Edmund Tie & Company

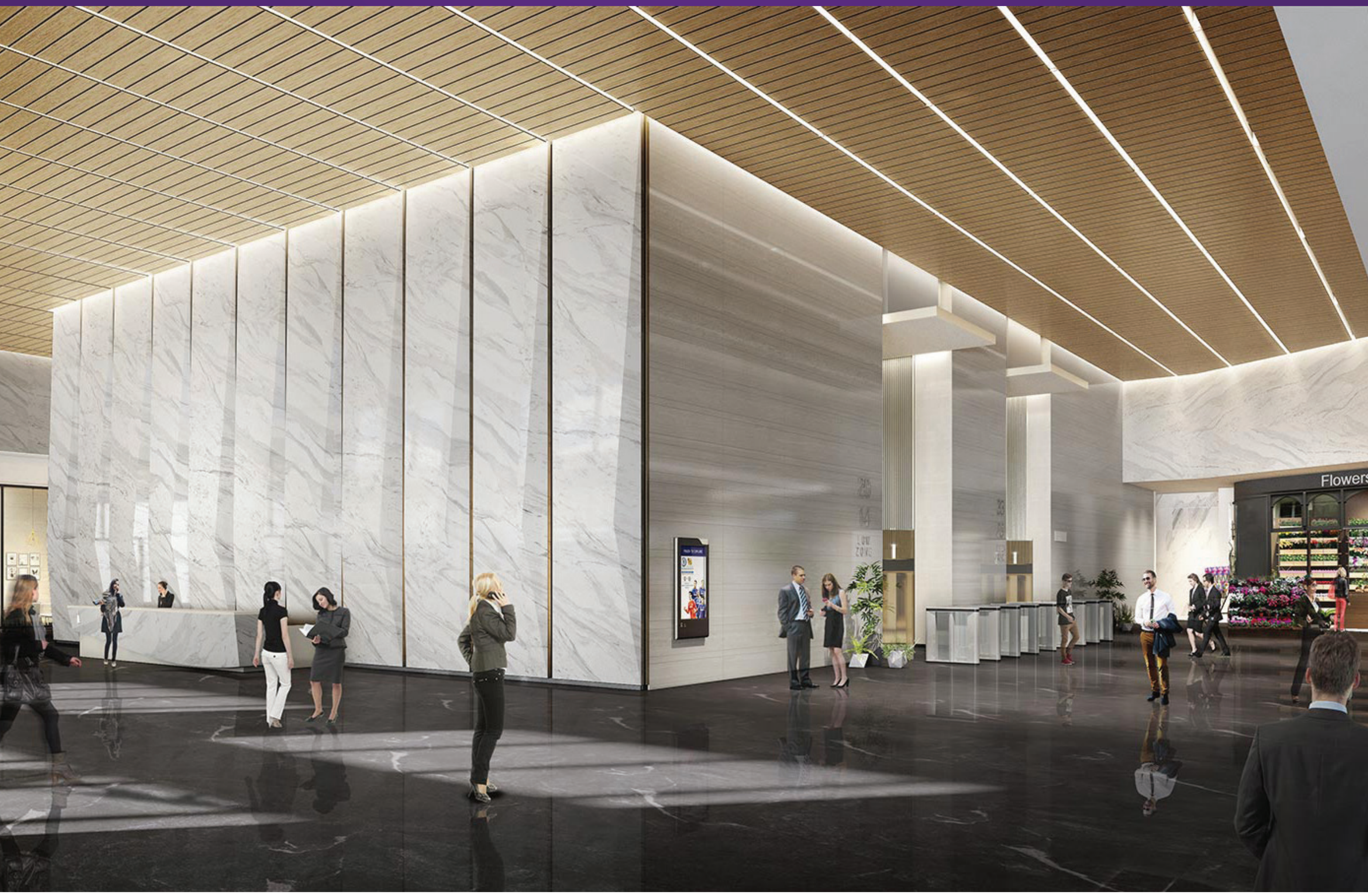
Real Estate Times

RESEARCH

April 2019

Bangkok Q1 2019

Demand for prime offices in CBD continues to be firm



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2019 Q1 snapshot

The gross domestic product (GDP) grew at 3.7 per cent in Q4 2018, up from 3.2 per cent in Q3 2018, mainly driven by external and domestic demand. Consumer Price Index (CPI) had a year-on-year (y-o-y) growth at 0.8 per cent in Q4 2018, a small decrease compared to Q4 2017 which was at 0.9 per cent. In December 2018, The Monetary Policy Committee (MPC) lifted its one-day repurchase rate by 0.25 per cent, resulting in an increase from 1.5 per cent to 1.75 per cent

Investment sales reached

THB28.5bn

in Q1 2019.

The largest investment deal in Q1 2019 was the acquisition of all the issued securities of **Golden Land Property Development Public Company Limited for THB19.75bn** in cash **by Frasers Property**.

Office

The stock of Bangkok office supply in Q1 2019 totalled at **4.63m square metres (sq m)**. Average asking rents for prime CBD offices increased to **THB1,055 per sq m (psm) per month, reflecting a quarter-on-quarter (q-o-q) growth of 1.4 per cent. Prime occupancy rate increased to 92.9 per cent**.

Retail

Average rental rate in downtown **increased from THB2,595 psm per month in Q4 2018 to THB2,600 psm per month in Q1 2019**. Average occupancy rates in downtown and midtown areas improved **from the previous quarter at 94.8 per cent and 90.4 per cent respectively in Q1 2019**.

Residential

A total of 3,595 condominium units launched in Q1 2019 **compared to 2,461 units in Q4 2018**, representing an increase of 46.1 per cent q-o-q. Average take-up rate of newly launched condominiums in the CBD **stood at 50.3 per cent, higher than 44.0 per cent recorded for units launched in Q4 2018. Majority of the newly launched projects in Q1 2019 are in the Sukhumvit area**.

The economy

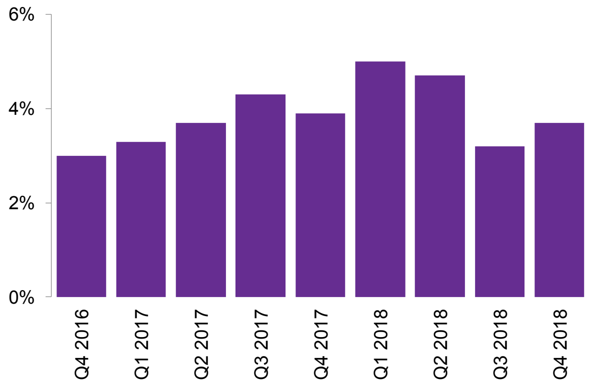
Key highlights

- GDP grew at a strong rate of 3.7 per cent in Q4 2018 (Figure 1), up from 3.2 per cent in Q3 2018.
- In December 2018, the repurchase rate was raised from 1.5 per cent to 1.75 per cent per annum.
- The CPI in Q4 2018 increased by 0.8 per cent y-o-y.

Market commentary

In Q4 2018, the GDP grew at a strong rate of 3.7 per cent (Figure 1), up from 3.2 per cent in Q3 2018, driven by external and domestic demand. Overall economic expansion in 2018 was supported by strong growth in private consumption as a result of improvement of income bases, better employment conditions, and low rates of interest and inflation.

Figure 1: GDP growth



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

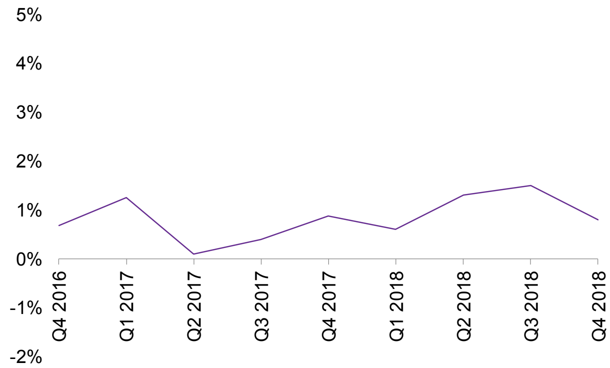
In Q4 2018, GDP grew at a strong rate of 3.7 per cent, up from 3.2 percent in Q3 2018, driven by external and domestic demand. The formation of a new government is expected to stimulate new investment deals in 2019.

Private investment, supported by the acceleration of investment in machinery and equipment, grew at 5.6 per cent in Q4 2018, a 3.4 per cent increase from Q3 2018.

In December 2018, the MPC lifted its one-day repurchase rate by 0.25 per cent, resulting in an increase from 1.5 per cent to 1.75 per cent. The policy is aimed to reduce the risk of financial instability and build up policy space for the future.

The CPI in Q4 2018 had a y-o-y growth of 0.8 per cent. CPI growth had a small decrease compared to Q4 2017 which was 0.9 per cent (Figure 2).

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



Source: Bank of Thailand, Edmund Tie & Company Research

Outlook

Amidst a cloudy global economy and hikes in interest rates across the globe, the Thai economic condition in 2019 will be impacted minimally by the slowdown of the global economy. Investment in Thailand's property market is forecasted to continue growing as long as there is no political unrest and violence. On the other hand, the post-election situation provides no clarity on political stability and policy consistency. This is believed to cause both local and foreign investors to adopt the wait-and-see attitude till there is further clarity on economic policies from the new government.

With mega infrastructure projects such as the high-speed rail, the Eastern Economic Corridor (EEC), and mass transit lines in Bangkok, Thailand is poised to be one of the most attractive destinations for investments in the region. In addition, provided that the policies implemented by the former government continue, the investment climate is expected to remain strong.

In conclusion, impact from the global economic slowdown on the Thai economy is anticipated to be small. Investment in the property market is likely to grow despite the unclear political situation since most foreign investors (both inbound and outbound) are already aware of the political situation and are still confident that Thailand is an attractive investment destination. Additionally, the formation of a new government is expected to stimulate new investment deals in 2019, on conditions that the transition will take place in a timely manner without any violence.

Investment sales

Key highlights

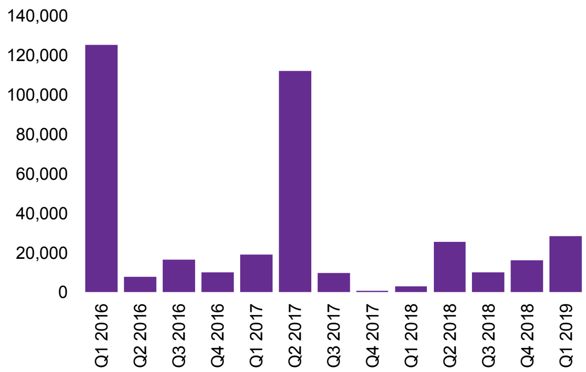
- Total investment value amounted to THB28.55bn in Q1 2019, recording a remarkable q-o-q growth of 77.0 per cent.
- The largest investment deal in Q1 2019 was the acquisition of all the issued securities of Golden Land Property Development Public Company Limited for THB19.75bn in cash by Frasers Property (Thailand) Public Company Limited.
- In Q1 2019, Country Group Development invested THB3.74bn in an education centre in the United Kingdom.
- The land purchase agreement between Shangri-La Hotel and Sriview International was done at the deal value of THB1.89bn.
- Property investment has seen steady growth since Q3 2018 and we expect Thailand to continue attracting local and foreign investors.

Investment volume in Q2 is anticipated to remain growing after the new government is formed and economic stimulus policies are announced. Overall, politics has no negative impact on the property market unless there is political unrest or violence.

Market commentary

Total investment sales volume in Q1 2019 showed a remarkable q-o-q increase of 77.0 per cent, with total investment value of THB28.55bn (Figure 3). The largest deal was the acquisition of all the issued securities of Golden Land Property Development Public Company Limited for THB19.75bn in cash by Frasers Property (Thailand) Public Company Limited, subject to regulatory and shareholder approval.

Figure 3: Investment sales (THBm)



Source: Edmund Tie & Company Research

The second largest investment deal was the investment in an education centre in the United Kingdom by Country Group Development. The value of the investment deal was THB3.74bn and it represented Country Group Development's first footprint into the education sector.

The third largest deal was the land purchase agreement between Shangri-La Hotel Public Company Limited and Sriview International Company Limited for Shangri-La Hotel to acquire 23 plots of land and six buildings from Sriview International at a total value of THB1.89bn.

Other investment deals in Q1 2019	Value
Investment acquisition of Vientiane International Hospital by Ramkhamhaeng Public Company Limited	THB840m
Purchase of shares in Dusit Thani Public Company Limited by Ananda Development Public Company Limited	THB510m
51.0 per cent stake acquisition in Epicure Catering by Dusit Thani	THB423m
Ordinary shares acquisition in WOG ITR Water Solution Company Limited by Wilk & Hoeglund Public Company Limited	THB35m

Another interesting deal was the agreement to acquire two plots of land in Hua Hin from Proud Resort Hua Hin by Focus Development and Construction at a value of THB1.32bn. The combined value of these investment transactions accounted for 94.0 per cent of the total investment deals in Q1 2019.

Outlook

Property investment in Thailand is expected to remain attractive to both local and international investors in 2019. The volume of investment is anticipated to grow, though the post-election climate is still vague. With pro-investment policies and a well-developed and growing infrastructure platform in place, the investment climate is expected to be more favourable after the new government is formed and economic stimulus policies are announced.

Office

Key highlights

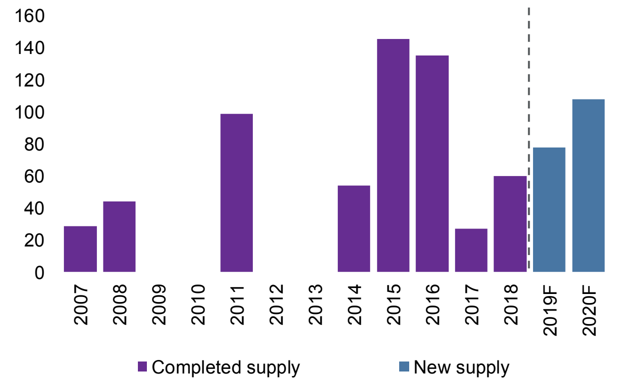
- Office space supply in the CBD totalled circa 4.63m sq m as of Q1 2019, a 0.9 per cent increase from Q4 2018.
- Prime office space stock in the CBD in Q1 2019 remained unchanged at 1.45m sq m. Secondary grade offices in the CBD accounted for 3.18m sq m.
- Average asking rents of prime offices in the CBD was at THB1,055 psm per month in Q1 2019, which increased by 1.4 per cent from Q4 2018.
- Prime office occupancy rate improved from 92.7 per cent in Q4 2018 to 92.9 per cent in Q1 2019.

Market commentary

Office space supply in the CBD totalled circa 4.63m sq m as of Q1 2019, a 0.9 per cent increase from Q4 2018. Prime office supply in the CBD remains unchanged at 1.45m sq m since there was no new completion in the CBD in Q1 2019. The total remaining space of 3.18m sq m was classified as secondary grade offices in the CBD area. Completed supply in Q1 2019 is outside the CBD area, 'MS Siam Tower', providing a total lettable area of approximately 40,000 sq m.

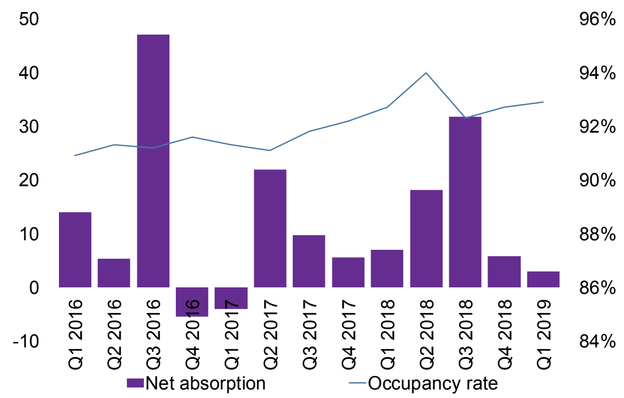
New completion of prime CBD offices in 2019 will add 78,000 sq m into the CBD supply (Figure 4). Average asking rents of prime offices in the CBD raised from THB1,040 psm per month in Q4 2018 to THB1,055 psm per month in Q1 2019, a q-o-q growth of 1.4 per cent. Prime office occupancy rate improved slightly from 92.7 per cent in Q4 2018 to 92.9 per cent in Q1 2019 (Figure 5).

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



Source: Edmund Tie & Company Research

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



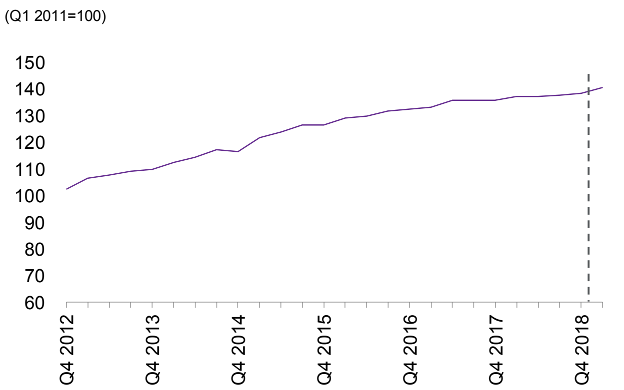
Source: Edmund Tie & Company Research

New office supply is anticipated to offer innovative features to meet tenants' requirements. As such, new office buildings with concepts of co-working space, flexible space, open space, and energy saving facilities will be seen more.

Upcoming prime office buildings in the CBD that are scheduled to be completed this year are Samyan Midtown (48,000 sq m in Q3 2019) and Aspiration One (30,000 sq m in Q4 2019).

Office gross rental index in Q1 2019 improved to 141.0, up from 138.0 in Q4 2018 (Figure 6).

Figure 6: Prime office gross rental index



Source: Edmund Tie & Company Research

Outlook

Demand for the Bangkok office market will continue to be strong this year. With a limited supply of newly completed office buildings and strong demand for prime CBD offices, the average asking rent is anticipated to continue rising. The occupancy rate of prime office buildings in the CBD is forecasted to be healthy. New office buildings will offer new features to meet tenants' changing requirements due to changes in the working environment, business needs and budget. As such, we will see more new office buildings offering concepts of co-working space, flexible space, open space, and energy saving facilities. With a huge, new supply expected in the CBD, old-age office buildings will either need to reduce their rental rates to retain existing tenants or to refurbish the buildings to remain relevant and competitive.

Retail

Key highlights

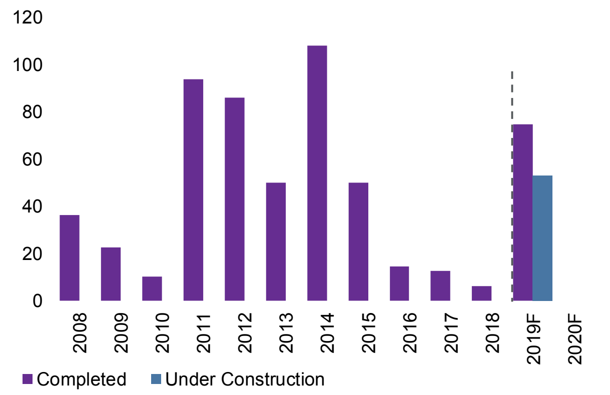
- Total downtown retail stock increased to 1,425,241 sq m in Q1 2019, from 1,350,481 sq m in Q4 2018.
- Average rents in downtown increased slightly from THB2,595 psm per month in Q4 2018 to THB2,600 psm per month in Q1 2019. Average rents in midtown also improved to THB1,615 psm per month.
- Retail supply in midtown was maintained at 1,067,280 sq m in Q1 2019.
- Retail occupancy rates for Q1 stayed at 94.8 per cent in downtown and 90.4 per cent in the midtown area.

Upcoming retail supply tends to be part of new mixed-use development projects offering retail facilities, such as F&B and services.

Market commentary

Bangkok's retail market showed improvements in its downtown supply which increased from 1,350,481 sq m in Q4 2018 to 1,425,241 sq m in Q1 2019, posting a q-o-q growth of 5.5 per cent. The increase of downtown retail supply in Q1 2019 was contributed by 'The Market Bangkok' and 'Donki Mall Thonglor'. These new projects provided net leasable area (NLA) of 64,760 sq m and 10,000 sq m respectively. The combined new completion projects added 74,760 sq m into existing retail spaces in downtown (Figure 7).

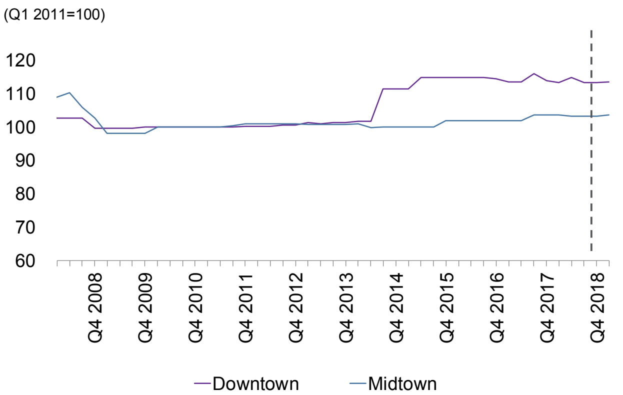
Figure 7: Completed and new retail supply in downtown area, sq m (thousands)



Source: Edmund Tie & Company Research

In Q1 2019, the occupancy rate of retail spaces in downtown was at 94.8 per cent, a marginal increase from 94.0 per cent in Q4 2018. Retail spaces in midtown also showed improvement in average occupancy rate from 89.8 per cent in Q4 2018 to 90.4 per cent in Q1 2019. Average retail rents in downtown increased slightly from THB 2,595 per sq m per month in Q4 2018 to THB2,600 per sq m per month in Q1 2019. Average retail rents in midtown also increased to THB1,615 per sq m per month, a small increase from THB1,610 per sq m per month in Q4 2018. Gross rental index for retail spaces in downtown climbed up from 113.0 in Q4 2018 to 114.0 in Q1 2019. Gross rental index in midtown also showed an improvement in Q1 2019 at 104.0, up from 103.0 in Q4 2018 (Figure 8).

Figure 8: Prime gross retail rental indices



Source: Edmund Tie & Company Research

Table 1: Selected upcoming new completion in 2019

Development	Area	Size (sq m)
I Am Chinatown	Downtown	10,000
Sindhorn Village	Downtown	7,000
Samyan Mitrtown	Downtown	36,000

Source: Edmund Tie & Company Research

Outlook

New retail projects that are scheduled to complete this year include ‘I Am Chinatown’ (NLA: 10,000 sq m), Sindhorn Village (NLA approximately 7,000 sq m), and Samyan Mitrtown (NLA: 36,000 sq m). These projects that are under construction will add over 50,000 sq m into the downtown area’s retail supply in 2019 (Table 1).

Upcoming retail supply in Bangkok tends to be retail spaces integrated with mixed-use development projects, and will provide retail facilities to occupiers of office, condominium, hotel, and serviced apartments within the same development.

There will be several new project completions in midtown and suburban areas in the remaining of 2019, adding another 175,000 sq m to the current retail spaces in these areas. The growth in retail supply in these areas has been driven by the increase of residential projects in midtown and suburban areas. Under the highly competitive retail environment where e-commerce and online shopping challenge the retail market, we expect retailers to adopt strategies that fit the current retail environment.

In addition, shopping malls have become popular destinations after work and during the weekend. Therefore, occupancy rates in downtown and midtown are expected to gradually increase. Average rental rates are forecasted to maintain or decrease slightly as new tenants pay their rents with a percentage of their gross profit.

Residential

Key highlights

- In Q1 2019, a total of 3,595 condominium units were launched in the CBD, posting a huge increase of 46.1 per cent from Q4 2018.
- New condominiums launched in the CBD in Q1 accounted for only 28.2 per cent of total new launched units in Bangkok.
- Average take-up rate of the CBD condominiums stood at 50.3 per cent, higher than 44.0 per cent of those launched in Q4 2018.
- Majority of the newly launched condominium projects in Q1 2019 are in the Sukhumvit area, while two projects are in the Silom-Sathorn area, and only one project is in the Central area.
- Average selling price of high-end condominiums in the CBD stood at THB252,399 per sq m in Q1 2019.

Developers will run marketing and promotion campaigns which include freebies, special privileges and price discounts to motivate demand and increase take-up rates.

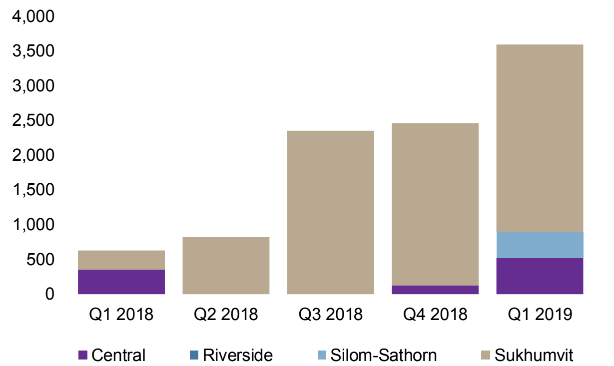
Market commentary

In Q1 2019, a total of 12,769 condominium units were launched in Bangkok. Of this total, 28.2 per cent (3,595 units) are in the CBD, posting a significant increase by 46.1 per cent over the number of units launched in Q4 2018 (2,461 units).

Majority of the newly launched CBD condominium projects are in the Sukhumvit area (2,707 units), while the remaining projects are in the Central and Silom-Sathorn areas, offering 516 units and 372 units respectively (Figure 9). The remaining 71.8 per cent are in other areas, such as Phaholyothin, Ramkhamhaeng, Chaengwattana, Ratchadapisek and Bang Sue.

The Bangkok condominium market is facing an oversupply as a result of a large number of units launched, while the take-up rate of existing projects was not strong enough to clear the existing stock, causing unsold units of new and existing projects to outstrip demand. Additionally, the increase in resale units from investors and non-transfer of ownership units from non-performing loans (NPL) also caused an increase in condominium supply.

Figure 9: Bangkok CBD condominium launched, units

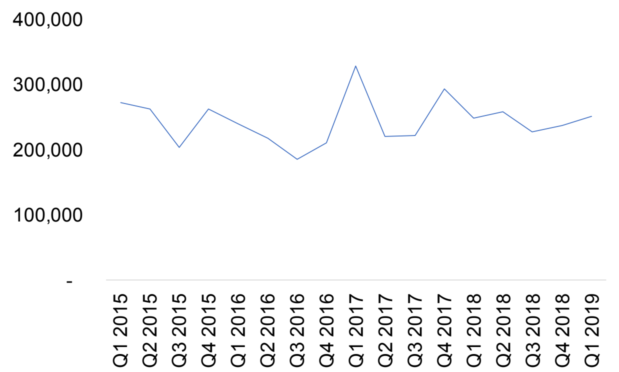


Source: Edmund Tie & Company Research

Nevertheless, the tightening of Loan-to-Value (LTV) ratio, which takes effect in April 2019, caused investors and buyers to make quick decisions on high potential projects in Q1. Many developers also tried to sell more units by organising two- to three-day sales events in late March. Hence, the take-up rate of CBD condominiums launched in Q1 2019 stood at 50.3 per cent, higher than the 44.0 per cent achieved in Q4 2018.

The average selling price of high-end CBD condominiums stood at THB252,399 per sq m in Q1 2019 (Figure 10), increasing by 6.0 per cent from Q4 2018. The increase of land price and construction materials, launch of many high-end projects and the proximity of many newly launched units to mass rail transit lines caused average selling price in Q1 2019 to increase from Q4 2018. The selling price of CBD condominiums has been fluctuating as the prices are averaged over several price ranges by grades – Super Luxury, Luxury, Grade A, and Grade B. As such, the average selling price in each quarter is highly dependent on the grade of condominiums dominating the market at that time. (Figure 10).

Figure 10: Bangkok CBD condominium price psm



Source: Edmund Tie & Company Research

Outlook

We expect around 1,954 units of CBD condominiums to be completed in Q2 2019. These projects will include two Super Luxury projects – The Monument Thonglor (127 units) and Sindhorn Langsuan (20 units), which will continue to raise average selling price for Q2 2019 (Table 2).

Table 2: Selected upcoming new completion in Q2 2019

Development	Location	Total units
The Monument Thonglor	Sukhumvit	127
Sindhorn Langsuan	Central	20

Source: Edmund Tie & Company Research

Marketing and promotion campaigns which include freebies, special privileges and price discounts will be continuously deployed by developers to motivate demand and increase take-up rates when supply outstrips demand.

Unclear political direction and the new LTV limit are among the challenges faced by developers. As a result, they will be more cautious to embark on new projects. However, demand for residential units remains strong in 2019. Real demand is mainly driven by affluent buyers, who buy second homes due to family expansion or to relocate closer to their children's schools, not forgetting first-home buyers who purchase for their own stay. There has also been a growing interest from foreign buyers, who are buying units for vacation or permanent stay.

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