

CONSTRUCTION COMMENTARY

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The Year of 2012 appeared to be a good year for Thailand.

The political situation was relatively stable. Another great flood did not happen. Stock market registered substantial gain. Many property developing companies reported recorded profits.

The implementation of new minimum daily wage rate in second quarter of the year had a sharp impact on the labour costs. Apart from that, there are limited changes in the construction costs.

It is considered that the property and construction markets are in a balanced state.

After a drought in supply for over a century, there are many office developments currently under construction or being planned, in response to the increased demand and in anticipation of the formation of the AEC in 2015.

Tourist arrivals have been higher than expectation. Due to oversupply of hotel rooms though, both the occupancy and room rates in Bangkok were under performed compared to other cities in the Asian regions.

The projection in retail business is optimistic. Many international brands are establishing or expanding their outlets here. IKEA store, which was opened in end 2011, reported that both customer attendances and turnover have exceeded their expectation and the group is planning two more stores in Bangkok suburbs. Apart from mega stores, there is tendency to develop community malls in individual locations to meet the requirements specific to the locality.

Residential development will maintain their trend this year, with focus in locations around the mass transit or future extension line.

Top end condominium developments are still the favourite of most property developers.

The costs of providing extra facilities and upgraded materials and finishes over the basic structural and ME services provisions are marginal compared to the additional selling prices that can be secured theoretically. The profit that can be generated is therefore higher in the ledger at the least.

We maintain that this part of the market is saturated, which may be verified by counting the number of units with lights on in the evening in completed projects.

There is a fallacy that construction cost determines property price. Some developers are using the sales pitch that the property prices will go up as construction costs are rising to urge purchases. Some of them are using constructions cost to fix their selling prices.

While there is correlation between the two elements, property prices are determined by the basic supply and demand mechanism, which in turn are dictated by factors such as location, quality, prices of comparables etc.

The setting of the selling prices should be the products of extensive research and experiences.

There has been labour shortage across the country since the middle of the year. The problem is more acute in the construction industry.

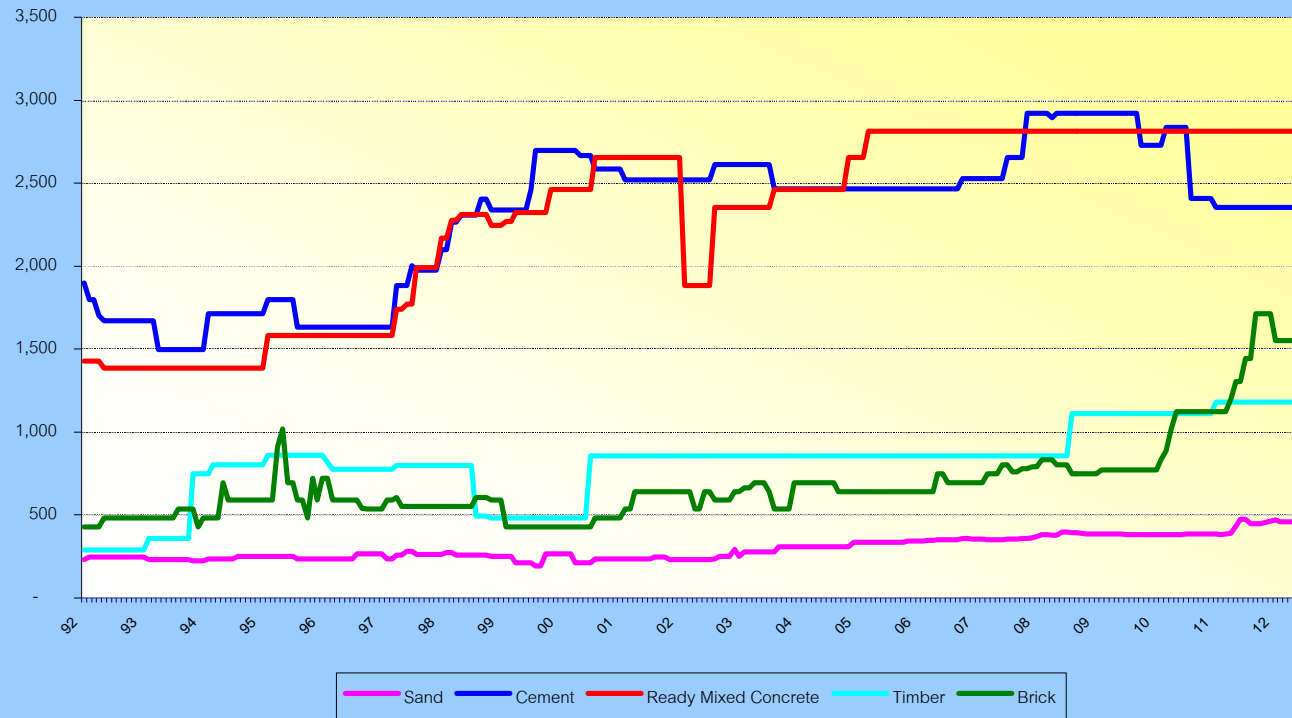
The industry attracts relatively few recruits. With increase in minimum wages, some of the workers have turned to other industries with similar level of remuneration but better working environment.

The situation will be worse in the coming year. The increased construction activities in Myanmar will entice many of the migrant workers to work in their own country.

Construction companies should opt for better planning and programming, higher mechanization, more precast components as counter balance.

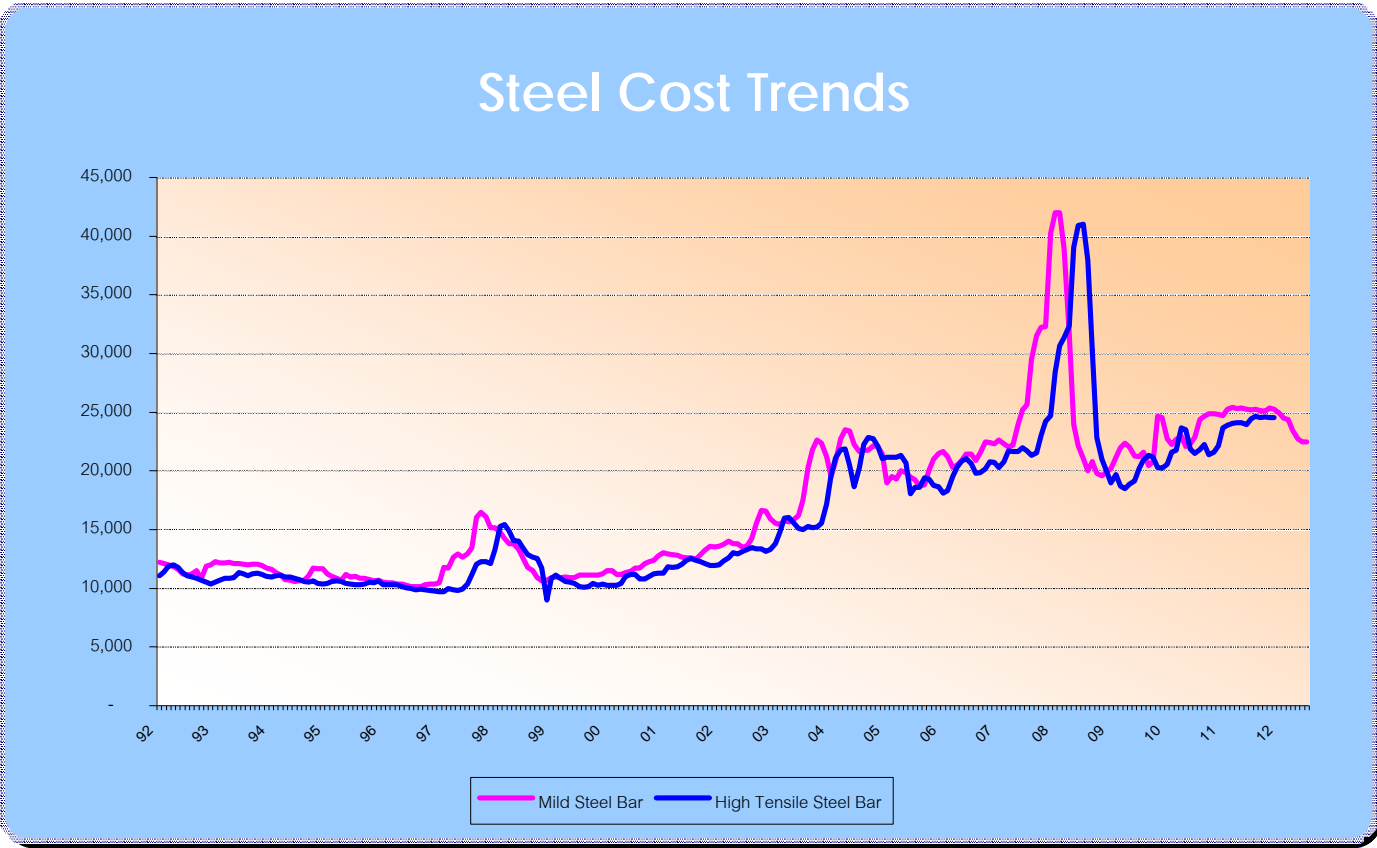
We project a steady growth in 2013 with an overall increase in cost of about 5% to 8%.

Materials Cost Trends



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	26,500	- 31,500
Medium quality	21,500	- 26,500
Ordinary quality	19,500	- 21,500
Shopping centre		
High quality	23,500	- 27,500
Medium quality	19,500	- 23,500
Hotel (including FF&E)		
5 Star	51,000	- 55,000
3 Star	38,000	- 43,000
Residential condominium		
High quality	33,500	- 41,500
Medium quality	23,500	- 31,500
Low quality	19,500	- 23,500
Factory (low rise)	13,500	- 17,500
Car park		
Multi storey	10,500	- 13,500
Basement	14,000	- 18,000

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, fittings and equipment [FF&E] (except hotel), site formation and external works, financial and legal expenses, consultants' fees and reimbursables, value of land and price 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.

CFA would generally be the same as the suspended slab areas of a building.

Gross Floor Area [GFA] for submission to building authority, which includes areas on grade and accessible roof areas, tends to be higher.