

# Briefing Sales and investment

June 2015

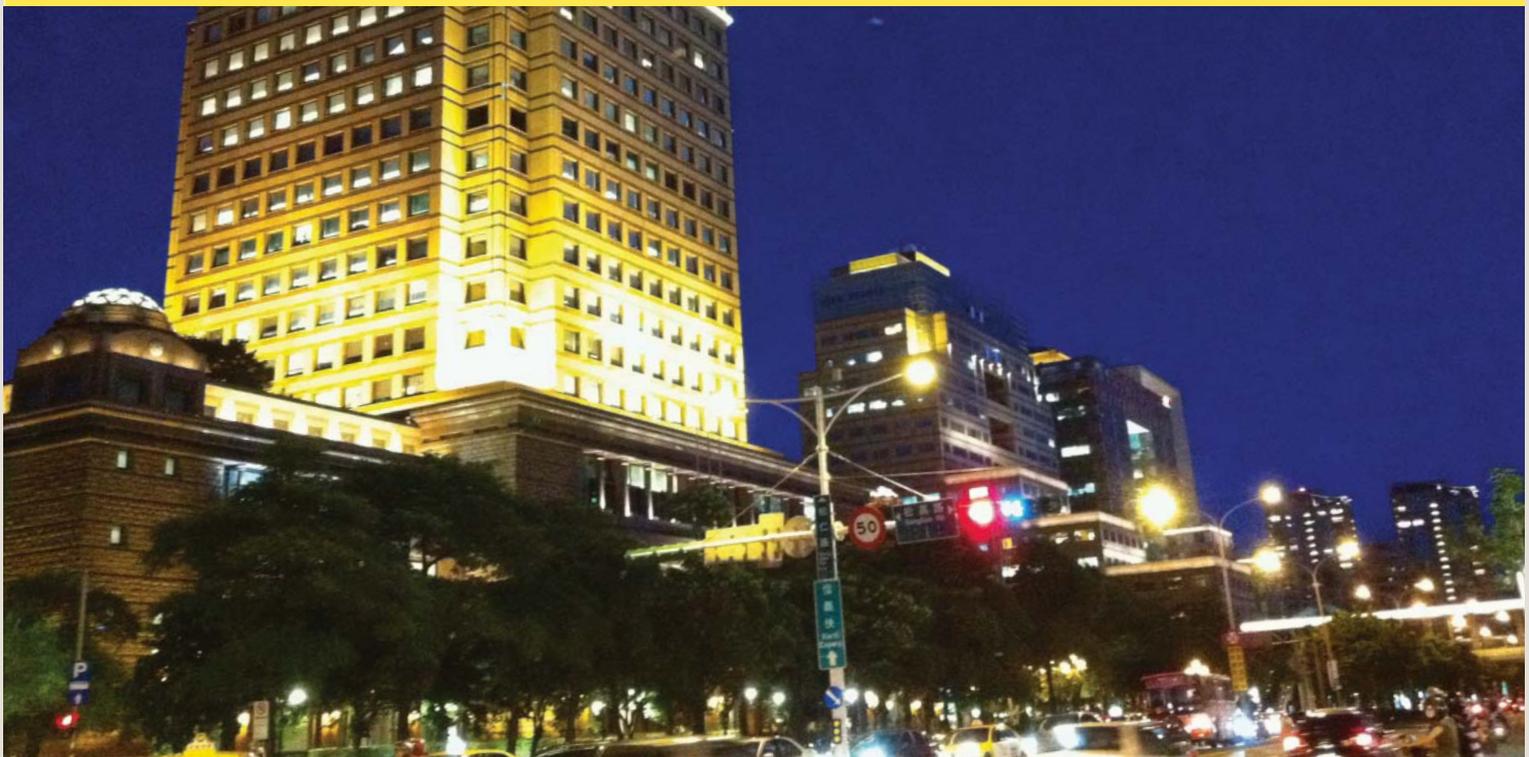


Image: Xinyi district, Taipei City

## SUMMARY

Taiwan's commercial market recorded total sales of NT\$8.2 billion at the beginning of 2015, the third lowest quarterly sales since 2008.

- Taiwan's GDP is projected to grow 3.78% in 2015, slightly higher than last year's GDP growth of 3.74%, and the highest among the four Asian Tigers.

- Amended building tax regulations, which will be imposed this year, are expected to increase the holding costs of office buildings in Taipei City by 10% to 20%.

- Total transaction values reached NT\$8.2 billion this quarter, on a par with Q1/2014.

- The demand for plant expansion from the technology and manufacturing sectors accounted for 43% and 29% of total sales in the first quarter.

- Total land transaction volumes reached NT\$22.3 billion in Q1, up 92% year-on-year (YoY), with two public land tenders in Taipei City and Kaohsiung City recording a 40% and 35% (respectively) premium over the reserve price.

- In general, transaction activity shrank in both the commercial and

residential markets and we expect market momentum to remain low in the short term.

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 "Owner occupiers usually take longer to conclude deals and therefore values and volumes may be slow to pick up."  
 Erin Ting, Savills Research & Consultancy  
 .....

## → Economic overview

Due to the steady economic recovery in the second half of 2014, Taiwan's GDP growth reached 3.74% in 2014, higher than expectations of 2.82% at the beginning of the year. In 2015, the government predicts that economic growth will reach 3.78%, slightly better than GDP growth in Singapore (3.0%) and South Korea (3.3%), and the highest among the four Asian Tigers. In the financial sector, Taiwan's central bank kept base interest rates unchanged at 1.875%, in consideration of the fragile economic recovery and low inflation.

In the private investment sector, rising demand for plant expansion in the semiconductor and manufacturing sectors led the number of new factories to increase. After three consecutive years of improvement, the government projects that private investment will grow by 5.98% YoY in 2015. In addition, the economic recovery and a booming tourism market resulted in strong growth in the retail sector. Total department store sales are anticipated to reach NT\$320 billion in 2015, representing a 5% annual growth.

### Major commercial real estate transactions in Q1/2015

Given the traditional slow season marked by the Chinese New Year period and also the market cooling measures, as well as a new capital gains tax under discussion, real estate

market confidence continues to be affected. Total sales of significant commercial property only reached NT\$8.2 billion, up 0.5% YoY. With nine deals concluded, this represents the third-lowest quarterly sales since the global financial crisis. It is unusual that the market didn't see any large-sized office deals concluded this quarter. Most offices available for sale are units which are smaller than 100 ping. In addition, the price expectation gap between buyers and sellers remains wide, dampening market activity.

The latest market cooling measure will increase property holding costs. The amended building tax, imposed this May, has had a significant influence on the Taipei property market, especially residential. The Taipei City Government revised the value assessment standards of new buildings and increased building values an average of 160%. All buildings in Taipei City completed after July 2014 will experience a higher assessed building value. In addition, building tax rates for owners of multiple residential houses could also rise from 1.2% to between 2.4% and 3.6%. In terms of commercial property, due to the lack of new supply, only a few specific properties will face this serious challenge. However, for existing buildings, the tax on buildings located in prime areas, especially close to important public development projects, could also increase 10% to 20%.

Owner-occupiers continued to be major buyers at the beginning of 2015. Gamania Corporation, an online game developer, acquired the Reihu Technology Building for NT\$2.388 billion (NT\$450,000 per ping) as their new headquarters, consolidating their offices in New Taipei City. This industrial office building was bought by Shin Kong Life Insurance Company in 2007 for NT\$1.5 billion and put on the market for public tender in the middle of last year.

Following the market trend of the past year, factories continued to be the most popular property type because of the demand for plant expansion from the technology and manufacturing sectors. Two deals were concluded during Q1, including Sunspring Metal Corporation acquiring Tera Auto Technology Taichuang Factory for NT\$1.06 billion, and Everlight Electronics Co., Ltd. acquiring Retek Corporation Miaoli Factory for NT\$1.26 billion. Another notable deal was Kenting Resort, bought by Leofoo Resort Kenting for NT\$900 million. The resort was opened in 2007 and has 196 rooms close to the popular tourist attractions in Kenting.

Land transactions also suffered from market cooling measures, with total sales down 48% quarter-on-quarter to NT\$22.3 billion in the first quarter.

TABLE 1  
Major economic indicators, 2015

Indicator		Comments
2015 GDP growth forecast (%)	3.78	2014 GDP growth (%): 3.74
2015 GDP per capita forecast (US\$)	22,823	2014 GDP per capita (US\$): 22,518
US\$ exchange rate (Mar 2015)	31.52	2014 average: 30.37
Export growth (% YoY) (Jan-Mar 2015)	-4.2	2014 export growth (% YoY): 2.7
Unemployment rate (%) (Feb 2015)	3.69	2014 (%): 3.89
Inbound arrivals (Jan-Feb 2015)	1,569,454 (10.11% YoY)	2014 inbound arrivals: 9,910,204
Benchmark interest rate (%)	1.875	No increment
Financial terms	Rate (%)* = 2.3–2.7 LTV (%)* = 60–70	

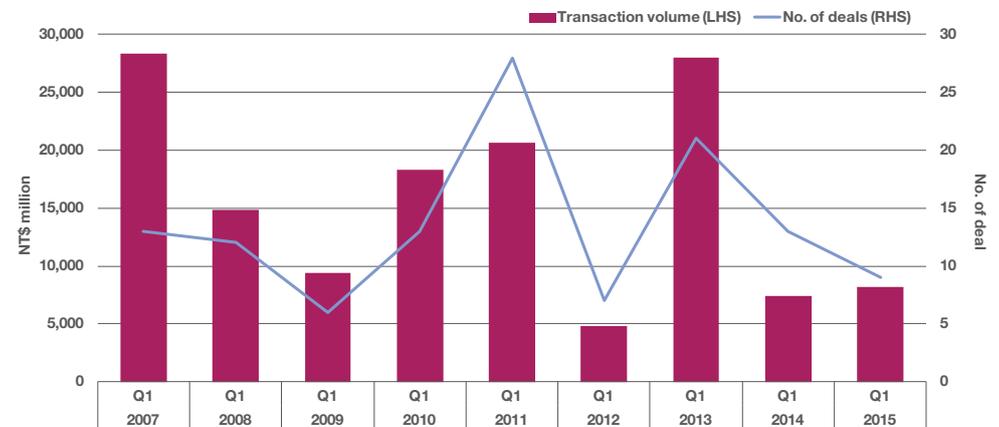
Source: Directorate General of Budget, Accounting and Statistics, central bank, Savills Research & Consultancy  
\*Note: Rates and loan-to-value (LTV) ratios may vary depending on the credibility of individual borrowers.

→ Even though slowing home sales made developers cautious about increasing land inventory, several public tender cases and private treaty cases were successfully concluded. The largest land deal was completed by the Farglory Group which purchased a land plot in a land expropriation area close to the international airport MRT A7 station for NT\$5.65 billion (NT\$290,000 per ping). In terms of public tender, the most competitive case was a commercial land lot in Taipei City, with an area of 289 ping (953 sq m). Ten bids were received, with Yuanta Life winning with a bid of NT\$2.9 billion, a 40% premium over the reserve price. This deal represented over NT\$10 million per ping and broke the price record in the area. Another notable parcel of land made available via public tender was in Kaohsiung City in front of a park, which was acquired by a local developer. The bid price reached NT\$900 million, a 35% premium over the reserve price.

**Preferred asset class and location**

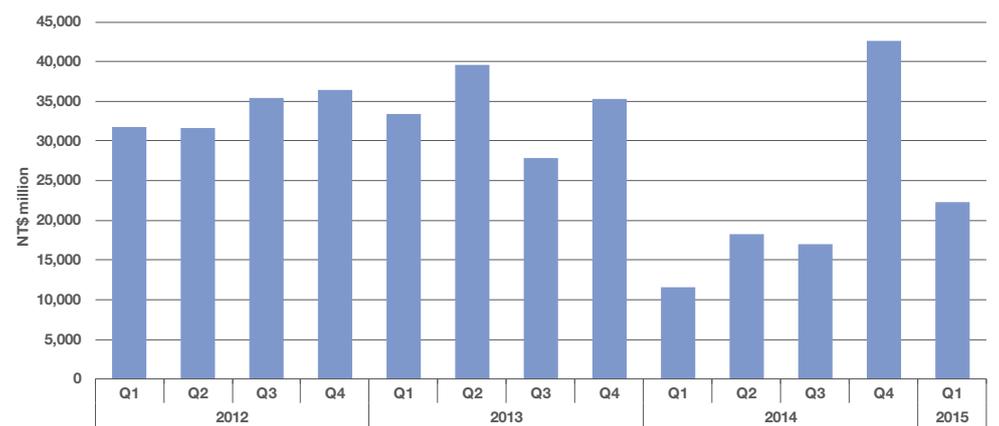
Plant expansions are driving factory transactions and contributed 43% of total transaction volumes, with a total of NT\$3.5 billion. Industrial offices also accounted for 29%, due to the sale of the Reihu Technology Building. In the retail sector, limited available property listed for sale meant only 13% of the market share. This included a street shop located in Nanging E. Rd. which sold for NT\$309 million (NT\$2.08 million per ping).

**GRAPH 1 Commercial real estate transaction volumes, 2007–Q1/2015**



Source: Savills Research & Consultancy

**GRAPH 2 Land transaction volumes, 2012-Q1/2015**



Source: Savills Research & Consultancy

**TABLE 2 Major commercial real estate transactions, Q1/2015**

Date/Property	Location	Transaction amount (NT\$ billion)	Area (ping)	Unit price (NT\$ per ping)	Buyer
<b>Jan 2015</b>					
Reihu Technology Building	Neihu district, Taipei City	2.39	5,948	G/F: 700,000 2/F and above: 450,000	Gamania
Leofoo Resort Kenting	Pingtung County	0.9	6,053	149,000	Kenting Resort
<b>Mar 2015</b>					
Tera Auto Technology Taichung Factory	Daya district, Taichung City	1.06	11,009	100,000	Sunspring Metal Corporation
Retek Corporation Miaoli Factory	Miaoli County	1.26	14,108	90,000	Everlight Electronics Co., Ltd

Source: Savills Research & Consultancy

The investment location preference shifted to outside urban areas, accounting for 36% of deals, while the demand for factories increased. As for the land market, developers still focused on mature locations where they consider the demand for residential property is more solid. Land transactions in New Taipei City and Taipei City accounted for a market share of 23% and 20% respectively.

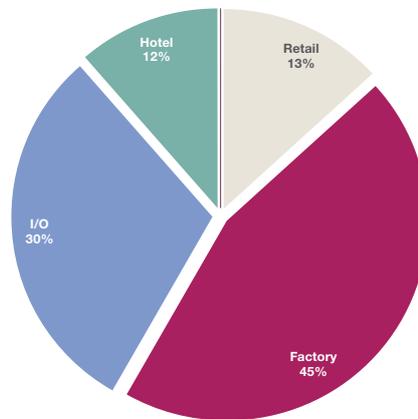
### Investor profiles

Life insurance companies and professional investment institutes remained silent this quarter. As a result, technology and traditional companies were the major investors in Q1/2015. Each of their investment deals exceeded NT\$1 billion and accounted for 44% and 13% of total sales respectively.

### Outlook

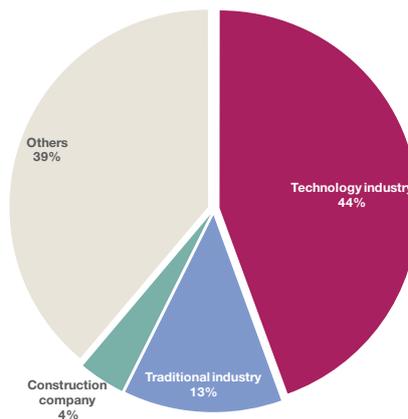
Transactions for both residential and commercial property continued to decrease due to the lack of speculators. We project that the market will experience price fluctuations, even though the economic recovery looks likely to increase the demand for factory, office and retail shops from owner occupiers. As they usually take a longer time to conclude these deals, and are cost-conscious, the demand from end-users may not have a positive effect on prices and volumes in the near term. ■

GRAPH 3 Significant transactions by property type, Q1/2015



Source: Savills Research & Consultancy

GRAPH 4 Significant transactions by investor type, Q1/2015



Source: Savills Research & Consultancy

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