

# Property Times

## Ho Chi Minh City Q2 2014

### Residential improves while commercial sector remains weak

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- Vietnam's economy continued to grow at a healthy pace, with GDP expanding by 5.3% in Q2. For H1, Vietnam's economy has grown 5.2%. Inflation in Q2 remained the same as the previous quarter at 4.8%, the lowest in the past 10 years while lending and borrowing rates were stable. The trade balance remained positive with a trade surplus of USD1.3bn in H1 2014. Foreign Direct Investments (FDI) also improved slightly with USD6.9bn committed over the first half of the year.

- The office market remained quiet in Q2, with only 22,900 sq m (NLA) of office space completed. Average office occupancy rates improved slightly for Grade A offices but declined for Grade B and Grade C offices (Figure 1). The market remains difficult for landlords, with tenants having stronger negotiation power. Office demand is expected to stay flat if economic conditions do not improve strongly in the short term.

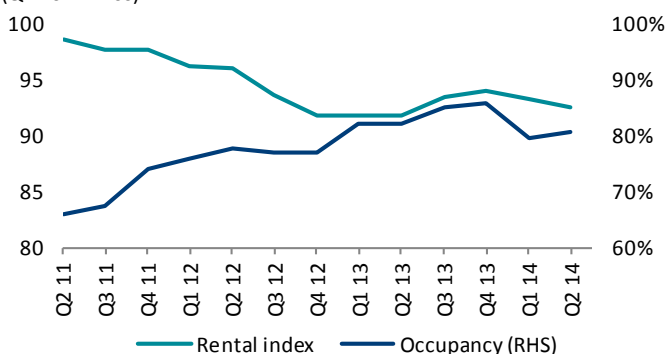
- During Q2, total retail supply in Ho Chi Minh City (HCMC) remained unchanged quarter-on-quarter (q-o-q) at 425,000 sq m (NLA), with nearly 100,000 sq m of space yet to be fully open. No new ground breaking or completion for retail developments took place in H1. With no increase in demand for retail space, retail rents and occupancy rates decreased further in Q2. The annual growth in retail sales of consumer goods and services in H1 was also lower compared against the same period last year.

- Only around 1,400 apartment units were completed in Q2, compared to the completion of nearly 3,000 units in Q1. On the back of low and stable interest rates and inflation, residential launches in Q2 saw positive response with strong take-up rates. This strong take-up in the residential market is expected to continue in the coming quarters if inflation and interest rates remain at current levels. However, competition for buyers will intensify with a strong pipeline of supply. An additional 45,000 new residential units are scheduled for completion by 2016, although delays in construction may lead to longer project delivery times.

Figure 1

#### Grade A office rental index and office occupancy rate

(Q1 2011=100)



Source: DTZ Research

# Ho Chi Minh City Q2 2014

## Economic overview

### Economy continued to grow strongly in Q2

According to the Vietnam General Statistics Office (GSO), Vietnam's GDP grew by about 5.3% year-on-year (y-o-y) in Q2 compared to 5.1% in Q1 (Figure 2). This brought GDP growth in H1 to 5.2%. For the whole of 2014, Vietnam has targeted GDP growth of 5.8%.

### Inflation rose slightly

In Q2, the Vietnam Consumer Price Index (CPI) increased with y-o-y growth of 4.5%, 4.7% and 5.0% respectively in April, May and June (Figure 3). For H1 as a whole, inflation stood at 4.8%, the same level as at Q1. For 2014, Vietnam has targeted an inflation rate of 7.0%, compared to the 6.6% recorded in 2013.

### Trade surplus increased further

The USD1.0bn trade surplus in Q1 2014 was already higher than the total trade surplus of USD863m and USD284m respectively in 2013 and 2012. Vietnam continued to have a trade surplus of USD0.3bn in Q2, bringing the total trade surplus to USD1.3bn in the first half of the year. Exports reached USD70.9bn in H1 2014, a 14.9% increase against H1 2013, while imports totalled USD69.6bn, registering y-o-y growth of 11.0%.

### FDI improved slightly

After a significant decline in FDI in Q1 with only 252 new projects worth USD2.1bn, 404 new projects totalling USD2.8bn were added in Q2. This brought the amount of new FDI for H1 to USD4.9bn, from a total of 656 projects. However, this represented a y-o-y decrease of 6.8% in registered capital from new projects compared to H1 2013. Meanwhile, there was an increase in FDI of USD2.0bn from 219 existing projects. Overall FDI for the first half of 2014 therefore amounted to USD6.9bn.

Realised FDI in Vietnam reached USD5.8bn in H1, a y-o-y increase of 0.9%. Approximately 70.2% of the realised FDI in H1 was distributed to the manufacturing sector, 10.1% to the property sector and 19.7% to other sectors.

In H1, Korea remained the largest investor in Vietnam with registered capital of USD1.1bn (23.5%), followed by Hong Kong (17.9%) and Singapore (11.5%). HCMC attracted the highest FDI with USD796.3m (16.4%), followed by Quang Ninh Province (11.7%) and Hai Phong City (9.9%).

### Decline in international arrivals in June

The number of international visitors to Vietnam in H1 was 4.3 million, increasing by 21.1% against the same period in 2013. The majority, or 60.4%, of these international arrivals

in H1 were visiting Vietnam for leisure and holiday purposes. However, in June 2014, Vietnam only received 0.5 million international arrivals, a 19.9% decrease against the number of visitors in May. This was also the lowest monthly number of international visitors in the first six months of 2014.

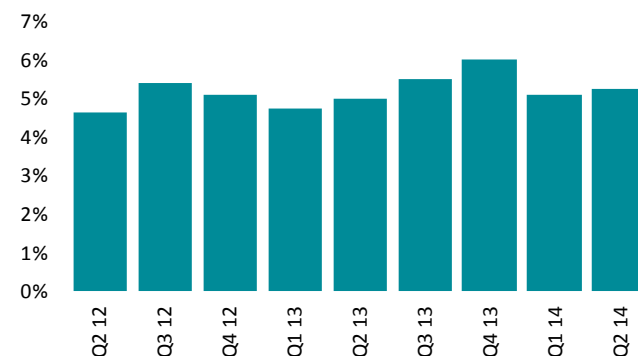
### Lending and borrowing rates stable in Q2

According to the State Bank of Vietnam, the benchmark interest rate remained at 6.5% at the end of Q2, similar to that at the end of Q1.

Lending and borrowing rates also remained stable in Q2 in comparison to the previous quarter. In view of these stable lending and borrowing rates, and with inflation under control, purchasing power has improved.

Figure 2

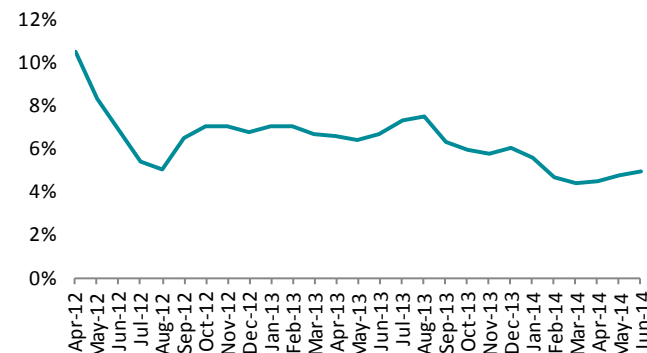
### GDP growth (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

Figure 3

### CPI change (y-o-y)



Source: General Statistics Office of Vietnam, DTZ Research

# Ho Chi Minh City Q2 2014

## Office

### Thin supply in Q2

At the end of Q2, office stock in HCMC was estimated at slightly above 1.6 million sq m (NLA) (Figure 4). During the quarter, only two office developments were completed, adding 22,900 sq m (NLA) of office space. This comprised Samco Tower in District 1 with 11,900 sq m (NLA) and Lottery Tower in District 5 with 11,000 sq m (NLA). While Lottery Tower was still in the early stages of leasing, Samco Tower was reportedly 80% committed.

Demand for office space in Q2 was approximately 16,300 sq m (NLA) compared to 24,000 sq m in Q1. In comparison to previous quarters, the low level of net absorption in Q2 presents a reflection of the current challenging market conditions.

The average occupancy rate across all office grades in Q2 declined slightly to 78.8% from 79.0% in Q1. There is about 340,000 sq m of office space currently available for lease across the city.

During the quarter, occupancy of Grade A offices improved slightly to 80.9% from 79.5% in Q1 (Figure 5). In contrast, the occupancy of Grade B and Grade C offices decreased to 80.1% and 78.5% respectively from 81.7% and 80.0% in Q1. Some tenants moved from Grade B offices to Grade A offices, taking advantage of rental discounts on offer.

### Office rents moved in different directions

After slight decreases in office rents for all grades in Q1, office rents moved in different directions in Q2. Average Grade A and Grade C rents decreased in Q2, while average Grade B rents saw a marginal increase. Average Grade A rents decreased to USD31.25 per sq m per month in Q2 from USD31.50 per sq m per month in Q1 and average Grade C rents declined to USD14.17 per sq m per month from USD14.51 per sq m per month in Q1.

Meanwhile, average Grade B rents increased to USD19.85 per sq m per month in Q2 from USD19.62 per sq m per month in Q1. Positive rental reversions in some buildings, with existing tenants asked to renew leases at higher market rents, could have contributed to the overall increase in average Grade B rents.

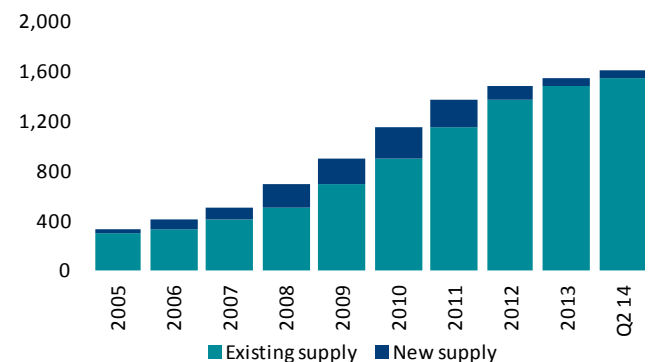
Overall, there was no significant improvement in the office market in Q2. Demand remains limited and the market continues to move in favour of tenants who currently hold stronger negotiating power. Leasing incentives continue to be applied in various forms, lowering effective rents.

According to development plans in HCMC, an additional 300,000 sq m (NLA) of office space is expected to be

completed by 2015 (Table 1). This strong future supply will put further pressure on the office market. We are, however, of the opinion that some delays will likely occur due to the current challenging market situation and the limited financial resources of some developers to complete construction. Therefore, the future supply may not be completed on time as planned.

Figure 4

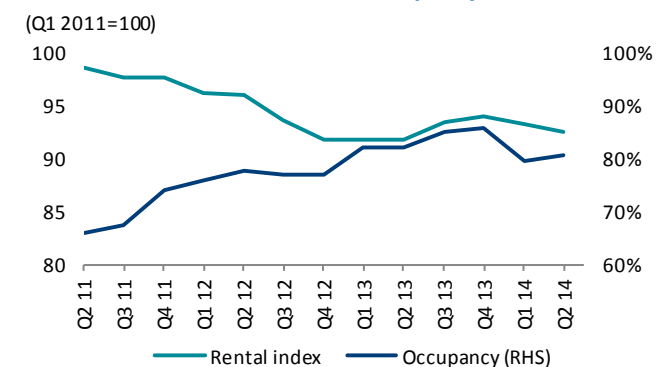
### Existing and new office supply (NLA), sq m (000s)



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

# Ho Chi Minh City Q2 2014

## Retail

### Limited performance in retail market

The retail market in HCMC has remained quiet so far for 2014. The total supply of operating department stores and shopping centres, considered as retail stock, remained the same as at the end of 2013 at approximately 425,000 sq m (NLA) (Figure 6). No new ground breaking or completion of retail projects took place in H1.

Similar to our previous reports, besides the operating retail stock, there is 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, and Thao Dien Pearl in District 2. These developments are yet to be fully open for operations.

After some declining in early 2014, the average retail occupancy rate in HCMC decreased further to 75.4% in Q2 from 76.2% in Q1, with some small retail shops closing down (Figure 7).

In the Central Business District (CBD) areas, department stores were 87.5% occupied and shopping centres were 73.5% occupied in Q2, compared to the occupancy rates of 89.2% and 73.8% respectively in Q1.

In line with the occupancy movements, retail rents in HCMC also decreased in Q2. Rental ranges for department stores and shopping centres remained the same as the previous quarter at USD83-100 per sq m per month for CBD locations and USD38-50 per sq m per month for non-CBD locations. However, average monthly rent declined by approximately 3% q-o-q to USD85.70 and USD 39.80 per sq m per month respectively for CBD and non-CBD locations.

### Strong future supply

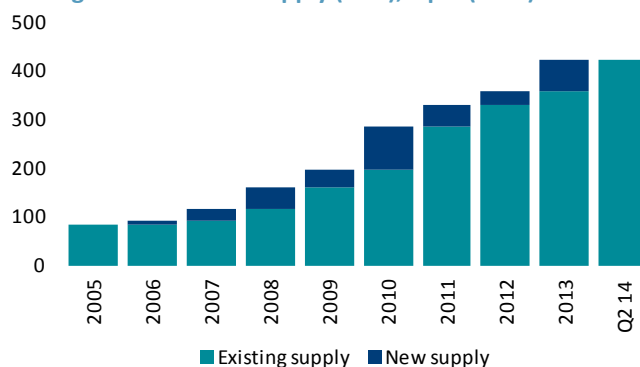
If all future projects at planning stage or under construction are completed as scheduled, an additional 500,000 sq m GFA (or 300,000 sq m NLA) of retail space will be added to the market by 2016 (Table 2). Approximately 70% of this pipeline supply will be located in non-CBD locations. With no improvement in retail demand, this strong future supply is likely to create more intense competition that may further downwardly affect occupancy and rental rates.

Furthermore, according to the GSO, total retail sales of consumer goods and services in Vietnam in H1 2014 rose by only 10.7% y-o-y compared to 11.9% in H1 2013 and 19.5% in H1 2012. After accounting for inflation, the real growth of the retail sales of consumer goods and services was estimated at only 5.7% for H1 2014. The deceleration in

retail sales growth also indicates that some slowdown in retail demand could be expected in the coming quarters.

Figure 6

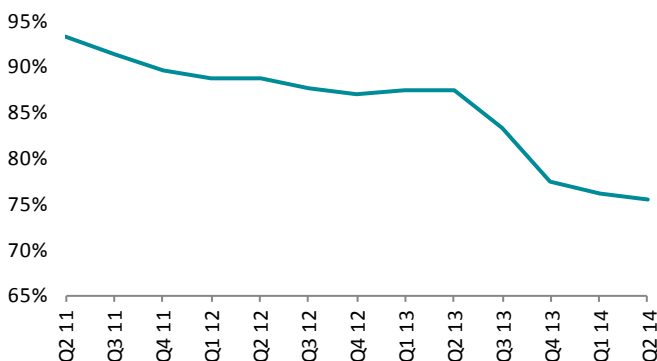
### Existing and new retail supply (NLA), sq m (000s)



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
SSG Tower	Binh Thanh	17,950	Retail Podium
Saigon One Tower	1	10,000	Retail Podium
Riviera Point	7	85,110	Shopping Centre
SC Vivocity	7	72,000	Shopping Centre

Source: DTZ Research

# Ho Chi Minh City Q2 2014

## Residential

### Minor supply added in Q2

The total stock of condominiums in HCMC as at the end of Q2 was approximately 78,800 units from 266 completed projects (Figure 8).

After nearly 3,000 new apartment units were completed in Q1, only around 1,400 units from six completions were completed in Q2. This brought the total supply of apartments to 4,300 new units for H1 2014. New completions in Q2 comprised Cantavil Premier in District 2 by Daewon – Thu Duc Housing (200 units), Tropic Garden Phase 1 in District 2 by Nova Land (388 units), Ngoc Khanh Tower in District 5 by Kim Kim Hoan My Co. (99 units), 4S2 Riverside Linh Dong in Thu Duc District by Thanh Truong Loc Co. (200 units of Block C), The Hyc04 Tower in Binh Thanh District by Hydraulic Construction Corp. (246 units of Block A and Block B) and Lucky Apartment in Tan Phu District by Khang Gia JSC (289 units).

One new project broke ground in Q2, namely An Gia Garden in Tan Phu District by An Gia Co. The project sits on a 3.3ha site, and comprises two 15-storey blocks with 309 apartment units, with sizes ranging from 50 to 84 sq m. This development is expected to be completed in 2016.

Continuing from the launch momentum in Q1, five projects with a total of 981 units across the high-end, mid-end and affordable segments were launched in Q2.

The high-end launch was GGS Tower in Binh Thanh District, which offered 84 units with sizes ranging from 55 sq m to 220 sq m at prices between USD1,860 and USD2,700 per sq m. The mid-end launch was Ngoc Khanh Tower in District 5, offering 45 units of sizes 53-64 sq m at prices of USD1,300–1,500 per sq m. Affordable launches included Topaz Garden in Tan Phu District, Hung Ngan Garden in District 12 and An Gia Garden in Tan Phu District, offering 852 units of sizes 50-84 sq m, at prices of USD600-950 per sq m.

### Strong response in residential sales

As at the end of Q2, reportedly 84.7% of these 981 units launched were sold. The buyers comprised mainly end-users, with comparatively few investors.

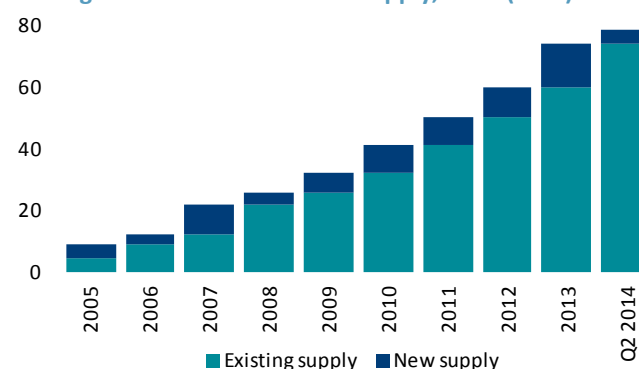
While the take-up rate was high, our research found that residential prices in HCMC remained relatively stable in Q2 compared to the previous quarter. Asking prices remained in the range of USD500 to USD950 per sq m for affordable apartments and from USD950 to USD1,700 per sq m for mid-end units. High-end condominium prices ranged

upwards of USD1,700 per sq m. This strong take-up in the residential market is expected to continue in the coming quarters if inflation and interest rates are kept low and stable.

In the near term, based on development plans announced, if all future projects are completed as scheduled, an additional 45,000 new residential units will be completed by 2016 (Table 3). However, we have noted some indications of delays in construction, which will slow down future supply.

Figure 8

### Existing and new condominium supply, units (000s)



Source: DTZ Research

Table 3

### Major upcoming condominium developments

Name of development	District	Units
<b>Lexington Residence</b>	2	1,310
<b>Tropic Garden</b>	2	1,000
<b>Vina Square</b>	5	1,186
<b>Everich II</b>	7	3,125
<b>Riviera Point</b>	7	2,099
<b>Sunrise City Phase 2 &amp; 3</b>	7	1,300
<b>Celadon City</b>	Tan Phu	8,577
<b>The Park Residence</b>	Nha Be	1,172
<b>Happy Valley</b>	Phu My Hung	818
<b>Green Valley</b>	Phu My Hung	564

Source: DTZ Research

# Ho Chi Minh City Q2 2014

## Definitions

<b>Development pipeline/potential supply:</b>	Comprises two elements: <ol style="list-style-type: none"><li>1. Floorspace in the course of development, defined as buildings being constructed or comprehensively refurbished.</li><li>2. Schemes with the potential to be built in the future, having secured planning permission/development certification.</li></ol>
<b>Net absorption:</b>	The change in the total occupied or let floorspace over a specified period of time, either positive or negative.
<b>Net supply:</b>	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).
<b>Prelet/pre-commit:</b>	A development leased or sold prior to completion.
<b>Prime rent:</b>	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).
<b>Stock:</b>	Total accommodation in the private sector both occupied and vacant.
<b>Take-up:</b>	Floorspace acquired for occupation or investment, including the following: <ol style="list-style-type: none"><li>1. Offices let to an eventual occupier.</li><li>2. Developments pre-let or sold.</li></ol> (NB. This includes subleases.)  Take-up also refers to units transacted in the residential market.
<b>Occupancy rate:</b>	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).