

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

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The Thailand economy for the year of 2018 definitely performed better than expectation with an estimated GDP growth of 4.4%, driven principally by the increased export volumes and tourist arrivals.

Despite the mixed performances reported by listed property developers, the property market also fared well overall. Both sales volume and turnover have exceeded projection.

The general outlook for the year of 2019 is however mediocre, if not pessimistic.

The utmost contributing factor is the continual trade conflict between USA and China, the two biggest economic entities in the world.

The tariff increase has been deferred for 3 months from December 2018 to February 2019 to enable negotiation. The friction however is not expected to be resolved by then. Some of the changes required from the USA government would undermine the ruling fundamentals of the Chinese government, which would not be readily conceded, if any at all. Also, even if the requirements are accepted, the reforms cannot practically be implemented within a short period of time.

After all, whether or not changes have taken place or are accepted is subject to the unilateral interpretation of the USA government, which would in turn be dependent on a number of factors. There is likelihood of further extension of the negotiation and/or with condition of regular reviews imposed.

The accident on 5th July 2018 in Phuket registered 47 deaths of Chinese tourists. The remark afterwards by a high government official aggravated the situation, which led to sharp drop in Chinese tourist arrivals in the following months. A brawl at the Don Mueang International Airport between a Chinese tourist and an immigration officer, which resulted in an official apology from the Thai government, made the matter worse.

Waiver for visa-on-arrival fees between 1st December 2018 and 31st January 2019 was granted to 21 countries with an aim to boost tourist arrivals, particularly that from China. Road shows were conducted to promote Thailand as a tourist destination. The measures seem to have limited desired effect as the travel sentiments of Chinese tourists have been low in the wake of potential economic downturn.

Interest rates are likely to be increased in tandem with that in USA, despite probably not at the same pace.

The Bank of Thailand have expressed concern on the loan performances in the property market. The loan to value [LTV] ratio will be increased from 1st April 2019, which implies a higher down payment required for mortgages. The move is intended to cool down speculation and assure that first time home buyers will acquire units that are affordable to them. Prior to that, controls have already be tightened on financial arrangements for property developments.

General election is scheduled to take place in March this year, which adds another uncertainty factor.

With all these negative factors ahead, property developers generally scale down their projections in the coming year.

A property agent has even advised that property developers should shift from condominium to low rise developments, which have more genuine and affordable demands.

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Consequently some projects may be suspended or slowed down.

We however take a positive view.

GDP growth is generally estimated at around 4%.

The postponement or suspension of some projects will lead to a more balanced condition and hence more stable properties prices and construction costs.

Thailand is at the hub of the Asean countries and is continually the preferred choice of regional headquarters.

Bangkok has been ranked first as the most desired tourist destination with Phuket and Pattaya also in the top 20. It is unlikely that the ranking will be changed unless there are drastic changes in the political environments.

The Eastern Economic Corridor [EEC] policy implemented by the Government is attracting industrial establishments plus other ancillary developments in that region.

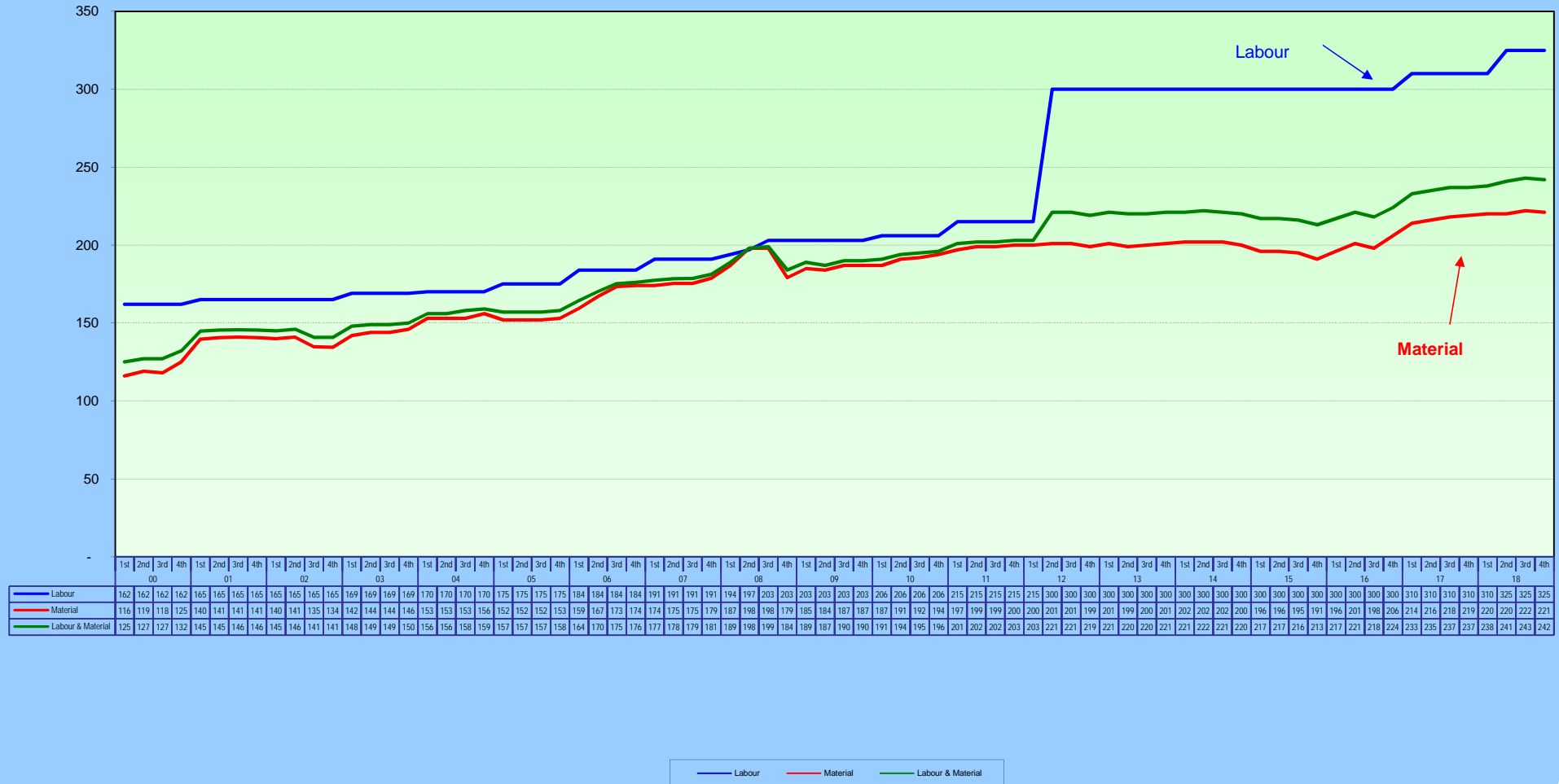
A number of infrastructure projects are in the queue to be put forward for bidding and construction in the coming year.

The condominium sector, especially for those relying on overseas purchases, may suffer most. With steady economic growth, residential demands are prevalent.

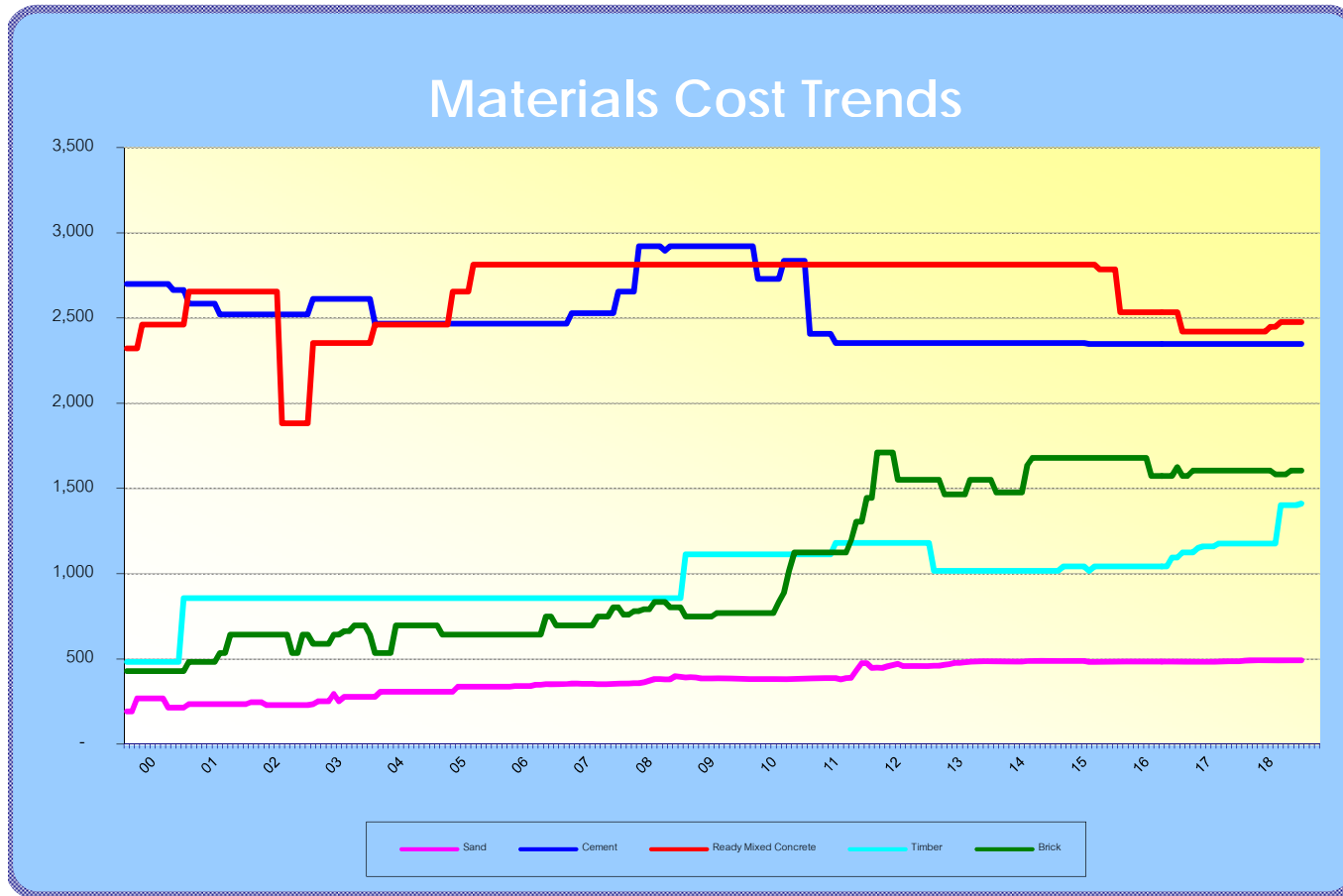
Low rise units in Bangkok suburbs along or close to the sky train routes at affordable pricing level would be the most popular choices.

The overall construction cost increase last year is registered at about 2% and we project an increase of about 2% to 4% in the coming year.

Labour & Material Cost Indices

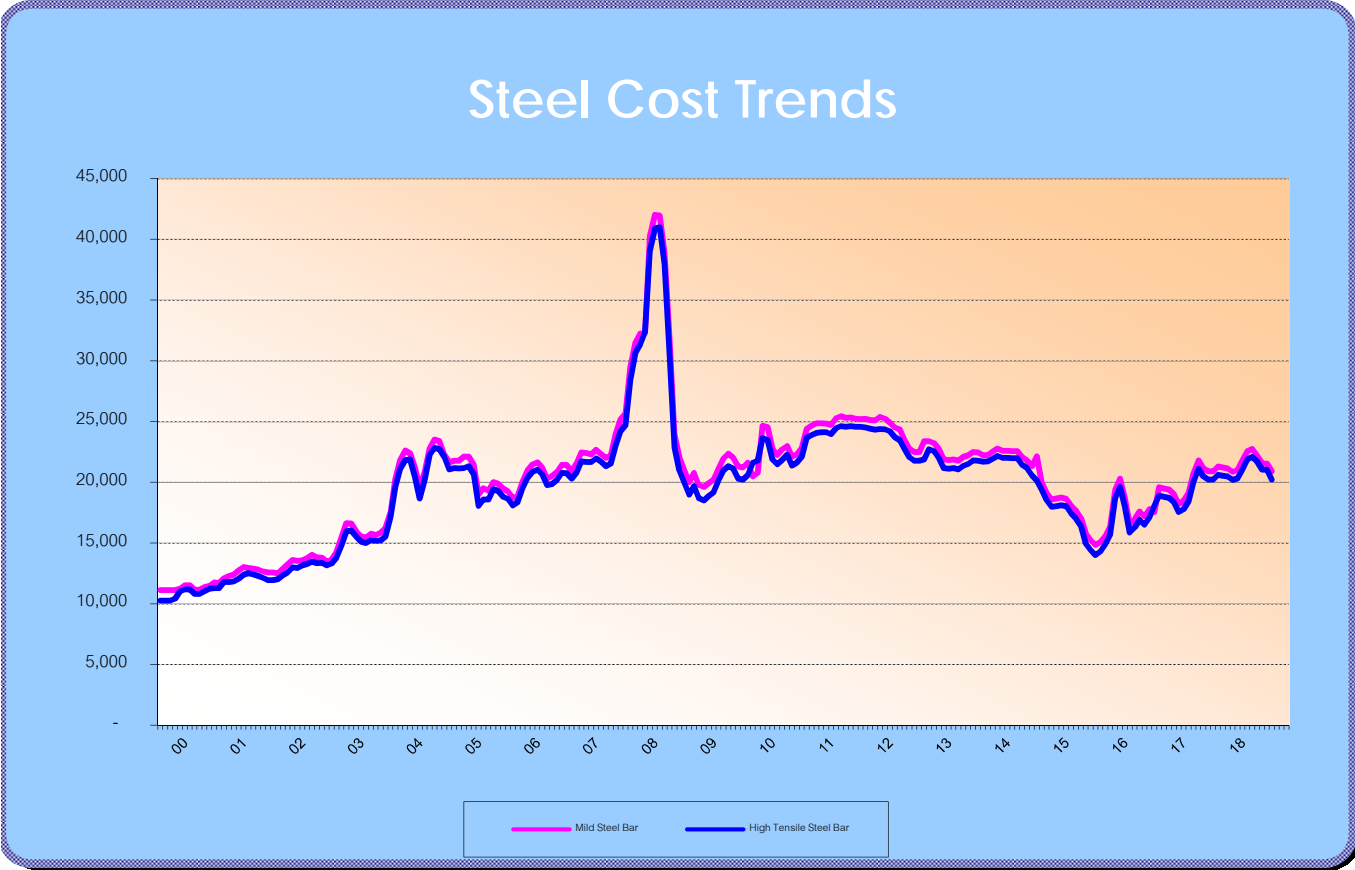


- Notes :**
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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	32,000	- 37,000
Medium quality	27,000	- 32,000
Ordinary quality	24,000	- 27,000
Shopping centre		
High quality	27,500	- 31,500
Medium quality	23,500	- 27,500
Hotel (including FF&E)		
5 Star	57,000	- 61,000
4 Star	53,000	- 57,000
3 Star	45,000	- 51,000
Residential condominium		
High quality	38,500	- 47,500
Medium quality	28,500	- 36,500
Low quality	23,500	- 27,500
Factory (low rise)	16,500	- 20,500
Car park		
Multi storey	13,500	- 16,500
Basement	17,500	- 21,500

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.