



Q4/2011

# REAL ESTATE Highlights

Ho chi minh city

Knight Frank

## HIGHLIGHTS

- Whether today's stagnant market will see a dramatic drop in prices in 2012 is unlikely, it is more likely, that certain sectors see a softening of prices and rents in most asset classes so that they reflect the true demand and supply dynamics in the market.
- The good news is that 2012 may see an increase in investment activity in general. We have seen very little fully distressed inventory come onto the market, as could perhaps of been expected given market conditions. Whereas 2012 may be the breaking point for some developers who they will be forced to offload their properties for less than their market expectations.
- The serviced apartment market has been the most resilient market segment during recent difficult times, however the effects of a large new supply to recently enter the market will be interesting to monitor. The Grade B and C market will come under particular pressure from high end condominium apartments that will be on the market for lease after speculators have failed to sell.

# Economic & Legal update

## Economic Overview

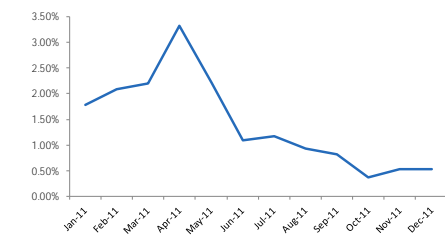
### GDP

According to the General Statistic Office, for the entire 2011, GDP was estimated to have grown approximately 5.89% compared to the previous year. This number is lower than 6.78% in 2010. The HCMC GDP growth rate reached 10.3% in 2011, with this number being slightly lower than last year (11.8%).

### CPI

The average CPI in 2011 increased 18.58% compared to 2010, just exceeding the target of 18 percent set by the government. Although CPI figures in Q4/2011 showed the lowest quarter on quarter price increase of 2011.

Movements of CPI in 2011



Source: GSO

### Lending Rates

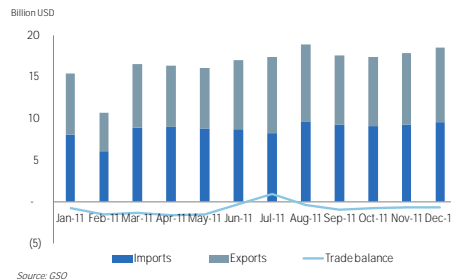
With inflation coming under control, the State Bank of Vietnam has capped deposit rates at 14% in order to try and improve liquidity. Lending rates have slowly followed, currently ranging from 18% to 21% decreasing slightly compared with the last quarter, however the access to credit in the real estate sector is still severely limited due to ongoing lending restrictions.

### Balance of Payments

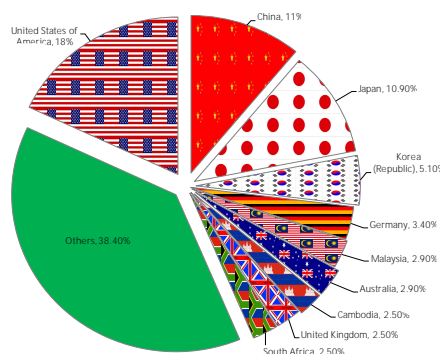
According to the General Statistics Office, the trade deficit of 2011 stood at US\$9.5 billion, equal to 9.9% of total export turnover. The deficit of 2011 is the lowest in

the last five years. Total export turnover is estimated at US\$96.3 billion for the entire 2011, an increase of 33.3% compared with the same period of 2010, exceeding the target of 2011 which was 10%. The overall balance of payments surplus was over US\$3 billion compared with a deficit of US\$3,07 billion last year.

Import & Export, Balance payment for the 12 months of 2011



According to Custom's Vietnam, the top 10 major exporting market of Vietnam in the 9 months of 2011 is shown below:



### Foreign Direct Investment

For the entire 2011, Vietnam attracted approximately US\$14.70 billion of FDI, equaling 74% of the same period of last year. Of which, the registered capital of 1,091 newly licensed projects was US\$11.56 billion, equaling 65% of the same period of last year.

According to the General Statistics Office,

within the twelve months of 2011, the disbursement capital was approximately US\$11 billion. This number is the same as last year.

## Legal Update

### Directive No. 2196/CT-TTg

Directive No. 2196/CT-TTg dated on 6 December 2011 requires actions by several relevant ministries, specifically, Construction, Finance, Environment & Natural Resources, Investment & Planning to formulate a master plan and legal framework in order for the industry and its players to operate more effectively in the future.

### Decision No.2093/QĐ-TTg

Decision No.2093/QĐ-TTg issued and taking effect on 23 November 2011 by The Prime Minister on the reduction of land rental in 2011 and 2012 with regard to some economic organisations.

### Decision 64/2011/QĐ-UBND

Decision 64/2011/QĐ-UBND issued on 15 October 2011 by the People's Committee of HCMC and taking effect on 25 October 2011 on adjustment rates of land price to compute residential land use fees for the areas exceeding the land limits allocated to individuals and households in HCMC.

### Document No 8844/NHNN-CSTT

Document No 8844/NHNN-CSTT issued by The State Bank of Vietnam and taking effect on 14 November 2011, easing credit restrictions on non-productive industries to allow commercial banks to grant financing for social housing projects and housing projects that will be completed and available for use before 2012.



# Apartment For Sale

## Market Performance

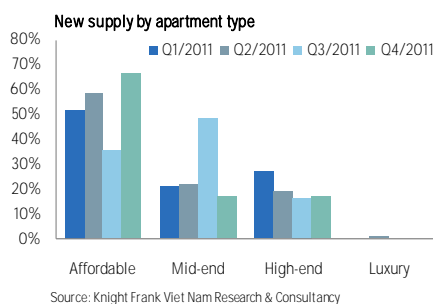
Although Quarter 4 is usually the eventful period annually, the apartment for sale market in HCMC continued to witness low transaction rates over the quarter.

In Q4/2011, there are some primary projects publicly announcing the dropping in prices from 20% to 30%. Although the apartment prices continued to decrease, the market witnessed low transaction rates due to the 'wait-and-see' attitude of the buyers. Besides the direct discount, some developers still offer many aids such as longer payment schedules, bank loan support, lucky draws and discounts for buying in bulk, etc. This is entirely the period for the buyers.

The price in the secondary market continues seeing the downward trend with an approximate 10% decrease q-o-q across all districts. A major reason is that the market liquidity is still low and the investors need money to make loan payments to the bank. This could put pressure on unsold stock in the primary market.

## Supply

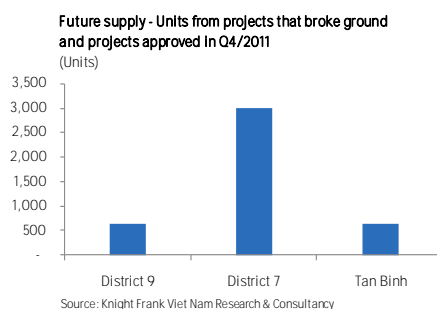
Approximately 2,200 apartment units were launched in HCMC in Q4/2011. The affordable sector constituted the majority of new supply with 66%.



Two notable projects which supplied more than 400 apartment units to the market were An Tien Gold House, Nha Be District and Tin Phong, District 12. The An Tien Gold House had a good selling performance at the launching period according to the public announcement of the developer. The Moon Garden, District 4 was the only high-end project launching approximately 380 units in this quarter. Moreover, two other mid-end projects included Tera Rosa Luxury Condominium, Binh Chanh District and Celadon City, Tan Phu District also launched a total of 380 units.

The majority of new supply offered to the market in Q4/2011 came on line in suburban districts such as Binh Tan, Nha Be, Tan Phu, Binh Chanh and Thu Duc.

Four projects broke ground in Q4/2011, contributing approximately 4,200 units to future supply.



## Demand

The affordable apartment segment ranging from VND10,750,000 to VND17,200,000/m<sup>2</sup> was still favoured by the buyers with real demand during Q4/2011.

According to the official document No. 8844/NHNN-CSTT dated on 14 Nov 2011 issued by the State Bank of Vietnam, there are four credit groups taken out of the non

-productive basket. This could be a good signal for property credit.

## Outlook

A large number of projects are projected to enter the market over the coming years, with the future pipeline centered on Districts 7, 2, 9 and Binh Tan. Overall, 55 projects bringing 24,000 units are planned over the next 3 years in HCMC.

## KNIGHT FRANK COMMENTS

The real estate market continues to face difficulties due to the low purchasing power. Meanwhile, the property firms have to make debt payment for the banks to continue investing to complete the projects. As a result, this could force the developers to make a priority at lower prices to ascertain further capital.

Determining the real demand of the market, the key local developers such as Phat Dat, Novaland and international companies such as Capitaland, Indochina Land have, in some cases, planned to change business strategies aiming at the affordable and mid-end segments to meet the demand of the majority of buyers.

There has also been speculation that the Government will lower interest rates in 2012 if inflation becomes further under control. This could breathe some activity into the property market to help counteract against the falling prices.

# Villa, townhouse, AND Land plot for sale

## Market Performance

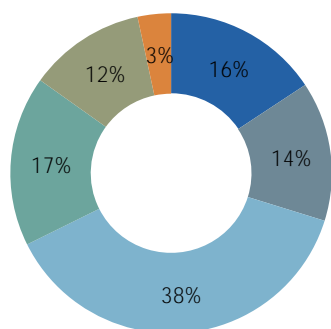
The HCMC villa and townhouse market in the last quarter of 2011 still remained stagnant. The supportive events were not able to raise up sale volumes to a notable level. Whereas the land plot market of surrounding provinces of HCMC which provide affordable products, achieved good sales activities.

The last quarter of 2011 witnessed several launches in District 7, 9, and Binh Tan District. Phu My Hung Joint Venture commenced Phase 1 of its luxury riverfront villa project, Chateau, in District 7. Whereas Khang Dien and Vinh Tien contributed more than 50 units to the market supply with Hoja Villa in District 9 and Saigon West Villa in Binh Tan District.

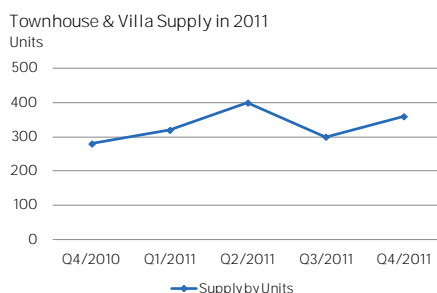
The supply increased by nearly 20% to approximately 360 villas and townhouses from the previous quarter. Although this new supply attracted some attention from the market, the current market conditions have affected the confidence of the buyers. Cash rich people continued to be targeted market. The minimum offered price stood at VND4.3 billion per unit, and

### Villa & Townhouse Supply

Supply by District (%)



Source: Knight Frank Viet nam Research & Consultancy



Source: Knight Frank Viet nam Research & Consultancy

higher in prime locations such as Phu My Hung. However, lower than expected return rates made it less attractive to the buyers than gold.

The opening of Thu Thiem Tunnel was not able to significantly increase the sale volume in the District 2 and 9 land plot market. The prime locations experienced very few transactions, whereas the low-end market witnessed slight increases from the previous quarter especially in Nguyen Huu Tho Street - Nha Be and several projects along Nguyen Van Linh Boulevard, Binh Chanh.

The surrounding provinces including Long An, Dong Nai and Binh Duong, continued experiencing high transaction rates. The affordable price, especially under VND5 million/sq m, achieved the majority of sales. The expectation of improvements in facilities in the future is the main driver of the buyers.

## Outlook

We see no supportive factors regarding market confidence which may stimulate the demand in the beginning of 2012. The banking system hopefully continues to be restructured to strengthen its capability. The inflation rate is still far from being at a controllable level. The sustainability development model is still preferable to the government.

However, the second half of year 2012 is expected to give a clearer insight regarding market movement. The current economic conditions make the recovery time unpredictable. Consequently, the villa market is not preferable by the cash rich people against the gold market, which has higher expectation of return.

Future Supply by District		
District	No. of Project	Site Area (ha)
District 2	14	189
District 7	9	135
District 9	30	331
District 12	1	3
Thu Duc District	5	35
Binh Chanh District	4	50
Can Gio District	4	99
Cu Chi District	1	16
Hoc Mon District	1	4
Nha Be District	6	40

Source: Knight Frank Viet nam Research & Consultancy

## KNIGHT FRANK COMMENTS

The market performance of 2011 reflected the economic conditions where the fear of further inflation has severely affected confidence. 2012 is expected to remain relatively stagnant.

We consider that District 2 and 9 will be the most desirable area for the villa and townhouse market as result of the infrastructure improvement.

Neighbouring provinces of HCMC will continue to achieve good sale volumes.



# SERVICED APARTMENT

## Market Performance

A large new supply of serviced apartment units came onto the market in Q4/2011 adding 185 units to the current supply. There are two (2) projects located in District 3 incorporating Saigon Mansion which is an eighteen (18) storeys complex building with 72 serviced apartment units and Saigon Pavilion with 30 units. Ben Thanh Times Square, a luxury building positioned in a prime location of District 1, has changed the purpose use of 30 units from apartments for sale to serviced apartments and managed by Fusion Maia. This is also a market trend of 2011 as the real estate market has continued to face many difficulties, developers have been forced to be more flexible to minimise losses.

The 5-star Nikko Saigon Hotel has entered to the market in this quarter which is a part of the Royal Centre complex. This complex also comprises 53 serviced apartment units.



Ben Thanh Times Square

As at Q4/2011, the total supply of serviced apartments in HCMC market was over 3,620 units. As expected District 1 continued to possess the highest market share with 51% of total stock.

Occupancy rates remain high at over 90% for Grade A and 80% for Grade B. The average rental rate is around VND645,000 - VND752,000/m<sup>2</sup>/month for Grade A, VND430,000 - VND537,000/m<sup>2</sup>/month for Grade B and VND258,000 - VND323,000/m<sup>2</sup>/month for Grade C.

## Competitors

Hotels are considered as a competitor of serviced apartments for the short-term market while serviced apartments compete with buy-to-let apartments and villas for rent in the long-term market. The new trend is developing complex buildings including office, hotel and serviced apartment sections to create more convenience for tenants.

Ha Do Villa Compound located in District 10 also provides 20 villas and 10 serviced apartments to the market.

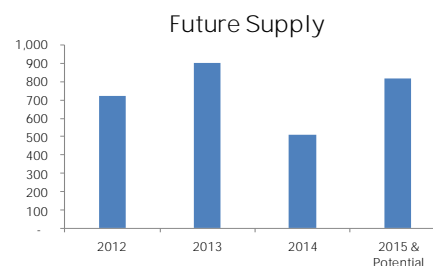
Below is a summary of some special features of the serviced apartment market in 2011:

- 9 serviced apartment buildings came onto the market
- Prices remained stable without major change
- Changing functions of apartment to serviced apartment buildings became more prevalent
- A notable recent trend is the increase of Vietnamese tenants in CBD serviced apartment buildings.

- New condominium units that were purchased by speculators who have been unable to sell, will place pressure on Grade B and C serviced apartment projects if put on the market for lease.

## Outlook

Although the occupancy rate still remains high at present, however, there will be more competitors with serviced apartments in 2012 including Grade A and B such as Saigon One, Saigon Times Square, Diamond Island. These new projects are expected to enter the market and put pressure on the existing stock.



Source: Knight Frank Vietnam Research & Consultancy

## KNIGHT FRANK COMMENTS

The serviced apartment market has been relatively stable over the difficult economic period. However, the large supply expected to enter to the market is the signal that landlords must give more incentives and improve the facilities and services to meet the demand of the tenants.

Tenants' budgets are being pressured under difficult economic times and the trend is towards 1-bedroom and 2-bedroom units.



# retail

## Market Performance

The retail sales value of goods and services in HCMC was estimated at VND 459,551 billion in 2011, showing a growth rate of 23.5% from the same period last year. The CPI in December has slightly risen 0.73% in comparison with last month mainly as a result of the Government's policy of inflation control and price stabilisation. Consequently, the index accelerated dramatically at 11.5% in 2011.

The softening of the real estate market has resulted in falling rental rates in most shopping centers in the CBD and outskirts. However, the prime department stores have continued to achieve rates of VND2,365,000—VND4,945,000/m<sup>2</sup>.

Meanwhile, the grand opening of the Crescent Mall last December has put pressure on the occupancy rate of the whole market in HCMC. The Management team has reported that the overall occupancy of the centre is approximately 75%.

## Activities

The Vietnam retail market has reached its peak since 2010 and slowly the retail sales volume in 2011 decreased. However, according to a Nielsen survey, Vietnam's consumer confidence stood at 96 points for the Q3/2011. Thus, we have seen the entrance of many international brands and a foray into the market of the top retailers this year.

Gap, Warehouse and Karen Millen all opened their first store in Vincom and Parkson Department Store, most likely ensuring the following of other int'l brands from mid-end to premium.

AEON, one of the Japanese leading retail groups, has applied for an investment license in the distribution sector in HCMC.

They plan to invest more than US\$100 million for a 3.5ha trade centre development site within the Celadon City Project, Tan Phu District.

E-Mart, a South Korean retailer group, has engaged with U&I Group in Binh Duong to develop their retail shop chain project with the initial investment capital of US\$80 million. Their aim is to develop up to 52 supermarket & shop chains nationwide.

Other existing players with business expansion considerations include Lotte Mart, Circle K, Shop & Go, Giant, Guardian etc.

The rapid growth of E-commerce is expected to effect rental rates in the traditional retail market. According to Cimigo's survey last April in HCMC & Hanoi, Online shopping has been the highest increasing activity from net-citizens with a the growth rate from 28% in 2007 to 48% in 2010.

## Outlook

The driving factor of the retail market have seen the following:



The Food retail sales is increasing even in the crisis, thanks to locals' habit. It has witnessed skyrocketing growth in recent year, which is poised for around 20.3% of CAGR during 2010—2012.

The Non-food retail sales is decreasing under the difficult economic conditions.

However, the revenue from luxury fashion and apparel is healthy thanks to the "young millionaires generations", which consume a 7.2% of total retail sales of consumer goods. They are part of a wider trend seen in Asia, which now account for 50% of the annual US\$80 billion market for luxury brands.

Thus, demand for retail space is apparent in the market, including development opportunities. We have witnessed the success of some department stores such as Parkson Saigon Tourist, Diamond Plaza, or Saigon Shopping Centre. We have also witnessed the short fall of many other shopping centers around the City. The reason generally is that developers and retailers haven't met priority factors in business decision making.

### Difference priority list of business decision making

The Retailers	The Developers
Location	Location
Theme & Concept	Rental rate
Tenant mix & Design	Tenant mix & Design
Management	Theme & Concept
Rental rate	Market segment

Source: Knight Frank Vietnam Research & Consultancy

## KNIGHT FRANK COMMENTS

Under the difficult economic conditions and changing of consumption habits, developers will need to be more creative and flexible in their actions and policies to attract and keep tenants.

The annual turnover of Giordano, Bossini, Valentino and Mango etc have seen growth rates at 20% - 30%, which is promising for the entrance of international retailers & brands.



# Office

## Market Performance

The last quarter of 2011 appears to have been a busy time for both tenants and landlords with more activity and transactions, with particular reference to the grade A sector.

Bitexco Financial Tower, Kumha Asiana Plaza and Vincom Center have all completed notable transactions totaling in excess of 5,000 sq m. Hear say evidence suggests that there are other sizeable transactions geared up for Q1 and Q2/2012.

The main reason for this take up has been the **'opportunistic tenant' who has** seized this time to upgrade their current accommodation at a nominal or zero increase in rental liability. The perceived over-supply of Grade A space is a myth as Bitexco Financial Tower nears 50% committed and will soon be limited to the smaller floor-plates further up the tower under 1,000 sq m.

A brief overview of other notable Grade A projects are:

- Saigon One Tower (1 Ham Nghi, D1) topped out in December 2011 with only cosmetic finishes required to complete the office component in Q2/2012.
- Saigon Centre Phase II (65 Le Loi Street) had its ground breaking ceremony in November 2011.

The Grade B office market is under some pressure from the grade A market, however has in the main maintained its occupancy and rental levels in District 1. **Many companies will choose 'modest' accommodation to portray a more humble image to their clients whilst the global markets remain fragile.**

In decentralized areas the office market demand is poor and rents are falling considerably as developers try to attract more budget sensitive requirements. This is particularly apparent in District 7 where Petroland have just brought 20,000 sq m to the market; rents range

between VND215,000 to VND365,000 per sq m exclusive.

A topical issue at the moment is the government legislation preventing the use of foreign currencies in quoting price products and services, enforcing the use of the Vietnam Dong and managing the foreign currency. Two companies have been caught out by this and fined around VND500 million for their ignorance.

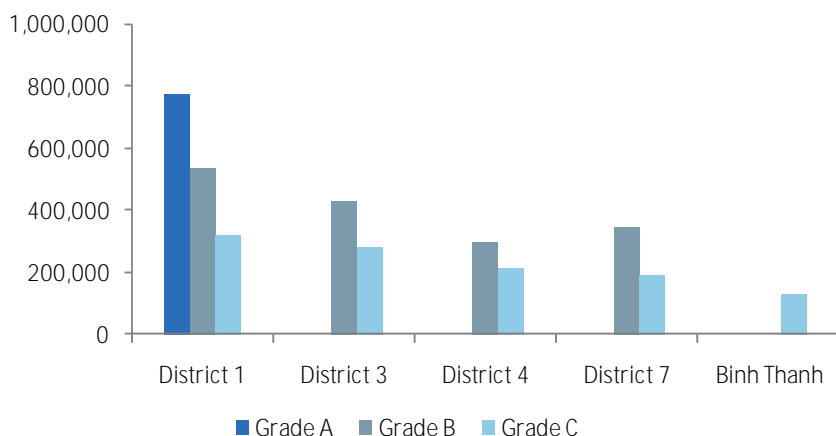
## Outlook

There will still be a flurry of activity in District 1 this year as tenants review their options and look for opportunities to upgrade, save costs or both.

Decentralized areas will continue to struggle and landlords will be forced to offer lower rentals in order to attract and retain their tenants.

The recent government legislation mentioned above will be an interesting negotiation between landlords and tenants. We will see a combination of fixed rental uplifts, CPI linked reviews and/or more regular rent reviews.

Office rental rate by grade in main districts  
(VND/sq m/month)



Source: Knight Frank Vietnam Research & Consultancy

## KNIGHT FRANK COMMENTS

Expect an increase in take up figures from 2011 due to a combination of higher quality grade A accommodation available and tenants re-assessing their options in a tenant friendly market.

There will be a tenant shift back into District 1 from the decentralized areas as tenants come up to their 3-5 year lease renewal with office rentals 50% lower than the dizzy heights of 2007-2009.



## Americas

USA

Bermuda

Brazil

Caribbean

## Australasia

Australia

New Zealand

## Europe

UK

Belgium

Czech Republic

France

Germany

Hungary

Ireland

Italy

Portugal

Romania

Russia

Spain

The Netherlands

Ukraine

## Africa

Botswana

Kenya

Malawi

Nigeria

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