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On Becoming the World's Fourth Largest City

Mr. Peter Bird Martin, Director  
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Dear Peter,

This is really an interim report on a large subject that I've started to chew on--the development of Seoul and urban land use and planning. I've talked to a few people and read some reports, but so far this has raised more questions than it has answered. I'm hoping this letter will give you some flavor for the problem.

Last summer and fall, the newspapers ran story after story on real estate speculation and the government's new measures to stamp it out. These included forcing large companies to sell holdings of undeveloped land as a prerequisite for obtaining bank financing. Large capital gains taxes were imposed on short-term selling of homes, especially if the dwelling was not a primary residence.

Nonetheless, when I recently visited with an urban planner who specialized in housing problems, he gave me a bit of advice. Buy my apartment, he said. It would be a terrific investment, guaranteed to pay off. Not to worry that foreigners cannot easily purchase real estate here. Buy it through a dummy purchaser.

Simple arithmetic says the man is probably right. Last year housing prices went up over 20% in Seoul, and that during a time of very low overall inflation. Bank financing for home purchases is virtually nonexistent, and private lending can cost up to 30% a year. Where did the pressure come from?

For one, Seoul's population went up by about 400,000 people last year, pushing the city population to some 9.2 million. A 4.5% annual increase in the city's population is about average for the past decade. But the rapid increase is typical in another sense: it far exceeded the projections of planners and once again made a joke out of efforts to disperse Korea's population away from the capital. About a quarter of South Koreans live in Seoul, and over a third in the capital region.

Personal income, too, has begun moving up once again, after taking a dip following the 1979 oil price shock. Koreans have more money, and many

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put it into housing, more for investment than to pay for a place to live. There it has been far safer and has earned a higher return than just about anywhere else they could find to put it. And despite the crackdown on speculation, there are loopholes for everyone.

One young couple I know bought a modest apartment on Seoul's modern Yoido Island in 1976 for 20 million won. That apartment is now worth 75 million won (about 95 thousand dollars at today's exchange rate). But the trick is that they purchased the apartment in the name of a relative. Legally they are one of Seoul's "homeless" masses, making them eligible to purchase government-built apartments. The government prices its apartments 30 to 50% below the market in an attempt to slow down price increases, and to give first-time buyers a better chance to enter the market. The problem is that if purchasers resell the apartments they can reap a huge windfall. So the government imposed the "homeless" requirement, taxes away capital gains if the apartments are sold in less than two years, and requires that prospective buyers purchase housing bonds. The more bonds you buy, the greater chance you have of making it into the lottery from which buyers are selected. This measure, of course, just makes it more expensive to buy a new apartment, pricing more people out of even this subsidized market.

My friends were lucky. They bought just a few bonds to qualify for an apartment in the newly-developed Chamsil District (near the new Olympic Stadium). Other people bought even fewer bonds, so my friends were selected and they now own the apartment, which will be ready for occupancy in October. The problem: they don't want to move. Even though the new apartment is bigger, they say their current apartment is big enough and is much more conveniently located. So now they want to find renters who will keep cash flowing in for two years while they decide what to do with their windfall.

People say that my friends' experience is not unusual. Somehow, government efforts to cool speculation and improve housing for lower-income families only end up creating more opportunities for middle and upper-income families. In fact, the market has become seriously bifurcated. Families who got onto the escalator early enough are playing a fabulous game of speculation in modern and luxury housing. They buy and build homes far bigger than they need or would buy solely for use value because housing has been such a reliable speculative investment. Meanwhile, in Korean cities, more and more families find themselves priced out of the housing market. As prices continue to skyrocket, the dream of owning a home for many is fading. In the 1960s, nationwide, 82.5% of households owned their homes. In 1980, that figure was 73.7%. These figures, of course, include home ownership in rural areas, where the rate is very high. In large cities in 1980, only 42.6% of households owned their homes.

Foreigners who live in Seoul often remark on the apparent lack of zoning regulations in the city. Next to high-rise apartments or luxury houses will be oddly-shaped and roughly finished shops or houses. Actually, on the books, Seoul has strict zoning and construction laws. But enforcement would prove very costly since all of those unlicensed buildings and squatter structures provide places for people to live and work.

Homeless people flocked into Seoul following the Korean war, and again in the 1960s when Korea's industrial development began to take off. Then a squatter settlement might have consisted of tents and tacked-together boards, waiting to be blown down in the next storm. Over the years, though, illegal housing has improved, and most illegal structures are now made from cement block with tile roofs.

This does not mean that poor people live in good houses, though. A variety of statistics illustrate their plight. About 15% of the housing stock is illegal and substandard. 54.2% of all households must share their dwelling unit with other households, with more than half of these households sharing with more than one other family. In large cities alone, the sharing rate is 61%. A 1978 survey determined that some 10% of the urban housing stock was inadequate for descent living because of health and sanitary conditions. About 20% required substantial repair, another 35% required minor repair, leaving some 35% in physically sound condition. Repair on most houses tends to be poor because the value of structures is usually discounted in real estate transactions. Building maintenance is a poor investment, and most of the speculative investment, and available financing is concentrated on new and recently-built housing. In short, poor people find themselves paying close to a third of their income to live in dilapidated buildings, crowded four to a room, and sharing kitchen and bath facilities (if any) with other families. Korea's economic miracle apparently has another side to it.

The government has not been sitting idly by and watching. But urban renewal and reconstruction efforts have had their predictable effects. After the government levels old structures, poor people can no longer afford to live there. Rents and housing prices go up, and they go out.

The problem is hardly unique to Korea. But it seems surprising that the rapid rises in real income that have taken place here over the past two decades should not have resulted in improved housing on average. The opposite has taken place for much of the population.

One reason for this is that planning officials have consistently underestimated the draw that the capital would have on people around the nation. Already in 1964, when only about 10% of South Koreans lived in Seoul, the government recognized the problem and took measures to discourage greater concentration. They developed new towns, restricted manufacturing in the capital, decentralized secondary government agencies, and built cultural and educational facilities elsewhere. This first measure was followed by a series of others that trickled out over the years. Ironically, they have largely succeeded. Seoul's share of industrial estate development, for example, dropped from 36.3% of all employment in 1973 to 19.9% in 1978. But as manufacturing has taken root elsewhere in the nation, service industries and corporate headquarters have protruded higher and higher on the skyline. People keep finding new reasons to move here. Not only has the countryside lost population to the cities, but small cities have withered under the lure of the capital and a few other large metropolitan areas.

The population growth rate of Seoul has declined from 9% a year in the 1960s to the more recent 4.5%. But the absolute numbers of people moving in each year has actually risen. As Myong-Chan Hwang of the Korean Research Institute for Human Settlements wrote in 1979, "If the population of Seoul continues to grow at an annual rate of 4.4% as during the period 1970 to 1975, it will reach the level of 8.9 million at least in 1981 and will certainly pass its physical holding capacity of approximately 9.4 million in 1982. The prospect of an annual growth of such a scale would eventually lead to the fragmentation of the greenbelt and to more polarized development of the whole country." The calculations made five years ago are a little off today. It looks like Seoul will pass its "physical holding capacity" this year, instead of two years ago. But that hardly makes the situation more tolerable.

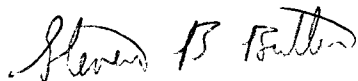
In the mean time, regional and national development plans are obsolete before they have time to be published--their projected growth targets already overtaken, while government ministries and research institutes argue the finer points of zoning regulations and who will bear the costs of moving entire industries and government ministries out of the capital. And, of course, Seoul's residents riding the buses or looking for a place to live do not need a computer analysis to tell them that something has gone wrong somewhere.

Perhaps it is a sign of Korea's "newly industrialized" status that the chorus of voices complaining about the quality of life in Seoul is growing louder and louder. The nation put its remarkable energies into increasing the GNP and the volume of exports each year. And while they have succeeded, Korea's planners have not paid much attention to "social overhead." Now hardly a month goes by without at least one major announcement on a new measure to encourage regional development and improve the quality of life.

But many people worry that these new measures will be largely passive and ineffective, dwarfed by further efforts to increase the GNP and match North Korea's military build up. Government ministries will have to find a way to compromise on their competing interests without gutting any plan. And although everyone agrees on the principle of reducing the primacy of Seoul, many powerful interests will be hurt if any plans really go through.

I'll be taking a closer look soon at just what the planners have in mind for Seoul's future.

Best,



Steven B. Butler

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