

Lessons From President Moon Jae In's Housing Policy and The Road to Affordable
Home Ownership in Seoul, South Korea

by

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Juris Doctor

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ABSTRACT

A fundamental goal of housing policy is to provide a safe and quality place to live for the population. This thesis studies the provision of affordable homeownership in Seoul, South Korea and particularly for non-homeowners and first-time buyers who did not have an opportunity to participate in the housing boom that the previous generations experienced. For Seoul, 58% of the population is non-homeowners.

First, this thesis provides a brief introduction to the Korean housing history. Second, it discusses the housing policy under President Moon Jae In, and how housing prices soared under his administration due to misguided efforts. Finally, it describes the necessary path towards mitigating the housing affordability crisis that has been created in Seoul using both supply and demand side arguments.

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Chapter 1: Introduction

1.1. Purpose of Thesis

An affordable place to live is one of the most important necessities of our livelihoods. Thus, housing affordability draws much political attention and is often the cause of deep social problems. In response, governments painstakingly address such issues with countless different policy measures with various degrees of success - sometimes with no apparent results and frequently achieving unintended ones. This was the case under South Korea's President Moon Jae In whose housing policy failed self-admittedly and who ultimately stated that "the biggest disappointment of my presidential legacy is my real estate policy," (Nov. 21, 2021)¹ even more than COVID-19 .

A fundamental goal of housing policy is to provide a safe and quality place to live for the population. Therefore, I focus this thesis on studying the provision of affordable homeownership in Seoul, Korea and particularly for non-homeowners and first-time buyers who did not have an opportunity to participate in the housing boom that the previous generations experienced. For Seoul, 58% of the population is non-homeowners and if the rental income exceeds the financing costs, individuals with the means will continue to see housing as an attractive investment. Converting non-homeowners into homeowners is an important housing policy in Seoul (Green, Painter & White (2012) finding that children of homeowners have better outcomes than children of renters whether the parents make a small or large initial investment. Edelberg, Estep, Lu & Moss (2021) stating that housing policies have overwhelmingly benefited owners with

¹ President's Fourth Year Special Appearance Presidential Briefing (Q&A) (May 10, 2021). www.korea.kr

mortgages instead of renters. Lee (2022) stating that the Korean government's top housing policy priority should be to convert renters to homeowners to avoid rising rents).

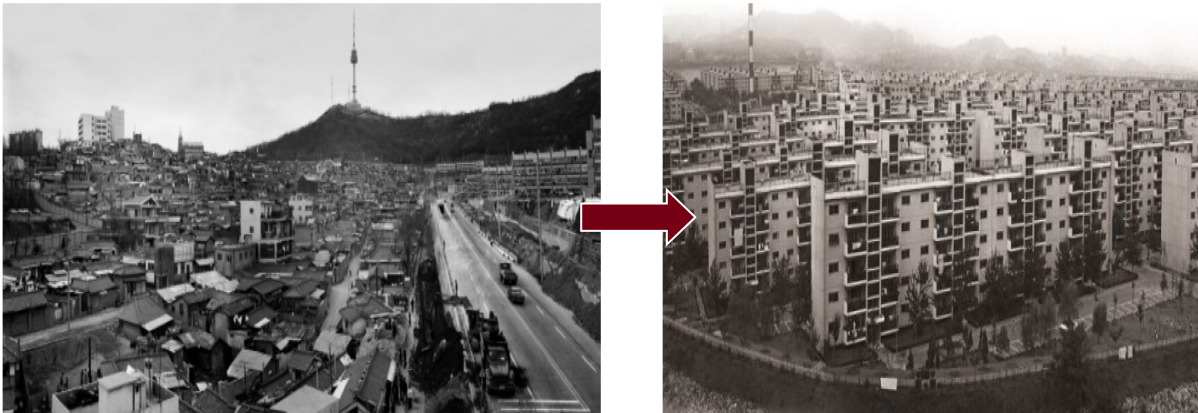
The big question that this thesis tries to answer is first, what went wrong under President Moon Jae In that caused housing prices to become so high despite his confident promise to do the opposite? Second, what can be done to address the situation and convert more non-homeowners into homeowners and make homeownership more affordable in Seoul?

To answer these questions, I first provide a brief introduction to Korean housing history.

Second, I discuss the housing policy under President Moon Jae In, and how housing prices soared under his administration due to misguided efforts. Finally, I describe the necessary path towards mitigating the housing affordability crisis that has been created in Seoul using both supply and demand side arguments.

1.2. History of Korea's Housing: The Republic of Apartments

Figure 1. Transformation of Seoul During the 1960's



Source: The Korea Harold. Picture of Seoul's post Korean War rapid urbanization from low density housing to high density apartments during the 1960's. After the Korean War, South Korea was one of the poorest countries in the world with an estimated GDP per capita of around \$82 in 1962

Understanding the modern dynamics and two major points of contentions of Seoul's housing requires a brief introduction of the history of Korean housing. South Korea's post Korean War rapid urbanization began in the 1960's and is often referred to as the Miracle of the Han River. Housing had to densify quickly to accommodate the substantial influx of Koreans to Seoul from other regions, marking the beginning of today's unique apartment culture. The number of houses that was merely 4,360,000 in 1970 is now 20,000,000. Area per person and household grew by 2 – 3 times. Living standards also improved. For instance, while only 9.9% of housing was connected to heated water during the 1980's, now almost all housing is. Apartments became a status symbol, a lifestyle, and a privilege to those who were fortunate enough to own one.

1.3. Point of Controversy

The substantial price appreciation of apartments is controversial and seen as stratifying the society between the privileged owning an apartment and those who did not have such

opportunity. In an obscure but frequently quoted statement on this point, Cho Kook, Korea's former Minister of Justice under President Moon stated that "what is important is to make a world where crayfish, carp and frogs (there is even a term for this now "CCF" which refers to ordinary people) can all live in harmony rather than where dragons fly into the sky." This is also not just a local phenomenon. "Rising housing costs in various parts of the world are challenging people's well-being – fueling anger and resentment. This is especially true for renters and young families who are new to the housing market and didn't benefit from the past increases in values." (Saiz, 2023). Price control policies are thus twofold – 1) making homeownership more affordable, and 2) addressing the strong sentiment against apartment owners who gained substantial wealth through passive income. These two price control goals often ironically clash resulting in paradoxical policy making and results. One of the major reasons for the Moon administration's housing policy failure was because it did not clearly distinguish between which goal it was seeking to accomplish and frame its policies accordingly.

Chapter 2: President Moon Jae In and Housing Policy

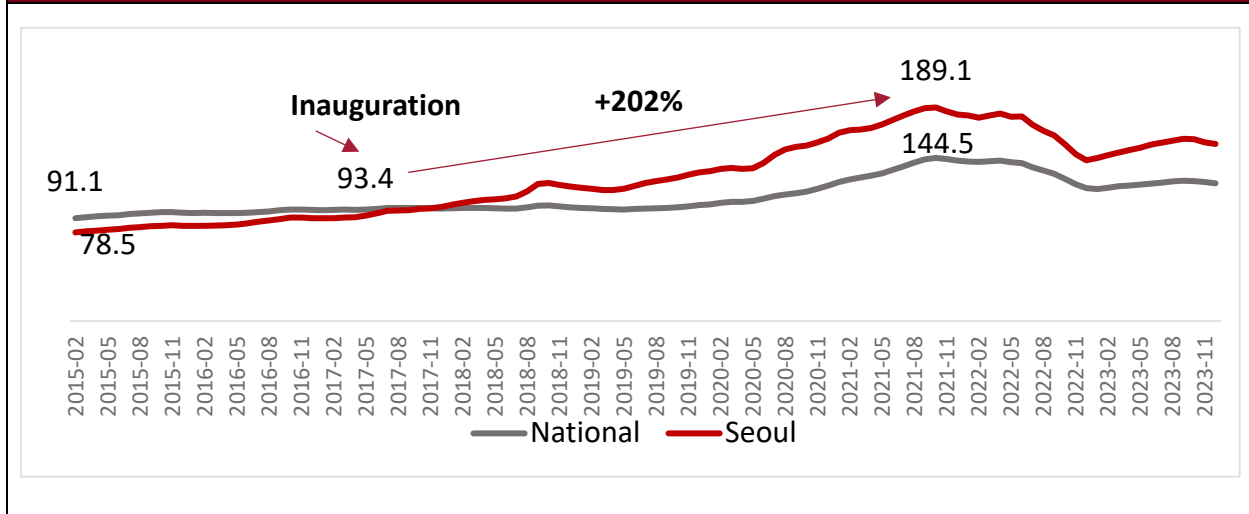
2.1. Overview

President Moon famously stated in his inaugural speech that “opportunities will be equal, process will be fair, and outcomes will be righteous.” (Inaugural Address by President Moon Jae In (May 11, 2017)². The tone and content of his New Year’s Message to the Nation in 2021, which was towards the end of his term, was different. For the first time he apologized to the nation regarding his real estate policies stating that “I am deeply sorry to many citizens who are in despair due to struggles with housing difficulties.” Even as late as 2020, Moon told the nation that he was highly confident with his housing policies. Korean renters who, instead of spending money to buy a home they could already afford, believed in him and waited to buy a home expecting that the Moon administration would bring housing prices down would regret such decision as soaring housing prices lost control during his presidency (Bae, 2022)³ (Figure on next page).

² Inaugural Address by President Moon Jae-in. mofa.go.kr (May 11, 2017)

³ TV Chosun (January 11, 2021)

Figure 2. Housing Price Index



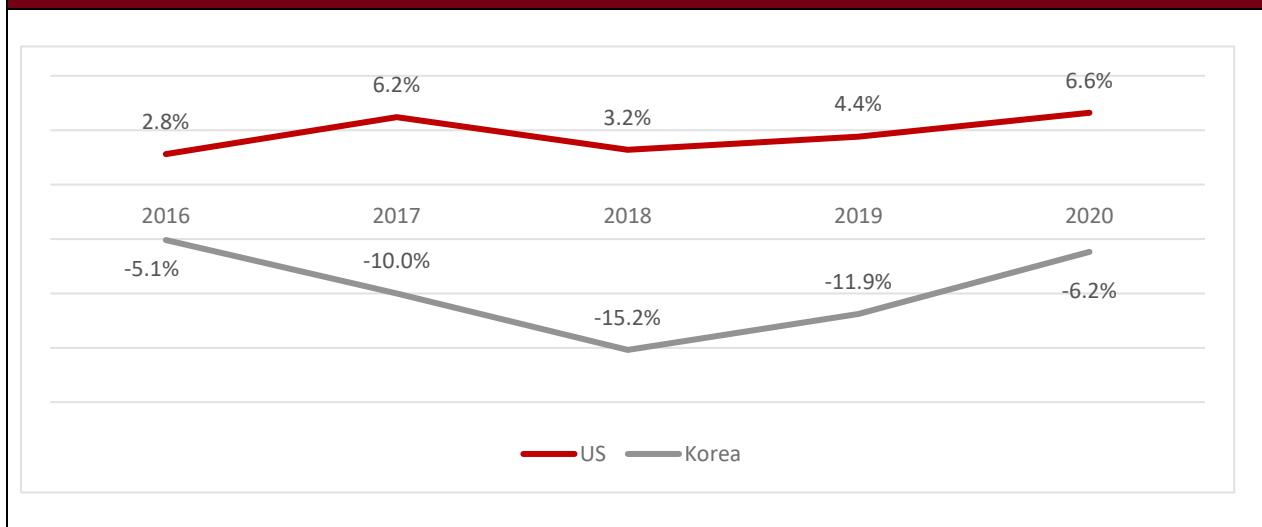
Housing price in Seoul more than doubled under President Moon Jae In despite his strong promise to make housing prices more affordable

President Moon’s first Minister of Land, Infrastructure, and Transport Kim Hyun Mi in charge of housing policy prided herself as the first Minister in history not to own a home⁴. While she held her position, she introduced a total of 18 housing policies (one almost every two months) towards controlling housing prices that are mostly considered troublesome. The administration declared that it would no longer allow housing to be a mechanism for building wealth. But failing to have any beneficial impact or even exacerbating the situation each time for affordable housing created a sense of learned helplessness and a deep sense of distrust of Moon’s housing policies (Lee, 2022).

Despite widespread opinions that the affordability of housing issue was due to lack of supply, the Moon administration stubbornly saw the housing problem lying on the demand side and policies overwhelmingly focused on curbing demand side appetite.

⁴ Confirmation Hearing of Kim Hyun Mi for Minister of Land Infrastructure and Transport. YTN (June 15, 2017)

Figure 3. Annual Change in New Supply of Housing Under Moon's Presidency



Source: U.S. Census, Korea Ministry of Land, Infrastructure, and Transport. The new supply of housing fell each year under President Moon Jae In while it grew each year in the United States during the same period

The tone towards real estate speculators and multiple homeowners was openly combative.

During his 2020 New Year Address to the Nation, President Moon stated that he “would not yield in his war against real estate speculators.”⁵ He stated that one of the important reasons to control housing prices was that high housing prices created a sense of dejection for many citizens. Such emphasis almost shadowed the importance of providing affordable housing to the population, and created much ambiguity as to whether providing affordable housing as opposed to closing the wealth gap was his objective at all.

The Moon administration, therefore, focused on demand side policies aiming to curb speculative capital from driving up prices and generating profits. However, many commentators state that each of the 26 times the Moon administration announced a new real estate policy, it only raised real estate prices further and worsened the vicious cycle for the most vulnerable.

⁵ 2020 New Year's Address by President Moon Jae-in. mofa.go.kr (January 7, 2020)

2.2. The 18 Housing Policy Announcements Under Minister Kim Hyun Mi

Table 1. The 18 Housing Policy Announcements Under Minister Kim Hyun Mi

No.	Year	Date	Key Content
1	2017	6/19	Addition of Price Control Areas
2		8/2	Identification of Speculative Districts
3		9/5	Addition of Speculative Districts
4		10/24	New DTI Application
5		11/29	Housing Support by Income Level
6		12/13	Registration of Rental Businesses
7	2018	7/5	Newlyweds, Young Generation Housing Support
8		8/12	Maximum Initial Sale Price Limit
9		8/27	Addition of Speculative Districts
10		8/29	Financial Support for Actual Homeowners
11		9/13	Comprehensive Real Estate Tax, Capital Gains Tax
12		9/21	Proposal for 300,000 New Housing
13	2019	12/19	Announcement of 3 rd Generation New Cities
14		1/9	Registration of Rental Businesses (2 nd)
15		5/7	Announcement of 3 rd Generation New Cities (2 nd)
16		8/12	Maximum Initial Sale Price Limit (2 nd)
17	2019	11/6	Maximum Initial Sale Price Limit (3 rd)
18		12/16	Comprehensive Real Estate Tax, Tightening of Lending Requirements

The Department of Land, Infrastructure and Transport under Kim Hyun Mi introduced so many new real estate policies (about every other week) it seemed to be playing a “Whack-a-Mole” game every time it saw an issue arising in the real estate market. Kim Hyun Mi unquestionably demonstrated her compassion for converting non-homeowners into homeowners. Her zeal, however, became misguided empathy. Her policies heavily focused on punishing speculative demand. Ultimately she was replaced without successfully bringing housing prices under control.

As seen in the table above, shaded in blue are policies aimed at limiting demand side appetite. Some of the key policies also described below include applying more restrictive borrowing conditions, taxing short and long-term capital gains on housing, taxing multiple homeowners, and introducing maximum initial sale price. Two thirds of the eighteen policies were aimed at such policies.

However, in policy making “desired outcomes are not always explicit, and the trade-offs between them are often poorly understood” (Saiz, 2023). It is ambiguous whether which of the eighteen policies is targeting affordable housing or closing the wealth gap. Many of the policies merely appear to be punitive towards speculators rather than achieving either of the goals.

2.3. The August 2, 2017 Announcement

On August 2, 2017, the Moon administration announced the first batch of most important housing policies that lay the foundation for the remaining term of the presidency’s housing policies. The key message was to send a warning sign to housing market speculators. Kim Hyun Mi stated that the main purpose was to “make multiple homeowners feel uncomfortable

and sell houses that they do not actually live in.”⁶ The content of the new policies can be summarized as the following:

First was a group of policies aimed at blocking speculative capital flowing into districts that the government identified as “overheated areas.” Development association members (owners of pre-development apartments) were restricted from selling their rights as a member, transactions above KRW300,000,000 (c. USD217,500 as of July 2024) required submission of financing plans and faced LTV limit of 40%, capital gains tax was increased by 10%p for those with three or more houses in “speculative districts,” maximum initial sale price was applied, association members were restricted from selling their allotted lots, and the developers were required to set aside a greater number of mandatory rental units.

Second, tax and financial policies were modified to make the housing market favorable to actual homeowners as opposed to speculators. Two homeowners faced an additional 10%p and three homeowners faced 20%p incremental capital gains tax above the base capital gains tax rate, and tax break for long-term capital gains was eliminated. One homeowner was now required to live (as opposed to own) for a minimum of two years in the house they owned to avoid capital gains tax on their house. Multiple homeowners faced more onerous lending requirements.

Third, which was a legacy of previous administrations, was to continue increasing the supply of new housing for non-speculators by an appropriate amount. The administration stated that the current supply in Seoul and the greater Seoul area was sufficient and planned on building more housing by converting already identified greenbelts and other land.

Fourth, was to change the apartment application process to ensure that apartments would go to actual homeowners and not to speculators. This included preventing the right to sell presold

⁶ [Q&A] 8·2 Real Estate Policy, Discussion with Kim Hyun Mi. korea.kr (August 7, 2017)

apartments and working with other branches of the government to strengthen the crackdown on illegal activity.

The core message was that supply was sufficient, and that the administration would frame its housing policy towards controlling speculative demand that it blamed for driving up housing prices.

So then why did the weakest bear the burden the most despite the government's attempt to punish the speculators and the multiple homeowners for the benefit of the non-homeowners? Too much emphasis on punishing the speculators and even "declaring a war" against them instead of focusing more on increasing the housing supply led to many side effects that only made housing less affordable for the most vulnerable.

2.4 Unintended Consequences

Setting the first step on the wrong foot with the major August 2, 2017, announcement, each time the government attempted to rectify the weaknesses, housing prices went up further. This was because the Moon administration had to fundamentally change its policy and although almost all administrations understood that it is a crucial task to increase the supply of housing, Moon tried to battle with demand, and this led to many unintended consequences.

2.4.1. Capital Gains Tax and Transaction Volume

While capital gains taxes were increased to prevent speculators from "flipping" houses to make a quick profit, increasing both short and long-term capital gains tax cut off the circulation of housing transactions. Homeowners either were unwilling or could not afford to pay for the capital gains tax. Lower transaction volume, in addition to a lack of additional supply, is a main reason housing prices rose under Moon's Presidency. Many critics believe that the opposite policy was necessary to induce more transactions and to reduce prices. The policy has been

placed on hold temporarily until May 2024 when the national assembly is expected to have a heated debate over the issue.

In addition, South Korea's GDP to transaction tax rate is the highest amongst all the OECD nations (Son et al., 2022). This is due to the cultural difference where Korean values reflect more of Henry George's economic views that value labor income more than income earned passively through assets (Henry George stating his draconian economic views in his seminal book "Progress and Poverty" (1879) that taxing land is an effective tool for a peaceful revolution), whereas western nations tend to value capital gains through risk taking greater and reward such gains with lower tax rates. Lowering the transaction tax rate closer to the OECD level could help promote more transactions and reduce housing prices.

2.4.2. Restrictive Borrowing Conditions

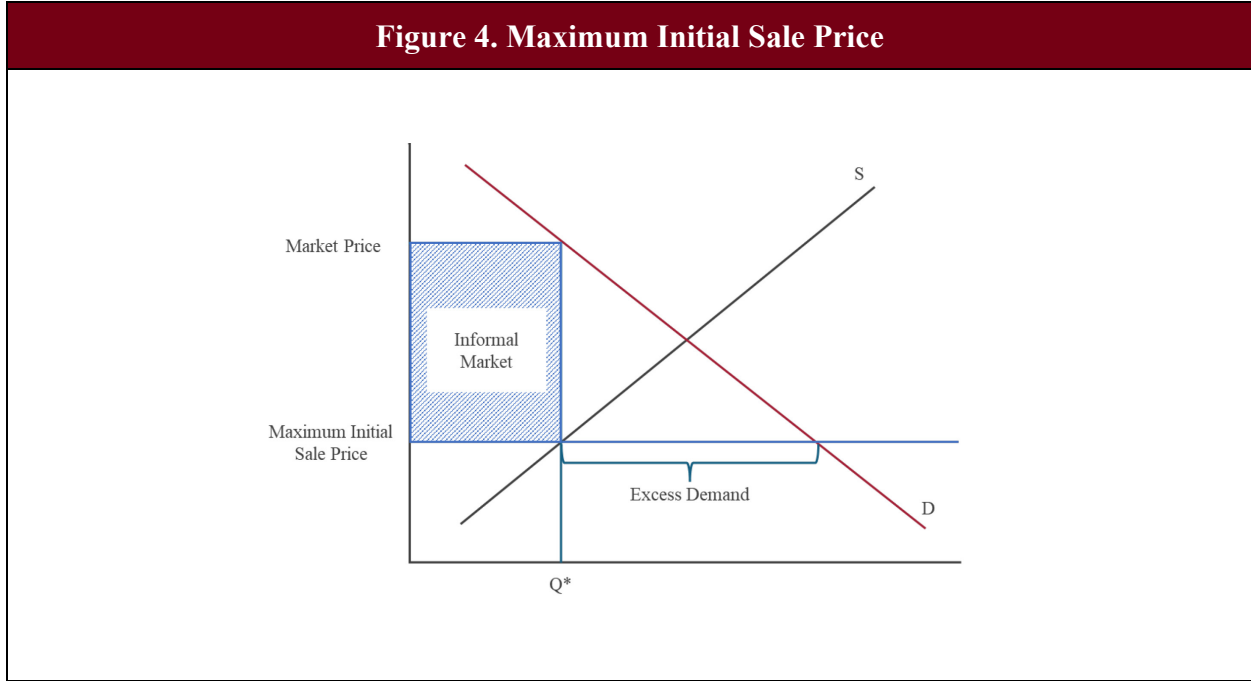
Restrictive borrowing conditions were imposed with gradual intensity over time. Ultimately, the LTV imposed by the government became as restrictive as 40% for houses under KRW900,000,000 (c. USD 650,000 as of July 2024), 20% for houses between KRW900,000,000 – 1,500,000,000, and 0% for houses above KRW1,500,000,000. This made the most vulnerable simply unable to afford to buy housing and the wealthier group raised housing prices up to KRW900,000,000 by borrowing 40% and financing the rest through their own means. Apartment prices below KRW900,000,000 thus began to form pricing levels close to KRW900,000,000, making apartments less affordable to the lower income groups.⁷

A more targeted solution that could differentiate those who do not have the means to buy their own housing without borrowing and those who could self-finance would have prevented such a

⁷ Moon Jae In Government's Real Estate Policy, Lee Kun Ho 2022

situation where the policy had the adverse effect of making housing even less affordable for the intended group (Lee, 2022).

2.4.3. Maximum Initial Sale Price



While presetting the initial sale price to a lower amount allowed buyers to purchase apartments at such lower price, this led to lottery sales with odds of thousands to one and was only a temporarily effective remedy to reducing prices

For the initial sale price of apartment units in new or redevelopments in certain districts, the government set the maximum initial sale price to the cost of land + the cost of building. This was to prevent the initial sale price from rising too quickly. However, this method has its limits as theoretically, suppliers will face reduced profits, and reduce production to Q^* , creating a larger shortfall of available units for sale. Due to the shortfall, apartments were sold on a lottery basis with odds as low as thousands to one. At such low quantity, informal market price for the lower quantity of available units will be much higher, and once the maximum initial sale price is lifted, prices will rise dramatically with short supply. (Lee, 2022) Thus, Maximum Initial Sale Price is only a short-term remedy with long-term consequences of reducing supply below equilibrium.

Many economists would argue that a price ceiling such as the Minimum Initial Sale Price would embody the classic types of adverse effects as it did in this situation with extremely low odds of winning an apartment.

2.4.4. Taxing Multiple Homeowners

The government added a tax on multiple homeowners to induce them to sell additional houses. Instead of selling the multiple houses and increasing supply, the multiple homeowners merely transferred the additional tax cost burden to the non-homeowners. In economics, when the demand curve is inelastic compared to the supply curve, the tax burden can fall more heavily on the actual incidence (the party that bears the actual tax) even if the tax is imposed on the statutory incidence (the party that is legally responsible for the tax).⁸ The demand curve can be inelastic when the quantity of goods is not sensitive to price. Typical examples include vaccines (necessary goods) and cigarettes (addictive goods).

The statutory incidence, in this case, the multiple homeowners, did not ultimately bear the tax burden and the tax imposed on them transferred to the non-homeowners due to non-homeowners' inelastic demand for housing. Renters were not able to shift to alternatives to avoid bearing the tax burden especially in the short term, and had no choice but to accept the additional costs imposed by the homeowners as moving to another house would not have been any better, while housing is a necessity (Figure on next page).

⁸ Principles of Microeconomics, 8th, Mankiw, Gregory N. *Harvard University*. (2018)

Figure 5. Elasticity & Tax Incidence

ELASTICITY AND TAX INCIDENCE

When a good is taxed, buyers and sellers of the good share the burden of the tax. But how exactly is the tax burden divided? Only rarely will it be shared equally. To see how the burden is divided, consider the impact of taxation in the two markets in Figure 6-9. In both cases, the figure shows the initial demand curve, the initial supply curve, and a tax that drives a wedge between the amount paid by buyers and the amount received by sellers. (Not drawn in either panel of the figure is the new supply or demand curve. Which curve shifts depends on whether the tax is levied on buyers or sellers. As we have seen, this is irrelevant for the incidence of

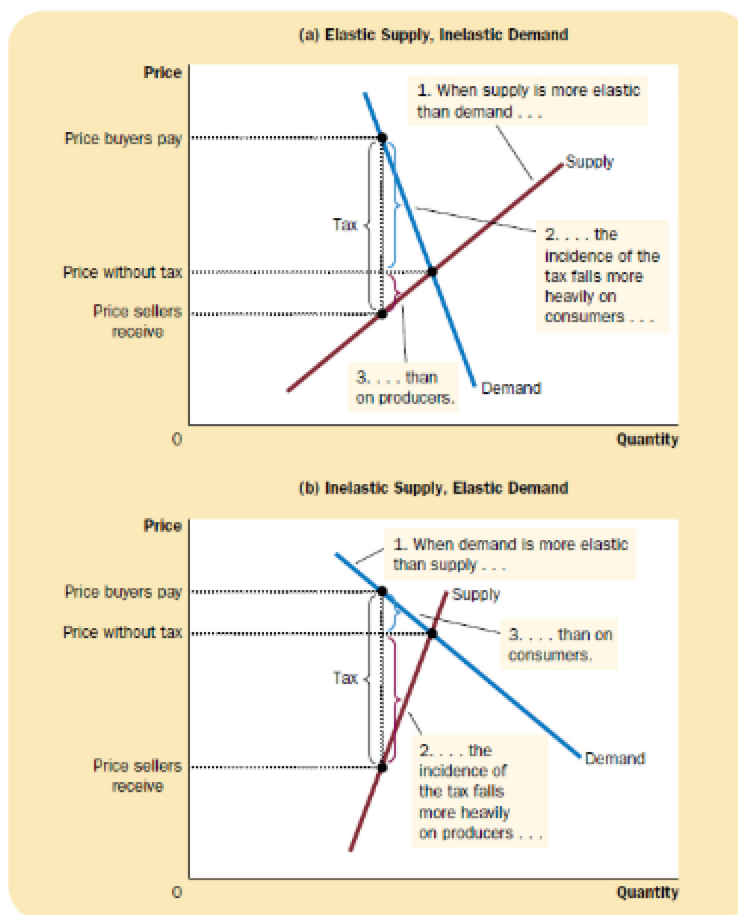


Figure 6-9

HOW THE BURDEN OF A TAX IS DIVIDED. In panel (a), the supply curve is elastic, and the demand curve is inelastic. In this case, the price received by sellers falls only slightly, while the price paid by buyers rises substantially. Thus, buyers bear most of the burden of the tax. In panel (b), the supply curve is inelastic, and the demand curve is elastic. In this case, the price received by sellers falls substantially, while the price paid by buyers rises only slightly. Thus, sellers bear most of the burden of the tax.

As renters' demand for housing in Seoul is inelastic due to lack of alternatives, renters must bear most of the tax burden although multiple homeowners are the statutory incidence

In addition, while taxing multiple homeowners would have increased the amount of available housing from the existing stock, it is difficult to know if the new supply went to non-

homeowners or first-time buyers. There were no mechanisms or incentives that would ensure the transactions induced by taxing multiple homeowners would go to non-homeowners or first-time buyers. Also, in many other instances, multiple homeowners from the baby boomer generation gifted their additional houses to the next generation.

2.4.5. The Young-kul (Panic Buying) Phenomenon

Rising housing prices that showed no signs of cooling eventually created the Young-kul (Panic Buying) phenomenon, which literally means buyers pouring in everything they could afford to rush buying housing, fueling housing prices to rise even further. This was particularly true for the young generation, and the proportion of the population between their 20's and 30's buying apartments rose from 30% in 2019 to 45% in 2021 (Korea Real Estate Board). Parents with the means began gifting money to their children early to help them purchase housing. This inevitably led to the unintended consequence of widening the wealth gap further. According to Saiz, “[b]lanket [policies] are usually unproductive, as they generate general equilibrium impacts that undo their partial equilibrium effects on affordability.” (Saiz, 2023). In the December 16, 2019, announcement, the government imposed a limit of 40% LTV loan on housing under KRW900,000,000 (c. USD650,000 as of July 2024). As the lower wealth group could not afford to buy housing with more restrictive loans that the government imposed, opportunities went to the wealthier group. Furthermore, with housing prices already so high and the government promising to lower housing prices, buying a house under such circumstances could not have been an easy decision for the lower income groups. But what if the lower income groups missed the buying opportunity again, afraid that the government will do as they say and lower housing prices, and housing prices rose further?

In addition, the low wealth group was disadvantaged further as housing prices for homes under the price of KRW900,000,000 rose sharply, as money flowed into this category with more expensive housing facing even more stringent lending requirements (for example, no mortgage allowed on homes valued above KRW1,500,000,000).⁹

Instead of providing a blanket policy that applied to all groups equally, the government should have separated its target group and waived the stricter LTV requirements to allow them to obtain housing without having to compete through the Young-kul phenomenon.

2.4.6. The February 4, 2021, Final Housing Policy Announcement

After the previous 25 announcements that failed to control rising housing prices, on February 4, 2021, Moon's administration made its final real estate policy announcement.¹⁰ Finally, the policies were aimed at increasing the supply of housing in Seoul and the greater Seoul area.

President Moon made a televised apology for the hardship his real estate policies had caused to many citizens. If landowners, public sector, or regional governments identified underdeveloped land in Seoul or the greater Seoul area and proposed for redevelopment, the government would cooperate with swift approval. This was in stark contrast to Moon's policy throughout his presidency that resisted such development as it was considered to widen the wealth gap.

⁹ Anonymous. "Mr. Idiot's Real Estate Story." *Barun Books*. (May 2022)

¹⁰ Ministry of Land, Infrastructure and Transport. Molit.go.kr

Chapter 3: Could There Be a Solution to Seoul's Affordable Housing Crisis?

3.1. The Yoon Suk Yeol Administration's Approach on Housing

Housing prices have begun to fall since Yoon's presidency. Supporters of Moon state that the policy making during the Moon administration is finally paying off while non-supporters insist it is due to high interest rates and has nothing to do with Moon. One problem with housing is that due to its importance to our livelihood, it is almost always highly politicized. Yoon, knowing that one of the key reasons of his administration's victory is due to Moon's housing policy failure, bases his real estate policy on returning Moon's policies back to the status quo. Stating that he will do the opposite of the Moon administration could be good for the polls, but it is too early to know how his policies will unfold. He, nevertheless, perhaps saw Moon's biggest mistake as an opportunity and promises to increase supply as his first step, and to return the housing market to a market based as opposed to a regulatory based structure, thus increasing transaction volume.

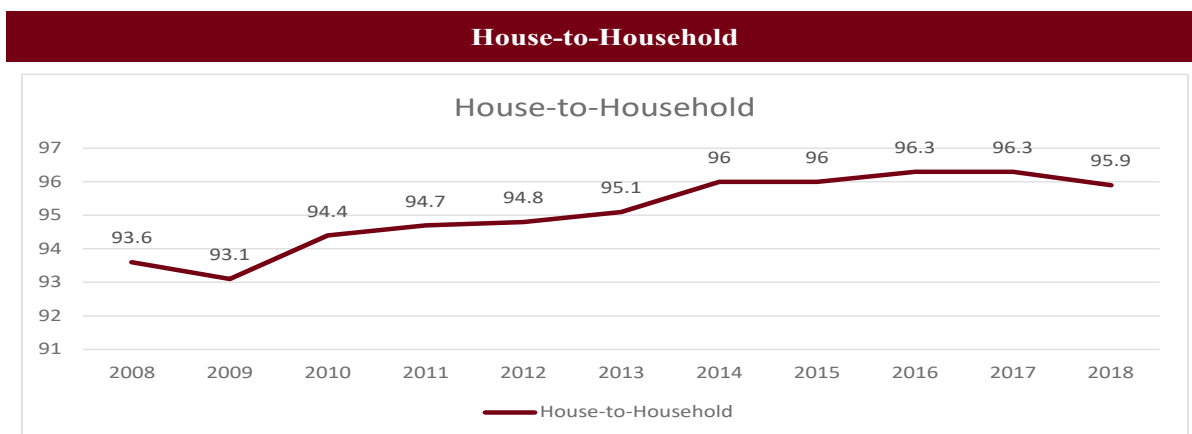
Yoon is generally expected to pursue the following real estate policy changes during his presidency. First, the Yoon administration is likely to amend the capital gains tax rate for multiple owners back to the status quo, and this has bipartisan support. Second, Yoon is also expected to lower the comprehensive real estate and wealth tax. Third, Yoon proposes to remedy the dichotomy between the greater Seoul area and the outer regions as the two diverge in trends. Fourth, he promises to aggressively increase the supply of housing. Finally, he plans to change the controversial Three Lease Laws that is blamed for raising rents despite its good intentions.

3.2. Supply of Housing: Overview

Throughout Moon's administration, it emphasized that the supply of housing was sufficient and that it was excessive speculative demand causing the soaring housing prices. This statement is an oxymoron. The fact that demand grossly exceeds supply means supply is insufficient. In addition, would the supposed speculators eagerly hoard housing as Moon firmly blamed if there were such ample supply? This is a commonsense question, and the answer is no.

The government bases its argument on the house-to-household percentage which is 104.2% for South Korea. However, in Seoul, it is at 95.9% and in many developed countries, the percentage is between 110 – 120% (Lee, 2022). Indeed, commentators argue that a one-to-one ratio of house-to-household is insufficient since such a ratio would make it impossible for households to move to new homes. Also, South Korea overall had already reached 100% house-to-household ratio 10 years ago, and it is odd for the government to use this as evidence that the supply of housing of sufficient now. In any case, Seoul is the key determinant and barometer for policy making, and contrary to the government's claim, housing compared to household is insufficient.

Figure 6. Seoul's House-to-Household Percentage



Source: Lee (2022). House-to-household percentage of Seoul which was 95.9% in 2018 - much below the percentage of 110 – 120% of many developed countries, showing that the lack of supply of housing in Seoul

As of 2018, the population of Seoul was 9,674,000, the number of families was 3,813,000, number of houses was 3,682,000, and the shortfall was 89,000. To make up for the shortfall, Seoul would require an additional 160,124,287 sf of land (Lee, 2022).

According to Statistics Korea, there is practically no additional developable land in Seoul for housing purposes (2022). In other words, as opposed to what Moon's administration stated, housing supply in Seoul is highly inelastic and constrained, unable to accommodate existing and any new influx of housing demand. This indeed makes Seoul immune to speculative capital, but prioritizing punishment of speculators and multiple homeowners over providing affordable housing to those in need ultimately hurts the vulnerable the most. The solution must aim at using land more efficiently through mechanisms such as upzoning and diverting population towards new town developments such as Songdo. The government's understandable concern of speculators' potential unjust enrichment through upzoning and redevelopment can be mitigated by introducing tested frameworks such as inclusionary zoning.

Currently, 53.7% of Seoul is residential, 4.2% is commercial, 3.3% is industrial, and 38.8% is green space. As Seoul no longer requires industrial space, a foolhardy idea could be to convert industrial area into residential to accommodate the housing shortfall, but the industrial zoning has remained as is for almost 60 years. Rezoning precious greenbelts and natural spaces would deservedly face strong opposition as it is environmentally integral to the city. Another alternative would be to convert commercial space into residential, but this would not be ideal as commercial space is often within the vicinity of adult entertainment and lack educational and other facilities within the area that are optimal for residential purposes. Using existing residential zoning, therefore, seems to be the optimal solution.

3.3.1. Upzoning (Overview)

One of the most plausible solutions is to permit upzoning in Seoul for the residential zones. As mentioned previously, expansion in terms of quantity of land is almost impossible in Seoul for residential purposes, and supply must increase through improved quality. Apartments in Seoul now have the technological capacity to build taller (elevators, etc.), but require upzoning from current 1.5 – 2.0 FAR. Increasing total FAR to 2.5 – 3.5 would create 1/3 additional space for residential purposes (Lee, 2022). Not only would this dramatically increase the supply of housing, but it would also make housing prices much more affordable.

This, however, clashed strongly with Moon’s policy of preventing speculators from profiting through the housing market, thus widening the wealth gap, and was resisted despite the positive impact it would have had for affordable housing.

The following Eunma upzoning case study illustrates the tension between using price control as a tool for both affordable housing and wealth gap mitigation, and how the clash has resulted in decades of ongoing stalemate.

3.3.2. Upzoning: The Eunma Apartment Case Study - Affordability vs. Wealth Gap Mitigation

Figure 7. The Eunma Apartment Redevelopment Plan



Picture of the current and redevelopment plan of the Eunma Apartment

The contentious redevelopment plan to upzone the Eunma Apartment Complex that took more than twenty years to be approved is a quintessential example of the clash between price control's two objectives of affordability and wealth gap mitigation. It illustrates the type of battle involving tenacious speculators and an unyielding government in which the Moon Jae In administration admits it lost. Indeed, non-speculators could arguably have had a better opportunity to participate in the newly developed housing if policy focused more on upzoning to maximize the number of units and an inclusionary policy that would require developers to set aside affordable units. The opponents of the redevelopment cannot afford to live in Eunma Apartments either way, but do not want the current apartment owners to profit from what is anticipated to be the most expensive redevelopment project in Seoul's apartment history. The government's policies to prevent possibly rewarding the speculators made this outdated apartment complex built in 1973 to continue occupying a high population density area rather than modernizing and redevelop to suit its surroundings and the local demands. This is just one of many potential upzoning opportunities that exist to alleviate the shortage of housing supply in Seoul to make living more affordable that has been prevented for decades due to concerns of the profits that the speculators could potentially gain.

3.4. Inclusionary Zoning (IZ)¹¹

The government's understandable concern of widening the wealth gap can be mitigated through internationally tested mechanisms such as inclusionary zoning. In addition to the downward price pressure on housing that the incremental supply of housing will achieve, this regulatory affordable housing provides even more affordable units that requires speculators and developers to share their gains. Both mandatory and voluntary inclusionary zoning policies require private

¹¹ Lee (2015)

sector new real estate developments to include “affordable housing: units for sale that are below-market prices and that are made available to qualified low-income buyers.” (Saiz, 2023). As of the end of 2019, thirty-one states in the U.S. and the District of Columbia have a form of inclusionary zoning. (Wang and Balachandran, 2021). Under a typical inclusionary zoning policy in the U.S., the developer of housing property sets aside 15 – 20% of the units to residents with an income below the Area Median Income (“AMI”) by a certain threshold. While inclusionary zoning is frequently criticized as a tax to the developer, the purpose is not only to provide affordable housing, but also to create various other social benefits. In addition, direct government provided housing is often poorly operated, negatively perceived, experiences high rates of crime and poverty, and private sector developed IZ units can solve affordability concerns without such issues.

Inclusionary zoning gained inertia in the United States with the landmark New Jersey Supreme Court decisions known as the Mount Laurel Doctrine cases creating “a constitutional obligation for New Jersey municipalities to provide their ‘fair share’ of their region’s need for affordable housing.”¹² (Fair Share Housing Center). This was in response to many of the low-income black communities being forced out of the cities and to the outskirts, and the doctrine created both affordable housing as well as social mixing within the cities.

Studies for adopting inclusionary zoning in Korea have been conducted, but as of today, Korea does not have inclusionary zoning policies¹³ despite the similar social benefits it could provide as it has in the United States. This is somewhat explained by South Korea not having to remedy historical racial discrimination or class segregation as other countries do, but Korea faces the

¹² A History of the Mount Laurel Doctrine - Fair Share Housing Center
www.fairsharehousing.org

¹³ Lee (2015)

same issue of the young generation being pushed out to the outskirts due to unaffordable housing in Seoul, and inclusionary zoning policies providing below market IZ units to qualified targeted groups can help young Koreans to enter highly stratified housing districts with attractive schools and other benefits that the young generation otherwise would not be able to live in.

It also provides a strong argument against critics who oppose upzoning as it is seen as only widening the wealth gap and profiting the speculators. Through upzoning combined with inclusionary zoning, the developers and the upzoning side will have to share the upside with the community, and the government can determine the amount of the shared profits by using inclusionary zoning as a taxing mechanism. Indeed, in many parts of the United States, developers voluntarily resist development or upzoning as inclusionary zoning has reached prohibitively expensive levels. Inclusionary zoning, thus, allows both sides to strike an appropriate balance at which development and social benefit are both optimal.

3.5. Modification of the Current Tax Structure

While the current tax on multiple homeowners pressures such homeowners to sell their additional homes, the capital gains tax disincentivizes real estate transactions, and should be modified. This way, both tax structures would induce the sale of housing and increase the amount of existing inventory on the market. The amount of available housing from existing stock could grow faster than new supply. Indeed, international organizations such as the OECD and the IMF recommend that Korea increases tax on home ownership as this will induce more sellers to put housing on the market due to the tax burden and that this will place deflationary pressure on housing. Critics of the high tax rate on multiple homeowners state that this tax is currently poorly designed as it only applies to 1.8% of the top population in Korea, and such

punitive tax should not apply to this group since it is not responsible for increasing housing prices.

During the Moon administration, real estate taxes have been used sparingly for various purposes including socioeconomic balancing, curbing speculative demand, price stabilizing and regional balancing. It is also important that real estate taxes do not lose their primary purpose of being an important fiscal revenue source.

3.6. Targeted Financing Solution

The financial system must distinguish nonhomeowners and first-time buyers from others sufficiently instead of collectively applying tight lending conditions equally to all groups. This ensures that the non-homeowners have a greater chance of purchasing a home. With equal conditions applying to both categories, currently, those with high credit, capital and inherited wealth can buy housing while nonhomeowners are unable to obtain a mortgage.

The type of non-homeowners in Korea can be divided into four quadrants: 1) those with both the means and the will to buy housing; 2) those with neither the means nor the will to buy housing; 3) those with the means but no will to buy housing; and 4) those with the will but no means to buy housing and need to borrow. Most of the non-homeowners in Korea fall in the fourth category, and applying the same lending requirements to this group closes off the means of this group to buy housing. Without the means, many non-homeowners are likely to also lose their will. The financing solution should target this group and apply looser LTV requirements at favorable interest rates to allow this group to obtain homeownership without providing such favorable financial options to those who already have the financial means to buy housing and inflate prices.

3.7. Localized Policy Making

Policy making should be more regional as opposed to being centralized. Supply and demand and price monitoring should be done at a regional level as for example, Seoul and the greater Seoul area show almost the opposite housing trends as other regions, demonstrating regional idiosyncrasy. Currently, housing policy is mostly implemented at a national level. While in Seoul, the amount of available and new supply is insufficient requiring policies towards increasing supply, in other regions, supply is increasing faster than demand creating oversupply concerns. One concern of localized policy making is that it can “burden municipal finances or stretch the management capabilities of cities and towns. This is especially problematic is local housing provision or subsidies from unfunded mandates.” (Saiz, 2023). Thus, while housing policy should be implemented on a regional basis, it should be done through an organized and well-funded structure.

3.8. REITs & Alternative Investment Opportunities

The Moon administration largely blamed low interest rates and the abundance of liquidity for the rising housing prices under his administration, and that it was not just a local issue. This may be true, but it is also the government’s role to find an appropriate alternative to real estate that excess liquidity can be deployed. It is the government’s role to find a solution to excess liquidity from flowing into real estate. The proportion of wealth held in Real Estate in Korea is relatively high at 75.5% (Real Estate Policy in the Era of Inequality). For those above the age of 60, the proportion is as high as 80%. This compares to about 45% for those in the U.S. above the age of 65, about half of the amount in Korea. Instead, in the U.S., many hold their retirement savings in safe financial investments including REITs. Developing a fluid REITs market will lower the barrier of entry for Korean investors to participate in the Korean housing investment market while also dramatically reducing the burden of having to maintain the properties. Also, given

how robust housing prices have been, it could potentially be a good asset to have in one's investment portfolio. Currently, the number of Korean REITs that are listed is only seven and the amount is c. KRW7 trn (c. USD 5 bn as of July 2024). This compares to Singapore's REITs market that is approximately USD65.1 bn despite being geographically smaller compared to Korea. Creating a more diverse spectrum of investment opportunities in Korea and reducing the proportion held in direct real estate would help reduce real estate price fluctuations related to interest rates.

3.9. Priority to Government Developed Housing

Another solution is to give priority of government developed housing to non-homeowners and first-time buyers. However, without the will or capacity of non-homeowners to own their home through such a program it could be challenging for the program to succeed. Policies must both incentivize and make non-homeowners capable of affording new housing through various programs that are only available to non-homeowners. This could include advantageous lending conditions, favorable interest rates, supportive financing options, tax benefits, and many other possibilities to allow the non-homeowners and first-time buyers to compete with the homeowners. If the number of homeowners increase, the number of landlords will also naturally decrease, reducing the need for multiple homeowners that certain policy makers such as the Moon administration criticized.

3.10. Special Transaction Structure for Multiple Homeowners & Non-homeowners

To convert non-homeowners to homeowners and to reduce the number of multiple homeowners, the government can introduce a transaction structure that only applies between the two groups. When multiple homeowners sell their extra homes to non-homeowners, the government can provide a capital gains tax incentive – this way the sale would less likely go to another existing

homeowner. In addition, when a non-homeowner purchases a house from a multiple homeowner, the government can waive the LTV requirement for the buyer. Such conditions would only apply in transactions between non-homeowners and multiple homeowners. Since new housing to arrive on the market requires years, inducing existing housing to become available through such mechanisms could complement new supply. This type of targeting avoids the shortfalls of blanket policies with general equilibrium impacts that undo the partial equilibrium impacts on affordability (Saiz, 2023).

3.11. Developing New Towns with Improved Infrastructure to Seoul

The Songdo International Business District



Location	Incheon
Size	53.36 km ²
Total Dev. Costs	c. USD20 billion
Dev. Period	2003 – 2030
Planned Population	265,611 (104,112 units)
Key Plans	International business district, IT, Life Science, landmark city, Incheon New Port, etc.

The Songdo International Business District (“Songdo”) is c. 2,300 acres of reclaimed land from the Yellow Sea that is about one or two hours away from Seoul. The district was developed through a Public Private Partnership between the American firm Gale International, Korean construction company POSCO E&C and the Incheon Free Economic Zone Authority (Saiz, 2023). As one of the smartest cities globally, Songdo has the highest concentration of LEED buildings in the world (Saiz, 2023).

Figure 8: Songdo International Business District



Source: www.archdaily.com. Modern new town in Incheon, Korea that is approximately an hour and thirty minutes away from Seoul with a designed capacity to absorb total population of c. 265,000

The verdict of Songdo Smart City's success is still to be determined, but the number of skeptics seem to be growing as the development began with lofty ambitions that are behind schedule. As of 2023, Songdo was not fully occupied and the investment return to private investors have missed expectations. Songdo's current population is approximately 200,000 out of the targeted 265,611 total.

Critics state that Songdo in reality is further away from Seoul and is too far. This issue should be mitigated in the long run with new transportation technology. In a recent study, 72.3% of the respondents stated that there should be R&D dedicated to developing this technology (KRIHS). There are also not enough jobs within Songdo itself to support its population. Songdo experts believe such massive PPP developments require private sector participation as public sector development of such scale "almost invariably end up in failure."

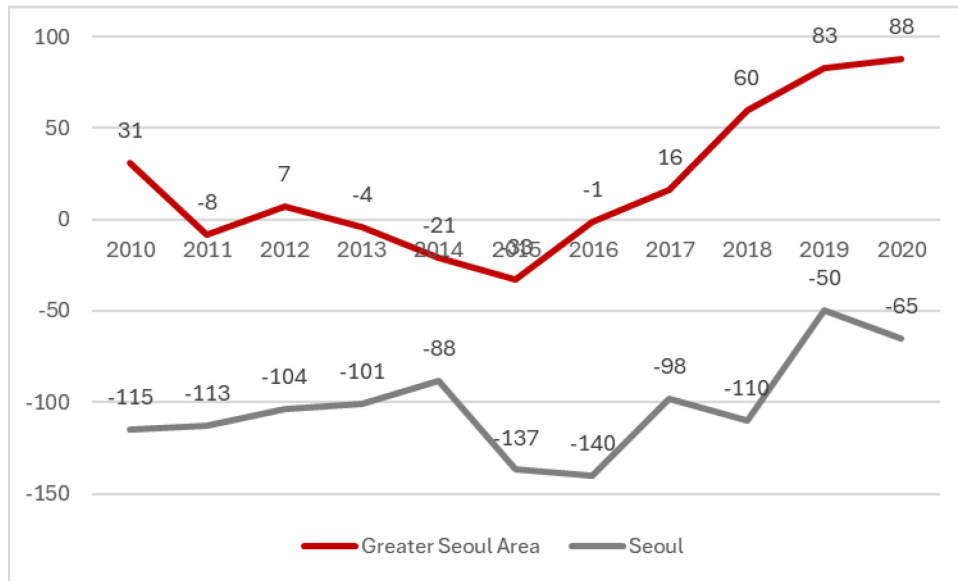
Nevertheless, Korea needs more cities like Songdo and the public sector should be willing to bear the cost burden together. For Songdo, the success or failure of Songdo should not only be measured based on the city itself, but also based on the positive benefits to Seoul. According to Professors such as Lloyd Rodwin of MIT, new towns can only achieve their purpose if they successfully stabilize and decongest overcrowded major cities (Kim, et al., 2022). William A. Robson defines New Towns as being self-contained cities that reduce the need for residents to travel to other areas for work or recreation and residential, commercial and industrial areas are integrated. Such new towns and cities can create comparatively outsized benefits for decongesting large cities such as Seoul. Moving POSCO from one of the busiest areas of Seoul to Songdo undoubtedly has benefited Seoul and alleviated pricing pressure. The concept could be thought of as a supply elasticity transfer.

According to Saiz & Salazar (2019), affordable housing policies that make supply more elastic is a winning strategy. Here, the focus of Songdo's success or failure should not be on Songdo itself, but measured in terms of the benefits it has on Seoul. Songdo absorbed more than 200,000 citizens as of 2024. The downward housing price pressure for Seoul would exceed inflationary pressures for Songdo housing given the difference in supply elasticity. Thus, while the impact might only appear as nominal when evaluating Songdo alone, together with the downward price pressure for housing that Songdo can have on Seoul housing prices can provide a strong argument regarding the success of such new towns.

The inelasticity of supply theory also explains the upward pressure on prices for housing in Seoul. The supply of housing cannot keep up with the continuous influx of population into the city since the 1960's, making housing prices so sensitive to demand change. This argument undermines the Moon administration's position that speculative capital is primarily to blame for housing prices almost doubling under his administration. Policy that can increase supply elasticity despite the constraints Seoul faces could fundamentally solve Seoul's housing affordability issue. New cities such as Songdo can play an important role towards achieving this goal. Moving large government and government related offices and jobs to new cities benefits both the new cities and Seoul. The beneficial impact of decongestion on Seoul, in fact, may exceed the beneficial impact to the new city.

Many critics disagree that new towns can have any positive impact of bringing housing prices down in Seoul. They argue that new towns are too small and can merely make a dent to decongesting Seoul and lowering housing prices. Recent statistics, however, demonstrate that new towns are crucial to avoid housing prices from increasing.

Figure 9: Number of Persons Permanently Moving (Unit: 1,000 Persons)



Source: kostat.go.kr. The number of persons moving out of Seoul has rapidly slowed since 2019

The number of persons moving out of Seoul has rapidly slowed since 2019 and the number of persons moving to the greater Seoul area continues to increase. Despite the net outflow of persons from Seoul, Seoul is still experiencing rising housing prices, and relies on the greater Seoul and other areas to help absorb the population. This is especially true with the number of single households in Seoul growing quickly, making it difficult for supply to keep up.

3.12. Reduced Housing Costs Through Improved Infrastructure

According to the Korea Research Institute for Human Settlements, the Rent to Income Ratio (“RIR”) dramatically increases when including commuting costs. For instance, between the years 2016 – 2017, for Incheon (where Songdo is located), the RIR excluding commuting costs was 17.5%. However, when including commuting costs, it was 4.8%p higher at 22.3%. For families with monthly income below the range of KRW2,000,000 – 3,000,000 (c. USD1,450 –

2,175 as of July 2024), RIR for the greater Seoul area including commuting costs was 29.6%, which was 6.3%p higher than 23.3% excluding commuting costs.

Improved infrastructure is critical to reduce commuting costs and travel time necessary to disperse the crowded population of Seoul to a wider area including places like Songdo. In the short term, additional infrastructure could be as simple as buses. However, to alleviate Seoul's congestion on a larger scale and to connect Seoul with new towns that are further away, faster public transportation would be required to ensure realistic accessibility to Seoul.

The Seoul – Songdo Supply Elasticity Shift (Illustration)

Figure 10. Seoul Supply Elasticity

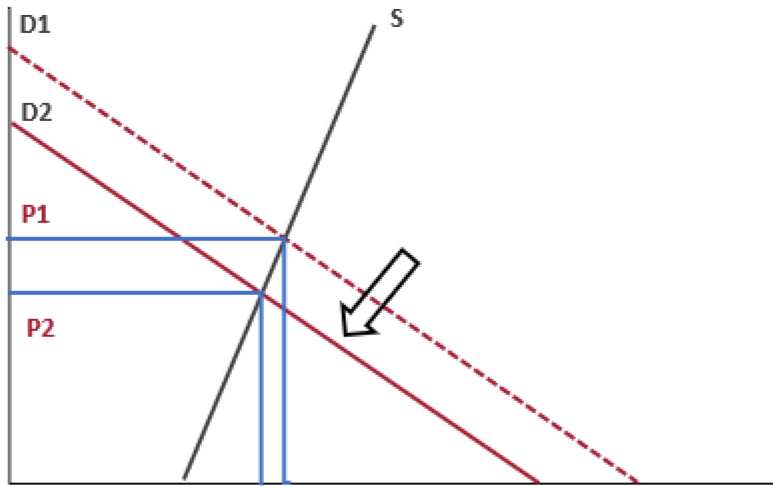
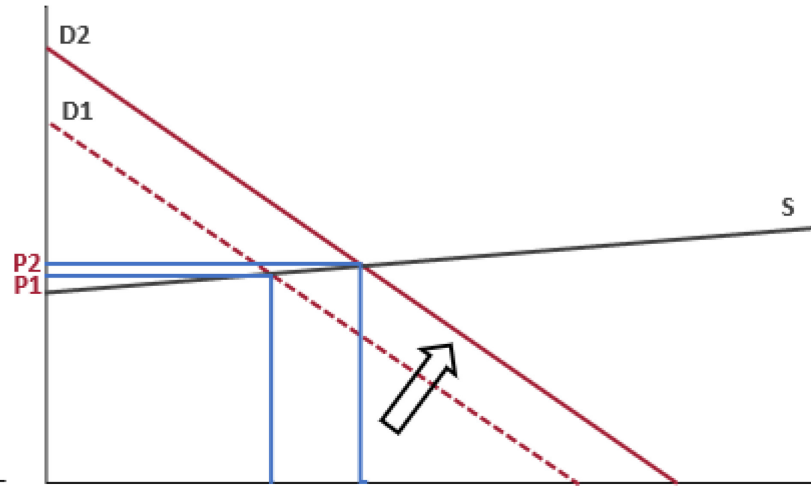


Figure 11. . Songdo Supply Elasticity



Given the inelastic supply of housing in Seoul compared to the supply of housing in a new town such as Songdo that still has capacity for more space, the deflationary impact on Seoul of moving people to Songdo could exceed the inflationary pressure it has on a new town such as Songdo

Chapter 4: Going Forward

One of the lessons to take away from Moon's administration is that policy based on suppressing demand that is not accompanied by an increase in supply of housing is insufficient to overcome market dynamics. This was especially true under Moon, as low interest rates and abundant capital from COVID-19 fueled apartment prices to rise in Korea at one of the fastest rates in history.¹⁴

The new Yoon administration states that it will set its real estate policy mostly in the opposite direction from Moon's. First, it promises to increase supply of housing by reigniting development and redevelopment again. It promises to waive the cumbersome and procedurally uncertain Detailed Safety Inspection requirements (the first step required for development) on housings that are over 30 years, increase maximum FAR to 5.0 for redevelopment near transportation stations, and modify many other policies that were implemented under Moon that interferes with development. Second, his housing plan will mostly be based on helping nonhomeowners and first-time buyers buy their house at a low price rather than gain housing through other subsidized means. Third, he will supply a total of 250,000 housing out of which 200,000 will be supplied by the private sector (Kim, 2022). Fourth, the Yoon administration is also highly expected to modify the capital gains tax rates that were introduced under Moon, as they were unpopular and seen as punitive. Under Moon, capital gains tax rate for real estate reached as high as 75%. Fifth, he will mitigate the imbalance between the Seoul and greater Seoul area and the rural South Korea. Population of outer South Korea is declining at a much faster pace than it is near Seoul, and specific policy making that addresses issues regionally can help cure and prevent the imbalance from exacerbating. Finally, Yoon is expected to at least

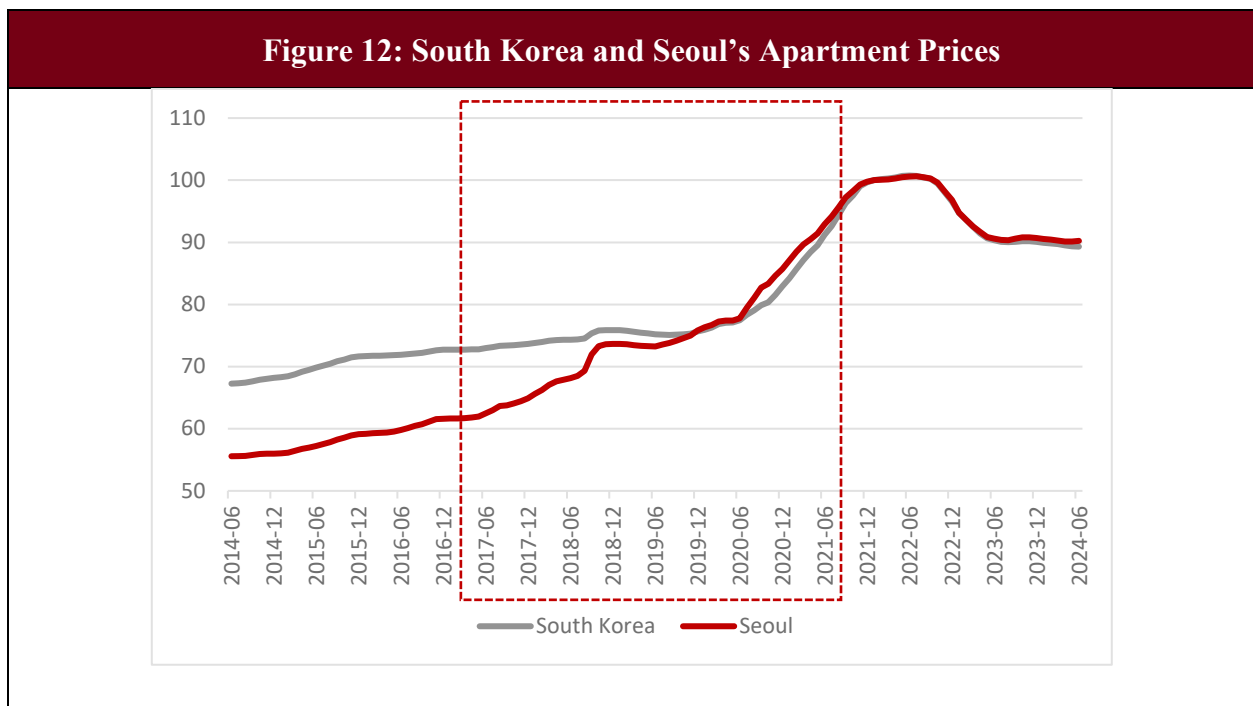
¹⁴ KB Kookmin Bank

modify the controversial “Three Lease Laws” (임대차 3 법) that was passed during the Moon administration. The laws are intended to protect renters and non-homeowners from abusive tactics by homeowners but is widely criticized for its unintended consequences. Under the laws a tenant is allowed to extend a lease for a given term (generally 2 years) under similar conditions as the initial lease, and monthly rent hikes are limited to a certain percentage above the inflation rate. Many politicians that advocated the law became a national embarrassment when it was discovered that they raised their annual and monthly rental rates on properties they owned right before the law was passed. In addition, the laws are widely blamed for increasing rental rates instead of protecting renters.

Chapter 5: Possibility of a Market Crash & Aging Population

5.1. Possibility of a Market Crash

With housing prices soaring as quickly as it did, many are also concerned of the possibility of a downturn and a housing market collapse.¹⁵ In fact, housing prices have been falling recently with higher interest rates. The Young-kul (Panic) buyers who rushed into buying apartments at the last timing with all the leverage available to them might now not have enough to repay their mortgage. Many other factors that drove up prices could end up bursting the bubble.



Source: KB Kookmin Bank. The red box indicates Moon Jae In's presidency

South Korea, however, has not experienced a housing market collapse so far since the 1980's and it is unlikely therefore to see a housing market collapse as the U.S. experienced during the global financial crisis. It is undeniable that housing prices in Korea rose at their fastest rates under Moon, and to expect a market correction or even large drop in prices as we have seen in

¹⁵ Kim (2022)

the Korean housing market in the past is reasonable. The critical factor seems to be whether the Yoon administration delivers the new housing units as its promises. Without any correction, the market could reach a bubble that in the future could cause greater damage to the economy.

5.2. Aging Population

When will housing prices no longer consider speculation or housing supply as major threats and experience an ongoing downward path due to population decline? As of 2020, the population in the employment market was 37.8 million which is expected to decrease by 3.6 million every 10 years and reach 17.4 million by 2070. A substantial number of baby boomers is expected to shift into the aged population soon. Based on these assumptions, the total population will reach 48.0 million between 2036-2038 when decreasing population is expected to become a problem causing deflationary housing prices. Until the housing cycle reaches this stage, it is important to manage housing supply and demand concerns.

Chapter 6: Conclusion

This thesis explores the powers and limitations that the Korean government can have on homeownership affordability through an examination of President Moon Jae In's real estate policies and recommends solutions to remedying the housing prices that have soared under his administration. The solutions focus on providing housing to nonhomeowners and first-time buyers. Lessons from the Moon's administrations are that it focused on what policy cannot achieve, such as suppressing speculators and controlling prices, and did not focus on what policy can achieve, which are increasing supply and promoting development and redevelopment. Governments must understand the limits of the power that policy making can achieve and balance it with market forces rather than use it as a "Whack-a-Mole" game as the Moon administration did with its 26 real estate announcements each time it saw a problem.

In terms of geographic size, South Korea ranks 108th in the world. The population, on the other hand, is 28th, and the GDP is 10th. Thus, South Korea is geographically a small country compared to its population and economy. In addition, being a country that was mostly in ruins after the Korean War that grew its economy into today's, such densification and unaffordable housing arguably is inevitable. Nevertheless, the rise in housing prices is also a recent phenomenon.

Both supply and demand side policies can be used to address the homeownership issue in Seoul. What Moon and his policy makers demonstrated was that even if an administration determines to focus on the demand side, increasing supply of housing in Seoul is a difficult but necessary task that cannot be neglected. The Moon administration was perhaps the first to not prioritize housing supply and focus on demand side control. With the amount of additional land in Seoul constrained, additional housing must come from improved quality of existing housing through upzoning and additional methods. Also, increasing the supply of housing, while fundamental, is

neither a panacea nor the only remedy. Critics of the Moon administration tend to view any type of demand side intervention negatively, as it could bring unintended consequences. However, targeting nonhomeowners and first-time buyers at a greater level and not applying the same standard could help avoid a housing price boom while allowing the targeted group to gain the necessary financing to buy housing.

Continuing to disperse Seoul's population towards the greater Seoul area through new towns and improved infrastructure can help decongest busy Seoul. This has already been demonstrated by new towns such as Songdo through transferring the headquarters of POSCO to Songdo from one of Seoul's busiest areas.

Korea's population is expected to pinnacle between 2036-2038, when housing prices will naturally begin to trend down. In the near term, the government, and the Korean society both have a strong incentive to convert the 58% of population that are nonhomeowners into homeowners.

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