



Q3 2010
BANGKOK OFFICE
MARKET

Quarter

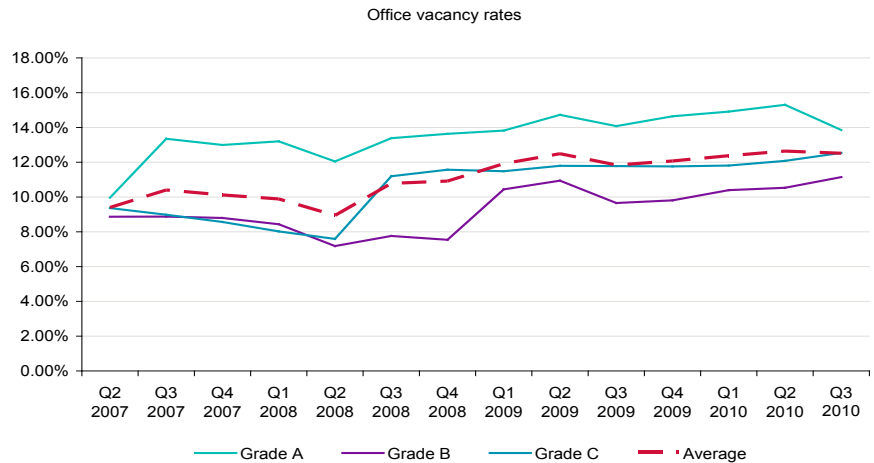
Knight Frank

HIGHLIGHTS

- Business sentiment in the service sector improves
- Grade A vacancy rates drop from 15.30% to 13.85%, the lowest rate in over a year,
- Vacancies in Grades B and C continued to rise
- Office rents stable across the market.
- Outlook is positive, if stability can be maintained

SUPPLY AND DEMAND

Figure 1
Supply and Vacancy Rates Q2 2010



Source: Knight Frank Thailand Research

Vacancy rates have been steadily climbing throughout the past few years, despite very little in the way of new supply coming on line, however over the past three months, demand for grade A space increased.

Grade A vacancy rates dropped from 15.30% in Q2 to 13.85%, with buildings like Empire Tower, CRC Tower at All Seasons Place, Wireless Road, and the Asia Center on Sathorn Road all recording new tenancies and improved occupancy rates.

Table 1
Vacancy rates Q2 2010

	Grade A	Grade B	Grade C	Overall Vacancy
Q3 2009	14.08%	9.66% ^a	11.78%	11.84%
Q2 2010	15.30%	10.53%	12.08%	12.64%
Q3 2010	13.85%	11.14%	12.54%	12.51%
QoQ Change	-1.45%	0.61%	0.46%	-0.13%
YoY Change	-0.23%	1.49%	0.76%	0.67%

Source: Knight Frank Thailand Research

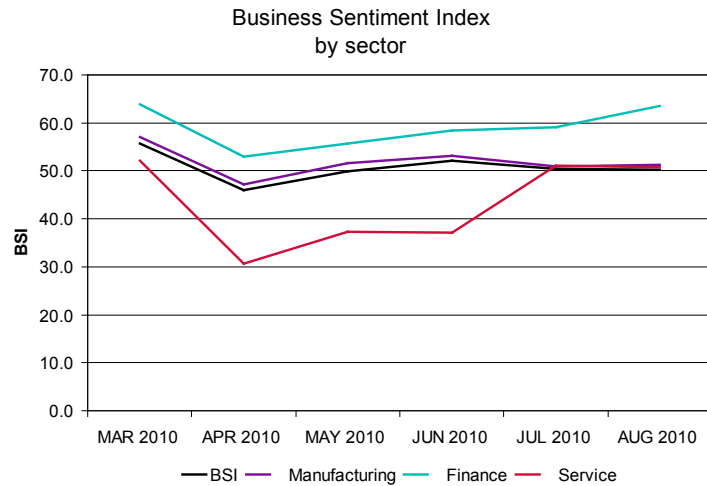
Demand for properties in the grade B and C sectors however remained somewhat stagnant with vacancies hovering around 11 and 12% respectively with little change from the previous quarter.

In our last report we said “Stimulus measures must be complemented by a prolonged period of peace and stability in order to improve business sentiment” because when businesses in the service sector grow more confident, they use more office space because they hire staff, restart projects, and start new businesses.

The past three months has been a period of relative stability which has given businesses in the capital a boost in confidence. The Bank of Thailand’s “Business Sentiment Index” showed that despite any meaningful and sustainable resolution to the recent political crisis, businesses in the service sector shook off their negative outlook, and returned to stable territory in June and stayed in positive territory again in August (September’s figures were not available at the time of print).



Figure 2
Business Sentiment Index by industry sector



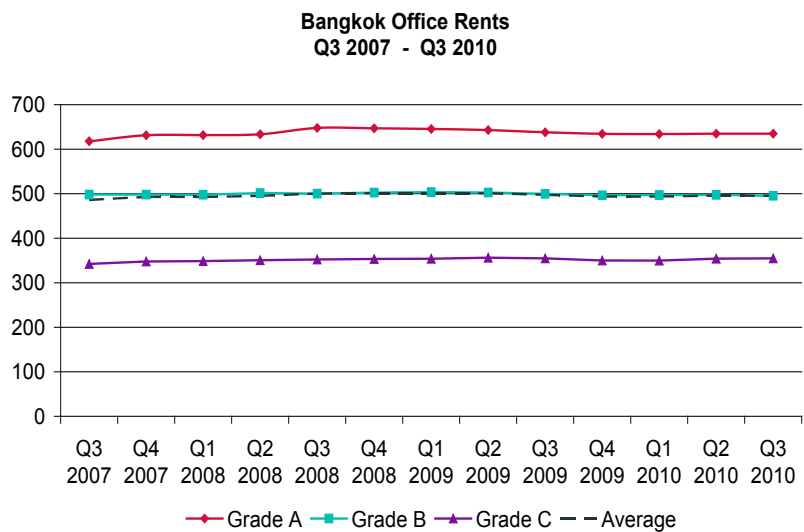
Source: Bank of Thailand

Interpretation

Index = 50 indicates that business sentiment remains stable.
 Index > 50 indicates that business sentiment has improved.
 Index < 50 indicates that business sentiment has worsened.

OFFICE RENTS

Figure 3
Bangkok Office Rents Q3 2007 – Q3 2010



Source: Knight Frank Thailand Research

In the face of very little volatility in demand, rental rates held steady throughout all grades of Bangkok’s office market in the third quarter, with only a very marginal falls reported in some buildings in the grade B sector.

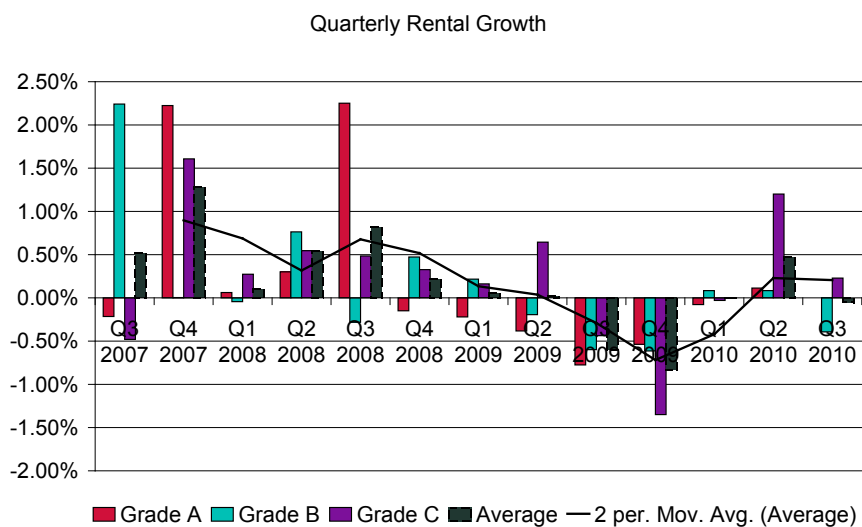
Table 2
Bangkok Office Rents Q2 2010

Quarter	Grade A	Grade B	Grade C	Average
Q3 2009	638.07	499.65	354.69	497.47
Q2 2010	634.87	497.42	354.00	495.43
Q3 2010	634.87	495.46	354.81	495.05
Annual Change	-0.50%	-0.85%	0.03%	-0.49%
Quarterly Change	0.00%	-0.39%	0.23%	-0.08%

Source: Knight Frank Thailand Research

The Grade C sector however saw their rental rates rise slightly from the second quarter to reach levels last seen a year ago

Figure 4
Quarterly growth in Bangkok office rents from Q3 2007 – Q3 2010



Source: Knight Frank Thailand Research



SUMMARY AND OUTLOOK

We are cautiously optimistic that this period of peace and stability will continue. If it does, a climate of improving business sentiment, coupled together with limited new supply could restart demand and rental growth throughout the market.

Table 3

Business Sentiment Index Q3 2010

Business Sentiment Index	JUL 2010	AUG 2010	SEP 2010
BSI All sectors	50.4	50.3	n/a
Service Sector	51.1	50.8	n/a*

Source: Bank of Thailand

September's figures are published in October and not available at the time of going to print.

However, it is still too early to state that this improvement in demand is the beginning of a sustainable new trend. For the past three years vacancy rates have developed a habit of improving for one quarter before dropping off for the rest of the year.

Furthermore the BSI has only entered stable territory for two months, and whilst confidence in the service sector does genuinely seem to have improved, it will remain very sensitive to any new political or economic shocks, but look forward to seeing how this develops over the rest of the year.



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