

# Bangkok Office

Market Overview Q1 2022



## HIGH LIGHTS

1

THE TOTAL SUPPLY OF OFFICE SPACE IN BANGKOK REMAINED UNCHANGED AT 5.66 SQ M.

2

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

3

AS COVID CASES PEAKED, NET ABSORPTION DROPPED TO -91,000 SQ M THIS QUARTER.

4

THE OCCUPANCY RATE DROPPED FURTHER BY 1.6% PTS Q-O-Q TO 80.1%

5

THE AVERAGE ASKING RENT INCREASED SLIGHTLY BY 0.5% Q-O-Q TO 798 BAHT PER SQ M PER MONTH.

“ As we moved in 2022, all indicators show how the market is moving in favour of tenants. One of the most interesting findings emerges when we study and compare rental and occupancy movements across various districts in Bangkok. We found that the areas that had the steepest decline in occupancies correlated with the highest increase in asking rents. In other words, when faced with higher rents, tenants are voting with their feet and moving out. In the past, this wasn't always possible as one of the major factors that might prevent a firm from relocation was the expense of decorating their new office. However, firms that adopt a hybrid work model usually need less space, and those rental savings can offset the capital expense of relocating to a smaller, more efficient office.

It is not all bad news for landlords. Our research has also found that whilst occupancies fell across the entire market, green buildings (e.g. buildings with a LEED, TREES or similar rating) were found to be one of the most resilient sectors which saw occupancies fall by just 4.1% over the past year compared to a decline of 6.2% in Grade B and 4.6% in Grade A, over the same period.

”



MARCUS BURTENSRAW  
Executive Director,  
Head of Occupier Strategy & Solutions

# OFFICE PROPERTY MARKET INDICATORS

	<b>5.66M</b> SUPPLY (sq m)	<b>4.53M</b> OCCUPIED SPACE (sq m)	<b>80.1%</b> OCCUPANCY RATE	<b>798</b> ASKING RENT (THB / sq m / month)
% Change				
<b>Q-o-Q</b>	<b>0.0%</b>	<b>▼ 2.0%</b>	<b>▼ 1.6% pts.</b>	<b>▲ 0.5%</b>
<b>Y-o-Y</b>	<b>▲ 4.7%</b>	<b>▼ 0.9%</b>	<b>▼ 4.5% pts.</b>	<b>▲ 0.7%</b>

## ECONOMIC OVERVIEW

Thailand's GDP in Q1 2022 expanded by 2.2% Y-o-Y. This quarter marks the second consecutive quarter of positive GDP growth. The driving factors were mainly the private expenditure, followed by the government spending.

The Office of the National Economic and Social Development Council (NESDC) assessed that the Thai economy would grow in the 2.5% to 3.5% range in 2022, improving from 1.6% in 2021, yet slightly lower than the previous forecast. On a positive note, domestic demand and tourism are likely to recover, and the impact of the Omicron outbreak on the economy is expected to dissipate for the rest of the year. However, the unresolved Russia-Ukraine war, rising inflation, and the global economic slowdown still harmed the Thai economy.

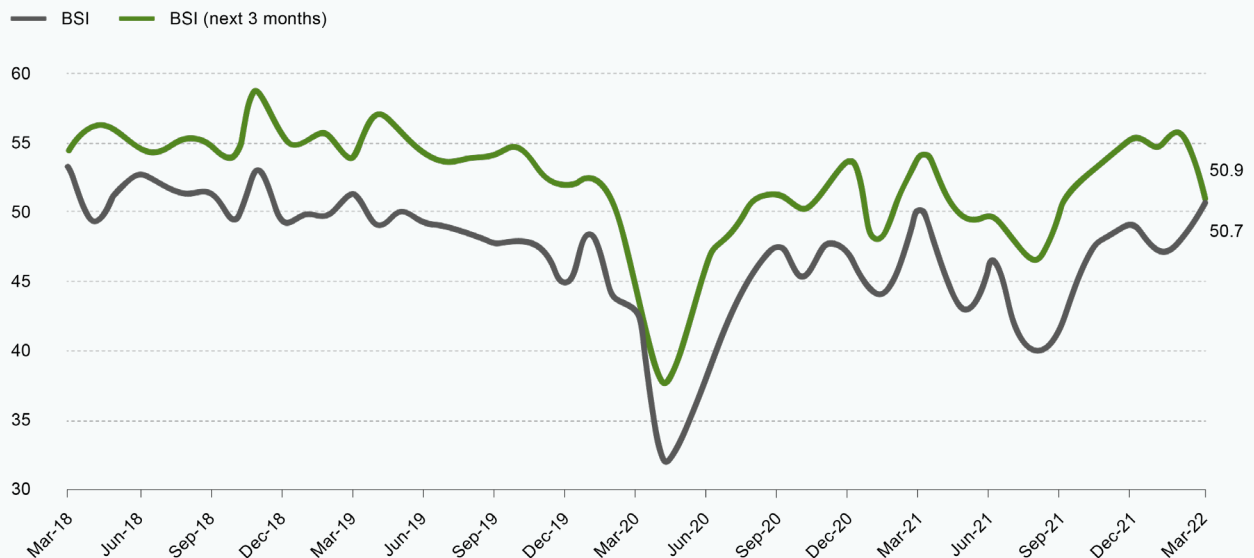
Headline inflation is expected to climb to 4.9% in 2022 than the previous forecast of 1.2% at the end of 2021. The significant rise in prices was, by and large, a consequence of a negative global supply shock arising from the sanctions on Russia, which is one of the largest suppliers of global energy, commodities, and construction materials. Nevertheless, the Bank of Thailand's Monetary Policy Committee viewed recent inflation as a cost-push factor rather than a demand-pull pressure at the late March meeting. This brought a vote to maintain the policy rate at 0.50%, which remained unchanged for almost two years, showing a strong emphasis on supporting economic recovery.

The Business Sentiment Index (BSI) in March increased to 50.7, reaching the 50-threshold due to the overall improving

sentiment from post-pandemic recovery and relaxation of containment measures, namely the decreasing number of days required to stay in a designated venue while waiting for the RT-PCR test results, reducing health insurance coverage, and the substitution of ATK test for second RT-PCR test. However, the continuing tension between Russia and Ukraine drove up raw material prices, impeding the cost confidence to only 24.5 (the latest 5-year average = 40.1), the lowest figure in the recent 14-year period.

The 3-month expected BSI dropped drastically by 4.6% pts to 50.9, mainly driven by an all-time low of the cost sub-index. Most business sub-indices still stood above the 50-threshold except for the manufacturing and real estate sectors, which received a significant impact from the cost-push inflation.

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

## CURRENT SUPPLY

No new office space was released to the market this quarter, resulting in the total office supply at 5.66 million sq m. However, the supply growth remained 4.7% Y-o-Y compared to an average of 2.0% in the last ten years. Out of the total office supply, the net lettable area of green office buildings stands at 905,000 sq m, up by 8.4% Y-o-Y, with an average annual growth rate of 13.4%.

## FUTURE SUPPLY

According to our research, we expect future supply to remain unchanged from our previous estimate. From 2022 to 2024, the new supply at the end of each year is expected to be 440,000, 410,000, and 280,000 sq m, respectively. The total size of the future lettable area in the pipeline, at approximately 1.80 million sq m, accounts for almost one-third of the current level

of office supply. More than 60% will be in the CBD.

TABLE 1  
BANGKOK OFFICE SUPPLY CHANGE

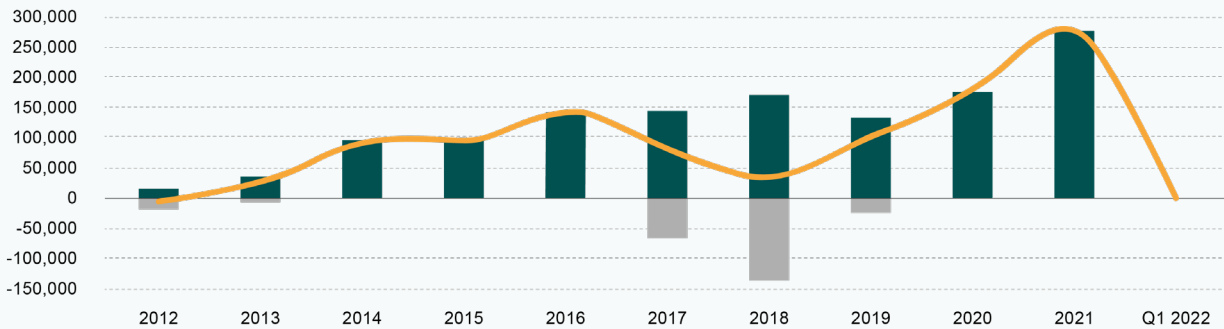
	Q1 2022 (sq m)	Supply % Change		10 Yr. Avg. Growth Rate
		(Q-o-Q)	(Y-o-Y)	
<b>Market</b>	5,660,000	0.0%	▲ 4.7%	▲ 2.0
<b>Green</b>	905,000	0.0%	▲ 8.4%	▲ 13.4%

SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

FIGURE 2  
BANGKOK OFFICE NET SUPPLY CHANGE

SQ M

■ Additions ■ Withdrawals — Net Supply Change

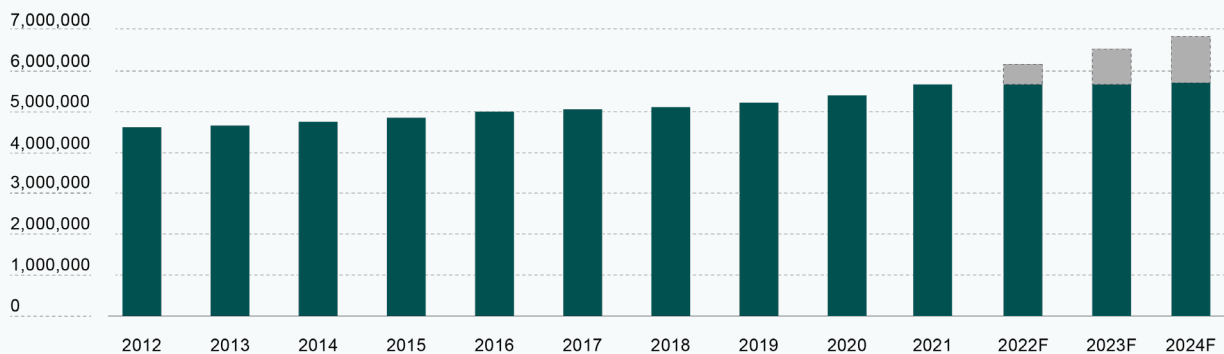


SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

FIGURE 3  
BANGKOK OFFICE FUTURE SUPPLY

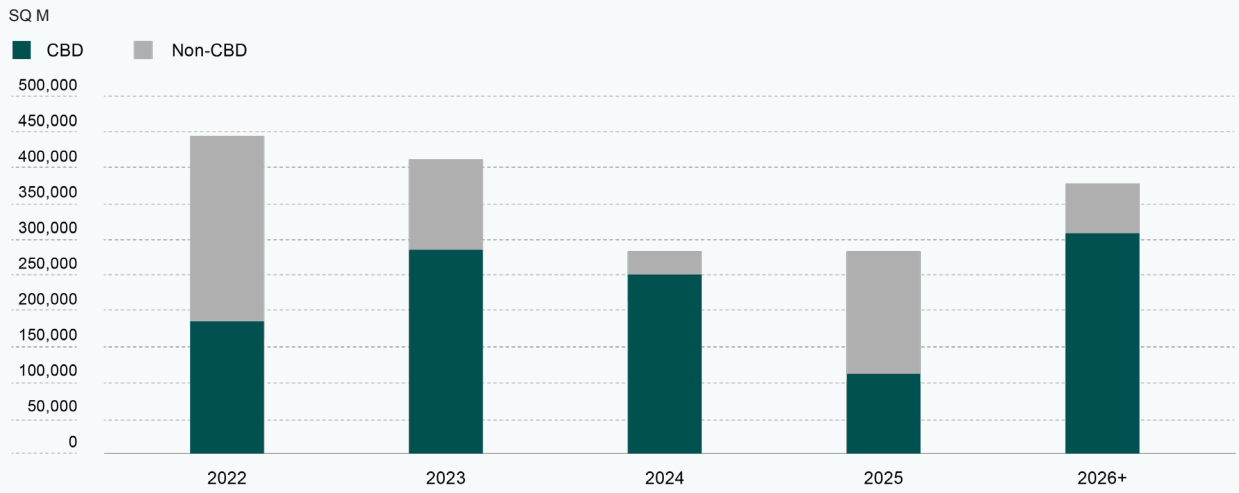
SQ M

■ Supply ■ Cumulative Supply (Projected)



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

**FIGURE 4**  
**BANGKOK OFFICE FUTURE SUPPLY**

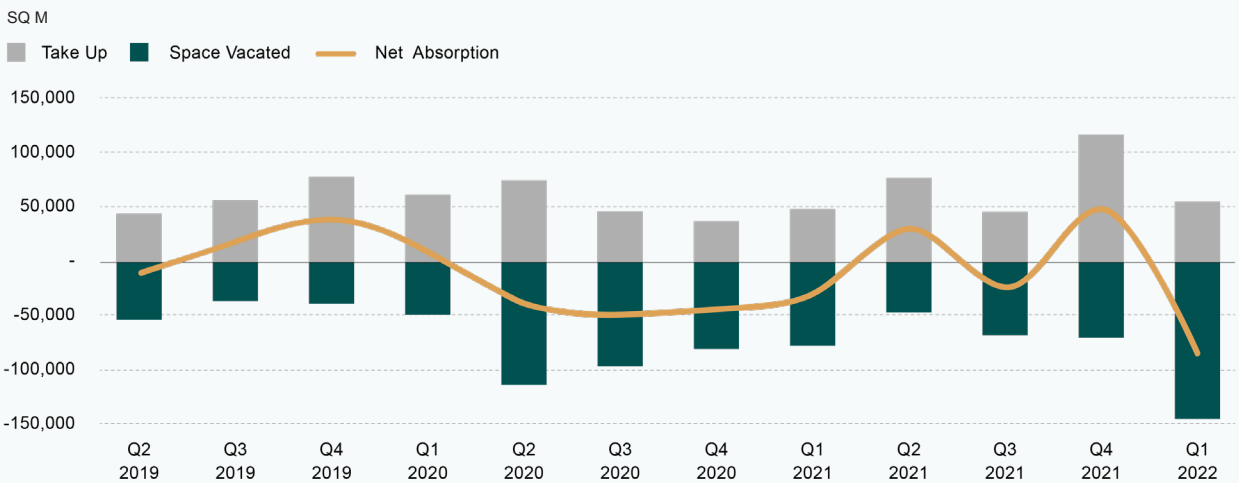


SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

## DEMAND

Due to COVID-19 cases soaring to the peak of 26,000 daily in Q1 2022, many companies decided to adopt the hybrid work more prevalently, resulting in less office space needed. Take-up dropped from 116,000 sq m in Q4 2021 to 54,000 sq m in Q1 2022. Space vacated plummeted to an all-time low at -145,000 sq m, pulling quarterly net absorption to the negative zone again at a - 91,000 sq m.

**FIGURE 5**  
**BANGKOK OFFICE DEMAND DYNAMICS**



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

## MARKET DYNAMICS BY SEGMENT

**Grade C offices saw the smallest fall in the occupancy rate, while Green Buildings secured second place during the market downturn**

The total amount of space leased decreased from 4.62 sq m in Q4 2021 to 4.53 sq m in Q1 2022, prompting market occupancies to fall to 80.1%, dropping by 1.6% pts Q-o-Q and 4.5% pts Y-o-Y. All grades saw decreasing occupancy rates, with Grade C becoming the best-performing segment, with a fall in the occupancy rate by only 1.4% pts Q-o-Q and 0.7% pts Y-o-Y. Grade A, in turn,

was the worst-performing segment this quarter, with a decrease of more than 3.0% pts Q-o-Q. In annual terms, grades A- and B are the worst performers, with occupancy rates dropping by more than 6.0% pts Y-o-Y. These middle to upper segments are likely to experience more fluctuation in a prolonged market downturn as occupancy costs account for around one-fifth of the total revenue, and businesses are more cautious about real estate decisions. On the contrary, green buildings saw the occupancy rate drop by 1.2% pts Q-o-Q and 4.1% pts Y-o-Y, significantly lower than other Grade A, A-

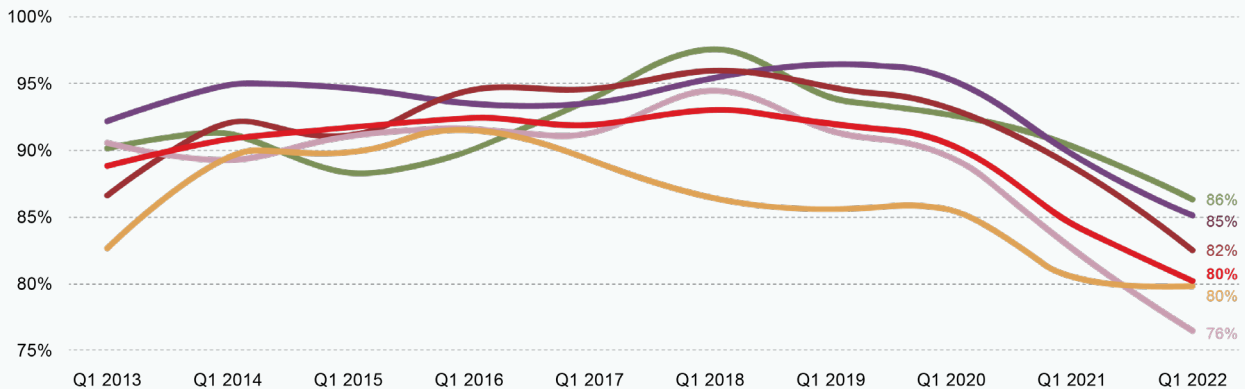
and B buildings without green certificates. Moreover, these sustainable buildings still enjoy the highest occupancy rate in the market at 86%.

FIGURE 6

### BANGKOK OFFICE OCCUPANCY RATE BY GRADE

SQ M

Green A A- B C Market



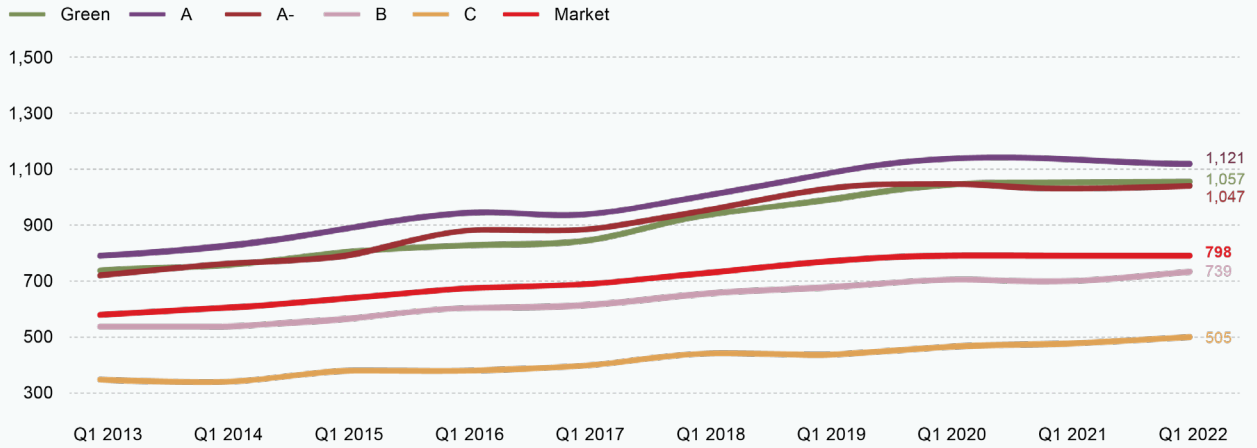
SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

Prior to 2020, the average annual rental growth was 3.7% per annum. However, since COVID-19 emerged, we saw the average rental growth drop to only 0.4% per annum. In the first three months of 2022, the average asking rent increased by 0.5% Q-o-Q or 0.7% Y-o-Y to 798 baht per sq m per month. Quarterly rental growth rose from 0.1% to 1.0% for all grades. Grade A rental decreased by 1.3% Y-o-Y from increasing competition and pre-COVID high base rate. Green

buildings saw the asking rent fall marginally by 0.2% Y-o-Y, while the rental growth of the A- building increased by 1.4% Y-o-Y. The asking rents for Grade B and C, by contrast, got back on track from an increase of more than 5.0% Y-o-Y, in line with the 10-year growth rate after remaining steady last year.

FIGURE 7

**BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE**



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

TABLE 2

**BANGKOK OFFICE OCCUPANCY RATE BY GRADE**

	Q1 2022	Occ % Change		10 Yr. Avg. Occupancy Rate
		(Q-o-Q)	(Y-o-Y)	
<b>Market</b>	<b>80.1%</b>	▼ 1.6% pts	▼ 4.5% pts	<b>89.8%</b>
<b>Green</b>	86.2%	▼ 1.2% pts	▼ 4.1% pts	90.2%
<b>Grade A</b>	85.0%	▼ 3.1% pts	▼ 4.6% pts	93.2%
<b>Grade A-</b>	82.4%	▼ 2.2% pts	▼ 6.4% pts	90.8%
<b>Grade B</b>	76.4%	▼ 0.5% pts	▼ 6.2% pts	89.3%
<b>Grade C</b>	79.8%	▼ 1.4% pts	▼ 0.7% pts	86.0%

SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

TABLE 3

**BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE**

BAHT PER SQ M PER MONTH

	Q1 2022	Rent % Change		10 Yr. Annual Growth Rate
		(Q-o-Q)	(Y-o-Y)	
<b>Market</b>	<b>798</b>	▲ 0.5%	▲ 0.7%	▲ 3.7%
<b>Green</b>	1,057	▼ 0.2%	▼ 0.2%	▲ 4.0%
<b>Grade A</b>	1,121	▲ 0.9%	▼ 1.3%	▲ 4.3%
<b>Grade A-</b>	1,047	▲ 0.1%	▲ 1.4%	▲ 4.4%
<b>Grade B</b>	739	▲ 1.0%	▲ 5.0%	▲ 3.9%
<b>Grade C</b>	505	▲ 0.4%	▲ 5.5%	▲ 4.5%

SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

## MARKET DYNAMICS BY AREA

### The increase in asking rents across major sub-markets corresponds with the dramatic fall in occupancy rates

Looking first at CBD properties, rental growth remained unvaried at 902 baht per sq m per month, with the average occupancy rate for CBD properties falling by 3.8% pts Y-o-Y to 82.7%. Overall, asking rental growth remained positive except for Ploenchit - Chidlom - Wireless, while occupancy rate fell for all sub-markets, we track. Ploenchit - Chidlom - Wireless

had the best performance at retaining occupancy rate, decreasing just 2.2% pts Y-o-Y. That was probably caused by the sacrifice of asking rent, with a significant drop of 4.5%.

For the properties outside CBD, the average asking rent grew by 1.5%, while the occupancy rate dropped by 5.4% pts to 76.6%. Our data revealed that specific sub-markets, i.e. Petchburi - Rama IX – Ratchada and Bangna – Srinakarin, which kept asking rent up by more than

3.5% Y-o-Y, experienced a dramatic loss in occupancy rate at 7.6% and 6.5% Y-o-Y respectively. Paholyothin – Viphavadi demonstrated robust demand in comparison to the most popular locations. Despite a slowdown in asking rental growth this quarter, it increased by 1.9% Y-o-Y. In addition, this specific location was the only sub-market with an annual change in occupancy rate being positive, rising by 2.2%.

TABLE 4

### BANGKOK OFFICE SUB-MARKET INDICATORS

Area	Average Asking Rent	Rent % Change		Occupancy Rate (%)	Occupancy % Change	
		(Q-o-Q)	(Y-o-Y)		(Q-o-Q)	(Y-o-Y)
<b>CBD</b>	<b>902</b>	<b>▲ 0.5%</b>	<b>▲ 0.0%</b>	<b>83%</b>	<b>▼ 1.8%</b>	<b>▼ 3.8%</b>
Ploenchit - Chidlom - Wireless	1,022	▼ 0.9%	▼ 4.5%	87%	▼ 0.2%	▼ 2.2%
Nana - Asoke - Phrompong	914	▲ 1.0%	▲ 3.6%	84%	▼ 3.2%	▼ 3.2%
Silom - Sathorn - Rama IV	860	▲ 1.4%	▲ 0.8%	81%	▼ 2.3%	▼ 4.3%
<b>Non - CBD</b>	<b>657</b>	<b>▲ 0.6%</b>	<b>▲ 1.5%</b>	<b>77%</b>	<b>▼ 1.4%</b>	<b>▼ 5.4%</b>
Petchburi - Rama IX - Ratchada	714	▲ 1.5%	▲ 3.7%	79%	▼ 1.6%	▼ 7.6%
Paholyothin - Viphavadi	664	▼ 0.1%	▲ 1.9%	79%	▲ 0.2%	▲ 2.2%
Bangna - Srinakarin	599	▲ 0.1%	▲ 3.6%	69%	▲ 0.5%	▼ 6.5%

SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY &amp; SOLUTIONS

## MARKET MOMENTUM

Figure 8 shows the cumulative net absorption and net supply change for the most recent four quarters ending at Q1 of each year in the last 10-year period. The adjustment was made to capture longer-term market momentum and avoid short-term fluctuation and seasonality impact. From 2013 to 2018, we observed net positive spreads between net absorption and net supply change in most years. The positive spreads are in line with the rising occupancy rate, from 87% in 2013 to 92% in 2018. Furthermore, the asking rent confirmed the market expansion trend, which averaged 4.6%.

Because of the long bull market in the office sector, many developers viewed office buildings as a safe haven asset and planned to develop their own office space. The net supply change per annum passed the 10-year average and reached 250,000 sq m in 2022. Net absorption, representing the demand for office space, began to decline in 2019 and reached a trough of -160,000 sq m in the middle of the pandemic. The spread between net absorption and net supply change widened to -330,000 sq m., with the occupancy rate dropping from 91% to 87%. In 2022, the occupancy

rate continued to fall to 82%, but net absorption improved to -38,000 sq m, which reduced the spread to -292,000 sq m. as Thailand's pandemic restriction eased.

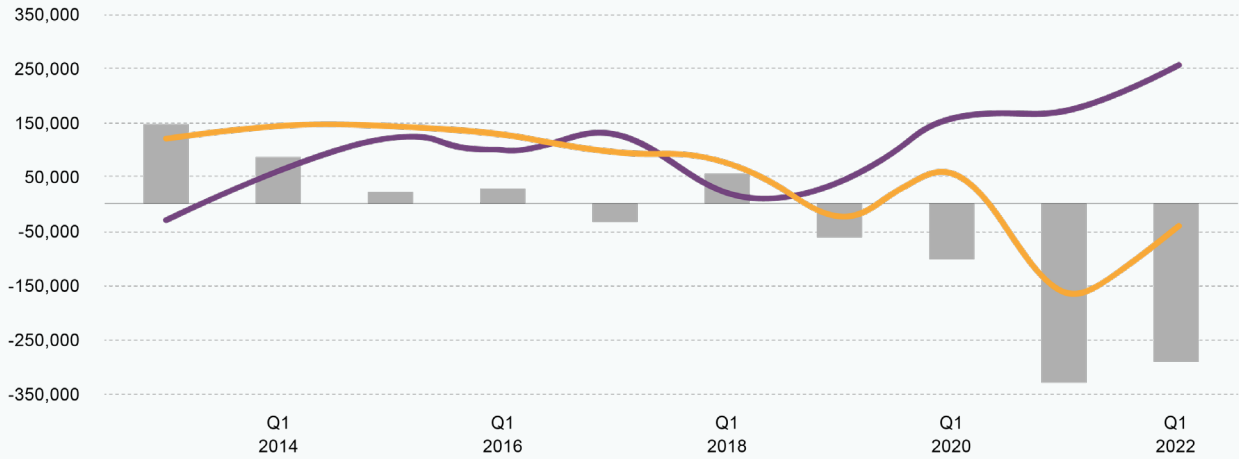


FIGURE 8

**BANGKOK OFFICE TRAILING 4 QUARTER NET ABSORPTION VS NET SUPPLY CHANGE**

SQ M

■ Spread    — Net Absorption    — Net Supply Change



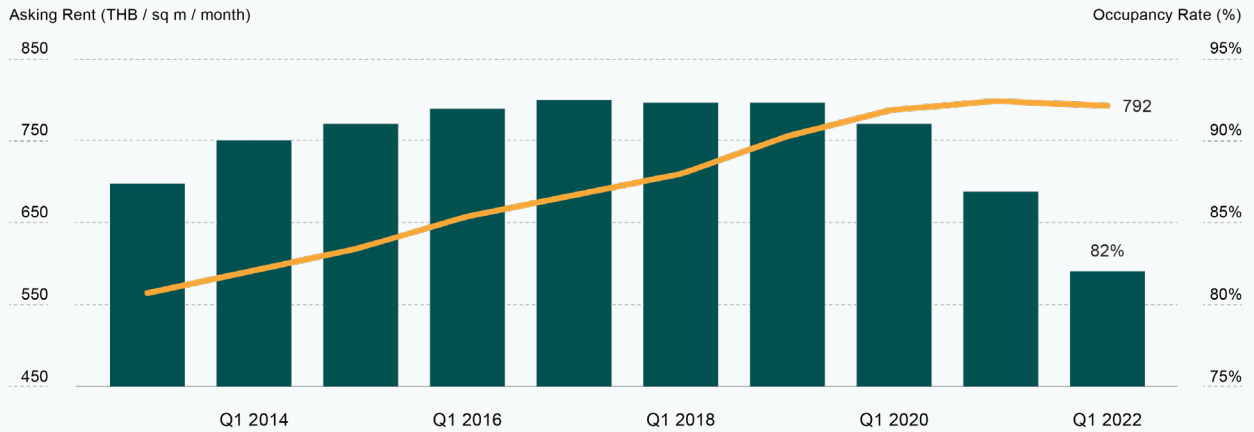
SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

FIGURE 9

**BANGKOK OFFICE TRAILING 4 QUARTER OCCUPANCY RATE AND ASKING RENT**

SQ M

■ Trailing 4-Quarter Occupancy Rate    — Trailing 4-Quarter Asking Rate



SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

According to the average annual net absorption per available supply in Q1 2022, our 10-year data shows positive net absorption per annum for all grades except for Grade B. Green buildings witnessed the highest annual net absorption rate per existing supply at 48.7%, which indicates that it would take only 2.1 years to absorb

the current unoccupied space. The result demonstrates a strong demand from tenants who prioritize sustainability, while the supply of green office buildings is still limited.

TABLE 5

**BANGKOK OFFICE NET ABSORPTION PER AVAILABLE SUPPLY BY GRADE**

	10 Yr. Avg. (Annualized)	Time to fully absorb the available supply (years)
<b>Green</b>	▲ 48.7%	2.1
<b>Grade A</b>	▲ 11.7%	8.5
<b>Grade A-</b>	▲ 21.1%	4.7
<b>Grade B</b>	▼ 14.0%	NA
<b>Grade C</b>	▲ 20.2%	5.0

SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

## REVIEW & OUTLOOK

It is widely accepted that COVID-19 is still a lingering threat to the whole economy, and real estate is one of the most impacted industries. New cases in Thailand peaked at the end of March, backtracking the return-to-office plans, and delaying new leasing activities in the office market. However, the dramatic impact of COVID-19 on the Thai economy tends to dissipate as almost 75% of Thai people have received two doses by early February, reducing the mortality rate compared to the previous peak in Q3 2021. In addition, we have also seen some other good signs from further easing of travel restrictions and two consecutive quarters of GDP growth thanks to domestic spending. As mentioned in our previous

report, COVID-19 has catalyzed how we work. We witnessed many companies thrive and adapt to this sort of uncertainty, implementing a new workplace strategy, and thus hybrid workplace will continue to be an important office theme for years to come.

In a global context, inflationary pressure in the US kept rising to the 41-year high, forcing the low-interest-rate environment to end this quarter as the US Federal Reserve demonstrated true intention to fight inflation with interest rate hikes. Geopolitical tension between Russia and Ukraine also profoundly impacted the global economy since it jeopardized global food security and exacerbated

global inflation. We expect these international factors to influence the office market in Thailand indirectly, while the key-driven elements remain the current stock and future supply in the pipeline, followed by domestic employment levels, technological advancement, and new consensus on the density of occupied space.

According to our research, grade C office buildings had more solid performance compared to the peer group since the pandemic emerged. Grade C has proved itself to be the most resistant to adverse demand shocks, both in terms of asking rent and occupancy rate, throughout an extended market stall.

FIGURE 10

**BANGKOK OFFICE MARKET BALANCE PROJECTION**

<b>2022</b>	Landlord	Balanced	<b>Tenant</b>
<b>2023</b>	Landlord	Balanced	<b>Tenant</b>
<b>2024</b>	Landlord	Balanced	<b>Tenant</b>

SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

## GLOSSARY

### Central Business District (CBD)

The CBD is the region in Bangkok with 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.

### Green Buildings

The office buildings classified by green building certificates, including LEED and TREES.

### Grade A Buildings

By 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

The largest sector of the office market, these are the buildings that were traditionally in tremendous 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 leased by tenants during a given period. It is an indicator of the amount of recent leasing activity. It does not account for the amount of space vacated by tenants.

### 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. Net absorption indicates the change in demand relative to the current supply available in the market. In other words, it is the total amount of space leased minus the total amount of space vacated by tenants.

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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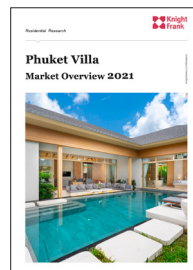
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