

**Valuation Challenge amidst the  
Condition of Rapidly Changing  
Prices in Thailand**

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# **VALUERS' ASSOCIATION OF THAILAND**

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**AGENCY FOR REAL ESTATE AFFAIRS**

Property Consultants: Valuation and Research Centre in Thailand

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*The theme of this paper is the concern on the condition of rapidly changing prices resulting in fluctuated value appraised in different periods of time during the short boom and the bust of real estate in Thailand. Professional standards, practices and overall understanding on the cyclical pattern of real estate are of prerequisite for an accepted valuation. It also overview the changing patterns of real estate development and market and land prices in Thailand particularly Bangkok as a case study.*

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## **Valuation Challenge amidst the Condition of Rapidly Changing Prices in Thailand**

### **1. The Background**

Real estate prices would be escalated in long run. Is this the truth or a myth? On the whole, property prices would be increased over time as a historical indicator of appreciation particularly for well-developed countries with a strong economic base. However, it is not a steady growth. Price fluctuation exists. Sometimes, it may last for a long period.

There are some empirical evidences. In England, house prices were significantly dropped since 1989. Japan has recently faced the bitterly bust in real estate since 1990. After an introduction of the property funds in Australia and the overheat of the economy, many property builders are failing now. In Thailand, the massive increase in land prices during 1990-1993 was over and followed by slow growth.

How are the valuers? Valuers in Australia face litigation. They have large claim. After the bankruptcy of a financial institution in Thailand, valuers have been examined. The question is whether the valuation profession can meet its current challenges. Will it survive. Insurance was recently introduced in Australia and the valuers found themselves worked to pay the large amount of insurance fee prior to their own profit.

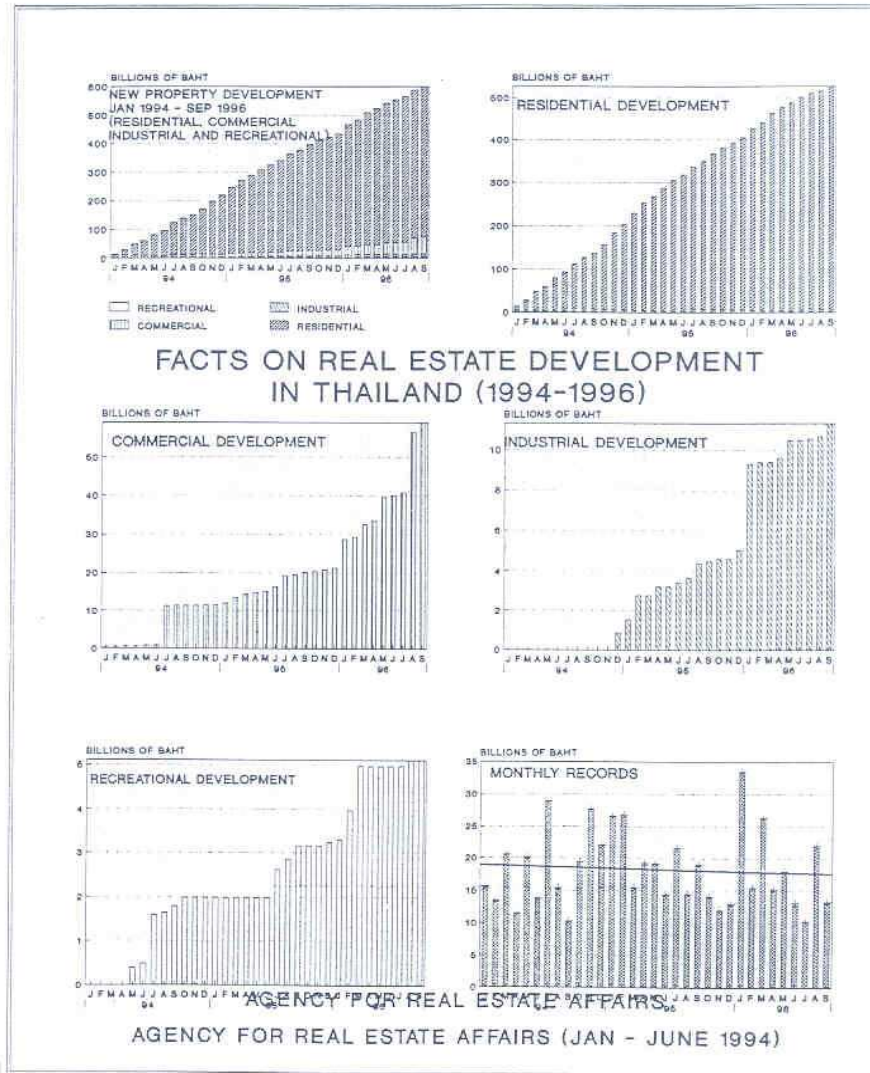
### **2. Current Real Estate Development In Thailand**

In Thailand, Agency for Real Estate Affairs has conducted a thorough field survey of real estate since January 1994 i.e. monthly survey of all new real estate projects, quarterly survey of residential projects in the Bangkok Metropolitan Region (BMR) and half-year survey of residential projects in the rest 70 provinces throughout Thailand.

It is found that: (please see also Fig. 1).

- 2.1 During the past 33 months (January 1994 - September 1996), Baht 602.17 bil. (US\$ 24.08 bil) of new real estate projects were introduced into the market.
- 2.2 Most of them were residential projects such as detached (single or bungalow) houses, townhouses (barrack-typed row houses), condominiums (owner-occupied apartments), duplex (semi-detached), shophouses and land subdivisions. This residential sector was accounted for Baht 526.77 bil (US\$ 21.07 bil) or 87.5% of the total value.
- 2.3 There exists a tendency for smaller number of new supplies over time particularly for residential projects. Baht 204.48 bil (US\$ 8.18 bil) and Baht 200.82 bil (US\$ 8.03 bil) were recorded for the value of new residential projects in 1994 and 1995. It is expected that in 1996, Baht 161.96 bil (US\$ 6.48 bil) would further be produced. It implies a decrease in the new supplies namely, -1.8% and -19.4% during 1994 to 1995 and during 1995 to 1996.

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- 2.4 In other sectors i.e. commercial (offices, shopping centres), industrial (industrial estates, mini-factories) and recreational properties (golf course, hobby farms) properties, some growth could be traced. However, these sectors are very small compared with residential developments.

### **3. The Pattern of Land Price Changes**

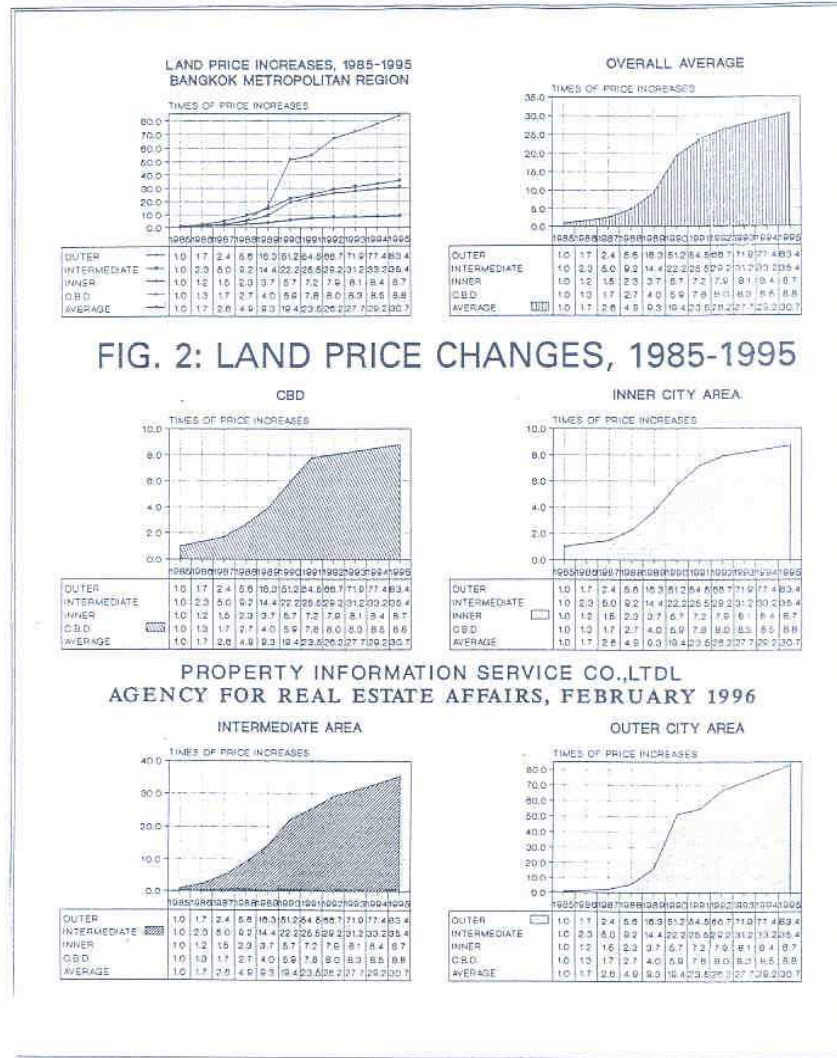
The change in raw land prices is of good indicator for real estate situation in Thailand. The case of massive land price increases during 1987 to 1990 followed by slight increases during 1991-1995 should be closely examined.

Fig. 2 shows the land price changes during 1985 to 1995. Agency for Real Estate Affairs has collected transaction data of land parcels since 1985. And since 1994, approximately 200 sample sites have been valued on a half-year basis in order to trace the pattern of land prices.

The findings are as follows:

- 3.1 During 1985 to 1987, land prices were of slight increase. Then during 1987 to 1990, a significant increase could be observed. Since 1991, land prices have slightly been increased again. This pattern is the same in all locations i.e. the Central Business District (CBD), the inner-city area, the intermediate area, and the outer-city area.
- 3.2 In details, in the CBD and the inner-city area, land prices were rather stable during 1991-1995, whereas, there were somewhat active increases in the intermediate area and the outer-city area.
- 3.3 It could be observed that during 1987 to 1990, the increases were found in all locations even throughout Thailand and mostly in higher potential areas for alternative developments such as the beach and the fringe. Considering the GDP, Thailand became an industrial-based country since 1989. Although most of the population were still in upcountry but the major share of the GDP was industrial productions. People became affluent. This simply gave alternative opportunities and uses of land apart from former agricultural uses at cheap prices.
- 3.4 Recently, there are also some significant increases in some locations in Bangkok and other provinces. These increases were mainly due to the added value mostly resulting from new road constructions and the availability of other public services. It should be noted that Thailand has no shortage of land physically, but definitely has shortage of serviced land. Therefore, in any area where new roads were planned or proposed, land prices jumped.

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**4. Examples of Fluctuation**

In Thailand, there is no actual drop in raw land prices except the asking prices. However, for some other properties, there exists some decrease. The following shows some empirical evidences which should be explored:

**4.1 Industrial estates**

During 1986 to 1990, approximately two-thirds of the current supplies of industrial land were introduced into the market. A large number of foreign investors particularly from Japan came to Thailand. According to the market prices, some slight increase could still be observed. However, when the present value was computed, a slight drop appeared.

According to Fig.3, the average market price for industrial land in 1989 was Baht 1.854 mil (US\$ 74,160) per rai (1,600 sq.metres or 0.3954 acre). It has been steadily increase over time. However, according to the present value, land prices dropped during 1992 to 1995.

This is because on one hand, land was priced relatively too high in the past. On the other hand, industrial land had a smaller demand. Most large and medium-sized manufacturers from Japan and other industrial countries already came to Bangkok since 1990.

The crux for the drop of the present value is that industrial land has limited potential uses particularly for industrial purposes. Agency for Real Estate Affairs conducted some exploration and found that the average land price increase in an industrial in the fringe of Bangkok during 1989 to 1995 was only 4.75% per annum. Whereas, it was 9.81% for land attached road in a vicinity area of the industrial estate.

**4.2 Depreciated condominium**

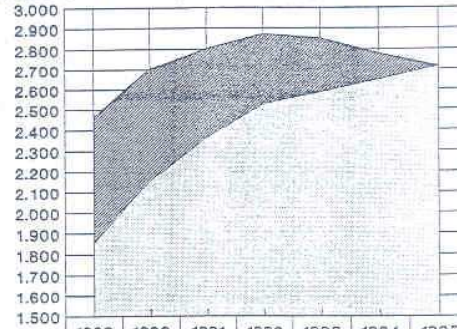
This is an example of a luxurious residential condominium (owner-occupied apartment) in Sukhumvit area which is a high-income residential area in the hub of Bangkok. In this case, price actually drop. This condominium was built in 1982, therefore, it was rather old compared with other new supplies nearby.

In 1982, its first price was Baht 3.53 mil per unit (US\$ 141,200). It grew up to the peak to Baht 12.32 mil (US\$ 492,800) in 1989. Later on, the price gradually dropped to Baht 9.5 mil (US\$ 380,000) in 1995. A big question is why it was dropped. There are two major reasons behind:



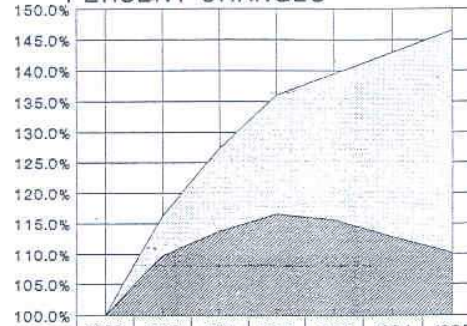
FIG. 3: PRICE CHANGES IN INDUSTRIAL ESTATES IN THAILAND, 1989-1995

PRICE (MILLION BAHT)/RAI (0.3954 ACRES)



	1989	1990	1991	1992	1993	1994	1995
PRESENT VALUE	2.464	2.704	2.802	2.874	2.852	2.782	2.716
MARKET PRICES	1.854	2.156	2.362	2.523	2.586	2.650	2.716

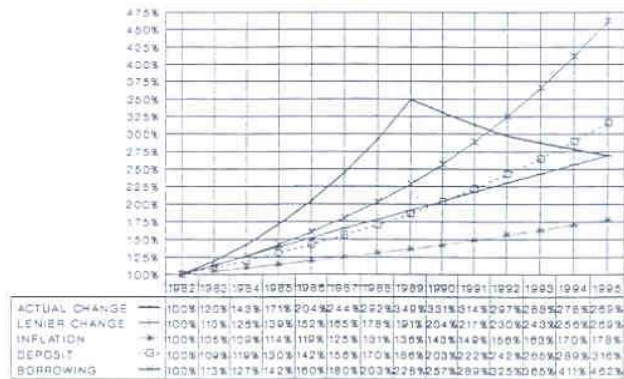
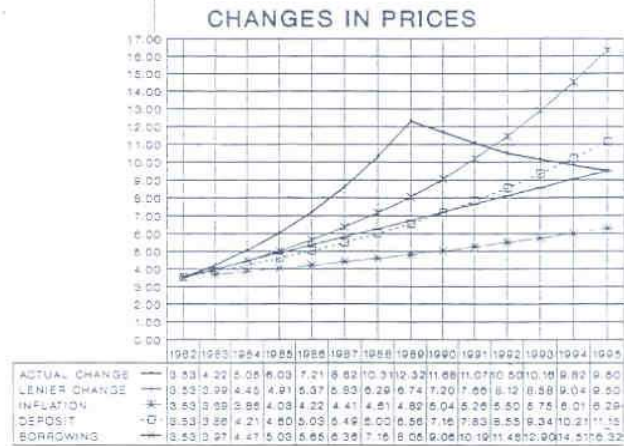
PERCENT CHANGES



	1989	1990	1991	1992	1993	1994	1995
MARKET PRICES	100.0%	116.3%	127.4%	136.1%	139.5%	142.9%	146.5%
PRESENT VALUE	100.0%	109.8%	113.7%	116.7%	115.7%	112.9%	110.2%

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FIG. 4: CHANGES IN PRICE OF A RESIDENTIAL CONDOMINIUM IN BANGKOK, 1982-1995



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The first reason is the competition resulting from the new supplies in the market. Luxurious condominium market was boomed in 1989. New products which are more modernized and of no functional obsolescence are more competitive. Yet, there exists some oversupply of the products in the market to date. Therefore, for older ones, the price was dropped.

The other reason was its obsolescence together with poor maintenance. Like many other luxurious condominiums, this condominium estate has only 40 units. Maintenance could not be covered by the maintenance fee. With our professional opinion, the lack of proper maintenance is the crux for the drop of the price.

### **5. Conclusions and Recommendations**

Thailand experiences the booms and busts of real estate since the tracing of the market in 1970. Our market has been developed to be more matured over time as well. This experience could be learnt to some extent:

#### **5.1 Factors affecting the changes in prices**

There are many factors involved. However, according to this context, the once experience in a transitional period prior to the industrial-based status of the country, significant increase in land prices could be observed. It is actually the biggest boom.

In turn, obsolescence and maintenance could be another obvious factor for price drop. According to Thai experience, raw land has no experience in the decrease in value but land with special purpose such as industrial land or landed properties such as condominium could experience the decrease.

There are other factors such as road proposals resulting in different time consumption for travel and changing potentials of land uses.

#### **5.2 Innovative financial tools**

It is believed that during the last 10 years, new financial tools were introduced into the market. This would challenge the principle that real estate is non-liquid property. In the future with these tools such as property funds, secondary mortgaging and the like, real estate would possibly be liquidated or transacted faster. Consequently, the fluctuation of prices could be expected. For valuers, difficulties to forecast the future would be increased. Scrutiny would always be a must in any case.

## **Mr. Sopon Pornchokchai**

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55/40-42 Nonsee Road, Bangkok, Thailand, Tel (662) 295 3905 Facsimile (662) 295 1154  
**Marital Status** Married, with 2 children  
**Current Position** Managing Director, Agency for Real Estate Affairs  
Director, School of Urban Community Research and Actions (an NGO in Thailand)

### **Research Appointments**

Consultant to ILO, the future of slums and employment  
Consultant to LIF-PADCO-NESDB, the study of option for financing infrastructure expansion  
Consultant to LIF-RTI-Ministry of Finance, property tax study  
Consultant to ESCAP-UNHABITAT, the preparation of the HABITAT Ninth Session  
Consultant to ADB-PADCO-NHA, the study of Bangkok land use  
Consultant to BTA-BMA, the study of canal land development

### **Professional Practices**

Certified valuer for valuation for public purposes  
Valuer for mass appraisal with CAMA (computer-assisted mass appraisal) for the NESDB, BMA and the Department of Town and Country Planning  
Team leader, the REAL ESTATE INDEX, the most comprehensive monthly real estate field survey in Thailand  
Chief researcher for diversified real estate project analysis and developments

### **Books and Publications**

Knowledge and Facts on Thai Real Estate (1996), Read It before Buy a House (1995, 1994), Bangkok Slums: Review and Recommendations (1992, 1993), Business Location Guide Bangkok (1991), Bangkok Slums: Evidence, Analysis and Critiques (1986, 1985) and various articles related to housing, real estate and urban development

### **Conference Papers**

Innovative land readjustment in Thailand where public and private benefits meet, International Congress on Real Estate, April 24-26, 1995, Singapore  
Computer-assisted mass appraisal in land readjustment, the 8th ASEAN Valuers' Congress, October 12-14, 1994, Jakarta, Indonesia  
Low-income housing: private sector can do, International Symposium on Housing, Bangkok  
Thai real estate review: challenging market direction, Regional seminar on Real Estate Development during the bust period, August 17, 1993, Bangkok  
Urban land development: critiques on conventional concepts, Asian Land Workshop, June 8-10, 1990, Univ. of Malaya, Malaysia

### **Lectures**

Occasional lectures to the Prince Chulalongkorn Military School, local public and private universities in Thailand, institutions in Tokyo, Belgiums  
Guest speakers in international workshops and site visits in Thailand and Asian cities  
Regular seminar and training organizers on property valuation, housing market and research for real estate developers, financiers and parties involved

*Agency for Real Estate Affairs is a property consultants firm specialized in valuation and research centre in Thailand. Formed in 1982 known as the Thai Engineering and Management Development (TEAM D), it has been one of the first valuation firms catering valuation services for financial institutions, the Stock Exchange of Thailand and the Bank of Thailand. CAMA (computer-assisted mass appraisal) has been initiated to Thailand by Agency for Real Estate Affairs since 1990. In order to maintain highly-professional standards and practices, it does not have brokerage nor own real estate development activities.*