

Real estate industry in Thailand and government policies

Real estate becomes popular to invest nowadays and it is a cyclical industry which responds to macroeconomic trends such as economic strength, population growth and interest rate. The profitability of particular companies relies on demand together with property values, which are both influenced by economic condition. The real estate industry provides various opportunities for the entrepreneur particularly in speculation. To begin with, I will demonstrate how the real estate and economic growth are related and the determination.

When the economy is in recession or has a slow down growth rate, we will more concern regarding to save or to spend and buying house or condominium are considered as consumer spending which is one of the components used to calculate GDP or economic growth (figure1). A good economic condition generally reflects a higher rate of consumer spending since people have higher income and purchasing power and finally ends up with higher demand in real estate. If supplies can successfully response for the excess demand, the price will be control not to soar too high. We can see that there are a gigantic amount of new condominiums emerge in Thailand and this prevents the price not to go too high. Unlike in New York, there is a building restriction in residential and population and supplies are not match which result in an extremely high price. With an increase in supplies reacted to demand in Thailand, this generates a higher employment rate, income, purchasing power and so does GDP. Hence, this is a cyclic model that leads to economic growth. Economic indicators for real estate industry are GDP, income, employment rate, interest rate and household debt. Furthermore, there are certain risks in this industry such as changing demand, a location can alter swiftly and properties can become less desirable, as well as increasing suppliers, a large number of new buildings can drive price down.

In 2015, both Thai and Global economy slowed down and so did real estate industry (figure2). The instability of military government and uncertainty in economy from the viewpoint of both Thai and foreigner investors generated a dull market. Some were still afraid and wait for the stable signal in order to invest again. In addition, certain foreign investors view military government as a communist country so their investment destination was changed. The oil price also uninterruptedly diminished without any signal recovery, which resulted in a decline in agriculture and commodities price. Furthermore, China economy slowed down as it has already developed to the saturation point, hence China declared to devalue its currency with an aim to stimulate its export in third quarter which caused certain exchange rate fluctuation and trade slow down in Thailand. The export number declined by 5.8 percent year over year owing to a shrink in import from a number of countries like Japan, China, South Korea and the United States. Thai Industrial Property Market in 2015 became a challenging year as the country faced a decrease in export, Foreign Direct Investment (FDI) and Industrial Sentiment. Net flow of FDI to manufacturing sector lessened nearly 50 percent in 2015 up until November according to the Bank of Thailand. From the recession in both Thailand and Global I mention above, people were more likely to save for the unsure future and spend less in wide varieties of goods and service which included in properties. Speculators were less likely to speculate because the slowdown in economy and lower demand. However, some were do speculate and got either profit or loss. From figure3, you can see that purchasing real estate for others such as speculation dwindled as it increased in decreasing rate.

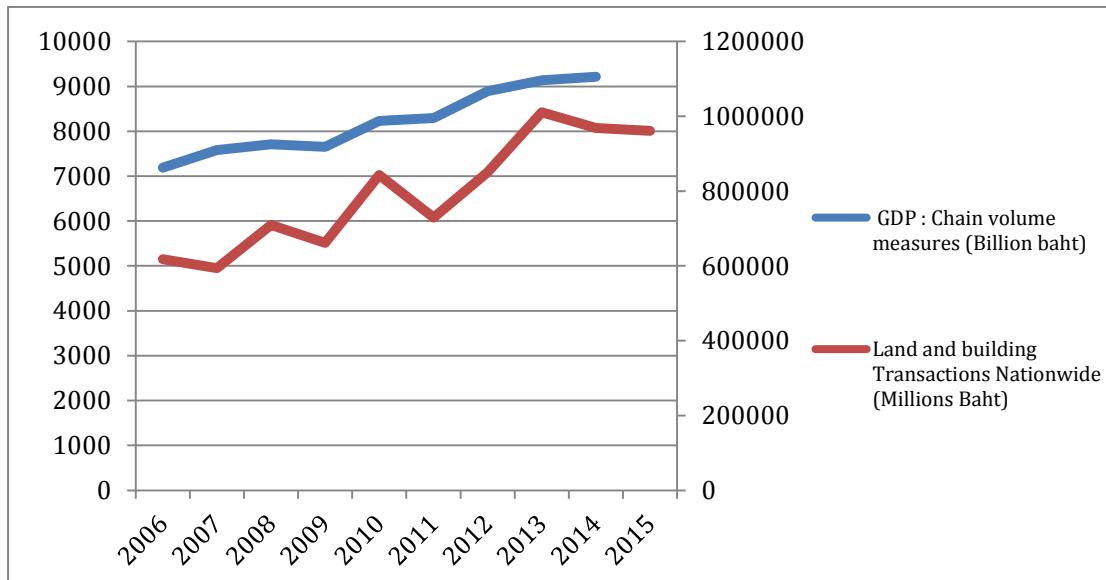
On the contrary, for the personal consumption on providing for dwelling, it increased more than the previous one but also at a low rate. This was because purchase for your own living was somewhat a need but for speculation, it was not. It considered like a choice. There were a gigantic amount of built-but-unsold inventories in both housing estates together with condominiums. As a result, this was one of the reasons from the slowdown in real estate industry.

Thailand has somewhat high household debt to GDP (Figure 4) and this trend seem to be an upward trend. When people already have high level of debt, Banks will strictly consider regarding to lend or not to lend. Furthermore, banks have not relaxed their mortgage lending criteria and mortgage rejection rate has maintained at a high level owing to the high level of household debt according to the bank's conservative attitude. As the low-income earners have the most household debt, the lower end of the market has been the worst hit by the more conservative bank lending. A number of banks declared to increase their mortgage rejection rate, for instance, Kasikorn bank admitted that their rejection on housing loan enlarged to 50 percent from 40 percent and they became more careful to loan since the household debt to GDP was high and the ability to repay debt of customers deducted. Many customers already had debt and their income was not enough to support the new coming debt. Moreover, TMB bank also did similar thing as Kasikorn Bank which had mortgage rejection rate about 60 to 70 percent owing to a high household debt again. Credit standards are used to determine whether a potential borrower is creditworthy and often analyst through credit quality and default probability. Banks will look at five characteristics which are character, capacity, capital, collateral and condition. From figure5, you can see that credit standards on housing loan reduced as if it is a downward trend. The reasons for this are all what I discuss above. When the credit standards are low, the approval ratio on housing loan tends to be low as well (figure6). Hence, this is another reason that generates a slowdown in real estate industry. A number of entrepreneurs attempted to adjust by releasing promotion as much as possible such as charging zero interest rate, having a cash discount or staying 1 year for free. On the other hand, there are still a large number of built-but-unsold inventories particularly in condominium. Some entrepreneurs started to interest in single detached houses, semi-detached houses or townhouses.

From the slow down in real estate industry I mention above, government came up with the policies by injecting a billion baht to stimulate economy and to relax mortgage lending criteria to help middle to low income people on October last year. From figure7, you can see that the transaction drop 1 month before the policies were being used, people may feel unsure regarding the policies and wait for the official used so they got benefit. Land and building transaction nationwide then uninterruptedly surged when the policies were adopted. The first policy is to increase credit limit to buy houses with a special interest rate. For example, people who have income 10,000 baht originally have credit limit 600,000 baht but now it altered to be one million baht. The second policy is to decrease transfer fee and mortgage fee to be merely 0.01 percent. The last policy is the house price not over 3 million baht can have a tax deduction. After government response, the market became revival again and these policies were regarded as good tools that bring the industry back to normal. Moreover, in this year there is a project called "Baan-pra-cha-rat" project which aims to help low to middle income people and to relax mortgage loan with low interest rate for house price not over 1.5 million baht. Government again successfully copes with

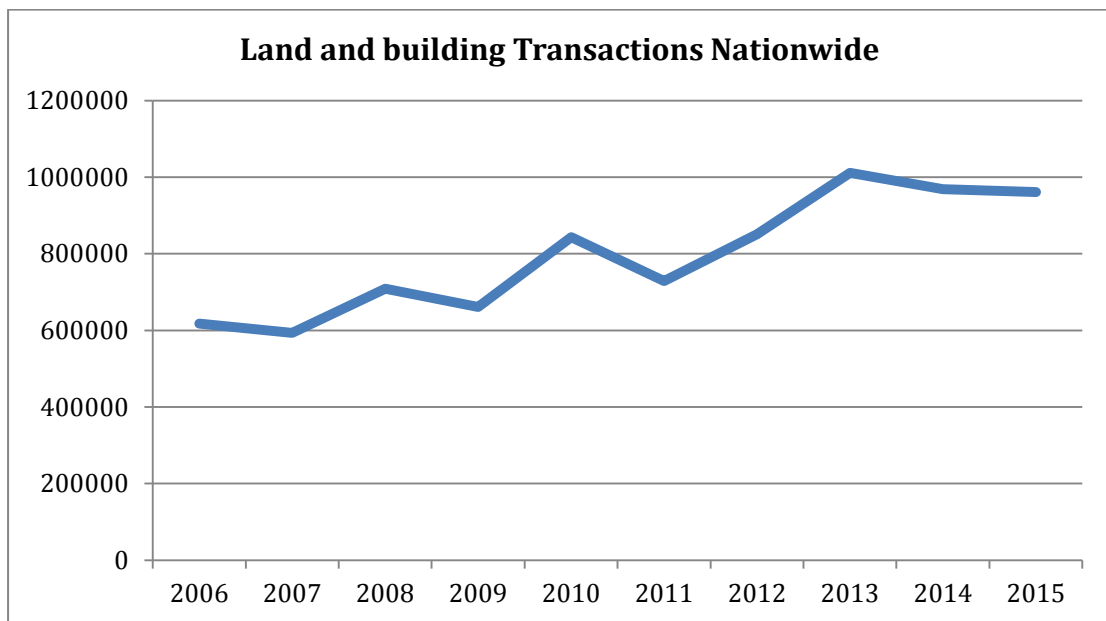
the recession and gradually resurrects the real estate industry. Stimulus packages seem to favor various groups of people and they unlocked new private investment. Capitalists may have a motivation to build more and start new projects from the stimulus-driven buying. However, government have to concern more about an increase in household debt from the stimulus package given to customers as well because Thailand already has somewhat high level of debt. This measure stimulated household consumption. Consumption-based stimulus is an effective approach but when the policies end, consumption may drop enormously and take time to revive such as the consequence of Thailand's first time car buyer. The debt itself is not a main root of crisis but it serves as an amplifier that generates another danger. On the other hand, it does not mean that stimulating through government policies is ineffective. Government just should concern and manage household debt more careful.

Figure1: relationship between real estate industry and GDP



Source: Bank of Thailand

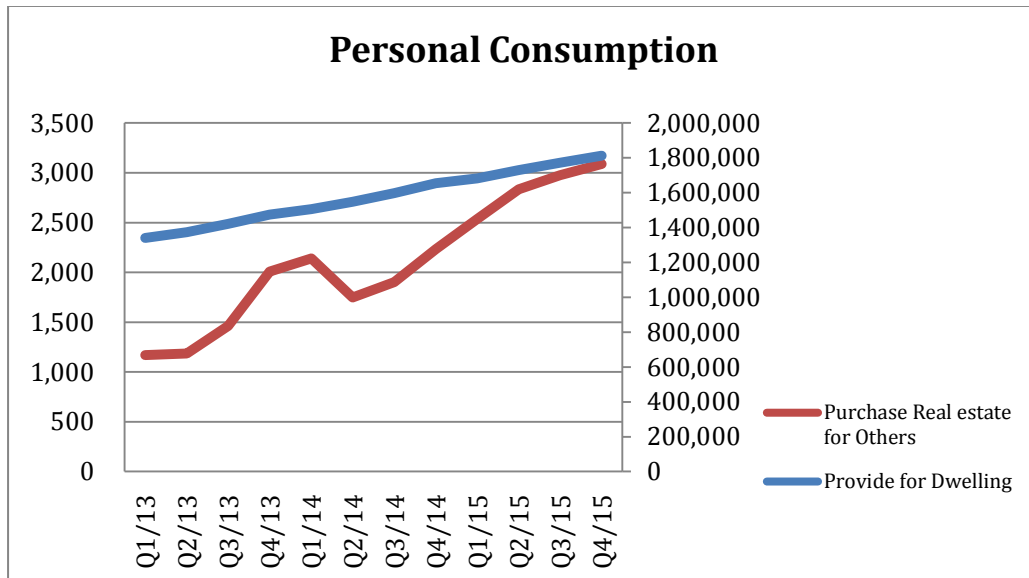
Figure2: Land and building transactions nationwide



Source: Bank of Thailand

Unit: Millions of Baht

Figure3: Personal consumption

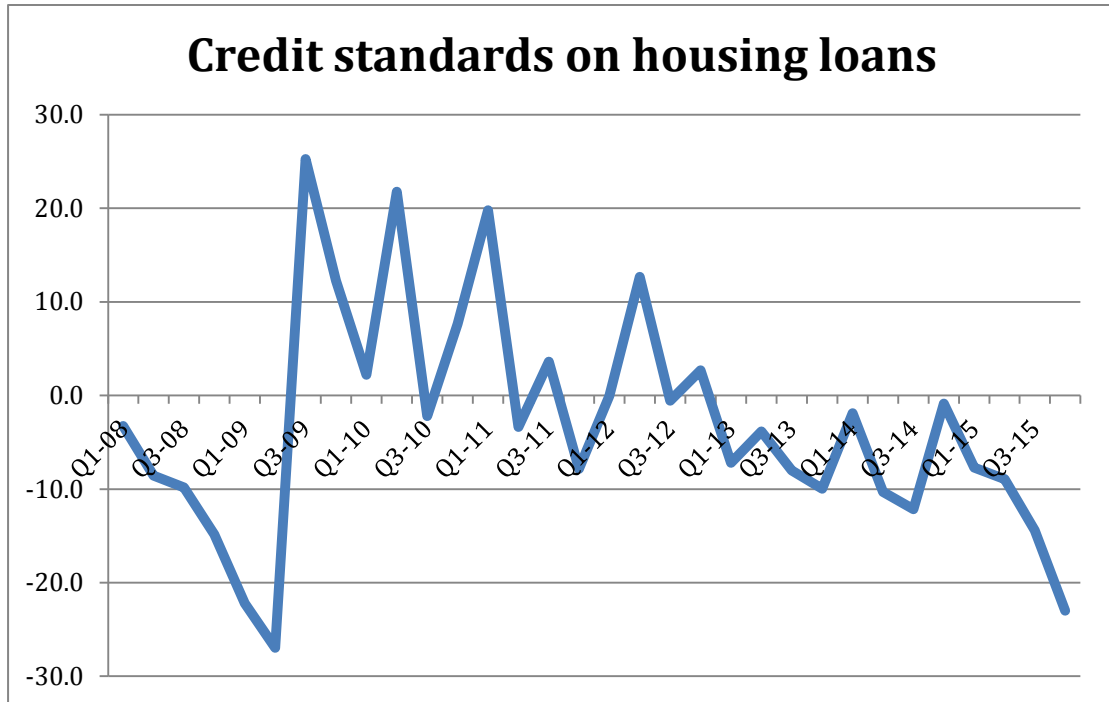


Source: Bank of Thailand
Unit: Million of baht

Figure4: Thailand household debt to GDP

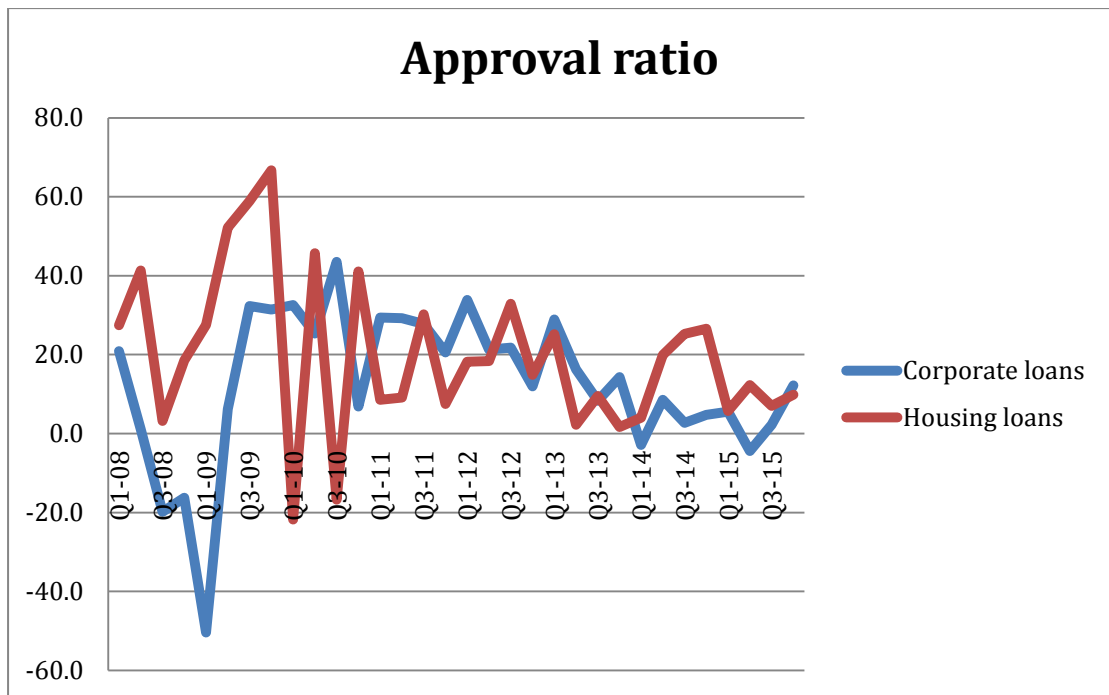


Figure5: Credit standard on housing loan



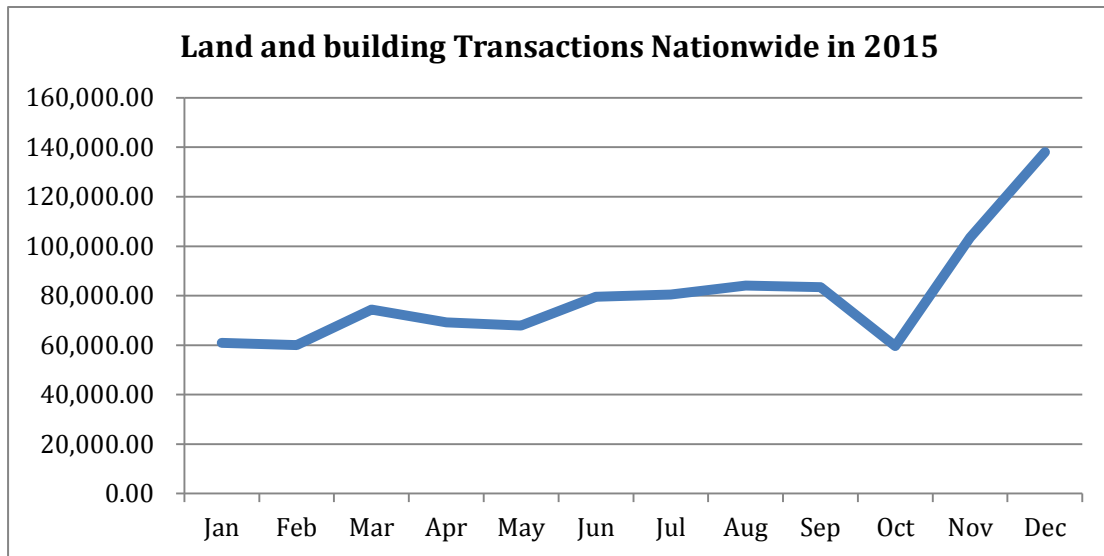
Source: Bank of Thailand

Figure6: Approval ratio on loans



Source: Bank of Thailand

Figure7: Land and building transactions nationwide in 2015



Source: Bank of Thailand
Unit: Millions of Baht

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