

Q1/2013

REAL ESTATE

Highlights

Ho chi minh city

Knight Frank

HIGHLIGHTS

- The office market in Q1/2013 has generated more enquiries and increased levels of activity compared to previous quarters. The market is still considered to be tenant friendly, however the gap is closing as landlords have been able to negotiate more favourable leasing terms in recent months.
- After a number of years of researching the Vietnamese market, the long awaited opening of Starbucks first store in Vietnam finally happened in Q1/2013. Judging by the length of the queues that can be seen on a daily basis, early indications suggest that the Vietnamese public cannot get enough of this famous iconic American brand. This is a huge positive step forward for the retail environment in Vietnam and we are convinced the success of Starbucks will ultimately lead to many more international retailers entering the country, which is great news for the consumer as it will provide much more variety and choice than is currently available.
- Despite the uncertainty in the Vietnamese real estate market and economy in general, prominent international investors continue to seek opportunities to enter the market, particularly for prime CBD income producing assets. A recent example was the acquisition of the Legend Hotel to Lotte Group late last year. Potentially there could be confirmation on the sale of two to three prime assets in the next quarter.

ECONOMIC & LEGAL UPDATE

Economic Overview

GDP

Within the first three (3) months of 2013, Vietnam's GDP growth was approximately 4.89% compared with the previous quarter's growth of 5.44%. In Q1/2011 and Q1/2012, the country had seen a growth of 5.90% and 4.75%, respectively. However, HCMC's GDP in the first quarter of 2013 is estimated to have reached 112.772 trillion dong (nearly US\$5.4 billion) (according to the real prices), rising 7.6% over the same period last year. This figure is higher than the GDP in Q1/2012 which achieved 7.4%.

Consumer Price Index (CPI)

Vietnam's consumer price index (CPI) in the first quarter of 2013 rose 2.39% compared with December 2012.

Ho Chi Minh's CPI in this quarter rose 1.15% compared with December 2012.

Foreign Direct Investment

According to the Foreign Investment Agency (FIA), for the first quarter of 2013, Vietnam attracted approximately US\$6.034 billion of FDI, an increase of 63.6% compared with the same period of 2012. Of which, the newly licensed capital of US\$2.927 billion (191 projects) was an increase of 2.2% over the same period of last year. There are 71 projects that have increased their capital contribution a further US\$3.1 billion, an increase of 3.7 times compared with the same period of 2012.

In this quarter, HCMC attracted approximately US\$134.8 million (there are 61 newly license projects), an increase of 52.2% compared with the first quarter of 2012.

Balance of Payments

According to the General Statistics Office, the trade surplus of Q1/2013 stood at US\$481 million, equal to 1.6% of total export turnover. Total export turnover is estimated at US\$29.7 billion, an increase of 19.7% compared with the same period of 2012 and total imports is estimated at US\$29.2 billion, an increase of 17% compared with the same period of last year.

Legal Update

The SBV issued Circular 08/2013/TT-NHNN taking effect on 26 March 2013 on the new caps on deposit interest rates from 8% pa to 7.5% pa for the short term deposit interest rate. Thus within 2012, the SBV issued 5 circulars amending the maximum interest deposit rate from 12% pa to 8% pa.

The State Bank of Vietnam (SBV) has implemented a report on the establishment of the Asset Management Company of Vietnam (VAMC). However, Government members have realised that some points are needed to be discussed further by the Ministry of Planning and Investment, the Ministry of Finance, and the SBV. However, after the regular conference of the Government in March 2013, the VAMC has been delayed and not adopted as expected. The Prime Minister has asked the Central Bank to clarify, modify and supplement a number of provisions in their draft that only considers VAMC as a remedy for debts among banks. VAMC might issue bonds to resolve bad debts. This bond will be used as a pledge to borrow money from the SBV at a fixed rate (40-50% of bond value). It is expected to help banks offer the Vietnamese economy proper credits. However, there remains many concerns about the effectiveness of the VAMC.

APARTMENT FOR SALE

Market Performance

Due to the Tet Holiday that was prolonged until near the end of February, the apartment for sale market did not witness many newly launched projects. Most of the new projects have been launched early in March. Although the developers have offered many promotions to attract customers, it seems that the buyers still have the 'wait and see' psychology that has affected the current market liquidity.

The apartment for sale market continues to witness low transaction rates in the first quarter of 2013. The developer of an affordable project named Thai An Apartments in District 12 has offered a special leasing program for some of their small-size apartments, in which the tenants must pay 200 million dong (approx. US\$9,600) only and then have the right to stay at those apartment units from 6 to 24 months. Then, if the tenant wishes to leave, the contract allows them to have all their money returned. It is considered as a way for capital mobilisation so that the developer can continue to invest and help with their inventory.

Many developers have been forced to continuously decrease selling prices from approximately 5%-10% compared to the previous quarter for all segments. Some newly launched projects in this difficult time are mainly from the established companies such as Phu My Hung Corporation, Novaland Group, BCCI, Resco, etc. These projects still attract the interest from the buyers as they know they will be completed as specified. However, in order to improve the sale status, some have also offered many promotions such as free management fee, free car parking lot, free use of project facilities for the first year, the rental program commitment and presenting the interior package, etc.

The other project named Le Thanh Twin Towers, Binh Tan District has been successful with the leasing program for 15 years. Now it continues offering the longer leasing period up to 49 years with the rental rate being approximately VND350 million/unit, equal to US\$16,700/unit.

Two new projects including The Prince Residence, Phu Nhuan District and Scrc II Metro Apartment, District 2 developed by Novaland and Resco respectively have publicly announced good selling rates after their official launches. For example, The Prince Residence has reported approximately 50 apartment units sold at its launching ceremony. Moreover, Happy Valley project in District 7 also publicly announced that 80% of their launched units within Phase 1 were booked in one day. It indicates that the projects with good location and developed by the prominent developers can still lure customers in the tough market.

The average selling price for the existing projects in Q1/2013 is approximately VND44.9 million (US\$2,150)/m² for the high-end segment; VND27.9 million (US\$1,336)/m² for the mid-end and VND13.5 million (US\$650)/m² for the affordable segment.

Both the decrease on primary selling prices and the pressure from the distressed assets of the banks have strongly affected the prices within the secondary markets. The investors in this market could still be pressured to further decrease prices.

Supply

There are five projects launched at the first quarter of this year including The Prince Residence, Phu Nhuan District; Sunrise City North Towers, District 7; Nhat Lan 3, Binh Tan District; Happy Valley, District 7 and Scrc II Metro Apartment, District 2. Total newly launched units from these projects achieved nearly 1,300 units, a significant decrease compared to the previous quarter and the same period last year. The affordable projects are still the majority segment with 70% market share.

Demand

The affordable segment still attracts the majority of interest from potential buyers. The selling price of this segment is under VND20 million (US\$950)/m² with units ranging in size from 45-70m². The projects that have the convenient locations and are completing construction are still the first choice for house buyers.

Outlook

The future supply of the apartment for sale projects are relatively abundant in the next three years. There are approximately 37,000 units planned to enter the market until 2015 and these projects are mainly located in District 2, 7, 9 and 8.

KNIGHT FRANK COMMENTS

The Ministry of Construction has announced the Circular 02/2013/TT-BXD, which guides the structure adjustment and apartment unit size of the commercial residential projects converted to social housing projects. This circular is expected to help solve the inventory and gradually improve the market.

VILLA, TOWNHOUSE AND LAND PLOT FOR SALE

Market Performance

The year 2013 continued with the stagnancy trend from the previous year. The sentiment continued to be influenced by the uncertain macro economic environment resulting in an extremely quiet period and the continuing of the wait-and-see attitude to the market.

The first quarter of this year continued to witness the conservative sentiment from the developers. Weak demand concerns made developers have a more cautious approach strategy. There was no notable launch in the entire villa market, whereas there were three land plot projects that have been offered with limited media advertising. Indochina Land, a real estate fund of Indochina Capital, is conducting a market test to define the market awareness on their premium project in District 9, which is expected to supply approximately 200 villas to the primary stock.

Most of the major areas containing villa and land plot projects experienced slight decreases in land price. Elsewhere, the price was fairly stable. The average asking rate in District 2, 9 and Thu Duc continued to drop by 2% q-o-q, whereas the performance of District 7 remained solid. The affordable segments have noted an unchanged market price overall since the beginning of the year.

The ongoing uncertainty in macro economy and difficulties faced by the small and medium enterprise sector continued to have an impact on the landed market. The market saw low volume transaction rates during the quarter despite the further decreases in price. The owner occupier remained the most active buyers which accounted for a major portion of total recorded sales of the quarter, with values of approximately VND1 billion (US\$50,000) per plot. The land plot projects which granted the buyer a Land Use Rights Certificate without the requirement of constructing a house is also favoured by the market.

Outlook

We have recorded a future stock of more than 2,000 units which was planned to enter the market. However, their launch is under a prudent consideration and many developers are waiting for improved market conditions before entering the market.

In the next quarter, the villas and land plot market is expected to continue to face many difficulties resulting from the slow down of economic growth.

The recent initiative of the government by injecting VND30,000 billion (US\$1.5 billion) into the real estate market, through interest rate incentives, is expected to have limited improvement on the landed market, as its concentration is mainly on affordable condominiums. These policies could potentially have an adverse impact as it can withdraw the buyers attention from the market.

The Ho Chi Minh market will continue to face harsh competition from its neighbouring provinces where the price of land is much cheaper and the primary stock for land plot remains plentiful.

KNIGHT FRANK COMMENTS

Whilst the villa and land plot market has been stagnant for a prolonged period of time, being a house and land owner is still the 'dream' for many Vietnamese citizens. As such, this may present an opportune time for an owner occupier with real demand to enter the market or upgrade their existing premises for a superior product and/or location.

SERVICED APARTMENT

Market Performance

The serviced apartment market performed slightly better than Q4/2012. The asking rental rates are stable at about VND695,000—VND730,000/m²/month (equal to US\$28.5—US\$35/m²/month) for Grade A and VND385,000—VND520,000 m²/month (equal to US\$18.5—US\$25/m²/month) for Grade B. The announced rental appears to be stable; however, some landlords are willing to decrease the rental slightly for wholesale tenants during negotiation procedures.

The occupancy for Grade A is reasonably stable at 91% as there is no new supply that has come to the market in 2012 while the occupancy for Grade B is about 77%, decreasing slightly due to the new supply.

Supply

In Q1/2013, one major building came onto the market, increasing of total supply quarter-on-quarter by 3.2%. The significant increase in stock was due to the 126 units from Capri which launched in March 2013. Capri is a Grade B building that is managed by Fraser Group and is located in Phu My Hung, District 7. The building offers hotel rooms and serviced apartments consisting of studio, one bedroom and two bedrooms with small sizes ranging from 26m² to 69m².

Furthermore, the market has also welcomed a few boutique buildings located in the central districts in this quarter.

As at Q1/2013, the total supply of serviced apartments in HCMC consisted of 75 projects with over 4,059 units. It is estimated that 30% of stock is Grade A, 51% Grade B and 19% Grade C.

Geographically, the major existing supply is 45% in District 1, 12% in District 2, 16% in District 3, 13% in District 7 and 13% in other districts.

To meet the demand of the market in the difficult economic climate, most of the new buildings have more suitable area options for tenants. This innovation helps serviced apartments compete strongly with buy-to-let apartments or villas for lease.

Demand

According to the Knight Frank residential leasing team, the during the first quarter of 2013, we have received more new enquiries for serviced apartments in central districts. However, the budget for ex-pat accommodation has generally decreased to an average of approximately US\$2,000 as opposed to higher budgets from about US\$3,000 to US\$4,000 from previous years.

The Vista Somerset serviced apartment building managed by Ascott has reportedly achieved good performance and occupancy rates after only recently entering into the market. The main reasons for the success besides the reputable management, is that the product meets the budget demand of the majority of tenants.

Outlook

It is forecasted that both the global and local economy in 2013 will still face more difficulties. This is both opportunities and challenges for the serviced apartment market. Twenty five future projects supplying more than 4,000 units are expected to enter the market over the next few years which will place high pressure on the existing supply.

KNIGHT FRANK COMMENTS

Serviced apartments from boutique buildings located in central districts are becoming more popular as they provide more options and lower rents.

Most of the new projects have moved out of the CBD to decentralised areas such as District 2 and District 7 due to lack of project opportunities in central districts and to meet the current budget of the majority of tenants in the market.

RETAIL

Market Performance

The average rental rate witnessed a 2% increase compared to the previous quarter. However, the average rental rates of the entire market decreased approximately 6% compared to the same period last year. With the pressure from new retail space, there are some landlords offering lower rental rates than the current applied rentals for any leasing renewal contracts to retain the tenants.

A new shopping center - Pico Plaza, Tan Binh District has entered the market and has achieved the high occupancy/commitment rate of approximately 90%, culminating in the average occupancy of the existing retail projects increasing 1% compared to the last quarter, at approximately 87%.

Demand

The retail sale value of goods and services in the first three months of 2013 in HCMC increased 7.2% year on year excluding price volatility.

Demand for retail space is still relatively high, especially for prime locations at major road intersections, and main streets of the CBD. The majority of demand comes from the F&B or the supermarket retailers who have planned to expand their retail chain.

Some notable information in the retail market in Q1/2013 include:

- On 22 Mar 2013, the FPT Shop officially opened the 60th store over the country at Tran Hung Dao Street, District 5. FPT shop continues to look at the well exposed locations to expand their retail chain.
- Starbucks Coffee, a US coffee giant, has officially opened the first coffee shop in February 2013, located in the prime location at New World Hotel, District 1, HCMC. Currently, Starbucks Coffee has achieved strong initial sales and expects to shortly announce a second store that is also located in District 1, HCMC.
- Icon 68 Shopping Center (Bitexco Financial Tower) has officially opened. This shopping center comprises international fashion shops, food court, restaurants, a 7-screen BHD Star Cineplex, etc.

Supply

There is only one new shopping center entering to the market in this quarter named Pico Plaza, Tan Binh District (five floors - 32,500m²). The complex comprises electronics supermarket, shopping center, cinemas, food court, game center, supermarket and separate office for lease space.

Two supermarkets have also come online including S.Mart, District 5 (3,000m²) and Vinatexmart, Go Vap District (2,000m²). S.Mart Supermarket is developed by C.T Group and this is the first store of the chain - 50 supermarkets expected to be developed until 2015.

Currently, total modern retail space in HCMC is nearly 822,000m², a 5% increase quarter on quarter and 19% year on year.

Outlook

There is over 1.4 million m² of retail space expected to enter the market in the future. Times Square project, District 1 is in the fitting-out stage and its retail component has attracted some global fashion brand names such as Gucci, Dolce & Gabbana and Bottega Veneta. It is expected to become another high-end shopping center within the CBD of HCMC and will start operations in Q3/2013.

KNIGHT FRANK COMMENTS

Although the economy has not fully recovered, the retail space continues to attract interest from local and international retailers, indicating that many retailers still believe in the prospects of this sector.

The high and young population in Vietnam is still the attractiveness for many existing and potential international retailers. In the near future, more large retailers have planned to enter the Vietnamese retail market such as Tesco (UK), Wal-Mart (US) and FairPrice (Singapore), etc.

OFFICE

Market Performance

The office market in Q1/2013 witnessed more enquiries and activity than the previous quarters. Whilst the market would still be considered relatively tenant friendly, there are signs that the gap is closing and the landlords are having a more even say in negotiations. We are seeing that the flexibility of landlords is still prevalent but not at the levels of previous quarters with rental incentives being utilised as a tool in order to keep quoted headline rents.

Due to the slow and stagnant market in the last half of 2012, many new potential tenants did not feel the need to be pressured into making any occupation decisions and utilised this time to test the market. Also, very few deals occurred in this time as potential tenants that were nearing their lease expiry, were just seeking offer letters from alternative landlords to use in negotiations with their current landlords to get a superior deal than their existing lease contract. Due to the willingness of the landlords to maintain occupancy levels, many lease extensions were signed when both parties were realistic.

Many existing tenants continue to look for alternative options for relocation and have used this period to try to secure better quality accommodation and/or location and remain at a relatively cost neutral position. Whilst the majority of tenants are clearly hampered by budget constraints, we have witnessed that these budgets can be pushed if the available office space is the right 'fit'.

We have witnessed rental rates in the Grade A sector remain relatively stable in Q1/2013 at approximately VND647,900 (US\$31)/m²/month exclusive of management charges and VAT. The new Grade A office buildings available to the market are being naturally absorbed including President Place (60% commitment) and Bitexco Financial Tower (70% commitment). The office component within Times Square has recently opened this quarter with Deloitte occupying a large space over three floors. The remaining 6 Grade A buildings continue to be resilient in challenging market conditions and boast high occupancy rates in the high 90% range. As there is no new Grade A stock expected to be supplied to the market in 2013, potential tenants face the prospect of rents potentially increasing due to limited supply.

Some notable deals in the quarter in the Grade A market include Microsoft – 774m², Canon – 933m² (with a first right option for a further 311m²) and Hiring Boss – 237m² (with additional 100m² balcony) at President Place and SsangYong has executed a deal at Metropolitan for around 900m².

The Grade B market continues to attract the most interest from tenants although rental rents continue to be relatively stable in Q1/2013 at approximately VND418,000 (US\$20)/m²/month exclusive of management charges and VAT.

Supply

Pico Plaza, Tan Binh District has recently come online in this quarter with approximately 10,000m² of office space included. The total existing office supply achieves over 1.3 million m², a 6% increase year-on-year. The Grade A office space still occupies a small market share, with 10% of total existing stock.

Outlook

Empress Tower will officially open in Q2/2013 and has had a very impressive pre-leasing period with Shinhan Bank completing a deal to occupy approximately 3,000m², including GF retail. There is also a market rumour that a prominent Vietnamese company has recently acquired a further 6,000m² within the building. The construction of the 34 storey Lim Tower appears to be progressing well and is expected to enter the market in Q3/2013. Techcombank will occupy the first 17 floors of the building leaving approximately 40% of office space available to the market. It will be interesting to see how potential tenants view the building with such a large anchor tenant.

KNIGHT FRANK COMMENTS

Whilst there has been increased levels of tenant enquiries and demand, it is too early to speculate that the office market has recovered like some commentators have suggested. However, we consider that if rental rates are not already at the bottom, we are nearing that situation in the next 1 to 2 quarters.

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