



Q4 2011 INDUSTRIAL PROPERTY REPORT

Knight Frank

HIGHLIGHT

- The Thai floods inundated seven industrial estates, accounting for 18.93% of the total supply of Serviced Industrial Land Parcels (SILPs).
- GDP in Q4 2011 declined to -9% the lowest growth recorded since the economic crisis of 1997
- Sales of serviced industrial land parcels, and occupancies of ready built factories and warehouses all increased in Q4 2011
- “Dry” BOI Zone 2 locations are in most demand followed by the Eastern Seaboard as firms wish to avoid locations that flooded or areas considered being at risk of future floods
- Land values are set to rise in the Eastern Seaboard and dry locations by 5-10% in 2012, whereas estates which flooded will find it difficult to secure investors without offering significant discounts and comprehensive flood prevention measures.

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MACROECONOMIC OVERVIEW

During the period of September 2011 and December 2011, Thailand experienced its worst floods for over half a century, which saw seven industrial estates, inundated accounting for 18.93% of the total supply of SILPs (Serviced Industrial Land Parcels).

The water volume was immense, sufficient to cover the state of Connecticut, or Wales, in water one meter deep and caused losses counted in the billions of dollars, causing massive interruption to global supply chains and the livelihoods of millions.

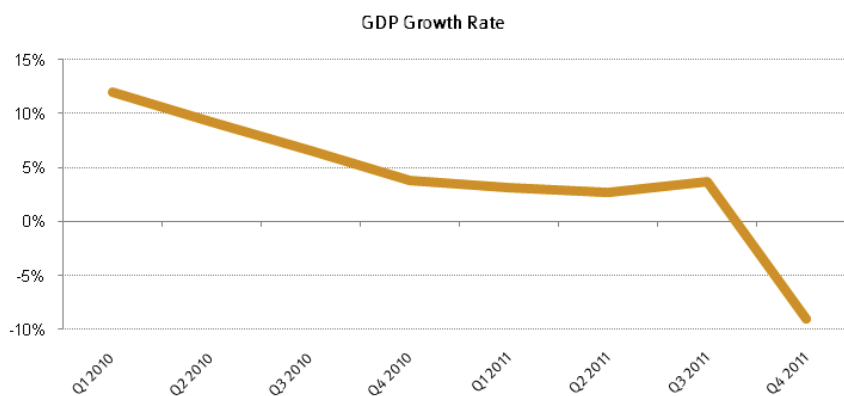
Table 1

Industrial Estates / Parks / Zones	Province	BOI Zone	Total Area (Rai)
Navanakorn Industrial Zone	Pathumthani	1	6,495
Bangkadi Industrial Park	Pathumthani	1	1,200
Rojana Industrial Park, Ayutthaya	Ayutthaya	2	10,000
Ban Wa (Hi-Tech) Industrial Estate	Ayutthaya	2	2,446
Bang Pa-In Industrial Estate	Ayutthaya	2	1,962
Saha Rattana Nakorn Industrial Estate	Ayutthaya	2	1,441
Factoryland Wang Noi	Ayutthaya	2	170

Source: Industrial Estate Authority of Thailand

The flood ravaged the manufacturing sector which represents about 39% of the Thai economy, which decreased by 21.78% Y-o-Y, suffering the worst fall of all sectors. As a result, GDP in Q4 2011 declined to -9% the lowest growth recorded since the economic crisis of 1997.

Figure 1



Source: The National Economic and Social Development Board



IMPACT OF THE THAI FLOOD ON THE REAL SECTOR

Disruption was felt across the economic spectrum whether it was from disruptions to a supply chain, damage to their plant, office, or workers stranded in their homes.

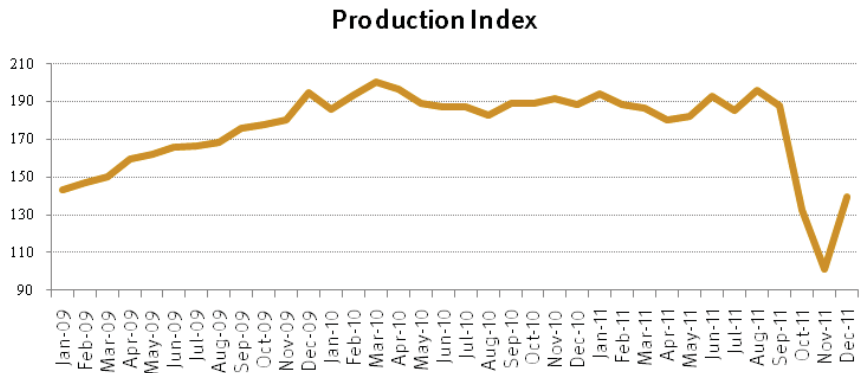
Table 2

	Product	Nov-11	Y-o-Y %
Production	Air conditioner	197,285 Units	-77.59%
	Car 1,800-2,400 cc	648.45 Units	-88.02%
Domestic Sales	Automobiles	23,985.35 Units	-67.46%
Export	Electrical Appliances	21,187.77 THB Million	-41.14%
	Vehicles, Parts and Accessories	19,122.59 THB Million	-61.20%

Source: Bank of Thailand, and Office of Industrial Economics

During these devastating floods, the production index fell 46%, from 187.87 to 101.33, from September to December, representing a decline of 47.09% YoY.

Figure 2

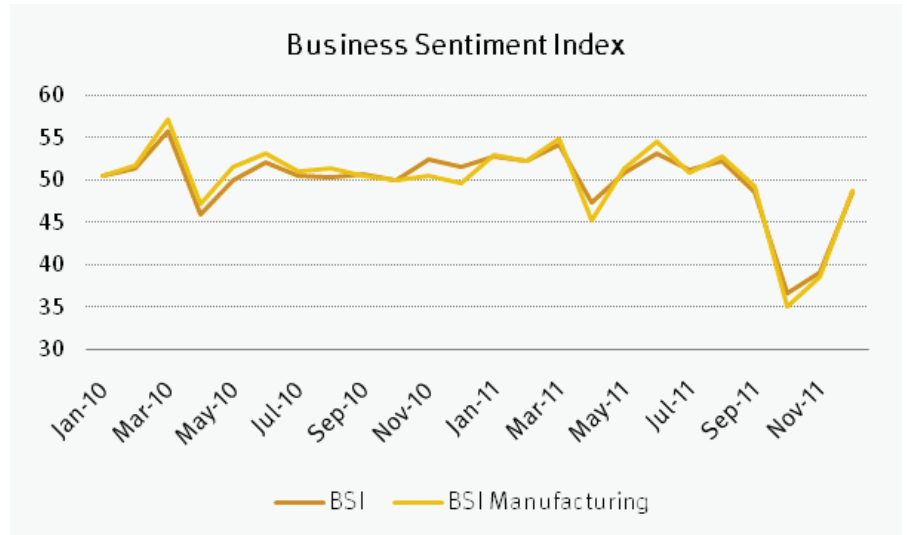


Source: Office of Industrial Economics

However, as December approached, the flood waters finally began to recede, and we saw the index bounce back by 38% to 139.73 as some factories were able restart production faster than anticipated. Although many operations still need to repair damaged plant and equipment, some of which is highly specialized and replacement requires long lead times and as such many still remain unable to restart production.

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Figure 3



Source: Bank of Thailand

Remark: Index = 50 indicates that business sentiment remains stable.

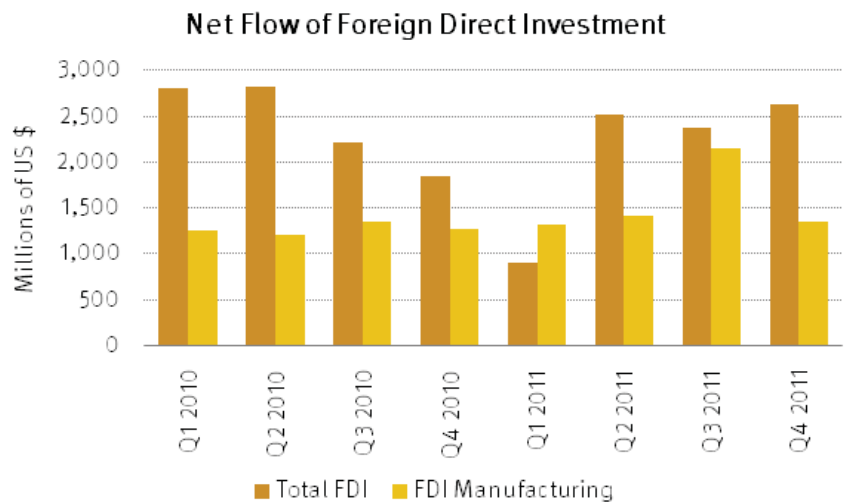
Index > 50 indicates that business sentiment has improved.

Index < 50 indicates that business sentiment has worsened.

The impact of the flood on confidence in the manufacturing sector during the October to November period is clearly reflected in the fluctuations of the Business Sentiment Index. However, just as the production index and the overall situation improved as we moved into December confidence began to recover.

FOREIGN DIRECT INVESTMENT

Figure 4

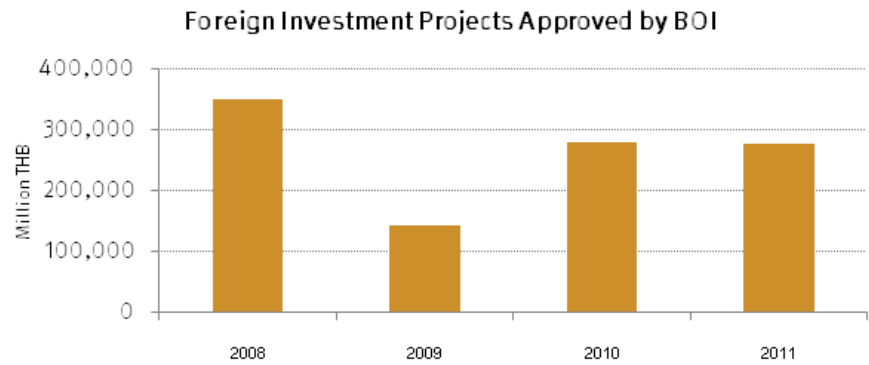


Source: Bank of Thailand

The net flow of Foreign Direct Investment (FDI) in the manufacturing sector in the last quarter of 2011 decreased by 37.57% or 808.27 Million US dollars. A portion of this will be the result of firms withdrawing investment in Thailand, but we believe that the majority is a result of firms postponing decisions to invest during the flooding whilst they took stock of the situation.



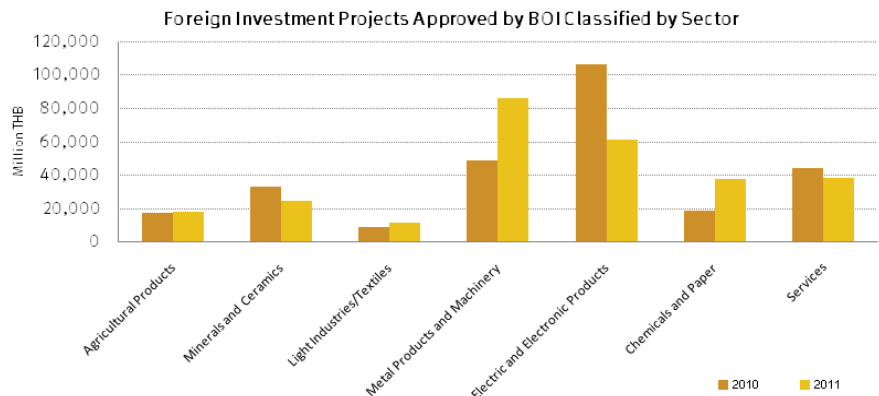
Figure 5



Source: The Board of Investment of Thailand

During 2011, the total value of foreign investment projects approved by the Board of Investment was slightly less, 0.28 (%) than that approved in 2010, 278,447 million THB.

Figure 6



Source: The Board of Investment of Thailand

The greatest growth of foreign investment in 2011 was in the metal products and machinery sector, which saw an increase of 74.91%. However, investment in the electronics sector declined by 42.33%.

Table 3

Foreign Investment from Major Countries (Million THB)	2011
Japan	158,968
Singapore	25,176
China	16,922
USA	9,238
Cayman Island	8,667

Types (Million THB)	2011	%
Expansion Projects	157,753.3	56.65%
New Projects	120,693.3	43.35%
Total	278,446.6	100%

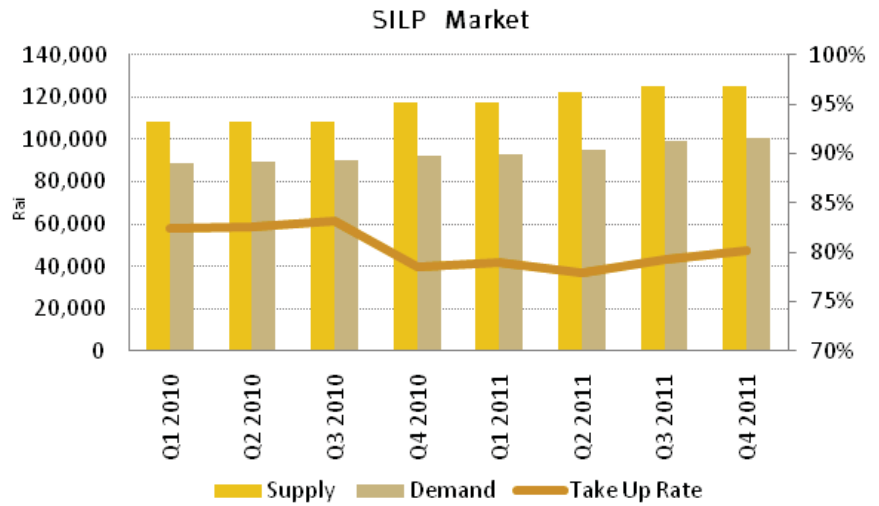
Source: The Board of Investment of Thailand

Japan, Thailand's largest investor, invested 158,968 million THB in Thailand in 2011.

56.65% of the total investment applications were expansions of the existing project, whereas new projects accounted for about 43.35% of the total.

SERVICE
INDUSTRIAL
LAND PLOTS
(SILP)

Demand
Figure 7

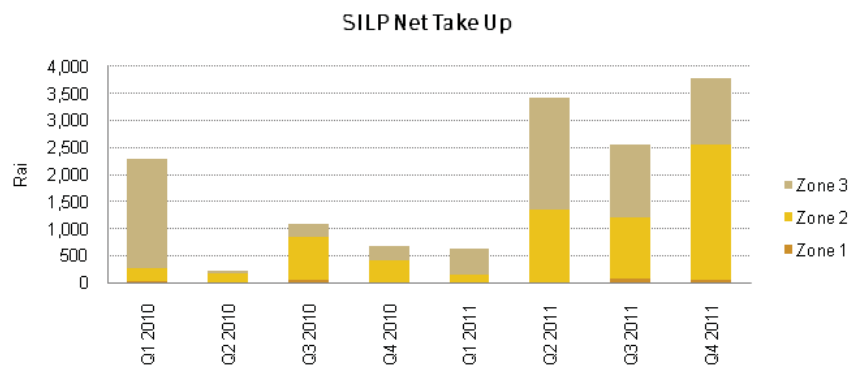


Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

At the end of 2011, the total area of occupied serviced industrial land plots in Thailand reached 100,344 rai, with a take-up rate in Q4 of 80.13% increasing from 79.24% in Q3.

During the fourth quarter of 2011, the total recorded SILP sales were 3,783 rai, an increase of 48.18% Q-o-Q, which equates to an increase of 451.46% from the same period in 2010. Most of SILPs sold in the final quarter of 2011 were located in Zone 2 comprising 66.48% of the total or 2,515 rai, whereas 1,224 rai were sold in Zone 3.

Figure 8



Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

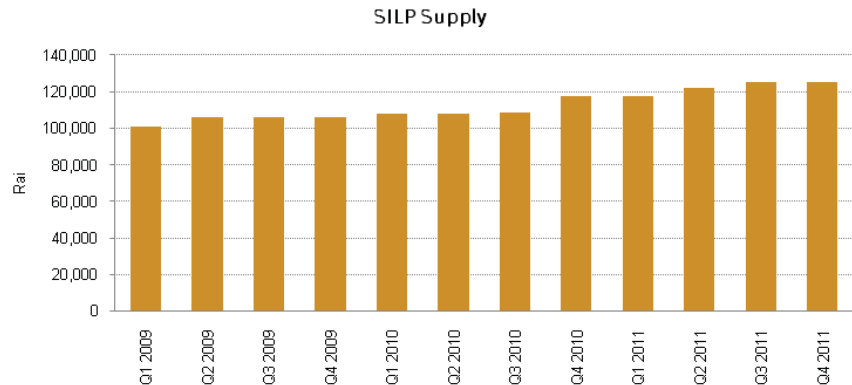
This may be somewhat explained by the acquisitions made by flooded companies in dry BOI Zone 2 locations.



Supply

The total SILPs supply in Q4 2011 was 125,223 rai, which increased by 0.26% Q-o-Q, and 6.68% Y-o-Y.

Figure 9



Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

Future Supply

As at the end of 2011, approximately 27,111 rai of new SILPs were under development. Approximately 60% of these or 16,437 rai are located in BOI Zone 2, and almost half of those, (8,226 rai) are being built at Phase 2 of the Amata Nakorn Industrial Estate in Chonburi whereas 15,585 rai of SILPs are expected to be added to the Eastern Seaboard.

Table 4

Industrial Estates	Province	Zone	Supply (Rai)
Gemopolis Industrial Estate (Project 2)	Bangkok	1	330
Asia Industrial Estate (Suvarnabhumi)	Samut Prakarn	1	3,000
Amata Nakorn Industrial Estate (Project 2)	Chonburi	2	8,226
Panthong Kasem Industrial Estate	Chonburi	2	N/A
Banbung Patana Industrial Estate	Chonburi	2	1,500
Pinthong Industrial Estate (Phase 3)	Chonburi	2	1,000
V.R.M Ratchaburi Industrial Estate	Ratchaburi	2	852
Rayong Eco Industrial Estate (Ban Khai)	Rayong *	2	2,194
IRPC Industrial Park (Phase 4)	Rayong *	2	N/A
Lak Chai Rubber City Industrial Estate	Rayong *	2	2,442
Asia Terminal Industrial Estate	Rayong *	2	223
Lamphun Industrial Estate	Lamphun	3	570
Lamphun 2 Industrial Estate	Lamphun	3	370
Thai Diamond City Industrial Estate	Petchburi	3	N/A
Bang Saphan Steel Industrial Estate	Prachuap Khiri Khan	3	N/A

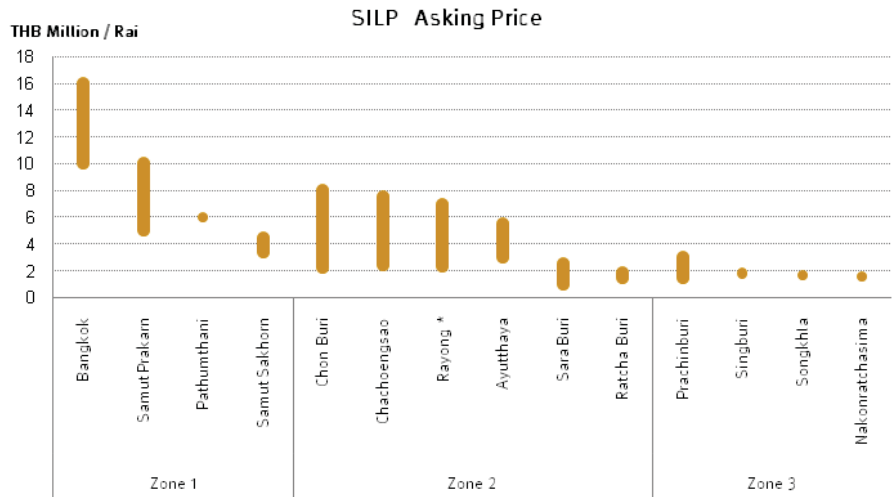
Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

Remark: * Industrial estates or promoted industrial zones in Rayong qualify for Zone 3 tax incentives.

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SILP Price

Figure 10



Source: Knight Frank Thailand Research

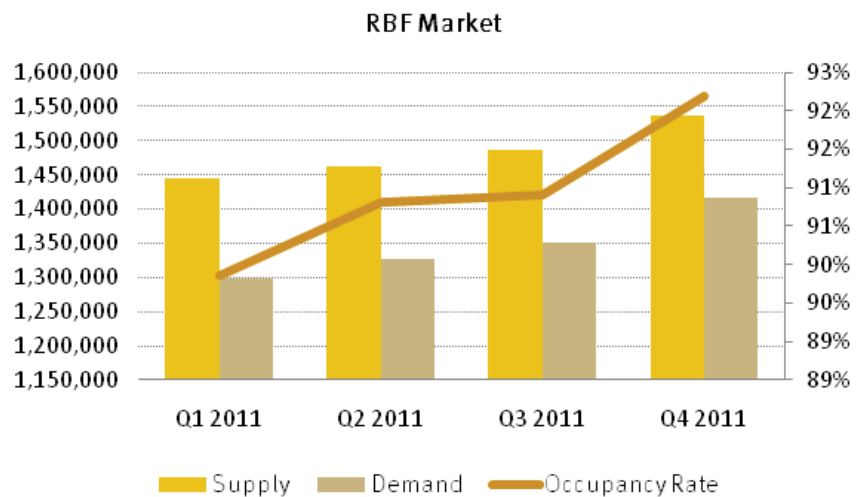
Remark: * Industrial estates or promoted industrial zones in Rayong gain tax incentives of Zone 3

As at December 2011 the overall asking price remained unchanged. However, we expect prices in so called “dry estates” to increase between 5-10% during 2012 as factories relocate from flooded areas, and demand from new investors focuses on those estates which escaped the floods.

READY-BUILT FACTORIES (RBF)

Supply

Figure 11



Source: Knight Frank Thailand Research

In Q4 2011, 16 new factories from the leading developers entered the market, bringing the total supply of RBFs to 660 during Q4 2011 with the total space of 1,535,973 (sqm), an increase of 3.47% from the same period last year.



Demand

The occupancy rate was 92.75% in the fourth quarter 2011. 539 factories have been leased with the overall occupied area of 1,283,522 (sqm). Although some developers could not give the figures for Q4 2011, we still saw occupancy grow in RBFs by 1.29%.

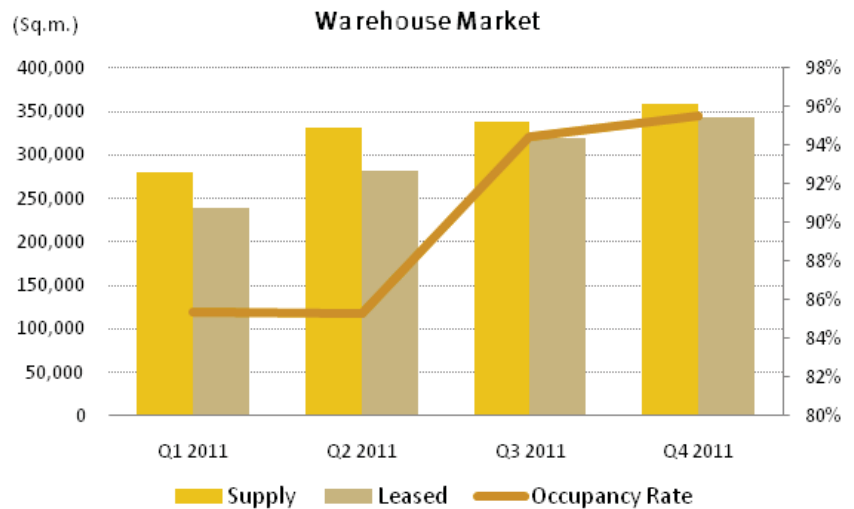
Future RBF Supply

This year we expect to see at least 250,000 (sqm) of new supply enter the RBF market. Amata plans to complete 50 new units providing 62,500 (sqm), whereas TICON has announced plans to build 71 factories with the total area of 182,484 (sqm).

Amata and TICON have 35 factories under construction providing 63,425 (sqm) of space, whilst the rest are in the process of site preparation.

WAREHOUSE

Figure 12



Source: Knight Frank Thailand Research

The supply of warehouses increased by 6.53% Q-o-Q to 359,363 (sqm), and in the wake of flood related relocations, their occupancy rates increased to 95.49%.

Knight Frank's industrial agency team reports that there is now a limited supply of in the choice locations as rather than relocating, occupiers have been acquiring additional satellite premises in locations outside of the flood zones.

Demand for quality modern warehousing space with raised floors, docks and ceilings of at least 10m has been so strong in some locations that tenants are advised to make decisions and place deposits fast in order to avoid disappointment.

Warehouse rents range from THB 25 per sqm per month to THB 300 per sqm per month, however this is subject to a number of variable such as the specifications, age, quality, condition, and location.

In the Q4 2011 the average rental rate for a grade A modern distribution center stood at THB 149.45 /sqm/month, whereas grade B warehouses still sought average rents of THB 142.83 /sqm/month, and the average grade C warehouse rents were THB 87.12 /sqm/month.

Warehouses in Bangkok are often older properties but can fetch an average rental rate of THB 129.37 /sqm/month; a reflection of the limited supply and the relatively high land values in these locations.

OUTLOOK

We expect to see property values increase in the Eastern Seaboard and dry locations by 5-10% in 2012, in line with increased demand, but the outlook for industrial estates in Ayutthaya and Pathumthani is more difficult to predict.

It is true that many firms have acquired new properties in 'dry' locations, and some have even announced that they intend to leave Thailand, but months later most have chosen to stay put.

This is encouraging news for those estates, but they will still find it difficult to secure new investors, without offering significant discounts and demonstrations that they can provide comprehensive flood prevention measures.



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