

# Bangkok Office Market

1Q 2021

Phoenix Property Development and Consultancy Co.,Ltd.



“Many companies began to review the lease of their office space before extending the lease contract and relocation of office buildings is another option.”



Surachet Kongcheep

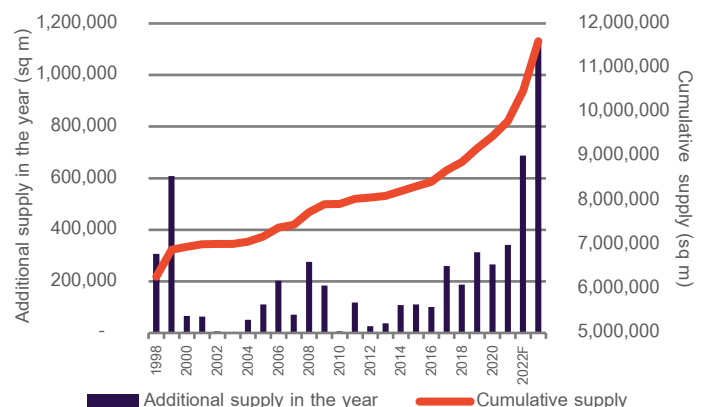
Managing Partner

The year 2020 may be the year that office building owners face many problems. Because of the prevention of the spread of the COVID-19 virus. Therefore, there is the need to reduce travel to the office of almost every company. In addition, the economic sudden slowdown has a direct effect on the income of each company. Therefore, companies that are tenants of office space in office buildings request a reduction in the rent from the owner of the office building. Especially in April and May, because many companies let their employees work at home without having to travel to the office. Although, office owners have cut their rents quite a bit in the months from the severe epidemic. But it has a moderate effect on the overall picture for building owner. In the first quarter of 2021, many companies began to review the lease of their office space before extending the lease contract.

Relocation of office buildings is another option that many companies are interested in. Attracting new tenants and allowing the existing tenants to renew the contract is a matter that building owners have to try to find more ways to do so in 2021.

## Supply

### New Office Space in Each Year and Total Area in Bangkok by Year



Source: Phoenix Property Development and Consultancy

Note: F = Forecast of office building area to be completed that year

The total office space in Bangkok as of the first quarter of 2021 is approximately 9.49 million square meters and approximately 2.1 million square meters are under construction which will gradually be built in the future. But there may be a few buildings that have been postponed because of the labor shortage. Office buildings which are under construction and is scheduled for completion, so there is a possibility of change in the future. There may be more office buildings opening in the future because many plots of land in Bangkok are feasible to be developed into office buildings or a mix-use project with office space in the project. The office building market may encounter difficulties in 2020 and continuing in the beginning of year 2021. Due to the prevent the spread of the COVID-19 virus policy which affects going out or the gathering of people in Bangkok and has continued effect until the year 2021. Although the situation will resolve, but it has not return to normal. There are still many companies that allow their employees to work from home and many companies that do not allow outsiders to enter the area.

The currently under construction office space may be a concern for many office building owners. Because of various situations are occurrence of this period reflects that the office building space at present is still not 100% full in the market and in the future in the next 2-3 years. The situation of the office building market depends on the economic conditions and the expansion of investment from both Thai and foreign investors.

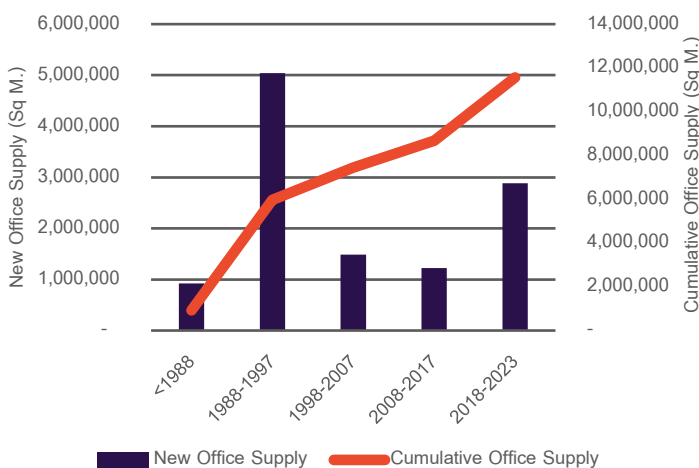
The period between 1988 to 1997 was the time with the highest completed office buildings rate in the history of the office building market in Bangkok. But after the economic crisis in 1997 onwards office buildings completed in Bangkok continued to decline, with the 20-year period between 1998 – 2017 when the total new completed office building area was approximately 2.7 million square meters, accounting for approximately 54% compared to total office building area completed between 1988 – 1997.

Office buildings which are completed after 1997 are still most likely in the CBD, but there have been several office buildings spreading out of the business district. Because the land price has risen so much that the development of office buildings is not feasible. Due to the opening of the sky train and subway lines. Many office buildings, especially lower than Grade A buildings are becoming more visible in areas outside the business district. But many buildings are still in the area along the sky train and subway routes.

Many residential project developers began to develop office buildings in the past few years as it can generate continuous income. The rent of the building owners also returned to the income of the office building and finally returned to the income to the owners themselves, it can also add value to operators as well. Including owners can sales there building to bring capital to circulate in investment in the future.

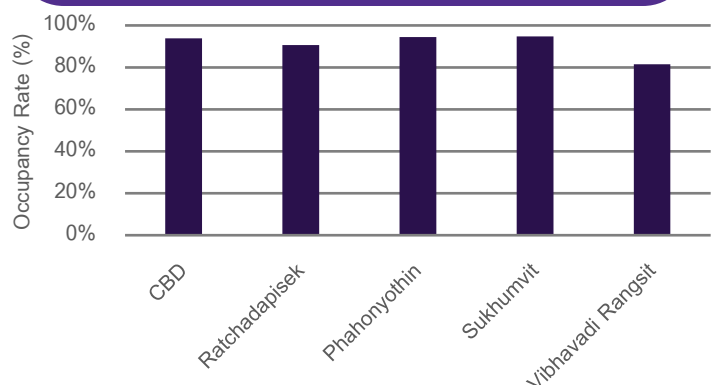
## Demand

**New Office Supply by Year**



Source: Phoenix Property Development and Consultancy

**Average Occupancy Rate in The Important Zones of Bangkok**



Source: Phoenix Property Development and Consultancy

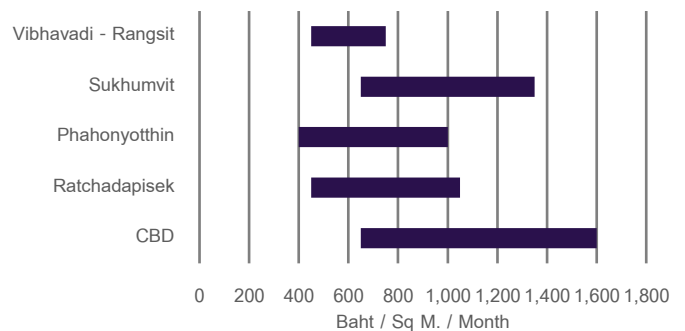
The average occupancy rate of office building in Bangkok as of Q1 2021 was approximately 90.8%, slightly decreased from the beginning of 2020. This was due to a variety of factors including the global economic slowdown in Thailand and the COVID-19 virus situation that began to affect business expansion or overseas business operations since the second half of 2019 continued throughout the year 2020 and early 2021. In addition, more than 265,000 square meters of office space entering the market in 2020, but the new leased area is only about 30,000 square meters.

2020 was the lowest new office space lease in 20 years, down 82% from 2019, but demand for office space in 2021 probably better than 2020 given a positive direction as well not only about the COVID-19 virus and economic conditions in the country only. In addition, the political conflicts in neighboring countries also affect the decisions of foreign investors.

Lots of office tenants have begun to review more of their lease renewal plans, especially Grade B buildings or minor grades clearly showing signs of renewal and requesting to reduce the rental area and lease contract termination. This is because the tenants in these buildings are tenants who may be affected by COVID-19 continued throughout the year 2020 and maybe they are a small company with little incomes or rely mainly on tourism income. In the part as a store or tenant for various commercial purposes, there are also closed or requesting contract terminations as well because they cannot bear the expenses during the period of their income declining further.

## Rental Rates

### Average Rental Rates in The Important Zones of Bangkok



Source: Phoenix Property Development and Consultancy

The rental rates of office space in the first quarter of 2021 have not decreased clearly. While negotiations for a price reduction or rent negotiations are already evident in some buildings, there was not a big reduction overall. Some office building owners choose to offer the new tenants a 3 – 6 month or more no rental charge. Including an increase in the period for the decoration of the area from the previous may be from 1 month to 3 months, but ultimately depends on the size of the rental area and negotiations between tenants and building owners.

Average Grade A office rent in the CBD area is around 1,100 baht per square meter per month. While the same grade office buildings outside the CBD are around 800 – 850 baht per square meter per month. It shows that Grade A office buildings in the CBD area can clearly call for higher rents. However, it still failed to attract or drive landowners in the CBD to develop office buildings because the rental income it received was not suitable for the land price.

Rents for Grade A office buildings in the CBD area completed in the last 1 – 2 years range from 1,300 – 1,600 baht per square meter per month. However, when the real deal is negotiated, it may be closed around 1,000 – 1,200 baht per square meter per month depending on negotiations between tenants and building owners, as well as the size of the leased space. Office building rents in 2021 probably not much different from the previous year, because building owners want to attract people to rent office space in their building.

## Summary of market overview and future trends

- > The office building market must keep an eye on for many years.
- > Office building space that is going to enter the market in the next 3 – 4 years is a lot.
- > Demand for office space is less than office space that has been leased for many years.
- > Demand for office building is highly variable and involves many factors.
- > Renting office space in Bangkok in 2021 would not be different from the year 2020
- > Developers or companies who plan to develop office buildings in the future begin to revise their own development plans.
- > The changing working patterns may affect the office building market in the future.



**PHOENIX PROPERTY DEVELOPMENT AND CONSULTANCY CO., LTD.**

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