

PROPERTY TIMES

Retail market sees sight of improvement

Bangkok Q4 2015

15 January 2015

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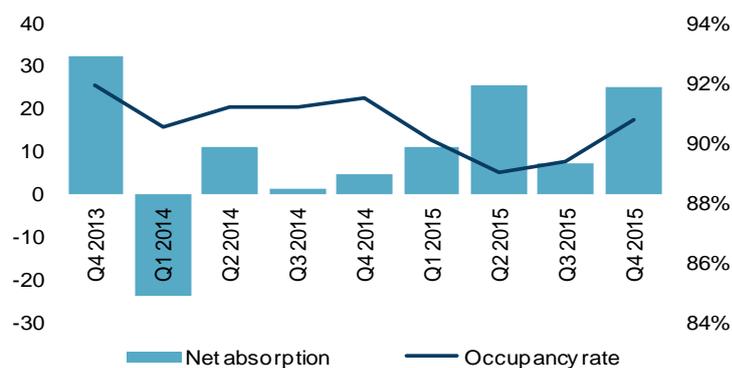
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- Gross Domestic Product (GDP) in Q3 2015 accelerated to 2.9%, compared to the growth of 2.8% in Q2 2015. The minimum lending rate (MLR) from major commercial banks stayed at 6.5% in November 2015. In Q4 2015, the investment sector was significantly more active compared to the previous quarter. The largest investment deal was from Baywater Company Limited, a joint venture between Grand Canal Land Plc and BTS Group Holdings, accounting for THB7,350 million on the purchase of 38 rai plot of land on Phahon Yothin Road.
- Office leasing activity was generally positive in 2015. Tenants have continuously occupied available space in the CBD and pre-leasing has been positive for a number of new office buildings. The occupancy rate in Q4 2015 was recorded at 90.8%, up from 89.4% in Q3 2015 but down from 91.5% from the same period last year (Figure 1). Average office rental levels in the CBD in 2015 remained unchanged at THB775 per sq m per month, despite the rising occupancy levels in the prime CBD market. Future office supply in CBD areas will be limited throughout 2016.
- Retail supply in downtown Bangkok was limited in 2015. The total retail stock in the downtown area was 1,317,493 sq m. Occupancy rates increased in both downtown and midtown markets towards the end of 2015. The average occupancy rate in the downtown market in Q4 2015 increased slightly to 92.1%, from 92.0% in Q3 2015. The average occupancy rate in midtown locations increased to 92.7% in Q4 2015, from 92.5% in Q3 2015.
- Condominium development activity in the CBD remained strong due to the improving economic situation in 2015. Major developers continued to launch their new projects in Q4 2015, whereby a total of 2,650 units from 9 condominium projects were launched. The average take up rate of these new units was registered at 56%. The average unit selling price reached THB201,366 per sq m, increasing by 0.7% q-o-q and 26.4% y-o-y.

Figure 1

Prime office net absorption, sq m (000s) and occupancy rate



Source: DTZ Research

Bangkok Q4 2015

Economic overview

Thailand's quarterly GDP accelerated to 2.9%

Thailand's economic growth improved on the back of government stimulus spending and a rise in tourist arrivals, which offset weak local demand and exports. Gross Domestic Product (GDP) in Q3 2015 accelerated to 2.9%, compared to an increase of 2.8% in the previous quarter (Figure 2). The Thai government revised up its forecast to 2.9% growth in 2016 from a range of 2.7% to 3.2% forecasted previously.

Inflation as measured by the Headline Consumer Price Index (CPI) in Q4 2015 improved to a contraction of 0.9% y-o-y from a contraction of 1.1% y-o-y in Q3 2015 (Figure 3). The government maintained its inflation rate target at a range of -1.0% to -0.2% 2015 and the risk of deflation is low. They expect 2016 inflation rate to inch back into positive territory, at 1.0% to 2.0%, on stronger economic growth and a depreciated baht.

The policy rate remained unchanged at 1.5% per annum in November 2015. The Bank of Thailand is waiting for signals to raise interest rates; economic recovery will be paramount to their decision. The current low interest rate will have to be gradually adjusted to its normal rate at a certain time. The minimum lending rate (MLR) from the major commercial banks stayed at 6.5% in November 2015.

Consumer confidence index continues to improve

The consumer confidence index continued to improve for the third straight month hitting a high of 76.1 points, up from the low point of 72.1 registered in September 2015. The index reflected the overall economic situation, which has been gradually improving. The index is expected to recover steadily with the introduction of the THB136 billion economic stimulus package. These measures aim to help rural residents battered by low farm prices, drought and the sputtering economy.

Real estate sector continues to expand

The real estate sector continued to grow in both demand and supply. In Q3 2015, the real estate sector expanded by 2.5%, compared to a 1.4% expansion in Q2 2015. Housing right transfers in Bangkok and the vicinities and personal housing credits expanded by 16.8% and 11.2%, respectively. Similarly, real estate development credit increased by 6.1% over the same period. We have continued to witness price rises throughout the market, particularly for land and condominiums, which increased by 10.8% and 10.0%, respectively.

New property stimulus incentive launched

In October, the government launched a new property stimulus incentive that included cutting housing transfer and mortgage fees to 0.01% for six months (effective from 29 October 2015 to 28 April 2016) from 2.0% and 1.0%, respectively. The government is also giving an extra incentive for buyers of homes costing less than THB3 million, as 20% of the price will be tax deductible for five years.

Active investment in both local and overseas markets

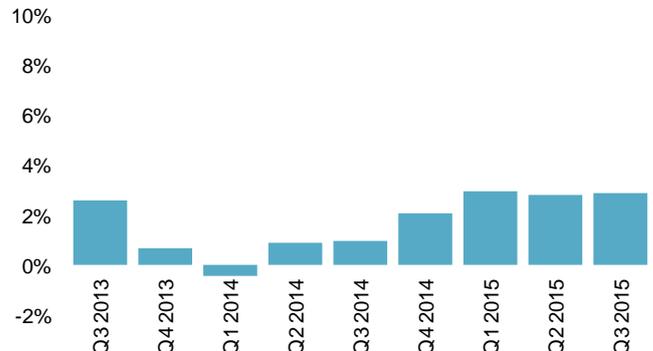
In Q4 2015 the investment sector was significantly more active compared to the previous quarters. The largest investment deal was from Baywater Company Limited, accounting for THB7,350 million on the purchase of 38 rai plot of land on Phahon Yothin Road. The company plans to either develop a mixed-used project or sell the land in smaller pieces.

There has also been significant outbound investment from Central Pattana Plc (CPN), the listed property developer under the Central Group. The company increased the capital value to MYR458 million for Central Plaza i-City Real Estate Sdn.Bhd., an indirect 60% owned joint venture company of CPN in Malaysia.

Another outbound investment was by Singha's unit S Hotels and Resorts Ltd, which joined with Fico Holdings (UK) Ltd to set up a joint venture named FS JV Co. The newly formed joint venture recently acquired Jupiter Hotels Ltd for £155 million (THB8.6 billion) from Patron Capital and its partner Royal Bank of Scotland to expand into the European hospitality market. Jupiter Hotels owns and manages 26 hotels in the UK under the Mercure brand with a total of 2,883 keys.

Figure 2

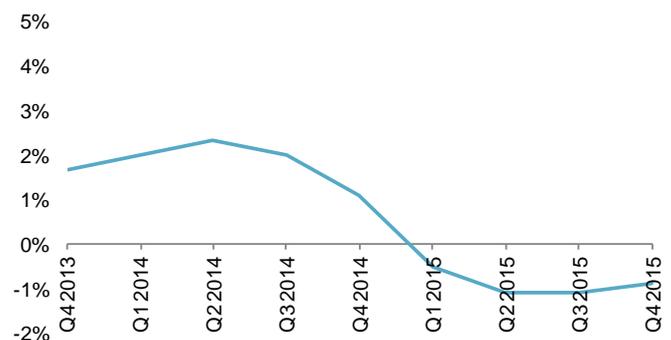
GDP growth (y-o-y)



Source: The National Economic and Social Development Board

Figure 3

CPI change (y-o-y)



Source: Bank of Thailand

Bangkok Q4 2015

Office

Limited office supply in prime CBD locations

While office supply has been positive in 2015 and is much better compared to previous years, there were no new office completions in Q4. The total office stock increased by 5.2% to 1.79 million sq m within the CBD.

In the CBD, there is approximately 40,900 sq m of office space currently under construction that is due to complete in 2016 and 2017. The Metropolis is expected to be launched in Q1 2016; this building will extend to 13,900 sq m in size. Also located within the CBD is the Gaysorn Office Tower. This building will be 27,000 sq m in size when completed and is expected to be finished before the end of 2017 (Figure 4).

The demand for office space continues to rise

The office leasing market continued to grow while office stock in the CBD continues to be limited. In Q4 2015, the total amount of occupied office space in the CBD was 1.62 million sq m, up by 1.6% q-o-q and 4.4% y-o-y. The occupancy rate in Q4 2015 was registered at 90.8%, up from 89.4% in Q3 2015 but down from 91.5% from the same period last year (Figure 5). It is anticipated that there will be a temporary increase in vacancy in Q1 2016 as a result of the completion of the new office building Metropolis.

We have continued to witness tenants occupying available space within the CBD and those newer buildings that started the year with low occupancies have quickly filled. Office buildings throughout Bangkok have also shown firm demand with high numbers of pre-leasing agreements being signed. Consequently, net absorption grew to 25,100 sq m in Q4, up from 7,171 sq m in the previous quarter. The total absorption for 2015 was 68,611 sq m.

Office rents remain unchanged

Average office rental levels in the CBD in Q4 2015 remained unchanged at THB775 per sq m per month despite the rising occupancy levels in the prime CBD market (Figure 6). Backed by higher occupancy rates, landlords tend to be less flexible during rental negotiations even to MNCs. As a result, higher rents coupled with high fitting out costs may deem relocation as a less attractive option for existing tenants.

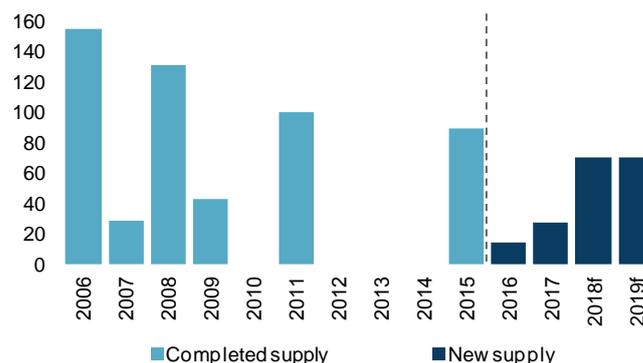
Positive office market outlook in 2016

In 2015 there was a total increase in stock of 88,700 sq m within the CBD. This came from AIA Sathorn Tower, which is 38,500 sq m in size and was completed in Q1 2015. Bhiraj Tower at Emquartier was the other building to be completed within the CBD and this totalled 50,200 sq m. With the growth in stock we saw a slender change in the vacancy rate. In Q1 2015 the vacancy rate was 9.9% and this spiked up to 11% in Q2 2015 before finally settling back down to 9.2% in Q4 2015. Rentals continued to steadily increase throughout 2015 with the average rate starting at THB760 in Q1 2015 and increasing up to THB775 by Q4 2015.

Office leasing activity is expected to remain positive in 2016 especially for the Grade A and well located office buildings close to public transport. Strong demand for office spaces from local and international companies is expected to support higher occupancy rates in the CBD area. Rental values are also projected to trend upwards amid strong demand and limited supply.

Figure 4

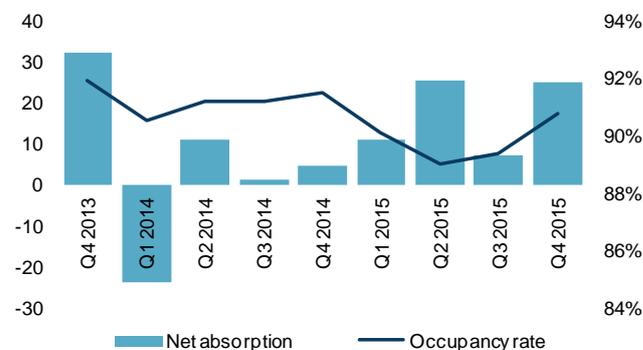
Prime office net supply in CBD, sq m (000s)



Source: DTZ Research

Figure 5

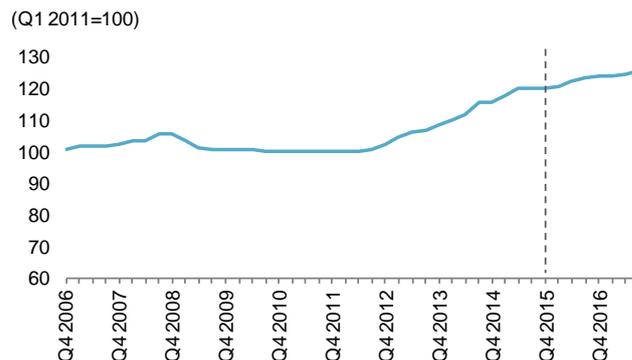
Prime office net absorption, sq m (000s) and occupancy rate



Source: DTZ Research

Figure 6

Prime office gross rental index



Source: DTZ Research

Bangkok Q4 2015

Retail

Limited retail stock in downtown but increase in midtown

Total retail stock in the downtown remained unchanged q-o-q at 1,317,493 sq m in Q4 2015, as there were no new retail mall launches in the period. Total retail stock increased by 3.5% in 2015. In 2016, about 260,000 sq m of new retail space is expected to complete in the area (Figure 7). A large proportion of the upcoming supply will stem from Emsphere, which is located on Sukhumvit Road close to Phrom Phong BTS station. The development is set to have a gross floor area of 200,000 sq m and is slated to complete by the end of 2016.

The midtown market saw an expansion of stock in Q4. Total retail stock increased to 783,599 sq m, an increase of 3.7% q-o-q and 14.7% y-o-y. This was due to the launch of The Street, a new retail mall with a total of 28,000 sq m of retail space. Developers in the midtown market will continue to launch new retail projects in 2016. Approximately 263,210 sq m of retail space is expected to be completed in the midtown market. Among the upcoming new retail developments in Q1 2016 is on-site retail at FYI Centre, which is an office building on Ratchadapisek Road (Table 1).

Occupancy increased in both downtown and midtown locations

In 2015 we witnessed a steady decrease in vacancy rates in the downtown market. In Q1 2015 the vacancy rate sat at 8.65% but by the final quarter this was cut down to 7.9%. There was only one new shopping mall that opened in 2015 in the downtown area; this was EmQuartier, which is 50,000 sq m in size. There was a considerable amount of new stock introduced to the midtown market in 2015 that totalled up to 100,143 sq m. This came from a variety of new properties including; Suan Lum Night Bazaar (17,820 sq m), Yodpiman Riverwalk (12,000 sq m) and The JAS Ramintra (12,000 sq m).

On a quarterly basis, average occupancy in the downtown market increased slightly to 92.1%, from 92.0% in Q3 2015. Average occupancy in the midtown market was 92.7%, up from 92.5% in Q3 2015.

Retail rents increase in midtown locations

Average rent in the downtown locations in Q4 2015 remained unchanged q-o-q at THB2,630 per sq m per month. On an annual basis, rent increased by 3.1%. The average rent in the midtown increased to THB1,590 per sq m per month, up by 1.9% q-o-q, and 1.9% y-o-y. The increase in rent is due to tenants agreeing leases within the new upcoming midtown community malls and on-site retail areas (Figure 8).

Landlords renovating their shopping malls

Many landlords are renovating their existing malls in downtown locations in order to attract new brands and to increase foot traffic. Isetan (Thailand) has embarked upon THB1 billion renovation of its department store in Central World shopping centre. Additionally, MBK Plc, Siam Piwat and Siam Square Business Group invested a combined total of almost THB12 billion to improve their facilities. The three parties aim to push forward various projects to propel the area into the so-called

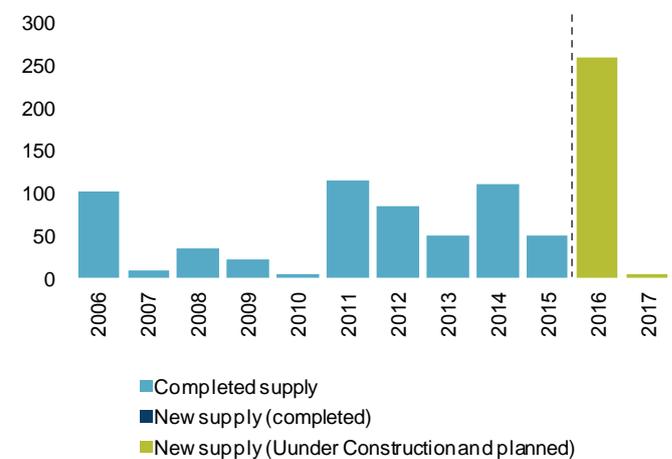
Siam District. It will become an urban centre with the latest trends and world-class shopping experiences.

Outlook for retail sector

It is anticipated that the occupancy levels in the downtown market will remain stable in the first quarter of 2016. As for the midtown market, the occupancy rate is expected to increase slightly as tenants will continue to occupy the newly completed malls.

Figure 7

Completed and new retail supply in downtown area, sq m (000s)



Source: DTZ Research

Table 1

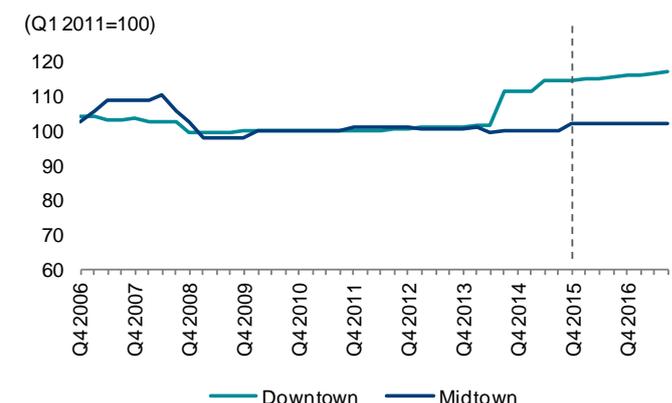
Selected upcoming new completion in Q1 2016

Name of Development	Area	Size (sq m)
Suanplern Market	Downtown	10,000
FYI Centre	Midtown	4,000

Source: DTZ Research

Figure 8

Prime gross retail rental indices



Source: DTZ Research

Bangkok Q4 2015

Residential

Bangkok condominium market continues to grow

The total amount of new units brought onto the market in the CBD was 13,018 in 2015. We continue to see Sukhumvit as a key location for new units and 53.4% of the total new stock in 2015 was set within this zone. Key condominium developers have throughout 2015 offered buyers incentives such as free furniture to encourage sales but with this the average price for condominiums has continued to escalate. In 2015 we have seen the average unit selling price surpass the THB200,000 per sq m mark and the average asking price of resale condominium units go beyond the THB100,000 per sq m point

Condominium development activity in the CBD was strong in 2015 especially towards the end of 2015. This is largely due to the improving economic situation. Major developers continued to launch their new projects in Q4 2015. A total of 2,650 units from 9 different condominium projects were launched in Q4 2015. This is a growth of approximately 160% y-o-y from a total of 1,659 units in Q4 2014. The majority (35.7%) of the new condominium units supplied in the CBD emanated from the Sukhumvit area. This was followed by the Central area (32.2%) (Figure 9).

Luxury condominium projects dominate the market

The new supply of luxury units, properties that have an average unit selling prices ranging between THB170,000 and 249,999 per sq m, dominated the CBD market. Luxury units accounted for 40.5% of the total supply in Q4 2015; followed by the Grade B (26.6%) and Grade A segment (18.7%). We continue to see growth in the upper end condominium segment within Bangkok's CBD area. This is due to the limited availability of land in this area, pressing developers to develop luxury condominium projects that cover the high land costs, rather than develop middle market residences.

Demand for upper-end condominiums remain strong

High sales rates have been achieved in some luxury projects, with take up rates of 60% during the launch period. It is evident demand remains positive as The Line Ratchathewi by BTS Sansiri Holding, a super luxury project, sold all 231 units shortly after its launch. The average take up rate of new units was registered at 56% in Q4 2015. Buyers of these projects tend to purchase the units for their own occupation or long-term capital appreciation. Some buyers will also look to lease out their unit, with expatriates often as tenants. The average unit selling price was at THB201,366 per sq m in Q4 2015, increasing by 0.7% q-o-q and 26.4% y-o-y. It is anticipated that the average unit selling price throughout the CBD area will continue to increase moderately in Q1 2016.

Condominium resale market remains active

Resale of condominium units in Bangkok's CBD area remained active, with resale values continuing on an upward trend in Q4 2015. The resale price index in Q4 2015 was 127, increasing from 122.5 in Q3 2015 (Figure 10). The average asking price of resale condominium units was THB105,400 per sq m, representing an increase of 3.6% q-o-q and 15% y-o-y. It is anticipated that the resale value of condominium units in the

CBD locations will either remain stable or increase marginally in the first quarter of 2016.

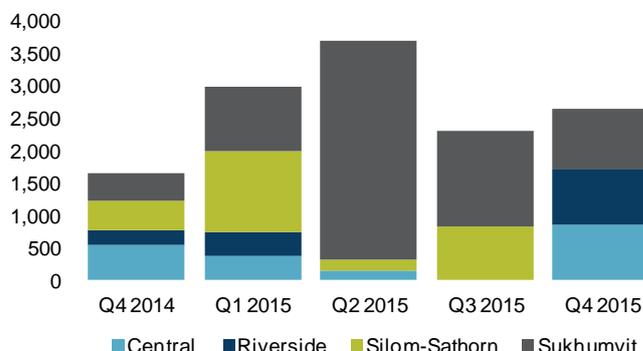
Competitive market anticipated in 2016.

Due to the nature of the town planning system in Thailand that allows a broad range of uses for plots of land, we have an extremely competitive market for any available site that has a development potential. As condominiums offer quicker and better returns, we typically see condominiums developers outbidding the office or retail developers. This also results in the limited supply of office buildings and to a lesser extent retail malls.

We believe that condominium purchasing activity is expected to escalate amid an improving market. Most of the purchasing activity is expected to be focused on the CBD areas of Bangkok and for upper-end condominium units. The purchasers in this segment are not affected by the national or global economic downturn. Notwithstanding, there are still some outstanding issues within the market; the persistent increases in household debt levels will continue to mitigate buyer sentiment as well as affecting the banks and their loan approvals.

Figure 9

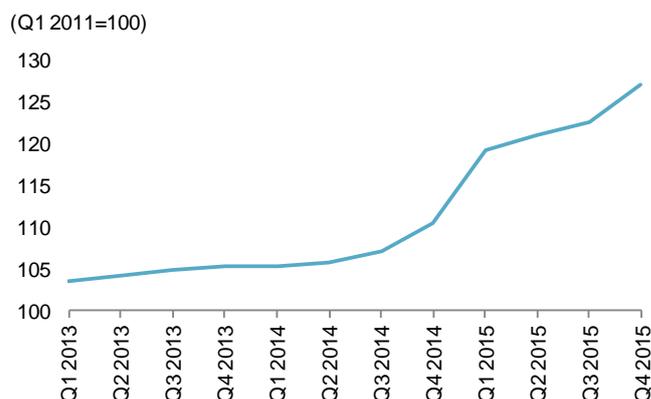
Bangkok CBD condominium launches, units



Source: DTZ Research

Figure 10

Bangkok CBD condominium price index



Source: DTZ Research



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