

# 1. Introduction

In a last few years, a huge growth of the condominium was happened all around the world including Thailand. Bangkok condominium supply has been increased approximately 7,600 units completed in the downtown and midtown. Most of the project has been sold out before constructing. This can implied a large demand on this sector. However, one of the most important factors that involved in making decision of purchaser is the reputation of real estate developers.

After the developer finished the construction and ready to transfer the owner to the purchaser, the developer needed by law to find the middle man who would manage and control the sharing asset of the condominium called juristic person. Yiu, Wong and Yau (2006) defined the role of property management in the sense that the manager should govern and reduce the exclusion cost that caused by outsiders and internal cost that involved in maintenance, cleaning or even security.

In the past, it can be said that the more experience the real estate developers had built, the more reliable the consumer trusted in them. Once technology has been continuously advanced, it widely provided more information and allowed everyone to access to each other including a review of condominiums from current residents.

Many positive and negative things that were posted on the forum affected the attitude of consumers so much. Most of the problems that varied the decision making of buyers tended to be about the after sale service that actually managed not only by the developer but the condominium juristic. Rohan (1985) stated that the operation after sale service could reflect the management of existing company meaning that the developers, and moreover

decline the property value, amenity and the price of resale. Therefore, it seems like how the juristic person manage on property totally played a crucial role.

In Thailand, there are many firms that have their own property management as the subsidiary company, for instance Plus property from Sansiri PCL and LPN property management from LPN Development Company. However, the big firms like Land and House and Prueksa real estate literally do not have their own one. They always hire the specialized property management firm such as QPM and 21 century company to be his corporation of each project, but how they make sure that this property management firm will serve a good service to the developer's consumer effectively. In term of consumer's outlook, they in fact don't indeed realize about the property management company that operate in their own apartment. When there is something wrong happening in the condominium project, people usually blamed the developers not the facility management. In this case, it can be wondered that why firm still have not operated the property management under their accountability especially in condominiums' project since they have conflict of interest in common community where it was necessary to manage, assure the quality of the service and further and keep loyalty consumer who can repurchase your products in the future and protect their own credit.

Thereby, this paper scopes on why some real estate developers have tended to not integrate the juristic person company even though their corporation has influenced so much on the reputation of firm and sale in the future project.

## **2. Literature Review**

Fennell (2009) defined a meaning of property that it was excluded but the exclusion was pointless if the owner could not do something that made their property more valuable for

them especially in the Condominium asset where the boundary of room is stick with others in every sides. Property job was to clear the space where diverse endeavor can be undertaken by an owner without interfering and causing the negative externalities to a community. Therefore, the regulation imposed the juristic person to look after the property.

According to common owner interest ACT, it has stated that before the developer could sell the individual units to the investors, they needed, by law, to create a community association, juristic person, in order to manage and govern the property both of units itself and the common property. This law was adopted in many countries including Thailand. That's, it can imply that the property management is originally designated without acceptance from the costumers in the first period. However, it doesn't mean that investors cannot access on their activity. By law, the owner of the units can join the association and vote process together with planning the policy to benefit local residents.

Yiu, Wong, and Yau (2006) also identified the responsibility of property management as the property right governance and person who would reduce an exclusion cost and internal cost. For the exclusion cost, it's everything that caused by the outsider, for instance if there were nonresident who made the negative externality to the civilian like parking a car until the resident could not use it. This was also one of the accountabilities which the facility management should solve. Likewise the internal cost including security, cleaner or anything that dealt within the building, it was like another duty that a juristic person must operate it as well.

After transferring the power to the community association, the real estate developer is able to provide the common amenities and service to the purchaser of the condominium without having to maintain the infinite management responsibility over the property. Scott (1999) studied individuals who brought the condominium were not totally aware of the

cooperative structure, and people actually had less detail about the landlord. In fact, the relationship between the lessee and owner is in the individual nature. Due to ineffective notice about the actual ownership of the building, it is resulted to the asymmetric information between cooperation and owner of units, and to further create the economic rent. Most purchasers and severe unnoticed renters still thought that the developer also covered the property management of the condominium even if the truth is their accountability expired after association management stepped in. Rohan (1985) implied about the disadvantage of this inefficient notice that the operation after sale service could reflect the management of the real estate developers' company. The unproductivity from controlling may decline the amenity, property value and moreover a potential service. Consequently, it might generate the diminishing margin from speculation in the investor. It can be seen that this is not only effect the firm reputation, but also creates the negative return to the investor who brought the condominium. Another severe effect of the consumers side is according to Jonathan (2009) that the insufficient information leaded consumers to not enable to reach their maximize preference in the housing market.

This seems like hiring the outsource instead dominating by themselves is truly not a benefit way in term of consumers' perception, but it should have some reasons behind why some firms regularly choose the external company.

Coase (1937) said about the transaction cost model that there had been many studies believed that this had been one of the reasons why the developers has no incentive to integrate the property management firm. He described the transaction cost as cost of organizing information, cost of monitoring the transaction cost, cost of coordinating behavior including behavior adjustment which may be higher than running their operation. Another reason was stated by Williamson (1985). He implied about the Opportunism and bounded rationality that may relate to the cause of this behave toward the firm. Regardless of the

opportunism, it was the behavior of distorting and hiding the information from the juristic company in which they tried to set the barrier to obstacle a developer firm to enter into the market. For the bounded rationality, it was an inability of finding all of the information to build a new branch of business. After the studied of Williamson in 1985, he further researched the reason why some big firms did not integrate. Williamson (1992) indicated that it might be due to the limitation. He stated that there was a limitation of large firm that cannot do every task or work. Alternatively, they could merge or integrate the business only a few jobs. It was because of two main reasons. Firstly, it was about the cost in the sense that the cost of hiring internal officer was staying at the same level of hiring the existing firm. That's, it was no incentive for the company to run the new business. Secondly, it might be because of the structure of the firms that would like to be the specialist in existing task. They did not want to confuse their consumers about what they have actually been.

"Sometimes there are things you don't want to do but they are important to your core business." Scanlon Louis, a marketing and strategic outsourcing company from the Entrepreneur.com. That's, one of the answers of why all most real estate firms utilized an outsource property management. Rohan (1985) stated that another reason for this quiz was that developers would like to choose the professional management to take care of the building after selling the units in order to reduce the claim of consumers. They thought that the way the specialized did was the best way to respond the need of the consumers. The more specialize it is, the more they should know about desire of local people and the management.

However, there is another aspect from Hayward (1999) in which the firm was at the stage of building the juristic person. He referred that indeed the reduction in cost was not only the motivation of hiring outsource management, but also the undertaken of business strategy in which the developer could learn from them and duplicate it internally in the future. In the developers 'viewpoint, outsourcing gave them a chance to enhance their strengthen

point and specified skill which can further contribute to advantage their consumer. This can be assure by the An American Management Association Report which implied that

"Snapping together competencies from one company to another, like Lego pieces". (Peak, 1995, p.46).

Also in the Gibson (1995) views that even though the outsourcing was enabling the organization to be smaller, it was simultaneously retaining the range of expertise require. Her example was about the property management company that the real estate firm in USA tended to outsource this function.

The coin is two sides as well as the advantage and disadvantage of utilizing the outsource management. Even though there is the positive growth of hiring the external supplier, it depends on the country and aspect of the industry. In the United Stated, the property management is professional specialist in this operative. Therefore, it results to a good feedback both the developers company and the consumers' utility. In another way around, Thailand and Stated are pretty different in culture, tradition and standard of living. The outsource company might not be able to adopt in the case of Thailand since most outsource community association in Thailand cannot manage it well. In contrast with the firms that have subsidiary firm in operating the property management, it seems like they can manage better than the other one.

Lindholm and Levainen (2006) explained that one way to add value to the core business was employees who directly respond to the need of consumers. If this is a case, whether firm have more incentive to integrate the property management especially in the big firm. One was to assure the quality of the product to the consumers, to easily control the management, to reduce the asymmetric information about actual operative and avoid the moral hazard between the outsource firm and the mother company.

Since the management of juristic person played the crucial role in evaluating the quality of developers after sale and reflected the reputation of the host company, only some firms integrated the property management company as a subsidiary. Particularly, in condominiums estate where there is conflict in unbounded area among each unit needed to have a middle man to take care of common community. However, few firms both in Thailand and other countries have still hired the outsource company as a representative in administration on their consumers. Hence, paper purposed to determine and point out the reason why some firm do not integrate the juristic person business in the quantitative aspects.

### **3. Methodology**

In order to define the reason why some firms do not integrate, the paper explored by adopting vertical integration model to prove whether the company would gain some extra profit from launching a juristic person company. In this case, we looked through the structure of the company and analyzed it by theoretical framework. Then, the paper will further compare the actual price between firms that has their own juristic person as a subsidiary company which will be assume to be (A) and the one that has no property management subsidiaries firm will defined it as (B). Therefore, in this paper, it mainly analyzed in term of quantitative and profit aspects, but it would be providing a qualitative consideration as well.

We used the secondary data to compare the price which it was mostly collected from the secondary source; Thinkofliving.com where it consisted of the overview and in depth information of real estate industry especially condominiums all around the country. However, the paper would concentrate only in the Bangkok area because it contained the condominiums in higher proportion rather than other provinces.

A list of developers in each type was shown in table 1.

<b>Developers with juristic person company(A)</b>	<b>Developers without juristic person company(B)</b>
<i>The work community management</i> by Ananda Development PCL	Prueksa Real Estate PCL
<i>Smart Service and Management Co.,Ltd</i> By AP (THAILAND) PCL	Land and House PCL
<i>S&amp;P Property Management Co.,Ltd</i> by Noble Development PCL	Supalai PCL
<i>Plus Property Co., Ltd</i> by Sansiri Public Co.,Ltd	
<i>LPN property management</i> by LPN development PCL	

Table 1

Moreover, it divided the consideration in segment classes based on the price range which it was constituted with economy class, main class, upper class, high class, luxury class and ultimate luxury class according to a table 2.

<b>ULTIMATE</b>	250,000	UNLIMITED
<b>SUPER LUXURY</b>	200,000	250,000
<b>LUXURY</b>	160,000	200,000
<b>HIGH CLASS</b>	120,000	160,000
<b>UPPER CLASS</b>	90,000	120,000
<b>MAIN CLASS</b>	70,000	90,000
<b>ECONOMY</b>	50,000	70,000
<b>SUPER ECONOMY</b>		50,000

Source; Thinkofliving.com

Table 2



In this way, we would compare the price per square meter that developers had set to sell the condominium. One reason that it was chosen was that it was one of the indicators that might be shown the revenue that the company may get. It is not only implied the margin the developers might get, but also show the potential and ability of the company to set the price.

The paper collected the information based on the average price per square meter. This average price estimated from the different price per square meter in different floors. The higher floors, the higher price it will be set. However, in this manner, we would select the average price and assume the price would be fixed in each floor.

After we gathered the information, we would repeatedly average the price from each developer again and observe the percentage change between these two types of companies whether it is able to induce the developer B to integrate. It can be seen that the price from the developers B has set a higher price per square meter than others. This is reasonable because the price of B was including the cost of hiring outsource which it is more expensive than running their own juristic person. In this manner, we discounted average price of B with discount rate first before comparing the price from two developers.

## **4. Interpretation of Results**

Considering the double marginalization theory in vertical integration framework, it occurred when one or more firms selling to each other along a vertical chain have market power and apply their own markup in price. In other words, the price that charge by the developers may double with the price that charge from property management. To be simply, the figure 2 provided the process of double price below.



Figure 2

Before integrating, the upstream firm, developers, acted relatively as a monopoly. Hence, they had a power to set a price where they would get a maximum profit ( $MR=MC_d$ ). In this case, developers produce at  $Q_d$  and sell at  $P_d$  which firm will receive a return at area A. If the company wanted to expand their own business to administration management firm, it would be necessary to bare a cost of  $MC_j$  which it was represented by area B. Since the juristic person company was in the competitive market. In other words, there is no price setting in this situation. Price would be equal to  $MC_j = P_{developers}$  which created a return area B. In this way, the cost of setting up the business is as same as an additional return to the upstream firm as illustrated in Figure 3. Thereby, the real estate developer would have no incentive to integrate the property management corporation because there was no supplementary earning in accordance with quantitative data.

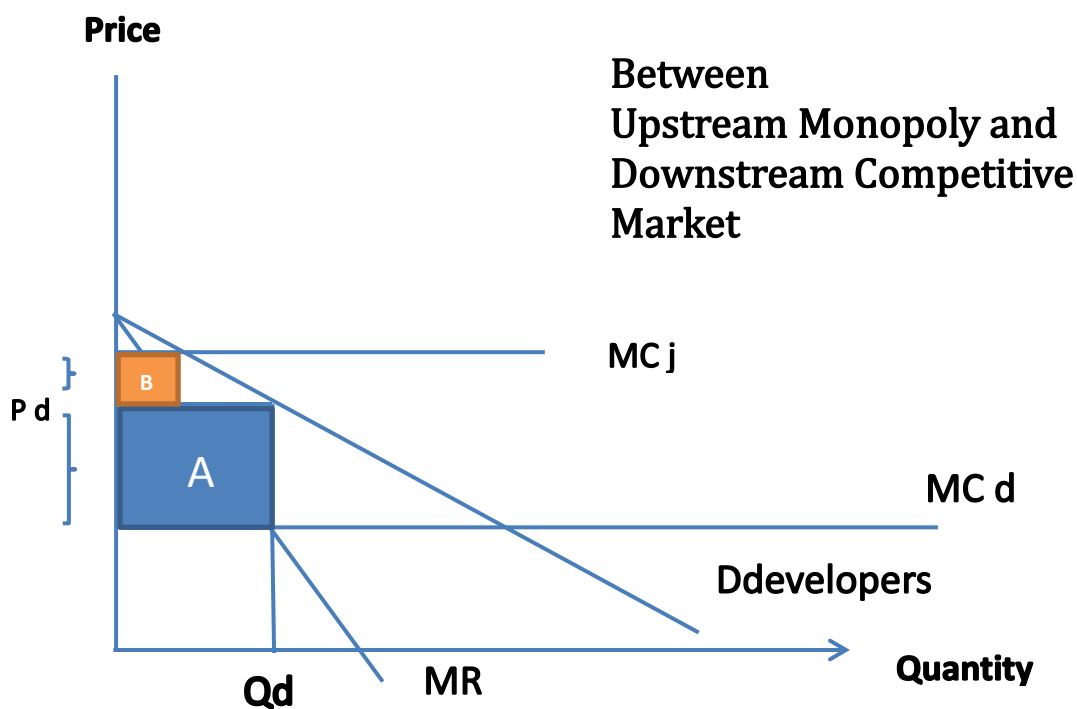


Figure 3

Nevertheless, the paper further took the actual price into account in order to assure the reasons behind the developers who did not have their own facility management.

According to table 3, this result was revealed about the margin that the firm might gain from each class of condominium.

Class of Segment	Gap of margin between type A and B
High Class	3.67%
Upper Class	3.62%
Economy Class	1.65%
Main class	1.41%
Luxury Class	0.61%
Ultimate class	0.39%

Table 3

The thorough outcome of the calculation is shown in appendices. The minimum different between those two firms was 0.39% in an ultimate luxury class, and the maximum was 3.67% in high class. As you can see, the price that would be set by the developers A is a little bit higher from developers B, but it still too low to motivate other types of firms to integrate the property management as a subsidiary company.

Even though a set up cost on the juristic person was not worth to do regardless of quantitative perspective due to a less additional profit, developer B should, moreover, consider the qualitative features as well which it included the reputation, and satisfaction of consumers. This is because consumers reconsider these factors before they made decision to purchase some real estates. Although integrating a juristic person business did not generate the return by theoretical, it may certain and control the service after sales which it would

reduce the asymmetric information and free rider among distributors. In reality, it may be a part of increasing on sale in the future as well.

## 5. Concluding Remarks

In quantitative aspects, there were two main reasons by theoretical and by actual situation in which why some real estate developers did not integrate the property management firm. If we took the structure of upstream and downstream firm into account, the integrating would not generate a supplementary profit to the developers. Moreover, the second method of actual price proved that price that was set by the developer A was not higher enough to induce the developer B to combine the facility management company. As shown in the results, the different price between these two kinds of firms was just at most around 3% which is pretty tiny comparing with the cost of integrating the juristic person and the transaction cost that need to pay in order to understand the process of being the juristic person.

However, when consumer had paid for condominiums without realizing of management, it seemed like a sunk cost for them that cannot return back after purchasing it. One thing that developers were necessary to do was how to use this sunk cost of costumers at best to maximize utility for both of companies themselves and their customers. The more developers can generate a high degree of satisfaction, the more they can gain the sales in the future because power of internet played an important role in making decision nowadays. In this manner, qualitative determinant should be taken into account.

Unless developer B did the property management, they should correct asymmetric information on unclear ownership of administration to protect their reputation. For instance, they should put the brand of juristic person business to declare who the actual holder of

supervisor is. Moreover, the regulation on this management should be enhanced to be more obvious in order to allow people to access and correct the information.

## **6. Recommendation and Further Research**

Since the paper was mainly in the quantitative factor rather than qualitative view, it may be limit the outcome of the research. If it is possible, the further researcher should determine on it and prove it together with the quantitative viewpoint. In this way, it will certain and make the result more significant.

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## Appendices

Economy class		Main class	
List of comp with juristic person	AVG Price per square meter	List of comp with juristic person	AVG Price per square meter
Elio Del Ray by Ananda	46,800.00	IDEO wuttakard by Ananda	74,000.00
Aspire Rattanathibeth by AP	49,000.00	Aspire ratchada-wongsawang	70,667.00
dcondo campus resort Bangna by sansiri	46,800.00	Fuse Sathupradit	75,000.00
LPN park phetkasem 98	49,000.00	LPN park rama 9	58,000.00
<b>Mean</b>	47,900.00	<b>Mean</b>	69,416.75
List of comp without juristic person		List of comp without juristic person	
Ease rama 2 by LH	53,300.00	The key Wuttakard	75,000.00
The tree Bangpo station by Pruksa	50,000.00	The tree Rio	80,000.00
Supalai Varanda by Supalai	58,730.00	The privacy by supalai	77,800.00
<b>Mean</b>	54,010.00	<b>Mean</b>	77,600.00
Discount rate	13%	Discount rate	12%
<b>Actual mean</b>	47,120.62	<b>Actual mean</b>	68,452.06
Differ price between these 2 types	1.65400%	Differ price between these 2 types	1.40929%
Upper class		High class	
List of comp with juristic person	AVG Price per square meter	List of comp with juristic person	AVG Price per square meter
Ideo mobi Sathon Thapra by Ananda	90,000.00	Ideo Q Rachatevee by Ananda	150,000.00
Life Ratchada by AP	84,000.00	Rhythm Asoke by AP	120,000.00
Siri Sukhumvit 64 by sansiri	80,000.00	NYE by sansiri	100,000.00
Up Ekamai by Noble development '	83,000.00	Noble RE:D by Noble development '	135,000.00
<b>Mean</b>	84,250.00	<b>Mean</b>	126,250.00
List of comp without juristic person		List of comp without juristic person	
Diamond Onnut by LH	97,000.00	The reserve by Pruksa	150,000.00
Fuse Miti Sutasarn Ratchada by Pruksa	103,000.00	<b>Mean</b>	150,000.00
Supalai Elite by Supalai	100,000.00	Discount rate	19%
<b>Mean</b>	100,000.00	<b>Actual mean</b>	121,782.18
Discount rate	19%	Differ price between these 2 types	3.66870%
<b>Actual mean</b>	81,305.64		
Differ price between these 2 types	3.62135%		
Luxury Class		Super and Ultimate luxury class	
List with juristic person	AVG Price per square meter	List of comp with juristic person	AVG Price per square meter
IDEO Mobi payathai bu ananda	128,000.00	The address Sukhumvit 28 by AP	140,000.00
The address Sathon by AP	130,000.00	Edge Sukhumvit 23 by sansiri	180,000.00
Keyne by Sansiri	150,000.00	Noble Plernjit	160,000.00
Noble reform Aree	130,000.00	<b>Mean</b>	160,000.00
<b>Mean</b>	134,500.00	<b>List of comp without juristic person</b>	
List of comp without juristic person		The Bangkok Sathon	170,000.00
the room rama 4 by LH	150,000.00	<b>Mean</b>	170,000.00
Condolette Light by Pruksa	140,000.00	Discount rate	6%
<b>Mean</b>	145,000.00	<b>Actual mean</b>	159,375.00
Discount rate	8%	Differ price between these 2 types	0.39216%
<b>Actual mean</b>	133,680.30		
Differ price between these 2 types	0.613181%		