

8. Real estate market

Rising prices but falling transaction volumes in the real estate market, coupled with a climbing vacancy rate and generally tighter lending standards on the part of banks, are exerting increased downward pressure on the market. These movements in the fundamentals, however, are not at all in line with optimistic expectations for the market after the national election of 2008. Future developments bear close watching.

Real estate market cooled off

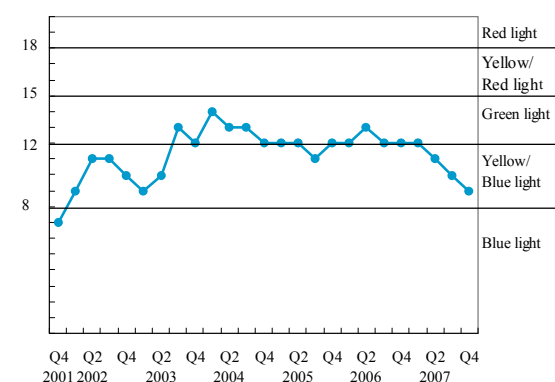
According to the fourth quarter 2007 edition of the “Quarterly Report of Taiwan Real Estate Cycle Indicators,” Taiwan’s real estate cycle indicators⁶⁷ were “yellow/blue” for three consecutive quarters beginning in 2007 Q2 (Chart 8.1). Among the real estate cycle composite indicators, moreover, the composite index of leading indicators⁶⁸ was down 3.68% from the previous quarter, and the composite index of coincident indicators⁶⁹ fell slightly by 0.98%. This reflects a slowdown in real estate market growth.

However, many real estate-related firms were expecting a big upswing after the 2008 presidential election, an indication that the market expectations were disconnected from movements in the fundamentals. There is still a need to cautiously monitor the future direction of the market.

Real estate prices continued rising even as transaction volume fell

Real estate prices continued to climb in 2007. The Taiwan Area Land Price Index hit 107.85 in September 2007, the highest level since 2001, rising by 2.63% year on year, with the fastest growth in Taipei City and Taichung City. In addition, the Sinyi housing price index

Chart 8.1 Real estate cycle indicators

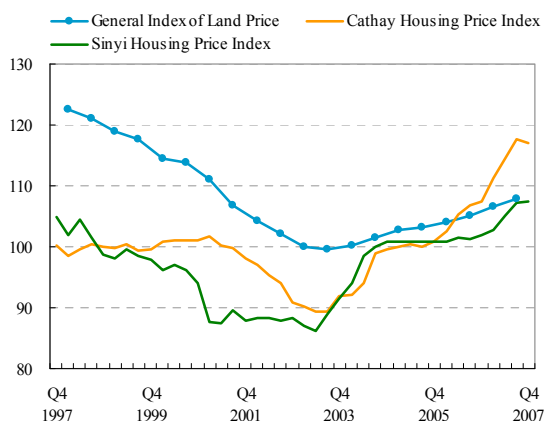


Source: “Quarterly Report of Taiwan Real Estate Cycle Indicators,” Architecture and Building Research Institute, MOI.

⁶⁷ The real estate cycle indicators show five different outlooks. A red light indicates a “very 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.”

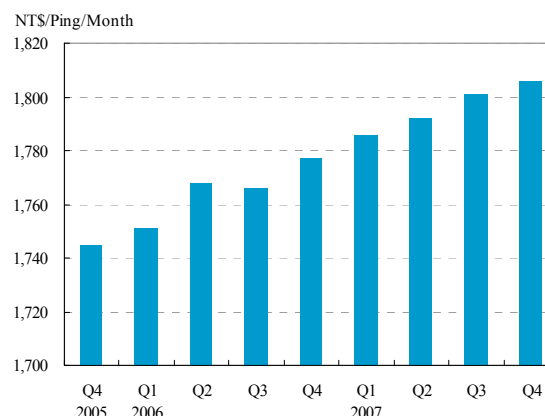
⁶⁸ The composite index of leading indicators is made up of the following five components: GDP, money supply, construction sector stock price index, volatility in outstanding construction loans, and consumer price index.

⁶⁹ 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.

Chart 8.2 Land and housing price indices

Note: Land price index is released each half year (i.e. March and September).

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

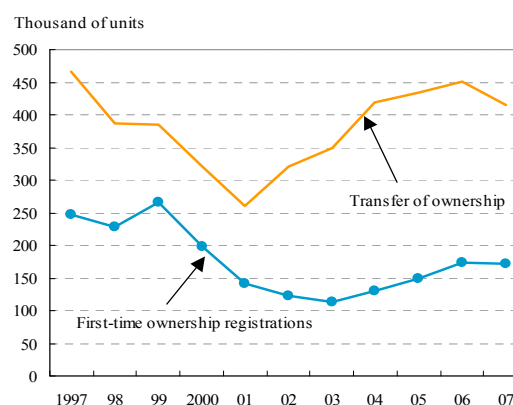
Chart 8.3 Average office rental rates in Taipei

Source: Colliers International "Taipei Office Market Overview."

(for existing buildings) was at 107.4 as of the end of 2007, up 5.45% year on year, with the sharpest increase coming in the greater Taichung metropolitan area, while the Cathay housing price index (for new construction) stood at 117.09, up 8.87% year on year (Chart 8.2), with Taipei City showing a marked 20% increase. In 2007 Q4, however, the prices of new and existing buildings rose at a slower pace, and it turned toward a buyer's market as sellers become more flexible about price concessions.

Rental rates have also been going up steadily in step with appreciating real estate prices. Analyzed by the rental movements, a component of the consumer price index, the average rental price rose by 0.2% year on year in 2007. Office building rentals in Taipei City have also continued to climb, reaching an average of NT\$1,806 per ping (3.3 square meters) per month in 2007 Q4, up 1.6% year on year (Chart 8.3).

With regard to transactions, transfers of ownership were registered on 415,000 units in 2007, dropping by 7.90% year on year and marking the first decline in property transactions since 2002. The drop was due mainly to continuing housing price appreciation, tighter real estate lending policies at banks, and the decision of many potential buyers to wait on the sidelines until after the elections of 2008. In addition, there were 172,000 first-time

Chart 8.4 Building ownership registrations

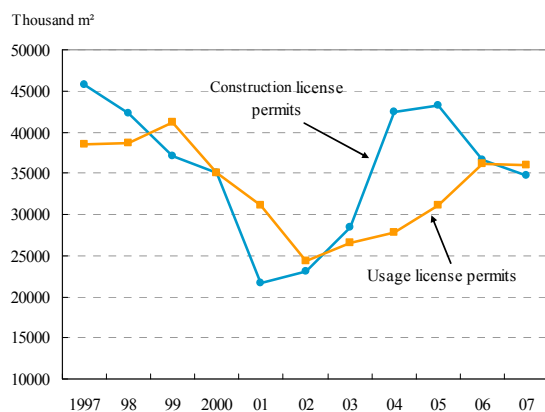
Source: Monthly Bulletin of Interior Statistics, MOI.

ownership registrations in 2007, down 0.67% from the year before (Chart 8.4), showing that market activity has cooled off.

New residential property supply expanded, and vacancy rate climbed

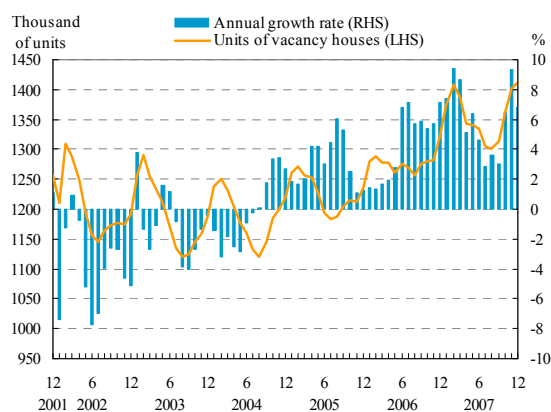
Total floor area represented by construction license permits posted negative growth in 2006, and then fell another 5.40% in 2007, with declines coming in both residential and commercial real estate, showing that builders grew cautious about investing in new constructions. Total floor area represented by usage license permits for newly completed buildings increased annually from 2003 before dipping 0.41% in 2007 (Chart 8.5). The decline was mainly accounted for by a 9.9% drop in commercial real estate in spite of a 3.46% growth in housing. The aggregate supply of newly completed housing in 2007 was 130,000 units, the highest figure since 1997, reflecting a rising supply of newly completed housing. In addition, the average number of vacant residential properties in 2007, estimated by the number of units consuming less power than the minimum service charge from the Taiwan Power Company, was 1.357 million units, up 6.2% from the previous year (Chart 8.6), and the average number for the first quarter of 2008 further expanded to 1.458 million units, showing that housing vacancy rates continue to rise.

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



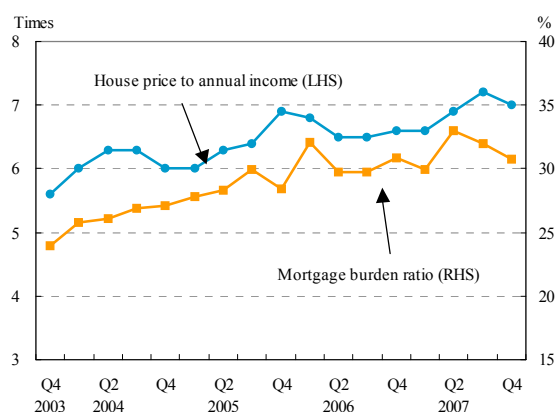
Source: Taiwan Power Company.

House price to income ratio rose, cost burden for home buyers grew

Rising housing prices in 2007 brought a heavier cost burden for home buyers. The average mortgage burden ratio and price to income ratio hit all-time highs of 33% and 7.2 times in Q2 and Q3, then fell back slightly to 30.8% and 7.0 times in Q4 (Chart 8.7) due to a rising

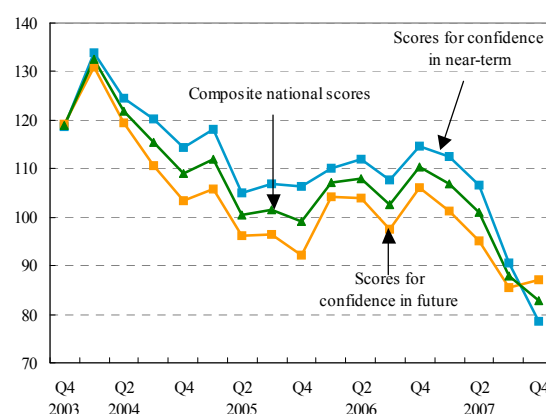
number of lower priced homes purchased by the interviewees. These figures were still quite high, however. The cost burden was heaviest in Taipei City, where the mortgage burden ratio and price to income ratio stood at 36.5% and 8.6 times, respectively. In the meantime, the “Taiwan Housing Demand Survey” issued by the Council for Economic Planning and Development showed that the composite national score for housing price confidence declined throughout 2007, dropping below 100 points in Q3 and continuing down to 82.8 points in Q4. Scores for confidence in near-term and future housing prices were also below 100 points⁷⁰ (Chart 8.8), indicating that market confidence in future housing prices is declining.

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 housing price confidence



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

Growth in real estate lending declined gradually, while mortgage interest rates rose slowly

The outstanding balance of real estate-related loans granted by banks⁷¹ continued to grow in 2007, though at a slower pace. Year-on-year growth in loans for house purchases and house-refurbishments declined to a mere 6.17% in December 2007, and year-on-year growth in construction loans began decelerating in August, reaching 20.30% by December (Chart 8.9). The total amount of new housing lending by Taiwan’s top five banks⁷² peaked at NT\$57.0 billion in December 2006 before declining to just NT\$39.4 billion in December 2007 (Chart 8.10) and NT\$34.2 billion in March 2008, mainly due to stricter standards in real

⁷⁰ Scores for housing price confidence range from 0 to 200, with a score of 100 indicating that the number of people expecting prices to rise is equal to the number of those expecting the opposite. 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.

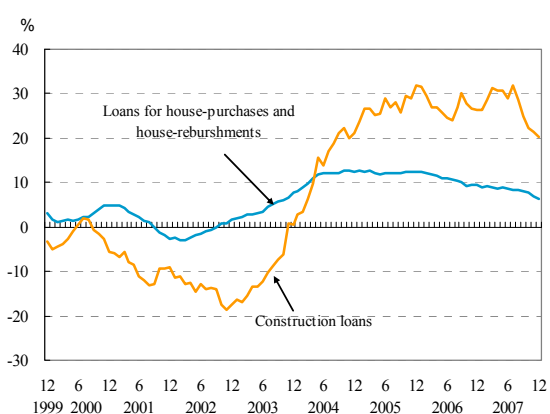
⁷¹ The term “bank” in this section includes domestic banks (including medium business banks) and the local branches of foreign banks.

⁷² 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.

estate lending and a shrinking average loan-to-value ratio for housing loans. In addition, the ratio of the outstanding balance of house purchases and construction loans⁷³ to the sum of total deposits and bank debentures of domestic banks averaged 23.35% at the end of 2007, up from the 19.98% in the previous year. The ratio exceeded 25% at 16 banks (or 15 when the Land Bank of Taiwan is excluded because of its special status⁷⁴), which was near the statutory limit of 30%.

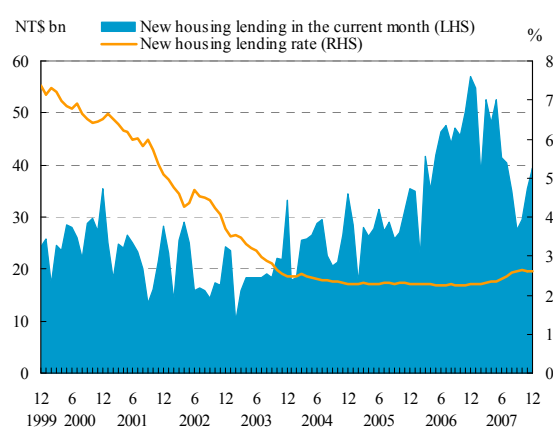
As for cost of financing, the mortgage interest rates charged by Taiwan's top five banks⁷⁵ climbed slowly in 2007, reaching an average of 2.62% (Chart 8.10) by December 2007 and increasing further to 2.76% in March 2008. In the meantime, the average NPL ratio for housing loans by financial institutions⁷⁶ stood at 1.54% at the end of 2007, down 0.39 percentage points year on year, an indication that credit quality remains satisfactory. However, a cooling real estate market, together with increasing repayment pressures on high loan-to-value mortgages granted in recent years, could undermine the future credit quality of real estate loans.

Chart 8.9 Annual growth in housing and construction loans



Source: CBC.

Chart 8.10 New mortgage loans – amounts & interest rates



Source: CBC.

⁷³ The term “outstanding balance of house-purchase loans and construction loans” refers to the total amount of such loans meeting the restrictions of Article 72-2 of the Banking Act.

⁷⁴ The Land Bank of Taiwan specializes in real estate credit, and is not subject to the restrictions of Article 72-2 of the Banking Act regarding the provision of residential and commercial real estate construction loans.

⁷⁵ See Note 72.

⁷⁶ The term “financial institution” herein includes domestic banks, the local branches of foreign banks, community financial institutions, life insurers, trust and investment companies, and securities finance companies. The data is from the Joint Credit Information Center.