

Sales and Investment



REIT liquidations drive market activity

Investors are looking for opportunities with retail and offices in the CBD favoured.

- As Taiwan's exports plummeted by 18% in 1H/2023, the Department of Budget, Accounting, and Statistics revised down 2023 economic growth to 2.04%, facing a critical challenge to maintain the level above 2%.
- The central bank has paused interest rate hikes again; however, another wave of selective credit controls has been announced, reflecting the poor performance of previous measures aimed at cooling the market.
- The liquidation of Shing Kong No.1 REIT has driven transaction volumes this quarter to NT\$49.6 billion, up 211% QoQ and 58% YoY.
- Six assets owned by Shin Kong No.1 REITs were disposed of through open bidding for NT\$30.7 billion with buyers including developers, professional investment institutions, REITs, and end-users.
- Professional investment institutions were the main buyers, preferring office and retail assets in core areas, contributing NT\$15.7 billion in total.
- Land transactions have remained sluggish, with transaction volumes totaling NT\$23.6 billion in Q2/2023,

dropping by 29% YoY. Developers remain cautious and are cutting spending on land acquisitions.

“The rate-hike pause and amendments to the Equalization of Land Rights Act are expected to enhance buyer interest in the commercial property market. However, the impact of the economic slowdown on the industrial property sector has been more pronounced and is expected to moderate both demand and price growth.”

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

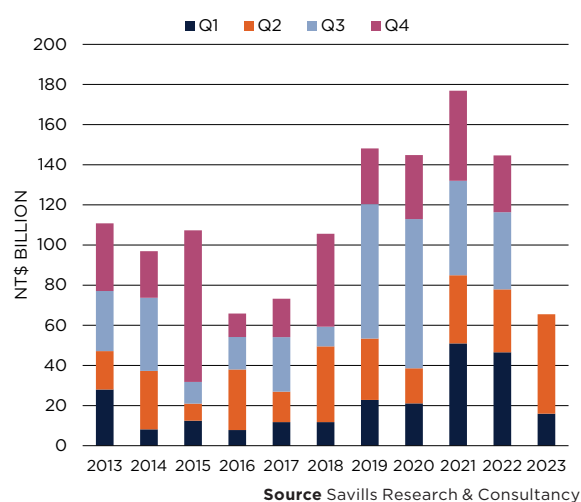
RESEARCH

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

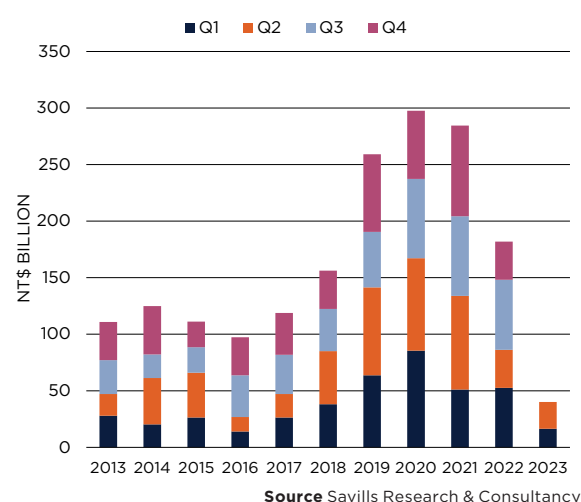
Simon Smith
 Regional Head of
 Research & Consultancy
 Asia Pacific
 +852 2842 4573
 ssmith@savills.asia

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 Q2/2023

Source Savills Research & Consultancy

GRAPH 2: Land and Superficies Transaction Volumes, 2013 to Q2/2023

Source Savills Research & Consultancy

COMMERCIAL PROPERTY MARKET OVERVIEW IN Q2/2023

Amidst a global economic slowdown, reduced demand for electronic components and ICT products, coupled with China's slow economic recovery, Taiwan's exports continued to shrink, decreasing by 23% YoY in June, and recording a total drop of 18% for the first half of the year, the deepest decline since the Global Financial Crisis. The Department of Budget has revised down Taiwan's annual economic growth forecast to 2.04%. In the financial market, following the announcement of the US Federal Reserve's suspension of interest rate hikes in June, the Taiwan central bank maintained its benchmark interest rate at 1.875% in a second quarter, marking the first pause in rate hikes since early 2022. However, the central bank announced a fifth wave of selective credit controls at the same time which will impose a 70% LTV ratio cap on second-home buyers in major city areas. The new credit control measures suggest that previous measures including the implementation of the amendment to the Equalization of Land Rights Act this July seem to have had a limited effect on market activity.

Total transaction volumes in the commercial property market spiked, increasing by 211% QoQ, up 58% YoY to NT\$49.6 billion in Q2/2023 as the liquidation plan of Shin Kong NO.1 REIT contributed a total of NT\$30.7 billion. Total transaction volume in the first half of 2023 reached NT\$65.5 billion, representing a 16% decrease compared to the same period last year.

The most notable transaction in Q2 was the auction of assets owned by Shin Kong No. 1 REIT, which is the fourth T-REIT liquidated

so far since T-REITs were established in 2005. The portfolio of Shin Kong NO.1 REIT consists of six commercial properties, including office, retail, and serviced apartments in core business areas with a total transaction volume reaching NT\$30.7 billion, posting a T-REIT liquidation record. Buyers included developers, professional investment institutions, and end-users. Average yields for assets in Taipei City ranged from 2.1% to 2.6% and yields for the department store in Tainan reached 4.84%.

The largest commercial property transaction this quarter was Shin Kong Jasper Villa TianMu, a high-end serviced apartment with a retail podium on the lower floors sold to a local developer for NT\$11.6 billion and providing a yield of 2.2% to the investor. This marked another 10-billion-dollar deal after China Life Insurance acquired the Fong Yi A8 building in Taichung last year for NT\$12 billion. Shin Kong Jasper Villa TianMu is located in a high-end residential area with a land lot of over 1,600 pings which will provide investors with significant redevelopment potential in the long term. The second largest deal is 14 stories of offices in the Shin Kong Zhongshan Building which was sold to Chin Di Yuan Industrial for NT\$7.2 billion, equivalent to NT\$1.08 million per ping. Shin Kong Mitsukoshi Tainan, the third largest deal, sold to Millerful No.1 REIT which successfully expanded its asset portfolio to southern Taiwan.

The investment momentum of the insurance industry shrank significantly as fluctuations in the global debt and stock markets impacted revenues and the RBC ratio coupled with rising interest rates pushing the minimum yield requirement for property investment up to 2.845%. In the

TABLE 1: Major Economic Indicators, 2023

INDICATOR		COMMENTS
2023 GDP growth forecast	2.04%	2022 GDP growth: 2.45%
2023 CPI forecast	2.26%	2022 CPI: 2.95%
2023 GDP per capita forecast	US\$32,474	2022 GDP per capita: US\$32,811
US\$ exchange rate (June 2023)	NT\$30.824	2022 average: NT\$29.77
Export growth (% YoY) (January to June 2023)	-18.0% YoY	2022 export growth: 7.4% YoY
Unemployment rate (May 2023)	3.46%	2022: 3.67%
Inbound tourist arrivals (January to May 2023)	2,179,235	2022 inbound tourist arrivals: 895,962
Benchmark interest rate (June 2023)	1.875%	March 2023: revised up by 0.125 ppts
Terms of mortgage (June 2023)	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.

second quarter, insurance companies allocated a total of NT\$1.09 billion into the property investment sector, including an office acquisition for NT\$650 million by Ho-an Insurance Agency and a NT\$400 million industrial office in Hsinchu purchased by TransGlobe Life. The overall investment amount for the first half of the year was approximately NT\$1.5 billion, reflecting a 90% decline compared to the same period last year.

To improve their financial condition, insurance companies have taken action to increase capital or dispose of properties since last year, such as Mercuries Life Insurance, Shin Kong Life Insurance, and Hotai Insurance. As the central bank announced to halt to interest rate hikes this quarter, providing a more stable environment for insurance companies, we expected investment activity from insurance companies might increase gradually in the second half of 2023, especially targeting income properties with a yield of over 3%.

LAND MARKET OVERVIEW IN Q2/2023

The land market maintained a weak momentum due to uncertainty in the residential market caused by the implementation of the new market cooling measures this July. In the second quarter, the transaction amount of land and superficies land was NT\$23.6 billion, marking a 29% decrease YoY, and the total in 1H/2023 dropped by 56% YoY to NT\$40 billion, slightly higher than that in 1H/2016 when the new capital gains tax was rolled out.

Developers held a cautious attitude in land acquisition strategies purchasing a total of NT\$26 billion in the first half of this year, which posted a 50% reduction for two years in a row. Notable deals in Q2 included Dali Development acquiring residential land in Hsinchu City for NT\$2.62 billion and Farglory investing NT\$2.56 billion to acquire commercial land of nearly 1,600 pings (approx. 5,289 sq m) in Kaohsiung City. Meanwhile, Run Long Construction purchased commercial land

in the Taichung Gateway Park area for NT\$2.26 billion, equivalent to an average land price of NT\$3.31 million per ping.

The market reacted varied to public tender held by the public department. Kaohsiung City which used to be a land market indicator witnessed slow land sales. A total of NT\$420 million of land was sold by public tender in Q2, representing an average of 3.9% over the starting price. Meanwhile, the public tender of superficies lands held by the National Property Administration remained active. As lower-priced superficies lands attracted both developers and end-users, five pieces of superficies lands, totaling NT\$1 billion, sold in Q2 with an average premium rate of 16%.

As the government and central bank gradually tighten controls in the real estate market, developers are arranging their capital carefully. The market witnessed a trend that some developers dispose undeveloped land, adopt

TABLE 2: Significant Commercial Real Estate Transactions, Q2/2023

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	PROPERTY TYPE	BUYER
Tianmu Shin Kong Jasper Building	Taipei City	11.68	16,075	Serviced Apartment	Local Developer
14 stories of Shin Kong Zhongshan Building	Taipei City	7.21	8,186	Office	Chin Di Yuan Industrial
Tainan Shin Kong Mitsukoshi	Taipei City	4.38	17,165	Department Store	Millerful No. 1 REIT
7 stories of Shin Kong International Business Building	Taipei City	2.98	3,574	Office	ABICO Group
Factory in Tanzi District	Taichung City	2.79	16,282	Factory	USI Inc

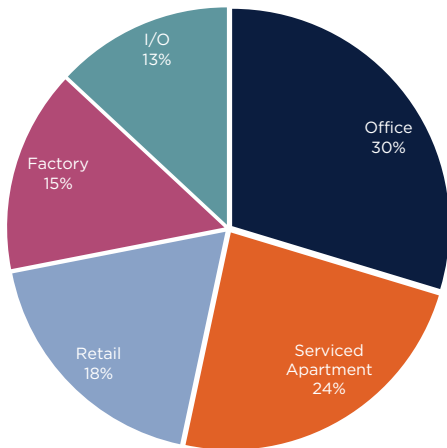
Source Savills Research & Consultancy

TABLE 3: Significant Land Transactions, Q2/2023

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	BUYER
D7 residential land in Hsinchu City	Hsinchu City	2.62	3,157	Dali Development
Land in Sanmin District	Kaohsiung City	2.56	1,598	Farglory Land Development
Commercial land in Xitun District	Taichung City	2.27	683	Run Long Development
Land in Federal readjustment program	Taoyuan City	2.14	4,273	Local Developer
Commercial land in Xinzhuang District	New Taipei City	2.04	973	Local Developer

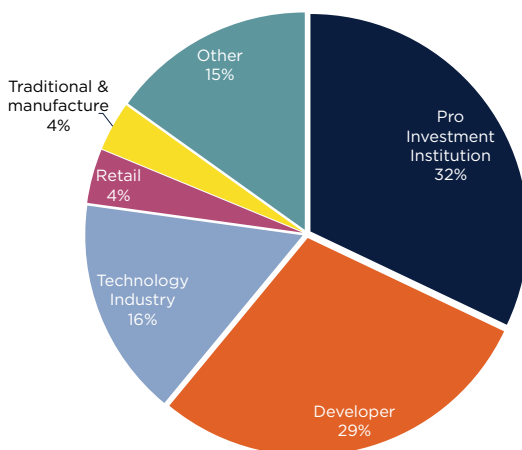
Source Savills Research & Consultancy

GRAPH 3: Significant Transactions by Property Type, Q2/2023



Source Savills Research & Consultancy

GRAPH 4: Significant Transactions by Investor Type, Q2/2023



Source Savills Research & Consultancy

joint development strategies to lower cost, participate in government-led metro joint development projects or urban renewal initiatives. For example, as the metropolitan metro network has expanded, several developers, including Kindom Development, Radium Development, BES Engineering, and Advancetek Enterprise, have actively engaged in these joint development projects.

This quarter, Huang Hsiang Construction was selected as the preferred applicant for the metro joint development project of Taipei Metro Depot No. 9 in New Taipei City. This mixed-used project will mainly focus on residential use and provide over 92,000 ping of space after completion with investment amounts reaching NT\$20 billion, marking one of the top three metro joint development projects in the Greater Taipei metropolitan area.

PREFERRED ASSET CLASSES AND LOCATIONS

Offices and serviced apartments have been the driving force in Q2/2023, accounting for 30% and 24% respectively. Tianmu Shin Kong Jasper Building, a notable serviced apartment was sold for NT\$11.4 billion. In addition to office buildings released by Shin Kong No.1 REIT, an en-bloc building in Taipei Train Station was sold to Frank C. Chen Foundation for NT\$1.32 billion, equivalent to NT\$940,000 per ping. According to recent office transactions, the investment demand for offices in Taipei City appears relatively stable, and new market cooling measures has already attracted high-net-worth individuals to allocate their funds to this sector.

Retail transactions accounted for 18% with notable deals including Tainan Shin Kong Mitsukoshi (NT\$4.37 billion) and a retail shop in Shin Kong Xinyi Building (NT\$2 billion). In addition, Continental Development sold the retail shop in the Taipei Dazhi redevelopment project to Taiwan Given, a luxury retail brand for NT\$1.3 billion. In terms of location, over 60% of the transactions were concentrated in Taipei City, with New Taipei City accounting

for around 12%, especially industrial offices in Sanchong, Xinzhuang, and Xizhi districts.

INVESTOR PROFILE

Despite the rental yield of commercial property being compressed by the rising interest rate, an inflation hedge and investment diversification strategy encouraged investors such as professional investment institutions and family offices to keep their interest in opportunities in the city center. Developers ranked as the second-largest buyer this quarter. Besides the deal of Tianmu Shin Kong Jasper Building, some developers with sufficient funds continued to purchase strata title properties in the city center to preserve a better chance of urban reconsolidation in the future.

Influenced by the liquidation of Shin Kong No. 1 REIT, deals for investment purposes accounted for 62% of the total this quarter, higher than the historical average. This trend marked that compressed rental yields due to the rising interest rate have not significantly impacted investor appetite, except for insurance companies. On the other hand, end-users accounted for 26%, mainly from technology firms demand for factories and industrial offices.

OUTLOOK

Even though the central bank has halted interest rate hikes this quarter, the intensified selective credit control indicates that policy makers will continue to curb real estate speculation. In the second half of 2023, weakened demand for residential properties, rising construction costs, and the upcoming presidential election create uncertainties which will place pressure on land demand. As for the commercial property sector, the momentum rebound recently reflected the narrower price gap between both sides and little chance of significant price correction in the future. The impact of the economic slowdown on the industrial property sector has been more pronounced, and is expected to moderate both demand and price growth.