

CBRE PRESS RELEASE

Office market under threat?

29 May 2008

2007 conditioned us into thinking that rents would keep going up and up forever. Now, however, we are seeing signs of change.

For the Grade A buildings, demand remains extremely strong. In HCMC, the 5 Grade A buildings have been at 100 per cent occupancy since 2005. Last year, rental rates began at \$32 and finished at \$63++ per gross square metre. This year, the figure has crept up to \$70++ with the potential to rise further. Tenants of these buildings have no choice with new supply not hitting the market until 2009.

The Grade B buildings, by contrast are beginning to see signs change. New buildings that enter the market are not filling as fast as they were in 2007. Last year, when prospective tenants returned to view an office for the second time, the landlord advised them the space had already been leased. This year, when a prospective tenant returns for the second time, the "For Lease" banner is still flying.

The multi national companies (MNC's) are beginning to resist and the Vietnamese companies can't justify paying such rents.

On the supply side, the Grade B buildings are facing more competition with stock that has already come on line.

On the demand side, with a plunging stock market, a residential market in decline and soaring inflation, MNC's are reviewing their growth forecasts. While they are still forecasting growth, they are not as bullish as they were at the beginning of the year. This is causing them to review and adjust their projected head counts which then impacts upon their future space needs.

Additionally, the regional headquarters of many of these companies are looking very closely at the amount of expenditure on office space. This is driving change. The budget isn't increasing but the requirement for space has. Accordingly, it is forcing these companies to separate their back office functions from their front office. The front office remains in the city centre with the higher rental rates but the back office is moving to decentralized locations such as District 7, Tan Binh.

Apart from cheaper rental rates in the decentralized locations, tenants are finding other advantages such as far bigger and user friendly floor plates. Other benefits

include more energy efficient (green) features, plentiful parking and the inclusion of options for lunch.

Vietnam is still generating considerable interest from overseas investors keen to tap into opportunities. However, again there is a change. Last year, as the property market was booming, overseas investors were keen to buy in but found it difficult to find sellers. This year, there is a growing number of overseas investors who believe that sellers will be far less difficult to find as the economy tightens further.

Demand for Grade A buildings will remain strong for at least the short term. Small markets are volatile and dynamic. The Grade B and C buildings may have just entered a more dynamic period.