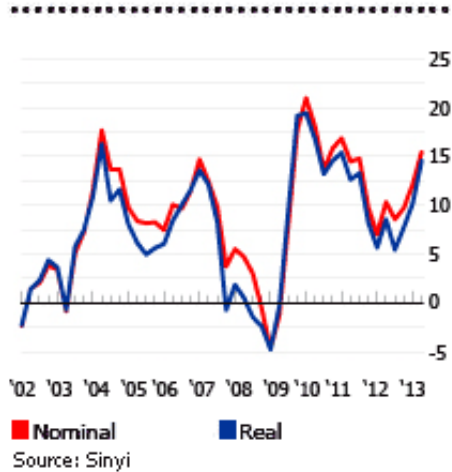


# Taiwan's efforts to smash the house price bubble intensify, causing sales to plummet

House Price Change, Annual (%)



[Click graph for more Taiwanese house price data](#)

Vowing to curb high real estate prices, government policies have caused house transaction volumes to plummet in Taiwan. Nevertheless, Taiwan's Lutheran home price index rose by 12.6% (11.28% inflation-adjusted) during the year to end-Q1 2014, according to [Sinyi Real Estate Planning and Research](#). House prices have risen continuously in Taiwan since 2009.

During the year to end-Q1, 2014:

- In **Taipei**, the capital, house prices rose by 4.90% (4.07% inflation-adjusted)
- In the **New North**, house prices rose by 17.15% (16.22% inflation-adjusted)
- In **Taoyuan**, house prices rose by 12.30% (11.41% inflation-adjusted)
- In **Hsinchu**, residential property prices rose by 11.36% (10.48% inflation-adjusted)
- In **Taichung**, house prices rose by 12.86% (11.97% inflation-adjusted)
- In **Kaohsiung**, residential property prices rose by 12.71% (11.82% inflation-adjusted)

Taipei has an average home price of TWD686,000 (US\$22,650) per ping (a customary and traditional unit of measurement in Taiwan which is equivalent to 3.306 square meters). In Taoyuan and Taichung residential property average prices are around TWD200,000 (US\$6,666) per ping.

Housing prices in Taipei have risen by 91.6% between Q4 2008 and the first quarter of 2014, according to Bank of America.

Just how expensive housing is in Taiwan is emphasized by price to income ratio figures from the [Ministry of Interior](#). For Q1 2014, the overall house price to income ratio was 8.4, which means that a resident needs to save 8.4 years-worth of income to buy a residence. The ratio in the capital Taipei was 15.01, while the ratio in New Taipei was 12.67, pushing the 2 cities to first and third place in housing unaffordability in the world according to [Demographia](#). Japan has a price to income ratio of 4, Singapore 5.1, and Hong Kong 14.9, according to Demographia.

In March 2014, the legislature passed an amendment to raise the property tax rate for non-owner-occupied residential properties to between 1.5% and 3.6%, from the current tax range of between 1.2% and 2%. This is in addition to the current domestic luxury tax scheme implemented since July 2011, where second homes not occupied by the owner and sold within one year of purchase are taxed at 15%, while those sold within two years of purchase are taxed at 10%. According to Finance Minister Chang Sheng-ford, the domestic luxury tax scheme has cut the prices of some apartments in Greater Taipei by 30 to 40%.

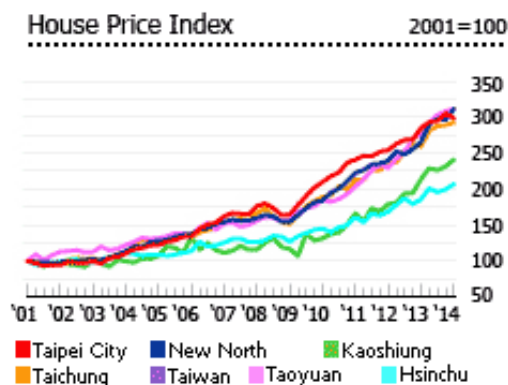
Tightened inspections of pre-sale house transactions, and state-owned banks' moves to lower their loan-to-value ratio from 80% to 70% for first-time buyers and to 50 to 60% for people who own more than one property, are hitting transaction volumes, causing a decline in residential sales during the year to April 2014, with housing transactions in the five special municipalities plummeting 21.4% from a year ago.

- **Taipei** housing sales fell 18.9% year-on-year to 3,220 units
- **New Taipei City** property sales fell 22.8% from a year ago to 6,004
- **Kaohsiung** property transactions dropped 22.9% a year ago
- **Taichung** housing transactions fell 21.7 % year-on-year to 3,963
- **Tainan** residential sales dropped 17.4% from a year ago to 1,914

The Ministry of Finance is studying additional tax measures on land and property combined, and expects to produce a draft early next year, according to Finance Minister Chang.

Housing permits, an indicator of the condition of the residential construction sector, increased by 8.6% to 31,114 houses in the first quarter of 2014 from the same period last year, based on figures from the Ministry of Interior.

## Speculation worries and government actions



Source: Sinyi Realty

More than half the government's 10 bubble indicators are now at danger levels, including the ratio of home prices to incomes, the return rate of rentals, and the ratio of mortgages to GDP, according to Finance Minister Chang.

The minister lists three causes for the high realty prices: speculative capital flows, a supply and demand imbalance and market expectations.

A crisis meeting was held in April 2014 by Taipei City Deputy Mayor Chang Chin-oh and Finance Minister Chang. They discussed plans to deal with high real estate prices. The During the meeting,

Finance Minister Chang proposed the following four solutions: expanding the scope of luxury tax implementation, increasing the real estate holding tax, imposing heavier taxation on non-owner-occupied housing and accelerating the activation progress of public land. Deputy Mayor said that the goal is to lower the capital's housing prices by 30% within two years.

However, former Finance Minister Joseph Lyu warned that measures to curb real estate prices by 30% would be disastrous if implemented in a short period of time. The safer method, according to the former Finance Minister, would be to take a step-by-step approach to ensure market readiness.

Anti-speculative worries peaked in early 2008 when residential property prices rose by more than 10% y-o-y during the first quarter. In April 2008, President Ma Ying-Jeou suggested that his new administration might actually forbid Chinese investors from reselling local property for five years after purchase. In actual fact, the outcome was the luxury tax scheme introduced in July 2011.

## **Low yields in Taiwan**

Gross [rental yields in Taiwan](#) are unusually low, averaging 2.84%. Such low yields are often a sign of an overvalued market.

In April 2009, the highest yielding apartment size in Taipei was a 75 square metre (sq. m.) apartment, which yielded 3.56%, according to the Global Property Guide.

Taiwan has one of the highest home ownership rates in the world at 87%, while social housing accounts for about 5% of households. And the trend towards home ownership is increasing. Because of this, Taiwan's rental market is quite small, around 8% of around seven million households.

## **Taiwan and China**

Relations between mainland China and Taiwan began to thaw after President Ma of the Kuomintang Party assumed office in May 2008. He vowed greater cooperation with mainland China and denounced independence for Taiwan, a sharp contrast to his nationalist but corrupt predecessor, Chen Shui-bian.

In his inaugural address, Ma promised “no independence, no reunification and no war” . In November 2009, several memorandums of agreement between Taiwan and China on financial cooperation were signed. These gestures reassured investors and home buyers alike/

In June 2010, an Economic Cooperation Framework Agreement (ECFA) was signed by Taiwan and China.

Cross-straits trade has nearly doubled during President Ma's term, reaching \$197 billion last year. Tourism has flourished, with nearly three million Chinese tourists a year.

The Taiwanese economy is projected to grow by 2.98% this year, after real GDP growth of 2.09% in 2013, 1.3% in 2012, 4.1% in 2011 and 10.8% in 2010.

## **Modest economic growth, despite low interest rates**

Interest Rates (%)

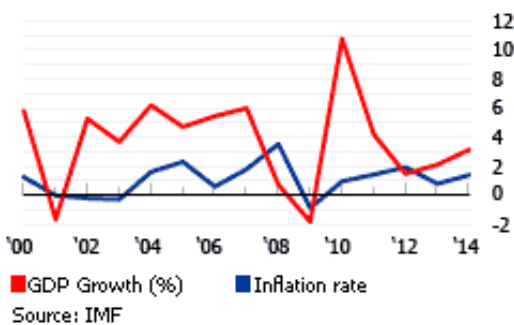


Taiwan's Central Bank has kept its benchmark interest rate unchanged for the 11th straight quarter at 1.875%.

In 2008 Taiwan, heavily dependent on exports, was seriously affected by the US economic recession. The key interest rate was reduced from a five-year peak of 3.625% in August 2008 to the historic low of 1.25% in February 2009.

However the benchmark rate is likely to rise in the first quarter of 2015, warns HSBC Economist John Zhu. The reason? The West's recovery is solidifying, which benefits Taiwan, a dominant manufacturer of consumer electronics

Real GDP Growth & Inflation Rate (%)



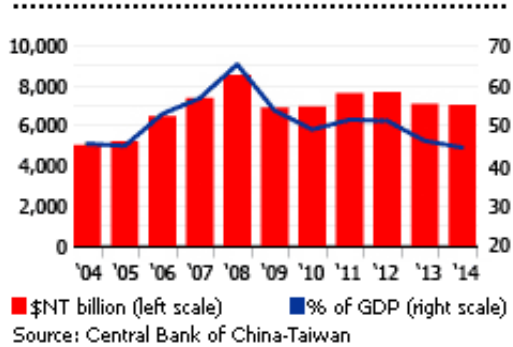
Taiwan's economy grew by 3.14% in the first quarter of 2014 from a year earlier, according to the [Directorate-General of Budgeting, Accounting, and Statistics](#) (DGBAS), up from 1.44% in Q1 2013, and 2.09% for full year 2013.

In April 2014, the country's overall unemployment rate stood at 3.91%.

In 2013, inflation was 0.34%, down from 1.9% in 2012, 1.4% in 2011 and 0.96% in 2010, according to the IMF.

Despite the low interest rate environment, housing loans have decreased since 2009 as a result of macro-prudential measures adopted by the [Central Bank of the Republic of China \(Taiwan\)](#).

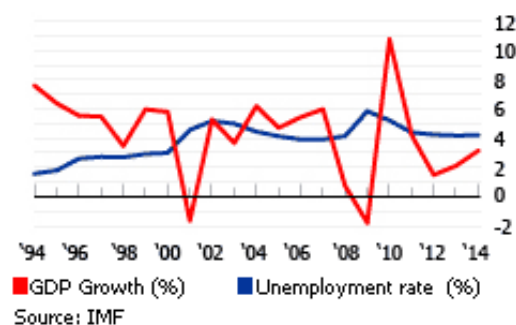
## Loans for House Purchase



Since October 2009, the CBC has actively urged banks to closely monitor mortgage-lending risks. In March 2010 the CBC asked banks to reduce loan-to-value ratios, raise interest rates, and remove grace periods related to loans for investment properties. The Central Bank also conducted a round of targeted examinations related to real estate lending.

One of the main macro-prudential measures was to assign a 100% risk weighting to non-owner occupied residential mortgages. Taiwanese banks' risk weightings for their home mortgage portfolios range from 50% to 80%, compared with 10%-20% for banks in developed markets in the Asia-Pacific that practice the Internal Ratings-Based Approach to credit risk.

## Economic Performance



These measures, according to a report by [Fitch Ratings](#), may cause mortgage lending to shrink further during 2014-2015.

In Q1 2014, loans for house purchase amounted to NT\$ 1.75 trillion, a 1.63% drop from the same period a year ago. Taiwan's mortgage market was around 46% of GDP in 2013.

Most residential mortgages in Taiwan are variable rate mortgages with an average maturity of 25 years.

With the signing of the MOU in November 2009, Chinese banks based in Taiwan can now offer mortgages in the country.

## Old Entries