

Bangkok Office

Q1 2020





Q1 2020 RESULTS REMAIN
RELATIVELY UNAFFECTED
BY THE EFFECTS OF
COVID-19



TOTAL SUPPLY
INCREASED BY 0.7%
Q-O-Q TO REACH 5.18
MILLION SQ M.



TOTAL OCCUPIED SPACE
INCREASED BY 0.5%
Q-O-Q TO 4.68 MILLION
SQ M.



THE MARKET OCCUPANCY
RATE CONTINUES TO DROP
AS SUPPLY OUTPACES
DEMAND, FALLING TO 90.4%



AVERAGE ASKING RENT
INCREASED BY 0.6%
Q-O-Q TO 796 BAHT PER
SQ M. PER MONTH



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The figures in the first quarter reflect a mixed market reaction as Bangkok went into soft lockdown. Unlike in many markets throughout the world during this time, office tenants in Bangkok were not forced to work from home, although most did. Those that remained open operated at a greatly reduced occupancy and implemented safeguard policies such as temperature checks, socially distanced seating layouts, staggered arrivals, and split teams. During this time, leasing transactions that were close to completion maintained their momentum. However, as we approached the end of the quarter, an increasing number of plans were postponed.



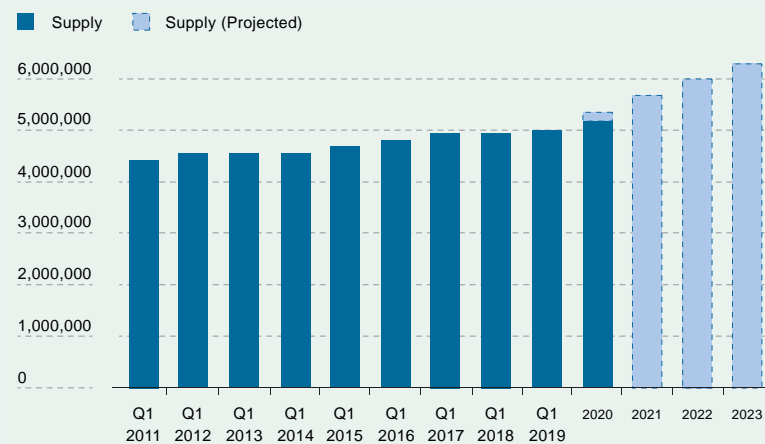
Office Property Market Indicators

	Q1 2019	Q4 2019	Q1 2020	Q-o-Q	% Change	Y-o-Y
Supply ('000 sq m)	5,008	5,141	5,179	▲ 0.7%		▲ 3.4%
Occupied Space ('000 sq m)	4,609	4,661	4,683	▲ 0.5%		▲ 1.6%
Occupancy Rate	92.0%	90.7%	90.4%	▼ 0.2%		▼ 1.6%
Average Asking Rent (Baht per sq m per month)	779	791	796	▲ 0.6%		▲ 2.2%

FIGURE 1

BANGKOK OFFICE SUPPLY

SQ M



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

Economic Overview

The Thai economy recorded a decline of 1.8% Y-o-Y in the first quarter of 2020. This is the sharpest economic contraction since the fourth quarter of 2011, during which the country was affected by severe flooding.

COVID-19 has caused significant disruptions to the Thai economy such that the Bank of Thailand has had to revise its 2020 GDP forecast downward to a 5.3% decline from the 2.8% growth projection made earlier. If this level of contraction occurs, it would result in the worst economic decline since the Asian financial crisis in 1998. Disease clusters began to emerge in mid-March and grew rapidly. The government responded by instituting several policies to contain the spread of the virus such as curfews, travel bans and a soft lockdown. Other measures include cash handouts of 5,000 baht per month as well as loans to SMEs. However, the economy contracted as exports fell by 6.7% while private investments shrank by 5.5% from the first quarter of last year. Public investment also dropped by 9.3%. The tourism sector, which is a major driver of the economy, was severely impacted by the pandemic as tourist arrivals were down by 76.1% Y-o-Y in March.

Supply

In Q1 2020, the total Bangkok office supply reached 5.18 million sq m, having increased by 38,000 sq m, or 0.7% Q-o-Q. Only one new building, located outside the CBD, was completed in this quarter. There were no withdrawals of obsolete stock. Over the past five years, supply grew at a rate of around 25,100 sq m quarterly.

TABLE 1

BANGKOK OFFICE FUTURE SUPPLY

SQ M

Future Supply		Lettable Area	
Year	CBD	Non-CBD	
2020	112,423	76,683	
2021	107,796	213,960	
2022	135,670	162,775	
2023	199,400	94,000	
Sub - Market Total	555,289	547,418	
Market Total		1,102,707	

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

FIGURE 2

BANGKOK OFFICE FUTURE SUPPLY DISTRIBUTION

CBD Non-CBD

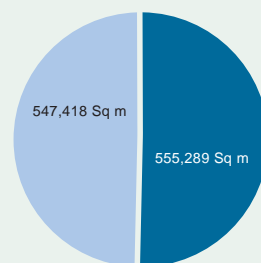
SOURCE : KNIGHT FRANK (THAILAND)
– OCCUPIER SERVICES & COMMERCIAL AGENCY

TABLE 2

BANGKOK OFFICE FUTURE SUPPLY (PROJECTS)

SQ M

Building Name	Lettable Area	Completion	Zone
Office expected completion in 2020			
Summer Point	5,780	2020	Non-CBD
Siamscap	13,238	2020	CBD
TRR Building	15,578	2020	Non-CBD
Silom Center	17,000	2020	CBD
Tipco Tower II	15,000	2020	Non-CBD
Vanissa Building	22,185	2020	CBD
Lumpini Tower Vibhavadi - Chatuchak	15,906	2020	Non-CBD
Major Tower Ramkhamhaeng	25,181	2020	Non-CBD
The PARQ	60,000	2020	CBD
Total Office completion in 2020 : 189,106 square metres			
Office expected completion in 2021			
111 Praditmanutham	10,660	2021	Non-CBD
140 Wireless	14,315	2021	CBD
Kronos Sathorn	22,481	2021	CBD
WHA Tower	25,000	2021	Non-CBD
Poem Tower	25,000	2021	CBD
66 Tower	29,000	2021	Non-CBD
Rasa Two	45,000	2021	Non-CBD
O - NES Tower	46,000	2021	CBD
CAS Centre	51,300	2021	Non-CBD
Oasis	53,000	2021	Non-CBD
Total Office completion in 2021 : 321,756 square metres			
Office expected completion in 2022-2023			
Onnut Hills	8,073	2022	Non-CBD
M Tower II	15,682	2022	Non-CBD
Ratchayothin Hills	16,521	2022	Non-CBD
Emsphere	20,000	2022	CBD
The Unicorn (Phayathai)	22,499	2022	Non-CBD
Sriboonruang	56,500	2022	CBD
One City Centre	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 (Phase I)	89,400	2023	CBD
Total Office completion in 2022-2023 : 591,845 square metres			

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

Future Supply

Throughout the remaining year, nine new projects are expected to be completed, adding close to 190,000 sq m of office space to the market. Four new buildings will be located in the CBD. From Q2 2020 to 2023, the Bangkok office market is projected to grow by 1,102,707 sq m, or an average of 275,667 sq m annually (accounting for only additions and not withdrawals). In comparison, from 2015 to 2019, new supply entered the market at a rate of around 142,300 sq m annually. From close to 5.2 million sq m today, the total office market supply will likely reach 6.3 million sq m by the end of 2023.

A greater volume of stock withdrawals due to the new property tax amendment commenced this year may occur. This will gradually offset some of the new supply over time. For commercial properties, the amendment will introduce a marginal tax rate from 0.3% to a maximum of 1.2% on government appraised value. It will replace the current household and land tax, which charges 12.5% on annual rental value. The new tax will place a heavier burden on low grade or poorly performing properties that are located in prime areas. It may incentivize the landlords of such properties to make capital improvements to their buildings.

FIGURE 3

BANGKOK OFFICE ANNUAL TAKE UP



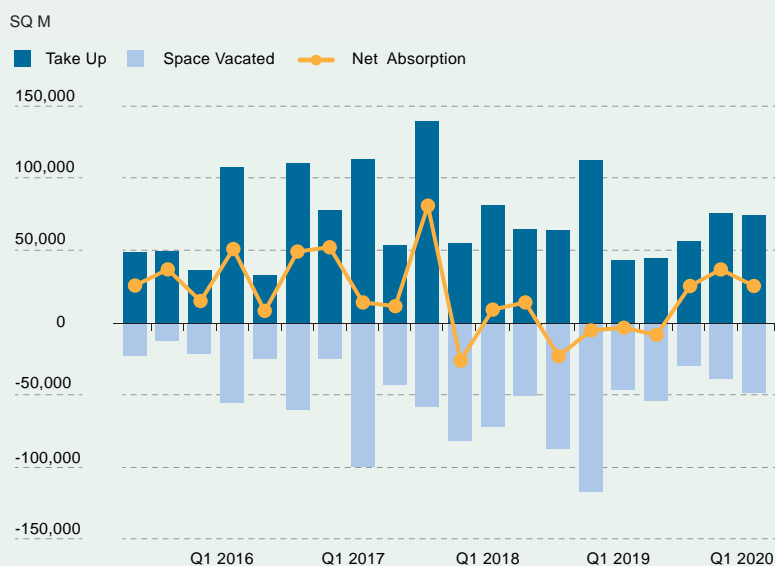
SOURCE : KNIGHT FRANK (THAILAND) – OCCUPIER SERVICES & COMMERCIAL AGENCY

Demand

Overall leasing activity remained relatively stable as total take up declined slightly to 73,667 sq m. The current level is still slightly above the 10-year average at 66,178 sq m. Over the past five years, tenants have shown an increasing preference for higher quality buildings that offer a better experience. Newer and refurbished buildings tend to meet these criteria and often attract higher demand than older buildings can. Subsequently, the take up of such properties has become a significant driving force behind market leasing activity. However, the take up of new and refurbished space in Q1 2019 accounted for only 17% of the total, declining from 23% in the previous quarter. It is possible that deteriorating economic conditions and disruptions caused by COVID-19 may have caused some tenants to put office relocation or expansion plans on hold. They may have had to limit capital outlays and redirect their attention to more pressing concerns such as short term liquidity strains and disruptions in daily business operations.

FIGURE 4

BANGKOK OFFICE QUARTERLY SUPPLY – DEMAND DYNAMICS



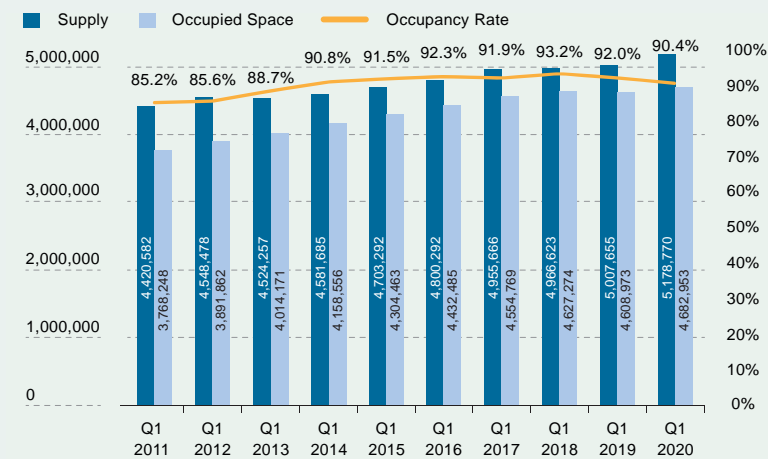
SOURCE : KNIGHT FRANK (THAILAND) – OCCUPIER SERVICES & COMMERCIAL AGENCY

Net absorption declined to 24,931 sq m from 36,330 sq m as a greater amount of space was vacated than during the previous quarter. Despite the decline, total occupied space increased to 4,682,953 sq m, representing a 0.5% Q-o-Q and 1.6% Y-o-Y growth. Supply continues to outpace demand as the net absorption level falls short of the 38,000 sq m net supply increase.

FIGURE 5

BANGKOK OFFICE SUPPLY, DEMAND AND OCCUPANCY RATE

SQ M



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

The persistent mismatch in supply and demand resulted in a 4th consecutive quarter drop in the market occupancy rate, which fell by 0.3% to 90.4%. The current market rate is still slightly above the 10-year average of 90.0%. On a quarterly basis, the occupancy of grade C properties increased the most, rising by 1.1% to 86.2%. Meanwhile, it increased by 0.4% to 94.6% for grade A properties. In contrast, it declined by 1.1% to 90.4% for grade B. On an annual basis, occupancies are down across the board. The Q1 2020 results mean that the occupancy rate of grade B has fallen below its 10-year average, leaving grade A as the only sector outperforming its long term average.

The Silom – Sathorn area is the only area that experienced occupancy growth, increasing by 0.9% Q-o-Q. On an annual basis, occupancies have fallen for all sub-markets sampled. It also indicates that recent demand growth has been relatively constrained to particular areas and no longer spread across the market like it was in past periods.

TABLE 3

BANGKOK OFFICE OCCUPANCY RATE BY GRADE

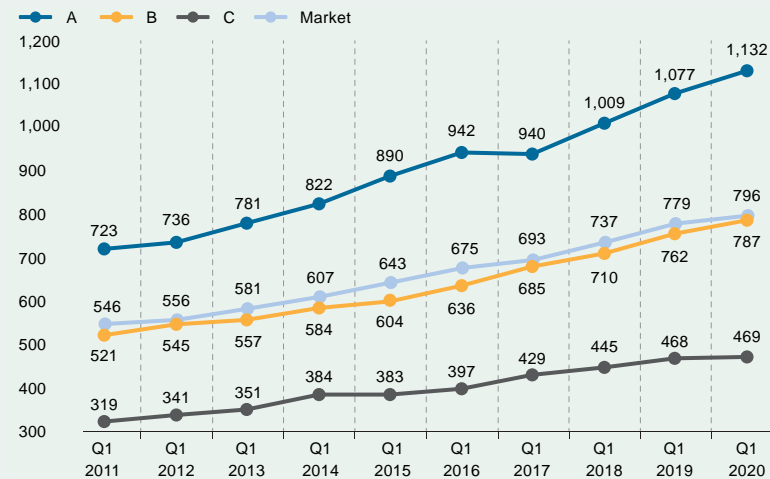
Grade / Quarter	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	10 Year Average
Overall	92.0%	91.3%	91.0%	90.7%	90.4%	90.0%
A	96.0%	95.5%	94.0%	94.2%	94.6%	91.3%
B	91.6%	91.4%	91.3%	91.5%	90.4%	90.7%
C	88.3%	86.7%	87.4%	85.2%	86.2%	86.5%

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

FIGURE 6

BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE

BAHT PER SQ M PER MONTH



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

TABLE 4

BANGKOK OFFICE ASKING RENT BY GRADE

BAHT PER SQ M PER MONTH

Grade / Quarter	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Overall	779	780	787	791	796
A	1,077	1,078	1,090	1,116	1,132
B	762	769	781	778	787
C	468	472	476	466	469

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	1,156	▲ 0.1%	▲ 4.8%	91.5%	▼ 0.8%	▼ 1.1%
Asoke - Phrompong	1,057	▲ 1.8%	▲ 2.8%	97.8%	▼ 0.1%	▼ 0.5%
Ploenchit - Chidlom	958	▲ 0.3%	▲ 2.0%	96.0%	▼ 0.6%	▼ 1.1%
Silom - Sathorn	900	▲ 0.5%	▲ 4.1%	92.7%	▲ 0.9%	▼ 1.1%
Non - CBD Districts						
Asoke - Petchburi	793	▲ 0.1%	0.0%	91.4%	▼ 1.0%	▼ 3.1%
Paholyothin - Viphavadi	710	▲ 0.6%	▲ 5.2%	93.7%	▼ 0.2%	▼ 1.4%
Rama 9 - Ramkhamhaeng	697	0.0%	▲ 2.4%	86.7%	▼ 1.6%	▼ 3.6%
Bangna	543	▲ 0.3%	▲ 3.7%	78.9%	▼ 0.6%	▼ 9.7%

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

Rental Rates

The average asking rent continued to rise, increasing by 0.6% Q-o-Q and 2.2% Y-o-Y to 796 baht per sq m per month. On a 5-year basis, asking rent increased by an average of 5.6% per annum, which signifies the recent period of growth in the office market. The much lower rental increase in continuation from Q4 2019 indicates that rents continue to face further downward pressure underpinned by softening market conditions.

Although the market as a whole experienced limited rental increase, the growth is uneven across the various property types. The higher the building grade, the greater the increase in asking rent, both on quarter and annual bases. Whilst both grade A and B rents continued to push upwards, grade C rents have stagnated. Grade A and B rents are up 5.0% Y-o-Y and 3.2% Y-o-Y, respectively. In contrast, the grade C asking rate only increased by 0.3% Y-o-Y. In the face of office market conditions that continue to weaken, landlords of Grade C properties will find it difficult to justify rental increases, especially since their competitive advantage lies in below-market rates.

Rent by Areas

In the CBD, all sampled areas experienced some quarterly rental growth except for Wireless Road. The area's average asking rent declined slightly from its level in Q4 2019. All areas are up Y-o-Y, led by Wireless and Silom – Sathorn at 4.8% and 4.1%, respectively. There were minimal rental increases for the non-CBD areas sampled in this quarter. Rama 9 – Ratchadaphisek experienced the greatest quarterly rent increase, rising by 0.6% to 710 baht. The area is also the only sub-market in which rents are up yearly, having seen rents rise by 5.2% Y-o-Y.

Outlook

Given that commercial real estate is relatively illiquid in comparison to other asset classes such as equities or fixed income, Q1 2020 Bangkok office market results were fairly insulated from the effects of the COVID-19 pandemic. The market continued to weaken in line with our view expressed during the latter half of 2019 that the office sector appears to be approaching the end of an expansionary period. If COVID-19 has had a significant impact on the market in the short term, then this will most likely be reflected throughout the remainder of the year.

We believe that COVID-19 will most likely stress underlying weaknesses in the market, accelerating the shift towards a more balanced or even tenant-favoured market.

We may see a greater number of companies under financial duress that decrease their real estate expenses either by surrendering some space back to the landlord, seeking sub-tenants or by relocating to a different property. Firms that opt to relocate will generate some demand for competitively priced buildings that can persist if they fail to recover to pre-crisis levels. Given that relocation itself is a costly capital expenditure, space reduction is likely to be the preferred option for most occupiers under financial constraints. However, any negative short term impact to demand will likely be softened by the pre-letting of new and refurbished space that occurred prior to COVID-19. They will prop up take up and net absorption to some degree over the next one to two quarters when such properties are ready for handover. If supply continues to grow at its projected pace through to 2023 with little to no stock withdrawal, then the market occupancy rate will continue to fall and converge with its long term average.

In the longer term, if we observe abnormally poor performance from new and refurbished properties, and a substantial amount of space is vacated and not re-let going forward, it may be argued that COVID-19 has had a long term impact on office property. It may impact the sector directly by changing the way some companies work and utilize real estate, or indirectly by constraining business cash flows and subsequently capital and operating budgets. Regardless, we continued to see negative pressure on rental growth in Q1 2020 due to market conditions prior to COVID-19, and this is expected to persist. As more high quality workspaces enter the market, landlords may have to compete on both rent and non-monetary incentives to secure tenants. However, there will now most likely be heavier emphasis placed on incentives that prioritize health, safety and well-being.

In reality, is too early to conclude with much certainty what the post-crisis market will look like, and how long it will take to get there. We are facing an unprecedented situation that continues to evolve daily. Knight Frank and Peoplespace Thailand have developed research materials that provide further insights on the COVID-19 impact on markets around the world and offer some practical advice on how tenants can begin to look at reoccupying their office space as we begin to emerge on the other side of this global crisis. Some of the available materials can be accessed via the following links:

Post COVID-19 Bangkok Office Dynamics

<https://www.knightfrank.co.th/research/post-covid-19-bangkok-office-dynamics-2020-7239.aspx>

Global Knight Frank COVID-19 Research

<https://www.knightfrank.co.uk/research/covid-19>

Glossary

Central Business District (CBD) -

The CBD is the region in Bangkok which 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 500m of a mass transit station, and have a floor plate of at least 1,000 sq.m.

Grade B Buildings -

Is the largest sector of the office market, these are the 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.

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 previously available space and new supply now leased by tenants during a given period of time. It does not account for the amount of space vacated by tenants. It is an indicator for the amount of new leasing activity that has occurred.

Space Vacated -

Measures the total amount of space vacated and not re-let during a given period of time.

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 minus the total amount of space vacated by tenants. Net absorption indicates the change in demand relative to the current supply available in the market.

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

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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