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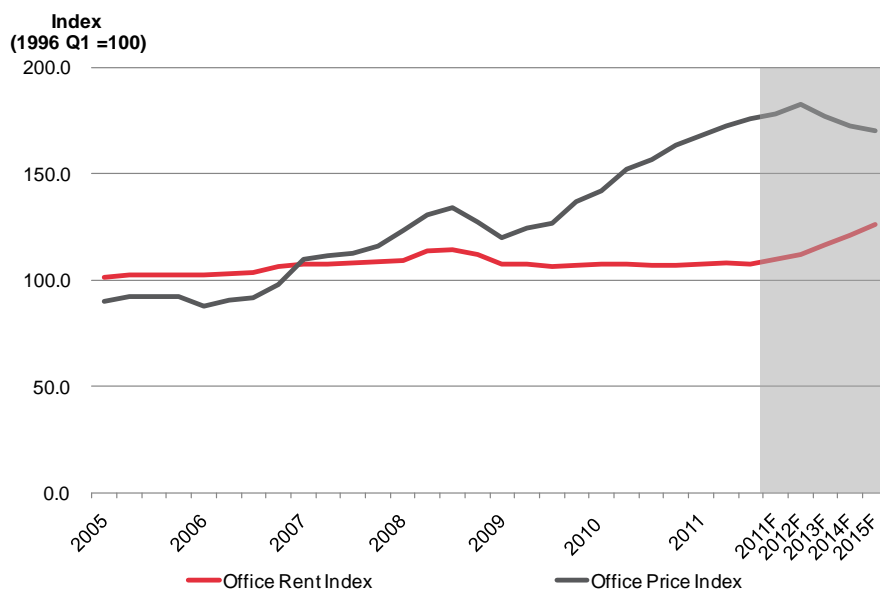
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- Due to lower quality and management, Dunbei/Minsheng and Dunnan District were under the pressure of increasing vacancies since their tenants tended to relocate to new high-quality offices in Xinyi District.
- Benefited by increasing Chinese and international visitors, more global brands entered to the Taiwan market. Moreover, department stores and shopping malls geared to refit, leading boutiques moving to the Xingyi and Zhongxiao retail areas, whilst trendy brands moving to Taipei Railway Station and Ximen retail area, respectively.
- In Q3, both the number of major investment deals and total consideration amount increased. In total, 24 major deals were recorded, whilst total consideration soared sharply to reach NT\$52.087bn (US\$1,815mn), the highest level since 2008. During Q1 to Q3, the total consideration amount totaled at NT\$94.7bn (US\$3.3bn). In particular, most deals were in the commercial sectors.

Figure 1

#### DTZ office index (2005 – 2015F)



Source: DTZ Research

# Economic overview

- In Q2 2011, Taiwan's GDP grew 5.02% year-on-year (y-o-y) to reach NT\$3,634bn (US\$124.6bn) (Table 1). The DGBAS of Executive Yuan has adjusted its annual GDP growth rate forecast from 5.06% to 4.81% in 2011, due to the European debt crisis and decreasing investment demand.
- Aggregate export value in August 2011 increased 7.2% y-o-y, to reach NT\$740,173m (US\$25,790m), but fell 8.30% month-on-month (m-o-m), due to uncertain investment environments around the world. The growth was mainly driven by electronic and telecom products, metal products and rubber products. Meanwhile, aggregate import value surged 6.4% y-o-y in August (Table 1).
- The unemployment rate fell 0.72 percentage points y-o-y to 4.45%, as of August 2011, due to the rise in first-time and seasonal jobseekers (Table 1).
- Caused by the growing prices of raw materials, Taiwan's CPI increased 1.43 y-o-y to reach 107.08 in August 2011 (Table 1).
- The total amount of mortgage loans in July 2011 rose 4.71% y-o-y to reach NT\$5,230bn, while the total amount of construction loan rose 16.65% y-o-y to reach NT\$1,344bn.
- After the Economic Co-operation Framework Agreement (ECFA) was signed between Taiwan and Mainland China last year, Taiwan and Japan signed the "Arrangement between the Association of East Asian Relations and Interchange Association for mutual co-operation on the Liberalization, Promotion and Protection of Investment" in September 2011. It concludes three main principles: investment liberalization, investment promotion, and investment protection. The current political and economical relationship will encourage their industrial and trade co-operation. Also, the agreement will significantly enhance Taiwan's economic and trade position in Asia.
- After the implementation of Luxury Tax, most residential investors became more conservative, whilst potential buyers remained a wait-and-see attitude. Compared to June 2011, the number of transactions fell 23.35% and 13.23% in August, in Taipei City and New Taipei City, respectively. Generally, the residential real estate market appeared to be of small volume and the same prices.

Table 1

<b>Economic indicators</b>				
<b>Indicator</b>	<b>Period</b>	<b>Unit</b>	<b>Value</b>	<b>y-o-y change (%)</b>
GDP	Q2 2011	NT\$ million	3,634,862	5.02
Gross fixed capital formation	Q2 2011	NT\$ million	727,740	2.65
Total import value	August 2011	NT\$ million	664,692	6.40
Total export value	August 2011	NT\$ million	740,173	7.20
Unemployment rate	August 2011	%	4.45	-0.72 pts
Consumer price index	August 2011	--	107.08	1.43

Source: DGBAS of Executive Yuan

- This quarter, the performance of Taipei office market seemed district-specific. Rents of Nanjing/Songjiang district increased 1.6% q-o-q, whilst rents of Dunnan District dropped 1.3% q-o-q. On the other hand, in other districts remained stable. Thus, the average citywide rent remained at NT\$2,330(US\$81.2) per ping per month (Table 2).
- In Q3, the availability ratio of Western and Xinyi districts fell 3.5 percentage points and 1.5 percentage points q-o-q, respectively. Meanwhile, the overall citywide availability ratio fell 1.2 percentage points to 10.7% (Table 2).
- Net absorption picked up in Q3, reaching about 6,700 pings, the highest record since Q3 2008. This reflects the gradual growth in occupier demand (Figure 3).
- Due to lower quality and management, Dunbei/Minsheng and Dunnan District were under the pressure of increasing vacancies since their tenants tended to relocate to new high-quality offices in Xinyi District.
- In order to encourage occupancy, some grade A offices in Dunbei/Minsheng district offered flexible rent incentives for high-quality tenants. This may led to a decline in rents towards the end of the year.

## Recent transactions

- MediaPalette leased 640 pings of floor space in Exchange Square No. 2.
- Invesco leased 632 pings of floor space in Walsin Xinyi Building.
- Kaida Bio-tech leased 178 pings of floor space in Metropolitan International Centre.
- Oeya Digital Technology leased 176 pings of floors pace in Metropolitan International Centre.
- Stryker leased 135 pings of floor space in Metropolitan International Centre.
- ZARA leased 170 pings of floor space in Taipei Financial Centre.
- Bank of East Asia leased 157 pings of floor space in Taipei Financial Centre.

Table 2

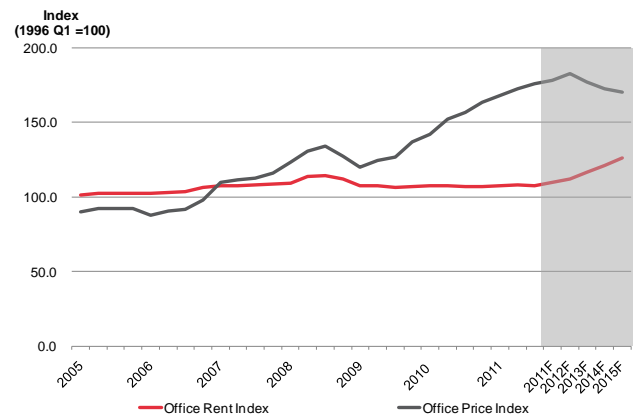
### Grade A office market statistics

District	Availability ratio (%)	Rent (NT\$/ping/month)	Rent change q-o-q (%)
Western	2.2	2,180	0.0
Nanjing / Songjiang	3.5	1,940	1.6
Dunbei / Minsheng	11.8	2,320	-0.4
Dunnan	6.8	2,360	-1.3
Xinyi	13.7	2,830	-0.7
<b>Overall</b>	<b>10.7</b>	<b>2,330</b>	<b>0.0</b>

Source: DTZ Research

Figure 2

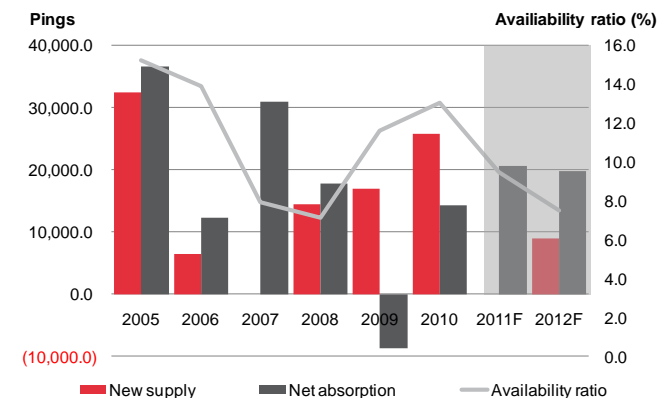
### DTZ office index (2005 – 2015F)



Source: DTZ Research

Figure 3

### Supply, net-absorption and availability ratio (2005 - 2012F)



Note: 1 ping = 35.58 sq ft = 3.3 sq m

Source: DTZ Research

- Yearly retail sales to August reached NT\$6,30.78bn (US\$21.98bn), posting a y-o-y increase of 6.39%(Figure 4). Sales in department stores showed the biggest increase of 8.53% y-o-y, followed by supermarkets of 7.73% and hypermarkets of 6.35%, representing a continuous increase in consumption expenditure.
- Occupancy rates of most major retail districts rose, except the Zhongshan/Nanjing retail area. Among all, Ximen and Zhongxiao retained a low availability ratio due to great demand (Table 3).
- Benefited by increasing Chinese and international visitors, more global brands entered to the Taiwan market. Moreover, department stores and shopping malls geared to refit, leading boutiques moving to the Xingyi and Zhongxiao retail areas, whilst trendy brands moving to Taipei Railway Station and Ximen retail area, respectively.

## Recent transactions

- Uniqlo, opened its flagship store in Ming Yao Department Store on 23 September. There will be another five branches, launching to Shin Kong Mitsukoshi Taipei Nanxi store, Pacific SOGO Department Store Tienmu store, Breeze Centre, Taipei Railway Station retail area, and Miramar Mall in next three months.
- The Eslite Book store refitted its Wuhan store, with several trendy brands, such as SQUAD, Dickies, Creative Recreation, adlib, Little Room, with sole agency.
- Everpro Insurance Brokers Co. sold B1~B3 of K Mall to Taiwan Tea Corporation with a floor area of 3,741 pings for NT\$5,124mn, and promising a 20-year lease back-commitment by NT\$358mn annual rents, representing a yield rate of 6.98%.
- ATT Group spent NT\$1.25bn (US\$43m) to remodel its new entertainment mall, ATT 4 FUN, with the net floor area of 10,000 pings, and it was opened on 1 October.
- Test Rite Retail Co. sold Neihu Test Rite Building to CPI Asia T-Mart Limited for NT\$5.5bn(US\$0.19bn) in 2007. The board chairman of Test Rite Retail Co. nominated the conglomerate Caiwang Xingye Co. to repurchase this building for 8.0bn(US\$0.28bn) in September 2011.

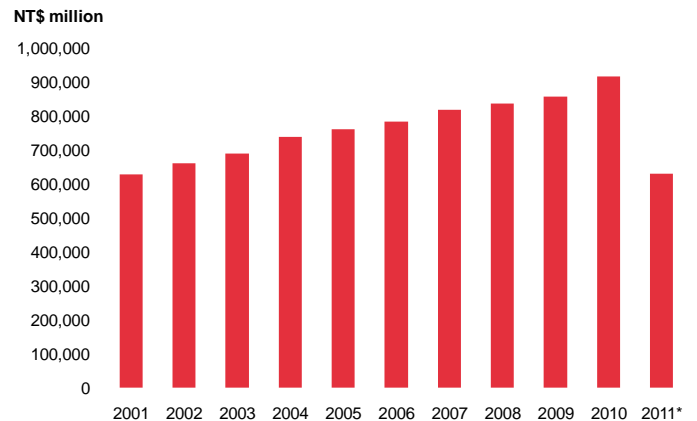
Table 3

Retail market statistics		
	Availability ratio (%)	Rental range (NT\$/ping/month)
Zhongxiao	2.8	16,000 - 26,000
Taipei Railway Station	9.3	10,000 – 17,000
Zhongshan/ Nanjing	2.3	7,500 - 11,000
Ximen	1.1	9,000 – 16,000
Tienmu	6.7	3,000 - 4,700

Note: Only street front shops are being taken into account. All data is based on gross floor area unless otherwise specified. Rent exclusive of management fees and other outgoings. 1 ping = 35.58 sq ft = 3.3 sq m  
Source: DTZ Research.

Figure 4

## Sales of general merchandise (2001 – 2011\*)



\* Data as of May 2011

Source: Department of Statistics, Ministry of Economic Affairs.

Table 4

## Major new supply in Q3

District	Project name	GFA (ping)
Xinyi	ATT 4 FUN	10,000

Source: DTZ Research

Table 5

## Major new projects in the pipeline

District	Project name	GFA (ping)	Expected completion date
Daan	Leeco Copor Qiaoyi Bldg.	650	Q4 2011
Banqiao	Far Eastern Nakamoto Shopping Centre	39,800	Q4 2011

Source: DTZ Research

- The rents of industrial properties saw no significant change in Q3. The average per ping monthly rents stood at NT\$1,160(US\$40.4) for Xihu Section, NT\$990(US\$34.5) for Wende Section and NT\$900 (US\$31.4) for Jiuzong Section (Table 6 and Figure 5). The vacancy rate in Xihu Section, Wende Section and Jiuzong Section declined continuously to 5.6%, 18.2%, and 17.2% respectively.
- Due to the Luxury Tax implementation and high sales prices in NHTP, most investors adopted a wait-and-see attitude. Transactions were mainly for self-occupied use. Average transaction prices remained stable this quarter (Figure 6).
- Due to the uncertain market environment, the European debt crisis, and the implementation of the Luxury Tax, there was only one major deal recorded in NHTP this quarter. Chong Hong Construction purchased a 926- ping land on Zhouzi street through foreclosure. The total amount was about NT\$2.18 bn (US\$75.95mn), 68% higher than its upset price.
- Looking forward to the end of the year, we expect rents in NHTP will remain stable due to external uncertainties.

## Recent transactions

- Cheong Kwan Jang Taiwan leased around 180 pings in Twinhead Bldg.
- Fugleman Entertainment leased around 440 pings in Tokyo Enterprise Headquarters

Table 6

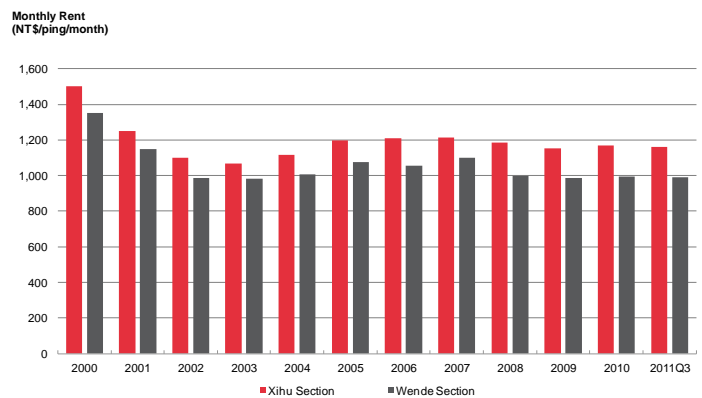
### NHTP industrial market statistics

	Availability ratio (%)	Rent (NT\$/ping/month)	Rent q-o-q change (%)
Xihu Section	5.6	1,160	-0.4
Wende Section	18.2	990	-0.3
Jiuzong Section	17.2	900	0.8

Source: DTZ Research

Figure 5

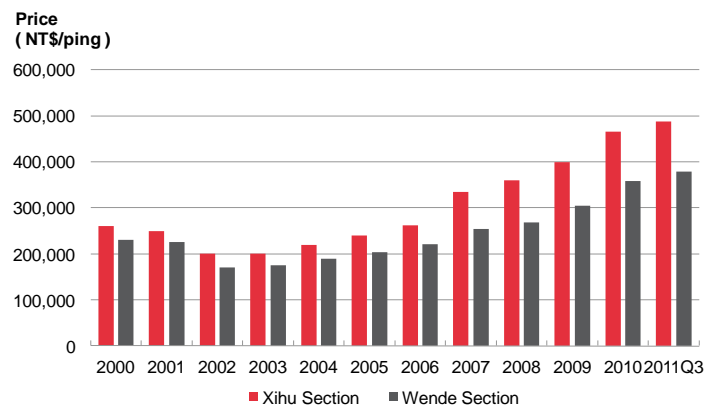
### NHTP industrial office rental (2000 – Q3 2011)



Source: DTZ Research

Figure 6

### NHTP industrial office price (2000 – Q3 2011)



Source: DTZ Research

# Key statistics

Table 7

<b>Occupier market</b>								
	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	q-o-q change (%)	y-o-y change (%)	Directional outlook
<b>Office - Xinyi</b>								
Net absorption* (GFA, ping)	4,019	10,203	3,823	5,623	9,126	-	-	
Availability ratio (%)	16.0	17.3	15.8	15.2	13.7	-150bps	-230bps	▼
New supply* (GFA, ping)	6,530	17,650	0	0	0	-	-	
Prime rents (NT\$/ping/month)	2,788	2,825	2,836	2,846	2,829	-0.6	1.5	▲
<b>I/O Building - Xihu</b>								
Net absorption* (GFA, ping)	29,365	35,806	16,810	17,324	18,820	-	-	
Availability ratio (%)	9.4	8.6	6.0	5.9	5.6	-30bps	-380bps	▼
New supply* (GFA, ping)	1,762	4,773	3,884	3,884	3,884	-	-	
Prime rents (NT\$/ping/month)	1,160	1,171	1,167	1,165	1,160	-0.4	0.0	—

\* Please note that net absorption and new supply are cumulative (i.e. the total net absorption and new supply for the entire calendar year).  
Source: DTZ Research

Table 8

<b>Leasing transactions</b>				
Building Name/Address	Submarket	Size (ping)	Tenant	Sector
Exchange Square No. 2	Xinyi	640	MediaPalette	Office
Walsin Xinyi Building	Xinyi	632	Invesco	Office
Metropolitan International Centre	Western	178	Kaida Bio-tech	Office
Metropolitan International Centre	Western	176	Oeya Digital Technology	Office
Metropolitan International Centre	Western	135	Stryker	Office
Taipei Financial Centre	Dunbei / Minsheng	170	ZARA	Office
Taipei Financial Centre	Dunbei / Minsheng	157	Bank of East Asia	Office
Twinhead Bldg.	Xihu	180	Cheong Kwan Jang Taiwan	I/O Building
Tokyo Enterprise Headquarters	Xihu	440	Fugleman Entertainment	I/O Building

Source: DTZ Research

# Investment

- In Q3, both the number of major investment deals and total consideration amount increased. In total, 28 major deals were recorded, whilst total consideration soared sharply to reach NT\$55.1 bn (US\$1,919mn), the highest level since 2008. During Q1 to Q3, the total consideration amount totaled at NT\$97.65bn (US\$3.4bn). In particular, most deals were in the commercial sectors.
- In Q3, most major office deals were located in the Dunaan District. Cathay Life Insurance publicly tendered Cathay Dunaan Comm. Bldg and Shin Kong Life Dunaan Bldg for NT\$8,567mn (US\$299mn) and NT\$9,600mn (US\$334mn) respectively, or unit rates of NT\$0.91mn (US\$31.7thou) and NT\$1.318mn (US\$45.9thou) per ping. Tinghe Development tendered CBF Headquarter Bldg for NT\$4,628mn (US\$161mn). This reflects that large investors still interested in high-quality office buildings at good location.
- Test Rite Building in Neihu, with 15,322 pings, was transacted at NT\$8bn (US\$279mn), the highest recorded of the Neihu Technology Park (NHTP) in recent years.
- After Lung Yen's acquisition of retail space on 3~4F of Asia Plaza Bldg and TransGlobe Life Insurance's acquisition of retail space on B1~1F of Shoude Bldg last quarter, Taiwan Tea Corporation purchased the 3,741-ping retail space on B1~B3 of Asia Plaza Bldg for NT\$5,124mn (US\$179mn). This reflects investors' positive attitude towards the potential of Taipei Railway Station retail area.
- Due to the limited supply of large-scale land in prime areas, foreclosure became a source of acquisition for developers. This quarter, a 926-ping lot zoned Technology Industrial Zone on Zhouzi Street of NHTP was foreclosed for NT\$2.36mn(US\$822,000) per ping. Also, a 244-ping lot zoned Type 3 and 3-1 residential zone located on Renai Road was foreclosed at NT\$8.26mn (US\$288thou) per ping.

Table 9

Total number of major deals			
	Q3 2010	Q2 2011	Q3 2011
Office	4	8	9
Retail	5	6	5
I/O office	3	4	1
Industrial	3	4	12
Hotel	2	1	1
Others	0	0	0
<b>Total</b>	<b>17</b>	<b>23</b>	<b>28</b>

Source: DTZ Research

Table 10

Total consideration of major deals (NT\$m)			
	Q3 2010	Q2 2011	Q3 2011
Office	6,216	7,861	28,007
Retail	12,034	9,392	16,539
I/O office	3,096	4,883	2,900
Industrial	649	1,972	6,909
Hotel	1,200	478	710
Others	0	0	0
<b>Total</b>	<b>23,191</b>	<b>24,586</b>	<b>55,065</b>

Source: DTZ Research

Table 11

## Significant deals

Property	Sector	Purchaser	Location	Price (NT\$m)
Cathay Dunaan Commercial Building	Office	Cathay Life Insurance	Daan District, Taipei City	8,567
Shin Kong Life Dunaan Building	Office	Cathay Life Insurance	Daan District, Taipei City	9,600
CBF Headquarter Building	Office	Tinghe Development	Daan District, Taipei City	4,628
F. C. Building	Office	Fubon Life Insurance	Daan District, Taipei City	1,458
Test Rite Building	Retail	Caiwang	Neihu District, Taipei City	8,000
Asia Plaza Building	Retail	Taiwan Tea Corporation	Zhongzhen District, Taipei City	5,124

Source: DTZ Research

# Definitions

## Availability

Total floorspace in properties marketed as available to let, whether physically vacant or occupied, and ready for occupation immediately.

## Availability Ratio

Total space currently available as a percentage of the total stock of floorspace.

## Development Pipeline

Comprises two elements:

1. Floorspace in course of development, defined as buildings being constructed or comprehensively refurbished to grade A standard.
2. Schemes with the potential to be built in the future, through having secured planning permission/development certification.

## Net Absorption

The change in the total of occupied floorspace over a specified period of time, either positive or negative.

## New Supply

Total marketed grade A floorspace which is ready for occupation now. Ready for occupation means practical completion, where either the building has been issued with an occupancy permit, where required, or where only fit-out is lacking.

## Prelet

A development leased or sold prior to completion.

## Prime Rent

The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant.

(NB. This is a net rent, excluding service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market.)

## Rent

Gross transacted rental (unless otherwise specified), which excludes management fees and other outgoings.

## Prime Yield

The best (i.e. lowest) yield which could be expected for a typical building/unit of the highest quality and specification in the best location leased to a tenant with a good (i.e. secure) covenant.

(NB. This is a net yield, which uses net income, after deducting all non-recoverable expenditure, divided by the purchase cost, excluding transaction costs and taxes.)

## Market Yield

Annual transacted rent as a percentage of the capital value of the property

## Stock

Total accommodation in the commercial and public sectors both occupied and vacant.

## Take-up

Floorspace acquired for occupation, including the following:

- (i) offices let/sold to an eventual occupier;
- (ii) developments pre-let/sold to an occupier;
- (iii) owner occupier purchase of a freehold or long leasehold.

(NB. This includes subleases but excludes lease renewals.)

## Vacancy

Floorspace that is empty – i.e. not occupied. It may be being marketed, or it may not (whether because a lessee is not occupying, it is being refurbished, or it is deliberately being left empty by the landlord).

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