

OFFICE SECTOR

HO CHI MINH CITY

OFFICE MARKET TO WELCOME A WAVE OF NEW SUPPLY AFTER A QUIET PERIOD

After a quiet year of 2018 with barely no new supply, HCMC's market is ready to welcome a wave of new office buildings in 2019 and beyond.

In 2019 alone, nine new buildings, with more than 150,000 sq. m., will be launched across the city, of which two Grade A buildings will be in the CBD while all Grade B offices will be spread out to non-CBD and decentralized areas. This amount will mark the largest new supply added to the office market in the past five years.

From 2020 to 2021, the market expects to introduce additional high profile Grade A office buildings in the CBD area. Approximately 150,000 sq. m. NLA of CBD – Grade A offices will enter the market, lifting up the currently scarce Grade A office stock.

New supply volume over the next three years will be doubling the new supply that was launched in the past three years from 2016 to 2018. This will come from 15 new buildings of both Grade A and Grade B, adding a total of 347,000 sq. m. NLA to HCMC's office stock.

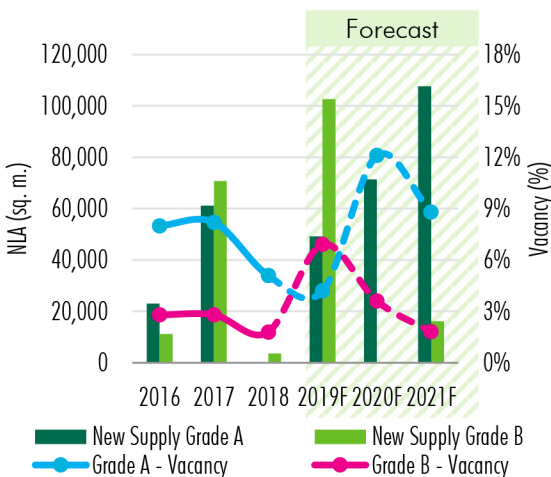
MODERATE RENTAL GROWTH PROSPECTS

The wave of new supply expected in the coming years will help ease the pent up demand of leasing office spaces. In recent years, the scarcity of office stock presents limited

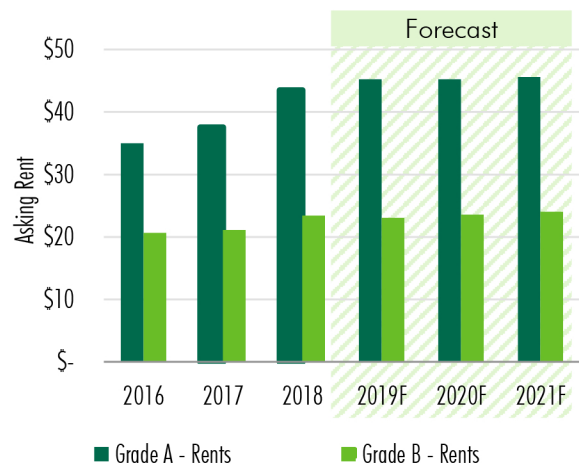
options to tenants looking to relocate, expand or lease new space. Additionally, the demand for expansion and leasing of large area has been gradually increasing. Hence, greater new supply over the next three years is much anticipated to ease such leasing demand. Increasing new supply, however, will put heavy pressure on landlords, especially of older buildings, as the market shifts to tenant's market. Landlords would need to monitor the shift of negotiation power over tenants under such a circumstance.

Furthermore, the surge of office rents in 2018, with average growth recorded at 15.8% y-o-y, has affected the occupancy by the end of 2018, with Grade A vacancy slightly increasing by year end (from 3.7% in Q3 to 5.0% in Q4). Although it was a slight adjustment, this reflected tenants' reaction over quickly increasing rental rates. Certain tenants at Grade A offices have restructured their business portfolios by downsizing or even contracting their spaces to relocate to Grade B offices and flexible workspaces, a move seen as resistance against rents surge. Landlords should be more prudent in rental policies in order to avoid negative reaction from tenants. Hence, rental growth of Grade A offices is expected to be only 4%, comparing against the 15.8% growth recorded in 2018, while its vacancy will continue to slightly decrease to 4% in 2019. In addition, no new Grade A building will be coming online until the end of 2019, thus, the market will continue to absorb vacant spaces from the existing Grade A offices.

HCMC Office, New Supply and Vacancy



HCMC Office, Asking Rent, USD/sq. m./month



Asking rent excludes VAT and service charge

On the contrary, Grade B rental growth might experience a minor downturn of 1.5% in response to a large number of new Grade B buildings coming on stream in 2019, which will also increase its vacancy rate to 6.9%.

SOLID DEMAND DRIVEN BY WORKSPACE SOLUTIONS

Despite the market welcoming greater new supply in 2019 and beyond, the market expects that most buildings will see healthy performance.

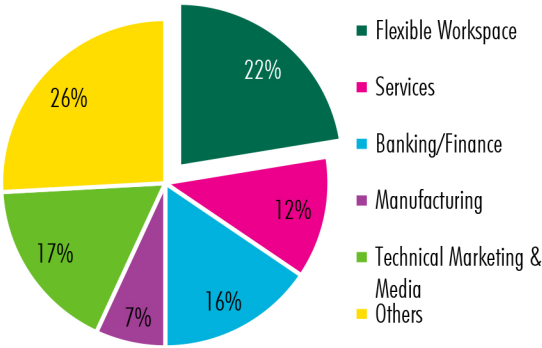
During the past few years, finance/banking and manufacturing companies have occupied the largest portion of total office demand. In 2019 and in the next few years, the office market will experience a restructure of demand when flexible workspace and tech firms are expected to dominate office demand and become anchored tenants of traditional offices. As of 2018, there were approximately 27 flexible workspace centers in HCMC with a total GFA of 37,780 sq. m., increasing by 109% y-o-y. Flexible workspace's tenants are not only freelancers, start-ups or small-medium enterprises but also corporations. Demand for space from IT, Internet and Tech firms is expected to further grow, driven by expansion of both local and international companies.

TECHNOLOGY TO RESHAPE OFFICE USAGE

There is no denial for the advantages of applying advanced technologies into the workplace to make the

management and operations of an enterprise more efficient. In the next few years, companies are expected to further technologize their operation systems to enhance efficiency; in certain cases this might allow employees to work remotely. The incorporation of technology into the workplace will create a revolution and reshape of office usage. Altogether, these evolvments are leading to changes in occupiers' requirements for unit sizes and technical specifications. Under such a circumstance, landlords would be required to adapt, via the introduction and inclusion of technology, services, facilities and amenities in the office space, providing tenants with flexibility, convenience and wellness, on top of safety and security. Landlords who could deliver such requirements to meet the changing demand could futureproof their performance, although this might mean renovation works required.

HCMC Office, Tenants by Industry, Major Transactions collected



OUTLOOK

- Rental growth expected to be more stable

Landlords will be more prudent in rental policies in response to strong growth of new supply

- Space constantly being redefined

Office space will become more flexible. The use of flexible space will then be the crucial factor of all firms' business portfolios in response to the constantly evolving business context.

OFFICE SECTOR

HANOI

SUPPLY GROWTH TO ACCELERATE

A significant amount of office space is expected to complete in 2019 adding 138,000 sq.m, NLA to existing supply. Accordingly, Hanoi office stock will increase by 11% y-o-y reaching 1.3 million sq.m NLA. The supply growth rate of 11% exceeds previous levels of 4% per annum on average during 2016 – 2018.

Grade B completions continues to be the major source of new supply with eight buildings in the West and Midtown submarkets covering 82% of total new supply in 2019.

For Grade A segment, after three years of no new supply, the market will welcome one new building – Thaiholdings Tower (NLA: ~24,500 sq.m). The new project will provide opportunities for occupiers who want to expand in the CBD – a submarket where stock has been unchanged during the last five years.

Looking beyond 2019, Hanoi office expects to welcome even more sizeable buildings, some of which by foreign developers.

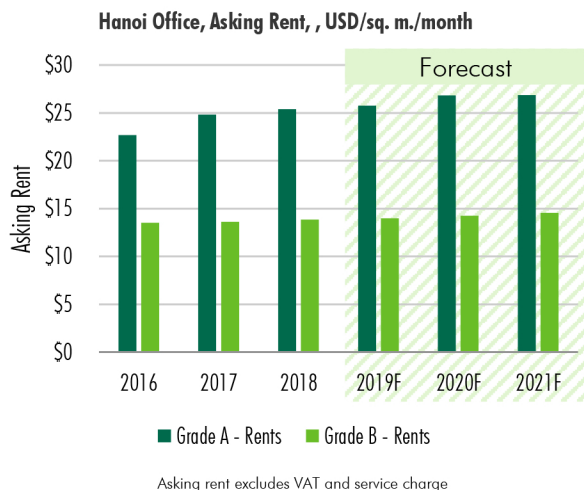
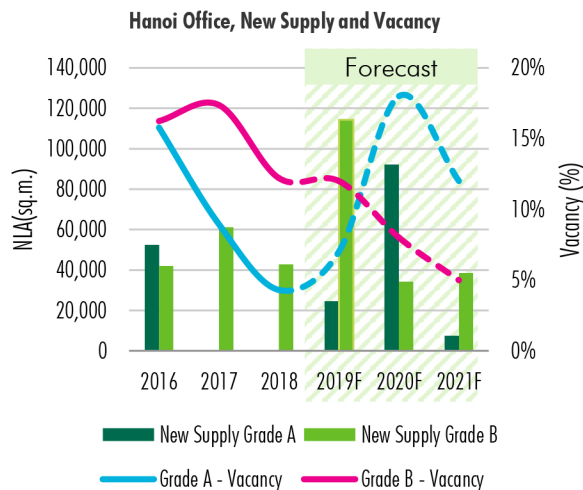
RENTAL GROWTH TO MODERATE WHILE NET ABSORPTION TO REMAIN HEALTHY

In 2019, although there will be higher volume of new supply potentially posing pressure on leasing activity, we still expect healthy net absorption across both segments. As seen in 2018, stronger pre-commitment as well as improved leasing speed at new projects led to the absorption reaching 100,000

sq.m, NLA – the highest level observed over the past three years. In 2019, the combination of healthy demand from both traditional sectors and co-working providers as well as quality new office supply will support the performance of office market in Hanoi. We expect net absorption rate to stay at a similar level to the previous year. As such, vacancy of Grade B is expected to remain unchanged at 12% while that of Grade A to increase by 4 ppts y-o-y reaching 7% respectively this year. From 2020, further supply growth is expected to create further pressure on vacancy rates.

Although there will be stronger new supply volume in 2019, rental rates are expected to grow at a moderate pace of around 1% level for both grades in 2019. For Grade A, rental growth is expected to be slower than the levels experienced in 2017 and 2018. On the back of limited new supply, rental growth recorded a 10-year high in 2017, achieving more than 9%, then slowed to more than 2% in 2018. With the amount of new supply anticipated in 2019 and beyond, rental growth for Grade A is to further slow to around 1% on average for the year. Grade B's rents are also expected to grow at a similar pace of 1%, which is relatively stable comparing to the past two years. New buildings at good locations with better specifications will be asking higher rents catering to the expansion demand of international tenants with high leasing budget. Meanwhile, landlords at low-vacancy buildings seem to have increasing negotiation power at lease renewals.

While relocation and expansion are still the main drivers for office leasing demand, renewals will continue to be popular among tenants in buildings in the CBD.



SIMILAR TO HCMC, FLEXIBLE SPACE PROVIDERS ARE EXPANDING QUICKLY TO BECOME BIG OCCUPIERS AND MAJOR SOURCE OF LEASING DEMAND

Continued healthy office demand is expected in Hanoi in 2019. On the back of strong economic fundamentals, the Financial and IT/Tech sectors remain in good shapes and stable demand drivers. The tenants from these sectors continuously accounted for around 40% of CBRE's leasing enquiries over the past three years. Among companies in the financial sectors, local banks and international insurance companies are expected to be the most active players looking for new office space. These companies are either seeking new locations for both back office and branches for the purpose of expanding their networks and scales. Meanwhile, IT/Tech sector witnessed expansion of both local and international firms in 2018; CBRE expect the same trend to persist in 2019.

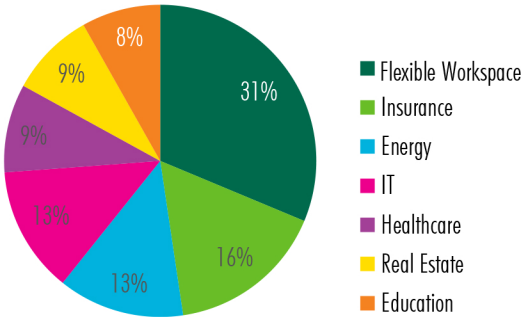
In 2018, flexible space in Hanoi grew at 77% and accounted for the largest proportion (31%) of major leasing transactions (*) in Hanoi recorded by CBRE, showing greater presence of this sector in leasing demand. The growth of this model has been driven by the needs of improving space efficiency of corporate clients. Flexible space providers have actively approached these occupiers to introduce build-to-suit service as a cost saving and workplace solutions. Meanwhile, the cooperation of flexible space providers and landlords to add co-working component in traditional office buildings have also supported the expansion of this model.

As such, CBRE forecasts that the flexible space providers will continue to be a major source of leasing demand in 2019.

In terms of sizing, the most common enquiries to CBRE have been office space of under 500 sq.m, covering around 45% of CBRE's enquires in Hanoi in 2018. In upcoming years, we expect there will be stronger demand for larger office space of more than 700 sm. The share of this sizing is expected to increase from current level of 20% to 30% to CBRE's leasing enquiries in 2019.

From 2019 onwards, tenants will have more options to consider given increasing volume of office supply to be introduced from both Grade A and B. Locations such as Midtown and West submarkets will continue to appear in the prioritized option lists of IT firms and Insurance/Bank branches. Meanwhile, MNCs, Embassies and Financial sectors will have new options in the CBD for their expansion or relocation plans.

Hanoi Office, Tenants by Industry, Major Transactions collected



OUTLOOK

- Solid expansion of Finance and IT/Tech sectors and persistently strong growth of Flexible space will drive the Hanoi office market in 2019.
- Supply to grow at a higher rate than previous years to meet growing demand.
- Grade A's rents in existing projects to be stabilized while newly completed projects will ask for higher rates. For Grade B segment, rents only expect to increase slightly as landlords look to ensure occupancy.