TAIPEI OFFICE

April 2019

MARKETBEATS

CUSHMAN & WAKEFIELD 戴德梁行

2,570	1.6%	7.9%
AVERAGE RENT (NTD/PING/MO)	RENT GROWTH RATE (QOQ)	VACANCY RATE

WHAT'S NEXT

HIGHLIGHTS

Vacancy Continues to Tighten

UDN Zhong Xiao Building completed in Q1, opening at near full occupancy and adding 10,000 ping of new Grade A office supply. Despite new supply, the overall vacancy rate declined 1 percentage points q-o-q to 7.9%, led by a 4 and 3 percentage point drop q-o-q in Dunbei/Minsheng and Nanjing/Songjiang submarkets, respectively. Absorption amounted to 17,500 pings in Q1.

The medical & health care and chemical industries were notable sources of occupier demand in Q1. Large pharmaceutical companies tend to prefer Xinyi, while care and research segments have clustered in Dunbei/Minsheng owing to proximity to hospitals.

Limited Supply Pushes up Rent

Average rent increased 1.6% q-o-q to NT$2,570 per ping per month in Q1, the fourth consecutive quarter on the rise. On average, Xinyi led the way at a 2.4% q-o-q increase, followed by a 1.5% q-o-q rise in Dunbei/Minsheng. With few new office buildings scheduled to complete ahead, there is growing competition among occupiers to secure space, pushing up rental levels.

Co-working Market to Grow

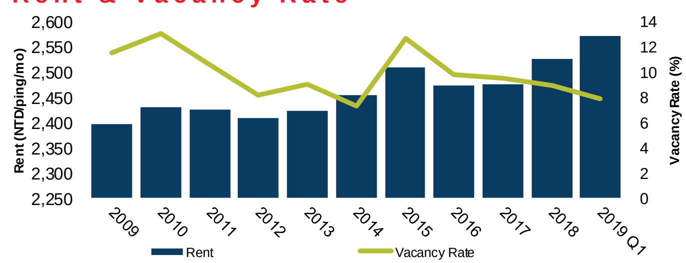
The market for flexible office space has benefited from rapid development of the start-up industry, attracting tenants in the segment with competitive rentals. As the market has matured over the past year, co-working centers and serviced offices have seen the largest growth in demand, particularly those in metro-accessible areas. Notably, WeWork and JustCo are expected to open their first co-working centers in the Taiwan market later this year.

Economic Indicators

	2018 Q3	2018 Q4	One Year Forecast
GDP Growth	2.4%	1.8%	
Service Sector GDP Growth	2.3%	2.0%	N/A
CPI Growth	1.7%	0.5%	
Unemployment Rate (Jan to December)	3.7%	3.7%	N/A

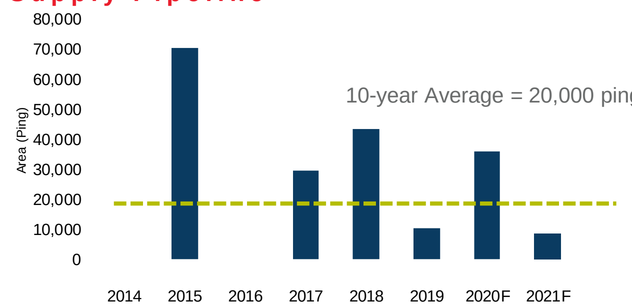
Source: Ministry of the Interior, Oxford Economics
Note: Growth figure is y-o-y growth

Rent & Vacancy Rate



Source: Cushman & Wakefield Research

Supply Pipeline



Source: Cushman & Wakefield Research

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TAIPEI OFFICE MARKETBEATS April 2019

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SUBMARKET	INVENTORY (Ping)	VACANCY RATE	PLANNED & UNDER CONSTRUCTION (Ping)	GRADE A RENT		
				NTD/Ping/MO	USD/SF/MO	EUR/SF/MO
Western	40,200	1.3%	0	2,100	US$1.91	€ 1.68
Nanjing/Songjiang	36,600	5.5%	8,000	2,030	US$1.85	€ 1.63
Dunbei/Minsheng	207,400	11.2%	25,300	2,360	US$2.15	€ 1.89
Dunnan	103,700	7.8%	0	2,350	US$2.14	€ 1.88
Xinyi	343,800	7.0%	0	3,140	US$2.86	€ 2.52
Taipei City	**731,700**	**7.9%**	**33,300**	**2,570**	**US$2.34**	**€ 2.06**

1USD= 30.8188TWD, 1EUR= 35.0534TWD as of 21st February 2019.

Key Leasing Transactions Q1 2019

PROPERTY	SUBMARKET	TENANT	PING	LEASE TYPE
Cathay Minsheng Jianguo Building	Dunbei / Minsheng	Johnson & Johnson	1,950	Relocation
Hung Tai Financial Plaza	Dunbei / Minsheng	JustCo	1,670	New Lease
UDN Zhong Xiao Building	Xinyi	Kuo-Yang Industrial Co., Ltd.	1,150	Relocation
Cathay Minsheng Jianguo Building	Dunbei / Minsheng	Columbia Sportswear Company	450	Relocation
Cathay Minsheng Jianguo Building	Dunbei / Minsheng	Dow Chemical Company	440	Relocation
Nanshan Mingsheng Building	Dunbei / Minsheng	GAME-BEANS	230	New Lease
Cathay Minsheng Jianguo Building	Dunbei / Minsheng	Brenntag	200	Relocation

Significant Projects Under Construction

PROPERTY	SUBMARKET	MAJOR TENANT	PING	COMPLETION DATE
Taipei Dome	Xinyi	-	11,400	2020
Yuanta Life New Headquarters	Nanjing/Songjiang	Yuanta Group	8,000	2020
China Life Headquarters	Dunbei/Minsheng	China Life China Development Financial	16,600	2020
E.SUN Second Headquarters	Dunbei/Minsheng	E.SUN Financial	8,700	2021

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Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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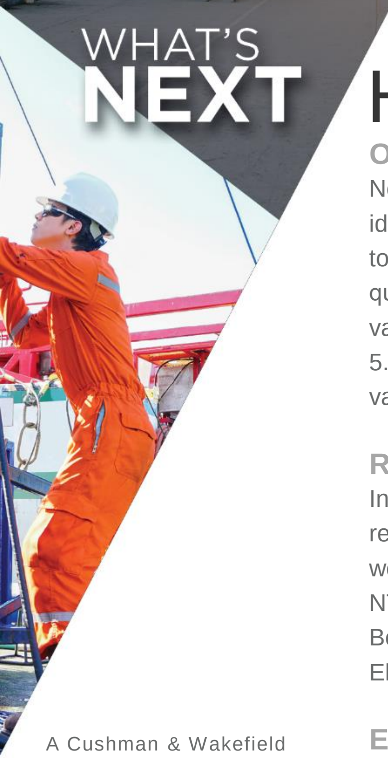
TAIPEI INDUSTRIAL-OFFICE

APRIL 2019

MARKETBEATS

XIHU SECTION

1,390	6.4%	1.2%
AVERAGE RENT (NTD/PING/MO)	RENT GROWTH RATE (QOQ)	VACANCY RATE



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HIGHLIGHTS

Ongoing Tight Vacancy Environment

No new I/O supply was added in Neihu Technology Park (NHTP) in Q1. In Xihu Section, idle units of a significant size are difficult to come by, and the vacancy rate edged down to a 10-year low of 1.2%. Of note, Rui Guang Building achieved full occupancy at quarter's end. Elsewhere, take-up remained stable in Wende Section, pushing down vacancy for the sixth consecutive quarter, by 0.9 percentage points q-o-q to finish Q1 at 5.3%. Jiuzong Section recorded mostly large-scale leasing transactions, dropping vacancy 1.7 percentage points q-o-q to 20.6%.

Rent Surges in Xihu

In Q1, average rent in Xihu and Wende Sections increased 6.4% and 2.0% q-o-q, respectively, while remaining stable in Jiuzong Section. Capital values in each section were: Xihu at NT$550,000–650,000, Wende at NT$400,000–450,000 and Jiuzong at NT$380,000–420,000 per ping. The largest investment transaction for the quarter was Best Combo Ltd's sale of Next TV headquarters (3,700 ping, en bloc) to China Electronic Development for NT$1.45 billion.

Expansions Fueling Rental Growth, Sales Activities

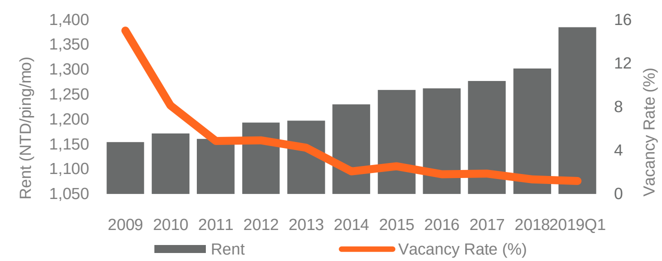
NHTP is expected to see a growing amount of leasing activities driven by expansions in the TMT and Biotech industries. Rental levels are forecasted to trend upwards in Xihu and Wende Sections, with the latter benefiting from spillover demand. Rent should hold flat in Jiuzong Section on steady take-up. But as developable land supply is scarce in Xihu and Wende, plans are underway to construct I/O facilities in Jiuzong, Tanmei and Ankang Sections. Meanwhile, it is expected that industry clusters in NHTP will continue to grow looking ahead.

Economic Indicators

	Q3 2018	Q4 2018	2019–2020 Forecast
GDP Growth	2.4%	1.8%	▼
Secondary Sector Growth	2.7%	2.4%	N/A
CPI Growth	1.7%	0.5%	▼

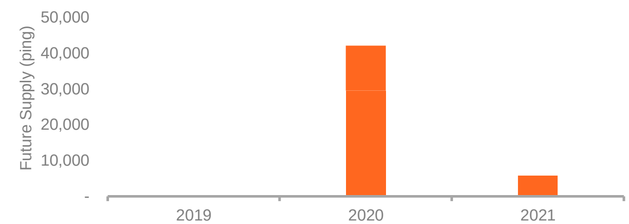
Source: Directorate-General of Budget, Accounting and Statistics, Oxford Economics
Note: Growth figure is y-o-y growth

Rent & Vacancy Rate (Xihu Section)



Source: Cushman & Wakefield Research

Future Supply



Source: Cushman & Wakefield Research

TAIPEI INDUSTRIAL-OFFICE MARKETBEATS APRIL 2019

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SECTION	VACANCY RATE	PLANNED & UNDER CONSTRUCTION (PING)	I/O RENT		
			NTD/PING/MO	USD/SF/MO	EUR/SF/MO
Xihu	1.3%	29,500	1,390	US$1.27	€1.11
Wende	5.3%	-	990	US$0.90	€0.79
Jiuzong	20.6%	18,500	920	US$0.84	€0.74

1USD= 30.8188TWD, 1EUR= 35.0534TWD as of 21th February 2019.

Key Leasing Transactions Q1 2019

PROPERTY	SECTION	TENANT INDUSTRIAL CLASSIFICATION	PING	LEASE TYPE
Rui Guang Building	Xihu	Biotechnology	260	Expansion
Helderburg Technology Center	Xihu	Trade	150	Expansion
Building A of Asia Plaza	Wende	TMT	1,400	Relocation
Bonn Technology Center	Wende	F&B	490	Expansion
China Life Neihu Technology Building	Jiuzong	Textile	500	New Lease
Wei Mon Industry Building	Jiuzong	TMT	800	Relocation

Significant Projects Under Construction

PROPERTY	SECTION	MAJOR TENANT	PING	COMPLETION DATE
NHTP 2.0 BOT Project	Xihu	-	29,500	2020
Shanyuan Chuangke Building	Jiuzong	-	5,300	2020
Lianhong Technology Building	Jiuzong	-	4,100	2020
Fulin Twin Stars	Jiuzong	-	3,300	2020
Chonghong New Generation	Jiuzong	-	5,800	2021

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TAIPEI RETAIL APRIL 2019

MARKETBEATS

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13,440	-1.3%	5.2%
AVERAGE RENT (NTD / PING / MO)	RENTAL GROWTH RATE (QOQ)	VACANCY RATE

WHAT'S NEXT

HIGHLIGHTS

Zhongxiao Sees Challenging Indicators

Most retail hubs saw the vacancy rate and rental levels remain stable on the whole in Q1, as idle space gradually was absorbed over the previous two quarters. However, the relocation of fashion and watch stores like Superdry, Omega, Swatch and Fossil to department stores contributed to Zhongxiao's vacancy rate jumping 3.4 percentage points q-o-q to 12.5%. Although the vacant units in Zhongxiao are expected to be taken up within the next four quarters given historical patterns, rental levels could fall between 5% and 10%. By contrast, Ximen benefited from expansion by cosmetics retailers like 3INA and Sapporo Drug.

Sales Growth at Smaller Retailers

Based on data from 2016 to 2018, sales of small-scale retailers like supermarkets and convenient stores on average increased 6.0% and 4.5%, respectively, each year over the period. The segment is witnessing robust expansion despite competition from online retail. Moreover, hypermarket retailers like Carrefour and RT-MART launched a number of new smaller-format stores over the period under the brands Carrefour Market and My-RT.

Outlook

Ahead to 2019, some landlords in Zhongxiao are expected to offer competitive rentals in an effort to attract retailers and fill up currently vacant stores. The submarket faces challenges related to generating footfall traffic and competition from online retail. How to bring in crowds by developing attractive and purposeful shopping areas are and will be critical for retailers to address going forward.

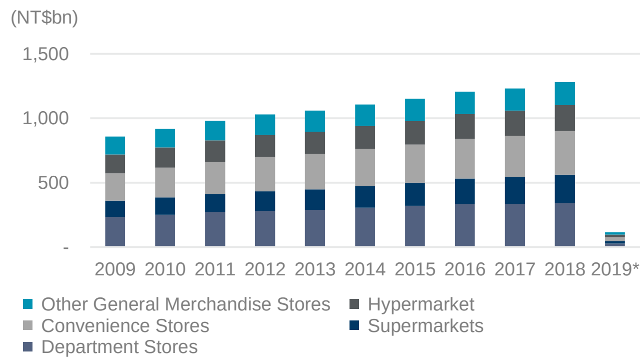
ECONOMIC INDICATORS

	Q3 2018	Q4 2018	2018–2019 Forecast
GDP Growth	2.4%	1.8%	▼
CPI Growth	1.7%	0.5%	▼

Source: Directorate-General of Budget, Accounting and Statistics

SALES OF GENERAL MERCHANDISE

	2017	2018	Period Growth
Cumulative Sales of General Merchandise from Jan to Dec (NT$ bn)	1,229.5	1,280.5	▲
	2018	2019	
Sales of General Merchandise in Jan (NT$ bn)	101.9	112.6	▲



*Jan of 2019

Source: Department of Statistics, Ministry of Economic Affairs

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TAIPEI RETAIL MARKETBEATS

APRIL 2019

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PRIME RETAIL VACANCY AND AVERAGE RENTS IN Q1 2019

RETAIL HUB	VACANCY RATE	RENTAL RANGE (NTD/PING/MO)	RENTAL RANGE (USD/SF/MO)	12-MONTH OUTLOOK
Zhongxiao	12.5%	11,000~17,000	10.0~15.5	▼
Taipei Railway Station	2.7%	10,000~12,000	9.1~10.9	—
Zhongshan / Nanjing	4.7%	8,000~12,000	7.3~10.9	—
Ximen	2.4%	17,000~20,000	15.5~18.2	—

Note: Only storefronts in prime retail hubs are taken into account. All data is based on gross floor area unless otherwise specified. Rentals are exclusive of management fees or other expenses.
Area Unit Conversion: 1 ping = 35.58 sq ft = 3.3 sq m
Exchange Rate: US$1 ＝NT$30.8188 as of 21 February 2019

SIGNIFICANT OPENINGS IN Q1 2019

RETAIL HUB	LOCATION	TENANT	AREA (ping)
Ximen	Chengdu Road	3INA	39.6
Ximen	Chengdu Road	KFC	44.3
Zhongxiao	Section 4, Zhongxiao East Road	Lion Travel	167.1
Zhongxiao	Section 4, Zhongxiao East Road	Golden Life	39.7

SIGNIFICANT RETAIL PROJECTS – UNDER CONSTRUCTION / DECORATION

PROJECT	DISTRICT	OPENING TIME	GFA (ping)
FE XIN-YI A13	Xinyi District, Taipei City	Q4 2019	13,000
Honhui Plaza	Xinzhuang District, New Taipei City	Q2 2020	25,600

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TAIPEI INVESTMENT

APRIL 2019

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15.4 INVESTMENT VOLUME (NTD bn)

-64% VOLUME GROWTH RATE (QOQ)

16 DEALS

WHAT'S NEXT

KEY TAKEAWAYS

- In Q1, investment totaled NT$15.4 billion, down 64% q-o-q yet up 34% y-o-y.
- The auction sale of 85 Sky Tower in Kaohsiung City for NT$5.4 billion was the largest deal in Q1 and accounted for over one third of volume for the quarter.
- Land investment hit a 33-quarter high of NT$61.3 billion, driven by solid demand from developers and manufacturers.
- With low capital cost and potential for rental and value growth, industrial, I/O and office properties will likely remain highly sought-after.

MARKET OVERVIEW

The investment market witnessed a slow start to the year. Volume amounted to NT$15.4 billion in Q1, falling 64% q-o-q from a three-year quarterly high to close 2018, yet up 34% on a y-o-y basis.

Over one third of the quarter's investment stemmed from the NT$5.4 billion auction sale of 85 Sky Tower, a landmark building in Kaohsiung City under foreclosure, won by HPW subsidiary Kai De Tong (with an average unit price of NT$180,000 per ping). The majority of high-zone floors accommodates the 85 Sky Tower Hotel and is planned to house one of HPW's hotel brands in the future.

Office sector investment remained positive. This is reflected in Ron Mao's acquisition of Wellglory Building in Taipei City for NT$1.4 billion. The property, a 50-year land development right project, had been slated for a residential-to-office conversion.

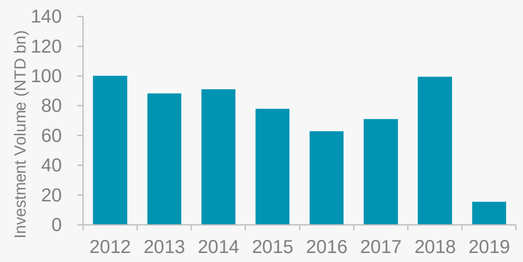
Other notable deals were recorded in the I/O sector. Millerful No.1 REIT partially acquired the Nasa Tech Building for NT$2.2 billion. China Electric Development secured the Next TV Building in Neihu Technology Park, en-bloc, for NT$1.5 billion.

ECONOMIC INDICATORS

	Q3 2018	Q4 2018	2019–2020 Forecast
GDP Growth	2.4%	1.8%	▼
CPI Growth	1.7%	0.5%	▼
Prime Leading Loan Rate	2.63%	2.63%	N/A

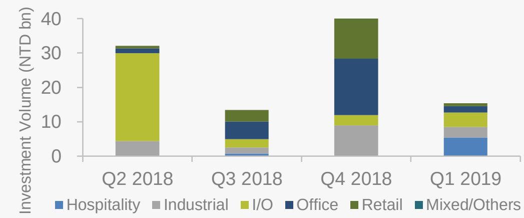
Source: Ministry of the Interior | Note: Growth figure is y-o-y growth

INVESTMENT VOLUME



Source: Cushman & Wakefield Research

INVESTMENT VOLUME BY SECTOR



Source: Cushman & Wakefield Research

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TAIPEI INVESTMENT MARKETBEATS

APRIL 2019

Meanwhile, manufacturers and logistics space users acquired large industrial assets to house production expansion and automation technologies. Notable deals include PX Mart's purchase of a warehouse adjacent to its exiting logistics premise in Taichung Harbor Related Industrial Park for NT$1.1 billion.

Land investment hit a 33-quarter high of NT$61.3 billion in Q1, driven by solid demand from developers and manufacturers. Notably, homebuilder Highwealth Construction secured a commercial-zoned site in Taipei City for NT$5.1 billion for office development. The purchase signals a shift of residential developers' attention to the commercial sector, in particular opportunities to construct quality office buildings in greater demand.

OUTLOOK

Production expansion in the manufacturing industry and growing demand for owner-occupied office properties and I/O properties for investment purpose are likely to be key drivers to keep the momentum rolling for the remainder of 2019. In an environment of low capital cost, rental growth and expectation on capital appreciation, industrial, I/O and office properties are expected to remain highly sought-after for both owner-occupied and investment purposes.

INVESTMENT VOLUME BY SECTOR, Q1 2019

SECTOR	DEALS	NTD (BN)	CHANGE (Q-O-Q)
Office	2	1.82	-89%
Retail	3	0.88	-94%
I/O	4	4.20	38%
Industrial	6	3.09	-65%
Hospitality	1	5.44	100%
Mixed/Others	0	0.00	0%
OVERALL	**15**	**15.42**	**-64%**

SIGNIFICANT INVESTMENT TRANSACTION, Q1 2019

PROPERTY	PURCHASER	LOCATION	SECTOR	PRICE (NTD BN)
85 Sky Tower Hotel	Kai De Tong	Lingya, Kaohsiung City	Hotel	5.44
Nasa Tech Building	Millerful No.1 Reit	Neihu, Taipei City	I/O	2.16
Next TV Building	China Electronic Development	Neihu, Taipei City	I/O	1.45
Wellglory Building	Ron Mao Investment	Zhongzheng, Taipei City	Office	1.35
Warehouse in Taichung Harbor Related Industrial Park	PX Mart	Wuchi, Taichung City	Industrial	1.08