

## CONSTRUCTION COMMENTARY

### Quantity Surveyors Construction Cost Consultant

36/F, Skulthaisurawong Tower  
141/58 Surawong Road  
Suriyawong, Bangrak  
Bangkok 10500 Thailand  
Telephone : +66 (0)2 234-4933  
Facsimile : +66 (0)2 234-4934  
E-mail : rhlbthai@rhlb.co.th  
Website : www.rhlb.co.th

ISSUE JANUARY 2016

The Asean Economic Community (AEC) was eventually inaugurated on 31st December 2015.

The formation of AEC will undoubtedly create many opportunities in the region. Many articles have been written on the subject matter including the impact on Thailand property market and is not repeated in this commentary.

Two issues are put forward for consideration.

Free flow of labour in certain professions will encourage cross nation working with the country offering the best opportunities and highest remunerations the most appealing. Competitions tend to be more intensive. Regrettably, Thailand seems to fall behind in both language and proficiency levels in meeting the coming challenges.

Thai companies have been encouraged to invest in property sectors in developing Asean countries.

Working in real estate market, whether in development, consultancy or construction requires intimate local and updated knowledge. It is imperative to set up local establishments, headed by entrusted personnel with full authority to handle problems as occurred.

Many Thai organizations, despite their sizes and turnovers, are structurally family orientated. Key management posts are usually occupied by members in the same blood line or with marital connections. Unfortunately, the impetus to pioneer to a new frontier and the acceptance to live in a less comfortable environment than that in Thailand seem lacking generally in the generations after the founding levels of the organizations.

Companies set up abroad are then steered by hired managers, who may not have the required authority to make prompt and critical decisions.

Thailand economy in 2015 grew more slowly than anticipated. The long awaited infrastructure projects have yet to be implemented. Export volumes continued to fall. Consumption sentiments were low. Household debts remained high.

Financial institutions have been very cautious to extend loans to both property developers and mortgagors.

High end residential developments remained the developers' top preferences as the potential buyers in this sector are the least affected by the economic situation and the assessed profits are high.

Middle and low end residential developments are still concentrated in the Bangkok peripheral areas accessed by or potentially reached by mass transit. Sales performances varied with locations in this sector.

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Government is introducing a number of measures such as the 10 billion Baht loan scheme, reduced housing transfer and mortgage fees, tax break for first time home buyers etc. to boost property transactions. Tax incentives are also provided to developers supplying homes priced at half a million Baht or less.

Office sector continued to prosper. Occupancy rate in central business district has exceeded 90% with rents in prime location close to Baht 1,000 per m2 mark, which is expected to be surpassed in 2016.

Tourist arrivals hit a record high of nearly 30 million. The increase in Chinese tourists has more than compensated the decrease of that from other countries. Hotel sector performed well overall but competitions particularly in 5-Star segment remained severe as more hotel rooms of this category were added to the market.

Despite reported slow down in retail sales, many retail spaces are still under planning and construction. Old retail centers are also under revamp. International brands are taking their foothold here.

Construction costs fell.

Economic slow down in China compelled Chinese building material suppliers to seek opportunities overseas. Steel import from China to Thailand for instance has increased from 7 million tonnes to 10 million tonnes last year. The prices are competitive and there have been outcry for anti dumping measures to be implemented.

Number of major projects launched for tendering have decreased, which drove tender prices further down.

The projection in 2016 is generally mediocre with estimated growth ranges between 3% to 4% only.

A more optimistic view is held.

Thailand is the hub of Asean countries, which is bound to benefit from the increased activities in the region.

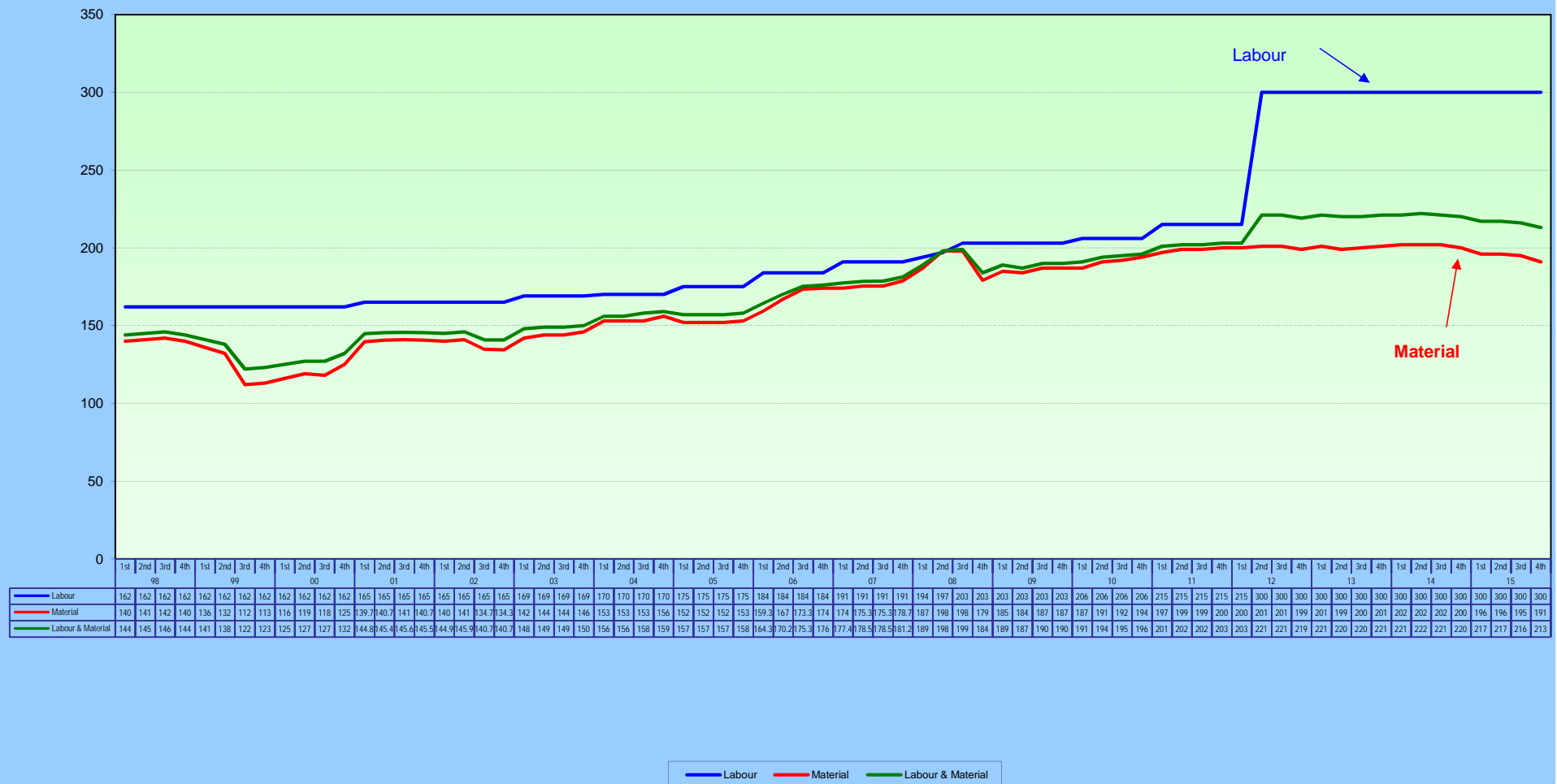
Tourism will continue to grow, which would largely, if not more than, offset the downturn in export.

The government appears to be determined to sustain the economy growth. Infrastructure projects are fast tracked. Assistances are rendered to SMEs. Incentives are extended to encourage private investments.

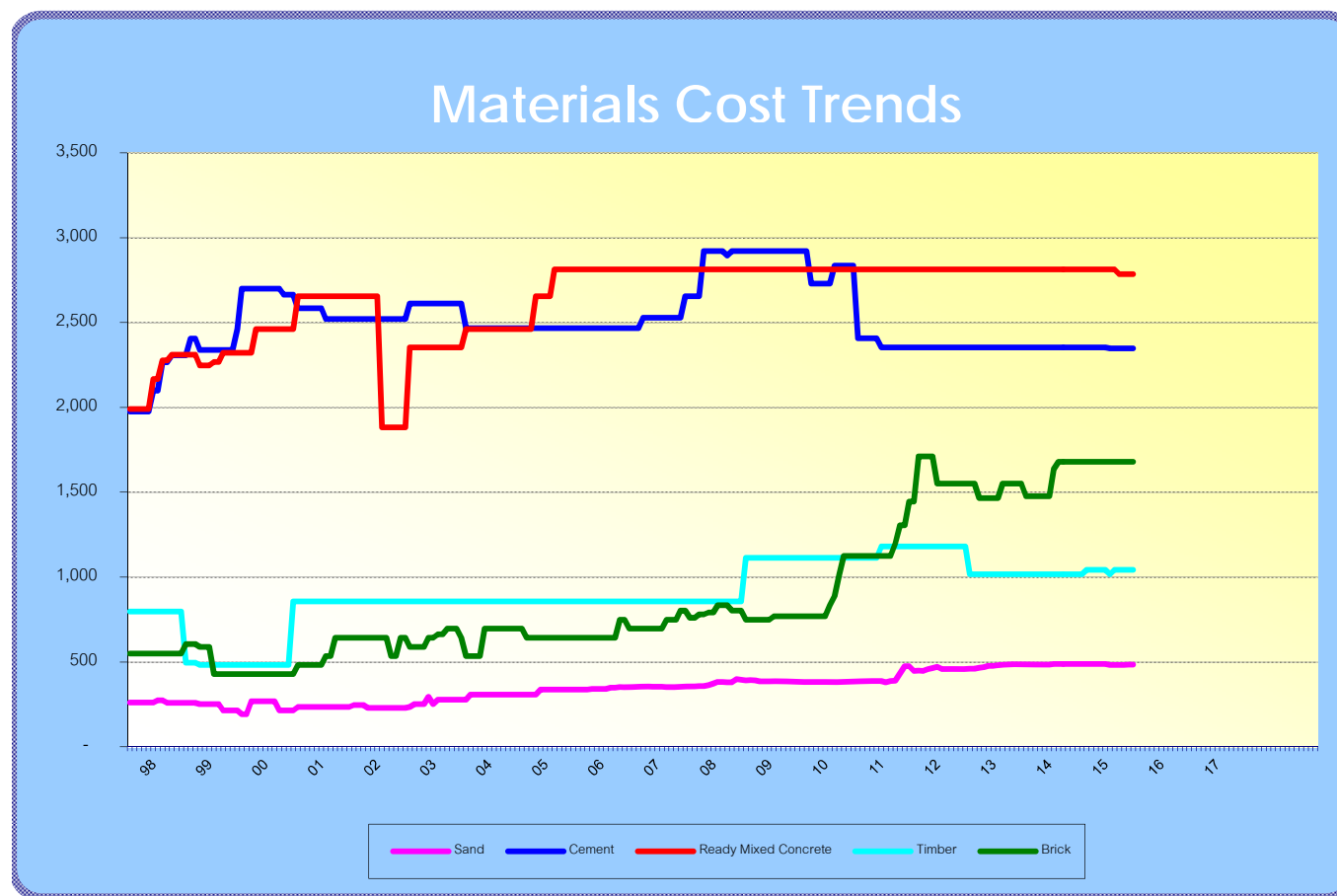
Property developers would also take advantage of the favourable pricing conditions to start construction of their projects.

The construction cost is projected to remain stable and we estimate an overall increase only of 1% to 2% with rise taking place principally towards the last quarter of the year.

## Labour & Material Cost Indices



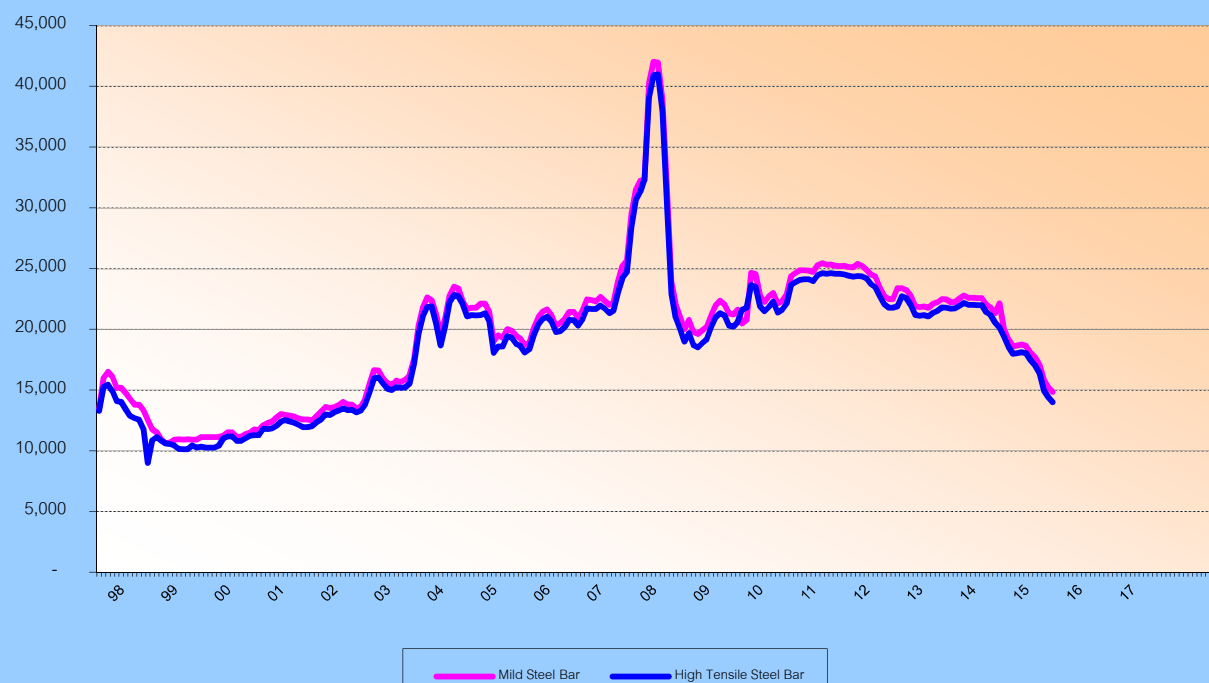
- Notes:
- (1) Base of index is at first quarter 1992.
  - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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	30,000	-	35,000
Medium quality	25,000	-	30,000
Ordinary quality	22,000	-	25,000
Shopping centre			
High quality	26,000	-	30,000
Medium quality	22,000	-	26,000
Hotel (including FF&E)			
5 Star	54,000	-	58,000
4 Star	50,000	-	54,000
3 Star	42,000	-	48,000
Residential condominium			
High quality	36,000	-	45,000
Medium quality	26,000	-	34,000
Low quality	22,000	-	26,000
Factory (low rise)			
	15,000	-	19,000
Car park			
Multi storey	12,000	-	15,000
Basement	16,000	-	20,000

### 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 integral part of a development.