

# Property Construction & Development in Thailand

# Content

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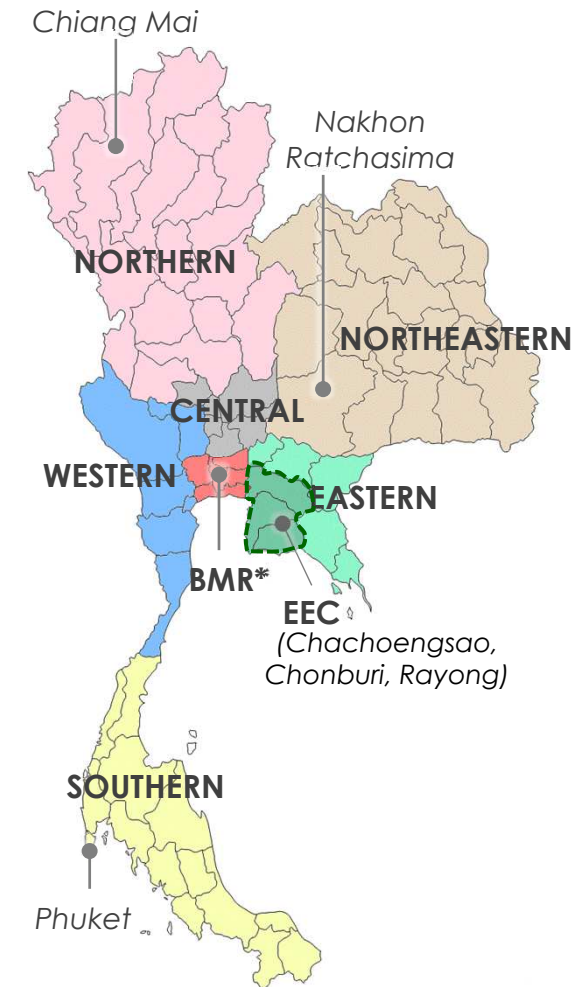
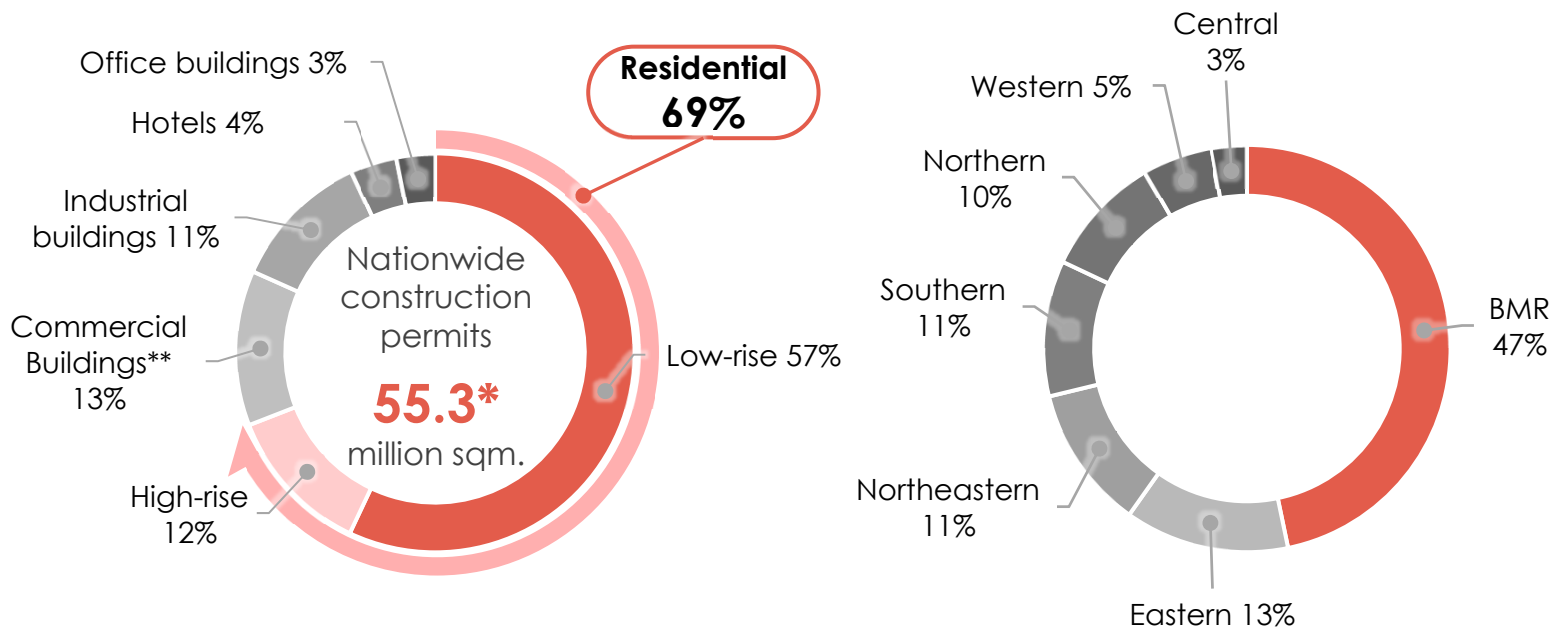
- Overview of Property Construction in Thailand
- Current Situation & Trends of Thailand's Property Market
- Major Players in Property Construction and Development in Thailand
- Main Regulations/ Rules in the Construction Business
- Foreign Land and Property Ownership Restrictions in Thailand
- Conclusion



# Overview of Property Construction in Thailand

- Private construction projects are concentrated in the Bangkok Metropolitan Region (BMR), the country's capital city and main business area. With an area of only 1.5% of the whole country, almost half of all construction permits in 2018 was for projects in BMR.
- When ranked by building types, residential buildings are the main type of private construction, followed by commercial buildings and industrial buildings.
- Construction in each region/ province is varied by the main business activities and lifestyles of the local people.

Thailand's Building Construction Permits\* (2018)



\*BMR include Bangkok, Nontaburi, Pathumthani, Samut Prakarn, Samut Sakorn, and Nakhonpathom

Source: Real Estate Information Center (REIC)

Note: \*The number does not include construction permits for education/ hospital, water/ power utility buildings, car parks and transportation-related buildings.

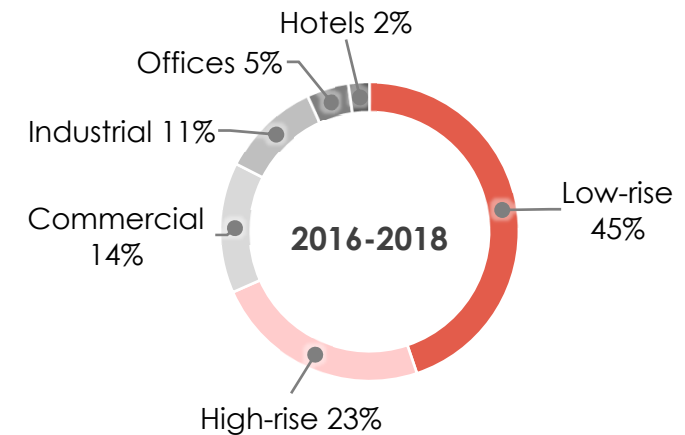
\*\*Commercial buildings are buildings used for conducting business activities; for example, purchasing, selling and exchanging goods, as well as real estate sales and purchases, pawn shops, insurance, finance and banking activities. Commercial buildings can also have residential as an additional use.

# Overview of Property Construction in Thailand - BMR

## Bangkok Metropolitan Region (BMR)

- Construction permits in BMR were concentrated in residential projects, which accounted for around 68% of total construction permits (in terms of sqm. Area) between 2016-2018.
- The construction of low-rise housing increased during 2017-2018, especially in outer Bangkok, Nonthaburi, and Pathum Thani. Several housing projects along two new mass-transit routes, including the Purple Line (terminus at Nonthaburi) and the Dark Red Line (terminus at Pathum Thani), are being developed to serve the urbanization in northern Bangkok.
- Meanwhile, there was a slow down in construction of condominiums due mainly to the oversupply in some outer Bangkok areas, as they are considered too expensive and do not match the demand of local residents.
- Growing construction of commercial, offices, and hotels in BMR over the past few years was driven by the development of several mix-used projects in Bangkok.

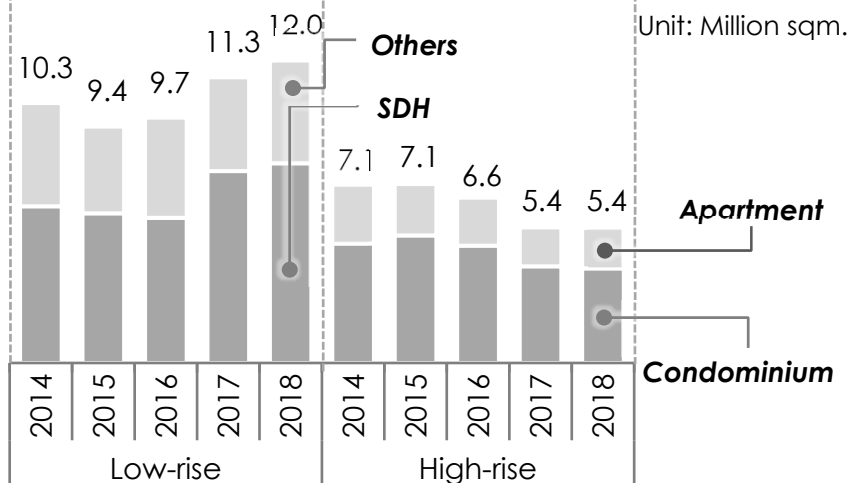
## Construction Permits by Building Type (in sqm.)



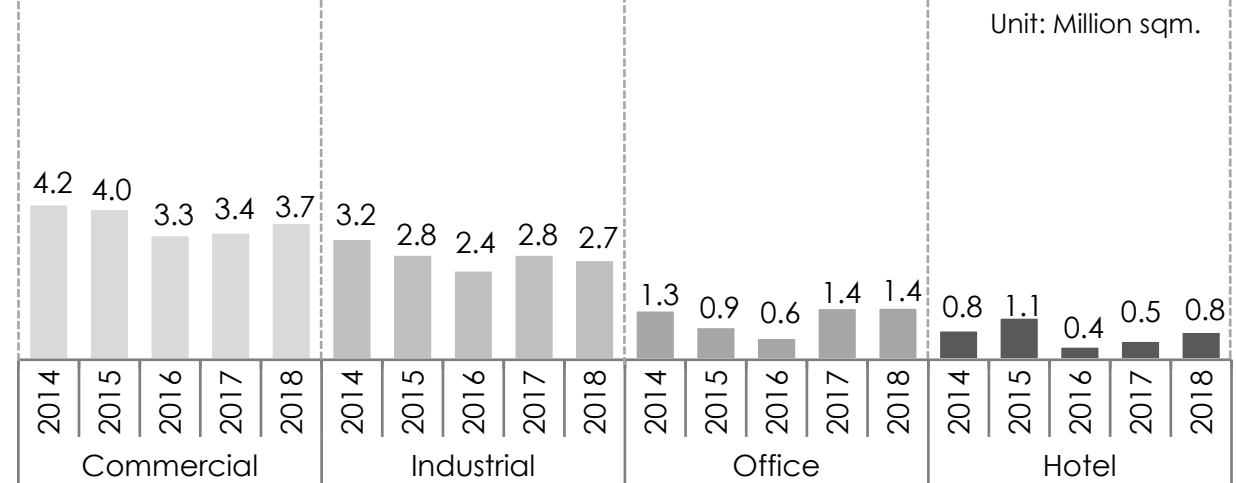
Source: Real Estate Information Center (REIC)

## Building Construction Permits in BMR

### Residential Buildings



### Non-Residential Buildings



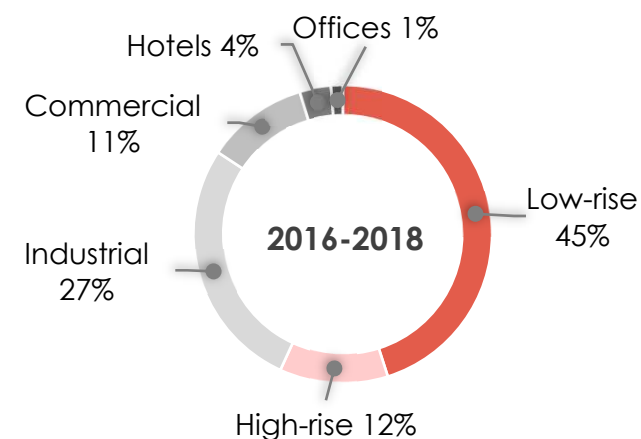
Source: Real Estate Information Center (REIC)

# Overview of Property Construction in Thailand - EEC

## Eastern Economic Corridor (EEC)

- EEC, which includes Chachoengsao, Chonburi, and Rayong, is the country's main industrial area. Therefore, the construction of industrial buildings is higher than other provinces. There was a hike in 2015 especially because investors hurriedly applied for investment promotion before the implementation of new BOI privileges.
- Low-rise housing remains largest type of construction in EEC.
- Condominium projects are concentrated in a limited area, most of which are in Pattaya, which is one of the country's preferred tourist destinations. Foreign developers have invested in condominiums and hotels in Pattaya for more than 10 years. Over the last few years, there was a strong demand of condominiums from foreigners for use as holiday homes and investment properties. High rental yields are offered to attract the foreign buyers.
- Development plans for a high-speed train from Bangkok to Chonburi and Rayong has boosted the demand for land, which affected the sales price of land and property. In the meantime, the demand for housing was limited due to the economic slowdown. Therefore, there was an oversupply of residential projects in EEC between 2018-2019.

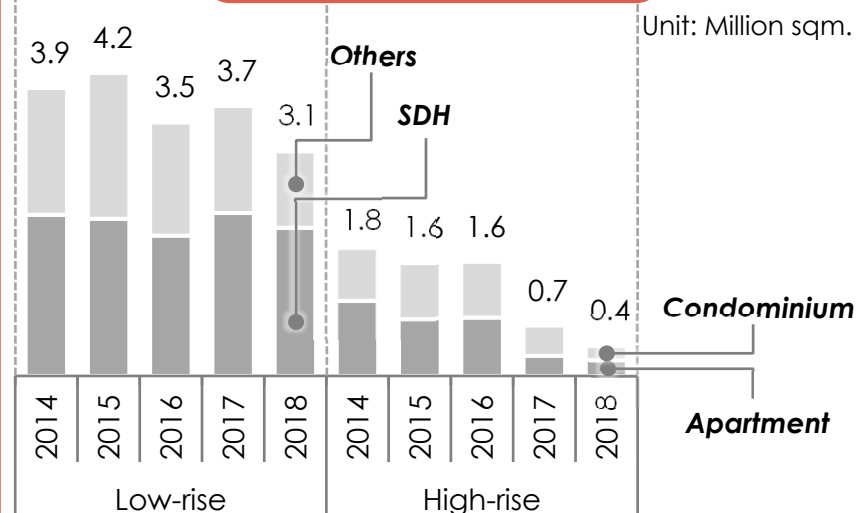
## Construction Permits by Building Type (in sqm.)



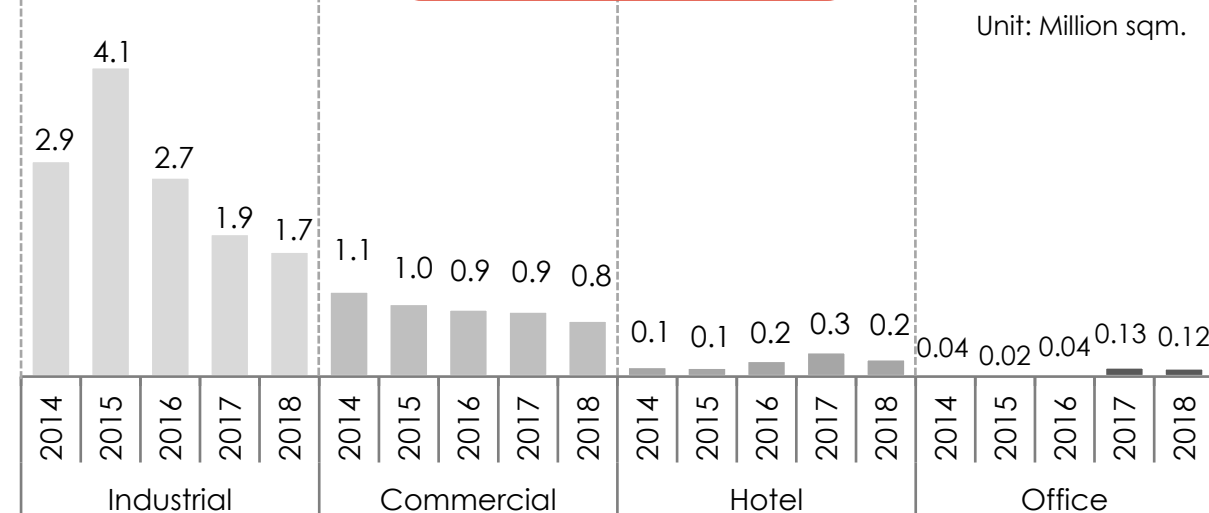
Source: Real Estate Information Center (REIC)

## Building Construction Permits in EEC

### Residential Buildings



### Non-Residential Buildings



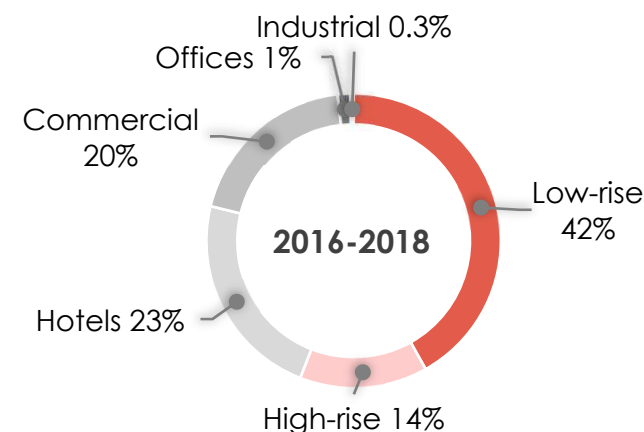
Source: Real Estate Information Center (REIC)

# Overview of Property Construction in Thailand - Phuket

## Phuket

- Phuket, one of the world's famous tourist destinations, is a popular long stay and retirement destination. The high potential growth of Phuket and recent infrastructure development plan has been attracting the property developers to invest in the area during the recent years.
- Construction has continuously increased, especially for residential projects and hotels.
- Residential projects dominate the property market in Phuket. Single detached house is the preferred housing type in the province. However, the construction of townhouses has increased for the past three years to serve the increasing demand from local people.
- According to Phuket Real Estate Association, the development of small-sized residential projects, which have only 10-20 housing units, are increasing in the city as a result of rising land prices.
- Foreign buyers have become the main drivers of some property types, namely condominiums and villas. Main foreign buyers are Chinese, Russian, and European.
- The construction of new hotels and renovations has also expanded to accommodate increasing tourist arrivals. There are several hotels selling their rooms/villas with rental management services and long-term yield guarantees to entice investment-oriented buyers.

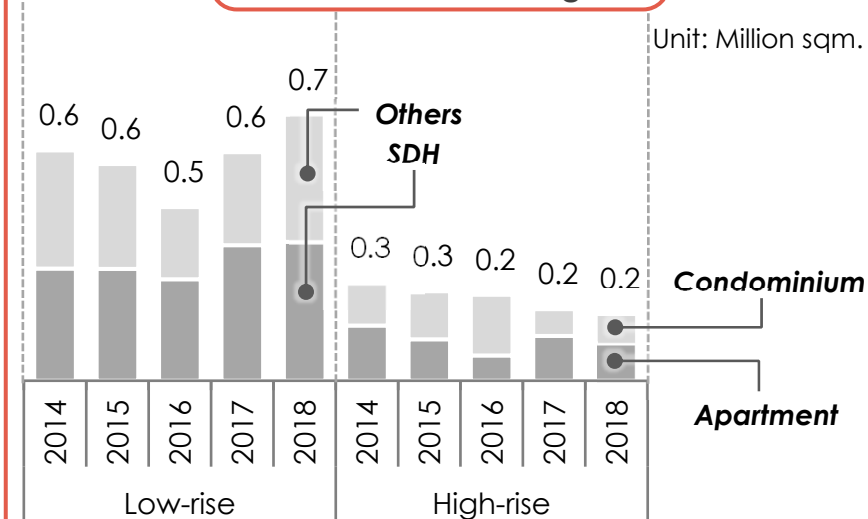
## Construction Permits by Building Type (in sqm.)



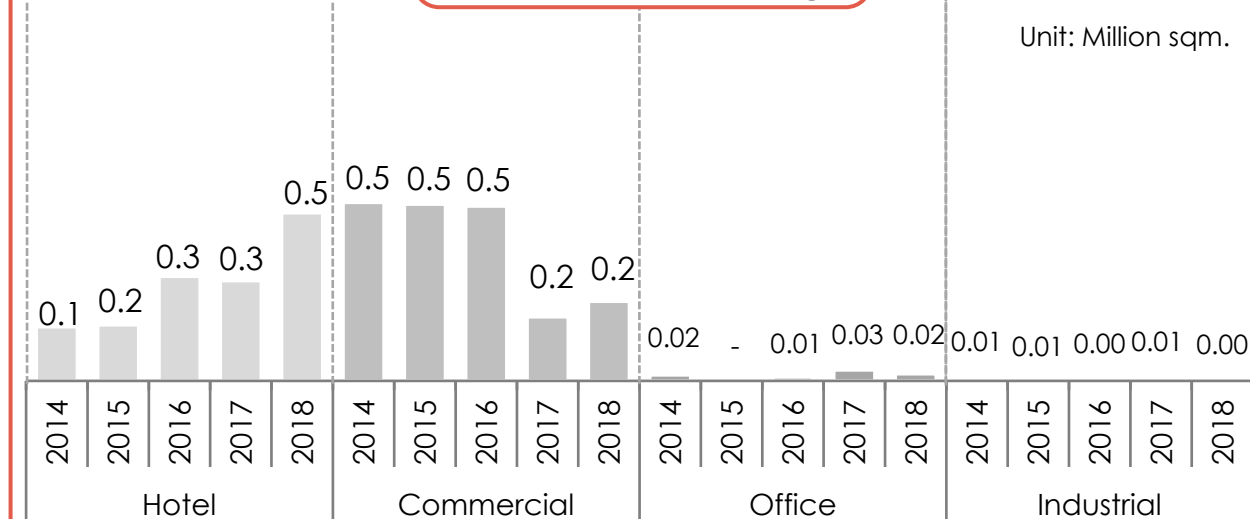
Source: Real Estate Information Center (REIC)

## Building Construction Permits in Phuket

### Residential Buildings



### Non-Residential Buildings



Source: Real Estate Information Center (REIC)

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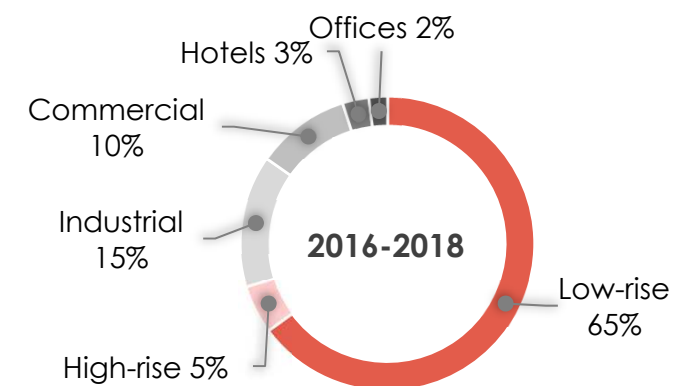
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# Overview of Property Construction in Thailand – Nakhon Ratchasima

## Nakhon Ratchasima

- Nakhon Ratchasima, which cover 20,494 sq.km., is Thailand's largest province.
- Due to the availability of land, low-rise residential construction has the largest contribution to overall private construction in Nakhon Ratchasima.
- Housing estates in the province are mainly developed by local developers who have received trust and credibility from the local residents, their main property buyers.
- As the agricultural sector is the main business activity in the province, the property market is quite sensitive to the agricultural market and fluctuations in price. Over the past few years, the property market, especially residential properties, has declined due to the falling prices of agricultural products. It has also been worsening since the enforcement of new mortgage lending regulations in April 2019.

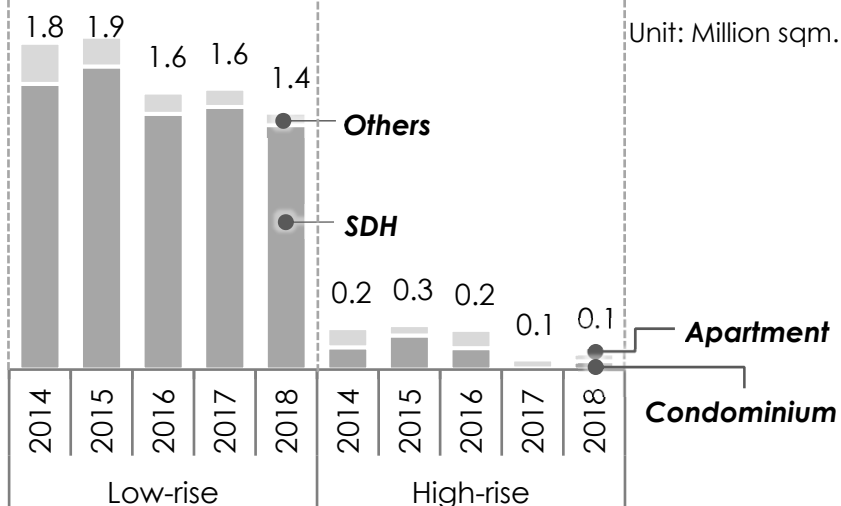
### Construction Permits by Building Type (in sqm.)



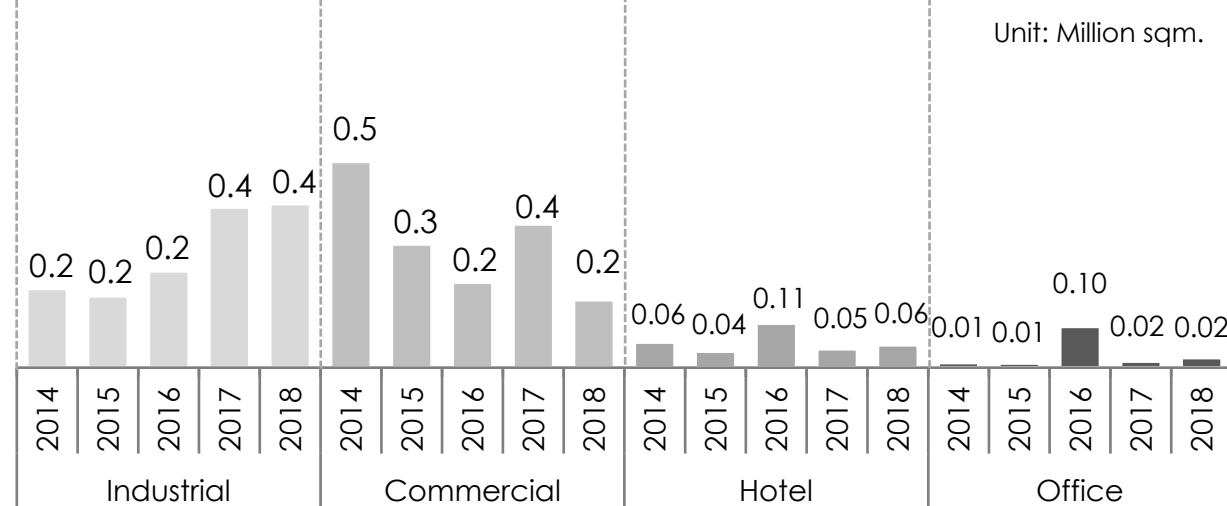
Source: Real Estate Information Center (REIC)

## Building Construction Permits in Nakhon Ratchasima

### Residential Buildings



### Non-Residential Buildings



Source: Real Estate Information Center (REIC)

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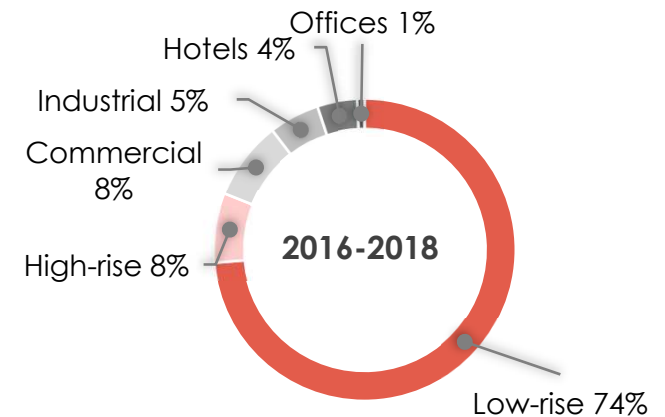


# Overview of Property Construction in Thailand – Chiang Mai

## Chiang Mai

- Chiang Mai, which covers 20,110 sq.km., is the largest province in the northern region and the second largest province in Thailand.
- Single detached house is still the most preferred type of housing for the local people due to the plentifulness of available land. Between 2016-2018, single detached houses accounted for around 74% of total construction permits. Local developers of housing estates dominate the property market in Chiang Mai.
- The growth potential from its role as the educational center of the Northern region and one of the major tourist destinations as well as several mega infrastructure development projects, have encouraged SET-listed developers, i.e., Supalai, Land & House, Pruksa, and Sansiri, to continue investing in residential projects in Chiang Mai.
- The demand for condominiums, which is mainly from foreigners, especially Chinese expatriates, and non-Chiang Mai residents, who want vacation homes/second homes during their stay working/ studying in the province, or as investment etc. is limited.

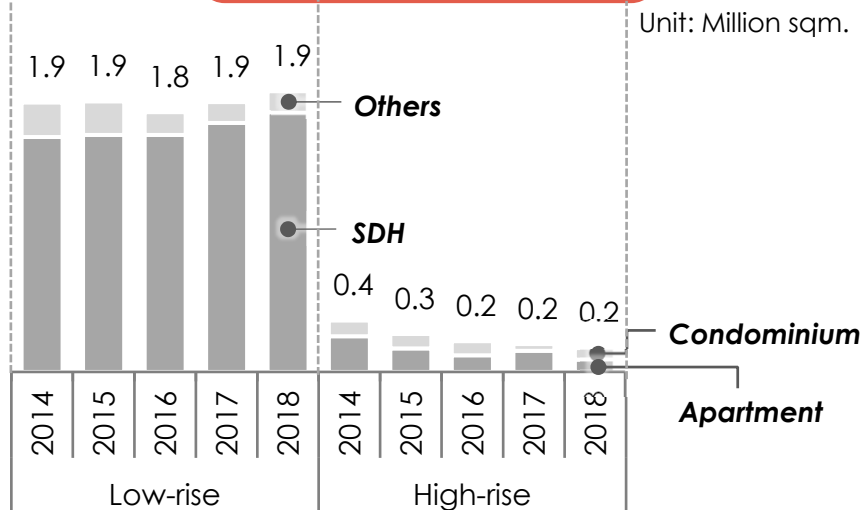
Construction Permits by Building Type (in sqm.)



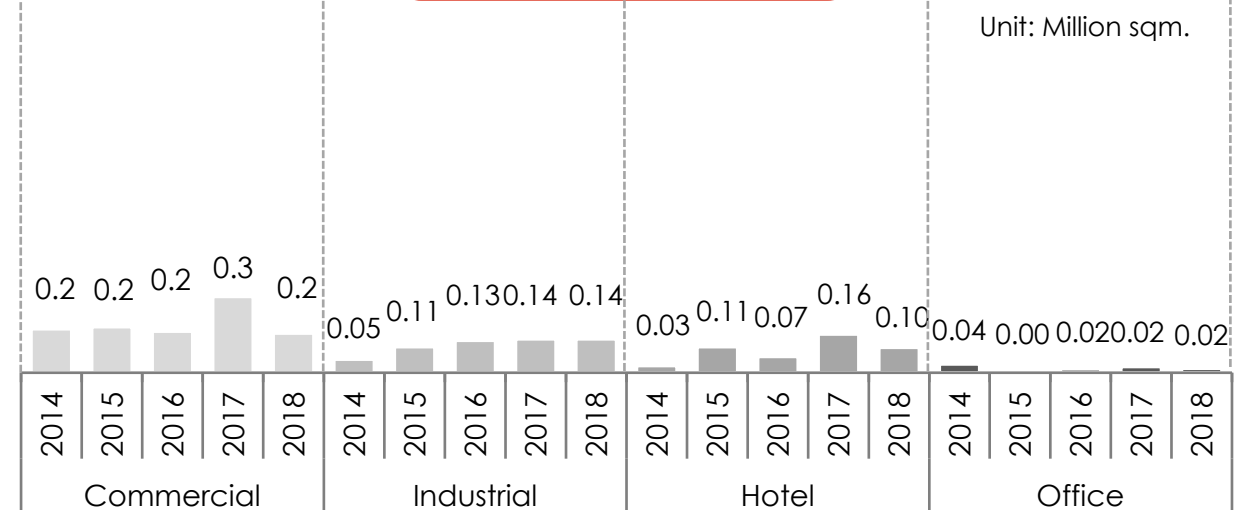
Source: Real Estate Information Center (REIC)

## Building Construction Permits in Chiang Mai

### Residential Buildings



### Non-Residential Buildings



Source: Real Estate Information Center (REIC)



## Current Situation & Trends of Thailand's Property Market

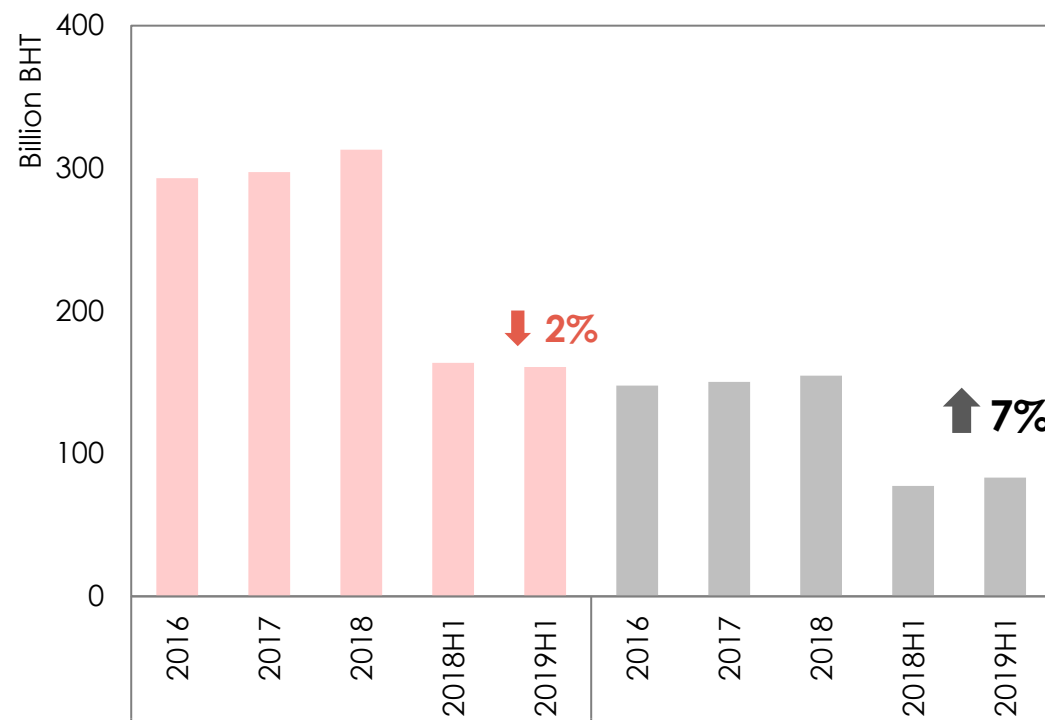
### 2019: Thailand's property market showed slower growth from several adverse factors.

- The economic slowdown and high household debt has limited the purchasing power for all residential property types.
- Stricter mortgage lending, which aims at reducing speculative demand and limit default risks, has also affected the behavior of residential property buyers, especially condominiums, which is the most popular investment property type.
- The condominium market is also affected by the ongoing US-China trade dispute and China's capital controls, especially in Bangkok and major tourist cities, i.e., Pattaya, Phuket, and Chiang Mai.
- On the other hand, the construction of non-residential properties has grown in line with the increase in foreign direct investment and tourist arrivals.

### 2020: The property market will face more challenges, but opportunities remain.

- Stricter mortgage lending regulations and high household debt are like to cause continued impact on the residential property market for the coming year.
- Furthermore, the baht's persistent strength, which impacted exports this year, will continue to have a negative impact on the business sector and consumer purchasing power in 2020.
- The new land and property tax, which will be implemented in 2020, is likely to affect the property market in various aspects, such as decreasing demand for properties (for investment) and incite stiff competition from the increasing 2<sup>nd</sup> hand housing supplies in the market.
- Bangkok's new mass transit routes in the pipeline are considered to have considerable potential for property development.
- Furthermore, the new Bangkok city plan, which will be the framework for city development towards the year 2037, is expected to offer many more opportunities for property development; for example, road network expansions, increased floor area ratios (FAR) in some areas, implementation of new measures to support development near major mass transit stations, and so on.

### Private Construction Investment Trends



Source: National Economic and Social Development Council

# Current Situation & Trends of Thailand's Property Market – Residential Properties

## Residential Properties

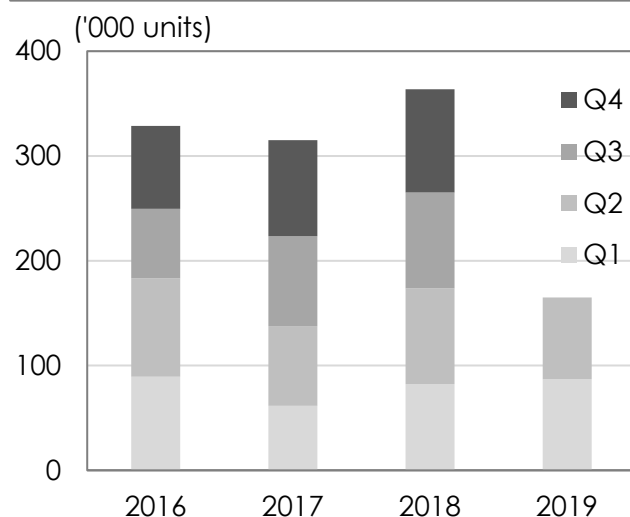
- The overall residential property market has been slowing down after the enforcement of new LTV conditions in April 2019.
- The condominium market, especially in Bangkok, was severely affected by the tighter mortgage lending regulations and the global economic slow down, which resulted in the sluggish demand of both local and foreign buyers.
- In the meantime, the low-rise housing market, especially in the upcountry, has experienced a slowdown in demand since 2017 due to the high household debt and strict qualification criteria for housing loans applied by the banks.
- The launch of new housing projects was accelerated in the 2<sup>nd</sup> half of 2018 in order to reap benefits from inflated demand before the enforcement of new mortgage lending regulations.
- Thailand's residential property market slump is anticipated to continue for another year (2020), pressured by increasing unsold housing units together with several negative factors.
- Accordingly, developers are adjusting their investment and marketing strategies, such as postponing new project launches, project downsizing, adopting heavy promotions to clear existing stock, etc. to align with the current market situation. Some developers are investing more on rental properties in order to diversify risks.

### Mortgage Lending Regulations

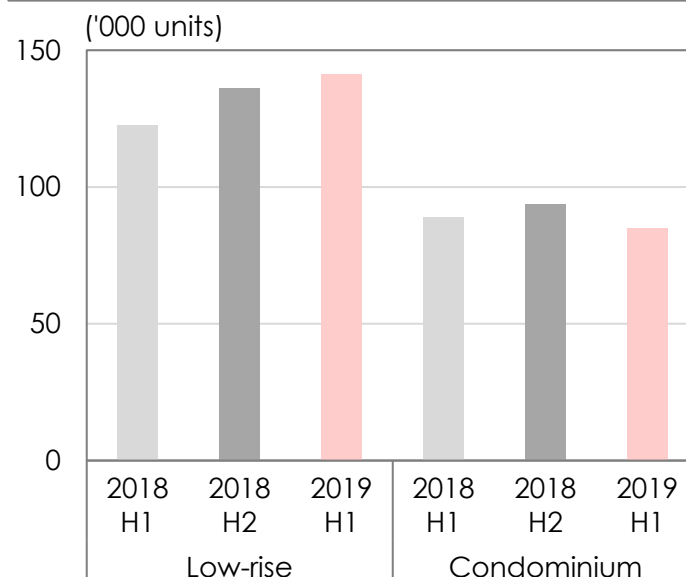
	LTV for Homes priced <10MB		LTV for Homes priced ≥ 10 MB	
	Old	New	Old	New
1 <sup>st</sup> mortgage		0-10%		20%
2 <sup>nd</sup> mortgage	0-10%	10-20%	20%	20%
3 <sup>rd</sup> mortgage		30%		30%

Source: BOT

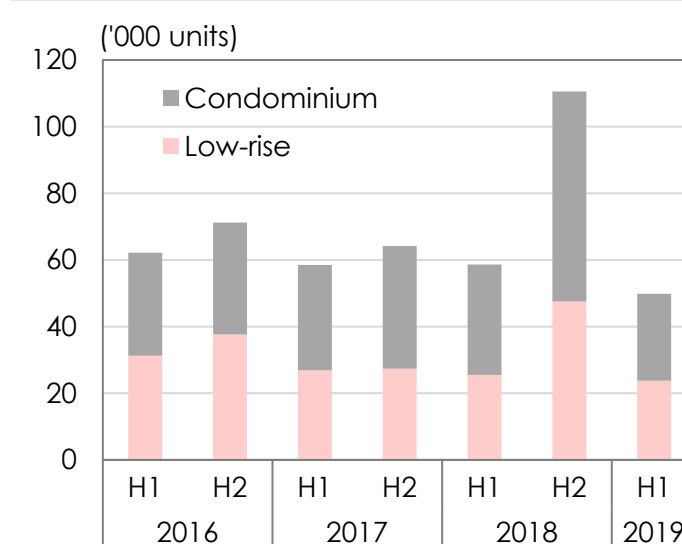
### Ownership Transfer of Residential Properties



### Accumulated Unsold Units of Residential Properties



### Newly Launched Residential Projects



Source: Real Estate Information Center (REIC)

Note: Includes only BMR and 5 major provinces (Chiang Mai, Chonburi, Rayong, Nakhon Ratchasima, Phuket)

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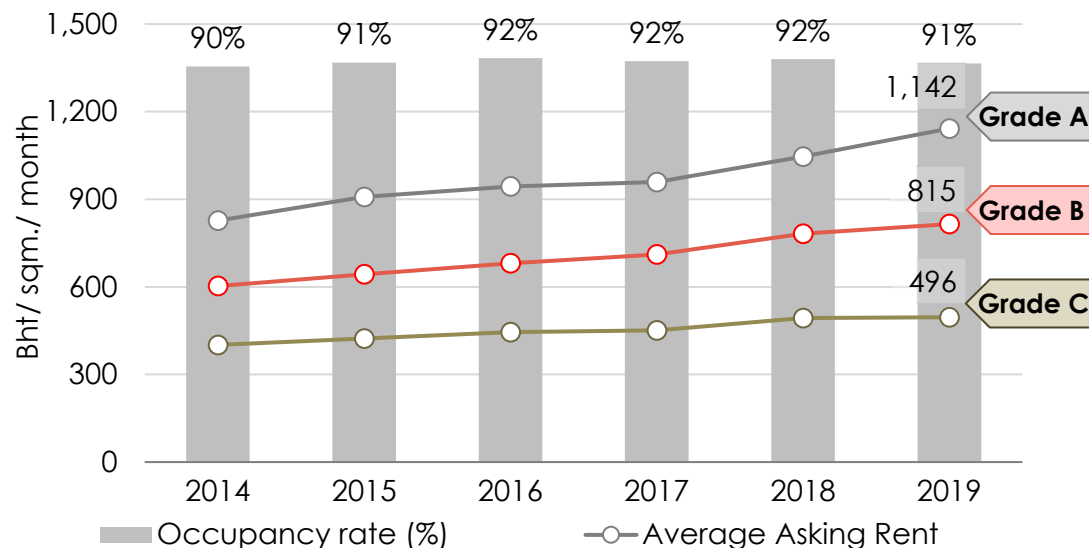
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# Current Situation & Trends of Thailand's Property Market – Office Buildings

## Office Buildings

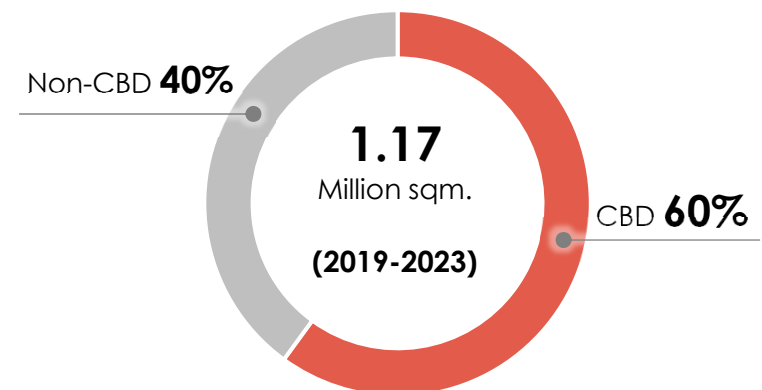
- Office buildings are concentrated in Bangkok and its vicinity with construction permits of more than 80% of all permits nationwide. According to CBRE, the total office space was nearly 9 million sqm. as of the end of 2019 Q2.
- The increasing asking rent and high occupancy rate of more than 90% indicates that the demand for office space is still growing. Grade A offices have the highest growth for rental rate.
- The development of mass transit as well as increasing foreign investment are the main demand drivers for Bangkok office buildings in recent years.
- Most new office supplies are Grade A office spaces located in the CBD area. According to Knight Frank (Thailand), office spaces in the CBD will account for 60% of the total office space for offices launching between 2019-2023.
- Due to the limited land available, most office spaces in the CBD will be in the mixed-use properties on leasehold land plots. In the meantime, new office supplies in non-CBD areas will extend along the mass transit route extensions.

### Average Asking Rental Rate of Office Buildings in BKK



Source: Knight Frank (Thailand)

### Future Office Supply in BKK



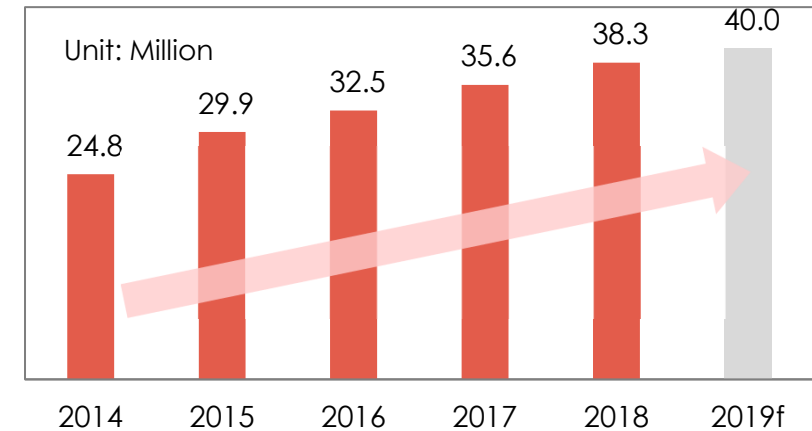
Source: Knight Frank (Thailand)

# Current Situation & Trends of Thailand's Property Market – Hotels

## Hotels

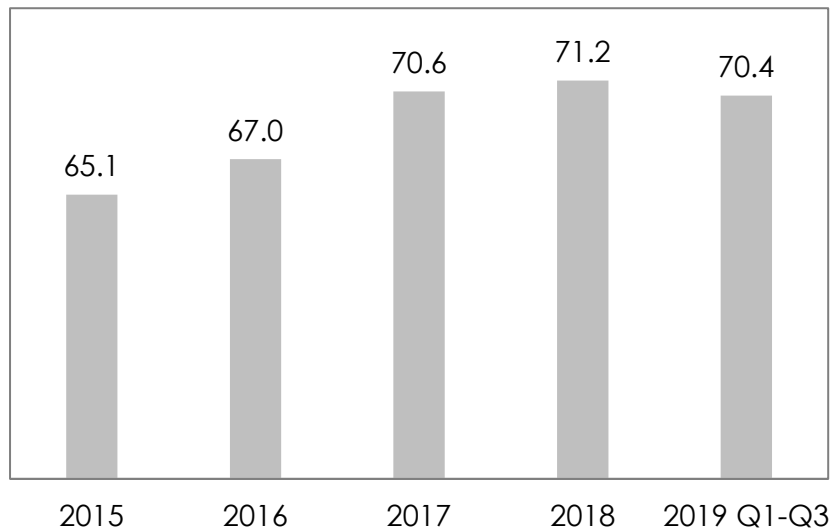
- The notable growth of international tourist arrivals and government policies to stimulate domestic tourism have been boosting the demand for hotel rooms in Thailand.
- Four major tourist provinces, which include Bangkok, Phuket, Chonburi, and Chiang Mai, account for more than 60% of hotel's construction permits nationwide.
- The growth of hotel construction during the last 2 years has resulted in oversupply, which led to a decline in occupancy rates in some areas.
- However, the steadily increasing tourist arrivals is still attracting more investment into the hotel business. Japanese hotels are investing more in Thailand to meet rising demand for high-end accommodations. In the meantime, the local housing-centric property developers are also investing more in hotels to diversify risks.

## Tourist Arrivals into Thailand



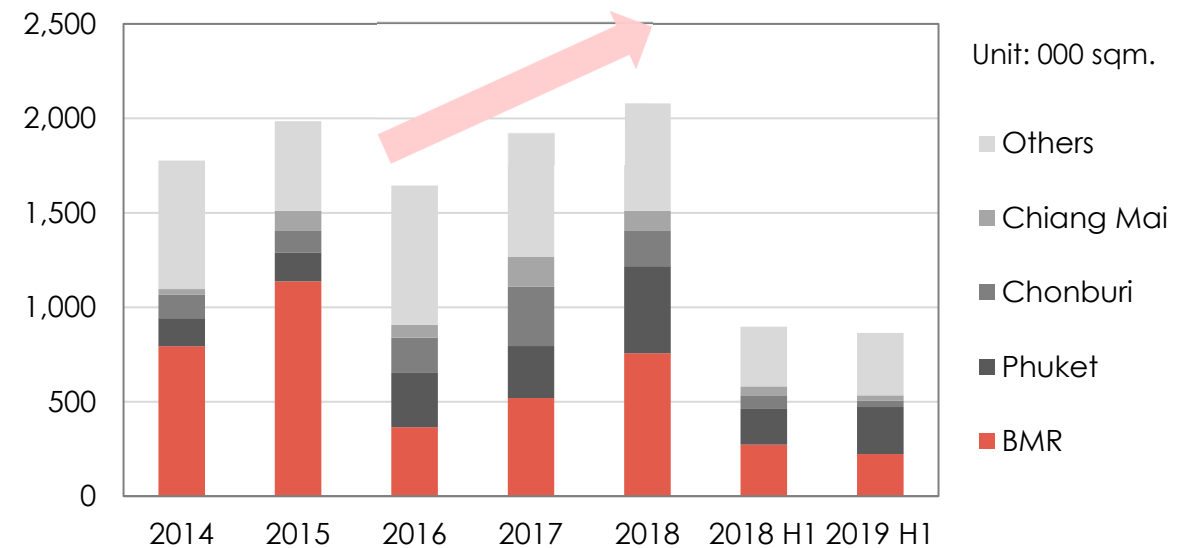
Source: Ministry of Tourism and Sports

## Thailand's Hotel Occupancy Rate



Source: BOT

## Hotel Construction Permits in Major Cities



Source: Real Estate Information Center (REIC)

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# Major Players in Property Construction and Development in Thailand - Construction

## Major Thai Construction Companies\*

Company name	2018 Net sales (BHT Mil.)	Main works/ building types
Riffa Co., Ltd.	15,541	condominium, shopping mall, hotel
Syntec Construction Plc.	6,935	condominium, office building, school, hospital
Christiani & Nielsen (Thai) Plc.	6,949	industrial building, commercial building
JWS Construction Co., Ltd.	6,022	condominium, hotel, factory
Italthai Engineering Co., Ltd.	6,006	Construction of utility, smart grid, power infrastructure
Visavapat Co., Ltd.	4,763	condominium
Siam Multi Con Co., Ltd.	4,633	condominium, shopping mall
Sang Fah Engineering & Construction Co., Ltd.	4,380	condominium, hotel
T.T.S. Engineering (2004) Co., Ltd.	3,448	Condominium
Pre-Built Plc.	3,428	Condominium, office building

Note: \*The companies in the table are top construction companies that mainly rely on private construction projects.

Source: Ministry of Commerce, companies' annual reports and websites

## Foreign Construction Companies in Thailand

### Japanese companies

- Thai Obayashi Corporation Ltd.
- Thai Takenaka International Ltd.
- Taikisha (Thailand) Co., Ltd.
- Thai Kajima Co., Ltd.
- Thai Takasago Co., Ltd.
- Thai Nishimatsu Construction Co., Ltd.
- Thai Shimizu Co., Ltd.
- Thai Nakano Co., Ltd.
- Thai Shinryo Co., Ltd.
- Thai Toda Corporation
- Thai Fukuda Corporation
- SMCC (Thailand) Co., Ltd. (Sumitomo Mitsui Construction)

### Chinese companies

- Zhongtian Construction
- Tianyuan Construction Group
- Beijing Construction Engineering Group (BCEG)

Note: The foreign companies mentioned above mainly engage in private construction projects in Thailand.

Source: compiled from public news, companies' websites

# Major Players in Property Construction and Development in Thailand – Property Development

## Major Thai Property Developers

Company name	2018 Net sales (BHT Mil.)	Main property types
Pruksa Real Estate Plc.	44,901	residential projects
Land and Houses Plc.	34,247	residential projects
AP (Thailand) Plc.	27,700	residential projects
Sansiri Plc.	26,248	residential projects
Supalai Plc.	25,553	residential projects
Property Perfect Plc.	18,844	residential projects
Quality Houses Plc.	16,080	residential projects
Golden Land Property Development Plc.	15,733	residential projects
SC Asset Corporation Plc.	15,616	residential projects
Central Pattana Plc.	15,502	commercial projects (shopping mall)
Rojana Industrial Park Plc.	11,706	industrial projects (industrial park)
L.P.N. Development Plc.	11,252	residential projects
Ananda Development Plc.	9,934	residential projects
WHA Corporation Plc.	8,322	industrial projects (industrial park)
Origin Property Plc.	7,496	residential projects
WHA Industrial Development Plc.	7,471	industrial projects (factory, warehouse)
Bangkok Land Plc.	6,829	residential projects
Sena Development Plc.	5,355	residential projects
Noble Development Plc.	5,078	residential projects
M.K. Real Estate Development Plc.	4,547	residential projects

Note: Net sales figures are from consolidated financial statements.

Source: Business Online, companies' annual reports and websites

## Foreign Property Developers in Thailand

### Japanese companies

- Mitsui Fudosan
- Mitsubishi Estate Group
- Nomura Real Estate
- Hankyu Hanshin Properties
- Tokyo Tatemono
- Tokyu Construction
- Daiwa House Industry
- Sumitomo Forestry
- Shinwa Real Estate
- Hoosiers Holding
- Sankyo Home

### Chinese/ Hong Kong companies

- Hong Kong Land
- Junfa Real Estate
- Green Land Group
- King Wai Group
- ARCH Capital Management
- Risland Group

Source: compiled from public news

# Main Regulations/ Rules in Construction Business

## Building Control Laws in Thailand (1)

- The “**Building Control Act B.E. 2522 (1979)**” is the main act to regulate building construction in Thailand. Key issues in the Act and accompanying ministerial regulations include the activities and processes which require construction permits, criteria for building construction, special requirements for some specific building types and other related aspects.

### Prior to Commence Construction: Construction Permit

Permission from the local authority is required prior to starting construction. There are various criteria regarding building design and specifications that developers/ contractors need to consider in order to obtain the construction permit. The criteria are varied depending on the building type.

#### Activities requiring construction permits:

- Construction of new buildings
- Modification to existing buildings
- Destruction or relocation of buildings
- Changing the usage of buildings

#### Permit validity:

- Buildings with the total floor area of less than 10,000 sqm.
- Buildings with the total floor area of at least 10,000 sqm. but less than 100,000 sqm.
- Buildings with the total floor area of at least 100,000 sqm. and above

1 Year

2 Years

3 Years

Permits can be renewed to a maximum of three times.

#### Some criteria for construction permission\*:

- Building characteristics
- Building materials
- Interior area
- Open exterior spaces
- Width of walkway
- Height of room/ floor
- Distance from neighboring land plot
- Covered way/ sky way
- Ventilation system, electrical system and fire protection system
- Water treatment system, water drainage, water supply system
- Waste disposal system
- Elevator system
- Parking area
- Environmental impact assessment (EIA) report

Source: The Building Control Act B.E. 2522(1979) and some accompanying ministerial regulations, Department of Public Works and Town & Country Planning

Note: \* The list of the criteria above are only examples. In addition, some criteria are applied to specific types of buildings. Developers/ contractors need to review the related ministerial regulations carefully for details of the criteria for construction permission.

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# Main Regulations/ Rules in Construction Business

## Building Control Laws in Thailand (2)

### After building completion: Occupancy Permits/Certificates

- After completion of building construction or alteration, the local authority shall be informed to inspect the building in order to issue occupancy permits/certificates.

#### Buildings that require certification of occupancy:

- Warehouses, hotels, condominiums, medical facilities
- Commercial buildings with floor area of  $\geq 300$  sqm.
- Commercial buildings (retail/ wholesale) with floor area of  $\geq 300$  sqm.
- Auditorium buildings with floor area of  $\geq 300$  sqm.
- Office buildings with floor area of  $\geq 300$  sqm.
- Buildings for industrial purposes
- Educational buildings
- Dormitory buildings
- Condominiums
- Buildings used for the storage of hazardous materials

### After building occupation: Building Inspection Certificates

- Some building types must be inspected/ audited by engineers and architects after building occupation. There are two types of inspections, namely annual inspections and comprehensive inspections that is required every five years.
- Key inspection items include the structure of the building, electrical systems, ventilation systems, elevator systems, sanitary systems, and fire protection systems.

#### Buildings that require building inspection certificates:

- High-rise buildings:** Buildings in which people may dwell or use, being at least 23 meters high.
- Extra large buildings:** Buildings with a total floor area of  $\geq 10,000$  sqm.
- Theatres:** Buildings or any part thereof which is used as a venue for showing movies, plays, concerts or other entertainment, and is normally open to the general public.
- Public buildings:** Buildings in which persons may assemble with the total area of  $\geq 1,000$  sqm. or for the number of  $\geq 500$  persons
- Hotels** having total rooms of  $\geq 80$
- Condominiums** or residential buildings having area of  $\geq 2,000$  sqm.
- Factory buildings** under the law of factories having 2 stories or more and having usable area of  $\geq 5,000$  sqm.
- Entertainment places** under the Entertainment Place Act with area of  $\geq 2,000$  sqm.
- Advertising Posts** with 50 sqm. or more/ 25 sqm. or more when attached to any building



# Main Regulations/ Rules in the Construction Business

## Foreign restrictions in construction activities

- Foreign companies, which have half or more of its shares held by non-Thais, are restricted from engaging in the construction business in Thailand. However, there is an exemption for companies with large capital investments.
- Foreign workers are also prohibited from working as engineers or architects in Thailand. Accordingly, companies wishing to undertake engineering and architectural activities need to engage Thai engineers/architects.



## Restrictions to operate construction businesses in Thailand

Foreign companies wishing to engage in architectural, engineering, and construction service businesses in Thailand are required to obtain a Foreign Business License (FBL) from the Ministry of Commerce.

**Exceptions:** Foreign companies with at least 500-million-baht capital can engage in the business of infrastructure construction in public utilities or communications requiring tools, technology or special expertise without FBL requirement.

*Foreign Business Act B.E. 2542 (1999)*



## Foreign Worker Restrictions

Foreigners are not allowed to engage in the following construction related works:

- Civil engineering works concerning design and calculation, organization, research, project planning, testing, construction supervision or advising, **excluding** works requiring special expertise
- Architectural works concerning designing, drawing of plans, cost estimation, construction directing or advising

*Royal Decree Prescribing Occupations and Professions Prohibited for Foreign Workers B.E.2522 (1979)*

# Foreign Land and Property Ownership Restrictions in Thailand

## Foreign ownership on land and property in Thailand is restricted.

- For residential purposes, foreigner can own not exceeding one Rai of land with conditions. In the meantime, foreigners can own condominium units with the maximum of 49% from the total project area.
- For business purposes, the permitted amount of land can vary ranging from 1 Rai to 10 Rai or the amount that appropriate with the business activity.
- Nevertheless, foreigners who does not possess land/property, can also utilize properties through long-term leasing with some conditions.



### With Ownership Rights

#### For residential purposes

**Permitted amount:** 1 Rai per family

**Conditions:** Investment amount of 40 MB for no less than 5 years

#### For business purposes

##### General case:

- For commerce → 1 Rai
- For industry/ factory → 10 Rai

**Condition:** Investment amount of 40 MB for no less than 5 years

##### Investment privilege:

- For investment privileges under BOI & IEAT → the permitted area is deemed of appropriate size

#### Land



#### Condominium



#### Structure on land



**Permitted amount:** not exceeding 49% of the total project are

**Conditions:** Bring in foreign currency with no less than the price of the unit

**Permitted period:** 30 years of lifetime of owner or usufructuary

**Conditions:** legal ownership in house or building, but do not own land



### No Ownership Rights

#### Rights to use property



**Permitted period:** 30 years or lifetime of usufructuary

**Conditions:** obtain the rights to use and reap the benefits from the property, but no ownership rights

#### Property & land lease



#### Land & property lease: general case

**Permitted period:** 30 years + one time renewal

#### Property lease for commercial/ industrial purposes

**Permitted period:** 50 years + one time renewal

**Conditions:** one of the following conditions shall be met

- Commercial business: Investment no less than 20 MB
- Industrial activity: eligible to be granted BOI privilege
- Commercial/ industrial activity must have social & economical benefits
- In case of leasing property >100 Rai: (1) approval from Land Department is required; (2) Investment no less than 100 MB

Source:

- (1) Land Code B.E. 2479 (1954)
- (2) Civil and Commercial Code
- (3) Investment Promotion Act B.E. 2520 (1977)
- (4) Industrial Estate Authority of Thailand Act B.E. 2522 (1979)
- (5) Lease of Immovable Property for Commerce and Industry Act B.E. 2542 (1999)

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## Conclusion

- Despite several negative factors hindering the property demand over the last few years, developers still have a positive view on the industry, as there remains huge potential for growth in the long term. The infrastructure development plans, the new Bangkok city plan, EEC development, growing FDI and tourist arrivals will be the main factors driving future growth of the property market.
- Foreign construction and property developers, especially Japanese and Chinese companies, are flocking into the Thai property market as they see a huge potential growth. In addition, the advantage of foreign investors with regards to high technology, innovation, and strong capital base have led to their business success and accelerated expansion over the past several years.
- Since foreign ownership restrictions are imposed by Thai law, foreign investors must establish joint ventures with local partners to operate the construction business and develop property projects in Thailand. Therefore, finding the right local partner is another key success factor for long-term business development.
- Additionally, other issues, namely several regulations and restrictions regarding construction and market understanding and consumer insights in different areas, need to be carefully considered in order to operate the business legally and determine the most appropriate strategy for investment.

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## お問い合わせ先

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