Thailand - April 2020

SPOTLIGHT
Savills Research

COVID-19: Impact on Thailand's Industrial Sector

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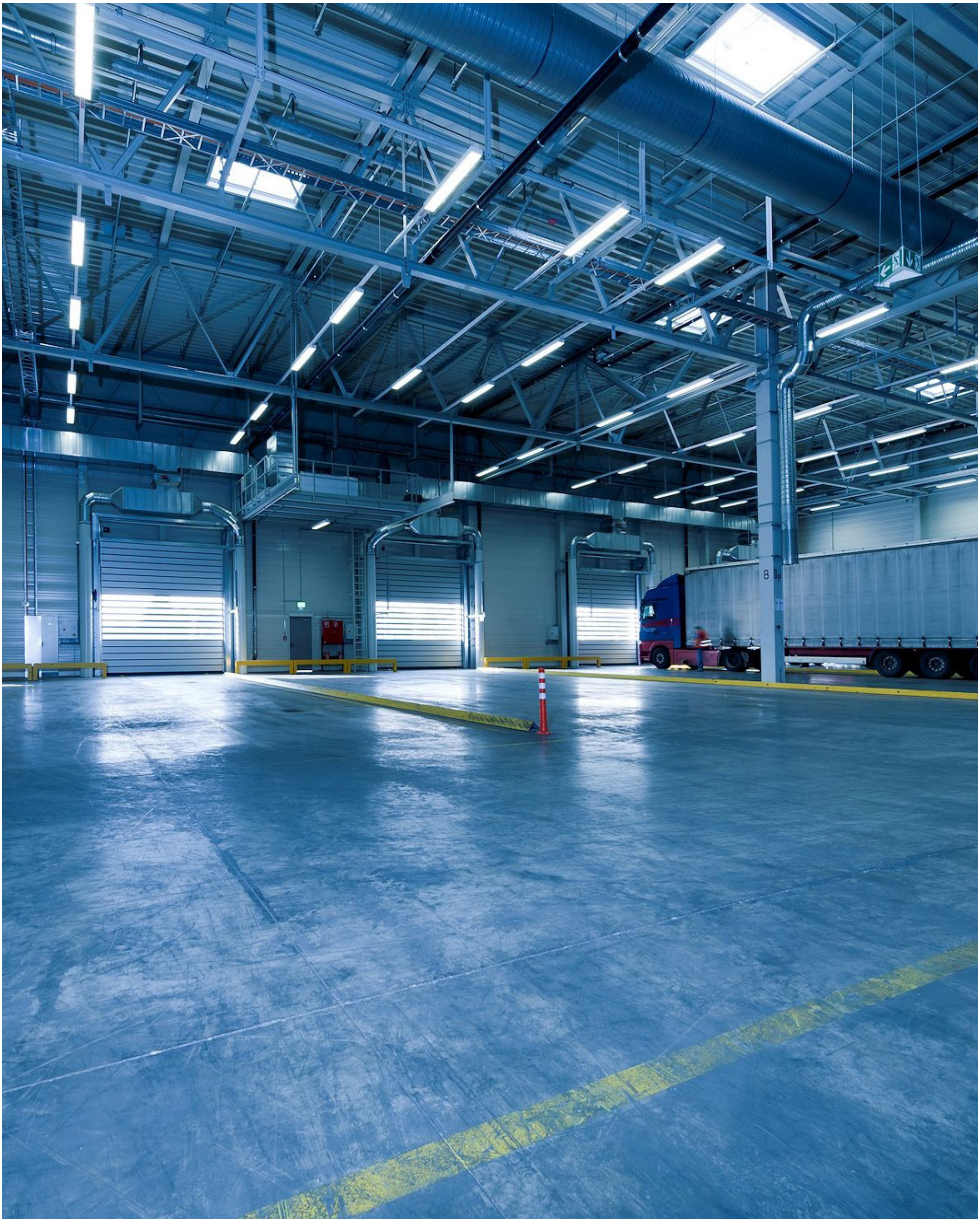


COVID-19: Impact on Thailand's Industrial Sector

SUMMARY

- E-commerce purchases up 80% in February from previous month, driving demand for fulfillment centres.
- Manufacturing and production will be down countrywide through Q1 and Q2.
- Manufacturers looking to expedite plans to automate their production lines to ensure operations through crises.
- Transactional liquidity will likely increase due to firms seeking to offload poor performing assets or due to bankruptcy.

IMPACT AND OPPORTUNITY IN THAILAND'S INDUSTRIAL SECTOR FOLLOWING THE COVID-19 GLOBAL HEALTH CRISIS

The global COVID-19 pandemic has led to the fastest arising real estate crisis seen since the Great Recession (2008). Manufacturers and operators have faced material supply issues, due to the quarantine in China and are now currently being urged to close production lines as part of a national measure to reduce the spread of Coronavirus. With the world economies at different stages in dealing with the pandemic, regardless of Thailand's speed of recovery, there will likely be both supply and demand side issues until the major international markets have stabilized. However, opportunities are still present for firms which can adapt to fulfill the requirements of 'housebound households'.

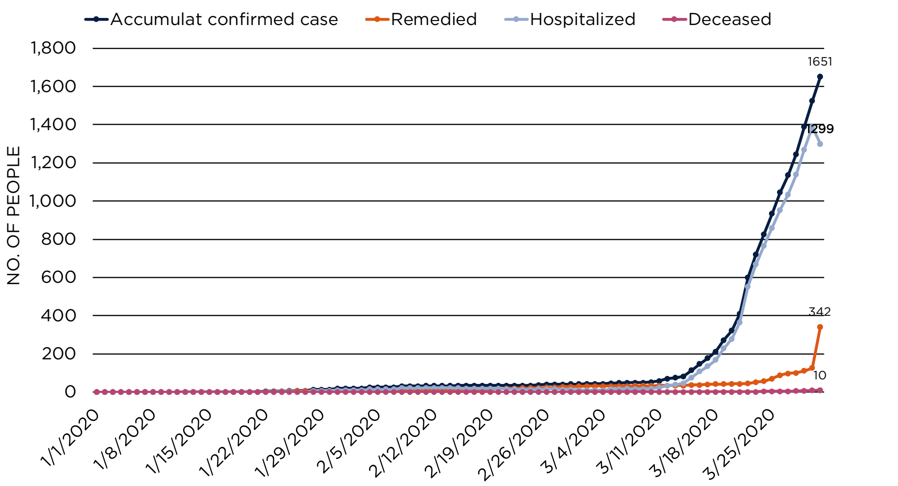
Thailand's industrial sector accounts for approximately 40% of national GDP, maintaining the performance of the sector will be a primary concern for both government and industrial occupiers/ manufacturers following the end of the advised national lockdown. In January, Thailand's automotive production was reported to have dropped for the first time in four years, and this trend will continue through Q1 and Q, as production lines have now been closed during the country's advised lockdown period, which is provisionally expected to end on 1st May. This mirrors the example from China, where there was a recorded 13.5% fall in the first two months of the year. It's likely that even once production lines reopen demand may still lag due to the delayed speed of recovery in the global markets.

Thai manufacturers have discussed their plan to expedite the automation of their production lines, in order to minimize the effect of future crises, such as the current COVID pandemic. Whereas previously manufacturers were looking to automate their production lines within ten years, they are now looking to implement within the next five years. This change in urgency may lead to a greater number of industrial property transactions, as occupiers/ manufacturers look for more modern facilities in order to accommodate their evolving manufacturing lines.

Thailand's Office of National Broadcasting and Telecommunications Commission revealed that online purchases had increased by 80% in February from the previous month; this is likely driven by households turning to e-commerce to purchase their essentials, including groceries. This sudden change in behavior will likely motivate both traditional retailers, e-commerce and logistics operators to quickly develop fulfillment/distribution facilities in order to meet this swift change in demand.

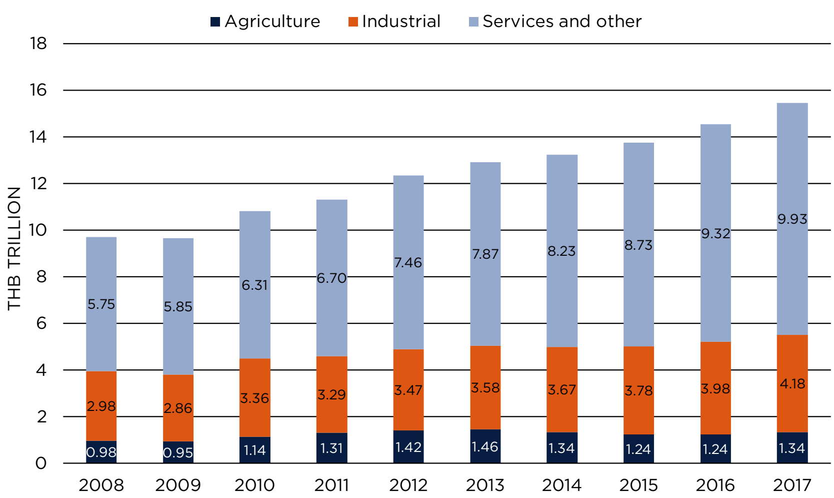
We ultimately expect that the current pandemic will lead to a higher

GRAPH 1: Timeline of Confirmed Covid-19 Case In Thailand, as of 31 March 2020



Source Thailand Government

GRAPH 2: Thailand's GDP Configuration By Sector, 2008 to 2017



Source Thailand Government

volume of industrial transactions and increased liquidity in the market, due to manufacturers and fulfillment operators looking for modern space to accommodate their changing manufacturing lines or their increasing space requirements. We also expect that underutilized industrial assets will be offloaded by industrial firms in order to survive the cash flow crunch which will occur and also due to others having to close their operations due to bankruptcy.

Regardless of Thailand's speed of recovery, there will likely be both supply and demand side issues until the major international markets have all stabilized.

TABLE 1: Manufacturing Production Index (MPI)

(%YOY)	2019		2020	
	Q3	Q4	JAN	FEB**
Auto Motives	-5.6	-20	-13.1	-18.8
Passenger Cars	-6.8	-20.3	-20.1	-18
Commercial Vehicles	-4.7	-21.6	-8	-20.6
Engine	-5.8	-14.7	-8.7	-12.5

Source Office of Industrial Economics and seasonally adjusted by Bank of Thailand
*Coverage base year at 2016
**Preliminary data

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