Vietnam Real Estate Market, Q4 2018

VIETNAM GDP
7.08% y-o-y

HCMC GRDP
8.10% y-o-y

HANOI GRDP
7.12% y-o-y

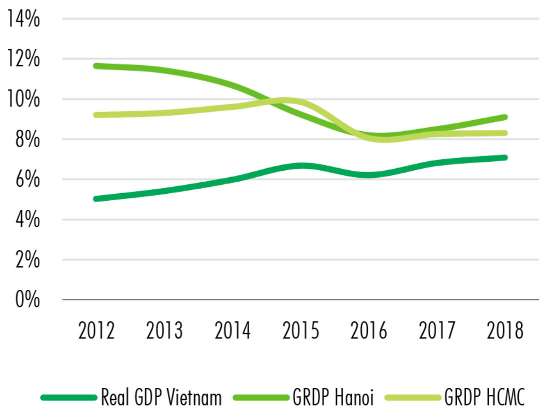
VN-INDEX
9.32% y-o-y

In 2018, Vietnam posted the highest GDP growth since 2008, expanded 7.08% annually. GDP per capita was reported at US$2,587, an increase of US$198 compared to 2017. Registered FDI inflows to Vietnam was reported at US$35.47 billion. Although the registered FDI decreased by 1.17% y-o-y, the implemented capital for 2018 surged 9.14% y-o-y. Majority of FDI went into manufacturing sector (47%) and real estate (19%). Vietnam's Industrial Production Index for 2018 increased 10.2% y-o-y. Manufacturing recorded the highest growth at 12.3% y-o-y.

In 2018, Vietnam consumer price index increased by 3.54%, in line with the target set by the National Assembly. Tourism in Vietnam grew significantly with 15.5 million international arrivals in 2018, up by 19.9% y-o-y. 78% of these arrivals were from Asian countries, mainly China (4.97 million) and South Korea (3.49 million).

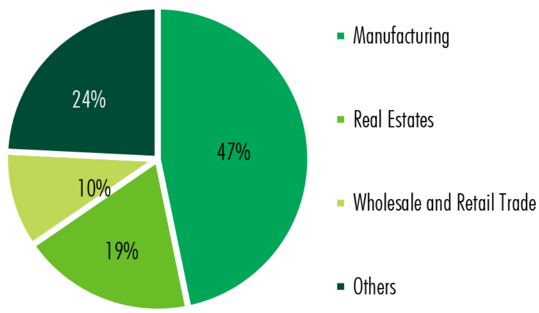
The continuing trade conflict between China and the United States and the U.S. Fed's signal of further increase in interest rate in 2019 will challenge economic growth of local governments worldwide. Despite facing many challenges, Vietnam has great opportunities to increase export volume and to attract more FDI inflow. Moreover, CPTPP, which has gone into effect in January 2019, promises a bright growth prospect for Vietnam's economy in 2019.

Figure 1: GRDP of Hanoi, HCMC & Vietnam



Source: Vietnamese General Statistical Office, 2018.

Figure 2: Registered FDI to Vietnam



Source: Foreign Investment Agency, 2018.

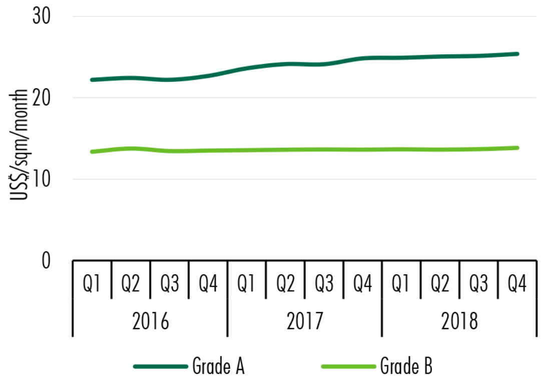
SLOWER SUPPLY GROWTH

Year 2018 continued to be a good year for Hanoi office market. There were only two new projects completed, making the total supply increase by 3% y-o-y. This growth rate is lower than previous year's supply growth of 5%. Both new projects are in Grade B segment and in West submarket.

IMPROVING PERFORMANCE AMID LIMITED NEW SUPPLY

The highlight of 2018 is the absorption of 100,000 sm, NLA – the highest level over the past three years. Strong pre-commitment has been seen at new projects opened in 2018. For instance, Detech Tower II achieved 50% pre-commitment prior to the opening date. As the result, the vacancy rates of Grade A and B decreased by 4.6 ppts and 5.2 ppts to 4.3% and 12.2% respectively. For Grade A, this is the 10-year record low showing remarkable recovery of this segment.
In terms of rental rates, average rents continued to show increasing trends in 2018. Each of grade's rent increased by roughly 2% y-o-y. By the end of 2018, Grade A's rental rate stayed at US$ 25.4 psm pm while Grade B recorded at US$ 13.9 psm pm (net of VAT and service charge).
Demand-wise, co-working space has emerged as a major source of demand. This sector covered 31% of leasing transactions with leased area of greater than 1,000 sm. Apart from co-working space, finance/banking/insurance and tech firms are tenants actively seeking for new office space.
In 2019, positive rental growth is expected in both Grade A and B, especially in Grade A on the back of new quality supply in the CBD. This will become the newest Grade A supply after three years of no new supply. In terms of demand, apart from traditional sectors such as banking/insurance, manufacturing and IT, co-working space is expected to continue to be a major source of demand.

Figure 3: Asking Rent, Office



Rents are quoted excluding service charge and taxes.

Figure 4: Vacancy Rate, Office

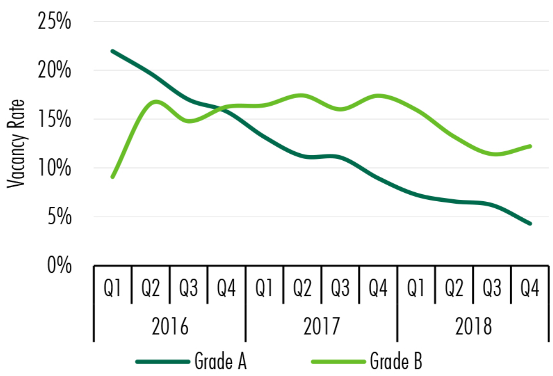
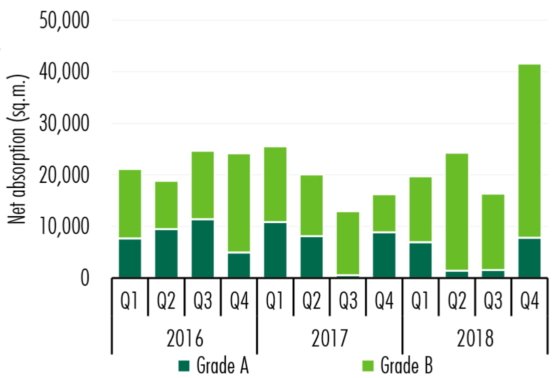


Figure 5: Net Absorption, Office



LOWER COMPLETION IN 2018

By the end of 2018, four new shopping centers have added to Hanoi retail market, providing additional 72,500 sm retail space. By location, Midtown and the West continue to dominate the supply market with just over 60% of total retail space in the market. Lack of supply in CBD will continue to shift demand towards non-CBD areas.

Due to limited supply in CBD, asking rents in CBD improved slightly, reaching US$99.5 psm pm, up 0.4% y-o-y. Vacancy in CBD continued to remain at low level of below 1% in Q4 2018. New projects opened in 2018 with good positions by reputable developers offer higher rents than average market, driving up the rental rate in non-CBD areas. However, more supply in non-CBD areas also put pressure on vacancy. Midtown and the West, where majority of retail space is located, saw the asking rent reached US$30.4, up 3.5% y-o-y; while and vacancy stood at 12.6% (up 2.1 ppts y-o-y). Other non-CBD areas saw average rent up by 0.3% y-o-y to US$24.2 and vacancy up by 1.6 ppts y-o-y to 5.5% in Q4 2018.

MORE INTERNATIONAL BRANDS GAIN FOOTHOLD

Regarding retail brands, international players continue to gain foothold by expanding in Hanoi's market, especially Asian brands. The competition landscape, therefore, is predicted to be more intense, forcing local retailers to improve the product portfolios and operational process.

Looking into 2019, Asian brands and concepts will be further embraced in the market. More large-scale projects with foreign players (developers and brands) are expected to create new retail destinations in Hanoi given limited supply in CBD.

Figure 6: Existing Supply, Retail

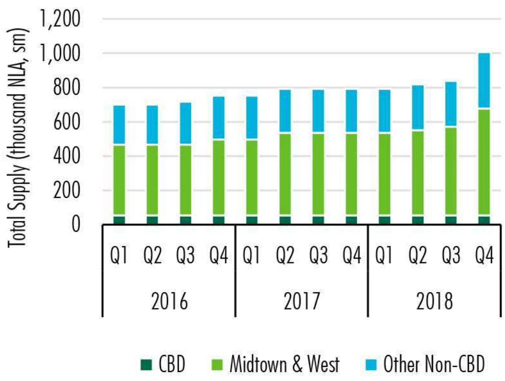
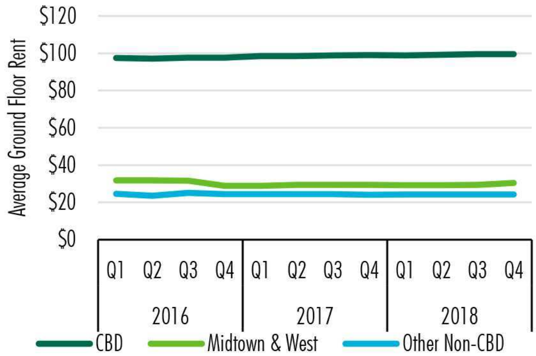
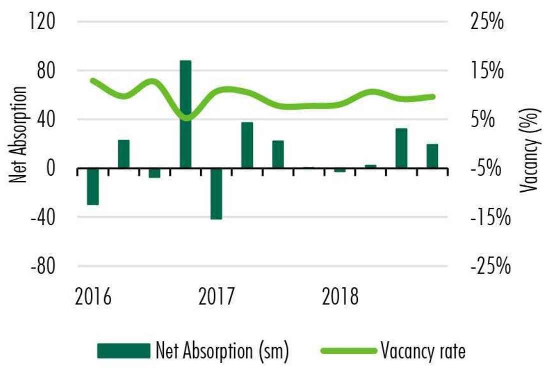


Figure 7: Average Ground Floor Rent, Retail



Rents include service charges but excludes taxes.

Figure 8: Net Absorption and Vacancy Rate, Retail



MID-END DOMINATES NEW LAUNCH SUPPLY

In 2018, the Hanoi condominium for sale continued to maintain high-level of new launch with around 30,000 units. During this year, the Hanoi market has further shifted towards mid-end segment. The share of this segment to total new launch has expanded to 70% from 63% in 2017 showing that end-users are still major source of demand in Hanoi. Noticeably, the market witnessed the launch of large-scale townships including VinCity Ocean Park, VinCity Sportia making the market more excited at the last quarter of the year.

POSITIVE SALE PERFORMANCE FOR PROJECTS IN CONVENIENT LOCATIONS

Demand, there were nearly 26,000 units sold during 2018. Positive sale performance was recorded in projects that are close to future infrastructure developments such as Minh Khai street adjacent to elevated Ring Road No.2 or across Metro line No. 2A. Additionally, projects in the good locations in the West – emerging CBD of Hanoi also recorded positive sale performance of 70% on average per new launch.

The average selling price in the primary market in Q4 recorded at US$1,304 per sq.m., a slight decrease of 2% y-o-y. The pricing level of Hanoi condominium market was kept stable given the dominance of mid-end segment.

In 2019, mid-end products are expected to keep dominating the market with launch from township developments. For upscale segments (high-end and luxury), recent progress in prime sites in Hanoi signals the return of luxury segment after two years without new supply. In terms of location, while more than 50% of new launch is expected to launch in the West, the East is forecasted to be more active as 30% of new supply is located in this area.

Figure 9: Launched Supply, Condominium

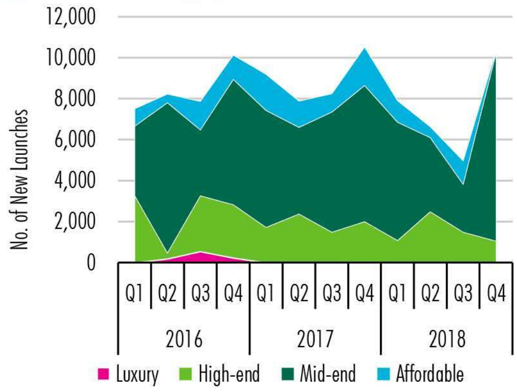


Figure 10: Sold unit, Condominium

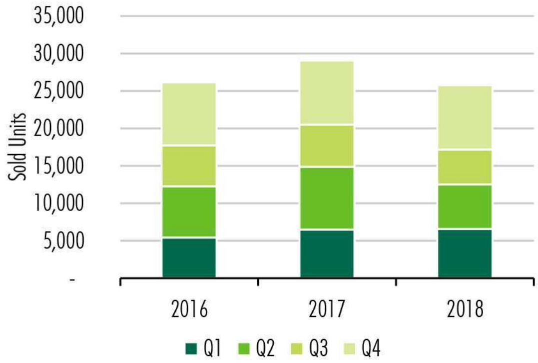
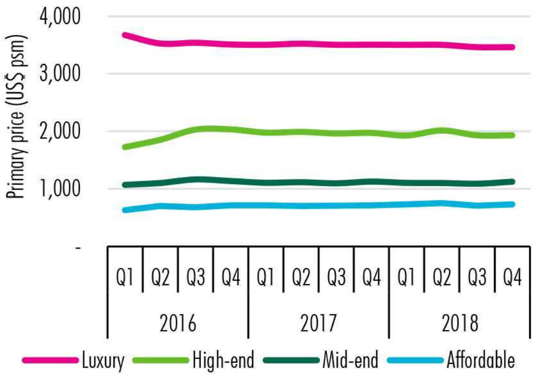


Figure 11: Primary prices, Condominium



THE LAST QUARTER SUPPLY BOOSTED

The last quarter of 2018 recorded 1,167 newly-launched landed unit in Hanoi, most of which are the next phase of existing project. Only 2 of which are first launched projects: Ngan Ha Terraced House and FLC Premiere Parc . Majority of new supply are villas and terraced house with smaller amount shophouse. There has been a new type of product started gaining attention of home-buyers: shophouse podium, which is a shophouse on the lower floors of an apartment building (podium).

THE MARKET PROVED GOOD ABSORPTION RATE WITH NEW PROJECTS

In term of sale, there has been about just under 1,200 units from different projects were recorded sold during the last quarter of the year, which is the highest number of unit sold during the quarter. New products of reasonable quality and price have been proven good absorption rate during the last 3 years, constantly at above 65%.

MARKET AVERAGE SECONDARY PRICE EXPERIENCE LITTLE CHANGES

Secondary price has been quite stable since the beginning of 2018, at ~ US$3,600 – US$3,800 psm (inclusive of land, construction and VAT).
For older projects, secondary prices experiences a decreasing trend while price of new quality projects slowly going upwards. This is a natural result of successive supply during the last few years, when newer products outstand the older products with cheaper price and better quality in general.

FUTURE SUPPLY

In upcoming quarters, the market is expected to welcome new launch from large scale projects in Gia Lam, Dai Mo and Tay Mo.

Figure 12: New launches by type, landed property

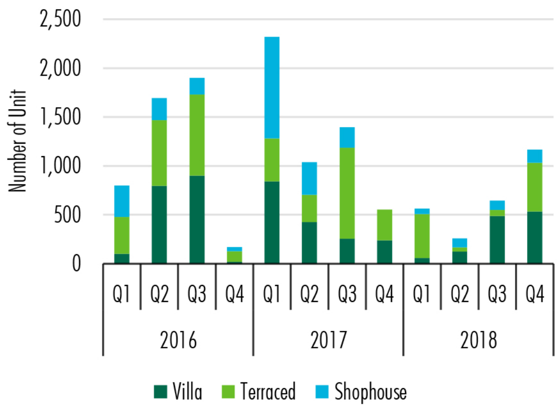


Figure 13: New launches and Sold units, landed property

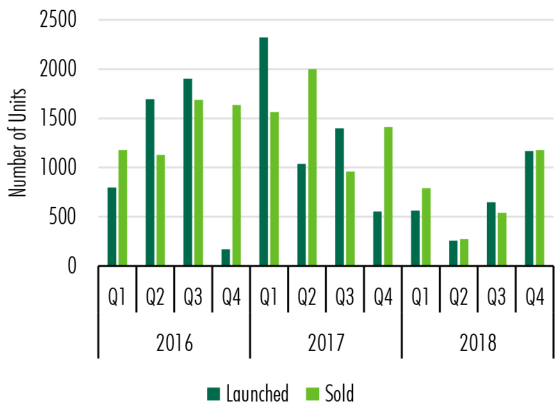
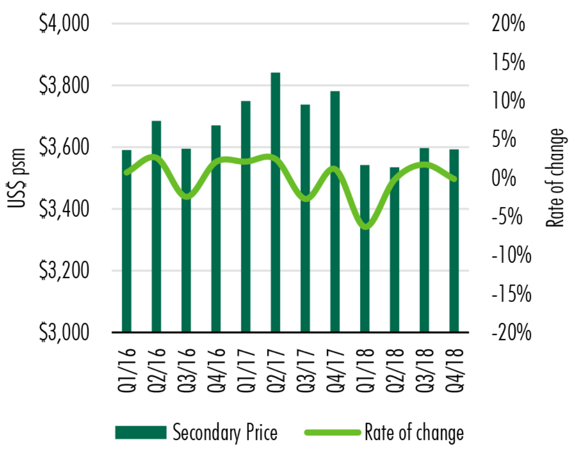


Figure 14: Average Primary Price by quarters



STABLE SUPPLY SINCE 2017 WITH THE DOMINANCE OF GRADE A IN TAY HO DISTRICT

After two new projects in 2017, Hanoi Serviced apartment market saw one new supply in the first three quarters of 2018. The total supply increased to around 3,800 units. Regarding supply by location, Tay Ho District dominates Hanoi's serviced apartment market, accounting for nearly a third of total supply. This is followed by Ba Dinh District with 27% of total number of units.

Grade A still comprise 71% of total number of units in Hanoi and focused in Tay Ho District. While nearly 38% of grade A serviced apartment are located in Tay Ho District, no project has been recorded in Hai Ba Trung and Dong Da District. This trend is expected to continue in the next three years when more future serviced apartment pipeline focuses on Tay Ho District. 8 out of 12 future projects are expected to be Grade A and open in this area in the next three years. As a result, the market is expected to be more competitive with greater demand on high quality and professional management.

POSITIVE SIGNAL IN MARKET PERFORMANCE

Compared to the previous quarter, Hanoi serviced apartment market recorded a 1.1% increase in asking rent and a reduction of 2.8% in occupancy rate to 80.1% q-o-q. Without taking into account of the newly opened Roygent Parks Hanoi, the occupancy rate for Grade A decreased by 0.8% y-o-y to 84.4% while Grade B improved 0.5% y-o-y to 81.6%.

The performance potrayed a contrast, but still positive across all grades in Q3 2018. The average asking rent of Grade A increased slightly to US$ 33.8 psm, up by 3.5% q-o-q and 4.7% y-o-y. Grade B experienced a mild decrease of -1.5% q-o-q but still up 0.9% y-o-y.

Figure 15: Total supply, serviced apartments

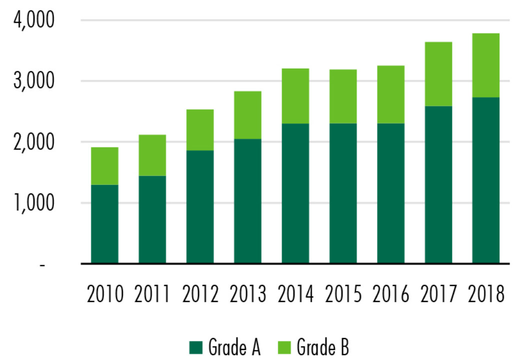


Figure 16: Asking price, serviced apartments

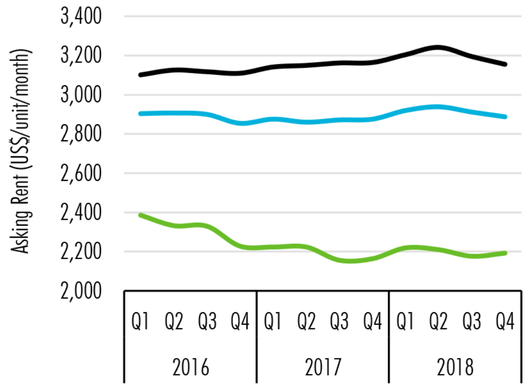


Figure 17: Operating efficiency, serviced apartments