

Sales and Investment



Commercial property and land transactions drop 70% in Q1

Both sellers and buyers remained conservative in the face of economic, financial, and housing policy uncertainties.

- The Taiwan central bank announced another half-point interest rate hike at the end of Q1/2023, bringing the benchmark interest rate to 1.875%, and the average mortgage interest rate close to 2%.
- Market sentiment turned gloomy, leading investors to adopt a wait-and-see approach. The total transaction volume of commercial real estate in Q1/2023 was NT\$14.5 billion, down 69% YoY. The land transaction value totaled NT\$16.1 billion, reflecting a 70% YoY decline.
- Factories and industrial offices were the major transaction types this quarter, accounting for over 70%. Technology companies emerged as the primary buyers.
- The required yield from property investment for insurance companies has been raised to 2.845%, impacting their investment momentum, and they only invested NT\$390 million in real estate this quarter.
- Developers slowed down their land acquisition activities and are adjusting their strategies to land disposal or towards joint construction, redevelopment projects, or joint MRT development projects.

“Amidst market uncertainties, buyers in the technology and manufacturing sectors will continue with their property acquisition plans, while investors are prioritizing asset location and value preservation.”

ERIN TING, SAVILLS RESEARCH & CONSULTANCY

Savills team

Please contact us for further information

TAIWAN

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

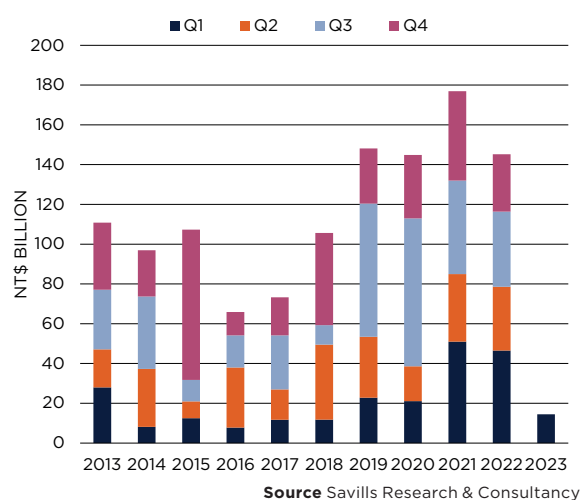
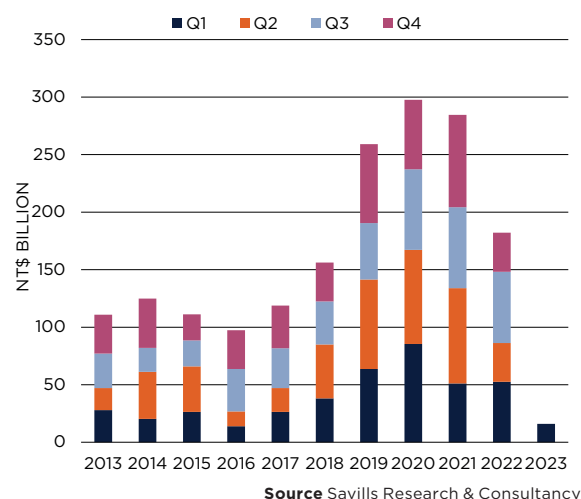
RESEARCH

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, 2013 to Q1/2023**GRAPH 2: Land and Superficies Transaction Volumes, 2013 to Q1/2023****COMMERCIAL PROPERTY MARKET OVERVIEW IN Q1/2023**

Weak global consumption and investment momentum led Taiwan's exports to post negative growth since September of last year for seven consecutive months and the economic indicators, announced by the National Development Council, have been indicating an economic downturn for five consecutive months. 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. However, the central bank announced another 0.125 percentage point increase in the interest rate this quarter, which drove mortgage rates to nearly 2%, their highest level in the past seven years.

The impact of rising mortgage rates on the housing market has been evident since the fourth quarter of last year, with the number of house transactions declining by 20% YoY. However, due to the active buying momentum in the first six months, the total number of housing deals in 2022 reached 318,000 units, posting a slight 8.6% decrease compared to the previous year.

In addition to the pressure brought by rising interest rates, the real estate market also faces pressure from government measures aimed at curbing speculative activity. The Legislative Yuan passed amendments to The Equalization of Land Rights Act this January which is expected to be implemented in the middle of this year. The new policies will shrink demand from investors, including restrictions on the resale of presale properties and a permit required in advance for corporates purchasing residential properties. In general, these policies put downward pressure on the property market. However, there is a possibility that some

high-net-worth individuals' funds will be shifted from the residential market to the commercial real estate market. As they have typically set up companies to hold residential properties for tax benefits, their position will become more challenging once the new policies are officially implemented.

As buyers have generally adopted a cautious wait-and-see attitude, market activity hit its lowest level in nearly 18 quarters with a total transaction amount of NT\$14.5 billion in Q1/2023, posting a 69% decline YoY. Industrial office and factory transactions were relatively active accounting for 44% and 31% of the quarterly volume, respectively. The largest deal in Q1/2023 was the presale of an industrial office building in the Xihu section of Neihu Technology Park which sold for NT\$ 5.35 billion and represents the second-largest single deal in recent years in Neihu. The building has an approximate area of 6,700 ping (22,100 sq m), with a unit price of around NT\$810,000 per ping. The buyer, Topco Scientific, plans to consolidate their office space in northern Taiwan. The second-largest transaction was a factory in the New Taipei Industrial Park acquired by International Games System for NT\$1.83 billion, representing a land price of NT\$ 960,000 per ping.

Another notable transaction was the sale of a low-rise building owned by a Catholic church in Taipei City. It was reportedly sold for nearly NT\$600 million through public tender, attracting over nine bids and posting a premium of over 30%. The zoning of the land is Type 3 residential and prices are estimated to be nearly NT\$4 million per ping. As the building is over 50 years old, it is expected that the buyer will redevelop. Based on these benchmark transactions, although the buying momentum has weakened, transaction prices

TABLE 1: Major Economic Indicators, 2023

INDICATOR		COMMENTS
2023 GDP growth forecast	2.12%	2022 GDP growth: 2.45%
2023 CPI forecast	2.16%	2022 CPI: 2.95%
2023 GDP per capita forecast	US\$33,044	2022 GDP per capita: US\$32,811
US\$ exchange rate (March 2023)	NT\$30.60	2022 average: NT\$29.77
Export growth (% YoY) (January to March 2023)	-19.2% YoY	2022 export growth: 7.4% YoY
Unemployment rate (February 2023)	3.53%	2022: 3.67%
Inbound tourist arrivals (January to February 2023)	623,457	2022 inbound tourist arrivals: 895,962
Benchmark interest rate (March 2022)	1.875%	March 2023: revised up by 0.125 ppts
Terms of mortgage (June 2021)	Rate (%)* = 1.9-2.2 LTV (%)* = 60-80	

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

have remained stable or experienced modest growth. This indicates that while rising interest rates and an unclear economic outlook may affect buyers' confidence in the short term, the market is anticipating that the interest rate hike cycle is nearing its end, which will help narrow the gap between buyers and sellers.

Insurance companies continue to keep a low profile only purchasing a total of NT\$390 million this quarter while the required yield of property investment for them has been raised significantly from 2.095% early last year to 2.845%. As the rate of rental growth falls behind the rise in interest rates this has made it more difficult for insurance companies to find opportunities in core areas.

LAND MARKET OVERVIEW

The land market has remained weak with total transaction volumes dropping by 70% YoY to NT\$16.1 billion in Q1/2023, their lowest volume since Q2/2016. Developers are adopting a

conservative attitude acquiring NT\$7.2 billion of land, a fall of 80% YoY, in consideration of the possibility of a downturn in the housing market and the tightening of credit for residential development projects. In addition, the reduced frequency of land tenders by local governments, who have traditionally been the major suppliers in the land market, is also one of the reasons for the shrinkage in land transactions. In the first quarter of this year, local governments in Tainan and Kaohsiung sold 14 parcels of land, totaling NT\$ 2.5 billion with a 60% decrease compared to the same period last year.

As land market activity plunged, prices remained stable. A notable deal was a 647-ping (2,135 sq m) site in the Zhongshan District of Taipei City acquired by Dacin Construction for NT\$2.62 billion, which represented the largest land transaction of the quarter, with a unit price of approximately NT\$4.05 million per ping. Some developers have started to review their

land inventory and actively dispose of idle land. For example, Farglory Land Development sold commercial land in New Taipei City for NT\$1.16 billion, a 12% increase in price during the three-year holding period.

To mitigate risks, in addition to disposing of land, some developers are adjusting their strategies by shifting towards joint construction, redevelopment projects, or joint MRT development projects. A notable deal is the Taichung Metro Green Line G9-1 joint development project, located in the 7th Redevelopment Zone. Kindom Development and Chung-Lu Construction will invest an estimated NT\$10.7 billion together to develop a 43-story mixed-use project consisting of a shopping mall, offices, and a hotel.

TABLE 2: Significant Commercial Real Estate Transactions, Q1/2023

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	PROPERTY TYPE	BUYER
China Real Estate Management Neihu Building	Taipei City	5.35	6,776	Industrial Office	Topco Scientific
Factory in New Taipei Industrial Park	New Taipei City	1.83	1,236	Factory	International Games System
3 stories of Yulon Finance Building	Taipei City	0.88	795	Office	Yulon Finance Corporation
Factory in Hsinchu Industrial Park	Hsinchu County	0.81	2,597	Factory	FUJIFILM Electronic Materials Taiwan
Kerry TJ Tainan Logistics	Tainan City	0.75	3,376	Factory	Xxentria Technology Materials

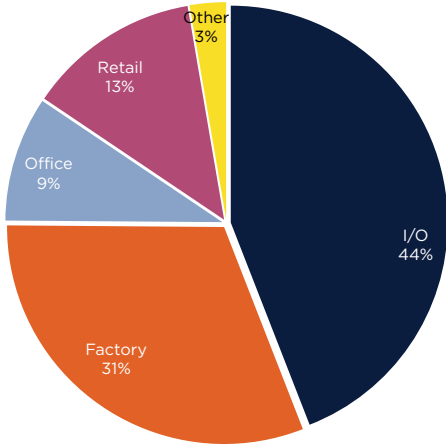
Source Savills Research & Consultancy

TABLE 3: Significant Land Transactions, Q1/2023

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	BUYER
Residential land in Zhongshan District	Taipei City	2.62	648	DACIN Construction
Industrial land in Dayuan District	Taoyuan City	2.35	8,868	Local developer
Commercial land in Xinzhuang District	New Taipei City	1.17	555	Individual
Industrial land in An Ping Industrial Park	Tainan City	1.12	3,035	Shangfa Construction
Industrial land in Kaohsiung Linhai Industrial Park	Kaohsiung City	1.05	7,011	Fu-Ming Transport Corporation

Source Savills Research & Consultancy

GRAPH 3: Significant Transactions by Property Type, Q1/2023



Source Savills Research & Consultancy

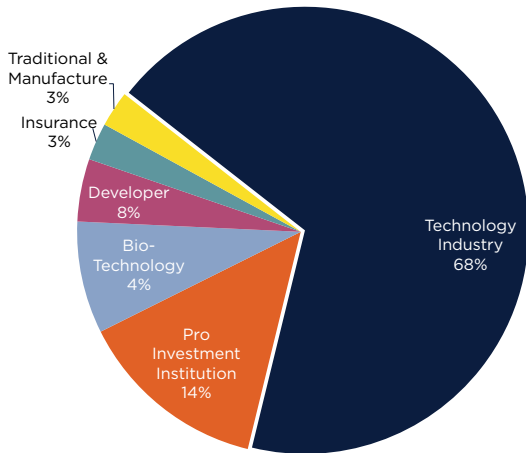
PREFERRED ASSET CLASSES AND LOCATIONS

Factory and industrial property were the major property type this quarter, accounting for a combined 75% of transaction volumes. In addition to the previously mentioned acquisition of an en-bloc building, there were also several under construction strata industrial office transactions concluded in New Taipei City, with the average prices ranging between NT\$380,000 and NT\$460,000 per ping. Office transactions were subdued, with a total transaction volume of NT\$1.3 billion. Two Grade B strata offices located in the major business area of Taipei City sold for exceeding NT\$1 million per ping and evident the stable demand for core assets.

OUTLOOK

Both the commercial property and land markets experienced a significant decrease in market activities this quarter. Moreover, after property prices had increased in the past three years, investors held a more cautious attitude about the momentum of price growth in the short term, given the economic uncertainty, rising interest rates, and the government’s new measures to curb housing speculation. In the next three months, we anticipate that the price gap between the two sides will remain. Technology and manufacturing companies will purchase properties according to their demand, while investors prioritize asset location and the ability of value preservation.

GRAPH 4: Significant Transactions by Investor Type, Q1/2023



Source Savills Research & Consultancy

INVESTOR PROFILE

The technology sector emerged as the most active buyer this quarter, with a total investment of NT\$9.8 billion, marking a new high level since last year. Technology companies bringing production line back to Taiwan primarily focused on acquiring factories and now shift their focus on office space consolidation, and upgrades as well as the emerging issue of carbon reduction which all increase the demand for industrial offices, especially new projects in Taipei City and New Taipei City.

Professional investment institutions were the second largest buyer. Notable deals included Yulon Finance Corporation purchased strata office building from affiliated companies, and a nursing home in Taichung City, acquired by Excelsior Asset Management for NT\$520 million.