

Taipei Retail



Consumers are back in physical stores

DOMESTIC CONSUMPTION BECOMES THE ECONOMIC DRIVER

Impacted by the global economic downturn, Taiwan's economy has contracted this year due to sluggish exports. The Directorate-General of Budget, Accounting and Statistics estimates an economic growth rate of 1.42% in 2023, the lowest in nearly five years. As the effects of the pandemic recede, the stable domestic job market and the continuing increase in basic wages has helped support domestic consumption, which has become a primary driver of economic growth this year.

Following the reopening of borders, the anticipated return of international tourists has been hampered by the political tensions between Taiwan and China, which prohibit Chinese tourists from visiting Taiwan. In the first three quarters of this year, the number of visitors to Taiwan reached 4.36 million, with only 3% being Chinese tourists, indicating significant potential for recovery in the future. The total inbound tourist number is expected to reach 6 million in 2023, only about 50% of pre-pandemic levels. The return of international tourists has

positively impacted shopping districts which rely heavily on inbound tourists, such as Ximending in Taipei City, where occupancy rates and rents have significantly improved to pre-pandemic levels.

CONSUMERS ARE BACK IN PHYSICAL RETAIL STORES

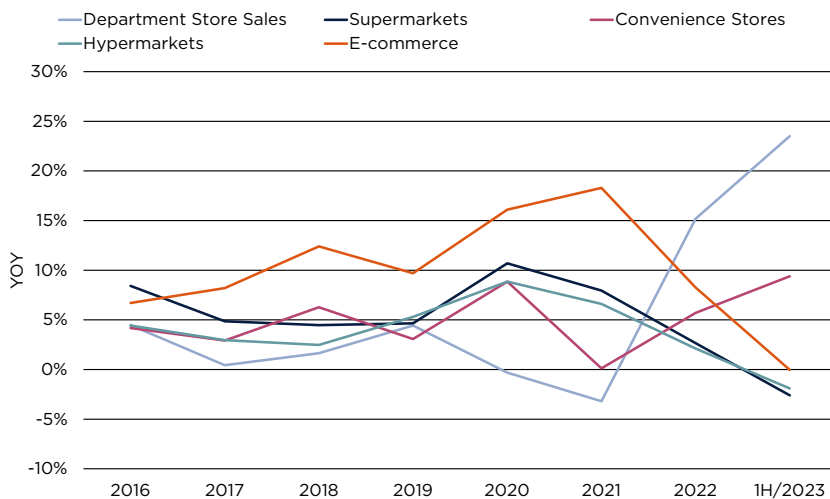
Driven by domestic consumption demand, retail sales in the first half of 2023 grew by 11.9%, a record-high growth rate. The main contributors to this growth were department stores and convenience stores. Department stores benefited from increasing sales of luxury goods and new store openings, recording a 23.5% growth compared with last year, with sales reaching NT\$211.1 billion. Convenience store sales grew by 9.4% YoY in the first half of this year due to store expansions and the Online-Merge-Offline (OMO) channel strategy.

While the impact of the pandemic is receding, consumers are back in physical stores, resulting in a slow growth in the e-commerce sector. Sales growth of e-commerce in the first half of 2023 performed poorly compared with physical retail channels. At the same time, momo, the biggest e-commerce player in Taiwan, achieved a revenue growth rate of 6.6%, indicating that e-commerce is becoming even more concentrated among the top firms. Currently, three major players in Taiwan, including momo, PChome, and Eastern Home Shopping & Leisure, account for 50% of the online market. Taiwan's e-commerce penetration rate is only 11%, offering significant growth potential compared to other Asian countries. With this in mind, Coupang, the South Korean e-commerce giant, announced its entry into the Taiwan market in 2021 mainly focusing on cross-border e-commerce and launching a rocket delivery service backed by establishing two logistics centers in Taoyuan, totalling 70,000 sq m. Logistics and last-mile delivery remain a key focus for e-commerce operators.

LARGE RETAIL GROUPS CONTINUE OPENING NEW BRANCHES

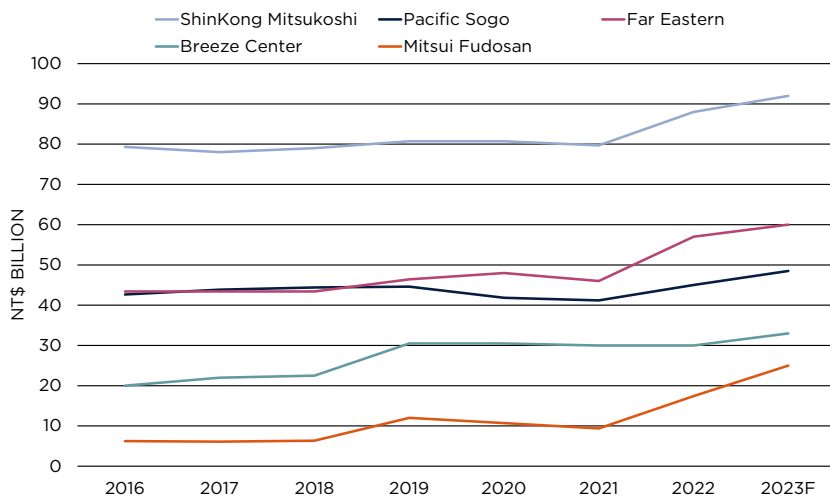
Six new department stores and outlets opened in 2022, with an additional seven expected in 2023, contributing to the Taiwan retail market with new supply of over 660,000 sq m, equivalent to 12% of total stock. Among these new projects, four department stores will be launched in Taipei and Kaohsiung City, with two new department stores located in Hsinchu. One

GRAPH 1: Retail Sales Growth Rate by Sectors, 2016 to 1H/2023



Source Taiwan Tourism Bureau, Savills Research & Consultancy

GRAPH 2: Annual Sales of Department Store Groups, 2016 to 1H/2023



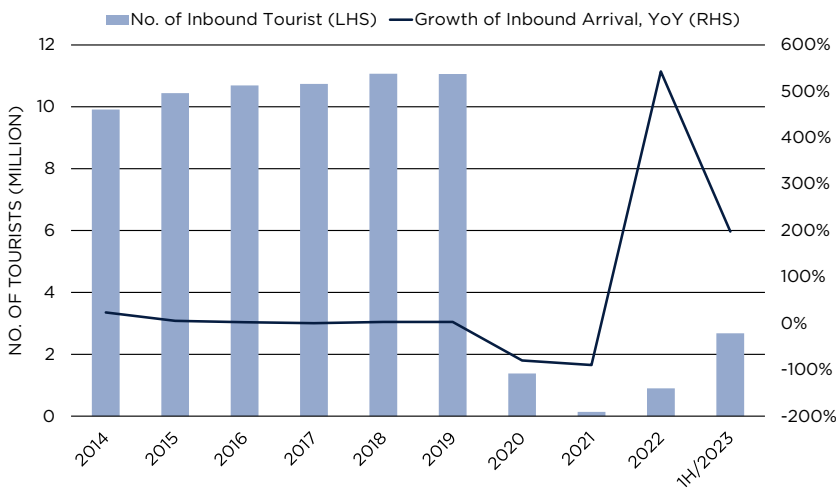
Source Taiwan Tourism Bureau, Savills Research & Consultancy

notable retail project in the pipeline is the Taipei Dome, a rare large-scale complex development in the CBD, including a stadium accommodating 40,000 spectators, a 400-room five-star hotel, a Grade A office building, and 120,000 sq m of retail space. Far Eastern SOGO city will be the operator of the mall, and the entire retail space will be completed in phases by 2025. The completed project is expected to generate annual sales of over NT\$10 billion.

Shin Kong Mitsukoshi has been actively expanding in recent years, with two new branches opening in 2022 and 2023 respectively. As the total number of stores across Taiwan has reached 19 branches,

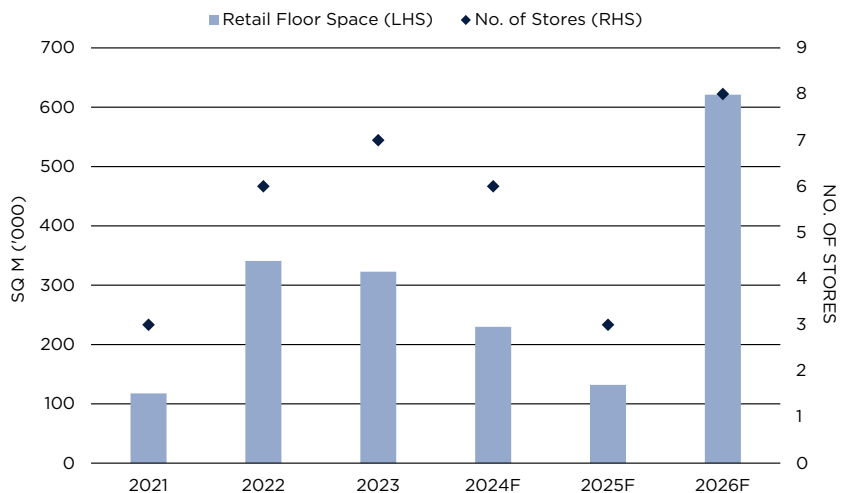
As the expansion of major department store groups has intensified market competition, exclusive dining brands, flagship stores, and online retailers opening physical stores are strategies being adopted a win market share.

GRAPH 3: Number of Inbound Tourists, 2014 to 1H/2023



Source Taiwan Tourism Bureau, Savills Research & Consultancy

GRAPH 4: New Retail Supply, 2021 to 2026F



Source Taiwan Tourism Bureau, Savills Research & Consultancy

Shin Kong Mitsukoshi remains the biggest department store operator in Taiwan. The new store includes SKM Park in Kaohsiung, their first outlet, providing retail space of 87,000 sq m and attracting approximately 250 brands. Shin Kong Mitsukoshi Diamond Towers, located in the Taipei CBD, has retail space of 14,000 sq m and accommodates around 130 brands, including a Dior boutique and several popular shops such as ARTIFACTS, TRENDS, and BEAMS, aiming to differentiate itself from surrounding competitors and targeting the rich second-generation.

During 2024 and 2025, nine department stores are expected to launch across Taiwan, totaling 330,000 sq m. The largest is the Hanshin Intercontinental Mall, located in the emerging residential area of Taichung, marking Hanshin Department Store Group's first branch outside Kaohsiung, with retail space of 110,000 sq m becoming the largest department store in Taichung upon completion. The most aggressive foreign retailer is Mitsui Fudosan which has expanded throughout Taiwan. Three stores, including Lalaport Nangang, Mitsui Outlet Park Linkou Media, and the second phase of Mitsui Outlet Park in Tainan are expected to launch during 2024 and 2025 making Mitsui Fudosan the fourth-largest department store group in Taiwan with total space exceeding 300,000 sq m.

Due to the rising costs of online advertising and consumers' preference for physical shopping experiences, several well-known online brands, especially in clothing, footwear, and accessories, have decided to expand their offline presence by opening physical stores in prime locations in major shopping districts to gain more advertising exposure and foot traffic. As a result, the vacancy rate in major shopping districts has improved significantly, pushing rents to rebound to approximately 80% to 90% of pre-pandemic levels. Additionally, as the competition among department

TABLE 1: Significant Retail Transactions, 2022 and 2023

DATE	HOTEL	LOCATION	AMOUNT (NT\$ MIL)	AREA (SQ M)	BUYER	RETAIL TYPE
2022	POYA Kaohsiung Sanduo Store	Kaohsiung City	1,200	2,610	Highwealth Construction	Street shop
2022	23% of share of Elite Xinyi	Taipei City	5,897	13,593	Uni-President Enterprises	Department store
2023	Shin Kong Mitsukoshi Tainan Store	Tainan City	4,375	56,644	MiLLERFUL NO.1 REIT	Department store
2023	Retail Podium of the Shin Kong Xinyi Building	Taipei City	2,002	6,814	Local developer	Street shop
2023	Retail Shop of a pre-sale residential project in Zhongshan District	Taipei City	1,300	1,822	TAIWAN GIVEN Co.	Street shop
2023	Hualien Bay New Paradise	Hualien County	1,932	34,214	Local investor	Department store

Source Taiwan Tourism Bureau, Savills Research & Consultancy

stores is intensifying, e-commerce fashion brands are turning to new strategies to differentiate themselves and attract Gen Z consumers. For instance, EVENLESS from Minster International Group entered Shin Kong Mitsukoshi Taichung, and Life8 Select has set up shop in Mitsui Shopping Park Lalaport Taichung.

BANKS, RETAIL BRANDS, AND DEVELOPERS ARE MAJOR BUYERS OF RETAIL PROPERTIES

Retail property transactions remain at a low level. The uncertainty of retail operations

and low yields compared with other types of commercial properties mean that retail properties are less attractive to investors. With a mortgage rate of 2%, the yield spread for retail properties is only between 20 bps to 40 bps. Over the past two years, buyers of street shops have mainly been banks or local retail brands, as developers focus on purchasing small retail buildings in major shopping districts for future redevelopment opportunities.

One notable retail property deal was the liquidation of Shin Kong No.1 Reit in the first half of 2023 which included the sale

of Shin Kong Mitsukoshi Tainan Store for NT\$4.38 billion to MiLLERFUL No.1 REIT. The total floor area of the department store is approximately 56,000 sq m with an estimated rental yield of around 4.8%. Additionally, a multi-story retail podium of the Shin Kong Xinyi Building in Taipei's Daan District was acquired by a local developer for NT\$2 billion, with an estimated yield of about 2.6% and the potential for land consolidation in the future.

MARKET OUTLOOK

Physical retail is enjoying revenge shopping after the end of the pandemic. The phenomenon of revenge travel has also happened in Taiwan which has led the number of Taiwanese people traveling abroad to grow rapidly, however, the stable domestic job market, strong domestic demand, and the gradual return of foreign tourists will continue to support the growth in the retail market. As several large malls and department stores will open in the coming years, intensifying competition, exclusive dining brands and flagship stores as well as online retailers turning to physical stores will be strategies adopted to attract foot traffic. The government's introduction of large investment projects at transportation hubs in the major cities will also bring more opportunities for large retail development.



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