

Research & Forecast Report

Bangkok Thailand | Office Market 4Q 2014



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“Occupancy and Rental Rates Climb”

MARKET INDICATORS 3Q / 4Q 2014

Demand ↑

Supply ↑

Occupancy ↑

Rent ↑

Summary

Demand continued to show improvements during Q4. This trend is expected to continue as long as the political situation remains stable, there's no significant negative change in the global economy and the Thai Baht remains at the current levels.

The Government recently approved tax and non-tax incentive packages to attract and encourage international companies to establish their International Headquarters (IHQs) and International Trading Centres (ITCs) in Thailand.

Supply remains to be limited due to a lack of new supply entering the market. Large space occupiers have limited relocation options available to them. New developments expected to complete during 2015 & 2016 will equal approximately 260,000 sq.m. The majority of this space is outside of the traditional CBD.

Older existing buildings are expected to re-position themselves through renovation and upgrading existing facilities so as to retain existing tenants and attract new ones.

Occupancy rates in the key locations within Bangkok are above 90% with Grade A buildings in close proximity to mass transit systems enjoying the greatest occupancy. Lower quality buildings located in areas not currently serviced by mass transit systems are not in any great demand.

Rental rates have been driven upwards over the past 12-months and this is expected to continue. The main influencing factor will be whether demand continues to grow as new supply is limited for the next few years.

Some people are beginning to question as to why aren't rental rates moving upwards more than they are? Bangkok continues to be one of the cheapest office locations across South East Asia.

Advice and Strategy For Tenants The current office market conditions are more in the favour of landlords; hence tenants, especially large space occupiers, need to review their office accommodation further in advance of lease expiry than previously.

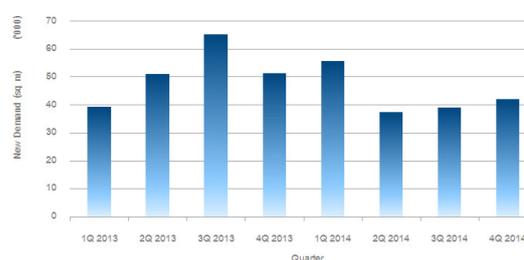
Tenants Top 10 Biggest Mistakes

From our hands-on experience, we can highlight the 10-key mistakes that tenants make which prevents them from getting the best result from their real estate – and which more importantly potentially has a significant impact on their bottom line. These are:

1. Beginning the negotiation of a renewal or new lease too late;
2. Lacking clearly defined business or real estate objectives;
3. Focusing exclusively on financial costs;
4. Failing to appoint a project leader as the internal single point of contact;
5. Making inaccurate estimations of the company's space requirements;
6. Failing to leave enough time at the end of the lease to fulfil “make good” obligations;
7. Acting too slowly once a decision is made, and consequently missing out on opportunities;
8. Agreeing to terms prior to obtaining a space planning perspective;
9. Failing to allow for expansion space; and
10. Lacking the knowledge of future opportunities; often, the best deals are secured well in advance of space becoming available.

Please download the Colliers International Office Leasing Guide for more information or contact Khun Nattawan Radomyos at +66 (0) 81 842 0294 or nattawan.radomyos@colliers.com.

Demand



Source: Colliers International Thailand Research

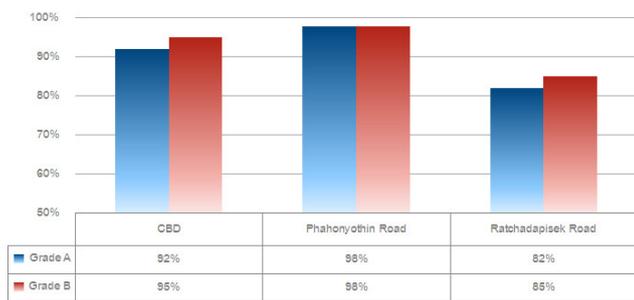


Business sectors such as finance, insurance, telecoms and ecommerce with large call centre operations have been providing good demand. These business sectors have continued to see growth in their markets hence need to increase their office footprint.

A number of these businesses have also been researching if there is any opportunity outside of Bangkok in some of the second tier cities such as Chiang-mai, Khon Khen, etc. especially for call center operations.

The Government recently approved the Regional Operating Headquarters (ROH) scheme to try and increase demand from MNC's. The ROH scheme provides tax and non-tax incentives for international companies to establish their International Headquarters (IHQs) and International Trading Centres (ITCs) in Thailand.

Occupancy Rates



Source: Colliers International Thailand Research

With demand showing signs of continuing to improve and lack of any significant supply it is expected that occupancy rates will remain at their high levels throughout 2015.

Ratchadapisek Road has attracted a lot of attention over the past few quarters and this will continue. Recent new developments such as AIA Capital Tower, G Land Complex, The Stock Exchange of Thailand and the Unilever Office are all bringing new focus to this area.

Supply

The total office supply is approximately 8.2 million sq.m with a further 260,000 sq.m expected to be completed by the end of 2016.

The majority of these new developments are not within the traditional CBD zone, except for AIA Sathorn, however they are all located adjacent to mass transit facilities and are part of mixed use developments.

Examples include:

- ▶ Bhiraj Tower is connected to PhromPhong BTS and is part of the new EmQuartier development;

- ▶ FYI Center is connected to Klong Toey MRT station and will include retail and hotel facilities supporting the 2 office towers; and

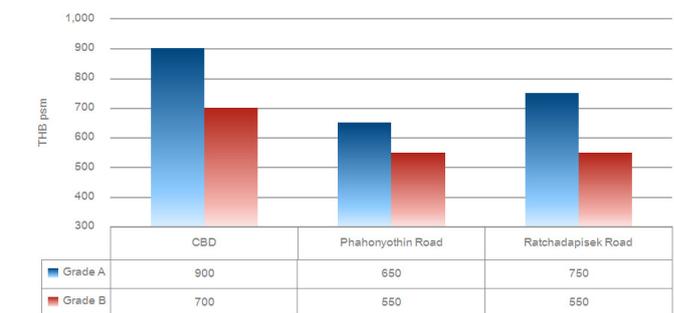
- ▶ G Land Tower is connected to Rama 9 MRT and is part of the G Land complex which includes retail, residential and hotel facilities.

New supply is expected to continue to be located outside of the traditional CBD areas as land prices within the CBD have been pushed up by developers being able to achieve higher returns primarily from alternative type developments.

A developer wanting to achieve a similar return from an office development would either have had to purchased the land a long time ago at a lower price or need to achieve rental rates that are well above the current asking rents.

Rental Rates

Average Rental Rate by Location as of 4Q 2014



Source: Colliers International Thailand Research

Asking rents are expected to continue to increase throughout 2015 assuming that the political situation remains calm and that the global economy does not have any significant negative downturns.

Larger space occupiers have very limited options should they need to relocate. They are pretty much limited to new developments that offer contiguous floors as the vast majority of existing buildings are either in unpopular areas or do not have larger spaces available.

It is interesting that rental rates have not been increasing at a greater rate than they have been considering the high occupancy rates. When it comes to an organisation considering to relocate their offices there are a number of key factors that influence the decision such as staff retention, capital expenditure requirements, security, corporate image, familiarity with the current location, the burden of taking the focus off the core business and the overall risk of relocating, to name a few.

Organisations are normally pushed from their existing location due to factors such as a significant change in the space required or the need to renovate existing facilities rather than being pulled by lower rents or incentives.

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