

Taipei Office Market Overview As of Q2 2007

Executive Summary

Taiwan's economy remained solid based on the stable foreign trade, the improvement of stock market and property market, and active construction investment. The GDP growth for 2007 Q2 is forecasted at 4.40%.

No new supply came on stream in 2007 Q2, the total inventory still stood at 1.4 million pings. The only one new supply in 2007 is Yuan Da Headquarter Building, a self-used building. In 2008, there will be 2 buildings released- Walsin Building and Meifu Jianguo N. Building. For these two buildings, in addition to self-used space, several space has been committed to particular tenants; thus, only little space will be truly released.

The demand of office space continued to increase with net absorption at 11,000 pings in 2007 Q2, and the vacancy rate fell down to 6.99% from 7.82%, a 0.83% drop. Similar to the previous quarter, Hsin-Yi district took the largest absorption with net take-up at 7,500 pings, and the vacancy rate dropped to 12.08% from 14.34%, a 2.26% difference. Regarding each grade, the net absorption of Premium grade office buildings reached 7,800 pings, accounting for 68% of the total, and the vacancy rate decreased to 15.54% from 19.80%, a 4.26% drop.

Following the improving rental prices, the room for negotiation continued to shrink in 2007 Q2. The average rents increased from NT\$1,786/ping/month to NT\$1,792/ping/month, a 0.34% growth, and the room for negotiation fell to 9.75% from 10.06%.

The new supply of 6,000 pings made the total inventory reach 655,000 pings in Neihu Technology Park this quarter. Additionally, there are several I/O buildings under construction now, causing the land development ratio to raise to 79% from 74.5%. These construction works are expected to complete during 2008 and 2009. In the first half year of 2007, the demand showed relatively weak while compared to the preceding years (quarters) since there is little external market demand. In addition, following the release of new supply, the vacancy rate continued to increase from 6.41% to 7.83%, and rental price slightly decreased from NT\$1,169/ping/month to NT\$1,160/ping/month.

For 2007, the annual GDP growth is forecasted at 4.30% due to the stable domestic sector demand and foreign trade. Demand of office space will remain stable, and it is anticipated that the demand will still exceed supply causing vacancy rates to drop and rental prices to improve. Regarding future development in Neihu Technology Park, since there will be approximately 60000 ping of new supply released in 2007, it is expected that the vacancy rate will increase under such oversupply pressure, and the growth of rental/sales price will soften.

The rental price and vacancy rates for Taipei office market are expected to improve due to the active and solid demand in the market. The absorption ratio of Premium grade and grade A buildings is roughly 65% in the preceding quarters; thus, it can be seen that Premium grade and grade A office buildings with excellent location and high-quality amenities were the preferred choice when tenants consider relocating.

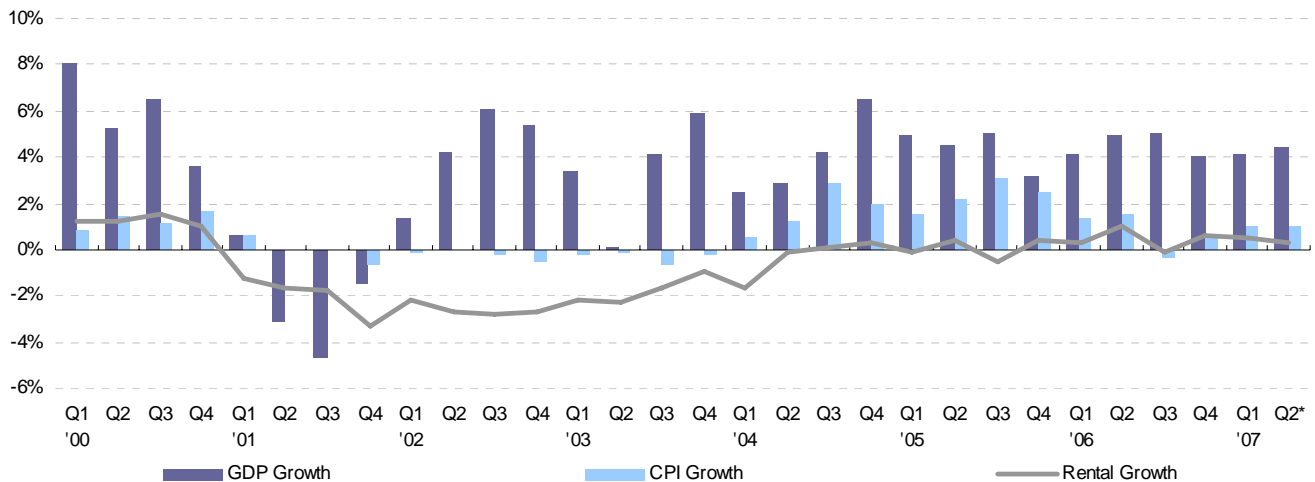
In terms of Neihu Technology Park, new supply will continue to come on stream consecutively in the next two years; thus, whether the demand can remain solid or grow positively is critical to vacancy rates and rental prices.

Taipei Office Market Key Indicators (2007 Q2)

	Average Asking Rents (NT\$/Ping/Mo)	Average Effective Rents		Room for Negotiation (%)	Vacancy Rate	
		(NT\$/Ping/Mo)	(qoq, %)		07 Q2	07 Q1
Overall Average	1,986	1,792	0.35%	9.75%	6.99%	7.82%
MS-TN District	2,136	1,951	0.38%	8.63%	6.31%	7.26%
Tun-S District	2,047	1,841	0.24%	10.06%	3.57%	3.31%
Hsin-Yi District	2,146	1,932	0.19%	9.96%	12.08%	14.34%
NK-SC District	1,924	1,758	0.98%	8.64%	6.18%	6.73%
NK-4/5 District	1,666	1,477	-	11.34%	9.27%	8.95%
West District	1,838	1,638	-0.49%	10.88%	5.15%	5.56%
JA-HS District	1,878	1,667	0.81%	11.23%	3.26%	3.90%
Premium Grade Buildings	2,960	2,633	-0.42%	11.04%	15.54%	19.80%
Grade A Buildings	2,460	2,216	0.13%	9.92%	4.76%	5.56%
Grade AB Buildings	1,997	1,821	0.20%	8.82%	7.15%	7.82%
Grade B Buildings	1,683	1,520	0.74%	9.69%	5.05%	4.77%

Source: Colliers International Taiwan Branch

Domestic Economic Performance vs Taipei Office Rental Growth



Sources: DGBAS, Colliers International Taiwan Branch

Macro Economy

Taiwan's economy remained solid based on the stable foreign trade, the improvement of stock market and property market, and active construction investment. The GDP growth for 2007 Q2 is forecasted at 4.40%.

Encouraged by the investment from foreign and domestic institutional investors, the stock index experienced a significant growth from 7,689.34 points in March to 8,086.96 points in May. This was also the first time exceeding 8,000 points in the past 7 years. Evidenced from the preceding years, the fluctuation of the stock market occur when the uncertainty of cross-strait relation and political turmoil occur, such as party rotation or elections (including 2007 Legislator Election, 2008 Taiwan's President Election, and 2008 Beijing Olympia). Thus, in the second half of 2007, whether the investment behavior will be affected by the aforementioned factors is worth to follow up.

In terms of currency exchange rates, the NT\$ has been relatively weak from the beginning of January 2007. The exchange rate slightly depreciated from 1US\$: 33.01 NT\$ in March to 1US\$: 33.26 NT\$ in May. It is expected that the exchange rate of NT\$ is expected to remain stable with slight fluctuation in a short term.

Due to the persistently high international raw material prices and the increasing inflationary pressure, the Central Bank of the Republic of China decided to raise the policy rates to reflect funding conditions and maintain stable prices and long-term financial stability. Thus, the prime rate increased by 25 basis points after CBC's board meeting in June.

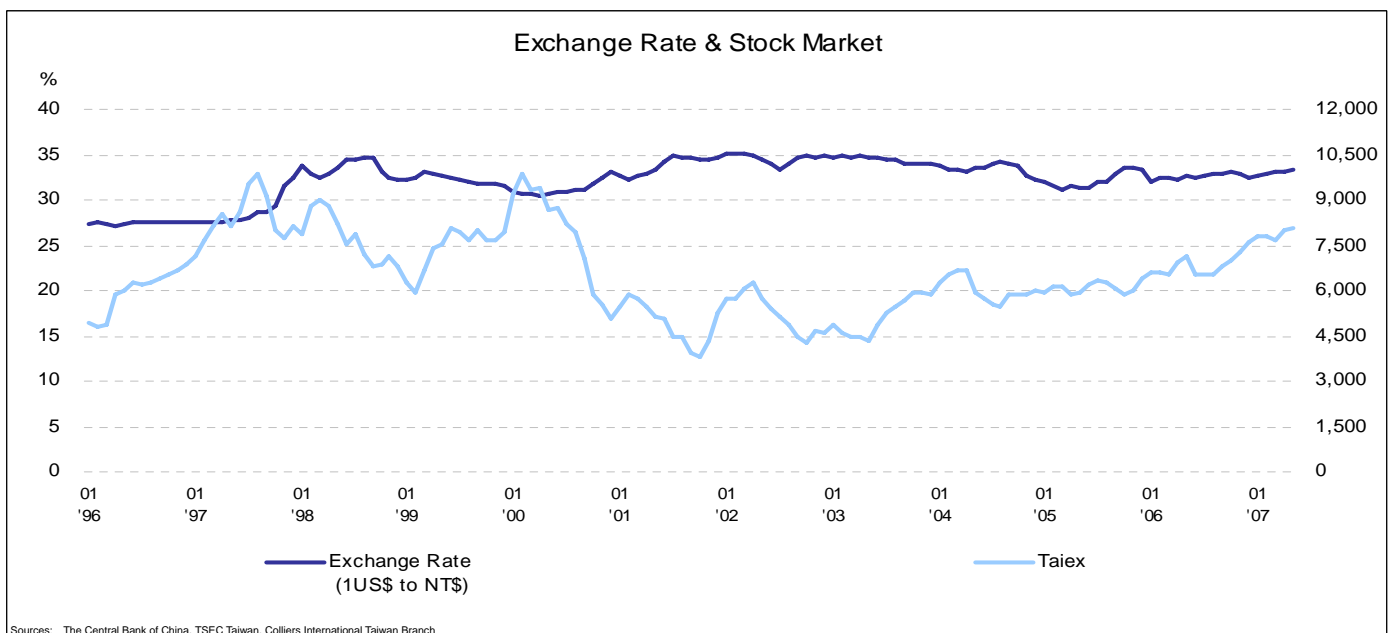
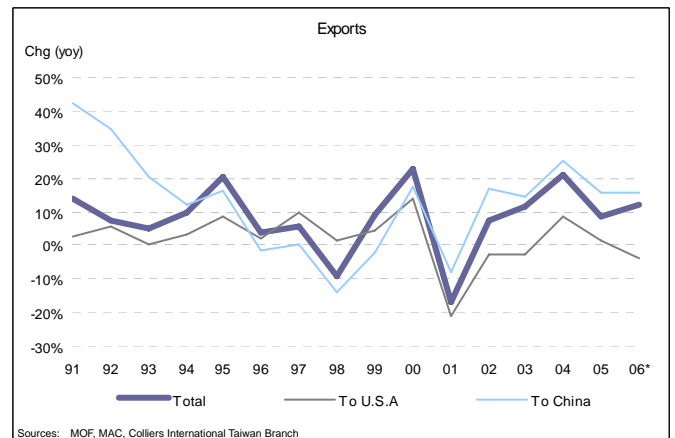
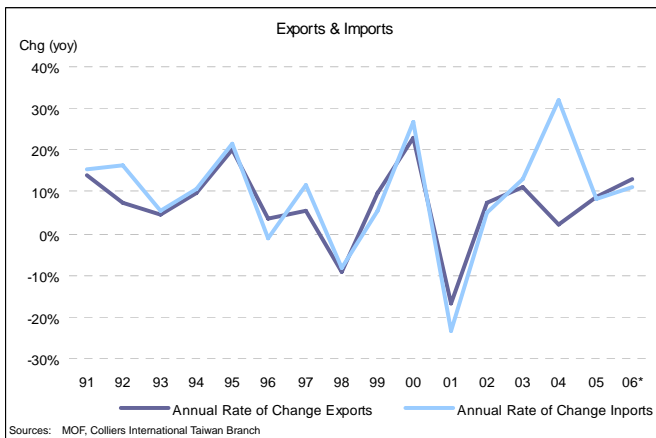
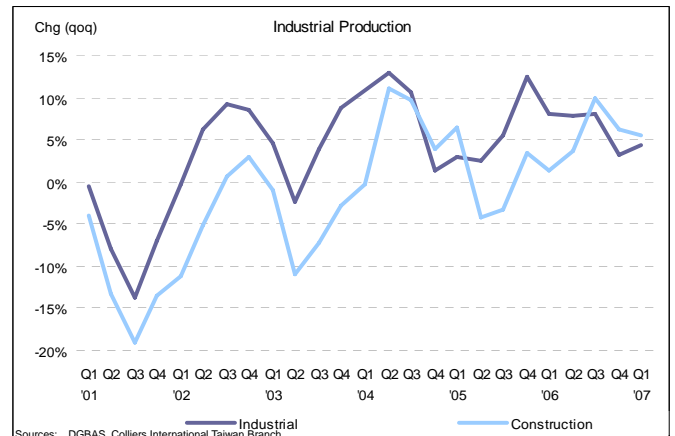
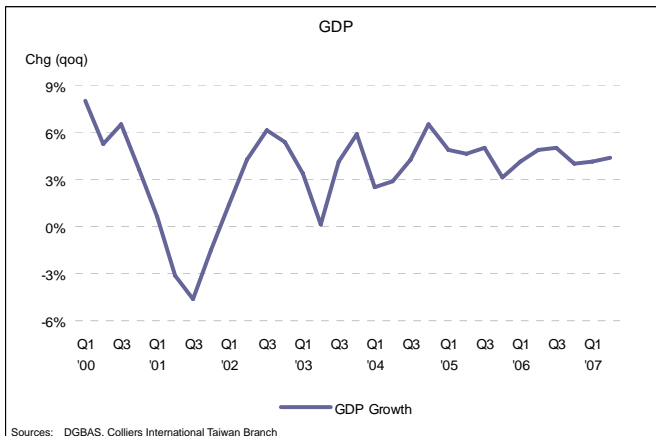
The economy for 2007 is expected to grow smoothly, and the GDP growth is forecasted at 4.38%. However, the fluctuation in crude oil price, the effect of FTA between South Korea and the U.S., the worldwide currency policies, the macro control of Mainland China, and the uncertainty of cross-strait political situation will all play critical roles in our economy in the future.

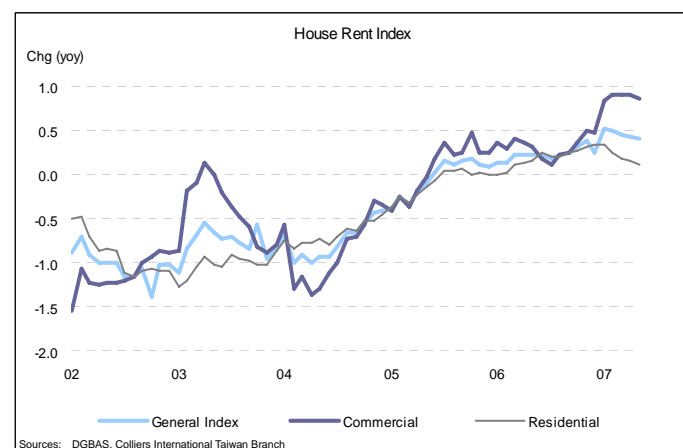
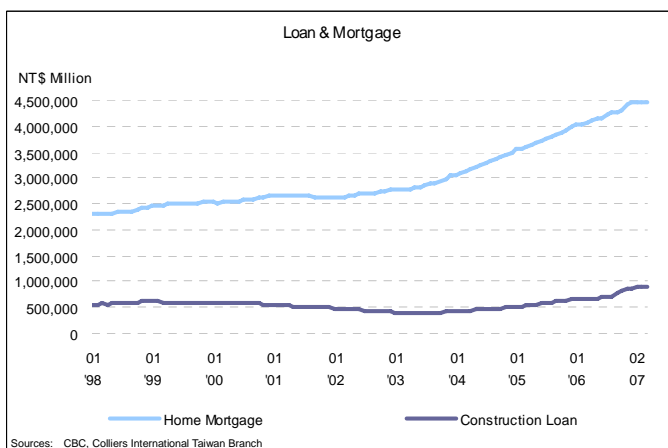
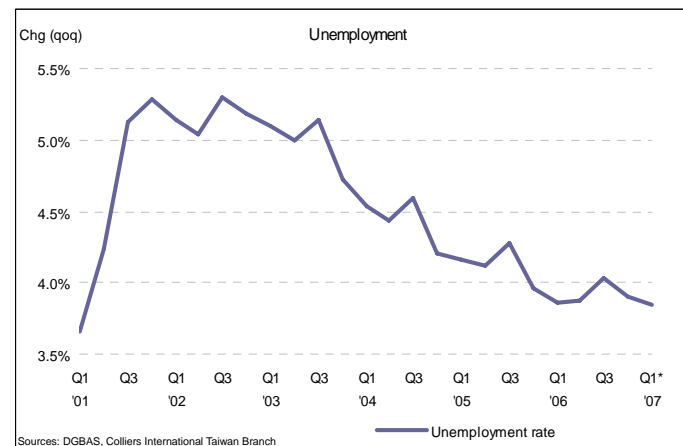
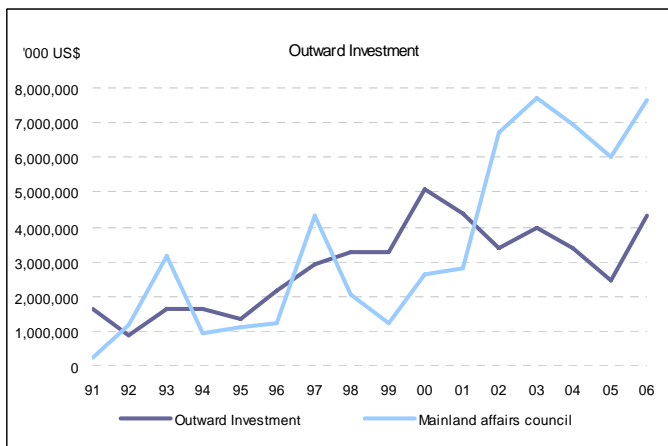
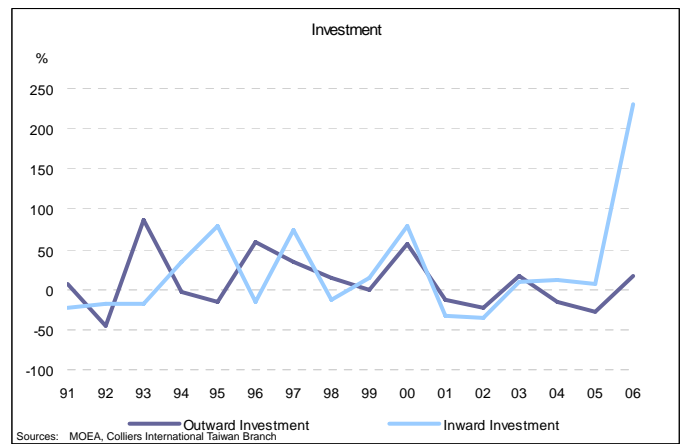
Taiwan Economic Indicators (chg, yoy, %)

Economic Indicator	2000	2001	2002	2003	2004	2005	2006	2007F
Real GDP Growth	5.78	-2.22	3.94	3.33	6.06	4.03	4.62	4.38F
Money Supply	7.04	5.79	3.55	3.77	7.45	6.13	6.20	6.26F
Private Investment Growth	15.61	-26.83	4.07	-0.26	30.96	-1.34	2.08	1.22F
Consumer Price Index	1.26	-0.01	-0.20	-0.28	1.62	2.30	0.60	1.43F
Unemployment Rates (%)	2.99	4.57	5.17	4.99	4.44	4.15	3.91	3.94F
Prime Rate (%)	7.71	7.38	7.10	3.43	3.52	3.85	4.11	3.96F

F-Forecasts

Source: Directorate –General of Budget, Accounting and Statistics (DGBAS), Executive Yuan, and Chung Hua Institution Economic Research
Compiled by: Colliers International Taiwan Branch

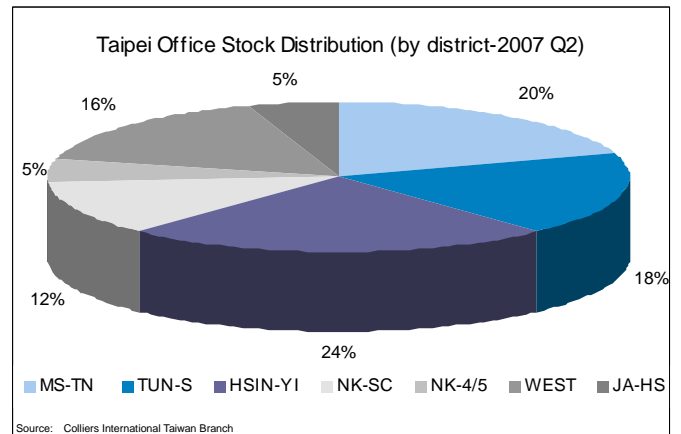
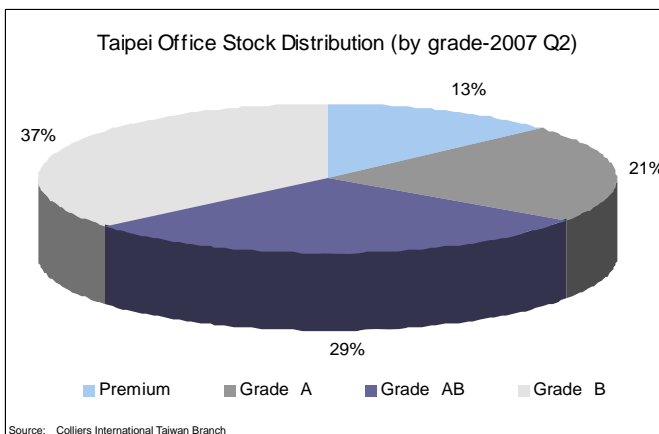
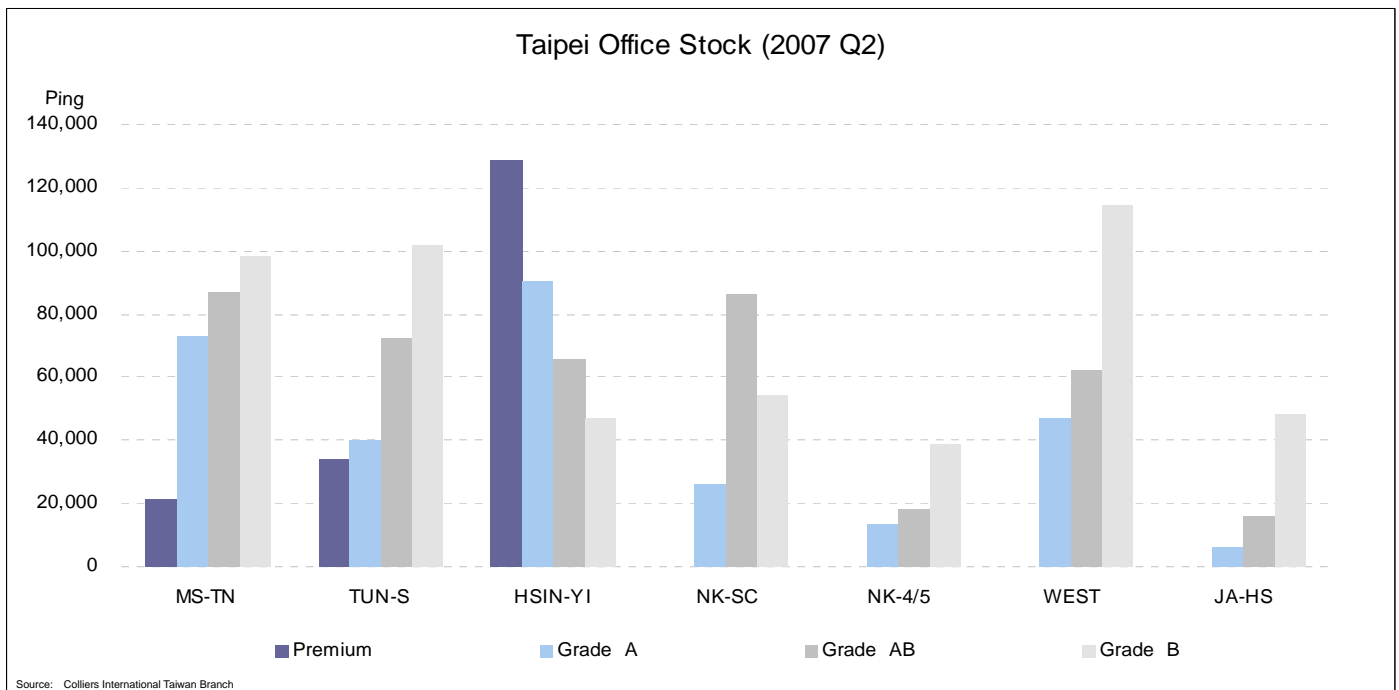




Supply Analysis

No new supply came on stream in 2007 Q2, the total inventory still stood at 1.4 million pings. The only one new supply in 2007 is Yuan Da Headquarter Building, a self-used building. In 2008, there will be 2 buildings released- Walsin Building and Meifu Jianguo N. Building. For these two buildings, in addition to self-used space, several space has been committed to particular tenants; thus, only little space will be truly released.

After 2009, several buildings will be released year by year, including Taipei Financial Center (MS-TN district), Cathay Life A3 Landmark plaza (Hsin Yi district), Shin Kong A12 lot (Hsin Yi district), Cheng Yi A5 lot (Hsin Yi district), Kelti B5 lot (Hsin Yi district), Harvest A1 lot (Hsin Yi district), Taipei Dome, Jiao-Jiu project (West district), and Twin Star Complex Building (West district). Hence, it is clear that the office supply will increase greatly since then.



Demand Analysis

The demand of office space continued to increase with net absorption at 11,000 pings in 2007 Q2, and the vacancy rate fell down to 6.99% from 7.82%, a 0.83% drop.

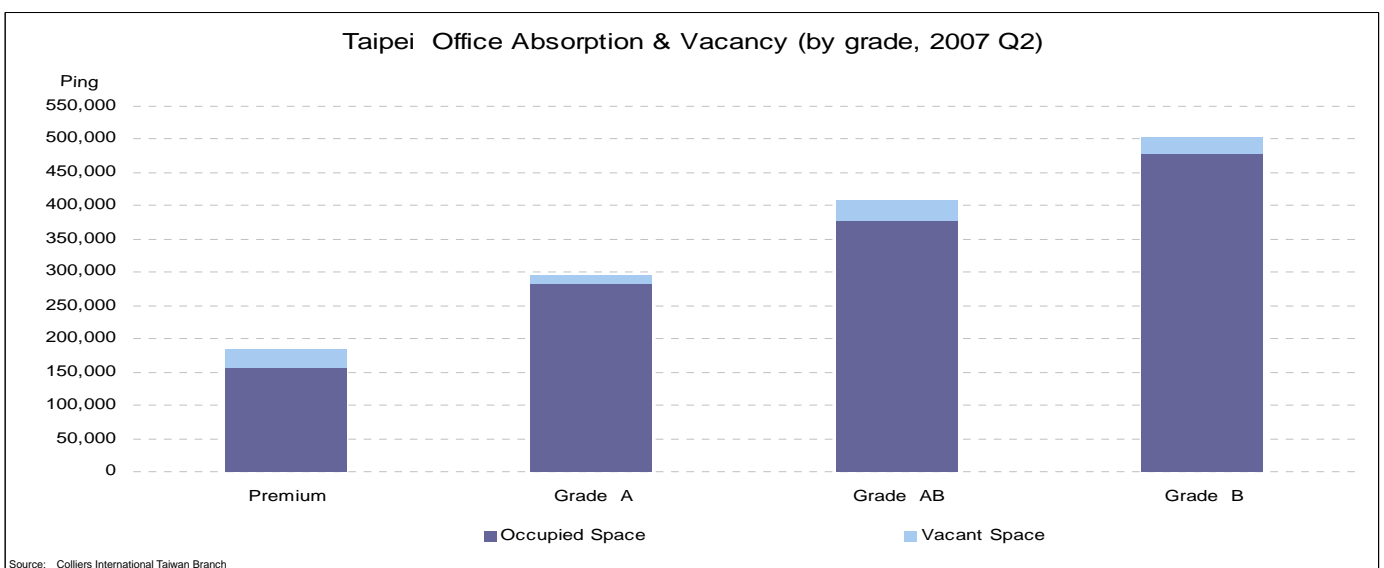
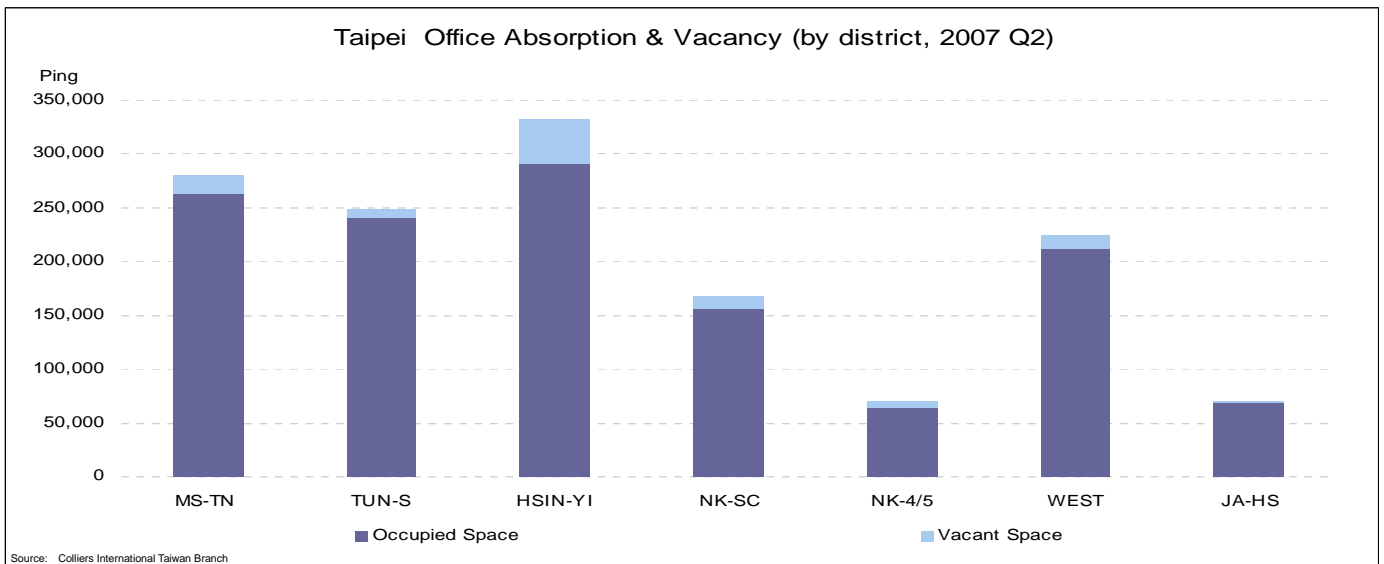
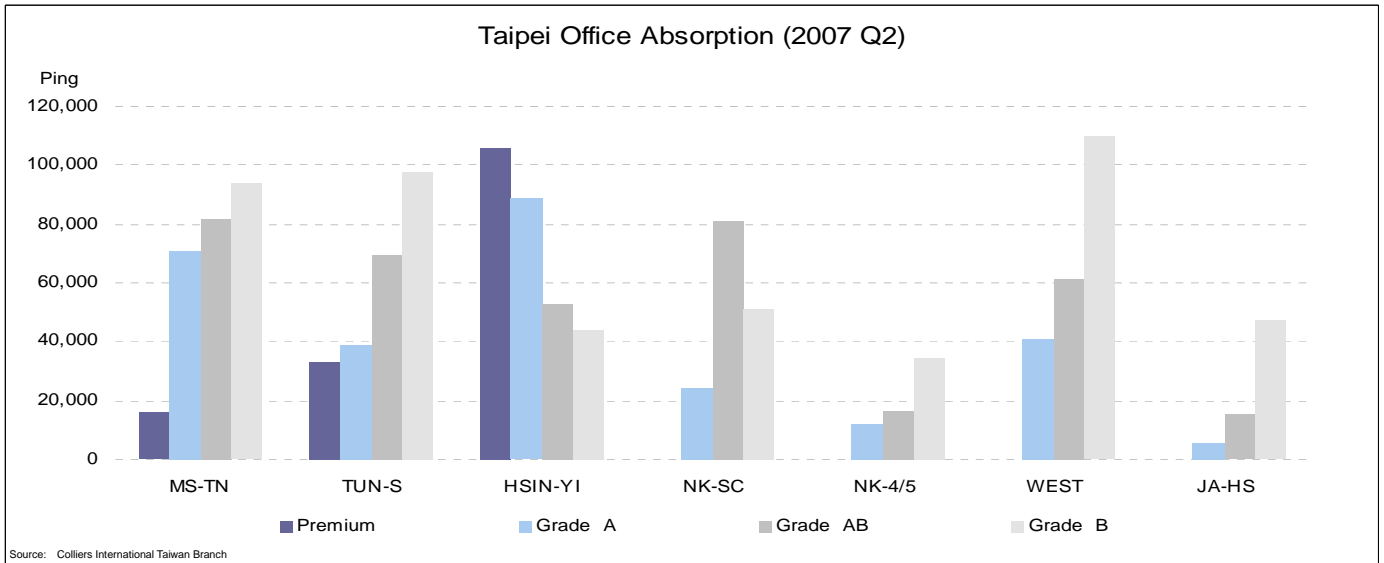
Similar to the previous quarter, Hsin-Yi district took the largest absorption with net take-up at 7,500 pings, accounting for 65% of the total, and the vacancy rate dropped to 12.08% from 14.34%, a 2.26% difference. Tenants moving into this district included AIU and ELCA Inc. leased President International Tower, and Bank of America leased TAIPEI 101. Other major tenant shifting including Thai Airways International Public Company Ltd., Taipei Branch occupied City Link Building, Prudential Life Insurance Company of Taiwan Inc. leased Global Financial Center, Alfa Music occupied Sunpower Building, and Palm Asia Pacific Ltd. Taiwan Branch leased Cathay Hsiang Yang Building etc.

The net absorption of Premium grade office buildings reached 7,800 pings, accounting for 68% of the total, and the vacancy rate decreased to 15.54% from 19.80%, a 4.26% drop. Grade A and grade AB buildings also experienced stable demand with net absorption larger than 2,300 pings and 0.7% drop of vacancy rate. In other words, only grade B office buildings experienced an increasing vacancy rate.

Taipei Office Vacancy Rates

	Premium Grade		Grade A		Grade AB		Grade B	
	07 Q2	07 Q1	07 Q2	07 Q1	07 Q2	07 Q1	07 Q2	07 Q1
Overall Average	15.54%	19.80%	4.76%	5.56%	7.15%	7.82%	5.05%	4.77%
MS-TN District	23.59%	23.59%	3.50%	7.56%	5.92%	6.00%	5.04%	4.66%
Tun-S District	2.23%	3.30%	3.73%	-	3.73%	4.62%	3.83%	3.70%
Hsin-Yi District	17.75%	23.56%	1.91%	1.99%	19.17%	19.59%	6.23%	5.49%
NK-SC District	None	None	5.37%	5.78%	6.43%	7.46%	6.18%	6.03%
NK-4/5 District	None	None	7.46%	7.46%	7.40%	8.74%	10.78%	9.57%
West District	None	None	12.03%	12.76%	1.30%	2.07%	4.43%	4.52%
JA-HS District	None	None	4.83%	11.28%	6.35%	7.21%	2.04%	1.88%

Source: Colliers International Taiwan Branch



Rental Analysis

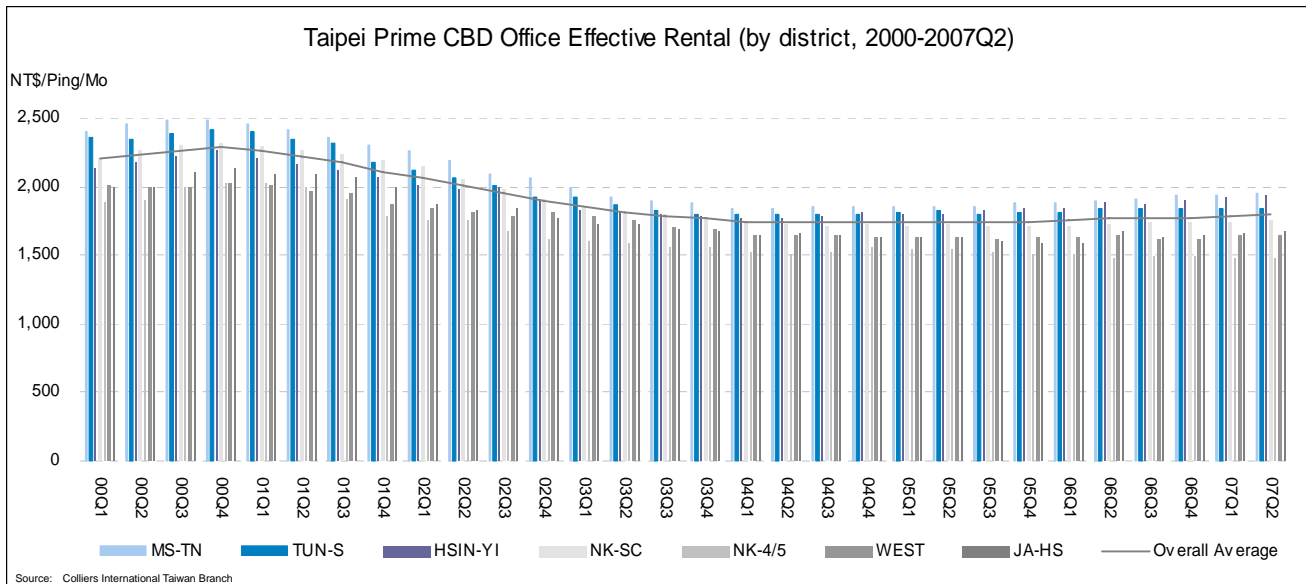
Following the improving rental prices, the room for negotiation continued to shrink in 2007 Q2. The average rents increased from NT\$1,786/ping/month to NT\$1,792/ping/month, a 0.34% growth, and the room for negotiation fell to 9.75% from 10.06%.

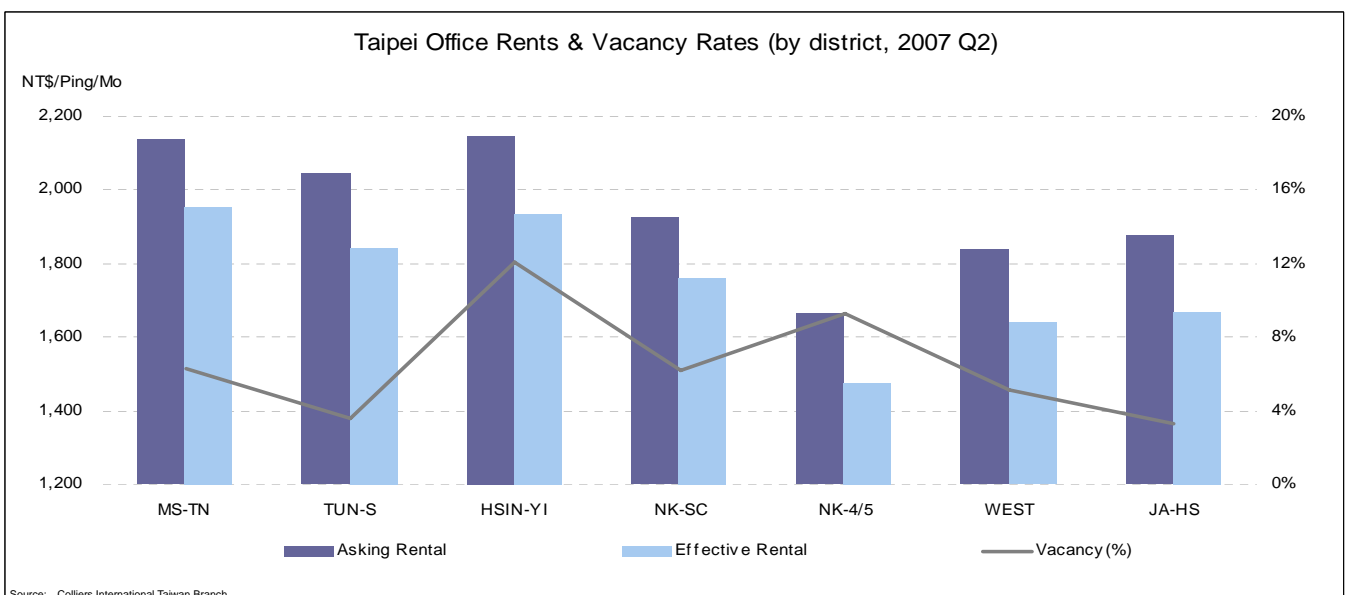
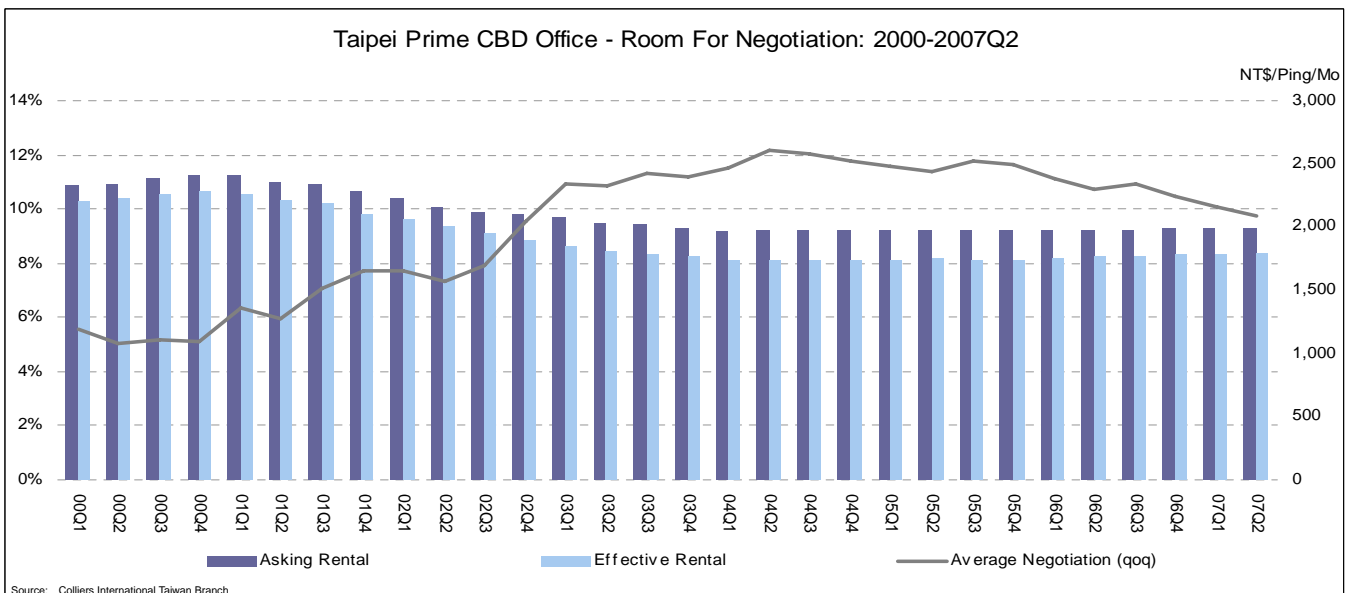
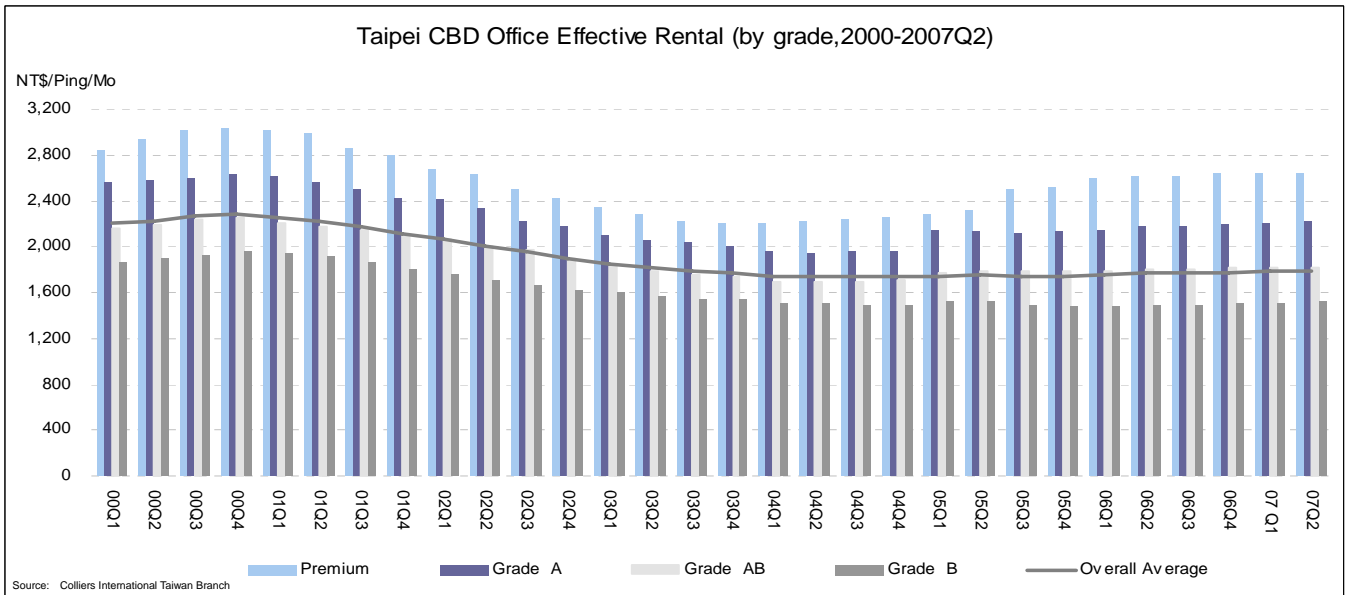
To analyze by districts and grades, rental rates for Premium grade buildings in Hsin-Yi district remained NT\$2,725/ping/month, only second to TUN S district, which was NT\$2,850/ping/month.

2007 Q2 Taipei Office Rents (Unit: NT\$/ping/month)

(Unit: NT\$/ Ping/mo)	Premium	Grade A	Grade AB	Grade B
Overall Average	2,633	2,216	1,821	1,520
MS-TN District	2,367	2,305	1,939	1,621
Tun-S District	2,850	2,100	1,927	1,575
Hsin-Yi District	2,725	2,443	1,657	1,450
NK-SC District	None	2,100	1,802	1,552
NK-4/5 District	None	1,800	1,600	1,384
West District	None	2,100	1,675	1,473
JA-HS District	None	2,200	2,000	1,527

Source: Colliers International Taiwan Branch





Market Dynamics

In 2007 Q2, land transactions were the most active ones, and the unit FAR price hit the sky-rocketing prices continuously. Major deals included: Yea Shin Development Co.,Ltd. purchased land in Jhongshan district (Jhengyi Section), Shin Long Development Company got the bid for land on Ningbo W. Rd., Rich Development Co.,Ltd bid for land on Guling St., Highwealth Construction Corp. purchased land next to Miramar Entertainment Park, Huang Hsiang Construction Corporation won the bid for Taiwan Motor Transportation Company North Station, Guo Mei Construction bid for land in Jhongshan district (along Longjiang Rd.), Cathay Real Estate bought land at the intersection of Jhongsiao E. Rd. and Hangjhou N. Rd. and land along Ren Ai Rd., Pu Jhen-CMP group purchased land in Neihu district, and Highwealth Construction Corp. bought land in Jhongshan district (Jianguo N. Rd.) and land in Neihu district (Bihu Section).

Gallop No.1 Real Estate Investment Trust Fund (the 8th listed REITs in Taiwan), launched by Industrial Bank of Taiwan, was listed in the Taiwan Stock Exchange in May, 2007. The launched amount totaled NT\$4.28 billion, and the subject properties included Golden Sun Industrial Building (West district), CTCI Building (Tun S district), and Han Wei Technology Building (Jhonghe City, Taipei County). Currently, these three buildings all experienced high occupancy rates, and are worth noting in the future.

In addition, major transactions in commercial properties included: Taipei Fullerton purchased an office/residential building in Songshan district (strata-titled floors), MassMutual Mercuries Life bought Horizon Security Building (a number of floors), China Life Insurance Company Ltd. purchased an I/O building (a number of floors), and Jye Tai Precision Industrial Co., Ltd. bought Yi Jinn Building (en bloc). Transaction amounts totaled approximately NT\$9.91 billion in 2007 Q2. The purpose of those transactions was almost for investment, showing that the market kept active.

Since the rental appreciation is slower than capital value appreciation, the initial rental yield has been experienced a consecutive declining trend, even lower than 4.5%. It is projected that this low rate will not only affect foreign investors' willingness to purchase but also let those investors take a holding attitude toward Taipei's property market. If the rental price still stands at this slow appreciation rate and sellers still ask for high capital value, those foreign investors may seek their investment opportunities in other regions/countries with higher rental yields.

Neihu Technology Park (NTP) Sub-Market

The new supply of 6,000 pings made the total inventory reach 655,000 pings in Neihu Technology Park this quarter. Additionally, there are several I/O buildings under construction now, causing the land development ratio to raise to 79% from 74.5%. These construction works are expected to complete during 2008 and 2009.

In the first half year of 2007, the demand showed relatively weak while compared to the preceding years (quarters) since there is little external market demand. The occupied space in Q2 was 604,000 pings, a drop of 3,000 pings from last quarter. Following the release of new supply, the vacancy rate continued to increase from 6.41% to 7.83%, and rental price slightly decreased from NT\$1,169/ping/month to NT\$1,160/ping/month.

The capital value continued to increase from NT\$244,000/ping to NT\$249,000/ping, a 2.05% growth. However, the rental appreciation is much slower than capital value appreciation; thus, the initial rental yield continued to drop. The yield even dropped lower than 5% in the recent selling projects. Unlike 2005 and 2006, this low rental yield already obstructed foreign investors to enter in Neihu Technology Park, resulting that there is no transaction deals made by foreign investors in the first half year of 2007.

Major transactions in 2007 Q2 included: Advabtech Co., Ltd. purchased Golden Silicon Valley No. 13 and Cheng Chung Book Company bought Ulead Building, whose previous transfer occurred in March 2006. In addition, Deutsche Bank decided to take sealed tender to sell ABIT Technology Building, which was purchased at the end of 2005. This is an unprecedented case in this neighborhood; thus, it is worth to follow up whether this deal can be successfully closed.

In the next two years, new supply will continue to come on stream consecutively; thus, whether the demand can remain solid or grow positively is critical to vacancy rates and rental prices. Regarding the market transactions, whether the notable ABIT Technology Building and BenQ Headquarter Building can be successfully closed will depend on whether the rental yield can be accepted by investors.

Neihu Technology Park Market Key Indicators

Market Indicators	07 Q2	07 Q1	Change (qoq)
Average Rent (NT\$/ping)	1,160	1,169	-0.77%
Total Stock (ping)	655,021	648,954	6,067
Total Absorption (ping)	603,736	607,370	-3,634
Average Vacancy Rate	7.83%	6.41%	1.42%
Average Rental Yield	5.58%	5.74%	-0.16%
Develop / Total Area	79%	74.50%	4.5%

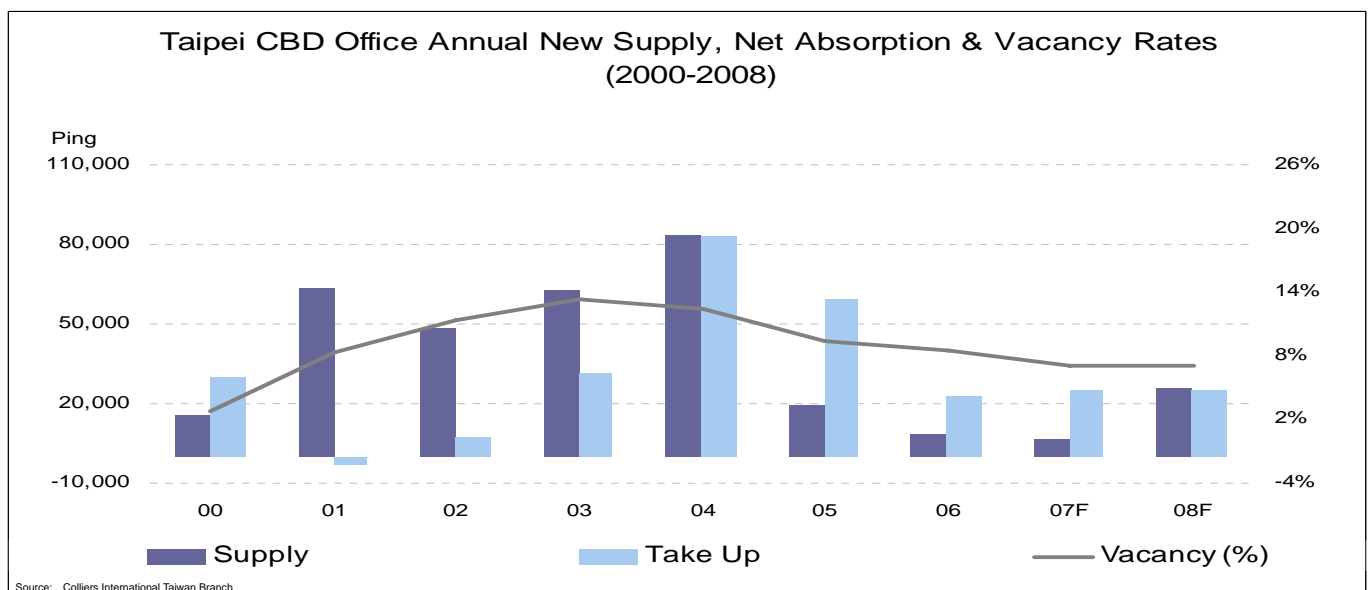
Source: Colliers International Taiwan Branch

Outlook for Taipei Office Market

For 2007 as a whole, Taiwan's GDP growth is forecasted at 4.38% based on the improvement of domestic investment and consumption, and solid foreign trade.

There will be only one self-use office building released in 2007, which is Yuan Da headquarter building; thus, there is no significant new supply this year. In other words, the rental price and vacancy rates are expected to improve due to the active and solid demand in the market. The absorption ratio of Premium grade and grade A buildings is roughly 65% in the preceding quarters; thus, it can be seen that Premium grade and grade A office buildings with excellent location and high-quality amenities were the preferred choice when tenants consider relocating.

Though a large new supply will enter the market after 2009, the demand still remains solid; thus, the vacancy rate is expected to stay low and rental rates will grow steadily.





238 Offices Worldwide

- 134 Americas
 - 102 United States
 - 17 Canada
 - 15 Latin America
- 58 Europe, Middle East & Africa
- 46 Greater Asia

51 Countries on 6 Continents

- | | |
|----------------|----------------------|
| Argentina | New Zealand |
| Australia | Northern Ireland |
| Austria | Norway |
| Azerbaijan | Peru |
| Belgium | Philippines |
| Brazil | Poland |
| Bulgaria | Portugal |
| Canada | Republic of Ireland |
| Chile | Romania |
| China | Russia |
| Colombia | Scotland |
| Czech Republic | Singapore |
| Denmark | Slovakia |
| England | South Africa |
| France | South Korea |
| Germany | Spain |
| Hungary | Sweden |
| India | Switzerland |
| Indonesia | Taiwan |
| Israel | Turkey |
| Italy | Ukraine |
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| Kazakhstan | United States |
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| Netherlands | |

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