DTZ Research

Property Times
Ho Chi Minh City Q1 2012
Market remains subdued

12 April 2012

Contents

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- Inflation continued to slow down in Q1 2012 as a result of anti-inflationary measures by the government since the second half of 2011. Interest rates have fallen slightly after the government announced a minor credit loosening measure for the real estate sector in Q4 2011. However economic growth in Q1 2012 slowed to 4% year-on-year (y-o-y).

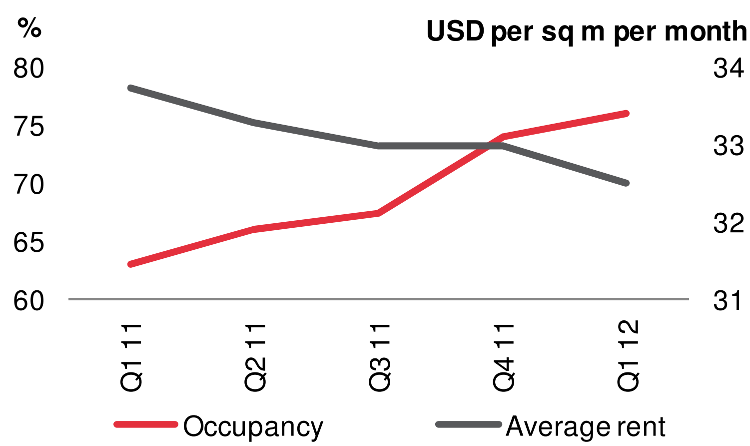
- The first quarter saw subdued office demand, with leasing activity mainly from existing occupiers relocating within Ho Chi Minh City (HCMC). Consequently while there had only been a small amount of new supply in the quarter, the average occupancy rate of offices in HCMC increased by just 0.3 percentage-point quarter-on-quarter (q-o-q) to 81.3%. Rents in this quarter continued to fall, by 1.5% on average to USD23.40 per sq m per month. Rents across all grades were seen to soften including grade A (Figure 1).

- Despite there being no major new supply of either shopping centre or department store accommodation, retail rents continued to be pressured by the competition from recently completed retail accommodation in previous quarters and the prospect of a large amount of supply coming online in the future. Average occupancy rate fell by 0.8 percentage-point to approximately 88.8%. Non-CBD areas continued to be affected to a larger degree with recent new supply causing increased competition.

- The residential market continued to see challenging market conditions due largely to a severe lack of demand. Although there were a large number of completions during the quarter, there had been no major launches, in addition to many construction projects stalling. This is an indicator of the market conditions which have seen prices decreased by 2% in this quarter, while developers continued to offer significant discounts.

Figure 1

Average grade A office rents and occupancy rate



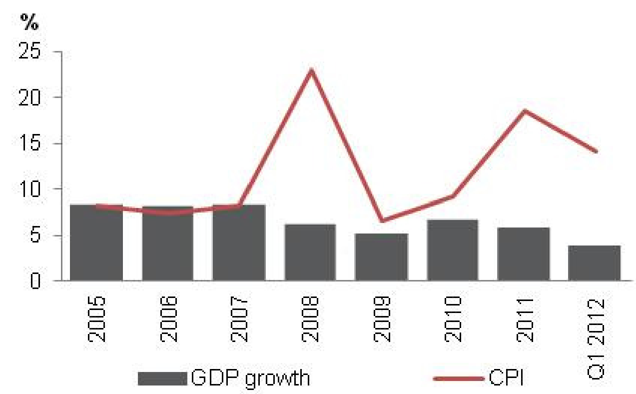
Source: DTZ Research

Economic Overview

- Inflation continued to slow down in Q1 2012 as a result of anti-inflationary measures by the government since the second half of 2011. The consumer price index (CPI)in Q1 2012 rose 2.55% against the previous quarter and 14.15% against Q1 last year (Figure 2).
- Since the government announced a minor credit loosening measure for the real estate sector in Q4 2011, the lending rate has recently decreased to 17%-19% compared with above 20% in early 2011. This change may encourage loans for financing social housing and for persons who require loans for purchasing or upgrading of accommodation and repay through salary.
- Despite the government measure and reduction in financing rates, the property market has not shown any major improvement as credit availability is still limited to many property investors and developers. Besides, many of those with available finance prefer to place their money as bank deposits which offer high interest rates of 13-13.5%.
- Following a slightly lower than targeted GDP growth of 5.89% in 2011 (the Government's target was 6%), Vietnam's GDP growth in Q1 2012 slowed further to 4% y-o-y hurt by high inventories in the industrial sector and falling domestic consumption. The trade deficit fell from USD1.15 billion in Q1 2011 to USD251 million in Q1 2012. The trade deficit was USD9.5 billion in 2011 and the target for 2012 is USD9 billion. Vietnam aims for trade balance by 2020
- Foreign Direct Investment (FDI)_inflows to Vietnam fell in Q1 2012 to USD2.26 billion which is 77.2% of the FDI in the same period last year). Japan was the largest investor, accounting for almost 90% of total FDI. Vietnam is targeting to match its 2012~~1~~ FDI of about $11 billion.International visitor numbers continued to grow strongly. 1.87 million visitors entered Vietnam in Q1 2012, an increase of 24.5% compared with Q1 2011. The total international tourist arrival to Vietnam is targeted at 6.5 million compared with 6.01 million in 2011.
- For 2012, the government has set a target of 6.0% GDP growth, with inflation to be kept in single digit with a target of 9%. If the CPI is kept at low levels in early 2012 we would expect to see further relaxation of anti-inflationary measures including allowing banks to lend more freely.

Figure 2

GDP growth and CPI



Source: General Statistics Office of Vietnam

Offices

- Office supply in HCMC at the end of Q1 2012 is estimated at approximately 1.38 million sq m net lettable area (NLA) (Figure 3). The increase in supply over the quarter was only around 1,400 sq m NLA, with no major completions.

- Although the first quarter is traditionally a quiet period for completions, with Lunar New Year halting construction progress across the city, this is a significantly lower new supply than the 42,000 sq m completed in the same period of 2011. This may be a reflection of the slowdown of many construction projects as economic, market and funding conditions affect the ability and desire of developers to continue a fast pace of construction.

- Demand for commercial space was also very limited during Q1 2012, with global economic conditions affecting international requirements. The demand that was seen has been almost exclusively from existing occupiers in HCMC who are looking to relocate. These occupiers are looking to take advantage of the opportunity to reduce rental costs, and/or to increase the quality of their accommodation.

- As a result of the lack of new space coming online, average occupancy across all grades of office accommodation increased slightly to 81.3%, up from 81.0% at the end of 2011. There is approximately 259,000 sq m of vacant office space across HCMC.

- Grade A occupancy remained lowest compared to other grades of offices, although this rate increased to 76.0%, up from 74.0% in Q4 2011 (Figure 4). As there had been no new Grade A stock completed since the Bitexco Financial Tower in Q4 2010, the city's most recent Grade A properties have been filling up while established Grade A properties have been maintaining occupancy rates. These newer properties have been largely attracting tenants from Grade B buildings by offering them comparable or even lower rates than at the tenants' current accommodation.

- As a result, Grade B occupancy rates had fallen by half a percentage point to 82.0%, while Grade C accommodation remained at an average of 83.0%.

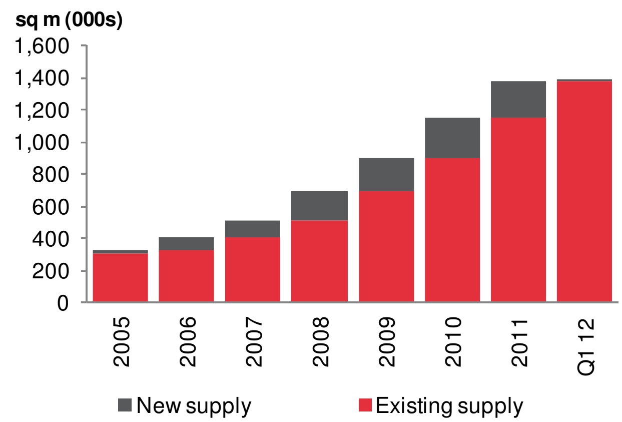
- Rental rates so far in 2012 followed the downward trend of 2011 throughout all grades. Average rents softened by 1.5% q-o-q to USD23.40 per sq m per month. Average Grade A rents also fell from USD33.00 to USD32.60 per sq m per month in the quarter (Figure 4).

- In the future, if all pipeline office accommodation are finished on schedule, over 300,000 sq m of space will be completed by end 2012. Although we expect many delays, we expect the reduced new supply to be considerably higher than net absorption.

- Due to this oversupply situation, it is forecast that challenging conditions will remain over this year. This is likely to lead to softening rents in the short term.

Figure 3

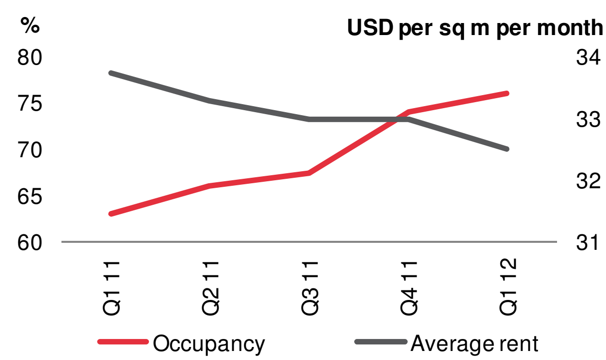
Existing and new office supply (NLA)



Source: DTZ Research

Figure 4

Average grade A office rents and occupancy rate



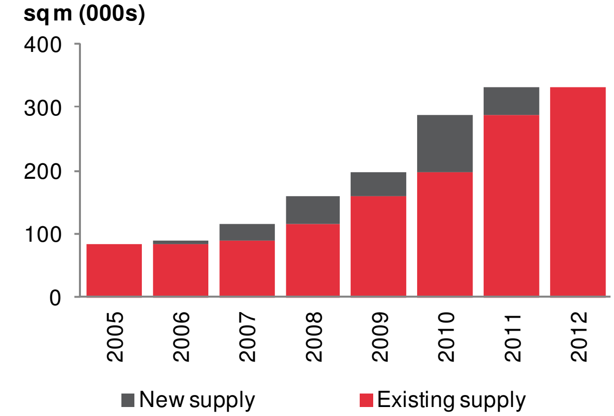
Source: DTZ Research

Retail

- Despite continuing fears about the economy, consumer spending during 2011 rose by 22.3% compared with 2010. In Q1 2012, this figure rose by 21.8% compared with same period last year. The Vietnam total retail sale is targeted at US $113 billion in 2012, an increase of 18.5% compared with 2011.
- In Q1 2012, the only retail centre completed was the Central Mall in District 8 which provided approximately 11,000 sq m GFA of supermarket, food and beverage retailing (Figure 5).
- As at the end of the quarter, there was a total supply of approximately 235,000 sq m of shopping centre accommodation and 97,000 sq m of department store accommodation.
- Average occupancy rate fell throughout HCMC by 0.8 percentage-point during Q1 2012 to approximately 88.8% (Figure 6). This drop was driven by non-CBD areas where retailers are finding low retail traffic. Indeed while non-CBD locations witnessed a 2.0% decrease in occupancy rates, CBD occupancy increased by approximately 0.8%.
- In terms of future supply, if all pipeline projects are completed to schedule by 2014, we would expect an additional new retail supply of approximately 770,000 sq m. This includes around 175,000 sq m forecast to be completed in the remainder of 2012. Some key future developments are detailed in Table 1.
- Average department store and shopping centre rents showed a softening over the quarter, reflecting increased competition from landlords to attract and retain tenants. This is particularly seen in non-CBD locations, where new supply during 2011 in addition to upcoming future supply has resulted in more downward pressure on rents.
- It is expected that rents will continue to moderate during 2012 as international retailers cut back on expansion plans due to global economic issues. This is in addition to continued increase in supply and ongoing local economic issues affecting consumer confidence. This is likely to be more pronounced outside the CBD where most of the pipeline supply (around 70% before 2014) is located as many retailers are still unsure of the capacity and willingness of local populations to spend in modern retail centres.

Figure 5

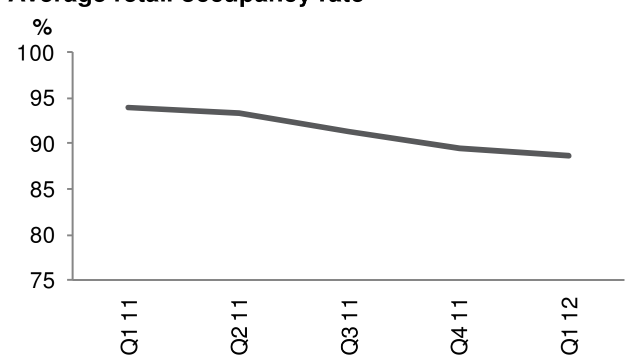
Existing and new retail supply (NLA)



Source: DTZ Research

Figure 6

Average retail occupancy rate



Source: DTZ Research

Table 1

Major upcoming retail developments

Property	District	Est GFA (sq m)	Type
Eden A	1	37,000	Shopping Centre
Saigon One Tower	1	10,000	Retail Podium
Times Square	1	5,000	Retail Podium
Saigon Center Phase 2	1	54,000	Shopping Centre

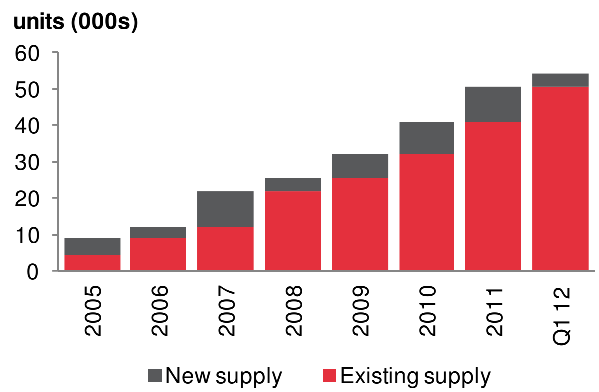
Source: DTZ Research

Residential

- At the end of Q1 2012, the stock of condominiums in HCMC is approximately 54,000 units from 205 completed projects (Figure 7).
- There were a number of new completions in the quarter, totalling 3,700 units. The highest profile condominium completion was Xi Riverside in District 2, which provided over 250 units to the market.
- In terms of market conditions there was little change in the new year, with demand levels very low despite finance rates on bank loans reducing to around 18.5% on average.
- As a result of this developers have delayed launching units for sale, with no major launches during the quarter. The construction progress of many residential projects has also ground to a halt, as developers continued to be pressurised by issues surrounding finance.
- Asking prices in Q1 2012 continued to fall as a result of market conditions. Throughout the city average unit prices softened by around 2%, driven by reductions in the high- and mid-end segments of the market. Developers are increasingly likely to offer discounts, while further incentives remain in the market to entice buyers. At present this has not stimulated the market.
- Market sentiment from buyers was not helped by a government announcement in March that owners of houses and apartments would be required to pay a land tax from this year forward, a further discouragement for buyers to purchase accommodation.
- Asking prices during Q1 2012 for affordable condominiums ranged from USD500 to USD950 per sq m and between USD950 and USD1,700 per sq m for mid-end units. High-end accommodation prices were priced upwards of USD1,700 per sq m.
- The condominium market outlook remains bleak for the rest of the year, as purchasers continue to wait for both finance rates and prices to fall further.
- Nevertheless, in the mid- to long-term we remain positive about the potential for the residential sector due to the large pent-up demand.
- If all future projects at the planning stage or under construction are delivered, this will provide approximately 60,000 new units before the end of 2014. Table 2 details some major upcoming developments. However it is likely that delays will occur given market conditions.

Figure 7

Existing and new condominium supply



Source: DTZ Research

Table 2

Major upcoming condominium developments

Property	District	Units
Imperia An Phu	2	700
Diamond Island	2	894
Estella	2	1,500
Sunrise City	7	1,916
Everich II	7	3,125
Richland Hill	9	1,100
Kenton Residence	Nha Be	1,640
City Garden	Binh Thanh	926

Source: DTZ Research

Definitions

Development pipeline/potential supply:	Comprises two elements: 1. Floorspace in the course of development, defined as buildings being constructed or comprehensively refurbished. 2. Schemes with the potential to be built in the future, having secured planning permission/development certification.
Net absorption:	The change in the total occupied or let floorspace over a specified period of time, either positive or negative.
Net supply:	The change in the total floorspace over a specified period of time, either positive or negative. It excludes floorspace that are not available for occupation due to refurbishment or redevelopment, but includes new supply. New supply refers to total floorspace/units which are ready for occupation. Ready for occupation means practical completion, where either the building has been issued with a Temporary Occupation Permit or Certificate of Statutory Completion (CSC).
Prelet/pre-commit:	A development leased or sold prior to completion.
Prime rent:	The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant. (NB. This is a gross rent, including service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market).
Stock:	Total accommodation in the private sector both occupied and vacant.
Take-up:	Floorspace acquired for occupation or investment, including the following: 1. Offices let to an eventual occupier. 2. Developments pre-let or sold. (NB. This includes subleases.) Take-up also refers to units transacted in the residential market.
Occupancy rate:	Total space currently occupied or not available to let as a percentage of the total stock of floorspace. (NB. This excludes shadow space which is space made available for sub-leasing).