Ho Chi Minh City
MarketView

Q2 2013

CBRE Global Research and Consulting

VN Q2 GDP	HCMC Q2 GDP	HANOI Q2 GDP	VNINDEX	LOCAL GOLD PRICE	TRADE BALANCE
5.0%	8.1%	7.8%	24%	19.4%	US$1.9 billion

ECONOMY IS MOVING IN THE RIGHT DIRECTION

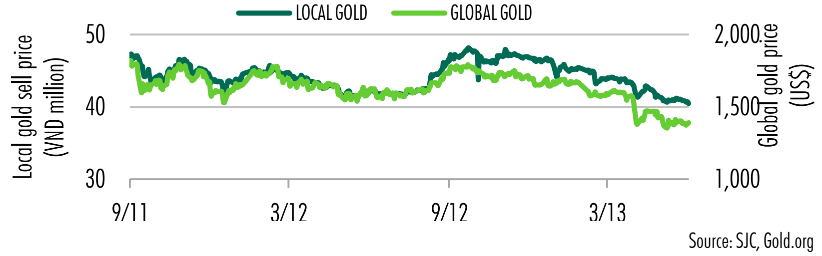
Quick stats

VIETNAM	Q2 2013	Q-o-Q	Y-o-Y
Real GDP Growth	5.0%	↑	↑
Registered FDI	$4.4 Bil	↓	↑
Exports	$32.4 Bil	↑	↑
Imports	$34.3 Bil	↑	↑
CPI (e.o.p)	6.7%	↑	↓
Tourism (arrivals)	1.7 Mil	↓	↑
Base Rate	9%	↔	↔
Exchange Rate (e-o-p)	21,036	↑	↑

HCMC	Q2 2013	Q-o-Q	Y-o-Y
Real GDP Growth	8.1%	↑	↓
CPI (e.o.p)	2.8%	↑	↓
Registered FDI	$356 Mil	↑	↓
Exports	$16.1 Bil	↑	↑
Imports	$7.5 Bil	↑	↑
Retails and Services Turnover (VND Tril)	147.9	↑	↑
Tourism (arrivals)	0.9 Mil	↓	↑

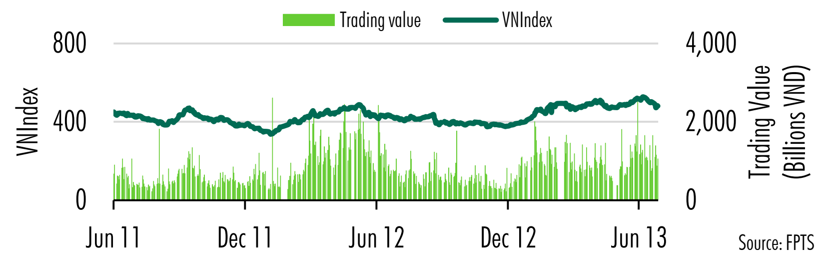
Hanoi	Q2 2013	Q-o-Q	Y-o-Y
Real GDP Growth	7.84%	↑	↓
CPI (e.o.p)	5.43%	↑	↑
Registered FDI	$300Mil	↑	↓
Exports	$2.63Bil	↑	↑
Imports	$6.55Bil	↑	↑
Tourism (arrivals)	0.5 Mil	↑	↑

Chart 1: Gold price decreased



Source: SJC, Gold.org

Chart 2: VNIndex recovered



Source: FPTS

Background news for the economy

From the end of June and beginning of July a number of announcements were made on expansionary monetary and fiscal policy which will provide additional momentum to the economy. These include measures to lower the interest-rate ceiling, cut personal income tax and reduce the tax rate for social housing. These measures will increase disposable income for a wide range of the population and increase money supply to the market. Thanks to the new deposit rate, bank funding costs were reduced, which will lead to lower lending rates in coming months, thus, boosting domestic consumption and production.

The Vietnam Asset Management Company (VAMC) will finally start operating from July 9.

Benefits for the real estate sector

In the first six months of 2013, the global gold price decreased 24% while the local gold price trended down 19%. The stock market, VNIndex peaked at 528 points in June, then made a profit-taking adjustment, which is currently up 15.8% YTD. For these reasons, residential real estate again becomes attractive to Vietnamese investors as other alternatives (gold and deposit accounts) offer limited returns.

Resolution 02 is another push for the real estate market, which offers a VND30 trillion loan scheme to support social housing developments. This policy addresses demand issues directly by providing mortgages to homebuyers and encourages developers to focus on the mass market.

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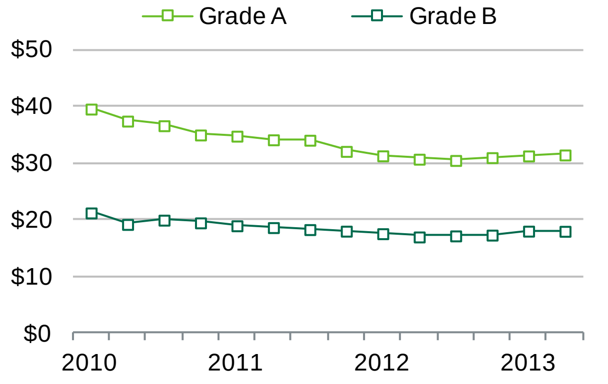
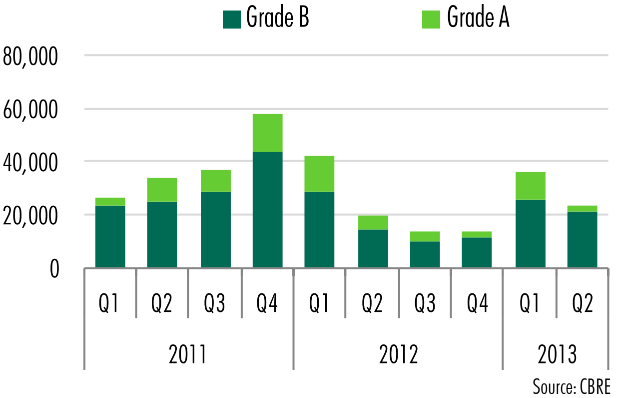
HCMC OFFICE
OVERSUPPLY IS BEGINNING TO DISAPPEAR

Chart 3: Office Asking Rent (US$/sm/month)



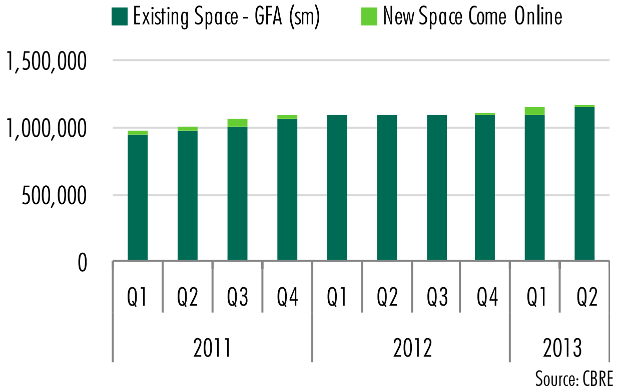
Source: CBRE

Chart 4: Office Net Absorption (NLA,sm)



Source: CBRE

Chart 5: Total Office Supply (GFA,sm)



Source: CBRE

The market is believed to be in a temporarily stable condition.

Half of 2013 has gone with some remarkable improvements in both vacancy rates and rental rates. It appears that, during the first half of the year and in the review quarter vacancy space has been gradually absorbed. Hence landlords have regained confidence to maintain or even slightly increase their rental.

Even though the average asking rent in the Grade B segment decreased marginally in Q2 2013, this is due to flexibility in rental schemes intended to ensure high occupancy rather than indicating a continuing overall rental decrease. This is due to very limited new supply in this segment.

HEALTHY ABSORPTION TOOK PLACE DURING THE QUARTER AS MARKET CONFIDENCE IMPROVES.

The second quarter saw new net absorption of 21,140 sm, a 43.9% y-o-y increase and 18.3% q-o-q decrease with major contributions from Grade B buildings. Healthy new net absorption was witnessed in the review quarter from two Grade B office buildings: Empress Tower, District 1 and Saigon Airport Plaza, Tan Binh District.

Average asking rent across Grade A and B appeared stable with 0.5% increase in Grade A rent and Grade B decreasing only 0.2% compare to the previous quarter.

New sustainable and efficiently designed buildings take advantage

The market witnessed good performance from sustainable and efficiently designed buildings (both operationally and environmentally) which are more popular with tenants than any other types of property. For instance, after two quarters of operation, President Place - the first LEED building in the city has achieved more than 75% occupancy rate.

The consolidation trend emerging recently is also linked to a strong take up rate in new properties. Almost tenants who wish to consolidate their offices will require large leasable space and it is likely that new properties are some the few buildings can meet this tenants' requirements.

Healthy demand compounded with limited new supply will create challenges for office tenant's in terms of availability and thus rents.

It is expected that rising demand for office space will continue throughout 2013 with only one more Grade A office building due to come online in the year. This is likely to create further upward pressure on rentals until the next wave of major new supply.

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HCMC RETAIL

TAXATION ANDINFRASTRUCTURE COSTS BURDEN RETAILERS,CREATING DEADWEIGHT LOSS.

No new supply, future supply is limited

There was no new supply in Q2 2013. In the next four quarters, projected future supply is limited to five projects, most of which are located outside the CBD, except for Times Square.

Large projects are facing difficulties in retaining tenants

With 4% increase since last quarter to 12.6%, the vacancy rate of shopping centres (SC) increased significantly in the second quarter of 2013 due to withdrawals of big tenants at Vincom Center A (Eden A), including: Home One (1,200 sm), Gloria Jean's (100 sm), Banana Leaf (100 sm) and Givral (100sm). Because of this, net absorption in Q2 2013 was -9,650 sm NLA. Unsustainably high rental rates and low foot traffic are the two main observed issues.

Department store (DS)'s vacancy rate also witnessed an increase of 0.7 pp q-o-q and 8.2 pp y-o-y to 8.4% due to unrecovered performance of non-CBD projects.

THERE IS CONFIDENCE IN THE VIETNAM RETAIL MARKET THOUGH LOW CONSUMER DEMAND IS EXPECTED TO CONTINUE.

Rents are expected to decline further but at a slower rate

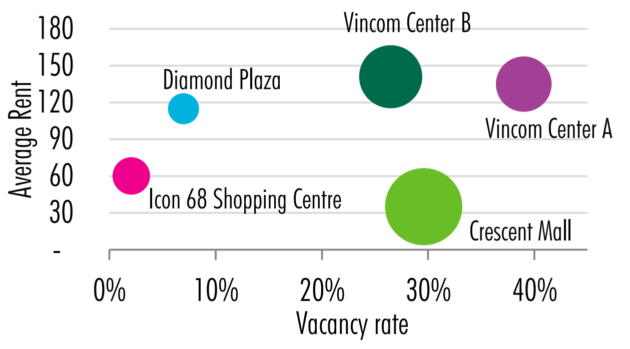
CBD rents – SC stayed stable as the tendency was for developers not to decrease rents or accept weak tenants. CBD rents – DS slightly increased which reflects Diamond Plaza's annual renovation. Retail rents in non – CBD locations continue to trend downward in the effort to attract new tenants.

Retailer expansion: fewer easy wins but still a strategy

Although Vietnam has fallen from the Global Retail Development Index, it is still an attractive market for regional players. However there are few quick wins and a longer term approach is required during this period of change.

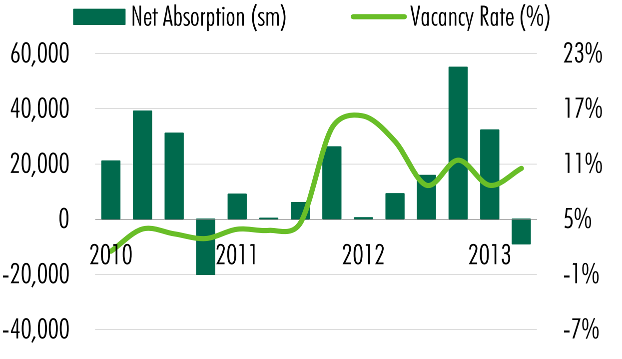
Many big retail groups are planning for expansion, including: Aeon (expanding to 20 shopping malls in 2020), Fairprice (and Saigon Coop jointly opening CoopXtraplus in May), Lotte Group (plans to expand a further of 60 supermarkets and shopping centres). Aeon is to partner with local player Trung Nguyen Group to open 500 Ministop convenience stores by 2017.

Chart 6: 5 selected shopping centres, HCMC



Source: CBRE

Chart 7: Net absorption, HCMC



Source: CBRE

Table 1: Future Supply , Next Four Quarters

PROJECT	DIST.	NLA (SM)	STATUS
Times Square	1	3,200	Leasing
Thao Dien Pearl	2	16,320	Fitting out
Cantavil Premier	2	24,000	Superstructure
Saigon Airport Plaza	Tan Binh	2,945	Leasing
Dragon Hill	Nha Be	6,944	Leasing

Source: CBRE

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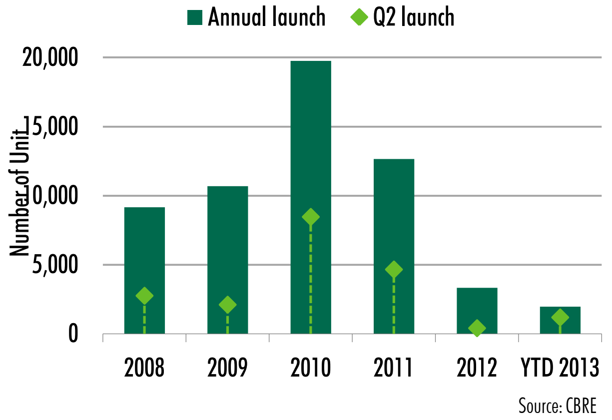
HCMC CONDOMINIUM FOR SALE

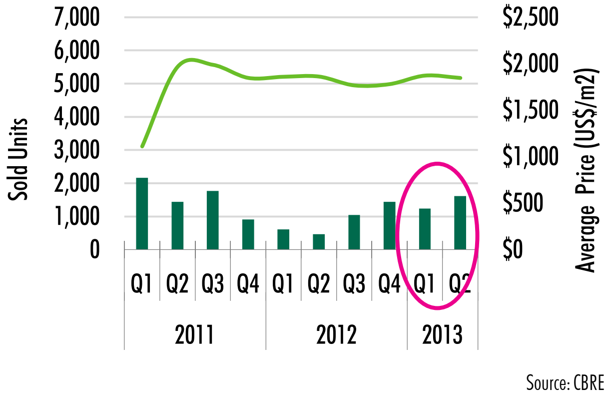
FLEXIBLE PAYMENT TERMS FACILIATED SALE

Chart 8: Condominium Launch



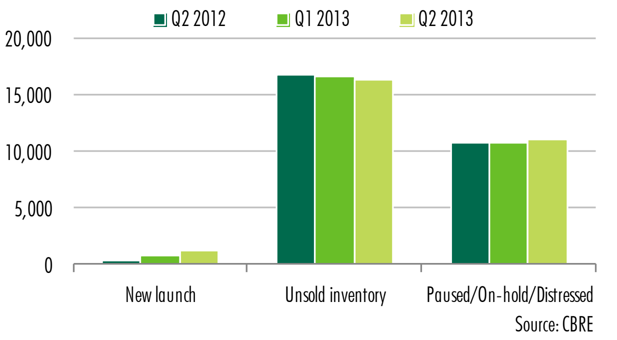
Source: CBRE

Chart 9: Unit Sold and Price by Quarter



Source: CBRE

Chart 10: Condominium Inventory



Source: CBRE

•Unsold inventory: units which were launched but not-yet purchased as of Q2 2013
•Paused / On-hold / Distressed: Units of projects which were launched but then delayed or stopped selling or changed to social housing.

During Q2/2013 positive signals were continually received from the Government. The credit package of VND30,000 billion was disbursed. Approximately 20 homebuyers were approved. The deposit rate cap decreased by 0.5% and the dong devaluation by 1% in June. 5% VAT will be applied to houses sized below 70sm and priced below VND15 million psm. The level of deduction applicable to the personal tax payer will be effective from July 01, 2013.

Construction of some projects was resumed in Q2 2013 including Petrovietnam Landmark in District 2, and New Pearl in District 3. Leman CT Plaza in District 3 , and Him Lam Riverside in District 7 were among the others showing significant construction progress in the review quarter.

New launches showed a steep rise of 51.0% q-o-q and 234.5% y-o-y to 1,184 units in Q2 2013. Consequently, 1H 2013 reported 1,968 cumulative units, increasing by 18.0% y-o-y. High-end segment made up the largest proportion, with 50.5% (598 units) of new launches, followed by mid-end (35.9%) and affordable (13.6%). They were developed by well-known developers including Phu My Hung Corp., Novaland, Phu Long RE Corp. and Nam Long Corp.

SALES IMPROVED THANKS TO SPECIAL SALE STRATEGY

More transactions recorded in Q2 2013

Although primary prices remained flat or showed small adjustments, sales in the condominium market in Q2 2013 were more positive than Q1 2013. Interestingly, the proportion of transactions in the high-end segment increased notably from 30% in Q1 2013 to 40% of the total transactions in Q2 2013. This was driven by flexible and longer payment terms plus incentives offered by the developers. Buyers can move into their new apartments if they can pay only 30%-50% of the house value. The rest is payable within two years interest free. Parking and management were offered for free for the first one or two years. Some projects that offered extremely attractive payment terms – hand-overs at 10% upfront payment – were able to sell 40 units per month.

Hang-over and inventory remained high

Unsold stock was reduced slightly in the review quarter. However, hang-over units increased slightly as some projects were converted to social housing or changed to other types such as serviced apartments. Q2 2013 also saw more units launched than Q1 2013. As a result, the inventory was almost unchanged from Q1 2013.

Looking forward...

The Vietnamese economy continues to grow and disposable incomes increase. There is increasing demand from people who were previously priced out of the market. Affordable houses continue to benefit from current policies from the government. CBRE is cautiously optimistic about the recovery of the high-end market toward the end of 2013.

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HCMC SERVICED APARTMENTS

DISCOUNTING SLOWS, GRADE A AVERAGE RENT IS MOVING TOWARDS A NEW BOTTOM.

Q2 new supply continued the decentralisation trend with the introduction of two new projects in Tan Binh District and District 2.

- Saigon Airport Plaza is the first Grade B serviced apartment in Tan Binh District, developed by Viet Lien A – Phu Hung Gia Investment JSC, a member of the prestigious SSG Group. The building provides 84 fully-furnished one-bedroom units, half of which are exclusively leased by CBRE Vietnam. With office supply ranked third in HCMC (over 86,510 sm NLA), this high-quality serviced apartment building is expected to benefit from not only a wide catchment of expatriates working here but also short-term business visitors from Tan Son Nhat International Airport nearby.
- River Park Serviced Apartments is a 10-unit project located in Thao Dien Villa Compound in District 2.

From Q1/2012, while supply in District 1 was unchanged, those in the decentralised locations such as districts 2, 3, 7, and Tan Binh kept increasing continuously. In these areas, District 3 and District 7 posted the largest additions.

Pricing continued to prove a key factor.

After rents decreased for eight quarters, vacancy approached the low levels seen in Q3/2011. Grade B rent showed a slower decrease of 1.3% q-o-q, currently at US$23.95 psm per month while Grade A rents almost stopped the downwards trend and remained at US$31.76 psm per month. As a result, both Grade A and B vacancies saw a steep decrease, at 5.5 pp and 7.2 pp q-o-q respectively. This slower decrease in rents combined with significant drop in vacancies shows the first sign that the market is achieving a temporary equilibrium and that Grade A rents are moving towards a new bottom. Vacancy is also expected continue to decrease as there will no significant completions through the end of 2013.

Chart 11: Existing Supply by District (units)

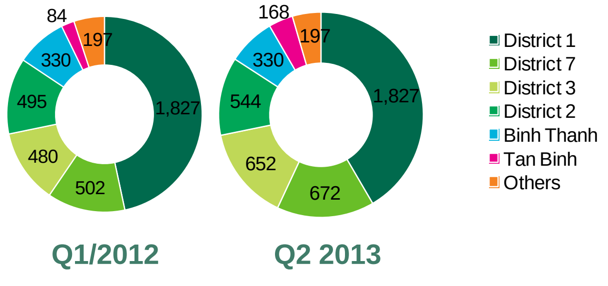
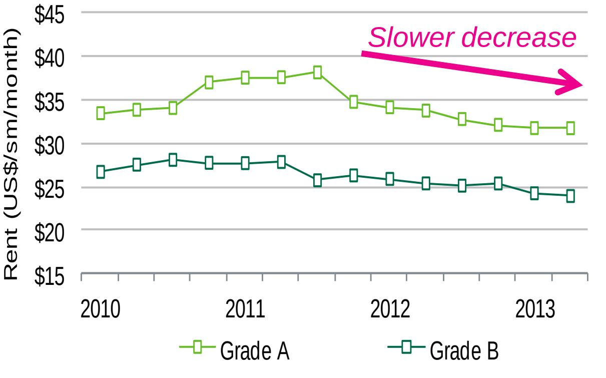


Chart 12: Serviced Apartment Rents

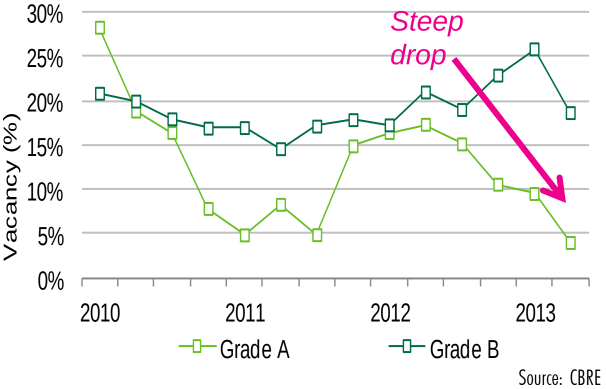


Source: CBRE

BEST OPPORTUNITIES CONTINUE TO BE AT THE CBD.

Although decentralisation is a notable trend in the new supply of serviced apartments, the best performers reporting the highest occupancy were still those at the CBD. In Q2 2013, there were four serviced residences reported occupancy above 92%, including Norfolk Mansion, InterContinental Asiana Saigon, Indochine Park Tower and Diamond Plaza. All are Grade A and occupy prime locations in the heart of HCMC. However, since Q3/2009, the market has seen no new Grade A addition, highlighting the difficulty in finding a proper large site in the CBD for an appropriate Grade A development.

Chart 13: Serviced Apartment Vacancy



Source: CBRE

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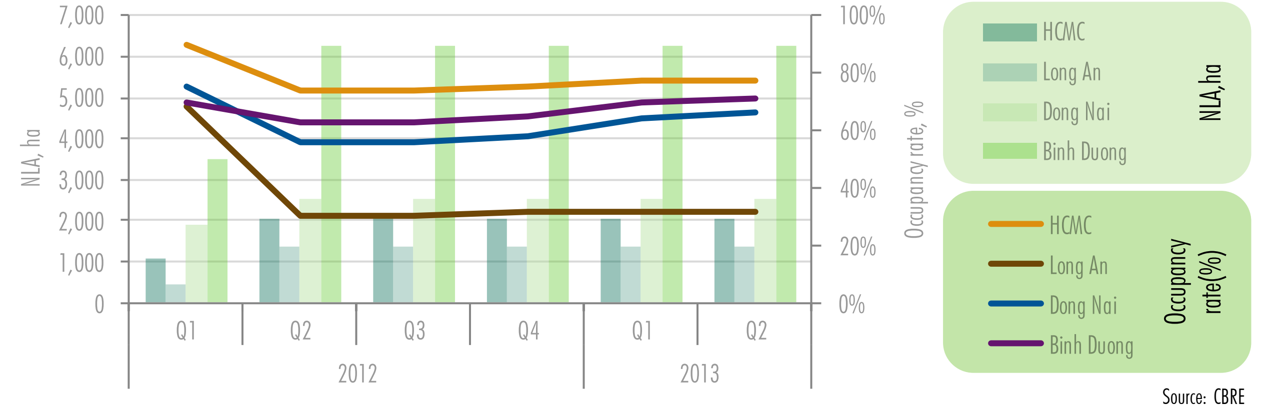
HCMC INDUSTRIAL

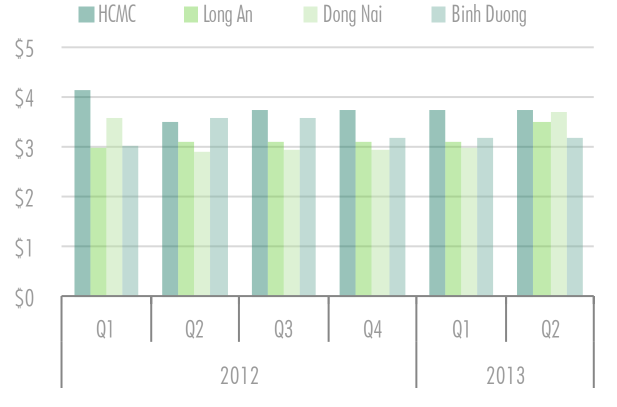
SMALL AND MEDIUM READY-BUILT FACTORIES DRAW ATTENTION

Chart 14: Industrial Performance



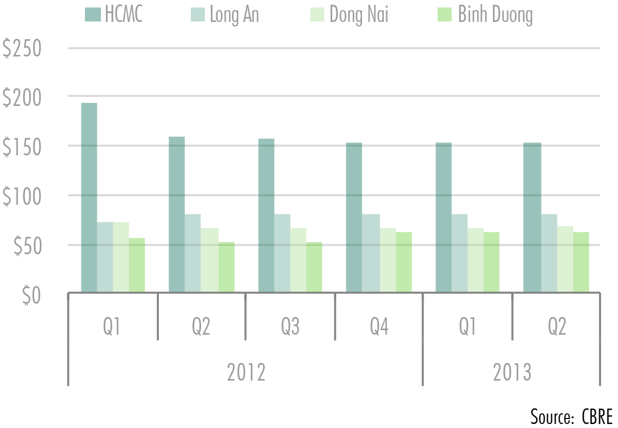
Source: CBRE

Chart 15: RBF rate (US$ psm per term)



Source: CBRE

Chart 16: Land rate (US$ psm per term)



Source: CBRE

Small and medium ready-built factories attract investors

Q2 2013 saw more requirements for small and medium ready-built factories in both North and South Vietnam. These requirements are for expansion from operational investors in F&B, precision mechanics and logistics (Southern region) and for new set up from new entry investors in garment and electronics industries. Samsung and LGE's expansion in North Vietnam is a major attractor drawing more suppliers & vendors to this area. Global logistics group DHL announced an additional $13 million for developing its Vietnam supply chain to ramp up business.

More supply came online in the first half of 2013 to meet the new wave of investment from Japan. Long Duc IP in Dong Nai is ready to welcome investors as its infrastructure/ ready-built factory/ warehouse will be completed in late July. Further to the East, Phu My 3 IP in Vung Tau just kicked off 900ha industrial land/ RBF in which 300ha will be for Japanese investors only. This project is expected to complete in 2014.

Standard factories are becoming more favoured

CBRE has observed that industrial developers have recently been more keen to offer standard factories ranging from 380 sm to 500 sm to small & medium investors who take a more conservative approach given current marketing conditions. We expect this trend to continue, pushing up the average rental for standard factories.

The average land rental rates in key industrial parks and locations remain steady in South Vietnam with slight drops in North Vietnam as more supply comes online. Amata – Tuan Chau high tech park in Quang Ninh, VSIP 5 in Quang Ngai and Long Duc, Phu My 3 in the South are notable cases.

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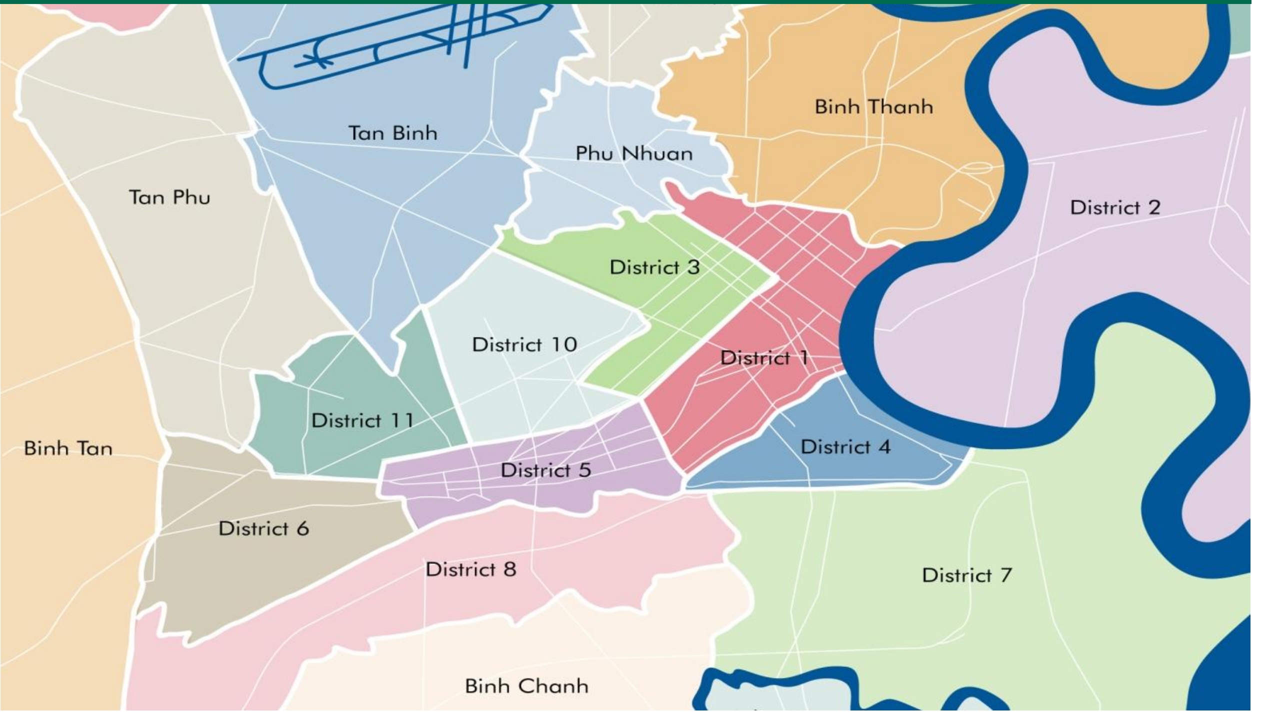
Map 1: Central Ho Chi Minh City



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