

## CHAPTER 1

### INTRODUCTION



#### 1.1 OVERVIEW

An essential element of the newly modernized region's success, like Hong Kong, Singapore, etc. is that it has developed into an easy place to do business. A major part of this comfortable business environment is provided by the quality and efficiency of its urban infrastructure of private and public buildings, utility services and transportation systems. Thus, real estate development plays an important role in facilitating and creating economic development, as the development is seen as prerequisite of economic development programmes.

On the other hand, real estate development relies heavily on economic trends and growth, especially in the process of urbanization and industrialization of a country or a region. In addition, real estate development is considerably affected by many factors such as population, employment, political stability, culture, religion, and so on, which are also regarded as the accelerators or obstacles to economic development. As a result, real estate development cyclically experiences booms along with economic growth, and depressions along with economic recession.

Thailand is one of the newly-industrializing country in APEC. It had experienced very high growth rates and it had a high level of investment in manufacturing. Until 1997 the economic in Thailand has started to slowdown and lateral facing with the financial crisis in 1998. The estimated GDP decreased 8.5% in 1998 and the non-performing loans (NPL) has increased from 20% to 40+ % in June 1998 (the estimated worst case).

However, this is not the end of the world, the manufacturers in any industries still produce and export their products around the world especially to the members of APEC.

By the 2010, Thailand is expected to be readily for the Free Trade and Liberalization. Therefore, this can be a guarantee to those real estate developers that the development is still required, and it will surely be a high level of competition.

Hence, strategy planning is necessary. It is necessary to reconsider the structure of the economy and analyze the real estate sector. The real estate industry needs to change the current situation and willingly cope with the rapidly changes and competitive economical environment.

## **1.2 STATEMENT OF PROBLEMS**

In the past, many real estate companies were capable of successfully making profits. But this is not true anymore. In 1998 Thailand has faced with financial crisis. The results of this crisis are liquidity and credit crunch, asset values reduced and sold, merging and acquisition, low production capacity, low income and low purchasing power. This can cause many real estate companies can just survive, even worse, most of companies have made lots of loss, leading to bankruptcies.

This has proven that most of companies do not seem to be able to cope with a rapid changing environment. They have enjoyed the booming period on the past decades and still stop on the traditional stage.

Here is why every company needs a detail and distinct analysis of the real estate development structure, and a long-term planning to face the rapidly changing environment.

### 1.3 OBJECTIVES

1. To find the external and internal factors which can affect the real estate business.
2. To develop a strategic plan guideline for the real estate business during economic crisis.

### 1.4 SCOPE OF STUDY

The scope of this study covers the development and present structure of the real estate industry and the performance of the economy in Thailand. This study mainly is based on the economical condition, the period of the study will then cover the period before, during and after the economic crisis.

There are many types for real estate development such as for transportation, residential, etc. For this study, only the real estate development for residential; '*housing*', is analyzed.

The size of investment for each project is approximately 60-70 millions baht, in which the maximum cost of a house is not greater than 2 millions baht. The structure of studied companies is a family-owned real estate development.

The studied consumers are mostly people who work in the industries. Due to the slowdown of economic, the consumers buy houses for living not for their pleasures.

A strategic plan for this purpose of study will emphasize on Construction, Financial and Sales/Marketing only.

## **1.5 STUDY METHODOLOGY (see Figure 1-1)**

The data can be obtained from the interviews with several real estate business companies and related institutions, government agencies, such as GHB and so forth.

The principle sources of secondary data will be the published documents and reports in journals, academic institutions, and also from sources on the internet.

All the data will be analyzed by the concepts of PEST analysis to investigate the external environment which affect the real estate business. Such as political-legal, economic, socio-cultural, technology, and the real estate structure.

Porter's five competitive forces model is used to analyze the competitors in real estate business by means of interviews. Furthermore, SWOT analysis method will be used to identify the key issues of strengths, weaknesses, opportunities and threats in the business.

Finally, using TOWS matrix to formulate a long-term strategy (e.g. Strategy for construction, financial and sales/marketing) between those key issues which are based on the above analysis.



## **1.6 PROCEDURE**

1. Literature survey
2. Collect data related to real estate development business. Sources of data are such as from Government reports, real estate business companies, Government Bank Housing, and other sources.
3. Compare the structure of real estate business between the economic increasing and the economic decreasing. Study what are the major factors which may have an affect on real estate business, and how do they affect the business.
4. Analyze the status of real estate business at present, or in others word during the economic crisis.
5. Apply techniques to establish a strategic plan, such as SWOT analysis technique, Porter's Five Competitive Force Model, and TOWS matrix technique.
6. Analyze date and formulate the Construction Strategy, Financial Strategy and Sales/Marketing Strategy.
7. Sensitivity analysis. This can be done by changing the major factors to see how these factors can affect the company's strategies and strategic plan.
8. Summarize the results and give recommendation.

## **1.7 EXPECTED RESULTS**

1. Guidelines for the internal and external analysis to develop strategic plan for real estate development business.
2. Formulation of Construction Strategy, Financial Strategy and Sales/ Marketing Strategy can be used to develop strategic plan for survival.
3. Development of the strategic plan can be used to improve the profitability and to survive during economy crisis. This is validated to those who are in the same scope of the study only.