

CONSTRUCTION COMMENTARY

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At the time of preparing this commentary, Thailand is undergoing a third wave of Covid-19 outbreak, which began in April. The number of cases reported daily ranges between 2,000 to 4,000 with the highest number ever registered at 10,000 plus.

The government ordered the closure of labour camps and construction sites for a month from 28th June 2021. Time extension (EOT) is allowed to be granted in construction contracts. It is submitted that for EOT caused by reason under this category, which is beyond the control of both contracting parties, the building contractor may only be entitled to EOT but not corresponding cost compensation.

This third outbreak, which is more serious than the previous two happening in February and December last year, slashes the hope of any respectable recovery this year.

Thailand has experienced a contraction in gross domestic product (GDP) for 5 consecutive quarters from 1st quarter 2020 to 1st quarter 2021 at annual rates of 1.8%, 12.2%, 6.4%, 4.2% and 2.6% respectively.

The latest GDP growth is estimated at 1.5% to 2.5%. The assessment is based on a number of assumptions which may not be materialized given the current situation and it is probable that Thailand will encounter a negative growth this year.

3 Million people are reported to have lost their jobs in 2020. Unemployment rate stood at 1.96% in the first quarter of 2021, which is marginally below the highest rate of 2.08% recorded during the financial crisis in 2009.

Household debts in 2020 represent 89.3% of GDP with non performance loans at 2.84%. The percentage is expected to be rising. The number of people whose income is below the poverty threshold (with an annual income below Baht 30,000) has increased by 1.5 million to 5.8 million in 2020.

Consumer price index (CPI) is on the rise with an increase of 3.41% pa registered in April 2021, which is mainly due to higher oil and food prices and the expiry of government subsidies on utilities bills. There is concern that Thailand will experience stagflation.

Contrary to expectation, overall construction material prices have also edged up by about 4% in the first half of the year, driven mainly by the sharp increases in iron, copper and fuel prices. The prolongation of the pandemic has disrupted production or mining and hampered international shipment, which results in supply shortage of these commodities..

Property developers are taking cautious approach. They are concentrating on disposing their inventories with price cuts and delay the launching and construction of new projects.

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Land prices are lower. It was reported that the asking prices of lands in some prime areas have reduced from Baht 1.6 to 1.7 million to Baht 1.4 million per square wah (4 m²). Prices of other properties, with the exception of houses, have dropped generally. It is a buyer's market currently.

To stimulate the market, there is suggestion to increase the percentage of foreign ownership of condominium at prescribed locations with values exceeding Baht 5M beyond 49%.

To alleviate the ailing tourist industry, which is one of the main pillars of Thai economy, the government is implementing a sand box plan in Phuket. The scheme takes effect on 1st July 2021, which relies on high vaccination rate in Phuket and no quarantine for foreign tourists. The government has also vowed to reopen the country in mid October, which seems optimistic under the current scenario and would possibly depend on the outcome of the Phuket sand box scheme.

As common consensus, the pace of recovery would depend on the extent of vaccinations both locally and globally. Unfortunately, the government is lagging behind in procurement of vaccines.

Despite all the negative feedbacks, our projection is optimistic.

Thai people have minimal resistance to vaccination and with sufficient supplies, the herd immunity threshold can be attained quickly.

The sharp increase in commodity prices is considered short term. Production and shipment will be resumed to normal gradually as the pandemic is contained.

The conservative approach adopted by government and institutions since 1997, pays off and results in no collapse of major conglomerates although small and medium enterprises, particularly that in certain industries, fare a less fortunate destiny.

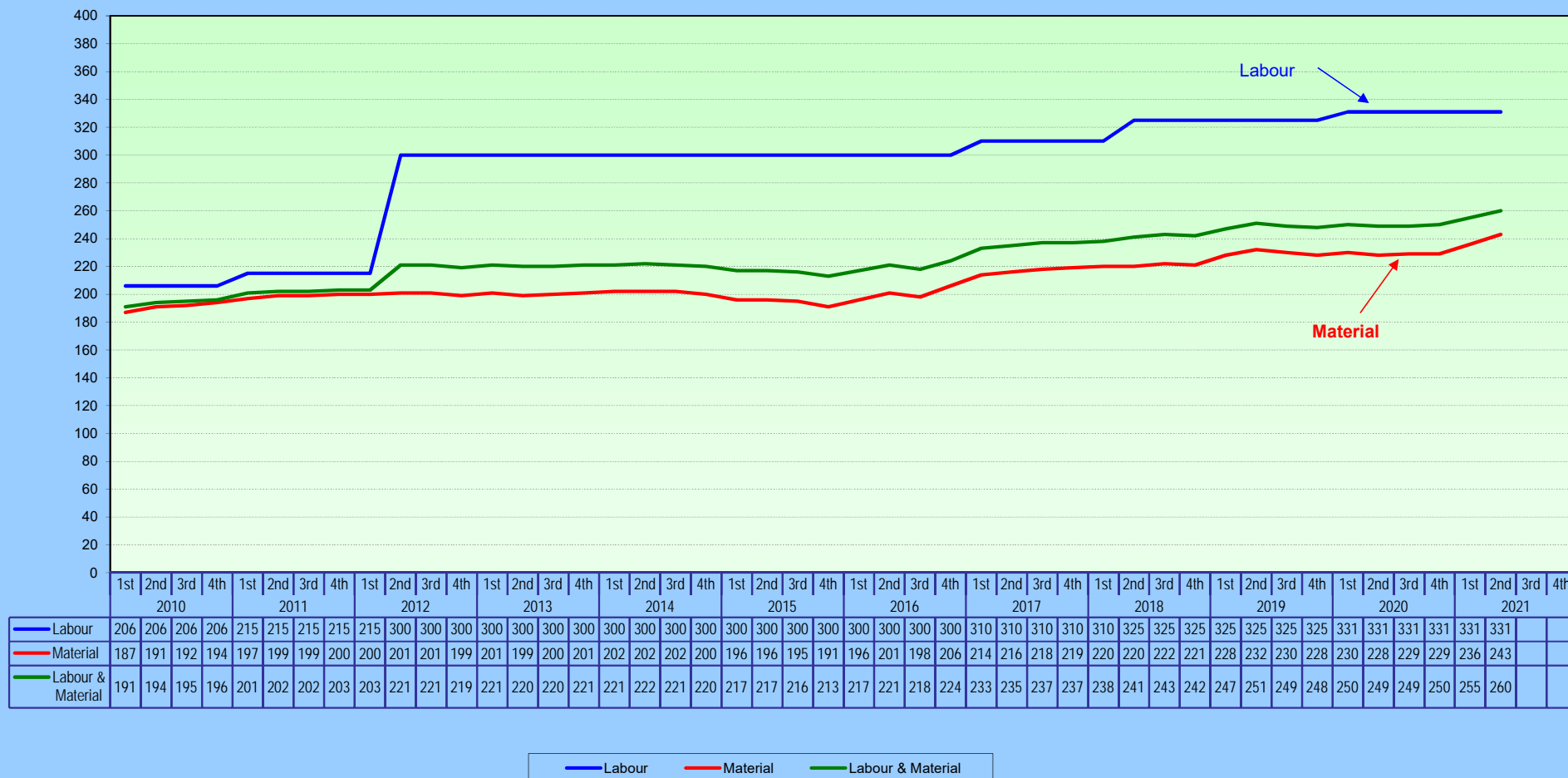
With a period of sluggish activities of 1 to 2 years, savings are being built up for those who can retain their employments with no or minimal salary cut. The cumulative consumption or purchasing potentials will be released when the situation is less stringent.

Companies are noted to be planning and making preparations to resume their projects or investments which were once deferred.

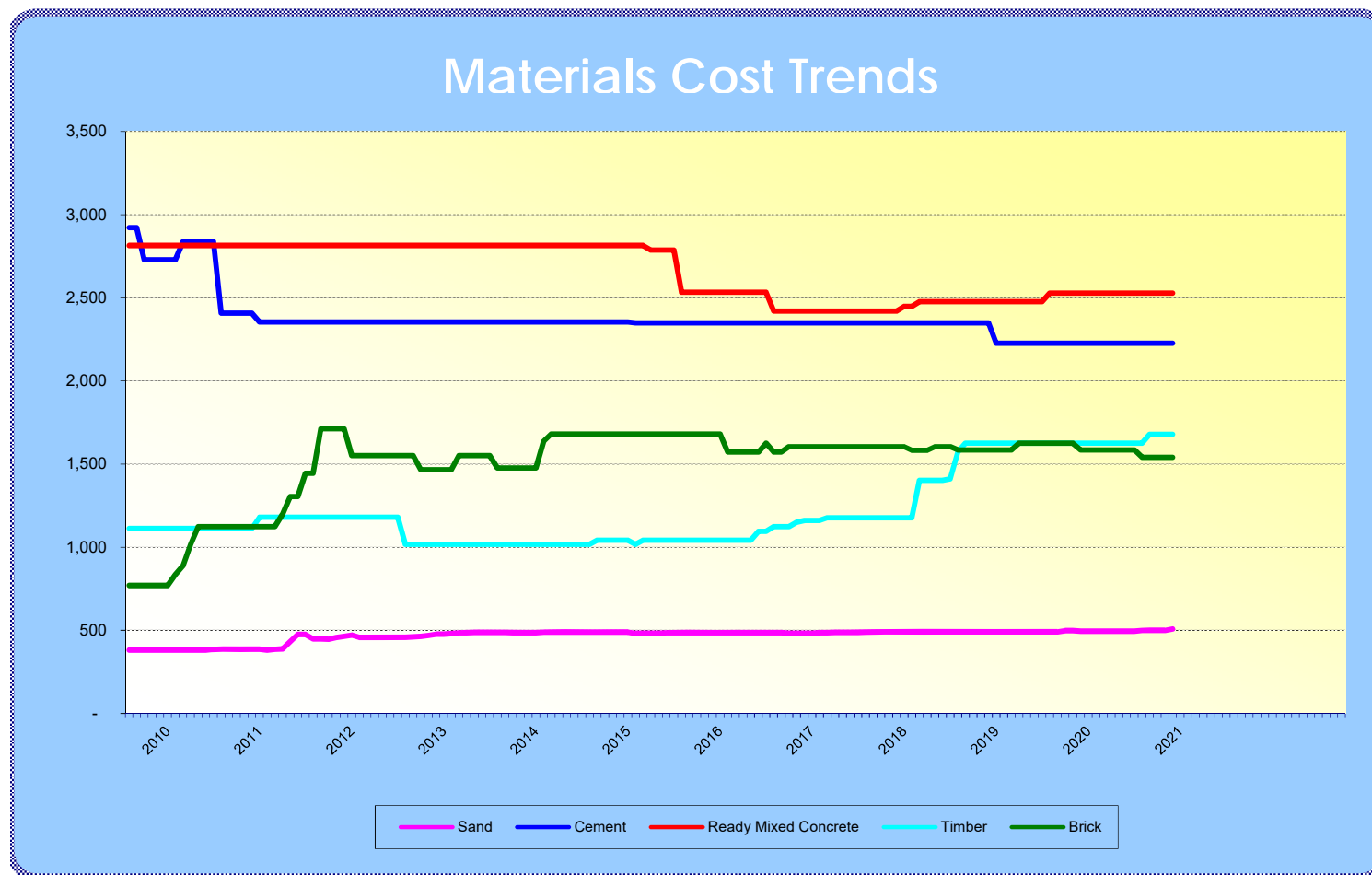
We expect higher level of activities beginning in the fourth quarter of this year.

The overall building cost increase this year is projected at 4% to 6% pa.

Labour & Material Cost Indices

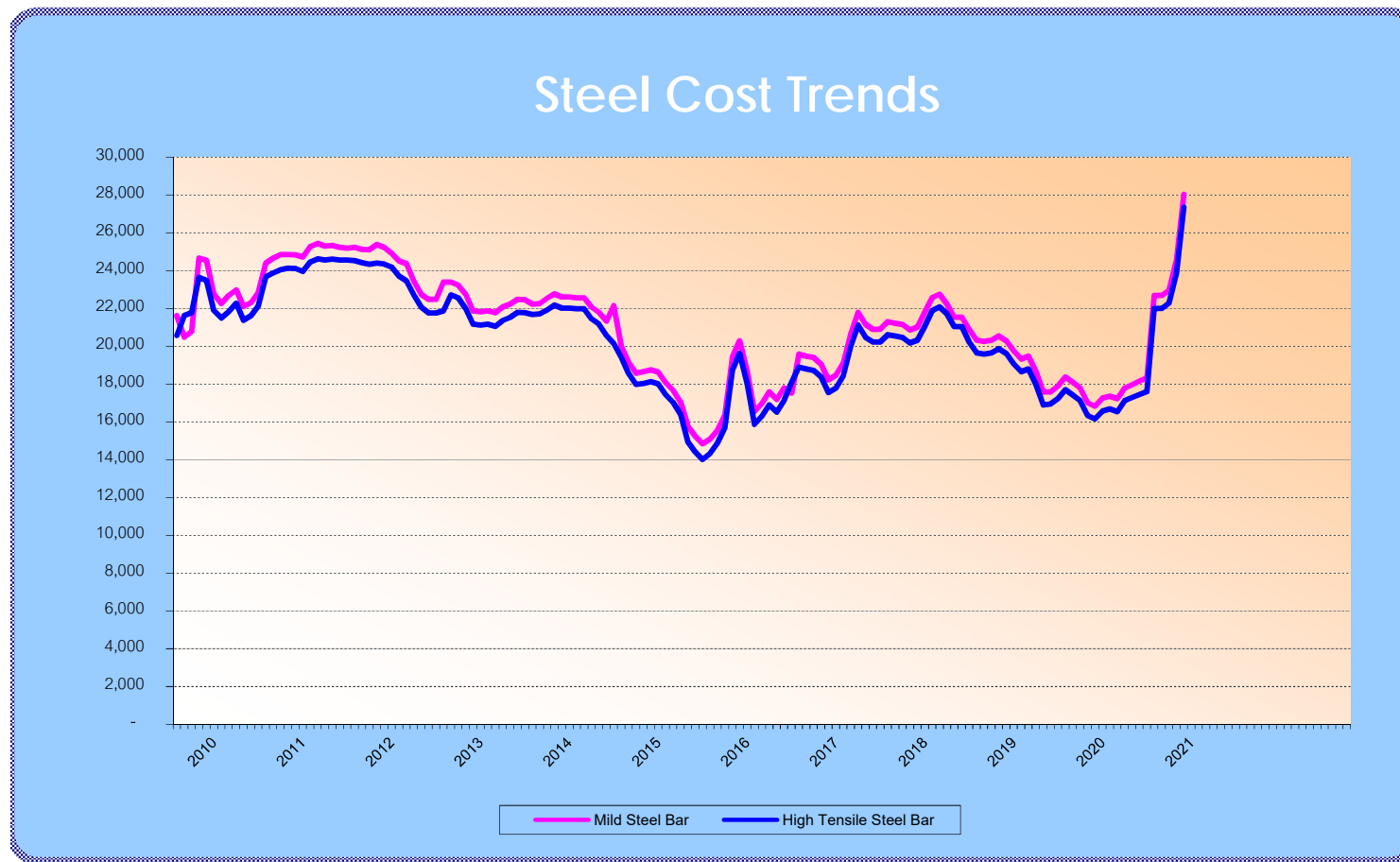


- Notes :**
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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	
Office		
High quality	32,000	- 37,000
Medium quality	27,000	- 32,000
Ordinary quality	24,000	- 27,000
Shopping centre		
High quality	27,500	- 31,500
Medium quality	23,500	- 27,500
Hotel (including FF&E)		
5 Star	57,500	- 61,500
4 Star	53,500	- 57,500
3 Star	46,000	- 51,500
Residential condominium		
High quality	38,500	- 47,500
Medium quality	28,500	- 37,000
Low quality	23,500	- 27,500
Factory (low rise)	16,500	- 20,500
Car park		
Multi storey	13,500	- 16,500
Basement	17,500	- 21,500

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.
- (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.