PROGRESS IN GOVERNMENT POLICIES EASES REAL ESTATE MARKET

Quick stats

<table>
<thead>
<tr>
<th></th>
<th>Q1 2014</th>
<th>Q-o-Q</th>
<th>Y-o-Y</th>
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<tbody>
<tr>
<td><strong>VIETNAM</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP Growth</td>
<td>5.0%</td>
<td>↓</td>
<td>↓</td>
</tr>
<tr>
<td>CPI (e.o.p)</td>
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<tr>
<td>Registered FDI</td>
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<tr>
<td>Exports</td>
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<tr>
<td>Imports</td>
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<tr>
<td>Tourism (arrivals)</td>
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<td>↑</td>
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<tr>
<td>Base Rate</td>
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<tr>
<td>Exchange Rate (e-o-p)</td>
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<tr>
<td><strong>HCMC</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP Growth</td>
<td>7.6%</td>
<td>➔</td>
<td>➔</td>
</tr>
<tr>
<td>CPI (e.o.p)</td>
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<tr>
<td>Registered FDI</td>
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<td>Exports</td>
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<td>↑</td>
</tr>
<tr>
<td>Imports</td>
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<td>↑</td>
<td>↑</td>
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<tr>
<td>Retail and Services Turnover</td>
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<tr>
<td>Tourism (arrivals)</td>
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<tr>
<td><strong>HANOI</strong></td>
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<tr>
<td>Real GDP Growth</td>
<td>6.6%</td>
<td>↓</td>
<td>↓</td>
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<tr>
<td>CPI (e.o.p)</td>
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<td>Registered FDI</td>
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<tr>
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<tr>
<td>Imports</td>
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<td>↓</td>
<td>↑</td>
</tr>
<tr>
<td>Tourism (arrivals)</td>
<td>0.7 Mil</td>
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Good news from the economy

The first quarter of 2014 reported a GDP growth rate of 4.96%, which is slightly higher than the growth rate in the last three years. Although strong signs of recovery have not been seen, there were certain positive economic indicators. Both Vietnam Asset Management Company (VAMC) and the VND30 trillion credit package showed good progress. VAMC planned to buy about VND70-100 trillion worth of bad debts by special bonds in Q1 and preparing a plan to sell bad debts at market price to interested investors. The government housing package for social housing successfully disbursed 1,322 VND billion to 3,023 customers, an increase of 64% to the end of December 2013. Moreover, a credit package worth VND50 trillion based on a partnership between investors, contractors, building material suppliers and four local banks with support from the State Bank of Vietnam will be available for real estate very soon.

Other encouraging news includes stronger Vietnamese exports, lower deposit rates, higher Purchasing Managers’ Index (PMI), an improving stock market and inflation falling to the lowest level since March 2009. Vietnam’s exports massively outperformed other SE Asian countries over the 12 months to March 2014, growing on average of 15% y-o-y due to strong US demand for handsets. The SBV announced their intention to further cut policy rates from 17 March 2014. This involved the cap on the short-term deposit rate being slashed from 7% to 6% and the refinance rate from 7% to 6.5%. In terms of the manufacturing sector, HSBC reported PMI in February at 51 points, signalling an improvement in operating conditions and strengthened business conditions. Business confidence is growing and there was an increase of 20% y-o-y of the VNIndex.

On going challenges for 2014

However, there are still ongoing challenges for the economy. In the process of dealing with bad debts, there were debates on the real non-performing loan ratio, which is believed by Moody’s and Fitch Ratings to be at least 15%, almost five times higher than the government estimate. It is essential to have more transparent information about the process for dealing with bad debt. Furthermore, the output of the VAMC system is still a concern as there have not been any reported transactions on selling bad debts to interested investors.

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Year of 2014 started with healthy performance across all grades.

The phenomenon of projects stopping construction in early 2012 allowed office supply to stabilize and demand to sustainably absorb what was available. On quarterly basis, Q1 2014 is the sixth quarters in a row recording overall rent increase with average growth rate of 1.5% per quarter. Vacancy rate continued it downward trend in the review quarter - the tenth consecutive quarters of decreasing with decreasing pace at 1.2 pps per quarter.

In comparison with the same period last year, office market experienced notable improvement. Grade A and B vacancy rates as at the end of Q1 2014 decreased notably by 3.3 pps and 3.0 pps y-o-y respectively. Average rent showed remarkable improvement with Grade A increase by 7.6% y-o-y and Grade B increase by 5.2% y-o-y.

ONGOING DEMAND COME INTO THE MARKET ON THE BACK OF ECONOMIC RECOVERY.

A larger proportion demand from local firms

As revealed by CBRE’s enquiries local firms are those the most active in the market in the first quarter of the year. 38% of enquiries received are come from Vietnamese firms. This figure is 9.0 pps higher than in 2013. Average deal size is getting bigger in Q1 2014 compared to year of 2013. Enquiries having size larger than 500 sm also contributed larger proportion in the review quarter compared to 2013 figure - at 31% of total enquiries received.

Move from CBDs gathers pace

The city’s concentration of premium office space has traditionally always been focused on the CBD area. However, looking at future office supply, only two high quality buildings, MB Sunny Tower and Vietcombank Tower, are expected to be completed in District 1 providing approximately 66,000 sm GFA in total. In 2015, more options for office tenants will come from new and emerging second CBD precincts.

District 7 will continue as a prime decentralized location with the Phu My Hung development and surrounding commercial pockets to be joined by Saigon South Place, an integrated mixed use development by Singaporean developer Mapletree. The office component is expected to be put into operation early 2016. In addition District 3 and District 10, long considered a fringe CBD location, will bring to the market two exciting new projects. The 20,000 sm retail and office project Lim Tower 2 in District 3 will come to the market early 2015 while Viettel Office and Trade Center will be a unique fully integrated mixed-use project providing 66,000 sm of high quality office space in District 10.
Q1 2014

HCMC RETAIL

RETAIL RENTS IN NON-CBD RECORDED STRONGEST QUARTERLY GROWTH IN SIX YEARS.

New supply in Q1 2014

The first quarter of 2014 welcomed Aeon Mall in Tan Phu District, adding a total of 47,000 sm NLA to the market over three floors. Opened in January 2014, the shopping centre is operated by a Japanese branded retail operator and mainly targets middle to low income customers. It has successfully secured anchor space from Japanese retailers such as Japan Selection and Daiso Japan as well as by entertainment retailers such as CGV, Tini Town & Tini World.

Possibility of absorption gives room for rent to recover

It is expected that there will be nearly 120,000 sm NLA from seven projects coming online by 2016. This is only a tenth of Hanoi future supply and I believe can be absorbed quickly considering the reported three-year-average net absorption of almost 54,000 sm. In addition, most future projects have NLA of less than 20,000 sm (except for SC VivoCity) so with a proper tenant mix, all can find decent tenants.

LOCATION IS NOT THE ONLY FACTOR THAT MATTERS

CBD rent remained stagnant while non-CBD rent increased

Average rent in CBD locations remained stagnant for five consecutive quarters while average rent in non-CBD locations increased. In non-CBD locations, the average rent at shopping centres increased by 59.3% q-o-q and 43.8% y-o-y, mainly because Aeon Mall has asking rents on the ground and first floor which are 256% higher than the average at non-CBD shopping centres. This proves that location is not the only factor to make a success of a shopping centre, though it is significant. Many retail landlords have missed or not paid enough attention to the crucial importance of tenant mix. F&B has remained active and contributes significant revenue and foot traffic to shopping centres. Aeon Mall mixed F&B tenants with other categories and put more emphasis on them than other shopping centres in the city, which helps it successfully draw footfall during weekdays. Other selling points are Japanese brands and affordable products, which really bring something fresh to the centre.

Adapting to survive

Occupancy rate was approximately 11.1% for HCMC market. In the review quarter, occupancy rate did not see major change but there was reported an interesting event. Pico Plaza after one year struggling to attract shoppers leased its entire space to Lotte Mart, which is expected to open by end of Q2/2014.
New supply decreased strongly on a y-o-y basis

The quarter saw a strong increase in the number of new launches. There were a total of 1,887 launched units in Q1 2014, representing a strong increase of 140.7% against the same period of last year. However, the figure decreased by 30.2% q-o-q, mainly due to the seasonal factor - the long Tet holiday in February. Interestingly, all the new launched projects are in the high-end and mid-end segments. The high-end segment accounted for 42.4% of the total newly launched units and posted a good sale rate (80% at Green Valley and over 70% at Icon 56).

Interestingly, CBRE recorded busy pre-launch activities across all segments. Developers have introduced their developments one or even two months before the official launch. This is a way to market the projects and test the market’s reaction. Galaxy 9, Hung Ngan Garden and Topaz Garden among the others are some typical examples.

Strong competition between primary and secondary prices

Secondary prices have continued to trend down since 2011. The high-end segment recorded the strongest decrease, 2.0% q-o-q and 5.0% y-o-y. Incentives on new properties such as long payment schedules (up to two years) combined with promotions (gold, car, free management fees) have forced re-sellers to decrease their prices if they want to stay competitive.

Both primary and secondary prices in the affordable and mid-end segments remained stable given stable demand.

SALE VOLUME WENT UP DESPITE LONG HOLIDAYS

The improving economy together with significant infrastructure progress has built up buyers’ confidence in the property market. The further reductions in the deposit rate introduced and lower lending rate may encourage people to put their money in other investment channels like real estate.

Those positive signals translated into a sales increase of 17.4% q-o-q and 99.6% y-o-y to approximately 2,700 units sold. The affordable and high-end segments made up the largest proportion with 40.5% and 36.2% of the total sales respectively. These high proportions tentatively suggest that buyers are returning to the market in both the high-end and lower end markets.

How high can we go?

The new Circular 03/2014 and other proposals of amended laws toward the transparency and consumer protection are expected to further raise buyers’ confidence in the property market. Not only will newly launched projects have high sales volume but also more transactions at existing launched projects are expected in 2014.
HCMC SERVICED APARTMENTS
LONG RECALIBRATION IN RENTS HELPED TO IMPROVE ABSORPTION.

Q1/2014 saw strong net absorption due to more affordable rental levels.
Following more than ten quarters of recalibration in rents, the current market-wide vacancy rate (13.9%) was again reported below the long-term average (15.6%), signaling an improvement in net absorption especially in the Grade B segment. In Q1/2014, Grade B buildings achieved a net absorption of 129 units. This explained why Grade B landlords were confident to slightly increase their achieved rent by 3.6%, currently at US$23.72 psm per month.

Interestingly, although both grades appeared to quote higher rents in the review quarter, Grade A achieved rent actually declined and narrowed the gap to Grade B. However, CBRE believe that this is just a temporary adjustment as the HCMC serviced apartment sector is regarded as lacking in real investment. As of Q1/2014, only one third of HCMC supply was managed by international operators. Among the six biggest international operators having come to Hanoi and HCMC (The Ascott Limited, InterContinental Hotels Group, Frasers Hospitality, Keangnam Vina, Windsor Property Management Group Corporation and Sedona Hotels International), The Ascott Limited tops the list with 34.8% market share in both cities. InterContinental Hotels Group and Frasers Hospitality followed with 15.9% and 15.0% respectively. Projects under such branded operators have always achieved higher rents and reliably performed near full occupancy due to their worldwide network that sends through prospective tenants.

In the long run, the competition with buy-to-let alternative sector is expected to continue.
Besides the effect of the depressed wider economy, one of the reasons for the relatively poor performance of the serviced apartment sector is increasingly strong competition from buy-to-let condominiums. This alternative sector usually offers half or one third of the rents of serviced apartments and therefore favours trimmed housing budgets. Looking forward, this competition is expected to continue due to the growing numbers of new condominiums coming to the market in the next three years. By 2017, there will be eight times as many buy-to-let apartments as serviced apartments in District 2 and three times as many in District 7, showing how fierce the competition is likely to be.

Chart 11: Serviced Apartment Vacancy

Chart 12: Serviced Apartment Rents

Chart 13: Future Supply of Residential for Lease through 2017, HCMC

Future Serviced Apartment (units):
Somerset Vista Ho Chi Minh City; The Gateway Marriot; Diamond Island Luxury Residences; and Saigon South Place Complex

Future Buy-to-let Apartment (units)
The Prince; Regency Park; Mapletree project; Metropolis - Thao Dien; The Gateway Marriot; Lexington Residence - Block C; and Khang Thong; Green Valley - Block D

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HCMC INDUSTRIAL APPAREL FIRMS – BRIGHT SPOT IN THE MARKET

Trend of moving to Vietnam of foreign apparels firms is increasingly to benefit from TPP Agreement. At least there are 4 to 5 investors pour huge capital into factories project of producing apparels and fiber, typically such as China’s Jiangsu Yulun Textile Group in Northern of Nam Dinh with total capital of $680 million, Forever Glorious Company in Dong Nam IP with the capital of $50 million and according to Hepza, the city also got a commitment of $140 million investment capital from Gain Lucky Ltd, a subsidiary of Shenzhen International Group, specializing in making products for the world’s big brands like Nike, Puma.

As a low value/ cost industry, apparels firms are prefer to lease land/ factory with a very tight budget. Given the high occupancy and leasing cost rate of matured industrial parks in Binh Duong, Dong Nai in the South or Bac Ninh, Hai Phong in the North, the investors have to travel a long way to get a suitable location in which they can get both abundant labor force and low leasing cost. It was observed that the investors are racing to benefit from TPP but very conservative to study the environment/ labor force/ strategy location before pouring their money into the market, the timing is very vary from 6 – 15 months or even more than this.

This quarter also saw more developers announcement of establishment Industrial Park/ Ready built factory campus to dedicated supply to SMEs, especially Japanese firms who just want to rent a small space for starting up business. At the fringe of HCM, Thernal company, a Japanese firms, is conducting a ViePan Techno Park in which offer a high standard RBF to Japanese investors. The local developers also recognized this potential tenants and following the trend to build up space to meet up the market requirement, e.g Lap Thanh RBF Company has just received the investment license to build and lease workshop at SHTP with around VND 200 billion investment capital.
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This report was prepared by the CBRE Vietnam Research Team, which forms part of CBRE Global Research and Consulting – a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

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