RESEARCH

Q1/2012

REAL ESTATE HIGHLIGHTS

HANOI

Knight Frank

HIGHLIGHTS

- The early indications of 2012 show that inflation is stabilising and this should culminate in further decreases in interest rates. These could help to increase the market liquidity and breathe some activity into the current stagnant market.
- The foreign direct investment (FDI) inflow into the local property sector has re-gained the top position in terms of newly registered capital in the Q1/2012 after a long period of sharp decline due to market conditions.
- Knight Frank remains conservatively optimistic about the real estate market in 2012 and it will be interesting to monitor whether the recent positive news for Vietnam's economy translates into growth in the property sector.

ECONOMIC & LEGAL UPDATE

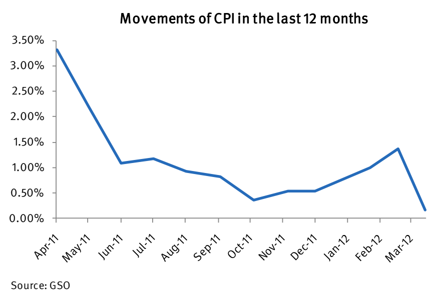
Economic Overview

GDP

Within the first three (3) months of 2012, Vietnam's GDP growth was approximately 4% compared with the previous quarter's growth of 6.1%. The relatively weak first quarter figure was the lowest rate of growth in the last ten (10) years. In Q1/2011 and Q1/2010, the country had seen a growth of 5.57% and 5.84%, respectively. However, Hanoi's GDP in the first quarter of 2012 is estimated to have increased 7.3% over the same period last year.

CPI

Vietnam's consumer price index (CPI) in the first quarter of 2012 saw the lowest quarterly CPI rise in the last two (2) years with the recent 0.16% rise in March.

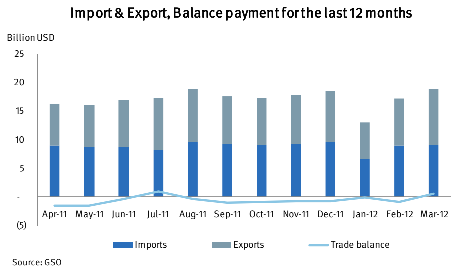


Lending Rates

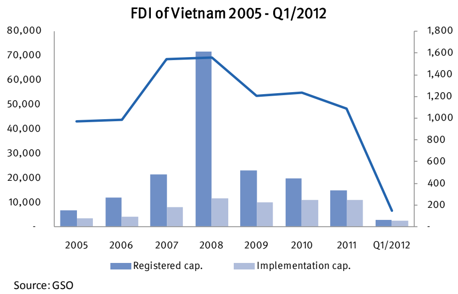
With inflation coming under control, the State Bank of Vietnam has capped deposit rates at 13% (please refer Circular No.05/2012/TT-NHNN) in order to try and improve liquidity. Lending rates have decreased 1% compared with the last quarter, currently ranging from 17% to 20%, however the access to credit in the real estate sector is still severely limited due to ongoing lending restrictions.

Balance of Payments

According to the General Statistics Office, the trade deficit of Q1/2012 stood at US$251 million, equal to 1% of total export turnover. Total export turnover is estimated at US$24.5 billion, an increase of 23.6% compared with the same period of 2011.



Foreign Direct Investment



According to the Foreign Investment Agency (FIA), in the first three (3) months of 2012, Vietnam attracted approximately US$2.63 billion, equal to 63.6% of the same period of last year. Of which, the newly licensed capital of US$2.26 billion (120 projects) equal to 77.2% of the same period of last year and there are 29 projects that have increased their capital contribution a further US$368 million, equal to 30.4% of the same period of last year.

Within first three (3) months of 2012, disbursement capital was approximately US$2.52 billion, equal to 99.2% of the same period of last year. Specifically, the real estate industry attracted the highest capital, equal to 45.5% of the total registered capital, which is positive news.

In the first three (3) months of 2012, Hanoi's FDI attracted 39 newly licensed projects, with total capital of approximately US$119.3 million, an increase of 2% on the number of projects and 5.9 times on the investment capital compared with the same period last year.

Legal Update

Circular No. 05/2012/TT-NHNN

Circular No.05/2012/TT-NHNN dated on 12 March 2012 amending and supplementing a number of articles of Circular 30/2011/TT-NHNN dated on 29 September 2011 stating 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 5% per annum, whilst the maximum interest rate applicable to deposits with a term of one month and more is 13% per annum. Regarding Vietnamese citizen's credit funds alone, they are able to fix their maximum interest rate applicable to deposits with a term of one month and more at 13.5% per annum. This information is expected to reduce the lending rate in near future.

APARTMENT FOR SALE

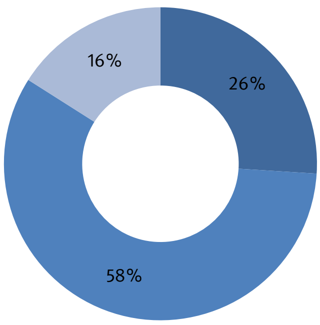
Market Performance

After the Tet Holiday period, the apartment for sale market in Hanoi continued to witness low transaction rates. The affordable segment still is the best performer in Q1/2012.

Despite the current slow market conditions, the market in Q1/2012 welcomed some new luxury projects including D'. San Raffles, D'. Palais de Louis and Hoang Thanh Plaza providing about 500 units. Due to their prime location and committed completion quality, these projects are within the high price range and will target very selective buyers. The average primary prices range from VND85 million to VND140 million (US$4,000—$7,000) per square metre.

In the lower end segments, Thang Long Garden, Mipec Riverside, Hado Parkview and Skyview also had their stock launched. The new supply from these projects added approximately 1,800 units to the total supply. The total supply as at the first quarter of 2012, however, remained high due to the new supply and the large stock of unsold apartments and from the secondary market.

Supply by Grade



Source: Knight Frank Vietnam Research & Consultancy

Not only were the number of projects launched in Q1/2012 lower than that of Q1/2011, the primary price and the number of sold units was significantly lower as well. The average asking prices are from VND18 million to VND26 million (US$900—$1300) per square metre.

The decrease in selling prices was likely attributed to the fact that most developers now understand the real need of the market, which is more affordable pricing, thus offering more reasonable pricing strategies. Whilst in 2011 when the market was already slow, most developers did not react with the market and continued to kept their headline asking prices high and only offered discounts and special promotions such as cars, cash vouchers or holiday packages.

Some developers have also been hindered with bad debt from buyers who bought their apartments and cannot meet their repayments. Along with the ignorance of buyers and investors, many developers have also been facing debt and loan burdens from the banks.

Sale rates of projects to the East of the city have been relatively well received in the market due to the location which is close to the CBD and affordable prices.

Demand

Home buyers appear to becoming more careful and experienced when making purchasing decisions. Most buyers are no longer interested in long term projects but nearly completed developments as they can not only see the progress of the project itself but the finished product.

Outlook

In the next quarter there will still be new supply to enter the market as many developers cannot further delay their construction, although prices have shown no signs of increasing.

Both developers and buyers are awaiting positives changes from macro economic movements, easing the financial crunch and restrictions.

Berriver Long Bien

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2012 will continue be a difficult year for developers, forcing many to change their development strategy to rely more on their inner capabilities than outside supporting policies.

We are witnessing that many buyers are now adopting a 'wait and see' approach, whereby they want to see the developer fulfill their obligations to provide specifications as promised.

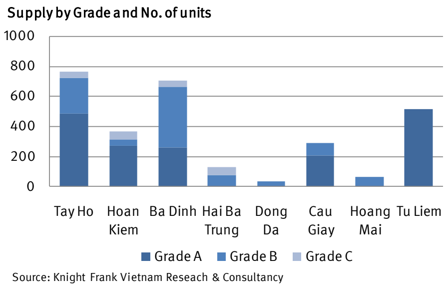
2–3 bedroom apartments of around VND1.5—3 billion (US$70,000—150,000/unit) will be preferred by the majority of home buyers.

SERVICED APARTMENT

Market Performance

In Q1/2012 there was no new large-scale serviced apartment projects that came online, however, we witnessed some private buildings developed by individual developers entered the market.

The total supply stood at more than 2,800 units for all Grade A, Grade B and Grade C stock. This number does not include privately owned buildings that provide an average of 4-5 apartments each.



In spite of a significant number of serviced apartments from Calidas Landmark 72 that came online in the previous quarter, the overall occupancy rate of Grade A projects in Q1/2012 increased slightly to 70% due to the gradual absorption of Crowne Plaza West Hanoi and Calidas Landmark 72. Fraser Suites Hanoi also recorded a very high occupancy rate during Q1/2012.

The average rents of Grade A serviced apartments decreased slightly, a 2% decrease quarter-on-quarter at VND670,000 (US$32) per square metre per month.

Grade B and Grade C projects did not have any significant moves in Q1/2012 with the occupancy rates and average rents overall remaining quite steady. The occupancy rates remained high at approximately 90% and 92% respectively. The average rents of Grade B projects were VND440,000 (US$21) per square metre per month whilst that of Grade C were VND340,000 (US$16) per square metre per month.

Besides serviced apartments, we also saw that demand for villas are fairly high, particularly in the West Lake area compared to other areas. This is predominately a result of the West Lake area providing a good environment and facilities. The majority of the villas provide a larger area at similar rents.

4-5 bedroom villas of high construction quality and large areas in the West Lake area were highly sought in the US$4,000—5,000/unit/month price range. This is an increase of approximately 15% compared to the most recent leases.

From our observation, most of the international companies have lowered their accommodation budgets, yet there are those who have increased their budgets mainly to counter the effects of inflation.

Outlook

Although there are numerous private developed and owned serviced apartment buildings coming online, the number of large scale projects with international operators is limited. In the next quarter, the market will welcome Candeo Hotels Hanoi which will offer 68 hotel rooms and 70 apartments under the management of a Japanese operator.

The supply of serviced apartments will also be competing against new residential apartments when Indochina Plaza Hanoi, and N1, N2 of Ciputra NUA enter the market in Q2/2012, potentially putting pressure on existing rental levels.


SA building on To Ngoc Van Str.

Future Project	Location	No. of unit	Completion year (ets.)	Status
Candeo	Ba Dinh	68	2012	Fitting out
Serviced Apartment Building	Tay Ho	150	2012	Fitting out
Lotte Hanoi Center	Ba Dinh	426	2014	Under construction

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With new projects in Tu Liem District, the serviced apartment market of Hanoi has gradually moved to the west instead of the traditional areas: CBD and West Lake areas.

Competing residential villas in the West Lake area are expected to remain the most preferred compared to villas in others districts.

More and more residential apartments handed over will predominately be the main competitor to the existing Grade B and Grade C serviced apartment projects due to lower rents and flexible lease terms.

RETAIL

Market Performance

Following the opening of the three retail projects in Q4/2011: Savico Megamall, Vincom Centre Long Bien, and Parkson at Keangnam Hanoi Landmark Tower, the Hanoi retail market continued to welcome a new shopping centre, Indochina Plaza Hanoi in Q1/2012 although the project will officially open next quarter. The market supply added more than 18,000m^2 to the total of 423,000m^2 of retail space. This is an increase of almost 68% year-on-year.

Although occupancy rates of the four latest department stores and shopping centres are relatively high early indications suggest the challenge for these centres will be market awareness and how to change the shopping habits. Many people are still keen on central shopping malls/shop houses, than those that are located further to the east and west of the city, with the exception of Big C supermarket chain.

Although the number of projects located within the CBD area accounts for 43% of the total supply, the actual lettable area accounts for only 10%. This is mainly attributed to the limited space in the retail podiums of complex buildings within the CBD, whilst new large retail projects are mainly located outside the city centre.

Q1/2012 saw a 1% decrease in the average occupancy rate of the market, to 94%. The average occupancy rate of shopping centres decreased approximately 5% due to the new supply from Indochina Plaza Hanoi and vacancy rates increasing at other shopping centres, whilst those of department stores and other retail spaces slightly increased or stayed the same respectively.

Indochina Plaza Hanoi

The average rent of the market increased marginally by approximately 1%. The average asking rent was approximately 1,080,000VND (US$52)/sqm/month (incl. SC, excl VAT).

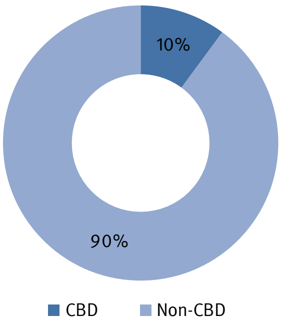
Although the traffic of shoppers to recent large scale shopping centres has not been as successful as expected, the leasing agreement of some big names within the quarter have reflected the vision of the retail players in the market. Lotte Cinema has signed up with Me Linh Plaza Ha Dong for their expansion plan in Vietnam, particularly in Hanoi. Some other international retailers to announce their arrival in Vietnam include Takashimaya and AEON Group.

Outlook

Despite the slow market, there is expected to be new retail projects completed and entering the market at the end of the year. The market will be tough for these new players due to supply and demand dynamics, especially for non-CBD areas of low density.

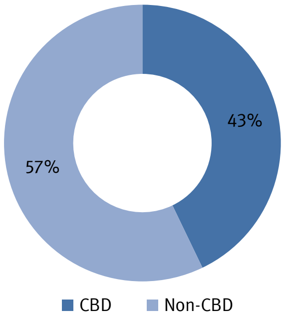
With more supply to the market, it is natural to assume that rents will also be under further downwards pressure, especially for projects located in outer lying CBD areas.

Supply by Retail Lettable Area



Source: Knight Frank Vietnam Research & Consultancy

Supply by No. of Project



Source: Knight Frank Vietnam Research & Consultancy

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Although the first quarter of 2012 did not see many remarkable activities of existing retail projects in Hanoi, the retail market of the city continues to been attractive to big international players.

Projects located within areas of high density and provide mid-end/affordable services to the majority of people are expected to continue to achieve good occupancy rates as well as responses from shoppers upon the opening. Those projects which are located in developing areas may need to see increases in population densities before any significant success.

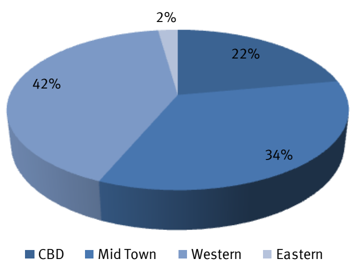
OFFICE

Market Performance

The Hanoi office market commenced the year of 2012 with a few highlights. The sale of Tower B of Vincom City Towers to Techcombank led to the movements of all tenants to other properties in the surrounding area. Thus, about 12,000m² of office space taken in Q1/2012 was solely due to this sale transaction. The absorption was recorded to be mostly at Capital Tower, Ocean Park, Sentinel Place, BIDV Tower, HCOB whilst other buildings in non-central districts such as Handi Resco, Harec Building, Charm Vit Tower and Keangnam Hanoi Landmark Tower also welcomed some tenants from Vincom City Towers.

The second highlight is from the continued attraction of Keangnam Hanoi Landmark Tower thanks to its opening to the market at the end of 2011. By the end of Q1/2012, the building has leased over 30,000m², equivalent to the size of typical Grade A and B buildings in the city. Keangnam Hanoi Landmark Tower has been able to achieve fast occupancy rates as the landlord has widely approached to the market with very flexible offers. Interestingly, is within the amount of multinational tenants moving to Keangnam, a number of them are high credit international companies relocating from the central districts or mid-town area. This effect strengthens the trend of moving towards the West, which is now considered the new CBD of Hanoi.

Hanoi Office Supply by Location



Source: Knight Frank Vietnam Research & Consultancy

Although it has not been officially opened, Indochina Plaza Hanoi, a new Grade A building has started pre-leasing, added to the total supply of the market more than 14,000m² office space. The current supply is over 1 million square metres.

Keangnam Hanoi Landmark Tower

Despite the large absorption of office space in Q1/2012, the vacancy rate of office still remains high due to the large supply in the market.

The vacancy rate of Grade A buildings thus increased to almost 34%, a 3.5% increase quarter-on-quarter. In the meantime, vacancy rates of Grade B and Grade C buildings have decreased, standing at 14% and 8% respectively at the end of Q1/2012.

The market continues to witness rent decreases in all grades. The average rent of the market dropped 2.8% quarter-on-quarter to approximately 540,000 VND (approx. US$26)/m²/month by end of Q1/2012. The Grade A office rent decreased to 720,000 VND (approx. US$34)/m²/month while the Grade B average rent was approximately 500,000 VND (approx. US$24)/m²/month. The average asking rent of Grade C buildings was at 400,000 VND (approx. US$19)/m²/month.

Outlook

Most of the projects planned to be completed by Q1/2012 have missed their target and are not definitely expected to open in the next quarter.

There are a few projects where the raw construction have been completed and are being dressed up for the opening hopefully in Q2/2012.

None of these buildings are well occupied although they have been offered to the market before the opening, except for Hong Ha Tower as it will be partly used by the owner.

Project	Address	Net lettable area (m²)
Hong Ha Tower	Ly Thuong Kiet	18,300
ICON 4 Tower	De La Thanh	19,800
Olympic Building	Cat Linh	14,000
Licogi13	Khuat Duy Tien	10,500
Tuan Duc Building	Phan Boi Chau	3,500

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Rents are almost certain to decrease slightly further due to the new supply in the coming quarters. Competitiveness also came from long term leased spaces which are sub-leased afterwards. Rents of sub-lease spaces have been offered much lower than those from the building landlords.

The trend of moving out of the CBD area has been more significantly due to the limited abilities of multi-functional companies to expand offices.

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