

Sales and Investment



2023 transaction volumes hold firm

The expansion of the tech industry has led to demand for I/O in northern Taiwan.

- In Q4/2023, the central bank kept interest rates unchanged and did not further tighten credit controls. The next wave of housing market reforms shifted towards building taxes, which had a greater impact on the housing rental market.
- Land transactions were sluggish in the first half of 2023, resulting in a total transaction value of NT\$122.4 billion for the year as a whole, dropping by 33% from 2022.
- Momentum in the commercial real estate market recovered in Q4/2023, with annual transactions for the year reaching NT\$139.3 billion, declining slightly by 4% YoY.
- The technology industry was the main buyer in 2023, with total purchases reaching NT\$43.3 billion, a 170% increase from the previous year, followed by developers, investing NT\$26.7 billion and focusing on redevelopment opportunities.
- Insurance companies have stayed on the sidelines since 2H/2022, except for Cathay Life Insurance. Some insurance companies even decided to dispose of their properties to strengthen their financial structure.
- Offices and I/O spaces were the most popular transaction categories in 2023, with total transactions reaching NT\$36.5 billion and NT\$36.3 billion, respectively. 80% of the I/O buyers came from the technology industry, indicating strong demand for office upgrades.

“Signs of recovery in the commercial property market were witnessed in Q4/2023. Looking ahead to 2024, the property market is expected to maintain stable momentum and experience gradual price increases, driven by economic stabilization and the end of the interest rate hike cycle.”

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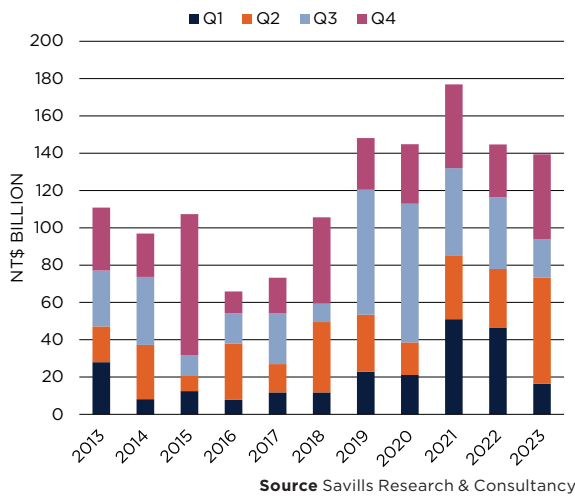
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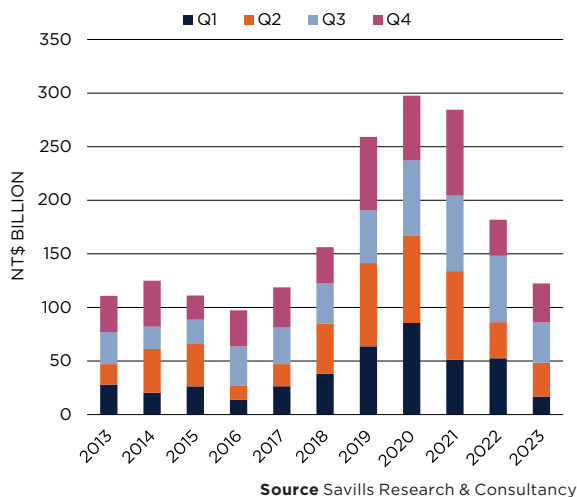
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GRAPH 1: Commercial Real Estate Transaction Volumes, 2013 to 2023



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



COMMERCIAL PROPERTY MARKET OVERVIEW, Q4/2023

With the semiconductor inventory adjustment coming to an end, AI opportunities have continued to grow, and with the launch of new Apple products, Taiwan’s exports showed signs of improvement in the fourth quarter, with the decline narrowing to just 9.8% for the year. Despite strong domestic consumption, the overall economic performance in 2023 was still affected, with the Directorate-General of Budget, Accounting and Statistics (DGBAS) announcing a record 14-year low annual economic growth rate of 1.42%. It is expected that with the global economy’s soft landing, exports will recover in 2024. Taiwan’s economic growth rate is expected to reach 3.35% in 2024, and the consumer price index should rise moderately by 1.64%.

The Taiwan Central Bank decided to keep the benchmark interest rate unchanged in Q4 and stop further tightening selective credit control measures. The new wave of housing market reforms has shifted towards building tax, with a higher tax rate imposed on multiple homeowners, and it is expected that nearly 4.5 million homeowners will be impacted starting in July. New measures will also encourage developers to liquidate unsold units. However, the rental market will feel some stress as the building taxes may be passed through to tenants, pushing housing rents up.

As the economic outlook gradually improved, the commercial real estate market regained momentum in the fourth quarter, with a transaction volume of NT\$45.6 billion, increasing by 61% QoQ and 122% YoY. The total transaction volume in 2023 reached NT\$139.3 billion, a slight decrease of 4% compared to the previous year. Driven by the

application of 5G and AI, demand from the technology industry has remained strong, investing a total of NT\$43.3 billion in 2023, up by 170% from 2022. Upgrades of offices and R&D spaces helped drive demand for industrial offices. Industrial clustering and talent stability are key considerations causing technology companies to prefer to seek newly completed or soon-to-be-completed factory buildings in their original areas. Notable transactions included Foxconn Group’s acquisition of the AI Cloud Intelligence factory, a pre-sale project with a high green building rating, in New Taipei City for NT\$7.5 billion (42,000 sq m) and Topco Scientific acquired an en-block I/O building in Neihu technology park for NT\$5.35 billion (22,360 sq m).

Developers were another active buyer, targeting properties in core areas with redevelopment potential. The annual investment amount reached NT\$26.7 billion with notable transactions including Shin Kong Jasper Villa TianMu, a service apartment, acquired by Sino Horizon Holdings for NT\$11.7 billion and YeaShin International Development purchased Forte Hotel Hsinchu for NT\$2.28 billion.

Market activity from the insurance industry, on the other hand, has declined significantly since the second half of 2022, with a total investment of NT\$1.8 billion in the commercial property sector and NT\$5.3 billion in the land market for the year, reaching historically low levels. Among them, Cathay Life Insurance was relatively active, continuing to acquire land in Taoyuan, and Taichung. Considering the need to strengthen their overall financials, China Life Insurance, Shin Kong Life Insurance, and Hong Tai Life Insurance all disposed of assets recently.

TABLE 1: Major Economic Indicators, 2023

| INDICATOR | | COMMENTS |
|---|---|--|
| 2023 GDP growth forecast | 1.42% | 2022 GDP growth: 2.45% |
| 2023 CPI forecast | 2.5% | 2022 CPI: 2.95% |
| 2023 GDP per capita forecast | US\$32,247 | 2022 GDP per capita: US\$32,811 |
| US\$ exchange rate (December 2023) | NT\$31.282 | 2022 average: NT\$29.77 |
| Export growth (% YoY) (January to December 2023) | -9.8% YoY | 2022 export growth: 7.4% YoY |
| Unemployment rate (December 2023) | 3.33% | 2022: 3.67% |
| Inbound tourist arrivals (January to November 2023) | 5,672,186 | 2022 inbound tourist arrivals: 895,962 |
| Benchmark interest rate (December 2023) | 1.875% | March 2023: revised up by 0.125 ppts |
| Terms of mortgage (June 2023) | Rate (%)* = 2.0-2.2 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.

TABLE 2: Significant Commercial Real Estate Transactions, 2023

| PROPERTY | LOCATION | TRANSACTION AMOUNT (NT\$ BILLION) | AREA (PING) | PROPERTY TYPE | BUYER |
|--|-----------------|-----------------------------------|-------------|--------------------|------------------------------------|
| Kee Tai Zhongxiao Building | Taipei City | 12.5 | 8,204 | Office | Individual |
| Shin Kong Jasper Villa TianMu | Taipei City | 11.7 | 16,075 | Serviced Apartment | Sino Horizon Holdings |
| Industrial office building in DES Cloud Universal Park | New Taipei City | 7.6 | 12,747 | Industrial Office | Cloud Network Technology Singapore |
| 14 floors of Shin Kong Zhongshan Building | Taipei City | 7.2 | 3,574 | Office | Local Family Office |
| China Real Estate Management NeiHu Building | Taipei City | 5.4 | 16,282 | Industrial Office | Topco Scientific |

Source Savills Research & Consultancy

TABLE 3: Significant Land Transactions, 2023

| PROPERTY | LOCATION | TRANSACTION AMOUNT (NT\$ BILLION) | AREA (PING) | BUYER |
|---|---------------|-----------------------------------|-------------|-------------------------|
| Commercial land in Beitou District | Taipei City | 4.8 | 1,191 | Local Developer |
| Ai-ko kindergarten in Beitun District | Taichung City | 4.0 | 2,324 | Fuyu Property Company |
| Land in Taichung high speed rail station area | Taichung City | 3.3 | 5,889 | Cathay Life |
| Industrial land in Nankang District | Taipei City | 3.0 | 1,373 | Hung Sheng Construction |
| Residential land in Taoyuan District | Taoyuan City | 2.7 | 4,915 | Pau Jar Group |

Source Savills Research & Consultancy

Offices have ranked as the most active transacted property type for two consecutive years with the total amount reaching NT\$36.5 billion in 2023, accounting for 26% of the total, and the share of investment properties accounted for 70%. Notable transactions included the Kee Tai Zhongxiao Building (NT\$12.5 billion), and three strata-titled buildings in Taipei City held by Shin Kong No. 1 REITs (NT\$12.6 billion). Professional investment institutions and individual investors are the most active buyers in the office sector, preferring traditional business areas and en-bloc buildings.

The transaction amount for industrial property (industrial land, factories, and industrial offices) was NT\$86.9 billion in 2023, a 42% decrease compared to the previous year as the slowdown in exports led to conservative expansion by technology companies and manufacturers. The industrial office is the only industrial property category which saw positive growth in transaction

volume, with a transaction amount of NT\$36.3 billion. One thing worth noting is that nearly half of the transactions were presale or newly completed industrial office buildings in New Taipei City, especially in the Sanchong, Xinzhuang, Zhonghe, and Tucheng districts. This indicates that New Taipei City's metro network is gradually taking shape, and its policies for industrial park upgrade programs and industry clustering are attracting manufacturers to expand and upgrade their operational space.

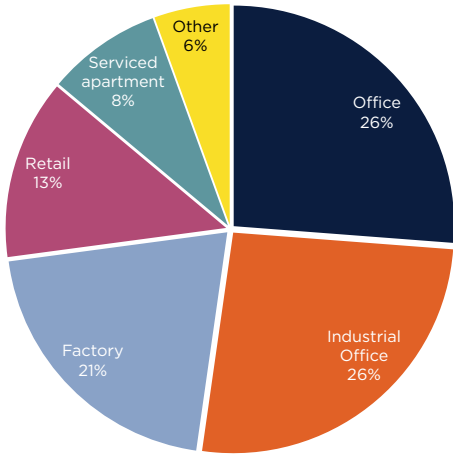
LAND MARKET OVERVIEW, Q4/2023

The land market remained stable in Q4/2023, with a transaction amount of NT\$36.3 billion, representing an increase of 8% from a year ago. The stability was mainly due to several pieces of land released by the public sector for sale, which once again attracted the attention of developers. The auctions held by the Kaohsiung City Government and the Taichung City Government

recorded total sales of NT\$12.5 billion and NT\$1.9 billion, respectively. Both auctions achieved an average premium rate of over 15%, indicating that the newly launched preferential youth home loan program stimulated housing demand and boosted developers' confidence in the housing market.

However, due to developers' conservative strategies in the first half of the year, the total land transaction amount for the year was only NT\$122.4 billion, a decline of 33% YoY, hitting a five-year low. In terms of preference location, Taoyuan City, Taichung City, and Taipei City ranked as the top three cities. Regarding land acquisition by developers, the total amount fell by 31% YoY to NT\$75.8 billion. Additionally, to gain more flexibility in financing, many developers are adopting strategies such as participation in public redevelopment, land superficies rights, or metro station joint development projects to lower the capital allocation to the land sector.

GRAPH 3: Significant Transactions by Property Type, 2023



Source Savills Research & Consultancy

Redevelopment potential continues driving developers to purchase land in major metropolitan areas. Notable deals include two local developers purchasing a redevelopment project jointly in Taipei's Beitou District for NT\$4.78 billion and Fu-Yu property company buying a kindergarten in Taichung for NT\$4 billion. The third largest land deal was concluded by Cathay Life Insurance which keeps expanding its participation in commercial property development by purchasing land in Taichung's High-Speed Rail area for NT\$3.3 billion. This mixed-use project including offices and shopping malls, will be their third construction project in this area, following the completion of Logistic Republic Taichung and a self-occupied office building.

PREFERRED ASSET CLASSES AND LOCATIONS

In 2023, office deals dominated the market, with the transaction amount reaching NT\$36.5 billion. Individual and professional investment institutions were the main buyers of offices, especially targeting Taipei City with rental yields ranging between 2.2% to 2.5%, while inflation hedging and locations in an active leasing market are their major considerations.

I/O deals accounted for 26% of total volume, equivalent to NT\$36.3 billion. As ESG and talent recruitment have combined to drive demand for a modern working environment. A notable deal was Foxconn Group's purchase of a 12,747 ping brand-new pre-sale industrial office near its headquarters in Tucheng. This project is expected to receive a Gold-level green building certification, which is rare in the industrial office sector. In terms of location, New Taipei City, Taipei City, and Hsinchu County were favored, and several new development projects in the pipeline further stimulated market activity in New Taipei City.

INVESTOR PROFILE

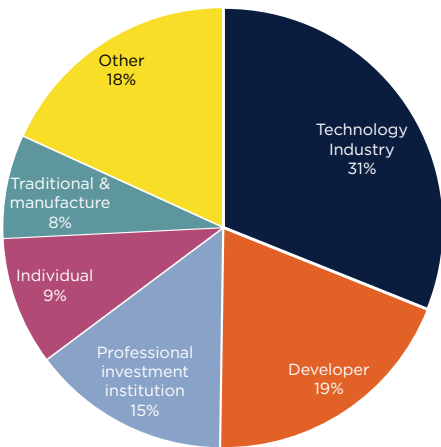
The technology industry was the major buyer this year investing a total of NT\$43.3 billion in the commercial property market, representing a 1.5 times increase compared to the previous year and the second-highest investment level in a decade. The semiconductor, IC design, and consumer electronics industries showed a strong appetite. Developers, who accounted for 19% of total transactions, are interested in en-bloc buildings. A notable deal was the Hung Sheng Construction purchase of a service apartment building in Tianmu's high-end residential area and the land beneath the building is over 1,600 pings showing strong longer term redevelopment potential.

Professional investment institutions have also become a force. While the recent market cooling measures have limited companies in acquiring residential properties, some funds have shifted to the commercial property market, such as family offices which prefer offices in the traditional business areas.

OUTLOOK

Taiwan's GDP growth in 2024 is expected to be higher than in 2023 and a sign of recovery in the commercial property market has been witnessed in Q4/2023. Looking ahead, the property market is expected to maintain a stable momentum and see gradual price increases. AI technology applications will continue to boost Taiwan's technology industry and support demand for industrial properties in science parks and major industry clusters in northern Taiwan. However, we should keep a close watch on the impact of the deglobalization trend which might encourage manufacturing lines to move overseas.

GRAPH 4: Significant Transactions by Investor Type, 2023



Source Savills Research & Consultancy