



REAL ESTATE
TIMES

JANUARY 2020

BANGKOK Q4 2019

Investment peaked in Q4 while other sectors remain resilient with potential for growth in 2020

THE ECONOMY

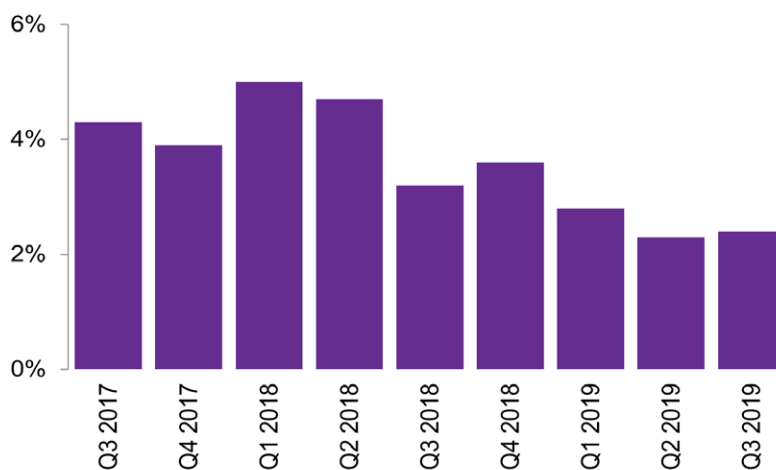
Market commentary

- The economy grew 2.4 per cent year-on-year in the third quarter, marginally improving from 2.3 per cent achieved in the previous quarter. The growth was mainly driven by private and public consumption and investment.
- The National Economic and Social Development Council (NESDC) revealed that the government's final consumption expenditure increased by 1.8 per cent, compared to an increase of 1.1 per cent in Q2 2019. The increase in the government's final consumption expenditure was attributed to an increase in compensation of employees and the increase in purchases from enterprises and abroad.
- Private consumption expenditure grew by 4.2 per cent due to the expansion in durable, semi-durable and non-durable goods spending. For the external sector, exports and imports of goods decreased by 0.3 per cent and 7.7 per cent, respectively.
- The Consumer Price Index rose at a slower growth of 0.6 per cent, compared to 1.1 per cent in Q2 2019.
- The Bank of Thailand maintained the policy rate at 1.25 per cent over concerns that further easing could encourage a rise in household borrowing and pose further risks to overall financial stability.
- The baht appreciation has contributed to disinflationary pressures and eroded export competitiveness. The surge in local currency at 8.8 per cent against the dollar in the past year makes Thailand the best performer in the emerging market. The Central Bank loosened rules on capital outflows in November 2019 to reign in an appreciation that is hurting exports and tourism.

Economic Outlook

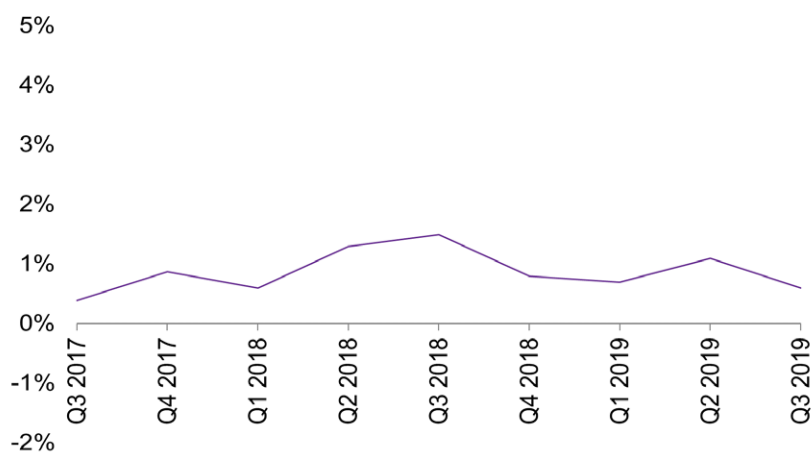
- Due to the slower than expected growth in the third quarter, the government has lowered its forecast for full-year growth to 2.6 per cent, down from between 2.7 and 3.2 per cent. The new estimate came about as the country endured a slump in global demand arising from China's trade standoff with Washington. Also, the appreciation of the baht, Asia's best-performing currency this year, has added further pressure.
- According to the National Economic and Social Development Council (NESDC), the economy is expected to pick up in Q4 and accelerate to between 2.7 and 3.7 per cent in 2020. Main economic drivers would be government stimulus measures, gradual recovery in exports and an improvement in tourism.

Figure 1: GDP growth



Source: Office of the National Economic and Social Development Council (NESDC), EDMUND TIE Research (Thailand)

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



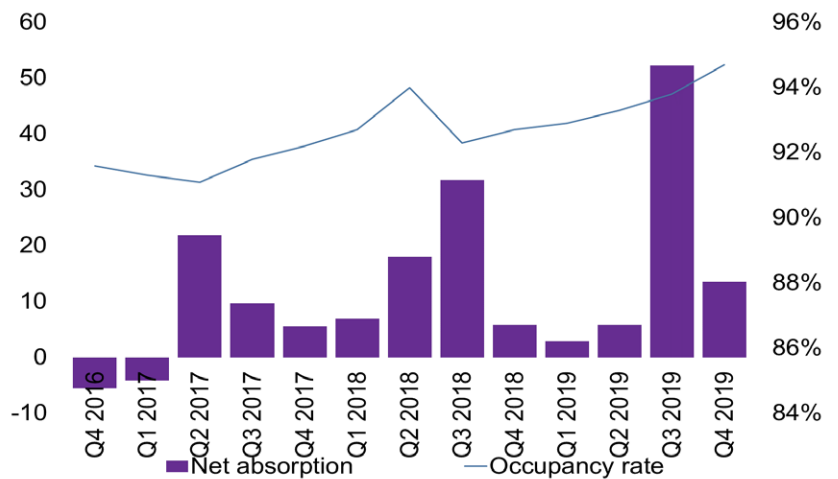
Source: Bank of Thailand, EDMUND TIE Research (Thailand)

OFFICE

Market Commentary

- The cumulative supply of Bangkok office space in Q4 2019 stood at 8.71m sq m, increasing slightly over Q3 2019 by 0.3 per cent following the completion of CP Tower North Park (25,500 sq m) in the non-CBD area.
- During the quarter, the total supply of prime and secondary office spaces in the CBD remained unchanged at 1.49m sq m and 3.18m sq m, respectively. Prime office buildings accounted for 32 per cent of total office space in the CBD, while the remaining 68 per cent were secondary office space.
- The occupancy rate of prime office space in the CBD continued to enjoy an uptrend, increasing from 92.7 per cent in Q4 2018 to 94.7 per cent in Q4 2019, as newly completed buildings in prime locations with a direct connection to the MRT and BRT stations continue to attract tenants. Also, we noted an increasing demand for retail facilities in office buildings, such as F&B outlets, convenience stores, food courts, banking services and restaurants.
- Despite tough competition among landlords, the asking rent of prime office space in the CBD area in Q4 increased by 1.4 per cent, up from THB1,075 psm per month in Q3 2019 to THB1,090 psm per month in Q4 2019.

Figure 3: Prime office net absorption, sq m (thousands) and occupancy rate



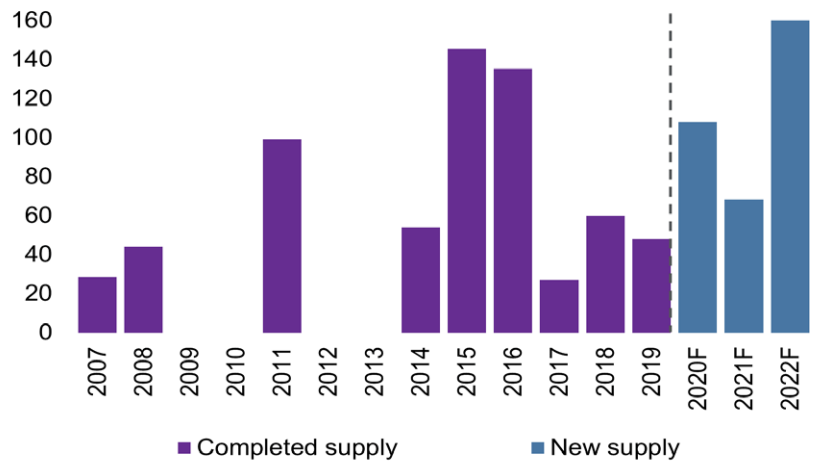
Source: EDMUND TIE Research (Thailand)

Market Outlook

- In the CBD, new office buildings that are expected to complete in the first quarter of 2020 include The Parq Phase I (63,000 sq m), Vanissa Building (25,000 sq m) and Office @ EmSphere (20,000 sq m). These will provide an additional office supply of 108,000 sq m for the CBD office market.
- According to the Treasury Department, the land and building median price set by the state will remain unchanged in 2020, with revision scheduled only for 2021. The median price is used as a reference for the purchase and sale of land and buildings. Related parties had urged the government to delay the implementation of a new land and building tax so as to give local authorities and taxpayers more time to prepare.
- As highlighted by the Treasury Department, the new land and building tax can cause the price of land in some areas to go up by as much as 7 - 8 per cent. This burden on land owners and developers will, however, be passed on to tenants eventually. Landlords of new prime office buildings are well-positioned to raise rentals, while owners of older buildings – in order to maintain margins – may opt to retain current rates rather than lower them. Some may renovate their assets to command better rentals.

- The new tax is also anticipated to encourage owners of vacant land to develop and commercialise the space in a bid to generate revenue to offset the new tax burden.
- Beyond the ramifications of the new land and building tax, the state of the domestic economy will also determine the direction for land and property developments in 2020. Simultaneously, investors and developers will also keep a keen eye on domestic politics before making any decision on new property developments.

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



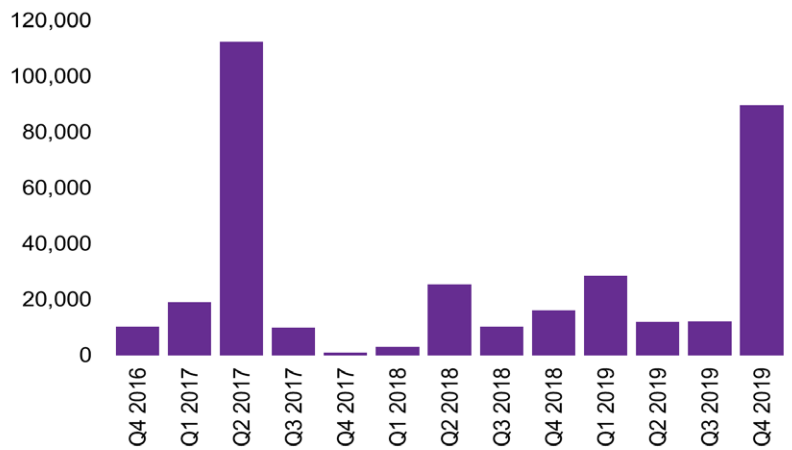
Source: EDMUND TIE Research (Thailand)

INVESTMENT

Market commentary

- Total investment volume in Q4 2019 amounted to THB89.6 billion, contributing the largest share of 2019's total investment volume at 63 per cent. The largest investment deal in Q4 was the transaction by CPN Retail Growth Leasehold REIT (CPNREIT) on assets worth THB48.6 billion owned by Central Pattana Public Company Limited and its subsidiaries (The Group of Company). These assets include Central Marina, CentralPlaza Lampang, CentralPlaza Suratthani and CentralPlaza Ubon Ratchathani.
- The second largest deal was the investment by CPNREIT in the operations of GLANDRT's (Office Leasehold Real Estate Investment) lease assets, including The 9th Tower Grand Rama 9 Project, and Unilever House Grand Rama 9 Project. The investment value was THB7.43 billion.
- The third largest transaction in Q4 2019 was the investment made by Expressway Authority of Thailand by appointing CH. Karnchang Public Company Limited to construct Rama 3-Dao Khanong-Western Outer Ring Road Expressway at a contract value of THB6.64 billion.
- The fourth largest deal in Q4 was the disposal of assets by WHA Corporation Public Company Limited to WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust at a value of THB4.93 billion.
- Other large-scale transactions concluded in Q4 2019 included the injection of Grande Centre Point Hotel Sukhumvit 55 Project into LH Hotel Leasehold Real Estate Investment Trust (LHHOTEL) at a value of THB4.3 billion.

Figure 5: Investment sales (THBm)



Source: EDMUND TIE Research (Thailand)

- The abovementioned investment deals represented 80 per cent of total investment values in Q4 2019. The remaining investment transactions and their corresponding values are listed in the table below:

Other investment deals in Q4 2019	Value
The signing of contract to implement 'Terminal 21 Rama 3 Project' and 'Elevated Highway at Highway Route No.35 Project (Section 3)' by Italian-Thai Development Public Company Limited.	THB3.79bn
The agreement to run the overhead-to-underground cable conversion project along the MRT Yellow Line Project by Sino-Thai Engineering and Construction Public Company Limited for the Metropolitan Electricity Authority.	THB3.26bn
The investment in Additional Assets Investment by Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT).	THB2.05bn
The acquisition of LEGEND's common stocks by Via East West Capital Limited.	THB1.50bn
The purchase in a majority stake in the Thai restaurant chain, Santa Fe by Singha Corporation.	THB1.50bn
The joint investment between Chiangmai Ram Hospital Company Limited and Nan-Ram Hospital Company Limited to establish a 120-bed hospital in Nan Province.	THB800.00m
Nawarat Patanakarn Public Company Limited and China Railway Number 10 (Thailand) Company Limited jointly signed a contract with Office of the National Water Resources to proceed with the construction of the building for the National Water Resources Office in Nonthaburi Province.	THB716.45m
The investment in Green Food Factory Company Limited by Central Restaurants Group Company Limited.	THB620.00m
The investment in leasehold rights shopping centre 'The New Forum Plaza' in Chonburi Province by ALL Retail 1 Company Limited.	THB585.80m
The joint venture agreement between 'Principal Healthcare Company Limited' and 'Sisaket Meditech Company Limited' to operate a private hospital in Sisaket Province under the name 'PRINC Hospital Sisaket'.	THB500.00m
The purchase of vacant land on Ekkachai Road by L.P.N Development Public Company Limited to develop a condominium project.	THB361.77m
A subsidiary company setup by Minor Food Group Public Company Limited and the acquisition of 100% shares in Chicken Time by Minor Food Holding Company Limited.	THB300.00m
The construction contract between Nawarat Patanakarn Public Company Limited and Department of Drainage and Sewerage to construct the waste water collection system project.	THB294.00m
The establishment of a subsidiary and related transaction by subsidiary in respect of lands and buildings leasing by SC Asset Corporation Public Company Limited.	THB279.11m
The investment in the additional investment assets No.1, which consists of ownership of condominium for commercial use of 6 units located in Noble Solo Condominium Project in Wattana District, Bangkok of AIM Commercial Growth Leasehold Real Estate Investment Trust (AIMCG).	THB210.00m
The ordinary shares acquisition in two companies in Germany by U City Public Company Limited.	THB146.00m
The expansion of Wattanapat Samui Hospital project through the increase of licensed beds from 29 to 59 licensed beds.	THB133.50m
The signing of contract between Nawarat Patanakarn Public Company Limited and Department of Drainage and Sewerage for the construction of Benjakiti Monkey Cheek Project at Klong Toey.	THB138.00m
The acquisition and disposition of assets of the Tarna Align Resort Company Limited by AQ Public Company Limited.	THB125.48m
The connected transaction in part of land lease agreement extension by the Platinum Group Public Company Limited.	THB61.23m
The investment in a newly established company with the objective to operate a hospital in Nan Province by Rajthanee Hospital Public Company Limited.	THB35.00m

Source: EDMUND TIE Research (Thailand)

Market Outlook

- In November 2019, the cabinet approved the development plan for the Eastern Economic Corridor (EEC) covering a total land area of 13,575 rai (5,368 acres). This development plan is expected to spur economic growth in the eastern economic corridor of Thailand with investment potential in the infrastructure (transportation network & digital), aviation-related activities, agriculture, tourism, research & innovation, as well as human resources and education. To date, the Thailand Board of Investment (BOI) has promoted 160 EEC regional projects, offering various investment incentives packages. Also, the Eastern Economic Corridor Office of Thailand (EECO) has successfully invited a total of 40 EEC investors in the promoted sectors.
- To support the development of EEC projects, in October 2019, Thailand's government signed a THB225 billion contract with a consortium led by Charoen Pokphand Group to form a public-private partnership to build high-speed rail links connecting three international airports. These airports are the Suvarnabhumi and Don Mueang in Bangkok and the U-Tapao Airport in Rayong province. Over the long-term, the development of the high-speed rail will also stimulate investments around the stations, especially transport-oriented developments.
- In the retail sector, Central Pattana Public Company Limited will invest THB22 billion by 2022 to launch new projects and renovate existing stores. The investment plans come despite a slowing local economy and will extend the company's retail reach further outside the capital. The investment in new projects will include malls, hotels and convention centres targeting locals and tourists.
- In 2020, Thailand's GDP is projected to grow by a modest 2.8 per cent, lower than the previous projection due to an anticipated slow recovery of exports. The slow recovery is expected as a result of the slowdown in global trade volume, which has been affected by trade tensions and the impact of structural changes in the Thai economy in the export sector. Also, for 2020, the Bank of Thailand is forecasting consumption to slow down in view of slower growth in household income and the drought.
- Notwithstanding various domestic and external downside risks, EDMUND TIE Research (Thailand) anticipates sustained investment interest in 2020. Foreign and local investors are still confident to invest as long as there is no political uncertainty in the country. The government's mega infrastructure projects, the economic stimulus policies, and the privileges offered by the Board of Investment (BOI) will continue to make Thailand an attractive investment destination in Asia.

RETAIL

Market commentary

- Retail stock in the downtown area saw an uptick of 1.2 per cent, up from 1,461,241 sq m in Q3 2019 to 1,478,199 sq m in Q4. The completion of ‘I am Chinatown’ and ‘Velaa Sindhorn Village Langsuan’ contributed an additional leasable area of 16,958 sq m into the downtown stock in Q4.
- Due to the lack of new completions in the midtown area, the retail stock there remained unchanged at 1,147,280 sq m in Q4 2019.
- The opening of Robinson Lifestyle Ladkrabang in the suburban area, with a total leasable area of 50,000 sq m during the review period, brought the cumulative supply of retail space in the suburbs to circa 1,652,661 sq m.
- The average occupancy rate of retail space in the downtown area increased marginally, rising to 96.3 per cent in Q4. With a total leasable area of 6,958 sq m, Velaa Sindhorn Village Langsuan’s full occupancy was the key driver for the increase. On other hand, the renovation of The Market Place Thonglor and the expansion of Gaysorn Plaza have caused tenants to move to other retail projects in the midtown area.
- In the midtown area, the average occupancy rate also increased slightly from 91.25 per cent in Q3 to 92.80 per cent in Q4. This was driven by strong demand for retail space in the ‘Mixt Chatuchak’ project, which is located in the tourist area.

- The average monthly rent in the downtown area remained robust, increasing from THB2,600 in Q3 to THB2,650 psm in Q4 2019. The high occupancy rate of retail space in the downtown area has translated into higher rentals, especially in prime shopping malls. We also noted a higher mix of tenants requiring larger space, such as fitness centres, yoga, boxing training schools, music schools, beauty and spa, and children leisure activities. Shopping malls in the midtown area also recorded an increase in the average monthly rent from THB1,605 in Q3 to THB1,615 during the review period.

Market Outlook

- The completion of ‘Donki Mall @ The Market Bangkok’ (4,000 sq m), ‘Spring Tower’ (1,266 sq m), and ‘SUNNY at Summer Lasalle’ (5,000 sq m) in Q1 2020 will add a total leasable area of 10,266 sq m into Bangkok’s retail stock.
- We expect the average occupancy rate of retail space in Q1 2020 to continue to be healthy, with strong take-up of new space by tenants, especially from restaurants, foods & beverages, fashion, and leisure activities.
- Supported by strong demand from anchors and other tenants, Bangkok’s retail landscape remains promising and is well-positioned for sustained growth.

Figure 6: Completed and new retail supply in downtown area, sq m (thousands)



Source: EDMUND TIE Research (Thailand)

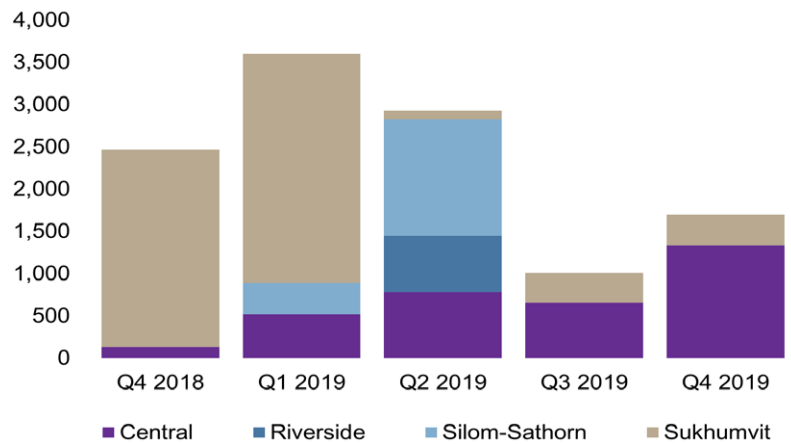
RESIDENTIAL

Market commentary

- In Q4 2019, the number of new condominiums launched in Bangkok amounted to 14,204 units, more than double the number in Q3 (6,562 units). This surge in supply was partly stimulated by the government's tax incentive, which is expected to thin the glut in unsold residential stock. The property tax incentives include a reduction of transfer fee to 0.01 per cent from 2 per cent, and a reduction of mortgage fees to 0.01 per cent from 1 per cent. This tax incentive is applicable for housing and condominiums valued at THB3 million or less. The incentive is effective from 2 November 2019 to 24 December 2020.

- Approximately 12 per cent or 1,694 units of newly launched condominiums in Bangkok are located in the CBD, while the remaining 88 per cent are outside.
- Newly launched CBD condominiums are found in the Central area (1,336 units) and Sukhumvit area (358 units). Condominium projects that were launched in the Central area include Ideo Chula-Samyan (773 units), Sindhorn Kempinski Residence (231 units) and The Nest Chula-Samyan (332 units). In the Sukhumvit area, new projects include Holme Ekkamai 22 (90 units), Q Prasarnmit (76 units) and Siamese Exclusive S101 (192 units).

Figure 7: Bangkok CBD condominium launched, units



Source: EDMUND TIE Research (Thailand)

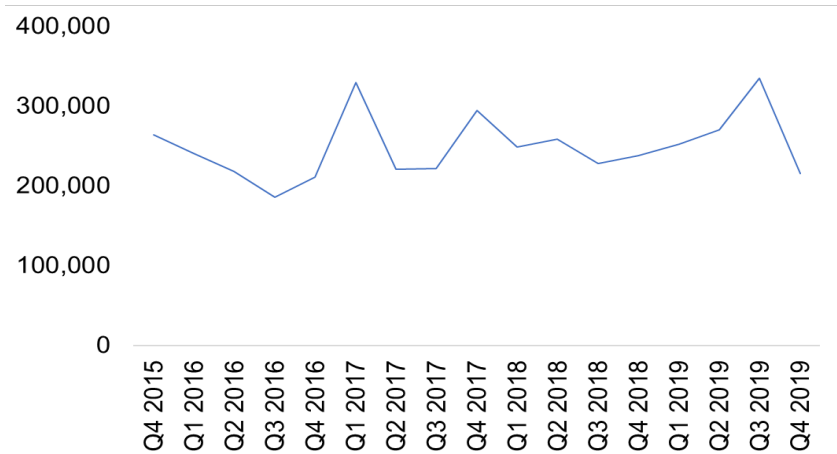
- The average take-up rate of condominiums in the CBD area increased to 36.4 per cent in Q4 2019, compared to 24.8 per cent in Q3. The improvement in the average take-up rate in Q4 can be attributed to developers adapting to the market situation with marketing strategies in the form of:
 - Providing cash discount
 - Working closely with customers to secure mortgage approvals from the banks more easily
 - Offering waiver of fees for transfer and common areas
 - Offering free furniture and electrical appliances
 - Offering one price for 1-bedroom type at all floors
 - Postponing the launch of new condominium projects to the next year
 - Reducing the numbers of units per project to shorten the sales and construction period
 - Offering flat residential projects and low-rise condominium projects to reduce operating costs
 - Reducing sales projection and targets for this year
- The relaxation of the loan-to-value limits for co-borrowers has turned the residential market into a buyer's market. Under the new rule, co-borrowers who do not own any other residences can borrow up to 90 per cent of a condominium unit's value.
- The average selling price of condominiums in the CBD during the review period was THB214,948 per sq m, decreasing by 35.8 per cent from THB334,564 per sq m in the previous quarter. The large decrease in the average selling price of CBD condominiums was due to the lack of new luxury and super-luxury condominium projects launched in Q4.

Market Outlook

- New condominium projects in the CBD area that will be completed in Q1 2020 will add a total of 2,290 units into the current stock of completed condominium units. All of these units are located in Sukhumvit area. A super-luxury condominium project, 'The Esse at Singha Complex', will be the only high-end condominium project to be completed in the CBD in Q1 2020. This project will provide a total of 319 units.
- EDMUND TIE Research (Thailand) anticipates demand in the residential market to gradually recover in 2020 after weak demand in 2019. Also, the government's new property stimulus measures are expected to speed up buying decisions, especially by first-time home buyers. These measures include a property transfer fee reduction from 2.0 per cent to 0.01 per cent and mortgage fee reduction from 1 per cent to 0.01 per cent for houses priced less than THB3 million, and the subsidy of THB50,000 on a home purchase down payment.

- We expect demand from the affluent market hold firm in 2020. However, developers of high-end condominium projects would need to ensure that their unique selling propositions meet the expectations and lifestyles of this market segment.
- To attract foreign buyers, developers will need to establish a strong international sales team. Triggered by geopolitics further afield, capital flowing into Southeast Asia and the interest of Chinese investors in Bangkok condominiums will be key drivers for the higher absorption rate by foreign buyers in 2020.

Figure 8: Bangkok CBD condominium price psm



Source: EDMUND TIE Research (Thailand)

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