

Briefing Office sector

June 2015



Image: Sec. 5 Xinyi Road, Xinyi district

SUMMARY

The Grade B office market will take benefit from rising demand from office expansions and relocations, especially while tenants' rental budgets are generally staying below NT\$2,000 per ping.

■ The positive outlook for the Taiwanese economy has led the total amount of foreign direct investment (FDI) to increase by 17% year-on-year (YoY) in 2014, mainly in the finance and insurance sectors.

■ The demand for office expansions and relocations, buoyed by the recent economic recovery, has yet to benefit the Grade A office market.

■ The Grade A office market saw a total take-up of 1,500 ping in the first quarter. 80% of the market activity was in the Xinyi district.

■ The amended value assessment standard has caused the building tax for newly-completed projects in Taipei City to increase by an average of 160%. In the long term, the escalating holding cost could force rents to go up.

■ The Fubon Dunhua Building, with 5,000 ping of office space, was launched onto the market in Q1/2015, and brought the total stock of Grade A office space to 560,000 ping.

■ Grade A office rents climbed slightly to NT\$2,720 per ping and the completion of the Fubon Dunhua Building pushed the overall vacancy rate up to 8.12%.

“Amended building tax, and the potential launch of a new capital gains tax, is likely to dampen the willingness of tenants to buy their own business premises; this will result in rising leasing demand and increasing rents.”

Erin Ting, Savills Research

➔ **Market overview**

The positive outlook for the Taiwanese economy stimulated FDI in Taiwan. According to the Investment Commission, total FDI inflows increased by 17% YoY to NT\$5.77 billion in 2014, and rose by 48% YoY in Q1/2015. The capital mainly went to the finance and insurance industries, such as DBS Bank and HSBC Bank who both saw significant increases in investment. As for the investment from China, which was expected to expand in Taiwan aggressively, their total inflows showed a 4.2% decrease compared with 2013. We expect the leasing demand generated from China corporations is hard to realise in the short term.

Leasing demand from local corporations was active in the first quarter. Their relocation or expansion needs were largely concentrated on Grade B office space, with

an average rental budget below NT\$2,000 per ping and a preference for easy access to MRT stations. The Grade A office market remained quiet in the traditional slow season (Chinese New Year), with the total take-up reaching 1,500 ping. The Xinyi district accounted for a large portion of leasing activities and other districts only saw limited take-up, meaning vacancy rates and rents were unchanged.

In the Xinyi district, the Farglory Financial Center witnessed 1,600 ping of take-up, including Fuhu Taiwan, Inc., an existing tenant, expanding their office by another 301 ping. Japanese company ConnectFree also leased 600 ping on the 12th floor to establish their global operation center, taking advantage of Taiwan's IC design ability and semiconductor technology. IDC relocated to Exchange Square I in the Xinyi district, occupying 105 ping of office space.

In other business districts demand was mainly in the 100 to 200 ping range, including 169 ping of office space in the Fubon Ming Sheng Building and 90 ping in the Shin Kong Zhong Shan Building being leased. In addition, the Taipei Rapid Transit Corporation, which owns two floors of newly-completed office space in the HungTai MRT 4 Building (totalling 902 ping) is going to set up a design centre to develop the culture and the creative industries.

Property holding cost for buildings in Taipei City, completed after June 2014, will increase largely, due to recently-amended building tax regulations. The Taipei City Government revised the value assessment standards for new buildings and increased building values by an average of 160%. For example, the building assessment value for a newly-completed 24-storey office building will increase from NT\$6,860 per sq m to NT\$15,600 per sq m and affect the holding cost significantly. HungTai MRT 4 Building, Fubon Dunhua Building and the Headquarters of Hua Nan Financial Holdings were affected by the revised tax rules.

In the short term, we expect landlords won't pass on extra holding costs to tenants in order to speed up leasing activities. However, rents will inevitably be pushed up in the mid- to long-term.

Supply

The launch of the Fubon Dunhua Building, located at the corner of Dunhua S. Rd. and Civic Blvd. leaves Grade A office stock at 560,000 ping. The lower floors of this new Grade A office building will be retail shops and the third floor and above will be office space, with GFA of 5,000 ping. Meanwhile, Taiwan Cooperative Holdings is planning to move into new headquarters before the end of 2015 and 4,000 ping of office space in their new headquarters will be released to the leasing market in the future.

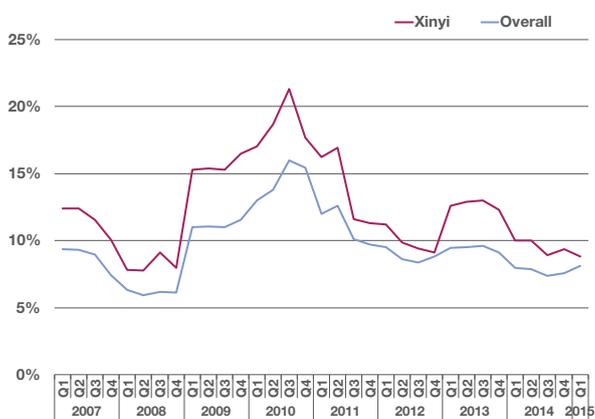
Vacancy

The overall vacancy rate was up to 8.12%, 0.56 percentage points (ppts) above the end of last year. The rising vacancy rate can be mainly attributed to the launch of the Fubon Dunhua Building, with weak pre-leasing activity. The Xinyi district continued to see a stable take-up from technology companies. The healthy economy slightly revitalised office demand. However, rental budgets didn't increase accordingly and led to Grade B offices and new office buildings in fringe areas taking advantage.

Rent

Overall Grade A office rents grew by 0.4% quarter-on-quarter (QoQ) to NT\$2,720 per ping, with all districts rising by 0%-0.8%. Even though average rents increased slowly, in some office buildings we have still witnessed an obvious rent increase. For example, rents for the latest leasing transaction in the Walsin Lihwa Xinyi Building stood at NT\$3,300 per ping, up 3% from mid-2014. The Farglory Financial Centre also recorded leasing at NT\$3,500 per ping. As for the Funbon Dunhua Building, the asking rent ranges between NT\$3,100 and NT\$3,500 per ping. ■

GRAPH 1 **Grade A office vacancy rates, Q1/2007–Q1/2015**



Source: Savills Research & Consultancy

TABLE 1 **Grade A office vacancy rates by submarket, Q1/2015**

District	Vacancy rate (%)	QoQ change (%)	YoY change (%)
Xinyi	8.89	-0.48	-1.13
Dunhua North	12.21	3.01	3.15
Dunhua South	4.52	-0.07	-1.46
Non-core	2.13	-0.12	0.19
Taipei overall	8.12	0.56	0.15

Source: Savills Research & Consultancy

GRAPH 2
Grade A office rents, Q1/2007–Q1/2015



Source: Savills Research & Consultancy

TABLE 2
Grade A office rents by submarket, Q1/2015

District	Rent (NT\$ per ping per month)	QoQ change (%)	YoY change (%)
Xinyi	3,125	0.7	4.5
Dunhua North	2,346	0.8	4.3
Dunhua South	2,570	0.0	-1.4
Non-core	2,183	0.0	1.7
Taipei overall	2,720	0.4	3.5

Source: Savills Research & Consultancy

TABLE 3
Major leasing transactions, Q1/2015

Date	Building	Location	Size (ping)	Rent (NT\$ per month)	Unit rent (NT\$ per ping per month)
Jan	17/F, Walsin Lihwa Xinyi Building	Songzhi Road	91	301,950	3,305
Jan	71/F, Taipei 101 Building	Section 5, Xinyi Road	172	585,752	3,400
Feb	11/F, Taipei Financial Centre	Dunhua N. Road	167	449,739	2,700

Source: Savills Research & Consultancy, Department of Land Administration M. O. I.

OUTLOOK

The prospects for the market

A stable economic recovery and job growth could stimulate office leasing demand. In addition, historically high price levels, coupled with the potential launch of the capital gains tax which could eat into investment profits, will dampen tenants' willingness to buy business premises. As a result, leasing demand will remain firm and cause rents to increase in the short term.

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