

Sales and Investment




Government rolls out property cooling measures

Insurance companies and developers are active in the property investment market, pushing total transaction volumes in Q1 to NT\$48.5 billion.

- The commercial property market remained active in Q1/2021, posting a total volume of NT\$48.5 billion, up 129% YoY and 52% QoQ.
- The largest investment deal in Q1 was the sale to a local developer of Far Eastern Sogo Dunhua Store, a luxury department store in Taipei, for NT\$13 billion via a share deal.
- Two other mega deals were concluded by Shin Kong Life, including China Development Financial HQs (NT\$9.3 billion) and Raint Plaza (NT\$5.6 billion).
- Strong demand for industrial property is unchanged with quarterly transacted volumes growing by 10% QoQ. Asking prices for industrial land in northern Taiwan have witnessed a rapid growth.
- The result of property market cooling measures and tightening mortgage availability is unclear, even though land transactions volumes declined modestly in Q1.
- Several developers have announced that they are entering the industrial property market, focusing on the industrial-office sector.

“Property cooling measures will focus on tightening mortgage availability, raising capital gains tax, and improving market transparency, however, we expect that the impact on demand from end-users and long-term investors will be limited in a low interest rate environment.”

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

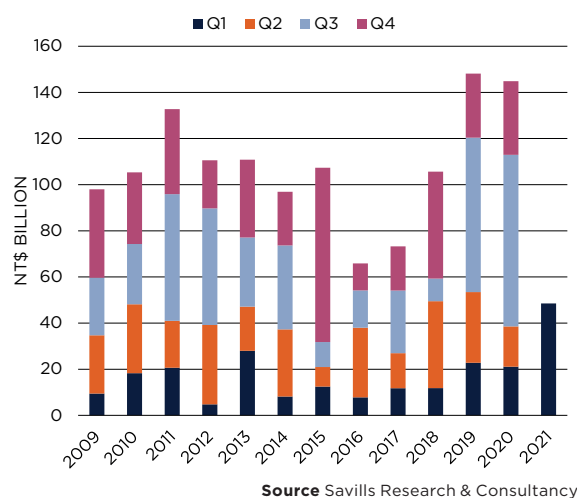
RESEARCH

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

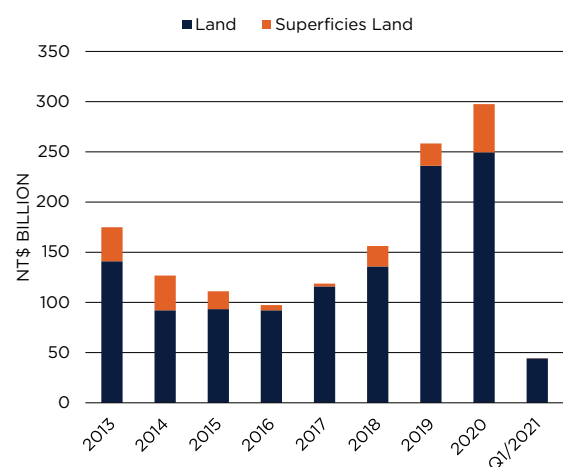
Simon Smith
 Regional Head of
 Research & Consultancy
 Asia Pacific
 +852 2842 4573
 ssmith@savills.com.hk

Savills plc
 Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.



GRAPH 1: Commercial Real Estate Transaction Volumes, 2009 to Q1/2021

Source Savills Research & Consultancy

GRAPH 2: Land And Superficies Transaction Volumes, 2013 to Q1/2021

Source Savills Research & Consultancy

COMMERCIAL PROPERTY MARKET OVERVIEW IN Q1/2021

The booming technology sector, as a key driver of Taiwan's economy, helped the economic growth rate in 2020 reach 3.11% alongside China and Vietnam as the only other Asian countries which posted a positive GDP growth rate last year. The global trade value is expected to increase by 8.1%, according to the IMF and the increasing export momentum will help Taiwan's economy grow by 4.64% in 2021, the Directorate-General of Budget, Accounting and Statistics said.

Given the stable economic conditions and low interest rate environment the rapid growth of real estate prices and volumes has caught the government's attention. A series of measures are being introduced to cool the overheated property market, including tightening mortgage availability for multiple house buyers, developers and idle industrial plots. Meanwhile, improving market transparency and prohibiting the resale of presale homes prior to signing of the sales and purchase agreement are measures targeting speculative buyers. In a next step, there is discussion of raising capital gains tax rates to 45% or 35% for property resold within five years. Looking back the first implementation of a new capital gains tax in 2016 resulted in a market correction for two years. It is therefore expected that the revision of the capital gains tax will have a direct impact on the residential market, especially the pre-sale residential market which has experienced rapid price growth and attracted speculators.

However, the commercial property market remained active with transaction volumes in the first quarter of 2021 reaching NT\$48.5 billion, up 129% YoY and 52.1% QoQ. Market cooling measures have had a limited impact on both prices and volumes with Q1 transaction volumes in the past few years usually ranging between NT\$10 billion and NT\$20 billion.

Insurance companies, developers and technology companies are dominating the market with end-users accounting for half of market share this quarter. The largest investment deal of the quarter was the sale of Far Eastern Sogo Dunhua Store, a luxury department store in Taipei CBD, for NT\$13 billion via a share deal to Huang Hsiang Investment, for an average land price of NT\$4.2 million per sq m, posting the third-highest land unit price in record. The buyer plans to tear down the building after the lease expires, according to reporters.

Insurance companies continued to search for property. Two other mega deals were concluded in the first quarter, when China Development Financial HQs and Raint Plaza were purchased by Shin Kong Life for NT\$9.3 billion and NT\$5.6 billion respectively. The former for owner-occupation sold by public tender for 15% above the reserve price which is equivalent to NT\$1.3 million per ping. The latter closed the Hsinchu Science Park deal with anchor tenants including Qualcomm and Netflix will remain a hotel and industrial-office complex for investment purposes, marking a 3.8% yield.

Strong demand for industrial property is unchanged and transaction volumes

TABLE 1: Major Economic Indicators, 2021

INDICATOR		COMMENTS
2021 GDP growth forecast	4.46%	2020 GDP growth: 3.11%
2021 CPI forecast (%)	1.33%	2020 CPI: -0.23%
2021 GDP per capita forecast (US\$)	US\$30,981	2020 GDP per capita: US\$28,383
US\$ exchange rate (March 2021)	NT\$28.39	2020 average: NT\$29.58
Export growth (% YoY) (January to March 2021)	+24.6%	2020 export growth (% YoY): -4.9%
Unemployment rate (March 2021)	3.67%	2020 (%): 3.85%
Inbound tourist arrivals (January to March 2021)	45,874 (-96.3% YoY)	2020 inbound tourist arrivals: 1,377,861 (-88.4% YoY)
Benchmark interest rate (March 2021)	1.125%	March 2020: revised down by 0.25 ppt
Terms of mortgage (June 2021)	Rate (%)* = 1.4-1.7 LTV (%)* = 60-80	

Source Directorate-General of Budget, Accounting and Statistics, the Central Bank and Savills Research & Consultancy
*Real estate base rate and loan ratio may vary from investors' credit terms.

of factories grew by 10% QoQ to NT\$9 billion. Kinsus acquired Wintek Factory in Taoyuan for NT\$4.49 billion, recording the second largest factory transaction of the past five years. Several technology companies, especially the semiconductor supply chain, including Chunghwa Precision Test Tech and Phoenix Silicon International, continued to expand factories in New Taipei City, Taoyuan and Taichung. Meanwhile, asking prices of industrial land in northern Taiwan are rising again and prices under NT\$200,000 per ping are increasingly rare.

In order to solve the imbalance between supply and demand, government has launched several plans, including pushing for idle industrial land to be developed and building new industrial parks. Since 2018, a total of 192 hectares of industrial land have been made available and a newly developed AI-focused industrial park in Hsinchu Country with a total size of 8 hectare, has successfully attracted four technology companies to move in and could provide 4,000 jobs in the future.

LAND MARKET OVERVIEW IN Q1/2021

Land transaction volumes decreased to NT\$44.2 billion, posting a 48% YoY decline in Q1/2021 due to the conclusion of NT\$31.2 billion worth of mega deals in the same period in 2020. Market cooling measures might have taken effect as land transaction activity slowed down. However, the effect on curbing land acquisition remained unclear as quarterly volumes dropped to an average of NT\$2.6 million due to the implementation of a new capital gains tax in 2016.

A few public land tenders received a good market response and the Ministry of Finance sold land lots in Da'an district, Taipei City, through land public tender for NT\$3.78 billion, representing a premium of 25% over the closing price. In addition, Kaohsiung City Government sold seven land lots for a total of NT\$1.7 billion, posting an average 24% premium. Large developers in a strong financial position are still confident and want to expand their land banks.

Several developers, including King's Group, Better Life Group, Pauian Archiland and Highwealth Construction, are entering the industrial property market aggressively, focusing on Tainan, Taoyuan and New Taipei City. In addition to purchasing industrial land, joint venture development between developers and factory owners to reduce risk is welcomed. As industrial land prices have climbed, local traditional manufacturing companies with abandoned factories are thinking of revitalizing their assets. For example, Tainan Spinning Co. announced the rebuild of its 30-hectare factory in Tainan into a science park to cater for rising demand from the semiconductor supply chain.

PREFERRED ASSET CLASSES AND LOCATIONS

Retail, office as well as industrial-offices accounted for a similar share of the market in Q1. In addition to the deal for Far Eastern Sogo Dunhua Store

TABLE 2: Significant Commercial Real Estate Transactions, Q1/2021

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	PROPERTY TYPE	BUYER
Far Eastern Sogo Dunhua Store	Taipei City	13	7,270	Retail	Huang Hsiang Investment
China Development Financial HQs	Taipei City	9.3	7,979	Office	Shin Kong Life Insurance
Raint Plaza	Hsinchu City	5.6	17,580	Retail	Shin Kong Life Insurance
Wintek Corp Yngmei Factory	Taoyuan City	4.5	40,154	Factory	Kinsus Interconnect Technology
Sasha Motel	Taichung City	1.8	788	Motel	Highwealth Construction

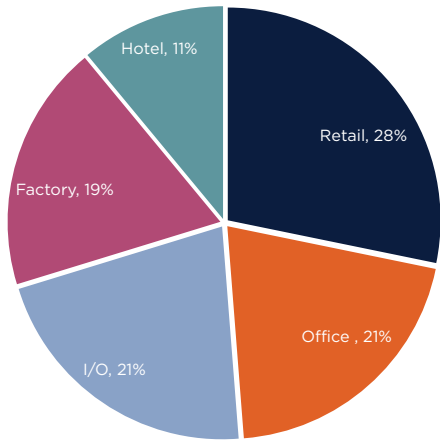
Source Savills Research & Consultancy

TABLE 3: Significant Land Transactions, Q1/2021

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	BUYER
Commercial land in Guishan Dist.	Taoyuan City	39.7	2,581	Highwealth Construction
Industrial land in Rende Dist.	Tainan City	33.8	16,909	King's Town Construction
Commercial land in Taichung new city center	Taichung City	28.6	907	Highwealth Construction
Commercial land in Xinzhuang Dist.	New Taipei City	26.8	1,419	San Far Property
Residential land in Da'an Dist.	Taipei City	24.2	485	Shin Ruenn Development

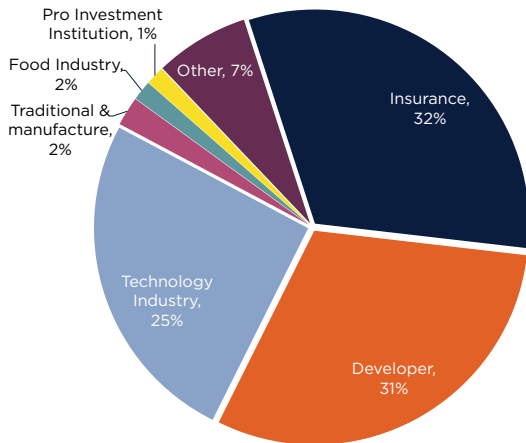
Source Savills Research & Consultancy

GRAPH 3: Significant Transactions By Property Type, Q1/2021



Source Savills Research & Consultancy

GRAPH 4: Significant Transactions By Investor Type, Q1/2021



Source Savills Research & Consultancy

(NT\$13 billion), another notable retail transaction was a retail shop on the first floor of WeHouse -a luxury residential project which sold for NT\$688 million, equivalent to NT\$3.4 million per ping. Volumes and prices in the office sector continued to rise but the number of traded assets remained low. Industrial property, especially in New Taipei City, Taipei City and Hsinchu with industrial cluster advantages, are popular among end-users from the technology sector.

INVESTOR PROFILE

Insurance companies were major buyers in Q1/2021 with property acquisitions totaling NT\$15.4 billion, posting the third-largest quarterly volume of the last five years denoting strong confidence in the property market. Developers are looking for en-bloc commercial properties with redevelopment potential in order to obtain development land in prime locations. Diversification is drawing attention and developers are expanding their focus to office, industrial-office and mixed-use projects.

The technology industry continued to drive the local economy and stock market. As their revenues have grown, technology companies have been more willing to deploy capital into the property market. Currently, the proportion of deals concluded by them in the factory and industrial office sectors stand at 60% and 40%, respectively, indicating that upgrade demand for headquarters and back offices will gradually increase after the completion of planned manufacturing expansions.

OUTLOOK

The strong market momentum in the second half of 2020 carried through into 2021 with the support of a healthy economy and a low interest rates environment. Property cooling measures introduced since last December are stricter and more comprehensive compared with 2016, however, the impact of the policies is unclear. We expect that end-users and long-term investors might keep plans unchanged while speculative demand is likely to be dampened significantly.