Property Times
Ho Chi Minh City Q3 2013
Residential market offered fewer discounts

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Contents

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- Economic growth reached 5.14% as at the end of Q3 2013 after the 5.54% improvement during the quarter. Vietnam's GDP growth for 2013 is now forecasted at 5.3%, down from the previous target of 5.5%. Foreign Direct Investments (FDI) continued to improve after a strong growth in Q1 and Q2, but the property sector accounted for only USD588.1m, or 3.9% of pledged FDIs. Trade balance also improved with a smaller USD124m deficit in Q3, compared to the USD1.6bn deficit in Q2. Lending, borrowing and inflation rates were stable and low compared to recent years.

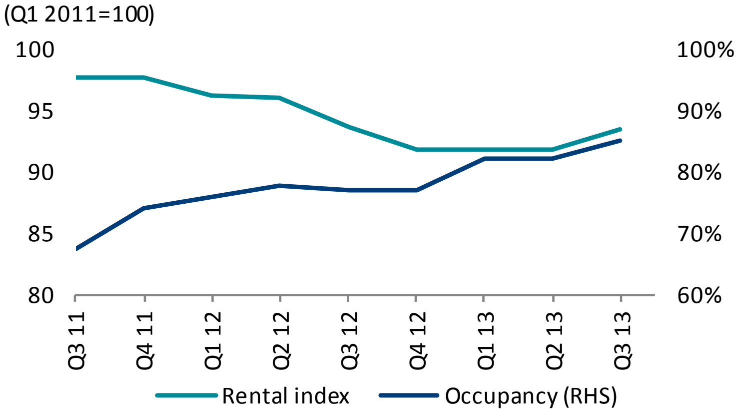
- There was only a small addition to the office stock in Q3 with the completion of two office buildings. Office demand remained low, similar to Q2. While both rent and occupancy rates for Grade A office space showed some increases, the general market conditions for the office sector have not indicated any significant improvement (Figure 1). The high level of pipeline supply will put further pressure on occupancy rates. New office project completions are however expected to be delayed.

- Q3 recorded no completions, openings or ground breaking for retail developments. Both occupancy and rents declined in the quarter. Retail sales of consumer goods and services also fell in Q3 compared to the same period in 2012. The large pipeline supply in 2014 will likely affect occupancy and rents, especially in the non-Central Business District (CBD) locations.

- The residential market witnessed some slight improvements in Q3, and fewer discounts were offered to the market from actively moving projects as purchasing power improved. The affordable housing segment performed better than the high-end segment. With economic growth expected to improve in Q4 with low interest rates and stable inflation, residential demand is projected to increase in the short term.

Figure 1

Grade A office rental index and office occupancy rate



Source: DTZ Research

Ho Chi Minh City Q3 2013

Economic overview

Improvement in economic growth

As announced by Vietnam General Statistics Office (GSO), the country's GDP for the first nine months of 2013 grew by 5.14% compared to 5.10% in 2012. GDP growth for Q1, Q2 and Q3 was 4.76%, 5.0% and 5.54% respectively. As usual, GDP growth for Q4 is expected to be higher. However, while GDP growth for 2013 was targeted at 5.5%, it is now forecasted at 5.3% (Figure 2).

Inflation increases slightly

In Q3, the consumer price index (CPI) in Vietnam increased with the year-on-year (y-o-y) growth for July, August and September at 7.29%, 7.5% and 6.3% respectively (Figure 3). This was slightly higher than the increase of 6.61%, 6.36% and 6.69% in April, May and June respectively. For the first nine months of 2013, CPI growth was 6.83%, in line with the 7% target.

Trade deficit falls in Q3

As reported by GSO, Vietnam had a trade deficit of USD300m in September. For the first nine months of 2013, the trade deficit was only USD124m against a trade deficit of USD1.4bn for H1, however it is high compared to the trade surplus of USD34m over the same period in 2012.

FDI continues to increase in Q3

As at the end of Q3, FDI into Vietnam reached USD15.0bn against USD10.5bn in H1. This was a 36.1% increase against Q3 2012. Some 872 new projects with USD9.3bn were registered, a y-o-y increase of 34.9%, while there were 340 existing projects with additional capital registration of USD5.7bn, a y-o-y growth of 67.6%. Implemented FDI in Vietnam for the first nine months of 2013 reached USD8.6bn, a 6.4% increase against the same period last year.

Japan remains Vietnam's largest foreign investor with registered capital of USD3.7bn (61%), followed by Korea, Hong Kong and Singapore with approximately the same amount of registered capital of USD430m (7%). FDI into the property sector in the first nine months of 2013 was only USD588.1m, or 3.9%, a significant decline from the same period last year (USD1.8bn, or 19% as at the end of Q3 2012).

Increase in international visitor numbers

The number of international visitors to Vietnam in the first three quarters of 2013 was 5.49 million, increasing by 9.9% against the same period last year. 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.

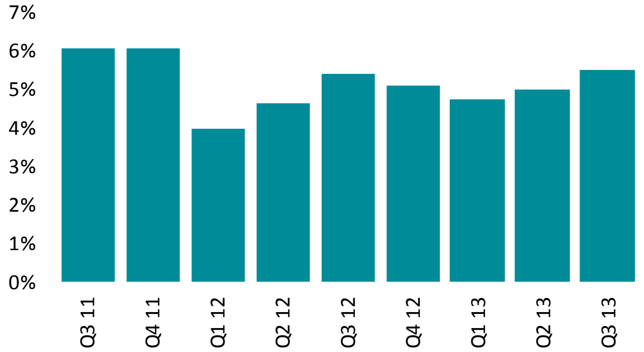
Lending and borrowing rates stable in Q3

The Vietnam benchmark interest rate was 7%, according to the State Bank of Vietnam. Since 2000, the benchmark interest rate has averaged 7.56% with the highest at 15% in February 2012 and the lowest at 4.8% in August 2000.

In Q3, lending and borrowing rates were stable and in line with previous quarters, which are low compared to recent years. Inflation was also not a major issue in the current economy while the real estate market has seen some small changes with fewer discounts offered in residential projects.

Figure 2

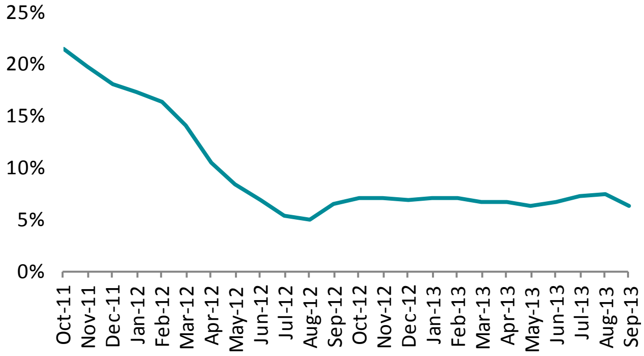
GDP growth (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Figure 3

CPI change (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

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Office

Weak supply

Office stock at the end of Q3 is estimated at approximately 1.55 million sq m NLA (Figure 4). Only 3,760 sq m NLA of office space was completed in Q3, compared to 20,000 sq m in Q1 and 40,000 sq m in Q2. Newly completed buildings in Q3 included Yen Phung Building in District 3 with 1,800 sq m NLA and a Grade C office building on Dien Bien Phu Street, Binh Thanh District with 1,980 sq m NLA. Of the two newly-completed Grade C office buildings, one was reported to be in early-stage leasing with low occupancy while the other is being converted to school uses.

Demand for office space in Q3 was approximately 8,800 sq m, about the same as it was in Q2. Demand has remained stable over the past six months. This resulted in net absorption of 21,500 sq m in the first three quarters of 2013, much lower compared to 58,300 sq m in the same period of 2012.

Due to the very limited new supply in Q3, average occupancy across all office grades increased slightly to approximately 81.45% from 81.07% in Q2. There are about 340,000 sq m of office space currently available for lease across Ho Chi Minh City (HCMC).

While occupancy of Grade A offices improved to 85.09% in Q3 from 82.37% in Q2, occupancy of Grade B and Grade C offices remained stable in line with the previous quarter at 83.0% and 78.2% respectively (Figure 5).

Grade A office rents rise while Grade C rents decline

Rental rates moved differently across the different grades of office space in Q3. Grade A rents experienced some increase in Q3 to USD31.56 per sq m per month from USD31.00 per sq m per month in Q2. Meanwhile, grade B rents remained stable at USD19.50 per sq m per month and Grade C rents declined to USD15.10 per sq m per month from USD15.70 per sq m per month in Q2.

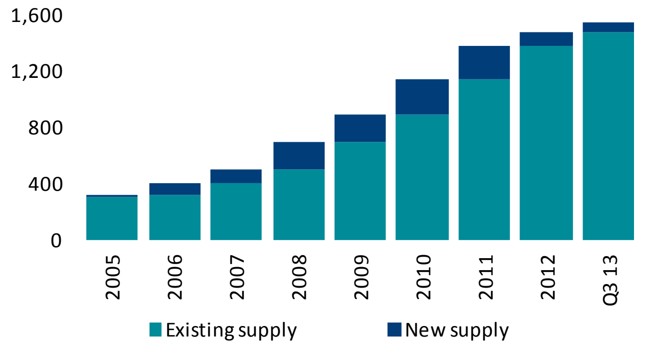
Despite the slight improvement in the rental rate and the occupancy rate of Grade A offices, the overall market still faces headwinds where the negotiating power remains with tenants. Leasing incentives were applied in various forms, lowering effective rents. However, no further declines in effective rents are expected in the short term.

According to development schedules in HCMC, over 200,000 sq m NLA of office space is expected to be completed in 2013. As at the end of Q3, only 65,500 sq m of new office space has been completed. It is observed that many office development projects are behind their construction schedules and delays in office completions are inevitable in Q4.

Notwithstanding, the pipeline supply of new office space in the city is still seen as strong, which may put further pressure on the market. Some of the major office development projects are listed in the Table 1. Consequently, we do not expect any strong market improvement in the coming quarters.

Figure 4

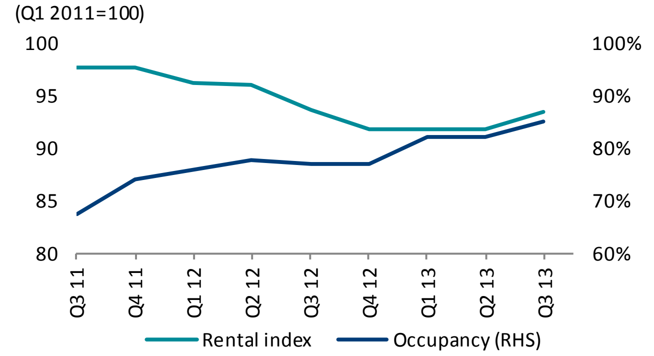
Existing and new office supply (NLA), sq m (000s)



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
The One HCMC	1	58,000	Grade A
Saigon Center Phase 2	1	40,000	Grade A
FOM Tower	1	19,000	Grade A
Vietin Bank Tower	1	29,000	Grade B

Source: DTZ Research

Retail

Declines in occupancy and rents

There was no major change in retail stock in the first three quarters of 2013, with no new completions, openings or ground breaking. Retail supply which is in operation at the end of Q3 remains at around 360,000 sq m NLA (Figure 6).

Besides the operating retail stock, (excluding Pico Mall Cong Hoa and Pandora City from the list as they are not considered as retail stock for shopping centres or department stores within our study) there are still approximately 150,000 sq m NLA of retail space at different stages of completion but not yet operational. This includes Times Square in District 1, Sunrise City in District 7, Vista in District 2 and Aeon Mall in Tan Phu District. We noted that some minor parts of these malls have opened and are used for some special purposes such as banks, cafés or convenience stores, but the whole developments are not yet considered open.

The average retail occupancy rate in HCMC declined to 83.3% in Q3 from 87.5% in Q2 (Figure 7). Department stores in CBD locations were 93.7% occupied and shopping centres were 81.0% occupied, compared to the occupancy rates of 95.0% and 89.6% respectively in the previous quarter. Retail occupancy remained lower in non-CBD locations when compared with CBD locations.

Retail rents for department stores and shopping centres in the CBD also declined during the quarter to the range of between USD100 and USD113 per sq m per month (from USD110 - USD115 per sq m per month in Q2); and in the non-CBD areas to the range of between USD43 and USD56 per sq m per month (from USD47 - USD60 per sq m per month in Q2).

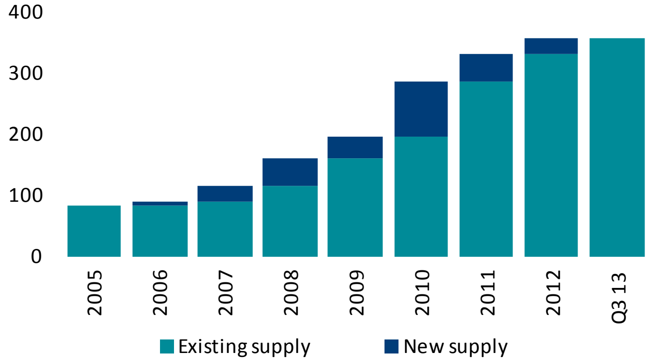
Strong pipeline supply to affect occupancy and rents

Going forward, there is a strong supply pipeline of retail space. If all current developments were completed as scheduled, more than 700,000 sq m of retail space would be added to the market by 2015. 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 the pipeline supply. Some major upcoming retail developments are included in Table 2.

As reported by GSO, total retail sales of consumer goods and services in Vietnam in the first nine months of 2013 rose by 12.5%, lower than the growth rate of 17.3% in the same period of 2012. Similarly, total retail sales of consumer goods and services of HCMC rose by 12.2% in the first nine months of 2013, but this was lower than the growth rate of 17.8% in the same period of 2012. The decline in purchasing power will directly affect the retail property market. However, the retail property market in HCMC is still considered to be more attractive compared to the office market.

Figure 6

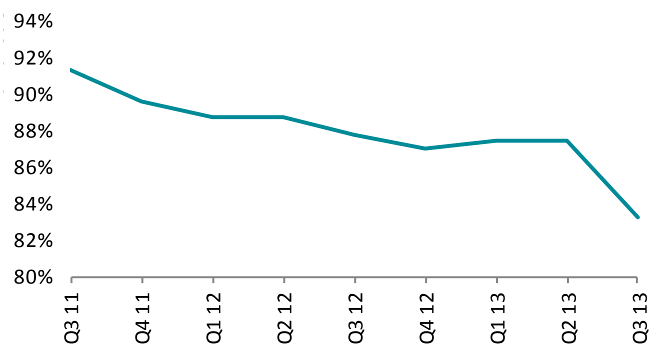
Existing and new retail supply (NLA), sq m (000s)



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
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

Source: DTZ Research

Residential

High number of completions and new ground breakings

The total stock of condominiums in HCMC in Q3 was approximately 72,000 units from 249 completed projects (Figure 8).

Eleven projects were completed in Q3, adding 4,503 units to the market, of which Duc Khai – The Era Town, Area B in District 7, by Duc Khai JSC was the largest development with 1,268 units while other projects comprised between 151 and 490 units.

In Q3, three new ground breakings were reported. This comprised Sunview 4 in Go Vap District by Thien Loc JSC, Ehome 3 (phase 2) in Binh Tan District by Nam Long Group and Sun View Town in Thu Duc District by Dat Xanh Group. These projects are expected to provide 3,006 affordable apartment units in approximately two years.

Two projects were launched in Q3. Ehome 3 (phase 2) in Binh Tan District by Nam Long Group offered 392 units at block A3 and A4 of sizes 50 sq m – 66 sq m. Phuc Yen (phase 2) in Tan Binh District by Phuc Yen JSC offered 298 units of sizes 80 sq m – 133 sq m. Both projects have selling prices of USD650 – 800 per sq m and as at the end of Q3, both projects were reported to be approximately 30% sold.

Fewer discounts offered to market

For the first three quarters of 2013, 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 general, residential prices remained at the same level across different segments in HCMC. Asking prices in Q3 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.

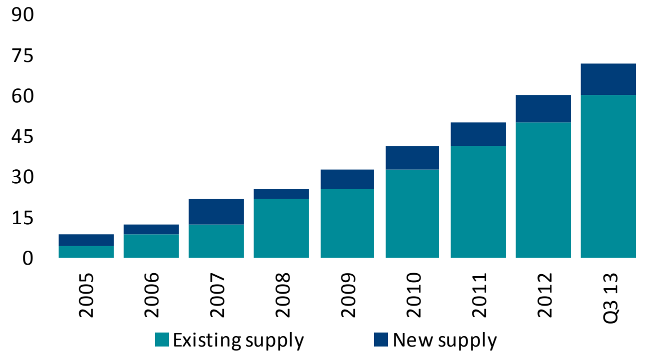
It is however noted that in Q3, the residential market saw some reductions in discounts offered by projects in the midst of sales and projects which are close to completion or hand-over stages. This indicates that the residential market may soon warm up where actively moving projects could gain more attention and confidence of consumers. Purchasing power could start improving against the backdrop of the low and stable borrowing and inflation rates.

On the other hand, future supply is still forecasted to be strong. 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 2016. However, delays in construction are likely to occur due to the current challenging market conditions. Table 3 lists some major upcoming developments.

As economic growth is expected to increase strongly in Q4, and interest rates and inflation are forecasted to remain low, residential demand is projected to increase in the short term, especially in the affordable and mid-end segments. In the long term, however, it may be more challenging for developers due to the high level 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
Tropic Garden	2	1,000
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
Celadon City	Tan Phu	8,577
Happy Valley	Phu My Hung	818

Source: DTZ Research