

CONSTRUCTION COMMENTARY

Quantity Surveyors Construction Cost Consultant

36/F, Skulthaisurawong Tower
141/58 Surawong Road
Suriyawong, Bangrak
Bangkok 10500 Thailand
Telephone : +66 (0)2 234-4933
E-mail : rhlbthai@rhlb.co.th
Website : www.rhlb.co.th

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The year of 2024 seems to be another lacklustre year for Thailand.

The GDP growth in first quarter posed a meagre 1.5% growth. That for second quarter is estimated to be only slightly better.

Thai Baht continued its weakening to an exchange rate of 1 USD to around Baht 36.50. The SET index dropped to just over 1,300 with expectation to fall further. Non performance loans stayed at a high level of over 90% the GDP, leading to high mortgage and/or loan rejection rate. The total areas permitted for construction hit the lowest in 12 quarters. Closure of factories registered 488 No. in the first 5 months and is projected to surpass that of about 1,600 last year.

The poor performance is attributed to the usual number of negative factors namely prolongation of wars, heightened geopolitical tension, high interest rate etc.

Actually all countries are encountering the same conditions but Thailand falls behind other countries in the region with most, if not all, of the economic indicators being among the lowest ranking.

The problem which is unique to Thailand may be the delay in disbursement of the 2024 fiscal budget for 7 months, causing the delay in implementation of stimulus policy and commencement of major infrastructure works.

The uprising political instability, which includes the court hearing in July of the Prime Minister and decision of the future of the winning party in the last election, has the adverse effect of deferring major investments.

Despite all the obstacles, fostering the economy, particularly in the property & construction and tourist markets, is the top priority of the government.

A number of measures have been introduced.

To name a few, fees for transfer and mortgage registration are reduced from 2% and 1% respectively to 0.01% for first and second homes. The value qualified for the revised rates is increased from Baht 3 to 7 million.

Income tax reduction up to Baht 100,000 is offered for home construction cost.

Levy exemption on hotel rooms at Baht 40 per key per year is extended for another 2 years from 1st July 2024 to 30th June 2026.

Visa free entries are granted to a number of countries.

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Apart from above, the government is also considering increasing the quota of foreign purchases in condominium from 49% to 75% with land lease period extended from 30 to 99 years. Discussion is also taken place with some global companies to explore the possibility of setting up a casino in Thailand to attract tourist and capture the outgoing expenditures which are being spent in other countries with such facilities.

The residential market particularly condominium purchases were still supported by foreign buyers with Chinese remaining at the top spot.

Condominium and villas in the luxury or super luxury segment remained resilient, the buyers in this sector being relatively unaffected by the economic situation. However, those in the lower end including town houses encountered substantial sales reduction due to high rate of loan rejection, which was reported to exceed 50%.

Negative absorption rates were reported for office in the first quarter. Both occupancy rates and rents in all grades were falling. Some offices need to be renovated to maintain their competitiveness and retain existing tenants. Some of the premises may be converted to other usages as that experienced in the few years post 1997.

The government set a target of 40 million tourists with a revenue of Baht 3.5 trillion this year. As of 2nd June, 14.9 million tourist arrivals were reported, generating an income of Baht 709 billion, which indicates the difficulty to attain the target. Flight capacity to Thailand need to be increased with destinations in 2nd and 3rd tier cities explored and promoted to accommodate tourists at such level.

With continuation of trade wars between the big powers, industrial land transactions reached a record height of 2,295 rai (1 rai equals to 1,600 m²), followed by an increase in applications to the Board of Investment with that in the Eastern Economic Corridor (EEC) accounting for 30% of the applications.

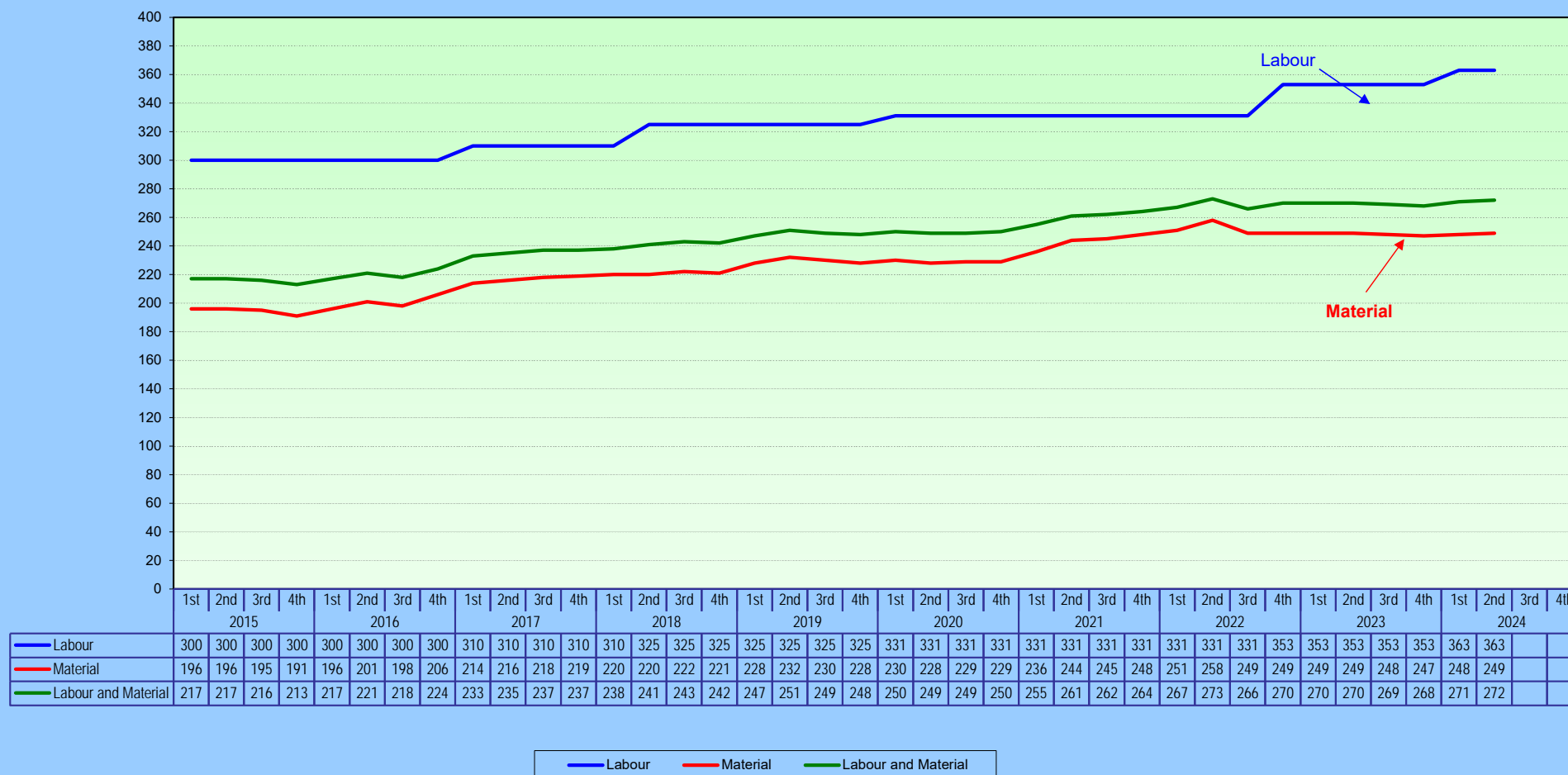
The overall GDP growth this year is projected to be between 2% to 3%, which is relatively low compared to that of other countries in the region.

It is considered a time for planning and feasibility study in preparation for the year 2025, which is expected to be a year when recovery begins.

Construction costs in the first half of the year registered only about 1% increase despite a higher minimum wage rate. The marginal increase is principally due to the imported products from China with competitive prices.

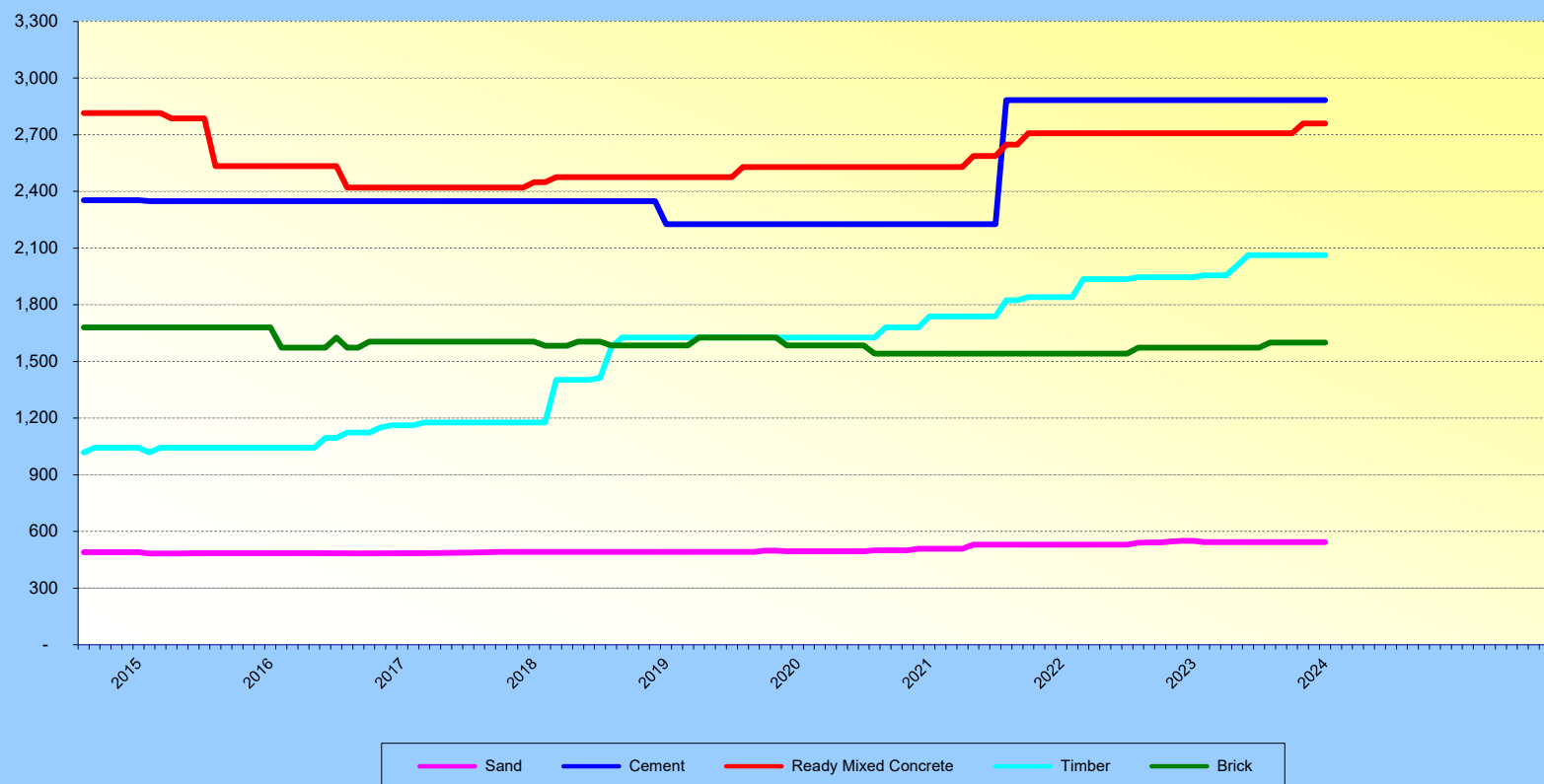
In the absence of any substantial change in tax structure or minimum wage rate, it is estimated that the trend will continue with an overall increase of 1% to 3% only in the next 12 months.

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

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	33,700	- 38,700
Medium quality	28,700	- 33,200
Ordinary quality	25,700	- 28,700
Shopping centre		
High quality	29,200	- 33,200
Medium quality	25,200	- 29,200
Hotel (including FF&E)		
5 Star	60,200	- 64,200
4 Star	56,200	- 60,200
3 Star	48,700	- 54,200
Residential condominium		
High quality	40,200	- 49,200
Medium quality	30,200	- 38,700
Low quality	25,200	- 29,200
Factory (w/basic provisions only)	18,200	- 22,200
Car park		
Multi storey	15,200	- 18,200
Basement	19,200	- 23,200

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.