

Investment opportunity in Taiwan CRE market

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In H1 2018, the transaction value of commercial real estate (CRE) in Taiwan increased to NTD39.0 billion (USD1,279 million). Nevertheless, the traditionally active finance and insurance industries bought relatively few properties owing to government intervention and their desire for higher returns. We recommend buyers keep an eye on properties in Jiuzong section and Tanmei section in Neihu district due to the benefit brought by the planned MRT East Ring Line.

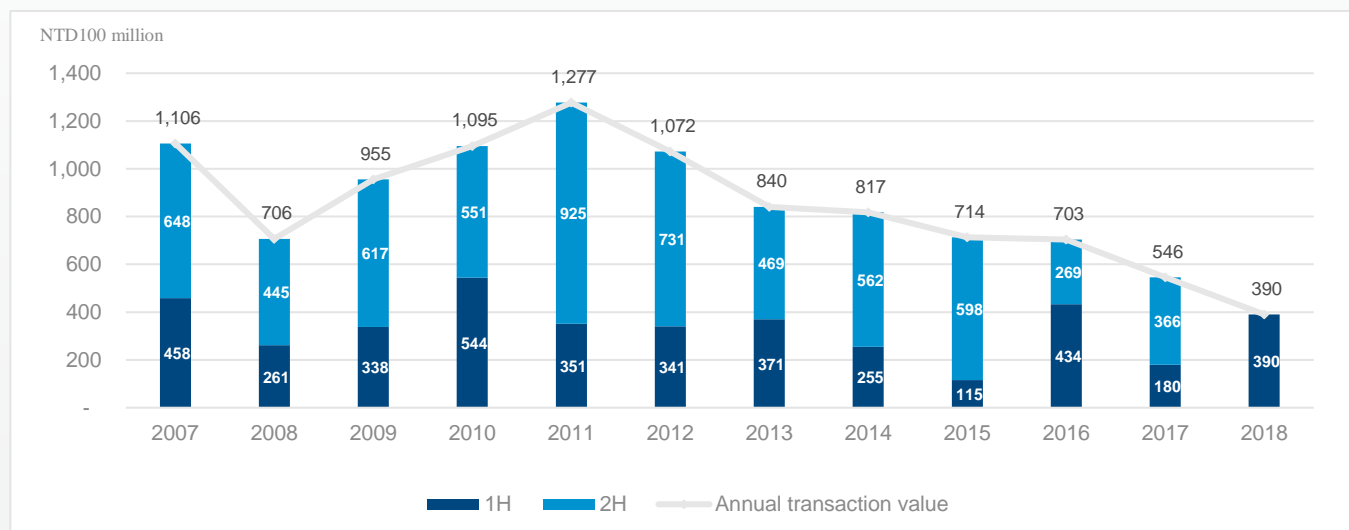
Transaction value of CRE increased due to owner-occupier purchases

In 2017, the transaction value of CRE reached NTD54.6 billion (USD1,790 million) based on our statistics, the lowest level in the past ten years. In H1 2018, the transaction value of CRE increased 117% YoY and 7% HoH to NTD39 billion (USD1,279 million).

Owner-occupiers were active in acquiring industrial offices, underpinning the transaction value of the CRE market in recent years. The largest transaction in H1 2018 was a consortium of four companies including Formosa Plastics Co., Nan Ya Plastics Co., the Formosa Chemicals and Firbe Co. and the Formosa Petrochemical Co., spending NTD18.7 billion (USD613 million) to acquire 30,731 ping (101,412 sq m) at the T CBD building. This was the largest industrial office transaction in Taiwanese history.

In H1 2018, CRE investment from the manufacturing industry amounted to NTD26.8 billion (USD78 million) while the proportion of that invested in industrial offices was NTD29.9 billion (USD980 million), due in large part to the T CBD building transaction.

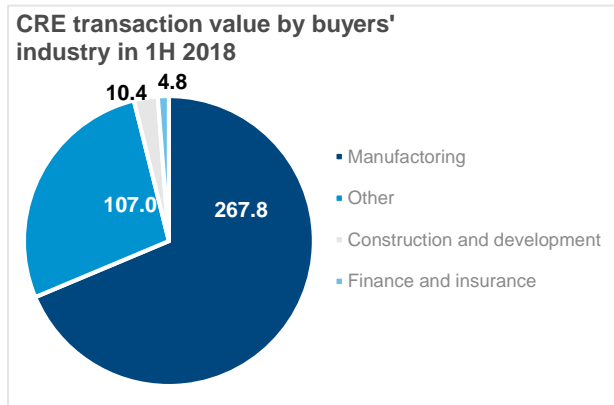
Figure 1: Historical transaction value of Taiwan commercial real estate



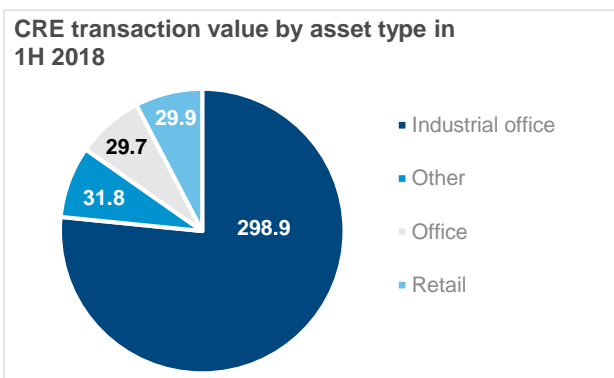
Source: Colliers



It is worth mentioning that O Bank REIT No. 1 successfully completed the first REIT initial public offering in the past ten years in 1H 2018 and bought Focus Square in Tainan for NTD1.8 billion (USD58 million) and Panhsin Bank Tower in New Taipei City for NTD1.2 billion (USD39 million).



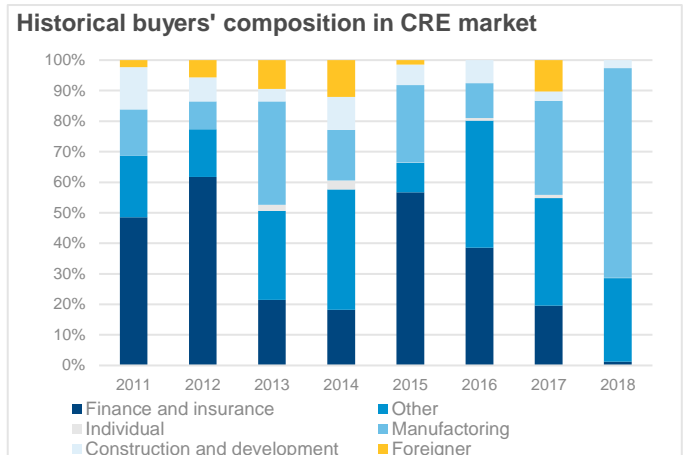
Source: Colliers



Source: Colliers

The finance and insurance industry are cautious on CRE investment

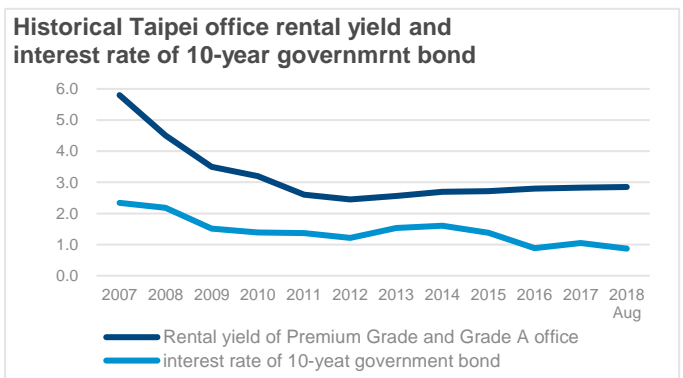
Within the finance and insurance sector, only the Cathay Life Insurance Co. spent NTD480 million (USD15.7 million) for one street shop in Keelung City in H1 2018. This will be owner occupied. As a result, the transaction value of the finance and insurance sector accounted for merely 1.2% of the total transaction value, much lower than in the past when this sector accounted for at least 18% of transaction value.



Source: Colliers

Reasons why the finance and insurance industry are currently cautious regarding CRE investment include:

- > The government is encouraging insurance companies to invest more funds in the stock market;
- > Insurance companies investing in property are still regulated by the FSC Eight Rules cooling measures;
- > CRE rental yields are currently at the lowest level in history. With the US Federal Reserve raising interest rates and the Taiwan Central Bank likely doing the same in 2018, insurance companies lift their required rate of return in investing CRE.

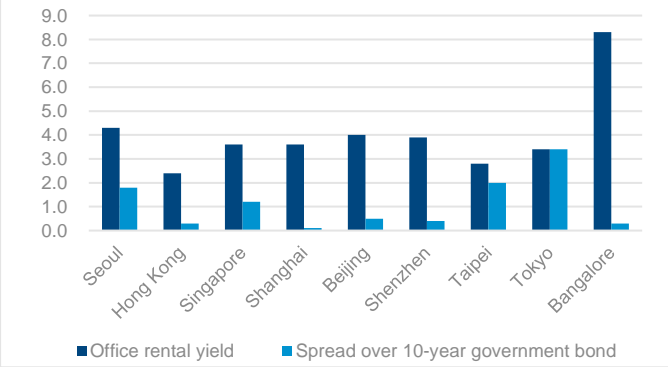


Source: Central Bank and Colliers

As a result, although the spread between Taipei office rental yields and 10-year government bond yields ranks in the top three among major Asian cities, insurance companies are not currently investing heavily in CRE.



Office rental yield and its spread over 10-year government bond in major Asian cities



Note: Except Taipei, office rental yield means NOI yield
 Source: Colliers and Bloomberg

Taiwan's GDP growth may be adversely affected by the trade dispute between the US and China, which may deter the Taiwan Central Bank from raising interest rates by the end of 2018. This sentiment has also pushed the 10-year government bond yield below 0.9%, the lowest value since October 2016. On the other hand, the central bank may be pressured to raise interest rates in H2 2018 if inflation rises above 2% due to a weak Taiwan dollar and high oil prices. Higher interest rates make CRE investment less attractive.

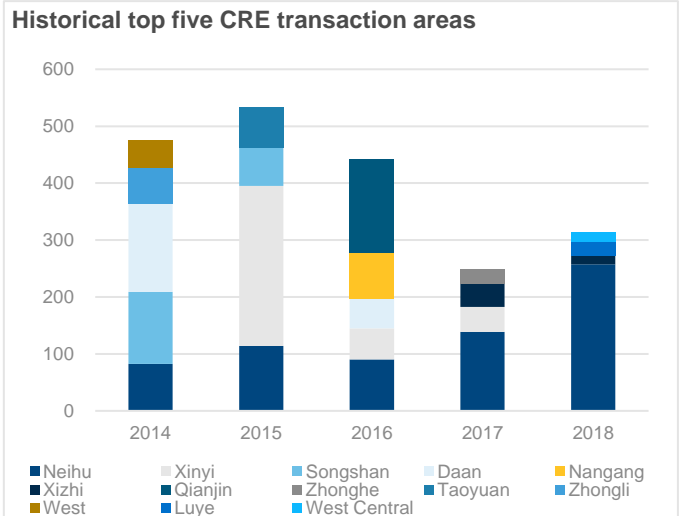
The planned MRT East Ring Line should benefit properties in Jiuzong and Tanmei sections

In April 2018, the Taipei City government announced the execution of a feasibility study for the MRT East Ring Line. The line is planned to connect to existing routes including the Wenhua, Songshan, Banqiao & Nangang and Xinyi lines. It is also planned to connect with the North and South ring lines in the future.

This is positive news for the Neihu district as it has ranked in top five submarkets for CRE transactions every year since 2014, with many of the transacted properties in the Neihu Technology Park.

Neihu Technology Park is divided into Xihu, Wende, Jiuzong and Tanmei sections. At present, the unit transaction price and rental rates of properties in Jiuzong and Tanmei sections are 30% below the unit transaction price and rental rates of properties in Xihu section due mainly to a lack of mass transport in the area. After

construction of the East Ring Line, we estimate the difference may shrink to within 15%.



Source: Colliers



Table 1: Top 10 CRE transactions in 1H 2018

Building name	Buyer	Location	Gross floor area (sq m)	Transaction value (USD million)
T CBD Building	Formosa Plastics Co., Nan Ya Plastics Co., Formosa Chemicals and Firbe Co. and Formosa Petrochemical Co.	Taipei City	101,412	613.1
London Technology Building	Uli Enterprise Co.	Taipei City	23,443	90.8
Chii Lih Resort	Hualien Cable Television Co.	Taitung County	28,522	78.7
Lihpao Neihu Building	Transcend Information Co.	Taipei City	23,872	77.7
Focus Square	O Bank REIT No. 1	Tainan City	32,809	57.9
Panhsin Bank Tower	O Bank REIT No. 1	New Taipei City	12,863	38.5
NEO ONE	J.Adams & Associates Co.	Taipei City	7,016	31.7
Times Square Taipei	iSee Taiwan Foundation	Taipei City	2,983	30.5
TaiDoc Building	Atma Champ Enterprise Co.	New Taipei City	9,735	26.9
Industrial office in Luzhu	Eris Technology Co.	Taoyuan City	15,876	25.4

Source: Colliers



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