

Thailand Country Report 1ST QUARTER 2007



April 12-14, 2007
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Agenda

- **Thai Economy Analysis**
- Property Industry Update

Thai Economy Analysis

1. 50bps cut policy rate needed and possibly more

Although weakness was expected, Feb data still surprised on the downside. Therefore, a 50bps cut in policy rate in April is likely and possibly followed by another 25-50bps on 23 May. Both private consumption and investment indices fell in Feb, by 1.2%YoY and 1.8% YoY respectively. Such contraction was led by a drop in sales of vehicles and cement.

2. Cut in production

Feb business sentiment index deteriorated to 42.9 from 43.9 in Jan (levels below 50 imply contraction mode). The sentiment index fell across the board, especially new orders and investment. The index for three-month outlook (Mar-May) fell slightly from 52 to 51.3. But the index for production dropped sharply from 56.3 to 43.2, implying that businesses will likely cut production over the next three months.

Key economic indicators

	1Q06	2Q06	3Q06	4Q06	Jan-07	Feb-07
Private Consumption Index	1.5	1.3	2.5	1.4	-.08	-1.2
Private Investment Index	1.6	1.9	2.2	0.3	-.08	-1.8
Manufacturing production index	9.6	6.6	6.6	6.8	8.4	5.5
Capacity utilization	75.2	73.8	74.0	73.6	76.3	73.5
Exports	17.7	16.0	16.3	19.7	17.8	n.a.
Imports	5.5	3.3	12.2	7.2	4.0	n.a.
Current Account (USD billion)	0.6	-2.2	1.2	3.6	1.5	n.a.
Tourist arrival (mn persons)	3.6	3.1	3.4	3.7	1.3	1.3
%YoY	35.5	23.9	11.8	12.0	2.0	6.4
GDP growth	6.1	5.0	4.7	4.2	n.a.	n.a.

Thai Economy Analysis (Cont.)

3. Exports are not enough

Although Jan exports rose strongly and that is expected to spill over into Feb, weak domestic demand made itself felt, forcing Feb manufacturing production growth to weaken. Manufacturing production index rose only 5.5%YoY in Feb, down from 8.4% in Jan. The index for domestic-related sectors (sectors that export less than 60% of total output) contracted. Unless a substantial change in trajectory ensues in the next 2 months, a further 25-50bps cut in policy rate is possible for the following MPC meeting on 23 May. If oil spikes to the \$75 range, however, the May interest rate cut is likely to be off the table.

Exports by Key Products

	Proportional (%)	Jan-07 (USD Mil.)	Jan-07 (% YoY)	2006 (% YoY)
Total Exports	100.0	10,488	17.2	17.1
Agricultural products	8.1	849	17.5	30.3
Rice	1.9	197	6.9	10.2
Rubber	3.9	407	9.3	45.4
Fishery Products	1.6	166	20.7	13.5
Shrimp, Fresh and Frozen	0.8	80	38.2	20.8
Manufactured products	87.5	9,180	18.6	16.4
Electronic	10.9	1,143	17.7	8.0
Mechanical appliance	14.0	1,464	5.1	25.4
Automobile and parts	8.8	926	42.7	22.5
Textile	4.1	426	1.4	1.4
Jewelry	3.0	315	12.8	12.9
Plastic	4.8	501	4.5	7.3

Source: MoC

Thai Economy Analysis (Cont.)

4. Current account surplus US\$1.5bn

Thailand's trade surplus was US\$808mn in Jan. The current account surplus was a bigger surprise, coming in at US\$1.54bn. This was a result of strong export growth (17.8%YoY in value terms and 13%YoY in volume terms) and a US\$730mn surplus in service account. The surge in exports could be the result of the rush to export ahead of an even stronger baht, and therefore unsustainable for the entire year.

5. Net capital outflows of US\$2.4bn, but BoP surplus

Net capital flows in Jan registered a deficit of US\$2.4bn. The outflow was mainly from commercial banks, while net FDI and portfolio inflows were relatively healthy, amounting to US\$600mn and US\$480mn, respectively. Interestingly, Thailand recorded a balance of payments (BoP) surplus of US\$147mn in January, the discrepancy being attributed to errors and omissions. As a result, the baht was flat in Jan. However, Feb BoP surplus came in at US\$834mn, which explained the resumption of baht appreciation.

6. The government

Political tensions are set to rise significantly following the April holidays as the economic slowdown shows no signs of relenting. Yet, PM Surayud's decision not to declare a state of emergency for Bangkok, his signing of the Economic Partnership Agreement with Japan and the cabinet's rejection of the retail trade bill were all good moves, in our view. PTV demonstrations failed

7. Draft new constitution published on 19 April

The new constitution will be less democratic than the previous constitution. It is meant to curb the power of elected politicians and make for weaker coalition governments. The insistence by some to have an avenue to depose an elected PM could trigger political agitation

Agenda

- Thai Economy Outlook

- **Property Industry Update**

Property Industry Overview: Historical Track

- The BOT's capital control measures, the recent bombings in Bangkok and the revised Foreign Business Act (FBA) are bad news for the property sector. The magnitude of the impact, however, varies from one sector to another. The sector that would be hardest hit is Industrial Estate, which relies heavily on foreign direct investment (FDI) in Thailand.
- In the residential segment, the revised FBA will affect those developers selling luxury homes and condominiums targeted at foreign investors. This includes developers like 'Charn Issara Development' (CI), which sells luxury villas in Phuket. The bombings drag down a low consumer confidence level, which effectively delayed demand recovery further. This should affect those developer who relies solely on housing sales and has minimal backlog (unrealized revenue) on hand. While, other companies that carry high backlog should be less affected in the near-term. The only positive news in sight is the potential 50bps interest rates cut, which should improve housing demand.
- Commercial property developers should be least affected, given that most of their revenues are based on fixed rent for three years. While certain retail operators also have some revenue linked to tenants' sales, the portion is small compared to overall revenue.

New Housing Completions* in Bangkok Metropolis and Vicinity

Property Types	2001	2002	2003	2004	2005	2006
Housing Project	9,691	14,371	30,088	40,752	35,935	29,947
Self - Built Housing	19,639	17,693	18,598	19,859	25,244	26,933
Apartment and Condominium	4,693	1,971	1,908	2,185	6,653	15,843
Total	34,023	34,035	50,594	62,796	67,829	72,723

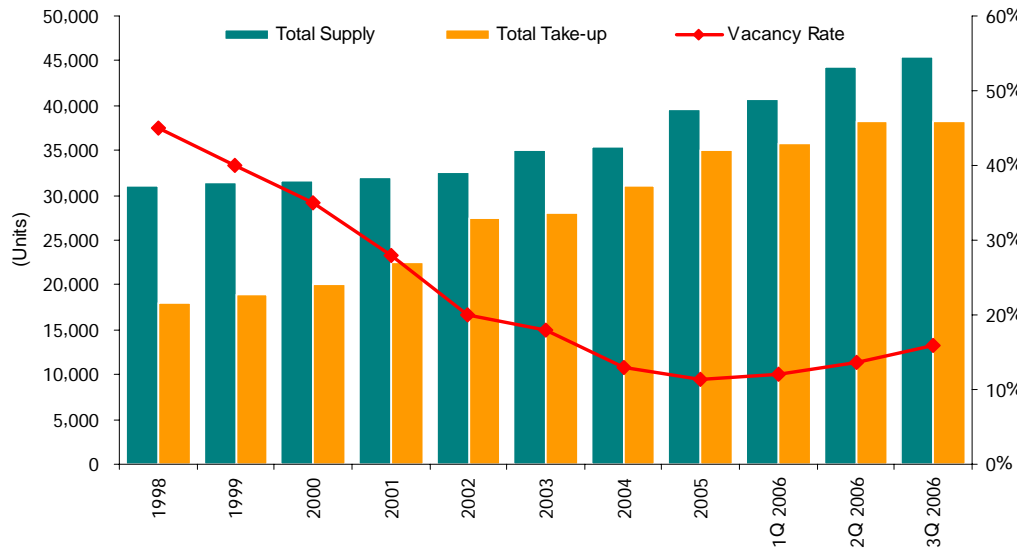
Source: Bank of Thailand

Note: - Since January 2006, the Government Housing Bank has used data (Apartment and Condominium) from the Department of Land instead of housing registration from district offices.
 - Condominium means condominium registered with Department of Land

Condominium

- The supply of freehold and leasehold condominium in the market totaled 45,539 units as of the third quarter of 2006. The completion of six projects added 1,242 units to the condominium market which increased by 2.8% quarter-on-quarter and 6.9% year-on-year. Sukhumvit remains the most popular area, in which 34.5% of the condominium supply and nearly 50% of the grade A condominiums are located.
- The condominium vacancy rate increased slightly in both the grade A and grade B markets. The overall vacancy rate of downtown freehold condominium was 16.0% in the third quarter, up from 13.6% in the second quarter.

Total Condominium Supply, Demand and Vacancy Rate in Downtown Bangkok.



Source: CBRE

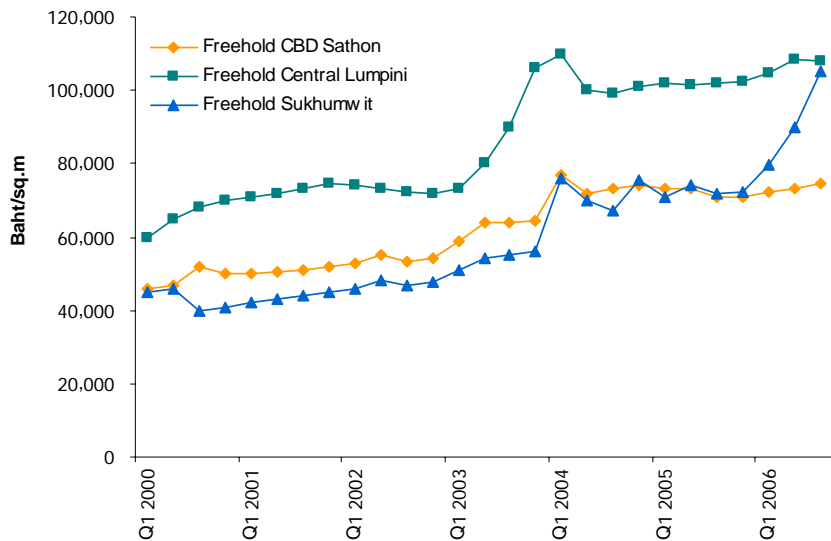
Upcoming New Supply

- The future condominium supply consisted of 91 projects, with 20,220 units, indicating an increase of 13.4% quarter-on-quarter and 44.6% year-on-year. Most of these units will be located in the Sukhumvit (37%) and Riverside/Rama III areas (32%).
- About 66% of these units were under construction, and 71% of the total had been already pre-sold.
- Regarding the projects undergoing construction, the Sukhumvit area had the highest sales rate of 77%, followed by the Pathumwan area (74%)

Condominium (Cont.)

- The total number of occupied freehold condominium units totaled 36,597 units (increasing from 36,582 units in the last quarter). The occupancy rate of freehold condominiums has decreased the most in the Pathumwan and Sukhumvit areas due partly to the newly completed projects that were not yet fully occupied. Among the five areas of downtown Bangkok, the Silom/Sathorn area had the lowest occupancy rate of about 80.4% decreasing from 81.3% in the second quarter, Sukhumvit, Central Lumpini, and Pathumwan had average occupancy rates of around 85-87%. The Silom/Sathorn area a stable occupancy rate of about 80-81%.
- The price trend of condominium projects are most clearly demonstrated in Grade A condominiums. In 3Q2006, the average achieved price increased by 0.9% compared to 2Q2006 and managed a gain of 7.4% compared to the same period in 2005.

Achieved Prices of Grade A Freehold Condominiums



Source: CBRE

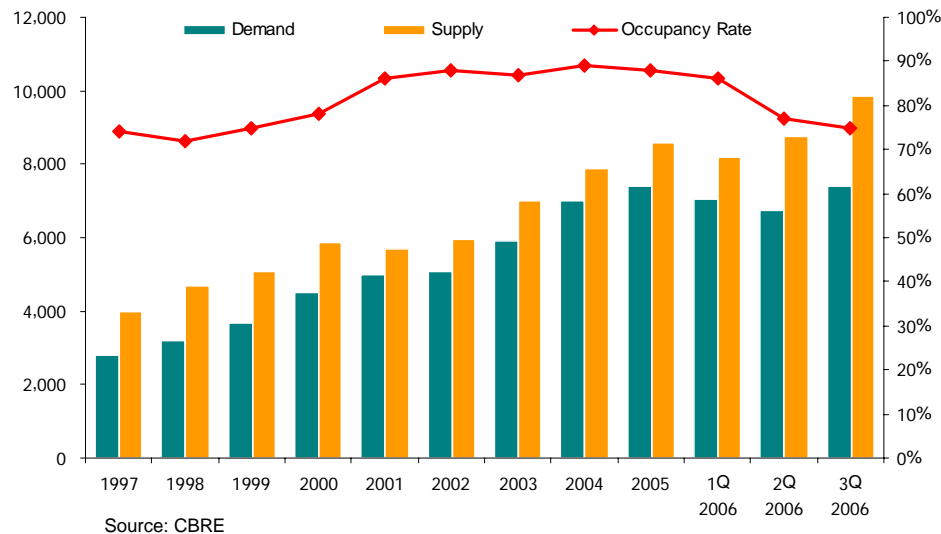
Price Trend

- The price of condominiums in Silom/Sathorn continued to rise by 2.0% quarter-on-quarter or 3.7% year-on-year, while average prices in Sukhumvit rose significantly by 16.7% year-on-year. On the other hand, the average price of condominiums in Central Lumpini declined by 0.5% quarter-on-quarter, but increased by 1.9% year-on-year.

Serviced Apartment (Cont.)

- Most of demand in serviced apartment is still located in central Bangkok, covering areas like the CBD, Sukhumvit, Rama III, Phayathai-Petchburi, Rama 9 and Ratchadapisek.
- The recent new Hotel Act in 2005 has forced many apartments to obtain a hotel license that also require an upgrade of the drainage system, security system, etc, all of which would require capital expenditure. As the results, the number of new serviced apartment development is limited.
- Most of increase in new supply was mainly due to switching of existing apartment to service apartments

Total Supply, Demand and Occupancy Rate of Serviced Apartments (as of 2005)



Supply

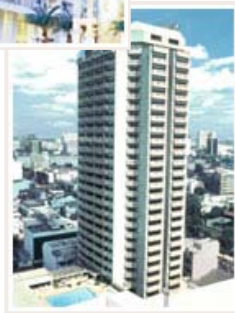
- The average occupancy rate of service apartment declined by 1.3% compared to the last quarter, due to renovation process.
- Although the average occupancy rate suggested a slowdown in such market, the occupancy rate of grade A apartment in Central Lumpini and Sukhuvit still rose by approximately 5%.

Serviced Apartment (Cont.)

Serviced Apartment Pricing

- In 3Q2006, due to the competitive market, the average achieved rent per square meter per month of grade A serviced apartments in downtown Bangkok increased by 2.0% in Sukhumvit area, while declined 1-2% in other grade A area like Silom, Sathorn and Central Lumpini.
- Overall, the achieved rent for brand new grade A condominium units in Sukhumvit and Sathorn remained unchanged, i.e. approximately THB 500-600 per square meter.

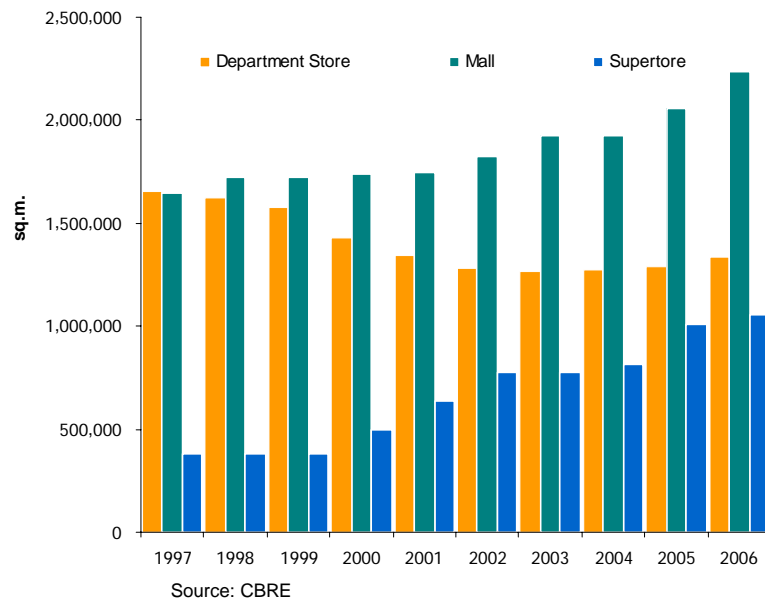
Serviced Apartment in Bangkok Area



Retails

- The total supply of retail space increased to 4.6 million sq.m. in 2006, rising by 5.1% on YoY.
- Most of new supply in 2006 was from new shopping malls and new mixed-use buildings in downtown Bangkok and community malls in midtown.
- Grade A retail centers continued to enjoy high occupancy levels. Thus the average occupancy rate increased to 96.5% in the 4Q2006, exceeding the previous occupancy rate of 94-95% in the past 6 months. Mainly due to major shopping malls like Central World Plaza and Siam Paragon are fully occupied.

Bangkok Retail Supply (as of Q4 2005)

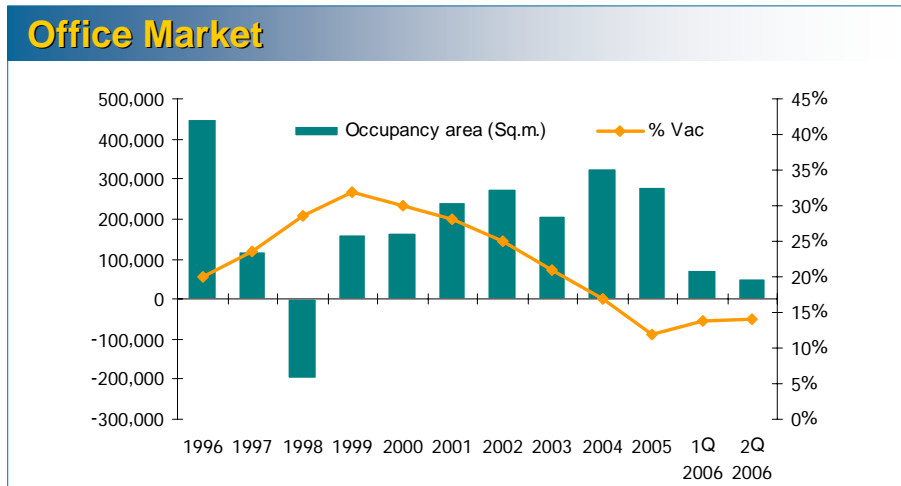


- More than 200,000 sq.m. of new retail space will be available in 2007. Almost all of the future developments will be classified as shopping malls.

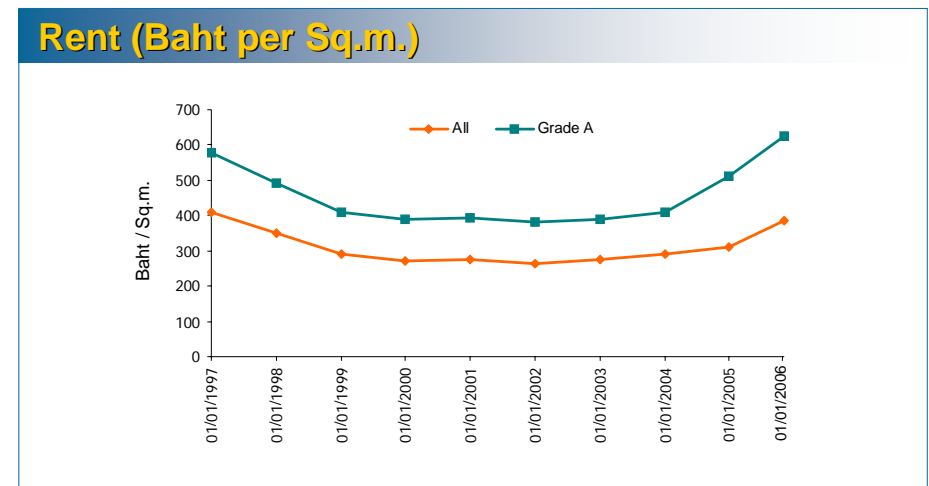


Office

- In 2006, the total supply of office space in Bangkok stood at 7.46 million sq.m., a 3.5% increase y-o-y. The opening of King Power New Head Office (12,250 sq.m.) was the only development completed in this quarter.
- The average occupancy rate of offices in Bangkok slightly increased from 86.1% in Q2 2006 to 86.5% in Q4 2006 since the net new take-up exceeded new supply. The occupancy rate improved in both CBD and non-CBD areas. The occupancy rate in the CBD area was 88.0% while the occupancy rate in the non-CBD area was 85.1%.
- The average rent of grade A and B offices increased slightly on a quarterly basis. The average rent of grade A offices in CBD was THB 743 per sq.m., a 2.8% increase from last quarter while average rent of grade B offices in CBD was THB 545 per sq.m., a 1.3% increase



Source: The Krungthep Turakij

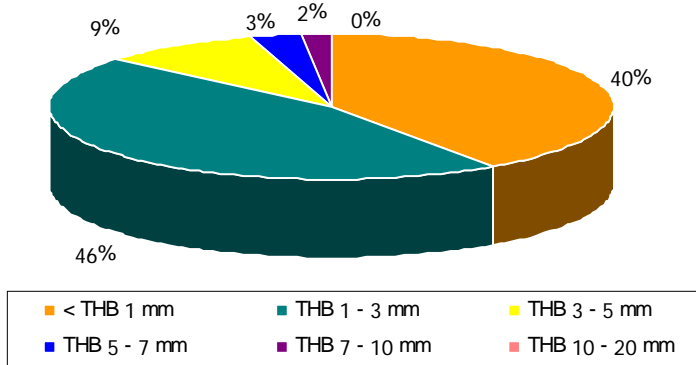


Source: The Krungthep Turakij

Single home and Townhouse

- Residential market especially in single home and townhouse market was slowing down due to negative impacts of economic slowdown resulted from higher in fuel price, interest rate, and also the political turmoil.
- The decline in purchasing power of homebuyers affected the demand in single home and townhouse market.
- According to CBRE, Competition in the townhouse sector is less intense than the single home market because it is perceived to be a larger market for lower price products. In the second half of 2005, the total number of newly registered townhouses were 112 projects which consisted of 11,836 units.

Supply of town-home



Source: The Manager

Supply

- On the supply side, CBRE expects to see a reduction in number of developers, with most of new supply being built by bigger developers and will be targeted more on middle and lower markets. Price of high-end products will be closely linked to quality, whereas price of middle and lower markets will unlikely fall as a result of rising costs.
- Town-home that has price less than Baht 3 million has the largest market share over 85 percent of total unit available.

Property Funds

- The concept of property funds has been introduced in Thailand since 1997 after the financial crisis. The structure of Thailand’s property funds is very much similar to what is known internationally as Real Estate Investment Trust (“REIT”), which is income-earning vehicle that invests in properties and provides steady income stream and the possibility for capital gains as asset prices rise. This vehicle allows an asset owner to use its properties as a means for its fund raising, by transforming rental income into developmental income, which is much greater in terms of revenue amount and margin received.

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TECON



Property Fund Type	Retails	Office	Factory / Warehouse	Residential
Average Yield:	7.5-10.0%	8.0-9.0%	7.5-9.0%	9.5%