Overview
In 1H/2018, Viet Nam’s manufacturing and processing sector continued to experience growth on the back of a successful 2017. Despite the failure of the Trans Pacific Partnership (TPP) negotiations, investor confidence has been bolstered by the finalization of the EU Viet Nam Free Trade Agreement (EVFTA) and the imminent passage of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The upcoming Regional Comprehensive Economic Partnership (RCEP) will expand trade routes between the ten member states of ASEAN and the six Asia-Pacific states with which ASEAN has existing free trade agreements. Investors from China and Hong Kong await the ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA) to come into effect, which promises to further deepen trade relations with the largest economy in the region.

Viet Nam’s regional competitiveness is driven by low labour costs, affordable land, favorable corporate income tax rates, a dynamic workforce and its geographical location near source and destination markets. The low labour costs continue to attract a wave of outward bound foreign companies from China, especially those in labour-intensive industries. Mainland manufacturers plan to accelerate diversification to Viet Nam due to rapidly increasing wages and uncertainty about future trade measures with the US.

In 1H/2018, Viet Nam’s Purchasing Management Index (PMI) was the highest since 1H/2011, peaking at 55.7, well above the expansion threshold of 50 points. The growth in output has resulted in firms hiring additional staff at a record pace in June and rising new business which promises to further deepen trade relations with the largest economy in the region.

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FDI and industrial land
1,366 new projects registered capital investment of US$11.8 billion with the manufacturing and processing sector attracting 477 new projects, 39% of total registered foreign direct investment (FDI) at US$7.9 billion, growing 12.7% YoY. Hanoi and HCMC were the best performers, receiving 29% and 18% of FDI respectively, with Ba Ria-Vung Tau receiving 9% and Hue 7%. Japanese investments accounted for 32% of total registered FDI with US$6.4 billion, followed by Korea with US$5 billion and Singapore with US$2.3 billion.

New industrial developers appeared with key investments. BW Industrial Development (BWID) has procured 209 ha in eight sites across five key cities and each site is focused on ready-built factories (RBF) and build-to-suit (BTS) solutions. A Singaporean developer, Boustead, acquired over 18 ha for ready-built factories (RBF) and build-to-suit (BTS) solutions in Nhon Trach District in Dong Nai. Meanwhile China Fortune Land Development Co., Limited (CFLD) acquired over 440 ha in Duc Hoa, Long An Province, a strategically positioned hub in the Southern Focal Economic Zone (SFEZ).

According to the Vietnamese Ministry of Planning and Investment, 325 industrial zones were documented with a total area of 95,000 ha reaching 53% occupancy by the end of June 2018. Of these, 231 are operational and 94 are undergoing construction or compensation. Demand is starting to outpace supply in good operational industrial parks, with total occupancy reaching 75%. In addition, Viet Nam has 17 coastal economic zones, supplying 845,000 ha.

Northern Viet Nam
Hanoi
Hanoi received US$5.9 billion in FDI, the highest by province in the first half of 2018. Average industrial park occupancy increased to 70%, and decreasing vacancies are driving up land prices which now average US$105 per sq m.

Attractive incentives are offered to attract high-value investors with Hoa Lac Hi-Tech Park and Hanssip providing preferential tax incentives to companies in hi-tech and supporting industries. Both projects provide key supply of 230 ha and 72 ha respectively.

Although Hanoi does not have a nearby seaport like its counterpart in the south, the capital and surrounding provinces benefit from prime industrial land between new infrastructure.
Important upcoming supply includes Hiep Phuoc Phase 3 and Vinh Loc 1 Phase III, supplying 500 ha and 200 ha respectively. Samil Pharmaceutical Co. Limited (Korea) in Saigon Hi-Tech Park is the largest project - with a registered investment of US$40 million.

Surrounding provinces
Ba Ria-Vung Tau received US$1.9 billion in FDI over the second half. Interest in the province has risen due to the proximity of the Cai Mep-Thi Vai Port Complex. The government plans to continue investment into better transport infrastructure and aims to attract US$4 billion in FDI by 2020. Investor confidence in the region has increased with local government efforts to reduce red tape by simplifying customs procedures and issuing investment licenses and building permits. One of the most significant projects was SH Solar Farm Vina Co. Limited’s investment of US$80 million in Chau Duc Urban and Golf Zone.

Binh Duong and Dong Nai have fallen to the sixth and seventh highest investment destinations. Binh Duong attracted US$869 million FDI and offered a modest rent average of US$66 per sq m. This lower price, when compared to Ho Chi Minh City, reflects the greater availability of land in Bau Bang and My Phuoc 4 Industrial Parks. The province will also benefit from future supply of 1,000 ha in 2019, courtesy of VSIP Phase III.

In 1H/2018, Dong Nai attracted US$623 million FDI. Significant manufacturing projects include HI KNIT Co. Limited (Korea) investing US$40 million in Nhơn Trạch and Air Manufacturing Innovation Co. Limited (Netherlands) with a US$33 million investment in Giang Dien Industrial Park. Key upcoming supply includes Amata Long Thanh Industrial Park in 2019 comprising a total of 410 ha.

Surrounding provinces
Hai Phong’s economic and industrial zones attracted 12 new projects with registered capital of US$64 million. Home to the biggest deep-sea-port in Viet Nam, the province has recently developed its intermodal transport networks to be the northern gateway to regional and world markets. Deep Cl has introduced its first three investors on 10.3 ha, whilst automotive manufacturer Vinfast continues construction on its 335 ha complex in Dinh Vu - Cat Ha Economic Zone.

Bac Ninh remained attractive with industrial parks receiving US$365 million in FDI, accounting for over 70% of total inflows to the province. As a satellite city of Hanoi, Bac Ninh continues to benefit from decreasing vacancies in the capital and is well positioned to capitalize on Samsung’s aggressive expansion plans. The province will benefit from upcoming supply including VSIP Bac Ninh Phase 2 with 500 ha in 2019.

Southern Viet Nam
Ho Chi Minh City
Ho Chi Minh City received US$3.6 billion in FDI over the first half of 2018. Ho Chi Minh City remains the economic capital of Viet Nam and benefits from proximity to international air and seaports, as well as a cluster of educational institutions supplying high-skilled labour. The area has a diversified industrial base, with over 400,000 companies operating in various industries including electronics, machinery, construction and agriculture.

Average industrial park occupancy increased to 70%, also pushing land prices along to now average US$150 per sq m. As focus in the manufacturing industry shifts towards higher value added goods, Ho Chi Minh City is encouraging investment in hi-tech industries with preferential tax incentives. Falling vacancies near the city center are driving developers such as Sepzone, TTC and Saigon Hi-Tech Park to focus on building multi-level factories to optimize land use.

Source: Savills Research & Consultancy

**TABLE 1**

<table>
<thead>
<tr>
<th>Project</th>
<th>Nationality</th>
<th>Industrial Park</th>
<th>Province</th>
<th>Investment (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyosung Group</td>
<td>South Korea</td>
<td>Cai Mep Industrial Zone</td>
<td>Ba Ria-Vung Tau</td>
<td>1.2 bil</td>
</tr>
<tr>
<td>LG Innotek</td>
<td>South Korea</td>
<td>Trang Due Industrial Park</td>
<td>Hai Phong</td>
<td>501 mil</td>
</tr>
<tr>
<td>Kelco Vietnam Co. Ltd</td>
<td>South Korea</td>
<td>Dai An Industrial Park</td>
<td>Hai Duong</td>
<td>120 mil</td>
</tr>
<tr>
<td>Ramatex Textiles</td>
<td>Singapore</td>
<td>Bao Minh Industrial Zone</td>
<td>Nam Dinh</td>
<td>80 mil</td>
</tr>
<tr>
<td>YKK Vietnam Co. Ltd</td>
<td>Japan</td>
<td>Dong Van III Industrial Park</td>
<td>Ha Nam</td>
<td>80 mil</td>
</tr>
</tbody>
</table>

Source: Savills Research & Consultancy

**GRAPH 4**

Northern Viet Nam supply and performance, 1H/2018

**GRAPH 5**

Southern Viet Nam supply and performance, 1H/2018

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