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Property Times
Ho Chi Minh City Q4 2012
Market conditions continue to weaken

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Contents

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- Economic growth slowed to 5.03% in 2012, the slowest expansion since 1999, due to weak domestic demand. Inflation eased from 18.7% in 2011 to 9.21% in 2012, which gave the government room to cut the benchmark refinancing rate six times in the year by a total of 600 basis points. The economy was supported by exports which grew more strongly than imports, giving a trade surplus for the first time in two decades. Tourist arrivals increased by 11.4% over 2012. The economic outlook for 2013 remains uncertain with projected growth of 5.5%.

- The office market remains a tenants' market, as weak net absorption was overshadowed by the increase in supply. Occupancy rates declined slightly overall although Grade A space finished the year at 77.2% from 74% one year ago. Consequently rents softened by 2.0% in Q4 2012 and by 6.5% over 2012. Looking forward, we forecast further challenges in 2013 for landlords as more supply is expected to come on to the market.

- Total retail sales values of goods and services in HCMC increased by 16.4 percentage-points year-on-year (y-o-y) in the first eleven months of the year, attracting foreign retailers and holding rents firm. However the projected substantial increase in new supply of retail space should serve to dampen occupancy rates and rents. This is expected to be felt particularly keenly outside the CBD, which will see the bulk of new supply.

- The residential market continued to be challenging in 2012 with many developers delaying the launch of projects whilst others have had to reduce asking prices to attract potential buyers. Demand is expected to continue to be slow in early 2013 with any increase in activity dependant on the government reducing the land tax on houses as well as an improvement in the general economic environment.

Ho Chi Minh City Q4 2012

Economic Overview

Economic growth eases

Vietnam in Q4 2012 grew at a faster pace of 5.44% y-o-y compared to 5.05% in Q3 (Figure 1). However, it registered economic growth of 5.03% for 2012 overall, lower than last year's 5.89% and the lowest since 4.77% in 1999. One of the main factors that contributed to the slower growth is weak domestic consumption as a result of tight credit availability.

Inflation eases

Inflation eased to 6.8% y-o-y in December 2012, following a 7.0% increase in October and 7.1% in November (Figure 2). Inflation for 2012 fell to 9.2% from 18.1% in 2011, as the government made curbing inflation its top priority for the year.

Due to the lower level of inflation, the central bank in December cut its benchmark-refinancing rate by 100 basis points to 9.0%. The refinancing rate has been reduced by 600 basis points for the whole year. Lending rates in Q4 remained unchanged from the previous quarter at 14-16%, having fallen from above 20% in Q4 2011. Nevertheless, consumer confidence remained low and business conditions continued to be difficult and constrained by credit availability.

Higher exports but lower FDIs

Due to sluggish domestic demand, imports grew at a slower pace than exports. Based on preliminary figures from the statistics office, exports increased 18.3% in 2012 to reach USD114.6bn while imports came in slightly lower at USD114.3bn, up by 7.1%. As a result, Vietnam recorded a trade surplus of USD284m for the year. This was the first time it achieved a positive balance in twenty years. According to the General Statistics Office, foreign firms made up the majority of high value exports while local businesses mostly exported cheaper goods or raw materials.

Foreign Direct Investment (FDI) inflows to Vietnam ended the year at an estimated USD12.72bn, a decrease of 15.3% over the previous year. The processing and manufacturing industries had the largest level of FDI in Vietnam attracting 9.1 billion USD or over 69.9% of total investment value. In 2012, the real estate sector ranked second, bringing in USD1.85bn or 14.2% of total FDI. Japan remains Vietnam's biggest foreign investor, accounting for 39.5% of total foreign investment into the country in 2012.
The fall in FDI can be attributed to the government's fiscal position on reducing high levels of debt, which resulted in a reduction of large-scale real estate projects. December saw the introduction of tightened policies on foreign investment to improve the quality of FDI.

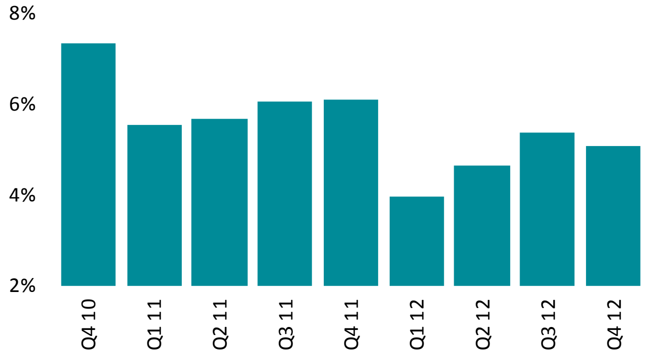
Tourist arrivals set to break record

The tourism sector continued to enjoy steady growth. Vietnam welcomed 6.647 million tourists in 2012, an increase of 9.5% from 2011. Strong growth came from tourists visiting relatives (26.8% of total tourists) and business travelers (28.5%), with the latter indicating an ever increasing interest in investment in Vietnam. The sector achieved the target of over 6.5 million tourist arrivals for the year and exceeded 2011's record of 6.0 million visitors.

Looking to 2013, the government has set a target of 5.5% GDP growth, with inflation to be curbed at 6.5%. If inflation eases in early 2013, there could be a loosening of anti-inflationary measures including allowing the banks to increase access to credit and thus stimulating investment.

Figure 1

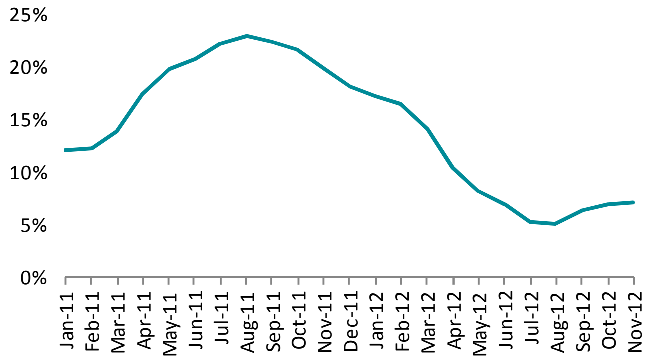
GDP growth (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Figure 2

CPI change (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Offices

Occupancy declines due to new supply

Office supply at the end of Q4 2012 is estimated at approximately 1.485 million sq m NLA (Figure 3). There was nearly 24,000 sq m of new supply in the quarter, resulting in an addition of 103,747 sq m for 2012 across all grades. This new supply is approximately 50% of the NLA completed in 2011.

Demand for office space was low in Q4 at around 10,000 sq m, as some existing tenants explored opportunities for relocation while a few exited the market altogether. Net absorption for the year was estimated at around 69,000 sq m, representing only 37% of last year's demand.

The average occupancy across all grades of office accommodation declined to approximately 80.15% at the end of 2012, from 80.7% at the end of Q3 2012 and 81.15% at the end of 2011. There was approximately 295,000 sq m of office space available across HCMC.

Grade A occupancy remained at 77.2% in Q4, similar to Q3, but improved from 74.0% in Q4 2011 as there was no new Grade A office stock in the last eight quarters (Figure 4). Nevertheless Grade A office buildings recorded lower occupancy rates compared to Grade B and Grade C buildings due to the significantly higher rent demanded. Grade B and C occupancy rates fell slightly 0.4% q-o-q and 1.4% y-o-y to 80.6% and 0.97% q-o-q and 1.97% y-o-y to 81.03% respectively.

Rents continued to decline

Rental rates continued to decline during the quarter with average rents throughout all grades falling by approximately 2% quarter-on-quarter (q-o-q) to USD20.0 per sq m per month. In Q4 average grade A rents declined by approximately 2%q-o-q and 6% y-o-y to USD31.00 per sq m per month. Grade B and Grade C average rents decreased 0.04% q-o-q and 3.74% y-o-y to USD19.77 and 2.27% q-o-q and 5.84% y-o-y to USD16.11 respectively.

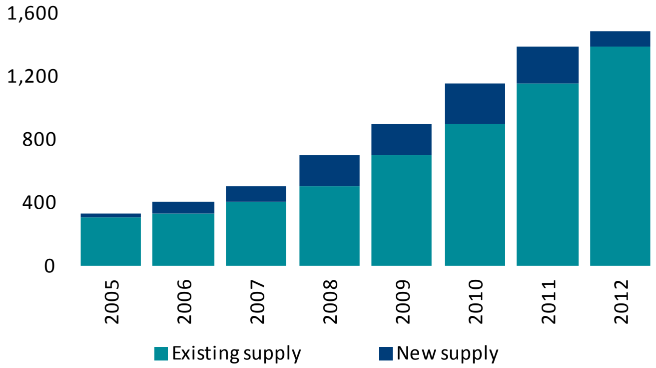
Landlords with newer properties have been forced into competing with established properties for existing and new tenants with substantial incentives being offered to tenants to entice new leases to be signed. Amidst the fierce competition, tenants have negotiated desirable deals to their advantage.

In 2013, approximately 270,000 sq m of new office accommodation is forecast to enter the market if all current developments in the pipeline are finished on schedule, although it is not likely to occur due to delay in completion (Table 1). Notably, an increasing number of developers are facing difficulty in raising capital investment and without pre-commitment, they have delayed completing their developments.

Nevertheless, the increase in supply of new office space is forecast to outstrip the demand for space in 2013 due to local and global economic conditions. We therefore expect to see rents continue to soften across all grades in 2013.

Figure 3

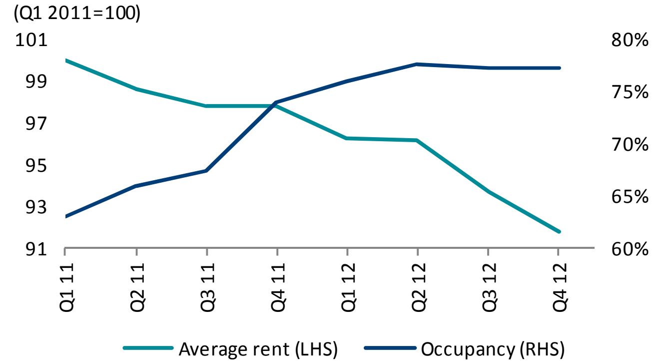
Existing and new office supply (NLA), sq m (000s)



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

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Retail

Rents hold steady while occupancy falls

In early Q4 2012, the retail market saw the major completion and opening of Vincom Center A (Eden A) in District 1, which achieved an occupancy rate of 90% among the 38,000 sq m of high-end retail space. The increase in supply in the quarter was approximately 27,077 sq m NLA, bringing the total stock in the city to approximately 332,212sq m NLA (Figure 5). It is forecast that about 40,000 sq m NLA retail space will be completed by 2013. Included in the pipeline supply is approximately 150,000 sq m NLA of space in different stages of construction or completed in Q4 that has not yet opened for operation. This includes Times Square in District 1, Sunrise City in District 7, A Pico Plaza in Tan Binh Distrct and Vista in District 2.

Retail spending in the first eleven months reached USD100.8bn, an increase of 16.4% y-o-y. However, this increase would only be 6.4% if price rises were excluded. In a global consumer confidence survey conducted by Nielsen, it found that the consumer confidence index for Vietnam was up 4 points y-o-y to 94 points for Q3 2012, although 9 out of 10 (91%) Vietnamese were changing their spending habits to save more.

Foreign retailers are driving the demand for retail space in Vietnam with many looking to expand and enter the local market.

The average occupancy rate in HCMC fell 0.9 percentage-points in Q4 (Figure 6). The full year decline was 2.6 percentage-points. Retail occupancy remained lower in non-CBD locations when compared with CBD locations.

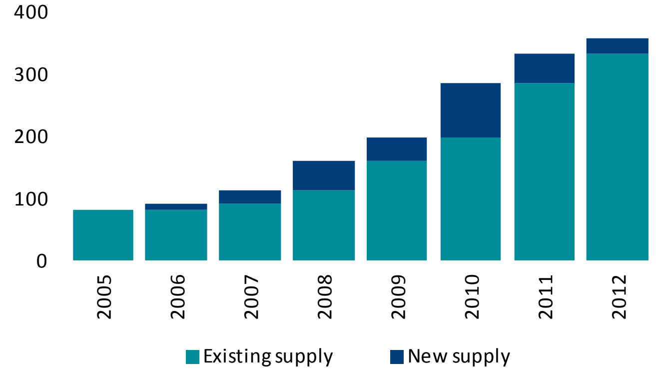
Average rents for department stores and shopping centers remained the same as in the previous quarter at USD95 per sq m per month in CBD and USD46 per sq m per month for non-CBD areas. Average rents in CBD and non-CBD department stores and shopping centers softened through the year, dropping USD11 per sq m or 11% and USD14 per sq m or 24% respectively.

Strong pipeline supply to dampen rents

Looking forward to 2013, we expect retail rents to soften with a steady supply in the pipeline. If all current developments were completed on schedule by 2014, approximately 730,000 sq m of retail space would be added, which is a substantial increase. Some major upcoming retail developments are included in Table 2. The non-CBD accounted for 70% of supply in the pipeline, which will increase the suburban competition in the near future.

Figure 5

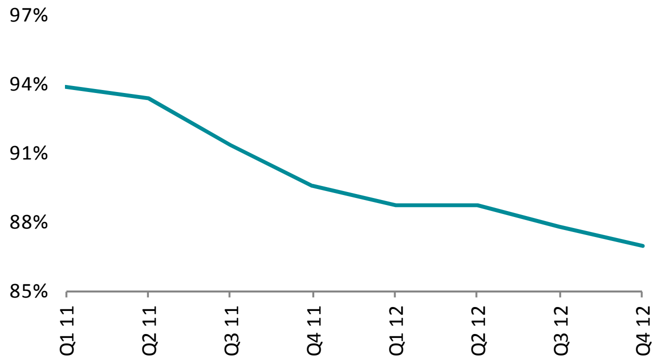
Existing and new retail supply (NLA), sq m (000s)



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
Times Square	1	10,667	Shopping Centre
Saigon One Tower	1	10,000	Retail Podium
Sunrise City	1	70,000	Shopping Centre
Saigon Centre Phase 2	1	50,000	Retail Podium
Thao Dien Pearl	2	20,000	Retail Podium
Cantavil Premier	2	30,000	Retail Podium
SC Vivocity	7	72,000	Shopping Centre
Kenton Residences	Nha Be	20,000	Retail Podium

Source: DTZ Research

Residential

Delay in launches

The total stock of condominiums in HCMC at the end of 2012 was approximately 60,100 units from 223 completed projects (Figure 7). A substantial new supply was added in Q4 although many developers are delaying construction, with no ground breaking reported in the quarter. There were 11 new completions in Q4, totalling 3,276 units. The three biggest projects completed in the quarter were Estella (710 units) in District 2, Tanibuilding (673 units) in Tan Phu District and Thai An 3 & 4 (600 units) in District 12.

With the current challenges in the market, many developers have delayed launching projects. Those that were launched have reportedly been met with a weak market response. Three apartment residential launches were carried out in Q4 including 620 units from Hoang Anh Thanh Binh Apartment in District 7 (priced between USD990-1,100 per sq m), 632 units from Sunrise City Phase 2 in District 7 (priced between USD1,650-2,150 per sq m), and 822 units from Cheery 4 Apartment in Thu Duc District (priced between USD570-750 per sq m). Take up rates for these launches were reported to be 30% for Hoang Anh Thanh Binh Apartment and 20% for Cheery 4 Apartment. These low transaction levels suggest that the majority of potential purchasers are waiting for further reductions in house prices.

Prices continue to decline

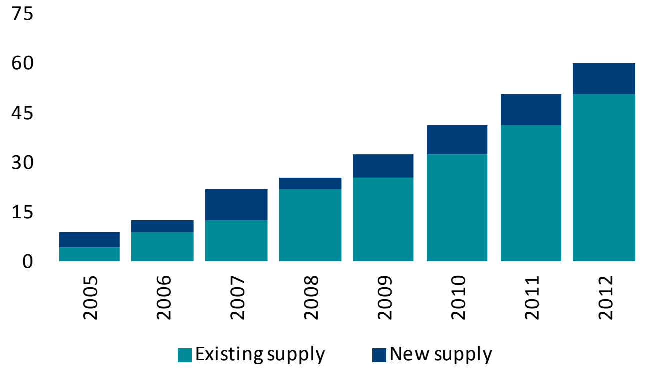
Weak market conditions in Q4 have persuaded developers to reduce asking prices. Prices over 2012 have fallen on average by 1% throughout all grades in HCMC as many developers want to maintain their profit margins. Asking prices in Q4 for affordable condominiums ranged between USD500 to USD950 per sq m and USD950 to USD1,700 per sq m for mid-end units. High-end condominiums price ranged upwards of USD1,700 per sq m.

Future supply will continue to dampen selling prices. If all future projects at the planning stage or under construction are completed as per schedule, approximately 40,000 new units will be provided before the end of 2014. Table 3 gives some numbers of major upcoming developments. However, delays in the construction are likely to occur as developers await an upturn in the market.

The outlook towards 2013 will continue to be bleak as activity in the residential sector is likely to remain slow due to affordability problems and reduced consumer confidence. Buyers traditionally wait until after Lunar New Year to make purchases so demand should be subdued in the early part of 2013. However, if the government reduces land tax on houses, this should lead to an increase in activity in the residential market.

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
Riviera Point	7	2,099
Estella Phase 2	2	725
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).