



# 2013 Fearless Forecast

*“Cash, Cash, Cash will replace Timing, Timing, Timing which has replaced location, location, location”*

Presented by:

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**Managing Director**



**10** *years*  
**CBRE**  
*in Vietnam*

# 2012 YEAR IN REVIEW

## SUCCESSES



**2012 Tour de France Winner!**



**Olympic London 2012**



**Europe Retaining the Ryder Cup in Dramatic Fashion**



**Rory McIlroy wins second major at US PGA**



**Andy Murray ends UK tennis grand slam drought at US Open**



**England's Record Win over the All Blacks**

# 2012 YEAR IN REVIEW

## A WIN FOR A.NGUYEN AND C.HUYNH



***Michael Nguyen won a silver in Olympics gymnastics for Germany***



***Wrestler Carol Huynh brought home Olympic bronze for wrestling for Canada***



***Tran Le Quoc Toan who narrowly missed the bronze medal in the London Summer Olympics***



# 2012 YEAR IN REVIEW

More surprises



**Vietnam beats Dubai & Indonesia to claim the Asia Games 2019 in Hanoi**



**Why is PSY a phenomenon?**



**Richard Leech runs 90k in 9.5 hours at the Comrades Ultra Marathon in South Africa**

# VIETNAM ECONOMY

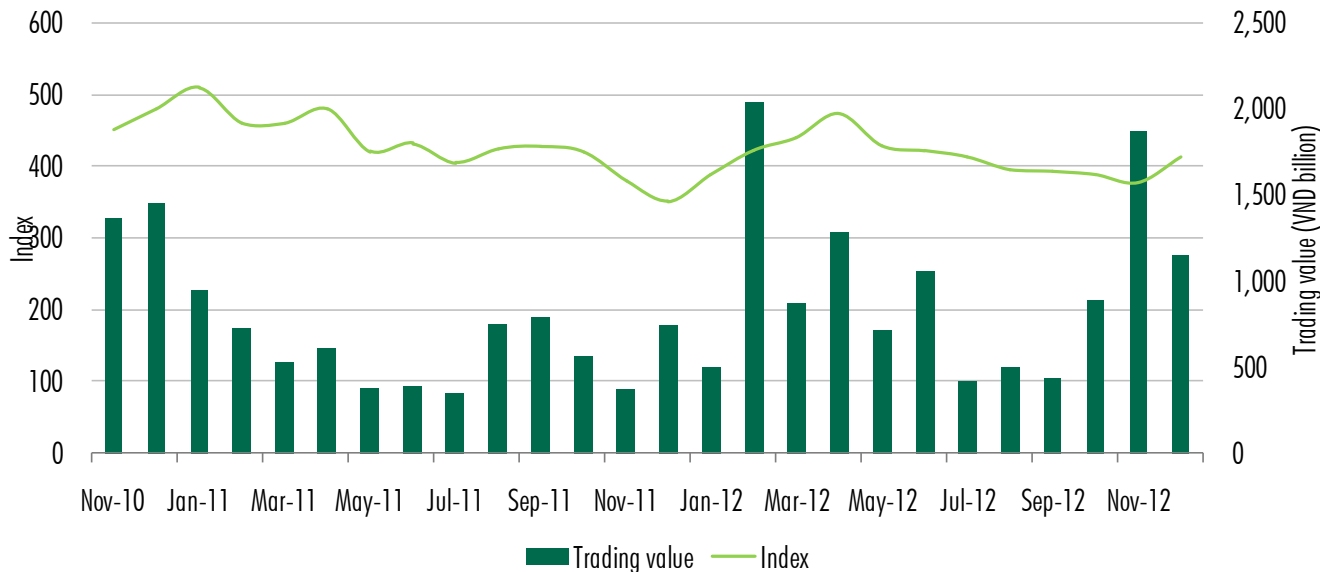
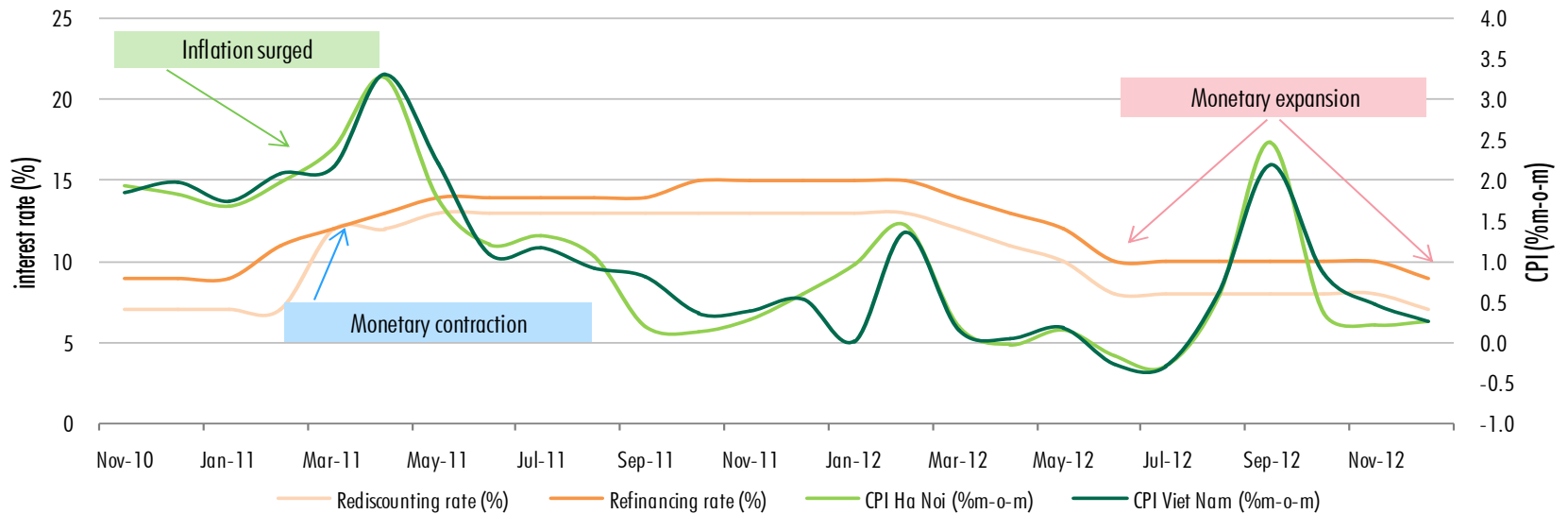
## 2012 KEY INDICATORS

	2009	2010	2011	2012 e	2013f
<b>GDP Growth Rate (y-o-y)</b>	5.3%	6.8%	5.9% <sup>1</sup>	5.03%	5.68% <sup>4</sup>
<b>Lending Rate</b>	12.75% <i>Down from 21% in Q3</i>	16%-17.0% <i>(Late 2010)</i>	22% - 25% <sup>2</sup>	12% - 15%	12% - 13% <sup>5</sup>
<b>Inflation (Average, y-o-y)</b>	6.9% <sup>1</sup>	9.2% <i>(Dec'10: 11.8%)</i>	18.58% <sup>1</sup>	9.21%	9.4% (e-o-p) <sup>5</sup>
<b>Exports</b>	US\$57.1 bil	US\$71.6 bil	US\$96.3 bil	US\$114.6 bil	US\$129.5 bil <sup>4</sup>
<b>Imports</b>	US\$69.9 bil	US\$84.0 bil	US\$105.8 bil	US\$114.3 bil	US\$132.84 bil <sup>4</sup>
<b>Gold Price (per Tael)</b>	VND26.7 mil <i>(Dec. 31, 2009, up 50% y-o-y)</i>	VND36.1 mil <i>(Dec. 31, 2010, up 35.2% y-o-y)</i>	VND41.8mil <sup>3</sup> <i>(Dec. 30, 2011, up 15.8% y-o-y)</i>	VND46.3 mil <i>(Dec. 28, 2012, up 10.8% y-o-y)</i>	-
<b>US\$/VND (Commercial banks)</b>	18,497 <i>(Dec. 31, 2009)</i>	19,500 <i>(Dec. 31, 2010) Devalued by 5.4% vs. Dec. 2009</i>	21,036 <i>(Dec. 31, 2011) Devalued by 7.9% vs Dec. 2010)</i>	20,855 <i>(Dec. 31, 2012)</i>	21,500 <sup>6</sup>
<b>FDI in Real Estate (committed)</b>	US\$7.6 bil	US\$6.8 bil	US\$11 bil	US\$10.46 bil	US\$10.5 – 11 bil
<b>Committed FDI</b>	US\$22.6 bil <sup>1</sup>	US\$18.6 bil <i>(US\$6.8 bil real estate)</i>	US\$14.7 bil <sup>1</sup> <i>(US\$845.6 mil real estate)</i>	US\$13 bil	US\$13 – 14 bil <sup>4</sup>
<b>Implemented FDI</b>	US\$10 bil	US\$11 bil	US\$11 bil <sup>1</sup>	US\$10.46 bil	US\$10.5 – 11 bil <sup>4</sup>

Source: Historical data by GSO, <sup>1</sup>GSO, <sup>2</sup>SBV, <sup>3</sup>SJC, <sup>4</sup>Ministry of Planning & Investment, <sup>5</sup>ANZ, <sup>6</sup>HSBC

# VIETNAM ECONOMY

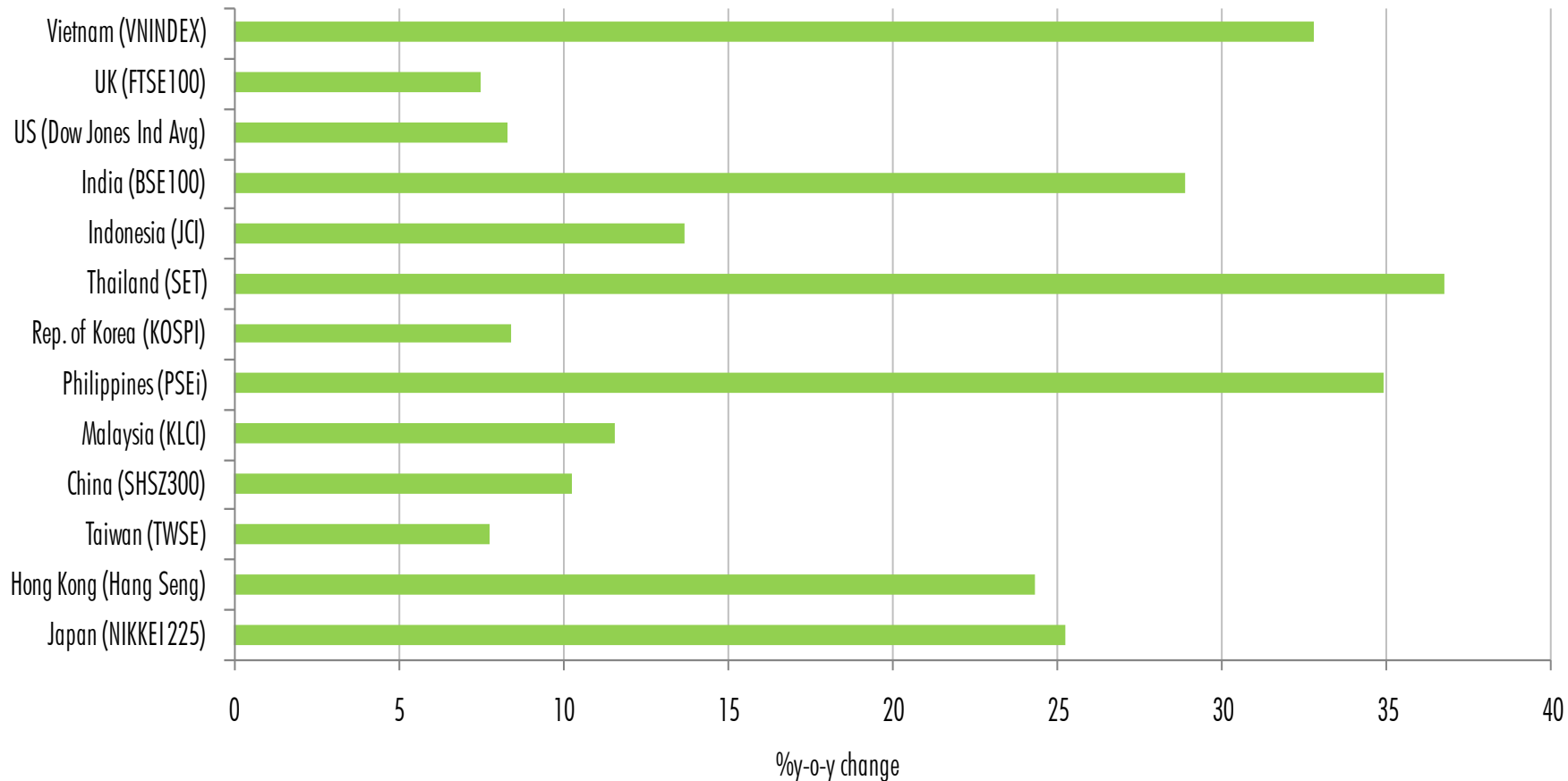
## 2012 INTEREST RATE, INFLATION, STOCK INDEX



◆ Dec 2012: stock market up ~18% y-o-y  
 ◆ 2013YTD: +8.08%

# VIETNAM ECONOMY

## STOCK INDEX GROWTH, 31/1/12-31/12/12



➔ **Improvements across different markets? – A sign of economic recovery and confidence improvement?**



### ◆ GDP growth (currently 5.03%)

- JP Morgan Chase: 5.2%
- World Bank: 5.5%
- Ministry of Planning and Investment:
  - Scenario 1: lower-than-expected global GDP growth → 5%
  - **Scenario 2: Euro zone debt crisis eased → 5.68% - most likely**
  - Scenario 3: high-growth assumption → 6.34%



### ◆ Financial market

- Deposit rate ↓ to 7%. However, bank savings still remain no.1 choice vs. other investment options
  - Private gold trading prohibited from Jan 10th 2013 onwards → diverting interest away from gold investment
  - Relatively good management of exchange rate by SBV → reducing arbitrage opportunities
  - Confidence in the overall economy still low → discouraging investors from investing in the stock market
- Lending rate ↓ to 11% and under, even for non-productive sectors incl. real estate



# According to BCI Asia...

All Future Projects (2013-2022)	HCMC	Hanoi	Da Nang	Can Tho	Nha Trang (Khanh Hoa)	Vung Tau	Hai Phong
Office	309	563	69	39	16	35	15
Retail	130	314	38	7	6	27	6
Hospitality and SA	47	65	38	10	51	22	9
Residential	444	588	198	19	29	49	13
<b>Total</b>	<b>930</b>	<b>1530</b>	<b>343</b>	<b>75</b>	<b>102</b>	<b>133</b>	<b>43</b>
Y-o-Y change	31.4%	155.4%	53.8%	47.1%	29.1%	37.1%	30.3%

Projects Under Construction	HCMC	Hanoi	Da Nang	Can Tho	Nha Trang (Khanh Hoa)	Vung Tau	Hai Phong
Office	142	165	15	6	6	12	7
Retail	51	82	4	4	2	7	4
Hospitality and SA	20	15	13	2	9	7	2
Resi	190	177	31	2	6	11	3
<b>Total</b>	<b>403</b>	<b>439</b>	<b>63</b>	<b>14</b>	<b>23</b>	<b>37</b>	<b>16</b>
Y-o-Y change	7.5%	77.0%	10.5%	-51.7%	-4.2%	-11.9%	-5.9%

Source: [www.bciasia.com](http://www.bciasia.com); CBRE Vietnam

# HANOI INFRASTRUCTURE

## 2012 MILESTONES

### ◆ Overpasses:

- 5 overpasses opened: Chua Boc – Tay Son, Lang Ha – Huynh Thuc Khang, Lang – Le Van Luong, Tran Duy Hung – Nguyen Chi Thanh, Nam Hong intersection → reducing traffic pressure
- 2 overpasses proposed: Chua Boc – Pham Ngoc Thach and Dai Co Viet – Tran Khat Chan (expected construction prior to Lunar New Year 2013)

### ◆ Elevated Highway:

- Ring Road No. 3, Phase 2, the first elevated highway in Ha Noi, joining Mai Dich – North Linh Dam (9 km): fully operated since Oct '12 → expected to deliver positive impact on West-end development

### ◆ Highway:

- Cau Gie – Ninh Binh, opened in Q2/2012, the longest highway in Viet Nam

### ◆ Elevated parking:

- Nguyen Cong Tru elevated parking lot opened in Q3/2012
- Further lots approved, including Tran Nhat Duat, Nguyen Cong Hoan, Nguyen Dinh Chieu and Thong Nhat Park (to be constructed in 2013)



**Mai Dich – Linh Dam Elevated Highway, 100km/h**



**Lang Ha – Huynh Thuc Khang Overpass, 189m**

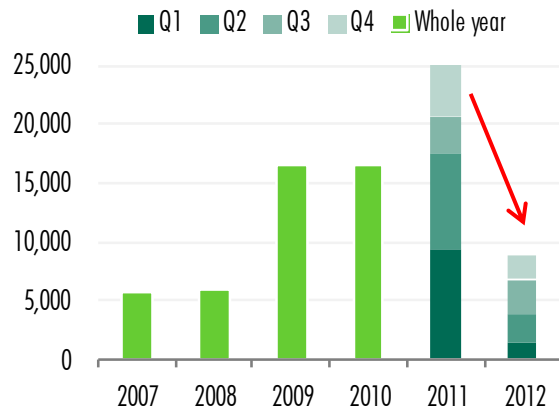


**Nguyen Cong Tru parking, 30 cars max.**

# CONDOMINIUM FOR SALE

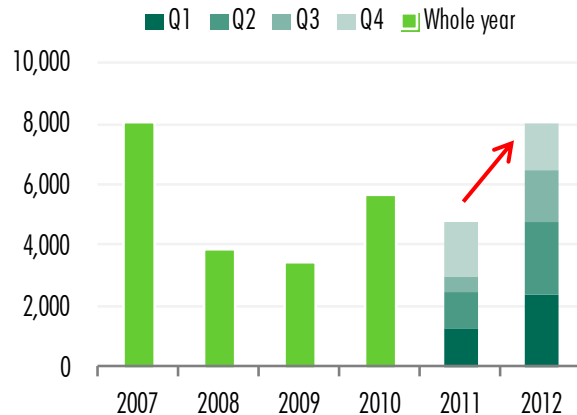
## 2012 REVIEW

### New Launch Supply (Units)



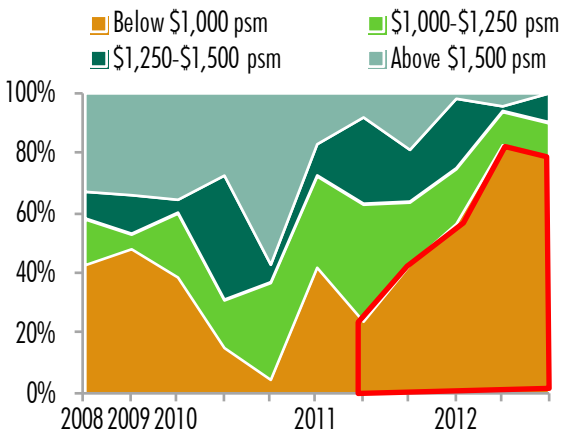
**SUPPLY: Launches down BUT completions up!**

### New Completion Supply (Units)



**PRICES: much more affordable!**

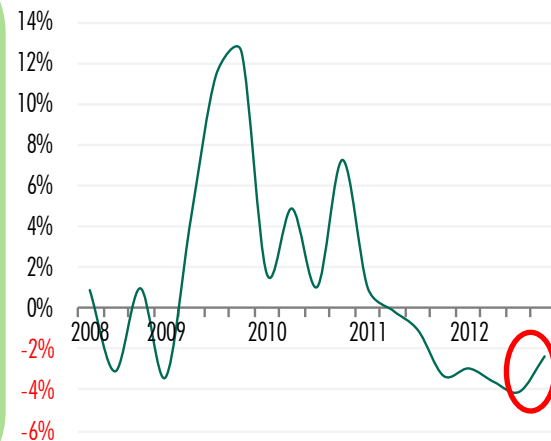
### Distribution of Primary Price



**Attention shifted from Secondary to Primary market!**

- Early 2012: individuals (**secondary market**) suffered huge losses (up to **30% of purchase price**)
- Late 2012: developers (**primary market**) aggressively revised down prices (up to **40% of original price**), especially in the lower-end of the market

### Quarterly Secondary Price Change



### Issue of UNSOLD STOCK

Outstanding stock (units)	Time to clear unsold stock
20,400	1.6 yrs - 4.1 yrs

\* More than half the 5,000 units sold in 2012 were from Dai Thanh project, the cheapest products in the market to date!

### What prevented end-users from making the purchase?

Better use of cash elsewhere

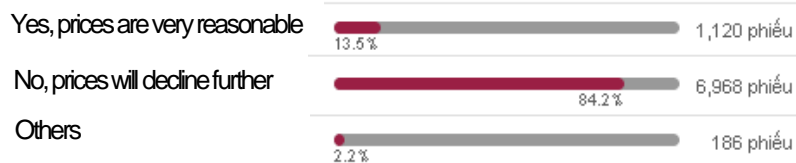
Buyer "wait & see" attitude

Buyer **DISTRUST** of developers' ability to deliver on commitments

Perceived **OVERPRICING** due to ongoing price competition!

	2012 Return
Stock Market (VNIndex)	18%
Bank Deposits	12%
Gold (SJC)	9%
HN Condo	-13%

#### Is this the right time to buy houses?



Source: VnExpress

Tổng cộng: 8,274 phiếu

Price reduction generally proved ineffective.

It may help overcome buyer hesitation, but only if it exceeds their expectations. The largest reduction in the market was **40% off the ORIGINAL PRICE** (bare shell finish).

Are you willing to go lower than that?



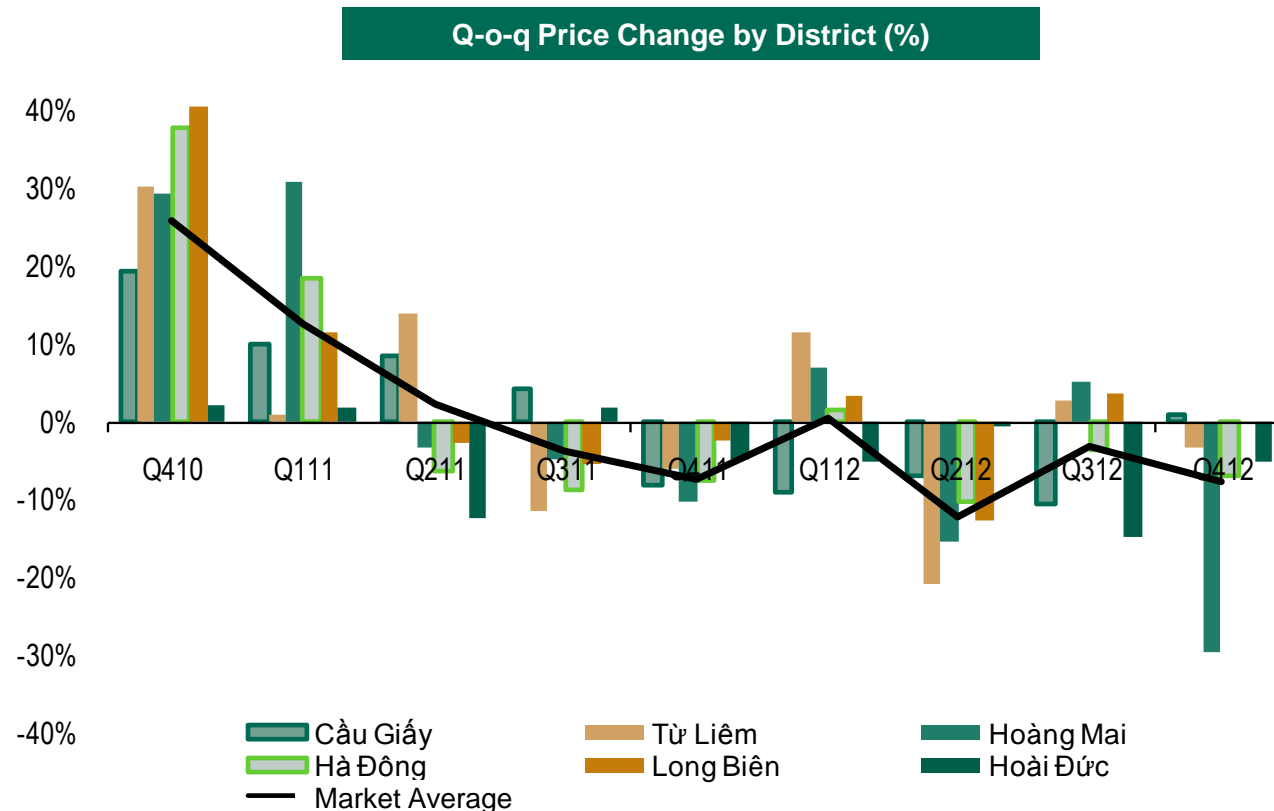
- ◆ Further falls in condominium **secondary** prices by **10%**, following a 15% drop in 2012

Transactions will remain low, mostly arising in:

- Projects with lowest prices compared to their peers; AND
  - Good construction progress
- ◆ Primary price reduction will continue:
    - Projects that have been launched: will be re-launched at lower prices, which will fail to attract buyers until the price reduction reaches **30%-50%** of **ORIGINAL PRICE** (++ Good construction progress)
  - ◆ Government initiative: Relax foreign home ownership
  - ◆ Pending issues of inappropriate product specifications: too many high-end condos, large sizes, poor location, wrong unit mixes , etc.
  - ◆ **Property Price Index to be released in Q1 2013** by Hanoi DOC, CBRE & IVC

◆ Downward trend in prices

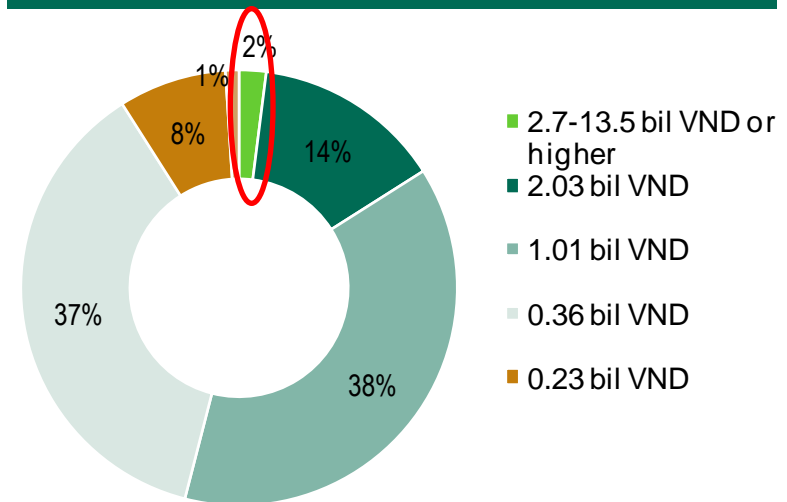
- ~20% decrease y-o-y (y/e 2012 vs y/e 2011); down by 6% on average in each quarter of 2012
- ~30% decrease from Q2/2011 peak



- ◆ 2013: a buyers' market!
  - End-buyers, not speculators!
- ◆ Houses need to be finished with supporting amenities in place before sales rate goes back up.
- ◆ If using estimated household savings, only 2% of all households in Hanoi could afford a house.
- ◆ The number of township houses priced below VND5 billion (~US\$250,000) will double (from the current 30% to 60% of total houses).

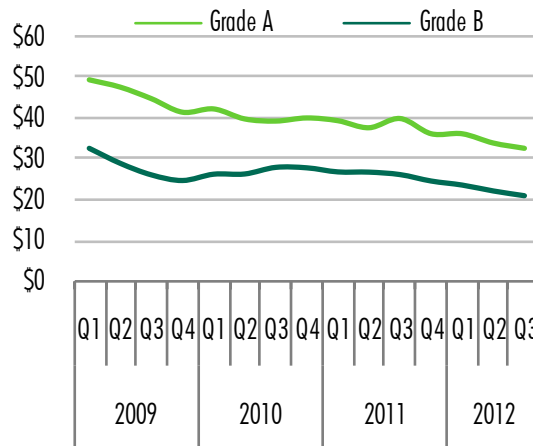


25x Household's Annual Savings, Hanoi

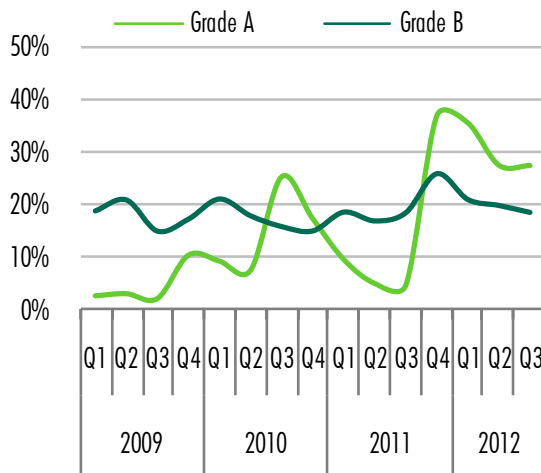


\*Savings are assumed at 20%-30% of total income, depending on each income band.

### Office Asking Rents



### Office Vacancy



#### ◆ Large new supply although less than 2011

- 2012: ~106,500 sqm vs 2011: ~238,000 sqm

#### ◆ Rents on downward trend throughout the year

- West-side experienced sharp drop Q2 but kept resilient in H2
- CBD buildings lowered rents up to 10% as vacancy increased

#### ◆ Vacancy decreased thanks to lower rents & strong demand

- Grade A: 21%, down from 37% in Q4/2011
- Grade B: 23%, down from 26% in Q4/2011

#### ◆ Impressive net absorption in 2012: **91,000 sqm**; second highest in the past 8 years !

- Strong take-up in Keangnam & IPH (combined 50,000 sm)
- Banks less active than before
- Consulting, IT & telecommunications, Oil & Energy tenants are actively expanding or relocating

## 2013 FORECAST

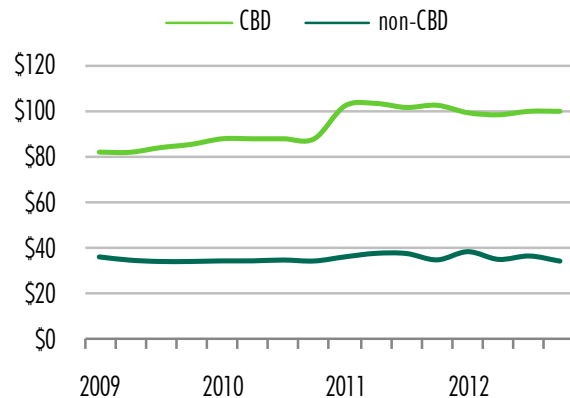
- ◆ **Asking rents will continue to fall:** landlords in the West-side will accept sharper price cuts than in CBD.
- ◆ **Office Building acquisitions will increase** → developers restructuring their investment portfolios
  - SOEs are expected to sell their office buildings & stop developing new office towers
- ◆ **Pharma, Law, IT & other support services** will replace Banking & Finance to dominate the occupier market
- ◆ **Tenants still have the upper hand** in negotiating lease agreements and are more actively involved in the leasing process
  - Large occupiers: Relocation to more affordable options that benefit from larger floor plates and generous incentives
  - Smaller occupiers (high-profile tenants or who are looking for space as rep. office): enter into new or renewal contracts in CBD Grade A buildings
- ◆ **New commercial office hub** is expected to gradually form in Ba Dinh & Tay Ho Districts following the entrance of large new urban areas: Ciputra, West West Lake - benefitting from good infrastructure

<b>Current vacancy (2012)</b>	183,000
<b>New supply</b>	
2013	435,000
2014	190,000
2015	260,000
<b>Current vacancy + New supply (2013-2015)</b>	<b>1,055,000</b>
<b>Projected average annual take-up</b>	<b>100,000</b>

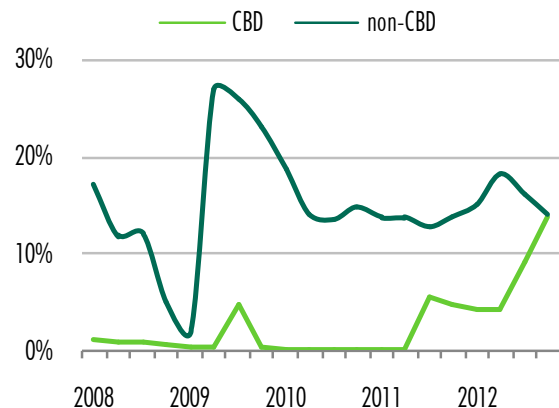
It will take up to **10 years** to absorb the current vacancy + additional supply



### Retail Ground Floor Rents



### Retail Vacancy



### ◆ Supply:

- New entrants: Indochina Plaza Hanoi, Melinh PLAZA Ha Dong; adding 50,000 sm NLA
- Distress signals: Grand Plaza closed down for renovation; Hang Da Galleria reported only 20% occupancy

- ◆ **Average rents decreased slightly y-o-y** as non-CBD projects (both existing and newly-launched) lowered rents to maintain occupancy

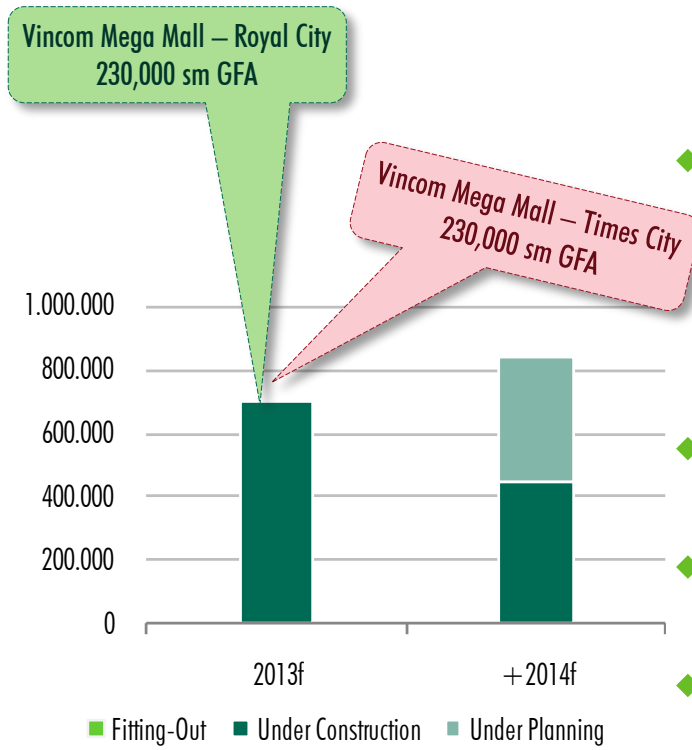
### ◆ Vacancies increased compared to last year

- CBD: some projects struggled to replace large tenants vacating their premises
- Non-CBD: Vacancies rose to 14% due to new projects' coming on stream

### ◆ Demand

- Fewer shop openings than closures
- F&B are the most active occupiers
- Consumers tightening budget - growth in total retail sales slowed down compared to the last few years

## 2013 FORECAST



### ◆ Large supply anticipated:

- 2 giant Vincom Mega Malls (Royal City, Times City with GFA 230,000 sm each => each 4 times larger than the current largest one; these two combined double the current total stock)

### ◆ Rents expected to face downward pressure, especially in non-CBD projects

### ◆ Acquisitions of shopping centres anticipated (foreign developers/operators will take over stakes from local ones)

### ◆ Fiercer competition among local & international supermarket chains to enhance market coverage

### ◆ Foreign retailers' attitude & movement:

- Concerns remain about regulations, low consumer spending, etc.; hence a "wait-and-see" attitude remains.
- **HOWEVER**, those who have done thorough research & have confidence in future market growth will set a footprint or expand in Hanoi in 2013. Among which, convenience stores, F&B occupiers will be most active.

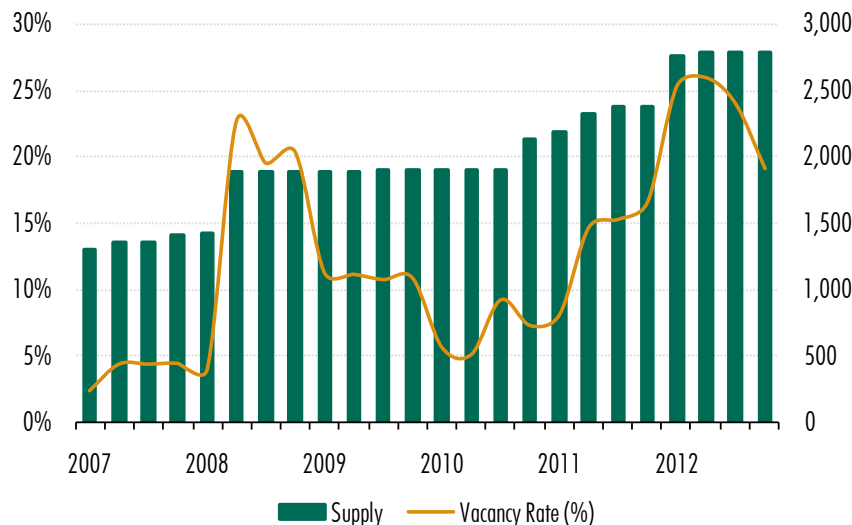


# SERVICED APARTMENT

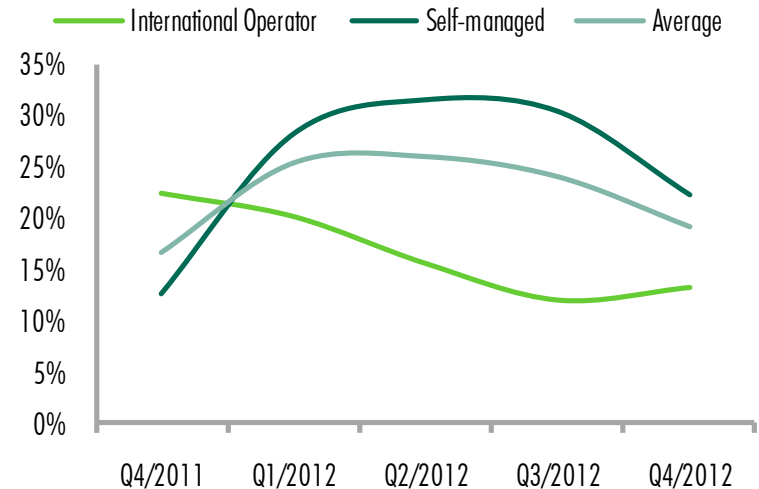
## 2012 REVIEW

- ◆ Vacancies were high throughout the year but reduced by the year end
  - 24%-25% in the first 3 quarters, down to 19% in Q4
  - Primarily thanks to improved occupancy rates in Landmark 72 & Crowne Plaza (incl. short-term lease)
- ◆ Asking rents reduced 2.15% while actual rents may have been lower by 5% y-o-y
  - Buy-to-let units offered deep discounts
- ◆ Serviced apartments typically capture the top 10% of expats in Hanoi
  - Also affected by the current economic difficulties but to a lesser extent than other accommodation options

### Historical Vacancy and Supply



### Vacancy Rate in 2012 (%)



# SERVICED APARTMENT

## 2013 FORECAST



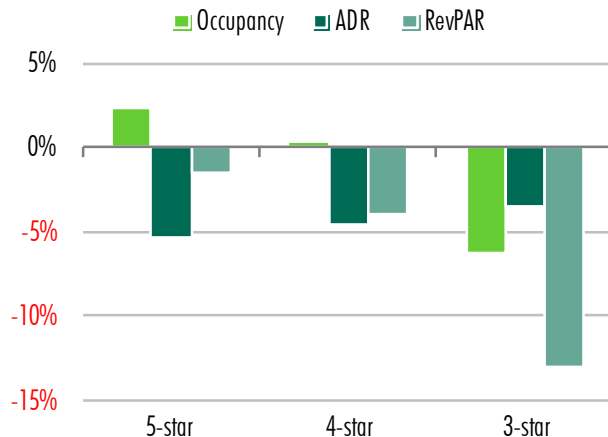
Oriental Palace



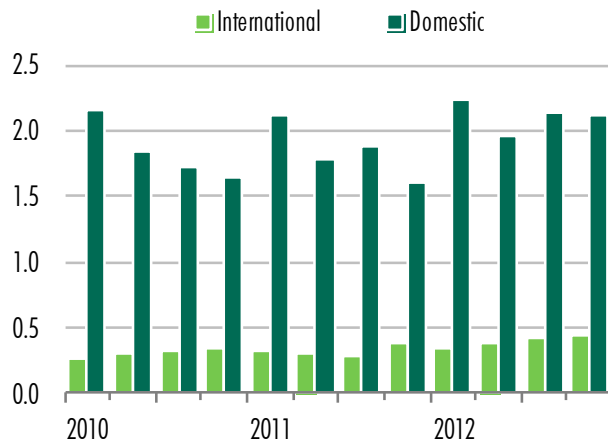
Calidas Landmark 72

- ◆ Demand for accommodation **in the West** continues to rise due to the ongoing relocation of offices to this area.
  - Current lack of Grade B serviced apartments in the West in the below US\$2,000 price range
- ◆ **Expected performance**
  - Rents to soften by 5%
  - Absorption rate will continue to be around 40-50 units per quarter, unless deeper discounts are offered.
- ◆ **Location matters**
  - Tay Ho area will continue to perform strongly due to its desirable location - despite new supply coming up.
  - Older projects in the CBD will face competition from new projects in the west.

### Y-o-Y Changes by Grade (Q4/2012)



### Visitor Arrivals to Hanoi (Millions)



### ◆ SUPPLY

- Current: 8,673 rooms in 68 hotels (↑5% y-o-y)
  - 1 new local 4-star & 5 new local 3-star hotels, 1 hotel closed
- Investment activities
  - Hanel's acquisition of the 5-star Daewoo Hotel (Mar '12)
  - Horison was renamed Pullman Hanoi (Nov '12)
  - A growing number of luxury hotels are for sale (Nov '12)

### ◆ MARKET PERFORMANCE

- Q4 is high season thus improved performance q-o-q
- Deteriorated Y-o-Y market-wide,
- A few 3-4 star hotels suffered from worse performance Y-o-Y for several quarters

### ◆ DEMAND

- Visitors to Hanoi ↑27.4% (int'l) & ↑ 8.2% (domestic)
- Improved length of stay market-wide towards year-end
- Key markets
  - Largest inbound visitor source: Asia region (>50% of total)
  - Arrivals from key markets particularly China grew strongly y-o-y

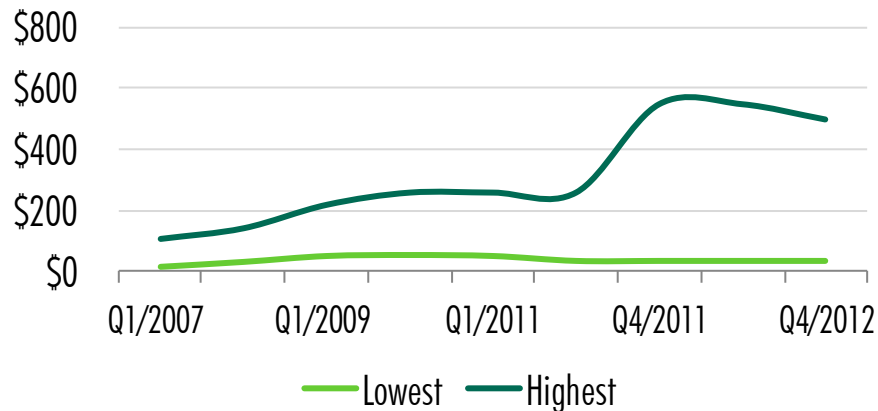


- ◆ Buyer's market will be more apparent due to signs of oversupply, especially in 5-star segment
- ◆ Declining ADR will be countered by increasing Occupancy → modest growth still possible
- ◆ Survival of the fittest: natural attrition between competing properties, with a few budget hotels closing for renovation, rebranding, or change of operations due to increased competition
- ◆ Licenses to build new hotel will be harder to win, particularly in the 5-star segment
- ◆ Possible reduction in Capital Values of existing hotels
- ◆ A few M&A deals (especially in luxury segment) are possible, mostly by local developers.

# VIETNAM INDUSTRIAL AND LOGISTICS

## 2012 REVIEW

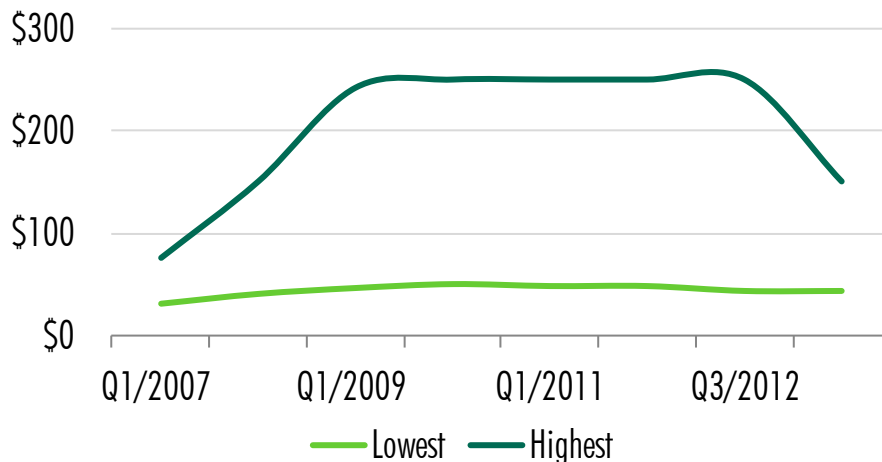
### SKER – Historical Land Rates, Key Industrial Parks



- ◆ Openings of new economic zones and industrial parks were halted. Existing IPs under pressure to review their land usage and tenant implementation.

- ◆ To attract more tenants, developers at less favourable locations have been forced to decrease rents significantly.

### NKER – Historical Land Rates, Key Industrial Parks



- ◆ Land rental rates at key industrial parks remain steady or down slightly compared to 1H2012.

- ◆ Derived demand from expansion of F&B, FMCG, and Electronics firms such as Pepsi, P&G, Samsung and Nestle.

# VIETNAM INDUSTRIAL AND LOGISTICS

## 2013 FORECAST



- ◆ Both international and local logistics service providers are expanding across the country (Schenker, DHL, Kerry,... vs Tan Cang Saigon, Vinafco,...)
- ◆ Third tier provinces such as Long An, Bac Giang, Hung Yen,... continue to attract traditional sectors like garments, footwear.
- ◆ Electronics, F&B , and FMCG concentrate in second tier cities such as Binh Duong, Dong Nai,...
- ◆ First tier cities such as HCMC, Hanoi and Danang capture lion's share of emerging industries such as R&D, labs, software development and Business Process Outsourcing.
- ◆ Loads of talk about Myanmar

- 1. Expectations of local developers/investors of service providers are aligning with those of international developers and investors.** Specialists are now in demand. CBRE will employ a greater number of qualified/certified staff as a % of our head count, costing more (will be RICS/API) than at any point in the last ten years. In the last 24 months five of our employees will have gained RICS certification.
- 2. Property is no longer just about bricks and mortar :** Real Estate Investments Trusts the highest form of property investment sophistication will eventually enter Vietnam requiring specialised expertise from both legal, tax and property service providers
- 3. Localization, although an obvious trend to cut costs, will reverse in 2013.** CBRE Inc will send more senior staff to Vietnam in 2013 to fill the experience gap which is even bigger than in 2007, Specialists in restructuring portfolios and Investment Agents will grow in number. Same in the research field, how do you make money out of data. In sales, no more show and tell.



- Hanoi now (as we suggested in 2009) will play a more dominant role in the property market in 2013**, in terms of development spend, supply numbers, base for Developers, and infrastructure. The Asia Games 2019, Government policy and Metro lines will impact on jobs, logistics and the housing market.
- Reduction in the number of listed Developers** Like the number of active real estate funds/Developers will halve in 2013 and halve again in 2014.
- The burden of Non Performing Loans will become the dominant play in the property market in 2013.**
- CBRE still believes that confidence is the key determinant for a turnaround even if the cost of borrowing continues to slide.** The Eurozone has record low interest rates and buyers still refuse to come back into the market. RICS reports about 950,000 recorded sales in the UK, down 25% from 2011 and down from 1.6m in 2006.





7. **CBRE changes the shape of its sail, like Developers and Investors to source opportunities in Vietnam.** MNCs requirements have changed dramatically and as a result we have increased our Project Management business line from one person in Jan 2012 to eight in Jan 2013 and expect to double in size again during 2013.

We now manage Shopping Malls and expect to double in size our projects under management by Q4 2013.

Having not done Mortgage and Home Loan valuation work since 2004 we will re enter the market later this month.

CBRE now employ less sales staff selling Condos and Villas than at any point in the last six years but have more inventory to sell. Our Clients have now asked us to take a sales management role.

8. **Sales and Leasing will become more of a collaboration between Developers/Landlord and Agents/Brokers.** CBRE believe Developers will pay fees proportional to the value of the deal.

The amount of information on pricing and trending will double, allowing investors & tenants to make more informed decisions. This information will become more readily available. **The secondary market will become more transparent and more liquid.**

- 9 **Developers will have to reduce prices by at least 30% discount to clear surplus stock and even then it may not sell.** Developers cannot jump from developing mid/high end residential projects to mass market product.
- 10 **In West Hanoi, effective office rents could half again in 2013.** Why positive? Because in other SEA office markets the Developers went bankrupt, lost their properties and rents remained stagnant for up to 15 years.
- 11 **Restructuring will outpace M&A** as the next topic in the local press
- 12 **Vietnamese investors will buy residential properties in London, Melbourne and Singapore before they buy in My Dinh.**



13. From "If you build it, they will come" to "Now you have built, what are you going to do with it?" To "do not build it until you have an occupier and a competitive advantage".
14. Korean & Japanese Investors/developers will be dominant in the mixed use sector.
15. What happened to LEED? - Just because nobody's talking about it don't assume it isn't important.
16. Despite the difficulties, foreign retailers will come to Vietnam
17. Income generating properties will require a 12% yield to find buyers, however there will unlikely be any sellers.
18. Does anyone still play golf?



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Q4/2012 released  
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# THANK YOU!

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