

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 2017

The year of 2016 is a lacklustre year for Thailand.

Despite less political conflicts under the current government, the overall performance of the economy including that of the property industry did not fare well. The Gross Domestic Product [GDP] growth is estimated to be slightly over 3% only.

The pass away of the Monarch in October had a deep impact. Most activities nationwide including promotional campaigns were frozen for at least a month. Consumption sentiment is low.

Tourist arrival in some months dropped substantially due to the crackdown on zero dollar packages on tours from China.

Mega infrastructure projects have not been implemented at the pace as scheduled. Private investments and export were still at a low level.

Household debts reached a new height, exceeding 80% of the GDP. Consequently the rejection rates for mortgage loans from banks continued to be high particularly in the low priced segment, which was reported to be as close to 70%.

Office sector remained the best performer. An office building in central business district [CBD] with good planning and quality was reported to have secured a monthly rental of Baht 1,400 per m2. Many projects have been preleased by a substantial portion prior to completion. Two office buildings in CBD were demolished due to obsolescence. The owners obviously had optimistic projection and expected better returns from the replaced developments.

The residential sector did not perform as well. Most developers have missed their target presales and revenues. Developments were still concentrated along the routes of the mass transit. Unit selling prices have not reduced and the tendency is to build units of smaller sizes to cater for the affordability of purchasers. Demand for condo units in the lower numbers of Sukhumvit Road remains strong. Since it is impossible to construct developments with a total area of more than 10,000 m2 or with an overall height exceeding 23m in lanes or sois with width of less than 10m, many developers opt to acquire and rehabilitate existing large and tall buildings in the narrow sois. The process however is not simple particularly for premises with multiple ownership.

The retail sector registered steady growth. It was reported that as of end November, total retail space across the country amounts to 18 million m2 in 91 shopping projects.

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Tourist arrivals last year reached 32.5 million. The performance of the hotel sector however was still less than satisfactory. Overall occupancy rate had increased but with severe competitions, not only locally but also from other destinations abroad, room rates can only be improved slightly, if any at all. It is maintained that hotel projects, particularly of 4 or 5 star standards, are non feasible in the current scenario of high construction costs and competitive room rates.

Despite the market conditions, land prices at central locations continually hit new summit, the highest price registered being in the region of Baht 2 million per square wah (4 m²) with an expectation that a land transaction of Baht 2.5 million will take place in 2017.

Many attribute the continual rise in property prices to the rise in land values, which we hold an opposite view. It is the assessed values of the completed properties which have driven up land values. Prices of many lands, for instance, soared only after accessible by mass transit because the properties at these locations can be sold at higher prices than they were before.

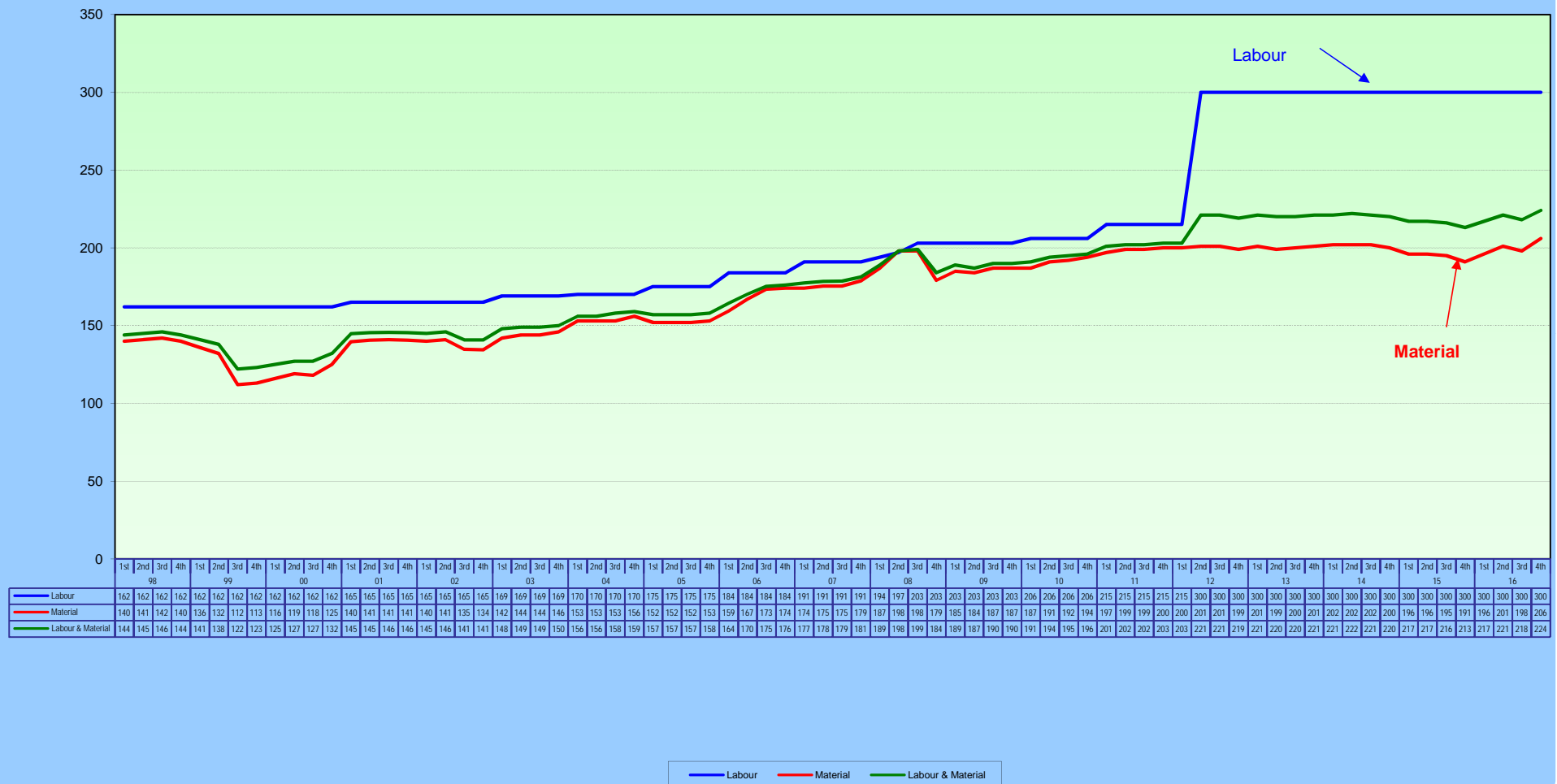
Construction cost in the year of 2016 remained stable with an overall increase of 5% as the projected demand on major building materials generated from infrastructure projects did not take place.

For the year of 2017, we expect similar situation as that in the year 2016 with added uncertainty factors in both international and local scenes.

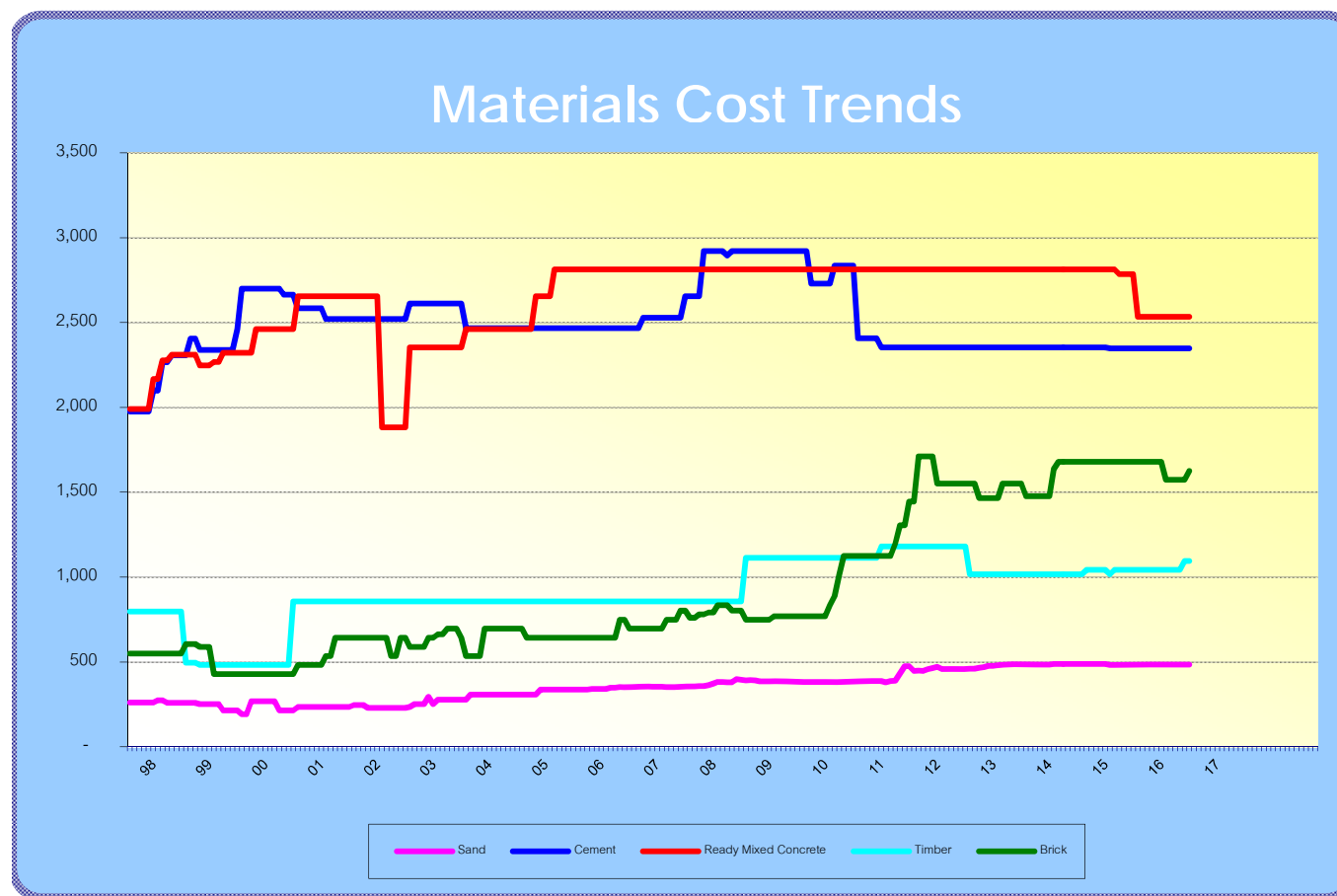
Minimum wages will be increased from Baht 300 to Baht 305 to Baht 310 per day depending on the provinces but there is limited impact on the overall construction cost.

We project an annual increase of 3% - 5% in the forthcoming 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



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 an integral part of a development.