

SECTOR UPDATE

Property – Thailand

Foreign Ownership Proposal To Boost Real Estate Sector

The market is challenging due to increased unsold inventories and reduced absorption rates, leading to heightened competition among developers. However, the proposed measures to attract foreign demand may provide new opportunities, especially for developers in the mid-end segment (Bt3-5m). Despite current pressures, a recovery in presales and earnings is expected in 2Q24 due to project launches, newly-completed condo projects and real estate measures. Maintain MARKET WEIGHT.

WHAT'S NEW

- **Expect increased competition from oversupply risk.** The Real Estate Information Center (REIC) report highlights the number of unsold residential units in the Bangkok Metropolitan Region for 1Q24. This report reflects a growing inventory influenced by headwinds such as reduced consumer purchasing power and the influx of new project launches in 4Q23. There were 229,048 unsold units in 1Q24, marking a 11.9% rise from the previous year. The absorption rate has also fallen to 2.3% from 3.5% in the previous year, indicating that it now takes approximately 40 months to sell existing inventory, compared to 25 months previously. This suggests that the market is slowing down more significantly than during the COVID-19 period. We expect increased competition among developers to lead to aggressive marketing strategies, further impacting profit margins.
- **Proposal to boost real estate sector.** The cabinet proposed further studies on measures to stimulate the macroeconomy and attract large-scale foreign investments on 18 Jun 24. The Ministry of Interior has been tasked to consider: a) reviewing the duration of right-of-superficies to not exceed 99 years, and b) revising laws to increase foreign ownership in condominiums from 49% to 75%, with additional conditions on management rights. These changes aim to attract foreign investors and skilled expatriates to invest and work in Thailand, enhancing overall economic growth. We expect developers to see increased demand and new opportunities for project development. We foresee that these would benefit developers who are specialists in the mid-end segment (Bt3-5m) of both Bangkok and tourist areas.

ACTION

- **Maintain MARKET WEIGHT on the sector.** Although we foresee low customer purchasing power and oversupply risk pressuring a recovery in the residential market, we expect a recovery in the sector's presales and earnings in 2Q24, underpinned by numerous project launches, newly completed condo projects and real estate measures. In addition, undemanding valuations and attractive dividend yields are expected to underpin share prices and limit downside. We recommend selective BUY and sticking to market leaders with solid fundamentals and diversified portfolios expected to benefit from the economic rebound and increased demand from foreigners. Our stock picks are AP and SPALI.

MARKET WEIGHT
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
AP (Thailand)	AP TB	BUY	8.45	13.50
Supalai	SPALI TB	BUY	18.70	24.20

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)	Upside (%)	Market Capitalization (Btm)	PE			EPS Growth			PB	ROE	Div Yield
							2023 (x)	2024F (x)	2025F (x)	2023 (%)	2024F (%)	2025F (%)			
AP (Thailand)	AP TB	BUY	8.45	13.50	60	26,583	4.4	4.4	4.4	3.0	0.2	0.0	0.6	14.2	8.3
Land and Houses	LH TB	BUY	6.05	9.00	49	72,296	9.7	10.0	9.3	-10.0	-3.0	7.6	1.4	13.7	8.3
LPN Development	LPN TB	SELL	3.22	2.40	-25	4,683	13.3	13.9	13.4	-42.0	-4.6	4.1	0.4	2.8	3.7
Origin Property	ORI TB	BUY	5.05	7.50	49	12,393	4.6	5.2	4.8	-28.0	-12.4	8.1	0.6	11.0	7.7
Pruksa Holding	PSH TB	SELL	9.20	9.20	0	20,134	9.1	8.2	7.9	-20.5	10.9	4.1	0.4	5.3	10.4
Quality Houses	QH TB	HOLD	1.88	2.37	26	20,143	8.0	8.2	7.7	4.5	-1.3	6.3	0.7	8.6	8.0
Supalai	SPALI TB	BUY	18.70	24.20	29	36,522	6.1	5.5	5.9	-26.9	11.8	-6.8	0.7	12.6	7.8
Sector						192,754	6.4	6.2	6.2	-14.5	1.3	2.0	0.7	10.5	8.2

Source: Bloomberg, UOB Kay Hian

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ESSENTIALS

- The Ministry of Interior, which oversees the Department of Lands, was authorised to study the feasibility of two amendments about economic stimulation measures through real estate including:

a) Extension of right-of-superficies duration

- **Current law:** The duration does not exceed 30-50 years.
- **Proposed change:** Extending the duration to not exceed 99 years.

b) Increasing foreign ownership limits in condominiums

- **Current law:** Foreigners can own up to 49% of a condominium's total unit area.
- **Proposed change:** Increasing the limit to 75% with additional conditions.

- Regarding the extension of the right-of-superficies duration, we anticipate that longer lease terms will make property investments more appealing to foreign investors. Additionally, developers may be more willing to invest in larger, long-term projects, knowing that the lease terms are favorable for attracting foreign tenants and buyers. Increasing foreign ownership limits in condominiums could result in increased property sales, especially in high-demand areas popular with foreign buyers, such as Bangkok, Phuket, and Pattaya. However, higher foreign demand could lead to an increase in property prices.

- In contrast, countries like the US and the UK allow foreigners to own all types of real estate, including land, without significant restrictions. Singapore restricts foreign land ownership and requires government approval, while Malaysia permits land ownership with minimum value requirements. Japan and Hong Kong both allow foreigners to own property and land freely, similar to the US and the UK, but Japan has minimal restrictions compared to Hong Kong's high property prices and stamp duties. This illustrates that Thailand's policies are more restrictive regarding land ownership and have specific limits on condominium ownership compared to these other countries.

COMPARISON OF FOREIGN REAL ESTATE OWNERSHIP REGULATIONS

Country	Condo Ownership	Land Ownership
Thailand	Up to 49% of total project area	Not allowed, can lease up to 30 years
Singapore	Allowed for private condos	Restricted, requires government approval
Malaysia	Allowed	Allowed with minimum value requirements
USA	Allowed for all types	Allowed for all types
UK	Allowed for all types	Allowed for all types
Australia	Only new or significantly renovated properties	Not allowed for existing properties
Japan	Allowed for all types	Allowed for all types
Hong Kong	Allowed	Allowed

Source: UOB Kay Hian

- According to REIC's report on condominium ownership transfer by foreigners, Chonburi and Bangkok led in transfers in 1Q24, accounting for 76.6% of the total units. Chinese nationals were the primary buyers, followed by significant growth from Myanmar nationals. Most popular were units priced Bt3-5m and sized between 31-60 square metres, highlighting a strong preference for affordable, moderately-sized properties.

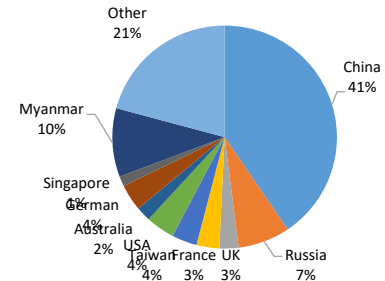
RISKS

- Delay in project launches and completions, tightening of banks' policies, rising cost, and weaker-than-expected economic growth.

SECTOR CATALYSTS

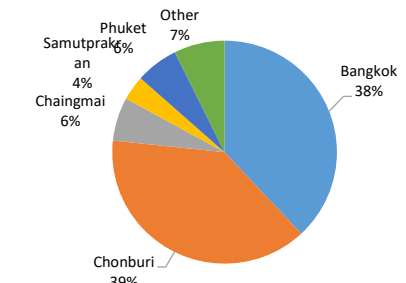
- Better-than-expected presales, transfers and gross margin.
- An interest rate cut.

UNIT TRANSFERS OWNERSHIP OF CONDOMINIUMS TO FOREIGNERS BY COUNTRY (1Q24)



Source: REIC, UOB Kay Hian

UNIT TRANSFERS OWNERSHIP OF CONDOMINIUM TO FOREIGNERS BY AREAS (1Q24)



Source: REIC, UOB Kay Hian

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