Economic Analysis

Estimation of Households Capable of Purchasing a Home

Appropriate support should be provided to households capable of purchasing a home in order to boost the housing market.

As the housing market depression continues, the characteristics of this market need to be analyzed and potential home buyers -- households capable of purchasing a home -- should be estimated. By doing so, we can revitalize the sluggish housing market.

Definition and Estimation

“Households capable of purchasing a home” refers to households that can afford to buy a home with financial assets in possession plus a reasonable mortgage loan from a bank. The number of households capable of purchasing a home as of 2013 accounted for 5.7 million households, 31.3 percent of the total. It is estimated that out of 5.7 million households, 1.4 million are living in rented properties while 4.2 million are owner-occupiers. The number of households capable of buying a home increased by 9.0 percent during the 2012–2013 period (5.2 million -> 5.7 million households), which is in contrast to the number of other households decreasing by 1.7 percent (12.7 million -> 12.5 million households).

Characteristics of Households Capable of Purchasing a Home

Households capable of purchasing a home are typically families in the middle/high-income bracket living in their own home or rented property in non-captital regions. Sixty-five percent of the households capable of purchasing a home are in non-capital regions where the price of property is cheaper, 60.9 percent are living in their own homes and 28.2 percent are living in rented properties. Married couples make up 84.7 percent of the group, 52.0 percent are middle-class and 44.8 percent are high-income earners.

Change in Financial Structure Before and After Purchasing a Home

Households capable of purchasing a home have a financial structure strong enough not to be burdened by debt repayments. The debt service ratio (mortgage amount / disposable income) of households capable of purchasing a home accounted for 4.4 percent in 2013, notably lower than the 34.7 percent of other households. Although the debt service rate will rise from 4.4 percent to 11.6 percent when these households purchase a home, it is still much lower than 20.8 percent, the debt service ratio that can make debtors start feeling burdened by debt repayments. In the meantime, the debt service ratio of households living in rented property will rise from 3.5 percent to 13.1 percent, and the debt service ratio of households with their own home will increase from 4.7 percent to 11.3 percent when purchasing a home.

Suggestions

Among the 5.7 million households capable of purchasing a home, 55.8 percent appear to be prepared to invest in real estate when extra cash is available, suggesting that these potential buyers can positively contribute to the housing market if system and policy support are available. Appropriate support should be provided to first-time buyers living in rented property so that they can change their type of residence from rented property to their own home while encouraging those living in their own home to buy a second home for rental income. Tax reductions for those buying newly built or unsold homes for the purpose of inheritance or gifts should be considered. It is also recommended that we increase the home-purchasing capability of households by expanding low-interest shared mortgage services.

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