

Office



New buildings drive rents to historic highs

Existing office buildings are actively obtaining green building certifications to improve their competitiveness and tenant retention.

- The completion of two new office buildings drove a sharp increase in absorption during Q2, with a quarterly take-up of 13,000 ping, recording the highest volume in 10 consecutive quarters.
- Steady economic conditions encouraged corporates to expand and upgrade their office environment, pushing the average rent in Q2/2024 to NT\$3,189 per ping, up 1.3% QoQ and 4.3% YoY.
- Leasing momentum was particularly active among the software, luxury retail, pharmaceuticals, and financial industries, with international companies remained to be major tenants.
- Luxury retail brands embraced the ESG trend. In addition to receiving LEED certification for flagship stores, several luxury brands have relocated to prime office buildings in the Xinyi District.
- The market is expected to see a spike in available space, approximately 65,000 ping, by the end of 2025. This includes 37,000 ping of new space coming online next year, coupled with the remaining vacant space from the project completed in 2023 and 2024.

“Stable economic growth is expected to provide good fundamentals to support rent increases. However, the pace of rent growth is anticipated to moderate slightly in the second half of the year as elevating vacancy rates put pressure on landlords.”

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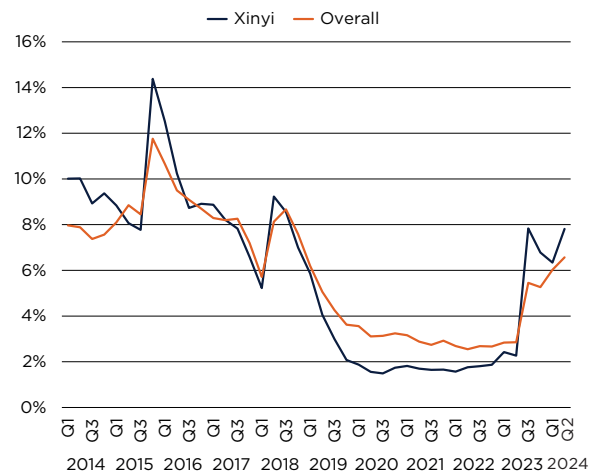
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TABLE 1: Grade A Office Vacancy Rates by Submarket, Q2/2024

DISTRICT	VACANCY RATE (%)	QOQ CHANGE (PPTS)	YOY CHANGE (PPTS)
Xinyi	7.8%	1.4	5.5
Dunhua North	5.7%	-0.3	1.2
Dunhua South	3.0%	0.0	2.2
Non-core	7.1%	-0.4	3.5
Taipei Overall	6.6%	0.5	3.7

Source Savills Research & Consultancy

GRAPH 1: Grade A Office Vacancy Rates, Q1/2014 to Q2/2024

Source Savills Research & Consultancy

TABLE 2: Grade A Office Rent by Submarket, Q2/2024

DISTRICT	RENT (NT\$ PER PING PER MONTH)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	\$3,821	1.0%	3.5%
Dunhua North	\$2,571	0.3%	0.9%
Dunhua South	\$2,612	0.0%	2.2%
Non-core	\$2,539	2.4%	6.9%
Taipei Overall	\$3,189	1.3%	4.3%

Source Savills Research & Consultancy

MARKET OVERVIEW

Taiwan's export performance has been exceptional, recording a robust 11% growth in the first six months of 2024. This strong export has significantly boosted its economy. As a result, Taiwan's economic monitoring indicator has shifted to the "yellow-red" signal in this April, indicating an improving market condition after its last appearance in Q1/2022. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), Taiwan's GDP growth is projected to reach 3.94% this year, marking the highest expansion in three years.

Stable economic development has stimulated office expansion and flight-to-quality activities, providing a solid foundation for rent growth. In Q2/2024, the average rent for Grade A offices reached NT\$3,189 per ping, up 1.3% QoQ and 4.3% YoY. The active leasing momentum was driven by the completion of the new SCSB headquarters and the launch of the Far Glory Dome Office Tower, resulting in 13,000 ping of the quarterly absorption in total, the highest level in nearly 10 quarters.

The new SCSB headquarters contributed to around half of the quarter's absorption, accounting for 7,700 ping. Meanwhile, another 5,000 ping came from Xinyi District, with activities primarily concentrated in the Far Glory Dome Office Tower and Taipei 101 Tower.

The Far Glory Dome Office Tower is Taiwan's first mixed-use development that combines a stadium, shopping mall, international hotel, and office space. It has already secured a number of tenants, including an international insurance company taking two floors of office space, as well as smaller tenants from the software and trading sectors. Despite a 60% occupancy rate, the remaining space of this project has still pushed the overall vacancy rate for the Xinyi District up by 1 ppts.

The leasing momentum was particularly active among the software, luxury retail, pharmaceuticals, and financial tenants, with multinational corporations playing a key role in the Grade A office market. Foreign companies, particularly technology firms, have a stronger office demand, typically commanding a space ranging between 200 to 400 ping, whereas local investment companies need less than 100 ping for their offices. A notable transaction during the quarter involves a foreign cybersecurity firm that relocated from an old Grade A building to Nanshan Plaza, taking up 400 ping at a unit rate of over NT\$5,000 per ping. This represents a 50% increase in unit rents compared to the firm's last rental.

In recent years, the ESG (Environmental, Social, and Governance) trend has gained more awareness within the luxury retail industry. To align with their group sustainability goals, several luxury brands have undertaken renovation and expansion projects for their flagship stores to obtain LEED Gold or Platinum certification. Apart from their

storefront operations, these luxury retailers are also moving into green office spaces, with the new office buildings in Xinyi District, the hottest shopping area in Taipei, being their primary destination. For example, both Louis Vuitton and Bulgari have already moved into Cathay Landmark, meanwhile Chanel has occupied the 39th floor of Nanshan Plaza. In the first half of 2024, Tiffany & Co. relocated from the Shin Kong Zhongshan Building in a non-core area to the 40th floor of Cathay Landmark, while Hermes leased an entire floor on the 22nd floor of the same building. These recent relocation activities have positioned luxury retailers as key tenants in the Xinyi District.

In addition to new office buildings actively pursuing multiple green building certifications, existing Grade A office buildings are also seeking certification to enhance their competitiveness and retain tenants. Several older landmarks, such as the Hung Kuo Building, International Trade Building, and Taipei 101 Building, have obtained LEED certification years after their completion. Recently, the 15-year-old Walsin Lihwa Xin Yi Building in Xinyi District has even received the LEED O+M Gold certification. Overall, about 70% of the office space in the Xinyi District holds LEED Gold or Platinum certification, the highest ratio among Taipei's core business districts, making it the greenest office submarket.

SUPPLY

Two new buildings, namely the New SCSB headquarters (7,500 ping) in a non-core area and Far Glory Dome (11,000 ping) in Xinyi District, were completed in Q2, lifting the total Grade A office stock to 783,000 ping, reflecting a 2.4% QoQ increase in total supply. Both two buildings received EEWL Silver certifications upon their completion. The SCSB headquarters was reserved for self-occupancy and Far Glory Dome was put up for rent. In the rest of the year, another two Grade A office buildings, Yuanta Bank Headquarters (10,000 ping) and Yuanta Songjiang Gold Star Building (4,400 ping), will also complete with a EEWL Silver certification.

In total, five new projects are expected to complete this year, adding another 42,000 ping of new supply to the market. Excluding the two self-use headquarters, the remaining three will inject 25,000 ping to the leasing market, resulting in a new supply of over 20,000 ping for two consecutive years. As there are several new buildings with occupancy rates lower than 50%, the leasing market is expected to face greater challenges in 2025.

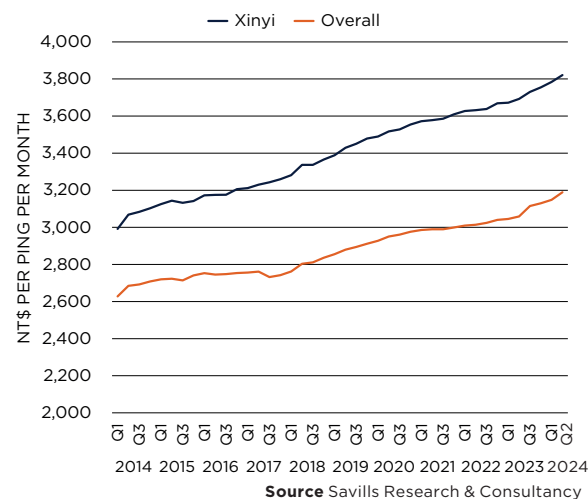
Looking ahead, the market is expected to see a spike in available space, approximately 65,000 ping, by the end of 2025. This includes 37,000 ping of new space coming online next year, coupled with the remaining vacant space from the project completed in 2023 and 2024.

TABLE 3: Major Leasing Transactions, Q2/2024

DATE	BUILDING	SUBMARKET	SIZE (PING) INC PARKING)	RENT (NT\$ PER MONTH INC PARKING)	AVERAGE RENT (NT\$ PER PING PER MONTH INC PARKING)
May	43/F, Nanshan Plaza	Xinyi	193	952,455	4,948*
May	11/F, Home Young Building	Dunhua N.	375	846,563	2,257
May	16/F, Huang Hsiang Taipei Plaza	Non-core	153	581,286	3,804
Jun	27/F, Taipei 101	Xinyi	87	368,263	4,250

Source Department of Land Administration, Savills Research & Consultancy
*Rents deducted parking space will be NT\$5,250 per ping.

GRAPH 2: Grade A Office Rents, Q1/2014 to Q2/2024



VACANCY

The vacancy rate increased to 6.6% in Q2/2024, up 0.5 percentage points from the previous quarter, marking the highest vacancy level since Q1/2019. Among districts, Xinyi District and non-core areas recorded the highest vacancy rates at 7.8% and 7.1%, respectively. Most of the vacant space was concentrated in specific buildings in the non-core area and the new supply in Xinyi district. However, it is worth noting that the occupancy rate in other buildings within the Xinyi District remains strong at over 95%.

RENTS

The average Grade A office rent reached a historic high of NT\$3,189 per ping, up 1.3% QoQ and 4.3% YoY this quarter. Growth was particularly strong in non-core areas, where the completion of the Huang Hsiang Taipei Plaza drove average rent up 2.4% QoQ to NT\$2,539 per ping

According to the latest government data, there was a notable office deal taken place this quarter, where a Japanese company leased a 150-ping unit in Huang Hsiang Taipei Plaza at NT\$3,804 per ping, 25% higher than the previous record set in the area. Despite the growing vacancy rate in the Xinyi District, rents in prime offices remain firm, with

upper-floor spaces in Nanshan Plaza achieving over NT\$5,000 per ping.

Earlier this year, a 7.2 magnitude earthquake struck the island, but caused no major damage in Taipei City. This event has raised awareness of building structural safety among tenants and landlords. The government has amended construction regulations to reinforce the structure of buildings since 1999. Under this amendment, office buildings less than 15 years old that comply with the amended construction code are considered earthquake-resistant buildings. As a result, we believe the rent gap between new and older buildings might widen in the short term, as tenants place a higher premium on seismic-resistant office spaces.

OUTLOOK

The leasing market have seen both rents and vacancy rates rose simultaneously in the first half of 2024. This market dynamic was driven by an influx of new quality projects, which commanded higher rents and pushed the annual rent growth to reach a 10-year high. While stable economic growth shall continue to support rental growth, the pace of which is expected to moderate slightly in the second half of the year, as elevating vacancy rates begin to exert pressure on landlords.