

# Analysis of Key Factors in the Housing Market and Outlook for 2017

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## Summary

1. The housing market shifted from an expansion phase to a contraction phase in the second half of 2015.
2. The study reviewed key factors that affect the housing market such as interest rate increases and concerns of a housing oversupply.
  - A 10–20 percent increase in the number of new housing units completed would lead to a 0.2–0.4 percentage point decline in housing sales prices and a 0.3–0.6 percentage point fall in *jeonse* prices.
  - A 0.5–1 percentage point rise in interest rates would lead to a 0.3–0.6 percentage point fall in housing sales prices.
  - The study simulated the effects of mortgage rates on household debt burden and found that should mortgage rates increase from the current 3–4 percent levels to 6–7 percent, households with excessively heavy debt burden are expected to rise sharply.
3. Housing sales prices and *jeonse* prices are projected to move sideways in 2017.
  - For 2017, housing sales prices are expected to decline 0.2 percent year over year (YOY), while *jeonse* prices are forecast to edge up 0.5 percent YOY.
  - Housing transaction volumes are projected to reach 850,000-900,000 units, falling below the long-term trend line. Permits issued for new units are forecast to reach 500,000 units.
  - According to a survey of the 2017 outlook for regional housing markets, conducted in December 2016, the housing markets in Daegu, Gyeongsangbuk-do, and Gyeongsangnam-do are projected to slow down at a relatively fast pace.
4. It is imperative to develop regionally tailored housing policies to flexibly respond to market conditions and minimize the fallouts of market risks on households.
  - Policy measures should be overhauled in a way that enables more flexible responses to the regional housing markets, departing from a dichotomous approach of dividing policy targets between the Seoul Capital Area and other regions and regulation and non-regulation.

- The impact of potential housing market risks on households should be closely examined for the development of countermeasures.

### **Policy tasks**

- ① The regulatory frameworks should be customized to reflect regional market conditions, through restrictions on the resale of rights to presold apartments, tighter criteria for top-tier applicants under the housing subscription system, and financial regulations such as loan-to-value (LTV) and debt-to-income (DTI) limits.
- ② Policy measures, such as the imposition of a cap on mortgage rates and incentives for the conversion of adjustable rates to fixed rates, should be considered to prevent mortgage rate hikes from driving up household debt burden.
- ③ Special mortgage loans should be introduced for the young and newlyweds to reduce household debt burden and facilitate wealth accumulation, and housing vouchers should be offered for a limited period (e.g. two to three years) to subsidize monthly rent and thus reduce housing cost.
- ④ The government should devise ways to offer affordable public rental housing units by using unsold presale units and current homes held by pre-sold apartment buyers.
- ⑤ It is necessary to induce a soft landing for the Korean economy, which heavily relies on construction investment, and identify new growth drivers.