



## SOUTH KOREA – July 2020

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### Number of taxpayers for property ownership increases with price hike

*Tax burden increases for upper-middle tax bracket amid heated market*

The number of people subject to pay tax for residential property ownership increased by more than 110,000 last year, while the corresponding tax revenue neared 1 trillion won (\$834 million) due to a price hike, government data showed Tuesday.

As the given progressive tax rate is imposed on those who own high-priced residences, such expanded tax yields were seen to reflect the fast increasing housing price hike here.  
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The number of individuals and companies subject to the comprehensive real estate holding tax for 2019 was estimated at 510,927 and with total revenue of 959.4 billion won, according to data submitted to Rep. Yang Kyung-sook of the parliamentary finance committee. The figures were up 117,684 and 516.2 billion won, respectively, from a year earlier.

The hike was the most conspicuous in the upper-middle tax brackets -- for assets priced between 600 million won-1.2 billion won and between 1.2-5 billion won.

The number of top-tier taxpayers -- those classified in the tax bracket of 9.4 billion won or more -- came to 189, up from 128 a year earlier. Their taxpaying percentage out of the total revenues, however, stayed more or less the same at around 15 percent.

“The fact that the comprehensive real estate tax revenue increased in the upper-middle tax brackets proves that (the principle of) fair taxation has been enhanced,” said Rep. Yang.

The ruling Democratic Party of Korea is currently seeking to effectuate a revised tax law that further breaks down individual tax brackets for expensive houses.

The comprehensive real estate tax was introduced in 2005 under the progressive Roh Moo-hyun administration in an effort to curb the speculative housing market by levying additional financial burden on expensive house owners.

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Such actions to steady the real estate market were echoed by the incumbent Moon Jae-in government, which has so far come up with 22 sets of policy measures to cool the overheated housing market.

Notwithstanding these regulations, however, Asia's fourth-largest economy has continued to see its housing prices escalate over the years.

The gross market value of Korea's residential real estate reached 5.06 quadrillion won as of the end of 2019, up 7.4 percent from a year earlier and exceeding the 5 quadrillion mark for the first time, according to data compiled by the Bank of Korea and Statistics Korea.

Also, the gross value of real estate -- residential and non-residential combined -- accounted for 14.12 quadrillion won or 85 percent of the nation's total wealth, data showed.

## President Moon Hits Another Hurdle in Curbing South Korea's Housing Market

Moon's administration has enacted over 20 policies to try and curb soaring real estate prices — all without success.

Rising property prices in Seoul have been a perennial concern in recent decades and one that South Korean President Moon Jae-in vowed to tackle upon taking office in May 2017. However, the recent jump in apartment prices, as well as pushback against the government's latest efforts to slow this trend, continues to prove that directing the Seoul real estate market is much easier said than done.

The spike in housing prices in the past few months has been spurred on by easy credit to combat the coronavirus, which is proving to be a double-edged sword. On the one hand, low interest rates and the government's infusion of cash into the economy is helping to lessen the brunt of the financial consequences of the pandemic and spur a quicker, stronger recovery. On the other, however, the confluence of these same two factors has led to increased real estate investment, and thus higher prices, in major South Korean cities, particularly Seoul.

To tackle the issue, Moon rolled out new plans this month that have been met with little public enthusiasm. On July 10, the government announced it will nearly double the real estate tax range to between 1.2 and 6 percent for people who either own three or more homes or own two houses in specific areas rife with speculation. Home sales within a year of purchase will also be subject to a 70 percent tax and those within two years of purchase a 60 percent tax. Both measures would go into effect next year, pending parliamentary approval.

On July 15, a government task force announced they would be exploring constructing new residences in Seoul's greenbelt zones — currently protected for agricultural use, to preserve some natural areas and to slow urban sprawl. Yet, on Monday, less than a week later, the administration reversed its decision in response to negative feedback, asserting that it would seek other means to increase the stock of housing in Seoul.

Both the soaring home prices and the backlash against these initiatives have helped to eat into Moon's high approval rating, which had been buoyed by the government's handling of the coronavirus. After reaching a 71 percent approval rating in the first week of May, polls have since shown a steady decline in Moon's support. Surveys conducted last week by Gallup Korea and Real Meter indicate only around half of South Koreans now approve of the job their president is doing.

To be sure, real estate can only partially explain this fall. The suicide of Seoul Mayor Park Won-soon — a prominent member of Moon's Democratic Party — after allegations of sexual harassment from his secretary, the conversion of contract workers at Incheon Airport to permanent hires, and how the Democratic Party responded to both developments as well as other controversies in recent months are all weighing on Moon.

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But real estate has increasingly become a political lightning rod, especially as the spotlight has moved to housing speculation by senior government officials. Last December the Blue House asked officials to sell any additional homes in the capital area to help slow the growth of property values and demonstrate accountability. This seems to have backfired, however, as the public has not been impressed by the results. Further attention to the multiple homes owned by senior officials has only fanned the flames of public discontent.

The roots of the housing market dilemma run deep. Seoul is South Korea's cultural and economic hub, with the greater capital area home to about half of the country's 50 million people and half of the country's economic activity. As such, demand for housing has consistently outpaced supply, putting steady upward pressure on home values.

Successive administrations have pursued various, sometimes conflicting, policies to help cool Seoul real estate, but to limited effect. The progressive Roh Moo-hyun administration undertook an ambitious decentralization initiative, moving the government to the new administrative capital of what is now Sejong City, as well as implementing a price ceiling on new apartments in Seoul. Former President Lee Myung-bak pushed for more investment from private developers and his successor, Park Geun-hye, enacted a series of tax incentives for home buyers.

Despite government efforts since the early 2000s, increasing property values in Seoul have proved too difficult to control. Since 2006, the average price of an apartment in Seoul has risen by almost 160 percent, with more upscale districts such as Gangnam experiencing a much steeper climb. The problem seems to have accelerated in the past three years under Moon. According to a new report, from May 2017 to May 2020 the average price for an 82.6 square meter (889 square foot) apartment in Seoul rose at the quickest pace in almost 30 years.

Part of the impetus behind the growing public criticism now is that Moon has enacted over 20 property measures, but the issue has gotten worse. Moon's promises to build a more equitable society can only go so far when skyrocketing real estate widens the gap between the rich and everyone else.

However, the administration is not operating in a vacuum and is faced with challenges working in opposition to housing goals, such as the ongoing efforts to combat COVID-19. It's easy to forget that only a few months ago there was widespread concern about the pandemic causing a tumble in Seoul home prices, exposing a precarious amount of household debt, which was staved off by how the government was able to contain the virus.

Still, it seems unlikely that Moon will be able to enjoy a relatively high approval rating if he continues to pass new regulations and taxes on speculation without any results. Breaking the decades-long upward spiral of Seoul property values will require more concerted effort to address the underlying structural issues, such as better transportation options for getting in and out of Seoul during peak hours and making other cities more alluring. This is certainly more difficult but will ultimately prove far more effective in keeping home prices affordable.

## **Moon's bid to tame Seoul property prices backfires**

*Approval dives on boiling anger over officials' home ownership double standards*

South Korean President Moon Jae-in's chief of staff Noh Young-min came under attack this month for having two houses after having asked staff at the presidential Blue House to sell down if they owned multiple homes.

A chastened Noh sold a residence in his former constituency in Cheongju, North Chungcheong Province, earlier this month, and then put his apartment in the glitzy Gangnam district of Seoul up for sale.

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"I failed to meet people's standards by being seen as trying to keep an apartment in Seoul," Noh wrote on Facebook last week. "I am sorry."

In a country where housing has become a hot political and economic issue, Noh's case triggered anger among both homebuyers and homeowners.

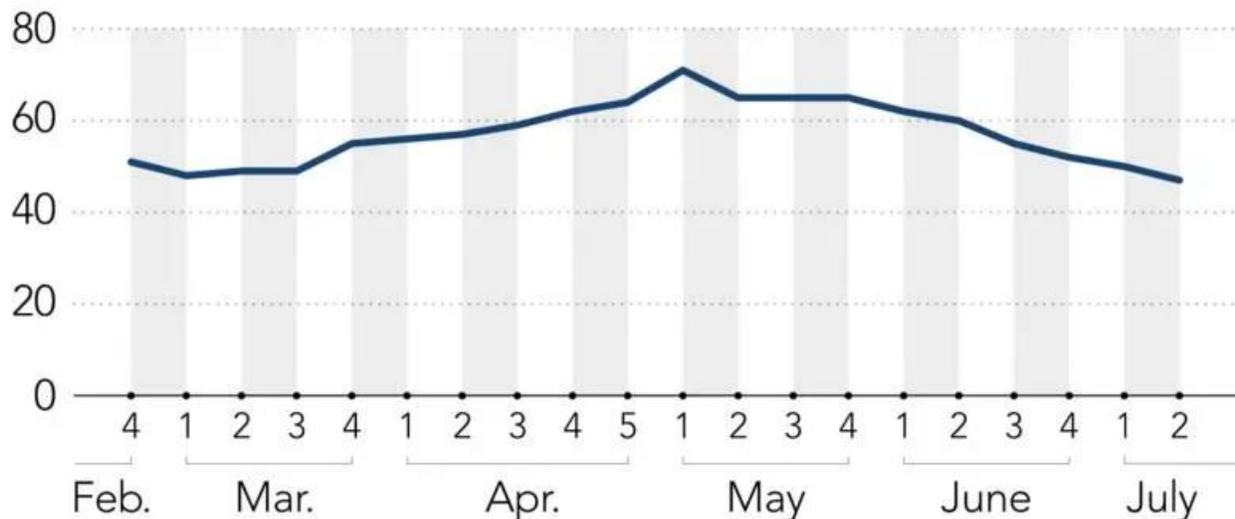
Purchasers complained of tighter mortgage rules announced last month that prevent them from borrowing more than 40% of a Seoul property's price. The maximum loan-to-value ratio falls to 20% for homes valued at 900 million won (\$750,000) or more.

Homeowners, especially those with multiple properties, are under pressure from heavy taxes. The government plans to impose a property tax of up to 6% on multiple homeowners, as well as making them pay 70% in tax on profits from properties sold within one year of purchase. These changes will be reflected in a bill to revise the tax law that will be submitted to the National Assembly later this month.

Moon was riding high in opinion polls earlier this year after winning plaudits for the government's effective response to the coronavirus, which drew praise for the country overseas. But the new housing policy has contributed to a slide in his approval rating in Gallup Korea polls to 46% last week from 71% in May. One quarter of respondents who disapproved of the president said housing was their top reason.

## The rise and fall of Moon's support rate

*(Percentage of respondents to weekly surveys)*



*Surveys are of about 1,000 people aged 18 and older through random-digit mobile phone dialing, with a 3.1% margin of error*

*Source: Gallup Korea*

In South Korea, property accounted for 76% of an average household's estimated total assets at 463 million won in 2019, according to Bank of Korea data.

The rise in Seoul property prices in recent years has resulted from demand outstripping supply. Former Seoul Mayor Park Won-soon, who died in an apparent suicide earlier this month, had been reluctant to loosen

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restrictions on building in a 150 square-kilometer green belt surrounding the capital that accounts for one quarter of the city's total area.

But Moon said last week that he will listen to members of opposition parties urging the building of more homes in Seoul. The finance ministry also said it is considering raising the floor-area ratio, a building's gross floor area to the size of land, in five suburban districts in Gyeonggi Province and Incheon, both near Seoul, to allow the building of more apartments.

However, not many people want to live in suburban areas because of long commutes and inconvenient transportation. The country's trains and long-haul buses connecting Seoul and residential areas in Incheon and Gyeonggi Province are usually packed at rush hour. GTX, a high-speed train to link Seoul with suburban areas, is under construction, but completion is years away.

Nowhere have property prices risen as much as in Gangnam, the affluent Seoul district immortalized in singer Psy's 2012 smash video hit "Gangnam Style."

Living in the area is a dream for many ordinary Koreans, but few can afford to buy a home there. The median apartment price in the district reached 1.6 billion won in June, 91.6% more than the median price across the capital, according to Korea Appraisal Board data.

People are thus upset at double standards shown by high-ranking government officials, which have been brewing for years. Jang Ha-sung, a former senior secretary to Moon who now serves as ambassador to China, said a few years ago that not everyone needs to live in Gangnam -- a place where he had long resided. Many of the Blue House's senior staff have multiple homes, with Gangnam a popular spot.

Opposition parties use this fact to attack the president and the ruling Democratic Party.

People's Party leader Ahn Cheol-soo criticized Moon's housing policy, demanding that he fire Land Minister Kim Hyun-mee for failing to tame prices despite having enacted 21 new regulations in the two years since her inauguration. "If a batter gets no hits in 21 at-bats, it makes sense to use a pinch hitter," Ahn said.

Kim Jong-in, leader of the United Future Party and an economist, said that taxation is not enough to tame rising housing prices. "If we could solve real estate problems with taxes, then real estate prices might have stabilized already," Kim said in a forum with a senior journalist last week.

Experts also say that the government should focus on addressing the underlying causes rather than applying temporary measures.

"Without fundamental solutions -- supply-demand dynamics and other alternative investment options in this large liquidity environment -- it would be difficult to correct the housing market," said Marie Kim, an economist at Citibank Korea. "Heavy regulations were effective, but only temporarily."

## Bank of Korea's Lee Puts Recovery Before Property Price Concerns

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Bank of Korea Governor Lee Ju-yeol said helping the virus-hit economy took precedence over property market concerns after keeping interest rates at a record low.

The central bank now expects the economy to shrink more than it expected just two months ago given the resurgence of the pandemic, Lee said Thursday, following a unanimous vote by the board to keep its seven-day repurchase rate at 0.5%.

“We decided to hold the rate with the view that the current stance should be continued, considering the outlook, growth and inflation trends, rather than the situation in the housing market,” Lee said. Keeping monetary policy accommodative was unavoidable while the BOK responded to the pandemic, he added.

With the comments Lee pushed back against the view that rising home prices could make board members hesitant to ease further, or even force them to consider raising rates in the near term to prevent fueling a property bubble.

The remarks come amid a public backlash against soaring prices in Seoul and the perceived enrichment of multiple home owners including politicians. In a sign that the discontent is weighing on public confidence in policymakers, President Moon Jae-in’s approval rating fell to 44% this week from 49%, local pollster Realmeter said Thursday.

#### South Korea Unleashes New Property Curbs Amid Soaring Prices

While the BOK said in a statement that household debt has risen “materially,” Lee said that aiding an economic recovery was still front and center for the board, given the gloomier outlook.

“We had assumed the spread of the coronavirus would subside from June, but it has been accelerating,” Lee said. “Consumption will improve in the second half but will be dependent on the virus situation, and exports recovery will be delayed.”

Lee’s comments were more dovish than markets had expected, according to Koo Hyeoung, fixed-income analyst at Mirae Asset Daewoo Co.

“The BOK has drawn a line” against views that tougher government regulations on real estate would prompt the bank to fall in line and tighten monetary policy by raising rates, Koo said.

#### Korea’s Moon Doubles Down on ‘New Deal’ to Reshape Economy

The BOK has taken a raft of measures to protect the economy amid the pandemic, cutting its key rate by 75 basis points, supplying liquidity and purchasing bonds to stabilize financial markets. Lee said the BOK can step up bond buying in case of market volatility. The government has also implemented record stimulus in three extra budgets so far this year.

Still, analysts are cutting their economic forecasts for South Korea as trouble continues for exports, the country’s biggest growth engine.

The central bank will update its growth outlook in August. Private sector analysts are projecting a 0.6% contraction.

#### What Bloomberg’s Economist Says

“With the policy rate close to the effective lower bound, we think more cuts to the benchmark rate are unlikely in this easing cycle. But as the economy is still weak -- and the central bank is expecting growth to come in below its earlier projections -- unconventional policy tools remain on the table.”

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## South Korea unleashes new property curbs amid soaring prices

South Korea's government said it will raise property taxes for multiple-home owners, marking the latest action to curb excessive house price gains that have fueled public discontent over inequality and property speculation.

In a Friday statement, Finance Minister Hong Nam-ki apologized for having failed to stabilize the property market, and said real estate taxes will be raised for short-term home sellers, and for those who own more than one residential property.

The government said in a separate release it will seek to increase home supply by considering measures including the easing of regulations on urban development and the use of state-owned land to build new houses.

Affordable housing has been one of President Moon Jae-in's key policy objectives since taking office in May 2017 with a vow to improve the living standards of a wider range of people. Yet a mismatch of supply and demand in popular neighborhoods and widespread investment purchases have seen prices soar in Seoul.

Record-low interest rates aimed at supporting the virus-hit economy have also contributed upward pressure on prices. Politicians with multiple homes have further complicated the issue by giving the impression they are benefiting from the circumstances. Moon's approval rating fell to a four-month low in a Friday poll, with property market issues cited as a major reason.

The Moon administration has already unleashed a series of measures that have cooled price increases in many parts of the country. The challenge is to come up with further steps that can address the remaining pockets of soaring prices without buckling the wider property market or limiting potential stimulus for a sputtering economy.

South Korea's overheating property market has been largely confined to Seoul and its surrounding areas, with prices broadly stable in other large cities and declining in some smaller regions over the past three years.

The average apartment price in Seoul surged more than 50 per cent to 925 million won (\$774,000) from May 2017 to June 2020. That compares with a gain of two per cent in Busan and 15 per cent in Daegu, where prices are only a third of those in the capital.

The government has expressed concern about excess liquidity flowing into the property market. Broad money supply -- known as M2 -- rose by 9.1 per cent in April from a year earlier, the fastest pace since 2015, as the government expanded loans to struggling companies and handed out cash to families to relieve pandemic pain. The money supply has previously displayed a correlation with Seoul house price growth.

The BOK has cut interest rates by 75 basis points since the pandemic struck, delivering a corresponding decline in lending rates. While that's a sign of effective monetary policy transmission, it's a concern when property prices are still rising rapidly.

"There's not much the central bank can do at this stage," said Kim Jin-myung, an economist at Hanwha Investment & Securities Co. in Seoul. "You can't raise rates for the sole purpose of reining in property prices when the economy is still in a slump from the coronavirus."

BOK Governor Lee Ju-yeol has repeatedly pledged to keep monetary policy accommodative until the economy recovers from the virus downturn. Minutes of the latest May interest rate decision showed some board members expressed concerns about housing market instability, while proceeding with a rate cut to help the economy.

Construction investment led South Korea's economic expansion under the former administration, as interest-rates were cut and property regulations eased to buoy a then-stagnant property market. The trend has reversed in recent years, with tighter rules and a correction from the previous housing oversupply.

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President Moon vowed late last year that the government wouldn't use the property market as a means to boost growth. Yet the pandemic has deteriorated the outlook for the economy, which is now expected by analysts to contract this year for the first time since the late 1990s Asian financial crisis.

"The property curbs are negative for the construction investment outlook," said An Young-jin, an economist at SK Securities. "But the government is willing to endure that as they place greater urgency on reining in the property market."

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