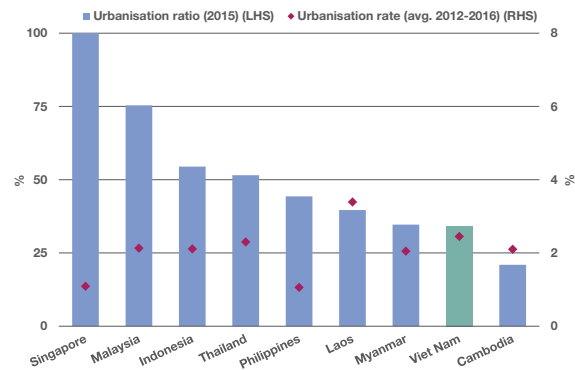


Asian Cities Report **Vietnam Residential**

2H 2017

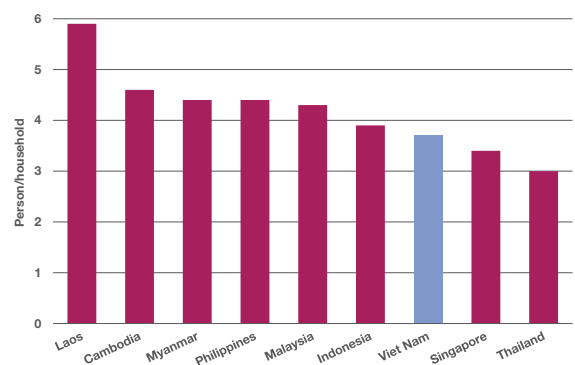


GRAPH 1
Urbanisation, 2016



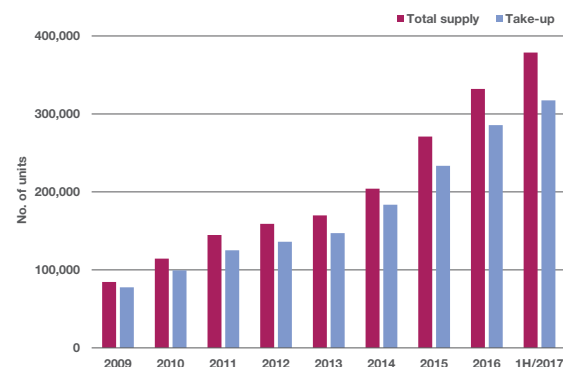
Source: World Bank, 2017

GRAPH 2
Household size, 2016



Source: CIA World Factbook, 2017

GRAPH 3
Nationwide market, HCMC and Hanoi, 2009–1H/2017



Source: GSO and VNAT

Overview

In the late 1980s, the urban population of Viet Nam was 20% of the total. When economic liberalisation was embraced, the rate of rural migration to urban centres increased, and 30 years later it is now at its highest rate of 34%. In 2000, Viet Nam had approximately 2,200 sq km of urban land; by 2010 that land area had expanded to 2,900 sq km, overtaking Thailand and the Republic of Korea. With growth of almost 2% per annum, the pace of urbanisation over the last five years was the second highest in the region. The ratio of urbanisation in Viet Nam, however, is still lower than Malaysia at 75%, Indonesia with 54% and Thailand at 52%, indicating that there is still significant potential for urban expansion.

Cumulatively, an estimated 150,000 people move into HCMC and Ha Noi every year. Urban relocation will continue as agricultural, fisheries and commodity-based work becomes less labour dependent, new industries are invested in, and the knowledge-based economy expands. Urbanisation is helping accelerate economic growth and development. After years of mid-to high-end property development, focus is shifting towards affordable mass housing, which is essential for supporting productivity and ensuring more inclusive urban growth.

Households

In 1989, there was little difference between rural and urban household sizes. Traditionally, grandparents shared their house with married children and grandchildren; numbers of three-generation households have steadily decreased since. The average urban household in 1989 was 4.82 persons per dwelling; in 2014 it was 3.6 persons, and in rural, more traditional areas, a little higher at 3.8 per dwelling. With more modern lifestyles and greater per capita incomes, urban middle class families are increasingly opting for their own space. Over the years there has also been a noticeable increase in single living. In 1999, the proportion of single urban households was 4.7%; by 2014 it had almost doubled to 9.1%. The average Vietnamese household size is lower than neighbouring countries such as Indonesia with 3.9, Malaysia with 4.3, and the Philippines at 4.4 persons per dwelling.

A high urbanisation rate, decreasing household sizes, and increased single living support growing residential demand. In HCMC 58,000, and Ha Noi 42,000, new urban households are formed each year. Demand for dwelling replacement is also high. According to Un-Habitat (2015), in Viet Nam, approximately 27% of the urban population, or approximately 8.5 million people, live in low-quality housing. Forty-two per cent of urban area dwellings were classified semi-permanent, and 4% of a very rudimentary state. In urban areas, those needing renovation or rebuild number 3.7 million out of 8.2 million dwellings. Assuming the national deficit could be reduced over 20 years, approximately 185,000 houses a year would require upgrade. This gap is at its most severe in HCMC, where 77% of dwellings require either improvement or replacement; together accounting for approximately 35% of low-quality urban housing country-wide. There is a substantial and growing urban housing deficit, with increasing urbanisation and over 40% of dwellings needing upgrade or rebuild.

High rise

In 2015, the net floor area (NFA) per capita in urban areas was 19 sq m on average. The Government NFA per capita target is 22 sq m by 2020. With limited urban land and potential for unchecked urban sprawl, vertical development is an appealing and effective solution. The apartment sector has seen sustainable and often robust development from 2009 to 2016, with total supply growing at over 20% per annum (pa).

Viet Nam became part of the WTO in 2007. Foreign direct investment (FDI) levels suddenly increased, and in the following years real estate started to boom. Throughout 2009 and 2010, there were dramatic increases in primary supply and sales, before the bubble burst. Vague signs of recovery were seen in 2013, and through 2014-2016, total apartment supply had increased 23% pa in HCMC and by 28% pa in Ha Noi, though most, if not all, was still aimed at the mid- to high-end segments. In 2016, approximately 31,000 and 24,000 apartments were sold in the primary market in HCMC and Ha Noi.

In 1H/2017, approximately 26,000 apartments in HCMC and Ha Noi were launched. Sixteen thousand of these were in Ha Noi. In Q2/2017, there was a 33% quarter-on-quarter (QoQ) and 67% year-on-year (YoY) transaction increase in HCMC, with around 11,600 sales. Grade C projects accounted for 62% of total transactions. Ha Noi saw 6,800 units sold over Q2/2017, increasing 5% QoQ and 13% YoY; grade B dominated, with over 42% of sales. An emerging trend was the increasing number of first-time buyers.

As of June 2017, there were approximately 190,000 apartments in each city, of which 84% were taken up. Viet Nam had the highest ratio of buyers in the region, at over three new apartments per 1,000 people sold each year in the two major cities. HCMC and Ha Noi are now the leading South East Asia apartment markets.

Investment universe

In the two major cities, apartments are still an appealing investment, with Ha Noi rental yields averaging 7.5% pa. HCMC yields are the next highest at 5.8% pa, and like Ha Noi, outperform rental yields in cities like Jakarta, Kuala Lumpur, Manila and Bangkok.

Compared to alternative investments, buy-to-let generates relatively high yields with lower risk. Gold and benchmark currencies like the US dollar are conventionally considered the safest method of hedging in Viet Nam. However, both have generated marginal or even negative returns in recent years.

Apartment yields are similar to first-tier commercial bank deposit rates, but lower than second-tier banks. This helps maintain investment appeal to local buyers who still perceive property as safer than bank deposits. Home loan mortgages are commonly 11% pa.

Hand-over units

With increasing primary supply, the rental market is under growing pressure. From projects planned and in the pipeline, an estimated 30,000 units pa will be handed over during 2017-2018 in HCMC, double that of 2016.

In 2016, there were approximately 25,000 units handed over in greater Ha

Noi; this year there will be 32,500, and in 2018, 26,000.

Investors still account for a significant percentage of sales. Abundant new supply overwhelming rental demand will increase competition and rental yields will soften.

Outlook

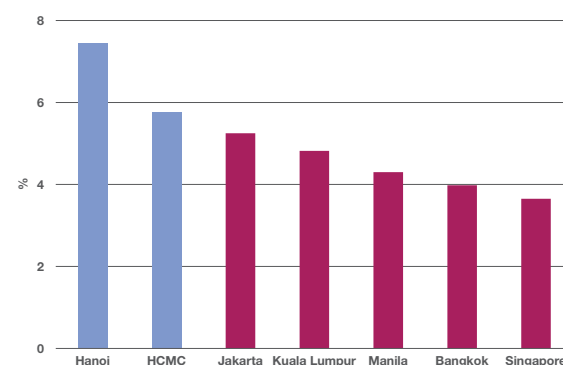
Substantial demand from urban household development and dwelling renovation/rebuild has helped drive robust longer-term growth since 2013.

The market is shifting to become more occupier driven, especially first-home buyers, the number of which has substantially increased in the first half of this year.

High-end apartment projects are now under growing pressure to differentiate products to trigger purchase. Their target market is the niche, affluent and wealthy classes and more lately, foreign investors, and unit choice is abundant. The mid-end segment has a higher proportion of investors and with that, the most exposure to boom and bust cycles. Mid-end primary and secondary supply is significantly high.

The emerging opportunity for developers is aligning products with affordability in the mass market. The scale of the opportunity is demonstrated by Grade C transactions increasing 123% YoY in HCMC and 30% in Ha Noi in Q2/2017. This cycle is being lengthened by more manageable lending rates for home buyers. However, the affordability gap remains too wide for many. Making housing affordable for a far wider section of Vietnamese society will rapidly become a priority if the country is to reap the potential economic, societal and national benefits of urbanisation. ■

GRAPH 4
Gross rental yield per annum by city, 2H/2017



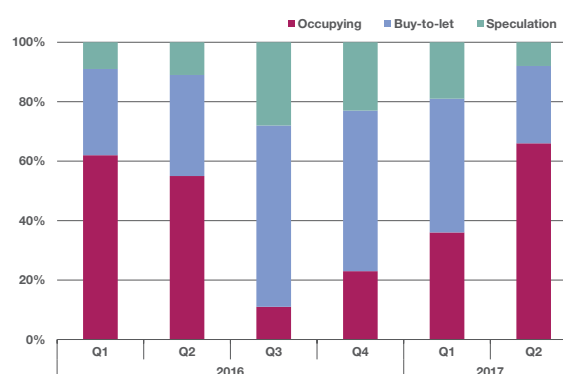
Source: Savills Research & Consultancy, Numbeo

GRAPH 5
Hand-over units, 2015-2018



Source: Savills Research & Consultancy

GRAPH 6
Buyer profiles, Q1/2016-Q2/2017



Source: Savills Research & Consultancy

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