RESEARCH

Q3/2010

REAL ESTATE HIGHLIGHTS

HOCHIMINH CITY

Knight Frank

HIGHLIGHTS

- The HCMC property market is currently moving sideways with moderate activity in most asset classes.
- Affordable residential sales and B and C Grade office building leasing are the sectors that have been the most active in Q3/2010.
- The market is being tested by new legislation that is aimed to reduce speculation and reduce market liquidity. Although this will benefit home buyers, developers relying on speculative demand will have to review their strategies.

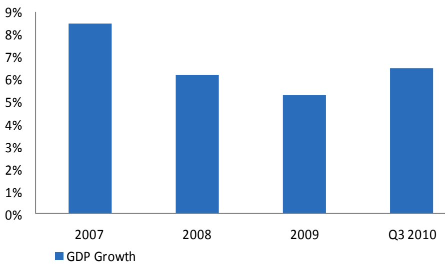
ECONOMIC & LEGAL UPDATE

Economic Overview

GDP

The Vietnamese economy grew 6.52% year on year at the end of Q3/2010. The manufacturing and construction industries showed robust growth of 7.29% over this period.

GDP Growth Rate Vietnam



Source: GSO

Despite outperforming earlier forecasts, for 2010, fears of a double dip around the world and tighter domestic fiscal and monetary policies to reign in inflation could dampen growth in 2011 with forecasts around 5.5—6%.

CPI

Year on year, inflation stood at 8.64% at the end of Q3/2010, with price increases in construction materials noticeably high at 14.73%. This has increased costs for developers as construction costs make up a high proportion of overall costs.

Foreign Direct Investment

720 projects (185 in HCMC) were registered in the first 9 months of 2010 with over 11.4 billion USD (1.7 billion USD in HCMC) of investment capital. This is an increase of 59% year on year.

Lending Rates

Lending rates in the real estate sector remained high as at Q3/2010, being approximately 12.5-13.5%, making access to credit difficult for many developers and home buyers.

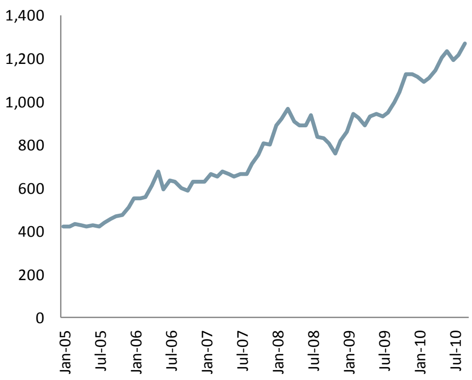
Balance of Payments

Trade deficit in the preceding 9 months was at an estimate of 8.6 billion USD, an increase of 19.8% against the same period last year. This amount is equal to 16.7% of the export turnover, which resulted mainly from Chinese imports, accounting for over 8.4 billion USD.

Gold Prices

World gold prices hit a high of over USD$1,300 per ounce in September 2010 (trading in Vietnam was up to USD$30 higher) as investors search for a safe haven in difficult economic circumstances. With the prospect of a weakening dollar, gold prices could continue to rise through Q4/2010. A rise in gold prices is often an indicator of less investor confidence in real property.

Monthly Gold Price USD per Ounce



Source: World Gold Council

Legal Update

Decree 71 / Circular 16

In effect since August 8th 2010 with guidelines from Circular 16 from September 15th 2010. This states that upfront capital cannot exceed 20% of the investment capital of a residential project and that presales cannot exceed 20% of the total housing units. This aims to reduce speculators and the short term secondary market.

Circular 13

From the 1st October 2010, Circular 13 increases the capital adequacy ratio (CAR) to 9% for banks. This is expected to restrict the supply of credit as banks review their lending criteria.

Decree 69

Continues to add uncertainty to compensation amounts for cleared land. Compensation to agricultural land owners can vary between 1.5 times and 5 times the basic agricultural land price.

KNIGHT FRANK COMMENTS

Continued robust growth for 2011 but at an expected lower rate than 2010.

The inflating dong is continuing to add uncertainty to investor sentiment.

One year on, Decree 69 continues to dampen developers confidence as land price uncertainty adds risk to projects.

The market is equally being tested by Circular 16 that aims to restrict speculators and Circular 13 that is likely to restrict the supply of credit to property developers.

APARTMENT FOR SALE

Market performance

New launch: total new supply that came online in Q3/2010 is approximately 7,000 units, of which 65% is affordable with an average price US$750/m^2.

The affordable segment makes up 75% of the total supply. Traditionally many developers (especially foreign) have been reluctant to service this segment of the market as profit margins are generally lower than mid to high end stock.

The mid end segment average price is approx. US$1,200/m^2, with the high end segment approximately US$2,000/m^2.

In Q3/2010 approximately 2000 pre sold apartments were completed in various projects across HCMC.

Buyers in the apartment market consists mainly of end users, although some buy to let investors are active. In the CBD area, this is the case as many of the high and mid end apartments are bought to be let to foreigners.

We have also remarked that some other high end apartment projects that have not sold well are being converted into serviced apartments.

Most of transactions carried out in Q3 were in the $50-60,000 range (1 billion VND). Though the number of transactions in Q3 (approximately 4000 units) was considerably higher than Q2/2010, available supply is still abundant and currently stands at around 17,000 units in the primary market.

Outlook

Luxury apartments in the CBD area are increasingly in competition with suburban villa and townhouse developments. Typically, Vietnamese domestic demand favours villa and townhouses, although proximity to place of work and other amenities is making the CBD an attractive alternative.

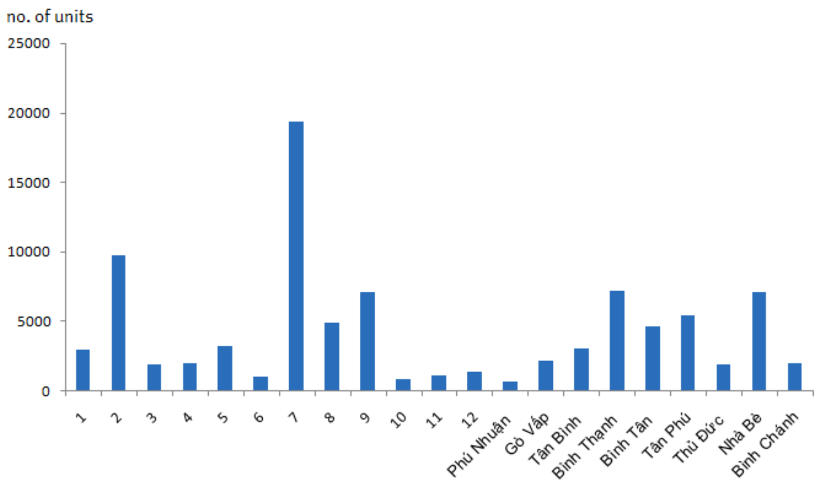
Most recent apartment developments have been concentrated in suburban districts (District 2, 7, Nha Be). This trend is to be continued for the next few quarters as developments under construction come to the market.

In the longer term, the improvements in infrastructure, especially the transport system will help apartment projects further out from the centre of HCMC to develop.

Though many apartment projects are lining up to come on to the market, the risk of oversupply is tempered by strong potential demand. Developers that focus on the affordable segment should also define and market the product correctly. Recognised brand names and stable quality buildings will bring more success.

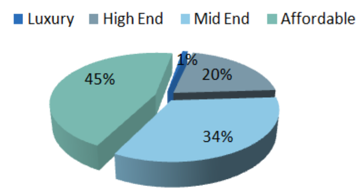
We forecast that the total supply of apartments in HCMC will double in the next 4 years with more than 100,000 units in about 200 projects waiting for launch on to the market.

Total Existing Supply by District



Source: Knight Frank Vietnam Research & Consultancy

Future supply



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

Demand for the affordable segment of the market still buoyant.

Sales of mid end apartments may benefit from suitable price and financial support .

Limited demand for high-end apartments.

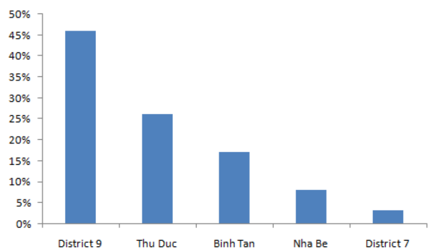
Continued credit support will be an important factor allowing the apartment segment to compete with other products.

VILLAS/TOWNHOUSES FOR SALE

Market performance

Villa supply is concentrated in the sub-urban districts of HCMC. Both current and future supply are especially concentrated in District 9, Binh Tan and Thu Duc, which account for more than 80% of total villa supply in HCMC.

Total Supply in the Primary Market



Source: Knight Frank Vietnam & Consultancy

Most of the transactions we have seen in this period have been for end users, at the lower end of the price range. More than 45 projects are supplying approximately 2400 villas and 800 townhouses with varying prices.

Focus on District 9

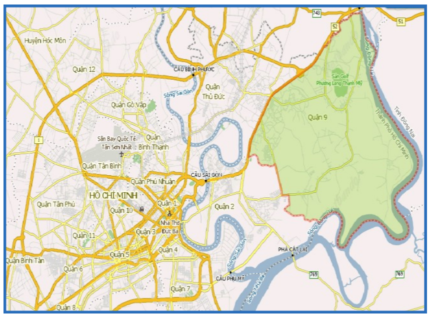
District 9 has been an area targeted by developers and investors of villa developments. The District benefits from plentiful supply of suitable and affordable land for development (including some with river frontage).

Access to District 9 will be significantly enhanced in the future with the extension of the East West highway and Inner Belt which will reduce travelling times into the CBD.

Both Vietnamese and International capital has been invested in projects in this District, and sales rates for villas that are correctly priced have been encouraging.

With land prices in District 2 proving more expensive, many developers are looking at land in Phuoc long B, Phu Huu and further east towards Truong Thanh ward for opportunities for Villa developments.

Current villa prices in District 9 lie range from $400,000 to $600,000, depending on lot size, finishes, aspect and build quality.



In today's market, reputable branding adds a premium on prices.

Outlook

In terms of projects under construction, the future supply of villas and townhouses is more than 10,000 units. The majority of this supply will come from District 9.

In order to attract buyers and increase sales rates, developers should consider discounts and financial support for launching their units. Smaller units are also a solution for taking up the affordable and mid end segment.

Some notable projects in District 9

	Location	Developer	Land area (sqm)	No. of units
Boat Club Residences	Truong Thanh	House Vietnam	145,000	31
Thao Nguyen Saigon	Tan Phu	Nam Long	80,000	139
Riviera Cove	Phuoc Long B	Hung Phu—Keppel Land	97,000	96
The Garland	Phuoc Long B	Vina Capital	30,160	53
Nam Long	Phuoc Long B	Nam Long	200,000	731
Villa Park	Phu Huu	Khang Dien	114,000	213
Truong Luu	Long Truong	CNM Co.	45,243	99

Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

Villas/Townhouses correctly priced are continuing to sell well in District 9 and District 2.

Many developers are offering "bare shell" villa units to the market as the majority of end users prefer to fit out their homes to their own requirements and specifications.

SERVICED APARTMENT

Market Performance

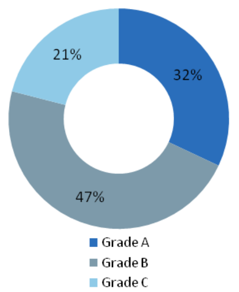
The serviced apartment market through 2010 has been stable, with robust demand keeping occupancy levels high.

In Q3/2010, 3 new buildings came onto the market, increasing total supply by 72 units.

As at Q3/2010, the total supply of serviced apartments in the Ho Chi Minh City market consisted of 60 projects with over 3,200 units. It is estimated that 32% of stock is Grade A, 47% Grade B and 21% Grade C.

Geographically, the major existing supply is 51% in District 1 , 13% in District 2, 12% in District 3, 12% in District 7 and 22% in other districts.

Existing supply



Source:Knight Frank Vietnam Research & Consultancy

In the current market, landlords have been known to convert unsold high end units of apartments for sale to serviced apartments.

Prices have decreased slightly compared with Q2/2010 due to competition from other property types. The buy- to-let apartments provide the most competition with the serviced apartment segment with projects such as The Manor, Saigon Pearl, and Sailing Tower generally letting at a lower rate than serviced apartments.

Many serviced apartment operators are now offering promotional campaigns and add-in services to attract tenants and compete with other asset classes.

The current asking rate of Grade A is about US$30/m²/month, Grade B about US$25/m²/month, Grade C about US$15/m²/month.

Occupancy rates for Grade A, internationally managed buildings are currently around 90% and are expected to remain high. Occupancy rates for Grade B, currently at 83% and Grade C will be under pressure as they are under more competition from good quality apartment buildings.

The target market for serviced apartments in HCMC is expatriates. These come from two sources: foreign government employees, representative offices and foreign companies doing business in Vietnam.

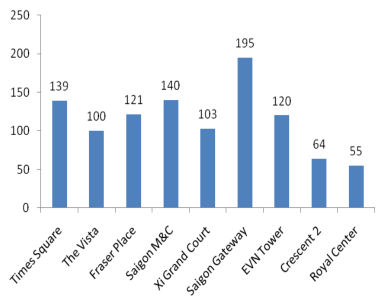
The total number of foreigners visiting Vietnam in the first 9 months of 2010 was approximately 3.7 million, an increase of 34.2% compared with the same period 2009. The number coming to Vietnam for work increased by 39.8% compared with Q3/2009. As this trend is likely to continue, demand for serviced apartments will also rise.

From the supply perspective, although this segment has steady demand, developers often hesitate to invest in this type of product because this market requires long-term investment with high capital.

Outlook

The total future supply in HCMC from Q4/2010 to 2013 is over 3,000 units, coming from around 20 projects.

Future supply



Source: Knight Frank Vietnam Research & Consultancy

Smaller units are likely to be the short term future trend as competition from hotels and corporate cutbacks redefine tenant demand.

Notable projects to come on to the market in the near future: Crescent 2, Mai Har Lan Saigon, The Vista, Fraser Place...

Due to the typical profile of clients, short-term leases (less than 3 months) are more popular than long-term lease. This trend has strengthened in Q3/2010.

KNIGHT FRANK COMMENTS

As many foreign companies still consider Vietnam a "hardship" posting for their employees, we continue to see demand for well located, internationally managed Grade A buildings.

Smaller units are to become the short term future trend as corporate cutbacks redefine tenant demand.

Alternatives to District 1 that are still in relative proximity to the CBD such as District 4 could be future areas of growth.

RETAIL

Market Performance

Although the retail market in Vietnam is relatively undeveloped, it has grown rapidly due to a briskly growing economy and a population that is increasing by one million people annually. The economic recovery is raising consumer confidence in Vietnam. The National Consumer Confidence Index increased by 18 points from 101 to 119 in Q2/2010 (Nielsen, 2010). Furthermore, consumer behaviour is changing towards more modern retail concepts.

The HCMC retail landscape looks optimistic as at Q3/2010. Total retail sales of goods and services increased 31.2% year on year.

Existing supply in the HCMC retail market exceeds 650,000m^2 including supermarkets, retail podiums, department stores and shopping centres. No new supply came online in Q3/2010, although Thien Son Plaza (District 7) with 16,000m^2 of retail space is due for completion in Q4/2010.

The occupancy rate as at Q3/2010 has slightly decreased as compared with the same period in 2009. Currently, the average occupancy of retail spaces in the CBD and outside of the CBD are approximately 95% and 85% respectively.

The average rental in the CBD range from US$95/m^2/month to US$150/m^2/month although top end prime rents are restricted to a select number of locations. Rental rates outside of the CBD range from US$35/m^2/month to US$85/m^2/month.

Future supply

There is approximately 49,000m^2 of new supply to enter the market in the next quarter, including the Bitexco Financial Tower (approx. 11,000m^2), Crescent Retail Phase 1 (approx. 20,000m^2), the retail podium at Rex Hotel (2,000m^2) and Thien Son Plaza (16,000m^2).

The future pipeline of retail developments in HCMC exceeds 1,000,000m^2 over the next four years. This will more than double the existing supply.

Outlook

The retail market in Vietnam is set for a dramatic change over the coming years. The CBD is fast becoming a shopping destination for luxury brands fueled by the increasing number of tourists, a younger population, increasing wages and the many wealthy individuals within the city.

Outside the CBD, a vast number of shopping centre developments in the urban areas of the city will slowly change the shopping habits of the local population. Modern, well designed, air conditioned shopping centre developments with quality tenants and good parking facilities that offer the consumer a convenient and secure environment will, over time, become the preferred destination for shopping in the future.

In many ways the retail sector is in a transition stage, as more international retailers enter the market, the onus will be on the developer to build better quality developments, built and designed to international standards.

KNIGHT FRANK COMMENTS

Well designed, modern retail facilities with good tenant mix are key for success in a HCMC retail market that offers many opportunities.

Developers and investors must take the best professional advice to ensure the success of their schemes.

Some future retail supply in HCMC

	Location	NLA (m^2)	Estimated completion
Bitexco Financial Tower	District 1	11,000	Q4/2010
The Vista	District 2	5,000	2011
Crescent Mall	District 7	47,000	2011
M&C Tower	District 1	7,000 (GLA)	2011
Sunrise City	District 7	70,000	2012
Thao Dien Pearl	District 2	18,500 (GLA)	2012
TD Plaza	Tan Binh District	20,000	2012
Saigon Financial Tower	District 10	66,000	2013
Trong Dong Project	District 1	23,500 (GLA)	2013
Truong Son Project	Tan Binh District	16,000 (GLA)	2013

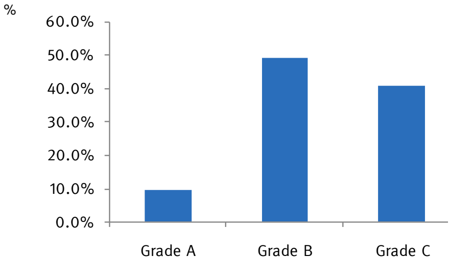
Source: Knight Frank Vietnam Research & Consultancy

OFFICE

Market Performance

The total current stock of office space in HCMC is over 1 million m². Grade A accounts for 10%, Grade B for 50% with the remainder Grade C and non rated.

Current Supply



Source: Knight Frank Vietnam Research & Consultancy

The large majority of existing supply in located in District 1, in the CBD (bordered by Nguyen Thi Minh Khai to the North West, Ton Duc Thang to the North East, Ham Nghi to the South and the Saigon River to the East).

In terms of new supply, one Grade B office building (A & B Tower) and 8 Grade C office buildings came online in Q3/2010.

Vacancy rates for the whole HCMC office market (Grade A and B only) stand at approximately 15%. Well located Grade B and C buildings have seen the market rent remain static in Q3/2010 although for the Grade A segment, rents are starting to soften.

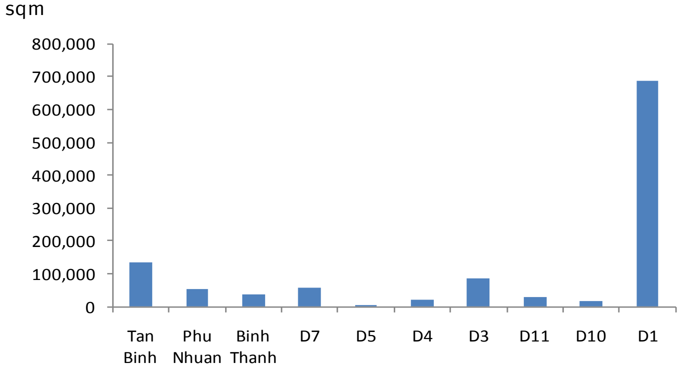
Outlook

The launch of Bitexco Financial Tower releasing 38,000 sq m of Grade A office space to the market will increase grade A stock by approximately 33%. We see the office market forming two trends within the CBD:

- Market Rent for Grade B offices varies between $25 to $30 USD/m²/month exclusive, based on a net area. The rate of activity for this market remains relatively active capturing in excess of 80% of the take up as Tenants favour the rents compared against the rental '*leap*' to the Grade A offices.
- Market rent for Grade A varies between $35 to $40 USD/m²/month exclusive, based on a gross area. This can be skewed upwards if you include some of the premium space at Bitexco Financial Towers (above 50th floor) which has fetched $55 USD/m²/month exclusive, based on a net area. The additional Grade A supply and lease renewals due to expire after the boom in 2008 will create additional competition and we should start to notice the rental gap between Grade A and Grade B offices reduce.

Bitexco Financial Tower

Current Supply by District



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

High property management standards, providing flexibility on lease terms and being able to offer additional incentives at the outset has allowed some Landlords to benefit in this market to capture and maintain high occupancy levels (>80%).

Net or Gross area?

Bitexco Financial Tower have bucked the trend quoting their rent on a net internal area. Tenants are increasingly analyzing the rental terms on a net area to find the true market rent. We would suspect other Grade A Landlords being forced to follow suit and quoting on a net area for offices will become typical market practice in the next 12-18 months.

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