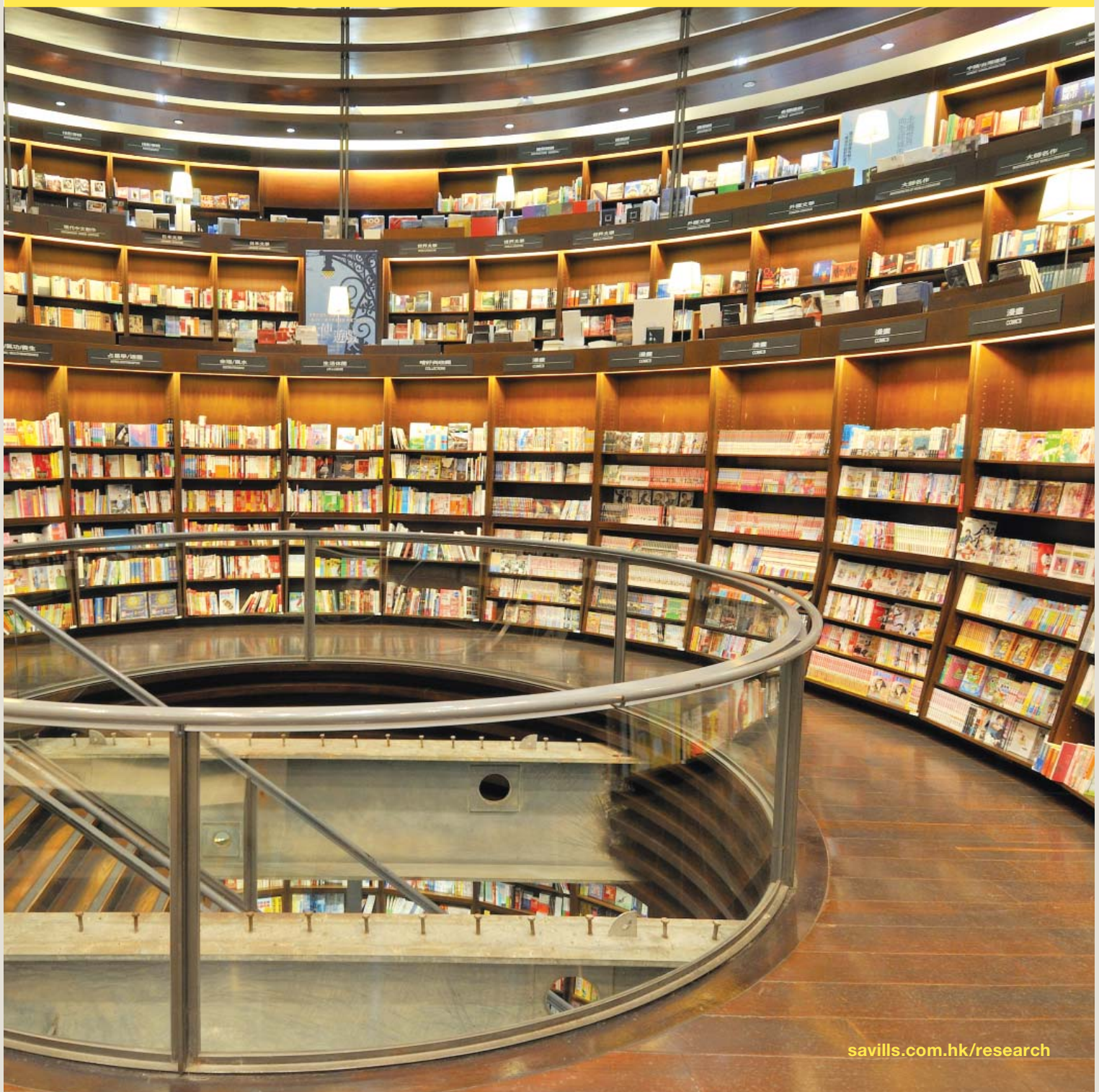
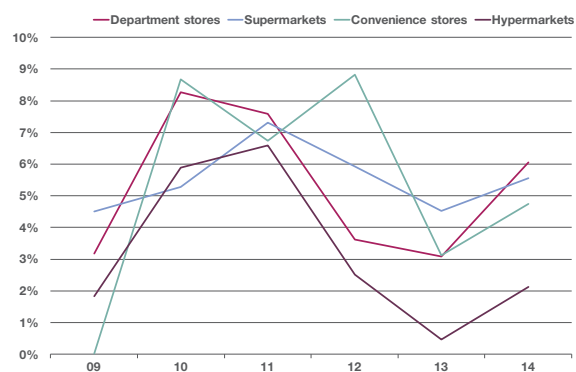


Asian Cities Report **Taiwan Retail**

1H 2015

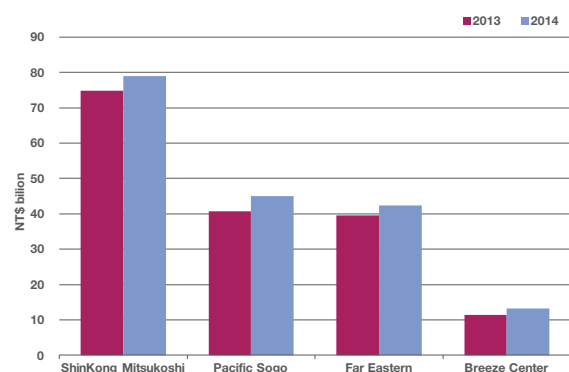


GRAPH 1
Retail sales growth rate by sector, 2009–2014



Source: Ministry of Economic Affairs, Savills Research & Consultancy

GRAPH 2
Annual sales of department store groups, 2013–2014



Source: Savills Research & Consultancy

TABLE 1
New supply of department stores and outlet malls, 2015–2017

Opening date	Name	GFA (sq m)	Location	Type
2015	T.S. Dream Mall Phase 1	54,000	Tainan City	Shopping mall
2015	Breeze Center Xinyi	21,000	Taipei City	Department store
2015	Gloria Outlets	51,600	Taoyuan County	Outlet
2015	Linkou Outlet Mall	45,000	New Taipei City	Outlet
2015	Lecco Neihu II Outlet	8,250	Taipei City	Outlet
2017	Far Eastern A13	66,000	Taipei City	Department store

Source: Savills Research & Consultancy

Retail sales

The steady recovery of the Taiwanese economy in 2014 resulted in an increase in retail sales of 3.9% year-on-year (YoY), especially in car sales. Total car sales in 2014 reached 400,000 units, rising 12% YoY. One-third of these were imported vehicles. It is believed that the growing trend in car sales will continue in 2015. It is noteworthy that since 2013, luxury and sports car brands have been expanding aggressively. Instead of setting up shop in the city centre, sports car brands such as Lotus, Lamborghini, Ferrari and Porsche, have preferred to set up showrooms in science parks to target tech millionaires and young entrepreneurs. The average size of showrooms generally ranges between 500 and 650 sq m. In addition, the growing consumption power in Taichung City drew luxury car companies' attention, including Maserati and Aston Martin, who both established flagship stores in the Taichung CBD in 2014.

Department stores

Another sector which has taken advantage of the economic recovery is department stores, with annual sales growing by 6.1% to NT\$306 billion in 2014.

Three large department store groups are the main market dominators, including ShinKong Mitsukoshi, Pacific Sogo and Far Eastern. Together they account for a total market share of 54%. The largest department store group, ShinKong Mitsukoshi, recorded a 5% increase in sales growth (to NT\$79 billion) this year, while Pacific Sogo and Far Eastern both increased by 7%. Aside from Far Eastern, which launched one department store in 2014, sales growth for the other two retail groups was mainly generated by existing stores. The average annual sales total for a single store usually ranges between NT\$4 and NT\$6 billion, however, two of the four department stores reporting over NT\$10 billion were located in Taichung City. This is due to department stores in the middle or south of Taiwan usually being larger in size with a limited number of competitors in the local market; this can also help them expand their service areas to adjacent counties.

F&B

The increase in food and beverage (F&B) revenue is another strategy for department stores to improve sales. According to the latest MasterCard survey, the average Taiwanese consumer spends NT\$5,280 per month on dining out, an increase of 6% YoY, ranking them fifth for this spend in Asia Pacific. They prefer to eat in food courts or restaurants in department stores, with 86% of them having done so in the past six months, particularly as food safety problems cause a lot of concern in Taiwan. As illustrations of this trend, F&B sales in ShinKong Mitsukoshi grew by 20% in 2014 and the proportion of sales climbed to 13%, surpassing the sales of the luxury brand sector. In Pacific Sogo, it accounted for 20%.

In Nangang Citylink, a newly-opened department store in a transport hub, over 40% of its area is occupied by the F&B sector; Att 4 Fun remodelled an entire floor, around 3,000 sq m, to be a dessert food court to target women and children. For retail operators, the turnover and base rents for the F&B sector are usually lower than other sectors, and they have to follow strict fire codes. However, it can bring more revenue and is an effective way to attract customers.

New supply

In past decade, several retail groups shifted their expansion strategy to target the China market, including the top three department store groups in Taiwan. For specific retail groups, the domestic market has become saturated, therefore, only Far Eastern and Breeze Center will open new stores in the next three years. The market share of Breeze Center is expected to increase to 8% and strengthen its position as a member of the top four in the department store sector.

Aside from Cathy Life, Nanshan Life is also trying to diversify their income sources, rather than focusing only on office leasing. They acquired a Taichung department store for NT\$4.8 billion in mid-2013. Now, through open bidding, they have also acquired three leasehold land plots from the government, one in Taipei City and

others in Taichung City, and are going to enlarge their involvement in the retail sector.

Fashion brands

Luxury brands are continuing to replace their street-front store expansions with plans to open concessions within department stores or premises within shopping malls. After closing two street shops in Taipei City and Taichung City since 2012, the only remaining street shop for Louis Vuitton is located in Zhongshan N. Road; the brand is now being presented in six department stores.

As for new-entry brands, their expansion actions are aggressive. Since Uniqlo entered the Taiwan market in 2010, international clothing brands such as Zara, GAP, GU and H&M, have expanded rapidly. By late 2014, Uniqlo had 51 stores in Taiwan and continued to open an average of 10 stores every year, outpacing the expansion speed of other competitors. The second-tier cities will be Uniqlo's target market in the near future. Zara, which entered the Taiwan market one year after Uniqlo, is still focused on the first-tier cities and has expanded to seven stores. Two international clothing brands expanded their footprint in Taiwan in 2014: The US' GAP and Japan's GU both launched their first flagship stores in Att 4 Fun. During the past nine months, GAP has opened five stores in the north of Taiwan – the most aggressive new-entry brand.

In light of the high return rate, department store operators are showing a stronger drive to invite these brands to locate in their premises. Aside from flagship stores, the average store size of GAP and GU ranges between 1,000 and 1,300 sq m. However, Zara's stores are usually larger, with the smallest store occupying around 1,600 sq m, significantly larger than existing local clothing brands. Sweden's H&M has announced it is to open a flagship store at Breeze Song Gao. Its first store will occupy three floors and expects to contribute NT\$1 to NT\$1.5 billion of sales in the first year. Other international brands such as Forever 21 and Bershka, belonging to the

inditex Group as does Zara, are going to enter the Taiwan market next year. These brands are expected to adopt an aggressive expansion strategy and will be seeking large-sized retail space, both in department stores and street front shops, in the next few years.

Rents and investments

As the commercial property investment market languished in 2014, the transaction amount of large-sized retail properties dropped significantly to less than NT\$10 billion. The largest deal was neoWest department store (also called Aman TIT) which sold to Mercuries Life Insurance for NT\$39.5, representing a 30% increase in price in three years. Another notable deal was a street shop on Zhongxiao E. Road. It was sold for NT\$1.3 billion, representing a unit price of over NT\$8 million per ping, the resale price increasing by over 30%, according to available information.

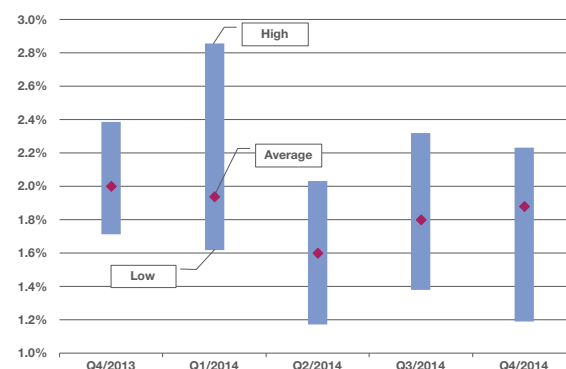
In general, rent growth in Taipei City was slow in 2014 and only some areas, which have major construction projects underway such as the completion of a new MRT Line, can enjoy higher rental increases. However, the average rents of street shops in major retail areas remained firm. For example, rents on Zhongxiao E. Road still ranged between NT\$16,000 and NT\$30,000 per ping. Some landlords even held out for high asking rents for 6 to 12 months, unwilling to lower them. New retail brands and privately-owned retail shops began to move to second or third tier streets behind the main streets. In terms of restaurants, they preferred to take space on the second floor or in the basement, reducing costs by 50% to 80% compared with opening a restaurant on a ground floor. ■

TABLE 2 Significant retail transactions, 2014

Date	Property	Location	Amount (NT\$ bil)	Area (Ping)	Unit price (NT\$/ping)	Buyer	Type
Apr	neoWest (Aman TIT)	Wanhua district, Taipei City	3.95	2,395	G/F: 4.43 mil	Mercuries Life Insurance	Department store
Oct	No. 231-1, Sec. 4, Zhongxiao E. Road	Zhongxiao E. Road	1.3	168	804 mil	Professional Investment Institute	High street
Nov	MODEmall (50% shares)	Taichung City	2.75	18,150	150,000	Fubon Life Insurance	Department store

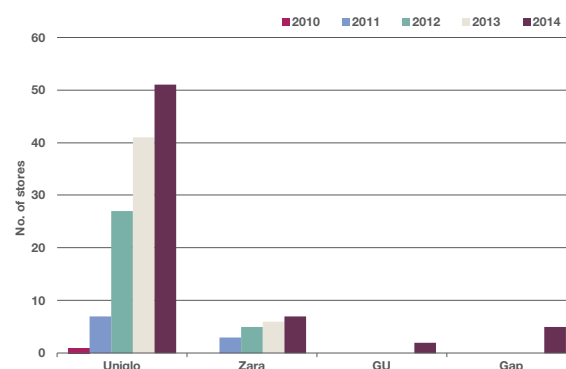
Source: Savills Research & Consultancy

GRAPH 3 Transacted retail property yields in Taipei City, Q4/2013–Q4/2014



Source: Savills Research & Consultancy

GRAPH 4 Number of stores for selected international fashion brands, 2010–2014



Source: Savills Research & Consultancy

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