RESEARCH

Q2/2012

REAL ESTATE HIGHLIGHTS

HO CHI MINH CITY

Knight Frank

HIGHLIGHTS

- Despite the continuing positive recent signs in the economy with inflation appearing well under control, the lowering of the deposit rate and decreases in interest rates, the real estate market in HCMC continues to be stagnant. It will be interesting to monitor whether these recent changes translate into any positive growth for the remainder of 2012.
- A lack of liquidity and difficulties obtaining credit from the financial institutions continues to be the major hurdle for potential home buyers and developers alike. The limited credit available to the real estate sector from the banks has continued to hinder development activity and has culminated in the banks with available funds, generally only providing credit to well located, high quality projects.
- Despite the current difficult economic conditions, Knight Frank continues to be inundated with enquiries for real estate in HCMC, indicating that investors are still active in the market, but are constantly hampered by unrealistic asking prices and complicated ownership structures. This presents a good opportunity for commercially minded and experienced sellers that are willing to accept the true supply and demand dynamics of the market.

ECONOMIC & LEGAL UPDATE

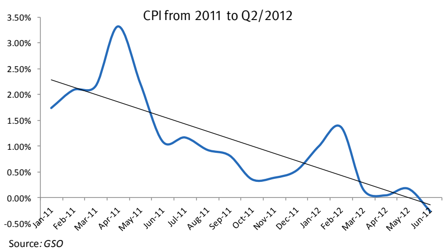
Economic Overview

GDP

According to the General Statistics Office (GSO), within the first six months of 2012, Vietnam's GDP growth was approximately 4.38%. This number is lower than the same period of last years growth of 5.57%.

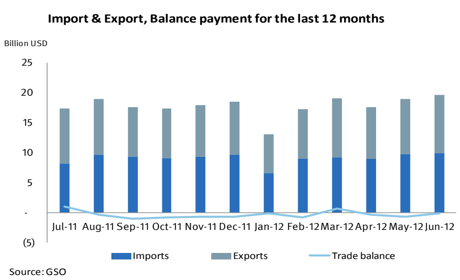
For the second quarter of 2012, the economy in HCMC has seen positive signs with GDP growth of 8.8%, compared with Q1/2012 being only 7.4% and the average GDP of HCMC growth up to 8.1% for the first six months of 2012.

CPI



Vietnam's consumer price index (CPI) in the second quarter of 2012 saw the lowest quarterly CPI decrease in the last three years with the recent negative 0.26% fall in June (the first time CPI has decreased after 38 months of increases). The average CPI for the first six months of 2012 increased 12.2% compared with the same period of last year and the CPI of June 2012 increased 2.25% compared with CPI in December 2011.

Balance of Payments

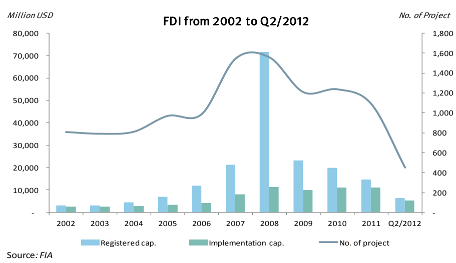


According to the GSO, the trade deficit for the first six months of 2012 stood at US$685 million, equal to 10.6% compared with the same period of last year. Total export turnover for six months is estimated at US$53.1 billion, an increase of 22% compared with the same period of 2011 and total import turnover is estimated at US$53.84 billion, an increase of 6.9% compared with the same period of last year.

Lending Rates

With inflation coming under control, the State Bank of Vietnam has capped deposit rates at 9% pa (please refer to Circular No.19/2012/TT-NHNN in Legal Update) in order to try and improve liquidity. Lending rates have decreased 2% to 3% compared with the last quarter, currently ranging from 15% to 17%, however access to credit in the real estate sector is slightly easier than the last quarter since the government gave priority to trying to help the economy and the real estate market recover. In this quarter, many commercial banks are offering good incentives to their clients, who intend to purchase residential real estate.

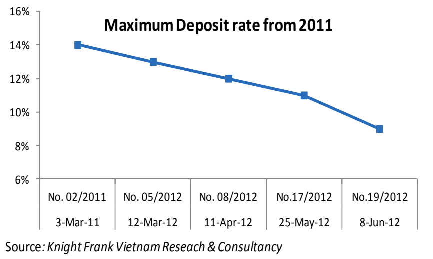
Foreign Direct Investment



According to the Foreign Investment Agency (FIA), in the first six (6) months of 2012, Vietnam attracted approximately US$6.4 billion of FDI, a decrease of 27.3% compared with the same period of last year. Of which, the newly licensed capital of US$4.76 billion (452 projects) decreased 25% compared with the same period of last year. There are 123 projects that have increased their capital contribution a further US$1.62 billion, a decrease of 64.5% compared with the same period of last year.

Within the first six months of 2012, the total registered capital decreased 27.3%, whilst the disbursement capital increased 1.9% compared with the same period of last year. This is approximately US$5.4 billion of US$6.4 billion, equal to 84.4% of total registered capital.

Legal Update



From 12 March 2012 to 8 June 2012 , the SBV issued 4 circulars amending the maximum interest deposit rate from 12% pa to 9% pa. The details of the new Circular 19/2012/TT-NHNN dated on 8 June 2012 is shown below:

This circular will take effect on 11 June 2012 amending and supplementing a number of articles of Circular 30/2011/TT-NHNN dated on 29 September 2011 and replacing Circular No.17/2012/TT-NHNN. This circular states the maximum interest rate applicable to deposits in Vietnamese Dong of organizations, individuals at credit institutions and foreign bank's branches. According to this Circular, the maximum interest rate applicable to monetary deposits and deposits with a term of less than one month is 2% per annum, whilst the maximum interest rate applicable to deposits with a term of one to twelve months is 9% per annum. The deposit rate with a term of more than twelve months is negotiated based on the demand-supply of the capital market.

Decree No.42/2012/ND-CP

This Decree dated on 11 May 2012 and taking effect on 1 July 2012 has regard to the management and agriculture land use. This Decree limits the conversion from agriculture land to non agriculture land.

APARTMENT FOR SALE

Market Performance

The market still has not witnessed any significant changes through Q2/2012. However, recently some developers have utilised the decrease of deposit rates and lending rates of the State Bank of Vietnam (SBV), by launching the affordable products and offering attractive promotions. As a result, some affordable apartment projects have still attracted some customers in the market.

The absorption rates of projects continues to be slow in the recent difficult times. However, the market has still witnessed some bright points. For example, according to the developer, The Era Town Project-District 7, developed by the Duc Khai Group has sold approximately 141 units in the recent launching phase in April 2012. Another case is the Era Lac Long Quan Project in Tan Binh District that has publicly reported 27 sold apartment units in the launch stage from the 9th - 12th April 2012. Both projects are classified within the affordable segment.

To attract the interest of customers, many developers offer many programs to support customers. Like the case of the Era Town project, in which the developer allow the buyers to choose the types of furnishing materials by themselves in the fitting-out stage. Furthermore, The Eastern, District 9 supports their buyers by offering the following special payment terms. The buyers have to pay the first 10% of the total apartment value and 85% after handing over the unit and the remaining 5% is paid after receiving the ownership certificate. Some incentives such as direct discount, flexible payment schedules, bank loan support, and interest incentives, etc. are still applied for the buyers at this time.

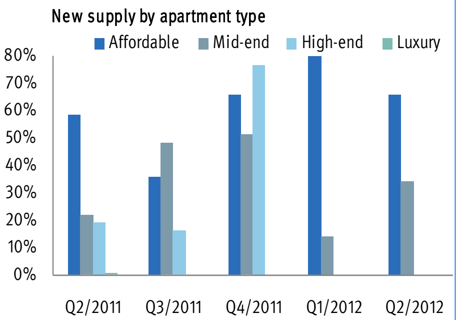
The selling price for new projects launched in Q2/2012 ranges from VND12.3 million - VND17.6 million/m² (equal to US$589 - US$842/m²) for the affordable segment and from VND24.3 million - VND29.3 million/m² (equal to US$1,162-US$1,403/m²) for the mid-end segment.

The secondary market continues to witness sharp decreases in selling prices at approximately 15%-20% compared to the price signed in the contract with developers based on Knight Frank's recorded transactions. In some cases, the secondary price has fallen up to 30% if the buyers have paid at least 90% of the total apartment value.

Supply


The Era Lac Long Quan - Tan Binh District

Approximately 976 apartment units were launched in HCMC in Q2/2012. The affordable sector constituted the majority of new supply with 66% of total stock. The new supply in this quarter is 40% lower than Q1/2012. Two mid-end projects have launched to the market including La Bonita, Binh Thanh District (60 units) and 155 Nguyen Chi Thanh, District 5 (272 units). The other two affordable projects are The Era Lac Long Quan, Tan Binh District and Cherry 2 Apartments, District 12 with a total of 644 units entering the market.



Source: Knight Frank Viet Nam Research & Consultancy

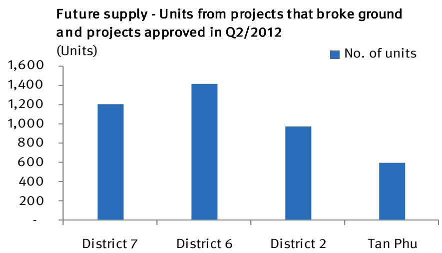
Demand

The small size units with affordable prices still lead the apartment market at this time. The selling prices ranging from VND11.5 million (US$550)/m² to under VND20.9 million (US$1,000)/m² was still favoured by the buyers.

Furthermore, the interest rate cut, credit opening of SBV and the announcement of BIDV with the credit package worth 4,000 billion dong as well indicate the conditions for buying units have became slightly easier. However, the buyers have to meet all the strict requirements from the bank to obtain this credit.

Outlook

In Q2/2012, there are four new future projects announced contributing approximately 4,180 apartment units to the future supply. Until 2015, 87 projects bringing approximately 45,500 units are planned to enter the market in HCMC.



Source: Knight Frank Viet Nam Research & Consultancy

KNIGHT FRANK COMMENTS

Although many flexible methods of selling were applied, the apartment for sale market continues to be very stagnant in Q2/2012. One of the main reasons is the information reported on decreasing selling prices has affected the buyers' psychology and has culminated in an increased waiting period to enter the market.

It is interesting to note that there are now many types of smaller sized units designed within these new projects that meet the demand of the majority of potential buyers.

VILLA, TOWNHOUSE, AND LAND PLOT FOR SALE

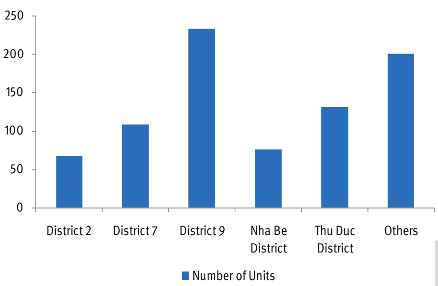
Market Performance

The second quarter of 2012 witnessed some optimistic factors from the landed market thanks partly to the continuous and significant drop of the interest rate during the second half of the quarter, and further credit support from the banks to individual and home buyers. The new supplies occurred after a quarter of no launching activity, however an increase in buyer awareness was noticed since the interest rate cut.

The Chateau in Phu My Hung continued leading the market supply with new luxury villas following the success of the first launch at the end of the previous year. District 9 witnessed the official launch of Antigone Villas. These new launches added a total of 80 units to the primary supply stock.

Despite stronger credit support from the banking sector to the individual home buyers, the market remained stagnant during the first half of the quarter. The owner occupier, targeting land priced at VND10,000,000/m^2 (US\$500/m^2) of land, was the most active segment.

Primary Supply of Villas & Townhouses by District



Source: Knight Frank Vietnam Research & Consultancy

Midpoint Villas , Thao Dien Ward, District 2

The high-end sector witnessed the rise of customer awareness since the announcement of the decrease of interest rates, and especially the deposit rate cuts, which aimed to direct the free cash to other investment assets rather than the banks. The demand mainly targeted on several particular locations in District 2, District 7 and District 9, such as Phu My Hung Urban Town, Thao Dien Ward, An Phu Ward, Thanh My Loi Ward, Phuoc Long B Ward, Phu Huu Ward. The already established projects attached by a high reputation developer such as Villas Riviera, Riviera Cove, Garland, Chateau received the most interest from the individuals. This segment is priced from approximately VND7billion (US\$350,000).

Antigone, Phuoc Long B Ward, District 9

In spite of the increase in interest, there were very few transactions recorded in the high-end market. The affordable land plot still accounted for the majority of the transaction volume. However, the total volume remained unchanged, even slightly decreasing from the previous quarter. Some buyers have postponed their decision to buy and appear to be waiting for further interest cuts that have been speculated in the market.

Outlook

We estimate that there are approximately 500 villas and townhouses, that are ready for an official launch. We expect the new stock of villas and townhouses will enter the market in the second half of the year.

KNIGHT FRANK COMMENTS

Whist the vast majority of speculators have exited the landed property market, real demand continues to emanate from home buyers in the affordable segment.

Despite the recent interest rate cuts, the lack of transactions in the mid to high end segment of the market would indicate that the asking prices are still too high and further corrections in prices are needed to stimulate the market. However, there are some exceptions, with the success of the Chateau Villa Project in Phu My Hung, indicating that quality products developed by a reputable international developer are still sought after in prime locations.

SERVICED APARTMENT

Market performance

There were no notable new serviced apartment projects launched in Q2/2012, except 19 units emanating from the Waterfront Residence Project located in District 2. Times Square, the prominent mixed—use development in District 1 has delayed the launching of the serviced apartment component until the end of 2012 after originally planning to launch in early 2012. Despite the lack of new supply, many operators continue offering more promotions and the improvement of services to stimulate total rooms occupied.

Occupied rooms of serviced apartments in Q2/2012 is represented at 90% for Grade A and 82% for Grade B buildings.

The current average asking rental rate for Grade A stock is approximately VND609,000—VND735,000/m²/month (equal to US$29 - US$35/m²/month) and VND400,000-VND525,000 m²/month (equal to US$19-US$25/m²/month) for Grade B.


The One Ho Chi Minh City

In Q2/2012, HCMC welcomed a new landmark development by Bitexco Group titled "The One Ho Chi Minh City" with a ground breaking ceremony. This mixed—use complex comprises 2 blocks over 55 storeys and 48 storeys incorporating retail, office, serviced apartment and hotel component. Besides its prime location opposite Ben Thanh Market, this project promises to provide a large luxury supply when completed. The Ritz Carlton Group have been announced as the hotel operators in this project.

Demand

According to the Knight Frank residential leasing team, most of the tenants' budget is around US$1,500 – 2,500/month. These figures are lower than the previous 2-3 years as the majority of foreign companies have cut their expenses in line with the tough economic conditions. For this budget, the enquiries have mostly focused on District 2 and Binh Thanh District such as The Manor or Saigon Pearl.

The Asian clients, particularly the Korean, Japanese and Chinese continue to make up the majority of demand for serviced apartments in this quarter.

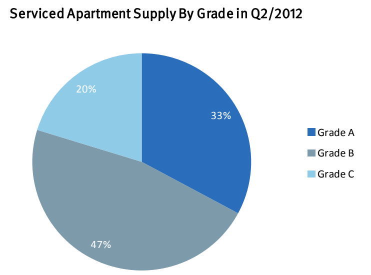
Outlook

Following the General Statistics Office's report for the first 5 months of 2012, there are some positive signs for this segment of the market. For example, the total number of foreigners visiting Vietnam was approximately 2.9 million, an increase of 17.5% compared with the same period of 2011. The number coming to Vietnam for work increased by 21.3% compared with Q2/2011.

Further good news is that Vietnam is ranked among the ten best countries for long –term investment by a report from HSBC titled "The World in 2050". This could be a very positive signal to attract Foreign Direct Investment to Vietnam.

In the context of the current difficult economic conditions, the real estate market has been significantly affected. Nevertheless, the serviced apartment segment has continued to show strong resilience and is still attractive to the investment market.

Many serviced apartment projects have recently commenced and that will culminate in a large supply in the future including Saigon Center Phase 2, Cong Hoa Garden and SC Vivo City.



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

We are continuing to see an increasing demand trend towards 1-bedroom and 2-bedroom units as budget constraints are a more pertinent factor.

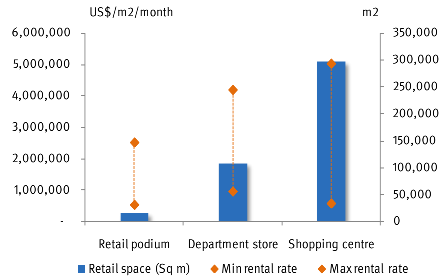
Serviced apartments are no longer focused in CBD but are expected to continue to extend to surrounding areas such as Phu Nhuan District, District 2 and District 7 due to lack of land opportunities in District 1.

Many developers of high-end residential projects that have failed to meet sales expectations continue to explore the opportunities of converting some blocks to serviced apartments.

RETAIL

Market performance

The local demand for retail space has dropped marginally while project owners are competing with each other fiercely to attract tenants. This is expected to affect the existing rental rates. Prime retail space is peaking at rates of approximately (US$240)/m²/ month in this period.



Source: Knight Frank Vietnam Research & Consultancy

** The rental rate include service charge but exclude VAT*

We are aware that, rental rates at the Parkson Department Store in District 5 were reduced approximately 15%-20% to support their tenants in this difficult time as the purchasing power has decreased. Similarly, we have witnessed some shop houses in main streets, decrease rental rates approximately 20% to 30% compared to the last quarter, especially for long-term lease contracts.

The average occupancy of the existing retail projects remains stable at high levels, similar to the last quarter. However, for some shopping centres coming to the market this year, there are many difficulties attracting tenants due to the current economic climate and lack of consumer spending power.

Demand

Vietnam is no longer in the list of top 30 most attractive emerging markets for retail investment, according to the 2012 Global Retail Development Index (GRDI) by A.T. Kearney. However, the retail sale value of goods and services in the first five months of 2012 in HCMC increased approximately 21.2% compared to the same period last year (or increased 8% year on year excluding price volatility). This demonstrates that consumer demand for goods and services remains resilient, with wholesale centres and supermarkets continuing to attract strong footfalls.

Some notable movements in the retail market in Q2/2012 include:

- The opening of the 100m², Sony Showroom in the prime - Dong Khoi Street, replacing the previous Gloria Jeans store.
- Diamond Plaza converted the fourth floor to a shopping area and food court from a bowling and games arcade in the last renovation in April 2012.

Supply

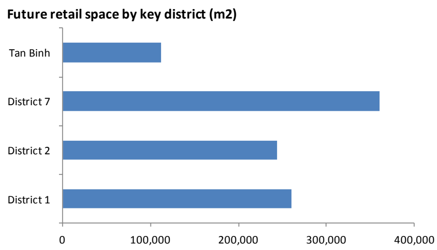
The total retail space in HCMC is nearly 700,000m² including retail podiums, department stores, shopping centres, supermarkets and wholesale centres. Notably, there is no new supply entering the market in Q2/2012.

Outlook

Vincom Centre A with 38,000m² of retail space, located in the prime location is under construction. This project is developed by Vingroup and is announced to come online in October 2012 with many luxury brand names confirmed including Hermes, Dior, Fendi, Versace, Ralph Lauren, Omega, etc.

Moreover, according to HCMC Service of Trade, the city has a target to include 122 shopping centres/department stores; 562 convenient shops under Co.opfood, Satrafood, Vissan, FoocoMart, G7 Mart, Minimart, Citimart system, etc and 240 supermarkets by 2015. It indicates the large opportunities for potential retailers.

From 2012 onward, there is approximately 1,400,000m² of retail space entering to the market. The majority of this future supply will come from Districts 7, 2, 1 and Tan Binh.



Source: Knight Frank Vietnam Research & Consultancy

KNIGHT FRANK COMMENTS

In general, occupancy levels are expected to increase with the addition of new projects such as Pico Saigon Plaza, Carina Plaza, Times Square, Vincom Centre A, etc. We anticipate rental rates will continue to decrease slightly in the near future.

OFFICE

Market performance

Signs of an increasing economy recovery in the US and improved local business sentiment has encouraged demand for office space during the last quarter whilst the market remains 'tenant friendly'.

Occupancy levels at both Bitexco Financial Tower and Vincom Center have increased and rents are starting to harden whilst this limited choice supply is being absorbed. Both developments report occupancy levels above 50%, Bitexco Financial Tower closer to 60% with space under offer.

Average Grade A rents are unchanged at VND668,800/m²/month (US$32/m²/month) exclusive of management and VAT, all be it we have noticed rents peaking above VND836,000/m²/month (US$40/m²/month) on premium higher floors at Bitexco Financial Tower; signifying a hardening of rents and lack of quality supply in the CBD.

Average Grade B rents are also unchanged at VND459,800/m²/month (US$22/m²/month) exclusive of management and VAT, with Maritime Bank arguably the best accommodation at the moment with circa 1,000m² rectangular floor-plates, panoramic city views and modern fixtures and fittings.

In the suburban districts, Phu My Hung has attracted two language centre's within office buildings to capture wealthy students and capitalize on the rents available at the moment which range from VND209,000/m²/month (US$10/m²/month) up to VND313,500/m²/month (US$15/m²/month). In addition, several international firms are acquiring smaller representative offices in this area increasing demand relative to supply of good quality.

Other suburbs which are often overlooked yet offer a densely populated area of skilled staff would be District 11 (Flemington Tower) and Tan Binh District (Pico Plaza). Whilst office demand in these areas has fallen as of late, there are good developments available for businesses who are not dependant on the CBD and looking to occupy good quality back office space at nominal rents to reduce their property overheads. Pico Plaza is due for completion in Q3/2012 and will bring a further 10,000m² to the market in Tan Binh District.

Outlook

Looking ahead, corporate expansion plans are likely to be suppressed whilst the EU uncertainty remains and the global impact this holds. New demand will come from non-financial institutions such as education, food & beverage, oil & gas and pharmaceutical companies.

The long anticipated supply of the new wave Grade A will arrive in Q3/2012 with the arrival of Times Square offering approximately 12,000m² of Grade A office accommodation. Whilst the building is predominantly a service offering for retail and residential, the office space is in a prime location and offers usable floor-plates and some of the highest specification seen to date with raised floors and a Cisco management system.

Refico's development, Presidents Place will also come on-line in Q3/2012 offering another 9,145m² of office space. The building is located near the Unification Palace and provides smaller boutique style floor-plates at circa 750m².

Since the lowering of interest rates it has been encouraging to see some planned and ongoing developments break ground or continue with The One Ho Chi Minh City in April together with the corner of Ton Duc Thang where two new developments are at different stages of construction: Le Meridien and Lim Tower.

Pico Plaza– Tan Binh District

KNIGHT FRANK COMMENTS

There is very little Grade A choice for Tenants at the moment and Bitexco Financial Tower is capitalizing on this by offering suitable incentives to those looking to upgrade premises or relocate. This will be a continuing trend with the natural progression for rents to harden once the building passes 60% occupancy and only the higher premium floors remain.

Times Square should get a reasonable run at the office market before Saigon One Tower comes online. Nevertheless this window will be very short and Tenants may still be tempted by the cost savings associated with Grade B options such as Maritime bank and high quality buildings available on the CBD periphery such as Presidents Place.

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