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CONSTRUCTION COMMENTARY

ISSUE JULY 2016

In this commentary, we would report a situation in Yangon, Myanmar, which should be of interest to potential investors.

Since the National League for Democracy took office, it ordered the review of the building permits for all projects of nine floors or higher, including those projects which are under construction.

Application for construction permits for more than 3 storeys have also not been accepted since mid May.

More than 200 projects are affected and at the time of writing this commentary, only 12 of these projects have been reviewed.

There are complaints that there is lack of transpancy and the criteria of re-approval is not declared.

The effect is disastrous. All projects have come to halt particularly those at the planning stage. Requirements for building materials have dwindled.

Developers, consultants, contractors and suppliers are facing a dilemma of how long they can hold on.

Expatriates have been re-deployed to other countries or have their contracts temporarily suspended. Workers are being paid in subsistence only with no monetary wage. They are allowed to take no paid leave or work part of the week with reduced salary.

With the current pace of review and with no assurance that the projects will be re-approved, many firms will opt to cut loss and close their operations at least temporarily until the rules and procedure are clearer.

Actually it is not the first time that such situation occurs. The previous government also revoked the approval of a number of projects in Dagon township, which block the view of Shwedagon Pagoda, the most prominent landmark in Yangon.

It really dents the confidence of property investments, which would be diverted to other countries of better assurance and certainty.

There is no doubt that property and construction activities will slow down in the coming year, which after all, may not be a bad thing given the over heated environment in the city over the last few years.

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Back to Thailand, the number of new condo projects launched for sale in the first half of the year has declined. Developers have been focusing to clear the built stock in order to take advantage of the government tax incentive scheme, which expired at end of April.

A waiting attitude is adopted pending the referendum of the revised constitution to be held in August, the result of which may trigger a new series of political gridlock.

Office sector continues to perform well with vacancy rate falling below 10% and monthly rental testing the Baht 1,000 per m2 mark at prime location.

Tourist arrival increases, principally sustained by Chinese travellers, but at the expenses of overall lower room rates and consequential problems, which have been widely reported.

Retail business growth has slowed, due to high household debt, which represents over 90% of the Gross Domestic Product. The number of retail spaces added has been limited.

Despite such, the big players including foreign entities have plans to open more stores in future.

Increasing on line shopping would entail retail shoppers to revamp their strategy.

With economy slow down in China and also in response to the one belt one road policy, Chinese corporations' participations have been on the rise.

The major stake of a listed company has been acquired by a Chinese company recently.

There are also increasing number of joint venture in property developments with Chinese enterprises.

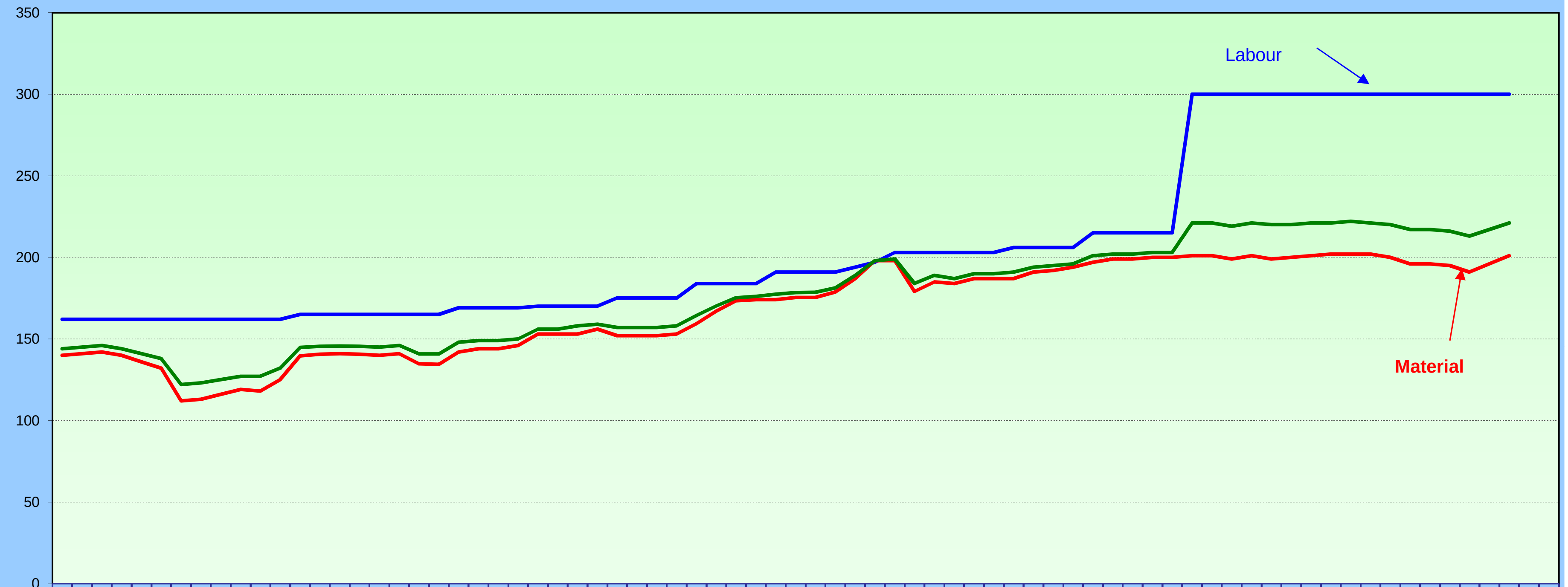
More orders have been placed on Chinese building materials with steel products topping the list, which has the effect of keeping the increase in construction cost in check.

Driven by higher prices in steel products, there is slight increase in labour and material cost in the first two quarters of this year.

The current government has concluded a number of infrastructure projects with value of more than Baht 1.5 trillion. The construction works of these projects will start towards the later part of this year or early next year. There will then be pressure on costs of construction labour and material.

It is projected that the cost trend will be maintained for the next 6 months with increase being more acutely at the beginning of next year at a rate of 5% pa.

Labour & Material Cost Indices



	98 1st	98 2nd	98 3rd	98 4th	99 1st	99 2nd	99 3rd	99 4th	00 1st	00 2nd	00 3rd	00 4th	01 1st	01 2nd	01 3rd	01 4th	02 1st	02 2nd	02 3rd	02 4th
Labour	162	162	162	162	162	162	162	162	162	162	162	162	165	165	165	165	165	165	165	165
Material	140	141	142	140	136	132	112	113	116	119	118	125	140	141	141	141	140	141	135	134
Labour & Material	144	145	146	144	141	138	122	123	125	127	127	132	145	145	146	146	145	146	141	141

	03 1st	03 2nd	03 3rd	03 4th	04 1st	04 2nd	04 3rd	04 4th	05 1st	05 2nd	05 3rd	05 4th	06 1st	06 2nd	06 3rd	06 4th	07 1st	07 2nd	07 3rd	07 4th
Labour	169	169	169	169	170	170	170	170	175	175	175	175	184	184	184	184	191	191	191	191
Material	142	144	144	146	153	153	153	156	152	152	152	153	159	167	173	174	174	175	175	179
Labour & Material	148	149	149	150	156	156	158	159	157	157	157	158	164	170	175	176	177	178	179	181

	08 1st	08 2nd	08 3rd	08 4th	09 1st	09 2nd	09 3rd	09 4th	10 1st	10 2nd	10 3rd	10 4th	11 1st	11 2nd	11 3rd	11 4th	12 1st	12 2nd	12 3rd	12 4th
Labour	194	197	203	203	203	203	203	203	206	206	206	206	215	215	215	215	215	300	300	300
Material	187	198	198	179	185	184	187	187	187	191	192	194	197	199	199	200	200	201	201	199
Labour & Material	189	198	199	184	189	187	190	190	191	194	195	196	201	202	202	203	203	221	221	219

	13 1st	13 2nd	13 3rd	13 4th	14 1st	14 2nd	14 3rd	14 4th	15 1st	15 2nd	15 3rd	15 4th	16 1st	16 2nd	16 3rd	16 4th
Labour	300	300	300	300	300	300	300	300	300	300	300	300	300	300		
Material	201	199	200	201	202	202	202	200	196	196	195	191	196	201		
Labour & Material	221	220	220	221	221	222	221	220	217	217	216	213	217	221		

Labour — Material — Labour & Material

<u>Notes :</u> (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%.

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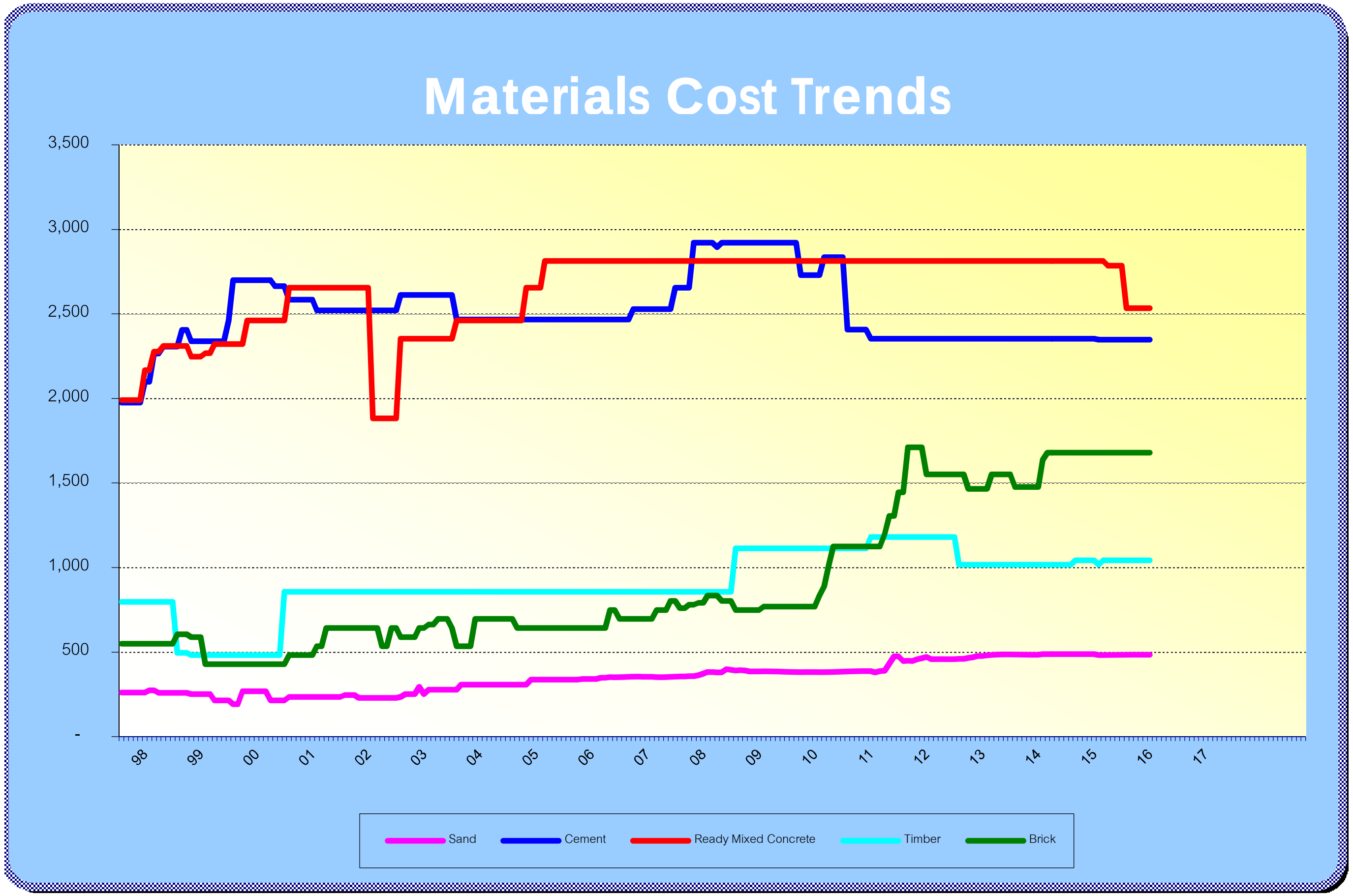

Sand	(Baht per cu.m)
Cement	(Baht per tonne)
Ready Mixed Concrete	(Baht per cu.m)
Timber	(Baht per cu.ft)
Brick	(Baht per 1,000 pcs.)

Source : Ministry of Commerce

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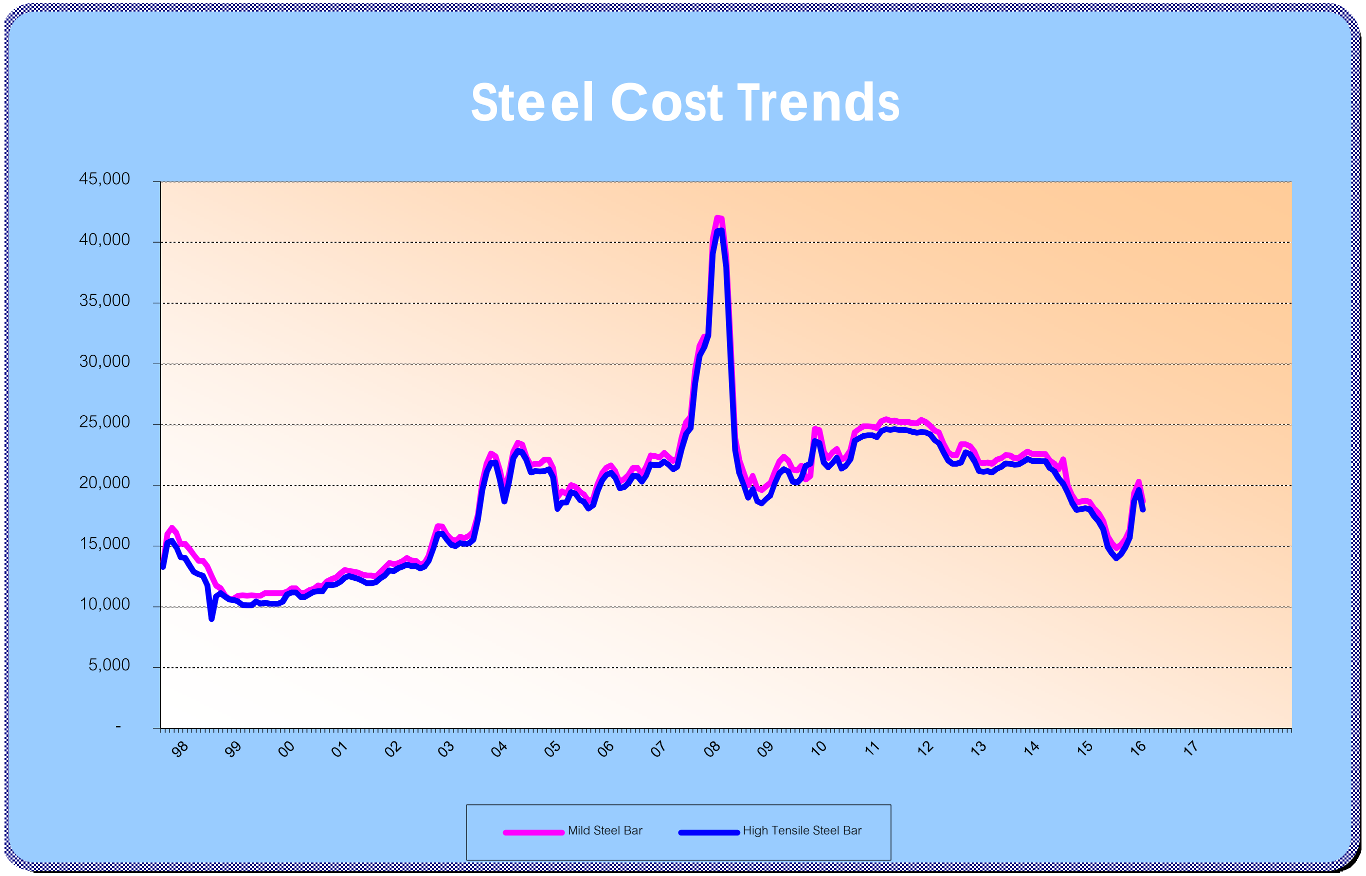

Mild Steel Bar	(Baht per tonne)
High Tensile Steel bar	(Baht per tonne)

Source : Ministry of Commerce

Approximate Order of Construction Costs

	Cost per m2 of CFA 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.