

PROPERTY FOCUS | MIDDLE SEGMENT

Not all doom and gloom

Big infrastructure projects, especially mass transit lines, are among the positive factors that should cheer the market, says AP

Story: Krissana Parnsoonthorn

Lower consumption and growing household debt have certainly proven to be drags on Thailand's economy. Although a more significant recovery remains on the horizon, one SET-listed property developer knows that growth in some segments is more than just castles in the sky.

Perhaps for some, the high hopes of AP (Thailand) Plc may be out of place in today's market. Those hopes, however, are grounded in concrete realities. A raft of big infrastructure investments, especially mass transit lines, will spur demand and create attractive new areas for living, especially among middle and working class buyers.

A few key factors include the opening of the Purple Line, which will spur demand in Rattanahibet, Bang Vai and Bang Hua Thong. Add to that the government's property stimulus measures, and it's clear that the forecast is not entirely gloomy, says AP chief executive Anuphong Assavabhokhin.

For starters, the property transfer tax and mortgage registration fee have been slashed to 0.01% until April 28. What's more, first-time homebuyers shelling out 3 million baht or less on a new abode are eligible for a generous personal income tax deduction until the end of the year.

The decision by commercial banks to use more conservative criteria when approving project financing loans for property developers has also sounded a positive note on the supply side of things. The stricter standards will inevitably serve to curb less than professional developers from moving ahead with substandard residential projects in the coming months, says Mr Anuphong.

"In my opinion, a number of small and unprofessional developers are facing hard times as they can no longer borrow massive loans to buy land as in the past," he said.

Moreover, bank approval for post-financing is not as readily available, resulting in some customers not being able to obtain home loans.

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Above: Baan Mai Khao, a five-storey condo project in Phuket with a total of 206 units with 70 units remaining for sale, is one of the projects included in Sansiri's rental yield guarantee programme.



Left: Sansiri is going in the right direction, says Srettha Thavisin.



The City is a project by AP, which is upbeat about the property sector growth this year.

outstripping the target of 22 billion. Condo revenue accounted for 60.5% of total revenue of 38 billion baht last year.

This year Sansiri aims to achieve 42 billion baht in presales, up from 28.5 billion in 2015, which increased from a meagre 8.8 billion in 2014.

Revenue is estimated to dip to 36 billion baht from last year's record 38 billion. It has a sales backlog of 38.1 billion baht from 2015.

It also has an inventory worth 9 billion baht, with about half the units qualifying for property tax incentives offered by the government.

The cabinet on Oct 13 last year approved property stimulus measures, including cuts in housing transfer and mortgage fees to 0.01% each for six months, down from 2% and 1%, respectively.

The transfer fee is usually paid equally by homebuyers and developers, at 1% each.

The company will continue overseas investment, aiming for gross profit of 28% from residential development in London.

It plans to renovate a three-storey office building of 3,000 sq m near Oxford Street into residential units for sale in the next three years after rental contracts with tenants expire. It bought the building last year for £10 million (300 million baht).

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According to the Bank of Thailand, the Thai economy is projected to grow around 3.5% this year, down from an earlier estimate of 3.7%.

"This has prompted several developers to exercise more caution when developing new projects this year," said Mr Anuphong.

Although Mr Anuphong believes property demand will not increase much this year given

the fragile state of the economy, consumer confidence has shown some positive signs. The government's property stimulus measures are also helping to cushion the overall market from taking too hard of a fall.

In his view, the property segments that are expected to enjoy growth this year will be quality city condominiums along the mass transit routes, single houses priced between 5 to 10 million baht and townhouses ranging from 2.5 to 4 million baht.

Single-house projects targeting small- and medium-sized enterprise owners will, however, take a hit as SMEs have been struggling during the economic downturn. Luxury and super luxury houses priced from 50 million baht, on the other hand, will still find customers as the rich always have money to spare, though that market is relatively small, he says.

Mr Anuphong subsequently believes that despite lower demand, the natural readjustment on the supply side will keep property developers from feeling pressured to slash prices.

"Developers are trying hard to buy land in good locations but land prices are very high today. Land represents 45% of the total cost when developing a residential project, up from 30% in the past 7-8 years," he said.

AP realises that the overall property market is beset by pitfalls this year, Mr Anuphong says. Keeping expenses under control and otherwise showing strong financial discipline are musts. The company plans to keep its debt-to-equity ratio at a maximum of 1 time, compared with only 0.8 times last year.

That said, the company will launch 20 residential projects this year worth a combined 32.7 billion baht, comprising 15 single-house and townhouse projects worth 14.5 billion and five condominium projects worth 18.2 billion.

The new low-rise projects will comprise eight single-house estates worth 8.37 billion baht and seven townhouse projects worth 6.1 billion. All of them will be in Bangkok.



Top: A single house at Soul Ekkamal-Ladprao. Below: A study at Ban Klang Muang Vibhavadi, a townhouse project

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Big developers can adjust to the changing market faster than small players

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Mr Anuphong says AP will launch more low-rise residential projects because such buyers represent real demand from people who are looking to live in the properties they purchase.

"Normally, big developers such as AP can adjust to the changing market faster than small players. At present, we have a plan to launch 20 new projects this year but the real action plan can be adjusted from time to time," he said.

Last year, AP announced it would launch 15 residential projects, though its actual project launches were 20% lower than projected.

AP is thus keeping an eye on innovation to stay a step ahead of the pack. Its project designs and functions are tailor-made to suit the needs of target customers, he said.

Project quality is also a must in winning the hearts and minds of potential buyers, both in terms of the physical properties themselves along with the intangibles, such as after-sales service and property management.

"We're learning from our Japanese partners about quality control every step of the way, from actual construction to property management," Mr Anuphong added.

The company entered a partnership with Mitsubishi Estate Group, a leading Japanese developer, to jointly launch a number of city condominium projects along the mass transit routes in Bangkok.

This year, AP is set to achieve 31 billion baht in presales and 23.7 billion in revenue, increasing from 28.2 billion and 22.1 billion in 2015, respectively. Presales last year rose 24% from 2014, though revenue declined 4.6%.

Presales this year are expected to generate 14.5 billion baht from single detached houses and townhouses and 16.5 billion from condos. Revenue from single houses and townhouses would total 13.8 billion baht, while condo transfers at 11 sites would pull in 9.9 billion.

The company posted a net profit of 2.62 billion baht in 2015, rising from 2.61 billion in 2014, on revenue of 22.1 billion baht, down from 23.1 billion. AP's staff now stands at 1,600.

At the end of last year, AP had a sales backlog of 11.6 billion baht to be realised this year and next.

BY JASIRIYEE SUDHANA