



# THAI REAL ESTATE MARKETS EXPECTED TO GROW BY 15-20% IN 2022

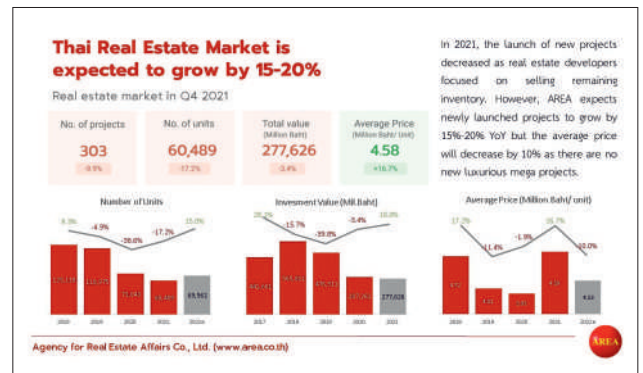
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Real estate markets in Thailand passed the lowest point last year. AREA expects the market to grow by 15% - 20% in 2022. Besides condominiums, housing properties are likely to recover faster than condominiums. The valuation profession is still on the rise.

Dr. Sapon Pornchokchai, President of the Thai Appraisal & Estate Agents Foundation organized a "Real Estate Market" Seminar, a big annual event to present the latest real estate survey and research to the public on 21st January 2022. This is an event to analyze properties and foresee price and valuation in Thailand.



In 2021, the launch of new housing projects shrank due to decreased purchasing power from local buyers and a lack of international investors. Therefore, real estate developers focused on remaining inventory and slowed down plans to launch new real estate projects.

The newly launched projects in 2021 have dropped significantly from the previous year. In 2021, The number of newly launched real estate projects dropped by -9.9%, the number of newly launched units dropped by -7.4%, and the value of newly launched units dropped by -17.2% YoY. However, the average price of newly launched units jumped up by +16.6% YoY.

The drop of newly launched units caused the remaining inventory to decrease by -2.5%, from 213,728 units in 2020 to 211,770 units in 2021. At this rate, it needs 40.4 months to sell all the remaining inventory without newly launched projects.

Although the remaining inventory reduced only -2.5% as there are newly launched projects in the market, it is a good sign as the number of 75,364 sold units is higher than the number of 60,489 newly launched units last year. In 2022, AREA expects newly launched units to grow by 15%-20%, and the value will increase by 10%. However, the average price of newly launched units is likely to drop by -10%, considering there are no newly launched luxurious mega projects in 2022.

### **An average price jumps up due to one project**

Interestingly, the average price of newly launched units significantly grew by +16.7%, from 3.93 million Baht/unit in 2020 to 4.59 million Baht/unit in 2021. It may seem like real estate developers tend to launch high-end properties into the market. However, this spike growth of an average price per unit is highly affected by one project. The Forestias by MQDC is a mega project worth 45,892 million Baht (considering only residential units from 6 sub-projects already launched in 2021, excluding other projects in the pipeline). The value of only this one mega-project makes up 16% of the total newly launched value in 2021.

If we exclude the Forestias from the data, the average price of newly launched units in 2021 will drop to 3.9 million Baht/unit, which is close to the average price in the previous year. There is a surge of newly launched condominium units with a selling price lower than 1.2 million Baht/unit (due to the Thailand Board of Investment's policy to support low-medium income housing). Real estate developers will be exempt from paying corporate income tax if they launch low-medium income housing in Bangkok Metropolitan Region (BMR). The condition for the BOI low-medium condominium is the minimum area of 24 sq.m./units and the maximum selling price of 1.2 million Baht/unit.

### **Real estate markets passed the lowest point.**

The real estate market in Thailand in 2020-2021 shrunk significantly since the Covid-19 outbreak at the end of

2019. The number and value of newly launched projects dropped considerably due to declining purchasing power from local buyers and international investors. Real estate developers delayed plans to launch new projects, especially high-end condominiums in the CBD, targeting high-income local and international investors. Nonetheless, the real estate market may regain its pace in 2022 after the Covid-19 pandemic recovers. Therefore, many real estate developers will launch new projects in the pipeline.

### **The shift in demand for condominiums to others**

Despite the drop of newly launched residential projects in every type of property during the past two years since the Covid-19 outbreak (between 2020 - 2021), the absorption rate of housing properties despite condominiums are relatively stable, while the absorption rate of condominiums dropped by half. The different absorption rate trends indicate a shift in demand from condominiums to other housing properties. The absorption rate of other properties was merely affected by the Covid-19 pandemic; hence it will recover faster than condominiums.

### **Condominium's absorption rate dropped by half**

The absorption rate of condominiums dropped sharply from 46% in 2018 to 25% in 2021. At the same time, the absorption rate of townhouses and detached houses dropped slightly from 33% and 26%, respectively, in 2018 to 25% in 2021. The differences indicate that other residential properties, despite condominiums, were merely affected by the Covid-19 pandemic as homebuyers are looking for houses rather than condominiums. Most of the absorbed supply is from the remaining inventory as real estate developers focus on selling the remaining inventory in their hands. As a result, the remaining inventory decreased as the number of sold units exceeded the number of newly launched units this year.

Over the past four years, the launch of new residential properties has declined. In 2021, the newly launched

units decreased by -7.4% YoY to 60,489 units, while the value dropped by -17.2% YoY to 277,626 million Baht. However, the AREA forecasts the growth of newly launched projects. The number of newly launched units may spike 15% - 20%, or approximately 70,000 - 80,000 units in 2022. The value of newly launched units may increase by +10% or about 305,389 million Baht. In contrast, the average price of newly launched units may decrease by -10% to 4.19 million Baht/unit since there is no new luxurious mega project like the Forestias in 2022.

The shrink of newly launched projects in the past 2-3 years results in a higher absorption rate. The remaining inventory decreased by -2.5% YoY in 2021. At this rate, it needs 40.4 months to sell all the remaining stocks without newly launched units in the market. However, if real estate developers decide to spill new supply into the market, the situation might turn upside down.

#### **Positive and negative factors in 2022**

Many interesting factors could affect the real estate market in 2022, as presented by many gurus in the seminar. Ms.Kanyarat Kanjanavisut, the Senior Analyst at Economic Intelligence Center, Siam Commercial Bank (SCB), expects the real estate market to recover slowly as the Thai economy rebounds. SCB forecasts a GDP growth of approximately 3% in 2022. However, due to the decrease of the remaining inventory and the shrink of newly launched projects in 2021, real estate developers may delay launching new projects in Mid 2022 with the main focus on other residential properties despite condominiums since it is a popular trend in the New Normal era.

Mr. Prapansak Rakchaiwan, Managing Director at LPN Wisdom and Solution Co., Ltd. (LWS), expects real estate markets in 2022 to grow by 5% - 20% depending on the global economic recovery and the government measures to support economic recovery.

#### **The positive factors**

- An economic recovery with roughly 3% growth in 2022
- The government offers policies and measures to boost economic recovery, such as LTV relief, property transfer tax, and mortgage fee reduction to 0.01% until the end of this year, high potential international investors attraction.
- Inoculation progress and the vaccination rate are going in a good direction. However, we still have to be aware of the omicron variant spread.

#### **The negative factors**

- The inflation rates index may rise from 1.2 to 1.7 in 2022, which leads to increasing prices for consumer goods.
- An increase in household debt affects low-income home buyers. Mr. Rongrit Thamsatit, executive vice president-residential business support 1, Frasers Property Industrial (Thailand) Co., Ltd., experienced a higher loan rejection rate for buyers who plan to purchase townhouses and semi-detached houses in 2021 compared to the previous year. The lower rate occurred due to the LTV ratio as home buyers cannot get a 100% loan to buy their house. Besides, many homebuyers suffer from a decrease in household income.
- The unemployment rate will continue to rise in 2022.
- The high restriction of housing loans from financial institutes may affect home buyers.
- The real estate development cost rises as land prices and metal prices continue to increase. Therefore, many real estate developers decided to launch smaller projects with fewer units to sell the whole project quickly. However, building smaller projects results in higher development costs per unit.

#### **Interesting trends in 2022**

According to the Agency for Real Estate Affairs, the remaining real estate units in BMR decreased by 2.5% to

211,770 units in Q4 2021. At this rate, it will take 40.4 months to sell all the remaining inventory if there are no newly launched units. Ms. Kanyarat indicates the oversupply risk in BMR, especially for condominiums and townhouses, which have more supply from newly launched projects in the market. However, the remaining inventory slightly decreased as real estate developers delayed the launch of new projects and focused on the remaining supply. In 2022, the remaining units may continue to decrease slightly.

However, it is still considered high due to the launch of new projects. The slowdown in China real estate markets. Ms. Kanyarat pointed out that Chinese wealth declined due to the Evergrande crisis last year. Therefore, Chinese investors might consider investing in domestic properties and delay their investing plan in Thailand. Demand in residential real estate changed after the Covid-19 pandemic.

Mr. Prapansak presents three mega-trends in residential real estate developments in 2022, i.e.

- Well-Being. There is a trend to develop residents who support health and environmental well-being. Many projects focus on public space, pet-friendly condominiums, and universal design.
- Smart Living. As people need to Work from Home more, consumers want residents who support many living aspects with smart home technology.
- Virtual Connecting Nowadays, online meetings and communication are widely accepted. Metaverse technology will have more effects in the new normal era, which will offer new experiences to users.

### Some Remarks

After facing a slowdown for two years since the Covid-19 pandemic, the real estate markets are turning positive this year. As there were lower numbers of newly launched real estate in the past two years, the markets absorbed the remaining units, which lowered the risk of oversupply. Although some negative factors might affect the

markets, such as inflation rate, household debt rate, development cost, and loan restriction protocols, there are many positive factors to look forward to in 2022, such as government policy and economic recovery. However, we need constantly monitor the Covid-19 situation and the changes in housing demand in the new normal era. Besides, there are still concerns about oversupply risk. Despite the decrease of remaining units by -2.5% YoY, the situation might turn upside down if real estate developers decide to spill new supply into the market.

### Implication to Valuation

The valuation profession of properties particularly housing in Thailand is still on the rise. Since the number of newly launching units is growing, there would be more and more valuation works to be done by our valuers. On the other hand, due to Covid-19, there are some distressed properties for sale particularly hotels in tourist destinations such as Phuket, Pattaya, Had Yai, Chiang Mai, and the like.

On the whole, land prices in Bangkok are still growing over time; whereas, the economies are recovered quite slowly. This is a special condition. Right now, there is a massive construction of mass transit systems in Bangkok. Therefore, land parcels adjacent to train stations have significant increases in prices because of the higher potentials resulting in mass transit systems.

