

CONSTRUCTION COMMENTARY

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In this article we would like to present our observation and comments on the organization set up and management approach of property developers in Thailand.

At one end are the new entrants to the market. The enterprises have been very successful in their own businesses. They own lands which were purchased years ago at a nominal price at today's standard. They hear that their peers have been doing well in property developments, which leads to their advancement to the property market.

They may join venture with other investors with their contribution of the land only as part of their investment.

Most of the time, they take on the process of property development themselves and the responsibility is undertaken by the owner or entrusted to someone having close relationship with the owner. The owner or the responsible person may not have the background knowledge on property development.

Minimum cost is the prime objective, with the construction budget usually not commensurate with the scope and level of provisions. The timing of completion is of little concern as the holding cost is generally low. Limited attention is paid to design, planning, facilities and future maintenance and there is a belief that any created spaces will automatically be filled up.

Consequently the completed properties fall in the category of "fringed" properties, which lag behind the general market performance in both occupancy rates and values. Price appreciation can be very limited.

There are still plenty of such developers around despite a lot of them being eliminated in the last financial crisis.

At the other end, there are professional or veteran property developers.

They are devoting their attention solely to property developments or part of a big conglomerate whose business originally is not in real estate as the type of developers described above.

Over the years these companies have amassed vast experiences in various types of developments which they specialise in. Market researches and feasibility studies are conducted. The final products readily meet the requirements of their target groups in the respective sectors.

There is room for improvement.

Completed projects are not systematically or rationally analysed.

For instance, limited review is carried out on the reasons of overruns in construction cost or time, such as whether or not the overruns are due to optimistic assessment to satisfy the owner's wish or caused by oversight or lack of thorough planning or preparation which could have been avoided.

Remedial measures are seldom taken and the management of projects in future rely on the experiences of individuals in the organization. It is not uncommon for the problems occur repeatedly.

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Project management consultants are engaged to manage the developments.

More commonly, in house team is employed to render project and construction management inputs. This arrangement is considered more beneficial as such team should be totally committed to the company and a particular project.

However, team size is usually large and comprises members with background from each of the design disciplines with the belief that a first hand knowledge from the owner's side on each of the disciplines is essential.

Project management team, as the name implies, should be devoted to management of the projects on three principal aspects namely time, cost and quality.

The team is not necessarily big and the team members may be from any background.

They should possess the pertaining experiences to foresee, prevent or at the least abate the problems arising.

Unfortunately, attention is usually focused on design detailing which the team members are familiar with and which actually duplicates the duties and responsibilities of design consultants.

Co-ordination of and checking of design between various disciplines, which should have been the prime responsibility with a team of the size and set up, are seldom conducted. Such inputs would require vast experiences and total dedication, which are generally lacking.

Returning to the current market, this year is considered to be a mediocre year for Thailand.

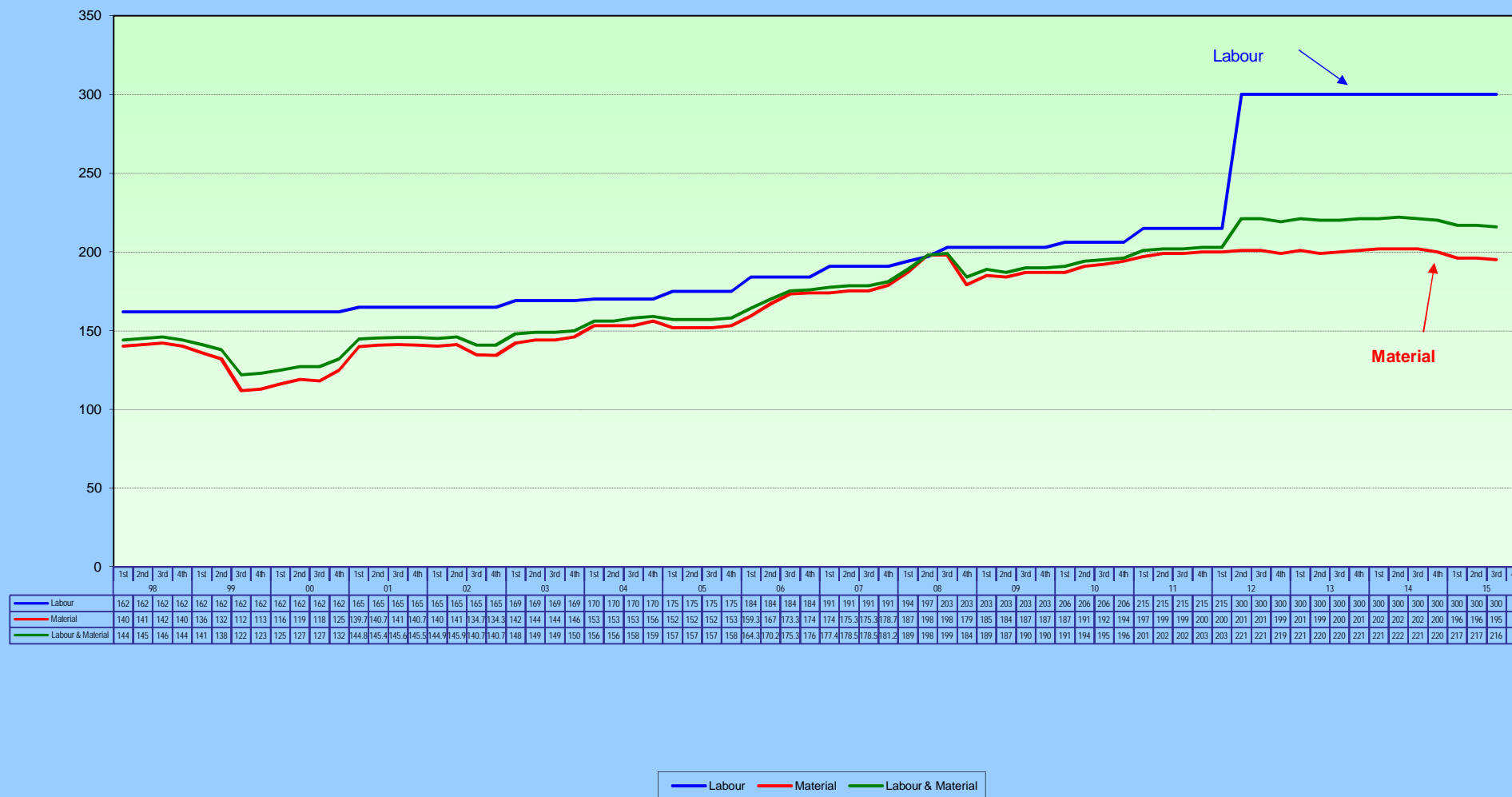
With three quarters of the year elapsed, all the problems such as faltering economy, drop in consumer confidence, large household debts, decline in exports, oversupply in low and middle condominiums etc. are prevailing. Thailand has slipped in the overall world ranking of competitiveness despite the exchange rate falling to 1 US\$ to over Baht 35.

On the bright side, land price has registered a record high of Baht 1.91M per square wah (equivalent to 4 m²). Developments in good location have reported sold out within a short period of launching. Government is providing measures such as tax reduction to enhance property transaction. Tourist arrivals are increasing.

Construction costs have remained stable as the number of projects put up are limited and there has been delay in implementation of the infrastructure projects.

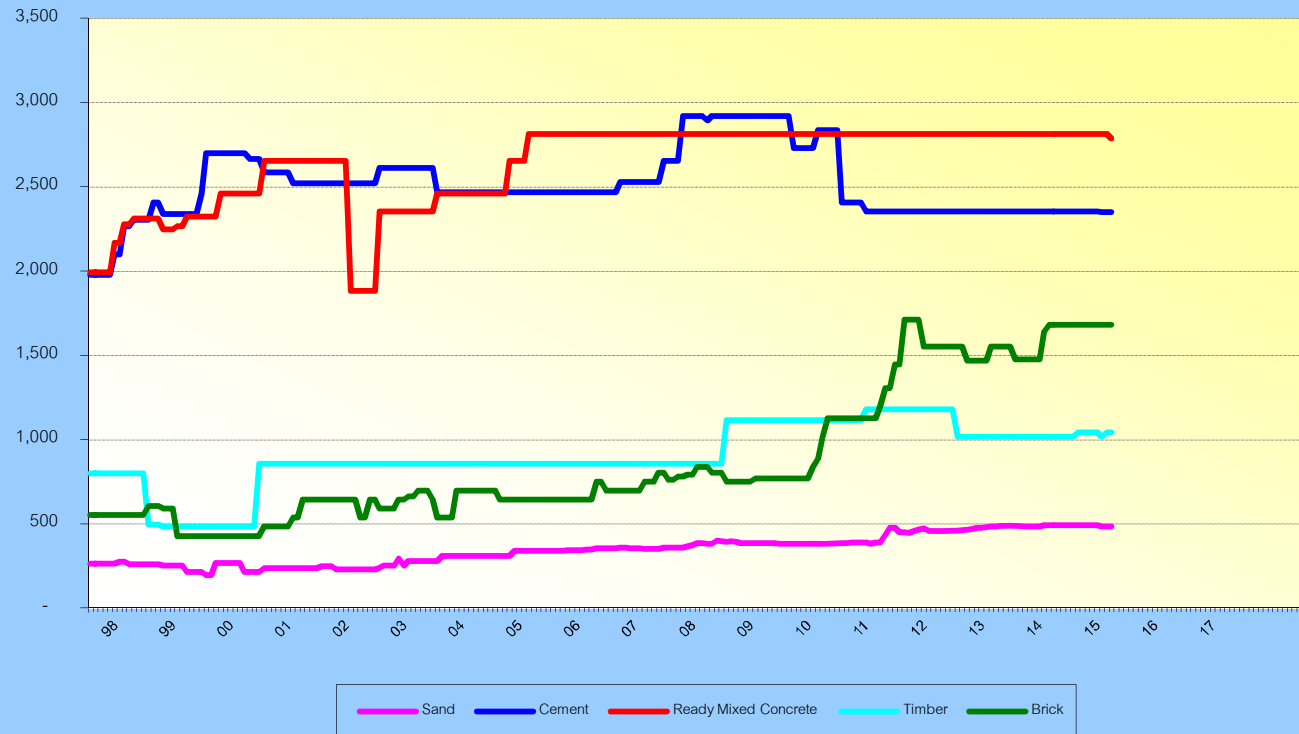
We project that the cost trend will continue at least for the next 2 or 3 quarters.

Labour & Material Cost Indices



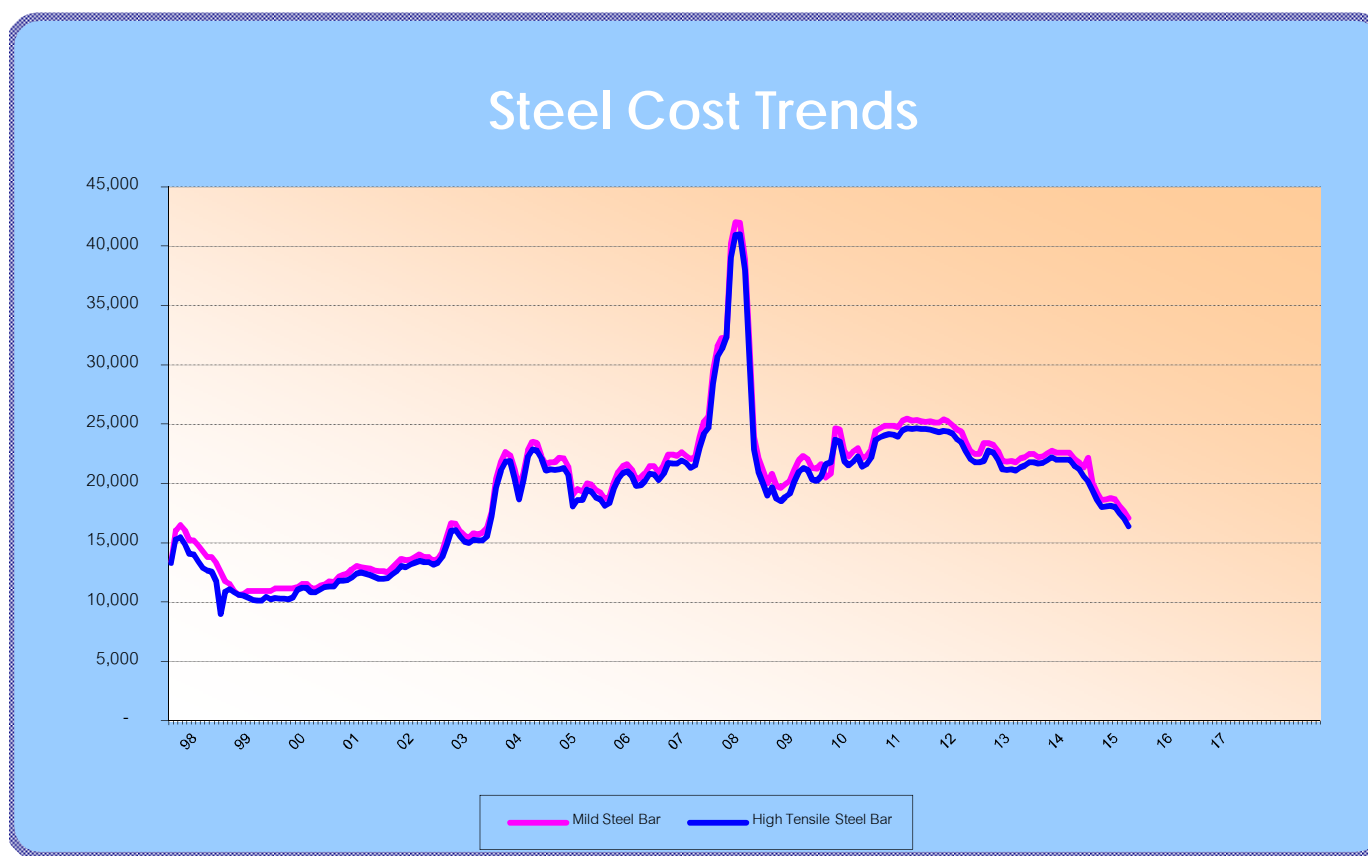
- Notes:
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.

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	30,000	- 35,000
Medium quality	25,000	- 30,000
Ordinary quality	22,000	- 25,000
Shopping centre		
High quality	26,000	- 30,000
Medium quality	22,000	- 26,000
Hotel (including FF&E)		
5 Star	54,000	- 58,000
4 Star	50,000	- 54,000
3 Star	42,000	- 48,000
Residential condominium		
High quality	36,000	- 45,000
Medium quality	26,000	- 34,000
Low quality	22,000	- 26,000
Factory (low rise)	15,000	- 19,000
Car park		
Multi storey	12,000	- 15,000
Basement	16,000	- 20,000

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, include car parking areas which form integral part of a development.