

Sales and Investment



Investor caution as end-users hold back

Transactions of land and commercial properties have dropped by over 20% in the first three quarters

- The Taiwan Central Bank announced a rise in the base rate by 0.125 percentage points (ppts) to 1.625% in September and has raised rates a total of 0.5 ppts so far this year.
- Total transaction volumes fell by 25% YoY to NT\$35.2 billion in Q3/2022 and have fallen by 20% YoY to NT\$105.2 billion over the first three quarters of the year.
- Several large-scale industrial sites sold by the government helped total land transaction volumes in Q3/2022 reach NT\$60.8 billion, up by 132% QoQ and down by 11% YoY.
- Factories and industrial factories accounted for 74% of deals in Q3/2022 as higher rental yields attracted buyer interest.
- Insurance companies are the most active buyers and invested a total of NT\$39.3 billion in commercial properties which exceeded last year's total.
- Developers turned cautious on residential land acquisition with total investment amounts dropping by nearly 50% YoY over the first three quarters of 2022.

“The Central Bank is expected to raise interest rates but slowly to maintain economic growth and the stability of the real estate market. However, the upcoming election, the risk of economic recession and increasing loan costs are reducing market activity.”

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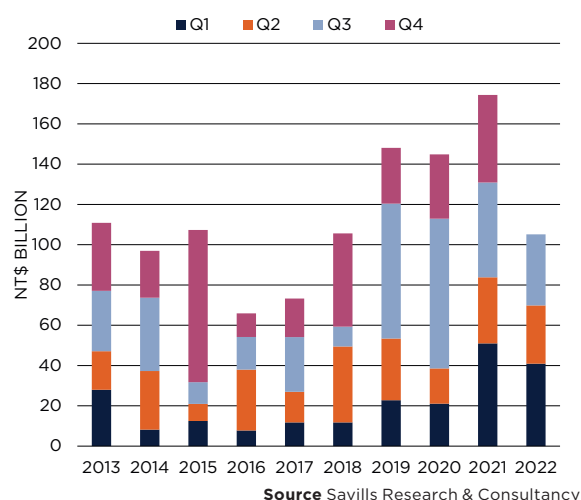
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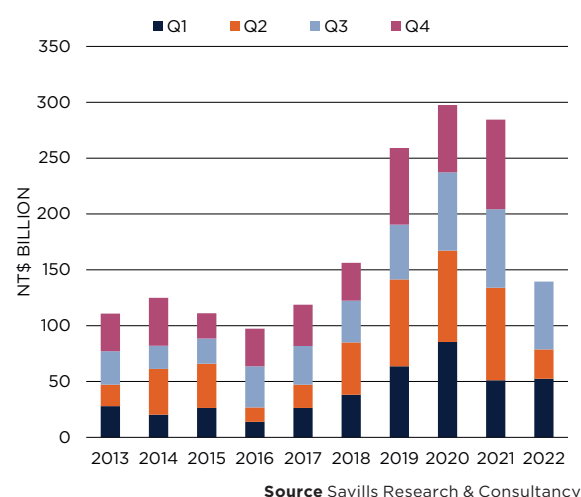
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GRAPH 1: Commercial Real Estate Transaction Volumes, 2013 to Q3/2022

Source Savills Research & Consultancy

GRAPH 2: Land and Superficies Transaction Volumes, 2013 to Q3/2022

Source Savills Research & Consultancy

COMMERCIAL PROPERTY MARKET OVERVIEW IN Q3/2022

As the risk of economic recession and high inflation weaken consumer spending power, inventory adjustments put pressure on Taiwan's exports which declined by 5.3% YoY this September, posting negative growth for the first time in two years.

Relatively moderate inflation is expected to stay below 3% in 2022 but the Central Bank raised the benchmark interest rate by 12.5 basis points to 1.625% at the end of September, bringing the total increase for the year to 0.5 percentage points. As the residential market has seen signs of slowing, another round of market cooling measures was not announced, and the Central Bank may raise interest rates at a more moderate pace to support economic activity.

Commercial property market activity was generally sluggish as transaction volumes totalled NT\$35.2 billion in the third quarter of 2022, down by 25% YoY and up by 22% QoQ. Total transaction volumes for the first three quarters reached NT\$105.2 billion, down by 20% YoY, the lowest since 2019.

Three notable transactions contributed nearly 60% of quarterly volumes. China Life acquired Elitegroup Computer Systems Headquarters, an en-bloc industrial office building in Neichu Technology Park for NT\$8.35 billion, equivalent to NT\$860,000 per ping, recording the largest commercial property deal year-to-date. Goldsun Group Building, an old office building located in the Taipei Train Station area sold to individuals for NT\$6.5 billion with the resale price up by 63% in eight years. Another notable deal was concluded by Taiwan Life which purchased Chin Hong Taoyuan Logistics Center for

NT\$6.3 billion. This is the largest income property investment made by Taiwan Life in recent years generating an estimated 4% yield.

Investor sentiment for industrial properties is especially strong, while end-users from the technology and manufacturing industries expanded production lines or upgraded office space slowly in consideration of the potential economic headwinds. Industrial properties, including factories and industrial offices, accounted for 74% of total transactions (NT\$26.2 billion) in Q3/2022. Investors, such as insurance companies and investment institutions, showed a strong appetite for logistics and large-scale industrial properties. As the interest rate hike compressed the yield spread for the office sector significantly, industrial properties providing a rental yield ranging between 3% and 4.5% with a long-term lease or a sale and leaseback structure attracted investor attention. While the consumer product market is back to normal, technology companies turned conservative this year. Deals concluded by technology companies only reached NT\$15.1 billion in the first three quarters, dropping by 50% compared with 2021.

In the first three quarters of 2022, office transactions were the most active among all commercial property classes, with total volumes reaching NT\$35.8 billion and doubling compared with 2021, followed by factories (NT\$24.8 billion) and industrial offices (NT\$23.5 billion). Significantly increasing office transactions also reflected the change in investor appetite which is more focused on traditional core assets given the market uncertainty.

TABLE 1: Major Economic Indicators, 2022

INDICATOR		COMMENTS
2022 GDP growth forecast	3.76%	2023 GDP growth: 3.05%
2022 CPI forecast	2.92%	2023 CPI: 1.72%
2022 GDP per capita forecast	US\$34,485	2021 GDP per capita: US\$32,787
US\$ exchange rate (September 2022)	NT\$31.242	2021 average: NT\$28.02
Export growth (% YoY) (January to September 2022)	+13.5% YoY	2021 export growth: 29.4% YoY
Unemployment rate (August 2022)	3.79%	2021: 3.95%
Inbound tourist arrivals (January to September 2022)	259,201 (+185% YoY)	2021 inbound tourist arrivals: 140,479 (-90.0% YoY)
Benchmark interest rate (March 2022)	1.625%	September 2022: revised up by 0.125 ppts
Terms of mortgage (June 2021)	Rate (%)* = 1.7-2.0 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.

LAND MARKET OVERVIEW IN Q3/2022

The demand for industrial land remained strong as seven pieces of large-scale industrial land in Taoyuan Aerotropolis released by the government were sold for NT\$22.7 billion pushing total land transaction volumes this quarter to NT\$60.8 billion, up 132% QoQ. However, shrinking activity in the residential land sector caused total transaction volumes in the first three quarters to fall by 30% YoY to NT\$139.5 billion.

Newly established industrial parks with lower price levels became the main driver in the land market which attract buyers from the technology, logistics, manufacturing as well as the aviation industries. One notable deal is Starlux Airlines which purchased 14 hectares of industrial land for NT\$8.9 billion through public tender held by the Taoyuan government this quarter. Usually, industrial land provided by the government is 10% to 20% cheaper than land in surrounding areas.

To curb industrial land speculation, the public department implemented several measures, such as the completion of land development within the required time and restrictions on resale to guide resources to the right places.

Developers are another driver in the industrial land sector as they try to diversify their business and increase their presence in the industrial office sector, especially in Taipei City and New Taipei City. Chong Hong Construction, an active developer in the industrial office sector, purchased an industrial land in Neihu Technology Park for NT\$2 billion, equivalent to NT\$2.8 million per ping, and the total value after construction is expected to reach NT\$5 billion. Kuo Yang Construction has invested NT\$5 billion in industrial land in New Taipei City over the past two years to target upgrade demand from local end-users.

The market momentum in the residential land

sector and housing market slowed significantly as market cooling measures remain in force. Developers are cautious on land acquisition with total investment over the first three quarters of 2022 down by 50% YoY. The land market in Taichung City posted a significant decline with total land transactions only reaching NT\$9 billion so far, an amount which previously exceeded NT\$40 billion every year since 2019.

PREFERRED ASSET CLASSES AND LOCATIONS

Factories and industrial offices dominated the market in Q3, posting a total transaction volume of NT\$13.7 billion and NT\$12.4 billion respectively. Factories in Taoyuan and Kaohsiung as well as industrial offices in the technology parks of Taipei City are preferred. The price of industrial properties increased steadily. In addition to the deal for Elitegroup

TABLE 2: Significant Commercial Real Estate Transactions, Q3/2022

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	PROPERTY TYPE	BUYER
Elitegroup Computer Systems Headquarters	Taipei City	8.4	11,648	Industrial Office	China Life
Goldsun Group Building	Taipei City	6.5	7,158	Office	Individual
Chin Hong Taoyuan Logistics Center	Taoyuan City	6.3	34,668	Logistics	Taiwan Life
Factory in Kaohsiung Linhai Industrial Park	Kaohsiung City	2.4	7,654	Factory	Tung Ho Steel

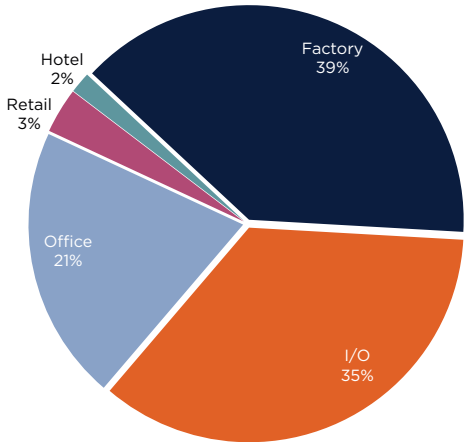
Source Savills Research & Consultancy

TABLE 3: Significant Land Transactions, Q3/2022

PROPERTY	LOCATION	TRANSACTION AMOUNT (NT\$ BILLION)	AREA (PING)	BUYER
Site C of Industrial land in Taoyuan Aerotropolis	Taoyuan City	2.6	9,339	Jentech Precision Industrial
Site G of Industrial land in Taoyuan Aerotropolis	Taoyuan City	9.0	43,524	STARLUX Airlines
Site H of Industrial land in Taoyuan Aerotropolis	Taoyuan City	6.0	25,522	President Chain Store Corporation
Residential land in Qianzhen District	Taoyuan City	4.3	5,097	Qing Jing Lin Architecture and SanDi Properties

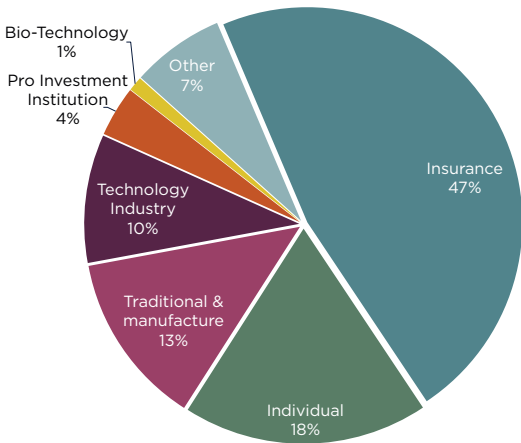
Source Savills Research & Consultancy

GRAPH 3: Significant Transactions by Property Type, Q3/2022



Source Savills Research & Consultancy

GRAPH 4: Significant Transactions by Investor Type, Q3/2022



Source Savills Research & Consultancy

Computer Systems Headquarters, 1,700 ping of industrial office space in Nankang Software Park II also made a record price of NT\$680,000 per ping. Office deals are limited and accounted for 21% of Q3 transactions with the major portion from Goldsun Group Building with prices reaching NT\$860,000 per ping. This deal showed that buyers are optimistic about the development of the Taipei Train Station area and the redevelopment potential of this project.

INVESTOR PROFILE

Insurance companies were the most active buyers this quarter which invested a total of NT\$16.5 billion or NT\$39.3 billion year-to-date which exceeded the total investment amount last year. Investment opportunities offering over 3% yields are attracting attention as the minimum yield required for property investment has been elevated to 2.595%.

The proportion of transactions for investment purposes climbed to 72%, having ranged between 40% and 60% over the past few years, reflecting that end-users are more sensitive to economic volatility and rate increases.

OUTLOOK

The Central Bank increased the interest rate only moderately to protect economic growth and the stability of the real estate market. Further easing of border controls and coronavirus measures should provide a positive impact on the domestic economy in the coming quarters. However, the

upcoming election, the risk of economic recession, and increasing loan costs will make end-users more cautious and might put pressure on prices.