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PROPERTY REPORT



Though Vietnam has taken a hit in the current economic crisis, it is showing signs of recovery in the residential and hotel real estate sectors

BY MARK D'ALELIO

Real estate market showing its resiliency

Despite the economic slowdown, Vietnam's real estate market has remained relatively resilient fueled primarily by the local Vietnamese developers and occupiers. In this current environment, there are fewer foreign invested real estate projects due to the fiscal tightening in their home countries. Several multinational companies have scaled back or temporarily suspended their operations until the global economy starts showing signs of recovery sufficient enough to justify recommencement.

Vietnam's overall economy has not been absolutely immune to the economic crisis, with the government reducing its targeted growth rate for 2009 to 4.5 percent. However, it fares much better than most, if not, all of the economies of the member states of the ASEAN.

The current activity in the real estate sectors are indicated below:

Office

Apart from Ho Chi Minh City (HCMC) and Hanoi, there is little office market activity in the other cities, as multinational and domestic corporate firms tend to set up offices first in these two cities.

The growth environment of early 2008 has changed to cost containment in 2009. Office rents hit a peak in last year's second quarter, when local grade-A buildings were achieving rents near US\$90 per square meter. In the first quarter of this year, HCMC grade-A rents for new or under-construction properties have fallen by an estimated 30 to 40 percent from their peaks. In Hanoi, there has been approximately an eight percent quarter-on-quarter drop in office rents on existing buildings. New office supply continues to be in the pipeline in Danang. Tenants can therefore command deals in the current market creating opportunities for businesses, if they are well positioned enough to invest.

Retail

Organised retail space is still generally maturing in HCMC although office spaces that were recently developed have improved the quality and grade of office properties available - Siam Paragon and



VIETNAM'S OVERALL ECONOMY HAS NOT BEEN ABSOLUTELY IMMUNE TO THE ECONOMIC CRISIS, WITH THE GOVERNMENT REDUCING ITS TARGETED GROWTH RATE FOR 2009 TO 4.5 PERCENT.

Huong Vuong Plaza being two examples. More supply is on the way in HCMC in the fourth quarter this year with two projects coming online in District 1 and District 11. This might coincide with an upturn in consumer spending, depending on one's view of economists' and analysts' reports on recovery in consumer spending globally. Prime retail space is still a market to be developed properly in Hanoi with far fewer developments in the pipeline creating opportunities for new entrants or expanding retailers.

The average retail premise rent is \$85 per square meter in HCMC with higher rents for advantageous positions on the first floors of buildings in the central business district.

Rents in this sector have been increasing sharply since the beginning of 2007 due in large part to Vietnam's opening of the retail market upon its accession into the World Trade Organization. In fact, the average retail rental fee in HCMC is one of the highest in Asia.

Industrial

The industrial sector has been hit the hardest in this current environment due to the lack of

demand. Many multinationals have scaled back their manufacturing with reductions in staff as well as through closures. Land rents have decreased in industrial parks and export processing zones nationwide. This creates opportunities for outsourcing and cost-reduction by companies outside of Vietnam, which conduct cost-benefit analyses of scaled down location and outsourcing costs versus current operational costs.

Residential

The residential market has cooled from what was an overheated inflationary environment in Vietnam a few months ago. Subsequently, there has been a drop in re-sale prices and buyer interest in condominiums from its peak in 2007 to 2008. Local banks are offering loan-to-value (LTV) of 90 percent for a term of 20 years to qualified buyers.

Hotel

Due to cut backs in overseas travel, foreign tourism has somewhat declined resulting in decreased occupancy and room rates, especially in the luxury segment. This is shortly set for a recovery, since the local one to three-star hotels are multiplying throughout the country. Also, four to five-star resort type properties under development in the central region, particularly in Nha Trang and Danang, have secured the attention of very well established and savvy hotel operating brands. Their business models take into account the 'blips' in tourism and are based on their three- to five-year development plans. Consequently, these areas will be some of the most sought after in Asia when the developments have been completed.

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