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Property

Published March 10, 2009

Investment in Thai construction may halve

This could lead to Bangkok property prices plummeting 30%, say analysts

By **GREG LOWE**
IN BANGKOK

INVESTMENT in Thailand's construction sector will halve this year and could cause Bangkok property prices to plummet 30 per cent, analysts say.

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HSI	11,690.91	+346.33
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Nasdaq	1,268.64	-25.21
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Stocks

Stock Picks

IPO Watch

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Bargain hunting: A prospective buyer inspecting real estate listings at a property fair in Bangkok. The property market is showing signs that support TCA's forecasts

The Thai Contractors Association (TCA) expects investment in construction to fall to 320 billion baht (S\$13.8 billion), down 51 per cent from 650 billion baht last year.

Private investment is tipped to sink the most - by two-thirds to 160 billion baht, from 450 billion baht in 2008. Public investment is expected to contract 27 per cent year-on-year to 160 billion baht, from 220 billion baht.

Demand for basic construction materials such as cement will fall as investment and activity subside.

'Domestic cement consumption could decline 10 per cent from 25 million tonnes,' Pramote Techasupatkul, president of SCG Cement, Thailand's biggest cement producer, told The Business Times. 'We forecast we will sell nine million tonnes locally and ship about six million tonnes overseas this year. The situation should pick up slightly in the second half, thanks to the government's stimulus measures, with demand fully recovering in the next two years.'

Analysts say Bangkok's property market is showing signs that support TCA's forecasts. 'I agree that a 50 per cent drop in investment is likely because of what we are hearing from the private sector, especially residential property,' said Veena Naidu, research director UOB Kay Hian (Thailand).

'Land & Houses (Thailand's biggest residential developer) just reported that its single-detached house and townhouse sales are down 50 per cent this year.'

'The top six developers listed on the Stock Exchange of Thailand account for 70-80 per cent of the market share - and they are seeing a 30-40 per cent drop in sales. The small to medium-size developers that are not listed are already dying out because of lack of funding from the banks.'

Ms Naidu predicts Bangkok residential prices will fall at least 20-30 per cent this year and that developers' bottom lines will be further hit by the cost of the promotions and special offers to reduce their inventories.

Other observers do not see a mass price correction across Thailand, but agree that investment in construction will plummet this year.

'We see no evidence of a drop in value, but in terms of investment we certainly see a slowdown in the pipeline,' said Bill Barnett, managing director of C9 Hotelworks, a Thailand-based hospitality property consultancy.

'Within the residential sector there is a lack of credit for developers. For mixed-use projects (hotels with residential units) there are a lot of preconditions that didn't exist a couple of years ago.'

'For example, if you're doing a development with a hotel, the banks now





want you to reach a 50 per cent sales threshold before they'll fund the residential part. That makes doing a capital formation and debt structure much more complex - you can't go to overseas investors because they are not there, and local banks are being more difficult.'



TCA has called on the government to speed up the implementation of mega projects, but economists said that would not benefit the construction industry this year as the earliest ground to be broken would be late-2010.



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