

Has Taiwan's Housing Market Become A Bubble?

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Since the pandemic, Taiwan's economic performance has been remarkable, and housing prices have soared. According to the Ministry of the Interior Housing Price Index, the Cathay Housing Price Index, and the Sinyi Housing Price Index, the increase over the past four years has surpassed the cumulative rise of the eight years before the pandemic. Moreover, recent media reports and government data suggest that the housing market is likely to maintain a positive growth rate throughout 2024, marking the fifth consecutive year of rising housing prices in Taiwan.

The speed of income growth for the household has clearly not kept pace with the surge in housing prices, raising concerns about whether Taiwan's housing market has become a bubble. This can be evaluated by examining transaction frequency and changes in the public's repayment ability. Firstly, transaction frequency is observed by comparing the current transaction volume to the ratio of residential stock. In 2011 and 2013, the national transaction volume reached 361,700 and 371,900 cases, accounting for 4.42% and 4.47% of the national residential stock, marking the peak since 2011. Subsequently, due to various government measures to curb the housing market, transactions cooled down. For example, the implementation of the "Consolidated Housing and Land Tax" in 2016 significantly reduced property demand, making it the slowest year for transactions since 2011, with a national transaction volume of only 245,500 cases, a nearly one-third drop from 2013, accounting for only 2.85% of the stock.

Afterward, housing market transactions gradually recovered, maintaining over 300,000 cases annually from 2020 to 2023. The trend of increasing transaction volume is evident, and barring any unforeseen circumstances, 2024 is expected to reach a new high since 2011. In the first quarter of 2024 alone, the national housing transaction volume reached 132,100 cases. If this growth rate continues from the second to the fourth quarter, the annual transaction volume for 2024 will exceed 400,000 cases, possibly reaching 500,000 cases, surpassing the previous high of 371,900 cases by more than 100,000. This

indicates a potential overheating of the housing market in 2024, particularly in the six major municipalities, where Taoyuan, Taichung, Tainan, and Kaohsiung are notably more active than Taipei and New Taipei, warranting extra attention.

From the perspective of homebuyers' repayment ability, this can be measured by the ratio of household unit ownership costs (mortgage amount and loan interest expenses) to repayment ability (household disposable income). Since 2011, this ratio has averaged between 42% and 50% nationally. The highest burden years were 2014 and 2015, approaching 50%, but it has declined annually since then, generally maintaining around 45% post-2020. Among the municipalities, Taipei City has the highest ratio at about 60%, New Taipei City ranges between 47% and 49%, Taoyuan is below 35%, and Taichung is around 40%. In the southern municipalities, Tainan has maintained above 40% post-2020, peaking at 46.25% in 2021, while Kaohsiung has exceeded 36% since 2020.

Overall, post-pandemic, housing prices have significantly increased nationwide and in the six municipalities, reflected in a noticeable increase in loan amounts. However, the burden ratio has increased relatively moderately, mainly due to lower loan interest rates, which have dropped from over 2.8% to below 2.25%. Additionally, loan terms have extended from less than 20 years to nearly 25 years. A third reason is the increase in household disposable income, which has grown by over 20% on average in the past decade. In recent years, the central bank has raised interest rates several times to curb housing prices, resulting in higher interest expenses for homebuyers compared to pre-rate hikes. Although data limitations prevent calculating the home purchase burden ratio for 2023 and 2024, given the ongoing rise in housing prices, the burden ratios in all municipalities will undoubtedly be higher than in 2022. Special attention should be paid to changes in this ratio in specific areas, especially in the southern municipalities with relatively lower household incomes.

This article suggests that the government should take a comprehensive approach to real estate policy, particularly considering the inflation and rising construction costs since the pandemic, which have fueled the public's desire to invest in property as a hedge against inflation. Taiwan's continuous economic growth in recent years has led people to overestimate their repayment capabilities, encouraging bold property investments. Therefore, the

government's current priority should be to stabilize the housing market and reduce public expectations.

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