

CONSTRUCTION COMMENTARY

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The year of 2018 is set to be another good year for Thailand.

Economic performances in the first nine months have outstripped expectation.

Estimated GDP growth have been revised from around 3% - 3.5% at the beginning of the year by many institutions to 4% - 4.5%. Both exported volumes and tourist arrivals have exceeded targets.

Landscape of the property market has limited change. Condominium developments still dominate the market and are still principally along the mass transit routes.

Selling prices of land and condominium units continually reached new height at Baht 2,500,000 plus per square wah (4 m2) and Baht 500,000 per m2 respectively.

Top office rents also registered a new record of about Baht 1,500 per m2 per month.

The differences in property values and constructions costs at high end developments become wider, which enables the developers to set higher budgets for construction and hence enhances the qualities of the projects.

It was reported that the scope and level of provisions in the very best condominiums and offices in Bangkok are comparable to that in other international cities such as Hong Kong and Singapore.

Contracts for infrastructure projects including that for the Eastern Economic Corridor (EEC) promoted by the current government were or are about to be implemented.

With all these positive factors, it comes with no surprise that new property developments are generated.

As the availability of lands in prime locations is limited, there is financial incentive to develop occupied sites which have yet to reach their potentials. There have been cases that existing buildings were demolished and re-developed and it is considered that there are many locations in Bangkok which would qualify for such arrangement. The plan however is difficult to be materialised for sites with multiple ownerships, which require 100% agreement for redevelopment.

Over the years there have been many foreign companies leaving the property markets in Thailand for one reason or another such as deteriorating relationship with the local partners. A very successful player remarked that the reason for its suspension of its activities in Thailand is due to the returns not commensurate with the inputs rendered compared to that in other developed countries.

With the continual increase in property values, foreign investors were drawn back with companies from Japan taking the leading role and Chinese companies following closely. These foreign enterprises bring along their experience, management, technique and above all, the contacts and understanding of the requirements of the potential purchasers from their home countries which are most needed by the local developers.

It was common previously that joint venture companies were formed for continuous developments. The arrangement is now changed with the most popular form of partnership on project basis, which can be extended or terminated depending on the relationship cultivated and provides maximum flexibility to both sides. It is not unusual for a local company to have joint venture arrangements with a number of foreign companies simultaneously.

With so many building and infrastructure projects in place, the construction market is gradually shifting to a contractor's market particularly for those with good track records.

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A piling contractor has advised that nearly half of their equipments have been tied to a single private project for two years. Another reputable building contractor reported that the value of works being under tender preparation by them amounts to trillions and they actually do not have the capacity for all projects being tendered. They are selective, taking into consideration of various factors such as their relationship with the property developer, the developer's financial strength, track record of payment, fairness etc.

There is implication on the construction costs if good and reliable contractors are engaged. In such situation, it is essential to have more thorough design documentation issued for tendering to reduce the risk provisions by the contractors.

We advise a cautious approach in the coming year.

At the time of preparing this commentary, there is no sign when the trade friction between USA and China will end, if not heighten.

In the short term at the least, it is considered that export volumes will increase and imported prices for many products from USA and China including building materials can be cheaper, which would help alleviating the pressure of construction cost escalation. Some factories in China will be relocated to the Asean region including Thailand.

There is definitely adverse effect on the global economy in the long run with that in China suffering most. Above all, if a credit squeeze happens in China, which can be implemented in a short period of time via executive measures, the impact on overseas investments, property purchases and outbound tourists will be substantial.

There has been continuous outcry of over supply in condo and hotel room units, which comes closer to reality as time goes by with the number of units added to the market.

A Building Engineering Code (BEC) has been passed, which applies to large building (with an area exceeding 10,000 m²) in 2018 and will eventually be extended to all buildings in 2020. The BEC requires the use of more energy saving products and have the estimated effect of increasing the construction cost by 5% to 10%. Energy consumption costs however will be reduced, which is beneficial to self owned properties in the long run.

With the number of infrastructure and building projects under construction, traffic conditions have worsened. The running MTR lines are reaching their limits. It is not uncommon that passengers have to await 3 or 4 trains passing before boarding during rush hours. Travelling times on the road are longer.

Interest rates will probably be increased following that in USA in the near future.

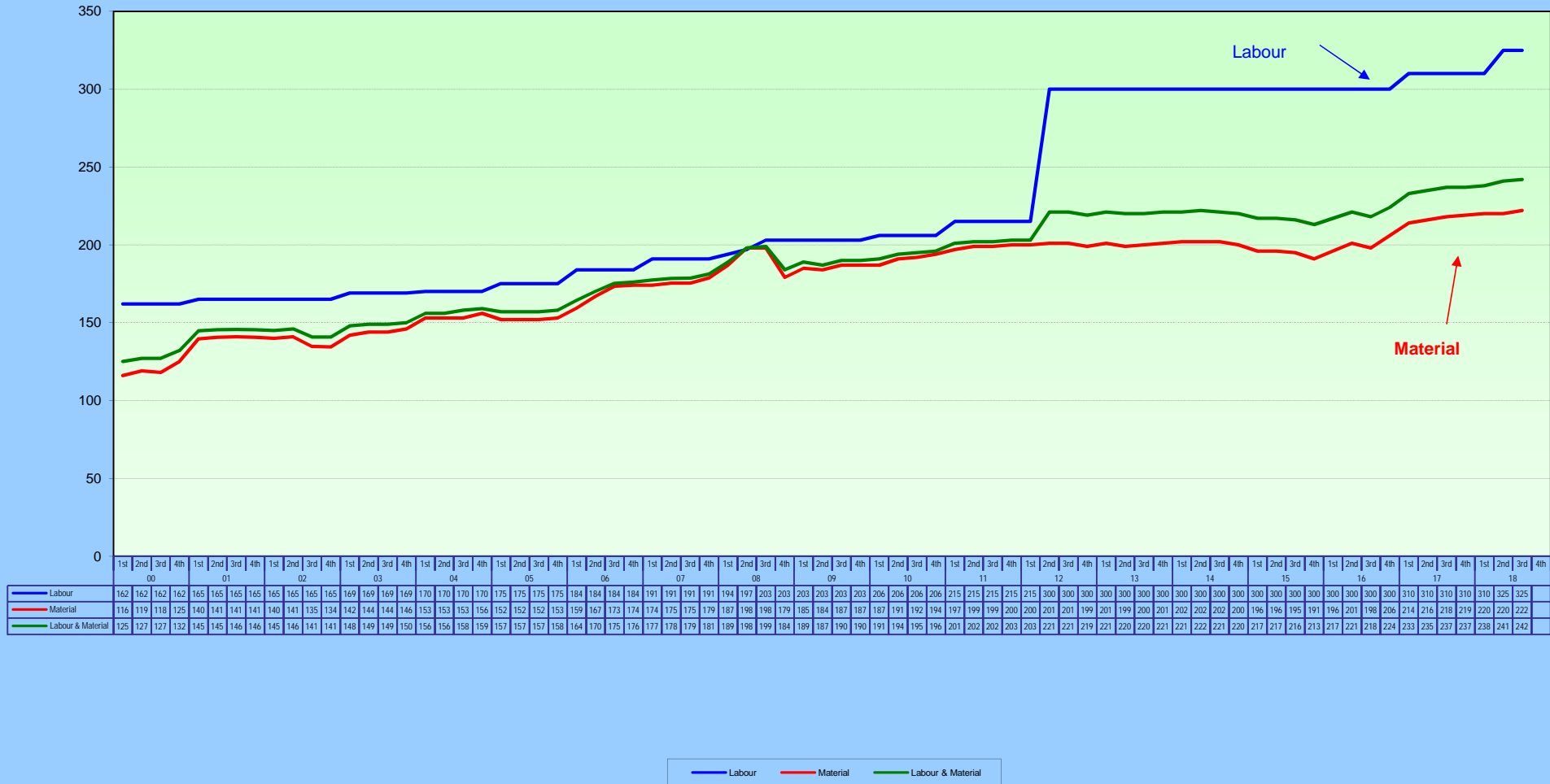
Majority of the developments in Thailand are concentrated in the hands of a few developers, who have good bargaining power and access to funding. These developers are generally active and diversified.

The effect however will be catastrophic if one of these few players goes under. Recently a credit warning was raised to one of the leading players due to its apparent over expansion.

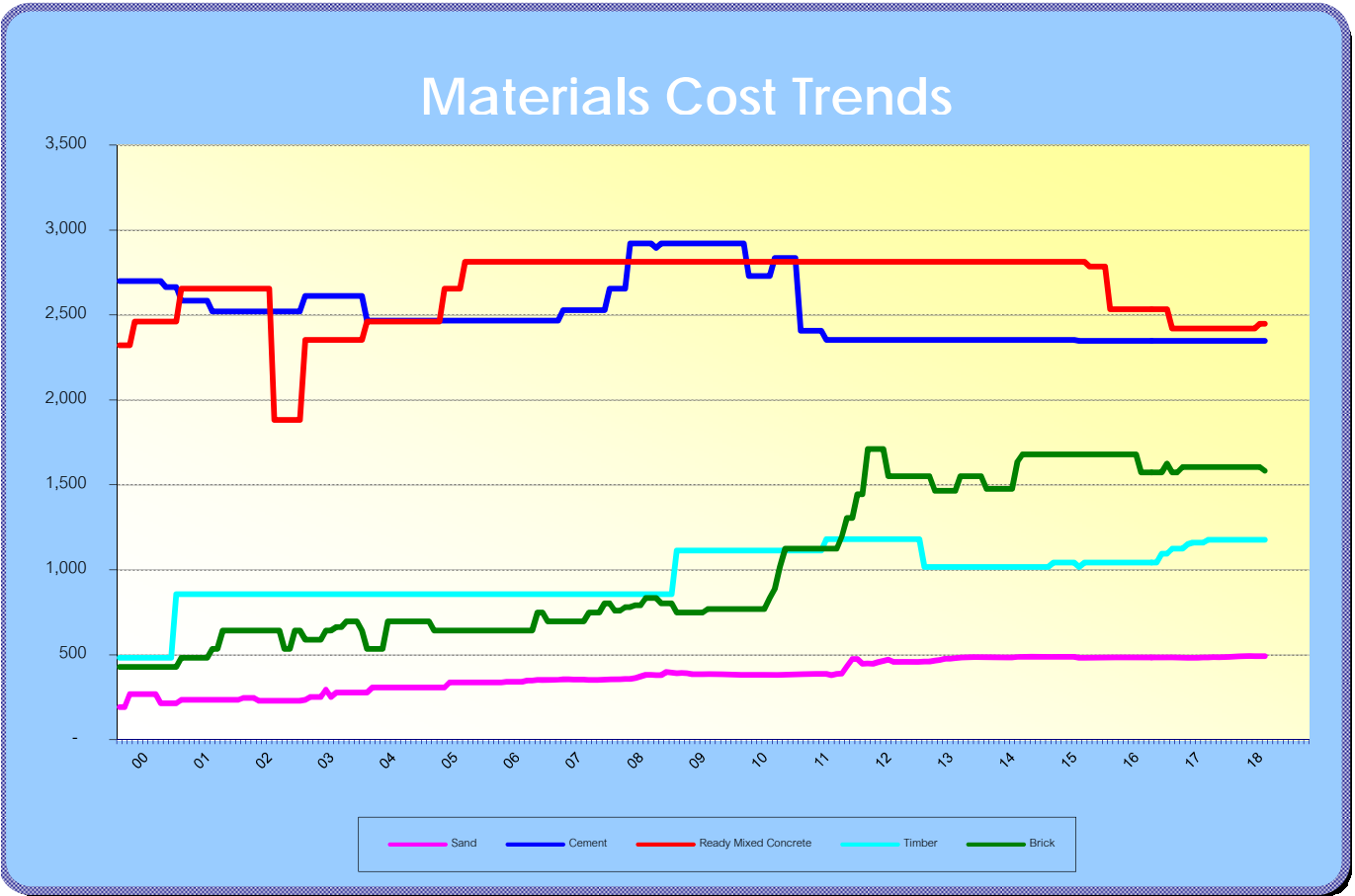
Prices of steel reinforcement are on the upward trend and overall building cost has increased by 2% since the beginning of the year.

We are projecting an increase of 3% to 5% in the coming few quarters.

Labour & Material Cost Indices

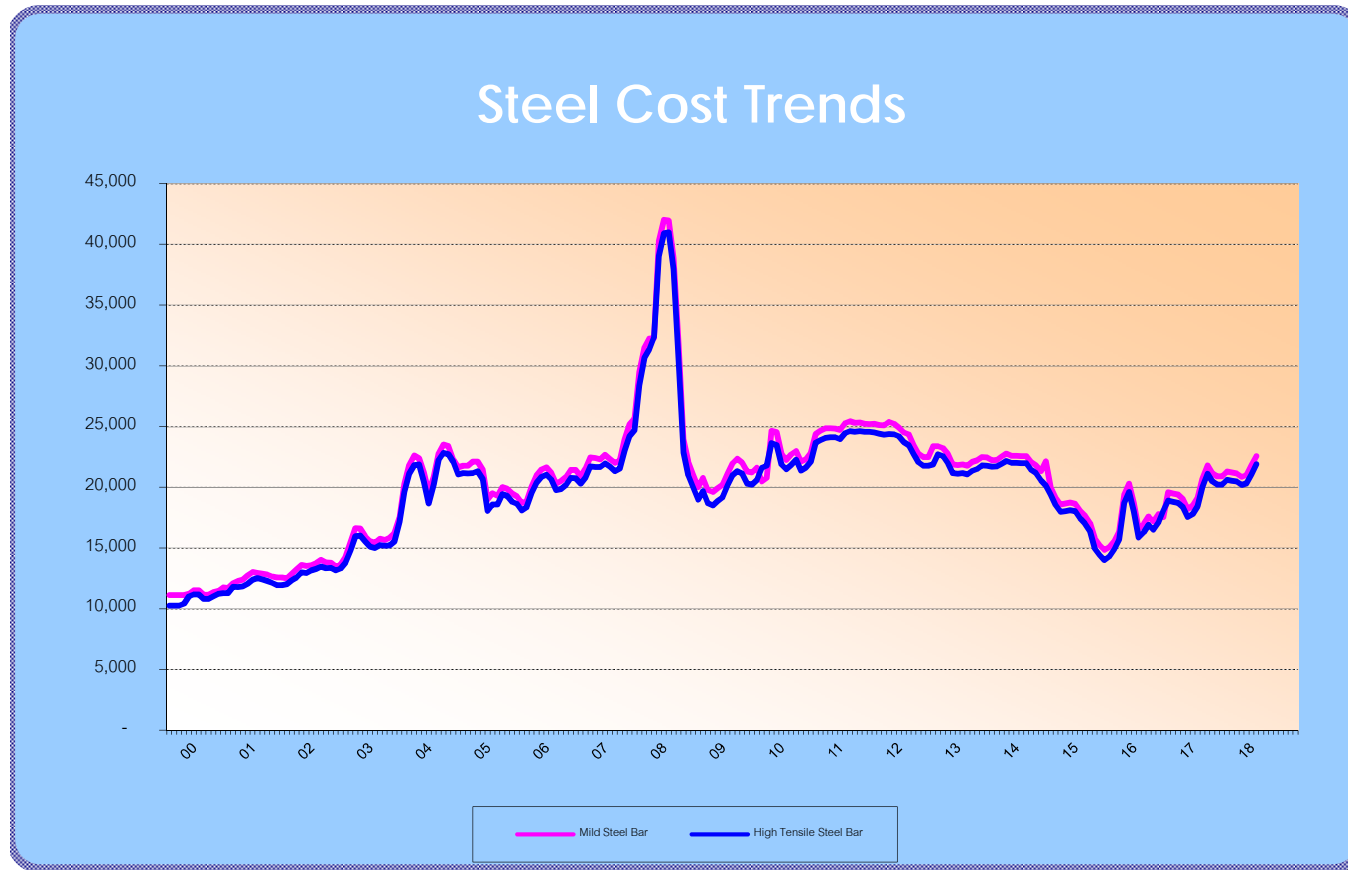


- Notes :**
- (1) Base of index is at first quarter 1992.
 - (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.



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	57,000	- 61,000
4 Star	53,000	- 57,000
3 Star	45,000	- 51,000
Residential condominium		
High quality	38,500	- 47,500
Medium quality	28,500	- 36,500
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.