Property Times
Ho Chi Minh City Q3 2012
Minor pick up in demand

DTZ a UGL company

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Contents

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- Although the economy accelerated in Q3 2012, inflation rose again in September which could halt further interest rate cuts. Vietnam turned in a trade surplus in the first nine months of 2012, while tourist arrivals increased over the same period compared to last year. However, the cut in its credit rating by Moody's in late September due to the banking debt problems may deter some investors and affect economic growth.

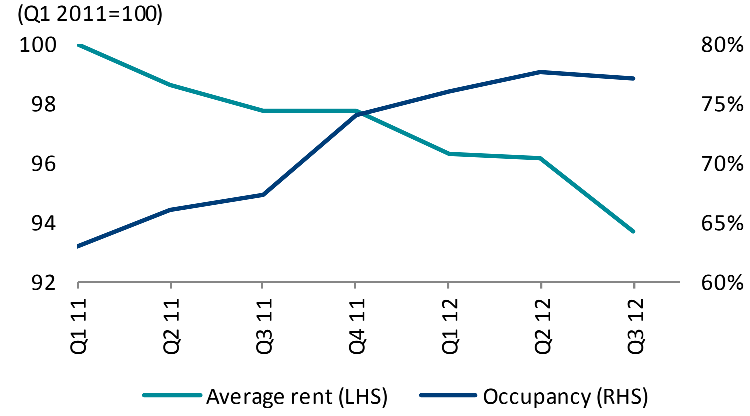
- Although the office market in Ho Chi Minh City (HCMC) showed some improvement in terms of absorption, new supply continued to pressurise the landlords leading to a decline in occupancy rate and rents. Grade A rents softened by 2.5% to USD31.63 per sq m per month and occupancy rate declined by 0.49 percentage-point due to tenancy movements for lower rents (Figure 1).

- The growth in total retail sales value of goods and services in HCMC declined by 5.0 percentage-points year-on-year (y-o-y) in the first nine months of the year, taking its toll on the retail sector. Average rents for department store and shopping centre softened by approximately 3% quarter-on-quarter (q-o-q) while occupancy rates also slightly decreased.

- With the lower interest rates and decline in residential prices by approximately 1% q-o-q, there have been some minor improvements in market transactions. Three out of four launches were reported with relatively high take up rates. However, the majority of the residential sector is still subdued and the market is forecast to continue to be difficult in the next quarter.

Figure 1

Grade A office rental index and occupancy rate



Source: DTZ Research

Economic Overview

Economy accelerates in Q3

The Vietnam economy in Q3 expanded by 5.4% y-o-y, more than the growth of 4.0% in Q1 and 4.7% in Q2. This brought the national GDP growth in the first nine months of 2012 to 4.8% y-o-y, which is lower than the 5.8% recorded in the same period last year and below 2012's target of 6.0% (Figure 2). The GDP growth in the first three quarters was largely contributed by a 6.0% increase in the services sector and 4.4% increase in the industrial sector. The slower GDP growth in 2012 is believed to be reasonable as reducing inflation is considered to be more important.

Inflation picks up in September

Inflation fell from more than 23% y-o-y in August 2011 to 5.04% in August 2012, the lowest level in three years. However, it hiked by 2.2% m-o-m or 6.5% y-o-y in September (Figure 3), as the government raised prices of essential goods such as health-care services, education fees, gasoline and electricity. The overall inflation rate for the first nine months of 2012 stood at 9.96% year-on-year and the government is targeting single-digit inflation for the whole year.

The central bank reduced interest rates to 14%-16% in Q3 from 15%-17% in Q2, following four cuts in H1, as a result of easing inflation. However, future reduction in the interest rate is unlikely as inflation rises again. Despite the changes in interest rates throughout the year, the property market has not made any major response to the lower cost of borrowing.

Higher increase in exports turns in trade surplus

Vietnam turned in a trade surplus of USD34m in the first nine months of 2012, from a deficit of about USD160m in the first six months of the year. Vietnam's exports increased 18.9% y-o-y to reach USD83.789bn in the first nine months while imports rose 6.6% to USD83.755bn. According to the General Statistics Office, the majority of export commodities is from foreign investment segment which indicates that the local businesses are still having difficulties.

Foreign direct investment inflow moderates

Foreign Direct Investment (FDI) inflows to Vietnam fell in the first nine months of 2012 to USD9.5bn, down 27.9% y-o-y. The FDI went mainly to the processing and manufacturing sectors, followed by real estate. Japan is the largest investor in Vietnam with 60.9% of total national investment value.

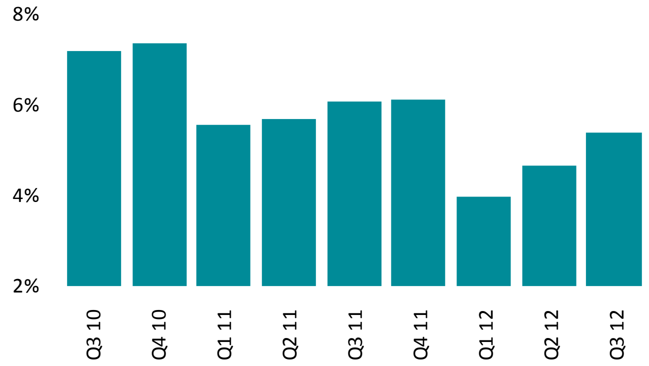
Vietnam's credit rating was downgraded by Moody's in late September by one notch to B2 due to its banking sector's debt problems and the slower economy. While there is little risk of a banking crisis, the main impact is on the government's fiscal position and economic growth, as the country will face higher borrowing costs when selling new bonds, and it could also deter foreign investment. Nevertheless, Vietnam is still targeting to match its 2011 FDI of about USD11bn.

Tourist arrivals increase

The tourism sector continued its good performance. Vietnam welcomed 4.85 million international tourist arrivals in the first nine months, an increase of 13.5% y-o-y. Vietnam expects to increase the number of visitors from 6.01 million in 2011 to 6.5 million in 2012.

Figure 2

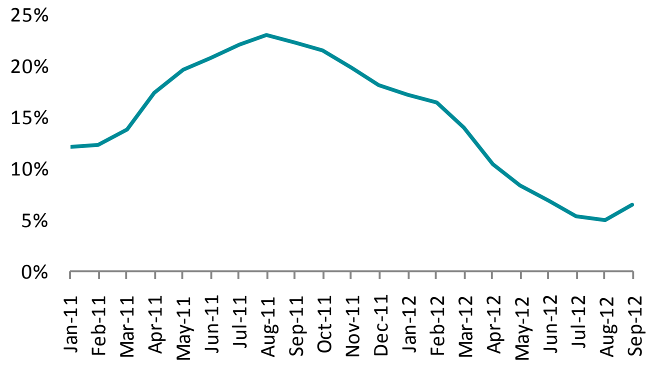
GDP (y-o-y) growth



Source: General Statistics Office of Vietnam, DTZ Research

Figure 3

CPI (y-o-y) change



Source: General Statistics Office of Vietnam, DTZ Research

Offices

Demand picks up but occupancy falls

Demand for office space picked up in Q3 as some existing occupants took advantage of the current low rents to upgrade to better quality offices while some tenants moved to other buildings with lower rents. Net absorption within the quarter was estimated at nearly 30,000 sq m NLA, slightly more than the absorption of about 26,000 sq m in Q2.

Average occupancy across all grades of office accommodation fell 1.1 percentage points to 80.7% due to new supply of 55,631 sq m with two Grade B and two Grade C office completions. The office stock in HCMC at the end of Q3 is estimated at approximately 1.46 million sq m net lettable area (NLA) (Figure 4).

Due to office accommodation movements by the tenants who wished to move out of Grade A office buildings for lower rents, Grade A occupancy rate decreased to 77.2% from 77.7% in Q2 (Figure 5), although the market has not been added with any new Grade office stock in the last seven quarters. The newer office buildings recorded lower occupancy rates compared to the established ones due to the slow absorption rate in the current challenging market condition.

With new office supply in Q3, occupancy rates for Grade B offices declined to 80.7% from 82.0% in Q2 while they improved for Grade C to 82.0% from 81.3% in Q2 due to the tenant movements despite the new supply.

Rents decline in all grades

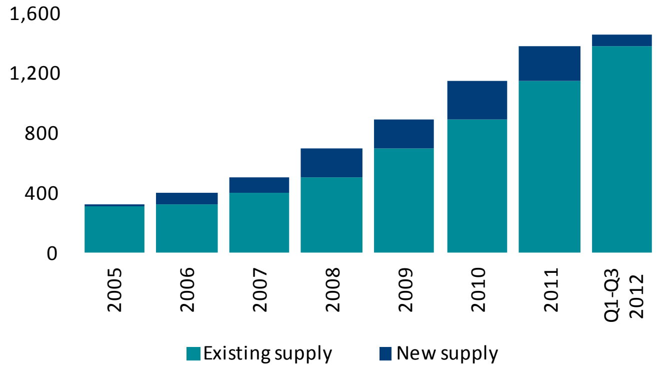
Rental rates for all grades declined in Q3. Grade A rents softened by 2.5% to USD31.63 per sq m per month while Grade B and Grade C rents decreased to USD19.85 and USD16.72 from USD20.54 and USD17.11 respectively.

In Q4, the market expects to receive approximately 120,000 sq m of office space if all pipeline office accommodation are finished on schedule. Some major upcoming projects are included in Table 1. Although there is likely to be delays in some projects, the reduced new supply will still be considerably higher than net absorption.

While economic growth is slow plus the pressure of new office supply delivering to the market, conditions are forecasted to be challenging for Q4. Office rents are expected to fall further in the coming months.

Figure 4

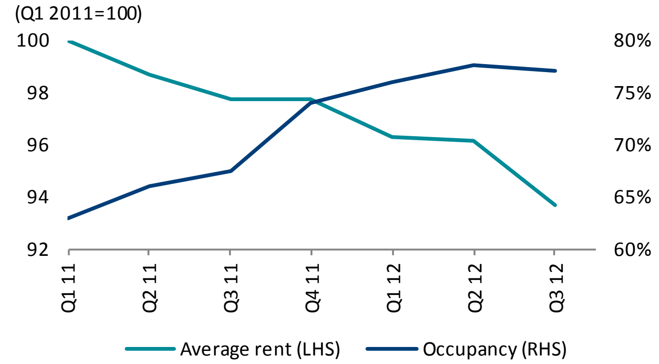
Existing and new office supply (NLA), sq m (000s)



Source: DTZ Research

Figure 5

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

Ample supply in the pipeline

There was no new major supply of quality retail stock in the first three quarters of the year. The operating retail centres across HCMC remained the same with 235,000 sq m of shopping centre space and 97,000 sq m of department store space (Figure 6).

However, our survey shows many projects with retail space are in different stages of completion and not yet brought into operation. These projects will provide around 150,000 sq m retail space including Vista in District 2, Sunrise City in District 7, Times Square in District 1 and Kenton Residences in Nha Be District. The quarter was also reported with one ground breaking ceremony for TDB Parkson in Tan Binh District. The project is expected to have 40,000 sq m retail GFA when completed in early 2014.

The major upcoming retail supply this year is Vincom Center A (Eden A) which is expected to open on 10 October. The project is located on a prime block of land with four street frontages and developed by VinGroup, offering around 37,000 sq m of high-end retail space. The project was offered to market seven months ago and is currently reported with 90% occupant registration.

Occupancy and rents fall

In the first nine months of 2012, total retail sales value of goods and services in HCMC reached USD18.8bn, an increase of 17.8% y-o-y. This growth is however 5.0 percentage-points lower than the same period in 2011.

The average occupancy rate in HCMC declined slightly to approximately 87.9% from 88.7% in Q1 (Figure 7). Retail centres in CBD achieved higher occupancy than in non-CBD areas.

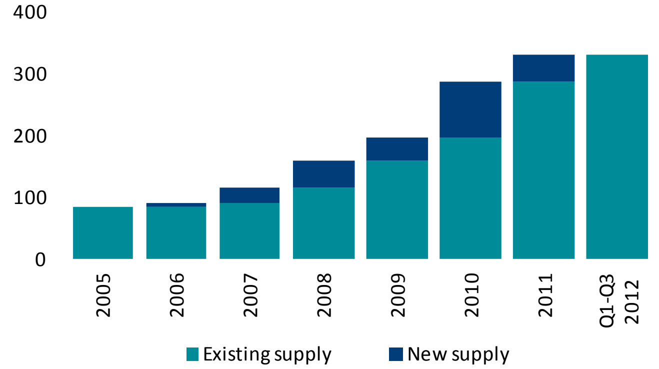
Average rents for department store and shopping centre further softened by approximately 3.0% over the quarter, to USD95 per sq m per month in CBD and USD46 per sq m per month for non-CBD areas.

With a strong pipeline supply, retail rents are forecasted to continue to soften in Q4. If all projects are completed as scheduled by 2014, we will expect an additional new retail supply of approximately 770,000 sq m, which is more than double the existing stock. Some key future developments are detailed in Table 2. The non-CBD areas with 70% of the pipeline supply will see stronger competition in the near future.

Although the pace of retail sales growth has moderated in 2012, the retail sector is still considered more attractive compared with the office or residential sector with interest shown by a number of foreign retailers are planning to expand to Vietnam including Tesco, Emart, Central Group, and Fair Price.

Figure 6

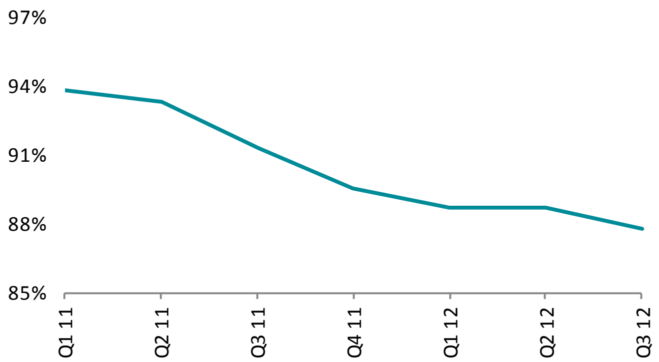
Existing and new retail supply (NLA), sq m (000s)



Source: DTZ Research

Figure 7

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

Prices continue to fall

At the end of Q3, the stock of condominiums in HCMC is approximately 57,000 units from 212 completed projects (Figure 8). There were three new completions in the quarter, totalling 1,427 units from Sunrise City, City Garden and Phu Gia Hung. The biggest project is Sunrise City in District 7, which added 725 units to the stock. On the other hand, one project ground breaking was reported with An Phu Apartment Complex in District 6 by An Phu Corporation; the project is planned for 268 apartment units and expected to complete in 2014.

With declines in interest rates, there have been some improvements in market transactions. Four apartment residential launches were carried out in Q3 including 205 units from Phase 1 of Star Hill in District 7 (price ranged from USD1,800-2,100 per sq m); 333 units from E-Home 3 in Binh Tan District (price ranged from USD640-670 per sq m); 220 units from Sunview 3 in Go Vap District (price ranged from USD660-720 per sq m); and 304 units from Cherry 3 Apartment in Hoc Mon District (price ranged from USD600-690 per sq m). Take up rates for these launches were reported to be 85%, 65%, 90% and 16% respectively. These transaction improvements are however considered minor while the majority of the market was still in the midst of difficulty.

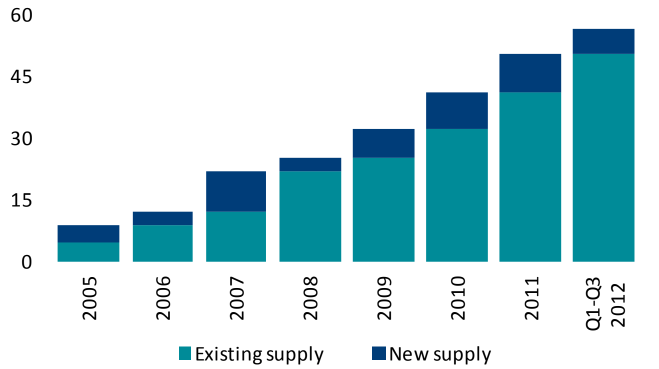
Asking prices in Q3 fell slightly as a result of weak market conditions. Throughout the city, average unit prices softened further by approximately 1% compared to Q2, due to reductions in the high- and mid-end segments of the market. Asking prices in Q3 for affordable condominiums ranged from USD500 to USD950 per sq m and USD950 to USD1,700 per sq m for mid-end units. High-end accommodation prices were priced upwards of USD1,700 per sq m.

Our findings show that many developments were being delayed or with very slow construction progresses while developers continued to be pressurised by issues surrounding finance.

Ample future residential supply is expected to continue to depress selling prices. If all future projects at the planning stage or under construction are delivered, this will provide approximately 50,000 new units by 2014. Table 3 gives details of some major upcoming developments.
The residential market is forecasted to be slow in the next quarter as purchasers continue to wait for both finance rates and prices to fall further. Purchasing power is affected by the slow economy while the land tax on houses and apartment announced in the previous quarter will also reduce consumer confidence.

Figure 8

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
Riviera Point	7	2,099
Estella	2	1,500
Everich II	7	3,125
Richland Hill	9	1,100
Sunrise City Phase 2 & 3	7	1,300
Kenton Residence	Nha Be	1,640

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).