

The (Re)production of Urban Housing Space and Housing Policies in South Korea in the 1980s and 1990s: from Institutional Perspectives

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Abstract : Although it is widely accepted that housing agents and institutions play a crucial role in (re)configuring the internal structure of housing markets, there is no much literature on the power relations among housing agents and institutions in the (re)production of housing space in the non-Western context. In this paper, founded theoretically on institutional approaches to housing, I investigate the structure of housing production and allocation, and the housing market system in South Korea. In addition, this research explores the characteristics of Korean housing policies in conjunction with the roles of and the interrelationships among housing agents in the (re)production of housing space in the Korean context. Based on the analysis of the structure of housing production and allocation in Korea, I argue that institutional approaches are valuable in investigating the housing market system in which political power relations among agents play more significant roles than pure market mechanisms in the (re)production of housing space.

Key Words : institutional approaches to housing, housing policy, housing (re)production and allocation, housing market system, housing agents

요약 : 주택에 관한 제도적 접근을 이론적 배경으로 한 이 논문은 1980 - 1990년대 한국의 주택 생산 및 분배 구조, 그리고 주택 시스템을 연구하였다. 더 나아가 이 논문은 한국적 맥락에서 주택 공간의 생산 및 재생산에 주택 에이전트들이 어떠한 역할을 하였는지, 그리고 그들간의 역학관계는 어떠한지를 연구 주제로 하여 한국 주택 정책의 특징들을 분석하였다. 주택 시장 및 도시 주거 구조에 관한 제도적 접근의 연구 초점은 바로 주택 에이전트들간의 역학 관계 및 갈등의 맥락에서 도시 토지 및 주택 시장의 제도적 구조를 분석하는 것이다. 주택 에이전트의 역할, 주택 정책, 그리고 주택 관련 제도가 결정적 인자로 작용하는 한국 도시 주택 (재)생산 및 분배 구조 분석에는 주택에 관한 제도적 접근이 매우 유용하다.

주요어 : 주택에 관한 제도적 접근, 주택 정책, 주택 (재)생산 및 분배, 주택 시장 시스템, 주택 에이전트

1. Introduction

Founded theoretically on institutional approaches to housing, the following questions were raised for this research: What principal actors have been involved in housing (and land) development in

Korea? What are the roles of central and local governments, quasi-governmental and financial institutions and Korean multinational corporations (*Chaebols*), with regard to the housing development regime in Korea? How has Korean housing policy evolved? What are the impacts of Korean housing

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policies on the uneven housing development patterns in Korean urban housing markets?

In this paper I seek to apply the institutional approach to the housing market system in Korea, as a non-Western case study, and to draw the implications of the institutional approach in the Korean context. The analysis is structured as follows. In section 2 I review institutional approaches to housing markets as theoretical background, focusing on the role of agents and institutions in the private housing market with reference to power relations over and influence on the (re)production of housing space. This is followed, in section 3, by a review of the Korean housing market system and the structure of housing production and allocation. In this section I pay particular attention to the roles of and relations among agents and institutions in the production and allocation of housing in the Korean context. In section 4 I then investigate how Korean housing policies have conditioned the relations among agents and institutions with regard to the housing (re)production and allocation in Korea. In this section, I further explore the features and shortcomings of Korean housing policies with particular emphasis on the social inclusion and exclusion in Korean housing politics. Finally, in section 5, some conclusions are drawn. It is suggested that institutional approaches are valuable in investigating the housing market system in which political power relations among agents are more important than market mechanisms in the (re)production of housing space.

2. Institutional Approaches to Housing Markets

1) Role of Agents in the Private Housing Market

There is a whole range of institutions and interests involved in the production of housing. It is useful to think of urban housing development as a process

that involves a variety of 'actors' or decision makers, each with rather different goals and motivations (Aronsson, 1995; Bassett and Short, 1980; Berry, 2000; Clark and Mulder, 2000; Page, 1996; Palm, 1985; Smith and Mertz, 1980; Teixeira, 1995).

As the agents interact with one another over specific housing development issues, they constitute an organizational framework for urban housing building. It is through these frameworks that the urban residential fabric is created and modified. The resulting process of urban housing development involves a complex ebb and flow of investment, disinvestment, and reinvestment. These approaches have been regarded as 'institutional approaches' to housing markets (Bassett and Short, 1980; Fallis, 1990; Page, 1996; Roseland, 1993; Tomann, 1990; Williams, 1982).

There are plenty of 'agents' such as institutions, organizations and individuals that seek different purposes and participate directly and indirectly in the private housing market. "The interaction among these agents creates the environment in which household housing decisions are made, housing choices are realized and housing constraints imposed" (Bassett and Short, 1980, 57). Each agent has different sets of interests, constraints, and opportunities afforded by their position in the planning system and within the wider society. The activities of a housing agent operate as either constraints or opportunities for the activities of other housing agents in the housing and financial systems.

Through focusing on how an urban housing market is influenced by various social agents and institutions, institutional perspectives can provide an analytical tool for examining the internal structure of the housing market. Furthermore, the institutional approaches to housing provide a useful device for analyzing the interrelationships among agents and institutions, which enable us to better understand the operation of housing markets.

Regarding institutional approaches to housing markets, Bassett and Short (1980, 98) point out that

“an analysis of the different housing agents involved in the housing market provides a useful and revealing way of exploring the functioning of different housing systems and their effects on household choices, household constraints, and residential structure.”

In this sense, the institutional approach to housing highlights not only how the housing agents and institutions affect the production, consumption, and exchange of housing, but also how their decisions wield a significant influence on the housing opportunities and constraints of different types of households in housing markets. For instance, governments and planners are directly involved in the production of housing space through the implementation of zoning regulations and planning restrictions. The role of zoning regulations and planning restrictions has increasingly been inscribed in the development of urban residential structure. This has been illustrated by the fact that planners have been increasingly empowered in choosing, releasing, or withholding land for housing development, which has not only obvious consequences for the location of new housing development but also the implications of changes in the real estate value of the neighborhood.

Government plays a significant role in the housing market because it sets a fiscal framework in which financial institutions and other housing agents operate. The fiscal framework can either stimulate or retard the mechanism and flow of (re)production of housing. While engaging in economic and land use planning, government creates various frameworks—such as land use policy, land tax policy, and broad economic and social policy—that affect the housing market decisions of the various housing agents at the local scale. The local political system provides the crucial connecting links among central government policies, local housing problems, and local housing policy outputs.

A number of questions immediately present themselves as relevant to policymaking in general

and housing policy in particular. Which housing needs actually find expression in the decision-making arena? How are policy decisions actually made and what determines the success and failure of different policy initiatives? What are the major factors explaining variations in housing policy among local government systems? How do the conflicts generated by housing policy feed back into the political system and with what effects?

2) Space, Power, and Conflict

Institutional approaches to housing markets and urban residential structure focus mainly on the institutional structure of land and housing markets around the broad themes of power and conflict. Starting from Pahl's works (1975, 1977a, 1977b), the institutional approaches to urban housing markets have sought to analyze the institutional structure of housing markets with reference to the role of urban managers and the nature of housing constraints imposed on different types of urban households.

Different institutions have different resources they are able to command, different internal institutional networks, different degrees of power and influence on housing, land, and financial markets, and different responses and images of the markets. Institutional approaches are mainly concerned with the way in which the socio-political interactions among the institutions such as conflict and bargaining can affect land-use changes including (re)production of housing space.

The approaches try to understand how urban housing markets operate on the basis of housing opportunities and housing constraints that result from a myriad of interactions among various housing agents and institutions. Thus, many scholars using the institutional approaches investigated urban housing markets through the lens of power groupings and conflicts associated with the housing markets. Institutional approaches to housing markets focus on not only power relations among housing agents but also social and locational conflicts

over housing space and land use.

Given the fact that power relations are embedded in spatial organization, urban political research should include an in-depth analysis of interrelationships between location and power. An extensive endeavor to link, not only theoretically but also empirically, the themes of location, power, and conflict may enable urban political geographers to better understand how space is organized in conjunction with power relations and locational conflicts. For instance, in socio-political processes in a housing market, the unequal power relations among agents and the unequal (re)distribution of real estate wealth among social groups reflect the fact that some agents are better able than others to influence housing-market processes and to gain the benefits from the power relations.

According to urban managerial perspectives, there is a variety of managers who have a significant effect on the allocation of housing. Urban managers in housing markets are housing officials in the central and local governments, representatives of building societies, estate agents, landlords, and so forth. Analyzing the politics of the institutions and urban managers can provide a better understanding of the operation of the housing market and the nature of allocation of housing in conjunction with housing opportunities and constraints.

Three primary questions within managerial approaches would be: Who are the individuals and what are the institutions that supply and allocate housing? What rules and procedures do they use to allocate housing? What are the socio-political effects of their rules and consequent actions on different types of households? The last question is directly associated with the distributional question of who gains and who loses.

Pahl (1975) suggests that the fundamental questions should be, "Who gets the scarce resources and facilities? Who decides how to distribute or allocate these resources? Who decides who decides?" (185). He states that the urban managers, such as estate

agents, government officers, property developers, and representatives of building societies, play a crucial role in distributing and allocating resources. The managers "exert an independent influence on the allocation of scarce resources and facilities which may reinforce, reflect or reduce the inequalities engendered by the differentially rewarded occupational structure" (Pahl, 1977a, 50).

Although urban managerialism focuses on the actions, ideologies, and consequent effects of various agents and institutions involved in the supply and allocation of housing, much of the literature on urban managerialism did not pay much attention to the "local" socio-political conditions upon which the different roles and effects of various urban managers are based.

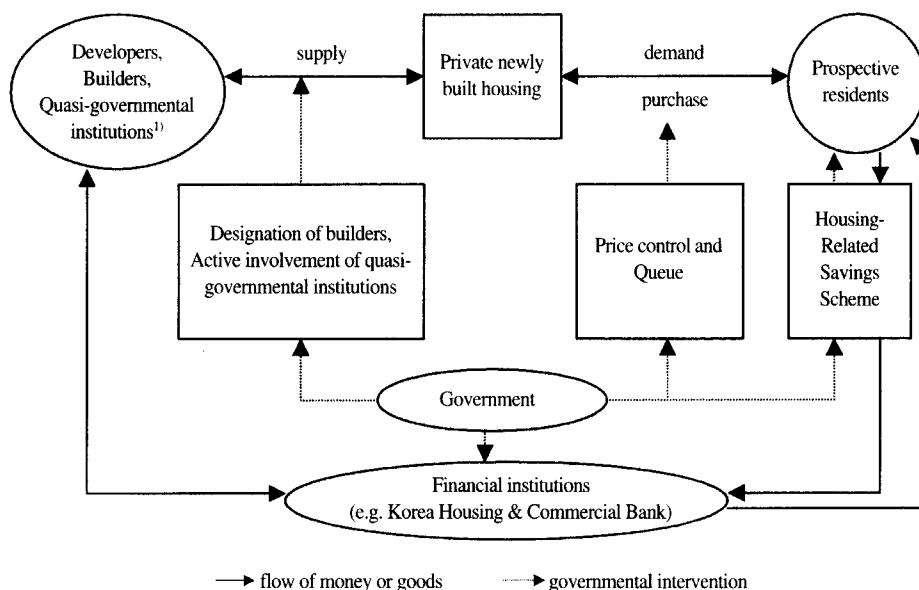
3. Korean Housing Market System and the Structure of Housing Production and Allocation

Korean housing markets can be categorized into four types: (1) the private newly built housing market, (2) the private second-hand housing market, (3) the public rental housing market, and (4) conversion of public-sector housing to private-sector housing (Figures 1 and 2). These four types of housing markets are different from each other in the way in which housing supply and demand interact, and in the types of intermediary institutions that are actively involved.

The private newly built housing market is characterized by price control, queue, and the active intervention of the central government and quasi-governmental institutions. The price of a newly built house is regulated by the central government through a price-control system. Through the designation of the *Chaebols* (Korean multinational corporations, such as Hyundai, Samsung, Daewoo, LG, Daerim, and Lotte) as the primary house builders and the authorization of the quasi-governmental

Private-sector Housing

(1) Type I. Private newly built housing market



¹⁾ Korea Land Development Corporation, Korea National Housing Corporation, etc.

(2) Type II. Private second-hand housing market

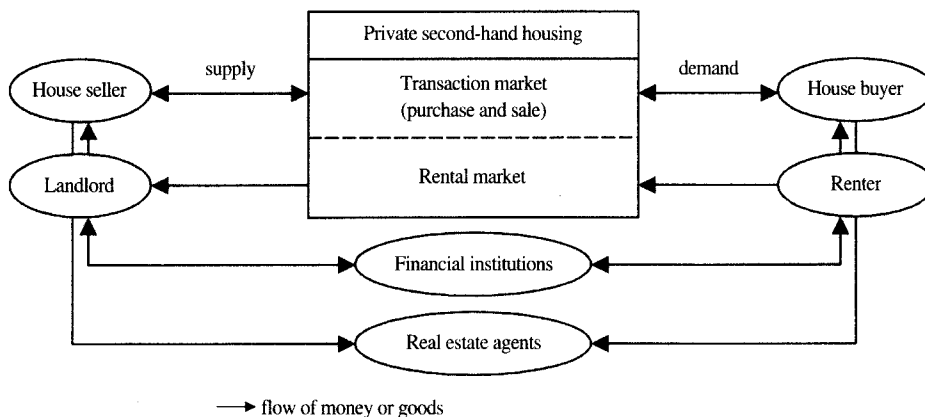


Figure 1. Generalized Diagrams of Korean Housing System in the 1980s and 1990s: Private-sector Housing

institutions as the main organizers for supplying developable land and money, the Korean central government efficiently intervened in the private newly built housing market (Figure 1, type I).

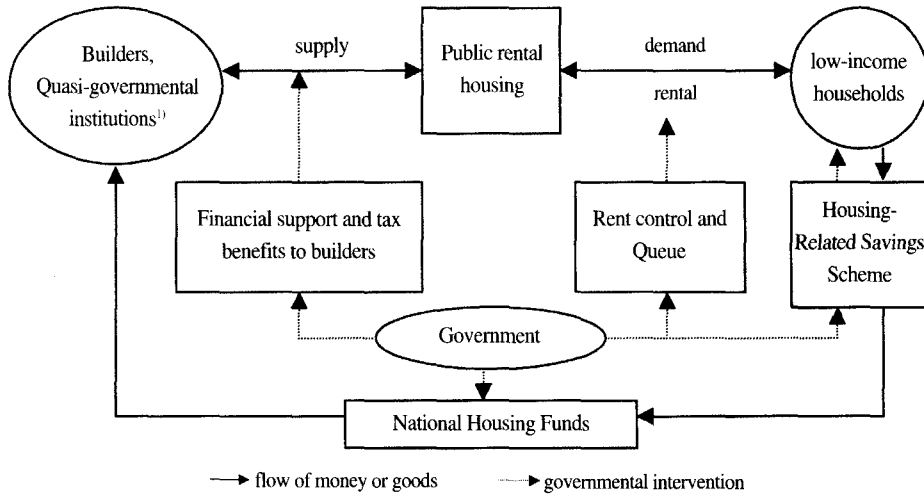
The main feature of the private second-hand housing market is that the market is based on the pure market mechanism without any significant

intervention of government or quasi-governmental institutions (Figure 1, type II). In contrast to the private newly built housing market, there is neither price control nor queue in housing transactions under the private second-hand housing market.

Compared with private-sector housing, the proportion of public-sector housing in Korea is meager.

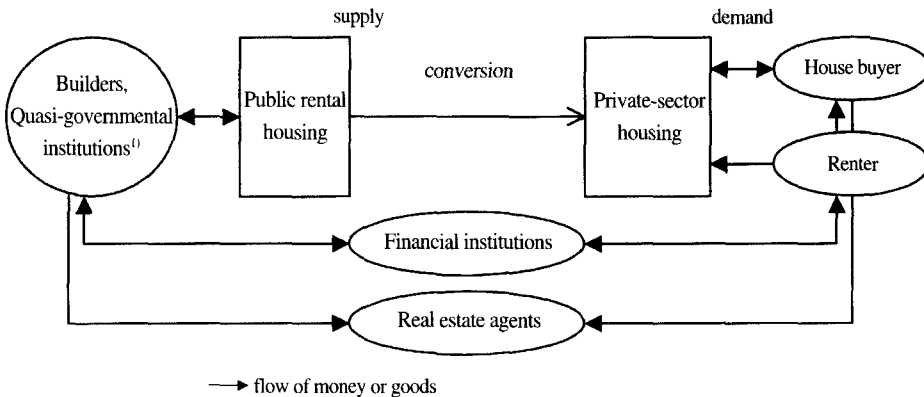
Public-sector Housing

(3) Type III. Public rental housing market



¹⁾ Korea National Housing Corporation, etc.

(4) Type IV. Conversion of public-sector housing to private-sector housing (after or within 5 years of the lease)



¹⁾ Korea National Housing Corporation, etc.

Figure 2. Generalized Diagrams of Korean Housing System in the 1980s and 1990s: Public-sector Housing

As of 1990, the number of existing rented houses provided by the public sector was estimated at about 0.2 million units in cities. It accounted for only about 4.4 percent of the total housing stock (Korea National Housing Corporation, 1991). Besides, within the public rental housing stock, the ratio of public housing rented permanently is minimal.

Similar to the private newly built housing market, the public rental housing market consists of rent control, queue, and the intervention of government

and quasi-governmental institutions (Figure 2, type III). A large portion of the public rental housing has been converted to private-sector rental or owner-occupied housing after or within 5 years of the lease (Figure 2, type IV).

The main difference between the Korean housing system and the U.S. housing system can be found in the method of allocation of new housing. Korean housing markets are clearly divided into the newly built housing market and second-hand housing

market. In the newly built housing market, house buyers are required to participate in the Housing-Related Savings Scheme, pay deposits for preferential purchase rights for new housing before construction, and form a queue for the purchase of new housing at controlled prices. This method is the reverse of mortgage loans in which households pay the house price after purchase. The Korean central government has focused on intervention into and regulation of the newly built housing market. In the second-hand housing market, house sellers and buyers rely on the pure market mechanism without any price control from government.

Under the circumstances of continuous housing shortages, the Korean government considered funds for housing construction as more effective than financial support for housing consumers. This supply-oriented housing policy was based on the thought that housing funds channeled directly to builders would stimulate housing supply in a short period, whereas funds for demand would ultimately exacerbate escalating house prices.

For the Korean central government, both price control and the Housing-Related Savings Scheme have been the main mechanisms for raising housing construction funds and intervening in the housing market system. The Housing-Related Savings Scheme is characterized by both the preferential purchase rights for the consumption of new housing and the ideology of the queue. With the launch of price controls and the Housing-Related Savings Scheme in the 1970s, the Korean government set a peculiar allocation rule (the Decree on Housing Allocation) with respect to the allocation of new housing. After the enactment of the decree, newly built housing was divided into both regulated new housing and unregulated new housing. Any new housing construction project with more than 20 housing units is categorized as regulated new housing and is subject to price control. This regulated new housing is allocated to housing-related savings account holders. The price of regulated new housing

has been set usually at half to one-third of market price. Through this price-control method and the difference between controlled price and market price, the Korean government has been able to induce a lot of savings from large numbers of people, and then to invest the savings in the construction of new housing. The proportion of regulated housing in new housing supply was more than 60 percent of new houses in Korean cities in 1990 (Cho, D., 1993).

Contrary to the case of regulated new housing, new housing (mostly single-detached houses and row houses) with fewer than 20 housing units is categorized into unregulated new housing, and is subject to the free market. Therefore, there is no specific governmental financial support for builders in the construction of unregulated new housing.

Due to the launch of the Housing-Related Savings Scheme, public finance for housing construction continually expanded. Over half of the housing funds in Korea were raised by such savings in 1990. By 1991, over 3 million households had joined the Housing-Related Savings Scheme and waited for new housing construction (Huh, S. M., 1992). Their savings were the main source of new housing construction funds. The Korea Housing & Commercial Bank allocated a large portion of its housing funds to builders. Housing loans to builders at a low-interest rate have been allocated mostly for the construction of high-rise apartments. Using this allocation system of housing funds, the Korean central government has been able to influence the production of housing space. Thus, the Korean central government developed a self-sustaining housing finance system that connected household savings to the housing construction costs of builders in order to stimulate housing supply. The government regarded the scheme as a solution for the deficit in housing construction funds, by linking household savings with the housing allocation system. Moreover, the Housing-Related Savings Scheme has been the means by which the Korean central government is able to

intervene in demand for new housing.

In order to stimulate housing supply further, the Korean government allows house builders to sell apartment units to the account holders of the Housing-Related Savings Scheme as soon as 10 to 20 percent of the construction is completed. The account holders who are selected as the privileged consumers of new houses pay 20 percent of the controlled price before the construction, 60 percent during construction, and 20 percent at the time of residential occupancy (Jung, C. M., 1992). Thus, the account holders as prospective residents are actually financing the house builders even during the construction period with no interest charge.

In order to minimize costs under the controlled price of new housing, builders are likely to build standardized apartments with standardized exterior and interior design. Given the constraints of escalating urban land prices, industrialized large builders constructed mainly high-rise apartments at high densities. Thus, the combination of the profitability for builders under the price control of new housing and the government's supply-oriented housing policy led to the prevalence of high-rise apartments in the cityscape.

Under the circumstances of chronic housing shortages and land and house price escalation in the 1980s, many households considered participation in the Housing-Related Savings Scheme as a guaranteed capital gain in the near future due to the widening gap between the controlled prices and market prices of new housing.

The rate of increase in house prices outstripped that of increase in income of most households in the 1980s. However homeowners, who were over 40 percent of urban households in 1990, gained enormous capital gains through the escalation of house prices. Moreover, households who purchased new housing through the Housing-Related Savings Scheme had greater windfall gains because house-price inflation widened the differences between controlled prices and open market prices. Thus, due to

the capital gains for a large fraction of urban households, the allocation system of new housing and house-price escalation ironically acted as one of the main mechanisms for the political legitimation of the Korean government especially in the 1980s.

Under the operation of the new housing system, housing tenure divisions in Korea strongly represent a household's status on the social ladder, since those who join the scheme can become homeowners of decent new houses, while those who cannot afford the savings of the scheme remain in the rental sector.

The Housing-Related Savings Scheme encouraged households to save more money and to put their savings into the funds for new housing construction. The Korean central government used the Housing-Related Savings Scheme as an alternative to using taxes and borrowing from banks in order to expand the housing supply. However the drawback of the Housing-Related Savings Scheme was the likelihood and encouragement of speculative behavior because the households who participated in the scheme were able to buy new houses at less than their market prices and then sell the houses at the higher market prices.

More people participated in the Housing-Related Savings Scheme with an anticipation of investment profit than with a hope to become homeowners. In other words, the number of those who targeted speculative profit by taking advantage of the scheme is greater than that of those hoping to escape from renting. According to a survey, 26.7 percent of those who participated in the scheme considered the scheme as an opportunity to earn investment profit, whereas 21.7 percent wanted to own a house. Among the survey respondents, 51.6 percent had both purposes in mind: to earn investment profit, and to own a house (*Dong-a Ilbo*, November 25, 2001).

In Korea, quasi-governmental institutions have been actively involved in the production of private and public new housing. Those institutions include the Korea Land Development Corporation, Korea

National Housing Corporation, Korea Housing & Commercial Bank, and so on. The Korean central government authorized the Korea Land Development Corporation to intervene in the large-scale residential land development processes. Using the authorized power of eminent domain, the quasi-governmental institution purchases agricultural land and converts it to residential use. After public facilities are installed on the land, the Korea Land Development Corporation sells the land either to public entities, such as the Korea National Housing Corporation and local governments, or to private developers. The entire process of the supply of urban land has been strictly regulated by the central government. Speculation in real estate can be in part attributable to the central government's strict regulation of land use. The price of urban residential land rose sharply by 1582 percent between 1979 and 1985 (Kim, W. J., 1997). This skyrocketing increase in land prices made the supply of housing harder.

While housing supply in Korea has been constrained by high urban land prices, housing demand has been encouraged by several factors such as more prosperity, elevated tastes, smaller households, and migration from rural to urban areas. The interaction of the constrained housing supply and the escalated housing demand led to the high probability of speculation in Korean metropolitan areas. In large Korean cities, especially in the Seoul metropolitan area, housing demand exceeded housing supply, making house prices and rent levels rise, and setting the stage for speculation during the 1980s.

Responses to the shortfall of housing supply given the level of unfilled housing demand in Korea have been (1) *queues*, which are one form of rationing; (2) the *Housing-Related Savings Scheme*, which is also a form of rationing in which one can move up in the line depending on one's penchant to save, but which also increases the saving rate, which increases the money available for new housing construction; (3) *overcrowding* in which low-income households double up because extra units are not

available at prices they are able to pay, or are willing to pay; and (4) *escalating house prices and rent levels*, which make it more difficult for low-income households to find affordable housing in Korean metropolitan areas.

The rise of consumerism and the propagation of materialistic values was one of the dominant cultural trends between the mid-1980s and the mid-1990s in Korea. Korean urbanites became more materialistic as capitalism in Korea, in its search for profits, turned away from the regulated realm of production in the 1960s and 1970s towards the realm of consumption in the 1980s and the 1990s. The relative affluence of the last two decades allowed many upper- and middle- class households to be more attentive to consumption and consumerism in Korea. Consumption became the conspicuous aspect of urban life in Korea.

From the point of view of urban social geography, one of the pivotal aspects of this trend in Korean cities was the high demand for homeownership, the consequent formation of the tight housing markets especially in the Seoul metropolitan area, and the increasing emphasis on the house as an expression of self and social identity in Korean urban life.

4. Korean Housing Policy

1) Evolution of Korean Housing Policy

Korean housing policies during the 1960s can be characterized by the term *laissez faire*. However, private house builders could not supply enough houses to keep pace with rapid urbanization and the increasing number of nuclear families. Both the lack of sufficient housing supply and increasing housing demand in urban areas resulted in the onset of speculation in real estate in 1967 and 1968 (Kang, G. B., 1996). From the late 1960s, Koreans began to regard housing as the most important commodity for profit, with an emphasis on its exchange value rather than

its use value. This gradual transition in the perception of housing resulted from the interaction between rapid urbanization and economic growth.

During the 1960s, Korean migration patterns were mainly characterized by the concentration of rural people into large cities. This rapid increase in urban population enabled house builders to make a relatively high profit. At the same time, urbanization in Korea during the 1960s was accompanied by growing consumer purchasing power owing to the onset of unforeseen economic growth. This economic growth partly enabled some individual households to begin investing their extra money in housing and to regard housing as a source of large profit based on its exchange value. In addition, both rapid urbanization and economic growth made it possible for some house builders to set up large enterprises oriented to mass production of houses, especially apartment complexes, to gain a large profit in a relatively short time.

In the 1960s, the Korean central government began to implement clearance projects, targeting squatter settlements that resulted from the massive flow of low-income rural migrants to urban areas. The large-scale migration flow was associated with the political turbulence following independence from Japanese colonial control and the Korean War during the late 1940s and 1950s. Local urban governments were charged with handling the displaced low-income households.

The Korean central government promulgated the First Housing Construction Ten-Year Plan (1972-1981) with the goal of constructing 2.5 million housing units within 10 years, with mottoes such as 'every household to its own house' and 'one household one house.' Paralleling this ambitious plan, the Housing Construction Acceleration Act was enacted in 1972. The main objective of the Act was to bolster housing supply by issuing housing bonds, beginning a housing lottery, and borrowing foreign capital for the construction of new houses (Kim, W. J., 1997).

The Korean central government drastically amended the Housing Construction Acceleration Act in 1977. Through the amendment, *laissez-faire* Korean housing markets fell under the control of the central government and the house building industry was restructured. The central government categorized the private house building firms into designated builders, registered builders, and small-sized non-registered builders, based on firm size, output, and capability (Lim, S. H., 1994).

A strong central government issued a set of rules defining the rights, obligations, and status of different kinds of house builders. By means of differences in credit allocation rules and building permission among different kinds of house builders, the rules meant that only designated builders could legally participate in the large-scale house building projects.

This prioritization of large designated builders was geared to and reinforced by the central government's multifaceted intentions to achieve the goal of the mass production of houses, and to induce the influx of capital from large house builders to urban housing markets. Accordingly, large house builders, especially *Chaebols*, became the main recipients of the central government's assistance and benefits.

In 1977, the Korean central government launched both price controls (ceiling price system) and the Housing-Related Savings Scheme. The ideology of the queue is embedded in the mechanism of the scheme. More importantly, the ideology of the queue and the controlled house prices diluted people's resentment at the escalation of house prices, because beneficiaries of the scheme gained significant profits from the escalating house prices. The main beneficiaries have been upper- and middle-class groups who can afford to pay deposits or installments under the scheme.

The explosive housing boom of 1978 and the accompanying speculation were due to the launch of price controls and the resultant increase in effective demand for housing. However, the central government's strict anti-speculation measures in 1978 led

Korean housing markets into a slump. The Korean government adopted urban renewal projects as a countermeasure against the recession in 1980, and Korean urban housing markets entered a boom period again in 1983 (Kim, W. J., 1997).

Since the enactment of the Housing Estate Development Acceleration Act in 1980, most large-scale urban land developments were monopolized by public entities such as quasi-governmental institutions and the Korean central government (Choi, B. D., 1992). During the 1980s, the Korean central government implemented two-pronged measures not only to stimulate housing construction businesses and transactions, but also to restrain speculation in real estate. The government tried to restrain speculation activities by measures such as (1) setting the upper limits to the prices of newly built apartments, (2) requiring transactions in real estate to be registered for transparency purposes, (3) designating areas that need special monitoring of possible speculation activities, (4) levying development fees on land, (5) setting upper limits to the amount of land one can own, and so forth.

In the 1980s, real estate was the prime source of enormous fortunes, which resulted in more speculation in urban land and housing, and which in turn accelerated the increase in house prices in Korea. With the rapid increase in house prices and rent levels, a significant portion of urban households of low- to middle-income class began to encounter trouble purchasing and renting houses in large cities.

Although real household incomes increased, house prices outstripped them. Housing became one of the most important political agendas in the 1980s. The homeownership rates in urban areas began to fall while homeowners harvested enormous profits due to the house-price inflation. The house-price inflation in the 1980s was the main cause of the broadening social gap between property haves and have-nots in Korea. On top of that, as of 1988, the top 20 percent income groups possessed over 87 percent of the private land in Korea, whereas the bottom 30

percent income groups owned only 0.5 percent of the land (Kim, W. J., 1997).

Ironically, the speculation in real estate was a major driving force for the construction of new houses in the 1980s when a large portion of capital flow was tunneled into speculative investment in real estate rather than manufacturing. Along with the speculative boom in real estate, government regulations over the supply of urban land produced conditions in which housing developers and builders focused on the speculative activity of buying and banking land.

Under the ceiling-price system, house builders gradually suffered from the increase in land and construction costs, which led to a decrease in housing construction. Thus, in 1989, the Korean central government replaced the ceiling-price system with the construction cost-linking price system, which was an incentive for builders to maintain the level of new housing construction (Kim, M., 1992).

2) Features and Shortcomings of Korean Housing Policy

Over the last three decades, the cardinal point of Korean housing policy was the massive supply of housing by inducing upper- and middle-class households to invest in real estate. Given that the housing supply had not been sufficiently financed by financial or capital markets in Korea, the Korean central government adopted the method of financing housing supply by drawing on the middle- or upper-class households' disposable income.

However, this direction of housing policy resulted in the distortion of Korean housing markets in that housing markets have been too vulnerable to changes in the degree of speculation and the boom and bust of overall economic conditions. For example, during the late 1990s' economic downturn, the house building industry almost collapsed due to the insecure structure of Korean housing markets. As soon as the middle- or upper-class households stopped the investment or speculation in housing

Table 1. Transition of the Objectives and Methods of Korean Housing Policies, 1962-1997

| Period | Housing problems | Housing policies and goals | Methods implemented | Housing construction plan (in quantity) | Actual number of housing units newly built |
|---|--|--|--|---|--|
| 1962-1966 First 'National Economic Social Development Plan' period | <ul style="list-style-type: none"> - Shortage of housing supply - Low degree of housing investment due to the allocation of higher priorities to industrialization | <ul style="list-style-type: none"> - Housing construction based on census analysis - Construction of public housing for low-income households - Focus on housing construction in the city of Seoul | <ul style="list-style-type: none"> - Foundation of a main quasi-governmental institution (Korea National Housing Corporation) in 1962 - Enactment of 'Public Housing Act' - Focus on the development and supply of land for housing construction | Construction of 475,000 housing units | 325,935 |
| 1967-1971 Second 'National Economic Social Development Plan' period | <ul style="list-style-type: none"> - Exacerbation of housing shortage - Increasing housing standard due to the increase in households' disposable income - Increasing shortage of developable land for housing construction - Increase in squatter settlements in large cities | <ul style="list-style-type: none"> - Focus on the self-help housing development within private sector - Smooth supply of land for housing construction - Massive supply of apartments to meet increasing housing demand in urban areas - Clearance of squatter settlements | <ul style="list-style-type: none"> - Foundation of 'Korea Housing & Commercial Bank' in charge of financing housing development - Foundation of a sub-department in the organization of the Korean central government - in charge of housing development in Korea | 500,000 | 540,338 |
| 1972-1976 Third 'National Economic Social Development Plan' period | <ul style="list-style-type: none"> - Rapid increase in the number of households due to the natural increase in population and nuclear families - Rapid urbanization - Rapid increase in housing demand | <ul style="list-style-type: none"> - Increase in housing supply - Survey on the effective housing demand for each income class - Conservation of housing units already built - Improvement in housing quality | <ul style="list-style-type: none"> - Borrowing funds from developed countries for housing construction - The onset of new town development plan - Enactment of 'Housing Construction Acceleration Act' - A master plan for housing construction for ten years (1972-1981) | 833,000 | 760,591 |
| 1977-1981 Fourth 'National Economic Social Development Plan' period | <ul style="list-style-type: none"> - Explosion of urban population - Increase in the number of industrial cities - Exacerbation of housing shortage | <ul style="list-style-type: none"> - Focus on the quantity of housing - Construction of small-sized apartments as public housing - Rationalization of the allocation of housing construction across Korean regions | <ul style="list-style-type: none"> - Designation of housing construction sites for large-scale apartment complexes - Differentiation of 'designated builders' from 'registered builders' - Designated housing construction companies for the efficient supply of housing | 1,260,000 | 1,116,074 |
| 1982-1986 Fifth 'National Economic Social Development Plan' period | <ul style="list-style-type: none"> - Continuous exacerbation of housing shortage - Decrease in homeownership rate - Destabilization of the social status of renters - Low quality of housing in low-income neighborhoods | <ul style="list-style-type: none"> - Expansion of housing supply - Promotion of the opportunities for homeownership - Stabilization of house prices - Promotion of efficiencies in rental housing market system | <ul style="list-style-type: none"> - Expansion of supply of small-sized apartments - Improvement in housing supply system - Fundraising for the operation of the 'National Housing Fund' - Decrease in housing construction costs - Suppression of speculation in housing - Conversion of detached houses to row houses for multi-family housing units | 833,000 | 760,591 |

Table 1. Continued

| Period | Housing problems | Housing policies and goals | Methods implemented | Housing construction plan (in quantity) | Actual number of housing units newly built |
|--|--|---|--|---|--|
| 1987-1991 Sixth 'National Economic Social Development Plan' period | <ul style="list-style-type: none"> - Continuous exacerbation of housing shortage - Escalation of house prices - Shortage of developable urban residential land - Shortage of affordable housing for low-income group | <ul style="list-style-type: none"> - Expansion of housing supply with priority given to the construction of small-sized housing - Construction of public rental housing - Stabilization of urban residential land prices - Stabilization of housing finance system | <ul style="list-style-type: none"> - Expansion of housing construction - Expansion of the construction of public rental housing - Governmental support for the construction of small-sized housing - Smooth supply of developable urban residential land - Readjustment of housing supply system - Governmental support for private-sector housing industry - Stabilization of house prices | 2,027,000 | 2,386,491 |
| 1993-1997 'New Economic Plan' period | <ul style="list-style-type: none"> - Shortage of housing supply - High levels of house prices - Inadequate housing services for middle- and lower-class groups - Early deterioration of houses - Distortion of housing system | <ul style="list-style-type: none"> - Stabilized supply of housing to solve the problem of housing shortage - Improvement of housing service for the houseless blue-collar class - Transformation from public sector's leadership into private sector's initiative in housing system - Stabilization of house prices by means of continuing speculation monitoring - Improvement of housing quality | <ul style="list-style-type: none"> - Expansion of the supply of public rental housing - Increased autonomy of private sector by means of deregulation - Smooth supply of developable urban residential land - Expansion of housing funds - Continuing speculation monitoring - Improvement of the quality of multi-family housing units | 2,850,000 | |

following the financial crisis in 1997, the distorted housing markets swayed. Furthermore, the distortion of Korean housing markets is partly associated with the fact that many housing consumers regard housing as a speculative commodity.

In Korea, until the 1970s, the housing sector yielded its political priority to other sectors such as manufacturing industry and exports geared to national economic growth. The lack of governmental expenditure for housing development led the central and local governments to cope with severe housing problems with regulations and controls rather than direct housing supply or subsidies. The lack of governmental resources for housing development in Korea, partly due to large expenditures on national defense, also conditioned the public sector into close

er collaboration with the private sector within a capitalized market.

Housing in GNP accounts is investment in capital goods. Housing investment can be paid only by savings or by taxes or by expanding the money supply such as importing capital from abroad. If the economy tries to invest more than it can afford from domestic savings and taxes, there will be inflation, which will feed speculation. If the banking system creates money in excess of expanded productive capacity of the economy, or if investment money comes in from abroad in excessive amounts, that will produce inflation as well.

With respect to the Korean tax system, revenue has heavily depended on indirect taxation rather than direct taxation. For instance, the proportion of

indirect taxes to total taxes increased from 66.1 percent in 1970 to 75.2 percent in 1984 (Economic Planning Board, 1989). With regard to direct tax, property tax burdens for real estate owners are far lower than for wage and salary earners, although capital gains from real estate sales have been subjected to taxation at fairly high rates, since the mid-1960s (Kim, W. J., 1997).

A revolutionary tax reform was implemented in 1990 in order to suppress continuation of the speculation of the 1980s. This tax reform included two major measures. First, the Aggregate Land Tax was enacted in order to tax excessive windfall profits accruing from holding undeveloped urban land. Second, a ceiling was set on the holding size of undeveloped residential land. Under this ceiling measure, a household could not hold undeveloped residential land in excess of 200 *pyong* (about 661m²) in 6 large cities including Seoul. Those who want to hold undeveloped residential land in excess of the limit must annually pay 7-11 percent of the value of the excess land held (Kim, W. J., 1997).

Although these taxes on land effectively reduced speculation, they inevitably resulted in an increase in land prices, which was ultimately passed on to middle- or low-income households wanting to become homeowners. This situation raises ethical issues; it is likely that tax burdens on undeveloped land will be passed on to house buyers after housing development occurs on that land.

The Korean central government tried to legitimize its housing policies by focusing on massive housing construction in a short period in order to mitigate the persistent imbalance between housing demand and supply in large cities. The central government sought to deal with multifaceted housing problems in national and local housing markets at geographical multi-scales as best it could, while local political action increasingly began to influence national and local housing policies.

Despite the government's various actions and efforts to solve housing problems, the economic

geography of the problem remains in terms of distribution of benefits of housing production. The main beneficiaries of the government's housing projects have been upper- or upper-middle classes who took advantage of the housing projects as opportunities for windfall profits and speculation. Low-income households were perpetually marginalized and disempowered in the realm of housing projects and housing policies. The quantity-oriented housing policies of the central government did not attend to distributional justice in terms of allocating scarce resources such as housing. Housing planning processes have failed to incorporate the needs of low-income households. The Korean government's housing policies have been criticized by NGOs and many scholars (e.g., Ha, S. K., 1995; Kang, G. B., 1996; Kim, W. J., 1997) because of the lack of justice in distributing the benefits of housing production.

The Korean central government failed to narrow the huge gap between housing demand and supply in the Seoul metropolitan area. To some extent, the central government is responsible for the increasing gap between demand and supply in that area since the central government has not appropriately addressed the socio-spatial causes and problems that brought about explosive housing demand in the Seoul metropolitan area. One of the main causes of the increasing imbalance between demand and supply was the disproportionate spatial concentration of industrial and service activities in the Seoul metropolitan area, resulting in massive migration to that area. Despite various efforts, the government has failed to disperse both the population and employment opportunities of the Seoul metropolitan area to other areas.

3) Reasons for Housing Supply Limitations

The reasons for housing supply limitations in Korean large cities are not limited to government policy that diverted disproportionate productive capacity into defense and other sectors rather than

housing. They also include development restrictions, land speculation, and central government control of local land and financial resources for housing.

(1) Legal Control of Land Supplies by Means of the Restricted Development Zones (greenbelts) until 1999

Especially at the outskirts of Korean large cities, land supplies were constrained by the areal designation of the Restricted Development Zones, that is, greenbelts. The original purpose of the designation of the Restricted Development Zones by the Korean central government in 1971 was to deter the rapid and unplanned expansion of the city of Seoul.

From 1971 to 1999, the establishment of the Restricted Development Zones played a significant role in limiting land supplies at the outskirts of Korean large cities with exploding populations and increasing demand for housing and developable land. However, the Restricted Development Zones contributed to the conservation of green space around Korean large cities.

The construction of houses and any other land uses in the Restricted Development Zones had been highly regulated and monitored-in a large sense, prohibited-by the Korean government at the national and local scales. Only small-scale agricultural activities in the Restricted Development Zones were sometimes permitted by the consent of the governments.

Thus, local land supplies have been managed and controlled by national land use policy, especially during the military regimes in Korea in the 1970s and 1980s. Local governments' decisions on local land supplies were extensively controlled by the central government before the onset of the local governance and grassroots efforts of the local citizens' organizations and NGOs in the 1990s.

Despite the resistance of environmental organizations, Kim Dae-Joong's administration announced the easing of the Restricted Development Zones in 1999. This change in land use policy on the

Restricted Development Zones spurred stakeholders to debate whether easing those restrictions was necessary or not. The debate highlighted alternative policy proposals among the stakeholders, such as residents, developers, local governments, the central government, and NGOs. One of the main arguments centered on who will benefit from the change in land use policy.

(2) Speculation in Developable Land

The areas outside the Restricted Development Zones of Seoul have been the primary target areas of land speculators seeking large windfall profits in expectation of future development. From time to time, speculation in land outside the Restricted Development Zones has been conducted by *Chaebols* that have access to money and have house building companies as their affiliates within the groups. In addition, landowners in the areas outside the Restricted Development Zones are reluctant to sell their lands to governments or developers since they anticipate much larger capital gains in the future, especially in periods of exploding land and house prices. This speculation behavior has been one of the prominent reasons for the housing supply limitations around the Seoul metropolitan area.

To prevent the vicious cycle of speculation, house-price increases, and housing shortages, the Korean central government enacted a law in 1988 that made transactions in land in designated areas require the government's permission, and set a limit to the amount of land that one could own. In addition, in order to constrain *Chaebols'* speculation in land, in 1990, the Korean government enforced a measure for restraining *Chaebols'* speculation in real estate that was not relevant to their business uses. The Korean government not only designated areas for special watch for speculative transactions but also publicized the list of *Chaebols'* land associated with speculative purposes. Furthermore, the Korean government constrained the *Chaebols'* new purchase of speculative real estate and curtailed the tax benefits

on the *Chaebols'* real estate (Ha, S. K., 1995).

Although the efforts of the Korean central government were effective in terms of stabilizing land and house prices and curtailing the speculative craze in the early 1990s, there have been illicit transactions for speculative purposes in the highly developable land. Due to the speculation activities in developable land, land supply limitations outside the Restricted Development Zones persist.

(3) The Central Government's Control of Local Land Supplies, Financial Sources for Large-Scale Housing Construction, and Housing Construction Companies

Before the emergence of local governance in Korea in the 1990s, the central government controlled the supply of land for housing construction, especially in metropolitan areas. Under the military and authoritarian regimes, the central government played an important role in managing and allocating money for new housing construction.

Furthermore, the central government designated specific housing construction companies, usually the affiliates of *Chaebols*, as major partners for housing projects. This system of designating housing construction companies by the central government created barriers to entry into building societies for small construction companies, by limiting their access to money and to land. Nor could small construction companies survive the economic depression in the late 1990s that hit Korean building societies, further limiting housing supply.

The central government's control of land, housing, and financial markets resulted in unnatural imbalances between housing supply and demand, especially at the local scale. The bureaucratic intervention of the Korean central government lacked an in-depth understanding of, and appropriate response to, the varying characteristics of housing submarkets at the local scale.

5. Conclusion

From the institutional perspective, changes in housing space and land use are not the aggregate of unlimited individuals' decisions but rather the outcome of reconfiguration of power relations among social groups with varying goals and differing degrees of power, influence, and constraints. In this sense, institutional approaches, including locational conflict and urban managerial perspectives, are valuable in articulating and incorporating important themes in the study of housing markets, such as the role and effects of institutions and agents involved in the supply and allocation of housing and the relationship among conflict, power, and access in the housing market.

For the Korean central government, both price control and the Housing-Related Savings Scheme have been the main mechanisms for raising housing construction funds and intervening in the housing market system. In South Korea, political power relations among agents have become more important than market mechanisms in urban land development due to the public sector's control of the supply of developable urban land. Through the evolution of the housing system in Korea, housing choices and the price mechanism have been crucially distorted. Often, house buyers are looking for new housing not based on their need, but based on when and which houses give them the greatest windfall gains, leading to speculation in real estate. In addition to the distortion of housing choices and the price mechanism, one of major shortcomings of the Korean housing system is that low-income households, who cannot afford to join the Housing-Related Savings Scheme, have usually been marginalized from the benefits of the housing system. According to a survey, only 34 percent of renters could afford public-sector housing (Korea National Housing Corporation, 1983).

On the contrary, the Korean housing system allows new housing buyers who can afford to join

the scheme to become the main beneficiaries because they buy new houses at below market prices. Moreover, housing development projects usually occurred at the areas where the profitability of builders is greater, such as suburban new towns, rather than the areas that have the greatest housing needs.

Low-income households were often marginalized at the stage of housing policy decision-making processes, and have had less opportunity to participate in housing policy decisions affecting them. In addition, the needs of low-income households have been overlooked by the interests of large housing developers and by the inconsistency of the government's quantity-oriented housing policy.

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