

กลยุทธ์การลงทุนสำหรับเจ้าของที่ดิน

นายวงศ์ พงสาพิชญ์

วิทยานิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาวิศวกรรมศาสตรมหาบัณฑิต
สาขาวิชาการจัดการทางวิศวกรรม ศูนย์ระดับภูมิภาคทางวิศวกรรมระบบการผลิต
คณะวิศวกรรมศาสตร์ จุฬาลงกรณ์มหาวิทยาลัย
ปีการศึกษา 2556

บทคัดย่อและแฟ้มข้อมูลฉบับเต็มของวิทยานิพนธ์ของนายวงศ์ พงสาพิชญ์
เป็นแฟ้มข้อมูลของนิสิตเจ้าของวิทยานิพนธ์ที่ส่งผ่านทางบัณฑิตวิทยาลัย

The abstract and full text of theses from the academic year 2011 in Chulalongkorn University Intellectual Repository (CUIR)
are the thesis authors' files submitted through the Graduate School.

INVESTMENT STRATEGY FOR LAND OWNER

Mr. Warong Pongsapich

A Thesis Submitted in Partial Fulfillment of the Requirements
for the Degree of Master of Engineering Program in Engineering Management
The Regional Centre for Manufacturing Systems Engineering

Faculty of Engineering

Chulalongkorn University

Academic Year 2013

Copyright of Chulalongkorn University

วงศ์ พงศาพิชญ์ : กลยุทธ์การลงทุนสำหรับเจ้าของที่ดิน. (Investment Strategy for Land Owner)
อ. ที่ปรึกษาวิทยานิพนธ์หลัก : ผศ. ดร. ดาริชา สุธีวงศ์, 63 หน้า.

บริษัทอมรและบุตรจำกัดเป็นบริษัทขนาดเล็กอยู่บริเวณทองหล่อที่มีประสบการณ์ใน
ธุรกิจด้านสโสมอสรกีฬาและให้เช่าพื้นที่สำหรับสำนักงานและที่อยู่อาศัยมาเป็นระยะเวลากว่า30ปี
ในขณะที่การบริหารอยู่ในช่วงการเปลี่ยนแปลง การขยายขอบเขตทางธุรกิจได้มีการพิจารณา
เพิ่มเติม หลังจากได้มีการไต่รตรงการพัฒนาด้านอสังหาริมทรัพย์โดยโครงการต่างๆ โครงการ
เซอร์วิซอพาร์ทเมนต์ที่ถูกตัดสินให้เป็นการลงทุนถัดไปของบริษัทซึ่งจะทำการก่อสร้างขึ้นภายใน
ขอบเขตเนื้อที่ที่บริษัทอมรและบุตรครอบครองอยู่ เนื่องจากว่าบริเวณทองหล่อนั้นได้มีการพัฒนา
ในด้านอสังหาริมทรัพย์อย่างต่อเนื่อง และทางบริษัทเชื่อมั่นว่าการที่บริษัทได้ประกอบธุรกิจ
สโสมอสรกีฬาอยู่แล้วจะส่งเสริมให้โครงการเซอร์วิซอพาร์ทเมนต์ที่ประสบผลสำเร็จและนำพาบริษัท
ให้มีสภาพคล่องในด้านการเงิน รายงานฉบับนี้ทำขึ้นเพื่อที่จะศึกษาว่าบริษัทอมรและบุตรมีความ
จำเป็นต้องออกแบบเซอร์วิซอพาร์ทเมนต์ในรูปแบบใดและตั้งราคาที่เหมาะสม โดยอ้างอิงจากรูปแบบ
สินค้าและราคาของกลุ่มอื่นๆในละแวกเดียวกัน

รายงานฉบับนี้แสดงให้เห็นว่าบริษัทอมรและบุตรสามารถที่จะดำเนินการก่อสร้างระยะที่
สองของโครงการได้ปีหลังจากเสร็จสิ้นระยะแรก โดยการตั้งราคาเช่ามากกว่าราคาเช่าเฉลี่ยเพียง
เล็กน้อยและจำเป็นต้องสามารถปล่อยเช่าได้เพียงครึ่งหนึ่งของโครงการ โครงการเซอร์วิซ
อพาร์ทเมนต์นี้จะนำพาบริษัทอมรและบุตรให้มีสภาพคล่องทางการเงินและจะเปิดโอกาสให้
บริษัทนั้นได้ลงทุนในด้านอสังหาริมทรัพย์ในบริเวณทองหล่อที่อยู่ในช่วงเติบโตต่อไปในอนาคต

ศูนย์ระดับภูมิภาคทางวิศวกรรมระบบการผลิต.....

สาขาวิชา การจัดการทางวิศวกรรม.....

ปีการศึกษา 2556.....

ลายมือชื่อนิติ.....

ลายมือชื่อ อ.ที่ปรึกษาวิทยานิพนธ์.....

5271651821: MAJOR ENGINEERING MANAGEMENT

KEYWORDS : INVESTMENT STRATEGY / FEASIBILITY / REAL ESTATE

WARONG PONGSAPICH : INVESTMENT STRATEGY FOR LAND OWNER.

ADVISOR : ASST. PROF. DARICHA SUTIVONG, Ph.D., 63 pp.

Amara & Sons Co., Ltd. (A&S) is a small family company in Thonglor area with 30 years of experience in sports club and office/housing rental business. As management changes from generation to generation, business practice also changes and business expansion is being explored. Within the available site, various types of real estate developments are analyzed, and a service apartment project has been conceptualized to be A&S' next project by dividing into two phases. Real estate market in Thonglor area has been rising steadily, and with A&S' already available sports club, serviced apartment is believed to take A&S toward cash solvency. Investment strategy study is done to find which product type should to be offered and at its appropriate price based on competitor benchmarking.

This study shows that A&S should be able to start the second phase of the project by setting the unit price marginally above the average market rate. At 50 percent occupancy rate, the bank loan will not be needed if A&S is willing to wait one year after the completion of the first phase. With this serviced apartment, A&S should achieve the cash solvency which will allow A&S to explore further real estate developments in the growing Thonglor area.

The Regional Centre for Manufacturing System Engineering Student's Signature

Field of Study : Engineering Management Advisor's Signature

Academic Year : 2013

Acknowledgement

Due to limited resources, majority of the data used in competitor benchmarking is gathered from online sources. I have tried my best to weed out all the duplications and discrepancy. Thank you family and friends who have been supportive, and without whom this study would not be completed.

CONTENTS

	Page
ABSTRACT IN THAIiv
ABSTRACT IN ENGLISH	v
ACKNOWLEDGEMENTvi
CONTENTSvii
LIST OF TABLESix
LIST OF FIGURES	x
CHAPTER I INTRODUCTION	1
Background.....	1
Problem Identification	5
Objective	6
Scope of Research.....	6
Expected Benefit.....	6
Methodology	7
Research Schedule	8
CHAPTER II LITERATURE REVIEW	9
CHAPTER III PRODUCT SELECTION	15
Types of Real Estate	15
Office real estate	15
Retail real estate	15
Residential real estate	16
Project Difficulties.....	17
Technical difficulty	18
Marketing difficulty	18
Financial difficulty	20
Operational difficulty.....	20
CHAPTER IV STRATEGIES AND ANALYSES.....	22
Legal and Structural Analysis.....	22
Definition	22
Regulations	22

	Page
Marketing Strategy	23
SWOT Analysis.....	24
4Ps Analysis.....	31
Financial Strategy.....	43
Operation Strategy.....	53
Impact on current business	54
CHAPTER V CONCLUSION AND RECOMMENDATION	55
Conclusion	55
Recommendation	55
REFERENCE	57
_Toc353341357BIOGRAPHY.....	63

LIST OF TABLES

	Page
Table 1 Research schedule	8
Table 2 Weath-creation zone	10
Table 3 SWOT analysis.....	31
Table 4 Various unit sizes combinations	47

LIST OF FIGURES

	Page
Figure 1 Location of Amara & Sons Co., Ltd.	2
Figure 2 Area for Amara & Son Co., Ltd.'s new project.....	5
Figure 3 Thesis methodology.....	7
Figure 4 The Montek development process.....	11
Figure 5 Risk assessment criteria for real estate development project.....	14
Figure 6 Possible future project.....	17
Figure 7 Number of registered condominiums in Thailand each year.....	19
Figure 8 Number of registered housing in Thailand each year	20
Figure 9 Number of non-Thai members of the Racquet Club from 2006 to 2013	27
Figure 10 Number of expatriates relocated to Bangkok by Transpo International Ltd.	28
Figure 11 Number of completed project each year.....	29
Figure 12 Map of competitors in proximity to Amara & Sons Co., Ltd.	30
Figure 13 Competitors unit size.....	32
Figure 14 Histogram of 1 BR unit size	33
Figure 15 Histogram of 2 BR unit size	33
Figure 16 Histogram of 3 BR unit size	34
Figure 17 Occupancy of 1 BR units	35
Figure 18 Occupancy of 2 BR untis	35
Figure 19 Occupancy of 3 BR units	36
Figure 20 Rent distribution for 1 BR	38
Figure 21 Rent distribution for 2 BR	38
Figure 22 Rent distribution for 3 BR	39
Figure 23 Monthly rent per square meter for each unit type.....	40
Figure 24 Facilities and serviced being offered by other condominiums	41
Figure 25 Other services offered by other apartment units	42
Figure 26 Annual revenue and expense.....	43
Figure 27 Depreciation, profit and positive cash flow	44
Figure 28 A&S accumulated over draw bank blance	45
Figure 29 A&S actual and projected cash flow	46

Figure 30 Projected A&S cash flow (plan 1)	47
Figure 31 Each option price scheme (plan 1)	48
Figure 32 Projected A&S cash flow (plan 2)	50
Figure 33 Each option price scheme (plan 2)	51
Figure 34 Unit price for each option to fulfill each plan's requirements	52
Figure 35 Unit price including annual membership fee	53

CHAPTER I

INTRODUCTION

Background

Amara & Sons Co., Ltd., which from this point on will be referred to as A&S, is a small family business founded and managed by a couple and five children, but the management has grown to include 8 additional members from the third generation. A&S has been operating for more than 30 years in real estate as well as sports and fitness business. Within its 33 rai (equals to 52,800 m²), A&S offers 113 units of office rental space, 22 units of rental living space, and 25 plots of land for rental. Majority of the immediate families of the management live within A&S properties; however, none but two people from the second generation are working fulltime for the company. The others' involvement in the company range from as much as being on-called for daily operation problems to as little as participating in board meeting only.

A&S is located in the middle of Bangkok on one of the most expensive lands in Bangkok surrounded by places of interest and attractions such as restaurants, schools, hospitals, shopping complexes, and public transportations such as MRT and BTS. At the time of the establishment, the neighborhood was purely residential, but popularity of the land has grown and many places of interest as well as condominiums and serviced apartments have since sprouted. Figure 1 shows the location of A&S and nearby attractions in the surrounding area.

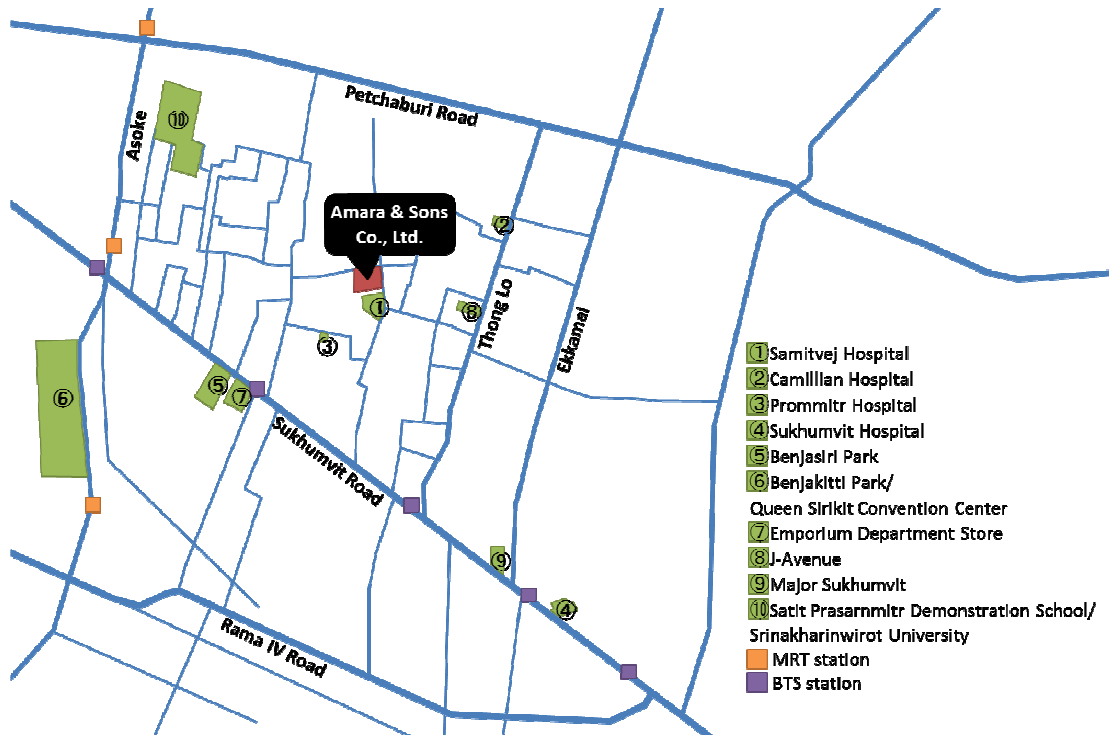


Figure 1: Location of Amara & Sons Co., Ltd.

A&S sits right in the middle of the area that is frequented by both Thais as well as many expatriates possibly because of the few international schools that range from kindergarten to high school in the proximity; thus, many of A&S' customers are non-Thais. In the past, A&S' customers for both houses rental and sports club members had always been groups of family members, but for the past few years after A&S started developing office rental spaces and since condominiums and serviced apartments have sprouted in the neighborhood, customers' profiles have shifted toward individuals. And half of the sports club members, almost all of whom used to be Thais, have become expatriates and their families.

On the sports and fitness aspect, A&S has a homey full size sports club called the Racquet Club that is offering a wide variety of facilities. After more than 30 years of operation, the facilities now consist of the following.

- 11 badminton courts
- 7 tennis courts
- 13 meter high rock climbing walls
- 5 on 5 futsal field
- 5 squash courts
- 1 racquet ball court
- 600 square meter of gym
- 3 golf simulation machines
- 2 swimming pools
- Sauna and steam rooms
- 3 snooker and pool tables
- 2 table tennis table
- One basketball basket
- Business centers (meeting rooms, theater)

Although there are many fitness centers all around the neighborhood, those locations only offer gyms and personal training without the other types of sport facilities. The only place that offers anything remotely close to A&S is the Capital Club in Sukhumvit 24 which is located 2 kilometers away; however, the Capital Club only offers rock wall, tennis, squash, fitness gym, and swimming pool (The Capitol Club, n.d.). The closest sports club that offers the same degree of facilities variety is the Royal Bangkok Sports Club or RBSC that is located approximately 7 kilometers away toward Bangkok's central business district. One of the main differences between A&S and RBSC is the limitation of membership of RBSC to mostly offspring of the current members. A&S, on the other hand, offers membership to everyone with affordable annual membership fee without any pre-requisites. The closest sports club that is open to the public is Piyarom Sports Club, which is located a little more than 7 kilometer away from A&S toward the outskirts of Bangkok. Piyarom Sports Club does not have rock wall, futsal or golf simulation, but it offers basketball and outdoor jogging that A&S does not have (Piyarom Sports Club, 2009).

With the limited space along with the existing business profile, A&S's growth is due to be slowing down; thus, in order to keep A&S's growth to remain steady, new project that would rejuvenate the company will need to be considered.

Within a little bit over available 33 rai area, A&S would use approximately 5000 m² area, in which stood a thirty year old house and two thirty-year-old five-story buildings, of which the current rental rates are considerably low comparing to the market price. The entire 5000 m² combine generates less than 3 million baht annually. Regardless of the type of building, the construction will be divided into two phases mainly due to the limited budget. One phase will take place on the house lot and the other phase on the land with two five-story buildings. Considering A&S annual cash flow and the allowable overdrawn amount from banks, the budget for each phase cannot exceed 150 million baht. The timing of the second phase would depend on the return of the first phase as well as whether a more urgent project or a new opportunity comes up in the meantime; however, A&S would like to complete both phases as quickly as possible. With this decision, A&S aims to achieve immediate improvement in terms of aestheticism as well as finance. Figure 2 shows the entire area of A&S and the locations where both phases of the new project would stand. The size of the plot of phase 1 is approximately 2500 m². The study aims to find which type of development would be best suited given the environment and the financial situation and whether the new project is feasible. This study would also attempt to determine how the product should be positioned and what impact this project would have on the entire company and community.

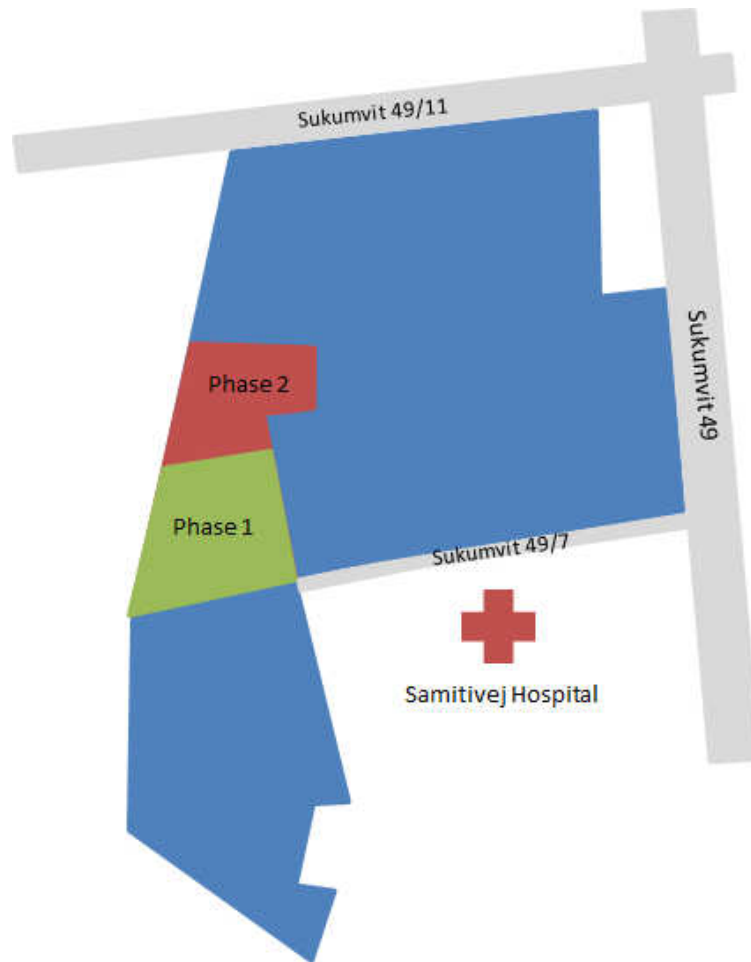


Figure 2: Area for Amara & Son Co., Ltd.'s new project

Problem Identification

The most obvious problem is what project would be most suitable. Since Thonglor is a fast growing area that is a populated residential area with heavy traffic from people who come for various leisure reasons. Numbers of condominiums and serviced apartments as well as retail complexes and restaurants have been sprouting in the neighborhood in the past few years. There are many possible real estate development projects that A&S could consider, all of which have different requirements and different rate of returns. Once the project has been decided, A&S would then need to consider how to position and how to market the product in order to get the desired return within the desired timeframe.

Objective

This research aims to strategize how the company should invest on the existing land by considering its strengths and weaknesses along with the market environment and requirements. Various types of real estate developments would be discussed and the most suitable project for the existing location and financial situation would be identified. Once the project has been specified, marketing and financial strategies in terms of product positioning and cash flow analysis will be studied. This research will go through regulations related to the type of land and the type of building that would be allowed to be constructed legally. In addition, competitor benchmarking needs to be done to gather information about what are being offered and how A&S should position its product. With this information, A&S would be able to do pricing and create cash flow to figure out the breakeven point. Lastly, the management and personnel may need to be restructured to handle the expanding business and new facilities may need to be added to cope with the possible change and impact to the company.

Scope of Research

This study is applicable for project that would be developed on the land that is already owned by the developer. The decision made in this study is for A&S' designated area because product identification is based heavily on the market environment. The financial analysis is designed for the first phase by keeping in mind that the second phase should be completed as quickly as possible.

Expected Benefit

This study will give A&S a guide of what product should be invested in the existing property, and how the product should be positioned and priced in order to ensure its financial success. A&S would get a rough idea of when the breakeven point would be and when the next phase could start. With the knowledge gain from learning about Land Laws, A&S would know what type of project could and could not be done within the available space. The secondary benefit would be to identify what type of

product would be suitable for the future project and what steps must be taken and what information must be gathered before the project could commence.

Methodology

A&S must first go through each type of possible real estate development by considering the company's constraints. Once the type of project has been decided, A&S must perform legal and structural analysis by studying related Land Laws and decide the type of building that can be constructed, and when the type of building is identified, pricing must be identified by benchmarking. Financial and operational analyses can then be studied, and the impact to the entire company could then be identified. The entire methodology is shown in figure 3.

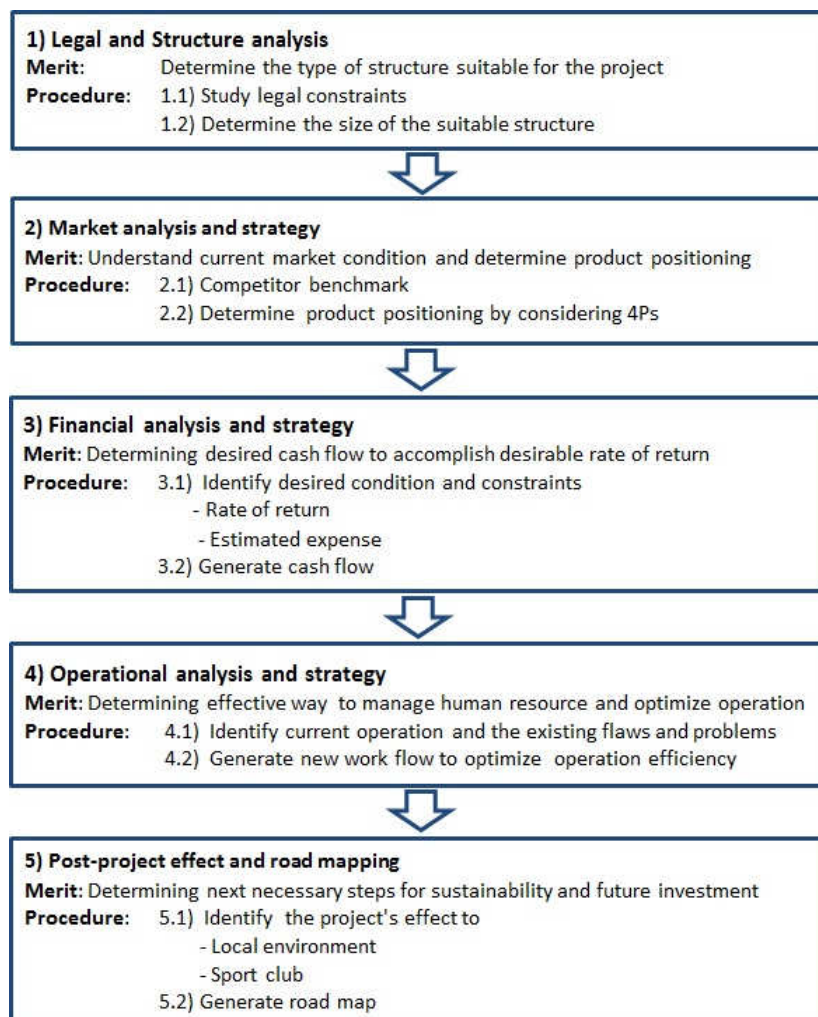


Figure 3: Thesis methodology

CHAPTER II

LITERATURE REVIEW

Yunus' study shows that for many countries, all property sectors (office, industrial, retail and residential) are necessary for long-run equilibrium, although the significance of each sector differs from nation to nation (Yunus, 2013). The characteristics of industrial sector are different from all other sectors because the property owners and investors for industrial sector are normally the same with one investor per property. On the other hand, the property owners of the other sectors normally rent out spaces to multiple investors/space users and the term of rent is normally shorter than that of industrial sector. As an investor, it is better for the portfolio if the investment is diversified across sector types instead of diversified across areas, and the study shows that residential sector is almost always the driver among all four sectors.

The most important factor of retail real estate's success is location where parking and nearby local mass transportation are available (Bender, et al., 1999). Retail rent depends heavily on customer drawing power, design, location characteristics and market characteristics (Nase, et al., 2013). Customer drawing power usually comes from anchor tenants who are normally national or international chain stores and locations that generally draw the highest rents are those with heavy traffic or pedestrian flow with sufficient frontage. Also, retail centers that are situated close to higher-ordered shopping centers are likely to benefit from the patrons who frequent those shopping centers (Ho, 2007).

Since the late 1990s, megacities such as Bangkok, Kuala Lumpur and Manila have become ones of the main destinations for Japanese retirees (Mika & Biao, 2012). Retirement industry in Thailand has a tendency for growth because of the support from the government since the initiation of Long-stay and Health Care Project in

1998 and the establishment of the Thai National Committee for Long-stay Programme in 2001. The customers of nursing homes normally choose the properties in which they feel familiar and comfortable, so relationship between staffs and customers is the most important factor in the success (Davis, et al., 2007). One characteristic of all excellent nursing homes or retirement communities is the ability to supply information quickly and completely to those who need it at the right place and at the time that it is needed (Higgs, 1997).

According to Thomas' wealth-creation zone in table 2, many small real estate developers are normally in the blue zone, in which people have high asset values but low cash flow, and the ultimate goal is the gold zone, in which people have high asset values and high cash flow (Thomas, 2010). Residential real estate can be divided into 3 categories based on the finishing: high-end, mid-range, and low-end where high-end does not necessarily mean high profit, and low-end does not mean low profit. There are many advantages for residential real estate developments such as steady demands, easy to grasp concepts, and information of competitors is readily available. However, there are also some disadvantages such as high competition and high rental turnover rate.

Table 2: Wealth-creation zone

	Cash - poor (CP)	Cash - rich (CR)
Asset - poor (AP)	The Red Zone Asset-poor, cash-poor (APCP)	The Green Zone Asset-poor, cash-rich, (APCR)
Asset - rich (AR)	The Blue Zone Asset-rich, cash-poor (ARCP)	The Gold Zone Asset-rich, cash-rich (ARCR)

Thomas follows Montek development process which has six stages: Vision, Selection parameters, Site selection and feasibility, Planning and approvals, Construction, Completion and disposal. Out of the six stages, this thesis will cover up to stage three.

As shown in figure 4, the market analysis processes include identifying the demand and supply, identifying competitors, identifying related laws and regulations, and estimating future market condition.

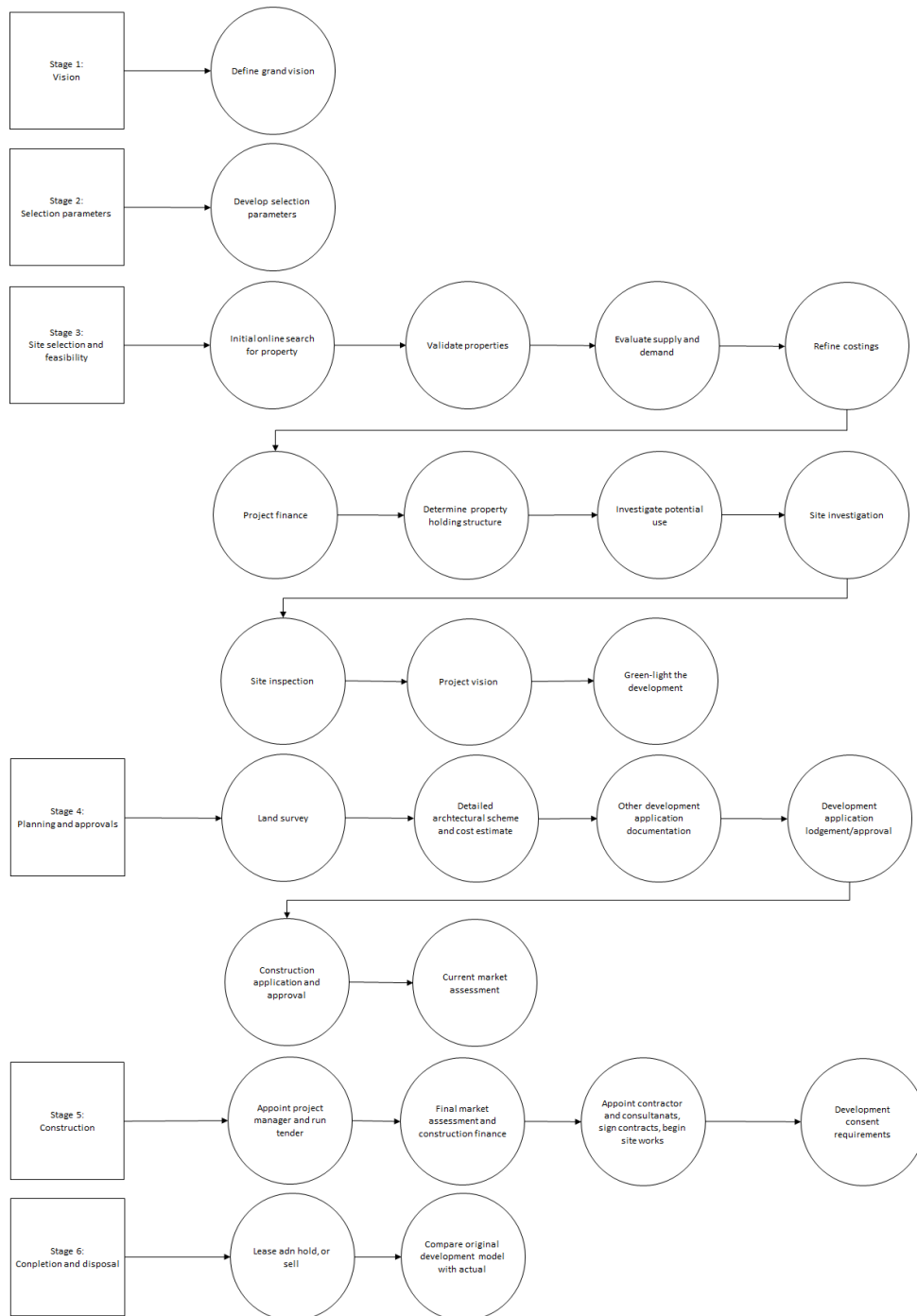


Figure 4 The Montek development process

Graaskamp identifies three main players in real estate development to be space consumer, space production, and public infrastructure groups. Developing real estate means space producer must provide affordable space to satisfy the space consumer, and at the same time comply with the social, environment, and infrastructure constraints in order for both space production and public infrastructure groups to achieve cash solvency (Graaskamp, 1981). Further expanding Graaskamp's real estate development fundamentals, Malizia explains that the process of development can be divided into three stages: idea conception, idea refinement, and feasibility (Malizia, 1990). Idea conception is the stage that identifies the desire project, idea refinement is the stage where the details of the project starts to come to shape and feasibility is the stage of studying how the project can be done successfully.

Oprea associates real estate feasibility with a study to determine "the most appropriate use for a particular site, the most appropriate site for a predetermined use, or the most appropriate outlet for investment fund," with the key issues concerning legal, physical, and financial feasibility (Oprea, 2010). Oprea also mentions that real estate market is not liquid and carries high risk, especially those who choose to delay payments for as long as possible.

Economic crisis in 1997 is believed to have caused from the poor development of real estate market in Thailand, and that failure is from the lack of risk assessment and management (Khumpaisal, et al., 2010). Khumpaisal et al state that risks are usually introduced in the form of social, technology, environment, economics, and politics (STEEP), all of which need to be addressed during feasibility studies of all real estate development projects because any of these factors could hinder the progress of the project and subsequently cause the return of the investment. Figure 5 shows the sub-criteria of all the risk factors as well as their corresponding evaluation methods.

Lai discussed about sustainable development to be the development that meets the needs of the present without compromising the well-being of the future generation

(Lai, 2006). Sustainable development covers property management with regard to the managing physical properties such as managing wastes, providing green space, or providing transportation as well as managing resources. One way of managing resources is balancing between the property's restriction and openness. Restriction is necessary for security but openness within the property is also needed so the users would feel comfortable.

Real Estate Information Center (REIC) states that Thonglor area, which is where A&S is, is one of the most popular areas for real estate investments because of the available infrastructures as well as the existence of many restaurants and establishments for all generations and for both Thais and foreigners (REIC, 2010). REIC has done a research on condominium market condition of Thonglor and found that from 2006-2010, there have been 18 new condominiums with the total of 4500 units at 78 occupancy rate.

<i>Criteria</i>	<i>No.</i>	<i>Sub-criteria</i>	<i>Evaluation methods</i>
1. Social risks	1.1	Community acceptability	Degree of benefit to local communities
	1.2	Community participation	Degree of discourse on partnership and empowerment to community
	1.3	Cultural compatibility	Degree of business and lifestyle harmony in the context of London Metropolitan Area
	1.4	Public liability	Degree of impacts to local public health and safety
	1.5	Workforce availability	Degree of the project sponsor's satisfaction with local workforce market
2 Technological risks	2.1	Accessibility and evacuation	Degree of easy access and fast emergency evacuation in use
	2.2	Amendments	Possibility of amendments in design and construction
	2.3	Constructability	Degree of technical difficulties in construction
	2.4	Duration of development	Total duration of design and construction per 1000 days
	2.5	Facilities management	Degree of complexity in facilities management
	2.6	Transportation convenience	Degree of public satisfaction with transportation services after new development
3. Environmental risks	3.1	Adverse environmental impacts	Overall value of the Environmental Impacts Index
	3.2	Environmental assessment	Total days of Environmental Impact Assessment report approve
	3.3	Pollution during development	Degree of pollution effect on local community
	3.4	Site conditions	Degree of difficulty in site preparation for each specific plan
4. Economic risks	4.1	Area accessibility	Degree of regional infrastructure usability
	4.2	Brand visibility	Degree of developer's reputation in specific development.
	4.3	Capital value	Sale records of new developed properties
	4.4	Demand and supply	Degree of competitiveness with other developers
	4.5	Development fund	Amount and sources of funding injected in mega project construction
	4.6	Fluctuation of interest rate	Degree of impact of the increment of loan rate to project debt
	4.7	Investment return	Expected Internal rate of return and capitalisation rate
	4.8	Life cycle value	Degree of Net Present Value achieved from the investment
	4.9	Market liquidity	Selling rate of same kind of properties in the local market
	4.10	Market price	Degree of competitive selling price of the same kind of property
	4.11	Project cash flow liquidity	Project monetary cash-flow
	4.12	Property type	Degree of location concentration
	4.13	Purchase ability	Degree of affordability of the same kind of properties
5. Political risks	5.1	Political groups/activist	Degree of protest by urban communities
	5.2	Council approval	Total days of construction, design approval process by planning committee
	5.3	Public inquiry	Total days of public inquiry and effect on operating time

Figure 5: Risk assessment criteria for real estate development project

CHAPTER III

PRODUCT SELECTION

Types of Real Estate

Out of the 4 real estate sectors, office, retail, and residential real estates are being considered for the upcoming project.

Office real estate

Office rental is A&S' current business, and it would by far be the easiest and the most familiar project that A&S could pick up right away without needing much effort. However, pricing of office rental would automatically be forced to be the same as the current rentals of the existing units, which is approximately 400-500 baht/m². If the rents of the units in the new project is set higher than the rents of the current units, potential customers will most likely be drawn to choose the current units and vice versa. With the current rents, management as a group feels that there should be more profitable projects that need to be considered, and this inflexibility in price setting gives A&S very limited choices of how the new building should be constructed

Retail real estate

With shopping centers and various retail centers around the neighborhood, retail real estate development may appear to be a good fit for the next project, but since the land that will be used for the next project is at the end of a 4-5 meters cul-de-sac, retail center is not considered an ideal project. As mentioned before, the most important keys to success for retail real estate are location and traffic. Building a retail centers at the end of a dead-end road would be very bad for the business because there is virtually no traffic from those who do not live or work on that road. The prime location for retail center is the lot that sits on the main road, especially the corner lots, which would not available in a near future.

In addition, the only way that a retail center constructed by a small company such as A&S to survive, there must be well known anchor tenants to which patrons are willing to travel from farther distance. Since A&S has no connection to any well-known possible anchor tenants, the only possible choice left for retail centers to prosper is it must be developed by well-known real estate developers who already have large customer base.

Although retail real estate development should be a good fit for A&S because it would bring in traffic that would eventually benefit the Racquet club, it should only be developed when the high traffic space opens up.

Residential real estate

Nursing home is one of the very promising projects that A&S is considering because of the growing interest from Japanese retirees, and the support from the government. However, this project cannot be considered lightly because it comes with many requirements and risks. Since customers look for familiarity and comfort, a nursing home would need high quality and friendly staffs that would include nurses, physical therapists, nutritionists, and other orderlies. The nursing home will also need to be equipped with various healthcare facilities and machines of which A&S has no knowledge. To operate a nursing home, A&S will definitely need the expertise of Samitivej Hospital, which means there would need to be some types of agreements or contracts between A&S and Samitivej. The contract would need to cover project startup cost responsibility breakdown, operation and management responsibility, risk and liabilities, profit sharing, etc. The process of reaching agreement and drawing up contract would be long and arduous. In fact, the agreement may not even be reached. Therefore, nursing home as the next project is not advisable.

Since the numbers of condominiums and serviced apartments have been increasing continuously, A&S feels that the market for this business is still very much open, and since A&S is already doing housing rental business, success should not be out of reach. The main difference between a condominium and a serviced apartment is the

ownership of the available units. A&S would like to have complete control of the future development of its land, and is not willing to transfer ownership to outsiders; thus condominium is automatically eliminated from the possible projects. Serviced apartments are similar to hotels but are normally rented out for a longer period of stay at a lower price, and the level of service may vary from one place to another. A&S feels that with careful planning, a serviced apartment project could be done soon and at the same time still gives A&S the flexibility and sufficient income for future developments.

The possible projects that are considered by A&S are shown in the figure 6 below.

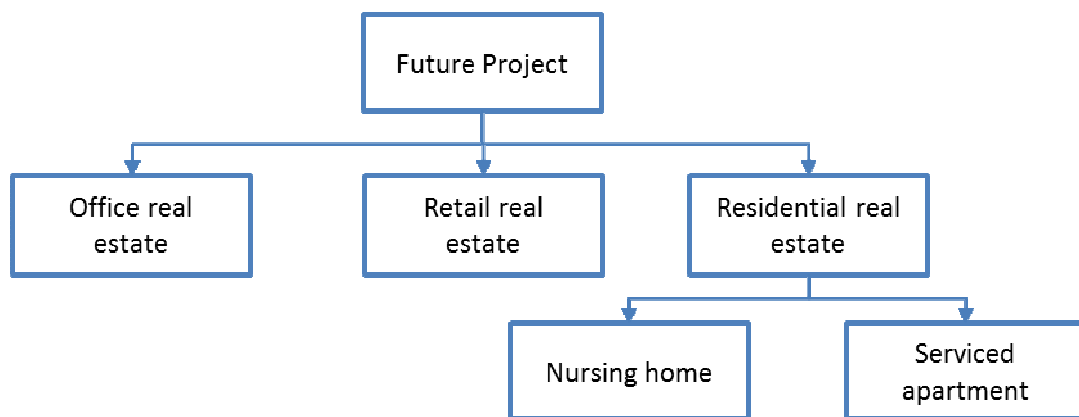


Figure 6: Possible future projects

Project Difficulties

First of all, A&S needs to decide how many units the project could accommodate to produce the level of income that is comparable to the market value of property. Considering the neighborhood, product position should be aimed toward tenants who could effort a considerably higher price, which means A&S would need to offer as much accommodations or as much promotions as the competitors. Product quality must not be compromised because failure to keep up with customers' expectations might cause A&S a large sum of potential income. Lastly, long term problem would be management related because A&S has always been a business with few staff members and relaxed management style. Being a small family trying

to expand its real estate business in a highly populated, highly competitive area comes with certain difficulties that must be overcome.

Technical difficulty

Phase one of the project would be built with one side adjacent to a cul-de-sac that is approximately 4-5 meters wide, one side adjacent to a public water drainage, and two sides adjacent to A&S' own property. The only access to this land would be through the cul-de-sac without any alternative exits or driveways. The size of the project's adjacent street puts the limit on how and what type of buildings could be built on this piece of land. A&S is legally bound to how big the total usage area as well as the maximum height of the entire building could be. In other words, the number of units and the size of each unit are predetermined based on the Ministerial Regulations as well as Bangkok Ordinances. Unless the type of building could be identified, product positioning would not be possible. Once the height and usable area are clarified, A&S would be able to determine the number of units that can be offered within the property, the types of units, and the pricing of each type of units considering the accommodations and the types of facilities A&S could offer given the 150 million available budget.

Marketing difficulty

Spending 150 million baht on a project is the biggest investment A&S has ever considered, even bigger than the day of its own establishment 30 plus years ago. Therefore, first and foremost, the question of how to get that 150 million back in a timely fashion must be answered and the answer is only possible through sound marketing strategy. As mentioned earlier, condominiums and serviced apartments, many of which are managed and operated by well-known and well established real estate developers, have been popping up left and right around the neighborhood. Figure 7 shows the number of condominium projects in Thailand that is registered with the Department of Lands, and since 2001, the number of condominiums in has risen steadily (Government Housing Bank, 2012). Similarly, figure 8 shows the number of registered housing per year in Thailand, and since 2001, registered

housing has been growing every year (Vanichvatana, 2007). The growth in Thailand real estate sector is assumed to reflect the growth within A&S' district. Up until the end of September 2012, there are 162 registered condominiums within the district (Soysri & Chaiaree, 2013). The competition in real estate in the area is fierce and trying to emerge as a new competitor comes with many risks because these companies have more experience and shareholders with deeper pockets. Therefore, since A&S is less robust financially, understanding the competitors, especially their products, is the key to success because without knowing the competitors, A&S would not be able to position its products competitively.

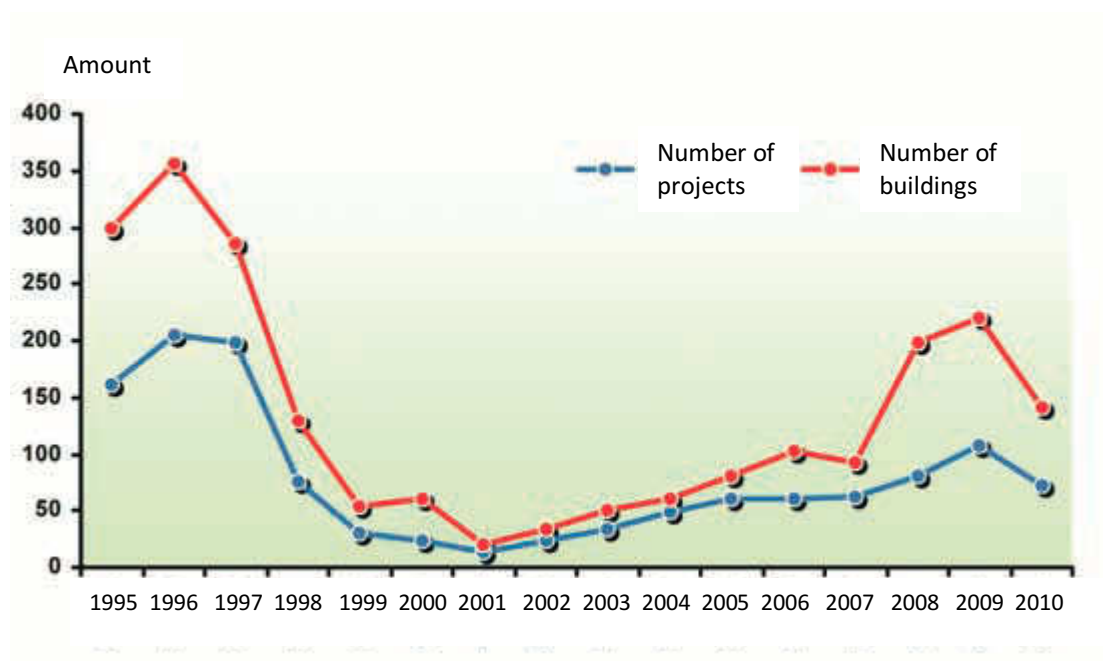


Figure 7: Number of registered condominiums in Thailand each year

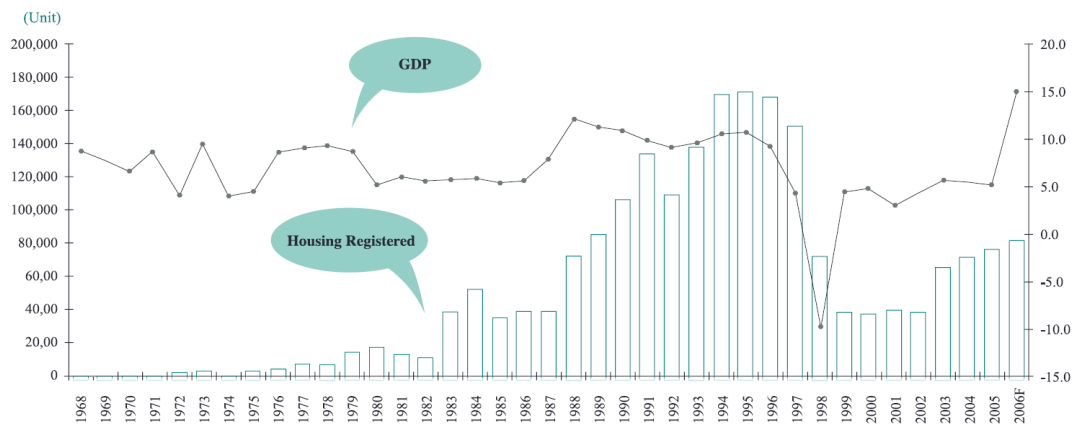


Figure 8: Number of registered housing in Thailand each year

Financial difficulty

Since A&S cannot afford to lose 150 million baht because of a business bust, after deciding the type of products it could offer, a suitable unit price must be decided to ensure the desired rate of return. So far, all the rental spaces, both commercial and residential, have had 95% occupancy rate without any needs for advertisement or promotion schemes; however, with the sudden increase in rental units from the new project, idling by without getting involves in sales and advertisement might hinder the potential revenue and delay the breakeven, or even cause A&S the biggest financial loss that might be extremely difficult to recover. Product pricing must be considered carefully so a reasonable cash flow could be estimated to predict the breakeven point.

Operational difficulty

Once the serviced apartment has been established, the next problem is the operational aspect of the business. In order for the new project to be fully operational, A&S must find enough staff members to keep the new project well maintained and well managed. Since A&S has been managed and operated as a family instead of as a corporate, A&S has always employed the minimal amount of staff members, which mean the new serviced apartment would require additional man-power to maintain and secure the new business. In addition, the increase in tenants would affect the current operation because the increase in tenants may lead to the increase in membership and the increase in membership may cause

operational problems for sports club business. At the present, A&S facilities are used at full capacity during peak hours during weekdays, which is from 6 until 8 o'clock in the evening. Having more membership from the tenants means more congestion for the Racquet Club. Therefore, in addition to the extra man-power for the serviced apartment, A&S must figure out how to prepare the facilities to accommodate the potential increase in membership because if the sports club cannot provide the facilities adequate to the members' needs, they will most likely be some dismays and dissatisfactions which may result in membership loss.

CHAPTER IV

STRATEGIES AND ANALYSES

Legal and Structural Analysis

Definition

Before going into the detail about what kind of buildings can be constructed on the land, definition of each type of building must be first specified in accordance to Thai land laws. Ministerial Regulation No. 33 (B.E. 2535) in the Building Control Act B.E. 2522 defines “tall building” to be a construction that is taller than 23 meters when measuring from ground level to the rooftop. “Exceptionally large building” is a building with combined usable space greater than 10,000 m². Ministerial Regulation No. 55 (B.E. 2543) in the Building Control Act B.E. 2522 defines “large building” as a building with combined usable space greater than 2,000 m² or a building that is taller than 15 meters measured from ground level to the rooftop and usable space larger than 1,000 but not exceeding 2,000 m².

Regulations

Ministerial Regulation No. 33 (B.E. 2535) in the Building Control Act B.E. 2522 states that for tall building or exceptionally large building that has combined usable area not greater than 30,000 m² to be constructed, that land must be adjacent to a public road that is wider than 10 meters. The building must also be surrounded by a driveway not smaller than 6 meters and the walls and floors of any part of the building must also be away from public roads or the adjacent lands owned by other individuals not less than 6 meters. Bangkok Code of Law in the Building Control Act B.E. 2544 states that a building that is constructed adjacent to a public street less than 10 meters wide, the building must be constructed no less than 6 meters from the middle of that street, and a building that is taller than 15 meters must have at least 2 meters of empty space around the building.

The to-be-developed land is situated between Sukhumvit 49/7 which is 4.2 meters wide public cul-de-sac and Sukhumvit 49/9 which is a private cul-de-sac also 4.2 meters wide; thus, tall building and exceptionally large building are not allowed to be built for either phase. As a result, the buildings that can be constructed upon this land cannot be more than 23 meters tall, which means no more than 7 stories and the building must be at least 6 meters from the middle of the adjacent road, which turns out to be 4.5 meters from the property line and 2 meters from the other 3 boundaries. Automatically, the building will have usable space less than 10,000 m².

Bangkok Code of Law in the Building Control Act B.E. 2544 states that a residential building (condominiums/ serviced apartments) must provide parking space for each of the unit bigger than 60 m², but considering current living style in the city, parking space has become a necessity for any tenants that at least one parking space is necessary for each unit. Since the height of the building cannot exceed 23 meters, A&S must consider underground parking space although cost of construction would be higher than above ground construction because if the parking space is located above ground, there would be very little space left for residential units.

The land that sits on Sukhumvit 49/7 is chosen for phase 1 because it is the land that would affect the rest of A&S the least since it is on the edge of the property and during construction, all the additional traffic would come through a public road without disturbing other tenants and sport club members. The design approval and construction permit will be done one time for both phases to prevent any potential additional red tapes in case there are changes in the laws in the future.

Marketing Strategy

Since cash solvency is the ultimate goal and time carries risk, the question is how to manage the project to achieve cash solvency quickly and to do so, A&S must find tenants for the vacant space as quickly as possible, which means market research must be done thoroughly and product positioning must be discussed at length. According to Graaskamp and Oprea, construction should be done as quickly as

possible and sales and marketing must be aggressive. Based on Khumpaisal's list of various risks, social, technological, environmental, and political risks are not the main concerns for A&S because the intended constructions are mid-rise buildings within its own space to replace existing buildings, so there is minimum change in environment and social. The buildings will be simple enough so technological risks should not affect the project, and the only political risk is the possible change in Land Laws in the near future; therefore it is in A&S' best interest to break the ground for this project as quickly as possible. The main concern for A&S would be economic risks especially regarding investment return and market liquidity. As mentioned by Oprea, one way that A&S could reduce economic risk is aiming to pay off its debt as quickly as possible, and since economic risks are the only concerns, A&S would emphasize on marketing and financial analysis instead of risk analysis as suggested by Khumpaisal et al. Since A&S' resources are limited with regard to space and staff, access must be restricted for outsiders, which is what expected from the tenants because security and privacy are what important in living arrangement. Restricting access, however, cannot be so forceful that the space users feel caged and controlled. Since residential sector is the driver of the other sector, A&S' investment in service apartment would be beneficial for the other business and since A&S has already have business in office and residential sector, future diversification to retail sector would in fact enable A&S to become more sustainable because all businesses of A&S would complement each other.

In order to compete in the real estate business, A&S must first understand itself because without knowing its own capacity and capability, A&S would be jumping into the field half-baked and the only position A&S would find itself at the end is on the losing side. One way to analyze A&S' internal and external factors is via SWOT analysis.

SWOT Analysis

SWOT analysis is a fundamental but yet effective method for A&S to look deep into its own environments both internal and external. Once SWOT analysis is done and

A&S is fully aware of what can or cannot be done, strategies could be constructed to best prepare A&S for the biggest step the company has ever taken since the first day its front door opened.

Strength

A&S most obvious strength is the land on which the company stands. The land that would be developed for the first phase has a value of 30,000 baht per square meter estimated by The Treasure Department (Anon., n.d.), which means the total land of 2480 m² equals to 74.4 million baht. The land is situated in a very populated as well as popular area with many places of interest and attractions such as department stores, theaters, parks, pubs and restaurants, hospitals, and schools. The land also sits between Sukhumvit road, Pethchaburi road, Asoke, and Thonglor with nearby highway entrances/exits as well as MRT and BTS stations. Before all the businesses were established, the neighborhood was purely residential with houses and hardly any tall buildings. The traffic in the neighborhood used to be only by families who commute in the morning and in the evening to go to works or schools; however, the people that come to the neighborhood today include all age groups and backgrounds. The patrons range from young adults who come to shopping or spend time with friends to young workforce who come to entertain themselves with nightlives to middle age parents who come to enjoy good dining and shopping. The people also range from individuals with low to middle incomes who have been living in the neighborhood to the rich and famous who come for leisure purposes.

Another strength is all of A&S' directors and board members are living in the proximity, which means everyone is closely watching what is happening in the company. Although almost all the board members are full-time employed elsewhere, everyone is still physically closely tied to the company. Whenever there is a need to gather for emergency meeting to go over any issues, everyone can be called up for a meeting over dinners. Since the entire family has been living in the same neighborhood, all the discussion and meetings have always been done as a family and not as a corporate. This relationship is also reflected onto how the company is

managed. A&S is a small company with the total of 54 employees, and all members in the management level know, or at least are encouraged to know, all the employees. Employers and employees have close relationships with minimal issue of hierarchy, and all employees are encouraged to discuss any issues or concerns with the management level to minimize any gaps between management and employees. As a result, any issues can be dealt immediately without the needs for paperwork, so no times would be needed for multiple levels of approval given that the decisions can be made right away.

The last, and possibly most valuable, strength is the existence of the sports club because it can be used as a part of promotions that A&S could offer to the tenants. How the sports club could be used will be covered in more detail in the 4Ps analysis section.

Weakness

The most prominent weakness of A&S is the lack of experience in the serviced apartment business. Although A&S has been offering rental spaces for a long time, experience in sales and marketing is still considerably low. Up until now, A&S has never promoted or advertised its product; instead, it has relied purely on word of mouth, which has so far given A&S satisfactory result. However, if the serviced apartment building is constructed, A&S might no longer be able to effort to be passive in sales and marketing because without being more active, A&S might end up with empty units and lose any potential revenue that could have been earned with proper marketing strategy.

Additional to the lack of experience is the indecisiveness of the management. When the time comes to make decision about investment opportunity, there would be a few members who are reluctant because of the lack of financial independency, which is a weakness in its own, and the uncertainty in the response of the market. As mentioned above the culture of the company is family-like; hence, whenever there are any sub-standard performances from the employees, the company would tend to react with warning and tolerance instead of more aggressive and direct methods

such as probation or firing. As a result, a few employees work in complacency without the need to do their best because they know that firing is not A&S' preferred method.

Opportunity

One opportunity that has been existed all along is the knowledge that A&S could earn more from its properties because the current rents are considerably low comparing to the market value. For example, the 2480 m² land that is meant for the first phase is currently generating 140,000 baht per month, which equals to 56.5 baht per square meter per month.

The recent influxes of expatriates who are interested in the neighborhood in the past few years also is a good opportunity to invest in serviced apartments because the increase in expatriates means the rise in demand with potential tenants who are able to effort higher rents. Based on the Racquet Club membership record from 2006 until 2013, the number of non-Thai members, most of whom reside in the neighborhood, has been on a steady rise as shown in the figure 9. This record shows that the neighborhood still draws interest from expatriates regardless of where they work.

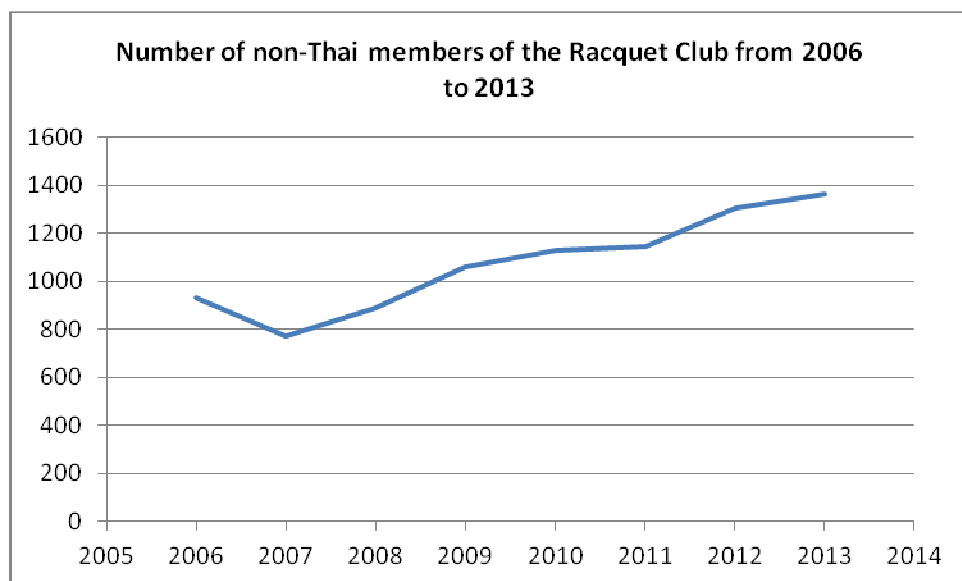


Figure 9: Number of non-Thai members of the Racquet Club from 2006 to 2013

Transpo International Ltd, whose expertise is relocation service and is located in Bangkok, has supplied information of 260 expatriates between 2008 and 2013. Figure 10 shows the steady rise in expatriates who have received helps in relocation to Bangkok. In addition, the ASEAN community will be integrated in 2015, which means there will be even more expatriate influx in the near future. The immediate increase in expatriate influx would most likely be those from the ASEAN countries, but the integration of ASEAN community would probably give birth to new enterprises that will eventually draw more expatriates from elsewhere.



Figure 10: Number of expatriates relocated to Bangkok by Transpo International Ltd.

The increase in the number of expatriates has led to the increase in business establishment, namely retail stores and restaurants, has led to the increase in Thai individuals who are interested in moving into the area. Although Thai tenants are not A&S' main target customers, it cannot be denied that there is a potential in exploring this opportunity.

Threat

A&S' immediate threat is the number of competitors in the neighborhood. For the past 10 years, the number condominiums and serviced apartments have been rising

steadily. Figure 11 shows the year of completion of the investigated 77 condominiums.

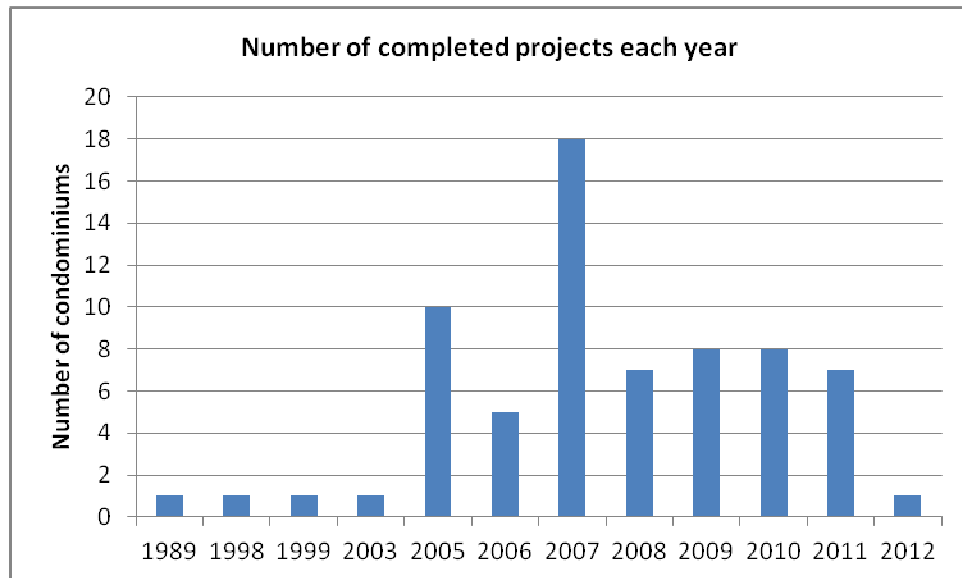


Figure 11: Number of completed project each year

Although the product that A&S is planning to launch is serviced apartments, condominiums have been included as competitors because while attempting to find direct competitors in other serviced apartments in the area, it has been realized that many condominium units are bought for the sole purpose of having them be rented out, and from the tenants' perspective, there is absolutely no difference between serviced apartments and rented-out condominiums. Regarding the process of identifying the competitors, internet was used as the main tool because it is assumed that internet is also the main, if not the only, tool other individuals, especially to-be-expatriates who need to find a place to live prior to arriving Bangkok, use to find a place to live. The competitors are focused in the area in the proximity to A&S. Figure 12 shows the 77 condominiums in the area between Wireless Road, Rama 4 Road, Phra Khanong Road (Sukhumvit 71), and Petchaburi Road. There are definitely locations other than those that have been identified in this finding, but these 77 locations should be sufficient enough for A&S to strategize how to position its product to be competitive.



Figure 12: Map of competitors in proximity to Amara & Sons Co., Ltd.

Many of these condominiums and serviced apartments developers are well known with many years of experience in the business. These developers have solid marketing teams, much better financial stability, better connection with contractors, and possibly better connection with government officials. They are likely to effort well-known architects who are experienced and can design buildings with few flaws than not-so-experience ones. They are also likely to have contacts of contractors who have work on these type of buildings and are aware of the dos and don'ts to minimize any potential complaints from the tenants. All in all, the combination of management experience, design experience, and construction experience would give these developers tremendous edge over A&S to come up with buildings with high functionality, efficiency, and aestheticism.

The summarize of SWOT analysis can be seen in table 3.

Table 3 SWOT analysis

Strength	Weakness
<ul style="list-style-type: none">- Good location- Good relationship between management and employees- The existant of sports club	<ul style="list-style-type: none">- Lack of experience- Soft management styel- Lack of financial liquidity
Opportunity	Threat
<ul style="list-style-type: none">- Increase in expatriates- Increase in other business- Increase in land value	<ul style="list-style-type: none">- Many experience competitors- Change in Land Laws

4Ps Analysis

In this analysis, the 4 Ps are Product, Place, Price, and Promotion. The product section will cover largely the size of each unit type in comparison to the competitors because the difference between A&S and competitors can dictate how pricing should be done to make the product more attractive. Place section will be fairly brief because it has already been discussed in SWOT analysis.

Competitor benchmarking would be done purely by searching the internet because it is the basic and common method people use to find information about real estate developments. After benchmarking is done, common size for each unit type can be identify and A&S can decide its own unit size, and as a result figure out how many units can be offered. Once the product type is known, pricing must be decided in order to generate the desired cash flow, and similar to unit sizes, competitor benchmarking is done online. Lastly, management method must be considered because the project needs to be sustainable and must not disrupt other parts of A&S' business.

Product

The ground level of the serviced apartment would most likely be the lobby, some common areas, and some office spaces. The top two stories of both phases will be designated as living spaces for the management members because the land currently occupied by the family members may be utilized by A&S for future purposes; thus, there would be four stories available to be used for the serviced apartments.

The unit types that A&S would be offering would start from one bedroom up to three bedrooms units without any studios or any bigger units because the main target is not someone who are staying longer and would eventually have big enough family that requires more than 3 bedrooms. Based on the investigated 77 condominium projects, A&S would concentrate mostly on one and two bedroom units because these two types have higher demands; possibly only one 3-bedroom unit will be offered each floor.

Based on the information found on 925 1-bedroom units, 925 2-bedroom units, and 319 3-bedrooms units for rent in the 77 condominiums, the unit size can be shown in figure 13.

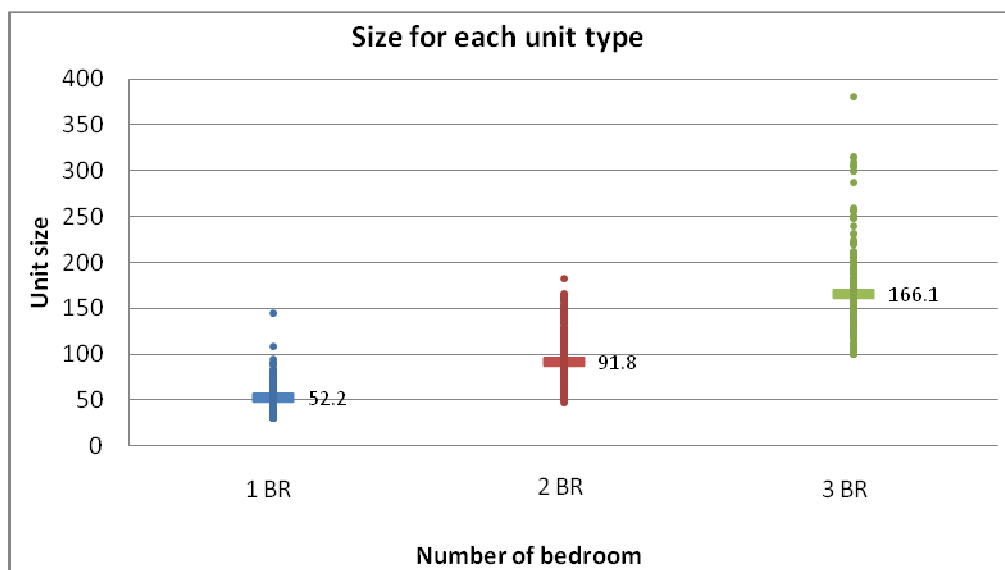


Figure 13: Competitors unit size

Within the 77 investigated condominiums' 921 1-bedroom units, the average size is 52.2 m², 91.8 m² is the average of the investigated 925 2-bedrooms and 166.1 8 m² is the average of the investigated 319 3-bedrooms. The histogram of all the rented out units are show in figure 14 to figure 16.

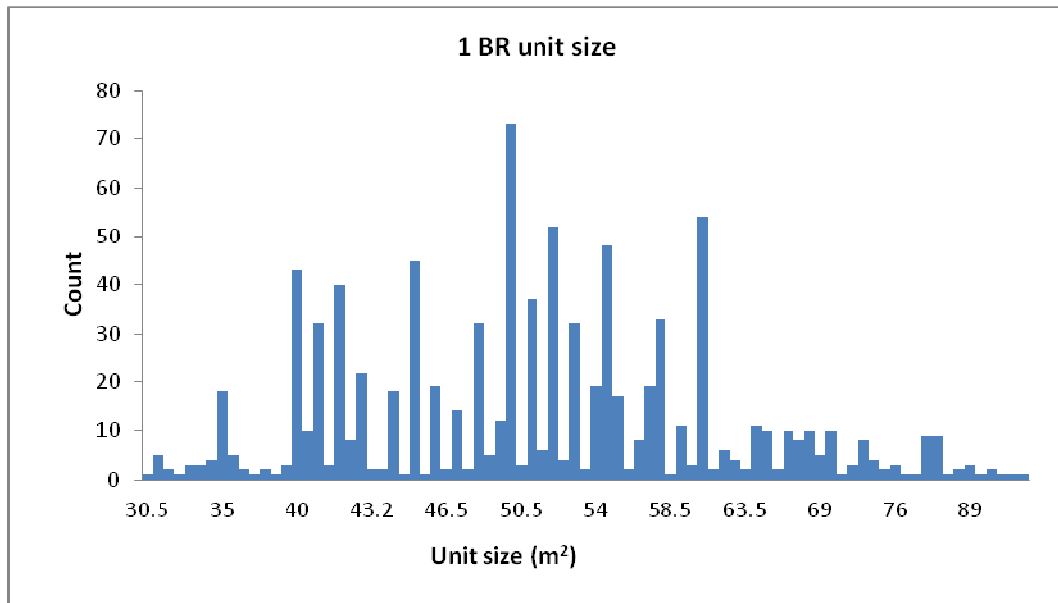


Figure 14: Histogram of 1 BR unit size

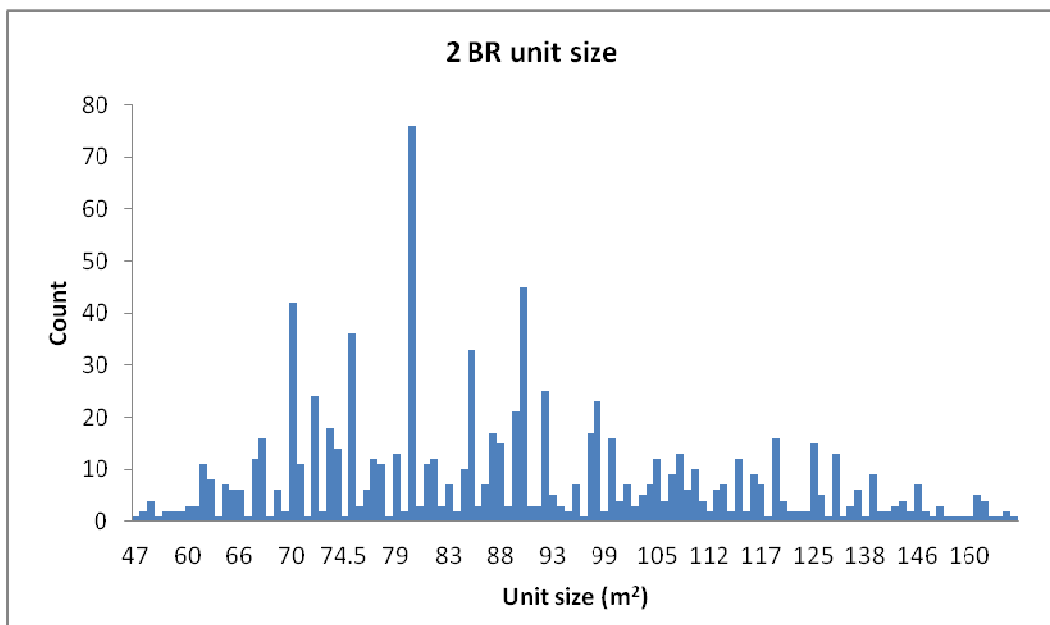


Figure 15: Histogram of 2 BR unit size

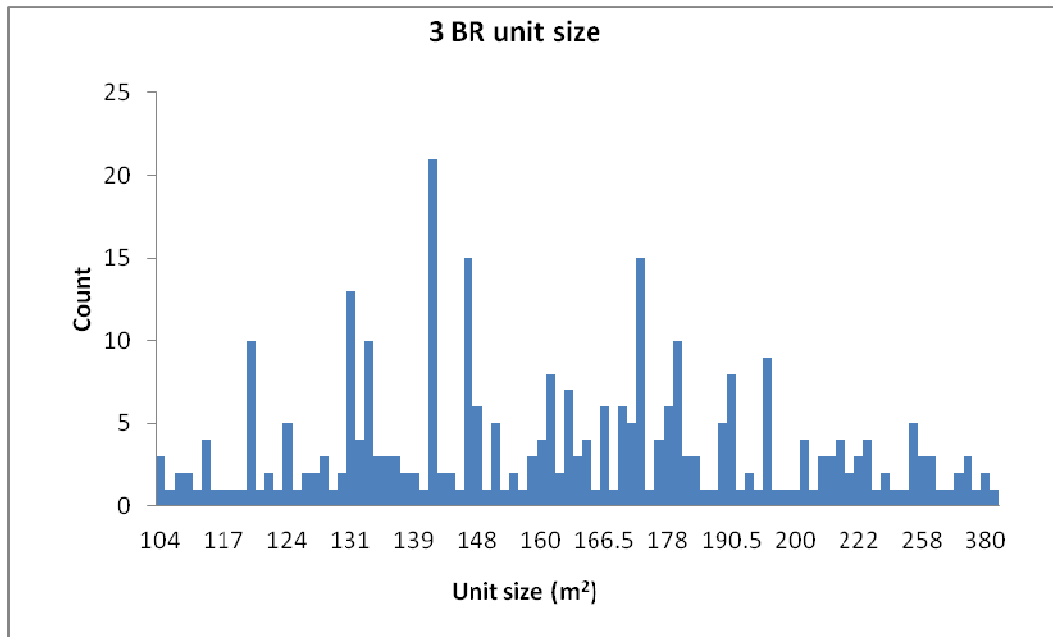


Figure 16: Histogram of 3 BR unit size

Out of 77 investigated condominiums, 27 of which have disclosed the types and the number of units offered. Figure 17 to figure 19 show the total number of units in those 27 properties versus the number of units that are being rented out in an attempt to illustrate the occupancy rate. The most popular sizes for 1 bedroom units are 50-55 m² but a promising size range would be between 45 to 55 m² while for 2 bedrooms would be 65-70 m² or 75-80 m². For 3 bedrooms 160-165 m² may seem like the most favorite unit sizes, however, 95-100 and 120-125 m² unit sizes yield better occupancy rates. When adding up all the units being offered and all the units that are being rented out, the occupancy rate of 1BR, 2BR, and 3BR units are 87%, 85%, and 85% respectively.

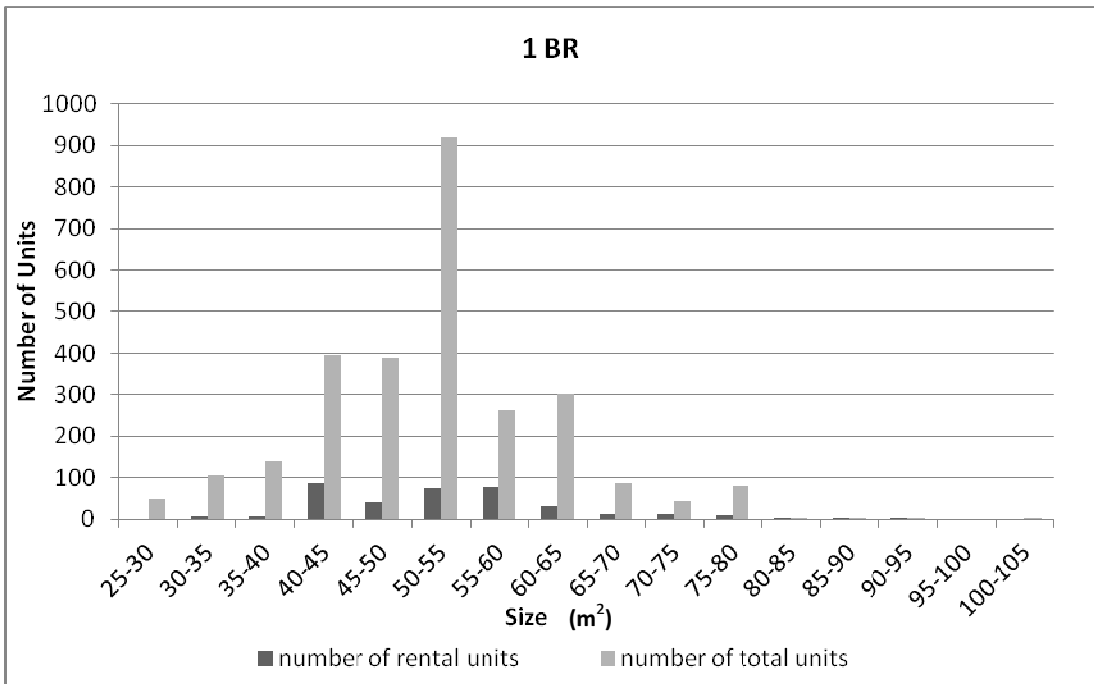


Figure 17: Occupancy of 1 BR units

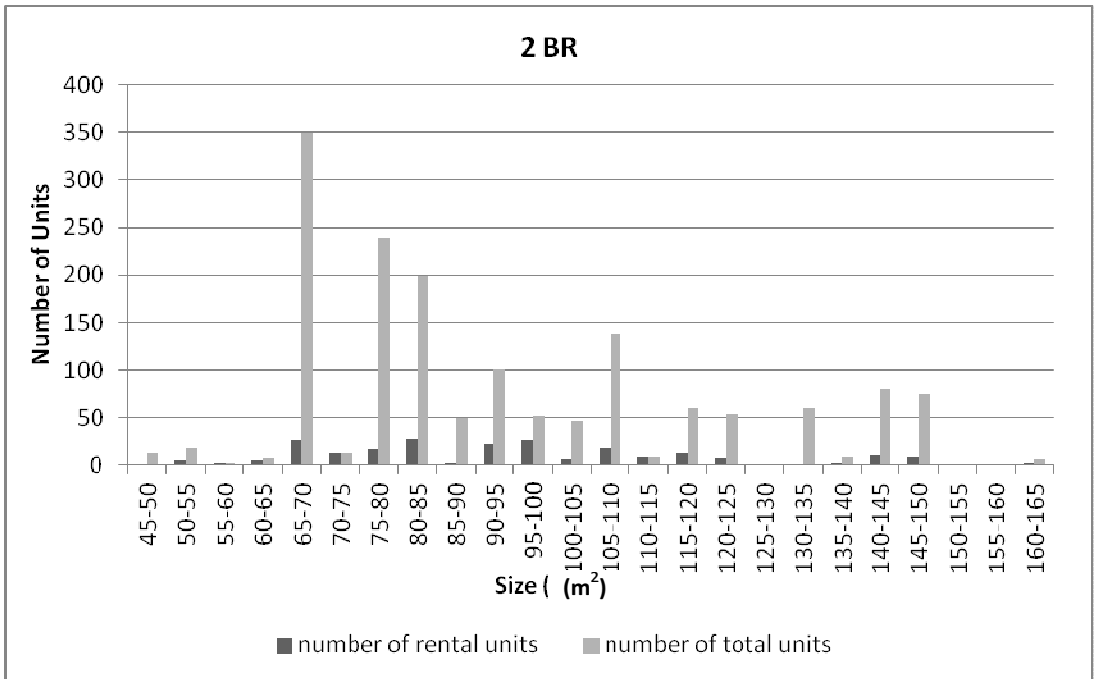


Figure 18: Occupancy of 2 BR units

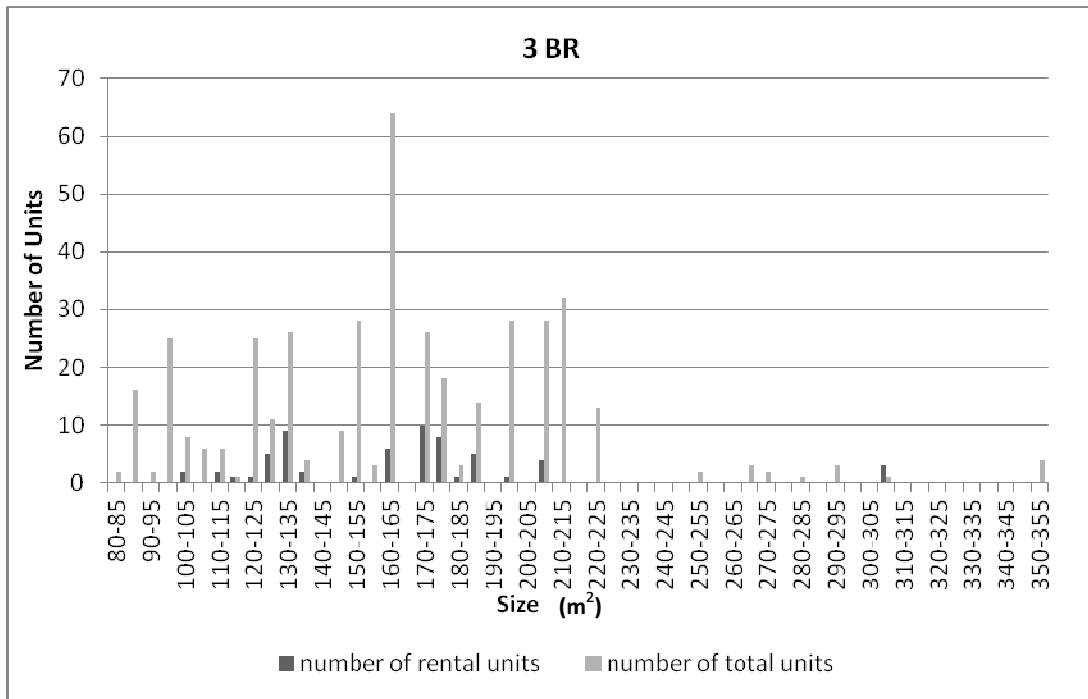


Figure 19: Occupancy of 3 BR units

With the available floor size along with the most common unit size for each unit type, the new building can accommodate various BR combinations of each unit types, which will be discussed in the financial analysis section.

Place

As mention in SWOT analysis section, the location for the new serviced apartment is located in a highly popular neighborhood surrounded with many places of interest such as schools, hospitals, shopping complex, restaurants, etc. The area is highly residential with easy access from big major roads and expressways for those who drive and need to commute to places farther from home. One drawback for living is this neighborhood is the traffic congestion that happens regularly; however, those who want to avoid spending hours on the road during rush hours, public transit system, i.e. MRT and BTS are also available. The list of distance from various points of interest is shown below.

- Nearest school (American International School) 30 meters
- Nearest hospital (Samitivej) 100 meters
- Nearest restaurant 100 meters
- Nearest gas station (TPI) 200 meters
- Nearest BTS station (Phrom Phong station) 800 meters
- Nearest shopping mall (Emporium) 880 meters
- Nearest police station (Thonglor station) 880 meters
- Nearest Park (Benjasiri Park) 900 meters
- Nearest University (Srinakharinwirot University) 1.5 kilometers
- Nearest MRT station (Sukhumvit station) 1.5 kilometers
- Nearest expressway access 2.0 kilometers
- Nearest airport link station (Makkasan station) 2.3 kilometers

If one were to choose a place to live and possibly raise families, this neighborhood is as good as any.

Price

Now that the products have been identified, price must be decided to make each unit type competitive. Figure 20 to figure 22 show the rent distribution of the competitors for each unit type.

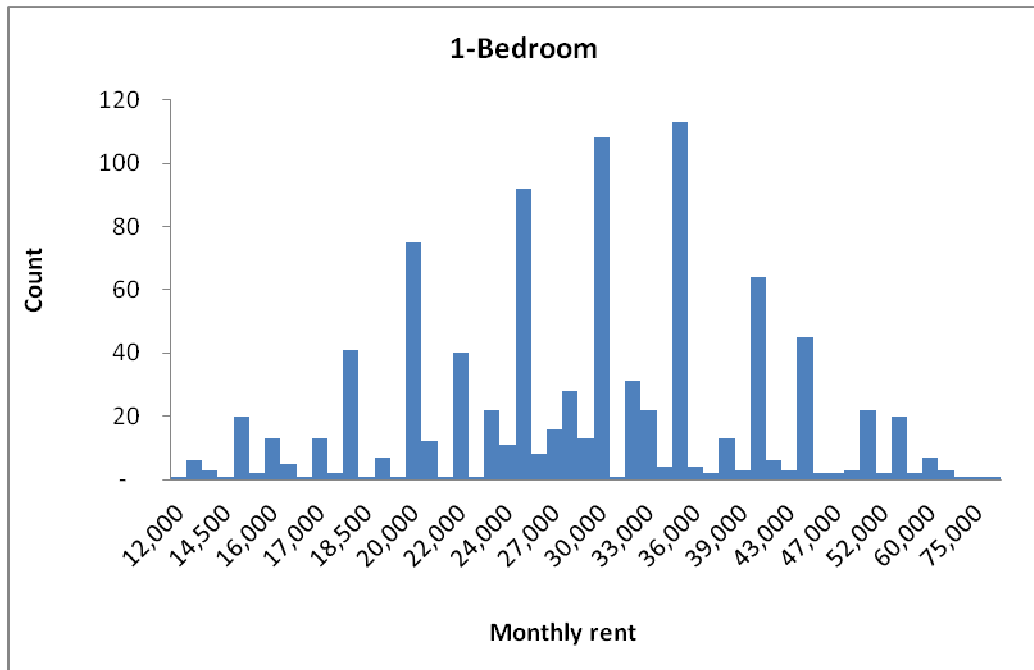


Figure 20: Rent distribution for 1 BR

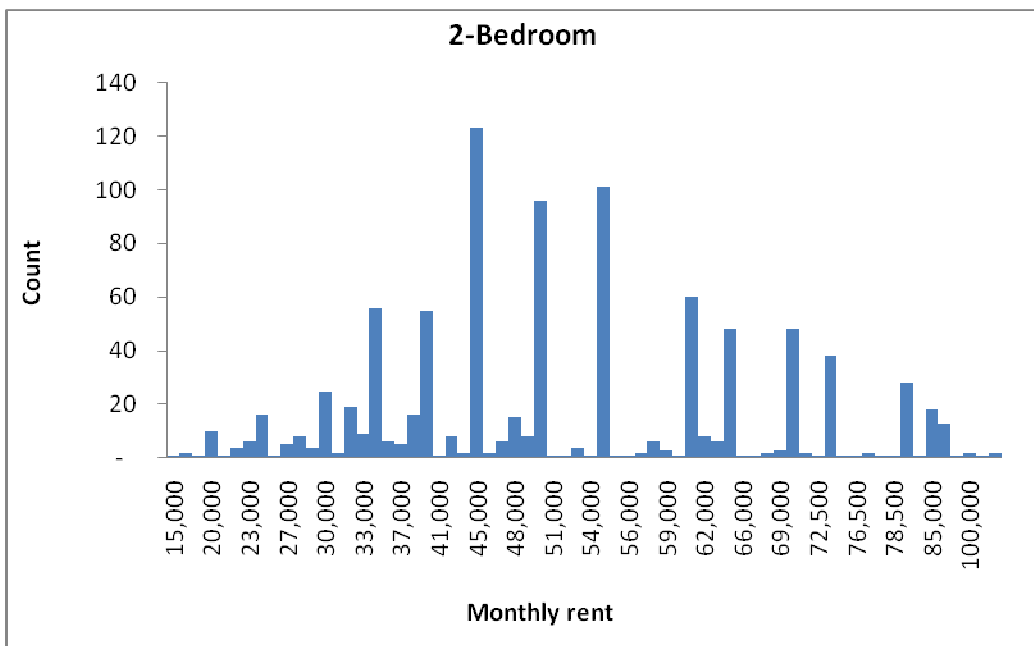


Figure 21: Rent distribution for 2 BR

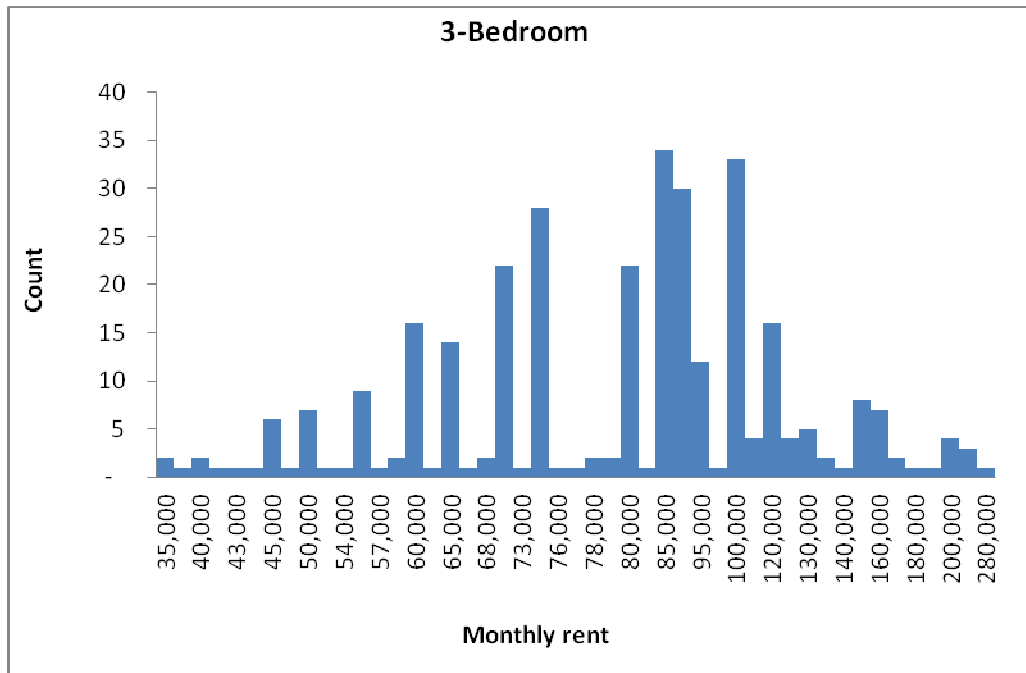


Figure 22: Rent distribution for 3 BR

The average monthly rent for 1-bedroom units is 30,396 baht, 51,838 baht for 2-bedroom units, and 90,401 baht for 3-bedroom units. Looking at the average monthly rent alone can be misleading because rent depends greatly on how big each unit is. Therefore, it is better to look at rent per square meter per month because no matter how big or how small each unit is, rent can be decided accordingly to position the product to be competitive.

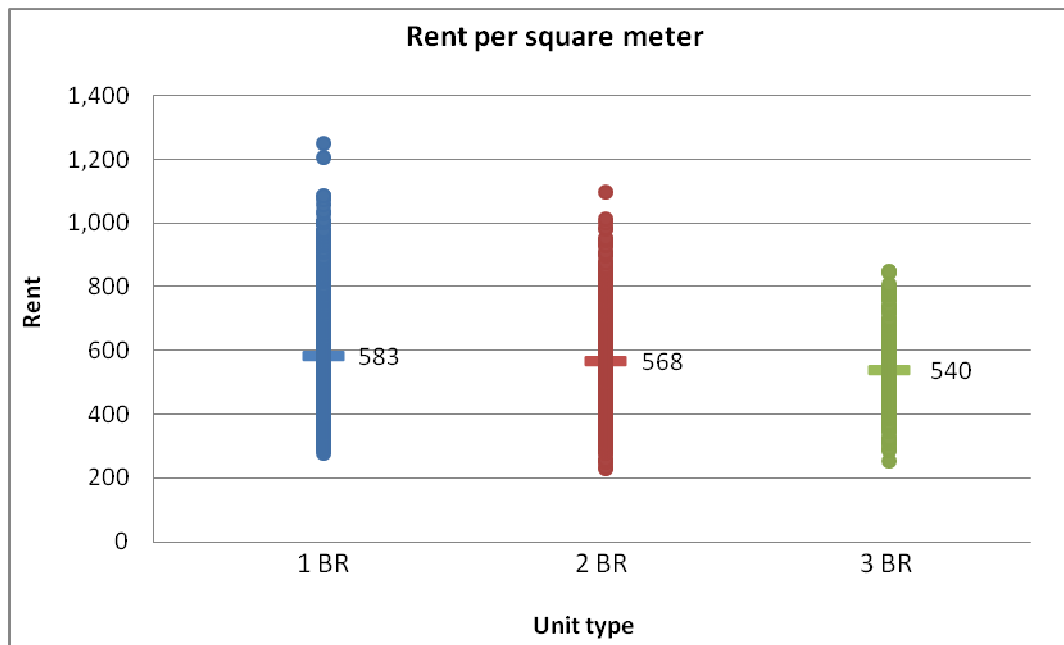


Figure 23: Monthly rent per square meter for each unit type

Figure 23 shows monthly rent per square meter for each unit type. The range for one-bedroom unit is the largest with 973 baht, 866 baht for two-bedroom unit, and smallest range at 595 baht for three-bedroom unit; furthermore, it turns out that the average rent per square meter for each unit type are relatively similar. The rent for each unit type will be discussed in more detail in financial analysis section to strategize on what the appropriate rents are and how quickly A&S would like the breakeven point to be.

Promotion

Once the product and the price have been studied, one more factor that needs to be studied is what facilities are being offered along with the rooms. Figure 24 illustrates the facilities and serviced that are being offered by other locations.

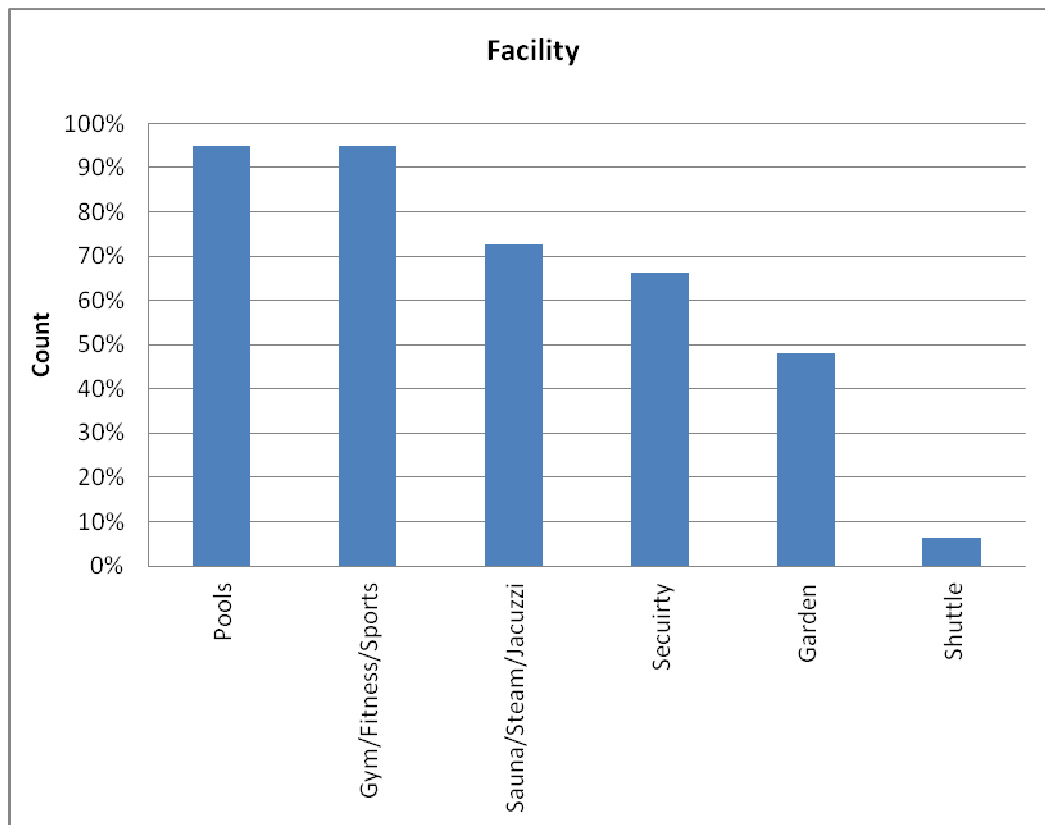


Figure 24: Facilities and serviced being offered by other condominiums

What can be inferred from this information is at least 95 percent of the 77 locations offer pools and some type of sports facilities, more than 60 percent have security protocols, and at least six percent have shuttle service. Looking at this list, A&S has everything that is being offered elsewhere, but considering other condominiums are offering these facilities and services free of charge, it is necessary to include A&S' sports club as part of the package along with the serviced apartment rental. Since the annual membership fee for the sports club is more than 20,000 baht, giving that out for free to all tenants equals to approximately 2,000 baht per month per person, which is too much for a giveaway. A&S would need to come up with an entirely separate package for serviced apartment tenants that allow them to use only the pools and fitness and nothing else for free, or A&S must set the month rents high enough so that the membership fees are virtually included within the rents.

Although some serviced apartments may include free breakfast and laundry service, they are not mandatory (Manestay, 2011). Offering breakfast or laundry service

means A&S must invest in facilities such as kitchen or laundry equipment, neither of which are A&S expertise. A&S would not be offering breakfast and laundry service simply because they are not the core businesses and the investment cost and operating expense are too high. The data of Transpo International Ltd.'s 260 expatriates reveal what services are being offered at their places of choices. The data shows that very few units have laundry services; instead, those without laundry service are equipped with washers while only 55% are equipped with dryer. Out of 260 units, 252 units have cleaning services at different frequencies. Within the 252 units, 180 units have cleaning services three times per week and 72 units have 6 times per week. Regarding linen change service, 252 out of 260 units have linen change service up to three times per week. None of the units have meal service, but they all are equipped with full kitchens with stoves and ovens. A&S must at least match the type of services being offered at other location, which means A&S must supply washer and full kitchen in all unit and offer both cleaning and linen change services 3 times per week.

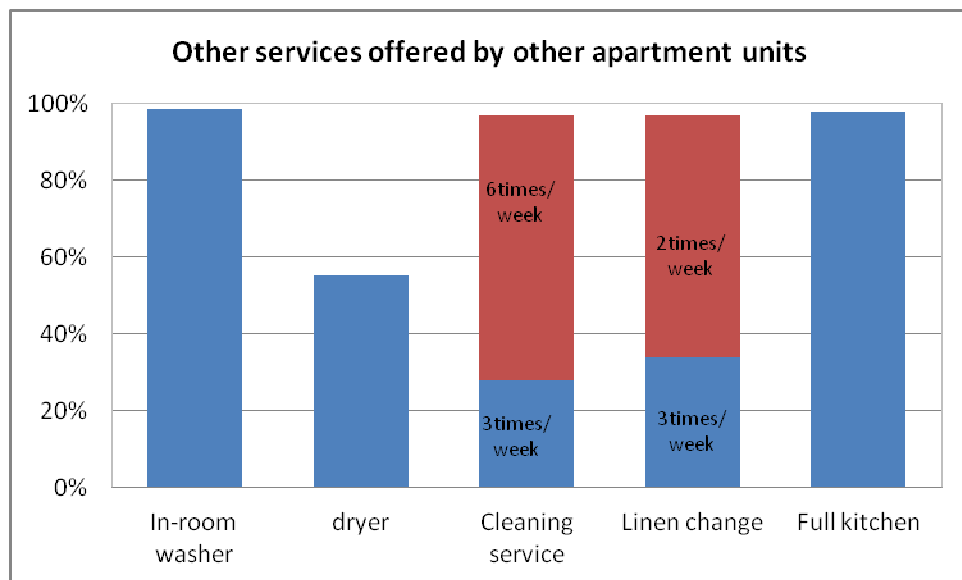


Figure 25: Other services offered by other apartment units

A&S must also get the word out to the public about the new serviced apartment quickly. Considering there would be only 48 units for each phase, mass advertisement might not be necessary. The first step is putting all the necessary

information onto A&S homepage and structure the page so that it can be searched by any online search engines. If relying on that along with word of mouth alone is not sufficient for the available facilities, putting up banners around the neighborhood or putting advertisement in magazines would be the next marketing steps. Attempting to attract expatriates, A&S would have no choice but to contact various real estate agencies who are the middle men between the expatriates and real estate developers.

Financial Strategy

Looking at the existing operation's expense and revenue alone, from 2008 up until 2012, both numbers have gone up continuously as shown in figure 26. Profit before tax has also been rising slowly at the average of 6.4 percent annually with 35.7 million baht profit at the end of 2012. If the profit keeps growing at 6.4 percent, future profit would be 38 million baht for 2013.

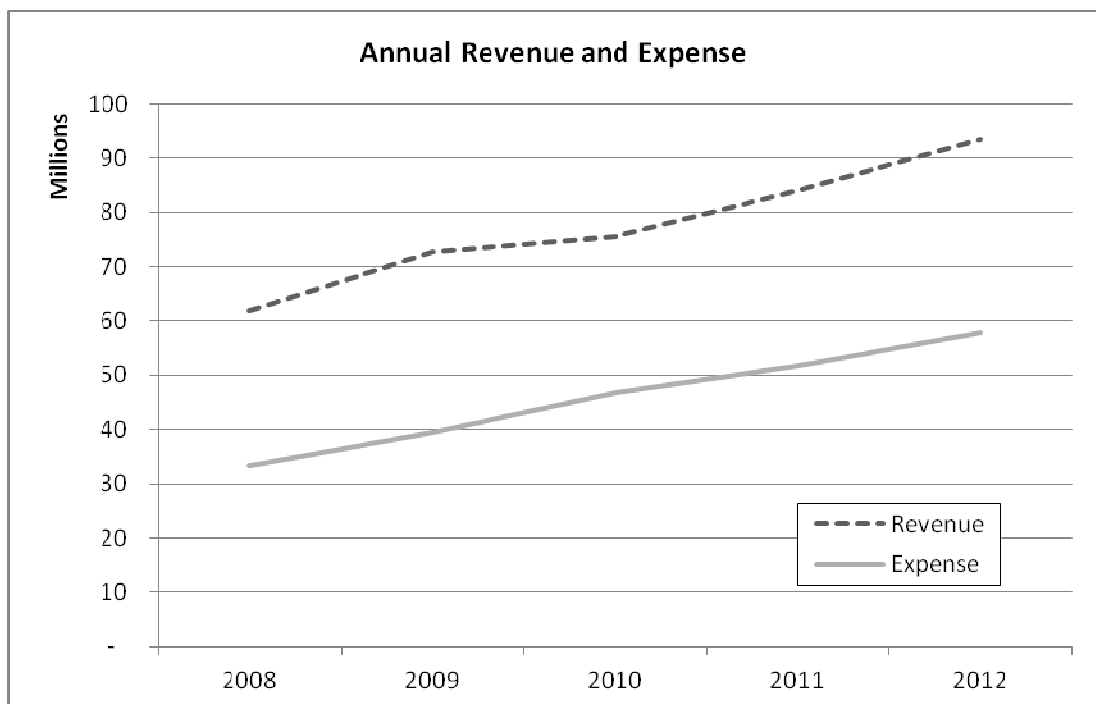


Figure 26: Annual revenue and expense

Regarding cash flow, profit and depreciation combined, average positive cash flow between 2008 and 2012 is 48.3 million baht with the average growth of 8.9 percent

as shown in figure 27. After corporate income tax is calculated from operational profit, the positive cash flow is divided for dividend, and paying back bank loans.

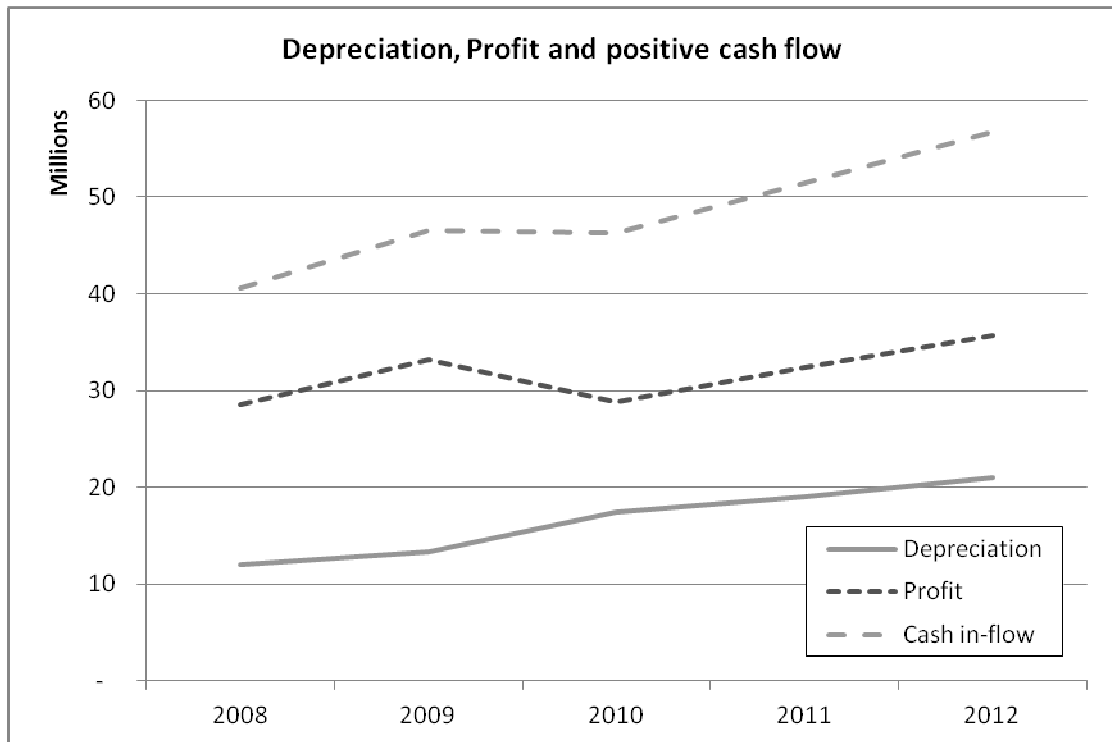


Figure 27: Depreciation, profit and positive cash flow

Since 2009, A&S has been operating with a 70 million over-draw account by using current asset as collateral. So far A&S has never had any big investment that went over the credit line. The most A&S has taken out from the bank was 53.4 million baht in the end of 2009 and with close to 36 million baht annual profit, A&S took 3 years to turn the account balance from red to black as shown in figure 28.

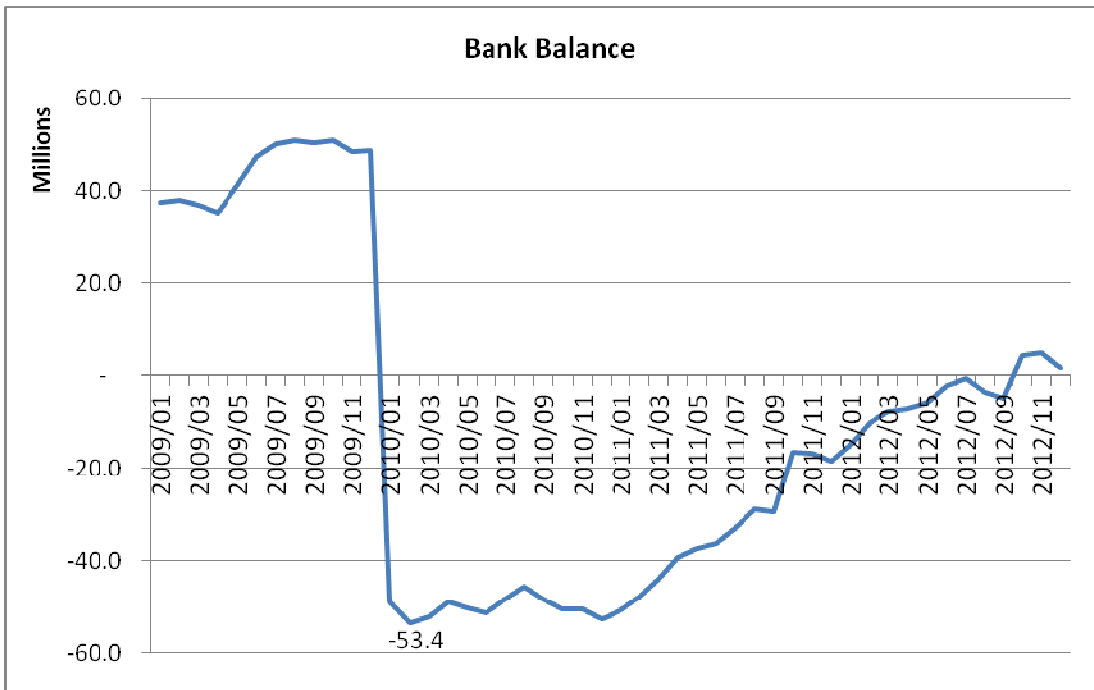


Figure 28: A&S accumulated over draw bank blance

Without additional investment on current operation to generate additional income, annual net profit would remain to be 36 million baht given that there is no sudden change in the number of Sports club members. Also, annual depreciation, income tax, and dividend are assumed to remain the same in the near future. If the first phase of the project takes 2 years to complete, the 150 million baht budget is split into two parts with 10 million baht additional investment for everyday operation upkeep. Thus, without the revenue from the project, the next five year cash flow is expected to be as shown in figure 29.

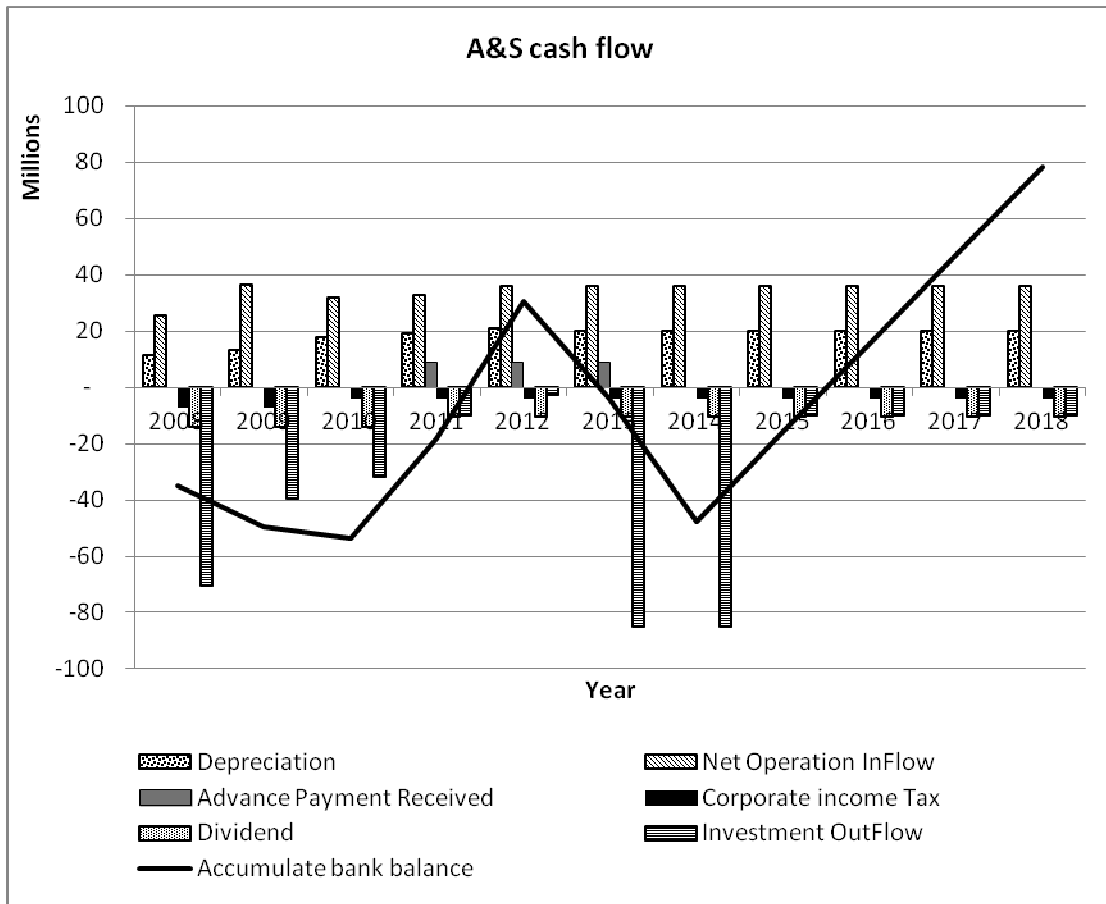


Figure 29: A&S actual and projected cash flow

Ideally, A&S would like to finish both phases as quickly as possible to minimize the period that A&S would be under construction that would undoubtedly discourage not only potential tenants, but also potential sports club members. The construction will cheapen the atmosphere of the neighborhood and the construction crews will disrupt the traffic in the area as well as introducing loud construction noises and large amount of dust. Therefore, it is in the A&S' best interest to conclude this project as quickly as possible. Without any additional income from phase 1, A&S would be able to commence phase 2 in 2018 and complete the construction in 2019, which means the entire project would take 7 years to complete as the possible longest. If A&S were to try to complete both phases the quickest, which means phase 2 commencing in 2015, A&S would need to generate 33 million baht annually from phase 1 in order to keep the over draw bank account within 70 million baht. The cash flow would be as shown in figure 30.

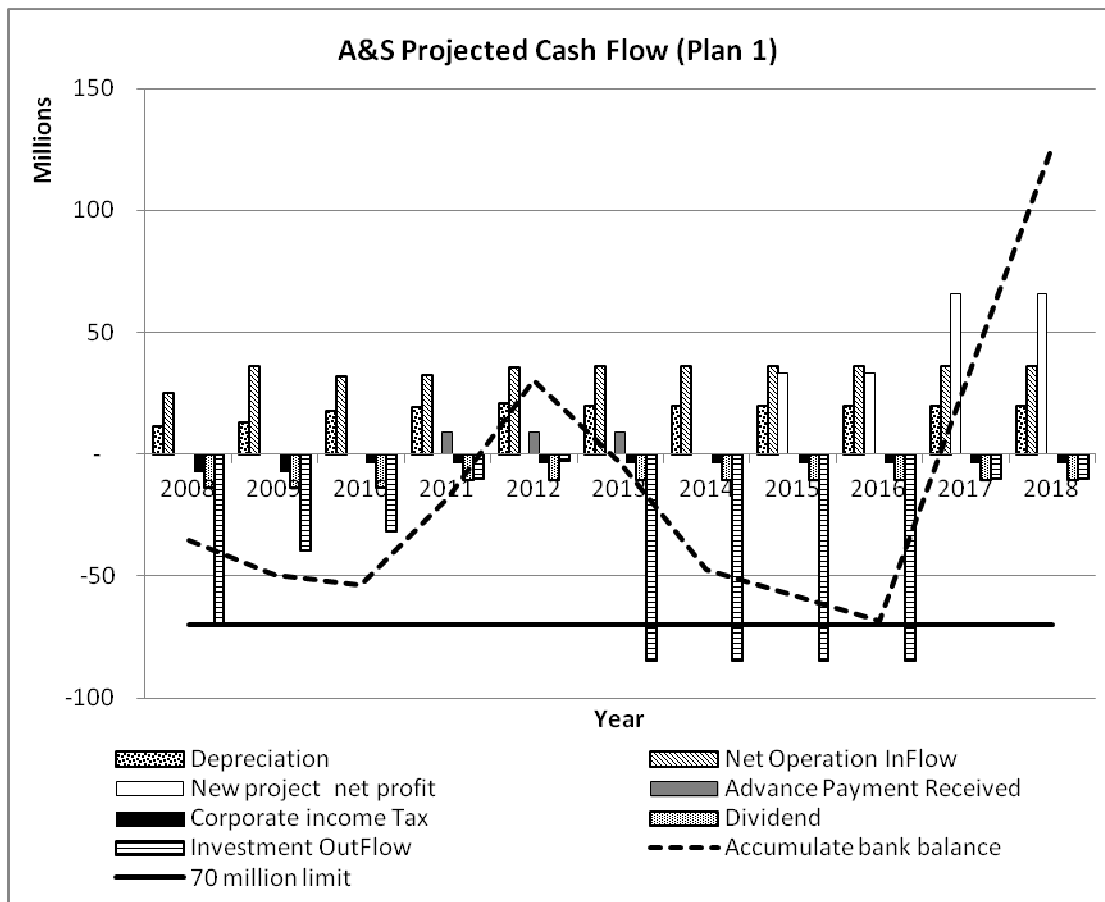


Figure 30: Projected A&S cash flow (plan 1)

As stated in the previous section, the most favorite unit size for 1-bedroom is 50-55 m², 65-70 m² or 75-80 m² for 2-bedroom, and 95-100 m² or 120-125 m² for 3-bedroom. The building that is going to be constructed for the first phase will cover approximately 1000 m², and the area for living space would be around 850 m² where the other 150 m² would be used for storages, corridors, utilities, and elevators. Table 4 shows options of various combinations of each unit types.

Table 4 Various unit sizes combinations

	Option 1		Option 2		Option 3		Option 4	
	unit area	Number of units	unit area	Number of units	unit area	Number of units	unit area	Number of units
1BR	60	7	60	6	55	8	60	5
2BR	80	4	80	5	70	5	80	4
3BR	120	1	120	1	100	1	120	2
Total area	860		880		890		860	

In order for each option above to achieve the annual 33 million baht required for phase 2 to commence in 2015, pricing of each unit type needs to be adjusted accordingly. In the previous section, it was found that the average rent per area for

one bedroom unit is 583 baht/m², 568 and 540 baht/m² for two and three bedroom units respectively. Figure 31 shows the percent increase from the average price necessary to reach the desired annual net income. The calculated net incomes are based on two assumptions. The first assumption is A&S' expense remains at the same number of 2012 at 59% of the total revenue, which is highly conservation because A&S' current 59% expense includes expenses from both sports club and space rental businesses, and the expense is weighted much more heavily on the sports club business. The second assumption is 80% occupancy rate, which is close to the current competitors' occupancy rate (REIC, 2010).

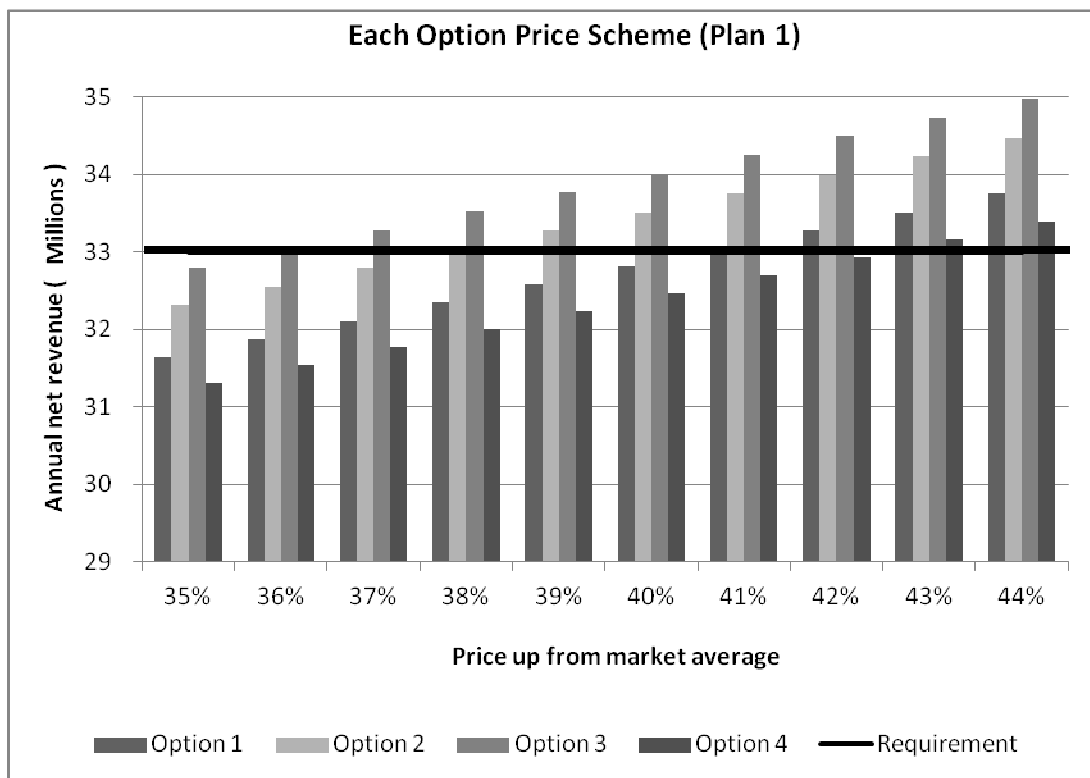


Figure 31: Each option price scheme (plan 1)

The option that needs the lowest price increase from the average price is option three because it has the largest total rental space at 890 m². For option three, the price needs to increase from the average by 36%, which means the price for one, two, and three-bedroom units are 793, 772, and 734 baht/m² respectively. However, the total space of option three may be bigger than the actual available space, so option one at 41% cost up from the average price might be a more suitable

alternative. For option one, the price would be 822, 801, and 761 for one, two, and three-bedroom units respectively. With the assumption of 80% occupancy rate and the price scheme that is more than one standard deviation higher than the average, A&S would have a very small room for mistake, and the likelihood that A&S would achieve that occupancy rate target is very slim considering the lack of experience and A&S is relatively unknown in the real estate business. At this point, starting phase two in 2015 is considered to be improbable without additional loan that would increase A&S liabilities and put A&S in a further financial difficulty.

Thus, plan two, which is starting construction in 2016 and finish in 2017, would be a wiser plan because A&S would be able to test the market for 1 year and see how the response is for phase one; although, there would probably be some complaints from the tenants of the first phase once the construction of the second phase starts. With the second phase starting in 2016, the projected cash flow can be seen in figure 32.

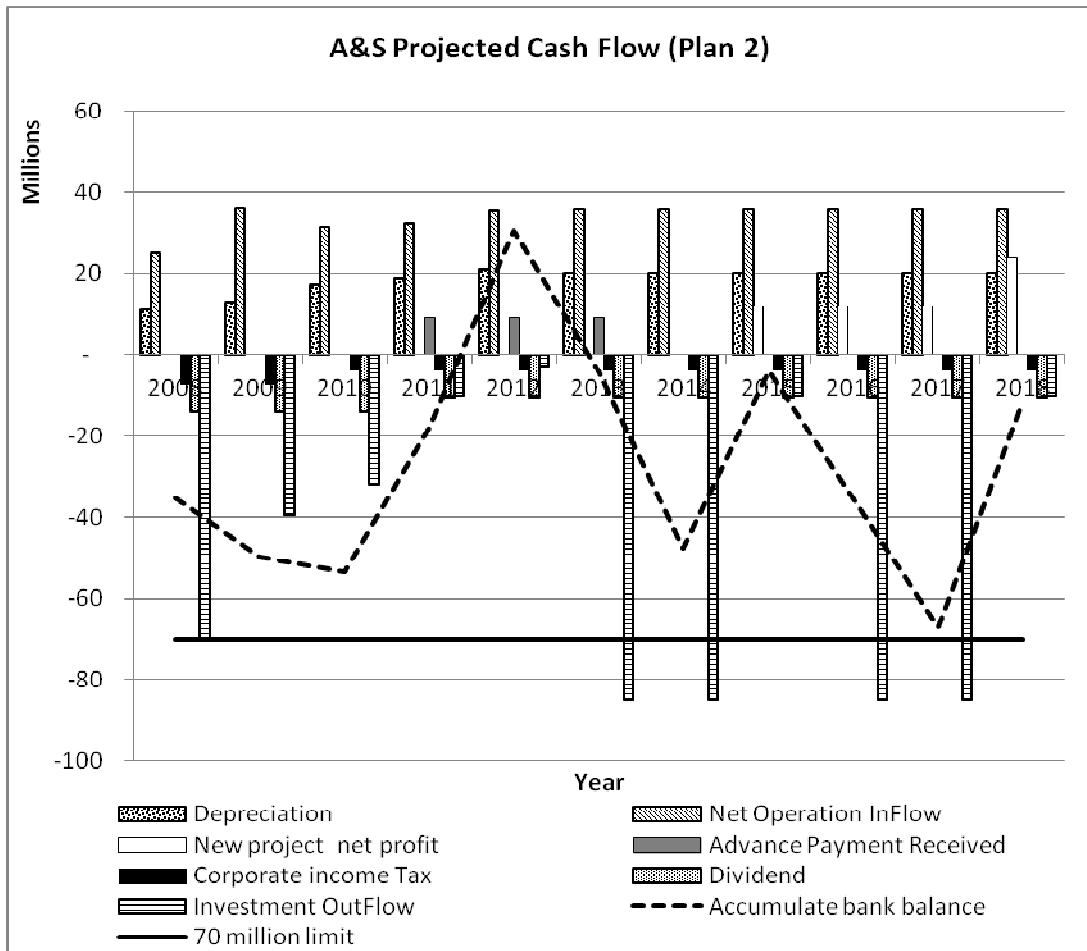


Figure 32 Projected A&S cash flow (plan 2)

As opposed to the 33million annual net revenue for plan one, A&S needs to generate only 12 million, which is by far a much probable scheme that would allow A&S more freedom to set the price of each unit size. Figure 33 illustrates annual net revenue for various price schemes. Instead of varying mark-up price, figure 33 is based on setting the price at market average price and vary occupancy rate instead.

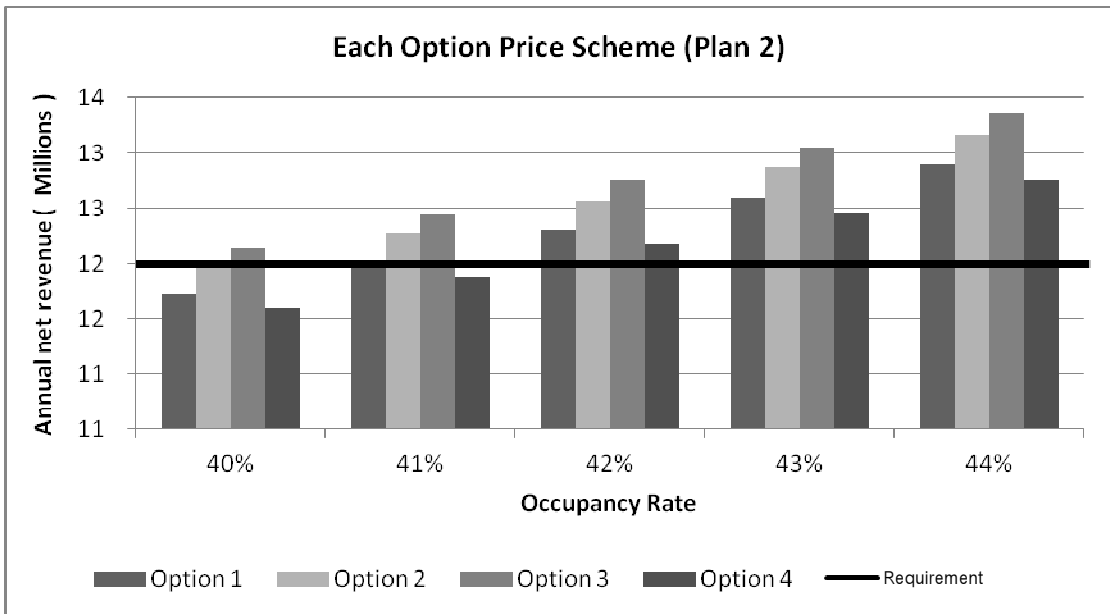


Figure 33 Each option price scheme (plan 2)

Similar to plan one, option three and option one are the main interests depending on the available living space on each floor. Option three can offer average unit price with 40% occupancy rate to achieve 12 million annual net incomes while option one can realize the 12 million with 42% occupancy rate. Since pricing is required at the market average price and 40 percent occupancy rate to achieve 12 million baht net income, pricing for plan two is much more manageable. Figure 34 shows the price of each unit size for each plan to fulfill their respective requirement.

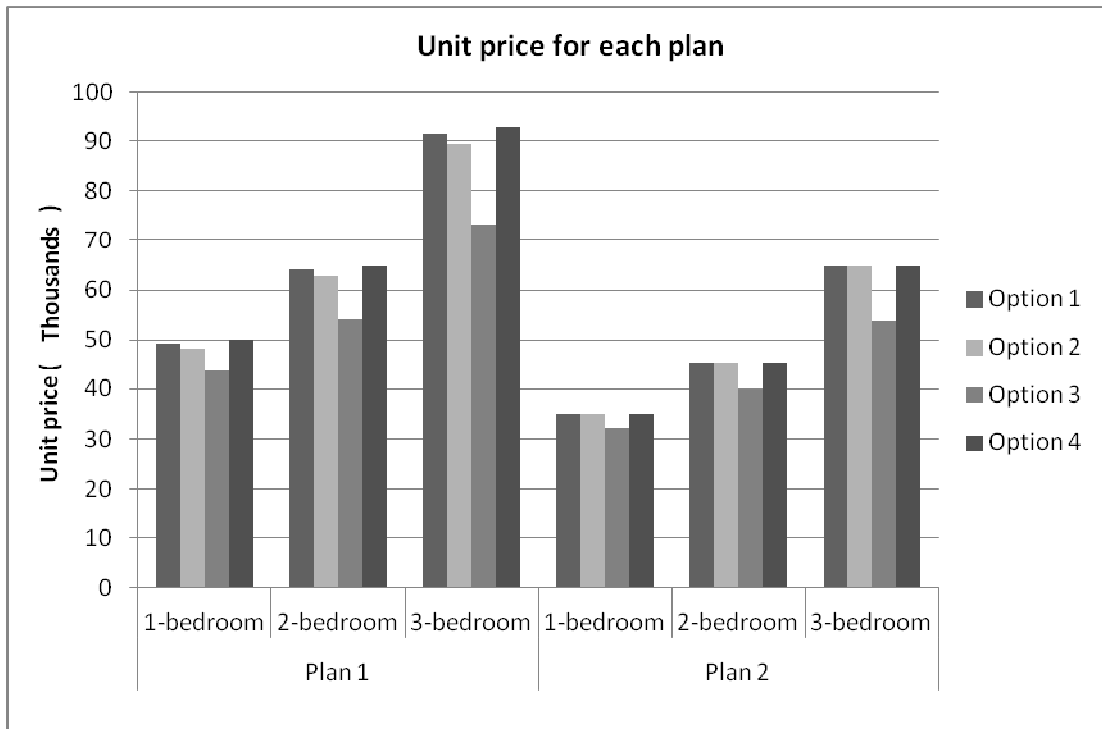


Figure 34: Unit price for each option to fulfill each plan's requirements

Plan two is clearly the more suitable choice because low pricing is easier for A&S to market and within the four options, option three is the first priority if 890 m2 per floor is possible and option one if only 860 m2 is allowed.

As mentioned in the previous section, pool and fitness must be included in the rental agreement because they are what being offered by almost everywhere else. Since the Racquet Club does not offer separate membership for pool and fitness only, the tenants would be able to utilize all facilities that A&S is offering same as all other members who pay approximately 22,000 baht annually. A&S would offer one membership for each one-bedroom unit, two memberships for two-bedroom units and three memberships for three-bedroom units, and the marked up price of approximately 2,000 baht per month would well cover the annual membership fee as shown in figure 35.

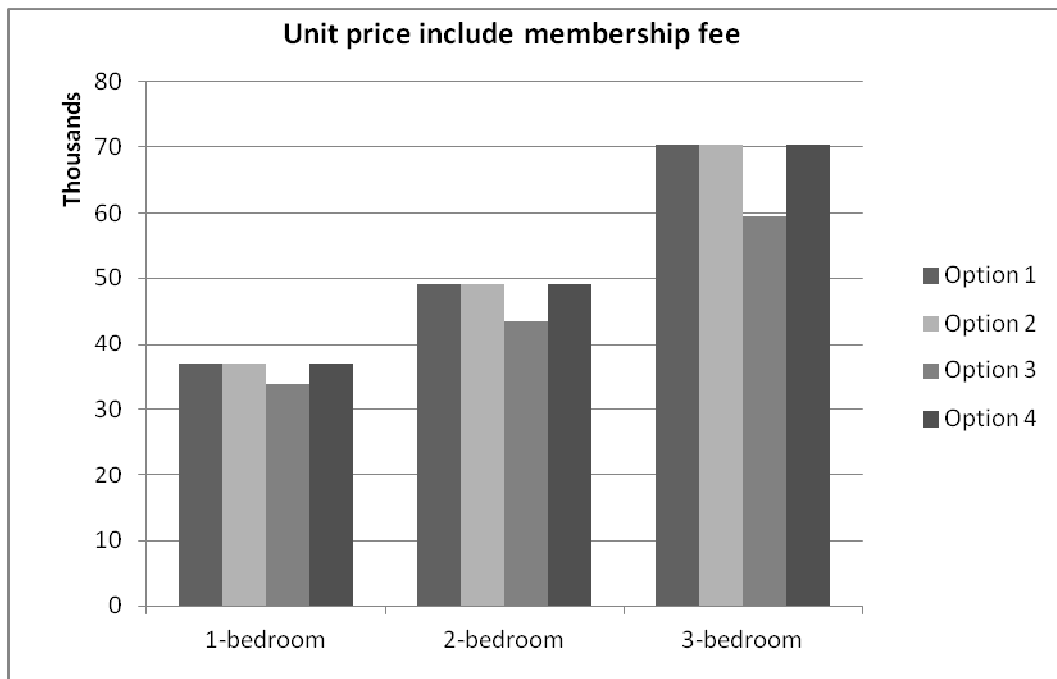


Figure 35 Unit price including annual membership fee

Operation Strategy

Having a new business should have very little effect on the current organization because the day-to-day operations of a service apartment require only internet/cable service, security and cleaning staffs who have already been sub-contracted from outsources. The two aspects that A&S would need to consider are maintenance and marketing. At the moment, all the maintenance is done in house including carpentry, electricity, and plumbing. However, if there were to be 48 additional rental units for each phase, A&S would need to be able to respond to the needs in case the tenants require any immediate maintenances, which means A&S cannot afford to rely solely on the in-house maintenance team and would need to find an outsource to overlook the entire maintenance of the building. With outsources for internet/cable service, security, cleaning, and maintenance, the only involvements A&S has are finding tenants, which means marketing, and collecting rents at the end of each month. Marketing has never been one of A&S' strengths because so far, A&S has never relied on marketing; instead, all the businesses and members that come through A&S are the result from word of mouth. With 150 million baht on the line, A&S could not effort to remain passive, and needs to get

words out quickly to generate public interest. The additional cost for maintenance crew, cleaning staffs, security staffs, and internet/cable services should be well cover within the 10 million investment budget that has already been include in the cash flow analysis in the previous section.

Impact on current business

The immediate impact that A&S would feel is the increase in membership of the Racquet Club. If all units are filled, there may be an increase in membership close to 100 members from the current 2000 members. These 100 additional members will most likely be using the sport facilities during the peak hours from 6 to 9 pm and put the Racquet Club at risk of not being able to provide facilities such as badminton or tennis courts because those are fully booked at peak hours as is. A&S would have two options to solve this problem with one being more investment in expanding sport facilities, and the other being increasing annual membership fee. With the limited space, expanding facilities in adding badminton and tennis courts is almost impossible without tearing down the current facilities and re-building bigger and more efficient buildings from ground up. Since A&S could not effort to put everything on hold for 1-2 years while investing hundreds of million baht on the new facilities, the only choice left is increasing the annual membership fee to limit the number of members. Some current members will most definitely be driven away, but with careful consideration, the amount of memberships can be control without compromising the overall revenue.

There would be no need to change the organization structure because there is practically no change in business practice, so the staff members, except those who deal with marketing, would feel minimum change in their job description and should present little resistance or complaints.

CHAPTER V

CONCLUSION AND RECOMMENDATION

Conclusion

In the growing real estate market in Thailand, Thonglor is one of the most popular and most frequented areas by people of all ages, backgrounds, and nationalities. Amara & Sons, Co., Ltd. should seize the opportunity in the residential real estate sector by investing 150 million baht in mid-rise service apartment mainly for expatriates who could afford higher rents. Since A&S has no experience in serviced apartment before, feasibility study is done to decide how the product should be positioned in order to earn from the first phase enough to start the second phase in 2016. The legal and structural analysis shows that the serviced apartment could not exceed 23 meters, which is equivalent to seven floors. Regardless of the total floor area, the sizes for one, two, and three-bedroom units should be 55-60 m², 70-80 m², and 100-120 m² respectively. The monthly unit price of one-bedroom units will be 35,000-37,000 baht, 45,000-50,000 baht for two-bedroom units, and 60,000-70,000 baht for three-bedroom units. With this price, A&S would be able to start phase two in 2016 even with 50 percent occupancy rate of phase one, which is believed to be possible considering overall market occupancy rate of approximately 80 percent. This price would include sports club membership fee, internet/cable, cleaning, and linen change services.

Recommendation

Out of A&S' 33 rai minus the 5000 m² for both phase 1 and 2 of service apartment and the current sport facilities, there is approximately 10 rai that can be exploited for future investment. As stated in the beginning, A&S' current/near future operations fall in the area of sports club and real estates. A&S can either extend the current businesses or expand horizontally. Extending existence businesses means

either with sports club or with office and/or residential real estate, out of which residential real estate is more profitable. Expanding horizontally means the process of product selection must be done all over again. From this study, retail center and nursing home are the likely candidates but for these projects to take place, there are a lot of preparations that need to be done. For retail center, A&S would need to find suitable developers because it is almost impossible for A&S to find all the stores, among whom would be tenant anchors for the project. For the nursing home, A&S would need to have thorough discussions with Samitivej Hospital as described earlier. However, if taking real estate portfolio into consideration, retail real estate development would be most beneficial to the company as a whole.

REFERENCE

Anon., n.d. The Treasury Department. [Online]

Available at: <http://landprice.treasury.go.th/List.php?show=1>

Aquarius Estate Co., Ltd., 2008. Aequa Residence Sukhumvit 49. [Online]

Available at: <http://www.aequaresidence.com/index.php>

[Accessed 2012].

Asian Property Development Public Co., Ltd., 2012. The Address Chidlom. [Online]

Available at: <http://www.ap-thai.com/The-Address/The-Address-Chidlom/>

[Accessed 2012].

Asian Property Development Public Co., Ltd., 2012. The Address Sukhumvit 28. [Online]

Available at: <http://www.ap-thai.com/The-Address/The-Address-Sukhumvit-28/>

[Accessed 2012].

Bangkok CitiSmart Co., Ltd., n.d. Bangkok CitiSmart: expert in city property. [Online]

Available at: <http://www.bkkcitismart.com>

[Accessed 2012].

Bangkok City Properties, n.d. Bangkok City Properties. [Online]

Available at: <http://bangkokcityproperties.com/>

[Accessed 2012].

Bangkok Condo Finder Co., Ltd., n.d. Bangkok Condo Finder. [Online]

Available at: <http://www.bangkokcondofinder.com/building/the-prime-sukhumvit-11/>

[Accessed 2012].

Bender, A., Din, A., Hoesli, M. & Laakso, J., 1999. Environmental quality perceptions of urban commercial real estate. *Journal of Property Investment & Finance*, pp. 280-296.

CBRE Thailand, n.d. CBRE Thailand. [Online]

Available at: <http://www.cbre.co.th/>

[Accessed 2012].

Dalvey Estate Ltd., 2007. Click Condo 65. [Online]

Available at: <http://www.clickcondo65.com/home.html>

[Accessed 2012].

Davis, J. A., Marino, L. D. & Davis, L., 2007. Senior service: exploring nursing home services for community-based seniors. *International Journal of Pharmaceutical and Healthcare Marketing*, pp. 304-317.

Decent Property Co., Ltd., n.d. La Vie En Rose Place: Maison de Francais. [Online]
Available at: <http://www.lavieenroseplace.com/>
[Accessed 2012].

Department of Lands, 2010. Act of Parliament: Building Control. Bangkok: Soutpaisal.

Fragrant Real Estate Development Group Ltd., 2007. The Prime Sukhumvit 11. [Online]
Available at: http://www.fragrantgroup.com/theprime11/news_event.php
[Accessed 2012].

Government Housing Bank, 2012. Residential condominium in Thailand, Bangkok:
Government Housing Bank.

Graaskamp, J. A., 1981. Fundamentals of real estate development. Journal of Property
Valuation & Investment, pp. 619-639.

Grand Siam Property, n.d. Grand Siam Property: sales & rentals Bangkok. [Online]
Available at: <http://www.grandsiamproperty.com/>
[Accessed 2012].

Hemaraj Land And Development Public Co., Ltd., 2009. The Park Chidlom. [Online]
Available at: <http://www.theparkresidence.co.th/>
[Accessed 2012].

Higgs, E., 1997. Health informatics blueprint: business needs. Information Management &
Computer Security, pp. 58-62.

Ho, K. H. (., 2007. Modeling the structure of CV formation and expectations: the commercial
retail real estate sector. Journal of Property Investment & Finance, pp. 179-206.

Ivy Thonglor, 2011. Ivy Thonglor. [Online]
Available at: <http://www.ivythonglor.com/en/main.html>
[Accessed 2012].

Khumpaisal, S., Ross, A. & Abdulai, R., 2010. An examination of Thai practitioners'
perceptions of risk assessment techniques in real estate development projects. Journal of
Retail & Leisure Property, pp. 151-174.

Kobayashi Co., Ltd., n.d. Kobayashi Co., Ltd. [Online]
Available at: <http://www.kobayashi.co.th/>
[Accessed 2012].

KobKid.com, n.d. Kobkid.com: Bangkok condo club. [Online]
Available at: www.kobkid.com
[Accessed 2012].

Lai, W.-C. L., 2006. Private property rights, culture, property management and sustainable development. *Property Management*, pp. 71-86.

Mahasrup Development Co., Ltd., n.d. Zenith Place. [Online]

Available at:

http://www.zenithplace.com/zenith_new/index.php?view=project&project=1&lang=en&vproject=concept

[Accessed 2012].

Major Development Co., Ltd., n.d. Fullerton Sukhumvit. [Online]

Available at: <http://www.majordevelopment.co.th/fullerton/>

[Accessed 2012].

Major Development Co., Ltd., n.d. Hampton Thonglor 10. [Online]

Available at: <http://www.majordevelopment.co.th/hampton/>

[Accessed 2012].

Major Development Public Co., Ltd., 2009. Wind Sukhumvit 23. [Online]

Available at: http://www.majordevelopment.co.th/projects.php?id=2&project_id=3

[Accessed 2012].

Major Development Public Co., Ltd., n.d. Aguston Sukhumvit 22. [Online]

Available at: <http://www.majordevelopment.co.th/aguston/>

[Accessed 2012].

Major Development Co., Ltd., n.d. Manhattan Chidlom. [Online]

Available at: <http://www.majordevelopment.co.th/manhattan/>

[Accessed 2012].

Malizia, E., 1990. A Framework for real estate feasibility research. *Journal of Property Valuation & Investment*, pp. 640-645.

Manestay, 2011. Mandestay: serviced apartments & office. [Online]

Available at: <http://www.serviced-apartment-bangkok.com/serviced-apartments.html>

[Accessed 2013].

Mika, T. & Biao, X., 2012. The emerging transitional "retirement industry" in Southeast Asia. *International Journal of Sociology and Social Policy*, pp. 708-719.

MR Sukhumvit Co., Ltd., 2006. Millenium Residence. [Online]

Available at: <http://www.millenniumresidence.com/>

[Accessed 2012].

Nase, I., Berry, J. & Adair, A., 2013. Hedonic modelling of high street retail properties: a quality design perspective. *Journal of Property Investment & Finance*, pp. 160-178.

Noble Development Co., Ltd., 2006. Noble 09. [Online]
Available at: <http://www.noblehome.com/project/09/concept.html>
[Accessed 2012].

Noble Development Co., Ltd., 2006. Noble Ambience Sarasin. [Online]
Available at: http://www.noblehome.com/project/ambience_sara/en/concept-en.html
[Accessed 2012].

Noble Development Co., Ltd., 2006. Noble Ora. [Online]
Available at: <http://www.noblehome.com/project/ora/en/concept-en.html>
[Accessed 2012].

Noble Development Co., Ltd., 2006. Noble Remix 2. [Online]
Available at: <http://www.noblehome.com/project/remix2/index-en.php>
[Accessed 2012].

Noble Development Co., Ltd., 2006. Noble Reveal. [Online]
Available at: <http://www.noblehome.com/project/reveal/concept.html>
[Accessed 2012].

Noble Development Co., Ltd., 2006. Noble Solo. [Online]
Available at: <http://www.noblehome.com/project/solo/en/concept-en.html>
[Accessed 2012].

Oprea, A., 2010. The importance of investment feasibility analysis. *Journal of Property Investment & Finance*, pp. 58-61.

Piyarom Sports Club, 2009. Piyarom Sports Club. [Online]
Available at: <http://piyaromsportsclub.com/index.htm>
[Accessed 2012].

Prakard.com, n.d. Thailand Real Estate & Property Forum. [Online]
Available at: <http://www.prakard.com/default.aspx?g=topics&f=5>
[Accessed 2012].

REIC, 2010. Summary of condominium market condition around Thonglor area, Bangkok: Real Estate Information Center.

Rental-Bangkok.com, n.d. Grade Property Advisors. [Online]
Available at: <http://www.rental-bangkok.com/>
[Accessed 2012].

Samirano (Tonglor 10) Co., Ltd., 2008. The Alcove by Samirano. [Online]
Available at: http://www.alcovebangkok.com/property-condo_thonglor10.shtml
[Accessed 2012].

Sansiri Public Co., Ltd., 2007. 39 by Sansiri. [Online]
Available at: <http://www.sansiri.com/en/project/39bySansiri/>
[Accessed 2012].

Sansiri Public Co., Ltd., 2007. Siri at Sukhumvit. [Online]
Available at: <http://www.sansiri.com/en/project/siriatsukhumvit/>
[Accessed 2012].

Sansiri Public Co., Ltd., 2009. Hive Sukhumvit 65. [Online]
Available at: http://www.sansiri.com/th/project/hive_skv65/
[Accessed 2012].

Sena Development Public Co., Ltd., n.d. The Niche by Sena. [Online]
Available at: <http://www.thenichecondo.com/main/home/>
[Accessed 2012].

Soho Properties Co., Ltd., n.d. Avenue 61. [Online]
Available at: <http://www.soho-properties.com/avenue61/>
[Accessed 2012].

Soho Properties Co., Ltd., n.d. Ficus Lane Condominium. [Online]
Available at: <http://www.soho-properties.com/ficuslane/>
[Accessed 2012].

Soho Properties Co., Ltd., n.d. Silver Heritage. [Online]
Available at: <http://www.soho-properties.com/condobangkok-silverheritage/>
[Accessed 2012].

Soysri, S. & Chaiaree, T., 2013. Newly registered residential buildings as of September 2012, Bangkok: Real Estate Information Center.

Sukhumvit Living Town Luxury Condominium, 2007. Sukhumvit Living Town. [Online]
Available at: <http://www.sukhumvitlivingtown.com/>
[Accessed 2012].

TCC Capital Land Limited, 2005. Athenee Residence. [Online]
Available at: <http://www.tcccapitaland.co.th/atheneeResidence/atheneeResidence.htm>
[Accessed 2012].

TCC Capital Land Limited, n.d. The Emporio Place. [Online]
Available at: http://www.tcccapitaland.co.th/emporio_place/emporio_html/index.html
[Accessed 2012].

The Capitol Club, n.d. The Capitol Club. [Online]
Available at: <http://thecapitolclub.com/fitness-dome.html>
[Accessed 2012].

The Trendy Condominium, n.d. The trendy Condominium. [Online]
Available at: <http://www.trendycondominium.com/>
[Accessed 2012].

Thomas, P., 2010. Profit from property: your setp-by-stepguide to succesful real estate development. Milton: Qritebooks.

Tidy Thonglor, 2010. Tidy Thonglor. [Online]
Available at: <http://www.tidythonglor.com/>
[Accessed 2012].

Urbana Hospitality, 2012. Urbana Langsuan. [Online]
Available at: <http://www.urbanahospitality.com/urbana-langsuan/>
[Accessed 2012].

V.P. Assets, 2010. Waterford Group. [Online]
Available at: http://www.waterford.co.th/Project_Diamond.html
[Accessed 2012].

Vanichvatana, S., 2007. Thailand real estate market cycles: case study of 1997 economic crisis. GH Bank Housing Journal, pp. 38-47.

W Property Ltd., 2007. Le Luk Condominium. [Online]
Available at: <http://www.lelukcondo.com/>
[Accessed 2012].

Yunus, N., 2013. Dynamic interactions among property types: international evidence based on cointegration tests. Journal of Property Investment & Finance, pp. 135-159.

BIOGRAPHY

The author is a third generation of a small family company, Amara & Sons Co., Ltd., that does business in sports club and office/housing rentals. He studied in Thailand until tenth grade and move to the United States of America and until he graduated with Bachelor Degree in Mechanical Engineering from University of California at Davis. After returned to Thailand, he spent a little over one year working as a product engineer at Fabrinet Co., Ltd. before he moved to Toyota Motor Asia Pacific – Engineering & Manufacturing (TMAP-EM). At TMAP-EM. he has been working in Vehicle Evaluation Department where he has been evaluating vehicle in the field of noise and vibration as well as vehicle environment division.

While working at TMAP-EM, he is also acting as a manager for Amara & Sons and in charge of overall sports related issues. This project comes with a concern considering the competitors in the area and the amount of investment needed. Since no one in Amara & sons has any done any works in feasibility study before, this study is a good opportunity to look into detail of how this project should be handled.