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Office Vacancy Rates at a 20-Year Low and Rents Continue to Rise

18 February 2015, Bangkok – High net worth Thais are showing a renewed interest in property, be it residential or land plots. The domestic midtown market is fed by a generational shift in local lifestyle that sees younger, smaller households relocate to mass market condominiums. The super luxury market has restarted with new projects actively launched in prime downtown locations. Individual foreign investors from Hong Kong and Singapore are once again exploring opportunities in the high end residential properties. The growth of modern retail has had a positive effect on demand for modern logistics properties.

Residential

The downtown condominium market in 2015 will be competitive with the launch of many new developments, but continued demand will ensure that opportunities exist for the canny investor. We are seeing the return of foreign investors, drawn by the more stable political situation and lack of opportunity in their own markets.

The outlook remains bright for super luxury projects. Despite being a slow year overall, 2014 saw units at five super luxury properties achieve record-breaking prices upwards of THB 300,000 per square meter. These were: 185 Rajdamri at THB 330,000 per square meter and The Sukhothai Residences, The Ritz-Carlton Residences Bangkok, Magnolias Waterfront Residences, and Marque Sukhumvit, each at THB 310,000 per square meter. “The luxury market has proven to be solid with a low cancellation rate unlike the speculative market,” said Ms. Aliwassa Pathnadabutr, Managing Director, CBRE.

It is important to note that these properties did not achieve these prices based on a single factor – location, no doubt, played a key role but these projects managed to tick several boxes including understanding market requirement in terms of unit sizes, style of architecture and interior design; space and functionality; a high standard of specifications and attention to detail; other selling points such as internationally branded management, amazing views and (most

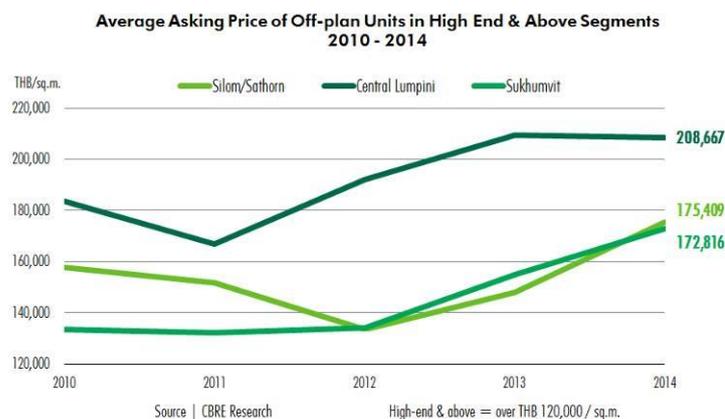
crucially) prime location. Buyers paying a premium price naturally expect a premium product. “The products that achieve new benchmarks in price are the latest buildings with advanced specifications when compared to older generation buildings,” according to Ms. Aliwassa.

“This is a niche market which serves the top-end segment,” said Mr. James Pitchon, Executive Director – Head of CBRE Research, Thailand.

This price increase is reflected to a somewhat lesser extent in the resale market as well. Buildings that have been completed over the last 10 years in prime locations, such as Athenee Residence and The Park Chidlom, have achieved prices in excess of THB 200,000 per square meters, which is double the price when they were sold off-plan in the mid-2000s. Good management, timely maintenance and renovations are the key to value appreciation in older buildings. However, this is still somewhat of a rarity in Bangkok where the emphasis is on new product.

This is why location is not the sole determinant when it comes to price – it is possible to have a condominium completed before 1997 where prices have barely moved over the past 20 years just down the road from a relatively newer, well-maintained product with better specifications. “Each building,” according to Mr. Pitchon, “has its own individual market characteristics.”

With land prices on the rise, this could be a new golden era in the making for owners of older buildings who invest in the renovation of common areas and system maintenance at their properties, making them more attractive to prospective buyers.



The midtown and suburban market is facing challenges of its own. CBRE calculates more than 100,000 units are due for completion over the next 18 months; the majority of these will be one-bedrooms.

Various developers have reported cancellation rates ranging between 15%-20%, but the real stress test will come when these units are ready to transfer title. Can developers convert all the presales of units under construction into recognized revenue by transfer of title to buyers or will some speculative buyers default because they cannot resell? Or will some bona fide end user purchasers not be able to get mortgages due to the increasingly stringent lending regulations?

Affordable landed property such as townhouses and single detached houses are of much interest to families that would like a large living area and perhaps a garden with ample parking. Families needing a large living area will not select a midtown or suburban condominium because the price per square meter of living area at a condominium in a midtown suburban location is higher than the cost per square meter of living area in a townhouse or single detached house due to higher constructions costs.

A 100-square-metre condominium on RattanaTibet along the MRT Purple Line would cost about THB 7 million; for that price you could buy a single detached house with 200 square meters of living area, less than one or two kilometers from a Purple Line station. Demand for midtown and suburban condominiums will be limited to one bedroom units. Given that prices of single detached houses have been rising because of higher land prices, we see townhouses as being the most affordable and therefore most popular type of landed property.

“The next couple of years will be the years of the townhouses,” said Mr. Pitchon.

SALES PERFORMANCE OF CONDOMINIUM UNITS BEING MARKETED BY GRADE, Q4 2014



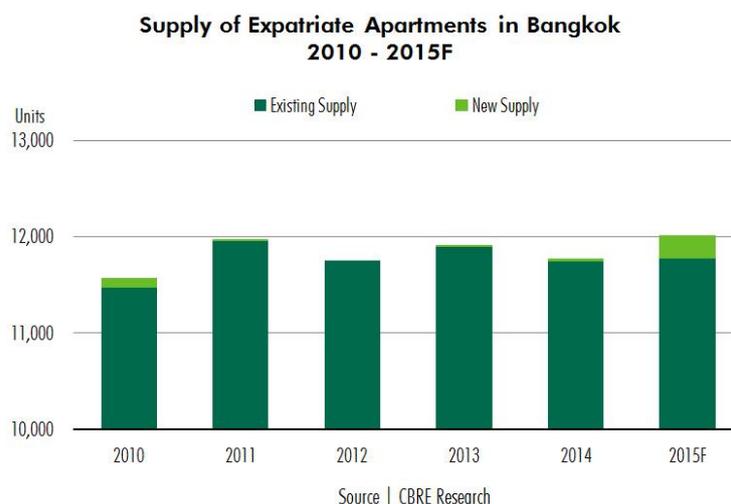
Residential Rental

There are a growing number of expatriates working in Thailand and most want to rent rather than buy residential accommodation. A significant amount of the demand is for large two- to three-bedroom units, which outstrips supply.

Most of the new condominiums (multi-ownership buildings) are of the one-bedroom type. There are few new single ownership apartments being built, limiting the stock of two, three, and four bedroom units for rent in the most popular expatriate locations such as Silom, Sathorn, and Sukhumvit.

In 2015, only two new apartment buildings targeting expats are expected to open in the CBD: The Philo Residence on Sukhumvit Soi 24 and The Willows on Sathorn-Narathiwas Soi 7. “It’s an exciting time for us,” said Mr. Theerathorn Prapunpong, Director of Residential Leasing Services, CBRE. “There are a lot of new arrivals in the city, especially compared to last year.”

Our big forecast for the year, however, is a likely increase in lump sum rents for two, three and four bedroom units. This would be the first such rise in 25 years and would greatly benefit buy-to-rent condominium investors.



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