

Taiwan Housing Market

Taiwan is one of the most expensive cities in the world to buy a house. A rule of thumb in housing markets is that the median price of a house should be about 3-4 times the median annual income of a household. Taiwan's index is about 10. As a recent article wrote

"The housing price-to-income ratio for the third quarter of 2016 in Taiwan hit a record high of 9.4, with **Taipei posting the highest ratio at 15.5, followed by 12.7 in New Taipei**. The ratio in Taipei is far higher than 4.5-5 in Singapore and Tokyo and approaching the 18.1 recorded in Hong Kong. Hong Kong had the least affordable housing compared with metropolitan markets around the world, Wang said, citing data provided by the Ministry of the Interior." (my emphasis) [See here](#)

Here is what a recent [\(2015\) Brookings](#) article says

How expensive is the housing in Taipei? The popular calculation of “fifteen years of not eating or drinking to own a place” is based on the ratio of median housing price to median annual household income, which rose from 8.9 to 15.7 between 2005 and 2014. According to a similar survey done by Demographia International Housing Affordability Survey, the ratio is 17 for Hong Kong and 10.6 for Vancouver, two of the most unaffordable cities in the world, with London at 8.5 and San Francisco at 9.2. **This makes Taipei among the most unaffordable cities in the world.** The average household in Taipei has to pay two-thirds of its income for a mortgage, which is far above 30 percent, which is deemed the affordable limit. (my emphasis)

What has caused this extreme rise in housing prices?

1. extremely low interest rates
2. low tax rates on gains
3. high LTV
4. Mainland money
5. Overseas Chinese funds inflow

6. speculative expectations

Market interest rates on housing loans have continuously risen since 2010, despite steady policy rates. In 2014, the average rate for housing loans rose to 1.963%, up from 1.948% in 2013, 1.894% in 2012, 1.834% in 2011, and 1.690% in 2010.

In August 2015, the average interest rate for housing loans stood at 1.974%, up from 1.963% a year earlier. Notwithstanding, interest rates for housing loans in Taiwan are among the lowest in the region.

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). That's because 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.**

What can the government do to mitigate negative effects? The best ideas so far have actually come from different participants of the housing movement rather than from the government and are focused on tax reform, rental housing market regulation, and increased social rental housing. These ideas, however, are unlikely to be fully embraced by the central and municipal governments or policymakers.

Additionally, housing in Taiwan is a speculative instrument, which can be seen via the combination of the "Three Highs": high homeownership rates, high vacancy rates, and high housing prices. Taiwan's homeownership rate reached 83.9 percent in 2010, against a vacancy rate of 19.3 percent. In Taipei City, home ownership was lower at 75.2 percent but the vacancy rate of 13.4 percent was still unusually high. The percentage of vacant housing is striking, as well as its skyrocketing value. These three contradictory features can co-exist because of very low taxes. Low housing transaction taxes encourages investing in housing, while low property tax reduces the cost

of keeping property. It is quite astonishing that the annual tax on owning a car is much higher than the tax on owning property. As a result, housing can be treated as goods in storage.

Tax reforms are necessary to change the existing land and housing tax systems, which are based on estimated rather than real housing values. This greatly underestimates taxes on trading and holding property. The high housing prices and booming housing market, therefore, are not able to contribute to a large proportion of tax revenue. Tax reform is a difficult task to undertake because private developers have been influential in politics either as donors in campaigns. The property tax plan recently passed by Taiwan's Legislative Yuan is still problematic because it leaves room for tax avoidance. For example, capital gains of four million NT dollars or less will be not be taxed. In some cases, taxes are even lower than before. This process follows the typical pattern of policy reforms in Taiwan. The government and the legislators make some changes in response to the public, but the reforms are restrained due to continued protection of private developers' interests.

Taiwan's housing system is built upon the principles of a free market system. Rebecca L.H. Chiu, a professor in the Centre of Urban Studies and Urban Planning at the University of Hong Kong, noted that Taiwan has the freest housing system in East Asia. The government has played a passive role both as a supplier and regulator of housing. The housing provided by government-funded housing projects consists of only 5.3 percent of all housing stock, and this housing is primarily to own, not rent. Promoting homeownership has been the dominant goal of housing policies because placing housing in the private sector can reduce government responsibility. Since the 1990s, low-interest mortgages have been the primary mechanism for government housing regulation and only a small, limited budget is available for rent subsidies.

Regulating the rental housing market is challenging because most rental operations are small in scale. According to Global Property Guide, gross rental yield in Taiwan is only 1.57 percent, which means the return from rental investment is very low. The small market and low return hinder the establishment of professional rental companies. The efforts to change the rental housing from a primarily informal market to formal market demands various considerations, such as how to improve the quality of rental housing and not discourage private owners from releasing rental housing. Regulation will need to include housing tax reforms to give incentives for landlords to rent and discourage owners from holding onto vacant housing.

The percentage of public rental housing is strikingly low, at only about 0.08 percent of all housing stock. According to a survey by the Ministry of Interior in 2011, 86.8 percent of the people support the concept of social rental housing. Even private developers support social housing because they believe there should be a separation between for-profit and not-for-profit housing, and the latter should be taken care by the government. The challenge is making this concept into a reality. Most neighborhoods do not welcome social housing projects and public urban lands are increasingly scarce, which makes finding housing locations difficult.

Regulating the rental housing market requires stronger public sector involvement in coordination and management. When the construction of public housing stopped in the early 2000s, housing offices were also impacted. Capacity has been further constrained by increasing deficits due to slow economic growth and low taxes. Taiwan's tax revenue was only 12.8 percent of GDP in 2012, which is much lower than Singapore (14.1 percent), Japan (16.8 percent), South Korea (20.2 percent), or the OECD countries (average 33.8 percent in 2010).

Although new housing policies are facing many political and financial challenges, social discontent keeps pushing the government and policymakers to act. Housing inequality has become a political issue that mayors in major cities and the president have to enact policies to improve the situation. Some people in Taiwan think the housing market has been inflating and the problem will resolve naturally once the bubble busts. Others worry that Taiwan is following Japan's path, with its "lost decades" of economic stagnation. It is questionable whether or when the bubble will burst, because the speculative investments come from excess domestic capital, savings, and a continuing influx of foreign capital. Tax reform will cool down the speculation, but prices will fall slowly at best. No matter how high or low housing prices get, there will always be a demand for low-income rental housing, which thus far has been neglected by housing policies. The current 0.08 percent share provided by social rental housing is far too low to take care of social needs.