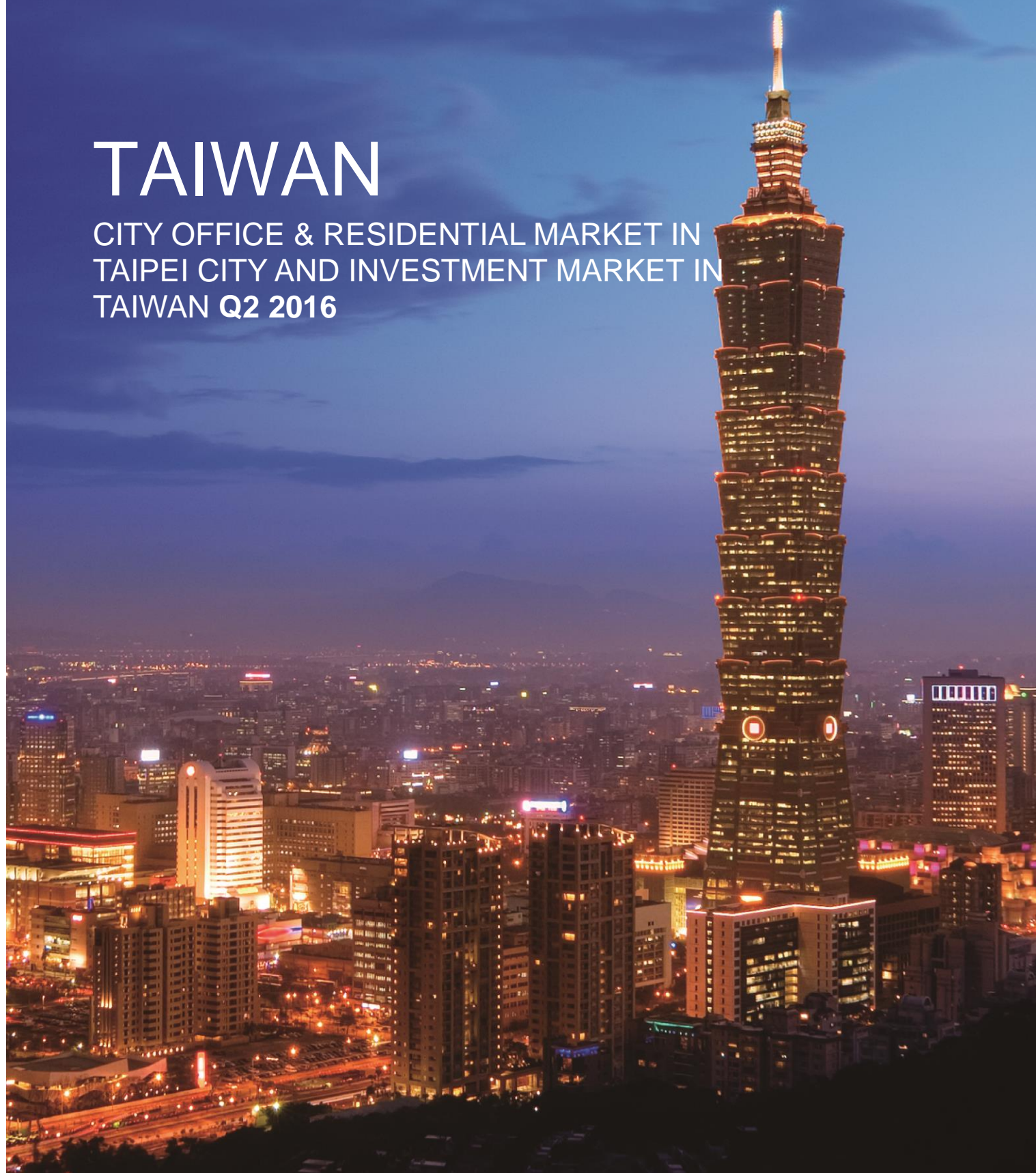


RESEARCH



TAIWAN

CITY OFFICE & RESIDENTIAL MARKET IN
TAIPEI CITY AND INVESTMENT MARKET IN
TAIWAN Q2 2016



COMMERCIAL
REAL ESTATE
INVESTMENT

OFFICE MARKET
IN TAIPEI CITY

NEIHU
TECHNOLOGY
PARK

RESIDENTIAL
MARKET IN
TAIPEI CITY

ECONOMY

KEY FINDINGS

Monitoring scores in Q2 2016 went up 3 points to 20, showing an economic upturn.

The Central Bank of Taiwan announced that the discount rate, the secured financing interest rate and the short-term interest rate were reduced by 0.125%, to 1.375%, 1.75% and 3.625% respectively.

The Directorate General of Budget, Accounting and Statistics of Executive Yuan estimated that the GDP growth in 2016 would be 1.06% (Table 3). National Development Council announced that domestic economy had an upturn in May 2016 (Table 2).

The United Kingdom decided to leave the European Union after the referendum on 23rd June, which caused GBP to drop dramatically by 10% in a short period.

The US economy slowed down, Eurozone expanded mildly, Japan economy started to grow, and emerging economies grew at a slower pace. Furthermore, China's economy structure transformation and slow growth affected the export in Asia and the growth of global trade.

Regarding the effect of Brexit on the

global economy, the Central Bank of Taiwan announced that the discount rate, the secured financing interest rate and the short-term interest rate were reduced by 0.125%, to 1.375%, 1.75% and 3.625% respectively, effective from 1st July 2016. The limited loan for luxury residential properties remained.

Sixty-seven Mainland investments in Taiwan were approved from January to May in 2016, up 15.52% quarter on quarter. Investment (increased investment) went up by 233.56% to US\$153 million. Since mainland investment in Taiwan was approved in 30th June 2007, 856 applications have been approved, totaling US\$1.6 billion.

ECONOMIC INDICATORS

TABLE 1
Monitoring Indicators

	2016Q2	2016Q1	2015Q4	2015Q3
Monitoring Scores	20 (May)	15 (Mar)	15 (Nov)	14 (Sep)
Remarks: Scores 9-16 – sluggish; 17-22 – transitional; 23-31 – stable; 32-37 – transitional; and 38-45 – booming				
Source: National Development Council				

TABLE 2
Latest Economic Indicators

Indicators	2016	2015	2014	2013
GDP Growth	1.06%	2.32%	3.74%	2.23%
Unemployment	3.84% (May)	3.78% (Dec)	3.79%	4.08%
Annual Change of CPI	1.24% (May)	0.14% (Dec)	0.60%	0.33%
Construction Permits Issued (m ²)	9.73 million (Jan-May)	32.6 million	38.63 million	39.76 million
Exchange Rate (US\$1=)	\$32.29 (6/30)	\$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 3
Regulations for Financial Institute of Residential Mortgage Loan and Land Mortgage

Item	Regulations
Mortgage loans for high-value housing	A. LTV ratio capped at 60% B. High-priced housing a. Taipei City: properties valued at NT\$70 million and above b. New Taipei City: properties valued at NT\$60 million and above c. Elsewhere in Taiwan: properties valued at NT\$40 million and above

Sources: Central Bank of Taiwan

KEY FINDINGS

The amount of major commercial real estate transactions in Q2 2016 was about US\$987.1 million.

The amount of major commercial real

COMMERCIAL REAL ESTATE INVESTMENT

estate investment in Q2 2016 was about US\$987 million, totaled US\$ 1.24 billion in the first half of the year.

Taiwan Life Insurance purchased Han Lai New World Center in Kaohsiung with a price of US\$511 million, which was the largest transaction of the quarter. Investors in life insurance industry still consistently look for and invest in good-quality properties in Taiwan.

In the office market, Yuanta Financial Holdings Building was sold for US\$ 93 million, which was the largest transaction of Grade-A office of the quarter.

Looking ahead, transactions of

self-occupied properties will still be the main trend in commercial real estate market. However, the Central Bank of Taiwan further reduced interest rates, which would drive down the minimum gross cap rate that insurers were allowed to purchase properties. Thus, threshold for insurers to acquire commercial properties were lowered, which would increase the possibility of investment in domestic properties.

Although real estate policies have been relaxed, with the effects of conservatism in the market and gloomy economy, it is expected that investors will adopt a wait-and-see attitude in 2016.

TABLE 4

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	-	0.29	1.33
Q4	-	2.40	0.67
Total	1.25	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 5

Major Commercial Real Estate Transactions

M	D	City	District	Subject Property	Buyer	Seller	Total Value (US\$ million)	Building Area (sqf)	Unit Value (US\$ psf)	Remark
4	26	Taipei	Nankang	Office	WPG Holdings	Chi-Tai Construction	202.85	311,597	Building 601	Presold
5	5	New Taipei	Hsinchu	Factory	Powertech	EPISTAR	19.20	136,722	Building 140	
5	30	Kaohsiung	Qianjin	Han Lai New World Center	Taiwan Life	Hanshin	510.99	1,695,183	Shopping mall 413 hotel 245	
5	31	Taichung	Fengyuan	Retail	Uni-President Property	Poya	7.96	24,298	Land 522	
6	7	New Taipei	Zhonghe	Office	Avalue	Cooperative Assets Management	10.53	48,323	Building 218	

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

Land Sales Transactions

TABLE 6

Major Land Sales Transactions

M	D	City	District	Section	Buyer	Seller	Total Value (US\$ million)	Land Area (sqf)	Unit Value (US\$ psf)	Zoning	Remarks
4	21	Kaohsiung	Qianjin	Donjin	Da-Li Development	Ministry of National Defense R.O.C	29.73	23,067	1,288	Commercial Type 4	
5	13	Kaohsiung	Renwu	Chengde	Individual	Cathay Life Insurance	33.08	149,013	222	Community Central Business District, Residential Type 3 & 4	
5	25	New Taipei	Sanchong	Dingkan	Ming-Zong Investment	Clevo Group	37.75	55,584	679	Category B Industrial(Re-development area)	
6	3	Taoyuan	Guanyin	Guangtang	Kerry TJ Logistics	Ling Lou Industry Co., Ltd.	11.46	181,034	63		
6	30	Taichung	Xitun	Hoan	Da-Li Development	Ancient Worship Property-Heheji	23.38	28,293	827		

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

KEY FINDINGS

Vacancy rate of Grade-A offices in Taipei City averaged 10.18%, representing a 0.9% decrease in a single quarter.

As of now, Xinyi District saw the best absorption among Grade-A offices in Taipei City.

OFFICE MARKET IN TAIPEI CITY

Leasing Market

In Q2 2016, Grade-A office rental averaged US\$27.16 psf per month, with a vacancy rate of 10.18%. Grade-A offices were well-absorbed, and the vacancy rate dropped by about 0.9%.

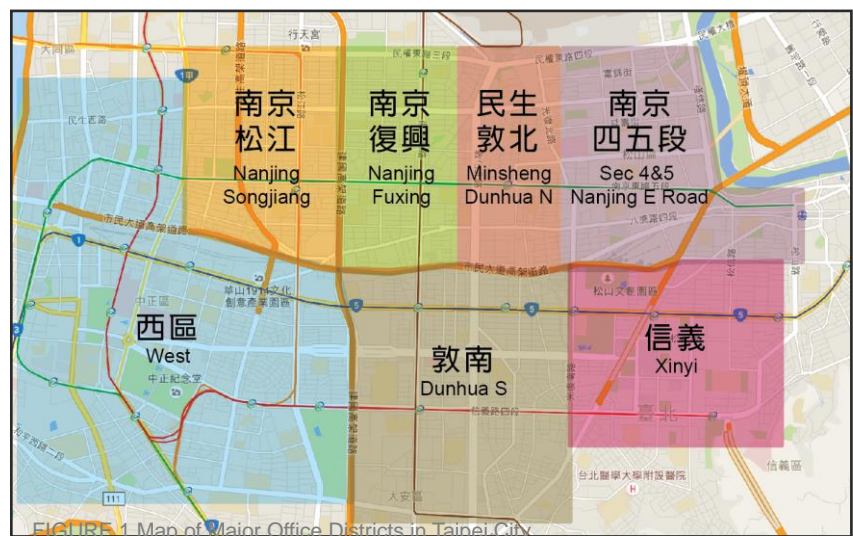
As of now, Xinyi District saw the best absorption among Grade-A offices in Taipei City. The vacancy rate declined to 12.22%, representing a 2.66% decrease in a single quarter. This year, Sony Taiwan relocated to Farglory Financial Center, Vieshow Cinema is also about to move its offices to CPC Corporation Building. In Q2, Microsoft Taiwan leased a 122K sf office at Cathay Landmark. Absorption of Grade-A offices in Xinyi District is expected to accelerate, and more tenants are expected to relocate to this district.

Overall vacancy rate of Grade-B offices was about 4.26% in Q2, and the vacancy increased slightly by 0.25%, which was a normal change resulted from tenants' relocation.

Investment Market

Major office transaction in Taipei City included:

June 30: Ta Chong Bank acquired partial floors and parking spaces of Yuanta Financial Holding Building for US\$91 million. The building area is about 77K pings, and the land area is about 13K pings.



Source: Research Dept, REPro Knight Fran

FIGURE 2
Office Rental Levels in Taipei City

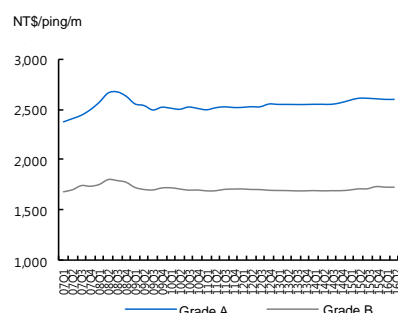
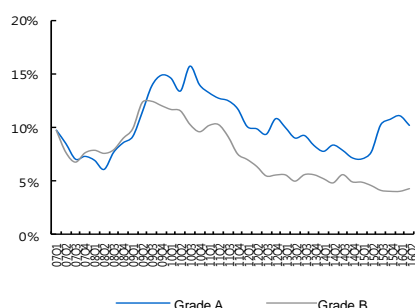


FIGURE 3
Office Vacancy Rates in Taipei City



RENTAL LEVELS IN TAIPEI CITY

TABLE 7
Office Rental Levels in Taipei City, Q2 2016

	Grade A	Grade B
Market Rental (US\$/sf/yr)	27.16	18.01
Net Effective Rental (US\$/sf/yr)	38.30	23.25
Asking Rental (US\$/sf/yr)	30.28	19.82
Vacancy Rate	10.18%	4.26%

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

TABLE 8
Rentals of Major Office Districts in Taipei City, Q2 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	20.03	25.86	0.00%	0.42%	8.75%	↘
Dunhua S	20.78	27.21	0.00%	-1.39%	3.92%	↘
Xinyi	27.12	37.66	0.00%	1.33%	5.97%	↘
West	18.71	24.85	0.17%	-0.17%	5.50%	↗
Nanjing-Songjiang	17.88	22.77	0.12%	1.66%	6.48%	↘
Nanjing-Fuxing	17.91	23.13	0.00%	1.90%	4.33%	↗
Sec 4&5, Nanjing E Road	14.86	19.19	0.00%	0.71%	4.27%	--
Weighted Average	20.98	27.48	0.05%	0.65%	6.66%	↘

Source: Research Dept, REPro Knight Frank

TABLE 9
Office Leasing Transactions in Taipei City

District	Building	Tenant	Area Leased (sf)
Xinyi	Walsin Lihua	Forever Biotech	1,921
Xinyi	Cathay Landmark	Microsoft Taiwan	121,897
Xinyi	Taipei New Horizon	Hearst Magazines Taiwan	18,857

Source: Research Dept, REPro Knight Frank

KEY FINDINGS

Market rental in Neihu Industrial Park remained unchanged at US\$11.77 psf per month. Vacancy rate averaged 4.04%, up 0.06% quarter on quarter.

Although hi-tech companies are the main tenants in Neihu Technology Park and Phase V, non-hi-tech companies have started to relocate there. Thus, vacancy rate is expected to decline in the future.

NEIHU TECHNOLOGY PARK

Leasing Market

Market rental in Neihu Technology Park remained unchanged at US\$11.77 psf per month. Vacancy rate averaged 4.04%, up 0.06% quarter on quarter, which was a normal change resulted from tenants' relocation.

In Q2, Xihu Section continued to be absorbed. BenQ HQ Building, NASA Technology Building and Tokyo HQ have each rented out about 18K sf of space. Vacancy rate in Xihu Section slipped by about 0.11% to 1.56%. Large vacant units in this section are rare.

Neihu Technology Park is near CBD Taipei, and it is not only served by the MRT, but also in close proximity to Songshan Airport. The rental levels are comparable to Grade B and C offices in Taipei City. Because of these, many companies were attracted to Neihu. Although hi-tech companies are the main tenants in Neihu Technology Park and Phase V, non-hi-tech

companies have started to relocate there. Thus, vacancy rate is expected to decline in the future.

Investment Market

Major industrial office transactions in Q2 included:

April 25: An individual acquired partial floors and parking spaces of Block A of Tokyo HQ for US\$6.7 million. The building area is about 22K sf, and the office unit price averaged US\$374 psf.

May 6: Sung Gang Asset Management acquired partial floors and parking spaces of Guojia Corporate Park for US\$3.8 million. The building area is about 8K sf, and the office unit price averaged US\$557 psf. This is a related-party transaction.



FIGURE 4 Map of Neihu Technology Park and Dawan S Sec

RENTAL LEVELS IN NEIHU TECHNOLOGY PARK

TABLE 10

Rentals of Industrial Offices in Neihu Technology Park, Q2 2016

Section	Market Rental (US\$/sf/yr)	Net Effective Rental (US\$/sf/yr)	Vacancy Rate (%)	Change in Vacancy Rate (QoQ)
Xihu	12.94	19.80	1.56%	-0.11%
Wende	10.74	16.24	6.76%	0.44%
Jiuzong	9.11	14.69	8.65%	0.00%
Weighted Average	11.77	18.26	4.04%	0.06%

Source: Research Dept, REPro Knight Frank

TABLE 11

Leasing Transactions of Industrial Offices in Neihu Technology Park, Q2 2016

Section	Building	Tenant	Area Leased (sf)
Xihu	BenQ HQ Building	Innova Solutions Taiwan	18,608
Xihu	NASA Technology Building	UTi-Taiwan	16,331
Xihu	Tokyo HQ	Realsoft Infotech	15,940

Source: Research Dept, REPro Knight Frank

KEY FINDINGS

Transaction volume in six major cities saw notable increase when compared quarter on quarter.

With increased taxes, conservative future economy and limited new supply, housing prices will continue to decline. Although capital conditions are relaxed, prices are unlikely to go up. Short-term price decline in general housing is also unlikely.

RESIDENTIAL MARKET IN TAIPEI CITY

In 2015, presidential election in Taiwan, expected interest hike in the US and the expected impacts of the implementation of the Integrated Housing and Land Tax effective January 1, 2016 triggered a surge in sales transaction in Q4 2015 so investors could save taxes. When compared quarter on quarter, Q1 2016 saw transaction volume drop by 54%. In Q2 2016, however, the market turned the corner. The Central Bank of Taiwan lowered the interest rate, and relaxed the mortgage restrictions. Rather than emphasizing curbing measures, the new administration kept social housing at the center of its policy. These have eased the market crises and boost transaction.

Transaction volume in six major cities saw notable increase when compared quarter on quarter. Taipei City, the hardest-hit by the cooling measures, was able to see 30% increase in transaction. 55 Timeless, a project by the Continental Engineering Corp in Xinyi District, was the first new supply in this district in three years. In Da'an District, two projects are now being marketed after completion of construction. These showed that high-end buyers and self-occupiers have increasing willingness to buy. However, when compared year on year, the buying sentiment remained weak. Only Taoyuan City was able to see increase in transaction and Kaohsiung City was less impacted, amid low buying sentiment in four other cities.

The Central Bank continued to lower the interest rate. The favorable mortgage rate for first-time home buyer is now lower than 1.5%. With relaxed mortgage restrictions and abundant hot money on the market, in the short term, potential buyers are less willing to buy. Home owners only face mild pressure in de-leveraging and price-lowering in order to sell. Thus, housing prices did not continue to hit rock bottom. Transaction prices of mid-priced residential units in Taipei City declined from US\$518

psf to US\$510 psf, down 1.5% quarter on quarter, and 7.1% year on year. Prices did not continue to decrease, but liquidity has become an issue. The market is now in slight decline.

Looking ahead, Tainan City will be the first to raise gradually the housing standard unit prices (which are housing tax bases) over the course of years. Taipei City proposed to raise the housing standard unit prices, which would take effect retroactively to include houses registered 30 years ago. Both of these fueled the issue of a raise in housing tax. In Taipei City, 1,433 construction permits were issued in the first half of this year, down 56.7% comparing with the second half of last year, and down 53.7% year on year.

According to the new Housing Tax announced in 2015, new standard unit prices are applicable to houses that gained use permits after July 2014. As a result, use permits issued slumped by 30.8% quarter on quarter in Q1 2016. In Taipei City, the number hit the record low in Q2 2016 – only 3,000 applications were estimated for the entire year, which would be half of two years ago, and far from the record high of 1.5K in 2005. The construction market was now in the trough. Luxury residential market was the hardest hit, and thus there will be major revisions in prices and volume.

With increased taxes, conservative future economy and limited new supply, housing prices will continue to decline. Although capital conditions are relaxed, prices are unlikely to go up. Short-term price decline in general housing is also unlikely.

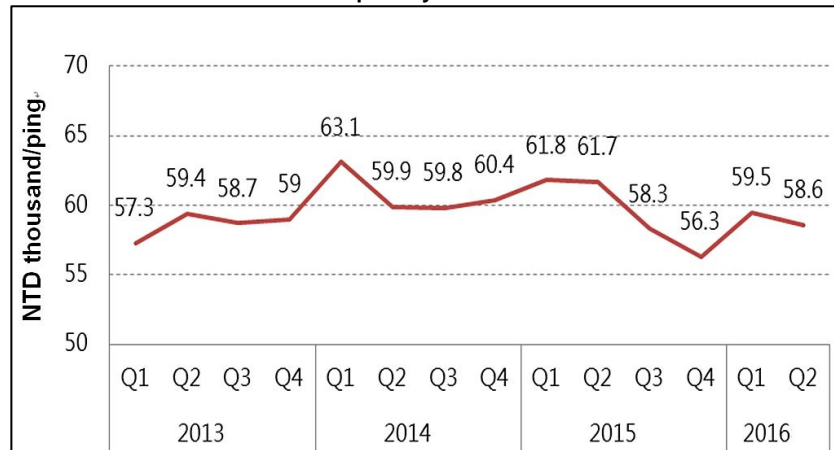
TABLE 12
Number of Buildings Transferred in Six Major Cities

City	2016Q2	2106Q1	QoQ	2015Q2	YoY
Taipei City	5,220	3,978	31.2%	6,583	-20.7%
New Taipei City	10,681	7,109	50.2%	12,497	-14.5%
Taoyuan City	12,054	6,106	97.4%	9,394	28.3%
Taichung City	8,708	6,281	38.6%	10,521	-17.2%
Tainan City	4,259	3,148	35.3%	4,850	-12.2%
Kaohsiung City	8,486	5,713	48.5%	8,657	-2.0%
Total	49,408	32,335	52.8%	52,502	-5.9%

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

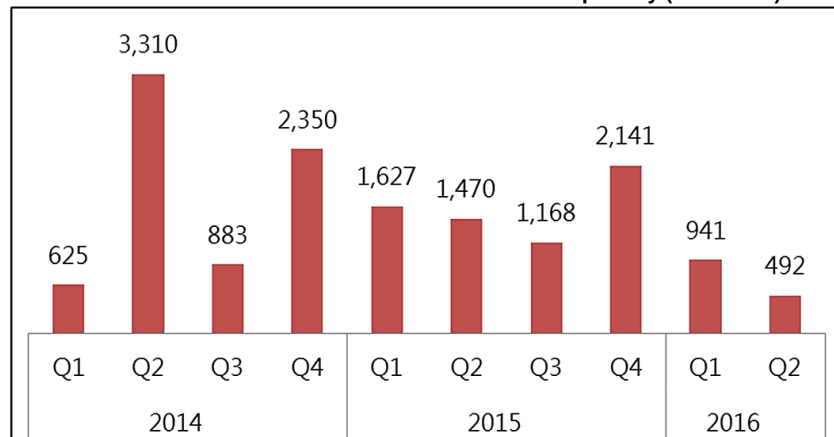
RESIDENTIAL MARKET IN TAIPEI CITY

FIGURE 5 Residential Prices in Taipei City



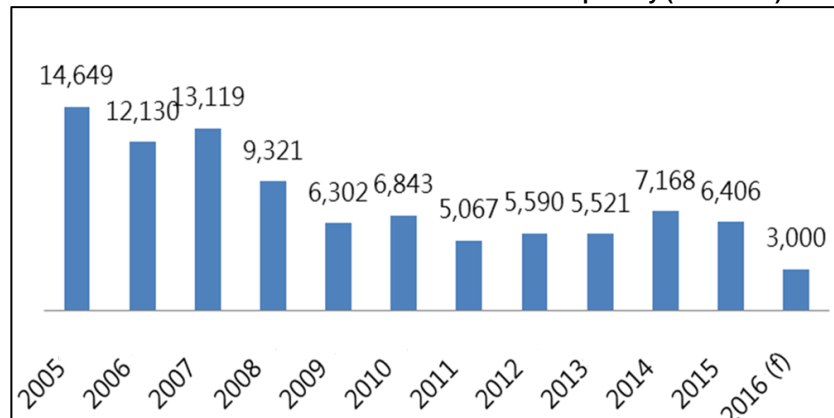
Source: Real Estate Actual Price Website, Ministry of the Interior; compiled by Research Dept., REPro Knight Frank

FIGURE 6 Residential Construction Permits Issued in Taipei City (2014-2016)



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

FIGURE 7 Residential Construction Permits Issued in Taipei City (2005-2016)



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



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