Intelligent Investment

2024

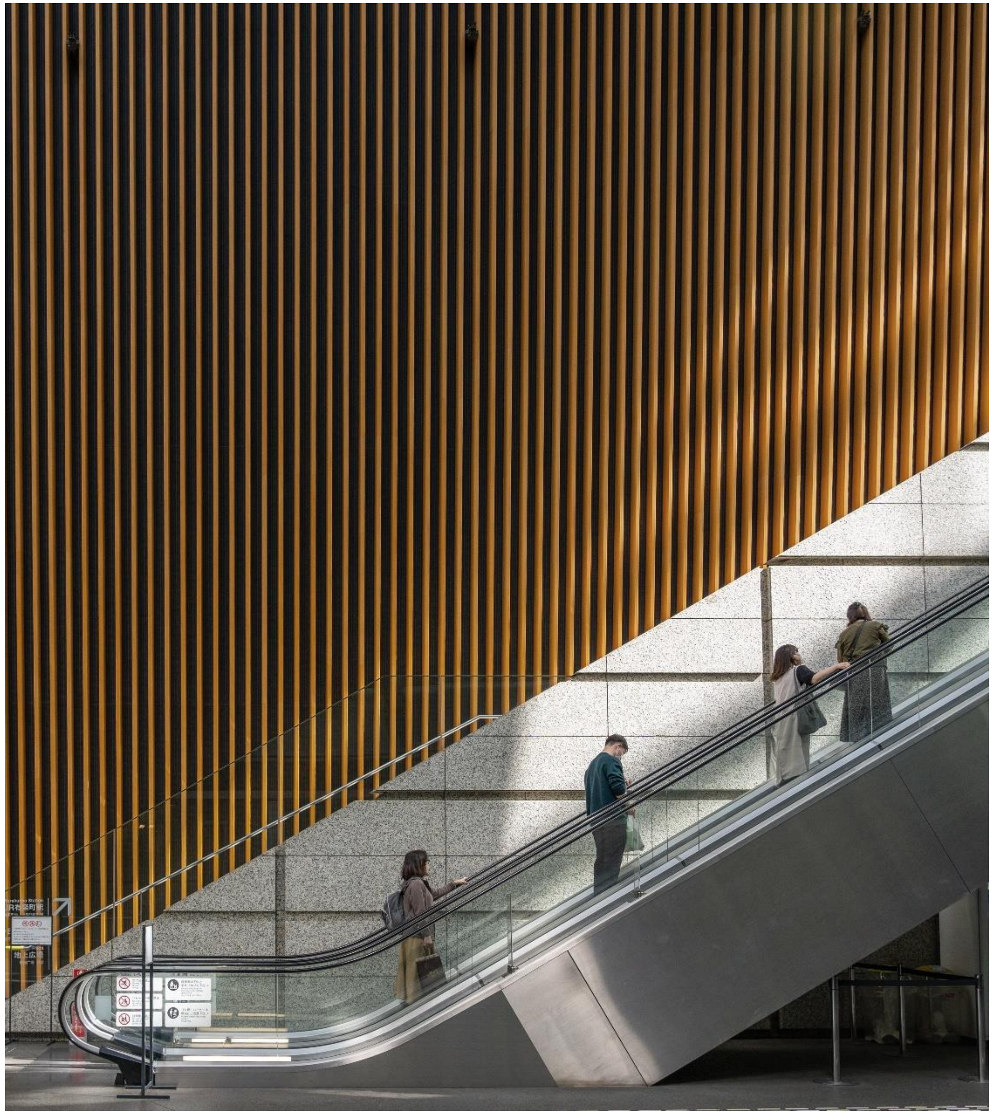
Market Outlook Mid-Year Review

REPORT

TAIWAN
REAL ESTATE

CBRE RESEARCH
JUNE 2024

Contents



Taiwan’s real estate market to witness growth in 2024 thanks to improving fundamentals

01

Economy & Policy

Economy to strengthen after slowdown

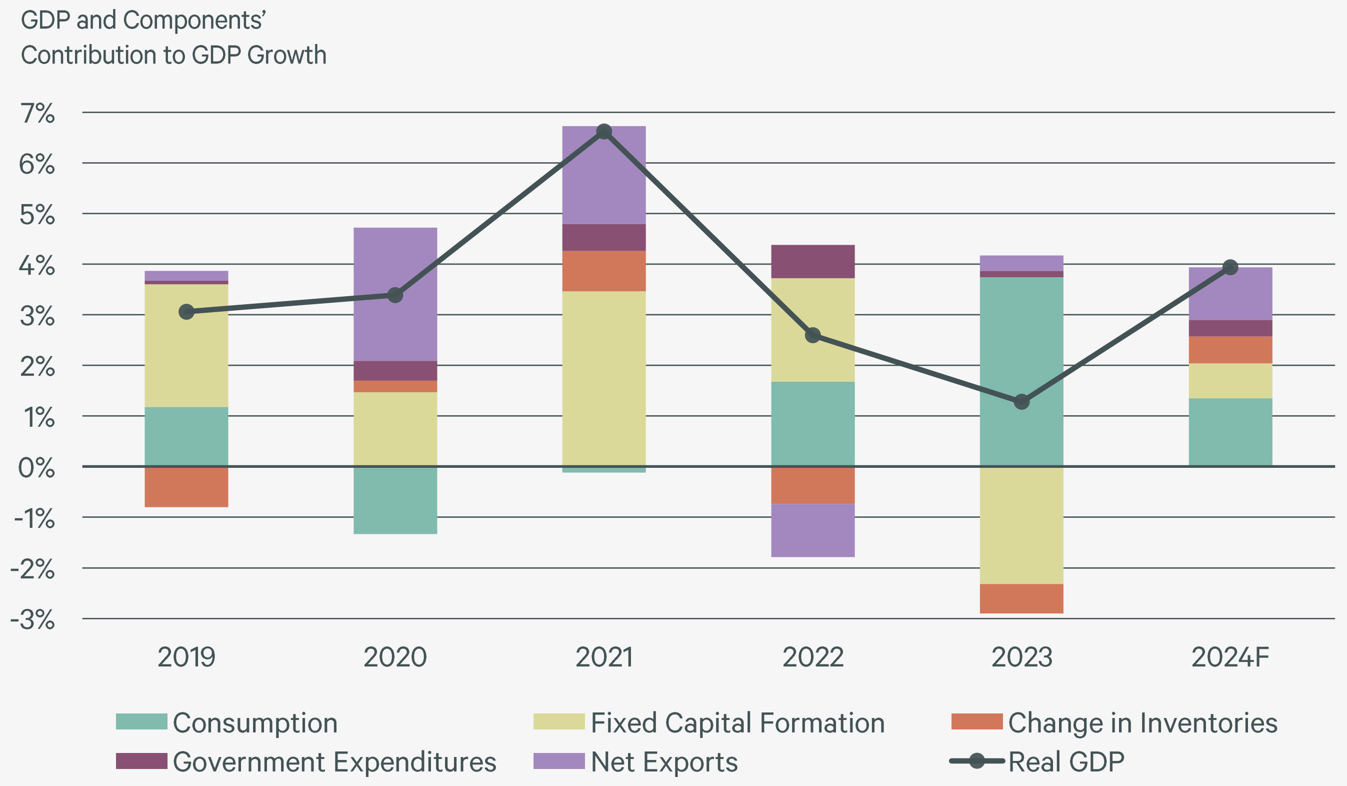
Taiwan's GDP growth slowed to 1.3% y-o-y in 2023, hitting the lowest level since 2010. The weak performance was mainly due to a fall in capital investment and slow inventory liquidation amid sluggish global trade. Nevertheless, total exports in Taiwan began to rebound in late 2023, increasing by 3.3% y-o-y in Q4 2023, backed by growing demand for AI-related products. On the other hand, consumer confidence showed a steady improvement throughout 2023, enabling household expenditure to emerge as a major catalyst for economic growth last year.

According to the Directorate General of Budget, Accounting and Statistics, Taiwan's GDP is forecasted to expand by 3.9% y-o-y in 2024, supported by resilient domestic consumption and recovering private investment. A stable job market with minimum wages growing by 4% y-o-y in 2024, coupled with the soaring stock market, will ensure that consumer spending remains a growth driver. Taiwan's exports are expected to gain strong momentum this year, benefiting from the ever-increasing adoption of AI and advanced computing technologies globally. As domestic manufacturers carefully increase capital expenditure in the midst of global uncertainty, the industrial property market in Taiwan will likely attract solid purchasing demand from owner-occupiers.

Geopolitical tension to continue

Following Taiwan's presidential and parliamentary elections in January 2024, the DPP's Lai Ching-te was sworn in as the new president in May. While the new government is seeking to resume dialogue with Beijing, cross-strait tensions are less likely to ease in the short-term, with mainland China possibly imposing higher tariffs on Taiwanese goods. Progress on loosening travel restrictions by both governments across the Strait has been slow, suggesting Taiwan's tourism and hospitality market may experience limited growth momentum for the foreseeable future. Given the uncertainty surrounding cross-strait relations, some multinationals may take a more cautious attitude toward investing in Taiwan. The overall real estate market will therefore continue to be dominated by local players.

Figure 1: Taiwan Real GDP Growth by Components



Source: Directorate General of Budget, Accounting and Statistics, May 2024

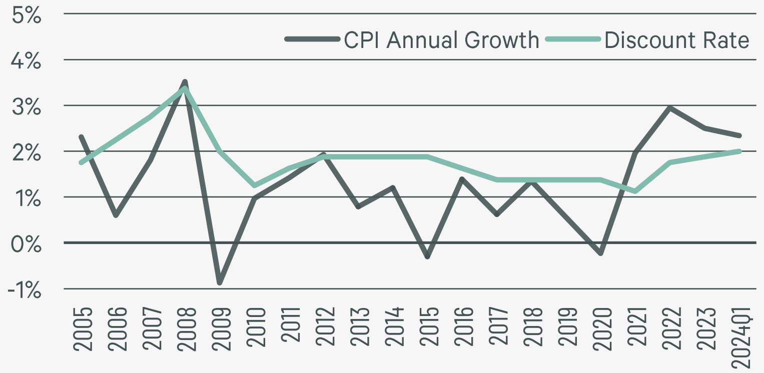
Interest rates likely to stay high

Taiwan' s central bank unexpectedly raised benchmark interest rates by 12.5bps in March 2024 after keeping them on hold for three consecutive quarters. The move was mainly to contain inflation expectations, as electricity prices were hiked by an average of 11% from April 1, 2024. Taiwan's CPI growth rate reached 2.34% y-o-y in Q1 2024, with the central bank forecasting annual inflation to ease from 2.49% in 2023 to 2.16% in 2024. CBRE expects the bank to delay rate cuts on account of the improving inflation outlook and solid domestic economic tailwinds, meaning that interest rates will stay at 16-year highs for the next few quarters.

Starting in April, electricity prices for households, businesses and industrial users were increased at rates ranging between 3% and 25%. While 93% of households will only face mild increases in electricity prices, the hikes for large electricity consumers, such as semiconductor companies and data centre operators, could be as high as 25%. The government has also proposed to impose carbon fees on enterprises' greenhouse gas emissions in 2025, although an appropriate fee structure is yet to be determined. Despite delays in finalising carbon pricing plans, their implementation is certain to affect the operations and profitability of many prominent electronics manufacturers. More companies are expected to adopt ESG as a priority, stepping up investment in the net-zero transition and generating greater demand for green buildings.

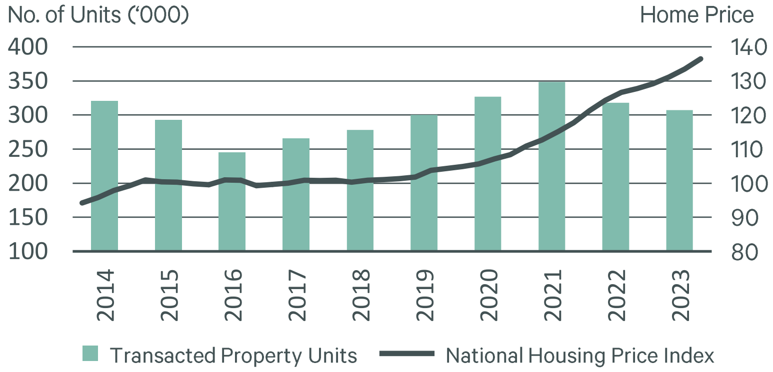
Taiwan's housing market has been buoyant since Q3 2023, with the total number of residential units transacted surging by 26% y-o-y during Q1 2024. The preferential mortgage programme, effective from August 2023, provided a major lift to the residential sector, which involves state-run banks offering a 0.375% reduction in the mortgage rate to homebuyers for a period of three years. Domestic developers therefore adopted a more active approach to acquiring development sites in major Taiwanese cities in Q1 2024 and are expected to remain in buying mode for the rest of the year.

Figure 2: Inflation vs. Discount Rate



Source: DGBAS, Central Bank of Taiwan, Q1 2024

Figure 3: Housing Market Performance



Source: Ministry of the Interior, Q1 2024

02

Office

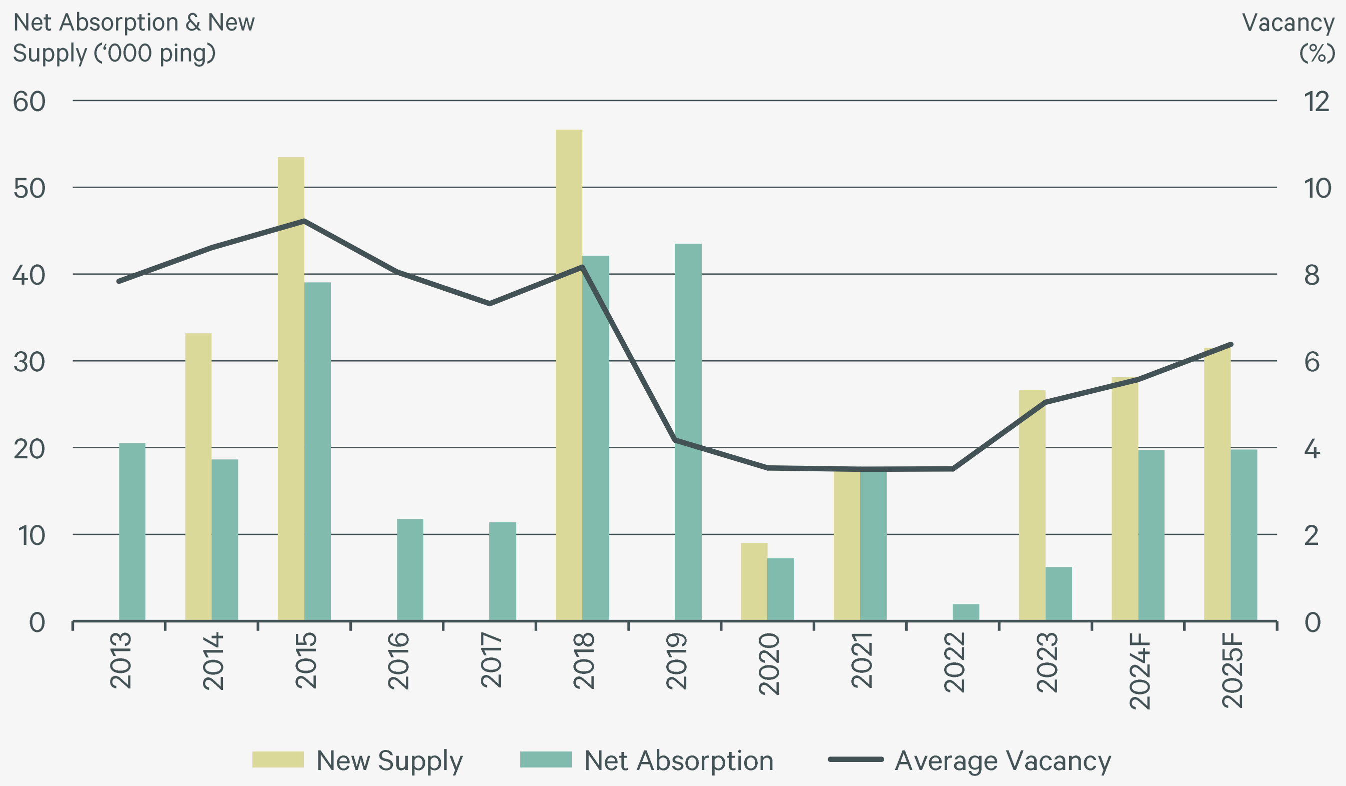
Vacancy pressure to be limited

Three new office buildings located in Taipei's CBD areas were completed in 2023, representing a total leasable area of approximately 26,600 ping. The addition of new supply, accompanied by sluggish leasing demand and slow take-up in the first nine months of 2023, pushed up average office vacancy by 1.5-pps. to 5.1% over the year. However, occupiers have adopted a more positive stance towards relocation in recent months, with an increasing number of multinationals showing a willingness to move to office buildings commanding higher rents.

As the Taiwanese economy strengthens, more corporates will embark on business expansion and accelerate decision-making processes to relocate. Office enquiry levels are expected to witness strong growth during 2024, mostly driven by upgrading demand. Flight-to-quality will continue to dominate relocation activity as companies strive to provide better workspaces for their employees. In the meantime, occupiers seeking to expand their office space will likely adopt a prudent approach, with many firms inclined to rent additional space in their current buildings. While enquiries about moving to green buildings will continue to rise, such requirements are unlikely to be realised soon due to record low vacancy in existing stock. New completions complying with international green building standards will therefore be keenly sought after by ESG-conscious occupiers.

Although three new office buildings totaling 28,100 ping will come on stream in Taipei's major business districts over the course of 2024, average office vacancy is forecasted to edge up to just 5.6% by the end of the year thanks to increasing relocation demand. Net absorption is expected to pick up noticeably from 2023 levels, backed by improving leasing sentiment. While large-sized relocations may remain sporadic this year, medium-sized transactions are likely to surge on the back of some multinationals adopting a less stringent stance towards real estate costs.

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



Source: CBRE Research, Q1 2024

Rental growth to slow further

Average Grade A and Grade B office rents grew slightly by 1.0% and 0.6% y-o-y in 2023, respectively, marking the slowest annual rates of growth since 2018. While most landlords retain a strong negotiation position due to low vacancy in their portfolios, achievable rents for many office buildings are gradually reaching the peak. Prime offices located in Xinyi-Jilong Area are showing a similar trend, with annual growth of average prime rents contracting to 0.5% in 2023 from 5.4% in 2022. Although tenants are keen to relocate to better buildings or core locations, few occupiers are willing to pay a sizable rental premium.

In view of occupiers' resistance to paying above-market rents, most landlords are expected to keep asking rents flat in the next few quarters. Grade A office rents are forecasted to increase by 0.9% y-o-y during 2024, largely pushed up by leasing deals in newly completed offices. Overall, Taipei's office market will continue to favour landlords before a supply boom commences in 2026. However, landlords of existing buildings will become more flexible in offering incentives to attract and retain tenants.

Supply of green buildings to expand

As revealed in CBRE's 2023 Asia Pacific Real Estate Chief Sustainability Officer Survey, about half of surveyed property owners in the region have set 2050 as the target year for achieving net-zero emissions. However, another ESG survey by CBRE showed 53% of global occupiers aim to reach net zero by 2030. To support multinational tenants' ambitious goals, asset owners in Asia Pacific including Taiwan are anticipated to accelerate efforts to upgrade buildings and adopt ESG practices.

According to CBRE, 100% of new Grade A offices in Taipei's CBD areas scheduled for completion in the next three years will apply for local and international green certification, with 47% set to be LEED certified. However, most local landlords have not considered the provision of green lease clauses, which may not meet multinational occupiers' expectations. Landlords looking to draw prominent tenants are advised to make stronger commitments to green leases.

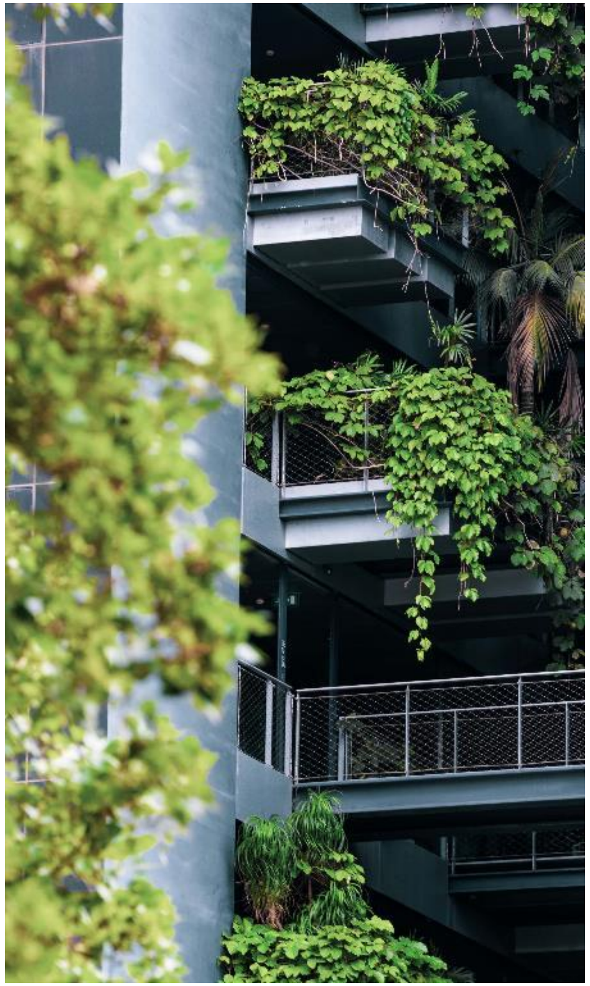
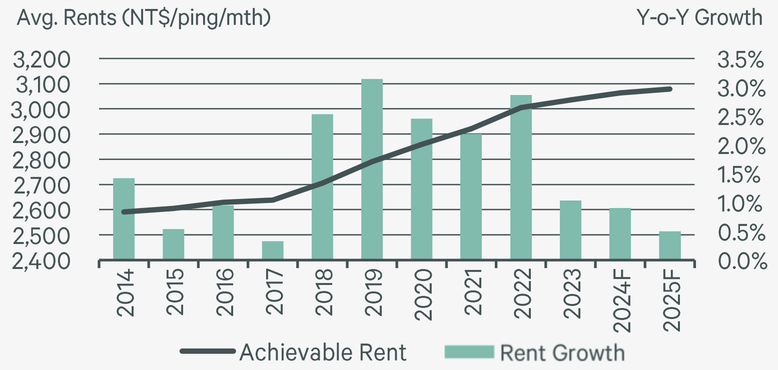


Figure 5: Taipei Grade A Office Rents



Source: CBRE Research, Q1 2024

78%

of developers surveyed intend to develop green buildings as part of their ESG initiatives

6%

of investors and landlords polled indicate plans to incorporate green lease clauses

03

Retail

Consumers to continue spending

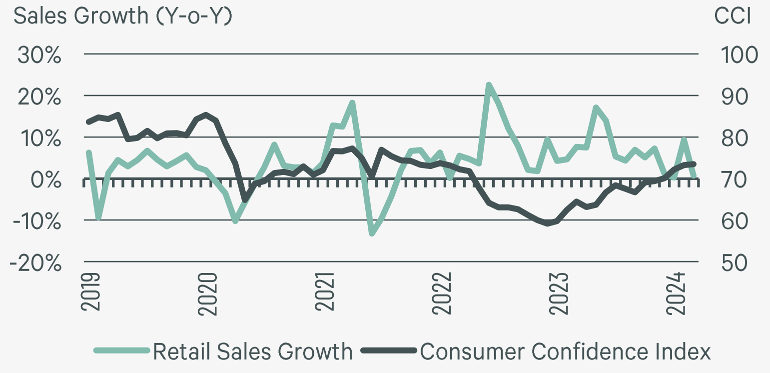
Despite a high base of comparison, total retail sales in Taiwan rose by 6.9% y-o-y to NT$4,576 billion in 2023. The solid growth was mainly due to a boost from the loosening of most pandemic restrictions in Taiwan in late 2022. Demand for indoor dining and banquets increased steadily, prompting the F&B sector to post stellar growth of 18.8% y-o-y in total receipts.

Gross sales revenue generated by department stores and shopping malls has risen by a double-digit percentage for two straight years, due partly to solid consumer spending and increased sources of revenue from new mall openings. However, the first two months of 2024 saw sales growth of department stores slow to 1.3% y-o-y, with several operators suffering from the impact of rising outbound travel.

Latest data from the Tourism Administration show that Taiwan's outbound departures amounted to 2.67 million in January and February 2024 combined, almost equivalent to pre-pandemic levels. On the other hand, ShopperTrak's Taiwan Retail Traffic Index – which tracks in-store footfall in major retail complexes across the island – revealed that foot traffic dropped 14.4% y-o-y over the same period. With outbound trips from Taiwan set to surge further during 2024, this trend is likely to have an adverse impact on the domestic retail market.

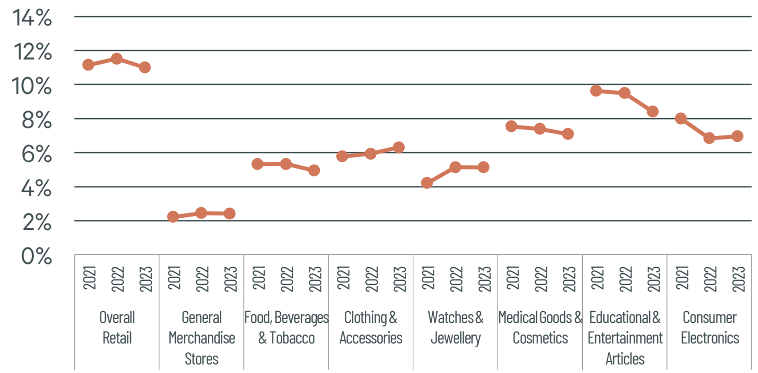
As inflationary pressure gradually eases, consumer confidence is expected to continue to improve. A bull run in the stock market, along with rising home prices, will likely exert a wealth effect on consumption, ensuring Taiwanese consumers remain in spending mode. Taiwan's retail sales are anticipated to grow steadily in 2024, albeit at a slower pace due to the high base effect from last year.

Figure 6: Retail Sales & Consumer Confidence Index



Source: Ministry of Economic Affairs, Q1 2024

Figure 7: Online Share of Retail Sales by Sector



Source: Ministry of Economic Affairs, Q1 2024

Slower-than-expected recovery in tourism

The speed of the tourism recovery in Taiwan has been slow compared to some Asian countries, with total visitor arrivals in 2023 recovering to 55% of 2019 levels. Although figures continued to improve in the first few months of 2024, the Tourism Administration forecasts that this year's arrivals will return to just 10 million, representing 85% of pre-pandemic levels, as a result of the absence of mainland Chinese tourists.

Against the backdrop of unstable cross-strait relations, mainland China is unlikely to once again become the largest source market for Taiwan in the short- to medium-term. The tourism boost to the retail sector is expected to gradually fade over the coming quarters, with gift and souvenir shops possibly experiencing slower growth in sales.

E-commerce growth to moderate

Although total online retail sales in Taiwan reported another record-breaking year, the annual growth rate moderated from 10.9% in 2022 to 2.1% in 2023. Furthermore, online penetration slipped by 0.5-pps. over the last year, as consumer appetite for physical shopping in the post-pandemic period increased. To provide a seamless shopping experience, many retailers will continue to adopt an omnichannel approach. Selected e-commerce fashion and apparel brands will seek to open offline stores in prime locations in 2024 to strengthen their physical retail presence.

Retailers step up new openings

With consumers returning to brick-and-mortar stores and more tourists arriving from abroad, vacancy rates in major shopping areas in Taipei have continued to fall over the past few quarters. The total number of new stores opened by international retailers in Taipei's CBD areas in 2023 has almost returned to 2019 levels, while the same figure for Q1 2024 rose by 25% y-o-y, suggesting an ongoing trend of retailers planning store expansion.

Taipei's retail market will see the addition of two new large-scale shopping malls during H2 2024, both providing a total GFA of over 40,000 ping. These major new developments are likely to attract new local and international brands looking to expand store networks and gain brand exposure. Across retail subsectors, F&B retailers will continue to be the most active, with selected local restaurant chains planning to open flagship stores. Fashion and beauty-related retailers are also expected to drive leasing demand while remaining selective about locations and asset quality.

Rents to rebound amid falling vacancy

Despite the lower vacancy rate, average high street rents in Taipei dipped by 0.6% q-o-q in Q1 2024 due to many transactions still being signed at record low rents. However, average rents are forecasted to grow by 3% y-o-y over 2024, as landlords expect to pass on higher costs to tenants amid improving market sentiment. Some retailers will opt to sign longer-term leases to obtain more favourable terms. Shopping areas that cater to tourists and young shoppers, including Ximenting and Nanjing W. Road areas, will likely register higher rental growth for the foreseeable future.

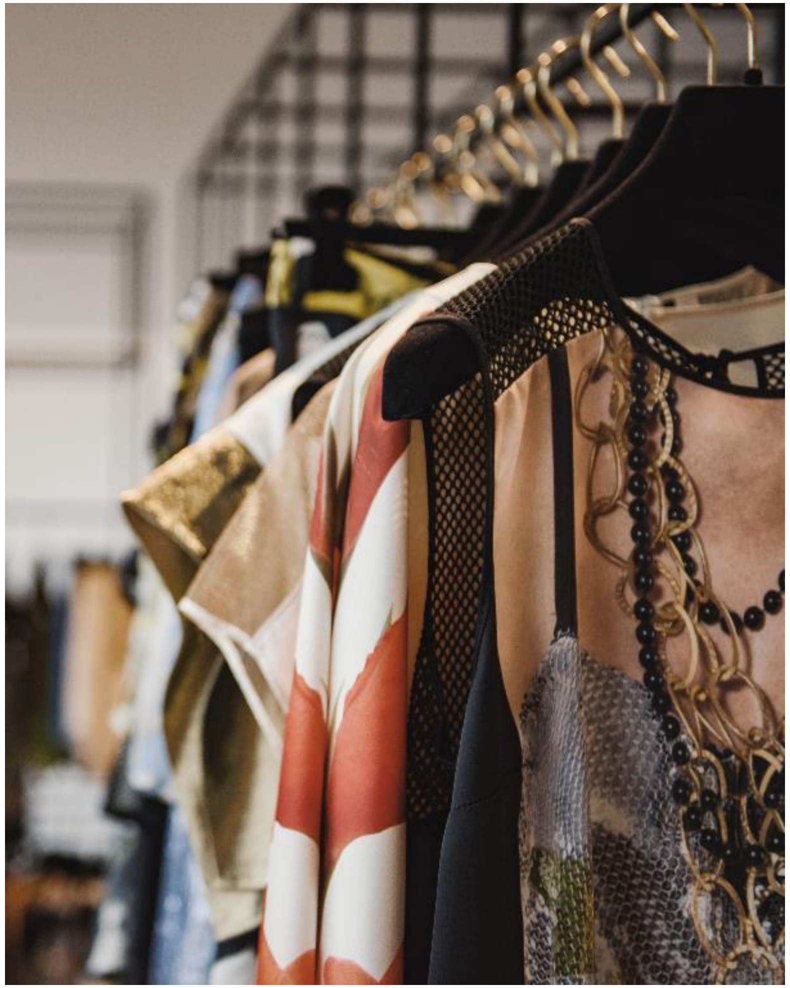
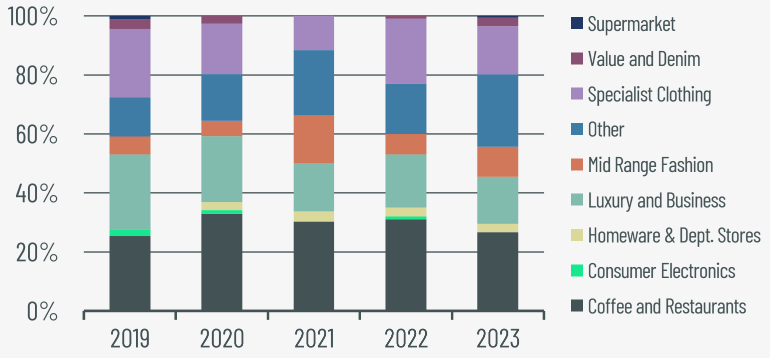
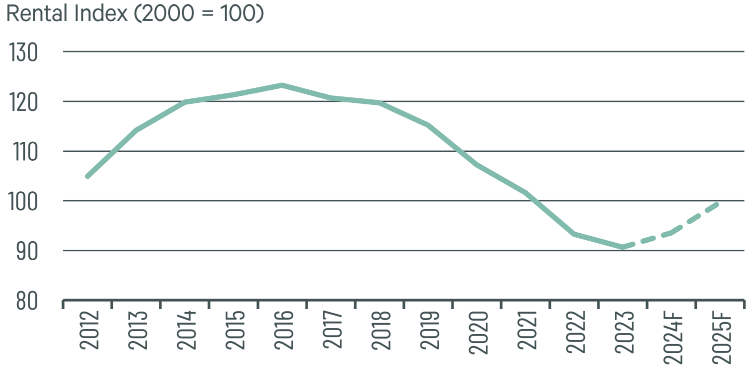


Figure 8: New Openings by Foreign Retailers



Source: CBRE Research, Q1 2024

Figure 9: Taipei High Street Rents



Source: CBRE Research, Q1 2024

04

Investment

Solid interest in commercial real estate

Total commercial real estate investment volume in Taiwan grew slightly by 1% y-o-y to NT$134.6 billion in 2023 despite benchmark interest rates being hiked by a total of 75 bps between March 2022 and March 2023. The stable performance was fueled by the liquidation of Shin Kong No.1 REIT, with the REIT's disposal of six quality assets contributing 23% of full-year investment volume.

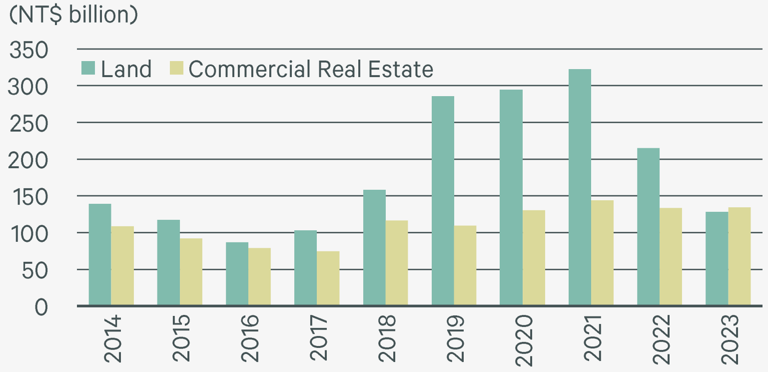
In March 2024, Taiwan' s central bank unexpectedly raised its policy rates by another 12.5 bps, while commercial real estate investment sales for Q1 2024 were flat compared to the prior year. In view of the high base of comparison with 2023, total commercial real estate investment volume is expected to drop modestly over 2024. Domestic owner-occupiers will continue to be a major source of demand as they are less impacted by rising interest rates.

According to CBRE's 2024 Taiwan Investor Intentions Survey, nearly 42% of investors plan to increase their allocation to real estate this year, a rise of 9-pps. y-o-y. Although the result indicated stronger buying intentions, nearly half of investors also said that reasonable pricing would be the main requirement for increasing investment in real estate. The findings suggest that investment activity may be depressed due to the still wide pricing gap between sellers and buyers.

Land sales volume to pick up

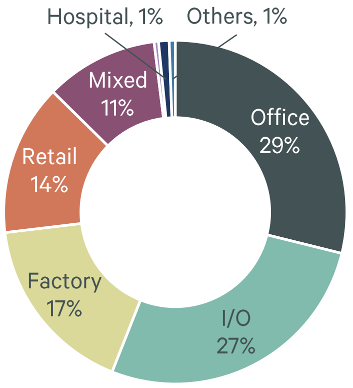
Taiwan's land transaction volume in 2023 dropped by 40% y-o-y to the lowest level since 2018, as developers mainly took a conservative attitude towards land acquisitions. Land sales nevertheless enjoyed a strong Q1 2024, with total investment turnover almost tripling compared to the same period of last year.

Figure 10: Taiwan Property Investment Turnover



Source: CBRE Research, Q1 2024

Figure 11: Commercial Property investment by Sector, 2023



Source: CBRE Research, Q1 2024

Developers' land purchases surged by 284% y-o-y amid a housing market boom.

Considering the increasingly active residential market, the central bank will likely continue to impose selective credit controls over the course of 2024. However, more developers are expected to add to their land banks this year, with an ongoing focus on six municipalities and the Hsinchu area. Taiwan's full-year land sales are forecasted to increase by 25% to 30%.

End-users to dominate industrial sector

Total investment turnover of Industrial assets, including industrial land, factories and industrial offices, declined to a four-year low of NT$ 92.7 billion in 2023. Nonetheless, purchasing demand from owner-occupiers recovered in Q1 2024 along with a gradual improvement in export orders, pushing up industrial investment volume by 40% y-o-y.

Domestic owner-occupiers, especially high-tech manufacturing companies, are expected to remain the largest buyer of industrial properties during 2024. On the other hand, institutional investors may capitalise on investment opportunities that arise from foreign companies shifting to an asset-light model. Total transaction volume in the industrial sector is forecasted to rise moderately this year on the back of improving buyer sentiment. The new government's commitment to fostering regional industrial clusters is also likely to benefit the industrial property market in the coming years.

Core assets to remain favoured

A firm economic recovery, coupled with interest rates staying high for a longer period, will prompt local investors to take a cautiously positive stance towards commercial real estate investment this year. Despite improving leasing demand, many investors are not yet willing to take on more risk, with CBRE's 2024 Taiwan Investor Intentions Survey finding that 64% of local investors would opt for core or core-plus strategies in 2024.

Quality office assets and modern industrial facilities are expected to be most sought-after, while location will remain a priority for investors. Insurance companies required to meet minimum yield requirements are expected to seek office and industrial properties offering rental yields of 3.2% and higher. In the meantime, owner-occupiers will show strong interest in pre-sale offices and industrial properties ready for production use. In contrast, investors are showing limited interest in retail and hotel assets regardless of an ongoing recovery in both sectors. Retail assets generating stable income flows and en-bloc hotel buildings sitting on land suitable for redevelopment may be attractive to a selected number of investors.

Limited repricing to prevent yield expansion

Yield expansion in Taiwan lags that in many Asian markets due mainly to limited repricing. With many owners under no pressure to adjust their asking prices to attract potential buyers, yield expansion across asset classes this year is expected to be marginal. The only exception would be the industrial sector, which may witness a slight compression in yields. Price appreciation will be led by assets located in mature industrial submarkets where land supply is tight.

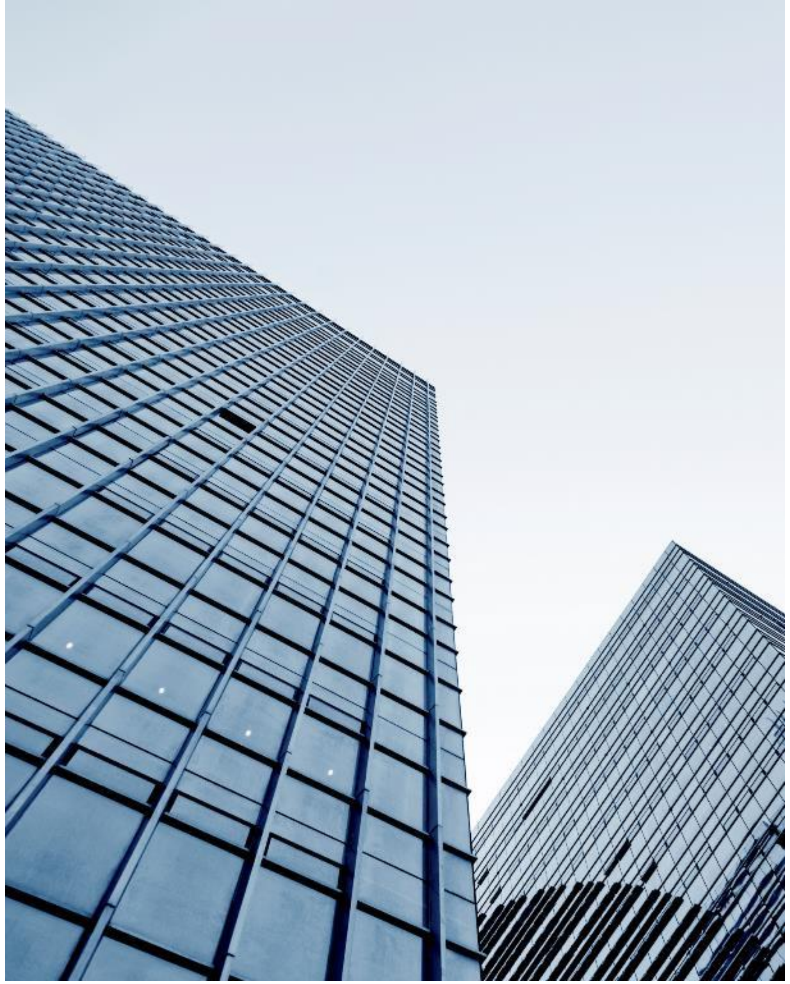
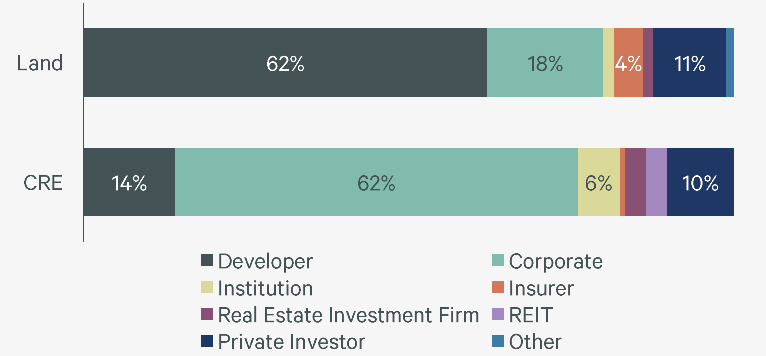
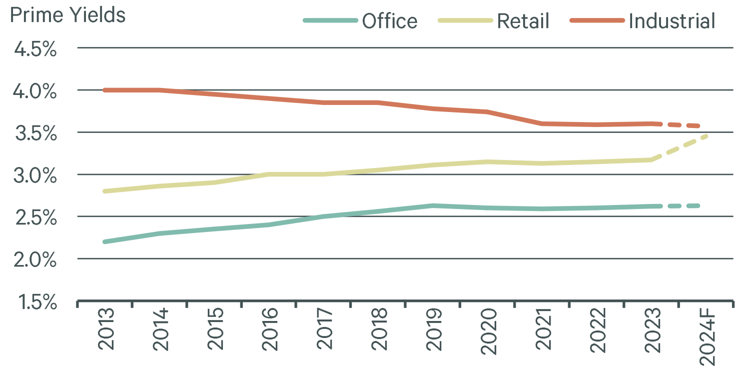


Figure 12: Real Estate investment by Buyer Type, 2023



Source: CBRE Research, Q1 2024

Figure 13: Yield Trends in Taipei City*



Source: CBRE Research, Q1 2024

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

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