

Housing policy needs clarification

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In an effort to curb property speculation, the government recently passed a luxury tax to be levied when property is re-sold within a certain period of time from the original purchase. The tax has yet to come into effect, but even now industry insiders are saying it will not be effective in controlling house prices and that the market will soon rebound. They are also predicting many businesses involved in the industry will be forced to close as a result of the tax, and that unemployment will shoot up as a consequence.

The government is also proposing increasing the supply of affordable housing, including “modern housing,” “appropriate housing” and “social housing.” The first refers to housing built on land specifically released by the government for the purpose, the housing — but not the land — to be “owned” by people, who fulfill certain requirements, for a set period. The second refers to housing built on land purchased from the government by construction companies for the express purpose of building properties with certain conditions attached regarding pricing and permitted buyers. The third, “social housing,” means apartments the government owns and has built for rent, and not sale, to those with low incomes.

The government has launched into this drive head first before the effects of the tax have become apparent and, even more unadvisedly, is encouraging people to buy property before the market has stabilized and house prices have come back down, increasing the preferential mortgages for young people considerably to up to NT\$7.2 million. The government has introduced this string of measures in an effort to achieve “residential justice,” but it is confusing in its complexity.

What is the fundamental rationale behind the government’s housing policy? It seems to be attacking property speculation with the left hand while protecting the real-estate industry with the right. Who is it actually trying to protect? Do they want “residential justice” for the general public or for the real estate industry?

After the luxury tax was passed, investor interest in the housing market dampened -markedly, but it is too early to see from currently available figures in this pre--implementation window any conspicuous decline in prices. This is mainly because of buyers’ expectations. There is therefore no evidence that the policy will succeed in bringing booming price under control. The government says it is concerned that coming down too hard on property speculation would risk retarding economic growth, and so has introduced a raft of other measures to stimulate the economy while it is waiting for the luxury tax, aimed at curbing this speculation, to come into effect.

But does this make sense? The government maintains that this specific measure in the luxury tax is aimed at hitting short-term investors meddling in the market, but it is only being imposed on the resale of property within, at most, two years of the original purchase, which will affect a narrower group of investors than, say, the stamp duty levied in Singapore on reselling within four years. This means that the effect of the luxury tax will be limited in scope. It is therefore difficult to see how they arrived at the conclusion that putting too strong a curb on property speculation would compromise economic growth.

It is important to return the housing market to a healthy, robust state. Rampant short-term property speculation distorts the market and leads to a lack of growth and rising house prices. Imposing a luxury tax to address the distorted market is but one small step. Normal, healthy market conditions are essential for long-term stability and healthy growth in this market, and will also be beneficial to the long-term development of the economy as a whole. If economic growth is compromised during the process of guiding the housing market back to a reasonable level of development, then something is wrong with the way the economy is growing if it cannot sustain even the smallest blow.

The government's biggest error is in thinking, as it has done for quite some time now, that the housing market is driving the economy. Long-term research shows that this is not the case, that real estate is not an "engine" industry in Taiwan. What's more, generous incentives do not necessarily bring overall economic growth, and are actually likely to cause "excessive investment and excessive spending," which in turn leads to large amounts of empty, surplus property. Meanwhile, mortgage owners find they are spending a disproportionate amount of their salaries paying off their mortgage, caught in the "mortgage slave" trap, which makes the national economy overly reliant on the real-estate industry and risks the emergence of a national asset bubble.

We have seen this happen in other countries, in Ireland and Spain, and, in the past, in Japan, all of which fell foul of an asset bubble. If the government is not willing to acknowledge the danger of this happening here, it could be because it has the real-estate industry breathing down its neck.

Every country has the same problems with housing, and each government deals with them in different ways, depending on their own specific circumstances. Taiwan's government cannot — like the governments of Singapore and Hong Kong, where the government owns the majority of the housing stock and the land — increase supply to resolve public demand and influence the real-estate market.

As the government deals with Taiwan's limited housing and land resources, and as the state's holdings become even more limited, it should recognize that it is aiming to solve the public's housing problems, and not their property speculation opportunities. How to utilize the limited housing and land resources the state does have in the most effective way possible is a very important issue. The government should prioritize disadvantaged and vulnerable groups and come up with ways to solve their housing issues.

Providing properties for rent and not for sale should be the core of the approach taken. It should also make as much use as possible of privately owned empty, surplus properties, to avoid the waste of resources, focusing on the rented housing market. It should not focus on the supply side, embarking on a construction frenzy and offering preferential mortgages while the actual price of housing stays high. This only means that ordinary people will be raiding their savings while property owners are laughing all the way to the bank.

The government has rolled out a whole raft of measures aimed at stimulating the housing market. It says it has done this to make the market robust again, but really it is just unwilling to face up to the real problems, to make information more transparent or even to improve the quality and safety of housing. At present in Taiwan we have high housing ownership rates, low occupancy rates and high housing prices. We also have a low birthrate, so the future holds a demographic shift, with an aging population and asset bubbles. Armed with this knowledge, "residential justice" should involve guaranteeing the public's housing rights and curbing property speculation. When this has been addressed, then we can talk about tax reform. We should not allow long-held misperceptions continue to confuse the government's housing policy.

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