

PROPERTY TIMES

Office sector sees rise in demand and rents

Bangkok Q1 2015

22 April 2015

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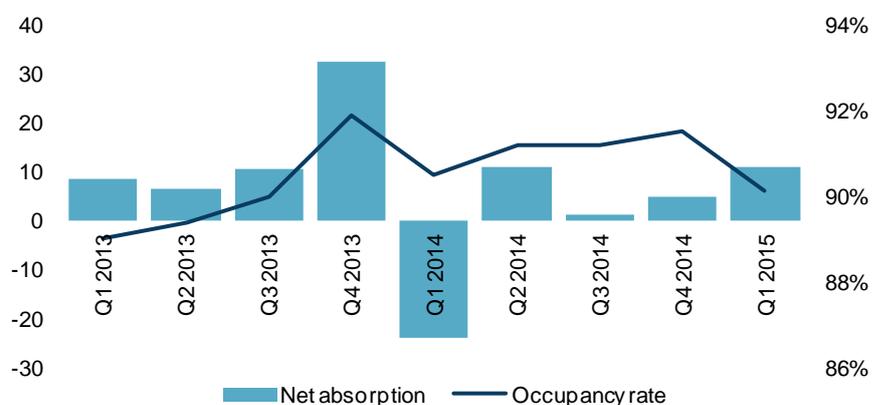
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- Thailand's economy continued to improve. Gross Domestic Product grew by 2.3% in Q4 2014. This was a strong recovery from an increase of only 0.6% in Q3 2014. GDP in 2015 is anticipated to expand between 3.5% and 4.5%. Economic growth in 2015 will be driven largely by private investment and accelerated government expenditure. The policy rate dropped by 0.25% points to 1.75% in March 2015, as an attempt to bolster the slow economic conditions and to sustain both consumer and private sector confidence. An eight-year infrastructure development scheme with a combined value of THB3.3 trillion will be carried out between fiscal years 2015 and 2022. This will offer a good opportunity for further real estate developments in Thailand.
- Office supply continued to be tight, especially for grade A offices in the CBD. The total stock in Q1 2015 was 1.74 million sq m. Average rentals for prime locations reached THB760 per sq m per month, representing an increase of 7.0% y-o-y. While average occupancy rate remained at 90.1%, net absorption increased to 10,830 sq m (Figure 1).
- The retail market continued to expand in midtown locations with a number of developments completed in Q1 2015, bringing an additional 22,180 sq m of new retail space. The highlight in the downtown area in Q2 2015 will be the opening of EmQuartier. Average rental levels in downtown and midtown areas remained unchanged from Q4 2014 at THB2,550 per sq m per month.
- The residential sector in downtown was fuelled by new luxury condominium supply. Some 2,291 units from nine condominium projects were launched in Q1 2015. Luxury units located in the centre of downtown achieved record-breaking prices at THB320,000 per sq m.

Figure 1

Prime office net absorption, sq m (000s) and occupancy rate



Source: DTZ Research

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Economic overview

Steady improvement in Thailand's economy

Thailand's economy showed further signs of improvement in Q4 2014. Gross Domestic Product increased from the 0.6% growth in Q3 2014 to 2.3% in Q4 2014 (Figure 2). As a result, overall GDP expansion was 0.7% in 2014. The Thai government expects GDP in 2015 to increase by between 3.5% and 4.5%. The gradual recovery in the tourism industry will be a key driver for 2015 as international tourists gain more confidence in Thailand's political situation. This is evident with the marked increase in Chinese tourists in recent quarters.

Headline inflation started to decline in July 2014 and shrunk 1.1% in Q4 2014 (Figure 3). The decline in inflation rate was mainly caused by a sharp fall in domestic retail oil prices as the global market price slumped over recent months. It is estimated that Thailand's headline inflation has declined further by 0.4% in Q1 2015.

The policy rate had remained at 2.00% per annum for 12 straight months from March 2014 to February 2015. The Bank of Thailand reduced the policy rate by 0.25% points to 1.75% in March 2015. This was in an attempt to bolster the slow economic conditions and to further sustain both consumer and private sector confidence.

All types of private construction witnessed an improvement, especially in residential and commercial building construction. In Q4 2014, the construction industry grew by 3.7%, reviving from a decline of 2.7% from Q3 2014. Growth was mainly contributed by the increasing demand for condominiums and office buildings for rent in Bangkok and its vicinity. Meanwhile, public construction and government construction also showed strong expansion, increasing by 5.1% and 9.0% respectively in Q4 2014, compared to a decrease of 1.9% and 2.8% in the previous quarter respectively.

Good opportunity for further real estate development

In October 2014, the Thai government approved an eight-year infrastructure development programme worth THB3.3 trillion. The development programme will be carried out between fiscal years 2015 and 2022. This infrastructure improvement will offer a good opportunity for further real estate development in Thailand.

In addition, the ASEAN Economic Community is scheduled to be fully integrated by the end of 2015. This is expected to help promote the Thai real estate market, increasing demand for commercial properties, especially for office space, industrial land for factories, as well as retail and hotels projects.

Growth in real estate investment

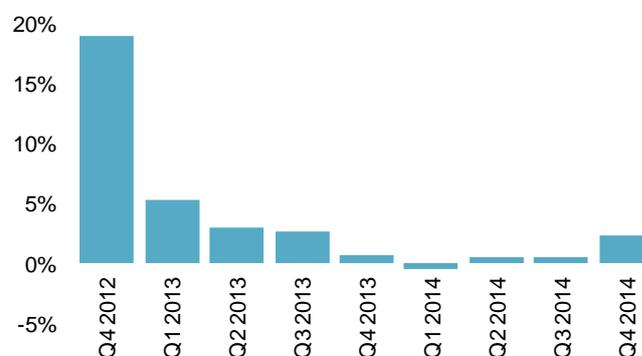
L.P.N. Development Public Company purchased seven plots of vacant land in Nonthaburi worth a combined THB242.4 million in Q4 2014. It is planned that these will be developed into residential condominiums. SANSIRI, a renowned SET-listed developer, will launch eight condominium projects worth THB21 billion in 2015. All of the new condominium projects will be concentrated along Bangkok's Mass Transit System routes.

There were a number of new REIT listings on the Stock Exchange of Thailand (SET) recently. WHA Corporation listed WHA Premium Growth REIT (WHART) on the SET in December 2014, with a total worth of THB3.1 billion and total warehouse space of 167,107 sq m. They plan to list another REIT in Q2 2015, focusing on the office market. TICON Industrial Connection Public Company listed TREIT in January 2015. The portfolio includes 45 units of warehouses and factories covering 214,523 sq m on 306 rai land area. The total value of the listing is worth THB3.43 billion.

The planned tax on land and buildings has been postponed as the government instructed the Finance Ministry to further study the possibility of reducing the controversial land and buildings tax to only tax land. However, the government remains committed to pushing the new tax policies within this term.

Figure 2

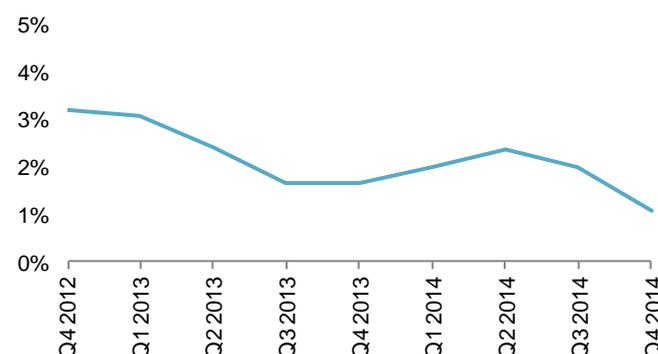
GDP growth (y-o-y)



Source: Bank of Thailand

Figure 3

CPI change (y-o-y)



Source: Bank of Thailand

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Office

Confined supply in CBD market

Office supply continued to be limited, especially for grade A offices in CBD locations, mainly due to the limited availability of prime land in the CBD and high land prices. AIA Sathorn Tower was the only major completion in Q1 2015, with net office space of 38,500 sq m, whilst Bhiraj Tower is expected to complete in Q2 (Figure 4). The total stock in the market in Q1 was 1.74 million sq m.

Following the completion of AIA Sathorn Tower and Bhiraj Tower in Q1 and Q2 2015 respectively, new supply will be very limited until 2016.

Office space remains in high demand

The demand for grade A office space remained strong in Q1 2015, with a total occupied area of 1.57 million sq m. Office vacancies increased temporarily due to the new completion of AIA Sathorn Tower. The vacancy rate stood at 9.9%, up from 8.5% in Q4 2014, and 9.5% y-o-y.

Net absorption was high in Q1 2015, totalling 10,830 sq m (Figure 5). This was largely due to tenants from the insurance, telecoms and logistics sectors moving to offices in the CBD. Absorption for grade A offices is expected to remain positive and to increase when more tenants move into Bhiraj Tower in the following quarter.

As the political situation becomes increasingly stable and the national economy continues to improve modestly we expect to see steady growth throughout 2015 for the office market. In addition, the government recently approved a number of special tax and non-tax incentive schemes to encourage foreign companies to establish their International Headquarters (IHQs) and International Trading Centres (ITCs) in Thailand, as well as to promote Thailand as a hub for the ASEAN Economic Community.

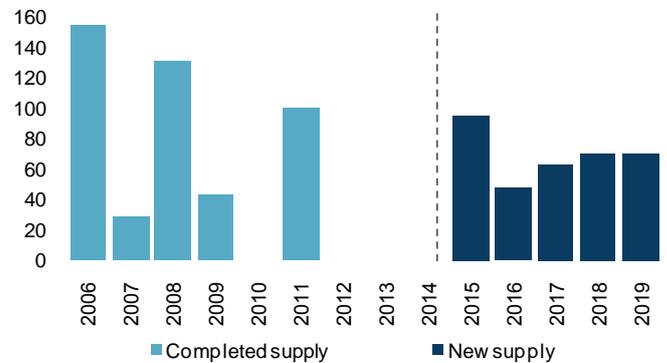
Rentals increased, especially for offices near BTS stations

Office rents increased steadily and are likely to continue to increase as demand for offices remains strong. The average rental levels for prime locations in Q1 2015 reached THB760 per sq m per month, representing an increase of 7.0% y-o-y from THB710 per sq m per month in Q1 2014 (Figure 6).

Office buildings that are located adjacent to BTS stations with sky bridges connected to the buildings command the highest rents. Park Venture commands the highest asking rent with the rate of THB1,300 per sq m per month, followed by Exchange Tower with the asking rent of THB1,100 per sq m per month.

Figure 3

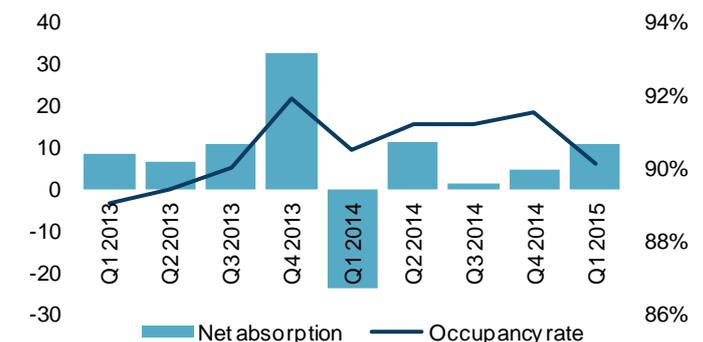
Prime office net supply in CBD, sq m (000s)



Source: DTZ Research

Figure 5

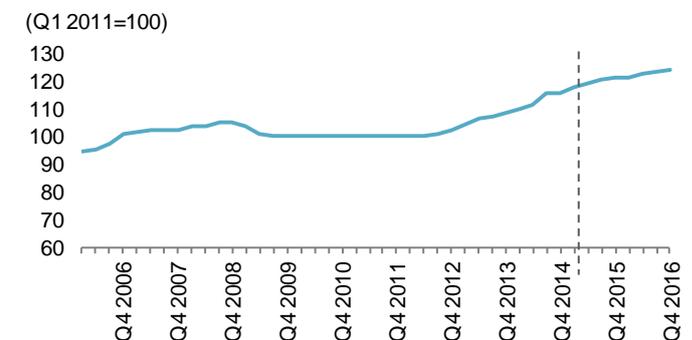
Prime office net absorption, sq m (000s) and occupancy rate



Source: DTZ Research

Figure 6

Prime office gross rental index



Source: DTZ Research

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Retail

Slide in consumer confidence

Consumer confidence continued to drop in 2015 after the government cut its target for economic growth for this year. In February, consumer confidence decreased again to 79.1, after falling to 80.4 in January 2015. This prompted the Thai government to reduce the policy rate from 2.0% to 1.75% in March.

Retail stock continued to expand in midtown locations while downtown locations remained stable

Retail stock continued to expand in midtown locations with a number of developments completing in Q1 2015. These brought an additional 22,180 sq m of new retail space to midtown. The most notable was the 12,000 sq m Yodpiman River Walk, located at Chakphet Road along the riverside. The total stock in midtown areas increased to 705,636 sq m in Q1 2015, whilst the total stock in downtown locations remained unchanged at 1,272,493 sq m, as no new supply entered the market.

Approximately 50,000 sq m of downtown retail space is expected to be completed in Q2 2015. Thereafter, we do not expect any further developments to complete in the downtown area for the rest of 2015 (Figure 7).

Relatively stable occupancy for retail in downtown and midtown areas

There was some movement in the downtown market, bringing the average occupancy rate in Q1 2015 to 91.4%, from 91.5% in Q4 2014. The highlight in the downtown areas in Q2 2015 will be the opening of EmQuartier located at Phrom Phong BTS station. A luxury shopping mall with around 1,000 foreign and local brands, EmQuartier will be the main driver in the downtown market in 2015, offering an additional stock of 50,000 sq m. The building is expected to be fully occupied on completion (Table 1). It is anticipated that downtown occupancy levels will increase amidst strong demand for retail space, in line with limited new supply completing in 2015.

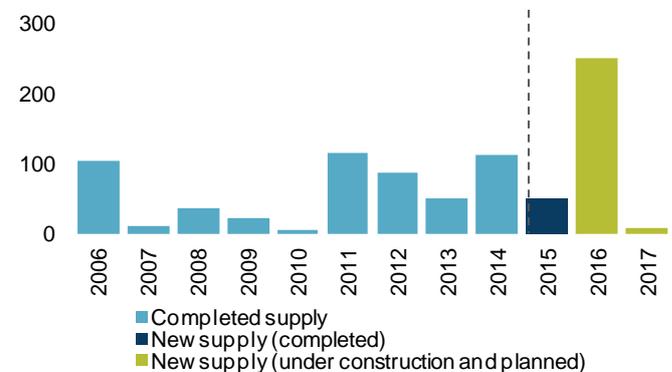
The retail market in the midtown area is highly competitive between new malls and existing malls, as seen once again in this quarter. The vacancy rate stayed at 6.9%, unchanged from Q4 2014. It is anticipated that the retail market in the midtown area will remain competitive throughout 2015. Approximately 128,140 sq m of new retail space is scheduled to come onboard between Q2 and Q4 2015.

Retail rental levels was unchanged in Q1

Average rental levels in downtown areas remained unchanged in Q1 2015, at THB2,550 per sq m per month (Figure 8). Similarly, average rental levels in the midtown area remained stable at THB1,560 per sq m per month, despite the completion of more stock. We expect retail rents to increase gradually in 2015 with the completion of a prominent mall in the prime downtown area, as well as new shopping malls and community malls in the midtown area.

Figure 7

Completed and new retail supply in downtown area, sq m (000s)



Source: DTZ Research

Table 1

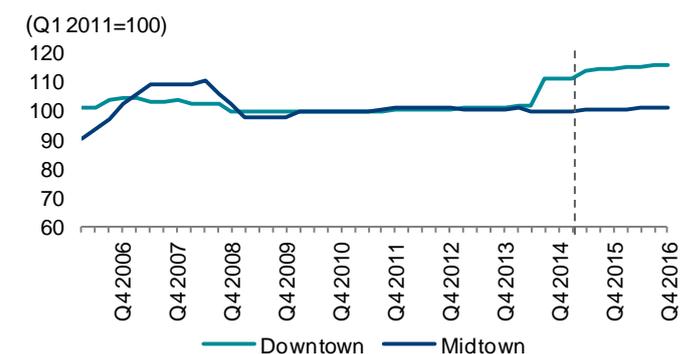
Selected upcoming new completion in 2015

Name of Development	Area	Size (sq m)	Expected Completion
EmQuartier	Downtown	50,000	Q2 2015
Habito	Midtown	5,000	Q4 2015

Source: DTZ Research

Figure 8

Prime gross retail rental indices



Source: DTZ Research

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Residential

Active market for luxury condominium projects

The residential sector in the CBD was fuelled by luxury condominium projects by Thailand's renowned SET-listed developers. Nine condominium projects with a total of 2,291 units were launched in Q1 2015, a strong increase from the 1,733 units in Q4 2014. Luxury condominium units accounted for 81% of the total new units being launched in Q1 2015.

Majority (42.4%) of new condominium supply in the CBD was in the Silom-Sathorn area. This was followed by Sukhumvit (33%) and the Central area. (13%) (Figure 9)

Record breaking prices for luxury units

Luxury units in the Central area achieved record breaking prices in Q1 2015 of THB320,000 per sq m. The average price increased by 60% q-o-q because of an influx of new super luxury condominiums, whereas there were no super luxury launches in Q4 2014. The average price for luxury condominiums in all downtown locations is expected to continue to increase throughout 2015, as demand for high quality projects with superior specifications in prime settings continues to grow.

Similarly, capital values of condominiums in downtown areas are expected to increase further in the future, although generally at a slower pace in the medium- to long-term. This is mainly as a result of the increase in land values due to limited land supply, which in turn has pushed up the average unit selling price.

Newly launched high-end projects performed well

The newly launched high-end condominiums in downtown areas performed well in terms of number of sales. The average take up in Q1 2015 registered at approximately 80%. Affluent national buyers dominated the high-end market. Foreign buyers originating from Hong Kong and Singapore also showed strong interests in project launched in prime downtown areas.

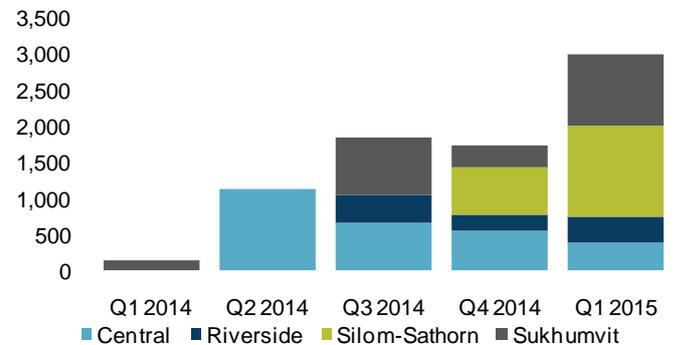
Medium and lower range condominium developments have not been as successful as the high-end projects. These sectors proved more challenging with slower growth in sales due to high household debts in Thailand. Household debt is expected to continue to rise; this will result in limited growth of consumer confidence in these markets. Notwithstanding, it is anticipated that the condominium market will generally be resilient throughout 2015.

Condominium sector saw rise in resale value

Bangkok's condominium sector experienced a significant increase in resale value in Q1 2015. Driven by increasing average selling prices of newly launched projects in prime areas, resale units with good specifications in well maintained and managed buildings also became more attractive. The average price of resale condominium units in CBD locations rose by 8% from Q4 2014, and up by 13% y-o-y, to THB114,378 per sq m (Figure 10).

Figure 9

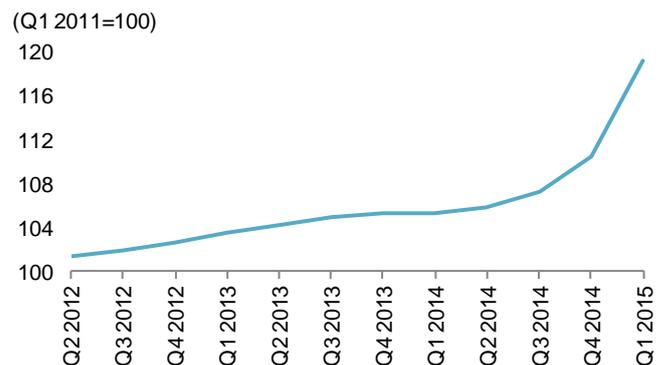
Bangkok CBD condominium launches, units



Source: DTZ Research

Figure 10

Bangkok CBD condominium price index



Source: DTZ Research



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