

“PUBLIC LAND LEASE SYSTEM IN NORTH KOREA”

**– A NECESSITY FOR THE IMPLEMENTATION
AND VALUING GROUND RENTS**

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Abstract

The recent inter-Korean summit and the US-North Korean summit have created a positive atmosphere in inter-Korean relations, and the possibility of opening the economy is increasing. North Korea's marketization has become unstoppable and has already become an axis leading the North Korean economy along with the socialist planned economy. However, the North's inherently imperfect real estate market is creating distress from some capital combined with bureaucrats, and is becoming covert. To prepare for a unified Korea, implementation of a reasonable real estate system is required to curb this problematic real estate market expansion. In a methodological approach of checking the social phenomena of North Korea through news reports and research papers published on similar subjects, it is concluded that the Public Land Lease System is the most ideal at the level of the Korean Commonwealth. Public Land Lease System requires a valuation of ground rents in a reasonable way that suggested in this study. Also, during the inter-Korean economic cooperation process, South Korea's appraisal experts to jointly participate in projects related to real estate and conduct inspections on the North's land market and utilization status as well.

Key Words : North Korea's marketization, The Korean Commonwealth, Public Land Lease System, Valuation of Ground Rents, Inter-Korean Economic Cooperation

1.0 Introduction

North Korea's leader, Kim Jong-un, expressed his willingness to seek peace via denuclearization through the declaration of the inter-Korean summit on April 27th, and the June 12th US-North Korea summit in Singapore. As follow-up, economic measures such as inter-Korean economic cooperation and inter-Korean rail link projects are actively being discussed. Consequently, South Korea should prepare for the upcoming changes to the market economy and the unification of the two Koreas. The change will cause a variety of real estate issues, including North Korea's method and process of changing its regime and its plan to dispose of the free confiscated property¹. This study assumes the formation of the South and North confederation, which is called The Korean Commonwealth², in transitional situations. The study proposes the direction and system for accepting the progressive market phenomenon of North Korea's real estate at the level of The Korean Commonwealth, to gradually accommodate to marketization. First, it reviews the status of North Korea's real estate, which has not been publicly reported, to examine the recent spontaneous marketization phenomenon. Then the Public Land Lease System will be discussed that Henry George has claimed and examine the possibility of introducing it to North Korea. Finally, after review the ground rent valuation suggests

¹ The present theories discuss principles such as return in principle (full privatization in the manner adopted by unified Germany), compensation in principle, and exceptional return, no compensation, and re-nationalization.

² Ministry of Unification. *web page of Ministry of Unification*. 6 25, 2018. <http://www.unikorea.go.kr/unikorea/policy/plan/> (accessed 6 25, 2018). The unification formula of President Moon Jae-in's government follows the Unification Policy for the Korean Peninsula that the Kim Young-sam administration made in 1994, and it presents three sequential unification steps. The first is Reconciliation and Cooperation, the second is the Korean Commonwealth for developing economic and social community. The third is the stage of unification, which consists of the unified government and national assembly.

a framework for rational rent assessment system the Public Land Lease System is applied. These discussions can contribute to the planned development and efficient use of North Korean land by serving as a buffer until complete unification and by reducing the costs of unification in the process of economic integration.

2.0 Research Methods and Assumptions

The information on North Korea consists mainly of checking the social phenomena of North Korea through news reports and research papers published on similar subjects. The time range of this study is from 1946 to the present after liberation, and the spatial range is North Korea on the Korean Peninsula. In particular, there is a circumstantial assumption that North Korea is making continuous efforts to open its markets at the level of the Korean Commonwealth. The Korean Commonwealth is most promising plan as a transitional phase of the unification process. In other words, in the phase, North Korea's political, diplomatic, defense and social systems, which are already recognized as a nation in the international community, are recognized and the people and capital of the two Koreas can interchange relatively freely.

3.0 The Current State of Real Estate and Its Laws in North Korea

3.1 Real Estate and Private Property Laws in North Korea

The term 'real estate' was first introduced into North Korean legislation in 1990 through the enactment of constitutional law. Later, after 2009, types of real estate

were regulated³ under the Real Estate Administration Law, but there is still no law stipulating the definition of real estate. As shown in the table below, laws related to owning real estate have been regarded as a type of means of production, and they are principally regulated by the state and collectively owned by the Workers' Party. On the other hand, housing, household goods, and other select items of private property are acknowledged in a very limited sense.

Year	Law	State		Worker's Party		Private	
1972	Constitutional Law	means of production				consumer goods	
1977	Land Law	land				N/A	
1990	Civil Law	natural resources	forests, factories of importance, etc.	land (farmland)	ships, small and middle-sized factories	housing	household goods, cultural goods, and other consumer goods
2009	Housing Law	Housing owned by the State		Housing owned by the Worker's Organization		Private housing	

Table 1. Laws about Real Estate Ownership in North Korea

3.2 The Current State of Real Estate in North Korea and Its Problems

3.2.1 Land reform and the establishment of a socialistic system of land ownership

As a result of land reforms in 1946, North Korea acknowledged private ownership of

³ Real Estate Administration Law Article 2 divides real estate into land, buildings, facilities, and resources. Land is categorized into farm land, residential land, industrial land, forests, underwater land, special lands, buildings. Under facilities are industrial and public building facilities and housing, while resources include things like underground resources and forest resources.

farmland through the free confiscation and distribution land. However, due to the inefficiencies of small-scale farming, cooperation towards increased agricultural production was actively pursued. In this process, people who owned farmland invested their land to the cooperative and forfeited their rights to property. Hence, rights to private property ownership completely disappeared through the agricultural cooperative and a socialist system of land ownership was established.

3.2.2 The supply and distribution of land and housing

As can be seen, all land is owned by the state and the Workers' Party. Meanwhile, housing is usually in the form of apartment housing and are mostly owned but the state of the Workers' Party, with only a minority being owned as private property through legislation prior to land reform.⁴ Residents must obtain permission from the Housing Distribution Division of the Council of People's Commissars' Ministry of Urban Management of each province and city and hold a housing usage permit. Housing is distributed along class, status, and region. Most residents have to wait a long time to obtain a permit due to the shortage of state-owned housing. Hence, a chronic shortage of housing supply can be detected.

3.2.3 Economic crisis and the derivative phenomenon

3.2.3.1 Autonomous marketization

North Korea's planned economy began to show signs of failure in 1990. The situation worsened after the death of Kim Il-sung in 1994, and this period is known as the North Korean Famine. The supply and distribution of basic commodities and goods began to paralyze, and markets created by residents in an effort to satisfy

⁴ Jang, Byung-il. *Record of Busan Court Precedent Association's 270th Report*. Record of Busan Court Precedent Association, 2015.

growing demand began to grow. Attempts were made to regulate these expanding markets, but what began as a Farmers' Market transitioned into a General Market in 2003 and was officially recognized as a market. The official recognition of the General Market in North Korea's 7.1 Policy of 2002 was an inevitable solution to overcome the economic crisis and normalize the regime. Through such markets, the *donju*⁵ began to emerge.

3.2.3.2 The emergence of a real estate market

Through the 7.1 Policy, a self-management system of business was partially put in place, and profit-seeking on the part of businesses became possible. The capital power of residents and business had given birth to the real estate market. As a way of surviving the North Korean Famine, North Korean residents began exchanging their state-provided housing with dollars, and this began to set the sale of housing into motion. The real estate market discussed above largely refers to the exchange of housing usage permits.⁶

3.2.4 The characteristics and limitations of the real estate market

3.2.4.1 The power of donjus and their rent seeking behavior

With the paralysis of the socialist housing distribution system and the increased demand for state-owned housing breathed life into the housing usage permit-

⁵ In *100 questions about North Korea*, by Juliette Morillot, 196. Sejong Publishing, 2018. *Donjus* are North Korean capitalists known as residents who own more than 10,000 dollars in personal wealth.

⁶ Of course, this is far from a proper rental market which an interest in real property should be leased between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (In *INTERNATIONAL VALUATION STANDARDS*, by INTERNATIONAL VALUATION STANDARDS COUNCIL IVS 104:BASES OF VALUE paragraph 40.1)

exchange market. Having accumulated private wealth, the *donjus* first began to exchange permits in areas of convenience with proximity to markets, and there have been recent cases in which dealings were made based on the consideration of a property's potential value and the possibility of development.⁷

3.2.4.2 The spread of illegal market activity through back-deals with bureaucrats

According to Real Estate Administration Law, dealing in housing usage permit is illegal and subject to punishment. Even if a deal is made, a permit is required for residence. Brokers secure a deal by obtaining usage permits and handling administrative procedures. Brokers play an important role in housing construction along with the capital-backed *donjus*. Acting as a broker is illegal, but it is backed by officials in high positions of power. Brokers introduce *donjus* to businesses or organizations in need of capital to fund the construction of large-scale apartments.⁸ The North Korean real estate market is a covert market of usage permits with a healthy supply for privileged classes of state-owned housing.

⁷ Jung, Eun-i. "An Analysis of Real Estate Development in North Korea." *Northeast Asia Economic Association Issue 27th vol. 1*, 3 2015: 309, 317 "In 2014, the highest sales price of a home in Pyongyang was 100,000 dollars, the median price was around 50,000 to 60,000 dollars, and nearby farming houses were about 1,000 dollars, with houses in Shinuiju costing around 50,000 to 60,000 dollars. Within Pyongyang, the most expensive housing was in areas intersected by the number 1 subway line, including areas near Junggu Station, Botonggang Station, Moranbong Station, and Pyongcheongu Station and cost around 100,000 dollars; meanwhile, houses in the midtown of Junggu Station cost around 5,000 to 6,000 dollars, and low-cost areas like Dongdaewon district offer houses for a few hundred dollars.", "This person operated a farming business on good land in a rural area and built his own house. Good land here does not mean that the land was close to a market or station; instead, it refers to land in a rural area with a great view lying next to the Daedong River, as the now uncultivated land may become a tourist destination once development takes place."

⁸ Im, Kang-taek. "The Hidden Picture in North Korea's Active Markets: The Role of State-run Companies." *KDI North Korean Economy Review*, 6 2014: 14.

3.2.4.3 A covert, imperfect competitive market

According to economic theory, the real estate market is an incomplete market. The limitations on supply and demand create costs in obtaining information. Hence, there exist restrictions on market participation, a lack of decision-making power, limitations on real estate information, among others. Currently, the North Korean real estate market is developing in an anomalous way with the addition of rent-seeking by bureaucrats and *donjus* and the 'government failure' phenomena. Instead of continued regulation and suppression of markets by the state, they have been repeating a pattern of market deregulation and cleaning up ex post facto.⁹ Excessive rent-seeking has led to irrationally high nominal prices and has even distorted the development of city spaces¹⁰; such practices have been progressing covertly under the connivance of bureaucrats.

3.2.5 The need for the implementation of a reasonable real estate system

At first glance, it may seem like a dualistic structure is moving the North Korean economy by balancing each other. However, economic history shows no precedent in which real estate markets like that of North Korea has continued, and such an unstable structure is bound to collapse. There is a need actively work towards

⁹ Jung, Eun-i. "An Analysis of Real Estate Development in North Korea." *Northeast Asia Economic Association Issue 27th vol. 1, 3* 2015: 253

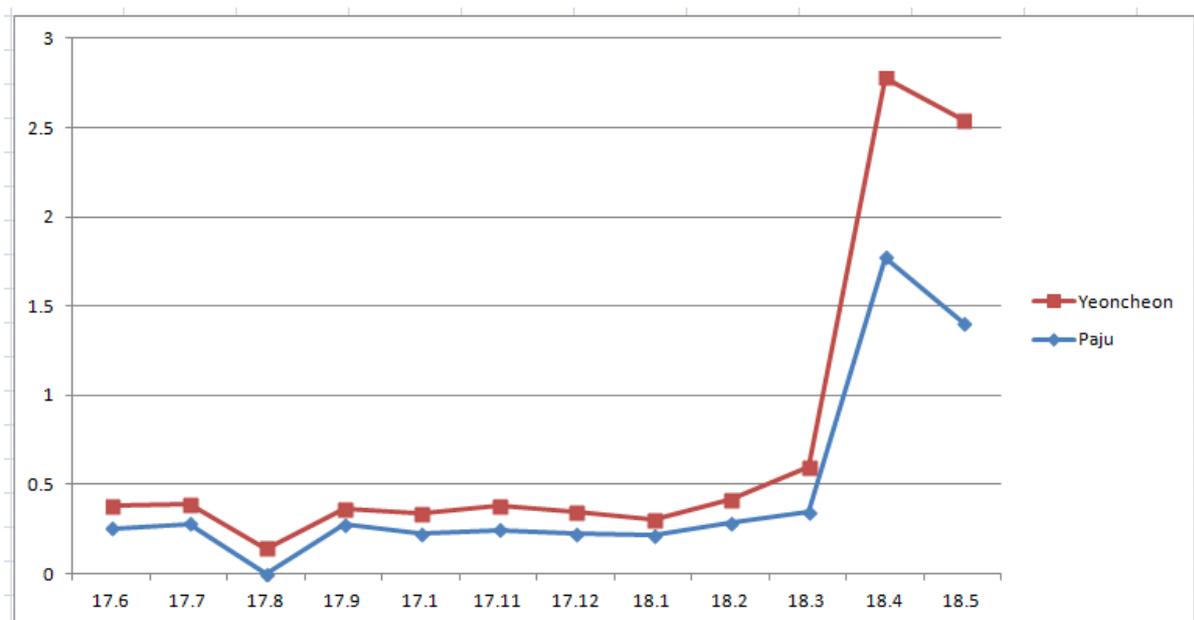
¹⁰ Jung, Eun-i. "An Analysis of Real Estate Development in North Korea." *Northeast Asia Economic Association Issue 27th vol. 1, 3* 2015: 314 "In the case of city S, its market was relocated four times over the past 15 years. One half of the market was built by city S's number one Chief Secretary, while the other half was built by the number two Chief Secretary. At the time the market was relocated, residents believed it was due to a power struggle between the number one Chief Secretary and the number two Chief Secretary that resulted in favor of the latter."

implementing a systemic policy like the Public Land Lease System to reduce a economic inequality and serve as the foundation for efficient city planning development in North Korea.

4.0 The Prospect of the Public Land Lease System in North Korea

4.1 Full Ownership and the Privatization of Economic Rent

Owning property comes with the bundle of rights that can be divided into full ownership rights and fractional ownership rights. Full ownership rights grant its owner *the right to use, the right to profits and the right to dispose*, whereas fractional ownership lacks one or more of these conditions of ownership. Most of the research points to full ownership rights as being caused by speculative demand. That's because rent as a result of increased utilization efficiency of land and rent generated through disposal can all be fully enjoyed. Speculative demand caused by the pursuit of unearned income can be easily seen in South Korea where full property rights are enjoyed. A notable example is the recent asking price trend of the borderland areas after the inter-Korean Summit on April 27th.



Graph1. Official Land Price Fluctuation Rate of the borderland areas

Year/Month	17.8	17.9	17.10	17.11	17.12	18.1	18.2	18.3	<u>18.4</u>	<u>18.5</u>
Paju (%)	0.4	0.276	0.224	0.248	0.226	0.215	0.287	0.344	<u>1.772</u>	<u>1.407</u>
Yeoncheon (%)	0.143	0.088	0.115	0.137	0.122	0.089	0.127	0.254	<u>1.008</u>	<u>1.135</u>

Table2. Monthly Fluctuation Rate of Official Land Price in Paju, Yeoncheon¹¹

The privatization of economic rent, which causes speculators and idle landholders, creates land inefficiencies and income inequalities. Hence, an evaluation on a reasonable rent and related restitution is a problem to be considered.

4.2 Henry George and the Public Land Lease System

4.2.1 General Idea

The Public Land Lease System is a kind of shared system of land value which grants the state the *right to dispose* and *the right to profits* while allowing the individual *the right to use* the land under a lease. It is a combination of planned and market economics under which land is leased to an individual for a set amount of time. It is a

¹¹ Korea Appraisal Board. "Korea Appraisal Board Real Estate Statistics Information." 5 30, 2018. <http://www.r-one.co.kr/rone/> (accessed 5 30, 2018).

suitable way for countries like North Korea with nationalized land ownership to transition from a planned socialist economy to a market economy.¹²

Type	Private Ownership of Land	Public Ownership of Land	Shared System of Land Value	
			Land Value Taxation	Public Land Lease System
The Right to Use	Private	Public	Private	Private
The Right to Profits	Private	Public	Private	Public
The Right to Dispose	Private	Public	Public	Public
Distribution Methods	Market	Planned	Market	Market

Table 3. Types and Distribution Methods of Land Policy

In Henry George’s book, *Progress and Poverty*, he asserts that states with a system of private ownership of land in place should provide redemptions for land through a Land Value Taxation. Moreover, he claims that a system of private property and Land Value Tax would be the second best course of action, while the most ideal case would be one in which the state holds *the right to profits* and *the right to dispose* of land, and the individual enjoys only *the right to use* the land.

4.2.2 The core principles of the Public Land Lease System

Principle.1	The right to use lands should be given to the highest bidder through auctions
Principle.2	Land is to be redeemed ‘annually’
Principle.3	The land should be used for the whole of society
Principle.4	The right to use lands should be guaranteed
Principle.5	The guaranteed protection of improvements added by lessee’s labor and capital

¹² Kim Yoon-sang et al., *Henry George and Land Reform* p292

Table4. Five core principles are presented in Henry George's *Progress and Poverty*.

4.3 The Possibility of Implementation in North Korea

4.3.1 The pros and cons of the Public Land Lease System in North Korea

4.3.1.1 Advantages

Since North Korea's land is already nationalized, it is an ideal setting for introducing the public land lease system based on state-owned land. Present North Korean leadership has admitted the need for Chinese economic reforms to some extent. According to the '7.1 Policy' and the follow-up measure, 'Regulations for the Land Use Fee,' legal grounds¹³ was set for collecting land use fees though it is limited to farmland. The Public Land Lease System works based on the principle of the market economy. That is, North Koreans can learn the principles of it gradually and this can be the basis for the highest and the best use.

4.3.1.2 Disadvantages:

There will be no investment demand for profit, so it is not easy to increase the efficiency of land use quickly. In particular, the desire to possess land such as farmland cannot be satisfied. Since the state and land users are not on equal footing, the legal status of land users may be unstable. If needed, the state may cancel the authorizing action from a superior status.

4.3.2 The possibility of implementation in North Korea

In this regard, there are various academic discussions. Some of the research suggests that North Korea's recent enactment of the Real Estate Administration Law

¹³ Jeon, Kang-su. "Reform Initiative for Land System in North Korea." *Unification Problem Association vol.19 no.2*, 2007: 195.

and its collection of real estate rents were attempts to legalize anti-socialist market practices for the introduction of the Socialist Market Economy¹⁴. In addition other research suggests that implementation of the market economic principles is not likely to be accomplished on the grounds that regime stability would be foremost and that the state has not been actively pursuing an open-door policy such as seen in China even in Specialized Economic Zones. Therefore, it is merely the regime's search for a solution to overcome the economic crisis they are facing within the means and framework of ensuring the security of Kim Jong-un's dictatorship.¹⁵ However, since the inauguration of Kim Jong-un, there has been increased emphasis on building an economically powerful nation. The urban development project along the Chinese-Russian border is progressing smoothly and the construction of railroads and highways for economic cooperation between the two Koreas has been pushed forward again after the Panmunjom Declaration. Given these moves, the will to revitalize the economy seems to be firm, and the introduction of a Public Land Lease System, which can be seen as a Socialist Market Economy, is also thought to be possible.

5.0 Suggestion for a Framework of Valuing Ground Rents

5.1 North Korea's Real Estate National Pricing System

Price and rent are indivisible since they are the relationship between the original and the profit. Only if the price can be identified as original, the rent can be priced as profit. According to the Real Estate Management Law, the first law on the national

¹⁴ Lee, Sung-woo. "An Estimate of North Korean Housing Demand Based on The Experience of Post-unified Germany." *North Korea Economic Association vol.9*, 12 2003: 108.

¹⁵ Park, In-sung. "The Implications of China's Land Policy on The Unification of the Koreas." *National Land and Transportaion vol.359*, 9 2011: 34~35.

price of real estate, real estate price is a monetary expression of its value (Article 32) and is regulated to be scientifically priced (Article 33). In this regard, a number of studies have been conducted in North Korea, including “Kim Gwang-gil, General Understanding of Land Prices (2015, Kim Il-sung University Newspaper). With regard to land prices, the purpose of use, level of land, location and distance are considered.

5.2 North Korea's Calculation Method of Ground Rents

5.2.1 The method of calculating ground rents under the General Law

By the Real Estate Administration Law, the principle of calculating land use fee is to be charged according to real estate prices (Article 33). The national pricing of real estate is a means to set land use fee.¹⁶ In addition, the Land Rental Law regulates that the price should be decided by negotiation and auction bid.

5.2.2 Ground rents calculation method under the Special Economic Zone Law

A typical example is Real Estate Regulations in the *Laseon Economic Trade Zone*, which delegate criteria for calculating rent, payment procedures and methods to sub-agency. Although it is difficult to specify the standard or price of land rent, in case of negotiation, land use fee is set by the agreement between a tenant and a lessor on the basis of the standard price. In the case of bid and auction, it shall be presented by a tenant according to the standard price. Applying the negotiation method, the National Pricing System divides all land into three categories, and then sets the rates

¹⁶ Kong, Min-dal. "Research on the North Korea real estate system." *Doctoral Thesis*. Dongguk university graduate school publishing, 2015. 86~87.

by usage, which is the same across the country.¹⁷

5.3 Suggestions for a Framework of Ground Rents Valuation

■Close economic cooperation with South Korea is essential under the principle of independent unification at the phase of the Korean Commonwealth. As China and North Korea differ from each other in terms of land and population composition, it is necessary to evaluate ground rents based on the evaluation system of South Korea and reflect the principles of the North Korean market economy.

■The national pricing system for North Korean land seems to be set in consideration of its class and usefulness. Although there seems to be no significant conceptual difference between land assessments in South Korea, it is rather calculating price for calculating usage fee than price determining the usage fee, judging from the recent piece published by Kim Il-Sung University. This study acknowledges North Korea's national price system, assuming that it is a transition period for unification. However, it is essential to gradually narrow the gap between real estate prices in South and North Korea, so the government should prepare for the public price appraisal of land after unification.

■South and North Korea should cross-reference land use rates. Actual inspections and detailed studies are desperately needed by comparing North Korea's national pricing to South Korea's appraisal method, which applies land grades and rates with regard to regional factors and individual factors. In this respect, it is significant for

¹⁷ Kim, Mi-sook, and Mae-hwa Jeong. "Comparison of Land Use Right Granting System between North Korea." *Journal of Korea Planning Association*, 10 2015: 216.

South Korean experts to visit regions that have adopted a Public Land Lease System in person to analyze the price factors. Analysis of regional factors and individual factors can be carried out naturally during the inter-Korean economic cooperation process. For example, regional factors can be analyzed in the process of exchange and cooperation for various potential urban development projects in North Korea, including Nampo, and individual factors can be analyzed in the North's farmland enrichment project or forest restoration and creation project.

■The payment method for land use fees shall be based on the annual appraisal method to prevent land speculation, which happened in China caused by the current lump sum payment system. In addition, the annual appraisal method is reasonable as the price appraisal of land needs to be emphasized.

■The method of determining land use fees is determined based on the assessment of usage fees, through public auction, bid, and negotiation, on the principle of market competition. The method of public sale, bid, and negotiation can be adopted according to the use of land and local factors. The public sale is the most economical use of land for the government since the highest bidder gets the land. This method is suitable for large number of applicants for public sale due to high demand, such as small commercial land located in the downtown. The bid is suitable for sale of land for limited demand and the buyer pays subjective amounts, as opposed to the public sale.¹⁸ This would be appropriate for suburb land development with low demand.

6.0 Conclusion

¹⁸ Kim, Won-jung. "exploration of land supply and management system in the Hong Kong special administrative region." *Korea Appraisal Board real estate institute vol.2*, 5 2016.

The recent inter-Korean summit and the US-North Korean summit have created a positive atmosphere in inter-Korean relations, and the possibility of opening the economy is increasing. North Korea's marketization has become unstoppable and has already become an axis leading the North Korean economy along with the socialist planned economy. Real estate investors(*Donju*) and brokers(*Girgankkun*) effect real estate marketization mainly through the housing permit market. However, the North's inherently imperfect real estate market is creating distress from some capital combined with power, and is becoming covert. To prepare for a unified Korea, implementation of a reasonable real estate system is required to curb this problematic real estate market expansion. It is confirmed that the Public Land Lease System is the most ideal which requires a reasonable land use fee assessment. Currently, North Korea has laws regulating land lease at a cost and lease fee appraisal such as Real Estate Administration Law, Land Lease Law, and the Special Economic Zone Law, to assess the land use fee. However, due to the failure in the method of pricing fees and restrictions on regions and applications, the government has yet to establish a consistent regulation for North Korea's land and the entire nation. Consequently, it is proposed that a regulation for a unified ground rents appraisal should be prepared within the basic framework proposed in this study by implementing a Public Land Lease System at the level of the Korean Commonwealth. When inter-Korean economic cooperation activates human and property exchanges, it is important for South Korea's appraisal experts to jointly participate in economic cooperation projects related to real estate and conduct inspections on the North's land market and utilization status. In addition, we should secure and analyze North Korea's real estate data continuously so to actively participate in the upcoming appraisal of the lease fee. It will be a useful resource when there is a demand for real estate prices after the transition to a fully unified Korea.

7.0 Limitations and Implications

North Korea, the scope of this study, is an area that is not accessible in general and is extremely closed in its social structure. Therefore, the availability of information for research is limited. While research should be conducted based on accurate data, there are limitations resulting from the North Korea's incomplete information. In the near future, North Korea's opening of its real estate market will come. Whether it is opened in a radical or gradual way, done in full or in part, its appearance can vary. What is important is the establishment of an initial system that can prevent government failure and market failure such as speculation and reckless development that the South Korean economy has experienced. This study assumed The Korean Commonwealth, a transition period in the unification process, but did not consider any subsequent circumstances that would change depending on whether the government would maintain the Public Land Lease System or reorganize it into the Private Ownership System after full unification. If the Public Ownership System of North Korea is replaced by a Private Ownership System in South Korea, related research and consideration should be undertaken. While it is desirable for North Korea to move toward a Socialist Market Economy under the government's active leadership, like China and Vietnam, the problem is that the Kim Jong-un regime has been biased toward maintaining the hereditary power system rather than opening an active market. However, a marketization phenomenon in North Korea over the entire nation will happen at some point; and that marketization will inevitably be closely linked to the South Korean economy. That is why the study of the real estate system and evaluation should be continued for the sake of a just and efficient North Korean real estate market.

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