Property Times
Ho Chi Minh City Q1 2013
Short term market conditions remain challenging

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Authors

Danny Dao
Head of Valuation, Consulting & Research
+84 907 809 958
danny.dao@dtzvietnam.com

Jonathan Tizzard
Manager
Valuation, Consulting & Research
+ 84 939 864 192
jonathan.tizzard@dtzvietnam.com

Contacts

Ong Choon Fah
Head of Consulting & Research, SEA
+65 6393 2318
choonfah.ong@dtz.com

Dominic Brown
Head of South Asia Research
+61 (0)2 8243 9999
dominic.brown@dtz.com

- Economic growth slowed to 4.89% in Q1 2013. Foreign Direct Investment (FDI) is starting to recover, with the Government's policy of focussing on quality rather than quantity, starting to reap dividends as large FDI projects are announced in the manufacturing sector. Real estate accounted for 4.1% of pledged FDI in Q1. In addition, trade surplus increased, suggesting the export sector is driving economic growth. The State Bank of Vietnam lowered the refinancing rate to 8.0% in Q1 and reduced the discount rate to 6.0%, which can be viewed as a response to the easing in the headline inflation rate and subdued GDP growth. The economic outlook for 2013 remains uncertain, however, as credit availability and domestic demand remains low.

- Average rents remained flat this quarter. However, we are aware that the grade A Times Square office space has been offered on to the market at headline rental rates in excess of the grade A average rents. New supply into the market has been limited this quarter, which has had the effect of increasing occupancy levels to a small degree. However, demand has still not recovered to pre-recession levels and there is the threat of a large number of schemes providing new stock coming on to the market over the rest of the year, putting pressure on rental rates.

- There was no new retail stock released into the market in Q1 which has meant rents have remained static. However, the projected substantial increase in new supply of retail space in late 2013/14, especially in non-CBD locations, could serve to dampen occupancy rates and rents.

- The residential market continues to be challenging in 2013 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 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. Small, affordable apartments continue to sell well, however.

Ho Chi Minh City Q1 2013

Economic Overview

Economic growth eases

The Ministry of Planning and Investment reported GDP for Q1 2013 at 4.89%, up from 4.75% recorded in Q1 2012 but the third successive drop in growth since then (Figure 1).

Inflation eases

CPI grew at 0.19% between February and March and 2.39% in Q1 as a whole (Figure 2). This can be compared against the average CPI of 4.2% for the preceding nine-year period (2004-2012) during Q1.

Trade surplus

Vietnam's export turnover for Q1 2013 totalled USD29.7bn, up from USD24.5bn in Q1 2012. The trade surplus was USD500m against a trade deficit of USD251m over the same period in 2012.

FDI

Foreign investors committed to over USD6bn worth of projects in Q1 2013 which is a 63.6% increase in the same period in 2012. The real estate sector accounted for USD249.8m or 4.1% of pledged FDI. Disbursed FDI stood at USD2.7bn, up 7.1% over the same period from one year earlier. Japan remains Vietnam's biggest foreign investor, followed by Singapore and South Korea. FDI is expected to continue to increase as the Vietnamese government has targeted this source of investment in order to drive forward economic growth.

Tourist arrivals set to break record

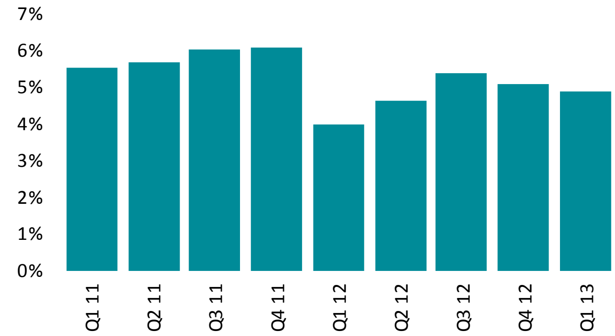
International visitors to Vietnam in Q1 2013 was estimated at 1.8 million which is a reduction of 6.2% against Q1 2012. However, a larger proportion of these visitors were tourists and business travellers compared with last year.

Credit growth was recorded at a negligible 0.03% in Q1 2013. When combined with the low CPI growth, it is apparent that local demand for consumption and production remains weak.

The State Bank of Vietnam lowered the refinancing rate to 8.0% in Q1 and reduced the discount rate to 6.0%, no doubt a response to the easing in the headline inflation rate and subdued GDP figures. March CPI inflation was at 6.6% year-on-year (y-o-y), from 7.0% in February. This decline is in contrast to the hike in the preceding month, which was due to the impact of the Tet New Year season. We expect inflation to ease in the coming months which could see further cuts to interest rates, which could have positive effects for both developers and consumers in the real estate market.

Figure 1

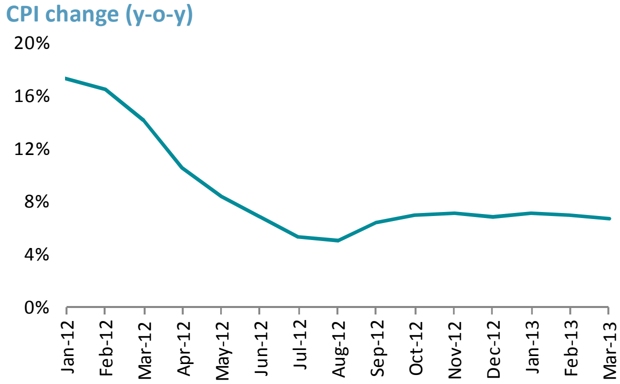
GDP growth (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Figure 2

CPI change (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Ho Chi Minh City Q1 2013

Offices

Supply increases slightly

Office supply at the end of Q1 is estimated at approximately 1.5 million sq m NLA (Figure 3). There was nearly 20,000 sq m of new supply in the quarter.

Demand for office space was much higher in Q1 2013 at 31,000 sq m, compared to 10,000 sq m in Q4 2012.

The average occupancy across all grades of office accommodation increased to approximately 81.1% at the end of Q1 2013, from 80.2% at the end of Q4 2012 and 81.2% at the end of 2011. There is approximately 285,000 sq m of office space available across HCMC.

Grade A occupancy increased to 82.0% from 77.2% in the previous quarter and is a marked improvement from 74.0% in Q4 2011 (Figure 4). Times Square, which completed in this quarter, was the first new grade A office stock to be opened in the last two years. Grade B and C occupancy stayed fairly static at 82.0% and 80.0% respectively.

Grade A rents remained flat

Rental rates remained static in Q1. However, we are aware that the grade A Times Square office space has been offered on to the market at headline rental rates in excess of the grade A average rents. Overall, grade A rents remained static for the quarter at USD31.0 per sq m per month while grade B rents remained at approximately USD19.9 per sq m per month and grade C space remained static at USD16.1 per sq m per month.

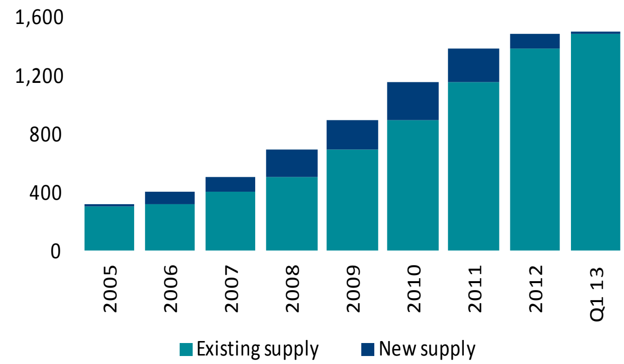
As has been the story for the past quarters, landlords with newer properties have been forced into competing with established properties for existing and new tenants with substantial incentives being offered to tenants to entice new leases to be signed. Amidst the fierce competition, tenants have negotiated desirable deals to their advantage. The new grade A space at Times Square has very high headline rents being publicised and details of actual rental levels have been hard to ascertain.

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 difficulties 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 remain static for the short term.

Figure 3

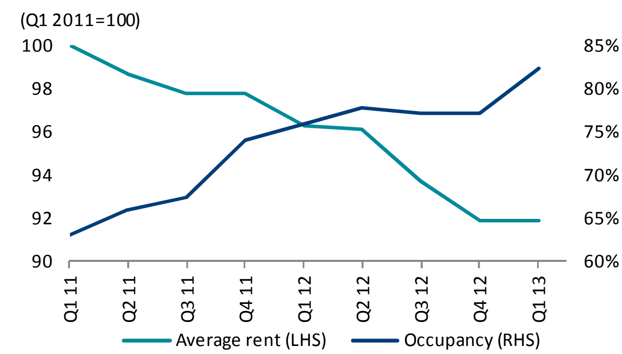
Existing and new office supply (NLA), sq m (000s)



Source: DTZ Research

Figure 4

Grade A office rental index and occupancy rate



Source: DTZ Research

Table 1

Major upcoming office developments

Name of development	District	Est area (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

Rents hold steady while occupancy falls

In Q1, there were no new completions or openings, leaving the stock of retail space in HCMC at approximately 359,000 sq m NLA (Figure 5). It is forecast that about 40,000 sq m NLA retail space will be completed by the end of 2013. Included in the pipeline supply is approximately 150,000 sq m NLA of space in different stages of construction or completed 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 District and Vista in District 2.

The total retail sales of consumer goods and services in Q1 2013 rose 11.7% from the same period in 2012. This figure would be 4.5% if inflation were excluded, lower than the growth rate of 4.7% in Q1 2012.

The average occupancy rate in HCMC increased slightly in Q1 (Figure 6). Department stores in CBD locations are approximately 95% occupied and shopping centres are slightly lower at 89.6%. Retail occupancy remained lower in non-CBD locations when compared with CBD locations.

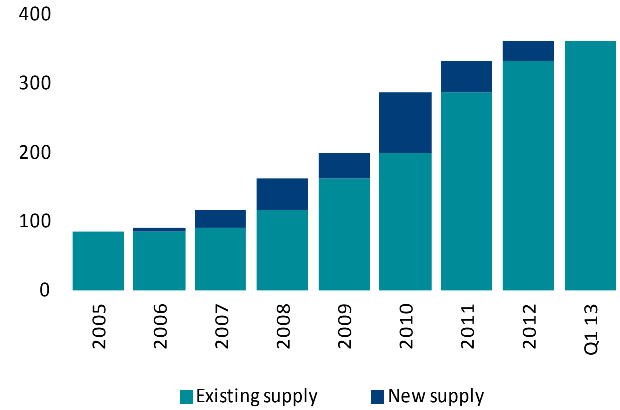
Rents for department stores and shopping centres are at USD110 and USD115 per sq m per month in the CBD and USD60 and USD47 per sq m per month for non-CBD areas.

Strong pipeline supply to dampen rents

Looking forward, we expect retail rents in non-CBD locations 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. Non-CBD retail accounts for 70% of supply in the pipeline, which will have inevitable consequences in the rental level being achieved in the short term.

Figure 5

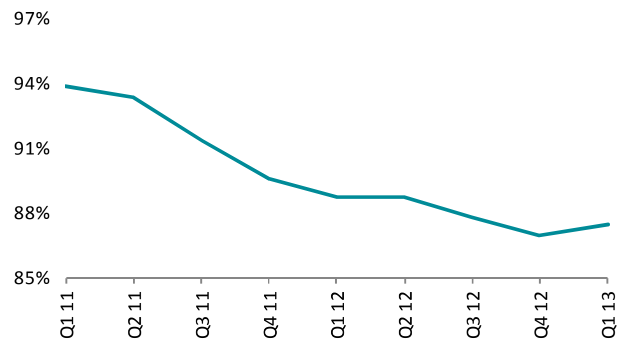
Existing and new retail supply (NLA), sq m (000s)



Source: DTZ Research

Figure 6

Average retail occupancy rate



Source: DTZ Research

Table 2

Major upcoming retail developments

Name of development	District	Est area (GFA, sq m)	Type
Sunrise City	1	70,000	Shopping Centre
Saigon Centre Phase 2	1	50,000	Retail Podium
Times Square	1	10,667	Shopping Centre
Saigon One Tower	1	10,000	Retail Podium
Cantavil Premier	2	30,000	Retail Podium
Thao Dien Pearl	2	20,000	Retail Podium
SC Vivocity	7	72,000	Shopping Centre
Kenton Residences	Nha Be	20,000	Retail Podium

Source: DTZ Research

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Residential

Delay in launches

The total stock of condominiums in HCMC at the end of Q1 was approximately 64,230 units from 233 completed projects (Figure 7). There was one ground breaking reported this quarter and one launch. There were 10 completions in Q1 2013, adding 4,396 units into the market. The three biggest projects completed in the quarter were Hoang Anh – Chanh Hung in District 8 (1,308 units), Belleza in District 7 (968 units) and Tan Tao 1 in Binh Tan (480 units).

The Prince Residence in Ng Van Troi Street in Phu Nhuan will provide 261 units in one 22-storey block when completed. Developed by Nova Land, the block will provide apartments that are between 52 – 140 sq m in size. They are on sale between USD1,950 – USD2,500 per sq m and the block is expected to be finished in 2015.

The Happy Valley on Nguyen Van Linh Highway, Phu My Hung (District 7), was launched in Q1. Developed by Phu My Hung Corporation, the nine blocks will provide 600 units between 81 – 325 sq m in size when completed. The units were sold at an average of USD1,500 per sq m.

Prices continue to decline

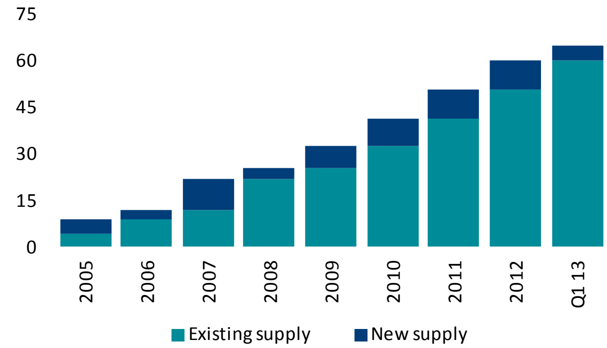
Prices over the quarter have remained static throughout all grades in HCMC. Asking prices in Q1 for affordable condominiums ranged from USD500 to USD950 per sq m and from USD950 to USD1,700 per sq m for mid-end units. High-end condominium prices ranged upwards of USD1,700 per sq m.

Future supply will continue to dampen selling prices. If all future projects at the planning stage or under construction are completed as per scheduled, approximately 50,000 new units will be provided before the end of 2015. Table 3 lists some major upcoming developments. However, delays in the construction are likely to occur as developers await an upturn in the market.

The outlook in 2013 continues to be bleak as a large supply of stock and affordability problems, combined with reduced consumer confidence, take their toll. Developers have resorted in some instances to changing apartment designs so that smaller apartments are built to increase affordability for consumers, as per the recent circular issued by the Ministry of Construction. This circular allows large apartments to be split into smaller ones, provided that they are no smaller than 45 sq m.

Figure 7

Existing and new condominium supply, units (000s)



Source: DTZ Research

Table 3

Major upcoming condominium developments

Name of development	District	Units
Estella Phase 2	2	725
Vina Square	5	1,186
Everich II	7	3,125
Riviera Point	7	2,099
Sunrise City Phase 2 & 3	7	1,300
Richland Hill	9	1,100
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).