

## REAL ESTATE

The Committee commends the government for its continued efforts to increase real estate market transparency, improve property taxation, and maintain a fair market. At the same time, we note that further changes are needed in the current regulatory regime if Taiwan is to reach its potential within the international investment market. Global cross-border investments in real estate reached US\$244 billion in 2015, accounting for 32% of the total value of property transactions. Most investors prefer to allocate their investments in markets that are highly transparent and secure. In order to continue attracting foreign funds, Taiwan therefore needs to continue to make improvements.

Below, the Committee presents several suggestions in hopes of stimulating discussion with the relevant governmental agencies in order to further improve market conditions in Taiwan and to help promote Taiwan as a thriving real estate investment destination.

### **Suggestion 1: Equalize property taxation for domestic and foreign property owners.**

A new property tax scheme came into effect on January 1, 2016, combining what previously were separate land and building taxes, and readjusting the tax rate. In addition, the new scheme includes several measures aimed at reducing speculation in the form of property flipping. One clause, for example, states that for domestic property owners who re-sell properties within one year of acquisition, a tax rate of 45% will be applied. For property held for a longer period, the rate

will be gradually lowered until it reaches 15%. For foreign owners, the tax rate for property resold within a year is the same 45%; after one year, however, the rate remains at 35% no matter how long the property is held.

The Committee urges the government to reconsider this policy, since it is likely to discourage foreigners – whether individual or corporate – to acquire property in Taiwan, with a dampening effect on the market. The government understandably wishes to prevent market overheating, but that objective can be accomplished through other measures, such as mortgage control, density control, etc. In the interest of fairness, we recommend applying the same tax rate structure to foreign and domestic property owners.

## **Suggestion 2: Enact reforms in the treatment of real estate value appraisers.**

**2.1 Revise the Real Estate Appraiser Act to allow legal entities to provide valuation services.** In Taiwan, the real estate valuation business must be conducted either by accredited individuals or licensed partners without incorporation. The Committee urges the government to accelerate amendments to the Real Estate Appraiser Act that would allow the incorporation of valuation service providers as legal entities. This move would benefit the overall real estate industry and help protect clients' rights. The proposed change in the rules would relieve the financial pressure on professionals, since valuers hired by an appraisal firm would have limited liability instead of carrying unlimited liability as a partner. Moreover, as valuation companies would be required to hold professional indemnity insurance, clients utilizing their services can feel confident that their interests are being protected.

Legal entities usually have a clearer business structure and adhere to a comprehensive code of conduct, which helps to ensure that a company meets its financial obligations. In addition, they are able to run the business more sustainably and are not affected by changes in senior management or partnership. Overall, the major benefits of allowing the incorporation of business entities in the valuation industry include:

- a. Companies are covered by insurance, which will help relieve the burden of risk on valuers and therefore improve the recruitment of talent.
- b. Companies have better audit and compliance procedures, which will strengthen the credibility of valuation reports.
- c. Companies are of larger scale, capable of conducting extensive market research and establishing databases.

## **2.2 Require banks to charter professional valuation professionals for transactions involving mortgage loans.**

At present, domestic banks mainly rely on in-house valuation teams when reviewing mortgage applications,

while foreign banks in Taiwan appoint a licensed appraiser to provide an independent opinion on the property value. The practice adopted by foreign banks ensures that they receive professional and objective advice on property conditions in line with global standards. On the other hand, undertaking valuation work internally may lead local banks to encounter problems such as conflicts of interest and bad debt.

The Committee urges the Financial Supervisory Commission to require banks, when extending credit on collateral, to hire an independent licensed valuer to produce an appraisal report that determines a current fair market value in order to prevent overestimation of property value and over-lending. In addition, banks should be instructed to draw up guidelines to evaluate appraisers' performance and their accuracy. This step would help protect the interests of both banks and depositors.

## **Suggestion 3: Simplify the urban renewal process to ensure housing safety and quality.**

Due to the dense nature of the urban environment in Taiwan, vacant land for building construction within major metropolitan areas is extremely scarce. Additionally, according to government statistics, the average age of residential buildings in Taipei is 29.2 years. More than 440,000 buildings are over 30 years old, and among them over 130,000 are over 40 years old and many of them are gradually deteriorating.

Approximately 3.2 million residential buildings in Taiwan are over the age of 30 years, accounting for 39.2% of the total housing stock. These older structures often detract from the aesthetic attractiveness of the urban landscape, and they are also less capable of withstanding natural disasters and extreme weather conditions such as earthquakes and typhoons. On February 6, 2016, for example, a quake of magnitude 6.4 caused several commercial and residential buildings to collapse in the city of Tainan. Among them, a 21-year-old residential complex consisting of nine buildings was destroyed, killing 115 people and injuring 96.

Moreover, older buildings are mainly low-rise, making for under-utilization of the land parcels. As a result, urban renewal has inevitably become a critical issue for improving the safety and quality of city life.

The current urban renewal process, however, is governed by numerous laws and regulations at both the central and local government levels. The approval process, involving numerous types of applications, is extremely complex and time-consuming. A typical renewal project takes three to seven years to obtain all the permits necessary to begin construction. Among the relevant laws and regulations are the Urban Renewal Act and its enforcement rules, directives for municipality or county authorities on the acceptance of

applications from urban renewal executors, regulations on rights transfers under urban renewal, regulations on density bonuses, etc. If rezoning is needed, regulations such as the Planning Act and zoning by-laws are also applicable.

Due to the complex and extensive preparation, application, and approval processes, some developers forgo involvement in the urban renewal business and instead focus on rural areas, contributing to urban sprawl.

This Committee strongly urges government at all levels to recognize the importance and urgency of urban renewal and begin efforts to streamline the approval process and simplify the relevant laws and regulations. A thorough and comprehensive building inspection should also be carried out nationwide to identify severely deteriorated buildings and prioritize redevelopment applications for them.

When consent agreements are obtained from the vast majority of the property owners in a renewal zone, even though a few property owners continue to refuse to agree, the courts could be given the power to assist in finding a resolution. In the case of critical deteriorated buildings, it is also recommended that the court take forceful action even if full consent has not been reached.

However, any legal action taken by the courts must of course conform to the law, and respect general morality and humanitarian principles. In case of compulsory execution leading to property expropriation, the owner should be compensated at full market value. Equally important is for the urban renewal process to be kept fully transparent, with all relevant information and documents accessible by the residents and the public as applicable.