



Q2/2013

REAL ESTATE HIGHLIGHTS

HO CHI MINH CITY

Knight Frank

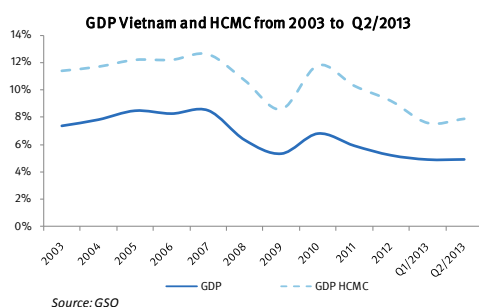
HIGHLIGHTS

- Last quarter, we reported that there was still good demand from international investors for prime income producing properties with 2 or 3 sales pending. Two sales have now been confirmed with the acquisition of Vincom Center A to Vietnam Infrastructure and Property Development Group Corporation (VIPD) for a reported VND9,823 billion (US\$470 million). The other transaction was Centrepont Office Building in Phu Nhuan District to Mapletree from a Japanese investment fund. The building has now transacted 2 times since completion in 2009.
- It has been reported that a consortium led by an affiliate of private equity investment firm Warburg Pincus has invested US\$200 million for a 20% equity stake in Vincom retail. This indicates a level of optimism in the future of the Vietnamese retail landscape that has not been witnessed since 2008, when Vietnam was ranked number 1 in A.T. Kearney's Annual List of Most Attractive Emerging Market Retail Destinations.
- We note the June launch by respected international publication Forbes Magazine to publish a Vietnamese edition and the recent public announcement from iconic car manufacturer Rolls Royce stating they will cooperate with Regal Motors Cars Corporation to open an official showroom in Hanoi in Q4/2013. This follows another prestigious British automobile brand Bentley, who have stated their intention to also open a showroom in Vietnam. This clearly illustrates that the burgeoning upper class population of the country is clearly on the radar and we would expect more leading global brands to follow suit and try and tap into this market in the short to medium term.

ECONOMIC & LEGAL UPDATE

Economic Overview

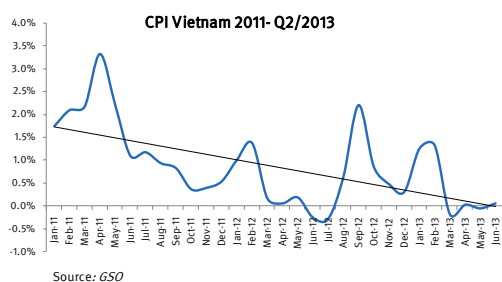
GDP



Within the first six (6) months of 2013, Vietnam's GDP growth was approximately 4.9% compared with the previous quarter's growth 4.93%.

HCMC's GDP in this quarter is estimated to have reached 340.1 trillion dong (nearly US\$16.2 billion) (according to the real prices), rising 7.9% over the same period last year. This figure is lower than GDP in Q2/2012, which achieved 8.1%.

Consumer Price Index (CPI)



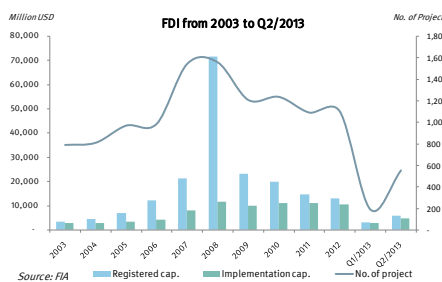
Vietnam's consumer price index (CPI) in the first six months of 2013 rose 2.4% compared with December 2012 while HCMC's CPI in this period rose 0.78% compared with December 2012.

Foreign Direct Investment

According to the Foreign Investment Agency (FIA), for the first six months of 2013, Vietnam attracted approximately US\$10.472 billion of FDI, an increase of

15.9% compared with the same period of 2012. Of which, the newly licensed capital of US\$5.81 billion (554 projects) was an increase of 3.7% over the same period last year. There are 217 projects that have increased their capital contribution a further US\$4.66 billion.

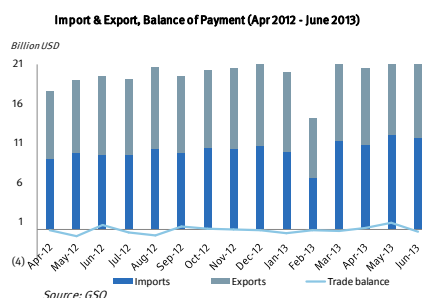
In this quarter, HCMC attracted approximately US\$490.9 million (there are 175 newly licensed projects), a decrease of 74.6% compared with the same period last year.



Balance of Payments

According to the GSO, the trade deficit of Q2/2013, stands at US\$1.4 billion.

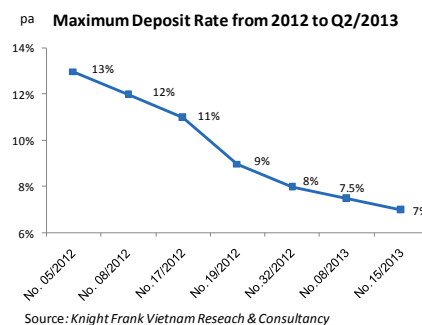
Total export turnover is estimated at US\$62 billion, an increase of 16.1% compared with the same period of 2012 and the total imports is estimated at US\$63.4 billion, an increase of 17.4% compared with the same period of last year.



Gold and Dollar Index

The Gold Index has decreased 15.1%, whilst the Dollar Index has increased 0.85%, compared with December 2012.

Deposit rate



Legal Update

The National Assembly Standing Committee has decided to delay the adoption of the revised Land Law until the session at the end of this year because much of the content within the draft failed to conform with the Constitution or the Civil Code.

The Ministry of Construction has issued Circular No. 07/2013/TT-BXD on the 15th May 2013, defining the subject entitled to borrowing loans for housing assistance in accordance with the Resolution No. 02/NQ-CP, dated 7th January 2013, and issued by the Government.

Circular No. 11/2013/TT-NHNN dated 15th May 2013, and issued by The State Bank stipulates the provision of loans for housing assistance according to the Government Resolution No. 02/NQ-CP. The interest rate subsidiary will continue within 10 years, and the annual interest rate will be 6 per cent this year and will be adjusted yearly but not over 6%/year to subject entitled borrowers.

The National Assembly has approved the amendment to the Law on Corporate Income Tax, Value-Added Tax and other measures to reach socio-economic development targets in 2013. This is expected to also include some incentives for property developers.



APARTMENT FOR SALE

Market Performance

The 30,000 billion dong credit package (US\$1.4 billion) has been officially launched to the market since 1 June 2013. This package will service the social housing or commercial housing projects that have the selling prices under 15 million dong (US\$718)/m² and with the unit size under 70m². The preferential interest rate in this package is 6%/year that will be adjusted yearly but not over 6%/year.

In order to meet this package, many developers have launched their new sale programs in Q2/2013. Some postponed projects have commenced again including Green Hill (Binh Tan District), Conic Gateway (Binh Chanh District), Central Plaza (Tan Binh District), and Hung Phat Apartment (Nha Be District), etc.

The affordable segment continues to witness the most transaction rates in the second quarter of 2013. Ehome 3 Saigon West in Binh Tan District has a good sale status with over 80% sold at its first launch according to Nam Long Group. Continuing this success, the second sale phase has been launched in June 2013 with approximately 161 units (Block A5). This developer has cooperated with the bank and executed attractive financial programs in which the customers can obtain the fixed interest rate of 8% over 2 years and the prolonged payment for the first installment.

Similarly in the mid and high end segments, the developers have also offered the attractive sale plans to lure the customers. To adapt to the market situation, Novaland have designed the small-sized units in the next phases of Sunrise City. They have also offered two types of hand-over status including fully-furnished or bare shell apartment units. One project with a good location in Binh Thanh District named Hyco 4 Tower publicly reported a good absorption rate with over

80% of the 60 launched units sold at its model condo opening ceremony. Furthermore, it is apparent that many promotions and discounts are still applied from most developers in order to improve the sale status.

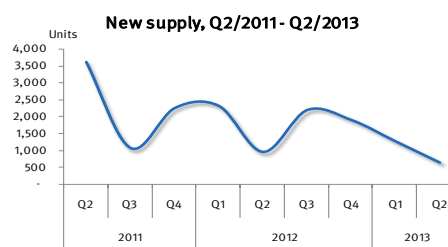
The average selling price for the existing projects in Q2/2013 is approximately VND45.1 million (US\$2,160)/m² for the high-end segment; VND30.5 million (US\$1,460)/m² for the mid-end and VND14.6 million (US\$700)/m² for the affordable segment.

Supply

There were only two projects launched at the second quarter of this year including Ehome 3 Saigon West-phase 2 (Block A5), Binh Tan District and Hoang Anh Gold House (Block A), Nha Be District. Total newly launched units from these projects achieved approximately 660 units. With these two affordable projects, the affordable segment continues leading the market with 67% market share of total current supply.

Demand

Housing demand in the urban areas is strong, however the selling prices are very high compared with the average income of the people. As a result, the supply and demand fails to achieve equilibrium. The Government are executing many new policies to help this gap contract. Besides the interest rates being reduced, the 30,000 billion dong credit package is expected to help more low-income earners buy a house from both social and commercial housing projects.



Source: Knight Frank Vietnam Research & Consultancy



Ehome 3 Saigon West - D.Binh Tan

The affordable projects that are completed or nearly completed and have the selling prices around 1 billion dong (US\$48,000)/unit are still being investigated by buyers.

Outlook

The Phu Hoang Anh (Phase 2) project, Nha Be District has been developed by Hoang Anh Gia Lai Group and is expected to be officially launched in the next few months. This project is under construction and expected to add 648 units into the market. Generally, there are approximately 37,000 units planned to enter the market until 2015, however difficult market conditions could affect the construction progress of these future projects.

KNIGHT FRANK COMMENTS

The recent ceiling deposit rate reduction from the State Bank of Vietnam could affect to the market liquidity and real estate may be considered as an alternative investment channel.

Furthermore, the 30,000 billion dong credit package is expected to improve the market liquidation for the affordable segment and it will be interesting to monitor whether this positively affects to other segments in the real estate market. However, the authorities still need to clarify the right target customers and create conditions so that the applicable parties can access and benefit from this package.

VILLA, TOWNHOUSE AND LAND PLOT FOR SALE

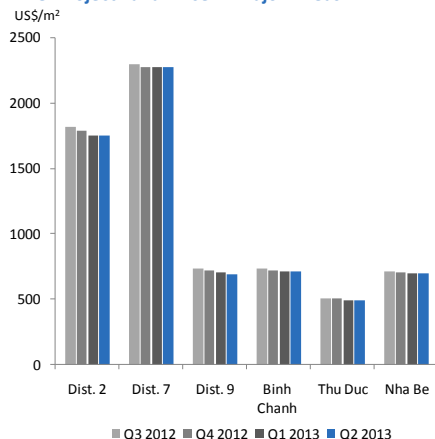
Market Performance

The market in Q2/2013 witnessed the dominance of the land plot market over the villa and townhouse market. The transaction rates remained weak, however the price performance remained stable in most major areas.

The HCMC villa and townhouse market continued to see its primary supply deflate with the second consecutive quarter of no new supply. The primary supply for villas and townhouses, thereby, dropped by 15.3% from the previous quarter. In contrast to this decrease, the land plot market primary witnessed a large number of supplies, most notably from two projects being Nhan Phu in District 9, Phu Thinh, Binh Chanh District with approximately 1,500 plots in total.

The buyer preference for the land plot market reflected the weak demand on the villa and townhouse market. The weak sales over the whole market, averaging five to ten land plots or dwellings per project per month, may cause depreciation costs and other related difficulties such as financing costs for developers when selling their products. Additionally,

Ave. Project Land Price in Major Areas



Source: Knight Frank Vietnam Research & Consultancy



Nhan Phu House (Developed by Phong Phu)

the harsh competition from the secondary market has also contributed to the trend by dramatically slowing down the sale rates of primary stock.

The transaction activities have noted slight increases since the last quarter. The price performance across the projects, thereby, remain unchanged from the previous quarter. The major projects reported the average sales rates of more than ten plots per month. The land plot market accounted for the most transactions. The recorded transaction rate is below VND11 million (US\$500)/m² whereas the townhouse size land plot, from 80m² to 150m² per plot, is the most favoured by end-buyers.

In contrast to HCMC, the neighbouring provinces have experienced the toughest quarter since the end of 2011. The transaction activities slowed down dramatically. The major districts of Dong Nai and Long An province saw weak demand with a 7%-10% drop in price since the last quarter.

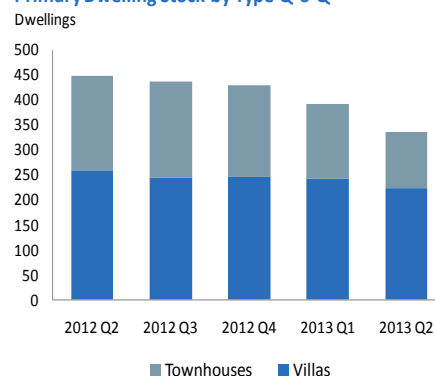
Outlook

We have recorded 400 land plots that will enter the market in the next quarter which are located in District 9 and Nha Be.

Even though the HCMC land plot market witnessed slight increases in this quarter, we maintain our conservativeness as the uncertainty of the macro environment continues to influence on the market sentiment.

The neighbouring provinces are expected to face more difficulties in the second half of 2013. The demand for this area appears to have reached the peak and we anticipate a future price reduction in this market in the coming quarter.

Figure
Primary Dwelling Stock by Type Q-o-Q



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

With the existing supplies and large future stock, the current price rate is under the pressure and is expected to decrease further.

The macro environment is expected to gain more positive movements during the remainder of 2013. However, we expect longer timeframe to improve the market sentiment.



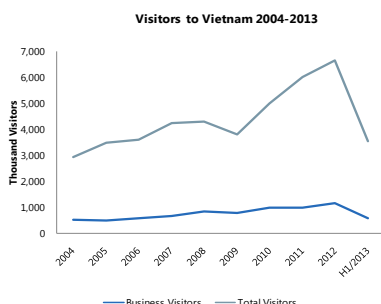
SERVICED APARTMENT

Supply

There was no major serviced apartment supply that entered into the market in Q2/2013, except for some small boutique buildings located within District 1 and 3. Currently, many developers are having difficulties raising capital, and this factor has affected the project progress and the proposed timeline for most new supply.



The real estate market is still facing difficult times, and as a result, the Government has implemented policies to help stimulate the market, however; these proposed solutions have only targeted the low-end residential market. Many new serviced apartment buildings that have started their construction during previous quarters appear to be making slow progress, and in some cases, construction has ceased.



Source: Knight Frank Vietnam Research & Consultancy

Market Performance

The serviced apartment market appears to be stable during this quarter. The rental rate remains at VND588,000 - VND735,000/m²/month (equal to 28-35USD/m²/month) for Grade A and VND420,000 - VND525,000 (equal to 20-25USD/m²/month) for Grade B stock. Occupancy rates remained high, at around 92% for Grade A and 80% for Grade B. The serviced apartment market in District 2 has competed strongly with many new completed apartment projects such as the Vista, the Estella or the Imperia An Phu, which offer much lower rents than serviced apartments.

Demand

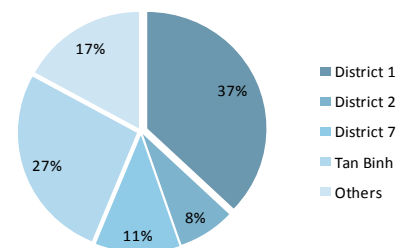
Knight Frank's leasing team has stated that there is no major change to the demand during this quarter with most tenants' budget continuing to be around US\$2,000-US\$3,000 for 2-3 bedroom units and US\$1,000-US\$1,500 for studio or 1 bedroom units. The studio units come from boutique buildings are obviously predominately sought by single tenants because of the low rental and prime location. There is a tenant rotation trend between the same grade buildings or even tenants moving from Grade A buildings to Grade B buildings to save more rent when their lease term has terminated.

There is generally a tenant allocation of nations, which is illustrated below:

- District 1, 3: Japanese, Singaporean, European.
- District 7: Korean, Chinese, Taiwanese
- District 2: America and English

Outlook

Future Supply by District



Source: Knight Frank Vietnam Research & Consultancy

A portion of the Diamond Island project, which is managed by the Ascott is currently nearing fit-out completion works and will provide 200 units serviced apartments to the market next year. The Ascott managed serviced apartment component at The Vista, has been well received with good initial occupancy levels. The company is fitting out further serviced apartments at various phases depending on the level of genuine demand and enquiries. This has culminated in Ascott progressing to completing approximately 30 fully furnished units available for lease out of a total of 100 units.

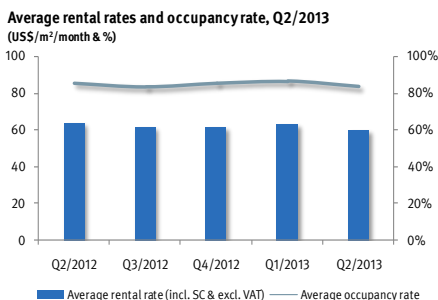
KNIGHT FRANK COMMENTS

Despite the strong competition from many privately owned apartments for lease in HCMC, many reputable serviced apartment management companies such as the Somerset Group, continue to source development opportunities in residential suburbs such as District 2 and District 7. Even though only a relatively small supply, the initial success of the first phases of the Ascott launch at The Vista shows that there is a market for mid end price offerings in outlying CBD locations.

RETAIL

Market Performance

Being continuously affected by the difficulty of the current economic climate, the average rental rates decreased approximately 5% quarter-on-quarter through all retail projects in Q2/2013. Some retail projects have witnessed these tough times with lower pedestrian footfalls recorded. Under revenue pressure and high rental expenses, some tenants have chosen to vacate, which has culminated in a decrease in the average occupancy, standing at approximately 84% in this quarter.



Demand

The retail sale value of goods and services in the first five months of 2013 in HCMC increased 7.7% year on year excluding price volatility. Some new luxury brand names continue to enter into the Vietnamese retail market including Versace and Hugo Boss, in order to meet the demand from the higher end population. Furthermore, the existing fashion and cosmetic brand names also continue opening more shops at the department stores including M.A.C, Nine West, Daniel Hechter, etc.

Also, some international retailers are continually opening retail chains to try to catch the increasing trend of using the popular fashion brand names from the young urban generation.

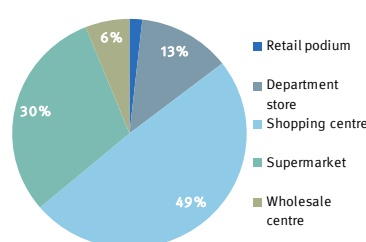
Some notable information in the retail market in Q2/2013 include:

- Satrafoods continues to open the 20th and 21st convenient stores in Phu Nhuan and Go Vap Districts. The stores cover around 300m² and 190m² respectively providing over 2,000 product types each.
- The eleventh coffee shop under name Coffee Bean & Tea Leaf has officially opened on 18 April 2013 at No. 1-3 Phan Chu Trinh Street, District 1. Besides, two new stores at Bitexco Financial Tower, District 1 and on Nguyen Tat Thanh Street, District 4, HCMC are currently being fitted out.
- Pizza Company (Italy), the fourth pizza brand has entered Vietnam. The brand will compete with current pizza chains including Pizza Hut, Pizza Inn and Domino's Pizza. It has officially opened the first shop in Vincom A Shopping Centre, District 1, HCMC.

Supply

There are two new supermarkets entering to the market in this quarter named Co.op Xtra Plus Linh Trung (15,000m²), and Co.opmart Binh Trieu (6,500m²) in Thu Duc District. Co.op Xtra Plus Linh Trung is developed by Saigon Co.op and NTUC FairPrice (Singapore), providing around 50,000 products. This is a new business model that provides both wholesale, retail sale and entertainment

Retail supply as at Q2/2013



Source: Knight Frank Vietnam Research & Consultancy



for the individual, household and enterprise.

Currently, total modern retail space in HCMC is over 843,000m², a 3% increase quarter on quarter and 21% year on year.

Outlook

There is over 1.5 million m² of retail space expected to enter the market in the future. At present, the retail spaces of many apartment for sale buildings are nearly completed and are in the stage of seeking tenants. Therefore, it is expected that these landlords will face strong competition and also have pressure on the rental rates in luring the tenants during the remainder of 2013 and 2014.

KNIGHT FRANK COMMENTS

The new regulations in Circular 08/2013 in terms of the Economics Needs Test (ENT) for setting up a new retail store of foreign invested enterprises, were released in April. Under Vietnam's WTO commitments, ENT is established to restrict foreign investors from penetrating the Vietnamese retail market. It shows that there is still a strong resistance from the local retailers towards the international retailers. Although the market continues to be attractive, the landlords need to be flexible and clearly understand the needs of these international retailers, who always face many difficult requirements and legal obstacles, before any chance of success.



OFFICE

Market Performance

The office market in Q2/2013 generally followed the same pattern as the previous quarter, albeit with slightly less enquiries. We have witnessed most tenant requirements in this quarter emanating from the 300m² – 500m² range. Whilst many tenants are still exploring the options of upgrading their existing premises at a relatively 'cost neutral position', the reality is that a lack of suitable available space, coupled with budget constraints in the current economic climate, has hindered many potential relocation opportunities. This has culminated in many tenants renewing their contracts at their existing premises in lieu of substantial initial costs whilst the new premises are fitted out.

As there has been decent take-up of existing available office space in recent quarters and due to the dwindling supply of stock, rental rates have remained relatively stable over the last quarter at approximately VND647,900 (US\$31)/m²/month and VND418,000 (US\$20)/m²/month exclusive of management charges and VAT, for the Grade A and Grade B segment respectively.

Tenants continue to enjoy the upper hand in lease negotiations whereby they still benefit from a number of factors, including mainly favourable leasing terms and incentives and not being hampered by time constraints.

Bitexco Financial Tower has had a very positive quarter and have executed leasing deals including Sanofi Aventis – 1,200m², Murphy Oil – 850m² and Etihad Airlines – 260m². Ernst & Young currently occupy the whole floors on levels 28 and 30. They have also recently expanded a further 500m² on level 29 and have an 'exclusive right' option to occupy the remaining floor (approximately 500m²) at a later date. These current deals have pushed the occupancy/ commitment rate to approximately 71%. President Place,

another new Grade A building, has a current occupancy rate of 60% for the office component, although we understand that the landlord is in the advanced negotiation stages with a prominent international tenant to acquire a further 2 whole floors, which will push the commitment rate to approximately 75%.

Other notable recent deals within the market include Kinh Do – approx. 5,000m², Nestle – 3,000m² and Hansae – 500m² at Empress Tower, Abbott – 4,000m² lease renewal at Me Linh Point Tower, Bridgestone – approx. 900m², Hitachi – 800m² at Bao Viet Building and Wall Street Institute – 1,600m², that was completed over many levels within the Minh Phu Building in District 3. Empress Tower has been well received in the Grade B market and has an advised occupancy rate of approximately 85% before official opening, although we note that the developer (HTMC) will occupy 4 floors (approx. 4,800m²) out of the total 18,000m² of space. This illustrates that there is good demand for decent office products that hit the market at the right price.

Outlook

We note that within the Grade A segment, there is a severe shortage of large office floor space available for lease within operating buildings over one level. As the larger floor plates within BFT are all under contract, the largest floor plate now available for lease is approximately 750m², whilst the net floor plate of President Place is 774m². This clearly presents a problem for large Grade A requirements as efficiency and operational factors are compromised when tenants are positioned over multiple floors. This is expected to potentially force some tenants with large requirements to seek alternative accommodation in Grade B buildings in the short to medium term, unless existing Grade A space is relinquished. This occurred with Chevron Oil,

when the company recently downsized and relinquished approximately half a floor (550m²) within the Metropolitan Building.

The construction of the 34 storey Lim Tower is progressing well and is expected to be completed within Q3/2013. Surprisingly, there has been no independent pre-leasing within the building, indicating that many potential tenants are awaiting completion before commitment and/or the current asking headline rental rate may be viewed as too high. We expect that there will be increased levels of enquiries once the building is completed, however, it will be interesting to monitor how potential tenants view the significant take-up of space and the branding on the building of the major tenant (Techcombank).



Lim Tower - District 1

KNIGHT FRANK COMMENTS

We consider that this prolonged 'tenant friendly' period will continue for some time. However, those landlords of existing buildings with healthy occupancy rates will be able to negotiate from a stronger position, especially in the Grade A segment, where new supply is not as prevalent.



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

South Africa

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