RHLB (Siam) Ltd.

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
Facsimile : +66 (0)2 234-4934
E-mail : rhlbthai@rhlb.co.th
Website : www.rhlb.co.th

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Our company has been in operation in Yangon for a year and in this commentary we would like to share our field experiences.

Myanmar presents great potentials and many corporations want to gain a foothold in the country.

Consequently many new companies were established and many projects were initiated.

However, the country in all aspects is not ready for such big influx of establishments and constructions.

Infrastructure in terms of roadwork, communication, utilities etc., which have been insufficient, have been more strained. For instance, a trip from airport to town centre, which used to be 45 minutes a year ago, would now take 1½ hours, if not more. Electricity outages have been more frequent and the period of each outage has been longer.

Bureaucracy and outdated regulations also pose problems. The laws are open to interpretations and approval from many departments are required. The endorsement from one department, even of upper hierarchy, may not necessarily guarantee the same from the other departments.

The time taken to secure the necessary permits and approvals for construction works is much longer than that for similar procedure in Thailand.

In piling works for example, test piles have to be installed initially with test results submitted to the building authority for approval before the remaining piles are allowed to be constructed. It could take three to six months for this initial approval with no assurance that permission will be granted subsequently.

As the resources available are limited and demands are continuously increasing, costs in all categories such as rents, wages, salaries, building materials etc. have increased substantially. It is not uncommon for landlord to ask for 50% to 100% rental increase when the lease is renewed. Many organizations have to settle for less than ideal accommodations. Staff with good experiences and abilities are very much sought after.

Majority of the building materials are to be imported.

Local contractors are unsophisticated and are unfamiliar with competitive tendering system. It is not uncommon for international property developers to bring in partners who have construction expertise.

All types of contract forms are in use depending on the origins of the project personnel.

Overall construction costs are higher than that for similar projects in Thailand by 15% to 20%.

This situation is expected to be sustained for at least 3 to 5 years until Myanmar has adapted herself to the new situation and experience.

For companies who do not wish to miss out, we could only recommend that the size of the establishment, at least initially, should be manageable. Commitments to projects should be limited and gradual until major approvals are obtained.

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We come back to Thailand.

The number of residential projects launched in the last quarter has been increased substantially, principally due to the carry over of the back log from early of the year.

Both prices of land and apartment units have been hitting new records.

The future projections from both property developers and estate agents have been positive.

Our reservations are that the prices of many middle and low range units have already been beyond the affordability of buyers in that category, whether or not they are investors or ultimate users. Household debt ratio is also at a high level, which affects bank loans approval and in turn the take up rate.

Demand for offices continued to rise and rents in central business district were reported to have 1.2% increase in the first half of year.

Three major office developments are due to be completed in this year, which will have a temporary impact on the overall vacancy rate.

The performance of hotel sector on the other hand falls very much behind, attributed to the political instability and severe competition, which has prevailed for a few years.

The average room rate in this year is about 19% less than that last year. The most price decline was registered in Hua Hin area with a decrease of 24%.

Based on the current pricing and cost levels, new hotel development is not a viable investment.

However, many entities still consider owning an hotel is a status symbol. Many hotel projects are still being planned or under construction.

The decision of the interim government to proceed with infrastructure projects with a total estimated value of Baht 3.25 trillion will have a strong impact to the construction industry.

The effect may not be immediate since it takes time for these projects to reach from inception to implementation stage.

The construction price has been stable and would remain so until towards the end of the year 2015. A 3% increase per annum for the next 12 months is projected.

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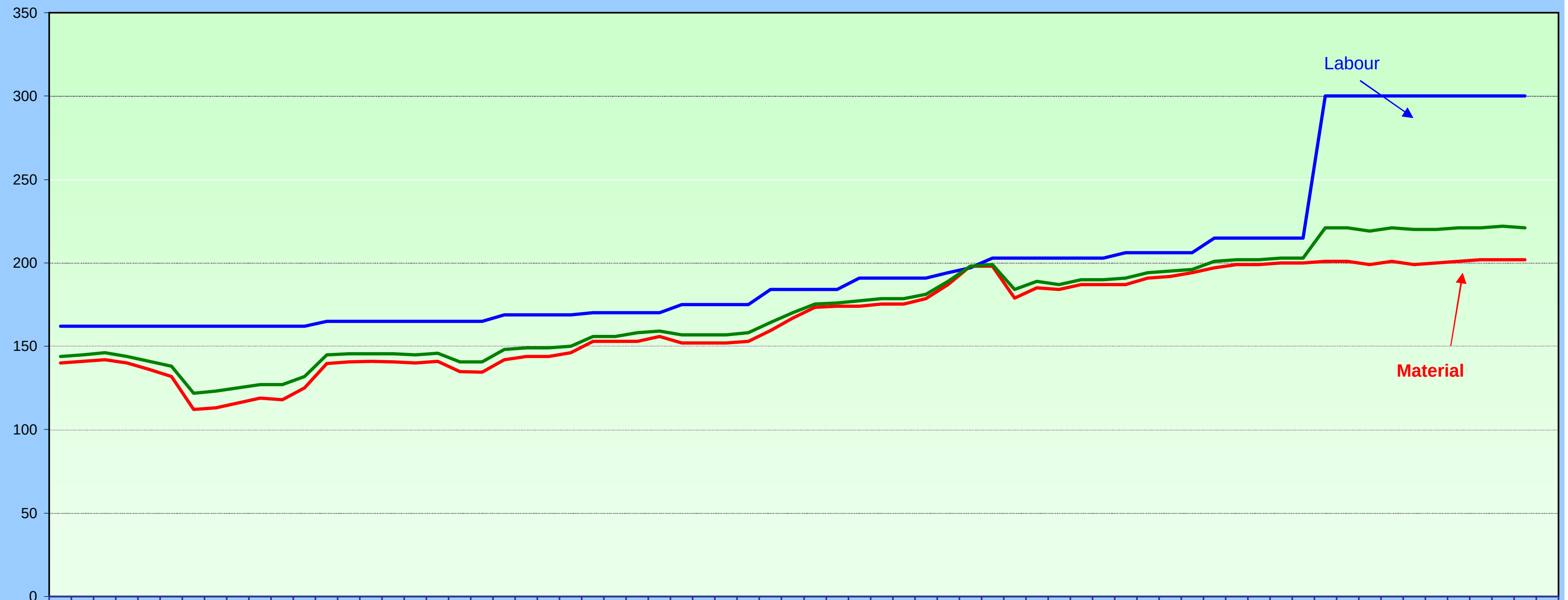
Labour & Material Cost Indices



	98				99				00				01			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Labour	162	162	162	162	162	162	162	162	162	162	162	162	165	165	165	165
Material	140	141	142	140	136	132	112	113	116	119	118	125	139.7	140.7	141	140.7
Labour & Material	144	145	146	144	141	138	122	123	125	127	127	132	144.8	145.4	145.6	145.5

	02				03				04				05			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Labour	165	165	165	165	169	169	169	169	170	170	170	170	175	175	175	175
Material	140	141	134.7	134.3	142	144	144	146	153	153	153	156	152	152	152	153
Labour & Material	144.9	145.9	140.7	140.7	148	149	149	150	156	156	158	159	157	157	157	158

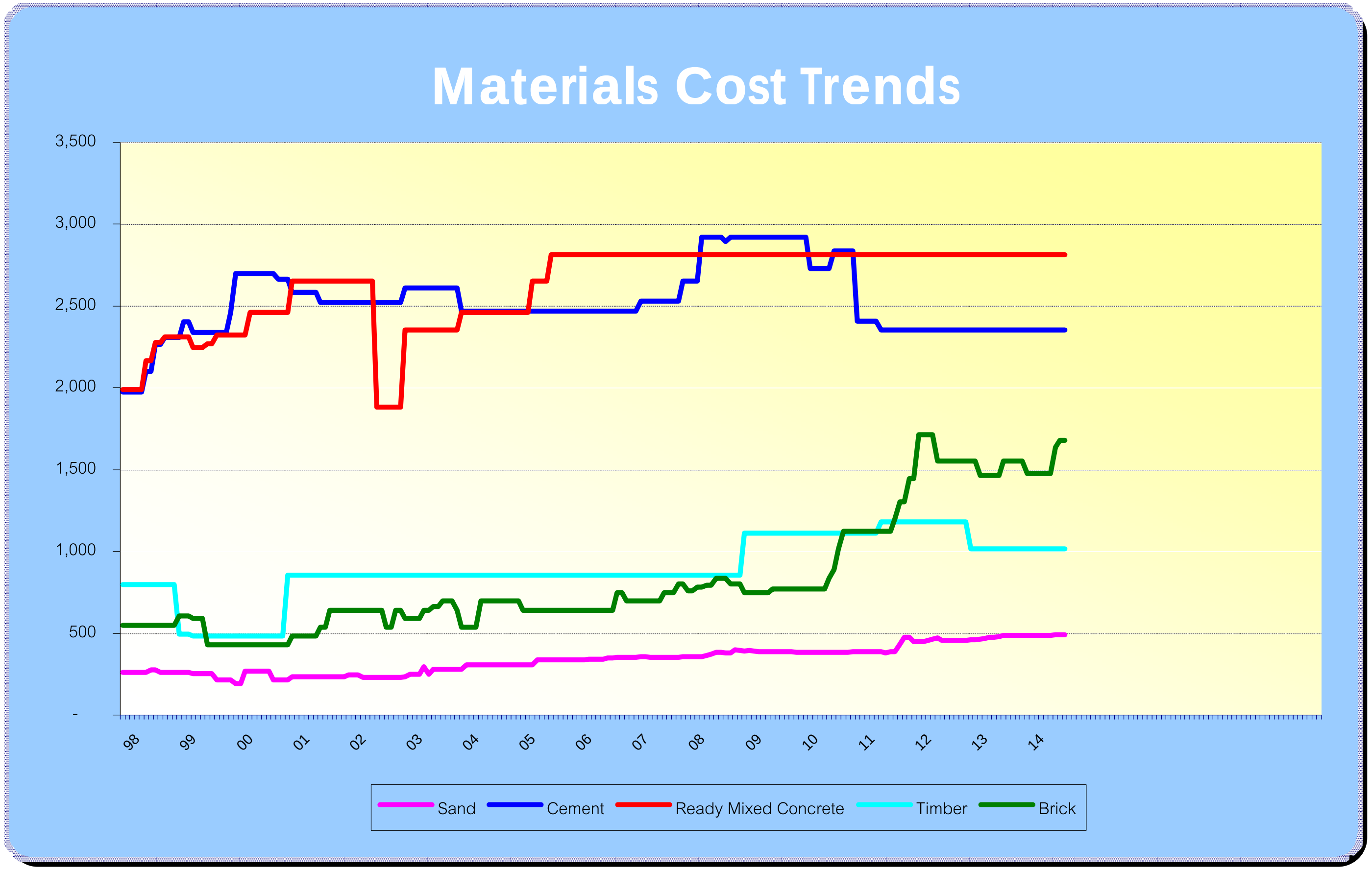
	06				07				08				09			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Labour	184	184	184	184	191	191	191	191	194	197	203	203	203	203	203	203
Material	159.3	167	173.3	174	174	175.3	175.3	178.7	187	198	198	179	185	184	187	187
Labour & Material	164.3	170.2	175.3	176	177.4	178.5	178.5	181.2	189	198	199	184	189	187	190	190

	10				11				12				13				14			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Labour	206	206	206	206	215	215	215	215	215	300	300	300	300	300	300	300	300	300	300	
Material	187	191	192	194	197	199	199	200	200	201	201	199	201	199	200	201	202	202	202	
Labour & Material	191	194	195	196	201	202	202	203	203	221	221	219	221	220	220	221	221	222	221	

Labour — Material — Labour & Material

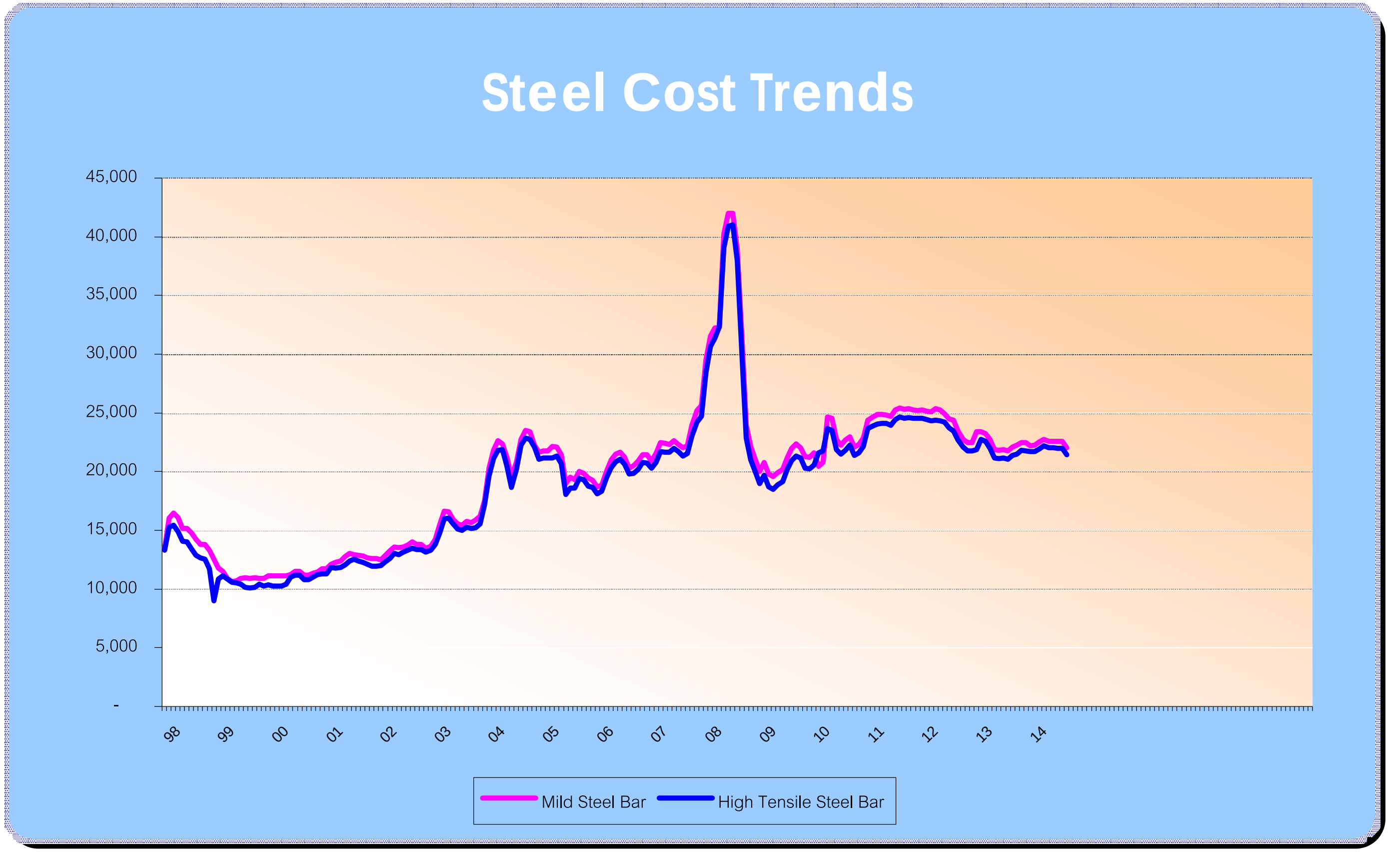
<u>Notes :</u> (1) Base of index is at first quarter 1992.

(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

	Cost per m2 of CFA 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.