RESEARCH

Q2/2011

REAL ESTATE HIGHLIGHTS

HANOI

Knight Frank

HIGHLIGHTS

- The Hanoi property market in the second quarter of 2011 experienced a general slowdown in activity for most asset classes, except for the retail market.
- The Government's restrictions on bank loans to "non-manufacturing" sectors will continue to strangle credit to the property market, with developers and home buyers alike having difficulties raising finance.
- In the apartment market, mid-end and affordable projects will begin to dominate the market as developers target the stronger demand from owner occupiers in these segments.

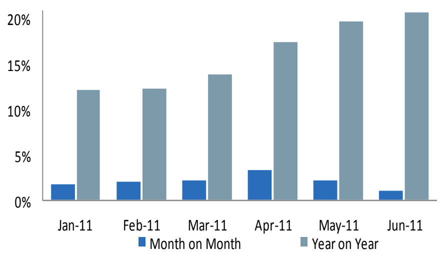
ECONOMIC & LEGAL UPDATE

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 (108 in Hanoi) were registered in the first 6 months of 2011 with over 4.00 billion USD (427 million USD in Hanoi) 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

Market Performance

In general, Q2/2011 saw less activity in the apartment market than the previous quarter; a lower number of successful transactions of units and a smaller amount of new stock coming onto the market.

There were two significant projects that came on line, namely Mandarin Garden and Euro Window Complex which provided almost 1,200 new units to the market. Approximately 440 units of Block A—Mulberry Lane project were officially introduced by CapitaLand early in the quarter. There were a number of other projects also launched in Q2/2011 which increased total supply in the first half of 2011 to approximately 10,000 units.

New supply was concentrated in Cau Giay and Ha Dong Districts and consisted mainly of high-end projects where the lowest prices were approximately US$2,000/sqm including VAT.

In general, the market performance on the demand side remained relatively flat during the first half of 2011 in all segments.

The demand for affordable apartments for owner occupiers (1 to 2 billion dongs per unit) is real and still growing due to urbanization, population growth and modest income levels. The owner occupier market will therefore continue to favor smaller and reasonably priced apartments.

Despite this, the majority of the sales in this quarter were from mid-end and upper mid-end priced projects that make up a large proportion of supply.

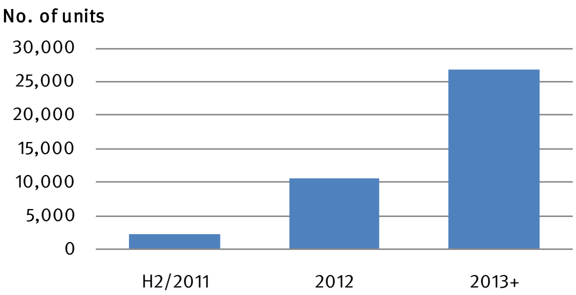
Outlook

In the next quarter, the market is expected to welcome about 2,000 units from mid-end projects such as Green Park Tower, Golden Land and Hoa Binh Green City. Prices of these projects are expected to be in the range of US$1,500-$1,800/sqm.

Although prices have become more affordable, sales for many developers are expected to be difficult. This is due to the large amount of choice availability in the market. In addition, there is likely to be more end users in the market than investors, as the apartment for sale market is considered to be not as lucrative as before.

New supply will continue to come onto the market in the coming quarters, although completion dates of projects are not always fixed and can vary from initial estimates.

Future supply of Apartment for sale in Hanoi



Source: Knight Frank Vietnam Research & Consultancy

Green Park Tower

We note a number of luxury "exclusive" apartment developments i.e. projects with a limited number of units, will be coming to the market in the future. Those that are well situated, in prime locations and well designed will appeal to wealthy buyers. and should be expected to sell well. The depth of demand for this product however is limited.

KNIGHT FRANK COMMENTS

As current supply remains high, buyers will have more choices and are becoming more aware of the available options. Differentiation and customer centered orientation would be a number one tactic for smart developers.

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.

Some projects are on hold as developers are unsure about when is the right time to launch their projects.

SERVICED APARTMENT

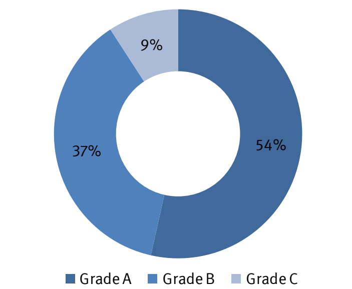
Market Performance

Following the first quarter, the serviced apartment market in Q2/2011 has been stable, with occupancy rates remaining high.

In Q2/2011, two new significant projects—Crowne Plaza West Hanoi Residences and Hoa Binh Green Condominium officially came onto the market, increasing the total supply by 185 units. The former is the first grade A serviced apartment building in the west area and is under the management of IHG. Upon the soft opening of the residences component in May, it was immediately 15% occupied. The latter is the ninth project in Vietnam managed by The Ascott.

As at Q2/2011, the total supply of serviced apartments in the Hanoi market consisted of 55 projects with over 2,500 units. It is estimated that 54% of stock is Grade A, 37% Grade B and 9% Grade C.

Existing supply by grade



Source:Knight Frank Vietnam Research and Consultancy

Geographically, the major existing supply is 33% in Tay Ho District, followed by Ba Dinh District at 25% and Hoan Kiem District at 13%.

The market is significantly affected by non-serviced apartments which are converted from unoccupied high end units of apartments for sale and villas. Apartments for sale from current projects such as Golden Westlake and Ciputra or recently projects such as Keangnam Landmark Tower and Richland Southern are most competitive as they generally offer a lower rate than serviced apartments.

The current asking rate of Grade A stock is about US$35/sqm/month, Grade B about US$23/sqm/month and Grade C about US$15/sqm/month.

The average occupancy rates of both Grade A and Grade B have decreased to 83% and 85% respectively due to the new supply of the quarter but are expected to remain high until the end of the year. Occupancy rates for Grade C are also as high as 90% due to their competitive rental rates.

From the demand perspective, we saw more inquiries for Grade C apartments which offer "cozier" and a more "street-life" atmosphere at more affordable prices. New good quality, high end apartments that are well furnished can reach US$2,500—$3,000/unit/month.

Outlook

Supply in Hanoi will increase significantly in the second half of the year with the opening of the serviced apartment portion of The Keangnam Landmark Tower, which will provide 378 new units to the market. Hanoi Lakeview will also complete their refurbishment by the end of the next quarter.

Keangnam Landmark Tower

The next quarter is typically a time when companies relocate staff, as it is the end of the summer when expatriates get back from summer vacations and will be focused on looking for accommodation.

KNIGHT FRANK COMMENTS

The Hanoi serviced apartment will welcome a significant amount of supply by year end. Most of this new supply will be concentrated in Cau Giay and Tu Liem areas where many new projects are located.

The completion and hand over of some high-end apartment for sales projects by year end will also add more competition to the serviced apartment market.

Tay Ho is still the most preferred area for expatriates though there is a moving trend towards the new areas in the west—Cau Giay and Tu Liem.

RETAIL

Market Performance

Overall, the evolving Hanoi retail market retains an optimistic outlook at the end of Q2/2011.

Existing supply in the Hanoi retail market at the end of the quarter was 230,000sqm including shopping centres, department stores, retail podiums, and hypermarkets.

Whilst about 20,000sqm of Trang Tien Plaza is still undergoing a restructuring, a new shopping centre — PicoMall came online in this quarter providing 30,000sqm. This is a 5-storey podium in the Mipec Tower complex project in Dong Da District.

The performance of the retail market is generally fairly stable. The average occupancy for the whole market decreased slightly to 90% due to the new supply from PicoMall. For the retail space in the central business district (CBD), the occupancy rate still remained very high at or near to 100%.

The rental rates of shopping centres range from US$20 to $120/sqm/month while rental rates of retail podium are higher, at US$40 to $185/sqm/month. Retail podiums in the CBD have always achieved the highest rates.

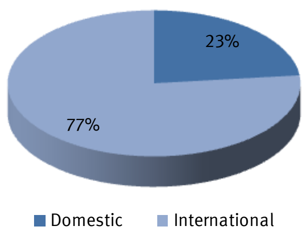
Retail space on long-term leases has become a new investment channel for both investors and individuals. Hang Da Market, Mo Market Commercial Centre and Keangnam Landmark Towers have offered customers retail space for long-term leases (50 years or less) from US$3,000-$11,000/sqm.

Demand trend

The existing and franchised retail brands such as Aldo, Dr. Martens, Guciano, Chopard found new space in various centres for their second and third shops. Alexander Boyd, a well-known British name also set up their first office and shop in Hanoi in this quarter. Big Star, Coffee Bean & Tea Leaf who are new to Hanoi market have also occupied space in PicoMall. In the coming years, there will be more retail brands penetrating the Hanoi market (eg: NTU Fairprice - the biggest retailer in Singapore, Porche, Chrysler Automobile Company, etc.) which is expected to keep boosting the demand.

Besides international brands, more and more domestic brands installed themselves or expanded their stores in shopping centres and retail podiums, such as Kelly Bui, Bo Sua, AK Club, N&M, NinoMaxx, and PNJ.

Domestic vs International brands



Source: Knight Frank Vietnam Research & Consultancy

Outlook

The landscape will change in the second half of 2011 when a number of large projects enter the market.

Following The Garden, Grand Plaza Department Store will be officially closed for repositioning in the next quarter after their first unsuccessful year. This will statistically push up the occupancy rate of the whole market. Although the project will not be totally completed until year end, retail space in Keangnam Landmark Tower will almost be fully taken up. This strong demand showing is an encouraging sign for the Hanoi retail market.

Vincom Centre Long Bien and a few retail components of Yen So Park project developed by Vingroup and Gamuda Land respectively will also be joining the market by the end of the year.

The future pipeline of retail developments in Hanoi in the next two-three years could reach half a million square metres. Most of these projects are located in non-CBD districts such as Cau Giay, Dong Da, Thanh Xuan, Tu Liem and Ha Dong.

Due to the limited supply in the CBD, shopping centres and retail podiums in this area are becoming destinations for luxury and high end brands.

Consequently, developers of non-CBD retail projects will have chances to succeed with more popular and affordable brands once they find the correct strategies for their developments with quality tenants, good facilities and convenient parking provision that offers the consumer a enjoyable and secure environment.

KNIGHT FRANK COMMENTS

2011 will see retail stock double in Hanoi, and it will be interesting to monitor how the new supply will be absorbed by the market.

Well designed, modern retail facilities with a good tenant mix are keys for success in the Hanoi retail market that offers many opportunities.

OFFICE

Market Performance

The total current stock of office space in Hanoi is over 880,000sqm. Grade A accounts for 21%, Grade B for 46% and Grade C for 34%. These statistics do not count small private buildings and apartments used for offices.

More than 50% of the existing supply is located in Hoan Kiem District - the city core and Cau Giay & Tu Liem Districts - newly developed areas to the west of the city.

In terms of new supply, two Grade B office buildings (Phu Dien Building and SeaBank Tower) came online in Q2/2011, adding about 20,000sqm to the market.

Vacancy rates for the whole Hanoi office market (Grade A and B only) stand at approximately 17%, and while occupancy rates of Grade A buildings increased, Grade B saw them drop due to the new supply in the first six months of 2011.

Rents have decreased slightly over the quarter to US$37USD/sqm/month and US$26USD/sqm/month for Grade A and Grade B respectively.

Demand for office space in Q2/2011 was fairly stable. While international companies were fairly quiet during the quarter, domestic ones were very active.

Demand from banks accounted for a large amount of floor area.

Outlook

Long term leasing has been a significant trend over the last two years and tends to be even more popular now that there will be a large supply by year end and in coming years making short term leasing more competitive.

- Some current under construction office buildings are being pre-leased for long term and many are being filled or mostly filled before the official opening. Long term leasing at the construction stage also allows developers to have an income stream before completion alleviating some risk. Significant projects offering long term leasing are: Keangnam Landmark Tower, Cavico Tower, Licogi 13 Tower, SeaBank Tower, etc.

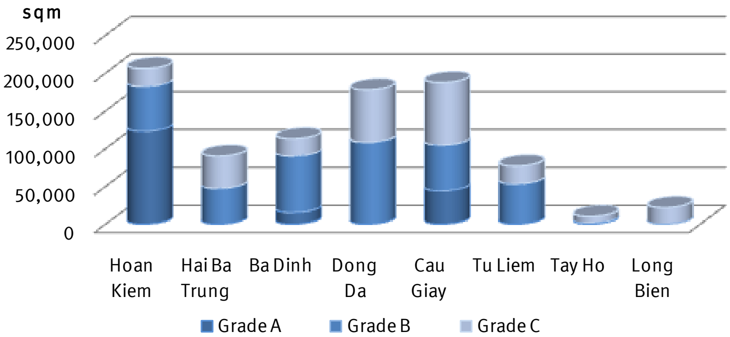
  Phu Dien Building - one out of two new Grade B buildings that came online in this quarter has also been fully leased before its completion.

Phu Dien

- Another long term option lease is to lease out the entire building, however generally only small scale buildings of 2,000-3,000sqm with the maximum of 5,000sqm are subject to this trend.

  Demand for this type of buildings mainly comes from banks who need street front space, decent quality space and suitable with their expansion plan gradually.

Current Office Supply



Source: Knight Frank Vietnam Research and Consultancy

KNIGHT FRANK COMMENTS

The market for the remainder of 2011 is expected to welcome about 180,000sqm of office space.

With new supply coming onto the market, tenants can expect to enjoy benefits from increasing flexibility of rental terms as their negotiation position is strengthened.

Rents are expected to keep softening in the second half due to new supply entering the market.

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