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SUMMARY

Policy Directions for Stabilizing Land Market in the Era of
De-regulation to Increase Urban Land Supply

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This study was conducted for the following purposes: First is the review of the land use deregulation policy for the increase in urban land supply and logical ground for the deregulation-related policy. Second are the empirical analyses of land use deregulation vis-a-vis how it impacts the land market and forecast of changes in the surrounding conditions in the land market. And third is the pursuit of the policy for maximizing the positive effect of land use deregulation and urban land supply increase and minimizing the negative ripple effects.

This study consists of 7 chapters. Chapter 1 as the introduction part examines the background, purpose, scope, and method of the study as well as previous related studies. Chapter 2 presents the analysis framework and theory of this study. Chapter 3 reorganizes the land use deregulation policy and reviews the logical ground for deregulation. Chapter 4 empirically analyzes the effects of land use deregulation and

increase in urban land supply, whereas Chapter 5 comparatively researches on the land market management policies of major countries. Chapter 6 presents the policy tasks for land market stabilization based on empirical analyses, overseas case implications, and condition change prospect. Chapter 7 as the conclusion part identifies the study characteristics and future study tasks along with the study accomplishments and policy contributions.

An imbalance in the demand and supply of urban land associated with the progress of industrialization and urbanization has been followed by land price increase and cyclical land speculation. To address the chronic imbalance between the demand and supply of urban land, the Lee Myung-bak Administration inaugurated in February 2008 decided to supply 3,000km² of urban land by the year of 2020. Toward this end, the administration eased land use regulations on farm land, mountainous areas, limited development districts, and military facilities protection districts amounting to 2,719km² in 2008. This policy is based on the premise that land prices will be stabilized when developable land that can be converted into urban land increases following the land use deregulation.

To analyze empirically the impacts of increase in urban land supply on land prices through land use deregulation, this study carried out conventional econometrics model analysis, dynamic system dynamics analysis, and land price time series analysis using GIS.

The provisional conclusion of the empirical analyses can be summarized as follows:

First, although land use deregulation has an impact on land stability, the effect on the total land market is quite limited contrary to general expectations. When the deregulation variable changes -1 in a macro econometrics model, the average land price change rate nationwide falls only 0.61%, and that of Gyeonggi-do slips only 1.30%. According to the result of the system dynamics analysis, land prices drop only 0.9% and 1.7% when available land ratios increase 10% and 20%, respectively. Note, however, that higher land price stabilization effect is noted in the

Seoul Metropolitan Area where land demand is relatively higher and land regulation is relatively stricter. As such, land use deregulation limited to some regions may be more effective than applying it nationwide.

Second, the prices of land targeted for deregulation rise because deregulation is accompanied by the use conversion of the relevant land. For a limited development district where the restriction is lifted, land prices rise faster than other regions at the time of the announcement on the plan to lift the restriction and before and after the time of the actual removal of the restriction. This implies that a land market stabilization policy should be simultaneously implemented along with the deregulation.

Third, shortening the urban land supply period was confirmed to be more effective for land market stabilization rather than deregulation itself. When the urban land supply period is shortened by 2 years, land prices fall 3.7%. Accordingly, effort at the policy level to simplify complex administrative procedures further along with land use deregulation is necessary.

Based on empirical analyses, overseas case study, and questionnaire survey of experts, the reorganization tasks of the land market management policy after land use deregulation for urban land supply increase are presented below.

First, there is a need to review the approach of selective reform of regulations for regions with industrial investment demand instead of indiscriminate deregulation nationwide to ensure sound urban land supply.

For timely supply, a system for continuously and stably supplying land should be secured through long-term and foreseeable spatial plans instead of immediate land use deregulation. With regard to the supply of proper prices and quantity of urban land, spatial planning needs to be implemented in advance for future urban spatial reorganization by each sub-market including the Seoul Metropolitan Area instead of

nationwide deregulation. For the target area to be developed in a planned manner, administrative procedures including pre-environment assessment, district planning, and development plan authorization/permission from a reform standpoint need to be simplified considerably.

Second, although urban land demand in the Seoul Metropolitan Area increases, there is a limitation in additionally supplying urban land in the currently overcrowded area. Consequently, there is a need to consider a policy for dispersing urban land demand to provincial areas when seeking to increase urban land supply.

Third, a means of stabilizing newly supplied land prices should be pursued. The cost of newly supplied land covers the land expense (40.2%), construction expense (30.9%), infrastructure facilities expense (18.1%), financial costs (4.9%), and other direct/indirect expenses (5.9%). In this context, a means of lowering prices by cost component needs to be sought. For example, for land expense reduction, the land banking system should be utilized. To bring down infrastructure expenses, the expense allotment system among the central government, local government, and housing lot developer is necessary. Minimizing capital expenses requires the reduction of project authorization/permission period.

Fourth, the stability of the existing land market can be promoted through utilizing development gains capture system. Toward this end, property taxes in the land holding stage should be realistic. There is also a need to realize a fair burden system using a development charge system. At the time of property sales when development profits are realized, capital gains should be fairly collected through fair taxation such as capital gains tax.

Finally, there is a need to promote the normalization of various systems' base. Although the land use regulation level and relevant tax rates are flexibly adjusted according to the changes in the market conditions, the stability of related systems should be sustained consistently for quite a long time. Securing the transparency and

efficiency of the property market requires unifying various taxes as well as the standard for assessment with regard to actual traded prices. Moreover, in order to secure transparency in the real estate market in line with the deregulation, there needs to be a system that integrates land and property market information networks which previously, had been manage separately by each ministry.

- Key words _ Land use deregulation, Increase in urban land supply, Development profit collection, Land market management