

## **CHAPTER 5**

### **STATUS OF REAL ESTATE BUSINESS DURING ECONOMIC CRISIS**

This chapter will analyze the status of Real Estate Business focusing on the period of crisis, from July 2, 1997. Data used in this chapter come from two sources:

- (1) Data from site survey, see Table 3-2 in Chapter 3. This data will be used to analyze the status of real estate developers in Rayong.
- (2) Data obtained from Internet ([http:// www.ghb.co.th](http://www.ghb.co.th)). This data will be used for analyze the bank loans policies characteristics.

Before starting analysis, it is always worthwhile to see what are the roots of property crisis.

#### **5.1 THE ROOTS OF PROPERTY CRISIS**

The roots of the current crisis could be traced back to the big property boom of the early 1990s. Land speculation created artificial demand and property prices skyrocketed to unrealistic levels.

Developers cited 1994 as the golden year – demand was so strong that units sold almost as soon as they went on the market. Many new-comers, with visions of easy profits dancing before their eyes, joined the competition at this time. Several developers bought up sizeable land banks in order to meet Stock Exchange of Thailand listing requirements. Developers over-invested in the property industry, especially the

housing market. Most had not analyzed the real potential in the market before building.

An oversupply began to take shape in the housing market by 1995 and continued to grow in 1996. However, developers were undeterred and continued to build because finance companies and banks continued to furnish them with loans. Foreign capital was also flying into the country by 1995 through Bangkok International Banking Facilities (BIBF), further propping up the property sector.

However, the situation took an unexpected turn in 1996 when both the economy and the currency began showing signs of faltering. By late in the year 1997 the instability began to take its toll on developers who began experiencing cash flow troubles for the first time.

1998 was considered the worst year for Thailand's property market in more than a decade with a range of complex problems, from financial to marketing and construction, confronting developers, creditors and buyers alike. Many property experts believe the market bottomed out in 1998 with serious gluts seen in all sectors of office, residential, retail and industrial estates.

The affects of the country's economic crisis, witnessed by the devaluation of the baht, the \$17.2-billion International Monetary Fund bailout package, the closure of 56 finance houses and the collapse of the local stock market, were still being felt. All of these factors contributed to a worsening of the property crisis with people's purchasing power dramatically falling throughout the year.

## 5.2 INDUSTRY STATUS

### 5.2.1 Survey on Housing Projects in Rayong

The survey was done in May 1998, and lasted for 3 months. The survey was covered the site surveying and visited altogether 113 projects. Table 5-1, three status of projects were found:

**Table 5-1: Summary of the Survey on Real Estate Status**

(1) Projects Still Operating	
- Number of Projects	25
- Number of Units	1,125
(2) Projects Stopped Operating	
- Number of Projects	14
- Number of Units	515
(3) Projects Under Bankruptcy	
- Number of Projects	8
- Number of Units	730

**(1) Projects Still Operating** - the sales offices were still opened.

37 Projects were found to be “Still Operating”. This included those 12 new projects launches in 1997 and 1998.

- The growths of new project launches are -73.93% and -54.76% in 1997 and 1998 respectively. This shows that the property market growth is slowing down.

**(2) Projects Stop Operating** - but these projects will be temporary closed due to economic decreasing.

The 14 projects were found to “Stopped Operating”. The further analysis had been done by means of interviewing (see Appendix B), and found that:

- 8 developers will come back into this business again, 5 of them said that when the economic increasing, 2 of them will come back if the bank policies change by easing of loans facilities, and 1 developer will come back if the interest rate decreases.
- 4 developers *might* come back into this business, they want to wait and see the market first.
- 4 developers will never come back into this business again due to difficulties of asking for permission to have electricity, tap water into site. They could not afford to pay for these expenses.

**(3) Projects Went Bankrupt** – There were 8 projects went bankrupts. This was because the type of products did not match to the market.

From Table 5-2, 44.38% of “bankrupt units” had a price of less than 500,000 Baht. It is true that this was the cheapest product in the table, but when further analysis was done. It is found that this products were condominium (Piman Condo Development) with the price of 481,000 Baht, and considered to be very costly when compared to those townhouse. For the price range of 750,001 – 1,000,000 Baht, 70.37% of 135 units were two-storey townhouses.

TABLE 5-2: Price of Product for “Bankrupt Projects”

Price (Baht)	Number of Units	% of Total
Less than 500,000 Baht	324	44.38%
500,000 - 750,000 Baht	62	8.49%
750,001 – 1,000,000 Baht	135	18.49%
1,000,001 – 1,250,000 Baht	20	2.74%
1,250,001 – 1,500,000 Baht	76	10.41%
More Than 1,500,000 Baht	113	15.48%
	730	100%

Due to economic decreasing, there was not seem to have a market for expensive product (with the price more than 1,500,000 Baht).

### 5.3 BANK LOANS POLICIES CHARACTERISTICS

From table 5-3, it can be seen that the mortgage loans had been significantly reduced to 6.89.% from 1997 to 1998. This was due to the banks policies which were not easily provided to the consumers.

For occupation, the growth of self-employed had been contracted to 17.43% in 1998 due the difficulties of getting loans. Normally, this type of occupation was not stable in this kind of economy.

**Table 5-3 : Key Statistics****Source:** <http://www.ghb.co.th>

	1996	1997	1998	Changes	
				1996-1997	1997-1998
<b>1. Mortgage Loan Outstanding</b>					
- Value (million)	190,461	269,617	288,200	41.56%	6.89%
- Number (Persons)	461,699	616,281	661,595	33.48%	7.35%
<b>2. Occupation</b>					
- Public Sector Employees (%)	32.06	27.61	25.69	-13.88%	-6.95%
- Private Sector Employees (%)	66.79	71.3	73.41	6.75%	2.96%
- Self-Employed (%)	1.15	1.09	0.9	-5.22%	-17.43%
	100	100	100		
<b>3. Repayment Period</b>					
- 0-5 years (%)	6.73	5.26	3.91	-21.84%	-25.67%
- 6-10years (%)	18.09	15.03	11.94	-16.92%	-20.56%
- 11-15 years (%)	36.46	35.18	30.22	-3.51%	-14.10%
- 16-20 years (%)	21.11	23.23	23.39	10.04%	0.69%
- 21-25 years (%)	17.61	21.30	30.54	20.95%	43.38%
	100	100	100		
<b>4. Borrowing</b>					
- Single (%)	52.92	54.89	49.77	3.72%	-9.33%
- Co – Borrowers (%)	47.08	45.11	50.23	-4.18%	11.35%
	100	100	100		

Most of borrowers tended to extend their repayment period, as the growth for 20-25 years increased by 43.38%. This was because the borrowers were not so sure about their employment status in the future.

Borrowing methods - co-borrowers had increased by 11.35% in 1998. This was because the borrower alone could not afford to get the loans they wanted to, and also it was a new bank policy as more co-borrowers, lesser risks taken by the GHB.

#### **5.4 PROPERTY MARKET AND COMPETITION DURING CRISIS**

The potential growth of property in Rayong Province is still i.e. -54.76% in 1998, and depends on the economic recovery and the demand of the target group. The general sale strategy of current property market is price-cutting. It could attract sale only low price and not concern on quality or design.

The depressed property market in 1999 has been carried over from 1997 economic downturn caused by the close of 56 financial institution, and the increase of unemployment. These causes reduced the purchasing power of people. And those who have financial means are awaiting for cheap bargains. Therefore, the second hand supply is new competition in the market. The second hand housing consists of the home unit forfeited by the defaulting customer and those foreclosed from the financial institutions and also the existing second hand housing business.

Similar to property market in other areas, real estate business in Rayong has been hit by this economic crisis. Many small real estate businesses could not survive and had to shutdown businesses. It is anticipated that the economy will not bottom out in the next year. Credit line for project finances were cut, resulting in many projects left as incomplete skeletons. Potential homebuyers found it difficult to ensure housing loan from the bank or have no confidence to buy any house fearing the developer will abandon the project.

## 5.5 FUTURE TRENDS

The depressed economic situation still overhangs into 1999 and customers reduced purchasing power. The housing supply is also over – supply. Therefore, the companies should use the most appropriate strategic plan to survive. It is found that the property over – supply not only comprises of the existing housing stock but also those forfeited by the developers and also those forced sale by banks and financial institutions.

The prices will continue to increase over time, this is partly due to higher construction costs. Hence, not many new projects will be launched because this business will not give them as much profits as before. Only the professional developers will stay in this business.

The real demand in property is still largely depending on the purchasing power of the middle income section of the population. Only with the economy recovery, the lower of unemployment, the lower of interest rate, resolving of the NPL and the easing of the bank loan facilities will revive the property sector.