

Solutions on the Unbalanced Demand and Supply of Housing

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I. Introduction

1. Problems and Purpose of Study

By the end of December 1995 total unsold housing estimated no less than 178,000 houses¹⁾, but if the unsold housing including flats and semi-apartments built by small scale contractors, it will estimate more than 200,000 houses, and therefore at least 7,000 billion won is not collected. The drastic increase of unsold housing was caused by government's unreasonable housing policy and wrong prospect of demand by housing contractors, which resulted in bankruptcy of more than 100 housing contractors during 1995 ~~only~~.²⁾ Serious impact on construction business and entire economy will also be most probable.. To meet the possible serious problems caused by drastic increase of unsold housing, each housing contractor has been planning various strategies as a solution and the government, also realized the seriousness and has set out "Stabilizing Policy for Housing Market" as of Nov. 8, 1995.

As the drastic increase of unsold housing was caused by the structural problems of our housing market, it is necessary to plan fundamental, not tentative measures to release them. This thesis, from the view of above-mentioned problems, analyzes the reasons of unsold housing and the status, and on the basis of the influence of unsold housing on housing market and economy and future prospect, hereby suggests to the government and contractors measures which can release the problems as purpose of the study.

2. Scope and Method of Study

Chapter 2 analyzes reasons and status of unsold housing first on the basis of recent data, Chapter 3 surveys influence of unsold housing on housing market and economy and future prospect, Chapter 4 analyzes the contents of "Stabilizing Policy for Housing Market" issued by the government on Nov. 8, 1995 and of strategies of housing contractors for releasing unsold housing problem, and finally Chapter 5, on the ground of above analyses, suggests comprehensive releasing measures against unsold housing. The method of this study is based on side research into literatures of theses and data issued by the Ministry of Construction and Transportation, Research Institute for National Land Development, Research Institute for Housing Business, articles on newspapers, and related laws, interviews with executives of housing contractors and with experts in the field and on the long personal experience of construction work.

II. Causes and Status of Unsold Housing

1. Causes

The drastic increase of unsold housing was basically due to the structural problem of housing market. To speak more concretely, the reasons are; 1) over-supply and over-construction of housing 2) unbalanced demand and supply of housing 3) indiscreet supply of housing sites and rigidity of housing-related policy 4) shortage of housing finance 5) insufficient policy for rental housing business.

(1) Over-supply and Over-construction of Housing

The direct cause of over-construction and over-supply of housing can be said to be subsequent effects of "2 million housing construction project" which ended in 1992.

As the presidential election of 1987 was due right at that time, the party in power promised provision of 2 million housing as one of election pledges and kept carrying it out after winning power.

In the course of this situation the housing construction drive on fire had long and great impacts. Consequent over-supply of housing is shown diagram(2-1) below.

As shown in <Diagram 2-1> above, increase rate of local housing provision had been more than 50% per year since 1991, and even reached 56.4% in 1994. Such indiscreet provision of housing without considering demand in local area where housing supply rate is higher and its demand is lower than in metropolitan area, could not but result in mass unsold housing problem.

〈Diagram 2-1〉 Housing Construction Status by Regions

(unit : house)

Total	1990	1991	1992	1993	1994
	750,378	613,083	575,492	695,319	622,854
Metropolitan Area	378,797 (50.5%)	274,685 (44.8%)	282,983 (49.2%)	332,421 (47.8%)	271,406 (43.6%)
Local Area	371,581 (49.5%)	338,398 (55.2%)	292,509 (50.8%)	362,898 (52.2%)	351,448 (56.4%)

data : Ministry of Construction and Transportation

(2) Unbalanced Demand and Supply of Housing

Unbalanced demand and supply of housing can be a reason for unsold housing problems. Remarkable cases are when housing is not provided in the area of much demand or when housing is provided in the area of no demand. The reason why unsold housing problem occurs mainly in local area is the failure to meet geographical demand and supply of housing.

On the other hand, housing supply without harmonizing with demand also causes unsold housing problem. Government's housing policy was to blame for the greatest effect of the failure to meet upgraded housing demand. The main point was the system of top limit of housing price and compulsory housing scale quota. Top limit of housing price began in Seoul in 1977 in the name of "administrative guidance" and spread to other areas, and in 1989 it changed into costlink system and is still valid as a regulation. Housing scale quota, also, forces housing supply which can not meet real demand for housing. To meet various housing demands and buyers' individualities, improper regulations hindering suitable housing supply must be improved.

(3) Indiscreet Supply of Housing Sites and Rigidity of Relative System

Due to lack of ability to prospect housing market and demand, over-development and over-supply of housing sites have been done. Housing sites purchased by housing contractors are classified as Non-Business Purpose by corporation tax law two years after purchase and by local tax law three years after purchase, and such rigidity caused unsold housing problem.

Especially affected by Land Excess Income Tax Law, the section 8, sub-section 3 and section 23 of the enforcement ordinance, if the housing site purchased by housing contractor to build housing is not properly utilized within three years after purchase, it is classified as idling land and the owner should pay transfer income tax. Therefore, housing contractors who purchased housing sites that are no other than raw material

for housing construction are forced to take the burden to rush housing construction. Consequently, housing supply increased in spite of decreased demand. Between the choices of tax burden and housing construction, contractors' decision was only to construct housing. Such over-supply of housing sites and rigidity of relative system provided more than 600,000 houses in 1993 and 1994 in spite of housing market recession, and another 550,000 houses were newly provided in 1995, too.

(4) Decision of Demand for Housing Purchase caused by Recession

Successive decline of housing price during past few years and decrease of housing demand due to recession were another decisive reasons for unsold housing. Especially in local area, where housing provision rate is up to 90%, creation of new housing demand was not easy, and as the gap between housing sale price and real market price was narrowed, demand for the purpose of investment decreased from minimized benefit expectation.

(5) Shortage of Housing Finance

Another reason for drastic increase of unsold housing we can think of is shortage of housing finance. Even in developed countries of higher income than in Korea 70 to 80% of housing price can be loaned and without such a loan middle class families are seldom able to purchase housing. But now in Korea housing finance is not provided and long term housing finance for small scale housing purchase is available now but the financing percentage against total housing price is very low (about 25%) and is not effective that much.

(6) Insufficient Policy for Rental Housing Business

One of the reasons for drastic increase of unsold housing can be found in the fact that rental housing business is not activated. In Korea as housing concept is now changing from a thing to own to a place to live in, demand for rental housing is greatly increasing among young and old generations. But until recently leased houses have been common, and insufficient housing finance and lack of policy to promote rental business caused rental housing business to remain stagnant. All the above situation has become of major reasons for unsold housing increase.

2. Present Status

According to the date of Ministry of Construction and Transportation, the number of unsold housing all over the nation as of Dec. 1995 was 159,471 houses. More concrete details are as follows.

(1) Status by Regions

Occurrence of unsold housing differs greatly by regions as shown in <Diagram 2-2>. Including Incheon and Kyungki areas, in most areas such as Pusan, Kwangjoo, Daejon, Kangwon, Kyungnam the number of unsold housing has been increasing drastically.

<Diagram 2-2> Status of Unsold Housing by Region

(unit: house)

Total	Dec. 1991	Dec. 1992	Dec. 1993	Dec. 1994	Dec. 1995
	11,021	36,926	77,488	105,486	159,471
Metropolitan Area(Total)	706	2,404	8,552	14,250	41,046
Inchon	-	364	2,600	2,780	8,992
Kyungki	706	2,040	5,952	11,470	31,869
Local Area (Total)	11,315	34,522	68,936	91,336	118,425
Pusan	-	4,766	8,015	13,355	17,407
Daewkoo	-	-	546	392	6,464
Kwangjoo	-	688	1,743	4,473	9,546
Daejon	-	830	3,796	2,362	5,278
Kangwon	1,613	3,242	5,482	8,538	11,372
Choongbuk	893	3,471	9,064	9,062	10,320
Choongnam	693	2,657	9,057	16,680	12,801
Chonbuk	111	730	7,539	7,533	6,489
Chonnam	1,962	4,923	7,661	12,077	9,864
Kyungbuk	1,212	4,039	4,838	6,780	8,147
Kyungnam	1,977	8,235	10,012	8,842	18,913
Jeijoo	510	938	1,183	1,242	1,824

data : Ministry of Construction and Transportation

(2) Status by Contractors

Status by contractors shows more serious unsold housing in private supply as in <Diagram 2-3>, but in recent years unsold housing in public supply has increased. The reason is that in public supply small scale apartments that do not sell well have mainly built.

<Diagram 2-3> Unsold Housing Status Contractors

(unit: house)

Total	Dec. 1991	Dec. 1992	Dec. 1993	Dec. 1994	Dec. 1995
	11,021	36,926	77,488	105,586	159,471
Private	9,377	31,406	71,444	87,001	95,451
Public	1,644	5,520	6,044	18,585	64,020

data : Ministry of Construction and Transportation

(3) Status by Housing Scale

<Diagram 2-4> Unsold Housing Status by Housing Scales

(unit : house)

Oct. 1993				Aug. 1995			
Under 18 pyung	18-25.7 pyung	Over 25.7 pyung	Total	Under 18 pyung	18-25.7 pyung	Over 25.7 pyung	Total
19,897	26,831	14,925	61,653	73,680	51,753	23,899	149,332

data : Ministry of Construction and Transportation

As shown in diagram 2-4, percentage of unsold small-scale apartments was 32% in Dec.1993, but it hiked upto 49.3% in Aug. 1995. Such drastic increase of unsold small-scale apartments was due to over-supply of small apartments which had less demand under the compulsory quota of small-scale apartments(more than 40% of total apartments supplied should be under 18 pyung until 1994).

III. Influence of Unsold Housing on Housing Market**1. Influence on Housing Market and Economy**

According to Korea Housing Association, there are no contractors among 106 nominated as housing construction companies by Ministry of Construction and Transportation which have no unsold housing except those who have had no business for two to three years. Each contractor has average 1,500 unsold houses and 70 to 80 billion won per contractor is not collected³⁾. Such drastic increase of unsold housing resulted in financial and managerial difficulties in housing construction business, which again causes successive bankruptcy and will reduce housing supply capability in the long term. But the situation can favorably affect to stabilize consumer-oriented market and quality improvement.

(1) Acceleration of Financial and Managerial Difficulties in Housing Business and Successive Bankruptcy

As unsold housing increases, money invested at the first stage to secure housing sites is not collected. To obtain operation capital, contractors turn to official banking circles, but banks give minimum loan or reject on the ground of difficult loan withdrawal and contractors have no choice but turn to secondary financing circles or private loan market.

Deepening of financial difficulties was a decisive reason for insolvency and

successive bankruptcy of housing contractors. The biggest obstacle to "Economy Stabilization Policy" which government is now planning is increase of interest rate and insolvency of small and medium companies, and considering that larger part of the problem was caused by housing contractors' financial difficulties, immediate policy to release unsold housing is an urgent matter.

(2) Monopolization of Housing Market

As unsold housing increases and housing contractors fall into insolvency, consumers tend to prefer big construction companies, and deepening of reputation difference of each company will worsen small and medium companies' managerial difficulties, probably raising the problem of monopolization.⁴⁾ Such phenomenon can be noticed in <Diagram 3-1> which shows decreasing registration number of contractors due to housing market recession among small medium sized contractors.

<Diagram 3-1> New Registration Status of Contractors

(unit : number of contractors)

	1990	1991	1992	1993	1994
Number of Registered Contractors	6,128	8,869	8,072	6,146	4,086

data : Korea Housing Construction Business Association

(3) Favourable Impacts of Unsold Housing

Unsold housing problem brought not simply negative impacts but also favorable impacts such as consumer-oriented market settlement and quality improvement⁵⁾. During past years housing contractors have tried quality improvement of their own under housing price link system. Differentiation wave which began in 1993 started new trials in overall field of public housing concerning ground plan, drawing, landscape, and housing complex plan.

2. Future Prospect

Status of unsold housing, in macroscopic sense, depends on overall housing business market and in microscopic sense on consumers' preference of housing taste. So, future prospect of unsold housing can be forecast on the basis of economic analysis such as adjustment of partial stock by the changes of unsold housing and consumers's preference of unsold housing,⁶⁾ though it is the analysis made in July 1995 and begin to decrease from the first half of 1996. This situation comes from the structural

problem of our housing market, and to release unsold housing more fundamental measures are to be established.

<Diagram 3-2> Future Prospect of Unsold Housing

(unit; 1,000 houses, %)

Dec. 1994	First Half of 1995	Second Half of 1995	First Half of 1996
105.6 (28.3)	126.5 (19.8)	128.5 (1.6)	120.5 (+ 6.3)

note : () indicates rates of change

data : Lee Jaewoo. Son Kyungwhan, "Managerial Status of Contractors and its Solution", Research Institute for National Land Development, July,1995

IV. Contents and Evaluation of "Stabilizing Policy for Housing Market"

1. Major Contents

The major contents of government's provision of "stabilizing policy for housing market" provided financial support and tax support for buyers of unsold housing to activate housing sale by promoting consumers' demand in the short term, and provided long term measures to vitalize housing business by improving market structure to meet changes of situation, including measures to release financial difficulties of housing contractors.⁷⁾

(1) Preparation for Finance and Tax Supporting Measures to Release Unsold Housing Problems

Unsold housing to be benefited from government-providing finance and tax support should be those built by **contractors of more than 20 houses** construction by section 33 of "Housing Construction Promotion Law" and **should be those** under national standard housing scale(25.7%) confirmed as unsold by local autonomous entity as of Oct. 31,1995. Buyers of the houses unsold as of Oct. 31,1995 during the period of Nov. 1,1995 through Dec. 31,1996 shall be also benefited from finance and tax support. But those houses supported by national housing fund and succeeded by the buyers shall be benefited without time limit.

1) Magnification of Financial Support to Buyers of Unsold Housing

Buyers of unsold housing can be financially supported by national housing fund in case of less than 18 pyung, and by private housing construction fund in case of 18-25.7 pyung. 1,000 billion won out of national housing fund (400 billion won in

1995, 600 billion won in 1996-1997) is allocated to support contractors on long-term and low interest basis for the buyers of unsold housing less than 18 pyung, and after completion of housing it is converted to Buyers' Supporting Fund.

For private housing construction fund to support buyers of 18 to 25.7 pyung Korea Housing Bank provides 200 billion won during 1995 and if the demand increases, supporting fund will be accordingly magnified.

2) Tax deduction for Redemption Interest of Housing Purchase Loan

To relieve the burden of redemption of the buyers of unsold housing, certain amount out of redemption interest shall be deducted from income tax. Beneficiaries shall be those having no house or one house which is to be substituted for an old one. Tax deduction amounts to 30% of redemption interest of national housing fund, or private housing construction fund supported by Korea Housing Bank.

3) Deduction of Transfer Income Tax for the Buyers of Unsold Housing

For the buyers who purchase unsold housing within the end of 1996 and sell it after longer than 5 year lease, 20% of special transfer income tax rate(30-50% in 1996) or composite income tax rate will be applied to relieve tax burden. In that case, 50% of transfer income tax will be deducted.

(2) Financial Support for Housing Contractors

There is a tendency of banking circles refusing to provide financial support due to successive bankruptcy of contractors and even their trial of issuing private bond faces less favorable evaluation than that of manufacturers, which makes it difficult for them to get fund from official banking circles to finally cause financial difficulties.

1) Operational Fund Support by Easing Contractors' Private Bond Issue

As a measure for contractors' financial difficulties, contractors can get the same additional mark(0.5) as in "S.O.C. project fund inducing private capital" case when the net increase of private bond issue by non-manufacturing large corporations is adjusted. The request for contractors' bond issue made by Mar.,1966 will be allowed upto 10 billion won a month per each contractor.

2) Purchasing Contractor-owned Housing Sites by Korea Land Developing Corporation and Korea Housing Corporation

The money used to buy housing sites has been another financial burden to the contractors(total 5,257,000 pyung, 6,600 billion won). To relieve the burden, Korea Land Developing Corporation is supposed to purchase contractor-owned sites by using

idling fund and issuing bond. Total purchasing fund of 700 billion won consists of idling fund 200 billion won from Korea Land Developing Corporation and 500 billion won from bond issue. Interest rate of bond is 7.0% a year and maturity is 5 years. The sites to be purchased will be offered by the contractors to Korea Land Developing Corporation and decision will be made after mutual negotiation. Korea Housing Corporation has also secured 1,456 billion won to purchase contractor-owned sites. Such measures will ease contractors' financial difficulties caused by housing site purchase under inactive housing sale and will enforce the function of reserving housing sites by Korea Land Developing Corporation.

3) Magnification of Bad Debt Reserve for Surety Obligation of Housing Benevolent Society

Housing Benevolent Society has experienced 422.7 billion won of surety obligation caused by 107 member-companies' insolvency since its establishment in 1993 and compensated 172.2 billion won, but they are paying much too corporation tax because such cases are not classified as irrecoverable by tax laws, as far as joint liability on guarantee exists. Present bad debt reserve of low standard amount is not effective enough, and unlike other trust guarantee organizations their bad debt reserve is not accepted as recoverable. To resolve such a problem and to magnify guarantee capacity of Housing Benevolent Society, new regulation has been established which enables them to have bad debt reserve amounting to 2% of balance amount of surety obligation. According to the new regulation, Housing Benevolent Society can handle additional 180 billion won as expenses, which will improve financial situation of the Society and magnify guarantee capacity for small and medium sized contractors.

4) Deduction of Tax and Other Financial Burden for Contractor owned Sites

The period for business-purpose has been extended from 3 years to 5 years, if housing construction is delayed due to recession, and grace period for penalty on excessive possession of sites has also been extended from three years to five years.

(3) Mid and Long Term Supporting Measures for Housing Business

1) Gradual Proceeding of Liberalization of Housing Price

Government's regulation of housing price contributed to unexpensive new housing provision, but it is also pointed out to have hurt contractors' creativity and brought deterioration of housing quality such as insincere construction. The failure to meet consumers' various desires for quality resulted from their increased income has made it happen that the dwellers changed apartment structure after purchase. From the prospect of improving market structure by trusting everything to market function,

government decided to proceed liberalization of housing price.

2) Lowering Compulsory Rate of Small and Medium Sized Housing Construction

The compulsory rate to magnify construction of small houses was introduced together with the enforcement of cost-link system in 1990, which requires private contractors to build small houses under 25.7 pyung upto minimum 40%.

This system contributed to the magnified provision of small houses for the common people, but rigid operation of this system without considering housing provision rate of each area and unsold housing status resulted in accumulated unsold housing. In addition, consumers' preference for small houses has changed due to increased income and housing provision rate.

Under such market situation changes, compulsory rate to bid houses under 18 pyung (more than 40%) will automatically be lowered according to regional unsold housing status or housing provision rate. In six provinces such as Kangwon, Choongnam, Chonbuk, Chonnam, Choongbuk and Jeju where houses have been provided up to 90% contractors have full self-imposed control, in 4 cities or provinces such as Kangwon, Daejeon, Choongbuk and Kyungnam where houses have been provided up to 80 to 90%, compulsory rate will be lowered to 29%, and in other areas(metropolitan area, Pusan and Daegu) of under 80% housing provision the rate is 30%. In addition, compulsory rate for 25.7 pyung of actual housing space(75% now) can be lowered up to 65% by the head of a local autonomous entity.

3) Measure to Secure Housing Finance and Relaxation of Regulations on Rental Housing Business

To magnify housing finance, Installment System for housing finance which was supposed to be introduced from June, 1995 will be activated(total financing capacity secured by 12 financing companies for housing installment is estimated mortgage which is now common in developed countries has been studied for possible introduction. To help insurance companies enter into the rental housing business, the regulation has been decided to be abolished that insurance companies can purchase housing sites for rental business only for housing scale of under 25.7 pyung according to the law limiting maximum obtainments of housing sites.

Rental housing business by insurance companies is allowed not only for those houses of their own constructing and leasing but also for the houses constructed by other contract are and purchased and leased by insurance companies.

4) Standardization of Drawings and Material

To proceed standardization of drawings and material, it has become compulsory for

public housing construction to use standardized material gradually, and other financial and tax support will be given to those who manufacture standardized material and/or contractors who use it. To control this job, standardization team of drawings and material will be established in the Ministry of Construction and Transportation.

2. Evaluation

Above mentioned stabilizing measures for housing market of the government are considered to have focused on the measures that will enable housing purchasers to improve their purchasing power from the prospect that unsold housing problem was caused by consumers' insufficient purchasing power⁸⁾. But the main reason is considered to be the distorted housing market. In other words, government's excessive involvement in housing market through long regulations on housing price and housing scale made it impossible for newly provided houses to meet consumers' various desires for better quality and variety of drawings. Proper measures for the requirement of magnification of housing finance and increased demand for rental housing have not been made in accordance with situation changes. As mentioned before, it is clear that the government sees the regulations on housing price and housing scale as the main points in stabilizing measures for housing market, but metropolitan area where the most remarkable demands for varieties and higher quality exists is excluded in liberalizing housing sale price, and that means the government still does not realize the seriousness of the problem.

Even though compulsory rate for constructing small scale housing has now been eased, stabilization of low income consumers' housing still depends on private construction by forcing private contractors to build small scale houses. What the government thinks of is that if private contractors provide lots of small scale houses, the price will go down, which will reduce the housing burden of low-income common people. But stabilization of common people's dwelling problem, as in developed countries, should be supported by government's welfare policies, and the policy forcing private contractors to build small scale houses should be withdrawn. In order to stabilize housing market, other actions such as solution of housing site provision, measures to meet demand for rental housing and magnification of housing finance should be taken.

After the issue of stabilizing measures for housing market on Nov. 8, 1995 the number of unsold houses at the end of November went down to 152,313 houses by the end of December. Ministry of Construction and Transportation understood that magnification of housing finance for purchasers of unsold housing as a measure for stabilizing housing market began to have effects and contractors reduced new housing

construction. But such a tendency is not sure to continue because the main reason for drastic increase of unsold housing was distorted structure of housing market, and unless fundamental measures are not provided, such short term measures as magnification of housing finance for the purchasers of unsold housing would not solve the problem.⁹⁾

3. New Housing Business Strategy to go with Stabilizing Measures for Housing Market

The response of the housing business to "stabilizing measures for housing market issued on Nov. 8,1995 is that such measures are very insufficient to solve unsold housing and financial difficulties of housing business,¹⁰⁾ but the housing business started to make new housing business strategy to magnify housing business.

Most housing contractors prospect that various housing scales will be required in accordance with the ease of compulsory rate for small housing, and are planning to

<Diagram 4-1> New Business Strategies of Major Housing Contractors

Name of Contractor	Major Contents of New Business Strategies
Keukdong	<ul style="list-style-type: none"> - Variation of apartment scale by regions - Strengthening prior survey on regional demand - Magnification of loan support for unsold housing - Securing company-owned housing sites
Keumho	<ul style="list-style-type: none"> - Magnification of housing construction from 6,000 to 7,300 houses for the year of 1996 - New strategy plan for rental housing and housing price
Daewoo	<ul style="list-style-type: none"> - Active utilization of housing installment finance, company-provided loan, loan from Korea Housing Bank and from secondary financing circles to activate housing finance - Variation of quality in liberalized areas and differentiation by regional sites - Plan of ecological environment to match the circumstance around - Provision of consumers' choice of finishing material in case of price liberalization for 80% completion
Daelim	<ul style="list-style-type: none"> - Emphasis on up-graded quality and differentiation - Emphasis on construction of good quality

Name of Contractor	Major Contents of New Business Strategies
Dongah	<ul style="list-style-type: none"> - Arrabgenebt if frequent meetings of housing business headquarters to provide concrete measures - Active utilization of loan, among other loans, for middle installment for unsold housing of 18-25.7 pyung
Byuksan	<ul style="list-style-type: none"> - Providing measures to promote housing sale and to induce rental housing business companies - Magnification of housing construction from 8,000 - 9,000 to 12,000 - 133,000 houses
Sunkyung	<ul style="list-style-type: none"> - Magnification of company-provided loan only for small sized houses to large sized ones - Application of installment sale to unsold houses which are to be occupied soon. - Magnification of housing construction in 1996 mainly because of reduced compulsory rate for small sized houses
L.G.	<ul style="list-style-type: none"> - Survey on regional situation for each kind of business and consequent decision making on housing scales - Strengthening functions of survey and analysis and active marketing strategy - Strategy of providing middle and large scale houses, and upgraded quality by applying 15% option system
ChungKu	<ul style="list-style-type: none"> - Differentiation strategy based on metropolitan area and other areas - Regional differentiation by developing various sizes - Application of 15% option system to metropolitan area where houses sell well, and differentiation of option items by regions
Hanshin	<ul style="list-style-type: none"> - Developing various sizes and ground plans - Strengthening market survey and business capacity
Hyundai	<ul style="list-style-type: none"> - Developing new models of middle and are sized apartments per each housing price - Magnification of company-provided finance to enable customers to buy the house at leasing level in case of small sized houses with the help of government's magnified financing

develop various scales and ground plans for each region's demand. Quality competition will therefore be intensified and contractors have decided to strengthen regional market survey and business team. As loan-support for unsold housing under 18 pyung has increased from 14,000,000 won to 25,000,000won, contractors will exert to relieve unsold housing by providing contractors' or contractor-arranged additional loan.

V. Measures to Release Unsold Housing

1. Basic Ideas

Drastic increase of unsold housing was caused by structural problems of housing market of the nation and the structural problems can be said to have come from government's indiscreet involvement in the housing market by regulation housing price, and housing scale, etc.

Basic ideas to release unsold housing are ; firstly, restrictions of housing price or housing scale which make it impossible to meet changing demand for quality and various drawings must be removed.

Secondly, such systems governing obtainments and disposal of housing sites as the law limiting maximum obtainments of housing sites and the law of excessive land income tax should be elastically operated.

Thirdly, one of the main reasons for unsold housing is that housing finance is insufficient, so it is important to help families have more purchasing power through magnified housing finance.

Fourthly, considering the tendency of preferring just dwelling to owning a house, and the increasing demand for rental houses, it is necessary to provide measures to promote rental housing business.

Finally, housing business is responsible for unsold housing problem in failing to make exact prospect of demand. That makes it necessary to survey demand and regional situation more thoroughly. Other self-help efforts like differentiation through upgraded quality, price deduction, housing finance support, conversion to rental business, utilization of specialized housing sale agencies, elevation of contractors' image are required.

2. Improvement of Government's Housing Policies

(1) Overall Liberalization of Housing Price

The reason for the government to have decided to proceed gradual liberalization of

housing sale price for the purpose of promoting housing sale as one of the stabilizing measures for housing market is that even though the regulation on ceiling of housing price contributed to the stabilization of housing price by providing inexpensive houses on a short term basis, it also resulted in reduced, housing construction, speculative housing demand and excessive housing demand, and it caused a hike in housing price and unstable housing market on a long term basis ¹¹⁾ That is what the government is well aware of.

According to the study on analysis of its effects on housing market, it is said that at the beginning stage housing price will go up, but after some time housing market will be stabilized by the effects of increased housing construction To minimize negative effects of overall liberalization and to stabilize housing market, smooth adjustment of demand and supply of housing sites, fund, man power, and material needed for housing construction must be made.

(2) Relaxation of Regulations on Housing Scale

Government's regulation on housing scale as well as on housing price has also forced contractors to construct houses that can not meet demand. As the compulsory rate for small sized housed of under 18 pyung is very high, it is quite natural that most of the unsold houses are of these sizes.

In stabilizing measures for housing market and for construction market, the government relaxed compulsory rate for small sized houses but government's stabilization of low income consumer's housing still depends on private construction by forcing private contractors to build small sized houses. What the government has in mind is that if private contractors provide lots of small houses, the price will go down, which will naturally reduce the housing burden of low income common people. But stabilization of common people's dwelling problem should be solved by government's welfare policies and the present policy forcing private contractors to build small houses is not reasonable. The ideal solution is that all the houses constructed by public organizations should be confined to small ones, and the regulations on housing size constructed by private contractors should be withdrawn.

(3) Elevation of Family Purchasing Power through Magnified Housing Finance

To boost families' purchasing power, financial support through magnified housing funds to help purchasing money and other measures to reduce expenses coming from owning a house should be prepared.

To begin with, present housing sale system before completion imposes contract payment and middle payment on consumers, which causes difficulties in mobilizing

purchasing money. Therefore, if the buyers of unsold housing are supported with short term housing finance, demand for replacing houses will be activated and help solve unsold housing problem and financial circulation of housing contractors. As one of the stabilizing measures for housing market, the magnification of housing finance support will promote demand for unsold housing, and middle payment support as well as the last payment support for the buyers of 18-25.7 pyung houses will reduce the financial burden in purchasing house by rental dwellers having no house. Meanwhile, some commercial banks are giving loans for middle payment for the apartments built by big contractors, but they are reluctant to give loans for the apartments built by small and medium sized contractors due to their insufficient credit and poor mortgage.

As an alternative to cover above mentioned difficulties, introduction of housing installment loan system, guarantee by benevolent society of housing business to help obtain loans from banking circles for middle payment needed for house purchase and direct short term loan from benevolent society should be considered.

Above measures of housing finance support are expected to promote families' purchasing power, but as the price gap between housing sale price and market price is narrow and the burden from owning a house is heavy, such measures are not likely to be connected with effective demand. For this reason, we must find another measure to reduce the burden from owning a house to bring more effect. As a concrete measure, we can think of a policy which allows deduction of registration tax, real estate acquisition tax and property tax for a limited period. If above deduction is magnified for house purchasers for a limited period. If above deduction is magnified for house purchasers for a limited period, boosted housing demand will considerably relieve financial difficulty of housing contractors. Furthermore, housing purchasers use loans from housing banking circles amounting to big portion of purchasing money. So loan conditions should be improved.

(4) Support to Activate Rental Housing Business

Activation of rental housing business will convert the money of the open market to housing finance and consequently by reducing speculative money, will prevent speculation on real estate.¹²⁾ Under present rental housing law, lease of more than 5 houses (under 25.7 pyung of actual dwelling space), whether they are unsold housing or newly built ones long term investment and the earning rate of investment is low. Therefore, turning money becomes difficult. Tax support only for lease of more than 5 houses is also limiting extensive application.

Earning rate of investment on rental housing after purchasing unsold houses is about

12-13% annually, but if the housing price keeps stable, the rate will go down to less than 10%. Considering the rental business being a long term investment, relative earning rate of rental business is not high except that of small houses. For these reasons, new policies to raise earning rate of rental business and let more people participate in the rental business should be prepared together. As a concrete measure, such tax supports as deduction of income tax from rental housing, separated taxing, deduction of property tax and magnification of taxexempted income portion could be considered.

(5) Relaxation of Compulsory Period for Housing Site Disposal

According to the law limiting maximum obtainments of housing sites, housing contractors should transfer the ownership within a fixed period from the date of obtainment in order to avoid penalty on excessive obtainments of housing sites, and according to land excess income tax unless contractors starts construction within three years from the obtainments, the sites are classified as idling land and transfer income tax is applied. Such compulsory period of disposal forces contractors to cause unsold housing problem. To relieve above problem, housing construction period should be included in the compulsory period, or the compulsory period should be extended as a case of exceptional rules for unsold housing.

3. Measures from Housing Contractors

Contractors' life and death depends on the solution of unsold housing and in some regions contractors who can not get out of the chronic unsold housing problem have returned the housing sites to the government and reduced housing construction. In this section, I'd like to suggest some measures for the solution of unsold housing on the basis of successful cases up to now.¹³⁾

(1) Complete Survey of Regions and Demand

Today consumers' tastes and demands keep changing day by day and such tendency will go as far as the extreme variety of life style. Therefore, through direct site survey and questionnaires to customers, systematical analysis of customers' characters and demand should be made to find out customers' complaints and their improvement. In addition, efforts should be made to reflect customers' tastes in overseas market and development ways of other contractors. Application of different housing price to metropolitan area and other regions after through market research, or supply of different material for interior and exterior could be a resolution. Construction and

supply of housing after complete survey of regions and demands will magnify the choices of dwelling styles. Other housing development strategies in accordance with consumers' demand are as follows;

Firstly, contractors should develop strategy of housing goods that can meet different life style. Pastoral housing, silver housing and housing for the persons of the same taste can satisfy customers' different life style and other housing for the persons of the same taste can satisfy customers' different life style and other housing for the persons of special tastes can be developed.

Secondly, contractors can develop housing goods according to customers' special order or requirements. In the stage of planning, customers' requirements, in other words, customers' orders can be reflected. Attached furniture system to minimize furniture space, new system to help with house keeping labor, centralized air conditioning, new conception of parking lot and landscaping could be studied to reflect customers' original ideas.

Thirdly, contractors can develop housing goods that are mobile or changeable. In this style, some parts of the house can be changed according to the customers' personal need.

(2) Quality Differentiation through Technical Development

Quality differentiation through technical development is important not only to solve unsold housing but also to be prepared for the opening of construction market after 1997. New ground planning, new arrangement of the apartment complex, water purification system, ways of saving expenses of electricity, and heating and cooling system to protect ecological environment, new ideas of space utilization and other technical developments are required. To do all these, contractors should put more money into technical developments. The fact that only 5% investment is put into technical development by each contractors shows that contractors have neglected technical developments.¹⁴⁾ In addition to technical development of each contractor, standardization of each contractor's skill, and co-ownership of technical developments can avoid overlapping of investment.

(3) Conversion to Rental Business

Typical way of rental housing in Korea is leasing, but in a society of monthly payments, rental system should be on a monthly basis. Generalized monthly rental payments in developed countries can be understood in this context. In our country according to social changes, demand for monthly rental housing is quickly increasing, and the way of converting unsold housing to monthly rental housing should be

considered. But to activate rental housing business, rental housing companies should be able to mobilize large amount of money. Therefore, rental housing companies which have finished registration recently are mostly big construction companies. According to the registration status as of April 1995, Hangyang, Woosung, and Keumho are among them, who have rental houses in new towns built in the outskirts of metropolitan area, and the number of increased registrations is 193 in the whole nation. They have registered 67,228 houses to rent. The registration status is that there are 23,345 houses in Seoul from 92 companies, 10,830 houses in Daegu from 15 companies, and 6,652 houses in Chonbuk from 21 companies. Woosung, Hangyang, Keumho, Dongah, Keukdong, Samsung, Daewoo, Hyundai Housing and Industrial Development, Hanshin, Kongyoung, and Lotte have already registered or are now preparing for registration.¹⁵⁾ As the government decided to give tax support to the rental housing companies who purchased unsold housing, conversion of unsold housing to rental housing will be more activated.

(4) Financial Support for Housing

To solve unsold housing problem contractors need to make strategy to promote families' purchasing power by supporting housing finance directly to families.

(5) Utilization of Specialized Housing Sale Agencies

New strategy to utilize specialized housing sale agencies who are well aware of regional situations can help solve unsold housing.

(6) Elevation of Contractors' Image through Regional Event Business

Strategy of elevating contractors' image through active regional event business in the areas of unsold housing could be considered.

VI. Summary and Conclusion

Drastic increase of unsold housing was caused by over-construction and oversupply of housing through 2 million housing construction project, unbalanced demand and supply of housing, indiscreet supply of housing sites, rigid operation of housing-related systems, shortage of housing finance and insufficient rental housing business. And more fundamentally our housing market structure is considered to be the main reason. The structural problem resulted mainly from government's indiscreet involvement in the housing market such as regulations on housing price and housing scale. Drastic

increase of unsold housing causes financial and managerial difficulties of housing contractors, and finally successive bankruptcy and monopolization of housing market. Such situation is very dangerous for the national economy and should be solved soonest possible.

With the understanding that unsold housing is in serious situation, the government has come to proceed stabilizing measures for housing market to promote middle and long term housing business by issuing measures such as finance and tax support for the purchasers of unsold housing and relaxation of contractors' financial difficulties, including gradual liberalization of housing price and relaxation of compulsory rate of small and medium sized houses. But the measures are not considered to be effective as much as expected to solve the unsold housing problem, because metropolitan area is excluded from liberalization of housing price and the government still forces private contractors to provide small sized houses.

From this point of view, this study suggested such concrete policies as liberalization of housing price, relaxation of regulation on housing scale, magnification of housing finance to elevate families' purchasing power, supports to activate rental housing business and extension of compulsory period for disposal of housing sites. On the basis of the study on successful cases of housing sale, I suggested to the contractors' side complete survey of regions and demand, quality differentiation through technical development, conversion to rental business, financial support for housing, utilization of specialized housing sale agencies, and elevation of contractors' image through regional event business as strategies to solve unsold housing.

As greater part of the reasons for unsold housing are government's indiscreet involvement in housing market through the project of 2 million housing construction and regulations on housing price and scale, overall liberalization of housing price, withdrawal of the policy of compulsory rate for small sized houses, elastic operation of the system governing housing sites, magnification of housing finance, reinforcement of support for rental housing business are necessary. It is emphasized again as a conclusion of this thesis that on the part of the contractors, efforts must be made to meet the changing demand of the customers.

Notes

- 1) Chang sungsoo : "Housing supply plan unlikely to succeed-Unsold housing problem is the main obstacle. Various housing goods are required." Research Institute for National Land Development, *Construction and Transportation* Jan. 1996 issue(p.55)
- 2) The number of bankrupt contractors by unsold housing problem during Jan, through Aug.

- 1995 was 113, which is twice the number of that(60) in 1994. Lee Dongsung : "Reason of Unsold Housing- Housing Policy and Unbalanced Demand and Supply are the Problems" in *Housing Journal* of Nov. 1995 issue(p.87)
- 3) Lee Kyuseong, "Present Status of Unsold Housing on the Peak - 5,000 Billion won from 150,000 Unsold Housing not Collected" *Housing Journal* Nov. 1995 issue (p. 84)
 - 4) Lee Jaewoo, Son Kyungwhan, "Contractors' Management Status and its Solution", Research Institute for National Land Develop, July 1995, p.27-28.
 - 5) Lee Kyusung, aforesaid literature(p. 85)
 - 6) Lee Jaewoo. Son Kyungwhan, above mentioned writing(p. 26-27)
 - 7) Refer to Choi Jaedeok(present Chief of Housing Department, Ministry of Construction and Transportation) "Carrying out Stabilizing Policy for Housing Market", and Research Institute for National Economy, *National Economy*, Dec. 1995 issue(p. 88-92) for further details.
 - 8) Lee Dongsung, "Evaluation of Stabilizing Measures for Housing Market issued on Nov. 8, *National Land and Construction*, Dec. 1995 issue(p.40-42) has given the same evaluation.
 - 9) the JoongAng Daily of Jan. 19, 1996
 - 10) The same evaluation is true to "stabilizing measures for housing market" issued on Jan. 30, 1996.
 - 11) Son Kyungwhan, Jin Junsoo, "Re-arrangement of Housing -Related Systems" Research Institute for National Land Development, June, 1995 (p. 113-115)
 - 12) Ko Chul, "Solutions of Unsold Housing - Induce the money of the open market to rental housing business", *Housing Journal*, Nov. 1995 issue (p. 90-91)
 - 13) Data of case study is mainly excerpted from *the Daily Economy, Korea Economy Daily* and *Seoul Daily Economy* in 1995.
 - 14) Kim Sungsan, "Put an Emphasis on Quality Differentiation through Technical Development" *Housing Journal* Nov. 1995 (p. 94)
 - 15) Statistical details are from the article of *the Daily Economy* of June 15,1995

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