

# Housing market isn't all doom and gloom

During the first half of 2007, local real estate developers and consumers were experiencing the same kinds of anxieties they did a year earlier. Political uncertainty and shaky economic policy dented most sentiment indicators. New and existing home sales moved slowly in most local markets.

The picture is not all doom and gloom, however. The draft constitution was passed in last month's referendum, and the general election is set for Dec 23. Hopes are high that the country can return to some sort of normalcy by the time we hit the polls.

Here are some first-half 2007 real estate numbers worth noting:

◆ **Land sub-division permits:** Permits issued nationwide during the first half of 2007 totalled 228, down 10% compared to 253 projects for the same period a year earlier. The number of units fell 9% from 29,834 to 27,290.

Projects in Bangkok and vicinity accounted for 69% of the total. But in terms of the number of units, the proportion for Greater Bangkok went up to 74%, signifying the fact that projects in the capital carry more units (148) compared to the average (78) in the rest of the country.

Chiang Mai saw nine projects, eight of which came in the second quarter, for a total of 690 units or an average of 77 per project. Developers in Phuket were granted permits for six projects, all in the second quarter alone, for 841 units or 140 per project.

◆ **Housing construction permits:** Construction permits for the second quarter have yet to come in from primary sources. Developers and individuals applied for fewer low-rise construction permits in the first quarter of 2007 compared to the first quarter last year. Altogether, authorities approved 55,080 units for a total of 8.25 million square metres. The numbers for the same period in 2006 were 57,641 units and 9.07 million sq m, respectively.

Although Bangkok and surrounding provinces only had 32% of total units, they represented 37% in total area. Chiang Mai had 2,572 units for 400,873 sq m and Phuket had 1,429 units for 433,701 sq m.

In contrast to low-rises, high-rise housing in Bangkok represents a larger

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share of the country's total. A total of 1,209 buildings were given construction permits. Total area granted was around 2.3 million sq m, or an average of 1,879 sq m per building. Of these, Bangkok and vicinity took in 703 buildings (58% of the total) for 1.6 million sq m (72% of the total). Obviously, buildings in Bangkok tend to be larger than those in other provinces, with an average of 2,314 sq m compared to 1,276 sq m for other provinces and 1,879 sq m for the country.

Chiang Mai and Phuket each applied for 39 projects, but the former covered a larger space of 75,511 sq m compared to 54,514 sq m for the latter.

◆ **Newly completed and registered housing units:** The number of newly completed and registered housing units in Bangkok and five neighbouring provinces in the first two quarters of 2007 hit 32,146 units, down 12% compared to 36,458 units in the first half of 2006.

While the proportion of single detached houses remained high at 61% of the total, it was interesting to see that more and more people are building their own detached houses.

In the first half of 2007, high-rise units represented 18% of total new completed units. Both the number and proportion of high-rises are projected to increase significantly during the second half, when more condo units are scheduled to be completed.

◆ **BoI-approved low- and medium-income units:** In the first six months, the Board of Investment (BoI) approved only 16 low- and medium-income housing projects with 8,523 units or 533 units per project. This is a far cry from the 23 projects with 32,452 units granted in the same period last year. This was mainly because plans for the scandal-plagued Baan Ua-arthorn projects were scrapped.

◆ **Mortgage loans:** While earlier projections for home sales looked grim, the fact was that the total amount of new mortgage loans granted to consumers during the first half of this year was actually up a bit from the same slow period last year. In the first six

months, financial institutions lent 126.48 billion baht against 123.4 billion the previous year, a slight 3% increase. Outstanding mortgage loans crept up to 1.4 trillion baht at the end of the second quarter from 1.35 trillion at the end of last year.

◆ **Housing project loans:** For developers, financial institutions granted housing project loans totalling 14,467 million baht in the first half, a 10% drop from 16,081 million for last year's corresponding period.

The drop was compensated by the increase in the amount of real estate debentures issued for the same period for 24,243 million baht, up from 18,413 million baht a year ago. The total amount of debentures issued last year was 39,980 million baht, while the total amount of loans to developers last year was 29,404 million baht. Now the outstanding amount of real estate developer loans stands at 190,458 million baht.

◆ **Land and property transaction fees:** Land and property transactions dropped 6% year-over-year in value in the first six months of 2007. There were 418,323 land and property transactions nationwide totalling 5,087 million baht in fees. During the same time last year, transactions were 437,417 for total fees of 5,415 million baht.

◆ **Interest rates:** High inflation in 2006 meant that Thai interest rates jumped and hit cyclical highs last year. This year the trend has been reversed. The Bank of Thailand's Monetary Policy Committee (MPC) has met six times and cut interest rates five times from 5% at the start of the year to 3.25% as of the Aug 29 meeting. Its next meeting is on Oct 10. In all, the local policy rate has dropped 175 basis points, forcing financial institutions to slash lending rates by around 100 basis points during the same period.

The positive force of lower interest rates yielded to a negative force from weak confidence across all industries. The MPC is due to deliberate two more times for the remainder of this year. The projection is for the rate to either stay put or come down a little.

We spotted signs of relief from many developers now that the country has cleared another political hurdle. The much-talked about foreign business law amendment has gone nowhere, and is

not expected to move further until after the installation of the new civilian government early next year. In this case, "no news" is probably good news.

The US sub-prime crisis does not have a whole lot to do with our domestic real estate market. Banks lent too much in the US, while Thai financial institutions have tightened lending to potential homebuyers for a while. The end result may be similar in that markets in both the US and Thailand have been sluggish. The only possible indirect side effects are that foreign institutional investors may be forced to shift funds to cover losses from investing in collateralised mortgage obligations, and that purchasing power of the citizens of Thailand's western trading partners may be eroded.

The REIC conducted a web poll asking respondents when they think the local real estate market will pick up. Forty-four percent thought it would pick up by the first quarter next year, and 66% thought by the middle of 2008. We too believe the market is moving towards a better year, with obvious worries about the supply side in the high-rise residential sector, and higher inflationary pressure that could change the direction of interest rates around the middle of next year.

We are concerned about the number of inner-city condominium developments. After the financial crisis, there were virtually no new construction permits issued in inner-city Bangkok up until 2001. In 2002, permits were issued for 10 projects with about 267,000 sq m of space. The numbers went up to 26 projects with 349,000 sq m in 2003, 46 with 703,000 in 2004, 23 with 613,000 in 2005 and a whopping 44 projects with 1,219,000 last year. By rough calculations, the permit numbers from the last three years combined translates into at least 40,000 condo units.

If all past permitted units are built and finished within a few years, we can see streams of condo units coming onto the inner-city market late next year or throughout 2009. Developers are well-advised to start looking for ways to bring in sufficient real demand.

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