

## **Korean Real Estate Market: Did it hit bottom?**

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The Korean real estate market is very different compared to the Los Angeles market. Let me take you on a trip around my neighborhood in Korea.

I live near Seoul, in a city called Anyang. It is within the Gyeongido "county", essentially the outskirts of Seoul. Seoul is the capital of Korea, with nearly 10 million residents and the surrounding Gyeongido area has another 10 million. Nearly 40% of South Korea lives within and near the capital. I suspect, the demand for reasonable housing will continually outpace the supply, so essentially, think of Seoul as an island, where the land is fixed and the population continues to grow.

A 3 bedroom, 2 bathroom apartment, which is the same as a condo in Los Angeles, sells for nearly \$500,000 in the Anyang area. Most of the mortgage loans are a VARIABLE interest rate that fluctuates near 7-8% and most of the loans are interest only.

Korea doesn't offer much monthly payment housing, which is the rent system in Los Angeles. There are officetels, or tiny studios that can be rented for around \$500. However, they are not suitable housing for middle income residents.

The other viable alternative to purchasing an apartment is jun-se, or key money. Let's say we want to purchase an investment property for \$500,000. The bank is willing to lend up to 60% of the value, meaning we have to bring in 40%, or \$200,000. However, if we only have \$100,000 in cash, or 20% of the apartment value. We can bring in a tenant, who brings in a key money of \$100,000 that doesn't pay any monthly payment to us. However, after 1 year (can change based on contract with tenant), we have to repay the \$100,000 to the tenant if they move out.

Combining our current \$100,000 and the tenant's key money of \$100,000, we can place the 40% down payment and receive the \$300,000 loan to purchase the property. When the tenant is officially registered into the county as a key holder, the key holder's deposit will be protected in the event of a foreclosure.

So we benefit by receiving \$100,000 in interest free money and the tenant holder can live payment free for 1 year.

The most confusing part of the whole key money system is, if the key holder has \$100,000, why

don't they just purchase an apartment themselves??? I could never figure this out until the Korean real estate market collapsed following the Lehman crisis. Equity for most homeowners were wiped out and they were making a high monthly payment on an adjusted interest only, variable mortgage that sent many people into foreclosure.

The key money amount is readily available for new tenants by visiting a local real estate brokerage, which is literally on every street corner in Korea. They can get an accurate estimate for each square footage.

Recently, the key money deposit amount has spiked and is running similarly to the purchase price. Many real estate experts are coming to a consensus that the real estate prices have hit bottom and should rise starting 2011. So for key money tenants who are moving out in 2011, buying a house could be a viable option.

The counter-argument to a bottom scenario is the surplus supply of new apartments sitting vacant in Korea. Banks have stricter lending standards and although there are motivated buyers, they may not qualify for a loan.

Real estate transactions normally come to a halt during the winter season since the snow makes moving difficult. We will see by spring, whether the Korean real estate market can gain enough traction to start pumping paper money equity into investor's minds to spark a possible turnaround in the Korean real estate market.