



Q2 2010 BANGKOK OFFICE MARKET

Quarterly

Knight Frank

HIGHLIGHTS

- Average vacancy rates increased from Q1 2010 by 2.18%, up to 12.64%.
- Rentals held firm in Q2, with minor increases reported in Grade C sector.
- New Regional Operating Headquarter incentives announced with tax breaks for up to 15 years.



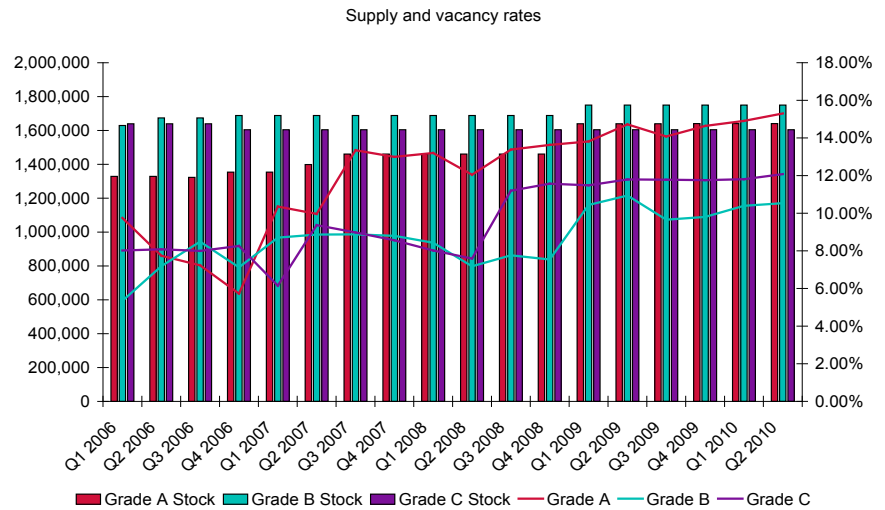
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Supply and Demand

Fig.1
Supply and Vacancy Rates Q2 2010



Vacancy rates in the second quarter climbed throughout the market by 1.25% in grade B and by 2.74% in the grade A sector.

The total amount of movement in this quarter was not substantial however vacancy rates have now reached levels last seen in 2004, during a time of increasing take up and new supply entering the market.

The difference this is that very few buildings have entered recently the market, so what we are seeing today, through vacancy rates, is low demand, as firms have been unwilling to commit to new ventures or expand during this period of political turbulence, with some firms even needing to return space

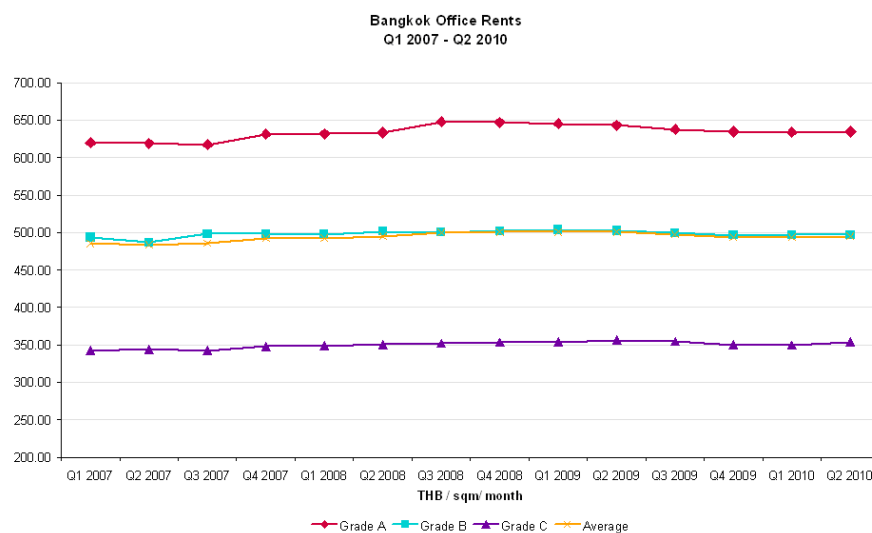
Table 1:
Vacancy rates Q2 2010

	Grade A	Grade B	Grade C	Overall Vacancy
Q2 2009	14.72%	10.94%	11.79%	12.49%
Q1 2010	14.91%	10.40%	11.81%	12.37%
Q2 2010	15.30%	10.53%	12.08%	12.64%
QoQ Change	2.74%	1.25%	2.29%	2.18%
YoY Change	3.94%	-3.75%	2.46%	1.20%

Source: Knight Frank Research



Rents



After 2009's gradual decline in Asking Rents arrested in Q1, landlords' rental policies held firm in the second quarter with all sectors reporting marginal improvement, yet still falling short of the rates achieved last year.

Table 2:
Bangkok Office Rents Q2 2010

Quarter	Grade A	Grade B	Grade C	Average
Q2 2009	643.06	502.66	356.25	500.66
Q1 2010	634.14	497.00	349.80	493.65
Q2 2010	634.87	497.42	354.00	495.43
Annual Change	-1.27%	-1.04%	-0.63%	-1.04%
Quarterly Change	0.12%	0.08%	1.20%	0.36%

Source: Knight Frank Research

The Grade C sector reported the most gains where Asking Rents grew a modest 1.2% QoQ.

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Summary and outlook

Calm has returned. Following the forced resolution of the protests in May, the immediate political situation, whilst not yet fully resolved, does appear to have stabilised.

Thailand's economic indicators are encouraging. GDP grew by 12% year on year (the highest level for 15 years) this was only partly due to a poor Q1 in 2009. Exports grew by 32% in the first quarter, and domestic auto sales increased 43.9% year on year in April. Thailand's foreign reserves in June also amounted to a healthy US\$ 143.4 bln.

The BOI reports that the number of investment applications submitted to them during the first four months of 2010 grew by 53.5% and foreign direct investment (FDI) also expanded by over 140% year-on-year to Bt53 billion, compared to Bt22 billion in 2009.

Government incentives have been implemented and designed to boost business sentiment. These plans include improvements to the Regional Operating Headquarters scheme, compensation plans for businesses affected by the recent protests, and tax incentives aimed at encouraging domestic tourism.

Stimulus measures must be complemented by a prolonged period of peace and stability in order to improve business sentiment. If this can be achieved confidence can be rekindled in the office market and we could then reasonably expect to see a rebound in office rents and occupancies, due to the relatively limited amount of new supply entering the market.



Special feature

New Regional Operating Headquarters (ROH) Incentives

The government recently announced a new stimulus package intended to revive business and investor confidence after the recent political turmoil.

Qualified ROH's will pay no income tax for earnings on services overseas and just 10% corporate income tax on domestic earnings. Under the new scheme they will also have the option to extend their privileges for a total of 15 years, so long as their cumulative operating expenses for first 10 years exceed BT150 million.

Also, expatriate employees under the ROH will get to enjoy personal income tax rate of just 15% for up to 8 years.

The qualifying criteria under the new scheme are also more relaxed. To be considered a Regional Operating Headquarters, a firm now needs only to serve one other country in the first year, two others in the third year and three others in the fifth year.

Furthermore, the new program offers tax benefits to companies even if they fail to satisfy the requirement for 50% of all income to be derived from services and sales to related companies, juristic partnerships, or their overseas subsidiaries. The old income threshold was a significant barrier which barred companies from being a "Qualified ROH." By lifting this requirement, many more companies can now apply to become an ROH and enjoy these improved tax savings.

Typical services that qualify for ROH status includes

- (1) Business management and administration
- (2) Sourcing of raw materials, parts and finished products
- (3) Research and development
- (4) Technical assistance
- (5) Marketing and sales promotion
- (6) Regional human resources training
- (7) Business advisory services
- (8) Investment feasibility studies and analyses
- (9) Credit management and control, and...
- (10) other services approved by the Revenue Department on a case-by-case basis

It is important to note that while the eligibility requirements have become more flexible, the government does impose additional conditions concerning expense/investment, the personnel, and the physical presence requirements.

As a result, companies that plan to apply for an ROH registration and obtain its special tax privileges must weigh the costs and benefits of the requirements in its entirety.

Companies have 5 years from June 1st 2010 to register with the Revenue Department and join the 89 other registered ROH's who benefit from these incentives.

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