

RESEARCH

August 2019

# Bangkok Q2 2019

Shrinking demand in the residential market due to tight mortgage loan measurement



# 2019 Q2 snapshot

The gross domestic product (GDP) grew at 2.8 per cent in Q1 2019. Compared to a growth of 3.6 per cent in Q4 2018, growth was driven by private and government consumption expenditures. Consumer Price Index (CPI) had a y-o-y growth of 0.7 per cent, a small decrease compared to 0.8 per cent in Q4 2018. Export of goods and services decreased by 4.9 per cent in Q1 2019, compared to a rise of 0.7 per cent in Q4 2018.

Investment sales reached

**THB12.0bn**  
in Q2 2019.

The largest deal in Q2 2019 was the investment and the appointment of **WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART)** as the property manager of Additional Investment Assets with a total value of **THB4.88bn**.

## Office



Bangkok's office supply in the Central Business District (CBD) remained at **4.63m sq m in Q2 2019, unchanged from Q1 2019**. Average asking rents of prime offices in the CBD shifted to **THB1,070 psm per month in Q2 2019, a q-o-q growth of 1.4 per cent**. Prime office **occupancy rate improved slightly from 92.9 per cent in Q1 2019 to 93.3 per cent in Q2 2019**.

## Retail



Average **retail rent in downtown decreased** slightly from THB2,600 per sq m per month in Q1 **to THB2,590 per sq m per month in Q2**. **Rental rate in midtown** decreased from THB1,615 per sq m per month in Q1 to **THB1,605 per sq m per month in Q2**. Average **occupancy rate** of retail spaces in **downtown and midtown was at 95.0 per cent and 90.8 per cent**, respectively in Q2 2019.

## Residential



A total of **2,039 condominium units launched in Q2 2019** compared to 3,595 units in Q1 2019, representing a **q-o-q decrease of 43.3 per cent**. Average **take-up rate for high-end condominiums in the CBD decreased to 41.6 per cent in Q2 2019**, compared to 50.3 per cent in Q1. **Majority of the newly launched projects in Q2 2019 are in Silom-Sathorn area**.

# The economy

## Key highlights

- GDP grew at a rate of 2.8 per cent in Q1 2019 (Figure 1), compared to a growth of 3.6 per cent in Q4 2018.
- The growth was driven by private and government consumption expenditures.
- The CPI in Q1 2019 had a y-o-y growth by 0.7 per cent.

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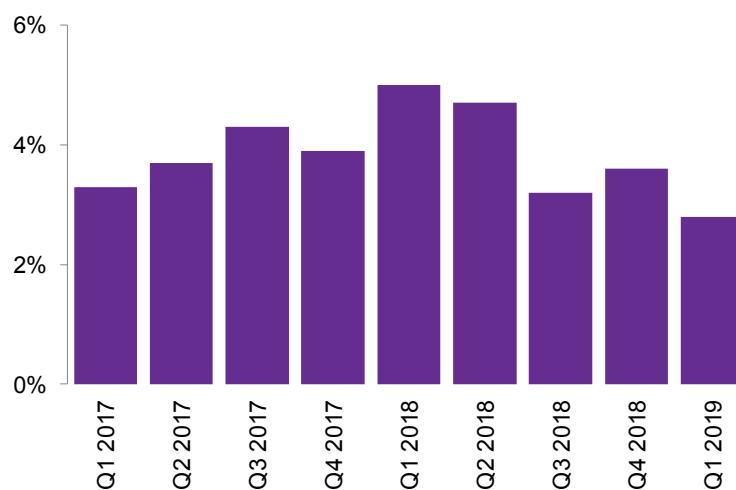
Thai GDP increased 2.8 per cent in Q1 2019, compared to a growth of 3.6 per cent in Q4 2018, driven by private and government consumption expenditures. Reduced trade friction and stability of the new government can increase fund inflows into Thailand for the rest of 2019.

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## Market commentary

The Thai economy in Q1 2019 measured by gross domestic product increased by 2.8 per cent, compared to a growth of 3.6 per cent in Q4 2018 (Figure 1). The growth was driven by private and government consumption expenditures whereas global economic slowdown and trade tension between US-China caused the export of goods and services to decline.

Figure 1: GDP growth



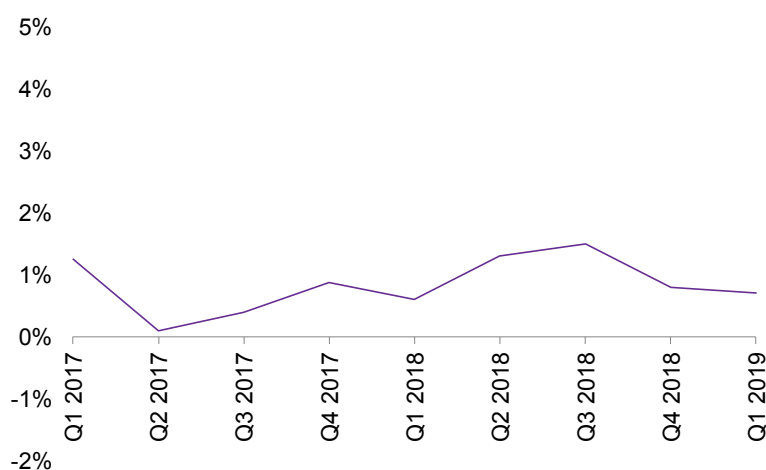
Source: Office of the National Economic and Social Development Council (NESDC), Edmund Tie & Company Research

Private final consumption expenditure in Q1 2019 expanded by 4.6 per cent in comparison to a rise of 5.4 per cent in Q4 2018. Key supporting factors for the growth of private final consumption expenditure included a high level of income, growth in employment rate, low inflation and interest rates, continual expansion of personal loans, and government measures to support the low-income group. Government final consumption expenditure increased by 3.3 per cent in Q1 2019, compared to an increase of 1.4 per cent in Q4 2018. This was mainly contributed by the rise in compensation of employees.

Export of goods and services decreased by 4.9 per cent in Q1 2019, compared to a rise of 0.7 per cent in Q4 2018. The contraction was attributed to the economic slowdown in key trading partner countries, the escalating trade protection measures, as well as the uncertainty of the US-China trade negotiation.

The CPI in Q1 2019 had a y-o-y growth of 0.7 per cent, a small decrease compared to 0.8 per cent in Q4 2018 (Figure 2).

Figure 2: Change in CPI (y-o-y)



Source: Bank of Thailand, Edmund Tie & Company Research

## Outlook

Despite the impact of world economic slowdown and the US-China trade tension, the National Economic and Social Development Council (NESDC) forecasted the Thai economy to gradually accelerate in the rest of 2019 if there is no additional trade protection measures as well as no sharper-than-expected slowdown of key economies. Key factors that will accelerate the economy in the second half of 2019 include favourable domestic demand growth, improving trade conditions with a clearer tendency towards redirection of international trade, and recovery of the tourism sector in the second half of 2019.

The trade talks between US and China in early of June 2019 had resolved a concern on US-China trade battle, providing the little hope that the two countries could find a way to avert damage to the global economy.

The Stock Exchange of Thailand expected fund inflows into Thailand's stock market to continue, given greater perceived stability of the new coalition government and reduced trade friction.



# Investment sales

## Key highlights

- Total investment value amounted to THB12bn in Q2 2019, recording a significant q-o-q decrease of 58.0 per cent.
- The decrease was attributed to political uncertainty after the election, and anxiety about the adverse effects of drastic economic policy changes under the new government team.
- The largest deal in Q2 2019 was the appointment of WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) as the property manager of Additional Investment Assets and sublease of the leasable rooftop area of Unilever Project, with total value of THB4.88bn.
- Investors' confidence is likely to return as there is greater certainty on economic policies, following the formation of the new coalition government and re-election of Prime Minister Prayuth Chan-ocha.

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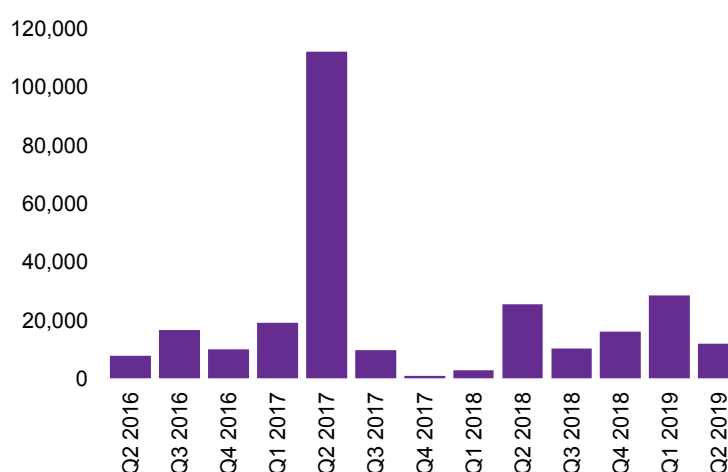
The formation of a new government by mid-July is expected to stabilise domestic politics and to provide continuous investments of mega infrastructure projects.

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## Market commentary

Q2 2019 recorded a big dip in investment at THB12bn, 58.0 per cent lower than the previous quarter (Figure 3). This significant decrease was attributed to political uncertainty after the election, and anxiety about the adverse effects of drastic economic policy changes under the new government team. Also, it was further exacerbated by external factors including the trade war between the US and China.

Figure 3: Investment sales (THBm)



Source: Edmund Tie & Company Research

The largest deal in Q2 2019 was the investment and the appointment of WHART as the property manager of Additional Investment Assets and sublease of the leasable rooftop area of Unilever Project, with a total value of THB4.88bn.

The second largest investment deal was the share sale of Mo Chit Land by U City Public Company Limited to Sino-Thai Engineering and Construction Public Company Limited at a value of THB4.32bn.

The third largest investment deal was the acquisition of WHA Industrial REIT Management Company Limited's assets and related party transactions by Hemaraj Leasehold Real Estate Investment Trust at a total value of THB860m.

The combined value of the three deals represented 84.0 per cent of total investment sales volume in Q2 2019.

Other investment deals in Q2 2019	Value
Ordinary shares acquisition in 12 companies in Germany and Switzerland of arcona Management GmbH by U City Public Company Limited	THB558.4m
Acquisition of long-term leasehold rights of 30 years on the land in Patong from CSNJ Pathong 3 Company Limited by PT Three Land Company Limited	THB558.2m
Acquisition of 100% shares of Thaicorp Capital Company Limited by Chewathai Interchange Company Limited	THB358.6m
The purchase of vacant land on Sukhumvit 101/1 Road by L.P.N. Development Public Company Limited	THB167.8m
The formation of joint venture company, Common Ground (Thailand) Company Limited by CPN, Common Ground Works Sdn. Bhd. and MSB Asia Ltd. to operate co-working space.	THB150.0m
The acquisition in principle on investment in ordinary shares of Tonson Development Company Limited by Asset Five Group Public Company Limited	THB147.2m

## Outlook

After the results of the parliamentary vote of the new prime minister was announced in early June 2019, Thai stocks rallied in response to reduced anxiety of economic policy changes. Investors' confidence regained as the economic stimulus policies are expected to be continued with the re-election of Prime Minister Prayuth Chan-ocha and the formation of a new coalition government.

Major economic policies, various socio-economic projects under Eastern Economic Corridor development plan, and tourism initiatives are anticipated to continue under the new government. These investment projects will benefit construction, consumer goods, tourism and other related sectors.

On the global view, the US-China trade tension was eased after the formal trade talk between leaders of the two countries, providing a glimmer hope that the US and China will find a way to avert damage to the global economy.

We anticipate the investment climate to be positive in the second half of 2019 with more stable domestic politics and the expected continuous investments on mega infrastructure projects by the new government under the same leader.

# Office

## Key highlights

- Office supply in the CBD remained unchanged as of Q2 2019 at 4.63m sq m.
- Average asking rents of prime offices in the CBD shifted to THB1,070 psm per month in Q2 2019, a q-o-q growth of 1.4 per cent.
- Prime office occupancy rate improved from 92.9 per cent in Q1 2019 to 93.3 per cent in Q2.

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Inner Bangkok prime offices still attract foreign investors due to the strong demand.

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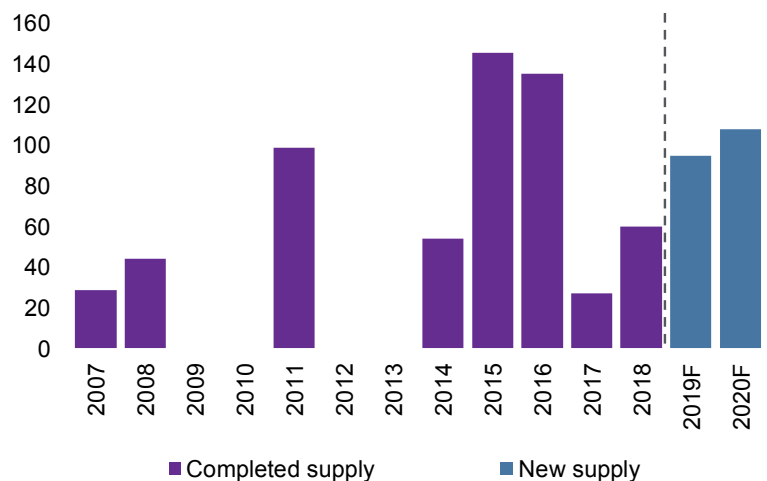
## Market commentary

Bangkok office supply in CBD remained at 4.63m sq m in Q2 2019. Supply of prime and secondary office buildings in the CBD remained unchanged in Q2 2019 at 1.45m sq m and 3.18m sq m. Outside the CBD area, True Digital Park was completed in Q2, offering a total lettable area of 30,000 sq m.

Mitrtown Office, a new prime CBD office which is part of the Samyan Mitrtown mixed-use development project, will be completed in Q3 2019. It will provide a total lettable area of 48,000 sq m. New office supply in the CBD is currently limited since most new prime office buildings are currently under construction, and approximately 400,000 sq m are expected to be completed between 2020 and 2022.

Average asking rents of prime offices in the CBD increased slightly from THB1,055 psm per month in Q1 2019 to THB1,070 psm per month in Q2 2019, a q-o-q growth of 1.4 per cent.

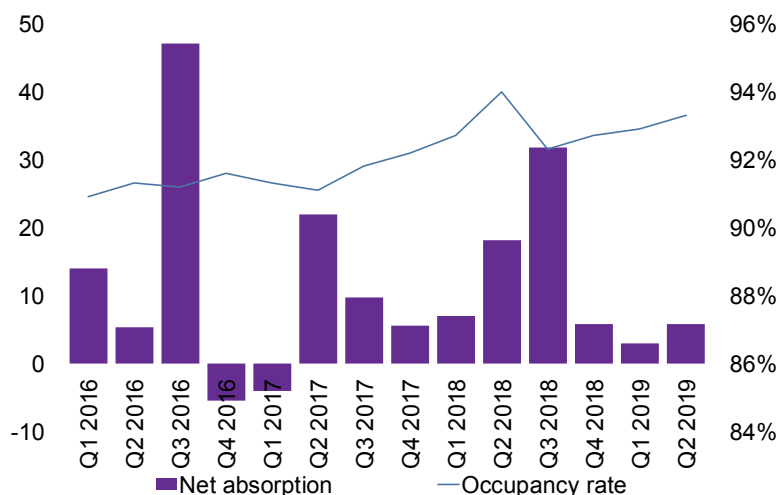
Figure 4: Prime office net supply in CBD, sq m (thousands)



Source: Edmund Tie & Company Research

Prime office occupancy rate improved from 92.9 per cent in Q1 2019 to 93.3 per cent in Q2 2019 (Figure 5).

Figure 5: Prime office net absorption, sq m (thousands) and occupancy rate

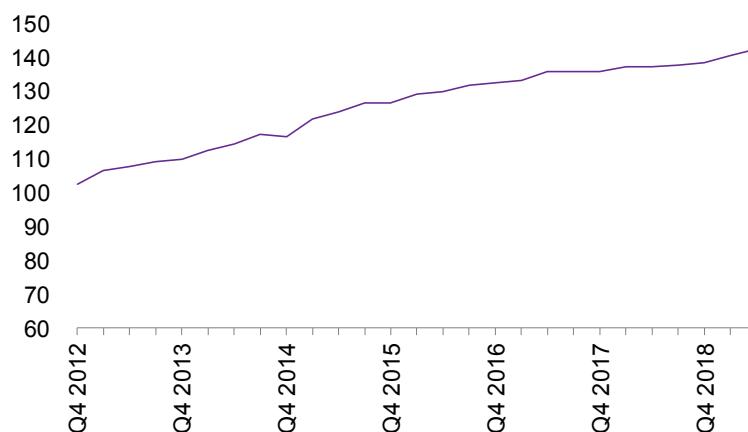


Source: Edmund Tie & Company Research

Office gross rental index in Q2 2019 was at 143.0, increasing from 141.0 in Q1 2019 (Figure 6).

Figure 6: Prime office gross rental index

(Q1 2011=100)



Source: Edmund Tie & Company Research

## Outlook

Demand for office space in the CBD for the second half of 2019 will continue to be strong as the current supply of prime office space is limited. Therefore, rental is expected to continue to rise.

Under the current market circumstances, the strong demand for prime office space in inner Bangkok will continue to attract foreign investors compared to other property sectors.

New office supplies that are expected to be completed in the second half of 2019 are mostly mixed-use development projects; these include Mitrtown Office Tower, Spring Tower (formerly known as Aspiration One) and Silom Center (refurbishment).



# Retail

## Key highlights

- The total downtown retail stock remained unchanged at 1,425,241 sq m in Q2 2019.
- Average rents in downtown decreased slightly from THB2,600 psm per month in Q1 2019 to THB2,590 psm per month in Q2 2019. Average rents in midtown also decreased to THB1,605 psm per month.
- Retail supply in midtown increased to 1,087,280 sq m in Q2 2019.
- The retail occupancy rate for Q2 was 95.0 per cent in downtown and 90.8 per cent in the midtown area.

Seamless integration between offline and online sales channels will be increasingly strategised by retailers for efficient space allocation and cost management.

## Market commentary

Retail supply in downtown area remained at 1,425,241 sq m in Q2 2019. Retail spaces in midtown increased to 1,087,280 sq m in Q2 2019, posting a q-o-q growth of 1.9 per cent. The increase of midtown retail supply in Q2 2019 was solely contributed by 'True Digital Park', providing a total net leasable area of 20,000 sq m (Figure 7).

Figure 7: Completed and new retail supply in downtown area, sq m (thousands)



Source: Edmund Tie & Company Research

Table 1: Selected upcoming new completion in Q3 2019

Development	Area	Size (sq m)
Central Village Luxury Outlet	Suburban	40,000

Source: Edmund Tie & Company Research

Average occupancy rate of retail spaces in downtown was at 95.0 per cent in Q2 2019, a slight increase from 94.8 per cent in Q1. Retail spaces in midtown also showed an improvement in average occupancy rate from 90.4 per cent in Q1 2019 to 90.8 per cent in Q2. Rental payments by some anchor tenants as a percentage of their gross profits caused average retail rents in downtown to decrease slightly, from THB2,600 per sq m per month in Q1 to THB2,590 per sq m per month in Q2, a q-o-q decrease of 0.38 per cent. Average retail rents in midtown also decreased from THB1,615 per sq m per month in Q1 to THB1,605 per sq m per month in Q2, a q-o-q decrease of 0.62 per cent. Gross rental index for retail spaces in downtown decreased from 114.0 in Q1 to 113.0 in Q2 2019. Gross rental index in midtown also decreased from 104.0 in Q1 2019 to 103.0 in Q2 (Figure 8).

## Outlook

Central Village, an upcoming luxury retail outlet strategically located next to Suvarnabhumi International Airport, is expected to open in Q3 2019. Targeting the young and affluent, it will offer 40,000 sq m of retail space with more than 200 boutique stores.

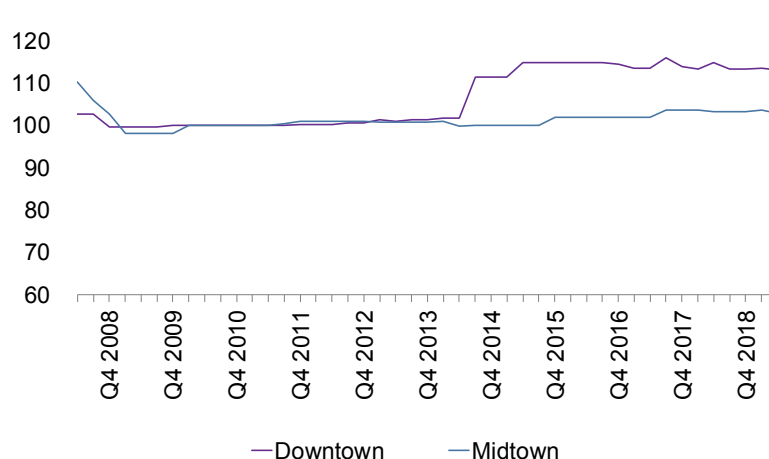
The average occupancy rate in Q3 2019 is forecasted to maintain or decrease slightly. Lower confidence in spending as a result of the current economic slowdown will cause people to be more cautious in spending. According to The Thai Chamber of Commerce, the Consumer Confidence Index has continued to drop from its recent highest level of 83.2 in August 2018 to 76.4 in July 2019.

Average rental rates are forecasted to increase with rental rates accelerated by new completions of premium shopping malls in prime location.

Bangkok's retail market has shifted towards e-commerce and online shopping. Nevertheless, the seamless

Figure 8: Prime gross retail rental indices

(Q1 2011=100)



Source: Edmund Tie & Company Research

integration between offline and online sales channels will be increasingly strategised by retailers for efficient space allocation and cost management.

In the meantime, brick-and-mortar retailers will provide new and exclusive in-store experiences, shopping concepts and destinations to customers.

International tourist receipts have continued to support the growth of the retail market in Thailand, especially for premium shopping malls. In 2018, Chinese travellers contributed the highest share (almost 30 per cent of tourist arrivals) followed by Malaysians (10 per cent) and Koreans (5 per cent). In terms of spending, Chinese travellers were the top source, contributing THB 536.3m in tourist receipts. This year, tourist arrivals are expected to increase by 7.1 per cent from 2018 to 39.8m. However, figures reported by the Tourism and Sports Ministry in the first half of 2019 showed a decline in tourist arrivals. The softening of the number of Chinese tourists was due to the boat accident off Phuket in July 2018 which killed 47 Chinese tourists. This drop is expected to reduce foot traffic in the retail malls of key cities, such as Pattaya and Phuket.

On a positive note, as Thailand is the ASEAN chair for 2019, more tourist-related activities and products are being offered to attract tourists from the neighbouring countries as well as non-ASEAN countries. This will have positive impact on the retail market.

# Residential

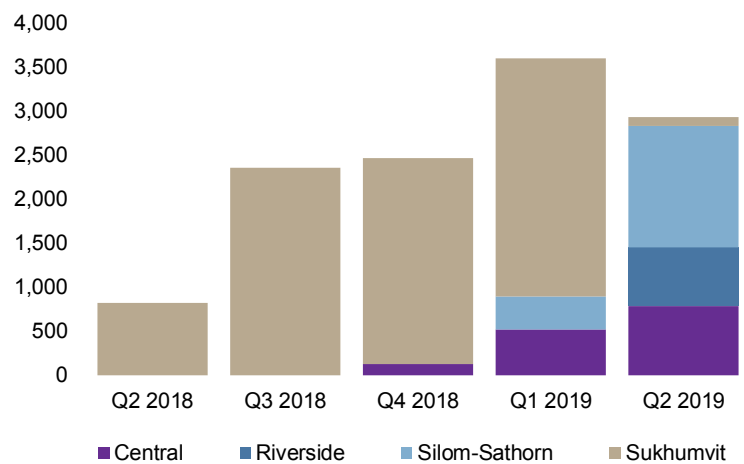
## Key highlights

- In Q2 2019, a total of 2,039 condominium units were launched in the CBD, a 43.3 per cent reduction from Q1 2019.
- New condominiums launched in the CBD in Q2 accounted for 15.0 per cent of total new launched units in Bangkok.
- The average take-up rate of the CBD high-end condominiums was at 41.6 per cent, which is lower than the 50.3 per cent recorded in Q1 2019.
- The large stock of unsold units that are completed and under construction in the Sukhumvit area have caused many developers to suspend the launch of new projects in this area in Q2 2019.
- The average selling price of the high-end CBD condominiums stood at THB270,300 per sq m in Q2 2019.

## Market commentary

In Q2 2019, there was a total of 13,550 condominium units launched in Bangkok. New condominiums launched in the CBD area accounted for only 15.0 per cent (2,039 units) with the remaining 85.0 per cent (11,511 units) found in other areas. The CBD condominiums launched in Q2 2019 posted a decrease of 43.3 per cent over the numbers of CBD units launched in Q1 2019 (3,595 units). Unclear political direction and uncertainty in economic policies before the new coalition government is formed were key factors attributed to the decrease.

Figure 9: Bangkok CBD condominium launched, units

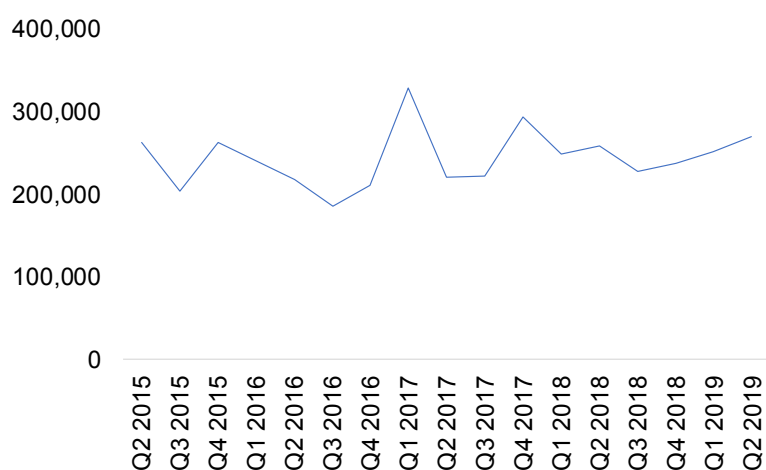


Source: Edmund Tie & Company Research

Newly launched CBD condominiums in Q2 2019 were found in Central area (261 units), Riverside (669 units), Sukhumvit (100 units), and the Silom-Sathorn area (1,009 units). The number of units launched in the Sukhumvit area dropped significantly in this quarter compared to the previous quarter of more than 2,700 units. The large stock of unsold, completed and under-construction units in the Sukhumvit area caused many developers to suspend the launch of new projects in this area in Q2 2019. At the riverside area, Chapter Charoennakorn-Riverside was the only project launched along the riverbank after the long silence of a new project in this area. The Silom-Sathorn area became the highlight of the area in Q2 2019 with two high-end condominium projects launched; these included Anil Sathorn 12 and Supalai ICON Sathorn. In the Central area, Tonson One Residences was the only high-end condominium project launched in Q2.

The average selling price of high-end CBD condominiums stood at THB270,300 per sq m in Q2 2019 (Figure 10), increasing from THB252,399 per sq m in Q1 2019 by 7.1 per cent. The continuous increase of land price and the launch of high-end condominium supplies in the Silom-Sathorn and Central areas raised the average selling price in Q2 2019.

Figure 10: Bangkok CBD condominium price psm



Source: Edmund Tie & Company Research

Scarcity of land and the surge of land cost in CBD have caused the shift of new condominium projects to locate in areas outside the CBD such as Phaholyothin, Phayathai, Ratchathewee, where people can easily access the mass rail transit and sky train services.

Demand in Q2 2019 was very soft mainly due to the tighter mortgage loan measurement effective from April 2019. A higher down payment is required, resulting in a drop in demand from speculative buyers and investors. The average take-up rate for high-end condominiums in CBD decreased to 41.6 per cent in Q2 2019, compared to 50.3 per cent in Q1. Under the current market circumstance when supply outstripped demand, most developers attempted to clear stock of unsold units and non-ownership transfer units by initiating marketing and promotion campaigns in the form of cash discount, freebies, and organising sales events in Asia countries to stimulate local and international demand.

## Outlook

There will be around 1,973 units of CBD condominiums to be completed in Q3 2019. Two luxury projects – The Bangkok Thonglor (148 units) and The Reserve Thonglor (110 units) will be among the new completion projects (Table 2).

Demand for the CBD condominiums is anticipated to be healthier in the second half of 2019 with demand driven by real-demand market, affluent investors and foreign buyers. Developers have more confidence to invest in new projects with the expectation that economic stimulus policies are continued.

Table 2: Selected upcoming new completion in Q3 2019

Development	Location	Total units
The Bangkok Thonglor	Sukhumvit 55	148
The Reserve Thonglor	Thonglor Soi 2	110

Source: Edmund Tie & Company Research

With the expectation that economic stimulus policies are continued under the new government and regained investors' confidence, we expect developers to invest more in new condominium projects for the rest of 2019. The formation of a new government team has reduced the anxiety surrounding policy changes. Nevertheless, developers tend to deploy different approaches in releasing new condominium projects to avoid a repetitive over-supply situation. While some developers will release units floor by floor, other developers plan to launch their units once the entire project is completed. By offering the completed units while land cost and construction materials continue rising throughout the construction period, developers can offer the completed units at a higher price.

Bangkok is a popular tourist destination. It also offers a lower cost of living and cheaper property prices compared to other Asian countries. These have attracted foreign buyers from China, Singapore, Hong Kong and Europe to purchase condominiums either for their own use or investment purposes. In the meantime, some foreigners who plan to relocate to Bangkok after their retirement will consider buying condominiums in Bangkok for their future stay. Additionally, foreigners who always visit Bangkok for vacation also tend to consider buying condominiums for their vacation stay. Therefore, some developers will focus more on the to stimulate unit sales in 2019.

Demand for CBD condominiums is anticipated to be healthier in the second half of 2019 with demand driven by real-demand market, affluent investors and foreign buyers.

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