REAL ESTATE MARKET OUTLOOK

Vietnam

POSITIVE ECONOMIC GROWTH TO CONTINUE SUPPORTING PERFORMANCE OF ALL SECTORS

STRENGTH TO STRENGTH

The economy is expected to continue its positive growth, with stable inflation and interest rates, albeit with signs of increase. Upcoming major trade pacts, including CPTPP and EU-Vietnam FTA, are expected to further boost economic growth.

OUTLOOK 2018

OFFICE
Slower supply growth to drive rental growth and higher occupancy

RETAIL
Strong outlook for rents in the CBD amid limited new supply and solid leasing demand

LOGISTICS
Manufacturing and consumer spending to drive demand for warehouse market

CONDOMINIUM
Continued strong momentum for new supply and absorption. Big handover volume to put pressure on rental market

CAPITAL MARKETS
Competition to acquire commercial properties and land sites will intensify

ECONOMIC OUTLOOK
A great number of positive signals regarding economic development indicate a promising year ahead. While concerns remain over the stability of future credit growth, Vietnam is expected to further develop its economy in 2018 with healthy foreign investment.

The impressive 6.8% GDP growth observed in 2017 helped Vietnam to achieve a position as one of the fastest growing economies in Asia. The Industry & Construction sector continued to be a crucial driving force in Vietnam’s growth while the Services sector recorded the largest increase.

In 2017, FDI to Vietnam reached a record high of US$36 billion, a 47% increase y-o-y. Much of the increase was attributable to US$21 billion of newly licensed capital. With regard to trade balance, a steady improvement has been seen over the last three years. In 2017 Vietnam recorded a US$2.7 billion surplus compared to a US$3.5 billion deficit in 2015.

The Comprehensive and Progressive Agreement for TPP (CPTPP) is expected to be signed on March 8 and Vietnam is poised to receive many benefits from this trade pact despite the fact that it no longer includes the United States. Meanwhile, the FTA between Vietnam and the EU (EVFTA) is also expected to be passed in 2018.

In addition to an inevitable increase in FDI, these FTAs will also give Vietnam access to a bigger market for exports of its footwear, textiles, and electronic products. Specifically, through this agreement, Vietnam will gain access to significant markets including Canada, Mexico and European countries with whom it currently does not have any trade relations.
After experiencing a period of volatility in the period 2007-2012, Vietnam's interest and inflation rates have remained low and stable since 2013. The government intends to maintain this rate stability which provides confidence for stakeholders. Following cuts in the discount and refinancing rates by the State Bank of Vietnam in the middle of 2017, some credit institutions also lowered their lending rates, making credit more accessible to individuals as well as companies. Strong credit growth, on the other hand, has raised some concerns about the sustainability of economic growth, especially with the current high level of bad debt. Looking forward to 2018, the average inflation rate is expected to slightly increase but still stay within the 4% target set by the government.

The Vietnamese stock market is projected to continue its momentum from last year's 73% y-o-y market capitalization surge and the 48% y-o-y increase of the VN-Index. The positive trend in the stock market coupled with the recovery of the economy is now boosting investors' confidence.

Many significant infrastructure projects are currently in progress in major cities in Vietnam including HCMC and Hanoi. Those projects played an important part in the government plan to improve infrastructure, which ultimately attracts more foreign companies.

According to the Asian Development Bank, Vietnam's public and private sector infrastructure investment has averaged 5.7% of its GDP in recent years, the highest level in Southeast Asia and comparing favourably with 6.8% in China.

Increasing the level of investment in infrastructure will certainly encourage the development of real estate market in big cities, where traffic jam poses a huge challenge for developers. In the near future, two metro rail projects in HCMC and Hanoi coming in 2020 and 2018 respectively are expected to improve public transport and in turn result in more real estate projects developed in previously-considered remote areas.

The level of international tourist arrivals is an important factor in the further development of the economy in general and the hospitality real estate sector in particular. With the APEC Summit week being held in Da Nang City, Vietnam welcomed the highest number of tourist arrivals seen in the last decade. By introducing many new measures including promoting the establishment of three special economic zones (SEZs), including Van Don (Quang Ninh province), Bac Van Phong (Northern Van Phong, in Khanh Hoa), and Phu Quoc (Kien Giang), the country hopes to attract more tourists. This is important because it is planned that tourism will contribute significantly to the Vietnamese economy in the future.
OFFICE SECTOR
The Office sector in HCMC and Hanoi ended 2017 on a positive note. Rents improved in both cities even on the back of new supply added to the market. The improvement in performance was observed across Grade A and Grade B buildings, driven by economic improvement, strong FDI flows and ongoing infrastructure developments, which is expected to persist during 2018.

**HCMC Office enjoys further growth while Hanoi’s showing clear signs of recovery**

In 2017, while newly added supply helped ease the shortage of office space in HCMC, slower supply growth in Hanoi allowed for rental growth for the first time over the last ten years.

The recovery of Hanoi’s rental rates in 2017 has reduced rental gaps between the two cities, but HCMC’s rents remained significantly higher, by up to 50% compared to Hanoi’s, for both grades on average. Occupancy rates of both Grade A’s and B’s exceeded average rates during 2012 - 2016 in both markets.

In 2018, no new Grade A completion is expected in either cities which will support further rental growth and occupancy improvement. Meanwhile, stronger pipeline of Grade B’s will likely lead to flat performance in this segment across the cities.

**Demand to remain strong supported by FDI flows and continued economic growth**

Leasing demand is expected to remain strong in upcoming years from both local and international tenants on the back of positive economic growth and strong FDI flows. By industry, manufacturing and technologies and IT will be key sectors to lead the demand, but Internet, Service, and Logistics will remain the sectors to watch.
Year 2017 provides a good benchmark for the upcoming office market in terms of expected supply and market performance in 2018F – 2020F because of stable predicted growth in the economy and the city’s ever improving infrastructure in the form of metro lines.

**STRONG DEMAND TO CONTINUE DRIVING RENTAL GROWTH**

The lack of available land in the CBD likely means a focus on developments in previously ignored fringe CBD areas to keep up with demand for office space over the next three years. One notable example is the plan to progress Phase 2 of the Viettel Complex in District 10 following the success of Phase 1. Also, the first Grade B office building in the Thu Thiem New Urban Area - Thaco Building, despite offering only 7,000sm NLA, is likely to set a trend for new office developments in this area.

Projected rental growth rate of 2% per annum in 2018F – 2020F is a result of continuing appetite for quality supply despite the already high baseline (US$38 psm pm for Grade A and US$21 psm pm for Grade B). The trend of relocation to better quality space would also further support rental growth prospects.

Healthy economic growth is also expected to encourage tenants from sectors such as IT, Logistics, etc. to be bolder with their relocation and expansion plans to better and newer buildings. Also, rapid absorption amidst limited new supply will keep vacancy rates to remain low for both grades, as witnessed from new buildings up to 25,000 sm NLA being filled, on average, in less than a year.

**SLOWER SUPPLY GROWTH PROMISES A STRONGER OUTLOOK**

New supply in 2018 will be limited to two Grade B office buildings, including Viettel Phase 2 and the Thaco building. With no new supply added in Grade A segment, rental growth for Grade A buildings are projected to be at 2%.

Further supply will be added in 2019 including one new Grade A building and no more than four new Grade B buildings. Rental rates for both grades are expected to increase in 2019, though the increase is anticipated to be lower in Grade A due to new supply coming online during the year.

New supply in 2020 will be dominated by Grade A including the long-awaited projects of Tax Centre and the Spirit of Saigon both located in the heart of the CBD. These centrally located developments, combined with the scheduled completion of the new metro line, are likely to boost Grade A rental growth to 2%. It is expected that average rents in this grade will reach US$40 psm pm from the current level of US$38 psm pm.

Looking beyond 2020, CBRE forecasts that the HCMC office market will gradually shift to higher quality where higher-profile buildings and tenants dominate office space.

**OFFICE SECTOR**

**HO CHI MINH CITY**

**Figure 3: Annual New Supply and Vacancy Rate**

<table>
<thead>
<tr>
<th>Year</th>
<th>New Supply - Grade A</th>
<th>New Supply - Grade B</th>
<th>Vacancy - Grade A</th>
<th>Vacancy - Grade B</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2018F</td>
<td></td>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2019F</td>
<td></td>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2020F</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
</tbody>
</table>


**Figure 4: Annual Rental Outlook**

<table>
<thead>
<tr>
<th>Year</th>
<th>Grade A</th>
<th>Grade B</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>2016</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>2017</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>2018F</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>2019F</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>2020F</td>
<td>45</td>
<td>45</td>
</tr>
</tbody>
</table>

Year 2017 ended with many positive signals in the Hanoi office market. With moderate supply growth and healthy demand from both traditional and emerging sectors predicted, we expect that market performance will further improve in 2018.

**SLOWER SUPPLY GROWTH ENABLES RENTAL GROWTH AND HIGHER OCCUPANCY**

The level of supply growth has been reduced from 10% per annum on average during 2012–2016 to 5% in 2017 enabling the market to absorb existing vacant space. As a result, in 2017 the market witnessed an increase in asking rents in both Grade A and B for the first time in the last ten years. It was also notable that average occupancy rates of Grade A buildings remained at 91% at the end 2017 where the lowest level of vacant space was observed since 2011.

Looking ahead, total supply is expected to increase by between 4% - 8% per annum in 2018–2019 before accelerating from 2020 onwards.

Limited new supply will foster further improvement in Grade A performance, especially in 2018 when no new project is scheduled to be completed. CBRE expects that Grade A’s rental growth can reach 3.5% y-o-y while occupancy rates will increase to 96% by the end of the year. Given limited Grade A supply over the past three years, especially in the CBD, existing tenants in Grade A buildings in the CBD tend to renew current contracts. For Grade B, a higher level of new completions, especially in the West, remains a major challenge for this asset class. In upcoming years, it is expected that the pricing range of Grade B will be larger. New buildings which have good locations, large floor plates and good management will command higher rents than the market average while others will have to rely on a competitive pricing strategy to sustain occupancy. Therefore, we anticipate that there will be no significant changes in Grade B rental rates in Hanoi in 2018.

Vietnam remains an attractive investment destination providing positive economic growth and lower labour costs in comparison with regional peers which boost the leasing demand from foreign tenants. Meanwhile, domestic demand remains strong especially for Grade B office space as the economy continues to expand.

In 2017, occupiers from the traditional sectors of manufacturing, financial and tech industries retained their position representing nearly 50% of total CBRE’s enquiries. We observe that both local and international banks and tech companies have been actively seeking new locations to expand their networks in recent years. These industries will continue to drive market demand in Hanoi. Sustainable demand from traditional sectors combined with the rise of new sectors of Logistics, Education, and Co-Working are expected to be key drivers which will boost net absorption.
RETAIL SECTOR
2017 was a prominent year of Vietnam’s Retail sector. The vibrant trend spread in every corner, from M&A activities, foreign investment, to remarkable new entrances by international retailers, consumer confidence, future developments, etc., promising even more exciting years ahead.

In a recent report on the Global Retail Development Index issued by A.T. Kearney (Table 1), the Vietnam retail market has jumped to 6th place, higher than some developed markets in the region such as Singapore, Hong Kong, and Indonesia and showing high potential for further growth. Despite having a relatively high perceived risk and only modest attractiveness, the Vietnam market achieved high scores in terms of market saturation with good scope for growth. Saturation in both Hanoi and HCMC is far behind the levels seen in some other SEA cities such as Jakarta, Kuala Lumpur and Bangkok.

These positive prospects place pressure on international retailers in terms of timing their entry to the Vietnam market in order to take advantage of these growth opportunities. In the last few years Vietnam has witnessed the entry of various international brands including fashion, F&B, entertainment, specialty stores, etc. and some of these have achieved remarkable success and popularity.

Well known developers and investment funds are also penetrating the Vietnam market with a number of notable transactions such as two acquisitions by Lotte and Aeon for future malls in Hanoi, US$2.5 million of Blue HK investment into Beta Media and US$500 million of additional funds by Central Group for its Vietnam expansion. The IPO of Vincom Retail JSC. in 2017, an arm of local largest developer, Vingroup JSC, was the country’s biggest-ever first-time share sale, according to data compiled by Bloomberg, pushing the HCMC Stock Index to its highest level since 2008.
With a population of more than 90 million among which 40% are under 25 years old and more than 45% are from 25 – 54 years old, the potential in the Vietnam retail market has long been recognized. The country’s average income per capita has been growing at a rate of around 30% every two years (GSO, 2016), which is expected to mean that the middle and affluent classes will account for 33 million people by 2020 (BCG, 2013).

Moreover, these potential consumers are also becoming more and more confident in their spending. In 2017, Vietnam achieved a 5-year record high in terms of the Consumer Confidence Index, ranking 5th worldwide according to Nielsen. This index shows the potential of the retail market as well as the optimism and willingness to spend of Vietnamese consumers. In a regional perspective, South East Asian indexes are generally high, among which the Philippines is leading globally at number one, while Indonesia is in 4th place. This optimism is also being translated into consumer spending behavior. Vietnamese consumers have switched from being among the most devoted savers globally to being some of the most eager spenders. Nielsen also revealed that only 63% of Vietnamese chose to use spare cash for savings, a decrease of 13% compared to the previous year. The decrease in savings mean that more consumers are choosing to spend on items including vacations, new clothes, new technology products, home improvements and out of home entertainments. These entertainments include dining out, going to the cinema, concerts and the theatre. These are also the preferences of millennials in APAC and Vietnam, the shapers of future demand. These preferences are manifested in a strong focus on the F&B and entertainment categories. Along with the retailtainment trend and place-making, these two approaches are no longer just added services for traditional retailing but have become crucial components in constructing an all-in-one destination offering experiences to customers.

CONSUMERS VALUE CONVENIENCE, EXPERIENCE AND HEALTH AND WELLNESS BENEFITS

According to a report by IGD Research issued in mid 2017, Vietnam is predicted to lead the convenience store market in Asia by 2021 with CARG of 37.4%, much higher than other regional peers such as China, South Korea, and Japan which have CARG of less than 10%. With a lower starting point, these numbers indicate a large potential market in Vietnam with a growing middle class and a young population who value convenience, modernity and comfort. The driving force behind such growth is the expansion of current players such as Circle K, which is rapidly spreading Hanoi while remaining strong in HCMC, the sturdier presence of local players such as nearly 900 Vinmart+ all over the country and the recently introduced Bach Hoa Xanh by Mobile World. Other international players have either already taken their first steps in to the Vietnam market or are currently considering doing so. The worldwide chain 7-Eleven opened its first store in HCMC in the middle of 2017 and the South Korean chain, GS25, is set to launch in early 2018 signaling further growth for this segment.

In addition, the overall shopping experience is outweighing other factors in shopping decisions. Customers usually do research on products online, on social media or key opinion leaders (KOLs) before going to stores. Retailers and landlords must combine different channels to attract consumers, both online and offline. Moreover, store based strategies are also becoming more refined, with flagship/ signature stores providing experiences and raising awareness supported by a network of satellite stores and pop ups, bringing convenience to consumers.

Consumers also now care more about health and wellness with growing interest in gyms, personal care, green eating, etc. Vietnamese consumers are the most socially-conscious in Asia-Pacific according to the Corporate Sustainability Report from Nielsen released on April 26. This report indicates that up to 86% of consumers in Vietnam are willing to pay higher prices for products and services from companies that are committed to having a positive social and environmental impact, compared to 76% of consumers in Asia-Pacific generally. The survey indicates that the top sustainability factors influencing the purchasing intentions of Vietnamese consumers are high-quality products (79%), products known for their health and wellness benefits (77%) and products made with fresh, natural and/or organic ingredients (77%).
RETAIL SECTOR

VIETNAM

Figure 7: Monthly Average Income Per Capita and Consumer Spending


The Remaining...

Source: Nielsen, Q3 2017.

Table 1: 2017 Global Retail Development Index

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Market Attractiveness (25%)</th>
<th>Country Risk (25%)</th>
<th>Market Saturation (25%)</th>
<th>Time Pressure (25%)</th>
<th>GRDI Score</th>
<th>Population (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>63.4</td>
<td>59.1</td>
<td>75.7</td>
<td>88.5</td>
<td>71.7</td>
<td>1,329</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>100.0</td>
<td>64.5</td>
<td>24.4</td>
<td>92.5</td>
<td>70.4</td>
<td>1,378</td>
</tr>
<tr>
<td>3</td>
<td>Malaysia</td>
<td>77.1</td>
<td>87.1</td>
<td>23.3</td>
<td>56.2</td>
<td>60.9</td>
<td>31</td>
</tr>
<tr>
<td>4</td>
<td>Turkey</td>
<td>75.8</td>
<td>60.4</td>
<td>31.7</td>
<td>71.4</td>
<td>59.8</td>
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<tr>
<td>5</td>
<td>United Arab Emirates</td>
<td>92.3</td>
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<td>0.9</td>
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<td>59.4</td>
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</tr>
<tr>
<td>6</td>
<td>Vietnam</td>
<td>26.7</td>
<td>25.4</td>
<td>72.4</td>
<td>100.0</td>
<td>56.1</td>
<td>93</td>
</tr>
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</table>

While big brands are looking to open their flagship stores in the city centre, total supply in CBD area was limited in 2017 with less than 100,000 sm NLA, just 2.7% of which was vacant. Both H&M and Zara opened their flagship stores in 2017 achieved one of the most successful first-day’s turnover of any market debut internationally. This has emphasised the attractiveness of the HCMC market and provided an added incentive for those considering entering.

Upcoming supply in the CBD continued to delay their completion dates. There will be no new supply in the CBD in 2018. In 2019 and 2020, 124,000 sm of new supply will come online from the podiums of luxury mixed-use projects such as Golden Hill, Tax Plaza and The Spirit of Saigon. Due to solid demand, rents of CBD retail property will continue to rise during the next three years and vacancy will remain under 5%. Any available space is expected to be quickly filled up.

In 2017, seven new projects with a total NLA of 74,183 sm were introduced to the HCMC retail market. All were community podiums of apartment projects. In the next three years, an additional of 430,000 sm NLA will come online, of which more than 70% will be in podiums. This rapid projected increase of retail podiums in the market has raised concern for both developers in terms of attracting tenants and for existing retailers in terms of expansion. It is challenging to have a good layout for both retail podium and condominium towers and maintain reasonable economies of scale, especially for affordable and mid-end products. With rising competition, rents in non-CBD areas are constrained while the vacancy rate is expected to increase to 20% by 2020. Some developers without track records in retail development will be forced to lower rental expectations or apply more flexible lease structures to support retailers. In terms of future expansion, the East, including District 2, 9 and Binh Thanh District will see the majority of new retail supply thanks to their gradual establishment of new residential clusters. Developers anticipating completion of these projects are planning large-scale shopping malls with net leasable area greater than 60,000 sm each.

To guarantee enough foot traffic and increase dwell time, landlords should save larger space for anchor tenants as well as increasing the number of anchor tenants. More importantly, high-impact tenants whose products generate intense word-of-mouth marketing online should receive preferential terms. Phuong Nam Book City, for example, received a high level of interest on social network from youngsters thanks to its design theme (tropical forest, European architecture, etc.) and became a major attraction to the Garden Mall in District 5.

**Figure 8: New Supply and Vacancy Rate**

**Figure 9: Rental Outlook**

*Source: CBRE Vietnam, Mar 2018.*
CONTINUED EXPANSION FURTHER FROM THE CBD

Only 7% of total retail supply in Hanoi is located in the CBD. Due to limited land bank, there has been no new supply since 2013, causing retailers to find alternatives in shop houses. The introduction of walking streets around Hoan Kiem Lake has drawn more visitors to this area, creating ever higher demand for more space. However, currently there is still no expected future supply. Hence, the CBD is predicted to continue to perform well with a low vacancy rate and strong asking rental rates. Retailers are also likely to look for creative solutions such as the conversion of old buildings by Hoan Kiem Lake into modern retail space, one of which is now the location for the first McDonalds in Hanoi as well as other F&B stores.

SIGNIFICANT NEW SUPPLY EXPECTED IN NON-CBD AREAS

Meanwhile, the majority of current supply is located in different clusters in Non-CBD areas, in residential areas or other areas with good access to population centres. In the next few years, the Hanoi retail market is likely to follow the expansion trend of residential and infrastructure developments. The areas along Ring Road 3 and the two under-construction metro lines including the West, South West, and South will be hot-spots with nearly 375,000 sqm of retail space coming online over the next three years. Significant projects include Aeon Mall Ha Dong in addition to several shopping centers by Vincom and FLC. The North of the city is also quickly evolving with a new project announced earlier this year to be developed by Lotte Group, a Korean developer.

Particularly, an Emerging CBD will soon to be formed in the western area of Hanoi. The area covering Cau Giay, Tu Liem, and Thanh Xuan district is currently the largest retail cluster in Non-CBD, accounted for 41% of total supply. It will continue to remain its position in the next few years with 83,300 sm future supply in the pipeline.

2018 is expected to be an active year in the Hanoi retail market with a total of 157,000 sm coming from eight under-development projects. This is the largest number of new projects ever planned for a single year and is only surpassed by 2013 in terms of scale. Most of these new projects are located in fast developing residential areas with good connecting infrastructure and which are expected to be attractive to both retailers and consumers. Hence, despite this new supply causing pressure on the vacancy rate, the average market rent is still expected to remain relatively stable or even to slightly improve.

In terms of format, malls as a component of residential complexes will continue to thrive, thanks to a high level of supply in the condominium market. Eight out of twelve future projects up to 2020 are retail podiums. This format has certain advantages such as having resident potential customers and increased traffic due to the residential component, providing added services and amenities and improving the image for the whole project. However, suitable scale, design and parking spaces will be key factors for successful malls.
LOGISTICS SECTOR
Demand for the warehouse market continues to be backed up by improvements in manufacturing and consumer spending.

In January 2018, according to the General Statistics Office of Vietnam, manufacturing production increased by 23.8% y-o-y. The most notable improvements were recorded in tobacco (21%), textiles (23%), apparel (25%) and especially in the manufacturing of computers, electronics and optical products (38%). There have been several large-scale developments in computer, electronic and optical production in recent years from global brand names such as Samsung, Foxconn and LG. In 2017, Vinfast, a local automobile manufacturer, is planning to open a car production line in Hai Phong city and to launch their first model in 2020. This key project will attract vendors and suppliers to Hai Phong city which will increase the demand for warehouse space.

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 from have entered the 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 warehousing demand.

According to CBRE enquiries, 3PLs, retail, and manufacturing are key demand drivers for the warehouse market. The preferred locations are HCMC, Binh Duong, Hanoi, Bac Ninh and Dong Nai. The industrial revolution 4.0 also affect the warehouse market. More quality supply will come to the market in the next three years in the North and the South area. In the regional market, automated storage and logistics robots are recommended in prime logistics space with flat layout, stable power supply and excellent internet connectivity to increase competitiveness.
**LOGISTICS SECTOR**

**VIETNAM**

Rents are expected to increase in the next few years in both the Northern and the Southern area.

The Northern region is centralized around the capital, Hanoi, and the coastal provinces including Hai Phong. These are the most populated areas of the region, providing potential consumers and a labour market. Moreover, access to sea ports in the coastal provinces is crucial for industrial development. The Northern region is welcoming more interested foreign players in Industrial Park developments.

In the Northern area, with the limited level of new supply, rents are expected to increase by 2.0% in 2018 and 1.5% in 2019 and 2020 while the vacancy rate is expected to decrease from 22% in 2018 to 19% in 2020.

The Southern region is located in the area surrounding HCMC, with large ports, both sea and inland as well as international airports and a system of well developed highways connecting the provinces. Due to its strategic location closer to regional logistics hubs such as Hong Kong, the Southern region has long been the leading cluster in the Vietnamese industrial sector. In the Southern area, rental rate increases of 4% in 2018 and 3.5% in 2019 and 2020. The Southern area is expected to achieve higher rental growth thanks to strong demand from retailers, 3PLs and manufacturers as well as supplies which come to the market from Gemadept, Saigon Newport and Saigon Depot. However, the Southern area is also expected to have a higher vacancy rate of 20% from 2018 to 2020.
Hanoi

Being the centre of Northern Key Economic region and the capital, Hanoi plays an important role in the region’s industrial and logistics development. In future planning, Hanoi is set to focus on hi-tech industries such as IT, software, data centers, automation, etc. and related services including warehouses and logistics for these industries. The warehouse sector will develop towards more sophisticated products with distribution centre and automated/high quality warehouses serving as access points to the key consumer market of Hanoi.

Hai Phong

Hai Phong has a significant role in the industrial landscape of Northern Vietnam due to both the existing Hai Phong port and the construction of a new deep-water port, Lach Huyen port with a capacity of up to 100,000 DWT. With the completion of infrastructure project in the recent years, industrial hubs in the North will be even more connected, expanding the capacity and potential of Hai Phong. With access to the major sea port of Northern Vietnam, Hai Phong houses a number of big names in various fields such as logistics, automobiles, electronics, pharmaceuticals, shipbuilding, oil, and textiles.

Bac Ninh

With access to Hanoi, the largest consumer market and business centre of the North, Bac Ninh has the potential to serve as a regional industrial hub as industrial parks and facilities are moving out of the capital. The province is also well-connected to Hai Phong port and Noi Bai airport through newly developed infrastructure. Logistics is a major demand driver for the warehouse market in Bac Ninh. The market has welcomed some of the biggest names in the industry such as DB Schenker, DHL, Linfox logistics, ALS, Vinafco and large numbers of Korean and Japanese logistics companies.

HCMC

HCMC houses major airports and seaports which accounted for 16% of Vietnam’s export volume in 2017. This has led to high demand for warehouses, factories and industrial land from foreign investors. The increases in E-Commerce and local consumption for FMCG are key demand drivers.

Binh Duong

Binh Duong province aims to attract more high tech and sustainable industries. However, with a reasonable supply and competitive rents, this province is still attractive to conventional industries such as garments and FMCG.

Dong Nai

Infrastructure improvement is a key supply driver for this province. The HCMC - Long Thanh – Dau Giay highway and Long Thanh airport are key projects that will attract investors to Dong Nai province. This province is attractive to furniture manufacturing and agriculture products.

Long An

Low labor costs and proximity to waterways and HCMC are key strengths of this province. However, this province has had relatively little interest from potential investors due to uncompleted infrastructure projects. This province is still attractive to conventional industries such as garments, FMCG and agriculture products.
The residential market of Vietnam is at a turning point. With fast urbanisation rate of 3% per annum and a young, dynamic population (70% of the population is from 15-64 years old), it can be seen that there is strong housing demand in Vietnam, especially at its urban hubs like Hanoi and HCMC. The remaining piece of the equation is how to properly catch that demand.

In 2017, the residential market continued its upbeat sentiment in 2016 and performed well in both Hanoi and HCMC. Considering both cities, there were a total of 66,000 units launched, and 59,000 units sold.

The condominium concept has recently penetrated the perception of Vietnamese people. With a lack of public housing initiatives, the market is currently being led by private developers. Townships like Vinhomes Times City in Hanoi and Phu My Hung in HCMC are getting more populated with more commercial activities, creating new residential clusters. This vertical urbanism is expected to continue at an accelerated rate, especially with the hand-over of many projects in 2018 and 2019.

**UPTURN TO CONTINUE IN 2018**

The residential business is the crown jewel of many developers right now, thanks to the strong local appetite and fast capital recovery. However, accompanying the strong growth of new launch supply and new completion are some concerns about pressure on the secondary and rental market.

There are many positives in the market though: economy is expanding strongly; interest rates & inflation rates have been stable for the past few years and are expected to remain so; income per capita is increasing; local developers are getting stronger in terms of development capabilities as well as financial prowess.
INCREASE IN NEW LAUNCH IN 2018 TO INTENSIFY COMPETITION
In 2017, there were a total of 31,000 units launched in HCMC, a 19% decrease y-o-y, which was mainly due to the lack of large scale projects compared to the previous two years. The mid-end segment accounted for majority of this new supply, making up 64% (an increase of 14 ppts y-o-y), followed by high-end at 21% (a decrease of 10 ppts y-o-y). There was only one luxury project launched in 2017, accounting for 1% of new launch supply, while some others continued to delay their launch dates. The market is believed to be more balanced with a stronger focus on the lower-end segments.

Foreign developers’ share in new launch supply has shown an upward trend in recent years, accounting for almost 15% of total accumulated launched units in HCMC. We continued to observe more interest from foreign developers, especially in the high-end segment, which is expected to add a lot of diversity as well as competition for this segment. At the same time, local developers are also having big plans for the market, expanding into segments that they have not tried before.

The market in 2018 is expected to continue being busy with launch activities, potentially adding more than 37,000 new units to the total supply. At the same time, a lot of hand-overs from previous projects are taking place, which will add a significant pressure on the secondary and rental market.

BULLISH SENTIMENT TO PERSIST
Absorption of new launch units as well as inventory was very positive in 2017, even though lower than 2016 in terms of absolute volume. For the first time in the past five years, the number of sold units in HCMC surpassed the new launch volume, with the mid-end segment having the highest absorption at 20,200 units. Looking forward to 2018, as the market is gaining further traction with more attention on the mid-end segment, we expect the number of sold units to increase 20% compared to 2017, reaching more than 40,000 units.

Primary prices in 2017 continued their upward trend amid the ongoing positive sentiment, showing an increase of 3% on average in 2017. The mid-end segment recorded the highest increase in primary prices at 5% y-o-y. In 2018 we expect this upward trend to continue across segments, especially the luxury segment, which may witness an increase of 6% y-o-y thanks to the prime location of the upcoming supply.

NEW DEVELOPMENT FRONTIERS
For the foreseeable future, District 2 hotspots (Thu Thiem, An Phu, Thanh My Loi) will be the focus point of new developments. Looking further, with the expansion of HCMC metropolis and development of satellite neighborhoods, District 9, Nha Be, Binh Chanh and Can Gio Districts are the locations that will receive a lot of attention, especially when Vingroup – the biggest player on the residential market right now – have had plans for their Vincity projects in District 9.

Figure 14: New Launch and Sold Units Outlook

Figure 15: Primary Pricing Outlook

PRODUCT DIFFERENTIATION IS KEY AMID SURGE IN SUPPLY AND EXPANSION TO MID-END SEGMENT

Positive sentiments persisted in Hanoi condominium market during 2017. More than 35,000 units were launched over the course of 2017 marking a new record high in annual new supply. Among market segments, mid-end led with more than 22,000 units covering 64% of total new supply. The greater dominance of mid-end segment indicates stronger focus on end-users and affordability of products, but also creates stronger competition. We expect that product differentiation will be key to overcome sales pressure, especially when the level of new supply during 2018F-2020F is to remain similar to those of the last three years at around 33,000 units per annum. In addition, professionalism, quality, and innovation in marketing and sales activities will be brought to focus amid growing competition as developers differentiate.

Hanoi condominium market has been largely dominated by local players. The local group made up 94% of total accumulated launched units as at 2017. In upcoming years, we anticipate that local developers will continue to show greater influence in Hanoi market since major developers have aggressive plan to increase their market share with large-scale townships even in new areas such as Dan Phuong or Me Linh districts. Foreign developers also show stronger interest in Hanoi market given recent announcement of partnership of foreign corporation such as Sumitomo Corporation and Mitsubishi corporation with local partners. These developers are expected to set a higher standard in product quality and management service for local market.

SALES MOMENTUM TO REMAIN STRONG THANKS TO INCREASING INCOME LEVELS AND RAPID URBANISATION

Given rising income levels, urbanisation and potential improvement in product quality, CBRE forecasts absorption will increase in 2018 staying at around 28,000 units. CBRE predicts that investors will continue to favour upscale projects in the core districts for their good rental yield potential. Meanwhile, end-users are more focusing on product itself and the connections to nearby amenities from project’s location. It is worth mentioning that in 2017 several projects in emerging residential hub achieved strong sales performance (higher than 70% during the first launched quarter) due to reasonable infrastructure connections, and sufficient facilities and amenities.

MORE PREMIUM OFFERINGS EXPECTED IN HIGH-END SEGMENTS

Although average primary price slightly declined by 2% in 2017 due to significant increases in share of mid-end and affordable segments, we expect high-end products in 2018 will ask for higher prices than 2017’s level by 3-5% given that projects in pipeline are located in prime locations in CBD or Midtown clusters. For lower end segments including mid-end and affordable, the modest growth of 1%-2% are expected providing stronger competition though healthy demand continues.

CAPITAL MARKETS
2017 marked a new high in terms of the number of property transactions recorded, with a transaction volume of more than US$1.83 billion, which is second only to the number of transactions seen in 2013. Strong sentiments among investors across asset types were observed throughout the year, alongside robust economic growth, strong foreign direct investment and continued rapid urbanization triggering healthy housing demand.

Vietnamese players have historically been active as sellers, while foreign investors were seeking buy opportunities. During 2017, however, Vietnamese investors dominated buying, leading to a situation where both local and international investors competed for limited available stock, especially income producing assets. This situation is expected to persist in 2018, especially as Vietnamese buyers can use the advantage of local market expertise to shorten the deal-closing process.

Singapore, South Korea, Malaysia, Japan, and Hong Kong are the top five countries that hold the largest real estate assets in Vietnam to date. Investors from these countries, including both developers and funds, have remained active in Vietnam. Investors from Thailand, China, and United States are catching up quickly and are expected to remain active in the future.
Because of the nature of a developing market, development sites continued to be the asset type that recorded the highest number of transactions as well as the largest transaction volume. Residential and mixed-use sites were among the most popular types, especially as the major cities of Hanoi and HCMC continued to see another robust year of new home supply and new home sales. The remaining properties that changed hands during 2017 were evenly split between apartments, offices, hotels, and retail centres. The urbanization process affecting the cities of Hanoi and HCMC has led to opportunities for properties not just in the existing CBDs, but also in an upcoming CBD (in Hanoi) and in emerging residential and commercial hubs such as Thu Thiem and Thao Dien (in HCMC). This also follows new infrastructure developments including future metro line systems in both Hanoi and HCMC. Strong take-up rates of home sales in the past few years plus continuing demand for new homes thanks to a still modest ratio of modern home ownership and rising income levels, is expected to keep interest levels high among residential investors and developers for at least the next few years. Average home pricing is on a moderate upward trend, but demand for better quality homes is on the rise. Investors have been competing to acquire sites at increasingly expensive rates. Several half-built assets from the previous market cycle have changed hands and have been revived, clearly signalling an upbeat market.

There were a limited number of transactions of income producing assets recorded during 2017, indicating a lack of available stock. Yield expectations have also tended to compress, a trend that has not been observed over past years. Given positive rental growth prospects across the Office, Retail, Hotel, and Industrial markets, it is expected that the competition to acquire commercial properties will intensify as pricing expectations are trending up on the back of limited investment stock. The lack of stock is encouraging investors to form joint ventures with domestic groups for development projects. Property funds will also remain active in buying shares of major domestic developers.

### 2018 Outlook

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<th>Sector</th>
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<tr>
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</table>

**Figure 20: Transaction volume by asset types**

- Apartment
- Dev Site
- Hotel
- Office
- Retail
- Industrial

**Figure 21: Office Rental Growth Prospects**

- HCMC Rents
- Hanoi Rents
- HCMC Rental Growth, Y-o-Y (RHS)
- Hanoi Rental Growth, Y-o-Y
