HCMC Real Estate Market, Q1 2020

COVID-19 POSES SIGNIFICANT HEADWINDS FOR VIETNAM REAL ESTATE MARKET

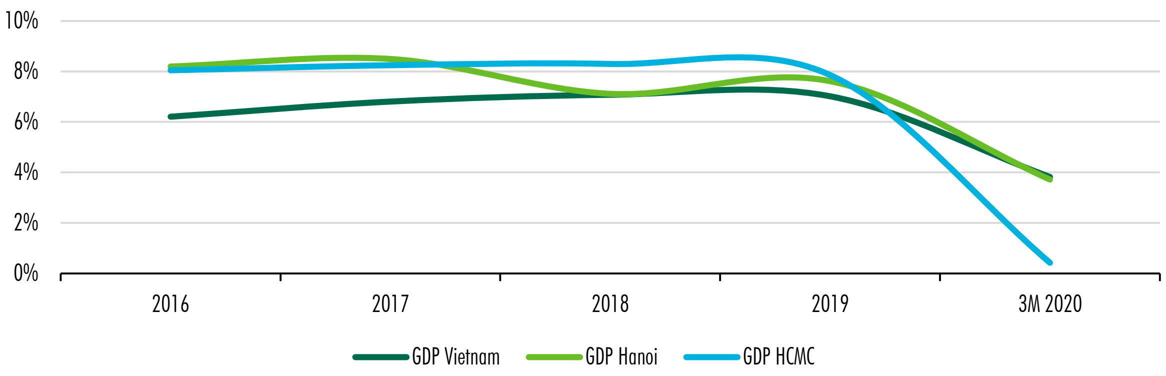
VIETNAM GDP 3.82% y-o-y

HCMC GRDP 0.42% y-o-y

HANOI GRDP 3.72% y-o-y

VN-INDEX -32% y-o-y

Figure 1: GRDP of Hanoi, HCMC & Vietnam



Source: Vietnamese General Statistics Office, Q1 2020

The recent COVID-19 outbreak has created many disruptions in Vietnam's economy and its real estate market.

- In the first quarter of 2020, Vietnam GDP growth was recorded at 3.82% y-o-y, the slowest growth rate in the period of 2011 - 2020.
- CPI in Q1 2020 was up by 5.56% y-o-y due to the high consumption in the Lunar New year and the impact of the COVID-19 outbreak.
- Exports only grew by 0.5% y-o-y, much lower than the 4.7% y-o-y growth rate observed in Q1 2019.
- With travel restrictions, quarantine measures and reluctance to travel due to the COVID-19 outbreak, Vietnam's hospitality market in Q1 2020 was severely affected. Vietnam welcomed 3.7 million international tourist arrivals in Q1, down by 18.1% y-o-y, while the number of domestic traveler-trips also saw a decrease of 18% y-o-y. In addition, many key events such as the Hanoi Formula 1 Grand Prix have already been delayed or canceled.

Total registered foreign direct investment in Vietnam in Q1 2020 reached US$8.6 billion, down by 20.9% y-o-y. In this period, the production and distribution of electricity, gas, water and air-conditioning attracted the most foreign capital (US$4.0 billion). The manufacturing and processing industry ranked second with over US$ 2.7 billion, accounting for 32% of total registered capital.

As of end-March 2020, most investment activity is on hold due to potential cross-border investors being unable to perform site visits. Purchasing is likely to improve once the outbreak has been contained, supported by pent-up investment demand. Assets providing steady income streams will be the focus, while interest in logistics assets will strengthen alongside solid e-commerce industry growth.

COVID-19 HAS NOT AFFECTTED THE OFFICE MARKET IN Q1 2020

In Q1 2020, HCMC office market had one new Grade B supply - Friendship Tower - located at Le Duan Street, District 1, with a total NLA of 13,700 sqm. With this new building, the total supply of HCMC office market reached 1,370,814 sqm.

The average asking rent of Grade A-citywide was US$44.6 psm pm, a slight decrease of 1.2% q-o-q. As the market had one new supply in prime location within the CBD and its rent was higher than the average rental rate of Grade B, the rental rate of this segment increased by 1.8% q-o-q, equivalent to US$25.2 psm pm.

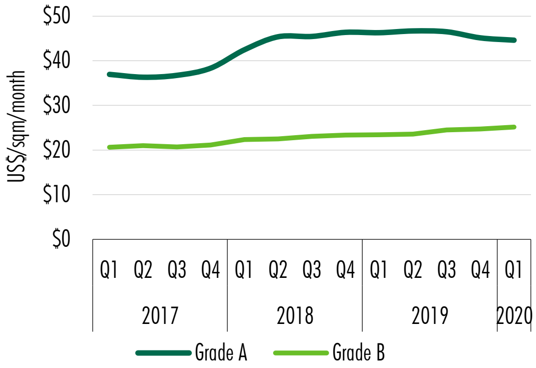
Vacancy rate of both Grade A and B increased slightly due to new supply and some large tenants moving out from those buildings with low-quality management and the joining of new supply.

RENTAL SUPPORT FROM LANDLORDS

By the end of Q1, CBRE started to witness many tenants have persuaded landlords to cut off rental rate by 15%-20% to mitigate their rental cost and compensate for their revenue loss. In return, landlords have been providing various financial incentives such as deferment or extension of payments.

After the COVID-19 pandemic, the office market will be shaped by new trends. Tenants will prioritise agile working options like leasing flexible workspace or distributing workforce into various offices across the city. Additionally, tenants will start to pay more attention to their employee's wellness instead of focusing too much on saving rental cost like before. LEED-certified buildings that comprise of wellness features such as environment-friendly spaces, quality ventilation system and natural-lighting will be tenants' new preferences in the future

Figure 2: Asking Rent, HCMC Office



Rents are quoted excluding service charge and taxes.

Source: CBRE Research, Q1 2020.

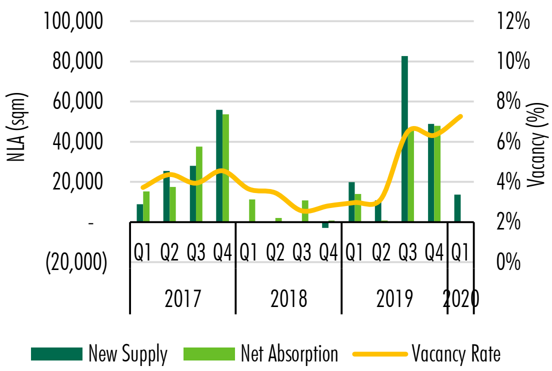
Table 1: Asking Rent by Grade, HCMC Office

	Q1 2020	Q-o-q	Y-o-y
Grade A - CBD	49.9	-1.4%	-0.2%
Grade A - Decentralised	26.1	0.0%	2.2%
Grade B	25.2	1.8%	7.4%

Rents are quoted excluding service charge and taxes.

Source: CBRE Research, Q1 2020.

Figure 3: Supply – Demand Dynamics, HCMC Office



Source: CBRE Research, Q1 2020.

RENTAL RATE DECREASING WHILE OCCUPANCY RATE STABLE

Supply in Q1 2020 remained the 2019 level, which was 1,050,000 sqm NLA. Due to COVID-19, total revenue from F&B, accommodation service and tourism service decreased by 9.6% and 27.8% y-o-y, respectively in Q1 2020. In shopping centres, amount of footfall decreased as much of 80% as of in March.

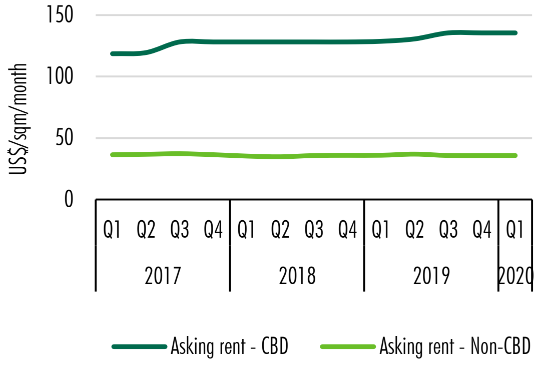
Most shopping centres' landlords in HCMC started applying 10-30% rent reduction policy for all tenants since March 202. However, asking rents have not been adjusted yet because occupancy rate still remained high. Stores closure were temporary and expected to resume soon when the disease is contained.

OPPORTUNITIES FROM CHANGES IN CONSUMER BEHAVIOURS

Online retail sales recorded a positive growth in the quarter. According to Nielsen consumer survey in February 2020, expenditure on necessities such as dry foods, healthcare and hygiene goods increased by an average of 35-70%. Online retailers such as Tiki, Speed Lotte, etc. recorded an increase in daily orders of at least 2-4 times. Online retail service of Co.opmart increased by 4-5 times in this period. The delivery service of Grab quickly introduced Grabmart, a new service that does the shopping on behalf of customers. These showed the swift actions from retail players to adapt to fast changing trends on the market. Online retail sales, despite impressive growth rate in the past few years (average annual growth of 39% in past five years, which is higher than traditional retail's growth of 10% in the same period), still only account for 4% of total retail sales in Vietnam.

From the effects of COVID-19 that we have seen, the local market will require more presense of online platforms and development of omnichannel strategies which can serve wider range of consumers, categories, and help to push marketing.

Figure 4: Asking Rent, HCMC Retail



Rents are quoted excluding service charge and taxes.

Source: CBRE Research, Q1 2020.

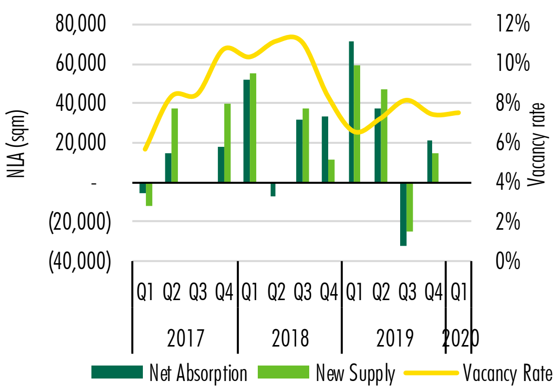
Table 2: Asking Rent by Grade, HCMC Retail

	Q1 2020	Q-o-q	Y-o-y
CBD	135.5	0.0%	5.4%
Non -CBD	35.7	0.0%	-0.9%

Rents are quoted excluding service charge and taxes.

Source: CBRE Research, Q1 2020.

Figure 5: Supply – Demand Dynamics, HCMC Retail



New Supply is net of new completion and new demolition.
Source: CBRE Research, Q1 2020.

THE LOWEST QUARTERLY NEW LAUNCH IN THE LAST THREE YEARS

The COVID-19 outbreak combined with licensing issues and prolonged Tet holiday have greatly reduced new launch supply in HCMC. In Q1 2020, new supply volume was recorded at 3,606 units from 11 projects, a drop of 21% q-o-q and 18% y-o-y.

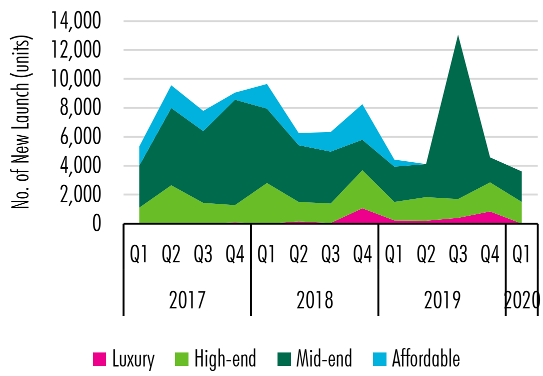
The average selling price for the primary market is at USD1,936 psm, up 2% q-o-q and 9% y-o-y. The new launch supply in mid-end segment in this quarter witnessed price increase from developers due to limited supply and good booking (reservation) rate. Meanwhile, luxury and high-end projects' prices remain stable from the previous quarter and higher than the same period last year, respectively at 8% and 6%.

In the context of limited supply and increasing price, take-up remains positive especially for the mid-end segment. High sold rate reaching 80% to 100% has been recorded at projects that are developed by reputable developers. However, with the looming risk of COVID-19 pandemic since mid-March and the strengthening of social distancing measures, buying demand has decreased during this period. In the first quarter, 3,757 units were sold, a decrease of 32% q-o-q and 37% y-o-y. The market continues to absorb the remaining inventory from existing projects.

INCREASINGLY IMPORTANT ROLE OF PROPERTY MANAGEMENT

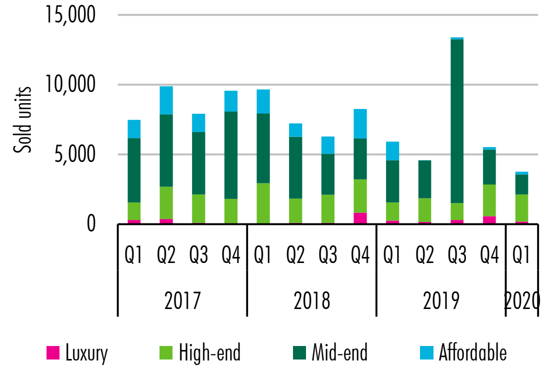
Property management service, have become more important than ever in recent years, and especially so following the COVID-19 outbreak. End-users and investors now expect higher standards of property management, with CBRE anticipating increasing demand for better sanitisation practices and attention to other hygiene-related issues, as well as wellness facilities.

Figure 6: New Launch Supply, HCMC Condominium



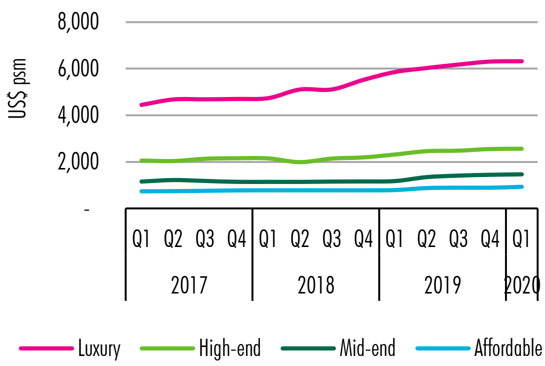
Source: CBRE Research, Q1 2020.

Figure 7: Sold units, HCMC Condominium



Source: CBRE Research, Q1 2020.

Figure 8: Primary Prices, HCMC Condominium



Selling price: US$ psm (excluding VAT and quoted on NSA)
Source: CBRE Research, Q1 2020.

MOST OF NEW SUPPLY WAS LAUNCHED IN JANUARY AND FEBRUARY

Impact of the COVID-19 on HCMC ready-built villa and townhouse market in Q1 2020 was minimal due to limited new supply and most of them being launched before the social-distancing policy implemented. Total new supply in Q1 were only 381 units from four projects. In which, there was roughly 219 units from the first phase of Zeitgeist, the new township project located in Nha Be district.

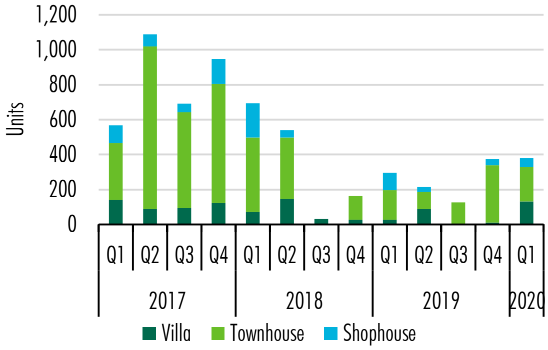
New projects reported 68% - 100% sold rate in Q1 2020. Primary price of new launch was from US$2,600 – 4,600 per sqm (on land area) for townhouse and shophouse respectively in Nha Be district to USD5,000 – 5,330 per sqm in Thu Duc district. Shophouse remained as the most attractive product of project launched in this quarter.

Cumulative sold rate of primary market decreased to 95.7% in this quarter in comparison to 96% of Q4 2019.

The secondary market in Q1 2020 remained stable (asking price increased slightly, from 1.3% to 3.2% q-o-q) when buyer turned into wait-and-see mode due to the strong disease outbreak in March 2020. The significant decrease of amount of site visit and selling activities slowed down asking price escalation in this quarter.

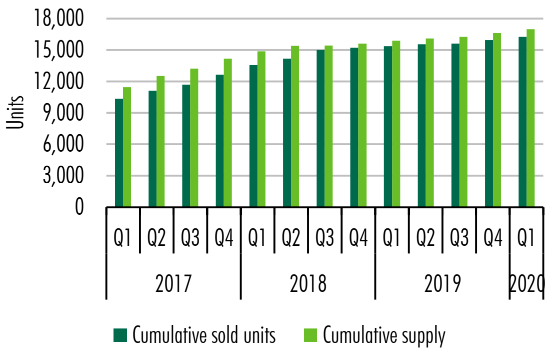
Looking forwards, construction start of new infrastructure projects such as Nguyen Huu Tho – Nguyen Van Linh intersection, My Thuy 3 Bridge (My Thuy intersection) and speeding process of Ring Roads and inter-province expressways after the disease contained is expected to support demand in the remaining quarters of 2020.

Figure 9: New Supply, HCMC Villa and Townhouse



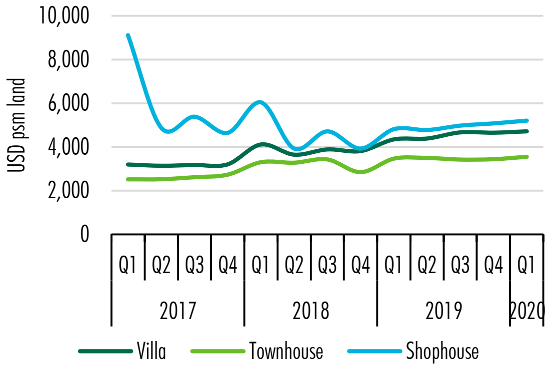
Source: CBRE Research, Q1 2020.

Figure 10: Sold Unit, HCMC Villa and Townhouse



Source: CBRE Research, Q1 2020.

Figure 11: Secondary Price, HCMC Villa and Townhouse



Asking price are quoted excluding taxes.
Source: CBRE Research, Q1 2020.

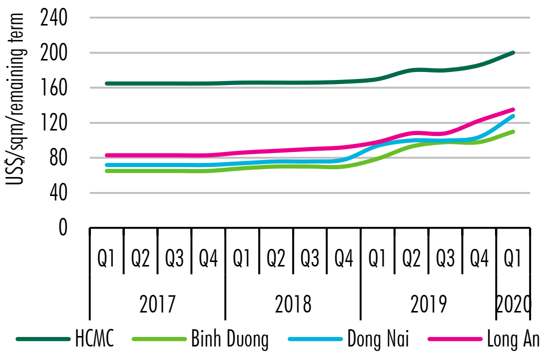
MARKET OUTLOOK IN LONG TERM REMAINED POSITIVE

Travel ban due to the COVID-19 outbreak contributed into weakening industrial demand of foreign investors, which has been observed since Q4 2019 due to the ease of the U.S. – China trade war and tighten control policy of product origin in Vietnam. Major industrial investors from Japan, Korea, China and related territories faced difficulty in doing leasing activities and accordingly slowed down manufacturing setting-up process.

Despite decreasing demand in the first quarter of 2020, limited vacant industrial land had escalated asking rent. The industrial land market was still in lack of supply when most of expansion phase of existing industrial parks is under planning. There was no new industrial land supply in Q1 in the southern region (including HCMC, Dong Nai, Binh Duong and Long An). Average occupancy rate of industrial parks in the southern region was 82.9% as of Q1 2020. Asking industrial rent reached US$110 – 200 per sqm land per remaining term on average in industrial parks of four major southern provinces and cities (up 29.9% y-o-y and 12.3% q-o-q). Speeding up development procedure of critical infrastructure projects such as Bien Hoa – Vung Tau Expressway, Ben Luc – Long Thanh Expressway and Long Thanh International Airport is expected to increase rapidly industrial land asking rent in Long An, BR-VT and Dong Nai.

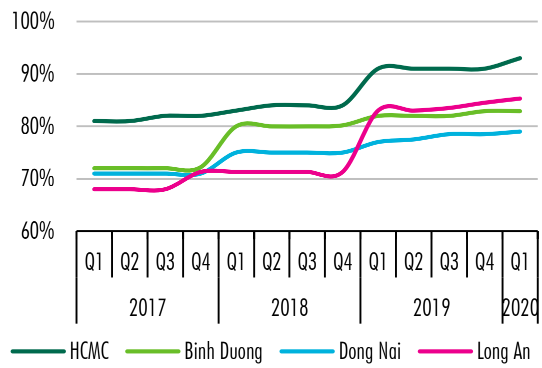
Ready-built factory and warehouse leasing became more vibrant thanks to increasing needs for time efficiency and rise of E-commerce. Asking rent was slightly up by 1.1% - 3.6% q-o-q in this quarter (from 4.5 to 5.6 per sqm per month).

Figure 12: Asking Price, Industrial Land



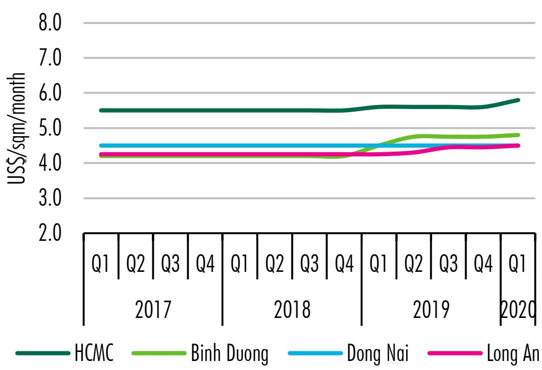
Source: CBRE Research, Q1 2020.

Figure 13: Occupancy Rate, Industrial Land



Source: CBRE Research, Q1 2020.

Figure 14: Asking Rent, Ready-built factory/warehouse



Rents are quoted excluding service charge and taxes.
Source: CBRE Research, Q1 2020.

Grade A, B (Office): Although no formal classification system exists, grades are generally understood as follows:

Grade A Buildings: High-rise buildings, located within the CBD, with column-free floor plates of over 1,000 sq. m., ceiling heights of 2.75 meters, professional management, premium M&E design, lift lobby, and high-efficiency access.

Grade B Buildings: Generally, 75% of Grade A amenities as well as being in the CBD or periphery, with at least seven stories and floor plates of 500-1000 sq. m.

Net absorption: Net absorption figures represent the net increase in occupied floor space in the period. The figures are determined using the following method:

net absorption = new completions

+ vacancy figures at the beginning of the period

– demolition - vacancy figures at period-end

Rent: Rent is quoted as the average "asking" rent, without accounting for any incentives. Rents are stated in US$ per square meter (per sq. m.) as well as in these terms: Gross or net, inclusive (including management fees and/or property taxes) or exclusive (excluding management fees and property taxes) that are customarily employed in the respective sector.

Rents or average room rates are quoted on the following basis:

Hotel: Average room rates, inclusive of VAT and service charges.

Office: Rents, NLA, exclusive of VAT and service charges.

Flexible Workspace: Rents, per person, inclusive of amenities but exclusive of VAT.

Retail: Rents, NLA, exclusive of VAT and service charges.

Serviced Apartments: Rents, NLA, inclusive of VAT and service charges.

CBRE's condominium ranking criteria:

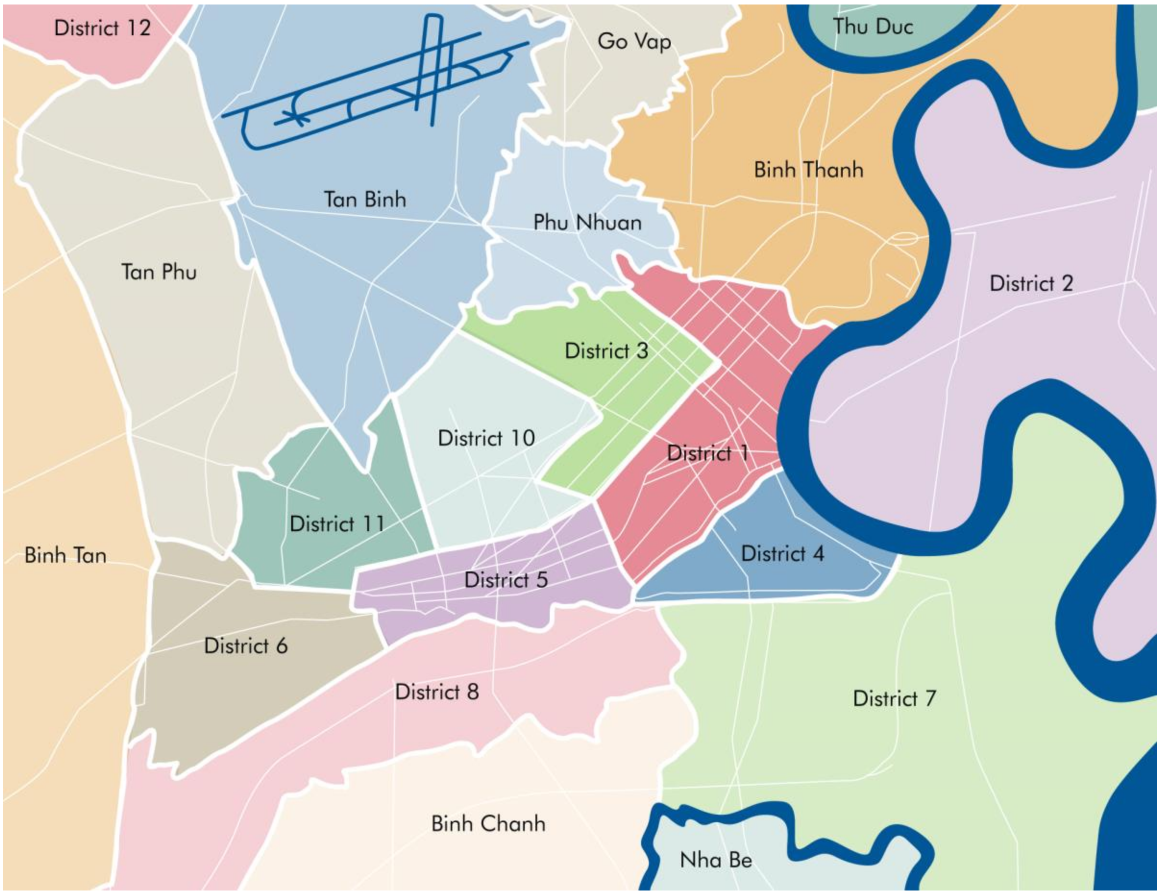
Luxury: projects that have primary prices over US$4,000 psq.m

High-end: projects that have primary prices from US$2,000 psq.m to US$4,000 psq.m

Mid-end: projects that have primary prices from US$1,000 psq.m to US$2,000 psq.m

Affordable: projects that have primary prices under US$1,000 psq.m

Saleable area: The saleable area of a unit is measured up to the center line of the wall separating adjoining units. The full thickness of the walls separating the units from common areas, lift shafts, light wells, staircases, etc., is included.



CONTACTS

Dung Duong
Senior Director
+84 28 6284 7668
Dung.duong@cbre.com

Thanh Pham
Associate Director
+84 28 6284 7668
Thanh.pham@cbre.com

CBRE OFFICES

HCMC Office

Floor 13, A&B Tower,
76A Le Lai, District 1,
Ho Chi Minh City, Vietnam

Hanoi Office
6th Floor, Bidv Tower,
194 Tran Quang Khai, Hoan Kiem District,
Hanoi, Vietnam

For more information regarding this report, please visit the Global Research Gateway:
www.cbre.com/research-and-reports