

RESEARCH



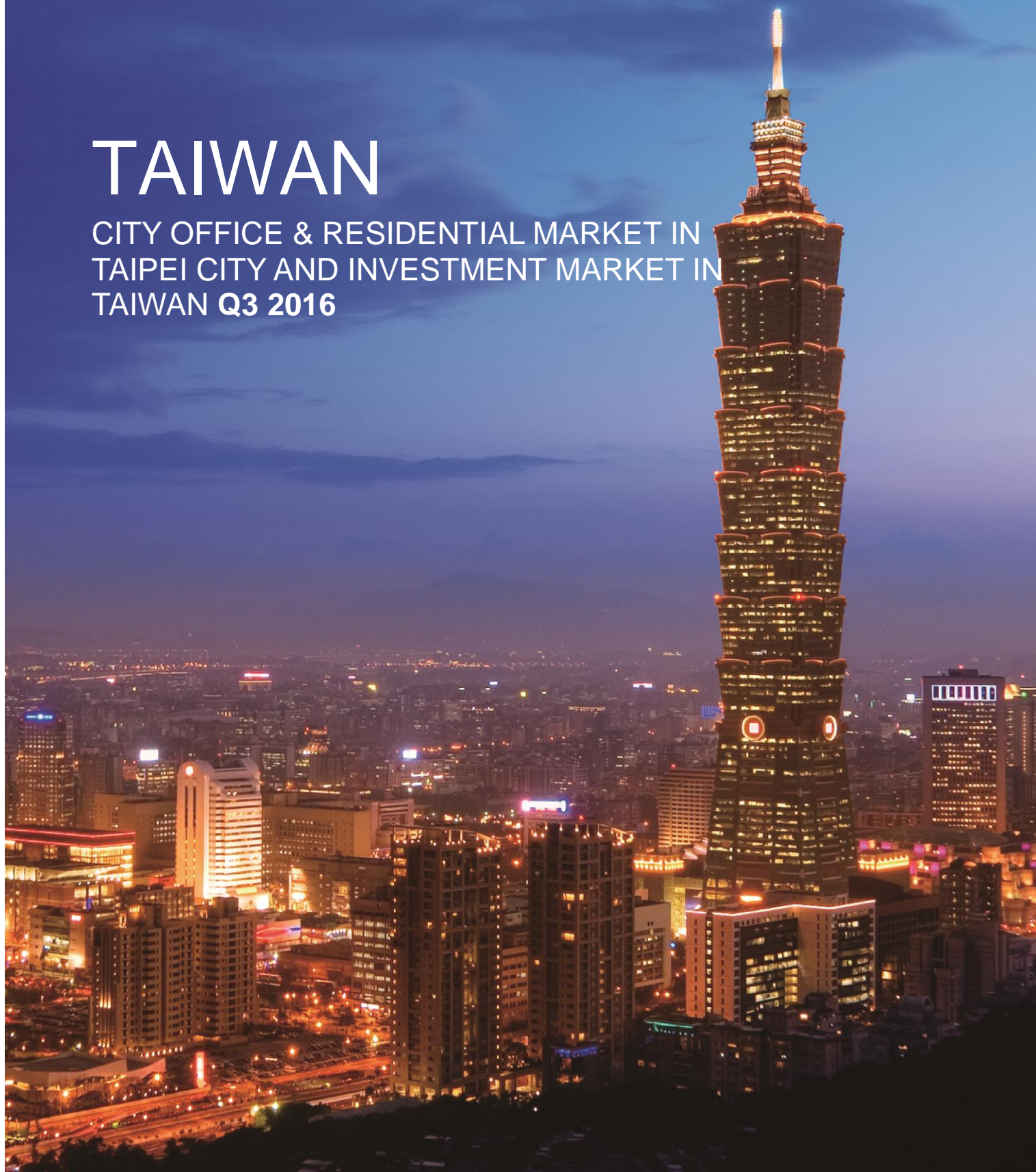
瑞普



萊坊

TAIWAN

CITY OFFICE & RESIDENTIAL MARKET IN
TAIPEI CITY AND INVESTMENT MARKET IN
TAIWAN Q3 2016



COMMERCIAL
REAL ESTATE
INVESTMENT

OFFICE MARKET
IN TAIPEI CITY

NEIHU
TECHNOLOGY
PARK

RESIDENTIAL
MARKET IN
TAIPEI CITY

KEY FINDINGS

In Q3 2016, monitoring scores went up by 3 to 23, signaling economic recovery in Taiwan.

The Central Bank of Taiwan announced that the discount rate, the secured financing interest rate and the short-term interest rate remained unchanged at 1.375%, 1.75% and 3.625% respectively.

ECONOMY

The Directorate General of Budget, Accounting and Statistics of Executive Yuan estimated that the GDP growth in 2016 would be 1.22% (Table 1). National Development Council announced that domestic economy became stable in September 2016 (Table 2). This shows that the economy is recovering.

Economic growth is lower than pre-financial crisis level, which means that the world economy is growing at a slow pace. In the USA, despite its economy is gradually recovering, investment sentiment remains low. In Japan, the economy remains sluggish, while emerging economies see stable growth. Mainland China has experienced moderate uptick, and Q3 economic performance was supported mainly by the service sector and manufacturing sector. To stimulate domestic growth, the Central Bank of Taiwan ceased to lower interest rates after four consecutive quarters, and announced

in September that the discount rate, the secured financing interest rate and the short-term interest rate remained unchanged at 1.375%, 1.75% and 3.625% respectively.

Construction mortgage balance was down by US\$22 million to US\$51.9 billion, down 1.7% year on year, representing a decline for 10 consecutive months. Residential mortgage balance, on the other hand, surged US\$1 billion to a record high of US\$200 billion. This is mainly supported by the mortgage scheme for first time home buyers (undertaken by eight state-owned/partially state-owned banks), representing 8.5% of total mortgage balance.

116 mainland investments in Taiwan were approved from January to September in 2016, up 5.45% year on year. Investment (increased investment) went up by 112.29% to US\$212 million.

TABLE 1
Latest Economic Indicators

Indicators	2016	2015	2014	2013
GDP Growth	1.22%	2.32%	3.74%	2.23%
Unemployment	4.08% (Aug)	3.78%	3.79%	4.08%
Annual Change of CPI	0.33% (Sept)	0.14%	0.60%	0.33%
Construction Permits Issued (m ²)	19.67 million (Jan-Sept)	32.60 million	38.63 million	39.76 million
Number of Buildings Transferred	175.8K (Jan-Sept)	292.6K	320.6K	371.9K
Exchange Rate (US\$1=)	\$31.37(9/30)	\$33.07 (12/31)	\$31.72 (12/31)	\$29.95 (12/31)

Source: DGBAS of the Executive Yuan, Construction and Planning of the Ministry of the Interior and Central Bank of the Republic of China (Taiwan)

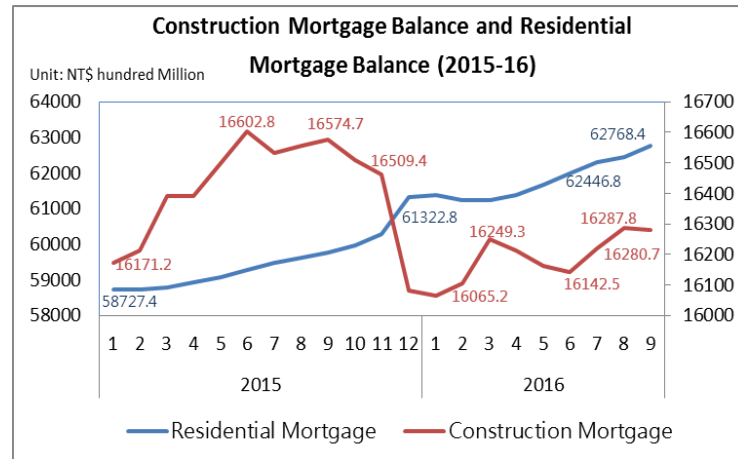
TABLE 2
Monitoring Indicators

	2016Q3	2016Q2	2016Q1	2015Q4
Monitoring Scores	23 (Sept)	20 (Jun)	15 (Mar)	14 (Dec)

Remarks: Scores 9-16 – sluggish; 17-22 – transitional; 23-31 – stable; 32-37 – transitional; and 38-45 – booming
Source: National Development Council

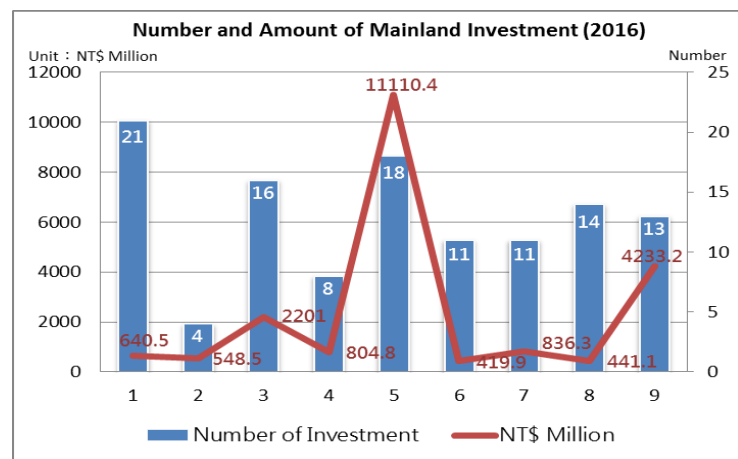
OVERALL ECONOMY

FIGURE 1 Construction Mortgage Balance and Residential Mortgage Balance (2015-16)



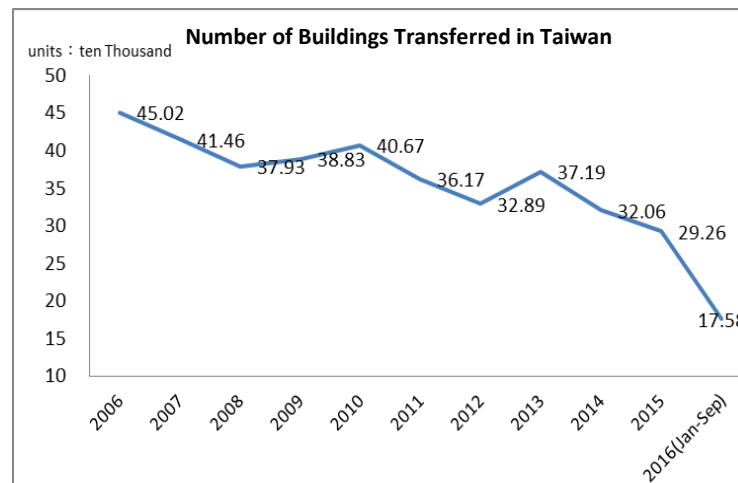
Source: Central Bank of the Republic of China (ROC), compiled by Research Dept, REPro Knight Frank

FIGURE 2 Number and Amount of Mainland Investment (2016)



Source: Investment Commission of the MOEA, compiled by Research Dept, REPro Knight Frank

FIGURE 3 Number of Buildings Transferred in Taiwan (2006-16)



Source: Ministry of Interior, ROC, compiled by Research Dept, REPro Knight Frank

KEY FINDINGS

Major transaction of commercial real estate amounted US\$316 million in Q3 2016.

COMMERCIAL REAL ESTATE INVESTMENT

Major transaction of commercial real estate amounted US\$316 million in Q3 2016. Transaction totaled US\$1.6 billion as of Q3.

In Q3, tech firms and insurers were active investors. The largest commercial land transaction was Asus's acquisition of land parcels in Guangdu from Eastern Media International for US\$250 million. Office buildings are planned to be built on the 406K sqf land. Fubon Life's acquisition of Tokyo HQ in Neihu for US\$130 million was the largest commercial building transaction in Q3. This showed that insurers, with abundant investment capital, continued to seek subjects that generate good income. With improved production capability, tech firms now looked to self-use properties – which would be used as

their headquarters.

In terms of office transaction, BTC acquired YC Group HQ in Neihu District, Taipei City for US\$6 million.

Looking ahead, transaction of self-use commercial real estate will still be the trend. The Central Bank reduced the gross cap rate to 2.345% so that the threshold for insurers to acquire commercial properties was lowered, which in turn would increase the possibility for them to invest in properties in Taiwan.

Although real estate policies have been relaxed, the market is still impacted by the price gap between the seller and the buyer. Investors are expected to be rather conservative in Q4.

TABLE 3

Dollar Amount of Major Commercial Real Estate Transactions (US\$ billion)

	2016	2015	2014
Q1	0.26	0.40	0.24
Q2	0.99	0.31	0.76
Q3	0.99	0.29	1.33
Q4	–	2.40	0.67
Total	2.24	3.40	3.00

Source: Market Observation Post System, compiled by Research Dept, REPro Knight Frank

Commercial Real Estate Sales Transactions

For major transactions of offices in Taipei City and Neihu Technology Park, please refer to the following pages. Other major commercial real estate transactions included:

TABLE 4

Major Commercial Real Estate Transactions

M	D	City	District	Subject Property	Buyer	Seller	Total Value (US\$ million)	Building Area (sqf)	Building Unit Value (US\$ psf)	Remark
7	06	Taoyuan City	Pingzhen	(Plant)	National Aerospace Fasteners	J-Three International, S.D. Component	41	236,151	\$174	
7	18	Taipei City	Neihu	Tokyo HQ	Fubon Life	Gref Investment (Taiwan)	130	319,718	\$407	
8	30	Tainan City	Rende	(Plant)	IST Energy	Gongsheng Investment	17	24,898	\$719	
9	02	Kaohsiung City	Nanzi Export Processing Zone	LCY Chemical Nanzi R&D Center	ASE Group	LCY Chemical	16	176,168	\$94	
9	21	Miaoli County	Zhunan Township	Xuncang Tech HQ	Jabon International	Xuncang Tech	5.66	6,461.75	\$78	

Source: Market Observation Post System, compiled by Research Dept, REPro Knight Frank

Land Sales Transactions

TABLE 5

Major Land Sales Transactions

M	D	City	District	Section	Buyer	Seller	Total Value (US\$ million)	Land Area (sqf)	Unit Value (US\$ psf)	Zoning	Remarks
7	19	Taipei City	Nangang	Subsection 3, Nangang Section	Highwealth Construction	Dong Guang Steel Machinery	24.66	1,581.18	\$155.96	Type III Residential	
8	11	Taichung City	Nantun	Xinfu Section	Runlong	(An individual)	13.92	2,543.99	\$54.72	Type I-B Residential, Type I-C Residential	Sold with construction permits
8	12	Taipei City	Beitou	Subsection 4, Fengnian Section	Asus	Fan Jiao Shi Asset Management	78.31	11,442.97	\$68.44	Technology Industrial	
8	26	New Taipei City	Bancio	Yongcui Section	Highwealth Construction	Yeashin International	13.81	1,176	\$117.46	Type II Residential	
8	26	Tainan City	Rende	Bailun Section	Highwealth Construction	(An individual)	13.39	3,825.91	\$35.00	Commercial	

Source: Market Observation Post System, compiled by Research Dept, REPro Knight Frank

KEY FINDINGS

Vacancy rate of Grade-A offices in Taipei City averaged 9.26%, representing a 0.9% decrease in a single quarter.

Xinyi District saw the best absorption among Grade-A offices in Taipei City.

OFFICE MARKET IN TAIPEI CITY

Leasing Market

In Q3 2016, Grade-A office rental averaged US\$27.93 psf per month, declining by 0.1%. With a vacancy rate of 9.26%, Grade-A offices were well-absorbed, and the vacancy rate dropped by about 0.9%.

Xinyi District saw the best absorption among Grade-A offices in Taipei City. The vacancy rate declined to 9.28%, representing a 2.94% decrease in a single quarter. With steady demand and a lack of new supply, vacancy rate of Grade-A offices continued to decrease. There will be new supply next year, which will slightly drive down the market rental and thus lure the tenants to stay in this district.

In Q3, Cathay Landmark Plaza saw the most rapid absorption – Amore Pacific and Adecco Taiwan leased a total of 24,906 sqf.

Takeda Pharmaceuticals Taiwan leased about 21,384 sqf in Farglory Financial Center.

In Q3, rental levels of Grade-B offices averaged US\$18.54 psf per month, with a vacancy rate of 4.29%, up 0.03 quarter on quarter. Small and medium enterprises favor Grade-B offices. Given that there will be a lack of new supply, vacancy rate will remain low.

Investment Market

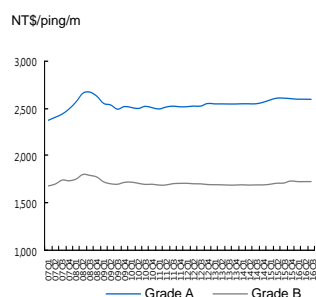
Major sales transaction in Taipei City included:

August 19: BTC acquired the eighth floor of HQ of YC Group and parking spaces for about US\$6.4 million. The building area is about 14,623 sqf and the land area is about 2,920 sqf.



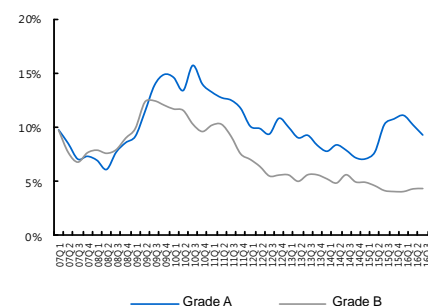
FIGURE 4 Map of Major Office Districts in Taipei City

FIGURE 5
Office Rental Levels in Taipei City



Source: Research Dept, REPro
Knight Frank

FIGURE 6
Office Vacancy Rates in Taipei City



Source: Research Dept, REPro
Knight Frank

RENTAL LEVELS IN TAIPEI CITY

TABLE 6
Office Rental Levels in Taipei City, Q3 2016

	Grade A	Grade B
Market Rental (US\$/sf/yr)	27.93	18.54
Net Effective Rental (US\$/sf/yr)	39.38	23.93
Asking Rental (US\$/sf/yr)	31.20	20.38
Vacancy Rate	9.26%	4.29%

Remarks: Net effective rental takes into account rent-free periods based on the actual usable area.
Source: Research Dept, REPro Knight Frank

TABLE 7
Rentals of Major Office Districts in Taipei City, Q3 2016

District	Asking Rental (US\$/sf/yr)	Market Rental (US\$/sf/yr)	Change in Market Rental (QoQ)	Change in Market Rental (YoY)	Vacancy Rate (%)	Change in Vacancy Rate (QoQ)
Minsheng/ Dunhua N	20.62	26.62	0.00%	1.72%	9.06%	↗
Dunhua S	21.47	28.11	0.40%	-0.99%	4.66%	↗
Xinyi	27.82	38.64	-0.31%	1.01%	4.03%	↘
West	19.32	25.66	0.34%	0.17%	5.29%	↘
Nanjing- Songjiang	18.52	23.59	0.64%	2.13%	6.48%	--
Nanjing- Fuxing	18.44	23.80	0.00%	1.06%	4.45%	↗
Sec 4&5, Nanjing E Road	15.31	19.76	0.07%	0.78%	4.08%	↘
Weighted Average	21.60	28.29	0.00%	0.60%	6.24%	↘

Source: Research Dept, REPro Knight Frank

TABLE 8
Office Leasing Transactions in Taipei City

District	Building	Tenant	Area Leased (sf)
Xinyi	Farglory Financial Center	Takeda Pharmaceuticals Taiwan	21,384
Xinyi	Cathay Landmark Plaza	Amore Pacific	12,453
Xinyi	Cathay Landmark Plaza	Adecco Taiwan	11,919
Xinyi	Uni-President International	Hanse International Business Centre	11,955

Source: Research Dept, REPro Knight Frank

KEY FINDINGS

In Q3, industrial office buildings in Neihu Technology Park averaged US\$12.12 psf per month. Vacancy rate stood at 3.83%, down 0.21% quarter on quarter.

In Q3, rental levels in Neihu Technology Park remained unchanged. With limited supply in Xihu Section, businesses relocated to Jiuzong Section and Wende Section with estimated continued absorption.

NEIHU TECHNOLOGY PARK

Leasing Market

In Q3, industrial office buildings in Neihu Technology Park averaged US\$12.12 psf per month. Vacancy rate stood at 3.83%, down 0.21% quarter on quarter. With high demand for offices in Neihu, its vacancy rate was lower than other office districts in Taipei.

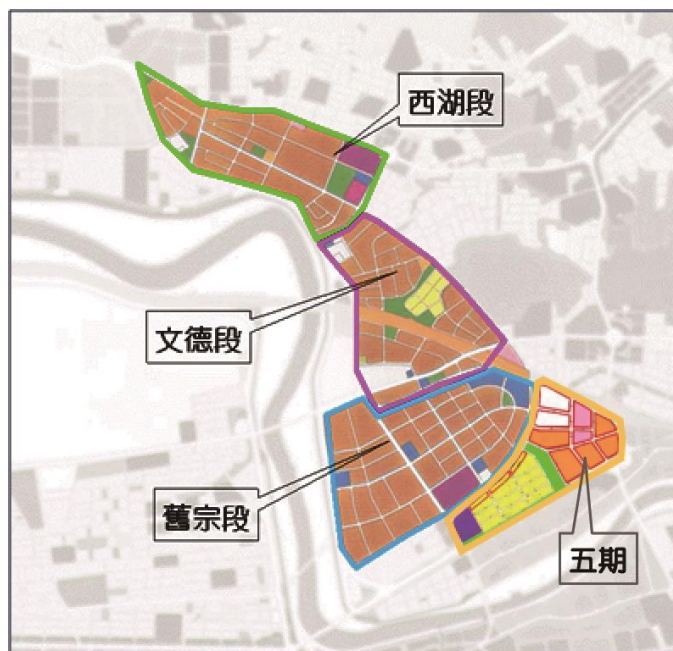
In Q3, office buildings transactions in Wende Section in Neihu included buildings such as Boss World Zone, Xin Heng Neihu, and First International Computer, with an area of 36K sqf. Vacancy rate in Xihu Section in Q3 was down by 0.31% to 1.25% - large vacant units in Xihu Section are now very rare.

Neihu Technology Park's close proximity to Taipei has attracted companies to buy office buildings, and restaurants to expand their presence. In addition to hi-tech firms in Neihu Technology Park and Phase V, non-tech firms have also started to relocate to Neihu. With low vacancy rate in Xihu Section, some companies relocated to Jiuzong Section or Wende Section, which allowed for declined vacancy rate in

Investment Market

Major sales transaction in Q3 included:

July: TVBS Media acquired an entire floor and 206 parking spaces in TVBS Building. The building area is about 288K sqf and the land area is about 36K sqf. Office unit price averaged US\$439 psf.



these sections.

RENTAL LEVELS IN NEIHU TECHNOLOGY PARK

TABLE 9

Rentals of Industrial Offices in Neihu Technology Park, Q3 2016

Section	Market Rental (US\$/sf/yr)	Net Effective Rental (US\$/sf/yr)	Vacancy Rate (%)	Change in Vacancy Rate (QoQ)
Xihu	13.32	20.38	1.25%	-0.31%
Wende	11.05	16.72	6.64%	-0.12%
Jiuzong	9.38	15.12	8.65%	0.00%
Weighted Average	12.12	18.79	3.83%	-0.21%

Source: Research Dept, REPro Knight Frank

TABLE 10

Leasing Transactions of Industrial Offices in Neihu Technology Park, Q3 2016

Section	Building	Tenant	Area Leased (sf)
Wende	Boss World Zone	Li Guang Cable TV	13,165
Wende	Xin Heng Neihu	Style Group	12,987
Wende	First International Computer	Kuka Robotics	9,962

Source: Research Dept, REPro Knight Frank

KEY FINDINGS

In Q3, transaction volume in six major cities was down 1.2% quarter on quarter, but up 1.1% year on year.

Transaction returned to inelastic demand due to increased taxation. Applications and volume for first time home-owner's mortgage increased. This showed the emergence of first time home buyers. Medium and low-priced housing units are estimated to be the main products in the residential market. There is a huge price gap between the buyer and the seller. Mortgage on luxury residential units is restricted, and the price is estimated to be adjusted by 10%.

RESIDENTIAL MARKET IN TAIPEI CITY

Since the new administration assumed office, cross-strait relations have been opaque. With an overhaul of the housing tax, and gift and inheritance taxes, investment sentiment has been low. The UK's vote to leave the EU in Q3 also played a part. Because of these, residential market in Taiwan has shown signs of rebound, i.e. transaction volume in six major cities was down a mere 1.2% quarter on quarter, up 1.1% year on year. Price of medium-priced residential units decreased from US\$525 psf to US\$520 psf.

After the Integrated Housing and Land Tax and Tax on Housing Speculators took effect, there has been inelastic demand in the market. According to the National Treasury Administration of the Ministry of Finance, 13,495 applications (about NT\$62.45 billion) for first time home-owner's mortgage were received in Q3, up 29.8% (16.5%) quarter on quarter, and 131.4% (247.8%) year on year. This showed the emergence of first time home buyers amid low buying sentiment.

Medium and low-priced housing units are estimated to be the main products in the residential market, and would remain so. On the sellers' side, mortgage rate is at a record low, and room for discount stands firmly within 10%; thus, prices are unlikely to be significantly adjusted. Buyers, on the other hand, often request a 20-30% off on the asking price. This means a huge gap between the buyer and the seller, and results in a stalemate where transaction shrinks and price remains flat.

The economy was weak, and there has been increased taxation on luxury residential units. The Central Bank had no signs of relieving mortgage restrictions on luxury residential units. All of these contributed to a decline in transaction volume in Q3 – price was down by 1.3% quarter on quarter, and 8.9% year on year. Given that Tax on Housing Speculators was implemented, and Gift and Inheritance Tax has more than doubled, owner-occupiers would become the largest type of buyers of luxury residential units. The momentum on transaction would be low and it would take longer to absorb new residential projects.

For now, sellers are mainly owners who acquired properties long ago, or those who are impacted by the recent increased taxation scheme. Buyers' offering prices are more than 10% lower than the transaction prices. Prices of luxury residential units are expected to decrease by about 10%. Instead of selling, owners would lease their properties. The gross cap rate, however, would remain low at 1.6%. Rental levels of downtown residential units are around US\$269 psf, and US\$179 psf in the suburbs.

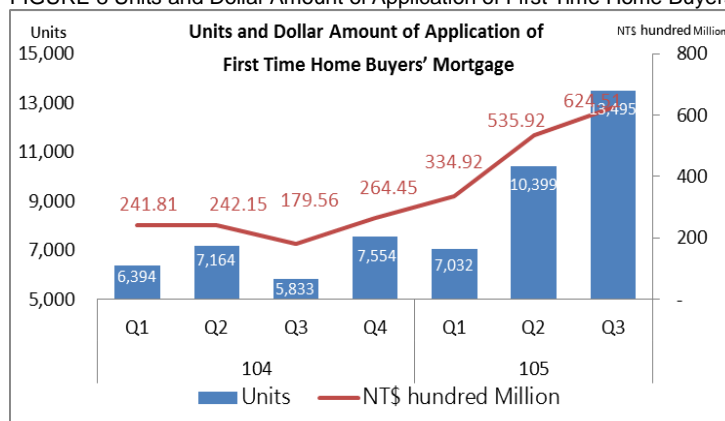
RESIDENTIAL MARKET IN TAIPEI CITY

TABLE 11
Number of Buildings Transferred in Six Major Cities

	2016Q3	2106Q2	QoQ	2015Q3	YoY
Taipei City	6,622	5,220	26.9%	6,572	0.76%
New Taipei City	12,110	10,681	13.4%	11,401	6.22%
Taoyuan City	9,454	12,054	-21.6%	8,341	13.34%
Taichung City	8,165	8,708	-6.2%	9,194	-11.20%
Tainan City	4,332	4,259	1.7%	4,596	-5.74%
Kaohsiung City	8,120	8,486	-4.3%	8,169	-0.60%
Total	48,803	49,408	-1.2%	48,273	1.10%

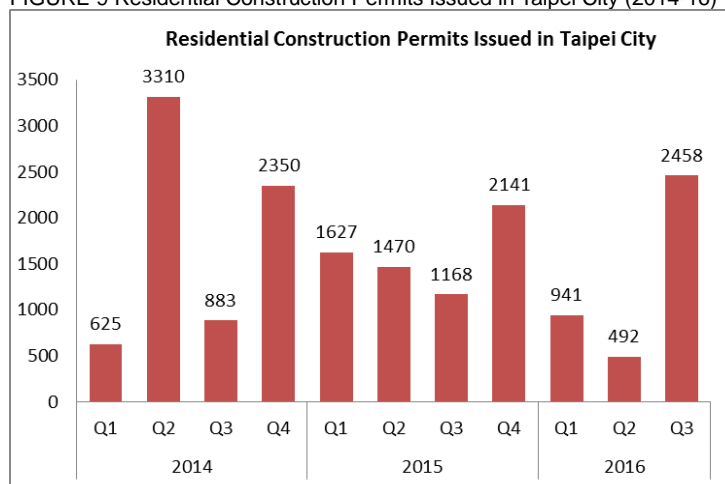
Source: Department of Land of each city government; compiled by Research Dept., REPro Knight Frank

FIGURE 8 Units and Dollar Amount of Application of First Time Home Buyers' Mortgage



Source: National Treasury Administration, Ministry of Finance; compiled by Research Dept., REPro Knight Frank

FIGURE 9 Residential Construction Permits Issued in Taipei City (2014-16)



Source: Taipei City Construction Management Office; compiled Research Dept., REPro Knight Frank



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瑞普萊坊

REPro Knight Frank

曾東茂 **Michael Tseng** CCIM FRICS

董事長 Executive Chairman

+886 2 8729 8799

REPro.KnightFrank.com.tw

市場研究部

Research

蘇銳強 **Cliff So** MRICS MHKIS

副總經理 Executive Director

+886 2 8729 8770

cliff.so@repro.knightfrank.com

黃舒衛 **Andy Huang**

副總監 Associate Director

+886 2 8729 8798

andy.huang@repro.knightfrank.com

商業物業代理部暨投資部

Commercial Agency & Capital Markets

劉美華 **Jenny Liou** CCIM

總經理 Managing Director

+886 2 8729 8790

jenny.liou@repro.knightfrank.com

工業暨零售物業代理部

Industrial & Retail Agency

李誠慶 **Jeff Lee** CCIM

總監 Director

+886 2 8729 8780

jeff.lee@repro.knightfrank.com

住宅部

Residential Agency

周達人 **Edison Chou**

副總監 Associate Director

+886 2 8729 8792

edison.chou@repro.knightfrank.com

估價暨顧問服務

Valuation & Consulting Services

吳絃緒 **Jackie Wu** CCIM MRICS

副所長 Executive Director

+886 2 8729 8710

jackie.wu@repro.knightfrank.com

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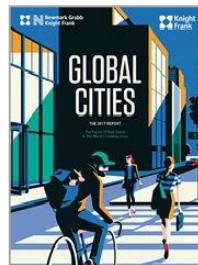
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