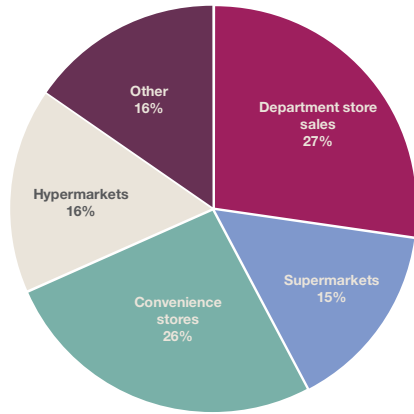


Asian Cities Report **Taiwan Retail**

1H 2014

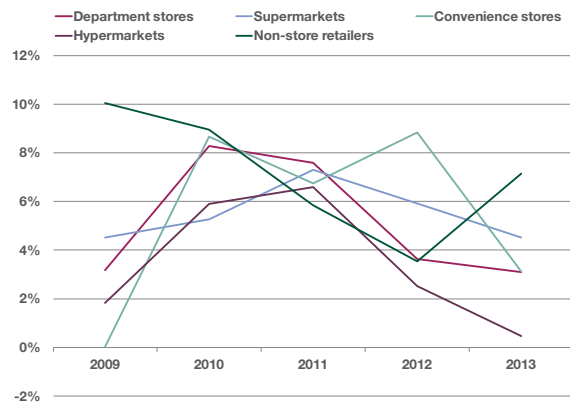


GRAPH 1
Retail sales by sector, 2013



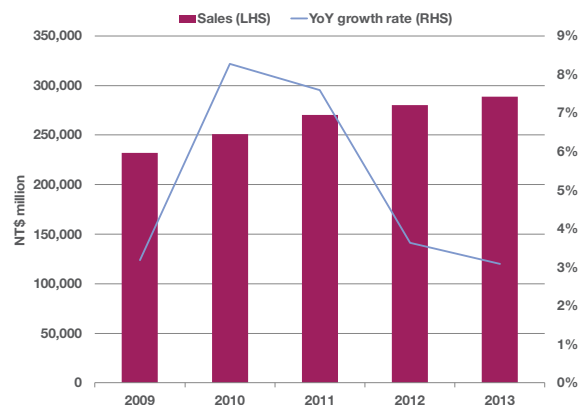
Source: Ministry of Economic Affairs, Savills Research & Consultancy

GRAPH 2
YoY retail sales growth rate by sector, 2009–2013



Source: Ministry of Economic Affairs, Savills Research & Consultancy

GRAPH 3
Department store retail sales revenue and growth rate, 2009–2013



Source: Ministry of Economic Affairs, Savills Research & Consultancy

Retail market trends

Retail sales posted an average 4.9% annual growth for the three years from 2011 to 2013. However, the gloomy economy outlook resulted in more conservative consumption numbers and retail sales growth slowed to 2.9% in 2013, the lowest in five years. Aside from the economy, another main reason for the slowdown is the emergence of non-store shopping, which has changed consumption patterns and recorded an over 7% growth rate in the past two years.

Retail sales can be classified into five segments, with department store sales representing the largest market share of 27%, followed by convenience stores (26%) and supermarkets (15%). Convenience stores and supermarkets showed strong growth in sales at 3.21% and 4.52% respectively in 2013. Aggressive expansion increased the number of supermarkets by 12% from 2010 to 2012, while convenience store numbers grew by 6% to over 10,000 stores during the same period. The newly opened convenience stores are larger in size than has been typical and provide indoor seating areas to encourage customers to stay longer.

Inbound visitor numbers

The boom in the tourism industry has given a significant boost to retail sales. In 2012, international tourists spent a total of about US\$11.8 billion, equating to US\$1,610 per person, and shopping represented 36% of total expenditure, higher than accommodation (32%). Leisure travellers accounted for 64% of total international visitors and their expenditure is approximately 18% higher than business travellers. Unlike business travellers, who spend half of their budget on accommodation, leisure travellers spend over 40% of daily expenditure on shopping.

In 2013, international arrivals maintained a fast growth rate, with over 8 million travellers coming to Taiwan, up 9.6% year-on-year

(YoY) and double that of 2008. This is mainly due to Chinese tourists, accounting for 36% of the total, as the daily quota for both groups and independent travellers from mainland China were increased to 5,000 and 3,000 people per day respectively. Currently, over 80% of tourists from mainland China travel in groups and a large proportion of their shopping expenditure is focused on specific souvenir stores and duty free shops. The spillover effect generated by the travel industry for retailers is limited. However, with the introduction of a new mainland law banning cheap tours tied to forced shopping, the share of independent Chinese travellers will have a chance to rise, which is good news for retail and restaurant sales.

New supply

In Taiwan, four well-known department store brands dominate the retail market, namely ShinKong Mitsukoshi, Far Eastern, Pacific Sogo and Breeze Center. ShinKong Mitsukoshi Department Store, the largest department store group, owns 19 department stores around Taiwan, nine of which are in Taipei City. Far Eastern and Pacific Sogo, which belong to the same group, own ten and seven stores respectively, making this the second largest department store group in Taiwan.

In contrast to the other three brands, Breeze Center mainly offers mid- to high-end fashion brands. In order to expand their market share, Breeze Center acquired the operating rights for Momo Department Store from Fubon Group in 2013 and obtained existing premises in the Taipei CBD. In addition, they plan to launch their first store in Xinyi district by renting several lower floors of the lot A10 construction project in 2014, which originally had Momo Department Store as an anchor. In 2015, Breeze Center will open a second store in Xinyi district and further establish their position in the mid- to high-end retail market through quick expansion.

Outlet stores are the new competitors for department stores.

E-Da Outlet Mall, launched at the end of 2010, is the biggest outlet mall in Taiwan with around 191,400 sq m of retail space and providing more than 300 international brands. In combination with a hotel and theme park, the outlet achieved NT\$6.5 billion in sales revenue in 2013, a 20% increase YoY. They have now decided to invest a further NT\$20 billion in a second-phase expansion project.

Cathay Life, the largest insurance company in Taiwan, formed a partnership with Gloria Hotel Group to develop an outlet mall near the Taoyuan high-speed rail station. Gloria Outlet will provide 260 international brands with floor space of 51,600 sq m, and the first phase is expected to be launched in 2015. Another large-scale outlet mall, located in Linkou district in New Taipei City, is being jointly developed by Farglory Group and Japan's Mitsui Fudosan Co. Linkou Outlet Park will comprise an outlet, cinema, food court and supermarket on a 66,000-sq m plot. After these two outlet malls are opened, the total sales revenue of outlets will reach an estimated NT\$25 billion by 2017.

Rents and sale prices

The leasing market remained active in prime locations and the steady increase in rents is attributed to the lack of availability. As existing three- to five-year leases expire, landlords are raising monthly rents by 10% to 30%, especially on Zhongxiao East Road, and retailers with less affordability are forced to relocate to second-tier locations. For example, when Esprit, a Hong Kong fashion brand, decided to close some of its street shops, the store on Zhongxiao East Road was immediately leased by Adidas for a monthly rent of NT\$4 million (NT\$12,000 per sq m gross). The store next to Adidas, which was occupied by a local fast-food restaurant, was leased to Swatch for its new flagship store. These international brands, which have had a presence in Taiwan's retail market for a number of years, have more experience in leasing street shops,

while the advertising opportunity available on the building facade is a strong incentive to pay the higher rents.

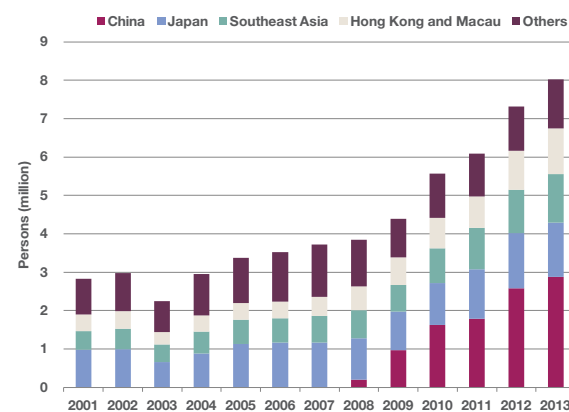
For new retailers, it is more difficult to open a street shop in first-tier locations due to protracted negotiations with individual owners and space being snapped up by more experienced operators. Therefore, international retailers prefer to open stores in shopping centres when they first enter Taiwan, including Uniqlo and Zara. Moreover, shopping centres can take advantage of the brand's awareness to improve footfall. Gap, the casual apparel retailer based in the US, has chosen to launch their first Taiwan flagship store in 2014 in ATT4FUN, a department store in Xinyi district. After they have a better understanding of Taiwan's retail market, they may change their strategy to focus on street shops.

In 2013, retail property accounted for 32% of total transactions in the commercial property market. Homax Real Estate, an active local investor over the past two years, bought a mixed-use property in the core area of Taipei City for NT\$8.8 billion, the biggest transaction in 2013, equating to NT\$1.1 million per sq m for the G/F. The property is currently leased to Eslite BookStore Dunhua Branch, a well-known bookstore chain.

Another notable transaction was the sale of Park Lane by CMP, a department store located in central Taichung City. This was acquired by Nan Shan Life for NT\$4.8 billion and is the second largest investment acquisition in Taichung City in the past few years.

Looking forward, street shops in some secondary and tertiary locations might face some degree of rental or price correction due to the emergence of non-store shopping and slow salary growth. Rising power and gas rates could exert more pressure on retailers, making them more cautious in terms of expansion plans. ■

GRAPH 4
Number of inbound travellers, 2001–2013



Source: Taiwan Tourism Bureau, Savills Research & Consultancy

TABLE 1
New supply of department stores and outlet malls, 2014–2015

Opening date	Name	GFA (sq m)	Location	Type
2014	Breeze Center A10	20,000	Taipei City	Department store
2014	City Link Nankang store	53,000	Taipei City	Department store
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

Source: Savills Research & Consultancy

TABLE 2
Significant retail transactions, 2013

Date	Area	Property name	GFA (sq m)	Price (NT\$ mil)	Estimated cap rate (%)	Type	Buyer
Feb	Da-an district, Taipei City	B3/F–2/F and 12/F, Shin Kong Life Dunnan Building	18,572	8,800	1.5	Department store	Homax Real Estate
Apr	Da-an district, Taipei City	G/F and 2/F, Absolute Building	2,251	919	2.7	High street	Pro Investment Institute
Sep	West district, Taichung City	Park Lane by CMP	79,530	4,800	3	Department store	Nan Shan Life

Source: Savills Research & Consultancy

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