

*Synthesis of Legal Provisions and a Financial Feasibility Study on the Investment
Project of Serviced Apartment Business around the Court in Amphur Hua Hin,
Prachuap Khiri Khan Province*

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Abstract

The purpose of this research was to study the feasibility of apartment business investment around the court located in Amphur Hua Hin, Prachuap Khiri Khan Province, Thailand. A synthesis of legal provisions of Ministerial Regulation on the Building Control Act (No.9) B.E. 2535 (1992) was an approach for the research. The area suitable for investment was in Article 4 under this Ministerial Regulation which stipulates the building construction should not exceed 23 meters high. It was found that the interested investors could build a house or building under such conditions. The investment analysis showed that an area of 4 acres with 4-story building containing 49 rooms and an area of 4 acres with 4-story building containing 77 rooms was very attractive. For the financial ratios analysis, Internal Rate of Return (IRR) was at 15% which yielded more than other forms of investment such as bank, gold, stocks, and bond. Net Present Value (NPV) was greater than 0 at 481,018.06 baht. Other financial ratios included Profitability Index (PI) at 1.01 and return from investing such as ROA, ROE, GPM, and OPM was at 7%, 7%, 80%, and 72%, respectively.

Keywords: Synthesis of legal provisions, Service business, Feasibility study

Introduction

The real-estate business in Thailand plays an important role in developing nation's economy and society since the growth of this business can positively affect the overall economy in various aspects: labor, financial institution, and related businesses. Real estate is considered the leading sector that contributes to both production and investment of the country. It functions as consumer for other productions, at the same time (Thernald et al, 2000). Besides, the public sector has focused on real estate by formulating the policy and other measures to support the industry. The demand for housing is continuously expanding each year which means an investment in housing business is very appealing. An investment in real estate comes in many forms: housing, commercial building, townhouse, and condominium. Recently, many operator has enter the real-estate business has vastly occurred, but the rapidly-expanding business may cause a risk of increasing competitors which reduces market share. Therefore, the real estate operators have had to conduct the feasibility study by looking at costs, revenue, return on investment, and environment. Some developers conduct the market research to understand what the market wants and to assess purchasing power in the future, which is consistent with the research by Niphon Charoensri (2008). Niphon Charoensri (2008) explored the feasibility study on investment in apartment in Sukhumvit 1 and suggested that before an investment takes place, the operators should take a look at Return on Investment (ROI). In this case, the operator considered Internal Rate of Return (IRR), Benefit-Cost ratio, and Payback Period. All of these financial instruments should indicate the positive sign in order to ensure the interested party to make an investment decision. Since the risk of doing business is at present highly risky, and a large amount of initial investment in real estate is needed, the operators should study the feasibility of the project before making an investment. Moreover, some operators who have already invested in the project conducted the customer satisfaction in order to obtain the information for product and service improvement. Thus, there has been much research with regard to the customer satisfaction locally and internationally. Wanwalai Asawaeksuthon (2007) examined the level of foreign customer satisfaction in staying at premium serviced-apartment in Sathorn. The results showed that the level of overall satisfaction was very good thanks to its service and security; still, prices should be reduced. Thawatchai Thaweethawornsawat (2006) investigated attitude and trends in consumer behavior in Bangkok toward townhouse by the Plus Property Partner Company. The results indicated that 404 interested visitors had a positive attitude toward products, prices, and location. Most of the respondents put their attention to the location which corresponded to the research conducted by John D Benjamin & G Stacy Sirmans. The results demonstrated that most foreigners emphasized on location as a main factor for choosing an apartment, followed by prices and service, respectively. Juliann Walsh (1991) explained the importance of facilities with prices and occupancy rate and went on to say that before the construction, the operator should send out the questionnaire to the target market to learn what kind of facilities they wanted in order to provide the facilities that met customers' wants. Juliann Walsh (1991) further described that

normally customers would choose an apartment by taking location, plan, and value of the project into consideration. Although the nice facilities can attract a huge number of customers, and selling prices could be high with the fact that they wanted to feel at home, an investment for serviced apartment development has currently received much attention from urbanized people. Nonetheless, this business contains some limitation: location. The limitation in location includes the limited areas or the law.

The construction for real estate around the court, particularly serviced apartment in Thailand is considered a very sensitive issue since Thai society is much royalty to the monarchy. If the project is worth investment, then the interested people should strictly follow the Law. In this case, considering only financial indicators is not enough. The investors should take the background, local tradition and culture into account, which is divided into custom and traditional dimensions, including an analysis from regulations on the construction around the court.

As described previously, the real estate operators begin to put an emphasis on market research and the feasibility study. For the investment analysis, the operators would mainly evaluate the experience of management team. In addition to the current economic situation, consumer behavior nowadays is more complex; as a result, the market research technique is required to study the feasibility of the real-estate business. This phenomenon interests the researcher to synthesize the regulations and study the feasibility of serviced apartment investment built around the court located in Hua Hin, Prachuapkhirikhun province. The aims of the paper are 1) to analyze the background and local tradition and culture as well as analyzing the Building Construction Act of serviced apartment near the court and 2) to analyze the possibility in management with the apartment business strategies.

Methodology

The questionnaire was used to collect the data by counting observation and showing cards, and the paper relies heavily on primary data. To meet the objectives of this research, statistical computer program will be adopted to analyze the data as follows: Descriptive statistics (Frequency Table, Percentage, Mean) Chi-Square is used for testing the hypothesis. The sample is a group of tourists and people both foreign and Thai who live in Hua Hin, Prachuabkhirikhun province. Moreover, counting observation is embraced for collecting data from the apartments located in the interested areas in order to be brought in to formulate the strategies. There are five steps of conducting the research as the following:

Step 1: Analyzing the local background, traditional, cultural dimensions, and the Building Construction Act related to serviced apartment near the court situated in Hua Hin

Step 2: Conducting market research to understand consumer demand aimed at a group of tourist and people both Thai and foreign who live in Hua Hin and who is

likely to stay at an apartment on a daily or monthly basis. 400 questionnaires were distributed to the target respondents in Hua Hin.

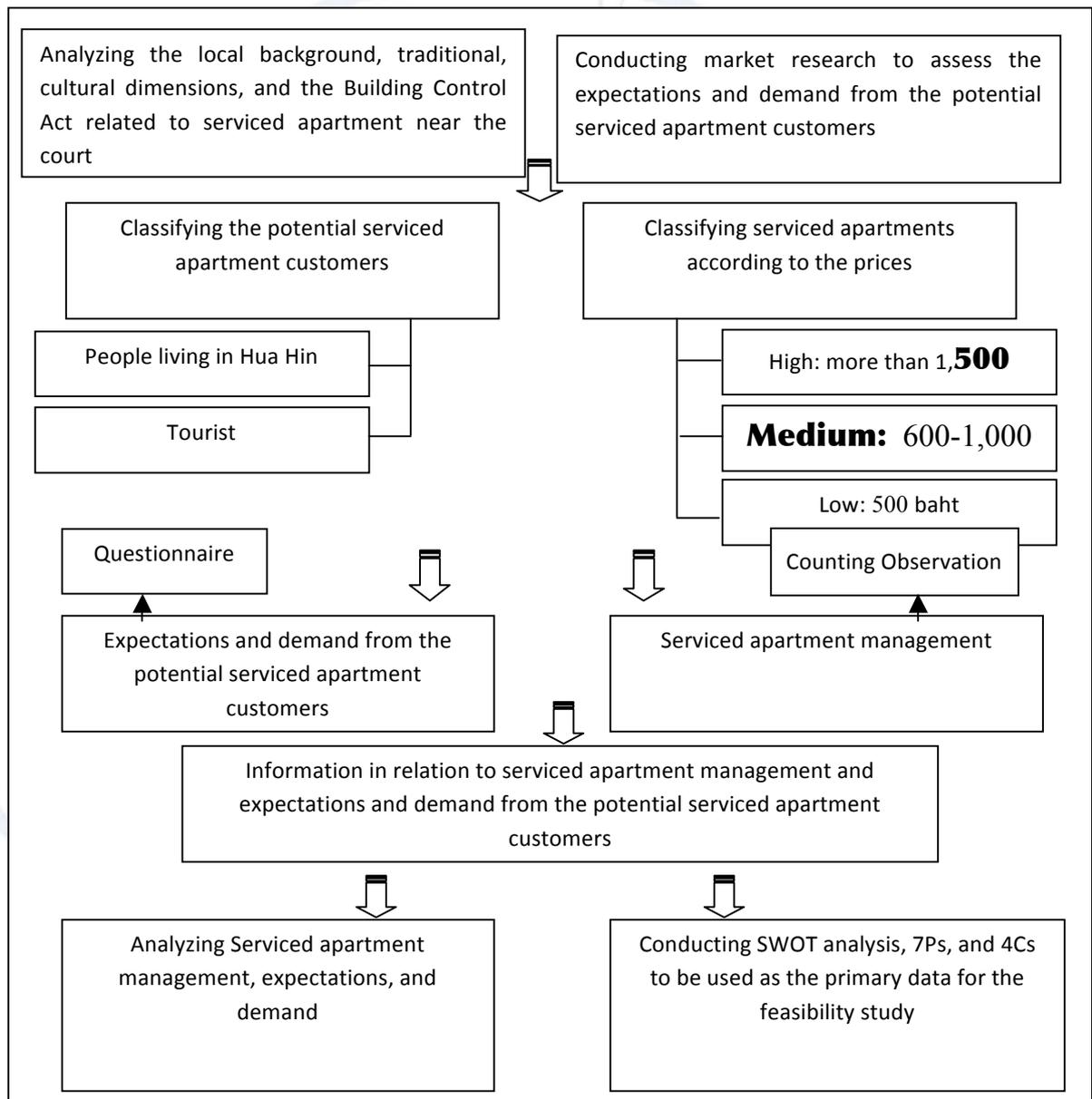
Step 3: Conducting the feasibility study of serviced apartment project

Step 4: Conducting financial analysis: Balance sheet, Income statement, Cash flow statement, and Payback Period

Step 5: Performing the calculation of Return on Investment ratio

The following figure is the conceptual framework of research process.

Figure 1: Conceptual Framework



The figure 1 indicates the process of market research that the researchers have embraced as the first step to obtain the required information for the feasibility study. The researchers also examined the expectations and demand from the potential serviced apartment customers by means of questionnaire, along with an assessment of serviced apartment management from real experience in staying at the 15 serviced apartments. Apart from analyzing serviced apartment management, expectations, and demand from the potential serviced apartment customers, the research also uses SWOT analysis, 7Ps, and 4Cs in analyzing serviced apartment business to be used as the primary data for the feasibility study.

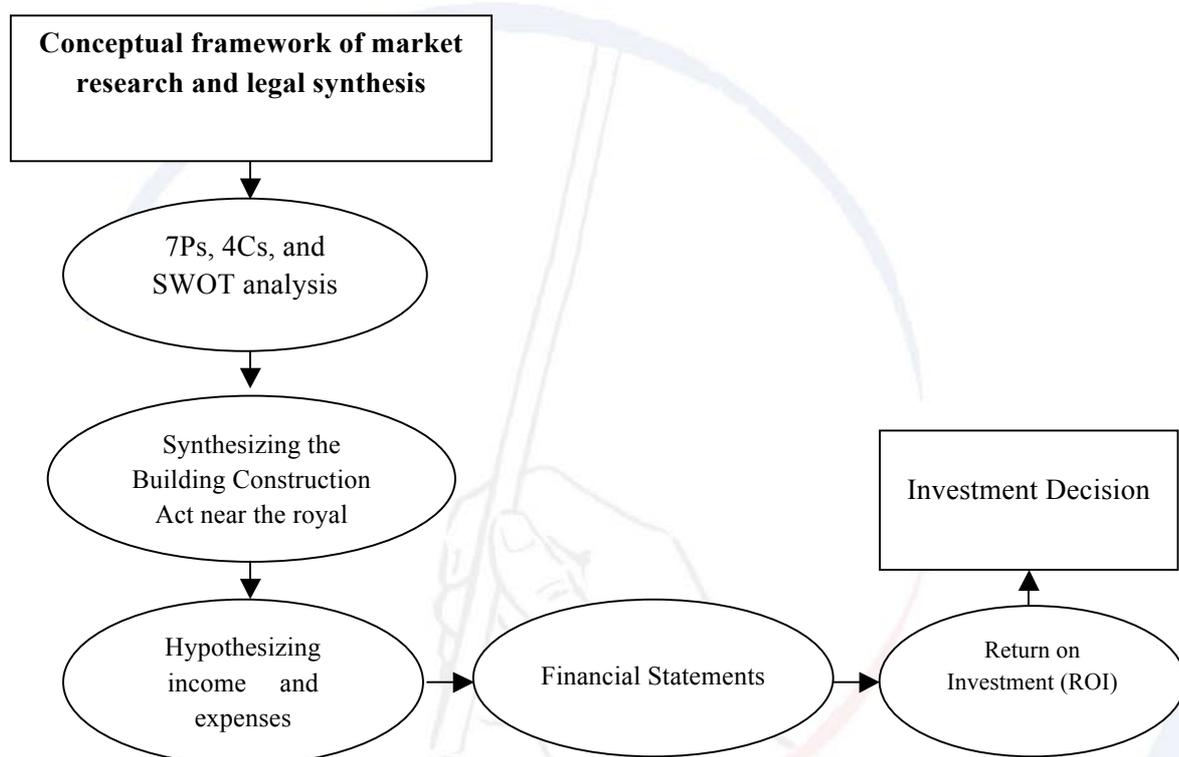


Figure 2 Linkage of conceptual framework

Conclusion and Discussion

In the traditional and cultural dimension analysis, it is found that local people put greatly the importance on the tradition and culture. In other words, whatever actions go against belief of and faith in what they have, those actions would be blamed. People who live locally ruin the belief and faith that local people have; they would be terminated from the society in which they live. Therefore, every action that happens should take local culture into consideration. As well, any construction should consider social and cultural factors. When local people object to the building, it would affect the investment. Those interested in building construction around the court should carefully study all related dimensions, especially society. Because the construction should follow the local law, it is necessary to study the internal factors that will have

an impact on the investment. Such internal factors contain society and local culture. Without internal factor consideration, an investment would be meaningless.

The following issues are found in regulations on the construction near the court:

1. The Ministerial Regulations stipulate which areas are allowed or not allowed for commercial building or housing constructions depending on the physical characteristics that will be used for the construction and the pros and cons that will affect the court in the future.
2. The allowed areas for construction are divided into 5 groups which connect to the court area. From the researcher point of view based on analysis, the areas suitable for an investment in commercial building or housing construction are the fourth area which stipulates that the building should not exceed 23 meters in height, that .

For analysis of management for housing estate, marketing information is found to play an important role in helping strategic planning and management as the following. Products are needed to be equipped with the facilities, but additional charges are required (700 baht / month for air-conditioner + TV). The rooms should be beautifully designed and look modern, and the area available for utilization. In terms of facilities, respondents would like to have air-conditioner, bed, wardrobe, dressing table, desk, TV, refrigerator, etc. in a room. Also, the respondents prefer to have additional facilities like security keycard and elevator for their safety and convenience. In terms of prices, the respondents also place the importance on daily/monthly rental rate, followed by utility rate such as water, electricity, telephone. The deposit on the room should not exceed 20,000 baht. For monthly rental, the charges should be 1,000 – 1,500 baht. For place, most respondents prefer to have 25-30 square meter living room area, while location should have an easy access such as buses. For facilities within the apartment, the majority of respondents would like to have the swimming pool, dining room, spa, convenience store, etc. For promotion, the respondents focus on advertisement via media like television, room brochures, flyers, and attractive sales promotion. Sample room is another incentive for customers to choose to stay. For apartment operation, most respondents prefer to have fast and convenient process; for example, reservation can be easily made through the Internet, 24-hour staff is provided as well as 24-hour security guard. Properties of customer are well kept. For physical aspect, most respondents put their importance on environment and building. The building should be durable and its surrounding should be quiet. The results from analysis can be summarized as shown in the table 1. The hypotheses are as follows:

H_0 : There is no relationship between personal factors of customer and 7Ps.

H_1 : There is no relationship between personal factors of customer and 7Ps.

Table 1: Result from an analysis of no relationship between personal factors of customer and 7Ps.

Crosstab	Product	Price	Place	Promotion	People	Process	Physical
Sex	Invalid sig:0.7750	Valid sig:0.029	Invalid sig:0.388	Valid sig:0.010	Invalid sig:0.073	Valid sig:0.002	Valid sig:0.000
Age	Invalid sig:0.111	Valid sig:0.021	Invalid sig:0.147	Invalid sig:0.324	Valid sig:0.017	Invalid sig:0.878	Valid sig:0.009
Education	Valid sig:0.000	Valid sig:0.367	Valid sig:0.001	Invalid sig:0.178	Valid sig:0.000	Invalid sig:0.458	Invalid sig:0.183
Occupation	Valid sig:0.047	Valid sig:0.08	Valid sig:0.371	Valid sig:0.027	Valid sig:0.003	Invalid sig:0.197	Invalid sig:0.087
Status	Valid sig:0.045	Valid sig:0.046	Invalid sig:0.492	Invalid sig:0.549	Invalid sig:0.678	Invalid sig:0.622	Valid sig:0.021
#Members	Invalid sig:0.378	Valid sig:0.025	Invalid sig:0.438	Valid sig:0.035	Invalid sig:0.233	Valid sig:0.039	Valid sig:0.001
Monthly income	Valid sig:0.018	Invalid sig:0.950	Valid sig:0.036	Invalid sig:0.150	Valid sig:0.026	Invalid sig:0.876	Valid sig:0.048

Criteria: value of Crosstab Chi-square derived from Crosstab Chi-square standard or Sig < Alpha at 0.05 accept H_1 (Alternative hypothesis) reject H_0 (Null hypothesis)

The synthesis of the legal provisions of Ministerial Regulation on the Building Control Act near the court in Hua Hin as appeared in the table 1 above can be summarized:

1. A one-story building which is not more than 6 meters high and which the area is limited to 75 square meters can be built under the condition that it is 100 meters away from the court. Each building should be separately located greater than 4 meters, and away from other premises not less than 2 meters. Space around the building should be greater than 75% of all authorized area and 20 meters away from the sea or greater than 12 meters away from Khao Tao dam.
2. In the area of the coastline of the district of Hua Hin and Nong Kae, 50 meters along the coastal district of Nong Kae and Hua Hin, starting from Municipality of Hua Hin from North to South except the area in No. 1 and Wang Klai Kang Won Palace, one-story building which is not more than 6 meters high, which the area is limited to 75 square meters, which each building should be

separately located greater than 4 meters, which away from other premises not less than 2 meters, which space around the building should be greater than 75% of all authorized area and 20 meters away from the sea or greater than 12 meters away from Khao Tao dam can be built.

3. The area according to No. 2 for 150 meters away, one-story building which is not more than 6 meters high and which is away from other premises not less than 5 meters can be built.
4. In the area measured at the third area along a length of 500 meters, the building specified in No.1-No.3 can be built.
5. In the area in No. 1 along a length of 400 meters except No.2 and No.3, a building which is less than 12 high and which contains the area in every floor in the same building or many building but not greater than 100 square meters can be built and calculated in the form of financial ratio as depicted in the table 2 which is divided into 3 groups:
 - 1) An area of 4 acres with 4-story building contains 35 rooms.
 - 2) An area of 4 acres with 4-story building contains 49 rooms.
 - 3) An area of 4 acres with 4-story building contains 77 rooms.

(Excluding an analysis of investment sensitivity)

Table 2: Financial Ratios

Financial Ratios	35 rooms	49 rooms	77 rooms
IRR	14%	15%	14%
NPV	-2,015,301.00	481,018.06	-6,055,047.49
PI	0.97	1.01	0.92
GPM	81%	80%	84%
OPM	73%	72%	70%
NPM	45%	44%	42%
BEP	2,740,601.29	2,787,145.80	6,008,140.74
D/E Ratio	0.23	0.23	0.23
ROE	7%	7%	7%
ROA	7%	7%	7%
PB	Year 8	Year 7	Year 8
Investment decision	No	No	No

Suggestions

The results indicate that the serviced apartment operators should not price the room rate too high. In case of the daily rental, the prices should not exceed 1,500 baht, and the monthly not greater than 15, 000 baht. Also, the monthly rental apartment operators should classify the prices into 2 groups: prices suitable for workers and prices suitable for students. Furthermore, the operators should differentiate their sales promotion from the competitors by providing tour guide service, for example.

For future study, the current research is the field study by collecting the data from 15 serviced apartments which do not represent all kinds of apartment. Therefore, the future study should include all types of apartment such as hotels, resorts, guesthouses, or housing to have the data that can be used for making a comparison with customer demand as a foundation for the feasibility study.

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