

## IS IT TIME FOR A BUBBLE BURST IN BANGKOK'S REAL ESTATE INDUSTRY? AN ANALYSIS ON THE OVERTSUPPLY OF CONDOMINIUMS, IN BANGKOK, THAILAND.

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**Abstract:** An abundant supply of condominiums after the floods 2011, has seen a vertical expansion in Bangkok, with more single homes paving the way for skyscrapers, making the skyline more occidental; with a scramble for apartments in the CBD because of its proximity to the work place, home buyers have been scouting for condominiums close to the BTS or MRTA in order to have easy access to transportation, which has fuelled prices to its zenith, as demand has been far greater than supply in both eastern as well as western suburbs of Bangkok.

An increase in land prices continuously over the last few years shows that the selling price for condominiums/ apartments, on average has seen a hike of 11.8% from the end of 2012 to reach 60,286 baht per square metre in 2014. Comparing prices of condos with the historical rents has been a way to arrive at its fair value, as they reflect the value people place on it for use in the future, without an appreciation in its price.

Higher liquidity and easy loans to people has been one factor which has driven prices northwards too, since low interest rates almost always have been a reason for a price spike, as Bangkokians have cashed in because it has reduced their average equated monthly payments on the housing mortgage.

This paper aims to find whether Bangkok can maintain the demand and supply ratio, or are we entering a phase of oversupply, as the global slowdown begins to rear its head viciously; coupled with a heavily increasing household debt in Bangkok, which could also be a factor leading to a bubble burst which may dent the robust growth phase and throw up a full blown crisis, leading to a crash in the real estate sector, which also may be caused by the economic problems in the region as well as the reluctance of the west to invest in Thailand, which is still under a military installed government.

**Keywords:** condominiums, supply, demand, oversupply, debt, bubble, collapse

**Introduction:** Nowadays, intense competition in every market is very high, especially in the real estate market due to the recovery of several economic indicators together with the improvement in social stability since Q3 of 2009 resulted in improved consumer confidence as seen in the annual report of Sansiri. Moreover, several factors stimulated property investment such as property tax incentives and sky train extension development which benefited the customers who were looking for condominium projects. Developers not only focus in attracting new clients to buy condominiums when they launch new products in the market but are also concerned with how to create overall

customer satisfaction and maintain good relationship with them in the long term to create brand loyalty as the condominium market is expanding and there are a lot of developers who come to this market, which means the developers should keep the long run relationship by making customers satisfied overall to build brand loyalty.

In the past, people looked to buy single houses or townhouses only, but, nowadays the life style of people has changed, not only men have to work, many women are also working, most of them come to work in the heart of city, they hate to wake up early to face traffic problems, they have no time to maintain a big place; moreover, people prefer to live in a one stop area that has everything available nearby, and not too far from

the working place, not too far from eating, to hang out and do their shopping.

Additionally, people have become more socialized and connected, so they need a place to meet with friends, talk, chit-chat and it should not be too far from their work places and living places because it saves their driving time. Some new couples separate from their families after they marry and come to stay in the city to start their own life. Moreover, several factors stimulate property investment such as property tax incentive and sky train extension development, which makes condominium market expand a lot. According to the Annual report of Sansiri (2012), total condominium units offered increased from the previous year by 71 percent while the absorption rate improved as well. Therefore, the condominium market especially in the heart of Bangkok that has everything available in the surrounding such as convenience, near to MRT and BTS that matches with the changing lifestyle of the people continues to expand.

However, there are a lot of developers who are developing many condominiums in Thailand especially in Bangkok such as Sansiri, Asian Property, Pruksa, L&H, Supalai, Q-House, LPN, Noble Development, etc. Some developers specialize and have experience in building single houses and townhouses well in the past also build condominiums now as they also have experience in construction, it has made many developers to enter the condominium market. There are not only big developers in the market, but there are also small to medium developers in this market. Moreover, the constructions companies who were only construction companies have started to build and sell on their own, rather than build for developers, such as Ritta Company. So, there is a lot of competition in the condominium market and customers have a lot of choices to compare and think before they make a decision to buy.

Research and development department, Plus Property Co., Ltd (2013) mentioned the annual supply of condominium units for 2004-2013 in Bangkok by total unit for sale, there are 8 main areas which are CBD, Sukhumvit, Rama III, Payathai, Ratchadapisek, Thonburi and outer Sukhumvit areas. According to this research and development, it presented that most supplies in each year kept increasing since 2004-2013. For

CBD area which is Central Business District area (Ploenchit-Chidrom and Silom-Sathorn area), it decreased a little bit in year 2005, 2007 and 2008 but it increased for overall other years. For Sukhumvit area, it decreased only in 2005 and 2007 a little and keeps increasing a lot for other years. For Rama III area, it increased marginally since 2004-2008 then increased a lot in 2007 but it decreased a lot in 2008 and 2009 and returned to almost triple in 2010. For Phayathai area, it kept increasing in every year except 2009. For Paholyothin area, it decreased a little in 2005, kept increasing in 2006 and 2007 then decreased a lot in 2008 and 2009 then turned to increase three times in 2012. For Ratchadapisek area, there is least supply in 2004 but it increased a lot and more than other areas in 2005, 2006, 2008 and 2011, even though it decreased in 2007 and 2009, it still has a lot of supply rather than other areas in 2012 and 2013 currently. For Thonburi area, it increased a lot in 2007, 2008 and 2010, for other years it increased and decreased a little. The last one is Outer Sukhumvit area; there was a lot of supply since 2006-2014 due to BTS expansion, as prices were also competitive.

The total supply in Phaholyothin area increased at the highest rate of 262 percent up to 5,242 units. Rama III and outer Sukhumvit area showed an increase in condominium available for sale 164 percent and 60 percent respectively. In 2010, the number of units offered was 58,072 units as 63 percent growth from year 2009 due to the highest number of new project launches during the last 5 years.

For Payathai area, since 2004-2014, demand alternated between increase and decrease but was not much different. For Paholyothin, the total units sold a lot in 2006 but it decreased until 2009 and then turned to increase by three times in 2010. For Ratchadapisek area, total units sold increased a lot in year 2006, there were highest the number of units sold when compared to other areas, the highest sales was in the years 2008 and 2012. For Thonburi area, it kept increasing a lot in 2005-2008, then turned down in 2009 and increased again in 2010. The last one for Outer Sukumvit area, demand increased a lot since 2006-2007 and then turned down and then increased a lot in 2010.

The total number of units sold in all eight areas in 2014 was put at 37,127 units, an increase of 11,916 units or 47 percent from 2013. The total

units sold in 2014 amounted to 63 percent of the total units offered. The increasing number indicated a higher demand for high rise residences, which was attributed to the impact of the flood in 2011. In addition, the business sector experienced a recovery and customers also had higher purchasing power to absorb the increasing supply of condominiums. Projects developed along BTS lines met the needs and modern lifestyles of customers, so gained considerably high attention. The number of units sold in the Thonburi area increased dramatically by some 207 percent. The number of units sold in Phayathai and outer Sukhumvit also increased, by 89 percent and 68 percent respectively. Nevertheless, the Sukhumvit area was the only one that showed a decrease in the number of units sold. The average sale price of condominiums in 2014 in five major areas went up by five percent from last year, an increase of 5,824 baht per square meter to 113,678 baht per square metre. The average sale price in the Phayathai area increased the most, increasing by 13 percent to 113,846 baht per square metre. The Sukhumvit and Phaholyothin areas also encountered a five percent increase in average sale price to 115,488 baht per square meter and 93,362 baht per square meter respectively.

From annual supply and demand for condominium units from 2004-2014, we can observe that the condominium market tends to expand drastically, as some people prefer to live in condominiums because it matches with people's life style, convenience, saves time and transportation cost, however there is an oversupply and a lot of choices from many developers in Bangkok. The total number of units sold in all eight areas in 2014 was put at 37,127 units, an increase of 11,916 units or 47 percent from 2011. Projects developed along BTS lines met the needs and modern lifestyles of customers, so gained considerably high attention. The number of units sold in the Thonburi area increased dramatically by some 207 percent. The number of units sold in Phayathai and outer Sukhumvit also increased, by 89 percent and 68 percent respectively. Nevertheless, the Sukhumvit area was the only one that showed a decrease in the number of units sold, where it decreased by 18 percent.

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**Current situation of the Housing Market in Bangkok:** In the second half of 2014, a total of 59,009 units were offered, an increase of 11,312 units or 24 percent from the same period of the previous year. The increasing number was due to the rise in the number of new project launches after the flood in the last quarter of the previous year. The flood had been a major driving force in creating rising demand for high rise residences. As a result, new project launches increased in number to supply the rise in demand. The supply of condominiums in the Thonburi area increased the most. It increased by 126 percent from the previous year. Meanwhile, the supply of condominiums in Outer Sukhumvit and Phayathai areas also increased, by 56 percent and 31 percent respectively. On the other hand, the supply in Sukhumvit and Rama III areas decreased by 21 percent and 10 percent respectively. The main factors stemmed from difficulties for new project development such as limited land availability, high land prices and city planning issues. From the high growth of the Condominium market in the latter half of 2014 and the recovery of the Thai economy, the condominium market from 2012 has continued its upward trend. It has been forecast that between 90 to 120 new projects will be launched with a total of between 60,000 to 75,000 units. Moreover, the average unit price of the newly launched condominiums in 2013 is forecast to rise by at least 10 to 15 percent due to the higher wage rate of labourers and the consequent higher cost of construction, which can impact the overall average unit price and cause an increase of at least five to seven percent.

**Housing Market Trend in 2015** Housing market value in Thailand, is forecast to be around 715,000 million Baht in 2015. Bangkok and vicinity will acquire the highest market share at 330,000 million Baht or 46%. The central region will acquire the second market share at 137,000 million Baht or 19%, as a result of production

base expansion, increase in home buyers' purchasing power and strong growth of provinces in the region. Other regions will acquire the market share at less than 100,000 million Baht; however, they continue growing. In terms of products, the market shares of single detached house and townhouse will be higher when compared to that in 2012 while the market share of condominiums will drop and be back to normal. Its selling price, in the range of 3-7 million Baht, will acquire the highest market share for condominiums.

The installation of the military government, headed by General Prayut chan-Ocha, after a blood less military coup in May 2014, in which he ousted the government led by Thailand's first woman Prime Minister, Yingluck Shinawatra, saw a surge in housing demand too; this was a market response, to a city, which had been reeling from colour coded politics, with regular riots and unrests, in the capital, which made home buyers, wait and watch, for a while.

The ability of the government to clamp down of protests, augured as a good sign, that the unrest would abate and that normalcy would be restored to the country and its capital city, Bangkok, which made people make decisions to buy property, in the fond hope that the AEC integration in 2016, will pave the way for better and stronger demand.

**Conclusions and recommendations:** Research shows that a household will be able to buy a house on mortgage, if its average monthly repayment, does not exceed forty percent on the total income, or if the income is two and a half times the income; the price for housing units has been surging in Bangkok, as shown by the data from the National Statistics Office's household socio-economic survey, which says that prices of apartments, now are higher than the average permissible household debt; then, there is also an increase in the number of units sold, which is far greater than what the average sales should be, as seen in the National Credit Office's statistics, which shows that the number of people having multiple mortgages had risen considerably in the year 2012 to 2014, which also shows that there had been a twenty percent increase in those buying their fourth apartment or more which shows the researcher that there has been significant

**speculative buying, leading to conclude that speculative buying, as in this case, when, the speculator, buys his or her fourth/ fifth unit with an intention for a re-sale, is more likely to cause a bubble to burst, even though they constitute only one percent of all loan borrowers in Bangkok.**

Customers interested to scout for new apartments and condos in Bangkok, need to be aware of the fact that a project will not be able to get financed, if it shows low pre sales, as it will mean a lack of interest from buyers, which in event will signify a longer time frame for completing and selling by the promoters, which makes institutions to be wary of investment in the project; research shows that some of those newly launched projects will have to be shelved for lack of funding.

For now, condo prices have continuously soared since the last few years, at an average rate of about 9%, year on year, which is a whopping rise, whereas, during the same time, the cost of single houses and town houses, have not spiked as much and have only been up a bit in line with inflationary growth in the country.

It is this inequality of price escalation, which has spurred the researcher to emphasise upon a bubble, which is imminent, judging from the pattern of the trade cycle seen here. The pertinent question here, will be; "are we looking at a bubble burst soon"?

If a bubble were to burst, it not only erodes the wealth of stockholders and investors, it lays a huge dent in the economy, leaving it in a shambles and taking time to recover.

Excess liquidity in the market, followed by low interest rates does have a tendency to spike apartment prices in an economic boom, while a recession does the opposite.

In this scenario, may people who have been renting, had also now chosen to buy, as they have access to low interest loans and a lower repayment on their pledge or mortgage, which makes them choose to borrow for a longer term and repay less per month on their monthly repayments.

The downside in this case, is that, an increase in prices is also sometimes the result of speculative buying, with an objective of selling it off on price appreciation of the property.

This chain continues, until there is a glut in the market, forcing owners to start the sell mode, as they rush to sell, prompting prices to collapse, which is when the bubble really bursts.

The last few months, starting from October 2014, has seen a robust American economy, where billions of dollars have been pulled out of the Asian stock markets by foreign investors, which has weakened most currencies, crippled cash flows and increased current account deficits; this reduction or erosion of wealth, may also have negative repercussions for the property sector, for there will be a liquidity crunch, which would lower the tendency to invest, including in real estate, which might see a lot of unsold units, thereby creating a possibility of a bubble to burst too.

Right now, the market forces do not augur well for China, which has seen its worst growth in almost a decade; the good sign is that, India is on a growth trajectory after a few year's consistent slow growth, which should bode well for Asia, as it will be a bad sign if both the giant economies were to expect a slow down.

This should also be a warning for Thailand, as a more serious stagnancy, in China caused by less demand for its exports, may not bode well for Thailand, since the Chinese continue to be the

biggest drivers of the tourism sector in Thailand, for a few years, with a huge influx of travelers to ramp up a sagging number of European, Russian and Middle Eastern tourists, as all of them face a grim economic situation.

Europe is hampered by the Greek worry and the Russian occupancy of Crimea, with which it has been obsessed with, whereas Russia has been crippled by the US led sanctions for the same reasons, which has also had a boomerang effect on Europe, while the middle east has been plagued by the problems caused by the now long drawn ISIS terror attacks and their occupations, which have reduced tourist numbers in the Kingdom of Thailand.

While more data and research is needed, to point conclusively, investors will be urged to move cautiously in a heated market; we need to remember the Tom Yum Kung crisis of 1997 and plan measures to avoid a recurrence of it; prudence and careful planning are needed to avoid a bubble burst, as it will weaken Thailand's economy, which has grown robustly now; the fundamental saying that every boom, gives way to a recession and vice versa, should not be forgotten. We need to tread a careful path, than court disaster!

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