



## Average rents hit NT\$3,000 per ping in Q1

The vacancy rate has hovered below 3% for four consecutive quarters.

- A strong increase in corporate hiring is expected to support demand for office space due to stable economic conditions and strong revenue growth in 2021 from Taiwan-listed companies.
- Inquiries for office relocation and expansion recovered in Q4/2021, especially from the finance, technology and software industries.
- Limited options for office relocation due to low vacancy rates brought the total take-up in Q1/2022 to 2,000 ping.
- Average rents rose to NT\$3,009 per ping in Q1, up 0.3% QoQ and 0.8% YoY; the overall vacancy rate declined to 2.7%, remaining below 3% for four consecutive quarters.
- As we learn to live with COVID, we expect more corporates to adopt a hybrid working model to provide more flexibility to employees and help meet long term carbon reduction goals.

“The supply shortage is unlikely to ease over the next six months with no new projects scheduled to be handed over and this should push rents higher, especially for prime office buildings.”

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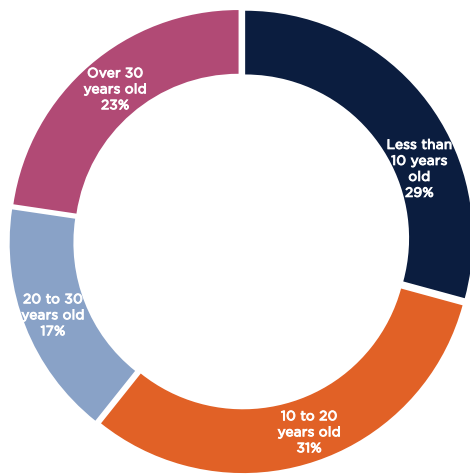
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GRAPH 1: Ages of Grade A Office Buildings, Q1/2022



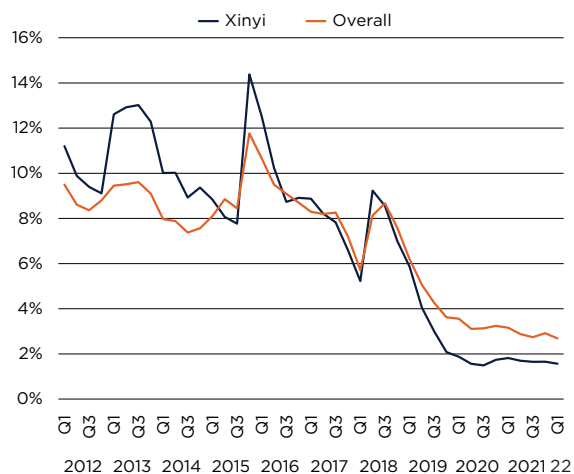
Source Savills Research &amp; Consultancy

TABLE 1: Grade A Office Vacancy Rates by Submarket, Q1/2022

DISTRICT	VACANCY RATE (%)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	1.6%	-0.1%	-0.3%
Dunhua North	4.5%	-0.5%	-0.8%
Dunhua South	0.8%	0.0%	0.0
Non-core	4.2%	-0.4%	-1.3%
Taipei Overall	2.7%	-0.2%	-0.5%

Source Savills Research &amp; Consultancy

GRAPH 2: Grade A Office Vacancy Rates, Q1/2012 to Q1/2022



Source Savills Research &amp; Consultancy

## MARKET OVERVIEW

Given strong exports coupled with a stable economy, Taiwan listed companies recorded good results in 2021. The number of job openings and companies which are recruiting are increasing significantly, especially in the electronic information, software, and semiconductor industries, according to local recruitment agencies. In general, domestic technology companies prefer to stay in technology parks, including Neihsu and Nankang. Meanwhile, the expansion of international technology companies which favour modern, well-designed office buildings in city centers to attract talent and build corporate image will benefit the Grade A office leasing market.

Leasing inquires for Grade A offices have recovered since the previous quarter, especially from finance, technology and software companies, owing partly to the successful management of COVID. However, limited options for relocation due to low availability in existing Grade A office buildings combined with a lack of new supply brought total take-up in Q1/2022 to only 2,000 ping. Rents remained stable in the first quarter, with Xinyi district leading the market.

In Xinyi district, several large office spaces were taken up and the increase in both asking rents and achievable rents was pronounced. A recent example is Taipei 101 which has continued to attract new tenants from the technology and e-commerce sectors with over 1,000 ping on the 13th floor taken by Coupang, South Korea's e-commerce giant, as their Taiwan headquarters. The 80th floor in the same building recorded rents of NT\$5,000 per ping last December, the highest ever in the office leasing market.

Recently, Shing Kong Xinyi Finance Center, another Grade A office building in Xinyi, became the fourth building to report rents hitting NT\$4,000 per ping thanks for the expansion of tenants from the software industry. Of note, some landlords are considering raising asking rents on the upper floors of prime buildings, from 4% to 6%, causing Xinyi rents to climb further.

As a policy of living with COVID is emerging, some companies are considering adopting flexible working practices or working from home models with many domestic companies preferring a more traditional approach. Some companies might downsize on lease expiry as the hybrid work model can provide more

flexibility to employees and lower overhead costs. In addition, the rising awareness of ESG has made the new working model more attractive as a means of lowering carbon footprints by reducing commuting times while creating office spaces which help meet their long-term goals.

## SUPPLY

With no new projects handed over, Grade A office stock remained at 715,000 pings in Q1/2022. Even though several new projects were launched over the past year, aging buildings have become an issue, with 30-year-old stock now accounting for 23% of the Grade A total. Among the submarkets, Dunhua South and North have the highest proportion with 30-year-old stock accounting for 46% and 37% of the total respectively. Outdated buildings without green certification are facing more challenges in retaining anchor tenants and achieving rental growth.

Over the next five years, office stock is expected to see a 65% increase, the highest ever, clustered in the Dunhu North, Xinyi and Taipei Train Station submarkets. Therefore, the share of 30-year-old stock will drop to 18% and buildings under 10-year-old will rise to 50%. Even though competition in the leasing market expected to intensify and vacancy expected to rise to double digits, modern, well-designed and green certified office buildings should continue to attract high-quality tenants.

## VACANCY

Overall vacancy stood at 2.7% in Q1/2022, up 0.2 ppts QoQ and down 0.5 ppts YoY. Vacancy has remained below 3% for four quarters in a row thanks to a stable economy and no new supply. Dunhua North and non-core districts posted an improvement in take-up as more available space in these areas has given tenants more choice. In the second half of 2022, overall vacancy rates will increase slightly as Taipei Dome Building will be launched which is likely to lift the number by 1 ppts to 1.5 ppts.

TABLE 2: Grade A Office Rent by Submarket, Q1/2022

DISTRICT	RENT (NT\$ PER PING PER MONTH)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	\$3,627	0.5%	1.5%
Dunhua North	\$2,526	0.3%	1.0%
Dunhua South	\$2,526	0.0%	0.3%
Non-core	\$2,317	0.0%	0.9%
Taipei Overall	\$3,009	0.3%	0.8%

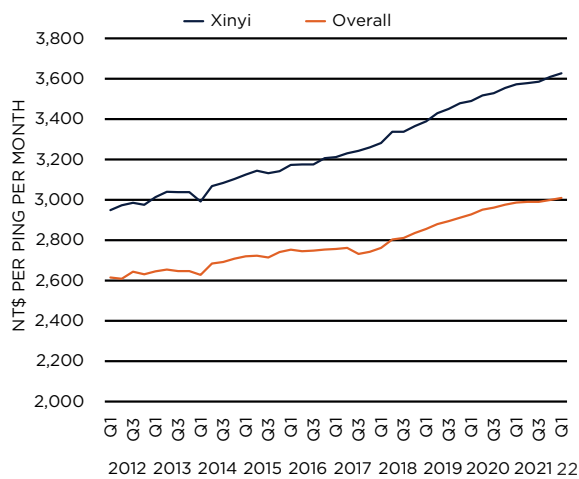
Source Savills Research &amp; Consultancy

TABLE 3: Major Leasing Transactions, Q1/2022

DATE	BUILDING	SUBMARKET	SIZE (PING INC PARKING)	RENT (NT\$ PER MONTH INC PARKING)	AVERAGE RENT (NT\$ PER PING PER MONTH INC PARKING)
Jan	13/F, Taipei 101	Xinyi	1,062	4,249,080	4,000
Jan	27/F, Cathy Landmark	Xinyi	718	3,014,928	4,200
Jan	10/F, Walsin Lihwa Xin Yi Building	Xinyi	109	419,227	3,837
Jan	7/F, FarGlory Financial Center	Xinyi	148	552,003	3,528

Source Savills Research &amp; Consultancy

GRAPH 2: Grade A Office Rents, Q1/2012 to Q1/2022



Source Savills Research &amp; Consultancy

## RENTS

Rents saw steady growth with average rents climbing to NT\$3,009 per ping this quarter, up 0.3% QoQ and 0.8% YoY. Among all submarkets, Xinyi district showed the strongest growth again with a rise of 0.5% QoQ to NT\$3,627 per ping. We also found that rental growth is highly related to building age. For example, rents in Cathay Landmark, a prime office in Xinyi district rose at a CAGR of 4.1% over the past six years with overall rents up by only 1.5% over the same time.

## OUTLOOK

The technology revolution has been driven by 5G, AIoT, and cloud computing bringing with it strong demand for talent which is supporting the need for office space. Office

supply continues to be constrained over the next six months which will support high occupancy rates and stable rents. Some landlords of prime office buildings are trying to raise asking rents which will further widen the difference in rents between aging and newer buildings.