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SUPPLY AVAILABLE FOR LEASE IS GETTING LESS

Stable demand and decent rental increases in Q2

Summary & Recommendations

Active expansion from the TMT sector and flexible workspace operators drove Q2 demand in the market. We expect take-up for 2019 should hit 38,300 ping (126,390 sq m).

> The *Statute for Expediting Reconstruction of Urban Unsafe and Old Buildings* allows an additional floor area bonus if the application is done before May 2020. We expect owners of old office buildings to speed up their redevelopment plans, further decreasing the total stock.

> With low vacancy in the market, we recommend anchor tenants renew their large leases. However, occupiers accepting rental increases without straining their relationship with landlords is a big challenge.

		Q2 2019	Full Year 2019	2018–23 Annual Average
Demand	> Although market-wide net absorption was negative, Premium Grade buildings and Hsin Yi district saw healthy demand in Q2 2019. Supported by this, we expect the annual net take up to reach 38,300 ping (126,390 sq m).	▲ -4,490 ping	▲ 50,000 ping	▲ 40,000 ping
Supply	> The reconstruction of two buildings decreased the total office stock. No new supply is scheduled for 2019, and 52,500 ping (173,250 sq m) will likely be completed over 2020-2022.	▲ 0 ping	▲ 0 ping	▲ 28,600 ping

		QOQ / End Q2	YOY / End 2019	Annual Average Growth 2018–23 / End 2023
Rent	> The rent reached NTD1,890 per ping (USD18.3 per sq metre). We expect rents will reach NTD1,900 per ping (USD18.4 per sq metre) per month by end-2019.	1.0% ▲ NTD1,890	1.7% ▲ NTD1,900	1.7% ▲ NTD2,010
Vacancy	> The vacancy rate dropped to 4.7% in Q2. Without any new supply this year, we expect the vacancy rate will decline to 2.8%, a record low since our records began in 2001.	-0.3pp ▼ 4.7%	-3.4pp ▼ 2.8%	1.0pp ▼ 1.1%

Source: Colliers International
Note: USD1 to NTD31.3 as of end-Q2. 1 ping= 3.3 sq m=3.6 sq ft

Private investment is the main driver of Taiwan's economy

In 2019, the trade wars and protectionism have slowed the global economy and cooled the trade and manufacturing sectors, further weakening Taiwan's external trade in the first half of the year. However, thanks to the increased spending on machinery, Taiwanese offshore capital being repatriated to invest in Taiwan, and low interest rates, we still expect a growing momentum in private investment. As the economic growth will likely be affected by uncertainties such as the 2020 Taiwanese presidential election and continuing trade war dispute, Oxford Economics expects Taiwan's GDP growth to be 1.5% in 2019, lower than the previous two years.

Decreasing stock and stable demand pushed down the vacancy rate

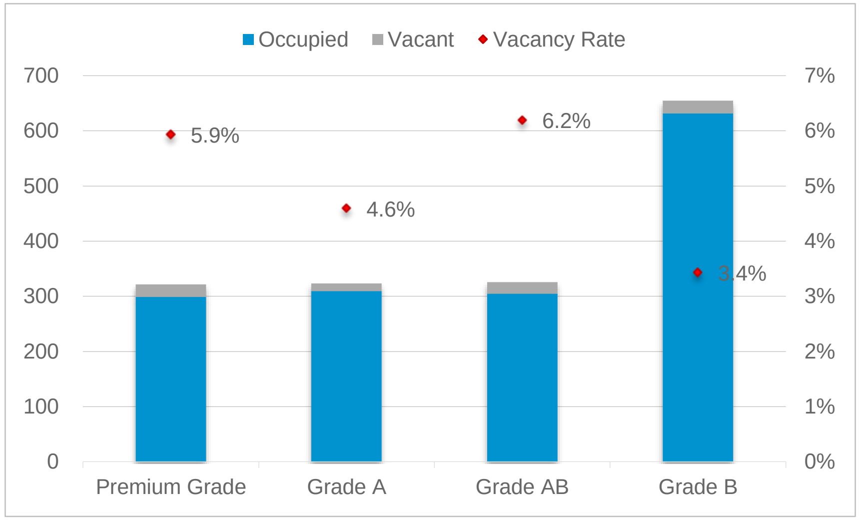
The demolishment of two buildings decreased the total office stock to 1,616,750 ping (5,335,275 sq m) in Q2, with occupancy of 1,540,480 ping (5,083,580 sq m). This pushed vacancy down to 4.7%, a drop of 0.3pp from Q1. In 2019, supported by the lack of new supply, we estimate the vacancy rate will fall to 2.8%. 52,500 ping (173,250 sq m) will likely be completed from 2020 to 2022, with 70% reserved for owner-occupation, and the space available for leasing is limited.

Premium Grade and Hsin Yi District dominate leasing activity; vacancy rate fell for the sixth quarter

Premium Grade buildings dominated the leasing activity in Q2 2019, with net take-up of 3,520 ping (11,620 sq m). We found large-space relocations in landmark buildings such as MingShen Jinggao, Taipei Nanshan Plaza and Cathay Landmark. The Premium Grade vacancy rate fell from 7.0% in Q1 to 5.9% in Q2; demand mainly came from TMT and flexible workspace operators. Flexible workspace operators are popular with landlords as they can take a large amount of space at one time.

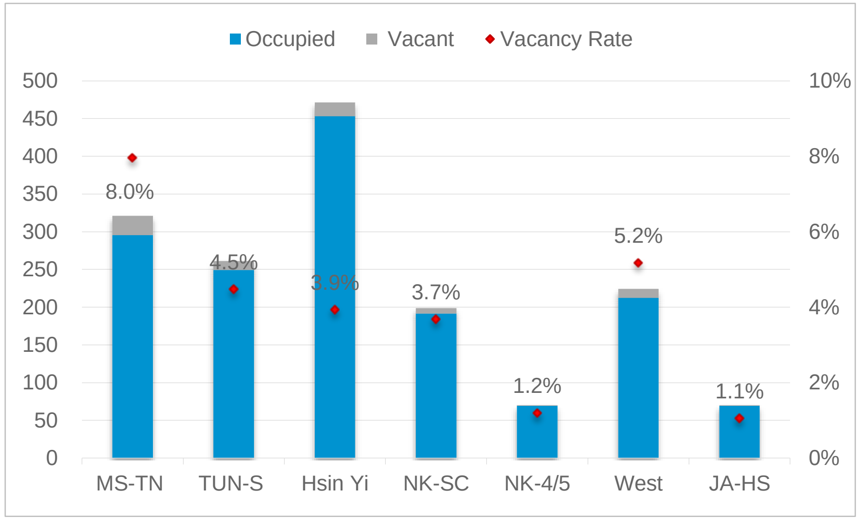
The total inventory in Hsin Yi district is 471,490 ping (1,555,920 sq m), accounting for 29.2% of the city's total. The occupied space reached 452,940 ping (1,494,702 sq m), with net take-up of 6,000 ping (19,800 sq m) in Q2. The vacancy rate declined to 3.9%, the first time lower than the city's average, implying a strong demand in the district.

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



Source: Colliers International

Occupied and vacant space by submarket (1,000 ping)



Source: Colliers International. Note: MS-TN is Ming Sheng-Tunhwa North, TUN-S is Tunhwa-South, NK-SC is Nan King-Song Chiang, NK-4/5 is Nan King 4/5 Section, and JA-HS is Jen Ai-Hsing Sheng submarket.

The rental growth reached 1.2% in H1 2019

The rent increased to NTD1,890 per ping (USD18.3 per sq metre) per month supported by strong demand. This is a 1.0% growth compared to Q1, and the QOQ appreciation is also a record high since 2012. Premium Grade rents reached NTD3,167 per ping (USD30.7 per sq metre) per month, a 2.2% QOQ increase, and the main driver of the average rent increasing.

In Q2, flexible workspace operators, who have relatively larger budgets compared to other tenants, were active in Hsin Yi district, further pushing up the average rent to NTD2,346 per ping (USD22.7 per sq metre) per month. This is the eighth year of rental growth in the submarket. Rents in landmark buildings, especially in higher zones, can reach NTD4,000 per ping (USD 38.7 per sq metre) per month. Over the next two years, we expect a continuing landlords'market due to the lack of new supply over the next two years, further driving the rental increase. We expect rents will reach NTD1,900 per ping (USD18.4 per sq metre) per month by end-2019.

Average rent and vacancy rate by grade

Grade	Stock (ping)	Vacancy rate	Rent(NTD/ping/month)
Premium Grade	321,800	5.9%	3,167
Grade A	323,500	4.6%	2,350
Grade AB	325,800	6.2%	1,920
Grade B	645,700	3.4%	1,573
Total Stock	1,616,800	4.7%	1,890

Source: Colliers International

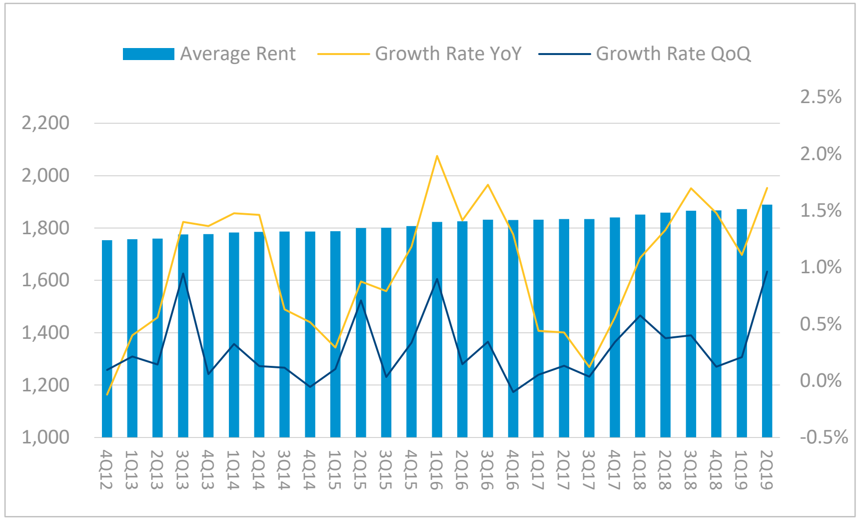
Leasing demand to extend to CBD flexible workspaces and fringes like Neihu, Dazhi and Nangang

Flexible workspace operators have expanded significantly since 2018, and we expect the trend will continue through 2019. Currently there are 24 centers in Taipei [1]. As the typical office space available for lease is limited this year, the flexible workspace can provide another relocation choice for enterprises. We have also found foreign technology consultants and pharmaceutical companies took large space in the flexible workspace in Q2.

The new supply is limited in Taipei's CBD and the another office cluster, Neihu Technology Park, also hit a record low vacancy, thus, we expect the demand will extend out to Nangang and Dazhi districts.

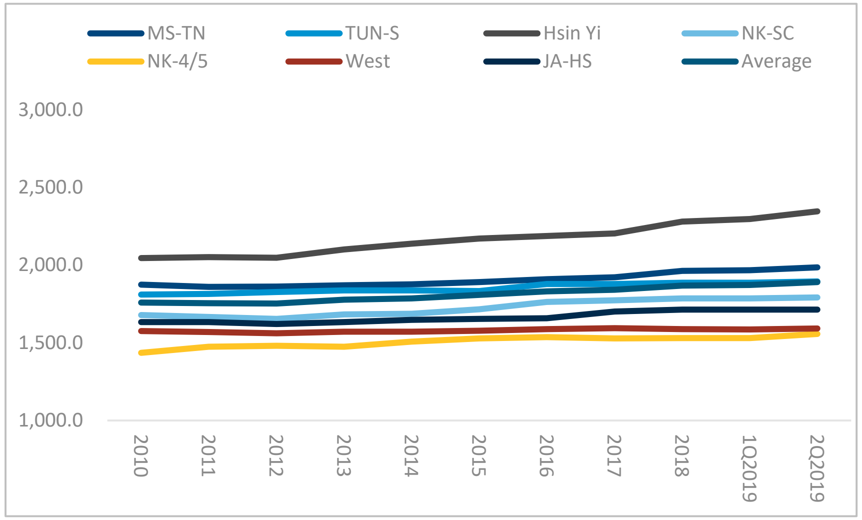
Note 1：Flexible workspace means business center and co-working space.

Taipei, average rent and growth rate (NTD/ping/month)



Source: Colliers International

Average rent by submarket (NTD/ping/month)



Source: Colliers International. Note: MS-TN is Ming Sheng-Tunhwa North, TUN-S is Tunhwa-South, NK-SC is Nan King-Song Chiang, NK-4/5 is Nan King 4/5 Section, and JA-HS is Jen Ai-Hsing Sheng submarket.

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