

Briefing Office sector

November 2014



SUMMARY

As the signs of economic recovery became firm, the total take-up in the first three quarters of 2014 outperformed the total for 2013.

- Due to the improvement of local consumer spending and exports, the government increased the GDP growth forecast in 2014 to 3.51% from 2.98%.
- Take-up in Q3 was 2,100 ping and brought year-to-date (YTD) take-up to 8,800 ping.
- The actual rent for 83rd floors of Taipei 101 reached NT\$4,411 per ping per month (US\$44.8 per sq m per month) which broke the record in the Grade A office market.
- New supply in the fringe area with easy accessibility and attractive rents became a threat to the grade B and C office in the CBD.
- Exterior wall renovation for outdated office buildings on major streets could increase rents by NT\$100 to NT\$200 per ping.
- The economic recovery has only had a limited positive effect on rents. but has helped reduce vacancy levels further.

"Companies holding a conservative outlook made the leasing market seem sluggish to respond to the current economic recovery, even though office expansion and relocation activities increased."

Erin Ting, Savills Research

Market overview

Due to the improvement in domestic consumer spending and exports, economic growth in Q3 reached 3.78% and is expected to reach 3.51% in 2014, which is higher than the previous two years. This economic improvement resulted in employment growth of 38,000 in the first half of 2014 and over 30% of that was concentrated in Taipei City. As for the establishment of new companies in the first three quarters, demand came mainly from finance. insurance, and professional technical services - companies that traditionally have higher rent affordability and choose to set up their first offices in the main business areas.

Take-up in Q3 reached 2,100 ping, and was mainly attributable to several large scale expansion and relocation activities. The total take-up for the first three quarters was around 8,800 ping, which surpassed the annual take-up level (8,000 ping) in 2013 - this figure does not take into account the office spaces occupied by Farglory

Group who moved into their new headquarters.

Due to booming car sales, several automobile companies upgraded their office space in this quarter. For example, Volkswagen and Audi recorded the largest relocation activity YTD by taking up three floors of office space at Farglory Financial Center, a total of approximately 1,800 ping. Through this relocation, their unit rent is estimated to increase by around 30%. As there are over ten department stores located in this area, there is a shift in preference toward the Xinyi district for international retail brands. Following LV, Dior, Hermes, Coach, and Agnes b, H&M, who will launch their first store in Breeze SONG GAO at the end of 2014, also chose to set up their Taiwan office in the Xinyi district.

Even though rental increase is weak, landmark buildings with unbeatable views still attract specific tenants to pay higher rents. For example the highest rental of Grade A office was the

83rd floor of Taipei 101, the highest available office space in this building. Cheetah Mobile, a leading China mobile internet company, leased 223 pings (737 sg m) for NT\$4,411 per ping per month this year, which was 20% higher than the average rent level in Taipei 101, which usually ranges between NT\$3,100 to NT\$3,500 per ping per month.

Supply

No new projects were handed over in Q3, leaving Grade A office stock at 540,000 ping (1.78 million sq m). HongTai MRT 4, with GFA of 12,500 ping, is expected to complete in early 2015. However, due to a large portion of office space in this building being listed for sale, only two floors owned by Taipei Rapid Transit Corporation are likely to be released onto the leasing market in the short term.

Including HongTai MRT 4, four Grade A office buildings in the pipeline will provide a total office space of 55,000 ping (182,000 sq m) in 2015, the largest new supply since 2004. In addition to these four new Grade A office buildings, new supply in the fringe areas, such as Taipei New Time Square in the Dazhi area (5,000 ping) and Ruentex Shungshan BOT (23,000 ping), will also intensify market competition through their easy accessibility and attractive rents.

Vacancy

Due to the take-up of three floors at Farglory Financial Center, the overall Grade A office vacancy rate decreased slightly by 0.51 of a percentage point (ppt) to 7.37%. The largest improvement was seen in the Xinyi district - by reducing 1.1 ppt, vacancies in over 70 percent of buildings were below 10%. Another district to see improvement was Dunhua South with the vacancy rate dropping marginally to 5.21%.

Rent

Grade A office rents remained stable at NT\$2,692 per ping per month (US\$27.4 per sq m per month) in Q3. As MRT Songshan Line was opened, landlords increased asking rents of office buildings located alongside this MRT line. However, the positive effect on rents is limited because buildings. located in this mature area are outdated. On the other hand, exterior wall renovation for old office buildings on major streets could increase rents by NT\$100 to NT\$200 per ping.

Grade A office vacancy rates, Q1/2007–Q3/2014

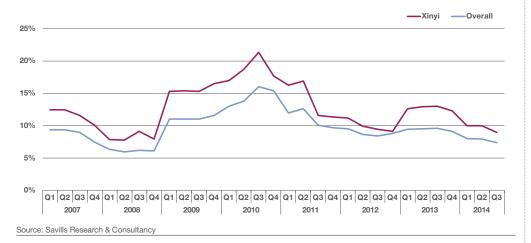
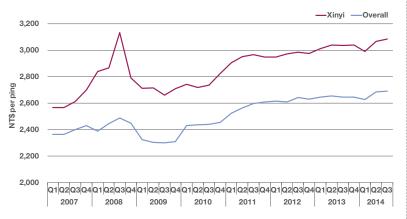


TABLE 1 ■ Grade A office vacancy rates by submarket, Q3/2014

District	Vacancy rate (%)	QoQ change (%)	YoY change (%)
Xinyi	8.93	-1.10	-4.09
Dunhua North	9.05	-0.04	-0.38
Dunhua South	5.21	-0.23	-2.00
Non-core	2.01	0.07	-0.17
Taipei overall	7.37	-0.51	-2.23

Source: Savills Research & Consultancy

Grade A office rents, Q1/2007-Q3/2014



Source: Savills Research & Consultancy

TABLE 3 ■ Major leasing transactions, Q3/2014

Date	Building	Location	Size (ping)	Rent (NT\$ per month)	Unit rent (NT\$ per ping per month)
Jul	22/F, International Trade Building	Sec 1, Keelung Road	56.82	159,124	2,800
Aug	12/F, Shin Kong A12 Building	Songren Road	122.29	407,495	3,332
Aug	7/F Exchang Square II	Songren Road	104.09	261,739	2,515

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

Grade A office rents by submarket, Q4/2013

District	Rent (NT\$ per ping per month)	QoQ change (%)	YoY change (%)
Xinyi	3,084	0.5	1.5
Dunhua North	2,317	0.0	3.1
Dunhua South	2,605	0.0	0.8
Non-core	2,179	0.2	1.2
Taipei overall	2,692	0.3	1.7

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

Human resource companies noted that 40 percent of companies in Taiwan will expand their headcounts, especially in the finance and insurance industries, in response to the economic recovery. Savills expects positive effects on reducing the vacancy rate, however, companies remaining conservative on operating costs will make the leasing market slow to benefit from the current recovery.

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