

# Bangkok Office Market 1Q 2020

Phoenix Property Development and Consultancy Co., Ltd.



Bangkok office market in the 1Q 2020 is affected by Covid-19 pandemic. The sentiment from people living in Bangkok is worsen after the announcement of the closing of shopping malls, all retail projects, restaurants, and other risky areas on March 21st, 2020. Government has asked for higher level of corporation from corporate to apply work from home regulation to reduce congestion in the mass transportation system from 1 April onwards. Together with the announcement of the prohibition to leave the house in due time from the Emergency Decree on 26 March, the real impact is more evident in April. Office space tenants began to

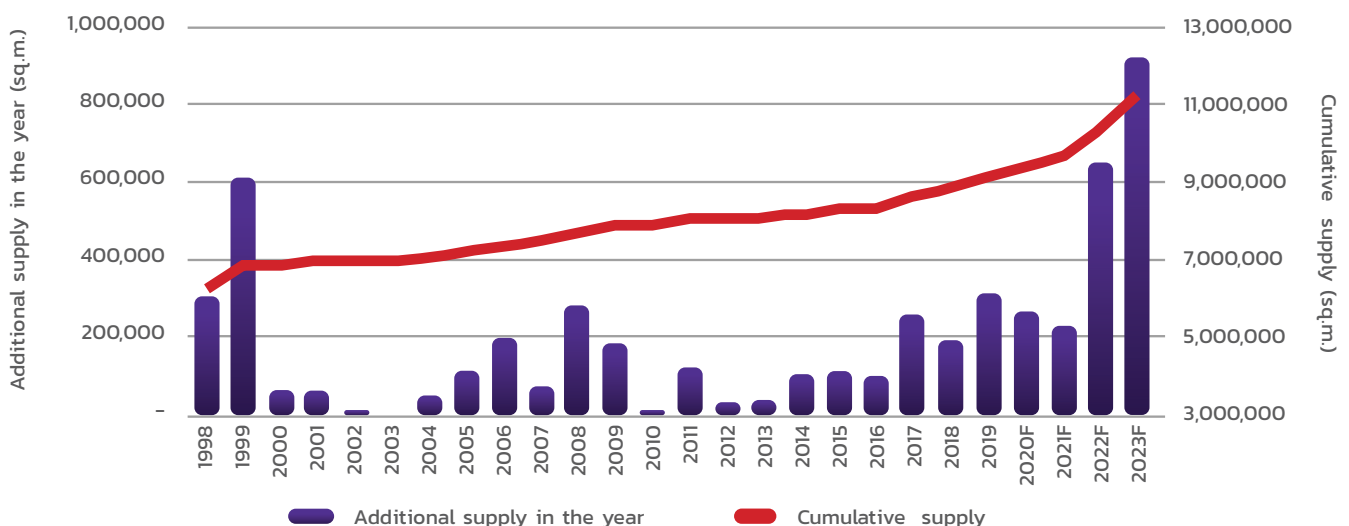
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Managing Partner



negotiation with the landlords, because the economic downturn and work from home affect. Tenants bargain to reduce the rental of office space about 20 - 50% for a period of 2 - 6 months, depends on the situation.

## Supply

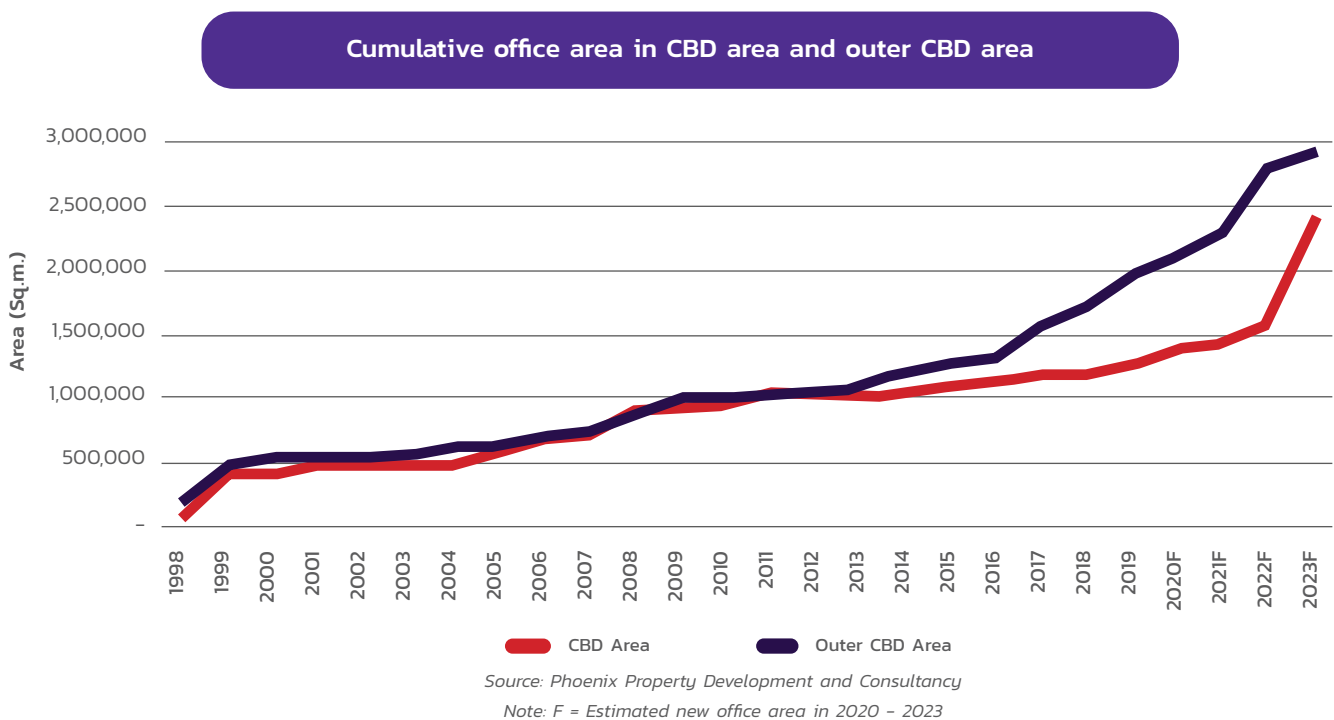
Cumulative Office Supply in Bangkok 1Q 2020



Source: Phoenix Property Development and Consultancy  
Note: F = Estimated new office area in 2020 - 2023

Approximately 60,700 square meters of new office building were launched in the first quarter of 2020, which located mostly along the Sukhumvit, Rama 6 and Narathiwatratchanakharin. As a result, the total office building area in the first quarter of 2020 is approximately 9.22 million square meters, including all types of office buildings in Bangkok. However, when excluding the bank's headquarters and the office building used by the owner, the office space is approximately 8.5 million square meters.

There are approximately 204,100 square meters of office space under construction and around 55% of them are located in the Bangkok CBD area. Many office buildings may not be completed because of the Covid-19 affect. About 40% of all office buildings in Bangkok are in the CBD area; however, office area outside CBD has received more popularity over the last 10 years.



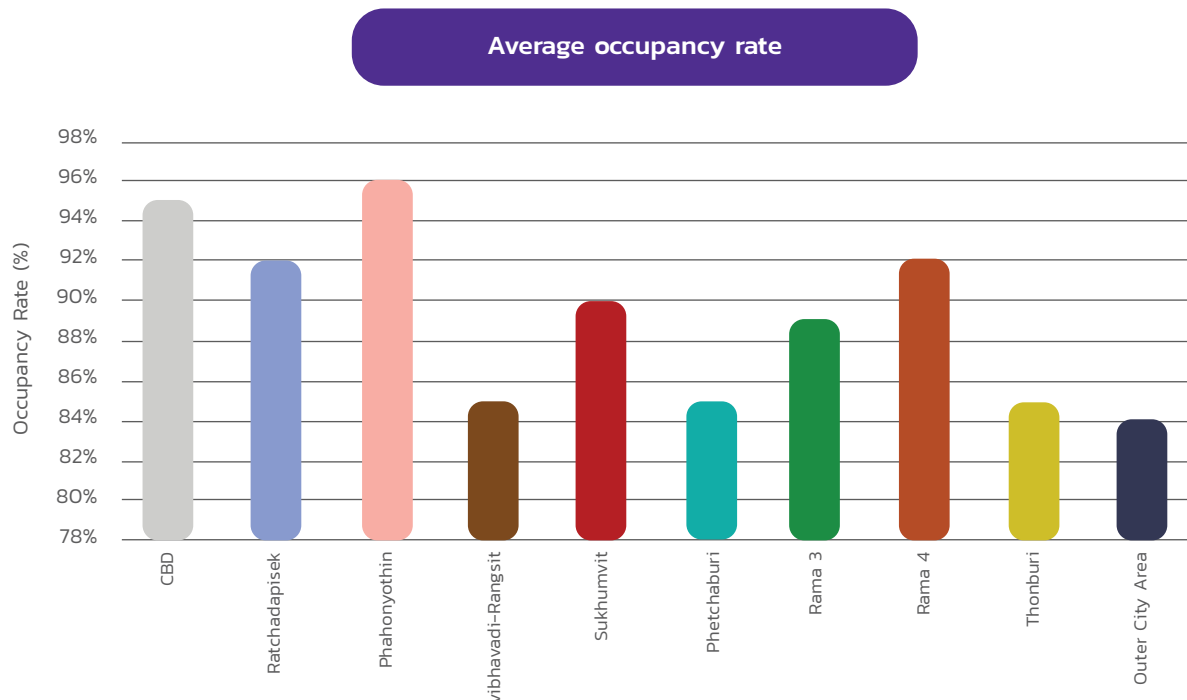
The increasing of the office building supply from the past until 2013 were located both in CBD area and outer CBD area.

"After 2013,  
the office building  
in outer area were  
increasing at higher  
pace than those  
in CBD area"

One of the main reasons is because the higher land price in CBD area. Another reason is because the development of transportation system in the outer CBD from the extension of sky train and subway.

The outer CBD area with the highest office building density is the area along Ratchadaphisek Road and followed by the area along Phahonyothin Road. But these two areas have a total office building supply of just 1.88 million square meters or 50% of the total office building in the CBD area. Another area outer the CBD area that has been very popular is the area along Sukhumvit Road, especially in the area from the BTS Bang Chak station onwards.

## Demand



Source : Phoenix Property Development and Consultancy Co., Ltd.

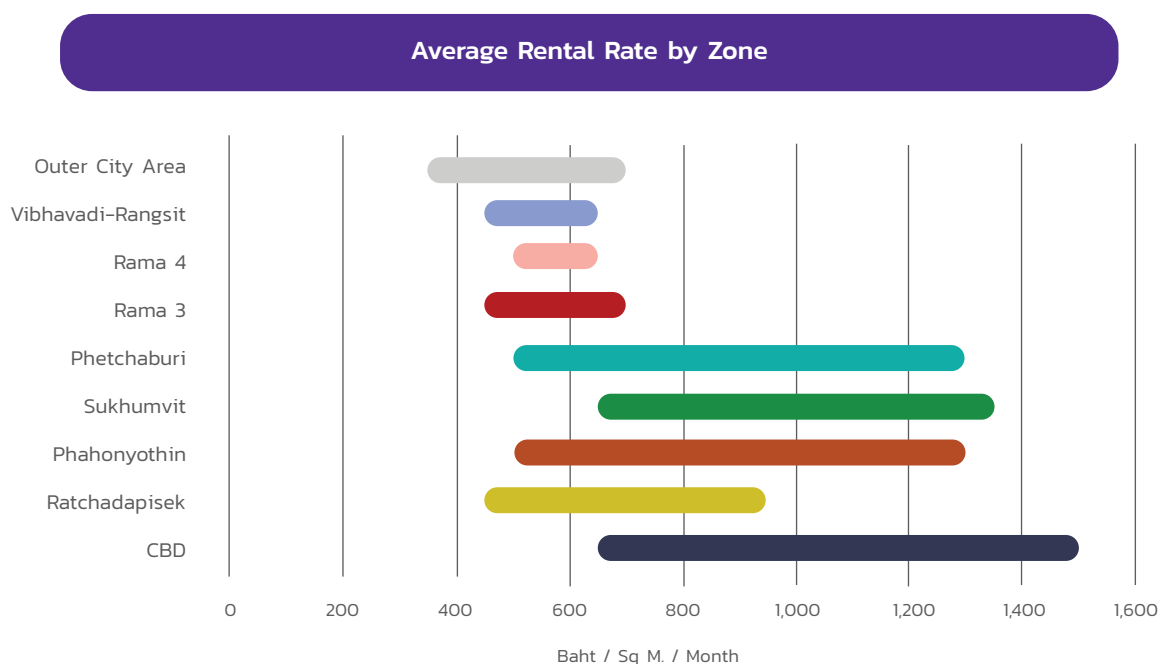
The average occupancy rate of office supply in Bangkok as of the first quarter 2020 is approximately 93%, not much different from the previous quarter. The reason are because of the global economic slowdown, Thai economic slowdown, and the freeze in business expansions and overseas operations from covid-19 pandemic. Total new rented office area in 2019 is approximately 153,000 square meters only decrease from the previous year about 20%.

Demand for office space in the future is likely to change. Most businesses are still not recovering, while some businesses probably have low revenue or may not have any income until the pandemic ends. There may be layoffs or more work at home regulations, so renting office space becomes unnecessary and less in demand. Many tenants may face the problem of having office space not suitable for total of employees. But the lease term of office space is 3 years, so it is not possible for cancellation request or the rental area reduction request immediately. In addition, the owner of the office building would not accept to say request,

because they were also in trouble. Except for the group of tenants whose contracts are near the end of the lease period, therefore, there may be a review of the renewal of the lease or the delay of moving to other office buildings

Working at home in Thailand may not be the best solution for the longer term point of view or it cannot be concluded that it is the optimal way to do it today. Because of the effects of the Covid-19 virus has just begun and the ending prediction is still very vague. Not until they find the vaccines or medicines for covid-19 virus at a reasonable price which normally takes at least 6 months, the situation can not be back to normal. In addition, the work or travel style of people in Thailand and around the world probably changed from the past to the new normal. The expansion of the Co-Working Space that was previously one of the key tenants of the office building may need to consider further space expansion plans in the future. Because many companies that are renting space to open co-working spaces in Thailand are foreign companies which have been affected by the Covid-19 pandemic.

## Rental Rate



Source : Phoenix Property Development and Consultancy Co., Ltd.

Office space rents as of the 1st quarter 2020 have not decreased significantly. The reason is because negotiations for price reductions or rental rents will start to be seen in April 2020, which is a matter that all tenants need to negotiate with the building owner if the building owner does not reduce the rent out. The negotiation of the reduction in rental fee will be in the range of 20 - 50% in the period from 2 - 6 months, but the proportion of reduction requests has not been clearly concluded. However, it is expected to be able to negotiate a 1-2-month rental fee reduction pursuant to the Emergency Decree.

Average Grade A office space rents in the CBD area are around 1,100 baht per square meter per month, while the same grade office buildings in areas outside the CBD are around 800 - 850 baht per square meter per month. Therefore, grade A office buildings in CBD area can ask a higher rent. But still not able to attract or push land owners in CBD area to develop office buildings, because the rental income received is not yet suitable for the land price.

## Conclusion

- > The office building market must keep an eye on for many years.
- > There are a lot of office buildings that are scheduled to be completed in the next 3-4 years.
- > The demand for office space is highly variable and is related to the global economy.
- > Office rental fees in Bangkok in 2020 probably not much different from previous years.
- > Tenants bargain to reduce the rental fee of office about 20 - 50% for a period of 2 - 6 months, depends on the situation.
- > The Covid-19 crisis it may affect the office building market in the long run if it is not able to return to normal life within this year.
- > Working at home or elsewhere that is not in the office building becomes a matter to seriously consider if the crisis does not end soon.





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