



Note by EIC

16 November 2015

Market in focus: Residential market along city rail lines



Highlight

- With the 5 new city rail lines to begin service over the next 5 years, the residential market along the Purple and Red lines has seen the highest growth in both horizontal and vertical housing units during 2008-2014, with 58,900 new residential units along the Purple line and 48,800 new units along the Red line, an average annual growth of 8,400 and 7,000 units, respectively. On the other hand, the Hua Lamphong - Bang Khae extension of the Blue line has had the lowest residential market growth, adding merely 10,700 units or 1,500 units per year. The area still has potential considering good sales performance but it also faces legal limitations.
- The current oversupply of residential units near the Purple and the Green lines is causing new projects to sell at a slower pace. This reflects the continuing decline in the property absorption rate to 30% from 44% at the end of 2014. These new projects target low- to middle-income consumers with unit prices ranging between 3-10 million baht. Property developers are thus advised to delay project release dates until market demand rebalances.
- The EIC believes that the current property stimulus aimed at residential properties priced lower than 3 million baht will help absorb remaining unsold units. New residential projects along the Purple and the Red lines will greatly benefit from the stimulus as their availability will coincide with the stimulus timeframe. Given this, property developers should closely monitor contractors in terms of timelines and quality, while consumers should inspect new units carefully and watch out for compromises in quality as builders rush to finish their projects within the policy timeframe.

There has been continued growth in residential property development along the 5 new city rail lines that will begin service during 2015-2020. Details of the 5 new mass transit lines are as follows:

Sequence	Lines	Distance (km)	No. of stations	Year to begin service
1	Purple line : Tao Poon – Bang Yai	23.6	16	2016
2.1	Blue line : Bang Sue – Ta Phra extension	11.1	8	2019
2.2	Blue line : Hua Lamphong – Bang Khae extension	15.9	11	
3	Red line : Bang Sue – Rangsit	26.3	8	2019
4	Green line : Bearing – Samut Prakarn extension	13.0	9	2020

Although all areas near the city rail lines are prime areas for property development, specific factors and limitations make each area unique. An analysis of the residential market along each line is described below:

Purple line: New residential units along this line grew by 10,600 units during 2008-2009. The majority of these were horizontal housing projects priced at around 3-5 million baht. Following official project approval by the cabinet in 2009, the supply of new residential units surged by another 8,400 units in 2010 or 83% YOY. After the 2011 flood, the vertical housing supply started to rise with over 10,000 new units launched each year during 2012-2013. The majority of these were priced below 2 million baht (Figure 1).

Blue line: This market is divided into two sections, one near the Bang Sue-Ta Phra extension and another around the Hua Lumphong-Bang Khae extension¹. After cabinet approval in November 2006 and construction commencement in 2011, sales in 2012 grew by 37% YOY. The 2011 flood did not affect the area, however, development of new residential housing had been slow due to the limited amount of land suitable for residential development and restrictions on building, in particular for areas surrounding the Hua Lumphong-Bang Khae extension. As a result, most of the new property developments were vertical units while about a third of new units were horizontal houses launched near the Bang Sue-Ta Phra extension (Figure 2).

Red line: The cabinet approved the Red line project on May 22, 2007. The property market prior to the 2008-2012 periods was dominated by horizontal houses, in particular single housing projects due to the abundance of

¹ This is because there is an overlapping of areas between a section of the Blue line and already in service the Green line extensions between Saphan Taksin – Bang Wa. EIC has, therefore, excluded the residential units in this area for the purposes of this study.

underdeveloped land. However, with the 2011 flood greatly affecting the area, the number of new units launched fell considerably as the market continued to stall into 2012. When the market began to recover and the rail line began construction in March 2013, many new vertical housing were developed, in turn accounting for 78% of total property developments in the area. Most of the new units were condominiums priced below 2 million baht, primarily targeting those in the low-income segment. Many of these are densely packed near Klong Rangsit 1-7 (Figure 3).

Green line: The cabinet approved the second extension on November 27, 2008. Construction started in March 2012 and would connect to the first extension that began service in 2011. Housing near the second extension had already benefited from the service provided by the first Green line extension. Vertical housing has seen outstanding growth, accounting for 70% of total new units. Most of the vertical units were priced below 2 million baht. Before the rail construction, projects launched were mostly horizontal houses since they already benefited from the southern outer ring road that homeowners use for their daily commute to the city (Figure 4).

The abundant housing units along city rail lines were causing the sales rate to slow and developers to delay new project launch.

During 2010-2014, areas surrounding the Green line saw the highest growth rate in residential units (27%), followed by areas around both sections of the Blue (18%) and Purple lines (6%). On the other hand, unit sales growth in areas near the Red line contracted owing to a surge in units that became available in 2013. As train lines developed, most of the new property developments have shifted towards vertical housing projects. The proportion of units sold was higher in horizontal projects, while the sales rate of vertical residential units accelerated after the rail starts construction. Regardless, in areas near the Blue line extension (Bang Sue-Ta Phra), intersections between the Purple line and Blue line extension (Bang Sue-Ta Phra), as well as other areas with any two rail line crossings (both extensions of the Blue line and the Purple and the Red lines), new residential vertical units began popping up even before the rail lines began construction. The high share of vertical housing sales was due to the nature of the area, with limited space suitable for horizontal development. Nevertheless, overall sales had been declining over the years; this was primarily due to the large supply of new projects each year. Home buyers already bought new units back when the cabinet approved projects or when construction began. In addition, economic and political uncertainty were putting downward pressure on confidence and in turn causing investment delays. Given such circumstances, developers are waiting until market demand rebalances before releasing new projects. As a result, monthly residential unit sales rates are growing at a slower pace.

It may take up to 2 years to absorb all remaining units, with those near the Purple and Red lines most likely to take the longest time to sell.

Current demand is insufficient in absorbing the large influx of new residential units built during 2013-2014. Up to 71% of remaining units were units valued below 3 million baht. The longer duration to sell out remaining units (time to go period) is becoming an influencing factor over developers' decisions to launch new projects. The expected timeframe to absorb all

remaining units is approximately 2 years. The residential market along the 5 rail lines has 56,800 remaining units, 51% vertical units and 49% horizontal units. The area with the highest share of remaining units is along the Purple line. Remaining units in this area account for 30% of all remaining units. Most of these are horizontal housings priced around 1-5 million baht, located near Bang Bua Thong and Ratanatibet-Jusco and comprising 16% of the remaining units in this area. The second largest set of remaining units is near the Blue line, accounting for 29% of the total share of remaining units, with 14% being vertical housing located near Rama 5-Bang Kruai and Bang Sue mostly priced below 3 million baht. The third set of units is located along the Red line, which holds 26% of total remaining units. The remaining units are equally divided between horizontal and vertical projects, with prices ranging between 1-5 million baht. These units are mostly found around the Klong Rangsit 1-7 area. Lastly, the Green line has the least amount of units left unsold. They account for only 15% of the total share and are mostly projects targeting lower income groups in the area of Srinakarin and Teparak (Figure 5).

The recently approved property stimulus should help the property market, especially along the Purple line since the line has most projects to be finished

in time for the stimulus. The EIC sees the measures mainly benefitting about 56,900 vertical project units launched during 2012-2013 along the rail lines. Out of these, about 22,700 units are along the Purple line and about 17,600 units are along the Red line, accounting for about 40% and 30%, respectively. In addition, the measures would likely benefit about 62,200 horizontal project units opening in 2014 - 1H2015, about 19,200 units located along the Red line and about 18,700 units along the Blue line, accounting for 30% and 31%, respectively. However, some of these units that have already been transferred will not benefit from the fee cut. Alternatively, releasing reserved but delay conveyance of finished units is also benefit from this property stimulus which benefiting both developers and overall residential market (Figure 6).

The Dark Green and Light Green line extensions, launched in 2009 and 2011 respectively, revealed that residential market growth was more evolved in the mid-range to high-end condominium markets.

The extension of the Light Green line from Saphan Taksin to Wong Wian Yai, operated in May 2009, and increased the number of new units 2 fold and sold units 3 fold in the following years. Adding to the effect of the previous extension, the next extension of the Light Green line from Wong Wian Yai to Bang Wa operated in December 2013, giving the residential market at least additional 10,000 units launched and sold annually during 2012-2014. The On Nut - Bearing extension of the Dark Green line, opened in August 2011, caused the number of new units to increase 3 fold and the number of sold units to increase 2 fold, and increased monthly sales rates. It should be mentioned, however, that these sharp increases, especially in 2012, were partly due to low demand from the 2011 flood. Land costs rose as potential areas for development decreased. This is reflected in Treasury Department land appraisal prices. During 2012-2015, with all three extensions already opened,

land prices along Krung Thon Buri Road grew 115% compared to the previous cycle, while land prices along Somdet Phrachao Taksin Road and Sukhumvit 103 (Udomsuk) Road have seen comparable growth rates of 27% and 25% respectively (Figure 7). Increasing land prices subsequently raised costs per square meter for residential units. For example, condominiums surrounding the On Nut - Bearing section of the Dark Green line before the extension was constructed were in the low-end to mid-range market, with an average price per square meter of less than 100,000 baht. In 2011, the average price per square meter rose to 122,083 baht and, in 2015, it was 161,667 baht. Average price grew 32% from the year the extension opened. It is also likely that future vertical project development, especially projects further down Sukhumvit, will focus more on the high-end market.

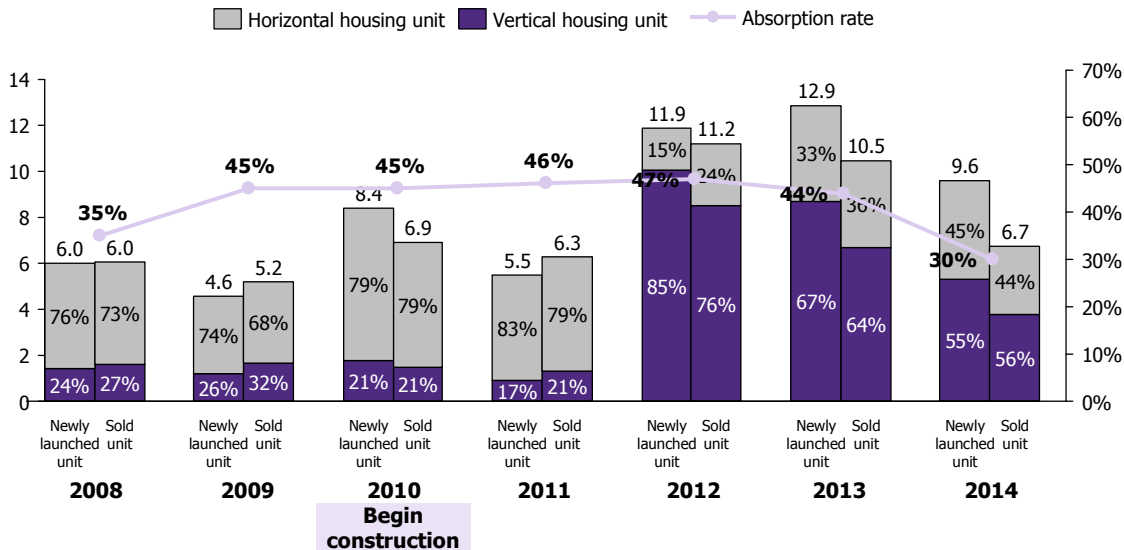
Implication

- Monitor the development of the real estate market for possible hikes in land prices when more city rail projects open in the future.** Since most areas have already been developed for residential projects and the price of underdeveloped land is higher, new projects cost more and are tend to be higher-end as developers adjust their newly launched projects strategy for increased land prices. This shifts target customers from the middle-income to the higher-income group as we can see from the development of the property market after the Dark Green and Light Green line extensions. In addition, more rail project extensions means more areas being developed into residential projects. Future projects added to the existing unsold units will likely slow the growth of vertical unit costs along the 5 rail lines.
- The property stimulus will help the sales of remaining units but could also raise household debt and hurt the residential market recovery in the future.** Unsold finished units will directly benefit from the fee-cut measure. Lower-end projects will additionally benefit from easing loan scheme. However, the level of household debt should be watched particularly, especially in low-income category, which could subsequently affect the purchasing power.
- Developers should launch new projects along the mass transit lines carefully due to the slow pace of sold rate.** The number of unsold units in some areas indicates that residential property has been well developed and expanded faster than market demand. This is especially true in the Chaeng Wattana, Bang Bua Thong and Sai Noi - Suphan Buri areas along the Purple line, as well as the Klong Rangsit 1-7 and the Klong Luang areas along the Red line. After the stimulus, however, the EIC predicts better absorption rates will help rebalance the market.

Figure 1: The 2011 flood that stalled the property market along the Purple line helped kick off vertical housing developments in 2012.

Newly launched and sold units along the Purple line (Tao Poon – Bang Yai)

Unit: thousand units

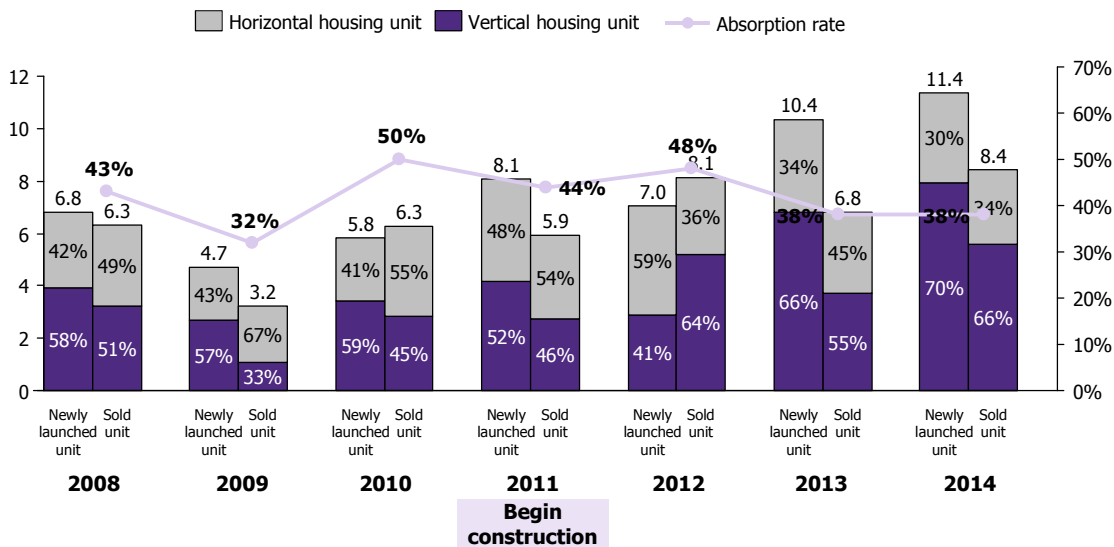


Source: EIC analysis based on data from AREA

Figure 2: Continuing strong demand will drive this property market along the Blue line to further growth.

Newly launched and sold units along the Blue line (Bang Sue – Ta Phra and Hua Lumphong – Bang Khae extensions)

Unit: thousand units



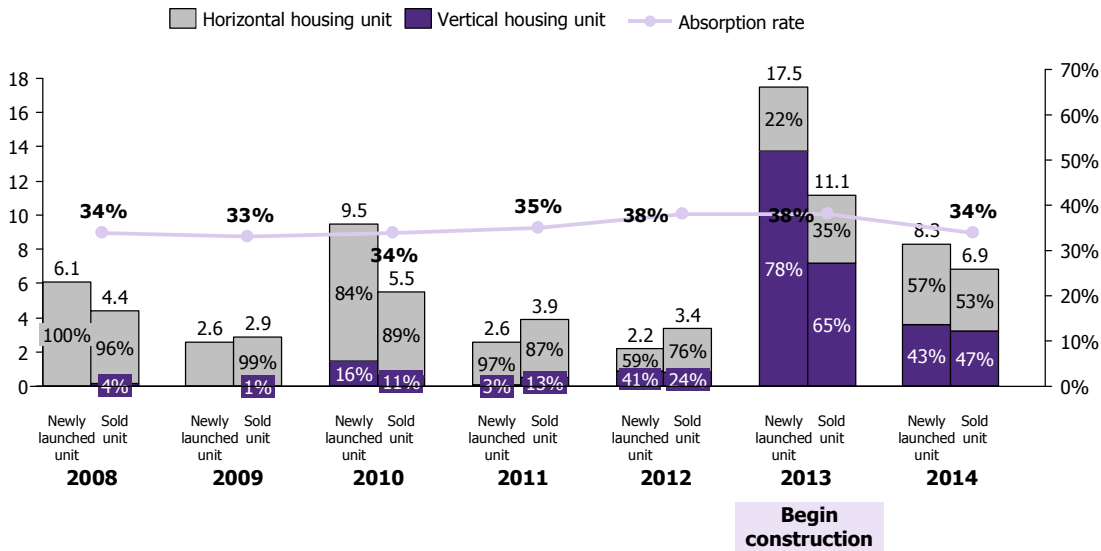
Source: EIC analysis based on data from AREA

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Figure 3: Following the 2011 floods, property market along the Red line recovered remarkably in 2013. The recovery was supported by vertical housing developments.

Newly launched and sold units along the Red line (Bang Sue – Rangsit)

Unit: thousand units

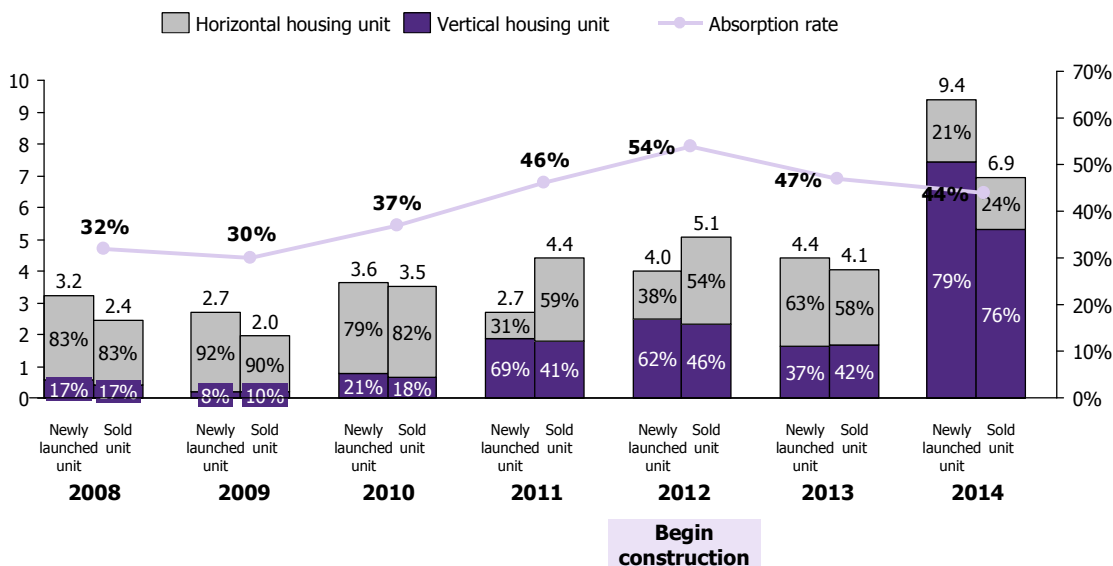


Source: EIC analysis based on data from AREA

Figure 4: The housing market has been expanding along with the development of city rail lines. This in turn has caused vertical housing to grow substantially in 2014.

Newly launched and sold units along the Green line (Bearing – Samut Prakarn extension)

Unit: thousand units



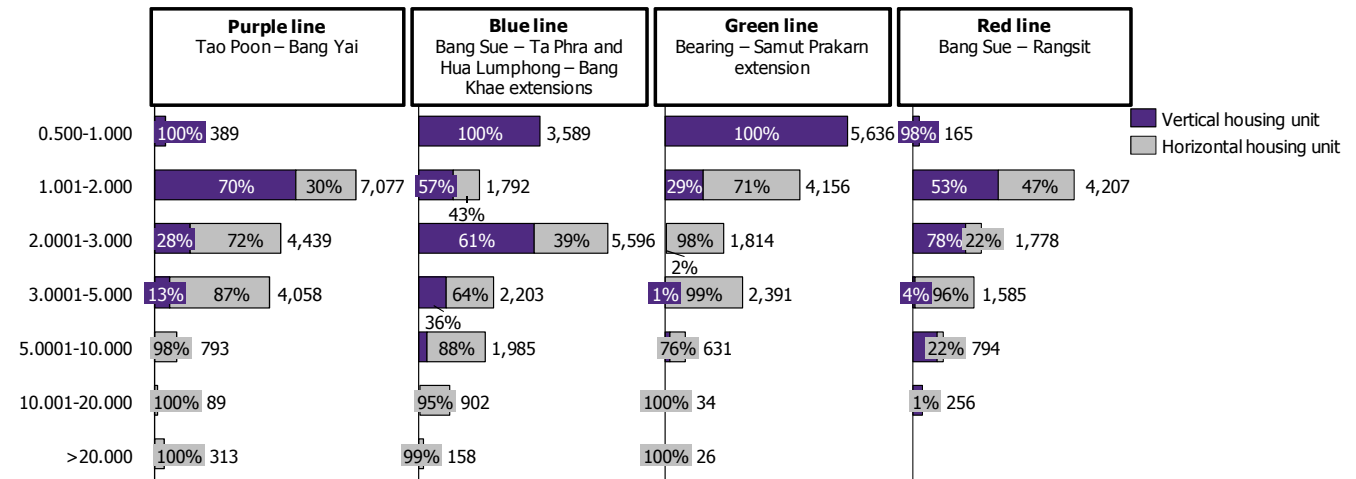
Source: EIC analysis based on data from AREA

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Figure 5: The purple line has the highest number of remaining units.

Remaining unit – by price range

Unit: unit

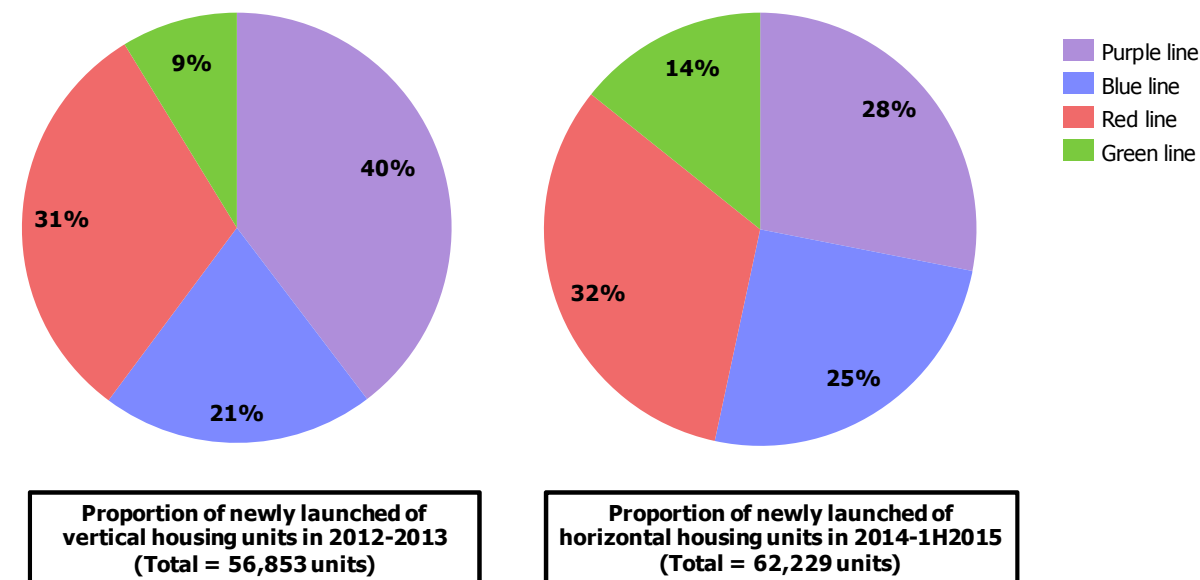


Source: EIC analysis based on data from AREA

Figure 6: Number of units estimated to benefit from the property stimulus.

Number of new residential units - by rail lines

Unit: %



Source: EIC analysis based on data from AREA

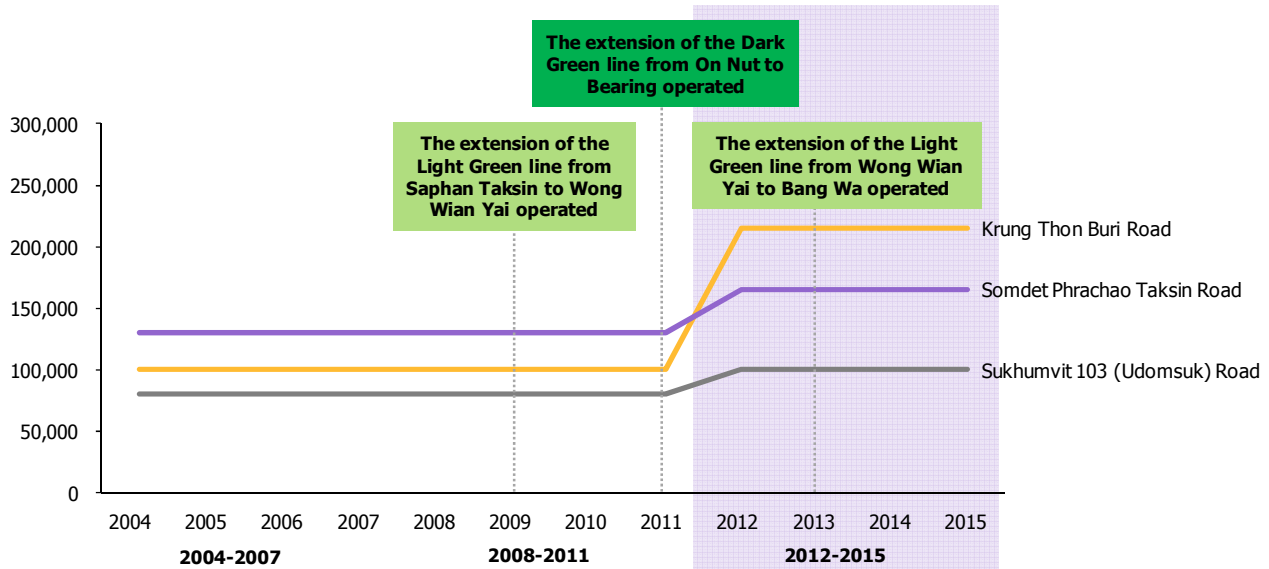
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Figure 7: Land appraisal prices surged after city rail lines begin service

Land Appraisal Price

Unit: baht/square wah



Source: EIC analysis based on data from the Treasury Department

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