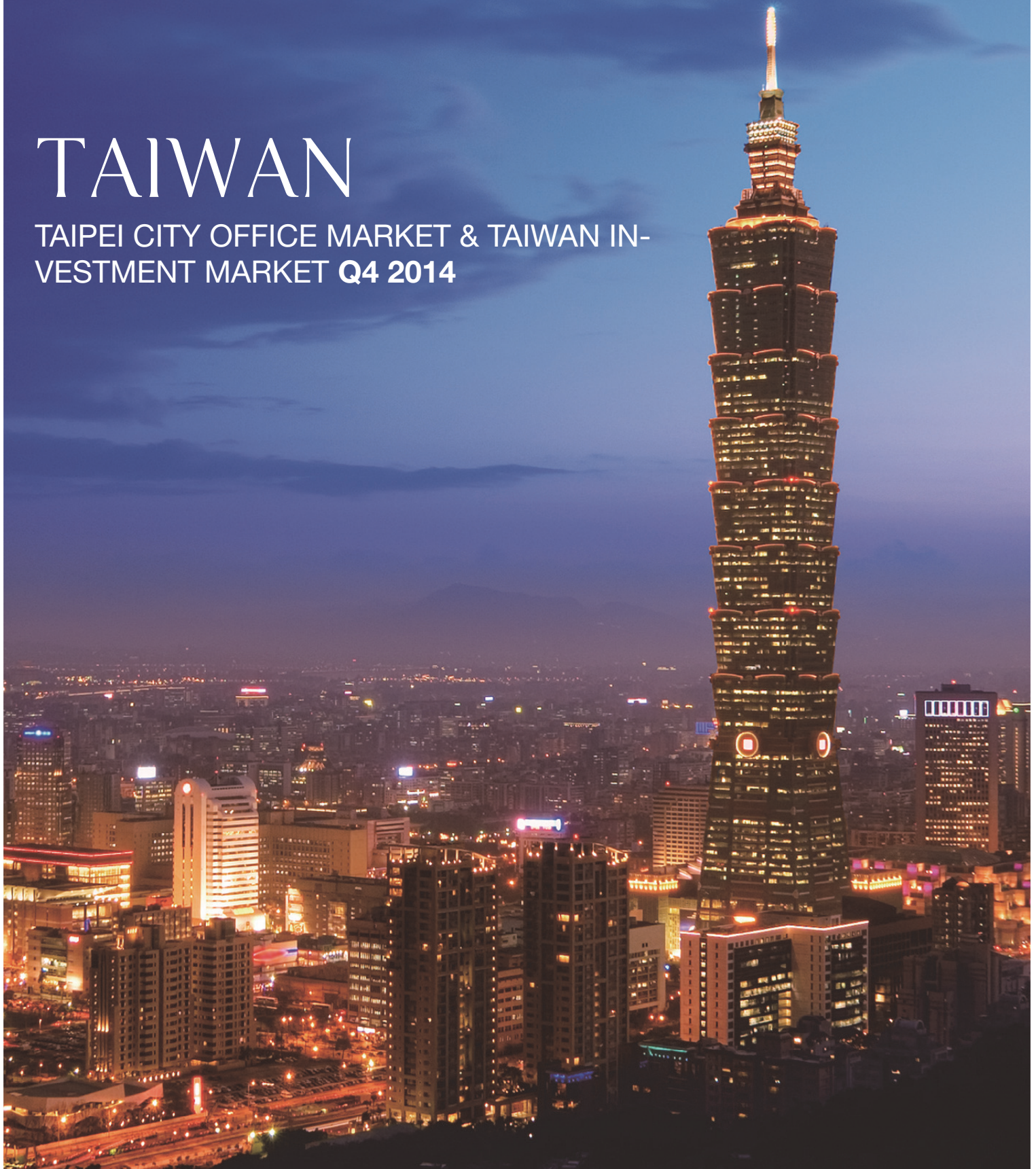


RESEARCH



TAIWAN

TAIPEI CITY OFFICE MARKET & TAIWAN INVESTMENT MARKET Q4 2014



OFFICE MARKET IN
TAIPEI CITY

NEIHU TECHNOLOGY
PARK

COMMERCIAL REAL
ESTATE INVESTMENT

KEY FINDINGS

Although monitoring scores dropped 2 points to 25, the economy has been in the “stable” range for ten consecutive months.

The Central Bank of Taiwan announced that the discount rate, the secured financing interest rate, and the short-term interest rate would remain unchanged at 1.875%, 2.25% and 4.125%.

ECONOMY

The Directorate General of Budget, Accounting and Statistics (DGBAS) of the Executive Yuan estimated that the Taiwan’s GDP growth in 2014 was 3.5%. The CEPD economic indicators released last November showed that global economic growth in 2015 would be faster than last year, which is beneficial for Taiwan’s export. In terms of domestic demand, semiconductor companies are expected to proactively develop new-generation manufacturing processes, which are seen as private investment. Domestic consumption should remain its momentum with improved employment and sales incentives before the lunar New Year.

In the latest data released by Global Insight in November, the economy in 2015 is expected to grow 3.1% around the world (developed economies 2.1% and emerging economies 4.5%). According to the DGBAS, the manufacturing sector in the US has recovered. Active corporate investment and the improved labor market will help support consumption and exert positive impacts on the economy. In Japan, however, impacted by the upward revision of taxation, the growth in 2015 is estimated to be 1.1%. In Taiwan’s stock market, weighted index increased slightly by 3.8% quarter on quarter.

Developed economies are recovering at different levels, and the monetary policies are drifting apart, both of which led to fluctuation in the international financial market and uncertainties in the global economy. The uncertain global economy has slowed down Taiwan’s export and domestic consumption. The employment rate, however, has improved at a stable pace. Against the back drop of this, the Central Bank of Taiwan announced in December that the discount rate, the secured financing interest rate, and the short-term interest rate would remain unchanged at 1.875%, 2.25% and 4.125%.

TABLE 1

Monitoring Indicators

	2014Q4	2014Q3	2014Q2	2014Q1
Monitoring Scores	25 (November)	27 (September)	26 (June)	25 (March)

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

Source: Council for Economic Planning and Development, Executive Yuan

TABLE 2

Latest Economic Indicators

Indicators	2014	2013	2012	2011
GDP Growth	3.5%	2.19%	1.13%	4.07%
Unemployment Rate	3.89% (Jan-Nov)	4.08%	4.18%	4.39%
Annual Change of CPI	0.61 %	0.33%	1.61%	1.42%
Construction Permits Issued (m ²)	35.03 million (Jan-Nov)	39.76 million	32.88 million	34.15 million
Exchange Rate (US\$1=)	NT\$31.72 (12/31)	NT\$29.95 (12/31)	NT\$29.14 (12/28)	NT\$30.29 (12/30)

Source: DGBAS and Central Bank of the Republic of China (Taiwan)

KEY FINDINGS

Between January and November 2014, 116 mainland investment applications were approved, down 10.08% year on year.

MAINLAND CHINESE INVESTMENT

Between January and November 2014, 116 mainland investment applications were approved, down 10.08% year on year. New Capital (and capital increase) was US\$328 million, down 4.34% year on year. Since the mainland investment was allowed in Taiwan on Jun 30, 2009, a total of 599 projects have been approved, and the approved investment (and increased investment) topped US\$1.2 billion.

Since the introduction of Regulations for Mainland Chinese to Acquire, Create or Transfer the Property Rights of Real Estate in Taiwan on 8 August 2002, a total of 181 applications have been approved by the Ministry of the Interior as of Q4 2014.

TABLE 3

Mainland Investment in Taiwan

Year	Project	Investment Amount (US\$ million)
2009	23	37.49
2010	79	94.35
2011	102	43.74
2012	138	328.07
2013	141	360.88
2014	116 (Jan-Nov)	327.93
Total	599	1,192.45

Source: Investment Commission, Ministry of Economic Affairs. Organized by Professional Advisory Department, REPro Knight Frank

KEY FINDINGS

In Q4 2014, two new Grade A office buildings were completed.

More than 1.4 million sqf Grade A office area in CBD Taipei is estimated to be released in 2015. However, the new office space is expected to be gradually absorbed.

OFFICE MARKET IN TAIPEI CITY

Leasing Market

In Q4 2014, the annual rental level of Grade A offices averaged US\$27.28 psf. The annual growth rate was about 0.59%. The vacancy rate was about 7.15%, down 1.15% year on year (8.3% in Q4 2013).

Several Grade A office buildings were completed in 2014, but the vacancy rate was not impacted given that certain portion of the new supply was occupied by its owners, and the absorption remained positive.

More than 1.4 million sqf Grade A office area in CBD Taipei is estimated to be released in 2015. As about one third of new space would be self-occupied and the office demand is expected to remain strong, it is forecasted that the vacancy rate will increase but will be absorbed gradually.

Investment Market

The entire property portfolio of Gallop No 1 was liquidated through tender bid.

4 November 2014: Wei Sheng International Development acquired the entire Goldsun Group Building on Zhengzhou Road at USD126 million. The building area is about 255K sqf,

and the unit price is about USD555 psf.

11 December 2014: Rueilong acquired partial floors in CTCL Building on Dunhua South Road at USD90 million. The building area is about 133K sqf, and the unit price is about USD703 psf.

New Supply

Newly-completed Grade A office buildings in Q4 2014 include:

Fubon Dunhua South Building is located on Section 1, Dunhua South Road. The floor area totals 212K sqf.

Headquarter Building of Huanan Bank is situated at Songren Road. The floor area totals 557K sqf.

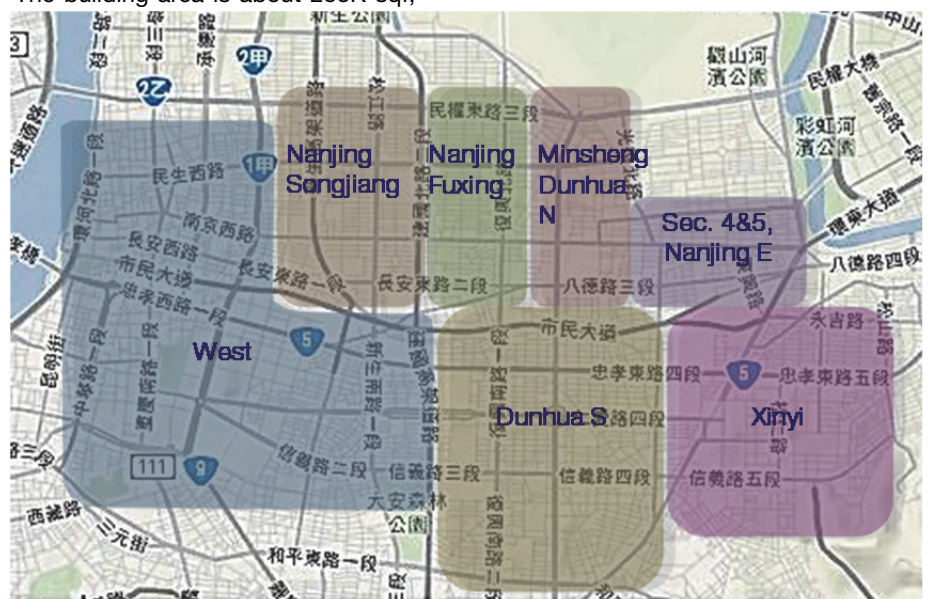


FIGURE 1 Map of Major Office Districts in Taipei City

RENTAL LEVELS IN TAIPEI CITY

FIGURE 2
Office Rental Levels in Taipei City

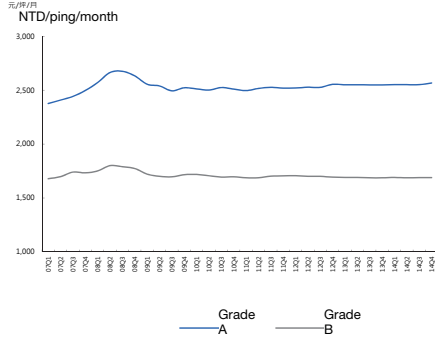


FIGURE 3
Office Vacancy Rates in Taipei City

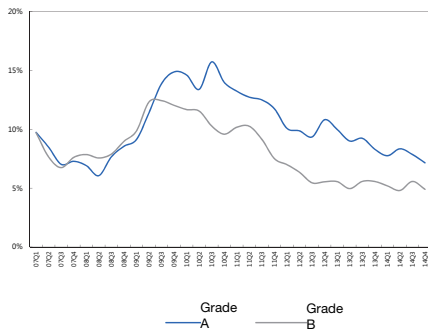


TABLE 4
Office Rental Levels in Taipei City, Q4 2014

	Grade A	Grade B
Market Rental (USD/sf/yr)	27.28	17.96
Net Effective Rental (USD/sf/yr)	38.48	23.19
Asking Rental (USD/sf/yr)	31.28	20.01
Vacancy Rate (%)	7.15%	4.90%

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

TABLE 5
Rentals of Major Office Districts in Taipei City, Q4 2014

District	Asking Rental (USD/sf/yr)	Market Rental (USD/sf/yr)	Net Effective Rental (USD/sf/yr)	Vacancy Rate (%)	Change in Market Rental (QoQ)	Change in Market Rent (YoY)
Mins-heng/Dunhua N	23.56	20.31	25.86	8.72%	-0.21%	0.10%
Dunhua S	23.18	20.87	27.73	2.25%	0.00%	1.50%
Xinyi	30.24	26.42	36.69	7.45%	1.02%	1.76%
West	21.24	18.82	24.65	4.47%	-0.34%	-0.06%
Nanjing/Sonjiang	19.40	17.41	22.16	3.91%	0.00%	-0.30%
Nanjing/Fuxing	20.03	17.82	23.01	3.56%	0.00%	-0.12%
Sec. 4&5 Nanjing E	17.31	15.08	19.47	5.99%	0.35%	0.07%
Weighted Average	23.57	20.78	27.21	5.44%	0.57%	0.77%

Source: Professional Advisory Dept, REPro Knight Frank

TABLE 6
Office Leasing Transactions in Taipei City

District	Building	Tenant	Area Leased (sf)
Xinyi	Farglory Financial Center	Ono Pharmaceutical	4.7K
Xinyi	Farglory Financial Center	AUDI	43K

KEY FINDINGS

Vacancy rate in Xihu Section in 2014 dropped from 4.86% in Q1 to 2.67% in Q4, down 2.19%. This shows that the leasing demand in Xihu Section has seen significant growth.

With limited supply in Xihu Section, the existing industrial offices will continue to be absorbed.

NEIHU TECHNOLOGY PARK

Leasing Market

Market rental in Neihu Technology Park in Q4 2014 averaged USD11.89 psf per year, up 1% year on year (USD11.77 psf per year in Q4 2013). Vacancy rate was about 8.57%, down 0.63% year on year (9.20% in Q4 2013).

Vacancy rate in Xihu Section in 2014 dropped from 4.86% in Q1 to 2.67% in Q4, down 2.19%. This shows that the leasing demand in Xihu Section has seen significant growth.

Rental levels in Neihu District have been stable this year. No significant changes are expected.

Investment Market

There have been transactions on partial floors and entire buildings in Q4.

Major transactions in Neihu in Q4 are as follows.

3 November 2014: Tsann Kuen acquired an entire building on Section 1, Tiding Boulevard, Neihu District, Taipei City, at USD44 million.

The building area is about 135K sf, and the unit price averaged USD325 psf.

New Supply

Newly-completed industrial buildings in Q4 2014 include:

AI Headquarter Building is located on Xihu 2nd Road. The floor area totals 76K sf.



FIGURE 4 Map of Neihu Technology Park and Dawan S Sec.

RENTAL LEVELS IN NEIHU TECHNOLOGY PARK

TABLE 7

Rentals of Industrial Offices in Neihu Technology Park, Q4 2014

Section	Asking Rental (USD/sf/yr)	Market Rental (USD/sf/yr)	Net Effective Rental (USD/sf/yr)	Vacancy Rate (%)
Xihu	14.29	13.06	19.97	2.67%
Wende	12.56	10.88	16.47	13.17%
Jiuzong	11.31	9.27	14.95	22.94%
Average	13.37	11.89	18.44	8.57%

Source: Professional Advisory Dept, REPro Knight Frank

TABLE 8

Rentals of Industrial Offices in Phase V in Neihu, Q3 2014

Section	Asking Rental (USD/sf/yr)	Market Rental (USD/sf/yr)	Net Effective Rental (USD/sf/yr)	Vacancy Rate (%)
Phase V	13.74	9.08	16.97	86.80%

Source: Professional Advisory Dept, REPro Knight Frank

TABLE 9

Leasing Transactions of Industrial Offices in Neihu Technology Park

Section	Building Name	Tenant	Area Leased
Xihu	Shin Kong Xihu Building	Innovation	6K
Xihu	Shin Kong Ji Hu Building	ABB Ltd	37K
Wende	First International Computer	Smart Catch	9K

KEY FINDINGS

Commercial real estate investment in Q4 2014 was about USD671 million. The total volume in 2014 reached USD3 billion.

Owner-occupancy was the main form of commercial real estate investment, among which offices topped the list, followed by industrial offices.

COMMERCIAL REAL ESTATE INVESTMENT

Commercial real estate investment in Q4 2014 was about USD671 million. The total volume in 2014 reached USD3 billion. The entire property portfolio of Gallop No 1 REIT, was liquidated through tender bid, including Goldsun Group Building, partial floors of CTCI Building and Wei Han Information Building. The amount totaled USD263 million.

Owner-occupancy was the main form of commercial real estate investment, among which offices topped the list, followed by industrial offices. They accounted for 66% of the total transaction volume in 2014. With the recent development of the tourism industry, Taiwan not only appeals to local tourists, but also travelers from mainland China, Hong Kong, Japan and Korea. Because of this, investment in retail shops and hotels has drawn investors' attention.

TABLE 10

Dollar Amount of Major Commercial Real Estate Transactions (USD)

Quarter	2014	2013	2012
Q1	0.24	0.81	0.31
Q2	0.76	0.68	1.08
Q3	1.33	0.93	1.86
Q4	0.67	0.88	0.78
Total	3.00	3.30	4.03

Source: Market Observation Post System, organized by Professional Advisory Dept, REPro Knight Frank

KEY FINDINGS

In 2014, land transaction remained solid.

Commercial Real Estate Transactions

For major office transactions in Taipei City and industrial offices in Neihu Technology Park, please refer to previous pages. Other transactions include:

- ◆ 7 October: Yi Bao Investment acquired partial floors and parking spaces in Chongde Building on Guanqian Road, Zhongzheng District, Taipei City at USD12 million. The building area is about 19K sf and the unit price averaged USD634 psf.
- ◆ 4 November: BankTaiwan Life Insurance acquired partial floors and parking spaces in Wei Han Information Building on Liancheng Road, Zhonghe District, New Taipei City at USD49 million. The building area is about 222K sf and the unit price averaged USD225 psf.
- ◆ 10 November: Tai Feng Investment acquired partial floors in Taiwan Glass Building on Section 3, Nanjing E Road, Taipei City, at USD65 million. The unit price of the first floor averaged USD4056 psf, while the unit price for the upper levels averaged USD950 psf.
- ◆ 17 November: Hong Jie Asset Management acquired a shop on Wenheng 2nd Road, Xinxing District, Kaohsiung City at USD7 million. The building area is about 11K sf, and the unit price was about USD652 psf.
- ◆ 20 November: Castles Technology acquired partial floors in Taipei Silicon Valley I on Section 3, Beixin Road, Xindian District, New Taipei City at USD5 million. The office is about 12K sf, and the unit price averaged USD400 psf.

Land Transactions

- ◆ 15 October: Wen Sen Development acquired land parcels on Xihu 1st Road, Neihu District, Taipei City, at USD9 million. The land area is about 8K sf, and the unit price was about USD1K psf. The land is zoned as Technology Industrial Zone (Zone C). The accommodation value was

about USD620 psf.

- ◆ 30 October: Shi Kai acquired land parcels on Linyi Street, Zhongzheng District, Taipei City at USD14 million. The area is about 5K sf and the unit price averaged USD3K psf. The land is zoned as Type III Residential Zone with a unit accommodation value of USD1K psf.
- ◆ 11 November: Highwealth acquired land parcels on Danhai Section, Tamshui District, New Taipei City, at USD84 million. The land area is about 150K sf and the unit price averaged USD558 psf. The land is zoned as Type II CBD with a unit accommodation value of USD112 psf.
- ◆ 28 November: Li Qi acquired land parcels on Songjiang Road, Zhongshan District, Taipei City at USD30 million. The land area is about 5K sf and the unit price USD6K psf. The land is zoned as Type III Commercial Zone (formerly Type II). The accommodation value is about 1K psf.
- ◆ 31 December: I-Sunny Development acquired land parcels on Haitian Section, Tamshui District, New Taipei City at USD23 million. The land area is about 52K sf and it is zoned as Residential Zone (I). The unit price of the residential zone averaged USD416 psf, with an accommodation value of USD346 psf.



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