Vietnam Market, Q1 2017

# A slow start amid signs of increasing interest rates

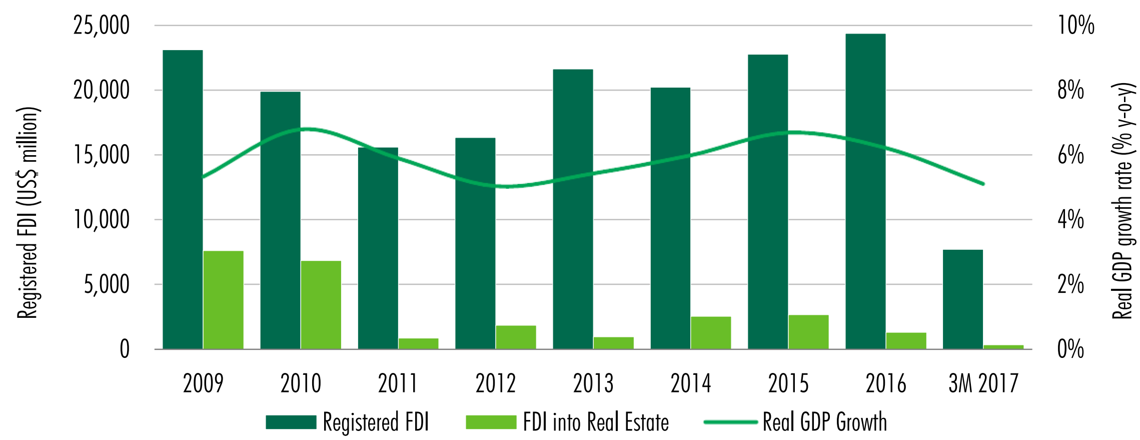
**VIETNAM GDP** 5.10% y-o-y

**HCMC GDP** 7.46% y-o-y

**HANOI GDP** 7.06% y-o-y

**VN-INDEX** 28.70% y-o-y

Figure 1: Vietnam's Registered FDI and GDP Growth Rate




Source: Vietnamese General Statistical Office, 2017.

In Q1 2017, Vietnam's GDP grew 5.10% y-o-y, slipping to a three-year low (compared to 6.12% in Q1 2015 and 5.48% in Q1 2016) due to slow industrial growth.

FDI continues to be a key catalyst of Vietnam's economy. Total registered capital in Q1 2017 reached US$7.7 billion, an increase of 77.6% from the same period last year, with big contribution from increased investment of Samsung Display Vietnam. FDI investment into real estate was recorded at US$343.7 million, making up 4.4% of total FDI investment. Meanwhile, realized FDI capital in Q1 2017 was estimated at US$3.6 billion, an increase of 3.4% from the same period in 2016.

For 2017, Vietnam's government targets to keep inflation rate below 4%, lower than the target of 5% in the previous year. This will require good coordination among various government bodies to cope with challenges from increase in fees of medical and education services as well as petrol prices.

After the ministerial meeting of TPP members in March 2017, it seems that the prospect of TPP moving forward without the U.S. is not totally dead. However, to hedge itself against uncertainties in global trade, Vietnam is already in the process of seeking a one-on-one FTA with the U.S., and looking to implement its FTA with the EU early next year.

By the end of Q1 2017, in an effort to rearrange their capital structure, many commercial banks in Vietnam increased their interest rate on long-term VND certificate of deposits, which can reach as high as 9.2% (1%-2% higher than before). This development needs to be closely watched, given deposit rate in Vietnam has been kept at a consistently low level in recent years. It is expected that eventually there will be some upward pressure on interest rate on loans, which may have an impact on the real estate market.

## SUPPLY SLIGHTLY INCREASE

In the first quarter of 2017, one Grade B office entered the market, Horison Tower with 8,385 sm NLA, bringing total office space in Hanoi to 1.2 million sm, of which Grade A accounts for 34%; and Grade B 66%.

## GRADE A PERFORMED WELL

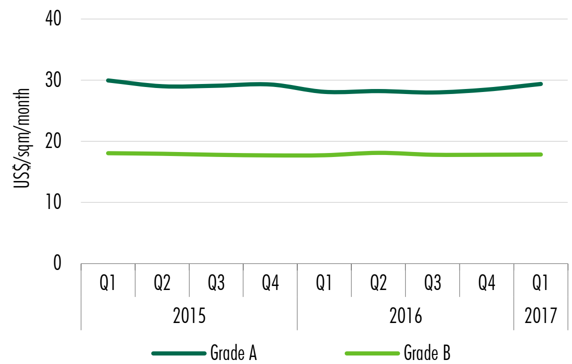
Regarding asking rents, in Q1 2017, rents increased in both grades, a movement not seen in quarters. In particular, rents of Grade A increased by 3.3% q-o-q while Grade B's rents went up by 0.2% q-o-q. Grade A performed well across all major locations, with q-o-q increases of between 0.7% and 5.2%. At the end of Q1 2017, average asking rents of Grade A achieved US$29.4 per sm per month, while Grade B reached US$17.8 per sm per month.

In terms of vacancy rate, Grade A buildings saw an improvement, where vacancy went down by 2.2 ppts q-o-q, staying at 13.2% on average. It is noted that the vacancy of Grade A buildings in the West reached the lowest level on record while that of CBD also recorded a 5-year low. Meanwhile, vacancy of Grade B continued to increase by 0.2 ppt q-o-q to stay at 16.4% on average. Continuous new supply is still a major challenge for Grade B Building's occupancy rates.

Demand-wise, net absorption was around 25,500 sm in the first quarter of 2017, positive growth in comparison with previous quarter.

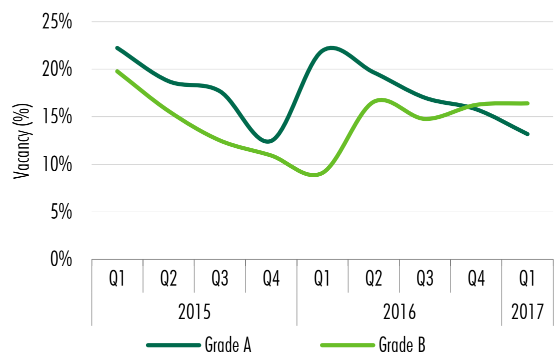
Looking forwards, with no new Grade A expected to come on stream in 2017, existing Grade A office buildings are expected to perform well. Grade B will continue to welcome new supply in decentralized area making this segment become even more competitive.

Figure 2: Asking Rent, Office



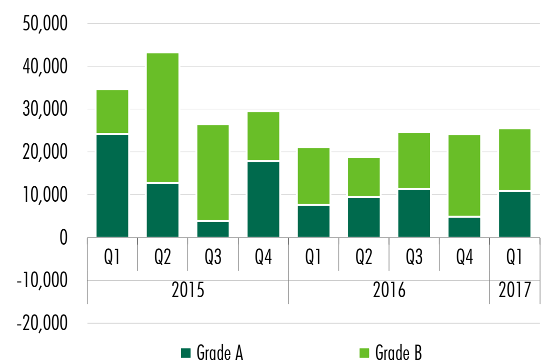

Source: CBRE Research, Q1 2017.

Figure 3: Vacancy Rate, Office




Source: CBRE Research, Q1 2017.

Figure 4: Net Absorption (sm), Office

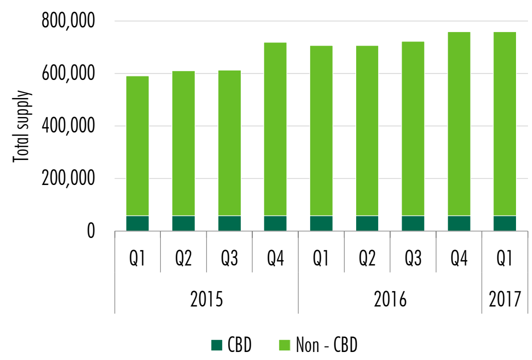



Source: CBRE Research, Q1 2017.

### CBD'S PERFORMANCE IS STILL UPBEAT

Total supply of Hanoi's retail market in Q1 2017 stayed at 760,000 sqm as the previous quarter, an increase of 7.3% y-o-y. Rental rate also remained stable, up 0.1% q-o-q. This slight increase was due to an increase of 0.3% in CBD's rental rates, proving that this area is still highly desired by retailers. Meanwhile, remechandizing at certain shopping malls outside of the CBD caused an upsurge of 5.4 ppts q-o-q in vacancy rate which is now standing at 10.6% average. Yet, this is an improvement of 2.2 ppts compared to Q1 2016.

Figure 5: Supply, sqm NLA, Retail

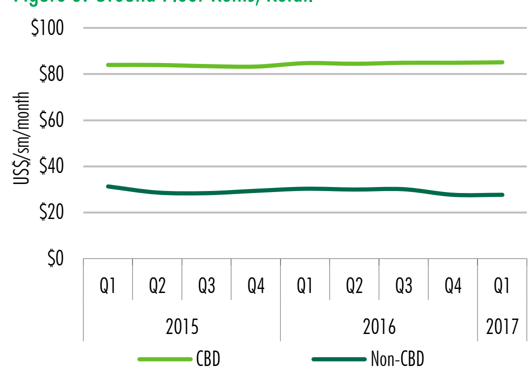



Source: CBRE Research, Q1 2017.

### NO NEW SUPPLY IN Q1 BUT STRONG PIPELINES

Despite having no new mall openings during the quarter, Hanoi's retail market was quite active on investment activity. Lotte recently acquired a 7.3 ha land for one of its largest shopping mall in Vietnam so far which will be located in a high-end urban area, famous for expats community. Aeon also announced its second site in Hanoi located far west of the city highly populated by Vietnamese people. These two transactions promised a large number of future supply expected to open in 2019. In the meantime, the rest of 2017 still looks vibrant with more than 100,000 sqm in the pipeline.

Figure 6: Ground Floor Rents, Retail

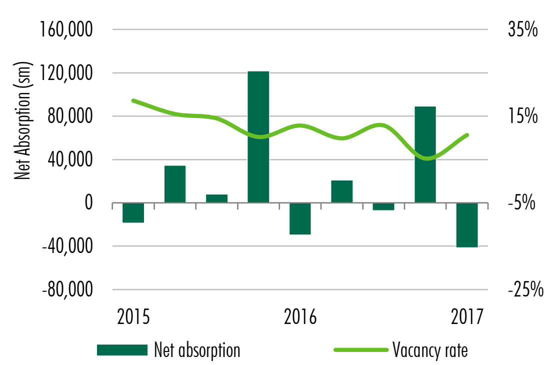



Source: CBRE Research, Q1 2017.

### MILLENNIALS SHAPING FUTURE CONSUMER TREND

In Q1 2017, CBRE Asia Pacific issued a report on the generation which holds the future, millennials, "Asia Pacific Millennials: Shaping the future of real estate". One of the fascinating findings was that millennials in APAC showed much stronger preference on dining out, going to cinema, concert, theatre, their counterparts in other regions. This trend is translated into Hanoi market, where nearly 60% is under age 35, as strong growth in F&B and entertainment sector. They are not just crucial factors in modern shopping mall operation and expected to continue being so in the future due to this consumer trend.

Figure 7: Net Absorption and Vacancy Rate, Retail




Source: CBRE Research, Q1 2017.

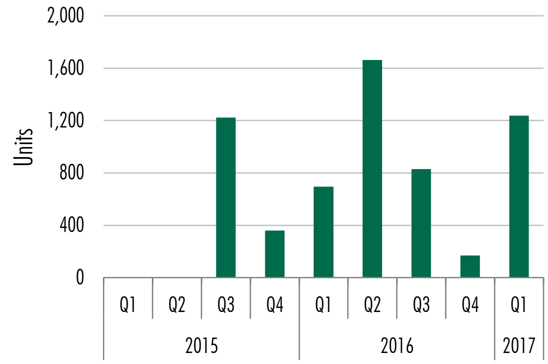
## VIBRANT LAUNCHES –NEW SUPPLY IN THE EAST TOOK DOMINANCE

Hanoi landed property market experienced a vibrant first quarter of 2017 with a wide range of new launches and impressive sale progress. During the review quarter, a total of 715 villas, 318 townhouses and 204 shophouses were launched, coming from 6 projects, including: Ciputra Zone K, Dreamland, Vinhomes Green Bay, Vinhomes Riverside Phase 2, Eurowindow River Park and Marina Arc (the last zone of Ecopark Phase 3 – Aquabay). These made up a total of 1,238 units launched in Q1 2017, equivalent to 40% of total units of the previous year, in which 47% of new supply is in the East. It is notable that almost all newly launched projects are located in prime areas with completed infrastructure and available residents. Thus, primary prices of these projects are much higher than market average.

## STRONG RECOVERY IN SECONDARY PRICES THANKS TO GOOD QUALITY OF NEW PROJECTS

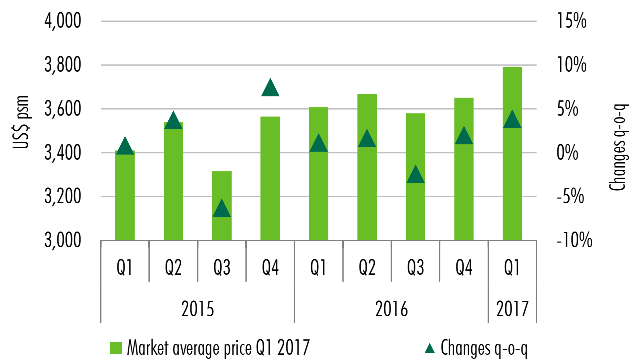
Regarding secondary prices, an increase of 3.9% q-o-q and 5.1% y-o-y were recorded in the review quarter, bringing average secondary pricing to US$3,791 psm. Core urban districts such as Cau Giay, Tay Ho and Tu Liem continued to witness increases in resale prices, ranging from 1.4% to 7% q-o-q, on the back of newly-recorded large-scale projects that were launched in previous quarters and offered at prices higher than average. Additionally, it is also observed that developers of landed homes are committed to stronger investment in facilities and amenities within the townships. For instance, clubhouses of international standard at Park City came into use during the quarter; or Dinosaur Park is to be introduced at Vinhomes Riverside Phase 2, together with several clubhouses catering for the different zones within the township.

Figure 8: New Launches, Landed Property



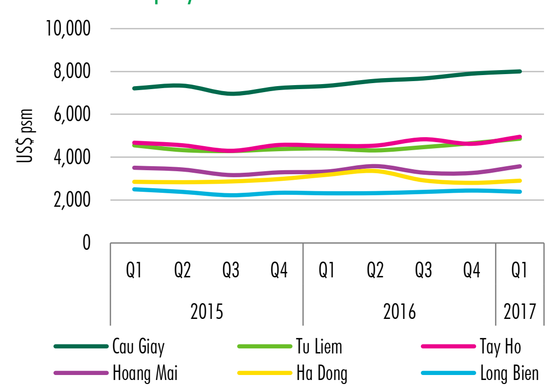

Source: CBRE Research, Q1 2017.

Figure 9: Secondary Selling Price, Completed Units, Landed Property




Source: CBRE Research, Q1 2017.

Figure 10: Secondary Selling Price by District, Completed Units, Landed Property




Source: CBRE Research, Q1 2017.

## POSITIVE MARKET SENTIMENT

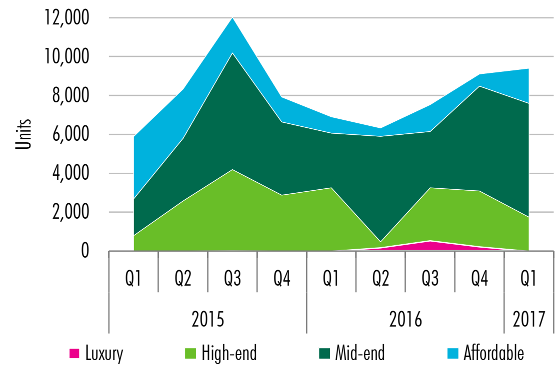
Continuing positive momentum in 2016, 2017 started with a busy quarter. 9,398 units were launched in 35 projects across the city indicating q-o-q increase in both volume and projects. By segment, mid-end still dominated total new launches, accounting for 62%, following by high-end and affordable segments. The number of new launch from affordable segment significantly increased and nearly tripled that of Q4 2016.

A total of 6,143 units were recorded sold during this quarter, indicating active sales activity. Sales is significantly boosted by various promotional programs by developers, especially before Tet. Although there was a slight decrease of 7% q-o-q, sales volume significantly increased y-o-y.

In terms of pricing, some projects at good locations and accommodated with sufficient amenities and facilities have increased their prices. All segments experienced y-o-y increases in primary market. In particular, high-end and luxury experienced the highest increase of 8.4% y-o-y and 12.3% y-o-y, respectively. The high-end projects launched during Q1 2017 have higher price on average than those launched in the same period last year leading to this increase. On the resale front, average market prices slightly went down by 1.4% q-o-q but recorded y-o-y increase of 0.5%.

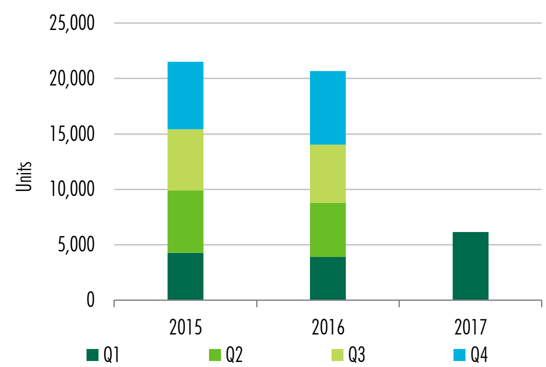
Moving forward, the West and South West will continue to gather the largest number of units to be launched. Other areas such as Tay Ho district and Midtown are also expected to welcome new quality supply. As anticipated, there is an increasing interest from local developers towards affordable segment, and it is expected that there will be new units launched from this segments in the upcoming quarters, mostly located in decentralized areas.

Figure 11: Launched Units, Condominium for Sale



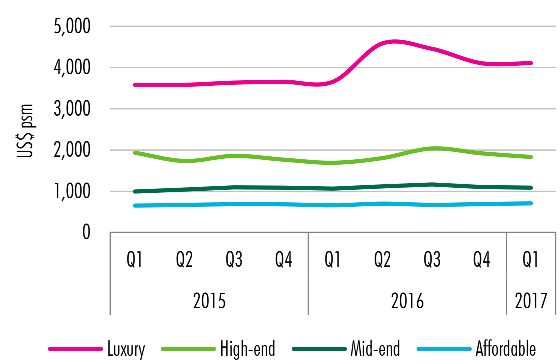

Source: CBRE Research, Q1 2017.

Figure 12: Sold units, Condominium for Sale




Source: CBRE Research, Q1 2017.

Figure 13: Primary Selling Prices, Condominium for Sale




Source: CBRE Research, Q1 2017.

## POSITIVE SIGNAL ACROSS ALL GRADES

The first quarter of 2017 was rather quiet with no new supply. The total supply remained stable at 3,300 units, almost 60% of which are located in Ba Dinh and Tay Ho. Grade A apartments took up to 70% of total supply. Among these, almost half are located in Tay Ho District, showing a strong preference toward this area.

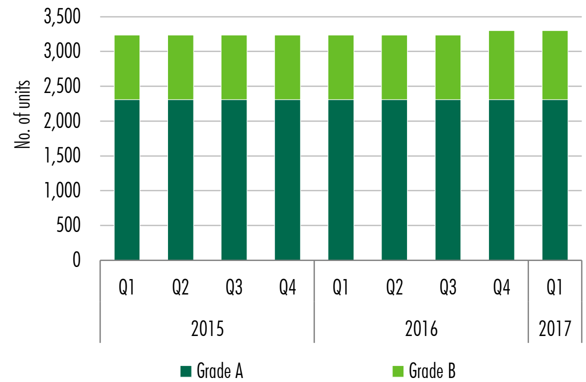
Average asking rent of the market remained relatively stable with an increase of 0.7% q-o-q. Grade A achieved $31.8, an increase of 1% q-o-q and 1.3% y-o-y. Meanwhile, Grade B witnessed a slight drop, 0.2% q-o-q. With such vibrant favor, Tay Ho district is at the top of highest asking rent. Performance this quarter was improved across all grades. The occupancy rate rose 3.1 ppts q-o-q for Grade A and 2.3 ppts q-o-q for Grade B.

## INCREASING COMPETITION FROM BUY-TO-LET

The market is under increasingly strong pressure from buy-to-let market. Due to limited options as well as lack of service and amenities, this format was not a real threat to serviced apartments. However, the recent high-end apartment projects have shed a new light on this competition.

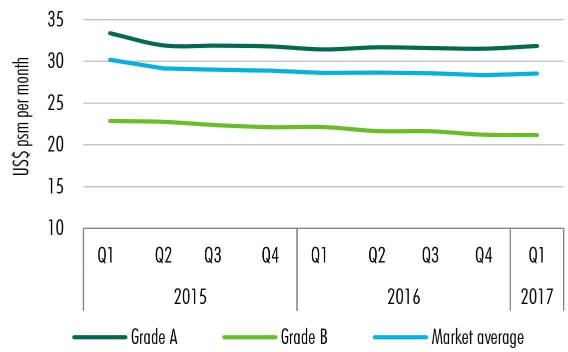
With high quality building and management, along with good location and sufficient amenities, conventional apartment owners can now market their properties with a very competitive rental rates of around US$10 per sqm per month. In addition, supply of serviced apartment market still concentrates on some particular areas while conventional apartments for lease are widely spread across the city, giving more options to customers. Thus, buy-to-let format is becoming more attractive for both home owners and foreigners, the main target customers of serviced apartments. It is expected that buy-to-let will witness further development in the coming years.

Figure 14: Supply, Serviced Apartment



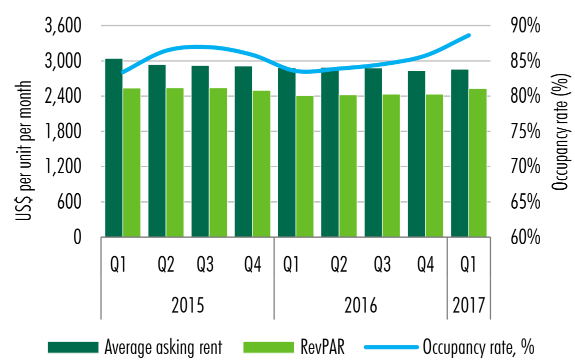

Source: CBRE Research, Q1 2017.

Figure 15: Asking Rent, Serviced Apartment

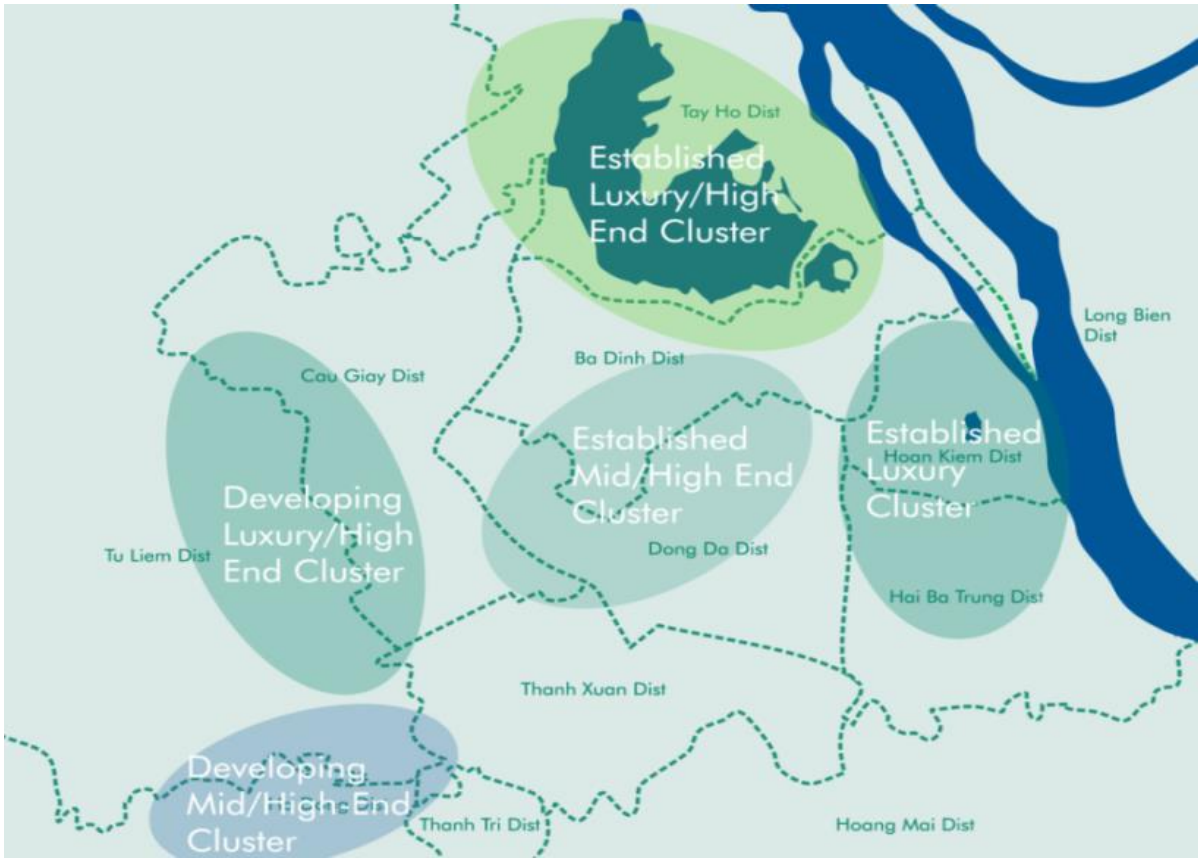



Source: CBRE Research, Q1 2017.

Figure 16: Market Performance, Serviced Apartment




Source: CBRE Research, Q1 2017.

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