GLOBAL MARKETS

The Land Of Smiles

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Across Asia, Thailand developers are targeting their marketing efforts in Hong Kong, Singapore, China, Japan, Taiwan and even the UK and Australia with the same pitch - a great lifestyle, ease of ownership, lower prices and a growing economy. With most of these countries having implemented rather punitive measures against speculative property investing, Bangkok would seem like a great alternative.

From a foreign investor perspective, Bangkok does present some rather attractive. The relatively low barrier of entry in terms of prices and regulations, an enviable lifestyle and a growing city that is implementing a significant amount of infrastructural developments including mega projects such as the new train lines, the recent approved high speed rail and of course the China-led Belt and Road Initiative (BRI). Such and more are luring international investors to this land of smiles by the busload.

So what is there not to like about the Thailand market? Does the recent price growth present a correction risk? Is there still an upside for investors? Is the market as oversupplied as many have touted it to be, and will the demand from foreign investors continue?

The Thailand Economy

In 2017 the Thai economy grew 3.9% - the fastest in 5 years. The expectations of various economic experts for 2018 is now well above 4%. While this is all good news, it should be noted that neighbouring countries are doing well above this rate with Vietnam at 7.5%, the Philippines at 6.9% and Indonesia at 5.06%.

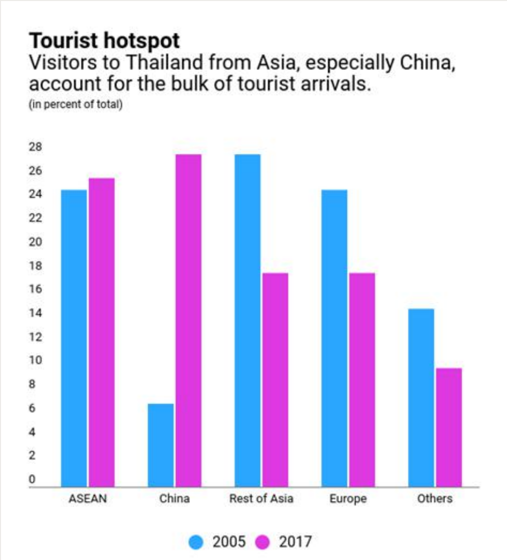
Thailand's tourism market, which saw a whopping 36 million visitors, is the biggest contributor to the increase in tourist revenue coming from the Chinese. Manufacturing and exports are also doing well as the government moves to encourage technological advancements together with massive infrastructural developments.

However, when compared with its neighbours, Thailand would seem a little late to the game. In the years of political instability where developments were stalled, many of its neighbours had pulled ahead in terms of economic diversity and advancement. With further complications from high debt and low domestic consumption, Thailand's potential remains challenged. In fact, the Philippines is expected to overtake Thailand as the second largest Asian economy by 2022.

The Housing Market

The combination of high domestic debt, a subdued domestic consumption, tourism and export-driven growth translates into a two-tiered housing market. One supported by local affordability, which should see improvements as the economy continues to grow, and another driven by the upper echelon of the society and foreign investors.

Given the property buying habits of the Chinese, it is no surprise that this growing tourism market inevitably translated into high volume of property purchases. Thai developers are naturally wooing them with much marketing efforts such as free trips.



Earlier this year it was reported that despite the strong economic showing, over 45,000 units of apartments remained unsold in 2017, raising concerns among developers. Regardless, condominium projects are continuously being launched along with the new mass transit lines under planning or construction. Domestic uptake is understandably weak and as a result, most developers are selling outside of Thailand before launching the projects locally.

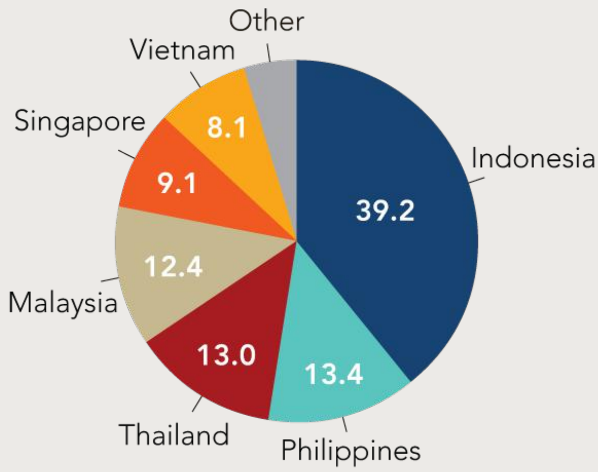
Another 120,000 condominium units are expected to hit the market in 2018 alone, with more than half of them located in Bangkok. These are not only from local developers but also from international collaboration with partners from China, Japan, Hong Kong and Singapore - the same markets where foreign investors are located.

While the gross margins for most developers remain healthy, profits have fallen, largely due to higher sales and administration costs stemming from their overseas activities. Correspondingly, prices of new condominium projects have risen to an average of THB133,000 psm (SGD5,500 psm). Those with new BTS stations are commanding more than THB250,000 psm (SGD10,300 psm). These price levels are now comparable with prices across major cities around the world such as Melbourne and Tokyo.

While prices of new launches continue to grow, the resale market is lagging behind by sometimes as much as 40%. A projects perhaps 3-4 years older (and sometimes even closer to a BTS stations) can resell at a much lower prices than new launches in the same vicinity This reflects a price level that has perhaps deviated from basic market support, and investors into

Projected contribution to ASEAN's total GDP by country in 2022

(in percent)



Source: IMF

the new units will need certain price growth to make up the difference before they are in the money.

Conclusion

We believe that in the short term, the military government will remain stable and poses little risk to the property market. The key to sustaining and furthering the growth of Thailand is to embrace economic diversity and advancement to stay completive with its neighbours and avoid being left behind. From that perspective, it would seem that the current government has its job cut out for them.

The housing market, however, is clearly lacking in local support. While foreign investors might continue support higher prices, their fickle nature poses a worrying risk to the country which if not mitigated, might set the stage for a correction. The widening price gap between new launches and resale signals a red flag that investors should take note of while considering to bet their monies on this market.

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