

Office



Industry transformation pushes new demand

As the deadline approaches on redevelopment incentives for older buildings, owners are more likely to consider rebuilding.

- The office leasing market was stable in Q1/2019, with total take-up reaching 9,000 ping (29,700 sq m).
- In addition to demand from traditional tenants, the Grade A office market welcomed increased interest from sectors such as new media, new retail and pharmaceuticals.
- International co-working operators are expanding their presence in Taiwan, especially in the Grade A office sector, with JustCo scheduled to open two premises in the Dunhua N. district.
- Several developers shifted their focus from residential to office and industrial space development.
- Fringe areas of Taipei City and new Taipei city, such as Neihu, Nankang, Sanchong and Xinzhuang, are on the property radar.
- Taipei's limited new supply in the pipeline pushed the average rent to NT\$2,856 per ping, up 0.7% year-on-year (YoY). Cathay Landmark set a record when the actual rent on a lease climbed over NT\$4,000 per ping.
- A shortage of new office space pushed overall asking rents higher and gave landlords the upper hand in lease negotiations.

“A shortage of new supply coupled with the steady growth in demand has put landlords in a good negotiation position for rents and lease terms.”

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TAIWAN

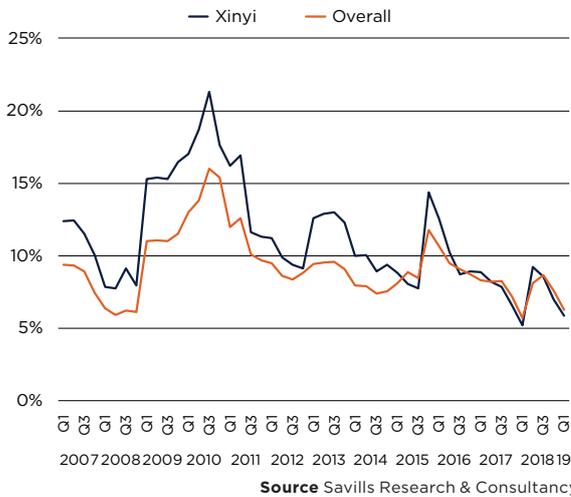
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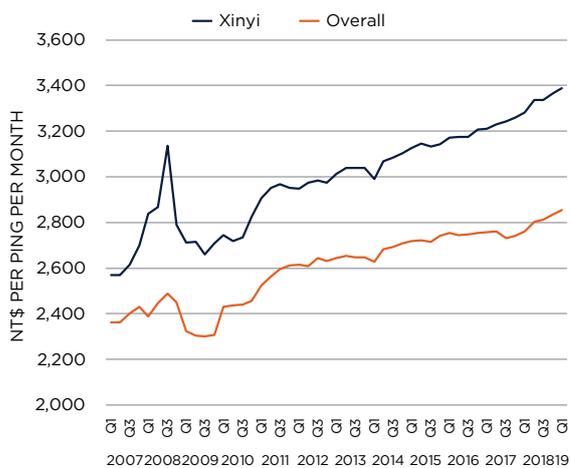
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GRAPH 1: Grade A Office Vacancy Rates, Q1/2007 to Q1/2019

Source Savills Research & Consultancy

GRAPH 2: Grade A Office Rents, Q1/2007 to Q1/2019

Source Savills Research & Consultancy

TABLE 1: Grade A Office Vacancy Rates By Submarket, Q1/2019

DISTRICT	VACANCY RATE (%)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	5.9%	-1.1%	0.6%
Dunhua North	6.6%	-4.1%	-1.7%
Dunhua South	3.5%	2.4%	2.1%
Non-core	9.4%	-1.0%	2.3%
Taipei Overall	6.3%	-1.3%	0.6%

Source Savills Research & Consultancy

MARKET OVERVIEW

Three factors—the trade war between China and the US, Brexit issues, and China's economic slowdown—have negatively affected the global economy. The IMF revised global GDP growth down to 3.3% this year. Similarly, according to the Directorate-General of Budget, Taiwan's GDP growth for 2019 is estimated to fall by 0.34 of a percentage point (ppt), compared to last year, to 2.29%. Meanwhile, business activity has slowed significantly during the past 12 months. The number of company registrations in Taipei City increased by only 258 from March 2018 to March 2019; a typical 12-month span would see 3,000 new companies registering. This moderation in business expansion and economic growth could affect office demand in the future.

However, despite the economic uncertainty, the Grade A office market was relatively stable in Q1/2019 with total take-up reaching 9,000 ping (29,700 sq m), equivalent to the demand level in Q1/2018. Activity was concentrated mainly in the Dunhua N. and Xinyi districts. The average rent and vacancy rate in the Xinyi district keeps improving, with Nanshan Plaza, Cathay Landmark and President International Tower all recording several mid- to large-sized office take-ups. In the Dunhua N. district, the vacancy rate declined significantly this quarter. Large amounts of office space, left vacant by anchor tenants moving to the Xinyi district, have been partly offset by two new tenants. Capital Securities Corp. has leased over 3,000 ping in Hung Tai Financial Plaza for their headquarters while JustCo, a Singapore co-working operator, has set up its first Taiwan premises on two floors in the same building.

Meanwhile, industry transformation has brought new momentum to the office leasing sector. In addition to demand from traditional tenants, several non-typical industries such as new media, new retail, start-ups, fintech, gaming and pharmaceuticals are now becoming anchor tenants. Recently, co-working operators and the green energy industry, which is specifically supported by the government, increased their demand for office space.

International co-working operators are trying to expand their footprint in Taiwan. Prior to their arrival, domestic serviced-office operators played an important role in the office leasing market. Preferring to set up premises in newer Grade A office buildings or in CBD areas, these operators targeted tenants with higher budgets who required less than 50 ping (165 sq m) such as start-ups and newly established

enterprises. Notable brands, including The Executive Centre, Regus and GlobalTown Business Center, currently operate a total of 22 premises in Taipei City. Half of these serviced offices are in Grade A office buildings while 30% are in Grade B buildings.

Owing to technological improvements and the work environment preferences of millennials, co-working spaces have grown rapidly in popularity. Several international co-working operators, including Kafnu from Singapore, Spaces by IWG, and The Hive from Hong Kong, have opened their first co-working premises in Taipei over the last two years. In 2018, JustCo, a Singapore operator, made an aggressive push to increase market share by opening two premises in the Duhua N. district. Both outlets were located in Grade A office buildings with each site over 1,500 ping (around 4,900 sq m). As co-working operators expand their footprint across Taipei, they not only enhance options for tenants, but also push up Grade A office rents.

Limited new completions and rising office rents have caught developers' eyes. Several developers, including Highwealth, Huaku, King's Town and Hong Pu, have shifted their focuses from residential to office and industrial space development. With plans to launch 30 office building projects in the next ten years, Highwealth Construction acquired NT\$7 billion worth of land in Taipei City in the past two quarters. Due to the difficulty of acquiring land in CBD, industrial lands in the fringe areas of Taipei City and new Taipei city, such as Neihu, Nankang, Sanhong and Xinzhuang, are currently on the radar for developers. In the future, these industrial office development projects could enjoy a big advantage in attracting self-occupiers due to lower rents and overall costs.

SUPPLY

With no new completions this quarter, total office stock remained unchanged at 693,000 ping (2,286,900 sq m). Looking at the rest of the year, Huang Hsing Zhongshan Building might release 4,000 ping of office space to the market after successfully negotiating with the Department of Rapid Transit Systems. Over the next year, two Grade A office buildings are expected to launch, however, reports are that the landlords might decide to take up all of the space themselves. One is the China Life Headquarters, in which the landlord is set to apply for the building use permit at the end of 2019 for a 2020 move-in. China Development Financial Holding Corporation and its subsidiary companies will occupy a large portion of the office

TABLE 2: Grade A Office Rent By Submarket, Q1/2019

DISTRICT	RENT (NT\$ PER PING PER MONTH)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	\$3,389	0.7%	3.3%
Dunhua North	\$2,428	1.9%	2.8%
Dunhua South	\$2,481	-0.6%	-0.6%
Non-core	\$2,235	0.0%	1.1%
Taipei Overall	\$2,856	0.7%	3.4%

Source Savills Research & Consultancy

TABLE 3: Major Leasing Transactions, Q1/2019

DATE	BUILDING	LOCATION	SIZE (PING)	RENT (NT\$/MONTH)	UNIT RENT (NT\$/PING/MONTH)
Jan	14/F, Nanshan Plaza	Songren Road	1,034	3,963,916	3,832
Feb	27/F, Nanshan Plaza	Songren Road	469	1,774,445	3,780
Feb	12/F, Cathay Landmark	Zhongxiao E. Road	353	1,484,112	4,200
Mar	19/F, Shing Kong Xinyi Financial Building	Songren Road	136	500,645	3,676

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

space—25,000 ping (82,500 sq m). The other project is the Kindom Construction Dunhua N. Building, which was sold to E.SUN Commercial Bank in 2018. Further down the road, in 2021 two office buildings developed by Fubon Life will add a total office space of 37,000 ping (122,100 sq m) to the market. Part of that space might be released to the leasing market.

VACANCY

The overall vacancy rate for the Grade A office market has declined for three consecutive quarters, falling from 7.6% in Q4/2019 to 6.3% in Q1/2019. In general, the vacancy rate is at its lowest level since 2017.

Across the submarkets, the vacancy rate in Dunhua N. district enjoyed the largest quarterly decline—4.1 ppts—due to a substantial space being leased in Hung Tai Financial Plaza. Conversely, the vacancy rate in Dunhua S. district rose 2.4 ppts mainly due to the 3M Company vacating approximately 2,400 ping (7,920 sq m) in CEC Sun Nan Building, which was then officially released to the market. Over the next two years, the overall vacancy rate will remain on a downward trend due to the limited new supply available for leasing.

RENT

Stable demand and low vacancy rates provide a good foundation for rental growth. The average rent in the Grade A office market increased 0.7% QoQ to NT\$2,856 per ping while the Dunhua N. and Xinyi district rose by 1.9% and 0.7% QoQ, respectively. As the deadline approaches on redevelopment incentives for older buildings, owners of

these buildings are considering aggressive redevelopment options. Therefore, strong demand from tenants moving out of older office buildings could increase take-up in the Grade A office market and support rental growth.

Following Taipei 101 and Nanshan Plaza, Cathay Landmark is another Grade A office building in the Xinyi district to set a record for actual rents on leases climbing over NT\$4,000 per ping. A technology company and a pharmaceutical company took office space for NT\$4,200 per ping on 36/F and 12/F, respectively, of Cathay Landmark. Owing to the limited available office space, several landlords in the Xinyi district increased their asking rents by 5% to 10% and are enjoying stronger bargaining power with respect to rent-free periods.

OUTLOOK

With May 2020 looming as the deadline for redevelopment incentives, owners of older office buildings are currently considering aggressive redevelopment plans. The potential disruption will likely increase demand from existing tenants in need of relocations and should benefit Grade B and Grade A office sectors. Overall, the continuing contraction of office supply in Taipei will keep pushing rents upwards.