Commercial Research

Bangkok Office

Market Overview Q4 2021

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HIGH LIGHTS

1

TOTAL SUPPLY OF OFFICE SPACE IN BANGKOK IN 2021 INCREASED BY 5.2% TO REACH 5.66 MILLION SQ M, REPRESENTING A 10-YEAR RECORD GROWTH RATE.

2

1.70 MILLION SQ M IS IN THE PROJECTED SUPPLY PIPELINE FROM 2022 TO 2026.

3

DEMAND SHOWED STRONG SIGNS OF RECOVERY AS ANNUAL NET ABSORPTION REBOUNDED FROM A -121,000 SQ M CONTRACTION TO A 24,800 SQ M EXPANSION.

4

ALTHOUGH THE TOTAL AMOUNT OF SPACE LEASED INCREASED, THE MARKET OCCUPANCY RATE DROPPED TO 81.7% AS SUPPLY CONTINUED TO OUTPACE DEMAND.

5

THE AVERAGE ASKING RENT DROPPED SLIGHTLY TO 793 BAHT PER SQ M PER MONTH AS MOST PROPERTIES EITHER KEPT THEIR ASKING RATE CONSTANT OR REDUCED IT TO A MODEST EXTENT.

PANYA JENKITVATHANALERT

Executive Director, Head of Office Agency

Demand for office space in Bangkok is ready bounce back. Although COVID-19 still had a significant impact in 2021, there are several promising signs as we learned to adapt and work in the new normal. Over the past year, companies embraced hybrid working and now are ready to move forward with a far better understanding of the office space they plan to occupy. Many big occupiers are ready to take up new space and are just waiting for the right building and the right timing. Despite the tenant's market, properties that can match the needs of the modern tenant will still be in high demand and perform exceptionally well.

OFFICE PROPERTY MARKET INDICATORS

% Change	5.66M SUPPLY (sq m)	4.62M OCCUPIED SPACE (sq m)	81.7% OCCUPANCY RATE	793 ASKING RENT (THB / sq m / month)
Q-o-Q	▲ 2.7%	▲ 1.0%	▼ 1.4% pts.	▲ 0.9%
Y-o-Y	▲ 5.2%	▲ 0.5%	▼ 3.8% pts.	▼ 0.5%

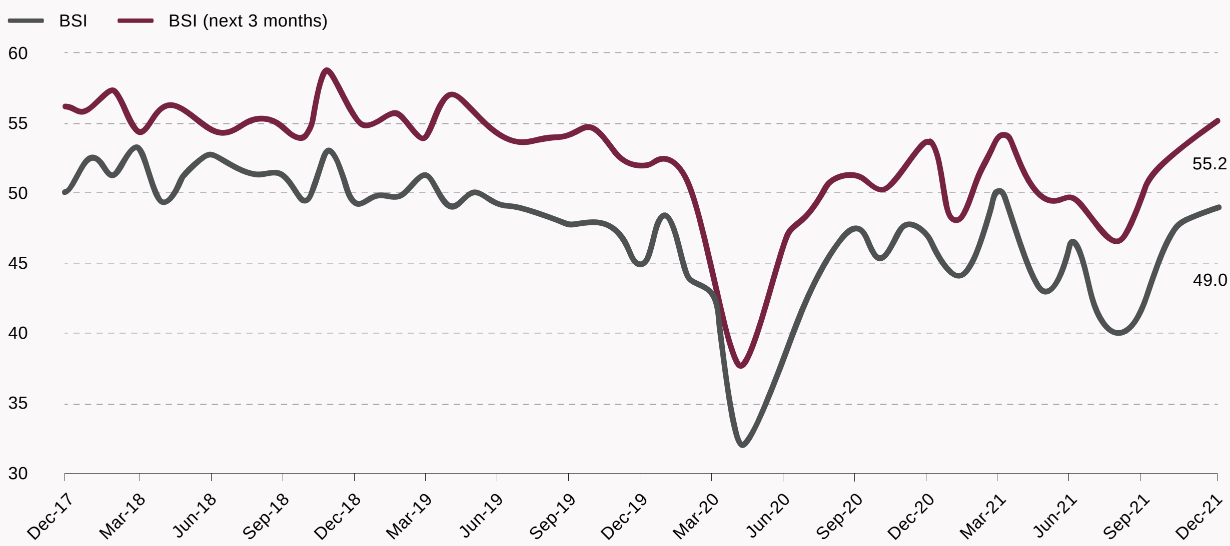
ECONOMIC OVERVIEW

Thailand's GDP in 2021 is estimated to have grown by 0.8%, improving from the -6.1% decline in 2020. In 2022, economic growth is expected to be in the 3.0% to 3.5% range.

The Bank of Thailand assessed that the economy would take a 0.3% hit due to the emergence of the Omicron variant of COVID-19 and that the outbreak should be managed within H1 2022. In addition, the GDP is forecasted to return to pre-pandemic levels in 2023. Having increased by 15%, exports were the main driver of economic growth in 2021 and will continue to grow as demand from trade partners gradually recovers from the pandemic. Meanwhile, private investment will continue to rise this year with expected recovery in both domestic and external demand. However, there are still several risks that could hamper recovery in 2022. The outbreak of new COVID-19 variants remains a threat and rapidly rising inflation rates, if left unchecked, could become a major cause of concern globally.

The Business Sentiment Index (BSI) in December increased to near pre-COVID levels but remained below the 50-threshold because of concerns about the spread of the Omicron strain. The additional relaxation of control measures nationwide had a significant positive impact on the revival of economic activities and consumer confidence, most notably for the hotel and restaurant sector. The 3-month expected BSI improved to 55.2, driven by improved confidence in all sectors except for the real estate and construction sector where the index remained below the 50-threshold.

FIGURE 1
THAILAND BUSINESS SENTIMENT INDEX



SOURCE: BANK OF THAILAND
Interpretation of the index is as follows:
Index = 50 indicates that the respondents' business sentiment remains stable from the previous month;
Index > 50 indicates that the respondents' business sentiment has improved from the previous month;
Index < 50 indicates that the respondents' business sentiment has deteriorated from the previous month

SUPPLY

Total supply of office space in Bangkok increased by around 148,000 sq m or 2.7% Q-o-Q this quarter following the completion of 6 new buildings. For the full year, supply increased by 280,000 sq m or 5.2% to reach 5.66 million sq m, representing a 10-year record growth rate.

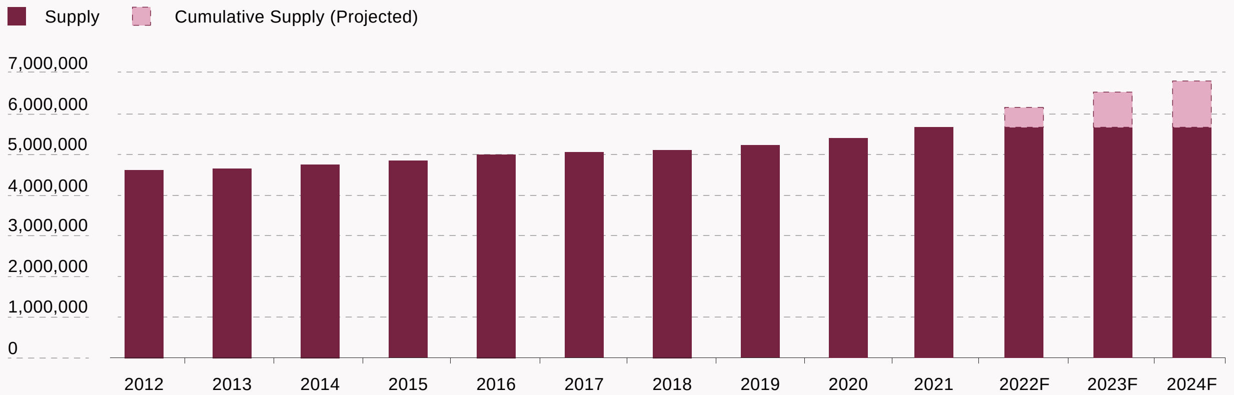
FUTURE SUPPLY

Around 1.70 million sq m is in the projected supply pipeline from 2022 to 2026, adding an average of 340,000 sq m to the market each year. 66% of the new supply will be in the CBD. Currently, we do not anticipate any significant completion delays except for Mochit Complex, which is now estimated to be completed in 2028 instead of 2026. The next 2 years may change the market landscape significantly as 25 new projects with a combined lettable area of 850,000 sq m are scheduled for completion.

FIGURE 2

BANGKOK OFFICE SUPPLY

SQ M

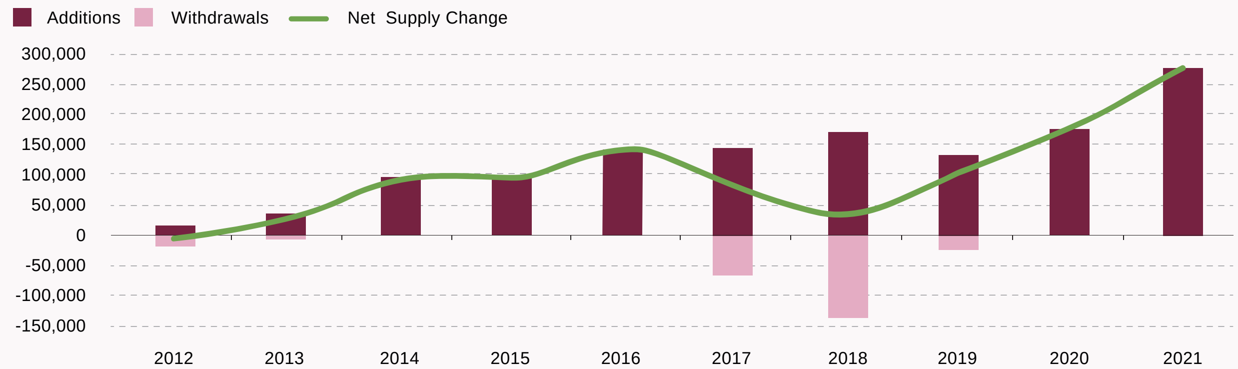


SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER SERVICES & COMMERCIAL AGENCY

FIGURE 3

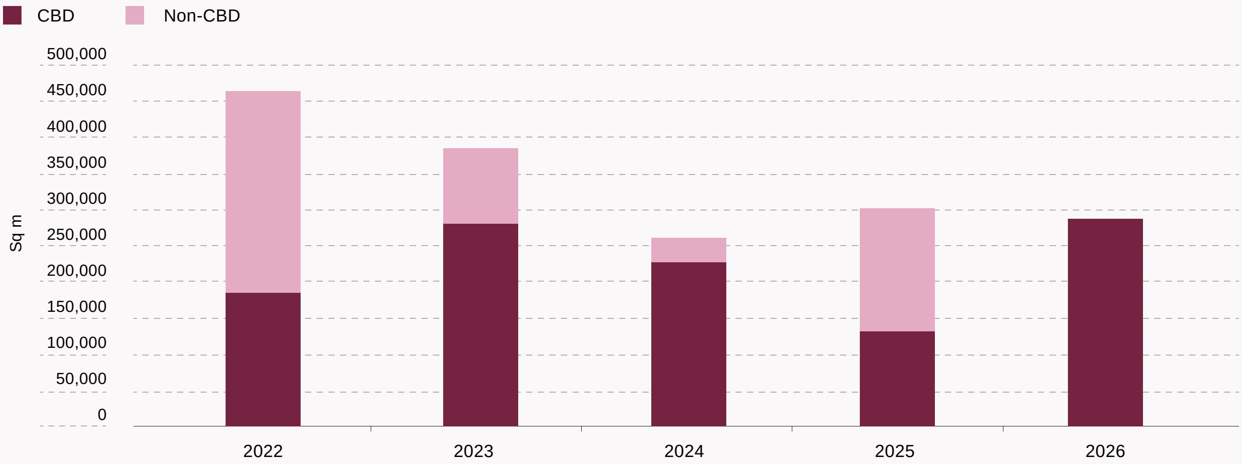
BANGKOK OFFICE ANNUAL NET SUPPLY CHANGE

SQ M



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

FIGURE 4
BANGKOK OFFICE FUTURE SUPPLY
SQ M



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

DEMAND

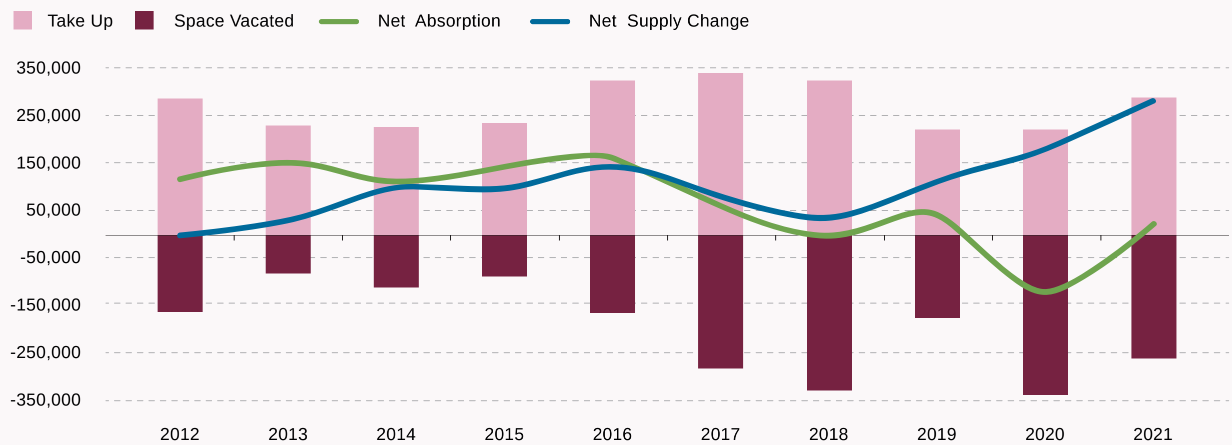
On a positive note, leasing activity improved significantly as take up increased from 45,000 sq m in Q3 to 116,000 sq m this quarter, thanks to the strong leasing performance of newly completed properties. Meanwhile, the total amount of space vacated was 70,400 sq m. As take up exceeded the amount of space vacated, Q4 net absorption was at 45,500 sq m, the highest level recorded ever since the COVID-19 pandemic started.

For the full year, demand showed strong signs of recovery as annual net absorption rebounded from a -121,000 sq m contraction to a 24,800 sq m expansion this year. As a result, total occupied space increased by 0.5% to reach 4.62 million sq m. Nevertheless, the market is still relatively subdued in comparison to the pre-COVID period during which average net absorption was approximately 96,000 sq m per year, and total occupied space reached an all-time high of 4.71 million sq m.

Demand for space at new and refurbished office buildings was a strong driver of leasing activity over the past year. 44% of total take up in 2021 was for new and refurbished supply, the highest share of take up over the past decade. It indicates that while cost savings are a business priority, many companies still value "high quality" spaces that can meet the modern-day requirements of their employees. By reducing space via workplace strategy initiatives and leveraging the tenant's market to achieve favorable lease terms, companies can relocate to a better office space today for a lot less than before the pandemic.

Although the total amount of space leased increased, the market occupancy rate dropped further to 81.7%, falling by 1.4% Q-o-Q and 3.8% Y-o-Y as supply continued to outpace demand. Occupancy rates dropped across all grades, but it is evident that grade B properties were the most affected from the shifting property market dynamics from an occupancy rate perspective. From 2012 to 2019, the grade B occupancy rate was consistently above 90%. In the following 2 years, it plunged by 14.7% points to 76.8%.

FIGURE 5
BANGKOK OFFICE SUPPLY – DEMAND DYNAMICS
SQ M



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

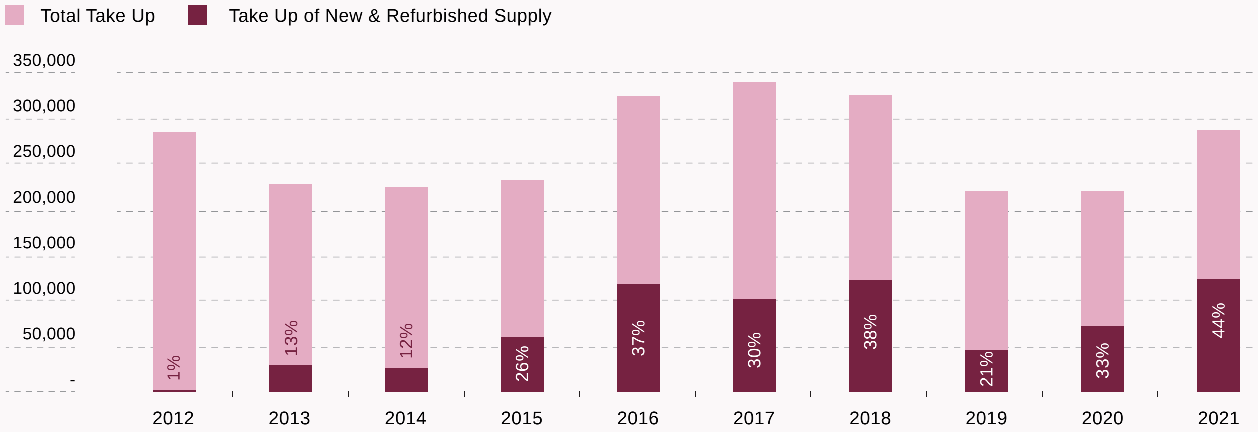
The poor performance of new grade B properties have only served to highlight the intensifying competition for tenants and the diminishing value proposition grade B properties have for relocating tenants. Although the occupancy rate dropped, grade A remains the best performer with an average occupancy rate at 88.1%. Meanwhile, grade A- (properties that can justify an asking rent in the grade A range but do not meet all the required criteria to be classified as A) also presents an attractive alternative for tenants that would like to upgrade their space, but do not have the budget for grade A or require a CBD location.

The average occupancy rate for CBD properties dropped by 2.8% points Y-o-Y to 84.6%, falling for all sub-markets we track. Ploenchit – Chidlom – Wireless remains the strongest CBD sub-market, with an average occupancy rate of 86.9%. Meanwhile, the average occupancy rate for non-CBD properties dropped by 5.0% points to 77.8%. Currently, it is unclear if the pandemic has influenced tenants' location preference, but we have some anecdotal evidence that existing companies still prioritize remaining in the same area as their existing office to minimize disruptions to their workforce.

FIGURE 6

BANGKOK OFFICE ANNUAL TAKE UP BY SUPPLY TYPE

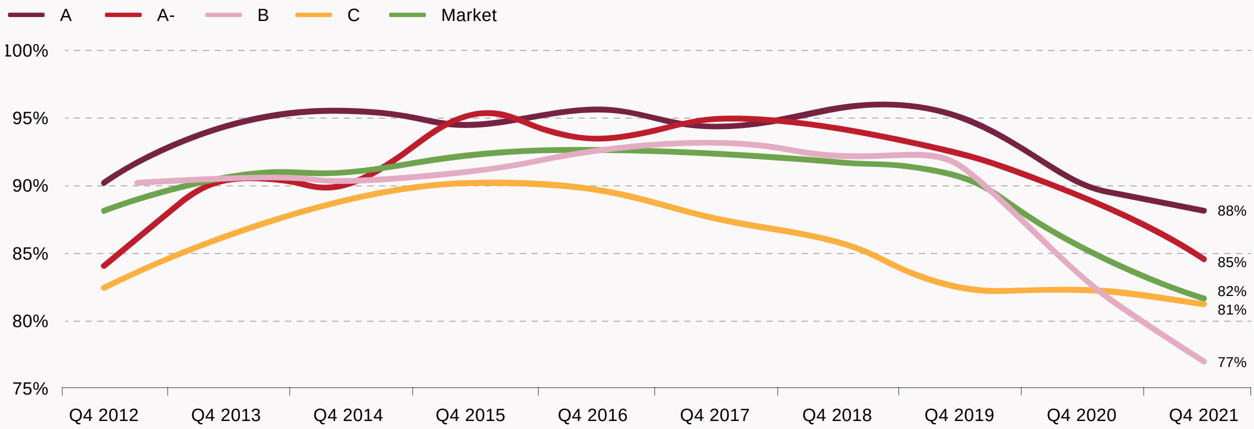
SQ M



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

FIGURE 7

BANGKOK OFFICE OCCUPANCY RATE BY GRADE



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

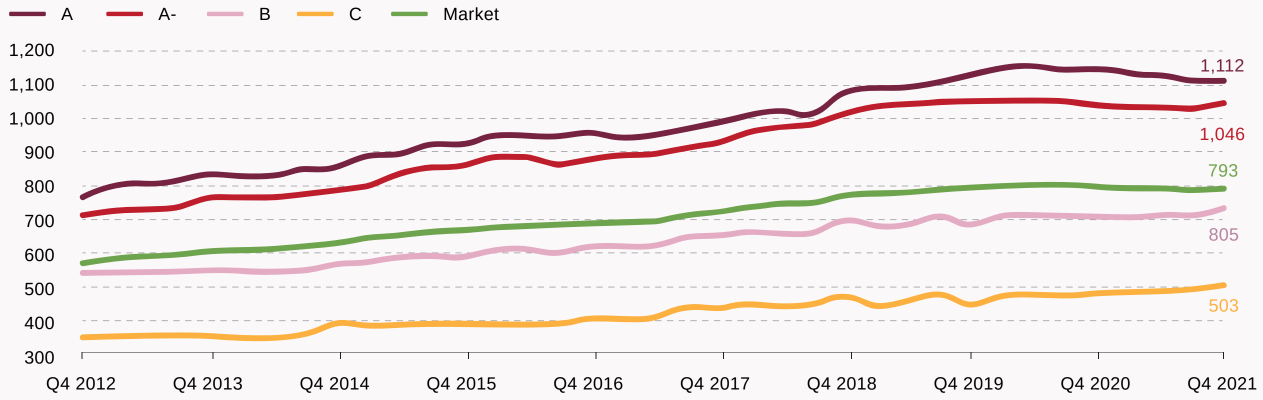
RENTAL RATES

With the new supply added this quarter priced above market, the average asking rent increased by 0.9% Q-o-Q to 793 baht per sq m per month. Nevertheless, it fell by 0.5% Y-o-Y as most existing properties either kept their asking rate constant or reduced it to a modest extent. Annual rental growth has slowed considerably in comparison to the 10-year average rate of 3.7%. While the asking rent has been stable, landlords are a lot more flexible in the negotiation process. With more than 6 months of rent free offered in some deals, the effective rate can be up to 30% lower than the asking rent at some properties.

FIGURE 8

BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE

BAHT PER SQ M PER MONTH



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

TABLE 1

BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE

BAHT PER SQ M PER MONTH

	Q4 2021	Rent % Change (Q-o-Q)	Rent % Change (Y-o-Y)	10 Yr. Annual Growth Rate
Market	**793**	▲ **0.9%**	▼ **0.5%**	▲ **3.7%**
Grade A	1,112	▲ 0.1%	▼ 3.0%	▲ 4.2%
Grade A-	1,046	▲ 1.9%	▲ 0.7%	▲ 4.3%
Grade B	731	▲ 2.8%	▲ 3.8%	▲ 3.8%
Grade C	503	▲ 2.5%	▲ 5.4%	▲ 4.4%

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

The average asking rent for CBD properties rose by 0.9% Q-o-Q to 898 baht per sq m per month but is still down 1.3% Y-o-Y. Nana – Asoke – Phrompong is the only area that experienced rental growth both on a quarterly and annual basis, rising to 905 baht per sq m per month. For non-CBD properties, the asking rent increased by 0.6% Q-o-Q and 1.4% Y-o-Y. The Bangna – Srinakarin area was a strong driver of rental growth outside the CBD, with the average asking rent rising by 3.4% Q-o-Q and 6.2% Y-o-Y. However, this was mainly due to new supply priced above the sub-market average rather than an increase in the rate at existing buildings.

TABLE 2

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	**898**	▲ **0.9%**	▼ **1.3%**	**85%**	▼ **1.0%**	▼ **2.8%**
Ploenchit - Chidlom - Wireless	1,031	▲ 0.4%	▼ 5.1%	87%	▼ 3.3%	▼ 2.7%
Nana - Asoke - Phrompong	905	▲ 3.3%	▲ 1.4%	87%	▼ 0.2%	▼ 2.3%
Silom - Sathorn - Rama IV	848	▼ 0.2%	▼ 0.8%	83%	▲ 0.3%	▼ 2.5%
Thonglor - Ekkamai - Phra khanong	780	▼ 0.5%	▼ 0.5%	86%	▲ 2.2%	▼ 3.3%
Non - CBD	**653**	▲ 0.6%	▲ **1.4%**	**78%**	▼ **1.9%**	▼ **5.0%**
Petchburi - Rama IX - Ratchada	703	▲ 0.3%	▲ 1.7%	81%	▼ 1.1%	▼ 6.0%
Paholyothin - Viphavadi	665	▲ 1.1%	▼ 1.2%	79%	▲ 0.2%	▲ 0.4%
Bangna - Srinakarin	598	▲ 3.4%	▲ 6.2%	68%	▼ 5.7%	▼ 8.5%

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

REVIEW & OUTLOOK

Over the past 2 years, companies have gradually adapted to the COVID-induced changes and have had an opportunity to reassess their business needs and requirements. In terms of the workplace, many have successfully challenged the status quo that employees need to physically be in the office every day to be productive by implementing remote work on an unprecedented scale. We estimate that at its peak, around 70% to 80% of employees in companies that require office space in Bangkok worked from home to some extent. At the same time, companies also learned that sustained working from home is not a direct substitute for the office; Some business functions can't operate efficiently outside of the office and many employees have reported obstacles associated with long term remote work, most notably feeling disconnected and overworked because of unclear work-life boundaries.

There is a growing consensus that work from home is here to stay, but within the confines of a hybrid model - permitted on an as-needed basis - meaning that the office is still an important element for businesses. The question is: How much space do we need? Tenant approaches in Bangkok vary greatly, adding another layer of complexity. While some expect to retain the same amount of space, others are finding that hybrid work and novel approaches like activity-based working enable them to reduce space by 30%-40%. In contrast, there are companies in thriving sectors such as E-Commerce that now require more space, although the overall market contraction suggests that they are in the minority.

Regardless of approach, it is clear that "flight to quality" still holds, as indicated by the performance of the various property grades. Although average occupancies did drop, grade A and A- properties are still the best performers in the market, signaling that tenants haven't reverted to viewing their corporate real estate entirely as an expense despite the sustained economic slowdown. Arguably, COVID-19 only served to strengthen the preference for high quality workplaces as factors such as health, safety, wellbeing, and convenience become increasingly important to the attraction and retention of talent. On a related note, grade A and A- properties that opened in Q4 drove a significant amount of leasing activity in this quarter, leading to positive net absorption for the full year. While we are still far from the 96,000 sq m average annual net absorption level pre-COVID, we expect demand to continue its gradual recovery as tenants continue to roll out their adapted corporate real estate strategies with increasing certainty.

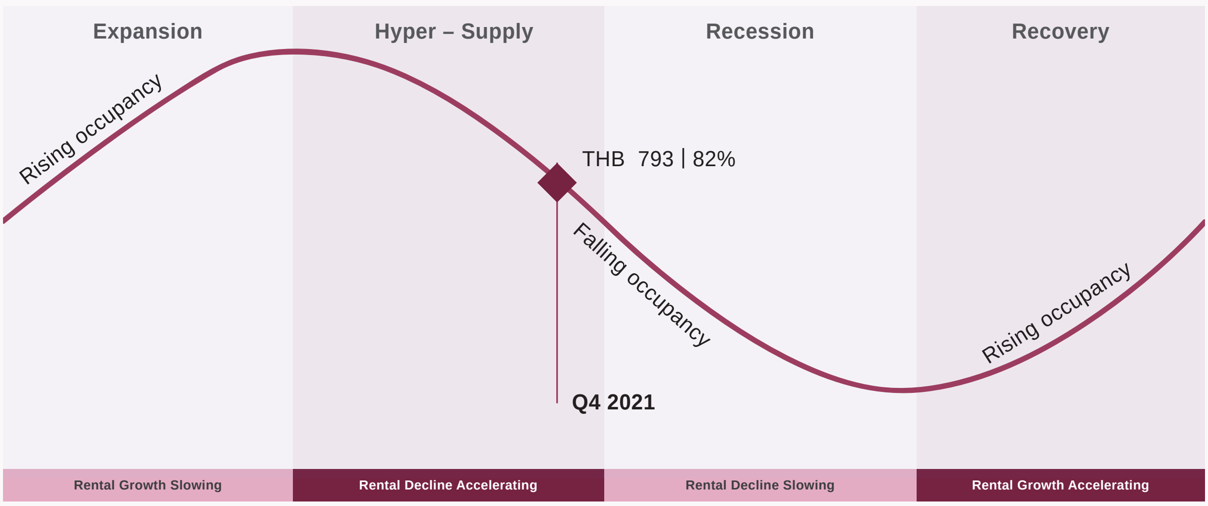
Although we anticipated varying outcomes in the market, we didn't expect that the occupancy of grade B to plunge so sharply and rapidly. Traditionally, these properties were the most stable and represented the best value for money, which in theory should have shielded them from market volatility as they are more affordable than grade A and A-, and offer higher quality workspaces than grade C. However, the recent supply influx, greater incentives offered and the sustained tenant preference for higher quality workplaces meant that grade B properties struggled to compete for new tenants and were faced with space reduction from their existing tenants.

We maintain our projection that the tenant's market will persist over the next 3 years. By our most optimistic projections in which the new supply is completed as projected and net absorption incrementally increases to twice the historical average by 2026, the market occupancy rate will be around 77%. Our forecasting model suggests that we are headed into a period during which office building occupancies in the 70% to 80% range becomes the new baseline.

Asking rent levels will most likely be held constant or increased at a low single-digit % in the short term. Landlords will hesitate to drop headline rents as this could possibly have a negative impact on their building's public image and dissatisfy existing tenants locked in at higher rates. However, the effective rent will decline significantly due to considerable discount and incentives offered in negotiations for sizeable tenants.

FIGURE 9

BANGKOK OFFICE RENTAL CYCLE



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

FIGURE 10
BANGKOK OFFICE MARKET BALANCE PROJECTION

2022	Landlord	Balanced	**Tenant**
2023	Landlord	Balanced	**Tenant**
2024	Landlord	Balanced	**Tenant**

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

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 A- Buildings
Like their grade A counterparts, these properties also command the highest rents in their market (top 20%), albeit on the lower end. They do not meet all the requirements to be classified as grade A, most notably a CBD location.

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 WITH A TOTAL LEASABLE AREA OF LESS 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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