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Investment

Taipei, Taiwan



The Investment Market

Taiwan's GDP only grew slightly in the second half of 2008 due to the worsening of the US financial crisis and the as yet unrealized advantage of direct Taiwan-China flights. According to the latest statistics, the GDP growth rate forecast for 2008 has been re-declared at 1.87 per cent replacing the original forecast of 4.3 per cent, much lower than 2007's 5.7 per cent. The Taiwan stock price index meanwhile has slumped from 9,000 at the beginning of 2008 to 4,500 in December. Due to the global economic meltdown and declining trade activity, the latest predictions announced by the Taiwan Government are that Taiwan's GDP growth rate in 2009 will decline dramatically by 2.12 per cent to reach US\$394,803 million.

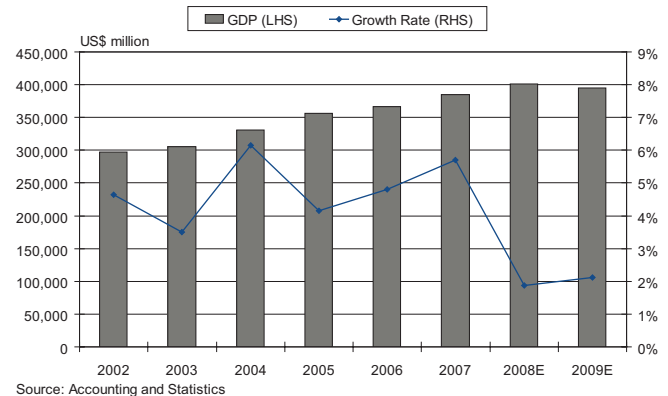
Following strong demand over the past six months, prime land transactions in Xinyi District have accounted for a major proportion of commercial transactions and accounted for 35 per cent of total sales representing US\$1.7 billion. Significant deals have included the acquisition by Far Glory Insurance of Xinyi Lot A1 for US\$423 million, Singfor Life's bid for Citibank's Xinyi Lot D3 at US\$111.1 million, and Fubon Life's bid for a 50 land use right of Xinyi Lot A10 from National Property Administration at US\$111.8 million.

Expecting future growth resulting from the incoming MRT Neihu Line in mid 2009, the Shin Kong Group concluded a sale and leaseback transaction with Asec Technology of Neihu Headquarters in June for US\$42.6 million, while Cathay Group purchased GTV Neihu Headquarters based on the same model for US\$99.7 million in August. Credit Asia Capital also acquired Read Euro commercial office building from Delpha Construction Co. In addition, LuMAX International Corp. acquired 42,800 sq.ft. of industrial office space in Nankang Soft Park.

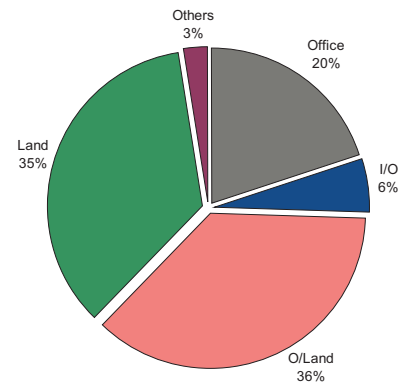
The average vacancy rate of Grade 'A' offices in 2008 declined to 5.98 per cent compared with last year with most of the take-up concentrated in Xinyi district. Due to the fact that two buildings will be launched onto the market in early 2009, overall vacancy rates of Grade 'A' offices are expected to rise to 9.57 per cent. Next year, attention should be paid to the rental gap between Grade 'A' offices in Taipei's CBD and Nankang/Neihu Park as enterprises will consider relocation options given the opening of the MRT Neihu Line. It is forecast that the vacancy rate of Grade 'A' offices will climb by a wide margin as new supply in Xinyi district is delivered in a very short period.

Grade 'A' office rents in the second half of 2008 in Taipei have remained generally stable with the average rent standing at US\$2.12 per sq.ft. per month. The highest rent was still recorded in Xinyi at US\$2.8 (NT\$3,134) per sq.ft. per month but the growth rate is marginal compared with the previous quarter. For cost reasons, some Grade 'A' office tenants plan to move to Nankang/Neihu Park after the expiry of lease agreements. Taiwan High Speed Rail Corp. has leased 128,000 sq.ft. of office space in Nankang Phase III, replacing their current office in Xinyi.

GDP and GDP Growth Rate, 2002 - 2009E



Transaction by Type of Property, June - November 2008



Significant Transactions, June - October 2008

Date	Building	Price (US\$ Mil)	Area (sq.ft.)	Investor
June	Asec Technology Building	42.6	133,425	Shin Kong Group
	Koda Building	23.0	112,646	Shin Kong Group
July	Chongshan District, Taipei City	78.5	27,005	Cathay Life
	G12E, G12W, NSP II, Nankang Dist., Taipei City	12.8	42,803	LuMax Int'l Group
	Reading Euro Building (partial)	52.7	152,884	Credit Asia Capital
	Pacific Commercial 15/16F	11.1	19,993	Fanfu Int'l Dev. Ltd
	No. 193-2, Cong Shing N. Street, Sanzhong City	18.0	234,393	AVTECH Ltd
	Former CLC N., Daan District, Taipei City	157.4	41,984	Individual
	Former CLC S., Daan District, Taipei City	175.1	46,610	Individual
	Yangmay Township, Taoyuan County	13.8	282,434	Unimicron
	CAMEO Industrial Factory, Xinyi City	10.6	76,675	ICP Electronics Inc.
	Aug	D3 Xinyi District, Taipei City	111.1	38,889
A1 Xinyi District, Taipei City		423.0	50,417	Farglory Life
Beitou District, Taipei City		21.2	44,333	Shining Corp.
Neihu District, Taipei City		16.6	11,243	Pure Youth Corp.
GTV, Neihu, Taipei City		99.7	263,964	Cathay Life
Oct	Meifi Jian-bei Global	188.4	377,077	ING Life
	Asian Trust Headquarters	92.1	18,395	Taiwan Life
	A10 Xinyi District, Taipei City (50 years Superficies on)	111.8	68,598	Fubon Life
	Bo-ai Road, Zhongzheng District, Taipei City	60.5	44,262	RUENTEX Group

Source: Savills Research & Consultancy

However, it is forecast that Grade 'A' and 'B' rents will remain at current levels as a result of the low vacancy rate. After the new buildings are released onto the market, the negotiating position of prospective tenants is expected to improve.

The Average I/O Rent in Neihu Technology

Park stood at US\$1.2 per sq.ft. per month in the third quarter of 2008 in Xihu, US\$1.03 per sq.ft. per month in Wende, and US\$0.89 per sq.ft. per month in Jiuzhong. The headquarters building of Elitergroup Computer Corporation, a 20 storey building representing a floor area of approximately 535,000 sq.ft., was completed in Xihu Section in Q3. Elitergroup Computer Corporation will move into the new headquarters, with its former office space being released onto the market.

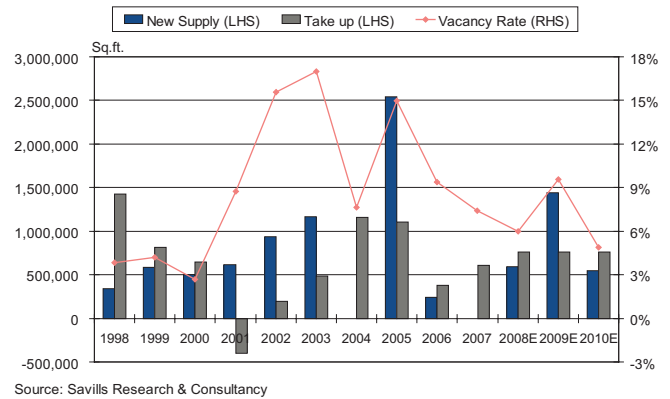
The average I/O rent in Nankang Software Park stood at US\$1.07 per sq.ft per month in the third quarter, while the vacancy rate in Phases I and II is 2 per cent. Phase III will be delivered onto the market for pre-leasing, while vacancy rates in the area look set to increase dramatically due to the large supply.

Outlook

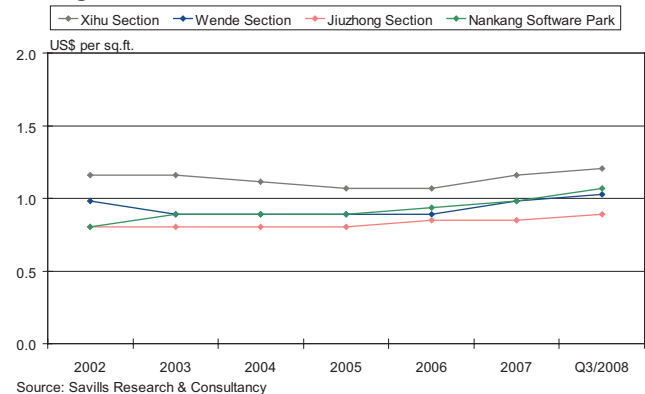
In the leasing market, landlords and tenants of Grade 'A' and 'B' office buildings are tending to adopt a 'wait-and-see' attitude generally. Due to the new supply of Grade 'A' office buildings released onto the market and the growing appeal of relocating to Neihu and Nankang for cost reasons, overall vacancy rates in Taipei city are expected to increase next year. But as relocation takes time and is costly, most companies will prefer to wait and see with the uncertainty surrounding the economy, instead of relocating immediately. We forecast that landlords of Taipei's CBD buildings will avoid raising rents and maintain current rental levels as the economy weakens and the competition from Neihu and Nankang develops.

In the transaction market, investors are continuing to look for investment opportunities. Taiwan's investment market to date has proved less sensitive to the global financial crisis and compared with the other international Asian cities, the down side appears more limited. Local investors have not stopped bidding for land or purchasing high yielding properties. Some landlords have only now begun to lower asking prices but they have still not met investors expected returns yet. Most local investors expect investment yields to reach 4.5 to 5 per cent, while above 6 per cent is required by foreign investors. For this reason foreign investors are believed to be waiting for mid to late 2009 before playing an active part in the market. In the interim, local investors will remain the major players. Although the effects of the warming of the Taiwan-China relationship and the coming expansion of cross-strait trade are still difficult to quantify, local and foreign investors generally hold a positive outlook for Taiwan's investment market.

Grade 'A' Office New Supply, Take-up and Vacancy, 1998 - 2010E



Average I/O Price, 2002 - Q3/2008



Grade 'A' and Grade 'B' Office Rents, 2002 - 2010F

