

CONSTRUCTION COMMENTARY

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2020 is a year that many individuals and corporations wish to forget.

The dilemma facing many governments has been wealth or health and the Thai government apparently has chosen the latter.

The containment measures appeared to be effective until December, when there was a sudden surge of over 2,000 cases within a period of 2 weeks. The outbreak appeared to stem from migrant workers. The government immediately clamped down on the ingress, which had the immediate implication on the labour supply particularly to the construction industry. Some construction companies cannot start or have to suspend works as their labour is principally sourced from abroad.

Thailand however in this respect was no exception as similar new waves of outbreak were also reported in many countries across the world.

Compared to the Tung Yum Kung crisis in 1997, the impact of which was immediate, the effect this time is gradual. This poses a dilemma to many corporations whether to cut loss by closing down or continue operation hoping for an upturn in a short future.

Unfortunately, as the pandemic is spanning a much longer period than expected and the decisions of many companies are turning to the former.

Up to mid August, about 13,000 companies were reported to be closed.

It was estimated by the Employer's Confederation of Thai Trade and Industry in July that over 9.5 million workers would lose their jobs. Those in the tourism, real estate and construction, hotel and retail businesses top the list.

The numbers are expected to be increasing as the situation sustains.

Those employees who manage to keep their jobs are experiencing wage cuts and uncertainty of their employment future. Many have to live on savings or borrowings.

Gross domestic product (GDP) is estimated to be contracted by 8.1%, which exceeds that of 7.6% in 1997. Number of construction permits has reduced by about 17%. Household debts reaches 84% of the GDP.

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The residential market registered the worst set back of the last 5 years. The number of projects launched is reduced by 30% with a sharp fall of 50% in the condo segment. Property developers are unloading their stocks with substantial price discounts. A maximum 62% rebate was reported. These actions really annoy those buyers who have made commitments earlier and illustrate the fallacy of many beliefs that high property prices are consequent of high costs of land and construction.

Office market also reported decrease in occupancy rate from about 94% to 92% with slight drop in average rental for grade A office building below the Baht 1,000/m² mark. Some tenants have asked for reduction or temporary waiver of rents due to the downturn of their businesses.

Retail market fared no better. Landlord also faced the same requests from their tenants for the same reasons as in the office market.

It is beyond doubt that the hotel sector has suffered the most. Thailand had zero international arrival for 3 months between April and June. Despite gradual relaxation, the number of tourist arrivals has only been a fraction of that previously recorded. The government attempts to encourage local travels with provisions of subsidies and incentives and imposition of long weekends. Unfortunately the length of stays and spending of local tourists are in no way comparable to that of foreign visitors.

At the time of preparing this commentary, new vaccines are introduced. Even if the vaccines are proved to be effective, it is projected that it will not be until the second or third quarter of 2021 that the situation will start resuming normal.

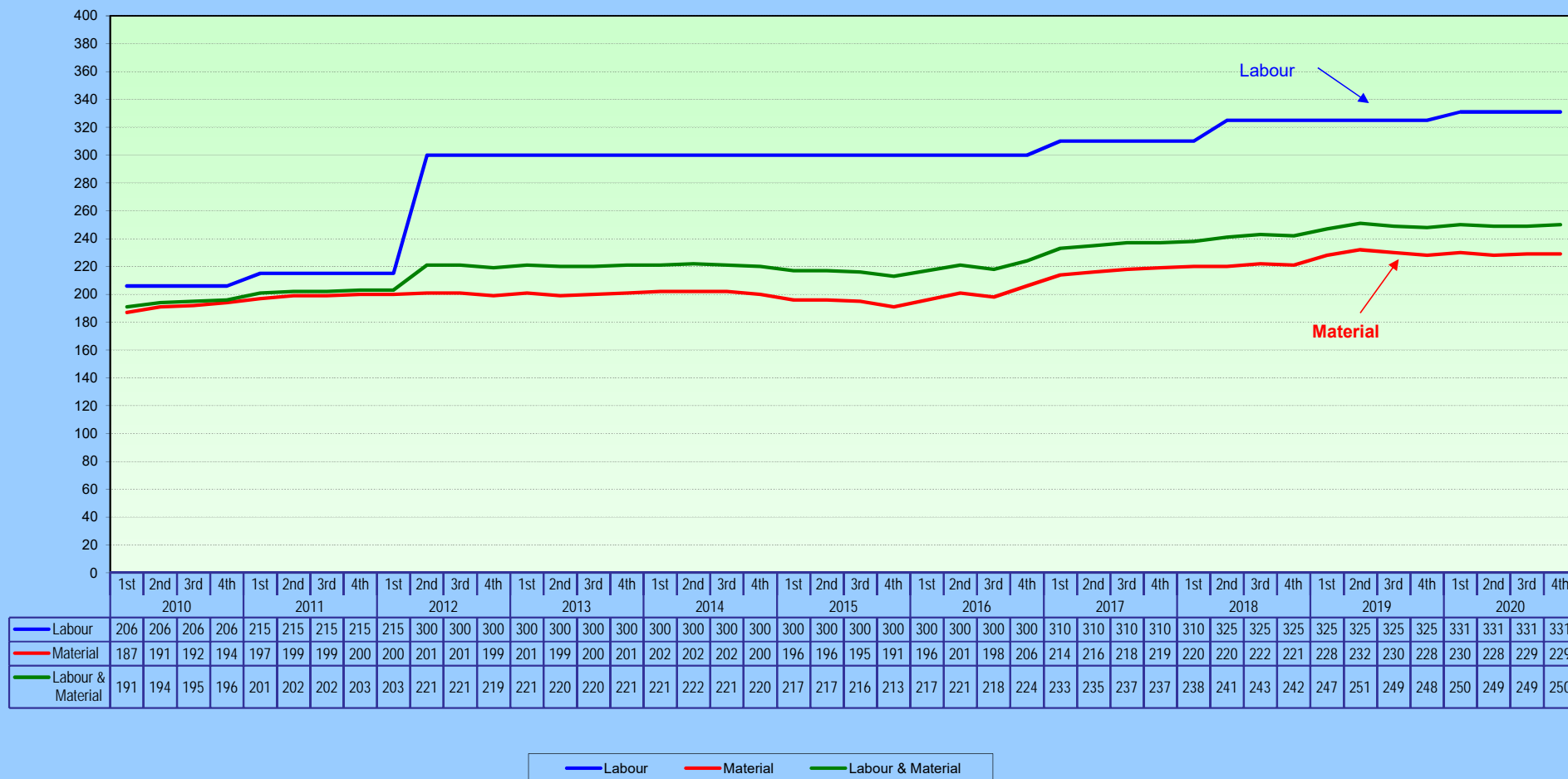
The year of 2021 for Thailand is full of uncertainty. Apart from the pandemic and increasing political tension, Sino American relationship in trading and sensitive areas in Asia would also play a pivotal role.

With few exceptions, all companies are focusing on continuity, or more precisely, survival plans. New investments and spending would be on hold or even if proceeded, will be at reduced speed.

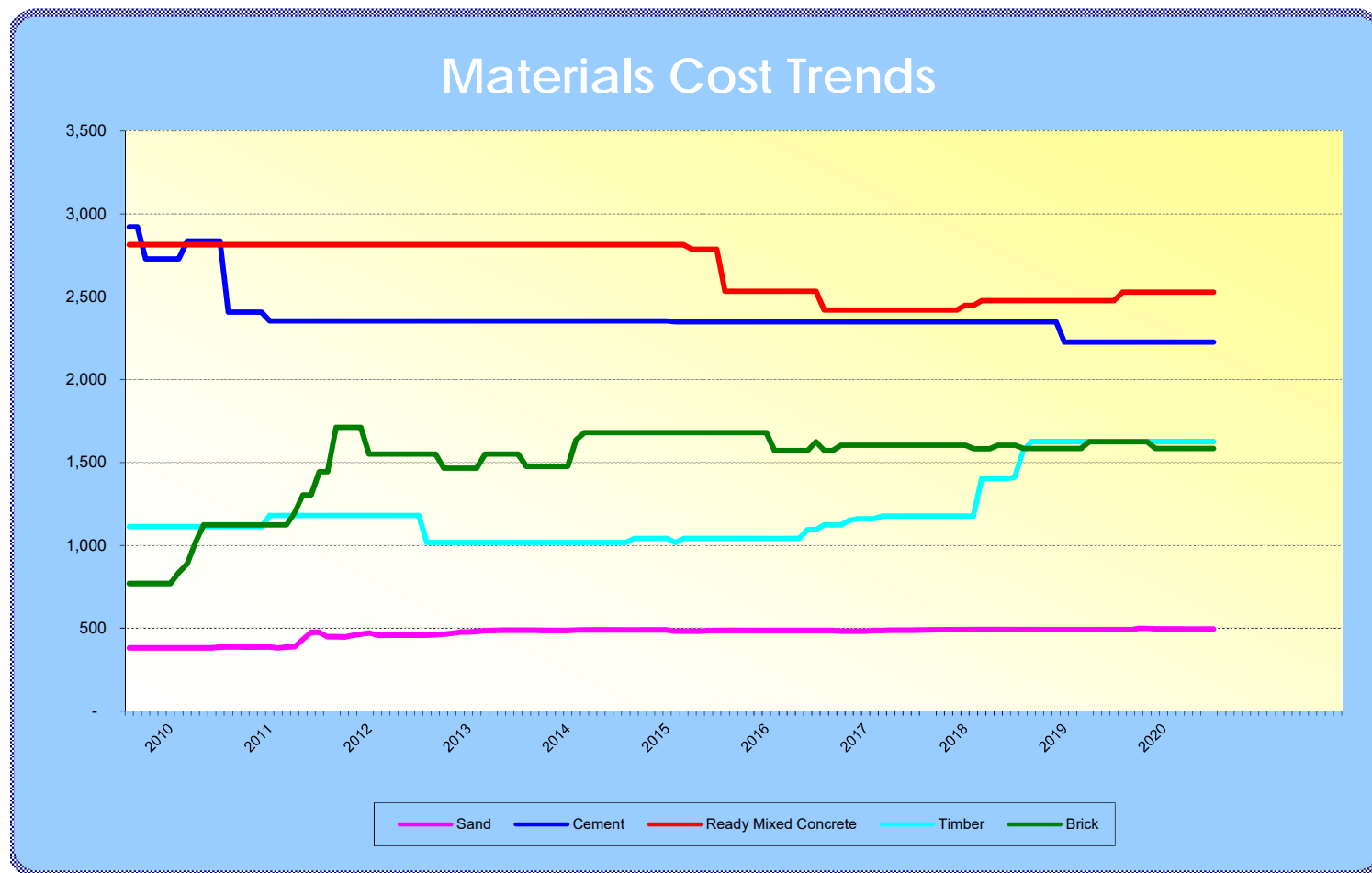
The construction industry in the coming year would need to be propped by infrastructure projects, which benefits only a few companies as previous comments.

It is projected that competitions for works, particularly in private sector, will be intensified and a general reduction of 2% to 4% in overall construction cost is expected.

Labour & Material Cost Indices

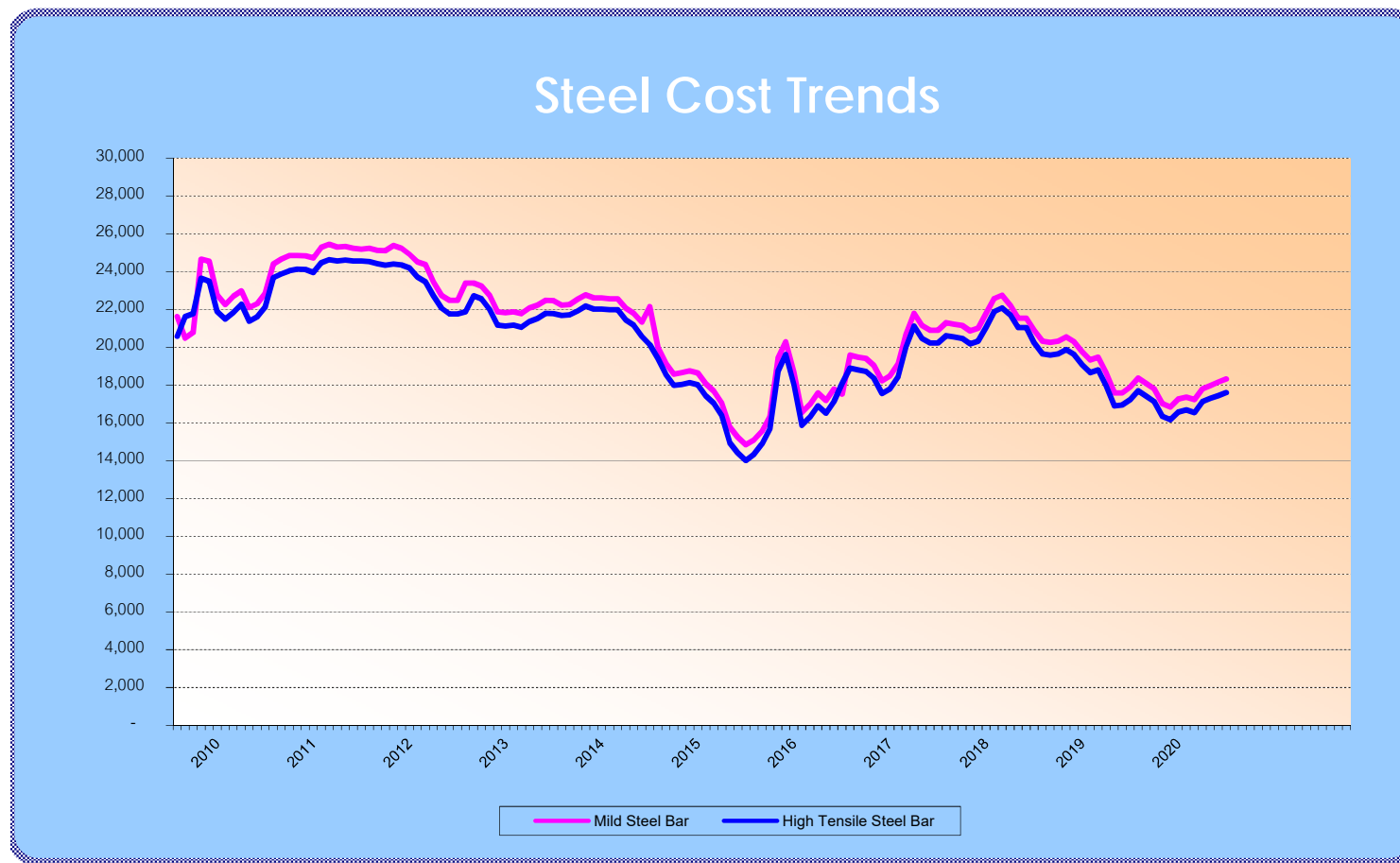


- Notes :**
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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



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	31,500	- 36,500
Medium quality	26,500	- 31,500
Ordinary quality	23,500	- 26,500
Shopping centre		
High quality	27,000	- 31,000
Medium quality	23,000	- 27,000
Hotel (including FF&E)		
5 Star	57,000	- 61,000
4 Star	53,000	- 57,000
3 Star	45,500	- 51,000
Residential condominium		
High quality	38,000	- 47,000
Medium quality	28,000	- 36,500
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, includes car parking areas which form an integral part of a development.

Unit construction costs as presented would be higher if parkings are on external areas or located in separate premises or mechanical parking systems are in use.