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Savills World Research
Korea

Asian Cities Report **Seoul Residential**

1H 2017

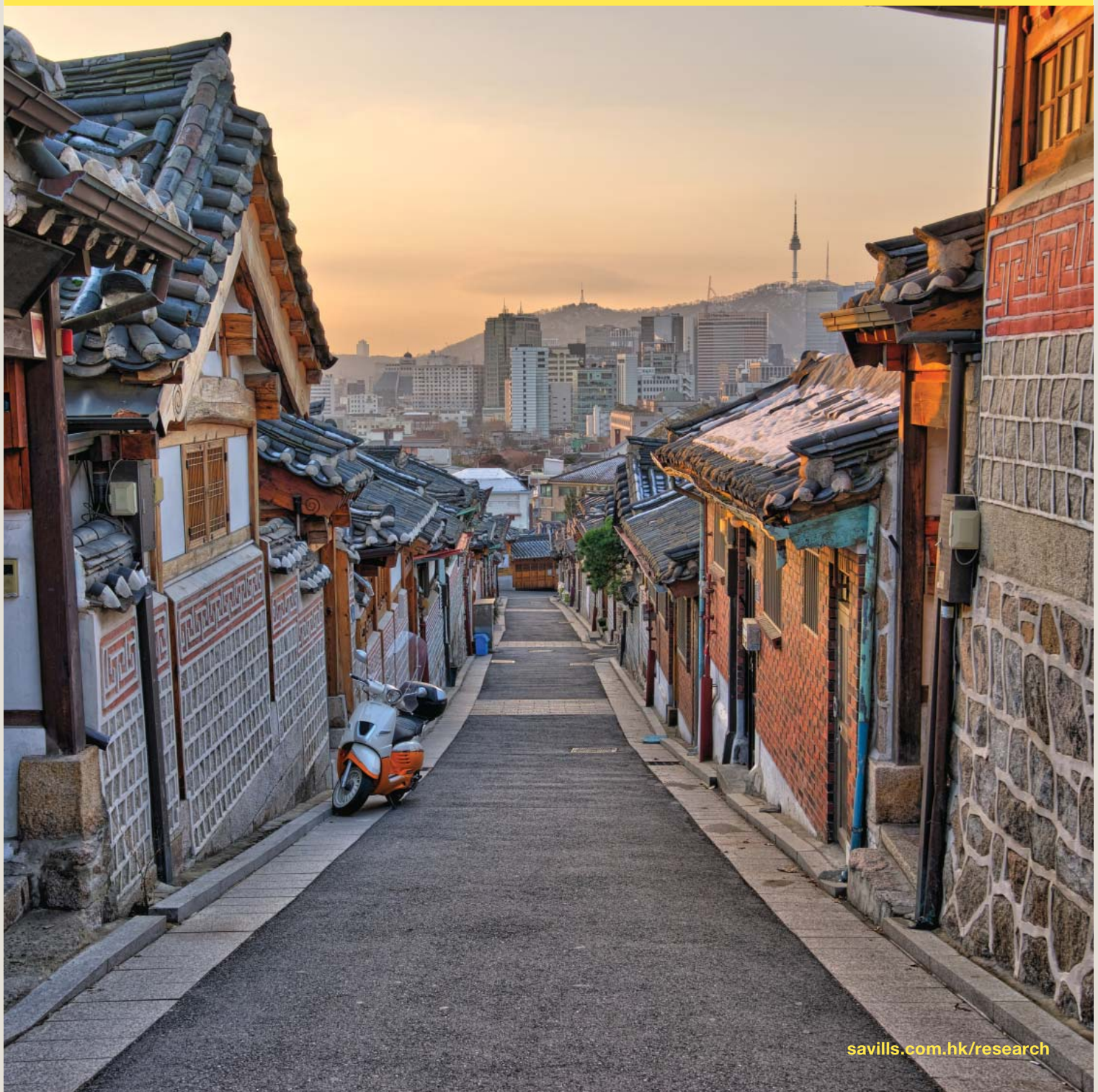
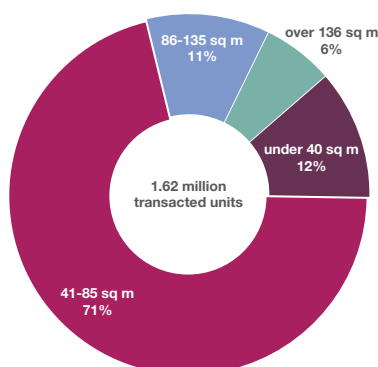


TABLE 1
Demographics, 2016

Population	51 million (Korea)
Average age	40.2
% of growth in population	0.4%
No. of household size	2.5 people
% of household size	1 person (27%); 2 persons (26%); 3 persons (21%); 4 persons (19%)
Korea PIR	5.5
Household with 3 persons average income (2016)	KRW57,780,000
% of unemployment	3.5%

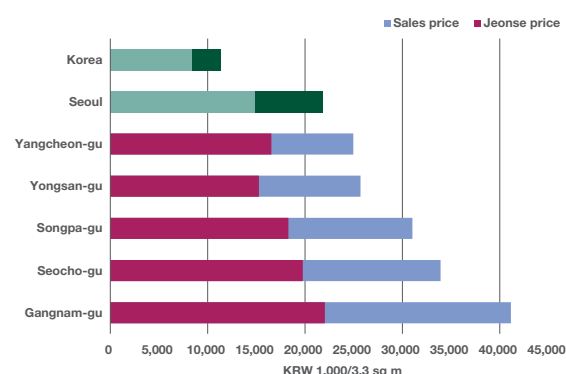
Source: Korea Statistics

GRAPH 1
Transacted unit size in 2016



Source: Ministry of Land, Infrastructure and Transport
Note: Based on 1.62 mil. transacted units in 2016.

GRAPH 2
Top five apartments prices by region, Feb 2017



Source: Korea Appraisal Board

Demographics

Korea's population, is 51 million, with 50% living in the Seoul metropolitan area (Seoul, Incheon, and Gyeonggi province). Due to Korea's low birth rate, low marriage rate and aging society, the average household size was 2.5 in 2016, shrinking from the 3.7 average in 1990. The proportion of households of only one or two people is 53%, and 40% for households of three or four. As the demographic characteristics have changed, perception and requirements for housing have changed accordingly.

Housing types in Korea

Types of housing are categorised as high-rise apartments, residential multiplex apartments, single houses, and low-rise town houses; 60% of households dwell in high-rise apartments. As the average size of the household has shrunk, the preference for smaller-unit apartments has increased, which is reflected in price and sales volume increases for this sector; approximately 83% of transacted houses in 2016 were less than 85 sq m units. The demand for smaller apartments is high, due to the low lump sum purchase price, lower maintenance costs (including property tax during the holding period), and ease of sale.

Homeownership and the Jeonse System

Seventy-five percent of household assets in Korea are invested in real estate, mostly in residential properties. In the whole of Korea, approximately 54% of households live in their own home; in Seoul this figure is 46%. The Korean system of "Jeonse" is a unique leasing arrangement. The tenant gives the landlord a refundable deposit proportionally equal to 70-80% of the value of the premises (average of Korea 76%, Seoul 73%) and then uses the premises rent free. The interest the landlord receives on the deposit is considered to be the 'rent'. Approximately 28% of households in Korea lease their property under this system, and subsequently, traditional monthly rentals have not been seen much in the Korean market. However, in a low interest market environment, landlords prefer to partially receive monthly rent while lowering the deposit amount. Monthly rent can be calculated by applying a conversion rate of 4.5%-6% on the applicable deposit amount.

Residential investment market

In 2016, approximately 1.6 million houses were transacted in Korea, a 5.6% drop from 2015's figure. The transaction volume for Seoul increased by 2% year-on-year (YoY), with 280,000 transactions. According to the Korea Appraisal Board data as of February 2017, Seoul (KRW21.8 million/3.3 sq m) showed the highest average apartment unit price level in Korea. The highest priced neighbourhood was Gangnam-gu (KRW41.1 million/3.3 sq m), followed by Seocho-gu (KRW33.9 million/3.3 sq m), which is rated for its good school system and well-developed neighbourhood environment. The average growth rate of sales prices for Korea as a whole was 0.71% in 2016; the provinces of Jeju (4.63%), Busan (3.18%), and Seoul (2.14%) posted the highest growth rates.

New supply

In 2015 and 2016, 765,000 and 726,000 (respectively) housing units got approval for construction, an increase of more than 40% from the average over the period 2012-2014.

Regulations

In Korea, for newly developed apartments, construction companies can sell each housing unit to an individual investor as a forward sale in the beginning stage of construction. Over the past three years, apartment prices have increased by 7.8% accumulatively not only because of the demand from end-users, but also because of invested capital seeking short-term gains. To prevent overheating, the Korean government is monitoring the residential investment market, and introducing regulations for real estate related taxes and adjustment of DTI and LTV level for financing qualification. The government announced two revisions in 2016 to create a more favourable housing transaction market for end-users. Before the new regulation, home buyers could buy a house with only a 10% down payment from a construction company in the planning stage, and receive debt service for the remaining balance through favourable financing, depending on the credit rate of the construction company, not personal credit. However, this type of financing service is no longer available to prevent speculative investors. In

addition, house buyers must pay both principal and interest after a one-year grace period (it used to be 3-5 years). As a result, only buyers who can actually manage a monthly amortization payment can purchase a house. Currently, banks assess the house loan applicant's financial status strictly by the DTI and LTV levels. Currently, LTV is 50-60% and the mortgage rate is in the mid-3% range.

Public sector residential leasing market

To provide affordable housing for people in need of housing assistance, the government encourages rental housing systems that are available at less-than-market rents, with limited rental growth for the continuous lease period. This housing was developed to protect the stable housing of young and low-income families, and qualifying people or families are able to apply.

New stay housing

In 2015, the Korean government announced a new real estate policy to increase the supply of residential rental housing by the private sector under the "New Stay Housing" plan. "New Stay Housing" was developed for middle-income households to be able to afford stable and quality housing. The rent level for "New Stay Housing" is similar to the market rate, but rent rises are limited to less than 5% per annum for up to eight years of a continuous lease. "New Stay Housing" provides cleaning, maintenance service, car sharing, child care and after schooling services as part of its residential leasing management services free or for a small extra charge.

"New Stay Housing" business entities can receive support from the government for favourable financing and real estate tax reduction. Recently, construction companies, conglomerates, developers, property management companies and private investors are showing interest in this business. During the period 2014-2017, the government set a goal to secure development sites for 150,000 units in total, with 85,000 units to be approved by 2017. Currently, about 54% of "New Stay Housing" is being developed in Gyeonggi province and Incheon, and only 4% is being developed in Seoul, due to challenges in finding development sites.

Inducements for financial investors in new stay housing

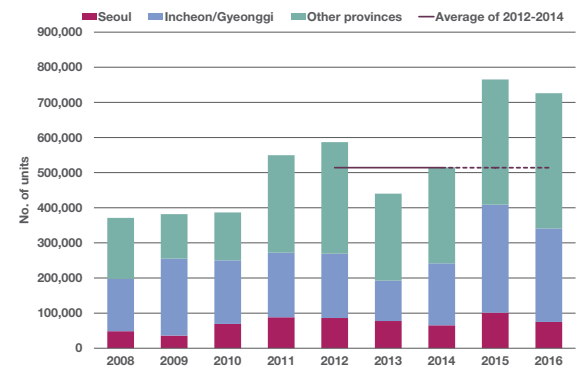
For ongoing "New Stay Housing" projects, most of the funds came from the Korea Housing & Urban Guarantee Corporation (HUG), a government entity, although the government expects more private investors to participate in this project.

"New Stay Housing" attracts financial investors through initiatives such as "Parent and wholly-owned subsidiaries REITs" and "Ground lease REIT" structures to increase the feasibility of projects. First of all, HUG establishes "Parent and wholly-owned subsidiaries REIT structures" to invest in several "New Stay Housing" projects; the parent REIT forms a portfolio with several projects and mitigates the investment risk. In addition, HUG raises the equity by issuing a bond at a low rate (10 years Treasury bond + 40 bps) for ground lease REIT, structured to purchase a development site and lease the land to "New Stay Housing". This reduces the initial investment for purchasing land and will increase the operating yield.

2030 housing by Seoul metropolitan government

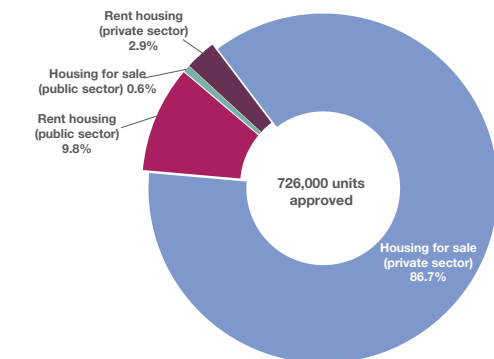
From 2016, the Seoul metropolitan government has implemented the "2030 Housing Project" to supply stable rental housing for young people in their 20s and 30s who are in need of decent housing with good access to public transportation in Seoul. To meet the requirements, the site should be 500 sq m minimum, adjacent to a 30 meter wide road, and located within a 250-metre radius of a subway station. For three years, the Seoul metropolitan government will support these projects by increasing FAR ratio incentives, streamlining the approval process and giving favourable real estate taxes to developers. The project should donate 10-25% of the leased area to the city for public affordable housing. Currently, it is known that 3-4 new projects are in the process of getting approval from the Seoul government. ■

GRAPH 3 Housing units approved for new construction, 2008-2016



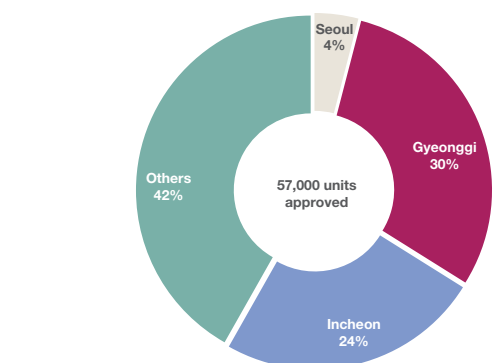
Source: Ministry of Land, Infrastructure and Transport

GRAPH 4 Approval for new housing construction by type, 2016



Source: Ministry of Land, Infrastructure and Transport
Note: Based on 726,000 approved units as of Dec 2016.

GRAPH 5 Regional distribution of new stay housing projects, as of Dec 2016



Source: Ministry of Land, Infrastructure and Transport
Note: Based on 57,000 developed and approved units

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