

CONSTRUCTION COMMENTARY

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At the time of preparing this commentary, Thailand has just undergone another coup and the country is being ruled by military junta. Curfew, which was imposed for a short period of time, has been lifted.

The incident has caused concern to the international world. However for the majority of Thais and those aliens who live long enough in Thailand, it is business and life as usual.

The coup was recognised as the only solution to end the political stalemate.

All organizations, both private and public, are counting the losses and reviewing their future strategy.

The projections are generally negative and the predicted growth figures this year have usually been scaled down.

The property and construction market this year will definitely shrink but the situation is not necessarily unwelcomed.

The slow down in the pace of development put less pressure on the prices of properties, construction labour and materials, which had signs of overheating or shortage before the political turmoil.

We hold a positive view.

Thailand has gone through crisis worse than that was encountered recently and has demonstrated its resilience.

The ruling junta is implementing many measures to gain the support of people and to stimulate the economy.

Among such, the one which affects the construction industry most is the reintroduction of a number of infrastructure projects.

The imminent inauguration of the Asean Economic Community [AEC] has caused the establishment of many new offices from foreign entities, which was illustrated by the increasing take up rates of new office spaces.

Many companies are also planning expansions for the same reason.

Thai people traditionally prefer to live in houses but this habit has been changed gradually with the advent of the mass transit system and the realization of time and consequently monetary loss in traffic congestion. This change in trend has supported the continuous growth of condominium market.

The unit prices of condominium however have increased substantially and developers tend to supply smaller units to meet the affordability of purchasers.

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However, there would be a limit to the minimum size of a unit that can be put up with.

Buyers will potentially turn to second hand units which command lower unit prices and can hence secure a larger unit at the same budgetary price.

The second hand market is not fully explored as Thais dislike living in units which have once been occupied. This tradition will be bent to financial considerations.

Tendering is considered as the most important step in the building process.

If managed properly, the employer would obtain the best price with the most suitable contractor, which is crucial to the success of a project.

At the end of the process, both employer and contractor should have a clear understanding of the contract commitments they would undertake.

Regrettably, the process is usually not transparent and administered efficiently and with attention paid to priorities other than the best interest of the project.

Budget is set too low and not commensurate with the product. Tender documentations are unclear or incomplete. Tender addenda are many and not registered. Worst of all, discussions or negotiations are not properly recorded.

The tender period is unnecessarily prolonged with substantial abortive inputs incurred.

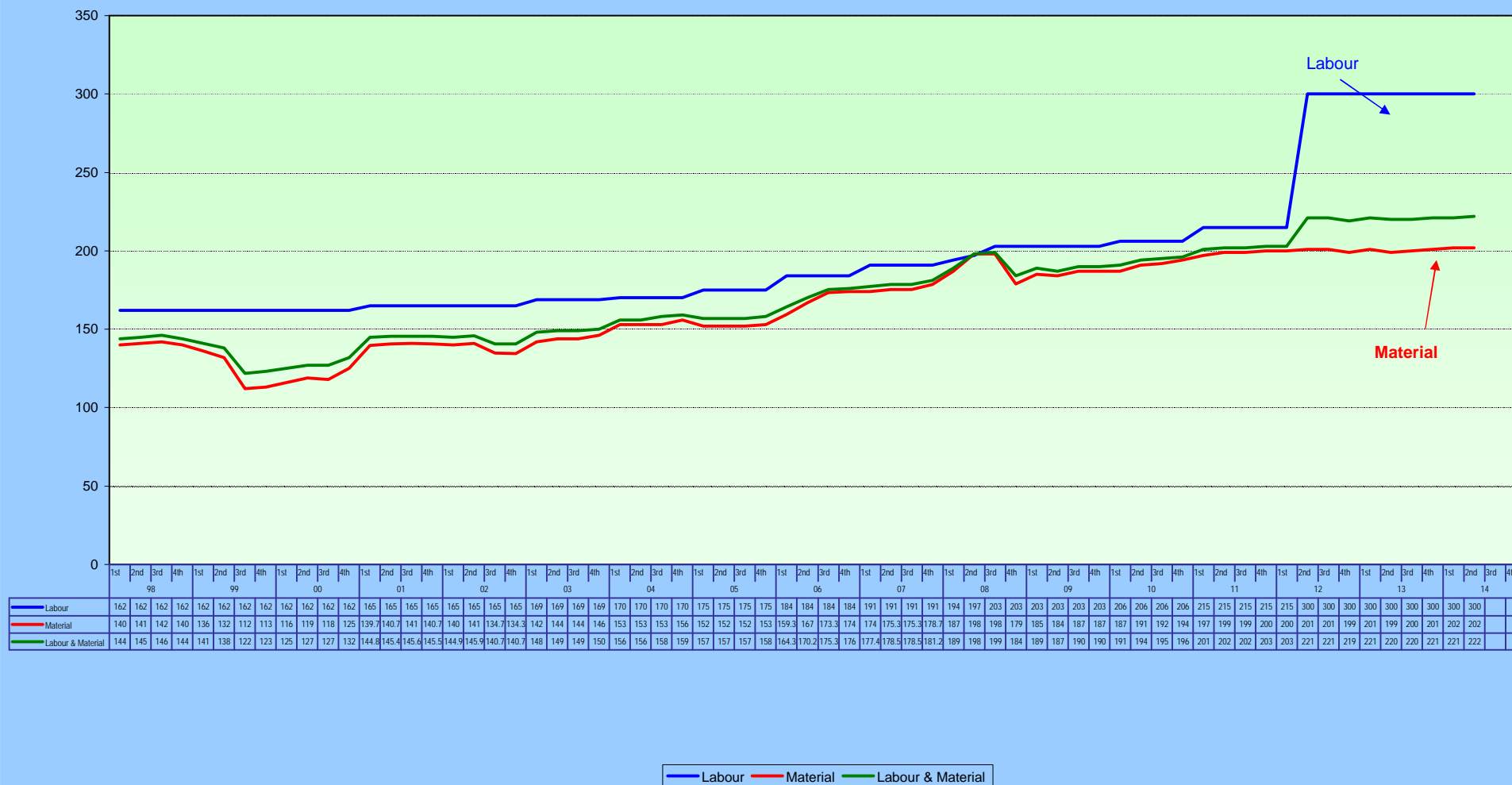
The problems could be abated with better forward planning and with sufficient time allowed for the preparation of design and tender documentations.

Changes and disputes at construction stage will consequently be reduced.

In conclusion of this commentary, we project a good recovery in the remaining part of this year. Both property prices and construction costs will be stable as the market is heading towards equilibrium.

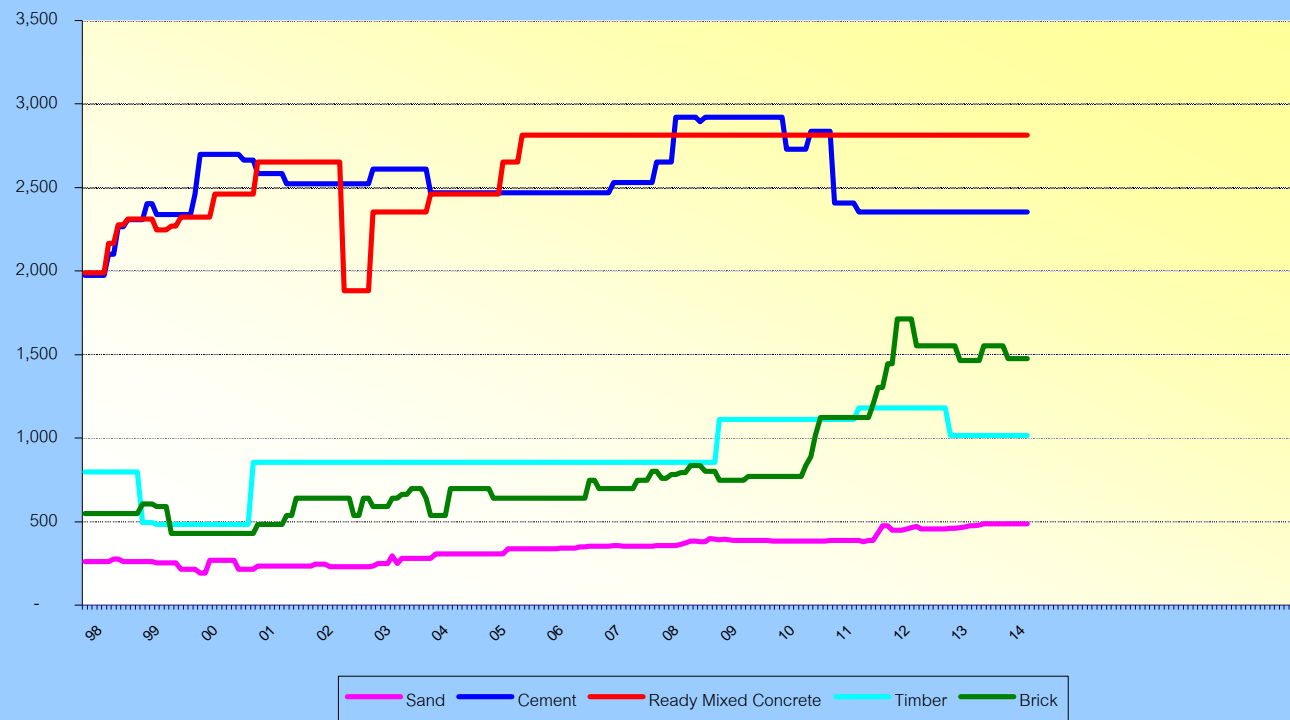
The future would depend on how the ruling power is reverted and to whom.

Labour & Material Cost Indices



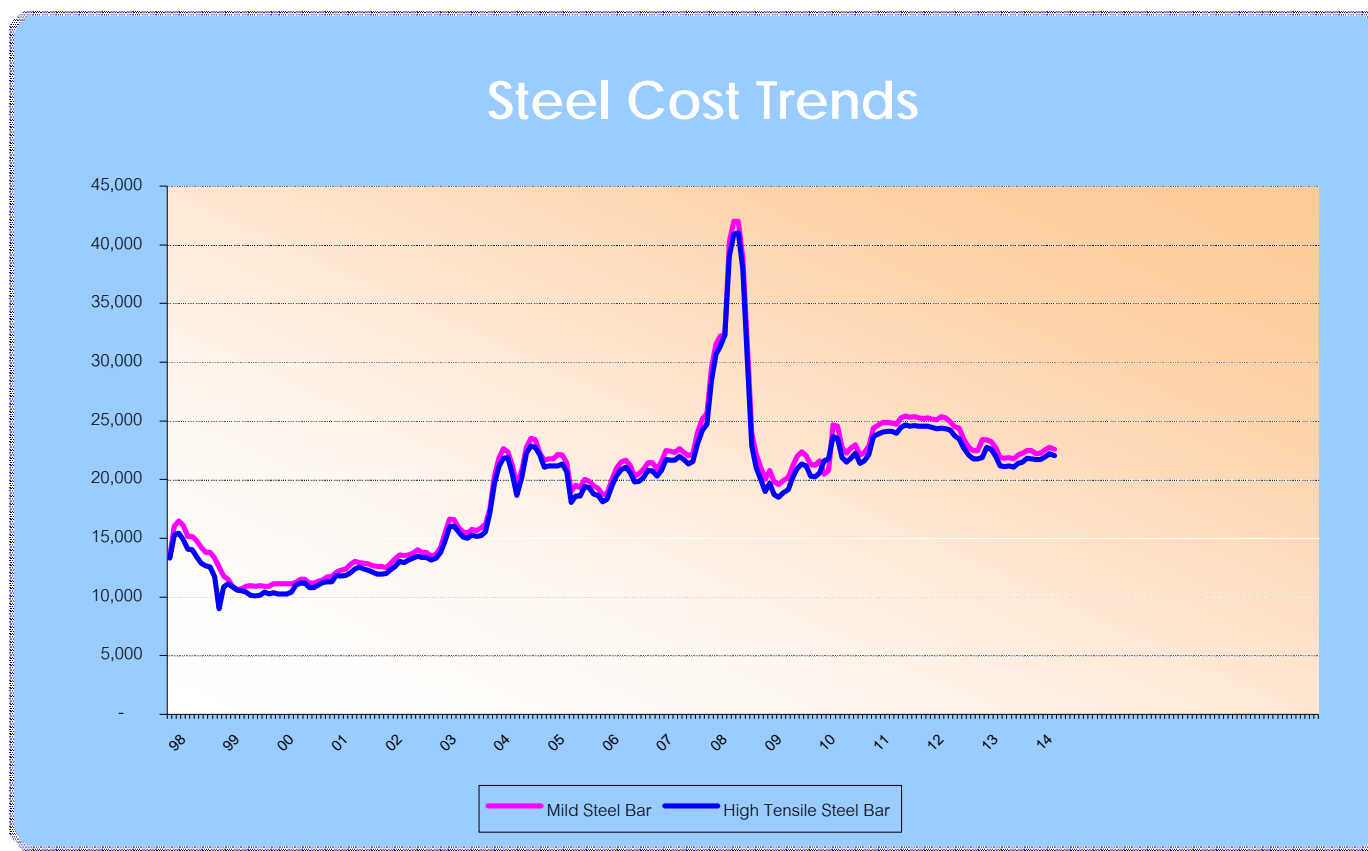
- Notes :**
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.

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	27,500	- 32,500
Medium quality	22,500	- 27,500
Ordinary quality	20,500	- 22,500
Shopping centre		
High quality	24,500	- 28,500
Medium quality	20,500	- 24,500
Hotel (including FF&E)		
5 Star	52,500	- 56,500
3 Star	39,500	- 44,500
Residential condominium		
High quality	34,500	- 42,500
Medium quality	24,500	- 32,500
Low quality	20,500	- 24,500
Factory (low rise)	14,500	- 18,500
Car park		
Multi storey	11,500	- 14,500
Basement	15,500	- 19,500

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.

Gross Floor Area [GFA] for submission to building authority, which includes areas on grade and accessible roof areas, tends to be higher.