Steadiness and Stability Predictions for the 2018 Housing Market

- Ongoing monitoring and policy intensity adjustments needed for housing market stability

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☐ The 2017 increase in selling prices was up from 2016 levels, while the rise in key money prices dropped off and transactions and permits decreased.

■ The cumulative 1.48% rise in selling prices for 2017 was up from 0.71% in 2016, but the rate of increase has dropped off since the Aug. 2 real estate countermeasures were adopted; while key money prices rose by a cumulative total of 0.63% for 2017, the rate of increase was down from its 2016 level (1.32%) due to increased availability of finished units.

■ Cumulative sales of 875,000 units as of Nov. 2017 were down 9.2% from 964,000 for the same period in 2016, while cumulative housing permits stood at 553,000 units as of Nov. 2017, down 13.2% from 637,000 for the same period in 2016.

■ The total of 57,000 unsold housing units nationwide as of late Nov. 2017 was consistent with late 2016 levels.

☐ The housing market has been strongly impacted by policy factors, increased availability of finished units, interest rate increases, and diminished buyer confidence.

■ The housing market is expected to stabilize as a combined result of policy factors (including the Aug. 2 real estate measures, Oct. 24 household debt management measures, and Nov. 29 housing welfare road map), increased availability of finished units (thanks to increased permits), a possible interest rate hike, and diminished buyer confidence.

■ At the same time, low interest rates and ample liquidity may spur a rise in housing prices chiefly for regions with favorable environments (including redevelopment and reconstruction).

☐ The 2018 housing market is expected to remain stable in terms of selling and key money prices relative to the prior year, with reduced housing transactions and permits and an increase in unsold units.

■ Selling prices are predicted to remain steady nationwide with a roughly 0.7% rise for the greater Seoul area and a roughly 0.6% decline in the remainder of South Korea.

■ Increased availability of finished units is predicted to bring a roughly 0.5% decline in key money prices nationwide, with levels remaining steady for the greater Seoul area and declining by around 1% for the remainder of South Korea.

■ Policy factors are expected to result in the long-term average for housing transactions declining to around 800,000 units (below 900,000), while permits are expected to decline to a long-term average of around 500,000.

■ Unsold units are expected to rise to around 70,000–80,000 amid oversupply fears, transfer tax assessment, and financial regulations.

|Policy Measures|
① Policy focus should be on assisting a soft landing for the 2018 market by maintaining a stable level of overall supply. ② Close monitoring is needed to assess policy impacts on the market, with policy intensity to be adjusted and follow-up measures examined as needed to prevent rapid market contractions. ③ The lessee protection system should be strengthened in reflection of local supply conditions, including greater deposit return guarantee rate discounts for low-cost housing to guard against localized “reverse key money crisis” conditions, increased guarantees on deposit returns, greater emergency residential assistance, and increased public rental housing supplies. ④ Follow-up measures for market stability should be considered, including designation of land transaction approval zones for public housing site development regions to minimize rapid price changes, gradual introduction of a post-construction sale system, and introduction of a housing bank system.