RESEARCH

Q2/2012

REAL ESTATE HIGHLIGHTS

HANOI

Knight Frank

HIGHLIGHTS

- Despite the continuing positive recent signs in the economy with inflation appearing well under control, the lowering of the deposit rate and decreases in interest rates, the real estate market in Ha Noi continues to be stagnant. It will be interesting to monitor whether these recent changes translate into any positive growth for the remainder of 2012.
- The Hanoi real estate market in Q2/2012 witnessed no significant positive moves but continuously slow acts in almost every sector. Not until late in the quarter did the market witness increased activity in the apartment for sale sector, particularly in the low-end and mid-end segments.
- Office was the only one sector that saw fairly stable movements though its performance in terms of rental rates was stressful.

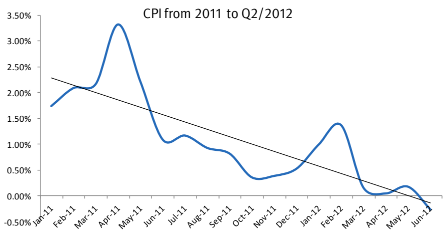
ECONOMIC & LEGAL UPDATE

Economic Overview

GDP

According to the General Statistics Office (GSO), within the first six months of 2012, Vietnam's GDP growth was approximately 4.38%. This number is lower than the same period of last years growth of 5.57%. GDP of Hanoi in the first 6 months of 2012 was at 7.6% which is lower than the forecasted number and for the first 6 months of 2011 (9.3%).

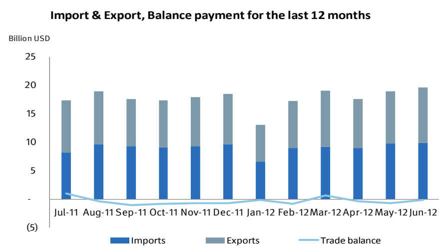
CPI



Source: *GSO*

Vietnam's consumer price index (CPI) in the second quarter of 2012 saw the lowest quarterly CPI decrease in the last three years with the recent negative 0.26% fall in June (the first time CPI has decreased after 38 months of increases). The average CPI for the first six months of 2012 increased 12.2% compared with the same period of last year and the CPI of June 2012 increased 2.25% compared with CPI in December 2011. Hanoi CPI in June had a decrease of 0.17% monthly and an increase of 6.32% year-on-year.

Balance of Payments



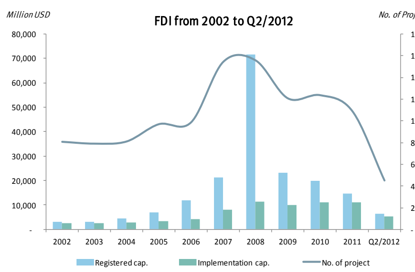
Source: GSO

According to the GSO, the trade deficit for the first six months of 2012 stood at US$685 million, equal to 10.6% compared with the same period of last year. Total export turnover for six months is estimated at US$53.1 billion, an increase of 22% compared with the same period of 2011 and total import turnover is estimated at US$53.84 billion, an increase of 6.9% compared with the same period of last year.

Lending Rates

With inflation coming under control, the State Bank of Vietnam has capped deposit rates at 9% pa (please refer to Circular No.19/2012/TT-NHNN in Legal Update) in order to try and improve liquidity. Lending rates have decreased 2% to 3% compared with the last quarter, currently ranging from 15% to 17%, however the access to credit in the real estate sector is slightly easier than last quarter since the government gave priority to trying to help the economy and the real estate market recover. In this quarter, many commercial banks are offering good incentives to their clients, who intend to purchase residential real estate.

Foreign Direct Investment

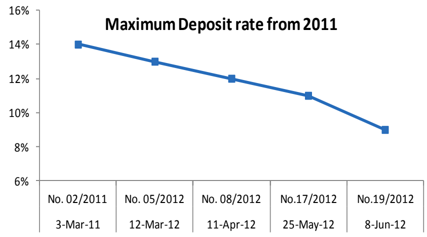


Source: *FIA*

According to the Foreign Investment Agency (FIA), in the first six (6) months of 2012, Vietnam attracted approximately US$6.4 billion of FDI, a decrease of 27.3% compared with the same period of last year. Of which, the newly licensed capital of US$4.76 billion (452 projects) decreased 25% compared with the same period of last year. There are 123 projects that have increased their capital contribution a further US$1.62 billion, a decrease of 64.5% compared with the same period of last year.

Within the first six months of 2012, the total registered capital decreased 27.3%, whilst the disbursement capital increased 1.9% compared with the same period of last year. This is approximately US$5.4 billion of US$6.4 billion, equal to 84.4% of total registered capital.

Legal Update



Source: *Knight Frank Vietnam Reseach & Consultancy*

From 12 March 2012 to 8 June 2012 , the SBV issued 4 circulars amending the maximum interest deposit rate from 12% pa to 9% pa. The details of the new Circular 19/2012/TT-NHNN dated on 8 June 2012 is shown below:

This circular will take effect on 11 June 2012 amending and supplementing a number of articles of Circular 30/2011/TT-NHNN dated on 29 September 2011 and replacing Circular No.17/2012/TT-NHNN. This circular states the maximum interest rate applicable to deposits in Vietnamese Dong of organizations, individuals at credit institutions and foreign bank's branches. According to this Circular, the maximum interest rate applicable to monetary deposits and deposits with a term of less than one month is 2% per annum, whilst the maximum interest rate applicable to deposits with a term of one to twelve months is 9% per annum. The deposit rate with a term of more than twelve months is negotiated based on the demand-supply of the capital market.

Decree No.42/2012/ND-CP

This Decree dated on 11 May 2012 and taking effect on 1 July 2012 has regard to the management and agriculture land use. This Decree limits the conversion from agriculture land to non agriculture land.

APARTMENT FOR SALE

Market Performance

In the contrary to Q1/2012 when the Hanoi apartment for sale market recorded a tough period with low transaction rates, Q2/2012 saw more positive signals in the low–end and mid–end segments.

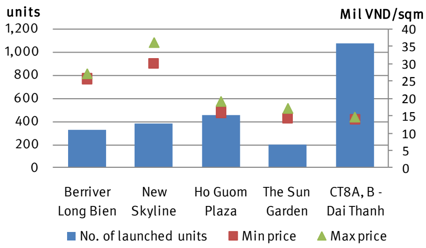
To improve poor sales from previous quarters and to attract more interest from the market, many developers are attempting to cut their asking prices by offering large discounts, promotions, incentives as well as encouraging up front payment to obtain better discounts. In addition, homebuyers have more alternatives on the completion conditions, either non-furnished or furnished, to meet their demand and affordability.

Upper mid-end to high-end projects continued price drops dramatically in Q2/2012 from 6% to 19% to generate interest. Some projects in Thanh Xuan (Golden Land), Cau Giay (Indochina Plaza Hanoi), and Tu Liem (Golden Palace) had to diversify their selling options and promotions to entice potential buyers in the market. On the other hand, in some projects, particularly in the mid-end segment in the Eastern area, capital values slightly increased. Berriver Long Bien is an example with 2% increase in prices on its official launch for NO3 block (324 units) late in the quarter.

Berriver Long Bien

The market also witnessed the additional supply, mainly from Ha Dong District: Ho Guom Plaza (460 units), New Skyline (380 units), The Sun Garden (approx. 200 units), and CT8A, B—Dai Thanh (1,080 units). Ha Dong District continued expanding supply with the asking price targeting to low and mid-end market. The highlight of the new supply came from Berriver Long Bien which is just 3 km from Hoan Kiem Lake, with the unit prices starting from VND1.6 billion (approx. US$76,000) and CT8A, B—Dai Thanh with unit prices starting from VND600 million (approx. US$29,000).

New Supply in Q2/2012



Source: Knight Frank Vietnam Research & Consultancy

Demand

In Q2/2012, demand stayed moderate in the low and mid-end segments. Buyers who are now predominately real end-users are looking for apartments in the price range of VND0.8–2.5 billion (approx. US$38,000–120,000) and unit sizes from 50m^2 to 90m^2. Nevertheless, high-end projects in the CBD and four central districts with prime locations were able to sell their units gradually.

Completed and soon to be handed over apartments are now preferred.

Banks have again offered mortgage loans more openly at more affordable interest rates and homebuyers can borrow up to 70-80% of the unit price for a maximum loan period of 20 years. This positive signal is believed to be one of the drivers to heat up the gloomy market.

Outlook

Sales in Q3/2012 are expected to be more promising than Q2/2012. Both buyers and developers will benefit from the reduction in interest rates. The remaining public capital investment package of the government for the real estate market of VND120,000 billion (approx. US$ 5.7 million) is likely to be disbursed in the second half of 2012 and is also expected to have positive impact on the market.

The lower interest rate at 9% along with unstable movements of gold and foreign currencies will most likely lead to less interest in savings and other investment options while the lending rate lowers. These factors altogether are expected to boost the property market in the second half of 2012.

KNIGHT FRANK COMMENTS

Homebuyers are now mainly end-users and are becoming more cautious and selective. This period is an opportune time for homebuyers who will have more choices and chances to own a property at reasonable prices, with good landscaping, facilities, design, etc. In contrast, it becomes more and more challenging for developers to provide good and competitive services and products.

The negative market condition in the past few quarters could be a good time for the market to adjust itself to eliminate inexperienced players, to enhance the market transparency and to meet the actual demand.

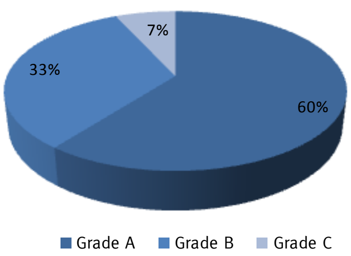
The market trend is continuing to witness asking prices slightly decrease in the low and mid-end segments and dramatically drop in the high-end segment.

SERVICED APARTMENT

Market Performance

After the opening of the two major Grade A projects in the western area in 2011 (Crowne Plaza West Hanoi and Calidas Landmark 72), the Hanoi serviced apartment has not welcomed any new significant projects in 2012, excepting some privately owned buildings. In Q2/2012, the market has added 10 units from a Grade C project on Pham Huy Thong Street, Ba Dinh District although it is currently in the pre-leasing period. The current supply of the market at the end of the second quarter was just over 2,870 units.

Supply by No. of units



Source: Knight Frank Vietnam Reseach & Consultancy

Another project in Ba Dinh District named Candeo Hotels Hanoi was expected to come online in Q2/2012 with 68 serviced apartments, yet it has been delayed the full completion until later of 2012.

The occupancy rate of Grade A projects saw a slight increase of approximately 2% from 70% in the last quarter. Calidas Landmark 72 has completed their facilities and services area for the serviced apartment and hotel block in May and has opened their sky deck on the 72th floor. It also obtained a higher occupancy rate of over 20% in Q2/2012 with 3-bedroom apartments being of high preference. In the meantime, its neighbour in the area, Crowne Plaza West Hanoi has offered different promotion and discount campaigns to entice more tenants. Other Grade A projects also recorded higher occupancy rates. Fraser Suites are still over 90% occupied. The least attractive units are mainly 1-bedroom as their rents are moderately higher than the normal market rents.

The occupancy rates of Grade B and Grade C apartments have slightly decreased to approximately 90% as this is often the time a number of tenants move out due to the end of the financial year.

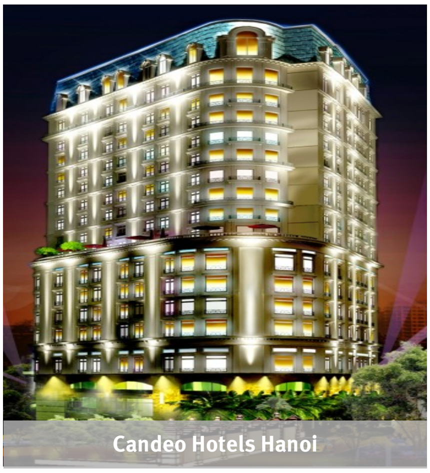
The current average asking rent for Grade A serviced apartments is approximately VND635,000 (US$30.5)/m²/month, a decrease of nearly 5% quarter-on-quarter. Due to the moving out of some tenants, the Grade B and Grade C segments became softer and rents have been more flexible with a decrease of about 10% to approximately VND400,000 (US$19)/m²/month) and VND305,000 (US$14.5)m²/month respectively.

According to our observation, rents of quality high-end villas for rent, particularly in the West Lake area remained fairly stable with some obtaining higher rents compared to the previous quarter. Private houses and small villas, in contrast, saw a slight decrease in rents to attract new tenants after the termination of leases in the quarter.

Outlook

According to the General Statistics Office, there are some positive signs for the serviced apartment market. Not only the total number of foreigners visiting Vietnam was approximately 2.9 million, an increase of 17.5% year-on-year, but the number of foreigners coming to Vietnam for work also increased by 21.3% compared with Q2/2011.

The third quarter is also the time of higher demand for the Grade B and Grade C projects, of which the majority is likely to come from international schools.



Candeo Hotels Hanoi

KNIGHT FRANK COMMENTS

Although the accommodation budgets of many companies have been tightened, there is always stable demand in the serviced apartment market.

CBD and West Lake areas remain the most preferred location whilst there are not many new large scale projects coming online in the next few quarters. More and more small buildings with about 10 apartments appear to meet the demand. These buildings are mainly developed and managed privately and leased at relatively affordable and reasonable rents.

RETAIL

Market Performance

The most concerning aspect of the Vietnam retail market in Q2/2012 was the new ranking in A.T Kearney's 2012 Global Retail Development Index. The Vietnam retail market in 2012 was out of the top 30 developing countries for global retail expansion. Within the last five years, the Vietnam retail market has dropped its top position which was obtained in 2008. This is not a positive sign for the property market generally and the retail sector in particular.

After the consecutive opening of some new large scale shopping centres and department stores in the previous quarters, the Hanoi retail market saw no new supply in Q2/2012.

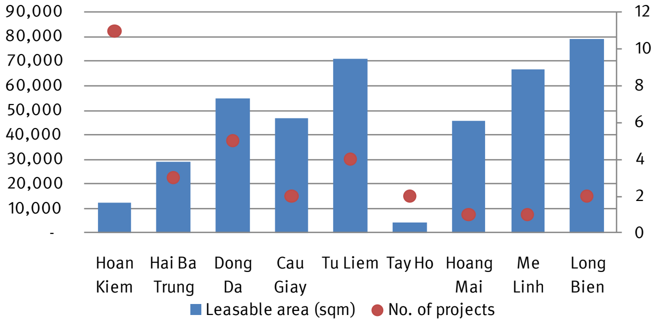
Newly opened shopping centres and department store continued filling up their space, which led to the increase in the occupancy rate of the whole market of 1.4% quarter-on-quarter. Although Indochina Plaza Hanoi has not been officially launched yet, the centre has obtained a fairly high occupancy rate in the pre-launching period, making the average occupancy rate of the retail market by the end of Q2/2012 stand at approximately 95%.

The average asking rents of the Hanoi retail market had almost no change compared to the last quarter as the market has been gradually absorbed as landlords have offered more incentives. The current average asking rent of the market was approximately 1,080,000 VND (approx. US$52)/m²/month (includes service charge, excludes VAT). The average rent of shopping centres stood at the bottom at approximately 935,000 VND (US$44.7)/m²/month while rents of retail podiums remains the highest, achieved at over 1,300,000 VND (US$63)/m²/month

There have also been obvious signs showing that the retail market started to be placed under some pressure after other sectors which were affected earlier. Some shopping centres outside the CBD has significantly less shopper flow than before, whilst those in the CBD are still visited frequently yet witnessed the weaker consuming volume of the shoppers. Many people are tightening their consuming budget, focusing more on their actual needs and paying less for their 'wants'.

We also recorded the closure of a number of shop houses across the city. Shop houses, even in prime location were accordingly showing lower asking rents.

Hanoi Retail Supply by District



Source: Knight Frank Vietnam Research & Consultancy

Outlook

Among the new retail supply that was planned to be completed in 2012, there is likely no shopping centre/retail space coming online in the next quarter although there are a few buildings in their completion period.

Hapro Cat Linh

KNIGHT FRANK COMMENTS

The current unstable economic condition has led to the decrease in the consuming volume of the market generally, which accordingly brought difficulties to shopping centres and retail spaces.

In general, occupancy levels are expected to increase with the addition of new projects such as Parkson at Keangnam, Indochina Plaza Hanoi, and others that still have available spaces. We anticipate rental rates will continue to decrease slightly in the near future.

OFFICE

Market Performance

The second quarter of 2012 continued with less significant events in the office market. Landlords of newly completed and almost completed office buildings, particularly those in the West, have tried their best to deal with potential tenants to fill up their buildings as soon as possible for the market competition has become more severe whilst the recovery of the economy is still controversial.

Despite the difficulties of the market, there were a couple of Grade B buildings in their completion phase that were officially pre-launched and leased in Q2/2012. Among those few new supplies, ICON4 Tower was a major Grade B project in Dong Da District offering 28,000m^2 of office space. Located right on the boundary of the West and the Mid Town of Hanoi, this office tower is likely to be a good alternative for companies who prefer the closer distance to the CBD, and is expected to compete directly with existing buildings nearby in the Kim Ma area as well as developments in the West.

ICON4 Tower

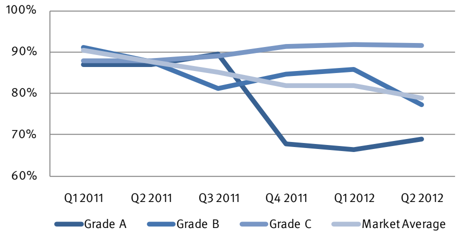
Hapro Cat Linh Building (Dong Da District, approx. 9,500m^2 of NLA) and VinaFor Building (Hai Ba Trung District, 12,600m^2 of NLA) are two other buildings close to full completion that were also officially available for lease to the market. Both of the buildings are relatively close to the CBD and are expected to attracts certain companies that want to stay in the vicinity of the CBD, whilst having expansion needs.

Overall, with current large vacancies of the market, the opening of those new buildings should not significantly affect the imbalance of supply and demand, which has already happened over the past couple of years.

The asking rent of Grade A office saw a slight increase of 1.6% to 735,000 VND (US$35)/m^2/month due to the asking rents of new vacancies within certain buildings in the CBD. The effective rent of the market however is believed to have been decreased marginally. Rents of both Grade B and Grade C office have decreased to approximately 500,000 VND (US$23.8)/m^2/month and to approximately 401,000 VND (US$19)/m^2/month respectively.

The vacancy rate of the whole market increased approximately 3% to 21%, in which Grade B office saw the largest rate of 8.7%. The vacancy rate of Grade A office, decreased more than 2% to almost 69% as the absorption of Keangnam Landmark 72 improved.

Hanoi Office Occupancy Rates 2011-Q2/2012



Source: Knight Frank Vietnam Research & Consultancy

On the demand side, despite a substantial amount of absorption in the CBD due to the relocation of tenants from Vincom City Centre in the previous quarter, Q2/2012 was slightly softer as many companies were still reluctant with their relocation plan. The majority of transactions in this quarter happened in the West, with a few companies relocating from the mid town area. Hence, the market continued its shift to the My Dinh area and is expected to continue this trend in the second half of 2012.

Outlook

In the next two quarters there will be new office buildings coming into the market in all the main areas of the city, providing the potential tenants with a wide range of choice. The new supply is expected to be gradually absorbed at continued lower rents.

KNIGHT FRANK COMMENTS

Demand will be well met when the market welcomes new buildings locating around city. Different requirements in location, rents, parking, facilities, etc from tenants will be more easily served. The market will be a Tenants' friendly market.

Landlords, on the other hand, will have to be wise in dealing with tenants on leasing terms and incentives to fully fill their buildings as well as remain with high occupancy rates.

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KNIGHT FRANK VIETNAM COMPANY LIMITED

Head Office:

+ Address : Floor 5, 40 Phan Boi Chau, Cua Nam Ward, Hoan Kiem District, Hanoi
+ Phone : + 844 3941 1638
+ Fax : + 844 3941 1639
+ Mail : Hanoi@vn.knightfrank.com

Ho Chi Minh City Office

+ Address : Floor 7, 8 Nguyen Hue, Ben Nghe Ward, District 1, HCMC
+ Phone : + 848 3822 6777
+ Fax : + 848 3827 7856
+ Mail : Hochiminh@vn.knightfrank.com

PROFESSIONAL SERVICES

Mr. STEPHEN WYATT - MRICS

Managing Director Ho Chi Minh Office

Phone : + 848 3822 6777

Mail: Stephen.Wyatt@vn.knightfrank.com

Mr. COLIN LUFF - AAPI

National Director, Valuation & Advisory Services

Phone : + 848 3822 6777

Mail: Colin.Luff@vn.knightfrank.com

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