

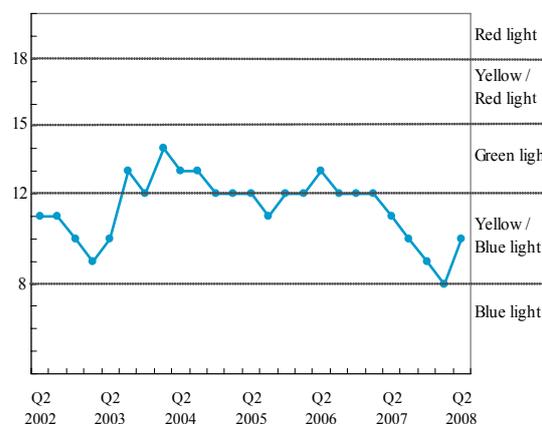
8. Real estate market

Rising prices but falling transaction volumes, coupled with a climbing house vacancy rate and generally tighter lending standards on the part of banks, exerted increasing downward pressure on the real estate market.

Real estate market cooled off

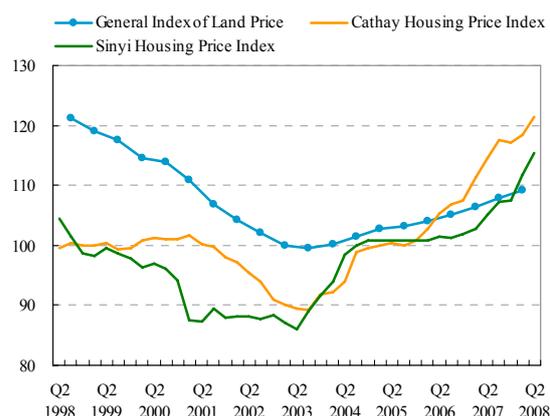
Taiwan's real estate cycle indicator⁶⁷ rose slightly in 2008 Q2 but remained under a yellow/blue light,⁶⁸ representing a slowdown in the real estate market (Chart 8.1). As for real estate cycle composite indicators, the composite index of leading indicators⁶⁹ continued dropping in the first two quarters of 2008, while the composite index of coincident indicators⁷⁰ rose sharply in 2008 Q2 but remained lower than the figure in the same quarter of 2007. Most real estate firms, moreover, expected a downturn in the real estate market for the coming two quarters. All these developments indicated that the real estate market turned to cool off.

Chart 8.1 Real estate cycle indicators



Source: "Quarterly Report of Taiwan Real Estate Cycle Indicators," Architecture and Building Research Institute, MOI.

Chart 8.2 Land and house price indices



Note: Land price index is released semiannually (i.e. March and September).

Sources: MOI, Cathay Real Estate, and Sinyi Real Estate.

⁶⁷ The data of real estate cycle indicators are from "Quarterly Report of Taiwan Real Estate Cycle Indicators," which is issued by the Architecture and Building Research Institute, MOI, and the Taiwan Real Estate Research Center, National Chengchi University, on a quarterly basis.

⁶⁸ The real estate cycle indicators show five outlooks with different colored lights. A red light indicates a "heated market," a yellow/red light indicates a "moderately heated market," a green light indicates a "stable market," a yellow/blue light indicates a "moderately declining market," and a blue light indicates a "sharply declining market."

⁶⁹ The real estate cycle composite indicators comprise six composite indices, i.e. composite indices of leading indicators, coincident indicators, investment indicators, production indicators, trade indicators, and usage indicators. The composite index of leading indicators is made up of the following five components: GDP, money supply, construction sector stock price index, volatility in outstanding construction loans, and consumer price index.

⁷⁰ The composite index of coincident indicators is made up of the following six components: undeveloped land transaction index, base lending rate, construction permit floor space, standard unit price for new construction projects, new loans for property purchases, and housing occupancy rate.

Real estate prices continued rising even as transaction volumes contracted.

Led by rising construction costs and optimism about cross-strait developments, real estate prices continued to climb in the first half of 2008. The Taiwan Area Land Price Index reached 109.13 in March 2008, increasing by 1.19% from the previous September. The Sinyi House Price Index (for existing buildings) registered 115.39 in 2008 Q2, while the Cathay House Price Index (for new construction) stood at 121.49, increasing by 7.44% and 3.76%, respectively, as compared to the end of the previous year (Chart 8.2). The prices for existing buildings rose at a higher pace, mainly because of the expanding demand for cheaper existing buildings and the comparative effect due to the higher prices for new construction. In step with the appreciation of real estate, rental rates also increased steadily, coupled with office building rentals in Taipei City climbing to NT\$1,843 per ping (3.3 square meters) per month in 2008 Q2, up 2.05% from the end of 2007 (Chart 8.3).

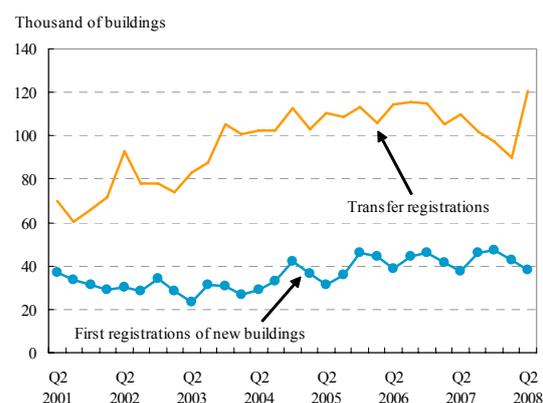
With regard to transactions, transfers of building ownership registered 211,000 units in the first half of 2008, dropping by 2.02% year on year (Chart 8.4). During this period, transaction volumes posted a significant decline in the first quarter but then turned to increase rapidly in the second quarter, stimulated by the presidential election and the lifting of limitations on real estate investments from China. Nevertheless, market activities cooled off again from June as Taiwan's stock market began to slump. In addition, first-time ownership registrations decreased quarter by quarter in the first half of 2008, but the total volume remained at 80,000 units, slightly increasing by 1.63% year on year.

Chart 8.3 Average office rental rate in Taipei



Source: Colliers International "Taipei Office Market Overview."

Chart 8.4 Building ownership registrations

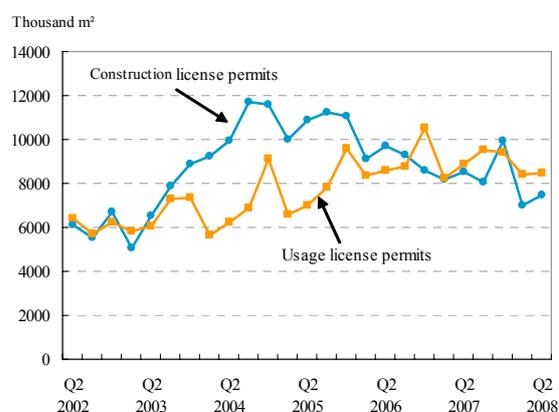


Source: Monthly Bulletin of Interior Statistics, MOI.

New residential property supply expanded, and vacancy rate climbed

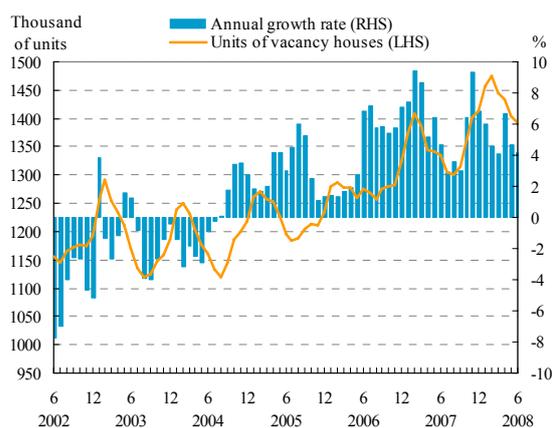
Total floor space, represented by construction license permits, decreased by 13.60% in the first half of 2008, with residential real estate experiencing the biggest drop of 17.06%, showing that builders remained conservative on new construction investment. As to total floor space, represented by usage license permits, the figure decreased by 1.18% year on year (Chart 8.5), mainly due to the contraction by 2.49% for commercial real estate, although residential real estate increased slightly by 0.22%. The total volume of new residential property in the first half of 2008, however, reached 59,000 units, indicating increasing downward pressure on the real estate market as the supply of new residential property continued to expand. In addition, the average number of vacant residential properties⁷¹ continued increasing in the first half of 2008 and reached 1.43 million units, rising by 5.04% year on year (Chart 8.6).

Chart 8.5 Floor space of construction permits and use permits



Source: Monthly Bulletin of Interior Statistics, MOI.

Chart 8.6 Estimated units of vacant houses



Source: Taiwan Power Company.

⁷¹ Vacant residential properties are estimated by the number of units which consume less power than the minimum service charge from the Taiwan Power Company.

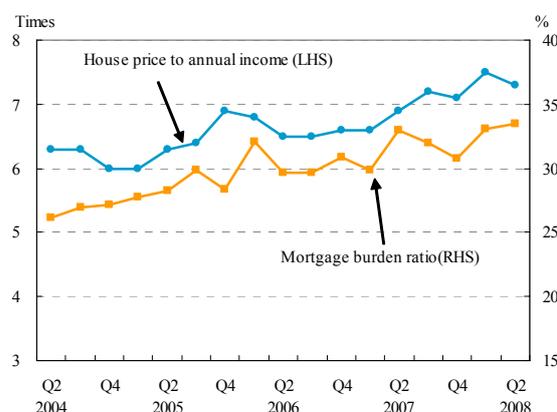
Higher house price to income ratio increased the burden for homebuyers

The rising house prices brought a heavier cost burden for homebuyers. The average mortgage burden ratio and the house price to income ratio in 2008 Q2 reached 33.5% and 7.3 times, respectively, both higher than the figures for the same period of the previous year (Chart 8.7). The cost burden was heaviest in Taipei City, where the mortgage burden ratio and the price to income ratio stood at 41.9% and 8.9 times, respectively. Additionally, the composite score for house price confidence⁷² rose sharply to reach above 120 points in 2008 Q1, supported by optimism over the presidential election, but then fell back to below 90 points in Q2 as the global stock market slumped and domestic economic performance was worse than expected. This reflected the trend that homebuyers were becoming more conservative about future house price movements (Chart 8.8).

Growth in real estate lending declined significantly, while mortgage interest rates were expected to decline

The outstanding real estate-related loans granted by banks⁷³ continued to grow in the first half of 2008, but at a much slower pace. In June, year-on-year growth in loans for house-purchases and house-refurbishments declined to 4.47%, and construction loans dropped dramatically to 8.91% (Chart 8.9), mainly due to a more cautious lending stance for real estate loans by banks

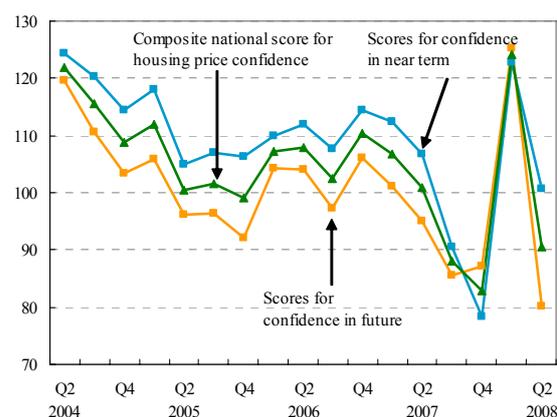
Chart 8.7 House price to income ratio & mortgage burden ratio



Note: Mortgage burden ratio = monthly mortgage expenditure / household monthly income.

Source: "Taiwan Housing Demand Survey Report," Council for Economic Planning and Development.

Chart 8.8 Scores for house price confidence



Source: "Taiwan Housing Demand Survey Report," Council for Economic Planning and Development.

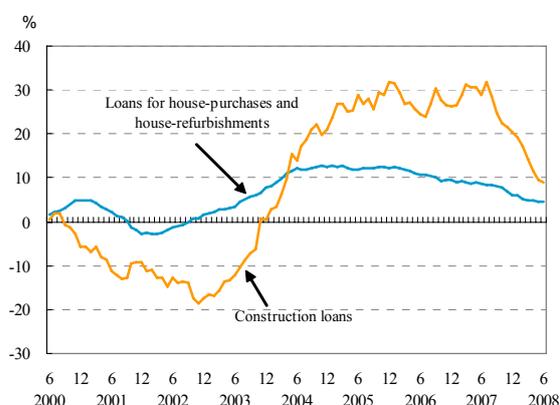
⁷² The house price confidence scores, released by the Council for Economic Planning and Development, range from 0 to 200. A score of 100 indicates that the number of people expecting prices to rise is equal to the number of those expecting the opposite, while a score above 100 indicates that more people expect prices to rise, and vice-versa. Scores for confidence in near-term and future prices refer to expectations for prices three months and one year in the future, respectively.

⁷³ The term "bank" in this section includes domestic banks (including medium business banks) and the local branches of foreign banks.

and a shrinking loan-to-value ratio for housing loans. In 2008 Q2, the housing market turned to warm up after the presidential election, while the monthly total of new mortgage loans granted by Taiwan's top five banks⁷⁴ increased markedly and reached NT\$49.9 billion in June. Mortgage interest rates rose steadily, reflecting the CBC's rate hiked and reached 2.80% in June 2008. Nevertheless, they were expected to decline in the near future as the CBC began to cut interest rates from September 2008 (Chart 8.10).

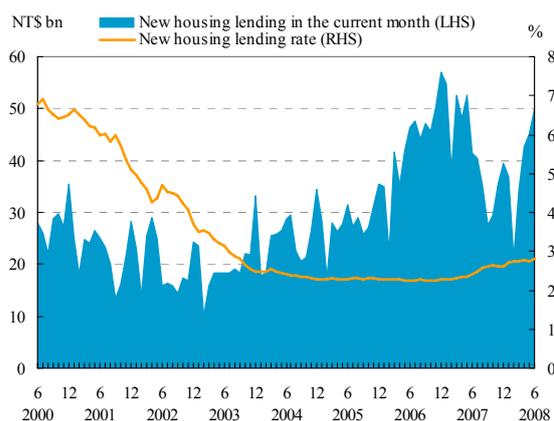
The asset quality of real estate-related loans in domestic banks remained satisfactory, with their average NPL ratio remaining low at 1.43% as of June 2008. Even though banks adopted stricter lending standards for real estate-related loans, the default risk in these loans might have increased, as a result of a heavier debt repayment pressure for borrowers caused by the cooling real estate market, expiring interest-only periods of high loan-to-value mortgages, the rising unemployment rate, and slowing domestic economic growth.

Chart 8.9 Annual growth in housing and construction loans



Source: CBC.

Chart 8.10 New mortgage loans – amount & interest rate



Source: CBC.

⁷⁴ The "top five" banks refer to the Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank of Taiwan, Hua Nan Commercial Bank, and Chang Hwa Commercial Bank.