

Directions of Korean Housing Policy

2004. 1

**Ministry of Construction & Transportation
Republic of Korea**

1. Directions of future housing policy in Korea

(1) Stabilization of the housing market

- The Korean government will take all possible measures to control speculative housing demand in order to reduce the rise in housing prices due to the regional and seasonal factors.

(2) Continuation of mass housing construction policy

- The government has set up plan to construct 500 thousand housing units every year from 2003 to 2012. A total of 5 million housing units will be constructed until 2012 and the housing supply ratio is expected to attain to 116% (*The number of housing units and households will be 15million and 13 million in 2012, respectively.*)

(3) Improvement of housing welfare

- 1 million units of the national rental housing with low rental fees will be constructed, by building 80 thousand ~ 120 thousand units per year until 2012.
- The government will develop measures to help low income people in improving their housing conditions.

2. Situation and trend of Korean Housing Market

(1) Situations

- Until the year of 2000, the Korean government has tried to cope with the housing market depression and the rapid drop in housing prices owing to the economic crisis in 1997. However, the housing prices began to rise sharply since 2001.
- Compared with 2002, the trend of high rise in housing prices was calmed down in 2003. But in some areas such as Kangnam, the southern part of Han River in Seoul, the housing prices has been rising as before, due to the abundant liquidity and low interest rates.
 - Apartment prices in 3 districts in Kangnam area, where a lot of apartments are going to be reconstructed, have soared as much as above 20%. (*Kangnam 22%, Kangdong 22%, Songpa 22%*)

«Table 1. The rate of rise in apartment prices» (unit : %)

		89	90	91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03
APT Price	nationwide	20	32	-2	-5.0	-2.7	0.7	0.7	3.5	4.7	-13	8.5	1.4	14	22	9.6
	Seoul	18	37	-5	-4.3	-2.8	1.2	0.0	4.2	5.2	-14	12	4.2	19	30	10.2
	Kangnam	18	38	-5	-5.4	-2.6	2.2	0.4	4.8	5.4	-13	15	5.0	22	35	14.3

* Data from the survey of housing prices in urban areas by Kuk-min bank

- Daejeon city has recorded the highest rate of rise in apartment prices in the whole country, 28.5%. The expectation that Daejeon will be a new administrative capital of Korea seems to cause such increase.

<The plan to relocate the nation's administrative capital>

- *New president, Roh Moo-hyun, is promoting the relocation of the administrative capital to a certain area of Chung-cheong province for the purpose of solving the problem due to the excessive concentration in Seoul metropolitan area and the balanced development.*
- *The government has enacted a special law regarding the relocation of administrative capital in December 2003 and will start to develop the site before 2007.*

(2) The reason of the rise in housing prices

- In terms of housing supply, there are few factors in price fluctuation.
 - The housing supply has greatly increased over the last 3 years.
 - The housing construction in 2003 is estimated to be 550,000 units including 420,000 units of apartments.

«Table 2. Annual housing supply»

(unit : housing unit)

	'96	'97	'98	'99	'00	'01	'02	'03.11
Nation wide	592,132	596,435	306,031	404,715	433,488	529,854	666,541	478,131
apartment	462,548	484,949	262,879	345,345	331,579	267,401	384,692	367,882
(%)	(78%)	(81%)	(85%)	(85%)	(76%)	(50%)	(57%)	(76%)

* The housing construction in 2003 is estimated to be 550,000 units including 420 thousand units of apartments.

- Therefore, the speculative demand is considered as a main reason of the rapid rise in housing prices.
- Delay in economic recovery and the low interest rates led floating funds to flow into the housing market.

<Table 3. Amount of short-term funds>

(unit : trillion won)

	'98	'99	'00	'01	'02	'03. 9
short-term funds	255.5	251.2	264.8	316.3	354.6	379.2
short-term funds /total trust funds	41.5%	40.3%	41.6%	44.9%	45.6%	48.3%

* Data from The bank of Korea and Financial Supervisory Service

- Household loans, closely related to the increase in housing prices, are being increased steadily.

«Table 4. Amount of mortgage loan»

(unit : trillion won)

	'00	'01	'02	'03.6	'03.9	'03. 12
Total Loan (A)	470.3	509.5	609.2	656.2	671.6	695.2
Mortgage Loan (B)	52.4	83.3	129.4	137.6	143.2	148.1
Ratio (B/A)	11.1%	16.3%	21.2%	20.9%	21.3%	21.2%

* Data from Financial Supervisory Service

(3) Measures to stabilize housing market

○ As the price of apartments awaiting or under reconstruction in Kangnam area was skyrocketed, the government took measures to stabilize housing prices in Sep. 5, 2003.

- Any reconstruction project in Seoul metropolitan area, has to construct more than 60% of the total housing units as small houses no bigger than 85m².
- This regulation is to lower the profit from the reconstruction and to increase small housing units in order to strengthen social mix.

<In Kangnam area, large-size apartments which construction company can charge higher prices are preferred and the portion of small housing units in reconstruction projects is usually less than 20% of the total units.>

- With this regulation, the housing prices in Kangnam area became stabilized. However, the prices strongly rebounded from Oct. 2003.
 - To meet this situation, the government has announced the comprehensive stabilization measures in Oct. 29, 2003.

- Main Contents of the measures in Oct. 2003
 - Loan-to-value ratio in mortgage loan is lowered from current 50% to 40%
 - Capital gains tax rate for the people who have more than 1 houses is increased.
 - Owners of more than 3 houses will be subject to capital gains tax rate of up to 75%.
 - To establish the taxation system based on the real housing market prices, the buyers have to report the housing price.

(4) Housing market trend after Oct. 2003

- Apartments prices in Kangnam reconstruction complexes and other neighboring areas has been stabilized.
 - Prices have been dropping for two consecutive months after the 10.29 measures and this trend is expected to be continued.

«Table 5. Trends of housing prices »

(unit : %)

	'03.1	2	3	4	5	6	7	8	9	10	11	12
Nationwide	-0.1	0.5	0.7	0.9	1.6	0.7	0.2	0.3	0.8	0.8	-0.4	-0.8
Seoul	-0.7	0.4	0.7	1.3	1.6	0.6	0.5	0.7	1.5	1.5	-0.6	-0.7
Kangnam	-1.1	0.7	0.7	1.8	2.3	0.9	0.9	1.3	2.3	2.2	-1.0	-0.9

* Data from the survey of housing prices in urban areas by Kuk-min bank

(5) Prospects for the housing prices in 2004

- Thanks to the government's bold measures and accumulated excessive supply of housing units, the housing prices in 2004 are likely to show negative or low rising rate.
 - Over the last 3 years, 590 thousand units(average) have been built every year. Therefore, a housing oversupply will be lasted until at least 2005.
 - Furthermore, the interest rates is expected to rise with an economic recovery. As a result, the housing transactions will be confined to real demanders.

« Table 6. Housing price prospects for 2004 by Research Institution »

Korea Research Institute of Human Settlements	Housing and Urban Research Institute	Construction & Economy Research Institute of Korea
-3%	-2 ~ -3%	-1.2%

3. Increasing Housing Supply

(1) Increase of housing construction

- To stabilize the price fluctuations caused by housing shortage, a total of 5 million housing units will be constructed until 2012. The government has set up the plan to build 500 thousand housing units every year from 2003. (*The housing supply ratio will hit 116% in 2012*)
- In Seoul metropolitan area, 1.5 million housing units will be constructed with annual construction of more than 300,000 units from 2003 to 2006. Housing supply ratio will reach 100% in 2006.

《*The concept of housing supply ratio*》

- *This ratio is a quantitative index that shows available housing units compared to the number of households in certain country or area.*
- *The housing supply ratio in Korea is calculated by Ministry of construction & transportation, based on the result of Census on Housing and Population announced by Korea National Statistical Office every 5 year. In case of the years without census, the ratio is computed by estimation.*
- *Housing Supply Ratio*
= # of available housing units / # of households related by blood
= 12,358 thousand / 12,286 thousand = 100.6% (2002, nationwide)

(2) Increase of housing site supply by public sector

- The crucial factor in constructing 5 million housing units over the next decade successfully is to provide sufficient housing sites.
 - In Seoul metropolitan area, the land of 208 km² (Nationwide 433 km²) needs to be secured and developed by public sectors for 10 years ('03-'12)

«Table 7. Supply of housing sites »

	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02
Nationwide	882	1,045	822	1,200	849	669	625	785	848	891
Seoul Metropolitan	462	410	462	529	367	340	272	321	389	478

* Data from the Housing Bureau, MOCT, Unit:10,000 pyeong (1pyeong = 3.3m²)

(3) Development of New Towns

- Development of new town around Seoul metropolitan area is necessary to cope with the long and mid-term demand for the housing sites and to disperse the housing demand of Seoul.
 - The government has designated Kimpo and Paju as places for new town development after comparing residential locations among several candidates around metropolitan area in 2003.

- *Kimpo new town with 70 thousand housing units will be developed into the Eco-Friendly City with convenient and advanced facilities. It will be built until 2009.*
- *Paju new town with 47 thousand housing units will be developed into the environment-friendly city where urban and rural life coexist. It will be built until 2008*
- Besides, Pankyo new town with 30 thousand housing units will be developed until 2008 and Dongtan district in Whasung with 40 thousand units will be built until 2005.

4. Efforts to improve the housing welfare

(1) Construction of National Rental Housing Units

- To solve the housing problem of lower income and homeless people, a total of 1 million long-term rental housing units will be built from 2003 to 2012. With the completion of this plan, the ratio of long-term rental housing to the total housing stock will be raised to 15%.
 - The government will provide financial support from the budget and the national housing fund. Total amount needed for this plan is estimated to be 53 trillion won. (44 billion USD)
 - The size of national rental housing will be diverse from 46 m² to 66 m² so that people can choose the suitable ones for their needs and income level.
- Currently, the portion of long term rental housing units to be rented more than 10 years is only 3.4% (390 thousand units) of the total housing units (11,892 thousand units).

(2) Introduction of the minimum housing standard

- The government has a strong will to improve the housing conditions of people who live in substandard houses.
- The government has set up the minimum housing standards to make sure that all people has a right to live in houses above minimum standards(June 2003). This policy has been given high priority and will be accomplished by this government.
- The minimum housing standard will be announced until the end of the first half of 2004. The minimum standard will be set based on the number of family, housing facilities and equipments, housing size, and so on.

<The minimum housing standard (blueprint)>

- *Minimum standards for the household with 3 family members, for example, will be housing size of above 30 m², 2 bedrooms, and 1 kitchen.*
- *Based on census in 2000, the number of households whose housing conditions are below the minimum standard is estimated to be 3.3 million, about 23 % of the total households.*
- The government will investigate the actual housing conditions of households below the minimum housing standard.
- Detailed investigation methods will be decided in 2004.

5. Establishing comprehensive housing plan ('03-'12)

(1) Background of the comprehensive housing plan

- Until last year, the housing construction plan has been established on one year basis.
 - With this short-term plan, the government cannot present mid and long-term policy visions and has been criticized as putting emphasis on quantity rather than quality.
- As the housing law, newly enacted in 2003, obliges the government to establish the 「Comprehensive Housing Plan」 on 10-year basis, the government can present mid and long-term housing policy directions on housing welfare, environment and management.
- * *Comprehensive and long-term housing plan was made by Korean Research Institute for Human Settlements.('02.6. ~'03.12.)*

(2) Long-term Plan for housing supply

- Over the coming 10 years, the government will promote and support annual housing construction of 500 thousand units, 270 thousand units(54%) in Seoul metropolitan area and 230 thousand units(46%) in non-metropolitan area.

(3) The future status of Korean housing market in 2012

Housing stock

- ① Nationwide housing supply ratio will be improved to 116.7% in 2012 from 96.2% in 2000.
- ② Housing supply ratio in Seoul metropolitan area will also be improved to 112.4% from 86.1%.
- ③ The number of housing units per 1000 people will be increased from 238 units to 320 units.

Housing quality

- ④ Floor area per capita will be increased to 27.1m² from 20.2m².
- ⑤ The number of total households below the minimum housing standards will be reduced to 1.03 million from 3.34 million.

Housing expenditure and affordability

- ⑥ Price-to-Income Ratio will be improved to 4.
- ⑦ Rent-to-Income Ratio will be decreased to 17.5% from 20.7%.