THAILAND

# BANGKOK OFFICE MARKET

## Bangkok Office Market

### HIGHLIGHTS

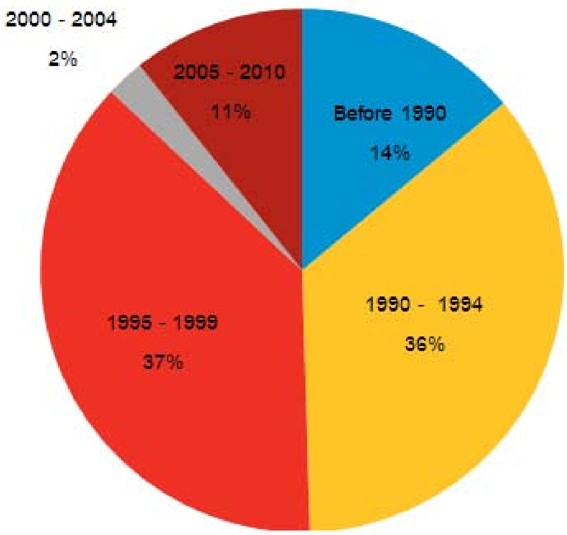
- The metrics for the office market in Q2 2011 remained almost the same as for Q1 2011.
- A more positive trajectory for the office market could be in store for the future if the political situation is perceived as being more stable.
- Around 100,000 sq m of office space is set to hit the CBD market in H2 2011.
- Initial strains expected from new supply in 2011 but a limited amount of new supply in the next few years will lead to hardening of occupancy and rental rates.
- The ASEAN Economic Area comes closer to fruition in 2015 and the service sector can benefit from this.
- Greek fiscal problems and contagion from other European countries remain a concern going forward.
- Bangkok contains the most office supply for any city in the ASEAN area.

### MARKET INDICATORS

| | Q1 2011 / Q2 2011 |
|---|---|
| NEW SUPPLY | ↔ |
| DEMAND | ↔ |
| RENTALS | ↔ |
| OCCUPANCY | ↔ |

## HISTORICAL SUPPLY

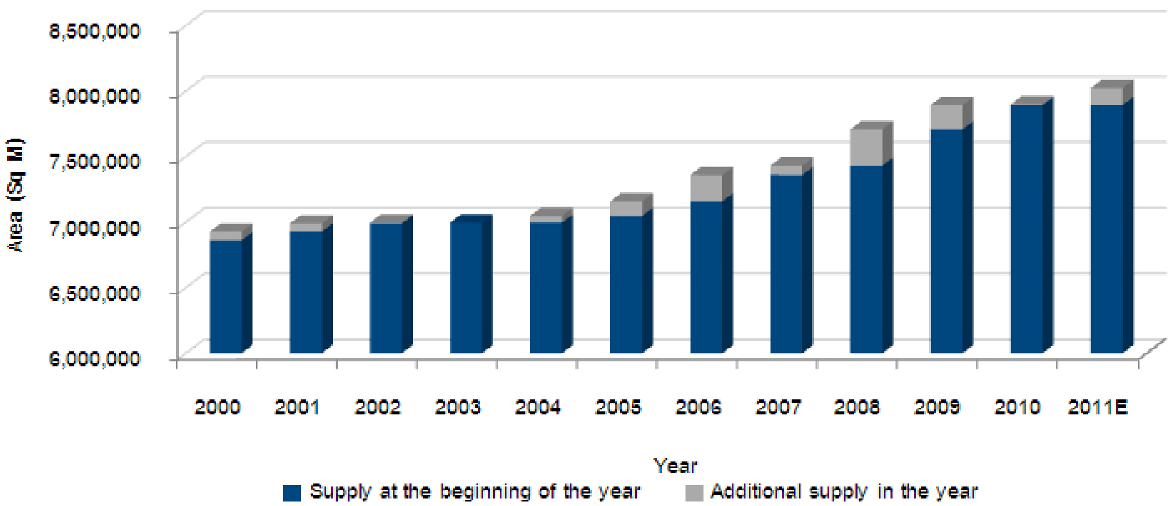
TOTAL SUPPLY ADDED FOR EACH FIVE YEAR PERIO




Source: Colliers International Thailand Research

More than 70% of existing office buildings were supplied to the market in the 1990's which represented a period of economic growth on the back of a surge in manufacturing exports. This is in stark contrast to only two percent added in the five years following the effects of the Asian Financial Crisis (AFC). Even with the pick up in the second half of the decade, only 13% of supply came from the first decade of the century.

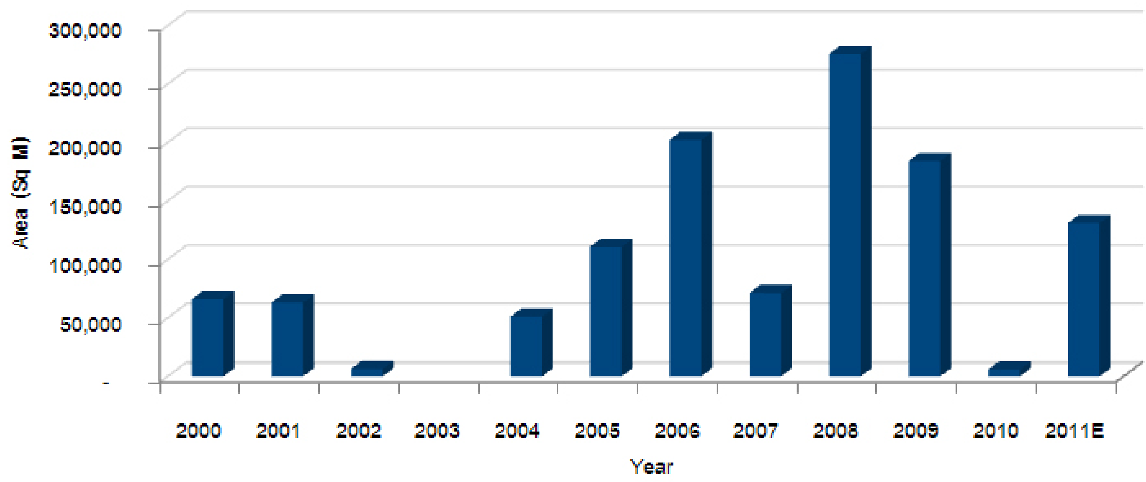
CUMULATIVE SUPPLY IN BANGKOK




Source: Colliers International Thailand Research
Remark: E = Estimated

The office market picked up in the second half of the 2000's after the aftermath of the Asian Financial Crisis when Thailand resumed economic growth and confidence returned to the market. Between 2006 and 2008 a number of large modern grade A buildings were added in the CBD that rejuvenated the office market to some degree including Q House Lumpini, Interchange 21, Exchange Tower, Chamchuri Square and The Column. Most of the new supply in 2009 came in the form of the Energy Complex in the Northern Fringe.

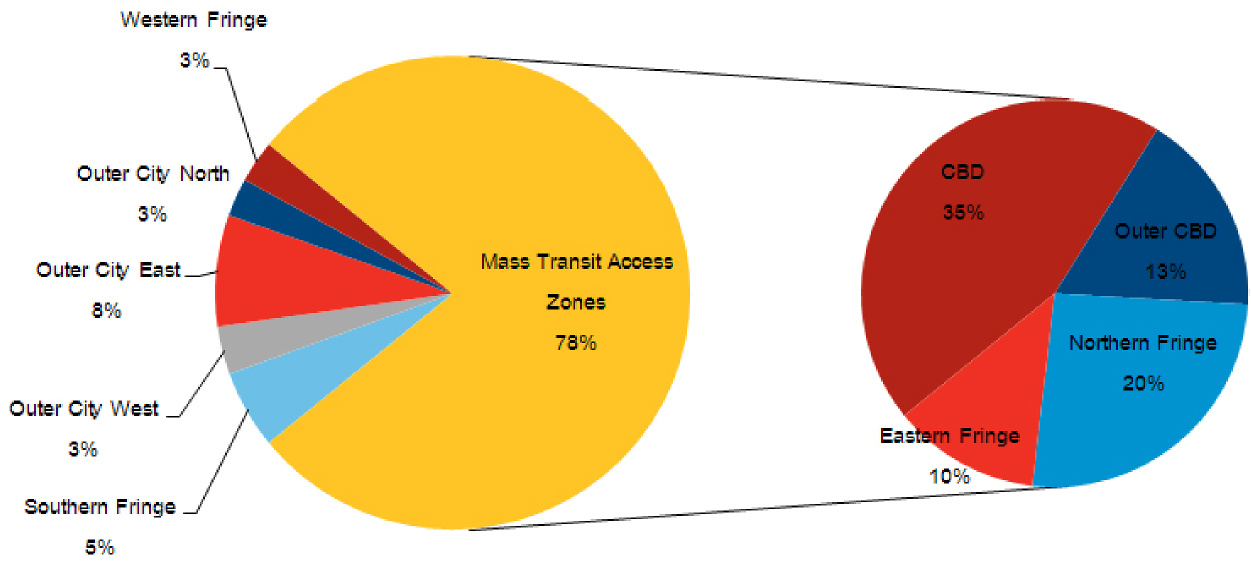
ADDITIONAL SUPPLY FOR EACH YEAR




Source: Colliers International Thailand Research

As of Q2 2011, no new supply has been added this year due to political and economic uncertainties of the past few years and delays. However, in the second half of 2011 two new office buildings located in the CBD are expected to be completed with a total of 100,500 sq m and three offices with an aggregate of 30,500 sq m scheduled to be added in the Northern Fringe.

SUPPLY BY LOCATION, AS OF Q2 2011



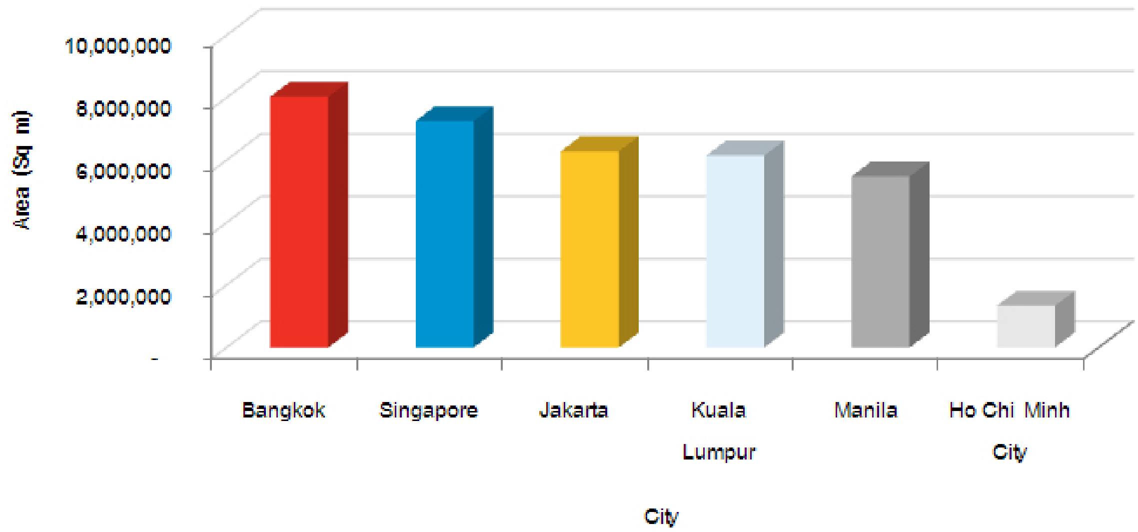

Source: Colliers International Thailand Research

Four zones are considered as having good access to the various mass transit lines while the others are some distance away. The Bangkok office market is categorized by the level of dispersion of supply throughout the city including the suburbs and only just over a third of supply is in the CBD, which in itself covers a wide area.

The CBD is followed by the Northern Fringe area and Outer CBD area with 20% and 13% respectively.

## SUPPLY COMPARED WITH OTHER ASEAN CITIES

OFFICE SUPPLY IN ASEAN CITIES, AS OF Q1 2011



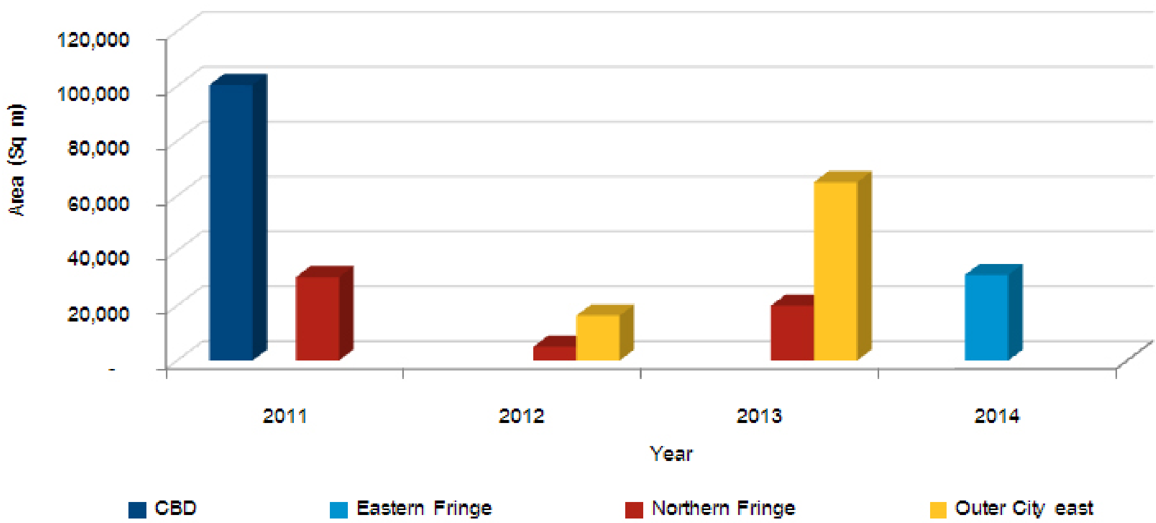

Source: Colliers International Asia Offices

Bangkok still leads the way when it comes to total office supply compared to the other main commercial cities in ASEAN; largely the legacy of the building boom prior to the Asian Financial Crisis. It must also be stated that other countries have secondary commercial centres which is not the case in Thailand. These would include Surabaya in Indonesia, Hanoi and Danang in Vietnam, and Cebu in the Philippines.

In Bangkok while office supply occurs all over the city there is not one area outside the CBD that can be considered as a new concentrated business centre such as Bonifacio Global City in Manila, South Jakarta or Yeoudio in Seoul. The Bang Na area with its access to the airport and Eastern Seaboard may be a future secondary business centre but access to the BTS means the Northern Fringe will still remain the most popular area for a non-CBD location.

## FUTURE SUPPLY

FUTURE SUPPLY BY LOCATION

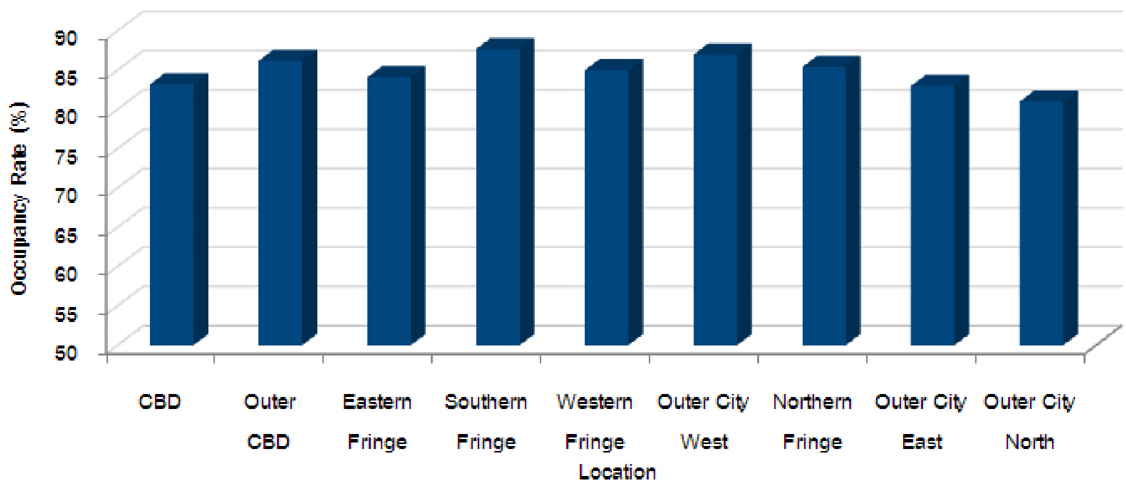



Source: Colliers International Thailand Research

Nearly 270,000 sq m of office space is scheduled to be supplied in Bangkok in the next three years in only four zones. Five office buildings are scheduled to be completed in the Northern Fringe area in the next three years. Overall expected additional new supply over the next three years will represent a less than 3.4% increase in total supply. This represents very little additional space for the market to absorb and points the way to greater occupancy levels and a strengthening of rental rates in the next few years.

## DEMAND – TAKE UP

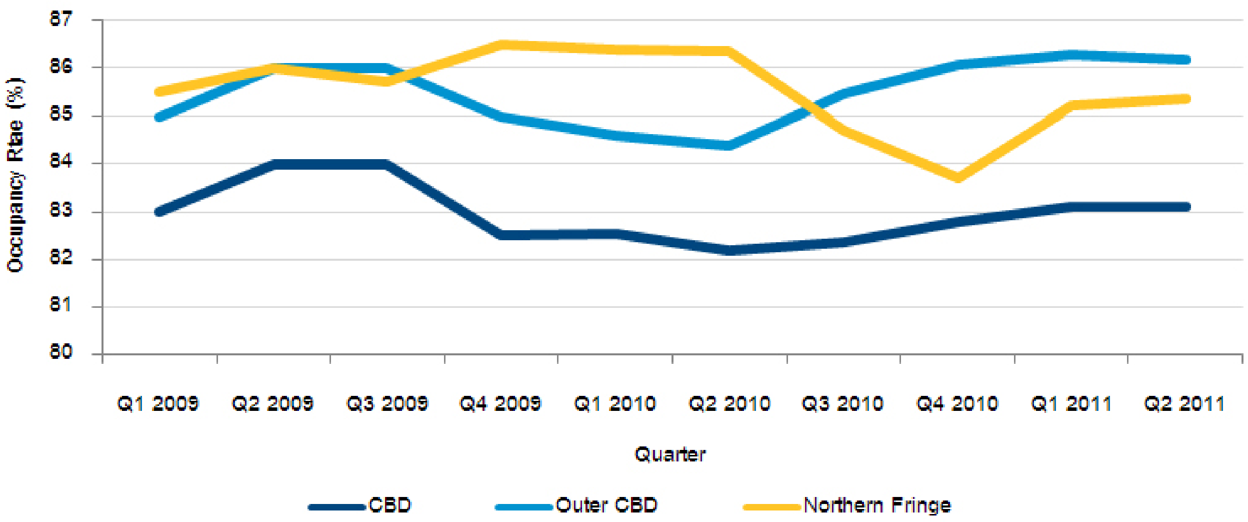
OCCUPANCY RATE BY LOCATION, Q2 2011




Source: Colliers International Thailand Research

The Southern Fringe area still commands the highest occupancy rate for Q2 2011 although it only represents 5% of total supply in Bangkok. The Outer City North area has the lowest occupancy rates and maybe a result of the movement of airport operations away from Don Muang. The CBD occupancy rate recorded the second lowest figure due to the movement of some businesses to other areas. It must be stated that differences between the areas are small however.

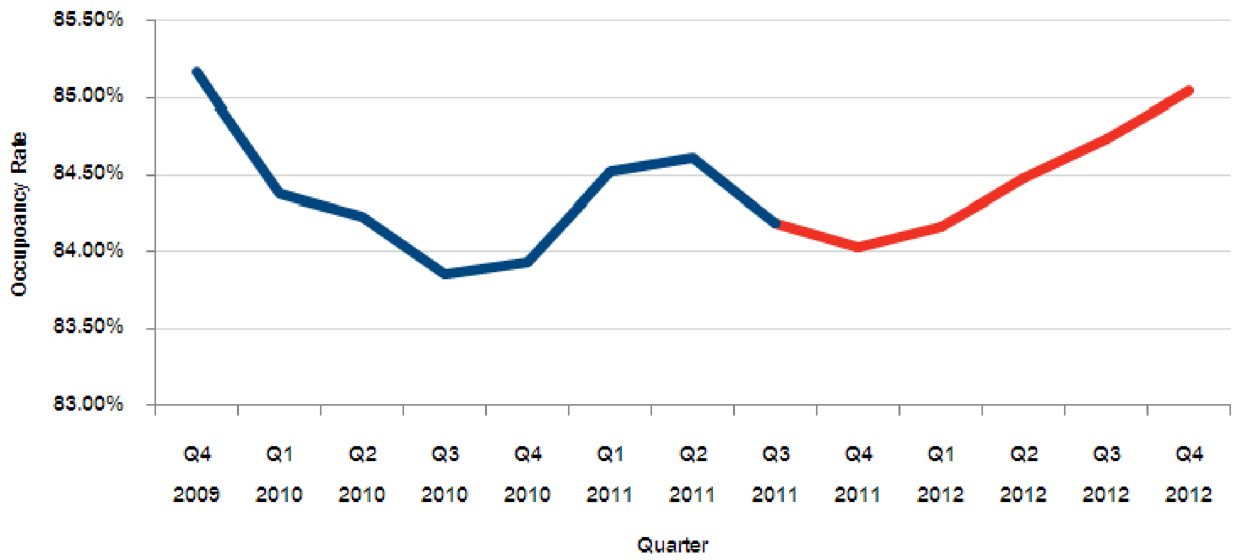
OCCUPANCY RATE IN 3 LOCATIONS, Q1 2009 – Q2 2011




Source: Colliers International Thailand Research

Occupancy rates remained more or less the same for Q2 2011 q/q as businesses still anticipate the election and its consequences coupled with the economic situation in Europe due to a potential Greek default and fiscal weakness in other countries. These uncertainties continue to frustrate demand for office space.

ACTUAL AND FUTURE ESTIMATE OF OCCUPANCY RATES

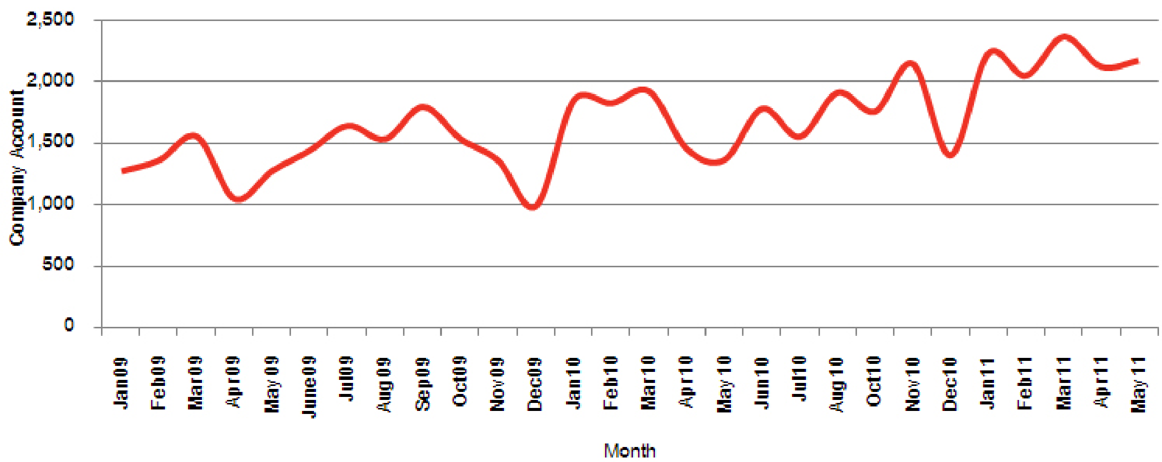



Source: Colliers International Thailand Research

The effect of the expected introduction of Sathorn Square in H2 2011 is likely to have a short term detrimental effect on occupancy after a recovery in Q1 2011. However with modest growth predicted for the following two years and a limit on new supply, Colliers International Thailand predicts a gradual but sustained rise in occupancy rates in 2012. This will in turn lead to a certain hardening of rental rates. This analysis assumes that both domestic political concerns and the global financial situation do not take a turn for the worse.

## DEMAND DRIVERS

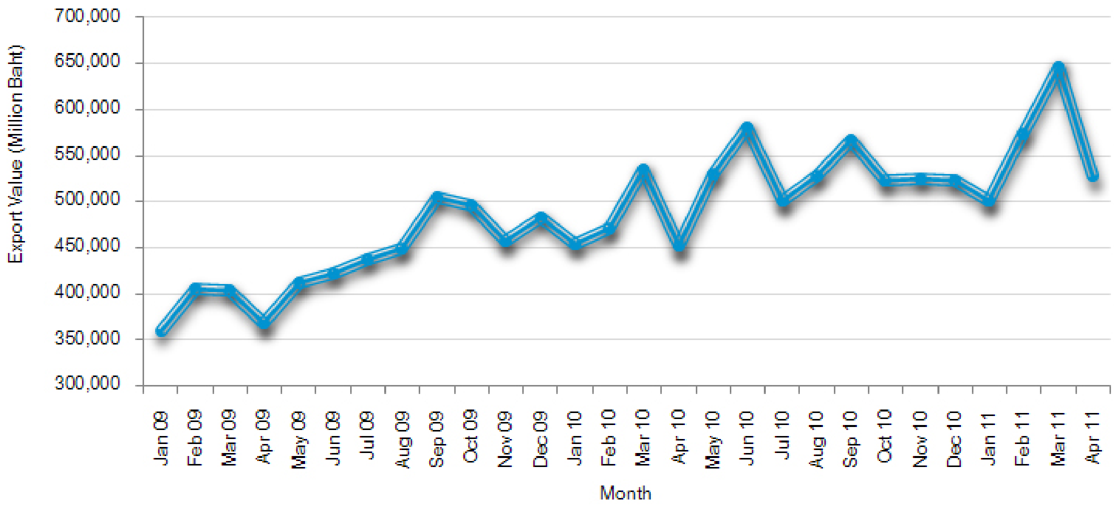
NEWLY REGISTERED FIRMS DURING JANUARY 2009 – MAY 2011




Source: Department of Business Development and Colliers International Thailand Research

The somewhat erratic figures still point to a long term upward trend in new businesses with the first five months of the year showing strong numbers overall. This trend sends a positive signal to the office building market in the longer term as new businesses are an important source of demand.

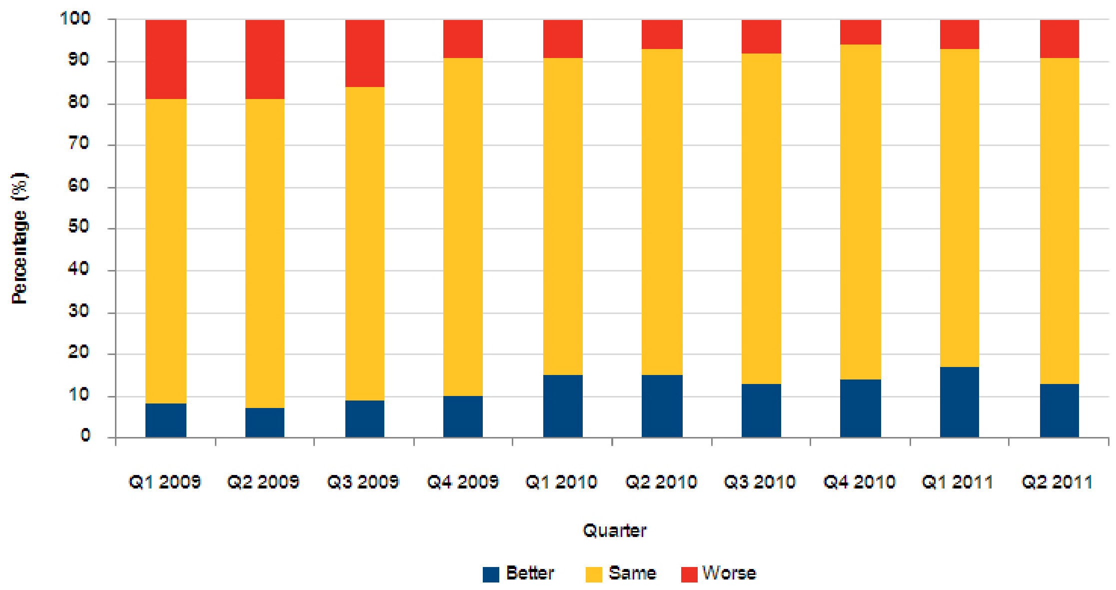
EXPORTS FROM THAILAND ON A MONTHLY BASIS




Source: Bank of Thailand and Colliers International Thailand Research

Industrial growth is one of the main drivers powering the office market as it brings about the need for trading, financial, legal and insurance services, amongst others, to support it. April's fall was a result of the Japanese earthquake and tsunami which severely disrupted supply chain movements. Imports of supplies from Japanese companies to their manufacturing bases in Thailand fell dramatically which affected manufacturing output and consequently exports to Thailand's primary markets. As a temporary aberration this will not have any discernable effect on office demand as exports are likely to regain their vigour. In fact some commentators are suggesting that Thailand could benefit from changes to Japan's manufacturing system in the longer term as a result of the tragic events in March whereby more production is based overseas.

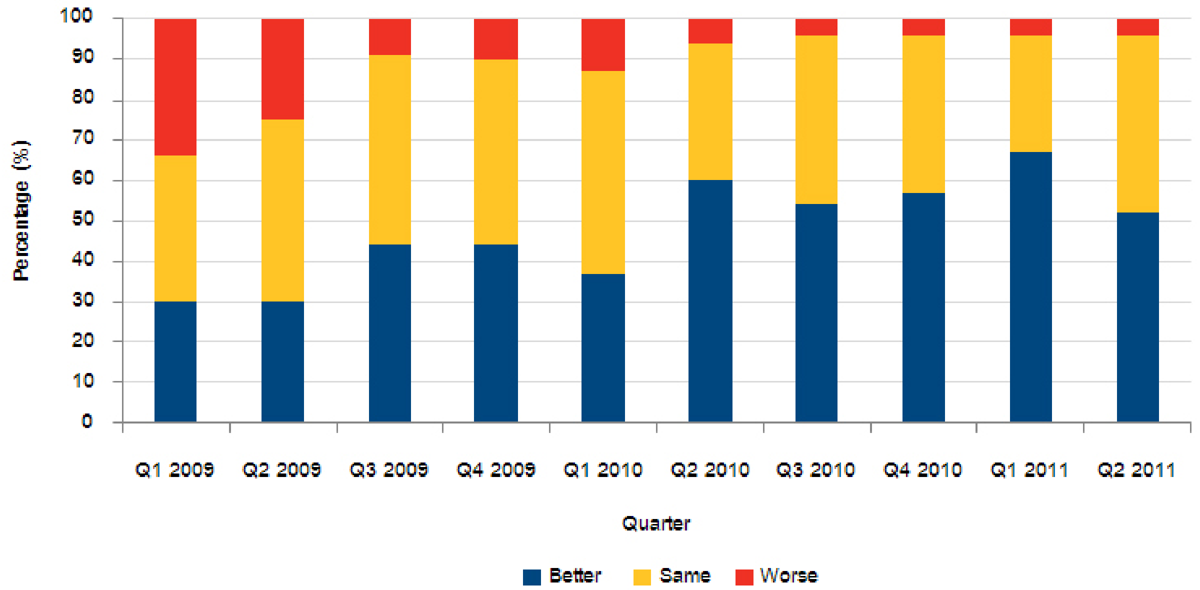
BUSINESS EXPANSION EXPECTATION INDEX




Source: Bureau of Trade and Economic Indices and Colliers International Thailand Research

Sentiment relating to future prospects for business expansion still remains in the doldrums. A significant driver for office space demand comes in the form of existing businesses expanding their operations. Although there has been a bounce back from early 2009 with more business people being optimistic than pessimistic it appears not to be strong enough to lead to a surge in demand going forward. The aftermath of the general election will be critical to whether confidence returns.

BUSINESS EXPECTATION FOR FINANCE & INSURANCE COMPANIES INDEX

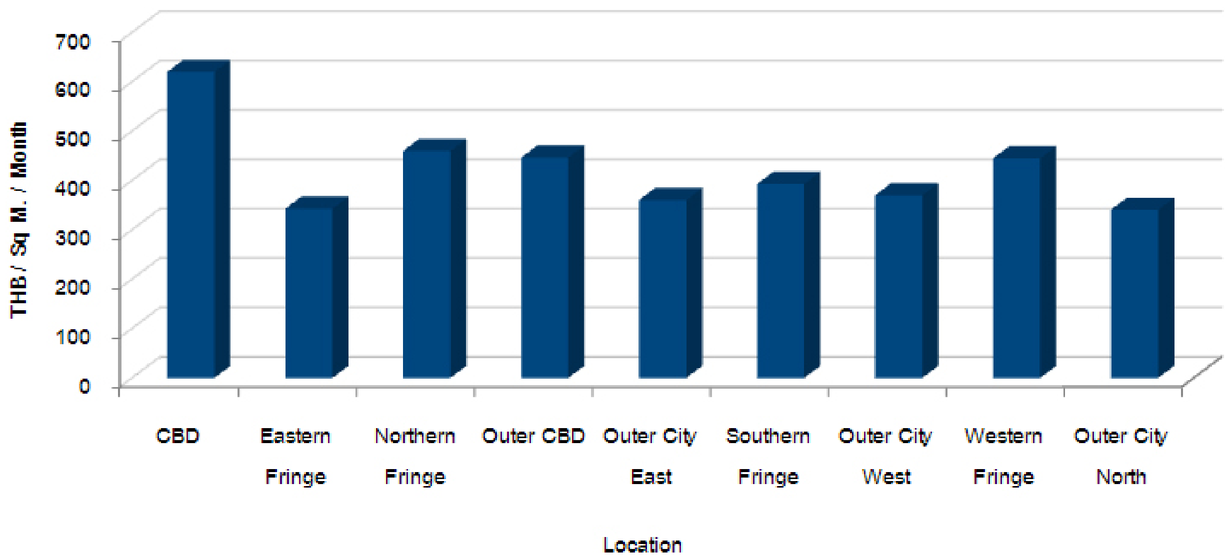



Source: Bureau of Trade and Economic Indices and Colliers International Thailand Research

Finance and insurance companies represent a strong market for office space in Bangkok. Overall it would appear that sentiment is based more on the global economic travails than the domestic situation in Thailand. A strong rebound in confidence took place after the effect of the Global Financial Crisis receded but recent issues regarding the Greek financial solvency and budget issues in the USA and Japan have renewed fears that seem to have resonated in Thailand.

## RENTAL RATE, Q2 2011

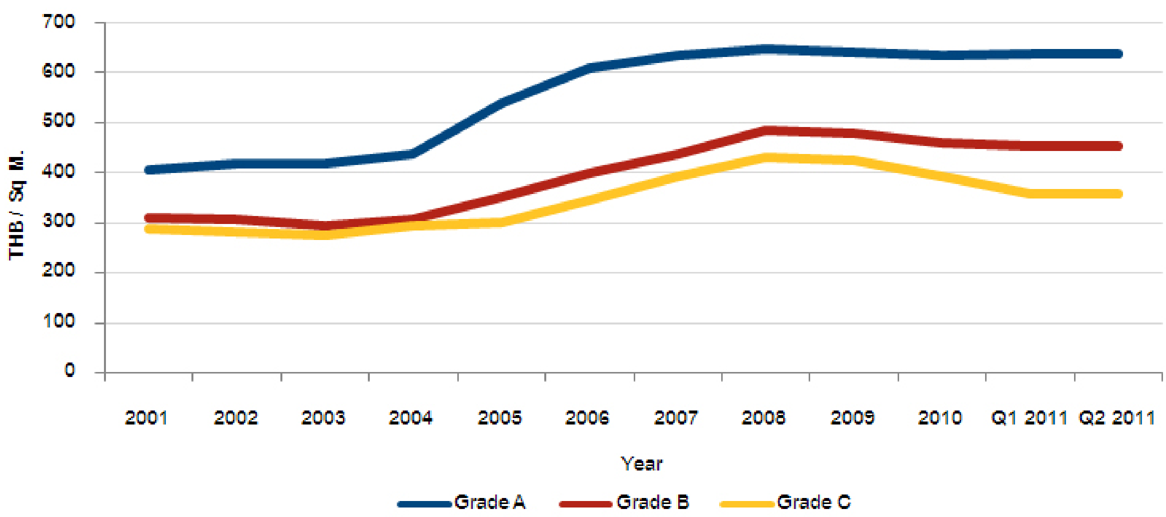
RENTAL RATE BY LOCATION




Source: Colliers International Thailand Research

Unsurprisingly the CBD commands the highest rental rates due to its location and number of grade A buildings. Rents in the Outer CBD dropped while increases were recorded in the CBD and Northern Fringe areas. This could be explained by the fact that a significant number of offices are located close to both the BTS and MRT while most offices in the Outer CBD are located some distance from mass transit lines and many are relatively old.

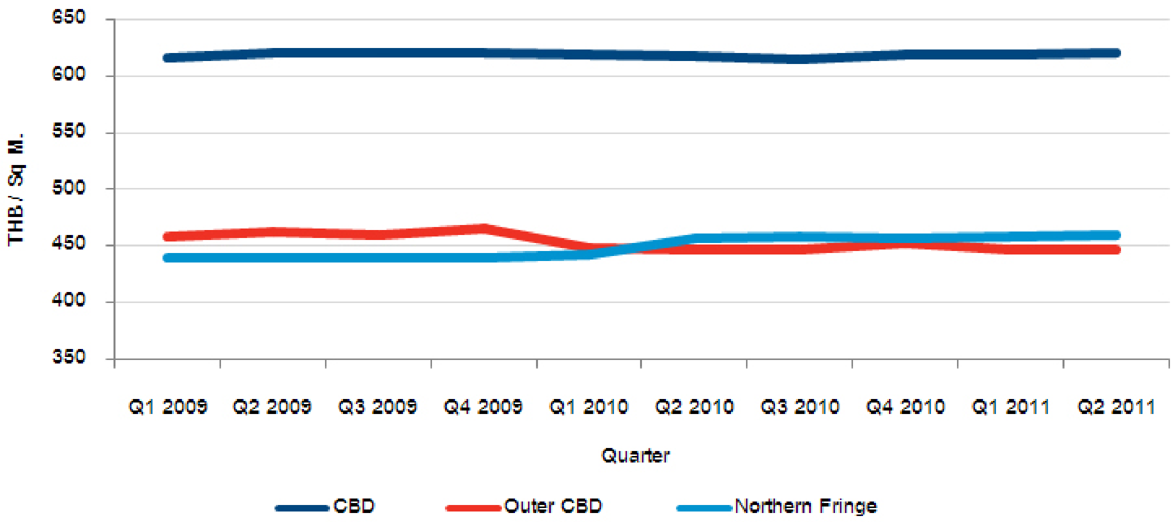
RENTAL RATE BY GRADE Q2 2011




Source: Colliers International Thailand Research

Rentals remained stable across the board for Q2 2011 reflecting continued lack of significant movement in the market. For the past three years there has been no discernable change in office rental rates for grade A office. This reflects the backdrop of political and economic uncertainty but with rates still being underpinned by lack of significant supply during this time.

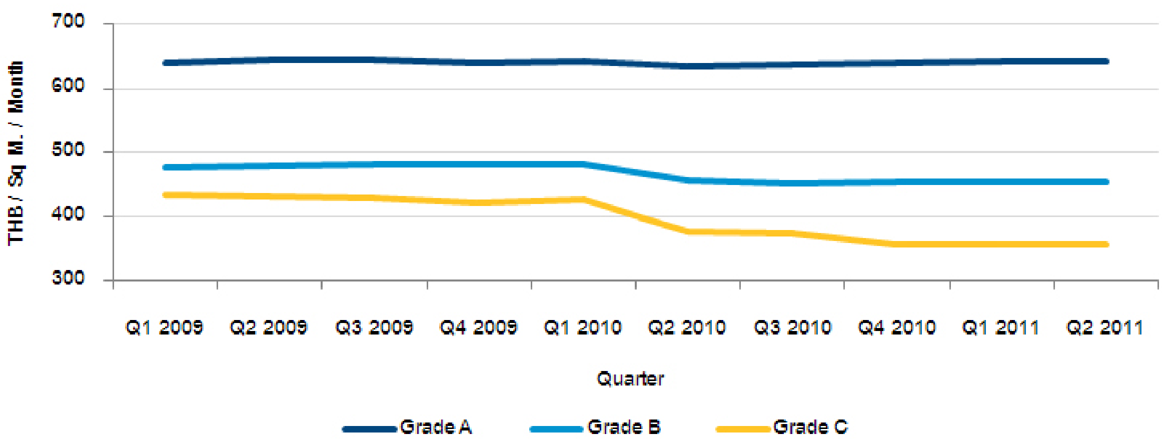
HISTORICAL RENTAL RATE IN THREE MAIN LOCATIONS, Q1 2009 – Q2 2011




Source: Colliers International Thailand Research

The Northern Fringe continues to edge the Outer City in terms of rental rates but the difference is negligible. The CBD commands the highest rental rates by far with the Northern Fringe and Outer CBD able to charge around 75% of the CBD average rental rate.

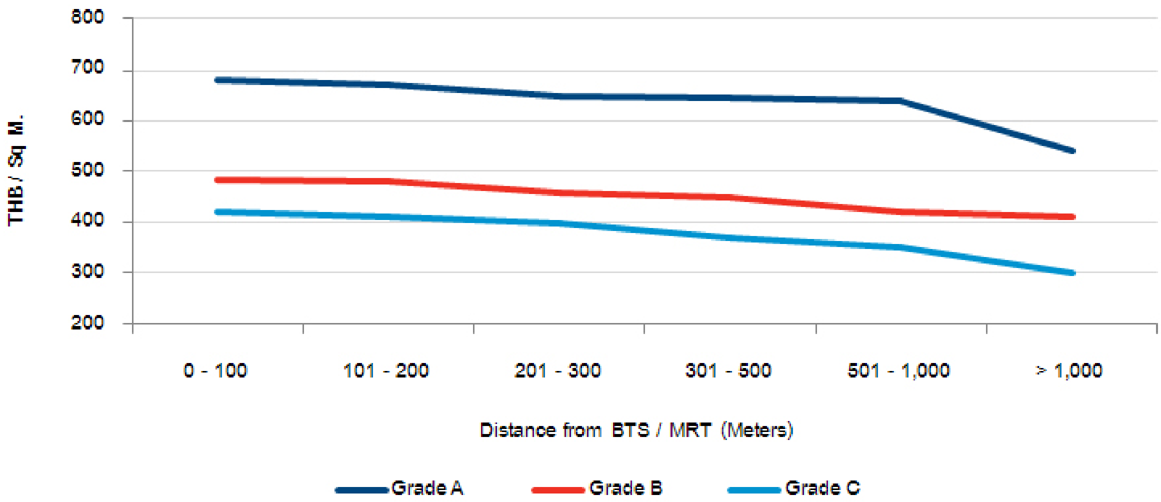
HISTORICAL RENTAL RATE BY GRADE




Source: Colliers International Thailand Research

Rental rates of grade A office buildings have remained stable since 2007 while grade B office buildings recorded a drop of approximately 5 – 6%. Colliers International Thailand has noticed that some landlords have offered more favourable terms and incentives for tenants to maintain occupancy during difficult economic times, especially for small businesses and this has likely adversely affected grade C rentals. The increasing age of grade C buildings is also likely to become noticeable as image and facilities may be increasingly unfavourable to tenants, and owners should consider significant renovations in similar fashion as the retail sector in order to maintain competitiveness.

RENTAL RATE OF OFFICE BUILDINGS IN BANGKOK BY DISTANCE FROM BTS / MRT (METRES), Q2 2011




Source: Colliers International Thailand Research

Offices located close to mass transit stations command a premium although many are newer buildings that would usually command higher rentals. The sharpest difference occurs in grade C buildings with around a 40% difference being registered. Mass transit only explains part of an office building's appeal. Access to expressways may be equally or even more important for tenants.

## FORECAST

### PROMISE ON THE OTHER SIDE OF THE WATER BUT CAN THE FRAGILE BRIDGE BE CROSSED?

With the growth of the ASEAN economic community, Thailand could be a significant beneficiary in acting as a sub-regional office serving the emerging markets in Cambodia, Vietnam, Laos and possibly Myanmar in the future. Alongside this, increasing investment in the manufacturing base and a bounce back in tourism all present the country with significant opportunities to prosper and for a new growth dynamic for office demand to take place.

However Q3 2011 could be a pivotal quarter as it begins with the general election and the rest of the three month period will determine how the results pan out in terms the new government and how the winners and losers can be accommodated. If some form of adjustment is made and the situation settles down the country can breath a sigh of relief and businesses may start to plan for the future in earnest. This could be the spark for the office market that has been missing for the past four years.

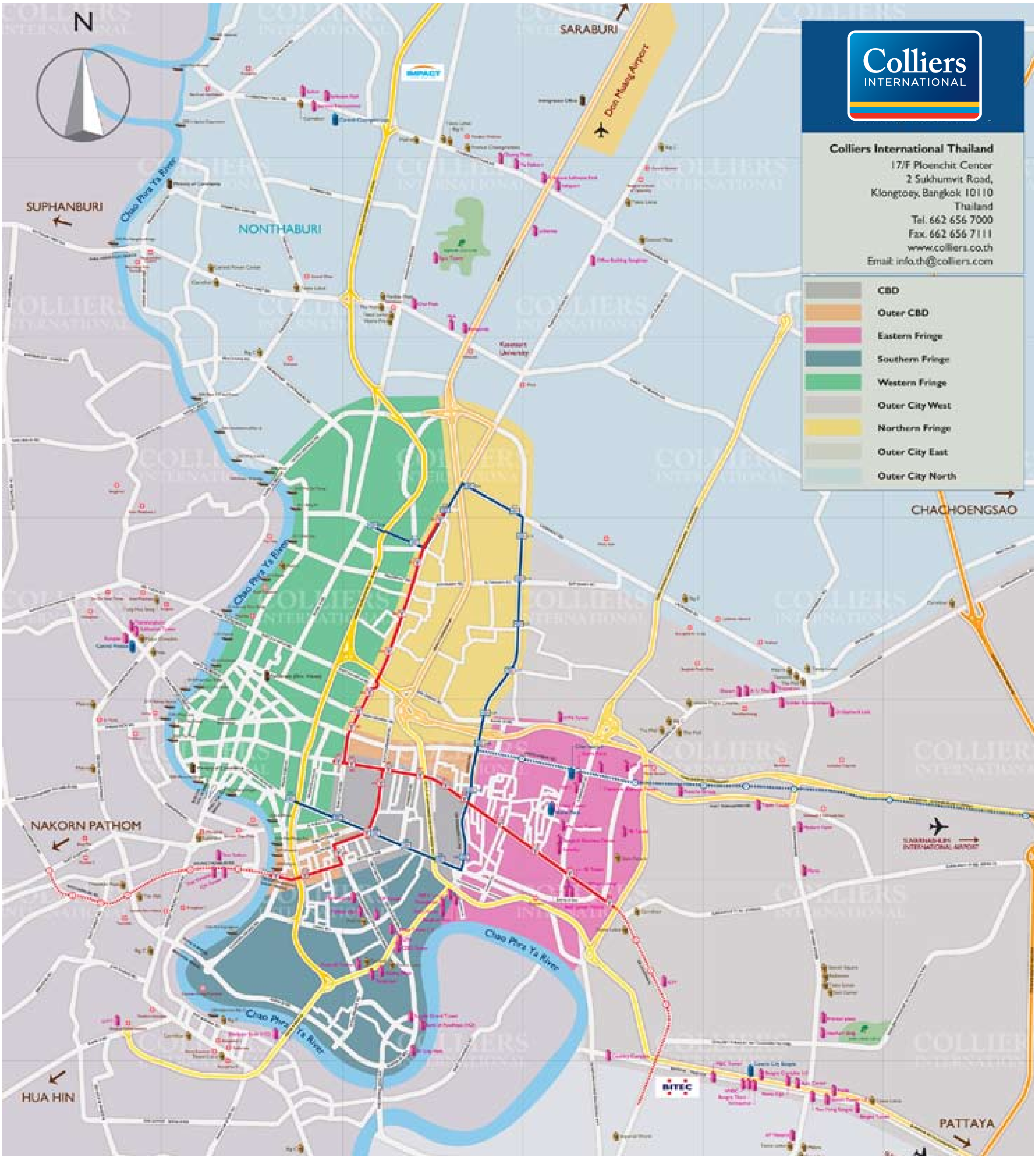
The threat of global financial contagion still lingers but in the form of a default of Greece's sovereign debt. This on-again off-again story is likely to continue as the systemic issues of Greek economic weaknesses based on the underlying lack of competitiveness remain, with bail-outs only delaying what many consider the inevitable. While the country remains on the critical list, other economies such as Portugal, Ireland, Italy and Spain ( collectively named with Greece as the PIIGS) are still in intensive care. Greece can be absorbed as the financial institutions have had over a year to prepare and unwind their positions to some degree.

However, the very action of a Greek default could create a domino effect that could even topple a large "too big to fail" economy such as Italy or Spain. The consequences of such an event would send the global economy in a tailspin with far more catastrophic consequences than the Lehman collapse. This is unlikely as those most at risk have been given a two year breathing space but is still possible and it will take a number of years of concerted effort to put these countries back on track to relative fiscal health. Meanwhile businesses must watch and wait.

The current most likely scenario is a return to global growth following the return of the full functioning of the supply chain disrupted by the Japanese tsunami and this could stave off the worst case from happening. If the Thai political situation comes to some form of resolution then businesses are likely to implement growth strategies that could well propel demand for office space and therefore with limited supply over the next few years the office market could once again show signs of dynamism going forward.

# APPENDIX

## OFFICE ZONING




The general lack of zoning restrictions in Bangkok has led to the existence of significant office supply in a wide range of locations in the city and how the market has perceived the CBD has evolved over the past 20 years. The original CBD was located at the Silom and Surawongse roads, home to the vibrant gold market and other trading businesses. The development of modern office buildings in the nineties, with a larger floor plate could not be accommodated in this area and the CBD began to take shape in the eastern section of Sathorn road.

While Sukhumvit road up to Asoke is primarily perceived as an entertainment and residential area, a large number of grade A buildings sprung up in the nineties and also in the past few years. It is therefore considered as part of the CBD. As a working definition the CBD, for the purposes of office classification, is where a significant number of Grade A office buildings are located. As such the old CBD is now considered the Outer CBD as well as Petchburi road where more grade B offices are located. Over time this structure could evolve.

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