

The Effects of Administrative Regulations on Price Competitiveness Concerning Private Housing Construction Industry

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I. Introduction

Currently, at the end of 1996, with housing construction investment as high as 26 trillion won(\$ 29 billion) which takes up 6.7% of Korea's GDP and 31% of total investment in the construction industry, housing industry, as a single commodity, is the largest domestic demand market in Korea. Moreover, considering price-controlled initial sales prices the total market scale is much larger(currently estimated to be 37 trillion won);taking into account housing-related markets like furniture and interior design, its national economic effect on production, employment, and overall economic stability is enormous.

However, now with the rapid rise in housing supply(currently 89.2%), the housing market has moved into a low-growth maturity phase; and recently, because of the accumulation of stock and the burden of heavy financial costs due to the long-term plan to stabilize the market after 1991, the housing construction industries regardless of their size are all suffering from severe financial difficulties, and even large companies are going bankrupt one after the other. (Sammick Co. in Oct. 1995, Woosung Co. in Jan. 1996, Kunyoung Co. in Aug. 1996, Dongshin Co. in Dec. 1996,

Hanshin Co. in May 1997)

Also, several housing industries are still having financial difficulties which amounts to about a third of total housing construction companies. According to a recent survey conducted by the Housing Industry Research Institute of about 200 housing construction companies, the most immediate tasks to be tackled are the government's active business-supporting policies(34%) and deregulation of housing construction related regulations(31%). Not only do the government's business-supporting policies get in the way of strengthening competitiveness, but they also create side-effects like market failure. Taking all this into consideration, the most important way to strengthen the industries' competitiveness is to deregulate all unnecessary administrative regulations.

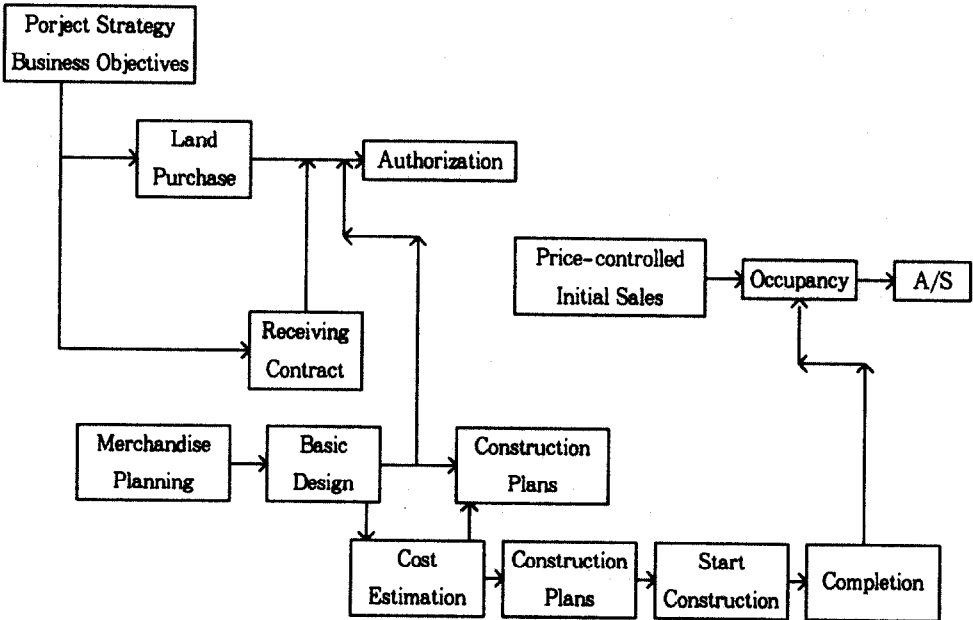
This research will try to analyse the effects of administrative regulations on price competitiveness by analysing from the view point of time and benefit(cost) covering housing development and supply process. It will also propose ways to improve price competitiveness through analysing regulation-related causes and its solutions. Furthermore, it will deliver indicators for accommodating more effective and practical policies by enumerating the proposal for improvement.

The evaluation method for increased effectiveness will be based on defining a standard project centering on four types of programs which are development of purchase of subrural land, development of purchase of public housing land, land readjustment, and housing redevelopment, and it will also be based on analysing the common related regulations and application of methods to measure the effects of its improvement.

II. Current Status of Regulations Concerning Housing Industry

The methods used by the private sector for construction and supply are: ① after purchasing the land, its land use is transformed to make construction possible ② after being supplied land that has already been developed by a public subject construction and distributive sales are conducted ③ after purchasing land at a land readjustment region, the land is readjusted and public houses are built and distributed by sales ④ after receiving land by contract from the coop of redevelopment and reconstruction, houses are built and distributed by sales. These methods go through processes like the following:

figure2-1: Promotion Process for Housing Construction Projects



As shown above, housing projects go through a complicated procedure, from the time of investment to the time of collection it takes from three to seven years, and because initial investments like the cost of land purchase and the cost of loans for redevelopment and reconstruction is so high the financial costs due to the loans are immense. Therefore, spending as little time as possible on the project is the best way to attain competitiveness.

1. Case Analysis of Subrural Development

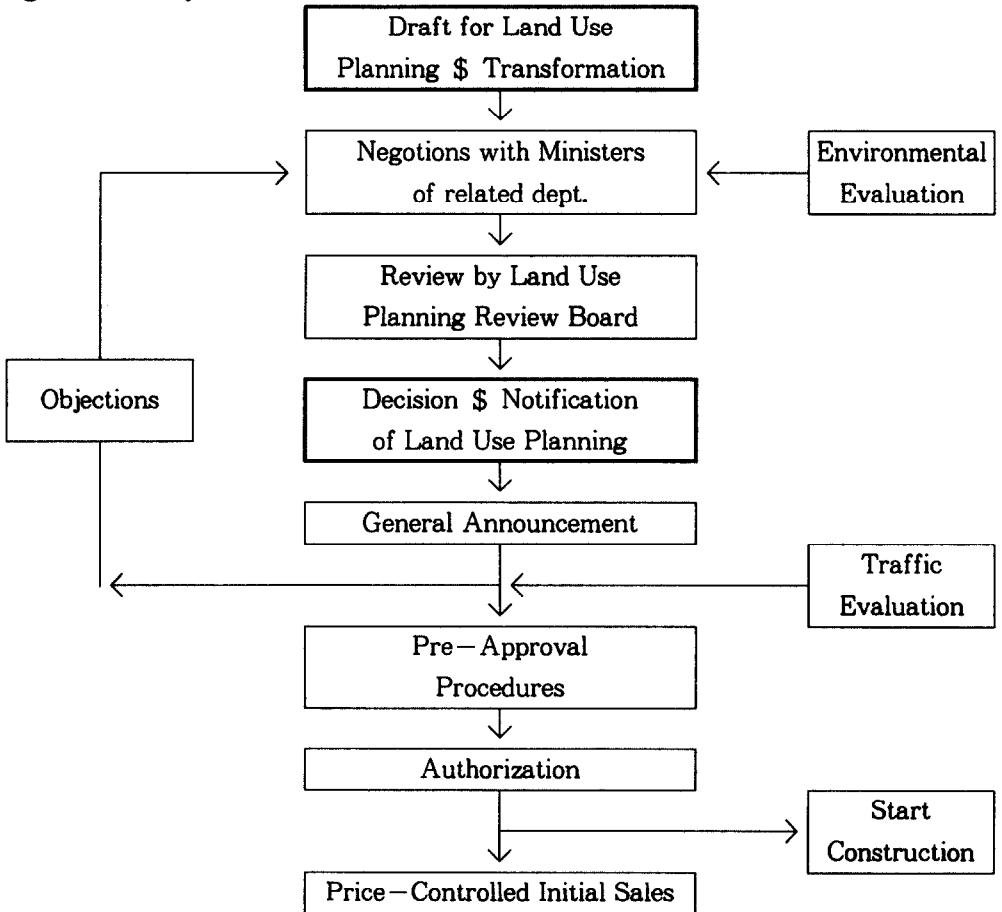
Subrural development is a project that requires purchase of subrural land in accordance with the Land Use and Management Law, then if the land can accommodate more than 300 families it is a community district of a suburban status and therefore must obtain the land use planning transformation decision of the Minister of Construction and Transportation and after making the land possible for development and obtaining construction permission and approval, constructions can finally begin. Before the start of construction and price-controlled initial sales, the process of obtaining authorization can be largely divided into the land use and planning transfor-

mation process and the planning approval process.

As the case for analysis, Project A of S Constructions in the metropolitan area was selected. Project A consisted of 87 lots and the purchase of land itself took over 28 months(10 months if not including the actual time taken for the plan changes), and the final purchase price based on the price for undeveloped land was five times more than the initial purchase price. This project is one that will construct public houses, public welfare facilities, general public facilities, etc., on about 41 acres of land(51,000 pyong).

As a result the total time took 66 months, the internal rate of return(IRR) which is the excess amount calculated in current price was 6.7% which does not even meet the equilibrium point of revenue and expenditure of 13%.

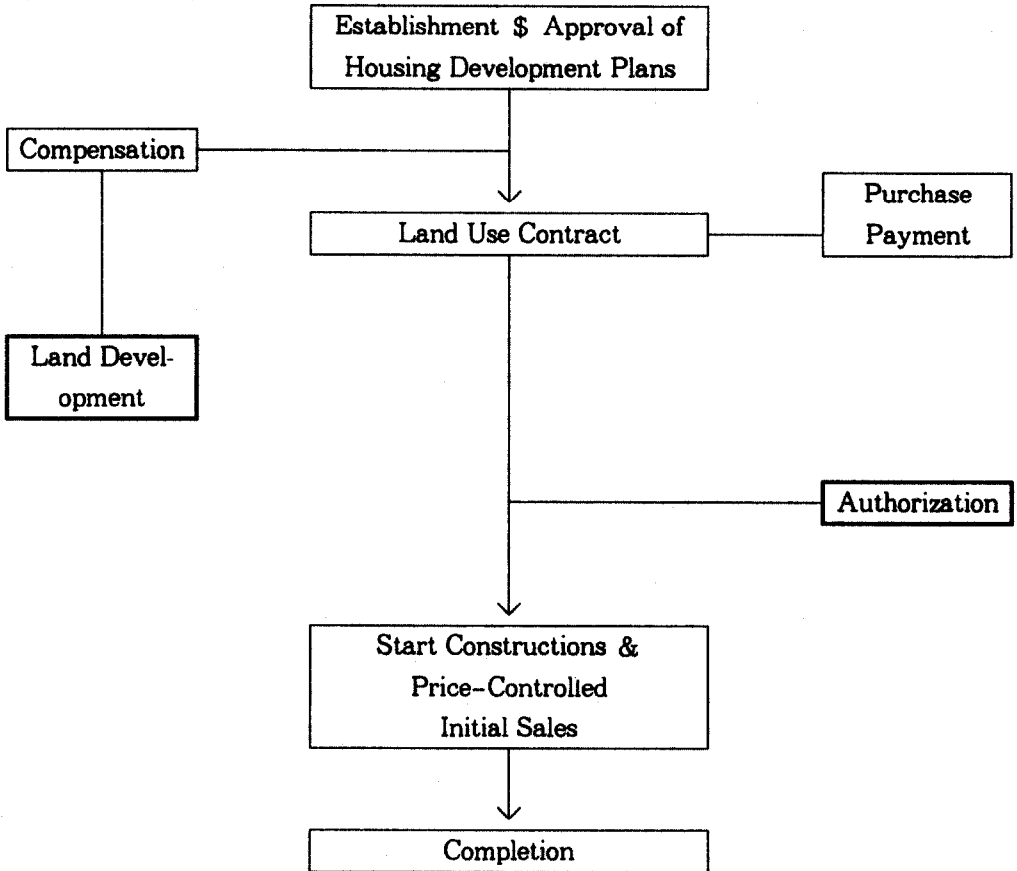
figure2-2:Project A Procedures



2. Case Analysis of Development by Public Sector

The development by public sector project is one that follows the following procedure: after being distributed the land supplied by the project operators (like the Public Land Development Corporation: PLDC) in accordance with the Housing Development and Promotion Law, and only after the project has been approved can construction and supply begin. Works by the private sector start from initial negotiations, and the operation procedure before the start of construction and price-controlled initial sales is largely divided into the completion of the construction of building site formation (only when the land is usable) and the project planning approval process.

figure2-3: Project B Procedures



As the case for analysis, Project B of D Constructions in the metropolitan area was selected. This is a project that was supplied and distributed by the PLDC, it is also one in which the period of land use exceeded financial costs because of the delayed land usage and prepayment of loan. This is also a project that will supply 570 housing units on a landstrip of just under 6 acres(7,400 pyong). As a result, the total time took 53 months and the IRR came to 8.3%, less than the equilibrium point of revenue and expenditure of 13%.

3. Case Analysis of Land Readjustment

Land readjustment program is one of the urban planning program in accordance with urban planning decision(selection of location) made by the Minister of Construction and Transportation, and its procedures are decided by the Land Readjustment Law. The private sector can participate by becoming a housing co-op member of a project body that is being promoted by housing co-op or an autonomous local government, after which the company receives the land. There are instances where the selected construction company conducts engineering enterprises(authorization included) and receives city-owned land as a substitute for the construction costs.

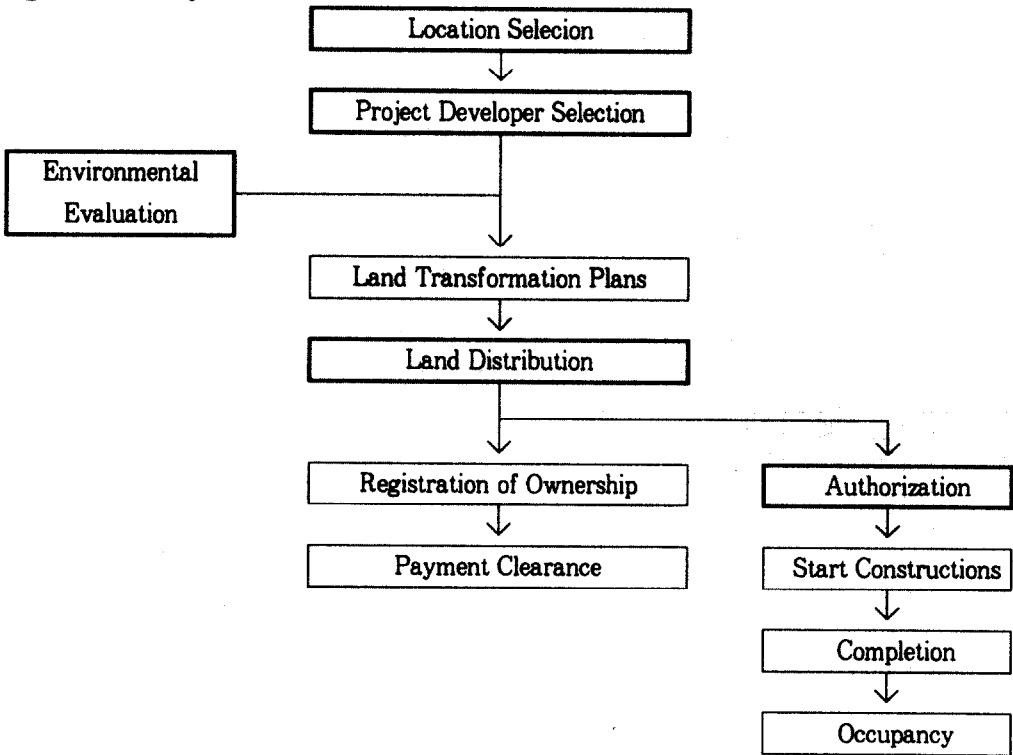
Land readjustment is mainly divided into four stages which are decisions on project plans(by the Minister of Construction and Transportation), authorization for establishment of housing co-op and operation, authorization to select location, and approval for the project plans and price-controlled initial sales. In land readjustment, at the stages of planning and authorization there is a severe clash of interests between the co-op members on the subject of equity, at this stage there are possible factors that can delay the whole process, but there is no enforced regulations and regardless of excessive ownership of land every co-op member is recognized as a single voter at times of decision making.

Also, the authorization of housing co-op establishment and operation is given by the Minister of Construction and Transportation(in case of redevelopment it is given by the lower level of authority like the mayor, heads of district), the authorization for reallocation planning is given by the the higher level of authority like the mayor of larger cities or the provincial governor(in case of redevelopment it is the same as above) and consequently the administrative process is made more complicated.

As the case of analysis, Project C of S Constructions in the Young-Nam Prov-

ince was selected. Project C is one which has been promoted by housing co-op, and the construction company after forming a co-op, purchased land within the district and has been participating as the selected company of construction (receiving authorization is included). After purchasing over 12 acres (15,000 pyong) of land, the construction company received a reduction rate of 40% and earned almost 8 acres (9,400 pyong) of land. They are currently operating under the condition that they receive city-owned land in the return for the loan made to the co-op. As a result, from the point of land selection the total time took 76 months, the IRR recorded 4% which is a great deal less than the equilibrium point of revenue and expenditure of 13%.

figure2-4: Project C Procedures



4. Case Analysis of Housing Redevelopment

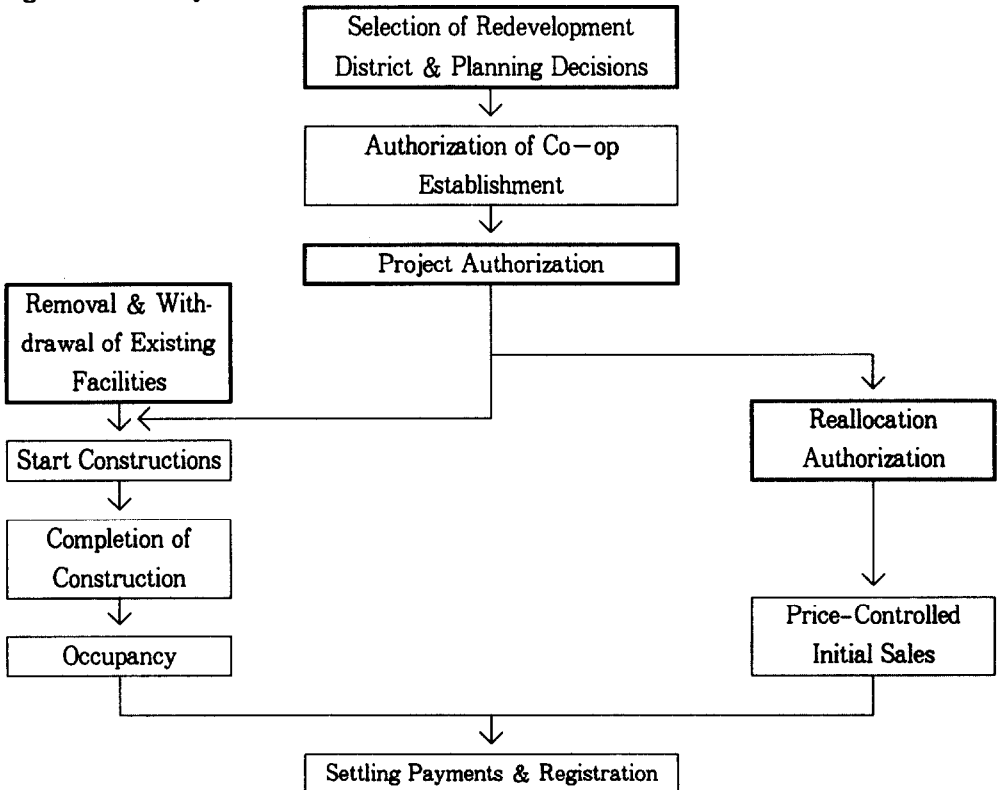
Like land readjustment, housing redevelopment is one of the urban planning programs in accordance with the urban planning decision; its procedure is decided by

the City Redevelopment Law. The clash of interests concerning the co-op cost and a mass public discontent were the main factors for delay.

The main procedure can be divided into four stages: district selection and project planning decision (done by mayor or provincial governor), authorizations (given by mayor, governor, or heads of district), removal and withdrawal, reallocation authorization. The privately-owned construction companies participate only as the selected construction company. (figure 2-5)

As the case for analysis, Project D of D Constructions in Seoul was selected. Project D is the one where at the removal stage, due to the expansion of territory as a result of public discontent, the construction company had to start again from the district selection stage. Consequently, the project was delayed over a year. For a project that will construct 1,200 units on a landstrip of over 9 acres (11,500 pyong), as a result of its cost-benefit analysis, the total time took 90 months and the IRR came to 10.9%.

figure2-5: Project D Procedures



III. Effect Analysis of Increase of Competitiveness through Regulation Improvements

1. Subrural Development

1) Effects of Program and Cost Improvement

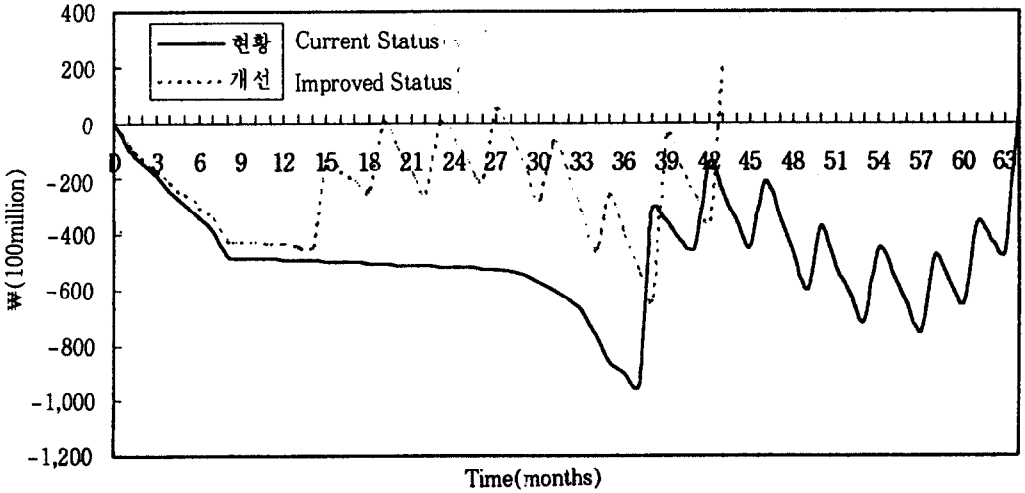
Concerning Project A of subrural development, as a result of system improvement, the total time taken was reduced from 66 months to 43 months, the IRR from 6.7% to 18.5% showed an increase of 11.8%. Thus, from the point of equilibrium of revenue and expenditure which is 13%, what was once a deficit industry can now earn investment revenue of 5.5%.

Table3-1: Effects of Program Improvements of Project A (in months)

	Land Purchase	Evaluations	Land Use Transformations	Pre-Approval Procedure
Currently	10	3	20	2
Improvements	3	1	6	1
Effects	7	2	14	1
Basis	granting limited rights of land	unitizing environ. & transportation evaluations	clarifying standards of development	skipping this procedure

Table3-2: Effects of Cost Improvements of Project A (in million won)

	Revenue	Expenditure (Costs)					Shortage
		Land Lease	Construction	Indirect	Management	Total	
Currently	361,505	45,915	266,983	12,000	16,268	341,166	20,3392
Improvements	338,950	38,950	251,871	10,000	15,277	316,048	22,321
Effects	-23,136	-6,965	-15,112	-2,000	-991	-25,118	1,982
Basis	show reduction of land cost	reduction of purchase cost through land rights	no cost for main inlet facilities	unitize evaluations	reduction through shorter program		



graph 3--1: Effects of improvements in cash flow of Project A

3) Points for Improvement

The program and cost improvement of the A Project is based on the following improvements

① Grant of right of application for land acceptance to certain housing land that has not been purchased(land purchasing stage) :

Like in lease housing industry, when land which has still not been purchased is less than 10% of total land for operation and if the remaining land is not claimed then there is difficulty in proceeding with the rest of the project. The office of authorization provides ways for application of land acceptance or land compensation.

② Establishing standards of development and creating a period for notification of authorization decisions(land use and planning transformation stage) :

During land use and planning transformation, grant participation rights to the private sector but arrange ways for the private sector to apply directly by lowering the application devise to lower civil service. Create periods for notification of authorized decisions, but make them 4 months when it is a decision by the autonomous local government, 6 months for decisions made by provincial governors and 8 months for decisions by the Minister of Construction and Transportation.

Also, the standards for authorization of subrural development must be made clear. Thus, subdividing the appointed district within the subrural land and concerning are-

as possible of development, by setting up an area for programmed development, in the case of forest land the area should be less than 100m in altitude, less than 15% inclination, and less than level 4~5 on the scale of forest levels. Also, make new clauses that allows short-term areas that have been appointed part of urban planning in accordance with the Urban planning Law to be considered as areas of the city in accordance with the Land Use and Management Law.

③ Reduce evaluation costs by unitizing the various influence evaluations (the various influence evaluation stage):

Codify clearly the items of the various evaluations and let them be reflected from beginning of the project, and unitize the various evaluations so that after application the individual negotiations can be conducted simultaneously with negotiations of related parties.

④ Reduce time spent on attaining approvals by skipping the pre-approval procedure:

In cases where the subrural land is transformed into a suburban community district after receiving decisions and notification for land use and planning transformation, consider the acceptance of development planning for the particular district as being concluded, and exclude it from subjects of pre-approval procedures. (addition to the exclusion clause of The Housing Construction Promotion Law)

⑤ Simplification of procedure when supplementing the project planning approvals (project approval stage):

After already having gone through the deliberation process of pre-approval procedures and when applying for project approvals, in times when supplementary measure are needed, the application period should be 15 days, and the number of times of application should be limited to just once and should be recognized as having been beneficial to the process. But in cases of unsupplemented areas the approval applicant may request supplementation before pre-occupancy inspections, and when there is a need for important supplements, limit the process by attaching project approval conditions.

⑥ Relief of burden of installment costs of main inletting facilities

In times when the housing companies receive approval for the project plans, the person rendering approval for the project must abide by the regulations of the Housing Construction Promotion Law. Then one must, also, strengthen guidelines and administrative instruction so that there is not an excessive burden of installation costs of the main and other facilities, but without allowing the area of land for con-

ditional contribution costs to be more than 15% of total project land area in cases of attached housing, or limiting the rise of price—controlled initial sales price due to the cost increase from conditional contribution costs to be less than 10% of market price of apartments. In cases where the project developers have used their own expense, when it should have been burdened by obligated persons for main inletting facility installments (persons rendering approval for project plans, head of autonomous local government), the obligated persons for main inletting facility installments must, within one month of completion of constructions, issue long—term (20 years) repayable debentures or pay for the local taxes (acquisition tax, registration tax, development payments, general land tax) and cost for installment of main inletting facilities that otherwise has to be paid by the project developer.

2. Development by Public Sector

1) Effects of Program and Cost Improvement

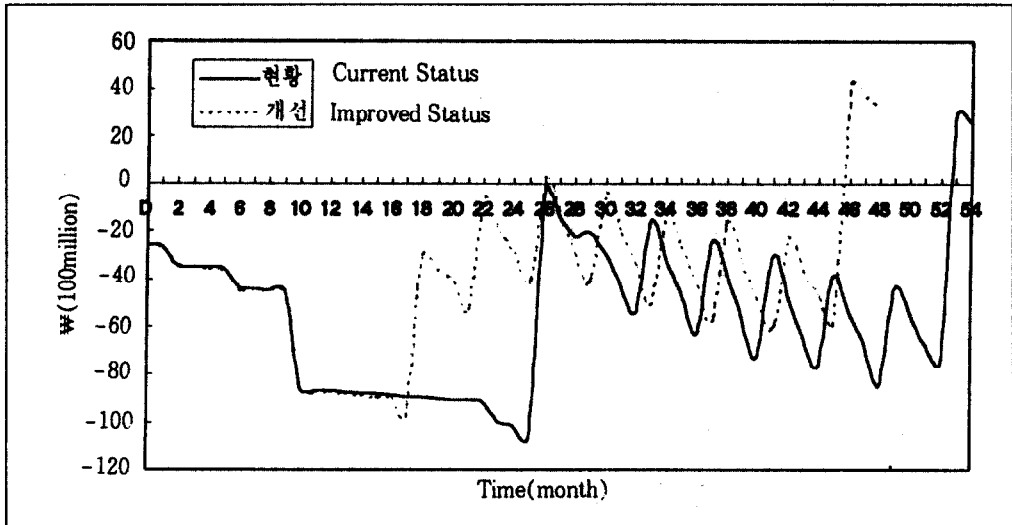
Concerning Project B of development by public sector, as a result of its system improvements, the total time taken was reduced from 53 months to 44 months, and its IRR from 8.3% to 14.6% saw an increase of 6.3%. Thus, from the point of equilibrium of revenue and expenditure of 13%, what was once a deficit project has now seen an investment revenue rate of 1.6%.

Table3—3: Effects of Program Improvements of Project B (in months)

	Period of Land Use	Approvals/Initial Sales
Currently	20	6
Improvements	15	2
Effects	5	4
Basis	clarify land use period	comply with program

Table3-4: Effects of Cost Improvements of Project B (in million won)

	Revenue	Expenditure (Costs)					Shortage
		Land Lease	Construction	Indirect	Management	Total	
Currently	55,176	12,776	35,121	2,222	2,483	52,602	2,574
Improvements	54,870	12,776	34,097	2,222	2,469	51,564	3,306
Effects	-306	-	-1,024	-	-14	-1,038	732
Basis	reduction of initial sales price		reduction thru shortened period		reduction thru shorter program		



graph 3-2 : Effects of improvements in cash flow of Project B

2) Points for Improvement

The program and cost improvement of Project B is based on the following improvements :

① Clarification of utilization period and application of overdue interests in cases of delay(land utilization period stage):

Indicate the exact time of utilization of land on the prior negotiations of development by public sector and, in cases of delay, deduct the amount equivalent to the overdue interest, calculated in accordance with terms of market interest rates that the construction company had to pay from the day of expiration date to the actual time of utilization, from the remaining amount.

② Simplification of procedure when supplementing the project planning approvals (project approval stage):

After already having gone through the deliberation process of pre-approval procedures and when applying for project approvals, in times when supplementary measures are needed the application period should be within 15 days, and the number of times of application should be limited to just once and will be recognized as having been beneficial to the process, but in cases of unsupplemented areas the approval applicant may request supplementation before pre-occupancy inspections, and when there is a need for important supplements, limit the process by attaching project approval conditions.

③ Improvement in method of payment of housing loans under the supply conditions(reduction of interest costs of land loans):

Unify conditions of payment of housing loans of development by public sector, operated by the state, local governments, public land corporation and housing corporation, but abide by the commercial customs of payment conditions and 10~20% for contract payments, for midway payments apply division payments in range of 5~10% in periodical categories after reducing the period to the period of land utilization, and for remaining payments pay 10~20% within 5 days after price-controlled initial sales of houses.

3. Land Readjustment

1) Effects of Program and Cost Improvements

Concerning Project C of land readjustment, as a result of system improvements, the total time taken was reduced from 66 months to 46 months, and the IRR saw a

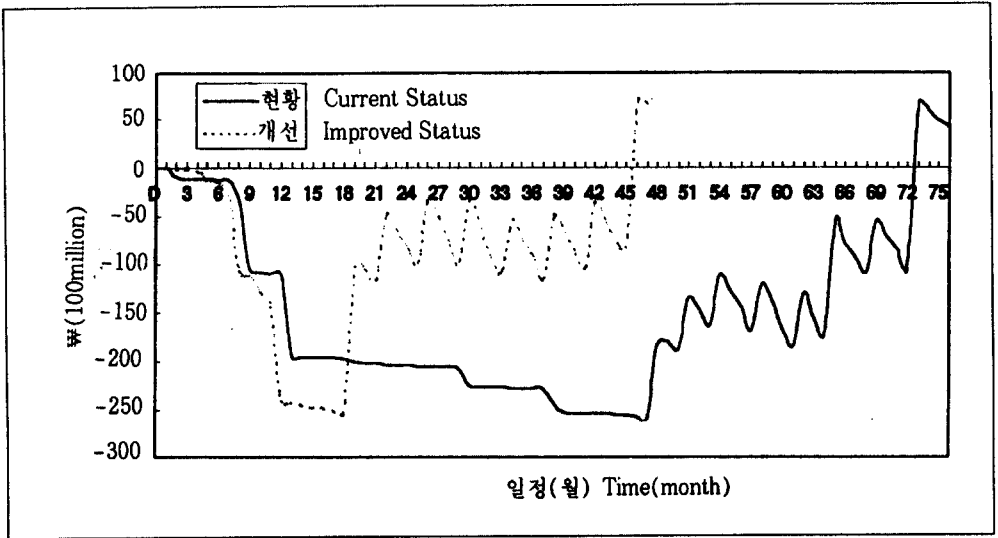
9.6% increase(from 4.0% to 13.6%). This project was estimated to record heavy losses, but instead saw a small amount of profit.

Table3-5: Effects of Program Improvements of Project C (in months)

	Location Selection Project Plans	Authorization for constructions and co-op est.	Authorization to select realloca- tion site	Approvals/ Initial sales
Currently	30	8	8	3
Improvements	10	1	6	2
Effects	20	7	2	1
Basis	shorten city council review of urban plan- ning	written expres- sion of period of authorization no- tification	delegation of re- allocation appro- vals to lower au- thority	skipping pre- approval proce- dure

Table3-6: Effects of Cost Improvements of Project C (in million won)

	Revenue	Expenditure (Costs)					Shortage
		Land Lease	Construc- tion	Indirect	Manage- ment	Total	
Currently	83,824	26,180	45,364	4,233	3,772	79,549	4,275
Improve ments	82,148	24,981	42,815	4,233	3,697	75,726	6,422
Effects	-1,676	-1,199	-2,549	-	-75	-3,823	2,147
Basis	reduce ini- tial price thru cost reduction		reduce costs thru shorter program		reduction thru shorter program		



graph 3-3 : Effects of improvements in cash flow of Project C

2) Points for Improvement

The program and cost improvement of Project C is based on the following improvements :

① Stipulate on text the period of decisions and notification of authorization of land readjustment procedures (operation authorization stage) :

After the operators apply for project planning agenda, decide on an informing period so that one may know whether the application has been passed or not within a certain period of time and abide by it. In these cases, decide on a codified standard to make it possible to do away with procedures from project authorization (total establishment authorization) to project planning approval within 12 months, and make it possible to receive all review application forms within 90 days.

② Delegation of total establishment authorization to a lower level of authority (total establishment authorization, land planning authorization stage) :

When the location of land readjustment has been decided upon in accordance with the Minister of Construction and Transportation's urban planning decisions and the development planning of things like public facilities has been confirmed like in the cases of redevelopment, delegate the next stages of procedures of project authorization, total establishment authorization, land planning authorization to be rendered by lower level of authority like mayors, district governors, district heads etc.

③ Omission of pre—approval procedure before the application of public housing land approval(project approval stage):

As soon as land readjustment has been finalized as a urban planning project, approved by the Minister of Construction and Transportation, because not only do the location, area, public facilities become confirmed but project operation is authorized when total establishment is authorized, it is wise to strengthen administrative guidance so that the regulations of the Housing Construction Promotion Law, that enables the omission of pre—approval procedure, to be obeyed.

④ Grant of right to clear all existing facilities after depositing compensation costs to the courts(reduction of land use period):

Like in the case of city development industry, when necessary, grant the power to enforce on facilities that are already existing after requesting the court for compensation of existing facilities.

4. Housing Redevelopment

1) Program and Cost Improvements

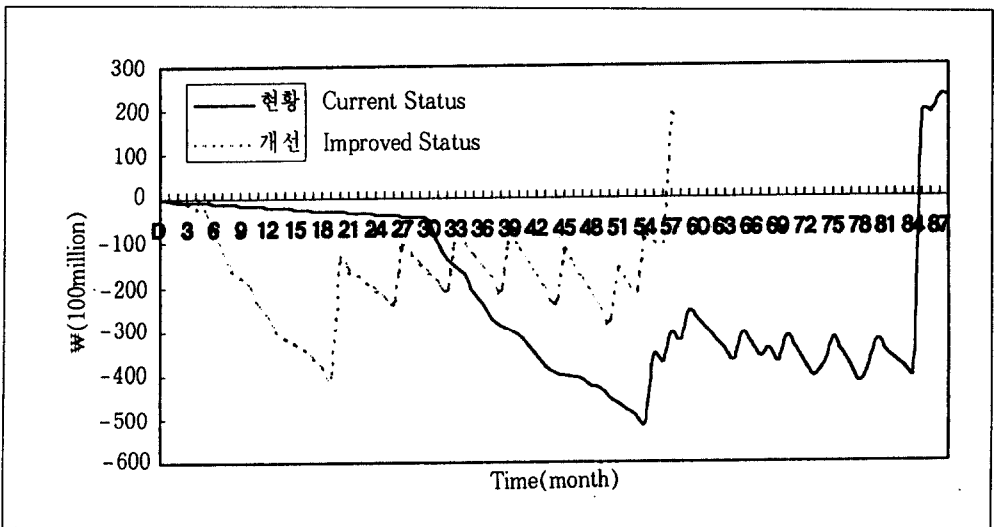
Concerning Project D of housing redevelopment, as a result of system improvements, the total time taken was reduced from 90 months to 60 months, and the IRR saw an increase of 7.2%, from 10.9% to 18.1%, and earned a profit of 2.3%.

Table3—7: Effects of Program Improvements of Project D (in months)

	Location Selection~ Project Plans	Review~ Operation Authrization	Removal & Withdrawal	Reallocation Plans
Currently	2~5 yrs	38	16	4
Improvements	combine	6	12	2
Effects	N/A	32	4	2
Basis	consistent policies needed	relieve procedure of design changes	relieve install—ment of temp. facilities	compensation for public facilities

Table 3-8 : Effects of Cost Improvements of Project D (in million won)

	Revenue	Expenditure (Costs)					Shortage
		Land Lease	Construction	Indirect	Management	Total	
Currently	153,612	41,471	80,667	2,186	6,913	131,237	22,375
Improvement	149,046	41,471	76,101	2,186	6,707	126,465	22,581
Effects	-4,566	-	-4,566	-	-206	-4,772	206
Basis	show reduction of cost		reduction of cost thru shortened program		reduction thru shorter program		



graph 3-4 : Effects of improvements in cash flow of Project D

2) Points for Improvement

The program and cost improvement of Project D is base on the following improvements:

① Relaxation of procedures to change design before authorization of operation (operation authorization stage):

As long as there are no large scale location changes, changes in scale, or changes in co-op member qualification, leave examination and prohibition of the processes of deliberations of already examined locations and design to the discretion of heads of districts. But limit the standards of area change to 25% of redevelopment site, change of building-to-land ratio and capacity ratio to under 20%, and change of public facility scale to under 20%.

② Delegation of right to authorize or nullify the authorization of management and planning of old sites owned by the state to a lower level (removal and withdrawal stage):

As city redevelopment is a project operated in accordance with the urban planning decisions of the Minister of Construction and Transportation and project planning decisions of provincial governors, terminate the processes of reallocation authorization of the Minister of Finance and Economic Planning of old sites owned by the state within the redevelopment location, and allow co-op members to sign contracts of state-owned property right after decision and notification of project plans and authorization of project operations, but delegate the right of approval of sales of state-owned property to the respective mayors, district governors, district heads.

③ Relief of installation of temporary accommodation facilities of housing redevelopment (removal, withdrawal stage):

Considering the features of housing redevelopment, leave the installation of temporary accommodation facilities as a voluntary regulation, but also leave a provisory clause allowing an exception of cases where there is removal methods alternate to temporary accommodation facilities.

④ Inclusion of price-controlled initial sales price in the conditional contribution costs for the construction of public facilities (management and settlement stage):

In the interest of protecting private property, compensate in cash the conditional contribution costs of constructing public facilities, or when this is not possible, relieve co-op members' burden by clarifying the conditions of conditional contribution costs at the point of authorization of project operation and including price-con-

trolled initial sales prices in the conditional contribution costs.

IV. Effect Evaluation of Increase in Competitiveness

Regulation reform is not a partial process of deregulation, but must be a full process of regulation reform. The causes of deregulation failure up to now are due to the deregulation based on the number of cases and lack of administrative executiveness. Thus, it is not time to deregulate case by case, but must be pursued as a whole, along a stream of process befitting to the flow of administration. Also, an effective regulation reform can only be expected when it is pursued not in sectoral process, but from the perspective of the whole process.

In this sense, the meaning of this thesis can be seen from the fact that the analysis of improvement and expected effectiveness, shown above, has been conducted from the realistic perspective of the whole process, and the act that the expected effectiveness has been enumerated to help evaluations. Moreover, regulations of housing development policies, price—controlled initial sales prices and supply system must also be improved.

1. Effects Seen Through Cases of Project Promotion

1) Effects of Program Improvements

It can be seen from each case analysis that the total time taken can be reduced to up to 30%. In the cases of development by public sector and redevelopment, effects were minimal because the private sector were participating in the project as the selected construction company. Project D, which is a contract—based project, is a case where the program was excessively lengthened due to the addition of the district selection process, and the respective effects could only be minimal.

Table4—1: Effects of Improvements in program for each project

	Project A	Project B	Project C	Project D	Remarks
Currently (months)	66	53	76	90	
Improvement (months)	43	44	46	60	
rate of Improvement (%)	34.8	17.0	39.5	33.3	

2) Effects of Internal Revenue Rate Improvements

Even though the price-controlled initial sales prices were lowered according to the reduction of construction cost, in the cases of Project A and Project C, IRR increased almost 10%. However, the effects in the contract-based redevelopment project saw relatively low rate of revenue increase of only 7.2%.

The increase in effectiveness of revenue was mostly due to the effects of financial cost improvements from shortening the program.

Table4-2: Effects of Improvements in IRR for each project(%)

	Project A	Project B	Project C	Project D	Remarks
Currently	6.7	8.3	4.0	10.9	
Improvement	18.5	14.6	13.6	18.1	
Improvement difference	11.8	6.3	9.6	7.2	Improvement - Currently
rate of Improvement	176.1	75.9	240.0	66.1	(Improvement/Currently)-1

① The equilibrium point of revenue and expenditure is 13%

② Project D shows low records because it was a contract-base project and the land lease is not included.

3) Effects of improvements in competitiveness of Supply Prices

When program improvements from deregulations were calculated in terms of effects of improvements in price competitiveness each project saw an increase of 6~12% (\$ 200~ \$ 450 per pyong). Especially in development-based projects like Project A and Project C the increase was 10~12%(about \$ 425 per pyong).

Table4-3: Effects of Improvements in Price Competitiveness (10,000won per pyong)

	Project A	Project B	Project C	Project D	Remarks
Currently	389	315	330	221	
Improvement	347	297	291	200	
Reduction	42	18	39	21	
rate of Reduction(%)	10.7	5.8	11.8	9.6	

The effects of improvements in price competitiveness generally reflect the reduction of financial costs from program improvements and reduction of total construction costs from early commencement (based on 6% increase of construction costs per year), and reduction of other additional costs.

2. Strengthening Competitiveness through Private Housing Development

For the past five years, the total amount of purchased land from contracts of development by public sector by housing construction companies is little over 6 trillion won (\$ 6.7 billion), and about 10 trillion won (\$ 11 billion) when including small and medium enterprises, the amount of housing land costs that construction companies are burdened with every year is about 2 trillion won (\$ 2.2 billion). Recently (June, 1997), according to the promotion planning scheme to expand land supply announced by the Ministry of Construction and Transportation, to resolve the shortage of housing within the metropolitan area by increasing the housing supply rate to 100 % by the year 2011, it has been planned that from about 3240~4860 acres (4~6 million pyong) of land will be selected as the scheduled housing development district within the next three years, in accordance with the Housing Development Promotion Law.

However, the housing development industry based on the Housing Development Promotion Law is allowed only to those decided by the Minister of Construction and Transportation amongst state, local government body, land development industry or Korean Housing Corporation. Private companies are excluded from company selection.

Here, housing development and the selected construction company is dualized. This kind of policy increases social costs through lengthening operations, obscuring defects in design and constructions, bringing discord to basic facilities and constructions, carrying overlapping investments, etc. These social costs are at the end paid by the final consumers who are the civilians.

The effects of profit returns of development and deterring speculations can be fully attained by supplementing current profit return devises of development like the system of development payments.

At The Land Use and Development Institute, there is a case where the following three industry forms have been compared: public development where the public enti-

ty is the project developer, combined development where the public entity is still the project developer but the private sector engineers the construction and is reimbursed by housing land which is later distributed by sales, and private housing development where the private sector purchases and develops the housing land and installs public facilities and then paid by conditional contribution costs. Comparison analysis of cases concerning housing industry competitiveness of medium and small size cities of similar scale is as follows:

Table4-4: Comparison of price competitiveness of private housing development

district	Public Constructions		Combined Constructions		Private Constructions	
	A1	A2	B1	B2	C1	C2
Total Period	31	50	65	43	37	30
Land Purchase~ Start of Construction	11	28	17	19	10	7
IRR(%)	23	7	24	27	6(12)	9(50)

① A1:Kimhae, A2:Kyungsan, B1:Chungjoo, B2:Kimhae, C1:Chunjoo, C2: Chungjoo

② () IRR not considering the compensation for construction of public facilities

Thus, the average of total operation period of private developments is 33.5 months, which, compared to 40.5 months for public developments and 54 months for combined developments, is respectively 21%, 61% less, and especially comparing the period from land purchase to commencement of construction which excludes construction time, private developments recorded an average of 8.5 months, which, compared to 19.5 months for public developments and 18 months for combined developments, is respectively 129%, 112% less.

Also in terms of IRR, when excluding conditional contribution costs, private developments shows an average of 31%, which, compared to 15% of public developments and 25.5% of combined developments, is 5.5%~16% higher. Conclusively, this analysis shows that under similar conditions private developments are more effective. Of course, this analysis cannot represent all cases, and continuous verification is needed.

So, if the private sector participates in housing developments the financial limits of public sectors like local governments can be overcome, and it will be possible to conduct such housing developments befitting to local demand and features. Also, by systemizing planning, fund-raising, constructions and price-controlled initial sales, the development costs can be minimized. Furthermore, when private sectors participate, with their capital, business capabilities, renovative capabilities, experience, and technique, they can break up the inflexible monopolistic development form of the public sector, and with their flexible organizational behavior they can increase competitiveness and maximize effectiveness of public investments. In addition, through operation material control by market estimation, the factors of danger of development by public sector can be minimized.

3. Strengthening Competitiveness through Liberalization of Apartment Price-controlled Initial Sales Prices in the Metropolitan Area

According to Prof. Suh Seung-Hwan's research(Yonsei Univ.), if the liberalization of price-controlled initial sales prices is conducted together with the policy to increase and retrench housing supply, the effects on national economy like on the prices of goods and consuming, is very small. Thus, it has been foreseen that after two years of implementation the price of goods, housing prices, land prices, the GNP, all go up by 0.4%, 1.6%, 1.9%, 0.6% respectively, but gradually come down again, stabilizing in the long-term.

Looking only at the housing market, the housing prices go up 5.4% in the beginning, but immediately start to decline to show a long-term decline of 10.6%.

Also, internationally, as the opening of housing price-controlled initial sales market is imminent(foreseen to open in the first half of 1998), strengthening competitiveness of housing construction industry as a protective measure is absolutely necessary. Domestically, liberalization of price-controlled initial sales prices will activate the construction competition and consequently the GNP will expand; this is why it is necessary to start the process.

As a result, the end of 1997 and the beginning of 1998 where international economic conditions are favorable and domestic competition is in a state of contraction, is reckoned as the best time to start liberalizing. Seeing as this is a period of government transition, in this point of time the new government can minimize the political

burden concerning the 50% of city households who are without housing.

From the point of national economy, if the liberalization policy is implemented with sufficient supplementary policies, the impact can be minimized. If it is implemented when international economic conditions are favorable (e. g. break down or stabilization of the Yen), the negative effects of foreign transactions can be reduced. If it is implemented when domestic competition is in a state of contraction, excessive surplus demand will be arise to a level at which the burden on national economy can be reduced; and thus the price of goods, wages, housing and land prices can all be restrained, and rather the construction competition will be stimulated and this will help economic recovery. Especially, if the housing competition suddenly rises with the start of liberalization, because of the time needed in construction, the housing supply will not satisfy the rise in demand and housing prices may rise; so, it would be better to reduce the price gap of market price and price-controlled initial sales price to 10~15% by using systems like price gearing or selective reduction.

If it is implemented successively, in consideration of equilibrium, the wave effect can be reduced. Thus, implementing first in Seoul and any large houses which are more than 25.7 pyong(914 sq. ft) in the metropolitan area, and second, complete liberalization in all private houses.

There is also a need for supplementary measures to liberalize price-controlled initial sales prices. Thus, in the early stages, develop housing land within a 30~40 km range in the metropolitan area, strengthen national housing funds, and guarantee the order of priority of price-controlled initial sales like the existing system of application deposit.