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# Thailand Megatrends

## Unique growth prospects for the new decade

Thailand is poised for a decade of growth according to substantive research released today by real estate and property services giant, Colliers International Thailand. “The research points to four compelling and positive factors that favour Thailand in the new decade” pointed out Patima Jeerapaet, Managing Director of Colliers International Thailand. “I have been involved in real estate for most of my adult life, but the next ten years could be the most exciting” he stressed.

“It is a unique period of opportunity, which provides a window of significant economic and social development for the country” said Antony Picon, Senior Research Manager for Colliers and writer of the report. “Demographic and regional economic factors are pointing in the right direction for sustainable development of the economy and it is vital that this reality is grasped by our policymakers and policy implementers, starting from today” he stated.

### 1. Demographic dividend presents window of opportunity

“Thailand is at the apex of one of its most dynamic and exceptional demographic periods for potential economic growth” points out Antony Picon from Colliers International Thailand.

While economists still debate about the causes of the Japanese economic miracle and later the explosive growth of the South Korean and Taiwanese economies, one key factor is often overlooked: demographics.

It is no coincidence that both Japan and Korea’s growth was coupled by a dramatic increase in the proportion of people aged between fifteen and sixty four. Korea’s economy expanded by over 8% a year from the 1960’s to 1990’s, occurring during a remarkable increase of the proportion of its population of working age. The same correlation occurred for Taiwan in the eighties and Ireland in the nineties. Some economists refer to it as the Goldilocks period, not too hot and not too cold; a period when many enter the workforce but few leave it for retirement and fewer babies are born due to low fertility rates. Antony referred to Japan. “Its demographic story is instructive; at around the turn of the new millennium the population started to age, which was also a period of sclerotic economic growth for the country”.

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### Thailand's window of opportunity

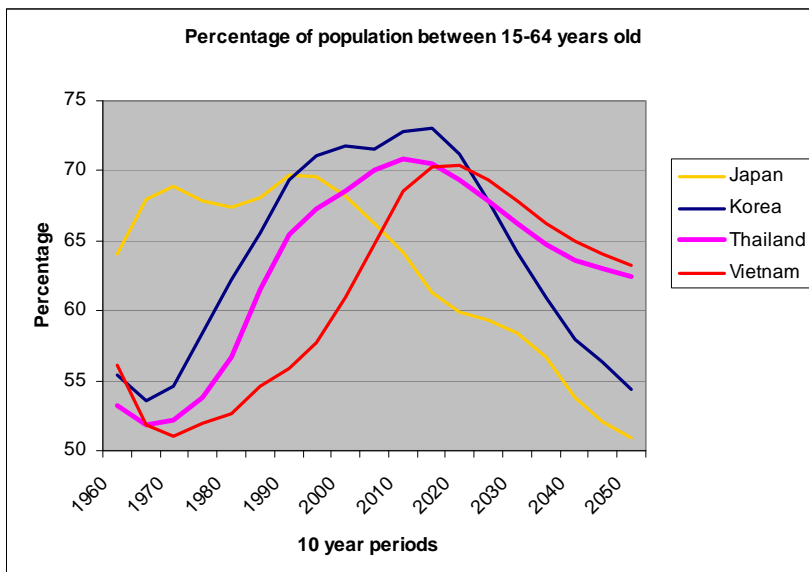
The chart shows that Thailand is reaching the zenith of its most potentially productive period, which is set to last for the next 20 years. Vietnam is also entering this period as its young population enters working age. With the reduced burden of dependants, young and old, more labour and capital can be channeled into output thus fueling rapid economic growth. "This enormous catalyst for development is dependent upon the ability of the economy to absorb the extra workforce productively" highlighted Antony.

The lower fertility rates that accompany lower youth dependency lead to more women in the workforce. The upshot of this is increased household income leading to greater discretionary spending; and as a result greater emphasis on quality and branding of products. Smaller household sizes, coupled with greater spending power will provide the engine for the condominium market in the next decade. Antony emphasized that more families will seek their own home, in a location close to mass transit routes at an affordable price in smaller size units. "Developers will increasingly have to consider amenities and branding for their condominiums to cater to a more discerning buyer in the mid-end category" he said.

Antony remembered fondly the acronyms used in England in the eighties to described these trends in his home country. "Yuppie was most widely used, standing for young upwardly mobile professional but my favourite was DINK, which stood for Double Income No Kids. So perhaps I can start using that name again but this time for Thailand"

The enormous demographic changes are mirrored in most Asian economies and Thailand can reap the rewards from increasing trade with its neighbours. "With stable global economic and domestic political conditions permitting, the next decade could be a golden one for Thailand" stressed Antony.

There is a caveat to the good news. As the chart shows, eventually the booming workforce will retire and the population will age, as is happening now in Japan. The growth that should emanate from the existing demographic dividend will help support the safety nets for the ageing population in the future. But that is another story, perhaps for 2030. In fact the greying of the population in Japan, Europe and North American poses another great opportunity for Thailand.

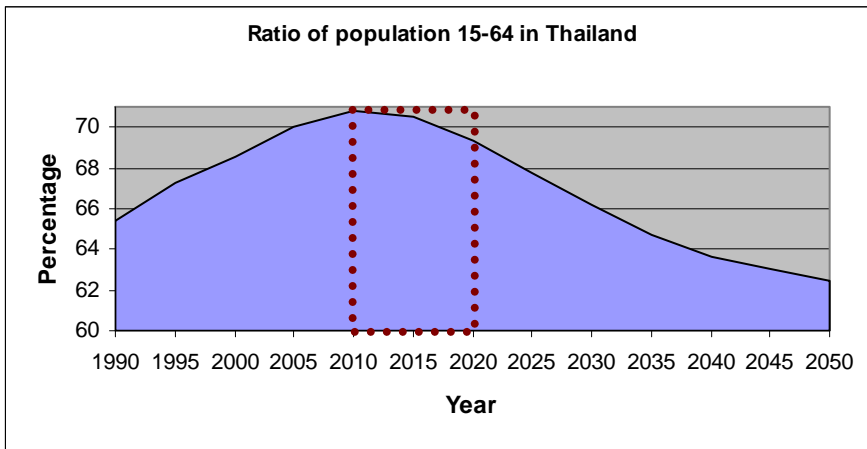


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Source: United Nations, Department of Economic and Social Affairs (DESA)

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### Thailand's window of opportunity



Colliers International  
Source: United Nations, Department of Economic and Social Affairs (DESA)

## 2. The extraordinary rise of the grey baby boomer

“Economists have been talking about it for a long time, but finally it is upon us” stated Antony Picon from Colliers International Thailand. “The first baby boomers, born after the Second World War, are about to retire and the positive consequences for Thailand could be substantial”.

The charts show the dramatic rise in the number of people who will be of retirement age over the next two decades. All countries mentioned are strong tourist markets for Thailand. “An amazing 3% of the Scandinavian population visit Thailand every year” said Antony and about one million people there will enter retirement age during the 2010’s, over double the number in the previous decade. And that is just a small fraction of the total in Europe and North America.

### The grey market

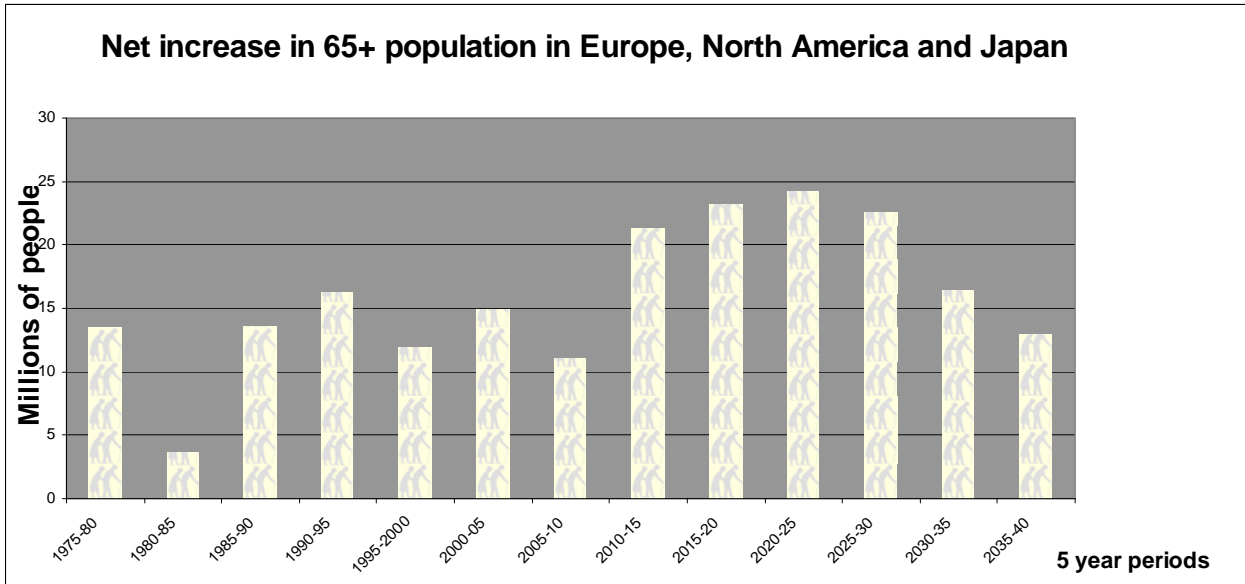
Thailand has long been a magnet for retirees and second home occupiers and the 2010’s presents a huge opportunity to capitalize on the surge of retired people. Expect the market to become more sophisticated with retirement home property developers from Europe, North America and Australia providing specialized property packages and financing. It must be remembered that as a population grows older, it also grows healthier. Antony questioned the notion that old means inactive. “Senior citizens will demand more facilities in the future as they will be more active due to the free time they now have. Activities such as golf and hiking will be partly driven by the new retirees and expect a concurrent growth in medical and wellness tourism”. In 2009 one point two million visitors came to Thailand for medical tourism and this is set to swell on the back of the new retirees.

These new retirees will significantly effect the growth and development of resort areas such as Pattaya, the Hua Hin corridor, Chang Mai and Phuket as well as the lesser known towns of Chang Rai and Hat Yai. A key focus will be on clusters, as retirees care more about whom their neighbours are, especially who can speak their language. Antony expects partially clustered retirement communities in the future with shops, restaurants and community centres catering for specific language groups. “Some serviced apartments and hotels are likely to offer special packages regarding pricing and facilities for the over 60’s in order to capture this growth market” he stated. “The distinction between tourist and resident will become further blurred as many retirees are likely to stay in Thailand for the winter and return to their home country in summer”.

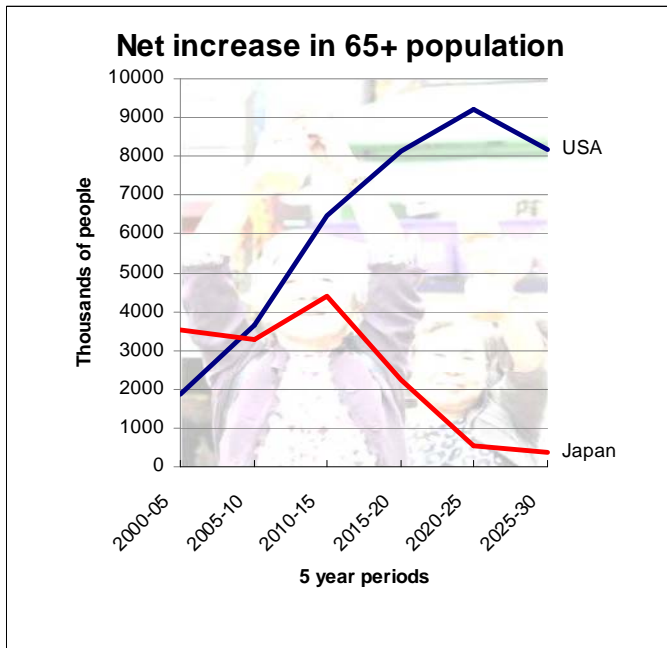
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It must also be remembered that other countries will also provide stiff competition for this burgeoning market; Malaysia, Philippines, Vietnam and Cambodia will be in the hunt. Concerns over freehold and leasehold ownership for foreigners persist and a more open, clearer structure involving longer lease periods and streamlined inheritance procedures should be set in place in order for Thailand to make the most of the dramatic population shift in Europe and North America.



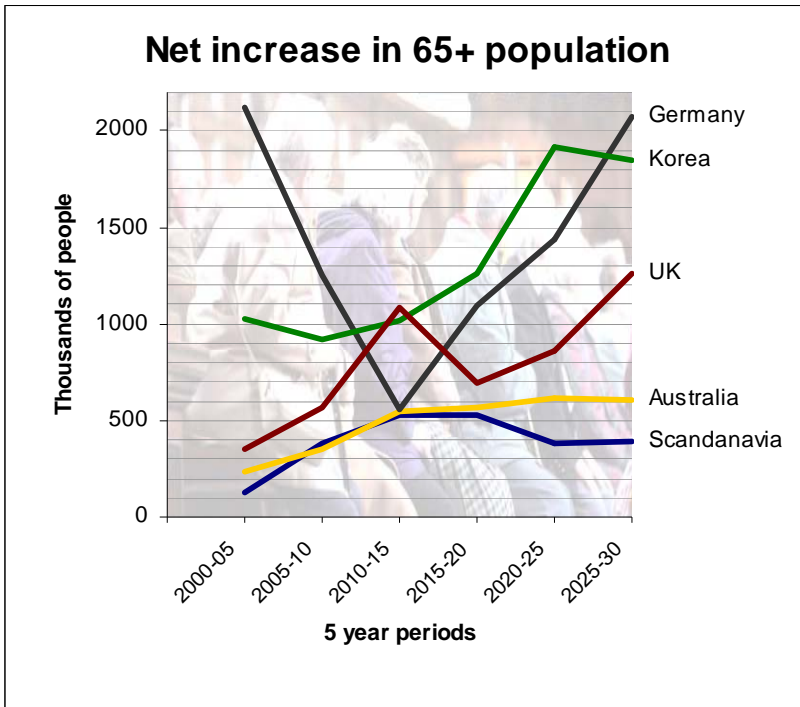
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 Source: United Nations, Department of Economic and Social Affairs (DESA)



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### 3. The new economic fabric of Asia

Thailand has witnessed a dramatic shift in its trading patterns over the past decade with ASEAN playing an ever increasing role as demand driver for Thailand’s exports. Antony Picon from Colliers International Thailand commented “The new decade promises more ASEAN integration but also with two new substantial heavyweights open for business: China and India”.

The two charts show graphically the considerable shift that has occurred in Thailand’s trade relationships over the past decade. While Thailand’s old staple trading partners have shown lackluster growth, the Asian economies have surged ahead. ASEAN and other Asia Pacific economies now account for the lion’s share of Thailand’s exports and even its direct competitors in the form of Vietnam and Indonesia are larger importers of products from Thailand than the United Kingdom or Germany. This can be attributed to the ASEAN Free Trade Pact that took effect during the last decade.

#### Ever closer

It is difficult not to see this trend continuing along with the inexorable growth of the East Asian, South Asian and ASEAN economies and continuing reduction of trade barriers between the countries in the continent. At the beginning of 2010, ASEAN commenced three separate free trade pacts with China, India and Australia/New Zealand, an event that is likely to herald a tectonic shift in economic relations, not only in Asia but with ramifications the world over. This sea change will directly affect Thailand and will extend from industry and into the service economy. Already Samsonite has announced that they will be expecting to double production from sub contractors in Thailand at the expense of China this year, to tap into this new reality. And this is only the beginning of the story.

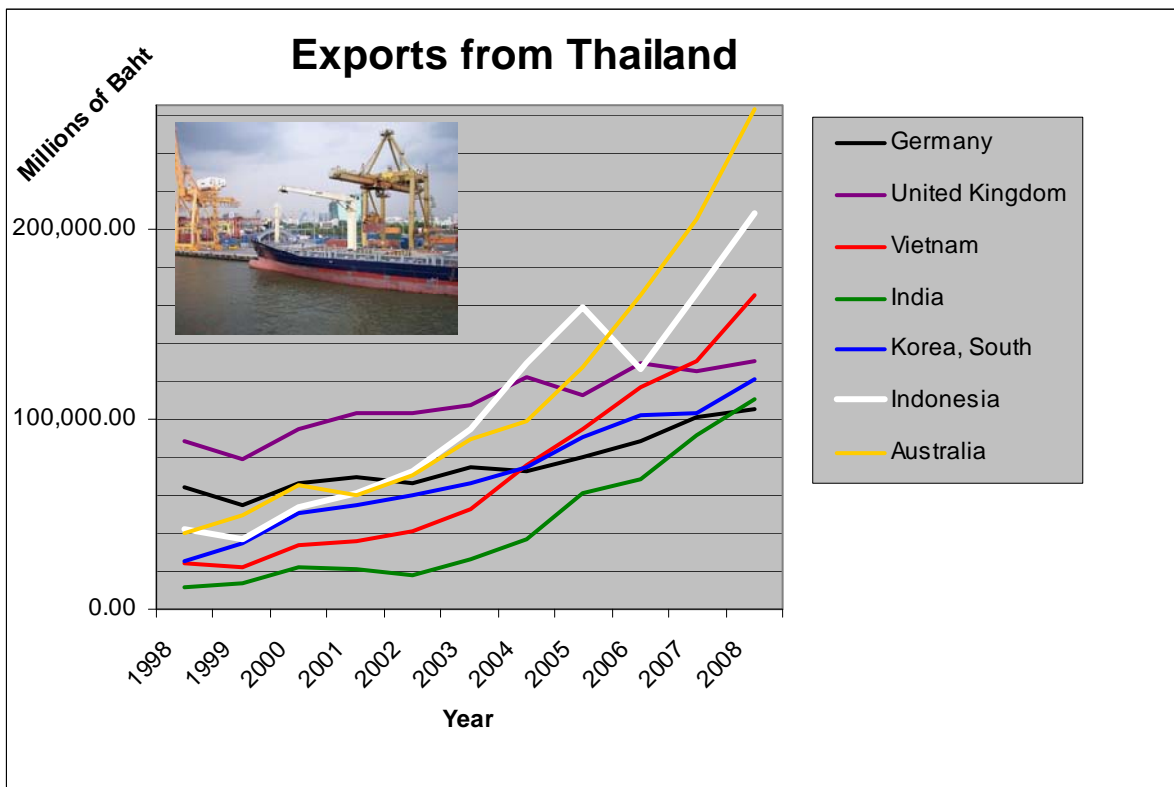
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Antony believes that the impact in the 2010's will be greater numbers from the region occupying hotels, serviced apartments, condominiums, factories and office space in Thailand. "Companies are likely to be of smaller size, so expect more demand for smaller office units in non-CBD locations, home offices or use of business centres. More localized expat packages will create demand for lower priced rental options" he said.

As the Asian region becomes more integrated, there will be an increased propensity for Thai companies to venture out to the regions and future economic relationships to become more fluid. However, the continuing rise of the Asian economies, especially in the ASEAN region, will probably result in more western companies wishing to share some of the spoils, so Bangkok could be well placed to act as an ASEAN regional hub assuming that Thailand welcomes and supports such developments.

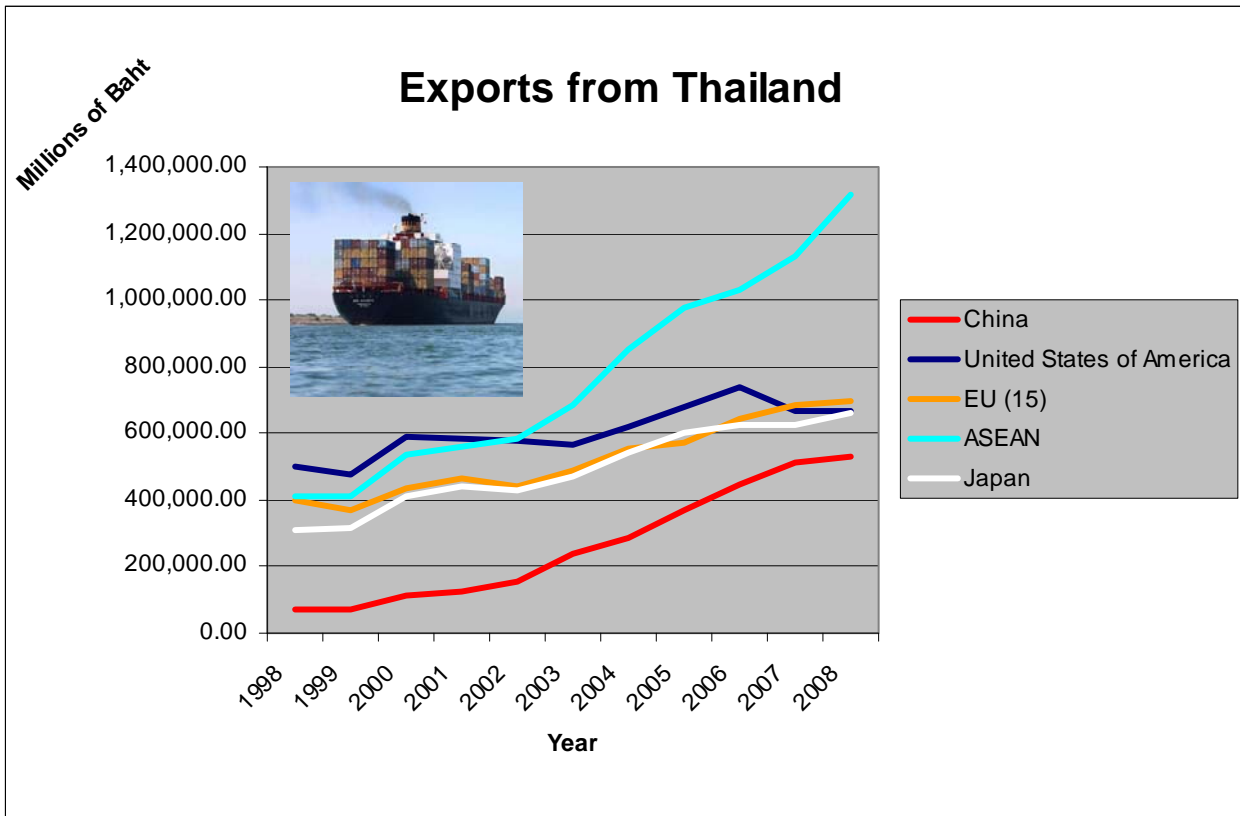
As exports grow and nations become richer, expect tourism and later FDI to emanate from the region to Thailand over the next decade. Antony Picon's main point is that countries such as Vietnam, Indonesia, India and China are not only Thailand's competitors, but real partners and Thailand can significantly gain from the increasing prosperity of the region.



Source: Bank of Thailand

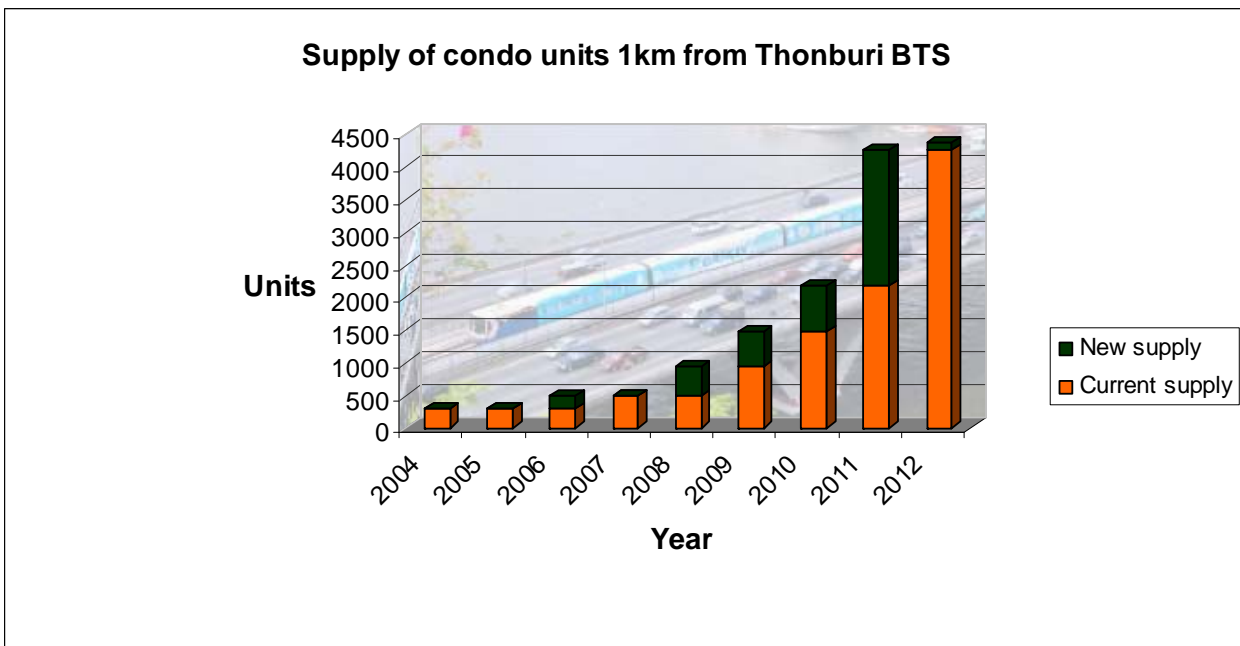
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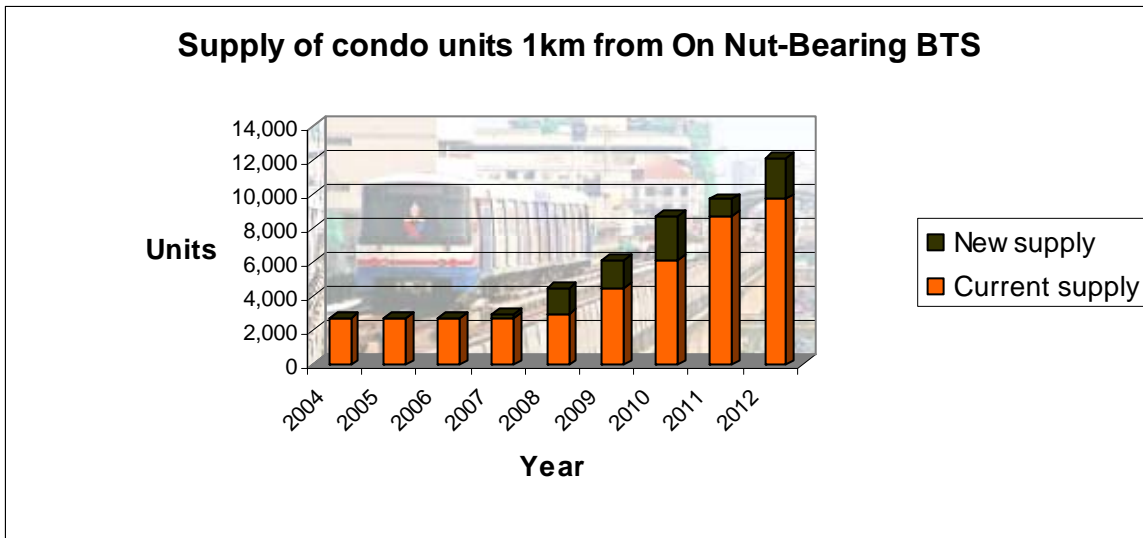
#### 4. Mass transit means mass development



Source: Colliers International Research

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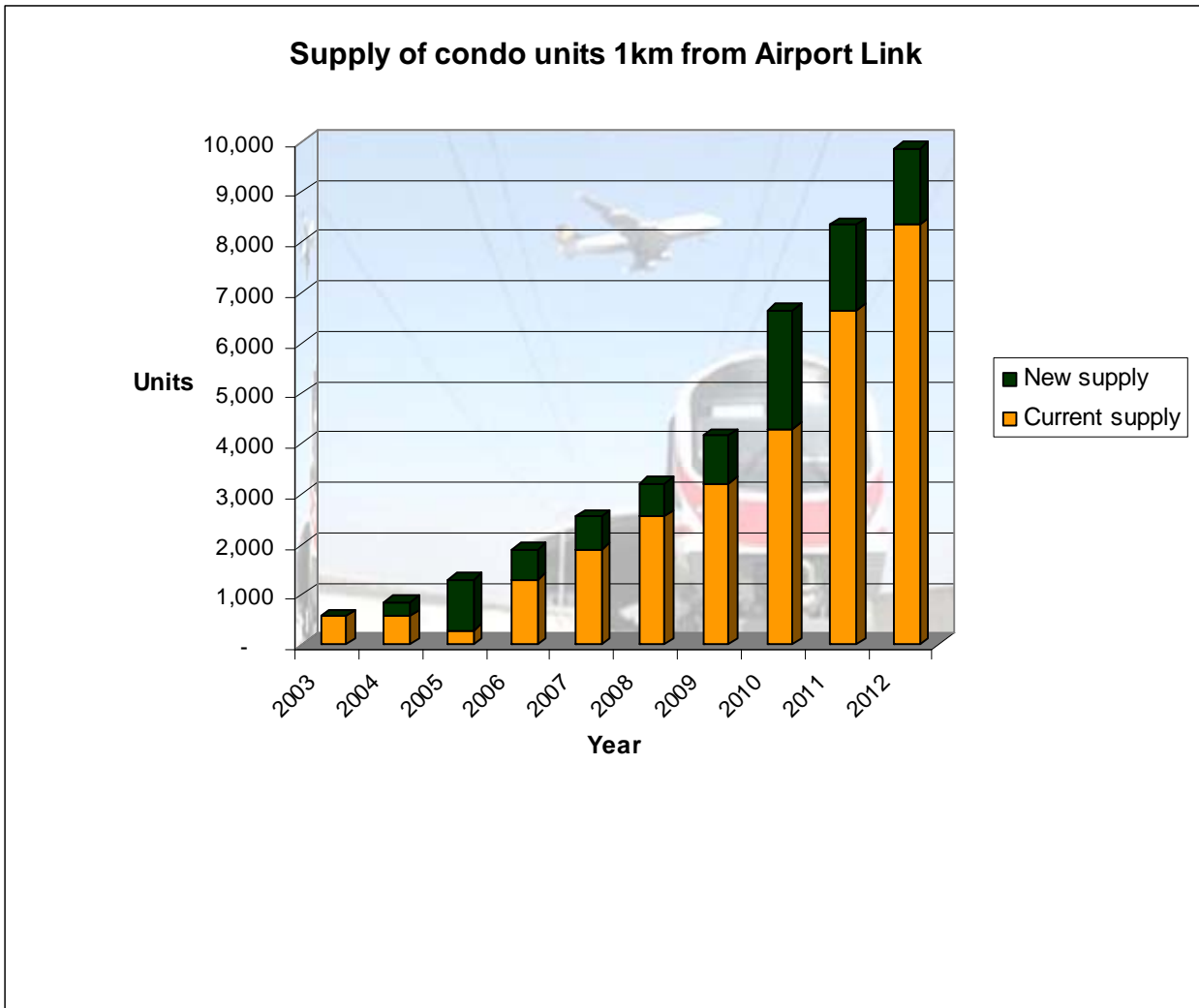
For Bangkok, the new decade will herald in a new era of mass transit lines that will significantly stimulate residential and other real estate expansion in the city.

The development of mass transit lines in cities around the world has long dictated the pattern of real estate development. Antony Picon from Colliers International Thailand drew attention to Hong Kong where the construction of the Kowloon-Canton Railway extension led to new towns sprouting out of tiny villages. The new towns supplied mostly mid end condominiums to meet the pent up demands of the burgeoning middle class in the 1980s. In Bangkok, the BTS and MRT lines spurred real estate development in the vicinity of the lines over the past 15 years. The 2010's will be another hallmark decade for development due to the new mass transit lines that will be going on stream over the decade. The Express and Rapid Transit Authority of Thailand estimates that commute time now accounts for about one-quarter of the time spent at work with resulting negative effects on business efficiency and productivity. Antony said "I am sure that the mass transit lines are the most powerful magnet for location of real estate development, notably residential. So much valuable time can be saved and the family can only benefit as well as the environment".

The new phase of mass transit began in 2009 with the extension of the BTS Silom line across the Chao Phraya River into Thonburi. The addition of two new stations has resulted in a construction boom of condominium units as shown in the chart. According to Colliers International research, within one kilometer of the Thonburi BTS extension line there will be an over fourteen fold increase in apartment units from 2005 to 2012, with nearly half that figure expected to come online in 2011. The new BTS extension line between On Nut and Bearing, scheduled to open in early 2011, is awash with condominium construction with over 5,000 units expected to be added by 2012.

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Of greater significance is the new The Suvarnabhumi Airport Rail Link, covering a total of 28.6 km, which has spurred rapid growth of developments close to the eight stations that will be connected. The line is already constructed and is due to go into service in April 2010. This will represent a key landmark in the transport infrastructure of Bangkok. This has also led to a rapid growth in construction on Phetchaburi Road and Rama IX with over 5,500 apartment units scheduled to be completed over the next three years according to research conducted by Colliers International Thailand.

A number of new lines are planned for the future stretching out in all directions of the city, although most are in the planning phase. What is clear regarding development is that the majority of completion takes place in the period shortly before the opening of a new station and a number of years after completion, so residents can enjoy access to the transport system upon occupancy. The memory of the “Hopewell” line means that developers are reticent about starting construction before they are sure that the line will be built and a solid timeframe given as to completion. It is more likely that a process of land banking will take place at the beginning. As progress is made on construction of the various lines, cranes will begin to dot the landscape in those areas over the new decade.

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While luxury condominiums are likely to continue to spring up in the immediate vicinity of new mass transit projects, the main focus will be on affordable, mid-end, small unit size condominiums sating the demands of the growing middle classes seeking a way out of the eternal Bangkok traffic jam. However, access comes at a price. Colliers International Thailand has researched the pricing of condominiums close to the existing mass transit lines. For example, condominiums within 200-500 metres from the existing MTR line are sold at between a 70-95% premium per square meter to similar quality apartments over one kilometre from the line. However, as Antony pointed out, "the relatively lower pricing of condominiums far away from the mass transit lines will ensure demand for residential products from lower income earners".

### **Conclusion – A bumper decade for Thailand and the property sector?**

Each of the four megatrends alone would spell great advantages for Thailand but in combination they present themselves as a dynamic concoction. A young vibrant population making the most of the new trade and business potential of a more integrated Asian economy with the help of a future, world class, modern infrastructure not only ferrying the aspiring Thai around this energetic city but the planeloads of young tourists and grey baby boomers enjoying the great lifestyle that Thailand has to offer.

While every decade presents challenges and opportunities, this new decade is a unique one for the prospects of prosperity and well being of the country. In ten years, when the curtain falls on another decade we may look back with elation at the great strides the country has made towards being a fully developed economy. And as the economy grows, so the real estate market benefits from this. Antony concluded "The enormous potential of the new decade is upon us, we should grasp it."

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