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## The Hanoi Property Market - CBRE Second Quarter Market Update, and Special Feature on Industrial Property, Hanoi – Hai Phong corridor

Certain sectors of the Hanoi real estate markets have cooled recently as a result of the lingering global economic slowdown, the inflationary environment in Vietnam, and market illiquidity driven by high interest rates. However the market's medium- and long-term prospects remain strong in Hanoi and Vietnam's other major cities. In a sign of the market's underlying confidence in Hanoi's future prospects, especially in prime locations, prices for centrally located land plots have remained stable, while prices in non-central locations have softened from the first quarter of 2008.

The recent lack of liquidity in Vietnam has most severely impacted Vietnamese real estate developers requiring construction loans, and Vietnamese home buyers seeking mortgages to purchase a home. On the residential buy-side, market sentiment is anticipating a contraction in prices and many home buyers are therefore taking a "wait and see" approach. This deferral of purchases in expectations that prices are likely to come down has added to the slowdown Hanoi is experiencing.

Rents and occupancy were stable in the office, retail, and industrial rental markets. There was a slight increase in vacancy in the serviced apartment sector as two new projects entered the market. The market is slowly absorbing these new units. Rents in each of these sectors have been underpinned by the ongoing imbalance between supply and demand.

## **MARKET SECTOR UPDATES**

### ***Office***

The office sector saw relatively little Grade A and Grade B space come on-line in the second quarter of 2008. Two new Grade B office buildings opened on the periphery of the CBD: the King Building (4,000 sm) and the Military Bank Building (8,000 sm). Rents remain high, with Grade A monthly actual rentals ranging from US\$45 to US\$69.50 psm (net area). Rents for Grade A space averaged US\$51 psm per month, a 9.8% increase from last quarter. Average rent for Grade B space was US\$35 psm per month, an 11% increase over the previous quarter. Rents for prime Grade B space have reached US\$42 range psm per month. Grade C rents have risen slightly, and ranged between US\$20 – US\$30 psm per month. The occupancy rate for Grade A and B office space remains in the 98% - 99% range.

### ***Retail***

A.T. Kearney's annual Global Retail Development Index recently ranked Vietnam the most attractive retail destination among 30 emerging markets. Despite some slowdown in Hanoi real estate development activity and economic growth, as well as the present inflation situation, demand for retail space has been stable. Average rents in Hanoi's major shopping centres remained stable at US\$65 psm per month, the same level seen in the first quarter. The limited stock of prime retail space continues to challenge retailers seeking to expand their operations in the city. The Grade B Ha Thanh Plaza, offering approximately 10,000 sqm of retail space in the Dong Da District, opened in the second quarter. Due to its location, Ha Thanh Plaza has attracted domestic rather than international retailers. Market response has been mediocre, with 80% occupancy on the ground floor and Unimart taking the second floor, though the third to fifth floors are leasing slowly.

### ***Residential***

The effects of the challenging global economic climate, and Vietnam's changed economic environment have reached the Hanoi residential market. Capital values for central locations have fallen slightly from last quarter, while projects in the initial development stages and in remote locations have been more vulnerable to the downturn, losing up to 15% in capital value from the first quarter of 2008. Looking ahead, July and August are traditionally quiet months for home sales in Hanoi, however Keangnam is expected to launch initial sales of luxury condominiums in July. Construction delays resulting from increased prices of materials and labour as well as more difficult financing conditions, are expected to slow the introduction of new stock into the market.

### ***Serviced Apartment***

The Hanoi serviced apartment market saw an increase in vacancy to as a result of the 500 new units that came online during the past eight months in the Atlanta Residences, Skyline Tower, Somerset Hoa Binh and Fraser Suites Hanoi. However, the most popular serviced apartment projects in prime areas are still running at 95-100% occupancy and are expected to maintain their low vacancy rate. The demand for serviced apartments comes from expatriates in Vietnam and demand has been

slower than anticipated. This could be because companies have become more price sensitive with the global economic downturn. Established serviced apartments have maintained stable rental and occupancy rates, while non-stabilised developments are willing to offer discounts of up to 20% to secure tenants. The long-term outlook for the serviced apartment market in Hanoi is positive as the number of expatriates working in Hanoi is expected to steadily increase in the medium- to long-term.

### ***Hospitality***

The average daily room rate for 5-star hotels reached US\$158 in the second quarter of 2008. At 70%, the occupancy rate remained nearly identical to that in the first quarter, but is expected to increase by the fourth quarter, a traditionally high season for tourist and business travel. Two 4-star hotels, the Fortuna Hotel and the M Hotel (formerly Guoman), are under-going renovation with the intention of applying for 5-star status. One 4-star project, Novotel by the Park, and a 5-star project, the Marriott, broke ground in the second quarter.

### **SPECIAL FEATURE ON INDUSTRIAL PROPERTY**

The industrial sector has played a leading role in Vietnam's robust economic expansion. In 2003 the industrial and construction sector surpassed the service sector as the largest component of Vietnam's GDP. In 2007, it accounted for approximately 42% of GDP, and industrial output grew 17% year-on-year. Growth was even stronger in the Red River Delta region, where the growth rate in industrial output reached 23.6% in 2007.

The Red River Delta region consists of two cities (Hanoi and Hai Phong) and nine provinces in northern Vietnam, and has emerged as a focus of industrial development, with many new Industrial Parks (IPs) being licensed and existing IPs being expanded. With over 18 million people, the region has the largest population of Vietnam's eight regions, with approximately 72% of the population of working age.

Hanoi is the national capital and the region's largest city, and Hai Phong is the largest port in the North. Between these two poles, linked by Highway 5A and the Hanoi-Hai Phong railroad, are the provinces of Hung Yen and Hai Duong. Hanoi – Hai Phong Highway broke ground in May 2008 and will further facilitate the development of this east-west axis. Development along the current highway and railroad, the gravitational pull of the two poles Hanoi and Hai Phong, and the desire for convenient access to Hai Phong's port has driven the formation of Hanoi-Hai Phong Industrial Corridor, featuring numerous IPs along Highway 5A and clusters of high-tech parks and heavy and light industrial parks at both ends of the corridor.

Most factories and other industrial facilities are located in IPs, whose sizes vary from 20-30 hectares (South Thang Long IP, Hanoi) to nearly 1,000 hectares (Dinh Vu IP, Hai Phong). Tenants in IPs receive numerous investment incentives and enjoy modern infrastructure, secure lease terms and relatively low rents compared to IP land rents in other Asia cities, and potential benefits accruing from the concentration of manufacturing and production facilities.

The demand for IP space is evident in the high occupancy rates in operating IPs: the six IPs in Hanoi are almost fully occupied, occupancy in Hung Yen IPs is at 80%, four of the seven IPs in Hai Duong are full and the Nomura IP and first phase of the Dinh Vu IP, both in Hai Phong, are 95% and 100%, occupied, respectively.

Typically, IPs offer land with comprehensive infrastructure for industrial investors (manufacturers) on a long term lease basis. Land rents in IPs are typically in terms of US dollars per lifespan of the IP. Hanoi IPs recorded the highest IP land rents. In the first quarter of 2008, Land rents with infrastructure reached US\$150 psm per lifespan (38 years) in Hanoi – Dai Tu IP. The Sai Dong B and South Thang Long IPs in Hanoi recorded land rents of US\$125 and US\$100 psm for 41 years and 44 years respectively.

IPs in Hung Yen and Hai Duong are mostly occupied by light industries such as textile and garment, footwear production, and food processing. Land rents in these IPs range from US\$45 to US\$55 psm per lifespan.

The future outlook of industrial property in Vietnam is strong as international companies are looking to set-up operations or expand given the land and labour cost advantages relative to other Asian locations, as well as Vietnam's expanding consumer market and positive economic prospects. The growing and increasingly ambitious Vietnamese private sector is also a major source of demand for industrial property. Industrial real estate investors have been active in the corridor the first half of 2008 and this trend is expected to continue for the foreseeable future.

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#### About CB Richard Ellis

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