RESEARCH

Q3/2012

REAL ESTATE HIGHLIGHTS

HANOI

Knight Frank

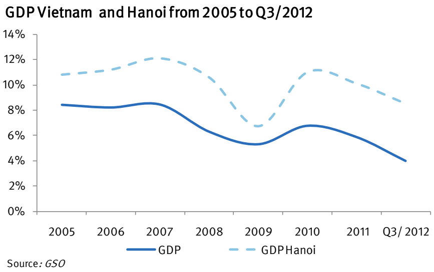
HIGHLIGHTS

- Despite the continued positive growth of the Vietnamese economy, it has failed to filter through to the real estate sector in Hanoi, which continues to remain stagnant. We do not foresee this 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 is seen as an opportunity for the end users who have real demand and have the available finance.
- As infrastructure and facilities in the western area of city keep improving, office tenants continue to vacate from the CBD and mid town areas, where they can enjoy lower rents and better quality premises.

ECONOMIC & LEGAL UPDATE

Economic Overview

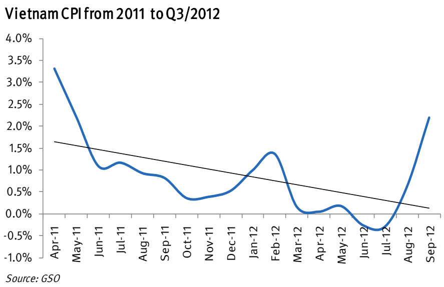
GDP



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 recent report of the Hanoi Planning and Investment Department, Hanoi GDP growth in Q3/2012 was estimated to achieved 8.5%, higher than both Q1 and Q2/2012. GDP average growth of the nine months of Hanoi was 7.9%.

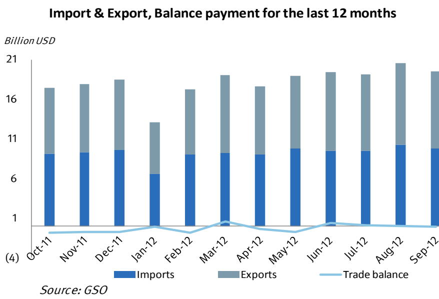
Consumer Price Index (CPI)



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.

Following August, Hanoi CPI in September saw an increase of 2.47%. The average CPI of the first nine months increased 9.24% year-on-year.

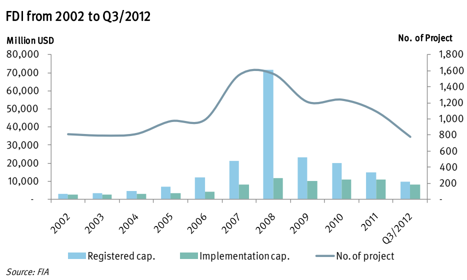
Balance of Payments



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 (FDI)

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



Up to end of September 2012, there are 231 newly licensed and capital increased FDI projects in Hanoi with the total registered capital of US$919 million, accounting for 88% of the total registered capital of 2011.

Legal Update

Decree No.58/2012/ND-CP dated on 20 July 2012 and taking effect on 15 September 2012 implement 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

In the contrary to the expectation from Q2/2012 that with some positive factors including loosened bank credit, lower interest rates, the Hanoi apartment for sale market in Q3/2012 would be better, the market in the quarter observed a significant drop in the number of successful transactions. The market was still unattractive and both developers and purchasers have kept the "wait and see" attitude as these factors seem to not be persuasive enough.

The quarter witnessed the dilemma of developers who have tried to hand over the sold apartments in the difficult market whilst facing challenges in getting the final payment from the buyers which normally weights 30% of the total unit value (Law on Housing and Decree 71). This is because buyers, many of whom are speculators/investors, were also in financial constraints and could not afford or do not want to hand over the last installment(s).

To adapt to the market demand and to increase the liquidity of the projects, many developers have also made the decision to reposition their products into the mid-end and affordable segments instead of developing high-end apartments. We are now witnessing under planning projects favour have a smaller unit sizes of less than 100m^2/unit and a better unit mix of which only 20—30% of total units are over 100m^2/unit.

The market recorded a few new project launched in Q3/2012, namely: Dai Thanh CT8C (starting from VND14 million (approx. US$670)/m^2, unit size: 42—66m^2). Tay Ho Residence CT2A (started from VND27 million (US$1,300)/m^2, unit size: 58—125m^2), Ha Do Park View (approximately VND27 million (US$1,300)/m^2, unit size: 92—177m^2).

Potential buyers continue being offered big discounts of 10—20% of the total value, cash vouchers, overseas holiday trips, cars, motorbikes, gold and financial support from banks at the average interest rate from 10—14%/year, even at 0— 6%/ year for several months.

Demand

Dai Thanh CT8C

The demand for apartments for sale in Q3/2012 was low in all segments especially in upper mid-end to high-end projects. Key buyers in the market were end users most of who preferred apartments in affordable to lower mid-end segments at less than VND2 billion per unit (approx. US$100,000). Unit size from 50 to 100m^2 were also the most sought after.

The threats of slow construction, dead or 'fake' projects have made buyers become more cautious than ever before purchase. They prefer completed projects or soon to be handed over ones. As it is considered a good time for end users to own affordable properties and long term investors without an loan support from the bank.

Outlook

The Hanoi apartment for sale market is believed to be more and more competitive with prices to continue the downward trend in Q4/2012. Mid-end and affordable segments are recognized as the main segments that meet the real demand. End users are expected to keep playing the main roles in the apartment for sale market in the next quarter.

To save themselves from difficulties, a few developers have planned to launch their projects in the next quarters with soft launch to test the market or official launch to boost the sales rate with continuous promotion campaigns.

In addition, some local developers will have to accept smaller profit margins to offer more affordable apartments with small size and a total unit price of less than VND1 billion (approx. US$48,000) (or less than VND15 million (US$718)/m^2) in the short term. Some have joined the social housing programs or sell the whole residential buildings to governmental bodies or big companies looking for accommodation for their staff. This is a good opportunity for affordable home seekers.

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It is hard for projects without show units, completed infrastructure, a committed construction phase and transparent transaction information to sell in this tough period. Many purchasers are now not interested in the capital contribution method but would like to be more secured with visible projects whilst investors prefer landed houses and become more cautious with 'super cheap' apartments as their liquidity is uncertain.

Although some projects were handed over, many apartments are not occupied as either buyers have not completed their payment to move in or investors do not have needs to live in whilst finding buyers/leases for their apartments is proving to be difficult.

SERVICED APARTMENT

Market Performance

Not surprisingly, due to the stagnant market, projects that were expected to come online in the first three quarters of 2012, were not able to enter the market in Q3/2012. As such, the Hanoi serviced apartment market saw no new major supply.

The third quarter is normally the period of high demand, which helps fill up the market vacancy. The average occupancy of the whole market is approximately 83%. The occupancy of Grade A serviced apartment projects were recorded at approximately 77%, an increase of 4% in comparison with Q2/2012. In the western area of Hanoi, two major projects, Calidas Landmark 72 Royal Residence Hanoi and Crowne Plaza West Hanoi Residences, providing 513 serviced apartments also recorded much higher occupancies as a result of applying flexible terms in both long and short term leases. Up to the end of the quarter, Sofitel Plaza Hanoi and Fraser Suites have been the two projects that achieved the highest occupancy rates among the Grade A segment in Hanoi.

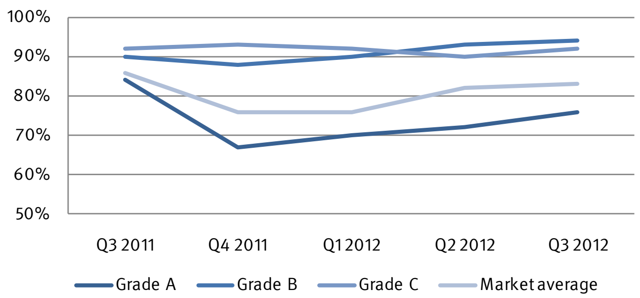
The occupancy rates of Grade B and C stock were approximately 94% and 92%, increasing 3% and 2% quarter-on-quarter, respectively. These higher occupancy rates are the result of higher demand, often occurring in the third quarter when teachers of international schools relocate to start the new school year.

The market saw a slight increase in Grade A's average rental rate up to VND647,000 (US$31)/m²/month. Meanwhile, Grade B and Grade C both witnessed approximately 5% quarter-on-quarter increases to VND417,000 (US$20)/m²/month and VND313,000 (US$15)/m²/month.

The slight increase in rents of the market are just considered temporal and not a positive trend in the long term. Landlords are just able to ask for higher rents in high season.

The market in Q3/2012 saw a return of a few apartments at very high rents (US$7,000+/unit/month). The Westlake area also experienced a higher vacancy rate of big villas. This is due to the limitation of accommodation budgets of some companies. In stead, more and more small-scale serviced apartment buildings developed by private owners have come online to meet the high demand at a right time by offering more affordable rents.

Occupancy rate of Hanoi serviced apartments



Source: Knight Frank Vietnam Reseach & Consultancy

Outlook

Based on the actual progress of the major under construction and under completion projects, it is not expected to welcome any new supply until early next year.

Hanoi Lake View

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Although the demand is still quite stable, the policy of tightening the accommodation allowances of many companies has affected the market at a certain level. In comparison with last year, the demand in the Grade A segment has been lower not only in Q3/2012 but since the first quarter. Quickly adapting to the market, many developers and owners are offering flexible policies in the rental rate, lease terms, services package and/or other promotions to retain and attract new tenants.

Apartments of individual owners of high-end projects such as Indochina Plaza Hanoi, Vincom Park Place, Pacific Place, Golden Westlake, Ciputra, etc. are still a very competitive source to some Grade A and Grade B serviced apartments.

RETAIL

Market Performance

Q3/2011 welcomed one more shopping centre Hiway Supercenter Ha Dong. Although it is not as big and central as the other existing shopping centres, it has brought a new retail place for the local area of Ha Dong District. The total supply of the market was approximately 422,000m² at the end of Q3/2012, increased almost 3% quarter-on-quarter.

By the time Indochina Plaza Hanoi (IPH) Shopping Center was officially launched late this quarter, it had reached a reported occupancy rate of 77% after being pre-leased since the first half of the 2012. The occupancy rate of the whole market generally stayed unchanged with a very slight decrease (0.3%) due to the new supply.

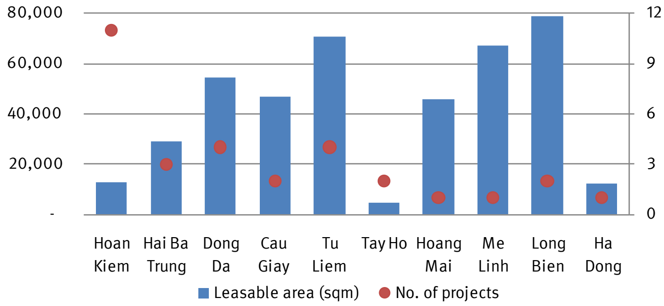
The average rent of the market also saw a decrease of 1.25% to approximately VND1,060,000 (US$51)/m²/month mainly because shopping centres experienced the lower average rent from VND940,000 (US$45) to VND920.000 (US$44)/m²/ month, a decrease of approximately 2.8% quarter-on-quarter.

As the consequence of the continuous slow economy, the total retail sales of the market has weakened. Many promotion programs have therefore been launched on the occasion of the summer, including the Independence Day, new school year, etc. to attract more sales. From electronic equipments to footwear, garment, or even little things such as accessories, all stores used many marketing avenues such as texting messages, emailing, brochures to reach the customers. Supermarkets also have discount and promotion campaigns.

Shop houses particularly saw a significant decrease in rents. Ba Trieu, Pho Hue, Cau Giay which are always main retail routes of shop houses have started to suffer from the rents/economic difficulties. Some rents of shop houses in these streets have seen 20-30% decreases from the previous leases.

However, in some well located places where sales saw almost no changes, rents continued increasing, even to a very unreasonable rate. For example, within schools/university areas. We have witnessed tenants complaining on the decrease in sale volume and value, which brought them difficulties in affording the high rents. Many shops, particularly fashion, showrooms (automobile, furniture, etc), bank transaction offices have had to close their street front stores while restaurants, F&B stores were the main demand of the market in the quarter and continued to newly open and expand.

Hanoi Major (*) Retail Supply by District

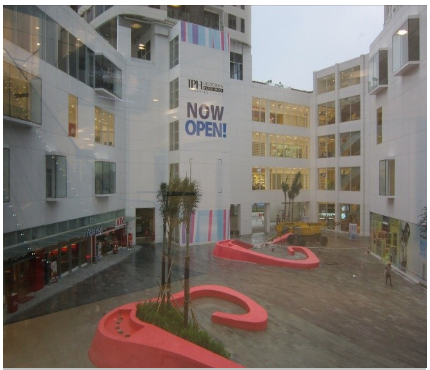


Source: Knight Frank Vietnam Research & Consultancy

(*): Including Shopping centres, Department Stores, Hypermarkets and Retail Podiums

Outlook

If Me Linh Plaza Ha Dong sticks to their plan, Ha Dong district will welcome one more shopping centre in the last quarter of the year. This will be the second shopping centre developed by the local developer in the district. In the short to medium term, there will be more retail space of different types developed by international retailers as Hanoi and Vietnam generally is still lack of diversity in the market supply to meet the demand of the young populated country.



IPH Shopping Center

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The retail sales volumes continued to be affected by the current economic condition.

Current difficulties of the market, however, could be a good test for landlords of shop houses. They should be now able to evaluate the true rental values of their retail premises versus the actual market demand and affordability.

OFFICE

Market Performance

In Q3/2012, the Hanoi office market slowed down a little with fewer activities. However, office queries that started from the first half of 2012 are still in progress and should be resulting as major transactions in the last quarter of the year.

The activities were concentrated on a few properties such as Keangnam Landmark 72, Indochina Plaza Hanoi (IPH), Detech Tower, Icon 4 and CornerStone. These are fairly new or under-construction buildings which have achieved the most attention from the market recently.

On the demand side, although the market was a bit quieter compared to previous quarters, deals that happened were actually significant in terms of size and/or reputation of the tenants. For instance, there are a few biggest transactions (NISSAN TECHNO, FPT Information System, etc) of the year expected to be concluded during the third and forth quarters at Keangnam Landmark 72. Once those transactions are inked, the tallest building in Vietnam will be filled up with an impressive amount of space, which is approximately 20,000m^2, making its occupancy commitment rate closer to 50% (around 50,000m^2). In other above mentioned buildings, landlords could enjoy more activities thanks to the fact that their recently completed buildings were among must-visit lists of many potential tenants.

With regards to the market supply, Vinafor was the only new building officially opened in Q3/2012. Located on Lo Duc St., Hai Ba Trung District Vinafor provides almost 15,000m^2 leasable office space to the market. Besides, major projects such as CornerStone Building, 25 Ly Thuong Kiet Building, 19-12 Building and Coalimex Building, which are in their early pre-lease period, are expected to be completed in late Q4/2012 and Q1/2013. However, these completion timelines are too positive. These buildings will bring nearly 60,000m^2 leasable office space. Given the fact that all of them are located in the CBD, the new supply is expected to put more pressure on the market competition.

The occupancy rates of Grade A and Grade B office in Q3/2012 were recorded at 74% (increased almost 5% quarter-on-quarter) and 76% (decreased approximately 1% quarter-on-quarter) respectively. Under the continuous competition pressure, the average rent of the market has decreased. Both Grade A and Grade B office have seen decreases: almost 3% quarter-on-quarter to approximately VND711,000/m^2/month, and 1% quarter-on-quarter to VND493,000/m^2/month. Besides conventional short term and mid term leases, the long term lease has become a common practice offered by several landlords, particularly those of under construction buildings in the West of the city. Recently, in addition to Hapro Cat Linh Building, Apex Tower, the landlords of Handico Tower, Diamond Flower Tower and HUD Tower have started their campaign to introduce the office space for 'sale' to the market. Among them, Diamond Flower Tower emerges as one of very few projects that can provide ownership certificates for commercial space to potential buyers. Such certificates allow buyers to actually own the space as their assets. With the current economic and market situations, however, there will be difficulties in finding buyers that have the financial capabilities.


Diamond Flower Tower

Outlook

Although the market expects to see a couple of buildings to reach their timeline targets and bring their office buildings online in the next quarter, it is unlikely that any new buildings can be completed on time.

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Although the market competition has significantly increased year by year, the new supply of office keeps coming online. This is the result of previous years' planning.

Besides the interest of being in the CBD, thanks to the improvements of transportation and road systems, many tenants have less concerns of long distance and have moved from old office buildings in the mid-town area to new buildings in the western area. Lower rents and better facilities of new buildings are obvious attractions.

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