



Low vacancy levels persist

Asking rents of several office buildings actually rose amid the pandemic as low vacancy strengthened landlord confidence.

- Taiwan's economy performed well in 2020 helping stabilize demand for office space and giving a boost to the jobs market.
- The fourth quarter saw negative take-up of 1,200 ping, the sharpest fall since the pandemic started while annual take-up stood at 2,200 ping in 2020.
- Overall Grade A vacancy rose slightly to 3.2%, up over two consecutive quarters while overall rents remained on an upward trend to reach NT\$2,976 per ping in Q4/2020.
- Some landlords raised asking rents since COVID has been well contained domestically, with new buildings marking a 4% to 6% increase in asking rents.
- Coworking operators slowed their expansion plans with Spaces launching a new branch in Neihu Technology Park making them the second largest operator in the Taiwan market.
- Relocation activity is being driven by the office redevelopment trend with 20 buildings in the CBD area undergoing redevelopment.

“High levels of pre-commitment in new supply and strong GDP growth suggests that overall rents could increase modestly by 2% in 2021.”

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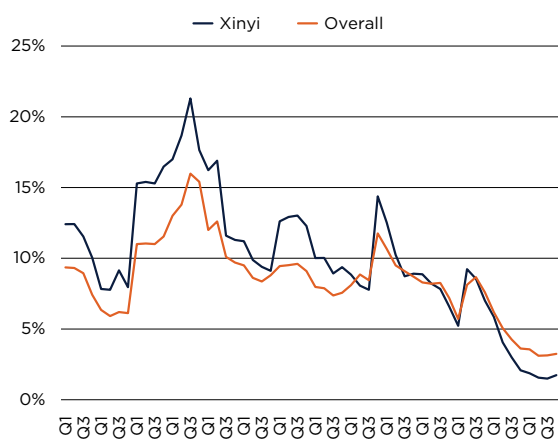
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TABLE 1: Grade A Office Vacancy Rates By Submarket, Q4/2020

DISTRICT	VACANCY RATE (%)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	1.7%	0.2	-0.3
Dunhua North	5.6%	-0.1	1.5
Dunhua South	0.8%	-0.7	-0.8
Non-core	5.8%	0.4	-2.9
Taipei Overall	3.2%	0.1	-0.3

Source Savills Research & Consultancy

GRAPH 1: Grade A Office Vacancy Rates, Q1/2007 to Q4/2020

Source Savills Research & Consultancy

TABLE 2: Grade A Office Rent By Submarket, Q4/2020

DISTRICT	RENT (NT\$ PER PING PER MONTH)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	\$3,554	0.7%	2.2%
Dunhua North	\$2,495	0.4%	1.3%
Dunhua South	\$2,519	-0.3%	1.7%
Non-core	\$2,296	0.2%	1.3%
Taipei Overall	\$2,976	0.5%	2.2%

Source Savills Research & Consultancy

MARKET OVERVIEW

Because the COVID-19 pandemic was well contained from the second quarter of 2020, Taiwan's economy is back to normal. Directorate-General of Budget, Accounting and Statistics (DGBAS) forecasts that Taiwan's GDP will rise by 2.54% in 2020, thanks to the strong export of semiconductor and electronics and information technology. Annual revenue of TWSE listed in 2020 increased by 1.14% from last year to NT\$35.46 trillion coupled with a 23% growth in the TAIEX index in 2020 reflecting a stable economy and a strong jobs market ahead.

The fourth quarter marked a negative 1,200 ping of office take-up, the sharpest fall since the pandemic started due to downsizing or relocation into newly purchased offices. The annual take-up reached 2,200 ping in 2020 and the overall vacancy stayed at 3.2%, only down 0.1 percentage point year-on-year (YoY), reflecting relatively stable conditions as working from home has become the norm for workers worldwide.

In general, working from home is less prevalent and most corporates are applying remote working flexibly depending on the local pandemic situation. The uncertainty has led many companies to introduce cost control measures and made them reluctant to expand, even though sales are better than forecasts made early in the year. Renewing a lease is preferable but companies demanding large amounts of space are pre-leasing new supply due to the lack of availability in existing stock and early bird discounts.

Taobao Taiwan retreated from the Taiwan market at the end of 2020 after being identified as a Chinese-controlled company which left a full floor of office space in Hung Seng IFC vacant. Cheetah Mobile Taiwan, setting the first record for office rents over NT\$4,000 per ping in 2014 announced it was dissolving its Taiwan office. However, landlord's confidence was not affected such news with several office buildings in Xinyi district actually raising asking rents by NT\$400 to NT\$200 per ping this year.

Coworking operators who had formerly expanded their footprint in Taiwan aggressively, slowed down plans owing to the lack of available space in newly-completed office buildings coupled with focusing on ensuring a stable occupancy level. As no new international brand entered the market this year, Spaces was the only brand launching a new branch in Neihu Technology Park amid the pandemic. Spaces' new branch occupies two floors (1,800 ping) in Hongwell Ruigang which takes the size of their total operation to 4,000 ping, the second largest player in Taiwan, following JustCo (5,500 ping).

Looking forward government policy will

remain a major driver behind the office redevelopment trend which is causing relocation activity. In 2H/2020, five Grade B office buildings, including two owned by Cathay Life and Zurich Insurance building in Dunhua N. district and Fubon Insurance building, applied for redevelopment with a total existing office space of 17,000 ping. At the same time, institutional landlords are reviewing their portfolios and arranging redevelopment schedules carefully, to avoid losing quality tenants.

SUPPLY

At the end of 2020, total stock in Taipei Grade A office market remained at 692,000 ping (65 buildings), slightly down by 0.1% given the completion of China Life Headquarters and the demolition of two buildings in Dunhua S. and Dunhua N. In 2021, new supply will reach 36,000 ping with four new projects scheduled to be completed, including two buildings in Dunhua N. (18,000 ping) and two in non-core areas (18,000 ping). Since 60% of new space has been pre-committed, the remaining available space of 14,000 ping is mainly from Farglory Dome.

According to our survey, 20 office buildings in Taipei CBD with floorspace totaling over 100,000 ping announced the start of redevelopment process in the past three years, especially buildings located in Nanjing E. Road, Songjiang Road, Dunhua N. and Taipei Train Station area. Only three of these projects will be replaced with new residential or hotel developments which means that the office market might face a supply challenge after 2025. Meanwhile, during the construction period, a temporary fall in availability and tenant relocations will support the market in the near term.

VACANCY

Overall vacancy recorded a marginal increase of 0.1 percentage point (ppts) to 3.2% in Q4/2020, up for two consecutive quarters and 2.9 ppts lower than the same time last year. The vacancy rate in Dunhua N. and non-core areas reached 5.6% and 5.8% respectively, the highest among all sub-districts. In non-core areas, occupancy rates in a majority of buildings are stable and stand at 90% with only one project, Taiwan Life Zhongshan Building, reporting large amounts of vacant space.

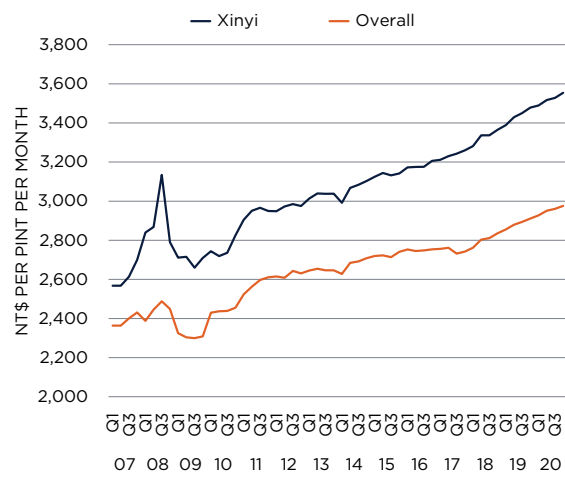
In Dunhua N., older office buildings are facing challenges as once tenants move to new premises the vacant space they leave behind is proving difficult to rent. Next year, vacancy rates in Dunhua N. are expected to rise significantly with Standard Chartered Bank, an anchor tenants in Dunhua N., planning to relocate to newly completed Fubon Liaoning Bldg in the same area.

TABLE 3: Major Leasing Transactions, 2020

DATE	BUILDING	LOCATION	SIZE (PING)	RENT (NT\$ PER MONTH)	UNIT RENT (NT\$ PER PING PER MONTH)
Aug	33/F, International Trade Building	Section 1, Keelung Road	368	1,237,959	3,361
Sep	14/F, Hung Kuo Building	Dunhua N.	70	197,121	2,814
Nov	13/F, Gia Gia Building	Songjiang Road	561	1,621,389	2,888

Source Savills Research & Consultancy, Department of Land Administration M. O. I

GRAPH 2: Grade A Office Rents, Q1/2007 to Q4/2020



Source Savills Research & Consultancy

RENT

Average rents in the Grade A office market inched up by 0.5% quarter-on-quarter (QoQ) to NT\$2,976 per ping in Q4/2020 and up 2.2% YoY. The growth of rents in 2020 slowed compared with 2018 and 2019 which saw 3.4% and 2.6% growth respectively, however, each sub-market witnessed rental growth rates between 1.3% and 2.2%.

As businesses resumed normal operations, landlords felt more confidence about the prospects for the leasing market, and some raised asking rents. They can be classified into two types with asking rents in Xinyi district increasing by 4% to 6% owing to the lack of new supply. The other are older Grade A office buildings locating in areas where office redevelopment projects are clustered which have seen an increase of 10%.

OUTLOOK

The successful containment of COVID-19 and the resulting stable economy are supporting the Grade A office market in terms of rents and vacancy. In 2021, the outstanding performance of Taiwan’s technology industry coupled with government policies to encourage international talents to move to Taiwan, means a revival of Taiwan’s industry and business environment. In addition, limited new supply is expected to maintain overall vacancy rates below 4.5% and rents could increase by 2% in 2021.