

### 3.3 Real estate market

Real estate transaction volume expanded from 2009 Q2 and was concentrated in Taipei City and Taipei County. The price for existing housing reached a new high, and the price for newly constructed housing almost reached a historical high. The debt burden for property purchasers became heavier even though vacancy rates still remained high.

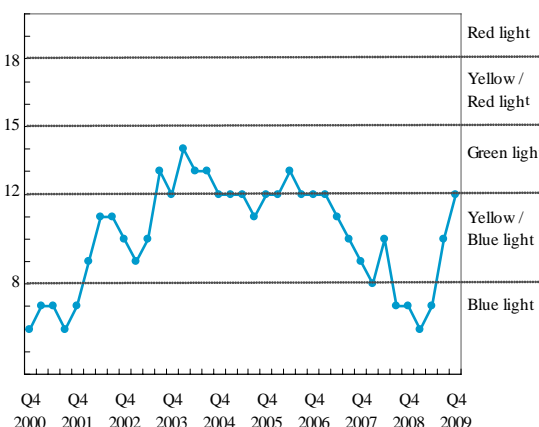
#### Real estate market rebounded

Taiwan’s real estate cycle indicators<sup>35</sup> remained under a blue light, reflecting sluggish market, in the first half of 2009. However, the real estate market rebounded gradually, and appeared under a green light, reflecting stable market, in 2009 Q4 (Chart 3.15). The composite indexes of leading indicators<sup>36</sup> and coincident indicators<sup>37</sup> also displayed upward trends and increased by 0.6% and 4.42%, respectively, year on year in 2009 Q4, adding further evidence that the real estate market rebound was strengthening.

#### House prices rose as transaction volume expanded

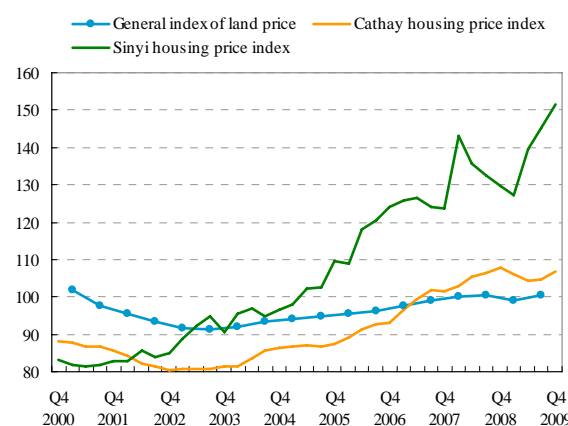
In general, land prices remained stable in metropolitan areas as the general index of land prices stood at 100.38 in September 2009, a slight year-on-year decline of 0.13%. Housing prices for existing buildings increased dramatically from 2009 Q2 as the Sinyi housing price index (for existing

Chart 3.15 Real estate cycle indicators



Source: “Quarterly Report of Taiwan Real Estate Cycle Indicators,” Architecture and Building Research Institute, Ministry of the Interior (MOI).

Chart 3.16 Land and house price indices



Note: General index of land price is released semiannually (i.e. in March and September).  
Sources: MOI, Cathay Real Estate, and Sinyi Real Estate Inc.

<sup>35</sup> The real estate cycle indicators show five types of market 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 “sluggish market.”

<sup>36</sup> The composite index of leading indicators is made up of the following five components: GDP, monetary aggregate M2, construction sector stock price index, volatility in outstanding construction loans, and consumer price index.

<sup>37</sup> 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.

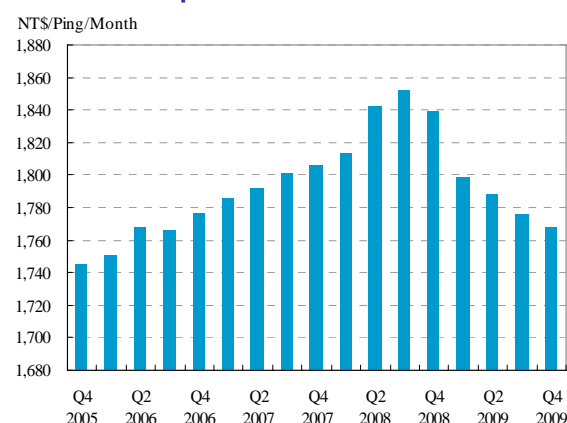
building sales) registered 151.7 in Q4, increasing by 16.81% year on year. Housing prices in Taipei City, Taipei County, and Taichung City increased significantly, with each increasing more than 20%. The Cathay housing price index (for new housing construction) declined for the first two quarters of 2009, then increased in Q3, and reached a near-historical high of 106.92 in Q4. However, the index slightly decreased by 0.78% year on year (Chart 3.16). For metropolitan areas, prices for newly constructed housing in Taipei City rebounded moderately, while prices in Taichung, Tainan and Kaohsiung fell in Q4. The average office rental rate in Taipei City, impacted by the economic slowdown, declined in the first half of 2009, and continued to decline in the second half of the year even as the economy recovered. The average office rental rate dropped to NT\$1,768 per ping (approximately 3.3 square meters) per month in Q4, a year-on-year decline of 3.86% (Chart 3.17).

As for transactions in the real estate market, transaction volume expanded moderately from 2009 Q2 as the number of building ownership transfers registered 388 thousand units for the whole year of 2009, a year-on-year increase of 2.38%, showing that transactions in the real estate market had warmed up (Chart 3.18). Nevertheless, the real estate market cooled down slightly during the first two months of 2010. The reasons underlying this were that housing prices remained high and the government adopted some targeted prudential measures aimed at cooling down the real estate market.

**The supply of new property shrank but residential property vacancies remained high**

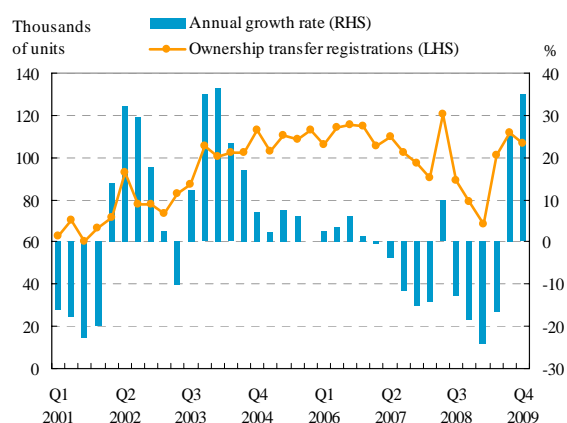
In 2009, the total floor space of construction license permits steadily shrank in the first half of the year. Despite an increase in Q3, there was a substantial decline in new construction for the year as a whole, with the total floor space of construction decreasing by 23.87% year on year. As a result of the shrinkage of

**Chart 3.17 Average office rental rate in Taipei**



Source: Colliers International "Taipei Office Market Overview."

**Chart 3.18 Building ownership registrations**



Source: Monthly Bulletin of Interior Statistics, MOI.

new construction, the supply of new property contracted dramatically in 2009. Total floor space of usage permits decreased by 18.88% year on year (Chart 3.19), with the largest decline of 26.56% for residential property. Total supply of new residential property in 2009 registered 76 thousand units, representing a year-on-year contraction of 31.76%.

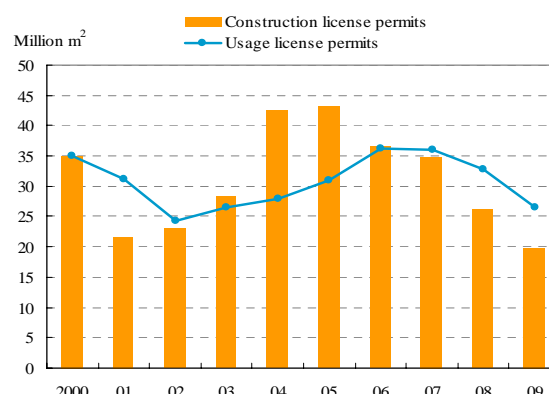
In addition, the average number of vacant residential properties was about 1,458 thousand units in 2009, increasing by 26 thousand units, or 1.79%, compared to the previous year. For the first two months of 2010, the average number of vacant residential properties climbed to 1,530 thousand units, a slight year-on-year increase of 1.38% (Chart 3.20).

### **Mortgage burden became heavier, especially in Taipei City**

As a consequence of climbing housing prices and limited real income growth, the average house price to income ratio for the five metropolitan areas<sup>38</sup> reached 7.09 in the second half of 2009 as the average mortgage burden ratio registered 28.23%, both higher than those in the first half of the year. Among the metropolitan areas, the mortgage burden was heaviest in Taipei City as the housing price to income ratio and the mortgage burden ratio reached 9.06 and 36.12%, respectively (Chart 3.21).

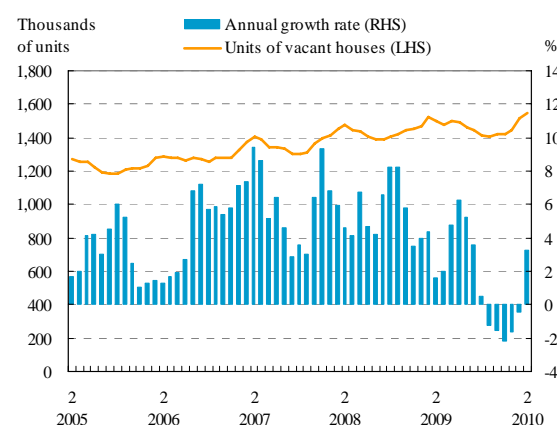
<sup>38</sup> Five metropolitan areas refers to Taipei City, Taipei County, Taoyuan and Hsinchu City and County, Taichung City and County and Kaohsiung City and County.

**Chart 3.19 Floor space of construction license permits and usage license permits**



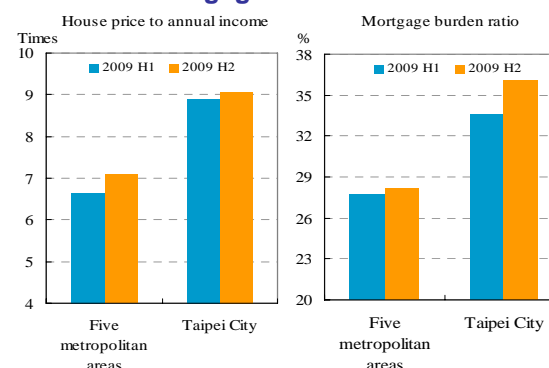
Source: Monthly Bulletin of Interior Statistics, MOI.

**Chart 3.20 Estimated units of vacant houses**



Source: Taiwan Power Company.

**Chart 3.21 House price to income ratio and mortgage burden ratio**



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

Source: "Taiwan Housing Demand Survey Report," MOI.

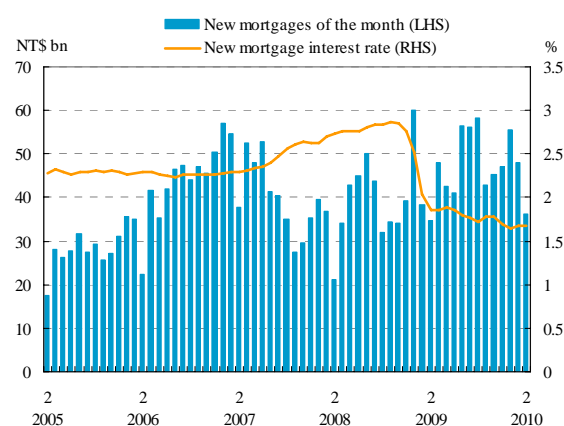
### **Real estate-related loans turned to grow, while mortgage interest rates rebounded slightly after a continued decline**

New loans for house purchases granted by the five largest banks expanded to NT\$55.5 billion in December 2009, but contracted in January and February 2010 (Chart 3.22) before recovering to NT\$51.7 billion in March. The interest rate for new mortgages gradually declined and registered 1.64% in December 2009, slightly increased to 1.67% in February 2010 (Chart 3.22) and dropped back to 1.64% in March.

Outstanding loans for house purchases and house refurbishments granted by banks<sup>39</sup> continued to expand to NT\$5.71 trillion at the end of 2009, and further increased by 0.13% for the first two months of 2010 with an annual growth rate of 4.35%. Construction loans kept shrinking for the first three quarters of 2009 but climbed to NT\$1.03 trillion as of the end of December, and further increased by 0.91% for the first two months of 2010 with a negative annual growth of -2.55% (Chart 3.23).

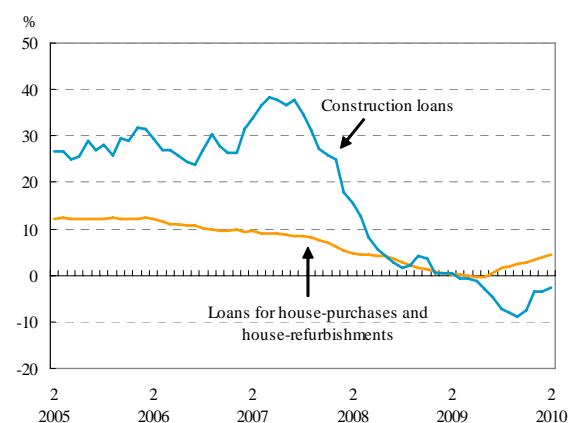
In view of high housing prices in certain areas and excessive concentration in real estate-related loans, the CBC has adopted a series of targeted prudential measures since October 2009 to further enhance financial stability, including: requiring banks to enhance their risk management of real estate-related loans; signaling that the CBC will take asset prices into account in its monetary policy; requesting the Bankers Association of the Republic of China to remind borrowers regarding the risk of repayment and that effective interest rates will increase as soon as grace periods expire; as well as urging banks to strengthen risk management on loans to real estate investors

**Chart 3.22 New mortgages – amount and interest rate**



Source: CBC.

**Chart 3.23 Annual growth rate of real estate-related loans**



Source: CBC.

<sup>39</sup> Refers to domestic banks and the local branches of foreign banks.

in certain areas. The policies have delivered positive effects with the cooperation of banks through adjusting their mortgage policies regarding loan to value ratios, interest rates and grace periods.

In addition to the above measures, the Council for Economic Planning and Development, Executive Yuan, invited participants from industries, academia and relevant government agencies to issue the Real Estate Market Enhancement Program (Box 1) to enhance the fundamentals of the real estate market and the stability of society and the economy, and to meet the basic housing needs for low- and middle-income families as well as salary earners. The Program was approved by the Executive Yuan on 22 April 2010. Relevant government agencies were urged to implement related measures under the Program in an aggressive and effective manner.

**Box 1****The Real Estate Market Enhancement Program**

The Real Estate Market Enhancement Program proposed by the Council for Economic Planning and Development, Executive Yuan, in April 2010, was aimed at stabilizing public confidence and the property market, taking care of the lower socioeconomic class, and meeting the basic housing needs of low- and middle-income groups as well as salary earners. The measures implemented under the Program were based on the following six principles:

1. Tailor measures to the needs of localities and populations;
2. Be moderate and effective;
3. Be sound and stable;
4. Pursue social fairness;
5. Be transparent; and
6. Include relevant supplementary measures.

With these prerequisites, 21 principles and 44 measures were adopted for the Program, where they were grouped into six categories, including:

1. Balancing the supply of and demand for residential property in Taipei metropolitan areas;
2. Assisting low- and middle-income families as well as salary earners in increasing their ability to purchase or rent residential properties;
3. Providing residential property information;
4. Strengthening risk management of real estate-related loans;
5. Pursuing social fairness; and
6. Including relevant supplementary policy measures.

In what follows, categories 3 and 4 related to real estate information disclosure and finance and part of category 5 related to house and land taxation are listed in Table B1.1.

**Table B1.1 Measures relating to real estate information, finance and taxation**

Issues	Principles	Measures
<b>I. Providing residential property information</b>	1. Consolidating and periodically disclosing residential property information.	Enhancing the consolidation of the following sources of information: 1. E-house servicing internet system, MOI; 2. Housing Statistics, MOI; 3. Residential property internet system, MOI; 4. Real estate prices internet system, MOI; and 5. Real estate foreclosure information.

	2. Disclosing housing prices by the Joint Credit Information Center (JCIC).	Assisting the JCIC in setting up a real estate information platform to provide the acquired information to the MOI for further integration and announcement.
	3. Urging real estate brokers to disclose real estate transaction information.	1. Accomplishing the revision of the Real Estate Broking Management Act; 2. Implementing real estate brokers' trading price reporting systems; and 3. Regulating real estate brokers' qualifications, and their rights and obligations.
	4. Setting up an agency for disclosing residential property information on a regular basis.	Evaluating the costs and benefits of setting up a real estate agency for disclosing relevant information on a regular basis.
	5. Establishing safe and protection mechanisms for real estate transactions.	1. Announcing standard contracts for real estate transactions; 2. Announcing revised Standard Contract for Presale House to improve the transparency of presale house transactions; 3. Establishing a presale house buyers' protection mechanism; and 4. Promoting standard contracts for house leasing available at convenience stores.
<b>II. Strengthening risk management of real estate-related loans</b>	1. Enhancing financial supervision on real estate-related loans.	1. Enhancing on-site examination of real estate-related loans; 2. Enhancing supervisory review of capital adequacy; 3. Promoting real estate supervisory policies; 4. Improving the transparency of real estate valuation; and 5. Requiring that mortgage contracts should disclose relevant risks.
	2. Urging banks to strengthen their risk management of loans for specific mortgage borrowers.	Urging banks to take differential credit terms such as loan to value ratios, interest rates and grace periods on mortgages for investments purposes.
<b>III. Pursuing social fairness</b>	1. Reviewing the current house tax system.	1. Inviting representatives from city and county governments to review the current house tax system. 2. Authorizing city and county governments to review and appropriately adjust government announced house values for those areas exhibiting abnormal property price fluctuations in short periods of time.
	2. Reviewing the current land tax system.	1. Inviting representatives from city and county governments to review the current land tax system. 2. Authorizing city and county governments to review and appropriately adjust government announced land values for those areas exhibiting abnormal property price fluctuations in short periods of time.

Source: The Real Estate Enhancement Program, issued by the Council for Economic Planning and Development in April 2010.