Property Times
Ho Chi Minh City Q2 2013
Property market remained static

DTZ a UGL company

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- Economic growth reached 4.90% in H1 2013 after the 5.0% improvement in Q2. Vietnam's GDP growth for 2013 is targeted at 5.5%. Foreign Direct Investment (FDI) continued to improve after a strong growth in Q1, where the property sector accounted for USD419.7m, equivalent to 4.0% of pledged FDIs in H1. Trade balance, however, eased with USD1.6bn deficit in Q2 from USD223m surplus in Q1. While lending and borrowing rates declined, credit growth expanded by 3.8%-4.0% in H1 2013, about twice the growth over the same period in 2012 while inflation was relatively stable. The decline in interest rate and low inflation will have some positive impact on the real estate market.

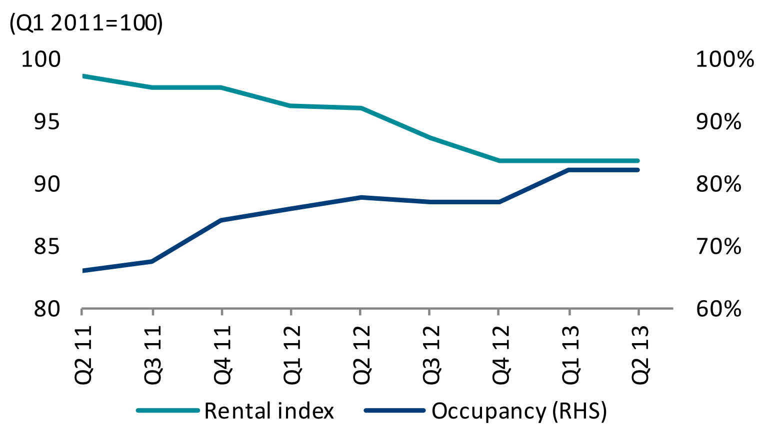
- Market conditions for the office sector remained unchanged in Q2 with flat average rents and a minor decline in occupancy rate due to new supply of 40,000 sq m, twice that in Q1 (Figure 1). Office demand did not improve significantly while pipeline supply is forecasted to remain significant which may put further pressure on occupancy rates. New office project completions are however expected to be delayed.

- There were no completions, openings or ground breakings for retail developments during Q2 with occupancy and rents remaining flat. However, total retail sales of consumer goods and services declined in H1. With the pressure from major supply coming in late 2013 and 2014, occupancy and rents, especially in non-Central Business District (CBD) locations, are expected to be affected.

- The residential market remained difficult in Q2. Many developers reduced asking prices to improve sales while others chose to delay launching their projects. Affordable housing performed better than the high-end segment. However, consumer confidence may improve in late 2013 with the release of the housing support package, lower interest rates and low inflation, as well as an improvement in the general economic environment.

Figure 1

Grade A office rental index and office occupancy rate



Source: DTZ Research

Ho Chi Minh City Q2 2013

Economic overview

Economic growth slowly improves

After revising GDP growth for Q1 down to 4.76% from the estimated 4.89%, GDP growth for Q2 is estimated at 5.0%, reflecting overall GDP growth for H1 2013 at 4.9%, similar to the 4.93% for H1 2012. As in previous years, GDP growth is often lower in H1 and will gain momentum in later quarters (Figure 2).

Inflation eases

In Q2, the consumer price index (CPI) in Vietnam was relatively stable with year-on-year (y-o-y) growth for April, May and June at 6.61%, 6.36% and 6.69% respectively (Figure 3). For H1, overall CPI growth was 6.73%, in line with the 7% target. The current CPI in Vietnam is a positive indication of economic improvement, according to the General Statistics Office of Vietnam.

Trade deficit widens in H1

According to the latest update from the General Statistics Office, Vietnam recorded a trade deficit of USD200m in June. For H1 2013, trade deficit reached USD1.6bn against a trade deficit of USD585m over the same period in 2012.

FDI increases in H1

As reported by the Ministry of Planning and Investment, FDI into Vietnam reached USD10.5bn in H1 2013 which is a 16% increase against the same period in 2012. Some 554 new projects were registered with USD5.8bn and 217 existing projects with additional capital registration, making y-o-y growths of 3.7% and 35.7% respectively. Japan remains Vietnam's largest foreign investor, followed by Singapore and Russia. FDI is expected to continue to increase as the Vietnamese government has targeted this source of investment to drive forward economic growth.

International visitor numbers rise

The number of international visitors to Vietnam in H1 2013 was 3.54 million, increasing by 2.6% against H1 2012 (decline of 6.2% in Q1 and increase of 13.5% in Q2). The highest proportion of these visitors was tourists. Despite the minor improvement, the volume of tourists to Vietnam is low compared to the rest of the region.

The benchmark interest rate in Vietnam was 7%, according to the State Bank of Vietnam. From 2000 until 2013, interest rate in Vietnam averaged 7.57%, reaching an all-time high of 15% in February 2012 and a record low of 4.8% in August 2000.

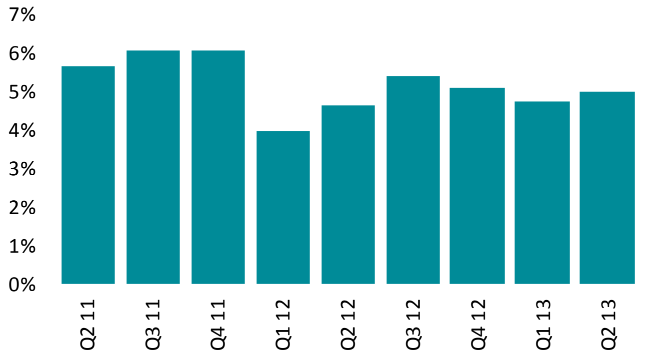
In H1, both lending and borrowing rates declined. Credit growth was up by 3.8%-4.0% in H1 2013, about twice the growth over the same period in 2012.

The decline in interest rates and low inflation will likely have some positive effects for the real estate market, with more transactions in the coming quarters.

The sharp drop of 23% in gold price in late June 2013 had shifted market attention where many investors chose gold over property. The impact is nevertheless considered minor.

Figure 2

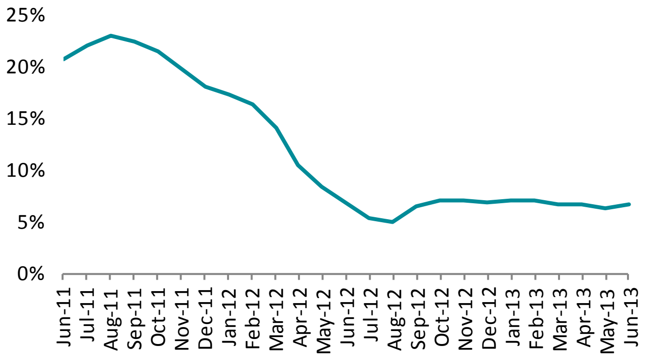
GDP growth (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Figure 3

CPI change (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Office

Supply increases

Office stock at the end of Q2 is estimated at approximately 1.55 million sq m NLA (Figure 4). There was approximately 20,000 sq m and 40,000 sq m of new supply in Q1 and Q2 respectively. Supply from newly completed buildings in Q2 included Lim Tower in District 1 (23,310 sq m), South Building in Tan Binh District (11,900 sq m) and Nguyen Lam Building in District 8 (6,300 sq m).

Demand for office space as reflected by net absorption in Q2 was approximately 8,400 sq m, nearly double that in Q1 at 4,300 sq m. This resulted in a net absorption of 12,700 sq m in H1 2013, much lower compared to 28,700 sq m in H1 2012.

Average occupancy across all grades of offices declined to approximately 81.07% in Q2 2013, from 81.12% in Q1 2013 and 81.2% in Q4 2011. There is approximately 293,000 sq m of office space available across Ho Chi Minh City (HCMC).

Grade A occupancy only increased marginally to 82.37% in Q2 from 82.28% in the previous quarter (Figure 5). Lim Tower, which was completed during the quarter, was reported with occupancy of 60%. While Grade B occupancy improved to 83.0% in Q2 from 81.5% in Q1, Grade C occupancy declined to 78.2% from 80.1% in Q1.

Grade A rents unchanged

Rental rates remained flat in Q2. Overall, grade A rents remained stable for the quarter at USD31.00 per sq m per month while grade B rents declined marginally to USD19.50 from USD19.90 per sq m per month in Q1 and similarly, grade C rents to USD15.70 from USD16.10 per sq m per month in Q1.

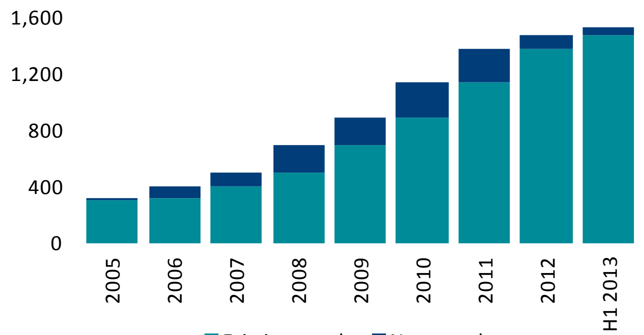
As conditions did not improve significantly, negotiating power was still in the hand of tenants. With office building owners offering various forms of leasing incentives, effective rents were the lowest in recent years with no further declines expected in the short term.

According to development schedules in HCMC, our research shows that an additional 270,000 sq m NLA of office stock is expected in 2013. However, in H1, only approximately 60,000 sq m of new space was completed. We are of the opinion that there would likely be delays in office completions due to challenging market conditions and the new supply of above 200,000 sq m scheduled to complete in H2 may not be realised (Table 1).

Notwithstanding, pipeline supply of new office space in the city is still seen as strong, which may further pressurize the market. Consequently, we do not expect any strong market improvement in the coming quarters.

Figure 4

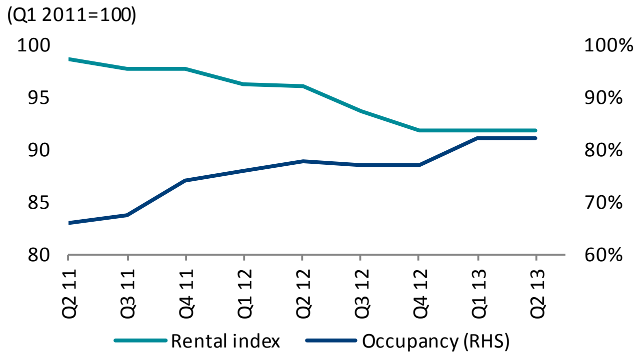
Existing and new office supply (NLA), sq m (000s)



Source: DTZ Research

Figure 5

Grade A office rental index and occupancy rate



Source: DTZ Research

Table 1

Major upcoming office developments

Name of development	District	Est area (GFA, sq m)	Type
Vietcombank Tower	1	77,000	Grade A
Saigon One Tower	1	49,000	Grade A
MB Sunny Tower	1	20,000	Grade B
FOM Tower	1	19,000	Grade B

Source: DTZ Research

Ho Chi Minh City Q2 2013

Retail

Occupancy and rents remained flat

Our research finds no major change in the retail market in Q1 and Q2, with no new completion, opening or ground breaking. Retail supply which is in operation at the end of Q2, remains at around 360,000 sq m NLA (Figure 6).

Besides the operating retail stock, there is approximately 150,000 sq m NLA of retail space at different stages of completion but not yet opened for operation. This includes Times Square in District 1, Sunrise City in District 7 and Vista in District 2.

Our research shows that in recent quarters, Pico Mall Cong Hoa, Tan Binh District was completed in Q1 2013 (32,000 sq m GFA) and Pandora City, Tan Phu District in Q4 2012 (11,000 sq m GFA). These developments are however not considered as retail stock for shopping centres or department stores within our study.

The average retail occupancy rates in HCMC remained flat in Q2 (Figure 7). Department stores in CBD locations were 95% occupied and shopping centres were 89.6% occupied. Retail occupancy remained lower in non-CBD locations when compared with CBD locations.

Retail rents for department stores and shopping centres also remained flat during the quarter at between USD110 and USD115 per sq m per month in the CBD and between USD47 and USD60 per sq m per month for non-CBD areas.

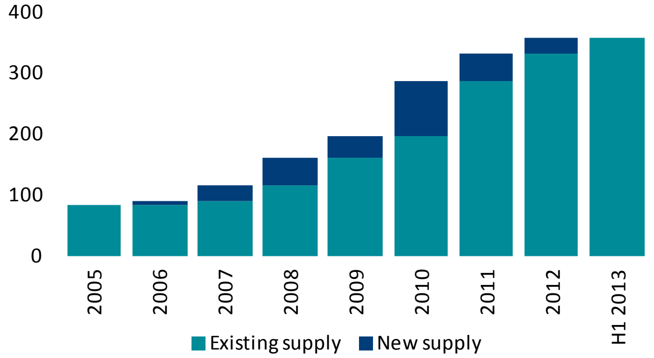
Strong pipeline supply to affect occupancy and rents

Taking into account the future supply of retail stock, if all current developments were completed as scheduled by 2014, more than 700,000 sq m of retail space would be added to the market. This new supply would affect both retail occupancy rates and rents, especially in non-CBD areas where new supply of retail space accounts for 70% of pipeline supply. Some major upcoming retail developments are included in Table 2.

On the other hand, total retail sales of consumer goods and services in H1 2013 rose by 11.7% for Vietnam (it rose by 11.14% for HCMC) from the same period in 2012. Retail sales growth in H1 2013 would be 4.9%, if inflation were excluded, lower than the growth rate of 6.7% in H1 2012. This indicates the decline in purchasing power that will affect the retail property market. Notwithstanding, the retail property market in HCMC is still considered to be more attractive compared to office.

Figure 6

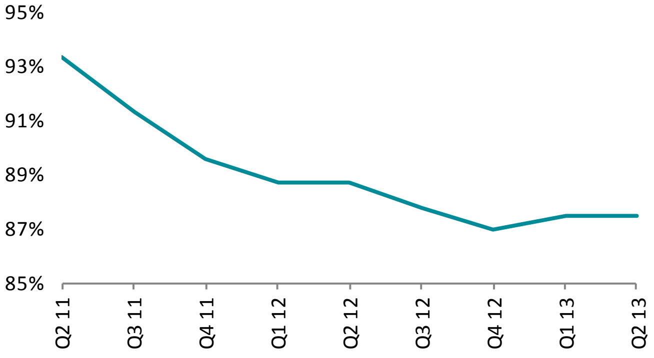
Existing and new retail supply (NLA), sq m (000s)



Source: DTZ Research

Figure 7

Average retail occupancy rate



Source: DTZ Research

Table 2

Major upcoming retail developments

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

Residential

Limited new supply completed with no new ground breaking

The total stock of condominiums in HCMC in Q2 was approximately 67,500 units from 238 completed projects (Figure 8).

New supply was from the completion of five projects in Q2 2013, adding 3,000 units into the market. This new supply includes Tin Phong Apartment in District 12 (408 units); Khang Gia Apartment in Go Vap District (1,052 units); Gold House in Nha Be District (996 units), Dragon Hill in Nha Be District (352 units) and TDH Phuoc Long Phase 2 in District 9 (192 units). There was, however, no ground breaking in Q2.

During the quarter, there was one launch carried out with Homyland 2 Apartment in District 2 by Bao Son Corporation, comprising two blocks with 425 units of between 61 and 110 sq m. As at the end of Q2, the project was reported to be nearly 20% sold with a price range of USD750 – 900 per sq m.

Prices remained flat

In general, residential prices remained at the same level across the market in HCMC. Asking prices in Q2 for affordable apartments 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.

Our market research shows that affordable and mid-end residential properties performed better than the high-end segment. These buyers comprised mainly end-users and fewer investors.

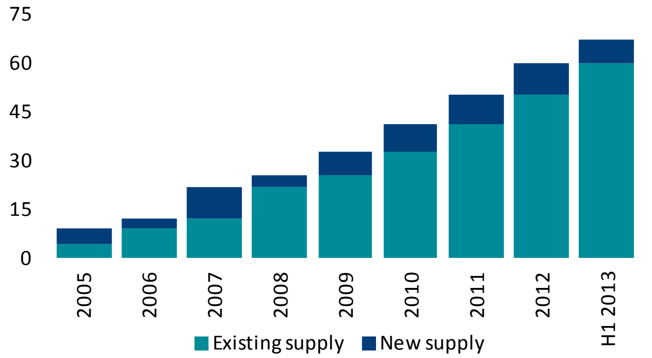
In Q2, the Ministry of Construction announced the implementation of the housing support package of VND30 trillion (equivalent to about USD1.5bn) with a low interest rate of 6% for 10 years. This financial support would enhance the housing purchasing power and have a positive effect for the real estate market in the near future.

In consideration of the future supply, competition will remain intense. If all future projects at the planning stage or under construction are completed as scheduled, approximately 50,000 new units will be completed before end 2015. However, delays in construction are likely to occur due to current challenging market conditions. Table 3 lists some major upcoming developments.

In the short term, the market may experience some improvement in demand once the housing support package is released, together with lower interest rates and inflation. These factors are more likely to benefit the affordable and mid-end segments. The long term is however, still a difficult situation for the residential market with the large volume of pipeline supply.

Figure 8

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 Residences	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).