

# **LANDOWNERS, DEVELOPERS AND THE RISING LAND COST FOR HOUSING, THE CASE OF SEOUL, 1970-1990.**

**Thesis Submitted for Examination for the Degree  
of Doctor of Philosophy by:**

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**1994**



## ABSTRACT OF THE THESIS

A sharp rise in house prices became a political issue in Korea in the late 1980's. It opened a heated debate among scholars and experts on the causes of house price rises. In the debate, a common belief was that high land prices had been one of the main causes of high house prices. In fact, the proportion of land cost in new house prices has steadily increased as the latter has risen in Korea during the past two decades. This research calls into question the notion underlying that common belief that land prices exist independently of housing development. Most policy measures are sought on the basis of this notion. This research argues that land prices are an outcome of conflicts between landowners and developers in the process of housing development.

In exploring the idea that the determination of land cost for housing is a result of conflicts between landowners and developers, the research came to the question of what the source of conflicts is, a question of why and how the two actors enter into conflictive relations. It was a suggestion of Marx's concept of rent that surplus profits are the material source of conflicts; the ability of developers to create higher surplus profits provides possibility of landowners to demand more payments for their land; landowners' appropriation of increasingly larger portions of surplus profits then conditions the way developers produce housing; thus both enter into a conflictive and contradictory relationship. It was thus hypothesised that the rising land cost for housing has been primarily a result of that conflicting and contradictory interaction, which is permanently operating in housing development. However, how far and in what forms the conflict affects housing development and the determination of land cost are affected by social mediation of the interaction.

Thus the research, the test of the above hypothesis, comprises two parts: the identification of the material aspect of the process by which landowners and developers entered into conflicting relations resulting in increasing land prices for housing as suggested in Marx's concept of rent; and the examination of political and economic circumstances in which social relations between the two actors were conditioned to leave that material process unregulated.

This hypothesis was tested with reference to the case of housing development in Seoul during the 1970's and 1980's. The empirical examination disclosed that the rising land cost for housing in Korea has been due to the conflictive nature of the relationship between landowners and developers. Developers have created large surplus profits by exploiting rapidly growing speculative demand for housing and government housing programmes relying on private development; this have provided room for landowners to raise land prices such that increasingly larger portions of new house prices have been allocated to land cost; increasing government intervention have been unsuccessful in controlling this conflictive and contradictory process and the consequent spiral rises in land cost and house prices because of its inability to break from its self-financing housing development strategy; this inability has been due to historical circumstances which, characterised by strong state and weak labour relations and the subordination of finance to industrial capital, have conditioned housing development to be driven by the private appropriation of development gains.

## Acknowledgement

This research was accomplished with the guidance, assistance and encouragement by teachers, seniors and friends.

I wish to express my greatest gratitude to the research supervisor, Mr Ronaldo Ramirez. He was always clear and precise in directing the research and commenting on my writings at every stage of research. Whenever I was in difficulties, he identified the sources of problems and suggested ways of solving them. His advice was vital in sharpening ideas and the points of arguments.

I should also like to express my appreciation of help and enlightenment obtained in discussions with Professor, Nigel Harris, in the Research Seminar at the DPU, and students and scholars in a meeting of the Theory and Practice Conference directed by Professor, Tae-Joon Kwon at the Seoul National University.

I had financial support from the Korea National Housing Corporation (KNHC) for this study and want to thank the corporation. I would like to extend my particular thanks to the former KNHC President, Han-Jong Kim, Vice-president, Chul-Je Cho, Executive Director of the Research Institute, Dr. Hong-Bin Kang who encouraged and allowed me to do this research on more than three years of leave of absence. I wish also thank staffs in the Department of Education and Training of the corporation for their help.

It was the inspiration of Mr Jae-Hyun Yang, one of my university seniors who always awakened me to new problematics, that I came to the U.K for this study. My personal debts to him are hard to describe.

Many colleagues and friends helped me in data collection. Among those, I want to give very special thanks to Professor, Joo-Hyun Cho at Kunkook University, and Dr. Kyu-In Lee, and Mr. Sung-Soo Chang at the Research Institute of the KNHC. Finally particular thanks must go to those who provided valuable information in the interviews for this research.

## Contents

Abstract of the thesis	1
Acknowledgement	2
List of Tables	8
List of Figures	9
<b>CHAPTER 1. INTRODUCTION, RISING LAND COST FOR HOUSING, PROBLEMS AND ISSUES</b>	
11	
1.1 House Price Boom in the late 1980's	12
1.2 Demand and Supply	16
1.3 Land Cost in New House Price	23
1.4 Control of Land and House Prices	27
1.5 Research Question and General Hypothesis	29
<b>CHAPTER 2. REVIEW OF LITERATURE AND RESEARCH DESIGN</b>	
33	
2.1 Introduction	33
2.2 Land Cost, Determinants or Residuals of House Prices?	35
2.2.1 Land Cost as a 'Cost Push Factor'	35
2.2.2 Land Cost as a Residual of House Price	43
2.2.3 Social Relation in Housing Development	46
2.3 Marx's Concept of Rent	51
2.3.1 Ground Rent as an Independent Category of Value	52
2.3.2 Differential Rent and Absolute Rent	55
2.3.3 Role of Landed Property in Differential Rent	59
2.4 Urban Application	62
2.4.1 Applicability of Marx's Concept to Urban Situation	62
2.4.2 Land Rent, Building Rent and Monopoly Price	66
2.5 Research Design	72
2.5.1 Research Questions	72
2.5.2 Research Method	72

2.5.2.1	Geographical Areas for Empirical Analysis	77
2.5.2.2	Survey	80
2.5.2.3	Structure of Chapters	82
<b>CHAPTER 3. POLITICAL AND ECONOMIC CONDITIONS OF HOUSING DEVELOPMENT</b>		85
<b>3.1</b>	<b>Introduction</b>	85
<b>3.2</b>	<b>The Origin of the Government Involvement in Housing, 1945-1972</b>	88
3.2.1	Weak Labour, Strong State and Private-initiated Housing Provision	88
3.2.2	Consolidation of Domination (the <i>Yushin</i> Reform) and the first Long Term Housing Construction Plan	95
3.2.3	The Ten-Year 2.5 Million Housing Construction Plan	99
<b>3.3</b>	<b>Economy, Property Market and Housing Development, 1973-1978</b>	103
3.3.1	Inflationary Policy and the Growth of Unregulated Money Market	103
3.3.2	Compulsory Land Purchase for Housing	106
3.3.2.1	Land Expropriation by Public Developers	106
3.3.2.2	Land Expropriation by Private Developers	110
3.3.3	Economic Stabilization and the Collapse of Property Market, 1978	113
<b>3.4</b>	<b>Political Crisis and the Second Long Term Housing Construction Plan, 1979-1986</b>	116
3.4.1	Change of Regime, Labour Unrest and Low Income Housing Programmes, 1979-1980	116
3.4.2	The Ten-Year Five Million Housing Construction Plan and the Control of Land Development Gains, 1981	120
3.4.2.1	Public Purchase and Development System, 1981	121
3.4.2.2	The Control of New House Price, 1981	123
3.4.3	Stabilization-first Economic Policy and Housing Development	125
<b>3.5</b>	<b>Democratization and Rent Relation, 1987-1990</b>	127
3.5.1	Change of regime and the Third Long Term Housing Construction Plan, 1987-1988	127
3.5.2	Property Boom and Political Unrest, 1988-1990	130
3.5.3	The Government in Social Conflicts over Land and Housing	134
3.5.3.1	The government and Large Firms	134
3.5.3.2	The Government and Housing Developers	136
3.5.3.3	The Government and Landowners	138
<b>3.6</b>	<b>Conclusion</b>	139

<b>CHAPTER 4. HOUSING DEVELOPMENT BOOM, PROFITS AND LAND RENT, THE 1970'S AND THE EARLY 1980'S</b>	143
<b>4.1 Introduction</b>	143
<b>4.2 Urban Development in the Southern Part of Seoul and the Growth of Large Housing Developers</b>	146
4.2.1 The Growth of Seoul and the Gangnam Development	146
4.2.2 The Growth of Large Housing Developers	151
<b>4.3 Development Profits and Land Prices</b>	162
4.3.1 House Prices and Land Prices	162
4.3.2 Surplus Profit and Land Prices	183
<b>4.4 Role of Landowners</b>	192
4.4.1 Easy Land Acquisition Period	192
4.4.2 Changing Land Market	196
4.4.3 Monopoly Pricing	200
<b>4.5 Conclusion</b>	204
<b>CHAPTER 5. NEUTRALIZATION OF THE PRICE CEILING SYSTEM AND RISING LAND PRICES, THE 1980'S</b>	206
<b>5.1 Introduction</b>	206
<b>5.2 Stagnation of Housing Development</b>	208
5.2.1 Depressed Housing Market	208
5.2.2 Diminishing Apartment Areas	211
5.2.3 Retreat from Housing Development	213
<b>5.3 Neutralization of the Price Ceiling</b>	214
5.3.1 Luxurious Row Houses	214
5.3.2 Cooperative Housing	220
5.3.3 Ineffectiveness of the Price Ceiling System and Rising Land Prices	230
<b>5.4 The Effects of Conflict between Landowners and Developers on Housing Development, and Government Intervention</b>	236
5.4.1 Changing Ways of Housing Development	236
5.4.2 Towards Direct Control of Land Prices	240
5.4.2.1 Landowners and Developers Joint Development	240
5.4.2.2 Direct Control of Land Prices	244
<b>5.5 Conclusion</b>	247

<b>CHAPTER 6. POLITICISATION OF RENT RELATION, THE INABILITY OF THE GOVERNMENT TO CONTROL LAND COST: SEVEN CASE STUDIES</b>	249
<b>6.1 Introduction</b>	249
<b>6.2 The Beginning of Compulsory Land Purchase for Housing, the late 1970's</b>	252
6.2.1 Increasing Government Involvement in Land Development for Housing	253
6.2.2 Compulsory Land Purchase under the Strong Government in Banpo Estates	257
<b>6.3 Concessionary Compensation under Control, the early 1980's</b>	260
6.3.1 Gwacheon Newtown Development	260
6.3.2 Gaepo Estates Development	264
<b>6.4 Forced Concessions in Compensation, the mid-1980's</b>	267
6.4.1 Chulsan Estate Development	267
6.4.2 Mockdong Estate Development	270
6.4.3 Changing Aspects in the PPD	273
<b>6.5 The PPD in Crisis</b>	276
6.5.1 New Towns in the late 1980's	276
6.5.2 Losing Control of Land Prices	285
<b>6.6 Conclusion</b>	294
<b>CHAPTER 7. CONCLUSION</b>	296
<b>7.1 Issues and Questions</b>	296
<b>7.2 Landowners and Developers in the Creation and Appropriation of Development Gains</b>	299
<b>7.3 Social Conditions for the Establishment of the Urban Rent Relation in Korea</b>	302
<b>7.4 Some Comments and Implications of the Conclusion</b>	306
<b>APPENDIX A. Chronological Table for Chapter 3</b>	310
<b>APPENDIX B. List of Interviewees</b>	315

## List of Tables

<b>Table 1.1</b>	<b>Changes in Population, Households and Housing Stock, Whole Nation, 1960-1990.</b>	17
<b>Table 1.2</b>	<b>Relative Contribution of Migration to Urban Population Increase, All Cities and Seoul, 1960-1985.</b>	17
<b>Table 1.3</b>	<b>Changes in Physical Housing Conditions, 1970-1990.</b>	18
<b>Table 4.1</b>	<b>Price Trends of New Apartments and Housing Land in Yeouido and Gangnam, Seoul, 1974-1987</b>	165
<b>Table 4.2</b>	<b>Linear Regression Model for the Rates of Change in Land and New Apartment Prices, Yeouido and Gangnam, 1974-1985</b>	183
<b>Table 4.3</b>	<b>Development Gains for Selected Apartments, Gangnam, 1974-1985</b>	186
<b>Table 5.1</b>	<b>Estimation of Private Housing Construction under Price Control, Seoul, 1986-1990</b>	231
<b>Table 5.2</b>	<b>Changes in Development Gains in Cooperative Housing, Gangnam, 1986-1991</b>	234
<b>Table 5.3</b>	<b>Residential Land Development by Methods, 1962-1989</b>	245
<b>Table 6.1</b>	<b>Development Plans of Five New Towns around Seoul, 1990</b>	280
<b>Table 6.2</b>	<b>Changes in the Price of Land Provided to Private Developers through PPD projects, 1986-1990</b>	287
<b>Table 6.3</b>	<b>Changes in Compensation for landowners in Selected PPD projects in and around Seoul, 1977-1989</b>	290

## List of Figures

<b>Figure 1.1</b>	House Price and Rent (Chonsei deposit) Indices, Seoul and All Cities, 1985-1989.	14
<b>Figure 1.2</b>	Changes in House and Land Price, Whole Nation, 1970-1990.	14
<b>Figure 1.3</b>	Changes in House Prices and Rents by Housing Size, Seoul, February 1989-February 1990.	15
<b>Figure 1.4</b>	Change in Housing Supply Ratio, 1960-1990.	20
<b>Figure 1.5</b>	Changes in Owner Occupancy, 1960-1990.	20
<b>Figure 1.6</b>	Annual Housing Construction by Sectors, 1975-1991.	21
<b>Figure 1.7</b>	Indices of Land Price, House Price, Labour Cost and Building Material Cost, 1975-1990.	24
<b>Figure 1.8</b>	Changes in the Price and Land Cost of Apartments, Gangnam, Seoul, 1974-1992.	25
<b>Figure 2.1</b>	Annual Changes in Land Prices, GNP growth and Building Permission, 1962-1990.	37
<b>Figure 2.2</b>	Location of New Towns and Major Housing Estates in and around Seoul, 1990.	78
<b>Figure 3.1</b>	Annual Housing Investment by Sectors, 1962-1990.	93
<b>Figure 3.2</b>	Annual Housing Construction by Sectors, 1962-1990.	108
<b>Figure 3.3</b>	Annual Total Housing Investment Relative to GNP and Government Housing Expenditure in the Budget, 1962-1990.	116
<b>Figure 4.1a</b>	Built-up Area in Seoul, 1970.	147
<b>Figure 4.1b</b>	The Expansion of Built-up Area in Gangnam, 1970-1986.	147
<b>Figure 4.2</b>	Apartment Estates in Gangnam Area, 1990.	148
<b>Figure 4.3</b>	Annual Housing Construction by Types, Seoul, 1973-1988.	154
<b>Figure 4.4</b>	Changes in the Prices of Apartments, Gangnam, Seoul, 1971-1990.	159
<b>Figure 4.5</b>	Sales Performance of Leading Housing Development Companies, 1975-1990.	161
<b>Figure 4.6a</b>	Changes in New Apartment Prices and Land Prices, Gangnam, Seoul, 1974-1987	181

Figure 4.6b	Indices of New Apartment and Land Prices Gangnam Seoul, 1974-1987	181
Figure 4.6c	Average Annual Changes in New Apartment and Land Prices, Gangnam, Seoul, 1974-1987	182
Figure 4.7	Changes in New Apartment Prices and Land Prices, Selected Areas in Yeouido and Gangnam, Seoul, 1974-1987	185
Figure 4.8a	Changes in Development Gains in Apartment Development, Yeouido and Gangnam, Seoul, 1974-1985.	187
Figure 4.8b	The Component Ratio of Development Gains, Yeouido and Gangnam, Seoul, 1974-1985.	187
Figure 5.1	Annual Housing Construction by major Developers, 1978-1991.	213
Figure 5.2	Prices of Row Houses and Land Gangnam, 1979-1988.	219
Figure 5.3	Changes in Development Gains in Cooperative Housing, Gangnam, Seoul, 1986-1991.	235
Figure 6.1	Annual Housing Construction by the KNHC, 1962-1991.	254
Figure 6.2	The KNHC Land Development by Methods, 1961-1991.	257
Figure 6.3	Price Indices of Land Purchased by the KNHC, 1975-1991.	287
Figure 6.4a	Changes in Housing Prices and Land Prices, Selected KNHC Estates, 1981-1988.	289
Figure 6.4b	Changes in Housing Prices, Land Cost and Building Density, Selected KNHC Estates, 1981-1988.	289

# **CHAPTER 1. INTRODUCTION: RISING LAND COST FOR HOUSING, PROBLEMS AND ISSUES**

In the late 1980's, there was a sharp rise in house prices in Korea. This was becoming a recurrent problem, as similar rises in the late 1970's showed. Land problems, namely land shortage and high land prices, have been blamed as a major cause of the rise. High land prices, it is often argued, affect house prices in two ways: (a) they directly push up new house prices as a factor cost; and (b) they make housing development unprofitable which aggravates housing shortage and eventually results in a rise in overall house prices. The portion of land cost in new house prices has been steadily increasing in Korea over the past two decades. It has been taken as evidence that high land prices have pushed up the production price of housing.

The rising land cost in housing development has thus been a matter of grave concern to the government and a pending issue among housing experts and scholars. However, why and how land cost for housing has been rising as such has not been properly questioned. Land cost means land prices which are incorporated into new house prices as a factor cost of production. Land cost is thus expressed in prices per a unit of floor space of house building while land prices are done in the amount per a unit of land area. The common argument has been that land prices have risen independently of housing development process; and that the rising land prices have increased land cost pushing up new house prices. Rising land prices are here regarded as a 'cost push factor' in the production price of housing, an independent variable of new house prices. The determination of land cost in housing development has thus been regarded as taking place exogenous to and prior to the development process. A result is that house price and

land price are considered separately in the current policy debates on how to control the rise in land cost and new house prices.

The research aims to examine the process by which land cost is determined in housing development with reference to the case of Seoul during the 1970's and 1980's. It will argue that the determination of land cost itself is a process of housing development rather than exogenous to it. The source of land prices, development gains, is created by developers in the process of housing development. Landowners claim a part of it for land prices. Thus developers and landowners enter into a conflicting relation in sharing the development gains. This research is going to show that the rising land cost in Korea can be explained by that conflicting relationship between these two actors in the housing development process.

## 1.1 House Price Boom in the Late 1980's

The latest price boom in the housing market began at the end of 1987 after years of standstill in the early and mid-1980's. It started in Gangnam, a southern part of Seoul. Between the end of 1987 and that of 1988, prices of apartments in the Gangnam Area, one of the most prestigious residential areas in Seoul, rose by 50 to 80 percent. For the one year from February 1989 to February 1990, the prices and *Chonsei*<sup>(1)</sup> deposit of apartments in the same area rose by more than 40 percent (Kim, J.H. and Cho, Y.H., 1990a).

This is compared to the rise in consumer prices, 5.7 percent in 1989 and 8.6 percent in 1990, and the increase in wage earner's income, 24.4 percent in 1989 and 17.2 percent in 1990 (KNHC, 1992a). Figure 1.1 shows the rising trend of house price and rent in the latter half of the 1980's in Seoul and in all cities. Between 1985 and 1990, the average house price and *Chonsei* deposit rose by 54.1 percent and 90.7 percent respectively

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1) *Chonsei* is one of the most popular rental tenure system in Korea. In this system, tenants deposit a lump-sum of money when they occupy rental houses instead of paying rents on monthly or yearly basis. Interests on the deposits become rent. That is the *Chonsei* deposit, which is refunded to the tenants when the lease ceases.

in Seoul (KHB, 1986-1991, each year) while the consumer price rose by 30.2 percent (KNHC, 1992a). Those in all cities also rose fast in the late 1980's.

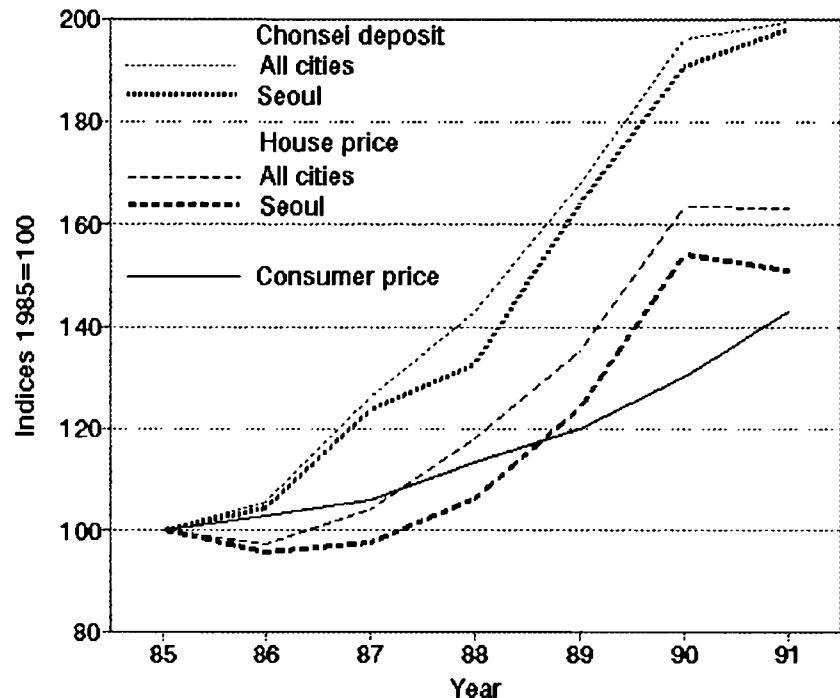
House prices and rent had already been rising since the beginning of the 1970's faster than consumer prices. The sharp rise in house prices was not new as seen in Figure 1.2. The figure shows that there have been ups and downs in the change of house prices. Land prices show a relatively consistent rising trend though not without occasional steadiness. The early 1970's, the early 1980's and the mid-1980's show steadiness or falls in the prices, while 1978, 1983 and the late 1980's exhibit sharp rises. However, the long term trend clearly shows that land and house prices have been rising faster than the consumer price. The recurrent price booms have rendered the chronic problem of rising prices acute. The price rise in the late 1980's had, however, a greater political impact than the previous ones due to the specific historical circumstance of the period. In 1987, the authoritarian constitutional system (known as the Fifth Republic) was pulled down by the people (known as June 29 Democratisation Movement). A more moderate government was established in the early 1988 in accordance with the new constitution<sup>(2)</sup>. The new government launched the Two Million Housing Construction Plan as the new president promised at the presidential election in December 1987. According to the plan, two million houses were to be built within the five years of new presidential tenure from 1988 to 1992.

After the change of government in February 1988, industrial disputes occurred widely throughout the nation. In these disputes, workers began to demand appropriate housing to be provided or their wages to be adjusted according to the rising house prices and rent (KCCI, 1990). Newspapers were reporting the impact of such rise in house prices and rent in somewhat sensational fashion. Included in the reports were cases in which tenant households had to move to lower quality houses or to the outskirts of cities to seek cheaper rental houses and incidents of family suicide in despair of being unable to afford the house they used to live in. Leading daily newspapers carried a series

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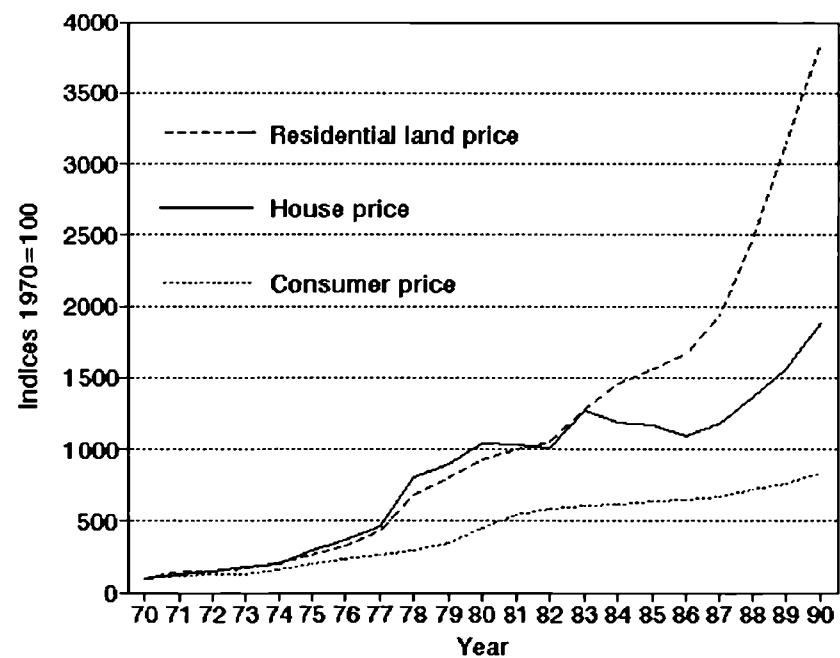
2) The constitutional system was reformed in such a way that the power of the president and the central government were weakened while that of the National Assembly and local governments were strengthened. See Subsection 3.5.1, Chapter 3 for detail.

Figure 1.1 House Price and Rent (Chonsei Deposit) Indices, Seoul and All Cities, 1985-1991, 1985=100.



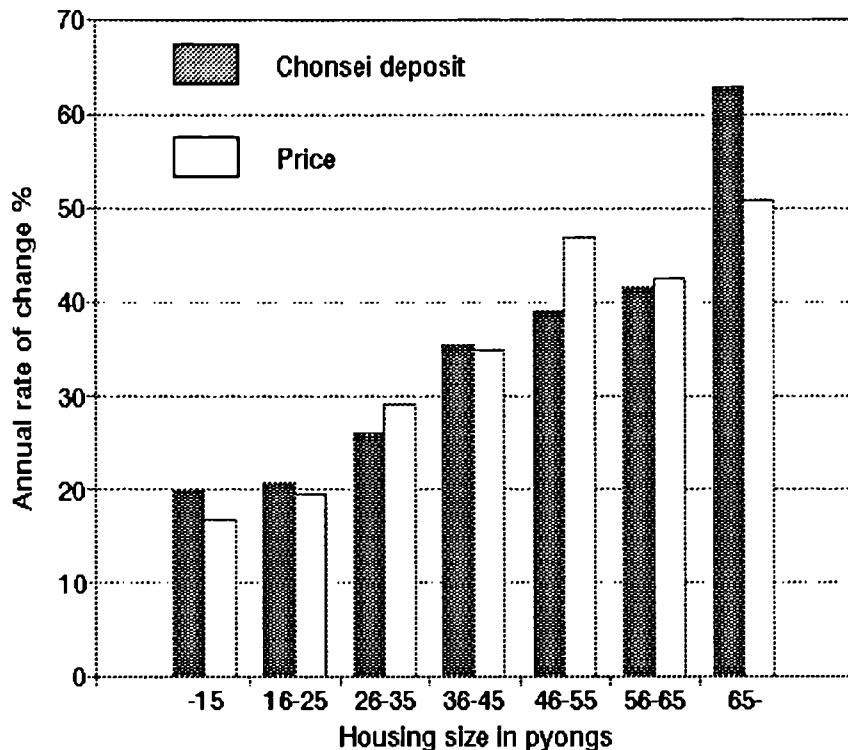
Source: Produced for this thesis based on data from KNHC (1992a; 1992b)

Figure 1.2 Changes in House and Land Prices, Whole Nation, 1970-1990.



Source: Produced for this thesis based on data from Chun, C.H (1989) and KNHC (1983; 1989b; 1992a).

Figure 1.3 Changes in House Prices and Rent by Housing Size, Seoul, February 1989 - February 1990.



Source: Drawing based on Kim, J.H and Cho, Y.H (1990a).

of feature articles on the hardships of tenant households<sup>(3)</sup>.

Frustration of middle and higher income households by the sharp rise in house prices was also reported. Figure 1.3 shows that the prices and rent of larger apartments rose faster than those of smaller ones in Seoul<sup>(4)</sup>. Between February 1989 and February 1990, the price and Chonsei deposit of small apartments with 15 pyongs or less in floor area rose by 18 and 20 percent respectively; while those of large apartment with 65 pyongs or more rose by 50 and 60 percent (Kim, J.H. and Cho, Y.H., 1990a).

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- 3) Examples are 'Here, our neighbours' in Chosun-Ilbo, July 13, 14, 1988; 'Homeless neighbours' in Dong-A-Ilbo, August 1, 3, 4, 8, 10, 1988; 'The over-crowded Capital City' in Dong-A-Ilbo, February 2, 1989; 'Housing problem, to be solved in light of distributional justice' in Hangyore-Shinmoon, April 29, May 2, 4, 9, 13, 15, 1989; 'Homeless people' in Hangyore-Shinmoon, March, 22, 28, 1990.
- 4) In Korea, housing size represents both the quality of the house and the prestige of the residents. Thus houses, particularly high-rise flats, are categorized in terms of its floor space presented in 'pyong' (1 pyong is equivalent to 3.3 square meters); the larger the size, the more expensive and prestigious the house.

Radical students and politicians in the anti-establishment movement circles, attributed the housing crisis to the failure of Korean capitalism. Reformist movement, such as the Citizen's Federation for Economic Justice, criticised moral weakness of the government in the implementation of land and housing policies. They accused the government of favouring higher income or property owning people and of lack of political will to eradicate housing and land speculation.

The government had to adopt various measures to respond to this increasing politicisation of the housing problem. The President declared war against all speculative activities in the housing and land markets. They were believed to have accelerated the rise in house and land prices. The government revised the Two Million Housing Construction Plan to allocate a larger portion of housing to low income families. It announced a plan to develop two New Towns in the outskirts of Seoul to stabilize the rapidly rising prices in the middle and high income class apartments in the Gangnam Area. The sharp rise in house prices and rents in the late 1980's thus again brought the housing and land problem to the forefront as one of the most pressing political issues.

## 1.2 Demand and Supply

Then why had house prices risen in that form? The common answer in Korea to this question identified broadly with three reasons; accumulated housing shortages, increasing speculative demands and rising land prices. The first two reasons will be briefly examined in this section. The third reason will be examined in the next section, Section 1.3.

In housing studies, until the mid-1970's, spatial and demographic factors such as rapid urbanisation and urban migration were emphasized as major causes of housing shortages (Mills, E. and Song, B.N, 1979; Sohn, J.M, 1988). Population in Korea grew at an annual rate of 2.2 percent in the 1960's, 1.9 percent in the 1970's and 1.5 percent in 1980's. It has been estimated that in 1991 the population exceeded 43 millions, which is more than 1.7 times as many as the 25 millions of 1960. The number of households

Table 1.1 Population, Households and Housing Stock, 1960-1990

Year	Region	Population	unit: thousand		
			Households (A)	Housing Stock (B)	Shortage (A-B)
1960	Whole Country	24,989	4,263	3,589	674
	Cities	6,997	1,223	825	398
	Seoul	2,445	433	268	165
1970	Whole Country	30,852	5,526	4,360	1,166
	Cities	12,685	2,377	1,398	979
	Seoul	5,423	1,030	584	446
1980	Whole Country	37,407	7,470	5,319	2,151
	Cities	21,409	4,362	2,468	1,894
	Seoul	8,351	1,724	968	756
1985	Whole Country	40,420	8,751	6,104	2,647
	Cities	26,418	5,779	3,349	2,427
	Seoul	9,626	2,126	1,176	950
1990	Whole Country	43,520	10,277	7,374	2,903
	Cities	32,397	7,695	4,749	2,963
	Seoul	10,618	2,544	1,463	1,081

Source: EPB (1960; 1970; 1980; 1985; 1990)

Table 1.2 Relative Contribution of Migration to Population Increase, All Cities and Seoul, 1960-1985.

Period	Region	Increase in population (A) (1,000s)	Migration (B) (1,000s)	B/A (percent)
1960-1970	Seoul	2,988	2,411	80.7
	All cities	5,413	3,693	68.2
1970-1980	Seoul	2,931	1,778	60.7
	All cities	9,493	5,313	56.0
1980-1985	Seoul	1,282	605	47.2
	All cities	4,256	2,459	57.8

Source: Yoon, J.J (1991)

increased at higher rates than the population, as nuclear families proliferated. The increase in households has been regarded as a major factor of growing housing demand. Table 1.1 shows the census data for total population, number of households and housing stock in Korea between 1960 and 1990. In the table, the gap between the number of households and the housing stock has widened since 1960. The situation has been

even worse in urban areas. Urban population increased 3.6 times between 1960 and 1985, from 7.3 millions to 26 millions. This has been mainly due to migration. Table 1.2 shows the relative contribution of migration to the increase in urban population.

The rise in house prices have been attributed primarily to this accumulating housing shortage; and as this has been accepted as a self-evident fact, many writers mention this in introductory comments (Kim, C.S, 1988; Huh, J.W, 1990; Kim, J.H, 1990; Kim, K.H & Kim, K.Y, 1992). The ratio of housing supply, that is, the ratio of the number of dwellings to that of households, has been used as an indicator of the housing situation in Korea. The government housing policy has tacitly targeted one hundred percent ratio as a desirable housing supply ratio, i.e., one house for one household (Kwon, T.J, 1978; KRIHS, 1979; Yoo, J.H, 1988). As shown in Figure 1.4, the housing supply ratio had been steadily decreasing up until the late 1980's, when it started to recover.

However, the ratio of housing shortage does not represent exactly the real situation<sup>(5)</sup>. Formal statistic shortage only represents the ratio of the number of formally registered dwelling units to that of formally registered households. The problem is that the registered number of dwelling units does not represent actually existent dwelling units. One registered unit may comprise two or more units. For example, most detached houses in large urban areas accommodate two or three households. They are registered as one unit in the House Register and in the House-Tax Ledger, and thus counted as one unit

Table 1.3 Changes in Physical Housing Conditions

	1970	1975	1980	1985	1990
Average housing size (M <sup>2</sup> )	47.7	58.2	68.4	72.6	81.4
Housing space per household (M <sup>2</sup> )	35.9	41.4	45.8	46.4	52.8
Housing space per person (M <sup>2</sup> )	6.8	8.2	10.1	11.3	13.8
Persons per room	2.4	2.3	2.1	1.8	1.7

Source: Adapted from KNHC (1992a).

5) See Kwon, T.J. (1978) and Yoo, J.H. (1988) for criticisms on the inappropriateness of housing shortage as a criterion by which the performance of the government housing policy is to be measured.

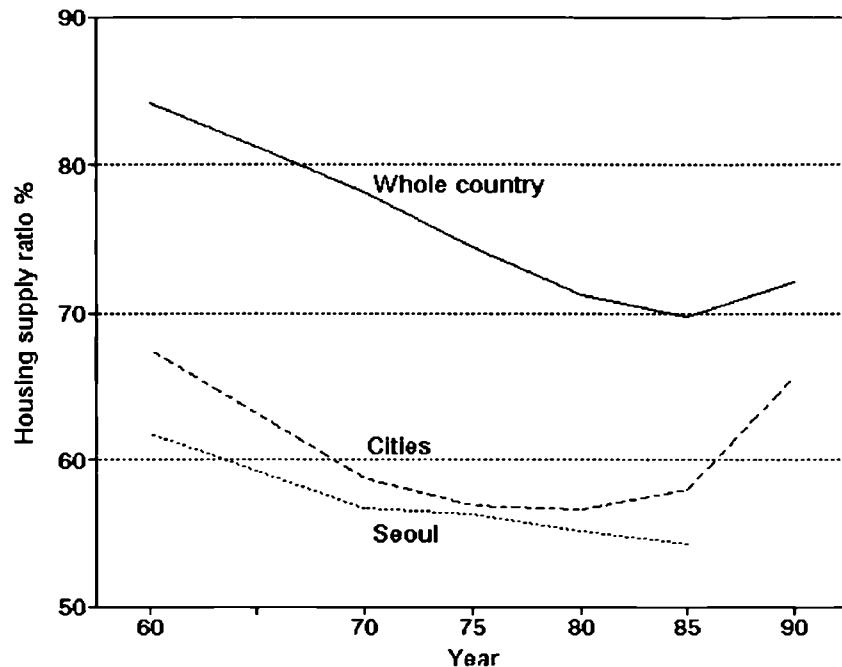
of dwelling in the Census survey. They are, however, designed and built from the beginning to comprise two or three independent dwelling units to accommodate several households.

Thus the supply ratio does not reflect the actual physical housing situation. Rather, housing conditions have been improving in many respects. Table 1.3 shows some statistics indicating the improvements in terms of dwelling space per person as well as average housing size. Housing space per household rose 1.5 times and that per person doubled between 1970 and 1990. These data are for registered dwellings. Thus the supply ratio represents neither shortage of shelter nor the housing conditions of people in physical terms. Further, this implies that housing shortage is not necessarily the result of lack of housing investment.

The shortage index merely conceals the uneven distribution of ownership of shelter space among households. Figure 1.5 shows that owner occupancy in housing has been decreasing in Korea. As of 1990, sixty percent of the urban households in Seoul lived in rental houses (EPB, 1990). The decrease in owner occupancy may be a consequence of the way housing is provided rather than lack of housing provision. It represents a change in the way people pay for their housing; more and more households have failed to buy houses outright. A survey reported that the share of the housing bill in urban household expenditure steadily rose from 24 percent in 1970 to 38 percent in 1980 (KRIHS, 1985). Another survey by the Korea Housing Bank disclosed that it took 7.7 years for a new married couple to buy their own house in 1988 while it was 5.9 in 1982 (Hankook-Ilbo, July 21, 1989). This means that more people have had to turn to *Chonsei* and monthly rental housing. From this and Table 1.3, it can be said that housing supply has increased in terms of shelter space per household and per person; but that the increase has been accompanied by house prices rising faster than people's ability to buy them outright.

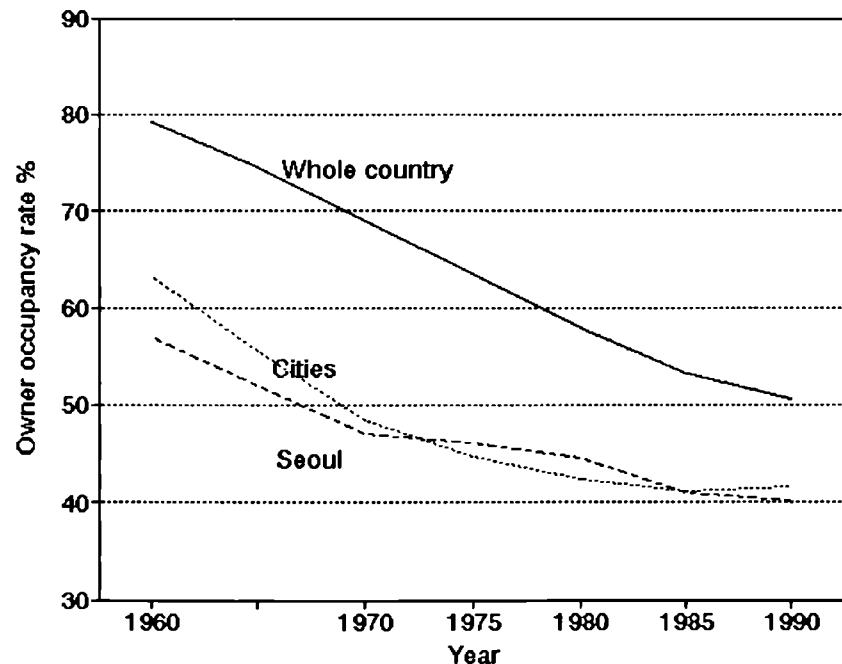
Moreover, the considerable increase in housing supply that took place in the late 1980's was accompanied by a simultaneous rise in house prices. Figure 1.6 shows a sharp increase in housing construction in that period. Annual housing construction reached 750,000 units in 1990, nearly three times the average annual construction during the early and mid-1980's. How did house prices continue to rise while housing supply

Figure 1.4 Change in Housing Supply Ratio, 1960-1990.



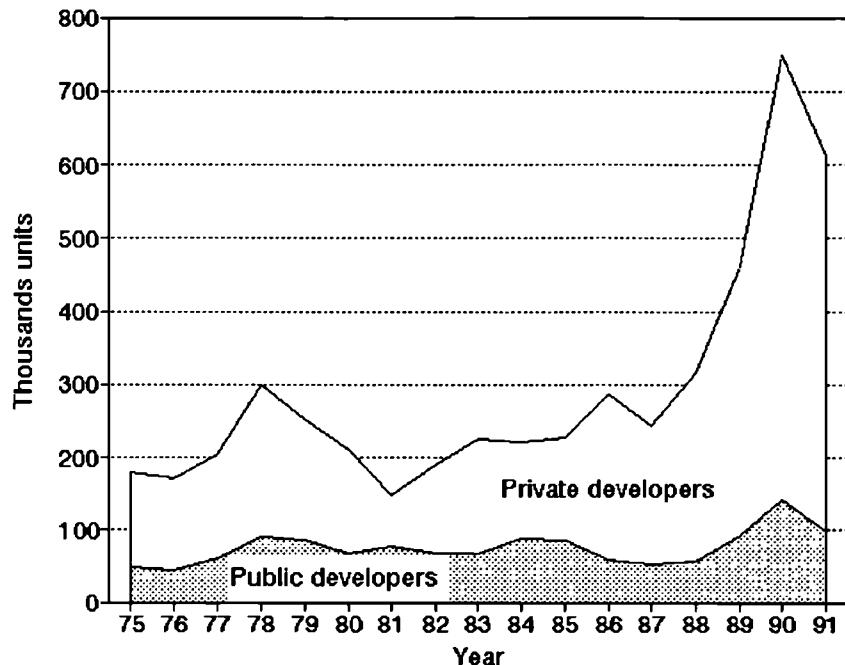
Source: Produced for this thesis based on data from EPB (1960; 1970; 1975; 1980; 1985; 1990).

Figure 1.5 Changes in Owner Occupancy, 1960-1990.



Source: Produced for this thesis based on data from EPB (1960; 1970; 1975; 1980; 1985; 1990).

Figure 1.6 Annual Housing Construction by Sectors, 1975-1991.



Source: Produced for this thesis based on data from KNHC (1992a).

increased at the same time?. The implication is that the rise in house prices cannot be explained solely by housing shortages as measured in terms of the number of households and housing stock. Thus, speculative demand for housing has been commonly taken as another important factor causing high house prices.

Researchers have pointed the finger to the alleged distorted financial market in Korea, which is believed to have promoted speculative investment in real estate, therefore creating excessive demand for land and thus raising land prices. As will be seen in Chapter 3, the Korean government has since the 1960's adopted repressive financial policies to concentrate all available financial resources into industrial development. This, according to this explanation, has resulted in dual financial systems; an institutional financing system based on low interest rates, and an unregulated financial market system providing much higher interest rates. Thus private savings had been attracted either to the unregulated money market or to the real estate market. Renaud argues that the repressive financial policies of the Korean government have deflected private savings into capital gain on real estate. This has resulted in excess demand in the land and housing market inflating prices (Renaud, B., op. cit).

The rapid rise in land prices has thus been helped by changing conditions in the financial sector, such as an increase in money supply, the alleged competition between the stock and property markets over private savings, the financial behaviour of firms, inflation and government regulations of the property market (Chung, H.S., 1985; Lee, J.S., 1990; Rhyu, H.W., 1990; Suhk, H.H., 1990; Sohn, J.Y., 1991). The price boom in the late 1980's have been commonly attributed to high liquidity generated by the trade surplus and expansionary economic policy at that time. After a slow-down in the economy in the mid-1980's, the GNP growth rate picked up again in 1986. In that year, the GNP grew by 12.2 percent and exports grew by 28.1 percent. The balance of payments for the first time turned to surplus (FKI, 1987a). One year later, in 1987, the GNP grew by 12 percent. In 1988, the trade balance exceeded 10 billion dollars (Uhm, J.D., 1992). It is generally assumed that this trade surplus and the consequent monetary expansion, were responsible for the property boom. Land prices rose by 14.7 percent in 1987, the largest rise since the previous property boom in 1983. In the summer of 1988, prices of real estate began to rise rapidly. In 1988 and 1989 land prices in large cities rose by 30 percent annually. House prices also rose rapidly, as previously shown in Figure 1.2.

The new government, established in 1988, at first maintained the existing Stabilisation First Economic Policy. However, new events led to a change. Under the increasing pressure of the ruling party politicians and *Chaebols*, large industrial conglomerates in Korea, the Economic Ministers were replaced in March 1990, with those who advocated 'the Growth First Policy'. The new team adopted measures to promote economic expansion, which provoked both economic and property booms. The government released an additional financial package of 1,000 billion won for special plant and equipment. Restrictions on credit for investment in equipment were removed (Lee, H., 1992). Along with this policy, the economy grew fast. The GNP grew by 9 percent in 1990.

The new Economic Planning Board (EPB) Minister argued that the alleviation of infrastructure shortage should be the first priority in economic policy. Consequently, the government began to expand public works including the construction of express ways (Ibid). At the same time the President had an election pledge to fulfil: the implementation of the Two Million Housing Construction Plan. The government promoted housing

development mainly by providing land in the capital region. A large quantity of green areas were developed into residential areas. It was in this context that the government started to build five new towns around Seoul. Between 1988 and 1991, 2,140,000 houses were constructed, out of which 1,430,000 units were built by private developers (Yang, G.M., 1992).

Housing shortage and excess demand due to speculative investment are the two reasons commonly accepted as the explanation of why house prices have risen fast. These are demand side reasons. The costs of inputs, suspected of causing high house prices, are the accepted supply side reasons. It is at this point that it becomes necessary to examine in more detail the third alleged reason for the rise in house prices, i.e., the influence of rising land prices. This will be done in the next section.

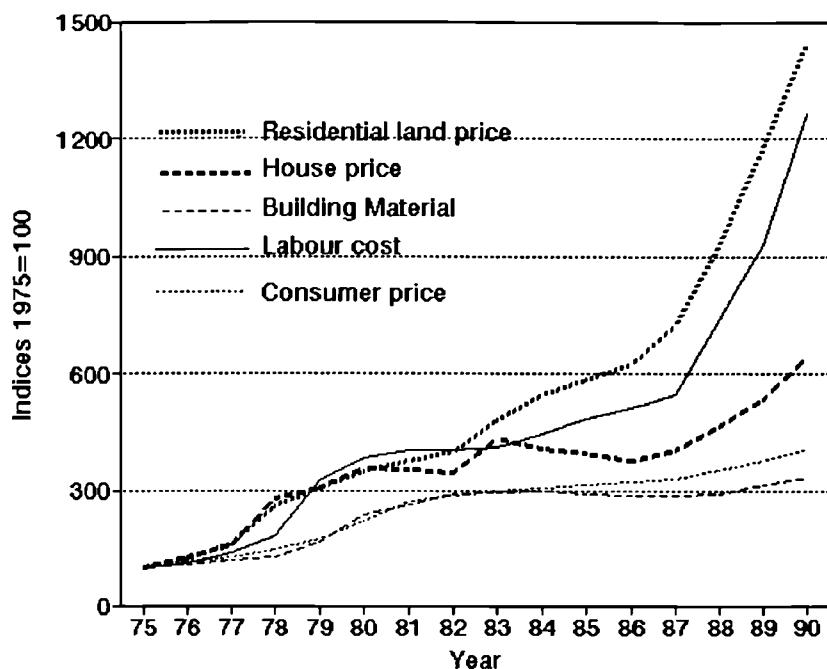
### 1.3 Land Cost in New House Prices

Figure 1.7 shows the indices of costs of land, labour and building materials compared with house prices. In the figure, the rise in labour cost in the late 1980's is also considerable. It coincides with the rapid rise in wages of manual workers in general after industrial workers succeeded in their struggle for higher wages which culminated in 1988 and 1989<sup>(6)</sup>. Land prices have risen faster than any other prices since 1975. Accordingly, the proportion of land prices in new house prices, i.e., land cost for housing, has increased. Occasional data reveal that the rise in the portion of land cost was considerable in the 1970's (KRIHS, 1979; 1981; KNHC, 1985). Data collected for this research also confirm the same trend. Figure 1.8 is a collection of data from apartments built in the southern part of Seoul, Gangnam, and New Towns in its vicinity during the past fifteen years. Although there are variations, a long term rising trend is clearly seen. The portion of land cost in new house prices was no more than 10 percent

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6) Between 1980 and the second quarter of 1989, manual workers' wages rose 3.2 times on average, which is similar to the rate of rise in labour cost in housing construction shown in figure 1.7 (KLI, 1990).

Figure 1.7 Indices of Land Price, House Price, Labour Cost and Building Material Cost, 1975-1990



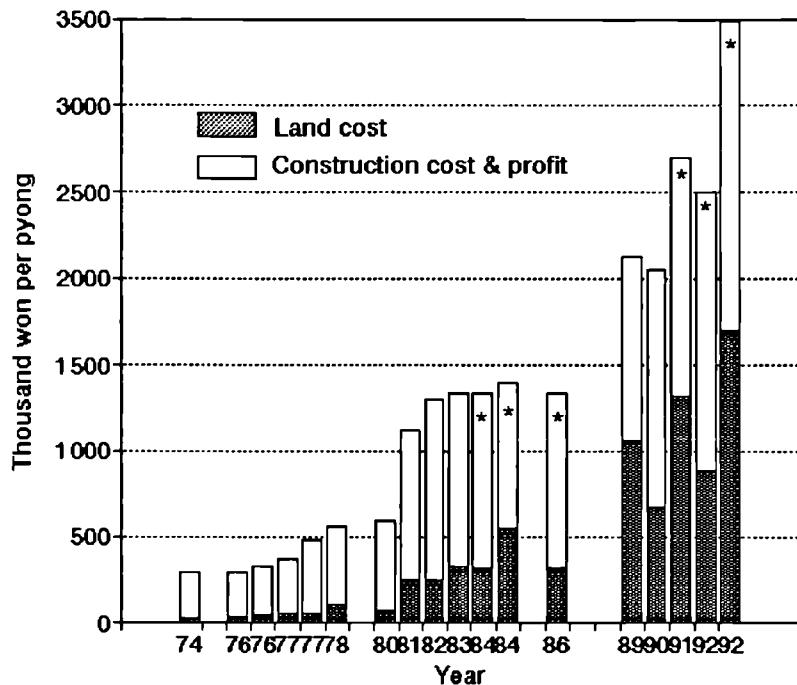
Source: Produced based on data compiled from KNHC (1981), 1992a, 1992b) and KRIHS (1981a)

in the early 1970's. It went up to 25 percent in the late 1970's and early 1980's. It rose to 30 to 50 percent in the late 1980's.

In the late 1980's, attention was thus turned to rising land prices as a major cause of the rise in house prices. As was said in the beginning, land prices are conceived to affect house prices in two ways: (a) high land prices directly push up new house prices; and (b) high land prices discourage housing development because they make this investment less profitable, and consequently reduce housing supply driving up the prices of existing houses.

The government has intervened to relieve the burden of land cost in housing development in two ways: the relaxation of density regulations and direct control of land prices. As to the first, building density in housing development is normally measured in Floor Area Ratio (FAR), the ratio of floor area to site area, in Korea. Prices are converted into different land cost according to FAR. In the early 1970's, the ratio was no more than 180 percent for high-rise apartments in Seoul. This was, however, increased

Figure 1.8 Changes in the Prices and Land Cost of Apartments, Gangnam, Seoul, 1974-1992



Source: Produced for this thesis based on data obtained from KRIH (1981); developers including Hyundai Housing and Industrial Development Co., Samsung Engineering & Construction Co., an Korea National Housing Corporation; newspapers (Chosun-Ilbo August 24 1977; December 13 1991; December 23 1991 Kyonghyang-Shinmoon, January 27 1983; Hankook-Kyounje Shinmoon, July 1986).

- \* Houses built on land provided by the Public Purchase and Development (PPD) system. The PPD is a system in which the government agencies purchase land by compulsion and provide the land after development for both public and private housing.

to 300 percent in 1990. In the case of Korea National Housing Corporation (KNHC), until the early 1980's houses were mostly five-storied apartments and the Floor Area Ratio was between 60 to 100 percent. In the mid-1980's, 12 to 15-storied high rise apartments began to hold the majority and the average Floor Area Ratio began to exceed 150 percent. In 1990, the density went up to 250 percent and 24 storied apartment buildings are now no longer rare in large apartment estates (Unpublished data from the Department of Land Development, KNHC, 1992).

Regarding the direct control of land prices for housing, the government introduced a new land development system in 1981, which has since become the major method in

providing land for housing. It is the Public Purchase and Development (PPD). In this system, land prices are appraised by licensed agencies. Then public developers have the power to purchase that land at appraised prices, avoiding the market prices demanded by the landowners. The amount of housing land provided through the PPD projects had considerably increased by the end of 1980's. In 1981, when it was first introduced, the PPD projects accounted for only 4.6 percent of total housing land development by public agencies. The portion increased to nearly 80 percent in the late 1980's (see Table 5.3, Chapter 5).

According to Figure 1.8, however, both the relaxation of density regulations and the direct control of land prices by means of the PPD seems to have been not effective enough in reducing land cost. As shown in the figure, the composition ratio of land cost reached 50 percent in some housing estates developed by the PPD system in 1992. This, as well as a plain comparison between price indices as shown in Figure 1.7 has often been cited as an evidence in support of the argument that land prices have pushed up house prices (Hwang, M.C, 1985c; Huh, J.W, 1990; Cho, J.H, 1990). The rising prices of residential land has been one of the major source of developers' complaints. Developers appear, accordingly, not responsible for rising land prices (e.g., Lee, H. S., 1991). Many scholars and experts accept this assertion uncritically.

The common explanation of why land prices for housing have risen so fast has not been related to the process of housing development. The common answer has been that the country is small in area relative to the increasing population and economic activities; that the inflexible land use control by the government has aggravated the scarcity of land; that expansion of floating money due to loose monetary policies and directed financial policies have resulted in the prevalence of speculative demand for land; and that the loose land taxation system has helped to attract speculative money to land (Hwang, M.C, 1985a; Mills, E., 1988; Cho, J.H, 1990; Lee, J. S., 1990; Renaud, B., 1989). All these apparent explanations will be examined in more detail in Chapter 2.

Land for housing has been steadily provided in Korea since the 1960's. Table 5.3 (p235) shows annual land supplies in the whole nation. 46 km<sup>2</sup>, 17 to 20 km<sup>2</sup> and 26 to 40 km<sup>2</sup> of residential land were provided every year during the late 1960's, the 1970's, and the 1980's respectively. This land supply could accommodate 150,000 to 350,000

houses on average a year. In Seoul, which is known as the place where land shortage has been most serious, there has been a series of large scale land developments since the 1960's. 59 km<sup>2</sup> and 40 km<sup>2</sup> of land were provided for residential development during the 1960's and 1970's respectively through the Land Readjustment Project, which was the major land development method in that period. During the 1980's, approximately 14.3 km<sup>2</sup> and 24 km<sup>2</sup> were provided in Seoul by the LRP and the PPD respectively for residential development (KRIHS, 1990). This provided room to build between 50,000 to 60,000 apartments. As will be described in Chapter 5, occasional surveys on available land for housing in Seoul showed that there has been always land available for housing in the city. There were 6.76 km<sup>2</sup> of idle land which can be used for housing in Seoul as of September 1988 (Ibid.). In other words, to attribute the rapid rise in land prices simply to land shortage is not sufficient; it neglects the way land is provided which may have a greater effect on land prices.

#### 1.4 Control of Land and House Prices

According to the notion of the relationship between land prices and house prices which has underlain the arguments so far, land prices are determined independently of the housing development process. This notion is pervasive in the current debate on the control of new house prices.

The house price control system was first introduced in 1972. It was applied to housing development building with more than a certain number of dwelling units<sup>(7)</sup> on a single site and which benefit from government support. The latter includes loans from government-controlled funds at cheaper interest rates and the exemption and reduction of taxes related to housing development. The selling prices were to be approved by the city government. This was changed to the Price Ceiling System in 1981. According to this system, when a developer built an estate with more than certain number of houses

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7) Until May 1982, it was 50 houses. After that it was reduced to 20 houses (The Housing Construction Promotion Law).

(see Footnote 6), those houses had to be priced under the limit set by the government. The system was applied in major large cities including Seoul. The Price Ceiling, set at 1.34 million won/pyong in Seoul in 1981, lasted almost unchanged until the late 1989, when it was replaced by the new Factor Cost Linkage System (Kim, J. H., 1988b; Yoo, J.H, 1991; Lee, H.S, 1991; Yim, D.H, 1992).

This Price Ceiling System, it is argued, had made housing development less and less profitable resulting in poor private housing development in the early and mid-1980's in Seoul. Figure 1.6 is a comparison between the contributions to annual housing construction in Korea between private and public developers from 1975 to 1991. The figure shows that private developers have played the more important role in annual housing construction. However, private developers also show more fluctuations in their annual constructions. Between 1975 and 1978, annual housing construction by private developers accounted for about 70 percent of the total. Between 1980 and 1985, it fell to 50 to 60 percent. Between 1987 and 1991, it rose up to 80 percent (KNHC, 1992a). Private housing development was thus relatively weak in the early and mid-1980's. The sharp rise in house prices in the late 1980's has been attributed to that poor housing supply (Kim, J. H., op. cit; Yoo, J.H, op. cit; Lee, H.S, op. cit.; Yim, D.H, op. cit).

However, the argument that high land prices had made housing development unprofitable discouraging housing development, does not explain how housing development in Seoul, as well as in the whole country, could increase very sharply while land prices rose even faster in the late 1980's as shown in Figure 1.2. and 1.7. The notion of the relationship between land prices and house prices underlying the argument causes a problem in seeking policies to regulate land and house prices; policy measures to control land prices and new house prices are accordingly considered and suggested separately in the debates on how to promote housing development while keeping new house prices under control.

The liberalisation of price control has recently been suggested as one of the most convincing measures to stabilise house prices in the long run. It is argued that the elimination of price control will encourage housing development; this will increase housing supply and in the end lead to the stabilisation of house prices (Kim, J. H., 1988b; Yoo, J.H, 1991). On the other hand, there had been worries about the short term negative ef-

fects of liberalisation on house prices. For example, some cautions have been suggested regarding the psychological impact of liberalisation on the speculative demand raising house prices even higher in a very short time. For the long term effect of the elimination of price control, however, there seems to be a consensus of opinion that it will bring down house prices as it will increase housing supply (Yoo, J. H., 1991; Kim, J. H., 1988b). It is suggested then that price control must be abolished as well as other state interventions which may impede the private housing development. This is the recurrent concern of those who advocate free market mechanisms in housing development.

In contrast, concerning land prices, stricter control has been advocated. The imposition of heavier taxes on land prices has been suggested. Restrictions of the amount of land which one individual can possess for housing has also been proposed. In addition, supply of cheap residential land in large quantities through direct development by the government agencies has been argued for.

This research is not directly concerned with the effectiveness of price control itself, but with the way the issue of land cost is dealt with in the debates. Without understanding how land cost is determined in the housing development process, debates on the issue can not generate any effective measures. In the arguments so far, the relationship between house prices and land prices in housing development has not properly questioned. The effect of the liberalisation of new house prices on land prices has not been debated. In order to be able to suggest any effective policy measures, one must understand how land price and house prices are determined in the housing development process.

## 1.5 Research Question and General Hypothesis

In conclusion, the question which the arguments so far are supposed to answer, remains unresolved. That is,

**How is it that, as new house prices have risen, increasingly larger portions of them have been allocated to land cost?.**

This is a preliminary question from which this research starts. To formulate a hypothetical answer to this question requires an understanding of the relationship between land prices and house prices. It involves a question of how the two have affected each other resulting in the increasing proportion of land cost in new house prices. Figures 1.2 and 1.6 may suggest the existence of certain correlation between land cost and new house prices, or between land prices and house prices. However the figures themselves do not provide any explanation of why they appear so.

An hypothetical answer to the question can only appear after concepts referring to the relation between land prices and house prices in the housing development process have been examined and reformulated. This reformulation implies referring to the relation between landowners and developers, which is one of conflicts and competition over development gains. Thus the research needs to address the conceptual question of:

**(1) What is the nature of the relationship between land prices and house prices in housing development?.**

The research will argue the following: developers competition for development gains in housing development creates the material condition that permits large portions of these gains to be appropriated by landowners. Landowners are not passively, simply appropriating part of development gains already created. They continuously fix larger portions of development gains into land prices and thereby condition developers to organise housing development on the basis of ever higher land prices. In other words, both can affect each other: land prices can push up house prices and house prices can lead rises in land prices. Which one lead the other depends on the outcome of the interactions and conflict between these two actors. It is thus through the interaction between landowners and developers that land cost for housing rise and fall and such changes are implicated on new house prices. An empirical test of this argument constitutes one of the two main parts of the research.

However, the interaction between these actors is not unregulated; it is socially mediated mainly through government interventions. In Korea, the government has intervened to control land cost through direct involvement in housing development. The Public Purchase and Development System (PPD) has been the most important evidence of this. However, as seen in Figure 1.8, the PPD projects seem to have not been too effective. Thus the second question becomes:

**(2) What, and how, political and economic circumstances have conditioned the increasing and unsuccessful government intervention in controlling rising land prices for housing?.**

Answering this question forms the second part of the research, that is, an examination of the historical, political and economic conditions in which the interaction between landowners and developers had been mediated and shaped through the government intervention.

The two secondary questions above suggest that the research will answer the central question by examining two aspects of the process by which land cost for housing has been rising in Korea: the material conditions of the relationship between landowners and developers and the social mediation of the relationship. A tentative answer to the central research question can be formulated from the above very introductory examination:

- **Housing developers in Korea were able to create large development gains during the 1970's and 1980's, benefiting from two favourable conditions: (i) a booming housing market and large scale government housing programmes relying on private development; and, (ii) weak land ownership, as the country lacks a distinctive landowner class. The creation of large development gains has provided a material foundation for landowners, being increasingly aware of the economic potentials of their land, to demand more payments for land. Landowners then by transforming increasingly larger portions of the gains into land prices have created a condition in which developers**

**had to produce housing on the basis of higher and higher land prices in successive developments. The spiral rise in land and house prices allocating increasingly larger proportions of the latter to the former is an outcome of this conflictive process.**

The next chapter reviews the literature considered to be the most relevant for these issues in order to see whether the research questions have already been answered, and if there is an answer, whether it coincides with that proposed above. After the literature review, the above questions and hypotheses will be reconsidered to propose a research programme. Then the next four chapters constitute the empirical research.

## **CHAPTER 2. REVIEW OF LITERATURE AND RESEARCH DESIGN**

### **2.1 Introduction**

As indicated in the previous chapter, studies on land and house prices in Korea are mostly based on a tacit assumption that land prices rise independently of house prices. Most literature on land prices concentrates on factors that supposedly facilitate a rise in land prices. Some scholars introduced a different view that land prices are determined by house prices as suggested in Ricardo's theory of rent, which merely reverses the causality.

In these views, the actual process by which house prices and land prices are determined through the conflicting interaction between landowners and developers is not considered. An important contribution to this argument has been provided by Michael Ball. Ball's thesis of the structure of housing provision suggests that the increase of land cost for housing is an outcome of the conflictive interaction between landowners and developers.

Yet, why and how landowners and developers come into a conflictive interaction resulting in rising land costs for housing had to be further explored. In this thesis, it is sustained that the answer has to do with the material basis of the conflict between landowners and developers. For this purpose, the thesis examines Marx's concept of land rent. A hypothetical answer to the preliminary Research Question, an alternative to the commonly accepted explanations in Korea, is then proposed at the end of this chapter

based on both, the thesis of the structure of housing provision and Marx's concept of land rent.

Section 2.2 examines literature that mostly concentrates on factors causing rises in land prices, based on the tacit assumption that such rises push up house prices. This section also reviews some scholars' interpretations of the Ricardian view, which seems to contradict the common belief in Korea. The review of literature in Subsection 2.2.1 and 2.2.2 is heavily based on studies on house prices and land prices in Korea. The examination will identify the limitations of both arguments, due to their inability to address the actors involved, and the social relationships associated with the production process. Subsection 2.2.3 examines Ball's thesis of the structure of housing provision. The thesis suggests that the relationship between land prices and house prices in housing development is an economic presentation of the social relation of landowners and developers. It is not a unilateral relationship in which one determines the other but one in which the two sides conflict and compete over the creation and appropriation of development gains in housing development.

Section 2.3 reviews Marx's concept of land rent in order to clarify the material condition in which landowners and housing developers enter into conflict. This section reviews Marx's concept of rent formulated in the agricultural context. Section 2.5 examines the arguments around the applicability of Marx's concept of rent to urban situations. The review of literature in these two sections suggests that Marx's concept of differential rent provides some important points to understand the nature of the material basis of the conflict between landowners and developers.

Based on this concept, this thesis proposes at the end of this chapter a hypothetical answer to the central question of this research.

## 2.2 Land Cost: Determinants or Residuals of House Prices?

### 2.2.1 Land Cost as a 'Cost Push Factor'.

It seems that in Korea it has been taken for granted that rising prices of housing land have led to the rise in new house prices. It has been almost customary for writers on the housing problem to refer to a rapid rise in land prices as one of the most insurmountable constraints in housing development. Developers have particularly complained about rising land prices as a major barrier to their business and have taken it as a primary indication of the irrationality of the Price Ceiling System (Lee, H. S., 1991).

Scholars and experts have shared the same view without either theoretical or empirical justification. Simple comparison of price indices of factors of production, land cost, construction cost and new house prices has sufficed to support the argument. Figure 1.7 (p24) is an illustration of a typical comparison. In the figure, housing land prices have clearly risen faster than any other prices. Such index comparison has either been an object of earnest analysis in studies of land and house prices (Hwang, M.C., 1978; KRIHS, 1979; Mills, E., 1988; Huh, J.W., 1990; Lee, H. S., 1991) or been accepted as an evidence in support of the prevalent ideas in housing policy (Kim, K.S., 1979; Kim, J.H., 1982; Ohn, Y.T., 1990; Park, Y.C., 1991). Almost all literature on the relationship between new house prices and land prices takes this comparison as indubitable evidence to justify the argument that land prices have pushed up new house prices.

As land cost has been blamed as the major cause of the fast rise in new house prices, it has not been anything odd in Korea to treat the housing problem as identical with the land problem. Major efforts are thus devoted to the explanation of why land prices have risen faster than other price indices.

The first and the most widely accepted view is that it is inevitable that land prices rise faster than other prices in such a country as Korea that has one of the highest population density and one of the highest urbanisation and economic growth rate in the world. According to the World Development Report 1991, as of 1989 Korea had a population of 42.4 million in an area of 99,000 km<sup>2</sup>. It meant a population density of 428 persons

per square kilometres, the fourth highest in the world following Hongkong (5,700), Singapore (2,700), and Bangladesh (769). In terms of average annual growth rate of GDP per person, between 1965 and 1989, Korea's economy grew at 7 percent, the highest growth rate in the world together with that of Singapore. As of 1990, half of the population lived in cities of 1 million or more population, the highest rate in the world except those of Hongkong, Singapore and Kuwait (World Bank, 1991). Almost all literature on land issues begin with such spatial demographic constraints (Chung, H.S., 1983; Choi, S.Y., 1985; Kim, Y.M., 1985; Lee, J.J., 1988a; Lee, K.H., 1988).

Secondly, strict land use control by the government has been criticised as having aggravated the land scarcity. Mills, for example, argues that strict land use controls, such as Green Belts, affect the price of land in urban areas. An optimal land use, according to Mills, is achieved when marginal productivity of various uses become the same. In Korean urban areas, however, he argues, the government artificially obstruct the equalisation of marginal productivity by preventing land from being freely converted to higher productive uses (Mills, E., 1988). Renaud and Kim, K. H. similarly point to the spatial policies of the Korean government to restrict the growth of large cities through strong zoning policies (Renaud, B., 1989; Kim, K. H., 1990a). Thus they advise the government to relax regulations on land use and release more land for housing. Increase in land supply, the authors assume, would lead to lower land prices.

In the above two arguments, land scarcity, be it natural as in the first case or artificial as in the second case, is responsible for high land prices. The position of this thesis is that the scarcity may be an important condition for rising land prices, but it by itself does not explain the actual process of price rises. For example, according to a comparison of land price indices between East Asian countries between 1970 and 1987, land prices in Korea have risen faster than those in Hongkong and Singapore which are much more densely populated than Korea (Yamada, H. and Kashiwadani, M., 1989). The Citizens Federation for Economic Justice (CFEJ) illustrates that, in densely populated advanced capitalist countries such as the Netherlands and Denmark, land prices are less than 20 percent of those in Korea when adjusted by per capita income (CFEJ, 1989).

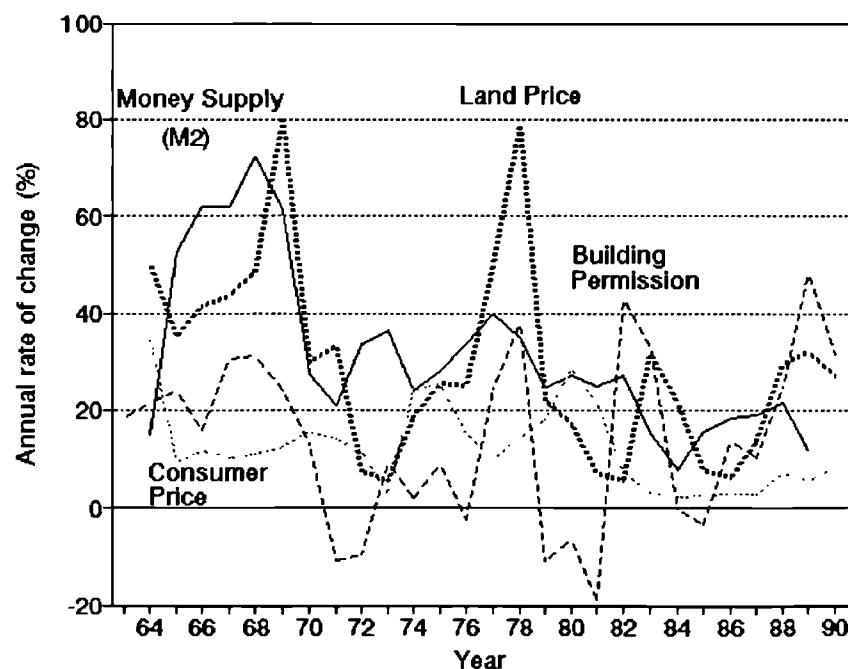
Authors such as Logan and Molotch suggest that land does not respond to the market in a same way in which other commodities do to balance the supply and demand: land is

relatively impervious to laws of demand and supply because of its monopolistic nature. More release of land may attract more speculative investment. This often pushes the entire price upward rather than restore the price to the previous one (Logan, J.R. and Molotch, H.L., 1987). As will be seen in Chapter 4 and 5, large scale land development in Seoul was often accompanied by a fast rise in land prices rather than vice versa. In other words, it is not enough to attribute high land prices simply to land scarcity or lack of supply.

In this respect, it may be natural for some scholars to explain fast rises in land prices in connection with changing situations in the financial sector characterised by increasing incorporation of land in the circulation of capital, which implies growing speculative investment in land.

Figure 2.1 shows rates of changes in land prices and some economic variables, money supply and the consumers' price. Lee, J.S. links the cyclical fluctuation of the rate of change in land prices to that in money supply. According to him as well as others mentioned above, the industrial development strategy of the Korean government has

Figure 2.1 Annual Changes in Land Prices, Money Supply and Building Permission, 1975-1990



Source: The Bank of Korea (each year), The KNHC (1992a); Lee, J.S. (1990).

distorted financial market such that bank rates were often negative in real terms and thus floating money was attracted to the unregulated money market or the property market inflating land prices. The late 1960's is known as the first period of property boom. The government adopted an expansionary policy to ease stringency of capital by increasing money supply and inducing foreign loans. Money supply increased by more than 60 percent. This money was mostly allocated to export industry. Lee, J.S argues that a large portion of this money flew into the land market, and the inflation of land prices in the late 1960's was due to this. As shown in Figure 2.1, land prices rose by approximately 50 percent per annum between 1964 and 1969. In the late 1970's, the government again increased money supply to support the Heavy and Chemical Industrial development. In addition, foreign currency flew in from the Middle East Construction projects. This increased liquidity and speculation in land revived. Land prices rose by 25 percent in 1976. This rose to 60 percent and 80 percent in 1977 and 1978 respectively. Between 1986 and 1988, liquidity increased mainly due to increasing trade surplus. Speculative money flew into the property sector. Land prices rose by more than 30 percent per annum between 1988 and 1990 (Lee, J.S., 1990).

Lee, J.S. argued that as land has been incorporated into financial circulation the price is largely a 'bubble'. By this he means land prices inflated by speculative demand beyond actual rent capitalised with the present interest rate. Logan and Molotch describe the 'bubble' as the case in which prices are driven by people's expectations of what other people will do rather than by any calculation of actual gains which can be realised through production on land (Logan, J.R. and Molotch, H.L., *op. cit.*). Lee, J. S estimates the ratio of the prices of total land in the country to the GNP to show the magnitude of the 'bubble'. At the end of 1988, the ratio was 9.2. This is compared to those of other countries, 1.58 in the United Kingdom in 1985, 4.04 in Japan in 1985, and 0.92 in the United States in 1985 (Lee, J. S., *op. cit.*; Shinhan Research Institute 1990).

Such speculative behaviour is common practice in the land market. The 'bubble' effect may explain short term fluctuations in land prices just like those in the stock exchange index. However, it is inappropriate in explaining long-term steady rises in land prices. Moreover, the research question of this thesis is about land actually used in housing de-

velopment rather than land for which future use is still uncertain and thus expectations on future gains are only speculative.

The factors are not taken as mutually exclusive. They are often combined to explain the causes of the rise in land prices. Rhyu, H.W. brings all the factors under three headings: social, economic and institutional (Rhyu, H.W., 1982; 1990). The social factors includes the increase in population, the proliferation of nuclear families, urban migration. The economic factors include industrial development, price rises in general and increasing income. The institutional factors are the unlimited private ownership of land, strict land use control, free private appropriation of development gains and the inefficient control of speculative land trade. These factors are certain conditions which may facilitate a fast rise in land prices. Conditions by themselves, however, do not raise land prices; there must be actors who exploit such conditions to benefit from rising land prices.

Scholars and experts in socialist and reformist movements, which were active in the 1980's, turned to large entrepreneurs or monopoly capitalism as a major cause of high land prices. Monopoly capitalism here indicates the domination of Korean society by large entrepreneurs including the giant industrial conglomerates, that is, *Chaebols*. Reformist movement indicates those who have opposed dictatorial governments and dominance by the large industrial conglomerates. They have struggled for democratization through the establishment of a civilian government. Presently they campaign for the elimination of the dominance of monopoly capital and thereby more equal distribution of wealth among people, and the eradication of political and economic corruption. The Citizens Federation for Economic Justice (CFEJ) is a civilian organisation leading reformist movements. The CFEJ argues that the rise in land prices is not simply caused by land scarcity but by the unequal distribution of land, i.e., land hoarding and the monopoly of land by large entrepreneurs and rich people (CFEJ, 1989). A survey revealed that as of 1989, 5 percent of landowners in the highest rank owned 65.2 percent of the total private land in Korea; the largest 10 percent landowners held 77 per-

cent; 25 percent landowners owned 91 percent of land. In the four largest cities, 70 percent of households had no land at all (*Landgonggaenium* Committee<sup>(1)</sup>, 1989).

This high concentration of land property might give the misleading impression that a powerful landowning class exists in Korea. The traditional landowning class had been practically resolved as a consequence of the Farm Land Reform Law in 1950. After that there has been a land market in which people buy and sell land, but not institutional manifestation of landowning class.

The reformist arguments assume that once such irregular market behaviour as land hoarding and speculation is eliminated then land prices would not rise so fast (CFEJ, 1989; Kim, T.D. and Lee, K.S., 1989). The CFEJ thus call for the imposition of heavier taxes on land to discourage land speculation and land hoarding, and the restriction of the private ownership of land (CFEJ, op. cit; Kim, T.D. and Lee, K.S., op. cit). The CFEJ has also carried on a citizen's campaign to attain economic justice including more equal distribution of land and housing among the population.

Such monopoly theory is, however, not appropriate in explaining the rise in land cost in residential development. As will be seen later, in most residential development land is owned by small landowners. Most developers have been experiencing much more difficulties in dealing with a number of small landowners than large landowners.

More radical and socialist-oriented students and scholars are critical of such reformist arguments. Chang, S.H and Kim, H.S criticise the reformist argument that the fast rise in land prices is a result of mismanagement of the capitalist market system and deficiencies of the institutional system to regulate the market (Chang, S.H., 1990; Kim, H.S, 1991). According to Chang, S.H., this managerial approach is based on two assumptions. The first is that the state is a neutral and autonomous body. The second is

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1) *Landgonggaenium* literally means 'public concept of land'. It indicates the idea to restrict ownership, use and disposition of land held by individuals and firms primarily to discourage housing and land speculation. In 1989, when rising land and house prices became a political issue, the government organized a committee, called the *Landgonggaenium* Committee. This committee, constituted by professors and government officials and researchers, was assigned to develop the idea into concrete policies. In 1990, three laws regulating land holding and transaction were promulgated based on the committee's study report.

that there can exist a normal market situation, that in which irregular behaviour such as speculative demand, land hoardings and monopoly pricing are eliminated. The latter assumption implies that the fast rise in land prices is basically due to such irregular market behaviour; and once the irregularity is corrected, rise in land prices will be based on the improvement of productivity on land. Thus the role of the state becomes to correct this irregular market behaviour.

Chang, S.H. claims that the two assumptions are unrealistic. He argues that they neglect the fact that the role and position of the state is determined by the power relation between social classes or social forces with different interests. Secondly, he argues that land prices tend to rise faster without the irregular market behaviour previously mentioned (Chang, S.H., op. cit.). This second point will be examined now in more detail since it has an important implication for the research question of this thesis. It may indicate whether the rising land cost in new house prices is due to fortuitous market situations or due to certain inherent tendency in the capitalist social system.

Chang, S.H., following Marx's ideas, attributes the rise in land prices to a general tendency of land prices to rise in capitalist society. Land prices are the present value of rent which a parcel of land is supposed to yield not only at present but also in the future. It is the capitalisation of land rent at a certain annual interest rate, and thus defined as  $r$  (rent) /  $i$  (interest). According to Marx, the interest rate  $i$  in this formula has a tendency to fall for two reasons. Firstly, the general rate of profit in capitalist society tends to fall as capitalism develops. Since the interest rate is in the long run regulated by the general rate of profit, it accordingly tends to fall. Secondly, as society develops, loan capital tends to increase. As a consequence, the interest rate also tends to fall. From this, Marx argues: 'it follows that the price of land has a tendency to rise, even independently of the movement of ground rent and the prices of the products of the land, of which rent constitutes a part' (Marx, K., 1894-1974).

Second, capital is more vigorously involved in land development as capitalism develops. But more capital investment in land results in higher land prices by the continuous transformation of capital embedded in land into rent (Chang, S. H., op. cit.). Marx stated that this was one of the reasons for the increasing enrichment of landowners (Marx, K., op. cit.).

On the second point, Chang, S.H. further argues that increasing investment of capital in land in Korea has been due to capital's strategy to overcome, by increasing land supply, the monopoly power of landowners (Chang, S.H., op. cit.). According to Murray, this is generally a way in which capital tries to overcome the power of landed property as a barrier to capital accumulation (Murray, R., 1978). Chang, S.H. asserts that such intensive capital investment, however, in the end reinforces the monopoly power of landowners as the surplus profits due to intensive investment increasingly fall into the hands of landowners (Chang, S.H., op. cit.). Thus for Chang, S.H., the rise in land prices in Korea is due to the development of capitalism. This implies, for him, that as far as capitalism is maintained in Korea, fast rises in land prices are inevitable.

Chang, S.H.'s explanation is very general and abstract. Whether the rise in land prices in Korea has been actually due to what described above, needs an empirical examination. For example, in the past decades during which land prices have risen faster than any other prices and income, interest rates have not fallen. Thus the rise in land prices in Korea has not been due to decreasing interest rates. If the rise is due to the development of capitalism, why have land prices in Korea risen to higher level than those in the advanced capitalist societies as indicated before by the CEFJ?. Chang, S.H.'s argument does not go far enough to give a proper answer to this.

Thus the reasons for rising land prices have been sought from the spatial and demographic conditions of the country, the repressive financial policies, the policy failure to maintain market order, or the development of monopoly capitalism in Korea. In these explanations, the source of land prices and the way it is created and appropriated in the form of land prices are disregarded.

In a capitalist society, prices of commodities are based on their values. Raw land has no such value and the question becomes where land prices come from. The argument of this research is that in order to get into the question, it is necessary to consider land prices in connection with the process by which the source of land prices is created and appropriated. For housing land, attention must be paid to how development gains are actually created and appropriated in housing development. House prices are in the end limited by housing demand, the willingness and ability by people to pay for houses. There must be a limitation in the rise in house prices including new house prices. Thus,

the argument of this work goes, land prices for housing cannot exist independently of house prices: they cannot be determined outside housing development. For this reason, the analysis moves now to the examination of land rent theory.

### **2.2.2 Land Cost as Residuals of House Prices.**

The significance of theories of rent in classical economics is that land rent is considered in relation to production on land. The dominant notion had been that land rent is determined by the price of products on land. Ricardo stated that 'corn is not high because a rent is paid, but a rent is paid because corn is high' (Ricardo, D., 1951: 74). In the case of housing, this suggests that high land cost is caused by high new house prices. This has led some scholars to introduce Ricardo's view of rent to the argument. They have reinterpreted Ricardo's argument in an attempt to reconcile it with the common belief in the country that land rent pushes up house prices.

One of those scholars is Hwang M.C. He transposes Ricardo's arguments into the issue of the relationship between house prices and land cost and then argues that new house prices determine land cost rather than vice versa (Hwang, M.C., 1985b). By doing this, he contradicts the common belief, including his own remarks in the same article and elsewhere, that high land cost has been responsible for the high house prices (Hwang, M.C., 1978; 1985b). Hwang, M.C. makes a compromise between the two contradictory arguments: 'From the point of view of an individual producer, land rent is clearly a cost [price determining]. However, from the point of view of the whole housing industry, high house prices due to high housing demand lead the rise in residential land prices' (Hwang, M.C., 1985b: 538).

The compromise between rent as price determining and rent as price determined was an issue at point in classical economics. According to Blaug, John Stuart Mill was the first who admitted that the rent that land could earn in one use forms a cost that must be paid when it is used for some other purpose. Jevons extended this by distinguishing rent as cost and rent as income. Rent for him is understood as the earnings of any input (e.g., land, labour and capital) in excess of what the input can earn in the most remunerative alternative use (Blaug, M., 1985). According to Blaug: 'From the viewpoint of

the firm hiring the productive agent, rents are part of the costs of production; but from the point of view of the industry or of society as a whole, they are price determined.' (Ibid.: 83)

Adam Smith also treated rent as a differential surplus and hence as price-determined. The surplus is caused by a function of both differences in fertility and differences in situation. However, earlier in his book, the Wealth of Nation, Smith regarded land rent as a price determining factor. Smith argued that rent paid on land under cultivation of a main crop forms ongoing normal rent; and rent on land in other use is obliged to follow that ongoing rent since land which does not receive such ongoing rent will be withdrawn from cultivation (Ibid.).

Lee, J.J. brings Adam Smith's two statements together for comment: 'The two arguments cannot be right at the same time. However, either of the two cannot be wrong. .... Then the concepts of rent in the two cases must be different' (Lee, J.J., 1988b: 72). Then Lee, J.J., following Buchanan's exposition, distinguishes two aspects of rent: rent as an income and that as a price. He suggests that land rent is determined by the prices of products on land when land rent is taken as an aggregate category of social value distributed to the landowning class. In Lee, J.J.'s argument, land rent, wages and interest represent the cost of the three requisites of production; land, labour and capital respectively. The total supply of labour and capital can be regulated by wages and interest. But, total land supply does not increase or decrease according to how much rent is paid to land-owning class as a whole since the quantity of land in a particular society is fixed. The total land rent in a society thus becomes income to landowners which is left over after the costs of other factors of production, wages and interest, are deducted from the total prices of products on land. It is in this sense that rent is determined by the prices of products (Lee, J.J., op. cit.)

However, from the individual producer's point of view, Lee, J.J. argues, land rent becomes a cost: it enters into the price of the product. Land will be put to the use which offers the highest rent. Those who want to use land must pay the best price which that land could earn from other uses. When rent for other uses rise, one must pay the increased rent, which will in turn push up the cost of production. In this respect, land rent becomes a price to the user (Ibid.).

This thesis questions this argument. It may be unrealistic to suppose that all land in a society is fully in use. It is more likely that there is always idle land in a society either unused because of its poor quality or kept aside for more profitable future use. Even if there is no idle land, land is continuously converted from one use to another. In this sense, the quantity of land in a society is little more fixed than capital and labour. Just as interest rates and wages regulate the supply of capital and labour to be put in use, so does land rent that of land for use; higher land rent would put more poor quality land into use or would convert land from less profitable uses to more profitable ones.

Thus, the distinction between the two aspects of land rent, income when aggregated and price when individualised, is not so convincing. The position of this thesis is that land rent has the two aspects regardless of whether it is counted in aggregate or in individual terms. It is a price to those who want to use land; it is an income to a land-owner who leases or sells his land. So is interest and wages; they are revenue to money lenders and labourers while prices to their users. Why does only land rent become an income when individual rents are summed up into total land rent while it is a price when counted by individual rent?. It is further argued that rent as an aggregate income is a residual, total income minus wages and interest. If rent, interest and wages are considered categories of revenue<sup>(2)</sup> rather than cost to certain production, why is rent alone a residual after interest and wages are extracted from total income?. These issues are not clear in Lee, J.J.'s argument.

The distinction between total rent and individual rent in a society may have a meaning in explaining a possible contradiction between individual capital and total capital in land dealing. As the mobilization of capital through land becomes the major objective of landed interests (Harvey, D. 1982), business in real estate becomes important for individual enterprises (Haila, A., 1988). More capital engagement in the appropriation of value rather than in its creation however runs counter to the collective class interest of capitalists (Harvey, D., op. cit.). One of the functions of the capitalist state thus becomes the regulation of such a self-destructive process which is often in conflict with

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2) Such connection of revenue and its source, capital-interest, land-rent, labour-wage, itself is criticised by Marx as mis-leading: It personifies capital and land and thus conceals the true source of value and fundamental conflicts between classes (Marx, K., 1894-1974).

the interests of individual capital (Harvey, D., 1985b)<sup>(3)</sup>. However, this has little relevance to the question of whether rent is a price determining or price-determined expense.

The arguments so far thus fail to provide any meaningful clue to our research question. This is due to their inability to address actors involved in, and their 'social relations' associated with, the process of creating and appropriating value using land. Without addressing them, the debate is bound to be inconclusive. This point is picked up and developed by Michael Ball in his thesis of the structure of housing provision.

### **2.2.3 Social Relation in Housing Development.**

According to Michael Ball, housing provision involves a variety of agents. They enter into certain relations which form a structure of housing provision. Each agent intervenes at one or more points in the physical process of housing provision and the relations of agents involved in the process determine the housing situation. Thus interventions by agents and responses by others to them, producing conflicts of interests, are key determinants of particular forms of housing tenure and its problems. The relations are of conflict and competition, and are multi-dimensional. They involve conflicts between the agents in a structure of provision, conflicts between the agents and wider social and economic process, and conflicts between agents in different structures and between different structures. These conflicting relations determine the process of housing provision and are responsible for certain housing problem. Therefore any aspect of the housing problem should be considered in the context of its structure of provision (Ball, M., 1983; 1985a; 1986a; 1986b).

Criticisms have been directed against this argument, which has often been misunderstood. Kemeny, for example, criticises Ball as concentrating on the production side at the expense of the consumption side (Kemeny, J., 1987). Morris and Winn criticise that

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3) The present conflict between the Korean government and entrepreneurs over the control of the possession by entrepreneurs of real estates which are not to be used for their business (thus known as the 'non-business real estates') and the 'real-name accounts reform which aims to eradicate the widespread use of aliases in bank accounts to avoid the taxman's scrutiny may be a case.

Ball's focus is still connected to housing tenure and housing policy, which they think Ball has denounced as inappropriate subjects for study (Morris, J. and Winn, M., 1990). However, what Ball's argument suggests is not what subjects are appropriate and what are not for housing study, but the way in which any subject or aspect is to be analysed.

The determination of land cost in housing development is accordingly to be put in the context of the social relations in housing provision. In the 'cost push factor' view, house prices are regarded as the sum of land cost, construction cost and builders' profit. Accordingly, high land prices cause high house prices. The Ricardian residual view of rent claims that land prices do not cause house price rises but are a residual consequence of the level of house prices relative to construction cost. In the light of Ball's thesis, both previous arguments have a theoretical limitation in answering the question of whether and how land prices affect house prices. They are unable to see through the role of actors and their social relations in housing development. In these two line of arguments, land price is not an outcome of conflicts between landowners and developers but a technical factor which is exogenous to the conflicts (Ball, M., 1983).

Ball distinguishes land rent and development profits. In housing development, the difference between a house price and the construction cost of that house becomes the development gain. This gain arises 'partially from building but primarily from converting the land to a successful housing development; the latter therefore is a development profit' (Ibid: 146). 'This gain is divided between the landowner and developer: the former gets a price for their land and the latter a profit from housing development on that land' (Ibid: 143).

The social relation between developers and landowners is embodied in the purchase of residential development land. The two are involved in a struggle over the appropriation of the final gain from residential development. Both are fighting over the conversion of development gains into profits and rent. Landowners hold land and wait for the best market conditions to sell their land. They take political actions against, for example, any legislation to reduce their chances to realise the best prices for their land. Developers organise their development and production process in ways which facilitate their retention of development profits at the expense of the landowners. The struggle has certain effects on house prices. For example, the attempts by developers to minimise the con-

version of development profit into land prices affects the organization of company, development process and the patterns of employment of building workers. It thus affects production methods and so can raise the price of housing. The assumption in Ricardian theory of rent that production techniques are determined prior to the distributional struggle is here rejected. The techniques are instead a crucial element of that struggle (Ibid.).

Thus, in Ball's thesis, land prices for housing are an outcome of the struggle between landowners and developers rather than something exogenous to it. Land prices do affect house prices through the effects of the struggle between landowners and developers on the construction methods and organisations. This is consistent with the central hypothesis of this thesis and provides an important explanation of why the housing industry is making such slow progress in the improvement of productivity. Yet, in order to provide an appropriate answer to the research question, i.e., why the struggle has resulted in such a particular form of change in the composition of new house prices (i.e., allocating increasingly larger portions to land cost), the material nature of the relationship between land prices and house prices has to be further explored.

In relation to this issue, Ball argues that the division between development profit and rent is theoretically indeterminate. As the conflict and competition are historically specific, he argues, no general concept prior to empirical analysis is possible: 'The nature and content of competition have to be deduced through analysis of given historical situations, as part of the overall process of unravelling the dynamic of particular structures of provision' ((Ball, M., 1986a: 457). It depends on the contemporary balance of power between builders and landowners (Ball, M., 1983). Emphasis is thus placed on the empirical analysis of concrete situations (Ball, M., 1986a).

This brought about criticisms. Roweis, in his review of the book, *Land Rent, Housing and Urban Planning*, edited by Ball et al in 1985 complains that 'nothing specific can now be said about the politics of land use and development as such beyond the repetition that it is necessary to look at "detailed historical situations"' (Roweis, S., 1986: 125). He argues that 'to acknowledge the historical specificity of territorial politics is one thing, but to specify this specificity is another' (Ibid: 125). Haila similarly criticises that Ball 'fails to make a distinction between phenomena and underlying causal struc-

tures' (Haila, A., 1989: 1530). Ball is thus accused of denying any role of theory or concept in the analysis of the structure of provision.

The criticisms, however, seem to be based on an exaggeration of Ball's argument. The whole debate may be falsely led to the epistemological controversy over whether the uniqueness of concrete events makes it impossible to use generalized theory or concepts in the analysis of concrete situations. Ball recognizes that a clear theoretical perspective is necessary in investigating the creation of the built environment and understanding of particular concrete situations (Ball, M., 1986a). Nor is he without concepts in his empirical analysis of particular structures of provision (e.g., Ball, M., 1983): 'Explanation depends on the theoretical approach adopted. Marxist theory suggests a particular ordering of relationships between social agents within a structure of provision' (Ball, M., 1986a: 457). Ball's seeming rejection of the possibility of a generalised theory in the analysis of the structure of provision should be understood in the context of his criticisms on urban rent theories. What he rejects is 'the mechanistic attempts' (Ball, M., 1987: 269) to apply or transpose Marx's categories of rent to the urban context.

Most criticisms seem to be levelled against Ball's often unelaborated remarks rather than to concepts and methods Ball actually uses in his works analysing particular empirical subjects such as owner occupation housing development in Britain. What Ball is arguing is that rent is realized through the actions of agents. Those agents form a structure with certain social relations between them. The social relation of agents actually determines the way rent is generated and realized, and shapes the problems of the built environment. Hence, without addressing the question of the structure of provision, the interests and roles of agents within it, the problems of the built environment cannot be analyzed. The significance of Ball's thesis is that it calls for attention to be given to actors, and to relations between actors as socially mediated. To the issue of land cost in the production process of housing, it suggests a sociological dimension in the analysis of the relation between land rent and housing prices, which has been ignored in most of the literature reviewed so far.

What is yet to be clarified further is the material condition of the conflict. If 'theoretical indeterminacy' means that the determination of the land cost through the interaction be-



tween landowners and developers is solely fortuitous, how could the portion of land cost in new house prices have risen steadily for such a long period of time?. Ball's thesis has come under criticisms in this respect, a criticism that is shared by this research.

Morris and Winn remark that 'Ball offers no analysis of the material basis for the social relations between the various agents within the structure of provision' (Morris, J. and Winn, M., 1990: 232). In other words, it is not clear why agents are necessarily in conflict and competition with each other. Healy and Nabarro argue that Ball analyses the interests and behaviour of agents in the structure of owner occupation housing provision in Britain (e.g., Ball, M., 1983), but gives no explanation of what generate the interests and strategies, i.e., the framework in which agents make their choices (Healy, P. and Nabarro, R., 1991). Kemeny sees the differences between 'the power and conflict thesis' (as termed by Bassett, K. and Short, J., 1980) and the managerial thesis, on the one hand, and Ball's thesis, on the other hand, as 'one of degree rather than principle' (Kemeny, J., 1987: 252). The former have also been criticised for their neglect of the material basis of conflict in the property relations. Then what is the nature of the material basis and how does it direct and condition the struggle of landowners and developers to result in increasing portion of land cost in house prices?. Without understanding the material conditions of the social relation, it will be difficult to explain the relationship between land prices and house prices properly. This is going to be a contribution of this thesis as presented in the following sections in this chapter.

Ball indicated that the Marxian concept of rent may explain the nature of conflict between landowners and developers although he was critical about the mechanistic transposition of Marx's categories into the urban context (Ball, M., 1986a). He suggested an integration of the theory of rent into his thesis of the structure of provision (Ball, M., 1985).

The following two sections explore what can be derived from Marx's concept of rent for the understanding of the relationship between landowners and housing developers.

### 2.3 Marx's Concept of Rent

In the late 1960's and the early 1970's, the advanced capitalist countries faced new urban problems related to property: the prevalence of urban protest movements due to increasing inner city poverty, racism and spatial segregation by race and income, and lack of essential social facilities; the increasing importance of property relation in urban development due to increasing concentration of large enterprises of international character; the sudden boom and slump of land and property markets threatening financial systems, etc. (Ball, M. et. al. eds, 1985).

The conventional market or supply and demand model based on the neo-classical economics was criticised as unhelpful in understanding these new situations. It was thought unable to consider two important aspects in the analysis of land and property issues: the involvement of diverse agents with different interests and strategies and the monopolistic nature of land (Harvey, D., 1973; Ball, M., 1985). Many theorists turned to Marx's concept of land rent to seek alternative views in understanding the new situations.

Attempts have been made to use Marx's concept of rent in a variety of urban issues. One stream of analyses focused on the implications of landed property, the private ownership of land, on class conflict for living places and its implications on workers' strategy for class struggle (Edel, M., 1977; Harvey, D., 1978; Bandyopadhyay, P., 1984; Katz, S., 1986). The second group of analyses has focused on the role of landed property in capital accumulation, finance circulation (Harvey, D., 1982, 1985) and its effects on the built environment (King, R.J., 1989); the changing characteristics of property markets in central cities where land becomes an increasing financial asset under the increasing internationalisation of business and capital circulation (Haila, A., 1988); the role of the state in rent relation and associated social and political conflicts at national level over the distribution of social value into wages, profits and rent (Roweis, S.T. and Scott, A.J., 1981). A third group has focused on urban property market behaviour which has become more and more speculative (Logan, J.R. and Molotch, H.L., 1987); the generative mechanism of capital gains in domestic properties (Badcock, B.A., 1984, 1989); the characteristics of house landlordism (Allen, J., 1983).

In dealing with such a wide range of issues, there have been many reinterpretations and redefinitions of Marx's concept. Thus it may seem to be stale to have a review of Marx's concepts here. The existing interpretations and redefinitions have, however, been made for different theoretical frameworks and for different purposes of analysis. Moreover, there have been confusions and controversies over how to reinterpret Marx's concept in the new urban context. It is thus required to look at Marx's concept with a focus on the particular concern in this research: what it tells about the relationship between landowners and developers in housing production.

### **2.3.1 Ground Rent as an Independent Category of Value**

For Marx, ground rent is the concept explaining the form in which landed property is economically realized in the capitalist society. Landed property means the private ownership of land and is a social relation (Marx, K., 1894-1974).

Landed property had been the major condition of production in precapitalist societies. In the formulation of the theory of rent, Marx's primary concern was how this landed property maintains its economic role in the capitalist society in which capital takes the leading role in production and accumulation. His objective thus was to identify the objective basis of the existence of landed property in the capitalist mode of production. It was to establish the fact that landed property in the capitalist mode of production is not simply a legacy of precapitalist modes. To establish the fact that the existence of landed property is not arbitrary, not something which may or may not exist in the capitalist mode of production (Ibid.)

Marx's theory of rent was presented within the context of his theory of value. Thus a review of his concept of rent begins with basic concepts in Marx's theory of value, relying here on Harvey's clarification (Harvey, D., 1982). As very briefly stated in the beginning and in Section 2.2.1, the value of a commodity is equal to the labour embedded in it. Labour here does not indicate actual labour time. Market exchange tends to obliterate individual differences both in the condition of production in terms of production organizations, technology and means of production, and the skills of labour. Com-

modities are paid for not according to actual labour but the labour required to produce that commodity under the average conditions of production and with the average skills at the time. The latter is called 'socially necessary labour time' and represents the value of the commodity.

A gap between the value produced by labour and the portion of the value required to reproduce labour power forms the surplus value. This surplus value becomes the basis of profit and its magnitude is determined by the struggle between capital and labour.

Capital required to produce a commodity is divided into constant capital and variable capital. Constant capital means the total value of raw materials and instruments of production used up in the production process while variable capital indicates the value of labour power consumed in the same process. Since value is created by labour, commodities produced with the same amount of total capital can have different values according to the composition of constant capital and variable capital. The ratio of constant capital to variable capital is termed the organic composition of capital. Thus commodities produced with lower organic composition of capital (i.e., labour intensive) have more value than those with higher composition<sup>(4)</sup>. The former yields a higher rate of profit which is defined as the ratio of surplus value to total capital spent in the production process. However, commodities do not exchange according to their individual values. If commodities were exchanged according to their values, capital and labour will flow into those sector with lower organic composition of capital until the rate of return becomes equalised across different sectors. In other words, the rate of profit tends to be equalised among sectors of production with different organic composition of capital. That is called the equalisation of the rate of profit, and this equalised rate of profit becomes the social average rate of profit (Marx, K., op. cit.). Thus commodities exchange not according to their individual value but to their price of production, which is the cost of production (capital used up in the production process) plus the social average profit (Harvey, D., 1982).

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4) Higher value leads to higher prices and disadvantage competitive position. When production branches or firms are not in competition, higher values can be realised. When they are in competition, the difference between higher values and lower values will not be realised.

Marx defined ground rent as a category of surplus value independent of profit and wage. It is 'the independent and specific economic form of landed property on the basis of the capitalist mode of production' (Marx, K., op. cit.: 624). This means that although rent is a deduction taken from the surplus value that would otherwise be received by the capitalists, it does not disturb profit and wage, the two major categories of social value.

In the very brief review of the theory of value, it has been seen that value is divided into labour and surplus value. The latter is distributed among capitalist producers through the equalization process. Then how can landed property have a third category of value which does not disturb the others: profits and wages?. This was the major question in Marx's theory of rent.

Marx distinguished ground rent from interest and what he calls lease money. The latter means a deduction from the average profits or the normal wages, or both. The private ownership of a portion of land enables the owner to levy all other tributes including interest and lease money as well as the ground rent. They altogether determine the price of land, which is the capitalised income from the lease of the land.

'Economically speaking, neither the one nor the other of these portions [interest and lease money] constitutes ground rent; but, in practice, it constitutes the landlord's revenue, an economic realisation of his monopoly, much as actual ground rent, and it has just as determining an influence on land prices'. (Ibid: 625).

This implies that although the existence of landed property is objectively ensured by the ground rent defined as an independent category of surplus value, its economic realization in practice is also dependent upon other tributes including lease money. What makes the concept of rent more confusing is the fact that the price of land, by involving such tributes other than ground rent, becomes dependent upon fortuitous market situations. Marx wrote:

'the price of things which have in themselves no value, i.e., are not the product of labour, such as land, or which at least can not be reproduced by labour, such as antique works of art by certain masters, etc., may be determined by many fortuitous combinations. In order to sell a thing, nothing more is required than its capacity to be monopolized and alienated'. (Ibid: 633).

Failure to distinguish ground rent as an independent category of value from other tributes has been a major source of confusion and controversies in Marxist urban rent theories. This will be discussed in the next section. The distinction is important to the research question of this thesis. It has an implication as to whether the rising land cost in new house prices is due to an inherent nature of capitalist housing development or due to fortuitous land market situations.

Now the examination returns to the question of how landed property can have rent as an independent category of value in the capitalist mode of production in which social surplus value is distributed among capitalist producers through the equalization process. Differential and absolute rent are suggested as the forms in which ground rent arises as a pure form of surplus value, distinguished from the actual movement of market prices.

'These two forms [differential and absolute rent] are the only normal ones. Apart from them the rent can be based only upon actual monopoly price, which is determined neither by price of production nor by value of commodities, but by the buyers' needs and ability to pay. Its analysis belongs under the theory of competition, where the actual movement of market-prices is considered'. (Ibid.: 764).

### 2.3.2 Differential Rent and Absolute Rent

This subsection will examine first the case of differential rent in agricultural production. The market value of agricultural products is determined by the price of production in the worst soil. Producers on better land therefore will make surplus profits (that over the social average profit) because the production cost will be lower. These surplus profits become the source of rent. Landowners can claim parts or all of them as rent without affecting market values of the products. This is the first type of differential rent, Differential Rent I. It is fixed by the difference between individual price of production and the general price of production, which is regulated by the price of production on the worst soil (Harvey, D., 1982).

What makes the process complicated is the fact that the quality of land and consequent productivity can be altered by capital investment. In other words, individual price of

production can vary according to the magnitude of capital investment in the land. Producers who invest more capital to improve, for example, the fertility of land than others will have lower cost of production and thus more surplus profits. In this case too, land-owners can claim parts or all of them as rent. This is the second type of differential rent, Differential Rent II.

Capital always competes for higher rates of profit. This competition results in unequal amounts of capital investment in various land with the same qualities. This brings about an uneven spread of new techniques and production methods with different productivity. In consequence, this second type of differential rent becomes increasingly important as a society develops.

In the formation of surplus profit, Differential Rent I and II are distinguished. In the former, the formation is based on the investment of the entire capital in land of varying quality. In the latter, it is based on the varying differential productivity of successive investment of capital in the same land. However, in the transformation of surplus profit into rent, it is always the excess of the general regulating production price of the output per acre over the individual average production price. In the case of Differential Rent II, it thus always presupposes that the various actual individual production prices of the partial outputs of the individual successive investments of capital have previously been reduced to an individual average price of production<sup>(5)</sup>.

This means that Differential Rent II, though they must first be distinguishable, must be transformed back into Differential Rent I (Marx, K., 1894-1974). In other words, surplus profit created by additional capital investment too is appropriated by landowners in the form of rent as if it arises from certain quality inherent in land.

Differential rent does not arise on marginal land on which no surplus profit could be produced. However, even for the worst land, landowners will not let the land for use without charging a price. Absolute rent is that which is received by landowners by withholding land until it produces something in excess of the price of production.

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5) This is what distinguishes Marx's concept from Ricardo's marginalist view (Ball, M., 1977).

This absolute rent as well as differential rent was suggested as the form of rent, which is defined as an independent category of surplus value. It is to be distinguished from those parts of land prices fluctuating according to market situations such as monopoly pricing, as Marx noted in the above quotation (p 55).

However, whether absolute rent can be such an independent category of surplus value has been an area of controversy. In absolute rent, landed property acts as the barrier by permitting new investment of capital only when it yields a rent. Then how is this distinguished from monopoly pricing in the land market which Marx excluded from the analysis of ground rent as a pure form?.

As stated before, as the value of a commodity is equal to labour time consumed for its production, the individual rate of profit is inversely proportional to the ratio of constant capital to variable capital, the organic composition of capital. In such a production sector as agriculture where the organic composition is lower than the average, the value is higher than the price of production.

Marx asserted that absolute rent cannot exceed the value of the product over its price of production. This has been a point of controversy. A common question has been: 'If landed property gives the power to sell the product above its price of production why does it not equally well give the power to sell the product above its value, at an arbitrary monopoly price? (Cutler, A., 1975). And if the upper bound of the absolute rent is not set by the value of the product, absolute rent cannot be distinguished from monopoly price and cannot be rent as a pure category of value independent of profit and wage.

Edel identified in Marx's own writings four possible answers to the question. According to Edel, among these possible answers one was not totally arbitrary as outlined in the following. If the prices of agricultural products are driven up above their values, the total social surplus value begins to decrease as more value than that created in the agricultural sector has to be paid for the agricultural product. In other words, the social average rate of profit itself begins to fall below the level which the higher organic composition industries can achieve without agriculture. Capital, it is implied, thus would not

flow into land when the price of production exceeds the value of the products (Edel, M., 1976).

The question is then who (capitalist producers) can and will care for the rise and fall in the social average rate of profit?. Who is to check further flow of capital into the agricultural sector in order to prevent any fall in the average rate of profit. If capitalist producers can be aware of and care for the average rate of profit (defined as the ratio of surplus value to the cost of production), then all production sectors which have higher organic composition of capital must cease to exist. This is unrealistic.

Marx mentioned the possibility of rent to push the price above the value.

'...the rent would create a monopoly price if grain were sold not merely above its price of production, but also above its value, owing to the limits set by landed property to the investment of capital in uncultivated land without payment of rent'. (Ibid: 775) (6).

There seems no reason why the absolute rent must be limited by the value of products and thus be distinguished from monopoly prices. This rent is based on monopoly pricing by landowners, and involves lease money, the analysis of which was set aside by Marx as belonging under the theory of competition, not under that of rent.

The purpose of this research is to identify the aspect of the process by which land cost for housing rises which cannot be explained solely by fortuitous market situations but by certain tendency inherent in the production process of housing. Previous analysis showed that absolute rent is not distinguished from monopoly pricing in the market and thus cannot be an appropriate concept, a pure form of rent explaining that tendency. This lead the research to the examination of differential rent as the only form of rent which arise without disturbing profits and wages.

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6) This is distinguished from the case of, what later theorists termed, monopoly rent, 'a price determined only by the purchaser's eagerness to buy and ability to pay, independent of the price determined by the general price of production, as well as by the value of the products' (Marx, K., 1894-1974: 775).

### 2.3.3 Role of Landed Property in Differential Rent

Differential rent has often been regarded as technically determined. In other words, the differentials in qualities of land in terms of fertility or location are regarded as technically measurable and landed property has only the role of collecting the differentials and has no role in determining rent. In relation to the research question of this thesis, this means that land cost is a residual of the price of production minus other factor costs. Marx's following statement appears to support such a view.

'Differential rent does not act as a determining factor in the general price of production but is based on it: it arises from the difference between the individual and the general price of production'. (Ibid: 646).

However, this does not mean that landed property is merely passive in the determination of rent and the prices of production. Ball provided a critical review of such a residual view of rent. He criticized that the role of landed property has been misunderstood by those who see rent as merely a distributional result in the sphere of exchange (Ball, M., 1977). Ball argues that 'the rent relation creates the very existence of surplus profits appropriated as rent' (Ibid:396). Differential rent is not purely functional. It affects not only the distribution of surplus value produced but also the production of surplus value itself. In other words, landed property affects or dictates the patterns of capital investment, the process of creating surplus value itself.

As seen in the case of Differential Rent II, the formation of surplus profit is determined increasingly by the magnitude of operating capital invested for the improvement of land such as fertilization, mechanization and irrigation development. Thus there exists a definite amount of capital which is considered normal under the prevailing conditions of production. Competition among capitalist producers results in continuous search for new methods of production with higher productivity which often require more capital investment. Landowners can add the amount of rent for a newly increased portion of operating capital on their land to the existing average rent in the society. Landowners thereby dictate that new tenants command sufficient capital to continue cultivation in the same intensive manner (Marx, K., 1894-1976).

Marx illustrated cases which showed the roles of landed property (Ibid.). When a new production method applies to small parts of land in a society, the rent of those small parts of land will increase as production on the land will yield higher profit than that on other land. However, as soon as the new method has become general enough to be the normal one, in theory, the general price of production (the price of production on the worst soil) would fall and thus rent due to the new methods would decline too. However, landed property prevents the decline in rent. Once rent payment at certain level become general, producers are obliged to continue to pay the level as far as the price of production can find demand for the products at the ongoing prices.

New production methods often means more capital investment in land than before. Additional investment of capital in agricultural land does not necessarily mean an increase in productivity. There can be cases in which additional investment in the same land results in decreasing productivity as suggested in the law of diminishing return. In these cases, the rate of surplus profit decreases as capital investment increases. However, capitalist producers continue to invest as far as they can realize the average rate of profit. In other words, the additional investment can be made until the total amount of capital does no longer yield any surplus profit which can be appropriated by landowners as rent.

However, the existence of landed property does not allow additional investment of capital to continue to this point. Because once the farmer pays a certain amount of rent for the previous investment of capital, he must continue to pay it. If it is necessary to produce the additional output by additional investment of capital, the regulating market price would have to rise to the extent which could compensate the deduction from the farmer's profit for ongoing rent.

Landed property here does not merely enable the owner to transfer the surplus profit from the farmer to himself, but becomes an artificial barrier to the successive investment of capital in the land preventing underproductiveness and drops in rent. The existence of differential rent thus causes a rise in the general price of production. Thus Marx writes:

'In the same proportion as the latter [the production of surplus value] develops, landed property acquires the capacity of capturing an ever-

increasing portion of this surplus-value by means of its land monopoly and thereby, of raising the value of its rent and the price of land itself. (Ibid: 638).

The existence of landed property is thus not something subsidiary to capital. It affects the portion of social value excluded from the equalisation process of rate of profit or wage (Harvey, D., 1982).

Examples were suggested by Marx. They are the cases in which differential rent arise on the worst soil. As far as differential rent is concerned, in the worst soil there is no other regulating price of production but its own average price of production, which itself becomes the general price of production regulating the market price. Two cases are illustrated. The first is the case in which additional investment of capital made in the worst soil results in surplus-productiveness while the general price of production is unchanged. The second is that in which the productiveness of successive investment of capital in the worst soil decreases raising the general price of production. Theoretically, in these two cases, rent can not arise on the worst soil.

An example of the first case is a situation in which a large part of agricultural land supplying a majority of agricultural products in a country is of the worst kind of soil and the additional investment of capital on this soil (for its improvement) at first extends only to a small area of the worst soil. Then the better cultivated portion of the worst soil would yield a surplus profit, which the landlord 'would be quick to transform wholly or in part into rent, and to fix in the form of rent' (Marx, op. cit.: 743). Once a surplus profit as such is fixed in the form of rent, rent might be gradually formed on all soils of same quality as they began to employ the improved method of cultivation. Here, it is the transformation of surplus profit into ground rent that prevents the possible fall in the price of production due to the improved productivity. Differential rent here is not merely the result of the difference between individual and the general price of production. Thus landed property maintains a higher price of production than necessary.

An example for the second is the case in which the productiveness of additional capital investment decreases. An additional investment on the worst soil in this case will raise the price of production and since its price of production becomes the regulating price of production for the products in general, the worst soil will not yield any rent. How-

ever, if the additional investment was made on only parts of the worst land, that worst soil in which no additional investment of capital had taken place yet would yield rent. Here what is important is to what extent the additional investment of capital on the worst land is generalised. If additional investment of capital on the worst soil spread slowly, then in the end all the worst soil would yield rent.

Marx's concept of rent thus provides an explanation of the material condition of the conflicts between landowners and producers. Producers permanently work out new ways of maximising surplus profits. This provides possibilities for landowners to transform and fix such newly increased surplus profits into land rent and thereby increase the portion of land prices in the prices of the products. This rent relation then influences the method of production. This process can result in a spiral rise in land rent and the prices of the products. This explanation of material condition of the relationship between landowners and producers gives a clue to answer the central Research Question of this thesis, i.e., how it is that as new house prices have risen, increasingly larger portions of them have been allocated to land cost. The previous analysis suggests that this is a process which outcome is determined through the conflicts between landowners and developers, conditioned by the developers' ability to create surplus profit and the landowners' ability to transform part of it into land rent.

The review of the literature so far leads to the reformulation of research questions and hypotheses. Before doing it, it is necessary to briefly review the issue of urban rent, since it involves the question of whether Marx's concept of rent can be applied to the analysis of urban issues, including housing development. This will be examined in the following section.

## 2.4 Urban Application

### 2.4.1 Applicability of Marx's Concept of Land Rent to Urban Situations

Ball has provided one of the severest criticisms against attempts to apply the categories of agricultural rent to urban analysis. He argues that the concept of agricultural land

rent cannot be applied to urban situations broadly for three reasons: first, agriculture and the built environment have different mechanisms of rent appropriation because of the differences in the formation of market value; second, agricultural rent is based on differentials in productivity while urban rent is not; third, the relationship between landlords and capitalist tenant farmers is not reproduced in the urban development process.

With respect to the first argument, Ball argues that in agriculture each land has a particular cost of production according to the differentials in fertility while the price of production is generalised. As discussed in the previous section, in agricultural production the price of production on the worst soil becomes the general price of production. Thus there forms a uniform market price. In the built environment, however, Ball argues, each building has more or less the same cost of production but the determination of market price is individualised. In other words, there is no uniform market price for buildings (Ball, M., 1977).

Here location becomes an important attribute of land in explaining urban land rent. Marx mentioned that location and fertility were two main causes of the unequal results of equal capital investment in land for production and thus of differential rent. Yet, his discussion of agricultural land rent was confined to fertility (Marx, K. 1894-1974). The difference in the mechanism of rent appropriation is due to the effect of location in the determination of the market price of buildings. To illustrate the difference in market structure, Ball compares corn and building representing an agricultural product and an urban product respectively. Corn is sold at a uniform market price while in case of building, there is no uniform market price because of the locational specificity. In the latter case, the price will depend on its location while in the former, the effect of location is not to alter the price but its individual average price of production (Ball, M., op. cit.).

In other words, in agricultural products, a uniform market value is formed while individual prices of production differentiate; in buildings, market value is individually formed while individual prices of production (cost of production plus social average profit) becomes uniform. Therefore, the relationship between rent and market price is not the same. For building, the capability of landlords to appropriate rent depends on

the market price while for corn this depends on the individual price of production (*Ibid*).

Regarding the second point, Ball suggests that productivity cannot be measured for buildings. According to him, agricultural land is used productively while urban land is not because buildings are produced for unproductive uses. He gives the reason: 'although the construction of the built environment requires the expenditure of labour, the uses to which those buildings are put need not produce surplus value' (Ball, M., 1977: 400). Thus, for Ball, 'the major urban land use, housing is an obvious example' that 'frequently urban land is not used for commodity production' (Ball, M., 1985: 514).

The third contextual difference, which, Ball argues, makes agricultural rent inapplicable to urban situations is that the relationship between landlords and capitalist tenant farmers is not reproduced in the urban development process. In the latter case, much more complex multilateral relationships are formed among developers, landowners, builders, financiers, purchasers, rentiers and tenants. The amount of rent is determined basically by the struggle between landlords and farmers and its effect on market prices in the agricultural sector. In the urban case, the appropriation of rent on buildings is determined by the structural relations between all these agents. (Ball, M., 1985).

Clark and Haila criticize this argument. First, they dispute Ball's comparison between corn and building. Clark indicates that urban buildings can better be compared with farms rather than corn, a product of the farms (Clark, E., 1987). In the same vein, Haila argues that corn must be matched by services provided by urban buildings (Haila, A., 1990). This seems not to be the point. Moreover, Clark and Haila's arguments are based on different conception of land rent from Ball's conception. This will be taken up later in this section. The question is whether Marx's concept of differential rent is valid only when products on land have uniform market value and different prices of production as Ball seems to suggest.

Clark argues that Ball's distinction between agricultural production and urban production does not necessarily justify Ball's rejection of the applicability of Marx's concept of rent in urban situations. According to Clark, the distinction is that, in agriculture, land enters into the economy as an element of production or an instrument of production

while, in the built environment it enters as a condition of production, the foundation, the site, or the spatial basis of operation. What the differences call for is not such rejection but more attention to the basis for rent on land used for commercial and consumption purposes as opposed to the basis for rent on productive land (Clark, E., 1987).

It is also questionable that differences in actors and in the relationship between them make the concept of differential rent inapplicable to urban situations. Different sectors of production involve different actors with different interests and strategies. Complexities in their relationship differ from one production sector to another. Agricultural production in modern societies relies on increasingly complex relationships among producers and landowners, traders, financiers and consumers. Housing development differs from commercial building development in terms of actors involved. It has to be further explained why the involvement of different actors makes Marx's categories inapplicable in urban situations.

The position of this thesis is that while rent generating processes are different in agricultural land and urban land, what makes them analogous is the origin of rent. Differential rent is defined as that arising from the surplus profit due to differentials in the quality of land whether it is location, fertility or else. Haila makes the criticism that the differences which Ball specified do not alone prove the inapplicability of the concept of rent developed in an agricultural context to the urban situation. 'Employment of analogies by transferring theories from one context to another is a common procedure in any science' (Haila, A., 1989: 1527). To support the inapplicability argument, one has to show 'how the urban context distorts the essence of agricultural rent theory, or in what way agricultural rent theory is dependent on its specific context' (Ibid: 1527).

The alternative concept of land rent suggested by Clark and Haila raises a further important point at issue: the distinction between land rent and building rent, and that between land rent and monopoly price. As previously mentioned, they begin with different conceptions of rent.

### 2.4.2 Land Rent, Building Rent and Monopoly Price

Both Clark and Haila see buildings as improved land. Clark argues that the building is not itself an independent, complete commodity, but a permanent land improvement, a fixed capital producing commodities in the form of services which the building provides to its users (Clark, E., 1987). In this view, Ball's comparison between corn and building is regarded as misleading. Haila argues that in order for the comparison to be correct, the counterpart in the urban case must be services which buildings provide, not buildings themselves. 'In a study of urban rents the analysis of the use of real estates is far more important than analysis of building costs' (Haila, A., 1989: 1527).

Housing here is conceived as an improvement of land. This view was suggested by Harvey earlier. Harvey regards housing as an improvement incorporated into land: 'Housing has to be produced and it has to be paid for as a commodity. Once this is done, however, the house may be regarded as a relatively permanent improvement incorporated into the value of the land' (Harvey, D., 1985: 64). Folin argues that housing, once built, is like land. Its increase in price over time and its existence as a sphere of investment is a result of the exercise of a monopoly and not of the work of labour in a production process. It thus must be placed in the same category as landed property itself (Folin, M., 1985).

In this view, all revenues accrued to properties involving land are regarded as land rent and rent becomes a concept which explains the property market. This view is based on a different conception of land rent from the one put forward by Ball and shared by this thesis. For Ball, land rent is a payment to owners of raw land. In the case of owner occupied housing provision, he argues that rent is the income received by the initial land-owner from housing development and that once the speculative builder becomes the landowner the rent relation ceases (Ball, M. 1985). The price of a newly built house, for example, depends on the prevailing general level of house prices. The value of the land plot of the house is only notional; it may only be distinguished for the purpose of accounting or valuation of tax base or collateral. Views regarding capital gains to

houses or buildings as land rent are based on a false belief that land attracts to it all this potential surplus profit, because of its general scarcity and locational specificity (Ibid.).

For Clark and Haila, any payments and capital gains accruing to properties involving land is all called rent. Clark argues that any rent yielded on vacant land presupposes the potential returns of a certain level of capital investment on the land. Then why should not the annual return after capital has been fixed to the land, that is, building is constructed, be considered as land rent?. Clark seems to indicate that Ball thus dismisses the rationale behind Marx's concept of Differential Rent II and its relation to Differential Rent I (Clark, E., op. cit.; Haila, A., op. cit.).

Ground rent still has its role even in cases in which building owners own the land. Clark cites Marx's notes on the relationship between land rent and building rent. 'The interest on durable improvements to land becomes land rent as soon as the capital laid out is amortised' and that, 'though such improvements are the product of capital, they operate just like the natural differential quality of the soil' and 'it is ground rent and not the houses themselves that forms the real objective of speculative building' (Clark, E., op. cit.: 266).

Haila claims that by limiting the category of rent to actual payments, Ball downgrades unnecessarily the utility of the theory of rent. She suggests that when zoning regulations allow more efficient use of a site than the actual one, the expectations of owners on potential and alternative rent may have an effect on actual use and price (Haila, A., 1989).

Here, the point of dispute is the distinction between land rent and building or house rent. Ball's point of criticism is the indifference of such a conception of rent to actors involved in the production process in land with different interests and strategies and to their social relations. The latter, according to him, shapes all aspects of the production process, including the determination of land rent: 'The theory based on such a conception is universal in that it can be applied to any land use and it is ahistorical in that it is indifferent to .... whether it goes to the initial landowner, the builder or the state as a land tax' (Ball, M., 1983:146). Ball also said: 'Different types of landed interest have distinct relations to their land holdings, which means they do not respond in the same way to changing economic circumstances'. For example, some investors are interested

in long-term gains, while others in maximizing short term profits. All such differences are dismissed in the view of Clark and Haila. Therefore 'the need to limit the category of rent to payments to landowners is very important for the urban context. .... Failure to conform rigidly to the definition can lead to endless confusion' (Ball, M., 1985: 512-513).

When the scope of concept of rent is reduced to explain the relationship between land-owners and developers, two important points become apparent: (i) it explains a tendency for the portion of land cost to rise; and (ii) it explains how land prices become that part of surplus profits which are excluded from the process of profit equalization.

Concerning the first point, Marx's examination of the role of landed property in the definition of differential rent provides an illustration of the circumstances in which the portion of land cost in new house prices could tend to increase. There might be, for example, a situation in which new housing development methods spread progressively in a region. Theoretically the price of new houses produced with such new methods will fall either due to savings in the construction costs or reduction in land cost. However, urban landed property acting similarly as the rural one would not allow such fall to happen.

Landowners would sell their land at higher prices to developers who employ such new productive methods since those developers will be prepared to buy land at higher prices as long as they are able to realize average or higher rate of profits. This means increases in land rent. As the new development methods spread progressively, rent for all other land would rise to the same level. This is the process by means of which increasingly larger portions of new house prices tend to be allocated to land cost. It is a tendency for land cost to rise in capitalist housing development, independently of fortuitous short term market situations.

The implications of this process for Korea are twofold. First, cost saving construction technology and higher density housing development, which have long been believed are ways of achieving cheap housing production, do not necessarily lead to a fall in the prices of new houses. Second, once land rent has risen due to the new development methods, all later developers are obliged to adopt the same or more productive methods. New development methods can be more productive construction technology,

more intensive use of land (e.g., high density development) or more efficient organization and management. It is normal practice that competition between developers brings about endless search for such new ways of development, i.e., new ways of increasing surplus profits. This provides the possibility for landowners to raise land prices to ever higher levels.

According to Harvey, by appropriating surplus profits due to differences of the quality of land, either naturally given or artificially created, landowners create a condition in which developers compete with each other increasing the efficiency of housing production. On the other hand, by taxing away surplus profits resulting from new production methods, landowners become a barrier to housing development; they become a threat to the development gains (Harvey, D., 1982). This is the material source of the conflict and contradiction between landowners and developers.

The second point indicates that these conflicts and contradictions are part of intrinsic nature of the process of housing development. They might be also related to fortuitous market situations, but to attribute the rise and fall in land prices only to demand and supply in the market conceals the real nature of those conflicts and contradictions. The market may amplify or reduce the conflict but not remove them.

The tendency to identify land rent with monopoly pricing in the land market, as seen in the discussion on land rent and monopoly price above, seems to have been caused by the use of 'monopoly' by Marx as a concept explaining the private ownership of land in his theory of rent. Marx described that land rent is generated because of monopoly by landowners of certain pieces of land (Marx, K., op. cit.).

Bryan clarifies the concept of monopoly in Marx's theory of rent (Bryan, R., 1985). According to him, 'monopoly' in Marx's theory of rent is associated with a range of empirical forces which prevent rates from equalising. It is 'a constraint on the equalisation of technical norms of production and thus on the tendency for profit rates to equalise' (Ibid: 87). In other words, monopoly in the theory of rent means a condition in which the equalisation process of the rate of profit is hampered or prevented because of the existence of landed property. This is distinguished from monopoly indicating certain market structure. Marx thus writes;

'Their [absolute and differential rent] monopoly would consist in the fact that, unlike other products of industry whose value is higher than the general price of production, they are not levelled out to the price of production'. (Marx, K., 1894-1974: 762).

Some critics on the utility of Marx's theory of rent in contemporary society seem to be based on a misunderstanding of this point, i.e., a misconception of 'monopoly' in the theory of rent as a market structure. Tribe argues that in Marx's conception, landownership as a class monopoly is confused with landownership as an individual monopoly, and neither can be economic concept of monopoly (Tribe, K., 1977). According to Tribe, 'monopoly' in Marx's theory of rent refers to the individual power of each landowner confronted with his tenants; but from the point of view of the economy as a whole, this represents no more a monopoly than an aggregation of e.g. village shopkeepers' (Ibid: 87). In case of class monopoly, that is, when land is held almost exclusively by two or three social groups, it does not automatically imply that they operate together as monopolists. For Tribe, it is thus necessary to develop 'the concepts of forms of commodity exchange for the economic analysis of monopoly pricing of land and products, which is missing as a whole in Marx's theory of rent (Ibid: 77).

Bryan claims that Marx's theory of rent presupposes the existence of a distinct landlord class and as the existence of a distinctive landlord class is doubted in the period of 'fully developed capitalism' (Bryan, D., 1990: 180), no theory of ground rent other than the theory of capital is needed (Ibid.). Deak similarly asserts that Marx's land rent is a consequence of the survival of precapitalist relations of production at a specific stage of development of capitalism. Since in contemporary urban situation, a distinctive landlord class no longer exists, there is no land rent (Deak, C., 1985).

These arguments are based on the conception of monopoly, as the basis of land rent, as a particular market structure rather than a process by which a certain portion of surplus value is excluded from the equalisation process. The aspect of monopoly as market process is well recognised by Marx when he distinguishes 'practical effects' of landed property from rent as a category of value. But he sets its analysis aside as belonging 'under the theory of competition, where the actual movement of market-prices is considered', not under a distinctive theory of rent (Marx, K., 1894-1974: 764).

According to Bryan, this distinction between land rent as an exclusion of a certain portion of surplus value from the equalisation process of the rate of profit, and that due to particular market structure, monopoly, has important political economic implications. The former is related to the social average rate of profit and rate of wage. Hence, conflicts between capital and landed property, and conflicts between landed property and labour. The latter has no direct association with relations between, for example, labour and capital. There is only the relationship between buyers and sellers in the market, no reference to class (Bryan, R., *op. cit.*).

On the basis of this conception, housing development is

'a particular field of production in which the general process by which the general rate of profit is formed is hampered by the private ownership of land' (Marx, K., 1969: 37).

The arguments so far suggest that rising land cost for housing in Korea has to do with the conflicts between landowners and developers inherent in the capitalist housing production which cannot be explained solely by referring to the relationship between sellers and buyers in the land market. From this a conceptual answer to the question about the relationship between land prices and house prices can be derived. In housing development, it is developers who organise the creation of surplus profit, the material source of land rent. Thus the ability of developers to create surplus profits provides scope for landowners to realise land rent. Landowners, however, are not simply passively appropriating parts of the surplus profits already created. They perpetually exclude parts of surplus profits from the process of profit equalisation and fix them into ongoing land rent. They increase the portion of land prices within the prices of the products, in this case housing. Moreover they increase the average levels of investment in land and thus affect development methods, which are the ways in which developers organise the creation of surplus profits. Marx thus wrote:

'Rent -as the price of land- may not determine the price of the product directly, but it determines the methods of production, whether a large amount of capital is concentrated on a small area of land, or a small amount of capital is spread over a large area of land, and whether this or that type of product is produced'. (Marx, K., 1972: 515)

From the point of view of developers, this means that the higher the rate of surplus profits they create or are expected to create, the higher land prices they have to face as the business of housing development continues.

This is the contradictory relation between landowners and developers inherent in the process of capitalist housing production. Whether the contradiction becomes an explicit problem depends on circumstances. This does not mean that the actualisation is only fortuitous. Certain social relations respond to the contradiction (e.g., eminent domain and the direct intervention of the state) and define the positions and roles of landowners and developers in the determination of land cost. The question of why land cost has risen in Korea as shown in Figure 1.8 (p25) must be put in this context.

## 2.4 Summary and Research Design

### 2.4.1 Research Questions

The analysis of the literature considered most relevant for this research, and the interpretation of the most important concepts in this field can now be summarised in the form of the central problems and suggestions concerning the relationship between new house prices and land prices. The analyses contained in this chapter suggests that neither the factor cost view of land rent nor the Ricardian residual view, can give a proper explanation of the relationship between landowners and developers. It has been shown that the reason for this limitation is their inability to consider social relations associated with the determination of land rent. The thesis of the structure of housing provision established that the relation between land prices and house prices must be explained in the context of the interaction between landowners and developers and social relations relevant to it. This has been taken as the starting assumption of this research. However, these relationships are historically specific to concrete situations. The interactions between landowners and developers are not fortuitous. The acceptance of the starting assumption, which is the result of the theoretical analysis of this chapter still keeps open the question of what are precisely those interactions between landowners and housing

developers that had resulted in the rise of land prices and house prices in Korea. Social relations are responses to and at the same time consequence of the conflicting nature of the interaction. The theoretical definition of this interaction has been provided by Marx's concept of differential rent.

Thus the **Central Research Question**, preliminarily formulated in Chapter 1, is reformulated as follows:

**What relation between landowners and developers has brought about the continuous rise in land cost for housing in Korea despite increasing government intervention to regulate it ?.**

This Central Research Question has been answered with the following **Central Hypothesis**:

**The continuous rise in land cost for housing in Korea is the outcome of the conflictive and contradictory interaction between landowners and developers, determined by the fact that developers create surplus profits and landowners appropriate increasingly larger portions of them in the form of land rent. This affects the way developers produce housing and limit their ability to reduce house prices. The government has not been able to regulate that interaction because of its inability to break from its housing development system driven by the private appropriation of surplus profits.**

The Preliminary Research Questions raised in Chapter 1 have been reconsidered and reorganised into four research questions in order to test empirically this Central Hypothesis. The questions are divided into two categories. The first two questions address material aspect of the process by which landowners and developers struggle in the creation and appropriation of surplus profits. The other two questions concern social relations between landowners and developers, which have conditioned the material process of creating and appropriating surplus profits leading to an increasing portion of land cost in new house prices.

Accordingly, **Research Question One** is restated as follows:

- (1) **Have housing developers in Korea been responsible for the rising land costs that have accompanied the housing programmes since 1970's?**

This aimed to disprove the common belief that high land prices have pushed up house prices and that housing developers have been no responsible for rising land prices but victims of it. The hypothetical answer derives from Marx's concept of differential rent:

**Housing developers in Korea have created and realised high surplus profits in housing provision since the 1970's and thereby have provided the material source of rising land cost.**

To test this hypothesis, it is necessary to examine the developers' strategy and behaviour to increase surplus profits and the amount of surplus profits they were able to realise. The latter can be done by analysing the composition of new house prices. The examination needs to be done for two separate periods: the 1970's, when no restrictive control on new house prices existed, and the 1980's, when the strict Price Ceiling System was applied. As shown in Figure 1.8 (p25), the portion of land cost rose under the Price Ceiling System introduced in 1981. Thus an examination of how and to what extent developers has been able to realise surplus profits under the Price Ceiling System becomes a major concern of the examination for the 1980's.

The test of Hypothesis One will show that it is developers who have created the material basis that provides the scope for land cost to rise. Then, what follows is **Research Question Two**:

- (2) **What has been the role of landowners in the creation and appropriation of development gains ?**

The hypothesis to this question is again based on Marx's concept of differential rent:

**Landowners have increased the proportion of land cost by permanently transforming and fixing larger surplus profits into land rent. Although this has been dependent upon the ability of devel-**

**opers to create surplus profits, the existence of land rent has influenced the ways in which developers produce housing.**

These two **Research Questions** are about the roles of landowners and developers and the interaction between the two. The ability of developers to create surplus profit becomes the foundation on which landowners and developers interact with each other. The creation of surplus profits is however not solely within developers' discretion. It is a condition of housing production forced by the fact that landowners will come into the process of surplus profit creation and demand parts of it. Once developers create the possibility of increasing surplus profits, this provides the possibility for landowners to demand further surplus profits for land prices. In other words, developers, by creating surplus profits, create conditions for the landowners to get a further part of it. This is a conflicting process in which landowners and developers interact with each other. The theories reviewed in this chapter indicate that there is a tendency for the outcome of this process to result in the allocation of increasingly larger portions of house prices to land cost. However, the way this tendency is realised, if it is realised at all, depends on the specific ways in which landowners and developers relate to each other in particular historical situations. The outcome of this process, in a specific country, in a specific period, may also influence decisively the way in which housing is developed.

Whether such contradictory relations become an explicit problem in a society is dependent upon social relations responding to the contradiction, which is conditioned by historical circumstances. This defines a considerably large field of inquiry impossible to cover by a single research project. Being forced to be selective, this research has focused on those relations between landowners and developers which had been influenced by the Korean Government intervention. Government intervention represents the institutional form of these social relations. The conflicts and contradictions between landowners and developers in Korea have brought about increasing government intervention in land development for housing. However, land cost has been rising despite increasing government intervention. Research Questions Three and Four deal with these problems. **Research Question Three** is as follows:

**(3) How has the direct involvement of the government in land development had affected the relationship between landowners and developers and what has been the effects on land prices for housing ?**

The answer to this question is hypothesised as follows:

**The Korean government intervention in the land development has politicised the determination of land prices for housing. As a consequence, the direct relationship between landowners and developers has been replaced by an indirect relationship mediated by the government, in which a growing conflict between landowners and the government has become the distinctive feature. Changing power relations between the government and landowners have resulted in the first losing control over land prices for housing.**

Government intervention is the institutional form of social relations responding to the conflicts between landowners and developers. These social relations are historically conditioned. Thus to complete the test of the Central Hypothesis, the historical specificity of social relations must be examined. Thus the **Research Question Four** becomes:

**(4) What political and economic circumstances have conditioned the government's inability to control land prices for housing ?**

The answer is hypothesised as follows:

**The National Development Strategy to minimise the financial burden on the government in the 'non-productive sector', as housing has been officially understood, has led the government to design a housing development system driven by the private appropriation of development gains. The government has continually changed its forms of intervention in housing development but without breaking from the principle of self-financing. Thus the government only intervened in the distribution of**

**development gains among the actors involved, which has been dependent upon the power balance between these actors.**

## **2.4.2 Research Method**

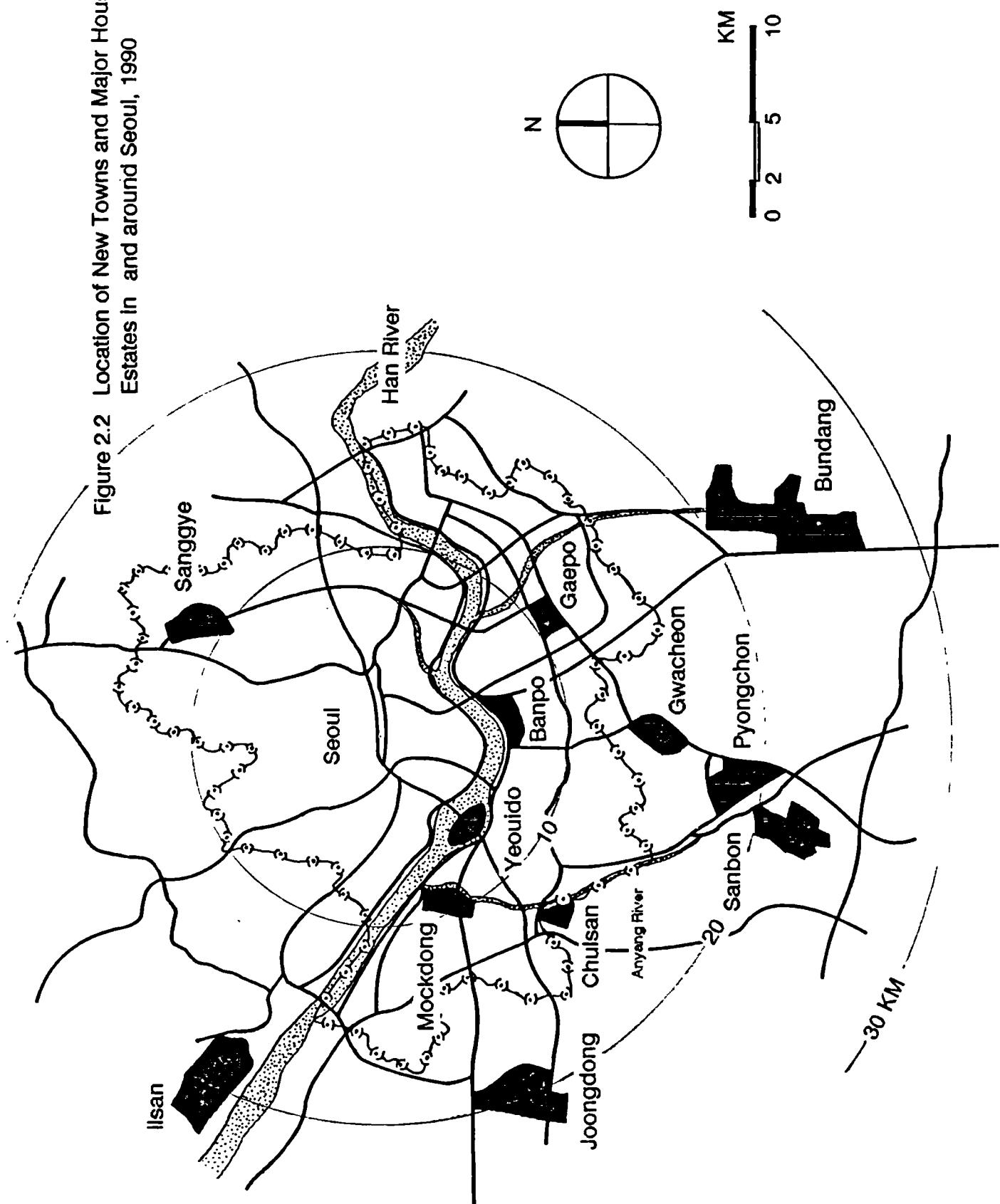
### **2.4.2.1 Geographical Area for Empirical Analysis.**

This is an examination of a particular empirical case to identify certain tendencies inherent in the relationship between landowners and developers in housing development. The problem is that evidence is, in the end, presented in the form of prices - land prices and house prices - and actual prices fluctuate according to market situation which involves all 'obfuscating and irrelevancies'. This obscures the existence of any inherent tendency in it. For example, whether high land prices have caused high house prices or vice versa cannot be identified through short-term market observation. One way to overcome this problem might be to observe relatively long-term trend in changes in land cost and new house prices. In Korea, it is known that the property market moves up and down every ten years for a long cycle and every five for shorter one (e.g., Chung, H.S, 1985; Suhk, H.H., 1990). Thus observations of changes in the prices in a geographical area for more than ten years are necessary.

In addition, what is desirable for the research is a geographical area where interactions between landowners and developers and government policies responding to them are easily observable; where housing development has been taking place in steady phases and thus data can be obtained on a consistent basis; where housing development is not conditioned solely by any exceptional factor such as monopoly of all land by a few landowners. Thus an area large enough to involve a large number of landowners and developers is desired.

In these respects, the southern part of Seoul, Gangnam Area, and New Towns in its vicinity have been selected for the case study. They are shown in Figure 2.2. The research questions then will be examined with reference to housing developments taking place during the 1970's and 1980's in these areas. Gangnam literally means 'South of Han

Figure 2.2 Location of New Towns and Major Housing Estates in and around Seoul, 1990



River' that flows through the central part of Seoul. Until the early 1970's, the area was largely paddy fields. During the 1970's and 1980's the whole area was developed into an urban district. At present it is divided into two boroughs, Gangnam-Gu and Seoucho-Gu. It had an area of 8,600 ha with a population of nearly one million as of 1990 (SMG, 1991). During the period of its development some 170,000 houses were built, 70 percent of which are 5 to 15 storied apartments. The area is also one of the most prestigious residential districts and has a residential land with the highest price in the country (KNHC, 1992a).

This has been steadily developing on a large scale for twenty years. Comparison between changes in new house prices and land prices can be made on a consistent basis in terms of geographical area and steadiness of housing development. In addition, as it has been developing recently, information and data can be obtained relatively unimpaired both through documents and interviews.

High rise apartments became a major housing type in large cities from the mid-1970's and in the nation as a whole in the 1980's. It is in apartment development that the conflicts between landowners and developers have been collectivised and acute. It was in the Gangnam Area and New Towns in its vicinity that competition among developers for land and conflicts with landowners was most intense. The development of these areas has been accompanied by the emergence and rapid growth of large housing developers. Gangnam has provided the sites for large developers to achieve rapid growth through large apartment estate development. They were major developers of the area. Thus conflicts between landowners and developers are observed in a collective form.

It has also been in this area where rises in house prices and land cost have been most acute and clearly seen. It has been the place where speculative investment in housing and land has been most active; speculative investment in housing and land took place during the 1970's and 1980's in the most acute form in the country. House prices and land prices have also risen most remarkably in this area. The region has thus served as a wellspring of housing speculation and as a place where new policy measures related to housing development are experimented with.

The area has been a place where government policy measures to control the development of housing and land as well as the markets have been formulated and tested. In other words, state intervention in rent relation is plainly observed. Policy measures such as land expropriation and price control were first introduced in the area and the problems with them are most clearly observed. It is the very site where the Land Readjustment Project (LRP), the major land development method during the 1970's, had to give way to the new Public Purchase and Development (PPD) in the period of political and economic crisis of the early 1980's. The area thus provides consistent data in a long time span which are necessary for a longitudinal analysis.

What has happened in the development is not peculiar or exceptional compared with those in the rest of the country but enables us to see the nationwide phenomena in an amplified and specific form.

#### **2.4.2.2 Survey**

First, for the comparison between land cost and new house prices in the Gangnam area, prices of private apartments during the two decades were collected and presented. Newspapers and the Korea Housing Association Bulletin (KHA) were used. The data cover some 63,000 units of apartments, two thirds of total apartments built in the area. For land costs, the Current Land Prices Tables made by the Korea Appraisal Board (KAB) are used. The KAB has been surveying the current land prices since the late 1960's. It conducts the survey once a year for every *Dong* (district). In the table, land prices are listed in three categories for each *Dong*: the high, the middle and the low grade. The middle grade prices are used in this research. As the survey is conducted once a year, April or May each year, data for each month were obtained by the method of interpolation. Data from the KHA bulletin and newspapers are not on a consistent basis in terms of time and places. However, they are compared to the data from the KAB to check whether those obtained through interpolation deviate too much from the actual prices. Data obtained through interviews have been used in the same way.

Second, staff specialised in land purchase and planning from the three largest private housing developers and the KNHC were interviewed. The interview asked how they

had obtained land, what forms of conflict they had had with landowners, and what types of housing in what circumstances they had built. Two small developers were interviewed for comparison<sup>(7)</sup>. They provided information concerning the behaviour and strategies of developers in land purchase and how they confront landowners in various development methods. In the following chapters, information provided by interviewees was quoted as recorded in the interview when it was short and simple. However, when it included composite information and long statements, and thus it could not be quoted in verbal terms, it was interpreted in the text with the source of the information at the end.

For the business performance of development companies, documents from individual companies, the Korea Housing Association, the city government, and those issued by the Security Companies, the Korea Chamber of Commerce and Industry, Korea Productivity Office as well as reports in newspapers and real estate magazines were consulted.

Landowners were not interviewed. First, the information on landowners needed in this research is that on the behaviour of landowners in the past, i.e., two to twenty years ago. And it was almost impossible to find such old landowners. Even if some of them could be found, it was doubtful that any useful information on the overall behaviour of landowners could be obtained from the memory of a small number of people. More significantly, what was needed in this research was not the opinions or views of landowners but the effects of their behaviour on developers and housing development, which landowners themselves were likely to be unconscious of. Information on these could be obtained through interviews with persons in charge of land purchase and development in development companies, and documents.

The struggle between landowners and the state is relatively well documented. Data on the changes in compensation costs and procedures of expropriation, and political debates on the issues were obtained from the documents of the government and the KNHC, Government statistics, the National Assembly Construction Committee records, and newspaper reports as the events sometimes attracted public attention.

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7) Interviewees are listed in Appendix B.

However, interviews were needed for details of land expropriation processes including the changing forms of struggle between landowners and public developers in selected development estates. Cases of New Towns and large apartment estates were examined one by one rather than in aggregate to see changes in the relation between landowners and the government in terms of power in the struggle over development gains. The struggles have been most fierce in these towns. The interview with KNHC is concentrated on five cases of PPD projects which show changing patterns of the landowners' struggle for their land value. For political and economic conditions, documents, newspapers, National Assembly Records and recollections of former high ranking officials in the government were used.

#### 2.4.2.3 Structure of Chapters

Chapter 1 derived preliminary research questions from a review of the problem of rising house prices and land cost in Korea. Chapter 2 was a review of literature on the relationship between land prices and house prices, and that of landowners and developers.

In the succeeding chapters, the results of empirical tests of the hypotheses are presented. The structure of chapters, however, does not follow exactly the sequence of the research questions. **Hypothesis Four**, for example, becomes a background with which all other questions can be more effectively examined. Thus for the convenience of presentation, **Question Four** is taken up first in Chapter 3. This chapter examines the ways in which the government policies have regulated the relation between landowners and developers in housing development in changing political and economic circumstances. The political necessity to increase housing provision and the economic need to maintain the self-financing principle in housing development have been conditions for the government policies of housing development. The chapter shows the historical process by which these two conflicting conditions have directed the government to adopt policy measures to directly control development gains and land prices, but to fail.

Chapter 4 and 5 share **Question One and Two**. This is due to the characteristics of the empirical examination of the question. Housing development in the Gangnam area is divided into two phases in terms of policy environment. There was no direct control of

new house prices and land prices until the early 1980's. However, thereafter, both new house prices and land prices were placed under the direct control of the government through the Price Ceiling System and the PPD system. Chapter 4 and 5 are thus distinguished by this policy change. Each chapter examines developers' behaviour under different policy conditions. Developers' behaviour can be judged in empirical examination relative to landowners' behaviour. Thus both chapters also include examination of landowners' behaviour as suggested in **Hypothesis Two**.

Chapter 4 first shows that housing developers in Seoul were able to realise large surplus profits by exploiting rapidly growing speculative demand for housing during the 1970's and the early 1980's. This had provided room for land prices to rise. The chapter then shows the way in which landowners had increasingly marginalised those surplus profits intensifying their conflicts with developers in housing development by the early 1980's.

Chapter 5 shows the ways in which developers have pursued high surplus profits by evading the Price Ceiling System; and those in which landowners have transformed the surplus profits into land prices. The chapter concludes that rising land cost for housing is the outcome of the conflicts between landowners and developers over the surplus profits.

Chapter 6 exclusively examines **Question Three**. It examines the extent to which the government could have solved the conflicts and contradiction associated with the rent relation. It shows the process by which the government intervention has politicised the determination of land cost and has increasingly failed to regulate it.

Under the strategy to use private appropriation of development gains as a main motive for housing development, the direct involvement of the government in rent relation has only politicised the distribution of development gains between developers and landowners. With the weakening position of the government in terms of political power due to democratisation, state involvement has increasingly failed in checking the rise in land costs.

Chapter 7, the final one, first summarises what has been found in all the preceding chapters to confirm that the **Central Hypothesis** is supported by the empirical examination.

## **CHAPTER 3. POLITICAL AND ECONOMIC CONDITIONS OF HOUSING DEVELOPMENT**

### **3.1 Introduction**

One of the significant points of the central hypothesis is that the rising land cost in housing development in Korea has not been due to accidental market situations. It was hypothesised that the rising land cost for housing has been due to the contradictory and conflicting interaction between landowners and developers in the process of housing production. Marx's concept of differential rent suggested that such interaction tends to result in rising land cost for housing. As indicated in the previous chapter, whether such interaction brings about rising land cost for housing and subsequently rising house prices, i.e., spiral rises in land and house prices, depends on circumstances. It depends on certain social relations which are induced to respond to the contradictory and conflictive relation between landowners and developers.

The social relations are defined and materialised in policies within specific political and economic circumstances. Thus, in testing the **Central Hypothesis**, it is necessary to look at the political and economic conditions in which housing development policies regulating the relationship between landowners and housing developers have been formulated. That is, an examination of how the particular political and economic environment in Korea has conditioned the relation between landowners and developers to result in rising land costs for housing. Without that examination, the research will be inconclusive on whether the rising land cost has been due to an inherent contradictory relationship between landowners and developers or to fortuitous market situations specific to

Korea during the past two decades. This is what was addressed by **Question Four** in the previous chapter.

This chapter will show the following.

- (1) That the Korean government has been obliged to intervene in housing development primarily by the political necessity to win the support of the people in periods of political crisis. The intervention has, however, been conditioned by the principle of minimising its financial burden. This is due to the national development strategy, which has attempted to concentrate all the available resources to industrial development. As a consequence, the development systems of both public and private housing have been designed on the principle of self-financing, i.e., housing development projects had to be financed mainly from their own development gains. This self-financing principle has been invariant in the ever changing housing development policies and development systems throughout the 1970's and 1980's.
- (2) That the principle of self-financing implies that the private appropriation of development gains has been the major motive of housing development. Speculative investment in housing development has been a necessary condition for successful implementation of the government housing plans. The inflow of speculative money into housing development has at the same time intensified the conflict between landowners and developers.
- (3) That the government has had to increasingly interpose itself between landowners and housing developers to prevent their conflict from becoming a major barrier to achieving the government housing goals. Policy changes have been the forms in which government intervention has responded to and influenced the conflict between landowners and developers. Government intervention, without it making financial contributions, has politicised the distribution of development gains. However, the intervention has failed to prevent the conflict resulting in rising land costs for housing. Along with this process, the power balance the government and landowners has also changed.

This is what is evidenced with regard to **Hypothesis Four** in the particular political and economic context of housing development in Korea during the 1970's and 1980's. To support this hypothesis, this chapter examines the historical process by which the politi-

cal and economic circumstances in Korea have conditioned government housing strategy. It then looks into how such conditioning has been translated into policy measures regulating the relationship between landowners and developers.

This examination differs from the conventional studies on housing policies in Korea. Most current examination of housing policies in Korea have been assessments of how far the formally stated policy objectives have been realised, or how far the housing situation has got closer to each critic's interpretation of value criteria such as equity, fairness and efficiency. In these studies, only technical and ethical aspects of policies have been considered. Not questioned are the political and economic process by which such technical and ethical aspects have been shaped. This chapter attempts to examine those processes within which policies regulating the relationship between landowners and housing developers have been formulated.

The study in this chapter covers the 1970's and 1980's. However, the periods prior to the 1970's needs an overview too<sup>(1)</sup>. This period includes the historical background during which the strong state and weak labour relation, and the dominance of large industrial conglomerates, had emerged. This history can be divided into four phases. Each phase is taken up in separate sections.

Section 3.2 covers the period from 1945 when the country became independent from colonial rule to the early 1970's. It is in this period that the government started industrial development programmes and thus adopted a financial policy to concentrate all resources under its control into industrial development. Housing provision was given the lowest priority in the allocation of financial resources. Toward the end of the period, the government was pressured to pay attention to housing provision. Hence the formulation of the first long-term housing construction plan.

Section 3.3 comprehends the 1970's. Politically, the country had been under the despotic rule of President Park in this period. This period is also characterised by rapid economic growth, inflationary economic policies, the growth of the unregulated money market, and the property boom. The conflict between landowners and developers under

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1) See the Chronological Table for Chapter 3, Appendix A.

the existing development system came into the open and the government was obliged to intervene in the relationship between landowners and developers.

Section 3.4 deals with the period between 1979 when the Park regime collapsed and 1986 when the government was under increasing pressure for a democratic constitutional change. It was the period when there was a pressure for a more active role of government in housing development. Thus a radical change in the housing development system was introduced leading toward more direct control by the government of development gains.

The fifth section takes on the period between 1986 and 1990. The period is characterised by political democratisation meaning the weakening power of the government. This heightened the inability of the government to control the conflict between landowners and developers and consequent rising land prices for housing.

### **3.2 The Origin of the Government Involvement in Housing Provision, 1945-1972**

This period is characterised by the historical process by which the strong state and weak labour relation was established. This enabled the government to leave housing provision to private development. Toward the end of the period, the government was obliged to take a more active role in housing provision because of increasing popular unrest. The government reorganised the housing provision system. However, it did it in such a way that major responsibilities rested still with private housing developers in terms of financing.

#### **3.2.1 Weak Labour, Strong State and Private-initiated Housing Provision.**

When Korea was liberated from Japanese colonial rule in August 1945, the economy was in disintegration. Most factories were left idle. Supplies of energy and resources

from the Northern part of the country were cut off. Politically too, the country ran into chaos. Immediately after the liberation, people's committees, representing the long-suffering peasantry and labourers, were organised in local areas. They disarmed the Japanese, took over administration and punished collaborators. In rural areas, they drew up plans to redistribute land. In urban areas, they formed trade unions seizing factories and controlling transport and communications. This conflicted with the interests of the traditional landlord class and entrepreneurs newly emerged in the colonial period. With the occupancy by the United States Army of the southern part of the Korean peninsula in September 1945<sup>(2)</sup>, the landlord class and entrepreneurs were restored to power. They, in a coalition with bureaucrats that had served in the colonial government, established the first South Korean Government under the strong anti-Communist, American-educated President Rhee in August 1948. The people's committees combined to form the All-Korea Council of Labour Union (known as *Chon-Pyong*), which was outlawed by the new Government, and led a number of strikes during the period of political struggle between the left and right political parties in the latter half of the 1940's. The late forties in Korea were thus adorned by workers' strikes and peasants' uprisings. The conflicts finally led to the confrontation between South Korea and North Korea, known as the Korean War (1950-1953) (Hamilton, C., 1986).

The failure of the communist North Korea to 'liberate' the South in the Korean War meant also a defeat of the labour-peasantry class in South Korea. Although they have been a strain on the successive regimes' nerves as potential supporters of North Korea, the latter were since in a weak position until the early 1980's. It is against this historical background that housing provision has been given very low priority in the national development strategy.

Between 1945 and 1950, the authorities did not care about housing. The United States Army Military Government could at best allocate houses seized as enemy properties

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2) After the Japanese surrendered to the allied forces in the Second World War, Korea was divided into two parts demarcated by parallel 38 degrees north latitude. The United States Army occupied the southern part of the peninsula while the Soviet Union Army advanced into the northern part. The United States established the Military government in September 1945 and governed the south until the first South Korean government was established in August 1948. South Korea is hereafter referred to as Korea unless otherwise stated.

from Japanese residents to the refugees and returnees from Japan and Manchuria<sup>(3)</sup>. Under the first Korean government, established in August 1948, the situation was not improved (MOC, 1987).

It was after the Korean War that the government became actively involved in housing provision. Just before the war, Korea had a stock of 3,284,000 houses. The war destroyed 596,000 houses, nearly one fifth of the total housing stock (Ibid). The government provided emergency housing including camps or temporary shelters with aid from the United States (Ibid). It was only during this period in the history of housing provision in Korea that the government directly provided housing with its own funds. Between 1951 and 1956, nearly 100,000 units were constructed annually. 30 to 50 percent of the annual construction was provided by direct government investment (MOC, 1985).

However, from 1957, when the US aid began to fall, the government abandoned its policy of direct housing provision. Since then the role of the government has been reduced to the control of a small amount of housing loans (KNHC, 1992c). A more systematic attempt to leave housing provision to the private sector was made after 1962, when a new military government began to mobilise all resources for industrialisation. The background of the emergence of the military government goes back to the late forties and fifties.

The late 1940's and 1950's had been characterised by the growth of large entrepreneurs. Industrial facilities formerly owned by the Japanese were sold to managerial employees of the same companies under the Japanese. Large landlords sold off their land before land was appropriated under the Farm Land Reform Law which was enacted in February 1950. These landlords were also encouraged to purchase such industrial facilities. The factories were often sold at prices below their actual value and financed by low interest government loans frequently in return for political favours (Hamilton, C., op. cit.).

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3) South Korea had a population of 15,890,000 at the time of the liberation in August 1945. In a year, nearly 4 millions, mostly these repatriates, were added to this (MOC, 1987).

The late forties and fifties were periods when the country suffered from a severe shortage of manufactured goods, and relied heavily on foreign aid for its survival. Thus, during these periods, opportunities for profitable investment arose both in commerce, particularly importing, and in import-substituting industrial production. The large entrepreneurs were given the best access to controlled supplies of foreign exchange and domestic credits, which were the chief ingredients of business success. The high protection of domestic output, and quantitative restrictions on imports assured the possibility of highly profitable operations. In the late fifties, this accumulation system based on such mercantile activities began to collapse (*Ibid.*).

The economy grew well for a while after the Korean War which ended in 1953, due to the influx of foreign aid. However, growth fell rapidly in 1959 and 1960 in response to sharp cuts in U.S aid. Between 1954 and 1958, GNP grew at an annual rate of 5.7 percent on average. The growth rate fell to 4.8 and 2.5 in 1959 and 1960 respectively (Mason, E., et al., 1980; Rho, J.K., 1989). The recession was compounded by a poor harvest in 1959 and 1960. Rural areas were impoverished. The traditional Spring famine persisted (Hamilton, C., *op. cit.*). Entering the 1960's, unemployment and inflation began to rise again and the U.S government announced that assistance would be terminated by the early 1960's (Mason, E., et al, *op. cit.*).

As the economy slowed down, the anger of the populace increased against the large entrepreneurs accused of having accumulated wealth by illicit means and those that were identified as corrupt and the abusers of authority. Discord was growing between President Rhee and the United States over economic policy. The United States wanted the Korean government to adopt economic policy towards a more self-supporting system. However, President Rhee persisted in the strategy toward maximizing foreign assistance to overcome the scarcity of domestic resources. No serious effort was made to increase domestic savings. Rhee's strong anti-Japanese attitude ran counter to the United State's strategy in the region. The US wanted to form an anti-communist alliance in the region, and also wanted to reduce its financial burden by having Japan help Korea's economic development (Mason, E., et al., *op. cit.*). Even the large entrepreneurs, created and sustained by the regime's control of aid funds, began to lose confidence in the regime's

dealing with the economy as the commercial pursuit and import-substituting industrial production came to a deadlock (Mason, E. et al, op. cit.; Hamilton, C., op. cit.).

The students uprising protesting against the election-rigging, in April 1960, led to the collapse of the Rhee regime. According to Hamilton, this was a product of the political strains brought about by the inability of merchant capital to provide for the needs of the people (Hamilton, C., op. cit.).

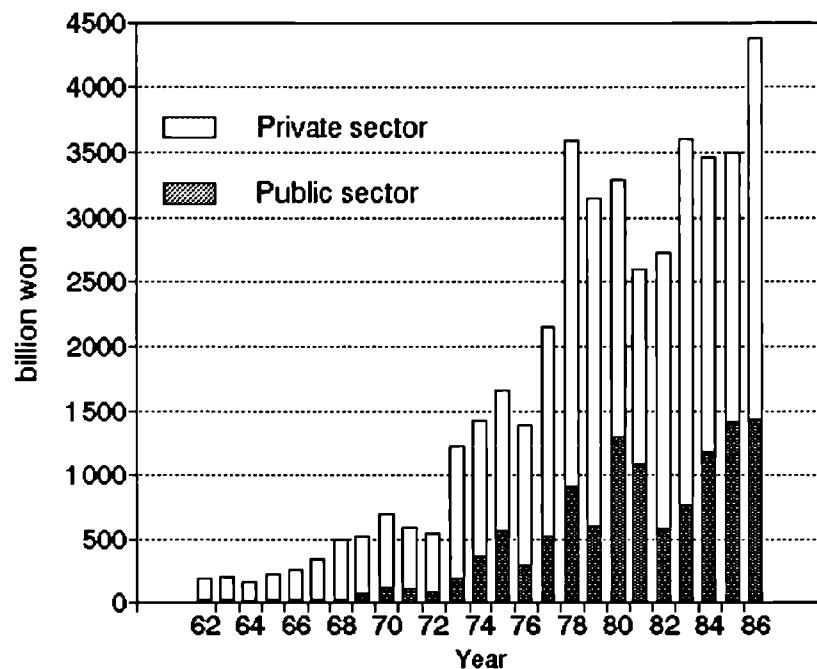
The Rhee government was succeeded by a new civilian government led by the former opposition leaders in August 1960. The new government, however, failed to control the chaos following the collapse of the Rhee regime. The government was troubled by all sorts of street demonstrations: protest against unemployment and the high prices of commodities; claims for higher wages and the improvement of working conditions; demands for more financial support for small business. Most of the large entrepreneurs were under indictment for illicit accumulation of wealth (Kim, K.D, 1976).

A group of colonels, under the leadership of Major General Park overthrew the new government and seized power in May 1961. They advocated 'the elimination of poverty and the establishment of a self-reliant economy' as a revolution pledge. They regarded businesses based on such 'mercantile practices' as ruinous to the nation (Das, D.K., 1992).

The military government adopted a series of measures to force the transformation of merchant capital into industrial capital. They eliminated opportunities to make profits simply through trade and access to foreign exchange. The export-import link system, introduced in 1962, was one of such measures (Hamilton, C., op. cit.). The government assumed control of the commercial banks by confiscating the stock owned by those accused of corruption in 1961 (FKI, 1987a). By this means they subordinated financial capital to industrial capital. Through the control of banks and development institutions, the government could control a good 90 percent of the assets of organized finance (Hamilton, C., op. cit.).

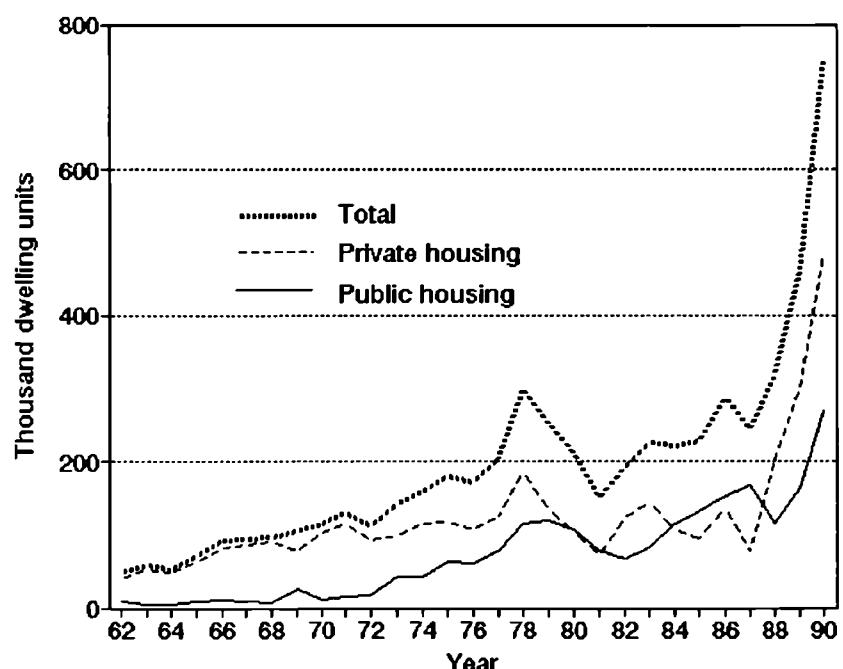
At the same time, the Supreme Council for Nation Reconstruction (SCNR: the military junta) carried out an extensive constitutional and institutional reform. A highly centralized government system was established. A strong presidential system replaced the pre

Figure 3.1 Annual Housing Investment by Sectors, 1962-1986



Source: Produced for this thesis based on data in KNHC (1989).  
 \* 1985 constant price

Figure 3.2 Annual Housing Construction by Sectors, 1962-1990.



Source: Produced for this thesis based on data in KNHC (1992a).

vious parliamentary one. The local autonomy system was suspended (Mason, E. et al, op. cit). They strengthened their control over the labour movement. Immediately after the coup, the Supreme Council issued the Temporary Law Regarding Collective Labour Activity (the SCNR Decree No. 6) to dissolve existing trade unions. Political activities by trade unions were prohibited. Conveners of a General Conference of Unions were to be appointed by the authority. Labour sabotage or strikes were prohibited in enterprises regarded as important for the public interest (Kim, K.S, 1980).

For the large entrepreneurs, this became a momentum with which they not only regained their former dominant position but also consolidated it under the patronage of such a highly centralized and authoritarian government. Immediately after the military coup in 1961, the military junta planned to reinvestigate into the illicitly accumulated wealth and to punish large entrepreneurs. However, the junta had to join hands with the large entrepreneurs as they put forward the industrialization programme at the top of their priorities. The Democratic Republic Party, established in 1963, under the leadership of General Park, was a political alliance of the military leaders and the large entrepreneurs (Kim, K.D, op. cit.).

The Five-year Economic Development Plan, started in 1962, was the joint work of the alliance. The successive economic development plans since have been guide-lines for all economic activities. In implementing the plans, the government has taken a strong directed credit policy: a policy to concentrate financial resources into the sectors of production and trade of export goods (Renaud, B., 1989).

Plans for housing provision were provided in the development plans. Laws concerning housing provision were enacted. The Public Housing Law was enacted in November 1963, to regulate public housing, i.e. housing built with the support of funds under government control. Public housing, for example, was to be sold or leased to low income families who did not own homes. The Housing Fund Operation Law was enacted in December 1963, to regulate the raising and use of funds for public housing (MOC, 1987).

In terms of financing, however, no effective measures were taken. Figure 3.1 shows the shares of the public sector and the private sector in housing investment. As shown in the figure, in the 1960's, the public sector housing investment had been at much a lower

level than the private sector investment. Between 1962 and 1971, the public sector investment accounted for only 13 percent of the total housing investment (KNHC, 1989). As the result, public housing accounted for only a small portion of annual housing construction. Figure 3.2 compares annual housing construction by the private sector and the public sector. The figure clearly shows that housing provision had been dependent upon the private sector in the 1960's. It was after the so called 'October *Yushin*' (literally means revitalization reform) in 1972 that the government began to concern itself more seriously with housing provision. This was the time when social unrest was rising and national security was believed by the ruling elites to be at stake due to the changing international situation.

### **3.2.2 Consolidation of Domination (*Yushin* Reform) and the First Long Term Housing Construction Plan**

In the early 1970's, the Park regime came to a crisis. First, the economy arrived at a downturn after having achieved an unprecedented high degree of growth in the late 1960's. GNP grew by 11 and 13 percent per annum in real terms in 1968 and 1969 respectively. In the beginning of 1970, along with the slump in the world economy, the growth rate fell to 7.6 percent in 1970 and 5.1 in 1972 (The Bank of Korea, 1990; see Figure 2.2, p78). Export growth began to fall as well (Kim, J.R, 1990). The rapid growth in the late 1960's had been accompanied by an increasing trade deficit and foreign debts. The export growth had brought about a more rapid increase in the import of capital goods and raw materials. The deficit increased from 18 million dollars in the early 1960's to 1.1 billion dollars in the late 1960's. The increasing repayment of foreign loans and the rapid increase in the import of capital goods and intermediary goods increased burdens on finance. As a result, enterprises were increasingly faltering (Suslina, S.S., 1988).

The international situation was also changing. The relationship between North Korea and South Korea was at the highest state of tension since the Korean War at the end of

1960's<sup>(4)</sup>. Signs of changes in the cold war structure in East Asia strained the regime. U.S. President Nixon declared that the U.S. would not be involved in military affairs unless friendly nations in the region were threatened by nuclear weapons in July 1969 (Guam Doctrine). The United States was seeking a reconciliatory relationship with China, a strong supporter of North Korea. Both agreed the recovery of China's legal status in the UN as a full member of the Security Council in October 1971. Japan also normalized its diplomatic relation with China. The United State withdrew one of its infantry division from Korea by March, 1971, despite the objection of the Korean government. These directly raised doubts as to the willingness of the United States to support its allies in East Asia. These circumstantial changes raised a sense of national security crisis within the military-minded ruling elites (Lee, B. C., 1987; Sohn, H. K., 1989).

The domestic situation was not favourable to the regime either. Since the May 16 military coup in 1961, the Park regime had been troubled by chronic protests and demonstrations by the students. Human rights and democratic groups were actively involved in opposition activities (Sohn, H. K., op. cit.). Major points of dispute were: the non-democratic constitutional reform; General Park's assuming of presidency; what opposition forces claimed were humiliating negotiations with Japan to normalize the diplomatic relationship; corruption associated with political fund raising in the government control of financing; rigged elections; and the establishment of prolonged one man's rule. The Park regime frequently had to declare martial law to maintain social stability.

The opposition activities during the 1960's were basically oriented towards a liberal democracy model (*Ibid.*). Their main concerns were participatory democracy and traditionally conceived liberal freedoms and rights. Members of the opposition groups were former politicians from the conservative opposition party, pastors and priests, intellectuals, and professionals such as lawyers, professors, and writers. They were described as

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4) On January 21 1968, 31 North Korean armed commandos infiltrated into the very centre of Seoul to assault the presidential office. Two days later, a U.S. intelligence ship was captured by the North Korean navy in the East Sea. In November 1968, 100 armed guerilla landed on the east coast. On April 14 1969, a U.S. reconnaissance flight was shot down by North Korean forces over the East Sea (Seoul Shinmoon-Sa, 1979; Kim, J.K, 1987).

lacking any real grassroots base (*Ibid.*) or had 'no link to occupational, regional, sectoral or class interests at the popular level' (Choi, J. J, 1987: 312). However, at the beginning of the 1970's, labour disputes and the urban poor's struggles began to emerge as one of the central elements of social unrest. While the economy grew by 10 percent on average per annum in terms of GNP growth rate, low wages and poor working conditions persisted. This resulted in increasing labour disputes. The number of cases of labour disputes was 130 in 1969 and 165 in 1970. It jumped to 1,656 in 1971 (Sohn, H. K, *op. cit.*). In addition, at the beginning of the 1970's, the disputes began to take a more violent form and attract the attention of students and the traditional conservative opposition groups.

Although such labour disputes were not directly related to housing issues, they certainly motivated the government to make a firmer commitment to housing provision. Two incidents are illustrative of the situation which prompted the government to take a more active role in housing provision.

In November, 1970, in a garment factory in Seoul, a young worker burnt himself to death protesting against the governments ignorance of workers' grievances. The incident was sympathized by students and opposition groups. The streets of Seoul were again disturbed by workers and students' demonstrations, protesting against poor working conditions and the government repression of the labour movement. Church organizations, such as the Urban Industrial Mission and the Young Christian Workers, became increasingly involved in labour disputes since then. The workers in the area where garment factories were concentrated formed their own independent trade union. This union came to serve as a centre of disturbance in the labour movement throughout the 1970's (Kim, K.S, 1988a).

Another incident was Gwangju urban poors' riots in 1971. During the 1960's, there was an extensive relocation of urban squatters in Seoul to develop commercial and office district in the city centre. They were mostly formed by war refugees during the fifties and still growing due to the massive urban immigration. Many squatters were relocated to the outskirts of Seoul. There were still as many as 170,000 illegal shacks in Seoul, accounting for roughly 30 percent of houses in the capital as of July 1971. The Seoul city government was relocating some 350,000 slum dwellers to a neighbouring county,

Gwangju, in 1971. However, people were moved to new housing estates without adequate provisions for health, environment, and employment. They were moved 'as though garbage was collected and thrown into barren land' (Sohn, H. K, op. cit). In August 1971, some 50,000 people rioted, demanding provision of jobs, a reduction in the price of land and exemption from taxes. The mayor of Seoul finally promised to comply with all the demands. This was the largest uprising by the urban poor since Korea's independence (Sohn, H. K, op.cit.; Choi, J. H, 1988).

These changing economic and political circumstances roused a sense of crisis among the leading personnel of the Park regime. President Park initiated a radical change in the political system toward a more authoritarian rule. The increasing popular unrest meant the issue of popular welfare including housing was be seriously considered. Before the examination of how the housing problem was dealt with in the process of political change, changes in the political system will be described first.

In the presidential election in 1971, Park won by only a narrow margin. This marginal win despite all the funds and manpower he had invested in the election campaign was not enough for him. He deplored the 'rampant disorder and inefficiency' of the political system. In his view, political liberalism was only wasting national energy in such international circumstance in which, he believed, rallying around a strong leader was necessary (Sohn, H. K, op. cit.; Kim, J. R, 1990). President Park declared the state of emergency in December 1971, claiming that 'because of changes in the international situation, national security was now at stake'. And thus, he asserted, it was necessary to mobilize 'national strength and maximize efficiency towards the goal of stability and prosperity ... by stemming the dispersion and waste which prevail under the political institutions of the current constitution' (Sohn, H. K, op. cit.: 27). The President placed the whole country under martial law in October 1972. The existing constitution was suspended. The National Assembly as well as all political parties and organizations were dissolved. All speech and press were placed under the strict control of government. The Emergency State Council took the function of the legislative body (*Ibid.*).

Then the government carried out a comprehensive constitutional reform. The direct presidential election system was replaced by an indirect one. An electoral college, the National Conference for Reunification, was created. The new constitution vested the

President with full powers to rule by emergency decree, the power to dissolve the National Assembly, and the authority to prepare a slate of representatives making up one-third of its membership. Neither court actions nor objections could be raised against the special declaration issued by the president and the extraordinary measures taken in accordance with the declaration. Since then the president had made full use of his emergency powers. Political oppositions were firmly kept in check by a long series of prohibitions against criticism of the government and other types of political action (Mason, E. et al, 1980).

### 3.2.3 The Ten-Year 2.5 Million Housing Construction Plan

The emergence of such highly centralized and authoritarian government represented the way in which the dominant entrepreneurs-military elites overcame the crisis and consolidated their position. In the process, the unrest among labour and the urban poor had caused the new government to pay attention to the problems of popular welfare. In the *Yushin* reform, 'Equal allotment of social well-being and improvement of living standard' were suggested as a direction of national policies. The then director of the Housing Division, the Ministry of Construction, explained that the housing plan was one of the measures to realize the slogan. To the government, it was necessary to 'improve the housing situation to a considerable degree' (one of the formal objective of the plan) to maintain social stability (Kim, C.K, 1973).

It was in this circumstance that the government announced a long term housing construction plan. Immediately after the *Yushin* reform, the Emergency State Council formulated the Ten-Year 2.5 Million Housing Construction Plan. It planned to build 1 million houses between 1972 and 1976, and 1.5 million between 1977 and 1981. Among the 2.5 million houses, 1,108,500 were to be supported by public funds (MOC, 1987). This meant doubling the previous annual housing construction. This can be considered the first determined response by the government to the housing problem since the country's independence in 1945.

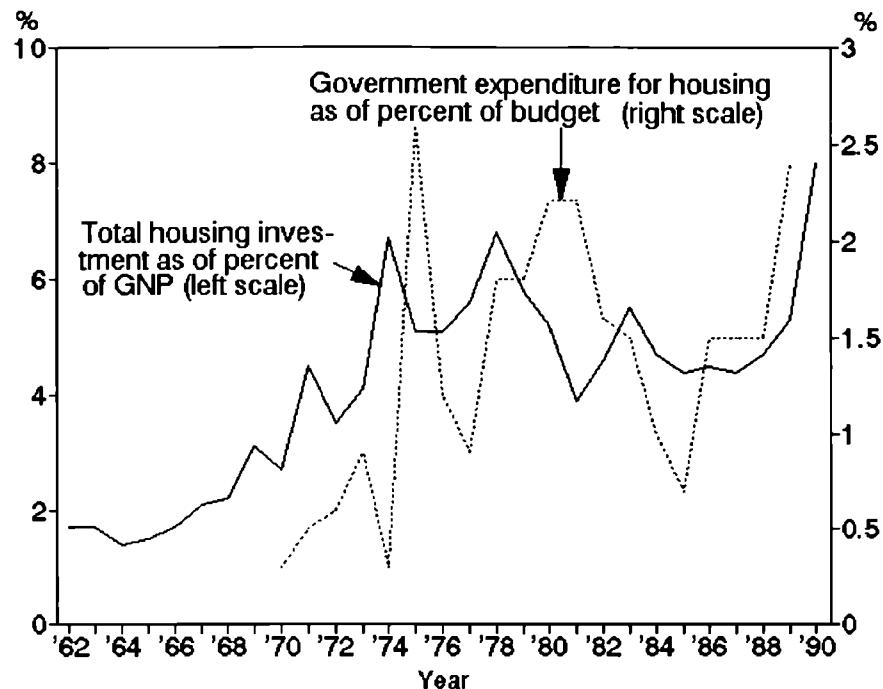
The institutional system was reinforced to support the plan. The function of the Korea National Housing Corporation (KNHC) was strengthened. The KNHC has since been

the largest public housing development agency in the country. The Emergency State Council enacted the Housing Construction Promotion Law (HCPL) in December 1972. The HCPL empowered the government to control the development plan, construction works and sale of new public housing and part of new private housing. Since the enactment of the HCPL in 1972, public housing has been divided into National Housing and Private-Managed Housing according to the source of funds. Public housing funds have been divided into the National Housing Funds (NHF) and the Korea Housing Bank (KHB) funds. The NHF has been under the direct control of the MOC and provided loans to public developers and certain large private developers for up to 20 years at a favoured interest rate. The KHB has provided loans mainly to private developers. Public housing using the NHF is called National Housing and that using the KHB funds is Private-Managed Housing (Kang, M.S. and Kim, J.W., 1987). These two forms of public housing should be in accordance with the regulations provided in the HCPL for their planning, construction and sales. For private housing, those developers who built housing estates with 50 houses or more (20 houses or more after 1982) were to comply with the same regulations.

Housing investment and construction in the public sector were considerably increased during the 1970's. The public sector housing investment rose to 25 to 30 percent of the total housing investment in the mid-1970's. This is compared to the average 13 percent during the 1960's (Figure 3.1). The government increased the capital of the Korea National Housing Corporation (KNHC) to increase its annual construction of housing to a considerable degree. The KNHC was nearly doubling its annual housing construction every year from 1972 to 1975. It built 2,286 houses in 1972 but 27,840 in 1978 (KNHC, 1992a).

However, as shown in Figure 3.1, housing investment was still relying on the private sector. Figure 3.3 shows the trend in government expenditure for housing in comparison with that of total housing investment. The annual government housing expenditure rose at a higher rate in 1973, 1975, 1979-1980, and 1989. These were the years right after the government underwent periodic political difficulties as will be seen later. However, the government expenditure has little effect on the total housing investment. In Figure 3.3, the two curves show different cycles of upturn and downturn running counter each other. The annual rate of rise in the total housing investment has been

Figure 3.3 Annual Total Housing Investment Relative to GNP and Government Housing Expenditure in the Budget, 1962-1990.



Sources: Produced based on data from KNHC (1989; 1992a).

dependent upon the property market situation. Figure 2.1 (p37) shows the property market situation. The curve of the total housing investment in Figure 3.3 roughly coincides with that of land prices and building activities shown in Figure 2.1. This means that, although the government launched the long term housing construction plan, its realization has been dependent upon private housing development. There was little change in the government financial policy to concentrate resources into industrial development meaning low priority to housing in the allocation of financial resources.

Accordingly, residential land development also had to rely on private funds. The Land Readjustment Project (LRP) had long been a major means of urban land development since it was introduced in the 1930's by the Japanese colonial authority. In Seoul, for example, 50 percent of built up areas had been developed by the LRP up to 1988 (Cho, J.H., 1990).

According to the LRP, the city government subdivides and develops land with the land-owners' agreement. The land is divided into three parts: compensation land, public land and returned land. The compensation land is retained by the city government in order to

finance, through sales, infrastructure development costs. The public land is kept by the city government to facilitate public services such as roads, schools, parks and so on. The remaining portion of land is returned to the original owners according to a predetermined schedule. Here, the price for the compensation land depends on the infrastructure costs. If the costs are high, the city government must increase either the price or the amount of compensation land. In either case, the price of land in the area, as well as in the nearby areas, will go up (Hwang, M.C., 1985c)

This is a typical self-financing development system. It may inflict virtually no cost on the government. However, higher land prices after development is essential for the successful urban development in financial terms. Since the financing of the infrastructure costs and the project's overall profitability depends on the sales of the cost-equivalent land in the Land Readjustment Project, it is in the interests of all parties that plot prices remain high. Thus, active speculative investment has often been a necessary condition for the successful implementation of the LRP. Most housing development in the 1970's in large cities had been carried out on land developed by the LRP (Cho, J.H., op. cit).

To sum up, the period between 1945 and 1972 had been characterized by the strong state and weak labour relation and the subordination of finance capital to industrial development. This resulted in the least priority to housing provision in the distribution of national resources in the 1960's. Popular unrest in the early 1970's, made the government pay attention to housing provision. The government had to meet two conflicting necessities: that to expand housing provision and that to maintain the financial burden on the government at a minimum level. As a result, housing provision was to rely on the private sector; it had been in fact dependent upon funds from the unregulated money market. The goal of 2.5 million was not achieved. During the ten years from 1972 to 1981, 1,876,665 houses, 75 percent of the originally planned 2.5 million houses, were built. It was only in 1978 when speculative investment in housing culminated that the annual construction slightly exceeded 300,000 houses, which was the annual goal of the 2.5 Million Housing Plan (KNHC, 1992a). The development boom relying on speculative investment however intensified the conflict between landowners and housing developers. The government was increasingly called upon to regulate the relationship between landowners and developers. The following section will be an examination of that process.

### **3.3 Economy, Property Market and Housing Development, 1973-1978**

It was mentioned in Subsection 3.2.1 that after the military coup in May 1961, the government took a financial policy to direct resources to the development of industry. This directed financial policy meant minimal government expenditure on the consumption sphere, including housing development. This had two effects. First, housing development had to be carried out on a self-financing basis: each housing development project had to be financed by its own development gains. Second, with little financial support from the financial institutes, which were mostly under government control, self-financing meant the reliance of urban and housing development mainly on money circulating in the unregulated market and people's savings. It meant opening up housing development to the circulation of speculative money. Housing development has always had to rely on speculative investment, and thus to conform to the conditions of the unregulated money market. The following subsection will examine the effects of growth of and the conditions of the economy on housing development characterized by the growing unregulated money market.

#### **3.3.1 Inflationary Policy and the Growth of the Unregulated Money Market**

The 1970's was a period of expansionary economic policy and of high inflation, except during the early 1970's, when the government had to adopt a retrenchment policy. This was primarily due to the economic policy to maximise growth through the development of heavy and chemical industries.

President Park, in the annual news conference, declared that the government would start the development of the Heavy and Chemical Industries (HCIs) in January 1973. This was part of measures to reduce the trade deficit due to the increasing demand for imported production goods. The development of HCIs was also necessary for the development of the defense industry. The latter had already started in 1970 when the United States began to withdraw part of its troops from Korea (Kim, J. R, 1990). The HCIs

programme was, from the beginning, export-oriented and needed massive investment (Kim, Y.H., Cho, B.B. and O Gawa, Y., 1989). The government established the National Investment Fund in 1974 and lent two thirds of its fund to the HCIs. A great deal of bank loans went to them, often at negative real interest rates. 40 to 50 percent of the fixed investment in the HCIs came from external borrowing. All this had considerable inflationary effects (Das, D.K., 1992).

Along with this inflationary economic policy, the growth of the unregulated money market characterized an economic situation which encouraged speculation in land and housing. As mentioned earlier, the government had been able to control most of the assets of organized finance since the military coup in 1961. The government policy of a dual structure of low interest rates brought about a growth of the unregulated money market (known as *Sache* market). People's savings have been attracted by higher rates of the unregulated money market rather than by the institutional rates offered by banks and other government controlled financial institutes. The latter were much lower than the former. What is called 'floating money' in Korea is that money capital flowing between this unregulated money market, the property market and the stock market outside the government's control. An estimate showed that, at the end of 1964, the unregulated money market held some 43 billion won (169 million dollars) of outstanding transactions compared to total bank loans of 53 billion won (208 million dollars) (Hamilton, C., op. cit; Das, D.K., op. cit.).

In the early 1970's, the growth of the unregulated money market and its grip on industry became so serious that the President had to issue an emergency decree to freeze the debts of enterprises from the unregulated money market.

When the government adopted a retrenchment policy to reduce foreign debts and the growing inflationary pressure in the early 1970's, enterprises began to suffer from financial difficulties. Even large industrial concerns were bankrupted by discontinued credit. Firms had to turn back to the unregulated money market (Hamilton, C., op. cit.; Mason, E. et al, op. cit.). This had been a growing source of concern for the government. It was told that the very high interest rates and the short-term nature of loans in the unregulated money market might hinder industrial expansion and impair international competitiveness. In a meeting with President Park to discuss the financial problems of large en-

trepreneurs, the then chairman of the Federation of Korean Industries (FKI: a society of large entrepreneurs) complained that all revenues were to fall to money lenders in the unregulated money market under the current financial structures (Kim, J. R, op. cit.). The unregulated money market generally lent for periods of no more than one month and charged an interest rate of between 40 to 70 percent per annum (while inflation in the period was about 10 to 15 percent) (Hamilton, C., op. cit.).

To break the tightening grip of finance capital on industrial enterprises, the President decreed a presidential emergency order to freeze all debts from the unregulated money market. This was the August Economic Emergency Measure, in 1972<sup>(5)</sup> (Ibid). Both debtor enterprises and creditors were ordered to register the loans. The registered loans were equal to 80 percent of the total currency in circulation (Kim, J. R, op. cit.), and 25 percent of total deposit money outstanding at that time (Das, D.K., op. cit.). The unregulated money market was hard hit by the emergency measure. The government established a third tier of banking institutions, including short-term financing companies, mutual credit savings bodies, and credit cooperatives. It was an attempt to attract floating money into the regulated financial system. However, their interest rates were still below those in the unregulated sector and thus could not replace the unregulated money market (Kim, J. R, op. cit.).

This continued growth of the unregulated money market has had significant effects on government intervention in housing in two ways: administrative control of housing and land markets (e.g., anti-speculation measures), and the regulation of the relationship between landowners and housing developers. First, the housing and land markets increasingly became a field in which the government had to battle for financial control as the money capital in the unregulated sector continued to flow into the property sector. Second, the continuous dependence of housing development upon floating money in the unregulated money market had two-side effects on housing development. The increasing speculative demands in the housing market contributed to a housing de-

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5) The government freezed the debts of enterprises from the unregulated money market. All the moneys borrowed from the unregulated money market were to be redeemed by instalment in five years with a three year grace period at the monthly interest rate of 1.35 percent or to be converted into investment. All 335.2 billion Won (840 million dollars) was reported as private liabilities (Kim, J. R, 1990).

velopment boom in the late 1970's. On the other hand, land speculation had strained the relations between landowners and housing developers. The following subsections will examine the second issue, why and how the government has come to regulate the relationship between landowners and developers.

### **3.3.2 Compulsory Land Purchase for Housing, the late 1970's**

#### **3.3.2.1 Land Expropriation by Public Developers**

In the early 1970's, when the economy slowed down, the government began to take measures to invigorate the economy. The government gave incentives to large construction firms to participate in housing development. The government promulgated the Specific District Development Promotion Law in 1973, as part of the measures to stimulate economic activities. In the district designated as the National Housing Development Promotion Area in accordance with the law, all taxes associated with housing construction and land dealings were exempted for three years (Chosun-Ilbo, November 3 1972). Large construction companies were almost forced to participate in housing development in Seoul. As will be seen in Chapter 4, this became the impulse and created the momentum for the emergence and growth of large housing developers.

This was followed by the boom in the new apartment market in Seoul in 1973. As mentioned before, the financial resources under government control were concentrated into industrial development. Consumer credit, mortgage finance and a social security system for households were almost non-existent. Households had to reserve a lump-sum of their own savings for future use (Das, D.K., op. cit.). Thus, how to save or accumulate their savings had been a major issue in the management of the household economy. It was also said in the previous section that households' savings were attracted to the unregulated money market which provided much higher interest rates than the formal financial institutes. These moneys turned to the housing market as housing demand increased. Moreover the government was reducing taxes related to property in order to promote housing and urban development. New apartments became good objects for investment as an hedge against inflation during the high inflation period of 1970's. In

1973 in Seoul, for example, competition for new apartments among middle class households was fierce (ARI, 1989). Thanks to the growing speculative demand, housing construction was expanding fast during the mid and late 1970's (see Figure 3.2).

In 1974 and 1975, due to the world oil crisis, the economy, which was showing signs of recovery from the recession in 1973, temporarily stagnated. From 1976, however, industries driven by export began to prosper and the economy showed strong signs of recovery. In 1977, exports increased by 30 percent. Revenues from the export of construction to the Middle East rapidly increased. Currency was expanded to support the development of the Heavy and Chemical Industries (HCIs). All these helped to increase liquidity and bring about a fast rise in prices in general. The increasing liquidity and inflationary pressure stimulated the property market. Land and housing prices were rising rapidly (see Figure 2.1, p37). By early 1977, speculation was again most prevalent in the new apartment market in Seoul (ARI, op. cit.).

In the new apartment sales in Seoul in April 1977, 40 to 70 applicants competed for an apartment (Chosun-Ilbo, April 21 1977). A sample survey by the Ministry of Construction (MOC) revealed that more than half of the apartments were sold to speculators (Chosun-Ilbo, January 11 1978). In 1978, during the three months from January to March, prices rose by 40 percent for apartment, 30 percent for houses and 20 percent for land respectively (Chosun-Ilbo, March 24 1978).

Thanks to the increasing speculative demand for housing, annual construction increased sharply. However, as speculative money flew into the land market, developers began to face difficulties in purchasing land. In the mid-1970's, the government was called upon to regulate the relationship between landowners and developers. In April 1975, the Ministry of Construction (MOC) announced that it would be considering the application of the Land Expropriation Law, enacted in 1962, in housing development. The Land Expropriation Law was first applied in the development of industrial estates in the southern coastal areas. In the industrial development areas, some landowners refused to sell their land at the price offered by the government. The government, worried that the same would spread to other areas where the new heavy and chemical industrial (HCI) estates were to be developed, invoked the eminent domain (Chosun-Ilbo, August 9 1975)

The government decided to apply the same measure to public housing development as public agencies found it increasingly difficult to purchase land through negotiations. The mid-1970's was the time when the Korea National Housing Corporation (KNHC) was doubling its annual construction output according to the government policy to expand low-income housing provision. The KNHC had purchased land hitherto through direct negotiations with landowners. However, from the mid-1970's it had started to face increasing difficulties in purchasing land. More frequently it failed to acquire land on time for the planned housing developments. Thus the government, first, allowed the municipalities to expropriate land for housing development (Chosun-Ilbo, January 18 1976), and, in a sweeping revision of the Housing Construction Promotion Law in 1977, the KNHC was entitled to expropriate land for housing development (KNHC, 1992c).

However, the compensation cost for land expropriation remained a problem. To solve it, the government introduced the Pegged Land Price System (PLPS) in housing development. The PLPS had been first applied to the development of industrial estates in April 1973 (Chosun-Ilbo, April 6 1973). The PLPS was a system to counteract property speculation and the resulting sudden rise in land prices in the development of industrial estates and public facilities. It aimed to correct abuses in terms of compensation cost for land increasing to a excessive degree in public works. According to the system, the Minister of Construction designated the area where the PLPS was to be applied. Then the Minister selected standard spots, one in every 1 to 3 kilometres, for which the prices were assessed by two or more licensed land price appraisers. The assessed prices were readjusted by the Minister, confirmed by the Central Land Expropriation Arbitration Committee and finally announced to the public. These became prices on which the government or public developers purchased or compensated land for public works. The prices themselves did not mean prices of selling or buying. The actual prices were determined by adding normal price rises (i.e., proportional to the rise in the consumer price index) for the period between the date of the announcement of the standard prices and the time of the actual purchase of the land. The government decided to expand the application of the PLPS to collective housing development areas as a partial way of securing land for large housing estate development in 1977 (Chosun-Ilbo, April 4 1973).

This control of land prices for housing was extended to private housing development. As previously mentioned, the government adopted a strategy to use large private developers in the implementation of government housing programmes by giving them incentives. Large private developers had mostly built apartment estates during the 1970's. By the late 1970's, they too began to face difficulties in purchasing land in time. Problems of the hitherto dominant land development method, the LRP, in terms of its effects on land prices after development, were brought to the fore.

In the Land Readjustment Project (LRP), there is no incentive to lower land cost. Thus in some cases the government kept the number of houses or the amount of land below demand to maintain a strong market to recover project costs resulting in the artificial inflation of house or land prices. In this system, most of the development gains went to the landowners<sup>(6)</sup>. It is not surprising, therefore, that speculation on land before development had been prevalent.

As mentioned in Subsection 3.2.3, in the LRP system developed land is returned to original landowners after land for public use and compensation development cost is deducted. Since landowners were mostly small landowners, returned land is subdivided into relatively small plots after development<sup>(7)</sup>. This made it difficult for housing developers to get land for apartment development as they had to purchase plots of land from a large number of small landowners and assemble them. The high prices of developed land as well as the division of returned land in small plots became a great problem in providing land for low income housing and apartment development by the late 1970's. Thus the government began to take a series of measures (KNHC, 1987b).

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6) According to data from the Korea Land Development Corporation, 84.1 percent of the increased land value due to development fell to landowners in the early 1980's. This was contrasted to the new Public Purchase and Development system in which, according to the same data, landowners benefited little from development (Cho, J.H., 1990).

7) In the Youngdong Land Readjustment Project carried out in Gangnam, Seoul, between 1968 and 1974, each landowner held 356 pyongs of land and received 215 pyong of returned land on average (Hwang, M.C., 1985c).

### 3.3.2.2 Land Expropriation by Private Developers

As said in Subsection 3.2.3, the government's strategy to rely on private capital for housing provision remained unchanged in the 2.5 Million Housing Construction Plan. The government planned to increase housing provision by fostering large developers. In December 1977, the government introduced a registration system of housing developers. This was partly to control the irresponsible behaviour of some housing developers, such as construction of poor quality housing and deceptive advertisements for housing sizes and facilities. Such activities were prevalent in the period of the housing development boom in 1977 and 1978. To be registered, developers had to fulfil certain conditions in terms of capital stock, number of licensed engineers and experts and annual housing construction. Among the Registered Developers, development companies who satisfied certain requisites in terms of capital stock, annual housing construction and skilled technical manpower were nominated as Designated Developers<sup>(8)</sup>. In May 1978, 46 developers were nominated as Designated Developers (Chosun-Ilbo, October 1 1978).

This was part of the government strategy to utilize private developers to increase housing supply. Designated Developers were given various incentives such as the right to issue company bonds redeemable in housing and the right to develop Apartment Areas. They were also given priorities and favours in housing loans and in purchasing developed land from public agencies. In return, they had to carry out certain government instructions. For example, immediately after the designation of 46 large developers, the

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8) The conditions to be fulfilled have been changed since the system was introduced. According to the Housing Construction Promotion Law, as of the time of this research, developers who build 20 houses or more a year should register with the Ministry of Construction. To register, a company must have a capital stock of 100 million won or more and employ two or more authorised experts in construction (Article 6). To be a Designated Developer in Seoul, a company should have a capital stock of 3 billion won or more and employ 10 licenced engineers or more, and should have built 100 houses or more a year on average for the past three years (Article 8).

government then recommended that each of them build more than 1,000 houses, making a total of 61,600 housing units by May 1979 (Chosun-Ilbo, October 1 1978).

The first policy to help private developers in the acquisition of land was the Apartment Area System. At first, it aimed to prevent each plot from being developed at its own convenience and to ensure the development of a certain block as a planned unit with community facilities such as play-grounds, kindergarten and schools. It helped large developers to acquire large units of land for apartment development as it restricted other land use activities by individual landowners than those planned by a developer and approved by the authorities. In fact land prices fell in some areas (Chosun-Ilbo, August 24, 1976).

In September 1975, the Ministry of Construction (MOC) announced that in order to secure land for the long-term housing construction plan, it would designate certain areas of the cities appropriate for apartment development as an Apartment Area. Once an area was designated, building activities other than apartment development were restricted. The Apartment Area System was formally inserted as a provision in the Urban Planning Law in 1976. The MOC designated as Apartment Area 11 districts with 3,720,000 pyongs in Seoul including large parts of Yeouido and the Gangnam area in August 1976 (Chosun-Ilbo, August 24, 1976).

However, the Apartment Area System in itself was not strong enough to help developers. There had been few large developers, and they had not worried much about competition for land until 1975. However, as developers were growing larger and more developers were involved in apartment construction, and apartment estates also became larger, they started to compete fiercely for land (Dong-A-Ilbo April 14 1977). As the competition among large developers for land in large units was intensified, monopoly pricing by landowners became a problem. More and more landowners refused to sell their land by reason of the low prices offered by the developers (ARI, 1989). In July 1977, an informal meeting was superintended by the Economic Planning Board (EPB) for the promotion of housing construction. The participants included the Seoul city government, the Ministry of Finance, the MOC and the nine largest private housing developers. In the meeting the participants agreed that, in the fourth Five-year Economic

Development Plan (1977-1981), housing provision was to depend on private developers. Developers then appealed for their difficulties in purchasing land to be solved. In Seoul, developers complained, landowners, often of small plots of 100 to 200 pyongs, demanded much higher prices than what they regarded as normal market prices. This, developers argued, delayed housing development. They thus demanded the right to expropriate land (Chosun-Ilbo, August 3 1977).

Two measures were taken to help Designated Developers. The first one was the introduction of a system to develop Apartment Areas by a third party as proxy (Chosun-Ilbo, October 15, 1977; December 3 1977). In the system, once an area was designated as an Apartment Area, landowners had to develop the land within a certain time period. Landowners had to apply for the development work within one year after the announcement of the development plan and to start work within six months after the approval for the development work. When landowners failed to do so large housing developers<sup>(9)</sup> as well as the KNHC and local government were entitled to develop Apartment Areas as proxy developers. Since the development of the areas by landowners were virtually impossible because of lack of funds and know-how, this became a great favour to developers. The amendment of the Housing Construction Promotion Law (HCPL), approved in the National Assembly in December 1977, included this proposal.

The second was a system which allowed Designated Developers to expropriate land for housing development. When this proposal was submitted to the National Assembly, however, it was opposed by many members. The late 1970's was the time when the government was under criticisms for its preferential treatment of large entrepreneurs. The idea of giving such right to large developers, some of which were growing to Chae-

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9) During the 1970's, one of the government's strategies to promote private housing development was to develop and utilize large private developers specialised in housing. While giving them incentives in terms of taxation and finance, the government assumed it could direct the developers to perform government policy objectives. The obligation to allocate certain portions of housing for rental or small apartments for low income households are the examples.

bols, was criticised as another privilege to large entrepreneurs at the expense of small landowners (Kim, S.D, 1978).

Assembly members from the ruling and opposition parties compromised to reduce the suggested legal power of large developers. The Housing Construction Promotion Law was amended to authorize developers to expropriate land in Apartment Areas only when the developers had purchased up to two third of the whole land to be developed (SNA, 1977).

How these systems have since worked will be examined in detail in the following chapters. The following subsection will be limited to an overview of changing economic and property market situations in the late 1970's, characterized by a radical change in the government policy towards economic stabilization and subsequent stagnation of the whole property market.

### **3.3.3 Economic Stabilization and the Collapse of the Property Market, 1978**

As house and land prices rose fast as mentioned in the beginning of the previous subsection, the government began to tighten its control of the property market. The government responded to speculative activities, as before, first by administrative measures: the investigation of the sources of money paid for new apartments; an increase in the property transfer tax; a threat to open the names of speculators to the public; reinforcing surveillance over real estate agents to prevent them bolstering up housing speculation, practicing fraudulent brokerage and falsifying their account books. The Ministry of Finance stopped temporarily the provision of housing funds and loans until housing speculation subsided. However, property speculation continued until late 1978 (ARI, 1989).

The government began then to consider the restriction of private landownership. In June 1978, the Minister of the Economic Planning Board announced that the government would consider restructuring all the laws concerning land under three principles: to return the rise in land value to society; to optimize land use; to prevent land speculation.

The Hyundai Apartment scandal<sup>(10)</sup> broke out in July 1978 accelerating the adoption of strong measures to control the property market. The scandal raised the resentment of the public who were already critical of the morality of the government officials and the upper classes under the *Yushin* system. Among the Government Departments and in the National Assembly, a wide range of opinions were suggested and discussed including the introduction of *Landgonggaenium*<sup>(11)</sup>. Economic Ministers<sup>(12)</sup> on various occasions suggested that the government would have soon to take all necessary measures to root out speculative activities. In July 1978, President Park proclaimed that he would take a revolutionary measure to regulate property speculation to clean up the economic climate (ARI, op. cit.)

After deliberations by the government Departments, the Presidential Secretariat and the ruling agencies, the Vice Prime Minister announced an unprecedented strong and comprehensive measure to control land speculation on August 8 1978. The main points were: the introduction of a licensing system and a report system of land transactions in specified areas; the application of the Pegged Land Price System to all urban planning areas; the introduction of the licensing system for real estate brokerage; the imposition of heavy taxes on non-business purpose land owned by cooperative bodies; the establishment of the Real Estate Policy Deliberation Committee, in charge of establishing a comprehensive policy; the increase in the Property Transfer Income tax (ARI, op. cit.). This was the August 8 Anti-speculation Measure and known as the most strong anti-speculation measure.

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10) According to the Housing Construction Promotion Law, a developer who built 50 or more houses on a site must have opened the house sale to the public at that time. If applicants exceeded houses for sale, houses must be distributed through lottery. The company, however, sold 600 units of apartments to 265 persons including government officials, members of the National Assembly, journalists and professors. As the market price was nearly twice the selling prices, the houses were regarded by the public as bribery (Chosun-Ilbo, July 7 and 8 1978).

11) See footnote 1, Chapter 2, p40.

12) Ministers of the government departments which undertake economic affairs are called Economic Ministers in Korea. Included are the Economic Planning Board, the Ministry of Finance, the Ministry of Commerce and Industry, the Ministry of Agriculture and Fishery, the Ministry of Construction and so on. They form a regular conference for a close inter-departmental corporation in formulating and implementing economic policies.

Until the announcement of the measure, due to speculative demand, housing construction had been rapidly increasing, as shown in figure 3.1. After the August 8 Measure, the whole property market collapsed, and housing construction began to fall sharply. The prices of land and apartments fell sharply in Seoul where speculation was most prevalent. Land and housing transactions also fell sharply. Unsold apartments began to accumulate (Chosun-Ilbo, October 20 1978). The annual rise in land prices fell sharply. In 1980 and 1981, it became negative, i.e., land prices fell in real terms (see Figure 2.1, p37). House prices also fell between 1980 and 1982 (see Figure 1.2, p14).

The August 8 Anti-speculation Measure was not solely for the restoration of the property market order. It was part of the changing economic policies towards stabilization. The collapse of the property market and following long stagnation was due to the subsequent recession of the whole economy. According to Suslina, the Korean economy was at this stage facing a over-production crisis. Over-production became a problem in almost all the economic sectors in 1979, resulting in consecutive bankruptcies of small and medium enterprises. In the late 1978, the government already needed to take a series of measures to stabilize the economy. They included slowing down of the economic growth and a stricter control of credit loans. It was the period when the government increasingly found it was unable to control the activities of the whole financial system. As a major part of capital was outside of government control, the effectiveness of government finance policies was undermined (Suslina, S., 1988). The tight control of the property market by the August 8 Measure was an attempt to regulate financial circulation outside government control.

It has been mentioned in the previous section that the housing development system had to rely on the unregulated money market as a consequence of the Directed Financial Policy. The 2.5 Million Housing Construction Plan was formulated as a means of appeasing popular unrest, but its implementation had to be subordinated to the economic situations. The influx of speculative money into the property market helped housing development to boom in 1977 and 1978. This influx of speculative money also affected the land market. This began to strain the conflicts between landowners and developers. The government, in the continuing necessity to expand housing provision but with the strategy of minimizing the financial burden on itself, intervened in the rela-

tion in favour of developers. However, along with the economic crisis and consequent change in economic policy, the whole property market and housing development boom came to an end by the end of 1978.

This crisis was followed by a political crisis in 1979 and 1980. The importance of housing provision for political stability became even more apparent. Housing provision again became a problem for the government to solve. And the relationship between landowners and developers came to face a new situation. This is what will be examined in the following section.

### **3.4 Political Crisis and the Second Long Term Housing Construction Plan, 1979-1986**

#### **3.4.1 Change of Regime, Labour Unrest and Low-income Housing Programmes, 1979-1980**

The *Yushin* reform was a consolidation of a pre-existing authoritarian political system against the background of a security threat to the Park regime, both from inside and outside the country. Despite the brutal repression of its political opponents, church and human rights organizations, and student groups continuously challenged the system throughout the 1970's. During the 1970's, labour issues grew steadily to become a central concern of the dissident movement. Consequently the opposition movement was increasingly radicalized (Sohn, H. K, 1989).

The economic growth was creating huge pools of labourers working for low wages. According to an estimate, based on census information and labour survey data, the proportion of manual wage workers employed in production-related occupations increased from 7 percent in 1960 to 20.6 percent in 1980 (Koo, H., 1987). In Korea, there has been a tendency within the state elites to view organized labour as dangerous because of 'being easily injected with leftist leaning ideology' (Choi, J.J., 1987: 315). The labour struggle during the 1970's was not only for immediate wages and working conditions but also for the workers' right to form their own trade unions, other than the officially

controlled one (AMRC, 1987). Control of labour unions was one of the major task of the Korea Central Intelligence Agency (KCIA), one of the most elaborate, powerful structures of state machinery (Choi, J. J, op. cit.). Between 1972 and 1977, there were 20 cases of hunger strikes by workers protesting against low wages and bad working conditions. Workers' occupation of working places and sit-in demonstration on site were also increasing (AMRC, 1987).

Towards the late 1970's, the government had to give some concessions to the working class (Suslina, 1988). As seen in the previous section, the government was tightening its control on the property market. However, the late 1970's was also the period in which the government was under increasing pressure to expand low income housing provision. In fact, from the mid-1970's, the government was showing growing concerns over housing provision for low-income families including industrial workers. For example, in July 1977, the government enacted the 'Special Law for National Housing Stabilization' to increase rental apartment supply for low-income families. The funds were to be raised through an special excise tax, grants to local governments, national housing bonds and housing lottery tickets (Chosun-Ilbo, September 20, 1977). In accordance with the law, the government was planning to construct 15,000 units of rental apartment annually. In previous years, only 5,000 to 7,500 units were annually constructed for low income rental housing (Chosun-Ilbo, September 23, 1977). These apartments were one-year rental housing. After one year of rent, they were to be sold to the tenants because of lack of funds to keep them at cheap rent, since the public agencies in charge of rental housing had to recover the cost in short period of time to continue the housing programme (KNHC, 1992c). Yet, these were the main public housing provision to low-income households at subsidized rent until the early 1980's. The government also began to provide rental housing for workers in newly developing industrial estates in the southern coastal area (Chosun-Ilbo, December 10 1978).

The effort to increase the supply of rental housing for low income families was reinforced during the period of political turmoil following the assassination of President Park. The Ministry of Construction (MOC) formulated a plan to build 204,000 units of permanent rental apartments for 7 years, from 1980 to 1986, with loans from the Asia Development Bank (Chosun-Ilbo, April 5, 1980). The MOC strongly recommended large private developers to allocate 10 percent or more of their houses for rental hous-

ing. However, as the property market had collapsed after the August 8 Measure, all the plans to expand low-income housing supply could not be realized (Chosun-Ilbo, August 28, 1979). This concern over low-income housing reappeared in the form of another long-term housing construction plan after the new military government was established in 1980.

The economic crisis in the late 1970's was followed by a political crisis. The *Yushin* system collapsed along with the assassination of President Park in October 1979. A series of incidents leading to the assassination started with women workers' fighting against a factory closure<sup>(13)</sup>. When the workers staged a sit-in demonstration at the headquarters of the opposition party (New Democratic Party), armed police stormed the building killing one woman. Many opposition politicians as well as workers were arrested. This happened in August 1979. The opposition leader, Kim, Young-Sam, took the hardest line. He declared his intention to initiate a movement to overthrow the Park regime. This was widely supported by opposition groups. (AMRC, 1987).

He was, however, suspended from his party's presidency by the Korea Central Intelligence Agency (KCIA), and subsequently expelled from the National Assembly charged with the desecration of the state. This expulsion brought about civil riots in the cities in his home province in October 1979. The government barely managed to repress the riots after committing paratroopers in the region under a garrison decree. The riot agitated the public and brought about a split between the director of the KCIA and the director of the Presidential Security Service over the repression of the opposition activities. Both had already been engaged in a power struggle against each other. The collision between the two resulted in the assassination of President Park by the director of the KCIA (Kang, I.S., 1988). The country came into a power vacuum and soon came under the influence of army circles as it was placed under martial law. A group of army generals, headed by the Commander of Military Security, General Chun, was the emerging new power. They were called the New Military Group, distinguished from those who took power through the military coup in 1961.

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13) In a wig-making factory (YH Industries), some 1,000 women workers were fighting against factory closure in 1979. When the workers began to form their own trade union, the owner closed the factory. He transferred all assets to the United States and disappeared. The workers appealed to the government to reopen the factory but without success (AMRC, 1987).

After the assassination of President Park, Prime Minister Choi succeeded to the presidency. Opposition forces in the meantime were urging the interim government to carry out a constitutional reform. However, the government, under the civilian President Choi was already losing its power to the New Military Group, who were reluctant to change the previous authoritarian government system. Dissatisfaction with the interim government for its hesitation to carry forward the constitutional reform towards democracy exploded among students and politicians. In April 1980, tens of thousands of students occupied the streets of large cities every day.

In May 1980, the military authority arrested leading politicians both in opposition and ruling parties. Some were accused of illicit wealth accumulation and some of conspiracy and rebellion. The arrest of Kim, Dae-Joong, one of the most famous dissident under the Yushin system, brought about a violent civil uprising in Gwangju, the capital of his native province. This resulted in the May 1980 Gwangju massacre<sup>(14)</sup>. Opposition activities were frustrated. Many political opponents were imprisoned. Some politicians were bullied to withdraw from political life or to give up their assets.

The New Military Group forced the civilian president Choi to establish the National Defence Emergency Measures Board, a virtual military junta. President Choi was removed in August 16 1980. General Chun was elected President in September 1980 by the existing electoral college, which was established by President Park in 1972. The Board formulated a new constitution, which was not different from the previous one except that the presidential term was limited to 7 years to prevent a prolonged one man rule.

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14) A brutal repression by paratroopers of students demonstrations infuriated people in Gwangju, the capital of one opposition leader's home province. Students and citizens rose against the government, which was supported by the Martial Law Command, and seized the whole city on May 18 1980. The rebel citizens and students, armed with weapons they captured from military camps and police stations, held the city until May 26, when they were finally defeated by the Army under the Martial Law. The Martial Law Command announced that 170 citizens and students were killed and 478 were injured in the battle to regain the city (Lee, K.W, 1988).

### **3.4.2 The Ten-Year Five Million Housing Construction Plan and the Control of Land Development Gains, 1981**

During the period of power vacuum in 1980, the labour situation became chaotic. The number of labour disputes sky-rocketed. A miners' uprising in a small mining town, Sabuk, in January 1980, was an example showing the labour situation. The miners took control of the town and mines. The uprising could be subdued only through a harsh military operation (AMRC, 1987). Such social unrest by the workers and lower income strata was the background in which a new long term housing construction plan was formulated(15).

In August 1980, the Legislative Council of the National Defence Emergency Measures Board superintended the formulation of a plan for public housing construction and land development to solve the urban housing shortage problem. It aimed to enhance the housing supply ratio to 90 percent from the then 77 percent by constructing 5 million houses from 1981 to 1991 (MOC, 1987). In a briefing by the Minister of Construction at the Presidential official residence in September 1980, President Chun ordered the construction of 5 million houses over the following ten years to improve the housing situation in a revolutionary way. The 5 million meant the equivalent to the then total housing stock of the country.

One of the most significant measures to support the plan was the enactment of the Residential Land Development Promotion Law (RLDPL). As we shall see later, it provided the legal basis for Public Purchase and Development (PPD). The Korea Land Development Corporation (KLDC), established in January 1979, was used as a specialized agency to develop land for the plan. It was given the authority to expropriate land for housing and priority rights over non-business purpose land. It could also preempt idle land held by individuals and corporations. Land acquired by the KLDC was to be provided for collective housing development.

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15) The KNHC staff were given a lecture explaining the purpose of the plan. In the lecture, it was told that intelligence agencies had reported that if North Korea invaded again, a good one fifth of Seoul inhabitants, the lowest income strata, would side with the enemy. It was explained that the plan was one of the measures to soothe the frustrations of the low-income strata about their poor living conditions.

In this process of reorganizing laws and regulations concerning housing provision, a radical change in land development methods for housing was made. The Land Readjustment Project began to be replaced by a new development system.

#### **3.4.2.1 Public Purchase and Development System**

Towards the late 1970's, the government began to take measures to obtain land for low income housing in the LRP areas. In February 1978, the MOC instructed local governments to allocate all compensation land in the LRP projects for apartment development except those for public use (Chosun-Ilbo, February 8 1978). It instructed the Korea Land Development Corporation (KLDC) to carry out the LRP as proxy for local government and made it obligatory to reserve 50 percent of compensation land for low-income housing development. Most local governments so far sold off compensation land in small plots to individuals. Particularly, local government with very poor financial capabilities sold these off even before the projects were completed. Most local governments sold compensation land through public sale (auction) resulting in even higher land prices (Chosun-Ilbo, May 4, 1980). The government later ordered local governments to develop land for housing by other methods than the LRP to avoid a sharp rise in land prices.

The New Military Group inherited from the Park regime high inflation, a deepening trade deficit due to a slump of exports and enterprises with weakened competitiveness due to excessive investment in heavy and chemical plants. The new government was strongly advised by the International Bank for Reconstruction and Development (IBRD) on the structural readjustment of the economy. The IBRD criticised the former president Park's Heavy and Chemical Industrial (HCI) development plan for its inefficiency. It recommended the new government to take new measures to remedy the distorted economic system as conditions for its loans; the recommendation included the reorganization of the HCIs, opening up the domestic market to international competition and a freeze of wages (Suslina, S., 1988). Tight monetary control, reduced government budget, price stabilization, the tight control of wages, the improvement of international competitiveness and the reduction in foreign debts, became the prime

objectives of economic policy (Kim, Y.H. et al, 1989; Uhm, J.D., 1992; Lee, H., 1991). In this policy situation, the LRP could not be active while a large scale land development was required to support the new Housing Construction Plan.

Thus the LRP was declared inappropriate for the implementation of the Five-Million Housing Construction Plan. To back-up the plan, 'a revolutionary way of land development' was necessary (Chosun-Ilbo, October 3 1980). A draft of the Residential Land Development Promotion Law (RLDPL) was prepared in December, 1980 (Chosun-Ilbo, December 6, 1980). In the new system, housing land was to be provided largely through re-zoning of agricultural land into residential land. On the authority of the RLDPL, the government designates a certain area for residential development and then purchases the land by force at prices assessed by a public agency. The determination of the price is based on the price of the existing use. Land price is to be assessed by authorized agencies according to the base price, to which the normal rise is to be added. The normal rise is calculated from rise in consumers prices and average price rise in land in the area. When landowners do not comply with the assessed price, the land can be expropriated in accordance with the RLDPL and the Land Expropriation Law (Chosun-Ilbo, April 15 1981). Development plans are formulated by public institutions such as the Korea Land Development Corporation, the Korea National Housing Corporation and local government. After development, the lots are sold to both public and private housing developers or directly built by the KNHC or local governments.

This development method is formally named the Residential Land Development Project on Designated Area (RLDPDA). It is commonly called the Public Purchase and Development (PPD) in that in this method, public developers purchase the whole land and then develop it. This is compared with the LRP, in which public developers develop land without buying it from landowners beforehand.

Thus PPD began to replace the LRP. The PPD means direct control by the government of land price for housing; so the determination of the land price for housing became

increasingly a political issue. Since the Farm Land Reform<sup>(16)</sup> in 1949, there have been no distinctive landlord class in Korea. This means that there has been neither a concept of class nor an organization representing landowners. There have been of course landowners. They have fought for their own right individually on a one to one basis. The regulation of land prices thus could be carried out without any organized resistance from landowners. Landowners could not stand against the authoritarian regimes during the 1970's and early 1980's, except for protesting against land expropriation on sites. The political change in 1987, however, brought about certain changes in such a strong state and weak landowners relation in housing development. This will be discussed in the next section. While the PPD means direct control of land rent to landowners, new house price control means the control of development gains.

### 3.4.2.2 The Control of New House Prices, 1981

Price control first applied to public housing. However, it began to apply to private housing built in accordance with the Housing Construction Promotion Law (HCPL) in Seoul in 1977 when rising new house prices became an issue. Public criticisms on the profiteering by apartment developers began in the beginning of 1977. The Seoul city government announced that the selling prices of private apartments were higher than those of apartments built by Seoul city government by 80 to 100 percent, those of the Korea National Housing Corporation (KNHC) apartments by 40 percent and those assessed by the Korea Appraisal Board by 100 to 150 percent in April 1977. Thus it announced its plan to control such profiteering through administrative guidances and to consider setting a price ceiling, in accordance with the Price Stabilization and Fair Trade Law (Kyounghyang-Shinmoon, April 22 1977).

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16) The Farm Land Reform was carried out in 1950 after a long struggle between peasants and the landlords class. The Farm Land Reform Act, enacted in February 1951, in the first place, outlawed tenancy in agriculture and land was distributed to tillers with an upper limit of three hectares for each households. Former tenants were to pay for their land 1.5 times the nominal annual out put of the main crop, payable over five years to the government. Landlords were to receive the equivalent in government bonds. Since the government was not able to redeem bonds, the market price of the bonds fell and often sold for almost nothing (Hamilton, C., 1986).

According to the HCPL at that time, housing development plans which built more than 50 houses at a time on a site had to be approved and supervised by the Minister of Construction or the Heads of municipalities. Not only physical plans but the plans for housing sales, including prices, must be approved. Developers were to submit data to justify their price determination, including land cost and construction cost.

Views on price control were different according to government departments. The gap between controlled selling prices and market prices widened up to half of the original prices in 1977. This was believed due to the imbalance between housing demand and supply. The Ministry of Construction (MOC) considered abolishing the price approval system to promote housing construction (Chosun-Ilbo, August 13 1977).

The late 1970's was, however, also the period when the government had to keep basic prices low in order to reduce inflationary pressure on wages (Sussina, S., 1988). Between April and October in 1977, prices rose by 30 to 60 percent. The Economic Planning Board (EPB) warned that the rapid rise in house prices stimulated inflation and, in a situation in which the prices of most manufactured goods were under regulation, apartment prices could not be left unregulated. The MOC minister followed by claiming that it would consider applying the standard construction cost used for national housing to the private housing sector (Dong-A-Ilbo, October 1 1977).

Developers were under increasing public criticism. In early 1978, selling prices were around 480,000 won/pyong. In May it was 500,000 won/pyong and in July it went up to 700,000 won/pyong. A common criticism was that developers profiteered too much with the various favours given to them in accordance with the Housing Construction Promotion Law. They payed only 10 percent of VAT and a special corporate tax (25 percent of capital gain from the transfer of apartments) when they sold completed apartments. If the apartments were small, with less than 25.7 pyong in floor space, even the VAT was exempted. When they built housing on the corporation's own land, the transfer tax was also exempted. Further, corporate tax was determined on the basis of assessed land prices at the time of apartment sale rather than the prices they actually paid. With all these favours, developers appropriated excessive profits from the people,

as the authority approved their selling plans without checking the actual development costs (Chosun-Ilbo, August 10, 1978).

Hence a dilemma for the government: in order to promote housing development, price liberalization was preferred; however, there was also a concern over the negative effects of the liberalization on prices in general. This became again a policy issue in 1981, when the Ten-Year Five Million Housing Construction Plan was launched. The government attempted to promote housing development both to stimulate the economy and to support the Five Million Housing Construction Plan in 1981. The Seoul city government eliminated price control for housing with 85m<sup>2</sup> or more of floor space in May 1981. The selling prices of new apartments immediately began to rise very rapidly. The price, hitherto kept under 1,000,000 Won/pyong (see Figure 4.4 in p185 and 4.6 in p207), went up to 1,380,000 Won/pyong in only a few months in Seoul (Chosun-Ilbo, December 13 1981). As there were a flood of applicants for the apartments despite the increased price, all other developers began to raise new house prices. This stimulated the prices of existing houses too. The sharp rises and falls in prices in the housing market had been of common occurrence since the early 1970's. However, this was the time when the government put the first priority in economic policy into price stabilization. This rise in house prices also raised public criticism of housing developers for their excessive profiteering. The Korea Housing Association (a society of large housing developers) apologised for the rise and promised to regulate the prices for themselves. After this event, the Seoul city government set up a price ceiling at 1,340,000 won/pyong, and the Price Ceiling System replaced the approval system (Chosun-Ilbo, January 28 and 29 1983). These control systems remained almost unchanged until 1989.

### **3.4.3 Stabilization-first Economic Policy and Housing Development 1981-1986**

The freezing of the government budget and tight monetary policy made it difficult to implement the 5 Million Housing Construction Plan. In the early 1980's, the government was trying to revitalize housing activities and the economy. Thus it relaxed regulations on the property and housing market. In 1981 and 1982, the government suspended the investigation of sources of funds invested in property transaction and discontinued the

monitoring of speculative activities in specified areas. Interest rates were cut. The real estate transfer tax was reduced. However, except in a few areas in Seoul, the housing market remained in stagnation. Developers were suffering from accumulating unsold apartments in provincial cities (KHAB, each month 1981 and 1982). These measures to promote housing development and economic activities were, however, limited ones. This could be seen in the government response to the temporary property boom in 1983. However, the first priority was given to stabilization rather than to expansionary economic growth. Thus when there were signs of a property boom in 1983, the government was quick to respond to it.

Towards late 1982, there were signs of housing and land speculation. Housing prices were rapidly rising (see Figure 1.2, p14). Beginning in 1983, the prices of housing land, and forest land in the outskirts of Seoul and provincial cities, began to rise rapidly. The government announced 'comprehensive measures to deal with the land and housing problem' on April 18 1983. These became known as the April 18 Measure (KHAB, August 1988). Regulations of the housing market were strengthened. It increased supervision on speculative activities. It strengthened the investigations of illegal resale of new apartments, the source of the money paid to purchase new apartments and the real estate agencies, checking their involvement in illegal housing transactions. The housing market again came to stagnation which continued until the mid-1980's. Housing development had to yield to economic stability policy.

In consequence, the plan had to be revised several times. A revised plan to build 1,460,000 units until 1986 became again impossible. According to the plan, for example, the country had to build more than 340,000 units every year from 1984. Yet, due to the lack of financial support from the government the amount planned in 1984 was reduced to 290,000 units. Even this reduced amount turned out to be unrealistic. The MOC demanded 50 billion wons (44 billion wons in 1983) for housing construction. The demand was dismissed by the Economic Planning Board (EPB) due to the budget-freeze (Choongang-Ilbo, August 27 1983). Between 1982 and 1986, the target was finally reduced to 1,431,000 units but actually 1,166,819 houses were built. Private sector housing development was particularly poor compared to 1970's (see Figure 3.2) despite the policies to promote housing development as a means to activate economic activities.

The contradiction between the increasing political necessity to promote housing development and the financial constraint in housing became acute. This resulted in more direct involvement of the government in housing development, that is, the increasing replacement of the Land Development Project (LRP) by the Public Purchase and Development (PPD). This means the **increasing politicisation of the distribution of development gains among actors in housing development**. In the early 1980's and the mid-1980's, when the property market had remained depressed due to the retrenchment economic policies, the conflict associated with such politicisation did not come into the open. This began to change in the late 1980's, when democratization and the property boom came together. The following section examines the situation in the late 1980's.

### 3.5 Democratization and Rent Relation<sup>(17)</sup>, 1987-1990

#### 3.5.1 Change of Regime and the Third Long Term Housing Construction Plan, 1987-1988

Since the Gwangju massacre, in May 1980, the opposition activities disintegrated. Student activists and some radical dissidents went underground. They became increasingly sophisticated in terms of ideology and organization. They were mostly guided by a 'concoction of Marxism and nationalism' (Lee, H., 1990: 7). It was in this period that the nature of the Korean social formation was debated intensively among groups of students and young scholars. The student movement was broadly divided into two camps: National Liberation Movement (NL) and People's Democratic Revolution (PD). The NL, the mainstream camp, defined the Korean society as a 'colonial semi-capitalist society'. It argued that the Korean society had been subordinated to the U.S both politically and economically. Thus it called for a struggle for national liberation from U.S imperialism. Their prime objective was to establish an independent and unified national government. The PD defined the nature of Korean society as 'new colonial state

17) Rent relation here is defined as the relation between landowners and developers, mediated through social institution, in the creation and appropriation of development gains.

monopoly capitalism'. It argued that although Korea had been subordinated to the U.S and Japanese capitalism, it had developed its own monopoly capitalism to a certain degree. To them, the monopoly capital and its patron, the fascist regime, rather than foreign imperialist forces, were the first objects to be overthrown. (Kwon, H. C, 1990; Lee, J.H, 1990).

Nevertheless, they broadly shared a common premise: that '*Minjung*' (connoting oppressed people) must be the central force for social change. To help them to organize and be conscious of what to struggle for, became a major objective of the student movement. Many students, either leaving school by their own will or expelled from universities, went to work in factories to help organise the labour movement. They were also increasingly involved in the struggle of urban squatters. The student movement aimed not just at a 'liberal democracy', a traditional objective of opposition movements, but to change the whole social system into a socialist one. Their increasing involvement in the labour movement and the urban poor's struggles alerted the government ministers to a possible revolution. This influenced the government to attempt economic reform in the late 1980's.

The radicalism of the students was not fully supported by the public nor by the traditional 'liberal democratic' opposition groups. However, the unpopularity of President Chun provided a common ground on which different social movements allied in an opposition coalition. The death under torture of a student in January 1987, was an incident which reunited the divided opposition movements. It led to rallies and demonstrations urging immediate constitutional reform in which not only students, dissident religious and human right groups and politicians participated but it also included independent civilian protesters (AMRC, 1987).

Opposition groups were united in demanding constitutional reforms toward a more democratic political system involving direct presidential election, free trade unions and local autonomy. Faced with the increasing pressure to reform the constitution at nearly the end of his presidential term, President Chun reluctantly agreed to consider the reform if the ruling and opposition party jointly proposed a new plan. He imposed a moratorium on constitutional debates on popular presidential election until after his

term of office expired, in February 1988<sup>(18)</sup>. President Chun's announcement to postpone constitutional reforms, in April 1987, became a crucial moment leading to the collapse of the old ruling system. In June 1987, the ruling party nominated its presidential candidate to be elected by the existing electoral college. The nomination brought about demonstrations demanding the cancellation of the nomination and to reform the constitution. During the three weeks following the nomination, popular resistance was intensified. Anti-government demonstration spread across the nation. President Chun prepared to declare martial law against the protest. This option was opposed by some field commanders and also by the United State government (Dong, W.M., 1988; Ahn, B.Y., 1988; Lee, M. W, 1990).

The government finally surrendered to the demands of opposition forces and a comprehensive revision of the constitution was carried out. The power of the President was reduced: The direct presidential election, abolished in 1972, and the local autonomy system, suspended in 1962, were restored. The National Assembly was given the authority to inspect the government offices. Press censorship was abolished. Regulations on the publication of papers and magazines and journals were removed. Free trade union movement was ensured.

Following the concessions announced in the Democratization Declaration on June 29, 1987, the workers' movement began to develop rapidly. Supported by the student activists, the labour movement had been well organized since the first half of the 1980's. Political struggles oriented and developed consequently. They occasionally rallied for the overthrow of the regime and the change of the social system. In 1987, from January to September, there were 3,334 cases of labour disputes, of which 3,311 took place after the June 29 Democratization Declaration. The wave of labour disputes began in the heavy and chemical industrial estates in the South East coastal areas in July and August in 1987. Then it spread to light industries in the central area by the end of August in the same year (Kim, K. S, 1988b).

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18) The ruling party was proposing a parliamentary system in which President Chun could exert a great influence as the party leader, after his retirement of the presidency. This was, however, rejected by the opposition leaders and was not adopted (Kim, S.H, 1992).

As seen in the examination of political circumstances in 1972 and 1980 in which the previous two long term housing construction plans were formulated, the establishment of the country had come to understand that in times of political crisis housing provides certain stability and acts as a deterrent to social unrest. This time too, housing provision became a political issue. In the presidential election campaign in December 1987, the candidate of the ruling party, Rho, pledged to build four million units of housing during his presidential term of six years if he were elected. Included in the plan was the construction of 300,000 units of rental housing for low-income people (Choi, J.W., 1988). However, when Rho won the election and took office, the plan was reduced to a much more modest one. The Two Million Housing Construction Plan was thus formulated.

The implementation of the construction plan was to rely on private funds as before. Of 64,283 billion won (94 billion dollars) of total estimated expenses, 67.7 percent was to be met by lump-sum payments by the house buyers; the remaining 22.3 percent was to be financed loans from the National Housing Funds and the Korea Housing Bank Housing Funds. 57 million pyongs of land were needed for the implementation of the plan. Out of that, 35 million pyongs, for large housing estates, were to be developed by the method of Public Purchase and Development (PPD) mentioned in Subsection 3.4.2.1. All the land development, all the development expenses were to be paid from development gains (KNHC, 1989). There was no change in the self-financing housing development system for this 2 Million Housing Construction Plan. This means that the plan again has to be dependent upon speculative investment. Thanks to the property boom in the late 1980's and the construction boom in 1990 that will be examined in the next subsection, the target was achieved by 1991 one year before that originally planned. However, the property and construction boom opened up a new phase of conflicts associated with the rent relation.

### **3.5.2 Property Boom and Political Unrest, 1988-1990**

After a slow-down in the economy in 1984 and 1985, the GNP growth rate picked up again in 1986. In that year, the GNP grew by 12.2 percent. Exports grew by 28.1 percent due to the so called 'three lows': low oil prices, low raw material prices in the in-

ternational market and under-valued Won against the dollar. The balance of payments for the first time turned to surplus (FKI, 1987a). In 1987, despite intensifying labour disputes, the economy was in a booming stage. The GNP grew by 12 percent and the trade balance exceeded 10 billion dollars in 1988 (Uhm, J.D., 1992).

Along with the trade surplus and the consequent monetary expansion, the property boom revived. Land prices rose by 14.7 percent in 1987, the largest rise since the property boom in 1983. In the summer of 1988, prices of real estate began to rise rapidly. In 1988 and 1989 land prices in large cities rose by 30 percent annually (see Figure 1.2, p14 and Figure 2.1, p37). House prices also rose rapidly, as shown in Figure 1.2.

The government adopted anti-speculation measures. In a briefing to the President on the recent economic situations on August 10 1988, the Vice Premier suggested a series of measures to root out property speculation. This is known as the August 10 Anti-speculation Measure. Included were: the control of the increase in total money supply; the extension of specific areas under speculation surveillance; the imposition of heavy property transfer tax; the strengthening of tax investigation on speculators and real estate agencies; and finally, the introduction of *Landgonggaenium* (KHAB, September 1988).

Due to the anti-speculation measures taken on August 10 1988, property transactions temporarily declined, and the rise in land and house prices slackened (KHAB, December 1988). These measures discouraged private housing development. Views were not confident among developers and experts on the possibility of achieving the Two Million Housing construction Plan goals (KHAB, October 1988).

Housing and land prices were not the only problems. As mentioned before, the increasing involvement of the ideologically motivated students and activists raised a sense of crisis among the government ministers. It was the time when tenants' struggles in squatter areas and industrial workers' demands for the rising housing cost to be accounted in their wages began to attract public concern. The tenants struggle in squatter areas against the redevelopment projects were increasingly organized and intensified.

Since the Mockdong case in 1984 and the Ssanggye Dong case in 1986<sup>(19)</sup>, the tenants' struggles had been joined by students and human right organizations. Political parties, government agencies and human right groups competed to hold public meetings and conferences to debate low income housing and to criticise the government policies in 1988. Industrial disputes were reaching a peak in December 1988 and January 1989, when thousands of workers occupying heavy machinery and plant clashed against riot police forces in Hyundai Heavy Industry and Daewoo Shipyard (Uhm, J.D., 1992). Wealth distribution and social welfare emerged as major political and economic issues for the government.

The new team of Economic Ministers, newly appointed in the cabinet reshuffle in December 1988, put emphasis on 'a stable economy, the improvement of social welfare and structural adjustment' rather than growth maximization. (Lee, H., 1991). Economic Ministers raised four issues for the stabilization of economic reform in December 1988: the reform of the land system through the introduction of *Landgonggaenium*; the enforcement of the Real Name Banking System<sup>(20)</sup>, the reformulation of the economic system to foster the small-medium size firms and to control the further concentration of economic power into the Chaebols; and the reform of the tax system in such a way to impose heavier taxes on asset-based earnings while to reduce that on wage earnings. The medical insurance system, the citizens welfare pension system and the minimum wage system were introduced against this background (Uhm, J.D., op. cit.).

Regarding housing the government adopted a series of policy measures to increase low-income housing while controlling the rise in house prices. In April 1989, the government revised the Five-year Housing Construction Plan to increase the allocation

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19) These are the areas where the struggle by tenants against squatter redevelopment, for the first time, was joined by the students and anti-establishment organizations and gained some concessions from the governments. See Chapter 6.

20) In Korea it has been common practice for rich people to have accounts in pseudonyms instead of real names. It was used as a way to evade taxes such as income, inheritance or donation tax. Not only that, pseudonym accounts were widely used as a means to conceal illicitly earned money such as bribery. Since 1980, it became an issue to eradicate such practices as public opinion was aroused.

of low-income housing. 900,000 units out of the two million were converted to low-income housing. Of this 250,000 of the Permanent Rental Housing were allocated for the lowest income urban households, for the first time; 250,000 units were planned for industrial workers at subsidized rents and prices (Lee, D.S., 1990).

Secondly, the government had to take a radical measure to increase housing supply to stabilize the fast rising house prices mentioned in Chapter 1. It is on this background that the government announced the development of two New Towns in the outskirts of Seoul in April 1989. The two New Towns, Ilsan and Bundang, were planned to accommodate 100,000 and 200,000 people respectively. These were in addition to three New Towns which were already under construction. The two new towns were to be built by 1992 (MOC, 1989).

However, many experts doubted whether the goal of the two Million Housing Plan could be achieved by these measures under the Stabilization First Economic Policy and strong anti-speculation policies. However, new events led a change of economic policy towards an expansionary one which promoted both economic and property booms.

As it happened, the Economic Ministers, who advocated the stabilization policy, came to face a stubborn resistance from the Chaebols, who were persistently demanding that government take measures to stimulate the growth of economic activities. They were demanding cuts in interest rates, relaxation of the tight money policy and devaluation of the Won. The economic ministers persisted in their view that for a stable and balanced growth it was not yet the time to accept such demands. Thus conflict between the Chaebols and the government deepened. The Chaebols also opposed the idea of *Landgong-gaenium* and the Real Name Banking System, which, they argued, would discourage economic activities (Uhm, J.D., op. cit.).

Economic growth began to show signs of slowing down in 1989. The growth of GNP fell from 12.4 percent in 1988 to 6.8 percent in 1989. The trade balance sharply decreased to 900 million dollars from 11.5 billion in 1988. Entrepreneurs began to attack openly the tight monetary control by the government. Even the ruling Party put a brake on government policies. This economic situation made it difficult for the Economic Ministers to proceed with their plan to readjust the economic system (Ibid).

Under the increasing pressure of the ruling party politicians and Chaebols, in March 1990, the Economic Ministers were replaced with those who advocated 'the growth first policy'. The new team adopted measures to promote economic growth. Debates on the Real Name Banking System was suspended. A financial aid of additional 1,000 billion won for special plant/equipment funds was released. Restrictions on credit for investment in equipment were removed (Lee, H., 1992). Along with this expansionary policy, the economy grew fast.

The GNP grew by 9 percent in 1990. The new Economic Planning Board (EPB) Minister argued that the alleviation of the shortage of infrastructure must be the first priority in economic policy. Consequently, the government began to expand public works (Ibid).

Along with the development of New Towns in the capital region, large scale public works led to the unprecedented construction boom in 1990. Between 1988 and 1991, 2,140,000 houses were constructed. Out of that 1,430,000 units were built by private developers (Yang, G.M., 1992). However, as was the case in the late 1970's, such boom was accompanied by an increasing conflict between landowners and developers in housing development. But it took place in different forms.

### **3.5.3 The Government in Social Conflict over Land and Housing**

Now it is possible to summarize the current political economic situation in the late 1980's resulting from the historical process examined so far. The introduction of *Landgonggaenium* and the enforcement to sell non-business land opened up a conflict between the state and landed interests in general. In the New Town development, conflict over the price control and land rent control between landowners, developers and the state entered into a new phase. A change in the power relation between the state and landowners brought the PPD to a crisis. Price ceiling was replaced by a new form of price control.

### 3.5.3.1 The Government and Large Firms

The price boom in 1988 and 1989 raised a sense of crisis within the ruling elites. The then presidential chief economic Secretary warned: 'the endemic unjust economic practices deepened during the past 30 years of economic growth are worse than what is commonly known to us. Thus unless problems of the widening gap in wealth between the rich and the poor, between regions, between classes, between the urban and the rural are corrected, we may meet a much more disastrous situation that we have ever experienced in the past' (Uhm, J.D., op. cit: 335).

President Rho, T.W., in his policy statement for 1990, proclaimed that the first priority would be given to building a fair society in terms of wealth distribution. In a State Council meeting superintended by the President, it was agreed that without control of 'nation-ruinous' property speculation, it would be not possible to govern the country (Ibid: 151). One of the major steps was the introduction of *Landgonggaenium*: the implementation of institutional reform to embody the concept of land as public property and tax reform to remedy inequalities in the distribution of wealth by stamping out property speculation and by properly taxing profits derived from land holdings and financial assets (Rho, T.W., 1990).

Although the Federation of Korean Industries (FKI) and some politicians opposed the *Landgonggaenium*, the Economic Ministers succeeded in having the bills legislated though not without a degree of compromise (Uhm, J.D., op. cit.). The bill involve three laws: the Law Regarding the Ceiling on Land Holding for Housing, the Law Regarding Social Possession of Land Development Gains and the Excessive Capital Gains Tax for Land. At the same time, the conflict between the government and enterprises intensified over the possession of non-business land.

The practice of large firms to invest in land began in the late 1960's. Since then the government has put pressure on large firms not to invest in property for speculative purpose, as shown in the May 29 Measure in 1974, the August 8 measure in 1978 and the September 27 Measure in 1980. The government again forced entrepreneurs to dispose of real estates they possessed for non-business use in May 1990 (known as May 8

Measures, Choi, C. K, 1991). Some described this as 'a declaration of war against Chaebols by the President' (Uhm, J.D., op. cit: 337).

As of the time of survey for this research, April 1992, the tension between the government and large entrepreneurs was at its height. The Chairman of Hyundai Group organized its own opposition political party and became a candidate for Presidency. After his dismal defeat in the presidential election in December 1992, however, large entrepreneurs seems to have been cautious in cultivating a new relationship with the new President who had long been an opposition leader.

### **3.5.3.2 The Government and Housing Developers**

Housing developers have also been under a strict regulation for their land banking and have become liable to development taxes. Thus the legislation of the *Landgonggaenium* and the control of the enterprises' possession of real property have certain effects on housing development. These will be examined in some detail in Chapter 5.

The price ceiling system was maintained despite the occasional calls from developers for liberalization. In the late 1980's, when the attainment of the Two Million Housing was at stake, the issue of price control was raised again within the MOC. In 1987, various suggestions were raised on the necessity to abolish price controls or, alternatively, for a considerable increase in the price ceiling (See Hankookkyongje-Shinmoon, April 5 1987, Mailkyongje-Shinmoon, October 20, 1987, Hankook-Ilbo, October 21, 1987; Dong-A-Ilbo, January 5, 1988; Dong-A-Ilbo, January, 13 1988; Choongang-Ilbo, January 1, 1988). Minister of MOC announced that he was considering liberalizing prices in December 1987. Immediately after his announcement, prices of existing apartments in Southern Seoul, began to rise rapidly. In the southern part of Seoul, apartment prices rose by 25 to 40 percent in a month. This alarmed the Economic Planning Board (EPB), whose first priority was price stabilization. The EPB Minister immediately denied the announcement (Seoulkyongje-Shinmoon, February 19 1989).

At the same time the ruling party politicians, some of whom were entrepreneurs in the construction business, were pressing the government to abolish price control. The Korea Housing Association (KHA), a large housing developers association, was also

appealing to the president to liberalize prices, threatening the possible failure of the Two Million Housing Construction Plan. In October 1989, the government finally decided to reconsider the Price Ceiling System (Seoul-Shinmoon, February 12 1989; Hankook-Ilbo, February 12; Chosun-Ilbo, February 1989; Chosun-Ilbo, March 23, 1989).

In 1989, when it started the development of New Towns around Seoul, the government could not provide land at prices at which private developers could build housing for profit under the old Price Ceiling. After some controversies between developers and the government, and between government departments, price control was transformed into a new form in 1989: 'the Factor Cost Linking System'. Under the new system, prices of new houses built under the Housing Construction Promotion Law are to be assessed and approved by the government based on land cost and the standard construction cost. Land costs are to be assessed by the government every time the developers are selling new houses and the standard construction cost are to be announced by the government publicly every year. (Mailkyongje-Shinmoon, October 7 and 14 1989; Chosun-Ilbo, October 14 1989; Hankookkyongje-Shinmoon, October 14 1989; Seoulkkyongje-Shinmoon, October 25 1989; Kyounghyang-Shinmoon, October 25 & 31 1989; Chosun-Ilbo, October 28 and November, 5 1989; Dong-A-Ilbo, November 4 1989).

New conflicts arose between developers and the government over the Standard Construction Cost and the assessment of land prices in 1990. The issue of liberalization was raised again in 1990, but opposed by social organizations such as the Citizens Federation for Economic Justice (CFEJ) and the Federation of Korea Trade Union (FKTU). They criticised the liberalization plan as giving too much favour to private developers. The Economic Planning Board (EPB) also opposed the liberalization idea because of its price stabilization first policy (Hankookkyongje-Shinmoon, April 2 1990; Chosun-Ilbo, April 28 1990; Mailkyongje-Shinmoon, May 19 1990).

Controversies over the Standard Construction Cost were intensified in late 1990 when wages and material costs rose rapidly due to the overheated construction boom. The government was troubled by the frequent demand for increase in the standard cost. The assessment of land prices became another source of conflict as developers had to pay development gains according to that assessment (Mailkyongje-Shinmoon, May 19; Mailkyongje-Shinmoon, November 7; Choongangkyongje-Shinmoon, November 7

1990; Mailkyongje-Shinmoon, October 18 1990; Hankookkyongje-Shinmoon, January 6 1991; Seoulkyongje-Shinmoon, January 6 1991).

What frustrated developers the most was the control by the government of the amount of houses to be built in 1991 as a measure to stabilize the economy. In the latter half of 1990 the economy overheated due to the increase in domestic demand. The export and trade balance began to fall sharply. Housing developers suffered a severe labour shortage. They had to import building materials from abroad contributing to aggravate the trade deficit. In 1991, the government began to take active measures to control construction activities. In May, in the cities where new apartment sales were falling, the start of new apartment construction was suspended until the end of the year. In September, the redevelopment and rebuilding of existing houses and multi-family housing and multi-household housing was all suspended until June 1992. Later in the same month, September, the government reallocated the amount of housing to be constructed by the end of 1991, and instructed local governments to suspend approval of new housing development plans. In February 1992, the government restricted the amount of housing construction at the level of 500,000 units (Yang, G.M., 1992). At the time of an interview for this research with a director of a department of the Korea Housing Association (the society of Designated Developers), representatives from large developers were having difficulty distributing their portion of housing construction among themselves. The interviewee said: '**Large developers have increased staff for housing development in cooperation with the Two Million Housing Construction Plan and have paid some 22,000 billion won (2.8 billion dollars) for land in the PPD areas in advance. Developers are now hardest hit by the restriction of the quantity of housing construction**' (interviewee, G). Thus most large developers were planning to expand business in public works such as the construction of express ways and harbour construction works while reducing housing development (Hankookkyongje-Shinmoon, January 1992).

### 3.5.3.3 The Government and Landowners

There have always been conflicts in Korea between landowners and the government when housing land was expropriated. During the 1970's and the first half of the 1980's,

the conflicts were between a strong government and weak landowners. However, in the two New Town developments the government had to meet strong resistance from landowners. Students, human rights organizations and opposition politicians were involved. The government had to provide the landowners with compensation such as priorities in buying commercial land in addition to land prices. Landowners in other areas began to demand land prices and compensation at higher levels than that in the New Towns. In many cases landowners even preferred their land to be expropriated. The PPD no longer necessarily means the provision of cheaper land for housing than the market. This will be examined in Chapter 6 in detail.

Thus political democratization has increasingly opened; social conflicts associated with land and housing and disclosed the inability of the government to mediate them: the conflict between individual enterprises and the interest of social capital represented by the government over non-productive use of capital; that between housing developers and people over price control; and that between landowners and developers over the control of land prices. The changing forms and effects of the government intervention to mediate the relation between landowners and developers, the main concern of this thesis, must be understood in this context.

### 3.6 Conclusion

The task of this Chapter in the empirical test of the main hypothesis of this thesis was to identify how the social relations responding to the conflicting interaction between landowners and developers have been historically conditioned resulting in rising land cost for housing. For this, this Chapter examined first the historical political and economic circumstances which have dictated the government to increasingly intervene, without making financial contributions, to regulate the conflict between landowners and developers, and then the way in which policies on housing and land development have been affected by that conflict.

Successive governments in Korea have dealt with two conflicting necessities: the political necessity to expand housing provision and the economic necessity to save financial

resources on consumption including housing. The government has been obliged to pay attention to housing provision because of the necessity to appease popular unrest. This has been evidenced in the examination of the historical background of the long term housing construction plans in 1972, in 1980 and in 1988.

Housing development has, however, had to rely on private funds; and housing development was to be carried out by self-financing. These have been invariant element in government policies for housing development.

It has been identified that two historical events were responsible for such self-financing housing development system. The first was the strong state and weak labour relation. It was formed about the time of the Korean war and was sustained by the successive seizure by the army of the centre of power. The second was the subordination of finance capital to industrial development. This was established in the early 1960's when the first military government took power.

Housing development has thus been dependent upon speculative investment. Government policies and plans, without financial support from the government, have only been effective in an economic situation in which the influx of speculative money into the property sector has been free or encouraged. The early 1970's and the early 1980's were the periods in which the authoritarian government tried to expand housing provision promoting housing development by increasing government expenditure as shown in Figure 3.3. However, as shown in Figure 3.2, due to the retrenchment economic policies and the overall depression in the money market, housing construction was at a low level. It was in the late 1970's and the late 1980's that housing construction was most actively carried out. These years were characterised by expansionary economic policies and an inflationary economy. It was in these periods of property boom that the government was able to achieve its goals of annual housing construction.

Such development booms, largely indebted to growing speculative investment, have been accompanied by intensifying conflicts between landowners and housing developers over development gains. The conflict increasingly became a constraint on government policy to promote housing development from the mid-1970's.

In the mid-1970's, when the government was obliged to increase housing provision for low-income families, public developers such as the KNHC were facing increasing difficulties in purchasing land. Public control of land rent began in 1976 by introducing the land expropriation system and the Pegged Land Price System (PLPS) for public housing development. The government had to extend the same measure to private housing development soon after.

To reduce its financial burden, the government adopted the strategy of utilising large private developers to achieve its goals of housing plans. The strategy seems to have been successful. Large developers played an important role in housing and urban development in large cities, particularly in Seoul, throughout the 1970's, although not without periodical ups and downs in their performance. The success was mainly due to expansionary economic circumstances and growing speculative investment in land and housing. A speculative investment became prevalent also in the land market. This intensified the conflict between landowners and developers and raised a policy issue. In the late 1970's, when the property boom culminated but the government still attempted to promote it, private developers began to face difficulties in purchasing land. The Land Readjustment Project (LRP), the major urban land development method at that time, began to cause problems to the government. As explained before, the LRP is a system in which landowners do not sell their land but hold ownership on developed land with reduced size but increased value. To ensure a significant increase in land rent after development was pivotal for the success of the LRP. To prevent landowners becoming a barrier to housing development, the government introduced the Apartment Area System, in which large developers were given priority and partly endowed with eminent domain. Yet, such control of land rent in favour of developers was not sufficient to support the 5 Million Housing Construction Plan, which required a large quantity of land at cheap prices. The Public Purchase and Development System (PPD) was thus introduced in 1981. The state stepped in directly between landowners and developers by means of the PPD, a system in which the government purchase land by force at appraised value and then provide the same land for housing development.

As the conflict between landowners and developers over development gains outside the PPD intensified, more and more large developers came to rely on land provided through

the PPD. Thus the determination of rent, in the PPD, moved from the relation between landowners and developers to that between landowners and the state. That is, from the market to politics. It is a system based on weak land ownership and a strong state. During the 1970's and 1980's, when the country was under authoritarian rule, all the legislation to regulate land rent was carried out with virtually no collective resistance from landowners as there has been no a distinctive landowning class since the land reform in 1950.

Thus government interventions and policies on housing and land, particularly those regulating the relation between landowners and developers have been influenced by conflicts at two levels: (i) conflicts between the political necessity to increase housing provision as a way of appeasing labour, and economic impossibility to devote resources to this endeavour given the necessity to concentrate them into industrial development; (ii) conflicts between landowners and housing developers over development gains, which have also been affected by changing overall economic situations.

These have been the political and economic circumstances in which the relation between landowners and developers has been defined. These circumstances influenced the interests, strategies and behaviour of the agents involved. At the same time, they are reacted to, challenged and acted upon by both developers and landowners. The rising portion of land cost in new house prices as shown in Figure 1.8 (p 25) is a consequence of these conflicts. Following chapters will examine the ways in which landowners and developers interact with each other in the actual housing development process acting upon such changing situations.

# **CHAPTER 4. HOUSING DEVELOPMENT BOOM, PROFITS AND LAND PRICES, THE 1970's AND THE EARLY 1980's**

## **4.1 Introduction**

This chapter addresses **Research Question One** and **Two** as designed in chapter 2. **Research Question One** was whether developers were responsible for the rising land cost for housing. It was hypothesized that developers have realised large surplus profits and thus provided room for land prices to rise. **Research Question Two** was whether landowners have been merely passive in the determination of land cost and new house prices. The answer was hypothesized that they have not been mere interceptors of parts of surplus profits created by developers. By fixing increasingly larger surplus profits into land rent, landowners have affected the way housing was developed as such that once a new way of increasing surplus profits was invented, which usually required more intensive capital investment, it soon became the normal way of development.

The apartment development in the Gangnam area during the 1970's and 1980's provides a good empirical case in which these hypotheses can be evidenced. The area was rapidly and constantly developed into apartment estates during the 1970's and 1980's. The development was accompanied by an extensive conversion of farm land into residential land, and brought about a rapid growth of large developers. The changes in development gains can be observed in an amplified form and on a consistent basis for the past twenty years. Conflicts between landowners and developers have accordingly developed in the most acute form in the country. The Gangnam area has been the place where government policies on housing development have been formulated and experi-

mented with. In other words, social relations responding to the increasing conflict between landowners and developers can be clearly observed.

The empirical examination in this chapter concentrates on the first phase of the development of the Gangnam area as suggested in Chapter 2. It covers the period from the early 1970's to the mid-1980's. The study in this chapter proceeds in three phases. The first will be an examination of the circumstances and the ways in which large housing developers have emerged and grown rapidly. The second will be an analysis of the material source of that rapid growth. It is in this analysis that **Hypothesis One** is quantitatively tested. The third phase addresses **Question Two**. It examines the changing attitudes and behaviour of landowners as development gains in housing have been growing.

Section 4.2 takes on the first phase study. It examines the circumstances of the housing market and the urban development in the Gangnam area which had enabled the emergence and growth of large housing developers. Housing market situations and policy environment were favourable to these newly growing developers during the 1970's. In the early 1970's, the government necessitated the participation of large companies in housing development to finance the urban development projects in Gangnam. In the mid and late 1970's, the role of private developers in housing provision was emphasized in government housing policy. Various incentives were given to large private developers in terms of taxation and land acquisition. There had been periodic ups and downs in housing market situations. However, on the whole, the housing market in Seoul, characterized by rapidly growing demand for apartments, had been favourable to developers during the 1970's.

Section 4.3 analyses the material source of the rapid growth of large apartment developers. It first compares price trend of new apartments and that of land, and then analyses the development gains for the period from 1974 to 1985. In the latter analysis, the changes in the relative shares of land cost, construction cost and surplus profits in new house prices are examined.

A simple regression analysis using rates of changes in land prices and new apartment prices shows that the common argument that land prices have caused high house prices is unfounded. The analysis of development gains shows that developers were able to

realise a high rate of surplus profit until 1985. These surplus profits were the material source for the rising land prices.

Section 4.4 examines changing attitudes and behaviour of landowners in housing development. Until the mid-1970's, land had not been a serious problem to developers in terms of its availability and prices. The increasing surplus profits and consequent fierce competition among developers for land resulted in a radical change in the attitudes and behaviour of landowners. Towards the late 1970's, speculative investment and all forms of irregular market behaviour became prevalent. Land withholding and monopoly pricing demands for higher prices became common practices. The changing behaviour of the land market and landowners facilitated the conversion of surplus profits into land rent. Further, such behaviour, by fixing land prices at increasingly high levels, affected the way in which developers produce housing in such a way as to permanently force the increase of surplus profit. This chapter, as well as the following two chapters, relies on information obtained through interviews that took place between February and April 1992. All 13 persons, 3 from the Korea National Housing Corporation, the largest public housing developer, 1 from the Korea Housing Association, the association of Designated Developers<sup>(1)</sup>, 2 from small developers, and 7 from the largest three housing developers in 1990 and 1991, were interviewed for this research. The three large development companies built 32,698 and 26,332 houses in 1990 and 1991 respectively, which accounted for 6.8 and 5.4 percent of total annual private housing construction. The KNHC built 79,702 houses in 1990 and 66,531 in 1991, accounting for 30 and 40 percent of total public housing construction.

As the research needs an extensive historical survey, overall information on the history of housing development in Gangnam had to be obtained from veterans in housing development. Three persons, one from the KHA and two from Hyundai have provided an overview of the history. Others provided information on land purchasing process and their development methods based on their or their company's own experiences. The interviews did not provide precise and detailed figures such as land prices and house

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1) Large developers satisfying certain required conditions in terms of capital stock, the amount of annual housing construction and technical manpower. Details are indicated in Subsection 4.4.3.

prices. However, guided by these informations, documents were consulted for further details, particularly statistical data and figures.

## 4.2 Urban Development in the Southern Part of Seoul and the Growth of Large Housing Developers

### 4.2.1 The Growth of Seoul and the Gangnam Development

Seoul is the capital city of Korea. It had a population of over 10 million within an area of 627 km<sup>2</sup> in 1990. In 1960, the population was 2,445,000 in an area of 270 km<sup>2</sup> (SMG, 1991c). By the early 1970's, when the population increased to 5,536,000, most people lived in the old urban district, the area north of the Han River, as shown in Figure 4.1a. The rapid economic growth during the 1960's was accompanied by a concentration of central administrative and managerial functions as well as population into the capital city. In terms of the portion of its population in the whole nation, Seoul accounted for 10 percent in 1960 and 17.6 percent in 1970 respectively. 80.7 percent of the increase in Seoul's population during the ten years was due to migration (see Table 1.2, p17).

From the mid-1960's, in response to demographic and economic changes, the city government began to implement a series of urban development and redevelopment projects. The most important were the redevelopment of the central area of Seoul for commercial and office districts, and the development of a new residential area southward across the Han River. Until the early 1960's, the Han River had been a southern border with neighbouring rural counties. In 1963, part of the areas south of the river came under the jurisdiction of Seoul city. This area remained agricultural land until the 1970's when it became the target of residential development in the new master plan for the city development. In the plan, formally established in 1971, the city government planned to locate 45 percent of the population in the new area (SMG, 1991a).

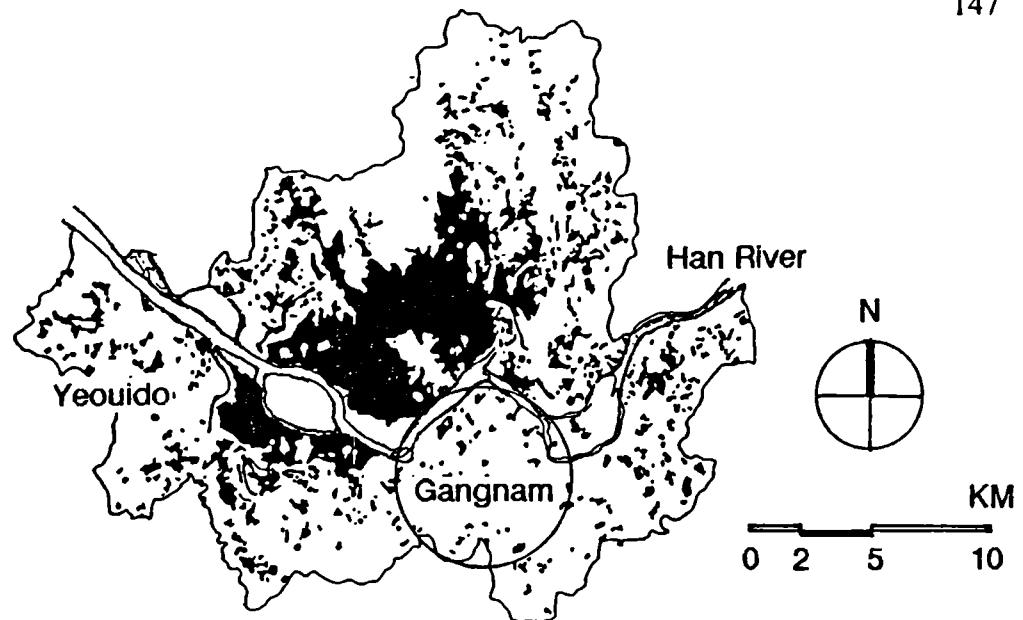


Figure 4.1a Built-up Area in Seoul, 1970

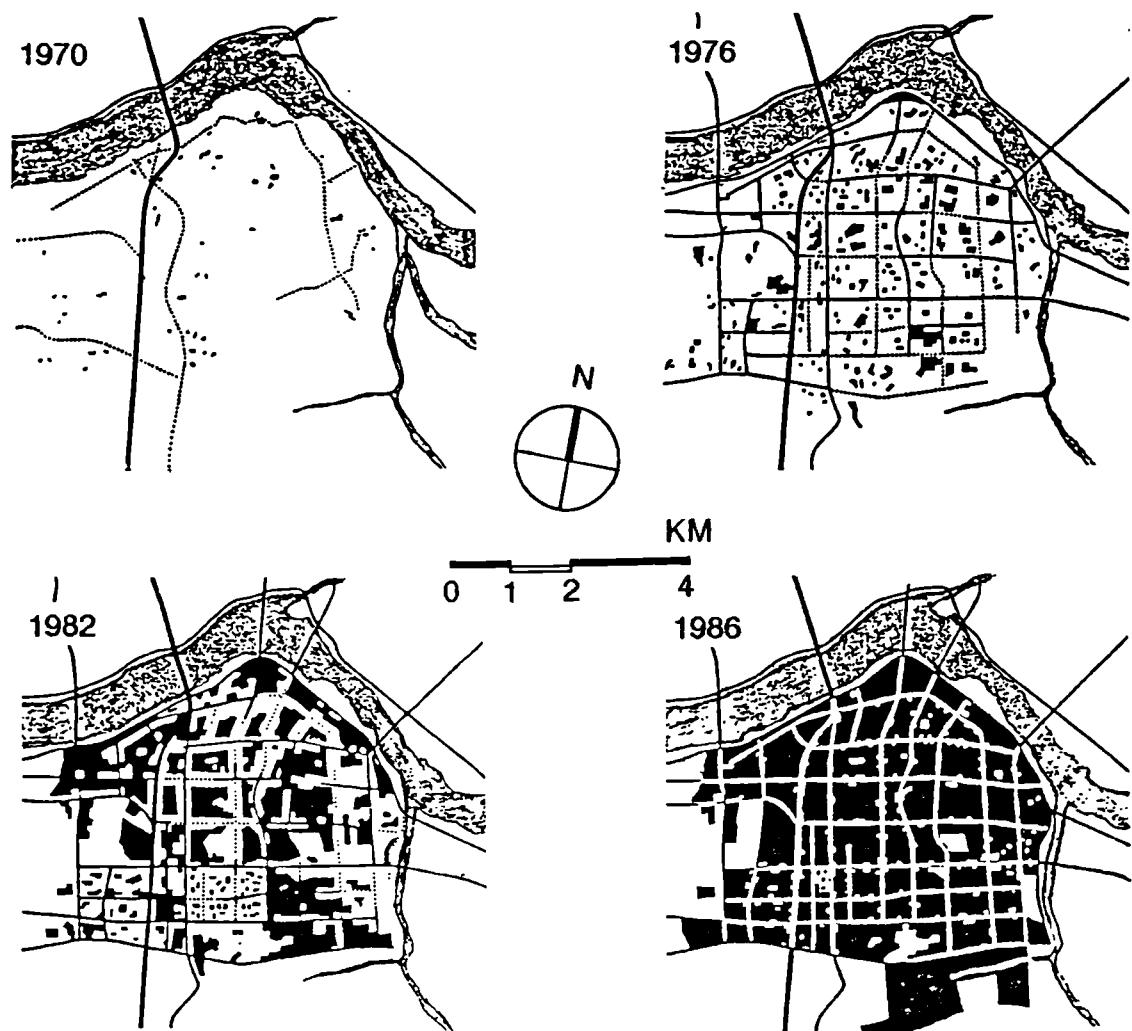
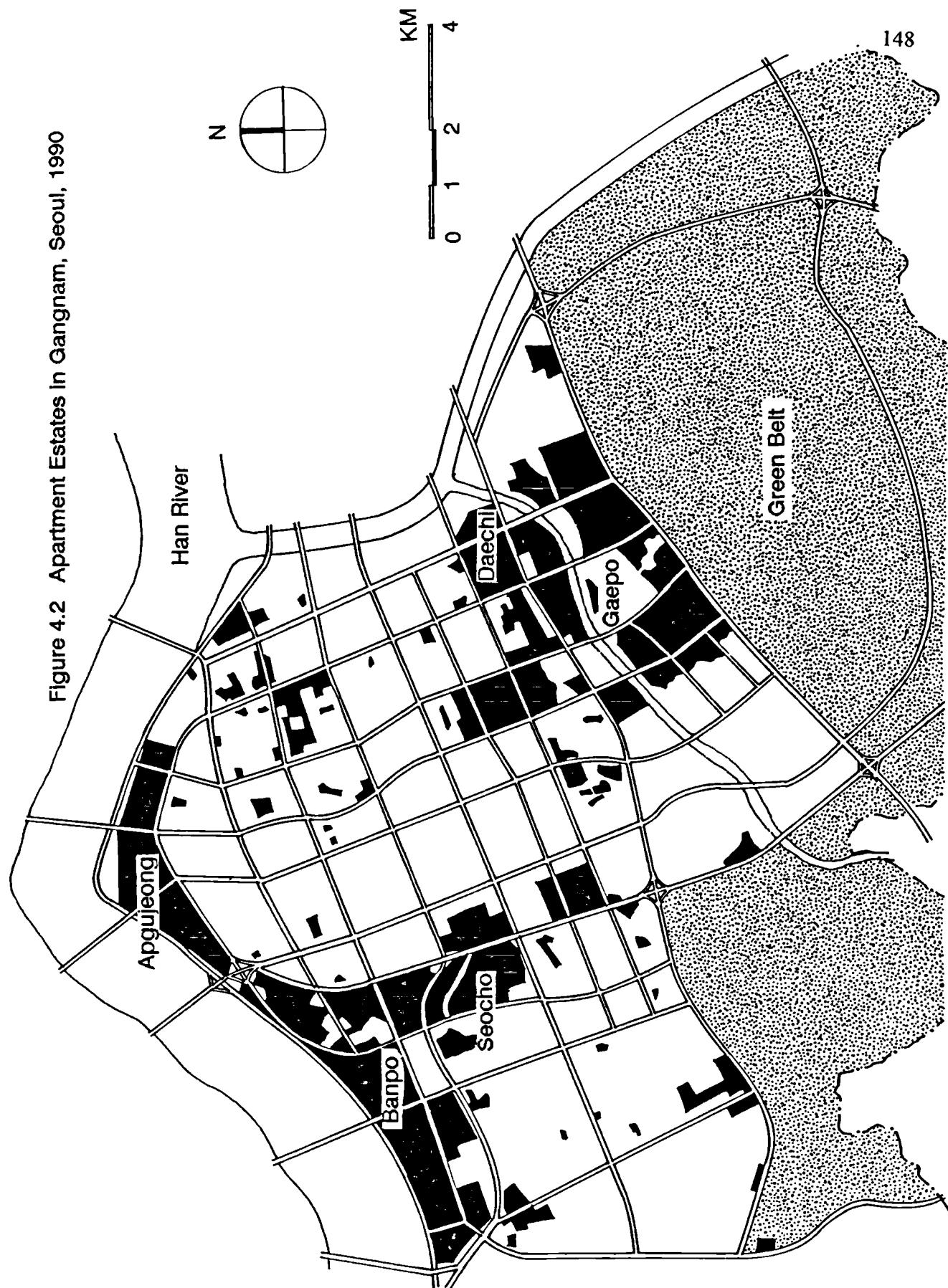


Figure 4.2b The Expansion of Built-up Area in Gangnam, 1970-1986

Figure 4.2 Apartment Estates in Gangnam, Seoul, 1990



The deconcentration of key administrative functions and population seemed important to the ruling elite particularly from the point of view of national security. Seoul is located within half an hour distance by car from the military demarcation line with North Korea. The Park regime was concerned about the weakness of the capital city, with its important political and economic functions as well as huge population concentrated just a few minutes distance time of air raids from the North. Since the open hostility launched by the North in the late 1960's and the partial withdrawal of the U.S Army from South Korea in 1971 mentioned in Subsection 3.2.2, the defense of the unfortified capital city became a political issue. In 1968 President Park ordered the development of the area in the south of the Han River as a way to deconcentrate population and administrative and economic activities (Kim, J. R., 1990).

A series of development projects were thus planned and carried out to disperse population into the southern area. The development of the Han River began in the mid-1960's. It aimed to locate the Han River at the centre of Seoul geographically. More bridges crossing the river connecting the two sides began to be constructed since 1962. The city government started to reconstruct the embankments on both sides of the river and to construct an intra-city express way along the embankment. Riverside roads on both sides were completed by the early 1970's. In the process of constructing the embankment roads, large areas alongside the river were filled in to make housing land. These filled-in areas became the first sites for high rise apartments, which stood in a row along the riversides. Among these, the development of Yeouido was important. It was the area where private housing development took place for the first time in the form of large scale apartment estates, and new private housing development companies emerged and began to grow rapidly.

Yeouido is an island in the middle of the Han River. It had been an airfield from the end of the Japanese colonial rule. The embankment construction started in December 1967, and was completed in June 1968. It provided some 900,000 pyongs of land with a length of 3 km from east to west and a width of 1.4 Km from south to north. It was developed for both a new financial office district of Seoul and a new residential area (Sohn, J. M., 1988).

The development of the Gangnam area<sup>(2)</sup> began in the late 1960's and continued throughout the 1970's and 1980's. The south of the river had been agricultural land. Until the end of 1962, the area belonged to the neighbouring rural counties. In the master plan for the city development in 1966, the area was designated and planned for a new subcenter of Seoul. The Land Readjustment Project of the First district of Young-dong started in January 1968. The development plan for the second district was approved in August 1971. The development of both districts with more than 8 million pyongs took approximately 10 years to complete. The areas became later the Gangnam-Gu. At the beginning of the development, the area had a population of 41,428. The population grew to 106,590 in 1975, to 475,030 in 1980, and 772,212 in 1985 (Ibid).

Figure 4.1b shows the geographical expansion of built-up areas in the Gangnam Area. In fifteen years from 1970 to 1985, the whole area of Gangnam was built up. As of 1988, the area had 158,832 houses, of which 112,689 units were apartments accounting for 71 percent of the total housing stock in the area. This is compared to the portion of apartments among the total housing stock in Seoul which was 32.6 percent in the same year (SMG, 1989).

This rapid urban development in the Gangnam Area has been led by large apartment estate development<sup>(3)</sup> and brought about the rapid growth of new types of large housing development companies.

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- 2) The area which the study refers to has various names. At first it was called South Seoul, and then Yongdong (literally means the east of Yongdeungpo-Gu, a neighbouring old borough) when the development plan was formally proposed and later Gangnam, after the name of the borough administering the area. The Gangnam Area was divided into two districts, the Gangnam-Gu and the Seocho-Gu in January 1988. In this research, Gangnam refers to both districts.
- 3) According to the Korean Building Law, collective housing with more than three stories is defined as apartment and that up to three stories as row houses. Large apartment estate indicates those with 500 or more apartments in them.

#### **4.2.2 The Growth of Large Housing Developers.**

Little has been recorded about private housing developers who had been active before the 1970's although information on the patterns of development, housing types and so on have been handed down orally. A feature article in a real estate magazine (Wolganhyundaijutaek, August 1984) gathered such information based on recollections of selected elders in the housing development business circle. The information was corroborated by an interviewee from the Korea Housing Association. According to that article, the origin of private housing development can be found in the rebuilding of lower quality thatched roof houses into new Korean style housing that began in the 1930's in Seoul. Such practices developed into business in the 1940's. The chief workman, usually a master carpenter heading several workers, often built houses for sale. They were however very casual and in small scale activities (Ibid).

In the late 1950's and the early 1960's, such small scale private housing development became dominant in housing provision. In the late 1960's and the early 1970's, housing development became a profitable business. The small house builders usually bought old houses and replaced them with new ones. Until the early 1970's, the new housing market was dominated by detached houses. These detached houses were mostly built by these small developers. Entering the 1970's, such commercialized detached houses began to increase rapidly (Ibid).

Most houses were single or two storied with 20 to 50 pyongs of floor space in a plot of 30 to 40 pyongs. Developers purchased land for housing with an area of around 300 pyongs on which they built 5 to 10 houses. As few developers had enough funds to afford such land, it was common practice that several developers jointly bought the land and divided it into small plots according to each contribution to the investment. They also often cooperated in purchasing major building materials, such as cement, to save costs (Ibid).

Entering the 1970's, when high rise apartments became popular among new middle class families, such commercialized enterprises began to increase rapidly and new types of large housing developers began to emerge.

When the KNHC was established by the military government in 1962, an ideology of increasing housing supply by employing low-cost mass production methods was rife among the KNHC and government personnel. Apartments were thought of as a housing type which could reduce land cost. It was also regarded as a housing type ideal for applying various standardized and mechanized building techniques. Particularly, pre-fabricated building systems were considered the best way to achieve mass production of low-cost housing. Thus, the corporation began to build apartment blocks (KNHC, 1992c). The Seoul city government also began to build apartments in large quantities from the late 1960's, particularly to accommodate squatters relocated from the redevelopment projects in the inner city areas (Sohn, J.M., op. cit.).

The apartments built up to the end of the 1960's were far from being luxurious. As of the end of 1969, there were 750 apartment blocks with 34,331 units in the whole country. Out of this, 480 blocks were the Citizens Apartments, built by the Seoul city government in the late 1960's, 68 by the KNHC and 44 by the Ministry of Government Administration (Chosun-Ilbo, April 14, 1970). The citizens' apartment were of small size and of lower quality. The city government provided only major frames and facilities. All interior finishing works were left to the occupiers. A unit had only 8 pyongs of floor space and residents had to share storage and toilet with other families (Sohn, J.M., op. cit.). Those built by the KNHC were for low income households and only slightly better than the Citizens Apartment in terms of size and facilities (KNHC, 1992c). The image of 'apartments' was thus that of 'lower quality' and of 'low income housing'.

Toward the end of 1960's, this pattern of apartment development began to change. Public developers began to construct larger and higher quality apartments for the growing new middle class. The demand for apartments rapidly increased due to the growing popularity of apartments among middle and higher income households and the influx of speculative money into the new apartment market.

From the early 1970's, apartment houses became popular among middle and higher income households. According to a survey conducted by the KNHC, apartments were popular particularly among the western-educated younger generation of around 30 years of age and with attainments equal to or higher than those of upper secondary

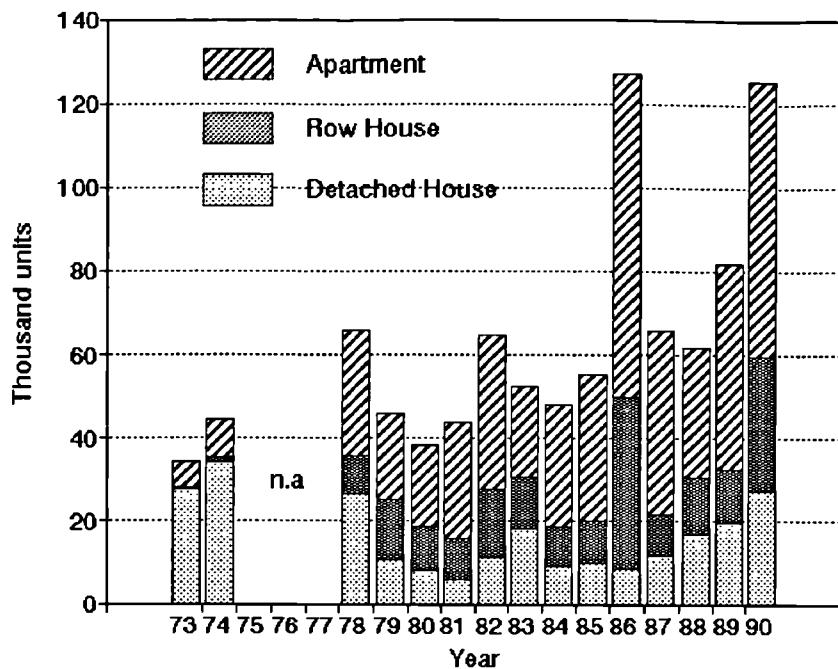
school graduates (KNHC, 1970). A major reason for the increasing popularity was the conveniences and comforts which traditional detached houses were lacking. Central heating was very rare for traditional detached housing, because of its high costs. Each room had an individual outdoor fireplace using charcoal briquettes<sup>(4)</sup>, which had to be changed every 6 to 12 hours in winter. This was one of the most troublesome routines for housewives. Someone always had to keep his or her eyes on the house since security was loose. Apartments, equipped with central heating system and janitors at the main entrance, eliminated all the problems. Conveniences such as hot water supply, flush toilets and garbage chutes were also not available in the traditional detached houses. In large apartment estates, one could use shopping centres, schools, security guards, and play-grounds within walking distance (KNHC, 1970; Chosun-Ilbo, July 15, 1970).

The growth of the new middle class in the capital was a major source of the growing popularity and demand for apartments in the housing market. New middle class here refers to those classified by the Census as managers in private companies, government officials, supervisory clerical workers, and professional self-employed such as scientists, educators, journalists, writers, authors, literary men, artists, religionists, and high order occupations such as high ranking government officials and high ranking managers. They are what Seo, K.M. defined as wage earning middle class and intellectual classes (Seo, K. M., 1985). According to the Population and Housing Census, carried out by the Economic Planning Board (EPB) every five years for the whole nation, the portion of such new middle class people among the economically active population in Seoul increased from 10.4 percent in 1970, to 13.2 percent in 1975 and to 18.7 percent in 1980. 39 percent of new middle class people of the whole country were in Seoul in 1970. This portion increased to 48.4 percent in 1975 and to 60 percent in 1980 (EPB, 1970; 1975; 1980). It has been this ever-growing new middle class which have maintained a great demand for housing, be it speculative or for actual use, and contributed to cause the apartment development booms in the 1970's. A public opinion survey agency, Hyundai Research, carried out a survey on housing speculation by middle class housewives in 1988. According to the survey, 23 percent of the interviewees, 505

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4) This is called '*Ondol*', the traditional underfloor heating system in Korea. In the system, hot air flows through under the floor of rooms from outdoor fire places to chimneys heating up the floor of rooms made of flat stones or hollow cement blocks.

Figure 4.3 Annual Housing Construction by Types, Seoul, 1973-1990



Source: Produced for this thesis based on data in SMG, 1974-1991, each year.

housewives living in houses with 17 to 60 pyongs of floor space, had an experience of property speculation. For higher income households earning a monthly income of 1 to 1.5 million won, 57.4 percent had an experience. And 61 percent of the respondents who had speculated replied that they could realize good capital gains (Seoulkyongje-Shinmoon, August 21, 1988). Figure 4.3 shows the trends of the 1970's and 1980's, i.e., the growing portion of apartments within total housing built in Seoul. It has been accompanied by the emergence and development of large housing developers. At first, apartment development for this new middle class was initiated by public agencies. The KNHC started to build larger apartments for upper-middle income households in the late 1960's. As mentioned in the previous chapter, the early 1970's was the time when the government attempted to rapidly increase housing provision. The KNHC was increasing its annual housing construction output and, as it operated on the basis of a self-supporting system, it was moving towards the higher income housing market. It thus began to develop large apartment housing with 18 to 40 pyong in floor space. The first large apartment estates appeared in a northern riverside area, Dongbuichon-Dong

(see Figure 4.2). The land was developed by the Korea Water Development Corporation by filling in the riverside after the new bank was constructed. The KNHC built several apartment estates in the area: the Government Officials Apartments in 1968, Hangang Mansion Apartments in 1970, Hangang Foreigners Apartments in the same year and Hangang Apartment Estate in 1971. These were relatively luxurious apartments and gained popularity among upper-middle income households (KNHC, 1992c).

In Yeouido, the city government developed the first apartment estate in 1971. The apartments were 12-storied and equipped with modern facilities such as elevators. The Seoul city government constructed the Sibum (literally means 'a fine example') Apartment Estate in Yeouido as part of the measures to stimulate the development of the area. This was completely different, in terms of quality, from the apartments hitherto built by the city government. The new apartments were luxurious compared to the previous Citizens Apartment. They were larger in floor space and equipped with modern mechanical systems such as elevators which was rare in Korea up to that time. This period represented the beginning of high rise apartments.

When the KNHC built the Hangang Mansion Apartments, it had difficulties with the sale. All staff of the corporation were ordered to sell one or more units to their friends or relatives as a last resort. However, in a few months time, the apartments began to be traded with a large sum of premiums<sup>(5)</sup>. The popularity of Hangang Mansion Apartment stimulated a private apartment development boom in 1970 and in 1971 (ChosunIlbo, July 15, 1970).

Large scale development of high rise apartment estates implied a radical change in the housing development industry: the emergence and growth of large housing developers. Although detached house builders do not necessarily mean small developers, apartment developers must be large in terms of capital stock and manpower. In Yeouido, for example, all 18 apartment estates were built by 1978. They were all built in 11 to 15

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5) Premium here means the difference between new apartment prices which the first buyers pay and the prices paid for that apartment when they are resold in the market. The new apartments built by the KNHC were priced based on the cost prices. When there was excessive demand, the gap between the new sales prices and actual market prices became considerable. Hence the prevalence of new housing speculation. Later, when the new price ceiling system was imposed, the premium became even more considerable.

storied apartments. An estate had 470 apartments on average (KNHC, 1990). Such high rise and large scale apartment estates needed large amounts of capital investment, modernized technology, equipment, and organization. This could not be done by the traditional small scale builders. Thus it was new housing developers which began to build apartments for the middle and high income families in the private sector.

For example, Yonsei Development Co. and Namhangang Tourists Development Co. are known as the first two companies which began to develop such apartments in a relatively large scale. They were building 28 to 70 pyong type luxurious apartments with swimming pools and libraries within the estates. For both companies, housing development was new business (Chosun-Ilbo, July 15 1970).

As seen in the previous chapter, the policy environment of the early 1970's was in favour of such large apartment developers. The government needed the involvement of large private capital in housing development both for housing provision and for propping up the economy in general. The Seoul city government urgently needed the participation of large companies in apartment development in order to finance and expedite development projects around the Han River. In Yeouido, the city government strongly recommended large construction companies to participate in apartment development to expedite the development of the area. Existing prominent construction companies were, however, not too promptly involved in apartment development because of the uncertainties in the housing market.

The trend in the housing market in Seoul was characterized by rapidly growing demand for apartments throughout the whole period from 1970 to 1978. This trend, however, covered occasional ups and downs. As mentioned above, in 1970 and 1971, there was an increasing demand for apartments in the riverside areas in Seoul. In 1972, the speculative demand for apartments dwindled. New apartment sales came to difficulties in 1972 along with the economic recession. Prices were falling and new apartments were not sold as expected (Dong-A-Ilbo, May 12 1972). Some companies which were newly involved in housing development such as Yeonsei Development Co. were finally bankrupt in 1972 (Joongang-Ilbo, June 17 1972). The KNHC had also difficulties with house sale in the Banpo area in 1972 and had to increase the housing loan and the period of repayment. However, in the spring of 1973, six months after the sale began,

the KNHC apartments began to be resold in the market with a considerable amount of premium. Apartment prices in Yeouido and Banpo began to rise fast again. Competition among applicants for new apartments became fierce (Chosun-Ilbo, May 17 1973).

By 1973, companies were involved in apartment development in a large scale. In Yeouido, following the city government, Samick Housing Co., Ltd. and Hanyang Housing Co. Ltd. started to build high rise apartment blocks from 1973. In 1975, Life Housing Co., Ltd. began to build apartment estates. Samboo Construction Co. Ltd., not a specialist in housing but a prominent construction company, joined later. Most early apartments in Yeouido were built by these companies.

This changed the image of the apartment as lower income housing. Apartment estates developed by these companies were advertised by real estate agencies and regarded by new middle class families as prestigious housing estates. During the 1970's, apartment estates in Yeouido became one of the most disturbing centres of housing speculation for the government.

Yet, because of the fluctuations in demand for new housing, large construction companies did not readily enter into the housing development business. The above forerunners in apartment development were newly established firms or those that had moved into housing from other business.

Among the housing development companies, only Samick had been a construction company. It was established in 1968. With the apartment development in Yeouido, it began to concentrate on apartment development. Hanyang, on the other hand, had been running a business supplying timber for apartment construction. It established the Hanyang Housing Co., Ltd. in 1973 when it became involved in the Yeouido apartment development. Since then it grew rapidly along with the apartment boom in the 1970's. Life Housing & Construction Co., Ltd. was established in 1975. It started its business with the apartment development in Yeouido. Before that, it had been a commercial agent of household electronic appliances.

It was from later 1975 that construction companies began to involve themselves in apartment development on a large scale. The Hanshin Construction Co. started apartment development in the Banpo area in 1975 and since then have built there more than

10,000 units. During the period of the apartment development boom, in 1977 and 1978, many prominent construction companies such as Daelim Construction Co., Lotte Construction Co. and Keungnam Enterprises Co. came into the area to build apartments. To the south, in Seocho, Samho Housing and Construction Co., Keungnam Enterprise Co. and Samick Housing and Construction Co. developed a huge high-rise apartment complex. The Hyundai Construction Co. began their first large scale apartment development in the Apgujeong area and had developed the area into apartment estates by the mid-1980s (Sohn, J. M., 1988: 280).

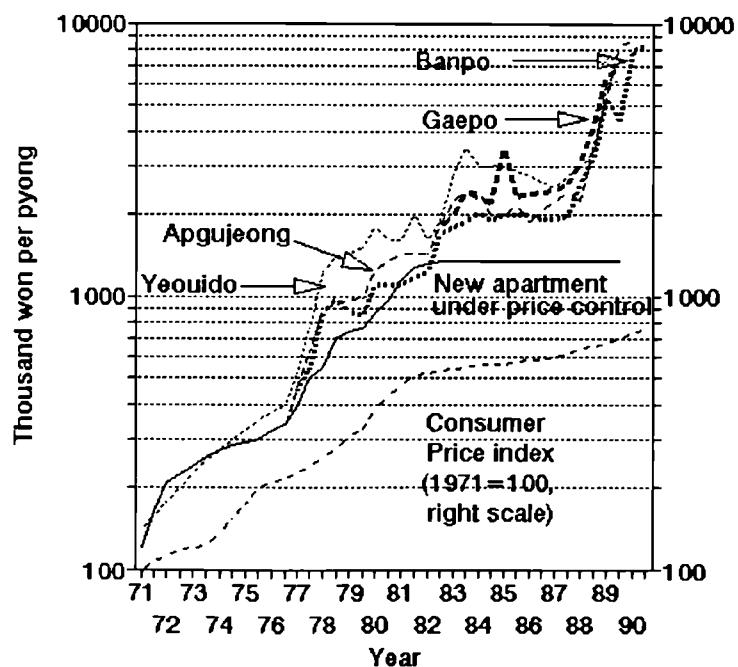
These later participants in apartment development were mostly from construction companies. Hanshin Construction Co. was established in 1950 to engage in a variety of boiler products. It was reestablished as a construction company and changed the company name into the present one in 1967. With the acquisition of large land in the Banpo area, the company became one of the leading housing developers in the 1970's and 1980's. Samho Housing was established in 1956 as a construction company. The owner acquired a large quantity of land in the Gangnam area as early as the 1960's. It became a leading housing development company in the 1970's. Hyundai Construction Co. has been a central company of the Hyndai industrial conglomerate. It ranked as the sixth largest company in terms of sales in 1976 (KCCI, 1987) but was not involved in housing development until 1975. In 1974 the company built apartments on a site used for a station of heavy construction machinery. This was the first apartment development by the company. In the early 1970's, when the company acquired a large piece of land in the Apgujeong area, it established a subsidiary company specialized in housing development, Hyundai Housing and Construction Co. Ltd. (**Interviewee, C**).

By the late 1975, the boom again came to depression (Kyonghyang-Shinmoon, November 5 1975). 1976 was one of the worst year for the new apartment developers. At the end of the year, discount and additional loans were common to attract new apartment buyers. Even Hanyang Housing and Construction Co. Ltd., which was emerging as a new Chaebol through apartment development, suffered delays in apartment sales (Kim, S.D, 1978).

However, 1977 to 1978 became a peak period of the apartment boom again. In the sale of the Mockhwa apartment built by Samick in Yeouido in 1977, 45 applicants com-

peted for one apartment. In the following sale of the Hwarang Apartment, built by the same Samick, 70 competed for one. Apartments were allocated through lottery to a limited number of applicants and the winning numbers were traded with a lump-sum of premium: 1.5 to 2.5 million won for a Hwarang apartment. Such keen competition was primarily due to the growing speculative demand for new apartments. Apartment speculation brought public criticisms and their activities became a political issue. In April 1977, the National Tax Administration investigated the winners of lucky numbers in the lottery for apartments in Yeouido and revealed that one third of them were unqualified (Chosun-Ilbo, April 21, 1977).

Figure 4.4 Changes in Apartment Prices, Gangnam, Seoul, 1971-1990.



Source: Produced for this thesis based on the trends of apartment prices carried in major daily newspapers (Chosun-Ilbo, Dong-A-Ilbo, Hankook-Ilbo, Kyonghyang-Shinmoon, Hankook-kyongje-Shinmoon and Choongangkyongje-Shinmoon) and the Korea Housing Association Bulletins between 1971 and 1990.

Note: The prices of 50 pyong-type Seoul Apartment, 48 pyong-type Hyundai Apartment, 33 to 47 pyong-type Hanshin Apartment and 41 to 47 pyong-type Woosung Apartment were taken for Yeouido, Apgujeong, Banpo and Gaepo respectively.

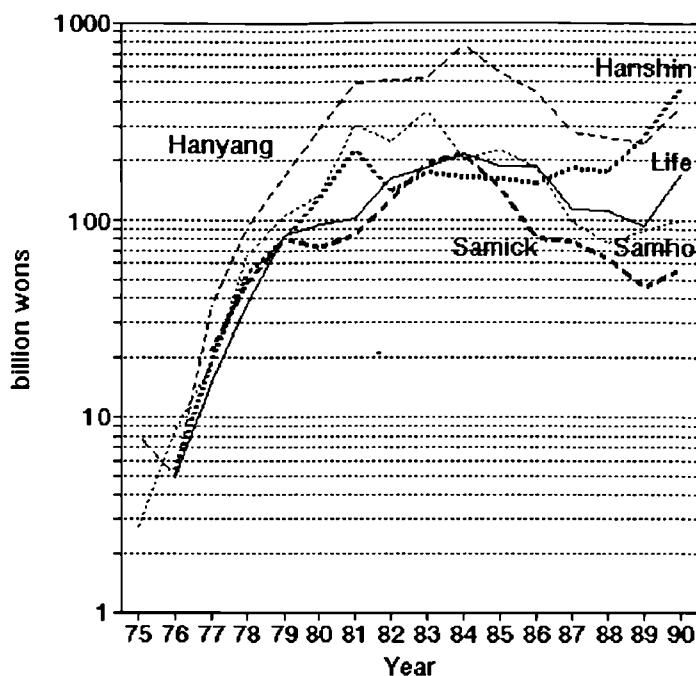
Since then such fierce competition became a common scene in new apartment sales in Seoul, particularly in the Yeouido and the Gangnam Area. This situation continued until 1978 when the whole property market collapsed once again as a result of the August 8 Anti-speculation Measure mentioned in the previous chapter (ARI, 1989). Until then, however, the existence of such speculative demand formed one of the most favourable conditions for private housing development.

Figure 4.4 shows the changes in market prices of apartments in Yeouido and prime locations in Gangnam during the 1970's and 1980's. This price trend can be taken as an indicator of housing market situations in Yeouido and Gangnam. Although there had been ups and downs, the long term trend clearly shows the booming market situation during the 1970s. Owing to these favourable conditions, these housing development companies grew very rapidly. Figure 4.5 shows the sales performance of some leading apartment developers. It shows that the 1970's was the period of their fastest growth. No recorded data on the share of housing in the total sales performance are available until 1979. However, all interviewees from Hyundai, Hanyang, and the Korea Housing Association, an association of large housing developers, agreed that their rapid growth during the 1970's was mainly due to apartment development.

In 1965, no housing development companies were listed among the 100 largest firms in Korea. Samick came up to the 89th rank in the list of the 100 largest firms in Korea in terms of sales in 1976. In 1984, Hanyang, Samho, Life and Samick marked 20th, 73rd, 74th, and 88th ranks in the list respectively. These firms developed into business conglomerates by 1984 (KCCI, 1987).

Hanyang Housing and Construction Co. became a hard core company of the Hanyang Business Group, which is composed of 6 firms. Hanyang Business Group was listed as the 14th largest Chaebol in 1984. Its total sale was 1,900 million won (39 million dollars) in 1974. This grew to 959.1 billion won (1,600 million dollars) in 1984. Samick Housing became a main business in the Samick Business Group. It became the 43rd largest Chaebol in 1984. Life Housing also grew to form a conglomerate by 1984, heading 6 subsidiary companies in the field of building, commercial trading and the tour industry. Hanshin Construction Co. was the 53rd largest conglomerate in 1984. It had four other subsidiary firms. Their total sale was 5 billion won (10 million dollars) in

Figure 4.5 Sales Performance of Leading Housing Development Companies, 1975-1990



Source: Produced for this thesis based on data from the Korea Productivity Centre, 1976-1990, each year.

1974 but this grew to 202.4 billion won (245 million dollars) in 1984. Beside these, Hanbo and Woosung, another construction companies engaged in apartment development during the late 1970's and the early 1980's, formed conglomerates marking the 54th and 74th ranks in the list of large Chaebols in 1984 (KCCI, 1987).

Gangnam has been the principal place where these developers realized such rapid growth through apartment development. According to the survey of apartment estates carried in the KHA Bulletin (January to May, 1988), in the Gangnam Area there were 93,552 apartments in 1987. Out of this, 65,593 had been built by private developers, of which 61,585 were built by Designated Developers which will be discussed in Subsection 4.4.3. The nine developers referred to above have built 44,493 units, approximately 70 percent of the privately built apartments in the area.

## 4.3 Development Profits and Land Prices

This section examines how these favourable market conditions have been materialized into development gains, the material source of the rapid growth of the large developers. Development gain here is defined as the 'difference between house price and the cost of constructing the dwelling including site servicing'. This is divided into land prices and development profits between landowners and developers. This analysis provides quantitative evidence in support of **Hypothesis One-1**. It is hypothesized that high house prices provided room for land prices to rise. This section first compares the trend in new apartment prices and land prices in Gangnam.

### 4.3.1 House Price and Land Price

Simple comparison between house prices and land prices in aggregate terms such as that shown in Figure 1.2 (p14) tells us little about which among house prices and land prices have led the other. What is needed is a comparison of the price trend of new houses and that of land used for those new houses in actual housing development processes.

This study therefore attempted to compare selling prices of new apartments built in Yeouido and Gangnam with the prices of land developed for those apartments. The prices of apartments are known since the sale of these apartments were open to the public and thus the prices had been made known to the public mainly through newspaper advertisement. Prices for all 64,748 apartments were obtained from three sources: Apartment Encyclopedia (Sejin-Gihweck, 1990), major daily newspapers (1974-1987) and the Korea Housing Association Bulletins (1979-1986, each month). This covers all the 6,385 apartments in Yeouido (Chungbosung Real Estate Bank, 1992) and 89 percent of apartments in Gangnam built by 1987 (KHAB, March, April and May, 1988) and covers all the large apartment estates with 500 or more apartments in them.

Land prices had problems. First, there was no way of knowing actual prices paid for all these apartment developments. There is no recorded information on land prices actually paid for apartment development in Gangnam. Documents on past developments are scarce for most companies. Even when one could get some documents, credibility becomes a problem. It is well known in Korea that firms keep a double accounting system, one for official purpose and another for actual accounting for the owner. The latter are kept secret and accessed only by key personnel since it affects the very existence of the firm<sup>(6)</sup>. Some data could be obtained through interviews. However, they were fragmented and anecdotal.

Secrecy was not the only problem. How to measure land prices at the time of comparison also became a problem. The period between the time of land purchase and that of the start of housing construction had infinite variety ranging from three months to several years. To value land prices for the comparison with house prices at a certain point in time, one must count the capital cost of the investment in the land. However, interest rates were also diverse according to the sources and amount of borrowing. They vary according to whether the borrowing was from bank loans or from the unregulated money market. Developers often used loans from the unregulated money market at much higher rates than those of bank loans. The rates also varied according to the amount of borrowing and the credibility of borrowers. What made it more complicated was that land was often purchased lot by lot from each landowner at different times at different prices even in the same estate.

Thus in this study, the Korea Appraisal Board (KAB) land prices were used. The Korea Appraisal Board has surveyed land prices based on actual trading prices as of April every year since 1972. Land in each *Dong* (a district) is categorized into three grades in terms of the price level: high, middle and low. In this study, the prices at middle grade were used as data on land prices actually paid for some apartment developments obtained through interviews and documents were close to the KAB prices at middle grade (e.g., Yeouido in 1972, Hyundai Apartment in Apgujeong in 1976, Hanshin

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6) This is why the assessment of land cost has been one of the most controversial issues in the new house price control. In the price control system, fair prices have been assessed on the basis of the appraised land prices rather than that actually paid by the developers.

Apartment in Banpo in 1981, Hanyang Apartment in Apgujeong in 1982). Thus land prices actually paid for individual development projects were not counted. Actual land prices may be of an infinite variety even among apartment estates developed in similar location and periods. Some developers might have realised windfall gains while others suffered from losses in land dealings. The use of KAB data means that all these are neglected and the data can be used only as average prices. Thus it is only possible to compare house prices with land prices in terms of the average land value of each district, *Dong*. Accordingly the following analysis of the composition of house prices simply demonstrates the patterns of changes in development gains in average terms.

Now, the time of comparison of house prices and land prices had to be considered. According to the Enforcement Regulation of the Housing Construction Promotion Law (HCPL), amended in September 1976, private developers were allowed to sell new houses when 20 percent of the construction works had been done<sup>(7)</sup>. This corresponds to 3 to 4 months after the construction works started. It is at this time that new house prices are determined. The time of land purchase is different from that of housing sale. According to the information obtained in the interviews, the time difference between land purchase and the start of construction works varied from three months to two years. And the time difference between the start of construction works and the sale of house is between three months and one year. In this study, it was assumed that there was a one year time lag between land purchase and housing sales. The land prices of one year before the time of house sale were thus matched with the selling prices of housing.

Table 4.1 is the collection of data on the selling prices of apartments in Yeouido and Gangnam. In the table, housing size is measured in gross floor area, which includes public spaces such as corridors and stair cases. *Dong* indicates district. Each *Dong* has an administration office which is overseen by the borough office. There were 22 boroughs and 713 Dongs in Seoul in 1990; each borough had 15 to 90 Dongs (SMG, 1991c). The reason that location is here indicated by *Dong* is that the KAB land prices are available by *Dong*.

7) The Regulation was amended in November 1984, to allow the designated developers to sell houses after 10 percent of the construction work to promote housing development.

Table 4.1. Price Trends of New Apartments and Housing Land in Yeouido and Gangnam, Seoul, 1974-1987

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Yeouido	Samick	Samick Ho.	40	12	360	Mar-74	10,990,000	274,750	40,000
Yeouido	Eunha	Hanyang Ho.	40	12	360	May-74	10,990,000	274,750	42,000
Yeouido	Daekyo	Samick Ho.	26	12	360	Feb-75	7,500,000	288,462	48,000
Yeouido	Daekyo	Samick Ho.	37	12	120	Feb-75	10,500,000	283,784	48,000
Yeouido	Daekyo	Samick Ho.	50	12	96	Feb-75	13,990,000	279,800	48,000
Yeouido	Hanyang	Hanyang Ho.	31	12	228	Mar-75	8,890,000	286,774	49,000
Yeouido	Hanyang	Hanyang Ho.	50	12	120	Mar-75	13,000,000	260,000	49,000
Yeouido	Hanyang	Hanyang Ho.	50	12	96	Mar-75	13,990,000	279,800	49,000
Yeouido	Hanyang	Hanyang Ho.	65	12	144	Mar-75	18,990,000	292,154	49,000
Apujeong	Hyundai	Hyundai Ho. & In.	37	12	216	Mar-75	9,950,000	268,919	28,000
Apujeong	Hyundai	Hyundai Ho. & In.	48	12	144	Mar-75	13,400,000	279,167	28,000
Apujeong	Hyundai	Hyundai Ho. & In.	60	12	120	Mar-75	16,800,000	280,000	28,000
Yeouido	Samboo	Samboo Const.	27	16	240	Mar-75	7,720,000	285,926	49,000
Yeouido	Samboo	Samboo Const.	28	16	120	Mar-75	9,100,000	325,000	49,000
Yeouido	Samboo	Samboo Const.	38	16	90	Mar-75	12,350,000	325,000	49,000
Yeouido	Samboo	Samboo Const.	40	16	180	Mar-75	11,440,000	286,000	49,000
Bangbae	Samho	Samho Ho.	22	12	552	Apr-75	6,270,000	285,000	n.a
Bangbae	Samho	Samho Ho.	32	12	144	Apr-75	8,950,000	279,688	n.a
Bangbae	Samho	Samho Ho.	36	12	226	Oct-75	9,900,000	275,000	n.a
Bangbae	Samho	Samho Ho.	56	12	48	Oct-75	17,600,000	314,286	n.a
Apujeong	Hyundai2	Hyundai Ho. & In.	48	12	180	Nov-75	15,600,000	325,000	42,000
Apujeong	Hyundai2	Hyundai Ho. & In.	60	15	180	Nov-75	18,900,000	315,000	42,000
Yeouido	Soojeong	Hanyang Ho.	23	12	89	Jan-76	6,890,000	299,565	61,000
Yeouido	Soojeong	Hanyang Ho.	50	12	240	Jan-76	14,990,000	299,800	61,000
Yeouido	Seoul	Samick Ho.	50	12	114	Feb-76	14,990,000	299,800	63,000
Yeouido	Seoul	Samick Ho.	69	12	48	Feb-76	20,990,000	304,203	63,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Yeouido	Gongjaak	Hanyang Ho.	28	12	190	Mar-76	8,400,000	300,000	64,000
Yeouido	Gongjaak	Hanyang Ho.	38	12	179	Mar-76	11,400,000	300,000	64,000
Bangbae	Samho	Samho Ho.	43	12	96	Apr-76	12,900,000	300,000	n.a
Bangbae	Samho	Samho Ho.	56	12	96	Apr-76	18,460,000	329,643	n.a
Yeouido	Backjo	Life Ho.	22	11	242	May-76	7,370,000	335,000	77,000
Daechi	Dongwon	Bando Const.	24	5	390	Jun-76	6,456,000	269,000	52,000
Daechi	Dongwon	Bando Const.	26	5	80	Jun-76	7,103,000	273,192	52,000
Apgujeong	Hyundai3	Hyundai Ho.& In.	30	12	432	Jun-76	8,950,000	298,333	78,000
Yeouido	Miju	Life Ho.	30	12	144	Jun-76	9,750,000	325,000	78,000
Yeouido	Miju	Life Ho.	39	12	132	Jun-76	12,675,000	325,000	78,000
Bangbae	Samho	Samho Ho.	86	12	24	Jun-76	25,800,000	300,000	n.a
Apgujeong	Hyundai4	Hyundai Ho.& In.	42	5	170	Aug-76	13,000,000	309,524	57,000
Yeouido	Chinju	Life Ho.	23	12	88	Oct-76	7,820,000	340,000	88,000
Yeouido	Chinju	Life Ho.	33	12	88	Oct-76	11,220,000	340,000	88,000
Yeouido	Samboo	Samboo Const.	50	16	60	Oct-76	16,250,000	325,000	88,000
Yeouido	Samboo	Samboo Const.	50	16	60	Oct-76	17,750,000	355,000	88,000
Yeouido	Samboo	Samboo Const.	60	16	60	Oct-76	19,500,000	325,000	88,000
Yeouido	Samboo	Samboo Const.	60	16	60	Oct-76	21,300,000	355,000	88,000
Bangbae	Samho	Samho Ho.	49	12	96	Oct-76	16,150,000	329,592	n.a
Banpo	Hanshin1	Hanshin Const.	28	5	350	Nov-76	8,600,000	307,143	n.a
Banpo	Hanshin1	Hanshin Const.	32	5	220	Nov-76	9,700,000	303,125	76,000
Yeouido	Chinju	Chinju	17	12	160	Nov-76	9,900,000	300,000	76,000
Yeouido	Chinju	Life Ho.	26	12	156	Feb-77	6,290,000	370,000	94,000
Bangbae	Isoo	Angook Ind.	15	5	60	Feb-77	10,348,000	398,000	94,000
Daechi	Haechang	Haechang Ent.	18	5	50	Mar-77	373,333	n.a	59,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Daechi	Haechang	Haechang Ent.	20	5	50	Mar-77	15,522,000	398,000	59,000
Yeouido	Hansung	Life Ho.	39	14	78	Mar-77	18,308,000	398,000	96,000
Yeouido	Hansung	Life Ho.	46	14	84	Mar-77	20,298,000	398,000	96,000
Yeouido	Hansung	Life Ho.	51	14	56	Mar-77	22,288,000	398,000	96,000
Yeouido	Hansung	Life Ho.	56	14	56	Mar-77	25,870,000	398,000	96,000
Yeouido	Hansung	Life Ho.	65	14	56	Mar-77	6,750,000	337,500	67,000
Apgujeong	Hanyang1	Hanyang Ho.	20	12	193	Mar-77	8,250,000	317,308	67,000
Apgujeong	Hanyang1	Hanyang Ho.	26	13	120	Mar-77	8,625,000	319,444	67,000
Apgujeong	Hanyang1	Hanyang Ho.	27	12	313	Mar-77	9,000,000	321,429	67,000
Apgujeong	Hanyang1	Hanyang Ho.	28	12	120	Mar-77	10,500,000	328,125	67,000
Apgujeong	Hanyang1	Hanyang Ho.	32	12	241	Mar-77	10,875,000	329,545	67,000
Apgujeong	Hanyang1	Hanyang Ho.	33	12	120	Mar-77	11,250,000	321,429	67,000
Apgujeong	Hanyang1	Hanyang Ho.	35	12	120	Mar-77	12,375,000	334,459	67,000
Apgujeong	Hanyang1	Hanyang Ho.	37	12	120	Mar-77	13,875,000	330,357	67,000
Apgujeong	Hanyang1	Hanyang Ho.	42	12	12	Mar-77	16,125,000	316,176	67,000
Apgujeong	Hanyang1	Hanyang Ho.	51	12	12	Mar-77	11,250,000	321,429	68,000
Apgujeong	Hanyang1	Hyundai Ho. & In.	35	14	224	Mar-77	5,500,000	366,667	96,000
Yeouido	Mockhwa	Samick Ho.	15	12	48	Mar-77	7,400,000	370,000	96,000
Yeouido	Mockhwa	Samick Ho.	20	12	60	Mar-77	9,990,000	370,000	96,000
Yeouido	Mockhwa	Samick Ho.	27	12	204	Mar-77	6,600,000	314,286	50,000
Dogok	Gaenari1	Samho Ho.	21	5	120	Aug-77	8,220,000	316,154	50,000
Dogok	Gaenari1	Samho Ho.	26	5	110	Aug-77	8,960,000	308,966	50,000
Dogok	Gaenari1	Samho Ho.	29	5	60	Aug-77	12,210,000	370,000	98,000
Yeouido	Hwarang	Samick Ho.	33	10	40	Apr-77	13,320,000	370,000	98,000
Yeouido	Hwarang	Samick Ho.	36	10	80	Apr-77	18,870,000	370,000	98,000
Yeouido	Hwarang	Samick Ho.	51	10	40	Apr-77			

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Daechi	Shinhaechung	Chunhwa Ent.	20	5	200	Apr-77	7,540,000	377,000	50,000
Daechi	Shinhaechung	Chunhwa Ent.	23	5	120	Apr-77	8,720,000	379,130	50,000
Bangbae	Gungjeon	Ahjoo Const.	27	12	84	May-77	9,900,000	366,667	70,000
Bangbae	Gungjeon	Ahjoo Const.	34	12	60	May-77	12,580,000	370,000	70,000
Bangbae	Gungjeon	Ahjoo Const.	47	12	72	May-77	17,390,000	370,000	70,000
Dogok	Gaenari2	Samho Ho.	31	12	160	Aug-77	10,920,000	352,258	50,000
Dogok	Gaenari2	Samho Ho.	41	12	144	Aug-77	15,300,000	373,171	50,000
Dogok	Gaenari2	Samho Ho.	47	12	144	Aug-77	17,860,000	380,000	50,000
Yeouido	Changmi	Life Ho.	38	13	112	Aug-77	18,582,000	489,000	113,000
Yeouido	Changmi	Life Ho.	52	13	56	Aug-77	25,428,000	489,000	113,000
Yeouido	Changmi	Life Ho.	64	13	28	Aug-77	31,296,000	489,000	113,000
Dogok	Gaenari3	Samho Ho.	19	5	90	Sep-77	8,594,000	452,316	50,000
Dogok	Gaenari3	Samho Ho.	28	5	140	Sep-77	12,547,000	448,107	50,000
Dogok	Gaenari3	Samho Ho.	30	5	140	Sep-77	13,173,000	439,100	50,000
Bampo	Hanshin1	Hanshin Const.	22	12	336	Sep-77	9,000,000	409,091	80,000
Bampo	Hanshin1	Hanshin Const.	22	12	228	Sep-77	10,400,000	472,727	80,000
Bampo	Hanshin1	Hanshin Const.	30	12	336	Sep-77	13,260,000	442,000	80,000
Bampo	Hanshin1	Hanshin Const.	35	12	360	Sep-77	14,300,000	408,571	80,000
Bampo	Hanshin2	Hanshin Const.	44	12	156	Sep-77	19,100,000	434,091	80,000
Bampo	Hanshin2	Hanshin Const.	50	12	96	Sep-77	23,600,000	472,000	80,000
Yeouido	Gwangjang	Samick Ho.	34	12	172	Oct-77	17,000,000	500,000	123,000
Yeouido	Gwangjang	Samick Ho.	39	12	124	Oct-77	19,500,000	500,000	123,000
Yeouido	Gwangjang	Samick Ho.	45	12	200	Oct-77	22,500,000	500,000	123,000
Yeouido	Gwangjang	Samick Ho.	50	12	152	Oct-77	25,000,000	500,000	123,000
Yeouido	Gwangjang	Samick Ho.	60	12	96	Oct-77	30,000,000	500,000	123,000
Bangbae	Hwangsil	Ahjoo Const.	59	12	20	Oct-77	30,000,000	508,475	84,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Bangbae	Hwangsil	Ahjoo Const.	63	5	20	Oct-77	32,000,000	507,937	84,000
Apgujeong9	Hyundai5	Hyundai Ho.& In.	48	14	372	Oct-77	21,200,000	441,667	75,000
Apgujeong9	Hyundai6	Hyundai Ho.& In.	52	14	168	Oct-77	23,100,000	444,231	75,000
Apgujeong9	Hyundai6	Hyundai Ho.& In.	65	14	168	Oct-77	28,360,000	436,308	75,000
Dogok	Shindogok	Iido Dev.	17	5	60	Oct-77	6,500,200	50,000	50,000
Dogok	Shindogok	Iido Dev.	21	5	60	Oct-77	8,063,000	50,000	50,000
Banpo	Hanshin2	Hanshin Const.	33	12	256	Feb-78	16,000,000	484,848	80,000
Banpo	Hanshin2	Hanshin Const.	36	12	336	Feb-78	17,400,000	483,333	80,000
Banpo	Hanshin3	Hanshin Const.	40	12	68	Feb-78	19,600,000	490,000	80,000
Banpo	Hanshin3	Hanshin Const.	45	12	288	Feb-78	24,400,000	542,222	80,000
Banpo	Hanshin3	Hanshin Const.	50	12	192	Feb-78	27,600,000	552,000	80,000
Apgujeong9	Hanyang2	Hanyang Ho.	49	12	150	Feb-78	23,765,000	485,000	78,000
Apgujeong9	Hanyang2	Hanyang Ho.	59	12.5	144	Feb-78	28,615,000	485,000	78,000
Banpo	Keungnam	Keungnam Ent.	24	12	384	Feb-78	12,300,000	512,500	80,000
Banpo	Keungnam	Keungnam Ent.	32	12	384	Feb-78	16,800,000	512,500	80,000
Banpo	Keungnam	Keungnam Ent.	43	12	192	Feb-78	22,900,000	532,558	80,000
Banpo	Keungnam	Keungnam Ent.	51	12	96	Feb-78	28,600,000	560,784	80,000
Banpo	Seorack	Lotte Const.	28	12	144	Feb-78	12,600,000	450,000	80,000
Banpo	Seorack	Lotte Const.	35	12	216	Feb-78	15,750,000	450,000	80,000
Banpo	Seorack	Lotte Const.	40	12	96	Feb-78	18,000,000	450,000	80,000
Banpo	Woosung	Woosung Const.	34	12	120	Feb-78	15,700,000	461,765	80,000
Banpo	Woosung	Woosung Const.	38	12	192	Feb-78	18,650,000	490,789	80,000
Banpo	Woosung	Woosung Const.	48	12	96	Feb-78	23,200,000	483,333	80,000
Bangbae	Choongang	Myoungjee Const.	32	12	91	Mar-78	15,000,000	468,750	97,000
Bangbae	Choongang	Myoungjee Const.	42	12	65	Mar-78	20,200,000	480,952	97,000
Bangbae	Choongang	Myoungjee Const.	49	12	39	Mar-78	23,400,000	477,551	97,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Yeouido	Misung	Life Ho.	26	12	169	Mar-78	12,714,000	489,000	145,000
Yeouido	Misung	Life Ho.	38	12	96	Mar-78	22,100,000	581,579	145,000
Yeouido	Misung	Life Ho.	47	12	96	Mar-78	27,217,000	579,085	145,000
Seocho	Mujigae	Daehan Const.	25	12	528	Mar-78	12,840,000	513,600	80,000
Seocho	Mujigae	Daehan Const.	33	12	360	Mar-78	17,160,000	520,000	80,000
Seocho	Mujigae	Daehan Const.	39	12	190	Mar-78	21,950,000	562,821	80,000
Seocho	Mujigae	Daehan Const.	45	12	260	Mar-78	25,800,000	573,333	80,000
Seocho	Samick	Samick Const.	33	12	120	Mar-78	18,810,000	570,000	80,000
Seocho	Samick	Samick Const.	46	12	60	Mar-78	27,100,000	589,130	80,000
Seocho	Samick	Samick Const.	54	12	48	Mar-78	31,900,000	590,741	80,000
Seocho	Shindonga	Shindonga Const.	25	12	260	Mar-78	13,500,000	540,000	80,000
Seocho	Shindonga	Shindonga Const.	29	12	273	Mar-78	15,805,000	545,000	80,000
Seocho	Shindonga	Shindonga Const.	33	12	208	Mar-78	18,051,000	547,000	80,000
Seocho	Shindonga	Shindonga Const.	42	12	126	Mar-78	25,410,000	605,000	80,000
Seocho	Shindonga	Shindonga Const.	52	12	26	Mar-78	30,030,000	577,500	80,000
Yeocksam	Dongshin1	Dongshin Ho.	18	12	48	Apr-78	9,980,000	554,444	80,000
Yeocksam	Dongshin1	Dongshin Ho.	29	12	216	Apr-78	16,470,000	567,931	80,000
Yeocksam	Dongshin1	Dongshin Ho.	30	12	72	Apr-78	17,520,000	584,000	80,000
Yeocksam	Dongshin1	Dongshin Ho.	38	12	24	Apr-78	22,150,000	582,895	80,000
Apgujeong	Hanyang2	Hanyang Ho.	39	13	200	Apr-78	21,450,000	550,000	80,000
Apgujeong	Hanyang3	Hanyang Ho.	38	13	8	Apr-78	20,900,000	550,000	80,000
Apgujeong	Hanyang3	Hanyang Ho.	55	13	104	Apr-78	30,250,000	550,000	80,000
Apgujeong	Hyundai6	Hyundai Ho. & In.	48	14	168	Apr-78	25,550,000	532,292	80,000
Apgujeong	Hyundai7	Hyundai Ho. & In.	52	14	252	Apr-78	28,800,000	553,846	80,000
Apgujeong	Hyundai7	Hyundai Ho. & In.	65	14	84	Apr-78	39,312,000	604,800	80,000
Apgujeong	Hyundai7	Hyundai Ho. & In.	80	14	56	Apr-78	40,852,000	510,650	80,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Seocho	Samho	Samho Ho.	29	15	180	Apr-78	17,110,000	590,000	80,000
Seocho	Samho	Samho Ho.	34	15	240	Apr-78	21,080,000	620,000	80,000
Seocho	Samho	Samho Ho.	40	12	144	Apr-78	25,800,000	645,000	80,000
Seocho	Samho	Samho Ho.	47	12	144	Apr-78	30,315,000	645,000	80,000
Bangbae	Sangshin	Hambo Ho.	16	5	480	May-78			108,000
Daechi	Cheongsil1	Cheonghwa Ent.	31	11	336	Jun-78	18,150,000	585,484	83,000
Daechi	Cheongsil1	Cheonghwa Ent.	35	12	608	Jun-78	20,320,000	580,571	83,000
Daechi	Cheongsil1	Cheonghwa Ent.	43	12	146	Jun-78	26,686,000	620,605	83,000
Dogok	Gaenari4	Samho Ho.	57	12	168	Jun-78	36,700,000	643,860	75,000
Dogok	Gaenari4	Samho Ho.	62	12	96	Jun-78	40,000,000	645,161	75,000
Dogok	Gaenari5	Samho Ho.	34	12	96	Jun-78	23,600,000	694,118	75,000
Banpo	Miju	Life Ho.	28	10	160	Jun-78	17,360,000	620,000	108,000
Banpo	Miju	Life Ho.	38	10	120	Jun-78	24,320,000	640,000	108,000
Banpo	Hanshin3	Hanshin Const.	32	12	528	Jul-78	21,508,000	672,125	123,000
Banpo	Hanshin4	Hanshin Const.	34	12	372	Jul-78	23,668,000	696,118	123,000
Banpo	Hanshin4	Hanshin Const.	45	12	96	Jul-78	31,759,000	705,756	123,000
Banpo	Hanshin4	Hanshin Const.	51	12	216	Jul-78	35,821,000	702,373	123,000
Bangbae	Mujigae	Daehan Const.	27	12	190	Jul-78	18,100,000	670,370	125,000
Bangbae	Mujigae	Daehan Const.	35	12	142	Jul-78	24,100,000	688,571	125,000
Seocho	Shindonga	Shindonga Const.	48	12	52	Jul-78	33,264,000	693,000	110,000
Seocho	Shindonga	Shindonga Const.	55	12	52	Jul-78	38,115,000	693,000	110,000
Daechi	Eunma	Hambo Ho.	31	14	2170	Aug-78	20,920,000	674,839	107,000
Daechi	Eunma	Hambo Ho.	34	14	2250	Aug-78	23,390,000	687,941	107,000
Daechi	Seongbo	Shindonyang Const.	25	13	137	Aug-78	13,800,000	552,000	107,000
Daechi	Seongbo	Shindonyang Const.	28	13	28	Aug-78	15,500,000	553,571	107,000
Daechi	Seongbo	Shindonyang Const.	33	13	182	Aug-78	18,000,000	545,455	107,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Daechi	Seongbo	Shindonyang Const.	42	13	28	Aug-78	23,730,000	565,000	107,000
Yeocksam	Dongshin2	Dongshin Ho.	54	12	24	Sep-78	36,300,000	672,222	130,000
Seocho	Samick	Samick Ho.	20	12	171	Sep-78	13,490,000	674,500	130,000
Seocho	Samick	Samick Ho.	25	12	329	Sep-78	16,920,000	676,800	130,000
Seocho	Samick	Samick Ho.	34	12	355	Sep-78	23,030,000	677,353	130,000
Seocho	Samick	Samick Ho.	34	12	26	Sep-78	23,180,000	681,765	130,000
Banpo	Daelim	Daelim Ind.	34	12	299	Oct-78	23,907,000	703,147	165,000
Banpo	Daelim	Daelim Ind.	39	12	231	Oct-78	27,378,000	702,000	165,000
Banpo	Daelim	Daelim Ind.	49	12	102	Oct-78	34,581,000	705,735	165,000
Daechi	DongA	Dong-Ah Conc.	33	12	144	Oct-78	23,009,000	697,242	130,000
Daechi	DongA	Dong-Ah Conc.	43	13	120	Oct-78	30,394,000	706,837	130,000
Banpo	Hanshin4	Hanshin Const.	33	12	117	Oct-78	21,900,000	663,636	165,000
Banpo	Hanshin5	Hanshin Const.	35	12	204	Oct-78	24,286,000	693,886	165,000
Apgujeong	Hanyang4	Hanyang Ho.	32	13	169	Oct-78	21,730,000	679,063	150,000
Apgujeong	Hanyang4	Hanyang Ho.	33	13	181	Apr-78	20,460,000	620,000	150,000
Apgujeong	Hanyang4	Hanyang Ho.	36	13	4	Oct-78	25,020,000	695,000	150,000
Apgujeong	Hanyang4	Hanyang Ho.	69	13	104	Apr-78	44,160,000	640,000	150,000
Apgujeong	Hanyang5	Hanyang Ho.	40	13	92	Oct-78	27,800,000	695,000	150,000
Apgujeong	Hanyang5	Hanyang Ho.	49	13	3	Oct-78	34,055,000	695,000	150,000
Apgujeong	Hanyang5	Hanyang Ho.	54	13	75	Oct-78	37,530,000	695,000	150,000
Seocho	Samho	Samho Ho.	31	10	120	Oct-78	21,245,000	685,323	140,000
Seocho	Samho	Samho Ho.	31	10	120	Oct-78	21,450,000	691,935	140,000
Seocho	Samho	Samho Ho.	31	10	120	Oct-78	21,830,000	704,194	140,000
Seocho	Samho	Samho Ho.	34	11	180	Oct-78	23,650,000	695,588	140,000
Dogok	Seolin	Seorin Dev.	17	12	118	Oct-78	10,841,798	637,753	125,000
Dogok	Seolin	Seorin Dev.	33	11	72	Oct-78	21,349,000	646,939	125,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Dogok	Seolin	Seorin Dev.	36	11	120	Oct-78	24,206,000	672,389	125,000
Bangbae	Sora	Yulsan Const.	33	12	450	Oct-78	21,975,000	665,909	150,000
Bangbae	Sora	Yulsan Const.	47	12	108	Oct-78	32,000,000	680,851	150,000
Bangbae	Sora	Yulsan Const.	48	12	3	Oct-78	33,000,000	687,500	150,000
Bampo	Hanyang	Hanyang Ho.	35	12	323	Nov-78	23,800,000	680,000	179,000
Bampo	Hanyang	Hanyang Ho.	49	12	4	Nov-78	34,055,000	695,000	179,000
Bampo	Hanyang	Hanyang Ho.	52	12	44	Nov-78	36,140,000	695,000	179,000
Bampo	Hanshin6	Hanshin Const.	35	12	416	Jan-79	24,902,000	711,486	207,000
Bampo	Hanshin7	Hanshin Const.	35	12	316	Jan-79	24,902,000	711,486	207,000
Bampo	Hanshin7	Hanshin Const.	46	12	160	Jan-79	34,309,000	745,848	207,000
Dogok	Gaenari5	Samho Ho.	48	12	96	Feb-79	33,700,000	702,083	175,000
Dogok	Chindalae1	Samho Ho.	21,742	12	180	Jun-79	15,400,000	708,307	208,000
Dogok	Chindalae1	Samho Ho.	31	12	36	Jun-79	21,000,000	677,419	208,000
Dogok	Chindalae1	Samho Ho.	31	12	84	Jun-79	21,200,000	683,871	208,000
Dogok	Chindalae1	Samho Ho.	31	12	84	Jun-79	21,600,000	696,774	208,000
Dogok	Chindalae1	Samho Ho.	35,061	14	132	Jun-79	23,300,000	664,556	208,000
Bangbae	Keungnam	Keungnam Ent.	35	10	270	Jun-79	25,340,000	724,000	210,000
Bangbae	Keungnam	Keungnam Ent.	53	10	180	Jun-79	39,500,000	745,283	210,000
Apgujeong	Seongsoo	Hyundai Ho.& In.	35	12	371	Dec-79	25,365,000	724,714	240,000
Apgujeong	Seongsoo	Hyundai Ho.& In.	54	12	144	Dec-79	39,959,000	739,981	240,000
Bangbae	Yongah	Hanbo Ho.	31.4	10	360	Jun-79	21,168,000	674,140	210,000
Yeocksam	Dongshin3	Dongshin Ho.	23	12	70	Jul-79	15,800,000	686,957	215,000
Yeocksam	Dongshin3	Dongshin Ho.	42	12	20	Jul-79	29,800,000	709,524	215,000
Yeouido	Misung	Life Ho.	33	12	144	Jul-79	26,082,000	790,364	n.a
Yeouido	Misung	Life Ho.	54	12	72	Jul-79	43,171,000	799,463	n.a
Bampo	Hanshin8	Hanshin Const.	17	12	336	Oct-79	12,675,000	745,588	250,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Bampo	Hanshin8	Hanshin Const.	47	12	48	Oct-79	35,821,000	762,149	250,000
Bampo	Hanshing9	Hanshin Const.	25	12	286	Oct-79	19,267,000	770,680	250,000
Apgujeong9	Hanyang6	Hanyang Ho.	35	12	155	Dec-79	31,980,000	913,714	245,000
Apgujeong9	Hanyang6	Hanyang Ho.	50	12	6	Dec-79	45,709,000	914,180	245,000
Apgujeong9	Hanyang6	Hanyang Ho.	53	12	66	Dec-79	48,450,000	914,151	245,000
Apgujeong9	Hanyang7	Hanyang Ho.	35	12	167	Jan-80	31,790,000	908,286	248,000
Apgujeong9	Hanyang7	Hanyang Ho.	44	12	6	Jan-80	39,455,000	896,705	248,000
Apgujeong9	Hanyang7	Hanyang Ho.	46	12	66	Jan-80	42,890,000	932,391	248,000
Daechi	Cheongsil2	Cheonghwa Ent.	35	12	192	Feb-80	24,480,000	699,429	242,000
Daechi	Cheongsil2	Cheonghwa Ent.	49	12	96	Feb-80	36,300,000	740,816	242,000
Dogok	Chindalae2	Samho Ho.	24	11	193	Feb-80	17,647,000	735,292	242,000
Dogok	Chindalae2	Samho Ho.	31	11	99	Feb-80	22,701,000	732,290	242,000
Dogok	Chindalae2	Samho Ho.	31	11	33	Feb-80	22,476,000	725,032	242,000
Dogok	Chindalae2	Samho Ho.	31	11	99	Feb-80	23,140,000	746,452	242,000
Dogok	Gaenari6	Samho Ho.	24	12	73	Feb-80	17,640,000	735,000	242,000
Dogok	Gaenari6	Samho Ho.	31	12	117	Feb-80	23,110,000	745,484	242,000
Dogok	Gaenari6	Samho Ho.	34	12	86	Feb-80	25,100,000	738,235	242,000
Bampo	Hanshin10	Hanshin Const.	17	12	192	Mar-80	15,122,000	889,529	250,000
Bampo	Hanshin10	Hanshin Const.	25	12	288	Mar-80	21,420,000	856,800	250,000
Seocho	Keumho	Keumho Const.	34	11.5	58	Aug-80	23,700,000	697,059	300,000
Seocho	Keumho	Keumho Const.	46	11	46	Aug-80	33,434,000	726,826	300,000
Bampo	Samick Ms.	Samick Ho.	29	13.5	300	Aug-80	26,380,000	909,655	313,000
Bampo	Hanshin11	Hanshin Const.	25	12	214	Sep-80	22,840,000	913,600	292,000
Bampo	Hanshin11	Hanshin Const.	36	12	88	Sep-80	32,889,000	913,583	292,000
Bampo	Samho Gar.1	Samho Ho.	47	12	96	Sep-80	45,774,000	973,915	292,000
Bampo			21	12	114	Sep-80	18,510,000	881,429	292,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Banpo	Samho Gar.1	Samho Ho.	22	48	Sep-80	19,380,000	880,909	292,000	
Banpo	Samho Gar.2	Samho Ho.	21	12	134	Sep-80	18,510,000	881,429	292,000
Banpo	Samho Gar.2	Samho Ho.	22	12	24	Sep-80	19,380,000	880,909	292,000
Banpo	Samho Gar.2	Samho Ho.	29	12	142	Sep-80	25,820,000	890,345	292,000
Banpo	Samho Gar.2	Samho Ho.	29	12	120	Sep-80	25,560,000	881,379	292,000
Banpo	Samho Gar.2	Samho Ho.	34	12	120	Sep-80	30,250,000	889,706	292,000
Banpo	Samho Gar.2	Samho Ho.	44	12	24	Sep-80	40,080,000	910,909	292,000
Dogok	Chindalae3	Samho Ho.	19.3	12	96	Oct-80	17,253,000	890,345	300,000
Dogok	Chindalae3	Samho Ho.	19.8	12	120	Oct-80	17,696,000	893,737	300,000
Dogok	Chindalae3	Samho Ho.	25.5	12	143	Oct-80	22,827,000	895,176	300,000
Dogok	Chindalae3	Samho Ho.	41	12	72	Oct-80	37,180,000	906,829	300,000
Bangbae	Samick Ms.	Samick Ho.	50	12	144	Feb-81	48,330,000	966,600	393,000
Bangbae	Shindonga	Shindonga Const.	34	15	165	Mar-81	30,834,000	906,882	410,000
Bangbae	Shindonga	Shindonga Const.	34	15	165	Mar-81	30,834,000	906,882	410,000
Bangbae	Shindonga	Shindonga Const.	46	15	120	Mar-81	40,311,000	876,326	410,000
Apgujeong	Hyundai9	Hyundai Ho.& In.	35	12	432	Apr-81	32,189,000	919,686	400,000
Apgujeong	Hyundai9	Hyundai Ho.& In.	50	12	168	Apr-81	49,890,000	997,800	400,000
Seocho	Sejong	Samho Ho.	34	12	12	Apr-81	30,646,000	901,353	400,000
Seocho	Sejong	Samho Ho.	35	12	48	Apr-81	31,558,000	901,657	400,000
Banpo	Hanshin12	Hanshin Const.	17	12	300	May-81	18,370,000	1,080,588	358,000
Banpo	Hanshin12	Hanshin Const.	25	12	96	May-81	26,100,000	1,044,000	358,000
Banpo	Hanshin13	Hanshin Const.	35	12	132	May-81	36,940,000	1,055,429	358,000
Banpo	Hanshin13	Hanshin Const.	47	12	48	May-81	53,667,000	1,141,851	358,000
Apgujeong	Hyundai10	Hyundai Ho.& In.	35	12	96	May-81	37,216,000	1,063,314	408,000
Apgujeong	Hyundai10	Hyundai Ho.& In.	50	12	48	May-81	56,870,000	1,137,400	408,000
Seocho	Hanyang	Hanyang Ho.	35	12	144	Jul-81	36,730,000	1,049,429	413,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Seocho	Hanyang	Hanyang Ho.	45	12	96	Jul-81	56,760,000	1,261,333	413,000
Seocho	Hanyang	Hanyang Ho.	52	12	216	Jul-81	64,910,000	1,248,269	413,000
Banpo	Hanshin15	Hanshin Const.	56	12	70	Aug-81	77,280,000	1,380,000	400,000
Banpo	Hanshin15	Hanshin Const.	68	12	80	Aug-81	93,840,000	1,380,000	400,000
Banpo	Samho Gar.3	Samho Ho.	35	12	201	Sep-81	37,770,000	1,079,143	392,000
Banpo	Samho Gar.3	Samho Ho.	36	12	53	Sep-81	37,800,000	1,050,000	392,000
Banpo	Samho Gar.3	Samho Ho.	45	12	130	Sep-81	57,630,000	1,280,667	392,000
Banpo	Samho Gar.3	Samho Ho.	59	12	40	Sep-81	74,890,000	1,269,322	392,000
Apgujeong	Hyundai11	Hyundai Ho. & In.	35	13	271	Oct-81	37,265,000	1,064,714	450,000
Apgujeong	Hyundai11	Hyundai Ho. & In.	39	13	52	Oct-81	45,154,000	1,157,795	450,000
Apgujeong	Hyundai11	Hyundai Ho. & In.	51	13	208	Oct-81	66,323,000	1,300,451	450,000
Apgujeong	Hyundai11	Hyundai Ho. & In.	56	13	156	Oct-81	72,657,000	1,297,446	450,000
Apgujeong	Hyundai11	Hyundai Ho. & In.	60	13	78	Oct-81	78,019,000	1,300,317	450,000
Apgujeong	Misung1	Life Ho.	34	14	126	Oct-81	35,935,000	1,056,912	450,000
Apgujeong	Misung1	Life Ho.	50	14	112	Oct-81	64,850,000	1,297,000	450,000
Apgujeong	Misung1	Life Ho.	58	14	84	Oct-81	76,370,000	1,316,724	450,000
Banpo	Hanshin16	Hanshin Const.	26	12	44	Nov-81	27,958,000	1,075,308	408,000
Banpo	Hanshin16	Hanshin Const.	35	12	77	Nov-81	36,846,000	1,052,743	408,000
Banpo	Hanshin19	Hanshin Const.	27	12	77	Nov-81	28,885,000	1,069,815	408,000
Banpo	Hanshin19	Hanshin Const.	36	12	165	Nov-81	38,802,000	1,077,833	408,000
Daechi	Ssangyong1	Ssangyong Const.	31	15	270	Nov-81	33,050,000	1,066,129	408,000
Daechi	Ssangyong1	Ssangyong Const.	46	15	240	Nov-81	57,970,000	1,260,217	408,000
Daechi	Ssangyong1	Ssangyong Const.	53	15	120	Nov-81	66,790,000	1,260,189	408,000
Bangbae	Shinsamho	Samho Ho.	34	12	165	Dec-81	36,590,000	1,076,176	473,000
Bangbae	Shinsamho	Samho Ho.	55	12	148	Dec-81	72,800,000	1,323,636	473,000
Bangbae	Shinsamho	Samho Ho.	62	12	216	Dec-81	82,180,000	1,325,484	473,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Bampo	Hanshin17	Hanshin Const.	27	12	60	Mar-82	28,547,000	1,057,296	442,000
Bampo	Hanshin18	Hanshin Const.	36	12	36	Mar-82	38,316,000	1,064,333	442,000
Bampo	Hanshin18	Hanshin Const.	49	12	120	Mar-82	64,891,000	1,324,306	442,000
Daechi	Samick	Samick Ho.	35	12	143	Apr-82	36,360,000	1,038,857	450,000
Daechi	Samick	Samick Ho.	52	12	104	Apr-82	68,370,000	1,314,808	450,000
Apgujeong	Hyundai12	Hyundai Ho.& In.	36	13	117	May-82	1,050,000	500,000	500,000
Apgujeong	Hyundai12	Hyundai Ho.& In.	57	13	136	May-82	500,000	500,000	500,000
Apgujeong	Hyundai12	Hyundai Ho.& In.	61	13	314	May-82	500,000	500,000	500,000
Daechi	Mido1	Hambo Ho.	34	14	336	Jun-82	35,990,000	1,058,529	450,000
Daechi	Mido1	Hambo Ho.	46	14	560	Jun-82	61,898,000	1,345,609	450,000
Daechi	Mido1	Hambo Ho.	57	14	224	Jun-82	76,541,000	1,342,825	450,000
Daechi	Mido1	Hambo Ho.	66	14	84	Jun-82	89,540,000	1,356,667	450,000
Daechi	Ssangyong2	Ssangyong Const.	43	14	112	Sep-82	58,536,000	1,361,302	450,000
Bampo	Hanshin14	Hanshin Const.	35	12	178	Sep-82	36,885,000	1,053,857	450,000
Bampo	Hanshin19	Hanshin Const.	49	12	126	Aug-82	64,891,000	1,324,306	450,000
Bampo	Hanshin20	Hanshin Const.	48	14	112	Sep-82	64,786,000	1,349,708	450,000
Bampo	Hanshin21	Hanshin Const.	40	12	76	Sep-82	54,200,000	1,355,000	450,000
Bampo	Hanshin22	Hanshin Const.	34	12	24	Sep-82	36,719,000	1,079,971	450,000
Bampo	Hanshin22	Hanshin Const.	39	12	108	Sep-82	52,757,000	1,352,744	450,000
Daechi	Ssangyong2	Ssangyong Const.	31	14	140	Sep-82	33,091,000	1,067,452	450,000
Bampo	Hanshin23	Hanshin Const.	19	10	200	Oct-82	20,655,000	1,087,105	450,000
Bampo	Hanshin23	Hanshin Const.	39	10	39	Oct-82	53,500,000	1,371,795	450,000
Bampo	Hanshin23	Hanshin Const.	50	10	59	Oct-82	66,989,000	1,339,780	450,000
Bampo	Hanshin23	Hanshin Const.	69	10	10	Oct-82	93,665,000	1,357,464	450,000
Gaepo	Keungnam1	Keungnam Ent.	32	12	168	Oct-82	34,190,000	1,068,438	450,000
Gaepo	Keungnam1	Keungnam Ent.	45	12	192	Oct-82	61,060,000	1,356,889	450,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Gaepo	Keungnam1	Keungnam Ent.	56	12	48	Oct-82	75,020,000	1,339,643	450,000
Daechi	Sunkyung1	Sunkyung Const.	31	15	140	Oct-82	32,670,000	1,053,871	450,000
Daechi	Sunkyung11	Sunkyung Const.	42	15	168	Oct-82	56,432,000	1,343,619	450,000
Daechi	Sunkyung1	Sunkyung Const.	48	15	252	Oct-82	64,617,000	1,346,188	450,000
Daechi	Sunkyung1	Sunkyung Const.	57	15	84	Oct-82	76,546,000	1,342,912	450,000
Gaepo	Woosung1	Woosung Const.	31	15	210	Oct-82	32,631,000	1,052,613	450,000
Gaepo	Woosung1	Woosung Const.	45	15	330	Oct-82	60,300,000	1,340,000	450,000
Gaepo	Woosung1	Woosung Const.	55	15	90	Oct-82	73,898,000	1,343,600	450,000
Gaepo	Woosung1	Woosung Const.	65	15	60	Oct-82	88,155,000	1,356,231	450,000
Banpo	Samho Gar.4	Samho Ho.	31	12	48	Dec-82	33,270,000	1,073,226	450,000
Banpo	Samho Gar.4	Samho Ho.	32	12	198	Dec-82	34,380,000	1,074,375	450,000
Banpo	Samho Gar.4	Samho Ho.	34	12	96	Dec-82	35,790,000	1,052,647	450,000
Banpo	Samho Gar.4	Samho Ho.	45	12	72	Dec-82	60,200,000	1,337,778	450,000
Gaepo	Samho	Samho Ho.	43	12	144	Feb-83	57,820,000	1,344,651	450,000
			64	15	4	Mar-83	86,617,000	1,353,391	500,000
			66	15	8	Mar-83	89,163,000	1,350,955	500,000
			67	15	26	Mar-83	90,785,000	1,355,000	500,000
			69	15	52	Mar-83	93,210,000	1,350,870	500,000
			Hanyang8	Hanyang Ho.	4	Mar-83	86,617,000	1,353,391	500,000
			Hanyang8	Hanyang Ho.	8	Mar-83	89,163,000	1,350,955	500,000
			Hanyang8	Hanyang Ho.	12	44	Jul-83	53,596,000	1,339,900
			Hanyang8	Hanyang Ho.	12	48	Jul-83	64,955,000	1,353,229
			Hanyang8	Hanyang Ho.	12	91	Jul-83	37,082,000	1,059,486
			Hanshin24	Hanshin Const.	40	12	78	52,659,000	1,350,231
			Hanshin24	Hanshin Const.	48	12	22	53,810,000	1,345,250
			Hanshin25	Hanshin Const.	35	12	43	65,290,000	1,360,208
			Hanshin25	Hanshin Const.	39	12	30	31,493,000	1,049,767
			Hanshin26	Hanshin Const.	40	12	60	65,274,000	517,000
			Hanshin26	Hanshin Const.	48	12	Aug-83	31,493,000	1,359,875
			Keungnam2	Keungnam Ent.	30	15	30	65,274,000	517,000
			Keungnam2	Keungnam Ent.	48	15	60	Aug-83	1,359,875

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Gaepo	Keungnam2	Keungnam Ent.	59	15	180	Aug-83	79,764,000	1,351,932	517,000
Banpo	Hanshin27	Hanshin Const.	18	12	132	Sep-83	19,030,000	1,057,222	533,000
Banpo	Hanshin27	Hanshin Const.	37	12	24	Sep-83	38,885,000	1,050,946	533,000
Daechi	Mido2	Hambo Ho.	34,485	14	280	Sep-83	36,453,000	1,057,068	533,000
Daechi	Mido2	Hambo Ho.	40,84	14	336	Sep-83	55,083,000	1,348,751	533,000
Daechi	Mido2	Hambo Ho.	44,77	14	448	Sep-83	60,060,000	1,341,523	533,000
Daechi	Mido2	Hambo Ho.	55	14	84	Jul-83	74,505,000	1,354,636	533,000
Daechi	Mido2	Hambo Ho.	65,64	14	84	Sep-83	88,289,000	1,345,049	533,000
Gaepo	Hyundai1	Hyundai Ho.& In.	31,76	15	78	Oct-83	33,140,000	1,043,451	550,000
Gaepo	Hyundai1	Hyundai Ho.& In.	46	15	130	Oct-83	62,476,000	1,358,174	550,000
Gaepo	Hyundai1	Hyundai Ho.& In.	58	15	208	Oct-83	78,487,000	1,353,224	550,000
Gaepo	Woosung2	Woosung Const.	31	15	120	Oct-83	32,651,000	1,053,258	550,000
Gaepo	Woosung2	Woosung Const.	45	15	270	Oct-83	60,473,000	1,343,844	550,000
Gaepo	Woosung2	Woosung Const.	55	15	60	Oct-83	74,490,000	1,354,364	550,000
Bangbae	Imgwang	Imgwang Const.	35	11	66	Mar-84	37,611,000	1,074,600	729,000
Bangbae	Imgwang	Imgwang Const.	35	11	66	Mar-84	37,611,000	1,074,600	729,000
Daechi	Sunkyung2	Sunkyung Const.	31	15	120	Mar-83	32,904,000	1,061,419	633,000
Daechi	Sunkyung2	Sunkyung Const.	45	15	180	Mar-83	61,047,000	1,356,600	633,000
Daechi	Sunkyung2	Sunkyung Const.	55	15	90	Mar-83	74,885,000	1,361,545	633,000
Daechi	Woosung3	Woosung Const.	34	15	135	Mar-84	35,811,000	1,053,265	633,000
Daechi	Woosung3	Woosung Const.	47	15	150	Mar-84	63,393,000	1,348,787	633,000
Daechi	Woosung3	Woosung Const.	56	15	120	Mar-84	75,436,000	1,347,071	633,000
Bangbae	Imgwang	Imgwang Const.	49	11	352	Jul-84	66,289,000	1,352,837	863,000
Banpo	Mido	Hambo Ho.	34	15	1260	Sep-84	48,620,000	1,430,000	792,000
Banpo	Samho Gar.5	Samho Ho.	35	12	42	Sep-84	48,050,000	1,372,857	792,000
Banpo	Samho Gar.5	Samho Ho.	51	12	42	Sep-84	69,210,000	1,357,059	792,000

Location (Dong)	Name of Estate	Development Company	Housing Size (pyong)	Building Stories	Number of Units	Date of Sale	Price (won)	Unit Price (won/pyong)	Land Price (Won/pyong)
Bampo	Samho Gar.5	Samho Ho.	55	12	84	Sep-84	74,790,000	1,359,818	792,000
Gaepo	Woosung4	Woosung Const.	34	15	99	Nov-84	36,435,000	1,071,618	850,000
Gaepo	Woosung4	Woosung Const.	46	15	144	Nov-84	62,295,000	1,354,239	850,000
Gaepo	Woosung4	Woosung Const.	55	15	216	Nov-84	74,315,000	1,351,182	850,000
Gaepo	Hyundai2	Hyundai Ho.& In.	32	15	108	Mar-85	34,257,000	1,070,531	964,000
Gaepo	Hyundai2	Hyundai Ho.& In.	48	15	180	Mar-85	65,258,000	1,359,542	964,000
Gaepo	Hyundai2	Hyundai Ho.& In.	49	15	18	Mar-85	66,841,000	1,364,102	964,000
Gaepo	Hyundai2	Hyundai Ho.& In.	59	15	216	Mar-85	80,067,000	1,357,068	964,000
Gaepo	Hyundai3	Hyundai Const.	32	15	54	Sep-85	34,105,000	1,065,781	1,033,000
Gaepo	Hyundai3	Hyundai Const.	48	15	36	Sep-85	65,110,000	1,356,458	1,033,000
Gaepo	Hyundai3	Hyundai Const.	59	15	108	Sep-85	79,673,000	1,350,390	1,033,000
Apgujeong	Misung2	Life Ho.	32	17	459	Feb-86	41,743,000	1,304,469	1,075,000
Apgujeong	Misung2	Life Ho.	47	15	180	Feb-86	63,621,000	1,353,638	1,075,000
Apgujeong	Misung2	Life Ho.	56	17	272	Feb-86	75,258,000	1,343,893	1,075,000
Bampo	HanshinSeore	Hanshin Const.	20	10	49	Sep-86	24,128,000	1,206,400	1,042,000
Bampo	HanshinSeore	Hanshin Const.	27	10	117	Sep-86	32,039,000	1,186,630	1,042,000
Bampo	HanshinSeore	Hanshin Const.	43	10	22	Sep-86	58,848,000	1,368,558	1,042,000
Bampo	HanshinSeore	Hanshin Const.	45	10	4	Sep-86	61,049,000	1,356,644	1,042,000
Bampo	HanshinSeore	Hanshin Const.	51	10	13	Sep-86	69,646,000	1,365,608	1,042,000
Bampo	HanshinSeore	Hanshin Const.	55	10	10	Sep-86	74,774,000	1,359,527	1,042,000
Bangbae	Imgwang	Imgwang Const.	19	10	38	Mar-87	22,538,000	1,186,211	1,392,000
Bangbae	Imgwang	Imgwang Const.	22	10	38	Mar-87	25,457,000	1,157,136	1,392,000
Bangbae	Imgwang	Imgwang Const.	28	10	40	Mar-87	33,269,000	1,188,179	1,392,000
Bangbae	Imgwang	Imgwang Const.	29	10	40	Mar-87	34,086,000	1,175,379	1,392,000
Bangbae	Imgwang	Imgwang Const.	35	10	120	Mar-87	40,434,000	1,155,257	1,392,000
Bangbae	Imgwang	Imgwang Const.	42	10	40	Mar-87	49,422,000	1,176,714	1,392,000

Figure 4.6a Changes in New Apartment Prices and Land Prices, Yeouido and Gangnam, Seoul, 1974-1987.

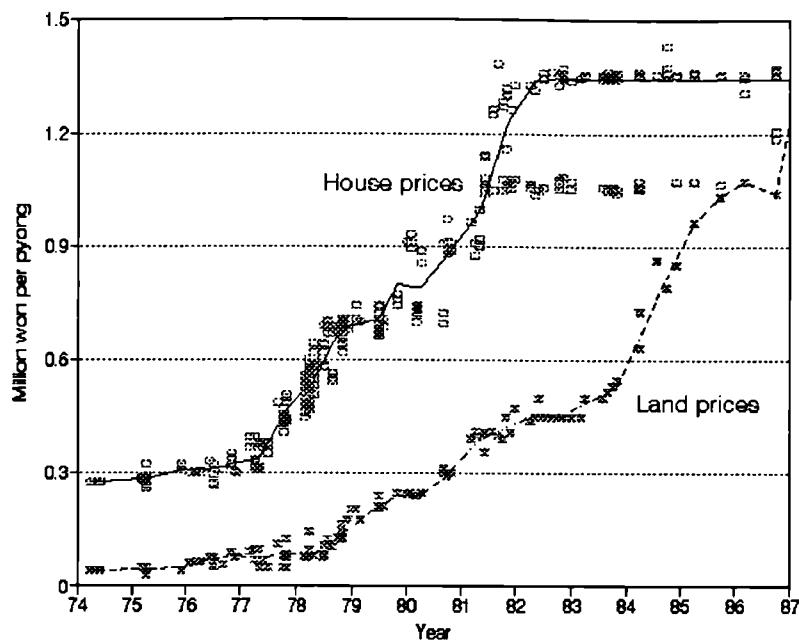


Figure 4.6b Indices of New Apartment Prices and Land Prices, Yeouido and Gangnam, Seoul, 1974-1987.

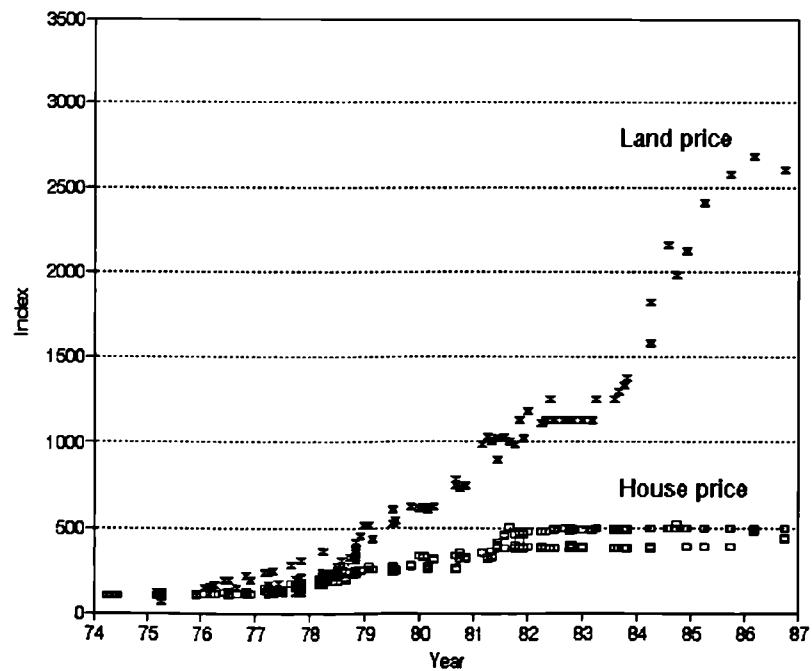
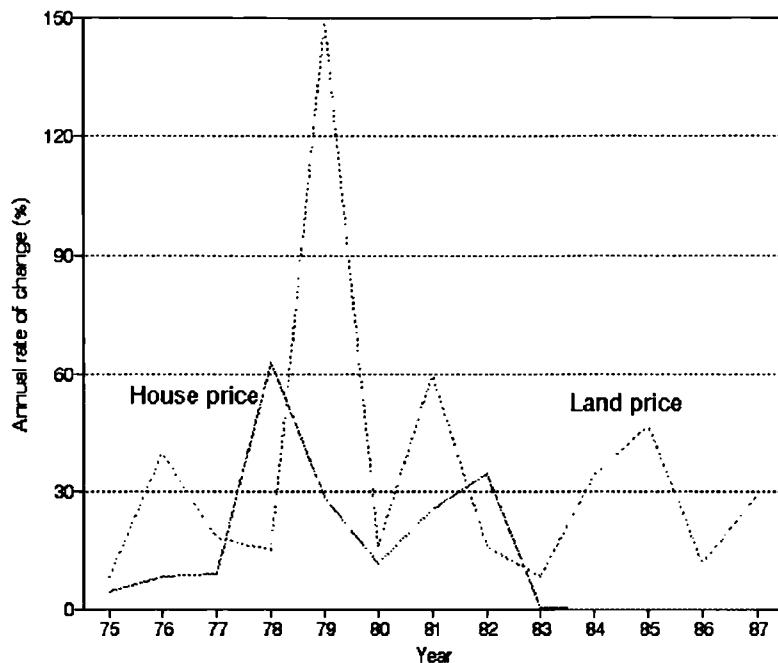


Figure 4.6c Average Annual Changes in New Apartment Prices and Land Prices, Yeouido and Gangnam, Seoul, 1974-1987.



House prices are those per unit floor area, pyong. Original data were given in prices per a unit of apartment. Thus prices per a pyong of floor area were obtained by dividing the prices given in the original data with floor space of each apartment. This is for the convenience of comparison. House prices are given by month while the KAB land prices are available by year. In this study, land prices for other months than April, the basis month for the KAB land prices, were obtained through interpolation.

Table 4.1 is presented into a chart, Figure 4.6a. Empty square marks represent the prices of apartments while hourglasses represent land prices corresponding to the house prices. It should be noted that the time scale on the X axis is for the time of house sales and not for that of land purchase. In other words, a land price at a certain point in time on the X axis is not land price at that time but what is supposed to have been paid a year ago.

Figure 4.6b is the same plot graph in which data are presented in price indices while in Figure 4.6a, they are plotted in prices. Figure 4.6b shows that land prices have risen faster than house prices since the late 1970's. The pattern is similar to that in Figure 1.2 (p14) that shows the nation-wide trends of land and house price indices. This implies that the trends of land and house prices in Gangnam are not a peculiar case although

Table 4.2 Linear Regression Model for the Rates of Change in Land and New Apartment Prices, Yeouido and Gangnam, 1974-1987

Constant	11.07936
Std Err of Y Est	19.42562
R Squared	0.033127
No. of Observations	13
Degree of Freedom	11
X Coefficient	0.090785
Std Err of Coef.	0.147882

\* Y= House price, X= Land price

the divergence between the two indices is becoming greater than that of the whole country.

Figure 4.6c is a comparison of land prices and house prices in terms of the annual rate of change. These rates of change were used for a regression analysis to see to what extent changes in new house prices can be predicted by those in land prices. Table 4.2 shows the result of a simple linear regression analysis. As shown in the table, the model is not statistically significant. In other words, the rate of increase in land prices is statistically insignificant in explaining the changes of house prices. This implies that the argument that land prices had steadily pushed up house prices is not supported. Now in order to see whether there was room for land prices to rise in new house prices, it is necessary to analyse the composition of house prices.

#### 4.3.2 Surplus Profit and Land Prices

To calculate surplus profits, it is needed to know house prices, construction cost, land costs and the social average rate of profit. Before the examination of these constituents of house prices, it should be considered whether to take all the apartments listed in Table 4.1 for the analysis of development gains. To take the arithmetic mean for prices from all apartments is not appropriate. Locational differences mean differentials not only in land prices but also the marketability of new houses which has great effects on overall capital costs and overhead costs. Housing development moves onto areas with

more favourable conditions such as lower land prices and better marketability. The arithmetic mean does not take account of this point.

For consistency in identifying a trend in the creation and distribution of development gains into land prices and profits, it is desired to trace the trend of development gains for the same type of apartments developed by the same company in the same location. However, as housing development moves from place to place as the conditions of the housing market and land acquisition are continuously changing, this is not possible. Thus it is inevitable to select certain development projects from several locations, types and development companies. Thus in this study, apartment estates which had been successively developed by one developer were preferably selected.

Figure 4.7 shows changes in major housing development areas. Yeouido was the major development area and land prices were higher than in any other area by 1978, when housing development in the area was almost completed. Apgujeong and Banpo became major development areas during the late 1970's and the early 1980's. Land prices were lower than in Yeouido until 1978 but soon rose very rapidly. Then major development activities were extended to Gaepo where land prices were slightly lower than in Apgujeong until 1983.

Thus from Figure 4.7 and Table 4.1, for the period from 1974 to 1977, apartment estates developed by Samick and Life were chosen from Yeouido. Since 1977, Hanshin Construction Co. Ltd. had constructed apartments steadily there until the mid-1980's. Thus apartment estates built by Hanshin Construction Co. Ltd. in Banpo were chosen for the period from 1978 to 1982. From 1983, data from apartment estates built by Hyundai and Woosung Construction Co. Ltd., were used for Gaepo.

Table 4.3 is an estimate of development gains for selected apartments in Gangnam. House prices in the table appear differently from the figures in Table 4.1. Prices in Table 4.3 are average prices for each development project which includes several types of apartments while those in Table 4.1 are the prices of each type of apartments classified by housing size in pyong. It is common that the unit prices (price per a pyong of floor area) of apartments vary according to housing sizes within the same development project in Korea. For example, larger apartments are sold at higher prices

Figure 4.7 Changes in New Apartment Prices and Land prices, Selected areas in Yeouido and Gangnam, Seoul, 1974-1987.

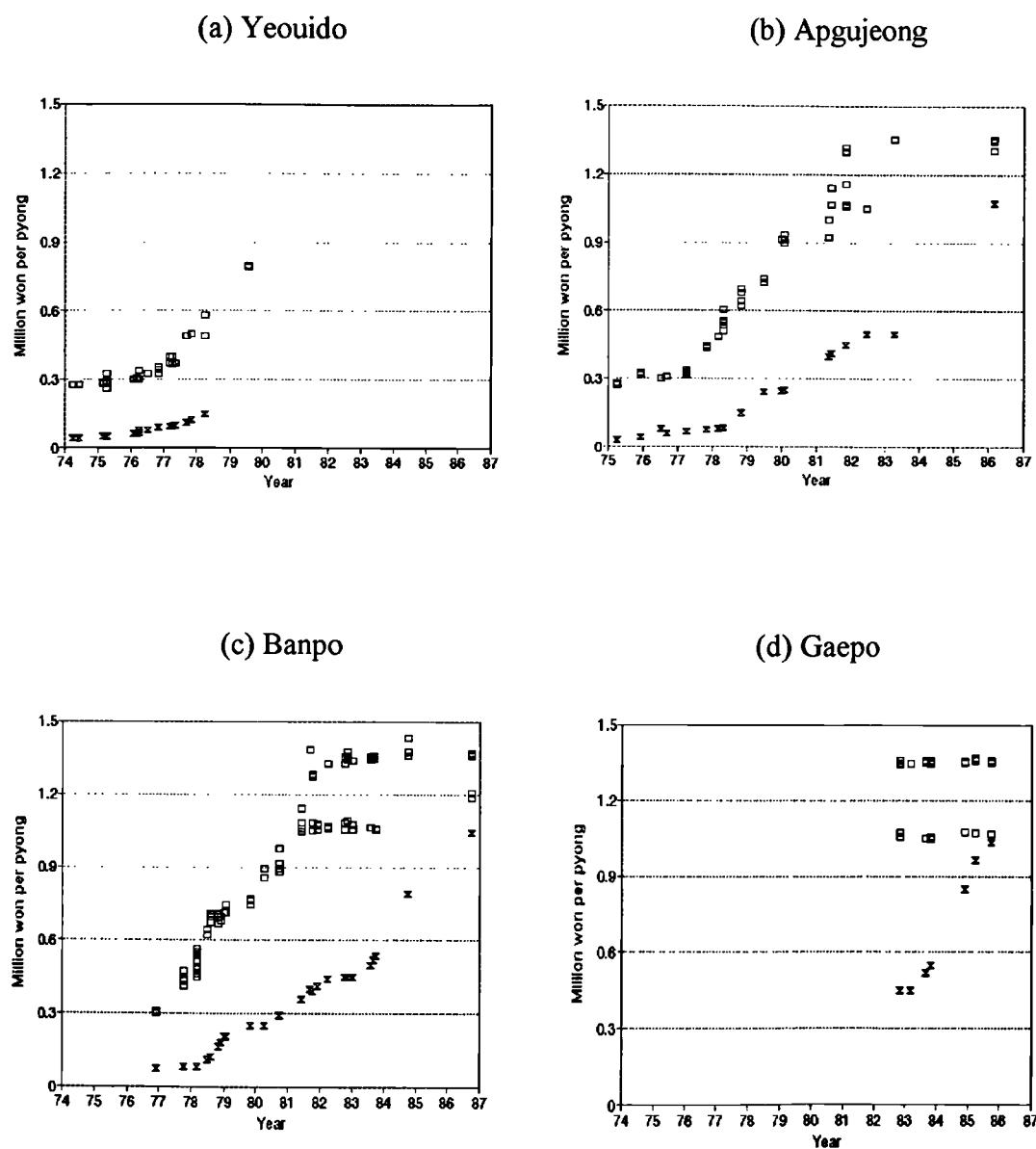


Table 4.3 Development Gains for Selected Apartments, Gangnam, 1974-1985

Location	Name of Estate	Date of Sale	Construction Cost	Indirect Expenses	Construction Cost	Land Price	Annual Interest Rate (%)	Floor Area Ratio (%)	Land Cost	Total Cost	Unit: thousand won/pyong		
											House Price	Development Profit	Surplus Profit
Yeouido	Eunha	May-74	110	11	121	42	8.6	190	24	145	275	130	110
Yeouido	Hanyang	Mar-75	125	13	138	46	10.5	190	26	164	287	123	102
Yeouido	Gongjaak	Mar-76	140	14	154	49	10.5	190	28	182	299	117	90
Yeouido	Chinju	Oct-76	145	15	160	57	11.3	190	33	193	300	107	80
Yeouido	Hansung	Mar-77	150	15	165	64	11.3	190	37	202	300	98	55
Yeouido	Gwangjang	Oct-77	170	17	187	88	11.9	190	52	239	340	101	53
Banpo	Hanshin3	Feb-78	190	19	209	96	11.9	190	57	266	398	132	62
Banpo	Daelim	Oct-78	225	23	248	123	11.8	190	72	320	500	180	93
Banpo	Hanshin7	Jan-79	260	26	286	80	11.8	190	47	333	540	207	132
Banpo	Hanshin8,9	Oct-79	330	33	363	165	15.3	190	100	463	703	240	142
Banpo	Hanshin11	Sep-80	400	40	440	207	15.3	190	126	566	725	159	86
Banpo	Hanshin12,13	May-81	460	46	506	250	17.2	190	154	660	760	100	23
Banpo	Samho Gar.3	Sep-81	525	52	572	271	17.2	190	167	739	847	108	24
Banpo	Hanshin17,18	Mar-82	520	53	578	292	18.4	190	182	759	934	175	82
Banpo	Hanshin23	Oct-82	545	53	583	358	18.4	190	223	806	1,076	270	225
Gaepo	Hyundai1	Oct-83	585	59	644	550	19.5	190	247	824	1,171	347	298
Gaepo	Woosung3	Mar-84	600	60	660	633	19.5	190	278	850	1,237	387	339
Gaepo	Woosung4	Nov-84	615	62	677	850	13.6	190	306	933	1,278	345	290
Gaepo	Hyundai2	Mar-85	630	63	693	964	13.6	190	334	978	1,317	339	282
Gaepo	Hyundai3	Sep-85	635	64	699	1,033	12.2	190	384	1,044	1,274	230	204

Figure 4.8a Changes in Development Gains in Apartment Development, Gangnam, Seoul, 1974-1985.

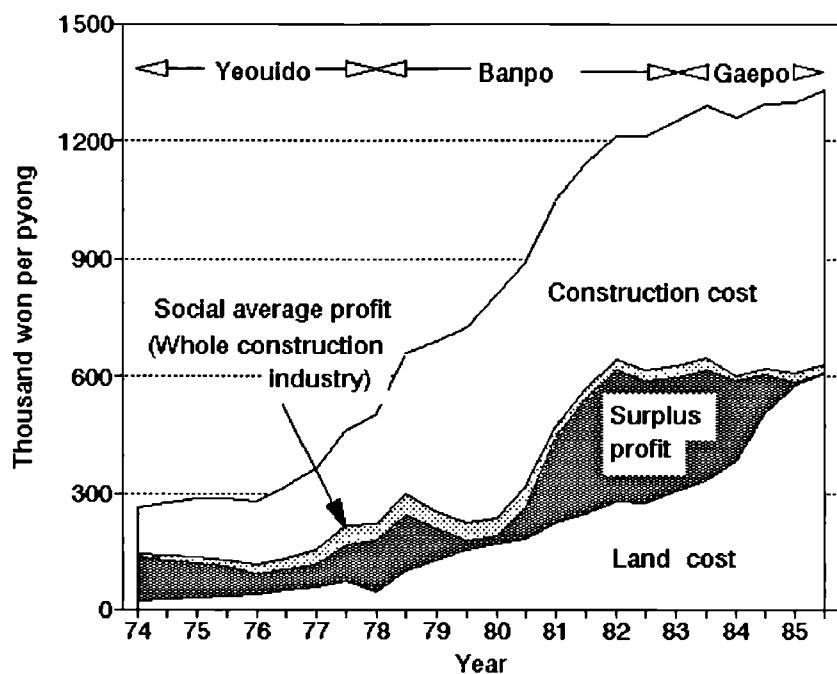
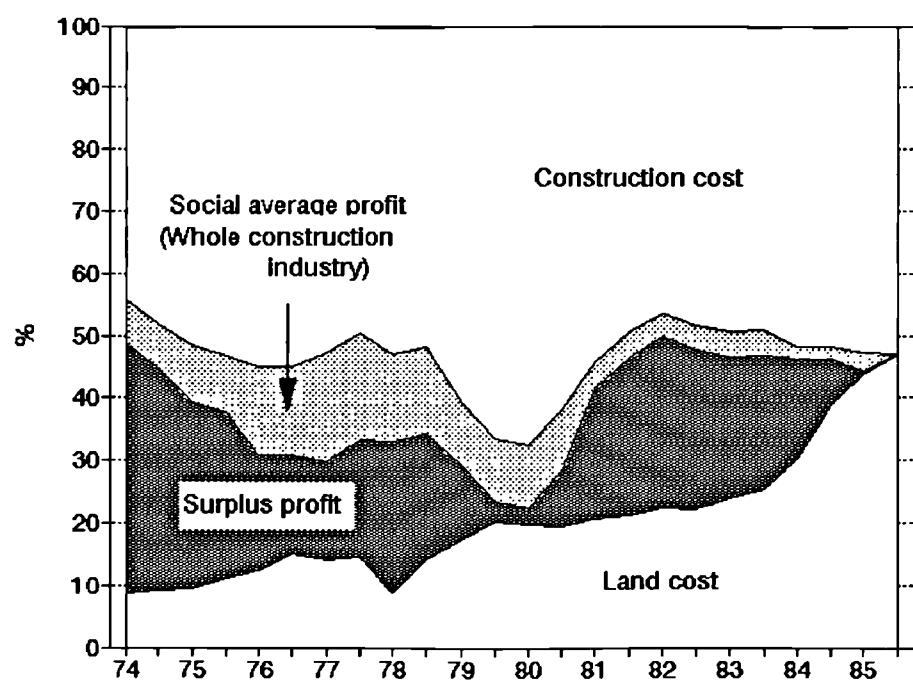


Figure 4.8b The Component Ratio of Development Gains Gangnam Seoul 1974-1985.



per pyong than smaller ones although actual construction costs per a pyong of floor area for the latter is higher than that for the former. This is largely due to the government policies which recommend or oblige private developers to maintain the prices of smaller apartment (not larger than 25 pyongs in floor area) at a much lower level than those of larger ones. Since development profits must be counted by each development project, these prices of each type of apartments should be converted into average unit price for each development project. Each housing estate shown in Table 4.1. forms an independent development project, the average price for a project is obtained by weighting the prices of apartments in the estates with both the unit sizes (floor area in pyong) and the number of apartments. House prices shown in Table 4.3 are the average prices obtained this way.

Construction costs are not so clear. There is an infinite variety in the quality of construction and efficiency in construction management which affects actual construction costs. The former affects direct costs while the latter indirect costs. Contracting cost itself fluctuates. In bad times for housing development, such as in the first half of the 1980's, the contract price for Korea National Housing Corporation (KNHC) apartments fell to 70 percent of the originally estimated construction costs or even below (KNHC, 1983, 1984, 1989, 1992c). Moreover it is known that construction site managers must have completed the works at 70 percent or less of the originally contracted prices if they wanted to gain recognition by their own construction companies. This means that in such bad times, apartments were constructed at nearly half of the cost originally estimated by the KNHC. Reductions in profit due to such low contracting prices were transferred to subcontractors and construction workers. Poor quality construction was a common consequence. In booming periods, such as in the late 1970's and in the late 1980's, the ratio of contracted prices to estimated ones went up to nearly 100 percent. Thus there was a variation of up to 30 percent in actual construction cost.

In this study, construction costs, estimated annually by the KNHC were used. As seen above, the KNHC estimates are not less than actual construction costs. Thus by using them, the possibility of overestimating development gains can be avoided. Consistency is another advantage of using the KNHC data.

In this cost, overhead expenses were not included. The overhead costs was approximately 10 percent or less of the direct construction cost according to the KNHC data. Thus in Table 4.3, the construction costs includes the overhead costs equivalent to 10 percent of the net construction costs. These are presented in won per pyong.

Land prices are those of a year before the time of housing sales for as explained for Table 4.1. Thus capital cost must be considered when that land price is accounted into the cost of production. However, the capital cost itself is often unclear because of the variability of interest rates. The interests rate varied according to the source of money, i.e., whether it was a bank loan or borrowing from the unregulated money market. Many developers use at least partly loans from the unregulated money market at much higher interest rates than those of banks. These also varied according to the amount of money and the credibility of borrowers. For this, average interest rates on total borrowings (including bank loans, company bonds and borrowings from the unregulated money market) in the construction industry were used. The data were obtained from the Financial Statements Analysis published by the Bank of Korea (1981, 1986). As mentioned before, apartments were selected for every half year. For apartments sold in the first half year, land prices were multiplied by the interest rate of the previous year while for those sold in the latter half year, by that of the year when the apartment were sold.

The land prices are unit prices, that is, prices per a unit of land area, pyong. For the calculation of production costs of apartments, these prices per a pyong of land have to be converted into that per a pyong of floor area of apartment. The latter becomes land cost. For the conversion, building density must be considered. According to the regulations of the Seoul city government, the Floor Area Ratio (FAR: the ratio of total floor area of buildings to the site area) was regulated not to exceed 180 percent until 1986. In this 180 percent, underground floor space is not counted since its aim is to regulate building density on the ground. However, all the high-rise apartment buildings have underground spaces which are counted into the gross floor area of each apartments. Thus in the calculation of costs, this space has also to be counted.

For this research, the actual FAR, that with underground space taken into account, was calculated for the apartment estates built by the Hyundai Ho. during the 1970's and

1980's. Data on total floor space of apartments and site area were obtained from the company. The FAR was between 190 and 200 percent throughout the period between 1975 and 1985. For the table 4.2, 190 percent was used for the FAR. By dividing the price per pyong of land with this FAR, land costs were obtained. The construction cost plus land cost becomes the total cost. Finally, development profits were obtained by subtracting this total cost from the house price.

Figure 4.8a is created from Table 4.3. The figure shows changes in the distribution of development gains into land cost and development profit. The curves of development profit and land cost are not smooth. That may be due to short term fluctuations in the market situations affecting new house prices and land prices. For example, in the latter half of 1977 and 1978, prices were relatively steady due to the anti-speculation measures. It is, however, partly due to differentials between development projects in terms of the number of dwelling units, their composition by housing sizes, with which house prices were weighted to make average prices for each development project. The unevenness of the house price curve between 1982 and 1985 is due to this.

Nevertheless, it shows the long term trends in the structure of new house prices. Rapidly rising house prices had been the major factor for increasing development gains until 1981 when the price was finally put under a ceiling. Exception was in the late 1970's and the early 1980's, when construction costs were rising at the same rate as that of new house prices. The latter was the period when the country had suffered a severe shortage of labour as skilled construction workers were exported to the Middle East<sup>(8)</sup>. In 1978, there was also a severe shortage of major building materials such as steel bars and cement (KNHC, 1992c). These caused a rapid rise in the construction costs during the period.

In Figure 4.8a, land cost was rising faster than house prices throughout the period of comparison except in 1977 and 1981. Land cost is calculated by dividing price per pyong of land with the Floor Area Ratio and adding to them interest for the period of land holding and thus does not directly represent land prices. However, the Floor Area

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8) Korea was exporting 18,000 skilled workers to Saudi Arabia alone in 1976. It increased to 100,000 in 1978. (Meed, March 1981, Special report: Korea, Korean companies in the Middle East: Winning battles in construction war, in Shim, Ui-sup ed., 1984).

Ratio had been constant throughout the period from 1974 to 1985. Interest rates were between 12 and 19 percent. Thus, by and large, the trend of land costs represents that of land prices. Now from Figure 4.8a, it can be said that land prices had been encroaching more and more into development profits. In order to support the hypothesis that house prices have provided scope for land prices to rise, it is necessary to show that that part of development profits which had been converted into land cost are surplus profits.

Figure 4.8b shows the ratio of development profits, land cost and construction cost to house prices. Development profits in the figure are divided into surplus profits and normal profits. Normal profits here are those in the whole construction sector. It should be a social average profit if a free flow of capital from one production sector to another can be assumed realistically. However, it is very difficult to imagine that capital can easily flow from, for example, car manufacturing to housing development. Thus, in this study, the average profit rate in the construction industry was used. The data came from the annual Financial Statement Analysis conducted by the Bank of Korea. The ratio of annual normal profits to net sales in the construction industry, shown in the Statement, was converted into rates for 20 months, the average period of high rise apartment construction (KRIHS, 1989). In this figure, development profit rate showed a temporary decrease in 1976 and 1979. As mentioned in the explanation of Figure 4.8a, this was due to the slow-down in the rise of new house prices rather than to the rise in construction costs or land costs.

The figure shows that developers had been able to realize a considerable amount of surplus profit in the apartment development in Yeouido and Gangnam until the early 1980's. This had been the material basis for the rapid growth of large developers as seen in the previous section.

The development profit shown in the figure does not necessarily indicate the whole profit to development companies. Not counted in the figures are the profits from the development of shopping centres in apartment estates and the amount of total sales and capital costs due to delays in apartment sales. Further, the leading developers were not engaged solely in apartment development as will be seen in the next chapter. Many development companies expanded their business into overseas construction in the

Middle East from the late 1970's. However, it is undeniable that developers had realized enormous development profits during the 1970's. Some veteran staff interviewed from the Korea Housing Association and Hyundai Ho. thus called the 1970's a 'golden age for apartment developers' (**Interviewee, C; G**).

These surplus profits at the same time had provided the material basis for the increasing land cost, that is, land prices. In the longer term trend, Figure 4.8b shows that increasingly larger portions of surplus profits had been converted into land cost. The conversion rate was lower until the early 1980's but was very sharp in 1982 and in 1983. **Hypothesis One** that developers have created high surplus profits and provided room for land prices to rise has thus been supported for the period between 1974 and 1984. However, for the evidence to be conclusive, further examination of what has happened after 1985 is required. From 1983, surplus profit began to diminish rapidly while land cost rose sharply. Despite the Price Ceiling imposed in 1981, land cost steadily rose to encroach on the whole profit by 1985; the rate of development profit appears to have fallen even below the normal profit rate.

This part needs an examination of how developers actually have acted upon the changing situations in which surplus profits were rapidly diminishing. Before this examination, the following section will see how landowners actually behaved in the conversion of surplus profits into land prices causing increasing conflicts with developers. This was **Question Two**.

## 4.4 Role of Landowners

### 4.4.1 Easy Land Acquisition Period

As mentioned earlier, until the early 1970's, the Gangnam area was largely farm land with paddy fields, orchards (mainly pears) and hilly forests studded with small rural villages. Landowners were mostly small farmers. The area was incorporated into the administrative district of Seoul in 1963. According to the 1970 Agricultural Census published by the Ministry of Agriculture in December 1972, 99 percent of the farm

households in the boroughs including the newly incorporated Gangnam area were small farmers with less than 3 hectares of land each. Moreover 98 percent of the total farm land was owned by these small farmers (MOA, 1972).

Land prices were very low. The prices of dry and paddy fields were barely several tens of won/pyong in the early 1960's. Those of residential land were several hundreds won/pyong. It was in the mid-1960's that the government started various development plans in and around the Gangnam area and accordingly land speculation began to arise. At the news that a new bridge, connecting Gangnam to the existing northern urban district across the Han River, was due to be constructed by 1969, land prices rose by 15 times from around 100 won per pyong in 1965 to 1,500 won in April 1966. This is compared to that of the consumer prices in Seoul during the same period, which was 12 percent (KRIHS, 1979). In April 1967, the then president Park announced the plan to build Kyongbu Express Way, connecting Seoul and Pusan, the second largest city at the south eastern end of the peninsula. In December 1967, the route of the first section of the express way was fixed, originating from the southern end of the Gangnam Area. Speculators gathered into the area driving up land prices up to 7,000 won/pyong (Chosun-Ilbo, July 12 1978).

In January 1970, the government announced the development plan for Gangnam. This announcement accelerated land speculation in the area. In February 1970, the Deputy Prime Minister announced a series of measures to curb the increasing land speculation in the area. He warned of investigation of the sources of speculative money and that heavy taxes would be imposed on them. Also that bank loans and the government-guaranteed foreign loans would be restricted to those who were involved in land speculation. This was the beginning of the battle against speculators in the area (ARI, 1989).

During this period, however, land hoarding for housing development was scarce. As seen in the previous section, traditional developers were not large enough to hoard land in large quantity. Construction companies were reluctant to enter into housing development yet. According to information obtained from interviews, the only exception was Samho Housing Co. who was known as having purchased several hundreds thousands of pyongs in the area during the 1960's. There were two cases in which individuals

hoarded land and then turned it into housing development or the construction industry later in 1970's<sup>(9)</sup>. These were, however, only exceptional cases.

For the new large housing developers mentioned in Section 4.2, land acquisition was not a problem in terms of land availability in the early 1970's. In the areas such as Yeouido, Banpo and Apgujeong, where high rise apartments were first constructed by large private developers, land was provided by the city government in a large quantity. As stated in Section 4.2, the city government was conducting development works along the Han River including the development of Yeouido and the construction of the embankment road. In this process a lot of land was created alongside the river. It was the city government's plan to make up for the construction cost by selling housing land created in the process of development<sup>(10)</sup>.

In the early stage of the Yeouido and Gangnam development, the city government had difficulties in selling developed land and consequently in financing the successive development works. Housing land in Yeouido and the riverside areas were not sold in time. The city government urgently needed to activate construction activities in the area (SNA, 1969). Thus as one interviewee recollected, the city government had to allocate land to construction companies almost by force (**interviewee C**).

Land in the Banpo area was largely developed by filling in during the process of constructing the embankment road. It was developed by the Kyongin Development

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9) The chairman of "S" Enterprise had been a commission agent in a wholesale market. He hoarded about one million pyongs of land during the 1960's in the area. As the prices went up to several hundred thousands won per pyong and apartment development boom was touched off in the mid 1970s, he established a construction company and involved in apartment development. "A" Construction Co. also became a case in which a person established a firm by selling land he hoarded in the past and became involved in apartment development (Chosun-Ilbo, July 12 1978).

10) Ground rent is the concept which explains how land, not produced by human labour, can have value. However, use value of land can be improved or created by capital. When such improvements or created use value become permanent, the improvement or creation has the same effects as natural properties of land. Thus rent is a payment not necessarily for original raw land but also for created land such as the riverside land in this study (Harvey, 1982). Thus the created land does not disturb the use of the concept of rent in this study.

Co.(11). The land was sold to the Korea National Housing Corporation (KNHC) in 1971 at 18,700 won/pyong (KNHC, 1992a) which was much lower than land prices in residential areas in the neighbouring boroughs, such as Yeongdeungpo (KBA, 1972). A very similar case was the Hyundai Construction company which undertook the construction of a section of the riverside road called the 2nd Gangnam Road. In the process, a large area of riverside reeds and sand fields were filled in. Hyundai received this land from the city government in exchange for a part of the construction costs. The area was approximately 50,000 pyong. Thus land was provided at almost cost prices.

In addition, some 8 million pyongs of land had been under development by the Land Readjustment Project (LRP) since 1968 (SMG, 1991). To promote the Land Readjustment Projects, the government had to give incentives to attract large developers to participate in apartment development in the area. Various measures were adopted. In December 1972, the Designated Area Development Promotion Law was enacted as part of a programme of economic stimulation. According to the Promotion Law, in the areas designated as the National Housing Development Promotion Area, extensive tax incentives were given to those who develop or trade land and housing. The Real Estate Speculation Control Tax, the Business Tax on Real Estate Transactions, the Real Property Registry Tax, the Property Tax, the City Planning Tax, the Tax on Licensed Business etc. were exempted until the end of 1975. It aimed to stimulate economic activities since it was believed that housing construction utilizing idle private capital creates employment and stimulates other sectors of the economy. Yeouido and the whole Gangnam area were designated as a housing development promotion area in 1972 (Chosun-Ilbo, November 3, 1972)(12).

As mentioned in Subsection 3.3.2.2, in Chapter 3, in 1975, the Apartment Area System was introduced to help large private developers to acquire land. Large developers were given various privileges in Apartment Areas including the right to expropriate land.

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- 11) A consortium of construction companies involved in the construction of express ways, as part of measures to compensate for their loss in the construction of the express ways (interview with a former KNHC executive).
- 12) As of the end of 1972, it was estimated that for a 20 pyong apartment, developers could save 190,000 won per unit in Seoul due to these tax incentives (Chosun-Ilbo, November 3, 1972). This means some five percent saving in production cost to developers.

Land purchase from private landowners was relatively smooth. Until the mid-1970's, though land alongside major roads was in the hand of speculative investors, a large area of land still remained farm land and could be purchased from the original farmer landowners. All interviewees from the KNHC and the three large private development companies mentioned in the beginning admitted that farmer landowners in that period were, what they call, 'cooperative' to development. Thus an interviewee from Hyundai Ho. called the time a 'romantic period of apartment development' (Interviewee, C). This situation began to change radically from 1977; landowners attitudes and behaviour began to change and speculative investors began to replace farming landowners. Before examining these changing landowners and their attitudes, this section will show a glimpse of the changing land market situation in the period of property boom in late 1977 and 1978.

#### 4.4.2 Changing Land Market

As discussed in Chapter 3, 1977 and 1978 were the years when the country experienced an unprecedented property development boom. Considerable amount of floating money flew into the real estate market nationwide. Gangnam was the place where urban land speculation was most prevalent. The sharp rises in land prices as shown in Figure 4.4 were the results. The housing market was characterized by keen competition among buyers of new apartments in 1977 and 1978 as mentioned in section 4.2.

Some features of the housing and land market have been described in the previous sections but in fragments. It is difficult to give an entire picture of all those irrelevances and irregularities in the market systematically. An examination of the behaviour of real estate agencies enables us to get a glimpse of the changing market situation. Information on the behaviour of the real estate agencies exists by word of mouth. No written studies are available except reports of investigations by police and tax offices of suspected illegal land transactions and tax evasions.

A series of feature articles in Chosun-Ilbo in November 1977, when land and housing speculation became an issue of public criticism, give a description of the behaviour of

the real estate agencies in Gangnam based on such investigation reports (Chosun-Ilbo, November 8 and 9 1977).

Traditional real estate agents were, what was called in Korea, *Bockduckbahng*, which literally means 'good fortune shop'. They were small self-employed jobs run by native-born elderly men. The territorial boundaries of their activities were hardly beyond their personal and geographical acquaintances. Their income came from commissions received on the mediation between sellers and buyers, which was around 1 percent of the prices of the properties they mediated. Their shops were also places for gatherings of elderly people in the villages (Ibid.).

Since the late 1960's, such types of real estate agents had been increasingly replaced by new types of agents in the rapidly developing areas. Real estate brokerage was becoming business enterprise. They were located in major development areas or newly developed apartment estates in Gangnam, attracting customers, mostly upper-middle income families, and introducing them to new ways of wealth accumulation through speculation in real estates. Their activities were not limited to a local territory. They provided information on other development areas including those in provincial cities (Ibid.).

A typical agent had 3 to 4 specialized staff members around a financier who was the actual owner and manager of the organization. Some large agencies had up to thirty staff. Staff were usually paid on the basis of an efficiency wage system. In most cases, commissions were distributed to owners and staffs in the proportion of 7 to 3. Some staff who achieved excellent sale results were rewarded by sharing equally the commissions with the owner (Ibid.).

Some agents maintained multiple shops, usually with five or more branches in major development areas. They were well-informed about new development projects and capable of mobilizing large sums of money. Some served simply as personal offices of financiers, who themselves had other professions, such as medical doctors. In this type of agency, staff were to inform the financiers when there were good objects for speculative investment while they were operating the offices and receiving commissions on brokerage. Some carried out studies on the trend of real estate transactions, on prices and development plans by the government, and published bulletins. Some were called

'migratory', since they did business where speculation began to arise and disappeared as the culmination of speculation passed (Ibid.).

These new real estate agents were not simply mediators. They themselves were buying and selling properties, realizing both commissions on brokerage and marginal profits. They were mostly engaged in short-period buying and reselling to quicken the turnover of their funds. The amount of money one could mobilize in time was thus a key to the successful business of these real estate agents. This meant that they had to hold not only a lump-sum of their own operational funds, but also access to secure customary clients with significant sums of speculative money (Ibid.).

Accordingly, many irregular activities became prevalent in the business of real estate agents. These agents always kept informers in government departments in charge of development projects. They secured regular customers who were usually speculative investors. They often manipulated markets by taking advantage of their inside information. An example was the circulation of a property among customers who were only vertically contacted by the agency, without the clients themselves knowing each other. They induced one person to buy certain property by convincing him/her that the prices would rise soon rapidly. Then they introduced the property to another customer at an increased price. This way, they circulated it among their own customers while they realized commissions. However in this chain of resales, there must be one who loses. The latter is called in Korea 'a rider of the last train'. To compensate him, he was frequently given an opportunity to be the first time buyer next time (Ibid.).

Real estate agents themselves often intervened in the buying and selling to appropriate marginal profits through short term transactions. With 1 billion won, for example, they did not spend all the money to buy up 1 billion worth of land. Instead they contracted ten times such land by paying only contract money, and resold it to others before they paid the full prices. When the property market came to a depression either by the government's anti-speculation measures or general economic changes, the final buyers often cancelled the contract for the land. This resulted in a series of contract cancellations back to the former sellers of the land. When speculation fever on real estate cooled down, such practices became social problems (Ibid.).

The most fraudulent practice was to create artificial price booms. A group of speculators bought land at cheap prices in an area where there was no reason for land prices to rise. Then they circulated the land among themselves buying and selling at increasing prices. As the prices were suddenly going up and rumours of windfall gainers spread, many other investors gathered to buy land in the area. Often false rumours were set saying, for example, that government offices would move into the area or a new market would be established. When the prices reached a certain level, the professional speculators sneaked away from the speculative market they had created. In provincial areas, they were able to buy and turn over up to 100,000 pyongs of land before slipping out of the area after appropriating several billions of won. Left behind were clumsy speculators and investors. Some of them borrowed money from the unregulated money market at a very high interest rate. After the original speculators disappeared, the market collapsed as there was no real demand for land in the area at such highly inflated prices (Lee, H.B, 1978).

These activities brought about public criticism in the late 1970's. It became common practices for the authorities, such as the National Tax Administration, the city government and the Public Prosecutor, to investigate real estate agents and punish them whenever the government needed to control property speculations (ARI, 1989).

These activities of the real estate agents may, at first sight, seem irrelevant to the question of the relation between landowners and developers. However, they played important roles in the transformation of development gains into land prices. It was they who calculated potential development gains and tried to materialize increasingly larger portions of the gains into land prices. They did it either by exploiting any real development prospect of an area or by artificially creating a situation attractive to speculative investment. Where certain development gains were expected, they themselves bought or had others buy the land in advance. Then through continuing turnover of the property, they facilitated the transformation of development gains into land prices. This had two effects: by circulating information on future development gains and arranging speculators to invest in land, though often with problems as seen above, they promoted speculative investment in land. They also contributed to popularizing knowledge on the property market.

#### 4.4.3 Monopoly Pricing

It is in this context that changing landowner behaviour can be understood. This subsection examines the changing behaviour of landowners. The examination relies on information obtained through interviews with nine persons from Hyundai, Hanyang, Samsung and two small developers. The interviews provided primary information on the behaviour of landowners. But the interviews had a limitation; they could not give figures. Thus in this study, the primary information obtained from interviews had to be confirmed in recorded materials such as official documents, bulletins and newspapers.

Interviewees from the KNHC and the three large private development companies coincided to point out that it was from 1977 that the changing attitudes of landowners began to be barriers to the smooth performance of their business in housing development. In the early 1970's, landowners, particularly farmers, were not well informed on real estate market situations. However, since the late 1970's, many things happened in the property market, such as the ones seen above, and information on real estate was reported through newspapers and television. As a result, landowners were no longer soft in selling their land for housing development. The following is the description by the interviewees of new attitudes and behaviour of landowners by the early 1980's.

First came the increasing practice of monopoly pricing by speculative investors. By the early 1980's, most important locations fell into the hands of speculative investors. Developers had to deal increasingly with monopoly pricing by landowners in their negotiations. Developers usually bought up an area of land, plot by plot, through negotiations with each individual landowner. In this process a few landowners refused to sell land demanding much higher prices. This resulted in delays of the whole development project. This began to happen as early as in 1977. Life Housing Co., for example, began to purchase land for its third Misung Apartment project in Yeouido in 1977 but could finish the land purchase late in October 1979 (KHAB, February 1982).

The increasing disputes between landowners and developers led to the intervention of the government. As mentioned in Subsection 3.3.2.2 in the previous chapter, it had been the government's strategy to increase housing provision by fostering large developers. It nominated certain large developers as Designated Developers and gave them

various incentives including the right to expropriate land in Apartment Areas. However, this measure was not strong enough to cope with the increasing monopoly pricing for land.

By the early 1980's, monopoly pricing became a common problem to most developers. For example, in 1980 Hyundai did not obtain approval for its development plan for the 10th Project in Apgujeong as it failed to purchase just one plot of 160 pyong out of the whole 3,900 pyong needed for the project. Samick had to spent six months to come to an agreement with a landowner on the sale of the remaining one plot of 317 pyong after it purchased all the other land needed for 444 units of apartments. Hanyang, in Apgujeong, had to postpone the start of construction of an apartment estate for one year due to the failure to acquire one plot of 450 pyong. In 1980 and 1981, the prices of housing land in prime locations in Gangnam, were 700,000 to 800,000 won/pyong. However, some landowners demanded 1 to 3 million won/pyong for their land. Since those land were often located in the middle of a planned estate, without them the whole development project could not be carried out (KHAB, February 1982).

Hanshin, for example, was the first to exercise the eminent domain in Banpo-Dong. The company had failed to come to an agreement in a negotiation to purchase four plots, only 280 pyong in total. The company submitted an application for the approval of the eminent domain for the land in May 1981. It was in May 1982 that the Central Land Expropriation Arbitration Committee justified the application and the company applied for a decision from the Seoul City Land Expropriation Committee. Landowners were demanding 2 million won/pyong in consideration of the prices of land in a neighbouring commercial area, while Hanshin offered only 500,000 won/pyong on the ground that the land had no alternative use but for apartment since the area was designated as an Apartment Area (KHAB, October 1982). Hanshin was able to purchase this small plot of land in dispute. However, it had to give up buying the remaining land in the Apartment Area, which could have been developed as late as 1991 for cooperative housing to which price control was not applied (**Interviewee B**).

Ordinary farmer landowners, who were believed not to have a good knowledge of the land market, also became no longer so meek to deal with. An interviewee described: '**They did not care how much developers could gain on their land but cared about**

**how much other nearby landowners were paid. They insisted that they had to be paid at least more than what others were paid. Thus land prices went up as one proceeded buying up land for continuous development. In some extreme cases of buying land by stages, prices for the latest purchase became twice that of the first purchase' (interviewee F).**

In some cases, when a developer wanted to buy land in an area, landowners responded with suspicion as to whether they were selling their land at cheap prices. The result was withholding land and waiting. This practice was different from that of professional speculators who were well aware of how much they could be reasonably paid for their land. This made housing development extremely difficult (interviewee F; I).

As seen before, land purchase in short periods of time is important to developers: '**When a development company begins to purchase land through negotiations with landowners, this needs preferably to be finished within three months. However, in some cases it takes two to three years. When it takes more than one year, the development will be no longer profitable. First of all, the capital cost of the investment already made in purchasing the land is expensive since most developers use borrowing from the unregulated money market at much higher interest rate. Secondly, when more details of the development plan are exposed to landowners, they claim higher prices. Thus it is a rule to keep the plan secret while purchasing land. If it takes more than a year, the plan is inevitably exposed and it becomes difficult to buy land smoothly' (interviewee E).**

The practices of land withholding and waiting are particularly serious when large developers rather than small ones are going to buy land. It is because landowners realize that large housing estates with luxurious apartments yield high profits. In fact, land prices in the vicinity of such large and luxurious estates are rising faster than those in land around smaller, low income housing estates.

In response to these changing landowner behaviours, the developers' tactics in land purchases became more and more important. As to the increasing monopoly pricing, an interviewee, a land expert, emphasized a rule in starting any land purchase: '**When one buy a certain area of land owned by a number of landowners, one must consider that there must be someone who will claim extraordinary prices for his land.**

Thus, if one want to buy certain area of land at, for example, 1 million won per pyong on average, one must begin to buy land when it is assured that he or she can buy up to 80 to 90 percent of the land at 600,000 to 700,000 won. For the remaining land, for which landowners might claim extraordinary prices, one must be ready to pay 2 or 3 million won, to finish the land purchase in a short period of time. Otherwise one can be in difficulties in obtaining the entire land at the planned prices' (interviewee F).

To cope with land withholding and waiting for unreasonably high prices (from the point of view of developers), developers used an irregular method: to buy land secretly, i.e., without exposing that they would carry out a large housing estate development in the area. In this process development companies bought land in the personal name of the members of their staff or their relatives rather than using the corporate one. Once the purchase was completed, the land was transferred to the corporation (interviewee F).

This method was widely used as a means by which to evade taxes under the pretext of 'keeping development in secrecy'. When one buys land in a personal name, the sellers and buyers can keep the actual prices secret. They report different prices to the tax administrations instead. Tax offices calculate taxes on the basis of officially assessed value, and as the latter are often much lower than the actual ones, both land purchasers and sellers pay much less taxes than they should do. This raised strong public criticism. When the purchase of land is in the corporation's name, developers cannot but report the actual prices they paid and had to pay full taxes. Accordingly, landowners are frequently reluctant to sell to corporations since their actual gains are exposed to tax administrations (interviewee F).

In the 1980's, to eliminate such irregular practices, the government increased the assessed value of land itself, closer to the actual market values. In the past, the officially assessed value was only 10 percent of the actual value. Now the official assessment value, known as the Public Notice Land Price, represents nearly 90 percent of the market value although for forests in provincial regions it is still only 30 to 40 percent. In the past, when a development company bought land in the personal name of its staff, the expenditure was regarded as necessary corporate expenses. However, since the Anti-Speculation Measures in 1989, such expenditure was regarded as misappropriation.

tion of corporate money and heavier taxes were imposed on it. However, some interviewees suggested that many developers were still buying land in secrecy (**interviewee F**).

The changing behaviour in the land market such as increasing land withholding and hoarding, speculative transactions and monopoly pricing were practical forms in which landowners actively converted part of not only present but also future surplus profits into land prices. Thus landowners were not passive in the determination of land cost for housing as suggested in the **Hypothesis Two**. The effects of this active role of landowners, the permanent transformation of surplus profits into land prices, on housing development will be examined in the next chapter.

## 4.5 Conclusion

The examination so far has provided evidence to support the two hypotheses restated in the beginning of this chapter. Section 4.2 has shown that the growing demand for apartments, though not without occasional ups and downs, had enabled the rapid growth of large housing developers in the Gangnam area. The analysis of the material basis of that rapid growth of developers in Section 4.3 has evidenced that developers realized high surplus profits until the early 1980's. These surplus profits have been the material basis for land prices to rise. Thus Hypothesis One is supported for the period between the early 1970's and the early 1980's. Yet, the analysis, as presented in Figure 4.8a and 4.8b, is incomplete. A question of how land cost could rise beyond the point where development profit seems to disappear in Figure 4.8a and 4.7b remains to be examined. At this point, one could still be misled to assert that land prices have pushed up housing prices. Thus final conclusion must be reserved until the examination of what happened after 1985 when development profits began to almost disappear.

Section 4.3 has shown changes in the attitudes and behaviour of landowners and increasing replacement by speculative investors of farming landowners. It has shown that landowners have not been passive by merely appropriating already created surplus

profits. They had continually converted future surplus profits into the present land prices. Land withholding and waiting and monopoly pricing, and irregular land dealing and market manipulation were the practical forms in which landowners and speculative investors had converted increasingly larger portion of future surplus profits into present land prices. **Hypothesis Two** is yet only partially evidenced. For the hypothesis to be fully supported, it must be further shown that landowners, by fixing land prices at higher and higher level, have conditioned the creation by developers of surplus profits.

In conclusion, **Hypothesis One** has been supported by evidence taken until 1985. Whether the hypothesis could be sustained by what has happened to house prices, surplus profits and land costs afterwards, is left for further examination in Chapter 5. The patterns of housing development began to change from the early 1980's when the price ceiling was imposed. This further examination involves the increasing influence of land-owners on the patterns of housing development as suggested by **Hypothesis Two**. These are what will be done in the next chapter.

# CHAPTER 5. NEUTRALIZATION OF THE PRICE CEILING SYSTEM AND RISING LAND PRICES, THE 1980'S

## 5.1 Introduction

This chapter addresses two Research Questions: **Question One** for the period after the early 1980's, that is, whether and how developers were able to realise surplus profits under the Price Ceiling and **Question Two** of what has been the role of landowners in the process by which the proportion of land cost has been rising.

Regarding to Question One, the Price Ceiling on new houses must have restricted developers' realisation of surplus profits and thus an effect in limiting land prices for housing. However, as seen in Figure 4.6a (p181), Figure 4.8a and 4.8b (p187), towards the mid-1980's, land prices were rising beyond the level at which housing could be profitably developed under the Price Ceiling. It is because of this that scholars as well as developers have criticised 'the irrationality of fixing new house prices while allowing land prices to rise uncontrolled'. In fact, land prices were rising faster than any other prices as seen in Figure 1.2 (p14). The figure showed that land prices have risen much faster than any other cost. The Price Ceiling was thus blamed for having discouraged housing development in Seoul. This chapter examines how far this argument is valid.

As to the Question Two, landowners' behaviour in transforming surplus profits into land prices has been described in the previous chapter. Yet, its effects on housing development have not been examined. This chapter examines these effects in order to pro-

vide evidences in support of the Hypothesis Two that landowners have affected the way in which housing is developed.

The study in this chapter relies, first, on information obtained from all ten interviewees: 6 from large developers (Hanyang, Samsung and Hyundai) and 2 from small developers, 1 from the Korea Housing Association (KHA) and 1 from the Korea National Housing Corporation (KNHC). Then documents have been consulted to confirm the information obtained from interviews and to get numerical data.

Section 5.2 is an overview of the housing development environment in the early and mid-1980's which had been characterised by slow-down in economic growth, overall depression of the housing market, diminishing designated Apartment Areas and consequent overall retreat of large developers from housing development.

Section 5.3 examines the changing strategies of large developers to cope with the new situation. It shows that they have adopted new development methods such as luxurious row houses<sup>(1)</sup> and cooperative housing to evade the Price Ceiling. They have thus realised surplus profits in Gangnam and Seoul. This has provided the material basis for landowners to claim higher prices for their land. In other words, developers have provided room for land prices to continue to rise as they have neutralized the possible effects of the price ceiling to bind land prices.

Section 5.4 examines the effects of the landowners' actions on housing development. It shows that the continuous transformation by landowners of part of future surplus profits into present land prices have dictated production methods. Increasingly high density development is a case in which the level of capital investment in land has increased because of the existence of landed property; once cooperative housing was used as a way of increasing surplus profits in the particular circumstance of price ceiling, it became normal way of housing development. Relaxation of density regulations and direct control by the government of land prices through the PPD system have been the

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1) Row Houses here indicate what is called in Korea, 'Yeonlip-jutack', literally meaning 'a number of houses attached side by side in a row'. However, it increasingly became a general term indicating all types of low rise multi-dwelling housing. In the Korean Building Law, Row Houses are defined as multi-dwelling housing which is of no more than three stories as noted in Footnote 1, Chapter 4.

measures to overcome problems of the conflict associated with that process. Developers have increasingly turned to the government for land. These are the consequences of the landowners' role in housing development in Seoul in the late 1980's.

Section 5.5 summarises the evidence which has been found in the previous sections supporting **Hypothesis One and Two**.

## 5.2 Stagnation of Housing Development

Entering the 1980's, housing developers in Seoul faced a new situation characterized by a depressed housing market and diminishing Apartment Areas. This brought about an overall withdrawal particularly of large developers from housing.

### 5.2.1 Depressed Housing Market

As seen in Chapter 2, the property market collapsed along with the August 8 Anti-speculation Measures in 1978. The dull market situation continued until 1986 except in 1983. All the indices presented in the previous chapters indicate the dullness of the housing market in the early and mid-1980's. Annual housing construction (starts) began to fall sharply. It fell to 150,000 houses in 1981, the lowest level since 1974, from 300,000 houses in 1978. It was as late as in 1987 that housing development was restored to the 1978 level (see Figure 3.2, p93). Land prices and house prices fell by 16 and 33 percent respectively in real terms between 1980 and 1982 (Chun, C.H, 1989; KNHC, 1989; see Figure 1.2, p14).

Developers began to face difficulties in housing sales. In the late 1970's, when competition for housing land in Seoul was keen, many developers expanded their business in provincial cities. It was in these provincial cities that they were hard hit by the dull housing market after the August 8 Measures. New apartments, for which there had been keen competition among buyers until 1978, were not sold in time as before. Even in Seoul, those who won new apartments in a sale lottery often cancelled their applica-

tions as expected capital gains from the resale of the apartments became insignificant. Only in some prestigious areas in Gangnam, competition for new apartments was still keen (KHAB, January 1981). Throughout the country, unsold apartment piled up to 7,000 units in 1979 (KHAB, January 1980). Large developers, i.e., Designated Developers used to have 6,000 to 7,000 unsold apartments annually between 1980 and 1986 except during the short period of property boom in 1983(2).

As the result, housing developers began to suffer financial difficulties. Financing in apartment development had relied on prepayments made by purchasers. It had been common practices that developers sold apartments when they reached 10 to 20 percent of the construction works. Purchasers paid 20 percent of the price at the time of contract; 50 percent by the time of completion; the rest at the time of occupation. When apartments under construction were not sold in time developers often had to procure operating funds from the unregulated money market at higher interest rates(3). Thus the accumulation of unsold apartments meant increasing financial difficulties to developers. The retrenchment economic policy in the early 1980's made the situation worse(4).

This situation worried the government which launched the Ten-year Five Million Housing Construction Plan to pacify popular unrest in 1980 as mentioned in Chapter 3. The government adopted a series of measures to promote housing development. In June 1981, the obligation of developers to build half of their houses in smaller sizes (with no more than 85 m<sup>2</sup> in floor space) for low income families was eliminated; the investigation of speculators was suspended; the rate of property taxes were cut. In January 1982, taxes were further reduced; administrative procedures for building permission and land development permission were simplified; loans for housing development were increased. On May 18 1982, taxes were even further reduced. (KHAB, February 1982;

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- 2) See 'monthly state of apartment sales' in KHAB (1981-1982, each month) and KRIHS 1992.
- 3) The annual interest rates on loans from the unregulated money market were 30 to 40 percent, three or more times that of city banks, in the early 1980's (Son, J. Y., 1991; BOK, 1990).
- 4) The increase in official interests rates on January 12 1980, known as January 12 Measure to tighten up monetary control, for example, hit developers hard (KHAB, January 1980).

August 1982; August 1983; August 1988). However, the housing market was not yet out of the depression until the mid-1982. This situation turned into a short term property boom in 1983.

At the same time, the government was also trying to revitalize the economy. As seen in Chapter 3, the whole economy had been in deep recession during the period of political and economic crisis in 1979 and 1980. Thus although the retrenchment of finance was the keynote of economic policies in the early 1980's, the new government tried to stimulate the economy in as far as it did not aggravate trade deficit and foreign debts. Interest rates were cut several times. The rate of annual bank loan was 25 percent until 1979. By June 1982, this was reduced to 10 percent (ARI, 1989; FKI, 1987). In 1982, fund raising for the stimulation of the economy brought about currency inflation. Money supply (M1: currency in circulation plus deposit money) in 1982 increased by 45.6 percent while that in 1981 increased by only 4.6 percent (BOK, 1990; FKI, 1987).

This expansionary economic policy not helped only the economy to grow fast but also the property market to boom again. The GNP grew by 12.6 percent in 1983 (BOK, 1990). At the same time, money began to flow into the property market; and there were signs of the revival of land and housing speculation from late 1982 (ARI, 1989). As various price indices in Figure 1.2 (p14), Figure 2.1 (p37) and Figure 4.4 (p159) suggest, 1983 became a year of property boom. There were signs of price inflation as well and this worried the government for its possible adverse effects on foreign debts and export competitiveness. Thus the government began to take again a strong retrenchment policy from the end of 1982 (FKI, 1987).

Along with this return to the retrenchment policy, anti-speculation measures were taken. In December 1982, stricter application requirements for new apartments were enforced and the obligation of developers to build small houses for low income families was revived (KHAB, January 1983). In February 1983, the government strengthened the investigation of speculators and adopted a licence system for real estate agencies (KHAB, March 1983). In March 1983, the Bond Bidding System (discussed later in Section 5.3.2) was adopted to discourage housing speculation. In April 1983, the property tax rates were increased (KHAB, August 1983). Along with these anti-speculation measures, the property market began to slip into stagnation in the late 1983.

Between 1984 and 1986, the annual rate of rise in land prices fell to low levels (see Figure 2.1, p37); house prices were falling again (see Figure 1.2, p14 and Figure 4.4, p159). Housing developers again began to suffer from stacks of unsold houses. In 1985, for example, all 59 Designated Developers had 4,678 unsold apartments with some 120 billion won (135 million dollars) of capital tied up in them (KHAB, July 1985). In 1986, out of the newly constructed 288,000 houses, 55,000 were unsold with 800 billion won (929 million dollars) tied up (Wolganhyundaejutaek, May 1987). It was as late as in 1988 that the housing market moved out of the stagnation.

In sum, the early and mid-1980's were a downturn period of housing development throughout the nation. Only in Seoul, particularly in Gangnam, there had been still a fair demand for new apartments. However, in Seoul, land acquisition was increasingly becoming a problem.

### **5.2.2 Diminishing Apartment Areas.**

Despite the nationwide depression of the housing market, in Gangnam, gaps between the prices of existing apartments and those of new ones were still wide as shown in Figure 4.4 (p159). Except the short period immediately after the August 8 Measures in 1978, new apartment prices were still rapidly rising as presented in Figure 4.6a (p181).

The land situation was, however, deteriorating from the point of view of developers. First of all, Apartment Areas, where developers had been given certain privileges in buying land, were diminishing. As mentioned in Subsection 3.3.2.2, the Ministry of Construction (MOC) designated 13 districts with 3,850,668 pyongs of land in all as Apartment Areas in Seoul in 1976 and 1979. Included in the Areas were 2,363,000 pyongs in Gangnam and 178,175 pyongs in Yeouido. All these Apartment Areas, but 321,438 (214,662 in Gangnam) pyongs, had been developed by the end of 1982 (Chosun-Ilbo, December 7 1982).

Leading development companies such as Hyundai Ho., Samick, Hanyang, Woosung, Hanshin were still able to build apartments on land which they had purchased before in Apartment Areas. But it became difficult to acquire new land in other areas than those

designated as Apartment Areas. As seen in the previous chapter, developers came to face increasing monopoly pricing in the early 1980's (Hankookkyongje-Shinmoon, November 28 1984).

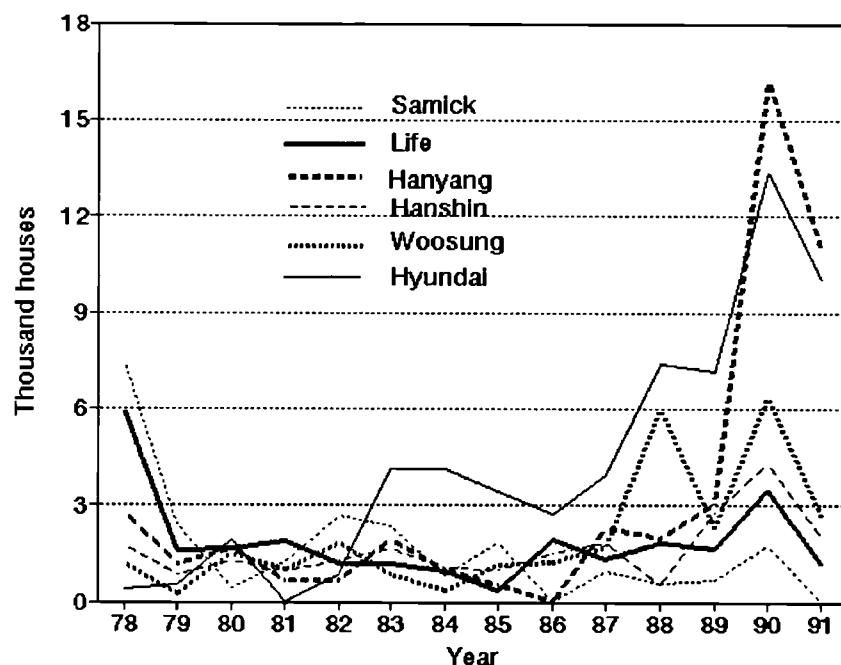
It is since this time that land shortage for housing has become a subject of discussion (Chosun-Ilbo, December 7 1982; November 28 1984). However, the difficulties in land purchase were not due to absolute shortage of land. Occasional surveys have revealed that there was still a large amount of land for housing in Seoul. A survey by the city government showed that, in residential areas in Seoul, some 6 million pyongs of land were idle and could be used immediately for housing development as of 1983 (Hankook-Ilbo, June 2 1983). A MOC survey in 1987 reported that there was 8 million pyongs of idle land while developers complained of land shortage in Seoul. This land was held by those who were expecting long term price rises. The land was mostly in disguised uses such as tennis courts, lumberyards and temporary buildings to avoid the heavy Idle Land Tax (Mailgyongje-Shinmoon, September 30 1987). Another survey conducted by the city government between September and December 1988, disclosed that there were still 2.2 million pyongs of land in Seoul in which 65,000 units of apartments could be built. The Gangnam area had the largest portion, about 600,000 pyongs (Chosun-Ilbo, December 10 1988).

Thus, as an interviewee stated, '**there has always been land available for housing development. The problem has been high land prices**' (interviewee A). The complaints about land shortage meant, first, increasing difficulties for developers to secure land in large units at cheaper prices in Gangnam and Seoul. Large estate development with more than 500 apartments, so lucrative in the 1970's, became no longer possible. More significantly, it meant that landowners were no longer easy for developers to deal with. In the 1970's, speculators aimed at capital gains through resale in a short period of time. By the early 1980's, vacant land fell into the hands of those who were expecting long-term capital gains (Maeilkyongje-Shinmoon, September 30 1987).

### 5.2.3 Retreat from Housing Development

These unfavourable housing market conditions and land situations made large developers reduce business in housing in the early 1980's. Figure 2.1 has shown sharp falls in annual housing construction by leading development companies in the first half of the 1980's. Most companies instead expanded business in overseas construction in the Middle East, risking their future on it<sup>(5)</sup>.

Figure 5.1 Annual Housing Construction by Major Development Companies, 1978-1991



Source: Produced for this thesis based on data from Khab (1992).

5) In 1984 Korea became the world's second largest overseas construction contractor following the United States. 85 percent of its contract was in the Middle East. Most leading housing developers mentioned in the previous chapter were participating in construction works in the region. However, the boom in construction ended with the fall in oil prices in the early 1980's. Korean firms began to suffer losses due to the mounting overdue bills. Unpaid bills reached 2.3 billion dollars by 1984 (Far Eastern Economic Review, August 9 and 23, 1984, and January 17 1985). This brought about a reshuffle in the construction industry in Korea. Many prominent construction companies came under entrusted care of other more financially sound companies or put into receivership by their prime banks during the mid-1980's (Khab, August 1985).

Thus the early and mid-1980's had been characterized by a dull housing market, increasing difficulties in land acquisition and the consequent overall withdrawal of large developers from housing. Large developers remained in the housing business only on a small scale in this period. The development of luxurious Row Houses and Cooperative Housing began as a way of maintaining housing business in a reduced scale in such unfavourable conditions in the early 1980's. This, however, did not mean that developers were simply assuming the defensive in the changing market situation. They were changing to the offensive by using these types of housing as a means to evade the Price Ceiling and thereby to maximize development profits. These types of housing have had a significant effect on new house prices and consequent land prices. They have neutralized the possible effect of the Price Ceiling to bind land prices. The next section examines these two new types of housing development prevailing in Seoul, and particularly in Gangnam, in the 1980's. The examination will provide an answer to **Question One** of how land prices could rise under the price ceiling.

## 5.3 Neutralization of Price Ceiling

### 5.3.1 Luxurious Row Houses

As noted in Footnote 1 in this chapter, according to the Korean Building Law, multi-dwelling buildings of single to three stories are defined as row houses and those of more than three stories as apartments. Row houses are thus distinguished from apartments by the building height. They are no different from apartments in terms of the indoor structure of housing.

Row houses had been built by small developers while apartments had been mostly constructed by large developers. Apartments had been built in five to sixteen storied blocks, in large housing estates with community facilities such as shopping centres, schools, playgrounds and public gardens. Row houses had been built in small numbers in small sites often cramped, without such community facilities. The prices had been 60 to 70 percent of those of apartments until the early 1980's. In 1980, when the prices of

new apartments were over 1 million won per pyong, those of row houses were between 600,000 and 700,000 won (KHAB, March 1981).

Row houses thus had denoted 'poor quality or cheaper housing'. As row houses had mostly been built by small developers with poor financial and technological capabilities, they had often caused trouble in terms of construction quality, financial reliability and after-sale repair service.

Advance payment by house purchasers had been common for new row houses. A typical trouble had been that developers simply disappeared with prepayment for the houses which were only at the initial stage of construction. There were also cases in which developers sold a house to more than one buyer (Chosun-Ilbo, September 11 1980).

As row houses had caused such trouble in Seoul since 1979, the government began to regulate their development. In June 1981, the Ministry of Construction (MOC) amended the Housing Construction Promotion Law (HCPL) to reinforce the control of row house construction. Up until 1980, housing development plans to build 50 dwelling units or more in a site had to be approved by the authorities in accordance with the HCPL. Those for less than 50 units needed only building permission in accordance with the Building Law. The latter controls only technical aspects of the building and construction works while the former does the methods of housing sales, selling prices, after-sale repair services, occupancy and as well as building design and construction process (Chosun-Ilbo, September 11 1980).

According to the amended HCPL, development plans to build 20 units or more had to be approved in accordance with the HCPL. This was a response to the increasing complaints by occupants of row houses of poor quality and the negligence of after-sale repair works (KHAB, July 1981). In 1983, the Seoul city government increased the fund to be reserved by developers for repair works to 3 percent of the total construction costs. This was to alleviate the increasing dispute between developers and occupants over the cost of repair services after occupancy (KHAB, May 1983).

The dull housing market and diminishing Apartment Areas in the early 1980's had made large development companies move into these row house developments. The involvement of large companies in row house development was part of their strategy to cope

with the declining market and to utilize small pieces of land remaining after the development of apartment estates. These companies began to develop higher quality row houses changing their 'low quality' image. In the conventional row houses, each dwelling unit had its own individual heating system using coal briquettes or an oil boiler. Housing size were mostly between 20 to 30 pyongs in floor space (KHAB, January 1980; March 1981). Large developers instead provided a central heating system, i.e., a system which supplies heat and hot water to each dwelling unit from a single boiler plant centralized for the whole estate. They used higher quality building materials. Houses were more spacious. By 1983 and 1984, luxurious row houses with 70 to 80 pyongs in floor spaces became common (KHAB, April 1984).

In the period of the apartment development boom in the 1970's, an apartment estate often included up to several thousands dwelling units. As the prospect of the housing market was discouraging after the August 8 Measures in 1978, large developers had already been reducing the scale of development (KHAB, January 1981). Row houses were the right housing type for developers who wanted to reduce the scale of housing development. The Price Ceiling for new apartments had made row houses even more attractive for developers. As the Price Ceiling increasingly became a major barrier to maximizing development profits, the development of luxurious row houses became a way of evading the price ceiling.

Row houses had not been put under strict price control until 1983, as they had been built mostly at lower prices. Thus prominent housing developers could sell luxurious row houses at much higher prices than those of new apartments which were under the price ceiling. Row house prices were rising beyond 2 million won/pyong in 1983 when those of apartments were under the ceiling of 1.34 million won/pyong (KHAB, April 1984). As mentioned before, the early 1980's was the time when price stabilization was the first priority in government economic policy. Thus the rising prices of luxurious row houses began to worry the government.

In 1984, Hyundai Construction Co. was building 90 luxurious row houses with floor areas of 57 to 88 pyongs in Gangnam. The company applied for its plan to sell the houses at a price of 2.4 million won/pyong. This high price became the talk of the town and resulted in the high prices of luxurious row houses in general being subject to pub-

lic criticism. The city government suspended the approval of the application by Hyundai Co. on grounds of unreasonably high prices. The city government planned to put a price ceiling on row houses too, at first at 2.2 million won/pyong (Wolganhyundaejutaek, April 1984). This was finally lowered to 1.8 million won/pyong, which has since been the price ceiling for row houses (Maeilkyongje-Shinmoon, January 18 1988).

However, as the Price Ceiling applied only when one built 20 or more houses on a site, developers could still avoid the Price Ceiling by building less than 20 houses. It had been a common practice throughout the 1980's that developers divided land into several plots and built less than 20 houses on each site as a separate housing project (interviewee F).

A typical example was Poonglim Villa built in Yangje-Dong in Gangnam in 1989. The case was reported in a newspaper because of its unprecedented high selling price. The price was known as the highest for multi-dwelling housing by that time in the country. The houses, with 70 to 95 pyongs of floor space, were sold at 6.4 million won/pyong. The site consisted at first of one plot with an area of 998 pyongs in the Land Register. The developer divided it into two plots, each with 499 pyongs, and built 12 luxurious row houses on each plot and thereby avoided the Price Ceiling of 1.8 million won/pyong (Choongang-Ilbo, September 12 1989).

Price control of such luxurious row houses was again raised as a policy issue in 1990. The city government proposed to control the prices of row houses even when less than 20 houses were built on a site. The MOC considered putting a price ceiling on row houses on the basis of total floor space rather than the number of dwelling units built on a site. The idea was however abandoned. It was concluded that such luxurious houses were annually built in only small numbers and the price control would have little effect in stabilizing house prices in general. Also, that price control would only cause further rise in the prices of existing luxurious houses (KHAB, January 1991).

The prices of luxurious row houses were thus rising uncontrolled. In the Gangnam Area, the prices were around 2.5 million won/pyong in 1985. This rose up to 3 million in 1986; 5 million in 1988; 10 million in 1990; and up to 15 million in 1991 (interviewee F).

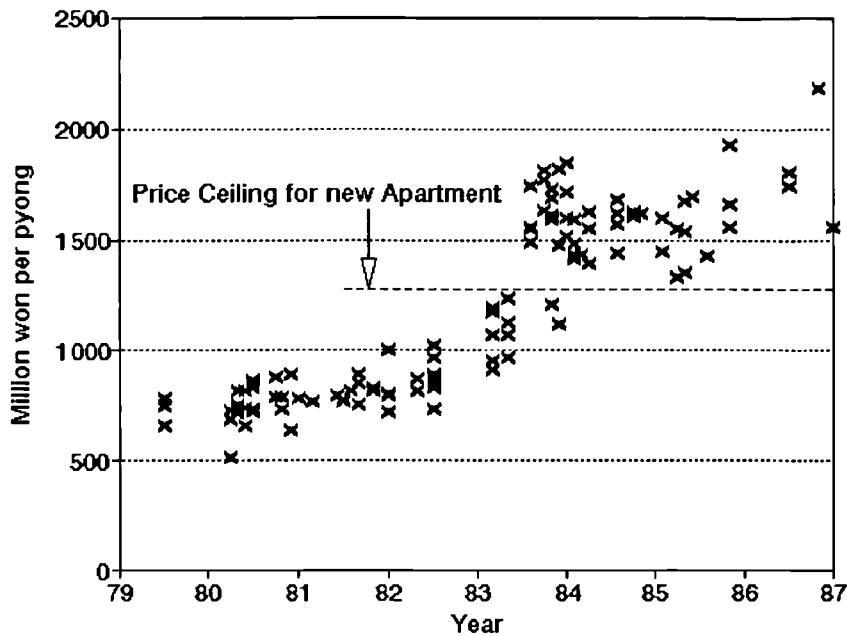
The development of such luxurious row houses could, however, not be extensive. First of all, locations were limited. As one interviewee described it: '**There is an exclusive market for such luxurious row houses with consumer-oriented design, and the development of row houses is a profitable business. But sites suitable for such development in terms of location are limited**' (interviewee B). Luxurious row houses built by large developers were thus small in number. Until 1983, row houses built by Designated Developers, all luxurious ones, were only 1 to 2 percent of the total houses built by them in Seoul. By 1988, the portion rose to 7 percent but again fell to less than 1 percent after 1989 (KHAB, February 1983; March 1984; February 1988; March 1989; February 1990).

Small developers, i.e., Registered Developers, have followed large developers in building more expensive row houses. Most of them began to use 'villa' for the name of their houses from 1983. Housing size became bigger: until 1982, row houses built by small developers were between 15 and 30 pyongs in floor space. By 1986, the floor space of row houses increased to 25 to 40 pyongs. After 1988, it became between 30 and 70 pyongs (KHAB, 1979 to 1990, each month).

Row house prices have far exceeded those of apartments. Figure 5.2 shows prices of row houses built by small developers in the Gangnam Area. House prices for this figure were obtained from the news on new house sales that appeared every month in the Korea Housing Association Bulletins (KHAB). This figure is also contrasted to Figure 4.6a (p181) in the previous chapter in terms of the distribution pattern of prices; house prices show higher dispersion. This may be due to the much greater variation of row houses in terms of the quality and location than those of apartments.

Nevertheless it is clearly seen that the prices of most new row houses built by small developers rose beyond the Price Ceiling for new apartments by 1983. Until the end of 1982, the prices were not exceeding 1 million won/pyong; the prices were below those of new apartments at that time which were rising beyond 1.3 million won/pyong as seen in Chapter 4. However, by the end of 1983, most row houses were priced at between 1.4 and 2 million/pyong while new apartment prices were set under the ceiling of 1.34 million won/pyong.

Figure 5.2 Prices of Row Houses, Gangnam, 1979-1988.



Source: Produced on the basis of data compiled from KHA (each month, 1980-1989).

The portion of row houses, both those built by small developers and luxurious ones built by large developers, in the total annual housing construction volume in Seoul had increased during the late 1970's and the early 1980's as shown in Figure 4.3 (p154). Until 1977, the proportion of row houses within annual total housing construction was less than 10 percent. In 1979, it rose to 32 percent. Between 1980 and 1983, it was 25 percent on average. Since then 20 to 25 percent of total houses have been annually built in row houses until 1990 (SMG, 1978-1985, each year). The increase was particularly considerable in Gangnam. Between 1984 and 1988, on average, more than one third of annual total housing construction volume was row houses in Gangnam (SMG, 1985-1989, each year).

This increase in the proportion of row houses which were mostly built outside the Price Ceiling has undermined the effect of the Price Ceiling to bind land prices for housing as well as new house prices. Before going into the movement of land prices for housing, the next subsection will examine another type of housing, cooperative housing, which has had greater effects in neutralising the house price ceiling.

### 5.3.2 Cooperative Housing

The Cooperative Housing System was introduced in the Housing Construction Promotion Law (HCPL) in 1972 when the government launched the Ten-year 2.5 Million Housing Construction Plan. The aim was to encourage urban middle class families to build houses with their own funds and arrangements.

According to the HCPL, there are two kinds of housing cooperatives: community housing cooperatives and employee housing cooperatives. At present, twenty families or more in a community who do not have their own homes can organize a community housing cooperative. Twenty employees or more in a corporate body can organize an employee housing cooperative too. Housing cooperatives then can either build their own houses or have priority in purchasing public housing. Housing cooperatives which want to build their own houses have to obtain the approval of the authority for the organization. Those who want to buy public housing, with priority, need only to report their existence as an organized cooperative (Article 44, HCPL). Once a housing cooperative is formed, it can have priority in purchasing land developed by public agencies and in the allocation of loans from the National Housing Fund. They are given reductions or exemptions in taxes associated with new housing. (Wolganhyundaejutaek, May 1987). This study focuses on employee housing cooperatives which build their own houses since it is they which have had a significant effect on new house prices and consequent land prices in Seoul.

During the 1970's, housing development by cooperatives was negligible. After the August 8 Measure in 1978, however, cooperative housing began to attract developers' attention as the marketability of new housing became a problem. In 1979, designated developers built 14,628 houses across the nation. This meant a 39 percent decrease compared to 31,647 houses constructed in 1978. However, cooperative housing constructed by designated developers increased to 2,443 units, almost double of that constructed in 1978 (KHAB, February 1980).

When housing development was becoming stagnant in 1979 and 1980, some housing experts and developers recommended to the government to promote cooperative housing construction by reducing taxes for it. It was argued that cooperative housing

could be a way of increasing housing provision without incurring housing speculation as no speculative market existed for it; and that cooperative housing could be developed without extra cost for land development since it could use small plots of idle land in developed areas. (KHAB, February 1980).

In the early 1980's, the government adopted a series of measures to encourage cooperative housing as the government was also keen to promote housing development without hurting the stabilization-first economic policy. The government relaxed the required conditions for organizing housing cooperatives. The minimum number of cooperative members was reduced to twenty from the previous thirty. According to the existing regulation at that time, only those working in firms or agencies with 500 employees or more could organize an employees housing cooperative. This was relaxed to firms and agencies with 100 to 300 employees. Additional incentives were given in terms of taxation and financing (KHAB, November 1980). In January 1982, the MOC made it obligatory for companies to provide 10 percent or more of pension funds to finance cooperative housing development for their employees (Chosun-Ilbo, January 23 1982). The government reduced the Property Acquisition Taxes and relaxed regulations on the transfer of cooperative membership in January 1984 (Dong-A-Ilbo, January 16 1984).

This cooperative housing has gradually become liable for speculative development since the property boom in 1983. For developers, cooperative housing, together with luxurious row houses, was becoming a means to evade the Price Ceiling as the price control system did not apply to it. Large development companies began to expand business in cooperative housing developments. The following is the examination of how speculative demand for cooperative housing had been growing during the 1980's.

From the point of view of purchasers, cooperative housing might be more expensive as the prices were not under the government control. However, advantages were greater. First, as seen in Chapter 3 and 4, there had been excessive demand for new apartments built under the Price Ceiling in Seoul, particularly in Gangnam. There was a long waiting list for those who wanted to buy such new apartments. They had to wait for many years subscribing to saving systems for housing in order to be able to purchase new apartments. Cooperative members were bypassing such long waiting list for housing.

More importantly, cooperative housing could be cheaper than those of new apartments which were sold under the Bond Bidding System, which will be outlined below.

From the late 1982 to the late 1983, the gap between the controlled prices and the actual market prices of apartments were sharply increasing in Seoul as shown in Figure 4.4 (p159). As mentioned before, the differences between the two prices are called premiums in Korea. These premiums were mostly realized by the first buyers of new apartments. Hence the prevalence of speculation on new apartments. The idea of the Bond Bidding System was to convert those premiums into public housing funds. The system was introduced in 1983. In the system, developers sell new apartments at controlled prices. But new apartment buyers have to purchase government bonds. The amount of government bonds is not predetermined but determined through a competitive bidding process; new apartment buyers must participate in the process of competitive bidding for government bonds. The highest bidder wins the unit and is obliged to purchase government bonds in the amount pledged in the bid before the sale is officially executed. Thus in the system, developers are paid for their apartments at the controlled prices while house purchasers pay the controlled prices for houses plus the value of government bonds. The system applies to certain large apartments in the areas designated by the government as Speculative Areas (Article 13-2 Clause 2, The Housing Sale Ordinance).

As the Bond Bidding System did not apply to cooperative housing, the prices of cooperative housing were still cheaper than the prices to be paid under the Bond Bidding System. Cooperative housing thus became increasingly popular among wage-earning middle class people. It was mostly in large enterprises, financial agencies and government agencies that housing cooperatives were actively formed. Members of such cooperatives were much better paid than those in small and medium size enterprises. In the latter, it was difficult for employees to form cooperatives because of the smallness of their own savings and the inability of employers to give necessary financial support (Wolganhyundaejutaek, July 1985).

Thus cooperative housing has increasingly become an object of speculation among well paid employees in large enterprises and agencies since the property boom in 1983. It became a common practice that existing homeowners, pretending to be non-homeown-

ers, became members of housing cooperatives. Once houses were built, they resold them realizing a lump sum of capital gains (Wolganhyundaejutaek, July 1985; May 1987; Budongsankkyongje, March 1991).

This brought public criticism. The city government had already restricted the resale of cooperative housing built with financial support from the National Housing Funds; houses could not be resold within 6 months after the first time occupancy (KHAB, March 1983). Later, the period was extended to two years. The Seoul city government also restricted the size of cooperative housing as the house units tended to become larger in size in July 1985. The new regulations required housing size not to be larger than 25.7 pyongs in floor space (Kyonghyang-Shinmoon, July 27 1985). This was a resolute step to control the speculative trade of cooperative housing (KHAB, September 1985).

There existed a wide impression that community housing cooperatives were mostly fraudulent ones. In provincial cities, they were widely used by small developers to borrow funds on favourable terms from the National Housing Fund (NHF) (Wolganhyundaejutaek, July 1985). In Seoul, the city government prohibited in 1987 organizing community cooperatives except in redevelopment areas. This was to prevent speculators and real estate agencies from organizing bogus cooperatives, which were prevalent in the name of community cooperatives (KHAB, March 1987).

Towards the late 1980's, the government reinforced the control of cooperative housing. In February 1988, the MOC extended the Price Ceiling upon those cooperative houses which remained after houses were allocated to the cooperative members and were to be sold to non-members (Kyonghyang-Shinmoon, February 29 1988). In 1991, the city government made it obligatory for cooperatives to allocate 50 or more percent of housing to smaller houses with 18 pyongs or less in floor space (KHAB, May 1991).

However, speculative demand for cooperative housing persisted. According to a report of the Board of Audit and Inspection, out of 674 cooperatives with 27,823 members organized since 1984, 523 of them with 21,030 members, turned out to be forged ones. Despite the regulation prohibiting resale of houses within two years after completion, 9,591 units were resold within the prohibited period (Wolganhyundaejutaek, May 1987).

Membership of housing cooperatives itself began to be traded at high prices. In 1990, membership of a cooperative in Gangnam was traded at 20 million won. The prices of cooperative housing often went up to 200 million won (approximately 7 million won/pyong). In October 1990, cooperative housing was traded in other parts of Seoul at a premium of tens of millions won even before the development plan was officially approved. Some real estate agencies established bogus companies and sold employee certificates required to organize a housing cooperative (KHAB, October 1988).

In response to this increasing speculative demand for cooperative housing, large developers have actively been involved in the development of cooperative housing. As mentioned before, when the cooperative housing system was first introduced, the idea was to encourage people themselves to build their own houses on their own initiative. However, as the Price Ceiling increasingly became a barrier to realizing maximum development profits by the mid-1980's, developers began to use cooperative housing, among other tricks, as a means to evade the Price Ceiling.

In the cooperative housing system, cooperatives become developers. They are to prepare development plans, obtain the approval of the authorities, purchase land, hire construction companies and sell the houses to cooperative members and non-members if there are extra houses. Since all these works need expertise, it has been common that cooperatives entrust all the works to development companies. In this process prominent development companies were preferred since the market value of housing is affected by the prestige of the companies which built that housing. Large development companies have, however, not remained merely contractors of construction works. They themselves began to initiate cooperative housing development. It became common that development companies purchase land, make development plans and then invite housing cooperatives. Cooperative housing has thus become a development method to avoid the price ceiling and thereby to maximize development profits (KHAB, October 1988; Budongsankyongje, March 1991).

Information on how developers realize maximum development profits in cooperative housing exist only by word of mouth. In the interviews for this study, this was the subject on which most interviewees were reluctant to give details. Two interviewees, from

a small development company and the KNHC, provided the details of how cooperative housing development had worked.

An interviewee suggested a case example: **'a developer built houses for a cooperative with say 35 members on a site on which 50 houses could be built. In this case, the developer can sell the extra 15 houses to non-members at market prices (when the extra houses are 20 or more, the sale must be open to the public at controlled prices). What is more, all the 35 members are not original cooperative members; only, say, 20 are original members. The remaining 15 are those who were invited to join the cooperative later. To these later joiners too, the developer sells the houses at market prices'** (interviewee J). This was corroborated by another interviewee, a small developer, who further explained the role of real estate agencies in the above process: **'real estate agencies often take part to organize cooperatives or invite members who want to join cooperatives later. They sell membership to these later applicants. Only to the original 20 members, the minimum number for organising a cooperative, are houses sold at cheaper prices on agreement though still higher than the controlled prices'** (interviewee I).

Development companies go through all the administrative procedures in the name of housing cooperatives. To do this, the companies formally sell land to cooperatives and participate in the development as a contractor of construction works. This is nothing but an expedient means to sell houses at higher prices than the price ceiling (interviewee I).

The results of investigations by the Board of Audit and Inspection and the Public Prosecutions Administration of cooperative housing development add support to these statements by the interviewees. Two cases were made public and brought public criticism in 1991 and 1992. They illustrate how development companies have exploited the cooperative housing system.

The first case, called Suseo Affair, shook the government and political circles at the beginning of 1991. The company involved in the case was Hanbo Housing Company Ltd., a leading housing developer. The company purchased 35,500 pyongs of land in the Suseo area (near Gaepo shown in Figure 4.2, p148) in Gangnam between April 1988 and June 1989. The company then invited 26 housing cooperatives with 3,360

members and made an agreement with them on housing development. Land was formally resold to the cooperatives in December 1989 on a tacit agreement that Hanbo would build housing for the cooperatives on the land (Budongsankyongje, March 1991).

Earlier in March 1989, however, some 400,000 pyongs of land in the Suseo area including the land which Hanbo had purchased was designated by the city government for a Public Purchase and Development (PPD) Area. This meant that Hanbo had to yield their land to the city government at the appraised value on the basis of previous use, farm land in a Green Area. Once the land was sold to and developed by the city government by the PPD, it was in principle to be sold to developers who would build housing for public sale, not cooperative housing. Hanbo, after it sold the land to housing cooperatives, began to press the city government to provide the land to the housing cooperatives after the PPD project in the area. The company incited housing cooperatives to appeal to the city government, the Ministry of Construction (MOC), the National Assembly and the Presidential Office for special provision of land to them. The cooperative members were from government agencies, newspaper companies and banks which could have a certain influence on the city government decision. At the same time, Hanbo itself lobbied men of influence in both the ruling and opposition parties and the government by offering political funds in secrecy (Budongsankyongje, March 1991; Kim, I.D, 1991).

The city government rejected the demand for special provision of land several times until September 1990, when it finally yielded to the increasing pressure from the central government, the National Assembly and the Presidential Secretariat Office. This soon raised a scandal. As the city government decided to give such special privileges to housing cooperatives, landowners and residents in the area rose up against it. They also demanded land after development instead of cash for the compensation of their land which was to be sold compulsorily to the city government. Landowners and residents went on stay-in strikes at the city hall for several days in succession. Some subscribers of the Housing Subscription Savings System, waiting for their turn to buy new apartments at the controlled prices, did not stand idle. They instituted a suit in the high court against the decision of the city government to provide land to housing cooperatives as

their chances to get new apartments were reduced (Budongsankyongje, March 1991; Kim, I.D, op. cit.).

In January 1991, it became a political issue. Rumours ran that there were illicit transactions of a colossal sum of political funds between Hanbo and high ranking government officials and politicians including those in the Presidential Offices. President Rho ordered the Board of Audit and Inspection and the Prosecutor General to investigate the matter in February 1991. The affair led to nine arrests and imprisonment including high ranking officials from the Presidential Offices and the MOC, and five National Assemblymen from both ruling and opposition parties; the resignation of two ministers and the mayor of Seoul; and a shake up in the ruling party. The decision to allow the land for the cooperatives was cancelled (Segye-Ilbo, January 31 1991; Budongsankyongje, March 1991; Kim, I. D, op. cit.).

A similar incident happened in a neighbouring borough, Gangdong-Gu in 1992. Kunyoung Construction Corporation, a newly growing housing development company, purchased 6,425 pyongs of land from the Korea Land Development Corporation (KLDC) in April 1988. The internal regulation of the KLDC prescribed that land developed by the method of the Public Purchase and Development (PPD) could not be provided for cooperative housing. Thus the land was sold to Kunyoung on the condition that the land would not be used for that purpose. However, from the beginning Kunyoung had a plan to build cooperative housing in the land ignoring the KLDC regulation (Chosun-Ilbo, October 23, 25, 26, 31, 1992).

After the purchase, the company began to demand that the KLDC change the regulation and lobbied those in authority to influence the KLDC to accept the company's demand in June 1989. The KLDC changed its regulation to allow Kunyoung to sell the land to housing cooperatives in September 1989. The company then invited 8 housing cooperatives with 545 members and sold the land to the cooperatives in November 1989. In September 1990, these housing cooperatives obtained the approval for housing development on the land. Although the land was formally sold to the cooperatives, Kunyoung had its subsidiary company to contract the construction works. Thus the company was in control of the whole development process (Chosun-Ilbo, October 23, 25, 26, 31, November 2, 11, 12 1992). This process involved irregularities. These were

the ignored or infringed regulations on cooperative housing which had been strengthened since 1988, and which will be examined below.

As of 1990, there were about one million subscribers of saving systems for housing: the Housing Subscription Saving System and the Housing Subscription Deposit System in Seoul (KNHC, 1992b). They had been waiting for many years for an opportunity to buy houses at controlled prices which were much lower than market prices. The increasing involvement of developers in cooperative housing meant their turning away from housing development for public sale under the price control system and thus less opportunities for the above subscribers. This worried the government. The government began to regulate the involvement of housing developers in cooperative housing. In February 1988, the MOC promulgated a regulation prohibiting developers or construction companies who sold their land to housing cooperatives to become contractors of the same cooperatives (Chosun-Ilbo, October 26 1992). However, large developers adopted an expedient to entrust the construction works to their own subsidiary companies, as was the case with Kunyoung in the above incident, or construction companies affiliated to the same business group (**interviewee I**).

In July 1989, the MOC laid down a new regulation that the authorities hold the right to reject any application for cooperative housing development when the land was purchased from housing development or construction companies. On the authority of this regulation, the Seoul city government instructed its borough municipalities not to give approval to plans to build cooperative housing on land owned by or purchased from development or construction companies (Chosun-Ilbo, October 26 1992). In the above case of Kunyoung, the borough office ignored that instruction. The case underwent an inspection of the Board of Audit and Inspection in November 1992. As housing construction was almost completed at the time of the inspection, the case was ended by punishing public officials who had ignored the regulations (Chosun-Ilbo, November 2, 11, 12 1992).

The above two cases were made public because they became objects of investigation by the Tax Administration, the Public Prosecutions Administration or the Board of Audit and Inspection for their violation of such regulations. The cases may not be generalized. Nonetheless, the cases confirm the information collected from interviews.

First, both have in common that developers arranged cooperative housing development on land they had already purchased. Both companies resorted to an expedient to evade the regulations mentioned above. They sold land to cooperatives only formally; but in reality they were actively involved (Kunyoung) or going to be involved (Hanbo) in the development of housing by having their subsidiary companies contract the construction works.

Both cases involved speculative cooperative members. When the Suseo scandal broke out in Gangnam, half of the cooperative members turned out to have been existing homeowners, who were not eligible for housing cooperative membership. In the case of Kunyoung, 21 percent of the cooperative members turned out to be unqualified for membership (Chosun-Ilbo, November 11 1992).

Cooperative housing has thus become a major type of housing development for large housing development companies, a way to evade the price ceiling. It is no longer what it was originally intended to be: a system in which people themselves build their own houses with their own funds and arrangements. The significance of the cooperative housing system to this study is its effect on new house prices and land prices, which will be examined below.

As the Price Ceiling was not applied to cooperative housing, their prices could rise unlimited. Up until 1987, the rise in prices was moderate. For example, the Hyundai Apartments (which are highly reputed in the country) built for housing cooperatives in Gueui-Dong, the other side of the Han River opposite to Apgujeong (see Figure 4.2, p148) in the late 1987, were priced at around 1.6 million won/pyong while the price ceiling remained at 1.34 million won/pyong. (Mailkyongje-Shinmoon, January 18 1988). The prices began to rise rapidly from 1988 when the property market started to boom. In 1988, prices of cooperative housing rose up to 2.5 million won/pyong (Mailkyongje-Shinmoon, October 14, 1989).

In 1990, the prices were between 2.5 and 3 million/pyong. In the same year, new apartment purchasers under the Bond Bidding System had to pay around 4 million won/pyong including the prices of the government bonds in Seoul. In the Gangnam area, market prices of apartments in prestigious areas were reaching 10 million

won/pyong. Thus cooperative housing members could still realize a capital gain of two or three times the prices they paid in the extreme case in Gangnam (Budongsankyongje, March 1991).

Statistics of annual construction of cooperative housing are not available for the whole period of 1980's. In Seoul, 23,163 cooperative houses were built by 1988, 13,470 in 1989 and 23,531 in 1990 (Budongsankyongje, March 1991). Since these houses have mostly been built since 1984 (KHAB, October 1988), annual cooperative housing construction in the latter half of the 1980's is estimated around 10,000 houses on average, 14.6 percent of annual private housing construction in Seoul.

The increasing involvement of developers in housing which were not under price control such as row houses and cooperative housing resulted in the increasing ineffectiveness of price control.

So far in this section, the ways in which developers have avoided the Price Ceiling System by building row houses and cooperative housing has been examined. An examination of how many houses have actually evaded the price ceiling will show how far the price ceiling has become ineffective by such practices of developers. Then the ways in which these have provided scope for land prices to rise and subsequently pressure house prices into growing will be examined in the following subsection.

### **5.3.3 Ineffectiveness of the Price Ceiling System and Rising Land Prices**

In 1981, development plans by private developers for 11,834 apartments were approved in accordance with the Housing Construction Promotion Law (HCPL) in Seoul. Out of this, 11,008 were for public sale under the Price Ceiling System (SMG, 1982). This accounted for 40 percent of total private housing constructed in that year. Data on private housing built under the Price Ceiling System in the late 1980's are not directly available. Thus an estimation was made.

Table 5.1 was prepared to estimate private housing construction under the Price Ceiling System (the Factor Cost Linkage System in 1990<sup>(6)</sup>). As mentioned before, housing

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6) This is mentioned in Section 3.6.2, Chapter 3

Table 5.1 Estimation of Private Housing Construction under Price Control, Seoul, 1986-1990.

	Total private housing (A)	Apartments (B)	Cooperative housing (C)	Redevelopment housing (D)	Housing under price control (E)=(B-C-D)	dwelling units Percentag (A/E)
1986	98,259	48,326	n.a	14,429		
1987	54,829	31,036	6,041	12,379	12,616	23.0
1988	49,064	18,070	n.a	9,723		
1989	54,298	21,677	13,470	6,123	2,084	3.8
1990	91,567	31,725	23,531	1,336	6,858	7.5

Source: Produced for this thesis based on data from SMG (1987-1991, each year); KNHC (1991); Budongsankkyongje, March 1991.

development projects which build 20 houses or more on a single site are subject to the price control for housing sales. Detached houses and row houses have mostly been built on small sites with less than 20 houses and are thus excluded from the object of price control. It is mostly apartments which have been built under price control. Column B in the table indicates total apartments built by private developers in Seoul. Column C is apartments for housing cooperatives which have not been under the price control. Column D presents redevelopment housing which has also not been under the Price Ceiling<sup>(7)</sup>.

Now by subtracting both redevelopment housing and cooperative housing from apartments built by private developers in column B, an estimation of the number of housing under the price control is obtained. The figures in column E are the estimated number of private housing built under the price control. In 1987, those under the price control accounted for 23 percent of total private housing construction. For 1988, although an estimation cannot be made due to the lack of data on cooperative housing, the annual

7) Redevelopment Housing here indicates housing built in the Joint Redevelopment, the redevelopment of squatter settlements by the joint venture of cooperatives of squatters and construction companies. In this scheme, land, mostly state land or city land, is sold to squatters at appraised prices, and direct relationship between private landowners and developers does not exist. Thus in this research, redevelopment housing is not considered in detail.

report for the city administration notes that private housing development under the price ceiling was almost non-existent (SMG, 1987). Thus the percentage in 1988 is estimated at less than 5 similarly to that in 1989. In 1990, after the Price Ceiling System was replaced by the new Factor Cost Linkage System in the late 1989, the percentage rose to 7.5.

This decrease in housing construction under the Price Ceiling System implies that the Price Ceiling became almost ineffective in the late 1980's. In other words, most private housing developers were avoiding the Price Ceiling System by the late 1980's. In this respect, the common argument that the Price Ceiling has discouraged housing development by making it unprofitable during the 1980s is unfounded. New house prices have been rising almost uncontrolled in the late 1980's. The question is whether such uncontrolled high prices of row houses and cooperative housing have been caused by high land prices.

As mentioned above, luxurious row houses and cooperative housing development began in the early 1980's in Seoul. It was the time when housing developers could still realize good profits in the city. Figure 4.8b (p187) shows that apartment development in Gangnam was yielding a development profit of 15 to 25 percent of new house prices. An interviewee, a managing director of a leading housing development company, remembered that: '**until around 1984, apartment development was yielding a surplus profit of 100,000 to 200,000 wons per pyong in Seoul**' (interviewee B). These figures are equivalent to 10 to 20 percent of new apartment prices. Thus it cannot be said that it was because apartment development under the price ceiling was unprofitable that developers turned to luxurious row houses and cooperative housing in the early and mid-1980's.

In the late 1980's, many large developers were building cooperative housing on their own land which they had been holding for many years (Interviewee, J; D). According to a Ministry of Construction (MOC) report, Designated Developers in Seoul were holding around 270,000 pyongs of land in 1989, which could accommodate more than 15,000 to 25,000 units if built in 15-storied apartment blocks (Hankookkyongje-Shinmoon, February 23 1989; Seoulkkyongje-Shinmoon, April 4 1989). This land was mostly used for cooperative housing. Leading development companies such as Woo-

sung, Daewoo and Hyundai Ho. were building cooperative housing on their own land which they bought several years ago in all parts of Seoul in the late 1980's (Seoulkyongje-Shinmoon, April 4 1989).

This implies that the development of luxurious row houses and cooperative housing was not forced by rising land prices. An analysis of new house prices in terms of its breakdown into development profits, construction cost and land cost (as has been done in Table 4.3 (p186) in Chapter 4) would confirm this quantitatively. However, the analysis in this section cannot but be very rough because of the high degree of dispersion in new houses prices and lack of data. As seen in Figure 5.2, the prices of row houses have been highly dispersed because of their diversity in design, quality of construction and location. Row houses are mostly built in small sites with less than 20 units and thus their prices are likely to be affected by locational differences. Thus it is extremely difficult to delineate the correlation between land prices and house prices for a large area such as Gangnam. Apartment prices, on the other hand, are relatively less dispersed since apartments are built in large estates with hundreds to thousands of dwelling units and thus much less affected by such small locational differences. Thus in this research the prices of cooperative housing, almost all of which are apartments, were analysed.

Table 5.2 shows the change in the estimated breakdown of cooperative housing prices between 1986 and 1991. The prices of cooperative housing have not been made public since they have not been sold to the public. Approximate average prices of cooperative housing were obtained from newspapers and real estate magazines as mentioned in subsection 5.3.2. For construction cost, the KNHC estimation was used for the same reason as explained for Table 4.3 (p186). For land prices, the Korea Appraisal Board (KAB) and the Korea Appraisers Association (KAA) data were used for 1986 to 1990 and for 1991 respectively. The prices are averages of middle grade land in central areas (Banpo, Seocho and Daechi) of Gangnam where private apartment development has concentrated. As was done for Table 4.3, it was assumed that there was one year time lag between land purchase and housing sale; thus land prices of previous year were matched against house prices of each year. Accordingly one year interest rate on loans of commercial banks, 10 percent per annum (BOK, 1991), was added to land prices. Figures in column C are land prices calculated in this way. These land prices were mul-

plied by the Floor Area Ratio (FAR, column D), the ratio of floor space to site area, to be converted into land cost (E), i.e., land prices per a pyong of floor space of houses. The FAR was 200 percent until 1987 and 250 after that following the change in density regulations (see next section). Finally, development profits in Column F were obtained by subtracting construction cost (B) and land cost (E) from house prices.

This is presented into a chart, Figure 5.3. The top line indicates the prices of cooperative housing and the bottom area indicates the portion of land cost within house prices. The hatched area between this land cost and construction cost, the top area, represents development profits. Surplus profits included in the development profits provided room for land prices to rise.

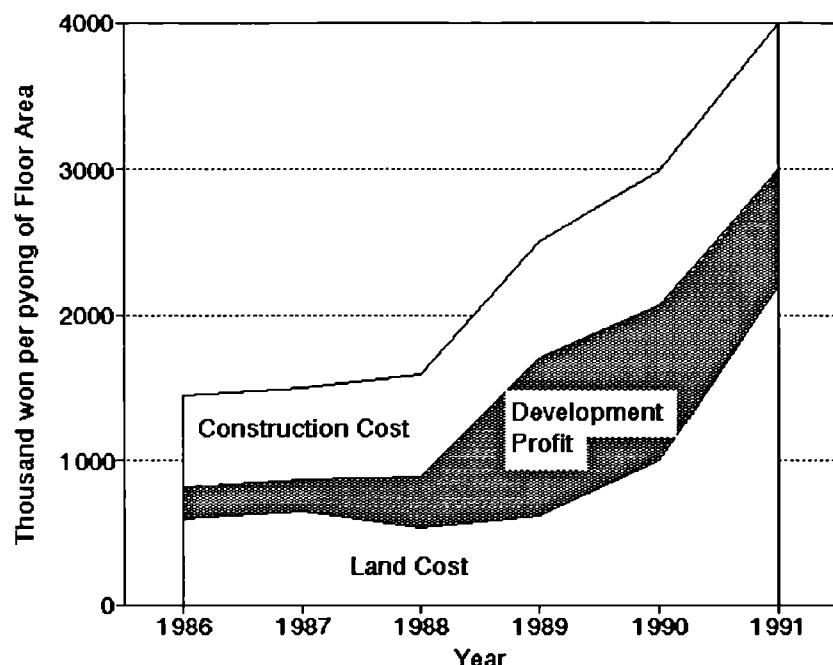
For Table 4.3 in Chapter 4, surplus profit was calculated by subtracting normal profits from this development profit. The Normal Profit to Net Sale (NPNS) in the construction industry was used for normal profit. Since 1986, the NPNS in the construction industry has been null or negative (BOK, 1991). Thus if the NPNS is taken as the normal profit for this case, the development profit as presented as hatched area in the figure can be regarded as surplus profit. It indicates the room for land cost to rise further. In

Table 5.2 Changes in Development Gains in Cooperative Housing, Gangnam, Seoul, 1986-1991.

Year	Unit: thousand won/pyong							
	House Prices (A)	Construction Cost (B)	Land Prices (D)	FAR (%)	Land Cost (E)	Development Profit (F)	F/A (%)	
1986	1,450	630	1,200	200	600	220	15.2	
1987	1,500	636	1,300	200	650	214	14.3	
1988	1,600	712	1,350	250	540	348	21.8	
1989	2,500	795	1,540	250	620	1,085	43.4	
1990	3,000	928	2,500	250	1,000	1,072	35.7	
1991	4,000	1,000	5,500	250	2,200	800	20.0	

Source: Produced for this thesis based on data from Mailkyongje-Shinmoon (January 18, 1988; October 14, 1988), Budongsankyeongje (March, 1991) for house prices; KNHC (1992a) for construction cost; KAB (1985-1989, each year), KAA (1990) for land prices.

Figure 5.3 Changes in Development Gains in Cooperative Housing, Gangnam, Seoul, 1986-1991.



Source: Produced based on Table 5.3

1986 and 1987, when the housing market was still stagnant and thus house prices were steady, the profits were only marginal. In 1988, house prices began to rise rapidly while land costs slightly fell because of the relaxation of density regulation, which will be discussed soon. In 1989, house prices rose very rapidly yielding a very high surplus profit. For those houses sold in 1990, land cost began to catch up with house prices. This is a rough estimation. Yet, it is seen that high house prices have provided the room for land prices to rise sharply in the late 1980's; as it was in the 1970's and the early 1980's as seen in Figure 4.8a and 4.8b (p187), in the late 1980's too, high house prices have enabled high land prices. This coincides with what **Hypothesis One** suggests.

The remaining question in this chapter is **Research Question Two** about the role of landowners: their behaviour in the process of creating and appropriating development gains and its effects on housing development. This is examined in the following section in reference to the above housing development situation in the late 1980's.

## 5.4 Conflicts, Compromise and the Increasing Government Intervention

Regarding **Hypothesis Two**, landowners' behaviour in transforming surplus profits into land prices has been described in the previous chapter. Yet the examination of the effects of such behaviour on housing development was left over to this chapter. It has been hypothesized that the effects are that as certain developers work out new ways of increasing surplus profits, these new ways soon become the norm. And that difficulties due to the conflicts between landowners and developers have induced government intervention, politicizing the determination of land prices.

This section first examines what has happened to the relation between landowners and developers when it was not directly interfered in by the government. Then it examines the effects of government intervention.

### 5.4.1 Changing Ways of Housing Development

The transformation of parts of development gains into the form of land rent or prices is not carried out in an orderly way. It is facilitated through such unmanageable behaviour in the land market as monopoly pricing, land withholding and waiting, and speculative transactions as described for the case of Seoul in the previous chapter.

Such market behaviour was no longer peculiar to Seoul in the late 1980's. In provincial cities too, land acquisition had become no longer easy. Since the late 1980's, developers have faced monopoly pricing, land withholding and waiting by farming landowners, and the trickeries of real estate agencies and speculators in the land market.

Farmer landowners are also difficult to negotiate with. A small developer interviewee even argued that '**landowners, mostly farmers in small provincial towns, are never negotiable with at all. They do not care how much their own land is worth but how much others are paid in the area**' (interviewee I). Though this may be a one-

sided view, all the interviewees agreed that it became increasingly difficult to purchase from farmer landowners.

Thus most developers have to rely on local real estate agents for mediation. In some cases, the agents themselves arrange land for developers. They persuade landowners to sell land at certain prices, then propose developers to buy the land. In this process they often put several developers into competition with each other raising the prices (**interviewee A; I**).

Thus know-how and skills in land dealing have become even more critical in housing development than before. In the period of development boom in 1988 and 1989, companies who did not have expertise in land dealing often gave up plans to purchase land from private landowners and turned to public developers for land. Even those who have well organized land agents networks could purchase only half of the land which they originally planned to do as of February 1989 (Hankookkyongje-Shinmoon, February 23 1989).

Towards the end of the 1980's, irregularities associated with land transactions for cooperative housing were added to such old practices in the land market. As cooperative housing development boomed, dealing in land for cooperative housing became lucrative. Residential land remaining undeveloped has been thoroughly searched for cooperative housing. Land brokerage has often gone to excess to stir up trouble. Green tracts of land, used to serve neighbouring residents as parks for many years, has been converted into land for cooperative housing. This process has raised troubles between landowners and the municipalities, and between cooperatives and the neighbouring residents (Seoulkyongje-Shinmoon, September 21 1989). Lobbying and bribing public officials in the authorities concerned became common for the conversion of Green Areas into Residential Areas and for the approval of development plans (Budongsankkyongje, March 1991; Huh, S.H, 1991). Fraudulence in land brokerage has been frequently disclosed by police investigation. In some cases, brokers defrauded cooperatives of their prepayments for land by lying that they would buy the cooperatives the city-owned land at cheap prices, or would have Green Areas converted into residential one (KHAB, October 1988; May 1991).

By the end of the 1980's, land available for apartment development in Seoul except that provided through the PPD had been priced at the levels at which only cooperative housing could be profitably developed. An interviewee stated: **'land prices in Seoul have now [as of March 1992] risen up to 4 to 5 million won per pyong. Only housing cooperatives can buy land at such prices and can still profitably develop housing. It is no longer profitable if one pays for land more than 2 million won per pyong for apartment development under the price control'** (interviewee B). Another interviewee thus blamed housing cooperatives for such high land prices: **'all land in important locations in Seoul is now held by housing cooperatives. Housing cooperatives are the very ringleaders who have instigated a rapid rise in land prices for housing'** (interviewee D).

In the previous chapter, it has been noted that Hanshin Co., a leading housing development company, failed to purchase the remaining land in an Apartment Area in Banpo in the early 1980's. It was as late as 1990 that the company could develop the land and then only by building apartments for housing cooperatives. An interviewee indicated this as an example in which a developer had no option but to build cooperative housing (interviewee B).

This implies that developers had to build cooperative housing if they were going to purchase land for housing in such a particular circumstance in which cooperative housing became a way of realising higher surplus profits by evading the Price Ceiling System. This has caused a trouble to small developers.

It is not because high land prices make housing development less profitable but because they increase the minimum level of capital investment per a unit area of land. One interviewee from a small development company stated the difficulties. **'For small developers who build 50 to 100 houses a year, it is difficult to build high rise apartments because it takes much longer time to build them than low rise ones'**<sup>(8)</sup>. **Small developers build 5 storied apartments to quicken the turnover of the working**

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8) 15 storied apartments take 20 months or more while 5 storied ones take 12 to 15 months for their construction (KNHC, 1992c).

**funds although high rise ones are desirable to save land cost' (Interviewee I).** This means that as land prices rise faster, their competitiveness decrease.

Moreover, rapidly rising land prices drive small developers out of profitable development areas. The interviewee continued: **'it is desired to do housing development in Seoul with a very good marketability. The problem is that as the land prices are so rapidly increasing, the scale of projects must be reduced in terms of development area as the development cycle is repeated. In other words, with small operational capital with which 50 to 100 houses could be built annually, it is difficult to keep up with the rising land prices. Thus many small developers had to move into provincial cities where land prices are still at lower levels' (interviewee I).**

High development density is an instance in which the conflicts between landowners and developers have resulted in the increase in the normal level of capital investment in land. In 1978 when apartment estate development was booming, the city government regulated building distance to be kept at a minimum of 1.2 times building height to secure the right of neighbours to sunshine. The Floor Area Ratio (FAR), the ratio of building floor space to the site area, was kept under 180 percent (SMG, 1978).

As developers increasingly complained of the rising land cost, the city government allowed developers to build 16 storied or higher apartment buildings in 1985. Until that time the apartment building height was restricted at 15 stories. It was a part of the measures to promote housing development in the mid-1980's when annual housing construction was at low levels (Choongang-Ilbo, July 26 1985).

In 1987, the regulations on building density were again relaxed. The minimum building distance was reduced from 1.2 times building height to 1. The maximum FAR was raised from 180 to 250 percent (SMG, 1987). When the implementation of the Two Million House Construction Plan became a pressing policy issue in the late 1980's, the regulations were further relaxed. The maximum FAR increased from 250 percent to 300 percent; the Building Coverage, the ratio of the ground floor area to the site area, was increased from 25 percent to 30; the building distance was reduced from 1 times the building height to 0.8 (Seoulkyongje-Shinmoon, March, 23 1990; Choongang-Ilbo, April 4 1990).

However, the relaxation of the density regulations has only had temporary effects in reducing the burden of land cost. The savings are soon transformed into land prices. '**It helped save land cost only for land which developers have already purchased**' (**interviewee B**). It was for this reason that developers have always been calling for further relaxation of the density regulations. The problem has been that they had to pay more for new land for the next turn of business. Landowners are quick to price their land at the level which only the new higher density development can afford. An interviewee testified that '**it is of no help to relax the density regulations in solving the problem of rising land cost to developers**' (**interviewee B**).

Whenever the government relaxed density regulations, it was justified by the assertion that it was inevitable to reduce the land cost burden to develop cheap houses. That assertion is, in this respect, unfounded. Relaxing the density regulations in the end results in higher land prices.

### **5.4.2 Towards the Direct Control of Land Prices**

#### **5.4.2.1 Landowner-Developer Joint Development**

In the late 1980's, it became extremely difficult to purchase land from private landowners in Seoul. Monopoly pricing was as before, a practice such that when a developer buys land in an area, a few landowners demand two to three times the prices paid to others in the same area (**interviewee I**). One small developer interviewed was having such a problem at the time of interview. He obtained the city government's approval for a housing development plan which needs some 5,000 pyongs of land. He bought up about 3,000 pyongs at 2 to 2.5 million won/pyong up to April 1992. However, the remaining landowners began to demand 6 to 7 million won/pyong for their land without which the development plan could not be carried out. The project came to a deadlock 16 months after the company began to purchase land. The company was thus in financial difficulties with 7 billion won tied up in the land (**interviewee H**). Thus developers often have to reduce the site to exclude land for which owners demand monopoly prices and thus develop the site in odd shapes. In other cases, smaller developers who

have such monopoly price problems give up land to larger ones who have expertise in land dealing (**interviewee I**). Interviewees from the Korea Housing Association (KHA) and Hanyang agreed that 'now it is inconceivable to purchase land for housing development through negotiations with 70 to 80 landowners in Seoul' (**interviewee, G**).

At the end of the 1980's, landowners too were not undisturbed. As seen in Chapter 3, public criticism on housing and land speculation reached its peak in 1988 and 1989; the government had to take tougher measures to regulate land holdings and hoarding. The legislation of *Landgonggaenium*<sup>(9)</sup> was the result. Three laws were legislated in December 1989: the Law Regarding Development Gain Tax; the Law Regarding Excessive Capital Gain Tax and the Law Regarding the Limitation of Housing Land Holding. This new policy environment has increased pressures on landowners to release land for development (Choi, C.K, 1991).

The Law Regarding Excessive Capital Gain Tax provides regulations on the taxation of capital gains on idle land. It aims to put pressure on landowners to release land for development. When the price of certain idle land rises faster than the average land price in its appropriate administrative area, the landowner has to pay 50 percent of the excessive rise, i.e., the difference between the rise in the price of that particular individual land and that of average land in the relevant administrative district (*Ibid*).

With the enforcement of this law, landowners were put into a dilemma. If they sold land, they would have to pay the Property Transference Tax. Even when they sell land it is difficult to find alternative ways of keeping wealth. It is not easy for landowners to develop land themselves. They lack know-how and capital for land development. In the past, they could simply hold land until the price rose to a certain level. However, they have now to pay every year taxes on capital gains which are not yet realized as long as they keep that land idle (**interviewee F**).

Landowners are thus in need of leasing their land. However, in Korea, when land and buildings standing on it are separately owned by different persons, the landowner has to

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9) As indicated in Footnote 2 in Chapter 2, *Landgonggaenium* ('public' concept of land) is an idea to restrict private ownership of land.

pay heavy taxes. This is to prevent rich landowners evading the Inheritance and Gift Tax by leasing their land to their successors who become building owners and transferring all the rent from the property to them (**interviewee F**). Thus landowners were in a difficult situation in which none of selling, keeping and lending their land was satisfactory.

This situation brought about the landowner-developer joint housing development. There are a variety of ways of joint development in terms of the division of labour and share of development gains between the two sides. From the point of view of developers, the simplest one is that a developer simply carries out construction works and is paid in cash for the construction costs. The other extreme case is that a developer takes charge of the whole process from the preparation of the development plan to the execution of house sales. In this case the developer is paid all the costs plus its share of development gains. Most landowners are private individuals who are rich in land. Some are corporate bodies such as educational foundations and manufacturing companies. Landowners here are not those who are ignorant of the circumstances of the land market such as farmer landowners were in the early 1970's in Gangnam. Most of them have a good knowledge of land development. Some of them are small developers who have land but lack funds, or have failed to obtain the approval for their development plans. Developers join these various types of landowners on trust business basis or simply as contractors. In the former case, land is transferred to developer and land prices are paid back after development (**interviewee A; E**).

This is called 'Lets Project' in Seoul. Developers were building apartments, row houses, villas, leisure buildings and shopping buildings in this way. Payments to developers were made in the form of cash or building floor spaces. In any case the mechanism is that the landowner provides land and the developer provides capital, and ideas for development, and conducts construction works, and then the two share the development gains according to their respective contribution (The Housing Survey Department, KNHC, unpublished documents, 1992).

There are no statistics and studies yet on this new type of housing development. Between January and March 1992, the KNHC conducted a survey on business strategies and technology development of 9 prominent construction and housing develop-

ment companies. The companies surveyed include four leading housing development companies; three were newly growing large developers; two were large construction companies. Among these, two leading housing companies and the two large construction companies were actively carrying out the Lets Projects (Ibid).

The Lets Project had started only a year before this study (February to April 1992). Therefore problems associated with this new type of development are not yet fully exposed. However, information gained from interviews suggested that, as one easily may expect, the assessment of land value was becoming a central source of conflict between developers and landowners (**interviewee A**). Irregular practices were making the procedure more complicated and difficult. Land was often formally valued at lower prices than its actual value, on the request of landowners to evade parts of property taxes on land. Thus development was becoming cumbersome in relation to its scale, as in a development project which contained no more than a few hundred apartments (**interviewee B**).

The interviewees from the three leading development companies agreed that this type of landowner and developer joint development could not be a major business for them. The Lets Project may be a business area to help maintain a housing department in a firm who does not want totally abandon housing business. A company which concentrated on this joint development managed to build more than 2,000 apartments in 1991 and was planning to expand the Lets Projects up to half of the total housing sale by 1994 (Ibid). For larger developers such as Hanyang and Hyundai who built more than 10,000 houses in 1990 (see Figure 1.7, p24), this was not enough to be a main business. '**It cannot be a major business for large companies. For large housing development companies, housing development can be main business when they can purchase a large unit of land and then develop apartment estates in a large scale**' (**interviewee A**).

This Lets Project is a form in which the conflicting landowners and developers have come to a compromise, although, it is said (**interviewee A; B**), it cannot be a major business of large development companies. Delays and stalemate were becoming common in joint developments. The government, on the other hand, has not been in a position to let the conflicting relationship between landowners and developers take its own

course. As seen in Chapter 3, the government has become increasingly committed to housing provision; it has had to promote housing development. Hence the inevitability of government intervention in alleviating the conflict between landowners and developers.

#### 5.4.2.2 Direct Control of Land Prices

The Public Purchase and Development (PPD), as was said in Subsection 3.4.2 in Chapter 3, is a system in which the government agencies purchase private land at appraised prices rather than actual market prices, and then develop and sell the land to both public and private developers. When asked, all the interviewees from the three large private development companies preferred the PPD to the Land Readjustment Project (LRP) despite some troubles with the government will be noted soon. The interviewees argued that monopoly pricing by a few small landowners was making housing development on land to be purchased from a number of different landowners virtually impossible. The PPD eliminates all such annoying practices in the private land market. Secondly, in the PPD area, land is provided with necessary infrastructures (interviewee, A; E; G).

Thus developers, particularly large ones, have increasingly relied upon land provided by the PPD. When the development of the two New Towns were announced (see Section 3.2, Chapter 3), large developers thought it was an opportunity to expand their business in housing development. Hanyang purchased the largest amount of land in the New Towns. For the two years of 1989 and 1990, Hanyang built 16,000 apartments each year, the largest amount of housing construction among private developers (KHA, 1992). In 1990, 81 designated developers bought 2,255,800 pyongs of land for housing development. Out of this 80 percent of land was purchased from the PPD projects. In Seoul, 83 percent came from the PPD areas (Choogangkyongje-Ilbo, February 28 1991).

Table 5.3 shows that land provided by the PPD has been increasing. Between 1977 and 1981, land provided by the PPD accounted for 14.2 percent of the total land developed by the public agencies. In 1982, this rose to 41.6 percent, which was equivalent to 23.3

Table 5.3 Residential Land Development by Sector and Methods, Whole Country, 1962-1989.

Year	PPD	Public LRP*	RD	Unit: 1000 m <sup>2</sup>		
				Subtotal	Private	Total
62-66	1,112	23,003		17,926		
67-71	3,017	187,879		186,307		
72-76	2,735	79,685		62,171		
77-81	10,471	68,494		73,881		
82	7,843	10,141	406	18,390	14,430	32,320
83	10,326	7,763	349	18,438	14,410	32,848
84	14,200	5,738	431	20,369	14,320	34,689
85	11,841	4,653	109	16,603	14,390	30,993
86	10,458	2,640		13,098	14,551	27,649
87	13,378	2,318		15,696	10,771	26,467
88	13,585	4,060		17,645	18,917	36,562
89				32,091	8,990	41,081

Source: Compiled from Cho J.H (1990).

\* LRP figures between '62 and '81 include privately developed land

percent of the total land used for housing. In 1988, the figures increased to 77 and 37 percent respectively. The PPD has increasingly dominated residential development since the late 1980's. Between April 1981 and the end of 1992, 18.9 million pyongs of land were provided by the PPD. In all 691,000 houses have been built on that land. This accounts for approximately 40 percent of total houses constructed in the country during the same period. As of the end of 1992, 50.3 million pyongs of land were under development by the PPD for 1,162,400 houses. The latter amounts to more than three quarters of the total houses under construction throughout the country at the time (The Land Development Department, KNHC, unpublished document, 1992).

The relation between the government and private developers in the PPD has been not without conflict; there have been disputes over terms of land supply as well as development control.

Developers are to pay in advance parts of the prices before actual development works begin. It was in 1985 when the KNHC and the city government began PPD projects in Sanggye-Dong, an area located in the northeastern part of Seoul (see Figure 2.2, p78) that the prepayment system was introduced. In the Sanggye-Dong development project,

public developers could not afford all the development costs. They recommended to private developers to participate in the development. From the point of view of private developers, this was an opportunity to obtain land in large quantities in Seoul (**interviewee, G**). This is commonly called 'Public-Private Joint Land Development'.

In this Public-Private Joint Land Development, private developers do not play any role in making development plans and design, or the management of the whole land development process. What they do is to provide funds in the form of prepayments for land which they are to be allocated after the development. The terms of payment are as followings. Developers have to pay 20 to 30 percent at the time of contract. Then 20 percent 3 to 4 months after and the remainder at the time when land is prepared for housing development. In this process, public developers have often failed to supply on time and changed one-sidedly land prices agreed by provisional contracts at the beginning (**interviewees A; B; G; H**).

These frequent changes in land prices and delays in land supply, the most annoying troubles to private developers, have been caused mostly by the conflict between landowners and the government. The latter has been intensifying since the late 1980's. With the increasing reliance of private developers on the PPD for land, its success is now dependent upon the direction of the conflict between landowners and the government. The next chapter is designed to deal with this subject.

So far in this section, it has been seen that developers faced increasingly higher land prices as they worked out new ways of increasing surplus profit such as high density apartment or cooperative housing development; that conflict associated with this has induced government interventions such as the relaxation of density regulations and the direct control of land prices. These are what was suggested in **Hypothesis Two**.

## 5.5 Conclusion

The first question examined in this chapter was how developers had realised surplus profits and thereby provided room for land prices to rise under the Price Ceiling System. This was a part of **Question One** to examine the situation after the early 1980's. It was indicated in Figure 4.8a and 4.8b (p187) that the Price Ceiling began to potentially make housing development unprofitable in the Gangnam Area from the mid-1980's. However, at that time developers were beginning to avoid the Price Ceiling by building row houses and cooperative housing. In the late 1980's, housing development subjected to the Price Ceiling almost disappeared in Seoul while annual housing construction was rising fast (see Figure 4.3, p154). The analysis of the changes in land cost, construction cost and development profits in Section 5.3 showed that developers were able to realise large surplus profits. Housing development could be profitable at even higher land prices as suggested in **Hypothesis One**. The common argument that land prices have risen under the Price Ceiling and this has discouraged housing development is thus unfounded. The Price Ceiling may have added some costs to developers in employing irregular ways of development but has never been the main cause for the poor performance in housing development in Seoul in the early and the mid-1980's.

As to **Research Question Two**, the irregularities in the land market have been described in the previous chapter. The irregularities were the practical forms in which landowners and intervening actors such as speculative investors and real estate agencies transform future development gains into the present land prices

This chapter has examined the effects of such landowners' behaviour on housing development. By continually transforming increasingly larger portions of future development gains into the present land prices, landowners have made developers face higher and higher land prices and in turn, developers have devised ever new ways of increasing surplus profits on the basis of increasing land prices. Conflicts associated with that process have increasingly resulted in the replacement of the market determination of land prices with political determination. This is the suggestion of **Hypothesis Two**.

Neglect of this point has led to the treatment of land prices and house prices in isolation from each other.

Large developers have called for the elimination of price control and a strong intervention of the government to eliminate irregularities in the land market such as monopoly pricing. Many experts and scholars too have argued for the liberalization of new house prices and stronger control of the land market for the promotion of housing development. This means non-intervention in the creation and realization by developers of surplus profits, the material source of land prices, with stricter control of its appropriation by landowners in the form of land prices. In other words, it is a demand for an intervention in the distribution of development gains in favour of developers which is after all dependent upon the power balance between the two actors. The PPD is a system in which the conversion of surplus profits into land prices is directly controlled by the state power. In the system, power relation between landowners and the state replaces the market determination of land prices in housing development. The Minister of Construction emphasized that the government strategy was still '**to promote housing construction by providing land through the PPD in large scale to private developers at cheap prices**' (KHAB, December 1988).

The next chapter will be an examination of how far the control by the government of the conversion of surplus profit from development into land rent has been successful.

# CHAPTER 6. **POLITICISATION OF RENT RELATION, INABILITY OF THE STATE TO CONTROL LAND PRICES FOR HOUSING: SEVEN CASE STUDIES**

## 6.1 Introduction

The previous chapters have concentrated on the relationship between landowners and housing developers and the consequent relationship between land prices and house prices. The examination has evidenced that the rising land cost in new house prices has been due to the contradictory relation between landowners and developers as suggested in the **Central Hypothesis**: developers compete with each other by continuously searching for new ways of increasing surplus profits; the ability of developers to create higher surplus profits gives the possibility for landowners to demand more payments for their land, encroaching larger and larger portions of surplus profit in the form of high land prices.

This creates a permanent tension between landowners and developers leading to spiral rises in land and house prices and often a stalemate in housing development. Whenever the Korean government was in a political crisis, this tension became a problem. A result was the increasing government intervention in the conflict between landowners and developers. Public Purchase and Development (PPD) became the major system of intervention during the 1980's. The previous chapters have examined how the PPD has become such a major form of government intervention.

The main concern of this chapter is how far the rent relation, the conflicting relationship between landowners and developers in the creation and appropriation of surplus profit in the process of housing production, is controllable by state power. As seen in Figure 1.8 (p25) in Chapter 1, land cost has been rising despite the increasing land supply by the PPD system. Thus **Research Question Three** was formulated for this chapter as '**why has the direct involvement of the government in land development for housing failed to control land prices for housing ?**'.

As mentioned in the previous chapter, the PPD became the dominant residential development method in the 1980's. According to the PPD, the government can purchase land by compulsion. The conflict between landowners and the government thus replaces that between landowners and private developers. Landowners are compensated at appraised values for their land. How to value land and compensate landowners for the land have been the major sources of conflict between the government and landowners.

Clause 1 of Article 46 of the Land Expropriation Law prescribes that land to be purchased by compulsion must be compensated for at 'reasonable prices'. Differences in the interpretation of the 'reasonable prices' between landowners and the government has been the source of trouble. Clause 2 of the same Article provides the criteria and methods for the appraisal of land value. Until the end of the 1980's, the appraisal had been based on Pegged Prices<sup>(1)</sup>. Land prices were to be determined by adjusting the Pegged Prices by appropriate price indexes for the period between the time when the Pegged Prices were noted and the time of land purchase. For the adjustment price indexes, the average rise in land prices in the appropriate administrative district or the total sale price index, had been used. The purpose was to exclude any future development gains from the compensation prices. For landowners, 'reasonable prices' meant prices of land actually traded in the market as affected by new development plans. It thus meant prices including a part of future development gains. How much future development gains have to be capitalized into present land prices has then been at the root of the trouble.

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1) The Pegged Land Price was noted in Subsection 3.3.2, Chapter3

The intensifying conflict between the government and landowners has resulted in changes in the forms and levels of compensation for land and associated properties in the PPD areas. The laws and regulations on the criteria and methods of the appraisal of land value have been revised increasingly in favour of landowners. The answer to **Research Question Three**, i.e., **Hypothesis Three**, was hypothesised that all these changes in laws and regulations concerning compensation for compulsory land purchase in the PPD projects have been brought about by the changing power balance between the government and landowners. This chapter is going to show how the changing power balance has made the government increasingly lose its grip on the control of land prices in the PPD areas.

The examination goes back to the mid-1970's when public developers began to expropriate land for housing. Section 6.2 examines changing types of land development for housing since the mid-1970's and a case in which the KNHC experienced the first stubborn resistance from landowners. Section 6.3 examines the development of two housing estates in the early 1980's, Gwacheon and Gaepo. It was the time when the New Military Government (NMG) embarked on large scale land development projects to support the Five Million Housing Construction Plan. At the same time the NMG also tried to minimize popular complaints. Hence the limited concession to landowners and residents in the compensation for land and associated properties. Section 6.4 examines two housing estates developed in the mid-1980's, Chulsan and Mockdong, where landowners were able to force the government to be more generous in the compensation. Section 6.5 looks into the case of two New Towns, Bundang and Ilsan, which began to be developed in 1989. It was in these two New Towns that the government experienced unprecedented strong resistance from the landowners and residents. Since these two New Town developments, the PPD has increasingly failed to provide land for housing at cheap prices as originally intended.

As was said in Chapter 2, the study area for this chapter will be housing estates and New Towns in and around Seoul. All seven cases are examined in detail. Two other cases are also examined but very briefly only for comparison. Among all these nine cases, six were developed by the KNHC. The examination is mainly based on the experiences of the KNHC in residential land development. The KNHC has been one of

the largest and the only public developer which had been conducting land development for housing throughout the 1970's and 1980's. Three other cases, the Mockdong Estate developed by the Seoul city government and two New Towns, Bundang and Ilsan, developed by the Korea Land Development Corporation (KLDC) were also examined. These are the cases in which an important turning point in government policies on compulsory land purchase were made.

The examination is based primarily on information provided by three interviewees from the KNHC. Yet, documents have been consulted for detailed statistics and numerical data.

## **6.2 The Beginning of Compulsory Land Purchase for Housing: the late 1970's**

The test of **Hypothesis Three** needs an examination of the historical process by which the relation between the government and landowners in terms of power has changed the forms and levels of compensation for compulsory land purchase. It covers a period from the late 1970's to the late 1980's. This section is an examination of the initial stage of that historical process: the historical background for the increasing government intervention in land development for housing and the first incident of compulsory land purchase by the KNHC.

Subsection 3.3.2 in Chapter Three has examined the overall political and economic circumstances in which the government had been increasingly obliged to adopt measures for compulsory land purchase for housing. This section examines the system itself in detail in reference to the KNHC's experience. First, it reviews changing types of land development by the KNHC. Then it shows a case in which the KNHC faced the first strong resistance by landowners against its land expropriation. Finally it reviews the changing policy environment which pressed the government to adopt more concessionary policies towards landowners.

### **6.2.1 Increasing Government Involvement in Land Development for Housing**

In 1962, the then new military government carried out an extensive reformulation of laws and regulations including those regarding housing and land development. The Urban Planning Law provided legal bases for four types of residential land development: the Land Readjustment Project (LRP), the Housing Plot Development (HPD), the Residential Land Project for Public Housing (RLPPH), and the Project by Changing the Nature of Topography (PCNT).

Land development by the LRP was discussed in Chapter 4. The HPD was to be carried out by public developers such as local governments, the Korea National Housing Corporation (KNHC) and the Korea Land Development Corporation (KLDC) within the Urban Planning Areas<sup>(2)</sup>. In the HPD, public developers have no power to buy land by compulsion; they are to buy land through direct negotiations with landowners. The PCNT can be carried out by both private and public developers for building sites with no more than 10,000 m<sup>2</sup> of land within Urban Planning Areas. In this system too, developers do not have the right to buy land compulsorily. Only in the RLPPH, do central and local governments have the power to expropriate land for public housing (Cho, J.H, 1990). Yet compulsory land purchase for housing development was rare as most land development had been carried out by the LRP as seen in Table 5.3 (p245) during the 1960's and 1970's.

Until the early 1970's, the KNHC had developed land mainly by the Housing Plot Development (HPD). The KNHC had to acquire land through direct negotiations with landowners, it had suffered the same difficulties as those experienced by private developers in the 1970's, which have been mentioned in Section 4.4 in Chapter 4. The difficulties of the KNHC in purchasing land did not, however, attract the government's attention until the early 1970's. First of all, until the early 1970's, annual housing con-

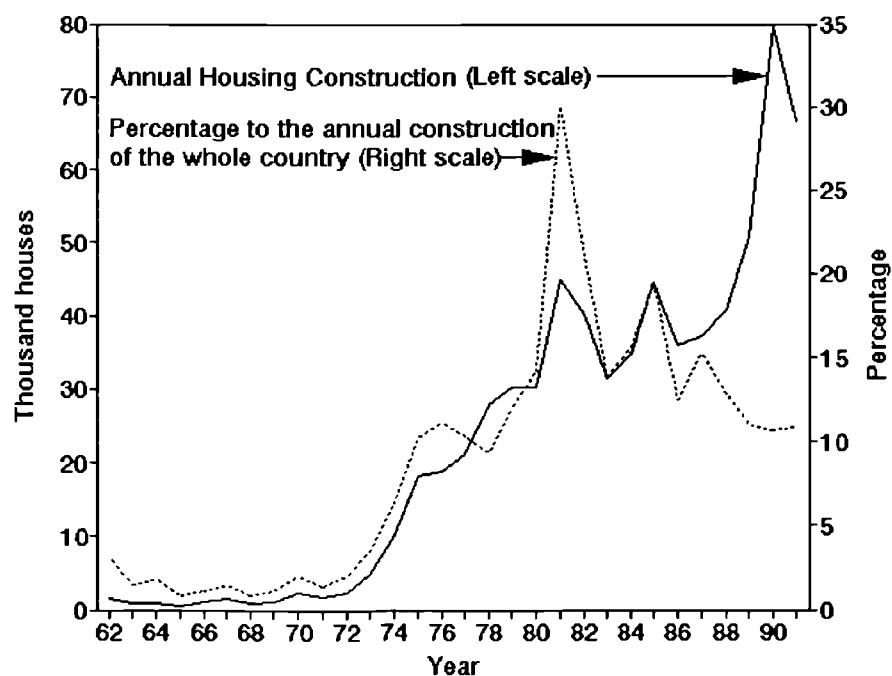
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2) The Urban Planning Area is that for which the Urban Master Plan and the Urban Development Plan are formulated, approved by the Minister of Construction and publically noticed in accordance with the Urban Planning Law. In this area, land use should conform to regulations provided in the Urban Planning Law and the Building Law (Urban Planning Law and Building Law).

struction by the KNHC was insignificant. Figure 6.1 shows the annual housing construction by the KNHC and its contribution to that of the whole country between 1962 and 1991. Until 1972, its annual housing construction had rarely exceeded 2,000 units; its contribution to the whole country's annual housing construction was merely 1.5 percent on average.

In 1972, when the government formulated the Ten-year 2.5 Million Housing Construction Plan, the KNHC was ordered to increase its annual housing construction. It started thus doubling its housing construction annually between 1973 and 1975 (see Figure 6.1). As the housing construction increased, the KNHC could no longer rely on land purchase through negotiations with landowners. Thus from 1974, the KNHC began to entrust land purchase to local governments who had the power to expropriate land for public housing. Local governments were paid commissions for that. They, mostly in financial difficulties, responded by cooperating with the KNHC's development plans. This became the major way of purchasing land for the KNHC until 1981

Figure 6.1 Annual Housing Construction by the KNHC, 1962-1991



Source: Produced for this thesis based on the statistics in KNHC (1992b)

although the KNHC was given the power to expropriate land for public housing<sup>(3)</sup> through the amendment of the KNHC Law in 1975 (KNHC, 1992c). Local governments could exercise certain influences over leading figures in their administrative districts to persuade landowners to cooperate with KNHC's housing development plans (**Interviewee J**).

As the property market boomed in the late 1970's, as seen in Section 3.3 in Chapter 3, conflicts with landowners were intensified. It became increasingly difficult for local government officials to persuade landowners to sell their land at the prices offered by the KNHC. What was worse, as housing development moved to the outskirts of cities, the KNHC began to have troubles with local governments over the cost of the extension of infrastructure such as roads, city water and sewer lines to the new housing estates. Thus it became difficult to rely on local governments' cooperation for land purchase (**interviewee J**).

Moreover, the annual housing construction by the KNHC was reaching 30,000 units in 1978. The KNHC needed much larger quantities of land than ever before. A more powerful legal basis for land acquisition was thus required. The Housing Construction Promotion Law (HCPL) was amended in December 1977 to simplify the procedures for the purchase and development by the KNHC of land by compulsion for public housing. According to the new HCPL, once the KNHC obtained the approval of a plan for Residential Land Project for Public Housing (RLPPH) from the central government, all permission procedures required by other individual laws were exempted. This RLPPH had since replaced the Housing Plot Development and been the KNHC's major land development method until the early 1980's, when the new Residential Land Development Project in Designated Area was introduced (KNHC, 1992c).

In the early 1980's, with the start of the Ten-year Five Million Housing Construction Plan, a more powerful land development system was adopted with the enactment of the Residential Land Development Promotion Law as mentioned in Subsection 3.4.2 in Chapter 3. The Residential Land Development Project in Designated Area is the

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3) The definition of Public Housing is indicated in Subsection 3.2.3 in Chapter 3.

method of land development based on this Law. The Public Purchase and Development (PPD) is a general term of development methods by which land is purchased by compulsion and developed by public developers. Thus both the Residential Land Project for Public Housing (RLPPH) and the Residential Land Development Project in Designated Area (RLDPDA) come under the category of the PPD although in 1980's the latter has become dominant<sup>(4)</sup>. Both in the RLPPH and in the RLDPDA, public developers have the power to expropriate land. The difference between the two is that in the former, land can be developed in Residential Areas while in the latter in any areas designated by the Minister of Construction for residential land development. For the RLDPDA, Green Areas are usually designated for residential land development. Once a RLDPDA plan is approved in accordance with the Residential Land Development Promotion Law, the plan is regarded as having gone through all the procedures required by other individual laws related to land development including the Urban Planning Law<sup>(5)</sup>. For example, changes of zoning of the area in accordance with the Urban Planning Law are exempted. Thus it simplified the procedures which public developers otherwise have to follow to obtain development permission to facilitate housing development.

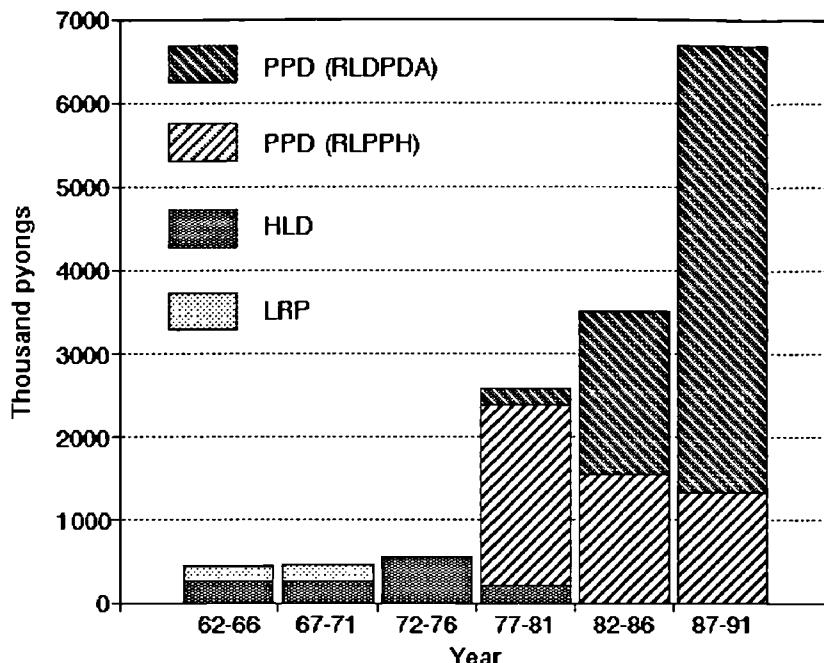
Thus the later the laws were enacted, the more powerful they were in terms of the legal power of public developers against landowners in the acquisition of land. Since the promulgation of the Residential Land Development Promotion Law, the KNHC too has increasingly adopted the the Residential Land Development Project in Designated Area (RLDPDA) for housing development. Table 5.3 (p245) has already shown that government intervention in general has been increasing. Figure 6.2 shows the changing land development method by the KNHC. It shows that since the late 1970's, almost all land has been purchased by compulsion.

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4) Thus hereafter in this study, the PPD refers to the RLDPDA unless otherwise stated.

5) There are 19 laws which any land development plan may have to go through for approval otherwise (Article 11 of the RLDPL).

Figure 6.2 The KNHC Land Development by Methods, 1961-1991.



Source: Produced for this thesis based on Table 2-2-2 in KNHC (1992c).

### 6.2.2 Compulsory Land Purchase under the Strong Government in Banpo Estates

It was in the Banpo Estates that the KNHC faced for the first time a stubborn resistance from landowners (KNHC, 1992c). The estates were located in the Gangnam Area in Seoul (see Figure 4.2, p148) where, as mentioned in Chapter 4, speculative investment in land had been most prevalent in the country in the 1970's.

The areas, with 121,318 pyongs, were developed by the city government through the Land Readjustment Project (LRP). Land in the areas was thus all 'returned land'<sup>(6)</sup> to landowners. A part of their original land was deducted to make up for the development costs. In this process, landowners had to struggle with the city government to minimize the deduction. After all the difficult processes, landowners were then waiting for favourable chances to realize capital gains by selling their land. Moreover it was the time when the property boom began and land prices were rising very fast (interviewee,

6) This was explained in Section 3.2.3 in Chapter three.

**K).** Between April 1977 and April 1978, land prices in the area rose by more than one hundred percent. As of April 1977, land prices in the area were between 50,000 and 150,000 won/pyong. These rose to 200,000 and 350,000 won/pyong one year later (KAB, 1977; 1978).

Thus the KNHC's plan to expropriate land outraged the landowners. To tell the conclusion first, the KNHC in the end expropriated the land at 59,000 won/pyong on average, according to the final decision of the Central Land Expropriation Arbitration Committee (CLEAC) in September 1977. No other compensation than the cash for land was made. As will be seen in later sections, this is contrasted to later development cases in which other forms of compensation were paid in addition to compensation prices for land. Landowners protested violently against the compulsory purchase. They raided the home of the KNHC president and held sit-in demonstrations on the development site obstructing construction works (KNHC, 1992c).

Under the harsh *Yushin* regime, however, such resistance could not affect the KNHC's development plan. At that time press activities and the freedom of speech were strictly controlled. The case did not attract any public attention. Land purchase by compulsion was not yet an issue for the anti-government forces struggling hard against the regime. The landowners' resistance in Banpo in 1977 became only an isolated local issue (**interviewee K**).

In the National Assembly, opposition politicians began to debate such compulsory land purchases after the Banpo case. They accused the government of infringing people's right of private property in land development. They blamed the one-sided determination of land prices and 'unfair' criteria for the appraisal of land prices. They demanded that the government withdraw the eminent domain entrusted to local governments; pay full compensation at actual street value; provide resettlement measures for those who were to be displaced by the development (SNA, 1977; 1978: the third conference of the 97th special session on June 29 1977; the first conference of the 98th session, September 23 1977; the ninth conference of the 98th session, October 24 1977; the 11th conference, October 27 1977; the 10th conference of the 100th session, July 18 1978).

The *Yushin* regime (1972-1979) had ruled the country almost by presidential decree. With the power concentrated into the President, the debate in the National Assembly might have had little effects on actual policies. However, the intensifying anti-government movement seen in Section 3.4.1 in Chapter 3 was undermining the high-handed position of the government in dealing with popular enmity.

Toward the late 1970's, the Park Regime was losing its popularity. In the general election in December 1978, the opposition party won more votes than the ruling Democratic Republic Party though failed to win a majority in seats (HRI, 1988). Reducing popular discontent has been a conventional measure to win popular support in Korea in a period of political crisis. From 1979, the government began to take a series of appeasement measures in non-political fields such as the elimination of the guide-lines on the increase in wages (Suslina, 1988). Such appeasement policies also applied to land development for housing.

In 1980, when the New Military Group seized power, to minimise public discontent was an important priority. The National Defence Emergency Board (the military junta) adopted measures to regain public trust in urban development policies. The relaxation of restrictions of building activities in Green Belts was one of the measures. The Board also announced that land would be compensated at fairer prices (Chosun-Ilbo, August 1980). A series of revisions of laws and regulations concerning land expropriation and compensation were carried out in these circumstances.

In August 1980, the Enforcement Regulations of the Special Law Regarding Land Expropriation and Compensation (SLRLEC), which was promulgated in March 1977, was revised. Regulations on compensation for agricultural crops, plants and cattle were amended in favour of farmers. In March 1981, the regulation was again revised extensively to simplify procedures for landowners to get compensation payment. It made it an obligation for developers to take into account landowners' opinion in the assessment of compensation prices and to pay the whole compensation in cash before the start of development works (the Enforcement Regulations of SLRLEC, August 1980; March 1981).

The appropriateness of the Pegged Prices as the base for the appraisal of land value was questioned in the National Assembly (SNA, the sixth conference of the 108th session on October 23 1981; the third conference of the 110th session March 11 1982). In the 23rd conference of the 108th session in December 1981, the ruling party proposed an amendment bill of the Land Expropriation Law in favour of landowners. It proposed the elimination of the provision which made it obligatory for appraisers to use the Pegged Prices as base price; it gave landowners the right to appeal to the judgement of the Central Land Expropriation Arbitration Committee (CLEAC) and the right to buy back their land when developers failed to develop the land for the original purposes within five years or all or part of the development plan became cancelled within 10 years. This bill passed the National Assembly in December 1979 with the provision on the Pegged Prices unchanged (SNA, 1981: the 24th conference of the 108th session).

Thus policies related to land for housing in the 1970's showed two contradictory tendencies: on the one hand, to use stronger state power in land purchase and on the other, to minimize popular enmity in that process. These two conflicting necessities have conditioned land development policies in the 1980's. The balance between the two increasingly became dependent upon power relations between the government and landowners. This will be evidenced in the following sections.

### **6.3 Concessionary Compensation under Control, the Early 1980's**

#### **6.3.1 Gwacheon New Town development**

It has been mentioned in Subsection 4.2.1 in Chapter 4 that President Park persisted in his policy to control the further concentration of population, economic and administrative activities in Seoul throughout the 1970's. On his order to control the growth of the capital, particularly of the northern part of the Han River, a series of measure were taken: the designation of a Green Belt around the city in 1971; the

imposition of the Resident Tax in 1973; the restriction of building and extension of universities in 1973; the control of building new factories in 1975 (Kim, J.R, 1990). The deconcentration of government offices and public agencies was one of the measures.

Gwacheon New Town was planned to accommodate the government offices to be deconcentrated from the city centre and a population of 45,000 (KNHC, 1984a). The area is located 15 km south of the city centre of Seoul and 5 km south of Gangnam (see Figure 2.2, p78). It was a Green Area surrounded by a Green Belt<sup>(7)</sup>. 23 percent of the area was dry farm fields, 36 percent was paddy fields, 16 percent was housing sites, and 14 percent was forests. 1,647 households lived there as of March 1979, out of which 860 were homeowners and 787 were tenants. 208 were farm households (Ibid).

The development plan was drafted in August 1978, and approved by the President in September 1978. In April 1979, the MOC issued a notification of the Pegged Prices for the area. The Pegged Prices were 84,000 won/pyong for housing sites, 70,200 won/pyong for dry fields, 43,900 won/pyong for paddy fields and 55,800 won/pyong for forests (Ibid). After this, the KNHC and the Gyonggi Province Government, the competent authority of the area which was entrusted with land purchase for the KNHC, began to contact landowners to start negotiations. They held joint meetings with landowners and residents to persuade them to accede to the development plan. Such efforts continued throughout the latter half of 1979. The KNHC distributed pamphlets explaining the development plan among residents and sent its staff to visit each village to survey landowners and residents' opinion (ibid).

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7) The Urban Planning Law divides the Urban Panning Area into four basic areas (12 areas in detail) and four special areas. For each area, land use is regulated by the Urban Planning Law and the Building Law. Both can overlap. Green Area is one of the four basic areas. It is further divided into three areas: Natural Green Area, Reserved Green Area and Productive Green Area. Green Belt is the common name of Development Restriction Area, one of the four special areas. In Natural Green Areas, very low density development is possible. In other Green Areas as well as in Green Belt, development is strictly controlled. Green Areas have been converted into Residential or Industrial Areas as urban built-up areas expanded. However, the government has maintained a policy to strictly prohibit development in Green Belt. Thus Green Belt has been the areas where development is most rigidly controlled (The Urban Planning Law; the Building Law).

However, landowners, well informed about the benefits to landowners of the LRP widely carried out in the nearby Gangnam Area in the 1970's were agitated over the plan to purchase land compulsorily (**interviewee K**). In the beginning of 1979, when no compensation plan was finalized yet, landowners and residents began to submit petitions to the presidential office and the government departments. Since they included different interest groups such as farming landowners, absentee landowners, shopkeepers and tenant households, their demands were diverse. However, major demands were: to develop the area by the Land Readjustment Project (LRP); to compensate land and buildings at market prices if compulsory purchase was inevitable; to provide new land for resettlement; to provide rental apartments to tenant households; to sell as priority new shops to existing shopkeepers (*Ibid*).

The first demand to develop the land by the LRP could not be considered. It was firm government policy not to use the LRP wherever possible in the late 1970's. This was because of the adverse effects of the LRP such as high land prices after development and difficulties in obtaining large tracts of land for apartment development as mentioned in Subsection 3.4.2. The 'market prices' of land were ambiguous. The Pegged Prices were announced based on land prices in the area as of April 1979. Since then, the actual prices had been changing according to the expectations on compensation for land and properties associated with it. For the KNHC, there was no other way of determining land prices than appraising land prices on the basis of the Pegged Prices as prescribed in the law (**interviewee K**).

The KNHC instead proposed to give resident landowners titles to new apartments after development. As seen in Chapter 4, as there were gaps between the prices of new apartments and actual market prices, what is called premium, the title was regarded as an indirect compensation for land. At first, landowners persisted in demanding their land to be compensated at full market prices. However, as there was little possibility of concession from the KNHC and the government, landowners began to seek a compromise. They strongly demanded housing plots at cost prices rather than apartments after development. Much larger premiums were expected from land than from apartments. In the original development plan, there was no plots planned for detached houses. Provision of housing plots to landowners at cost prices meant that

the KNHC had to give up building about 1,000 apartments and thus lose revenues from the sale of apartments. This became the most critical point of dispute between landowners and the KNHC. The Ministry of Government Administration (MGA) intervened at this stage. The MGA was in charge of building the new government offices in the area and also in charge of dealing with popular discontent. At this time, the mid 1979, the government was politically in a difficult situation as mentioned in Chapter 3 and was cautious not to cause popular enmity. The MGA pressed the KNHC to accept the landowners' demand for housing plots. After several months of dispute between the MGA and the KNHC, the KNHC finally surrendered to the pressure (**interviewee K**). Resident landowners who had lived since before the development plan was announced in October 1978, were eligible for the housing plots. All 686 housing plots were provided at cost prices with 70 pyongs on average (*Ibid*).

Thus, in contrast to the case in the Banpo estates, an additional compensation was paid to landowners in Gawcheon. The provision of housing plots at cost prices as a part of compensation was not unprecedented. In the development of an industrial New Town, Banwol, a rural area located 30 km southwest of Seoul, the government provided housing plots to landowners (*Ibid*). Since the late 1970's was a period of property boom, they could realise a lump-sum of capital gains by reselling the new plots. As the government could avoid troubles with landowners with such measures, it became a common practice to do so in the development of industrial New Towns in the southeastern coastal areas in the late 1970's. The resettlement measures increasingly became a way to make up for parts of the gap between appraised prices and what landowners called the 'market prices'. This was the first time that the KNHC established such resettlement measures for the smooth implementation of development projects. Resettlement measures later increasingly became a supplement to the cash compensation for land expropriation as premiums associated with new land and apartments increased (**interviewee, K**).

Non-landowning residents were a problem. Tenants were paid only parts of moving expenses instead of titles to rental apartments which they had demanded. Owners of illegal houses and those who moved into the area after the development plan was publicly announced were paid no compensation at all. It was mostly such tenants and late-comers, who were compensated only a little or not at all, who resisted with clubs

and knives whenever existing houses were demolished. It became common that KNHC staff were beaten up by the residents or splashed all over with excrement until all the ground was cleared. However, they were not a significant threat to the development. The major conflict between the KNHC and landowners was thus settled by the early 1980's. The whole land purchase was completed by early 1982. The development of the first phase area started in March 1980 and that of the whole area was completed in August 1984 (Ibid).

In Gwacheon, compensation for properties in the development area was thus much more generous than that in the case of Banpo, in which no other compensation than the cash for land value was paid to landowners. This was due to the political instability following the assassination of President Park in 1979; the government was cautious not to incur popular enmity. Once the New Military Group seized power firmly in the late 1980, the position of the government in land development was also consolidated.

### 6.3.2 Gaepo Estates Development

Gaepo is located in the southern end of Gangnam with an area of 2.54 million pyongs. It was one of the largest areas of farm land that remained intact until the early 1980's in Gangnam (see Figure 4.1, p147 and 4.2, p148). The whole area of Gaepo began to be developed in 1981 when the government designated large areas of land for residential development in order to increase land supply for the Ten-year Five Million Housing Construction Plan. In April 1981, 10 billion pyongs of land were designated throughout the country in accordance with the new Residential Land Development Promotion Law (RLDPL). Gaepo was one of the designated areas to be developed by three agencies: Seoul City Government, the Korea Land Development Corporation (KLDC) and the Korea National Housing Corporation (KNHC). Between 1981 and 1984 the KNHC built 9,080 apartments in the area in two phases: 4,260 on 105,858 pyongs of land in the first phase and 4,820 on 220,535 pyongs of land in the second. The land for the second phase project was provided by the Korea Land Development Corporation (KLDC) (KNHC, 1984b). The development of the first phase estate,

where the KNHC purchased land from private landowners will be examined in this study.

In September 1980, before the whole Gaepo area was formally designated a Residential Development Area, the KNHC was already going ahead with a housing development plan in the area. It was surveying an area of 1.5 million pyongs in September 1980, immediately after President Chun ordered the building of 5 million housing within ten years. The housing development in the area was also one of the development projects hurried through by the government as a part of stimulating the economy. In the Economic Ministers Meeting<sup>(8)</sup> in November 1980, it was decided that the KNHC began first with the development of 105,858 pyongs of land in the area (Ibid).

67.7 percent of the area was farm land and 25.2 percent was forests. Orchard, paddy fields and dry fields comprised the farm land. There were thirty farm houses. As of April 1981, land prices in the residential area in Gaepo (which still remained a rural village) were between 50,000 and 80,000 won/pyong. In the neighbouring residential areas such as Daechi-Dong and Dogock-Dong which had already been developed by the LRP, prices of residential land were between 350,000 and 550,000 won/pyong (KHB, 1980). The KNHC planned to purchase land at 59,100 won/pyong on average. The KNHC started negotiations with landowners in March 1981. Landowners demanded full compensation for their properties: compensation at the prices similar to those in the already developed neighbouring areas (KNHC, *op. cit.*). A clan stubbornly resisted the development plan not for higher compensation payment but for the preservation of their common land where their ancestral burial ground was (**interviewee J**).

Although Martial Law had been lifted in January 1981, collective action against government policies was still tabooed. Mass media, reorganised by the National Defence Emergency Board (NDEB, i.e., military junta), was under the strict control of the government: no report of public discontent could be published. The Legislative Committee of the NDEB was still performing the role of the National Assembly. From

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8) See footnote 12 in Chapter 3 for the explanation of Economic Ministers.

the point of view of the landowners, there were no forces for them to appeal to. They could not push strongly on their demand (**interviewee J**).

From the point of view of the KNHC, however, pushing its plan by force was also not so simple. It had to be prepared for being provoked by landowners and residents in the area. The New Military Group tried to show itself to be generous to the weak, although it took a firm stand against any collective activities against government policies. How smoothly a development project was carried out had been a tacit measure of the competence of the managers of its agencies to the government. To the managerial staffs of the KNHC, avoiding trouble with landowners and residents was thus a priority (**interviewee J**).

Moreover, as was said above, the project was related to the government policy to prop up the economy, which was in recession in the early 1980's by ordering public works as early as possible. The KNHC had to proceed with the projects without any delay. And any delays in the whole development schedule also had a negative effect on the assessment of the performance of the managerial staff of the corporation. Therefore the KNHC wanted to minimise troubles with the landowners and the residents and to accelerate the proceedings (**interviewee J**).

In those circumstances the KNHC suggested, after the example of the case in Gwacheon, that it would provide housing plots to the resident landowners in the area as a additional compensation. Most landowners had no choice but to comply with the KNHC's proposal. They were finally paid 65,345 won per a pyong of their land on average and were provided with housing plots, each with 50 pyongs of land (*Ibid*). This was a cheaper price compared with that paid in Gwacheon which was inferior to Gaepo in terms of location.

The dispute came to a settlement by May 1981, only two months after the KNHC began to negotiate with landowners. Tenant households and residents who were not entitled to any compensation staged violent demonstrations against the development. However, they could not disturb the proceedings of the development in any significant way (**interviewee J**).

In comparison with the cases in the 1970's, in the early 1980's there were some concessions to the landowners and the residents in the PPD. Yet the government was in full control of the process. However, from the mid-1980's, the government was increasingly pushed to concede more to landowners.

## 6.4 Forced Concessions in Compensation: The Mid-1980's

### 6.4.1 Chulsan Estate Development

Chulsan was the first estate developed by the KNHC in accordance with the Residential Land Development Promotion Law (RLDPL). It was a Green Area with 430,000 pyongs of land and located in the Gwangmyong city neighbouring Seoul to the east (see Figure 2.2, p78). The area was agricultural land, but as its source of agricultural water, the Anyang River, flowing through industrial estates, was severely polluted, it was losing its value as farm land. The area was designated for residential development in May 1983. The development plan was approved in 1984.

In the area, there were approximately 2,000 households including tenant households. Most land was leased to or squatted by low income people, who raised cattle or grew hothouse plants. Thus houses were mostly illegal or uncertain in their legal status. There were 1,500 to 2,000 ground facilities including such houses, cattle sheds and hothouses (interviewee, J).

As was the case in Gwacheon and Gaepo, the first confrontation between the KNHC and the landowners and residents was over the compensation prices of land and properties. At the end of 1983, when the KNHC's plan to purchase land at appraised values was exposed, landowners gathered to proclaim that they would refuse to sell land. The land prices were to be valued according to the current use: agricultural land in a Green Area, where building activities were strictly controlled. Landowners, however, demanded that their land be valued as residential land. They argued that

although their land were presently used for paddy fields, the land was worth the price of residential land and thus must be paid for at the same prices as those of residential land in the vicinity (**interviewee, J**).

The prices of land just outside the designated area were rising fast due to the development plan. Before the development plan was announced, land prices in the vicinity were between 300,000 and 400,000 won/pyong in the Residential Area. When the Chulsan area was designated for residential development, they went up to 1 million won/pyong: a rise by two to three times. When the KNHC started to purchase land, they rose by up to three to four times. This further widened the gap between the appraised prices and the prices which landowners demanded. Non-landowning residents were also demanding compensation for their properties and for relocation costs. Shop owners in the area wanted land in the Commercial Area in return after development. Tenant households claimed titles to new apartments (**interviewee, J**).

As the KNHC persisted in its original policy to compensate land at prices appraised as land in Green Areas, landowners refused the KNHC's survey of their properties for the appraisal. Property surveys started in Summer 1983 were dragged on and continued until Winter 1983. During those months, KNHC staff had meetings with various groups of landowners and residents in the area to persuade them to comply with the KNHC's plan. Some residents resorted to violence to disturb the meetings and property surveys during the whole period (**interviewee, J**).

After several months of negotiations and collisions, the KNHC finalised a compensation plan in May 1984. As to land prices, the KNHC paid 129,950 won per pyong on an average as valued by two authorized appraisal agencies (KNHC, 1992a). In addition, resident landowners were given housing plots with 50 pyongs at cost prices. Absentee landowners who did not own their own houses were given title to new apartments after development in the area. Large landowners, who were mostly absentee landowners, readily complied with the offer from the KNHC. They were interested in buying land in the vicinity as soon as possible since when an area was developed and a large amount of cash, paid by the KNHC for compensation, got circulated in the region, land prices usually rose fast in the surrounding areas. By completing procedures for selling land in a short time, they also could save time and

costs. Some landowners refused and went to the judgement of the Central Land Expropriation Arbitration Committee for higher compensation prices (CLEAC). In the latter cases, the prices went up by five to ten percent (**interviewee, J**).

Owners of illegal houses<sup>(9)</sup> were given titles to purchase new apartments with less than 20 pyongs in floor space. Tenants were given rental apartments. It was the first time for public developers to provide such rental apartments to tenant households. Compensation for tenants had been regarded as a personal civil affair to be settled individually between tenant and landlord at that time. Shopkeepers were given priorities in buying commercial land or shops after development at the average contract prices (Mailkyongje-Shinmoon, May 14, 1984).

Some squatters who mostly moved into the area after the designation of the area for development with the aim of benefiting from compensation, failed to prove their ownership of houses. They were paid no compensation and thus violently resisted the demolition and clearance works. The clearance of those houses would have been the most difficult job in the development without the heavy flood in the basin of the Anyang River in September 1984. The flood swept away all the ground facilities including such squatter houses (**interviewee, J**).

Apart from this, compensation for land and properties associated with it was more generous than in Gwacheon and Gaepo. New housing plots, apartments and rental apartments were provided at cost prices on top of cash payments for land and properties purchased by compulsion. As there was a considerable difference between the prices of new properties at which the residents were provided and the actual market prices, i.e., what is called in Korea, premiums, the titles to new properties were commercialised. The provision of titles to such new properties with good premiums has since become an indirect form of compensation in addition to cash payments for land (**interviewee, J**).

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9) Squatters were requested to show the KNHC certificates issued by the city government to prove their ownership of houses. Since their houses were not registered in the Registry Office, the city government issued the certificates on the testimony of the heads of neighbourhood associations (**interviewee, J**).

Such generous compensation in Chulsan was however not made solely out of the good will of the KNHC. A fierce struggle by landowners and residents for more compensation payment affected the KNHC's compensation plans. The struggle was taking place in a development nearby, managed by the Seoul city government. That was the Mockdong Housing Estate Development.

#### **6.4.2 Mockdong Estate Development.**

Mockdong is an area with 1.31 million pyongs of land located southwest of Seoul. Its conditions of location was similar to those of Chulsan. It is located 6 km down the Anyang River from the Chulsan Estate (see Figure 2.2, p78). The area had been mostly agricultural land but used to be flooded and had been ruined by the heavily polluted Anyang River. It also had very poor access roads. In the area, there were squatter settlements alongside the Anyang River. They were first built in the 1960's when the city government relocated some of squatters in the city centre to this area. Each household had been allocated 8 pyongs of land for temporary accommodation (SMG, 1991b).

In April 1983, the city government announced its plan to develop the area using the PPD system. The area was formally designated for Residential Land Development in June 1983. The development plan was approved by the MOC in January 1984 (Ibid).

When the development plan was announced, landowners and the residents were anxious whether their land and properties would be expropriated at cheap prices. They soon presented petitions to the city government and the Ministry of Construction (MOC) to purchase their land at 'fair market prices, i.e., not at the one-sidedly appraised ones' (Kyonghyang-Shinmoon, January 23 1989). The prices of residential land in the area were between 150,000 and 170,000 won/pyong before the announcement of the development plan (Ibid.). On the announcement of the plan, land prices just outside the area were rising to 450,000 to 700,000 won/pyong (Choongang-Ilbo, April 26, 1984).

The city government offered 70,000 won/pyong on an average as appraised based on the Pegged Prices, which was issued in 1978 at 25,000 won for farm land (Oh, H.J.,

1985). Enraged at this offer, landowners began to organize a campaign against the development plan. The involvement of squatters and tenant households in the row over compensation prices for land and properties turned the campaign into a public commotion.

Squatters were claiming compensation for their houses at appraised prices plus new apartment at discounted prices plus cash for moving expenses. Tenant households were demanding rental apartments or housing plots with 20 pyongs plus loans of 5 million won for each household at low interest rates. These tenants households remained a major source of trouble until mid-1985. There were some 2,000 tenant households in the area. The city government had maintained that compensation for tenants was a private matter between the tenants and landlords. They were thus to be excluded from any compensation and resettlement programme (Ibid).

In response to these demands, the city government proposed to give titles to buy new apartments to landowners and legal home owners; titles to new apartments plus 100,000 wons for moving expenses for each household to the squatters; priorities in buying new shops to the existing shopkeepers after the development. Excluded from these compensation were tenant households mostly living in the squatter settlements (Ibid).

These suggestions were rejected by landowners and residents. Petitions, demonstrations and appeals to authorities as well as negotiations continued for almost one year. A final negotiation talk between the representatives of landowners and residents and a vice mayor of Seoul city government was held in August 1984. As both sides persisted in their original policy and demands firmly, the talk came to a rupture. In August 1984, thousands of landowners and residents occupied Yanghwagyo Bridge, a key position on the main road to the Kimpo International Airport, staging a sit-in demonstration demanding the cancellation of the development plan. The rally ended in a collision with riot police resulting in many casualties and arrests. After the clash, the resistance of landowners and homeowners was daunted (Ibid).

However, the tenants struggle continued since they were desperate with no payments at all. Militant students came in to support the tenants. Since the defeat of the Gwangju uprising in May 1980, students had inclined toward a socialist revolution and tried to

form a coalition with *Minjung* in order to proceed with their anti-establishment movement. *Minjung* means all those oppressed under the successive authoritarian regimes. It thus includes industrial workers, urban poor and peasants<sup>(11)</sup>. It was in this Mockdong development that anti-government students were involved for the first time in an organized form in the urban poor's struggle for shelter. The bloody fighting between the coalition of tenants and students and the demolition squad (usually gangsters) employed by the city government and backed up by riot police continued until mid-1985 (Ibid).

As the fighting dragged the whole development project out for more than half a year and began to attract public attention, the city government finally retreated from their uncompromising policy. In March 1985, the city government acceded to the tenants' demand. It suggested two alternative ways of compensation for tenants to choose: a room in a rental apartment in the area (two households in one apartment) or cash payment up to 500,000 won for moving to other areas. To encourage them to leave Seoul, the city government also suggested the provision of administrative support and loans when they collectively built resettlement areas in the neighbouring province. Further if they moved further away from the capital region, i.e., Seoul and its neighbouring Province, they were promised a million wons of government grant plus 700,000 wons of moving expenses plus 2 millions wons of loans for rehabilitation funds (Ibid).

The tenants were not totally satisfied and their resistance continued for several months. However, exhausted by the long struggle, tenants one by one accepted the city government's proposal. By mid-1985, the resistance came to an end. Construction works could begin in December 1985, almost one year later than originally planned (Ibid).

This tenants' struggle may have no direct relevance to the relation between public developers and landowners and to the consequent determination of land prices. However, their joining forces strengthened the position of landowners in the negotiations for compensation. They led the van in demonstrations and physical

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11) The historical background of the student involvement in tenants struggle as well as labour movement was mentioned in Subsection 3.6.1.

collisions with riot police on the site and in the street. Their struggle brought public criticism of the high handed management of land development.

This Mockdong case was the first incident in which the practices of the government to push forward development plans one-sidedly was seriously challenged. The KNHC, which had no such strong administrative power as the city government, had had to be much more generous to landowners and residents for a smooth development in Chulsan (**Interviewee, J.**).

#### 6.4.3 Changing Aspects in the PPD

Mockdong was the first PPD project in which the development agency was forced to make a concession to the demand of residents, while Chulsan was the one in which the developer avoided the worst collision by providing more generous compensation payments in advance. The Mockdong incident has brought about changes in government policies in the PPD areas. Since the incident, human rights groups and anti-government forces have increasingly involved themselves in the struggle of the poor residents and later farming landowners against the compulsory purchase of land. Three new situations could thus be described as appearing in the PPD projects around the mid-1980's.

First, compensation for compulsory land purchase became a political issue, attracting the attention of the press and politicians. Inappropriate compensation for tenant households in Mockdong was criticised by the press (Don-A-Ilbo, August 8 1984; Kyonghyang-Shinmoon, March 18 1985; Maeilkyongje-Shinmoon, March 18 1985; Seoul-Shinmoon, March 19 1985). In the fourth conference of the 129th session of the National Assembly in April 1986, the low compensation prices for land in Mockdong (30,000 to 100,000 won/pyong) were criticised by opposition politicians (the New People's Party) as the robbing of people's private property (SNA, 1986).

To alleviate popular enmities in public land development, the government revised the Executive Regulation of the Special Law Regarding Land Expropriation and Compensation (SLRLEC) in June 1986. In the past, the value of land was to be assessed for its current use based on the Pegged Prices. This was changed to that

which was to consider the trading prices of land in similar conditions in other areas. Buildings and other ground facilities were previously to be valued at cost prices, depreciated for the period of use. This was changed to that assessed by comparing the actual market prices of similar ones. Residents were to be given only moving expenses. They were now to be paid two months living expenses (urban wage earners' average households expenses in the EPB statistics). Employees in the factories in the area were to be paid compensation for suspension from or loss of jobs (KNHC, 1989a).

Second, since the Mockdong incident, human rights organizations including catholic priests and university professors were increasingly involved in the problems of those who were relocated by public land development. A brutal eviction of a hundred squatter tenants in Sanggye in 1986 brought about unprecedented political and public attention to the problem of the displaced in 1987. It was a redevelopment project carried out by the city government. Tens of families evicted from the Joint Redevelopment Area in Sanggye-Dong lived on the premises of Myongdong Cathedral in the heart of Seoul for nearly one year from 1986 to 1987 (Kim, H.K, 1988). After the Democratisation Declaration on June 29 1987<sup>(12)</sup>, their miserable situation opened up debates on government policies on the urban poor. In 1988, when the new government under the new democratic constitution was established, political parties, government agencies as well as religious groups and anti-government civil groups held public forums, meetings and conferences on the housing problem of the urban poor<sup>(13)</sup>. The Seoul Displaced Association was formed by the representatives from squatter tenants throughout the city. Scholars and students in anti-government movements established the Urban Poor Institute. This sympathy with and support for tenants extended to farming landowners in the later cases which will be examined in the next Section.

Third, new forms of speculation became prevalent in the PPD area. As mentioned before, the provision of titles to new apartments or land after development became a means of supplementing cash compensation, speculation in land and properties which

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12) See Section 3.5.1

13) Papers presented to the Public Forums held under the auspices of the Great Catholic Seoul Diocese Ministerial Commision for the Urban Poor in June 1988 and December 1988 show the growing interests of scholars and experts in the problems of tenants households in urban development.

were to be purchased by the public developers became prevalent. Titles to new apartments and housing plots began to be traded at much higher prices than those initially paid since the mid-1980's. The titles to a room in a rental apartment in Mockdong, for example, were traded at a price of 3.4 to 3.5 million wons as of May 1987 (Maeilkyongje-Shinmoon, May 18, 1987).

As seen in Chapter 4 and 5, there were always actors quick to cash in such expected gains in present values in the property market. They were mostly speculative investors and real estate agencies. Speculation in existing properties which were to be compensated became prevalent in various forms. A typical example was the division of land into small plots. In some cases, real estate agencies bought land at higher prices than those the KNHC would pay for the land. An interviewee from the KNHC explained how this happened: **'Real estate agencies or speculative investors buy land which is to be purchased by the KNHC at, for example, 150,000 won/pyong, at 300,000 won/pyong. They divide it into small size plots of 90 m<sup>2</sup> at minimum. Then they sell the divided plots at 600,000 won per pyong realizing a capital gain of 300,000 won/pyong. This 600,000 won can be taken as the market value of the compensation for the land, i.e., the appraised land prices plus other indirect compensation such as titles to housing plots or new apartments'** (interviewee, L).

This became a problem when the KNHC developed another large housing estate in Seoul, Sanggye. Sanggye is an area located in the north-eastern part of Seoul. The area to be developed by the KNHC was 1 million pyongs. It was mostly farm land (78.5 percent) and forest<sup>(14)</sup>. When Sanggye area was designated for Residential Land Development, the partition of land into smaller plots were prevalent since when each plot owner was allocated housing plots after development as part of relocation measures they would get a lump sum of capital gains (interviewee, J).

Thus from the Sanggye Estate development, the government adopted measures to prevent such speculation on the existing properties in the designated areas for PPD

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14) The patterns of conflict between the KNHC and landowners and residents over the compensation, and the process by which the conflicts came to a settlement in Sanggye Development were very similar to the case of Chulsan. Thus the detail is not described here.

projects. In the case of Sanggye, the government designated the area to be liable to the Land Transaction Report System. Thus in the area all land transactions had to be reported to the authorities in advance. The Sanggye area was also designated as a Special Area for Speculation Control where heavier property transfer tax was to be imposed (KNHC, 1989a). Further the government decided not to provide housing plots to landowners for additional compensation. In April 1985, the MOC announced that in PPD areas developed land such as housing plots and commercial land would not be provided in the name of resettlement measures. According to the MOC, this was to 'correct the irrationality that landowners were compensated twice: prices for land and premiums associated with land they were allocated after development' (Hankookkyounje-Shinmoon, April 17, 1985).

Thus since the Mockdong incident, the PPD projects had been facing new circumstances: politicisation of compensation for compulsory land purchase; more pressures on the government to concede to landowners and residents' demands; increasing speculation on compensation. This tendency led to a crisis of the PPD system at the end of 1980's as will be seen in the following Section.

## 6.5 PPD in Crisis

### 6.5.1 New Towns in the late 1980's.

The political and economic circumstances in 1987 and 1988, in which the Two Million Housing Construction Plan was formulated, were outlined in Section 3.5 in Chapter 3. As a part of the plan, public development agencies such as the KNHC and the Korea Land Development Corporation (KLDC) began to develop three small New Towns around Seoul in 1988: Pyongchon, Sanbon and Joongdong (see Figure 2.2, p78). In April 1989, President Rho, T.W. announced the development of two additional New Towns, Bundang and Ilsan. It was in these two New Towns that the Public Purchase and Development Projects (PPD) system came face unprecedented strong defiance of landowners and residents.

The two New Towns were primarily designed for middle and high income families. In Section 1.1, the circumstances in which the rise in house prices became a political issue in the late 1980's were mentioned. To repeat briefly, high house prices, which began to rise fast in 1987, became a political issue from late 1988. The rise in house prices frustrated not only low income households but also middle and high income families. The rapid rise in house prices in Seoul, particularly in the Gangnam area (see Figure 4.4, p159), was a case of the latter. The government seems to have aimed at the stabilization of fast rising apartment prices in Gangnam by announcing a mass housing supply plan around Seoul through the development of New Towns.

The plan was to develop the Bundang area into a New Town with 105,000 houses in 5.4 million pyongs of land and Ilsan into another New Town with 75,000 houses in 4.6 million pyongs of land between 1990 and 1992 (MOC, 1989).

Bundang, located 20 km south from the city centre of Seoul and 10 km from Gangnam, had been a Green Area, but under strict development control as in a Green Belt, since 1976. However, the area had been proposed several times for a site of a New Town since the mid-1980's, when land availability for housing began to be talked about in Seoul. Rumours had frequently run that the area would soon be developed and it is known that land in the area was owned by speculative investors (SSSG, 1990a).

Ilsan is located 20 km north from the city centre of Seoul. It had had no such prospect of urban development. It was a Productive Green Area and its farm land was mostly Absolute Farm Land, the conversion of which was strictly controlled. It was only 25 km south of the border with North Korea where 1 million armed forces from both sides were confronting each other. It had never been expected that it would be developed into an urban area. Farming residents had lived for generations since their predecessors developed slime land along the downstream of the Han River. They were then realizing fairly good profits by cultivating lucrative vegetables sold in Seoul (SSSG, op. cit.; Hankookkyongje-Shinmoon, July 7, 1990).

Bundang had an area of 5,551,929 pyongs, 70 percent farm land and 23 percent forests. There were 3,693 landowners and 51 large landowners with 10,000 pyongs or

more, who owned 35 percent of the whole land. 62.5 percent of land was owned by absentee landowners, mostly believed to be speculative investors (Hangyore-Shinmoon, October 14, 1989).

Ilsan had an area of 4,760,559 pyongs. There were 4,647 landowners. Only 26 landowners owned more than 10,000 pyongs whose land accounted for 16 percent of the land. Those with less than 5,000 pyongs numbered 3,540 and they owned 73 percent of the land. Landowners were thus mostly small holders. 66 percent of the land was farm land, 21.4 percent forests and 1.6 percent housing sites. Absentee landowners comprised only 25 percent. 4,052 households lived there with a population of 17,795 including 1,814 tenant households. There were 2,871 houses out of which 257 were illegal houses (SSSG, op. cit.).

On the government announcement to develop their areas into New Towns by the PPD, landowners and residents in the areas immediately reacted against the compulsory land purchase. On May 1 1989, 50 inhabitants in Bundang gathered at the Seongnam city hall and proposed conditions for the development of their land: the provision of appropriate resettlement measures before the start of development project and the reflection of residents' opinion in the planning process. However, in Ilsan, residents and landowners from the beginning made clear their firm position against the development itself. On the same day they organized the Residents Association for Campaign Against the Development. (Hangyore-Shinmoon, May 2, 1989).

The next day, in Bundang, a thousand residents gathered at the city hall demanding an alternative means for living. In Ilsan, 1,300 residents occupied a railroad and held sit-in demonstrations demanding the cancellation of the development plan (Hankook-Ilbo, May 3, 1989). In the following week, sit-in demonstrations at the headquarters of political parties, on the highways and rail ways, and street demonstrations in front of the National Assembly continued. Such responses were not unprecedented as seen in the previous cases. However, this time, their response attracted the attention of anti-government scholars and experts in urban issues, and politicians (Seoulkyongje-Shinmoon, May 4 1989; Chosun-Ilbo, May 7, 1989). In the National Assembly, politicians in the ruling party pressed the Minister of construction to adopt measures to

pacify increasing popular discontent (SNA, 1989: the 8th conference of the 145th session).

The government prepared a compensation plan in a hurry to pacify the strong opposition of landowners and residents. On May 10 1989, the MOC announced the compensation plan. It suggested that the assessment of land values would consider actual land prices in the vicinity rather than be mechanically based on the Pegged Prices. The suggestion included the provision of housing plots to resident landowners after development as additional compensation. This was a retreat from the government policy decided at the time of Sanggye development not to provide developed land as compensation. The government proposed the provision of commercial land not only to existing shop owners but also to farming landowners who wanted to change their occupation to commerce. This was also unprecedented. Tenant households were to be provided rental apartments as before. The government also promised to provide substitute agricultural land for farmers in Ilsan in the vicinity. On May 30, the Minister of Construction announced a development plan for 600,000 pyongs of agricultural land in the neighbouring county for farmers in Ilsan (KLDC, 1989).

Thus the compensation plan was much more generous than those in the previous cases. The government and the KLDC stepped up the publicity activities on the development plan and compensation plan. The government organized the Compensation Deliberation Committee with 15 to 23 members from the residents, the KLDC and local governments. 30 percent of the members were to be representatives of landowners and residents. They distributed pamphlets explaining the plan and requesting cooperation from property owners. The government and the KLDC held, for the first time, public forums on the development plans and the compensation plan (Ibid). They even held a meeting with the residents to have the appraisers explain the process and criteria of land valuations (SSSG, op. cit).

However, the opposition campaign was not softened. Particularly that in Ilsan was violent. Residents from Ilsan continued to hold sit-in demonstrations at the National Assembly and at the headquarters of political parties. Several farmers killed themselves protesting against the forced deprivation of their land. This gave rise to further violence by the residents (Ibid). Opposition members of the National Assembly

proposed to adopt a resolution to cancel the development plans and demanded that the government reform the present housing development strategy at the grass-roots. The Residential Land Development Promotion Law (RLDPL), the base law for the PPD, was criticised as an undemocratic law enacted under the dictatorship of the New Military Group in the early 1980s (SNA, 1989: the third conference and the sixth conference of the 146 session on May 18 and 26 1989). The latter half of 1989 was dominated by the issue of the New Town development in street demonstrations and public forums.

This development was contrasted to that in the three other New Towns which began to be developed only one year earlier. In the three New Towns public development agencies had also been in conflict with landowners and residents. However, in these areas, the conflicts did not develop into such a political issue. A specification of some differences between the two groups of New Towns may help explain why the development of Bundang and Ilsan, of all other New Towns, caused such wide public discussion and became a political issue.

The first difference is in the scale of development. Table 6.1 compares five New Towns under development in the late 1980s around Seoul. In terms of development area, Bundang and Ilsan are 4.3 times larger than the total area of the other three New Towns. There were 3,700 and 4,647 landowners in Bundang and Ilsan respectively (SSSG, 1990a). In terms of residents, Bundang and Ilsan had 8,000 and 4,000 households respectively. In Sanbon, there were approximately 2,600 landowners and

Table 6.1 Development Plan of the Five New Towns around Seoul, 1990

	Bundang	Ilsan	Pyongchon	Sanbon	Joondong
Area (1,000 pyong)	5,550	4,750	1,490	1,260	1,630
Population (1,000 persons)	390	280	170	170	170
Houses	97,500	75,000	42,500	42,500	42,500

Source: Adapted from unpublished document, the Ministry of Construction, 1990.

residents households (interviewee K). In other words, the government had to face much larger number of people who were to be compensated and relocated in Bundang and Ilsan.

Second, as mentioned before in the other three New Towns, public development agencies such as the KNHC were individually facing with local landowners and residents. Development plans were known to landowners before the official procedure for development was taken. In Bundang and Ilsan, the central government itself directed the whole process from the formulation of the plan to major policies for compensation. The plan had been kept secret until the President himself announced the development. The idea to develop the two New Towns was proposed by the Presidential Secretariat Office although the KLDC was in charge of its implementation. In consequence, from the beginning the central government had to directly confront not only landowners and residents in the two development areas but also all the opposition forces.

In these circumstances, political organizations and human rights organizations intervened in support of the landowners and residents' campaign against the development. Scholars and urban experts were criticising the rough-and-ready development without properly considering its effects on the life of the residents and impacts on the increase in population in the capital and regional traffic and environment (Joongangkyongje-Shinmoon, May 24, 1989; Shindong-A, June 1989).

Opposition Parties demanded that the government reconsider the development plan. At first, they demanded some changes in the development plan such as the allocation of more houses to low income households. As the resistance of landowners and residents became violent, they began to oppose the development plan itself (Joongangkyongje-Shinmoon, May 11, 1989). At this time, the ruling party lacked a majority in the National Assembly. Opposition parties finally adopted a resolution to urge the government to reconsider the plan on May 27 1989.

Yet, the government was determined to push forward with the development as originally planned. Any significant retreat would damage the President's dignity which had

already been jeopardised by the unrest of industrial workers and the urban poors' struggle in 1987 and 1988. If the government was again pushed back in the New Town development, as they seemed to have feared, the authorities would have greater difficulties in maintaining their grip on discipline in the society.

On May 29, the Minister of Construction announced that he would not reconsider the plan itself, though the development of Ilsan could be postponed for another two or three years during which farmers could continue to work on their land (Hankook-Ilbo, May 30 1989). In June the government and the ruling party joint meeting concluded for carrying forward the development plan with some supplement of compensation measures (Seoulkyongje-Shinmoon, June 2 1989). On June 19, the President confirmed on the air that the government would carry on the development plan by paying full compensation for landowners and residents (Dong-A-Ilbo, June 19 1989).

By this time, anti-government organizations were involved. Later in July 1989, they formed the Joint Committee to Support the Campaign Against the New Town Development. They included the Korea Agrarian Movement, the Korea Urban Poor Union, the Urban Poors Institute, the Young Architects Association, the Federation of Seoul Students Association, the Goyang-Gun Residents Association for the Promotion of Democracy. They were supported by the Korea National Democratization Movement, the Progressive Politicians Coalition, the Greater Seoul Catholic Diocese Ministerial Commission for the Urban Poor (Pamphlet on the Public Forum on the Bundang and Ilsan Development held by the Joint Committee to Support the Campaign Against the New Town Development in July 1989).

These organizations were interested particularly in Ilsan, since in Bundang the struggle of landowners and residents was for more compensation from the beginning while in Ilsan it was against the New Town development itself. However, their involvement was not welcomed by landowners and residents in Ilsan. Landowners and residents In Ilsan did not want their campaign to be exploited by the anti-government movement. The residents themselves formed the Residents Association for Campaign Against the Ilsan New Town Development, which consistently emphasized that they had no links with any anti-government political groups, political parties and other ideologically motivated sympathizers. They even refused a suggestion from residents in Bundang to

form a joint campaign since their demand was cancellation of the plan while that in Bundang was for more generous compensation. Their activities including street demonstrations and public forums which continued throughout the latter half of 1989 made the issue an object of public concern (SSSG, 1990a; 1990b).

Although the opposition organizations could not form a direct coalition with landowners and residents, their activities, street demonstrations and public forums, gave indirect aid to landowners and residents in the struggle with the government. They had links with opposition parties and, in the situation in which opposition parties held a majority of seats in the National Assembly, they could exert a certain influence on the government.

The strong resistance by the landowners, supported by these organizations, brought about a significant delay in the development of the New Towns. The valuation of the properties for compensation was to be completed by August 1989. The payment of the compensation cost to residents was due to begin in September in the same year. The formal Development Plan was to be approved by the Ministry of Construction by August 1989 and construction work was to be started in October 1989 (KLDC, 1989).

The KLDC started property surveys in April 1989. However, because of the strong resistance of landowners and residents, the survey showed little progress until the end of June 1989. The government and the KLDC finally began to enforce the survey under the cover of riot police at the end of July in 1989. Landowners confronted them with demonstrations on the sites, at the offices of political parties and government offices. Physical collision on the sites often led to casualties and many arrests (SSSG, 1990b). By October, in Bundang the KLDC could barely manage to complete 70 percent of the survey which was begun in August 1989 (Choongang-Ilbo, October 19 1989).

Landowners and residents could not resist indefinitely. In Bundang, as there were no sign of further concession on the side of the KLDC, a number of landowners, speculative investors, began to accept the KLDC's proposal. First of all, compensation prices for land were more generous compared with those in the previous cases. The Pegged Prices issued in 1986 were 100,000 to 135,000 won/pyong for housing land, 30,000 to 50,000 won/pyong for farm land and 10,000 to 21,000 won/pyong for

forests. The prices were adjusted by the average rise in land prices in Seongnam city, the competent authority of Bundang. When the development plan was announced, land prices in and outside Bundang were rising by two to five times: prices of farm land in the surrounding Green Areas rose to 100,000 to 350,000won/pyong; those of housing land to 400,000 to 1,000,000 won/pyong (Hankookkyongje-Shinmoon, May 4 1989). In October 1989, land in Bundang was valued at 727,000 won/pyong for housing sites, 263,000 won/pyong for paddy fields, 285,000 won/pyong for dry fields and 120,000 won/pyong for forests on average respectively (SSSG, 1990). This means that the compensation prices became much closer to actual trading market prices in the vicinity than in the case of Chulsan.

In addition, they could expect a considerable premium with new properties sold to them as part of compensation at cheaper prices: housing plots at 50 to 60 percent of cost prices and new shops or commercial land at appraised prices (Hankookkyonje-Shinmoon, February 2 1991). This is compared to that in Chulsan where housing plots were provided at cost prices and shops and commercial land at the average contract prices with the highest bidders.

2,400 tenants households, 59 percent of the residents, were not satisfied with the compensation and continued collective sabotage. They demanded titles to rental apartments with 8 to 20 pyongs or six months' living expenses, and temporary housing before demolition. The KLDC instead suggested to the tenants to choose either the title to rental apartments or three months' living expenses (2,225,000 won for a family of six). It was these tenant households which resisted further but were no longer an obstacle to the development proceeding.

In contrast, in Ilsan, most landowners were still demanding the cancellation of the development plan itself. It was difficult to find alternative agricultural land like the present one which had many advantages as a suburban agricultural land. The KLDC had great difficulties in carrying out surveys on properties because of the stubborn resistance and refusal by the residents.

Only with the lapse of time, landowners again one by one came to negotiation. By the end of 1989, organized resistance in both Bundang and Ilsan ended. Landowners and residents were fighting individually for more compensation by appealing to the Central

Land Expropriation Committee or the Court. Entering 1990, the target of the struggle to cancel the development itself was almost abandoned. The point of dispute moved on to the compensation and resettlement measures (SSSG, 1990b).

By July 1990, one year after the KLDC began to enforce a survey for compensation and compulsory purchase, compensation for landowners in Bundang was completed. In Ilsan, 75 percent of the land was purchased and 25 percent was awaiting the final decision of the Central Land Expropriation Arbitration Committee (CLEAC) for compensation prices (Hankookkyongje-Shinmoon, July 7, 1990).

The government after all succeeded in carrying forward the development plan. Yet, the strong resistance in the two New Towns and subsequent concessions by the government in the compensation measures meant a significant change in the relation between landowners and the government, resulting in rising compensation payments for compulsory land purchase in the PPD.

### **6.5.2 Losing Control of Land Prices**

These New Town developments had become a precedent in which landowners and residents were able to push the government to make concessions in the determination of land prices and compensation for properties. Since the incidents in Bundang and Ilsan, the PPD came to face increasing difficulties in terms of rising compensation payments throughout the country.

First, the case in the two New Towns directly affected the determination of compensation prices of land and associated properties. In Seoul, the city government was developing residential land for the Two Million Housing Construction Plan in 1989 in the remaining Green Areas in Gangnam. In these areas, landowners, spurred by the incidents in Bundang and Ilsan, claimed more compensation for their properties: compensation for their land at the prices of land in the vicinity which were two to three times the appraised prices; title to larger apartments (so far usually small sizes apartments, i.e., less than 20 pyongs in floor space, were given for compensation); provision of land after development at half of the cost prices; provision of new

commercial properties. Landowners even demanded that the city government allow them to develop the land or to develop their land by the LRP; to compensate building at construction costs of new buildings (Mailkyongje-Shinmoon, March 31, 1989; Choongang-Ilbo, April 17, 1989; Hankook-Ilbo, May 31 1989; Chosun-Ilbo, June 17 1989; Chosun-Ilbo, March 9 1990; Chosun-Ilbo, May 17 1990). The same situation spread to provincial cities (Chosun-Ilbo, June 22, 1989; March 8, 1991). The result was increasing land prices and more expensive compensation payment for the PPD.

Since the incidents in Bundang and Ilsan, the government has sought to improve the legal framework to confront the problems of the PPD. In 1990, regulations on compulsory land purchase and compensation were revised several times in order to, as the government described it, 'conciliate the need to use land for public interests and the obligation to protect private property' (KNHC, 1992c). First of all, Pegged Land Price was replaced by the New Public Notice Price as the base price on which compensation prices of land were valued. The Land Expropriation Law and the Special Law Regarding Land Expropriation and Compensation were amended in such a way that land value was to be appraised on the basis of the new Public Notice Price. The Pegged Land Prices (PLP), once issued, were not periodically renewed. Only in the designated areas where land prices were rising very fast, was the price to be renewed every three years. Thus PLP was usually far lower than actual market prices. The PNLP was to be notified to the public every year based on actual trading prices. The new system has been in effect since January 1990 (KNHC, 1992c).

Accordingly, compensation prices for land in Seoul have been rising fast: it was 1,542,000 won/pyong in Suseo in 1990; 1,600,000 won/pyong in Daechi in 1990; 2,619,000 won/pyong in Banghwa in 1991; 3,870,000 won/pyong in Wolgye in 1992; 4,158,000 won/pyong in Banghwa in 1992; 4,320,000 won/pyong in Gongneung in 1992 (Mailkongje-Shinmoon, January 15 1992). These prices were almost equal to those of land purchased in the private market. An interviewee said: '**there is now little gap between actual street value and compensation value for expropriated land in the PPD projects, (interviewee, J).**

In consequence, the prices of land provided to private developers through the PPD have been rising fast. The portion of land cost in new house prices in the PPD areas

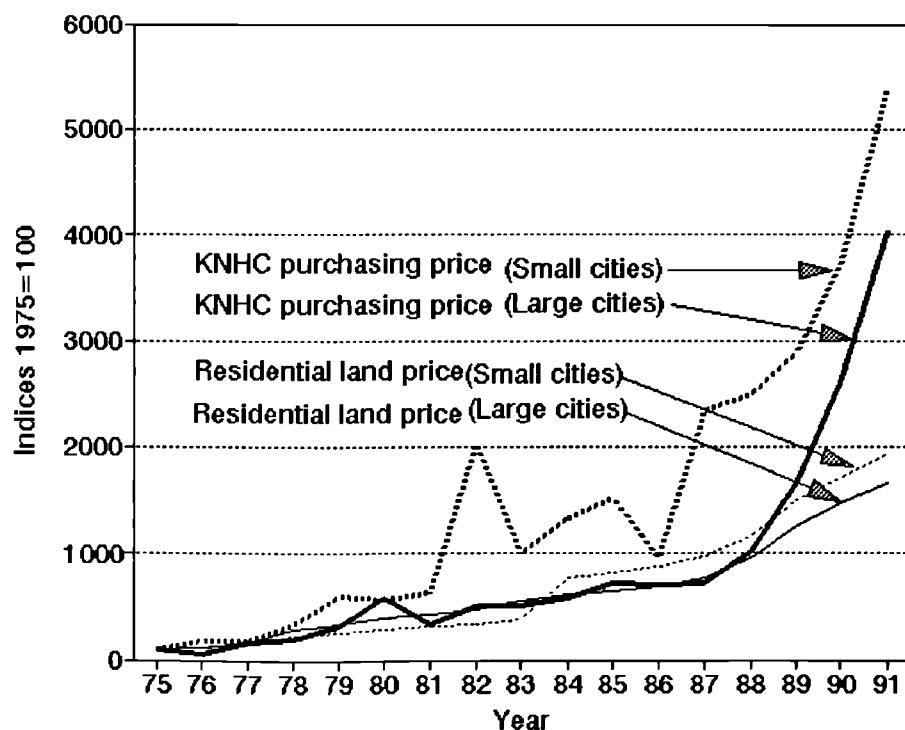
has accordingly been increasing. Table 6.2 shows data suggested by an executive of a development company to show the rising portion of land cost in the PPD areas. In

Table 6.2 Changes in the Price of Land Provided to Private Developers through the PPD projects, 1986-1990.

Date of Provision	Location	Land Prices (won/pyong)	Land Cost Portion in New House Prices (%)
Sep. 1986	Junggye, Seoul	641,500	21.3
Oct. 1988	Dusan, Daejeon	733,350	22.5
Sep. 1989	Bundang, Seong-nam	1,098,760	33.6
Jun. 1990	Joongdong, Bucheon	1,448,790	33.4
Dec. 1990	Gayang, Seoul	2,809,930	48.8
Dec. 1990	Suseo, Gangnam, Seoul	4,991,000	60.4

Source: Lee, H. S. (1991).

Figure 6.3 Price Indexes of Land Purchased by the KNHC, 1975-1991.



Source: Produced for this thesis based on data in KNHC (1992a).

1986, land cost accounted for 21.3 percent of new house prices. This rose to 60.4 percent in 1990. This coincides with data shown in Figure 1.8 (p25).

For the KNHC too, the PPD is also no longer cheap in terms of land prices in residential development. Figure 6.3 is a comparison between the indexes of the prices of land which the KNHC has purchased from private landowners and those of average housing land prices in large cities and small cities. It shows that the rise in land prices paid by the KNHC had kept pace with those of average housing land prices until the mid-1980's. However, from the late 1980's, the KNHC's purchasing prices began to rise faster than average prices. This is despite the increasing reliance of the KNHC on the PPD which aimed at acquiring land at cheaper prices(see Figure 6.2). In other words, the PPD has increasingly failed to provide land at cheaper prices since the late 1980's.

Figure 6.4a and 6.4b compare the changes in new apartment prices, the prices of raw land and developed land and building density in three PPD project areas developed by the KNHC, Gaepo, Sanggye and Sanbon. Figure 6.4a shows that both land prices and development cost land have risen faster than new house prices. Between 1981 and 1990, new house prices rose 1.6 times while raw land prices, land development cost and the consequent prices of developed land rose 5, 11.4 and 7.6 times respectively. This means that land prices have risen while the quality of land in terms of location and infrastructure has been getting poorer. In Figure 6.4b, the prices and development cost of land was converted into prices per pyong of floor space. It shows that the KNHC has had to increase building densities in order to keep land cost per pyong of floor space at a low level. Private developers have built at the maximum densities from the early 1970's as seen in Chapter 4 and 5: average Floor Area Ratio (FAR) had been 180 percent until 1986; 250 percent until 1988; 300 from 1989 in and around Seoul. The KNHC's average FAR had been no more 80 percent in and around Seoul until the early 1980's (KNHC, 1986). It increased to more than 150 percent by mid-1980's, then to 200 percent in 1990 (unpublished document, Site Planning Department, KNHC, 1992).

The increase in indirect compensation payment has become also a problem. Table 6.3 is a summation of compensation in the housing estates and New Towns examined in this chapter. In the case of Banpo in 1977, landowners were paid only cash for land. In

Figure 6.4a Changes in House Prices and Land Prices Selected KNHC Estates, 1981-1990.

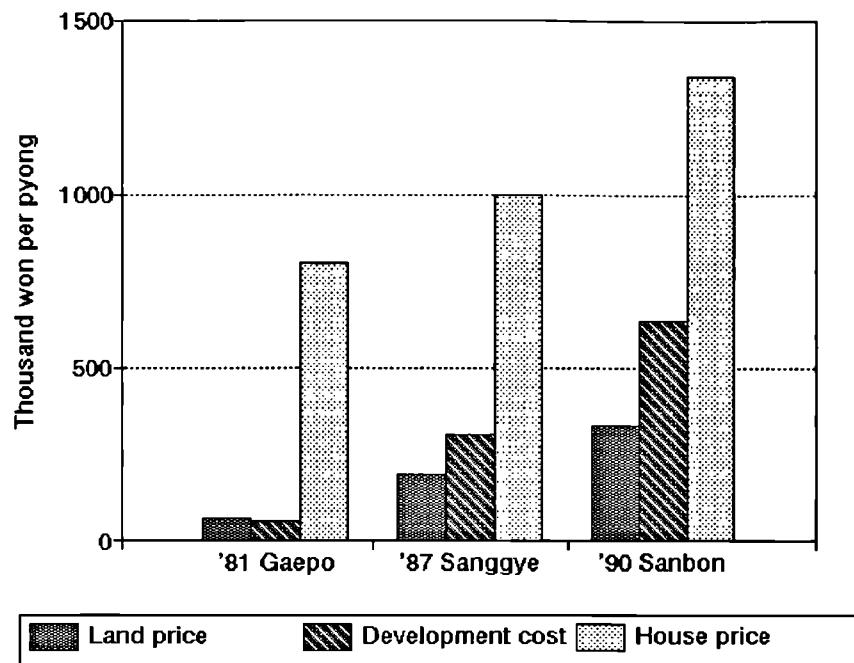
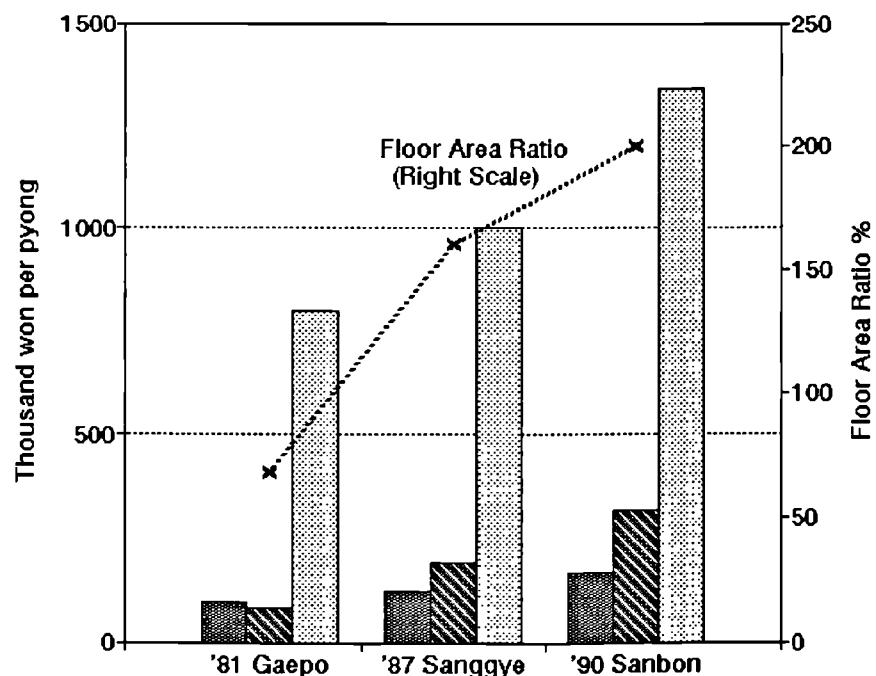


Figure 6.4b Changes in House Prices, Land Cost and Building Density, Selected KNHC Estates, 1981-1990.



Source: Produced for this thesis based on unpublished data from Department of Land Development, KNHC, 1992.

Table 6.3 Changes in Compensation for Landowners in Selected PPD Projects in and around Seoul, 1977-1989

Year	Estate	Absentee Landowners	Resident Landowners
1977	Banpo	59,261 won/pyong for land prices	59,261 won/pyong for land prices
1979	Gwacheon	86,185 won/pyong for land prices	86,185 won/pyong for land prices and new housing plots (70 pyong) at cost prices
1981	Gaepo	65,345 won/pyong for land prices	65,345 won/pyong for land price and new housing plots (50 pyong) at cost prices
1984	Mockdong	70,000 won/pyong for land prices and title to new apartments	70,000 won/pyong for land price and title to new apartments
1984	Chulsan	129,950 won/pyong for land prices and title to new apartments to non-homeowning landowners	129,950 won/pyong for land price, new housing plots (50 pyong) at cost prices and new shops or commercial land to shop-owners
1986	Sanggye	192,158 won/pyong for land prices and title to new apartments (up to 20 pyong) to non-homeowning landowners	192,158 won/pyong for land price, title to new apartments (13-20 pyong) and new shops at the average contract prices to shop-owners
1989	Sanbon	307,895 won/pyong for land prices and title to new apartments (up to 25 pyong)	307,895 won/pyong for land prices, new housing plot (55-75 pyong) at cost prices and new shops or commercial land to shop-owners and farmers at the average contract prices
1989	Bundang and Ilsan	222,000 (Bundang) and 191,000 (Ilsan) won/pyong for land prices and title to new apartments	222,000 (Bundang) and 191,000 (Ilsan) won/pyong for land prices, new housing plots (60-70 pyong) at 50 to 60 percent of cost prices and commercial land or new shops at appraised prices to shop-owners and farmers

the early 1980's, resident landowners were provided with new apartments or housing plots at cost prices. In the late 1980's, both resident and absentee landowners were given housing plots at 50 to 60 percent of cost prices and commercial land or shops at appraised prices.

For example, in the case of Sanbon, 25 percent of commercial land was allocated to existing landowners and shop owners as additional compensation. Commercial land after development was to be sold to the highest bidders. It thus had been a major source of development gains to the public development agencies, which had mostly been invested in the construction of infrastructure facilities. To sell them at appraised prices means a loss in development gains, which is possibly passed on to new house prices. How much such indirect compensation affected development gains and in consequence new house prices is not known. However it can be a problem if the present practices continue (**interviewee K**).

At the time of the survey for this research, April, 1992, when the property market was in a depression, many landowners around Seoul were suggesting to the KNHC to develop their land. Land prices were then appraised based on the new Public Notice Prices, which were very close to actual market prices. In addition, when land was expropriated, landowners were exempted from the Property Transfer Tax. When they buy substitute land in other areas, the Land Acquisition Tax too was exempted. This means that land purchased by compulsion in the PPD projects is no longer compensated at lower prices than market prices (**interviewee K**).

The increasing indirect compensation in the PPD projects has also been attended with various corrupt practices. First, speculation investment aimed at such indirect compensation has caused problems. Titles to 60 to 70 pyongs of housing plots and 6 to 8 pyongs of commercial land, for example, were traded at 150 million won on average in Bundang and Ilsan (Hankookkyonje-Shinmoon, February 2 1991). Division of plots or joint registration of landowners on a plot of land became prevalent aimed at housing or commercial plots as happened in the time of the Sanggye development mentioned in Subsection 6.4.3.

Squatting aiming at compensation became prevalent since the late 1980's. In the New Towns and housing estates in the late 1980's, the illegal construction of squatter

houses aiming at compensation increased. They were mostly built by professional organizations, often gangster organizations. Once the houses were sold to squatters, they staged collective actions demanding compensation. In order to prevent such squatting, the KNHC as well as other public development agencies has had to employ private guard companies in the PPD areas (**interviewee K**).

As monitoring and control of new squatter house building was strengthened, partitioning existing houses became prevalent. The inside of houses were partitioned into several compartments which were then let to new tenant households moving in aiming at compensation. This latter form reached a culmination in the five New Town development areas (**interviewee K**). In the Suseo and Ilwon area in Seoul, homeowners in the area remodelled open sheds or cattle sheds into rooms and then rented them to new tenants. In an extreme case, 15 households shared five rooms. Many of the new tenants were known as having resided in other development areas and redevelopment areas where they were given titles to rental apartments for compensation ((Mailkyongje-Shinmoon, March 31, 1989).

False residents registration was also prevalent. Aiming at the titles to rental apartments given to tenants, those who had some connections with people in the areas designated for development transferred only their residents registration. In some cases, husband and wife registered separately to claim title to a new house each. Although the government revised laws and regulations to strengthen the control of such irregularities, it became common that real estate agencies wheedled speculative investors or squatters to buy land or shacks saying that by collective actions they could get certain compensations (Mailkyongje-Shinmoon, March 31, 1989).

These corrupt practices became to disrupt the implementation of the PPD projects. First, as speculation became prevalent in land and properties in the PPD areas, the government has had to take tough anti-speculation measures since the Sanggye development started in 1985. The government had to adopt strong anti-speculation measures in Bundang and Ilsan immediately after its announcement of the development plans. In the two New Towns, the government organised the Speculation Investigation Squad at the National Tax Administration and local governments to monitor

speculative activities in the area. The Land Transaction Permission System was applied.

Second, squatters and tenant households also disturbed development works as they were very likely to be excluded from compensation. In the development process, the demolition of existing structures became one of the most difficult jobs. The clearance squad of the Borough Offices often failed to do their job because of the stubborn resistance of people. Thus from the late 1980's, private demolition squads, who were actually gangsters organizations, were hired (interviewee L). The government also revised the Special Law Regarding Public Expropriation and Compensation such that squatters and tenants who moved into the areas after the time the plan was announced were not given any compensation. The Squatter Control Squads were organized by the KLDC and local governments to prevent further squatting. To prevent false resident registration aiming at compensation all administrative service for moving into the area after the designation of the development area was frozen (MOC, 1989).

The government has sought for alternatives to the PPD system to avoid all these problems since the New Town incident in 1989. In 1991, the government considered a system in which a part of the compensation prices of land were paid in bonds which were to be redeemed annually for up to five years. It was to be applied to land owned by absentee landowners and non-business land owned by corporations when the compensation prices exceeded a certain level. Whether such a system was against the constitution came into question in the Economic Ministers' Conference, in November 1991. Thus in the Cabinet Meeting, the proposal was changed into a more relaxed one which prescribed the system to be applied only with the agreement of landowners. However, since no landowners would agree to the payment in bonds, it was unrealistic, and finally the idea was abandoned (Chosun-Ilbo, November 3 1991).

In the National Assembly, a completely new framework replacing the present Residential Land Development in Designated Area (RLDDA) was proposed. In the ninth conference of the 147th session in June 1989, 70 members of the National Assembly proposed an amendment of the Residential Land Development Promotion Law (RLDPL). The main point was to compensate a certain portion of the land purchased by compulsion in new land after development: a compromise between the LRP

and the PPD. This was once suggested and lobbied for by the landowners in Bundang and Ilsan. The proposal was postponed as the government was also drafting "the Urban Development Law" which was to integrate and replace various laws concerning land development and to eliminate sources of public discontent in housing development. Yet, by the time of the survey for this research, April 1992, the government had not suggested any definite alternative to the present PPD system.

## 6.6 Conclusion

Concerning the conflict between landowners and the government in the PPD, scholars in Korea have concentrated on the legal and policy-technical aspect of the issue. Land development by force has often been judged against its constitutionality and the effect on the well-being of the existing residents. It has been tacitly assumed that the state has both the power and obligation to adopt constitutionally justifiable measures which can attain a compromise. All the conflicts and irregularities associated with the land market have often been attributed to deficiencies in policies (Hwang, M.C, 1985; Sohn, J.Y., 1989; Lee, J.S., 1990).

The social processes by which such problems were created have often been neglected. In consequence, the effectiveness of the PPD in controlling land cost in residential development, a main objective of the system, has not been properly questioned. It is still commonly argued that land price for housing should be and could be contained by clever policy measures. This underlies the current debate on the price control of new houses as mentioned in the first Chapter.

Chapter 3 showed the circumstances in which the power of the government has weakened along with the constitutional change towards democracy in 1987. This chapter has shown the effects of such changing power balance on the determination of land prices in the PPD projects. The determination of land prices has been dependent upon a power balance between the government and landowners. There have always been resistance from landowners against land expropriation. It was the changing power relations in the late 1980's that brought about a significant concession by the govern-

ment in the form of compensation. The PPD is now losing its effectiveness in controlling land costs since the late 1980's, when the government power was weakened along with the constitutional change. Land purchased through expropriation is no longer cheaper than that in the market. This supports **Hypothesis Three**.

A side effect of the political determination of development gains between landowners and the public developers in the form of the compensation and resettlement policies is the increasing speculation on the latter: buying properties in the PPD area before development and pressing the government to yield larger portions of development gains through the compensation and resettlement measures. All forms of irregularities from commercialised squatting to the division of land plots are the result. Often it was the low income speculators who were ready to clash with police on the sites for compensation from the government. Such struggle disturbs the proceeding of development work inflicting administrative costs on developers. They, the low-income speculators, as vanguards in the street fighting, have helped landowners to gain a third party's profit in the struggle for better compensation.

Policies have often been *ex post facto* measures; they have been only formalization of what was settled by the changing power relations. That is why the institutions and policy measures associated with land development are so inconsistent, fragmented and complicated.

The tacit assumption which underlies the present debates on price control is that the state can control land cost at a lower level than the market does. What is evidenced in this chapter suggests that such an assumption is unrealistic under the present housing development strategy which takes the private appropriation of development gains as a major motive.

# CHAPTER 7. CONCLUSION

## 7.1 Issues and Questions

The research began with a question of how increasingly larger portions of new house prices have been allocated to land cost as new house prices have risen in Seoul during the 1970's and 1980's. Studies on this issue in Korea have mostly concentrated on the identification of factors affecting land prices, on a tacit assumption that land prices have pushed up house prices. A few scholars had put forward an alternative idea based on a theoretical elaboration of Ricardo's propositions on land rent. A review of the relevant literature, in Chapter 2, showed that neither of them could give an appropriate answer to the question about the relationship between land prices and house prices.

The research then explored the idea that the relationship between house prices and land prices is not determined by one single factor, i.e., any one of them determining the other, but the relationship is the result of the interaction between both. Michael Ball's thesis of the structure of housing provision showed that the relation between land prices and house prices could be understood only in the context of the interaction between landowners and developers in the housing development process. This interaction takes the form of conflict, a competition over development gains. It is suggested that the rising land cost for housing is an outcome of that conflict and competition.

The potential of the relationship between landowners and developers to explain the role of urban land in the housing development process was taken as the initial assumption in this research. The problem became then to identify how that relationship may result in particular outcomes such as rising land cost for housing. As conflicts and competitions are socially mediated, social relations between landowners and developers become

important in understanding the relationship between land prices and house prices. Since social relations are specific to concrete situations, it has been argued that the determination of the portion of house prices allocated to land cost is historically specific. It was at this point that this research needed to inquire into the material basis of this social relation. In other words, to answer the question of how the conflict between landowners and housing developers has resulted in the particular form in Korea, that as new house prices rise increasingly larger portions of them have been allocated to land cost, an understanding of the material basis of the conflict is necessary. This means an understanding of how the source of the conflict, development gains, is created and appropriated.

For this purpose, chapter two of the thesis examined in some length Marx's concept of rent and decided to adopt his concept of differential rent as a central explanatory concept. On the basis of the analyses in Chapter 1 and 2 the thesis reformulated the central research question: **What relation between landowners and developers has brought about the continuous rise in land cost for housing in Korea under the increasing government intervention to regulate it'.**

To answer this question, the research examined two aspects of the process by which the source of development gains, surplus profits, is created and appropriated: the material conditions of the interaction between landowners and developers and the social relationships between them. Accordingly the hypothetical answer to the research question comprised these two aspects: **the continuous rise in land cost for housing in Korea is the outcome of the conflictive and contradictory interaction between landowners and developers, determined by the fact that developers create surplus profits and landowners appropriate increasingly larger portions of them in the form of land rent. This affects the way developers produce housing and limit their ability to reduce house prices. The government has not been able to regulate that interaction because of its inability to break from its housing development system driven by the private appropriation of surplus profits.**

Housing developers, like any other commodity producers, seek after surplus profits. They work out ways of increasing surplus profits. These surplus profits become the material source of land prices: land prices are the forms by means of which landowners

appropriate that surplus profit. The ability of developers to create surplus profit here becomes the material foundation on which landowners and developers interact. The creation of surplus profit is however not solely at developers' discretion. It is a condition of housing production forced by the fact that landowners come into the process of surplus profit creation and demand part of that profit. Once developers create the possibility of increasing surplus profit, this provides the scope for landowners to demand further surplus profit for land prices. In other words, developers, by creating surplus profit, create the condition for the landowners to get a further part of it.

This is the material conditions in which landowners and developers inevitably enter into a conflicting relationship in housing development, and this thesis sustained that the growing portion of land cost in new house prices in Seoul had been primarily an outcome of that conflict between developers and landowners. The thesis also sustained that this conflict is socially mediated in Korea by means of government policies on housing and land development. Thus the second part of the Central Hypothesis is about social relations. It was hypothesised that the government strategy of housing provision has been designed such that private appropriation of development gains, i.e., surplus profits, would be the driving force of housing development, and that it has been conditioned by historical political and economic circumstances in Korea.

The research comprised, therefore, mainly two parts: how far the rising land cost for housing has been affected by the material nature of the relationship between landowners and developers as suggested by Marx's concept of differential rent; and how social relations, in the form of government intervention in the relationships between landowners and developers, have not been able to regulate the rising land cost for housing. Research Questions One and Two were formulated to address the first part and examined in Chapter 4 and 5. Research Questions Three and Four were formulated to address the second part and examined in Chapter 3 and 6.

This last chapter attempts to summarise and comment on all the empirical findings in the previous chapters in order to show how they support the **Central Hypothesis** of this research. This will be done in the order of the research questions rather than that of Chapters, which were organised for convenience into a historical examination of housing development in Seoul during the past two decades.

## 7.2 Landowners and Developers in the Creation and Appropriation of Development Gains

In the debate on rising land cost for housing in Korea, developers have been tacitly regarded as victims of high land prices. This conflicts with the suggestion of the **Central Hypothesis** of this thesis. **Research Question One** was thus formulated as: **Have housing developers in Korea been responsible for the rising land costs that have accompanied the housing programmes since 1970's?**

To test this hypothesis, the research examined in Chapter 4 and 5 the developers' strategies and behaviour to increase surplus profits and the amount of the same that they were able to realise. The examination was carried out for two separate periods: the 1970's, when no restrictive control on new house prices existed, and the 1980's, when the strict Price Ceiling System was applied.

Chapter 4 examined how housing developers were able to grow fast exploiting favourable conditions such as booming housing markets and policies to utilise large developers for government housing programmes during the 1970's. In the process of identifying the material source of their growth, the chapter analysed the relation between new apartment prices and land prices in Yeouido and Gangnam between 1974 and 1986 through a simple regression model using the rates of changes in land prices and house prices. The analysis showed that the rate of increase in land cost has little significance in explaining the rate of change in house prices ( $X$  coefficient=0.090785, Std. Err of Coef.=0.147882,  $R^2$ =0.033127). The chapter then analysed the composition of new apartment prices to see to what extent developers have realised surplus profits. The analysis showed that new apartment prices had contained a considerable amount of surplus profit (10 to 35 percent of new house prices) until the early 1980's. This was interpreted in this thesis as indicating that there had been scope for landowners to raise land prices further without affecting the profits of the developers.

For the 1980's, the first part of Chapter 5 examined how developers worked out ways of increasing surplus profits under the Price Ceiling. The examination disclosed that from the mid-1980's developers turned to two types of development: luxurious row

houses and cooperative housing. These types of development were used to evade the Price Ceiling System and thereby to realise high surplus profits. In Seoul, almost half of new houses was provided under the Price Ceiling System in 1981. By 1987, houses provided under the Price Ceiling System had almost disappeared. The common argument that land prices had risen despite the Price Ceiling turned out to be unfounded. Land prices had not risen while new house prices had been fixed but had risen while new house prices had also risen.

The second part of Chapter 5 examined whether the development of luxurious row houses and cooperative housing were choices forced by landowners, i.e., an inevitable choice for developers to meet high land prices. The examination showed that it was not the case. First, most land on which developers built such houses in the mid-1980's had been owned by them for many years. Secondly, the chapter analysed the composition of the prices of cooperative housing. The analysis showed that new house prices involved large surplus profits. This was interpreted to mean that the ability of developers to create high surplus profits by evading the price ceiling had provided room for land prices to rise.

Both examinations, in Chapter 4 and 5, evidenced that developers had been able to realise large surplus profits by exploiting rapidly growing housing demand and government policies favourable to developers and by evading the Price Ceiling System during the 1970's and 1980's. They thus had provided scope for land prices to rise.

Then the question became whether this meant that landowners had been neutral in influencing new house prices. Thus **Research Question Two** was formulated: '**What was the role of landowners in the creation and appropriation of development gains?**'

Chapter 4 and Chapter 5 examined changing behaviour and attitudes of landowners and their effects on housing development. It was in the late 1970's, when apartment development became lucrative and competition among developers became intensified, that the patterns and attitudes of landowners began to change. Housing development booms during the 1970's provided good opportunities for landowners to realise larger portions of surplus profit in the form of land prices. This attracted speculative investment in land for housing. Speculative investors, from housewives with some savings to real estate

agencies, began to replace farming landowners. Remaining farming landowners became conscious about their land value. Pervasive among these farming landowners was a sense that they had to be paid for their land at least more than what others were paid in the vicinity. Monopoly pricing, land withholding and waiting, and speculative land transactions became prevalent in consequence.

These, often called irregularities in the land market, were the practical forms in which landowners increasingly transformed larger portions of surplus profit into land prices. Under these circumstances, once a developer worked out a new way of maximising surplus profit and that gave the chance to landowners to realise higher land prices, those higher prices became normal payments for all land of similar quality and location. Landowners in the whole area demanded the same or higher prices for their land. This was observed in the case of cooperative housing. Land prices paid for cooperative housing became normal prices for land available for apartment development in Seoul by the late 1980's. Most private apartment developers had to build cooperative housing if they wanted to continue housing development at such high land prices.

Increasing high density and high rise housing estates have been consequences of the same process. Once a new high density development yielded high surplus profits and land prices rose to a higher level, all other land where such high density development was allowed was priced at the same or higher prices. This resulted in a higher land cost burden on later developers. The latter then followed the same or other new ways of development which could finance high land prices.

Thus although landowners have not directly determined new house prices as seen in the examination of **Research Question One**, they have affected the way in which housing was produced. The increasing land cost has meant the transformation of increasingly larger portions of surplus profit into land prices. That process has conditioned all developers to adopt new building methods when the new methods became a way of increasing surplus profit, as in the case of high density housing development. Cooperative housing development has been also one of the ways of realising high surplus profits under the particular condition of price ceiling. In this sense, landowners have not been merely passive actors in the appropriation of land rent.

Simply attributing the rising portion of land cost in new house prices to fortuitous market situations misses this point. It has been due to the material nature of the contradictory and conflictive relation between landowners and developers in housing development, which conditions land prices and new house prices to affect each other resulting in a spiral rise in both. This has been the way in which the portion of land cost has been rising in the new house prices.

### **7.3 Social Conditions for the Establishment of the Urban Rent Relation in Korea**

The actual forms and consequences of contradictions and conflicts between landowners and developers are dependent upon wider social relations and historical circumstances. This involves two issues that were examined in this thesis: the social relations responding to the contradictory interaction between landowners and developers, and historical conditions in which these took place.

The Korean government intervention in the relation between landowners and developers represents an institutional form of the social relations between these actors. As seen in Chapter 3, the contradiction between landowners and developers became a problem to the government whenever it needed to promote housing development in Korea. Hence the government increasingly intervened to regulate this conflict. However, as shown in the first Chapter, the direct involvement of the government in land development for housing has not been successful in controlling land cost. Thus **Research Question Three** was formulated: **how has the direct involvement of the government in land development had affected the relationship between landowners and developers and what has been the effects on land prices for housing ?.**

Chapter 6 examined this question through case studies of seven Public Purchase and Development (PPD) projects.

Compulsory land purchase for public housing began in the mid-1970's. The research showed that at that time there was no organised resistance from landowners against

compulsory purchase of their land. Landowners had not been in a position to exercise any significant political power as a distinctive class since the Farm Land Reform in the early 1950's. There were criticisms on the compulsory land purchase in the National Assembly. Opposition politicians often criticised that land expropriation gave favours only to large developers at the expense of small landowners. However, under the authoritarian rule of the Park Regime, which ruled the country by presidential decree from 1972 to 1979, such criticism did not affect the government intervention.

In the early 1980's, when the government launched the 5 Million Housing Construction Plan, the PPD system was introduced. The PPD is a system in which the government agencies have the right of compulsory purchasing of land, to be developed and provided later for both public and private housing.

In the early 1980's, when the New Military Group was formed into a civilian government, the new regime was anxious to improve its relations with ordinary people. As an appeasement policy, the new government instructed public agencies not to cause public discontent in urban and housing development. It was in these conditions that the government made some concessions to landowners. PPD projects, for example, began to include resettlement measures such as the provision of titles to new apartments or new housing plots in addition to cash payment for land. However, by and large, the determination of land prices in housing development remained under the full control of the government until the early 1980's.

The situation changed in 1984 after the politically damaging open conflict between landowners and residents and the government in the Mockdong Estate Development. It was the time when students in anti-government movements and human rights groups began to intervene in housing and urban development in support of the urban poor. As a consequence of all these, the government was forced to increase concession to landowners included in PPD projects. That took the form of indirect compensation for land and properties purchased by compulsion. Since that time, the government has been steadily losing power in its relation with landowners.

The political crisis in 1987 resulted in the fall of the authoritarian regime under President Chun, which was replaced by a more moderate government in 1988. The democratisation accelerated the changes in the power relation between the government and

landowners in favour of the latter. A new struggle of landowners and residents against the government took place in the two New Towns, Bundang and Ilsan in 1989. The government has since virtually lost control on land prices in the PPD projects. As of 1992, land prices in the PPD areas were no longer cheaper than market prices. The difference between compulsory purchasing land prices and actual market prices was in fact expressing such additional indirect compensation as titles to housing plots, commercial land and new apartments. When this indirect compensation is added, land prices in the PPD may be higher than those paid in private land development although basic prices remained under control.

The direct involvement of government in the relationship between landowners and developers has politicised the determination of land prices for housing but has been increasingly failing to control rising land cost. Chapter 3 examined the historical political and economic circumstances that conditioned this failure. In order to do this Chapter 3 provided the answer to **Research Question Four: What political and economic circumstances have conditioned the government's inability to control land prices for housing ?**

Class struggle which began in Korea after the liberation of the country from Japanese Rule in 1945 ended in the political defeat of the working class by the time of the end of the Korean War in 1953. Strong state and weak labour relations were established. One consequence was that housing provision was left to private development. This housing strategy was consolidated by the military coup in May 1961. The Military Junta launched an industrialisation programme to develop export manufacturing industries in the early 1960's and the Heavy and Chemical Industries from the late 1960's. It subordinated financial capital to the interests of industrial capital. Successive Korean governments have since adopted policies to control financial resources in favour of industrial development. In consequence, the housing and land development system was designed on the basis of self-financing principles. Private appropriation of development gains has since been the major driving force of housing and land development.

As seen in the cases of the three long term housing construction plans, whenever the government was in political difficulties, it intervened in the relationship between land-owners and developers. Broadly, this relationship has changed from the time of the

Land Readjustment Project (LRP) to the Public Purchase and Development (PPD), i.e., from weak state intervention towards a more direct control of the relationship between landowners and developers. However, in both systems, the self-financing principle and resulting reliance of housing development on speculative investment has remained unchanged. In other words, private appropriation of development gains has consistently been the driving force of housing development. The conflict between landowners and developers has thus always existed in housing development. The evidences provided in Chapter 3 suggested that there has been no way of controlling those conflicts and contradictions, that have resulted in spiral rises in land and house prices.

Thus the first part of the research was the identification of the material basis of the conflict between landowners and developers, that is, the mechanism by which surplus profits, the source of the conflict, are created and appropriated. The ability of developers to create surplus profit provides the material foundation for land prices to go up. This creates a condition for more surplus profit to be transformed into land prices through the ability of landowners to dictate the way developers produce housing to create even more surplus profits.

As to social relations, changing government policies were examined as institutional forms in which the interaction between landowners and developers is socially mediated. The research concluded that the failure of the government to control rising land cost has been caused by its form of intervention in the relationship between landowners and developers. This has forced the government to drift according to changes in the balance of political power involving landowners and developers. By this conclusion, this research contradicts existing policy studies in Korea that attribute the failure to control rising land cost to policy inconsistencies, lack of political will or moral weakness from the part of government to eradicate speculative investment. Thus the rising land cost for housing has been an outcome of conflicts over housing development, i.e., struggle between landowners and developers as conditioned by the wider social environment, the struggle between labour and capital. All these indicate that the evolution of Korean housing markets and policies associated with them is not the consequences of technical factors such as exogeneously given land prices or policy shifts but the consequences of conflicts generated in the process of housing development itself.

This conclusion suggests that there is no way of controlling this process by the means which are presently used and proposed in Korea, as will be briefly commented below.

#### **7.4 Some Comments and Implications of the Conclusion**

As indicated in Chapter 1, new house price control has recently been one of the most controversial issues among scholars, developers and the government in Korea. It is in this debate that lack of understanding of the relationship between land prices and house prices becomes manifest and causes confusion. Concerning land prices, the liberalisation of new house price has been advocated on the ground that the elimination of price control would encourage housing development and thus by increasing housing supply, would finally lead to a fall in house price (Kim J. H, 1988; Kim, J. H, 1990; Yoo, J.H., 1990).

In contrast, concerning land prices, the measures advocated has been stricter regulations of the land market. It has been argued that the government has to take stronger measures to control land prices in housing development along with the removal of house price control (Yoo, J.H., 1990, KIM, J.H., 1991). The prevalence of speculative investment practices in the land market had long been blamed for rising land prices. Thus the control of speculative investment in land and consequent irregularities in the land market had been regarded as the most important and urgent measure to stabilise land prices.

Taxation has been the major measure to regulate the irregularities associated with speculative investment. It was believed that land taxes raised land holding costs, cut down capital gains and thus discouraged demand for land. Hence lower land prices in the end (e.g., KRIHS, 1989). Thus it was asserted that if 100 percent of capital gains were taxed away and all the provisions on tax exemption and reduction were abolished, land price could be controlled (KHA, 1991b).

Then regarding the question of why taxation has so far been ineffective in controlling land prices, many pointed to technical and administrative limitations and side effects associated with the tax systems (Lee, J. J, 1988a); inaccurate assessment of land price and low level of taxation (Sohn, J. Y, 1989; KHA, 1991b). Loopholes in the tax system, such as tax exemption and reductions in exceptional cases, have been also criticised as helping speculators, developers and landowners to avoid tax either legally or illegally (Kim, J. H, 1991). All these defects in tax policies and systems have been blamed for the failure to establish order in the land market.

The findings in this research contradict these arguments. First, the argument presupposes that if a fair rule is maintained in the competition between housing developers (for example, there is no collusion among developers to keep house prices at high level), the liberalisation of prices would lead to a fall in new house prices. The research findings contradict this proposition. The research suggests that high land prices in Seoul have not been the result of either collusion or lack of competition among developers, but the competition between developers has been ineffective to reduce house prices due to the existence of rent relations.

The second assumption in the above arguments is that if the relationship between landowners and developers is not disturbed by the government, private housing development would be cost effective resulting in lower house prices. Historical evidence in this study suggests that the direct relationship between landowners and developers does not guarantee smooth housing development. As seen in Chapters 4 and 5, to negotiate with a number of landowners has been one of the most difficult problems for private developers. Although they were in conflict with the government in the PPD areas in the late 1980's, most interviewees expressed that they preferred land purchase from public agencies to that from private landowners. Designated Developers have pressed the government to encourage private land development for housing by giving them the right to expropriate land for housing. The government power to control land price in the PPD has, however, already been weakening, and these wishes of developers seem to be unrealistic.

The assumption of orderly land market conditions is also doubtful. It is assumed that if orderly transaction is maintained, land prices could be stabilised. This ignores the fact

that the present housing strategy of the government has been based on the self-financing principle and heavily reliant on speculative investment. It has been seen in this research that whenever there was a need to promote housing development either for political or for economic reasons, the government had to relax regulations on speculative investment including tax exemptions or reductions. That's why there has been such frequent changes in tax rates and the regulations on tax exemption and reductions. In consequence, such elimination of capital gains, if it was perfectly effective as argued, would undermine the whole present housing development strategy.

The improvement of house building technology has also been a policy issue although on a different level from the policy issues mentioned above. Mass production of low cost housing using highly productive building technology has long been conceived as a way of achieving low price housing. There have been studies on the limitations of the possibility of improving building technology in housing industry (Ball, 1985). Even if there is a possibility, low production cost does not necessarily lead to low price housing. High rise building technology was an example. High density development has been an issue among architects and planners as a way of reducing the burden of land cost in housing development. From the point of view of developers, higher density development has been a way to ease the burden of increasing land cost per unit of building floor space.

Disputes have persisted between the Korean Ministry of Construction and developers over the regulations of building densities. The MOC has had to yield to the developers demand as housing supply became a priority in the government policies in the late 1980's. Issues in the studies on development densities have been what adverse effects such high density would have in terms of the inconveniences due to overcrowding or environmental psychological impacts. Not enough discussions have existed about the effect of such high density development on the land cost. It has been believed that high density would definitely ease the burden of land cost (e.g., Yoo, J.H., 1990, 1991).

However, the examination in Chapter 4 and Chapter 5 suggests that this has not been the case. Any relaxation of density regulations has helped developers to realise more surplus profits but only temporarily: the surplus soon after has been converted into higher land prices. Hence developers' complaints about rising land price not too long after certain density regulations were relaxed. Thus if only land cost is concerned, high

density development will only have a temporary effect. It can hardly be an effective way of relieving the land cost burden in the longer term.

## APPENDIX A. Chronological Table for Chapter 3

Date	Politics	Housing
<b>1945</b>		
August	Independence from the Japanese colonial rule	
September	South Korea came under the US Military Government rule	
<b>1948</b>		
August	Establishment of the first Korean Government	
<b>1950</b>		
February		The Farm Land Reform Law enacted
April		Farm Land Reform started
June	Outbreak of the Korean War	
<b>1953</b>		
July	Korean War ended	
<b>1954</b>		
November	The Republic of Korea-U.S Mutual Defense Agreement	
<b>1960</b>		
April	Student Uprising leading to the collapse of President Rhee's Regime	
June	A constitutional amendment to the Parliamentary System	
<b>1961</b>		
May	Military coup under the leadership of General Park The Supreme Council for National Reconstruction (military junta) took over the government	
<b>1962</b>		
January	Start of the First Five-Year Economic Development Plan	The Land Expropriation Law enacted The Korea National Housing Corporation Law, the Urban Planning Law and the Building law enacted.
July		The Korea National Housing Corporation established

Date	Politics	Housing
December		The Housing Fund Operation Law enacted
<b>1963</b>		
November		The Public Housing Law enacted
December	The establishment of the Third Republic under the president Park	The Housing Fund Operation Law enacted
<b>1964</b>		
June	Student demonstration against the Korea-Japan Conference for Normalization of Diplomatic Relations; and Martial Law proclaimed in Seoul	
<b>1966</b>		
June	The Korea-Janpan Agreement signed and sealed; students and opposition parties demonstrated against it; the Garrison Decree invokated in Seoul	
<b>1967</b>		
June	Students demonstrations denouncing the rigged general election	
November		The Temporary Tax Law Regarding Control of Real Estate Speculation enacted
<b>1968</b>		
January	North Korean armed guerrilla stormed Seoul	
<b>1969</b>		
July	Guam Doctrine declared by the US president Nixon	
<b>1970</b>		
November	Self-burning of a young worker, Chun	
<b>1971</b>		
March	Withdrawl of one US infantry division from Korea	
April	Presidential Election	
May	General election	

Date	Politics	Housing
August	Urban poor's riot in the Gwangju Estate	
December	State of Emergency declared	
<b>1972</b>		
August	August 3 Measure: Presidential Emergency Order to freeze debts of enterprises owed to unregulated money market	
October	<i>Yushin</i> constitutional reform	
November		The Ten-Year 2.5 Million Housing Construction Plan formulated
December		The Housing Construction Promotion Law enacted
		The Specific District Development Promotion Law enacted
<b>1973</b>		
January	The start of the development of the Heavy and Chemical Industries declared	
April		The Pegged Land Price System introduced for industrial estate development
<b>1974</b>		
January		Presidential decree for the stabilization of national housing life
<b>1975</b>		
April		The MOC decided to allow local governments to expropriate land for public housing
September		The Apartment Area System introduced
<b>1977</b>		
July		The Special Law for National Housing Stabilization
December		The Housing Construction Promotion Law amended

Date	Politics	Housing
<b>1978</b>		
February		The MOC minister instructed local government to restrict the LRP
July		Hyundai Apartment Scandal
August		August 8 Measure to control property speculation
<b>1979</b>		
January		The Korea Land Development Corporation established
August	YH women workers sit-in demonstration	
October	Civil riots in Pusan and Masan	
October	President Park assassinated	
December	The New Military Group seized the power	
<b>1980</b>		
January	Minors' uprising in Sabuk	
April	Student demonstration against the government	
May	Civil uprising against the new Military Group and subsequent massacre in Gwangju	
	The National Defence Emergency Measures Board (military junta) established	
August	The civilian president Choi resigned General Chun elected the president at the electoral college	The National Defence Emergency Measures Board prepared the Five Million Housing Construction Plan.
September		President Chun ordered the MOC to build Five Million Housing within ten years
December		The Residential Land Development Promotion Law enacted
<b>1981</b>		
July		Measures adopted to promote land and housing development

Date	Politics	Housing
July		The National Housing Fund reorganized
August		Price ceiling system introduced in Seoul
<b>1983</b>		
April		April 18 Measure to control property speculation
<b>1987</b>		
April	President Chun put moratorium on constitutional reform	
June	Demonstration protesting against the moratorium The government acceded to the opposition's demand for constitutional reform toward democracy	
December		Presidential election: ruling party candidate Rho won the presidency
<b>1988</b>		
February		The 2.5 Million Housing Construction Plan announced
<b>1989</b>		
April		Development of two new towns Bundang and Ilsan announced
May		May 18 Measure: measures adopted to force large entrepreneurs to sell off 'non-business properties and to control land speculation
August		August 10 Measure to control land speculation; Replacement of the Price Ceiling System with the Factor Cost Linkage System
<b>1990</b>		
May		Measures adopted to control housing development as a part of policy to stabilize the economy

## APPENDIX B. List of Interviewees

### Large Private Development Companies

Interviewee A	Deputy Manager Housing Project Construction Department Hanyang Corporation
Interviewee B	Executive Managing Director Hyundai Housing and Industrial Co., Ltd.
Interviewee C	Former Architect and Planner Hyundai Housing and Industrial Co., Ltd.
Interviewee D	Manager Building Department Hyundai Housing and Industrial Co., Ltd.
Interviewee E	Manager Housing Project Construction Department Samsung Engineering & Construction Co., Ltd.
Interviewee F	Manager Real Estate Planing and Management Division Secretary's Office Samsung
Interviewee G	Director Housing Development Promotion Department Korea Housing Association

### Small Private Development Companies

Interviewee H	President Shinahn Construction Co., Ltd.
Interviewee I	President Korea Construction Co., Ltd.

### Korea National Housing Corporation (Public Housing development Agency)

Interviewee J	(Former) Manager Land Purchaser Department Korea National Housing Corpation
Interviewee K	Manager Land Purchase Department Korea National Housing Corpation
Interviewee L	(Former) Section Chief Land Purchase Section Seoul Branch Office Korea National Housing Corpation

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