Taiwan – September 2023

MARKET IN MINUTES

Savills Research

Office

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Demand for smaller requirements recovers

Space for rental negotiation is limited in the premium office sector given low vacancy rates and modest increases in rents.

- As Taiwan's exports face headwinds, the Directorate General of Budget, Accounting and Statistics has further revised the annual economic growth rate down to 2.04%.
- A hiring freeze and layoffs among multinational financial and technology companies have led to a cautious budget. In addition to rents, higher refurbishment costs and longer times for renovation have also impacted tenants' willingness to relocate.
- Leasing activity has seen a slight improvement, however, and the vacancy rate in Q2/2023 nudged up slightly to 2.9% with lease surrenders still taking place.
- The completion of the Fubon A25 Building next quarter will increase office stock in the Xinyi district up by 10%, which is expected to push the vacancy rate up to 8%.
- As carbon reduction and sustainability become more important, landlords of prime office buildings are trying to provide services such as renewable energy acquisition to improve competitiveness.

"In the second half of 2023, given significant new office supply coupled with the cautious spending of multinational companies, landlords of prime office buildings will face more challenges and will have to provide incentives to attract tenants."

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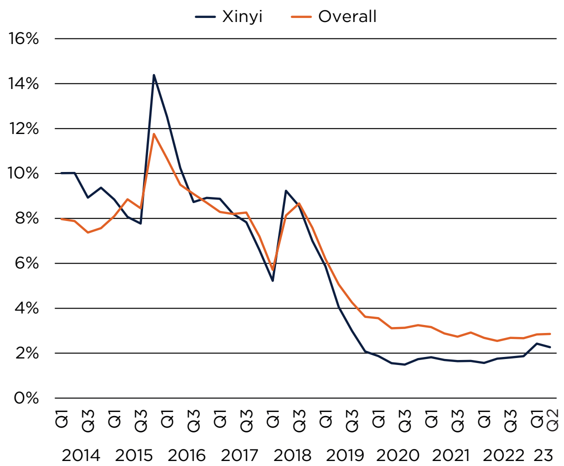
TABLE 1: Grade A Office Vacancy Rates by Submarket, Q2/2023

DISTRICT	VACANCY RATE (%)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	2.3%	-0.2%	0.5%
Dunhua North	4.5%	0.3%	0.5%
Dunhua South	0.8%	0.0%	0.0
Non-core	3.5%	0.1%	-0.3%
Taipei Overall	2.9%	0.1%	0.3%

Source Savills Research & Consultancy

GRAPH 1: Grade A Office Vacancy Rates, Q1/2014 to Q2/2023



Source Savills Research & Consultancy

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

DISTRICT	RENT (NT$ PER PING PER MONTH)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	$3,695	0.6%	1.7%
Dunhua North	$2,548	0.4%	0.6%
Dunhua South	$2,555	0.0%	1.2%
Non-core	$2,375	0.0%	2.5%
Taipei Overall	$3,060	0.4%	1.5%

Source Savills Research & Consultancy

MARKET OVERVIEW

As exports faced headwinds, the Directorate General of Budget, Accounting, and Statistics has revised the annual economic growth rate in 2023 to 2.04%. Even though domestic consumption has improved, especially in the accommodation, F&B, and retail sectors, the drop in manufacturing orders and high inventories has led to a weak export performance. As for the jobs market, the amount of unpaid leave hit a post-September 2020 high, mainly in the manufacturing sector. Fortunately, the employment market remains stable as service sector demand for labor has increased which means that the national unemployment rate stood at 3.49% in June.

International companies that hired most aggressively during the pandemic are now overstaffed and have been forced to cut back or impose hiring freezes since the end of last year. The wave of downsizing and layoffs initially started in the technology sector and gradually extended to the finance industry, including Citibank, Goldman Sachs, and Morgan Stanley which have all announced job cuts. Taiwan has not been directly affected by the layoffs; however, local branches have adopted a cautious approach to expanding headcounts to align with global policies. Companies are tending to renew their existing leases instead of relocating, given the elevated fit-out costs and the risk of refurbishment delays caused by the construction labor shortage.

The Grade A office market has remained stable as no new office buildings were completed this quarter. There are signs of improvement in leasing activity primarily focused on rents ranging from NT$2,000 to NT$3,000 per ping and office space under two hundred pings. However, lease surrenders have been witnessed recently and have offset the improvement in leasing activity and led to the overall vacancy rate in Q2/2023 remaining at 2.9%.

The recent relocation and expansion demand mainly happened in the renewable energy, luxury retail, and technology industries. While Xinyi District, the most vibrant shopping area in Taiwan, has attracted several international luxury brands to relocate their offices over the past few years, the robust growth of revenues in the luxury industry recently has led to office expansion and upgrade activity. For instance, notable leases have included a high-end American leisurewear brand relocating from the Second Exchange Square Building to the eighth floor of the Far East Financial Centre in Xinyi district, by taking up a space of 154 pings. In addition, a luxury brand took one-floor (680 pings) in Cathay Landmark to consolidate its office space.

Even though the current rental and vacancy rates in the Grade A office market remain stable, market competition is expected to intensify given the completion of several new buildings over the next two years. Meanwhile, sustainability and carbon emission reduction are attracting local companies' attention as the government requires all publicly traded companies to disclose their greenhouse gas emissions progressively. Financial and insurance companies, which own a majority of office buildings, are experiencing pressure to upgrades assets driven by the carbon emission reduction targets of their respective corporate groups. In addition to green building certifications, such as LEED, EEWH, and WELL, landlords of some prime office buildings are actively engaging in the acquisition of renewable electricity and providing it to tenants, especially for prime office buildings in the Xinyi district, including Taipei 101, Cathay Landmark, Nanshan Plaza, and Taipei World Trade Center. Given the supply-demand imbalance for green energy in Taiwan, the value-added service provided by landlords will enhance rental competitiveness and encourage lease renewals.

SUPPLY

The supply of Grade A offices remained at 715,000 pings (236,209 sq m) with no new supply this quarter. In the next quarter, Fubon A25 Building in Xinyi District will be completed with one-third of the office space owner-occupied and approximately 20,000 ping of office space for lease. Fubon A25 marked the first whole-bloc building with total office space exceeding 30,000 pings (9,917 sq m) since Nanshan Plaza was completed in 2018 which will increase office supply in Xinyi district by 10%. The new building will become an indicator with asking rents ranging between NT$4,200 and NT$5,000 per ping, however, new supply might cause the vacancy rate in the sub-market to climb to 8% in the short term.

In addition, another two Grade A office buildings are expected to be completed by the end of 2023. Huang Hsiang Taipei Train Station building in a non-core business district will provide an office area of 7,000 ping and Forest of Dunhua South building in Dunhua S. district will release an office area of 4,000 ping. The upper six floors of Forest of Dunhua South building will be used as the developer's headquarters as the lower floors will have multi-functional space and a public childcare center with asking rents set at NT$3,500 per ping. According to the latest pre-leasing activity, the asking rent of new buildings is 15% higher than the average rent in Xinyi district and the difference rises to 40% in other sub-markets.

VACANCY

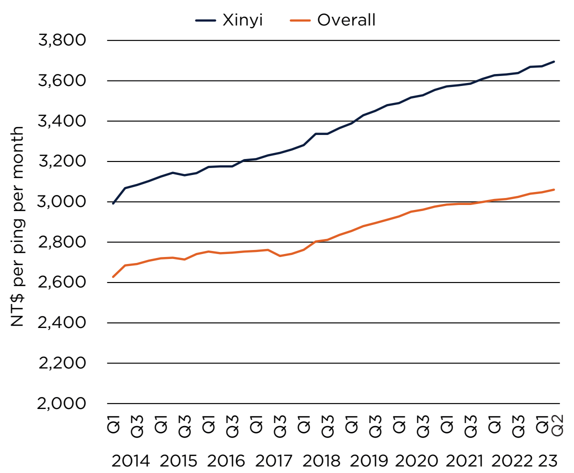
The overall vacancy rate in Q2 stands at 2.9%, showing a slight increase of 0.1 percentage points QoQ primarily attributed to the vacant space in Dunhua N. district. In general, overall vacancy rates in the Grade A office market have been under 3% since Q2/2021, however, the completion of a new building is expected

TABLE 3: Major Leasing Transactions, Q2/2023

DATE	BUILDING	SUBMARKET	SIZE (PING) INC PARKING)	RENT (NT$ PER MONTH INC PARKING)	AVERAGE RENT (NT$ PER PING PER MONTH INC PARKING)
Apr	8/F, FarGlory Financial Center	Xinyi	154	601,055	3,906
Apr	28/F, Taipei 101 Building	Xinyi	177	752,676	4,250
Apr	8/F, Aurora Building	Xinyi	125	393,750	3,150
Apr	4/F, Hung Kuo Building	Dunhua N.	92	252,377	2,754
May	38/F, Cathay Landmark	Xinyi	176	851,191	4,830

Source Savills Research & Consultancy

GRAPH 2: Grade A Office Rents, Q1/2014 to Q2/2023



Source Savills Research & Consultancy

to take this figure to over 6%. In addition, the significant new supply, higher asking rents, and the cautious attitude to spending given the global economic uncertainty will mean that the new space will take a longer time to be absorbed.

RENTS

Average rents for Grade A offices increased slightly to NT$3,060 per ping, up 0.4% QoQ and 1.5% YoY. Even though there is plenty of new supply in the coming months, several buildings with rents around NT$3,000 per ping raised their asking rents by 3% to 5% recently. One thing worth noting is that space for lease negotiation is limited, especially for prime office buildings, which shows the difference between asking rents and achievable rents below 5%, much lower than the average in the Grade A office market.

Despite the subdued leasing activity, rents for specific buildings showed a stable upward trend. For instance, the 38th floor of the Cathay Landmark Building was leased at NT$4,830 per ping, setting a record in the building. Meanwhile, 180 ping of office space on the 22nd floor of the Walsin Lihwa Xinyi Building was leased at NT$4,095 per ping, firmly setting up rents in the building at above the NT$4,000 per ping level.

OUTLOOK

In the first half of 2023, momentum in the office leasing market was subdued, with small-sized deals dominating the market. Overall vacancy rates remained at a low level and rents maintained a slow growth trend thanks to the upgrade in building quality and service. Looking forward, significant new office supply coupled with the cautious spending of multinational companies, means that landlords of prime office buildings will face more challenges and must provide incentives to attract tenants.