

How do you solve a problem like Korea's dysfunctional housing market?

With six-figure rental deposits and falling house prices, the bizarre jeonse housing market is forcing politicians into action

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If South Korea, whose national job description is to be the standard bearer for free markets, can countenance regeneration, can we? Photograph: Getty Images/Image Source

Imagine a world where a £100,000 deposit for a small flat is cheap; where having 60% of the value of your next home means you haven't saved enough and you're running short of time because your tenancy (yes, that the huge deposit was only key money) will be over in two years. Welcome to jeonse and the Korean housing market.

And it is a strange market to British eyes. Homeownership is not popular. Unlike booming Hong Kong or Singapore, home prices fell about 8% last year. Rather than buy a depreciating asset, the middle classes look to rent. The only problem is that the sums no longer add up for the majority of landlords either.

Jeonse (pronounced cheon-say) is a unique derivative of an old Korean tenure. It made sense in a rapidly urbanising country in the late 20th century. Once tenants raised the deposit, they would live rent free, usually for two years. The landlords got a healthy rate of return from the deposit, which they often invested in a booming economy, with the bonus that the growing population and urban redevelopment would push up the property's value as well. Unfortunately, a long-term decline in interest rates and insipid house price growth now means the only way to make jeonse worthwhile is for the deposits to rise.

And they have rocketed. The average jeonse deposit has increased for a record 64 straight weeks and now stands 35% above 2008 levels. Borrowing for jeonse deposits has doubled since 2009. This is now particularly hurting the Republic's middle classes, who took on three-quarters of the £34bn lent in the first half of 2013.

Ministers in Seoul are keenly aware of the twin political threats housing poses for president Park Geun-hye's one-year-old administration. Not only are disposable incomes being squeezed by costly borrowing, but the switch from personal consumption is also undermining economic growth.

So, in moves reminiscent of Britain's recent housing ministers, the government has pulled every policy lever it can grasp: relaxing personal borrowing restrictions, developing public brownfield land, halving housing purchase tax and introducing both a Help-to-Buy-style mortgage and a "profit-sharing" mortgage.

But, three other policies stand out as a reminder of what governments can do. The Park administration intends to double the number of state-owned homes it builds for rent, introduce a national regeneration commitment (comprising grants and legislation) and finally, a detailed plan to reform the financing of affordable housing.

If [South Korea](#), whose national job description is to be the standard bearer for free markets, can countenance regeneration, more public housebuilding and systemic government reforms to solve its housing problems, then perhaps our own Conservative strategists might consider following suit.

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