policy was that public sector institutions played a key role in housing supply. The major public sector players were the Korea National Housing Corporation and Korea Land Development Corporation, which were merged to form the current Land and Housing Corporation in 2009. The two state-owned enterprises accounted for 81% of the volume of residential land development and 14% of total housing stock as of September 2013 (Son 2014). The basic principle was that the gains from land development should be recouped by the public sector to finance the provision of infrastructure and affordable low-income housing. All large-scale land development projects were implemented by these state-owned enterprises vested with the power to purchase nonurban land through eminent domain. This mechanism facilitated the timely provision of developable land for housing and the construction of housing itself.

The public sector-dominated land development system excluded the participation of private developers from major projects and the possible efficiency gain from diversity in the provision of housing, however. The whole process—selecting the location and size of land development projects, determining the number and composition of houses to be built on the developed and serviced land, and allocating the houses to would-be homebuyers—was regulated by government plans and regulations. The role of the private sector players was essentially limited to that of contractors to the public sector developers with guaranteed profits.

Despite the apparent success in increasing the quantity and improving the quality of the housing stock over the past 30 years, housing policy in the Republic of Korea has faced criticisms and new challenges. Experts consider the housing policy too complex, rigid, and politicized. The cumulated effects of numerous regulations governing the supply of developable land and housing are believed to have made supply inelastic (Renaud 1989; Kim, Malpezzi, Kim 2008). Many ordinary people feel that housing prices are still too high, homeownership is unaffordable, and rental options are inadequate and expensive. As the most familiar form of rental lease, *chonsei*, is giving way to MRDs, renters find their disposable income decreasing. The problem is felt most seriously by the young and the elderly, who typically already have inadequate incomes. Increasing the supply of affordable housing, especially for the underserved, remains a crucial task in the Republic of Korea. Fundamental socioeconomic changes such as low fertility, population aging, and slower economic growth also posit new challenges to the housing policy.

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