

Taiwan Industrial



Demand from the technology industry remains strong

THE SEMICONDUCTOR INDUSTRY PLAYS A CRITICAL ROLE

The industrial property market is highly connected with the performance of Taiwan's technology industry. Over the last two years, Taiwan's economy has performed well, with GDP growth expected to reach four percent in 2022. Even though Taiwan is facing a new wave of COVID-19 infections, the government has updated its zero-COVID policy and decided to live with the virus which has in turn made the production lines of the manufacturing and technology sectors more resilient.

Exports in 2021 increased 29% YoY to NT\$400 billion, the highest level in ten years, which helped GDP growth hit 6.45%. The

semiconductor industry plays a critical role and contributes 18% to GDP and coupled with its contribution of the supply chain, this number rises to 40%. TSMC, a leading company which accounted for 26% of global semiconductor sales, announced that it would spend US\$100 billion over the next three years to expand its chip fabrication capacity, which will further encourage the supply chain to deepen its roots in Taiwan.

INDUSTRIAL LAND PRICES RISE BY 6% OVER THE FIRST FIVE MONTHS

The industrial property market has been active since 2017 and annual transaction volumes grew by 22% compared with the previous year

to NT\$141.9 billion in 2021, a record high. In terms of property types, sales of industrial offices doubled from the previous year to NT\$52 billion while industrial land and factories remained stable, totaling NT\$90 billion.

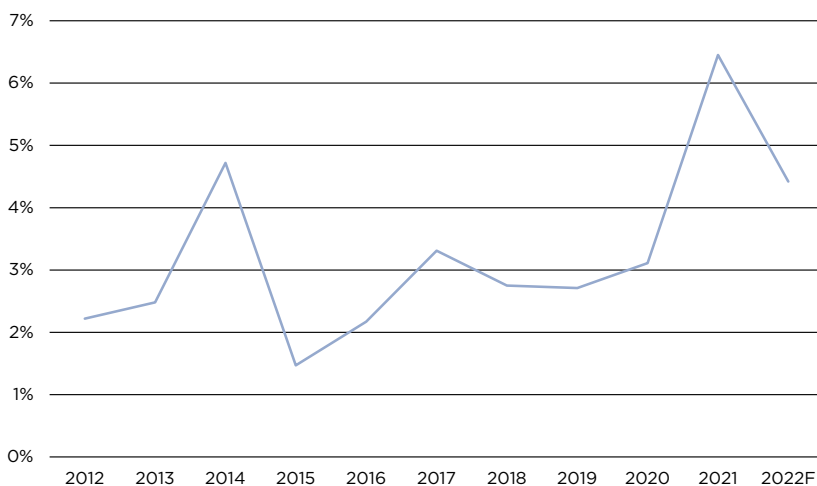
The strong hiring demand in the technology industry has in turn caused office and R&D space expansion. Industrial offices located in well-designed industrial parks which provide the positive effects of clusters and supporting amenities to attract talents are favored, especially in Taipei City, New Taipei City, and Hsinchu County. Investors, such as insurance companies, are also looking for opportunities to participate in this emerging trend by acquiring technology headquarters. For example, Millerful No.1 acquired the headquarters of Dynapack International Technology for NT\$4.5 billion with a sale and leaseback agreement of five years, which is expected to provide a yield of 3.2%. Meanwhile Transglobe Life purchased CLEVO's former headquarters in New Taipei City for NT\$4.1 billion with a yield close to 3%.

Limited new supply saw land prices in north Taiwan increase significantly over the past few years. To solve the land shortage problem and accelerate industry upgrading, high-tech companies are encouraged to expand their factories in southern Taiwan. In 2021, the total revenue of Southern Taiwan Science Park grew by 29% YoY to NT\$1.09 trillion, surpassing Middle Science Park for the first time to rank number two in terms of the annual revenue. Several industrial parks are also under planning and construction. In Kaohsiung, 323 hectares of industrial land will be released to the market over the next three years equivalent to 6% of the total industrial land stock in Kaohsiung. Semiconductor, aerospace, electro car, and ICT industries will be the focus of the Qiaotou Science Park, and half of the new supply is secured, with 20 companies announcing investment of over NT\$100 billion.

Another notable case is TSMC which has decided to set up new chip factories in Kaohsiung and plans to invest NT\$200 billion to build six 7-nanometer plants on a 29-hectare site which used to be a CPC naphtha cracker complex. Construction of TSMC's Kaohsiung chip fab will start this June and should be able to start producing in 2024 and is expected to contribute NT\$150 billion in revenue every year.

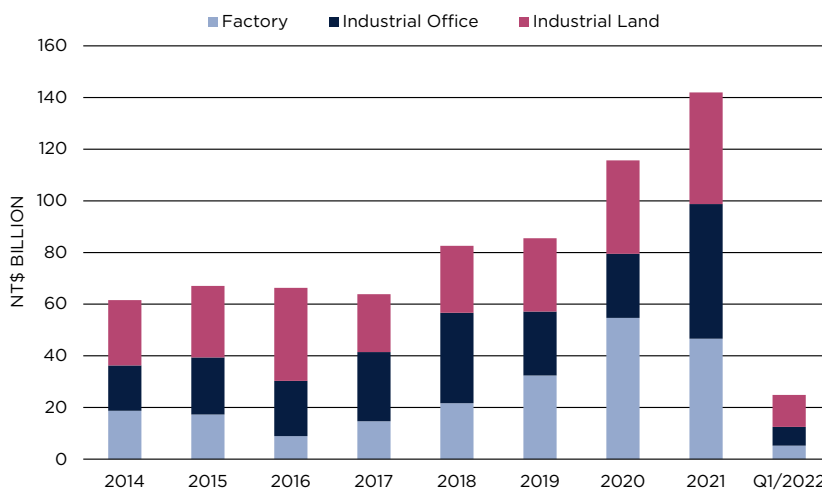
Transactions of industry property slowed down in the first quarter of 2022 dropping by

GRAPH 1: Taiwan's GDP Growth, 2016 to 2022F



Source Savills Research & Consultancy

GRAPH 2: Transaction Volume in Industrial Property Sectors, 2014 to Q1/2022

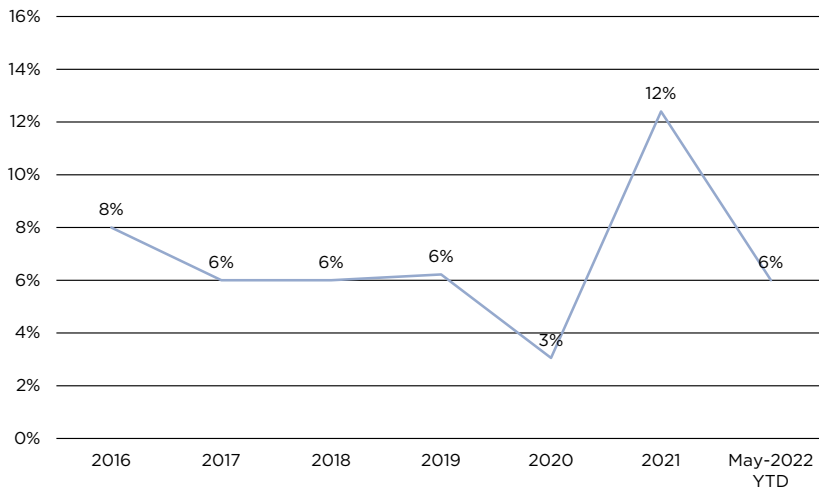


Source Savills Research & Consultancy

30% YoY, as the strong demand of the past few years created a shortage of factories to move into immediately. However, industrial land prices in the major industrial parks increased significantly in 2022, up by 6% in May compared with the end of 2021, after posting 12% growth over 2021. The government continues to develop new industrial areas to deal with the land shortage, coupled with measures to curb speculation, including the cap on the loan-to-value ratio for vacant industrial land down to 40% and a five-year ban on the resale of industrial land acquired from the government.

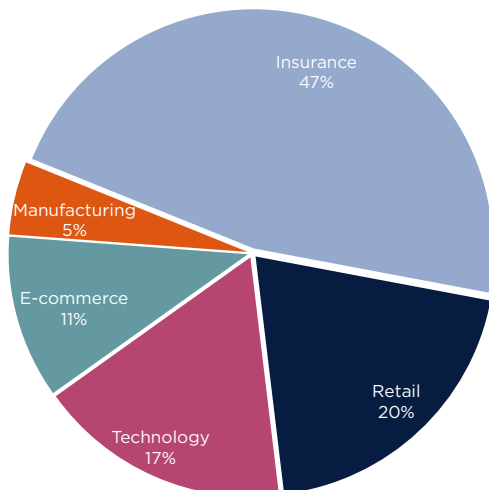
Industrial properties such as logistics and industrial offices which can provide a stable 3% yield are attracting local investor attention.

GRAPH 3: Industrial Land Price Changes in Selected Industrial Park, 2016 to May 2022



Source Savills Research & Consultancy

GRAPH 4: Logistics Transactions by Investor Type, 2021 to April 2022



Source Savills Research & Consultancy

END-USERS AND INVESTORS ARE LOOKING FOR OPPORTUNITIES TO EXPAND

Logistics is now attracting end-users, including retailers, e-commerce operators and technology companies, and real estate investors. Since 2021, transactions related to logistics have totaled NT\$12 billion, accounting for approximately 8% of total transactions. According to a survey by Ally Logistic Property (ALP) in 2015, the total stock of logistics space stands at around 40 million sq m with only 30% of that complying with current building regulations. Due to a lack of modern logistics properties released to the market, most investors choose to acquire industrial land to build new facilities.

Taiwan’s e-commerce market has seen growth of 15% to 20% annually and the share of total retail sales rise from 7% in 2020 to 10% in 2021. Due to the significant potential to grow, local and international e-commerce operators continue expanding their market share. Momo acquired 30,000 sq m of land in Changhua County to build a logistics center to cover the central Taiwan market, while Shopee from Singapore and Coupang from South Korea rented large-sized warehouses (over 30,000 sq m) in Taoyuan and Taichung recently.

Uni-President Group, the largest retail operator, announced the establishment of four modern logistics complexes in Taiwan to strengthen the e-commerce business and deal with labour shortages. In addition to investing NT\$10 billion to construct a 150,000 sq m of logistics facility in Tainan last year, Uni-President Group acquired an industrial site in Taoyuan City for NT\$1 billion to build a logistics center to cover their operations in the north of Taiwan.

Logistics is now firmly established with local insurance companies incorporating

TABLE 1: Significant Industrial Property Transactions, 2H/2021 to Q1/2022

DATE	PROPERTY	LOCATION	PRICE	SIZE	BUYER	PROPERTY TYPE
Oct 2021	CLEVO Sanchong Headquarters	New Taipei City	NT\$4.1 bil/US\$146 mil	Building: 43,831 sq m	Transglobe Life	Industrial office
Nov 2021	Dynapack Headquarters	Taoyuan City	NT\$4.5 bil/US\$160 mil	Building: 58,522 sq m	MILLERFUL NO.1 REIT	Industrial office
Jan 2022	Fuding Technology Building	New Taipei City	NT\$1.4 bil/US\$50 bil	Building: 19,879 sq m	Voltronic Power	Industrial office
Mar 2022	Industrial land in Yangmei District	Taoyuan City	NT\$1.0 bil/US\$35 mil	Land: 23,749 sq m	Uni-President	Industrial land

Source Savills Research & Consultancy

the sector as a critical growth driver of their property portfolios. Finding business partners or collecting lease letters of intent from prospective tenants are common strategies to meet the FSC's regulations which require the insurance company to ensure rental income for property investment. Cathay Life teamed up with Ally Logistics Property in 2014 and built around 600,000 sq m of logistics space in the middle and northern Taiwan. Cathay Life has also invested another NT\$6 billion on industrial land in the past three years to expand its logistics portfolio. In addition, Fubon Life purchased industrial land for NT\$2.6 billion to

build its first logistics project, which can provide 264,000 sq m of space after completion with a 4% yield.

OUTLOOK

The extension of the "Invest Taiwan Program" is expected to attract another NT\$900 billion in investment to 2024 and will drive demand for industrial land from the technology industry. However, there are several challenges ahead, including a substantial surge in construction costs which have increased by over 20% compared with pre-COVID levels. The government's

renewable energy plan to meet its goal of net-zero emissions by 2050 is another important issue as tech industries, such as semiconductors, 5G, electric car manufacturers, and data center operators which the government wishes to support usually consume a lot of energy and therefore have a large carbon footprint.



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