CB RICHARD ELLIS VIETNAM

MarketView
HO CHI MINH CITY

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July 2011

Economics Quick Stats

VIETNAM	Current	Change from last Yr.	Change from last Qtr.
Real GDP Growth	5.67%	↑	
Implemented FDI	$2.8 bil	↓	↑
Exports	$23.1 bil	↑	↑
Imports	$26.7 bil	↑	↑
CPI (average)	16.03%	↑	
Tourism (arrivals)	1.46 mil	↑	↓
Base Rate	9%	↑	↔
Exchange Rate (e-o-p)	20,618	↑	↓

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value.

Hot Topics

- ECONOMY: Inflation and interest rates continue to be at the heart of the economic story with inflation hitting 20.82% y-o-y in June;
- OFFICE: Rental rates return to levels not seen since 2006;
- RESIDENTIAL: With buyers few and far between, developers are adopting new, innovative, strategies in order to prompt sales ;
- RETAIL: Rents in the CBD hold whilst those outside of the centre see downwards pressure;
- SERVICED APARTMENTS: Boutique serviced apartments in the CBD are achieving rents comparable with the leading Grade A products;

VIETNAM

The second quarter of 2011 has seen many more economic headlines than the majority of those which have preceded it. Inflation and interest rates continued to rise.

In moves to control inflation and bank lending the State Bank of Vietnam has in the second quarter twice adjusted the re-financing Rate, once adjusted the re-discounting rate and twice adjusted the compulsory reserve ratio for commercial banks. The re-financing rate now sits at 14% whilst the discount rate is 13%.

The effects of this monetary tightening now appear to be being felt. With June showing the lowest m-o-m inflation increase of 2011 to date, registering just 1.09%. However, when considered on a y-o-y basis, at the end of Q2 inflation stood at 20.82%. The government has reset inflation targets to 15% - 17% for 2011 and thus there remains work to do.

GDP growth does appear to have been slowed owing to the macroeconomic situation. At the end of Q2/2011 growth showed a 5.67% y-o-y increase, with it being anticipated that it will end the year at 6.0%.

Implement FDI for the first half of 2011 dropped only 1.9% y-o-y.

HO CHI MINH CITY

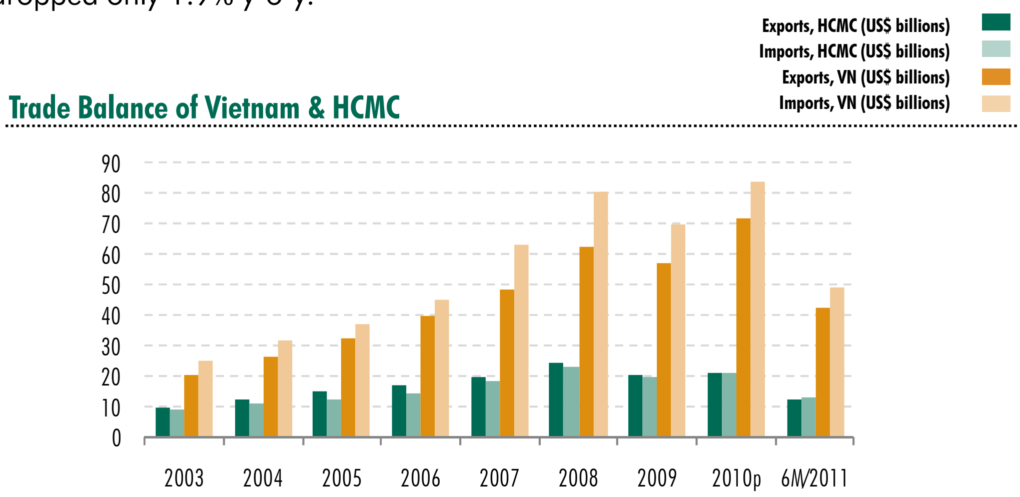
HCMC continues to be at the forefront of Vietnam's economic and commercial development – this was demonstrated by the 9.9% y-o-y GDP growth demonstrated in Q2/2011.

June showed the lowest m-o-m inflation rate that has been witnessed for the past 8 months, with inflation registering 0.69%, again a reflection of the policy implemented at a national level, in addition the a price stabilisation program that has been implemented by the HCMC People's Committee.

The battle to reign in the trade deficit continues in HCMC (and nationally). Despite the first half of the year showing a 14.7% y-o-y increase in exports, it was countered by an increase in imports of 28.6% y-o-y. It is hoped that this is a temporary trend will be reversed as the number of manufactures locating in Vietnam continues to increase.

Approximately 1.54 trillion dong of ODA was poured into the city during the first half. Committed ODA reached 68.3 trillion dong, equivalent to US$4.27 billion. The majority of ODA capital flowed into HCMC's infrastructure projects which will aid the city's longer term development plan.

Trade Balance of Vietnam & HCMC



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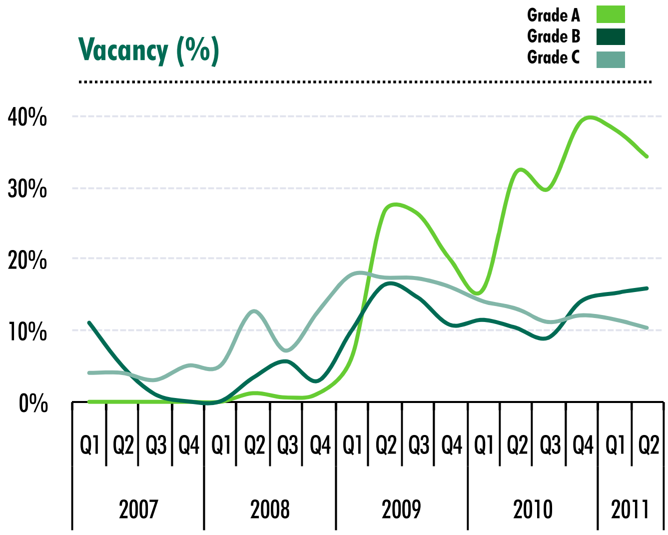
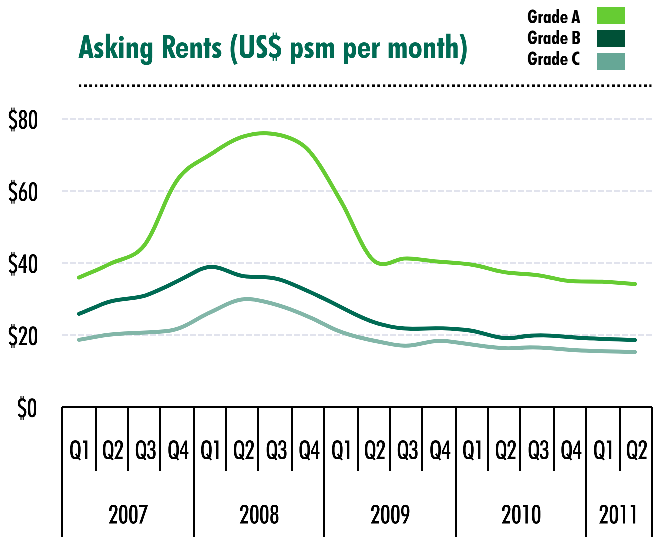
OFFICE MARKET

	GRADE A	GRADE B	GRADE C	TOTAL
Number of buildings	9	43	220	272
GFA (sm)	304,380	708,936	748,887	1,762,203
Vacancy rate (%)	34.2%	15.8%	10.3%	16.6%
Q-o-q change (pts)	-3.9 pt	0.7 pt	-1.2 pt	-1.0 pt
Y-o-y change (pts)	2.3 pt	5.5 pt	-2.7 pt	1.6 pt
Average asking rent (US$ psm per month)	$34.21	$18.72	$15.65	$20.10
Q-o-q change (%)	-1.9%	-1.7%	-1.4%	-1.9%
Y-o-y change (%)	-8.8%	-2.9%	-6.3%	-6.1%

Vacancy (%)



Asking Rents (US$ psm per month)



The second quarter of 2011 saw two Grade B and four Grade C buildings come online, adding a total of 37,865 sm of GFA to supply.

One new Grade B building, with 16,500 sm of GFA and developed by Nam A Bank, is on Cach Mang Thang Tam (CMT8) Street, nearly 50% owner occupied. The other is located at 43 Mac Dinh Chi, and invested by PVFC. The four Grade C buildings that came online added nearly 10,000 sm of GFA to supply.

The second quarter of 2011 saw rents fall across all grades. Average Grade A asking rents declined 1.9%, to US$34.21 psm per month. This is the seventh straight quarter of Grade A rental declines, and rents are now at a level not seen since 2006. The decline is a y-o-y decrease of 8.8%. Rental rates in the mature Grade A buildings tended to remain stable in the review quarter due to their high and stable occupancy rates.

Grade B and C rents also fell in the second quarter. Grade B rental rates are now at a level not seen since 2003, and Grade C rents are now at a level not seen since 2004.

The next two quarters of 2011 are expected to see absorption levels remain stable. It is expected that increases in the amount of absorption will be seen once macroeconomic conditions stabilise – this is unlikely to be until 2012. Grade A vacancy is expected to drop, as the older Grade A buildings are typically at least 95% occupied, leaving few choices for tenants in the Grade A market.

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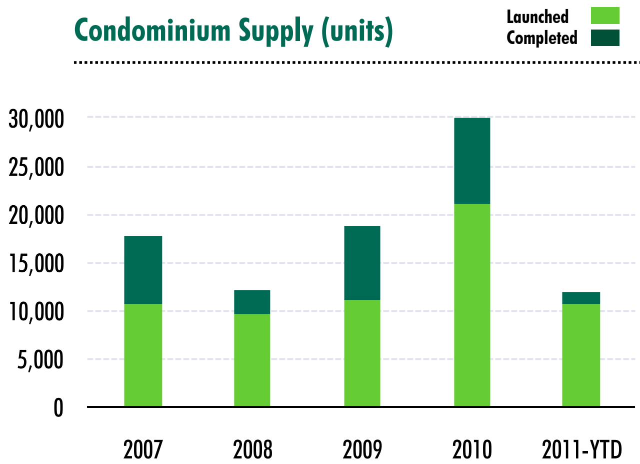
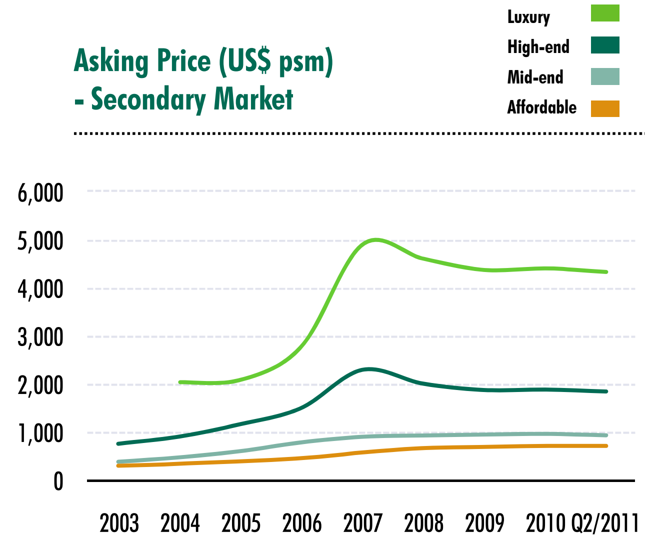
RESIDENTIAL FOR SALE MARKET

	LUXURY	HIGH-END	MID-END	AFFORDABLE	TOTAL
Total supply (units)	417	13,595	11,795	10,935	36,742
New completion (units)	0	0	286	0	286
New launch (units)	200	1,030	1,751	1,945	4,926
Primary market - Average asking price (US$ psm)	$4,600	$1,541	$1,016	$584	
Q-o-q change (%)		5.5%	-15.3%	-13.4%	
Y-o-y change (%)	-27.0%	-14.4%	-7.6%	-18.9%	
Secondary market - Average asking price (US$ psm)	$4,329	$1,848	$954	$726	
Q-o-q change (%)	-0.9%	-0.3%	-1.0%	-0.2%	
Y-o-y change (%)	-1.6%	-2.5%	-4.8%	0.2%	

Condominium Supply (units)



Asking Price (US$ psm) - Secondary Market



In general, prices across all segments continued to decline in the second quarter of 2011. Secondary prices decreased across all segments. Luxury and high-end projects saw the largest q-o-q declines, a result of the challenging financial conditions.

The number of new launches in the second quarter decreased by 12.5% q-o-q, with a total of 4,926 units being launched.

In 2012 and 2013, a total of 400 units are expected in the luxury segment. Discounting those units, in 2012, 66% of new supply is expected to be in the mid- and high-end segments. In 2013, again discounting the luxury segment, a full 76% of new supply is expected to be in the mid- to high-end segments.

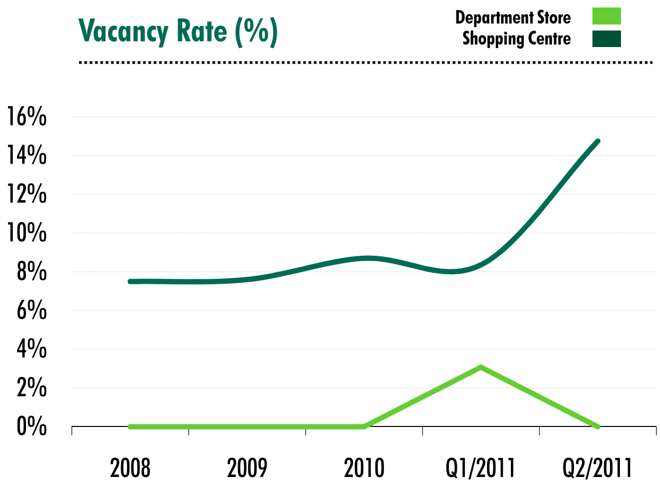
Fewer residential buyers can complete all cash transactions, and mortgage loans are proving even less popular than ever before. Buyers are putting tremendous pressure on developers to offer big discounts or flexible payment terms. Purchasing power is not expected to increase immediately when interest rates are eventually relaxed as buyer's confidence is lower than in the past couple of years.

Through the end of 2011, new developments in all sectors will push back launch dates as developers look for an uptick in market sentiment. In the mean time, developers who have already launched, or are forced to launch, will continue to try new innovative tactics to stoke sales; this includes the temporary leasing of units in order to increase cash flow.

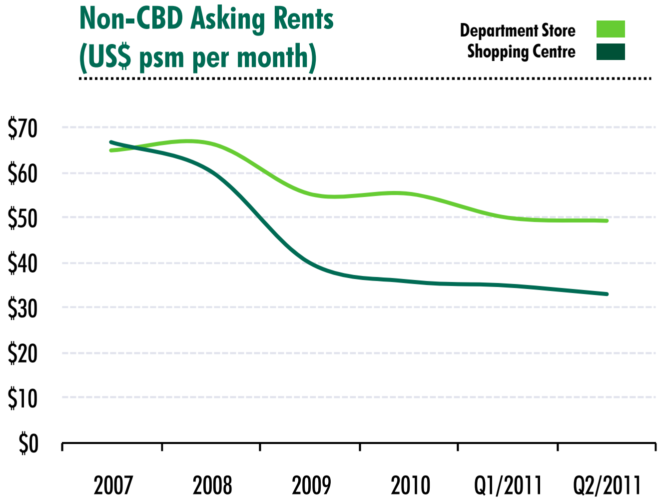
RETAIL MARKET

	DEPARTMENT STORES	SHOPPING CENTRES	TOTAL
Total supply (GFA, sm)	113,840	238,950	352,790
New supply (GFA, sm)	0	0	0
Vacancy rate (%)	0.0%	14.7%	
CBD average asking rents (US$ psm per month)	$109.35	$124.96	
Q-o-q change (%)	6.1%	0.0%	
Y-o-y change (%)	13.2%	0.9%	
Non-CBD average asking rents (US$ psm per month)	$49.28	$33.13	
Q-o-q change (%)	0.0%	-5.4%	
Y-o-y change (%)	-11.5%	-16.1%	

Vacancy Rate (%)



Non-CBD Asking Rents (US$ psm per month)



There was no new retail supply in the second quarter. In the next four quarters, the only anticipated supply in the CBD is the Bitexco Financial Tower retail space with 11,090 sm of GFA.

CBD department store rents increased 5.8% q-o-q, to US$109.35 in the second quarter. This is a y-o-y increase of 11.7%. CBD department store rents have fluctuated less than US$15 since the final quarter of 2008. Rents in non-CBD shopping centres, currently US$33.13, declined by 5.4% q-o-q. While at times showing slight increases, non-CBD shopping centre rents have been declining for the last 11 quarters, from the most recent high of US$72.20 in the third quarter of 2008.

Shopping centres recorded a steep increase in vacancy of 6.4 percentage points in the second quarter. Non-CBD shopping centres understand the disadvantage of their location, and catchment areas, and this is reflected in the lower rental rates as these landlords continue to search for ways to fill their space.

The largest non-CBD retail development, the Crescent Mall in District 7, with approximately 45,000 sm of NLA, is scheduled to come online before the end of 2011.

It should be noted that y-o-y growth in retail and services turnover for the first five months of 2011 was only 6.4% when adjusted for inflation. However, if the economy comes around in the next four quarters, rents in prime locations could still increase due to a lack of available space.

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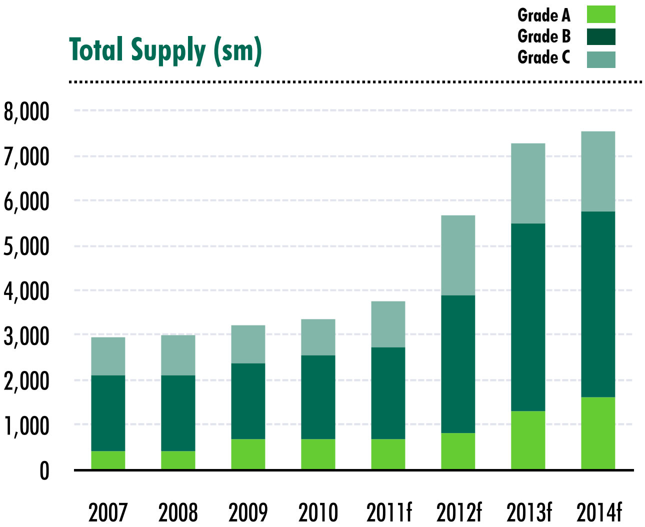
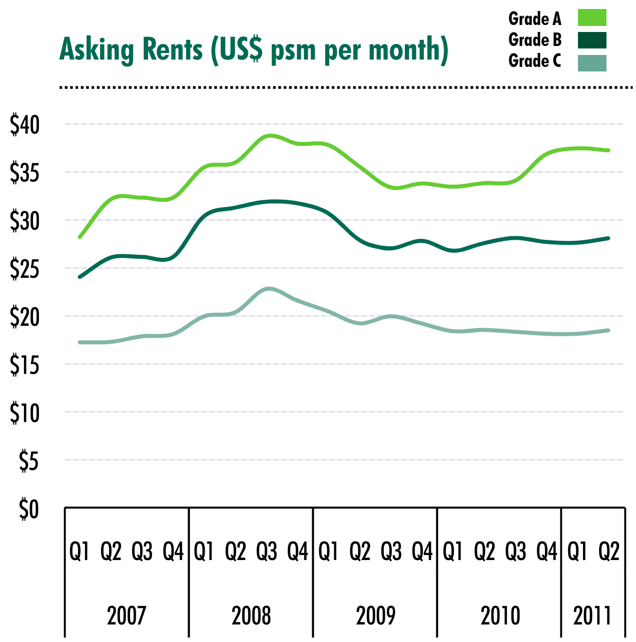
SERVICED APARTMENT MARKET

	GRADE A	GRADE B	GRADE C	TOTAL
Total supply (units)	689	1,926	950	3,565
New supply (units)	0	16	65	81
Vacancy rate (%)	8.3%	15.1%	20.2%	15.1%
Q-o-q change (pts)	3.5 pp	-2.1 pp	1.8 pp	-0.4 pp
Y-o-y change (pts)	-10.5 pp	-4.9 pp	4.6 pp	-2.9 pp
Average asking rents (US$ psm per month)	$37.16	$28.10	$18.61	
Q-o-q change (%)	-0.6%	1.6%	1.9%	
Y-o-y change (%)	10.1%	1.8%	-0.3%	

Total Supply (sm)



Asking Rents (US$ psm per month)



The second quarter of 2011 welcomed 81 new units to the serviced apartment supply. There was no new Grade A supply in the review quarter, but 16 Grade B units and 65 Grade C units came online. Continuing a trend seen in previous quarters, private Vietnamese developers are most active in the market.

The boutique Saigon City Residence on Thai Van Lung Street in District 1 added 16 units to supply. This Grade B project was redeveloped from a hotel and continues the trend of smaller-scale projects being developed with finishings at a Grade A standard. While this project does not meet the Grade A scale, it does offer a gym, sauna, roof-top garden bar, an on-site ATM and convenience store.

In the second quarter of 2011, Grade A rents softened slightly, while Grade B and C rents increased by less than 2%. Grade A rents declined 0.6% to US$37.16 in the review quarter. While this is a slight q-o-q decline, Grade A rents are still up 10.1% y-o-y.

More boutique serviced apartment projects are expected to be developed in the CBD due to the lack of available land for developing large-scale projects. Some projects will be able to provide a combination of central location, five-star service, attractive design, luxurious fit-out similar to that of Grade A, but most hope to attract tenants with more affordable rents compared to the most premium projects.

Some residential developers, with projects in the CBD or CBD-fringe, are reserving some of their units to use as services apartments. Market realities, including the lack of new CBD residential supply, give developers encouragement that retaining some units to let will provide a long-term stable source of income.

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LEGAL UPDATES

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Lending restrictions for "non-productive" projects, including real property.

In an effort to tighten limits on credit growth, the Governor of the State Bank of Vietnam ("**SBV**") issued Directive No. 01/CT-NHNN on March 1st, 2011 on monetary measures and banking operations to control inflation, stabilize macro-economy and secure social protection. The Directive requires SBV entities and credit institutions to implement several monetary and banking solutions to keep credit growth of below 20% per annum in the year of 2011. In addition, this Directive stipulates that the loan outstanding for the non-productive sector, (i.e. real estate and securities in particularly) accounts at best for 22% of the total loan outstanding as of June 30, 2011 and 16% as of December 31, 2011. In case of failure to comply with this stipulation, credit institutions will be subject to twice the reserve requirement against the common reserve requirement ratio and restriction of operational scope for the second half of 2011 and the whole year of 2012.

This strict requirement from SBV apparently forces real property owners to look elsewhere to finance their ongoing developments.

New restrictions proposed for foreign currency in contracts with foreign contractors

Another credit restriction that would affect how real estate developers in Vietnam deal with foreign contractors and loans for paying them is the Draft Circular Guiding Implementation of Article 29 of Decree No.160/2006/ND-CP of the Government Implementing the Ordinance of Foreign Exchange Control. Article 6 of this Draft Circular provides:

"6. Residents being domestic or foreign contractors operating in accordance with the Law on Tendering and other relevant laws may quote, price and enter into contracts in foreign currency and receive payment in foreign currency remitted from investors and main contractors in order to pay expenses related to contractual performance comprising monies for import of goods, services, and payment of salary and bonuses to foreign residents and non-residents."

The concern is that this clause, as drafted, limits the scope of flexibility for project investors and foreign contractors who are contracted to design and construct them. Specifically, this clause seems to make it impossible to use foreign currency in contracts with foreign contractors to the extent that some of the goods and services provided under that contract *might* eventually be procured in Vietnam. This does not reflect the practical reality of how such projects are done.

In practice, large projects, whether they are power plants or large scale resorts, must have budgets at the outset that contemplate the overall costs of the project in order to determine the capital requirements. However, the details of what goods and services will ultimately be supplied onshore vs. offshore are never known until much later in the implementation process. A foreign general contractor or EPC company will usually tender subcontractors only after having won the main contract. This means that the precise make up of its foreign currency and VN Dong expenses will not be known at the time the initial contract is signed.

Clause 6 of the Draft Circular seems to suggest that the VN Dong part of the contract must be excluded at the time the contract is signed, and that the US Dollar value of the contract must be limited to the goods and services that are eventually imported only. Since it is impossible for the foreign contractor to know at the time of contracting exactly what will eventually be subcontracted back to Vietnamese subcontractors it is impossible for it to know what its VN Dong expenses will be, and therefore it can't know what its precise US Dollar expenses will be.

For more information regarding this MarketView or to find out more about any aspect of our services, please contact:

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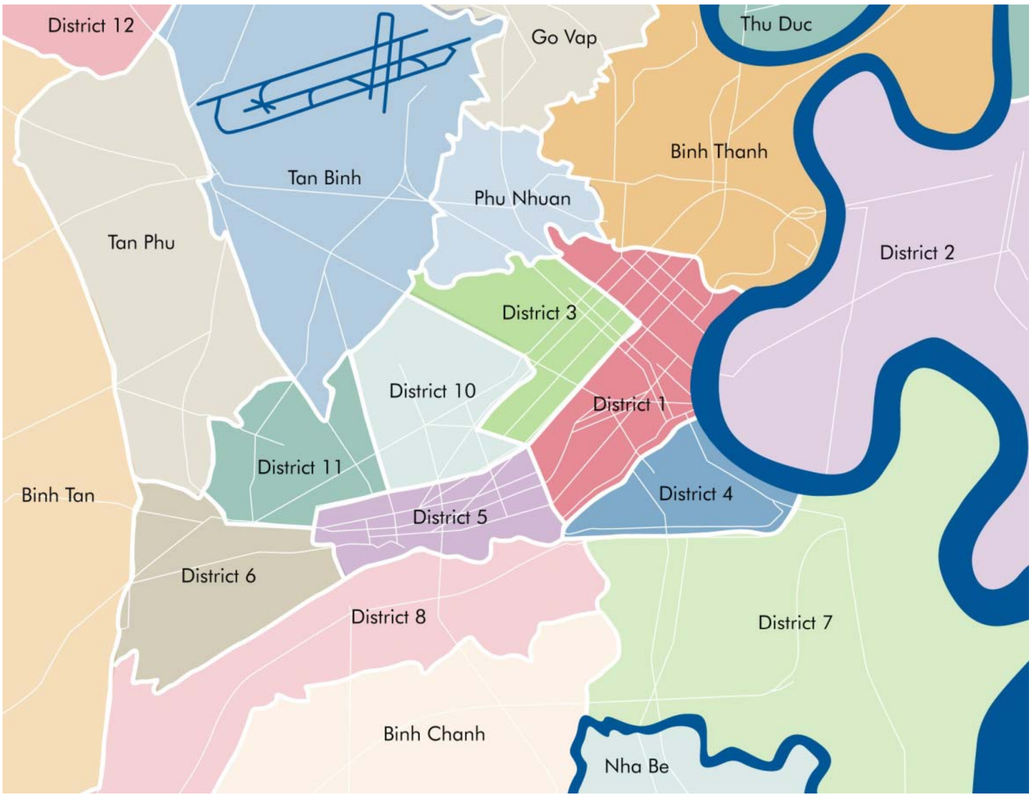

Central Business District (CBD)

The Central Business District in HCMC is District 1, the commercial, administrative and tourism centre. The area bounded by Ton Duc Thang, Nguyen Thi Minh Khai, Nam Ky Khoi Nghia and Ham Nghi streets is considered the prime office location where all Grade A buildings and the majority of Grade B buildings are located.

Interest Rate

• The base rate set by the SBV is used as a reference by other banks and financial institutions.

• The discount rate is the interest rate that the SBV charges member banks for short-term loans via discounting commercial paper or other debt instruments.

• The refinancing rate is the interest rate that the SBV charges on loans to member banks.

Gross Floor Area (GFA)

Gross Floor Area includes all areas contained within the external walls at each floor level and the whole thickness of the external walls. In general, mechanical and electrical services rooms, refuse chambers and rooms, water tanks, car parking floors and all lifts and staircases passing through these floors are excluded from the Gross Floor Area calculation.

Net Absorption

Net Absorption figures represent the net increase in occupied floor space in the period. The figures are arrived at using the following method:

Net Absorption = new completions
\+ vacancy figures at the beginning of period
\- demolition
\- vacancy figures at period-end

Rent

Rent is quoted as the average "asking" rent, without accounting for any incentives. Rents are stated in US$ per square metre (psm) as well as in those terms – gross or net, inclusive (including management fees and/or property taxes) or exclusive (excluding management fees and property taxes) that are customarily employed in the respective sector.

Rents are quoted on the following basis:

• Office: Asking rents, GFA, exclusive of VAT and service charges

• Retail: Asking rents, NLA, exclusive of VAT and service charges

• Serviced Apartments: Asking rents, NLA, inclusive of VAT and service charges

Residential Supply

• "Existing supply": is the total number of units that have been handed over for occupation.

• "New completion": the total number of units that were handed over for occupation in the review quarter – these are added to existing supply.

• "New launch": the number of units that were released to the market by developers (official start of sales for a project) in the review quarter. All units in each development are included in the calculations, however, the developer may divide sales into numerous phases and thus not all units may come online at launch date.