

Office



WFH becomes more widespread

A stable economy will support the demand for office space despite the significant fall in leasing momentum.

- The Directorate General of Budget lifted its forecast for Taiwan's economic growth in 2021 to 5.46%, the highest in 11 years. Rent relief is more common in the retail, catering, and hotel sectors.
- Total take-up remained below 1,000 ping with office leasing activity shrinking for four consecutive quarters.
- The overall vacancy rate fell slightly by 0.1 percentage point to 3% in Q2/2022 and rents stood at NT\$2,990 per ping, up 0.1% QoQ and 1.3% YoY.
- Several leasing deals saw rent levels unchanged reflecting landlords more realistic rental expectations.
- As fast-rising construction costs led landlords to delay redevelopment plans, tenant demand for relocation or office acquisition decreased.
- The large amount of vacant space left by anchor tenants who relocated to new buildings will put pressure on the Dunhua

N. submarket., even though newly completed buildings have been entirely taken up.

“Corporations are more conservative regarding office expansion and are rethinking the use of their physical office space. However, the possibility of further adoption of WFH will depend on changes in the COVID-19 pandemic.”

ERIN TING, SAVILLS RESEARCH

Savills team

Please contact us for further information

TAIWAN

Ricky Huang

Managing Director
 +886 2 8789 5828
 rhuang@savills.com.tw

RESEARCH

Erin Ting

Director
 +886 2 8789 5828
 eting@savills.com.tw

Simon Smith

Regional Head of
 Research & Consultancy,
 Asia Pacific
 +852 2842 4573
 ssmith@savills.com.hk

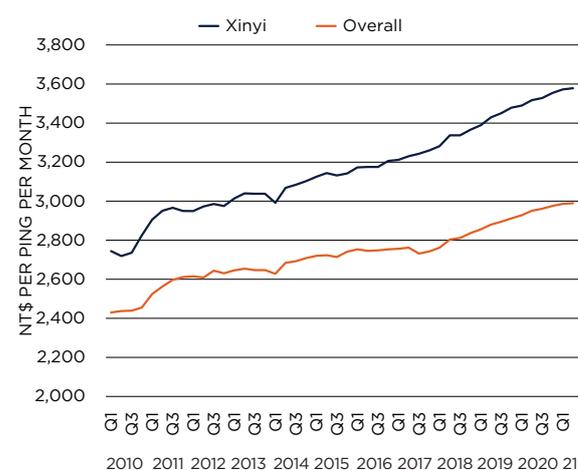
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TABLE 1: Grade A Office Vacancy Rates By Submarket, Q2/2021

| DISTRICT | VACANCY RATE (%) | QOQ CHANGE (%) | YOY CHANGE (%) |
|----------------|------------------|----------------|----------------|
| Xinyi | 1.9% | 0.1% | 0.4% |
| Dunhua North | 5.7% | 0.4% | 0.1% |
| Dunhua South | 0.8% | 0.0% | 0.0% |
| Non-core | 4.0% | -1.6% | -1.4% |
| Taipei Overall | 3.0% | -0.1% | 0.0% |

Source Savills Research & Consultancy

GRAPH 1: Grade A Office Vacancy Rates, Q1/2010 to Q2/2021

Source Savills Research & Consultancy

TABLE 2: Grade A Office Rent By Submarket, Q2/2021

| DISTRICT | RENT (NT\$ PER PING PER MONTH) | QOQ CHANGE (%) | YOY CHANGE (%) |
|----------------|--------------------------------|----------------|----------------|
| Xinyi | \$3,578 | 0.2% | 1.7% |
| Dunhua North | \$2,498 | -0.1% | 0.7% |
| Dunhua South | \$2,519 | 0.0% | 0.3% |
| Non-core | \$2,304 | 0.4% | 1.1% |
| Taipei Overall | \$2,990 | 0.1% | 1.3% |

Source Savills Research & Consultancy

MARKET OVERVIEW

The Level 3 alert was announced nationwide as domestic COVID-19 cases spiked in mid-May. This is the first time a Level 3 alert has been introduced since the start of the outbreak. During the second wave of the COVID-19 outbreak, corporates have been more willing to adopt working from home which has been reflected in a 70% decline in Taipei Metro traffic in May. In contrast to the first wave, corporates are well-prepared with the software and hardware to respond to changes in the pandemic situation. Therefore, the role of physical office space is now being more widely called into question with the WFH experience more widespread.

Fortunately, the impact on the local economy has not been too severe as the situation was gradually contained at the end of June with new cases mainly in the north of Taiwan which allowed most businesses to remain in operation. Due to strong export figures, the Directorate General of Budget, Accounting and Statistics lifted its forecast for Taiwan's economic growth in 2021 to 5.46%, the highest number in the past 11 years. Requests for rent relief mostly occurred in the retail shop, catering, and hotel industries rather than the office sector. However, sluggish demand for office relocation is inevitable.

The office leasing market remained quiet with a total of 800 pings of office space taken up in Q2. Overall vacancy rates remained at 3%, however, Xinyi and Dunhua N. submarkets posted an increase in vacancy due to the number of surrenders and relocations. In contrast, Grade A offices in the non-core areas benefitted from sufficient available space coupled with relatively low rents to attract new tenants from other submarkets or upgraders from Grade B offices.

Notable office leasing cases in the non-core area include Kadokawa Taiwan, a Japanese publisher with their previous premises in a

Grade B office building, who took up a whole floor (386 pings) of Gia Gia Building. Keyence Taiwan relocated from a Grade A office building in Dunhua N. district to Taiwan Life Zhongshan Building. Their office space doubled to occupy over 1,000 pings.

Office building redevelopment has become a major driving force in the leasing market in recent years. However, the fast rise in construction costs and a labor shortage have resulted in a cost increase of over 20% which has led some landlords to consider delaying plans, and demand for relocation or office acquisition has therefore eased.

SUPPLY

Total supply of Grade A offices remained stable at 692,000 pings in Q2. Three new office buildings which are scheduled to be completed this year, received use permits and will allow move-ins in the second half of 2021, including Fubon Liaoning Building, Transglobal Hope Square, and E.Sun Bank 2nd Headquarters, totaling 23,140 pings.

Due to the rising awareness of environment protection, large development projects now need to conduct an environmental impact assessment (EIA) which might prolong the process and increase uncertainty. For instance, Taipei Twin Towers project, a 76-floor and 56-floor mix-used project, is expected to take eight years to complete. The investment contract was signed in 2019 and the EIA report was completed this quarter. The project will be able to apply for a development permit after passing the urban design review stage and is expected to complete in 2027.

VACANCY

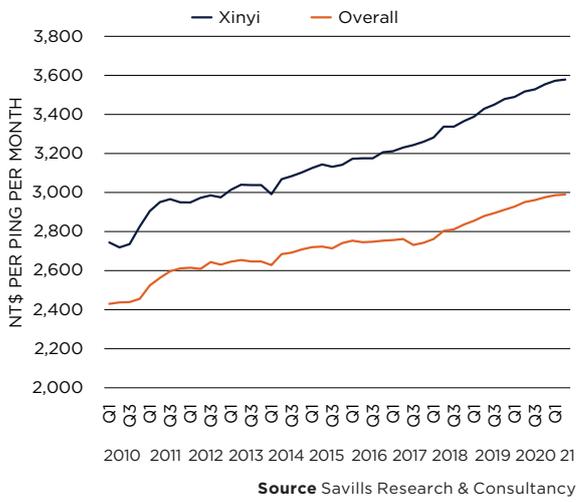
Grade A office market vacancy remained at 3% in Q2. The widespread WFH experience led corporates to begin to review their office space needs with a few tenants in Xinyi downsizing. Vacancy rates in Dunhua N. increased more

TABLE 3: Major Leasing Transactions, Q2/2021

| DATE | BUILDING | SUBMARKET | SIZE (PING) INC PARKING | RENT (NT\$ PER MONTH INC PARKING) | AVERAGE RENT (NT\$ PER PING PER MONTH INC PARKING) |
|------|--------------------------------|-----------|-------------------------|-----------------------------------|--|
| Mar | 3/F, Gia Gia Building | Non-core | 369 | 1,094,984 | 2,830 |
| May | 7/F, Exchange Square I | Xinyi | 251 | 730,046 | 2,900 |
| Jun | 6/F, Farglory Financial Center | Xinyi | 131 | 482,601 | 3,675 |

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

GRAPH 2: Grade A Office Rents, Q1/2010 to Q2/2021



rapidly compared with other submarkets as tenants relocated to non-core areas or Grade B office buildings in the same district. In the near term, the vacancy rate in Dunhua N. will increase even though two newly completed buildings in the area are fully leased. Anchor tenants who relocated to new buildings left large office areas which will take a while to lease out given current conditions.

RENTS

Average rents increased slightly to NT\$2,990 per pings in Q2, up 0.1% QoQ and 1.3% YoY. Non-core areas posted a relatively strong increase with rents growing by 0.4% QoQ to NT\$2,304 per ping, which is 10% lower than other submarkets, attractive to tenants who are more focused on cost. Several recent leasing deals posted rents at previous levels suggesting that landlords are being more realistic.

OUTLOOK

While WFH has become more widespread during the second wave of the pandemic, corporations are rethinking use of their physical office space. Fortunately, a stable local economy is supporting fundamental demand for office space. Once the outbreak has been contained, we expect leasing momentum to recover gradually. However, corporates will be more conservative in assessing their accommodation needs given the uncertainties caused by the pandemic.