

Briefing Sales and investment

August 2017



Image: Xinyi district, Taipei City

SUMMARY

Due to the growing demand for manufacturing capacity expansion, industrial office and factory transactions accounted for 60% of the total volume in Q2.

- The projection of GDP growth in 2017 was revised up to 2.05%, due to the improvement in Taiwan’s exports in the first five months.
- The total amount of commercial property transactions in Q2/2017 dropped by 57% year-on-year (YoY) and decreased by 35% YoY in 1H/2017.
- The demand for industrial properties was stable and the total transacted volume of factory and I/O reached NT\$8.9 billion, accounting for 69% of the quarter’s transaction total.
- IT companies, preferring industry properties in the north of Taiwan, have been the largest buyers for three consecutive quarters.
- Insurance companies have been revitalising old office buildings through redevelopment, causing office prices, especially those with consolidation potential, to rise.
- While residential sales bounced back, development site sales increased by 60.5% YoY, mainly in the city areas of central and southern Taiwan.

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 “The need for industry properties will accelerate in the near future, given illegal factories in the agriculture area are now strictly banned by the government.” Erin Ting, Savills Research & Consultancy

➔ **Economic overview**

Due to the better economic performance in the first quarter, 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.

Given the early stages of the economic improvement, and its stable inflation, the Central Bank of the Republic of China announced it would keep interest rates unchanged at 1.375% this June. Low interest rates and abundant capital, as well as the competitive nature of banking, caused the average mortgage rates of five leading banks to decline by 0.076 of a percentage point (ppt) YoY to 1.655%, the lowest level in recent years. Several banks, including Land Bank and Mega International Commercial Bank, are providing mortgage rates under 1.6% for property in prime areas and clients with good credibility.

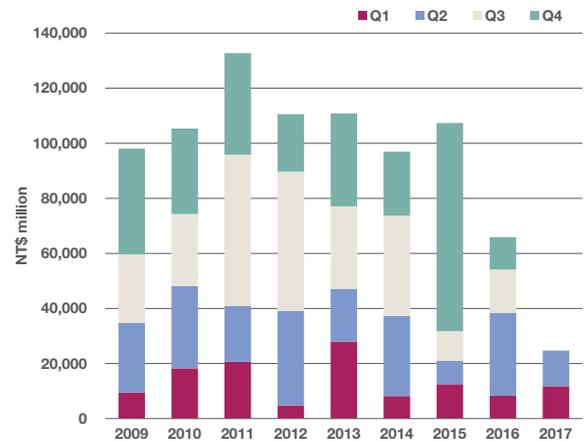
Major commercial real estate transactions in Q2/2017

Momentum in the commercial property sector remained low. The total value of property transactions in Q2/2017 was NT\$12.97 billion, up 10.4%

quarter-on-quarter (QoQ). However, the transaction volume declined by 57% compared with Q2/2016, and dropped by 35% in 1H/2017, despite the NT\$16.5 billion value of the Kaohsiung Han-Lai New World Center, which changed hands in Q2/2016. No deal worth more than NT\$2 billion was concluded this quarter. The largest deal was made by Subsidiary companies of Yuanta Financial Holdings, who purchased the G/F and 7/F of the Datong Building in Taipei City for NT\$1.65 billion for redevelopment.

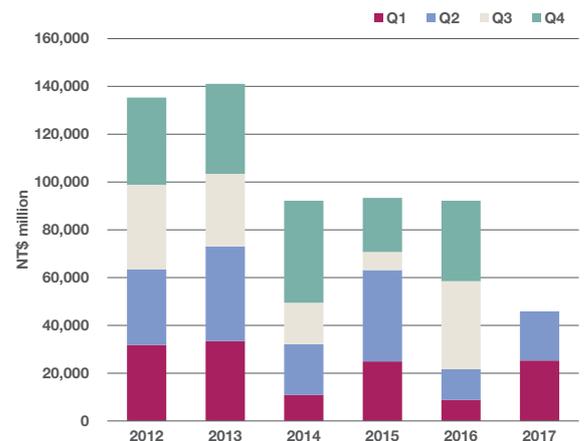
Income-producing property performed poorly again. End-users dominated the market, leading the share of factory and I/O to reach 27% and 42%, respectively. IT companies accounted for 52% of total transactions, and have been the largest buyers for three consecutive quarters, owing to the strong demand for manufacturing capacity expansion. Notable deals in Q2 included Weitien Electronic acquiring an I/O in the Zhonghe District, New Taipei City, for NT\$1.45 billion, equivalent to around NT\$340,000 per ping. Axiomtek purchased a newly-completed I/O, the Kuoyang Cloud Technology Building, for NT\$965 million in New Taipei City, with a total space of 2,700 ping, so equivalent to around NT\$340,000 per ping. Following the acquisition of industrial land for NT\$7.83 billion last year, ASUSTeK Computer announced they were to invest an extra NT\$3.27 billion to build their headquarters

GRAPH 1 **Commercial real estate transaction volumes, 2009–Q2/2017**



Source: Savills Research & Consultancy

GRAPH 2 **Land transaction volumes, 2012–Q2/2017**



Source: Savills Research & Consultancy

TABLE 1 **Major economic indicators, 2017**

Indicator		Comments
2017 GDP growth forecast (%)	2.05	2016 GDP growth (%): 1.48
2017 GDP per capita forecast (US\$)	24,222	2016 GDP per capita (US\$): 22,540
US\$ exchange rate (Jun 2017)	30.265	2016 average: 32.32
Export growth (% YoY) (Jan-May 2017)	12.5	2016 export growth (% YoY): -1.8
Unemployment rate (%) (May 2017)	3.66	2016 (%): 3.87
Inbound arrivals (Jan-May 2017)	4,287,937 (-7.06% YoY)	2016 inbound arrivals: 10,690,279
Benchmark interest rate (%)	1.375	Dec 2015: 1.625%
Financial terms	Rate (%)* = 1.7-2.1 LTV (%)* = 60-70	

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

in Taipei City; their total amount of investment in their headquarters development will now exceed NT\$10 billion.

The investment activity of insurance companies remained sluggish, with only one deal concluded in Q2. China Life Insurance Company purchased one full-floor of office space, close to their under-construction headquarters, for NT\$450 million in the Taipei CBD for owner-occupancy, in light of the potential for ownership consolidation. If the land acquisition made by Cathay Life in Q1 was included, insurance companies invested a total of NT2.75 billion in 1H/2017. However, their investment activities have shrunk over 90% from their 2012 peak.

TABLE 2
Major commercial real estate transactions, Q2/2017

Date/Property	Location	Transaction amount (NT\$ billion)	Area (ping)	Unit price (NT\$ per ping)	Buyer
Apr 2017					
Several floors in the Kuoyang Cloud Technology Building	New Taipei City	0.965	2,775	300,000	Axiomtek Co., Ltd
May 2017					
YOKO International Industrial Office	New Taipei City	1.45	5,668	340,000	Weitien Electronic
G/F and 7/F, Datong Building	Taipei City	1.65	831	G/F: 3,430,000 7/F: 1,210,000	Yuanta Bank, Yuanta Futures and Yuanta Securities

Source: Savills Research & Consultancy

TABLE 3
Major land transactions, Q2/2017

Date/Property	Location	Transaction amount (NT\$ billion)	Area (ping)	Unit price (NT\$ per ping)	Buyer
Apr 2017					
Land in Xinzhuang Knowledge Industrial Park	New Taipei City	0.74	908	815,000	Shiatzy International
Land in Yunlin Technology-based Industrial Park	Yunlin County	0.9	16,129	56,000	Charoen Pokphand Enterprise
Land in Taichung City Hall Area	Taichung City	1.4	550	2,549,000	Continental Development Corporation
May 2017					
Land in Taiping District, Taichung City	Taichung City	1.14	3,092	367,000	SAKURA ARCH

Source: Savills Research & Consultancy

→ Some insurance companies turned to development projects or actively revitalized their already-owned properties. As the Taiwan tourism industry has seen massive growth, several old office buildings have been renovated into hotels. However, the presidential election in the middle of 2016 caused a significant drop in the number of tourists from China. Huge challenges in the hospitality industry made insurance companies shift their focus onto office redevelopment. Both Cathay Life Insurance and Fubon Life Insurance have several redevelopment projects currently ongoing in the Taipei CBD.

This redevelopment trend resulted in the price growth of old office buildings which have redevelopment potential. Subsidiary companies of Yuanta Financial Holdings purchased the G/F and 7/F of the Datong Building closed to MRT Nanjing Fuxing Station for NT\$1.65 billion for

redevelopment purposes, representing NT\$121 million per ping for office units. The trend further caused the prices of offices with the potential for ownership consolidation to rise 10% to 20% higher than the average prices of office space in the same area.

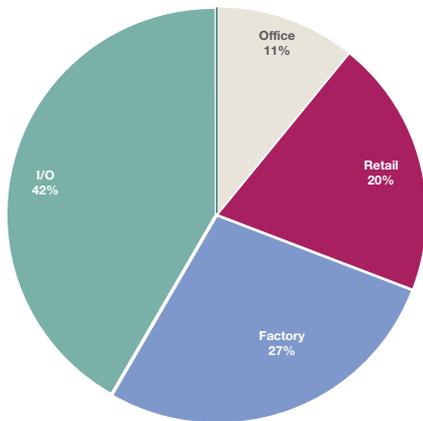
As developers made concessions on residential prices, transaction activity in the residential market improved in the first half of 2017. The recovery of the residential market stimulated land transactions as well, with total volumes increasing by 60.5% YoY to NT\$20.6 billion in Q2 and 113% YoY in 1H/2017. Developers invested in land for a total of NT\$7.2 billion, predominantly in the city areas of central and southern Taiwan. A notable deal was the Continental Development Corporation purchasing a land lot in Taichung New City Hall area for NT\$1.4 billion, representing NT\$25.5 million per ping.

Even though land transactions recovered slightly, the result of land public tenders were very different. In Q2, several government departments held public tenders. Land transactions in Kaohsiung and Taichung City were active, with 10 and 14 land lots sold, respectively. As for land in the Xinzhuang Knowledge Industrial Park in New Taipei City, five of 26 land lots were sold, and the selling prices ranged between NT\$810,000 to 830,000 per ping. Unit land prices have declined by over 10% compared with last year.

Preferred asset class and location

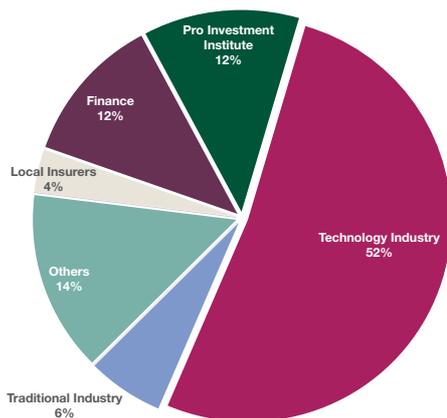
Industrial property was the best performing sector in Q2, accounting for 68% of total sales, with factory and I/O deals totalling NT\$3.5 billion and NT\$5.4 billion, respectively. The retail sector was another highlight, with total volumes reaching NT\$2.6 billion, with Yuanta Bank purchasing a street shop

GRAPH 3 Significant transactions by property type, Q2/2017



Source: Savills Research & Consultancy

GRAPH 4 Significant transactions by investor type, Q2/2017



Source: Savills Research & Consultancy

for ownership consolidation purpose and Taipei Fubon Bank transferring several street shops to their affiliated company, Fubon AMC, in order to improve property use efficiency. Transactions in the north of Taiwan were more active, principally centred on Taipei City (35%), New Taipei City (25%) and Hsinchu (19%).

Investor profiles

IT industry companies have been the largest buyers for three consecutive quarters, contributing 52% of Q2's total sales. Professional management institutes ranked as the second largest buyers, accounting for 13%. In addition to Fubon AMC's NT\$1.07 billion street shop acquisition, Panshin AMC also purchased an en-bloc I/O building in the Neihu Technology Park for NT\$549 million through foreclosure. Purchases for self-use reached 83%, up from 62% in the previous quarter. ■

OUTLOOK

The prospects for the market

The need for industry properties will accelerate in the near future, given illegal factories in the agriculture area have been strictly banned by the government. The office market has experienced a correction for a while, and sellers are willing to lower their asking prices. Transaction activities in the city areas are expected to recover later in the year.

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