

New Roles and Issues of the Real Estate Industry in the Era of the New Normal

Haseoung Song et al., Associate Research Fellow, KRIHS

Summary

1. In the era of the New Normal, large-scale supply and demand cannot be maintained in the housing market.

- Sales from housing construction contracts reached KRW 84 trillion in 2015, the highest level in history. But as the growth in the number of households has slowed down since 2015, it is expected to see excessive surplus of capital and human resources invested in the construction of new housing units.
- Housing prices increase faster than wages; household debts are also growing; and the ratio of housing units on monthly rentals, which put a higher burden on housing cost, is also going up, all of which can further broaden the gap between the rich and poor caused by the housing market.
- It will be difficult to regenerate the first-generation new cities and downtown areas of Seoul where low-rise residential buildings are concentrated by maintaining existing reconstruction and redevelopment measures.

2. The real estate industry should utilize idle capital for construction and help reduce the gap between the rich and poor caused by the housing market.

- In the housing maintenance and renovation market, the real estate industry can expand its role in urban management through improvement of functions of housing units, slower deterioration of urban functions, and better utilization of idle capital for construction. The housing maintenance

and renovation market size is expected to be KRW 3.0 trillion in the case of first-generation new cities and KRW 0.5 trillion in the case of downtown areas of Seoul where low-rise residential buildings are concentrated.

- It can diversify business opportunities in the comprehensive real estate service market based on real estate agencies and improve customer service. The size of the comprehensive real estate service market is expected to reach KRW 55.4–66.7 billion in the case of first-generation new cities and KRW 23.4–24.8 billion in the case of downtown areas of Seoul where low-rise residential buildings are concentrated.
- The combined market for housing development and rent management can contribute to virtuous distribution of gains from development and operation and shift the structure of the construction industry. If the stability of a sub-leased business in downtown residential areas is guaranteed by participation from the government, the business is expected to expand smoothly.

Policy Implications

- ① It is necessary to lay the foundation for expansion of the housing maintenance and renovation market in order to strengthen the role of the real estate industry in terms of urban management and better utilization of capital.
- ② It is essential to improve the distribution system to reinvigorate the real estate industry related to existing homes.
- ③ For the balance between public interests and economic vitality of urban development projects, it is required to establish an operational framework to promote both land supply and real estate distribution and management at the same time.