



Q1 2011 OFFICE MARKET

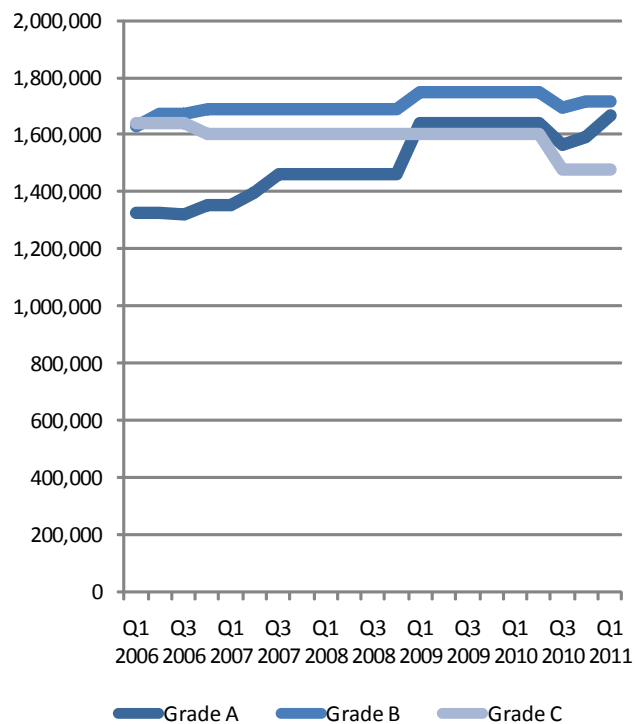
Knight Frank

MARKET OVERVIEW

- The Bangkok office market has been experiencing low demand for office space since late 2006, buildings which have launched during this time have been, and indeed are, struggling to fill their towers, whereas properties built before this time are well occupied.
- The majority of the market is made up with established properties built prior to 2006 which are maintaining occupancy rates of >85%. These buildings are not under any great pressure to reduce rents to keep tenants upon renewal, mostly because new buildings have not lowered their asking prices to more competitive levels.

SUPPLY

Figure 1



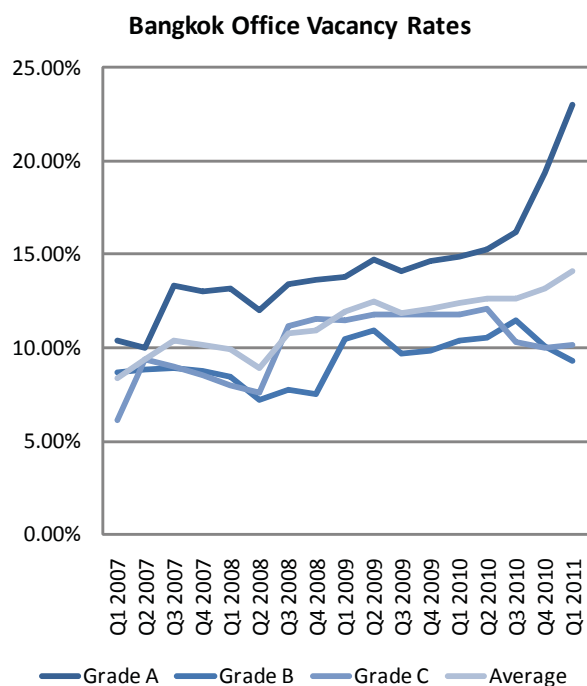
Source: Knight Frank Research

- One new building was added to market in the first quarter, namely Sathorn Square comprising 74,000 square meters of premium grade space on the corner of Sathorn and Narathiwas road with direct BTS access.
- In addition to this on Rachadapisek Road, Central are building a 25,000 sqm office tower at their new Central Rama 9 shopping mall which is due to finish in November 2011, with the office slated to finish next year. Nearby Rungrojthanakul are building two towers representing 12,000 sqm is due to complete by Q3 2011, and are eyeing a third of 27,000 sqm for 2014.
- Nearby the 9th Tower Grand Rama 9 is under construction with a total leasable area of 66,000 Square Meters, due for completion in Q4 2011 / Q1 2012.



VACANCY RATES

Figure 2
Bangkok Office Vacancy Rates



Vacancy rates continue to climb in the grade A sector as new space is not being taken up, as confidence fails to translate into demand for prime office space.

Demand remains for the more competitively priced grade B market, although space here is becoming scarce.

Table 1
Bangkok Office Vacancy Rates

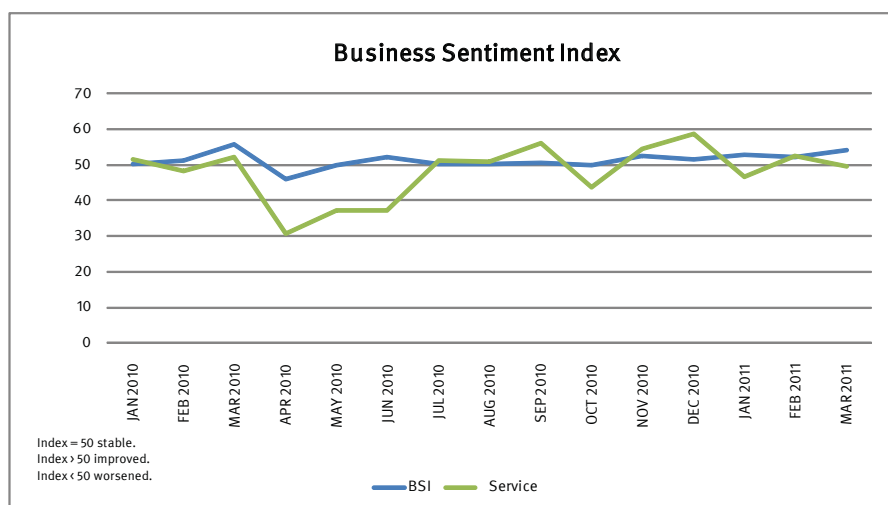
Quarter	Grade A	Grade B	Grade C	Average
Q3 2010	16.16%	11.50%	10.27%	12.64%
Q4 2010	19.35%	10.11%	9.97%	13.14%
Q1 2011	23.00%	9.31%	10.12%	14.14%

Source: Knight Frank Research

DEMAND

- Demand for office space has been suffering from uncertainty stemming from the continued political instability. However, it is true that the political situation in Thailand has been more stable since the clashes of April and May last year. This improvement is reflected by positive absorption rates recorded in Q4 2010 and again in the first quarter of 2011, however the overall levels of absorption are still relatively low at between 10,000 – 16,000 sqm per quarter.
- Outlook: An election is due for June / July, and if in the best case scenario all parties accept the result and Thailand returns to a lasting peace it will still take several months after that initial post election period for confidence to flow back to the service sector and for that to translate into a recovery in demand for office space.

Figure 3
Business Sentiment Index

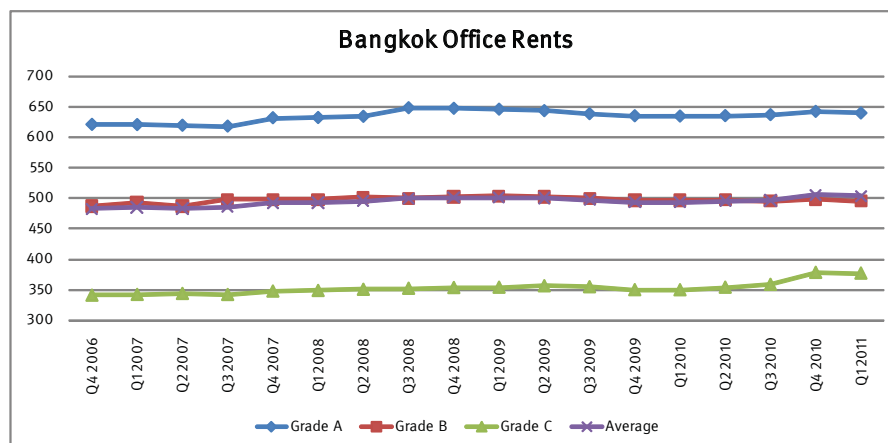


Source: Bank of Thailand



OFFICE RENTS Q1 2011

Figure 4



Rentals slipped by less than half a percent across the market in the first quarter, even in the grade B sector which has been seeing healthy demand.

The costs of relocation and high occupancy rates in existing buildings is supporting rental rates at these levels, but new buildings are offering increasingly more attractive rent free periods to reduce effective rents in a bid to secure tenants

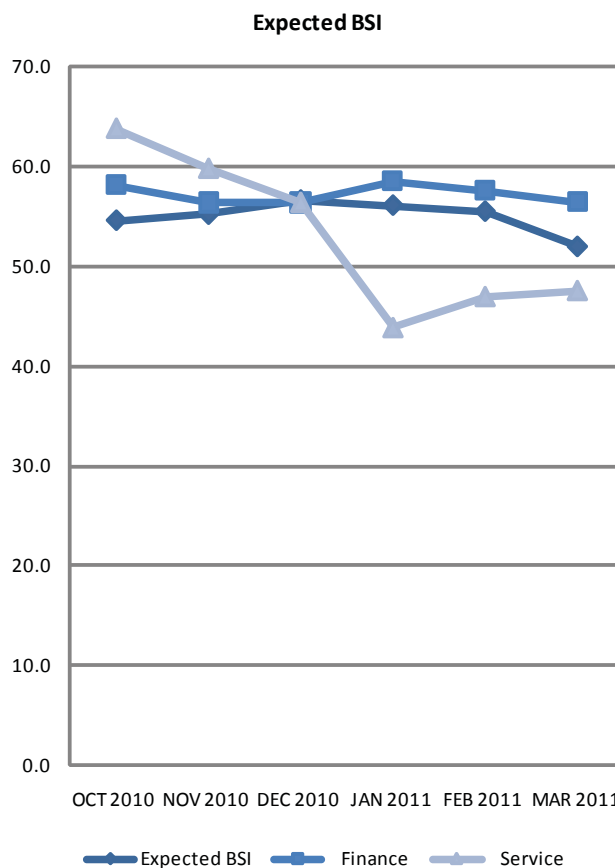
Table 2

Quarter	Grade A	Grade B	Grade C	Average
Q3 2010	636.50	495.46	358.57	496.84
Q4 2010	641.88	497.86	377.96	505.90
Q1 2011	639.23	495.24	376.80	503.75
Annual Change	0.80%	-0.36%	7.72%	2.05%
Quarterly Change	-0.41%	-0.53%	-0.31%	-0.42%

Source: Knight Frank Research

THE OUTLOOK

Figure 5
Expected BSI



Source: Bank of Thailand

Outlook

- If the result of the next election is honoured and accepted by all sides stability is expected to hold leading to improved business sentiment.
- This could see demand for office space rebound, leading to a return of strong rental growth as space is taken up.
- This scenario has a lot of downside risk. The government records forward looking business sentiment that measures how firms view the next three months, which has recently begun to fall.
- We suspect that the addition of new supply to the market and its lackluster demand, will add further pressure on rental rates throughout 2011 and into 2012.

Recommendations

- If you are planning a relocation or have an upcoming lease expiry we suggest appointing an experienced independent adviser such as Knight Frank's commercial leasing agents to advise on how best to secure the most appropriate terms and conditions in the market today.



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