

# Prime Office



## Occupiers plan return to office

International Occupiers are planning for a return to the office in the last half of 2021.

- Occupancy rates continued to fall in Q4, from 90.2% in Q3, to 89.1%, as the market struggled with the poor economy and the second wave of COVID-19.
- Savills maintains a downward forecast for both rental rates and occupancy through 2021, due to the combined impact of COVID-19 and the large amount of upcoming supply entering the market.
- With total office stock in Bangkok prime area forecast to reach 2.9 million sq m by 2026, landlords are having to work harder to retain their existing tenants and to attract new ones.
- International occupiers are tentatively planning a return to the office from Q3/2021, though most will continue to provide flexible working arrangements for staff.

“With the news of workers returning, landlords in Bangkok will likely breathe a sigh of relief, though with industry leaders stating that flexible working practices are set to continue, it appears too soon to celebrate.”

SAVILLS RESEARCH

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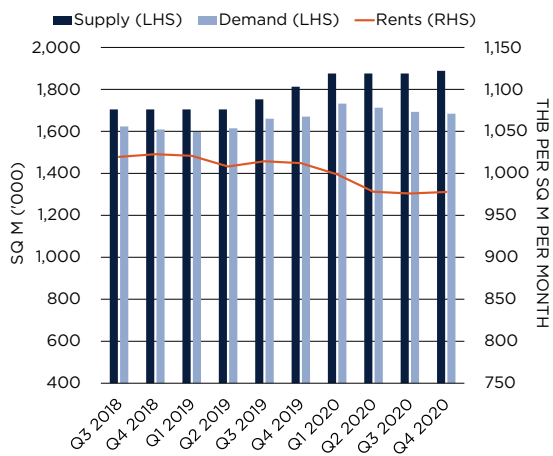
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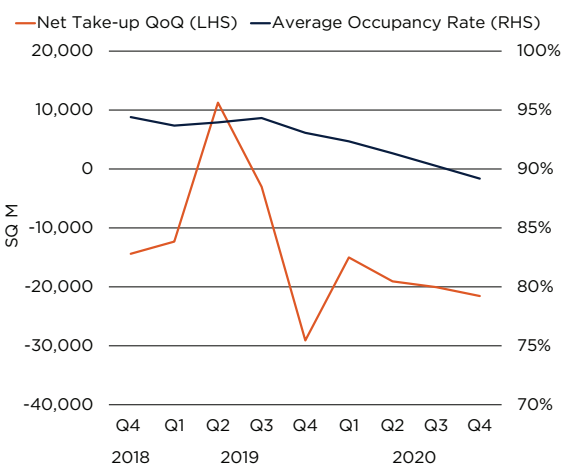
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**GRAPH 1: Bangkok Prime CBD Office Supply, Demand and Rents, Q3/2018 to Q4/2020**



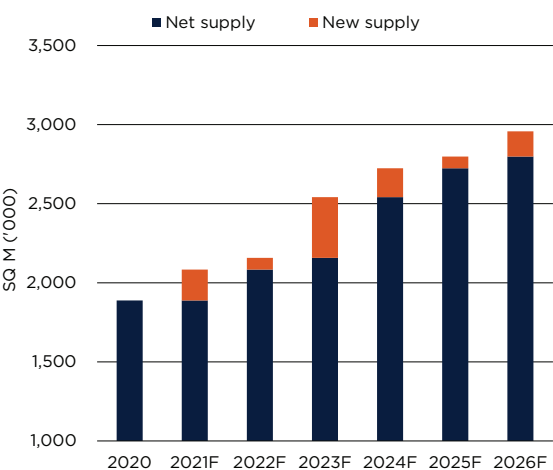
Source Savills Research

**GRAPH 2: Bangkok Prime CBD Office Net Take-up and Vacancy Rate, Q4/2018 to Q4/2020**



Source DBD Thailand, Savills Research

**GRAPH 3: Bangkok CBD Office Future Supply, 2020 to 2026F**



Source Savills Research & Consultancy

**MARKET OVERVIEW**

Bangkok’s prime offices experienced another quarter of decline, with occupancy falling to 89.2%, representing a 1.2 percentage point decrease from Q3/2020. The Bangkok office market has now experienced falling occupancy rates over the last five quarters, from 94.7% in Q3/2019 to 89.2% in Q4/2020. This downward trend is expected to continue through 2021 due to the pandemic and the completion of new office buildings, resulting in much higher stock levels.

Rental rates have remained steady at THB970 per sq m, demonstrating little change since Q2/2020, however, Savills notes that landlords have been increasing the length of rent-free periods, especially landlords of recently completed or soon to be completed office buildings, which are struggling to attract new tenants. Savills predicts that further decreases will be necessary for landlords to attract tenants in future, particularly to older buildings which will become unattractive compared to more modern stock.

In Q4/2020, Bangkok’s market-wide office stock maintained steady at 6.74 million sq m, likewise CBD prime Grade-A stock remained at 1.8 million sq m. Siam Scape was previously scheduled to open in this quarter, however the construction has been delayed and is now expected to open sometime in 2021. Savills expects there to be 1.1 million sq m of new prime office space entering the market by 2026, which will increase existing prime stock by 59%. Of that 194,000 sq m will be completed this year and new projects include O-NES Tower (46,000 sq m), The Oasis (53,000 sq m) and Vanessa Building (25,000 sq m).

**RETURN TO THE OFFICE**

Whilst remote working was the main theme of the office market in 2020, international occupiers are now planning for a return to

the office. Opinions on how and when differ from firm to firm, though there appears to be agreement across industries that face-to-face contact and collaboration cannot be replaced entirely. Tim Cook, CEO of Apple is reported by Bloomberg to have informed employees that it seems likely that a majority of teams will not be back in the office before June 2021. Likewise, Facebook, Microsoft and Alphabet (Google) are all expecting to make a return to offices no sooner than Q3/2021, though all suggest that employees will be allowed more flexibility or that some job roles may be able to continue remote working fulltime.

Work from home appears to have been relatively successful in Bangkok. The city’s broadband & 4G networks were able to facilitate the change in behaviour, with moderate internet speeds available to most people. At the same time, those choosing to go to the office have enjoyed typically lighter traffic than prior to the pandemic, demonstrating that the city is able to cope with the change in behaviour and provide some positive benefits.

Whilst occupiers are planning a return to office, exact arrangements will differ widely amongst firms and even between teams in the same organisation, depending on what they recognize as being the optimal work practice for their needs. KPMG’s UK Chairman announced that their headquarters in Canary Wharf, London was to replace desks with “hybrid” meeting facilities designed for both local and online meetings, clearly signalling that the firm has no intention of making a full return to the office. Google is likewise exploring potential ways to utilize their office space going forward, likely focusing more on

**TABLE 1: Bangkok Prime CBD Future Supply, 2021**

DEVELOPMENT	AREA (SQ M)
140 Wireless (Royal Symphony)	37,400
Silom Center (Redevelopment)	10,800
The Oasis	53,000
Kronos Tower	22,500
O-NES Tower	46,000
Vanessa Building (Redevelopment)	25,000

Source Savills Research & Consultancy

collaborative areas and less on workstations.

With the news of workers returning, landlords in Bangkok will likely breathe a sigh of relief, though with industry leaders stating that flexible working practices are set to continue, it appears too soon to celebrate. Flexible working, by reducing the number of employees in the office on a given day, allows occupiers to reduce their total office footprint. This will likely lead to further downward pressure on rents, and an increase in vacant space. Savills has spoken with a large number of occupiers in Bangkok who plan to move into smaller offices over the next three years, as well as occupiers who are planning to maintain their current office footprint but reduce the number of dedicated workstations and create more meeting/collaboration rooms.

Occupiers seeking to minimise their office footprint usually look to the newer and higher

specification offices into which to move, by reducing their footprint occupiers often have an increased budget per square metre, which covers any increase in rental rate. This behaviour emphasises the flight-to-quality trend which was anticipated prior to the pandemic, due to the large amount of new supply coming to the market over the next five years. Developers of the new supply will typically provide greater incentives for occupiers to move from older buildings, such as rental discounts and rent-free periods, which will help to offset the capital expenditure of fitting out and moving.

It is expected that in the long-term flexible working practices will have the worst effect on landlords of older buildings, as occupiers seek to combine their downsizing plans with an upgrade into new higher specification office buildings. Savills therefore recommends that landlords of

older office buildings be generous in providing benefits to existing tenants in order to minimise the number of tenants moving to newer office developments. Further, landlords should also be looking to meet the concerns or complaints of existing tenants, with issues such as common maintenance etc., to reduce the number of potential issues which may lead to a new office being favoured.

Savills anticipates that flexible working practices will continue into the medium-term, remaining popular once the pandemic has receded, reducing overall office demand in Bangkok. It's likely that this will add further downward pressure on office rents, which when considered alongside the large amount of supply entering the market over the next five years will be particularly bad news for landlords. For tenants however, this will usher in a golden era of more choice and lower rents.