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Thailand Property Market Rebound

2 June 2010, Bangkok – The Bangkok hotel market had a good Q1 2010 on the back of a return of robust tourism figures highlighting the enduring appeal of Thailand and its capital city. Occupancy rates for the Luxury/Upper scale segments came just shy of the 70% mark. Of the four areas in the city centre, The Riverside recorded the lowest rates and the Southern CBD (Sathorn/Silom) the highest.

The future of the market remains unclear due to the considerable new supply of rooms being brought to the market in 2010 and 2011. This year will witness the greatest addition of new supply of Luxury and Upper scale hotels to Bangkok in its history. This is likely to squeeze occupancy levels which in turn will lead to pricing pressures even in a stable political climate. The current situation is a grim time for the industry and we must wait for Q4 until we have a better idea of how much tourism has been affected.

Hotels will still have to cope with increasing competition from serviced apartments for the short stay market. The Bangkok serviced apartment market is facing a difficult 2010 with a significant increase in supply while demand has fallen and is likely to remain down until confidence returns. Conversely the serviced apartments may benefit at the expense of apartments for lease due to uncertainty from foreign residents leading to a requirement for shorter term leasing contracts provided by serviced apartments. However such benefits will be short lived.

From 2009 to 2011 it is expected that overall supply of serviced apartment units will have risen by 40%. This will be difficult for the market to absorb. Average occupancy has continued to fall in Q1 2010 to the 65-70% mark for long term stays. This pattern is likely to continue until supply stabilizes and demand picks up again.

The retail market remained stable for Q1 2010 due to growing consumer confidence but was adversely affected by protracted political uncertainty. Only one new retail outlet was added to supply in Q1 2010 in the form of a community mall located in Sukhumvit. Rentals remain stable while only the city centre recorded a small increase in take up of 3% in Q1 q/q.

The current closure of Centralworld and Centre One are unlikely to lead to an increase in rentals due to the limited time they will be inoperable before rebuilding and renovation are completed and lower consumer confidence expected in the wake of the violence. The short term prospects of the retail market in the centre hinge on incentives and special events that can lure shoppers to the main shopping streets again. The severely reduced tourism numbers will also negatively affect the retail sector in the centre.

No new office supply came onto the market in Q1 2010 and only a very limited supply is expected until Q4 2010 with the scheduled opening of Sathorn Square. Occupancy rates fell by 1% in the CBD and Outer CBD while the Northern Fringe recorded a nearly 1% increase in Q1. Rental rates remained more or less the same in the CBD for Q1, although a fall in rates was more pronounced in the Northern Fringe. This was likely to be a correction to the steep rise in 2009.

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Companies are still assessing the impact of the recent events and whether further instability will ensue for the rest of the year before making relocation plans. In the shorter term there could be an uptick in demand coming from firms occupying space as back up for reoccurring violence disrupting operations. However any positive effect will be temporary as protracted unrest will cause investment and employment to fall thus negatively impacting the market.

The bright spot in property remains the condominium market. New launches in Q1 2010 continue the breakneck pace set in the last quarter of 2009. Many developers are targeting affordability and selling out in a matter of hours in some cases. Tax incentives remain an impetus to temporarily boosting existing supply and the future expiration of incentives at the end of May are likely to cool the market, allowing for some consolidation. Demonstrations in Bangkok have had only a limited affect on condominium launches as end-user buyers maintain interest in purchasing their first property.

2010 is likely to see the largest influx of new supply since 1997 with an estimated increase of just over 30,230 units compared with approximately 27,430 units in 2009. About 6,940 units were supplied in Q1 2010. Smaller developers are entering the market again but with projects with fewer units than the large listed players.

Overall the property market will enter a period of stasis while the country faces up to its deep divisions. Foreign investment will begin to flow into the market only when these have been addressed and a more liberal business climate is established.

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