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Challenging year ahead for residential developers

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A WORSENING labour shortage, rising land and construction-material prices and the economic slowdown are major challenges for property firms seeking to boost sales next year, having achieved record sales value of nearly Bt800 billion this year.

Thongma Vijitpongpun, president and chief executive of market leader Pruksa Real Estate, said 2014 would be a challenging year for residential developers, as the market would face a serious labour shortage when the government's Bt2-trillion mega infrastructure programme gets under way.

The property market has already been grappling with a shortage of workers after the sector's huge investment in condominium construction over the past two years.

Many developers have had to change their construction process from the traditional to the ready-to-build concept, especially the prefabrication system, and this has helped them reduce the number of labourers needed to build their homes, he said.

However, when the government's mega-project starts to kick in, it will hugely increase the demand for construction labour across the country, absorbing workers from the property sector in the process, Thongma said.

"Although we have tried to develop our construction process to reduce the number of labourers on our project sites, there won't be enough workers to support our business expansion next year," he warned.

Property firms have to develop both their construction system and manage their labour system to match their demand, he added. Srettha Thavisin, president of Sansiri, which is expanding nationwide, said the company had to develop its construction process to use the prefabrication system while also working more closely with its subcontractors.

"We have to work closely with our subcontractors to manage the construction process, to ensure that homes are delivered to customers on time," he said.

He added that 2014 would be a year of focusing on the management construction process, as the labour pool would be limited.

Meanwhile, property firms are having to expand their new residential projects far from Bangkok's central business districts (CBDs), where land prices are too high for development purposes and homes would cost more than the market could bear.

According to a survey by the Real Estate Information Centre, land prices on Wireless Road average Bt1.5 million per square wah (Bt375,000 per square metre), while Sukhumvit Soi 24 fetches Bt2 million per square wah, and locations such as Ratchadaphisek, Rama IX, Phaholyothin and Asoke average more than Bt800,000 per square wah.

These price levels have forced property firms to seek new locations close to the mass-transit system, but in areas where the cost of land is still reasonable enough to develop residential projects. Construction is under way in many of these locations.

For example, roads close to the Purple Line rail route from Bang Sue to Bang Yai, which is scheduled for completion in 2016, and the Red Line from Bang Sue to Taling Chan and Bang Sue to Tha Pra are the most popular new locations for developers launching projects outside the costly CBDs.

Provinces outside of Greater Bangkok are also new locations for property firms planning to expand their residential coverage next year, with many developers especially cashing in on demand in tourist destinations, as well as in provinces close to neighbouring countries ahead of the launch of the Asean Economic Community in 2015.

The upcoming AEC has boosted housing demand in gateway provinces such as Udon Thani, Chiang Rai and Phitsanulok. "Property firms have to expand their investment in the provinces and outer Bangkok after facing rising land costs for developing residential projects," said Kanda Group CEO Issara Boonyoung, who is also adviser to the Housing Business Association.

Although property firms face rising costs on all fronts, they cannot increase their residential prices to match the higher costs fully because the market is currently fiercely competitive.

"We may be able to increase prices by between 3 and 5 per cent, depending on the location. But in some locations, we are unable to increase prices at all because of the intense competition," said Property Perfect CEO Chainid Adhyansakul.

His company's means of maintaining costs and prices to match customers' purchasing power is to control management costs and redesign its homes by resizing the residential units.

This will maintain costs and also increase the number of units for sale by maintaining residential prices to match people's purchasing power, he said. "We believe that those property firms who successfully manage their costs will be the winners by boosting their sales next year," he said.

While developers face a host of negative factors impacting their business in 2014, there is one factor that should benefit the sector – lower interest rates.

"Low interest rates will help customers reduce their costs by paying lower monthly instalments. This may help property firms to drive their sales growth next year, although the market will expand by less 10 per cent," said Supalai CEO Prateep Tangmatitham.

Despite the generally negative outlook hanging over the residential sector next year, the top 10 listed developers are continuing to launch new projects, with nearly 200 worth more than Bt300 billion already announced for 2014 – and located in Greater Bangkok and the provinces.

This will continue to drive developers' growth, although the labour shortage and rising costs will force them to restructure their business to drive expansion during a challenging year ahead.