Reasons for South Korea’s Low Homeownership Compared to the Housing Supply:
Analysis of Causes and Solutions

Jin Mee-youn

Abstract

This paper is descriptive analysis about Korea Home ownership. It is designed to evaluate why they have low homeownership despite of continuous house building during last four decades. Korea Government has been focused on the expansion of home ownership. But homeownership rate is 55.6% in 2007. It can be defined stagnated or decreased situation. The result of its cause why it is occur is following 4 reasons. First is the lack of housing finance system like as mortgages. Second is the enforcement of regulation for restraints of speculation by falling Loan to Value ratio and Debt to Income ratio. Third is tax system is not focused for common people’s home ownership support, it is mainly targeted on owner having over 2 housing and owner having high price housing for tax equality. And four is the usefulness of Jonsei as peculiar rent tenure type has been existed in only South Korea. In comparative perspective, Korea housing policy model can be called the mass construction model. Also it is clearly supply side oriented policy. This policy has contributed expansion of housing stock during the last years but its result was yielded few side effects. It was bring about the distortion of distribution, increase of speculation, and polarization of housing wealth. In the future for elevating homeownership in South Korea, it needs to vitalize of housing mortgage system, improvement of skewed distributive structures, the property tax relief for low-income households minimizing conventional government intervention. Most of all, it need to transform into demand-side oriented housing policy.

Keyword: homeownership, housing policy, housing tenure stability

* 대한주택공사 주택도시연구원 수석연구원
I. Introduction

Owning or renting a home is the result of a choice that individuals make. But that decision is affected by aims of government’s housing policies, availability of financing systems to support home purchases, and condition of the housing market. It also depends on the society’s cultural value of housing.

Korea has suffered from chronic housing shortage in urban areas over the past 40 decades as the country underwent rapid industrialization and urbanization. The policy chosen by the government to alleviate this housing shortage was expansion of housing supply. More specifically, the policy’s goal was to achieve reach 100% housing supply rate based on principle of one house per one household. This supply-side oriented policy was equipped with a mass production system and a financing system through the legislation of the Housing Construction Promotion Act in 1972 and the establishment of the National Housing Fund in 1981. Under this policy, 14,308,000 new homes were built (318,000 homes per year) from 1962 to 2006. Majority of these homes were built in the last 10 years of this period, 1987 to 2006, during which time 10,410,000 (520,000 new homes per year) or 73% of the homes were built.

Korea reached housing supply rate of 100% in 2002 but the owner-occupation rate still remains under 60%. What this means is that housing stock to total households ratio reached 1:1 but only half of the households own homes. How can this phenomenon be explained? Simple, a closer look shows increase in the number of multiple property ownership.

This paper focuses on why that happened. The hallmark goal of Korea’s housing policy since the 1970s is homeownership. Homeownership is also pursued by national values. Being a country where 70% of the lands consist of mountainous regions, there has always been great shortage of usable housing sites so that people’s desire to own land and homes have always been very strong. Therefore, the greatest wish of most people was to own a home and homeownership became the standard that defined Korea’s middle class.

However, 40 years of continuous construction of new homes merely led to the reduction of owner-occupation rate. It leads one to think that the goal of housing policy was homeownership for every household on the outside only, while it was actually an instrument for economic
growth via promotion of housing construction. Further, people focused on homeownership but were not particularly interested in occupation of the homes they owned. One of the reasons is that the housing market always suffered from heavy excess of demands under the housing shortage circumstances and prices of homes have always been on the rise. With the prices continually rising, homeownership brought immense wealth that could not be gained from their wage earnings. Such homeownership-oriented thinking was so firmly established in the society in the 1980s that it even saw to the creation of a new modern day myth called “Guaranteed winning with property ownership” (people’s strong belief that prices never fall in the housing and land markets).

The purpose of this paper is to examine and analyze the factors that influenced owner-occupation rate in Korea under these housing market conditions in order to determine the differences from owner-occupation in other countries. Section 2 looks at the structure of housing occupation types in Korea from comparative aspects. Section 3 addresses tax and finance systems that support owner-occupation policy, while the last section contains conclusions on reasons for stagnant owner-occupation rate and explores future homeownership policies.

II. Housing Market and Housing Tenure in South Korea

1. Housing policy and conditions of housing market

Housing policy adopted by a country depends on the housing market conditions and what methods will be employed to improve those conditions. It is not induced deductively from some fixed model but is rather specified in the process of coping with housing problems faced by a country. However, government’s responses to resolve housing issues are in the end decided by ideological, political, and economic conditions and are formed based on the ideology ruling that society and dynamic relations among different social classes and interest groups. In this context, many countries have been building housing policy models of their own over many decades through the process of urbanization that have been transformed through the years according to
the effectiveness of housing policies in solving problems.

Generally housing policy model is classified as social welfare model of the European countries, market-oriented model of the United States, state-led models found in Singapore and some other East Asian countries, or government-business cooperation model of Japan (Richard, 2007) depending on whether homes are considered as social or consumption goods, urgency compared to other policies, and whether it takes a social security or market oriented approach. Of course, divisions into many different classifications are possible (Harloe, 1995; Richard, 2007) according to the social welfare model (Espring-Anderson, 1990).

Korea’s housing policy model has its own individualistic characteristics that does not categorize it as any of the above mentioned models. Externally, it takes the market-oriented model but with no market friendly policies actually implemented. Social welfare has been the top priority since Kim Dae Jung administration (1998–2002) and through Roh Muhyun administration (2003–2007). However, in practice, the government’s efforts became more of a price regulation policy rather than a social security network building policy owing to skyrocketing housing prices.

Owner-occupied homes have been the goal of Korea’s housing policy since 1970s and the government chose expansion of housing supply with aim to providing one home per one household. New investment for expansion of supply was not only good for the housing sector but it was viewed that it would also play an important role in economic growth. Korea at the time needed to create jobs and the spreading effects of the construction industry did indeed play a key role in driving the economic growth forward. However, construction-focused housing policy brought about distortion of income distribution. In the absence of low-interest long-term loans for home purchases, households without housing affordability were left neglected so that newly built homes under price control went to middle and upper income groups with surplus money and not to the low income groups for whom they were intended. Low income households came to be further neglected in 1998 when the eligibility for home purchase savings accounts was deregulated owing to the financial crisis at the time. Even now, the income distribution continues to be further distorted (see Table 1) and disparity in housing asset distribution has had huge influence on the deterioration (KRIHS, 2006).


<Table 1> Gini coefficient for Urban waged households

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gini Coefficient</td>
<td>0.283</td>
<td>0.316</td>
<td>0.320</td>
<td>0.317</td>
<td>0.319</td>
<td>0.312</td>
<td>0.306</td>
<td>0.310</td>
<td>0.310</td>
<td>0.351</td>
<td>0.352</td>
</tr>
</tbody>
</table>

Source: National Statistics Office, Earnings and Expenses for urban waged households, each year

In this way, government’s policy to increase owner-occupation rate solely through expansion of supply ran into a new problem of continuous rise in housing prices and ensuing speculative investments. Nationwide housing price rose an average of 6.1% a year between 1986 and 2006 but for apartments and homes in the Seoul metropolitan region were steeper at 13.3% and 18.1%, respectively. In 2001 and 2002 apartment prices rose 19% and 30%, respectively, in the Seoul metropolitan region (Seoul, Incheon, Gyeonggi-do) significantly influencing prices nationwide.

On the other hand, consumer price went up an average of 7.5% a year from 1986 to 2006 but dropped to around 2-4% beginning 2001 when housing prices shot up. This means that apartment prices rose about 10 times that of consumer prices. Average household income rose 31.2% from 1996 to 2006 but this is mainly due to huge annual increases of 38% from 1986 to 1997. Since 2001, the increase has stopped at an average of mere 4.6% a year. So, again apart-

«Figure 1» Housing Price Index, Household Income Index, and Consumer Price Index in South Korea


Source: Kookmin Bank, Housing Price Index, each year.
ment prices rose far above consumer prices recording an increase of 7.8 times that of consumer prices. Nationwide price-to-income ratio (PIR) in 2007 was 6.6, while Seoul’s PIR was 9.8. This index has been rising continuously since 1997 making it harder and harder for people to own homes. In 2000, a couple could afford to buy a home after 6.8 years of marriage but that increased to 9.4 years in 2007.

The problem in Korea’s housing market is not only that housing prices rose much higher than consumer prices and household incomes, but also that housing prices are highly volatile and that the volatility repeats in cycles.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-2006</td>
<td>123.0% (annual avg. 6.1%)</td>
<td>266.1% (annual avg. 13.3%)</td>
<td>-</td>
<td>160.0% (annual avg. 8.0%)</td>
<td>361.4% (annual avg. 18.1%)</td>
<td>150.4% (annual avg. 7.5%)</td>
<td>627.2% (annual avg. 31.2%)</td>
</tr>
<tr>
<td>2002</td>
<td>16.43</td>
<td>22.78</td>
<td>29.3</td>
<td>22.48</td>
<td>30.79</td>
<td>2.76</td>
<td>6.37</td>
</tr>
<tr>
<td>2003</td>
<td>5.74</td>
<td>9.57</td>
<td>10.1</td>
<td>6.93</td>
<td>10.18</td>
<td>3.51</td>
<td>5.29</td>
</tr>
<tr>
<td>2004</td>
<td>-2.07</td>
<td>-0.58</td>
<td>-2.5</td>
<td>-1.40</td>
<td>-1.02</td>
<td>3.59</td>
<td>5.90</td>
</tr>
<tr>
<td>2005</td>
<td>4.01</td>
<td>5.85</td>
<td>7.2</td>
<td>6.32</td>
<td>9.08</td>
<td>2.75</td>
<td>4.41</td>
</tr>
<tr>
<td>2006</td>
<td>11.60</td>
<td>13.75</td>
<td>24.6</td>
<td>18.87</td>
<td>24.11</td>
<td>2.20</td>
<td>5.92</td>
</tr>
</tbody>
</table>

Source: Kookmin Bank, Housing Price Index(www.kbstar.co.kr); National Statistics, each year

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PIR</td>
<td>4.6</td>
<td>4.2</td>
<td>4.6</td>
<td>5.0</td>
<td>4.6</td>
<td>5.5</td>
<td>6.2</td>
<td>5.5</td>
<td>5.6</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Seoul</td>
<td>6.3</td>
<td>6.7</td>
<td>6.7</td>
<td>7.9</td>
<td>7.5</td>
<td>6.4</td>
<td>8.9</td>
<td>7.2</td>
<td>8.0</td>
<td>8.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Average years Married before Purchasing home</td>
<td>8.0</td>
<td>7.7</td>
<td>7.2</td>
<td>6.8</td>
<td>7.4</td>
<td>7.0</td>
<td>6.7</td>
<td>6.8</td>
<td>7.7</td>
<td>8.2</td>
<td>9.4</td>
</tr>
</tbody>
</table>

Source: Kookmin Bank, Housing Finance Demand Survey, each year
Then, why such steep increase in housing prices? The answer is that it is the result of complex interaction of various factors. Since deregulation of price control in 1998, sudden increase of newly built apartments, increase of mobility demand due to stimulation of urban reconstruction, mitigated housing subscription eligibility, and other deregulation had key impact on the housing market. But what most impacted housing prices were low interest rates. In Korea, depression continued for the real economy since the economic slump of 1998 while low interest rates drove surplus funds to the real estate market heating up new homes market that had been deregulated. Interest rates that recorded 12~15% in 1990s dropped to 5~6% after 2000 and greatly increased the demand for homes as more people obtained low interest loans to buy homes. This, in turn, led to growth of mortgage loans. Mortgage loans that measured 7.81 trillion won in 1990 increased to 66.9 trillion won in 2006 and to 73 trillion won in 2007.

*Figure 2* Housing loans and interest rate (1990-2006)

![Housing loans and interest rate graph](image)

Source: Bank of Korea, Ecos (www.bok.or.kr)

Under these circumstances, two types of pilot projects were carried out in 2007 to ensure that affordable homes are supplied to households in need. First was the selling scheme similar to leasehold for residential developments used in developed countries where land ownership re
mains public and only the homes are sold to occupants. This scheme was called “half-priced apartments” in Korea. Second pilot project was the repurchasing scheme, similar to allocation of HDB public housing in Singapore, where the first home buyer can resell after a specified mandatory period of occupation. This scheme can ease burden for a first home buyer but its disadvantage is the excessive land price that must be repaid (land value discounted for 30 years) during occupation by the home buyer making it not such an affordable house if one considers the total use cost. This repurchasing scheme also mandates 20-year occupation by the home buyer and must be sold back to a public agency when selling before the mandated 20 years of occupation in order to ensure that developmental profits are redeemed by the government. This scheme lost attractiveness and reaction from the market was less than enthusiastic because of these disadvantages.

Both schemes aiming to benefit low income households eased financial burden on the condition of owner occupation but its selling rate stopped at only 22%. Failure of these schemes

\[\text{Figure 3} \quad \text{Comparison between Housing Price and Housing loans}\]

Sources: Kookmin Bank, Housing Price Index; Bank of Korea, Ecos, each year
Note: 1990-1995 interest rates are 3-year corporate bond (AA-) rates and 1996-2006 interest rates are CB & SB weighted average interest rates on loans and discounts. Home mortgages have only been published since 2003 and data for previous years are not available. Interest rates of home mortgages are about 0.03 to 0.78% lower than CB & SB weighted average interest rates.
shown by low selling rate is evidence that home buyers expect capital gains in addition to tenure stability when buying homes. Eliminating this expectation of capital gains, as this scheme does, lessened the attraction of home purchasing a great deal and was passed over by consumers.

Home purchasing has income subsidy effects in the long run and, above all, people are able to enjoy secure living from possession of property asset. This is also good for the government because a stable tax system is established and can ease financial burden by having homeowners take liability for maintenance of the homes. However, as can be seen so far, sudden and steep increases in housing prices, repeated patterns in housing price fluctuations, and absence of mortgages or other financial assistance schemes made home purchasing more difficult for those who really needed it while the newly built apartments every year degenerated into an investment scheme for the middle and upper income brackets. As of 2005, 1,050,000 households own more than one home and they also owned 4,770,000 homes or 38% of the 13,220,000 homes (Ministry of Government Administration and Home Affairs, 2005).

Therefore, Korea’s housing policy can be said to be an apartment-oriented mass construction-inclined model where owner-occupation policy is in a deadlock of real and pseudo demands.

2. Characteristics of housing tenure types

As of 2005, Korea’s home ownership rate is 55.6%, a relatively low figure when compared home ownership rate of other countries (see Figure 5). It has increased compared to 1990 but

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Housing Tenure in South Korea (2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Owner-occupied housing</td>
</tr>
<tr>
<td></td>
<td>Public rental housing</td>
</tr>
<tr>
<td></td>
<td>Chonsei</td>
</tr>
<tr>
<td>100%</td>
<td>55.6%</td>
</tr>
</tbody>
</table>

Source: National Statistical Office, Population and Housing Survey, 2005
Note: Number of household is 1,589 thousand households and total housing stock is 1,322 thousand units in 2005. Public rental housing unit is typed all monthly rent with a deposit.
has fallen since when compared to 1980.

As discussed above, cause of problems in home ownership can be traced to the housing market as well as the tenure type called 'Chonsei' that exists only in Korea. Rented housing can be divided into three tenure types: Chonsei, monthly rental with deposit, and monthly rental. Chonsei, a rented tenure type that is uniquely Korean and not found in any other country, is where the tenant deposits a large sum of money (normally about 60–70% of the sale price) with the owner to lease the home for a contracted period (2 years guaranteed by law). That is, if monthly rent is money paid for dwelling, then Chonsei is rent paid in opportunity cost for dwelling. Chonsei system originates back to the period of Korea’s occupation by Japan when home owners acted as channels of private bankers with no forms of private banking available and has been continued as a rented tenure type. Chonsei’s most important feature is that it offers home financing for both the home owner and the tenant. For the tenant, the deposit money is a form of compulsory savings that can be used as seed money for buying a home of his/her own. For the home owner, he has the use of money without having to borrow from the bank and paying bank interests (KRIHS, 2000; Seoul Development Institute, 1999). Providing convenience in this way for both sides, Chonsei is very popular in Korea and accounted for 22.4% of all homes in Korea or 50.4% of all rented homes in 2005.

<Figure 4> Housing Tenure Types in South Korea (1975-2005)

Homeownership by income percentile, in Table 5, shows that ownership by low income household is higher than middle income households but lower than for high income households. It must also be considered that homes owned by low income households are very old and many fall below minimum housing standards. It was found that 13%, or 2.06 million households, of all houses fall below minimum housing standards in 2005 and that 82.3% of low income households belonged to the sub-standard housing group (Ministry of Construction and Transportation, 2006).

Homeownership rate by age groups, Table 6, shows that owner-occupancy by 40-49 age group is lowest and it is also to be noted that there is a severe decrease in owner-occupancy rate in low income households of this age group. Owner-occupancy rate for ages over 60 was an average of 72.7%, a strong indication that home purchasing age is gradually rising.

Stagnation or decrease in owner-occupancy rate could be improved through step by step modification if there was another housing alternative, but that there is no practical policy to date that can replace the current policy. Further, long-term public rental housing (over 10 years) accounts for only 3.3% (461,457 units) of all homes (2007) and only 6% of 6.57 million rental housing units (3.56 million Chonseu units and 3.01 million monthly rent with a deposit and monthly rental units). With low owner-occupancy rates, small public rental housing market, and no rent control mechanisms for private rental housing, there is no scheme that can ease the burden of very high rents.

<table>
<thead>
<tr>
<th>Items</th>
<th>Low-income household</th>
<th>Middle-income households (5-8 percentile)</th>
<th>Upper-income households (9-10 percentile)</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Percentile</td>
<td>2 Percentile</td>
<td>3 Percentile</td>
<td>4 Percentile</td>
</tr>
<tr>
<td>Percentage</td>
<td>61.1</td>
<td>54.1</td>
<td>46.8</td>
<td>49.5</td>
</tr>
</tbody>
</table>


Therefore, the past perception that ‘construction’ is panacea has to be abandoned if this blank in the policy is to be filled. Fortunately, the government is in the process of implementing the long-term plan to build one million units of public rental housing from 2003 to 2012 in re-
III. Review of Characteristics of Homeownership policy:  
Comparative Analysis and Characteristics of Korea’s Homeownership Policy

A house is both a consumer good and an investment good. Generally when there are big increases in housing prices, the ensuing homeownership costs (called the user costs) go down so that homeownership is preferred. The way housing services are obtained may differ from people to people. What remains the same is that housing services are affected by the investment value
of homes following changes in the housing market and are also influenced by home purchase loans and interest rates. A country’s homeownership policies are decided by its housing policy objectives. That is, whether the government’s housing policy will opt to expand opportunities for renting privately or publicly owned homes for people who need homes or will the government choose a policy that will expand homeownership opportunities that will secure a solid foundation for taxing as well as more established home stability. European countries that debated the types of homeownership in the 1950s and 1960s and emphasized expanded supply of public rental housing as the keynote of their housing policies have shifted their policies since the 1980s and are emphasizing tenure neutrality that tends to focus more on homeownership. On the other hand, the US and Canada placing most importance on market principles are emphasizing supporting homeownership through tax and financial assistances rather than social housing.

In this chapter, a comparative analytical look will be taken at different features of homeownership policies in developed countries and derive at the special features of Korea’s homeownership policies. Discussions on homeownership policies are not discussed sufficiently in South Korea. The reason for this is that homeownership was buried under every administrations’ large housing supply programmes that led to the belief that increased housing supplies will be the solution to housing shortage and that homeownership and housing standards of the non-homeowners and low income households would be improved with expanded housing supplies. However, looking back now, it is deemed that mass housing construction programme was ineffective not only in homeownership by actual occupants but also was not effective in contributing in any significant manner to improving housing standards for low income households. This was the result not of any inherent fault in the mass housing construction programmes but the result of not sufficiently considering affordability of the people wishing to buy homes for their tenure. The aim of the restrictions on new housing sales prices that was begun in 1977 was to facilitate homeownership by such people while implementing the mass housing construction programmes. Again, a retrospective view concludes that restrictions on prices of newly built homes did not assist homeownership (Su, 1994; Su et al, 1996, KRIHS, 1994). In the meantime, there were some analyses done on general factors that affect home occupancy types of individual households using cross-sectional data but there were no studies on overall
policy assessment of homeownership policies and directions. In this respect, it is necessary to conduct a policy analysis that will determine the reasons for low homeownership despite the mass housing construction programmes before carrying out such mass housing construction programmes in the future.

1. Homeownership Policy in Developed Countries

Average owner-occupation rate of a EU member state is 67% as of 2004 (Ministry of Infrastructure of the Italian Republic and Federcasa Italian Housing Federation, 2007). Homeownership in the US was 70.4% in 2006, 61.2% in Japan and 92% in Singapore among some Asian countries. There are differences in owner-occupation rates from country to country with the commonality that most of the countries’ housing policy objective is homeownership. Even countries with high public rental housing rates like Sweden (21% in 2005) and Netherlands (34.6% in 2005) have turned towards tenure neutrality in their recent policies in order to promote owner-occupied homeownership. Netherlands’ goal is to raise the owner-occupation rate of 54% in 2004 to 65% by 2010 and has chosen not the mass housing construction programme but to sell off its 700,000 units of public rental housing from its inventory.

(Figure 5) Comparison among counties in percent of owner-occupied housing

and to give additional tax incentives. A owner-occupied homeownership support that was common among many countries was greater availability of home purchase loans, lower downpayments, tax exemptions on home purchase costs and loan interests.

UK was able to bring its owner-occupation rate to above 70% by selling off its social housing (RTB: Right to Buy) since 1980s, concentrated assistance to low income households as part of an owner-occupied homeownership promotion policy, and reduction on capital gains and death duties. RTB gave social housing occupants chances to buy homes at below market prices and thus contributed to increasing the owner-occupation rate. Further, beginning 1997 the Right to Acquire and Voluntary Grants support was provided to low income households that could not afford to buy. At present UK’s Low-Cost Home Ownership schemes include Shared Ownership, Homebuy programmes, and the Key Worker Living programme that was adopted in 2005. The key worker living programme was introduced after UK judged that high home prices in large cities impeded owner-occupied homeownership and decided to provide more home purchase loans to the key worker living groups such as nurses, teachers, police and other occupation groups to encourage their homeownership (Mullins and Murin, 2006).

In the case of the United States, owner-occupation rate showed significant increase after 1995 and was attributed to innovative measures in the financial market, more accessibility to mortgages, lower downpayments for first time homeowners (lowered the downpayment to below 0.5% of the home purchasing price), and allowing younger generation to buy homes (Carriage et al, 2006). However, what played the crucial role in increase of owner-occupation rate are the establishment of Federation Housing Administration in 1934, setting up of Federal National Mortgage Association (Fannie Mae) in 1938, Government National Mortgage Association (Ginnie Mae) in 1968, and Federal Home Loan Mortgage Corporation (Freddie Mac) in 1968 that built foundation for a mortgage market and simulated the second mortgage market. Such liquidation policies strongly supported consumers’ home purchasing power. The measure that contributed most in helping low income households buy homes is the issuance of tax-exempt mortgage bonds by the federal and local governments. Other representative affordable housing programmes include HOZ, HOME, and SHOP programmes. Homeownership Zone is a self-diagnostic programme aimed at promoting economic vitalization of unoccupied homes and old dilapidated
neighborhoods by giving government subsidies to redevelopment of houses. The Home Investment Partnership Program (HOME) is implemented under the National Affordable Act of 1990 in which the Department of Housing and Urban Development (HUD) subsidizes state or local governments to help homeownership of low income households and minority ethnic groups. In 2003, the Bush administration newly adopted the American Dream Downpayment Initiative Act (ADDI) as a new HOME programme. Those eligible for this programme are first time home buyers whose household income is below 80% of the area’s average income. Self-Help Homeownership Opportunity Program (SHOP) is giving subsidies to non-profit organizations that supply housing and infrastructures to low income households to encourage their homeownership (Schwartz, 2006).

In Canada, the government has been directly involved in the home purchase loan market through the Canada Mortgage and Housing Corporation (CMHC) established immediately after World War II. CMHC not only provides home purchase loans but also sells mortgage loan insurance for mortgages and through such mortgage finance system assists households with homeownership in the private market. Although home buyers must pay income tax on home purchase loan interests, there are no capital gains taxes. The reason that Canada’s owner-occupation rate continues to rise may be said to be the effective home financing system of the private sector and easy access to financial assistance in support of home purchasing power.

Singapore, the country with the highest owner-occupation rate in the world, began to implemented owner-occupation policies after it became independent from the UK in 1965 following which the government had to deal with huge housing shortage problems from overwhelming number of immigrants, need to overcome poverty, prevention of political riots, integration of people from different cultures and races, and other overall socioeconomic stabilization and sound foundation for national development. Singapore’s homeownership policies have been utilized as policy instruments for establishing tax system, efficient assets management, easing financial burden, workers’ discipline, and the only policy that could motivate low income households to become middle classes. Singapore’s policy keynote also places value on individual efforts to take responsibility for individual homeownership. Behind Singapore’s 90% owner-occupation rate are the Housing Development Board (HDB) founded in 1960, consistency in policy keynote over
the past 45 years, provision of affordable housing development sites due to public ownership of lands, and smooth procurement of home financing through the Central Provident Fund).  

Above are a number of countries' owner-occupation policies, their features, and major programmes. And, it can be seen from above that most countries are implementing policies that support owner-occupied homeownership through programmes to strengthen home financing functions, tax reductions, and provision of affordable homes.

2. Characteristics of homeownership policy in South Korea

Korea has pursued slightly different policies from other developed countries. Expansion of housing supplies and promotion of homeownership by non-homeowners were the justifications behind mass housing construction programmes implemented since the 1970s but the detailed, more practical policy tools were limited to restricting the prices of newly built houses and loans from the National Housing Fund. It can be said that supports from the private sector in obtaining home purchasing funds or tax incentives were almost completely overlooked. This section will analyze major features in the implementation of Korea's owner-occupation policies in preface to policy assessment and improvement measures in Chapter 4.

1) Regulation(1977-1998) and Deregulation(after 1999) of Newly-built Apartment Sales Price

Regulations that capped prices of newly built houses was first introduced in 1977 and was completely deregulated in 1998 following the Asian Financial crisis after undergoing several mitigation stages such as the Raw Cost Sliding Scale System in November 1989 and deregulation of sale price caps in all except 5 cities for private housing measuring over 85 m² in size. However, continued rise in prices of newly built houses made it almost impossible for low income households to own homes and excessive profits made by private development companies emerged as a serious social issue so that sale price capping system has been readopted since 6 March 2005. In addition, the regulation that requires release of all prices of newly built houses has been in force since 9 March 2005 to ensure transparency of sales prices.
### Table 7: Apartment Subscription Price Regulation

<table>
<thead>
<tr>
<th>Date</th>
<th>Restriction on prices of newly built houses</th>
<th>Major features</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977 - Nov. 1989</td>
<td>Restriction on prices of newly built houses</td>
<td>Uniform price caps (administratively set prices)</td>
</tr>
<tr>
<td>10 Nov. 1989</td>
<td>Adopted Raw Cost Sliding Scale System</td>
<td>Housing site costs provided at supply prices and construction costs determined taking price increases into account and announced by the Minister of Construction and Transportation</td>
</tr>
<tr>
<td>Nov. 1995</td>
<td>Restriction removed in some areas</td>
<td>Restriction removed for houses exceeding 85㎡ in size in Gangwon, North Chungcheon, North Jeolla, and Jeju Provinces and those under construction in non-capital regions without public assistance and are at least 80% complete.</td>
</tr>
<tr>
<td>Jul. 1996</td>
<td>Restriction removed for single/multi unit houses and steel framework apartments exceeding 85㎡ in size</td>
<td></td>
</tr>
<tr>
<td>Jan. 1997</td>
<td>Restriction removed in some areas</td>
<td>Houses in Gangwon, North Chungcheong, North Jeolla, and Jeju Provinces under 85㎡ and exceeding 85㎡ in Daejeon, South Chungcheong, North Gyeongsang, and South Gyeongsan Provinces.</td>
</tr>
<tr>
<td>Jun. 1997</td>
<td>Restriction removed in all areas except the capital region</td>
<td>Restriction removed on all steel framework houses in all regions and post-construction sale houses</td>
</tr>
<tr>
<td>Feb. 1998</td>
<td>Restriction removed for apartments built on lands owned by private developers</td>
<td></td>
</tr>
<tr>
<td>Oct. 1998</td>
<td>Restriction removed on apartments exceeding 85㎡ built on publicly owned lands in the capital region</td>
<td></td>
</tr>
<tr>
<td>Dec. 1998</td>
<td>Raw Cost Slings Scale System abolished</td>
<td></td>
</tr>
<tr>
<td>Jan. 1999 - 8 Mar. 2005</td>
<td>All restrictions removed</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restriction applicable to houses whose actual floor areas exceed 85㎡ (24 Feb. 2006 - 31 Aug. 2007)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restriction applied to all co-ops built and supplied to the general public under Article 38 of the Housing Act</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Restriction applied to houses built on privately owned lands (after Jan. 2008)</td>
</tr>
</tbody>
</table>


The sale price capping system was adopted for the purpose of supplying homes to owner-occupants at more moderate prices and achieved this goal to some extent (Suh et al, 1996,
KRIHS, 1994). At the same time, capped prices became the top prices in the market and brought about inefficient distribution of resources as well as resulting in speculative investment in homes owing to presence of premiums (difference in the initial purchasing cost and reselling cost which became a money making scheme for some) and overconsumption since houses could be gotten for cheaper prices than market prices (Suh, 1994; Suh et al, 1996). Further, other programmes such as housing bond bidding, multiple subscription disapproval, subscription related savings, pre-construction advance sales, publicly managed development site supplies, and other programmes have been maintained.

Prior to 1998 prices of newly built houses were capped, scholars in favor of deregulation claimed that deregulation would eliminate various inefficiencies in the housing market and that prices would go up initially after deregulation but would eventually stabilise in the long run. On the other hand, scholars opposing deregulation presupposed that deregulation would bring instability to the housing market, recurrence of speculative investments, dominance by supply of large-sized homes, shriveling in home financing, and other side-effects.

Objective of the price capping on newly built houses was to control soaring housing prices in order to give occupant-owners more opportunities at homeownership, to control construction of extravagantly luxurious houses, and to link it with pre-construction advance sale system to secure the necessary funds for constructing new homes. But 22 years of price capping has become the main cause for disparity in homeownership within ownership by middle and upper income groups growing. It also impeded construction of more diverse homes producing uniformity in housing types and contributed to growing densities in suburban areas(KRIHS, 1994). After 1999, deregulation did not produce the expected outcomes of eliminating inefficiencies in the housing market or stabilising housing prices but instead polarized the homeownership that aggravated the income distribution structure. Further, high prices of newly built houses is estimated to have had considerable effect on hiking up the prices of non-new houses as well after 2001. As pointed out by Prof. Hur (1993), deregulation of prices in 1999 led to rise in housing prices and, as predicted by KRIHS (1994), led to dominant supply of large-sized houses and high density development of suburban areas. A look at the sizes of housing supplied after 2000 (see Table 8) shows that supply of larger houses (85 m² or larger) has grown noticeably. Such construction of
large sized houses may also be an effect from deregulation of housing size deregulation in 1998 but one thing that is clear is that it is rather a big impeding factor in access to newly built homes by owner occupants.

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smaller than 60㎡</td>
<td>41.6</td>
<td>35.5</td>
<td>29.0</td>
<td>30.0</td>
<td>29.2</td>
<td>25.8</td>
</tr>
<tr>
<td>60 ~ 85㎡</td>
<td>42.4</td>
<td>45.6</td>
<td>47.5</td>
<td>45.8</td>
<td>43.3</td>
<td>37.9</td>
</tr>
<tr>
<td>Larger than 85㎡</td>
<td>16.0</td>
<td>18.9</td>
<td>23.5</td>
<td>24.2</td>
<td>27.5</td>
<td>36.3</td>
</tr>
</tbody>
</table>


2) Housing Finance System for homeownership

Home finance system in Korea is very weak and records of housing financial supports is not high especially with Chonsei has commonly been used by people as a compulsory savings scheme for saving up seed money for buying homes.

Housing finance system can be divided largely into two parts, public and private financing. In public home financing, the National Housing Fund is used to give home purchase loans for low income families, a system first adopted in April 1994 to help low income families with homeownership. Non-home owner households whose annual total income is 20 million won or less and households whose members are all non-home owners (excludes single-member households whose head of household is less than 35 years old) are eligible for this loan. People can borrow up to maximum 100 million won to buy 85㎡ or smaller homes valued 300 million won or less at annual interest rate of 5.2% with the principal repaid in installments over 19 years after 1 year of grace period or over 17 years after 3 years of grace period. The income criterion was less stringent, that is households with total income of 30 million or less were also eligible, but was raised as demand for the National Housing Fund grew recently. As of 2006, 3.71 trillion won has been provided from the fund and demand is rapidly increasing as can be seen in Table 8. However, when considering the total number of households in Korea (approx. 15.9 million households in 2005), 70,000 households that received the loans in 2006 is meager. The loan amounts are also inadequate in that average loan per household was less than 50% of
the home purchasing price. In 2007, home purchasing prices was 5.5 With 2007 PIR at 5.5, a urban household whose average monthly income is 2.5~3.5 million won purchases an average of about 179.2 million won home. Therefore, an average loan of 56.5 million won is only about 30% of the money needed to buy a home(Home Financing Survey, Kookmin Bank) while the loans averaged 56 million won or less than 30% of the home purchasing price.

<Table 9> Low-income worker and household support results assisted from National Housing Fund(NHF)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total loan (billion won)</th>
<th>Percentage of NHF budget (%)</th>
<th>Households Assisted</th>
<th>Average loan amount per household (thousand won)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>50.0</td>
<td>1.08</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>80.0</td>
<td>1.73</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>60.0</td>
<td>1.07</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>650.0</td>
<td>8.73</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2000</td>
<td>1,061.3</td>
<td>12.60</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>7,837.7</td>
<td>7.68</td>
<td>14,720</td>
<td>28,750</td>
</tr>
<tr>
<td>2002</td>
<td>1,014.0</td>
<td>14.48</td>
<td>7,325</td>
<td>18,362</td>
</tr>
<tr>
<td>2003</td>
<td>2,022.0</td>
<td>25.63</td>
<td>4,283</td>
<td>38,314</td>
</tr>
<tr>
<td>2004</td>
<td>1,727.7</td>
<td>24.04</td>
<td>38,764</td>
<td>44,570</td>
</tr>
<tr>
<td>2005</td>
<td>3,581.6</td>
<td>35.76</td>
<td>81,530</td>
<td>43,930</td>
</tr>
<tr>
<td>2006</td>
<td>3,709.8</td>
<td>31.60</td>
<td>69,204</td>
<td>56,497</td>
</tr>
</tbody>
</table>

Note: 1. Above figures include 355.5 billion won in 2001, 879.5 billion won in 2002, and 1,857.9 billion won in 2003 provided as Very First Time Home Purchasing Loans that were available during those years.

2. National Housing Fund’s asset is valued at 55,582.5 billion won as of end of 2005.


There is no widely spread mortgage system like that of other countries in Korea yet which means that there is no stable funding structure for home purchasing. It was not until 2004 that the mortgage system was introduced for the first time in Korea. Korea Housing Finance Corporation (KHFC) was set up in 2004 to assist non-homeowner low income households in buying homes and Bogumzari Loan has been offered to eligible households since March 2004. Bogumzari Loan was introduced at the time when financial institutions were offering short-term loans, flexible interest loans, and balloon payment loans that took homes as collaterals. This was
a period following the financial crisis of 1998 and these loans made it even harder to forecast finance systems. Under these circumstances, KHFC developed and issued mortgage-backed securities (MBS), long-term installment repayment housing finance scheme, differentiating itself from existing finance schemes and thereby easing the potential threats of finance systems. Bogumzari Loan offers loans up to 300 million won for homes priced 600 million won or less and its eligibility includes anyone over 20 years of age who is a non-home owner or ones one house. The interest at 6.3~6.75% is relatively high but it is a popular product preferred by many because it loans up to 300 million won and offers diverse loans periods (10, 15, 20 and 30 year loans available). According to a survey done by KHFC in 2007, the average age of a person taking out Bogumzari Loan was 39-years old with an annual income averaging 31 million won and the average loan amount was 73 million won. As of end of 2007, over Bogumzari Loan has shown sale record of over 12 trillion won and about 160,000 households have used the loan from 2004 to 2007. Again, the number of households using this loan is also comparatively low in view of the total number of households but it is a financial product with good prospects.

<Table 10> Sales performance of Korea Housing Corporation’s Bogumzari Loan

<table>
<thead>
<tr>
<th>Items</th>
<th>Total</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale amount of loan (million won)</td>
<td>125,331</td>
<td>33,320</td>
<td>42,192</td>
<td>13,867</td>
<td>35,952</td>
</tr>
<tr>
<td>Number of borrowing households</td>
<td>159,266</td>
<td>47,841</td>
<td>55,758</td>
<td>18,590</td>
<td>37,077</td>
</tr>
</tbody>
</table>


The next type of funding available for home buyers is loans from commercial banks. Banks do not set maximum loan amounts but compare the price of a home and collateral value of the home and chooses the lesser of the two as the maximum loan amount. And, the actual amounts loaned end up being about 40~60% of sale prices. While bank interest rates are about the same or only a little higher than that of KHFC, no long-term (over 10 years) loans are available. As of March 2007, commercial banks issued total of 244,043.8 billion won in loans and 218,998.6 billion won were house-secured loans.
However, many households are not able to get these house-secured loans because the actual loan amounts end up being very low due to credit rating or other liabilities and also because the loans tend to be short term loans with high interests. This very feeble housing finance situation in Korea is clearly shown by the very low LTV in Table 10. Compared to LTVs reaching 70-80% in other countries, the poor LTV indicates poor accessibility to housing finance for low income households. It has been going up continuously since 1997 but still remains around mid 30% for both Seoul and nationwide. Even this figure is not exact because it is confined to depositors of Kookmin Bank which specializes in housing funds and it can be assumed that the LTV for all households is probably lower than the figures in Table 11.

<Table 11> LTV in South Korea (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nation</td>
<td>26.2</td>
<td>27.1</td>
<td>28.0</td>
<td>33.9</td>
<td>38.3</td>
<td>32.1</td>
<td>32.4</td>
<td>36.9</td>
<td>38.2</td>
<td>38.5</td>
<td>35.9</td>
</tr>
<tr>
<td>Seoul</td>
<td>22.7</td>
<td>24.9</td>
<td>23.4</td>
<td>31.3</td>
<td>35.3</td>
<td>30.4</td>
<td>31.4</td>
<td>32.8</td>
<td>32.7</td>
<td>34.6</td>
<td>33.7</td>
</tr>
</tbody>
</table>

Source: Annual Home Financing Survey, Kookmin Bank
Note: LTV is home purchasing price to home financing loan ratio

Despite the low LTV, Korea has restriction on house-secured loans because the continued increase in home values since 2000 together with low interest rates are seen to have heated up competitive housing purchases Ministry of Construction and Transportation, concluding that house-secured loans was the main cause behind rise in apartment prices, implemented measures to restrain house-secured loans through housing market stabilization measures in September 2002 and October 2003. These measures were finally legislated in 2006. (MOCT, 2007) so that the government began to implement two types of restriction on house-secured loans. One is controlling the LTV as a way of preventing demand for home purchases via house-secured loans. This was introduced as the “November 15 real estate measure” in 2006 and controls LTV in speculated areas and overheated speculated zones so that maximum LTV applied is 40%.

First adopted in 2003 when housing price had soared, “speculated area” is defined as an area where housing prices for the previous month went up at least 30% more than consumer price increases and where average monthly housing price increase rate for the previous 2 months is at
least 30% higher than the national average or average annual housing price increase rate for the previous year is higher than national average for the past 3 years. If designated as a speculated area, the capital gains tax is calculated based not on the publicly notified price but based on the actual transaction price. The government designates “overheated speculated zones” when it judges it necessary for stabilization of housing prices and restricts all real estate transactions in these zones. In January 2008, 72 administrative districts were designated as “overheated speculated zones” (all of Seoul has been designated as overheated speculated zone).

Another loan regulation is debt to income ratio (DTI) that was part of the “March 30 real estate planning position” and which is device put in place to ensure that loan amounts do not exceed ability to repay the loans. For example, if a person has an annual income of 50 million won and DTI is set at 40%, then the amount of loan is controlled to ensure that total amount repaid in one year does not exceed 20 million won. This can be seen as a very strong measure ensuing from overheated speculation in the real estate market and DTI is actually set between 40 to 60% in speculated areas and overheated speculation zones. Such strict regulation can also said to have the effect of preventing in advance damages similar to the sub-prime mortgage loan crisis in the US but at the same time can be seen as an anti-market measure in that it put further distance between housing finance and low income households in need of loans.

3) Housing Taxation System for homeownership

Home buyers must pay acquisition tax and registration tax, homeowners property tax and comprehensive real estate tax, and those selling houses are required to pay capital gains tax. Acquisition and registration taxes are 2% of the purchasing price and property tax ranges from 0.15–0.5% according to the publicly notified prices. Comprehensive real estate tax, adopted in 2003 as part of government’s real estate ownership reform measures and implemented since 2005, is intended to restrain speculation and to reorganize inconsistent local tax systems. At present, homes valued over 600 million won and lands valued over 300 million won are subject to comprehensive real estate taxes ranging from 1–3%. These are publicly assessed values notified by the National Tax Service and are about 70–80% of the market prices or actual transaction prices. For example, a 600 million apartment that is subject to this tax is actually worth
about 750 million won in the market.

Houses valued at over 600 million won are subject comprehensive real estate taxes and numbered 158,183 households for single unit housing and 140,740 households for co-ops in 2006. It rose by 90% to 300,711 households (25,927 single units housing and 274,784 co-ops) in 2007. The number of people paying comprehensive real estate tax went from 74,000 in 2005 to 351,000 (240,000 housing units) in 2006 and to 486,000 (383,000 housing units) in 2007. Total of 642.6 billion won was collected in taxes in 2005, 1.72 trillion won in 2006 and 2.86 billion won by 2007 (National Tax Service, 2007). 63.5% of the people that paid comprehensive real estate tax in 2007 were multiple homeowners. In the meantime, the Constitutional Court ruled very recently (13 Nov. 2008) that it is unconstitutional to sum the values of homes owned by members of one household for tax purposes and that not allowing exceptions for long time single house owners does not conform with the Constitution. Therefore, there will be adjustments made accordingly in the near future.

In this process, the only support that was given for owner-occupation was Long-term Ownership Special Deduction (LTOSD) given to single unit homeowners owning homes for minimum 3 years. LTOSD was begun with the adoption of the comprehensive income tax in 1975 under the understanding that housing is the foundation for people's lives and that no capital gains tax will be levied in order to guarantee stability in people's living and the right to move freely. This of course is assuming that a home is not owned and occupied for a short period before being sold for capital gains or investment purposes. Accordingly, LTOSD takes away the burden of heavy one-time levying of tax on profits accumulated over long periods and gives greater deduction benefits the longer a home is owned in order to induce healthy homeownership and real estate investment practices. From 2006 to 20 March 2008, deductions ranged from 10% of marginal profits for 3–5 year ownership, 15% for 5–10 year ownership, 30% for 10–15 year ownership, and 45% for ownerships of 15 years or longer. This has been changed since 21 March 2008 and now rates ranging from 12 to 80% (deduction rate escalated by 4%) for homes owned from minimum 3 to 20 years. The change was made to induce order in the real estate market that is driven by actual needs and demands.

Korea's priority task in housing policy in the past 50 years has been stabilization of housing
prices. For this, the government tried to block speculative demands while expanding housing supply for actual demands in the market. In this respect, transfer income tax has been operated more as a policy instrument for stabilizing housing prices than on tax principles. It was used to restrain demands when the housing market was overheated and method of regulatory mitigation during sluggish periods of housing markets. In all, it was mainly used as an instrument for restraining speculative demands. And, in this sense, transfer income tax was again very important in stabilizing housing prices when prices soared in 2001. Roh administration’s (2003-2007) key housing policy was employing the tax system to stabilizing housing markets. The main frameworks of this policy were higher ownership taxes and eased transaction taxes. The comprehensive real estate tax that went into enforcement in 2005 was meant to increase ownership taxes in this respect and higher transfer income tax were meant to bring down housing prices and restrain speculative demands.

Tax support can be provided through income deductions by exempting income tax on interest paid for a loan taken out to buy a home. However, it does not have much practical effect because the actual deduction values are not that large. In this light, it can not only be said that Korea has no tax benefits for supporting buying houses but that Korea’s tax system is structured for minimum fairness and balance among expensive homeowners and multiple homeowners.

Transfer income tax was stepped up as a real estate speculation control measure and used actual transaction prices as the standard prices for levying taxes in areas with large increases in housing prices that were hence designated as speculation zones (Taxes levied based on actual transaction prices means higher taxes. Prior to this, standard prices for tax purposes were only about 70-80% of the actual transaction prices.). Transfer income tax was also applied to transactions with high speculation possibilities in the form of a heavy tax against owners of multiple homes. However, without a close analysis to discover the reason for rise in housing prices, government’s efforts to calm the housing market only through tax systems was crushed by the housing market and is now viewed as a failed policy. It also became the major cause of an added financial burden when non-speculative buyers came to buy houses. Kim (2007) judged that Korea’s housing tax systems is not moving under neutral principles but is only focused on restraining demand. He went on point out that reinforced transfer income tax took away oppor-
tunities at homeownership for those households that wanted own their own homes and opportunities at improving housing standards for those households that wanted to sell their old homes and move into a better home, thus in conclusion is the basic cause obstructing production, consumption and transactions of houses. Tax support can be provided through income deductions by exempting income tax on interest paid for a loan taken out to buy a home. However, it does not have much practical effect because the actual deduction values are not that large. In this light, it can not only be said that Korea has no tax benefits for supporting buying houses but that Korea’s tax system is structured for minimum fairness and balance among expensive homeowners and multiple homeowners.

IV. Evaluation of owner-occupation support policy and future improvements

1. Analysis of reason behind owner-occupation rate remaining low

Home ownership in Korea has been in stagnation for 40 years in spite of the new investments in housing made over 40 years. In fact, the rate has actually fallen compared to 30 years ago. A study of Korea’s housing policy objectives, special features of the housing market, and policy schemes related to owner-occupation led to the conclusion that the stagnation and fall are attributable to the following 5 major factors.

First reason is the ambiguity in the housing policy’s target group. Primary goal of the policy at the time was expansion of housing supply. The nationwide housing supply rate was almost 100% in 2000 but the housing policies after 2000 was still not able to pick out appropriate target groups. The outdated standard of benefiting the unclear number of multitudes ended up chaosing the housing supply market that was now moved by both actual demands and speculative demands.

Second reason is unclear distinction between the real demand for owner-occupation and speculative demands. Therefore, with housing prices on rise, government’s policies did not take into
consideration the real demand for owner-occupation at all and only focused on restraining speculative demands. However, this kind of demand restraining measures call for clear standards to judge real owner-occupation demands and speculative demands in policy decision making because such measures have influence not only on speculative demands but on bringing down the overall demand for homes. In this perspective, even the tax system is no help in helping average low and middle income households with their home purchasing abilities but is structured to control multiple home owners and owners of expensive homes. Further, because restrictions on house-secured loans were implemented under circumstances when analyses that financial sector's indiscreet loan competition led the rise in apartment prices. After undergoing the financial crisis of 1998, may real estate and financial regulations were deregulated. Economic recession resulted in many businesses going insolvent and this had greatly impacted the financial sector that eventually cut down on corporate loans and increased their household loans. Commercial banks' household loan business grew fierce and led to house-secured loans that tied in together with low interest rates and brought rush of investments to real estate market and inflamed sales of newly built apartments as never seen before, opposing public opinions are very few. That is, sudden increase in house-secured loans led apartment price hikes and there was much concern that it would lead to household debts. Moreover, unrest in the real estate market would grow amid the series of these events and that it would eventually become a potential turbulence factor in Korea's economy. From this perspective, it is deemed that restriction of indiscreet house-secured loans contributed somewhat to stabilizing the housing market. Low resistance to the restrictions can mean that the regulations were well suited to speculative demands or that low income households that cannot afford to buy homes are outside the range from application of LTV and DTI regulations.

Third reason that there was no support helping non-homeowners to purchase homes in spite of the having implemented price restriction on newly built houses for many years. Moreover, inconsistent price policies that led eventually to removal of all restrictions on prices of newly built houses brought many of the complications that were foreseen when restriction measures were in place. On top of this, private housing developers converged on the housing construction market with housing prices already having hit the ceiling and this resulted in 160,000 units of
unsold newly built houses as of July 2008. Failure to correctly predict demand is probably the biggest reason for so many unsold houses but it can also be the result of consumers turning away from high prices of newly built houses when they could find more affordable homes elsewhere.

The fourth reason is the absence of a housing finance system that can help people buy houses. In reality, this could have been the most important bridge to homeownership. But Korea adopted the housing mortgage system as late as 2004 and this is not even really intended for low income households because it targets homes valued at 600 million or less. Considering the fact that average monthly income of an urban worker in 2007 was 3.44 million won, maximum value is rather very high. It is not the availability of a loan but the ability to repay the loan that ultimately decides whether one can afford to buy a home or not. In this respect, there is a very urgent need for development of a low-interest and long-term housing finance product that would support low income households.

Fifth reason is that the establishment of uniquely Korean Chonsei rental system is closely related to the owner-occupation rate. Rents, sizes of homes and levels of qualities of Korea’s rental system are ranked in structure. When looked at from rent and quality aspects, rental system can be stratified into Chonsei, monthly rent with deposit, and monthly rent. Chonsei sometimes causes sudden rises in rents when the market is doing well, but at other times it serves as a useful method for tenants to be guaranteed quality housing for 2 years at rents ranging around 60-70% of home purchase price (Housing Lease Protection Act guarantees tenants 2-year leases). In addition, Chonsei has an advantage in that the rent money that is deposited with the owner and is returned to the tenant at the end of the 2-year lease acts as compulsory savings that can be used as seed money in buying home later. Although Chonsei has no ownership rights but it does guarantee occupation for 2 years and in this sense is stepping stones between owner-occupation and rented housing.

Korea’s owner-occupation policy has been led by the government and implemented within the framework of construction-oriented housing policy. Therefore, the policy instrument for supporting owner-occupation was not user-oriented but more supplier-oriented. To assist the suppliers, the government’s policies focused on restricting prices of newly built houses, pre-construction
sales system, housing subscription system, national housing fund, and other such policies that
was intended to secure sufficient inventory of quality housing in a very short period. At the
same time, support for users in the form of long-term, low-interest loans from public funds
were almost non-existent and there were not other assistances to build up home purchasing
power. There were not special financial or tax support policies for homeownership. The housing
related tax system paid more attention to controlling speculative demands rather than to helping
actual users buy homes and therefore imposes heavier tax on multiple home owners and owners
of higher priced homes. A homeowner who owns one house for minimum 3 years is eligible
for LTOSD when he/she sells the house but it is unclear whether the deduction would have the
effect of equivalent increase in income because the homeowner would have to put that money
towards purchasing another house. In this sense, the benefits gained from LTSOD are very
slight. In other countries where there are such frantic speculative demands in the housing mar-
et, tax and financial assistances can be very effective policies but not in Korea where current
circumstances in the housing market can cause the tax and financial assistances for homeown-
ership to further aggravate the homeownership distribution structure.

Therefore, in the future the owner-occupation policies must clearly define the target benefici-
aries and have practical measures for providing more diverse houses for different income groups
rather than quantity-oriented supply of houses targeted for the ambiguous non-homeowners. In
addition, the policies should take into full consideration the conditions of Korea’s housing mar-
et such as the chonseii system in developing owner-occupation policies of the future.

2. Future policies for improving owner-occupation rate

A look at other countries with high owner-occupation rates shows that most owner-occupation
policies are demand-focused and that there are tax and financial systems that support home
ownership. In support of supply, financial assistance is given to those supplying affordable hous-
ing and inclusionary zoning and other rational land use regulations provide conditions for supply
of affordable housing. In this respect, it is time that Korea’s policy took a turn from suppli-
er-oriented to user-oriented policy.
Low owner-occupation rate is not caused by high housing prices but is rather the result of existence of a system that can support purchasing power. Korea’s PIR is relatively high compared to other countries but its housing finance system that can support purchasing power is only in the early stages. If the housing policy to date paid more attention to a subscription system to determine to whom the newly built homes would be allocated, the government must now play the role of a connector that finds right housing to suit different income levels. This requires tax and financial systems that provides assistance in all steps from making preparations to buy a house, to ownership, to later selling the house. The policy and support schemes should be graduated to meet the needs of different household types, jobs, and income levels instead of targeting unspecified many. Policies and scheme of other countries including Low-Cost Homeownership Programme (LCHO), Homebuy Scheme, and Key Worker Living Scheme in UK, and Homeownership Zone (HOZ) and Home Investment Partnership Program (HOME) in the US, and Sweden’s rent-with-an-option-to-buy agreement should be studied and ways to sought to introduce some of these schemes to Korea. More than anything else, separate measures should be adopted for low income households that own old, deteriorated houses or have plans to own such homes to provide supports such as exemption of property taxes and home improvement assistance. Further, the government should minimize bureaucratic market interferences while giving more incentives and benefits to single-house owners and levying higher property taxes on households that own 3 or more houses or expensive luxurious houses. Such efforts would gradually correct the distorted housing asset distribution structure.

Through a comparative analysis of overall flow of the owner-occupied homeownership policies in Korea and detailed measures, this paper diagnosed the policies and proposes directions for future homeownership policies. In brief, there are four things that can be done to support homeownership in Korea and they are: 1) reinforcing functions of the home financing to boost home purchasing power; 2) a programme that supplies homes for all different income brackets; 3) development of affordable housing programmes and ways to maintain existing affordable homes; and 4) improved transaction and ownership tax incentives that is focused on benefiting actual users.

This paper is not an empirical analysis of general factors affecting Korea’s homeownership
rate and their causal relations. However, the amount of study that has been done in this area when compared to the importance of homeownership policies is very little indeed. And, it is deemed that an assessment of Korea's homeownership policies to date would be helpful in clarifying the policy objectives of housing supply programmes including the 1.5 million unit Bogumzari Housing Construction Project that will be carried out until 2018 and devising the tools for accomplishing those policy objectives.

V. Conclusion

Relationship between an owner-occupied house and a rented house is like a seesaw. From policy concentration perspective, placing emphasis on owner-occupation would naturally decrease supports for rented housing. With owner-occupation to rented-occupation ratio currently at about 55:45, Korea plans to expand the supply of public rented housing stock from current 9.8% (10 years or longer public rented housing account for only 3.3%) to 12% by 2018. Plan to construct one million units of national rented housing from 2003 to 2012 is 50% completed to date. Expanding supply of public rented housing will remain a focal objective of Korea's housing policy for enhancing housing welfare of low income households and for stabilization of the housing market. This policy again is a quantity increasing policy and there is a possibility that it could lead to occurrence of disparity in distribution of public rented housing but it is an important policy that must be continued for securing minimum housing standard, quality housing stock, and Korea's realization of decent homes.

Korea's present goal is to raise the owner-occupation rate to 65% by 2018 but the government at present does not have any policy schemes for achieving that goal. Under present circumstances, the more urgent problem that needs to be resolved may be disparity in distribution of wealth resulting from overemphasis on homeownership and policy for supporting homeownership a less urgent matter. Another obstacle is that Korea does not have appropriate tax and finance systems for supporting home buyers. In the case of taxes, self-employed business owners take up a greater portion of taxpayers than salaried workers so that transparency and consistency
has always been a serious problem. Development of home purchasing tax and financial supports corresponding to different income levels and situations must be preceded by reliable and objective income reports without which a policy to promote owner-occupation that is closely linked with income taxes would breed inconsistency arguments among different income levels. There is no guarantee that even the low-interest long-term loans that can increase purchasing power will not end up being an object of speculation unless the housing market’s distribution structure is completely overhauled. Therefore, it does not seem that tax and financial support policies widely utilized in other developed countries will be very effective in increasing owner-occupation rate in Korea. This is the reason that the government made efforts to come up with alternative schemes such as half-priced apartments but ended in failure. So, where can Korea’s owner-occupation policy go next? What are the next steps to be taken? It is from these questions that this paper was begun in the first place.

References

12. KRIHS(Korea Research Institute for Human Settlements), 1993. Pursuing an efficient housing finance system in Korea under the financial liberalization
13. KRIHS(Korea Research Institute for Human Settlements), 2003. A Study on Improvement of the Housing Finance Market
19. MOCT(Ministry of the Construction and Transportation), 2006. A Handbook of Housing, Korea Government


32. Schwartz, Alex F., 2006. ”Housing Policy in the United States”, Routledge
국문요약

한국의 자가점유정책의 현황 분석
- 자가점유율 정체 원인 분석과 개선방안 모색

본 논문은 한국의 자가점유에 대한 descriptive analysis로 전체적인 주택정책 시스템과 주택시장 여건 속에서 자가점유 정책이 추진된 결과를 평가하고자 한다. 한국은 1960년 대 이후 자가점유를 주택정책의 주요 목표로 추진하면서 연령층 30만호 이상의 신규 주택공급을 지속해 오고 있으나, 자가점유율은 1975년 63.5%에서 2005년 55.6%로 오히려 하락하는 결과를 나타냈다. 자가점유율 정체 및 하락 원인을 분석한 결과, 주택 구매력 지 원을 위한 모계지와 같은 주택금융 기능이 2004년까지 부재하였다는 점, 투기 수요 억제로 LTV 및 DTI 규제가 시행되고 있다는 점, 주택조세는 일반인의 자가 구입을 지원하기 보다 다중택 보유자 및 고가 주택보유자에 대한 규제 강화로 이루어지고 있다는 점, 그리고 한국의 특성한 자가점유형태로 전체 방식이 100여년 이상 자리잡아 오면서 일부 전세 폭등 등의 사태도 자아내고 있기는 하지만 자가의 60-70% 수준의 가격으로 자가 못지 않은 양질의 주거생활을 가능하게 하고 있다는 점을 들 수 있다. 결과적으로 비교론적 관점에서 볼때 한국의 자가점유는 아파트 건설지향적 주택정책 모형 속에서 추진된 양적 공급의 대표 정책 사례로 규정할 수 있으며, 이러한 양적 공급의 결과는 1998년 이후 각종 규제완화의 여파로 투기 수요 억산, 주택자산의 양극화라는 부작용을 낳았다. 향후 필요계층을 위한 내지마련 지원을 위해서는 모계지 제도의 확대 공급, 민간 금융시장의 주택대출신용보증 강화, 그리고 관행적인 정부의 시장개입은 최소화하면 서 1가구 1주택 보유자에게는 지급보다 더 많은 혜택을 주고, 3주택 이상의 다주택 보유자 및 고가 주택 보유자에 대해서는 기존의 보유세 기준 보다 더 강화함으로써 왜곡된 주택자산 분배 구조를 점차 개선해 나가야 할 것이다.