Property Times
Ho Chi Minh City Q2 2011
Challenging market conditions

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Contents

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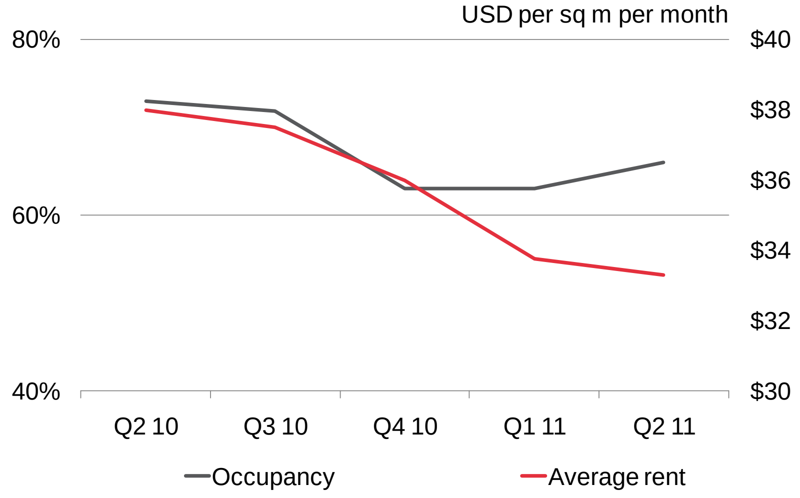
- Anti-inflationary measures continued to pose challenges in the property market in Q2 2011. In particular the government directive to restrict lending to non-manufacturing industries caused a lack of liquidity and high finance rates in the property market. This has also continued to affect economic growth in the first half of 2011.
- Office rents continued to fall during Q2 2011 across all grades. Rental rates for Grade A offices fell by approximately 1.3% on average to USD33.30 per sq m. The average occupancy rate for Grade A offices increased to 66% (Figure 1) while Grade B and C office occupancies are higher at over 80%. Rents are expected to continue to soften in the second half of 2011 across all grades.
- The retail market has remained stable in terms of rents for both CBD and non-CBD stock, while occupancy rates have fallen slightly by around 1 percentage-point to 93.5% across HCMC.
- The residential condominium market continued to see low demand due to low liquidity and high finance rates. Demand was restricted across all areas including affordable housing. Developers are increasingly considering larger discounts from headline prices as well as other incentives to entice buyers. We foresee these challenging conditions to continue until finance rates drop.

Figure 1

Average Grade A office rents and occupancy rate



Source: DTZ Research

Economic Overview

- Despite anti-inflationary measures, inflation continued to be a major concern for the Vietnamese government during the first six months of 2011. This has caused the government to revise their inflation target for 2011 twice in recent months from 7% at the start of the year to 17%.

- Even given the revision, this target may be difficult to meet as The General Statistics Office of Vietnam estimated that at the end of June 2011, inflation was 13.29% compared to December 2010 and 16.03% compared to the same six months of 2010 (Figure 2). Food and foodstuff was estimated as having the largest hike, increasing by 22.39% year-on-year (YOY) in the first half of the year. This was followed by housing and construction materials, which increased by 18.04% YOY during the same period.

- Economic growth continued to be affected by these anti-inflationary measures with GDP in the first half of 2011 being 5.57% YOY, with Q2 2011 increasing by 5.67% against the same period last year.

- The government directive in Q1 2011 which requires lenders to reduce their lending to non-manufacturing industries to 22% by the end of June 2011 and to 16% by the end of 2011 has caused credit to be restricted, with many banks having to almost stop loans to non-production industries in an attempt to meet this target. Meanwhile interest rates for loans continued to rise, with the majority of property loan rates being above 20% at the end of Q2 2011.

- The General Statistics Office of Vietnam estimated that registered foreign direct investment (FDI) in Q1 and Q2 2011, at USD5,666.7m, was just 56.7% of last year's total in the same period. Additionally both the number of newly licensed projects and the amount of registered capital both fell by 49.9% and 30.1% respectively. Realised FDI in the first half of the year is estimated to have decreased by 1.9% from the same period last year to USD5,300m.

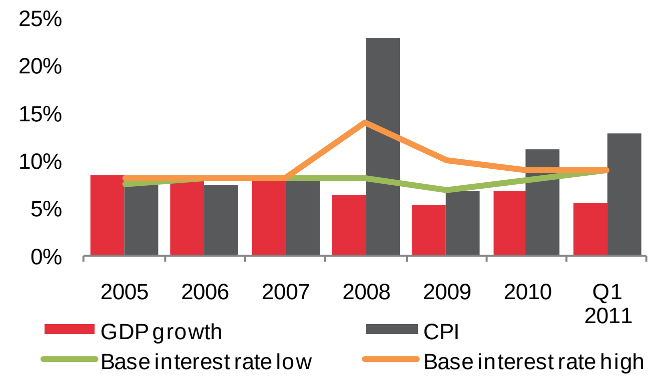
- The Vietnam Centre of Foreign Investment Studies have also estimated that FDI in Vietnam's property sector in the first half of 2011 was just USD305m, which showed a large reduction when compared to USD5bn in 2010.

- The export turnover for the first six months of 2011 was estimated by the General Statistics Office of Vietnam at USD42.3bn, which showed a YOY increase of 30.3% when compared to the same period of 2010. The import turnover reached USD49.0bn for the half year, up by 25.8% on a YOY basis. The trade deficit in the first six months was therefore approximately USD6.7bn.

- International visitor numbers continued to grow, reaching 2.97 million, reflecting a YOY increase of 18.1% against last year. Of this number, visitors for tourist purposes were up 11.2%, for business purposes were down 1.7% and those visiting relatives was up by approximately 78%. This continues to have a positive impact on the hotel market.

Figure 2

GDP growth, CPI and interest rates



Source: General Statistics Office of Vietnam

Offices

- As of the end of Q2 2011, it is estimated that there is approximately 1.23 million sq m net lettable area (NLA) of office stock throughout HCMC. About 31,000 sq m (NLA) was completed during the quarter (Figure 3).

- Although there has been no new Grade A properties completed in the first half of 2011, there were a number of Grade B and C properties completed. The largest percentage of this was in the Grade B class which has contributed approximately 77% to the total new stock so far this year.

- The average occupancy in the second quarter was 82.5% across all grades of office accommodation, an increase from around 79.8% at the end of Q1 2011. Occupancy continued to be lowest for Grade A office accommodation at approximately 66% although it is an increase from 63% in Q1 2011 (Figure 4). This low occupancy is largely due to the continued high vacancy in recently completed Grade A stock. Grade B and C stock had higher occupancy rates at over 80%. Net absorption is estimated at approximately 72,000 sq m so far in 2011.

- Rental rates continued to fall throughout all grades of office property in Q2 2011, but at a slower rate of decline. Average Grade A rents in the CBD fell by 1.3% quarter-on-quarter (QOQ) from USD33.75 to USD33.30 per sq m per month (Figure 4). Average rents for Grades B and C offices also fell during the quarter by approximately 2.3% and 2.0% respectively.

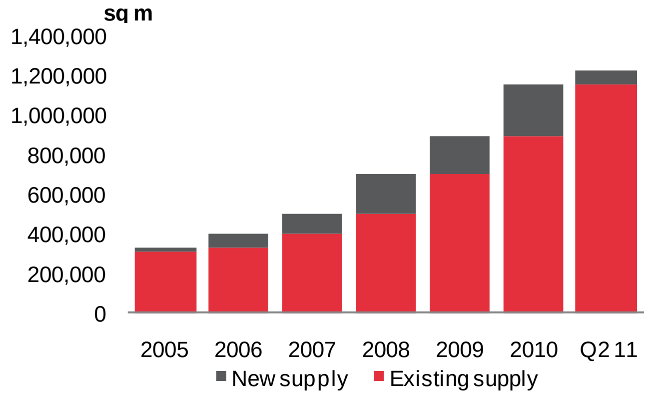
- We forecast that future office supply will be approximately 764,000 sq m (NLA) will be completed before the end of 2013 (Table 1). Around 257,000 sq m (NLA) is expected to be completed during the remainder of 2011.

- The office sector is expected to remain a tenants' market for the remainder of 2011. Landlords of office buildings with lower occupancies in particular will have to consider flexible terms, including incentives such as increased rent free periods, and in some cases flexibility on stepped rents, starting at a lower than market rate, but rising during later years in the lease. The market conditions will also affect landlords with higher occupancy rates, as tenants coming to the end of the lease will look to renegotiating lower rental rates or consider moving to other premises.

- In terms of outlook, we expect to see further softening of rents across all grades of office due to the substantial potential supply. The increasing affordability of Grade A and Grade B accommodation in District 1 will cause many tenants to consider moving away from lower specification accommodation in outer districts.

Figure 3

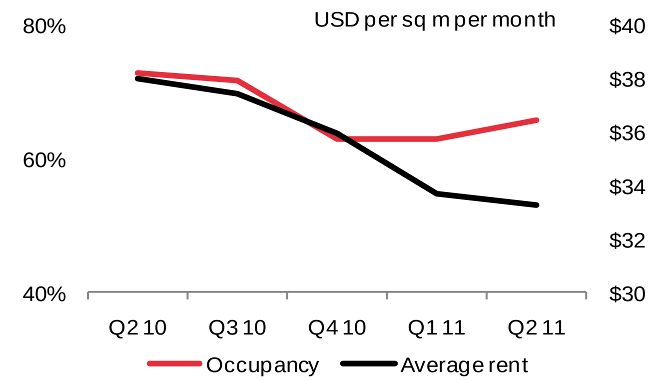
Existing and new office supply (NLA)



Source: DTZ Research

Figure 4

Average Grade A office rents and occupancy rate



Source: DTZ Research

Table 1

Major upcoming office developments

Property	District	Est Size (GFA)
Saigon M&C Tower	1	35,700 sq m
HMTC	1	26,000 sq m
Vietcombank Tower	1	77,000 sq m
PV Power Land Tower	2	39,000 sq m
Dragon Tower	7	26,500 sq m
RichLand Hill	9	22,500 sq m
Petroland	PMH	38,000 sq m

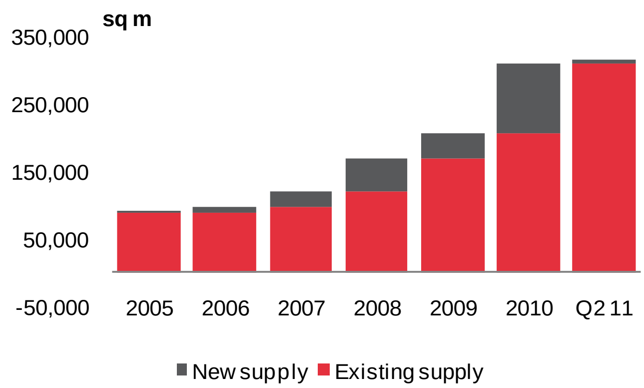
Source: DTZ Research

Retail

- The first half of 2011 has been marked by reducing consumer confidence due to fears about the economy. Consumer spending increase by 22.6% compared to the same period of 2010, however the General Statistics Office of Vietnam estimates that if price rises were excluded the growth would be just 5.7%.
- As of Q2 2011, it is estimated that there are 38 retail developments in HCMC comprising department stores, shopping centres and retail podiums. These developments account for approximately 315,000 sq m (NLA) of retail space (Figure 5).
- Occupancy remained at high levels, at approximately 98% in the CBD, having fallen by 1% since the last quarter. Outside the CBD, there has been no major new stock completed. As a result, occupancy rates have remained relatively stable at approximately 91%. Overall, occupancy across HCMC dropped 1.0 percentage-point to 93.5% (Figure 6).
- Asking rents remained stable in Q2 2011 for both CBD and non-CBD accommodation, with average retail rents in the CBD remaining at between USD100 and USD125 per sq m per month.
- In terms of future supply, we expect approximately 85,000 sq m (NLA) of retail accommodation to be completed in the remainder of 2011. Another 540,000 sq m (NLA) is forecasted to be completed before the end of 2013 if all projects at the planning stage or under construction are completed as scheduled.
- We estimate that a large quantity of this (over 350,000 sq m NLA) will be located outside of District 1. In particular, District 7 will become a key retail hub, with future retail accommodation being provided, including the Crescent Mall, Royal Tower, Sunrise City, Royal Garden and The EverRich II amongst others. Some key future developments are detailed in Table 2.
- For the rest of 2011, we expect CBD occupancy rates to remain at high levels which will support stable CBD rental rates. In the non-CBD areas, we forecast a softening of rental levels towards the end of the year with occupancy rates falling as more supply is completed.
- As supply in HCMC increases, developers will need to ensure that their projects are well planned and managed to attract and retain retailers, who will demand increasing quality and service for their money. Outside of the CBD, developers and retailers will be keeping a close eye on the performance of centres such as The Crescent to gauge the potential of outer districts to attract shoppers.

Figure 5

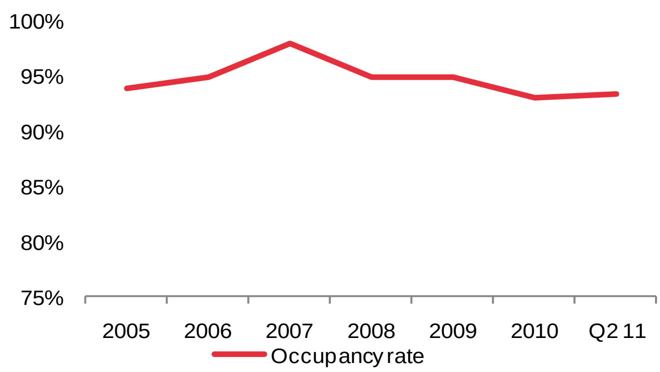
Existing and new retail supply (NLA)



Source: DTZ Research

Figure 6

Average retail occupancy rate



Source: DTZ Research

Table 2

Major upcoming retail developments

Property	District	Est GFA (sq m)	Type
Saigon M&C Tower	1	21,000	Retail Podium
Saigon Sport City Phase 1	2	50,000	Shopping Centre
The Crescent	7	70,000	Shopping Centre
Sunrise City	7	70,000	Shopping Centre
Kenton Residences	Nha Be	20,000	Retail Podium

Source: DTZ Research

Residential

- At the end of Q2 2011, the supply of condominiums in HCMC is estimated at approximately 44,900 units from 174 completed projects (Figure 7).

- Q2 2011 saw the completion of approximately 3,500 condominium units, the large majority of which were either mid-end (52% of total completions) or affordable (39% of total completions).

- During Q2 2011, conditions in the residential market remained challenging caused by credit restrictions and the high level of borrowing rates.

- As a result of this, we are still seeing a limited number of buyers who are able or willing to purchase condominium accommodation. With the majority of potential purchasers taking a wait-and-see attitude, there are still many unsold units which were launched during the first half of 2010. It is estimated that approximately 8,400 condominium units were launched in the first six months of the year.

- Demand for condominiums has now slowed across all areas of the market, including the affordable end of the sector, which in previous quarters has been witnessing stronger demand than mid to high-end units.

- The lack of demand resulted in a slight reduction in average asking prices by 1.65% over the quarter. However at present, we are seeing secondary market prices under greater pressure than primary prices.

- Although this reduction is relatively minor, developers are increasingly open to offering further discounts to purchasers. They are also willing to offer further incentives such as the structuring of payment options to suit individual buyers or deals on reduced interest payments prior to completion.

- Prices in the primary market in Q2 2011 for affordable condominiums ranged from USD500 to USD950 per sq m and between USD950 and USD1,700 per sq m for mid-end units. High-end accommodation prices are upwards of USD1,700 per sq m.

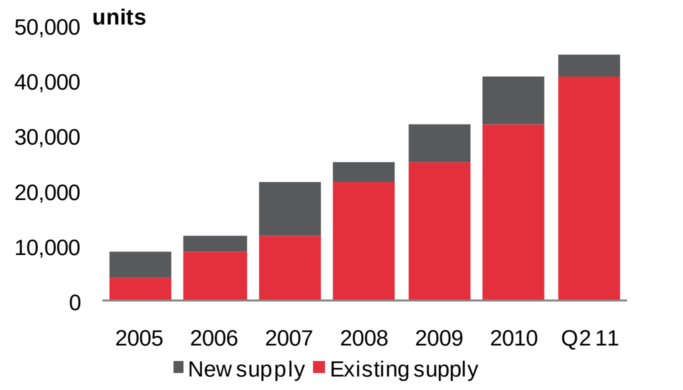
- In terms of future supply, if all projects at the planning stage or under construction are delivered, this will provide approximately 45,000 units before the end of 2013 and 77,000 units before the end of 2015 (Table 3).

- In terms of outlook, we expect demand to be limited in the short term while interest rates remain high. As a result, for the remainder of 2011, we expect to see many developers delaying project launches and construction until market conditions improve.

- In the mid-term, however, we still see potential in this sector, with pent-up demand being evident. Many potential buyers see economic conditions as a temporary phenomenon and are simply waiting for interest rates to fall.

Figure 7

Existing and new apartment supply



Source: DTZ Research

Table 3

Major upcoming condominium developments

Property	District	Units
Imperia An Phu	2	700
Diamond Island	2	894
Beau Rivage	2	962
Estella	2	1,500
Royal Garden	7	1,028
Sunrise City	7	1,804
Riviera Point	7	2,099
Everich II	7	1,804
City Garden	Binh Thanh	927
Dragon City	Nha Be	1,200
Kenton Residence	Nha Be	1,640

Source: DTZ Research

Key statistics

Table 4

Markets

	Q4 2010	Q1 2011	Q2 2011	QOQ change (%)	Directional outlook
Office					
Grade A rents (USD per sq m per month)	36.00	33.75	33.30	-1.35	▼
Average occupancy rate – all grades (%)	81.5	79.8	82.5	3.38	↔

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.

New supply

Total floorspace/units which are ready for occupation. Ready for occupation means practical completion, where the building has been issued with a Building Occupational Permit.

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. Incentives such as rent-free periods and landlord's contribution to fitting-out costs are not included.)

Stock

Total accommodation in the private sector both occupied and vacant. This includes owner-occupied buildings.

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

The percentage of total net lettable area occupied compared with available stock.

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