RESEARCH

Q2/2011

REAL ESTATE HIGHLIGHTS

HO CHI MINH CITY

Knight Frank

HIGHLIGHTS

- The HCMC property market has continued to be quiet on the back of the Government's monetary tightening policies. Developers and home buyers alike are suffering from a lack of available credit and high interest rates.
- Many buyers in the market are hesitating or adopting a “wait and see” approach until interest rates drop or they believe they are really getting real value for money.
- In the second half of 2011, if inflation comes further under control and we see a relaxing of monetary policy, then this should breathe more life into the property market and we should see a pickup in activity.

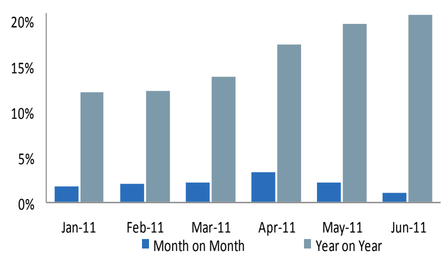
ECONOMIC & LEGAL UPDATE

Economic Overview

CPI

Inflation increased to 20.82% year on year in June 2011. Price stability is now the government's priority (as set out in Resolution 11) and the monetary and fiscal tightening policies seem to be having some effect, with CPI figures for June showing the lowest month on month price increase of 2011.

Consumer Price Index - Vietnam



Source: GSO

Loan Restrictions to the Property Sector

As an integral part of Resolution 11, bank loans to the "non productive" sectors of the economy had to be reduced to 22% of total loans at the end of the Q2/2011 and will have to be 16% by the end of Q4/2011. As bank loans provide the majority of finance to the real estate sector, this has squeezed the credit supply to the property industry leading to a lack of finance for developers and homebuyers alike.

Lending Rates

Interest rates increased over the quarter as the government has raised the various interest rates. Lending rates are currently ranging from 22% to 26%.

GDP

With growth now a secondary priority to price stability, the monetary tightening has undoubtedly been to the detriment of growth. As the Government's growth targets have come down from 7.5% to 6%, the Vietnamese economy grew by 5.67% year on year at the end of Q2/2011. This was up slightly from the 5.43% growth posted at the end of Q1/2011.

Balance of Payments

The trade deficit for the 6 months of 2011 stood at 6.65 billion USD, equal to 15.7% of total export turnover. Imports from China made up the largest proportion, accounting for 11 billion USD. The US continued to be the main destination for Vietnamese exports, totaling 7.6 billion USD.

Foreign Direct Investment

455 FDI projects (124 in HCMC) were registered in the first 6 months of 2011 with over 4.00 billion USD (1.42 billion USD in HCMC) of investment capital. The realized FDI in Vietnam in 2011 is estimated to reach 3.56 billion USD.

Gold Prices and Trading

World gold prices increased from the previous quarter, floating over $1,500 USD per ounce for much of the quarter. The Government previous and future restrictions on gold trading could lead to more capital being placed in real estate.

Legal Update

Circular 16

Issued on the 20th May 2011, and taking effect on the 5th July 2011. The purpose of the legislation is to shorten the time-frames for the issuance of a number of land registration related procedures.

Other...

Among other recommendations, The Ministry of Construction has officially recommended for the banning of sales of subdivision plots and unfinished housing. Although technically prohibited by law, many developers have continued this practice, and the recommendation is an effort to curtail speculators and reduce the number of unused residential plots in urban zones.

KNIGHT FRANK COMMENTS

Q2/2011 has continued to provide a difficult macroeconomic environment for real estate.

Inflation caused by previous excessive credit expansion, external price shocks and inefficient spending by State owned Enterprises (SOE) has continued to hinder the economy.

The government has been resolute in implementing its monetary tightening and de-dollarisation policies, and these seem to be having some effect, with June's CPI figures the lowest month on month in 2011.

As a secondary priority to price stability, growth will undoubtedly be compromised in 2011. The lack of credit in the economy in order to control inflation will continue to restrict growth. Until inflation is under control, FDI into Vietnam will also continue to be subdued.

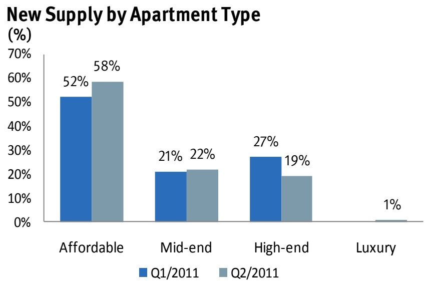
Efforts to de-dollarize the economy and restrict gold trading have stabilised the domestic currency with a further devaluation in the second half of 2011 unlikely.

The Ministry of Construction's recommendations for the banning of subdivided land plot sales could potentially have a significant effect on the property market, as developers will be forced to finance and complete building or consider disposing of the development land.

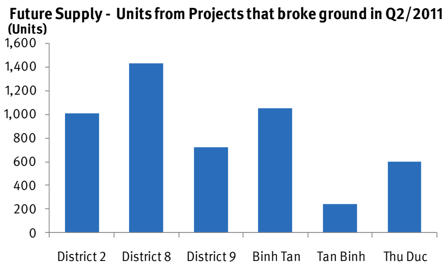
APARTMENT FOR SALE

Supply

Approximately 3,600 apartment units were launched in HCMC in Q2/2011. The affordable sector continued to constitute the majority of new supply with 56% of total units. There was only one luxury apartment project launched in the quarter : C.T Plaza on Nguyen Dinh Chieu Street.



Source : Knight Frank Vietnam Research & Consultancy



Source : Knight Frank Vietnam Research & Consultancy

Over two thirds of the new supply offered to the market in this quarter came on line in Tan Phu, District 7 and Thu Duc Districts.

Seven significant projects broke ground in Q2/2011, contributing over 5,000 units to future supply.

Although we have not seen headline apartment prices significantly drop over the quarter, prices are dropping indirectly as we have seen more developers offering promotions to attract customers: discounts, longer payment schedules, bank loan support, lucky draws, discounts for buying in groups...

Despite these incentives, liquidity has been seriously restricted due to high interest rates that has prevented many home-buyers accessing capital.

Demand

The main drivers of demand for apartments; population growth, urbanisation, increasing incomes and a substandard aging existing stock, provide for a bright long term future for the apartment market.

Demand is certainly strongest in the affordable segment, with well designed, smaller units in the range of $35,000 to $60,000 attracting strong interest.

Demand is currently being restricted by the availability of mortgages, especially from Vietnamese lenders. This underlying demand is expected to be unleashed as interest rates are reduced to more practical levels.

Despite the government's efforts to reduce the role of speculators, they still make up a large number of the buyers especially in the mid to high end sectors. Although rental yields are not currently analysed in depth by investors or speculators, they could be an important selling point for in the future.

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

CT Plaza

Outlook

The performance of the apartment market will be directly linked to inflation. Price stability is now the government's top priority and if inflation comes under control and we see a relaxing of monetary policy, then this should breathe more life into the apartment sector and we expect to see a pickup in activity.

KNIGHT FRANK COMMENTS

The apartment market in HCMC has been subdued in Q2/2011. Many potential buyers are hesitating or adopting a "wait and see" approach, firstly due to difficulties accessing finance, and secondly due to expectations of future price movements.

Developers wishing to successfully sell must make the buyer feel they are really getting value for money. Incentives and a good sales strategy can contribute to this.

For "buy to let" investors in the apartment market, research should be carried out into the potential rental yield. Some developments offer better tenancy prospects and higher yields than others.

VILLA, TOWNHOUSE & LAND PLOTS FOR SALE

Market Performance

As in Q1/2011, the landed property market continued to be relatively quiet. The market for villa and townhouses achieved a medium transaction volume bolstered by new supply in District 2 and 9, but the land plot market in HCMC experienced a fairly low level of activity.

The villa and townhouse market in Q2/2011 continued to see most activity in District 9 and District 2, with the new launch of Goldora Villas (known as Villa Park 2) and other projects which contributed over 80 new units, lifting primary supply in this area to approximately 280 units.

Most of these projects to the east of HCMC have targeted the luxury and high-end market. Transactional activity has been steady with notably good sales rates achieved just outside HCMC's borders at VinaCapital and DIC Group's Sen Phuong Nam project in Dong Nai.

River frontage units appear to be the most sought after by richer buyers, whereas units in the $200,000 - $250,000 range

Goldora Villas Project

achieved the most liquidity with the average transaction value per unit during this quarter range also within this range.

Goldora achieved a higher than average transaction value, with the sales of some of their best positioned units. Prices range from $350,000 and $700,000.

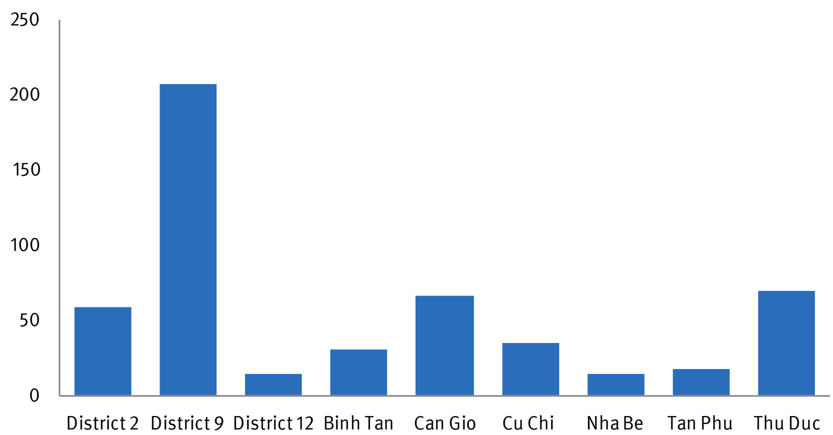
The land plot market performance during last quarter has been slower than expected in HCMC. The asking price in the east of HCMC including Thanh My Loi and Binh An, District 2; Phuoc Long B and Phu Huu, District 9, increased slightly whereas prices in other areas remained stable. It should be noted that cheaper land plots outside of HCMC have continued to sell reasonably well if appropriately priced.

The increase in price to the east of HCMC has been helped by expectations of new infrastructure improvement, most notably the Thu Thiem tunnel, which will reduce travelling time to the CBD sharply. The tunnel is due for completion in Q3/2011.

Outlook

The market in the short term is expected to be tough as two main groups of buyers keep suffering from the lack of finance. Firstly, the speculative investor who is having difficulties leveraging their investment through bank loans and secondly owner occupiers who are seeing the high interest rates as limiting their debt paying capability.

Current Primary Supply HCMC by District
(Units)



Source : Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

Longer term investors, who are cash rich and willing to take advantage of this tough period, are expected to lead the market in second half of the year. However, the size of this group is relatively small with few new entrants. Therefore, only properties that offer the best value for money will continue to attract interest from these investors.

In respect of land to the east of HCMC (Districts 2 and 9), the effect of the opening of The Thu Thiem tunnel on price levels in Q3/2011 will be interesting to monitor.

The Ministry of Construction's recommendations to ban the sale of subdivided plots could potentially change the landscape of the landed property market.

SERVICED APARTMENT

Market Performance

A number of new serviced apartment buildings entered the market in Q2/2011, notably:

- The Mai Har Lan Building, located on Le Thanh Ton Street, District 1 — was finished after a number of delays, with leasing commencing on its 36 Grade C units.
- The Jasmine Court Boutique Building located on Nguyen Van Troi Street launched 12 units on to the market.
- The Saigon City Residences Building on Thai Van Lung Street, District 1, previously a hotel has changed its function to serviced apartments bringing 17 units to the market.

With this new supply, there are now over 3,400 units in Ho Chi Minh City.

Jasmine Court—Nguyen Van Troi

While other segments of the real estate market have been having certain difficulties throughout the last quarter, the serviced apartment market has been stable. The rental rate is around US$30-35/m²/month for Grade A and around US$20-25/m²/month for Grade B.

Demand in Q2/2011 remained strong, with an increase in enquiries received by Knight Frank. Occupancy rates remained high, at around 90% for Grade A, and 80% for Grade B.

Most of the tenants in the Central Districts of HCMC are from Europe, Japan, Malaysia and Singapore, tenants in District 7 originate mainly from Korea, China or Taiwan. A notable recent trend is the increase of Vietnamese tenants in CBD serviced apartment buildings.

Currently, high-end or luxury apartments (buy-to-let apartment types) and villas are more competitive with serviced apartments due to their cheaper rental rates and good or equivalent facilities. When the economy is in difficulty, tenants are more prudent with their budget. With a budget under US$2,000, they can choose an apartment in Saigon Pearl or The Manor with 3 bedrooms instead of 2 bedroom units within a Grade B serviced apartment building.

With a budget from US$800-1400, tenants have many options in new boutique buildings, however many have limited facilities such as swimming pool, tennis court or gym in these small buildings.

To attract more tenants, serviced apartment buildings must improve the quality and offer more services to tenants.

Outlook

Although the serviced apartment market performed robustly throughout the last quarter, it is a market that is seeing more competition from new schemes. Developers who want to invest in this segment should obtain detailed research about the design, the market, tenants' preferences and provide international management in order to meet demand.

Over the next year, there are a number of projects that will come on line, bringing a large number of new units to the market, including The Vista, Saigon M&C and Times Square. This new supply and more high end apartment projects will lead to increasing competition, but more options for tenants.

Major upcoming supply in the next few quarters

Project	Location	No of units
The Vista	District 2	100
Times Square	District 1	139
Saigon M&C	District 1	140
An Phu Plaza	District 3	60

Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

Owners of luxury or high end apartment units who are having difficulties reselling in today's illiquid market are increasingly looking at leasing their units to generate income. These units are a real and often cheaper alternative to the serviced apartment market.

RETAIL

Market Performance

The retail sales value of goods and services in HCMC was estimated at 177,543 billion VND in the first five months of 2011, showing a growth rate of 22.2% from the same period last year.

Due to current economic factors, occupancy rates and rental rates in Q2/2011 remained stable or decreased slightly depending on location. The rental rates in the CBD in Q2/2011 were comparable to Q1/2011 whilst rental rates outside the CBD decreased slightly. The average occupancy of retail space within the CBD and outside the CBD are approximately 92% and 80% respectively. The average rents in the CBD range from US$93/m²/month to US$140/m²/month and outside of the CBD range from US$35/m²/month to US$83/m² month.

Activities

The Wonder Buy electronic and home appliances store in District 1 was declared officially bankrupt. Notwithstanding performance, and the economic climate, it has been reported the main reason for the bankruptcy was the very high monthly rental and a poor location for shoppers.

Kumho Asiana Plaza has redesigned approximately 6,800m² of retail area to a food and beverage ("F&B") emporium "Kumho Link". The new concept of Food & Beverage ranges from fast food outlets, coffee shops and food court, and is due to officially open in September 2011.

We understand Parkson Group will expand its business operation in District 2. They will open their latest store (approximately 30,000m²) in the Cantavil Premier located on the Hanoi highway in 2014.

Keppel Land has commenced construction of Phase 2 and Phase 3 of Saigon Center located in Le Loi Street, District 1. The development will extend the retail provision by approximately 50,000m² and is due for completion in 2014.

Eden A project is located directly opposite the headquarters of the People's Committee of Ho Chi Minh City and the Opera House. Its GFA of approximately 37,000m² is under construction. Construction on this project is expected to be completed during the third quarter of 2012.

Supply

Existing supply in the HCMC retail market totals approximately 655,000m² including supermarkets, retail podiums, department stores and shopping centres.

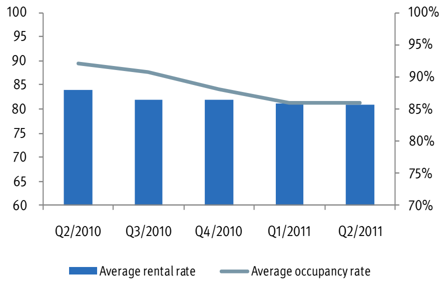
The future pipeline of retail developments in HCMC exceeds 1,650,000m² over the next five years. This will more than double the existing supply.

Outlook

Due to current economic conditions, especially high inflation, trading conditions for most retailers are becoming more difficult due to less disposable income. Retailers will need to become more creative in their sales strategy in order to attract customers. Competition is set to increase and retailers will need to adapt, or face problems in the future.

Developers need to consider the design and layout of all future developments, it is anticipated that the current trend of developing mixed-use projects that include 5 to 7 floors of retail beneath office or residential will change and developments will become solely retail, residential or office.

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



Source: Knight Frank Vietnam Research & Consultancy

Major upcoming retail developments

	Location	NLA (m²)
Bitexco Financial Tower	District 1	11,000
Saigon M&C	District 1	7,000
The Vista	District 7	7,000
Times Square	District 1	9,000

Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

Through our global network of offices, we are currently experiencing high demand from international retailers looking for well designed space in good locations.

Modern, well designed, air conditioned shopping centre developments with quality tenant mix 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.

OFFICE

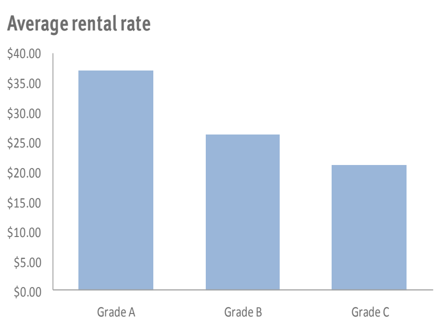
Market Performance

In general Q2/2011 has not observed any considerable changes in the office market of HCMC. Developers however have suffered from high interest rates and non-manufacturing loan restrictions.

Although rental rates remained stable in most Grade A buildings (ranging between $34 - $40/sqm exclusively), the newly built office buildings appear to be putting downward rental pressure on existing stock. This is considered a real opportunity for tenants to benefit from this trend with more options and negligible differences in rental rates between existing and newly launched buildings. Capital fit-out, typically around $150—$250/sqm is costly and prevents many tenants from moving offices, especially in the recent tough financial environment. Tenants now can negotiate for favourable terms and rates at renewal.

Progression status of some major District 1 projects under construction:

- 'Topping-out' ceremony of Times Square Building on Nguyen Hue Blvd, District 1
- VietcomBank Tower (Me Linh Sq) has completed the ground floor
- BIDV Tower on Nguyen Hue Blvd is still on hold



Source: Knight Frank Vietnam Market Research & Consultancy

The Grade B market is still the most buoyant market offering affordable and flexible prices and terms. Established office building have maintained average occupancy rates at approximately 90%, including Me Linh Point Tower, the Dragonfly Portfolio (Capital Place, Empire Tower, Lafayette), Centec Tower and A&B Tower; whilst 'new comers' like Endovina and REE Tower are also trying to attract tenants by offering better deals and incentives. Again, tenants are the ones who can take advantage from any attractive promotions.

Moreover, we have witnessed some tenants, who have no need to be in the central CBD locations and prepared to move to the outer lying areas of District 1 or surrounding districts where the property overheads are 20% to 50% lower.

In the preceding 3 months, there has been some Grade C projects entering the market; such as Phuong Long on Nguyen Dinh Chieu St, bringing approximately 6,600 sqm onto market. Many Grade C buildings are occupied by sole tenants, including the banking industries and education institutions.

Outlook

As the tough economic climate has coincided with an oversupply of office space in HCMC, tenants can expect to enjoy benefits from increasing flexibility of rental terms.

Grade A rents are likely to continue to soften throughout 2011, whilst for the Grade B and C markets, rents are likely to remain stable.

REE Tower—District 4

KNIGHT FRANK COMMENTS

With the ongoing financial tightening policies of the Government, some landlords' strategies may shift towards marketing the buildings before completion to enhance future income from committed tenants for granting construction loans.

This is a natural trend of most developed markets in the world where developers typically aim for 20% - 40% pre-leasing and pro forma on a 12-24 month straight line lease up for office buildings.

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