

CONSTRUCTION COMMENTARY

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The global attention over the last six months remains with the Russian Ukraine war and the continual tension between China and USA.

The mutiny in Russia demonstrated the devastating effect of corruptive and inefficient management, particularly in adverse environment. Russia's defeat seems inevitable and it is simply a matter of time. The concern however is whether or not military actions will be escalated similar to or worse than the destruction of the Kakhovka Dam.

The discrepancies in basic principles between China and USA and/or the Western countries appear irresolvable. Despite such, communications particularly at civil levels have not stopped. USA officials are promulgating 'de risk' in lieu of 'de coupling' policy. In the absence of the outbreak of a direct confrontation, businesses are expected to be maintained but within restrictions. Eventually, there will possibly be two operating systems to minimize the damage caused by disruption of a sole supply chain as experienced during the Covid period.

The economy recovery of Thailand post Covid in the first half of the year was below expectation, which was attributed to a number of factors such as global economic slowdown especially China, geopolitic tensions, high inflation rates, rising interest rates, volatile energy prices, high household debts, labour shortages, draughts etc.

The major factor seems to be political uncertainty. Since the general election on 20th May 2023, there is still no settlement on the candidate for the Prime Minister. The new government is not expected to be formed until July or August this year. Meanwhile investors are adopting a waiting strategy with development or investment plans put on hold.

With the ease of loan to value (LTV) ratio and transfer fee reduction ended on 31st December 2022, there is a decline in project launching and overall residential transfers in the first quarter of the year.

A number of observations are of interest to note.

The number of transfers to foreign purchasers has increased, with Chinese nationals remaining at the top rank.

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Chonburi surpassed Bangkok with the highest number of condo foreign transfers.

Luxury residences have not been reduced in both unit transfers and values. One condo project in Bangkok claimed a record selling price of Baht 1 million per m². There is a trend to revert to housing and condo developments with higher level of standard and larger units.

Tourism remains robust. Despite flight activities not yet resumed to the pre-pandemic level, the number of tourist arrivals in the first five months of the year recorded at 11 million. The total number projected for the year amounts to 25 million. A revenue of Baht 2.38 trillion is expected to be generated, which is 80% of that registered in 2019.

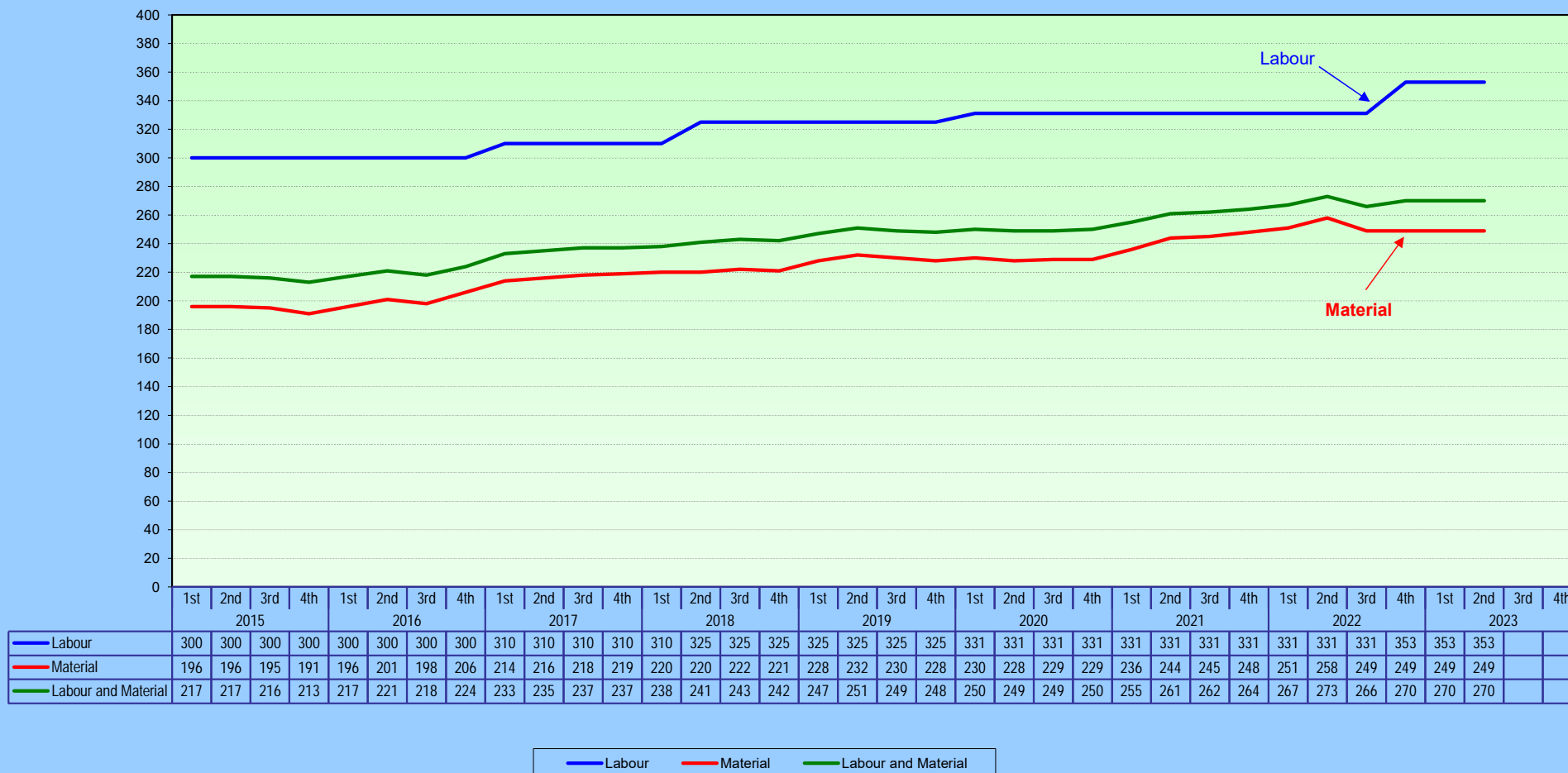
Demand of grade A office in prime locations remained strong. The work from home arrangement during pandemic is found to be less efficient and with exceptions, cannot readily replace the social interaction required for teamwork and task implementation. With abundant supply forthcoming, deals favorable to the tenants are secured. Second tier offices in less prime locations, with bad planning, under lifts and obsolete infra structure provisions performed less well.

Retailers continue to be optimistic despite severe competitions. Apart from expansions or additions of new centers, many retail complexes are undergoing renovations to meet the rising requirements of the shoppers.

We are still optimistic of the second half of the year. The growth of the property and construction market will be respectable, laying grounds for the momentum next year.

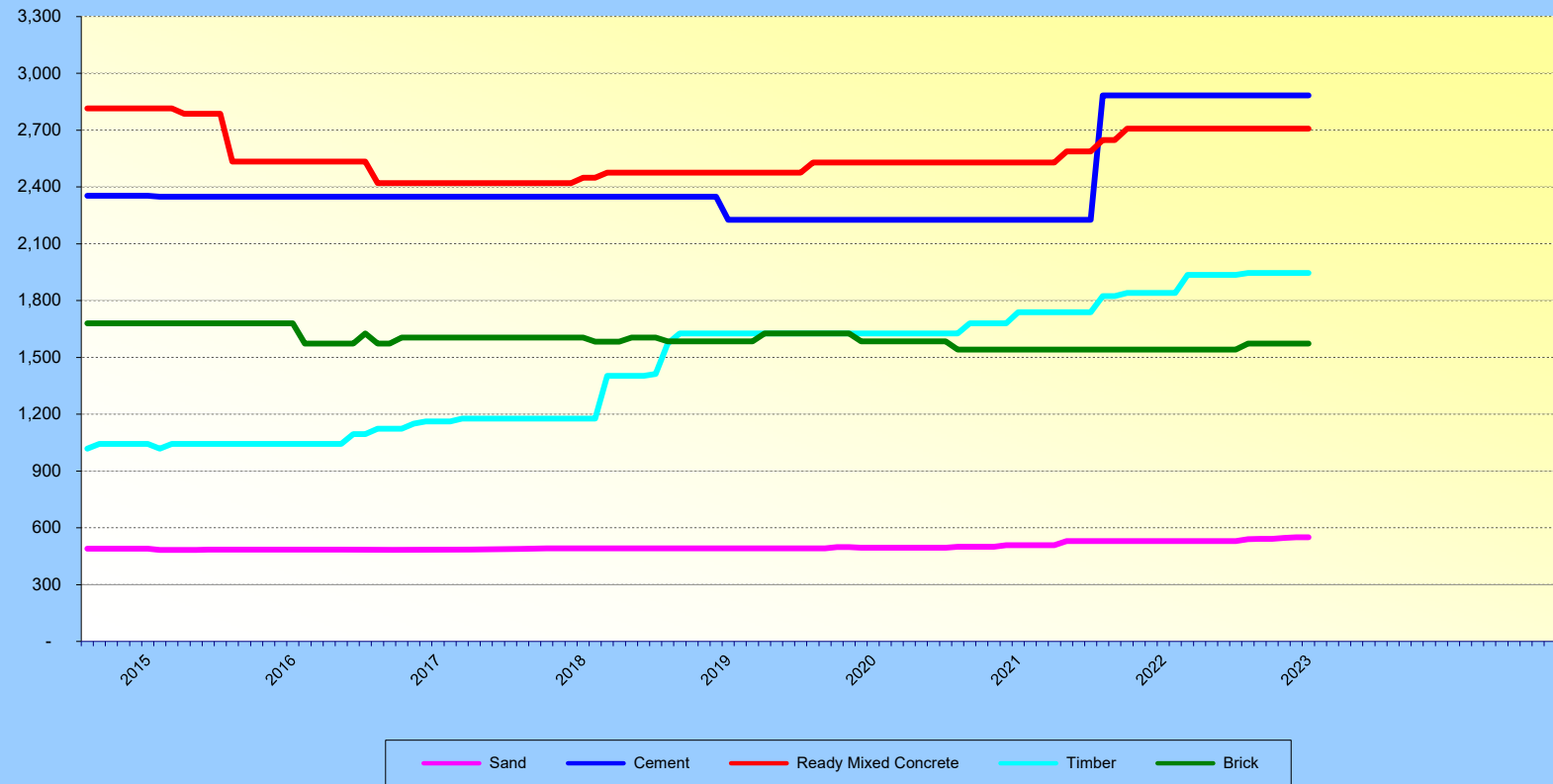
Construction price this year will continue to be stable. The price however can be volatile next year and there is good reason to firm up construction package deals within this year.

Labour & Material Cost Indices



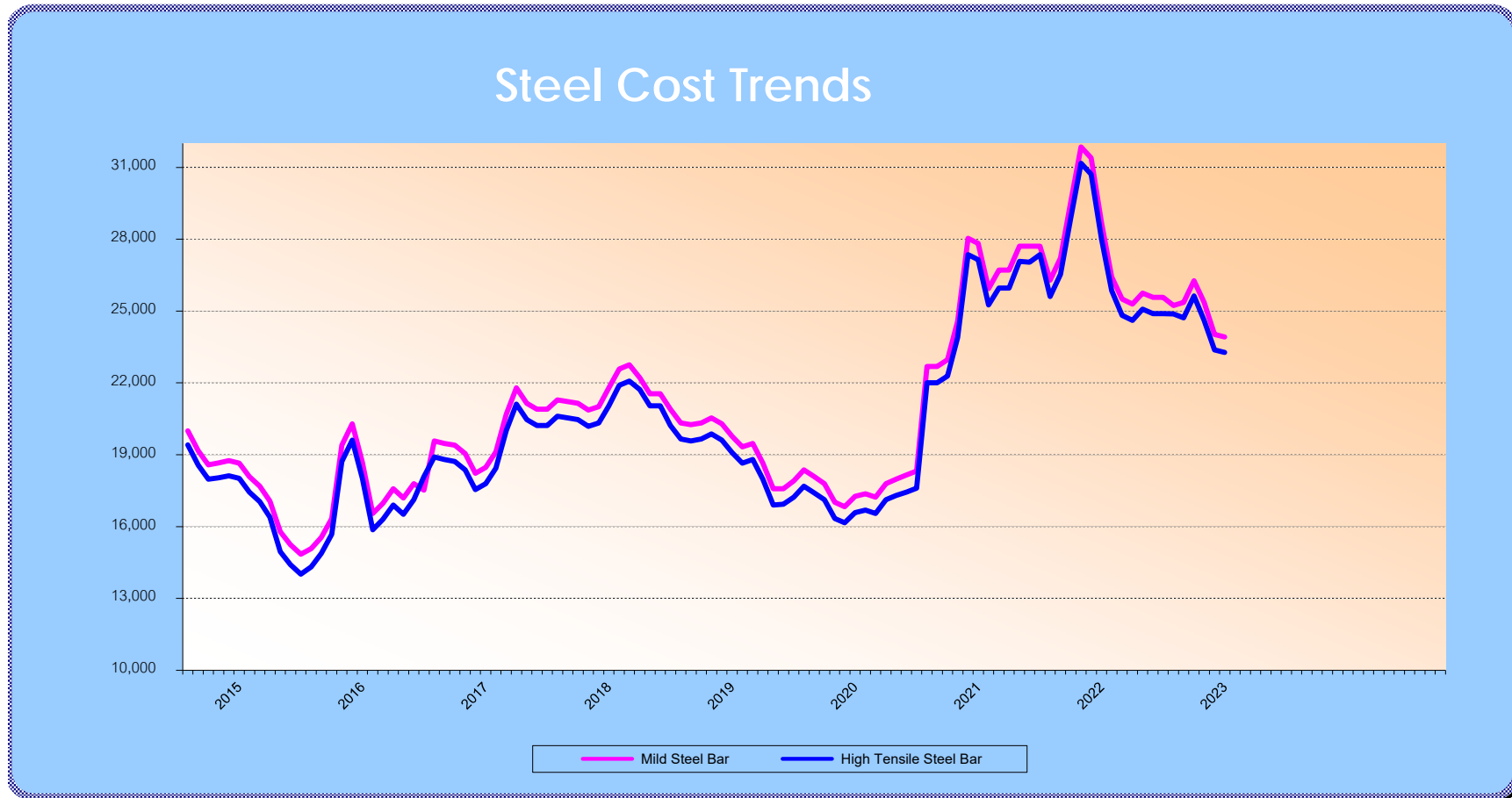
- Notes :**
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.

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	33,500	- 38,500
Medium quality	28,500	- 33,000
Ordinary quality	25,500	- 28,500
Shopping centre		
High quality	29,000	- 33,000
Medium quality	25,000	- 29,000
Hotel (including FF&E)		
5 Star	60,000	- 64,000
4 Star	56,000	- 60,000
3 Star	48,500	- 54,000
Residential condominium		
High quality	40,000	- 49,000
Medium quality	30,000	- 38,500
Low quality	25,000	- 29,000
Factory (low rise)	18,000	- 22,000
Car park		
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.