RESEARCH

Q3/2012

REAL ESTATE HIGHLIGHTS

HO CHI MINH CITY

Knight Frank

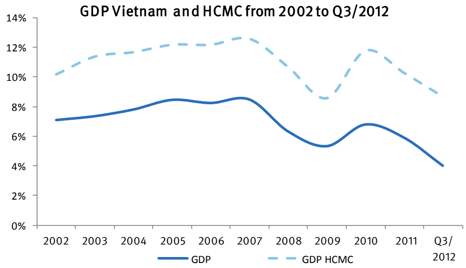
HIGHLIGHTS

- Despite the continued positive growth of the Vietnamese economy, it has failed to filter through to the real estate sector in HCMC, which continues to remain stagnant. We do not foresee the current situation changing in the short term.
- The real estate market has witnessed decreases in selling prices and large discounts from many residential apartment projects. Significant decreases in the secondary market recently has placed further pressure on developers of new product to reduce prices. This could be seen as an opportunity for the end users who have real demand and have the available finance.
- Currently, the relevant authorities within HCMC are executing a research survey on 40 developers to ascertain the ‘sticking points’ and the solutions to help create liquidity for each project. This is a positive sign although we have reservations to the effectiveness of this procedure.

ECONOMIC & LEGAL UPDATE

Economic Overview

GDP

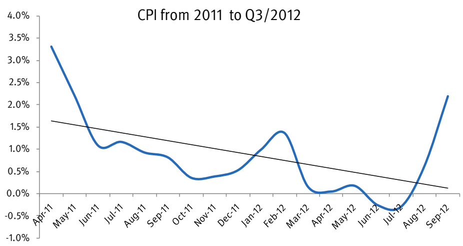


Source: *GSO*

According to the General Statistics Office (GSO), within the first nine months of 2012, Vietnam's GDP growth was approximately 4.73%, of which, quarter 1 was 4.0%; quarter 2 was 4.66% and quarter 3 was 5.35%.

In the third quarter of 2012, the economy in HCMC has seen positive signs with GDP growth of 9.6%, compared with Q2/2012 being only 8.1% and the average HCMC GDP growth up to 8.7% for the first nine months of 2012. This number is lower than the same period of last year's growth rate of 10%.

CPI

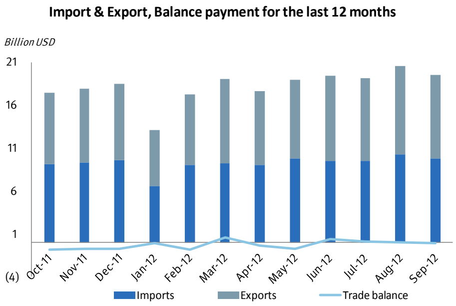


Source: *GSO*

According to the GSO, the CPI of September 2012 increased 2.2% compared with CPI in August 2012, and increased 5.13% compared with CPI in December 2011. The average CPI for the first nine months of 2012 increased 9.96% compared with the same period of last year.

According to the Statistic Office in HCMC, the CPI of September 2012 stood at 1.21% compared with August 2012, an increase of 3.38% compared with CPI in December 2011 and an increase of 4.63% compared with the same period of last year.

Balance of Payment

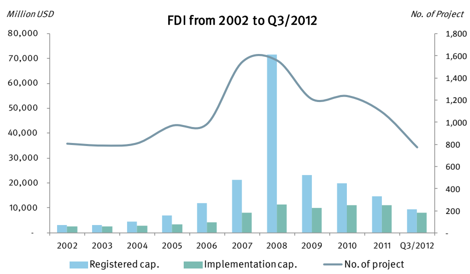


Source: GSO

According to the GSO, the trade surplus for the first nine months of 2012 reached US$34 million. Whilst, the trade deficit for first six months of 2012 stood at US$158 million. Total export turnover for nine months is estimated at US$83.789 billion, an increase of 18.9% compared with the same period of 2011 and total import is estimated at US$83.755 billion, an increase of 6.6% compared with the same period of last year.

Foreign Direct Investment

According to the Foreign Investment Agency (FIA), dated 20 September 2012, Vietnam attracted approximately US$9.526 billion of FDI, a decrease of 27.9% compared with the same period of last year. Of which, the newly licensed capital of US$6.11 billion (775 projects) decreased 39% compared with the same period of last year. There are 314 projects that have increased their capital



Source: *FIA*

contribution nearly US$3.42 billion, an increase of 7.2% compared with the same period of last year.

Infrastructure Update

Metro Line No.1: On Tuesday 28 August 2012, the first metro line in Vietnam had a groundbreaking ceremony. Metro Line No. 1 from Ben Thanh to Suoi Tien stretches a total of 19.7 kilometres, with 2.6km of underground track and 17.1km of overhead track. There are 14 stations along the line, including 3 underground stations and 11 elevated sections. The project is scheduled for completion in 2017 and will start service in 2018. It is estimated that the Metro Line No. 1 will transport 186,000 passengers every day, which will rise to 620,000 passengers by 2020 and over one million passengers by 2040.

Legal Update

Decree No.58/2012/ND-CP dated on 20 July 2012 and taking effect on 15 September 2012 implementing portions of the Securities Law relating to private placement and public offerings of securities.

According to this Decree, Real Estate Investment Funds ("REIF") are regulated. A REIF may operate in the form of a public securities investment fund or a public securities investment company. The fund must be managed by a professional fund management company.

At least 65% of the net assets value of a REIF must be invested in real estate properties. A REIF must hold each property for at least two years except in certain limited cases or as approved by the REIF's General Investors Meeting or by the fund representative board in accordance with its charter. A REIF must not engage in property development and may only purchase under-construction properties in limited circumstances.

APARTMENT FOR SALE

Market Performance

Although both lending rates and the selling prices of apartment for sale projects have decreased slightly during last quarter, the transactions occurring in the market is continuously low. The majority of transactions is from the furnished projects that will be handed over at the end of this year or early next year including The Era Town, District 7; Green Building, District 9; 155 Nguyen Chi Thanh, District 5, etc.

The high-end and luxury segment continues to be a very stagnant market. However, some announcements from developers have been positive news for this segment. For example, 20 apartment units within Sunrise City, District 7 were reportedly sold out after nearly one month of opening the completed apartments; and 19 of 28 apartment units in the third launch ceremony of Léman C.T Plaza, District 3, were reportedly sold.

Thao Dien Pearl, a mid-end project, that has the benefit from the first Metro Line, has reported good sale rates with 15 units sold since this Metro line broke ground in August 2012.

There are some projects that have decreased their stated prices, however the 10%-20% discounts on the total apartment value depend on the payment terms that have been applied in the market now. Furthermore, many incentives continue to be used to attract the buyers including flexible payments, bank loans support up to 70%, interest incentives, management fee exemption, etc.

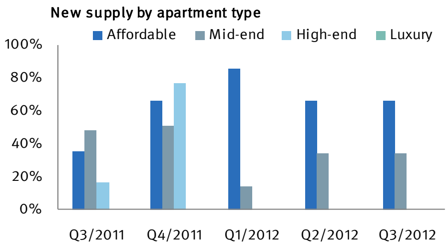
An interesting observation in the secondary market is the sharp decrease of the Hoang Anh Riverview, District 2. The secondary price of this project currently is around VND18 million (US$866)/m², a sharp decrease of approximately 30% compared to the secondary price in the same period last year. The direct discounts on the primary market and the strong decrease in selling price from some wholesale investors have made the secondary prices lessen from 10%-20%.

Supply

ParcSpring - District 2

Approximately 2,200 apartment units from 7 projects were launched in Q3/2012. This number is 1.25 times higher than the launched units in the last quarter, although traditionally annual lunar July is not considered a good month for purchasing properties. The majority of newly launched projects is within the affordable segment occupying 66% of the total supply, the mid-end segment with two projects ParcSpring and Star Hill occupied the remaining 34%. Three new projects were launched in Go Vap District including Sunview 3, 26 Nguyen Thuong Hien and Ha Do Apartment. Also, in the Hoc Mon District, the first project named Cheery 3 Apartment has also entered the market providing 287 units.

The selling price for new projects launched in Q3/2012 ranges from VND12.3 million (US$589) - VND20 million (US$957)/m² for the affordable segment and from VND20.9 million (US$1,000) - VND39 million (US$1,870)/m² for the mid-end segment.



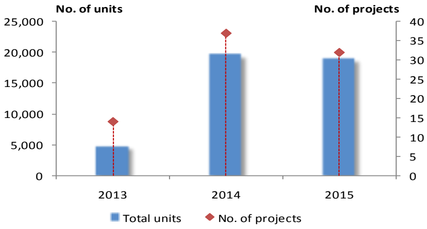
Source: Knight Frank Viet Nam Research & Consultancy

Demand

The majority of demand is still emanating from the average income persons with the target of the affordable segment ranging from VND12 million (US$600) - VND20 million (US$1,000)/m²). The most demanded apartment units range from 45 - 70m²/unit in sizes.

Outlook

There were few future projects announced in this quarter. Two of the three new future projects are the next development phases with nearly 750 units in District 6 and Binh Tan. In the next three years, there is planned to be approximately 40,000 units entering the market mainly located in District 2, 7, 9 and 8.



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

Liquidity requirements from most developers and the low confidence in the housing market could force the developers to execute further different ways to sell their products, leading to the selling prices continuously decreasing in both primary and secondary market.

The projects, which have completed on time and met the real demand from the majority of the end user buyers including affordable selling price, location, infrastructure, flexible payment terms, etc. are expected to continue to attract the customers.

VILLA, TOWNHOUSE, AND LAND PLOT FOR SALE

Market Performance

The 3rd quarter of 2012 witnessed another stagnant period despite all the attempts of the government and developers to stimulate the demand. There were no new villa projects supplied to the market. The transaction rates remained weak and was dominated by products valued at around VND1 billion (US$50,000)/unit.

The land plot market in the last quarter was highlighted by several new launches, notably located in Thu Duc District and District 9. It is noteworthy that these projects were offered under the average asking price in the area. Savico's project, in Hiep Binh Phuoc Ward, Thu Duc District, supplied over 60 land plots to the market at VND8.5 million (US$400)/m², 8% lower than the average land price in the area. The Hoang Anh Minh Tuan Project, in Phuoc Long B, District 9, reported a sold rate at around 75% of the total supply and an average transaction rate estimated at VND11 million (US$550)/m², 20% lower than the average asking rate in the same area.

The land plot market in other areas and other segments also experienced a tough period. The transaction in Phuoc Kieng and Phuoc Loc Ward, Nha Be, some distance away from Phu My Hung, continued to slow down slightly since the beginning of the year despite the similar selling price to District 9. The other projects which offered above VND15 million (US$750)/m² or above VND1.5 billion (US$75,000) per plot failed to attract many buyers.

As there was no new villa and townhouses supplied to the market, this kept the primary supplies at around 650 units. We have acknowledged about seven mid and high-end villas projects in District 2, District 9, District 12, and Thu Duc which were ready to launch with a total supply estimated at 2,000 units. The weak demand and land price reduction partly attributed to the delay of these projects.

The land plots in surrounding areas of HCMC continued attracting the buyers due to the affordable price from VND2 million (US$100) - VND3 million (US$150)/m². The quarterly absorption rate of these projects was estimated at over 60% of the total new supply.

Outlook

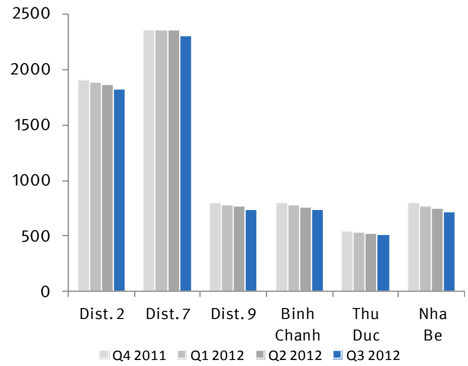
The quarter's land plot launches and market performance illustrated the expectation of the market. The gap between the current asking price and expectation has placed pressure for further reductions in the land price. We expect a slight drop over the next quarter.

Phu My Hung announced their plan to officially launch the My Phu 3 Villas early next quarter. The project will contribute 81 units to the primary supply. The supply is expected to see further VND1 billion (US$47,800) land plots offered to the market.

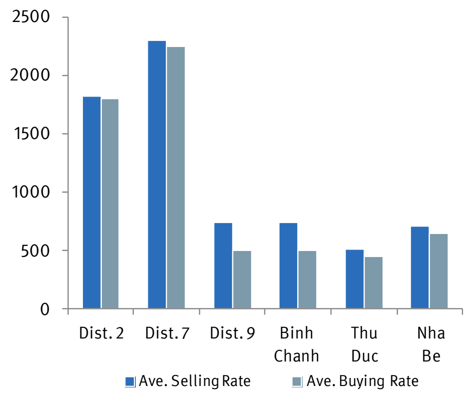
Villa Market by District - Q3/2012

	Selling Rate (US$/unit)	Rental Rate (US$/unit/month)
District 2	408,000 - 4,500,000	2,000 - 5,500
District 7 - PMH	700,000 - 3,500,000	1,800 - 3,500
District 9	405,000 - 1,000,000	1,000 - 1,500
District 12	130,000 - 168,000	- -
Binh Tan	120,000 - 170,000	- -
Can Gio	169,230 - 333,000	- -
Cu Chi	160,000 - 216,000	- -
Nha Be	480,000 - 1,000,000	- -
Thu Duc	283,000 - 350,000	700 - 1,000

Ave. Project Land Price in Certain Areas



Ave. Selling & Buying Rate in Certain Areas



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

We have seen very limited positive effects from stimulation policies and efforts from the government and banks during the period. Market confidence is expected to remain weak in the next quarter.

The selling rate of new launches in the quarter revealed the gap between market expectation and current asking prices in these locations. This may lead to a further reductions in land prices to meet the buying rate or real demand rate.

SERVICED APARTMENT

Market performance

In the context of the current difficult economic conditions, changing the building function is an alternative solution that many developers have chosen to overcome the non-performing sectors. We have witnessed many planned high end apartment projects change the function to serviced apartments as this segment has generally been more resilient than other markets after the economic crisis. Following Ben Thanh Times Square, Saigon City Residences, DB Court located at Dien Bien Phu Street, District 3 has already changed the function from office to serviced apartments and provides 38 units to the market. Another office building that has also changed some of its function to service apartments is N'orch Building located at Bui Thi Xuan Street. This building has redeveloped levels 12th to 16th into 30 units to be available for lease. In recent years, despite the recession and the slow down of the property market, the serviced apartment market industry continues to expand. There are approximately 3,700 units in HCMC. In the future, a large new supply is expected to come onto the market as there are many large scale projects that are under construction.

Indochine Park Tower

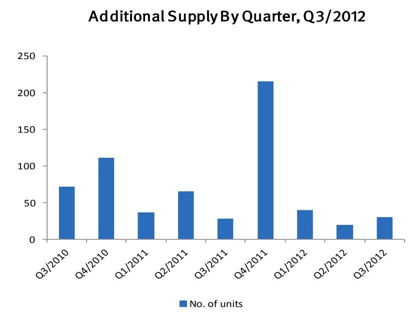
There are many boutique serviced apartment buildings that have come onto the market in this quarter. Angela Boutique announced that they will develop a chain of boutique serviced apartments in the CBD, Airport, Phu My Hung and An Phu areas. In this quarter, they have opened one building in Truong Dinh Street, District 3.

The current average rental rates have decreased slightly in Q3/2012 and maintain around VND695,000 (US$28.5)—VND730,000 (US$35)/m²/month for Grade A and VND385,000 (US$18.5) - VND520,000 (US$25)/m²/month for Grade B. The average occupancy rate of Grade B is represented at 83%. The average occupancy rate of Grade A is higher than Grade B by approximately 8% due to the lower supply.

Knight Frank Vietnam has officially announced the collaboration of exclusive marketing, leasing and management of Indochine Park Tower. Situated on Le Quy Don Street, opposite to Reunification Palace Park Tower, Indochine Park Tower is an exclusive Grade A serviced apartment building providing 55 fully furnished units to the market since 1998.

Competitors

Buy—to—let apartments continue to strongly compete with serviced apartments. After supplying 5 units in Q3/2011, Vincom has supplied another 8 fully furnished units onto the market. All these units have large areas from 150m² to 273m² with the asking range rate from VND73 million (US$3,500) - VND132 million (US$6,300)/unit/month. There is also a trend where some international schools have bought apartments in bulk to provide them to their expat staff in lieu of providing rental assistance within their packages. This trend has affected the demand for the Grade B and Grade C serviced apartment market.



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

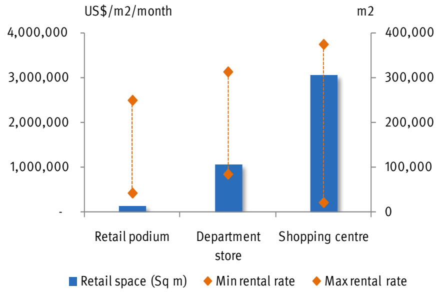
There are many serviced apartment projects that have broken ground in 2012 including Saigon Centre phase 2 and The One Ho Chi Minh City, District 1, Cong Hoa Garden, Tan Binh District and SC Vivo City, District 7. Provided there are no construction delays, this will create an abundant supply to the market in 2014 and beyond, which will no doubt place pressure on rental rates and occupancy rates. Notwithstanding, the existing Grade A buildings are expected to maintain rental levels and high occupancy rates throughout 2013.

RETAIL

Market performance

There are two new supermarkets entering the market in Q3/2012 including Co.opmart Hoa Binh (2,500m^2) in Tan Phu District and Vinatex Binh Trung (1,200m^2) in District 2.

Rental rates remain relatively stable compared to the previous quarter. However, some landlords have applied flexible rental payments including fixed rental rate or based on revenue turnover to support and attract tenants at the difficult time. Prime retail space is peaking at rates of approximately VND3,7 million (US$180)/$m^2$/ month in this period.



Source: Knight Frank Vietnam Research & Consultancy

** The rental rate include service charge but exclude VAT*

The average occupancy of the existing retail projects remains stable at 84%, similar to the last quarter. Although Vincom Centre A located in the downtown HCMC has not officially opened, this shopping center has reportedly more than 90% of the commercial space under offer after seven months of being launched for lease. This project is under the furnishing stage and will be handed over to the tenants in October 2012. This high commitment rate before launch is not unexpected due to the prime location in the HCMC CBD.

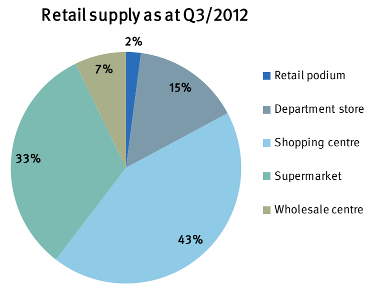
Demand

The economic woes and high inflation has still affected the purchasing power of consumers. The consumption expenses are moving from the non-food to food products. However, the retail sale value of goods and services in the first eight months of 2012 in HCMC increased approximately 17.8% compared to the same period last year (or increased 7.7% year on year excluding price volatility).

Some notable information in the retail market in Q3/2012 include:

- The US firm–Johnny Rocket Group is looking for the opportunities to develop the fast food chain to expand its brand in Vietnam.
- Saigon Tax Center in District 1 invested to widen the existing supermarket and upgraded the souvenir and kids yard areas to better serve the local customers and international tourists. At present, this shopping center has 4 floors with approximately 15,000m^2 of retail space.

Supply



Source: Knight Frank Vietnam Research & Consultancy

The total modern retail space in HCMC is approximately 709,000m^2 including retail podiums, department stores, shopping centres, supermarkets and wholesale centres. This supply has increased approximately 2% quarter on quarter and 14% year on year. Most of the retail projects are located in the HCMC CBD.

Outlook

On August 2012, Thuy Duong-Duc Binh Trading Joint Stock Company broke ground for TDB Parkson Shopping Center at 18E Cong Hoa Street, Tan Binh District, HCMC. TDB Parkson is developed on a site area of 8,800m^2 at a cost of VND500 billion (US$24 million). It is expected to be completed in Q4/2013 and fully occupied by the Parkson Group.

There is approximately 1.4 million m^2 of retail space entering to the market in the future, mainly located in Districts 1, 2, 7 and Tan Binh.

TDB Parkson - Tan Binh District

KNIGHT FRANK COMMENTS

Although the retail market has faced to some difficulties, HCMC is still considered as an opportune retail market with a young population, relatively high growth rate, urbanization, and increasing incomes. Many international retailers are widening their business expansion plans including Big C, Parkson, Metro Cash Carry, Lotte Mart, SUTL, etc. and some new big international retailers are coming to Vietnam such as Aeon, E-Mart.

The huge future supply will most likely affect to the demand on retail space in the market. The occupancy and rental rates are expected to decrease slightly throughout the remaining months of 2012.

OFFICE

Market performance

The office market in Q3/2012 was again relatively stable with tenants still holding the upper hand in any potential lease negotiations, although arguably not as strong as the 1st half of 2012, especially in the Grade A sector as the existing space is naturally absorbed.

Tenants are still enjoying the opportunity to look to upgrade their space to superior locations or better quality premises whilst being able to achieve a relatively cost neutral position. Also, tenants that were forced to decentralize out of the CBD when the office market was experiencing higher rental rates above the budgets of many companies are now able to assess the possibility of returning to the CBD or close surrounding locations.

We have witnessed rentals rates in the Grade A sector firm slightly in Q3/2012 to approximately VND689,000 (US$33/m²/ month) exclusive of management charges and VAT, with the further take up of space within the Bitexco Financial Tower. The building now has a commitment rate of approximately 65% and the developer is now in a position to increase the asking rentals as predominately only the smaller premium office space remains at the higher floors of the tower. BFT will still have a good run at tenants requiring immediate Grade A office space throughout 2012, however will soon face direct competition from President Place and Times Square when these developments enter the market in Q4/2012 and Q2/2013 respectively.

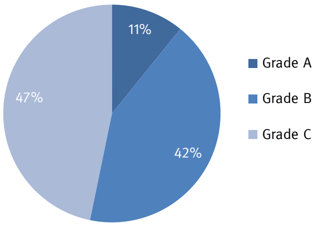
The remaining 6 Grade A office buildings are still consistently able to maintain high occupancy rates in the high 90% range, further illustrating the resilience of the established Grade A market. President Place has reportedly achieved a very positive pre leasing commitment rate of around 20%, including the transaction of Schindler of a whole floor of circa 774m². Tenants have been attracted to the boutique nature of the building and the quality construction that is environmentally friendly.

The Grade B market has remained relatively stagnant throughout Q3/2012 with average rents remaining unchanged at VND459,000 (US$22/m²/month). Maritime Bank Building has been very popular with tenants in recent times, including the recent transaction of Manulife, who have acquired approximately 1,500m² of office space. The building now has a commitment rate of approximately 3/4 of the total space.

Supply

Total office space in HCMC is nearly 1.3 million m², remaining stable compared to the last quarter. The majority of current supply located in District 1, occupying approximately 50% of the total supply.

Total current supply by Grade, Q3/ 2012



Source: Knight Frank Vietnam Research & Consultancy

Outlook

Rental rates within the Grade B segment is expected to come under pressure in the next few quarters with the recent completion of An Phu Plaza located in District 3. The office component within An Phu Plaza totals 8,833m² and is expected to be well received by tenants not requiring a CBD location, similar to the success of the nearby Centrepoint office building in Phu Nhuan District that was put to the market in 2009. Also, Lim Tower (33,300m²) located on the corner of Le Thanh Ton Street/ To Duc Thang Street, District 1 and HTMC Building on Hai Ba Trung Street, District 1 (26,000m²) which are both expected to enter the market in the first half of 2013.

An Phu Plaza– District 3

We have also witnessed an increase in enquiries for companies requiring a small representative offices in suburban areas like District 7, in order to enjoy a cost effective presence in HCMC. This could be seen as an opportunity for the serviced office entities to explore this potential market.

KNIGHT FRANK COMMENTS

The large new supply of Grade A space that was forecasted to come online in 2012/2013 but has been delayed or placed on hold for a number of reasons, has in turn, eased the pressure that was expected to be placed on rental levels and occupancy rates of the existing Grade A stock.

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