The critical indicators of the residential information in the Bangkok real estate industry

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Abstract

The residential information is very important for housing developers and policy makers to closely supervise the market and to make accurate decisions regarding strategic planning and investment while reducing financial risk. The aim of this research is to identify critical indicators for providing information to reduce the investment risk in the Bangkok residential housing sector. The research project employed the qualitative methods for gathering data consisting of document reviews and in-depth interviews to examine this research with 20 stakeholders from the Bangkok residential market. The research findings assert that the vital indicators for residential investment required providing the crucial housing information in the Bangkok real estate industry consisting of economic indicators and housing indicators. The economic indicators are classified into two groups including the economic overview indicators, and the political and social indicators. The housing indicators are categorized into five groups including housing market overview indicators, housing prices, housing demand indicators, housing supply indicators, and housing locations indicators. This research allows the people involved to manage some future risks by giving critical indicators about housing investment in the Bangkok property market.

Keywords: residential information; housing indicators; financial risk

Introduction

The 2008 global financial crisis had a powerful influence, directly and indirectly, on the Thai economy. The Thai property market was adversely affected, although the property industry had been extraordinarily strengthened since the financial crisis in 1997. The disaster situation caused decreasing disposable revenue, declining confidence of customers, and the suspension of buying decisions. While the housing situation was obstructive for many
residential developers, developers who had a strong financial credit and competency were able to earn significant market share (Tharachai, 2009).

The Congressional Research Service (2009) contends that the 2008 global financial crisis disclosed elemental weaknesses in national financial systems. The bursting of the US property bubble was the cause of the 2008 global financial disaster. The financial crisis originated in a real estate asset bubble fed by investment in U.S. subprime mortgages, which arose from accessibility to inexpensive credit and led to property bubbles in other economies. The global economy was profoundly affected by this crisis, which resulted in the rapid and massive growth of illiquidity and risk associated with assets financed by short-term liabilities (World Bank, 2009). Lin, Dinh and Im (2010) found the three key factors contributing to the bubble crisis included low interest rates, incremental liquidity to support the exploding housing and equity markets, and the increase in assets turned into investment and consumption. The World Bank (2010) explains that important factors leading to the bubble crisis included interest rates being propped up, the riskier property market falling, and the crumbling of world equity markets.

The property industry is a significant driver for the entire economy in many countries, so the bursting of the real-estate property ‘bubble’ severely affected the soundness of financial institutions and the overall economy (Kritayanavaj, 2008). Thailand housing market situation in 2014 affected by Political events and economic factors both within and outside of the country which has resulted in the reduction of new project launches, completed housing registered, including remember number of units that have been transferred decreased (Bunyoung, 2015).

Kritayanavaj (2008) highlighted the ineffective decision-making process in financial institutions and Thai housing developers in 1996-1997 caused by a lack of significant property market information. The Government Housing Bank, the National Housing Authority and a group of private organizations have established journals that publish housing information and statistical data reports to the public since 1995 (Kritayanavaj, 2008). However, the reported statistical information lacks the key information required by property developers and politicians concerning residential construction schemes, mortgages, monthly sales volume, housing completions, financial data and more (Kritayanavaj, 2008).

In addition, the property information in Thailand is provided by private sectors such as real estate trend analysis, investment reports, property market reports and in-depth statistics. These providers only offer this detailed real estate information to customers who
have paid membership fees to access the property information, using a password. The real estate information is collected and analyzed by investment advisers who are experts in the property market. Property information is also posted on websites in Thailand such as the Agency for Real Estate Affairs (AREA), CB Richard Ellis (CBRE), and Dutch real estate development and investment group (ECC). These agencies are currently providing the Thailand property databases, property surveys and secondary data from government agencies (AREA 2015; CBRE 2015). However, the membership fees to access the system are very costly even for people who are interested. For example, the Real Estate Index Report costs 55,000 Baht per year, and the presentation fee for 2 hours is 40,000 Baht for 10 participants (AREA, 2015).

Hence, many people still worried about the financial crisis which might happen again in the future due to their experiences of the financial crisis and property crisis. However, it is impossible to eliminate all risks in future crises. To prevent or minimize impacts of a future crisis, by providing more precise and sufficient information for making decision, is seen as essential. Further, the reported statistical information of residential investment required in the property industry is still too complicated and difficult to understand, even for professionals who are involved in the property market. Thus, this research project therefore aims to identify vital indicators of residential investment information in the Bangkok property market to manage some financial risk. This research will benefit many housing developers, property-owners, financial institutions, investors, housing buyers, and the general community by identifying the critical indicators for housing investment in order to manage financial risk.

**Research Objectives**

The research aims to investigate the critical indicators of the residential investment information which are required by people involved in the Bangkok property industry to manage financial risk.

**Research Methodology**

This research adopted a qualitative approach to understand the information needs of professionals in Thai real estate from the interviewees’ viewpoints. The research used qualitative methods included document reviews and in-depth interviews to identify critical indicators of practical financial risk management for the Bangkok residential housing market as well as the housing information adequate to industry needs.
The research sample consists of four groups: five advisors from real estate agencies; five financial analysts from financial institutions; five housing developers; and five information systems professionals. The twenty participants were selected from the key stakeholders in the Bangkok residential housing market for interviews.

The data collection process of this research project includes document review and interviews for gathering data. Firstly, this research reviewed documents involving financial aspects of real estate including government and industry reports, journal articles, government publications, and earlier studies related to the 2008 global financial disaster and the Thai property industry to investigate indicators that contributed to financial problems in the past. These sources are valuable in achieving the objective of the research because the reviewing of documents provides significant data to assist in developing interview questions. Secondly, this study designed semi-structured interviews for data gathering. This research operated in the Bangkok province. The research utilized the in-depth interviews to collect information by using open-ended questions. The outline of interview questions is the interviewing guide for collecting in-depth data from all participants of the Bangkok residential market. These sample groups are specialists in the Bangkok property industry; thus, they are able to give rich information from their professional experiences and to advise the information required in various aspects. The researcher utilized a digital recorder such as MP3 for recording data from in-depth interviews.

Thus, the document review and in-depth interviews with this range of stakeholders in the Bangkok residential market generated rich and elaborated information which based on the differing viewpoints and wide experiences to allow a complicated understanding of the significant indicators as well as characteristics of housing information for the Bangkok real estate industry to manage financial risk.

Results

The document reviews asserted the key indicators of property investment for assisting stakeholders to understand and gain more precise information of the residential investment in the Bangkok property industry to reduce financial risk in the face of an impending crisis (Kritayanawat, 2003; Kritayanavaj, 2008; Kitsin, 2011; Pholphirul, 2006; Pornchkochai, 2012; & Vanichvatana, 2007).

The research finding from document reviews indicated that key indicators provided significant data indicators for financial risk in the Bangkok residential market could be
categorized into two groups including economic indicators and property indicators. The economic indicators can be categorized as providing the general information, and the property indicators can be categorized as providing specific industry information as shown in Table 1. (Adapted from the data collected by document reviews)

<table>
<thead>
<tr>
<th>Economic indicators (General Information)</th>
<th>Property indicators (Industry Information)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economic overview</td>
<td>1. Housing starts</td>
</tr>
<tr>
<td>2. GDP</td>
<td>2. Housing completions</td>
</tr>
<tr>
<td>3. Employment rates</td>
<td>3. Home sales including sale volumes of new and second-hand homes</td>
</tr>
<tr>
<td>4. Interest rates</td>
<td>4. Housing transactions</td>
</tr>
<tr>
<td>5. Foreign exchange rates</td>
<td>5. Housing construction</td>
</tr>
<tr>
<td>6. Financial organization liquidity</td>
<td>6. Housing prices</td>
</tr>
<tr>
<td>7. Stock exchange index</td>
<td>7. Housing price index</td>
</tr>
<tr>
<td>8. National income</td>
<td>8. Vacant homes</td>
</tr>
<tr>
<td>9. Regulatory changes</td>
<td>9. Number of new housing loans</td>
</tr>
<tr>
<td>10. Age ranges of the population</td>
<td>10. Housing affordability index</td>
</tr>
<tr>
<td></td>
<td>11. Percentages of the price of property sector stock</td>
</tr>
<tr>
<td></td>
<td>12. Percentages of the price of construction supply</td>
</tr>
<tr>
<td></td>
<td>13. The ratio of credit to post-finance and total credit</td>
</tr>
</tbody>
</table>

**Table 1**: The Key Indicators of the Thai Real Estate Industry

The findings of research from in-depth interviews contended that the key indicators required for the residential investment data in the Bangkok real estate industry are essential for making decisions on the residential housing investment. The research findings also gave ideas about the ranking of indicators required for housing investment information as follows: over half of respondents (55%) focused on areas of natural risks such as floods and earthquakes as the indicator of location and then followed with an economic overview, interest rates, political stability (50%, 50%, and 35% respectively) which are seen as economic indicators for housing investment. For property indicators, 55 percent of respondents focused on the locations and environment of investment properties as a key indicator, followed by housing prices, reliability of residential housing projects such as the “Brand” of residential entrepreneurs (35% and 25% respectively). Therefore, an outstanding indicator required of residential investment in the Bangkok area is the location information.
This study confirmed that stakeholders required the residential information to figure out the demand and supply of residential market for making decisions on housing investment projects.

As a result, the findings of research from interviewing asserted that the key indicators required for the residential investment data in the Bangkok real estate industry which are essential for making decisions on the residential housing investment in order to manage risks. The key indicators of housing investment in the Bangkok real estate industry derived from the qualitative data can be classified into two sections consisting of economic indicators and housing indicators. These indicators are classified by using the purposes of stakeholders in the Bangkok residential market from the qualitative data that will be practical to provide the residential investment data where everyone can gain more precise information of housing investment in the Bangkok property industry to reduce financial risk faced with an impending crisis.

For economic indicators, the economic indicators are categorized into two groups including the economic overview indicators, and the social and political indicators. The explanations of economic indicators in each group are as follows.

1) **Economic overview indicators** can be categorized as providing general information to understand the economic conditions such as GDP, Thailand’s investment budget, SET index, financial stability, interest rates, inflation rates and exchange rates.

2) **Social and political indicators** can be categorized as for providing insight into social conditions, political circumstances and government policies impacting on the Bangkok property industry such as political stability, government policies, and Bangkok development plans, population density and mobility, ages range of the population, family structure, employment rates, unemployment rates, consumer demand, consumer incomes, consumer index, savings index, and consumer behaviour.

For housing indicators, the housing indicators are categorized into five groups as follows: housing market overview indicators; housing prices; housing demand indicators; housing supply indicators, and housing locations indicators. The explanations of housing indicators in each group are as follows.

1) **Housing market indicators** can be categorized as providing information about the housing market situation as follows: trends in the residential property market; total market value of real estate; housing loans and payment terms; property transfer fees; and quarterly performance of housing projects.
2) **Housing prices indicators** can be categorized as providing information concerning the housing prices in the Bangkok residential market including land prices; housing prices; construction materials prices; and housing quality such as the brand of residential entrepreneurs, and the facility and local environment of housing projects.

3) **Housing demand indicators** can be categorized as providing information related to the demand for housing products in the Bangkok residential market as follows: housing sales; customer motivators to buy residential units (such as advertisements of housing projects); consumer demand and satisfaction of housing projects related to housing types and models.

4) **Housing supply indicators** can be categorized as providing information related to the supply of housing products in the Bangkok residential market as follows: occupied housing units; unoccupied housing units; new housing projects announcements; housing starts; housing completions; housing units and housing projects in the Bangkok area; housing registrations; housing transactions; and housing quality such as construction materials and the brand of residential entrepreneurs.

5) **Housing locations indicators** can be categorized as providing data regarding the locations of housing investment projects in the Bangkok area as follows: the Bangkok zoning areas; areas of natural risks such as floods and earthquakes; traffic data; transportation systems; and crime details in each area.

**Discussions**

According to the research findings of interviews and document reviews, the indicators required by stakeholders in the Bangkok residential market from the interviews and the key indicators in the Thai real estate industry elicited by document reviews were categorized and analyzed, to assist in recognizing the critical indicators of housing investment information in the Bangkok residential industry. The results are shown in Figure 2.
The methods of classifying and analysis for identifying the critical indicators as shown in Table 2 and 3 are derived from the indicators required for housing investment information by the interviewees and the key indicators from the documentary reviews provided significant data indicators for financial risk in the Bangkok residential market.

**Table 2:** The critical economic indicators of the Bangkok real estate industry
Table 3: The critical housing indicators of the Bangkok real estate industry

For economic indicators, Kritayanavaj (2008) commented that the overview of economic, interest rates, government regulation, financial stability and population data need to be considered for residential investment in Thailand. Vanichvatana (2007) also stated that the key macro-economic indicators which have to be focused on include GDP, employment rates, interest rates, foreign exchange rates, SET index, national income, and age groups of population. Kitsin (2011) pointed out that the interest rates provide the vital indicator for identifying financial risk in the property market in Thailand. Pholphirul (2006) claims that interest rate MLR can be used as the indicator to predict future financial crises in the Thai
real estate industry. Pornchokchai (2012) also contended that the economic situation, social conditions, political situations, government policies and infrastructure projects are the key macro-economic indicators for property investment in the Thai real estate industry. Further, the overwhelming majority of respondent groups of interviewing from the stakeholders in the Bangkok residential market confirmed that the following indicators reflect vital economic data to manage financial risk for housing investment - economic overview, interest rates, political stability, government policies, unemployment rate, consumer demands, consumers’ income and the age-range of the population. However, several interviewees have not identified some indicator as significant, despite those indicators being identified by document review (they were GDP, foreign exchange rates, SET index, and financial stability).

For housing indicators, Kritayanawat (2003) pointed out that the significant property indicators of the Thai real estate industry for property investment include housing starts, housing completions, housing sales, housing transactions, housing prices, housing loans, housing construction costs, and vacant housing units. Vanichvatana (2007) contended that the housing starts data is the critical indicator for identifying the numbers of housing units in the property market. Kritayanavaj (2008) confirmed that the critical property indicators for property investment information in the Thai real estate industry are as follows: housing price index; housing sales volumes; number of new housing loans; housing starts; housing completions; vacant homes; housing affordability index; and housing transactions. Further, the majority of interviewees identified that the housing indicators including trends in the residential property market, housing loans, housing prices, land prices in the Bangkok area, construction material prices, housing sales, housing transactions, housing completions, areas of natural risks such as floods and earthquakes, location and environment of residential investment, traffic data, and transportation systems are the vital housing indicators for risk management related to housing investment.

However, while “housing starts” was recognized by the advisors group and “unoccupied housing units” was identified by the advisors and information system professionals groups, and by the document reviews, other interviewees did not recognize them as significant indicators. Additionally, none of the interviewees recognized the “housing price index” and the “housing affordability index” as vital indicators for housing investment, even though the document reviews identified them as critical indicators – see, for example, the Bank of Thailand (Kritayanavaj, 2008).
Consequently, the research findings derived from twenty participants of stakeholders in the Bangkok residential market by in-depth interviews, with the findings compared with the document reviews. Consequently, the findings of this research asserted that the critical indicators required for the residential information in the Bangkok real estate industry. These critical indicators are categorized into two parts including economic and housing indicators as shown in Table 4.

The economic indicators can then be further subdivided into economic overview indicators, and social and political indicators. The economic overview indicators provide understanding of general economic conditions including the overall business situation; GDP; interest rates; foreign exchange rates; financial stability; and the SET Index. The social and political indicators provide the social conditions, political situations, and government policies which impact the Bangkok property market and consist of employment rates, unemployment rates, consumer demand, consumer incomes, political stability, government policies, and the age-range of the population.

The housing indicators are categorized into five groups including housing market overview indicators, housing prices, housing demand indicators, housing supply indicators, and housing location indicators. Firstly, the housing market indicators provide information related to housing market conditions, such as trends in the residential property market, and housing loans. Secondly, the housing prices indicators provide information involved for evaluating housing prices in the Bangkok residential market as follows: housing prices, housing prices index, housing affordability index, land prices, and construction material prices. Thirdly, the housing demand indicators provide information related to the demand for housing products in the Bangkok residential market, comprising housing sales and transactions. Fourthly, the housing supply indicators provide information related to the supply of housing products in the Bangkok residential market including housing starts, housing completions, and unoccupied housing units. Lastly, the housing location indicators provide information concerning the locations of housing investment projects in the Bangkok area, including areas of natural risks such as floods and earthquakes, the location and environment of residential investments, and the traffic data and transportation systems.
Table 4: The critical indicators of the Bangkok real estate industry

(Adapted from the data collected by in-depth interviews with incorporation of secondary data)

Conclusion

The research is concerned with financial information analysis and management in order to identify effective leading indicators pointing to crises for housing information in the Bangkok residential industry. The research project employed qualitative methodologies, including document reviews and in-depth interviews, to explore views on which indicators are required for the residential investment information in the Bangkok real estate industry. This research conducted individual in-depth interviews to gather information from twenty participating stakeholders from the Bangkok residential market. The results of this research pointed out the most significant indicators for housing investment information, in order to reduce financial risk in the future.

References


