

COMMERCIAL RESEARCH



BANGKOK OFFICE

MARKET OVERVIEW Q2 2019

HIGHLIGHTS

- Total supply of office space in Bangkok increased by 46,000 square metres to a total of 5,028,419 square metres
- Net absorption was positive at 5,910 square metres in this quarter, increasing total occupied space to 4,575,121 square metres
- Overall market occupancy rate dropped to 91.0% from 91.7%
- Mean asking rents remained constant at 781 baht per square metre per month



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"The first half of 2019 has seen office rents soar to never before seen levels, and whilst occupancy rates remain high, the influx of new supply over the next six months coupled with some economic headwinds will be a real test for the market."

OFFICE MARKET INDICATORS

Q-o-Q Change

↑ SUPPLY ↑ OCCUPIED SPACE ↓ OCCUPANCY RATE ↔ ASKING RENTS

Y-o-Y Change

↑ SUPPLY ↓ OCCUPIED SPACE ↓ OCCUPANCY RATE ↑ ASKING RENTS

ECONOMIC OVERVIEW

Political uncertainty coupled with the US – China trade war has had a dampening effect on the Thai economy. As a result, the World Bank projects that economic growth will fall to 3.5% this year from 4.1% in the previous year. Exports have also contracted by 4% in Q1 2019 – the first quarterly decline in three years as the baht continues to appreciate against the US dollar. Meanwhile, public investments in infrastructure, which have been identified as a major growth driver for the economy, have slowed in implementation due to election-related delays. Nevertheless, low inflation, rising employment levels, and rising recurrent fiscal spending are still boosting private investment and household consumption to grow close to their three-year high.

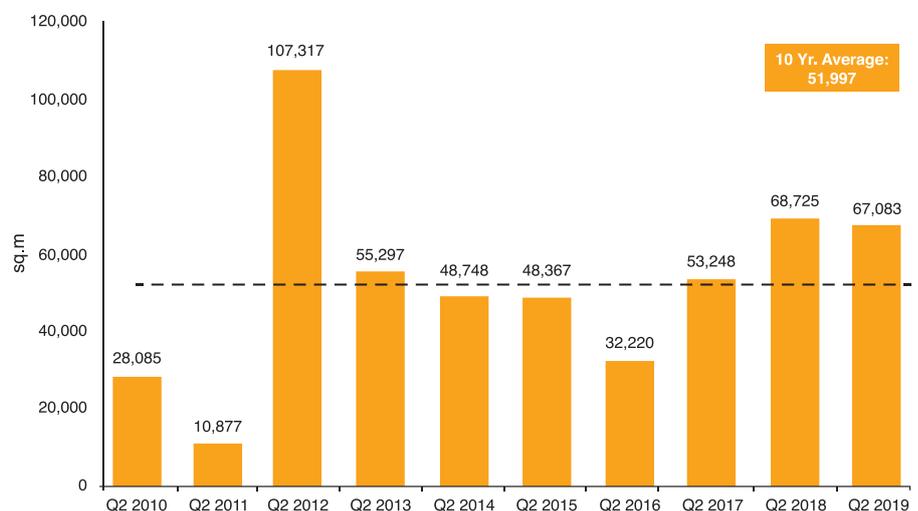
SUPPLY

In Q2, one new office building was completed outside the CBD. As a result, total supply of office space in Bangkok increased by 46,000 square metres to a total of 5,028,419 square metres. Despite slightly subdued occupier activity at the start of the year, market activity picked up considerably in Q2, as take up increased

to 67,083 square metres from 37,974 square metres. A significant portion of the quarterly take up occurred at the newly completed building, indicating tenants' preferences for new supply. Although the take up is marginally lower Y-o-Y, it is still above the 10-year average of 51,997 square metres.

FIGURE 1

BANGKOK OFFICE QUARTERLY TAKE UP



SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

FUTURE SUPPLY

The office market is projected to receive an influx of new supply in the remaining half of the year. Five projects are expected to be completed in Q3 and Q4, adding 153,187 square metres of new office space. This is over three times the amount of new supply that entered in the first half of the year. The additions will mainly be located in non-CBD regions. Two buildings will add 62,000 square metres of office space to the CBD, while the other three new buildings will add 91,187 square metres to non-CBD areas.

From H2 2019 to 2023, the Bangkok office market is expected to grow by 1,170,638 square metres or an average of 234,128 square metres annually. This represents a supply growth rate of approximately 4.3% per year. In comparison, from 2014 to 2018, supply grew by 129,888 square metres or 2.6% annually. By the end of 2023, the total market supply will reach 6.2 million square metres.

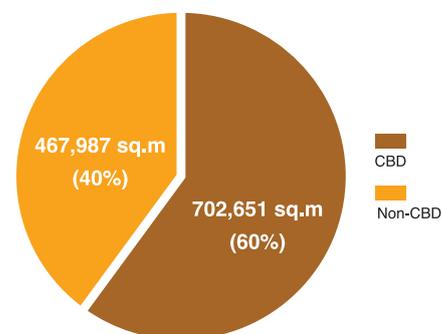
TABLE 1

BANGKOK OFFICE FUTURE SUPPLY

Future Supply	Lettable Area (sq.m)	
	Year	CBD
2019	62,000	91,187
2020	82,185	120,000
2021	164,296	62,800
2022	59,170	100,000
2023	335,000	94,000
Sub - Market Total	702,651	467,987
Market Total	1,170,638	

FIGURE 2

BANGKOK OFFICE FUTURE SUPPLY (2019-2023)



SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

TABLE 2

BANGKOK OFFICE FUTURE SUPPLY (PROJECTS)

Building Name	Lettable Area (sq.m)	Completion	Zone
Office expected completion in 2019			
TRR Building	15,578	2019	Non-CBD
Silom Center	17,000	2019	CBD
Spring Tower	27,518	2019	Non-CBD
Samyan Mitrtown	45,000	2019	CBD
CP Tower 4	48,091	2019	Non-CBD
Total Office completion in 2019 : 153,187 square metres			
Office expected completion in 2020			
Vanissa Building	22,185	2020	CBD
Phayathai Complex	22,000	2020	Non-CBD
Rasa Two	45,000	2020	Non-CBD
WHA Tower	53,000	2020	Non-CBD
The PARQ	60,000	2020	CBD
Total Office completion in 2020 : 202,185 square metres			
Office expected completion in 2021-2023+			
111 Praditmanutham	9,800	2021	Non-CBD
140 Wireless	14,315	2021	CBD
Kronos Sathorn	22,481	2021	CBD
Poem Tower	25,000	2021	CBD
O - NES Tower	46,000	2021	CBD
Oasis	53,000	2021	Non-CBD
Sriboonruang	56,500	2021	CBD
One City Center	59,170	2022	CBD
The Forestias	100,000	2022	Non-CBD
Chuvit Garden	20,000	2023	CBD
Dusit Central Park	90,000	2023	CBD
Super Tower	94,000	2023	Non-CBD
One Bangkok	225,000	2023	CBD
Total Office completion in 2021-2023+ : 815,266 square metres			

SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

DEMAND

Net absorption was positive at 5,910 square metres in this quarter, increasing total occupied space to 4,575,121 square metres. Despite the quarterly increase, total occupied space is still down Y-o-Y. Over the past 12 months, total supply increased by 30,190 square metres but total occupied space declined by 22,794 square metres over the same period. This suggests that annual demand was lower than supply. Given the economic slowdown and lack of prime properties added to the CBD in the past year, current and potential tenants could be adopting a 'wait and see' approach on any office relocation or expansion plans that they may have.

Overall market occupancy rate dropped to 91.0% from 91.7% in Q2 2019. Despite the slight decline, the market occupancy rate has remained relatively consistent. The rate has been within a healthy range of 91% to 93% over the past five years, signalling a high level of stability in the market. CBD occupancy rates declined for three of the four areas sampled. Only the Asoke – Phrompong area, which also has the highest occupancy rate at 96.8%, experienced no change in this quarter. Outside the CBD, Asoke – Petchburi has the highest occupancy rate at 93.8%, despite having declined by 0.5% Q-o-Q. The area maintains a high occupancy rate as a result of its close proximity to the CBD.

FIGURE 3

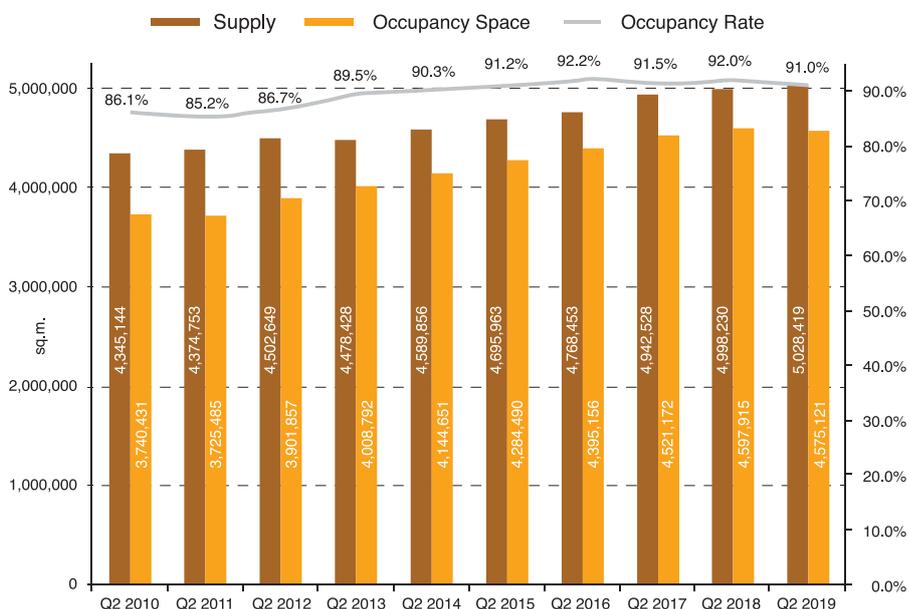
BANGKOK OFFICE SUPPLY – DEMAND DYNAMICS



SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

FIGURE 4

BANGKOK OFFICE SUPPLY, DEMAND AND OCCUPANCY RATE



SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

TABLE 3.

BANGKOK OFFICE OCCUPANCY RATE BY GRADE

Grade / Quarter	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	10 Year Average
Overall	92.0%	91.6%	91.6%	91.7%	91.0%	89.9%
A	95.1%	95.3%	94.7%	95.8%	94.5%	91.0%
B	93.1%	92.1%	92.7%	92.4%	92.1%	91.0%
C	88.4%	87.6%	88.1%	88.0%	87.1%	87.5%

SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

RENTAL RATES

Average asking rent remained constant at 781 baht per square metre per month. Despite no growth Q-o-Q, rents are still up 4.3% Y-o-Y. This breaks the trend of consecutive rental increases since Q4 2012. In prior quarters, rents increased by approximately 4.7% annually. Grade A rents declined to 1,142 baht per square metre per month from 1,144 baht, but are 9.2% higher Y-o-Y. Meanwhile, grade B and grade C buildings experienced little to no rent growth, having slightly increased to 815 baht and remaining at 496 baht, respectively. Many landlords responded to the marginal occupancy drop and weakened economic conditions by keeping asking rents constant or lower from the previous quarter.

SUB-MARKET RENTS

In the CBD, the Ploenchit – Chidlom area experienced the highest rental growth, increasing by 2% to 958 baht per square metre per month. Despite no overall increases this quarter, office spaces on Wireless Road still command the highest rents at 1,101 baht, representing a 6.3% increase Y-o-Y. Outside of the CBD, rents grew in all sub-markets sampled except for Paholyothin – Viphavadi, which experienced a 0.3% Q-o-Q drop in rents to 723 baht. Interestingly, across all sub-markets sampled with the exception of Wireless Road, rents moved in opposition to the occupancy rate. Areas with rental escalations experienced occupancy drops with the opposite occurring when asking rent fell.

TABLE 4

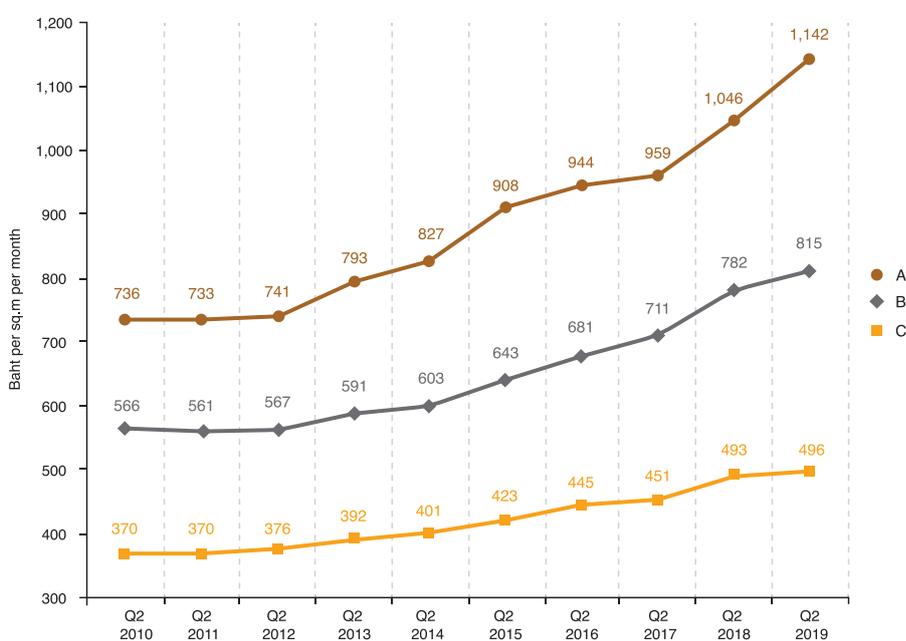
BANGKOK OFFICE ASKING RENT BY GRADE (BAHT PER SQ. M)

Grade / Quarter	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Overall	748	752	772	781	781
A	1,046	1,037	1,122	1,144	1,142
B	782	766	806	814	815
C	493	480	495	496	496

SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

FIGURE 5

BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE



SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY

TABLE 5

BANGKOK OFFICE SUB-MARKET INDICATORS

Area	Average Asking Rent	Rent % Change (Q-o-Q)	Rent % Change (Y-o-Y)	Occupancy Rate (%)	Occupancy % Change (Q-o-Q)	Occupancy % Change (Y-o-Y)
CBD Districts						
Wireless	1,101	-0.2%	6.3%	91.3%	-1.3%	0.6%
Asoke - Phrompong	1,047	-1.0%	4.4%	96.8%	0.0%	-0.6%
Ploenchit - Chidlom	958	2.0%	3.1%	95.7%	-1.4%	-1.4%
Silom - Sathorn	868	0.5%	5.4%	93.0%	-0.6%	-1.2%
Non-CBD Districts						
Asoke - Petchburi	829	2.8%	5.7%	93.8%	-0.5%	0.5%
Paholyothin - Viphavadi	723	-0.3%	2.1%	91.4%	0.8%	-1.0%
Rama 9 - Ramkhamhaeng	668	4.7%	4.6%	90.3%	-1.3%	-2.7%
Bangna	589	0.8%	5.3%	84.4%	-4.0%	1.0%

SOURCE: KNIGHT FRANK (THAILAND) - OCCUPIER SERVICES & COMMERCIAL AGENCY



OUTLOOK

We maintain the expectation that demand will pick up throughout the rest of the year as a result of greater post-election political stability, albeit at a subdued level due to the current economic uncertainty and cautious outlook. The office market response to the supply entering in Q3 and Q4 will be a key indicator of demand over the next few years. Given projections that supply will increase by 4.3% annually from 2019 to 2023, occupancy rates will drop if demand lags behind supply. If asking rents rise, it may occur at a slower pace as tenant bargaining power grows with increasing options of high quality office space.

GLOSSARY

Central Business District (CBD)

- The CBD is the region in Bangkok that contains the greatest concentration of grade A office buildings, 5-star hotels and luxury shopping malls. Areas within the CBD are easily accessible via mass transit systems.

Grade A Buildings

- By virtue of their desirability, these prime properties command the highest rents in their market (top 20%). You will find them

located in the Central Business District, within 500 metres of a mass transit station, and have a floor plate of at least 1,000 square metres.

Grade B Buildings –

Comprising the largest sector of the office market, these buildings are traditionally in the greatest demand; they might not be the most expensive properties in the market but they typically represent good value for money.

Grade C Buildings

- Typically older properties, these buildings provide office space for rent at the most competitive rents in the market (bottom 40%).

Take Up

- Measures the total amount of space leased by tenants during a given period of time. It does not account for the amount of space vacated by tenants. Take Up is an indicator for the amount of leasing activity that has occurred.

Net Absorption

- Measures the change in occupied space during a given period of time. In other words, it is the total amount of space leased – the total amount of space vacated by tenants. Net absorption indicates the change in demand relative to the current supply available in the market.

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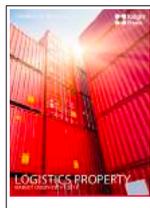
NOTE: ALL FIGURES EXCLUDE MULTI-OWNER OCCUPIED PREMISES AND OFFICE BUILDINGS SMALLER THAN 5,000 SQUARE METRES.

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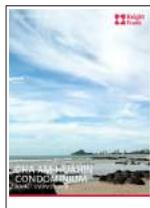
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