**OVERALL**

Vietnam is experiencing strong economic growth and structural changes that will lead to a more transparent and accessible business environment. For the last five years, it has been a top performer within the region in key economic indicators. The country is also expected to achieve the highest GDP growth in Southeast Asia over the next three years. With a limited amount of available prime office space compared to regional peers, Hanoi and HCMC have high rental rates and occupancy, indicating strong demand and a thriving business environment.

**KEY CITIES PERFORMANCE**

With overall occupancy of 98% and an average Grade A rent of US$60 per sq m per month, HCMC’s office market is one of the best performing in Asia. Occupancy and rent have increased steadily over the last five years, with demand exceeding available supply. The strong performance is expected to continue, with just 20,000 sq m completing in the next two years. Tenants seeking new space or wishing to expand need to carefully weigh up their options as the future will be marked by limited opportunities. Companies who cannot afford the higher prices are relocating to fringe and decentralized locations.

Hanoi’s office market has also performed well with average occupancy remaining above 93% for the past two years. Rent has also risen consistently over the past five years, albeit at a slower pace than HCMC. With the exception of one recently launched building, Grade A projects have been limited – existing buildings in the CBD are rapidly ageing and lack modern facilities. As high-quality office space is more attractive to foreign tenants, interest in Grade A is anticipated to increase in line with strong FDI flows and plenty of M&A activity. Demand for Grade B offices will remain high due to affordability. Savills expects a dynamic Grade A and B market in the coming years, particularly in the Secondary and Western areas. Limited vacancy and a noticeable lack of future CBD supply has seen tenants relocating to the Midtown and West. Many lease expiries will need to accept rent increases.

**MARKET DRIVERS**

Vietnam’s emerging economy is transitioning rapidly, particularly the commercial sector. Finance, Insurance and Real Estate representation noticeably lags in a regional peer comparison and has room to grow; heavy office demand is expected. The deregulation of the insurance industry has resulted in 20% pa growth in premium demand that will in turn flow through to office occupation. The great excitement around Fintech in Vietnam pivots on the underpenetration of Vietnam’s banking sector of 59% compared to Thailand at 86%. In line with the maturity of the banking sector, higher office demand is also expected. Information and Communication Technology (ICT) is developing and is expected to require more office space in the future.

Key demand drivers have been ICT and co-working operators. Brands such as Regus, Up, Toong, Cogo, Tiktak, CEO Suite and Dreamplex are all now...
expanding rapidly. Previously popular amongst start-ups, more established corporations are considering this option as it provides flexible solutions to the current lack of space. As co-working is still new to the market, growth is set to accelerate in the coming years.

Foreign firms currently occupy a large proportion of Grade A and Grade B office space. International companies desire high standards and facilities and account for a substantial 80% occupancy in Grade A projects.

**OUTLOOK**

According to the ASEAN Business Outlook Survey 2019 by AmCham, 41% of corporate respondents selected Vietnam as the best country for business expansion. This preference stemmed from the growing trade relations between the U.S. and Vietnam. Strong demand from both foreign and local businesses will continue but with limited available options. Due to inadequate future supply, higher rents are expected. With most companies only committing to 3-year leases; most will fall within the bookend of the present strong cycle. Renewal options will be challenging; those without capped upward movement should expect sharp increases. It will be a testing time for poorly written leases that haven’t fully considered the future.

*“The strong domestic economy and supply side constraints auger well for landlords.”*