

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



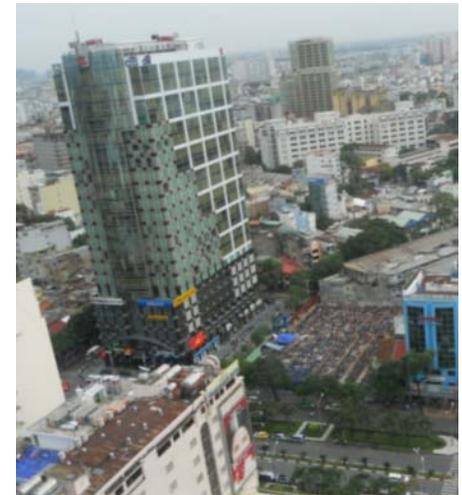
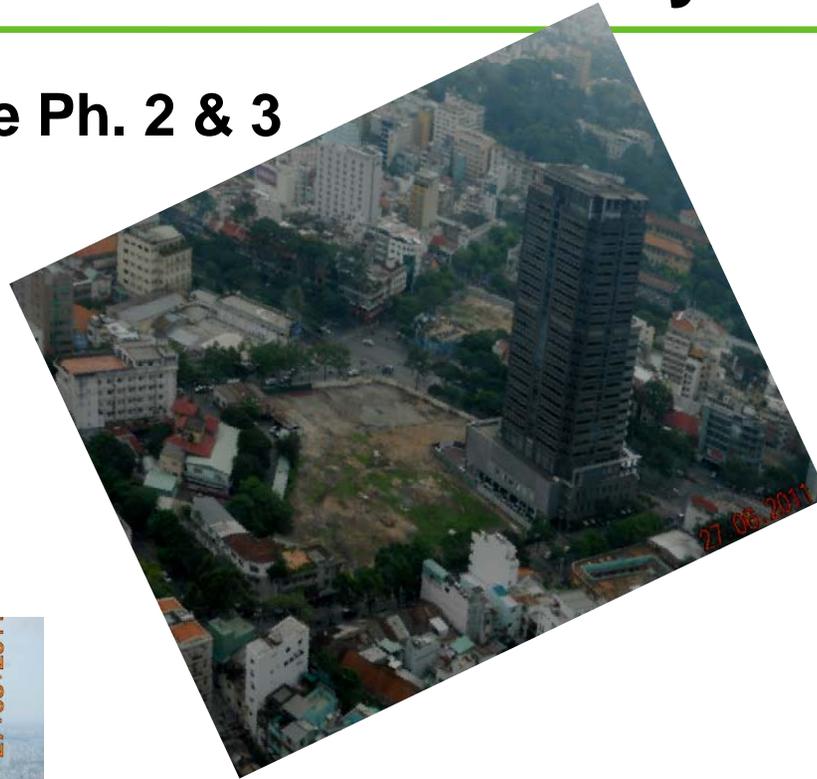
What You are Expecting to Hear From CBRE...

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

www.cbrevietnam.com



© 2011 CB Richard Ellis, We obtained the information above from sources we believe to be reliable. However, we have not verified its accuracy and make no guarantee, warranty or representation about it. It is submitted subject to the possibility of errors, omissions, change of price, rental or other conditions, prior sale, lease or financing or withdrawal without notice. We include projections, opinions, assumptions or estimates for example only, and they may not represent current or future performance of the property. You and your tax and legal advisors should conduct your own investigation of the property and transaction.