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Property Times
Ho Chi Minh City Q3 2014
Developer activity in residential market picks up

17 October 2014

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- Vietnam's GDP grew 6.2% year-on-year (y-o-y) in Q3 2014, bringing GDP growth for the first nine months of 2014 to 5.5%, compared to 5.1% as at the end of Q3 2013. Inflation in Q3 fell to 4.6% against 4.8% in Q2, the lowest in the past 10 years while lending and borrowing rates were stable. The trade surplus continued to increase to USD2.5bn as at the end of Q3. However, Foreign Direct Investments (FDI) into Vietnam for the first three quarters of 2014 decreased 25.5% y-o-y.

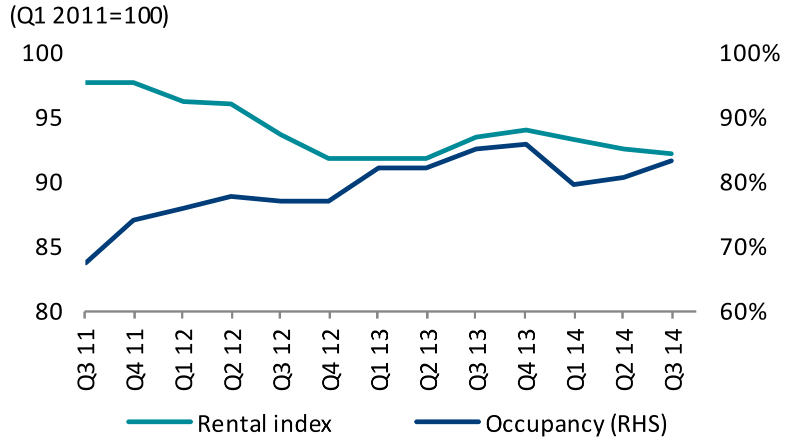
- Only 2,670 sq m (NLA) of net supply was added to the office market in Q3. While average rents for Grade A offices declined slightly, its occupancy rate increased due to the termination of a high-end office building, which will be redeveloped for hotel use (Figure 1). The market was still challenging for office landlords while tenants continued to have better bargaining power. Notwithstanding, office demand is projected to increase in the coming quarters on the back of economic improvement.

- Retail supply in Ho Chi Minh City (HCMC) declined due to the closure of one shopping centre, reducing retail stock to 417,000 sq m (NLA), with nearly 100,000 sq m of space yet to be fully open. Retail rents and occupancy in the Central Business District (CBD) increased because of the fall in supply, but fell in non-CBD areas. The strong retail pipeline supply from numerous on-going projects is likely to affect occupancy and rental rates in the coming quarters.

- New supply was thin for the residential market with only around 1,114 units completed in Q3. In line with economic growth, residential take-up rates continued to improve in Q3, with further increases expected in the coming quarter. The more positive sentiment amongst developers saw six new ground breakings in Q3.

Figure 1

Grade A office rental index and office occupancy rate



Source: DTZ Research

Ho Chi Minh City Q3 2014

Economic overview

Economy improved strongly in Q3

According to the General Statistics Office (GSO), Vietnam's GDP grew 6.2% y-o-y in Q3 (Figure 2). This brought GDP growth in the first nine months of 2014 to 5.5%, compared to 5.1% as at the end of Q3 2013. For the whole of 2014, Vietnam has targeted GDP growth of 5.8%.

Inflation eased

In Q3, inflation averaged 4.9%, 4.3% and 3.6% respectively in July, August and September (Figure 3). For the first nine months of 2014, inflation stood at 4.6% compared to 6.8% in the same period of last year. Inflation for the whole of 2014 is now projected within 6.0%, compared to the previous target of 7.0%.

Trade surplus increased significantly

The trade surplus was recorded at USD1.2bn in Q3, bringing the total trade surplus to USD2.5bn in the first nine months of the year. Exports rose 14.1% y-o-y to USD109.6bn, while imports increased by a smaller 11.1% to USD107.2bn. This trade surplus for the first three quarters of 2014 was significantly higher than the trade surplus of USD863m and USD284m respectively in 2013 and 2012.

No major improvement in FDI

In Q3, FDI into Vietnam totalled USD2.7bn from 496 new projects. This brought total FDI in Q1-Q3 2014 to USD7.6bn from 1,152 new projects. Compared to the same period last year, this represented a 32.1% increase in the number of new projects but a 17.8% decrease in registered capital from new projects. In addition, there was an increase of USD3.6bn in FDI from 417 existing projects.

The overall FDI for the first three quarters of 2014 therefore amounted to USD11.2bn, a y-o-y decrease of 25.5%. This y-o-y fall was amplified as there were a number of major projects in 2013; FDI in 2014 to-date, was otherwise in line with the amount attracted in previous years.

Realised FDI in Vietnam reached USD8.9bn as at the end of Q3, a y-o-y increase of 3.2%. Approximately 68.9% of the realised FDI in the first nine months of 2014 was distributed to the manufacturing sector, followed by 10.9% to the property sector, 5.5% to construction sector and 14.7% to other sectors.

Korea remained the largest investor in Vietnam with registered capital of USD2.6bn (33.7%), followed by Hong Kong (17.8%), Japan (10.9%) and Singapore (8.4%). Bac Ninh Province attracted the highest FDI with USD1.3bn (16.6%), followed by HCMC (14.3%), Quang Ninh Province (7.5%) and Hai Phong City (6.9%).

Slight increase in international arrivals

The number of international visitors to Vietnam in Q3 was 1.8 million, bringing the total number of visitors to 6.1 million in the first three quarters of 2014, a y-o-y increase of 10.4%. The majority, or about 60%, of these international arrivals were visiting Vietnam for leisure and holiday purposes.

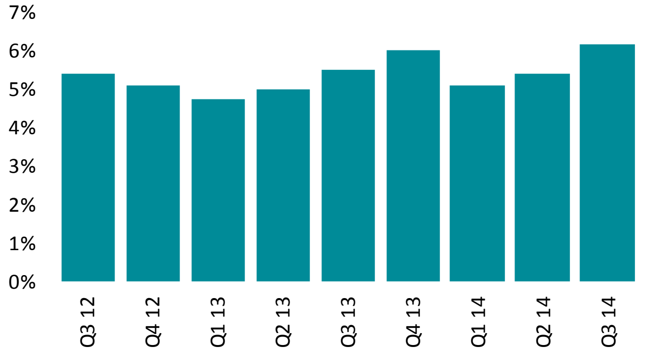
Interest rates remained stable

According to the State Bank of Vietnam, the benchmark interest rate remained at 6.5% at the end of Q3, in line with the previous quarter.

Lending and borrowing rates continued to be stable in Q3 in comparison to the previous quarter. On the back of economic improvement, purchasing power has shown some improvement, evident by the strong take-up rates of residential projects.

Figure 2

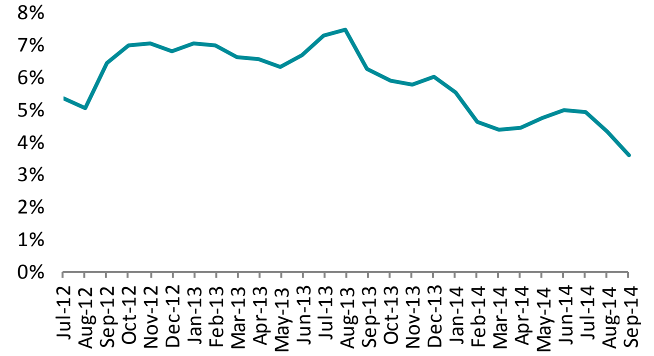
GDP growth (y-o-y)



Source: General Statistics Office of Vietnam

Figure 3

CPI change (y-o-y)



Source: General Statistics Office of Vietnam

Office

Slowdown in new supply

At the end of Q3, office stock in HCMC was estimated at slightly above 1.6 million sq m (NLA) (Figure 4). During the quarter, only Vietin Bank Tower in District 1 was completed, providing 20,040 sq m (NLA) of office space. It was understood that VietinBank took up some space in the building for its own operations and has put up the remaining space for lease. On the other hand, 17,370 sq m of Grade A office was removed from office stock as the developer decided to convert the office space for hotel use within a mixed-use project. This resulted in a very thin net supply of 2,870 sq m for Q3.

One new project broke ground in Q3. This was the Vinhomes Tan Cang Project, which comprises an office component, by Vingroup in Binh Thanh District. Details of the office parameters are however not available yet.

Net absorption of office space fell further in Q3 to approximately 16,000 sq m (NLA), after falling from 24,000 sq m in Q1 to 16,300 sq m in Q2, indicating that conditions remained challenging for office landlords. The average occupancy rate across all office grades however increased to 79.7% in Q3 from 78.8% in Q2, due in part to the thin net supply in Q3. There is about 328,000 sq m (NLA) of office space currently available for lease across the city.

Due to the termination of 17,370 sqm (NLA) of Grade A office space, occupancy of Grade A improved to 83.3% in Q3 from 80.9% in Q2 (Figure 5). In contrast, the occupancy of Grade B offices moderated to 80.0% from 80.1% in Q2 while occupancy for Grade C offices remained stable at 78.5%.

Marginal fall in office rents

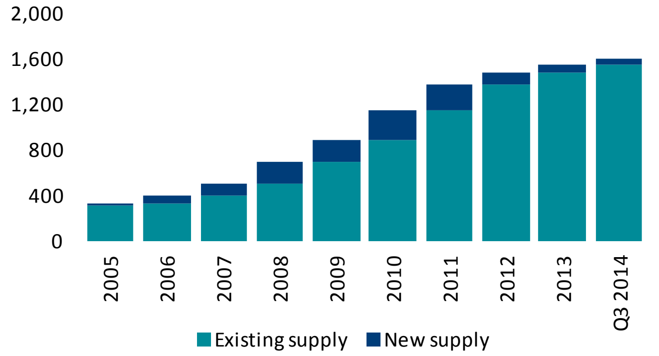
Average rent for Grade C offices remained stable at USD14.16 per sq m per month in Q3, but average monthly rents for Grade A and Grade B offices fell marginally from USD31.25 per sq m in Q2 to USD31.15 per sq m in Q3 and from USD19.85 per sq m in Q2 to USD19.81 per sq m in Q3 respectively.

In summary, office demand in Q3 was weak and the challenging environment for landlords was evident by the removal of a Grade A office which could not achieve its expected occupancy. Negotiation power remains with tenants who are securing lower effective rents while landlords continue to offer incentives to bolster building occupancy levels.

Based on the construction schedules of office developments in HCMC, an additional 280,000 sq m (NLA) of office space is expected to be completed by 2015 (Table 1). These include Le Méridien Tower with 19,000 sq m (GFA) in Q4 2014 and VietcomBank Tower with 77,000 sqm (GFA) in Q1 2015. This potential pipeline supply will create more competition in the office market. Nevertheless, some office developers with limited financial resources may choose to delay their projects until market conditions are more favourable. The future supply may therefore be lower than forecast. Notwithstanding, on the back of economic improvement, demand for office space is expected to improve in 2015.

Figure 4

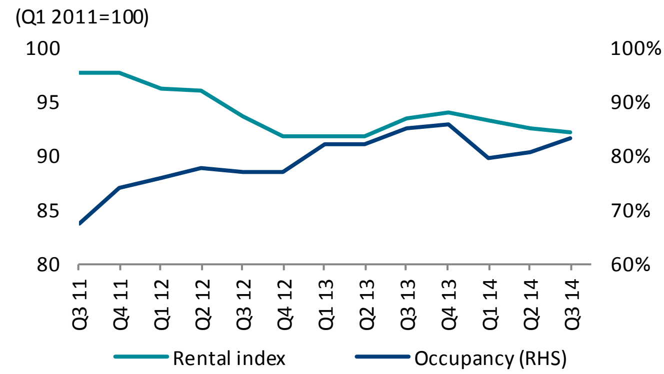
Existing and new office supply (NLA), sq m (000s)



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
Le Méridien Office	1	19,000	Grade A
Vietcombank Tower	1	77,000	Grade A
Viettel Tower	3	66,000	Grade B
Saigon Center Phase 2	1	40,000	Grade A
The One HCMC	1	58,000	Grade A

Source: DTZ Research

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Retail

Lower retail supply in Q3

The first nine months of 2014 saw limited performance of both supply and demand in HCMC retail market. There were no completions in Q1 and Q2, and Q3 witnessed the closure of 7,000 sq m (NLA) at Saigon Tax Plaza on 25 September for redevelopment. This closure brought the total supply of operating department stores and shopping centres, considered as retail stock, down to 417,000 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, and Thao Dien Pearl in District 2.

One new ground breaking of Vinhomes Tan Cang Shopping Center was recorded in Q3. The project is carried out by Vingroup in Binh Thanh District and the retail component will provide 40,000 sq m (GFA) of space, estimated to be completed in 2017.

During Q3, the average retail occupancy rate in HCMC in Q3 increased slightly to 75.8% from 75.4% in Q2 (Figure 7). Due to the closure of Saigon Tax Plaza, tenants from this shopping centre moved to other malls, resulting in an increase in the retail occupancy within the CBD. Occupancy rates of department stores and shopping centres both increased from 87.5% and 73.5% respectively in Q2 to 90.0% and 76.1% in Q3.

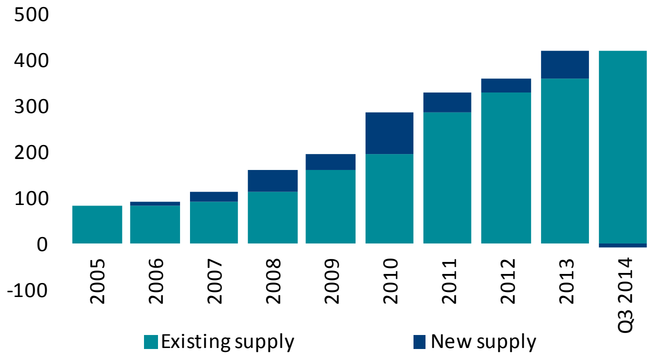
In general, overall rental ranges for department stores and shopping centres remained stable in Q3 at USD83-100 per sq m per month for CBD locations and USD38-50 per sq m per month for non-CBD locations. However, the average monthly rents moved in different directions in the CBD and non-CBD areas mainly due to the closure of Saigon Tax Plaza. Within the CBD, average monthly rents reached USD88.26 per sq m in Q3 against USD85.70 per sq m in Q2 while in the non-CBD areas, average monthly rents declined to USD38.63 per sq m in Q3 from USD39.8 per sq m in Q2.

Strong future supply

As scheduled, approximately 500,000 sq m GFA (or 300,000 sq m NLA) of retail space will be added to the market by 2016, with 70% of this future supply located in non-CBD areas (Table 2). One major upcoming project is SC Vivocity by Mapletree in District 7, which is expected to be completed in Q4 with 72,000 sq m (GFA) of retail space. This pipeline supply is likely to affect occupancy and rental rates in the coming quarters as the market showed no improvement in retail demand.

Figure 6

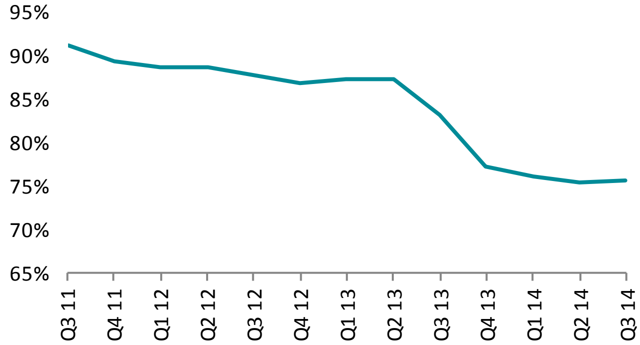
Existing and new retail supply (NLA), sq m (000s)



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
SC Vivocity	7	72,000	Shopping Centre
Riviera Point	7	85,110	Shopping Centre
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

Source: DTZ Research

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Residential

Fewer completions

The total stock of condominiums in HCMC as at the end of Q3 was nearly 80,000 units from 269 completed projects (Figure 8). Only 1,114 new apartment units were completed in Q3, lower than the 1,400 units and 4,000 units completed in Q2 and Q1 respectively.

The completions in Q3 consisted of Hung Phat Apartment in Nha Be District (358 units), ParcSpring Apartment in District 2 (404 units) and Le Thanh Twin Towers (352 units). This brought the total supply of apartments to 5,416 units for the first nine months of 2014.

Ground breaking was conducted for six apartment projects in Q3, as sentiment in the residential market remained positive. These comprised Vinhomes Central Park, Lucky Dragon, Lucky Palace, Scenic Valley, SGCC Binh Quoi 1 and La Astonia. Together, these projects are expected to provide approximately 12,000 apartment units in the next 30 months.

After strong launch activity in Q1 and Q2, there were only three launches in Q3 from mid-end projects which offered 284 apartment units. These three launches were:

- Saigon Land in Binh Thanh District by Saigon Land Company, which offered 80 units with sizes ranging from 60 sq m to 90 sq m at prices between USD1,100 and USD1,250 per sq m;
- Lucky Palace in District 6 by Novaland Group, which offered 84 units with sizes ranging from 79 sq m to 291 sq m at prices between USD1,140 and USD1,430 per sq m; and
- Lucky Dragon in District 9 by Novaland Group, which offered 120 units with sizes ranging from 51 sq m to 89 sq m at prices between USD900 and USD950 per sq m.

Take up rate continued to remain strong

Continuing the strong response for residential projects in Q2, take-up rates for Saigon Land, Lucky Palace and Lucky Dragon were reported at 80%, 65% and 50% respectively after two to three months of marketing. The buyers comprised mainly owner-occupiers, with comparatively few investors.

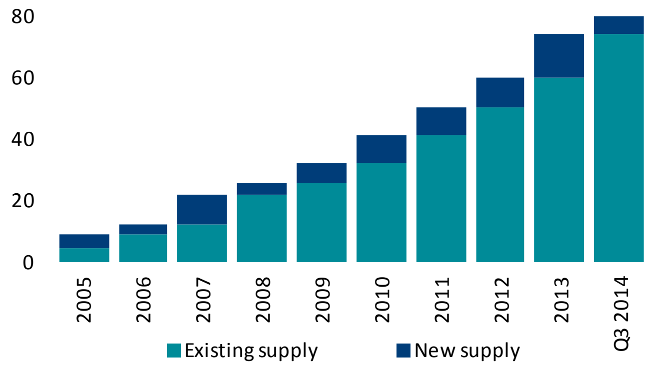
In line with the strong take-up rates, selling prices in HCMC increased between 1% and 2.5% in Q3 compared to the previous quarter. Asking prices ranged from USD500 to USD950 per sq m for affordable apartments and from USD950 to USD1,700 per sq m for mid-end units. High-end condominium prices ranged upwards of USD1,700 per sq m.

Looking ahead to Q4, take-up rates for residential projects are forecasted to remain high against the backdrop of some improvement in GDP growth with low and stable inflation and interest rates.

If all the projects in the pipeline are completed as planned, about 50,000 new apartments will be completed by 2016 (Table 3). Historical trends, however, indicated that delays could affect the completion of 20-50% of the pipeline supply, depending on market conditions.

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
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
Dockland Saigon	7	1,125
Happy Valley	Phu My Hung	818
Green Valley	Phu My Hung	564

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).

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