

Property is foremost a place to live

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Media reports on surveys of young people living in Taiwan, Hong Kong, Macau and China have said that their biggest concern is high housing prices.

Respondents in Taiwan appeared to have the biggest doubts about their future prospects, with only 8.6 percent saying that they feel optimistic, and it appears that high property prices are a common concern in Chinese-speaking nations and areas.

Statistics show that a property that came onto the market in the 1960s for about NT\$20,000 per ping (3.3m²) would cost NT\$800,000 or more per ping today.

The watershed moment came about 1990. In 1987, each ping cost NT\$100,000 or more, but in the space of three short years — by 1990 — the price had soared four times, with the asking price per ping reaching, on average, more than NT\$400,000.

The upshot of this rapid change is that young people graduating from university and looking to buy their first home were at a distinct disadvantage compared with preceding generations. They were facing a situation in which they would never be able to get on the first rung of the property ladder, even if they worked hard throughout their careers.

The effect of high property prices goes beyond causing anger and fear in the younger generation at the injustice of it all. Another consequence is that it forces young people to choose between buying a house and getting married or between buying a house and starting a family.

It forces them to decide between raising kids and buying a property to provide themselves with financial security in their old age.

This, in turn, has an effect on the national security problem of low marriage and fertility rates and therefore the problem of an aging population, as well as what this means for how elderly people are to be supported, not to mention the crowding-out effect on resources.

All of this has resulted in a decline in the quality of life for many households.

Many people also make money by investing in the property market, which takes up excessive amounts of resources and removes housing stock from the market, not only preventing the normal development of other sectors, but also leaving many homes empty. This is both wasteful and detrimental to the nation's economic growth.

Given the four sides of the problem — the perceived intergenerational injustice, falling marriage and fertility rates and an aging society, falling quality of life for households, and the effect on economic growth — and their severity, the government would be justified in making the issue of high property prices a priority.

However, the government does not appear to have any policies that address the situation.

Perhaps the government is worried that a fall in property prices would prompt the 80 percent of people who own property to complain about shrinking assets or that applying pressure on financial institutions might risk creating a mortgage loans crisis.

These are unreasonable fears.

Sixty percent of property owners live in their homes, so they would not feel an effect when property prices fluctuate. In fact, they are more likely to be unhappy about high housing prices, as this makes it more difficult for them to move if they decide to.

The Financial Supervisory Commission has been pressuring financial institutions to conduct adequate checks before giving out loans. Lenders must be prepared to withstand considerable financial losses; they should not exacerbate that with the risk of a loans crisis or use the threat of a crisis to halt what most would consider a reasonable decline in property prices.

It should not be ignored that the government's reticence to address the problem might be due to political pressure being applied behind the scenes by vested interests.

What the government does in response to such pressure is part of a political calculation by those in power, reflecting the cost-benefit analysis of the relative merits and drawbacks of their response.

The root cause behind rising property prices is essentially a distortion of the traditional mindset that land ownership is a measure of wealth: People view property as something to invest in and to make money from, to the extent that property has become commodified, instead of being a place to live.

How is the government going to demonstrate to Taiwanese that it is willing to work on addressing the problem of unreasonably high property prices, while simultaneously avoiding the repercussions of a dramatic slide in prices?

The optimum approach would be to gradually reduce the incentives to investment in property as a way to make money — what might be called a policy of decommodification of property — so that house ownership returns to its most basic function of owning a property in which to live.

This could be achieved by making a clear distinction between ownership as occupier and ownership as non-occupier, and increasing the costs of ownership for non-occupiers by such measures as increasing house tax or land value tax, and the transaction costs of buying property — for example, by reducing loan-to-value ratios and increasing interest rates.

These measures would reduce any incentive to stockpile and speculate on property and gradually break the traditional mindset that property ownership is a measure of wealth.

Over time, this would cause a reasonable slide in housing prices, which should not have too much of an effect on property prices for those with occupier status, nor would it hurt financial institutions.

To lessen the political impact, the government could first implement a policy of designating ownership of the fourth and subsequent properties — which only account for 2 percent of the nation's stock — as being ownership for non-occupier status. The government could then gradually amend this, depending on the amount of political push-back received.

Over the course of a perceptible — albeit gradual — decline in property prices, young people looking to buy a home would anticipate housing prices coming down to more reasonable levels in the near-term and would therefore not feel the need to rush out and buy a house.

If the government were to work on improving housing market conditions, prospective young buyers could either choose to rent and buy later, or simply rent and not buy at all.

This would have two effects. First, it would ease demand for properties, which would cause overpriced properties to fall to more reasonable price levels and, second, it would relieve the sense of trepidation that young people feel about getting onto the property ladder.

The government should begin to address this problem immediately.

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Translated by Paul Cooper

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