



Q4 2008
BANGKOK
OFFICE MARKET
Quarterly
Knight Frank

HIGHLIGHTS

- Four new office buildings were completed in 2008, adding a total of 196,815 square metres to the office supply.
- Total supply of Bangkok office building as of December 2008 accounted for 4,986,682 square metres. There was a y-o-y increase of 3.66%.
- Average vacancy rate of Bangkok office market in the fourth quarter of 2008 was recorded at 10.00%, up from 9.04% of previous quarter.
- Average monthly rental rate of all grade office in Q4 2008 was at Baht 501 per square metres per month, slightly increase from Baht 492 per square metres per month in the same period of 2007.
- Q4 2008, Bangkok office market has not yet realized the full impact of the economic slowdown as seen from the lower vacancy rate particularly for grade A building.
- Demand remained subdued throughout Quarter 4, as companies took time out to assess the impact of the fallout of global financial crisis and recent political events.
- The largest relocation of 2008 was Dtac who moved into Chamchuri Square occupying 63,000 square metres in a transaction which formally completed in Q4.

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SUPPLY

Four new buildings were completed in the first nine months of 2008, adding a total of 196,815 square metres to this year office supply.

Total supply of Bangkok office buildings as of December 2008 was recorded at 4,986,682 square metres.

The office sector in the last quarter of 2008 remained fairly stable as no new building has been completed. Total rental space of grade A office is 1,654,442 square metres, increasing from 1,457,627 square metres of previous year. Total rental space of the grade B sector remained at 1,716,421

square metres whilst the rental space of Grade C office was around 1,615,818 square metres, decreasing from 1,636,508 square metres of the previous year due to one existing grade C office buildings were being neglected for sale since Q3 2008.

Note: These figures exclude owner occupied premises and office buildings smaller than 5,000 square metres.

Table 1
New Office Supply Opened in the first nine months of 2008

Building Name	Location	Area	Grade	Total Lettable Area (sq.m.)
Chamchuri Square	Rama IV	CBD	A	90,000
CyberWorld Tower A	Ratchadapisek	Non-CBD	A	38,306
Interchange 21	Asoke/Sukhumvit	Non-CBD	A	45,000
CyberWorld Tower B	Ratchadapisek	Non-CBD	A	23,509
Total				196,815

Source: Knight Frank Research

VACANCY RATES

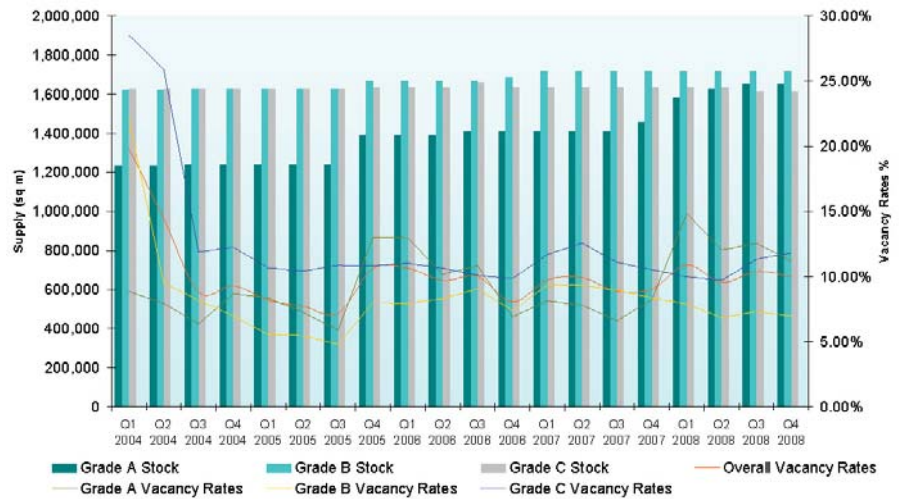
Despite the negative impact of recent economic slowdown as well as political tension, Grade A office buildings in the fourth quarter of 2008 experienced improved vacancy rates of 11.20%, compared with 12.56% of the previous quarter, which was due to a large leading telecommunications providers, Dtac, becoming the largest tenancy of the year at Chamchuri Square where they now occupy 63,000 square metres on Rama IV Road.

Grade B office buildings still experience the lowest vacancy rates of all grades. The average vacancy rates of Grade B office buildings is 6.97%, decreased from 7.32% of the previous quarter.

In contrast, the average vacancy rates of Grade C office buildings experienced a slight increase from the previous quarter's 11.34%, to stand at 11.84% at year's end.



Figure 1
Stock of Bangkok Supply and Vacancy Rates
Q1 2004 - Q4 2008



Source: Knight Frank Research

RENTAL RATE

The average rental rate for all grades of Bangkok office space remained at close level with the previous quarter with only 0.17% increased from the previous quarter. However, the average rental rate of all grades still grew by 1.75% y-o-y from Baht 518 per square metre per month to Baht 527 per square metre per month in fourth quarter of 2008.

Average monthly rental rate of Grade A office was at Baht 681 per square metre per month, up from Baht 665 per square metre per month in the same period of 2007 but decreased 0.1% from Q3 2008. Grade B office average rental rates grew 0.5% from Quarter 3 2008 to stand at Baht 529 per square metre per month, compared to Baht 524 per square metre per month of the previous year. Grade C office had rental rate in the fourth quarter of 2008 at Baht 372 per square metre per month, up from Baht 366 per square metre per month in the same period of last year and 0.3% increased from previous quarter.

Overall, the Bangkok office rental rate remained at the close level of the previous quarter as landlords beginning to show more flexibility in order to secure their tenant. With the trend of economic downturn we expect to see lower asking rates in the future.

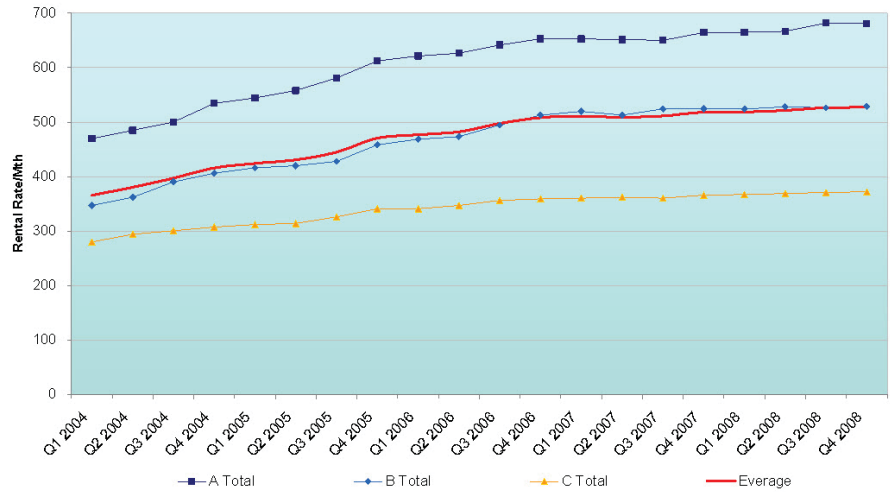
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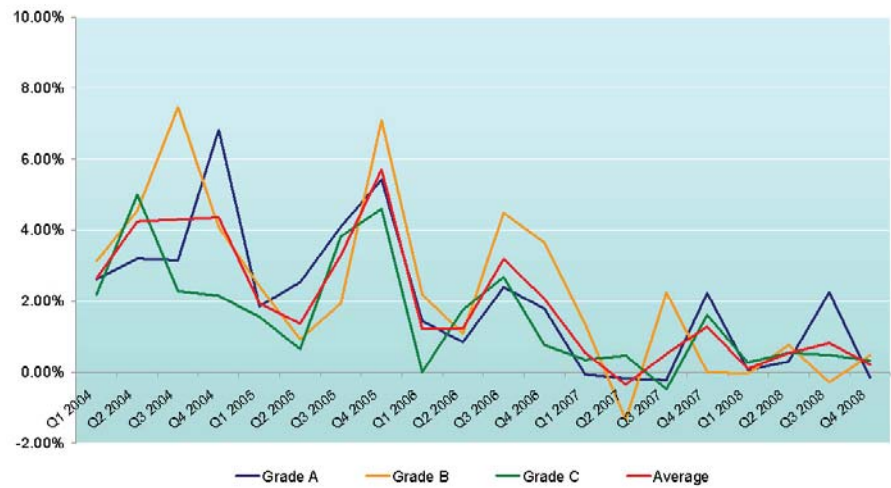
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Figure 2
Bangkok Office Rents by Grade
Q1 2004 - Q4 2008



Source: Knight Frank Research

Figure 3
Bangkok Office Q-O-Q Rental Growth
Q1 2004 - Q4 2008



Source: Knight Frank Research



FUTURE SUPPLY

In 2009, we expect to see three new properties enter the market with Asia Centre and Pakin Building due to welcome tenants in Q1. Total new supply for 2009 is set to be less than previous years with just approximately 78,500 square metres of space scheduled for completion.

The recent financial crisis combine with the domestic political uncertainty will inevitably impact an overall investment atmosphere. Therefore, we expect that investors will wait to see a clearer economic situation, and domestic political condition before proceeding with any new commercial developments.

Furthermore in May 2009, the Government centre in Chaengwattana is expected to complete which will result in the relocation of several public offices from private commercial buildings, increasing vacancies accordingly.

Table 2
Future Supply of Bangkok Office Buildings
2009F – 2011F

Building	Location	Zone	Schedule to complete	Available Lettable Floor Space (sq.m.)
Asia Centre	Sathon	CBD	1Q-2009	28,000
Pakin Building	Ratchadaphisek	Non-CBD	1Q-2009	34,500
Sala @ Sathon	Sathon	CBD	2009	16,000
Sathon Square	Sathon	CBD	2010	80,000
Wireless Square	Ploenchit-Wireless	CBD	2011	28,000
			Total	186,500

Source: Knight Frank Research

OUTLOOK

Weak demand caused by the global financial crisis and fallout from the domestic political unrest experienced in the last quarter, took its toll on Bangkok's office market. Grade A rents declined slightly for the first time in 15 months in Q4 after reaching a peak in the third quarter in 2008, when vacancies in Grade A space began to increase.

There are however some key differences to the collapse of the office market in 1997, which was hit by an economic recession that was compounded further by considerable oversupply, which reached 43% in the Grade A sector at it the bottom of the trough in 1999.

This trend looks set to continue in 2009 as retrenchments continue and firms seek to optimise their operations by seeking out accommodation which represents value for money, as they prime themselves to face the challenges of 2009.

Our research shows that the total supply pipeline over the next three years is less than the total amount of new space that was added to the market in 2008 alone. To put this into perspective, consider that since 2005 the supply of office space grew on average by approximately 163,000 square metres, each year. In stark contrast the amount due over the next three years is just 186,500 square metres, in total.

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There will however be several government departments moving from leased office premises to the new government centre on Chaeng Wattana Road in May 2009, which will create slightly increased vacancy rates across all grades of properties throughout the city. We estimate that the total amount of space which will be made available will be in the region of 100,000 square metres following the recreation of several government departments.

In recent times this additional space could be readily absorbed by underlying demand, but as exports slow and banks continue to fret over business risk, the service sector is expected to curtail rental expenses in the New Year through relocations, lease restructuring and through the surrender of space, leading to a contraction in overall occupancy rates.

Prime rents, which reached record levels in recent years, will bear the brunt of the impact from this slowdown, as cost control becomes the most important selection criterion. We expect prime rents to contract by up to 10% in 2009, as vacancies climb.



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