Vietnam Market, Q2 2018

Office Assets Outperformed, Especially in HCMC

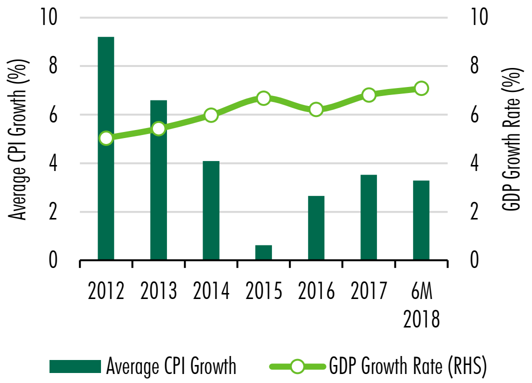
VIETNAM GDP **7.08% y-o-y** | HCMC GDP **7.27% y-o-y** | HANOI GDP **7.07% y-o-y** | VN-INDEX **24% y-o-y**

Vietnam economy continued to achieve an impressive growth in the second quarter of 2018. Vietnam's GDP increased by 6.79% y-o-y in Q2 2018 and 7.08% y-o-y in the first half of the year and it is the highest growth observed in the last eight years. Despite the rapid expansion of the economy, the increase of average CPI in the first six months was still maintained below the target of 4% set by the government.

In the six-month period, total registered FDI rose by 5.7% y-o-y and Japan was the top investor to Vietnam with US$6.47 billion, accounting for 31.8% of the total investment. In addition, a total sum of US$5.5 billion was invested in real-estate sector, accounting for 27% total registered FDI in this period. Surging capital helped real-estate to become the second most heavily invested sectors. Among all provinces, Ha Noi took up the largest portion of registered FDI with US$5.8 billion (28.9%), followed by HCMC (18%) and Ba Ria-Vung Tau (9.5%).

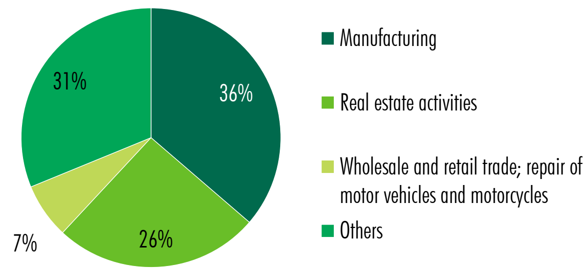
Although Vietnam's economy still put on a stellar performance, uncertainties in the global environment are to be followed closely, especially for an export-reliant economy like Vietnam. With an ease in economic growth in Q2, the government will have to increase measures to boost the economy in the 2H 2018 in order to meet the ambitious annual target for economic growth of 6.7%.

Figure 1: Vietnam's Inflation and GDP Growth Rate



Source: Vietnamese General Statistical Office, Q2 2018.

Figure 2: Registered FDI to Vietnam, breakdown by sector



Source: Foreign Investment Agency, Q2 2018.

NO NEW SUPPLY

In Q2 2018, Grade A remained 382,763 sq.m NLA while Grade B increased 968 sq.m NLA to 814,330 sq.m NLA because of Viettel Complex opening more floors for outside leasing. Looking forward to 2H 2018, total new supply for Grade B will come from two decentralized projects - Thaco Building in District 2 with approximately 9,600 sq.m NLA and M Building in District 7 with 3,000 sq.m NLA. Both buildings are owner-occupied and only allowed a small portion of available area for outside leasing.

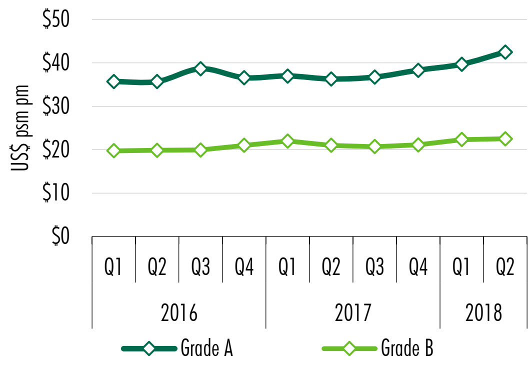
THE MARKET FROM 2018F – 2020F WILL STILL BE A LANDLORD-DRIVEN MARKET

Asking Rents for Grade A and B increased q-o-q and y-o-y. Grade A achieved 7.1% q-o-q and 17.1% y-o-y growth rates which was driven by rapid absorption and limited supply. Similarly, asking rent for Grade B, while not increasing as much as Grade A, also showed a 7.3% growth rate y-o-y. Net absorption for the past year showed rapid absorption. Vacancy rate for both Grades were below 5%.

In terms of demand, traditional sectors such as Manufacturing, Banking/Finance and Services accounted for 66%, though Co-working space and Serviced Office accounted for 4% of total enquiries. In terms of tenant's nationalities, APAC still maintained a 61% of total enquiries compared to 15% coming from EMEA.

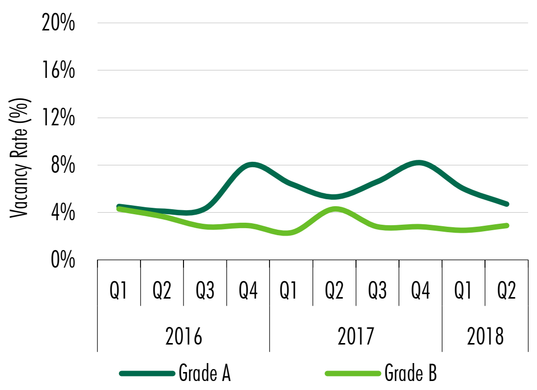
It is expected that Grade A will maintain its increasing path, though at a slower rate, for rental rates because of limited available supply from now until late 2019 – early 2020; vacancy rate will also be decreasing slower because of Grade A's hiked up rental rate. Grade B is expected to have a more stabilized and healthy performance because of its small but more constant supply from now until 2019.

Figure 3: Asking Rent, Office



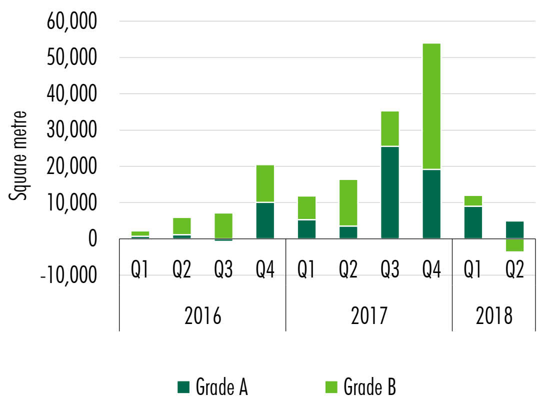
Source: CBRE Research, Q2 2018.
Rents are quoted excluding service charge and taxes.

Figure 4: Vacancy Rate, Office



Source: CBRE Research, Q2 2018.

Figure 5: Net Absorption, Office



Source: CBRE Research, Q2 2018.

NO NEW SUPPLY

The supply of retail space in the CBD area continues to be limited because there was not much progress made on the construction of most future supply and the launch dates of some were delayed until next year. In the review quarter, HCMC retail market received a great number of enquiries from F&B and fashion clients, and some of their brands are teenagers' favorites such as Founder Bak Kut Teh, Wayne's Coffee, Eat Street, Dickies, Steve Madden, etc. With the golden population structure and rising disposable income, Vietnam market will expect to witness a rapid expansion of the F&B, fashion and healthcare industries in the next three to five years.

NO SIGNIFICANT CHANGES IN MARKET PERFORMANCE

The asking rent for an area of 80-250 sq.m. on ground floors and first floors in the CBD area remained at US$127 per sq.m. per month, while that in non-CBD area decreased slightly by 4% y-o-y to US$36 per sq.m. per month.

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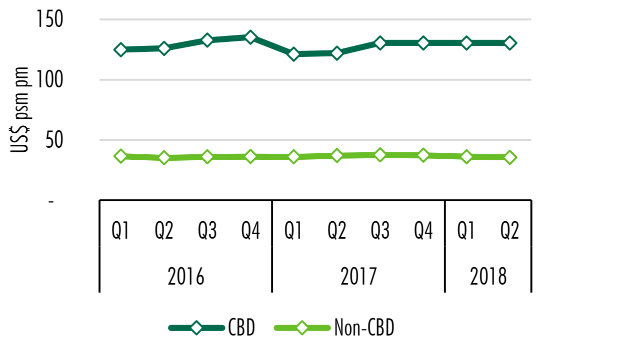
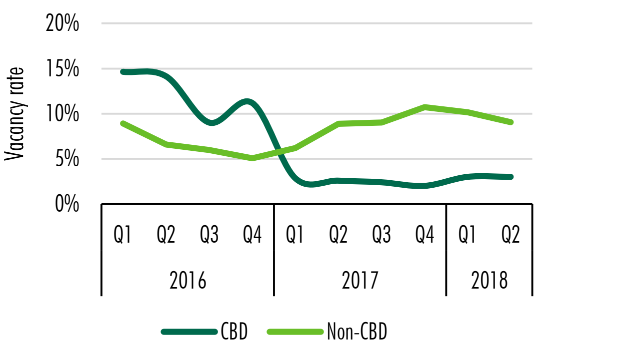
The gap between the asking rent in the CBD area and non-CBD area will widen in the next two years, when many retail podiums are expected to be handed -over and large-scale shopping centres will be located outside of the city center, where the population density is high and personal income is improving. Also, with the limited office supply in the CBD area and the difficulty in leasing retail podiums in non-CBD area, the combination of co-working space and retail podiums will become more popular.

Figure 6: Asking Rent, Retail



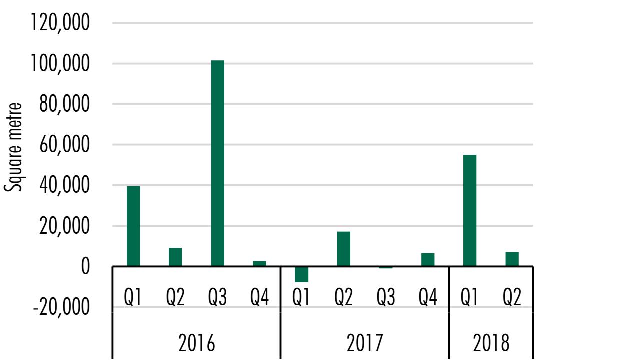
Source: CBRE Research, Q2 2018.
Rents are ground and first floor for boutique stores, excluding service charge and taxes.

Figure 7: Vacancy Rate, Retail



Source: CBRE Research, Q2 2018.

Figure 8: Net Absorption, Retail



Source: CBRE Research, Q2 2018.

NEW LAUNCH SUPPLY FOR 1H 2018 INCREASED 5% COMPARED TO 1H 2017

In Q2 2018 the HCMC market welcomed an additional 6,109 condominium units, a decrease of 36% y-o-y. However new launch supply for 1H 2018 still increased 5% compared to 1H 2017. Mid-end segment witnessed the biggest decrease in new launch in Q2, down 62% q-o-q and 52% y-o-y.

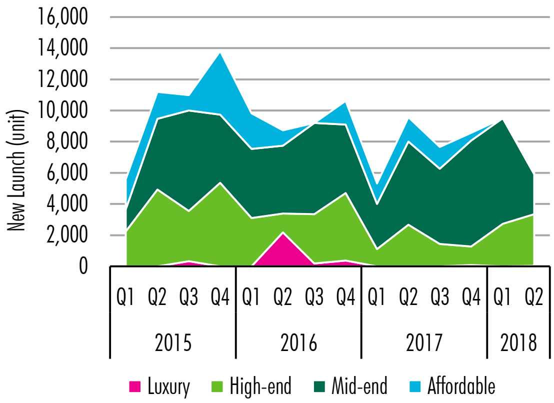
With regards to the breakdown by segment, the high-end segment accounts for the highest proportion of new launch units in Q2 at 54%, followed by mid-end at 42%. Q2 2018 recorded one new luxury launch which is Cove Residence tower of Empire City project with 40 units.

Sales momentum continued to be positive in Q2 2018 with more than 80% of new launch units having been absorbed. In Q2 2018 there were 6,947 sold units in total, a decrease of 25% q-o-q and decrease of 29% y-o-y.

Average price on the primary market was recorded at US$1,580 psm in Q2 2018, an increase of 3% q-o-q due to increase in prices of the luxury segment. Primary price increases of 3%-5% were observed in some districts such as District 4, Binh Tan and Tan Phu.

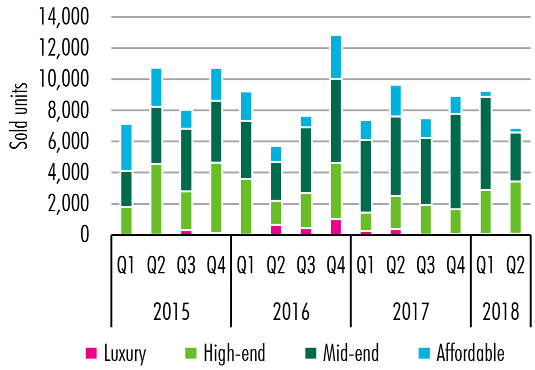
The mid-end segment is expected to maintain a high proportion in the new launch units of 2018, thanks to some large-scale projects that are expected to launch in the second half of the year. In terms of area, the East and the South will continue to be hotspots for the second half of 2018, especially the Thu Thiem area. Sales momentum will continue to be upbeat, however developers should focus more on handover quality, facilities and management quality in order to gain customers' trust and differentiate themselves from the competition.

Figure 9: Launched Supply, Condominium



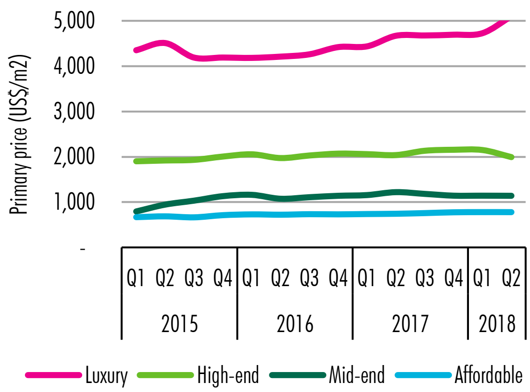
Source: CBRE Research, Q2 2018.

Figure 10: Sold Units, Condominium



Source: CBRE Research, Q2 2018.

Figure 11: Primary Prices, Condominium



Source: CBRE Research, Q2 2018.

RENTS OF INDUSTRIAL LAND INCREASE

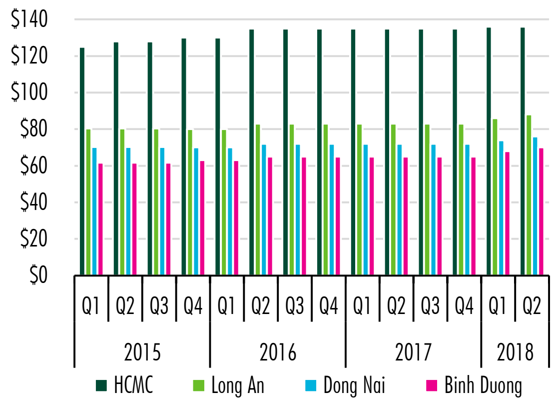
Industrial land rents increased by 5%-10% y-o-y were recorded in some industrial parks in Binh Duong and Dong Nai province thanks to good location. These industrial parks are almost full. The other areas remain the same. Ready built factory rents remain the same level.

HCMC and surrounding provinces such as Binh Duong, Long An, Dong Nai continue to receive high interest from investors thank to good location and infrastructure. The occupancy rate and rents increased in these provinces due to limited supply.

Strong demand continued from manufacturing, third-party logistics, FMCG and electronics. Vietnam consumer spending is growing and is forecast to continue to increase over the next few years, especially in terms of e-commerce. Several large internet retailers have entered Vietnam market including Alibaba, JD.com, Tencent and Amazon. Expansion of modern retail outlets from giant international corporations such as Lotte and Aeon and the rise in the number of convenience stores are key drivers for demand.

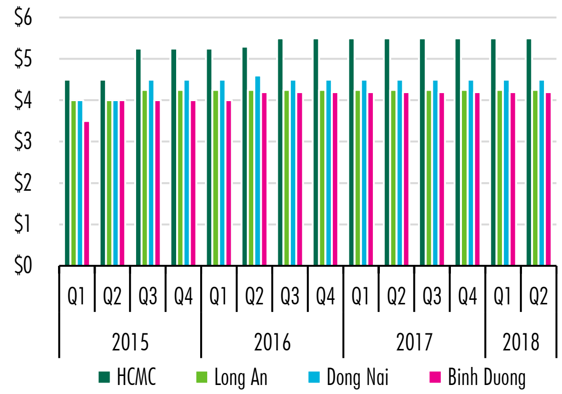
Looking forward, the HCMC and surrounding market will have more supply. Binh Duong province plans to expand the industrial land with addition of 5,000 ha. In Dong Nai, new investments are now spread out the centre. Long An province is proposed to have 1,748 ha new industrial land. HCMC plans to maintain the current industrial scale and attract more high-tech companies

Figure 12: Land rate (US$/sm/term), Industrial



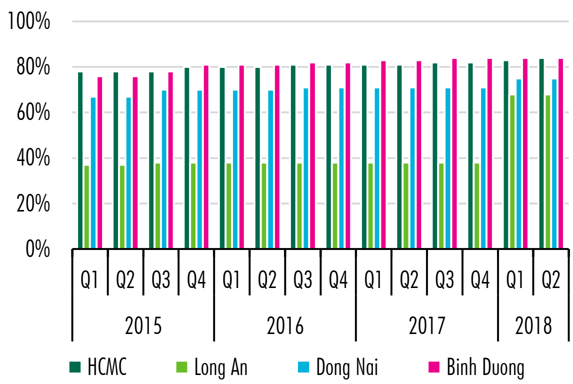
Source: CBRE Research, Q2 2018.

Figure 13: Ready-built-factory rate (US$/sm/month), Industrial

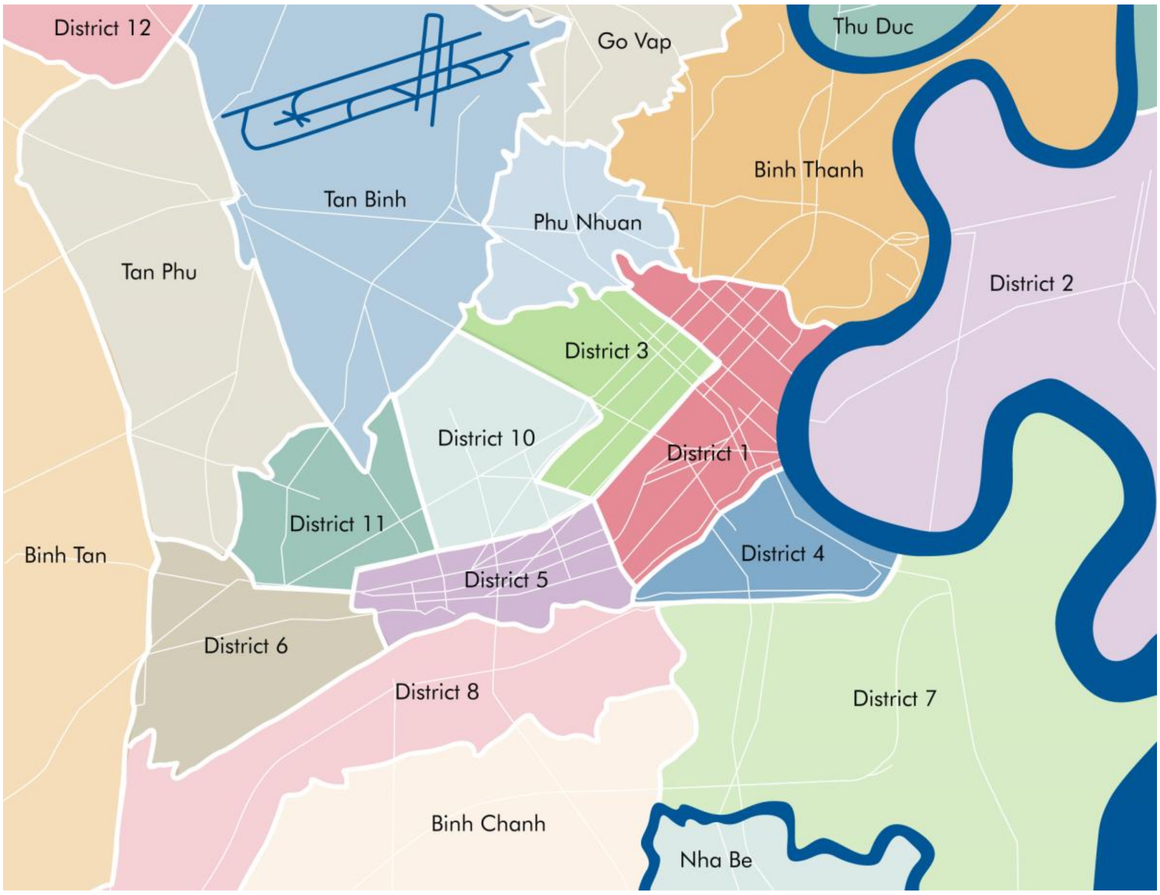


Source: CBRE Research, Q2 2018.

Figure 14: Occupancy Rate, Industrial



Source: CBRE Research, Q2 2018.



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