Property Times
Ho Chi Minh City Q4 2013
Office market showed some improvement

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Contents

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- Economic growth in Vietnam reached 5.42% for 2013 after the 6.04% improvement in Q4 (year-on-year). Foreign direct investments (FDI) increased during the year, but the property sector was not on the list of major FDIs. The trade balance also continued to improve with an USD863m surplus for 2013. Lending, borrowing and inflation rates were stable and low compared to recent years.

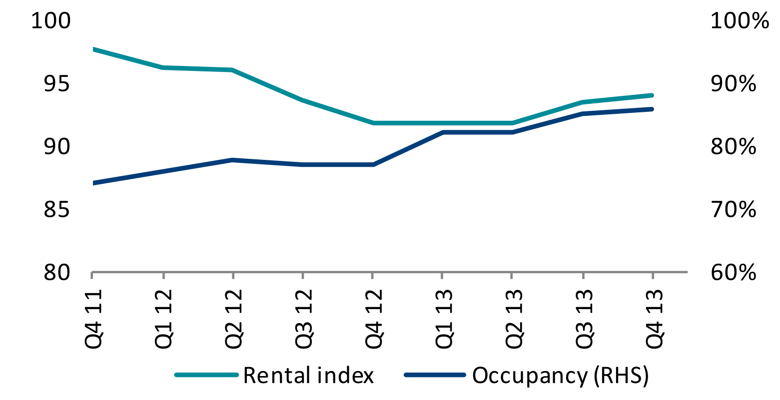
- New supply of office stock was limited in Q4 as some expected completions were delayed to early 2014. Office demand recorded some improvement within the quarter with net absorption equivalent to the total of the first three quarters of the year. Both rent and occupancy rates for Grade A office space registered some increases (Figure 1). Although the high level of pipeline supply will create new challenges, future demand is expected to improve in the coming quarters.

- While there was no new ground breaking for retail developments, the opening of Parkson Cantavil Premier Shopping Centre in District 2 and Aeon Mall in Tan Phu District has drawn the attention of consumers to the non-Central Business District (CBD) locations. The closure of some retail shops and the new supply has affected both occupancy and rental rates. In addition, the growth in retail sales of consumer goods and services also fell in 2013 compared to 2012.

- The residential market saw more improvements in Q4 with low interest rates and stable inflation. Small units and the affordable housing segment performed better than the larger units or high-end segment. Projects close to completion or hand-over stages provided higher confidence to consumers and resulted in higher transaction volume.

Figure 1

Grade A office rental index and office occupancy rate



Source: DTZ Research

Ho Chi Minh City Q4 2013

Economic overview

Improvement in economic growth

According to the Vietnam General Statistics Office (GSO), the country's GDP grew by 5.42% in 2013 compared to 5.25% in 2012. This was close to the original GDP growth target of 5.50% at the beginning of 2013, and higher than the revised forecast of 5.30% as at the end of Q2 (Figure 2).

Lower inflation in 2013

In Q4, the consumer price index (CPI) in Vietnam increased with year-on-year (y-o-y) growth for October, November and December at 5.92%, 5.78 and 6.04% respectively (Figure 3). For 2013 as a whole, inflation came in at 6.60%, significantly lower than the 9.21% growth in 2012. It was also lower than the 2013 target of 7.0%, and reported to be the lowest inflation rate within the past 10 years in Vietnam.

Trade surplus in Q4

As reported by GSO, Vietnam had a trade surplus of USD100m in December. For 2013, the trade surplus reached USD863m, compared to the trade surplus of USD284m in 2012.

FDI continued to increase in Q4

As at the end of 2013, registered FDI into Vietnam reached USD21.6bn, a 54.5% year-on-year (y-o-y) increase. Some 1,275 new projects with USD14.3bn were registered, a y-o-y increase of 70.3%, while there were 772 existing projects with additional capital registration of USD7.3bn, a y-o-y growth of 30.8%. Realised FDI in Vietnam for 2013 reached USD11.5bn, a 9.9% increase from 2012.

Korea was the largest investor in Vietnam in 2013 with registered capital of USD3.8bn (26.3%), followed by Singapore (21.1%), China (16.0%) and Japan (9.1%). However, the property sector was not among the list of major sectors that attracted FDI in 2013.

Increase in international visitor numbers

The number of international visitors to Vietnam in 2013 was 7.57 million, increasing by 12.2% against the same period in 2012. The largest proportion, or 61.3%, of these international arrivals were tourists.

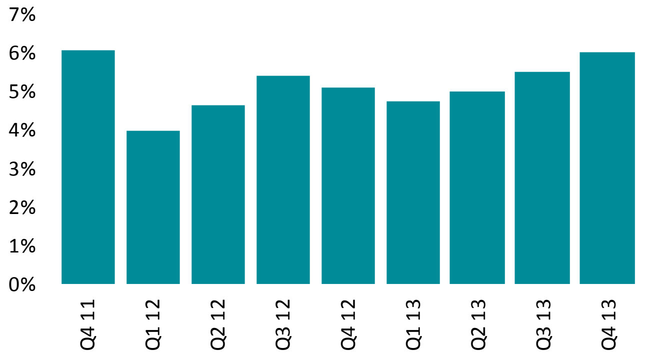
Lending and borrowing rates stable in Q4

The Vietnam benchmark interest rate remained at 7%, according to the State Bank of Vietnam. This rate had been stable during H2 2013 and lower compared to 10% in H2 2012.

In Q4, lending and borrowing rates continued to be stable and in line with previous quarters, which are low compared to recent years. Inflation was kept under 7% as planned and the real estate market has seen some improvement in take-up rates, especially in the affordable residential segment.

Figure 2

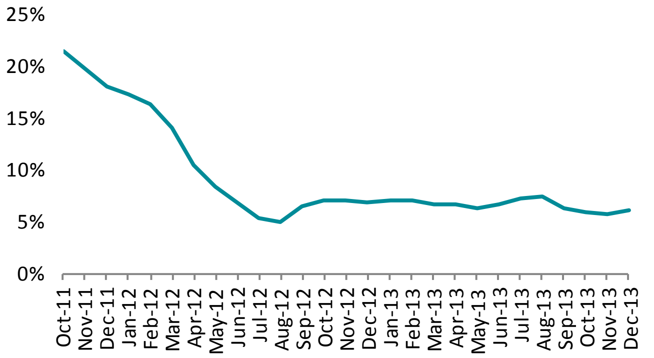
GDP growth (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Figure 3

CPI change (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Office

Limited supply

Office stock at the end of 2013 was estimated at approximately 1.56 million sq m NLA (Figure 4). Only 7,100 sq m NLA of office space was completed in Q4, bringing new supply in H2 to 10,860 sq m, significantly lower compared to 60,000 sq m in H1. Newly completed buildings in Q4 included three grade C office buildings, of which two are located on Nguyen Binh Khiem Street, District 1 and one is located on Xo Viet Nghe Tinh Street, Binh Thanh District. These new office buildings are currently experiencing low occupancy as leasing has just commenced.

Demand for office space in Q4 was approximately 20,500 sq m, nearly equal to the total demand of the first three quarters of 2013. This resulted in net absorption of 42,000 sq m in 2013. Despite the improvement in Q4, demand for office space in 2013 was much lower compared to nearly 70,000 sq m in 2012.

Due to the very limited new supply in Q3 and Q4, average occupancy across all office grades increased to approximately 81.33% in Q4 from 81.15% in Q3 and 81.07% in Q2. There is about 300,000 sq m of office space currently available for lease across Ho Chi Minh City (HCMC).

The occupancy of Grade A offices improved to 85.76% in Q4 from 85.09% in Q3 while occupancy of Grade C offices increased strongly from 78.2% in Q3 to 80.4% in Q4. In contrast, the occupancy of Grade B offices declined to 80.7% from 83.0% in Q3 (Figure 5).

Grade A office rents rise while Grade C rents decline

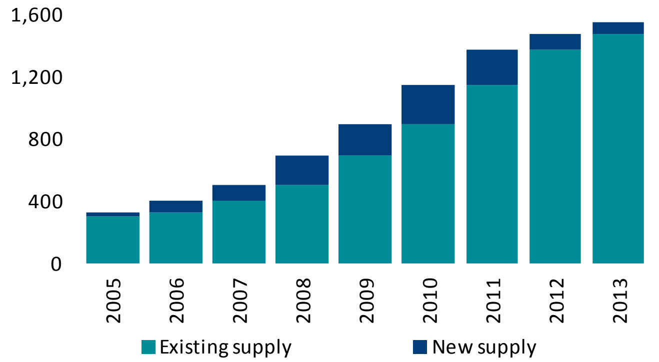
Rental rates moved differently across the different grades of office space in Q4. Grade A rents experienced a slight increase to USD31.72 per sq m per month from USD31.56 per sq m per month in Q3. Similarly, grade B rents increased to USD19.69 per sq m per month from USD19.50 per sq m per month while Grade C rents declined to USD14.89 per sq m per month from USD15.10 per sq m per month in Q3.

The overall market however still faces challenges where the negotiating power remains with the tenants. Leasing incentives continued to be applied in various forms, lowering effective rents.

Due to some delays in office completions in Q3 and Q4 2013, new supply in early 2014 is expected to be intense. According to adjusted development schedules in HCMC, nearly 300,000 sq m NLA of office space is expected to be completed in 2014 (Table 1). This strong pipeline supply of new office space in the city will put further pressure on the market. However, it is expected that demand will also improve in the coming quarters, in line with an expected improvement in economic sentiment.

Figure 4

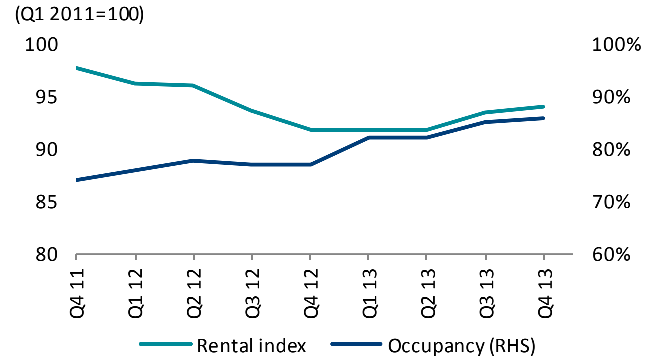
Existing and new office supply (NLA), sq m (000s)



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

Significant decline in occupancy and rents

There was no new ground breaking in Q4. Two new malls opened: Parkson Cantavil Premier Shopping Centre in District 2 with 18,000 sq m NLA and Aeon Mall in Tan Phu District with 47,000 sq m NLA. The new openings have gained consumers' attention. The total stock of operating department stores and shopping centres considered as retail supply as at the end of 2013 was approximately 425,000 sq m NLA (Figure 6).

Besides the operating retail stock, there are still nearly 100,000 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. These developments are yet to be fully open for operations even though some small shops have opened.

The average retail occupancy rate in HCMC dropped significantly to 77.4% in Q4 from 83.3% in Q3, due in part to the closure of some retail shops and demand was not able to increase sufficiently to absorb the new supply that was completed (Figure 7). Department stores in CBD locations were 90.0% occupied and shopping centres were 74.2% occupied in Q4, compared to the occupancy rates of 93.7% and 81.0% respectively in the previous quarter. Our findings shows that retail occupancy remained lower in non-CBD locations when compared with CBD locations. We also note that the introduction of new retail supply as more effects to occupancy of shopping centre compared to department stores.

Along with the declines in occupancy rates, retail rents for department stores and shopping centres in the CBD also declined during Q4 to the range of USD85 and USD110 per sq m per month (from USD110 - USD113 per sq m per month in Q3). In non-CBD areas, retail rents for department stores and shopping centres fell to USD40 – USD53 per sq m per month (from USD43 – USD56 per sq m per month in Q3).

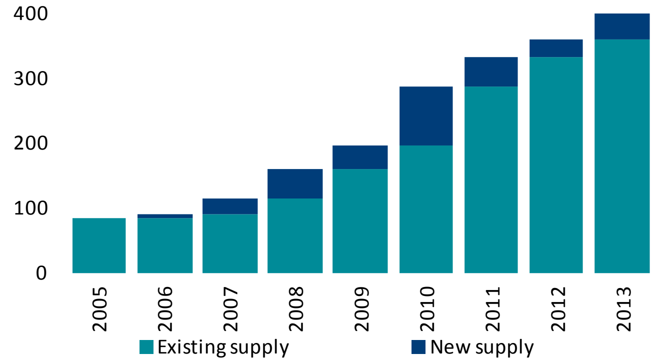
Strong pipeline supply

Going forward, there is a strong supply pipeline of retail space. If all current developments are completed as scheduled, more than 600,000 sq m of retail space will be added to the market by 2015 (Table 2). This new supply could negatively impact both retail occupancy rates and rents, especially in non-CBD areas where new supply of retail space accounts for 70% of the pipeline supply.

As reported by the GSO, total retail sales of consumer goods and services in HCMC rose by 12.6% for 2013, but this was lower compared to the 15.7% growth in 2012. The decline in purchasing power has directly affected the retail property market as evidenced by the slowdown in leasing activity.

Figure 6

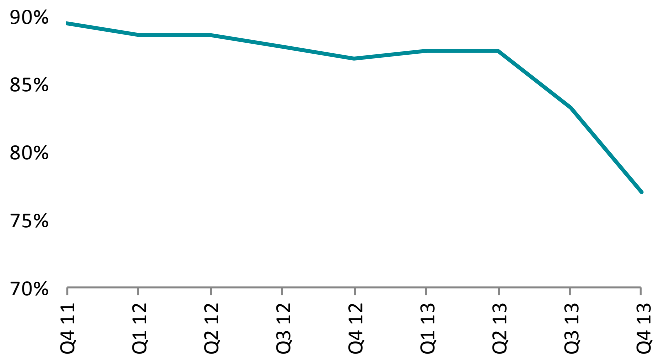
Existing and new retail supply (NLA), sq m (000s)



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
Thao Dien Pearl	2	20,000	Retail Podium
SC Vivocity	7	72,000	Shopping Centre

Source: DTZ Research

Ho Chi Minh City Q4 2013

Residential

Large number of completions

The total stock of condominiums in HCMC as at the end of 2013 was approximately 74,500 units from 257 completed projects (Figure 8).

Following the completion of eleven projects, adding 4,503 units to the market in Q3, there were eight completions in Q4 with 2,500 new units. The largest development was The Eastern in District 9, by Hung Viet Company with 648 units, followed by Thao Dien Pearl in District 2 by SSG (488 units) and Carillon Apartment in Tan Binh District by Sacomreal – Tien Phat Garment JSC (440 units) while other projects comprised between 83 and 318 units.

In Q4, three new ground breakings were reported. This comprised Lexington Residence in District 2 by Nova Land; First Home HCMC in District 12 An Phu - NHO JSC; and Linh Trung Apartment in Thu Duc District by Saigon Land JSC. These projects are expected to provide 2,037 apartment units in approximately two years.

In comparison with previous quarters, the number of launches in Q4 was higher, with five projects launched. Mid-end launches included Lexington Residence in District 2 and Sunny Plaza in Go Vap District, offering 485 units of sizes 48.5 – 200 sq m with prices in the range of USD950–1,300 per sq m.

Affordable launches included Sunview Town and Linh Trung Apartment in Thu Duc District and Dam Sen Apartment in Tan Phu District, offering 932 units of sizes 40 – 109 sq m with prices in the range of USD550–740 per sq m.

Higher transaction volumes

According to VNExpress, transaction volume had shown some improvement towards the end of 2013. In particular, the sales in H2 were double that in H1.

Our findings showed that affordable and mid-end residential properties continued to perform better than the high-end segment. These buyers comprised mainly end-users and fewer investors.

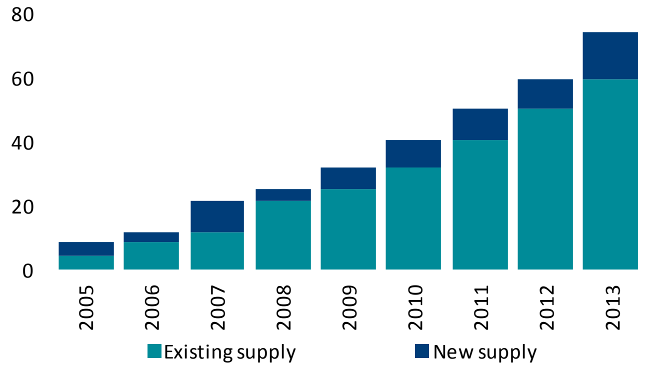
In general, residential prices remained at the same level across different segments in HCMC. Asking prices in Q4 for affordable apartments ranged from USD500 to USD950 per sq m and from USD950 to USD1,700 per sq m for mid-end units. High-end condominium prices ranged upwards of USD1,700 per sq m.

The residential market at the end of 2013 saw high take-up rates for projects which were close to completion or at the hand-over stages. Smaller-sized apartment units sold better compared to the larger ones. The residential market is expected to improve in the coming quarters as purchasing power may increase against the backdrop of the low and stable borrowing and inflation rates.

In the near future, residential supply is still forecasted to be strong. If all pipeline projects at the planning stage or under construction are completed as scheduled, approximately 50,000 new units will be completed before the end of 2016 (Table 3). However, delays in construction are likely to occur as the market is yet to recover.

Figure 8

Existing and new condominium supply, units (000s)



Source: DTZ Research

Table 3

Major upcoming condominium developments

Name of development	District	Units
Lexington Residence	2	1,310
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
The Park Residence	Nha Be	1,172
Happy Valley	Phu My Hung	818

Source: DTZ Research