

## Property Development In A Recession

### **1. Economic Crisis in Thailand**

Five years after the financial crisis which broke out in July 2, 1997, Thailand had already turned to industrialization as part of the NICs – (Newly Industrialized Countries) and somehow neglecting the SMEs. The liberalization of the money market was introduced in 1993 together with high local interest rate. This in turn cause a flood of foreign investors who poured funds into the local property market and also imported luxurious good resulting in a trade deficit.

The Bank of Thailand's defense of the Baht in 1996 almost depleted the reserves and had to turn to the IMF for help, which forced it to turn to the floating rate system, forcing the Baht to depreciate by more than double and sent enormous repercussions on the economy and the society as a whole for the first time in history.

The crisis eventually caused a chain reaction and the closure of more than 50 finance companies, which is considered as the closure of the source of funds for the country by more than half. Also after the Baht floating in July 1997, the foreign debt has double the figures while demand was shrinking. Inventory was over stocked, shortages of working capital took place, led countless firms into bankruptcy and left banking system with staggering non-performing loans resulted with Economic stagnation in 1997-1998.

### **2. Effects on the Real Estate Sector.**

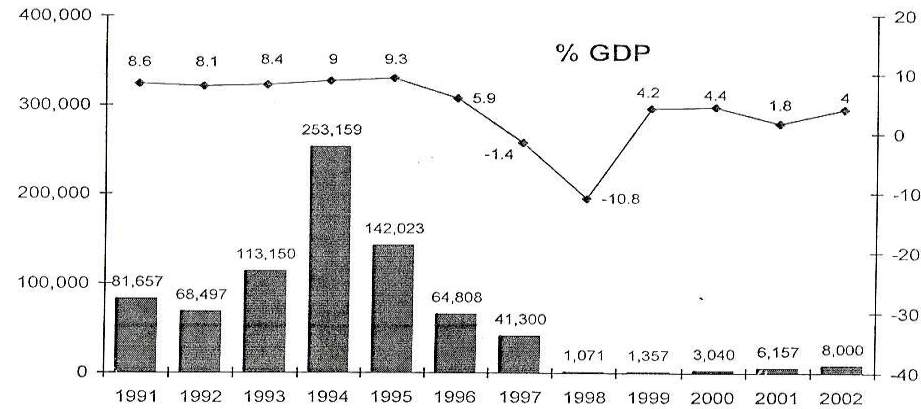
The real estate sector is considered to be the leading sector which is important to the real economic sector including the monetary sector of the country. In the past decade the expansion was in the same direction of the GDP. But the movement was of a violent chain reaction. When the economy expanded, the real estate sector moved up and the reverse was in a depressed situation, or stop completely.

The Thai economy's growth rate in 1991-1996 of about 8% per year with the liberalize of the monetary sector in 1993, spurred an inflow of short term money to the stock and money markets and invested more in real estate especially the residential sector in 1994, new units were added in the Bangkok and surrounding areas from 58,497 units to 113,150 units or increased by 93% the figures moved to 250,000 units in 1994 or increased by 123%.

The liberalization of the monetary had an direct impact on real estate sector and the main cause of the economic decline until this day, when the Baht was hit at the end of 1996 and the Baht float in 1997 causing a severe depreciation of the Baht. The growth of the economy in 1996 lost from 5.9% to minus 1.4% and to minus 4.8% in 1997-1998 accordingly. The new units on offer in 1998-1999 fell until there were no more residential developing. (see graph)

**Graph 1**

**Graph of new units in comparisons with the economic expansion.**



The Baht float in 1997 was to prevent profit taking on the Baht and to adjust the debt restructuring through loan from the IMF for support which caused an direct effect on real estate especially the large real estate companies with loans in foreign currencies had double their debts after the devaluation, economic in downturn to recession, unemployment and purchasing power shrank causing over supply. The government ordered the closure of more than 50 finance companies stopped the money supply, construction stopped and even those completed project were not able to transfer ownership. In 1999 there was an increment of companies in the restructuring plan to 572% from 1,065 clients in December 1998 to 7,159 clients in December 1999 and the amount may increase to Baht 383,505.- mil. an increase of 157% December 1998. (see table 1)

**Table 1.** Financial Restructuring Plan of Financial Sector.  
(Balance as at December 31, 1998 – April 30, 2002.)

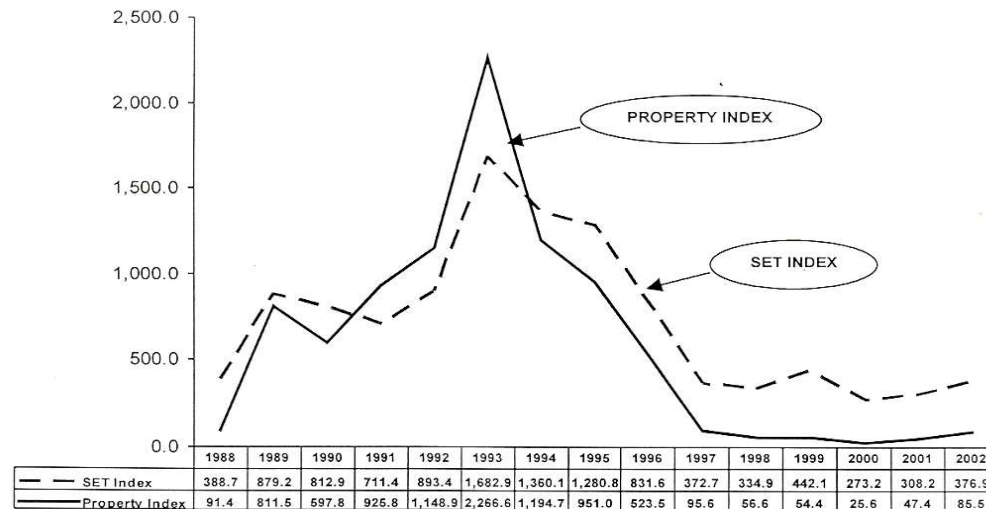
Item	Unit	December 31, 1998	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002
During restructuring Period	No.	685	1,821	1,594	665	631
	Mil.baht	115,428	217,027	67,908	12,373	12,653
Restructure done	No.	380	5,338	9,724	11,793	12,262
	Mil.baht	33,733	166,478	276,486	347,144	355,352
Total	No.	1,065	7,159	11,318	12,458	12,893
	Mil.baht	149,161	383,505	344,394	359,517	368,005

Source : Committee of Debt Restructuring Bank of Thailand

The crisis caused a liquidity crunch in the various companies in all developing companies not only small residential developer, but also big developed companies in SET. Because of the slow down economy, most of the listed companies had losses in operation. Therefore the SET index of those firm had dropped continuously from 1991-1993 with property index at highest score of 2,266 in December 1993 and dropped to 100 point in 1997 and lowest in year 2000 at only 25 point (see graph 2).

**Graph 2**

**SET and Property index from June 1998 – 2002**



### 3. Rectification by the Government

During the crisis early in 1997 Thailand faced violent financial instability with low foreign reserves due to the intervention by the BOT with a basket of currencies making it a managed float on July 2, 1997. The Baht against the US\$ fell quickly and sharply. The government tried to reduce the money supply and solve problems of the financial institutions to prevent the volatility of the Baht with strict measures such as high interest rates which in turn caused high NPLs and stopped loans to the real estate sector making the economy deteriorate lower than predicted by the government and the IMF.

In October 1997 the government set up Financial Restructuring Authority (FRA) and Asset Management Corporation (AMC) to rectify the problems of financial institutions open for auction of the properties amounting Baht 851,000 million as at December 1997 to repay the debtors of the closed finance companies. AMC was assigned to buy the remaining of non performing assets for Baht 197,048 million of 2,203 cases, and apart from setting up the two units, the government also took steps to allow the banks to set up their own AMCs to expedite restructuring and reduce NPLs by amending tax and legal regulations.

It also set up CDRAC (Corporate Debt Restructuring Advisory Committee) to support the negotiation process of those defaulting clients by finding experts to assist in expediting those cases with legal complications. The government also amend the bankruptcy law and procedures to consider mortgage enforcement process. To spur up the property market, it also reduced the property transfer fee from 2% to 0.01%, mortgage fee from 1% to 0.01% and business tax for real estates from 3% to 0.11%.

Even though the regulations were amended, the NPLs are still as high as Baht 1.35 billion or 17.8% of the total loans as at end of February 2001. Due to the increased NPL of those recentering NPL with a large number still pending in the courts The government therefore set up the TAMC (Thai Asset Management Corporation) in June 2001 as an entity to rectify the problems of Non Performing Assets of all financial institutions as quickly as possible so as to let the debtor continue to stay in business.

In 2001 a regulation to motivate the property market by letting the GHB to make loans at low interest rates and long term payment to member of Government Pension Fund, together with the tax incentive and there are loan receivers of 840,000 cases (Baht 62,220 million) having a positive psychological effect as well as making the construction sectors and other related sectors picking up.

#### 4. Overview of others real estate sectors.

##### Hotel

There was virtually no new development project between 1997 and 2000 for hotel in Bangkok. Most of new development were in major tourist market destination such as Phuket.

The major problem of the Thai hotel industry is over supply. There will be little investment for new development since the room rates and yield on investment is not attractive.

There was very few new investment but in the form of take over and acquisitions since the cost based on building a new hotel of which the construction cost is much higher.

### **Golf Course**

Since golfing is growing in global popularity which is including Thailand, there are many golf courses in Thailand. Hundreds of golf courses were built during the boom period in the last 10-15 years. The golf courses are scattered in every province. There are many golf courses in Bangkok and suburb also. The price of memberships vary from golf course to another depending on quality, location, and popularity. Membership fee has fallen in numerous courses. However, it has leveled off since there is no new golf courses built. Green fee for most golf courses has been stable as well. The latest golf course in Thailand is the first and only golf course on Samui Island by Santiburi, a five-star resort hotel in Samui Island, targeting for golfers visiting Samui Island.

### **Retailing**

Thai consumers' behavior has changed in recent years from spurring of superstores, ie., Tesco, Makro, Carrefour, and Big C in Bangkok, suburb, and major provinces across the country. All this has hurt traditional retailers and small retail operators. The consumers find convenient and bargaining by shopping at the big chains. However, the department store market is still controlled local majority by Central, Robinson, and The Mall Group.

Small shop owners now go to the superstores to buy goods and resell at their own shop in the community. The major development for retailing market in the next few years is the upcoming of Siam Paragon in Siam Square area by The Mall group as a result of their success at The Emporium. Another large retail building which has stopped the construction during the recession at Pratunam Intersection will resume the construction very soon. Demand for the space in this project is still high.

## **5. Conclusion**

With many measurements during past five years issued by the previous and present government, a modest recovery of the property sector began in late 2000, the use of low interest rates has spurred demand in residential as well as retail property. There is clear sign of property recovering. As at end of 2001 the approved area for construction has increased by 17.8%, demand for housing increased by 10% the transferred units increased by 6% (Table 2)

For 2002, it is expected that the revival of the real estate will become clearer with low price residential housing and condominium to recover first. However, it still has to rely on the implementation of government measures such as maintaining low interest rates, and expedite the TAMC for the business sector to continue its operations.

**Table 2**

	1996	1997	1998	1999	2000	2001
Approval for construction (squaremeter)	26,750,084 (-27%)	21,745,901 (-19%)	7,442,065 (-66%)	6,631,681 (-11%)	7,604,504 (15%)	8,958,95 (18%)
Transfer fee (million baht)	8,825 (11%)	6,778 (-23%)	4,182 (-38%)	3,580 (-14%)	3,435 (-4%)	3,780 (10%)
Registered units-Bangkok and surrounding area	166,785 (-3%)	145,355 (-13%)	63,864 (-56%)	33,382 (-48%)	32,028 (-4%)	34,023 (6%)

Remark : Increase from previous year in bracket.

Source : Government Housing Bank, Bank of Thailand, and Land Department