

Tough Challenges ahead for Vulnerable Real-Estate

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One of the key pockets of vulnerability of the Thai economy this year is the real estate sector. As consumer and investor confidence recedes, it is uncertain how this sector will be affected since numerous factors are interplaying as the economic situation unfolds. Here is one potential scenario to consider.

As 2009 arrives, Boonlerd, a real-estate developer, has serious issues to ponder, recalling his experience in 1997. As he could find no buyers after the project completion and could not make loan payments in time, the bank decided to repossess all the unsold units. He lost almost all his personal wealth to pay off his bank loan in 1998.

A decade later, Boonlerd, having slowly recovered from the painful 1997 experience, had acquired a nice piece of land with easy access to the new mass rapid transportation system that the government had been planning to build for years. This time, he had studied the market very carefully before applying for the loan. After the project launch, almost all units were booked and deposits were paid even before he started construction.

The bank manager interviewed him several times before deciding to provide him the loan. Moreover, he started his project with less investment than he anticipated as the cost of construction materials came down. Unfortunately, the contagion of the US meltdown has now put him in a vulnerable spot as some of his customers withdrew pre-sold units. Will this become Boonlerd's horrific *deja vu* once more?

Looking on the bright side, there are still a few ways for Boonlerd and his customers to cope with this difficult time. There continues to be real demand for housing from Thai buyers and presently weaker demand in real estate in Thailand has been mainly from lower investors and consumer's confidence. Therefore, Boonlerd could still count on the remaining customers that he has already in hand.

In the meantime, the lower prices of construction materials and the government measure to lower the business tax should keep project costs manageable. In turn, this should enable Boonlerd to lower prices or provide the buyers with value-added offers like furniture, or extra

add-ons. He should also consider targeting more closely higher income consumers, who will be less affected financially. This is because these customers would tend to invest in real estate especially when interest rates are on the downtrend. Moreover, he can partner with the lending bank to give a better deal for his buyers such as even lower interest rate or higher loan limit.

On the whole, these steps could help Boonlerd recover his cost, though his expected profits are bound to lessen. But it is essential that he has to be patient and keep his cash-flow healthy as he may have to wait until the latter half of 2009 before the consumers' and investors' confidence revives. Time will prove whether these measures are adequate for Boonlerd to keep his real estate enterprise afloat.

Source: The Nation