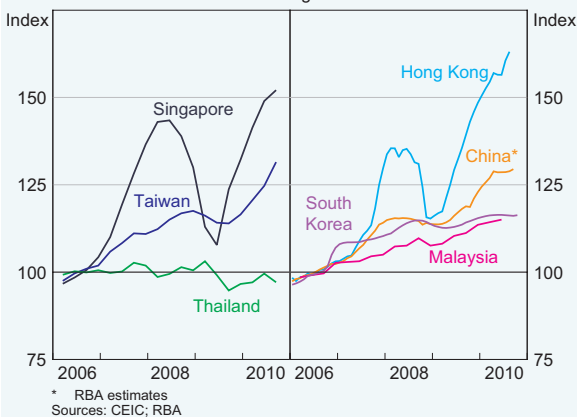


Box B

East Asian Property Markets

After increasing significantly through 2007 and early 2008, residential property prices in east Asia softened in late 2008 as global credit conditions deteriorated (Graph B1). More recently, as economic activity in the region has recovered strongly and financial conditions have been generally accommodative, residential property prices have risen quickly, particularly in China, Hong Kong, Singapore, and Taiwan. This box discusses the recent pick-up in property prices in some east Asian economies and the associated policy responses.

Graph B1
East Asia – Residential Property Prices
2006 average = 100



Leading up to the global financial crisis, central banks in the region were tightening monetary conditions in response to a general pick-up in inflationary pressures. The onset of the global financial crisis saw credit become increasingly difficult to access, residential property prices slow in some economies

and fall in others, and residential construction contract. Throughout the region, governments responded by significantly easing fiscal and monetary policy, with interest rates being lowered and quantitative controls relaxed, as authorities sought to stabilise residential property markets and support household balance sheets. During the global downturn, many east Asian governments also used taxation and administrative measures to support property prices and reduce risks to their financial systems. The Chinese authorities, for example, introduced policies to encourage more turnover, and in Singapore the government introduced a property tax rebate for owner-occupied properties and scaled back its land sales programs to support property prices. In Korea, the government introduced a scheme to buy land and unsold homes to support activity in the construction sector.

This policy stimulus contributed to a robust recovery in economic activity and an improvement in conditions in residential property markets. By mid 2009, residential construction had rebounded in a number of economies. In China the volume of residential floor space commenced nearly doubled between the end of 2008 and September 2010. The recovery in residential property markets was also reflected in significant increases in residential property prices, especially in China, Hong Kong, Singapore, and Taiwan. In many of these economies, real returns on deposits were close to zero or negative, while real lending rates were also low, which when combined with some of the stimulus measures, provided a strong incentive to borrow

for housing. Consequently, the strengthening in housing markets has been accompanied by a rapid expansion in housing credit (Graph B2). In China, the value of housing loans outstanding has increased by around 40 per cent over the past year, while year-ended growth in the value of housing loans in Singapore is now around 25 per cent. Credit growth in Thailand is also increasing, while housing credit growth in Taiwan has moderated in recent months.

Korea has been an exception to these general trends. Residential property prices have been broadly flat, partly due to the increase in the supply of housing, and housing credit has contracted significantly, reflecting an earlier tightening of mortgage lending standards. To stimulate activity in the property market, the government has recently announced an easing of mortgage restrictions, giving banks greater flexibility on maximum loan sizes for home purchases. The government has also expanded loan guarantee programs for low-income earners and extended the temporary suspension of property sales tax for investors. In addition to these measures, the government plans to issue bonds to fund a program designed to help small builders finance new projects.

In those economies experiencing strong increases in property prices, a series of measures have been implemented to cool property markets. These measures include tightening financial conditions through increasing interest rates (although they remain low) and imposing stricter prudential controls on lending by reducing maximum loan-to-valuation ratios, lowering debt servicing requirements, and tightening lending standards for investors (see Table B1). In addition, land has been released by governments for housing construction, such as in Taiwan, Hong Kong and China, and there have been changes to the taxation of property to reduce turnover in property markets.

It is difficult to tell how the combination of low interest rates and tighter prudential standards will affect property markets. In China, earlier measures to cool the property market had some effect, although property prices and turnover have strengthened recently and the authorities have since announced further measures to cool the property market. In Singapore, Hong Kong and Taiwan, property prices have continued to rise, although property sales have begun to slow in Taiwan. ❧

Graph B2
East Asia – Housing Credit Growth
 Year-ended

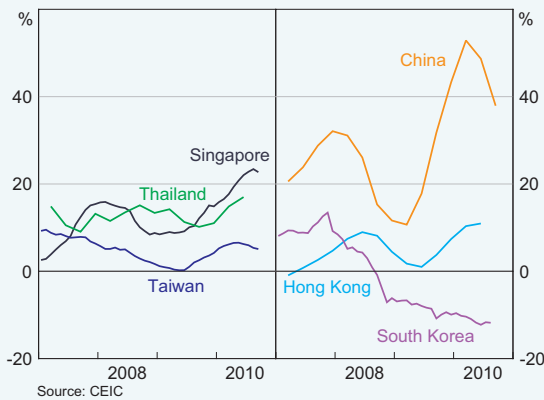


Table B1: East Asia – Summary of Recent Property Market Policies

Economy	Policy Measures
China	<p>Investors to pay a minimum 50 per cent deposit on property purchases (previously 40 per cent)</p> <p>Owner occupiers to pay a minimum 30 per cent deposit (previously 20 per cent on purchases of apartments less than 90 square metres)</p> <p>Minimum interest rate on investor loans increased to 1.1 times the benchmark lending rate</p> <p>Reduction in mortgage rate discounts for first home buyers</p> <p>Loans for the purchase of third (or more) properties prohibited</p> <p>Limits on property purchases in areas where housing supply is particularly tight</p>
Hong Kong	<p>Maximum loan-to-valuation ratio of 60 per cent on properties valued above HK\$12 million</p> <p>For properties valued below HK\$12 million, loans are capped at the lower of HK\$7.2 million or 70 per cent of the valuation of the property</p> <p>Debt servicing ratios capped at 50 per cent (previously 60 per cent)</p>
Singapore	<p>Expiry of stimulus-related property tax rebate</p> <p>Sellers to pay stamp duty on the sale of any property sold within three years of purchase (was one year when the stamp duty was initially introduced in April 2010)</p> <p>Cash deposit requirements for the purchase of second properties increased</p>
Taiwan	<p>Loans not to exceed 70 per cent of the collateral used to purchase second properties in certain areas</p> <p>Banks cannot grant additional loans on same collateral</p> <p>Mandated that all mortgages should require some repayment of principal</p>

Sources: central banks; government authorities