



Net absorption in Q1 fell into negative territory

Rents continue to nudge up even as vacancy rises.

- The Directorate-General of Budget, Accounting, and Statistics revised Taiwan's GDP growth rate for 2023 to 2.12%, due to the global economic slowdown.
- The wave of layoffs from international tech giants has had a negative impact on the leasing market, and job opportunities and recruitment expansion plans in Taiwan are becoming more limited.
- The net absorption of office space showed a negative number in Q1/2023, and the overall vacancy rate increased to 2.84%, marking the highest point in nearly five quarters.
- Foreign enterprises are more sensitive to the global economy, causing newer office buildings with higher rental levels to face the possibility of an increase in vacancy rates.
- Even though the market momentum has weakened, rental prices continue to rise, and prime office buildings continue to challenge new rental highs.

“The uncertain economic outlook impacted leasing activity and the pre-leasing progress of new buildings will be an important indicator for the leasing market.”

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TABLE 1: The Completion of Grade A Office Building in 2023

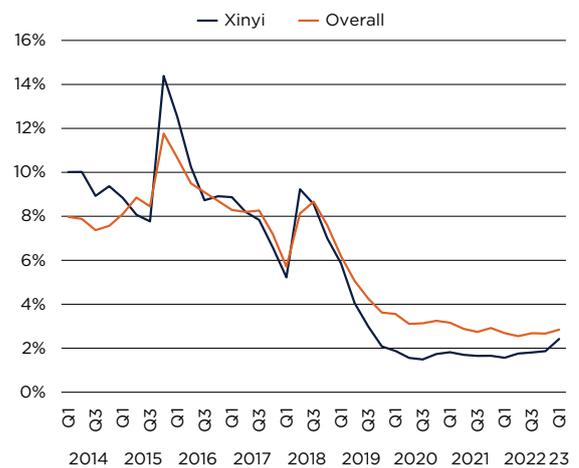
| BUILDING | DISTRICT | TOTAL FLOOR | TOTAL OFFICE SPACE (PING) | GREEN BUILDING CERTIFICATION |
|------------------------------------|-----------|-------------|---------------------------|------------------------------|
| Fubon A25 | Xinyi | 54F/B4 | 30,000 | EEWH_Gold |
| Huang Hsiang Train Station Project | Non-core | 31F/B5 | 12,000 | EEWH_Gold |
| Headquarters of SCSB | Non-core | 16F/B4 | 7,500 | EEWH_Silver |
| Headquarters of Sunny Bank | Non-core | 16F/B5 | 6,000 | EEWH_Silver |
| Pao Hung Dunhua S. Project | Dunhua S. | 16F/B5 | 4,000 | EEWH_Diamond |

Source Savills Research & Consultancy

TABLE 2: Grade A Office Vacancy Rates by Submarket, Q1/2023

| DISTRICT | VACANCY RATE (%) | QOQ CHANGE (%) | YOY CHANGE (%) |
|----------------|------------------|----------------|----------------|
| Xinyi | 2.4% | 0.6% | 0.9% |
| Dunhua North | 4.2% | -0.3% | -0.3% |
| Dunhua South | 0.8% | 0.0% | 0.0 |
| Non-core | 3.4% | 0.0% | -0.9% |
| Taipei Overall | 2.8% | 0.2% | 0.2% |

Source Savills Research & Consultancy

GRAPH 2: Grade A Office Vacancy Rates, Q1/2014 to Q1/2023

Source Savills Research & Consultancy

MARKET OVERVIEW

Due to the global economic weakness and a slowdown in consumer spending, Taiwan's export performance has weakened since Q4/2022. The economic indicators, announced by the National Development Council, have been showing a blue light indicating an economic downturn for five consecutive months since November last year. Meanwhile, the Directorate-General of Budget, Accounting, and Statistics has lowered its forecast for the 2023 annual economic growth rate to 2.12%, the lowest level since 2006. As for the job market, the unemployment rate has gradually risen since hitting bottom this January, with a rate of 3.56% in March, still at a relatively low point. On the other hand, the number of workers on unpaid leave announced by the Ministry of Labor in March was 18,000, which was similar to the previous quarter. The proportion of workers in the manufacturing industry was the highest, but the situation has significantly improved in the tourism industry since the easing of COVID-19 restrictions. Overall, the domestic job market has remained stable.

Currently, a wave of layoffs is being seen among the world's leading technology companies, including META, Google, Microsoft, and Amazon. According to a report from a local job searching website, although this wave of layoffs in Taiwan is relatively mild, job opportunities and recruitment expansion plans are limited. This atmosphere has also directly impacted the office market, with some multinational companies postponing or terminating relocation plans and renewing their existing leases to reduce costs, resulting in a decrease in office rental demand.

The net take-up of office space showed a negative number in Q1/2023. Without new buildings being completed, leasing activity was mainly affected by the performance of existing buildings. The overall vacancy rate of Grade A office buildings increased slightly to 2.84%, a rise of 0.2 percentage points quarter-on-quarter (QoQ), reaching the highest level in the past five quarters. Among sub-markets, the vacancy rate in Xinyi District increased the most, rising 0.6 percentage points (ppts) to 2.4%, the highest since 2020, mainly due to some multinational financial institutions and online gaming companies reducing their office space. In addition, large business groups also reviewed their demand for office space and released a small portion of space to the market, pushing up the vacant area in some buildings.

As foreign companies are more sensitive to the current economic changes, the vacancy rate of newer office buildings, especially with mid-to-high rent levels, has increased faster than the average. However, the overall vacancy rate of Grade A office buildings is

still below 3%, and professional landlords are tending to maintain the rental levels of their buildings, leading to a slow upward trend in rental prices. Several prime office buildings in Xinyi District have registered asking rents for upper floors exceeding NT\$5,000 per ping. For example, asking rents for the upper floors of Nan Shan Plaza stand at NT\$5,200 per ping, and in Taipei 101 they are reaching NT\$5,850 per ping, registering a new record. However, market acceptance is uncertain.

SUPPLY

There were no new office buildings completed this quarter, and the stock of Grade A office buildings remained at 715,000 ping. It is expected that five Grade A office buildings will be completed in the second half of this year, among which Dun Nan Forest, Fubon A25, and Yangxin Commercial Bank Headquarters have obtained use permits. The total floor area of the five new buildings is approximately 59,000 ping, which will increase the total stock of Grade A office buildings by about 8%. 40% of the new supply will be owner-occupied, and 60% of the space will be available for lease, with a space of approximately 34,000 pings.

New space released to the leasing market is mainly from Fubon A25 and the Huang Hsiang Train Station Project. As features, including location, rental rates, and potential tenants of these two new buildings are different, this is expected to mitigate the impact on the overall market. On the other hand, all the newly released Grade A office buildings this year have obtained the Taiwan Green Building EEWB certification, and three of them have obtained gold and diamond certifications. Currently, in non-core districts and Dunhua South business district, less than 30% of existing Grade A office buildings have green building certifications. It is expected that the new buildings underway will have the opportunity to attract enterprises which focus on carbon reduction issues in the business district.

VACANCY

The vacancy rate in the Grade A office market in Q1/2023 stood at 2.8%, a slight increase of 0.2 percentage points YoY, mainly due to the rise in vacancy rates in Xinyi District. Observing the global economic fluctuations, foreign tech and financial industries are more sensitive than local enterprises, which has affected Xinyi District, where foreign companies are the major tenants. Therefore, with the uncertain economic outlook, conservative corporate spending, and the new supply in the pipeline, it is expected that vacancies in Grade A office buildings will gradually increase throughout the year.

TABLE 3: Grade A Office Rent by Submarket, Q1/2023

| DISTRICT | RENT (NT\$ PER PING PER MONTH) | QOQ CHANGE (%) | YOY CHANGE (%) |
|----------------|--------------------------------|----------------|----------------|
| Xinyi | \$3,672 | 0.1% | 1.2% |
| Dunhua North | \$2,539 | 0.1% | 0.5% |
| Dunhua South | \$2,555 | 1.2% | 1.2% |
| Non-core | \$2,375 | 0.3% | 2.5% |
| Taipei Overall | \$3,047 | 0.2% | 1.3% |

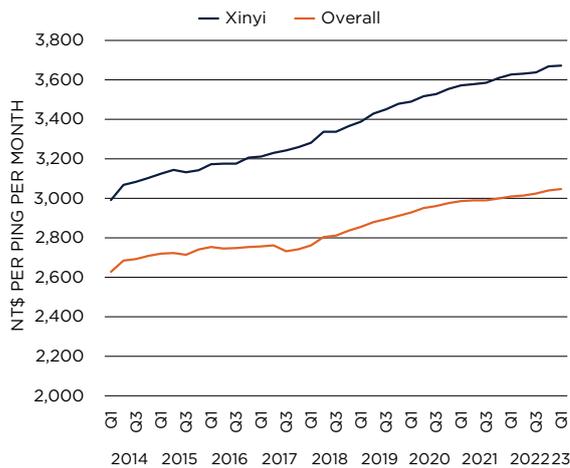
Source Savills Research & Consultancy

TABLE 4: Major Leasing Transactions, Q1/2023

| DATE | BUILDING | SUBMARKET | SIZE (PING INC PARKING) | RENT (NT\$ PER MONTH INC PARKING) | AVERAGE RENT (NT\$ PER PING PER MONTH INC PARKING) |
|------|-----------------------------------|-----------|-------------------------|-----------------------------------|--|
| Jan | 10/F International Trade Building | Xinyi | 38 | 149,223 | 3,885 |
| Jan | 43/F, Nanshan Plaza | Xinyi | 174 | 914,953 | 5,252 |
| Mar | 36/F, Cathay Landmark | Xinyi | 266 | 1,255,149 | 4,726 |

Source Savills Research & Consultancy

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



Source Savills Research & Consultancy

RENTS

Despite the slowing leasing momentum and an increase in vacancy rates, the average rent for Grade A office buildings has continued to rise, with an average rent of NT\$3,047 this quarter, up 0.2% from the previous quarter and up 1.3% YoY. Among sub-districts, the Dunhua S. District saw the most significant rental increase, up by 1.2% to NT\$2,555 per ping with average rents surpassed Dunhua N. District.

On the other hand, rental prices for prime office buildings in Xinyi District have continued to rise, with the latest deal showing that the 43rd floor of the Nanshan Plaza was leased for NT\$5,252 per ping to a foreign financial firm. The rent surpassed the record made by Taipei 101's 80th floor in 2021 which was leased for NT\$5,000 per ping. In addition, the latest rental price for high floors

in the Cathay Landmark building stood at NT\$4,726 per ping, setting a new high in the building.

OUTLOOK

Given the uncertain economic outlook, along with a conservative attitude toward spending, tenants are tending to renew leases rather than look at relocation or expansion options, which has weakened leasing activity. Looking ahead to the second quarter, as the timing of the bottoming out of the economy is still uncertain, the leasing market is expected to remain sluggish. Given a low vacancy rate, rents should be able to maintain a steady upward trend. However, the pre-leasing progress of new buildings will be an important indicator for the leasing market.