

Have Foreign Buyers Discovered Thailand's Property Market?

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Contents

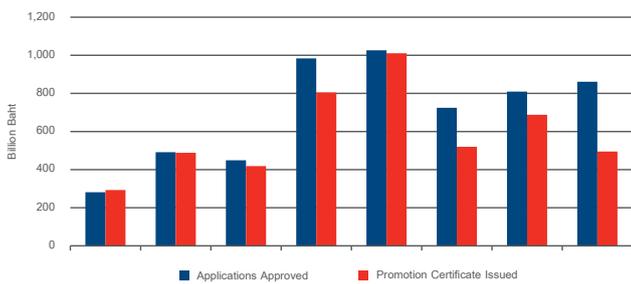
- Growth in Foreign Investment.....3
- Source Countries for Foreign Investment.....4
- Top 5 Foreign Investors in Thailand.....4
- Industrial Sector
 - Top 10 Countries of Origin for Work Permit Applications in Thailand as of Q4 2016.....5
 - Top Source Countries for Tourists to Thailand.....5
- Individual Investment8
- Sustainability of Returns.....9

The recent growth in foreign investment in the Thai property market can be attributed to the global quest for high returns, either through rental yield or capital appreciation. This trend can only be sustained if return expectations are realistic and can be met, which may not always be the case.

Growth in Foreign Investment

Thailand has been a popular destination for foreign direct investment (FDI) in industry for over 30 years. The graph below indicates that FDI has been on a downturn since 2013, but this can be attributed not only to a global slowdown but also Thailand’s political situation as well as lower costs of some emerging ASEAN economies. The current government is keen to encourage further FDI in a number of industrial and service sectors that are targeted to lift the country out of the middle-income trap, and the positive growth trend in applications to the BOI indicates that the strategy is beginning to pay dividends.

Total FDI Based on Applications Approved and Promotion Certificates Issued

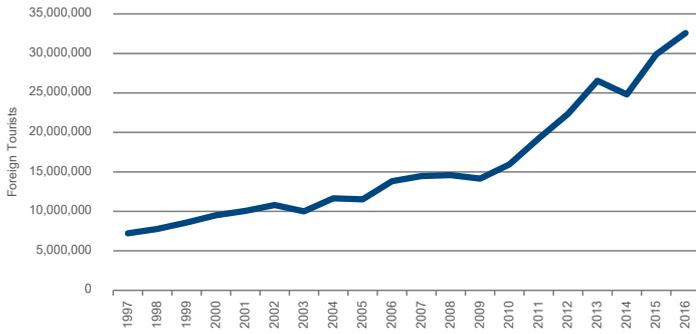


Source: Board of Investment (BOI)

Simultaneously, Thailand has matured into one of the most popular tourist destinations in the world, which has also encouraged a separate stream of FDI into the hospitality sector. The country, especially Bangkok and the major resorts, supports a quality of life that is in many ways as attractive and cosmopolitan as other major cities in the region, but at a more affordable price. These factors have spurred interest in property investment both from foreign institutions and individuals.

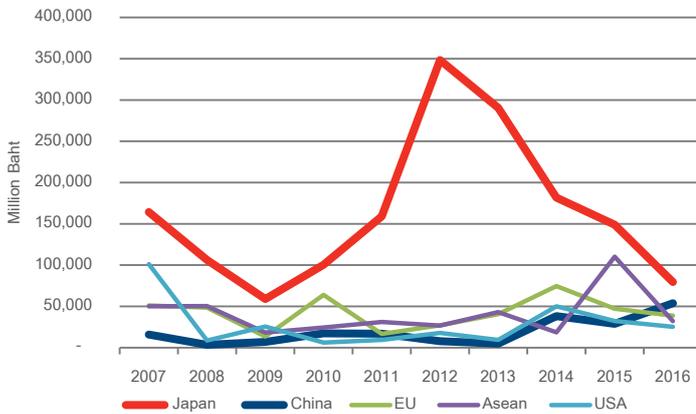


Total Foreign Tourist Arrivals in Thailand by Year



Source: Department of Tourism

Top 5 Foreign Investors in Thailand Industrial Sector



Source: Board of Investment (BOI)

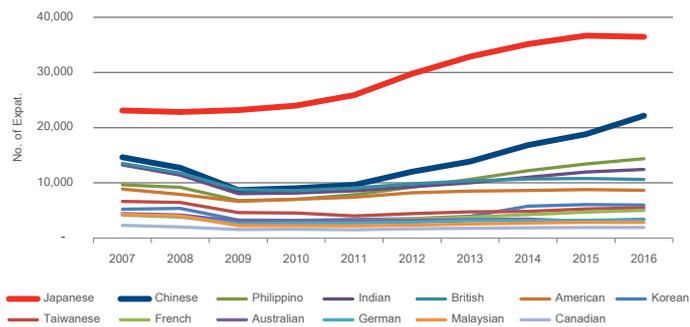
Despite these apparent strengths, when compared to other countries in the Asia Pacific region, Thailand is not the most popular destination in the region for foreign investment in the form of property joint ventures, mergers and acquisitions or direct property investment. Apart from the internal political instability of the past many years affecting investor confidence and impacting long term investment returns, restrictions on foreign ownership of property have discouraged international institutional investors from focusing on the Thai market.

Instead, the focus of foreign investment in the Thai property sector has been on condominium investment, due to the fact that foreigners can own condominium units in their own names, and there is still perceived to be room to grow in terms of yield and capital gains in the future.

Source Countries for Foreign Investment

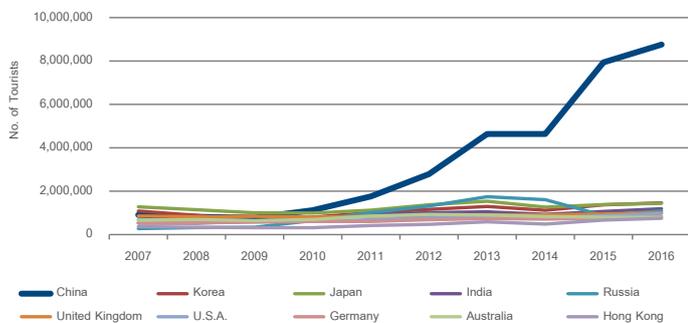
As the chart illustrates, Japan has consistently been the main source country for foreign investment in Thailand's industrial sector, despite declining since 2012. This decline has partly been a result of the factors discussed above, but also due to the relocation of more labour-intensive production to other countries in the region. Nevertheless, Thailand remains an attractive destination for Japanese investment due to its developed export markets and infrastructure, but the growth story in recent years has been from China.

Top 10 Countries of Origin for Work Permit Applications in Thailand as of Q4 2016



Source: Ministry of Labour

Top Source Countries for Tourists to Thailand



Source: Department of Tourism

As foreign investment has focused primarily on investment in industry, the main area of interest has been the industrial area around Thailand, especially on the Eastern Seaboard. Japanese expatriates also constitute the largest foreign community in the country in terms of number of work permits issued as a result of the large influx of Japanese investment. But a growing number of Chinese are also entering Thailand to work and now comprise the second largest group of expatriates with work permits, as shown top left.

In addition to the large expatriate skilled workforce, the importance of Thailand as a global tourist destination has led to a wide range of foreign nationalities entering the country as tourists either visiting the country or using Thailand as a base to visit other countries. The number of foreign tourists arriving in Thailand has increased continually, and total numbers of foreign tourists as of the end of 2016 were more than 32 million, the highest in recorded history. The Ministry of Tourism & Sports and other government offices, as well as private sector businesses related to the tourism business have forecast that foreign tourist numbers in 2017 may be higher than 35 million representing around a 10% increase over 2016. The main source country for tourists to Thailand is China followed by other Asian countries referenced in the statistics of the Department of Tourism, as shown bottom left.

Institutional Investment

Whether foreign visitors have entered Thailand for work, tourism, investment or study, many have taken the additional step of buying a residence in Bangkok or other provinces around Thailand either for their own use or for investment. This trend has been spurred recently by pressures on residential markets – high pricing and government cooling measures – in some other markets in the region. Thus, both foreign developers and private investors have been looking to diversify into other markets. Thailand is an attractive market for many mainly because properties are perceived to be relatively inexpensive and to have good growth prospects when compared to more developed markets in the region.

At the corporate level, many foreign companies are interested in finding Thai partners or engaging in joint-ventures with local Thai companies for investment in condominium projects or other property sectors. The main source countries for investors in this sector have been China and Japan, as shown in the table below:

Selected Recent Foreign Investment Joint Ventures and Direct Investment

No.	Thai Company	Foreign Company	Nationality	Sector	Main Location
1	Ananda Development Plc.	Mitsui Fudosan	Japanese	Residential and commercial	Bangkok
2	AP (Thailand) Plc.	Mitsubishi Estate	Japanese	Residential and commercial	Bangkok
3	Sena Development Plc.	Hankyu Realty	Japanese	Residential and commercial	Bangkok
4	Woralak Property Plc.	Shinwa Group	Japanese	Residential	Bangkok
5	J.S.P. Property Plc.	Zhong Tian Construction Group	Chinese	Commercial and Entertainment Complex	Chonburi
6	Charnissara Development Plc.	Junfa	Chinese	Residential and Hotel	Hua Hin and Phangnga
7	Country Group Development Plc.	BCEG	Chinese	Residential and Hotel	Bangkok
8	Magnolia Quality Development Corporation Co., Ltd.	Greenland Group	Chinese	Residential and commercial	Chonburi
9	Tienchen International Property (Thailand) Co., Ltd.	Tienchen	Chinese	Residential	Bangkok
10	Home City Development Co., Ltd.	Home City Group	Chinese	Residential	Hua Hin
11	GDT Property Co., Ltd.	Gordon Brother	Chinese	Residential	Bangkok

No.	Thai Company	Foreign Company	Nationality	Sector	Main Location
12	Chewathai Plc.	TEE Development Pte. Ltd.	Singaporean	Residential	Bangkok
13	Sankyo Home Co., Ltd.	Sankyo Group	Japanese	Residential	Bangkok
14	Chaipattana (Thailand) Co., Ltd.	Sheng Di Jia Group	Chinese	Residential	Rayong
15	Narai Property Co., Ltd.	ARCH Capital Management	Hong Kong	Residential	Phuket
16	The Choice Property Development Co, Ltd.	Hong Kong Investorst	Hong Kong	Residential	Bangkok and Chonburi
17	Pace Development Corporation Plc.	Apollo Global Management Co., Ltd.	USA	Residential	Bangkok
18	Keppel Thai Property Plc.	King Wai Group	China and Hong Kong	Residential	Bangkok

In addition, there are several other companies that are in the process of negotiation or waiting to announce investments in the Thai real estate market. There is a growing interest among Thai developers to find a foreign partner who can add a marketing, design or other competitive angle, so we are likely to see more deals completed in the future. Some Thai developers are also looking for foreign partners who can help them expand into regional or global markets, while some see foreign partnerships as a way of integrating the latest technology or conceptual ideas into their businesses, and others hope that a foreign partner will generate a new source of demand to help them through a period of declining purchasing power in their core market.

It is noticeable, however, that the bulk of foreign investment has been through corporate vehicles, rather than listed or non-listed property funds that tend to be more prominent in more mature markets as well as some regional markets, such as Vietnam. This is partly a result of Thailand's restrictive land-owning policies that prevent foreign corporates taking a majority stake in a land-owning entity in the country. While it can be argued that countries such as Vietnam have similar restrictions, Thailand has a much stronger domestic investment community that has been a comparative advantage when bidding on major deals, which is not necessarily the case in other markets. As a result, international private equity funds, pension funds and insurance companies without a Thai entity have tended to focus on other markets where the playing field is more level.

Individual Investment

Foreign individuals have been purchasing condominiums in Thailand either directly from developers, including more recently at international roadshow exhibitions hosted by developers; through brokers, with some brokers guaranteeing both sales performance and a rental return to foreign investors, or directly from previous owners, especially if the aim is to take possession immediately. On the back of demand growth, many Thai developers have increased efforts to sell to Asian buyers, particularly in Hong Kong and Singapore in recent years, but concerted efforts to penetrate the mainland China market are of more recent date, coinciding with the huge growth in Chinese tourism to Thailand. Chinese buyers are becoming the main target for developers looking seriously at overseas sales, although some have successfully targeted the Japanese market, mainly aiming at expatriate Japanese already living in Thailand although some exhibitions in Tokyo have had some success.



The Chinese market has undoubtedly huge potential, but the nature of demand from China tends to be somewhat different to traditional foreign demand for Thai property. A recent survey of Chinese individuals looking at buying offshore property by the Financial Times concluded that Thailand has become one of the top five most popular destinations for property investment outside of China. This was due to the perception that property prices in Thailand are lower than in competing countries and are seen as still having room to grow, although maybe not as much as in other countries. But the survey also indicated that to date only middle and lower sectors in Thailand were of special interest to Chinese buyers, while high-end demand is still focused on Hong Kong or further afield, particularly Europe, Australia and New Zealand and Canada. Therefore, Chinese buying in Thailand is focused primarily on properties priced under THB 3 million. However, when comparing the prices of properties already purchased with buyers' plans to purchase, the survey indicated that the fastest growth in demand is likely to be for higher end properties priced over THB 7 million.

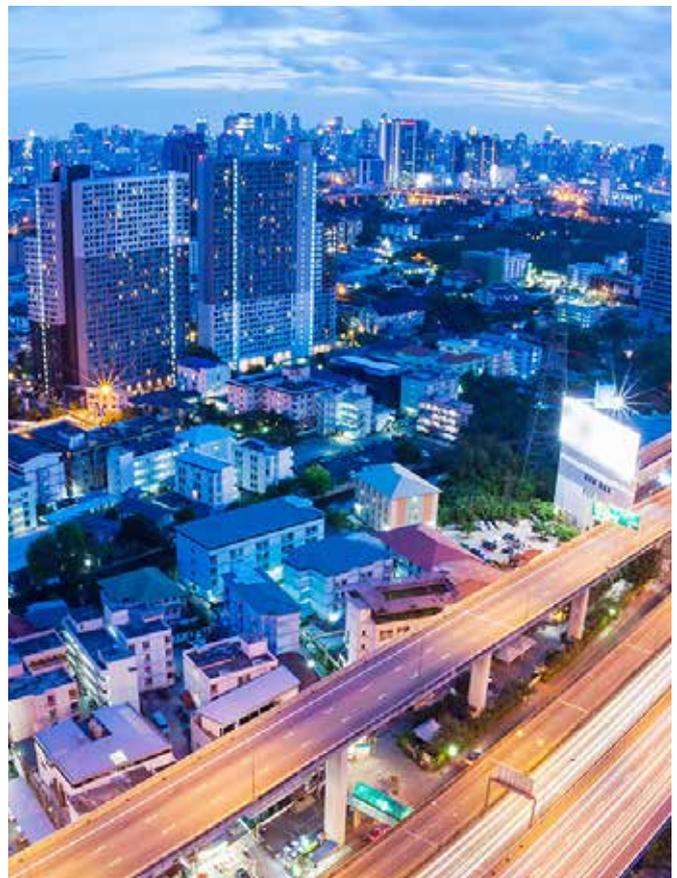
Sustainability of Returns

While foreign corporate investors can be expected to make strong business cases for their allocation to property investment in Thailand, and most have had a positive experience with strong profits from their investments, individuals can often be persuaded by investment cases presented to them by developers and agents without much additional research.

Over recent years, prices have been on an upward trajectory of between 3-10% per year, depending on the sector and location, and sometimes higher. Rental yields on well-located and well-managed properties can be in the region of 3-5% per year, again sometimes higher, which is both significantly higher than most deposit rates available to the general market and usually sufficient to cover common fees.

Some developers and agents have taken to giving rental guarantees for a limited number of years to encourage foreign investment, and will also offer furniture packages and management agreements that become an additional source of revenues for the seller. Some of these arrangements have proved successful, but in many cases investors have found that the rental achieved after the guarantee period is substantially lower than the guarantee. At the same time, while values have continued to increase for new properties, not all properties continue to increase in value after completion due to a range of factors, including strong competition, poor management and a general market preference for new build.

As a result, the popularity of Thai property tends to fluctuate with the market's experience of returns, but at a time when domestic demand – particularly in the middle market – is subdued, relying on foreign demand to pick up the slack can be a good short-term strategy, but needs careful planning and management to ensure the popularity of Thai property is sustained.



68 countries on 6 continents

\$2.6

billion in
annual revenue

2

billion square feet
under management

15,000

professionals
and staff

Colliers International | Thailand
17/F Ploenchit Center,
2 Sukhumvit Road, Klongtoey,
Bangkok 10110 Thailand

+ 66 02 656 7000



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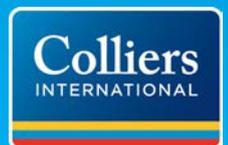
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