

## CONSTRUCTION COMMENTARY

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The Russian invasion of Ukraine on 24th February 2022 would undoubtedly be the most notable event this year. The invasion caused supply shortage of many products, mainly food, steel and oil, leading to price soaring of these commodities and high inflation rates to all countries across the world. There is no indication when this war will end.

The lock down of Chinese cities demonstrated to the world the prices to be paid for such strategy. Unfortunately, as China is the second largest economic entity in the world, the effect of this policy is global. The closure of ports, stoppage of factory productions etc disrupted further the supply chains, which aggravated the price situation.

Thailand currently reports cases of Covid around 2,000 number per day. With the pandemic gradually under control and a number of policies implemented by the government, such as subsidies to the small and medium enterprises for employment, ease of foreigners' entries to the country, tax reliefs etc. the country including the property and construction industries is heading towards recovery.

Unemployment rate in the first quarter dropped to 1.53%, the lowest in 2 years. Sales of condos reached about 19,000 units with a value of Baht 66 billion, whereas that of low rise units tallied 11,000 units with a value of Baht 70 billion. Hotel occupancy rate, despite fluctuating as situation, is on the upward trend. Many property developments have been resurrected and launched.

The road of recovery however would not be without obstacles.

There is no sign that the tension between the big powers will abate, which causes uncertainty and would defer or deter investments.

With the recent interest rate hike in America, most countries, including Thailand, will follow suit. Costs of development and property purchases will be increased.

Many employees and workers were laid off over the last 2-1/2 years. They returned to their home towns and countries and are unprepared to return unless they see that the economy has resumed to normality and with sustainability. Labour shortage has actually been reported, principally in hospitality and construction industries.

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China has imposed tight restrictions on travel and outflow of foreign currencies. With these limitations and likely downturn of its economy, it would be difficult to expect prompt return of Chinese investments and tourists back to pre pandemic level. It was reported that Russians have overtaken Chinese as top spot in Phuket property purchases in the first quarter of the year. China purchases remained number one in Bangkok but both percentage and value have dropped.

There are positive factors.

There is currently no direction that the zero Covid policy in China will be lifted shortly, which entails many foreign institutions planning rearrangement of their supply chains and relocation of production plants from China. India and Vietnam seem to benefit the most from such strategy. However, Thailand, with its welcome policy to foreign investment particularly the Eastern Economic Corridor (EEC) project, will definitely have a fair share.

Weak Baht (currently at about 1 USD to 35 Baht) stimulates export, attracts tourists and foreign investments.

High inflation provides incentives to both institutional and personal investors to acquire real commodities as a guard against monetary devaluation. Estate properties fall within such selection. In conjunction with the purchasing potentials being accumulated over the last 2 years, demands are expected to be increased.

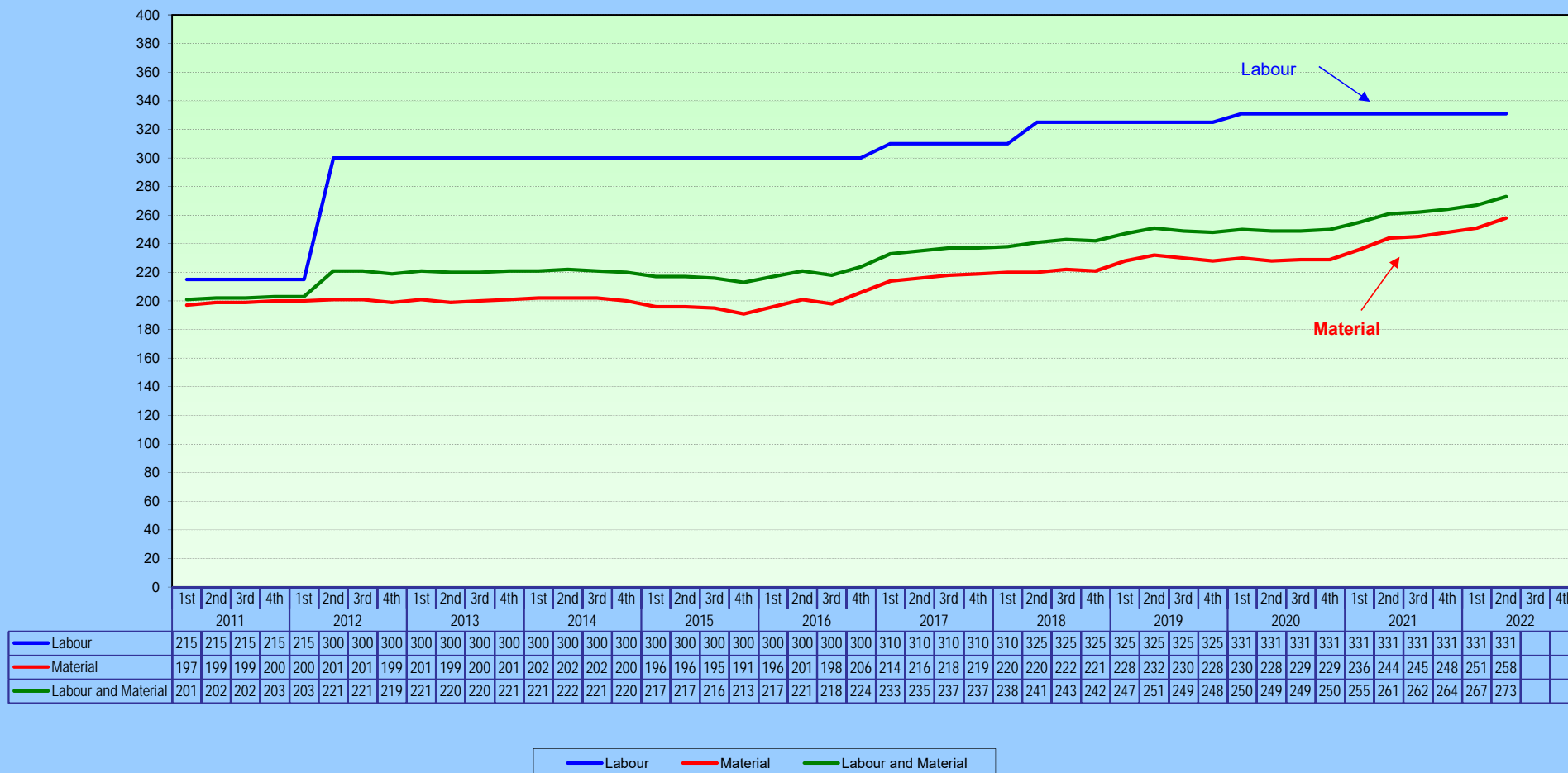
Despite higher prices in materials, competitions, particularly among small and medium contractors, for jobs are still intensive. Tender prices may not be increased significantly in tandem with the price escalation, particularly for those developers who have good track records.

It is considered that the property and construction industries will be heading for gradual recovery in the next 6 to 12 months with infrastructure, residential, warehousing and data centers sectors taking the lead.

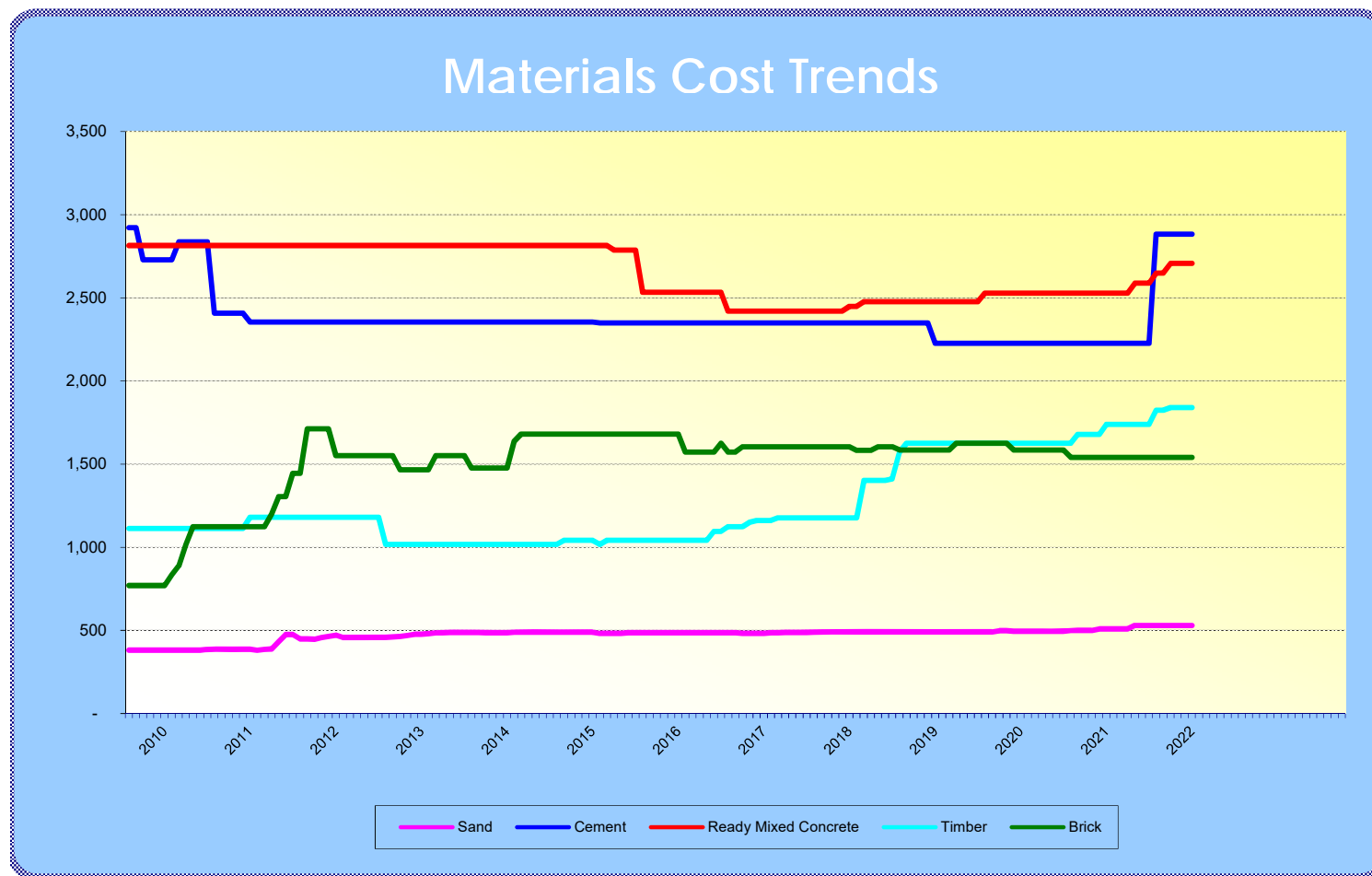
There is reason to be cautious for the office sector, which has about 2 million m<sup>2</sup> planned to be added to the existing stock of about 9 million m<sup>2</sup> in the next 5 years. Such addition represents about 20% increase in stock.

Construction prices are expected to maintain the upward trend at 4% to 5% per annum.. The rate of increase will decelerate as and when the global economic activities return to normal after both of the pandemic and war are over.

## Labour & Material Cost Indices

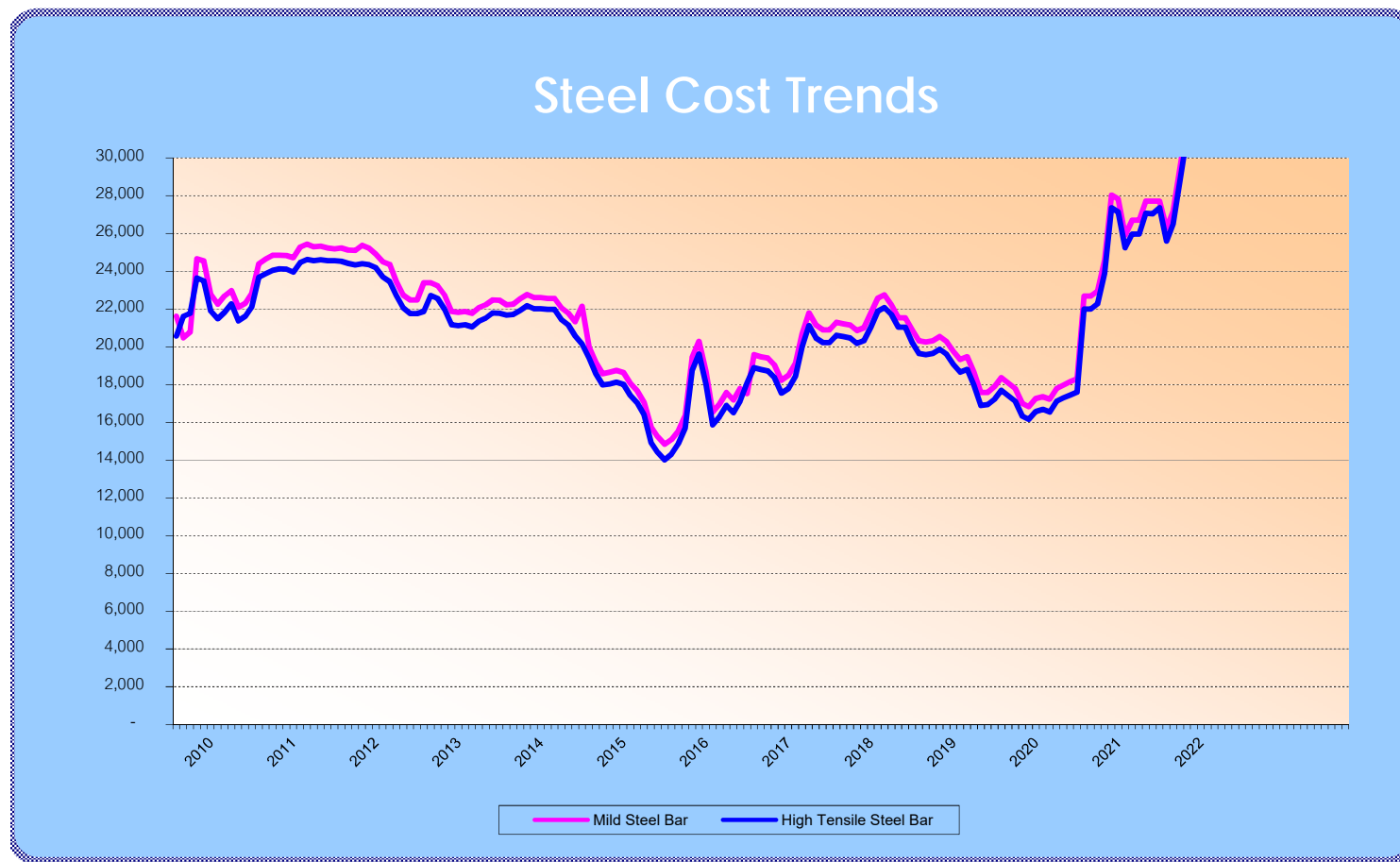


- Notes :**
- (1) Base of index is at first quarter 1992.
  - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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	
<b>Office</b>		
High quality	33,500	- 38,500
Medium quality	28,500	- 33,000
Ordinary quality	25,500	- 28,500
<b>Shopping centre</b>		
High quality	29,000	- 33,000
Medium quality	25,000	- 29,000
<b>Hotel (including FF&amp;E)</b>		
5 Star	60,000	- 64,000
4 Star	56,000	- 60,000
3 Star	48,500	- 54,000
<b>Residential condominium</b>		
High quality	40,000	- 49,000
Medium quality	30,000	- 38,500
Low quality	25,000	- 29,000
<b>Factory (low rise)</b>	18,000	- 22,000
<b>Car park</b>		
Multi storey	15,000	- 18,000
Basement	19,000	- 23,000

### 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.