

Intelligent Investment

2022 Market Outlook

REPORT

TAIWAN
REAL ESTATE

CBRE RESEARCH
MAY 2022



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Despite this April's Omicron-driven surge in COVID-19 infections, the Taiwanese economy will stay on a stable growth path in 2022. Tighter monetary policy will have a limited impact on commercial real estate investment.

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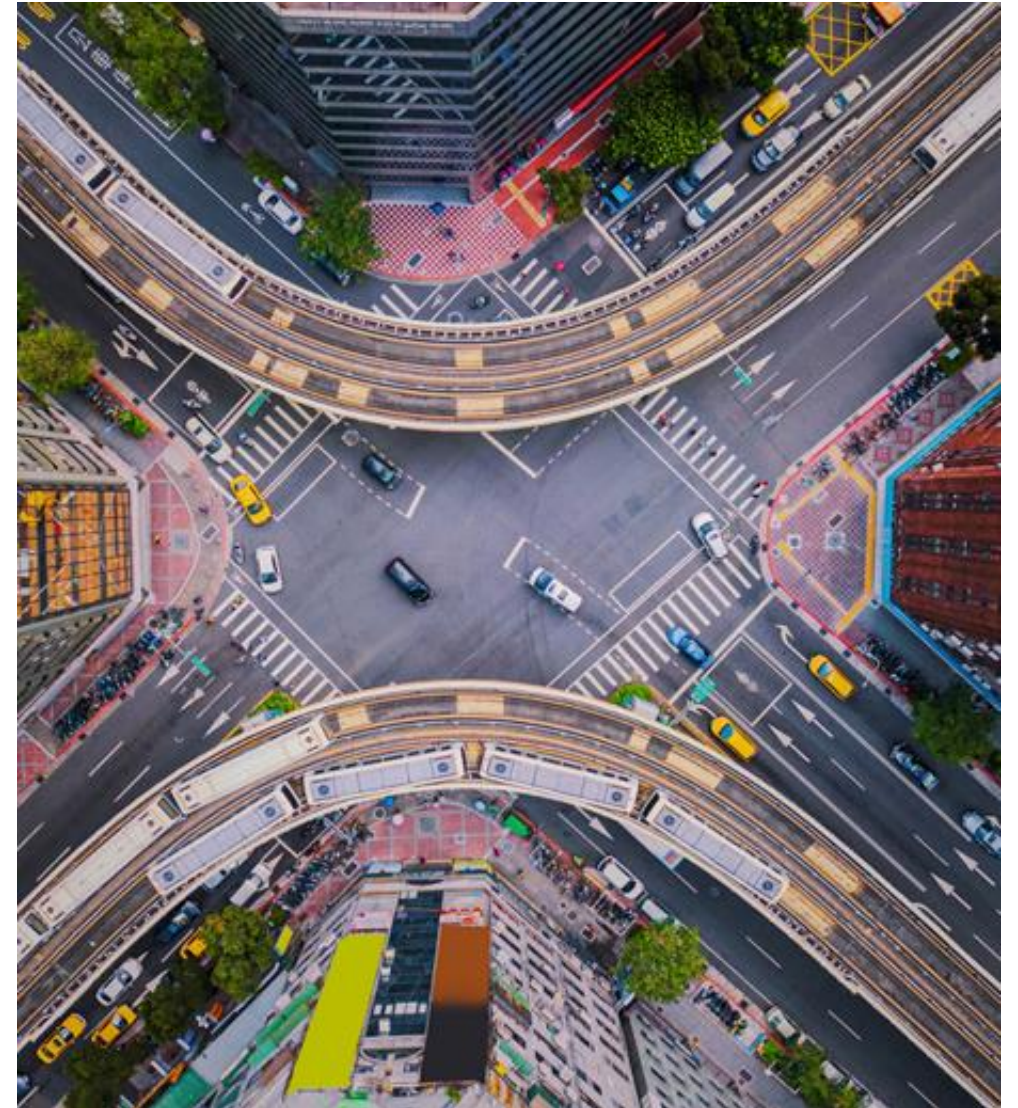
Relocations will be led by tech companies looking to upgrade offices and redesign workplaces. Low vacancy and limited new supply will ensure the Taipei office market remains in favour of landlords.

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While retailer sentiment will remain subdued amid the prolonged pandemic, high street rents may stabilise by the end of 2022 on the back of pent-up demand for in-store experiences.

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Investment activity is expected to slow as domestic investors adopt a more cautious attitude. However, industrial assets will remain keenly sought-after, with southern cities presenting an increasing array of opportunities.





Solid fundamentals underpin a cautiously positive outlook for the Taiwan real estate market in 2022.

01

Economy & Policy

Economy set to grow despite pandemic-related challenges

Despite a semi-lockdown from May to July, Taiwan's GDP growth rose to 6.57% y-o-y in 2021, its strongest annual growth in a decade. Economic expansion was mainly driven by solid exports and a surge in fixed capital formation underpinned by the semiconductor industry. Although global geopolitical tension increased in the early months of 2022, Taiwan's total exports rose by 23.5% y-o-y, ensuring the economy grew by 3.14% y-o-y over the first quarter.

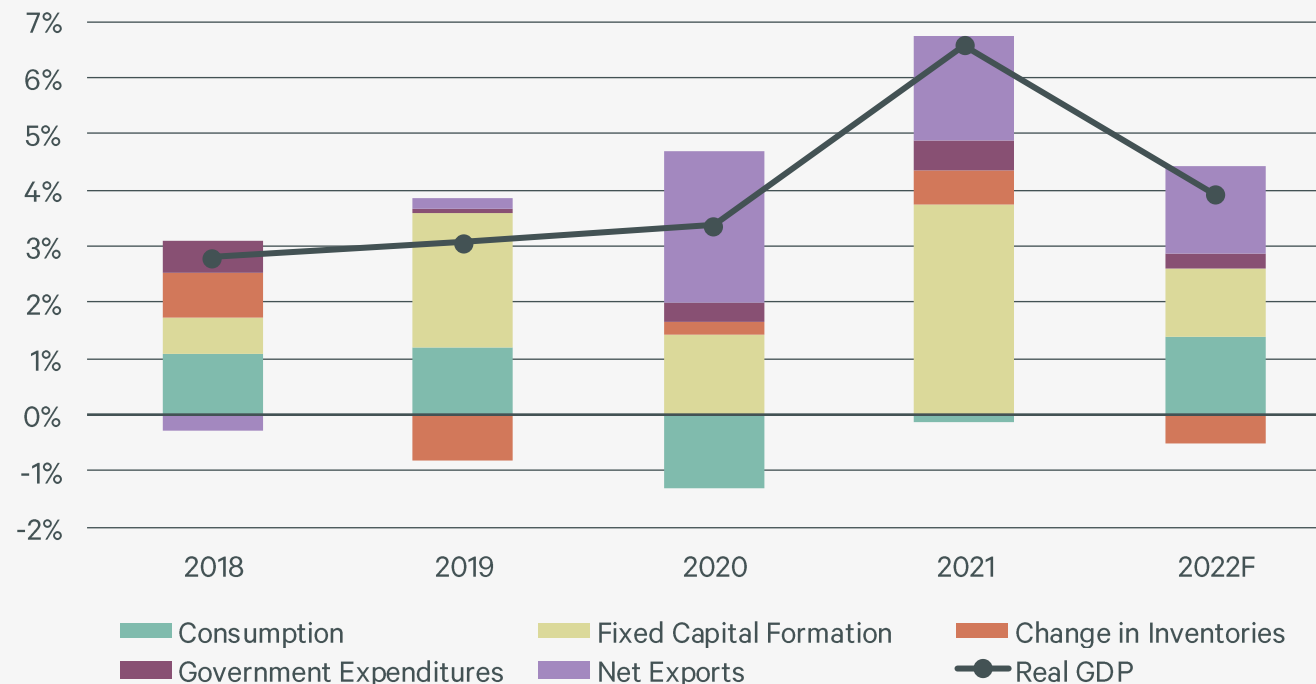
With leading semiconductor and electronics companies set to further increase capital expenditure, a rise in private investment is expected to fuel economic growth in 2022. Last year's solid financial performance prompted many domestic companies to raise salary levels for 2022, while government employees, teachers and military personnel received a 4% pay raise this year. Coupled with 2021's low base of comparison, household consumption is therefore expected to rebound strongly and make a substantial contribution to GDP growth in 2022.

While the present Omicron-driven surge in COVID-19 infections, combined with soaring consumer goods prices, will affect consumer spending in the coming months, the Taiwanese government's living-with-covid policy should help lure shoppers back into brick-and-mortar stores. Consumers are expected to display a stronger purchasing appetite in H2 2022 as the pandemic eases, ensuring Taiwan remains on a stable economic growth path.

Taiwan's policy of living with the virus will help encourage shoppers back into stores in the near term.

Figure 1: Taiwan Real GDP Growth by Components

GDP and Components' Contribution to GDP Growth



Source: Directorate General of Budget, Accounting and Statistics, May 2022

Interest rate hikes highly likely

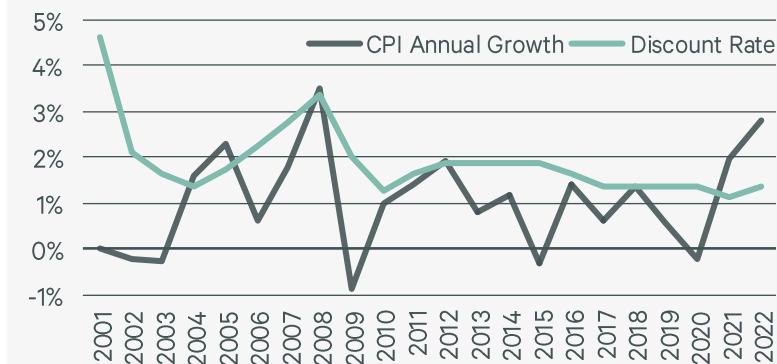
Since August 2021, the monthly CPI growth rate has risen to over 2.0%, reaching a 9.5-year high of 3.3% from March to May 2022. To tame elevated inflation, Taiwan’s central bank raised its policy rates by 25 bps in March, marking the first interest rate hike in a decade. Following the U.S. Federal Reserve’s second consecutive rate hike in May 2022, Taiwan’s central bank will likely lift interest rates again at its June or September meeting to maintain financial stability. However, any rate increases are expected to be moderate given the fact that the pandemic will continue to weigh on growth in 2022 and inflation is still manageable.

Total residential transaction volume surged to an eight-year high in 2021 as home prices skyrocketed in major cities. To rein-in real estate price growth, especially in the residential sector, Taiwan’s central bank launched a selective credit control policy in December 2020 and further tightened measures over the course of 2021. In February 2022, financial authorities imposed new guidelines to ensure that banks adopt a cautious attitude towards lending, while a draft bill to curb speculation in the pre-sale housing market will be sent to regulators this September. In addition, Taiwan’s central bank may further reduce LTV ratios of loans for selected property types amid ample liquidity. The tightening of credit controls is expected to affect those developers in a weaker financial position, which will lead to a decline in land acquisitions. However, commercial real estate investment activity should remain stable.

In December 2021, Taiwan’s Cabinet extended its “Invest in Taiwan” initiative for another three years to provide incentives, including preferential loans, to Taiwanese firms wanting to reshore operations. Newly participating companies will be required to contribute to the government’s 2050 net-zero target by using green energy, installing energy-saving equipment, or constructing green buildings for self-use. CBRE expects ESG to play a more prominent role in decision-making by real estate occupiers and investors in Taiwan in the coming years.

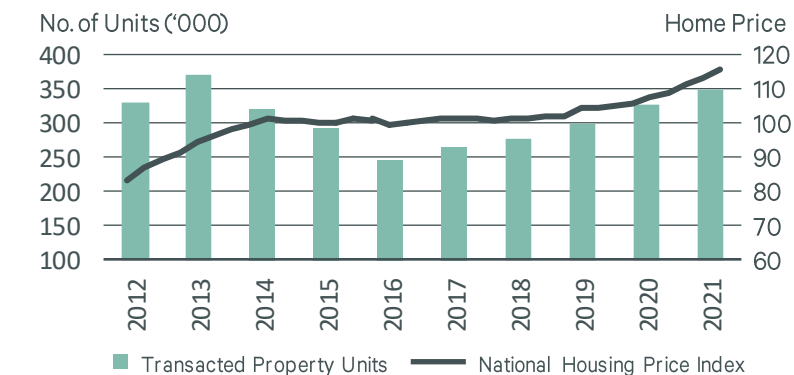


Figure 2: Inflation vs. Discount Rate



Source: DGBAS, Central Bank of Taiwan, March 2022

Figure 3: Housing Market Performance



Source: Ministry of the Interior, Q1 2022



TRENDS TO WATCH

Borders to reopen in phases from July

Taiwan is set to announce the relaxation of border restrictions in July, which may include shortening the quarantine period for business travellers from seven days to three. The entry of small tour groups for leisure purposes is also expected to be approved in the next few months. CBRE expects cross-border real estate activity to pick up gradually upon the border re-opening, with international investors and occupiers that were unable to perform site visits over the last two years set to restart decision processes in the coming months.

02

Office

Prime office supply to remain tight

Average office vacancy in the Taipei CBD reached a two-decade low of 3.5% in Q4 2021 on the back of limited new supply and stable upgrading demand. While net absorption improved substantially over the course of 2021, the bulk of take-up was accounted for by pre-lease agreements signed prior to the onset of the pandemic in early 2020. Occupiers subsequently turned more cost-cautious as the pandemic played out, with a few multinationals reducing space to reflect weaker demand resulting from the adoption of hybrid working.

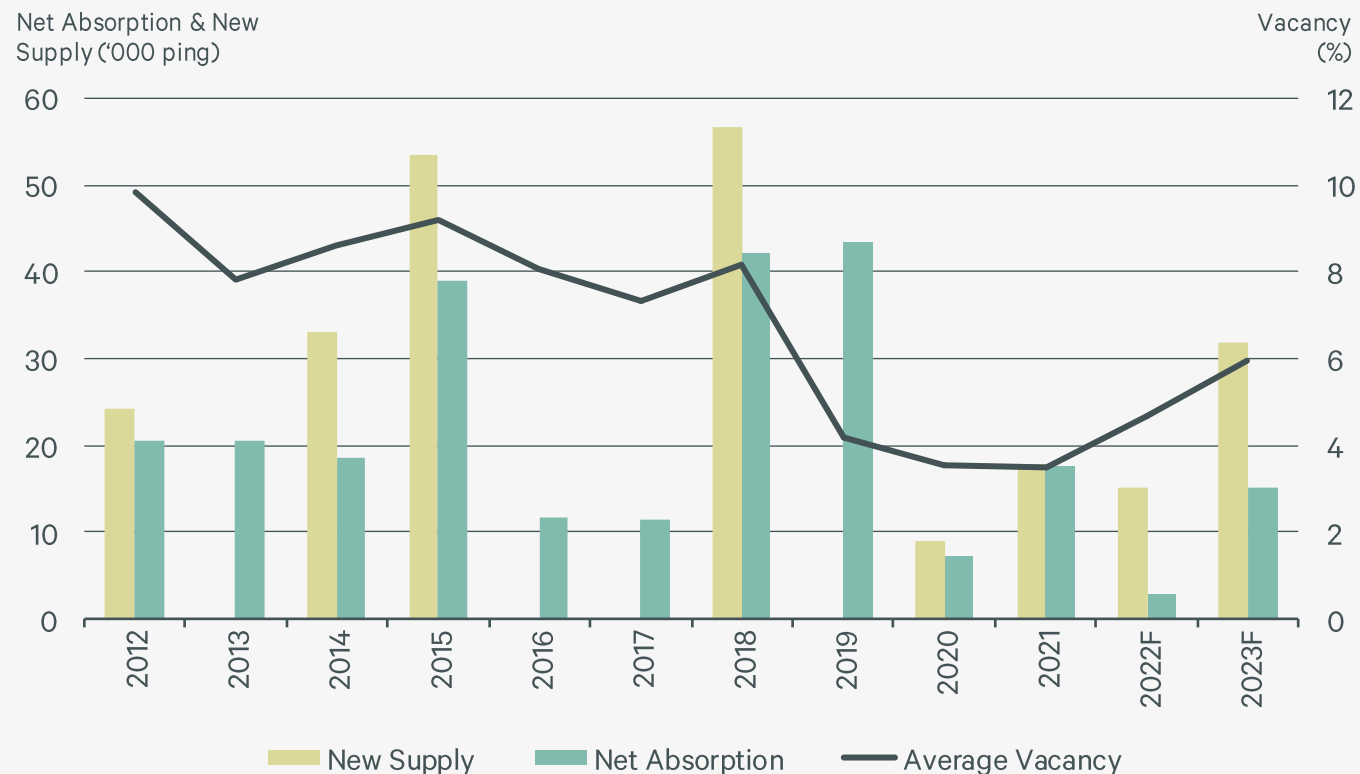
As many tenants will likely remain reluctant to increase capital expenditure, leasing activity in 2022 is expected to be dominated by lease renewals. The ongoing shortage of medium and large sized units for lease, combined with a limited development pipeline, will also inhibit relocation activity over the next few quarters. Total net absorption is therefore forecasted to decline on a y-o-y basis.

Relocation demand will be mainly driven by small and medium-sized enterprises looking to upgrade offices and redesign workplaces, with tech companies seeking to attract and retain talent set to be especially prominent. Occupiers looking to expand on a smaller scale will opt to rent additional units in their current buildings to avoid high relocation costs.

Two new office buildings collectively offering a total GFA of 15,100 ping are slated for completion in H2 2022. As net absorption will likely contract in the coming months, average office vacancy is expected to increase gradually to 4.7% by the end of 2022, albeit remaining in relatively low territory.

A lack of medium and large sized units for lease, combined with limited new supply in 2022, will inhibit relocations in the near term.

Figure 4: Taipei Office Take-up, Vacancy & New Supply



Source: CBRE Research, Q1 2022

Market to remain in favour of landlords

A steady decline in vacancy ensured average quality office rents in Taipei rose by 2.2% y-o-y over the course of 2021. While Grade A office rents also increased by 2.2% y-o-y to NT\$2,921 per ping, growth momentum has moderated steadily over the last two years, partly as occupiers have become less willing to pay higher rents since the onset of the pandemic.

A modest development pipeline and the limited availability of medium and large sized space will ensure that Taipei’s office market continues to favour landlords in 2022. Grade A office landlords in particular will retain the upper hand in lease negotiations, pushing up Grade A office rents by a forecasted 1.8% y-o-y in 2022.

With Grade A office landlords set to raise rents to market levels for renewals, there will likely be significant increases in costs for tenants wishing to remain in their current location. While landlords may show some flexibility towards larger occupiers, incentives will remain low. However, owners of prime office buildings in Xinyi-Jilong Area are less likely to aggressively raise rents as most multinationals remain cost-conscious.

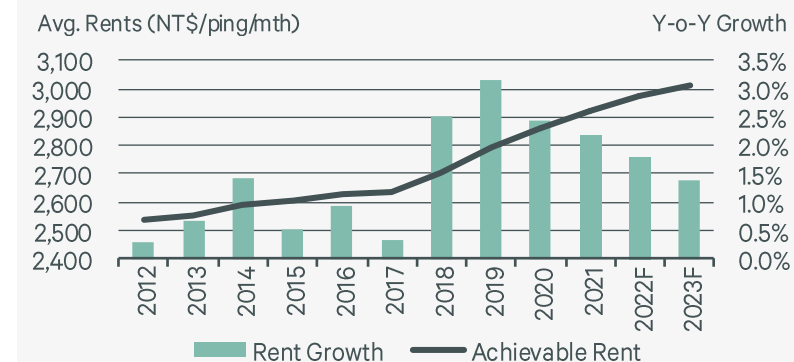
The rise of hybrid work

CBRE’s 2022 Taiwan Occupier Sentiment Survey conducted this March revealed that 69% of Taiwanese occupiers have plans to adopt a hybrid working approach after the pandemic stabilises. While the pace of implementing hybrid working will likely be slow, more companies are expected to implement clearer guidelines for employees.

The shift to hybrid work will gradually compel some occupiers to consider creating agile office networks. This will have a positive knock-on effect on demand for flexible office space, with flex providers already in the market searching for new locations. Selected landlords may introduce or expand their own flex space offering to attract and retain tenants.



Figure 5: Taipei Grade A Office Rents



Source: CBRE Research, Q1 2022

42%

of companies surveyed plan to renew leases in their current location for the near-term

69%

of companies surveyed intend to adopt hybrid working in a steady state environment



TRENDS TO WATCH

Stricter ESG requirements

As more foreign and domestic firms commit to achieving carbon neutrality between 2030 and 2050, they will come under increasing pressure to comply with ESG standards. Relocation demand for green office buildings in Taiwan will increase as companies place a stronger focus on improving energy efficiency and enhancing employee health and wellness. As office buildings with sustainability features, touchless technology and comprehensive amenities attract increasing demand from occupiers, more office owners and developers in Taipei will commit to investing in adding or upgrading ESG features in their properties.

03

Retail

Rise in infections to dampen growth

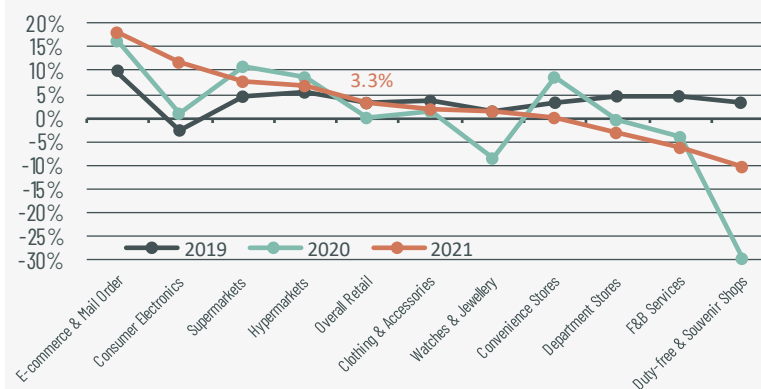
Total retail sales in Taiwan rose by 3.3% y-o-y in 2021 despite a surge in local COVID-19 infections in May and June. The strongest performance was registered by e-commerce and mail order retailers, which achieved growth of 18.3% y-o-y in 2021. Although Taiwanese consumers increasingly shop online, they have also become more cautious about dining out amid the prolonged pandemic. F&B retailers have seen receipts decline steadily over the last two years, with restaurants providing banquet and catering services hit the hardest.

Taiwan's retail industry is expected to benefit from the positive domestic economic outlook in 2022 as well as increases in salary levels across a range of industries. However, rising inflation and the volatile stock market could see consumers rein-in spending in the short-term. While consumption will be supported by the easing of COVID-19 restrictions, Taiwan's current and to date largest ever wave of infections that commenced in April of this year is anticipated to dampen the pace of retail sales growth.

More retailers to adopt omnichannel strategy

Total online retail sales in Taiwan rose by 24.5% y-o-y to NT\$430 billion in 2021. Although online sales accounted for just 10.8% of total retail sales last year, this marked a substantial increase from the 7.5% immediately prior to the onset of the pandemic, reflecting the rapid growth in online consumption witnessed since 2020. As online purchasing becomes more popular, online retail penetration will continue to increase.

Figure 6: Annual Sales Growth by Sector



Source: Ministry of Economic Affairs, Q1 2022

Figure 7: Online Share of Retail Sales by Sector



Source: Ministry of Economic Affairs, Q1 2022

To adapt to consumers' changing needs and navigate pandemic-related uncertainty, many retailers in Taiwan are expanding their omnichannel capabilities. Although the current online penetration rate of general merchandise stores, including department stores and supermarkets, stands at just 2.3%, these retailers are increasingly utilising mobile apps to enhance customer loyalty. With demand for grocery e-commerce having grown rapidly in the last two years, leading supermarket chains are enhancing their online offering while partnering with delivery platforms to increase delivery options.

In addition to home delivery, an increasing number of brick-and-mortar retailers are providing click-and-collect services to generate foot traffic at retail stores. Meanwhile, selected local online-based retailers, mostly selling apparel, footwear and accessories, are accelerating offline expansion to increase brand awareness and provide better in-store experiences. CBRE expects retailers to continue to increase investment in enhancing omnichannel integration in the coming years.

While Taiwan's retail sector will benefit from the positive economic outlook and increasing salary levels, rising inflation may cause consumers to rein-in spending in the coming months.

Retailer sentiment to improve slowly

Vacancy rates in Taipei’s major shopping areas stood at record highs in 2021 as retailers adopted a conservative stance towards expansion amid the ongoing pandemic. The total number of new store openings by international brands in 2021 increased modestly from 2020 but stood well below pre-pandemic levels. Retailers in the coffee and restaurant segment remained a key driver of leasing demand, while retailers selling skincare and fragrance products registered the strongest expansion of any sector in 2021.

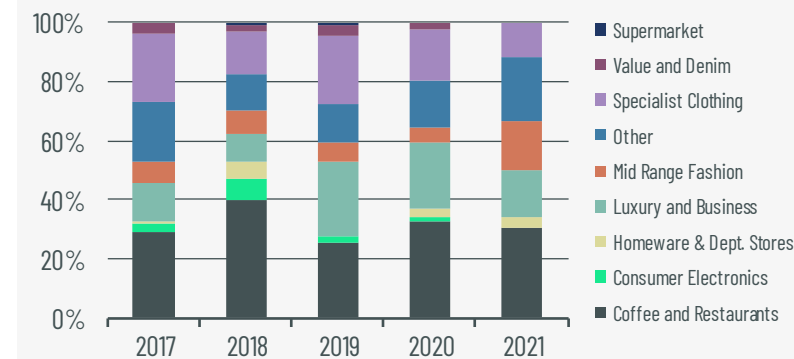
Retailers are expected to cautiously add new stores during 2022, with many postponing their expansion plans until the current surge in COVID-19 infections subsides. CBRE expects leasing demand to pick up strongly towards year-end as lifestyle brands expand their presence by opening new store formats in H2 2022 and foreign F&B retailers continue to pursue market entry despite a challenging sales outlook.

Moderate rental decline forecasted

With leasing demand set to remain sluggish in the near term, average high street rents in Taipei are forecasted to fall by 2.0% y-o-y over the course of 2022. The rate of decline will be relatively slow as many landlords have become reluctant to further reduce rents to fill remaining vacancy for more than 12 months. High street rents will likely show signs of stabilising by year’s end when demand for in-store experiences recovers. Selected local retailers, especially mid-market apparel and accessories brands, will be looking to take advantage of cheaper rents by securing retail units in prime locations.

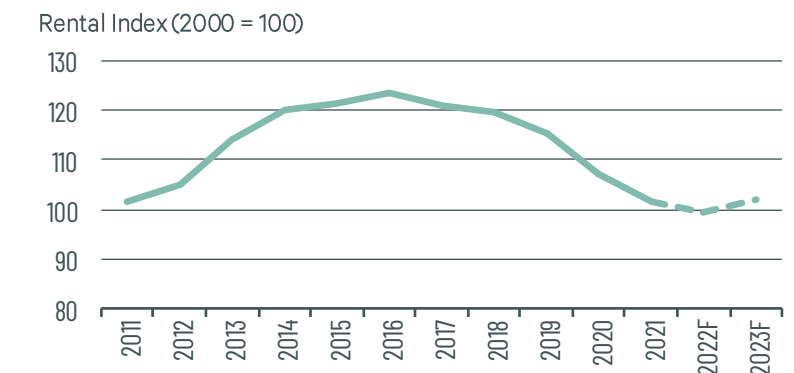


Figure 8: New Openings by Foreign Retailers



Source: CBRE Research, Q1 2022

Figure 9: Taipei High Street Rents



Source: CBRE Research, Q1 2022



TRENDS TO WATCH

Rising competition for brick-and-mortar space from online retailers

As consumer sentiment gradually improves in H2 2022, CBRE expects brick-and-mortar retailers to face increasing competition for space from e-commerce operators and other digital platforms. In addition to digitally native brands increasingly establishing a physical presence, selected e-commerce platform operators are seeking space for dark stores and even street-front units. Recent examples include food delivery service giants Uber Eats and Foodpanda, both of which have expanded their networks of dark grocery stores. Shopee has also been pursuing rapid offline expansion to enhance delivery efficiency, opening a total of 101 new stores on Taipei's secondary streets since August 2021. Potential growth areas include demand for retail stores close to residential areas.

04

Investment

Investment volume set to plateau

Taiwan’s commercial real estate investment market remained upbeat in 2021, with investment volume rising by 10.9% y-o-y to an 11-year high of NT\$143.4 billion. This strong market momentum was largely attributed to owner-occupiers’ growing appetite for acquisitions, partly fueled by low interest rates.

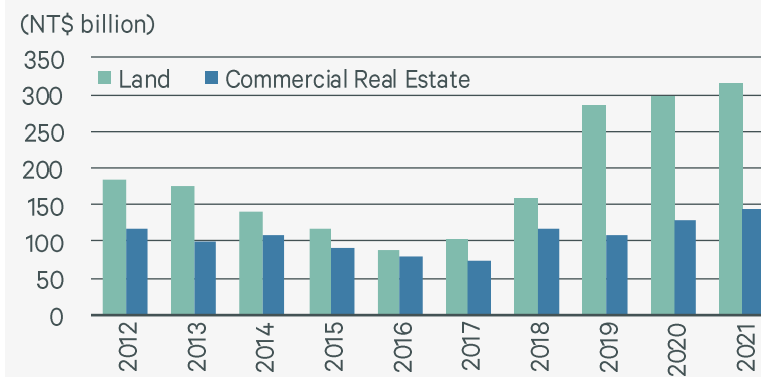
CBRE expects commercial real estate investment volume to plateau in 2022, with investment activity remaining stable in the next few quarters. While gradual interest rate hikes may only have a limited impact on investor demand, the increasing likelihood of banks adopting a more conservative lending attitude, combined with authorities’ plans to implement stricter cooling measures, will prompt many local investors and owner-occupiers to display a more cautious attitude towards potential acquisitions.

CBRE’s 2022 Asia Pacific Investor Intentions Survey found that nearly 70% of Taiwanese respondents intend to buy more real estate in 2022, with a similar percentage of respondents displaying higher intentions to sell. This suggests that investor strategy is likely to diverge in the coming months.

Land sales market set to weaken

Taiwan’s land sales market recorded another strong year in 2021, with total investment turnover reaching a historical high of NT\$313.7 billion. Domestic developers were seen actively expanding their land banks amid the red-hot housing market, while local corporates, especially manufacturers, were eager to purchase industrial land to cater to future expansion.

Figure 10: Taiwan Property investment turnover



Source: CBRE Research, Q1 2022

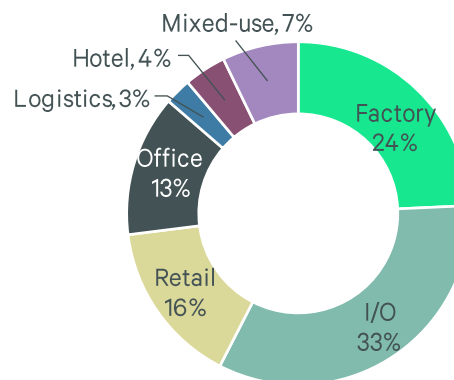
Following the introduction of a series of measures to tame rising home prices, Taiwan’s residential market is set to cool over the course of 2022. Selective credit controls adopted by Taiwan’s central bank, combined with surging construction costs, will see domestic developers become more vigilant when evaluating investment opportunities. Total land transaction volume is expected to decline modestly this year, albeit still remaining above the long-term average.

Industrial assets to remain sought-after

Total investment turnover of industrial properties, including industrial land, factories and industrial offices, amounted to NT\$46.7 billion in 2021, marking an increase of 32.6% y-o-y. With industrial assets accounting for 35% of total real estate investment volume in 2021, the sector is now firmly established as an important component of Taiwan’s real estate investment market.

Led by companies in the semiconductor industry, Taiwanese manufacturers have accelerated their purchasing of industrial properties for self-use as they raise capital spending plans for the next few years. Insurance companies and developers have also begun targeting industrial real estate, mainly seeking logistics and industrial office opportunities. Limited supply and solid demand from end-users will ensure Taiwan’s industrial real estate market remains upbeat in 2022.

Figure 11: Commercial Property investment by Sector, 2021



Source: CBRE Research, Q1 2022

Strong appetite for core assets

While industrial assets will continue to draw strong investor interest, investment in office properties will also pick up during 2022. In view of mounting external geopolitical and economic uncertainties, local investors, particularly insurance companies, will focus on office assets providing stable rental income. CBRE's 2022 Investor Intentions Survey found that 80% of Taiwanese investors intend to invest in core and core-plus assets this year. In addition, around 30% of investors are willing to pay above asking prices for office assets, signaling robust investor demand.

Investor interest in the retail and hotel segments will remain weak, with pandemic-related uncertainty and ongoing travel restrictions set to deter investors from seeking opportunities in the latter. However, large local developers will continue to show an interest in acquiring motels and small-sized hotels located in prime locations, particularly those suitable and ready for redevelopment.

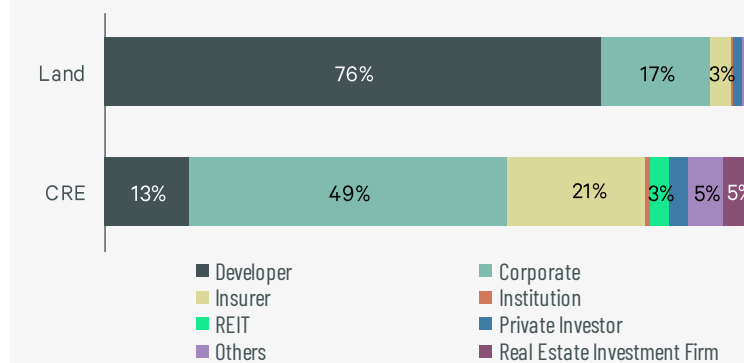
In the retail sector, high street shops in major shopping areas should draw attention from a selected number of private real estate investment firms looking to capitalise on falling asking prices. Disposals of department stores and shopping malls will be scarce as most landlords are under little pressure to sell.

Marginal yield compression expected

Robust investor demand for office assets in Taipei City and industrial assets in major technology parks will likely push up capital values in 2022. However, yield compression in these two sectors is expected to be marginal given that moderate rental growth will partially offset the impact of rising prices, accompanied by institutional investors taking a more cautious stance amid interest rate concerns. Retail yields are projected to rise slightly as landlords will need to lower asking prices to attract potential buyers.

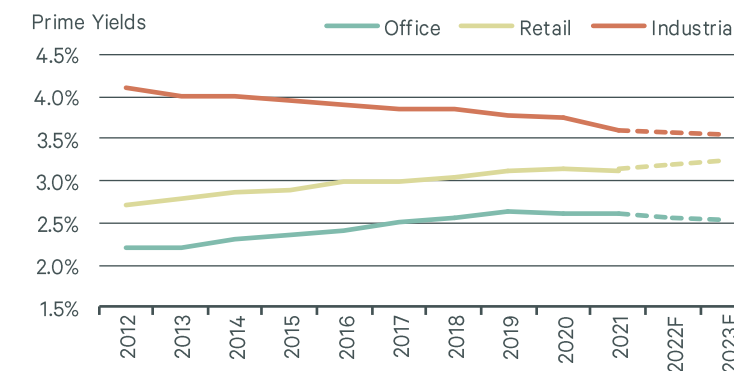


Figure 12: Real Estate investment by Buyer Type, 2021



Source: CBRE Research, Q1 2022

Figure 13: Yield Trends in Taipei City*



Source: CBRE Research, Q1 2022

* Industrial yields track the performance of industrial markets in Northern Taiwan.



TRENDS TO WATCH

More capital set to move south

Total real estate investment in Southern Taiwan increased by 17.6% y-o-y to NT\$70.8 billion in 2021, indicating an increase in demand for commercial properties and development sites in southern cities. Following announcements by several foreign and domestic companies of commitments to build new manufacturing plants and R&D centres in Southern Taiwan, several investors have begun to focus on acquiring industrial assets and residential sites in these areas. The relatively abundant availability of assets for sale, along with the government's desire to develop a semiconductor belt, will ensure that real estate investment in southern cities continues to grow over the course of 2022 and beyond.

Contacts

Taiwan Research

Ping Lee

Head of Research
ping.lee@cbre.com

Mindy Tu

Analyst
mindy.tu@cbre.com

Business Contacts

Man Chan

Head of Advisory & Transaction Services
man.chan@cbre.com

Jesson Lin

Head of Capital Markets
jesson.lin@cbre.com

Winston Shih

Head of Valuation & Advisory Services
winston.shih@cbre.com

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