

CONSTRUCTION COMMENTARY

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At the time of preparing this commentary, the first stage of the trade agreement has been signed by the two biggest economic entities, which was regarded as a relief to the world at large. The conflict between the two countries is however far from over. The extent of the agreement to be honoured has yet to be seen and USA is still applying pressures on China in many aspects. Some of the requirements from USA such as opening up of internet, elimination of subsidies to state enterprises etc are actually undermining the ruling fundamentals of the Chinese government, which will not be conceded easily. The negotiations will be tough and the relationship will be roller coasting as experienced.

If the year of 2018 is mediocre, the year of 2019 is no better, if not worse. The overall GDP growth is estimated at only 2.9%, which is lower than projection.

The below expectation performance is attributed to trade friction, strong Thai Baht, high household debts etc. These factors actually have existed for some time and will be prevailing in the years to come.

The property and construction market did not fare well either. The new loan to value (LTV) ratio implemented in April last year has the desired effect of dampening the residential sector. Number of projects launched for sale has dropped with sale percentage less than desired. There was a case that a developer refunded the deposits to buyers and converted the development to other usage due to poor presale result.

Despite complaints, principally from stake holders, and petitions to abandon or relax the policy, the new rule is considered to be beneficial to the sector in the long run. Supply and demand tend to be more balanced with prices or costs of all kinds where it be land, property, construction, materials etc becoming more reasonable and stable.

Office sector continued to perform well with a new height of rent at about Baht 1,500 per m2 registered. The overall supply will be increasing in the coming years but as commented, only the old stock will be seriously affected.

Tourist arrivals in 2019 exceeded that in 2018, but slightly less than estimated. The overall hotel occupancy rate has not improved though and in some locations such as Koh Samui, substantial reduction was actually reported. The number of hotel rooms, whether legal or illegal, is continually on the rise.

There have been relatively less retail areas added to the market last year. With intensified competitions, retailers are branding their properties to distinguish from others in order to attract patrons. Major renovations to a number of shopping centers are being or planned to be taking place. Pick up points were established to cater for on line shopping, which appears to be increasingly popular.

A number of issues happening may need attention.

The situation in Hong Kong has been sustained for more than 6 months with no sign of any resolution or abatement shortly. Such has the effect of triggering a new wave of emigration and acquisitions of properties and investments outside the city. Tourists particularly that from China, are shifting their traveling plans from the place. Thailand has the benefit of taking up some of these demands.

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Foreign reserve of China appears to be dwindling. Tighter control of foreign currency outflow is expected in the coming year and Chinese investments, tourist arrivals and condominium purchases in Thailand will be affected. Those sectors of market which rely heavily on this source need to have contingency plans and exploring alternative options.

The imposition of the new building and land tax on vacant lands increases the holding costs of land owners and will expedite developments and/or utilization of empty lands. Newly acquired lands, particularly those at premium prices, would be developed soonest if not immediately.

There is a town planning proposal to relax the parking provision requirements of developments in proximity to mass transit routes. If the proposal is accepted, values of completed properties will be enhanced and consequently the corresponding land prices.

Consideration is also being made by the Authority to allow for earthquake resistance in structural designs. Details of the requirements have yet to be announced officially and should be commented by consultants of pertaining disciplines. There is bound to be implication to the overall cost of construction, which hopefully is not very significant.

Minimum wage rate was increased by about Baht 6, effective from 1st January, from Baht 308 – 330 to Baht 313 - 336. The increase is generally acceptable and the impact on the construction cost, in consideration of the economic climate, is minor.

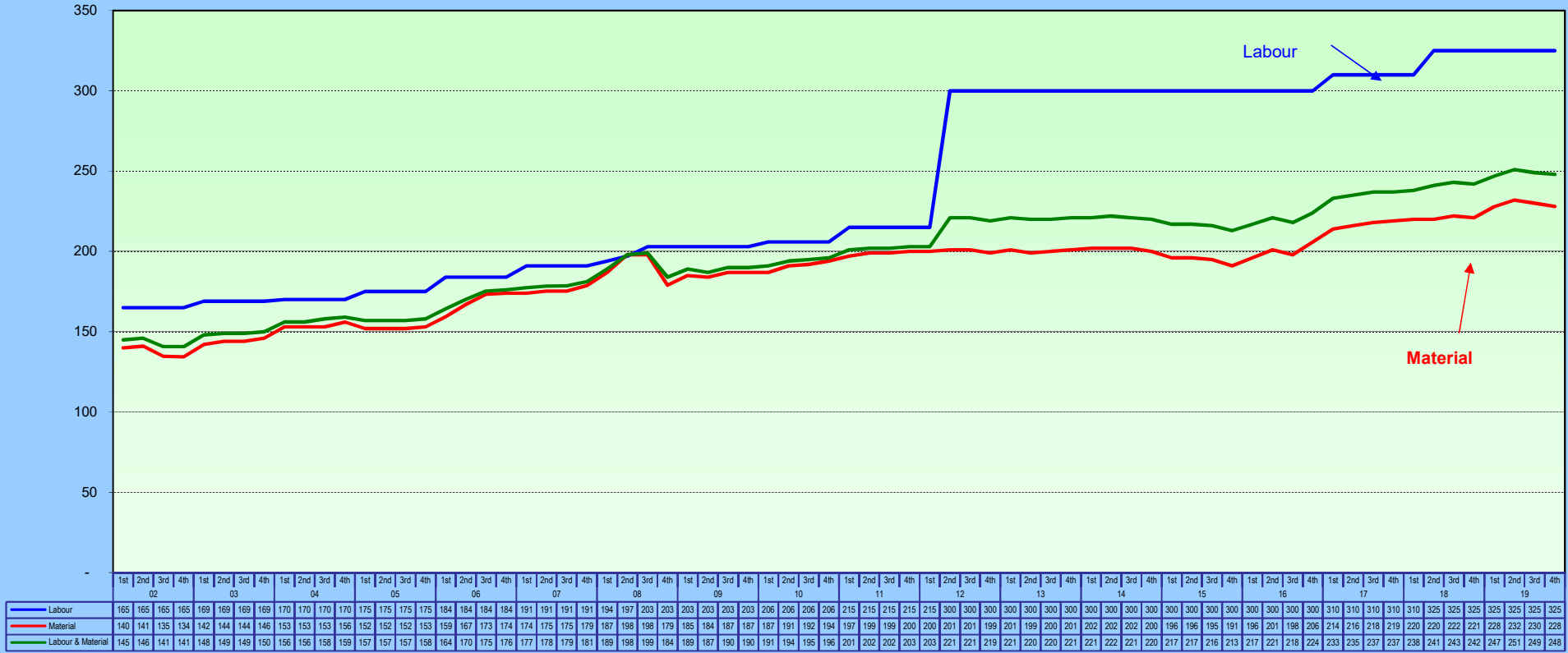
Mechanical car parking (MCP) systems over the last few years have become very popular in property developments. Consequently the number of specialist firms mushroomed. Firms representing systems with origins from various countries such as China, Japan, Korea etc have presence. While the overall construction cost of a parking space is higher than that for conventional parking, there is distinct advantage in engaging the system. The overall parking areas will be reduced, which can be released for more valuable salable areas. The extra revenue generated would more than compensate the extra cost incurred.

Developers intending to adopt the system need to be made aware that the unit building cost per square meter will be higher as the proportion of more expensive space is increased. There should be considerations on quality of the after work maintenance services, back up plan for mechanical failures.

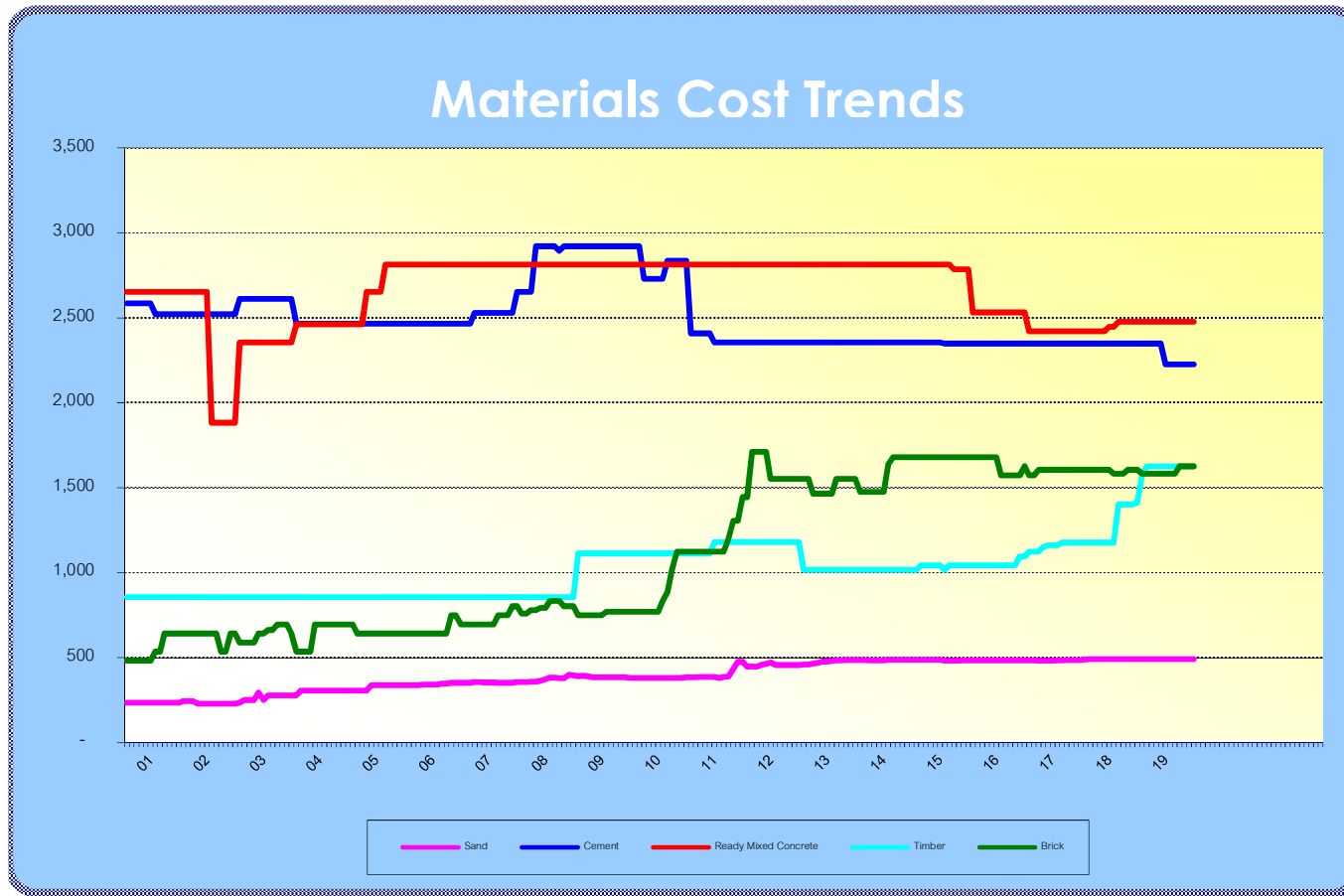
Private investments are expected to be reducing in the coming year. The performance of the construction industry would depend on the pace of implementation of infrastructure projects.

Tender prices and building costs are projected to remain stable with a nominal 1% to 2% pa increase being estimated.

Labour & Material Cost Indices

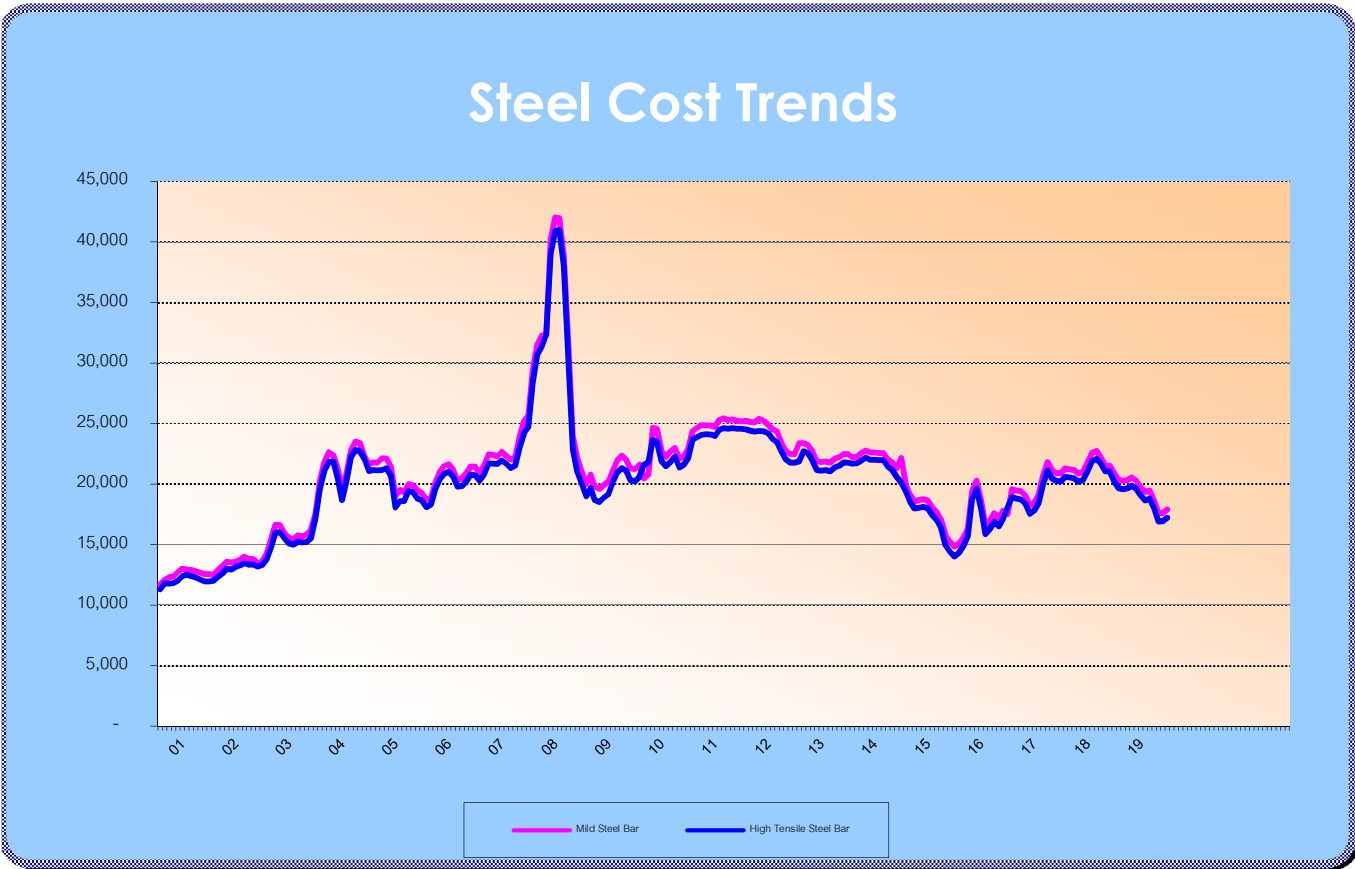


Notes : (1) Base of index is at first quarter 1992.
 (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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	32,500	- 37,500
Medium quality	27,500	- 32,500
Ordinary quality	24,500	- 27,500
Shopping centre		
High quality	28,000	- 32,000
Medium quality	24,000	- 28,000
Hotel (including FF&E)		
5 Star	58,000	- 62,000
4 Star	54,000	- 58,000
3 Star	46,000	- 52,000
Residential condominium		
High quality	39,000	- 48,000
Medium quality	29,000	- 37,000
Low quality	24,000	- 28,000
Factory (low rise)	17,000	- 21,000
Car park		
Multi storey	14,000	- 17,000
Basement	18,000	- 22,000

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.