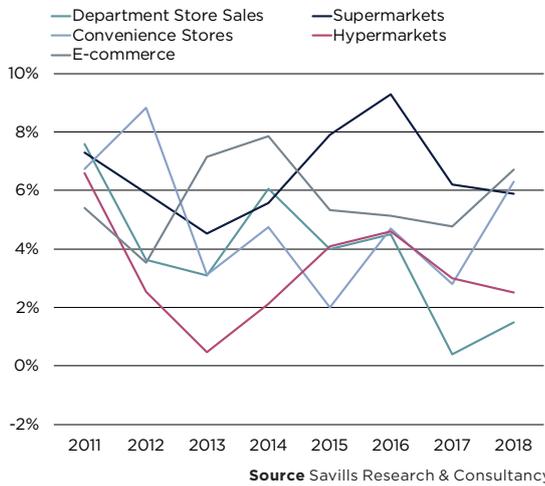


Taipei Retail



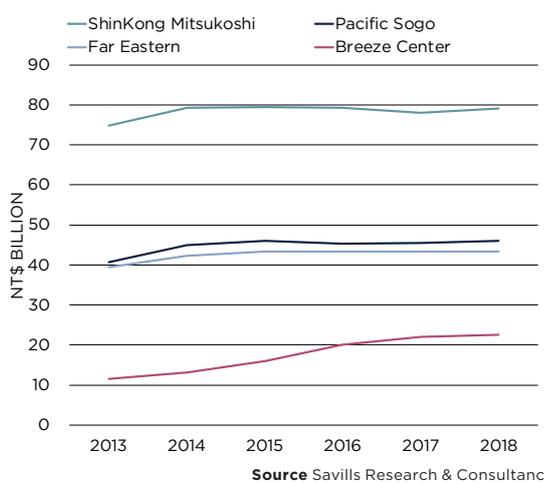
Department stores suffer from slow growth

GRAPH 1: Retail Sales Growth Rate By Sector, 2011 to 2018



Source Savills Research & Consultancy

GRAPH 2: Annual Sales Of Department Store Groups, 2013 to 2018



Source Savills Research & Consultancy

GRAPH 3: Cumulative Retail Supply, 2010 to 2023F



Source Savills Research & Consultancy

RETAIL SALES

Taiwan's retail sales marked a record growth rate by increasing 3% year-on-year (YoY) in 2018 due to the stable economic recovery, increase of basic salary and booming Taiwan stock market. E-commerce witnessed strong growth, ranking number one among all retail sectors—with sales increasing by 6.7% YoY—followed by convenience stores (6.3% YoY) and supermarkets (5.9% YoY). In contrast, department stores marked a relatively slow growth rate, with total sales increasing by 1.5% YoY.

The e-commerce market has grown fast and strong in the past few years with a market share in retail reaching 6% in 2018, equal to NT\$254.7 billion. Grocery, home appliance, electronic devices and apparel sectors comprised over 60% of e-commerce sales. Compared with the US and China, where market share of e-commerce stands at 9.7% and 15%, respectively, e-commerce in Taiwan has room to grow, which should put pressure on traditional retailers.

Despite several department stores and outlets launching at the end of Q4/2018, sales in the department store sector remained sluggish. Leading department store groups, including Shingkong Mitsukoshi, Pacific Sogo and Far Eastern all experienced slow growth, ranging from 0% to 1.5% YoY. The impact of e-commerce may seem minimal but it is significant. Even though operators tried different strategies, such as frequent store remodeling, enlarging spaces in the F&B sector and introducing new brands, the effect on department store sales was limited and temporary.

RETAIL SUPPLY

The retail market has been absorbing significant new supply in 2018 and 2019—300,000 sq m in total—with supply growth hitting 3% and 5%, respectively. Most of the new supply launched in three major cities: Taipei City accounted for 38%; Kaohsiung City with 35%; and 11% in Taichung City.

In 2018, three department stores, including Breeze Nanshan Xin Yi (53,000 sq m), Eslite spectrum nanxi (16,000 sq m) and att 4 Recharge (33,000 sq m) along with one outlet, Mitsui Outlet Park Taichung Port (36,000 sq m), opened. Three of the four new complexes are located in Taipei City. Due to limited supply in the Taipei CBD area, Eslite spectrum nanxi and att 4 Recharge were renovated from existing retail spaces.

Three department stores are scheduled to launch in 2019: Far Eastern A13 (33,000 sq m), Joy Plaza (26,000 sq m) and Miramar Tamsui (26,000 sq m). Phase III of Gloria Outlets (20,000 sq m) in Taoyuan City and Skyland shopping mall (83,000 sq m) in Kaohsiung are also slated to launch this year. Far Eastern A13 will occupy the last available retail space in Xinyi planning area—the most famous shopping area in Taipei City—with Apple Store planning to roll out its first flagship store in Taiwan.

In spite of the continued expansion of existing retail operators, Japanese retail operators and local developers have been the most aggressive new entrants to the retail market. Mitsui Fudosan from Japan launched its first outlet park in New Taipei City in 2016 and then opened Mitsui Outlet Park Taichung Port at the end of 2018. The company's retail space totals 80,000 sq m with annual sales revenue reaching NT\$11 billion. In the coming few years, Mitsui Fudosan will introduce their shopping centre brand, Lalaport, to Taipei City's fringe area, with a total retail space

TABLE 1: Significant Retail Transactions, 2018

PROPERTY	LOCATION	AMOUNT (NT\$ MILLION)	AREA (SQ M)	RETAIL TYPE
Focus Square	Tainan City	1,765	32,809	Department store
Taimall Shopping Center	Taoyuan City	13,500	82,239	Shopping mall
CM Village	Taoyuan City	625	12,741	Department store
Street shop in Dazhi Area	Taipei City	713	1,371	High street

Source Savills Research

of 70,000 sq m. This project is Mitsui Fudosan’s third overseas Lalaport project, following Shanghai and Kuala Lumpur. In addition, Mitsui Fudosan is implementing a comprehensive investment strategy in Taiwan, focusing on hotel, residential and logistics sectors.

STREET SHOPS

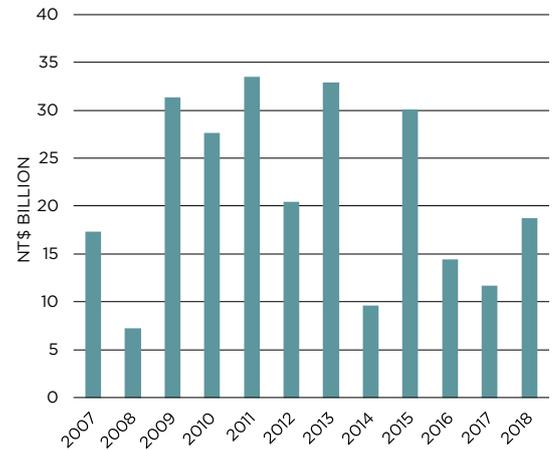
Ximending and Zhongxiao E. Rd., two major shopping areas in Taipei City, are currently facing different situations due to a change in consumer profile and shopping behavior. The completion of Taoyuan Airport MRT and the growth in inbound, independent travellers has brought benefits to rent and vacancy rates in Ximending. Vacancy rates have remained below 1% for a long while. In terms of rent, the average retail shop rate in the core area reached NT\$6,000 per sq m and ranged between NT\$2,000 and NT\$3,000 per sq m in the surrounding areas. Apart from sporting good brands, Japanese drug stores and local F&B businesses were all actively expanding in Xinmending.

The Zhongxiao E. Rd. shopping area, however, has suffered from the emergence of e-commerce, expensive retail rents as well as the opening of new department stores in nearby Xinyi district, which pulled foot traffic away. The street shops of several famous retail brands, including watch, jewellery and clothing companies, as well as restaurants have closed or relocated to Xinyi district. Two international fast fashion brands—Spao & MIXXO and Forever 21—closed their flagship stores in 2018 and Q1/2019, respectively, causing vacancy rates in this shopping area to rise to 10%. Rent in the core area ranged between NT\$3,600 and NT\$4,500 per sq m, down by 45% compared with the previous peak in 2014. Prospects for the near future are not positive. Only a few landlords are willing to lower rents to meet retailers’ expectations, and the lack of any new large retail supply won’t help to improve foot traffic.

OUTLOOK

Changes in shopping behavior have brought significant challenges to street shops and department stores. Currently, street shops are struggling with the loss of retail foot traffic and decreased leasing demand from retail brands. As for department stores and shopping malls, F&B tenants appear to be helping to attract customers, with the sector accounting for 35% of total space in newly opened stores. However, operators have to face relatively lower rent rates from the F&B sector. Therefore, due to the likelihood of smaller returns from tenancies, investors are expected to hold a conservative attitude to retail property investment.

GRAPH 4: Retail Transactions Over NT\$300 million, 2007 to 2018



Source Savills Research & Consultancy

“ Japanese retail operators and local developers are aggressive new entrants to the retail market. ”

TABLE 2: New Supply in 2019

PROPERTY	OPERATOR	LOCATION	RETAIL GFA (SQ M)	RETAIL TYPE
Far Eastern A13	Far Eastern Department Store	Xinyi District, Taipei City	33,000	Department store
Joy Plaza	Highwealth Construction	Sanmin District, Kaohsiung City	26,000	Department store
Phase III Gloria Outlets	Gloria Hotel Group	Zhongli District, Taoyuan City	20,000	Outlet
Skyland	E United Group	Gushan District, Kaohsiung City	83,000	Shopping mall
Miramar Tamsui	Miramar Cinemas	Tamsui District, New Taipei City	26,000	Department store

Source Savills Research

Savills Taiwan
21/F Cathay Landmark
No. 68 Sec. 5 Zhongxiao E. Road
Xinyi District
Taipei City 110, Taiwan
+886 2 8789 5828

