RESEARCH

Q1/2011

REAL ESTATE HIGHLIGHTS

HO CHI MINH CITY

Knight Frank

HIGHLIGHTS

- The HCMC real estate market was subdued in Q1/2011 due to a tightening monetary policy and a stagnant period before the Tet holidays.
- Government restrictions on the trading of gold and efforts to de-dollarise the economy could lead to increasing capital flow into the real estate market.
- Developers will have to source finance from areas other than bank loans as the government reduces liquidity in the real estate market by restricting credit.

ECONOMIC & LEGAL UPDATE

Economic Overview

GDP

The Vietnamese economy grew 5.43% year on year at the end of Q1/2011. This is down from the 6.78% growth posted in 2010 and the lowest rate since Q3/2009.

CPI

Inflation stood at 13.89% year on year at the end of March 2010. Transport and housing and construction materials were the sectors with the largest price increases. An increase in crude oil prices due to unrest in the middle east and world food price increases in Q1/2011 have also been important contributors to this price rise.

Lending Rates

Interest rates remain high with the Central Bank tightening monetary policy to reign in inflation and stabalise the foreign exchange market. Lending rates regularly top 20%, making access to credit very difficult for many developers and home buyers.

Balance of Payments

The quarter's trade deficit was at 3 billion USD, equal to 15.7% of the total export turnover. Imports from China made up the largest proportion, accounting for 3.1 billion USD. The US continued to be the main destination for Vietnamese exports.

Foreign Direct Investment

173 FDI projects (35 in HCMC) were registered in Q1/2011 with over 2.04 billion USD (1.07 billion USD in HCMC) of investment capital. The realized FDI in Vietnam in Q1/2011 is estimated to reach 2.54 billion USD.

Gold Prices and Trading

World gold prices remained over $1,400 USD per ounce for much of the quarter (trading in Vietnam was up to $30 USD higher). Government restrictions on gold trading could lead to more capital being placed in real estate.

Legal Update

Decree 120

Issued 30th December 2010, having taken effect from 1st March 2011, 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.

Decree 121

Issued 30th December 2010, having taken effect from 1st March 2011, sets out Land Rental terms for land and water surface rent. Excepting certain circumstances, the annual rent is fixed at 1.5% of the land rate stipulated by the provincial people's committee (except when the stipulated value is not close to the market value). The Decree also sets out provisions for rental increases during the lease period.

Decision 06/2011/QD TTg

The transport development master plan of the Southern key economic zone (to 2020 and draft plan for 2020 to 2030) was approved by the Prime Minister on the 24th January 2011. The plan details the road, railway and waterway transport system in and around HCMC.

Directive 01/CT-NHNN

Of 1st March 2011 requires local lenders to reduce their lending to "non production" sectors including property, to 22% of total loan structure by June 30th and to 16% by December 31st 2011.

KNIGHT FRANK COMMENTS

The macroeconomic environment in Vietnam is exhibiting some concerning signs with increasing double digit inflation, a high fiscal deficit, and a persistent balance of trade deficit.

The government has however has made a number of moves to show that it is serious in combating inflation and stabalising the currency with a number of monetary tightening measures and restrictions on the trading of gold and dollars.

Growth in 2011 will therefore be inhibited by the lack of credit growth in the economy in order to control inflation and stabilise the domestic currency.

The tightening monetary policy necessary to control inflation, is squeezing credit markets especially in the property sector that will see a decrease in loans over the coming months following Directive 01/CT-NHNN.

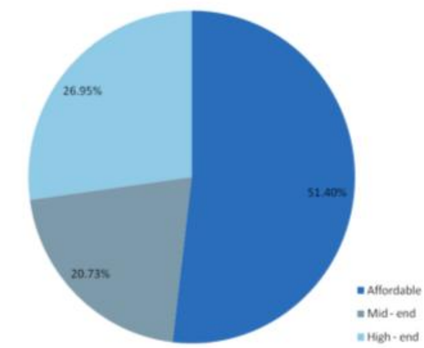
Restrictions on gold trading and efforts to de-dollarize the economy could lead to idle capital moving towards the real estate sector.

APARTMENT FOR SALE

Supply

The new supply of apartments in this quarter was mainly in the affordable sector (55%), whilst mid-end and high end units accounted for 24% and 21% respectively.

New Launch Apartments Q1/2011 by Grade



Source: Knight Frank Research & Consultancy

There is still a large stock of unsold apartments units that were supplied in 2010, predominately due to the asking prices being unrealistic or the units being priced higher than most HCMC's citizens affordable range. When there are supply issues, developers need to target the right segment, and the quality needs to be reflective of the price. International quality specifications should be seriously considered by developers, if they are expecting to sell apartments at prices higher than the affordable to mid-end range, although these measure cannot guarantee success

Celadon City, "soft" launched in Q1 2011

due to the current weakness of the higher ranges. Buyers are becoming more knowledgeable and most will no longer accept sub standard products and finishes for mid-end and high-end apartments as seen previously.

Demand

The demand for apartments in HCMC is high, with underlying fundamentals strong; large population growth, increasing incomes and a substandard existing housing stock. Most of the owner occupier demand is in the affordable range. The government estimates that approximately 5 million GFA worth of apartments and a further 50,000 units of social housing are currently required in HCMC.

Demand has been subdued in Q1 2011, due to a lack of liquidity in the market as the government's tightened monetary policy has restricted banks capabilities to supply finance to the sector.

Additionally, with a perceived oversupply in some sectors, some buyers seem to be waiting for developers to lower their prices in face of increased competition.

Despite this, we have seen some positive signs for the property market in general and the apartment sector, with a number of units launched in Q1/2011 being better received compared to previous quarters. The main reason being that some "cash rich" investors are viewing real estate as the best alternative, with the tightening of the gold market and property considered to be a good hedge against the high inflation forecasted for the year.

Outlook

The high end market will continue to be extremely competitive with developers competing for the relatively limited number of buyers. Affordable projects that have selling prices below $1,000/sqm will find the most success in the coming months.

KNIGHT FRANK COMMENTS

Government legislation regarding strict controls of the gold market, provides a better outlook for the growth of the property market and the apartment sector in the near future.

The governments tightening monetary policy is affecting the market with local lenders unwilling or unable to lend thus blocking many first time buyers from entering the market.

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

VILLA/TOWNHOUSE FOR SALE

Market Performance

Excepting the peak period in Q4/2007 and Q1/2008, market interest in the first quarter is historically the lowest period of the year, due to the Tet holidays. This year was no different although after February, the market witnessed more activity with investors coming back and trying to source new projects.

The rumours of a tightening policy on the gold market and fluctuation of the foreign exchange market impacted negatively on general investor confidence. However, this trend has led to some positive reaction towards the real estate market, where investors are exploring some alternatives to invest their money.

The asking price for land plots increased marginally quarter on quarter, especially projects which investors expect will gain high returns such as projects in Thanh My Loi and Binh An Ward, District 2. Sale prices in other areas in HCMC witnessed slight increases or remained stagnant.

The townhouse and villa market saw two new projects in District 9 and 2; Ventura and Goldora. Ventura, developed by Kien A, was launched and achieved positive sales, whilst Goldora, known as Villa Park 2, will be launched in the next quarter and as such, has been actively marketed. These two new projects will increase the total primary supply to 350 units. Meanwhile, downward expectation in price prevented prospective buyers from their decision to buy. Most transactions in last quarter were in the US$200,000 to US$350,000 range.

Goldora, known as Villa Park 2

Outlook

Both investors and owner occupiers in HCMC still have a preference for landed property. Despite high interest rates that continue to erode the demand in the market, both villa land lots and villas are expected to continue to perform relatively well when compared to other real estate products.

Further government regulation aimed at restricting gold trading is expected to limit gold transactions and reduce the liquidity of the commodity. This regulation is likely to lead investors to other investment channels, such as securities and real estate. Meanwhile the securities sector is still experiencing tough market conditions, whilst land plots is considered as an attractive hedge against inflation. Therefore, a capital flow into land plots, town houses, and villas is more evident, although the scale will depend on the extent and enforcement of the new regulations.

Average Asking Price for Land Plot

Location	Asking price (US$/m^2)
Binh An Ward, D2	1,580 - 2,900
East of Thanh My Loi, D2	770 - 1,300
West of Thanh My Loi, D2	1,800 - 3,000
West of District 9	500 - 990
Phu My, D7	966 - 1,590
Tan Phong, D7	1,490 - 3,800
Phuoc Kieng, Nha Be	550 - 1,400
Phu Xuan, Nha Be	360 - 1,260
Trung Son, Binh Chanh	720 - 2,700
Phong Phu, Binh Chanh	530 - 960

Source: Knight Frank Vietnam Research & Consultancy

Ventura Project, Cat Lai, District 2—Developed by Kien A

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Due to proposed government regulations, speculators could be increasingly active in the villa/townhouse market in the coming months.

Land plots in desirable locations, with good proposed infrastructure, which are expected to generate high returns will be the most sought after investment in the next quarter.

Demand will continue to be strongest for townhouse and villas in the range of US$200,000 to $350,000. This price range is within most buyers budgets.

SERVICED APARTMENT

Market Performance

Since the start of 2011, the serviced apartment market performed slightly better than Q4/2010. In Q1/2011, there were no significant large serviced apartment buildings that came onto the market. However, there are many smaller and boutique buildings that came onto the market in central districts such as District 1, District 3 and Phu Nhuan District. A notable project was Nhat Minh Avila located at Thi Sach Street, District 1 which entered the market in Q1/2011 supplying 36 units.

Building or upgrading houses to boutique type serviced apartments is a new trend within HCMC. This type of building does not usually require significant amounts of capital investment and the building operation is relatively easy to manage.

The rental rates remain stable at about US$30-32/m²/month and about US$22-25/m²/month for Grade A and Grade B respectively.

Following February's devaluation of the VND, rents quoted in USD have not changed although the rental rate paid in VND has increased by approximately 7%.

Due to the devaluation of the VND, landlords and tenants have conflicting interests in order to maintain real rents or get the upper hand. The Government is putting more and more pressure on the application of VND in payment terms. Some serviced apartments have applied this regulation to compete with the competitors and avoid any potential fine. Notably, we are seeing some owners who are introducing VND payments into the contract, equivalent to the USD rate although with added clauses for rental rate adjustment every three (3) or six (6) months to protect against exchange rate movements.

If the Government effectively enforces payment terms in VND upon landlords, then the tenants' interest will be protected.

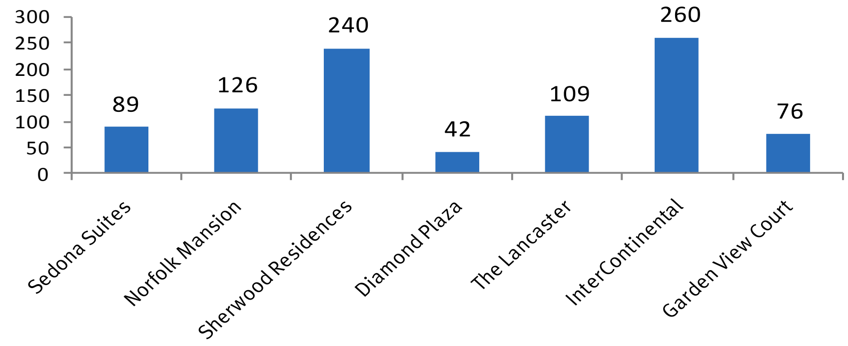
In contrast to some of the other sectors of the real estate market, occupancy rates for the serviced apartment market remains high, at approximately 90% for Grade A and 80% for Grade B.

Nhat Minh Avila Serviced Apartment

Outlook

In 2011, the serviced apartment market will become more competitive as hundreds of new serviced apartment units come onto the market such as: The Vista, Iwa Square, Mai Har Lan, Icon and Morning Sun 2. Additionally, in competition to serviced apartments, standard buy-to-let apartment types have seen good interest as the rental rate has softened. To compete with this market, the serviced apartment market must continue to supply superior quality services and professional international management.

Grade A Serviced Apartments in HCMC (no. of units)



Source: Knight Frank Vietnam Research & Consultancy

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The serviced apartment market is increasingly in competition with good quality apartments for lease as investors that could not "flick" their apartments are forced to lease for a return or until market conditions improve.

The serviced apartment market has been relatively stable over the previous 12 months with continued relatively high occupancy level and stable rental rates.

RETAIL

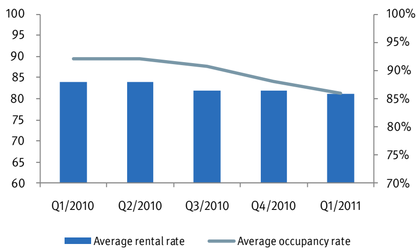
Market Performance

Despite the huge growth in sales value of goods and services in HCMC (27.9% increase in 2010 on 2009), Q1/2011 has seen the retail property market adjust slightly as retailers become more aware of the rental levels they can afford taking into account their turnover.

The rental rates in Q1/2011 decreased slightly compared with Q4/2010. The average rents in the CBD range from US$93/ m^2/month to US$140/m^2/month and outside of the CBD range from US$35/$m^2$/month to US$83/m^2/month.

Occupancy rates in Q1/2011 decreased slightly compared with Q4/2010. The average occupancy of retail space within the CBD and outside the CBD are approximately 92% and 83% respectively.

Average prime rental rates and occupancy rate in HCMC
($/m²/month & %)



Source: Knight Frank Vietnam Research & Consultancy

Activities

Food & beverage, fashion and electronic retailers played an active role in the first quarter of 2011. Subway, the US-based sandwich-shop chain, has opened its Vietnamese store in District 1 under the franchise model. It targets 25 shops throughout Vietnam by 2015.

BreadTalk, a premium bakery brand of Singapore, has opened its second boutique bakery in Cao Thang Street, District 10 after the first bakery in Vincom Center operated successfully. They will launch a third bakery in Maximark Cong Hoa in Tan Binh District at the end of the next quarter. They target to set up more than 10 BreadTalk boutique bakeries in HCMC during 2011.

Nguyen Kim opened its new shopping center in Thu Duc District in January 2011. This 8-level-shopping center has approximately 10,000m^2 of floor area and is equipped with more than 5,000 electronics brand-names such as Samsung, Toshiba, Panasonic, LG, etc.

Bitexco Financial Tower has delayed the opening of the retail component until June 2011 due to changes in the retail concept and tenant mix strategy.

Supply

Existing supply in the HCMC retail market is approximately 670,000m^2 including supermarkets, retail podiums, department stores and shopping centres.

The future pipeline of retail developments in HCMC exceeds 1,500,000m^2 over the next five years. This will more than double the existing supply.

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 requirements. 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.

Major upcoming retail developments

	Location	NLA (m^2)
Bitexco Financial Tower	District 1	11,000
Saigon M&C	District 1	7,000
The Vista	District 2	7,000
Time square	District 1	9,000

Source: Knight Frank Vietnam Research & Consultancy

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Many well known foreign retailers will be entering the market in 2011, with others likely to enter in 2012.

Retailers in prominent locations, paying high rental levels are assessing occupancy cost ratios, i.e. the amount of rent and service charges compared to turnover. Some of the high rental levels achieved in a number of centres will not be sustainable from a business perspective.

Developers need to carefully consider the catchment population and consumer spending potential before commencing the construction of any shopping centre development.

OFFICE

Market Performance

The office market saw no significant changes before and during the time of the Tet holiday. Since then, the new exchange rate which took effect on 11 February 2011, has increased rents fixed in USD for those paying in VND.

Existing grade A buildings with high occupancy have remained steady, quoting rents at $36-40/m²/month exclusive. For new Grade A buildings with low occupancy levels, rents are softening whilst they try to capture those active tenants before a number of new developments increase competition (see graph below).

The threat of new supply and the comparative affordability of District 1 compared to two years ago has sent some downward pressure on the Grade B and C office building market in other districts. Landlords are prepared to take on lower rents in years 1 & 2, fixing higher levels thereafter protecting their investment value.

The average occupancy of Grade A has improved due to take up of space within Bitexco Financial Tower and Kumho Asiana Plaza (nearing full occupancy).

In terms of projects under construction:

- REE building (Distrcit 4) is nearing completion.
- Saigon M&C Tower and the Le Meridien are expected to be "topping out" end of 2011, with completion in Q1/Q2 2012.
- Vietcombank Tower on Me Linh Square is on hold.
- The BIDV Tower site on Nguyen Hue Boulevard is cleared with construction commencement to be confirmed.

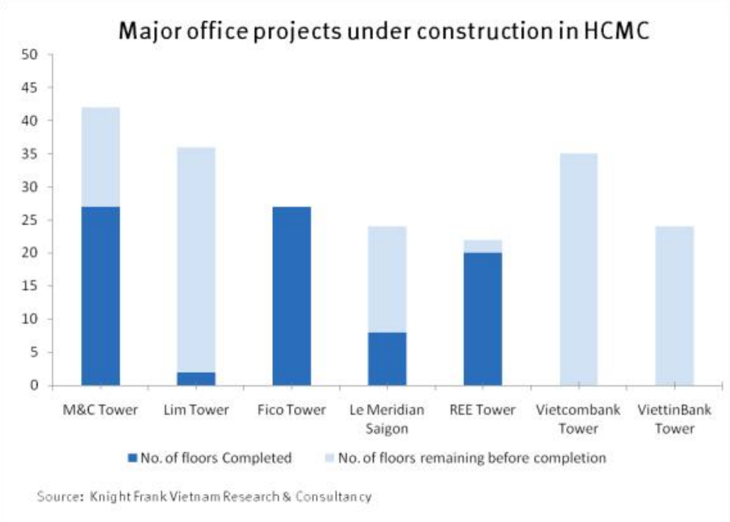
Outlook

We have seen a number of current projects stall due mainly to credit availability and the amount of supply on the market.

Developers are increasingly seeking quicker capital returns after completion by methods of long term leases, master leases or single tenant occupation. Landlords with high vacancies are increasingly feeling pressurised, becoming more flexible in their solutions to potential tenants given the correct advice.

Lim Tower, 9—11 Ton Duc Thang

As supply is increasing, tenants have more choice and developers are realising the need to build better quality products. Knowledgeable tenants are now expecting higher specifications: impressive hotel feel lobbies; fast direct lifts; efficient floor-plates; increased security and parking provision. As well as efficiencies, tenants can foresee the positive impact this will have on their staff and clients.



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The high price of building materials and the tightening real estate credit has seen delays in the completion time of many ongoing projects.

The current office market is increasingly tenant friendly. Stubborn landlords must become more flexible and willing to take a commercial view when negotiating.

Small or private buildings on the outskirts of district 1 will be in demand from the sectors (e.g. education) affected by Government interventions limiting congestion.

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