

Thailand Logistics Property

Market Overview H2 2021



HIGHLIGHTS

1

TOTAL SUPPLY OF READY-BUILT WAREHOUSES ACCOUNTED FOR 4.73 MILLION SQ.M., INCREASING BY 3.5% YOY.

2

THE TAKE-UP RATE SOARED TO OVER 186,000 SQ.M. REACHING A LEVEL NOT REGISTERED SINCE THE PRE-PANDEMIC PERIOD.

3

TOTAL OCCUPIED SPACE INCREASED BY 4.8% YOY TO 4.01 MILLION SQ.M., REPRESENTING AN OCCUPANCY RATE OF 85%.

4

THE AVERAGE ASKING RENT FOR READY-BUILT WAREHOUSES INCREASED BY 0.9% YOY TO 159 BAHT PER SQ M PER MONTH.



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The warehouse market in Thailand continues to be driven by the growth of the e-commerce and modernization of supply chains in the consumer products sectors. We have also started to see early signs of rising demand in the cold storage / climate controlled warehousing, which is integral to healthcare and food industries. This trend has been observed in markets throughout the Asia Pacific region. An aging population, rising disposable incomes and the Covid-19 pandemic has brought healthy living and healthcare to the forefront of many people's minds. Food safety concerns coupled with increased consumption of meat and seafood, and soaring demand for home deliveries, is prompting a rethink in the nation's cold chain business and as such we suspect that this will be a sector to watch closely in 2022.



LOGISTICS PROPERTY MARKET INDICATORS

| | 4.73M SUPPLY (sq m) | 4.01M OCCUPIED SPACE (sq m) | 85.0% OCCUPANCY RATE | 159 ASKING RENT (THB / sq m / month) |
|--------------|----------------------------------|--|--------------------------------|---|
| % Change | | | | |
| H-o-H | ▲ 1.7% | ▲ 3.7% | ▲ 2.0% | ▲ 0.9% |
| Y-o-Y | ▲ 3.5% | ▲ 4.8% | ▲ 1.2% | ▲ 0.9% |

ECONOMIC OVERVIEW

The Thai economy expanded by 1.9% YoY in Q4 2021, recovering from a contraction of 0.2% YoY in Q3. In 2021, the Thai economy expanded by 1.6% YoY, recovering from a 6.2% YoY contraction in 2020.

In 2021, the export of goods, private consumption, and investments expanded by 18.8%, 0.3%, and 3.4%, respectively. The headline inflation was at 1.2% and the current account registered a deficit of 2.2% of GDP.

The export value in Q4 2021 increased by 21.3%, higher than a

15.7% growth in the previous quarter. The exports volume index expanded by 16.8%, accelerating from a 12.2% increase in the previous quarter. The exports price increased by 3.8% compared with a 3.1% rise in the previous quarter. On the production side, the transportation and storage sector rose by 3.2% in Q4 2021, rebounding from a 1.4% decline in the previous quarter, following the acceleration of air transport and the continued expansion of water transport.

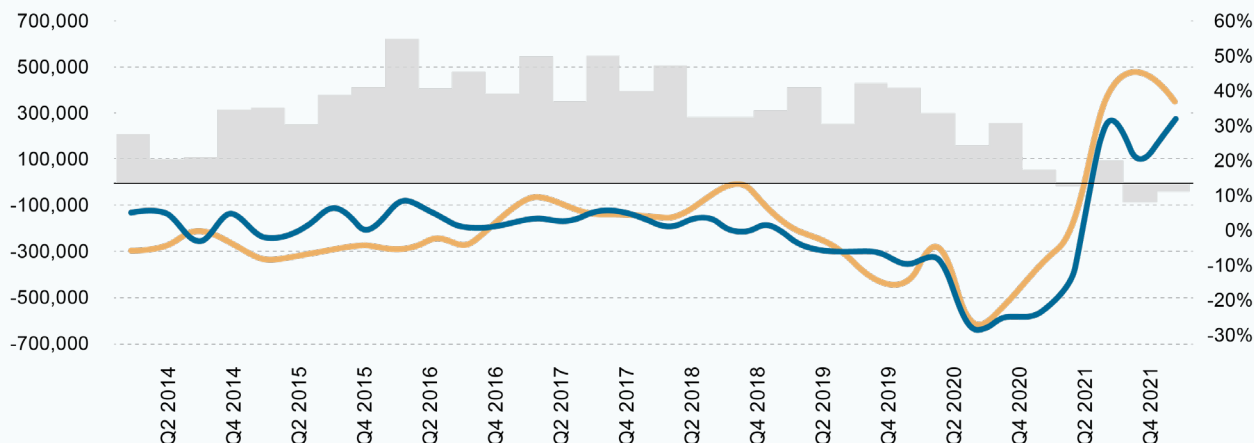
The Thai economy in 2022 is projected to expand in the range of

3.5%–4.5%, mainly supported by the regaining in domestic demand, the recovery of domestic tourism, the continual expansion of export of goods, and the support from public investment. The export value of goods is anticipated to expand by 4.9%. Meanwhile, private consumption and private investment are expected to increase by 4.5% and 3.8%, respectively. Public investment is projected to increase by 4.6%. Headline inflation is estimated to be in the range of 1.5% - 2.5%, and the current account is projected to record a surplus of 1.5% of GDP.

FIGURE 1
THAILAND GOODS & SERVICES BALANCE

THAI BAHT (MILLIONS)

■ Balance of Trade — Change in Exports (Y-o-Y) — Change in Imports (Y-o-Y)

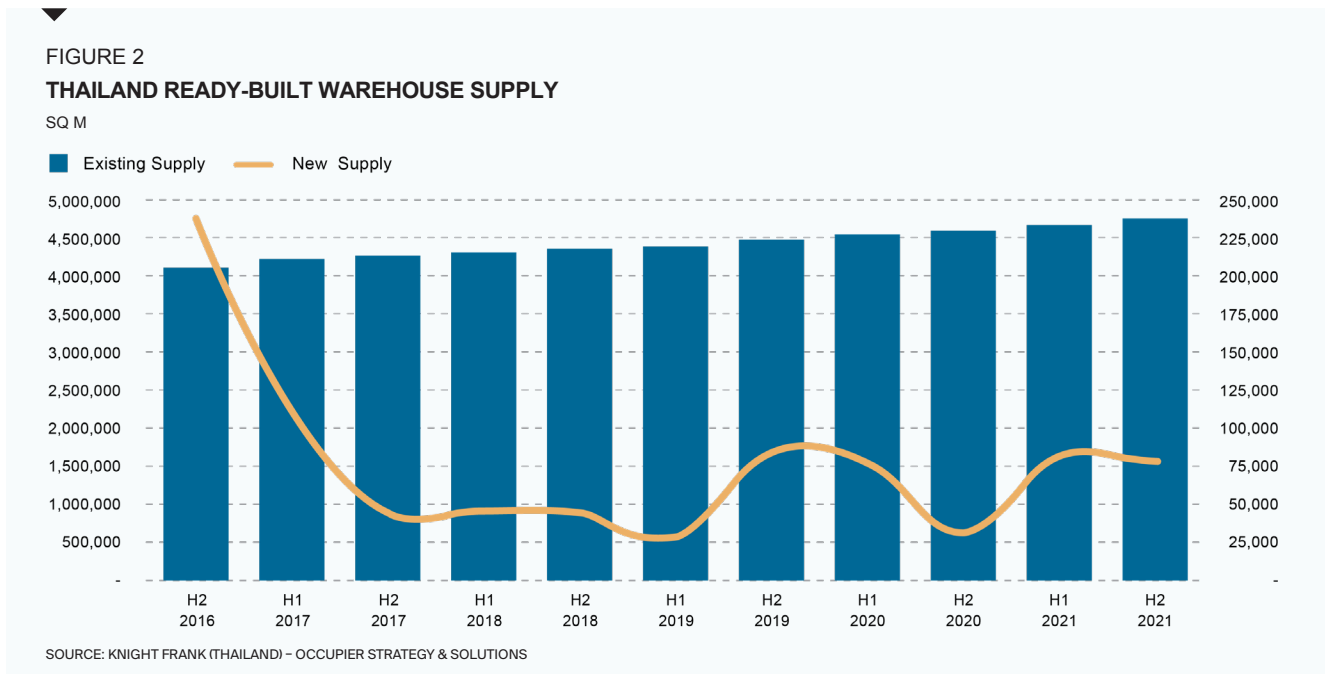


SOURCE: NESDC

Supply

The total supply of ready-built warehouses accounted for 4.73 million sq.m., an additional 78,955 sq. m. of warehouse space compared to the first half of the year. This represents an increase of 3.5% YoY, mainly from Tip Industrial, a local major developer in Samut Prakan province within the BMR. This timid growth was in line with the level of new supply we have

been registering since 2017, which indicates a change in trend towards build-to-suit premises instead of speculative ready-built warehouses. Built-to-suit warehouse allows logistic developers to mitigate vacancy risk after development.



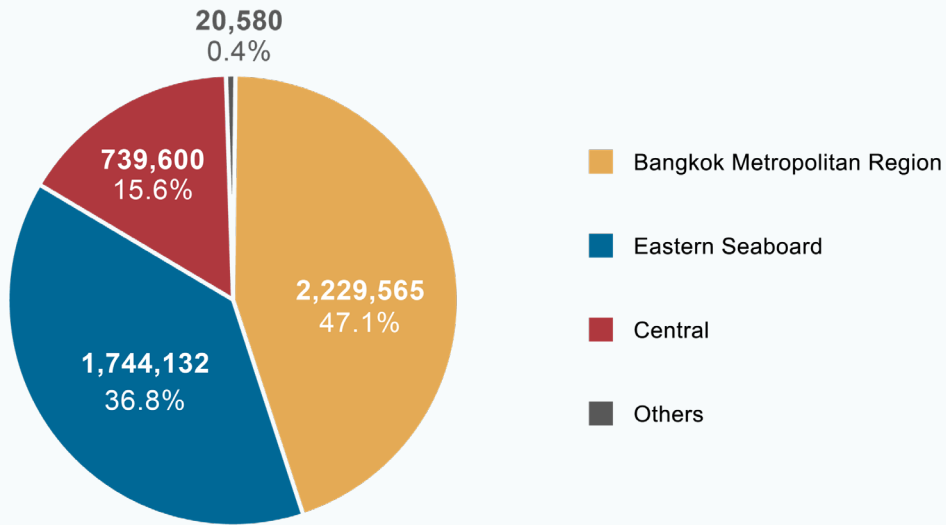
Supply Distribution

Bangkok Metropolitan Region continued to have the largest market share. During the second half of 2021, its supply increased by 7.5% YoY to 2.2 million sq.m. or 47.1% of the total supply of ready-built warehouses. The new supply was located along Bangna Trad Road in Samut Prakan province, contributing to the already high concentration of modern logistic properties in this area, given its proximity to the Suvarnabhumi International Airport, and its strategic location between Bangkok province, and the Eastern

Economic Corridor. The rapid growth of e-commerce during the pandemic has strengthened the position of Samut Prakan as a prime logistic area, especially for last-mile logistics. The Eastern Seaboard and Central Regions remained unchanged in terms of supply since the previous half of the year with a market share of 36.8%, and 15.6%, respectively. Neither of these regions has registered any significant supply growth in recent years, particularly the Central Region.

FIGURE 3

THAILAND WAREHOUSE DISTRIBUTION BY REGION



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

Demand

In 2H 2021, the take-up rate soared to over 186,000 sq.m. reaching a level not registered since the pre-pandemic period. The space vacated during this half of the year accounted for about 42,000 sq.m. resulting in a positive net absorption

rate of 144,000 sq.m., a 2.8x growth from the previous half of the year, and a growth of 189% YoY. Thus, the total occupied space increased by 4.8% YoY to 4.01 million sq.m., representing an occupancy rate of 85%, the highest in the past decade.

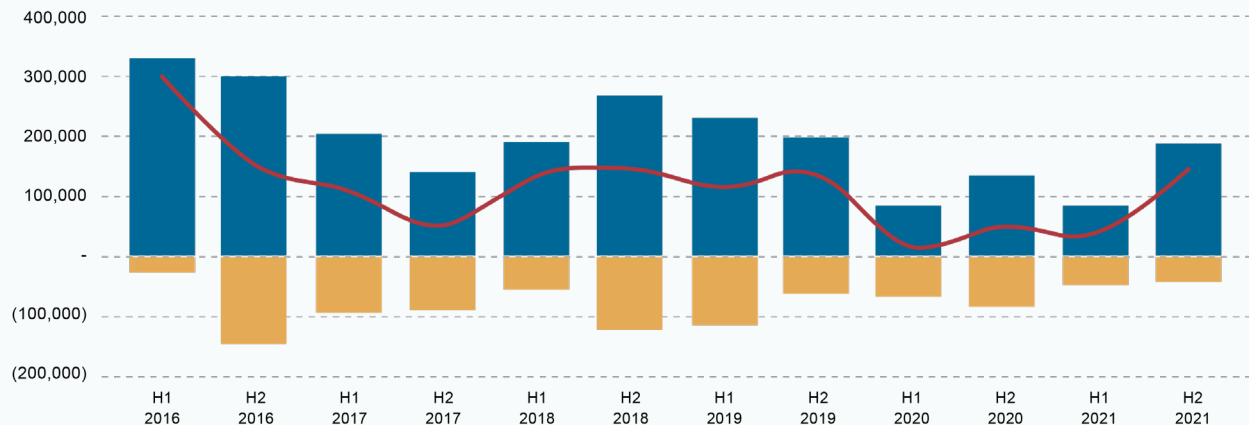
Demand continued to be mainly driven by e-commerce related operators, and third-party logistics (3PL) companies expanding their activities in line with the shift in consumer habits towards online shopping across most categories.

FIGURE 4

THAILAND READY – BUILT WAREHOUSE SUPPLY – DEMAND DYNAMICS

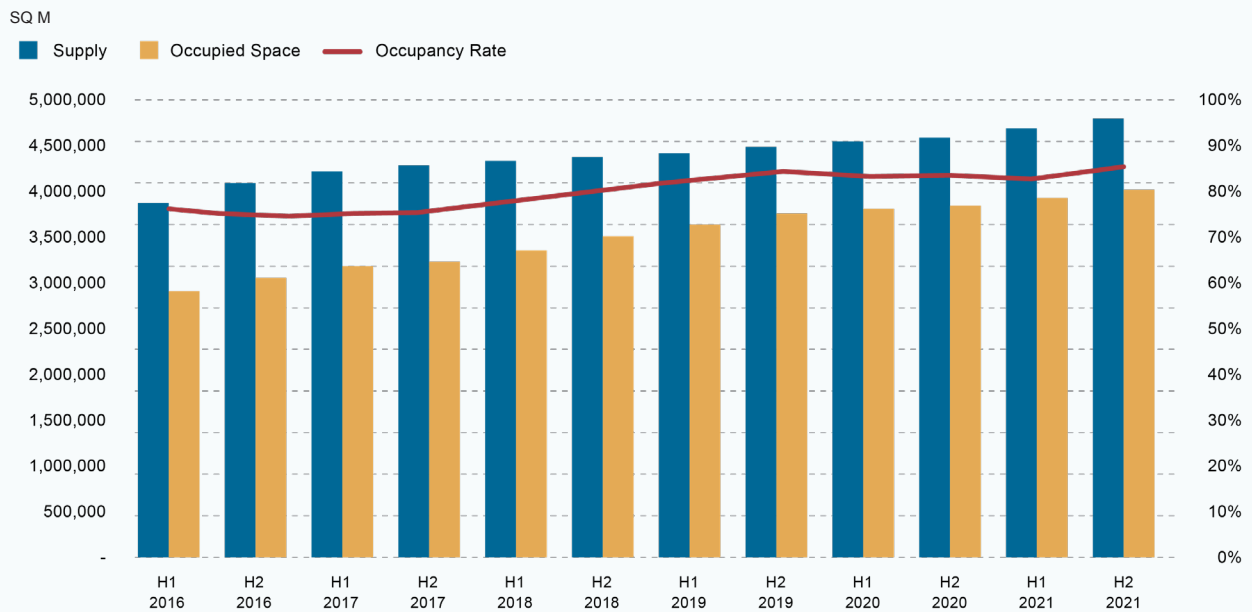
SQ M

Take Up Space Vacated Net Absorption



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

FIGURE 5
THAILAND READY – BUILT SUPPLY, DEMAND & OCCUPANCY RATE



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

The total occupancy rate grew mainly supported by the market dynamics from the Eastern Seaboard. The combination of a high absorption rate together with limited new supply resulted in substantial growth of occupancy rate to 81%, 5 p.p. higher

than the previous half of the year, representing an increase of 7.1% HoH, or 6.4% YoY. However, this region still falls behind the Bangkok Metropolitan Region with an average occupancy rate of 89%.

The central region had a steady performance with a slight drop of 0.6% YoY, averaging an occupancy of 80%.

TABLE 1
THAILAND READY – BUILT WAREHOUSE OCCUPANCY RATE BY REGION

| Region | H2 2021 | (H-o-H) % Point Change | (Y-o-Y) |
|-----------------------------|------------|------------------------|----------------|
| Total | 85% | ▲ 2.0% | ▲ 1.2% |
| Bangkok Metropolitan Region | 89% | ▼ 1.4% | ▼ 2.1% |
| Eastern Seaboard | 81% | ▲ 7.1% | ▲ 6.4% |
| Central | 80% | ▲ 1.2% | ▼ 0.6% |
| Other | 63% | ▲ 0.0% | ▼ 11.4% |

SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

Rental Rates

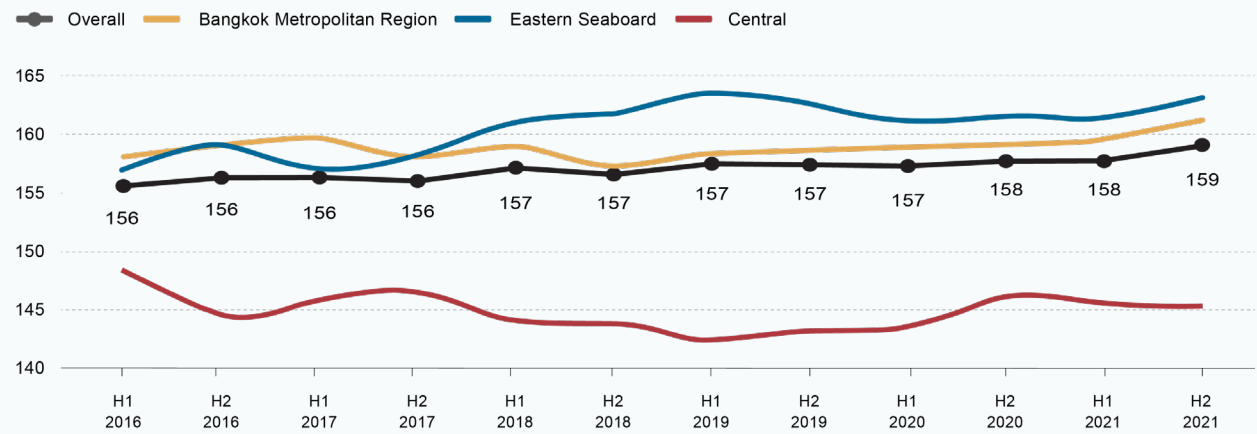
The average asking rent for ready-built warehouses in Thailand increased by 0.9% YoY to 159 baht per sq m per month. This marginal growth is somehow significant when considering the low compound average annual growth in asking rents of 0.3% in the past decade. This growth might be partly attributed to the expectations of a quick rebound in logistics activity, and consequently, demand for ready-built warehouses

as Thailand, and most countries, commenced to roll back public-health restrictions caused by the pandemic.

Asking rents in the Bangkok Metropolitan and Eastern Seaboard regions increased to 161.2 and 163.2 baht per sq.m. per month, representing a growth of 1.3% YoY, and 1.1% YoY, respectively. Limited availability of prime warehouse space in the Bangkok Metropolitan

region has resulted in a new record high in asking prices in this region. Similarly, the lack of a new supply of ready-built warehouses in the Eastern Seaboard combined with the relatively large demand during the second half of 2021, has prompted developers to increase asking rents. Asking rents in the Central region registered a minor decline of -0.5% YoY to 145.4 baht per sq.m. per month.

FIGURE 6
THAILAND READY – BUILT WAREHOUSE AVERAGE ASKING RENT BY REGION
BAHT PER SQ M PER MONTH



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

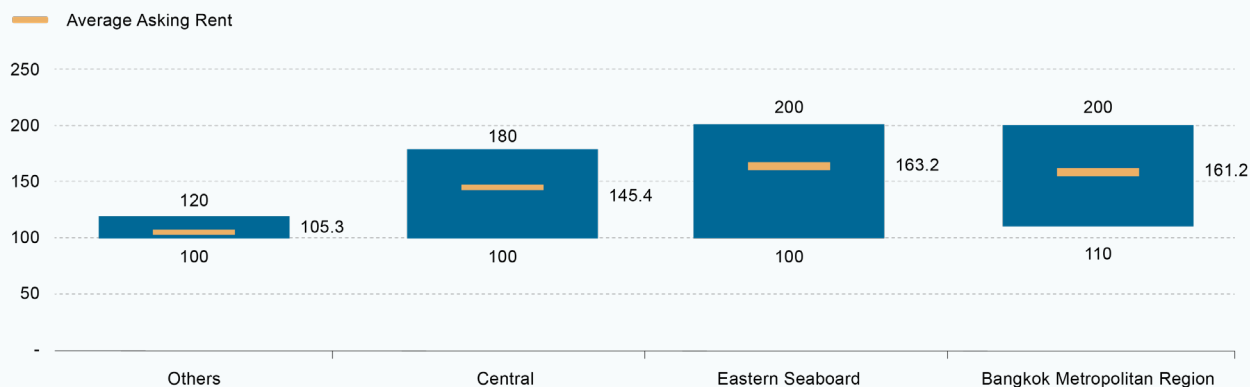
Asking rents spread are very similar across different regions ranging from a minimum of 100 baht per sq.m. per month to a maximum of 180 baht in Central Region, and 200 baht in Bangkok Metropolitan and Eastern Seaboard. This disparity in asking rents for ready-build warehouses

reflects the level of specifications from old buildings, not suitable for modern logistics operations, to premium modern logistic properties. As automation and robotics gain ground in the logistic property market, the spread in asking prices is expected to widen.

FIGURE 7

THAILAND WAREHOUSE ASKING RENT SPREADS

BAHT PER SQ M PER MONTH



SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER STRATEGY & SOLUTIONS

Review & Outlook

In H2 2021, Thailand remained affected by the pandemic and the related restrictions, leading to low consumption levels and disruptions in supply chains in the second half of the year. Nevertheless, the level of demand for modern logistic properties picked up as schemes to encourage consumer spending drove growth in the logistics market.

Going forward, rents are expected to remain stable as the level of new supply matches that of new demand. Leasing activity in this half of the year achieved pre-pandemic levels given the relatively high demand driven by the online retail sales, and the need for increased warehouse space to mitigate supply chain disruptions. If demand picks up, main drivers will include the e-commerce business, and the rebound of manufacturing activities. However, the Russian invasion of Ukraine has added considerable strain to global economic conditions following sanctions imposed on Russia.

A myriad of complex factors ranging from rapidly rising global energy and food prices to delayed transport and container shortages will contribute to disrupted flow of goods and services globally.

The e-commerce business is likely to demand even more warehouse space for express delivery services as it becomes more significant in the near future. The continued expansion

of the e-commerce industry has created a demand for warehousing bringing substantial changes in Thailand's supply chain and logistics operations. Major e-commerce and logistics companies in Thailand including Central Group, Lazada, Shopee, Pomelo, DHL Express, Kerry Express, and Aden, have established central warehouses and smaller drop-off and pickup points across different regions to sustain the rise in demand, leading to an increase in the focus of expansion of the logistics market in Thailand, from the Bangkok metropolitan area, which has been the main target, to other regions based on the solid increase in downloads of apps of traditional retailers, e.g., Central Group, Big C hypermarkets, CP Group, etc.

Additionally, Thailand is a large regional export base for various industries, especially automotive, agribusiness, chemicals, and electronics. A rebound of international demand after a period of a long disruption will support the rebound of the manufacturing sectors, and consequently drive demand for logistics services and ultimately warehouse space. The Thai National Shipper's Council estimates that Thai exports will grow at 5% this year if the Russia-Ukraine war does not escalate further and a settlement can be reached within three months. Several industries are already feeling the effects of the conflict, which have

translated to higher costs of transport and consumer goods. Some issues such as the microchip shortage in the automobile industry will need to be tackled urgently if the slowdown in exports is to be mitigated. Meanwhile, surging food prices for products such as instant noodles and condensed milk may soon cut down consumer spending power if left uncontrolled.

As indicated in previous reports, we continued to observe the trend towards built-to-suit warehouses that are increasingly gaining share from the total space developed by major leading industrial developers such as WHA and Frasers. These developers are investing in innovation and technology to be able to bring and integrate automation, robotics, AI, IoT, Big Data, to extend their current offering to modern smart warehouses up to international standards which can increase efficiency and reduce operating costs for occupiers. Warehouse-automation innovations in Thailand will lead to omnichannel warehouses that can take and fulfill orders from retail shops, e-commerce customers, or any other channel as seen in other more developed markets. The development of new modern automated warehouses will create a significant competitive advantage resulting in a wider rent spread between these and the existing warehouse space available in Thailand.

Glossary

Bangkok Metropolitan Region

– Includes Bangkok, Samut Prakan, Samut Sakhon, Nonthaburi

Eastern Seaboard (EEC)

– Includes Chachoengsao, Chonburi, Rayong

Central

– Includes Ayutthaya, Pathum Thani, Saraburi

NOTE: ALL FIGURES EXCLUDE DEVELOPERS WITH TOTAL SUPPLY LESS THAN 10,000 SQUARE METERS AND PROPERTIES THAT ARE NOT READY FOR HANDOVER.

We like questions, if you’ve got one about our research, or would like some property advice, we would love to hear from you.



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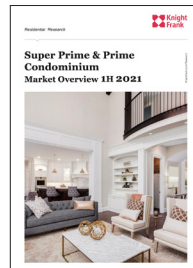
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