

Taiwan Industrial



Diversified demand boosts the market

TAIWAN'S GDP GROWTH IN 2021 EXPECTED TO HIT A RECORD HIGH

Due to strong exports and robust domestic investment, Taiwan's GDP growth in 2021 is expected to hit 6.1%, the highest number of the past eleven years, according to the Directorate General of Budget. The export volume increased significantly by 30.7% YoY in the first three quarters of 2021 to NT\$324 billion with the electronic component and computer sectors as well as information and communication products growing the most, reflecting the pivotal role played by Taiwan's technology companies in the global supply chain.

Technology companies have expanded

their domestic manufacturing capacity over the past three years as the emerging trade war between China and the U.S. and supply chain restructuring brought advantages for Taiwan. Even though the level 3 COVID-19 alert was announced this May, fortunately, production lines were not affected with most of the confirmed cases concentrated in Taipei City and New Taipei City. The government downgraded the alert level in July and improved the coverage of the COVID-19 vaccine aggressively with a target for full vaccination to reach 60% at the end of 2021. Success in containing the COVID-19 pandemic has also provide a solid foundation for the economy.

LOGISTICS AND DATA CENTERS ARE EMERGING

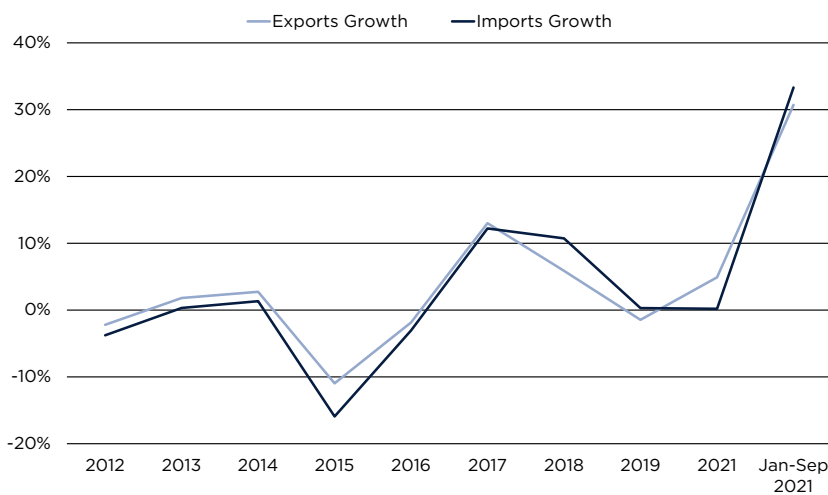
The surge in COVID-19 cases accelerated changes in consumer behavior and became a catalyst for e-commerce adoption. As retailers developed their online channels and shifted from offline to online, the Taiwanese e-commerce market experienced strong growth recording a CAGR of 10% from 2017 to 2020 and total sales in the first three quarters of 2021 up by 26% YoY. The market still has substantial space to grow, as the penetration rate of e-commerce has only just reached 10%, much lower than the US (19%) and South Korea (26%).

Logistics plays a big role in the e-commerce industry as retailers aim to optimize last mile delivery for next-day or even same-day delivery. Therefore, some retail operators, especially e-commerce, supermarkets, and convenience stores are establishing regional distribution centers, cold chain logistics, as well as satellite warehouses. NT\$24.7 billion worth of logistics and warehouses have transacted in the past three years with land prices of generally under NT\$200,000 per ping. In terms of location, 62% of deals have been concentrated in Taoyuan which is well connected with the airport, seaport, and city center. Taichung, Changhua and Tainan are also proving to be hot destinations in central and southern Taiwan.

The pandemic has also led Taiwanese firms to speed up their digital transformation plans by moving data to the cloud which has brought significant opportunities to cloud providers. Two tech giants, Google and Microsoft, hadve purchased industrial land to establish hyper-scale data centers since 2012, which has encouraged more international data center operators to consider entering the market. Google, the most aggressive international player, has acquired three pieces of large-scale industrial land, totaling 55 hectares in Changhua, Tainan, and Yunlin, with each site ranging between 15 and 20 hectares. Following Google, Microsoft has purchased two industrial sites in Taoyuan this year, totaling four hectares to establish its first Azure datacenters, and is scheduled to start operations in the second half of 2022.

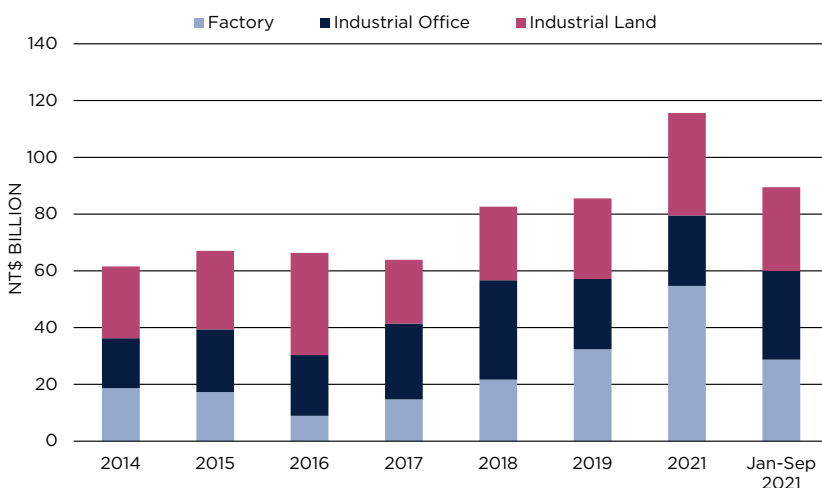
Given Taiwan's strong data protection laws, data storage infrastructure, and low-cost electricity, both public cloud, and colocation operators are expected to expand their footprint over the next few years. Industrial offices close to the city center or industrial land close to tech hubs will stand to benefit first.

GRAPH 1: Taiwan's Export and Import Growth, 2012 to September 2021



Source Savills Research & Consultancy

GRAPH 2: Industrial Property Sector Transaction Volume, 2014 to September 2021



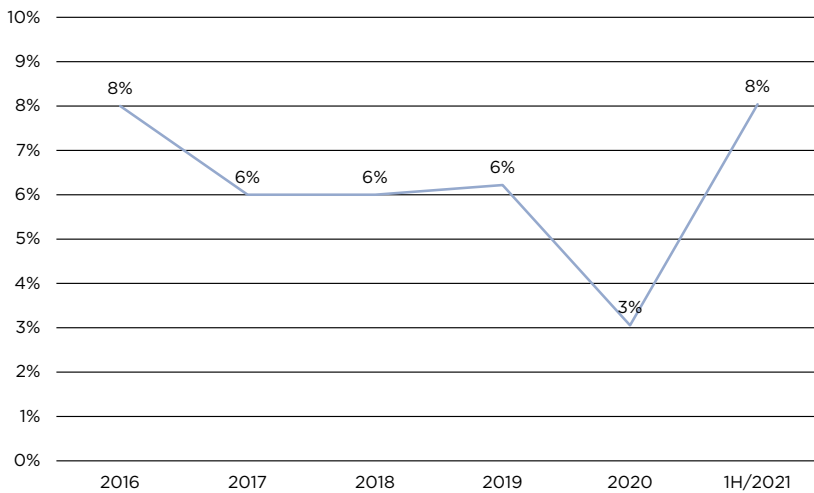
Source Savills Research & Consultancy

BUYING MOMENTUM IS STRONG AND DIVERSE

Since the beginning of the trade war, the industrial property market has seen strong demand. Following two very active years, total transaction volumes in the industrial property sector reached NT\$89.5 billion in the first three quarters, the second-highest volume on record and only 3% less than the same period last year. In terms of property types, industrial offices accounted for 35% (NT\$31 billion), with factories and industrial land accounting for 33% (NT\$30 billion)

In addition to the technology sector, demand from logistics and data centers will continue to drive the industrial market.

GRAPH 3: Industrial Land Price Changes in Selected Industrial Park, 2016 to 1H/2021



Source Savills Research & Consultancy

and 32% (NT\$29 billion) respectively. As the domestic technology industry outlook improves, especially for the 5G, AI, and IoT sectors, diversified buyers, including end-users from the technology industry as well as investors from life insurance companies and professional investment institutions, should provide robust momentum to market demand.

Technology companies are the biggest buyers accounting for 44% of total deals so far this year. However, their expansion strategy has changed. In contrast to the first two years, when factory acquisitions for manufacturing expansion were a priority, we are aware that more and more leading companies are looking for industrial offices to upgrade their office environment or set up new headquarters, fuelling industrial office transactions in Taipei City and New Taipei City.

Notable deals include MediaTek, a leading IC design company, acquiring 6,451 pings of an industrial office building in Neihu Technology Park for NT\$3.26 billion. Adata

TABLE 1: Significant Logistics and Warehouse Transaction in 2021

DATE	PROPERTY	LOCATION	PRICE	GFA	BUYER
Apr	Industrial land in Yangmei District	Taoyuan City	NT\$1.5 bil/US\$503 mil	Land: 29,021 sq m	Cathy Life
May	Industrial land in Daxi District	Taoyuan City	NT\$1.5 bil/US\$517 mil	Land: 31,264 sq m	Cathy Life
Sep	Warehouse in Xinshi District	Tainan City	NT\$1.04 bil/US\$361 mil	Land: 20,305 sq m Building: 11,478 sq m	I-HWA Industrial
Sep	Industrial land in Changhua	Changhua County	NT\$1.3 bil/US\$456 mil	Land: 32,294 sq m	momo

Source Savills Research & Consultancy

TABLE 2: Industrial Property Transactions by Google and Microsoft

DATE	PROPERTY	LOCATION	PRICE	LAND SIZE	BUYER
2012	Industrial land in Zhangbin Industrial Park	Changhua County	Unveiled	Land: 150,236 sq m	Google
2019	Industrial land in Tainan Technology Park	Tainan City	NT\$3.3 bil/US\$112 mil	Land: 205,674 sq m	Google
2020	Industrial land in Yunlin Technology-based Industrial Park	Yulin County	NT\$3.6 bil/US\$126 mil	Land: 200,448 sq m	Google
2021	Industrial land in Guishan Industrial Park	Taoyuan City	Unveiled	Land: 20,793 sq m	Microsoft
2021	Factory in Luzhu District	Taoyuan City	NT\$2.4bil/US\$83 mil	Land: 22,978 sq m	Microsoft

Source Savills Research & Consultancy

Technology Co. purchased 11 floors of a pre-sale industrial office project, totaling 7,800 pings, for NT\$3.85 billion to relocate their headquarters from New Taipei City to Taipei City. As development sites in the CBD areas are difficult to acquire, some companies are shifting their focus to superficies land auctions, participation in Build-Operate-Transfer (BOT) projects, or urban renewal projects held by the government. Compal Electrics, the second-largest notebook manufacturer in the world, acquired T16 land site (4.5 hectares), a superficies land, in Beitou-Shilin Technology Park for NT\$8.2 billion to build their new headquarters with a total investment for the project set to exceed NT\$26 billion.

OUTLOOK

Land prices have seen rapid increases this year. According to our survey, the average land price in specific well-known industrial parks rose by 7% in the first six months, double last year. Industrial parks with land prices below NT\$200,000 per ping, experienced significant growth, such as Hsinchu, Tainan, and Taoyuan, as most technology companies are particularly cost-sensitive and looking for affordable areas. It is worth mentioning that southern Taiwan will be a new tech hub in the near term as TSMC, the world's leading semiconductor company, announced that it will expand its capacity in Tainan and Kaohsiung, which will further attract supply chains southwards.

The government has rolled out several measures to cool the property market recently and the industrial property has not escaped. While the Taiwan Central Bank has announced credit controls lowering the LTV ratio cap for idle industrial land to 50%, new industrial parks developed by the government also request buyers to sign a three year lease before transferring the title or require purchasers to receive usage permits within three years to improve land-use efficiency. However, the impact has so far been limited and we expect demand from end-users and investors to support further price rises.



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