

Building for Tomorrow

Thailand's planned infrastructure mega-projects should positively affect the country's real estate sector

Maythawee Sarathai
Kesara Summacarava



Maythawee Sarathai
Partner, Bangkok
+66 2 108 8564
maythawee.sarathai@
mayerbrownjms.com



Kesara Summacarava
Senior Associate, Bangkok
+66 2 108 8567
kesara.summacarava@
mayerbrownjms.com

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In 2013, the Thai government announced plans to launch infrastructure projects worth 2 trillion baht (US\$67.2 billion) in the next six to seven years, involving mainly the development of Thailand's rail and road transport network. The value of this mega-project will no doubt create a large number of jobs and inject cash flow in the construction industry. The plan will help urbanise many parts of Thailand, and the announcement already has provoked a boom in the real estate sector. Although this may seem like good news in the real estate and constructions sectors, it is important to remain cautious and be prepared for the opposite outcome. Speculation, overvalued land prices, and oversupply of condominiums and housing may lead to another real estate boom and burst.

The Draft Act

The draft new act authorising the Ministry of Finance to borrow up to 2 trillion baht to develop the transport infrastructure of the country has already been approved by the House of Representatives and the Senate. The

government expects its enactment in 2014. These mega-projects include the development of logistics infrastructure and new trade lanes in Thailand, which are intended to reduce the overall costs of logistics operators by at least 2 percent of GDP and to expand transportation routes and methods to other countries. The projects' aim is to stimulate the nation's economy and facilitate the implementation of the upcoming ASEAN Economic Community scheduled for 2015. The real estate and construction businesses, among others, should see many positive effects from this initiative.

Within and Across Borders

The development of transport infrastructure will better service the free movement of goods and labour both within Thailand and across borders. The infrastructure development plan will be categorised into transportation by roads, rail and water, with rail transportation receiving more than half of the proposed budgets at approximately 1.16 trillion baht (US\$36 billion). The proposed rail transportation development includes four lines of high-speed train systems, 10 lines of sky trains and undergrounds, and a dual-track rail system. The rail system,

and high-speed rail in particular, is capturing the most attention. The four main high-speed train routes from Bangkok to the major cities in the regions, being the Northern, Northeastern, Eastern and Western lines, have become the top items in the bidding wish list of major contractors across Thailand. Rail and water transportation are intended to become more popular than road transportation.

This initiative will be accompanied by the new Public-Private Partnership Act B.E. 2556 (2013), already announced and which became effective in early 2013 to replace the old, lengthy and complicated Private Participation in State Undertaking Act B.E. 2535 (1992). The PPP Act aims to encourage the private sector to participate in these transport infrastructure projects. To give a capital boost to the funding of the project, the BTS Rail Mass Transit Growth Infrastructure Fund is the first infrastructure fund created in Thailand and was approved by Thailand's Securities and Exchange Commission to offer fund units to the public. All of these new and upcoming plans are meant to complement each other in light of Thailand's transport infrastructure developments.

Real Estate Market Implications

In terms of real estate investment, the infrastructure initiative is already having an impact in many parts of the country, not just the capital. The development of the transport infrastructure, particularly the high-speed train system, will inevitably urbanise currently rural areas in all major provinces where the train will stop. Since the announcement of the project, prices of land plots in major provinces in all four regions have experienced a dramatic rise. Investors big and small have been buying land plots along the potential major train station sites in the hope of securing massive profits.

The Northeast region, especially in major provinces such as Nakhon Ratchasima, Udon Thani and Khon Kaen, has experienced a particularly rapid increase in land prices. In the city area of Khon Kaen, the prices of land typically ranged up to 100,000 baht per square wah (US\$7,812,500 per hectare) for many years. This year, however, the price of the same land has hiked 2 times to as high as 200,000 baht per square wah (US\$15,625,000 per hectare). In the south, the Land Office of Songkhla province, Had Yai branch, has disclosed that the price of land plots along Kim Yong market has also risen to 200,000

baht per square wah, or 80 million baht per rai (US\$15,625,000 per hectare). In the northern provinces, such as Chiang Rai, Chiang Mai and Tak, land prices also have experienced a major boost to approximately 60 million baht to 80 million baht per rai (US\$11,718,750 to US\$15,625,000 per hectare) in the city and along the Thai-Burmese road. The boom also has spread to other less urban districts in the provinces within the development plan. The central part of Thailand, such as Pitsanuloke, Nakhon Pathom and Ratchaburi, also has experienced a rise in land prices as the location is likely to serve as the hub of the rail system.

The urbanisation of major provinces across Thailand will result in trade expanding to such provinces. Development of condominiums and house construction has a positive effect on the construction business. The most profitable business sector this year has been the real estate and construction group, with income already in the region of hundreds of billions of baht. The boom in real estate and construction businesses also profits other businesses. Major trades, such as local mega-stores, and shopping malls, such as Big C and Central, are starting to expand their branches into the newly-developed area. The banking sector also has seen a rise in its business expansion and profits as buyers of condominiums and homes under development in the regions have an increasing demand for mortgage loans. This is a direct result of the growing real estate and construction business in the Northeast region. The banking sector can now connect to people in the rural area — who actually have more money to spend than is thought — bringing more money into the financial markets and enhancing the country's economy in the long run.

Other positive effects include the rising need of labour to construct these projects and the surrounding development of real estate. Also, banks' nonperforming assets will receive growing attention from investors as they tend to be cheaper (compared to the newly-developed estates), and they are ready for use and often situated in good locations.

Be Cautious and Prepared About the Final Outcome

Although these developments are good news for real estate and construction businesses, it is important to remain cautious and be prepared for the possibility of the opposite outcome as well. Speculation and overvalued property may be unavoidable. The rising

supply of condominiums and houses across major provinces may lead to oversupply. This is likely to create a bubble in the real estate business, and no-one wants to see a repeat of the 1997 crash.

Many speculations and investments are made based on the assumption that once the infrastructure mega-project is completed, travelling to Bangkok may become less time consuming and people may begin to live in the outskirt provinces. However, the likely higher fares of the high-speed train system may need to be considered. It is probable that the high-speed train services will only be affordable for upper-middle-class citizens and higher. The government will definitely have a difficult job in managing the costs of the high-speed train system. The already-adopted populism policy has resulted in an increase in the public debt to national income ratio even without the Draft Act to borrow more on the nation's behalf. If this infrastructure initiative should fail to stimulate the economy as projected, the ratio of public debt to national income would be in a far worse position.

Also, the Draft Act is facing a legal challenge as some are arguing that the act itself may not be entirely constitutional. Generally, budget approval and allocation have to go through parliament in order to be passed as an act in each fiscal year. This Draft Act, if it comes into force, however, will enable the government to be able to borrow and have a direct say on what goes where without the counsel and approval from the parliament. Accordingly, the off-budget borrowings would make it possible for changes of the projects by the government without parliamentary scrutiny and this might violate fiscal discipline.

Large-scale infrastructure initiatives of this magnitude have led to large-scale corruption issues and potentially negligent construction in a number of countries. It is therefore critical that these concerns are addressed and treated with utmost severity in Thailand. Interestingly, the Anti-Corruption Organisation of Thailand is proposing that the relevant government sectors and contractors enter into "integrity pacts" with "observers", such as academics, independent organisations or specialists who will monitor the tender process and implementation of these projects. Any steps to encourage greater transparency and a level playing field will be highly welcomed so long as the words and deeds are aligned. Enforcement must be strict. If this can be done, the reputation and success of these projects can be enhanced.

The Bottom Line

If passed by the Draft Act, Thailand's infrastructure initiative will have a positive effect on many businesses throughout the country, especially in the real estate and construction sectors. The provinces that will benefit the most will be those where high-speed train stations are located, given the development of the surrounding land, advance trade and urbanisation that is likely to occur. Other sectors, such as the banking and financial sector, can profit from lending to project developers and individuals planning to purchase the soon-to-be-erected property. Investors with the benefit of good timing may profit from such rise in the real estate and banking sectors, but others may suffer from speculation and overvalue. Investors looking to benefit from the open opportunities will have to work the timing of when to get in and when to get out. Given the scale of these projects, the lust for real estate should be tempered with caution.

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