

Bangkok Office

Market Overview Q2 2022



HIGH LIGHTS

1

THE TOTAL SUPPLY OF OFFICE SPACE IN BANGKOK INCREASED SLIGHTLY BY 0.9% Q-O-Q TO 5.71 MILLION SQ M.

2

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

3

AFTER THE COVID RESTRICTIONS EASED, NET ABSORPTION REBOUNDED TO 44,000 SQ M THIS QUARTER.

4

THE OCCUPANCY RATE REMAINED STABLE Q-O-Q AT 80.1%.

5

THE AVERAGE ASKING RENT INCREASED SLIGHTLY BY 0.4% Q-O-Q TO 801 BAHT PER SQ M PER MONTH.



PANYA JENKITVATHANALERT
Executive Director, Division Head of Office Agency

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We are excited to see a rebound in demand for Bangkok offices in Q2. Occupiers such as MNCs and tech companies were key market movers recently, which demanded relocation to newer office buildings. As supply started to flood in, landlords were more flexible about the rental rates to retain existing tenants and attract prospective ones. At the same time, the ESG is still in focus this year, and we expect to witness an increasing number of new developments following this route.

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OFFICE PROPERTY MARKET INDICATORS

	5.71M SUPPLY (sq m)	4.57M OCCUPIED SPACE (sq m)	80.1% OCCUPANCY RATE	801 ASKING RENT (THB / sq m / month)
% Change				
Q-o-Q	▲ 0.9%	▲ 0.9%	-0.0%	▲ 0.4%
Y-o-Y	▲ 3.6%	▼ 0.7%	▼ 3.4% pts.	▲ 1.2%

ECONOMIC OVERVIEW

Thailand's GDP in Q2 2022 expanded by 2.5%, below market expectations of a 3.1% growth.

The Office of the National Economic and Social Development Council (NESDC) assessed that this quarter's economic recovery was mainly supported by private consumption, which increased 6.9% Y-o-Y. The tourism and service sector witnessed a slight improvement supported by the higher number of foreign tourist arrivals from the relaxation of COVID-19 restrictions. However, the sector performance was still far below the pre-pandemic level. Private investment continued to improve in line with economic development. Public spending still expanded, but at a slower pace, mainly from expenses related to COVID-19 management. Export continued to rise thanks to improvement in trading

partner's demand, although manufacturing production declined due to production material shortages.

Headline inflation is expected to rise to 6.2% at the end of 2022 compared to the previous forecasts of 4.9% at the end of Q1 2022 and 1.2% at year-end 2021. The steep rise in prices over the world was associated with high energy and commodities prices amid Russian-Ukraine tension coupled with the lockdown in major cities in Mainland China, which added strains to the global supply chain. More aggressive monetary policies from central banks around the world to curb red-hot inflation is expected, but this will also slow international economic activities. US Fed increased the interest rate three times this year with a total of 1.75%, while BOT raised the interest rate once by 0.25% to

0.75% (as of August 15, 2022), followed by a weakening Thai Baht by around 6% in this quarter alone.

The Business Sentiment Index (BSI) in June increased to 50.5 from 49.3 last month due to a gradual economic recovery, led by investment and firm performances. However, the cost sub-index dropped to 23.2, a new low in the last 14 years.

The 3-month expected BSI bounced back to 53.6, an increase of 1.2% pts from last month. The overall components improved except for production cost and employment sub-indices. Most business sub-indices stood above the 50-threshold, while the steel, construction, and real estate sectors were still subdued because building materials prices remained high.



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

The total supply of office space in Bangkok increased by around 51,000 sq m or 0.9% Q-o-Q this quarter. One new building was completed, adding supply to the non-CBD area. For sustainable green office buildings, the net lettable area increased to 944,000 sq m, up by 13.1% Y-o-Y, with an average annual growth rate of 12.8%.

FUTURE SUPPLY

While no new office building has been added to the pipeline this quarter, we have seen some construction delays from a few buildings. From 2022 to 2024, the new supply at the end of each year is expected to be 377,000, 426,000, and 295,000 sq m, respectively. The total size of the future lettable area in the pipeline

remained approximately 1.76 million sq m, accounting for 30% of the current level of office supply. Around 65% of the future supply will be in the CBD.

TABLE 1

BANGKOK OFFICE SUPPLY CHANGE

	Q2 2022 (sq m)	Supply % Change		10 Yr. Avg. Growth Rate
		(Q-o-Q)	(Y-o-Y)	
Market	5,711,000	▲ 0.9%	▲ 3.6%	▲ 2.1%
Green	944,000	▲ 4.3%	▲ 13.1%	▲ 12.8%

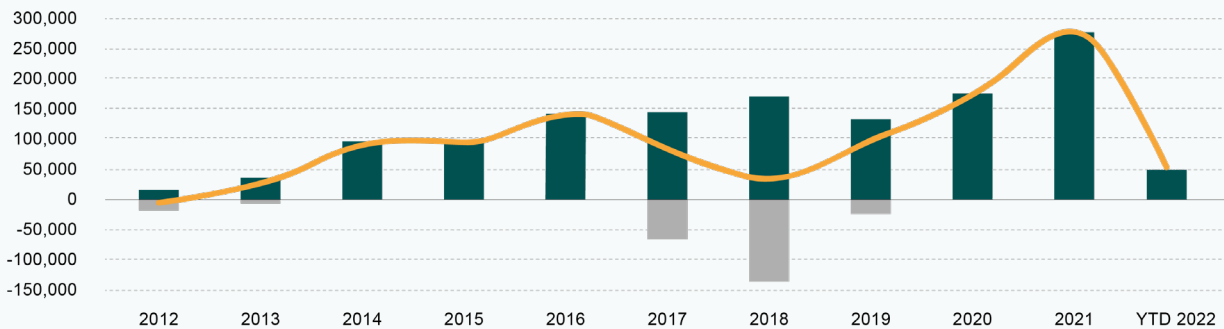
SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

FIGURE 2

BANGKOK OFFICE NET SUPPLY CHANGE

SQ M

■ Additions ■ Withdrawals — Net Supply Change

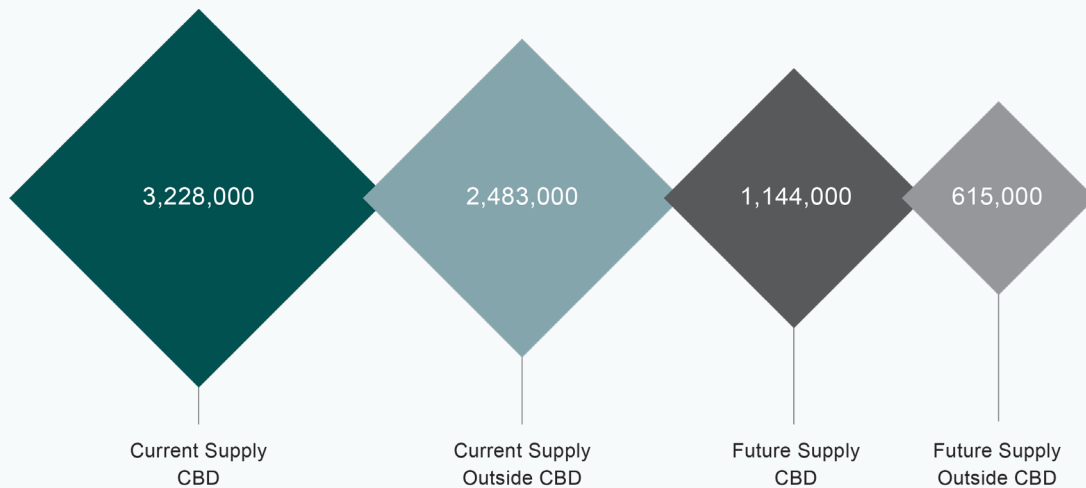


SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

FIGURE 3

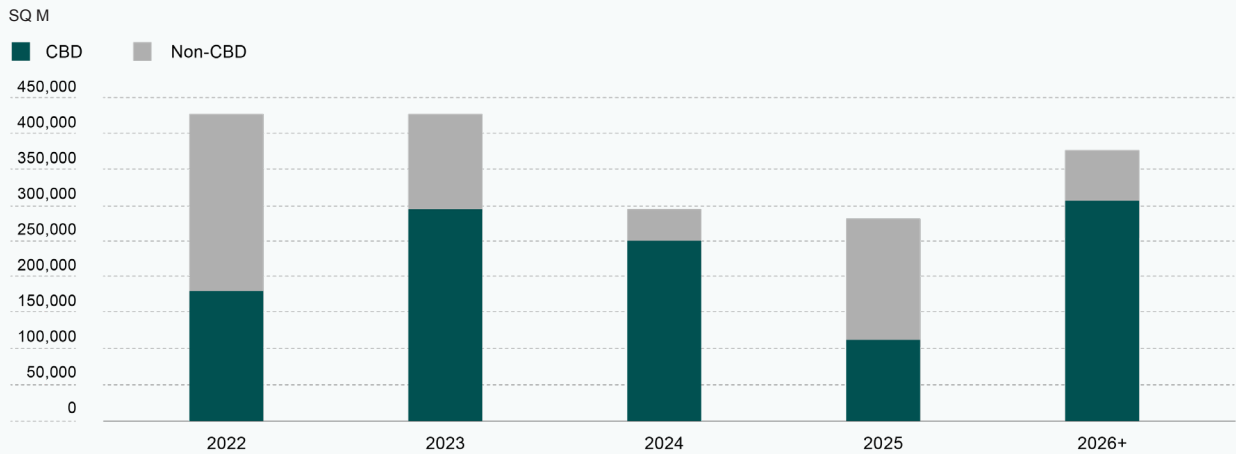
BANGKOK OFFICE CURRENT AND FUTURE SUPPLY

SQ M



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

FIGURE 4
BANGKOK OFFICE FUTURE SUPPLY IN CBD VS NON-CBD



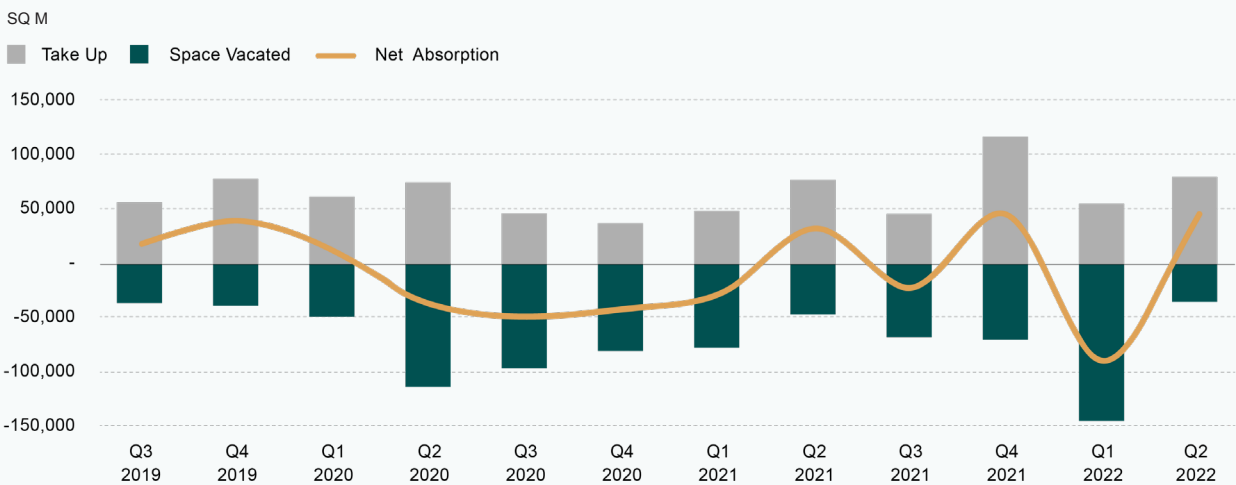
SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

DEMAND

After COVID-19 was classified endemic and the related restrictions eased, consumer confidence increased, and the Bangkok office market saw a demand uptick. Our database showed market movement this quarter was primarily characterised by relocation, followed by expansion and consolidation, respectively. From Q1 to Q2 2022, Take-up

rose significantly from 54,000 sq m to 80,000 sq m, while space vacated reduced significantly from -145,000 sq m to -36,000 sq m. This improvement results in positive net absorption of 44,000 sq m.

FIGURE 5
BANGKOK OFFICE DEMAND DYNAMICS



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

MARKET DYNAMICS BY SEGMENT

The occupancy rate of Grade B continued to fall to a new all-time low, despite recording positive net absorption.

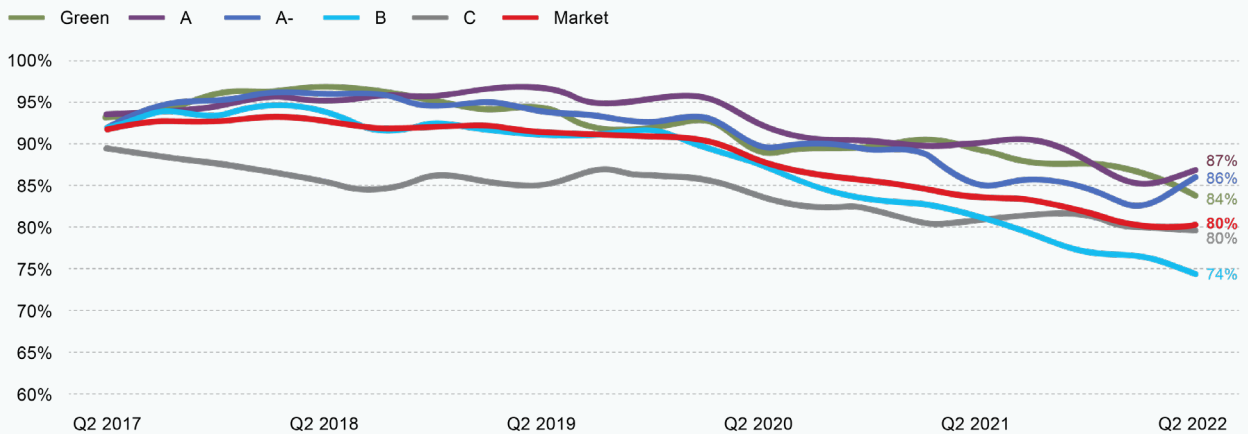
The total amount of occupied space increased slightly from 4.53 sq m in Q1 2022 to 4.57 sq m in Q2 2022, with market occupancies remaining at 80.1%. Q2 was a good period for the upper segments as we have seen more positive market movements for these groups. Grade A- became the best-performing segment this quarter, where the occupancy rate

rebounded by more than 3% Q-o-Q, followed by grade A at 1.6% Q-o-Q. The occupancy rate for grade B continued to decline by 2.0% Q-o-Q or 6.8% Y-o-Y to a new all-time low at 74%, although this was partly a result of new supply added to the market this quarter. Grade C, which saw the smallest fall since COVID-19 emerged, remained steady in Q2, with occupancies of around 80%.

Since we expect to see a lot more future supply added to the market, which will dampen the occupancy rates once

included, we have introduced net absorption by segment, controlled for grade changes, to see the pure impact from the demand side. On a quarterly basis, all grades saw positive net absorption, including grade B, which experienced a decline in occupancy rate. On an annual basis, the data still supported the flight to quality effect as net absorption of grade C dropped by -45,000, followed by grade B at -24,000 sq m, while the net absorption of grades A- and A rose by 29,000 and 12,000 sq m, respectively.

FIGURE 6
BANGKOK OFFICE OCCUPANCY RATE BY GRADE
SQ M



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

TABLE 2
BANGKOK OFFICE OCCUPANCY RATE BY GRADE

	Q2 2022	Occ % Change		10 Yr. Avg. Occupancy Rate
		(Q-o-Q)	(Y-o-Y)	
Market	80.1%	-0.0% pts	▼ 3.4% pts	89.5%
Green	87.3%	▼ 2.5% pts	▼ 5.5% pts	92.7%
Grade A	86.6%	▲ 1.6% pts	▼ 3.3% pts	93.2%
Grade A-	85.7%	▲ 3.3% pts	▲ 0.8% pts	90.8%
Grade B	74.4%	▼ 2.0% pts	▼ 6.8% pts	88.9%
Grade C	79.6%	▼ 0.3% pts	▼ 1.1% pts	86.0%

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

TABLE 3

BANGKOK OFFICE OCCUPIED SPACE AND NET ABSORPTION BY GRADE

THOUSAND SQ M

	Occupied Space as of Q2 2022	Net Absorption	
		Per Quarter	Per Annum
Market	4,573	44	-27
Green	791	10	6
Grade A	1,032	22	12
Grade A-	709	7	29
Grade B	1,530	11	-24
Grade C	1,302	4	-45

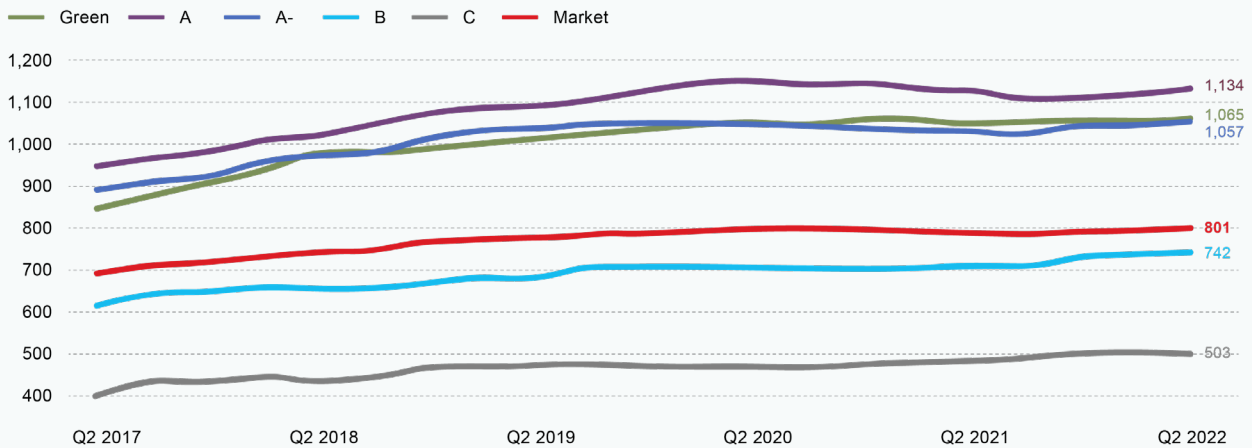
SOURCE: KNIGHT FRANK (THAILAND) – OCCUPIER STRATEGY & SOLUTIONS

The average asking rent increased at a slow pace of 0.4% Q-o-Q or 1.2% Y-o-Y to 801 Baht per sq m per month in Q2, below the 10-year rental growth, which averaged at 3.6% per annum. Quarterly rental growth rose for most grades. Grade A had the biggest rent hike in Q2 at 1.1% Q-o-Q, but the average rent for Grade A did not

reach its peak two years ago. Grade C was the only segment which experienced negative growth this quarter. Still, its rental growth was the second highest in an annual term at 3.9% Y-o-Y and the highest since COVID-19 began at 6.9%.

FIGURE 7

BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE



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

TABLE 4

BANGKOK OFFICE AVERAGE ASKING RENT BY GRADE

BAHT PER SQ M PER MONTH

Market	Q2 2022	Rent % Change		10 Yr. Annual Growth Rate
		(Q-o-Q)	(Y-o-Y)	
Market	801	▲ 0.4%	▲ 1.2%	▲ 3.6%
Green	1,065	▲ 0.7%	▲ 1.4%	▲ 4.2%
Grade A	1,134	▲ 1.1%	▲ 0.7%	▲ 4.2%
Grade A-	1,057	▲ 1.0%	▲ 2.4%	▲ 4.1%
Grade B	742	▲ 0.4%	▲ 4.4%	▲ 3.3%
Grade C	503	▼ 0.5%	▲ 3.9%	▲ 3.8%

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

MARKET DYNAMICS BY AREA

Asking rents increased slowly across most major sub-markets, while occupancies were stronger in the CBD than outside.

To begin with, rental growth for CBD properties grew moderately by 1.0% Q-o-Q to 913 baht per sq m per month, with the average occupancy rate uplifting by 0.8% pts Q-o-Q to 84%. Silom - Sathorn - Rama IV had the best performance in Q2, seeing the asking rent grow by 1.3% Q-o-Q. At the same time, the occupancy

rate increased by 1.7% Q-o-Q, with strong net absorption of 26,000 sq m. During the year, Ploenchit – Chidlom – Wireless experienced the largest decline in asking rent by 1.2%. Although this area saw the biggest fall in occupancy rate by 3.7% Y-o-Y, its net absorption was among the highest compared to other sub-markets.

Moving on to properties outside CBD, the average asking rent decreased by 0.5% Q-o-Q to 662 Baht per sq m per month, while the occupancy rate dropped

by 0.9% pts Q-o-Q to 76%. The slump in occupancy rate in Phaholyothin – Viphavadi by 6.5% Q-o-Q and 4.8% Y-o-Y could be attributed to the impact of new supply added to the market since net absorption in this area remained positive quarterly and annually. Bangna – Srinakarin, which saw a decline in asking rent by 0.5% Y-o-Y, was the only sub-market that enjoyed a positive change in occupancy rate, up by 1.0% Y-o-Y.

TABLE 5

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)
CBD	913	▲ 1.0%	▲ 0.7%	84%	▲ 0.8%	▼ 2.4%
Ploenchit - Chidlom - Wireless	1,025	▲ 2.5%	▼ 1.2%	85%	▼ 0.6%	▼ 3.7%
Nana - Asoke - Phrompong	919	▼ 0.6%	▲ 2.7%	85%	▲ 0.4%	▼ 2.6%
Silom - Sathorn - Rama IV	898	▲ 1.3%	▲ 1.4%	83%	▲ 1.7%	▼ 2.2%
Non - CBD	662	▼ 0.5%	▲ 0.7%	76%	▼ 0.9%	▼ 4.6%
Petchburi - Rama IX - Ratchada	734	▼ 0.2%	▲ 1.5%	81%	▲ 0.6%	▼ 2.9%
Paholyothin - Viphavadi	666	▲ 0.2%	▲ 1.2%	73%	▼ 6.5%	▼ 4.8%
Bangna - Srinakarin	588	▼ 1.8%	▲ 0.5%	73%	▲ 0.5%	▼ 1.0%

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

TABLE 6

BANGKOK OFFICE OCCUPIED SPACE AND NET ABSORPTION BY AREA

THOUSAND SQ M

Area	Occupied Space as of Q2 2022	Net Absorption	
		Per Quarter	Per Annum
CBD	2,698	26	13
Ploenchit - Chidlom - Wireless	484	-3	22
Nana - Asoke - Phrompong	511	2	22
Silom - Sathorn - Rama IV	1,223	26	-33
Non - CBD	1,875	17	-40
Petchburi - Rama IX - Ratchada	778	6	-28
Paholyothin - Viphavadi	380	7	15
Bangna - Srinakarin	231	1	3

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

PERFORMANCES BY THE AGE OF THE BUILDINGS

Ageing office buildings were found to be more fragile than newer counterparts.

We have studied the performance of Bangkok offices by age group in the past year. Our data revealed around 76% of the office buildings in Bangkok were built by 2010. We found that the newer offices or those built after 2010 saw an occupancy rate increase by 1.9%,

with an asking rent growing by 0.8%. In contrast, office buildings completed before 2010 witnessed negative changes in occupancy rate and asking rent by -2.8% and -0.3%, respectively.

It is clearly seen that office buildings aged twelve years or below had a better performance than their counterparts, despite having rental rates higher by more

than 35%. The finding suggests occupiers prefer newer office buildings, which typically have better amenities, security and safety and are more environmentally friendly and energy efficient.

TABLE 7

BANGKOK OFFICE PERFORMANCE BY AGE

Age Group	NLA (SQ M)	Q2 2021		Q2 2022		Change	
		Occ. Rent	Ask. Rent	Occ. Rent	Ask. Rent	Occ. Rent	Ask. Rent
Before 2010	4,241,000	86.1%	745	83.7%	743	▼ 2.8%	▼ 0.3%
After 2010	1,271,000	74.7%	1,026	76.1%	1,034	▲ 1.9%	▲ 0.8%

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

REVIEW & OUTLOOK

The overall office market in Q2 2022 improved slightly from an economic rebound, with more relaxed COVID restrictions. Our research also considered alternative indicators such as tracking the number of unemployment claims per the total number of private workforces. The latest figure in Q2 2022 was 2.1%, improving from 2.3% in the last quarter and 2.8% at the same time the year earlier. This improvement gave us a glimpse that the private labour market, typically highly correlated with office demand, was in a gradual recovery yet still could not reach the pre-COVID level, which stood at around 1.5%.

However, surging inflation in the low-growth environment, known as stagflation, can also profoundly impact the economy, including the office sector. It can harm investment returns and make the revenue stream look worse in real term. Landlords could find it difficult to offset costs by increasing rent, especially in a time when tenants have plenty of options to decide as tenants are going to move out to other buildings, which in turn reduces the building occupancies.

With the rise of the hybrid workplace, it is expected that less office space is required because of an increasing number of remote workers. Therefore, the tendency to upgrade to higher-quality office spaces,

such as moving from grade B to grade A or A- within the same budget range, is more probable. For the past year, we witnessed a reduction in occupied space for grades B and C, in contrast with grades A and A-, suggesting flight to quality persists.

In addition, flight to quality also applies when it comes to the age of the buildings. We have found that ageing offices or those completed before 2010 underperformed the newer counterparts. Although it is widely accepted that older properties cost more to run and maintain, it is also necessary to consider having an effective property maintenance plan to make those ageing buildings look more competitive with the newly built.

FIGURE 8
BANGKOK OFFICE MARKET BALANCE PROJECTION

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

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 desirability, these prime properties command the highest market rent (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.

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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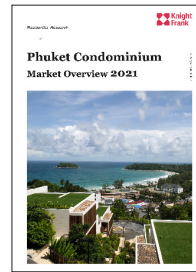
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