Vietnam
RESEARCH COLOUR PALETTE IN PRIORITY ORDER

1. LIME GREEN
2. ENTERPRISING GREEN
3. REFRESHING GREEN
4. CBRE GREEN

NEUTRAL COLOUR 100%, 65% or 35%

5. BLUE
6. MAGENTA
7. PURPLE
8. YELLOW
9. ORANGE
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2017 ASIA PACIFIC REAL ESTATE MARKET OUTLOOK

Vietnam

OPPORTUNITIES IN THE NEW NORMAL

Office: Rising supply provides more options of location
Expansion of Co-working space as start-ups boom
Vacancy in CBD to remain below 10% despite new supply in both markets

Condominium: Mid-end and Affordable segments in the limelight
New launches to increase with focus shifting to lower segments
More unique luxury offerings to lure in the High Net Worths

Retail: Placemaking trend arrives in Vietnam
CBD malls to enjoy healthy demand while decentralised malls will leverage on Placemaking and Retailtainment
Supply forecast for completion in 2017 continues to be decentralised, leading to limited rental growth prospects

Logistics: Moving up the Value chain
FTAs as alternatives to the TPP
Increasing supply of good quality including land and Ready-built-factories / Warehouses from both foreign and local developers
Ready-built-factory / Warehouse rental growth prospects expected while land rental to remain flat

Source: CBRE Vietnam, Q4 2016.
Economic Outlook
On the back of improved economic fundamentals, Vietnam’s gold, oil and stock prices picked up and its real estate market remained buoyant in spite of instability in international economies. While the upward trend was not seen in GDP growth rate, Vietnam ended 2016 with generally good news and is anticipating a positive outlook for 2017.

**OPPORTUNITIES IN THE NEW NORMAL**

Despite of not meeting the target level, due to the lower than expected performances of the agriculture and mining sectors, Vietnam’s 6.2% GDP growth rate in 2016 is still in the top rankings amongst other Asian countries.

In 2016, FDI continued to play an instrumental role in Vietnam’s economic growth. Realized FDI capital was estimated at US$15.8 billion, up 9% from 2015, achieving the highest level of FDI capital disbursement ever.

With the TPP on hold, attention is shifting to the RCEP (Regional Comprehensive Economic Partnership). This trade pack will involve 3 billion people in 16 countries and 28% of global trade, and will present to Vietnam as well as other developing countries in ASEAN unprecedented opportunities to advance their economies. Vietnam is also working hard to improve relationships with important trading partners such as China, South Korea and ASEAN. For these reasons, Vietnam’s economy in general and the real estate market in particular are expected to maintain stable, positive growth.

On the other hand, in times of global volatility and technological disruptions, Vietnam should hedge itself by having strategic execution plans to continue the reform of its administrative system, modernize its economy and enhance productivity of its labor force.
INTEREST & INFLATION RATE GRADUALLY INCREASING BUT STILL UNDER CONTROL

In 2016, the inflation rate was no longer at the historical low seen in 2015, increasing from 0.6% to 4.7%, mainly attributable to increases in prices for medical services and education. However, this is still within the safe, manageable range defined by the Government. In coming years, inflation is expected to be kept at around 4.5%.

Interest rates in Vietnam have been generally stable over the past two years, being kept at a low level due to the Government’s policy of directing the banking system to help companies and businesses. Although this easing-up on interest rates can significantly help small businesses, it can also lead to an increase in bad debt, which Vietnam is trying to decrease. Looking forward, it may be challenging for the Government to continue the control of interest rates while dealing with its potential consequences.

When interest rates are low, gold is a commodity in which Vietnamese people normally invest. In 2016, the local gold price increased and is now relatively expensive compared to the global price. The value of the US Dollar also increased in late 2016 following the decision of the Fed to raise interest rates. The VN-Index increased by almost 15% y-o-y in 2016 and the oil price has improved since the significant drop in price two years ago.

IMPACT OF SOME MACRO ELEMENTS ON REAL ESTATE MARKET

Regarding the real estate market, in 2016, the Government and other related parties issued or have planned policies that may affect the whole market across various sectors. Most notably, the State Bank of Vietnam announced Circular 06/2016/TT-NHHH which will force developers to reduce their dependence on bank credit funds. As a result, some developers may have to resort to other channels such as domestic investment funds, foreign investors and investment funds. This circular will pose challenges for small-scale developers in all sectors of the real estate market. Other policies that are still under consideration include taxing second houses (which will not happen in 2017) or prohibiting the practice of using condominiums for commercial purposes. Should these policies be passed, the country’s real estate market could experience major changes.

Real estate credit is increasing healthily and strongly. According to the HCMC Real Estate Association (HoREA), property credit was up 14.2% over the past year while bad debt stayed at only 2.6% and may fall even lower in coming years when the bad debts of some ailing banks are acquired by the State Bank of Vietnam. Moreover, overseas remittances strongly increased in 2016, which will support the real estate market in coming years.

Figure 1: Trend of Real GDP Growth Rate

Source: CBRE Research, Q4 2016.
Office Sector
On the back of strong economic growth, the office sector is anticipated to have an active year in 2017 similar to 2016. Traditional sectors will lead the market whilst new start-ups promise to create more demand. New office buildings are being actively constructed and will come on stream across markets, which can help to solve the limited supply issue for Ho Chi Minh City but pose challenges for Hanoi.

**STRONG OFFICE DEMAND**

Vietnam’s rapidly growing economy provides a firm foundation for office sector development. Since 2015, the number of newly registered companies has been growing significantly at around 21% per annum on average, leading to growing office leasing demand. Strong demand from traditional sectors is evidenced in both Hanoi and Ho Chi Minh City. IT/Technology and finance/banking are key industries which currently lead leasing demand and are expected to keep this role in coming years.

The year 2016 also marked the growth of startups, which led to strong demand for a modern and flexible work place and especially for co-working space, whose presence is getting more visible with around 18 centres across Vietnam. In the future, as special policies and support from government will further encourage new startups, current co-working centers are set to expand.

**DIVERGENT PATHS**

New office buildings are in the pipeline and will be ready to lease from the beginning of 2017. This new office space will meet the strong demand in Ho Chi Minh City. Meanwhile, growing supply can present a challenge for Hanoi as this may weaken rental growth prospects and increase vacancy rates.
QUALITY NEW SUPPLY TO FILL UP THE GAP

In 2016, the HCMC market welcomed only one new Grade A Decentralized office building coming into operation: Mapletree Business Center. This is the first Grade A office building to be built in a decentralized district (District 7). Looking forward to 2017, the market is ready to welcome two new Grade A buildings in the CBD, Deutches Haus and Saigon Center Phase 2 as well as new quality Grade B buildings in the fringe CBD area, Viettel Tower in District 10 and Etown Central in District 4. The period from 2018 to 2020 will see the opening of a number of significant new buildings at prime locations including Viet Capital Center, Spirit of Saigon, SJC Tower and Tax Center. These new buildings will gradually bring additional office space into the CBD.

The office market has become more interested in quality buildings. Both tenants and landlords have become more receptive to LEED certification. Many future buildings are being planned to achieve LEED, notably Deutches Haus (expected to open in 2017) and Viet Capital Center (expected to open in 2019). However, because of a current lack of supply, demand is still observed across various segments of the spectrum.

In the long term, as landlords attempt to attract a more prestigious tenant mix for higher rental rates, LEED-certified office buildings are expected to become more prevalent.

Mature Grade A buildings are still very competitive within the market. While annually undergoing through continuous maintenance, these buildings are also looking forward to complete technical renovations, roughly every 20 years or so. That means that the older players, while already at an advantage of exceptional locations, are also incorporating new accreditations and technology to keep up with the market and provide more services to tenants.

TAKE UP RATE EXPECTED TO INCREASE

Throughout 2016, due to limited supply, grade A Net Absorption of 11,316 m NLA, compared to 50,563 m NLA in 2015, was mainly attributed to the newly leased space from Mapletree Business Center. Though it may seem lower when compared to 2015, it should be noted that the new supply in 2016 was not as large as 2015. Therefore the net absorption is smaller despite of healthy occupancy. Grade B also saw tenants flocking to occupy whole new buildings, proving that as long as the space is available it will be absorbed quickly. With such positive demand, upcoming new supply of 40,000 m GFA annually is expected to enjoy a healthy absorption of up to 80%.

Figure 2: Supply and Net Absorption – Grade A

Source: CBRE Research, Q4 2016.
CONTINUOUS DEMAND IS EXPECTED THANKS TO THE POSITIVE ECONOMIC ENVIRONMENT

2016 has been a good year for the landlords because of positive rental growth despite new supply only joining the market at the end of the year. Traditional sectors, notably technical services/IT/software, manufacturing, banking/finance/insurance, consulting and logistic/transportation still dominate the market and will continue to do so in 2017–2019.

Previously, demand for office space from logistical and technical services companies was expected to increase notably on the back of TPP. Now that the TPP is likely not going through, relocation for expansion is expected to be the main demand driving factor. Existing tenants from older buildings will continue to find larger spaces for consolidation of their whole companies and will occupy whole floors once their requirements for budgets and locations are met with landlords.

In addition, a new trend in the office market will be increasing number of start-ups and the rise of Co-working Space across the city. However, despite being a booming trend posing as an alternative for traditional office spaces, Co-working space is actually limited with only 10 current co-working spaces and one chain, Toong, joining the market in 2017. Co-working Space and Business Centers are becoming more popular with landlords, who have been trying to incorporate this type of office space by turning old retail podiums into serviced office workstations.

Regarding tenant preferences, small to medium office sizes (0-500 sm) still continue to be the most enquired after and preferred leasing sizes for tenants, similar to Hanoi. This is expected to continue until 2018 as little company consolidation is anticipated. The central area is still the number one choice for location and 1,000-2,000 sm office spaces which are almost out of stock are still in high demand. Given upcoming annual new supply, pre-launch leasing activities are believed to be very competitive and brisk at future buildings.

Prime rent is expected to increase notably in 2017 to 2019. This will be mainly driven by limited available space and high quality new supply that will come online. Until the end of 2019, the market is expected to welcome on average 40,000 sm NLA annually. Given the high demand for new, quality buildings with good locations, this will back up landlords’ bargaining power and thus enable them to increase their rent, though not by much since older buildings will keep the market average stable. Rent in 2017–2019 is expected to grow continuously but at a slow rate similar to the 2012–2014 period since newer, quality supply will be added to the market every year.

Figure 3: Rent and Vacancy Outlook – Grade A
NEW SUPPLY LEADS TO FURTHER DECENTRALIZATION

After a year of no new supply, the Hanoi market welcomed new entrants in both Grade A and B over the course of 2016, adding over 100,000 sm, NLA to total stock. All of the new buildings are located in decentralised areas either in Midtown or the West. In particular, Midtown contributed one Grade A and one Grade B building accounting for 37% of total new supply. Meanwhile, the West cluster continued to expand with 4 new grade B buildings making up the remaining share.

Decentralisation is anticipated to continue in coming years since a further of 100,000 sm new supply in 2017 is located outside of the CBD. For the CBD, office space in this area is still limited in the next year since the next new Grade A office building in this area is not expected to come on line until 2018. Furthermore, large space with areas of greater than 500 sm is difficult to find in the CBD. Therefore, demand has shifted to Midtown and the West which provides more options of locations and floor plates. It is worth noting that new projects in the pipeline are located in relatively good locations either in the centre of Dong Da District (Midtown) or close to the new CBD.

LIMITED RENTAL GROWTH PROSPECTS

CBRE Research views the overall volume of future office supply as still a major challenge for Hanoi. Supply has grown at a higher pace than demand for years and will continue to increase. In light of continuous new supply, Hanoi remains a tenants market. The sector enters 2017 with limited rental growth prospects though the CBD is expected to fare better.

The vacancy rate of both Grade A and B in the CBD stayed below 6% during 2016 and Grade A reached a 4-year low. Given the low vacancy rate as well as limited future supply, rents are expected to rise from early 2017.

In light of continuous new supply, Hanoi remains a tenants market. The sector enters 2017 with limited rental growth prospects though the CBD is expected to fare better.
For Midtown and the West, there will be intense competition among mature buildings and new buildings. The market is expected to welcome quality supply in both office clusters. We expect that the new entrants to the market which have good locations will ask for higher rents than the market average but not too far from the norm. Meanwhile, buildings with less favourable locations may offer competitive rents to quickly fill vacant areas. Increasing supply also puts greater pressure on existing buildings. However, we do not anticipate a significant decline in rents since some landlords have already accepted reduced profits in order to sustain high occupancy rates. The pace of rental decreases has slowed from the 10% level seen during the period 2009-2012 to around 3% for the last four years.

MORE DIVERSIFIED DEMAND TO PUSH NET ABSORPTION UP

Traditional sectors such as insurance/banking, manufacturing and IT/technology have been key demand drivers for the Hanoi market for years. Based on CBRE’s inquiries, these sectors have consistently contributed about half of office leasing demand for the last three years. It is expected that these sectors will continue to lead the market in future years.

In addition to demand from the market leaders, the market also sees constant demand from education and logistics. Besides, co-working space has witnessed remarkable growth since its first appearance in Hanoi in 2015. Though it accounted for relative small proportion in total office leasing space, CBRE Research expects that the start-up boom will lead to further expansion of co-working space in Hanoi.

The combination of relatively strong demand from fundamental sectors and increasing demand from new sectors means that net absorption is forecast to increase by 10% in 2017 though it will still lag behind new supply.

UPGRADING AND CONSOLIDATION

Besides affordability, tenants are now also concerned about building quality. Starting from the end of 2016, some companies have consolidated their subsidiaries in Grade B or C office buildings to move and expand to Grade A office buildings.

We expect this trend will continue in 2017 which requires landlords to pay more attention to improving services and the quality of buildings.
Retail Sector
2016 marked an upbeat year for the Vietnam retail market in many aspects, including new supply and new international entrants. The country’s young and growing middle class is further embracing consumerism, resulting in burgeoning demand. However, to create properties that can meet modern consumers’ quickly evolving diversifying needs will remain a challenge for many years to come.

**PLACEMAKING IN ITS EARLY DAYS**

With rapidly growing supply and intensifying competition, the need to target the right segment, customers, and concept is even more important for developers. According to a report by CBRE Asia Pacific in 2016, developers should always keep in mind that to bring “convenience, choice, value, and experience” to customers is a crucial success factor. This report also introduced to developers a new concept: “Placemaking”, which is all about emphasizing the importance of the customers’ experience and creating environments which people will want to visit and return to.

In Vietnam’s young market, Placemaking has begun to be utilised to increase footfall. While traditional shopping malls have focused mainly on the retail sector, F&B and entertainment now also have an essential role. These tenants not only serve as anchor tenants which take up large spaces but also draw customers by providing a distinct experience. Recently opened malls with presence of these types of tenants have achieved high occupancy rates at opening. These segments continue to grow while others such as the luxury segment have moderated. Even shopping malls which have categorized themselves as luxury have also adopted Placemaking by opening their doors to the entertainment segment.
THE POTENTIAL OF E-COMMERCE

Compared to other countries in SEA, e-commerce in Vietnam is relatively small and immature. According to eMarketer, Vietnam’s 2015 revenue from e-commerce reached US$1.37 billion, equivalent to less than half that of Indonesia, nearly 60% that of Thailand, and 75% that of Singapore. Yet, total sales revenue in Vietnam has been increasing notably with one of the highest expected growth rates in the region at 19%.

In 2016, the SEA e-commerce segment witnessed some notable transactions and activities which had a significant impact on the Vietnam market. In addition to the acquisition of Zalora Thailand and Vietnam by Central Group\(^1\), the Chinese giant Alibaba expanded in the region by taking control of Lazada with a deal worth US$1 billion\(^2\). In Vietnam, two well-known retailers, Lotte and Aeon, also tapped into the potential of the e-commerce segment by launching e-commerce websites.

Continuous development in technology such as the launching of the 4G data plan and nationwide marketing activities such as the annual Online Friday will further boost Vietnam’s e-commerce in coming years.

CONTROL, NEEDS, CONVENIENCE AND CONNECTION

According to Nielsen’s 2016 report, there are four key trends of consumer behavior which are expected to be significant in the next few years.

First, the upsurge in numbers of middle class creates more confidence in taking control of the retail experience. Consumers now demand for products that are newer, more diversified, and with higher quality. They are also more willing to pay higher price for better products. Thus, retailers should shift focus from low price toward improving quality.

Second, the household size has been decreasing. Hence, people now buy for individual needs more than for the whole family. This trend is further supported by the condominium for sales market with more affordable options. Because of this, there will be less demand for large volume products. Vietnamese consumers tend to buy based on current need rather than for reservation.

Third is convenience. With limited time, people are now constantly on the move, and thus, prefer convenient products and convenient stores. This is the underlying reason for convenience stores booming in Vietnam recently.

Last but not least, demand for connecting to the Internet amongst Vietnam’s 60% of population under 35 is becoming higher. Thanks to a very high percentage of the population that now owns smartphones, the nascent online retail market in Vietnam has lots of room to grow.

\(^{1}\) Reuters, retrieved on January 21st, 2017: Thailand’s Central Group buying e-commerce site Zalora’s Thai business

The growth of the city’s modern retail sector has accelerated in the past two years, adding 149,693 sm NLA in 2015 and 192,810 sm NLA in 2016. As a result, total leasable area in shopping centres by end of 2016 has increased by almost 2.5 times in just two years. It is noted that new supply has come online mostly in non-CBD areas in the East and the West of the city where new residential clusters are forming. In the CBD area, due to a lack of available land as well as prohibitively high land costs, there have been relatively few new retail properties opened recently: there was just one new shopping centre opened in 2016 in the CBD area. The next property in the CBD area is expected to come on line in three years’ time.

**CBD-Area, a Delicious Small Cake for Many Retailers**

In spite of limited new supply and high rental rates, the CBD is still the most sought-after area for new international brands who want to gain more exposure and market share. Most notably, in July 2016, Keppel Land re-opened Saigon Centre Phase 2 with a very well-known Japanese department store named Takashimaya as an anchor tenant, taking over almost 40% of the shopping centre’s NLA. The first shopping centre in the CBD area in four years attracted lots of foreign tenants and it was notable that about half of the city’s new retailers in 2016 chose this project in which to set their first stores in the local market. A short walk away, Zara opened its flagship store in Vincom Centre Dong Khoi and became one of the most popular young fashion brands in the city. Thanks to these newcomers, the shopping clusters in the CBD area are becoming more vibrant than ever.

In 2016, on average, the rental rate on the Ground Floor and First Floor increased in all retail formats in the CBD. While the rental rate at shopping centres increased by almost 10% y-o-y, asking rent for smaller slots in some commercial podiums increased even more. In terms of vacancy, if the currently under renovation Union Square is not included, vacant areas decreased by 2 ppts y-o-y to 1.88%.

**Rising Competition**

In non-CBD areas, we witnessed increased competition between existing shopping centres. As a result, many landlords were reluctant to increase rental rates, focusing instead on attracting new tenants while maintaining current tenants. In 2016, the rental rate was stable at most non-CBD shopping centres while the vacancy rate stayed at 5.79%, improved by about 2.2% y-o-y, yet still much higher than in CBD area.
The reason that intense competition has not been clearly seen in the CBD area is the current lack of quality supply. There are only two active shopping centres and two department stores in the area in addition to several small retail podiums. However, the fact that the volume of footfall has already been diluted with less customers visiting old buildings, should raise (if it has not already) a major warning for future retail developers that a groundbreaking change in terms of format will soon be required. As always, customers will be the ultimate beneficiaries of this competition.

Looking forward, competition is expected to become more intense. Over the next three years, the city expects to welcome 500,000 sm of new NLA, 55% of which is currently under construction. Shopping centres will account for 75% of future supply and the remainder will mainly be retail podium. In terms of market performance, we expect rental rates will be kept stable for the next two years before going up in 2019-2020 due to new supply in the CBD area. The large amount of future supply will cause the vacancy rate to go up in 2017 and then to go down in following years as the market gradually absorbs new vacant spaces.

Convenience is one of the top priorities for consumers in modern times. Convenience stores, both local and foreign, have never been so popular. When foreign retailers like to buy out local retail chains, local retailers are getting more creative about what they can offer consumers. For example, Vingroup introduced Vincom+, a new retail platform, to the HCMC market in the last quarter of 2016. With relatively small catchment areas and NLA, the project offered consumers a comprehensive range of products in a single, convenient location; tenant mix covers cinema, games, Supermarket, F&B and foodcourts while fashion is nearly non-existent. We expect this new format to spread to many other areas of the city in the very near future.

Being a part of APAC, the city is getting more familiar with modern retail terminology such as retail-tainment, P.L.A.C.E, Placemaking, E-commerce, etc. With a thriving young population whose spending power is growing fast, it is not exaggerating to say that the Vietnam retail market is mainly driven by customers. And this is where future retailers need to get creative.
In 2016, the trend of retail moving away from the CBD became more apparent. The CBD has not seen any new supply since the end of 2014 and 90% of accumulated supply is now in non-CBD areas. New shopping centres tend to be scattered around the city and close to heavily populated areas, targeting middle income consumers.

This trend in the Hanoi retail market is expected to continue over the next three years. At the moment, no future supply is expected in the CBD until 2019. Meanwhile, all new projects will be in Non-CBD in the next three years with a total of 400,000 sm retail area expected. Notably, 2018 is potentially the second peak in terms of new launches since 2013 with nearly 200,000 sqm planned.

Other than two stand-alone shopping malls, the remainder of future projects until 2019 will be retail podiums inside residential complexes. This seems to be the recent favoured format as 2 out of 3 new launches in 2016 were complexes. This enables the retail centres to have existing source of demand, however choosing the right tenant mix to attract footfall will be a challenge. In return, retail podium is considered as one of the main key demand drivers for home buyers.

According to a CBRE Asia Pacific report titled “Retail hotspots in Asia Pacific 2015” released in 2016, cross-border retail activity in the Asia Pacific region was expected to intensify in 2016. This was clearly reflected in the Hanoi retail market with many new entrants such as Auchan, Miniso and Ilahui. Some retailers who have been present in HCMC for a few years are now also expanding to Hanoi.

In the convenience store segment, an American chain, which has been present in HCMC for a number of years, has opened 53 stores in just over a year in Hanoi. Another local player who has been expanding at an impressive growth rate has now reached nearly 800 stores in Vietnam and more than 300 in Hanoi.

Meanwhile, the entertainment sector witnessed fierce competition. The number of CGV cinemas, a key cinema chain in Vietnam, is still on the rise while other major players such as Galaxy, BHD, Lotte Cinema and Platinum Cineplex are now also competing for market share.

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**Figure 8: Hanoi - New retail supply – Historical and Forecast**

Supply (NLA, sm)

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1 Tracked by CBRE Vietnam, January 21st, 2017

Source: CBRE Research, Q4 2016.
In 2016, M&A activities mostly occurred in the hypermarket sector. Two international brands, Metro Cash & Carry and BigC now belong to Thai retail giants, BJC\(^1\) and Central Group\(^2\) respectively. Moreover, Central Group also owns the Robin Department Store and has a 49% share in Nguyen Kim Electronics\(^3\). It is also notable that BJC Group acquired a 58.6% share of Big C Thailand worth US$6.2 billion\(^4\). These transactions show the interest of foreign retailers in the Vietnam market. They also mark the further penetration of Thai goods into the Vietnamese market.

**POTENTIAL GROWTH FROM FOREIGN RETAILERS**

In the next three years, there will be nearly 400,000 sqm added to the total retail stock in Hanoi. With such a large volume of new retail space, the vacancy rate is expected to increase while the market gradually absorbs the new supply. Regarding rent, the downward drift of rental rate has started since 2009 as shown in the graph below. As future launches will be in non-CBD areas where the rental rate is typically lower than in the CBD, the average market rent is forecast to continue this trend but at a minor rate.

The retail market is expecting more new entrants and further investment, especially from foreign retailers. After the successful opening of its first store in Vietnam, the global clothing and accessory retailer Zara is considering expansion. Another global brand, H&M, will also enter the market with the opening of three stores in both Hanoi and HCMC in 2017.

In the entertainment sector, CJ Group which owns CGV cinema, expressed their intention to invest another US$500 million in order to focus on entertainment and F&B.

After the launch of Aeon, other Japanese retailers have been showing an interest in the Vietnamese market and are planning for entry. Among these, one worth mentioning is the well-known worldwide convenience store chain 7-Eleven which intends to open its first store in Vietnam within the next two years. Thai retailers are also eyeing the market marked by the two notable M&As. These activities show potential for further growth, despite increasing competition, for both retailers and developers.

According to CBRE APAC’s research, the regional theme is strategic expansion and a refined store opening approach. However, in the Hanoi market, searching for a suitable location continues to be a challenge, especially for retailers who seek prime sites or flagship stores, due to limited supply in the CBD. As a result, international retailers’ entrance and expansion in the Hanoi market may take longer than expected.

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1. Groupe Casino, retrieved on January 21\(^{st}\), 2017: Disposal of Big C Vietnam for a valuation of 1 billion euros
2. Metro Group, retrieved on January 21\(^{st}\), 2017: Metro Group completes sale of Metro Cash & Carry Vietnam to TCC (BJC)
3. Deal Street Asia, retrieved on January 21\(^{st}\), 2017: Thai Central Group acquire VN’s Nguyen Kim
4. Reuters, retrieved on January 21\(^{st}\), 2017: Thai BJC shareholders $6.2 billion Big C buy
Condominium Sector
Continuing the strong momentum seen in 2015, 2016 ended with positive figures for Vietnam’s condominium sector, although there have been growing concerns about oversupply. The gravitation of big-name developers towards the lower-end segments is expected to hold up market sentiment and bring balance to the condominium sector of this lower middle-income country.

According to the World Bank, with the current trend of urban migration in Vietnam, the share of the population living in urban centres is forecast to be near 50 percent by 2040, with approximately 374,000 additional units needed in cities every year to meet demand.

With such rising housing demand, the condominium market in Vietnam has been on an upward trend in recent years, with more newly launched supply, generally good sales performance and increases in primary selling prices across all segments. This has raised growing concerns about the market becoming unsustainable, especially in the higher end segments.

A VERTICAL EVOLUTION

The fact that some well-known developers have expressed interest in focusing more on the affordable segment is expected to resolve the supply-demand sustainability problem to some extent. The government is also considering more regulation of the market to make it more resilient against the uncertainties of macro factors.

As high-rise condominiums are gradually becoming more visible over the skyline of Vietnam’s two biggest cities, new clusters of urban communities are taking shape. The land space freed up from this vertical urbanism will hopefully be used to make Vietnam’s cities more liveable.
A SHIFT FROM HIGHER END TO MORE AFFORDABLE SEGMENTS

Total new launches in 2016 reached 37,419 units, a decrease of 10% y-o-y. The market is adjusting itself to a more balanced position where it welcomed a bigger proportion of mid-end units (48% in 2016 compared to 40% in 2015) and a smaller proportion of high-end units (30% in 2016 compared to 38% in 2015).

The HCMC condominium market continues to expand to the East and the South. The East area took the lead from the South in terms of new supply thanks to infrastructure improvements including Metro line no. 1, the Hanoi Highway extension, the HCMC-Long Thanh-Dau Giay Express Highway and the approval of the Long Thanh airport project.

The market is forecast to remain upbeat in the coming year. A total of 43,861 units are expected to be launched in 2017.

In 2017, the market is expected to focus more on the mid-end and affordable segments, with nearly 40% of 2017 new launches being in the affordable segment. Local developers and their joint ventures have been very active in adjusting their products to meet market trends.

Specifically, VinGroup plans to launch two affordable projects in District 9 and Binh Chanh District. An available land bank, improvements in connection roads and high demand in these segments are key drivers. The government has also expressed great encouragement to entice more investments into these segments.

In Luxury segment, 1,627 units will be launched from six projects at the heart of HCMC, which are expected to offer better brand positioning. The high-end segment will still account for a notable proportion of the market with over 13,000 new units.

SUSTAINED LIQUIDITY EXPECTED

With good momentum from 2015, liquidity remained strong in 2016, albeit with a slight decrease of 4% y-o-y at 35,008 sold units. The number of sold units almost matched the number of new units offered for sale with the majority of new units coming from new projects. The mid-end segment continued to perform well, accounting for more than 40% of total units sold.

Sales were recorded across all districts of Ho Chi Minh city, with the majority of deals being closed in the East and the South, matching the wave of new supply in these areas.

Improvements in infrastructure continue to support first-home buyers by providing easier connection between the CBD and suburban districts. However, it should be noted that any increase in interest rate is expected to reduce sales momentum in affordable and mid-end segments.
EMERGENCE OF THE LUXURY SEGMENT
2016 marked a milestone for the luxury segment in HCMC, with 2,700 units launched to the market, the highest number recorded in the past 10 years. 98% of the new launches were located in District 1. To date, this segment has been dominated by local developers, with some minimal foreign participation expected in the near future.

The luxury segment is forecast to maintain its current high absorption level at more than 50%, given its small size relative to other segments. As prices of luxury projects in HCMC are still low compared to other cities in South East Asia, this segment is still attractive to affluent locals as well as to foreigners, whose home ownership rights in Vietnam were considerably relaxed in July 2015.

This segment is expected to introduce more unique offerings in 2017 and beyond in order to appeal to the High Net Worth families.

PRICES EXPECTED TO INCREASE
In terms of primary selling price outlook, the luxury segment is expected to see a significant increase of more than 15% in 2017, as indicated in early announcements of some projects. In contrast, the affordable and mid-end segments will be relatively stable with a modest improvement of about 3% as buyers in this segment are more sensitive to price changes. The high-end segment is expected to see a primary price increase of about 4% y-o-y.

FOCUS ON SUSTAINABILITY
The condominium market in HCMC will be watched closely this year amidst concerns about its overheating. The main focus will be on the sustainability of demand-supply. It is notable that more developers are gravitating toward lower end segments, which has been seen as a positive move to meet less tapped demand.

On the micro level, as buyers are becoming more discerning, on-time delivery is now taken as a default. However, projects that want to sell well must also have a good range of facilities and be able to create a harmonious living environment as well as invoking a sense of community for their residents, even for lower-end projects.
2016 witnessed the expansion of the mid-end segment in the Hanoi market. A total of 17,700 units in this segment launched during the course of 2016, accounting for 56% of total new stock. Meanwhile, new stock from the affordable segment was quite modest with only 3,300 units launched.

However, from 2017 onwards, we anticipate that Hanoi will see a new wave of affordable supply. Major local developers have started to consider this segment and have announced plans to build several large scale projects. Apart from affordability, these developers are expected to set new standards for this type of apartment with a focus on quality, diversified unit mix and adequate amenities for residents.

Previously, the decentralized districts in the South or South West of Hanoi such as Hoang Mai and Ha Dong were major hubs of affordable apartments. However, future projects will shift supply to a wider area either to the North West in Dan Phuong District or to the East in Gia Lam or Hung Yen Province.

Looking forward, the lower-end segments including mid-end and affordable apartments are anticipated to keep their leading role making up an estimated 71% of new launches.

It is noted that in the current market, affordability plays a critical role in buyers’ decision making. Given that new supply is shifting to lower-end segments and increasingly focusing on end-users, we expect that sales will see positive growth in 2017.

One of the factors that might undermine the development of the affordable segments in 2016 is the end of the VND 30 trillion home loan package. The market is still looking forward to an alternative package. In the meantime, a number of policies have been applied including preferential lending interest rates for affordable and social house buyers. In addition to the support from the government, commercial banks and developers also have shown greater co-operation. A number of projects have confirmed the success of these partnerships since sales rates have remained high due to the availability of suitable mortgage loan products offered by retail bankers. The stronger bond between developers and commercial banks is a positive factor in the liquidity of the market.
UPSCALE PROJECTS TO MAINTAIN GOOD PERFORMANCE

In addition to strong demand from the affordable and mid-end segments, we also expect positive sales momentum in luxury and high-end projects, especially those in prime locations. It is worth mentioning that 2016 marked the return of the luxury segment with two projects launched in the Westlake area. A wide range of high-end projects were also launched across different areas of the city. We note that in comparison with 2015, when majority of new high-end projects were located in 4 core districts, 2016 witnessed a spread of new developments across 4 core districts and the West. Since the land bank in the 4 core districts is more limited, prime locations in the West will be sought after to develop high-end projects.

A number of projects were launched in the last quarter of 2016, taking advantage of positive sentiment in the market. Launches of remaining stock from these projects are expected to continue in 2017 with good sales rates anticipated. Due to advantages in locations combined with visible construction progress and effective marketing strategies, we expect that high-end products will continue to perform well in 2017.

PRIMARY PRICING: MODEST GROWTH

Prices in the primary market experienced a generally upward trend in 2016. The greatest growth of 9% was from the high-end segment with a number of projects launched by top-tier developers and located in prime locations. The primary price of these projects varied from US$ 1,500 per sqm to US$ 3,300 per sqm.

It is expected that average prices for all segments will continue to increase at a modest rate of 1% to 4% annually in the next few years. It is not likely that prices will see major increases, as the buyers’ approach to the market has become more discerning and better educated. Developers are now focusing more on market studies in order to gauge market opportunities and ensure the launch of appropriate unit types to maintain a good sales rate. In terms of location, projects located in Midtown and the Center of the new CBD in the West are expected to command the highest pricing in the primary market.

THE COMPLETION OF THE FIRST METRO LINE WILL BE A TEST TO THE CITY’S REAL ESTATE LANDSCAPE

Hanoi has experienced rapid development over the past few years which has put greater pressure on the City infrastructure. A number of new projects have been developed to deal with the situation including overpasses, underpasses and metro lines.

The first metro line (Cat Linh – Ha Dong) – one of the key projects in the city – will come into operation at the end of 2017. This will benefit real-estate projects located nearby, and increase demand for transit oriented developments. There will be gradual shifting in the city’s real estate landscape as consumers adapt to new ways of commuting and shopping.
Logistics Sector
The Executive Order withdrawing the US from the TPP was signed by the new American President, Donald Trump. The US will now seek easily terminated, one-on-one deals with potential trade partners.

**DEMAND DRIVER: FUNDAMENTAL ELEMENTS AND OTHER FTAS**

Positive economic performance in recent years, a strategic location on one of the world’s key shipping routes and a youthful demographic could herald Vietnam’s emergence as a manufacturing powerhouse. Even without the TPP, Vietnam is still attractive thanks to a stable political system, low labour costs and high investment incentives.

In the last 20 years Vietnam has joined a number of FTAs which have increased the competitiveness of the Vietnam market. The list of FTAs which Vietnam has joined includes: AFTA, ASEAN and China, ASEAN and Korea, ASEAN and Japan, ASEAN and India, ASEAN and Australia-New Zealand, Vietnam and Japan, Vietnam and Chile, Vietnam and Korea, Vietnam and the Eurasian Economic Union (EAEU) and Vietnam and the EU. These FTAs open the Vietnam market to the world which creates high demand for warehouses to store domestic consumer products and export products.

As a result, warehouse and ready-built-factory take-up was strong in 2016. This trend is expected to continue for the next three years.

Strong demand for warehouses/ready-built-factories was recorded in traditional sectors such as garments, furniture, agricultural commodities, seafood and FMCG. A rising trend of demand from E-commerce, Electronics and the Automotive & motorcycle sectors has also been noted.
LOGISTICS SECTOR

VIETNAM

WAREHOUSE SUPPLY

6%
increase y-o-y

READY-BUILT-FACTORY SUPPLY

10%
increase y-o-y

FTAs

11
as of December 2016

GROWTH IN SUPPLY

The industrial and logistics markets in Vietnam continued to deliver strong performance in 2016, fuelled by the strong inflow of FDI as well as steady growth in private consumption. 2016 continued with strong growth in warehouse/ready-built-factory supply. Most of the new supply is located in key economic regions in the North (Sembcorp in Hai Phong) and South (ICD Transimex in HCMC) and comes from both local and foreign developers.

Four new warehouses in the North added 77,000 sm to total supply in 2016, reaching 495,584 sm. In the South, two new warehouses added 35,000 sm. The total warehouse supply in the South is now 1,464,221 sm, nearly three times the capacity in the North. In terms of ready-built-factories, the North recorded two new RBF areas and four expansions of existing RBF areas which added over 51,416 sm to total supply. Total RBF supply in the North is 642,010 sm which is notably lower than total RBF supply in the South (1,217,343 sm). The South welcomed 118,850 sm of new and expanded RBF in 2016.

More new supply will be introduced to the market in the next three years from both local and foreign developers. New supplies will be of better quality and more flexible in order to meet the requirements of potential tenants. Developers now provide module type ready-built-factories in small sizes (500 sm to 1,500 sm) which allows tenants to expand easily.

Source: CBRE Research, Q4 2016
South provinces: HCMC, Long An, Binh Duong, Dong Nai.
North provinces: Bac Ninh, Bac Giang, Ha Noi, Hai Phong, Hung Yen, Hai Duong.

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MODEST RENTAL GROWTH PROSPECTS

In 2016, warehouse rents increased by 2.5% in the South area and 2% in the North. Ready-built-factory rents in the North increased by 1%. Ready-built-factory rents recorded higher rental growth in the South with an increase of 5%, mainly attributable to strong demand from traditional manufacturing sectors and rising demand from electronic sectors (Samsung vendors).

In the next three years, Warehouse and RBF rents are expected to grow slowly. The strong demand is matched with increasing supply. Rents are expected to increase by 0.5% to 2% for Warehouses and RBF in Vietnam.

The North area will have higher rental growth than the South area. Rents in the North are currently lower than the South which allows more room for growth. Infrastructure in the North has improved notably in the last three years which provides increased support for logistics. Improvement projects include Dinh Vu seaport, Hanoi-Hai Phong highway, Hanoi-Lao Cai highway and Noi Bai International Airport Terminal 2. These projects have made the North more attractive which will bring more investors to this area.

Demand driving factors in 2017

Source: CBRE Research, Q4 2016
South provinces: HCMC, Long An, Binh Duong, Dong Nai.
North provinces: Bac Ninh, Bac Giang, Ha Noi, Hai Phong, Hung Yen, Hai Duong.
A sustained, though slightly less than expected, economic growth and a relatively stable investment environment during 2016 provided a solid foundation for property investment. The residential sector will continue to attract developers and investors as fundamentals still look positive. However, income producing assets, especially Offices and Hotels will draw particular attention, following several high-profile transactions in 2016.

**INTEREST RATES AT HISTORICAL LOW BUT UNDER UPWARD PRESSURE**

According to CBRE Research, the yield spread between Office property and 10-year Government bonds for Hanoi and HCMC is at a 10-year high, although this is mostly due to the current low level of government bond yields. Interest rates, as well as exchange rates, have been kept relatively stable over the past two years, helping to sustain investors’ interest in the real estate sector. Inflation is expected to remain in the manageable level of 4-5% during 2017. However, there are external pressures, including in particular a strengthening USD, and as a result interest rates might be facing upward movements. From a regional perspective however, Vietnam’s fundamentals remain solid, benefiting especially the Residential sector. Commercial and Industrial real estate will also see increased activity by foreign investors, starting off from a relatively low base.

**Table 1: Vietnam Notable Transactions, 2016**

<table>
<thead>
<tr>
<th>Property Name</th>
<th>City</th>
<th>Type</th>
<th>Deal size (US$)</th>
<th>Property Size</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mall Ciputra Hanoi</td>
<td>Hanoi</td>
<td>Development Site</td>
<td>N/A</td>
<td>73,000 sqm</td>
<td>Lotte Group</td>
</tr>
<tr>
<td>Capri by Fraser Ho Chi Minh</td>
<td>HCMC</td>
<td>Hotel</td>
<td>26,142,857</td>
<td>175 units</td>
<td>Strategic Hospitality F&amp;L REIT</td>
</tr>
<tr>
<td>Ibis Saigon South</td>
<td>HCMC</td>
<td>Hotel</td>
<td>17,014,286</td>
<td>140 units</td>
<td>Strategic Hospitality F&amp;L REIT</td>
</tr>
<tr>
<td>The Manor Central Park</td>
<td>Hanoi</td>
<td>Development Site</td>
<td>N/A</td>
<td>900,000 sqm</td>
<td>Mitsubishi Corporation</td>
</tr>
<tr>
<td>International Centre Building</td>
<td>Hanoi</td>
<td>Office</td>
<td>13,820,311</td>
<td>7,000 sqm</td>
<td>VinaCapital</td>
</tr>
<tr>
<td>Indochina Riverside Towers</td>
<td>Da Nang</td>
<td>Mixed-use</td>
<td>17,499,975</td>
<td></td>
<td>Kajima</td>
</tr>
<tr>
<td>Office Component</td>
<td>Da Nang</td>
<td>Office</td>
<td>6,934,545</td>
<td>8,532 sqm</td>
<td>Kajima</td>
</tr>
<tr>
<td>Retail Component</td>
<td>Da Nang</td>
<td>Retail</td>
<td>10,565,429</td>
<td>6,564 sqm</td>
<td>Kajima</td>
</tr>
<tr>
<td>Kumho Asiana Complex</td>
<td>HCMC</td>
<td>Mixed-use</td>
<td>214,999,952</td>
<td></td>
<td>Mapletree Investments</td>
</tr>
<tr>
<td>Kumho Asiana Plaza Office</td>
<td>HCMC</td>
<td>Office</td>
<td>84,851,814</td>
<td>31,562 sqm</td>
<td>Mapletree Investments</td>
</tr>
<tr>
<td>Kumho Link</td>
<td>HCMC</td>
<td>Retail</td>
<td>39,819,189</td>
<td>6,880 sqm</td>
<td>Mapletree Investments</td>
</tr>
<tr>
<td>Kumho Asiana Plaza Apartments</td>
<td>HCMC</td>
<td>Apartment</td>
<td>15,472,387</td>
<td>260 units</td>
<td>Mapletree Investments</td>
</tr>
<tr>
<td>Intercontinental Asiana Saigon</td>
<td>HCMC</td>
<td>Hotel</td>
<td>74,856,562</td>
<td>305 units</td>
<td>Mapletree Investments</td>
</tr>
<tr>
<td>Duxton Hotel Saigon</td>
<td>HCMC</td>
<td>Hotel</td>
<td>49,357,000</td>
<td>198 units</td>
<td>New Life RE</td>
</tr>
<tr>
<td>A&amp;B Tower</td>
<td>HCMC</td>
<td>Office</td>
<td>67,000,000</td>
<td>25,500 sqm</td>
<td>Fujita</td>
</tr>
<tr>
<td>Novotel Saigon Centre</td>
<td>HCMC</td>
<td>Hotel</td>
<td>46,700,000</td>
<td>247 units</td>
<td>Saigon Green View Investment</td>
</tr>
<tr>
<td>Sedona Suites Hanoi</td>
<td>Hanoi</td>
<td>Hotel</td>
<td>31,528,177</td>
<td>175 units</td>
<td>BRG Group</td>
</tr>
<tr>
<td>Samsung R&amp;D Centre</td>
<td>Hanoi</td>
<td>Development Site</td>
<td>N/A</td>
<td>30,000 sqm</td>
<td>Samsung Group</td>
</tr>
</tbody>
</table>

**Source:** Real Capital Analytics, retrieved in January 2017
FOREIGN PLAYERS TO PLAY A BIGGER ROLE AS PROJECTS SEEK FUNDING BEYOND TRADITIONAL CHANNELS

Foreign investors accounted for approximately 80% of acquisition value in 2015 and 2016, according to transaction data by Real Capital Analytics (RCA). On an accumulative basis, foreign buyers accounted for 62% of recorded transaction value by the end of 2016, increasing from 25% a decade ago.

Generally speaking, bank lending is still the main source of funding. However projects and developers will continue to seek other types of funding, including private equity and bond issuance as borrowing costs are likely to rise under current pressure, and SBV are set to curb bank lending to real estate amid concerns of accelerating new supply. Recent examples include local developers Novaland and Son Kim Land who at the end of 2016 successfully raised funding from foreign investors of US$120 million and US$100 million, respectively.

Foreign investors will continue to come primarily from FDI countries including South Korea, Japan, and Singapore. Developers will again dominate the group, but there will be a growing number of private equity firms who look to invest long-term in Vietnam, as well as REITs who are expected to show a greater presence.

OFFICE AND HOSPITALITY ASSETS IN THE SPOTLIGHT

As fundamentals continue to remain solid, income-producing properties in both HCMC and Hanoi will become increasingly popular. Yield, especially for prime assets, is expected to remain flat or to slightly reduce, though it is expected to remain attractive compared to regional levels, as investment stock is limited. This is especially true for office properties in HCMC as the office rental cycle has reached the bottom and has started to go up, supported by limited new supply and healthy leasing demand. However, the limited stock for sale and the gap between bid and ask will lead to building to core trends.

For instance, CapitaLand announced in January 2017 an acquisition of a development site in HCMC to develop an office building.¹

The Hospitality sector will see strong interest levels in 2017, following a strong year in 2016 when the sector’s transaction volume took a significant share of 34%, second only to Development sites. Foreign investors have developed a growing appetite for hospitality assets across the country, including city and resort hotels, as this sector has enjoyed rapid increases of tourist arrivals and hence a boost in occupancy. The US$300 million investment by Warburg Pincus in 2016 is an example that illustrates funds’ strong sentiments toward Vietnam’s hospitality market.²

Development sites will continue to see high liquidity by both local and foreign investors. Strong appetite remains for sites in the CBD of both major cities for commercial or mixed-use developments; however a growing appetite will be for residential developments in key emerging residential areas.

¹ The Strait Times, retrieved online Jan 17 2017: CapitaLand to develop office tower in Ho Chi Minh City with acquisition of prime CBD site
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