



## Corporates resume office relocation assessments

The completion of new buildings meant that average Grade A office rents increased by 2.9% in 2023.

- AI applications and the demand for tech goods have driven Taiwan's exports to turn positive since November. A stable job market and strong business activity levels are supporting demand for office space.
- Recently, companies have begun to restart their office relocation assessment plans. With a cautious approach to space expansion, increased demand for a better working environment is leading to higher rental budgets.
- In Q4, the overall office vacancy rate in the Grade A office market was 5.3%, declining 0.2 ppts. Xinyi district recorded a vacancy rate of 6.8%, the highest among districts while Dunhua S. district witnessed a surge.
- The average rent in Taipei City was NT\$3,130 per ping, up 0.5% QoQ and 2.9% YoY, slightly higher than the annual inflation rate in 2023.
- In 2024, five office buildings are going to be completed providing a total office area of 39,000 ping with 55% of that released onto the leasing market.

“Several newly completed buildings in downtown and fringe areas will put pressure on landlords of older office buildings to put in place upgrade strategies to maintain market competitiveness.”

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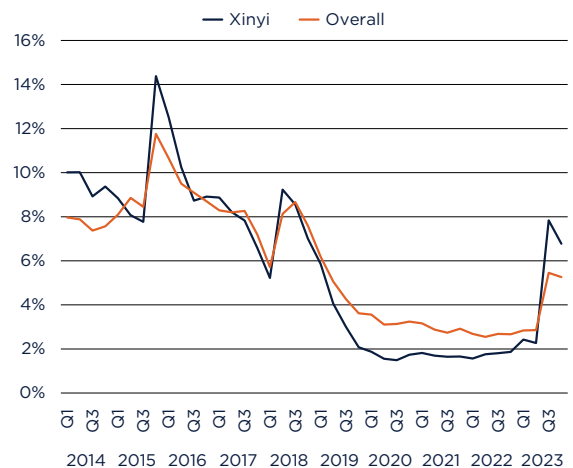
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**TABLE 1: Grade A Office Vacancy Rates by Submarket, Q4/2023**

DISTRICT	VACANCY RATE (%)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	6.8%	-1.1%	4.9%
Dunhua North	6.2%	0.2%	1.8%
Dunhua South	3.4%	2.4%	2.6%
Non-core	1.1%	0.0%	-2.3%
Taipei Overall	5.3%	-0.2%	2.6%

Source Savills Research &amp; Consultancy

**GRAPH 1: Grade A Office Vacancy Rates, Q1/2014 to Q4/2023**

Source Savills Research &amp; Consultancy

**TABLE 2: Grade A Office Rent by Submarket, Q4/2023**

DISTRICT	RENT (NT\$ PER PING PER MONTH)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	\$3,754	0.7%	2.3%
Dunhua North	\$2,556	0.1%	0.8%
Dunhua South	\$2,612	1.0%	3.4%
Non-core	\$2,410	0.6%	1.8%
Taipei Overall	\$3,130	0.5%	2.9%

Source Savills Research &amp; Consultancy

**MARKET OVERVIEW**

In 2023, Taiwan's exports declined by 9.8% in total. Fortunately, driven by the surge in AI applications and recovered sales boosted by new technology product launches, exports finally turned positive in November. A modest economic growth rate of 1.42% was recorded in 2023 and it is estimated to rebound to 3.35% in 2024, according to the Department of Budget, Accounting, and Statistics.

The job market has remained stable, with the unemployment rate in 2023 at 3.48%, improving slightly from the previous year, and hitting a 23-year low. Business activity performed well, and there were 239,000 companies registered in Taipei City at the end of December, increasing by 2% from the same period last year. Da'an District, Zhongshan District, and Xinyi District saw the largest growth.

With global economic prospects gradually improve, more enterprises who intended to renew existing leases or scale back on office space previously, have begun to restart their office relocation plans this quarter. Instead of space expansion, corporates, are more willing to upgrade the working environment and will drive demand for new and high-quality offices with convenient transportation in the coming two to three quarters.

In the final quarter of 2023, office take-up reached 11,000 ping, with one-third of leasing activity taking place in the Xinyi District and the remaining take-up happening in new buildings in the Dunhua S. District and non-core districts.

A total space of 7,700 ping in two new office buildings, including 1,700 ping in the Forest of Dunhua South building and 6,000 ping in Sunny Bank Headquarters were occupied by landlords which further drove the total take-up in 2023 to 19,400 ping, up significantly from a year ago. However, excluding the self-use space in the newly completed buildings, the leasing momentum is still in the early stages of recovery, and average rents rose steadily by 2.9% in 2023.

In the fourth quarter, several leasing activities were recorded in Xinyi District, including a gaming startup which leased a mid-floor office unit in the newly completed Fubon A25 Building for NT\$4,300 per ping. The entire 14th floor of the Uni-President International Building, approximately 670 ping, was taken by a biopharmaceutical company, which will relocate from a non-core district.

In addition, over 500 ping of office space in the Hwa Xin Lihwa Building and Far Glory Financial Center were taken. In general, both the scale and leasing momentum were more active than in the first half of 2023. It was also observed that newly completed buildings are providing appealing incentives, such as longer rent-free periods to attract tenants. With the occupancy rate exceeding 50%, landlords are going to further raise asking rents.

The high rental level in the CBD has made

new buildings in fringe areas become the preferred choice for technology companies' headquarters. Nankang has attracted much attention in recent years due to its proximity to the Xinyi Planning Zone, convenient public transportation system, and lower rent levels. Notable deals include Acer investing NT\$2.7 billion to purchase a newly completed office building near MRT Kunyang Station as its group headquarters this December, aiming to consolidate their offices across Taipei and New Taipei City.

An international technology company, on the other hand, has leased 15 floors of the newly completed Ruentex YuCheng Headquarters Building for a lease period of 10 years, with a total area of 10,000 ping, making it the largest leasing deal in recent years.

These cases showed that large technology companies are demanding an upgraded working environment. Key considerations, including budget, available space, and transportation to other technology hubs led to new buildings in the emerging business district being on their radar.

**SUPPLY**

There are 70 Grade A office buildings in Taipei City and the total stock increased by 5% to 755,000 ping from a year ago, the largest new supply since 2018. Three new buildings added a total area of about 40,000 ping in 2023, of which 60% were released for rent, driving up the vacancy rate in Xinyi District in particular. In addition to actively adopting green building designs, office development projects are also trying to create unique selling propositions. For example, the Fubon A25 Building has an art gallery on the lower floor and the Dunan Forest Building has a daycare center on the ground floor.

In the coming year, five office buildings are expected to be completed and provide a total floor area of approximately 39,000 ping. Two of these buildings will be self-used by financial institutions. Therefore, over half of the new supply in the coming year will be released for lease, approximately 21,000 ping, slightly higher than in 2023. Among them, the Taipei Dome project, the largest in scale, currently has a pre-leasing rate of over 50%.

Meanwhile, several outdated office buildings in the CBD area have initiated redevelopment plans. Notable buildings include the Asia World Shopping Mall, the former China Development Financial Headquarters, and the Taiwan Life Insurance Nanyang Building in the Taipei train station area. Tenants of these outdated office buildings will be forced to relocate and will generate demand for office upgrades.

**VACANCY**

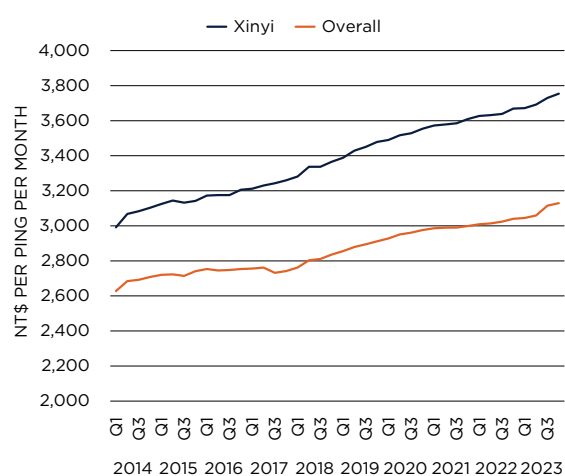
The overall vacancy rate in the fourth quarter was 5.3%, a fall of 0.2 ppts. The improvement was primarily due to recovered leasing activity, coupled with newly completed buildings being owner-occupied. However,

TABLE 3: Major Leasing Transactions, Q4/2023

DATE	BUILDING	SUBMARKET	SIZE (PING) INC PARKING	RENT (NT\$ PER MONTH INC PARKING)	AVERAGE RENT (NT\$ PER PING PER MONTH INC PARKING)
Oct	22/F, 34/F & 35/F, Shin Kong Life Tower	Non-core	847	2,201,368	2,600
Nov	38/F, Fubon A25 Building	Xinyi	299	1,283,679	4,300
Nov	12/F, Aurora Building	Xinyi	280	911,400	3,255
Nov	11/F, Hung Sheng FIFC Building	Dunhua N.	106	381,492	3,600

Source Department of Land Administration, Savills Research & Consultancy

GRAPH 2: Grade A Office Rents, Q1/2014 to Q4/2023



Source Savills Research & Consultancy

compared to the same period last year, the overall vacancy rate increased by 2.6 ppts, marking the highest increase since 2019.

Fortunately, the significant new supply caused the vacancy rate change rather than a structural shift, such as the trend for office downsizing or remote working. In the next year, upcoming new buildings in non-core business districts are expected to attract tenants from nearby older buildings and Dunhua S. district will also feel the pressure due to the location proximity and relatively attractive rental levels.

#### RENTS

Rents continued to show a slow and steady growth trend, with the average rent reaching NT\$3,130 per ping this quarter, up 0.5% QoQ and 2.9% YoY, which is slightly higher than the annual inflation rate of 2.5% in 2023. Among districts, Dunhua S. District saw the highest increase, with an average rent of NT\$2,612, up 3.4% YoY. This growth is primarily driven by the completion of new buildings, with rental levels nearly 20% higher than the district's average rent, coupled with the relatively smaller market size in this district.

The Fubon A25 Building, the newest prime A office building in Xinyi District disclosed two leasing deals on the 38th floor and 33rd floor, at NT\$4,300 and NT\$4,000 per ping respectively. The rental level is similar to other prime office buildings in the same district and indicates that landlords of new buildings are generally offering incentives such

as rent-free periods to stabilize face rents. This strategy also helps support asset values.

With abundant new buildings in the pipeline, landlords are actively differentiating themselves in space design and services, including:

- Actively obtaining domestic and international certifications, including green building, WELL, smart building, and good energy efficiency ratings.
- Provide hotel-like amenities, services and functional space to enhance interior space efficiency, such as meeting rooms, coworking spaces, collaboration areas, and event spaces.
- Introducing renewable energy facilities, green energy purchase agreements, and electric vehicle charging piles to gradually assist tenants and landlords to jointly achieve corporate ESG goals.

#### OUTLOOK

Taiwan's economy is gradually bottoming out and in the coming year, it is expected that companies will have more flexibility in their rental expenditure. Despite facing increasing vacancy rates, the overall leasing market is likely to maintain a certain level of rental growth. However, landlords of older Grade A office buildings need to be more proactive in building upgrade strategies as significant new buildings in downtown and fringe areas will enhance market competitiveness.