

CONSTRUCTION COMMENTARY

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This month marks the twentieth anniversary of the Asian financial crisis, which triggered from Thailand in 1997.

The possibility of a repetition of such situation, particularly on the property market, was raised again recently. The opinions are divided.

The property industry is principally driven by the condominium sector.

There is no doubt that the supply of condo units have outstripped the real demand.

The country has learnt the lesson. Banks and financial institutions have been taking a cautious approach in development finance and mortgages. Developers are conducting their feasibility research and have a low debt/equity ratio. They have already since last year reduced or slow down the launch of new projects, reacting to the lower market responses.

To maintain their turnover and hence profit projection, many developers, particularly those who have been listed in the stock market, have either looked for overseas opportunities or turned their attention to top end developments, which carry higher values.

The unit price for top end condo has continuously reached new height. The latest record for a project is average Baht 400,000 per m2 with penthouse units at Baht 600,000 per m2. The marginal profit returns on paper at the least are high.

It is considered that slow down, rather than collapse, of the market would happen and has actually happened.

Apart from the infrastructure projects, the current government is promoting the Eastern Economic Corridor [EEC], which covers 30,000 rai (48,000,000 m2) of land in the three eastern provinces of Rayong, Chonburi and Chachoengsao with 10 industries being targeted.

The promotional projects include expansion of the U-Tapao international airport and aviation city (Aerotropolis), the third phase of Laem Chabang deep sea port, the third phase of Map Ta Phut industrial, double track rail network linking the two deep sea ports plus Sattahip port, high speed rail network linking Don Muang, Suvarnabhumi and U-Tapao international airports.

These projects have the approval of the EEC office, which oversees the development.

In addition, there are various trade advantages and tax benefits granted to encourage establishments in EEC.

There is definite impact on the property development landscape in this region. With some business activities diverted from Bangkok, there is every possibility of a new business center emerging in this area.

Back to Bangkok metropolis, land prices are reported to continually hit new height with asking price said to be at Baht 2,500,000 per square wah (4 m2).

Land price is determined by the price of the final product and if the asking price exceeds the assessed profitability or feasibility of a project there will be no transaction as being experienced.

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The Australian Embassy land located at Sathorn Road is being tendered for sale at the time of preparing this commentary with the deal scheduled to be closed towards the end of the year.

This transaction price of this piece of land will set as a guideline of the pricing level of lands in Bangkok.

At the current market scenario, with the government's infrastructure projects not yet implemented in full force as planned, contractors are finding their backlog dwindling and there are less new jobs available.

Tender prices tend to be competitive.

On the subject of tender, we would like to present some of our observations and comments.

Many developers adopt the practice that all tenders returned must be examined with the contractors tendering invited for further discussion. The arrangement is based on a premise that all contractors participating should be given an opportunity.

Our view is that tenders should be shortlisted after the first return. Contractors tendering will be less serious in their initial tender preparation if they are aware that they are always retained.

After all, suspicion should be raised if a tenderer is dropping its price substantially in later rounds with no good reason.

While it is the interest of the developers to secure the best prices for their projects, it is our recommendation to ensure that the appointed contractors are working with profit to keep their incentives to participate in a project. It is simply natural for companies to devote more attention to those jobs which have better returns.

There is still malpractice around in tender evaluation with the lowest quantities and unit rates from the tenders extracted and the price deduced therefrom used as basis of negotiation or requiring the contractors tendering to match.

There is no standard method of measurement in Thailand and each estimator tends to have different approaches and it is unreasonable to draw conclusion on the quantity of an item particularly that of infinite unit (ie. not enumerated).

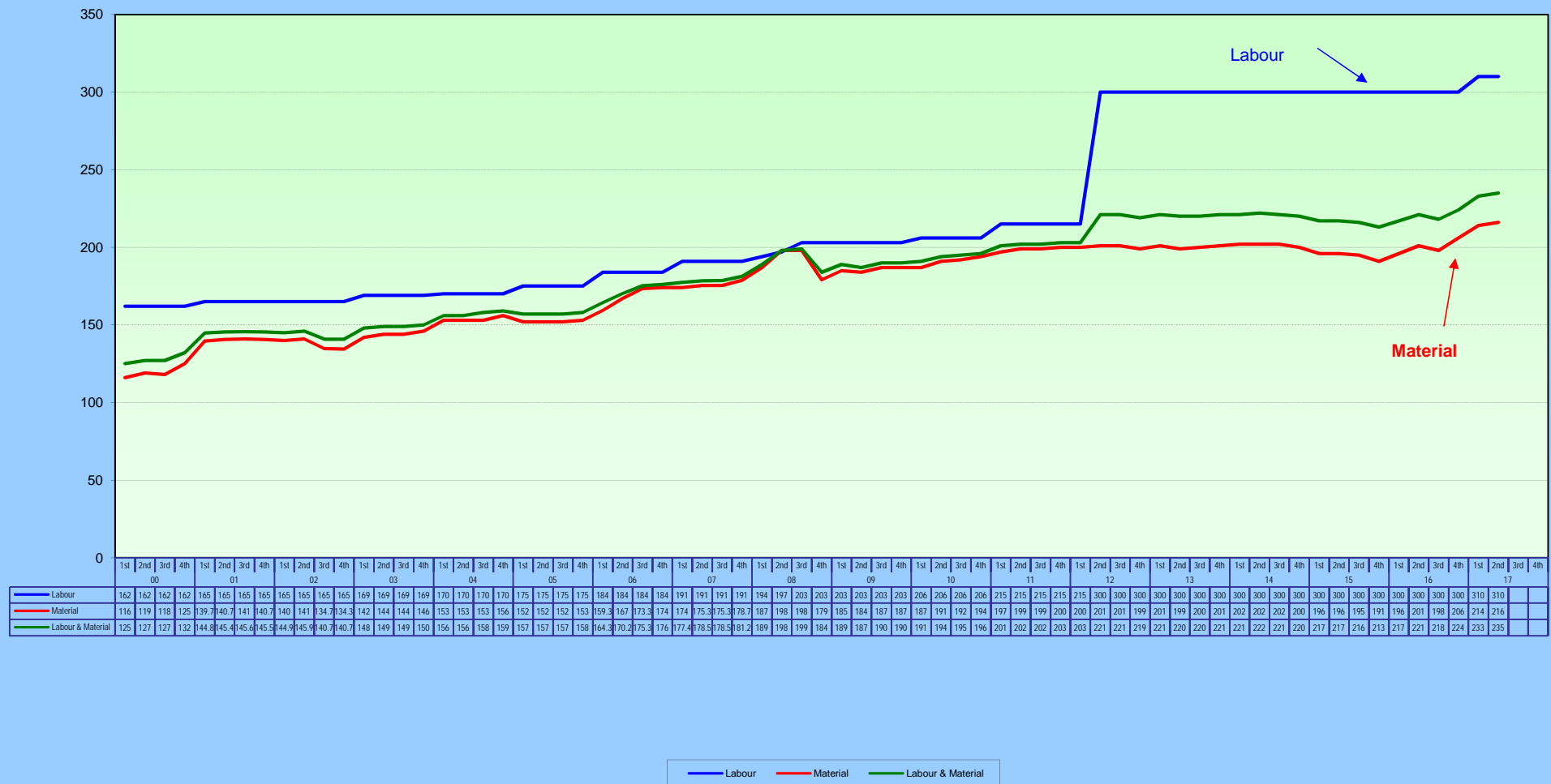
The rates returned for same work items in a tender can fall into a wide range but highly priced items are usually compensated by lowly priced items if a tender is in contention.

Consequently it should be the final offer figure which matters and which should be focused upon.

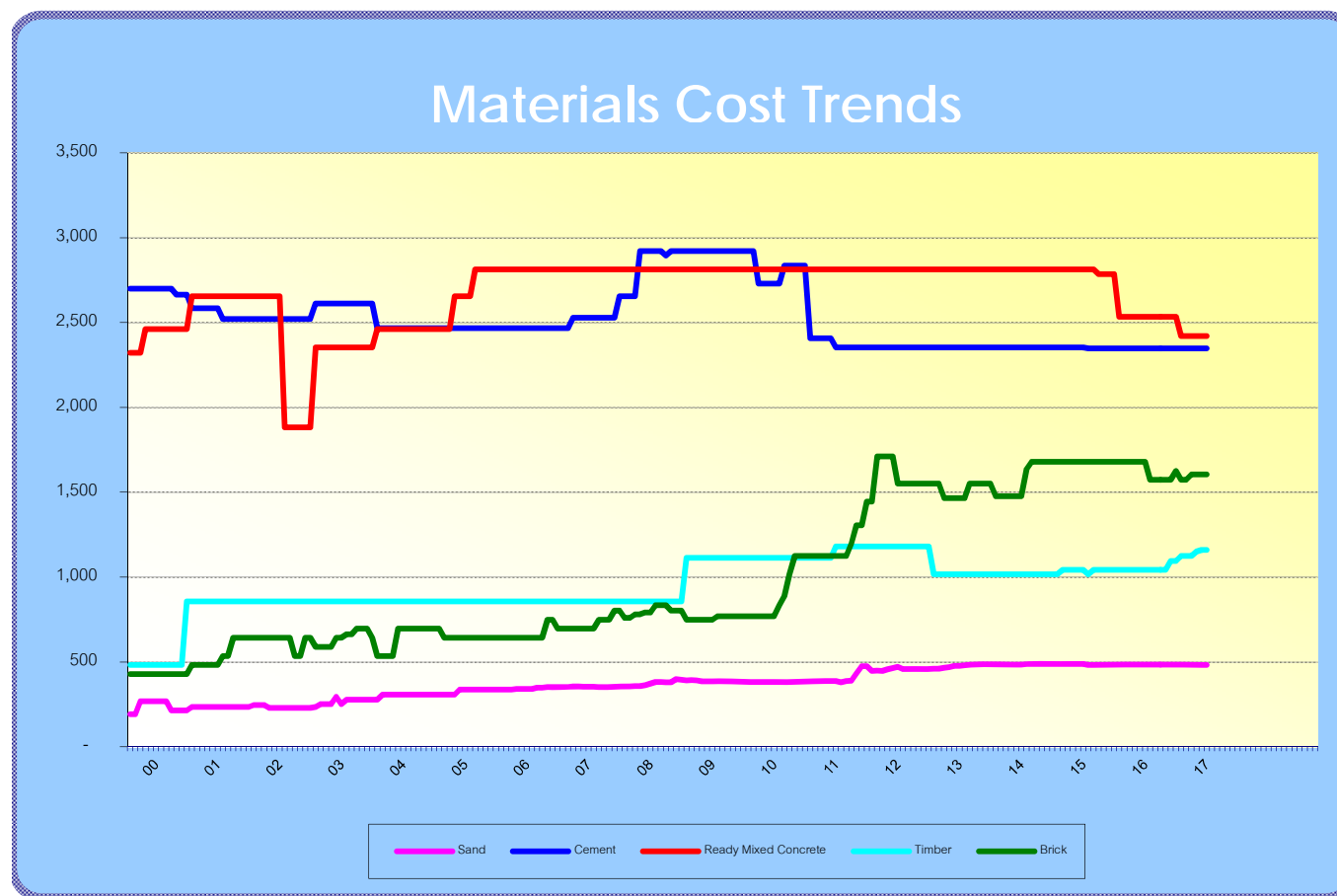
Overall costs have been increased by about 5% on a year to year basis, principally due to the increases in costs of labour, timber and some ME services components.

It is projected that the cost trend will remain steady with a more acute increase expected at the beginning of next year.

Labour & Material Cost Indices



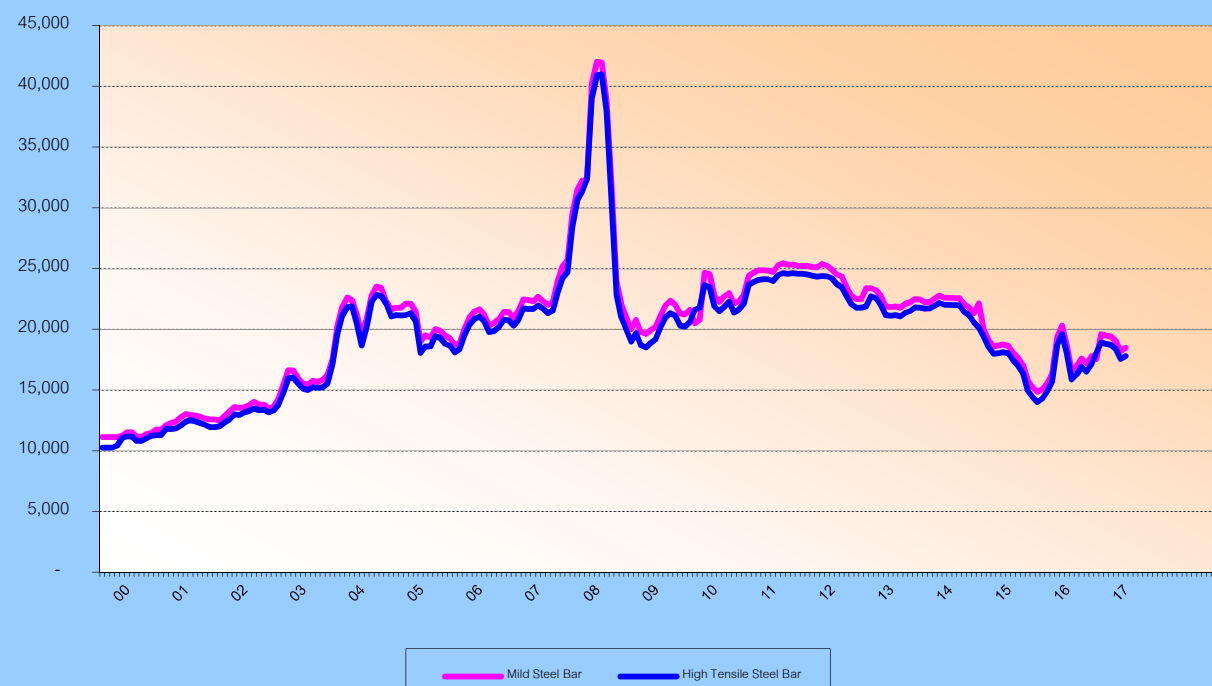
- Notes :
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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

Steel Cost Trends



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	30,500	- 35,500
Medium quality	25,500	- 30,500
Ordinary quality	22,500	- 25,500
Shopping centre		
High quality	26,000	- 30,000
Medium quality	22,000	- 26,000
Hotel (including FF&E)		
5 Star	55,000	- 59,000
4 Star	51,000	- 55,000
3 Star	43,000	- 49,000
Residential condominium		
High quality	37,000	- 46,000
Medium quality	27,000	- 35,000
Low quality	22,500	- 26,500
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.