

CONSTRUCTION COMMENTARY

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At the time of preparing this commentary, royal endorsement has been granted to the cabinet. The formation or, more precisely, compromise of the core ruling members has taken more than 3 months after the long awaited general election in March this year, which signifies the difference between a democratic and military government. The leader has retained his tenure, which implies that the majority of the strategy or planning implemented over the last 5 years will be maintained. Investors should welcome the continuity.

The Sino-American trade conflict is still prevailing with negotiation just resumed. It is unlikely that the deadlock can be resolved within a short span of time, say by the end of the year as hoped. With the situation prolonged, uncertainty has become certainty and plans or provisions have been allowed to cope with the status. Companies need to dwindle will scale down. Companies require to change their production base will commence their relocation planning and procedure. Damage has been done and virtually all growth projections are reduced. Any improvement from the scenario will be regarded as bonus.

The property market has been affected and there have been many reports on the consequential effects and will not be repeated in this commentary. We however would put forward some points for consideration.

The government has priority in realizing infrastructure projects. There are 4 mass transit lines plus other flyover projects under construction in Bangkok with 3 more in the pipe line. There are definite benefits in the long run. However, there is limited coordination and consequently traffic condition of the City was worsened. Travelling time for the same distance at around the same time of the day has increased by 50%, if not doubled.

The infrastructure projects will sustain the growth of the construction industry, but with disparity. Those suppliers and contractors in the sectors of civil, structural and basic architectural works will benefit from the ride and whereas those in the fields of interior and finishing works will have relatively limited boon. The competitions in that field are on the contrary more severe due to less projects of similar nature put up to the market.

The imposition of new tax on vacant land has led to many predicting that there will be increased transactions and developments, which we hold different views. Land owners tend to make their lands appearing usable. The easiest way is to lease out the lands on short term basis or with termination within short notice. The most common usage is expected to be for parking, sporting or food and beverage facilities, which have relatively low initial investments.

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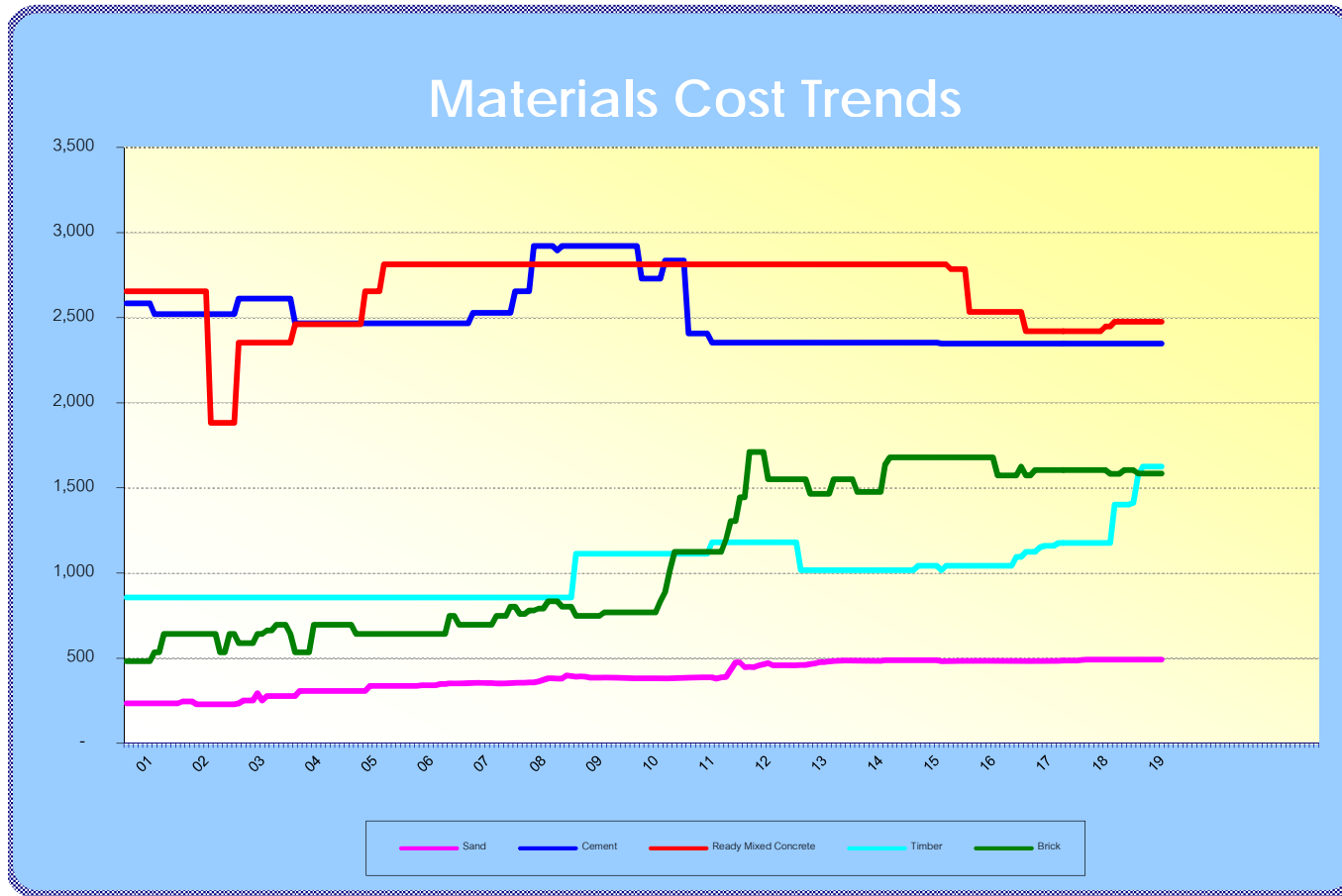
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A number of measures or incentives have been implemented to attract tourists with that from China being the main target. The number of Chinese tourist arrivals however has reduced continuously. Attention has been turned to entice tourists from other countries, principally India, the travellers from which have similar characteristics of that from China. Despite such, Chinese tourists will still play a pivotal role in the hospitality sector.

The office sector still registers healthy growth compared to others. There are many projects being planned, which if completed according to schedule would, as common comments, imply an over supply in 3 to 5 years' time and would serve as a warning to those developers who intend to join the bandwagon. While the figures related to the total stock, take up and supply are correct, the quality of the stock, except by a general grade classification, has not been addressed to. Many existing stocks were constructed years ago. Cost economy has been the top priority in development with limited attention devoted to planning, facilities and particularly lift services. Queues for lifts are not uncommon for instance during peak hours. There is limited or no room for expansion or upgrade. It is considered that those new stocks with good quality and provisions will continue capitalizing on the economic environment beyond the time when over supply is predicted to occur. The stock of lesser quality may not be affected substantially if those companies which are currently operating in town houses and shop houses can be attracted. Some of these stocks may be obsolete and demolished for redevelopment.

Construction cost in the first half of the year has been stable with increase principally in steel reinforcement. During elections candidates put forward rosy promises with the increase in the minimum wage rate being the most popular. If these promises are honored, the minimum wage could be increased by 20% - 30%, which will have serious repercussion effects not only on the construction industry, but the whole of the Thai economy.

With the current scenario, overall construction cost is projected to be increased by another 2% -3% this year.



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.