

COMMERCIAL RESEARCH



BANGKOK OFFICE

MARKET OVERVIEW Q4 2017

HIGHLIGHTS

- Average Grade A rents rose to 1,000 baht per square metre per month for the first time, as demand continues to outstrip supply.
- Tenants leased 55,943 square metres of new office space in Bangkok in the fourth quarter
- Sukhumvit Road between Asoke and Chidlom proved to be the most popular location with the highest occupancy rate of 96.58%.
- At the end of 2017, there were approximately 4.92 million square metres of office space in Bangkok, with another 165,710 square metres forecasted to come on stream in 2018.

Summary of 2017



OFFICE SUPPLY



OCCUPANCY RATE



RENTS

Rental Rates

This year, Grade A office rents reached record levels, as the average price of grade A space inched past the THB 1,000 per square metre per month threshold for the first time on record.

The overall average rental rate was 727 baht per square metre per month, representing an increase of 3.56% year-on-year, from just 702 baht per square metre per month in Q4 last year, whilst Grade B rents reached 726.7 baht per square metre and Grade C hit 454.4 baht per square metre, up by 3.8% and 1.4% YoY, respectively.

In 2017, office buildings on Sukhumvit Road between Asoke and Chidlom proved to be the most popular, with the highest average occupancy rate of 96.58%. Furthermore, they saw rents increase by one of the largest margins in the city, as they climbed by 7.4% throughout the year.

Demand

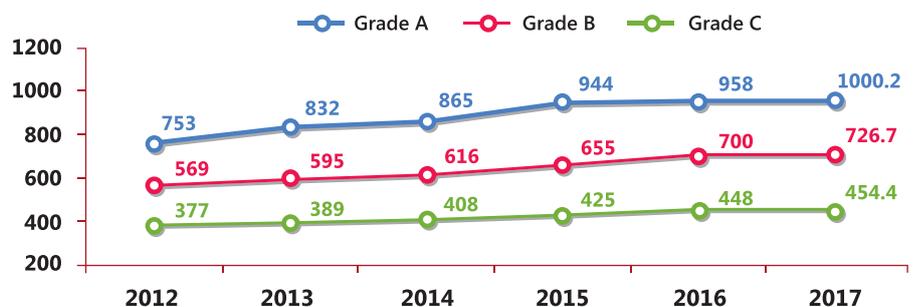
In Q4 2017, the net occupied space stood at 4,546,138 square metres, representing an overall occupancy rate of 91.35%, which declined YoY by 1.1%. However, this is not the case throughout the entire market.

Grade A office buildings improved the occupancy rate throughout the year at 94.02%, compared with 93.51% of the previous quarter. Meanwhile, the occupancy rate of Grade B and Grade C was 93.93% and 89.07%, respectively.

Net take up (or the amount of new office space leased) in Bangkok this quarter was 55,943 square metres. Meanwhile, 82,639 square metres of space was surrendered, or returned to landlords, over the same period. This means that the market actually experienced a negative net absorption of -26,696 square metres.

However, whilst the overall market experienced a decline in occupancies, the grade A sector in Q4 saw its net absorption actually increase by 24,000 square metres.

FIGURE 1
Asking Rent of Bangkok Office by Grade, 2012 to 2017



SOURCE: KNIGHT FRANK THAILAND RESEARCH

Note: These figures exclude multi-owner occupied premises and office buildings smaller than 5,000 square metres.

Meanwhile, some of the negative net absorption seen in the grade C sector can be attributed to the temporary closure of two buildings for renovation, which are expected to re-open in late 2019.

From Table 2.1, throughout 2017, we can see that the net absorption as a whole was just 6,300 square metres and only the grade B sector saw an actual increase.

To a certain extent, that has been a flight to quality. Occupancies in grade B buildings have climbed, and they have fallen in grade C properties. However, this trend is not as apparent in the grade A sector. The total take up of grade A space in 2017 was 88,000 square meters, but about 106,000 square meters of space in this same sector was returned to landlords over the same period.

Meanwhile, tenants sought to control costs, either through relocation to buildings with lower rents, or by increasing efficiency.

Supply

As of December 2017, the total supply of Bangkok office buildings grew by 45,121 square metres to 4,918,131 square metres as five new buildings were completed.

The total rental space of grade A office is 1,313,526 square metres, remaining stable from the previous year. At the same time, the total rental space of the grade B sector remained at 2,068,095 square metres whilst the rental space of Grade C office included around 1,536,010 square metres, decreasing from 1,614,375 square metres from the previous year.

Future Supply

In 2018, we expect to see five new properties enter the market with approximately 171,110 square metres. In addition to projects under

TABLE 1

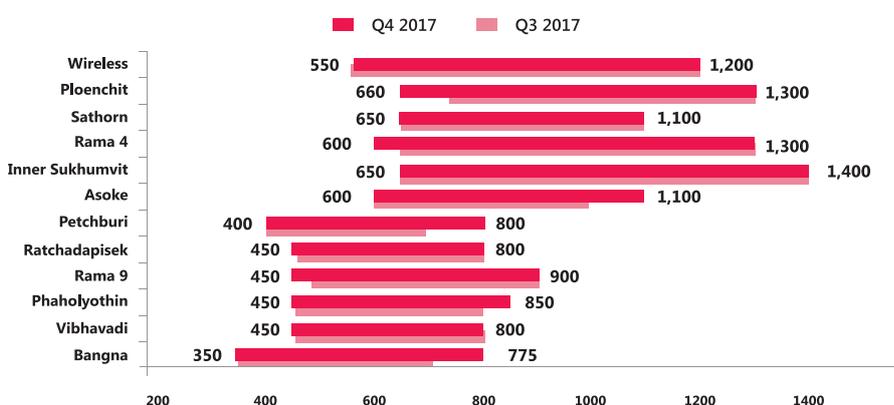
Office Asking Rent by Grade and Percentage Increase

Grade/Quarter	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change (YoY)
A	958	947	952	993.6	1000.2	+4.41%
B	700	704	705	720	726.7	+3.81%
C	448	448	449	450	454.4	+1.43%
Overall	702	700	702	722	727	+3.56%

SOURCE: KNIGHT FRANK THAILAND RESEARCH

FIGURE 2

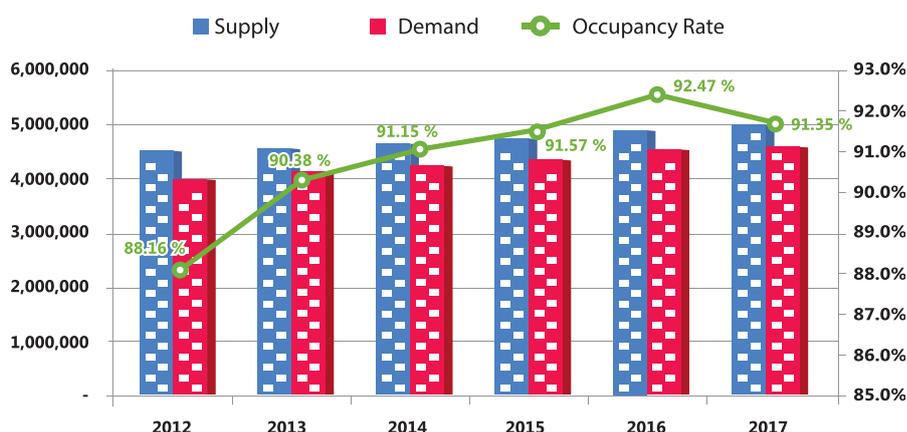
Asking Rent of Bangkok Office by Major Roads, Q3 - Q4 2017



SOURCE: KNIGHT FRANK THAILAND RESEARCH

FIGURE 3

Office Supply, Demand and Occupancy Rate, 2012-2017



SOURCE: KNIGHT FRANK THAILAND RESEARCH

TABLE 2

Occupancy Rate by Grade from Q1 2015 to Q4 2017

Grade/Quarter	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change (YoY)
A	95.50%	92.84%	92.50%	93.51%	94.02%	-1.48%
B	93.43%	93.36%	92.86%	94.13%	93.93%	+0.50%
C	89.90%	89.27%	88.97%	89.69%	89.07%	-0.83%
Overall	92.47%	91.39%	91.21%	91.73%	91.35%	+1.12%

SOURCE: KNIGHT FRANK THAILAND RESEARCH

construction, the total amount of new supply of 768,609 square metres or more would be added to the market in 2019-2023. With this estimated increase, the total office supply will be around 6.0-6.2 million square metres in 2023.

Outlook for 2018

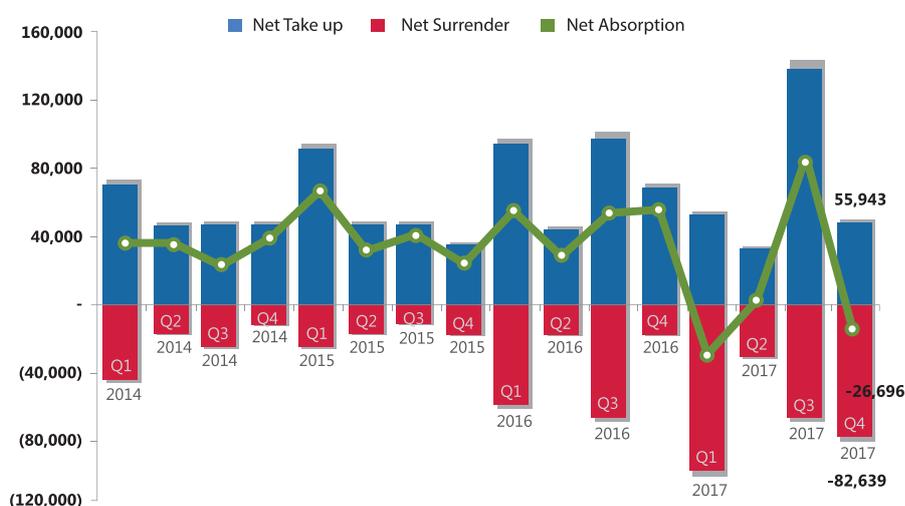
In 2018, we expect 171,000 square meters of new supply to enter the market, all of which will be located outside of the areas that we would typically define as the Central Business District. Co-working spaces and serviced offices continue to comprise one of the fastest growing workplace movements in Bangkok. The total number of co-working spaces has grown from fewer than 20 locations to over 100 locations over the past five years. However, we believe that traditional office space remains the most popular rental option. The growth of co-working spaces poses no threat to the traditional office market; in fact, both segments rise together.

Glossary

- Central Business District (CBD) – Central Business District, or CBD, is the centre of economic and financial activity of a city, and we define this as the area with the greatest concentration of prime office buildings, 5 star hotels and luxury retail.
- Grade A, Grade B and Grade C:
 - o Grade A – By virtue of their desirability, these prime properties command the highest rents in their market. You will find them located in the Central Business District near a mass transit station, and have a floor plate of at least 1,000 square metres.
 - o Grade B – The largest sector of the office market, these are the

FIGURE 4

Quarterly Net Take-Up, Net Absorption and Net Surrender from Q1 2014 to Q4 2017



SOURCE: KNIGHT FRANK THAILAND RESEARCH

TABLE 3

Quarterly Net Take-Up, Net Absorption and Net Surrender by Grade

3.1 Quarterly Net Absorption by Grade

Grade	Net Absorption ('000 sq m)				2017
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	
A	22	-4.7	-59.1	24	-17.8
B	-54.2	-26	195.5	-8.3	107
C	-10.2	23.2	-53.5	-42.4	-82.9
Overall	-42.4	-7.5	82.9	-26.7	6.3

3.2 Quarterly Net Take-Up by Grade

Grade	Net Take Up ('000 sq m)				2017
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	
A	5.1	12.3	56.4	14.2	88
B	36.9	36.5	45.3	27.4	146.1
C	15.7	4.5	41.3	14.4	75.9
Overall	57.8	53.3	143	55.9	309.9

3.3 Quarterly Net Surrender by Grade

Grade	Net Surrender ('000 sq m)				2017
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	
A	16.9	-17	-115.6	9.8	-105.9
B	-91.1	-45.6	150.1	-35.7	-22.3
C	-25.9	18.8	-94.7	-56.8	-158.6
Overall	-100.2	-43.9	-60.1	-82.6	-286.8

SOURCE: KNIGHT FRANK THAILAND RESEARCH

buildings that are traditionally in the greatest demand; they might not be the most expensive properties in the market but represent good value for money.

o Grade C – Typically older properties, these buildings provide office space for rent at the most competitive rents in the market.

- Take up – the amount of new office space leased during a certain period of time.

- Net absorption – the net change in occupied space over a specified period of time.

- Co-Working Space – collaborative communities of freelancers and startups that involve different businesses collaborating for a greater end result.

FIGURE 5
Bangkok Office Supply and New Supply from 2012-2017



SOURCE: KNIGHT FRANK THAILAND RESEARCH

Note: These figures exclude multi-owner occupied premises and office buildings smaller than 5,000 square metres.

TABLE 4
Bangkok Office Future Supply

Building Name	Lettable Area (sq.m.)	Completion	Location	Zone
Office Expected completion in 2018				
MS Siam Tower	37,000	Q1 2018	Rama 3	Non-CBD
Ari Hill	26,110	Q1 2018	Phaholyothin	Non-CBD
Singha Complex	50,600	Q2 2018	Asoke-Petchburi	Non-CBD
Ladprao Hills	6,000	Q2 2018	Ladprao	Non-CBD
T1 Office Building	22,000	Q3 2018	Sukhumvit 40	Non-CBD
Whizdom 101	30,000	Q3 2018	Sukhumvit 101	Non-CBD
Total Office Expected completion in 2018: 171,170 square metres				
Office Expected completion in 2019				
Aspiration One	27,518	2019	Ratchatewi	CBD
CP Tower 4	48,091	2019	Rama 4	Non-CBD
Samyan Mitrtown	45,000	2019	Samyan	CBD
The PARQ	71,000	2019+	Rama 4	Non-CBD
Total Office Expected completion in 2019: 191,609 square metres				
Office Expected completion in 2020-2023+				
Magnolia Project (MQDC)	20,000	2020	Ratchada	Non-CBD
Ploenchit Embassy	61,000	2021	Ploenchit	CBD
One Bangkok	225,000	2021+	Suanlum	CBD
The Forestias (MQDC)	100,000	2022	Bangna Km.7	Non-CBD
Super Tower	94,000	2023	Rama 9	Non-CBD
Dusit Thani	20,000	2023	Silom	CBD
Chuvit Garden	20,000	2023	Sukhumvit 10	CBD
Sriboonruang	37,000	2023	Silom	CBD

Total Office Expected completion in 2019: 652,000 square metres

SOURCE: KNIGHT FRANK THAILAND RESEARCH



TABLE 6

Differentiators of Office Type

Office Type	Key Differentiators
Traditional Office	<ol style="list-style-type: none"> 1) minimum 3 year lease 2) permanent space for employees 3) more choice of Grade A, B and C establishments 4) high fixed costs
Serviced Office	<ol style="list-style-type: none"> 1) fully furnished cabin spaces 2) access to several amenities such as meeting and conference rooms 3) flexibility in leasing and no fixed costs but more expensive than traditional office if we compare with same size and same location
Co-Working Space	<ol style="list-style-type: none"> 1) fully furnished cabin spaces 2) access to several amenities such as meeting and conference rooms 3) flexibility in leasing and no fixed costs but more expensive than traditional office if we compare with same size and same location 4) networking events and opportunity to interact with investors and other entrepreneurs

SOURCE: KNIGHT FRANK THAILAND RESEARCH AND STATISTA.COM

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