FULCRUM INSIGHTS

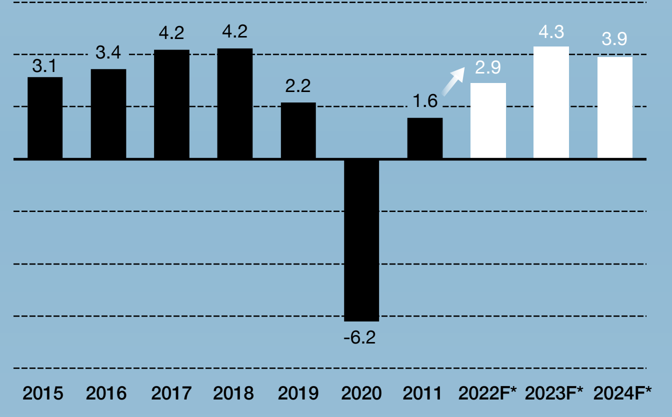
Fulcrum Global x Thai Economist Sathit Talaengsatya Thailand's Macroeconomic Recovery and Investment Opportunities in Thailand's Real Estate Sector in the Post-Pandemic Era

1 The resumption of international tourism has brightened the economic outlook for Thailand

The Thai economy is recovering from the pandemic-caused economic crisis over the past two years. According to the World Bank in its June 2022 report, Thailand's GDP growth is expected to expand by 2.9% in 2022 and by 4.3% in 2023. The relatively broad-based rebound in economic activity has been driven by the re-opening tailwinds at home and abroad, the resumption of international tourism and export growth on the back of high vaccination coverage and the adoption of a "living with the virus" strategy.

Medium-Term Thailand's Economic Growth Projections (%)[1]

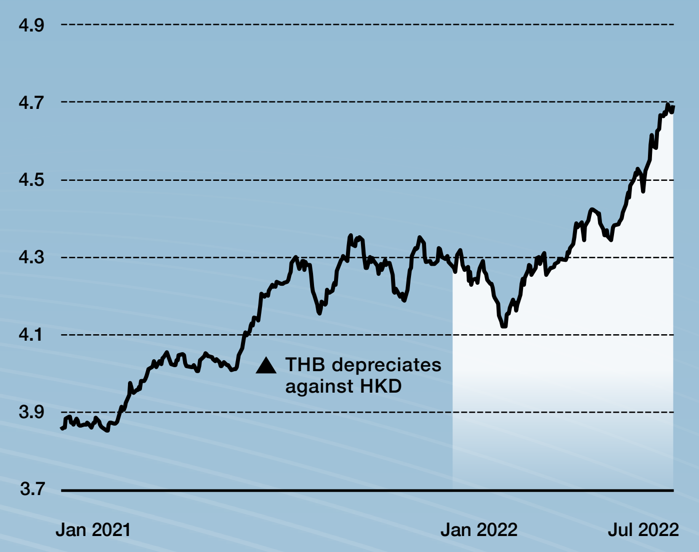
*F: forecast



Thailand has eased all entry requirements for tourists since 1 July 2022 and it expects to welcome more than 8 million tourists in 2022. Before the pandemic, tourism revenue accounted for almost 11.3% of GDP in 2019. Despite a gradual pace and uneven global distribution, the re-opening of cross-border travel is expected to significantly boost domestic demand and all economic sectors, including the real estate sector. In the medium term, once the pandemic is fully under control or becomes endemic, inbound tourism is expected to quickly rebound, and there should be an additional boost from the return of mainland Chinese tourists, who accounted for about 30% of the total pre-pandemic arrivals of foreign tourists.

Despite near-term risks and challenges facing the emerging-market world, Thailand's economic recovery path remains intact, supported by its favourable macroeconomic fundamentals . In the near term, the country is likely to be under pressure due to both cyclical internal and external challenges. On the internal front, inflationary pressures are building up, adding pressure to normalize monetary policy faster than expected. On the external front, external demand could be dampened by a structural slowdown in China (which accounted for about 13.7% of Thailand's total exports in 2021), global recession concerns, global price shocks because of a longer-than-expected war in Ukraine and related sanctions imposed on Russia, as well as a cyclical slowdown in the US triggered by the Fed's proactive rate hikes. These factors in turn are likely to trigger near-term capital outflows and add downward pressures on the Thai baht. However, in the medium to longer term, the growth outlook is expected to become more positive on the back of resilient economic fundamentals and sound macroeconomic management, as well as because of policies to enhance and reform the country's economic structure.

Daily HKD / THB Exchange Rate (Simple Average)[2]



2 The historically low exchange rate and Thailand's Long-Term Resident (LTR) Visa are spurring growth in the country's real estate sector


Suvarnabhumi Airport, Bangkok Thailand

With the country's economic resilience, new growth engines, ongoing structural reforms and cyclical factors, including the depreciation of Thai baht, business opportunities remain ample in the country. Currently, Thailand is the second-largest economy in ASEAN, after Indonesia. Over the past decades, Thailand has made remarkable progress in social and economic development to become an upper-middle income country. In terms of economic structure on the supply side, the Thai economy is dominated by the service sector, which accounted for nearly 57% of GDP in 2021, with household consumption a key contributor, accounting for 52% of GDP in 2021. To move to a higher income status, the country is revamping its growth model, pushing through key structural reforms and boosting infrastructure investment.

In terms of growth drivers and infrastructure enhancement, Thailand has been advancing the Eastern Economic Corridor (EEC), its new flagship investment zone, which covers the provinces of Chachoengsao, Chonburi and Rayong in the east. The project is anticipated to become the primary investment and infrastructure hub in ASEAN, serving as a gateway to connect East and South Asia. In addition, the EEC aims to boost 12 new s-curve targeted industries as new growth drivers for the country, such as next-generation automotive, intelligent electronics, advanced agriculture and biotechnology, and food processing. In addition, favourable tax and non-tax privileges are offered to attract international investors.

In terms of transportation infrastructure, the government has been developing its mass transit system across the country. For Bangkok, the system has been expanded to serve the Bangkok Metropolitan Region (BMR). The more extensive coverage of the mass transit network in the BMR has led to rises in demand for new residential and commercial real estate. On the back of the re-opening of the economy at home and internationally, a combination of the normalization of domestic demand, the resumption of cross-border tourism and the depreciation trend of the Thai baht together offer favourable opportunities for international investors to explore and invest in Thailand's real estate sector, which is rebounding along with domestic economic activity.

Special tax and non-tax incentives are provided to attract foreign residents and investors. Over the recent years of the pandemic outbreak, Thailand has proved to be top destinations for remote work and digital nomads living in Bangkok and other major cities due to its reasonable costs of living and infrastructure readiness compared to other regional peers. Recently, the investment promotion agency – the Board of Investment of Thailand (BOI) – has offered various schemes to attract foreign residents including the Long-Term Resident (LTR Visa), the SMART Visa program designed to attract highly skilled talents, investors, executives, and start-ups entrepreneurs to work or invest in targeted industries in Thailand. On the horizon, due to booms of the trends of work-from-anywhere, a surge in digital nomads, and higher demand for remote work, these policy packages should be supportive to demand for real estate especially metropolitan Bangkok.

3 Bangkok's city centre and northern metropolitan area offer attractive investment potential


69 sq.m. 2 Bedrooms Combined Unit

With its location in the heart of Bangkok, Phrom Phong is one of Bangkok's most dynamic CBDs and boasts popular high-end residential zones among foreign expats, making real estate projects in this area worth considering. In addition, the area is surrounded by top-notch facilities and attractions, including public transportation networks, international hospitals, international schools, and popular shopping and dining destinations. One of the interesting projects in the area is a completed development by Noble Development located at Sukhumvit 39. The average price of the project is 240,000 baht per square metre, which is below the area's average of 300,000 baht per square metre, making it a more attractive option. Its facilities are marvellous, including "creative forest" gardens, an indoor swimming pool with a panoramic view, a fully equipped gym room, a sky lounge and a library room. Numerous shops are situated within easy reach, including the Emporium Shopping Mall, only 1 kilometre (6 minutes) away by car. With the re-opening of the economy globally and the return of international tourists and expats, as well as the weakening Thai baht, the modern-designed project by Noble Development is expected to generate a good return on investment.

Khu Khot is emerging as a dynamic residential area among locals due to the extension of the BTS Skytrain's Green Line. In addition to the accessibility to the BTS network, Khu Khot's proximity to Don Mueang International Airport, which will be linked to a high-speed rail network soon, has led to a rise in various development projects. The area is in the middle of an array of facilities spanning shopping malls, schools and hospitals. The new residential project developed by Noble Development, is located right next to the BTS Khu Khot Station. Residents can seamlessly connect to the Siam area and other city centre locations using convenient public transport options offered by the BTS network. The project is being developed to comprise four facilities zones across six buildings, with four different types of residential units featuring either pool or palm spring views. In addition, facilities spanning 24 functions have been carefully crafted and designed to fit different lifestyles for residents of all generations. As a result of its prime location and world-class amenities and facilities, the project's anticipated rental yield, estimated to be above 5%, is enticing for investors.

Source: 1 IMF WEO Database, World Bank: Thailand Economic Monitor (June 2022) 2 Bank of Thailand, CEIC


Sathit Talaengsatya

【About Sathit Talaengsatya】Sathit Talaengsatya is a senior economist at the deputy director level at the Bank of Ayudhya (Krungsri), where he is responsible for conducting research and analyses on the ASEAN countries. Previously, he was employed at the Bank of Thailand in various capacities, including as a senior economist and the assistant director in the Bank's International Department, and as an economist in the Monetary Policy Department. He has a master's degree in international and development economics from University of Applied Sciences Berlin, Germany, and a master's degree in European Studies and a bachelor's degree in economics from Chulalongkorn University.

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