



An empirical analysis of the characteristics of residential location choice in the rapidly changing Korean housing market



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ABSTRACT

This study examines the factors of residential location choice by considering the characteristics of the Korean housing market. From various factors of the residential location choice of a household, this study focuses on the effect of opportunities to engage in other activities, represented by accessibility, and the variety of housing tenure types—i.e., owner-occupied, Chonseil, and monthly rent—and the change of each type's share of the market. The results of this empirical study indicate that households will most often choose to live in districts with more accessibility (a representative variable of demand-driven market), more permitted housing floor space (that of supply-driven one), higher rents, and lower housing prices in the Seoul Metropolitan Area (SMA). That is to say, the rapidly changing Korean housing market indicates a transition phase from a supply-driven to a demand-driven one. The significance of the variables and their effects were different for each housing tenure type. This means that the tenure type choice of a household is influenced by the level of income and assets. The results of this study are significant in understanding the characteristics of residential location choices of Korea and the countries in the transition as well.

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Introduction

In the late 20th century, rapid urbanization caused a serious housing shortage in Korea. To solve this problem, the Korean government established a goal of improving the housing supply and implemented policies to increase housing availability. Evidence (MLTM, 2009) suggests that the problem of the quantitative housing shortage was thus resolved to some extent (Yi, Kim, & Nam, 2009). Because of this increased housing supply, however, the number of unsold apartment houses has recently increased sharply, indicating a reorganization of the Korean housing market as a demand-driven market instead of one that is based on supply. Therefore, the housing consumer's interest in home ownership has gradually been converted to focusing on the quality of the residential environment rather than on simple availability (Choi & Lim, 2001).

On the other hand, a structural change in the nature of the household, which is a fundamental unit of residential mobility and residential location choice (Rossi, 1955), is in progress in the Korean housing market. In particular, one of the representative changing patterns is a reduction in the number of members per

household. This phenomenon results from various demographic factors such as an increase in one's age at the time of first marriage, a low birth rate, and the spread of new values such as individualism and respect for personality (Yi & Lee, 2010). The results of the 2010 census show that the number of one-person households has increased rapidly, moving from 15.5% in 2000 to 20.0% in 2005 and to 23.9% in 2010. The one-person household is gaining in popularity, remarkably quickly for people in their late 20s and early 30s and among older people as well. Because the economic status of small-sized household is generally low in comparison with the other household types, this change has a positive effect on the share of the housing tenure types which are available with relatively low assets; the monthly rental housing market is growing, while the market of owner-occupied housing and Chonseil are declining. The Chonseil housing lease system is unique to Korea (Ambrose & Kim, 2003; Cho, 2006; Choi & Ji, 2007), and was born in the age of the supply-driven housing market.

Residential location modelling is accepted as one of the most challenging fields of contemporary social science because of the global trend in urbanization (Pagliara & Wilson, 2010). In Korea, the previously mentioned structural changes in the housing market increase the need to predict a long-term residential location pattern on the basis of the modelling. Because the urban landscape comprises various interrelated elements (Pagliara & Wilson, 2010;

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Wegener, 2007), modelling the changing patterns of long-term residential locations requires a comprehensive perspective. Researchers have attempted to predict the changing pattern of urban activities and space based on a land-use transportation interaction. Furthermore, the pattern of household residential location choice should be investigated in consideration of the characteristics of a region.

In this context, the purpose of this paper is to ascertain how both the generalized factors of residential location choice and the characteristics of the rapidly changing Korean housing market have affected the pattern of household residential location choice. In this paper, we started with reviewing literature on patterns and influence factors of residential location choice and examining the institutional features of the Korean housing market. Next, we conducted empirical studies analyzing the effect of location factors in residential location choice and the effect of household factors in housing tenure choice using logistic regressions. The census data and time-series panel data were used in the analyses, and accessibility was calculated by considering the travel purposes such as work, education, and shopping to represent location potential (Hansen, 1959; Wilson, 1970). Finally, we concluded by summarizing this study and providing the key findings to understand the changing Korean housing market. The results of this study could contribute to the development of a housing policy in the countries that are in transition from a supply-driven housing market to a demand-driven one like Korea.

Literature review

Intra-urban migration is caused by a variety of internal and external factors such as income level, composition, preference of household, and given circumstances in the housing market itself. Change of residential location is a process of adjustment in which one dwelling or location is replaced by another to better satisfy the demands and needs of a household (Brown & Moore, 1970; Chun, 2004; Chung, Kang, Lee, Kim, & Seo, 2010). Residential location change can be divided into a stage of deciding to search for a new residential location and a stage encompassing both the search for and selection of a new residence and its location (Knox & Pinch, 2009). Residential mobility is influenced by several factors such as the internal and external circumstances of a household and the condition of the current housing location. Additionally, choosing a new dwelling and its location is not only a result of negative elements or dissatisfaction with the current location but is also based on the positive attractions of an alternative location (Moore, 1972; Varady, 1980; Woo & Morrow-Jones, 2011; Yang & Kim, 2007).

Changes in the life cycle, socioeconomic groups, tenants, satisfaction with housing, and satisfaction with the neighborhood are important causes of intra-urban mobility (Brown & Moore, 1970; Han, 1986; Kim, 1988; Moore, 1972; Pickavance, 1973; Rossi, 1955; Varady, 1980; Yi & Lee, 2012). Furthermore, the plans and policies of central and local governments including redevelopment projects of previously built-up areas and the development of new housing generate residential movement (Ha, 2006; Moore, 1972).

Residential location choices are based on housing itself and neighborhoods (Brown & Moore, 1970; Pagliara & Simmonds, 2010). In the residential location choice process, the decision-making mechanism considers the relations among elements such as housing availability, dwelling types, housing quality, the characteristics of a neighborhood, and accessibility to various activities (commuting, business, shopping, leisure, etc.). That decision-making mechanism is characterized by socioeconomic status, the composition of a group's members, and location preference (Brown & Longbrake, 1970; Choi & Lim, 2001; Chung et al., 2010; Eliasson, 2010; Hunt, 2010; Simmonds, 2010; Waddell, 2010).

One main factor of long-term residential location change is accessibility (Pagliara & Simmonds, 2010). Accessibility is an indicator of how people interact with a location, which is one of the components of long-term forecasting. Accessibility refers to location attraction or potential as opposed to convenience or the availability of transportation or facilities (Go & Lee, 2012; Lee, Yi, & Hong, 2013). Accessibility has been variously defined, and it can be computed for a variety of purposes. In several relevant studies, the concepts of potential opportunities based on a spatial interaction and a projection of the potential utility or benefit can be obtained by considering a land-use transportation system. The former was suggested by Hansen (1959), and the latter was observed by Wilson (1970).

A variety of analyses of the factors of residential location change have been conducted in previous studies. However, this research focuses on long-term changes in residential location on the basis of accessibility. The relevant Korean studies have paid scant attention to the changes. Furthermore, this study discusses on the characteristics of the structural change from a supply-driven housing market to a demand-driven one. In this study, household types are classified by the tenure type of households, focusing on residential mobility and location choice. The factors influencing residential location in the Korean housing market are analyzed by the household types.

The characteristics of the Korean housing market

Institutional features

There is a particular feature in the tenure system of the Korean housing market that is different from other countries. In general, housing tenure types can be divided into owner-occupied housing and rental housing; in Korea, rental housing can be subdivided into rental housing based on deposit (called “Chonse”) and rental housing based on paying monthly rent (see Table 1). The Chonse housing lease system is unique to Korea (Ambrose & Kim, 2003; Cho, 2006; Choi & Ji, 2007); however, the rental system is similar to the antichresis leases of civil law countries such as Bolivia (Navarro & Turnbull, 2010). In the Chonse system, “the tenant pays an up-front lump-sum amount of deposit to the owner for the use of the property with no additional requirement for periodic rent payments. This lump-sum deposit belongs to the owner during the contract period (typically two years),¹ and the deposit (the nominal value of the deposit) is returned to the tenant when the contract expires. If the owner does not return the Chonse deposit at maturity, the Korean legal system grants the tenant prior to recoup the deposit from an auction for the house arranged by the court” (Cho, 2006). The amount of the deposit can vary from 30% to 80% of the value of the house. Conversely, the system based on monthly rent is similar to that of other countries; however, nearly all leases under this system in Korea combine monthly rent and a bit of deposit.

The share of each tenure type in the Korean housing market has been changing. Generally, the residential cost of monthly rental housing is greater than that of housing leased through the Chonse system. The Chonse system has been sustained by Korean housing market conditions such as high interest rates and rising housing prices, which maximize the rental income of the owner, and the preference for Chonse leases, which contribute to a tenant's asset accumulation (Seong & Choi, 2012). However, structural changes such as lower interest rates, reductions in housing prices, and

¹ The extent of a landlord's earnings under a Chonse contract—from the interest obtained from the deposit (rental income), the profit from increasing housing prices (capital gains), etc.—remains controversial in the Korean real estate research literature.

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