

Briefing Office sector

October 2017

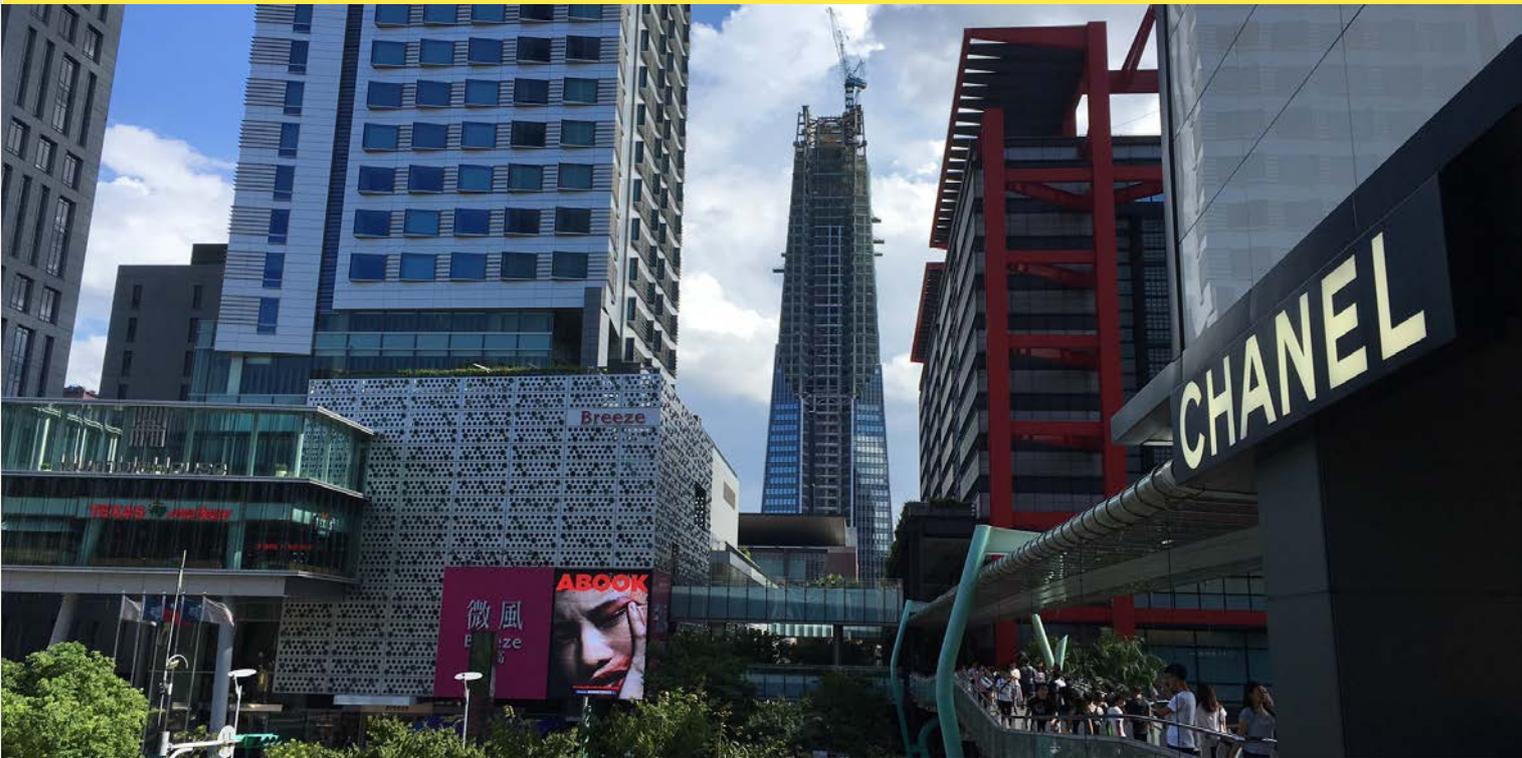


Image: Xinyi district

SUMMARY

Xinyi district continues to be the most popular destination for office relocations and has led pre-lease activities of the prime office building which is due to complete at the end of 2017.

- Economic recovery brought improvement in the job market, with the unemployment rate decreasing to 3.81% in 1H/2017.
- Average Grade A office rent increased by 0.2% year-on-year (YoY) to NT\$2,762 per ping (US\$27.3 sq m month) in Q2/2017. Rents of several Grade A office buildings in the Xinyi district reached NT\$3,400 per ping (US\$33.6 sq m month).
- Momentum in the leasing market slowed and vacancy rates decreased

- slightly by 0.1 percentage points (ppts) in Q2/2017.
- Pre-leasing activities in Nanshan Plaza performed well, as Deloitte is going to occupy 1/4 of the office space, recording one of the largest relocation activities in recent years.
- New Grade A office buildings in non-core areas, with attractive rents ranging between NT\$2,000 to NT\$2,500 per ping, will impact older grade A office buildings.

“60,000 ping (198,00 sq m) of new office supply in the second half of 2017 will bring limited pressure on the market, as the new buildings promote different rental strategies.”

Erin Ting, Savills Research

➔ **Market overview**

Due to improved economic performance in Q1/2017, the Directorate-General of Budget, Accounting and Statistics (DGBAS) revised the 2017 GDP forecast upwards to 2.05%. IHS Markit predicted the global GDP growth to reach 3% in 2017, the highest in six years. The recovery of the global economy stimulated Taiwan's exports after last year's poor performance, with the growth reaching 12.5% in the first five months of 2017. In June, the unemployment rate rose slightly by 0.01 ppts to 3.78% as new graduates poured into the job market. In general, the job market has improved in the first half of 2017, with the unemployment rate down by 0.14 ppts compared with last year, and could bring positive effect on the demand for office space.

Momentum in the leasing market slowed moderately. Demand for large space was rare and most of office relocations leased units less than 100 ping. One notable large deal was

that Toshiba moved from Nan Shan Mingsheng building to Hung Sheng IFC and took a total space of 1,000 ping (3,300 sq m) on 3/F and 4/F. This relocation successfully pushed the occupancy rate in Hung Sheng IFC to over 50%. In Xinyi district, Amazon took up 600 ping (1,980 sq m) of office space in the 18/F of Shin Kong Xinyi Financial building and opened their Taiwan office this quarter. At the same time, Porsche leased around 400 ping (1,320 sq m) on the upper floor of the Cathay Landmark, increasing the building's occupancy rate to 80%.

Pre-leasing activities in Nanshan Plaza, which will add 300,000 ping (990,000 sq m) of office space to the market by the end of 2017, performed well, anchoring premier clients. The Executive Centre, a service office operator, leased a full floor in Nanshan Plaza to establish their second branch. Deloitte, relocating from the Dunhua N. district to the Xinyi district, has leased space of approximately 7,500 ping (24,750 sq m), over 8 floors, in Nanshan Plaza. They recorded the largest relocation project in the Grade A office market and broke the record made by Microsoft, which leased 3,400 ping (11,220 sq m) in Cathay Landmark, last year.

The headquarters of Taiwan Cooperative Bank (TCB), consisting of three office buildings, with a total space of 32,000 ping (105,600 sq m), will be launched in the next quarter. In addition to self-occupancy for two buildings, C building will provide 5,551 ping (18,318 sq m) of office space for lease, with rents starting from NT\$1,980 per ping (US\$19.6 sq m per month). The rent is far lower than new office buildings in the Xinyi district and is expected to attract companies currently in Grad B or C office buildings, looking to upgrade their working environment.

Supply

Total stock remained unchanged at 596,000 ping (1,966,800 sq m) this quarter. Three office buildings in non-core areas will be launched later in 2H/2017 and will bring a total of 66,000 ping (217,800 sq m) to the market, including Huang Hsiang Zhongshan building (4,000 ping), the headquarters of TCB (32,000 ping), and Nanshan Plaza (30,000 ping). Fifty percent of the new supply will be occupied by landlords or is already secured by tenants. In the next year, United Daily

News Headquarters in Zhongxiao E. Rd. and Cathay Mingshan Jianguo Building in Dunhua N. district, totaling 22,000 ping (72,600 sq m), will complete and pre-leasing campaigns are actively underway.

Vacancy

Vacancy rates declined by 0.1 ppts to 8.2% and reduced for six consecutive quarters. This is attributable to the improvement in the Xinyi district, with several small-sized units in Cathay Landmark, Shin Kong Xinyi Financial building and Farglory Financial Centre occupied.

In the Dunhua S. district, vacancy levels remained the lowest among four business districts due to the lack of new supply. As for the Dunhua S. district, even though Toshiba took over 1,000 ping (3,300 sq m) of office space in Hung Sheng IFC, their relocation, in which they downsized their office space by over 20%, made vacancy rates in the district increase slightly.

Rent

The average rent in the Grade A office market marked at NT\$2,762 per ping (US\$27.3 sq m per month) in Q2/2017, up 0.2% quarter-on-quarter (QoQ) and 0.6% YoY. Rent growth was stable in the Xinyi district and rents of several buildings, including Cathay Landmark, Taipei 101, Walsin Lihwa Xinyi building, Farglory Financial building and Cathay Financial Center stood firmly at over NT\$3,400 per ping (US\$33.6 sq m per month). The Dunhua N. district was the only district which recorded a decline of 0.6% QoQ in rents, owing to increasing vacancy rates and outdated Grade A office buildings.

Grade A office buildings in the Dunhua N. and the Dunhua S. districts are currently encountering difficulties, given the strong trend of companies to relocate to Xinyi district. Moreover, newly launched buildings in non-core areas, such as TCB headquarters and UNI'S Innovation Landmark, offer incentives to attract tenants by setting their rents ranging between NT\$2,000 to NT\$2,500 per ping, which is close to the rents of older Grade A office buildings in the main office districts. Therefore, older office buildings are struggling to retain rent levels and occupancy rates. ■

GRAPH 1 **Grade A office vacancy rates, Q1/2007–Q2/2017**



Source: Savills Research & Consultancy

TABLE 1 **Grade A office vacancy rates by sub-market, Q2/2017**

District	Vacancy rate (%)	QoQ change (%)	YoY change (%)
Xinyi	8.2	-0.7	-2.0
Dunhua North	10.8	0.6	0.8
Dunhua South	1.8	0.3	-2.3
Non-core	11.5	0.0	-1.7
Taipei overall	8.2	-0.1	-1.3

Source: Savills Research & Consultancy

GRAPH 2
Grade A office rents, Q1/2007–Q2/2017



Source: Savills Research & Consultancy

TABLE 2
Grade A office rents by submarket, Q2/2017

District	Rent (NT\$ per ping per month)	QoQ change (%)	YoY change (%)
Xinyi	3,230	0.6	1.7
Dunhua North	2,316	-0.6	0.7
Dunhua South	2,528	0.0	-1.6
Non-core	2,182	0.0	-1.2
Taipei overall	2,762	0.2	0.6

Source: Savills Research & Consultancy

TABLE 3
Major leasing transactions, Q2/2017

Date	Building	Location	Size (ping)	Rent (NT\$ per month)	Unit rent (NT\$ per ping per month)
Apr	10/F, Shing Kong Xinyi Financial Building	Songren Road	296.55	980,840	3,308
Apr	17/F, Walsin Lihwa Xinyi Building	Songzhi Road	75.37	256,258	3,400
Apr	18/F, International Trade Building	Sec. 1, Keelung Road	59.78	194,584	3,255

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

OUTLOOK

The prospects for the market

The improvement in Taiwan's economy will encourage companies to upgrade their working environment and also drive pre-lease activities of new office buildings. Even though a lot of new supply will come to the market in the short term, their different rental strategies may have the ability to reduce pressure on the market.

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