DTZ Research

Property Times

Ho Chi Minh City Q2 2012

Little activity in market

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- Interest rates and inflation eased in Q2 2012 following the government's anti-inflationary measures since mid-2011. Trade deficit narrowed in H1 2012, as spending power fell with a slower economic growth of 4.38% year-on-year (y-o-y).

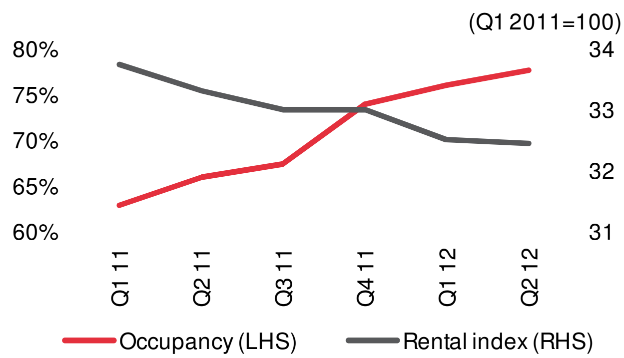
- The office market remained soft with little leasing activity, coming mainly from existing occupiers relocating within Ho Chi Minh City (HCMC). The average occupancy rate fell by 1.3 percentage-points quarter-on-quarter (q-o-q) to 80.0%. Grade A rents softened by 0.2% to USD32.45 per sq m per month despite its occupancy rate rising to 77.7% due to the substantial vacant space (Figure 1).

- Retail rents continued to fall with the prospect of a large amount of supply in the pipeline and weaker spending power. With interest rates and inflation rate easing, and a USD1.4bn tax break package approved recently to support businesses, these could provide some support to the retail sector.

- High interest rates continued to stifle demand in the residential market. Launches and construction have been grounded due to lack of demand, as potential buyers continued to wait out for lower prices and interest rates. Asking prices have meanwhile fallen by about 1% q-o-q (quarter-on-quarter) and are likely to fall more in the coming months as developers seek to stimulate purchases.

Figure 1

Grade A office rental index and occupancy rate



Source: DTZ Research

Economic Overview

- Inflation in June slowed to the lowest pace in two years after the government's anti-inflationary measures since mid-2011. The consumer price index (CPI) in June rose 6.9% y-o-y after increasing 8.34% in May and 10.54% in April. For the first half of 2012, the inflation rate was 12.2% y-o-y (Figure 2).

- The quarter saw an improvement in GDP growth from 4.00% in Q1 to 4.66% y-o-y in Q2, resulting in a 4.38% GDP growth for H1. It is however significantly lower than 2011's growth of 5.89% and the earlier 2012 target of 6.00% which is likely to be revised lower. World Bank forecast that Vietnam may reach 5.7% annual GDP growth in 2012. The industrial sector was the best performer with a y-o-y growth of 4.03% in Q1 and 5.40% in Q2.

- The slower economic growth and inflation has given the government room to cut interest rates. The central bank has cut rates four times in March, April, May and June. The lending rate was recently decreased to 15%-17% compared with 17%-19% in Q1. Despite the reductions in interest rates, the property market has not shown any significant improvement.

- Trade deficit in H1 2012 fell to approximately USD0.7bn (accounting for 1.3% of total export), in comparison with USD6.7bn (accounting for 15.7% of total export) in H1 last year. This is the lowest trade deficit in recent years. In the first six months of 2012, Vietnam exports rose 22.2% y-o-y to achieve USD53.1bn, while imports rose by a lower 6.9% y-o-y to reach USD53.8bn.

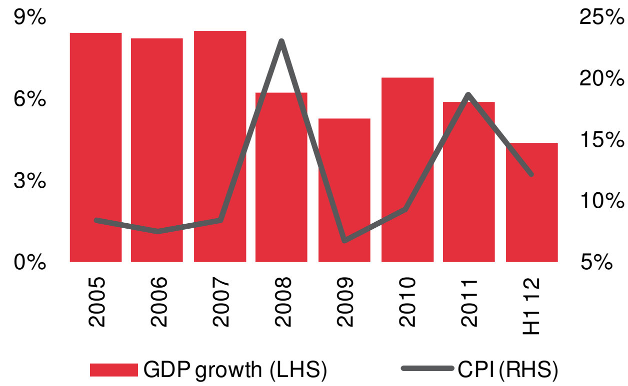
- Foreign Direct Investment (FDI) inflows to Vietnam fell in H1 to USD6.4bn, down 27.3% y-o-y. The FDI went mainly to the processing and manufacturing sectors, followed by real estate. Vietnam is targeting to match its 2011 FDI of about USD11bn.

- On a brighter note, international visitor numbers continued to grow strongly. 3.36 million visitors entered Vietnam in H1 2012, an increase of 13.9% compared with H1 2011. The total international tourist arrival to Vietnam is targeted at 6.5 million compared with 6.01 million in 2011.

- If the inflation rate continues to ease, there can be further relaxation in the monetary policy which has dampened real estate activity. A fifth round of interest rate cut has already been announced in early July.

Figure 2

GDP growth and CPI



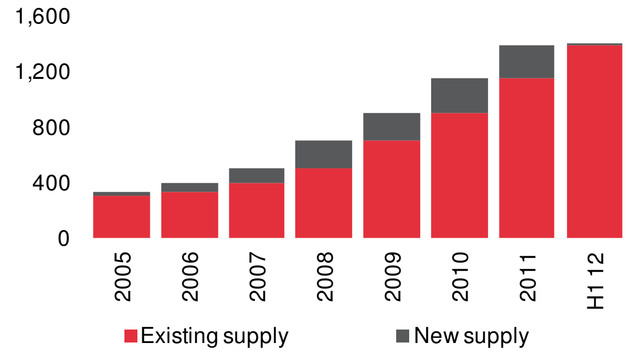
Source: General Statistics Office of Vietnam

Offices

- Office stock in HCMC at the end of Q2 is estimated at approximately 1.41 million sq m net lettable area (NLA) (Figure 3). The increase in supply over the quarter was around 23,000 sq m NLA, with four Grade C office completions.
- Demand for office space has not improved significantly. Demand was seen mainly from existing occupants taking advantage of the current low rents to upgrade to better quality offices.
- As a result of the new office space delivered to market, average occupancy across all grades of office accommodation decreased slightly to 80.0%, down from 81.3% at the end of Q1. There is approximately 282,000 sq m of vacant office space across HCMC.
- Grade A occupancy still remained the lowest compared to other grades of offices. However it has increased to 77.7%, up from 76.0% in Q1 with no new supply of Grade A office in the last six quarters (Figure 4). Established Grade A offices maintained high occupancy rates while new properties require more time to fill up.
- Occupancy rates for Grade B offices remained at 82.0% while they declined for Grade C to 81.3% from 83.0% in Q1 due to the new completions.
- Rental rates were largely stable in Q2. Grade A rents softened by 0.2% to USD32.45 per sq m per month (Figure 4) while they remained the same for Grade B and Grade C at USD20.54 and USD17.11 respectively.
- If all pipeline office accommodation are finished on schedule, over 270,000 sq m of space will be completed for the rest of the year. See Table 1 for some upcoming projects. Although there is likely to be delays in some projects, the reduced new supply will still be considerably higher than net absorption.
- Conditions are expected to be challenging for the rest of the year with a slower economic growth and new supply coming to the market. We therefore forecast rents to fall in H2.

Figure 3

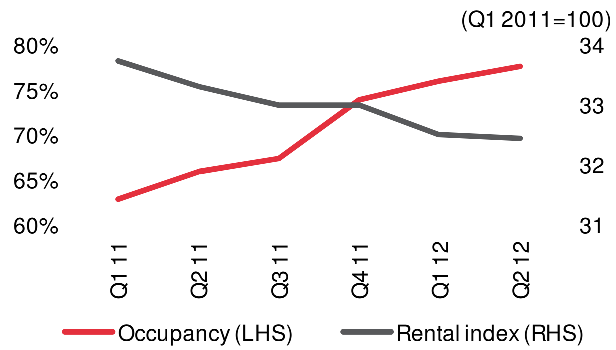
Existing and new office supply (NLA), sq m (000s)



Source: DTZ Research

Figure 4

Grade A office rental index and occupancy rate



Source: DTZ Research

Table 1

Major upcoming office developments

Property	District	Est GFA (sq m)	Type
Saigon One Tower	1	49,000	Grade A
Lim Tower	1	33,300	Grade A
FOM Tower	1	19,000	Grade B
South Building	Tan Binh	17,000	Grade C

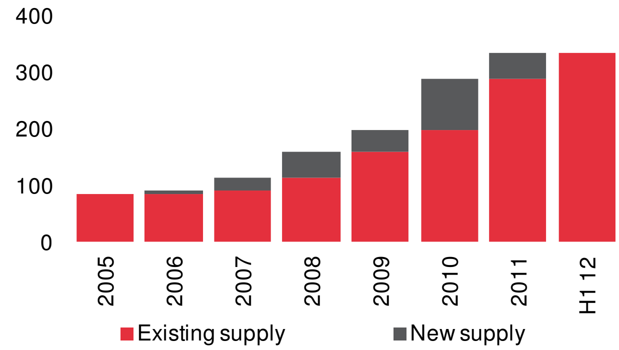
Source: DTZ Research

Retail

- With no new retail supply delivered to the market in Q2, the total supply stood at approximately 235,000 sq m of shopping centre space and 97,000 sq m of department store space (Figure 5).
- The average occupancy rate in HCMC remained the same at approximately 88.7% in Q2 (Figure 6), with no change to the average occupancy rates for both CBD and non-CBD areas.
- Average department store and shopping centre rents continued to soften by about 4% over the quarter, as spending power is affected by the slowdown in the economy.
- Although the retail sales value of goods and services rose 6.5% y-o-y in the first half of the year, it is a slower increase compared to previous periods and belies a fall of 0.6% in June. In a global consumer confidence survey carried out by Nielsen, it found that Vietnam has the lowest consumer confidence since Q3 2010 due to concerns about the economic situation. Its consumer confidence index for Vietnam fell five points q-o-q to 94 points for Q1 2012.
- We expect rents to continue to soften due to the strong pipeline supply. If all projects are completed as scheduled by 2014, we would expect an additional new retail supply of approximately 770,000 sq m, which is more than double the existing stock. This includes around 175,000 sq m forecast to be completed in the remainder of 2012. Some key future developments are detailed in Table 2. Rents outside the CBD will be hit harder, where around 70% of the pipeline supply will be located in.
- With interest rates and inflation rate easing, and a USD1.4bn tax break package approved recently to support businesses, there could be some support for the retail sector.
- Some foreign retailers are still expanding in Vietnam. Japan's AEON has announced plans to build two commercial centres to open in 2014. The first project is in Ho Chi Minh City while the second is in Binh Duong province's Thuan An district. Lotte Mart from Korea also plans to expand from two trade centres to 60 in Vietnam.

Figure 5

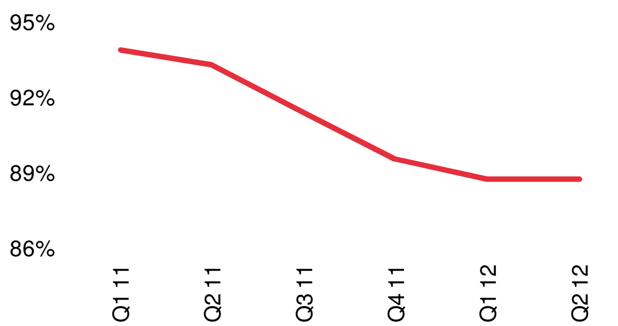
Existing and new retail supply (NLA), sq m (000s)



Source: DTZ Research

Figure 6

Average retail occupancy rate



Source: DTZ Research

Table 2

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
Sunrise City	1	70,000	Shopping Centre
Kenton Residences	Nha Be	20,000	Retail Podium

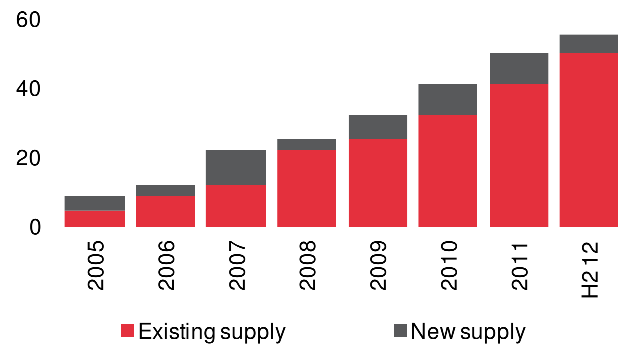
Source: DTZ Research

Residential

- At the end of Q2, the stock of condominiums in HCMC is approximately 55,400 units from 209 completed projects (Figure 7).
- There were four new completions in the quarter, totalling 1,184 units. The biggest project is Imperia An Phu in District 2, which added 700 units to the stock.
- In terms of market conditions, there was almost no change between Q1 and Q2, with low demand despite finance rates on bank loans reduced to around 15% - 17%. Financial credit is still largely not available to buyers. Although the bank deposit rate has fallen to as low as 9%, many investors with available finance still see property purchases as less attractive.
- Many developers have delayed launching projects for sale, with no major launches during the quarter. Some cautious developers carried out minor launches to test the market, with weak market response reported.
- 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 potential home buyers.
- The construction progress of many residential projects has ground to a halt, as developers continued to be pressurised by issues surrounding finance.
- Asking prices in Q2 fell slightly as a result of weak market conditions. Throughout the city, average unit prices softened by around 1%, due to reductions in the high- and mid-end segments of the market. Developers are increasingly likely to offer more discounts to stimulate purchases. Asking prices during Q2 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 substantial pipeline supply will also weigh down on prices. 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, doubling the existing stock. Table 3 gives details of some major upcoming developments. However it is likely that delays will occur given market conditions.
- 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.

Figure 7

Existing and new condominium supply, units (000s)



Source: DTZ Research

Table 3

Major upcoming condominium developments

Property	District	Units
Vina Square	5	1,186
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).