



H1 2012 THAI MANUFACTURING PROPERTY MARKET

Knight Frank

HIGHLIGHT

- 79.02% of the factories in flooded industrial estates have resumed operations.
- The value of foreign direct investment in H1 2012, increased to 171 billion baht, or increase by 10.40% Y-o-Y.
- The total supply of SILPs in Q1 2012 reached 118,642 rai, representing an increase of 1.61% Q-o-Q, or 4.78% Y-o-Y.
- Industrial land values on the Eastern Seaboard increased by 5-10% from last year.
- The factory rental market's occupancy rate was 93.26% in Q1 2012, falling from 95.07% in the previous quarter.

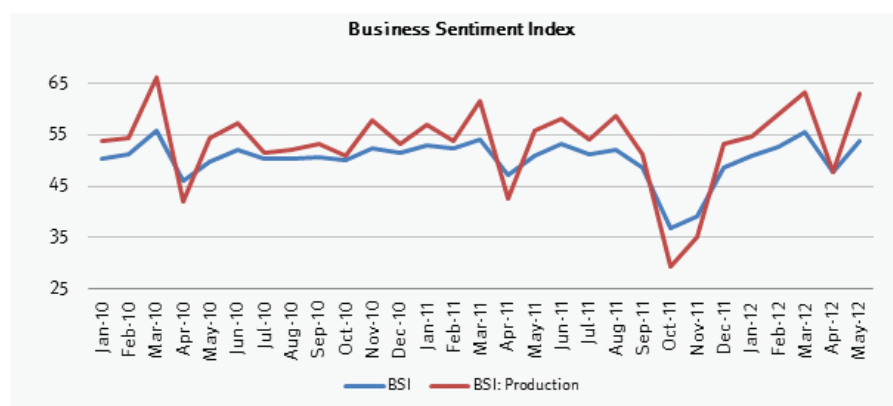
FLOOD RECOVERY

Nine months have passed since the catastrophic floods of October 2011 struck the industrial estates to the north of Bangkok, crippling global supply chains in various industries, from hard disk drives to passenger cars. Now as Thailand begins to move into the rainy season of 2012, we take a look at flood recovery and prevention efforts, and their implications on the manufacturing property market.

Since the beginning of 2012, the business sentiment index has once again climbed above 50 indicating a more optimistic outlook, as more factories begin to restart their production lines.

Business Sentiment Index

Figure 1



Source: Bank of Thailand

Remarks:

1/ Business Sentiment Index is compiled from BOT survey data of 1,010 businesses.

2/ Below is the interpretation of the index:

Index = 50 indicates that business sentiment remains stable.

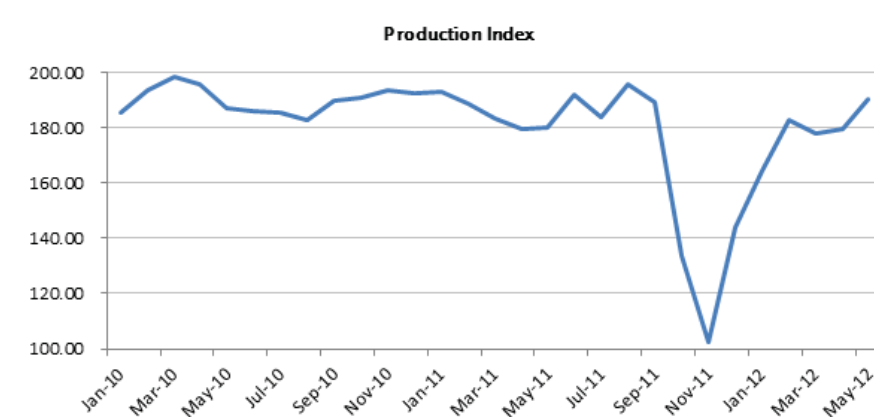
Index > 50 indicates that business sentiment has improved.

Index < 50 indicates that business sentiment has worsened.

Today the production index has returned to pre-flood levels, although there are still many manufacturers who have not yet fully recovered.

Production Index

Figure 2



Source: Office of Industrial Economics

Remark: Production Index is value added weight and seasonally adjusted.



According to Thailand's Ministry of Industry, during the floods of 2011, 839 factories were damaged in the industrial estates of Pathumthani and Ayutthaya. But as of 16 July 2012, 74.6% or 663 factories had resumed operations. However, only 357 factories were fully operational; 306 had only partly resumed operations.

Table 1

Industrial Estates / Parks / Zones	Province	BOI Zone	Total Area (Rai)	Damaged Factories (Units)	Factories Resumed Operations (Units)	
Navanakorn Industrial Zone	Pathumthani	1	6,495	227	185	81.50%
Bangkadi Industrial Park	Pathumthani	1	1,200	36	24	66.67%
Rojana Industrial Park, Ayutthaya	Ayutthaya	2	10,000	213	154	72.30%
Ban Wa (Hi-Tech) Industrial Estate	Ayutthaya	2	2,446	143	110	76.92%
Bang Pa-In Industrial Estate	Ayutthaya	2	1,962	90	79	87.78%
Saha Rattana Nakorn Industrial Estate	Ayutthaya	2	1,441	46	27	58.70%
Factoryland Wang Noi	Ayutthaya	2	170	84	84	100%
Total		2	23,714	839	663	79.02%

Source: Industrial Estate Authority of Thailand, as of 16th July 2012

Of the factories that have not yet restarted, 81 have indicated an intention to reopen. 51 of these are expected to be operational by Q3, 25 in Q4 2012, and 5 are expected to restart operations by Q1 2013. 62 factories have completely shut down or relocated.

However, it is somewhat better news for the total of 7,893 factories outside of industrial estates in the flood zone where 97.16% have resumed operations.

FLOOD PROTECTION PROGRESS



In order to regain the confidence of foreign investors, earlier this year the Thai government allocated a budget 3.8 billion baht for flood prevention measures at the seven inundated industrial estates.

As of the date of writing this report, none of the estates have completed construction of their flood protection measures; as of July 16th, the IEAT reported that the construction progress of the flood protection was as follows:

Table 2

Industrial Estates / Parks / Zones	Progress of Flood Protection as of 16 July 2012
Navanakorn Industrial Zone	71.39%
Bangkadi Industrial Park	65.27%
Rojana Industrial Park	73%
Ban Wa (Hi-Tech) Industrial Estate	70.42%
Bang Pa-In Industrial Estate	58%
Saha Rattana Nakorn Industrial Estate	0% - Pending Due to Awaiting for New Administrative Planner
Factoryland Wang Noi	0% - No area for construction flood preventing dam

Source: Industrial Estate Authority of Thailand, as of 16th July 2012

Unsurprisingly, the many manufacturers in the Northern estates are taking it upon themselves to directly protect their factories.



Western Digital for example has constructed a USD 20M flood wall to surround their Bangpa-In Industrial Estate campus (pictured above), whilst others have purchased flood barriers that can be rapidly deployed by truck and inflated with high pressure water which are reputed to hold back 2.5m deep flood waters.



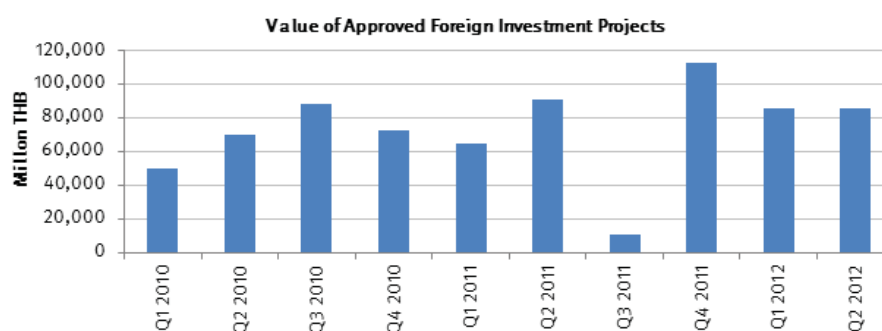
Other firms have acquired or are looking for additional production facilities in other locations in Thailand with a much lower risk of flooding, with the intention of either having one serve purely as a backup or of splitting production capacity between the two facilities. The locations that have proved most popular so far include Prachinburi, Chonburi, Chachoengsao, and Rayong.

DEMAND

Despite the devastating floods, or perhaps because of it, the value of foreign direct investment in the period from Jan to Jun 2012, increased to 171 billion baht, or by 10.40% compared to the same period last year.

Value of Approved Foreign Investment Projects

Figure 3

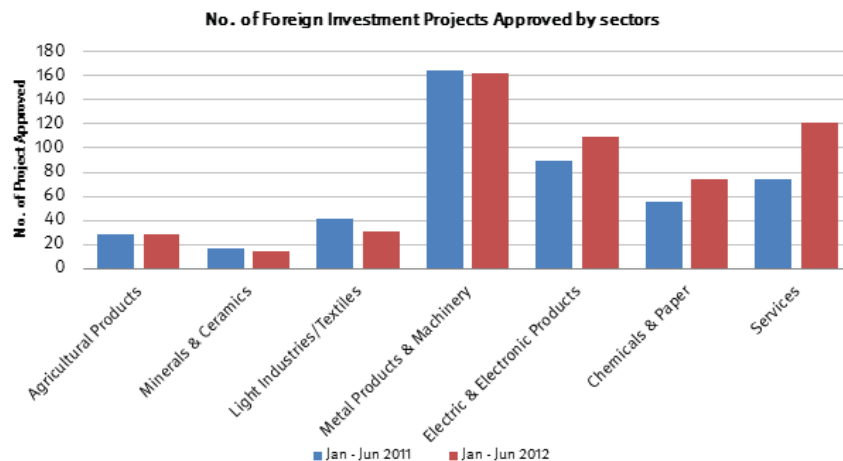


Source: The Board of Investment

Thailand enjoyed the most growth in the number of projects from the services, chemicals & paper, and electric and electronics products sectors.

No. of Foreign Investment Projects Approved by sectors

Figure 4

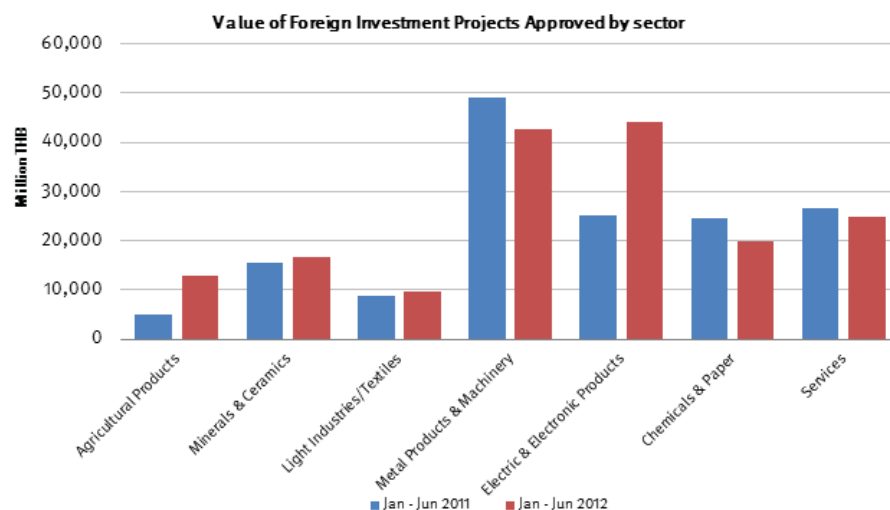


Source: The Board of Investment

But according to the data from the BOI, the most valuable growth in FDI was seen in the electric and electronic product sectors- the value of which increased by 74.39% to a total of 44 billion baht, compared to just 25.2 billion baht over the same period in 2011.

Value of Foreign Investment Projects Approved by sector

Figure 5



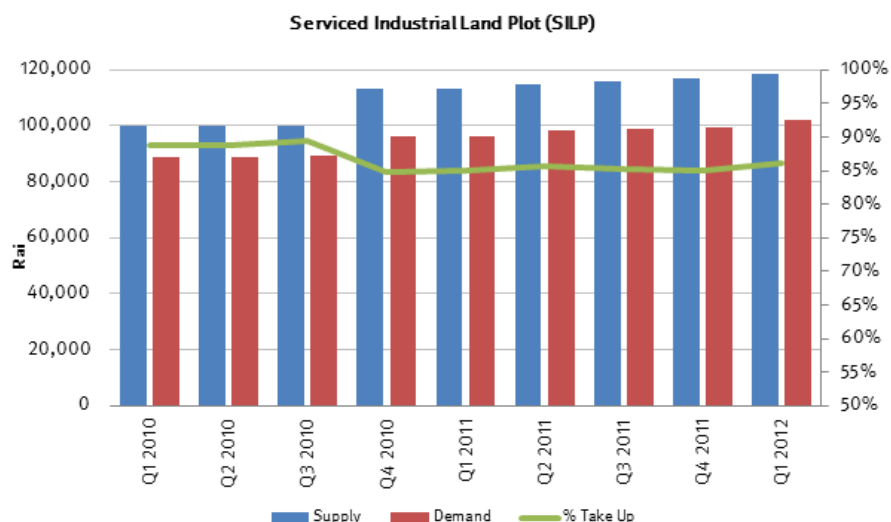
Source: The Board of Investment

Given that the biggest electronics cluster is located in and around the flood struck Ayutthaya / Pathumthani region, this is most likely driven by firms replacing flood damaged machinery.



Serviced Industrial Land Plot (SILP)

Figure 6



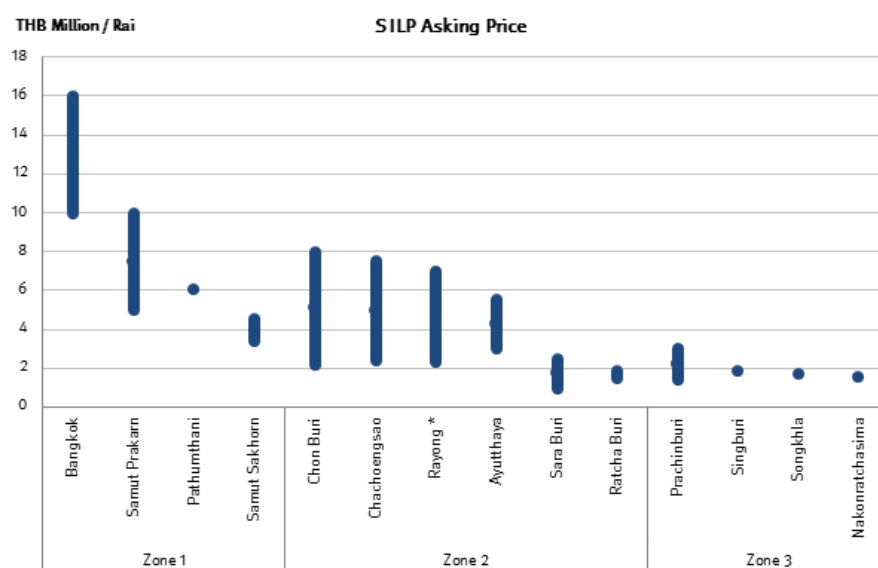
Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

The total supply of SILPs in Q1 2012 reached 118,642 rai, representing an increase of 1.61% Q-o-Q, or 4.78% Y-o-Y. The total take up was 102,187 rai, or an 86% take up rate.

Most of the new supply is mostly located along the Eastern Seaboard where industrial estates are expanding to cater to increased demand, as their popularity increased when firms sought high ground after the flood.

SILP Asking Price

Figure 7



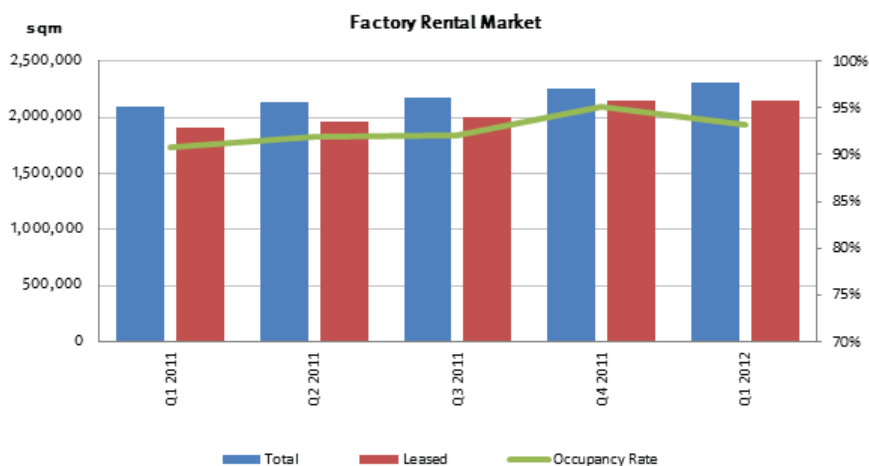
Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

*Industrial estates in Rayong may also qualify for BOI Zone 3 privileges

FACTORY RENTAL MARKET

Factory Rental Market

Figure 8



Source: Knight Frank Thailand Research

The factory rental market's occupancy rate was 93.26% in Q1 2012, which reduced from 95.07% in the previous quarter. The total supply was 2,304,713 sqm, with the occupied space of 2,149,388 sqm.

FACTORY RENT BY MAJOR INDUSTRIAL LOCATIONS

Table 3

Factory Rental Market	Rental Rate (THB/Sq.m./Month)			
	Rama 2 - Samut Sakhon	Pathum Thani - Ayutthaya	Suvarnabhumi - Bangkok	Eastern Seaboard
Prime	181.00	216.67	241.40	220.00
Non-prime	133.29	127.50	110.86	165.31

Source: Knight Frank Thailand Research

The Eastern Seaboard commands the highest factory rental and occupancy rates in the country. Firms flock here to seek out improved investment privileges, shorter logistics links to the port, and leverage the benefits of existing industry agglomerations.

THE DIRECTOR'S VIEW, MARCUS BURTENSCHAW

The Director's View, Marcus Burtenshaw

Most of the factories in the flood zone have already restarted their production, and whilst we have seen some number of factories permanently close and/or relocate, we do not foresee a totally bleak future for this location. Indeed, estates such as Nava Nakorn and Rojana are still recording land sales today. The future of course is still uncertain and much will depend on how Thailand copes with this year's rainy season.

The Eastern Seaboard's popularity seems to go from strength to strength, and that's unlikely to change but we believe that areas in locales such as Saraburi and Prachinburi represent the greatest competition to estates in the flood zones, as they were unaffected by the deluge. Also, land values are competitive and the competition for labour is not as intense as it is on the Eastern Seaboard.



DEFINITIONS:

Factory Rental Market = purpose built factories for rent from all major developers, but not limited to industrial estate locations.

SILP = serviced industrial land parcels located in industrial estates, zones and parks.

Prime Factory Market = ready built factories that command and achieve the top 10% highest rents of their sector.



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