

# Briefing Sales and investment

March 2015



Image: Goldsun Group Building, Datong District, Taipei City

## SUMMARY

A continuing conservative attitude in the local market and outward investment in overseas real estate made total sales in 2014 drop by 12.5% to NT\$96.9 billion.

- Even though the base interest rate remained unchanged for the 14th consecutive quarter, a limited mortgage quota for banks resulted in a significant increase in mortgage rates and down payment requirements.

- The auction of properties owned by Gallop No.1 REIT pushed total transaction volumes up to NT\$23.24 billion in Q4/2014; the total for the year, however, only reached NT\$96.9 billion, a 12.5% drop from the 2013 figure.

- The strong recovery in retail sales and limited supply led the average yield for retail shops in Taipei City to remain at 1.88%, slightly lower than 2.21% in the office sector.

- Land transactions dropped dramatically by 37% year-on-year (YoY) to NT\$89.5 billion, which can largely be attributed to the cooling down of residential sales and the tight mortgage rules.

- Given the uncertainties regarding the market in the future, investors preferred properties in mature

locations, with 57% of the total transaction volume taking place in Taipei City in 2014.

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 “While buyers’ bargaining power is getting stronger, only prime or undervalued properties will likely stand out to catch buyers’ attention in the coming year.”

Erin Ting, Savills Research & Consultancy  
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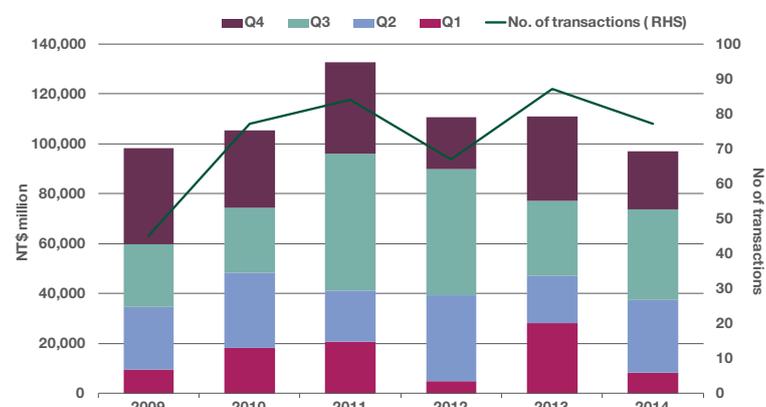
➔ **Economic overview**

As lower oil prices have the immediately effect of easing inflation pressure, the central bank announced that it would retain the base interest rate at 1.87% for the 14th consecutive quarter. In order to sustain the economic recovery, we expect that the central bank will not lift the base interest rate easily unless the U.S. Federal Reserve raises it first. However, strict rules intended to cool the property market and the limited mortgage quota for banks as well as more conservative mortgage valuations resulted in a significant increase in mortgage rates and down payment requirements. These factors further impacted the willingness of investors. For example, mortgage rates climbed to a range between 2.3% and 2.7% and down payment requirements increased to over 30%.

**Major commercial real estate transactions in Q4/2014**

The successful auction of properties owned by Gallop No.1 REIT raised the number of transactions to 19 deals in Q4/2014 and total sales for the quarter reached NT\$23.2 billion. However, as the sentiment remained pessimistic, the total for the year dropped by 12.5% from the 2013 figure to NT\$96.9 billion. The decrease in transactions did not mean investors exited the property market, in many cases they turned to explore overseas

GRAPH 1 **Commercial real estate transaction volumes, 2009–2014**



Source: Savills Research & Consultancy

opportunities. For example, Cathay Life and Fubon Life, the two largest Taiwan insurance companies, acquired three office buildings in London in the second half of 2014 for NT\$32.6 billion, bringing total transaction volumes for the year to NT\$129.5 billion.

The notable transaction in the fourth quarter was the auction of properties owned by Gallop No.1 REIT. This is the third REIT that has faced liquidation since 2011. The total sale price for the Gallop No.1 REIT properties was recorded at NT\$8.087 billion, including one entire office building, one strata office and one strata industrial office. Of these three properties, Goldsun

Group Building, with redevelopment potential and an excellent location, received three bids and was ultimately sold for NT\$3.97 billion at a premium of 13%. The strata office in CTCI Building was sold in the second round of auction for NT\$2.845 billion, representing an office space of NT\$793,000 per ping.

Commercial property transactions largely shrank in 2014; however, office yield in Taipei City still stood at 2.21% in Q4/2014. It ranged between 2.2% to 2.3% for the year, recording only a marginal increase by 0.1% to 0.2%. Comparatively, retail yield remained more firmly at 1.88%

TABLE 1 **Major economic indicators, 2014**

Indicator		Comments
2014 GDP growth forecast (%)	3.43	2013 GDP growth (%): 2.09
2014 GDP per capita forecast (US\$)	22,518	2013 GDP per capita (US\$): 20,984
US\$ exchange rate (Dec 2014)	31.45	2013 average: 29.77
Export growth (% YoY) (Jan-Dec 2014)	2.7	2013 export growth (% YoY): 0.7
Unemployment rate (%) (Nov 2014)	3.89	2013 (%): 4.18
Inbound arrivals (Jan-Dec 2014)	9,910,204 (23.63% YoY)	2013 inbound arrivals: 8,016,280
Benchmark interest rate (%)	1.875	No increment
Financial terms	Rate (%)* = 2.3–2.7 LTV (%)* = 60–70	

Source: Directorate General of Budget, Accounting and Statistics, central bank, Savills Research & Consultancy  
\*Note: Rates and loan-to-value (LTV) ratios may vary depending on the credibility of individual borrowers.

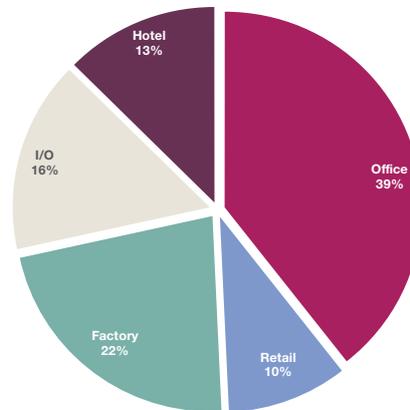
→ this quarter, led mainly by strong retail sales and insufficient supply of prime retail property.

The sluggish residential market and strict mortgage rules greatly influenced the land market. Developers become more selective and led to total land sales falling by 37% to NT\$8.95 billion in 2014. Several developers are expanding their business lines in order to moderate the impact from the drop in residential sales, including moving into office leasing, retail operations and the hotel business. For example, Chong Hong Construction Corp has focused on office leasing, Huang Hsiang Construction Corp. has focused on the retail market, while Kindom Construction Corp. and Runetex Group are focusing on both these areas. These businesses could provide stable and long-term cash income, particularly important for public listed companies.

### Preferred asset class and location

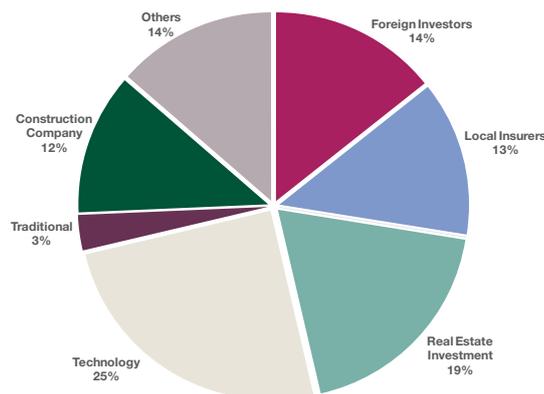
The office market gained a leading position in the investment market, accounting for 39% of transactions in 2014. The largest deal was made by Homanx Development Co., which acquired eight floors of office space in the Dunaan Financial Building for NT\$1.1 billion in Q3. Another notable office transaction was the auction of properties owned by Gallop No.1 REIT, including Goldsun Group Building and CTCI Building, for NT\$3.97 billion and NT\$2.85 billion respectively. Demand for factory premises saw a

GRAPH 3 Significant transactions by property type, 2014



Source: Savills Research & Consultancy

GRAPH 4 Significant transactions by investor type, 2014



Source: Savills Research & Consultancy

TABLE 2 Major commercial real estate transactions, Q4/2014

Date/Property	Location	Transaction amount (NT\$ billion)	Area (ping)	Unit price (NT\$ per ping)	Buyer	Type
<b>November 2014</b>						
Goldsun Group Building	Datong district, Taipei City	3.97	7,158	G/F: 1 million 2/F and above: 409,300	Wei Sheng Development Co.	Office
Several floors of Honeywell Building	New Taipei City	1.54	6,258	254,000	Bank Taiwan Life Insurance	Industrial office
50% share of MODEmall	Taichuang City	2.75	18,150	150,000	Fubon Life Insurance	Retail
G/F & 2/F, Taiwan Glass Building	Songshan district, Taipei City	2.05	722	G/F: 4.58 million 2/F: 1.07 million	A professional investment institute	Retail
<b>December 2014</b>						
Several floors of CTCI Building	Da'an district, Taipei City	2.85	3,752	2/F and above: 793,000	A professional investment institute	Office

Source: Savills Research & Consultancy

significant increase this year due to the improvement in exports and plant expansions, and led to the market share reaching 22%.

In terms of location preferences, as pessimism dominated the property market, buyers retreated to mature areas. In 2014, 57% of sales were in Taipei City, a 9% increase over last year.

**Investor profiles**

As life insurance companies became increasingly inactive, technology companies and professional investment institutes dominated the commercial property market, accounting for 25% and 19% of total sales. Technology companies are end users of factories but professional investment institutes focus more on the property's future redevelopment potential.

Insurance companies only acquired properties worth NT\$12.8 billion in

2014, which was even lower than during the financial crisis, and transferred their focus to overseas property markets. This trend will become more popular in the following years. Two life insurance companies successfully acquired office buildings in London and the single transaction size usually exceeded NT\$10 billion, larger than deals they conducted in Taiwan.

**Outlook**

As the property market experienced a market correction in 2014, buyers' bargaining power is getting stronger. Only prime or undervalued properties are likely to stand out and grab buyers' attention in the next year. Due to the slim chance of a price increase, we expect that an increasing number of investors will tend to sell properties, particularly those that were acquired two years ago and have appreciated by over 30%. ■

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