

Briefing Sales and investment

December 2014



Image: Taipei City

SUMMARY

Amid a weak investment market, commercial properties with long-term redevelopment opportunities continued to see a stable, slow price increase.

- The government announced that GDP growth in 2014 could increase to 3.51%, which can be attributed to the booming tourism market and local consumer spending recovery.
 - Total transaction value of NT\$34.76 billion was recorded in Q3/2014, representing a 16% increase year-on-year (YoY) and 21% increase quarter-on-quarter (QoQ) respectively.
 - Homax Development Co. purchased seven floors of office space at Dunnan Financial Building for NT\$11.16 billion and invested a total of NT\$20 billion to become the sole owner of this building.
 - Cathay Life had successfully completed its first London investment by purchasing Woolgate Exchange for GBP320 million, reflecting an estimated yield of over 5%.
 - The recovery of exports led technology companies to aggressively pursue plant expansions and these accounted for 44% of total market sales.
 - Investors took a wait-and-see attitude and end users remained conservative while issues like market cooling measures and implementation of the new capital gains tax continued to disturb the market.
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- “Results of several well-known properties listed on the market or proceeding with the public tender process could be important market indicators for 2015.”
- Erin Ting, Savills Research & Consultancy
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→ **Economic overview**

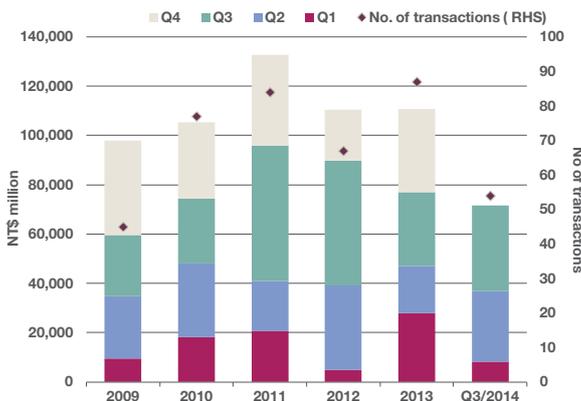
There has been a rapid growth in the number of tourists ever since Chinese tourists were permitted to visit Taiwan in 2009. In 2013, this number had reached 8 million, double of that in 2008. The momentum from China remained strong in 2014 with the total number of tourists in the first three quarters reaching 7.25 million, representing a 25% increase YoY, and may well reach 10 million this year. Aside from Chinese tourists, visitors from Hong Kong, Macau, Japan and South Korea also increased significantly and contributed to retail and F&B sales. According to the government, improved local consumer spending and exports could help the GDP

TABLE 1 **Major economic indicators, 2014**

Indicator		Comments
2014 GDP growth forecast (%)	3.51	2013 GDP growth (%): 2.09
2014 CPI forecast (%)	1.53	2013 CPI (%): 0.79
2014 GDP per capita forecast (US\$)	22,241	2013 GDP per capita (US\$): 20,984
US\$ exchange rate (Sep 2014)	30.16	2013 average: 29.77
Export growth (% YoY) (Jan-Sep 2014)	3.5	2013 export growth (% YoY): 0.7
Unemployment rate (%) (Sep 2014)	3.96	2013 (%): 4.18
Inbound arrivals (Jan-Sep 2014)	7,252,163 (25.01% YoY)	2013 inbound arrivals: 8,2016,280
Benchmark interest rate (%)	1.875	No increment
Financial terms	Rate (%)* = 2.1–2.7 LTV (%)* = 65–70	

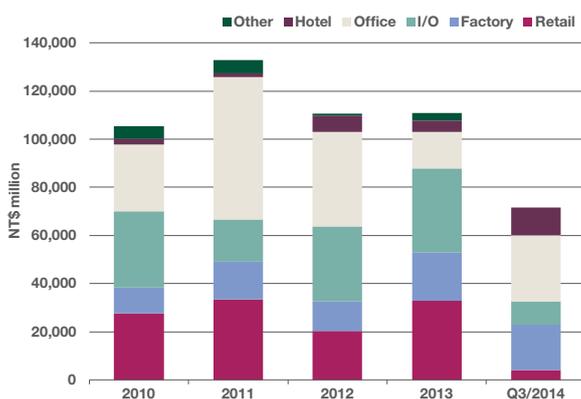
Source: Directorate General of Budget, Accounting and Statistics, central bank, Savills Research & Consultancy
*Note: Rates and LTV ratios may vary depending on the credibility of individual borrowers.

GRAPH 1 **Commercial real estate transaction volumes, 2009–Q3/2014**



Source: Savills Research & Consultancy

GRAPH 2 **Commercial real estate transaction volumes by property type, 2010–Q3/2014**



Source: Savills Research & Consultancy

growth rate in 2014 reach 3.51%, better than the 3% estimated early this year.

Major commercial real estate transactions in Q3/2014

Due to a single large transaction by Homax Development Co., total transaction volumes in the commercial property market increased by 21% to NT\$34.76 billion this quarter compared with last quarter. However, without this particular transaction, total market sales only reached NT\$23.6 billion, slightly lower than the quarterly transaction level in 2013. This shows that the commercial property market remains sluggish, dominated by end users with a cautious attitude. As for investment properties, the uncertainty of the details of the new capital gains tax and when it is due to be implemented have already had an impact on investor confidence. Moving on from this market sentiment, the total transaction value in 2014 is not expected to hit the NT\$100 billion record, even as total sales in the first three quarters have accumulated NT\$71.6 billion and the fourth quarter is traditionally the peak season.

The notable transaction this quarter is the sale of 3/F to 11/F of Dunnan

Financial Building in Taipei CBD to Homax Development Co. for NT\$11.16 billion, representing an office space of NT\$1.55 million per ping. The vendor, Cathay Life, bought the property for NT\$9.6 billion in 2011 and made a 16% profit in three years. Through this transaction, Homax Development Co., which bought the other floors in 2011, became the sole owner of the building and now has the opportunity to redevelop it.

Local insurance companies continued to buy property at a slow pace. Following Nan Shan Life and Mercuries Life, China Life acquired an entire office building in Kaohsiung for self-occupancy. This is its first deal in the commercial property market since 2013. As insurance companies become more conservative due to local property investment restrictions by Taiwan's FSC, they have instead become more active in overseas property markets, including those in London, Tokyo and New York. In August, Cathay Life successfully purchased Woolgate Exchange in the City of London for GBP320 million, reflecting an estimated yield of over 5%. The low prime office yield in Taipei City, which stands at 2% to 2.5%, makes London

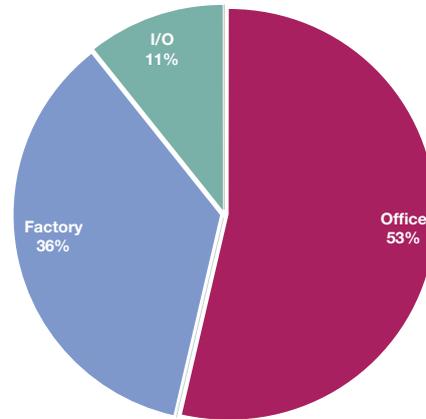
→ commercial properties attractive to well-capitalised investors looking to place their money in high quality and income-generating properties. Both Shinkong Life and Fubon Life stated their interest in the London and Tokyo markets.

The improvement in the economy and exports increased technology companies' need for plant expansions and contributed a total value of NT\$15.4 billion, representing 44% of Q3's total. Among the transactions made by technology companies, 70% were for factories. The prime example of these is Spil Precision Industries' winning bid for AUO's 12-inch semiconductor factory in Taichung for NT\$6.4 billion, which received two other bids.

Preferred asset class and location

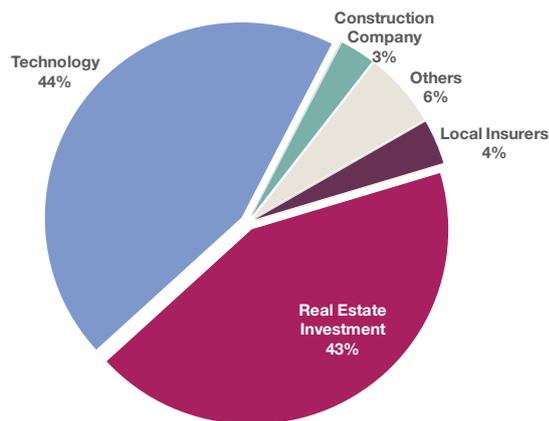
Office and factory sales accounted for 53% and 36% of Q3's transactions respectively. A few large office deals contributed to this, such as 3/F-11/F of Dunaan Financial Building (NT\$11.16 billion), Bais Building in Kaohsiung City (NT\$1.28 billion) and Hengyang Building (NT\$1.23 billion). In light of its long-term redevelopment opportunity, the sale price of Hengyang Building is close to NT\$1 million per ping, higher than the average price in

GRAPH 3 Significant transactions by property type, Q3/2014



Source: Savills Research & Consultancy

GRAPH 4 Significant transactions by investor type, Q3/2014



Source: Savills Research & Consultancy

TABLE 2 Major commercial real estate transactions, Q3/2014

Date/Property	Location	Transaction amount (NT\$ billion)	Area (ping)	Unit price (NT\$ per ping)	Buyer
July 2014					
Industrial office building in Neihu Technology Park	Neihu district, Taipei City	1.33	4,327	409,300	United Property Management
August 2014					
Hengyang Building	Zhongzheng district, Taipei City	1.23	1,244	989,600	Individual
AUO Taichung Factory	Taichung City	6.4	93,295	68,600	Spil Precision Industries
September 2014					
3/F-11/F, Dunaan Financial Building	Da'an district, Taipei City	11.16	1,838	1,550,000	Homax Development Co.
Bais Building	Kaohsiung City	1.28	4,338	295,000	China Life Insurance
Hsinchu HSR Plaza	Hsinchu County	0.772	2,648	291,500	Winbond Electronics Corp

Source: Savills Research & Consultancy

the neighbourhood. In terms of location, 49% and 18% of transacted properties were in Taipei City and Taichung City respectively, with strata offices continuing to be the main market driver in Taipei City.

Investor profiles

Technology companies and professional investment institutes played key roles in the commercial property market this quarter, accounting for 44% and 43% of total sales. Aside from the AUO Taichung factory being acquired by Spil Precision Industries, ASE Group also invested in a Taoyuan factory for NT\$4.77 billion, making technology companies the largest investor in Q3/2014.

Outlook

As a sluggish and uncertain sentiment surrounds the property market, several investors that were active on the buy side have now turned to sell. However, prices for most of the recently transacted deals continued a slow upward trend, especially those with long-term redevelopment opportunities. In the next quarter, results of several well-known properties listed on the market or under the public tender process could be important market indicators for 2015. ■

Please contact us for further information

Savills Taiwan

Savills Research



Cynthia Chu
Managing Director
+886 2 8789 5828
cchu@savills.com.tw



Erin Ting
Manager, Taiwan
+886 2 8789 5828
eting@savills.com.tw



Simon Smith
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

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