

# LIMITED COVID IMPACT SO FAR

Leasing activity is expected to slow in Q2, and occupiers may have the opportunity for favourable terms.

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## Insights & Recommendations

Impact from COVID-19 on key indicators was not yet apparent in Q1, as vacancy fell further to 3.9%. As more occupiers delay expansion and relocation, we expect lease renewals to become the preferred strategy.

The Taiwanese government also allowed insurance company landlords to have a flexibility on the minimum yield requirement for income-producing properties. We encourage landlords to offer flexible rental terms i.e. rent relief or deferred payments, to maintain high occupancy levels.

We also encourage occupiers to consider the coming quarter an excellent opportunity to lock in favourable rates, and to adopt new technologies such as cloud-based systems, split offices and more flexible working arrangements.

	Q1 2020	Full Year 2020	2020-24 Annual Average
 <b>Demand</b> <p>&gt; The impact from COVID-19 was not yet apparent in Q1 with stable demand. Due to postponement of expansion and relocation, we expect net absorption to slow in the second quarter.</p>	 <b>5,210 ping</b>	 <b>30,000 ping</b>	 <b>24,700 ping</b>
 <b>Supply</b> <p>&gt; One building was completed in Q1. Another 35,000 ping (115,500 sq metres) are scheduled for 2020, of which 25,000 ping (82,500 sq metres) are committed. The remaining 10,000 ping, when released later in the year, are unlikely to move the market.</p>	 <b>1,510 ping</b>	 <b>36,730 ping</b>	 <b>21,770 ping</b>
	<b>QOQ / End Q1</b>	<b>YOY / End 2020</b>	<b>Annual Average Growth 2019-24 / End 2024</b>
 <b>Rent</b> <p>&gt; Rents still rose slightly in Q1. Although rent relief requests from tenants are on the rise, we do not expect a sharp drop in rents by year-end due to limited supply competition on the market.</p>	 <b>0.5%</b> <b>NTD1,915</b>	 <b>0%</b> <b>NTD1,906</b>	 <b>1.9%</b> <b>NTD2,075</b>
 <b>Vacancy</b> <p>&gt; The vacancy rate continued to drop, falling to a record low. Although expansion activity is largely on hold, we expect the vacancy rate to remain below 5% by end of 2020 due to tight supply conditions.</p>	 <b>-0.2pp</b> <b>3.9%</b>	 <b>+0.3pp</b> <b>4.4%</b>	 <b>-0.2pp</b> <b>3.1%</b>

Source: Colliers International

Note: USD1 to NTD30.2 at the end of Q1 2020. 1ping = 3.3 square m

## Global spread of COVID-19 to hit Taiwan's 2020 economic outlook

The global economy is shrouded by the COVID-19 outbreak. With many areas on lockdown, disruption to the global supply chain and falling consumption demand have already weakened global economic activity. Thanks to the aggressive actions taken by the Taiwanese government to control spread of the virus, infections are yet to be widespread so far. However, COVID-19 has put increasing pressure on sectors including electronics manufacturing, wholesale, retail, transportation, lodging, and F&B. These sectors accounted for 53% of Taiwan's GDP, and 6.3 million jobs are likely to be affected. Oxford Economics downgraded their GDP growth forecast by 1.3 percentage points to 0.5% in 2020<sup>1</sup>. As many people already stay home where possible, consumption power may fall further as firms put workers on unpaid leave. In response to the sudden shock, the Central Bank of Taiwan lowered the discount rate to 1.125%<sup>2</sup>, and the government also proposed a NTD1.05 trillion (USD34.8 billion) stimulus package to sustain consumption and business operations during the COVID-19 epidemic.

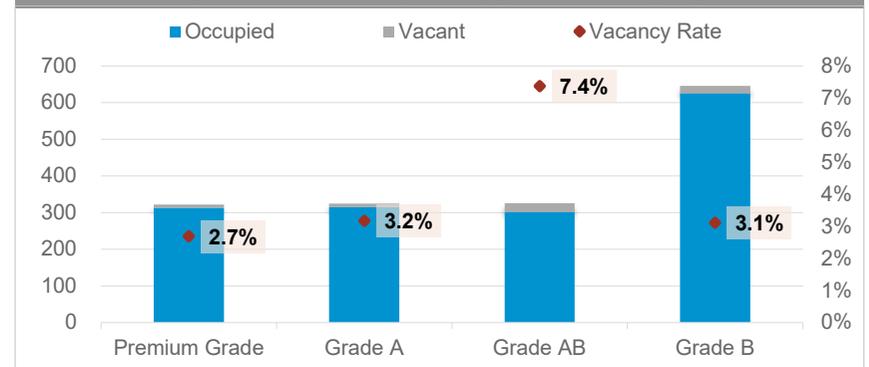
### Increasing demand and supply were still seen in Q1

With a newly-completed Grade A building in JA-HS district, the total stock increased to 1.62 million ping (5.34 million square metres), with occupancy at 1.56 million ping (5.13 million square metres). Net absorption in Q1 2020 was 5,200 ping (17,200 square metres). The impact from COVID-19 was not yet apparent in Q1 as the citywide vacancy rate fell slightly by 0.2% ppts QOQ to 3.9%.

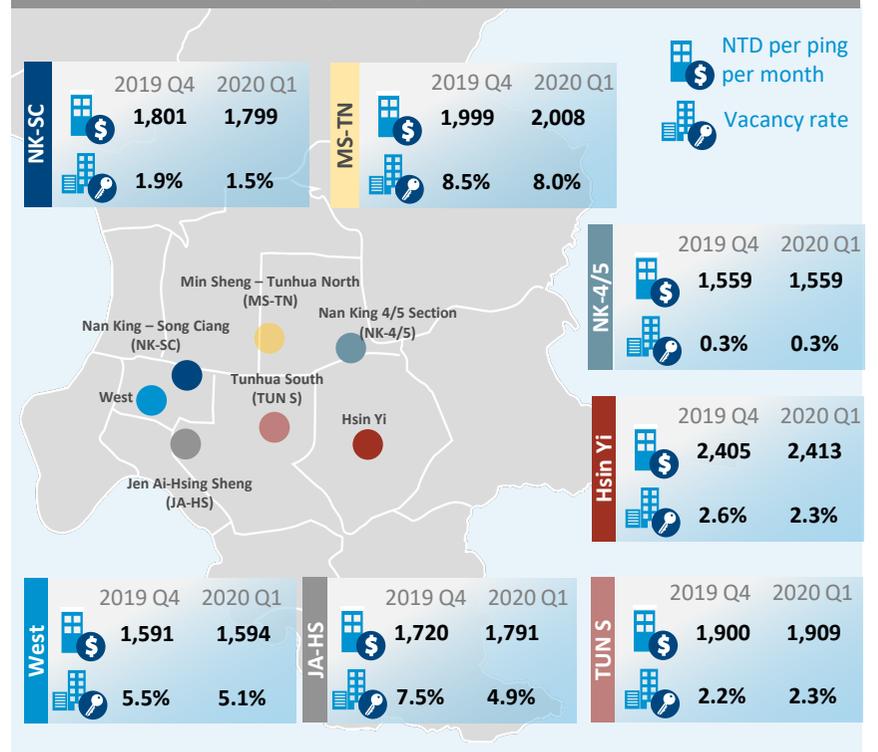
The vacancy rate fell across all grades. The new completion enjoyed high pre-commitment before handover. The net take-up of Premium Grade and Grade A was 4,650 ping (15,345 square metres), contributing to 89% of the city's total. The Premium Grade vacancy rate dropped to 2.7% and the Grade A vacancy dropped to 3.2%. With the city's total vacancy of 63,110 ping (208,300 square metres), MS-TN district was the largest concentration of vacant space, with 25,600 ping (84,400 square metres), and a vacancy rate of 8.0%, the highest in Taipei. Hsin Yi District was still the most active area with vacancy falling for the ninth consecutive quarter to 2.3%, a 0.3 ppt QOQ decrease. We found that demand for split-office arrangements generated additional demand for flexible workspace and serviced offices in Q1 as firms sought to reduce operating risks.

<sup>1</sup>Oxford Economics, March 2019. <sup>2</sup>Central Bank of the Republic of China (Taiwan), Monetary Policy Decisions of the Board Meeting, 19 March 2020.

2020 Q1 Occupied and vacant space by grade (1,000 ping)



2020 Q1 Rent and vacancy rate by district



### Rents still rose in the first quarter although tenant bargaining power was still limited

While the COVID-19 impact was not apparent in the leasing market, rents across all grades and all submarkets increased in Q1 2020. The average rent rose to NTD1,915 per ping (USD19.2 per square metre) per month, a 0.45% QOQ increase. As Taipei is currently a landlords’ market, the gap between asking and achievable rents has decreased since 2015, with the gap shrinking to 10.1% in Q1, a 0.6 ppt YOY drop.

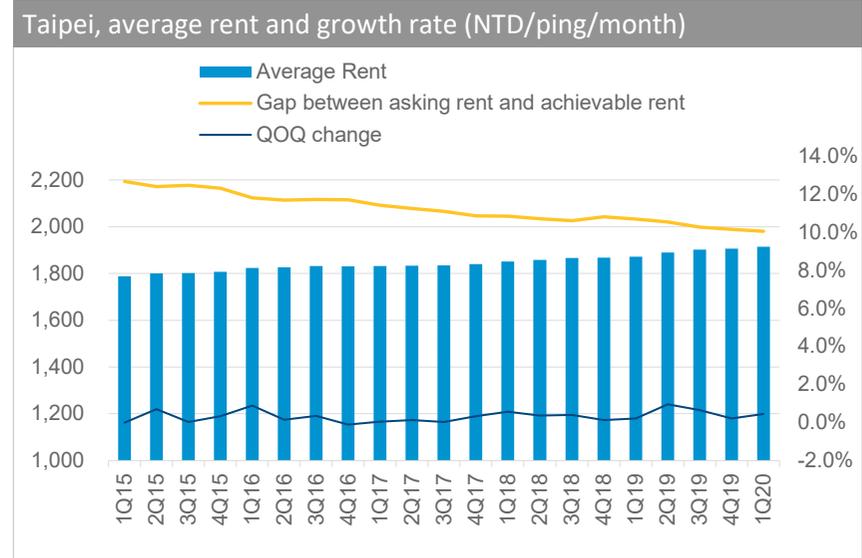
Although we are yet to see a pandemic impact on rental growth in Q1, rent relief requests from tenants are on the rise. Colliers expects a slowdown in expansion demand and rental growth in 2020, and rents at year end may remain flat compared to end-2019.

2020 Q1 Average rent and vacancy rate by grade			
Grade	Stock (ping)	Vacancy rate	Rent(NTD/ping/month)
Premium Grade	321,830	2.7%	3,231
Grade A	325,000	3.2%	2,385
Grade AB	325,770	7.4%	1,930
Grade B	645,670	3.1%	1,593
<b>Total Stock</b>	<b>1,618,270</b>	<b>3.9%</b>	<b>1,915</b>

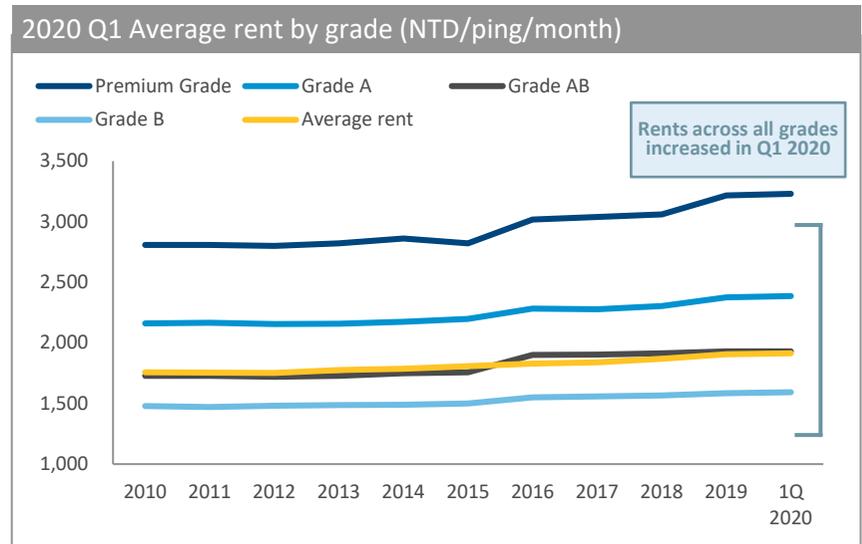
Source: Colliers International

### We expect COVID-19 impacts to be apparent in Q2 with a slowdown in demand and rental growth

Q1’s leasing transactions remained active, but relocation and expansion activities among occupiers have largely been postponed. We expect the market effects from the COVID-19 pandemic to be more apparent in Q2 2020, with a significant fall in net absorption. As the supply is still tight, we expect many tenants to opt to stay in place and renew, and the epidemic should have limited effect on vacancy rates. The global spread of COVID-19 puts increasing pressure on different parts of the Taiwanese economy. Due to the rising number of rent relief requests, the government has allowed insurance company landlords to have flexibility on the minimum required yield requirement<sup>3</sup>. Colliers thinks this gives a way for landlord to accede to requests for rent relief requests.



Source: Colliers International



Source: Colliers International. <sup>3</sup>Provisional insurance industry measures regarding minimum required yields for real estate investments.

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