

CONSTRUCTION COMMENTARY

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Thailand economy performs better than expectation in the year of 2017. GDP growth is estimated to be close to 4%, which is higher than that of around 3% projected at the beginning of the year. There is concern however that the growth is unbalanced and benefits only the privileged, the mass public having fared no better than it was before.

Condominium developments remain the most dominant components of the property market.

Developments are still concentrating along the existing and future mass transit routes.

Following the reported successes of a number of projects, developers with land plots at appropriate locations are devoting their attention to high end residential products, which theoretically will generate the highest marginal profits.

The less luxurious condominium sectors have reached or are close to the saturation point, which may crudely be verified by counting the number of lights in units of completed projects in the evening.

Developers are offering discounts and initial low monthly instalments to attract buyers.

Markets of foreign purchasers, principally from China including Hong Kong, are explored.

Road shows were convened and connections were established with estate agencies who have access to and market information of that region.

In response to the national policy of one belt one road, Chinese companies and individuals have every incentive to park their wealth in those countries along the route.

Thailand, being the hub of the Asean countries and in conjunction with other attributes, is the first choice of these purchasers.

The overall and unit prices are relatively low compared to that in their home areas. The yield is lucrative. The low cost and good quality of living attract many to establish a second and/or retired homes in Thailand.

Chinese purchasers and investors will play an increasing important role in the next three to five years in the condominium sector.

If the government is prepared to raise the limit of foreign ownership and allow local mortgages by foreigners, a boom will be triggered.

The office sector continues to perform well. Both occupancy rates and rents are maintained at high level, which results in many developments being planned. With the current trend, the performance of this sector will possibly reach its peak in a few years time with supply and demand balanced.

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The number of tourist arrivals between January and October is registered at about 27 million with generated revenue at about 1.4 trillion Baht, up 5.6% and 7.6% respectively from the same period last year.

The overall tourist arrivals for the entire year is projected at 34 million with revenue at 1.8 trillion Baht.

The average hotel occupancy rate nationwide stands at 70% - 75% with that in Pattaya and Phuket recorded the highest percentage increase.

The occupancy rate in Bangkok registered only slight increase due to many number of rooms added to the market over the last few years.

Thai tourism will continue to grow but there is a remark that over supply of rooms in popular destinations has already occurred.

Despite report and concern that on line shopping will have serious impact on shopping centers, retail developers appear to be undeterred. A total of about 150,000 m2 of new retail space was added to the market in the first three quarters of the year with another 50,000 m2 scheduled to be completed in the last quarter. Many existing premises are under major renovations.

Big shopping center in Thailand serves as a place for social interaction and a haven to avoid the traffic congestion in rush hours. Also shopping to many is still for the experiences and services in addition to the acquisition of merchandises.

The threat of online shopping to Thailand retail areas is considered not as significant as that in other countries.

For various reasons which are often justifiable, many developers have introduced at construction stage cost control systems to monitor the cost changes to projects.

Unfortunately some of these systems have been designed by persons with limited hand on working experiences. The procedure tends to be complex with a lot of non pertaining inputs demanded. As time goes by, particularly with the departure of the original devisor, the principles behind any requirements are lost and the system becomes very bureaucratic.

As such, resources are diverted from productive utilization and in many instances, project progresses are obstructed.

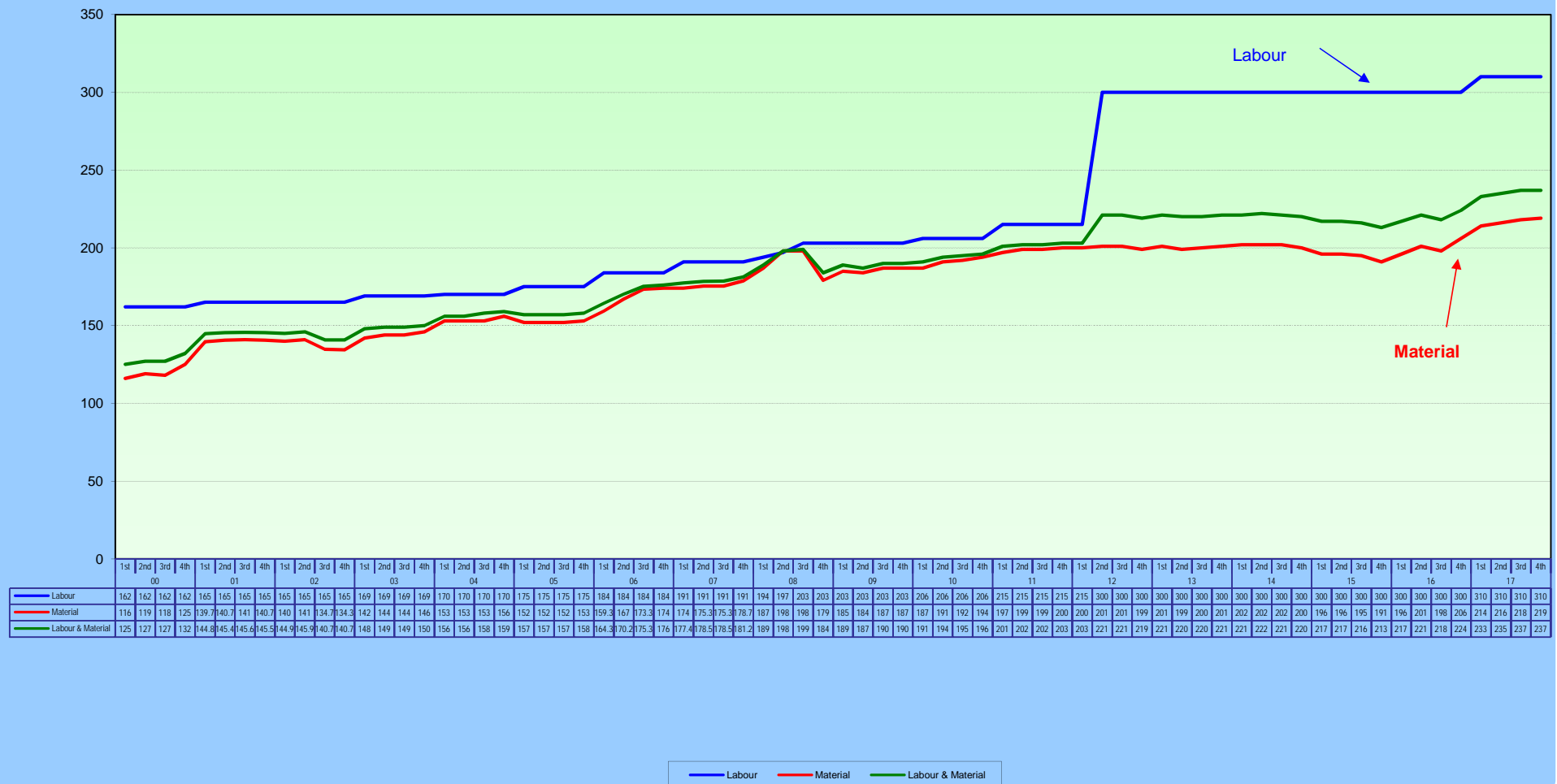
Any system is only as effective as the operator. Too complicated of the inputs and requirements would inevitably lead to misunderstanding and hence mistake and worst of all, arrangement with the objective to by pass the system.

Building operations are already complex and subject to many vagaries and there should be flexibility in any system to allow discretion by the field personnel.

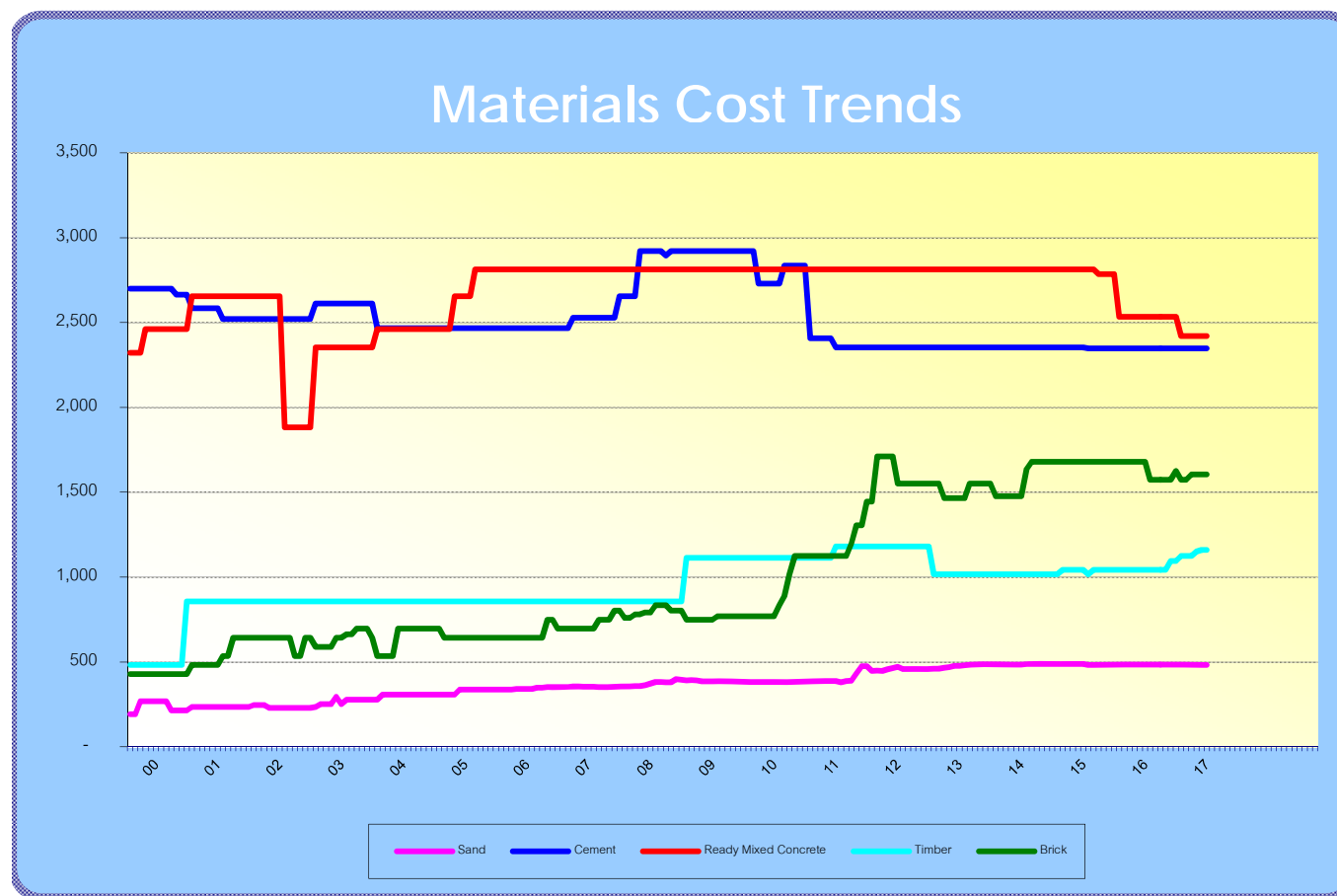
Construction cost last year has increased by about 5%, principally caused by the higher prices of reinforcing steel.

With many infrastructure projects which have come to the construction stage or will be implemented, there will be pressure on the prices of major building materials in the coming year and an overall increase of 5% - 8% is projected.

Labour & Material Cost Indices



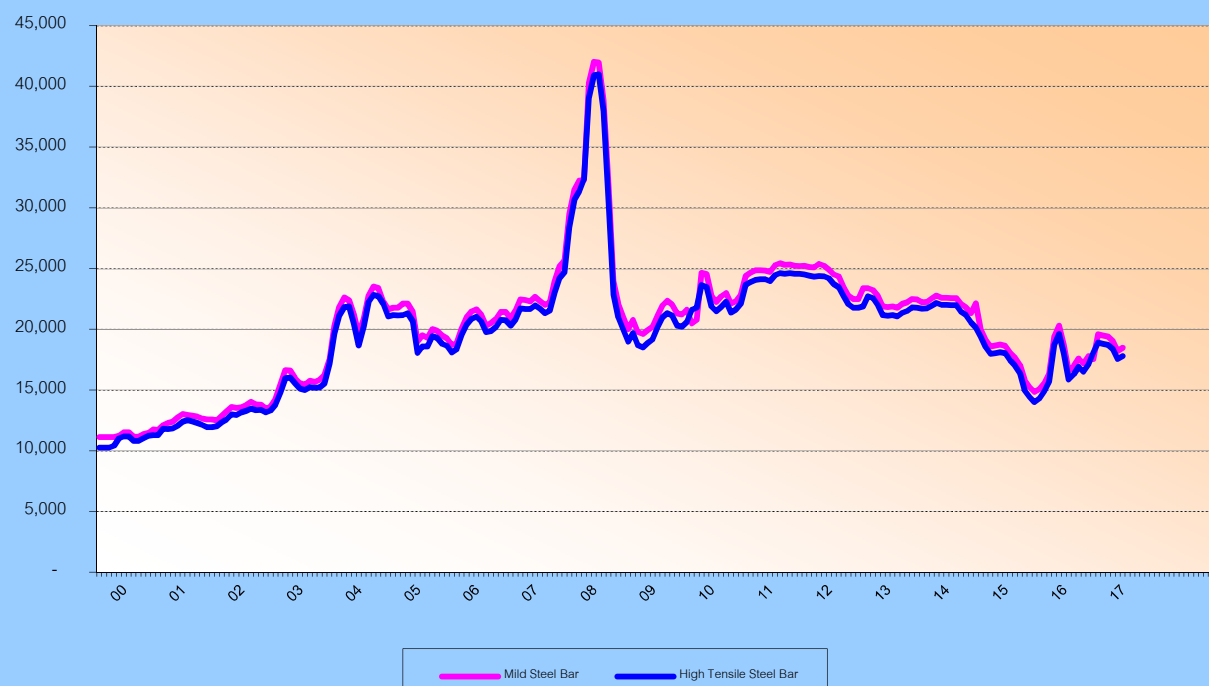
- Notes:
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



Sand	(Baht per cu.m)
Cement	(Baht per tonne)
Ready Mixed Concrete	(Baht per cu.m)
Timber	(Baht per cu.ft)
Brick	(Baht per 1,000 pcs.)

Source : Ministry of Commerce

Steel Cost Trends



Mild Steel Bar (Baht per tonne)

High Tensile Steel bar (Baht per tonne)

Source : Ministry of Commerce

Approximate Order of Construction Costs

	<u>Cost per m2 of CFA</u>	
	Baht	
Office		
High quality	31,000	- 36,000
Medium quality	26,000	- 31,000
Ordinary quality	23,000	- 26,000
Shopping centre		
High quality	27,000	- 31,000
Medium quality	23,000	- 27,000
Hotel (including FF&E)		
5 Star	56,000	- 60,000
4 Star	52,000	- 56,000
3 Star	44,000	- 50,000
Residential condominium		
High quality	38,000	- 47,000
Medium quality	28,000	- 36,000
Low quality	23,000	- 27,000
Factory (low rise)	16,000	- 20,000
Car park		
Multi storey	13,000	- 16,000
Basement	17,000	- 21,000

Notes :

- (1) The construction costs indicated are based on prices obtained by competitive tendering for lump sum fixed price contracts with a normal contract period and normal site conditions and locations.
- (2) The costs are average square metre unit costs only not based on any specific drawings / designs. The costs are nothing more than a rough guide to the probable cost of a building. Figures outside the given ranges may be encountered.
- (3) The costs exclude furniture, furnishing and equipment [FF&E] (except hotel), site formation and external works, financial and legal expenses, consultants' fees and reimbursables, value of land and fluctuation between the prices at the date of this commentary and the time of calling tenders.
- (4) Construction Floor Areas [CFA] (for estimating and cost analysis purposes) are measured to the outside face of external walls (or in the absence of such walls, the external perimeter) of the building and include all lift shafts, stairwells and E&M rooms but exclude light wells and atrium voids. Basement floor areas, if any, are also included.

CFA would generally be the same as the suspended slab areas of a building.
- (5) Gross Floor Area [GFA] for submission to building authority, which includes areas on grade and accessible roof areas, tends to be higher.
- (6) CFA, with the exception of factory and car park, include car parking areas which form an integral part of a development.