

CONSTRUCTION COMMENTARY

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Myanmar, after closing from the rest of the world for more than half a century, is now opening up.

The country, endowed with abundant untapped natural resources, is very attractive to investments.

The government welcomes foreign investors and many regulations have been enacted to facilitate the establishment of companies by foreign entities.

Tax benefits are granted if projects are approved by the Myanmar Investment Commission [MIC].

Many companies are sending their delegates to explore the potentials.

Myanmar will be holding a general election in 2015. It is considered that the result of the election and its aftermath will be crucial to the future of the country.

Our practice has been involving in projects in Yangon for nearly a year and an office has been established in the city.

In this commentary, we would present a summary of our observations related to property and construction developments in Yangon.

Investment in properties have always been appealing to Myanmar people.

Stock market virtually does not exist. Banks are distrusted due to a number of bad incidents in the past. Investments in real properties and commodities are the only available alternatives with real estate a natural choice.

With the influx of foreign investments and companies looking for opportunities, the first sector which reaps the benefit is the hotel business.

There are about 200 hotels with approximately 8,000 to 9,000 rooms available in Yangon. Fewer than 10 hotels are considered to be of meeting international standard.

Hotel room rates for first class hotels have soared from about US\$ 100 per night to over US\$ 200 per night.

Office spaces are very much in demand. The highest rental charge was reported to be over US\$ 100 per m2 per month, which is among the most expensive in the world. The quality however is much lower compared to the offices in other cities commanding the same level of rents.

Many houses and residential apartments are being used as offices.

The selling prices listed for apartments are comparable to that in the top end market in Bangkok but with much reduced scope and lower quality of provisions.

A 6 to 12 months' advanced payment is required in renting units.

Land prices have increased two fold over the first 6 months of this year.

There is limited data available as benchmarking and the asking prices in some cases are unrealistic. This has the effect of slowing down land transactions.

Infrastructure is poor. Traffic congestion and electricity outages are frequent. Telecommunication is improving but is still inadequate. Water supply is to be from bored wells since 2012.

Construction process used to be labour intensive. Building contractors make very little investment in plant and machinery. The construction cycle per floor reported varies from 3 to 4 weeks. The situation is seen to be changed gradually and there are many tower cranes in the skyline currently.

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The number of local building contractors who are able to handle large and complex projects are limited. Those capable generally belong to consortia who are also involving in property developments .

Many foreign property developers tend to bring in their own contractors or seek international contractors to construct their projects.

Competitive tendering seems uncommon in private sector and building contracts are usually awarded on negotiation basis to allied contractors.

Some local developers are attempting to introduce transparent bidding process though.

Most of the building materials currently need to be imported with China and Thailand being the major sources of supply. There are plans for factories to be established to manufacture building materials but these plants would not be in production until a few years from now.

Construction costs are estimated to be 15% - 20% higher than that in Thailand.

There is shortage of Myanmar managerial staff and skilled workers due to lack of opportunities previously.

Such type of personnel however are available and are working in other countries, principally in the Asean region. Most of them are prepared to repatriate, both for the benefit of themselves and their country.

Many property developments and infrastructure works are planned to be implemented. Consequently demand for building materials, labour and contractors will be high.

Sharp price escalation is anticipated and an inflation rate close to a double digit percentage in the next few years is not improbable.

The rise in property prices on the other hand may not be in tandem due to potential increased supply.

The pace of development is considered as one of the crucial factors in determining the success of the first wave of property developments.

Developers should opt for simple form of design and construction to reduce construction period in order to capitalise on the current situation.

Coming back to Thailand, there has not been much change in the market.

Property developers still register reasonable profit gain. Developments in Bangkok are still focusing along the mass transit line and the markets in upcountry areas such as Khao Yai, Khon Khen, Udon Thani, Pattaya, Chonburi, Hua Hin, Chiang Mai remain active.

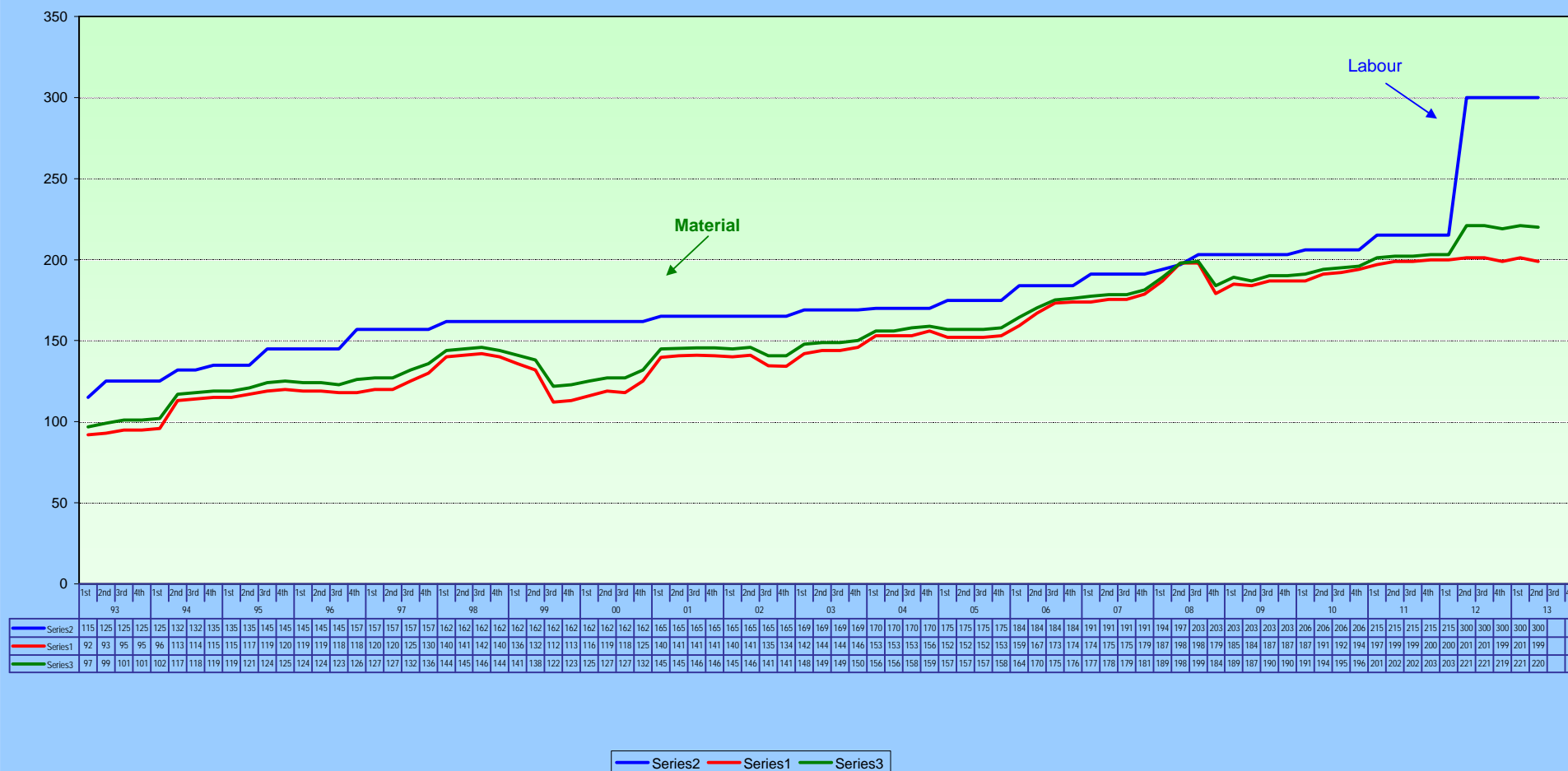
Labour shortage prevails. The construction industry, with an estimated shortfall of 100,000 workers, is the hardest hit of all.

The situation will be worsened from next year onwards when the 2-Trillion-Baht infrastructure projects from the government begins.

We project a slow down of the property market in the next 2 to 3 quarters as the existing stock need time to be absorbed.

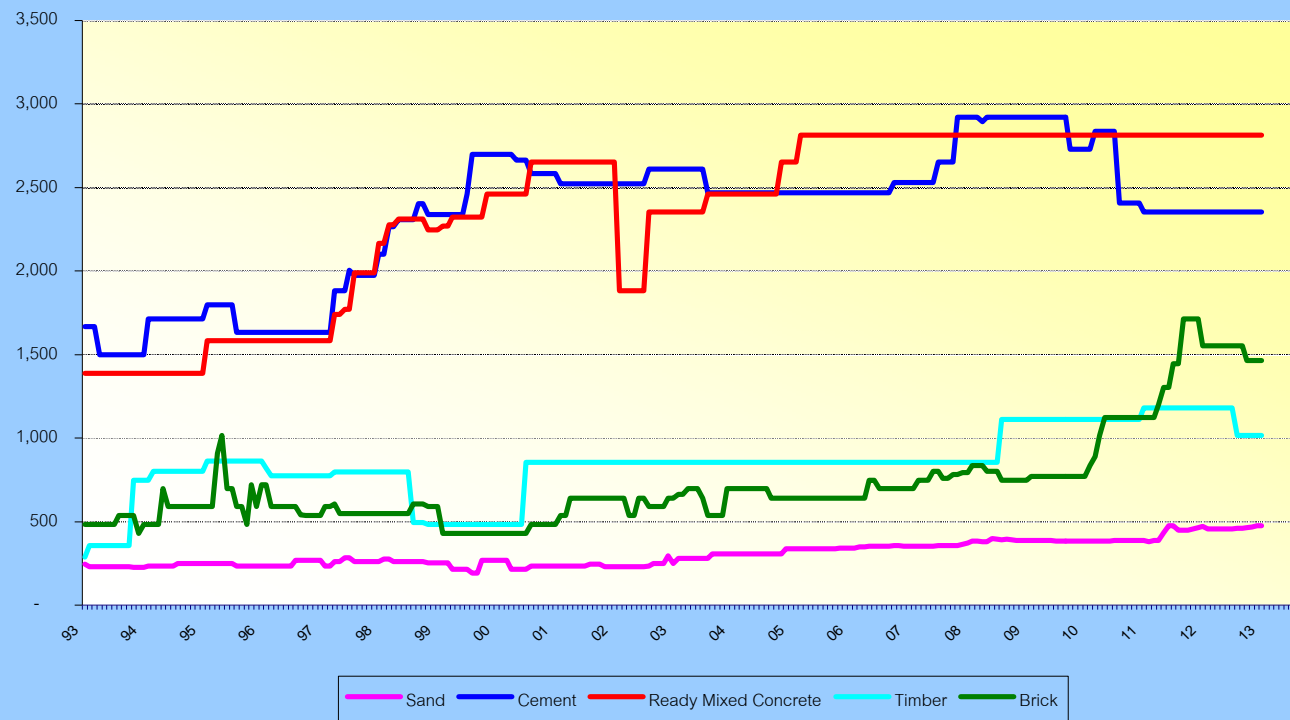
Building cost increase is estimated to be at a rate of 5% to 8%, driven principally by the government's infrastructure programme.

Labour & Material Cost Indices



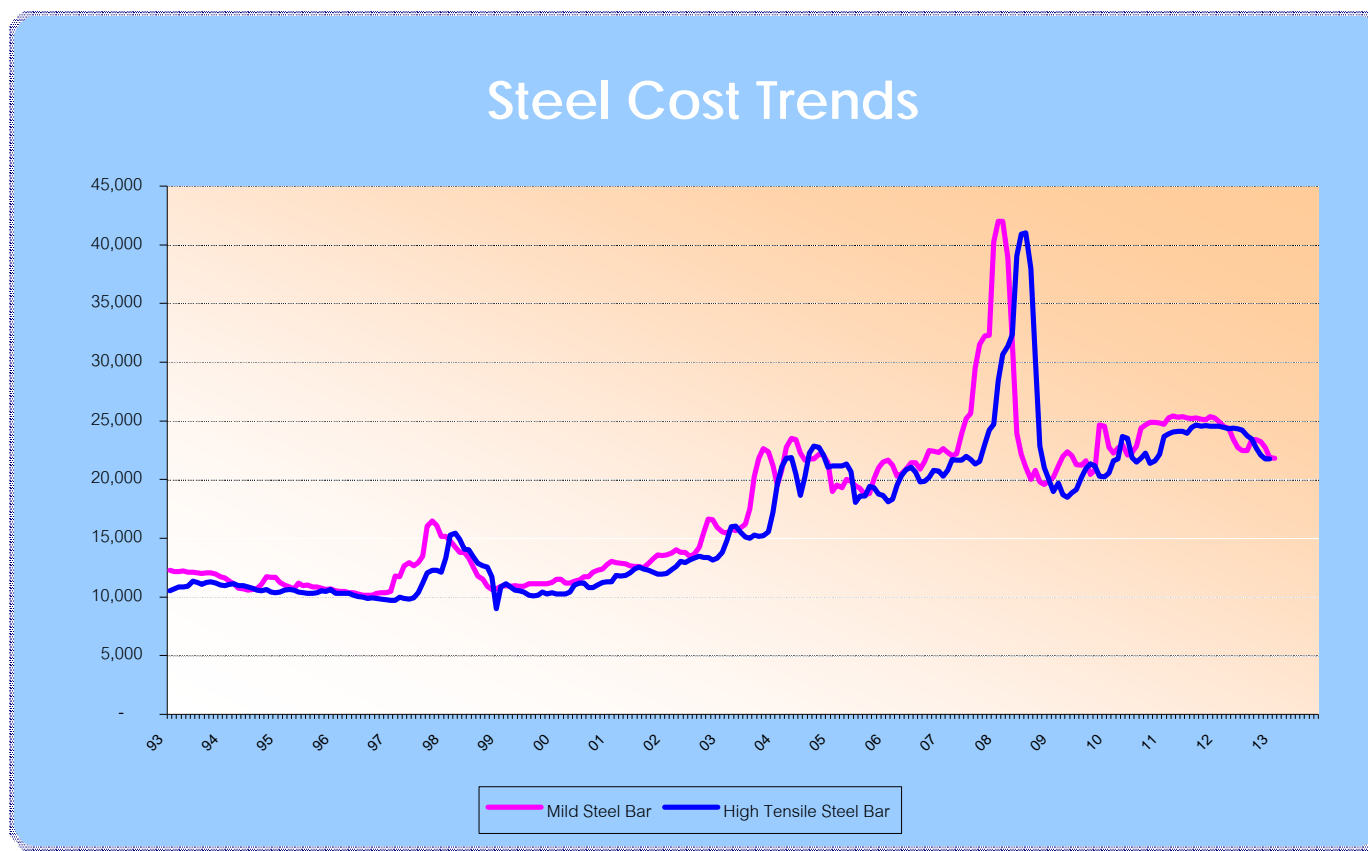
- Notes : (1) Base of index is at first quarter 1992.
- (2) VAT rate is 7% except for the period between 3rd Quarter 1997 and 1st Quarter 1999, which is 10%.

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 | 27,000 | - 32,000 |
| Medium quality | 22,000 | - 27,000 |
| Ordinary quality | 20,000 | - 22,000 |
| Shopping centre | | |
| High quality | 24,000 | - 28,000 |
| Medium quality | 20,000 | - 24,000 |
| Hotel (including FF&E) | | |
| 5 Star | 52,000 | - 56,000 |
| 3 Star | 39,000 | - 44,000 |
| Residential condominium | | |
| High quality | 34,000 | - 42,000 |
| Medium quality | 24,000 | - 32,000 |
| Low quality | 20,000 | - 24,000 |
| Factory (low rise) | 14,000 | - 18,000 |
| Car park | | |
| Multi storey | 11,000 | - 14,000 |
| Basement | 15,000 | - 19,000 |

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.

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