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Column: A BLURRED SNAPSHOT OF THE PROPERTY MARKET FOR Q1

CLOUDY PROPERTY PICTURE
Q1 figures in Thailand looked good but that was before the red-shirt mayhem. Data for Q2 and Q3 could be dramatically different. B6

A BLURRED SNAPSHOT OF THE PROPERTY MARKET FOR Q1

ANTONY PICON

At the end of each quarter, a picture of the real estate market is taken that reveals the trends of the three-month period. A bottoming out, a peaking, a continual upward trajectory — often there are clear signals that allow us to infer what the following quarter promises. That is in normal times. These are clearly not.

When the clock ticked midnight on March 31, the snapshot was duly taken but the picture that emerged was a far more opaque and fuzzy one. The details were there but not the portrayal. For at the time two events were in the process of unravelling that marred our usual analysis of what the quarter meant and how it would shape the future. The red-shirt protests; lively, loud and all over Bangkok had been largely peaceful up to that day. But what many thought was going to last only a few days was gathering momentum and ultimately spiralled down into violence and deaths.

In the last days of the first quarter, the hotels and retail outlets in the centre began feeling its first effects. Far from Thailand, murmurs of a new Lehman Brothers in the form of Greece could be heard as the nation struggled to deal with its gaping budget deficit. Was this a storm in a souvlaki or an economic disaster of Olympian proportions? Only time would tell.

Sathorn Square, scheduled to open in the fourth quarter of 2010, will be the largest office to appear in the capital's central business district since Empire Tower in 1999.

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Since then the two events have taken downturns for the worse. The protests in Bangkok grew uglier and the Greek debt numbers more horrifying. This has made it increasingly difficult how to extrapolate from the first-quarter figures. Much depends on your future outlook. Greek contagion bringing down larger countries in its wake leading to global financial meltdown coupled with protracted civil strife in Thailand and the first quarter would represent a footnote in history, a memory of happier times for the country.

However, spin the future in another direction and you have Greece being brought back from the brink, and the various fractious parties in Thailand beginning to accommodate each other. This would represent a rude interruption in Thailand's tentative recovery with normal service being restored by the third quarter. In this scenario the second quarter will represent an aberration while the first quarter can be viewed as the real indicator for longer term property market trends. And this is the best way to proceed at this juncture.

The hotel market showed robust signs of growth in the first quarter as tourists flocked back to enjoy the myriad of delights the country, including Bangkok, has to offer. Bangkok registered around 70% occupancy rates in the first quarter for the luxury and upper scale hotels while room rates averaged 3,500 baht. This was a great improvement on the first-quarter 2009 figures coming in the aftermath of the yellow shirts' airport blockade.

The trend has been for hotels in general cutting rates to maintain occupancy. Tourists remember the good times and conveniently forget the bad and the current impasse is fortunately occurring during the low season. However, even with such optimism the situation in Bangkok will remain challenging for the next couple of years as record new supply will enter the market putting pressures both on occupancy and rates.

Condominium development remained the darling of the property market with new supply of around 6,940 units hitting the market in the first quarter and expected supply for 2010 likely to exceed that of 2009. But more importantly 13,700 units were launched in the quarter, similar to the surge that occurred in the fourth quarter of 2009. It may have been years in the making but developers were now focusing on smaller one bedroom unit sizes, targeting a first time buyer market looking for affordable products in order to make the first step on the property ladder.

Many large-scale developments have come from listed developers while a large number of smaller condominium projects were launched by smaller developers dipping their toes tentatively in the water again. There are no indications that the insatiable demand for condos in the 1.5 million baht price range has been sated yet so the future is set to remain bright for this sector.

The retail market remained stable for the first quarter, continuing the trend for the previous year. Rentals remained stable while occupancy nudged up 3% in the city for the first quarter. New supply was limited in the quarter with just under 7,900 sq m coming from the K Village community mall located on Sukhumvit Soi 26. Spending was firm partly as a result of the government stimulus as well as rising consumer confidence.

Future development will be in the form of shopping malls located further outside of the centre, community malls becoming ubiquitous throughout Bangkok and the proliferation of convenience stores in every soi.

The office market remained in a holding pattern for the first quarter with a continuing lack of confidence deterring companies from making future location plans. No large relocations were recorded for the CBD in the quarter. No new supply was added in the first quarter and only limited supply is expected for the next couple of quarters, keeping rentals and occupancy firm.

The main event will be the opening of Sathorn Square in the fourth quarter of 2010, with more than 70,000 sq m of grade A floor space. This office will be the largest to appear in the CBD since Empire Tower in 1999. However its effect on office metrics will be felt more in 2011.

The office market is largely driven by industrial and general economic growth rather than its own inherent demand coming from drivers such as business process outsourcing, supply chain management and regional headquarters. The Board of Investment can help by developing further incentives that can stimulate the services sector market.

The serviced apartment market has similar, but less severe problems as the hotel industry. Occupancy rates have continued to fall in the first quarter and now average around 65-70%. Significant new supply is to be added over the next couple of years. This is coupled with the short-term rental market suffering from the drop in tourism while the dramatic falls in expat numbers seeking work permits in 2009 has yet to bounce back. Serviced apartments will continue to lock horns with hotels over the short stay market.

So while the first quarter reports have the usual charts, bar graphs and figures assessing the real estate market; they still lack a defining statement on where we are today as we don't know where we will be tomorrow. At a time when the word ultimatum takes on a whole new meaning in Thailand, we might have to wait rather a long time before we see the clearer picture.

Antony Picon is senior manager for research & advisory services with Colliers International Thailand.