



Leasing demand rebounds in Q1

The technology, gaming, energy, and pharmaceutical industries are driving the office leasing market.

- The leasing market has maintained a positive momentum from the previous quarter as take-up reached approximately 3,000 ping in Q1/2024.
- Xinyi District contributed half of the take-up, driven by the technology, gaming, energy, and pharmaceutical industries.
- The average of Grade A rent increased by 0.8% QoQ to NT\$3,148 per ping in Q1 and the completion of new office buildings in non-core areas led the overall vacancy rate to rise to 6.0%.
- Landlords of older buildings are tending to opt for redevelopment with 16 office buildings in the city center applying for urban renewal in recent years, and this is expected to generate potential relocation demand of between 50,000 and 70,000 ping.
- Environmental sustainability and carbon reduction issues are gaining attention. The Taipei City Government announced plans to lower the urban temperature by reducing emissions from public sector buildings which is well ahead of Taiwan's 2050 net-zero pathway.

“Overall vacancy rates are expected to rise in the coming quarters, however, new buildings have limited room in rental negotiations due to elevated construction costs. Meanwhile, older buildings will struggle to maintain rents, given the large influx of new supply and tenants seeking better-quality environments”

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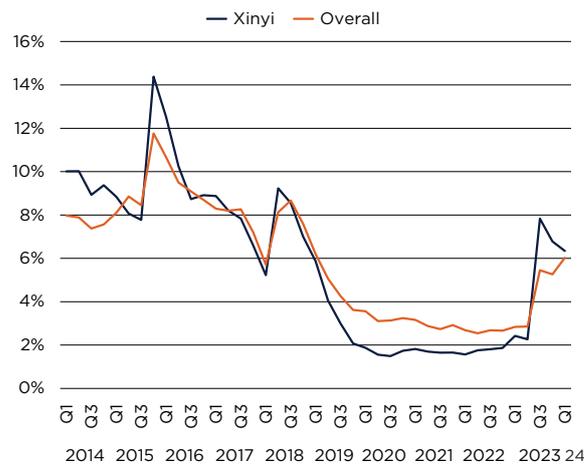
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TABLE 1: Grade A Office Vacancy Rates by Submarket, Q1/2024

DISTRICT	VACANCY RATE (%)	QOQ CHANGE (PPTS)	YOY CHANGE (PPTS)
Xinyi	6.3%	-0.4	3.9
Dunhua North	6.0%	-0.2	1.8
Dunhua South	3.0%	0.4	2.2
Non-core	7.5%	6.4	4.1
Taipei Overall	6.0%	0.8	3.2

Source Savills Research & Consultancy

GRAPH 1: Grade A Office Vacancy Rates, Q1/2014 to Q1/2024

Source Savills Research & Consultancy

TABLE 2: Grade A Office Rent by Submarket, Q1/2024

DISTRICT	RENT (NT\$ PER PING PER MONTH)	QOQ CHANGE (%)	YOY CHANGE (%)
Xinyi	\$3,754	0.7%	2.3%
Dunhua North	\$2,556	0.1%	0.8%
Dunhua South	\$2,612	1.0%	3.4%
Non-core	\$2,410	0.6%	1.8%
Taipei Overall	\$3,130	0.5%	2.9%

Source Savills Research & Consultancy

MARKET OVERVIEW

Taiwan's economy continues to show stable growth, with most business indicators stable in January. According to the Directorate General of Budget, Accounting and Statistics (DGBAS), Taiwan's economic growth in 2024 is expected to reach 3.43%, exceeding last year's growth rate. While layoffs have hit international financial companies, including UBS, Citibank, and Morgan Stanley, Taiwan has not witnessed significant downsizing. The stable economy has continued to drive leasing momentum since the previous quarter, with approximately 3,000 ping of space in the Grade A office market taken in the first quarter of 2024, marking the best first-quarter leasing performance of the past four years.

Leasing activity this quarter was dominated by Xinyi District, accounting for half of the total take-up, while the rest was evenly distributed across other districts. Technology, gaming, energy, and pharmaceutical industries showed strong demand. Large leasing deals in Xinyi included 425 ping of office space on the 84th floor of the Taipei 101 Building which was leased for NT\$4,850 per ping, with rents not yet surpassing the record set on the 80th floor (NT\$5,000 per ping) three years ago. Fubon A25 Building, completed recently, leased out 492 ping of office space on the 18th floor for NT\$4,000 per ping this quarter. Currently, the rental level in Fubon A 25 ranges between NT\$4,000 and NT\$4,300 per ping, as new tenants in the semiconductor, technology, and energy industries, relocate from Neihu Technology Park, Grade B office building in the city center and Grade A office buildings in Xinyi District. In addition, an education company relocated from a Grade B office building in the Taipei Train Station area to TransGlobe Minquan Building, leasing a total of 657 ping of space, one of the largest leasing deals in Dunhua N. district recently.

Due to the incentives provided by the government and less attractive rental growth prospects, an increasing number of old office buildings in urban areas are applying for urban renewal and are mainly located in the Taipei Train Station area, Nanjing Songjiang area, and Dunhua N. district. Even though the process of urban renewal usually takes a long time to consolidate ownership, the 16 old office buildings that are participating in the urban renewal program suggest potential office relocation demand of between 50,000 and 70,000 ping.

On the other hand, environmental sustainability and carbon reduction issues have attracted market attention increasingly as the cost of electricity and carbon emissions will rise soon. The government has announced an 11% average increase in electricity prices effective from this April

and the carbon fee is under discussion on major carbon emitters by 2025. Meanwhile, city governments have more ambitious targets, such as Taipei City declaring a plan to reduce urban temperatures by reducing emissions this February. One of the measures is for new public sector buildings to achieve a building energy efficiency level 1 or 1+. As newly constructed private buildings are encouraged to meet good energy efficiency standards, office buildings in the future will need to pursue green building certification to attract users. Simultaneously, increasing construction costs will push up rents of new buildings.

SUPPLY

The Huang Hsiang Building in the Taipei Train Station area was completed this quarter, bringing total stock in the non-core area up by 7% and the number of Grade A office buildings in Taipei to 71 with a total floor area of 764,000 ping. This new Grade A office building has 23 above-ground floors, with retail space on the lower floors and over 9,000 ping of office space above. Multiple green buildings certifications have been obtained, including EEWB Gold, LEED Silver and WELL Silver which make the Huang Hsing Building one of the highest quality buildings in the area and means asking rents are 40% higher than the next most expensive building, the Shin Kong Life Building.

In the coming quarter, two buildings are expected to be launched onto the market. The headquarters of The Shanghai Commercial & Savings Bank obtained a building use permit last year and is set to open with office space totaling 7,500 ping. Additionally, the Farglory Dome Building in Xinyi District will release 10,000 ping of office space to the leasing market with half of the space already pre-leased.

VACANCY

Given the completions of new buildings, vacancy rates in the non-core area increased to 7.5% and led the overall vacancy rate to rise slightly by 0.8 ppts QoQ to 6%. Among the districts, the non-core area and Xinyi District recorded higher vacancy levels, however, newly completed buildings over the next three quarters are concentrated in these districts, making it a significant challenge to improve the vacancy level to below 5% in the short term.

RENTS

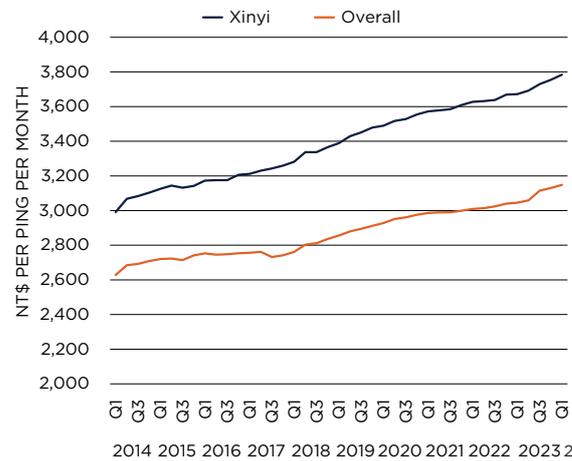
The average rent reached NT\$3,148 per ping in Q1/2024, up 0.6% QoQ and 3.3% YoY. The non-core area saw the most significant rental increase which was driven by the completion of new buildings with rent levels usually 30% to 40% higher than the average rents in the area. In Xinyi District, as landlords of older

TABLE 3: Major Leasing Transactions, Q1/2024

DATE	BUILDING	SUBMARKET	SIZE (PING) INC PARKING)	RENT (NT\$ PER MONTH INC PARKING)	AVERAGE RENT (NT\$ PER PING PER MONTH INC PARKING)
Jan	18/F, Fubon A25 Building	Xinyi	492	1,967,280	4,000
Jan	11F/F, TransGlobe Minquan Building	Dunhua N.	657	1,514,544	2,306
Feb	14/F, Shin Kong	Xinyi	388	1,222,235	3,152
Feb	84/F, Taipei 101	Xinyi	425	2,059,941	4,850

Source Department of Land Administration, Savills Research & Consultancy

GRAPH 2: Grade A Office Rents, Q1/2014 to Q1/2024



Source Savills Research & Consultancy

Grade A office buildings continue looking for higher rents, average rents increased by 0.8% to NT\$3,784 per ping. Several old office buildings witnessed a significant increase in rents which pushed minimum rents in Xinyi District to NT\$3,100 per ping. In addition, as the stable economy coupled with new supply is causing tenants to consider office relocation with higher budgets, landlords need to offer more flexible terms in lease renewal negotiations.

OUTLOOK

Overall vacancy rates are expected to rise gradually in the coming quarters and witnessed an additional 2 ppts rise at the end of 2024 due to the influx of new supply. Even though the increasing vacant space provides tenants with more choices, elevated construction costs provide tenants

with limited room in rental negotiation. Meanwhile, older office buildings will struggle to maintain rental levels, as new stock comes on line offering the better-quality environments preferred by tenants.