

RETAIL SECTOR

VIETNAM

STRONG CONSUMER CONFIDENCE

According to Global Consumer Confidence Survey by Nielsen, Vietnam Consumer Confidence Index reached 122 points by Q4 2018, ranking fourth in the list of most optimistic countries in the world, together with India, Philippines and Indonesia. With strong economic performance, the overall upward momentum of consumer confidence level is expected to continue in the coming years.

Together with the strong consumer confidence, the retail market in Vietnam also has strong shift in consumer behaviour and preferences.

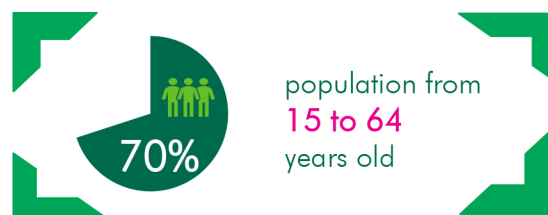
SPENDING ON ENTERTAINMENT PRODUCTS

Despite considerable intention of saving, Vietnamese consumers are willing to spend on new products and entertainment. Compared to last year, Q4 2018 saw a significant increase in expenditure on New Clothes and Tech Products. More importantly, the most positive moves belong to spending on Out-of-home Entertainment and Holiday Vacation, which increased by 5 ppts and 4 ppts y-o-y, respectively.

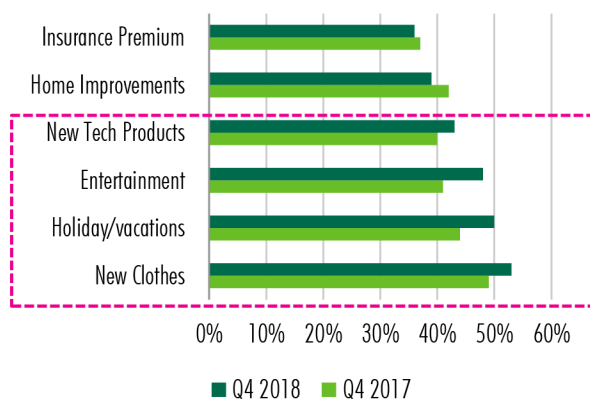
HEALTH GOES FIRST

Improving quality of life plus rising education on food safety issues has led to better awareness of food sources, quality, and hygiene amongst Vietnamese. Demand for all-natural and organic products is on the rise despite higher prices. In response to this trend, most supermarkets have dedicated areas for these products and key players, including Saigon Union of Trading Cooperatives and Vingroup, have even launched products under their own private label brands.

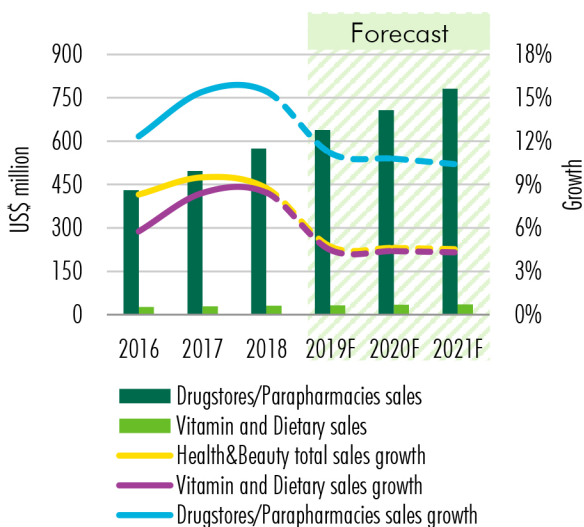
Non-food organic products are also seeing equivalent growth patterns, as more consumers look for organic labels on their nutritional supplements, cleaning products, cosmetics and even clothing. In the future, retailers will be more active in penetrating the market and diversifying their product portfolios to provide consumers with more choices related to health, nutrition, green and organic products. Watsons opened its first store in Vietnam in early 2019, catching up the demand for health and beauty in the country.



Vietnam Consumer Spending



Vietnam Health and Beauty sales, US\$ million, 2018-2021F

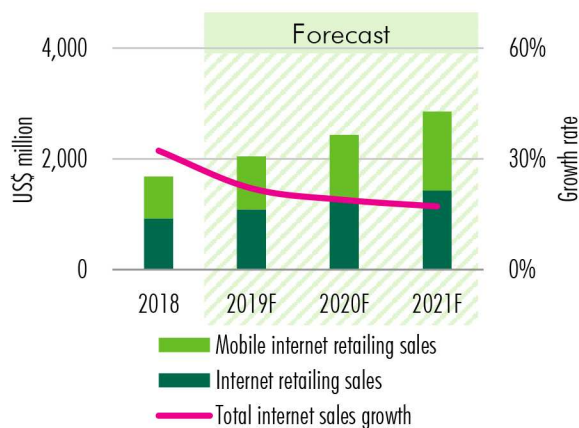


RETAIL STRATEGY: EMBRACING TECHNOLOGY TO IMPROVE CONSUMER EXPERIENCE

Online retailers are expected to be more active in 2019 as they continue to develop and invest in e-commerce and logistics platforms. According to Euromonitor's report, internet retailing grew 32% in 2018, reaching total sales of US\$1.65 billion. Looking forward, online retail turnover is expected to increase by more than 20% per annum over the next three years. As a result, Internet retailing will account for 4.4% of total retail sales in 2021, compared to 2.9% share in 2018. Some retailers, especially electronics & appliance, in recent years have adopted omni-channel strategy into sale process, allowing consumers to look for product specifications and price comparison online before purchasing.

Online delivery apps is another emerging trend that retailers need to adopt. Besides the extensive portfolio of restaurants and eateries, fast delivery and flexible payment methods, food delivery apps such as Now by Foody, GrabFood and GoFood race to capture customers through various tempting promotions specifically free shipping and discounts. The competition amongst these apps will become even more intense after South Korea's Woowa Brothers, operator of the country's leading food delivery platforms Baedal Minjok, announced their acquisition of Vietnammm which used to be the only online food delivery platform in Vietnam. This investment is expected to help Vietnammm raise its current competitiveness and reshape the market.

Vietnam Internet Retailing sales, US\$ million, 2018-2021F



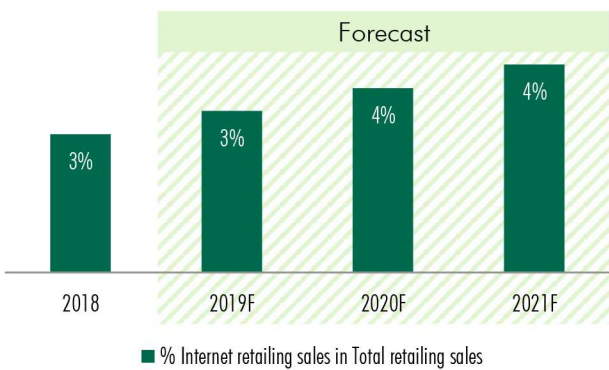
Vietnam's food delivery market is valued at US\$33 million and is forecasted to reach US\$38 million in 2020, according to Euromonitor.

Retailers are also creating their own mobile applications to provide shoppers a better shopping experience using their mobile devices. These include key internet retailers such as Tiki, The Gioi Di Dong, Lazada and Shopee. The mobile apps also integrate reminders and sale alerts to allow customers to spend more during special events. Consumers are expected to continue spending more in the coming years using online shopping tools, while omni-channel will be the focus for retailers' customer access strategies.

In the near future, Vietnam market will see retailers utilizing both online and offline channels to improve customers' experience and boost total retail sales.

Though online shopping is popular across all adult age groups in Vietnam, differences in how age groups engage with digital channels are an important focus for omnichannel brands and their marketing and sales platforms. Online channels may be growing their share of retail transactions, but consumers' shopping preference is omnichannel: combining multiple channels for a single purchase. While Gen Z shoppers, consumers aged 18-24, are making a strong shift online to make their purchases, some substratum retailing elements remain intact. Among Gen Zs, the majority still prefer visiting stores to make their purchases, after researching, browsing or price-comparing online.

Vietnam Internet Retailing sales in Total Retailing sales, 2018-2021F



RETAIL SECTOR

HO CHI MINH CITY

FUTURE SUPPLY TO GROW BY 25%, MOSTLY IN THE EAST

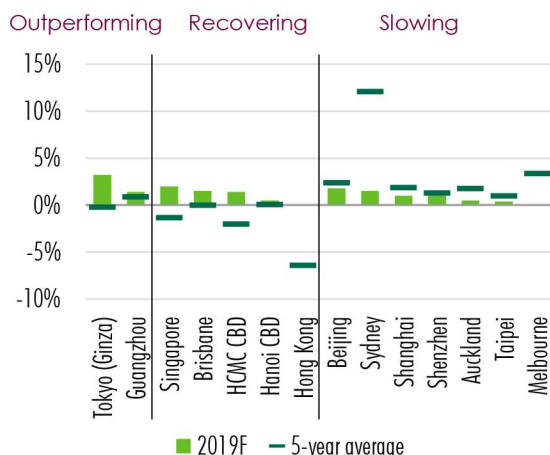
HCMC's current retail supply reached almost one million sq. m NLA. 80% of total stock are shopping centres, 14% are retail podiums and department stores make up the remaining share. In 2018, HCMC welcomed three new large-scale shopping centers each of which measured 25,000 to 60,000 sq. m NLA. Compared to 2017, when eight out of ten new projects in HCMC were retail podiums with small scale, the new supply of 2018 has now provided more quality spaces.

Pipeline of seven new shopping centres, with sizes ranging from 20,000 sq. m NLA to 60,000 sq. m NLA per project and totaling more than 247,000 sq.m NLA, are expected to enter the market in 2019. Except Union Square (which will be relaunched following renovation), six other projects are all located in non-CBD areas.

More than 51% of total new stock is developed in the East, while only 9.2% of that is in the city center. No future supply will be posted for the West.

These upcoming projects are progressing relatively slow compared to their initial planning. In the coming years, as further large-scale condominium projects would be completed, a significant supply of retail podiums is expected to surge accordingly.

Regional Retail Rental Growth, 2019F



Remarks: All the above are high street rents except Vietnam, China, Singapore and Auckland tracked shopping centres rents.

In terms of format, shopping centers are expected to continue being the dominant retail format. The closure of some Parkson department stores in HCMC has proved that stand-alone department stores have failed to deliver adequate shopping experiences for customers and to adapt to rapid changes in consumer behaviors.

In terms of shop format, the trend of pop-up retail will continue in the future, especially within the high-end and mid-end segments. These stores have special, unique and interesting designs that trigger curiosity in customers, luring them to visit the store. HCMC has been chosen by many foreign and local brands to open their first store in Vietnam. In order to test an immature market such as HCMC, a pop-up shop is a low-risk starting point. An increasing number of local brands have also adopted this pop-up model as a great way to test an area and potential clientele. Retailers have correspondingly taken advantage of the peak shopping season by hosting holiday pop-up shops at short-term retail spots in busy shopping centres such as Saigon Centre.

POSITIVE RENTAL GROWTH OUTLOOK

In 2019, retailers across Asia Pacific are expected to remain cautious after getting back on their feet, and around half of the major markets are to see growth slower than the average of the last five years.

In that context, HCMC appears to be one of the few markets with a bright rental growth outlook, where rental levels in 2019 are expected to rise quicker than the levels observed past five years. This is driven by new quality space to be introduced, which has been long sought after by international retailers wishing to enter or expand in the city. However, rental growth prospects will not be similar at all malls and all locations; locations of limited footfall and malls with outdated designs and irrelevant positioning would continue to struggle, unless changes arrive timely enough.

In HCMC, CBD rental growth will increase from 2019 onwards owing to completion of new projects. Stronger economic growth, high consumer confidence and more favorable FDI policies have enticed overseas retailers, which is a push for new rental levels in CBD areas.

RENTS TO RISE BY 5% ON AVERAGE IN 2019

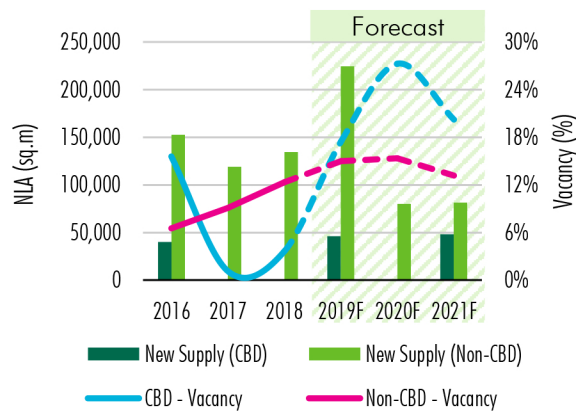
In 2018, the significant disparity in supply between CBD and non-CBD areas has led to a great divergence of rents with asking rents for an area of 80–250 sq. m. on ground floor and first floor in CBD area ranging from US\$75/sq. m/month to US\$156/sq. m/month. Moreover, new retailers aiming at CBD area face lower hand in negotiating with landlords and developers. In 2018, vacancy rates in the CBD area were extremely low due to limited supply in this area. The vacancy rates in non-CBD areas decreased owing to good absorption of new supply.

In 2019, increasing new supply in both CBD and non-CBD areas is expected to raise vacancy rates in these areas, to 17.5% and 15.3%, respectively. Despite scarce supply in CBD areas, occupancy rate of the new supply in 2019 (to open after renovation) will not be extreme given its large scale and high rental rate, leading to higher vacancy rates in CBD areas.

In 2019, new supply in prime locations of both CBD and non-CBD areas, typically offering higher asking rents, are expected to push average rents in these areas to US\$134/sq. m/month and US\$39/sq. m/month, respectively. Afterwards, there will be two to three projects each year, and these projects are scattered in diverse locations of the city. Therefore, average rental rates are forecasted to remain stable for 2020 and 2021.

Moreover, retail podiums at residential projects still

HCMC Retail, New Supply and Vacancy

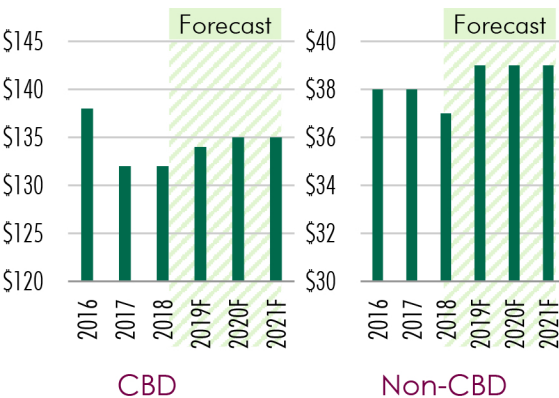


attract a decent flow of tenants, especially from F&B and activity-based segments. This is the result of flexibility in terms of rental agreements offered by private landlords. Tenants will keep looking at a revenue sharing model with the property owners when they open a new outlet. This model, which has become more popular in the city, helps retailers to reduce rental costs, at least in the initial months of opening an outlet, when the business is not yet profitable and when footfall is lower.

NEW ENTRANTS TO THE MARKET

Among brands coming to Ho Chi Minh in 2018, more than half are from the Asia-Pacific region, most of which are from Asia including Taiwan and Japan. Most new entrants were from F&B and mid-range fashion segments. Beverage retailers such as milk tea brands from Taiwan were particularly active in the market last year, through either opening their footprint or expanding their footprint in the city. Several shopping malls have increased their F&B presence to more than 20% including the three latest projects, Estella Place, Vincom Center Landmark 81 and Van Hanh Mall. There will be a further shift away from traditional shopping mall's tenant mixes towards an increased focus on entertainment and F&B. In 2019, F&B retailers from Asia Pacific nations, for example Hai Di Lao Hot Pot and Hachiban Ramen, together with specialist clothing brands from Europe namely FitFlop Footwear and Olivia Burtons, will enter HCMC market. Since CBD supply is scarce, tenants have little advantage in opting for locations while landlords have the opportunity to select their tenants.

HCMC Retail, Asking Rents, USD/sq.m/month



Asking rents are net of tax and service charge

RETAIL SECTOR

HANOI

SUPPLY TO GROW BY 21% IN 2019, MOSTLY TO THE WEST

In 2018, 72,500 sq.m NLA from four projects were added to Hanoi retail market, driving up total retail supply to nearly 865,000 sq.m. Retail space in CBD accounts for only 6.3% of total space in Hanoi and will reduce to 4.8% by 2021 with no future supply in the CBD in pipeline. CBD will continue to post positive rental growth and low vacancy rates of below 5% in the coming year. Nevertheless, non-CBD shopping malls will face strong pressure from rising competition. Two of four malls opened in 2018 include Discovery Complex and Machinco in the largest retail supply cluster – the West where nearly half of total retail space is located. Looking towards 2019, retail supply will grow by 21% per annum, bringing total space to surpass one million sq.m. The West will continue to dominate market supply as four out of six projects (126,700 sq.m) will be opened in 2019 in this area. On the other hand, residential developments and infrastructure improvements will lead to more retail supply in the South with two openings in 2019 - Hinode City and Sun Plaza Ancora. New properties in strategic locations with reputable developers are forecasted to charge premium rents while existing ones would face pressure on performance, especially weak-performing malls. As a result, ground floor rents are expected to remain stable or to adjust slightly.

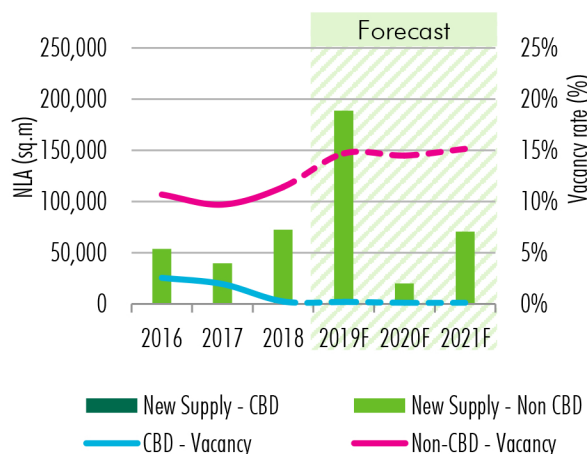
In terms of format, malls as a part of residential complexes will continue to thrive. Five out of six future projects in 2019 are located in podiums, utilizing immediate demand from

residential or commercial towers above. Luxury international retailers keen on expanding to local market have searched for shops and podiums along major high streets in CBD as alternative to high-quality retail space, which is of shortage in Hanoi. High street shops, however, pose more challenges than usually unsuitable designs and limited scale. Notwithstanding high rent for prime location, street shops have limitations in terms of façade and technical requirements. International fast fashion tenants require sizeable scales and prefer shared-revenue scheme which is not common for typical shophouse owners. The challenges will remain as landlords and tenants gradually morphed into an agreement.

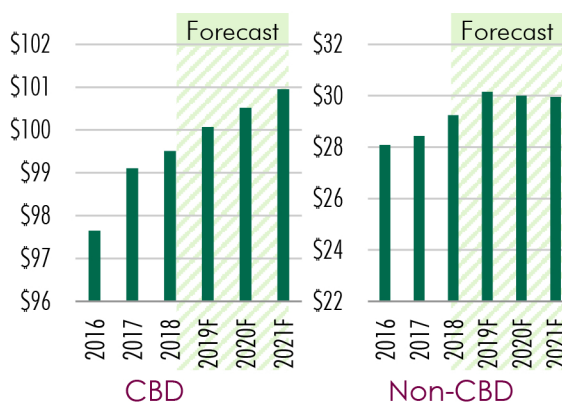
EVOLUTION OF RETAIL LOCATIONS

At present, there is no established shopping district in Hanoi's CBD due to a lack of stock. The past few years have seen a shift of shopping areas beyond CBD, gradually forming new bustling retail destinations in local market. The areas within 3-5 km from CBD have seen rapid infrastructure improvements and developments of new shopping malls. Area along Chua Boc, Ton Duc Thang, and Kim Ma streets in Midtown has gained its status as busy shopping areas for street shops and shopping centers, attracting more international brands. On the other hand, the intersection of Pham Hung and Tran Duy Hung streets started seeing more scaled shopping malls with the development of office and residential buildings. Vincom Center Tran Duy Hung is set to open in 2019, luring mid-end to high-end brands into this area.

Hanoi Retail, New Supply and Vacancy



Hanoi Retail, Asking rents , USD/sq.m/month



Asking rents inclusive serviced charge but exclusive VAT

INTERNATIONAL RETAIL DEVELOPERS TO BE MORE ACTIVE

By end of 2018, only four shopping malls in Hanoi are developed and managed by foreign retailers, including Central Group, Lotte Group and Aeon. Looking forward, with the expansion plan of big international players such as Lotte, Aeon, and Big C, the market is expected to see upgrading mall designs with regional scales and comprehensive merchandising mix. Such regional malls tend to locate in non-CBD area with large-scale residential developments, providing add-on services and amenities to residents in the immediate catchment. Looking forwards, the fact that Aeon Mall Ha Dong of regional scale (more than 60,000 sq.m NLA) is expected to come online with its usual Japanese concept, will set new standards and bring more exciting brands to the immediate catchment of Ha Dong district.

LANDLORDS GOING CREATIVE AND FLEXIBLE

2018 saw several cases of flexible offices (co-working) moving into retail spaces on the back of limited quality supply in well-located office buildings. This type of tenants with a typical size of 2,000 sq.m tend to locate from 2nd floor and above, helping to alleviate vacancy pressure for landlords quickly. Besides, some sizeable non-traditional retail tenants such as financial services and health & supplement offices have started moving into shopping malls. This trend is expected to continue in the coming

years, especially in malls seeing high vacancy on upper floors. In addition, F&B category will continue to get a bigger bite at most shopping malls, adding experiences to keep mall visitors to stay longer. It is observed that certain new shopping malls have seen share of F&B reach up to 20% while this category typically accounts for only 9 – 15% of retail space. Red Sun and Golden Gate are two most active restaurant chains in shopping malls, focusing on those with diversified merchandising mix in populated areas.

ADVANCED TECHNOLOGY BOOST BRICK-AND-MORTAR SALES

During 2018, retailers and landlords have invested in logistics platforms and new store concept to drive customers in and attract millennials who are technology-savvy. Lotte Department Store in Hanoi has upgraded in-store experience and technology by changing shopping environment to “village concept” and “smart experience”, including new Phuong Nam Bookstore with more lifestyle concept and reading area. New feature “Smart Pick-up” leverages store as pick-up for online orders on Lotte.vn, targeting young customers.

In 2019, investments by supermarket chains in technology are expected to reshape the grocery industry. Vinmart recently launched Scan & Go feature on mobile app for customers to shop. From scanning the products' specifications to paying at express lines using QR code, app users can shop for products at Vinmarts quickly or have it delivered within two hours.

OUTLOOK

- **Advanced technology to boost bricks-and-mortar sales**

Retail market is expected to see more technology advancement in physical stores amid the disruption of e-commerce.

- **High quality future supply**

The market is awaiting high-quality supply with the increasingly high demand from international retailers and changing young generation's shopping habits. Besides, the expansion of international mall developers will lead to the transformation of shopping mall designs, putting the pressure of remerchandising and space renovations on many of the existing shopping malls.