



Spotlight  
**OFFICE OUTLOOK**

November 2015



# OFFICE RENTS TO RISE IN HCMC

Vietnam's economy has recovered with strong GDP growth and FDI inflow, which in turn has boosted office demand. In Ho Chi Minh City on the back of limited vacancies and improved macro-economic conditions, some landlords are set to increase rentals for Grade A and B buildings. In Ha Noi, the market is expected to be steady in the short term.

## Market Performance

Demand for Grade A and B offices has strengthened in Vietnam's two major cities. In HCMC, buildings with large contiguous floor plates are in short supply. Large occupiers will need to be mindful of lease expiry and engage early with their space planning. Several Grade A landlords are reportedly planning to increase rentals, despite the present A grade market gross rental running at US\$46/m<sup>2</sup>/month.

At Q3/2015, the average occupancy of Grade A and B was 93%, up 2 ppts YoY. Grade A had the best performance with at 96%, the highest in the last six years. Current HCMC supply is limited to only nine buildings, including the entry of Vietcombank Tower in Q3/2015. The newest Grade A projects - Saigon Center Phase 2 and Deutsches Haus - will only enter the market in Q3/2017.

In Hanoi, the average gross rent of Grade A and B in Q3/2015 was US\$21/m<sup>2</sup>/month, down -0.2% YoY. Demand is recovering with occupancy at 81%, up 9 ppts YoY. As macro-economic conditions improve, so is the demand for Grade A and B office space.

## Finance, banking and insurance

From a tenant survey conducted in September 2015, demand for Grade A and B office space in both cities was dominated by foreign companies. In HCMC, foreign companies accounted for 76% of the leased area whilst in Ha Noi it was 66%.

By industry, Finance, Banking and Insurance companies dominated Grade A and B buildings for both cities. They account for 28% in HCMC and 30% in Ha Noi.

## Future supply

### Ho Chi Minh City:

By 2017, new Grade A and B supply in HCMC will be approximately 190,000 m<sup>2</sup>. By 2017 approximately 77% will be located in the CBD. Whilst Grade A supply is limited, opportunities arise from new Grade

B buildings, with good locations, professional management services and quality facilities including appropriate lifting capacity.

District 1 remains the most sought-after location and competition is expected to intensify. District 3 and 7 are emerging as alternative options for tenants who want to acquire large office

TABLE 1

## HCMC future supply

Building name	District	Grade	Expected net leasable area (m <sup>2</sup> )	Expected completion time
Pearl Plaza	Binh Thanh	B	33,820	2015
Hai Quan Tower	District 1	B	30,000	2016
Royal Tower	District 7	B	21,852	2016
Saigon Giai Phong	District 3	B	16,392	2016
The Waterfront Saigon	District 1	B	8,822	2016
Saigon Center Phase 2	District 1	A	35,859	2017
Deutsches Haus	District 1	A	18,700	2017
Maple Tree Business Center	District 7	B	24,154	2017

TABLE 2

## Ha Noi future supply

Building name	District	Grade	Expected net leasable area (m <sup>2</sup> )	Expected completion time
5 Dien Bien Phu	Ba Dinh	B	7,841	2016
Udic Complex	Cau Giay	B	14,500	2016
789 Company Office Building	Cau Giay	A	39,419	2016
MD complex	Tu Liem	B	20,000	2016
Diamond Flower Tower	Thanh Xuan	B	18,000	2016
Trico Tower	Long Bien	B	12,280	2016
STV Tower	Hoan Kiem	A	5,000	2016
89 Lang Ha	Dong Da	A	13,000	2016
Vicem Tower	Tu Liem	A	37,800	2016
Discovery Complex	Cau Giay	A	45,000	2016
Project at 5 Le Duan	Ba Dinh	B	6,500	2016
HUD Tower	Cau Giay	B	26,250	2017
Le Truc Tower	Ba Dinh	A	17,100	2017
Vietinbank Tower	Tay Ho	A	94,197	2017
Handi Resco Building	Thanh Xuan	B	18,143	2017
MB Grand Tower	Thanh Xuan	A	45,402	2017
FLC Twin Towers	Cau Giay	A	35,991	2017
Legend Tower	Thanh Xuan	B	12,623	2017

space with lower rent. Future prime locations such as Thu Thiem are now under development by major local and regional players. This will alter the cityscape significantly, with good infrastructure and connections, high amenity and a pleasant environment to live and work.

**Ha Noi:**

By the end of 2017, there will be approximately 460,000 m<sup>2</sup> of Grade A and B office space, in which the Secondary area and the West will account for the majority of future supply. Landlords will need to continue to compete to attract tenants.

**Future demand**

Vietnam's GDP is expected to remain robust over the next three years and many industry sectors are poised for growth, underwriting office demand. Across 23 industry sectors, finance, insurance and banking have the strongest office demand in both domestic and foreign companies.

In HCMC, occupied office space is forecast to increase by 13% in 2016 and 14% in 2017; while in Ha Noi, the increase is forecast at 11% in 2016 and 15% in 2017.

**Future rent**

Savills' office model applied a 2-stage forecasting methodology to anticipate the market in the next 2-year period (2016 – 2017).

**Stage 1:** Forecast future demand and supply. Demand forecast is based on annual take up by industry. Supply is based on the expected completion time of known future developments.

**Stage 2:** Forecast the average rent by a regression model based on office vacancy and net new demand.

In HCMC, our forecasts indicate an increase in Grade A and B rent of approximately 4% in 2016 and 9% in 2017. Assets in prime CBD locations could experience a rent increase of up to ten percent.

In Ha Noi, the average rent of Grade A and B is expected to grow by 4% in 2016 and stabilize (-3%) in 2017.

**Outlook**

The near term prospects for foreign demand look strong. Multilateral agreements such as the Trans-Pacific Partnership are expected to attract and expand existing international businesses particularly manufacturing, distribution and logistics. Recent good GDP growth and the increase in the number of newly registered local enterprises indicate improved domestic demand. With a lag in new supply, the prospect of short term rental growth is high.

Corporates Real Estate (CRE) strategies to optimize space and cost are now critical. There are a multitude of variables set to influence the market. Infrastructure and linkages

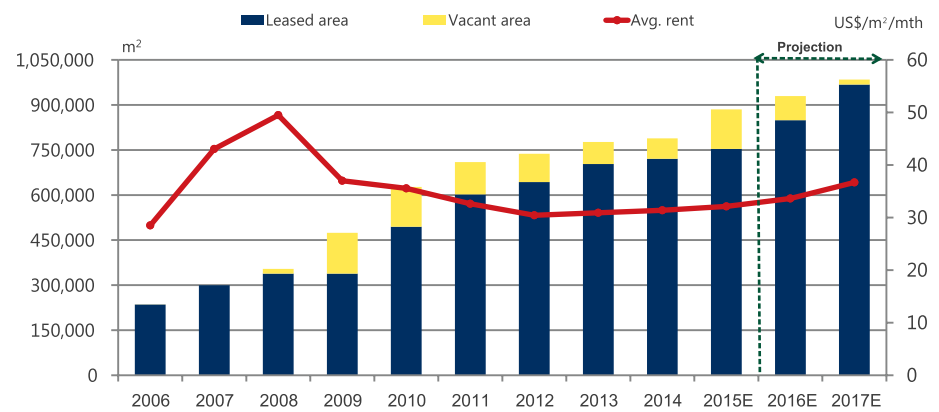
will change very quickly, including the mass transit Metro system to new bridges connecting Thu Thiem to the traditional CBD. Occupiers requiring large contiguous floor plates at reasonable cost presently have limited options, however within 5 years there will be good choice. In the near term expansion plans will have to be juggled with expiry profiles and available options.

The potential for purchase of long term office leasehold (similar to strata) is interesting if this can be formalized effectively. Vietnam presents a valid CRE strategy for buying and occupying.

The near term office market will have interesting dynamics prior to new quality space being developed. In the mid term hastening obsolescence will average down existing stock quality and so refurbishment programs will need to be contemplated.

FIGURE 1

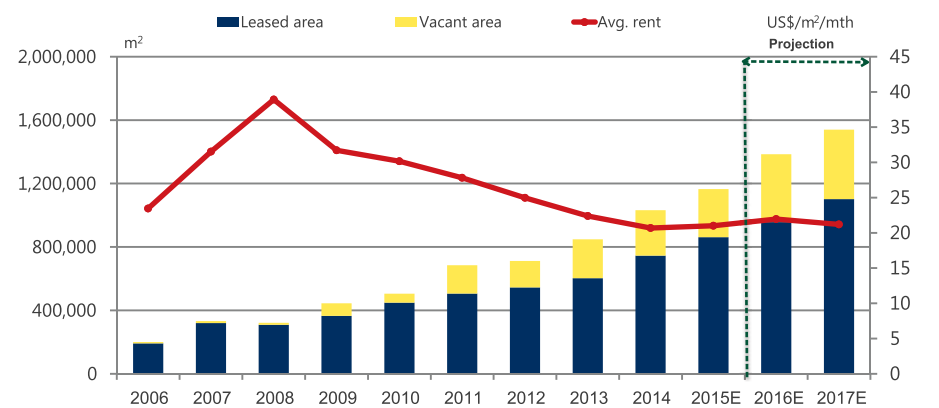
**HCMC Grade A and B**



Source: Savills Research & Consultancy

FIGURE 2

**Ha Noi Grade A and B**



Source: Savills Research & Consultancy

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