

Vietnam Market, Q1 2017

A slow start amid signs of increasing interest rates

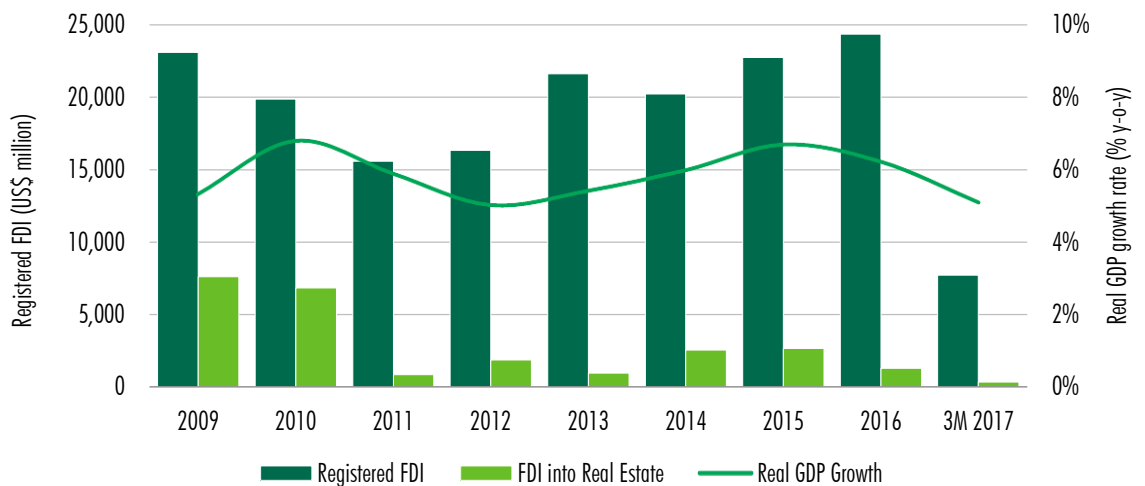
VIETNAM GDP
5.10% y-o-y

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.

GOOD PROJECT PIPELINES AT BOTH GRADES

There was no new supply for Grade A in the review quarter and one new project in Grade B: Saigon Giai Phong Newspaper building, which brought an additional 5,404 sm NLA to the market. The Viettel Complex postponed its opening to Q2 2017 despite being completed and currently undergoing interior and exterior fitting out for the first tower. Looking forward, we expect to welcome 147,196 sm new NLA during 2017 for both Grade A and B.

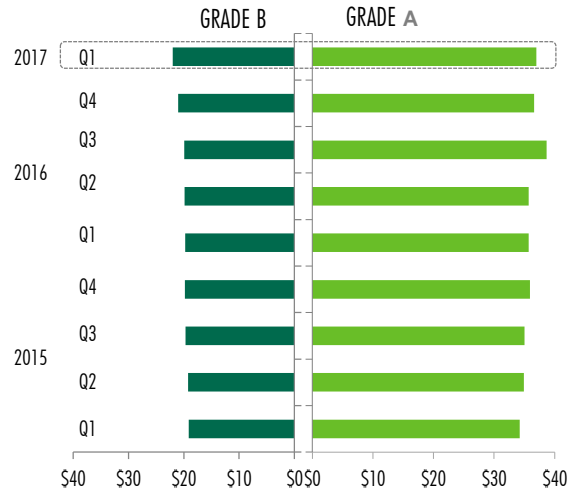
MARKET PERFORMANCE WAS STABLE WITH SLIGHT RENTAL INCREASES

The market continued to benefit from limited leasing space, which helped to support rental rate. Specifically, grade A recorded US\$37.0/sm/month, an increase of 1.2% q-o-q and 3.6% y-o-y and grade B recorded US\$22.0/sm/month, an increase of 4.8% q-o-q and 11.5% y-o-y.

Meanwhile, vacancy of Grade A and B decreased compared to last quarter. Compared to the same quarter last year, vacancy of Grade A increased by 1.9 ppts. This is due to leasing space at Mapletree Business Centre that has yet to be completely absorbed. Grade B's vacancy rate dropped 1.7 ppts y-o-y with the Ha Do building quickly reaching full occupancy. Net absorption was healthy, with Grade A at 5,318 sm NLA and Grade B at 6,547 sm NLA thanks to new properties introduced in Q4 2016 positively fill up.

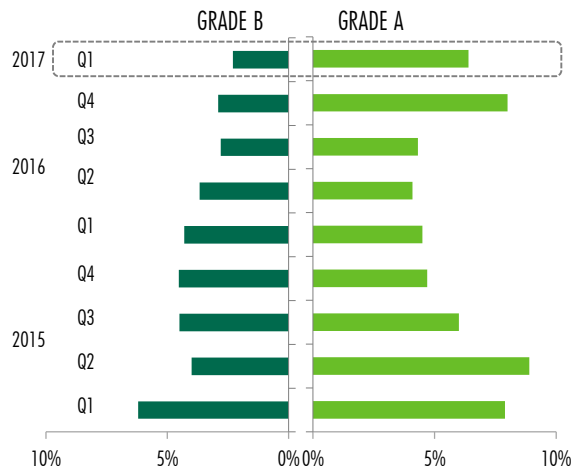
Regarding tenant trends based on CBRE's enquiries, IT and Logistics companies were actively expanding, accounting for 12% of total enquiries. There has been a surge in demand for spaces larger than 1,000 sm, which accounted for 19% of total enquiries (compared to only 7% last year). Decentralization was also a developing theme with new projects coming online in District 7 and District 9.

Figure 2: Asking Rent*, Office



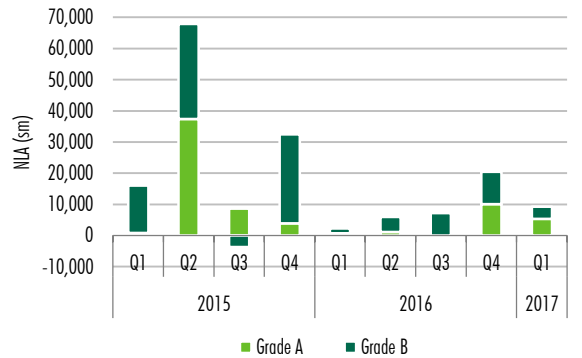
* Average office rents on net leasable area, excluding VAT and Service charge. Source: CBRE Research, Q1 2017.

Figure 3: Vacancy Rate, Office



Source: CBRE Research, Q1 2017.

Figure 4: Net Absorption, Office



Source: CBRE Research, Q1 2017.

A STABLE MARKET TO BEGIN THE YEAR WITH

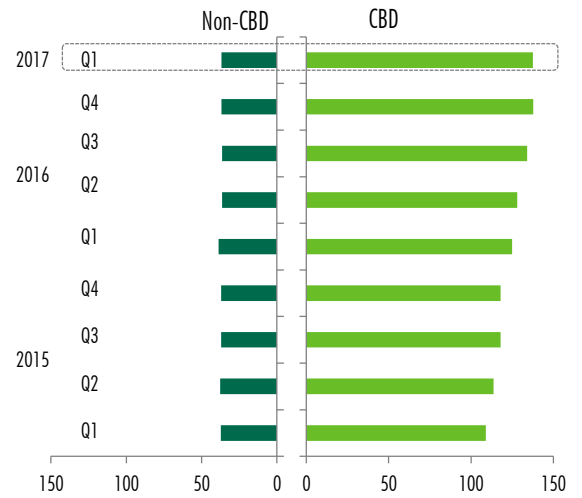
After a year of record high levels of new NLA, HCMC welcomed two new projects in the first quarter of 2017: the bazaar-like Sense Market 23/9 in District 1 and a retail podium, CBD Home Premium, in District 2. Both projects are small in scale and added only 17,500 sm of NLA to the market. While Sense Market was fully occupied, CBD Home Premium had only its fourth floor occupied by Snow Town, an entertainment anchor tenant, while the other floors are still fitting out.

Rental rates were reported flat in most areas and formats in the review quarter. The exception was department stores where rental costs decreased by about 5% q-o-q. In other formats, rental costs only varied between 0.1-1.2% q-o-q. Net absorption was 6,862 sm due to limited new supply and the vacancy rate was 7.9%, which was 1.2 ppts higher than the previous quarter. However, the current vacancy rate improved by 2.6 ppts compared to the same period last year.

SMALL SCALE AND CONVENIENCE TO BE THE MAIN THEME OF 2017

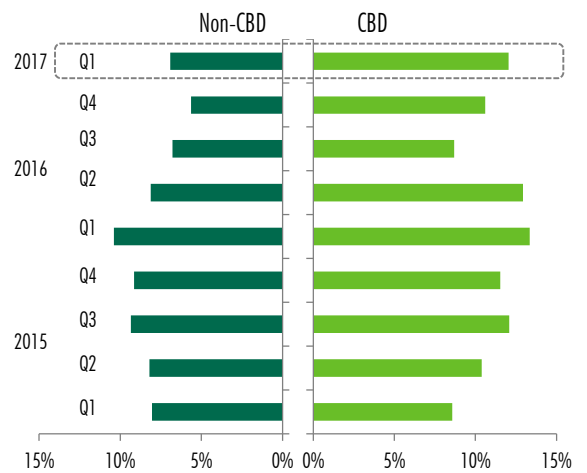
Instead of openings of many big-scaled projects like in previous years, new projects in 2017 will mainly be retail podiums which emphasize convenience and necessity for the consumers. Accordingly, the market will have chances to absorb current available areas before bigger projects come on line. Also, as a result of limited new supply in 2017, the number of new tenants joining the retail market is expected to be lower than it was in 2016. Nevertheless, the market is still looking forward to welcoming big names such as H&M and 7-Eleven, both of which offer affordably priced goods. Meanwhile, convenience stores such as Minigood, Miniso, Mumuso, etc. continue to expand, attracting young customers who are looking for foreign goods at reasonable prices.

Figure 5: Asking Rent, Retail



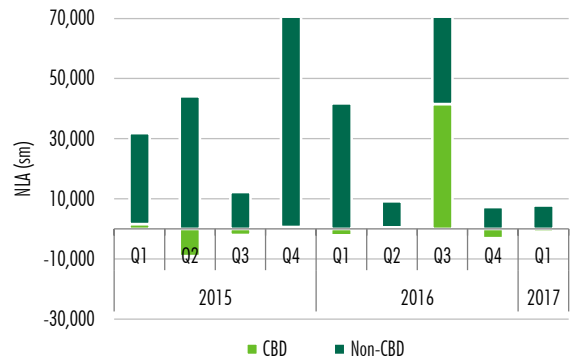
* Average retail rents of first and ground floors, excluding VAT and Service charge. Source: CBRE Research, Q1 2017.

Figure 6: Vacancy Rate, Retail (%)



Source: CBRE Research, Q1 2017.

Figure 7: Net Absorption, Retail



Source: CBRE Research, Q1 2017.

THE EAST DOMINATED NEW SUPPLY

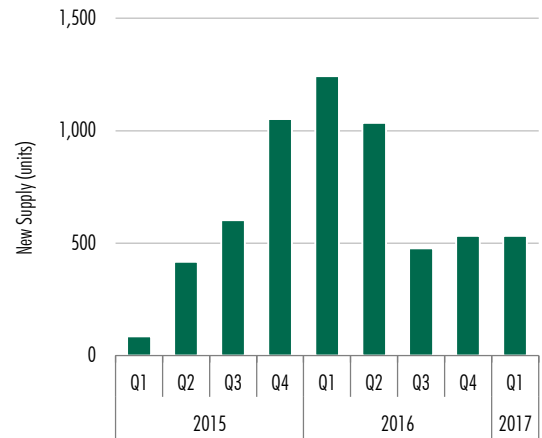
The landed property market is usually most active during the first quarter of the year due to the Tet holiday. In the review quarter the landed property market welcomed five new projects, adding over 500 units to existing supply, a decrease of 57% y-o-y. All new supply was clustered in the East of HCMC with four projects in District 9 and one project in Thu Duc District. In coming quarters, we also expect to see new supply coming on line in the South and the East of the city. Among the five new projects launched in the review quarter, those in established areas each launched more than 100 units while the others each launched around 50 units.

DISCREPANCY IN SELLING PRICES BETWEEN LAND PLOTS AND READY-BUILT UNITS

In Q1 2017, average selling prices were quite flat across the market. While District 2's average selling price increased by 1.4% q-o-q and District 9's by 1.9% q-o-q, other decentralized districts such as Binh Chanh District, Go Vap District and District 12 witnessed their selling prices increasing by 1.5-3% q-o-q. As expected selling prices of land plots witnessed bigger increases compared to ready-built villa/townhouses in the same areas. In active areas in District 2 such as Thanh My Loi and Binh Trung Dong Ward, selling prices went up 16%-40% q-o-q while in Nha Be District, Thu Duc District, Binh Chanh District and District 12, selling prices increased by as much as 25% q-o-q.

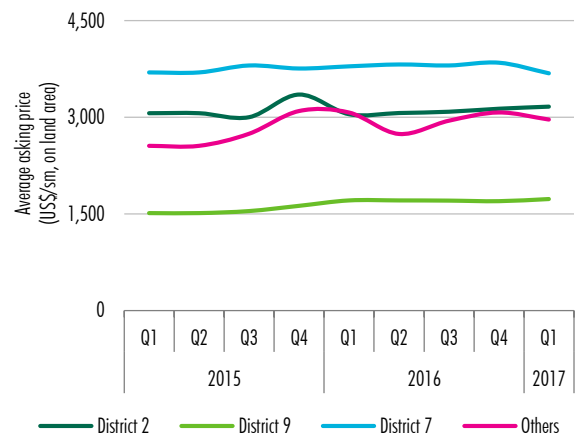
Looking forwards, selling prices are expected to increase even further due to positive outlook of future supply along with good absorption capacity of the market. Unlike the booming period of 2007, we believe investors are now more cautious and thorough in their feasibility studies to execute their trades, and thus will create a safer and more stable market. In addition, the State Bank of Vietnam's action in increasing control over credit lending policy (as seen in Circular 06) will also help the market maintain its stability in the long run.

Figure 8: Launched Units, Landed Property



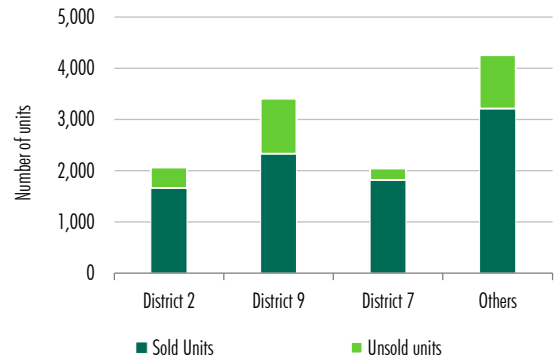
Source: CBRE Research, Q1 2017.

Figure 9: Asking Selling Price, Landed Property



Source: CBRE Research, Q1 2017.

Figure 10: Sold Units, Landed Property



Source: CBRE Research, Q1 2017.

Q1 2017 STARTED QUIETLY

The condominium market started the first quarter of 2017 quietly with a reduction in new launches and sold units across all segments, especially in the high-end and luxury segments. The market welcomed 5,083 units from 21 projects including six new projects, a decrease of 44% q-o-q and 49% y-o-y. This trend was also observed in the Q1 2015 while developers were reviewing their projects and strategies. CBRE believes that the number of launches will return to the usual level in subsequent quarters.

For the first time, the West took lead from the East and the South with 1,821 units, accounting for 36% of total new launches. The East areas was in the second place with 1,523 units.

In terms of sold units, sales momentum was down with 6,501 units sold, decreasing by 47% q-o-q and 29% y-o-y. This downward trend was mostly due to a lack of options on the supply side. Mid-end products accounted for 67% of sold units in the review quarter.

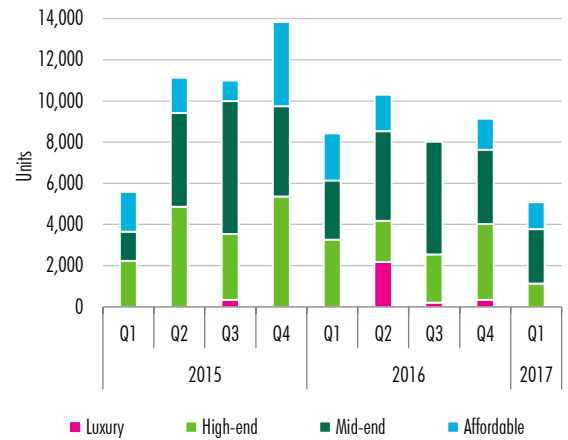
Average selling price reached US\$1,595 psm, an improvement of 6% q-o-q and 13% y-o-y. Selling prices improved by 7.9% in the high-end segment thanks to good quality projects especially in the District 2.

POSITIVE OUTLOOK

Looking forwards, the general improvement in infrastructure (the Nguyen Van Cu and Nguyen Tri Phuong bridge connection line with Vo Van Kiet Boulevard) and public facilities such as the Nhi Dong 3 Hospital in Binh Chanh District will attract the interest of the market to the West of HCMC. The market is also waiting for a large scale affordable project from Vingroup in The East.

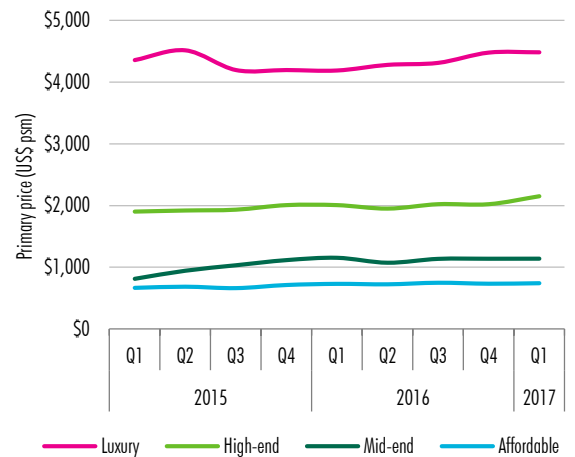
The luxury segment started slowly in the first quarter of 2017 with no new project, however, this will change soon as a number of quality projects are expected to be launched in the next three quarters.

Figure 11: Launched Units, Condominium for Sale



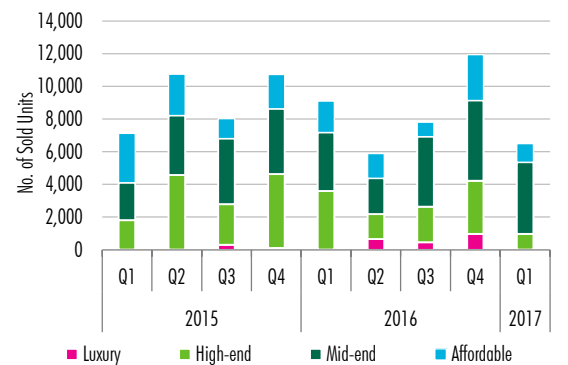
Source: CBRE Research, Q1 2017.

Figure 12: Primary Selling Price, Condominium for Sale



Source: CBRE Research, Q1 2017.

Figure 13: Sold Units, Condominium for Sale



Source: CBRE Research, Q1 2017.

INCREASE IN DEMAND

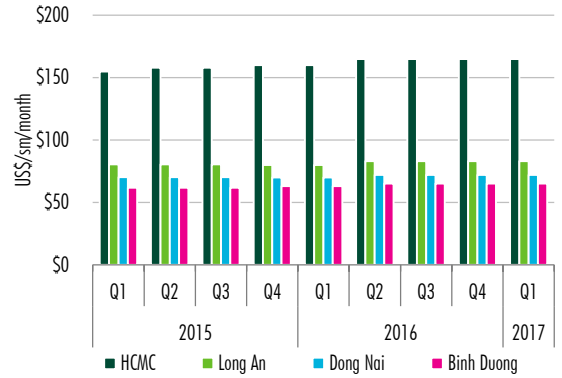
More demand was observed in the industrial market thanks to good in flow of FDI in the first quarter. Registered FDI in Vietnam in the first three months reached US\$7.7 billion, up 77.6% y-o-y. Some notable projects were Samsung increasing capital of US\$2.5 billion in Bac Ninh province, Taiwan investing US\$485.8 million in a polyester manufacturing company in Binh Duong province, Coca-Cola Vietnam increasing capital of US\$319.8 million.

Vietnam’s industrial real estate sector shows good prospect against competing countries such as Thailand and Indonesia thanks to stable political environment and strategic location.

RENTS KEEP STABLE

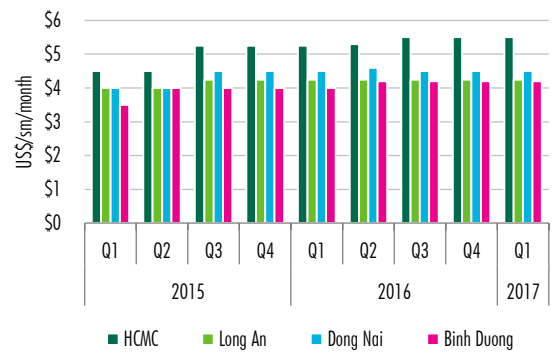
Industrial land and RBF rents maintain the same level in HCMC and neighbour provinces. The first quarter always showed a stability in rents due to long Tet holiday. Developers also need to review their strategy in the next three quarters.

Figure 14: Land rate (US\$/sm/term), Industrial



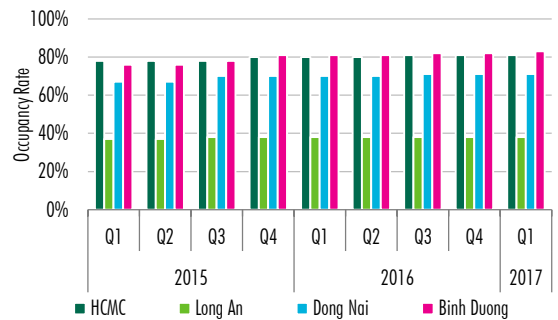
Source: CBRE Research, Q1 2017.

Figure 15: Ready-built-factory rate (US\$/sm/month), Industrial

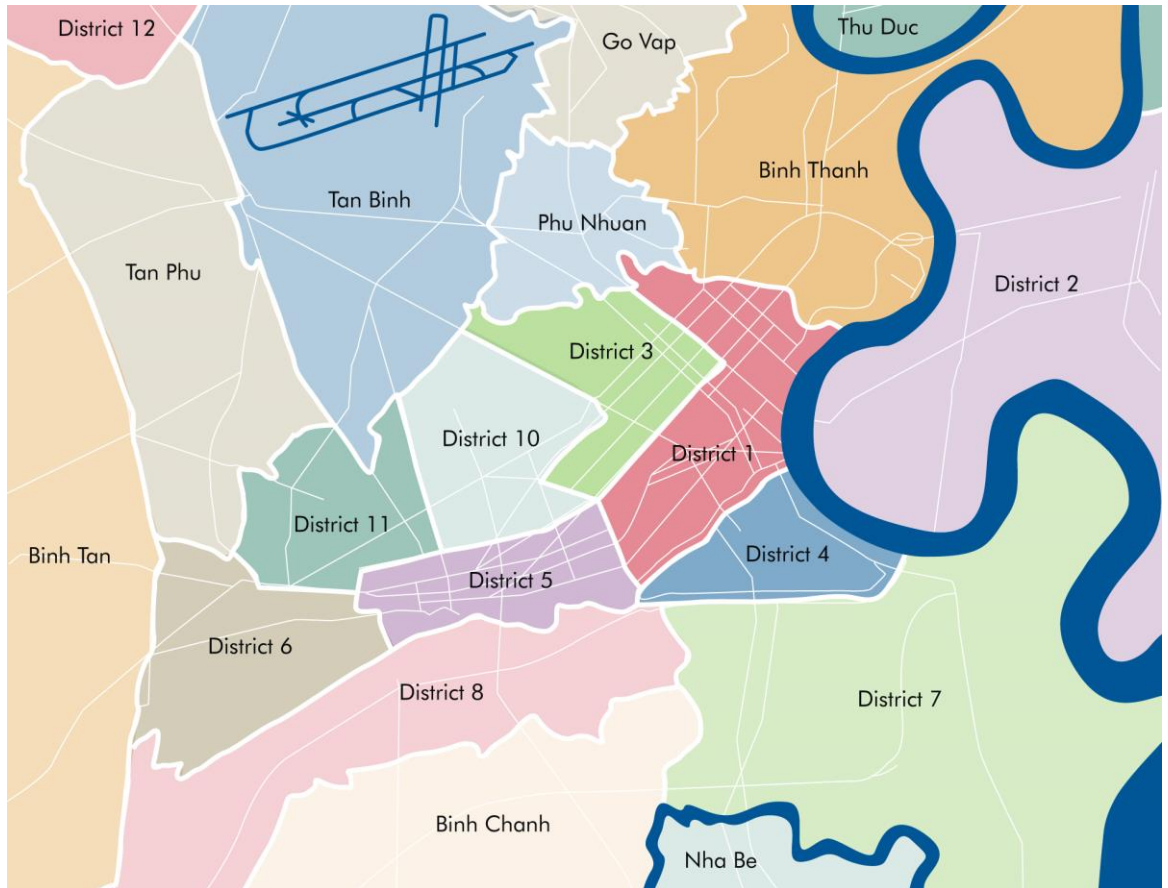


Source: CBRE Research, Q1 2017.

Figure 16: Occupancy Rate, Industrial



Source: CBRE Research, Q1 2017.



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