

Inflation, Interest, and Investment

CBRE Mid Year Review 2011



An unusual sight in Vietnam: A 'For Sale' sign

Tuesday, July 5th, 2011

HCMC

CBRE
CB RICHARD ELLIS

What You are Expecting to Hear From CBRE...

1H 2011

- All indicators are holding stable
 - FDI
 - Dong Exchange Rate
 - Interest Rates *expected to fall by Q4*
 - Inflation *expected to fall by Q4*
- Cash rules and Gold remains King
 - Gold outperforms all other investments by miles
- Credit Squeeze
 - For Developers – credit line cut
 - For Buyers – rates are high, limited mortgages
- Infrastructure is on the move
 - Dong Nai airport approved
 - Q3 Groundbreaking of New Terminal at Noi Bai Airport (Hanoi)
 - Thu Thiem Tunnel open before Tet 2012
 - Metro secures German funding
 - Vung Tau now takes four hours, it used to take two
- Just wait until the new Government is announced



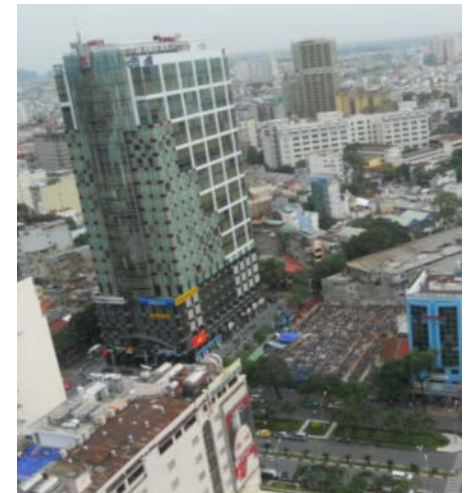
What You are Expecting to Hear From CBRE...

1H 2011

- Pure real estate investors are gone...
 - the last group left at the end of Q1 2011
 - Where are the new foreign investors?
- Trading Floors in HCMC are empty, all 350 of them
- Capital values are declining
 - Secondary market trading at 15-20% discount to Primary market
- Office rents softening
- Overall flight to quality, not 'luxury', CBRE bans the word
- Xxxx Bank to develop a 110-storey office tower in Hanoi
- Units at the Greg Normal Estate in Danang, from VND 17 – 52 Billion are selling well
- Mergers & acquisitions are on the rise
 - Missing IRR numbers, not necessary for purchases
- But, land prices never fall in Vietnam

Ho Chi Minh City 2011... Changes

- Saigon Centre Ph. 2 & 3



- BIDV Tower



- Saigon M&C Tower

Photos taken on June 27th 2011



- Vietcombank Tower



- Times Square

Hanoi 2011... Changes



■ **VietinBank Complex**



■ **Keangnam Hanoi Landmark Tower**



■ **Mipec Tower**



■ **EVN Tower**

Photos taken on April 27th 2011



■ **Indochina Plaza Hanoi**



■ **Crown Complex**

What is ACTUALLY Happening

Current

- Everywhere in Vietnam
 - Credit has dried-up for Developers
 - Residential sales have slowed (houses, villas, condos..)
 - Payment terms have become a sticking point
 - Tenants can take longer to choose
 - Loads more choice available
 - But transactions are STILL happening – residential, office, retail, investment, industrial....
- Stress, but no public distress
 - Bankruptcy appears in media vocabulary
- Some un-lettable projects have been built
- Developers playing chicken
 - with the Banks, the Government, with buyers and each other

What is ACTUALLY Happening

Current

- Huge difference in prices/valuations depending on when Developers purchased their land and how much pressure they are under
- Even the better performing property sectors have had to recalibrate numbers
 - capital values, yields, rents, occupancy rates and take up rates
- Vietnamese Developers and SOEs own all the best sites and hold most of the 'trump cards'
- Foreigners – Funds, where are they? Some sitting on cash or waiting at home
- Many Foreigner Investors are saying:
“Livin’ on a Prayer”
-Bon Jovi, 1986



Source: Wikipedia

What Next? Winners & Losers

2H 2011 & Beyond

- Loads of Opportunities
 - Not everyone is suffering
 - Loads of coal but a few diamonds in the rough
 - Unfunded developments stop, offering opportunities for others (*see My Dinh, Hanoi & D. 2 & 7, HCMC*)
 - Lack of transparency fuels the situation
 - High yields available in Vietnam (amongst the highest initial yields in Asia and rents are paid in US\$)
- Supply in some sectors could dry up (luxury condos, hotels, serviced apartments and prime office)
- Industrial Park tenants seek more than just cheap rent
- Speculators are an endangered species, replaced by marathon runners
- MET – have you got yours?
- Flexibility is key

The Good News

Sunshine on the Horizon

- Beat the Market! Restack, refurbish, reposition, and upgrade all take less time and money than redevelopment
- Boutique serviced apartment rents surpass traditional Grade A projects, and higher than Grade A&B office rents.
- Branded residences for sale have still not appeared in HCMC or Hanoi.
- Developers were expected to release more than 40,000 condo units into the HCMC market in 2011
 - Buyers benefit as Developers offer deferred payments, flexible discounts, promotional gifts, and rent-to-buy programs while negotiating on service fees

- Vietnam is experiencing an industrial renaissance moving from food processing to higher-tech
 - Vietnam government is targeting 500 new High Tech manufacturing companies by 2020
- Strata-titles / Long-term lease transactions gain market momentum as Developers seek ways to increase cash flow.
- Over 800,000sm of new Grade A & B office space in the next 3 years with 20% to be owner-occupied
 - Local banks will be the biggest occupiers followed by SOEs
- Well-located and well-managed retail will lease out twice as quickly as un-branded and first time developments.

Thank you for Attending

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