MARKET IN MINUTES
Savills Research

Prime Office

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Further rental and occupancy declines predicted

Changes in work practices could lead to a prolonged shrinkage in market activity.

- The overall occupancy rate continued to decline from 88.3% in the first quarter of 2021 to 87.9% in Q2, due to the pandemic and because of changing work practices.
- Savills Bangkok market-wide office stock tracked at 6.8 million sq m in total, of which 1.8 million sq m is Grade-A with over 1.1 million sq m set to enter the market by 2026.
- The market is becoming increasingly favourable for tenants, especially those considering consolidating their space or looking to upgrade into a more modern building.
- The government has continued to promote working from home since the third wave, which started in March 2021.

> "The future looks great for occupiers, who will enjoy more choice at lower rents, whilst landlords look likely to continue to struggle until the economy makes a full recovery and will be hoping that traditional work practices make a return."
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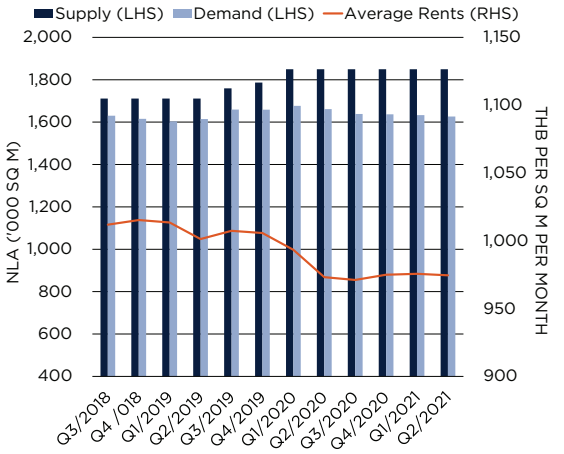
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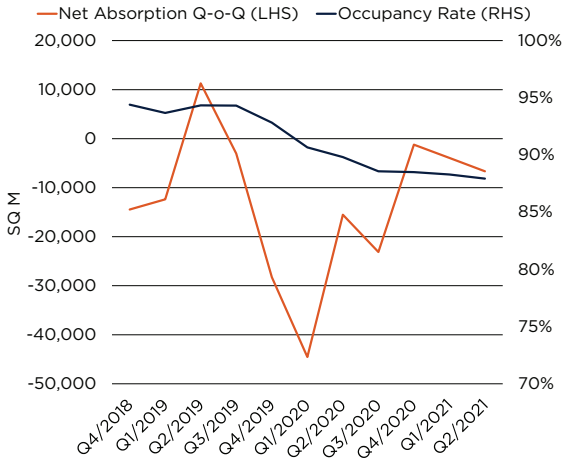
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GRAPH 1: Bangkok Prime CBD Office Supply, Demand and Rents, Q3/2018 to Q2/2021



Source Savills Research & Consultancy

GRAPH 2: Bangkok Prime CBD Office Net Take-up and Vacancy Rate, Q4/2018 to Q2/2021



Source DBD Thailand, Savills Research & Consultancy

OCCUPANCY

Bangkok's prime office occupancy rate stood at 87.9% in the second quarter, falling by a further 0.4 percentage points QoQ or by -2.1 percentage points YoY. Vacant space in Bangkok's prime grade-A offices now stands at 223,000 sq m, demonstrating a rise of 18.6% YoY. This reduction in space is predominantly driven by occupiers reducing their overall office footprint due to reduced headcount or where they plan to continue permitting flexi-working practices after the pandemic. However, interest in larger space remains in the digital & technology and e-commerce sectors due to their aggressive growth and their increasing headcounts. Whilst many of these occupiers continue working from home, their overall ambition to grow along with Thailand's adoption of online retail has led to these occupiers planning their office requirements years in advance.

RENTAL RATE

Rental rates have remained steady from the last quarter at THB974 per sq m in Q2/2021, from THB975 per sq m in the first quarter, representing a 0.15% change from THB973 per sq m YoY. Considering the severity of the market situation, the headline rental rate reductions appear very slight and will disappoint occupiers. However, Savills finds that the real savings are much more substantial, with regular discounts being achieved from the official rates, as well as rent free periods of up to six months being offered to sizeable occupiers, which alone would equate to a 17% saving.

SUPPLY

Total market-wide stock in Bangkok has reached 6.8 million sq m, of which prime CBD Grade-A office stock accounted for 1.8 million sq m. Two major mid-town/suburban office developments completed in Q2/2021 namely WHA Tower, comprising 24,000 sq m located on Bangna-Trat Road, and 66 Tower, comprising 29,000 sq m located in Udomsuk. There were no major completions in the CBD during the first half of 2021, though Savills expects that more than 58,854 sq m, including postponed projects from 2020, will be lined up to enter the market at the end of 2021, including O-NES Tower, Kronos Tower, Siam Scape, and Vanissa Building.

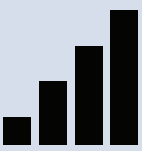
Future Grade-A stock in Bangkok is expected to grow substantially by 2026, with over 1.1 million sq m of new space to be added to the market. Due to the pandemic, the pauses in construction during lockdown and softening demand, most developments have delayed their completion dates by six-months or more. The two major mixed-use developments, One Bangkok and Dusit Central Park have both delayed their project phases, with One Bangkok's final phase understood to be under review awaiting a clearer demand for office space. However, the soft office space demand hasn't stopped One Bangkok's owner Frasers Property from acquiring the "Silom Center" mixed-use project, which is located on the corner of Rama 4 Road. The project is a redevelopment of the old mixed-use development, bringing its quality in line with modern Grade-A standards, and it is expected to complete sometime within 2022.

Several developers are exploring opportunities for outer CBD offices, particularly in northern Bangkok, Sanampao and Ari. The opportunity being that developers can benefit from cheaper land prices, which would be passed on to occupiers in lower rents and would allow the developments to focus more on local demand groups compared to CBD office developments. "One Origin Sanampao" by Origin Property PLC is a planned Grade-A office of 56,100 sq m in Sanampao beside the BTS station, a prime example of developers looking beyong traditional CBD locations.

GRAPH 3: Grade-A Supply, Demand, Rental Performance, and Stage in Cycle Key Data Points



Grade A space accounts for 27% of market-wide stock



1.1 milion sq m of new supply is expected by 2026



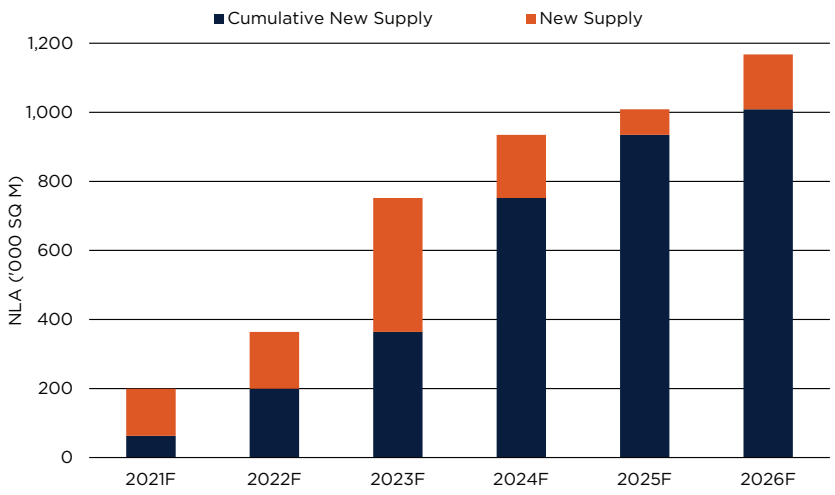
Headline rental growth in Q2 of 0.15% YoY, to average THB974 per sq m per month



Tenant-favourable lower rents and greater availability

Source Savills Research & Consultancy

GRAPH 3: Bangkok Prime CBD Future Supply, 2021F to 2026F



Source Savills Research & Consultancy

TABLE 1: Total Prime CBD Supply, 2019 to 2026F

	2019	2020	2021F	2022F	2023F	2024F	2025F	2026F
New Supply	75,255	63,000	164,500	164,500	387,957	183,000	74,000	159,000
Existing	1,774,472	1,849,727	1,912,727	2,049,014	2,213,514	2,601,471	2,784,471	2,858,471

Source Savills Research & Consultancy

TABLE 2: Future Supply, 2021 to 2026

YEAR	DEVELOPMENT	ZONE	AREA (SQ M)
2021	Silom Center (Redevelopment)	CBD	11,650
2021	Kronos Tower	CBD	22,500
2021	111 Praditmanutham	Non-CBD	10,660
2022	O-NES Tower	CBD	46,000
2022	S Oasis	Non-CBD	53,000
2022	The Rice Tower	Non-CBD	18,300
2023	One Bangkok (Tower 2 & 3)	CBD	201,000
2024	Dusit Central Park	CBD	90,000
2024	One Sanampao	Non-CBD	N/A
2026	Office @ Emsphere	CBD	20,000

Source Savills Research & Consultancy

COVID-19

Thailand in 2020 was viewed by most to be one of the few COVID-19 success stories, with minimal local infections and a seemingly robust response by government and the healthcare industry. Unfortunately, 2021 looks to be the opposite of the previous year's success; the current outbreak began in April and remains unchecked and running rampant through the country, with 20,000+ infections per day the current norm. Optimism appears to have waned and the prospects of a recovery feel far away, and this can be seen particularly in the Thai Industries Index which fell to 78.9 in July, down 5.4 points from the previous high of 84.3 in April which was collected prior to the impact of the latest wave.

Financial institutions have downgraded their GDP growth projections for 2022, with the Thailand Board of Investment (BOI) revising their figure from 4.7% to 3.9%. Whilst the government had been promoting a likely recovery within the final quarter of the year, most businesses are considering 2021 a write-off, with most now looking to Q1/2022 for a meaningful improvement in the economy and a turnaround in covid infections.

OUTLOOK

With the passing months, working from home looks set to remain a key working practice for staff in Bangkok. Looking to other international cities which have had a stronger recovery from the pandemic, working from home appears to remain as a key choice available to most staff; London reportedly has seen just 15% of staff making a permanent move back to the office, and there is a strong likelihood that Bangkok will follow this trend. Occupiers appear to be accepting this change in work practice likely due to the personal preferences of staff and the opportunity to save rental expenses. As an example, Siam Commercial Bank (SCB) has allowed their employees to work from any location they choose since the initial outbreak in 2020. SCB owns a large amount of office space and is looking to improve space functionality to better facilitate teamwork and flexi-working practices.

Savills anticipates that hybrid working practices and downsizing will continue to be a dominant trend over the next three years, reducing office occupancy rates market wide. This in combination with the increasing supply over the next five years will put pressure on landlords, who will become increasingly competitive as they fight to win tenants. Rental rates are anticipated to continue declining even post pandemic recovery, whilst the biggest changes will likely be in the net effective rental rates after having factoring in increasingly long rent-free periods and other financial incentives tenants may be offered. The future looks great for occupiers, who will have more choice of space at lower rents, whilst landlords look likely to continue to struggle until the economy makes a full recovery and will be hoping that traditional working practices make a return.