





### **HIGHLIGHTS**

- Overall, the HCMC real estate market was flat in Q4/2010.
- The residential apartment market in lower to mid end (\$600/m² \$1400/m²) was relatively solid with demand predominantly from owner occupiers.
- High interest rates and new restrictive legislation has reduced market liquidity and increased uncertainty for developers.
- Gold has been the preferred destination of capital in 2010. A gold price correction however could see money returning to real estate.

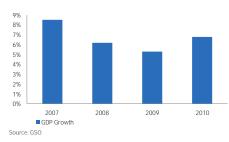
# Economic & legal update

#### **Economic Overview**

#### **GDP**

The Vietnamese economy grew by 6.78% in 2010. This is an increase on the 5.3% growth posted in 2009. The key drivers for growth were the manufacturing and construction industries and service industry, both growing by over 7%.

GDP Growth Rate Vietnam



#### CPI

Year on year, inflation stood at 11.75% at the end of December 2010. Foodstuffs, housing and construction materials and education were the main sectors that saw large price hikes. An increase in world food and crude oil prices in Q4/2010 have also been important contributors to this increase.

#### Lending Rates

Interest rates increased sharply during Q4/2010 with the Central Bank tightening monetary policy to reign in inflation and stabalise the foreign exchange market. Lending rates reached as high as 18-20%, making access to credit very difficult for many developers and home buyers.

#### Balance of Payments

The trade deficit in 2010 was at 12.4 billion USD, a decrease of 5.2% against 2009.

Imports from China made up the largest proportion, accounting for 17.9 billion USD. The US was the main destination for Vietnamese exports with 12.8 billion USD of export turnover.

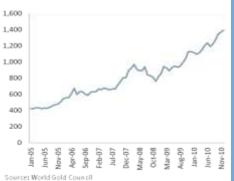
#### Foreign Direct Investment

969 projects (198 in HCMC) were registered in 2010 with over 17.2 billion USD (1.7 billion USD in HCMC at the end November) of investment capital. The realized FDI in Vietnam in 2010 is estimated to reach 11 billion USD.

#### **Gold Prices**

World gold prices hit a high of over \$1,400 USD per ounce in December 2010 (trading in Vietnam was up to \$30 USD higher) as investors search for a safe haven in difficult economic circumstances. The possibility of a Gold Price adjustment could lead to money being placed in real estate.

Average Monthly Gold Price USD per Ounce



### Legal Update

#### Decree 71 / Circular 16

In effect since August 8th 2010, this states that upfront capital by way of capital contributions or BCCs 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 and requires property backed loans to have a risk coefficient of 250 basis points. This has restricted the supply of credit through Q4/2010.

#### Decree 69

Continues to add uncertainty to compensation amounts for cleared land.

#### Decree 120

Issued 30th December 2010, sets out Land Use Fee payment terms for households and individuals and clarifies Land Use Fee calculations as set out in Decree 198/2004/ND-CP.

## KNIGHT FRANK COMMENTS

Growth in 2011 will be largely dependent or the global economic recovery that will boost exports and domestic macroeco nomic stability that will encourage con sumption and investment.

High interest rates continue to stifle the real estate sector and although necessary to control inflation, the Central Bank would be aware that high real interest rates could hold back growth.

A Gold Price adjustment could see capita returning to the real estate sector.

The recent legislation aimed at reducing speculation and market liquidity is deeply unpopular with developers and investors. The Government may have to review and clarify certain points in 2011.



# Apartment For Sale

#### **Market Performance**

In Q4/2010 the apartment market continued to see most activity in the affordable segment. With banks tightening the credit for purchasers, most buyers of apartments have been owner occupiers in the affordable range. The affordable segment has an average price of about 770 USD/m².

Primary Asking Price		
Affordable	US\$515 - 870/m <sup>2</sup>	
Mid-end	US\$870 - 1,200/m <sup>2</sup>	
High-end	US\$1,200 - 2,000/m <sup>2</sup>	
Luxury	$US$2,000 + /m^2$	
Source: Knight Frank Vietnam Research & Consultancy		

Due to the strong demand in the low to medium end, supply has duly reacted and most of the new supply in Q4/2010 is of the affordable kind. New developments launched in Q4/2010 were mostly situated to the west of HCMC such as: Binh Chanh,

Binh Tan, and areas to the south of HCMC: District 7 and Nha Be. Not surprisingly, these areas have high population densities.



This increase in supply in the affordable segment has resulted in strong price competition to sell products. Buyers now have plenty of options in the 40,000 USD to 50,000 USD range.

During Q4/2010 approximately 4,620 units came on to the market. Of this, approximately 23% were in the Binh Tan District to the west of HCMC.

A notable recent development in the mid/high end apartment market in HCMC was the re-launching of the former Blooming Park Project, to Imperia An Phu after Prudential Vietnam Fund Management Co completed their investment into the development. Imperia An Phu will deliver approximately 700 apartments in Q3/2011.

#### Outlook

Demand in the affordable segment is expected to continue to surpass other sectors. The mid to high – end market may see some signs for the recovery if the economy grows stronger and interest rates drop during 2011.

It is forecast that another 100,000 units across all sectors will be supplied to the market in the next 3-5 years. Projects that are under-construction account for 50% of the above figure.

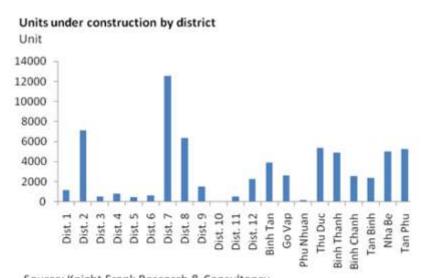
## KNIGHT FRANK COMMENTS

Overall, demand for apartments continued to be fairly subdued in Q4/2010.

The affordable segment of the market con tinued to see the most activity.

Sales of mid-high end apartments may benefit from realistic price points and financial support. High interest rates are currently making this more difficult.

The future of the market for apartments in HCMC is however positive as underlying demographics, a growing middle class and a need for quality accommodation will en sure strong demand into the future.



Source: Knight Frank Research & Consultancy

## Villa/townhouse for sale

#### **Market Performance**

The villa and townhouse market in HCMC was fairly subdued during Q4/2010. Land plots for villas and townhouses still attract much more interest from buyers as opposed to the 'bare-shell' villa product.

In District 9, the area with most new villa developments, there were many promotional campaigns by the various developers. However this did not result in a significant amount of transactions in Q4/2010. Price adjustment strategies and public relation tools were two common methods undertaken by developers in an attempt of push their products to the market. As a result, asking prices decreased slightly by 3% from last quarter.

VinaCapital's the Garland project in	District 9

Elsewhere in HCMC, the market in District 7, especially Phu My Quarter saw prices increase by 3% in Q4/2010. The majority of transactions occurred in the range of \$1487-\$1538 per square metre. The Tan Qui Dong Project saw significant interest in the last quarter as a result of the red book being issued.

Low liquidity and transaction rates were two major characteristics of the Binh Chanh villa and land plot market in Q4/2010. The primary asking prices remained unchanged from the previous quarter from between US\$692 to US\$795.

Other villas districts across HCMC and the secondary market remained quiet during the quarter.

Overall, the land plot market was more active with numerous transactions, especially in District 9, and District 7. However it is noted that the price remained generally unchanged.

Primary Asking Price		
Villa	US\$240,000-US\$1,150,000/unit	
Townhouse	US\$59,000-US\$860,000/unit	

Source: Knight Frank Vietnam Research & Consultancy

#### Outlook

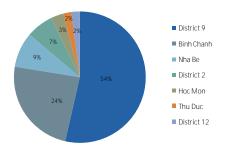
There is guarded expectation for any positive movement in the market in 2011, even though the world economic recovery is expected to continue. Developers are finding difficulties with compensation and land use fee calculations as Decree 69 has increased uncertainty in the calculation of land costs and thus the expected returns from a project. Meanwhile, capital shortage, resulting from the tightening monetary policy of the government to slow down the inflation rate, will have a major bearing on the market in 2011.

Demand in 2011 is still expected to remain flat until the second half of the year, as a result of high lending rates, speculation restriction policies, and market perception. The 2nd half of the year will depend on the macroeconomic environment.

Potential Future Supply				
<u>Location</u>	<u>Area</u> (ha)	Acct for		
District 9	105	54%		
Binh Chanh	47	24%		
Nha Be	17	9%		
District 2	13	7%		
Hoc Mon	6	3%		
Thu Duc	4	2%		
District 12	4	2%		
	196	100%		

Source: Knight Frank Vietnam Research & Consultancy

Potential Future Supply By District



Source: Knight Frank Vietnam Research & Consultancy

## KNIGHT FRANK COMMENTS

Villa plots continue to be more attractive although Decree 71 is restricting the possi bility of developers to sell vacant land plots.

In the medium term, the villa and town house market will be a lucrative market fo investors. Many well-known foreign rea estate developers still survey the market waiting for opportunities.



## SERVICED APARTMENT

#### Market Performance

In Q4/2010, one new project came onto the market, increasing total supply to 3,300 units. Following the success of The Crescent 1 and 3 which both have high occupancy rates The Crescent 2 supplies a further 111 Grade B units to the District 7 market.



As at Q4/2010, the total supply of serviced apartments in the HCMC market consisted of 61 projects with over 3,300 units. It is estimated that 32% of stock is Grade A, 47% Grade B and 21% Grade C.

In early Q4/2010, the market was fairly active before stabalising at the end of the quarter. The rental rate of Grade A has not changed compared to Q3/2010, at about

US $30-32/m^2/month$ , whilst Grade B has decreased slightly to about US $22-25/m^2/month$ .

In Q4/2010, the growth rate for the number of foreigners who came to Vietnam for long term employment decreased (source: GSO). This naturally impacts the serviced apartment market because most of the demand in this market is from foreign government employees, representative offices and foreign companies doing business in Vietnam. Furthermore, many foreign employees terminate their labour contracts at year end and return to their principal place of residence. These factors have culminated in a slight reduction in occupancy levels.

Occupancy rates for Grade A, internationally managed buildings are around 90%, which is consistent with Q3/2010. Occupancy rates for Grade B are around 88%.

Below is a summary of some special features of the serviced apartment market in 2010:

 Five buildings of Grade B came onto the market with over 350 units.

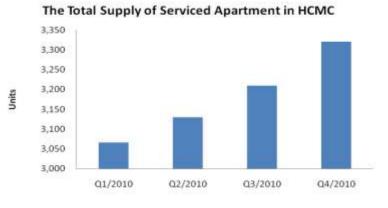
- Prices remained stable without major change.
- Strong demand is keeping occupancy levels high.
- Many projects broke ground in 2010 and are expected to enter the market in 2011-2012.

#### Outlook

The serviced apartments supply in HCMC is still lighter than comparable big cities in Asia. Furthermore, as Vietnam becomes more integrated in the international business community, there are increasing numbers of foreign workers in Vietnam. However, there will be strong competition from other property types such as buy-to-let apartments, villas and hotels.

As planned, there is expected to be 6 further serviced apartment projects to enter the market in 2011, however the exact timing will depend on construction progress.

In the first few months of 2011, the serviced apartment market is expected to be brighter with high potential demand.



Source: Knight Frank Vietnam Research & Consultancy

## KNIGHT FRANK COMMENTS

A noticeable trend is the increased demand from wealthy Vietnamese nationals for ser viced apartments, especially in HCMC CBD.

The future trend remains short lease term: with small to medium sized units.

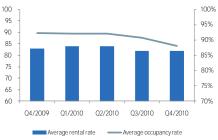
## retail

# Market Performance & Activity

The HCMC retail landscape in Q4/2010 has not seen any significant change compared to Q3/2010. The retail sales value of goods and services in HCMC reached 268,886 billion VND which shows a growth rate of 31.2% over the same period of 2009.

Occupancy rates as at Q4/2010 have slightly decreased as compared with Q3/2010. Currently, the average occupancy of retail space in the CBD and outside the CBD are approximately 93% and 85% respectively.

Average prime rental rates and occupancy rate in HCMC



Source: Knight Frank Vietnam Research & Consultancy

The rental rate as at Q4/2010 remains at the same level of Q3/2010. The average rental in the CBD range from US\$95/m²/month to US\$150/m²/month and outside of the CBD range from US\$35/m²/month to US\$85/m²/month.

Thien Son Plaza in District 7 was officially opened on 24 December 2010. The centre is arranged over four floors and is expected to be 80% occupied. In addition, the long awaited opening of the Rex Hotel's retail component was officially opened at the end of the year. A number

of exciting brands will make their debut in HCMC including Polo Ralph Lauren, Cartier, Bylgari, Channel, Chloe etc. Parkson Group also opened their latest department store in Saigon Paragon located in District 7 at the end of the year.

In Q4/2010 Debenhams decided to close their existing operation in Kumho Asiana Plaza and relocate to Vincom Centre. Furthermore Bitexco Financial Tower delayed the opening of the retail component until Q1/2011 due to changes in the retail concept and tenant mix strategy.

### Supply

Existing supply in the HCMC retail market is approximately 650,000m<sup>2</sup> including supermarkets, retail podiums, department stores and shopping centres.

The future pipeline of retail developments in HCMC exceeds 1,200,000m<sup>2</sup> over the next four years. This will more than double the existing supply.

In Q1/2011, there are about 26,000m<sup>2</sup> of new supply estimated to enter the market in the next quarter (please refer to the table).

#### Outlook

There is clear evidence in the retail market that retailers are becoming more demanding and expect more from developers. Discerning retailers demand good quality locations, well-proportioned shop units (i.e rectangular shape) and rental levels that reflect the level of business that can be achieved from that location. As the retail market matures and more supply enters the market, it is inevitable that retailers will be attracted to good quality developments that meet their require-

ments. In order for shopping centres to work successfully and survive in the long-term developers and tenants must work closely together and understand each other's business. We believe that this will be a fundamental issue in 2011 and unless the landlord/tenant relationship improves, there will be a lot of movement in the market

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.

Some future retail supply in HCMC in Q1/2011				
	Location	NLA (m²)		
Bitexco Financial Tower	District 1	11,000		
Carina Plaza	District 8	7,000		
Saigon Pearl	Binh Thanh	8,000		
Source: Knight Frank Vietnam Research & Consul-				

tancy

## KNIGHT FRANK COMMENTS

The importance of market research and retail consultancy before undertaking de velopments can not be under estimated Understanding the target market, the demographics and population formulating the retail concept and tenant mix is critical to the success of any retail development.



## Office

#### Market Performance

On the whole office rents for Ho Chi Minh City moved sidewards throughout 2010, and this was also the case in Q4/2010. The minimum rents stand at \$15.50/m² per month for Grade C buildings in the inner CBD and \$12/m² per month for the same grade in other areas. The maximum believed to be in the region of \$70.00/m² per month at Bitexco Finacial Tower for the upper zone smaller floor-plates; this is yet to be confirmed.

The existing Grade A stock remains at \$38—\$42/m² on a gross internal area basis. Deals on the higher quality buildings (Premium Grade A) are available, however whether companies have the confidence to relocate and fund the fit-out as well maintain the higher rental in this market remains to be seen.

Some of the good quality existing Grade B+ stock with large supply in District 1 have lowered their rents for short periods in Q4/2010 to rentals of sub \$30/m² as a way to boost activity. This has been widely reported in the market, however does not seem to have provoked a domino effect from the other competing buildings. This is a positive sign of a market showing resilience and confidence.

#### Outlook

State owned companies continue to dominate the top 500 Enterprises in Vietnam however a larger percentage of Foreign Invested Enterprises and Private Enterprises have broken into the top 500 and should continue to grow as the increasing supply of offices continues to be absorbed.

Demand remains relatively high for affordable office solutions and some existing Grade A Landlords are offering early renewals at beneficial rates as they get nervous about the future developments in District 1

The chart below indicates the current supply against the future supply (2013) as developments such as Saigon M&C Tower, Times Square, BIDV Tower, SJC Tower, Vietcombank Tower and Le Meridian are expected to enter the market.

The quality of building, location, management and an effective sales and marketing strategy will be essential for all these key future developments as they all be competing for their fair share of market demand.

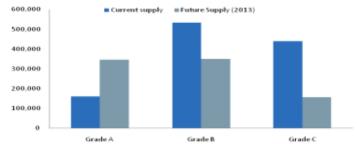


## KNIGHT FRANK COMMENTS

Grade A stock may be the easier choice fo some Tenants at the moment, it will not be long before Tenants generate further confidence in this dynamic market and the offers available to them in these Premium grade A buildings tempt them away and a surge of companies will follow.

Some Landlords are looking for immediate equity back from their developments as they offer long term leases (50 year) or sections of their property to speculative investors or owner occupiers. This trend appears to be more popular in Hanoi rather than HCMC.





Source: Knight Frank Vietnam Research & Consultancy



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