



Q4 2012 MANUFACTURING PROPERTY MARKET

Knight Frank

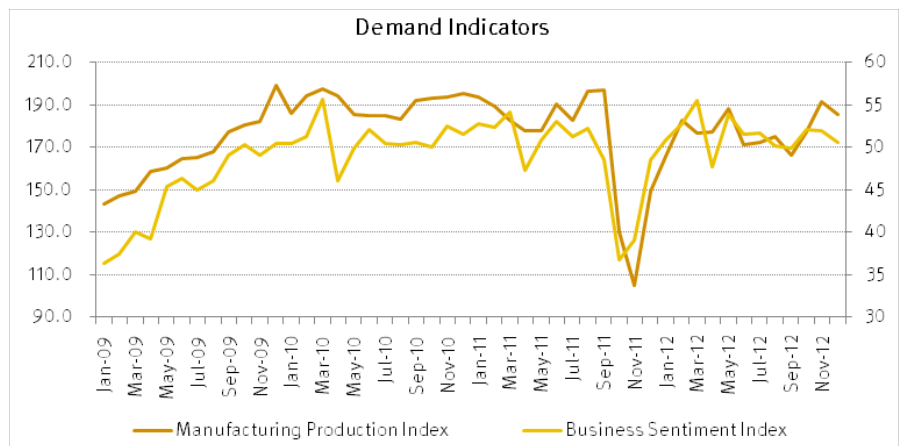
HIGHLIGHTS

- Demand of the industrial lands in Eastern Seaboard has been evidently increasing since flood 2011.
- Foreign Direct Investment is likely to continue to flow into Thailand in 2013.
- Locations that enjoy the best labour availability and logistics infrastructure will continue to be the most preferred areas, especially if they did not flood in 2011.

DEMAND

Recent surveys of manufacturing firms by the Bank of Thailand and the Office of Industrial Economics reported an improved business outlook, with forecasted industrial GDP growth for 2013 at 4-5%.

Figure 1
 Demand Indicators



Source: Bank of Thailand and Office of Industrial Economics

Remarks:

- 1/ Business Sentiment Index is compiled from BOT survey data of 1,010 businesses.
- 2/ Below is the interpretation of the index:
 Index = 50 indicates that business sentiment remains stable.
 Index > 50 indicates that business sentiment has improved.
 Index < 50 indicates that business sentiment has worsened.
- 3/ Production Index is value added weight and seasonally adjusted.

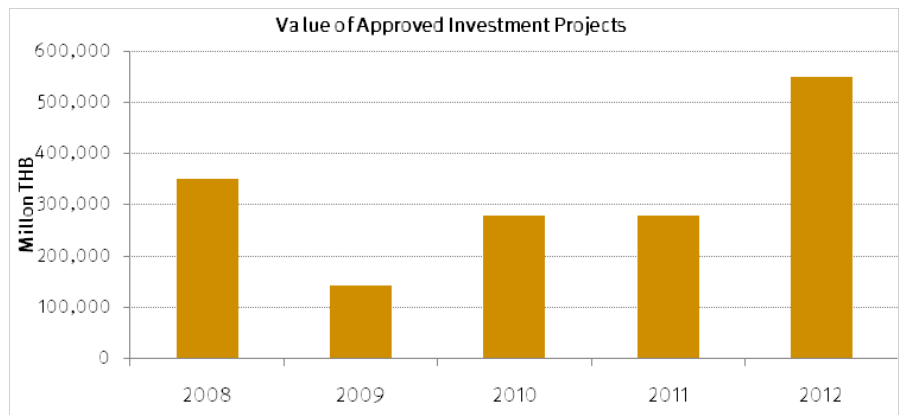
The Office of Industrial Economics said, “the manufacturing production index (MPI) will be 3.5-4.5 percent higher and the volume of industrial exports will reach Bt6.2 trillion. The 4-5 per cent industrial GDP growth is based on an average exchange rate of Bt31 against the US dollar.”



FOREIGN DIRECT INVESTMENT

FDI is the lifeblood of demand for Thai industrial real estate, as foreign firms account for the overwhelming majority of occupiers in Thailand’s industrial estates and parks. In their latest report, Thailand’s Board of Investment (BOI) showed a substantial increase in the value and number of approved investment projects in 2012.

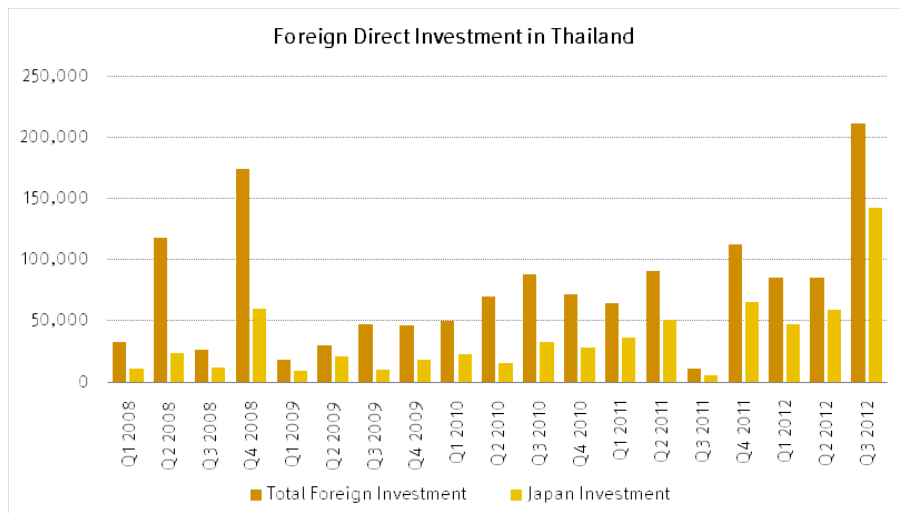
Figure 2
Value of Approved Investment Projects



Source: The Board of Investment

Past investment inflows had fallen greatly since the 2008 peak before the Global Financial Crisis (GFC) hit in Q4 2008, and only slowly began to recover again in 2010. However, whilst the value of the BOI’s approved projects during the floods of 2011 remained constant, the actual FDI figures for Q3 2011 showed a significant drop before bouncing back in Q4 2011.

Figure 3
Foreign Direct Investment in Thailand

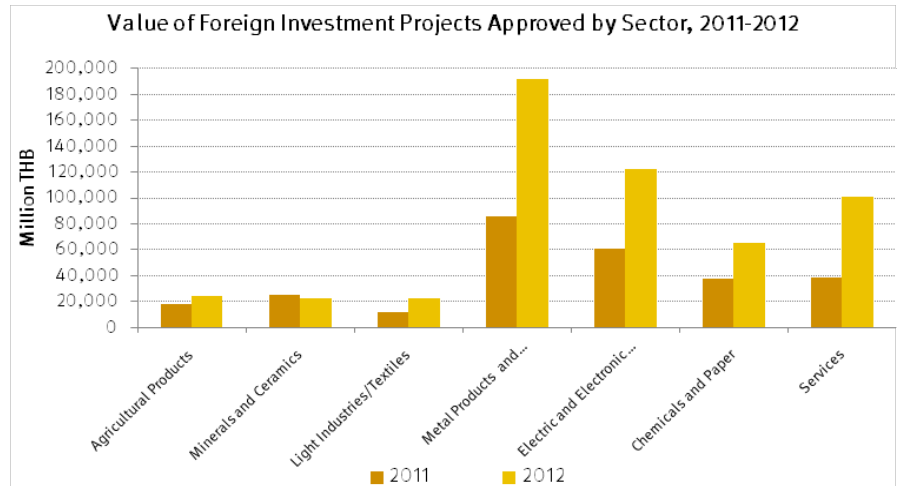


Source: The Board of Investment

2012 then is a story of recovery as FDI flows increased throughout the year, but it was particularly evident in Quarter 3 which saw inward FDI flows reach almost 212 billion baht, a figure that has not been seen since before the GFC.

The highest growth in foreign investment was seen in the electric and electronic product sectors, which increased by 266.13% or 3-4 times to 100 billion baht, compared to only 27.4 billion baht in same period last year.

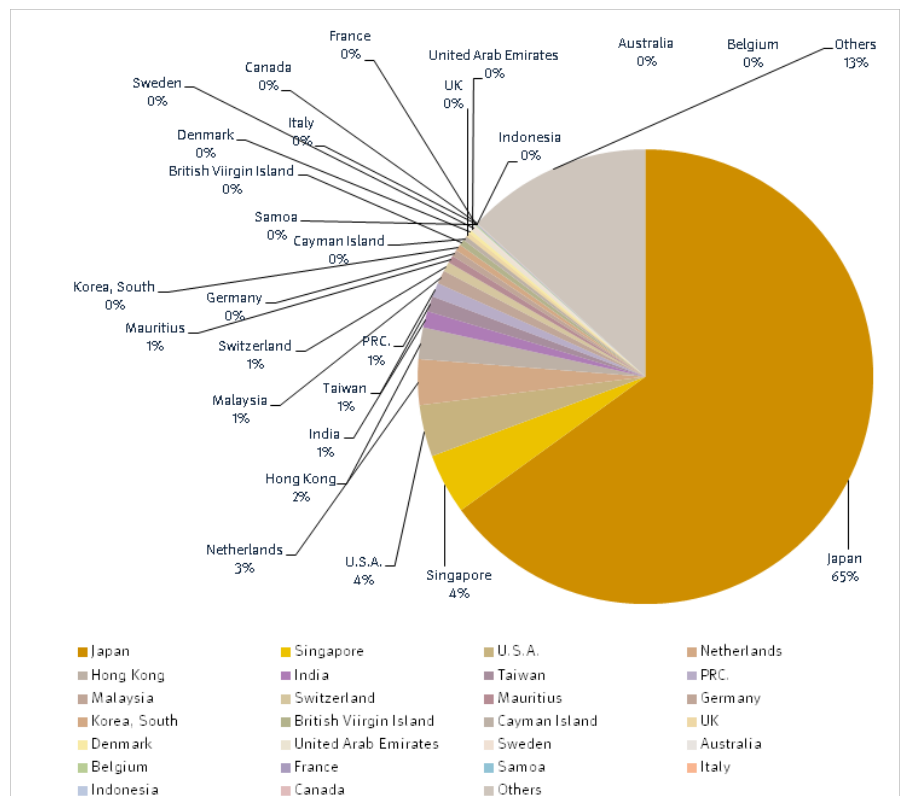
Figure 4
 Value of Foreign Investment Projects Approved by Sector, 2011-2012



Source: The Board of Investment

Almost 65% of all inbound FDI in Q3, or some 143 billion baht, originated in Japan, underscoring the continued strength and importance of the Japanese-Thai relationship, especially in the wake of strained relations between China and Japan.

Figure 5



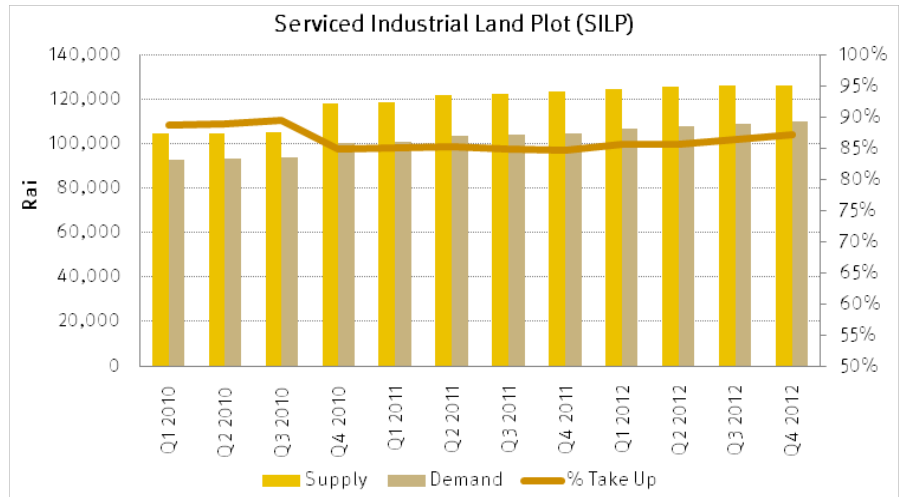
Source: The Board of Investment



SERVICED INDUSTRIAL LAND PLOT

Average occupancy rates of the warehouse rental market dropped from the last quarter by 0.31% to 93.13%, due to new development completions. However, in Q4 2012, the total amount of space occupied increased by 141,462 sq.m., indicating positive net absorption amidst robust demand for warehousing space, particularly in Samut Prakarn and along the Eastern Seaboard.

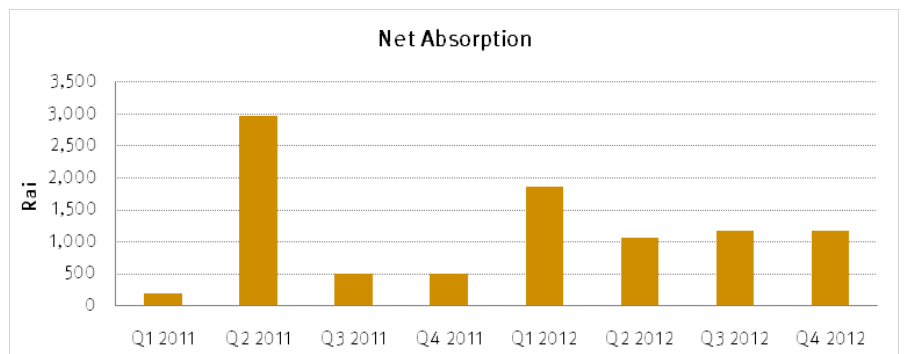
Figure 6
Serviced Industrial Land Plot (SILP)



Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

The total supply of SILPs in Q4 2012 reached 125,325 Rai, representing an increase of 2.07% Y-o-Y. 5,288 Rai of industrial land was sold over the course of 2012, an increase of 1,104 Rai from 2011, or 26%.

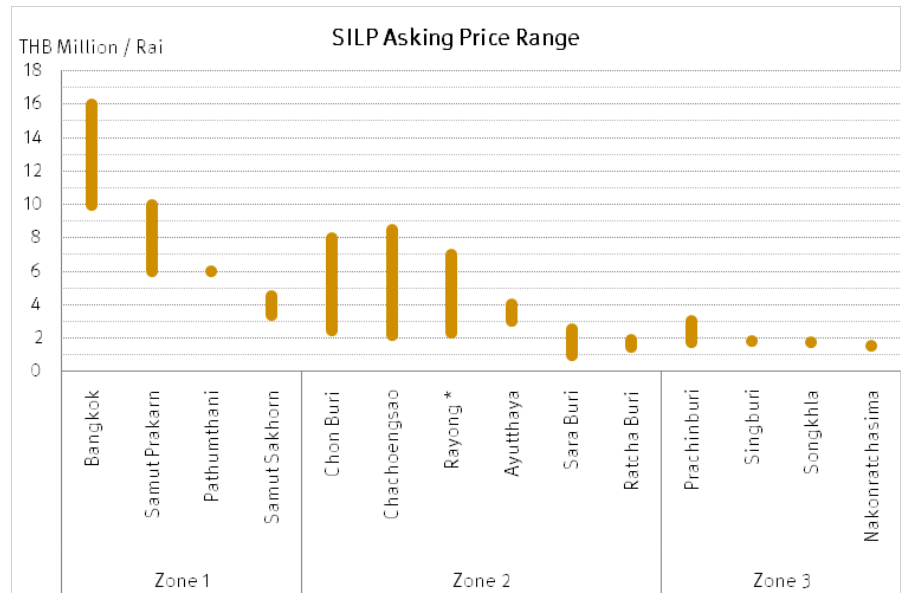
Figure 7
Net Absorption



Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand

However, there has been positive absorption seen in the market for the past 8 consecutive quarters, reflecting strong demand resulting from increased FDI flows.

Figure 8
 SILP Asking Price Range



Source: Knight Frank Thailand Research, and Industrial Estate Authority of Thailand, as of December, 2012
 *Industrial estates in Rayong may also qualify for BOI Zone 3 privileges

Industrial land prices throughout Thailand range from 1 million baht per Rai (625 baht / sqm) to over 16 million baht per Rai (10,000 baht per sqm). During 2012, prices across the country increased by around 5% on average. However, it was the serviced industrial land in the provinces that did not flood that experienced the greatest growth. Prices on the Eastern Seaboard and the area we describe as the Central Eastern Zone, that incorporates the provinces of Prachinburi and some of Chachoengsao, increased by 6.34-6.43%, respectively. Some major developers on the Eastern Seaboard were even able to increase prices by 15-20% in response to increased demand.

Table 1

(Million THB / Rai)			
Industrial Land Prices by Zone	2011	2012	% Change
Suvarnaphumi - Bangpakong	7.54	8	6.16%
Northern Zone	3.31	3.28	-0.67%
Central Eastern Zone	2.21	2.35	6.43%
Western Zone	2.83	2.83	0.00%
Eastern Seaboard Zone	3.78	4.02	6.34%

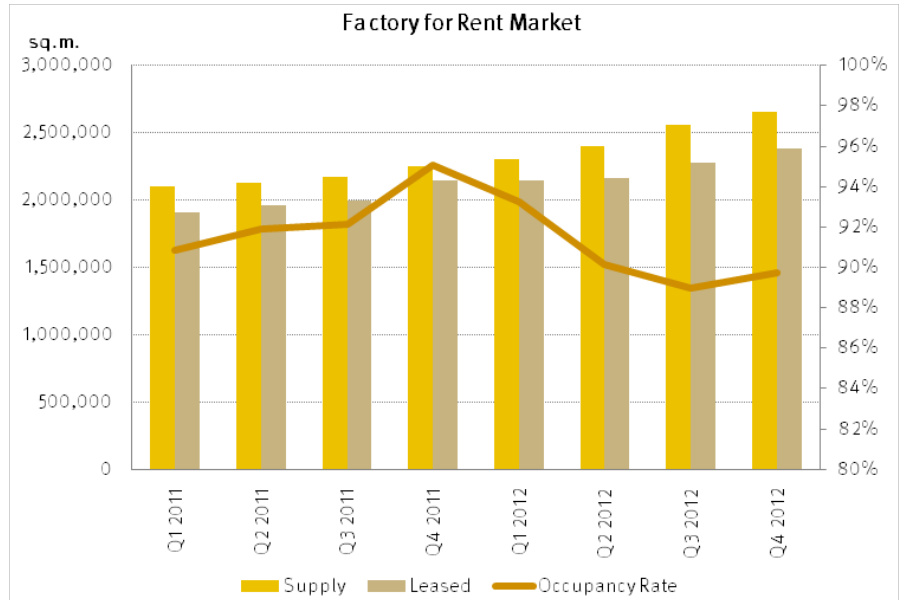
Source: Knight Frank Thailand Research

By contrast, asking prices in estates to the North of Bangkok fell, whilst prices in the Western industrial estates remained stable.



FACTORY RENTAL MARKET

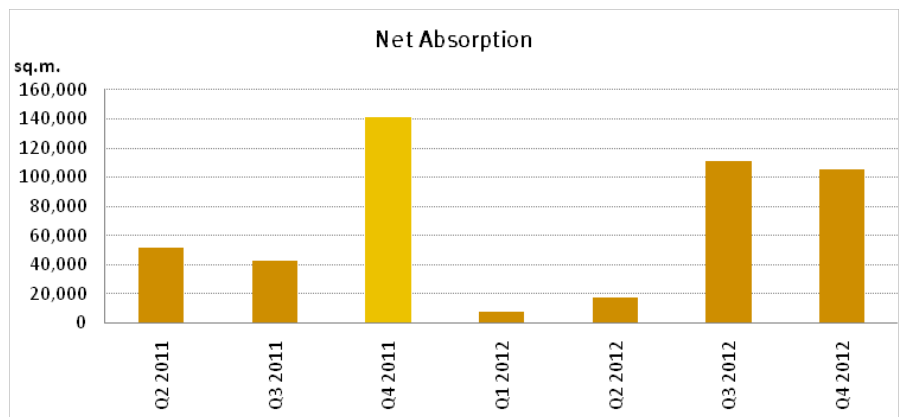
Figure 9
Factory for Rent Market



Source: Knight Frank Thailand Research

The total supply of ready built factories increased 17.82% in 2012 to 2,654,537 sqm, increasing 3.72% in the final quarter as developers responded to increased demand

Figure 10
Net Absorption



Source: Knight Frank Thailand Research

The factory rental market's occupancy rate stood at 89.76% in Q4 2012, which increased from 88.99% in the previous quarter, despite new product being added to the market. The positive net absorption has been constant over the last 6 quarters, showing the continuous growth in demand for factory space, even in the wake of the floods.

FACTORY RENTS IN THE FOUR KEY INDUSTRIAL LOCATIONS

Table 2

Rental Rate (THB/Sq.m./Month)				
Factory Rental Market	Rama 2 - Samut Sakhon	Pathum Thani - Ayutthaya	Suvarnabhumi - Bangpakong	Eastern Seaboard
Prime	181	217	218	210
Non-prime	133	128	111	165
Average All Grades	140	142	149	183

Source: Knight Frank Thailand Research

Remarks:

Prime = the top 10% of ready built factories that command highest rents in their sector.

OUTLOOK

Foreign Direct Investment is likely to continue to flow into Thailand in 2013, and we expect that the locations that enjoy the best labour availability with good logistics infrastructure to continue to be the most preferred, especially if they did not flood in 2011.



APPENDIX:

Factory Rental Market : purpose built factories for rent from all major developers, but not limited to industrial estate locations.

SILP : serviced industrial land parcels located in industrial estates, zones and parks.



Americas

USA
Bermu da
Brazil
Caribbean
Chile
Australasia

Australia

New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
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