



Spotlight

# Viet Nam Landed Property

2016



# OVERVIEW

**V**iet Nam has long been viewed as a rising star in Asia but its great potential has seemingly yet to be realized. The economy was severely hit by the Global Financial Crisis of 2008-09 and further destabilized by high inflation from 2010-12.

Subsequent structural-reforms by the Government have brought macroeconomic stability and rejuvenated sentiment. The country is emerging with a new opportunity to access the largest global export markets via new-generation free trade agreements such as the TPP, RCEP and EVFTA. Some US\$10 billion of foreign direct investment has been injected in just half a year since the accomplishment of TPP negotiations, fostering Viet Nam's economic performance.

Viet Nam is now the third fastest growing Asian country with economic growth of 6.7% in 2015, preceded by only India and China. Present conditions present a unique opportunity as investor sentiment is strongly supported by economic fundamentals. Relatively favorable interest rates plus exchange rate stability help long-term investment decisions.

Vietnam is the 11th largest recipient globally of inward remittances at US\$13.2 billion; up to 20% of this goes into direct property.



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Economic growth

**6.7%**

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Asia's 3<sup>rd</sup> fastest  
growing country

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**US \$10 bil.**  
FDI

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Outstanding mortgages  
**growth 25%**

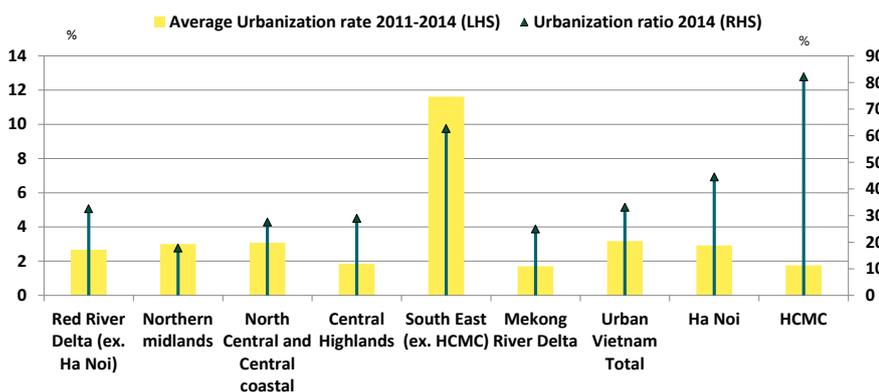
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# CITY EVOLUTION

**V**iet Nam's economic development is highly concentrated in the two largest cities of HCMC and Hanoi, with urbanization ratios in 2014 of 82.1% and 44.5%, respectively. Domestic labour immigration is the major force driving their urbanization. According to the General Statistics Office (GSO), migrants accounted for 16.9% of the HCMC population and 7.5% in Ha Noi, with an expectation for 100,000 and 56,000 new migrants each year.

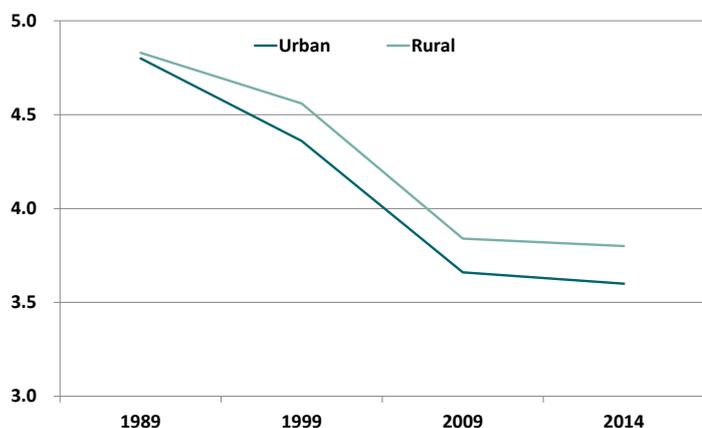
Rapid urbanization, massive labour immigration and increasingly smaller household size is creating solid housing need in both cities. There are approximately 58,000 urban household formed each year in HCMC and 42,000 in Ha Noi (Table 2). Housing needs also arise from qualitative deficit, especially in HCMC, where it is estimated to require 85,900 dwellings to be replaced each year (Table 2).

**Chart 1: Urbanization by region**



Source : Inter-census survey 2014

**Chart 2: Average household sizes, 1989-2014**



Source: GSO, 2016



## Sales

in 1st half 2016

### HCM

1,270 units,  
up 170% YoY

### Hanoi

462 units,  
up 203% YoY

**Table 1: Landed housing need, HCMC and Ha Noi (thousand units)**

	HCMC	HN
<b>Housing need from new household (HH) formation</b>		
Urbanization rate (a)	1.8%	2.9%
Household size reduction (b)	1.6%	1.6%
Growth rate of urban HH (a+b) (c)	3.4%	4.5%
Total urban HH (d)	1,695	942
Annual housing need (c*d) (e)	58	42
Landed housing need (36%)(f)	21	15
Non-landed housing need (64%)(g)	37	27

Note: (a),(b)&(d) are estimated from GSO data  
 (f) & (g) based on Savills survey and understanding of the market  
 Source: Savills Research & Consultancy

**Table 2 : Potential from housing replacement, HCMC and Ha Noi (thousand unit)**

<b>Housing replacement need from qualitative deficit</b>		
Total urban housing (thousand unit) (a)	1,695	942
Percentage of semi-permanent/simple housing (b)	76%	12%
Houses of qualitative deficit (thousand unit) (a*b) (c)	1,288	113
Annual housing need (thousand unit) (c/15) (d)	85.9	7.5

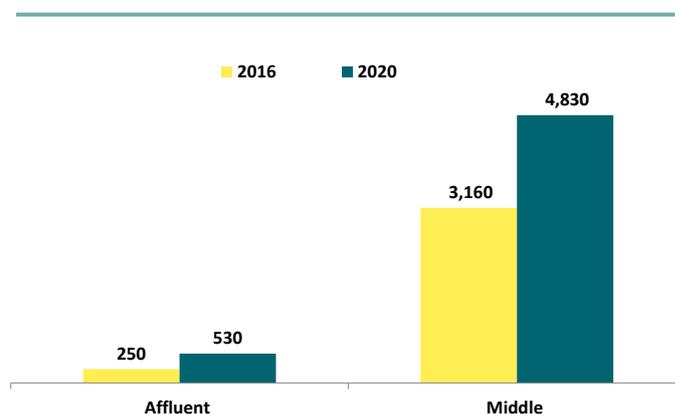
Note: (a),(b)&(c) are estimated from GSO data  
 (d) Assuming that qualitative deficit housing needs to be replaced in 15 years.  
 Source: Savills Research & Consultancy

# THE RISE OF THE AFFLUENT CLASS

**W** While much attention is paid to the middle income population for its sheer volume, and to the superrich out of pure curiosity, less noticed is the affluent class, which is small, but expanding quickly.

The number of affluent Vietnamese households whose annual incomes are over US\$20,000, is expected to double from 250,000 in 2016 to 530,000 in 2020. Meaning, 280,000 households will graduate from the middle class over the next 5 years and stand apart as a niche segment wielding a noticeable purchasing power.

Notably, the expansion of the affluent class outpaces the middle counterpart. The number of middle-income households with annual incomes ranging from US\$9,000 – 20,000 is estimated to increase by half from 3,160,000 to 4,830,000 over the same period.

**Chart 3: Middle and affluent population (thousands of households)**

Source: Estimate from GSO data

# CATALYSTS FOR LANDED PROPERTY

In HCMC the landed property segment lacked developer attention until recently. Before 2015, there were few developers offering high-end products in well-established areas. Among others, Phu My Hung and Khang Dien in HCMC are typical names.

New-found demand spurred a boom in 2015, prior there were no more than 58 registered projects in total. In the last year, 50 new projects have launched.

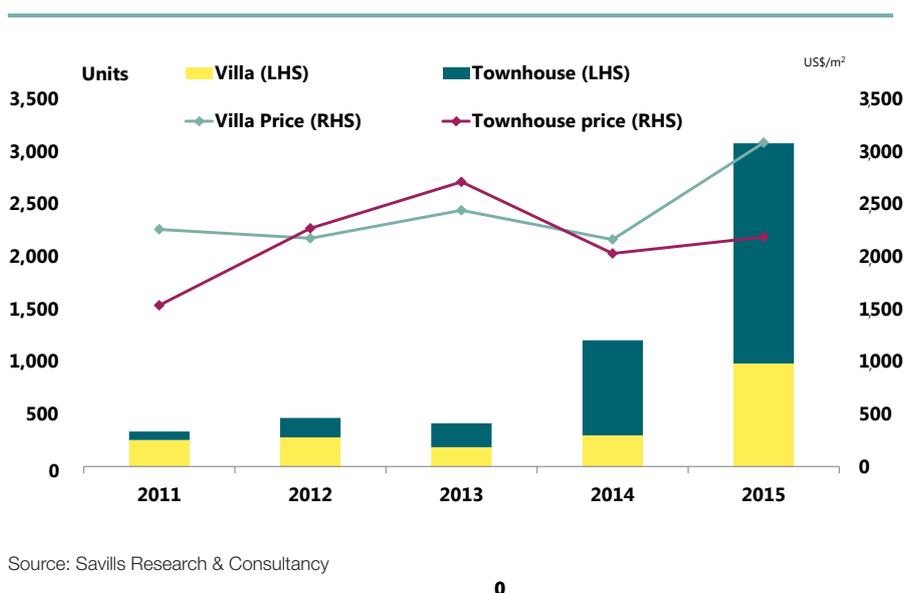
In Ha Noi, new development has started after being quiet from 2010. There were 13 projects launched in 2015, compared to 4 in 2014. Positive market sentiment has woken postponed projects and fuelled a future supply of more than 80 planned projects.

New supply is showing developers' adaptability to buyer tastes; new projects are smaller than five years ago to meet affordability. Small townhouses and villas with land areas of 50-75m<sup>2</sup> and less than 200m<sup>2</sup> have entered the market, quickly gaining strong market favour



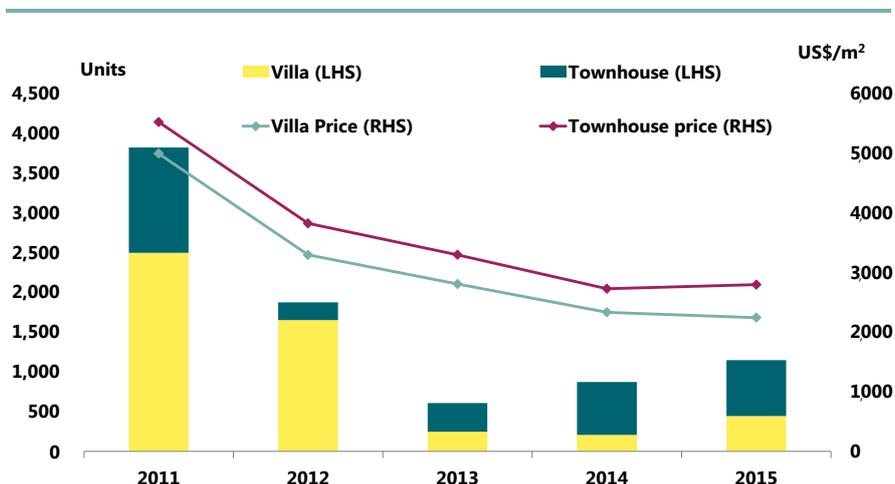
HCMC and Ha Noi amongst the regional best performing landed markets in 2015

Chart 4: New supply and price, HCMC



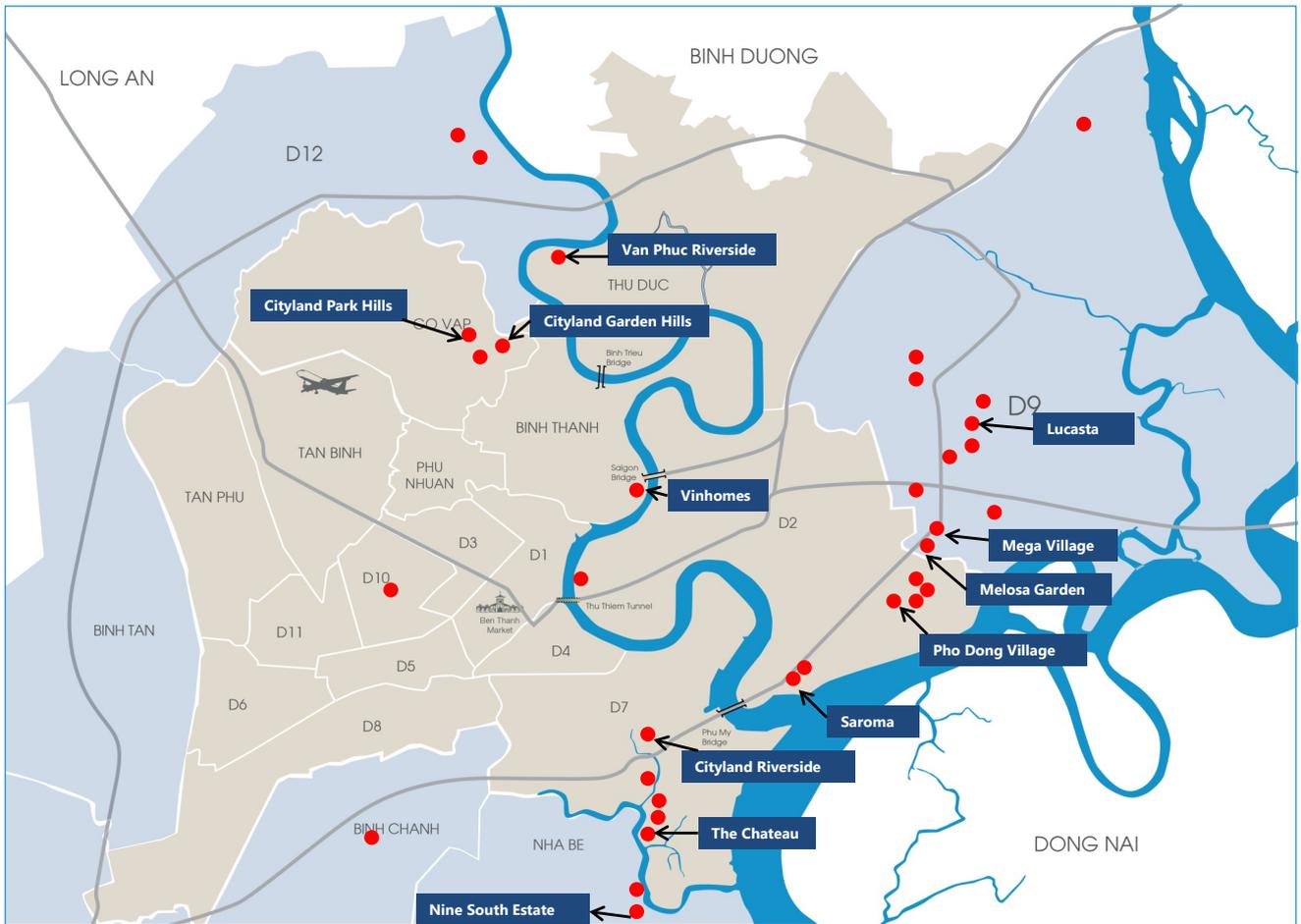
Source: Savills Research & Consultancy

Chart 5: New supply and price, Ha Noi

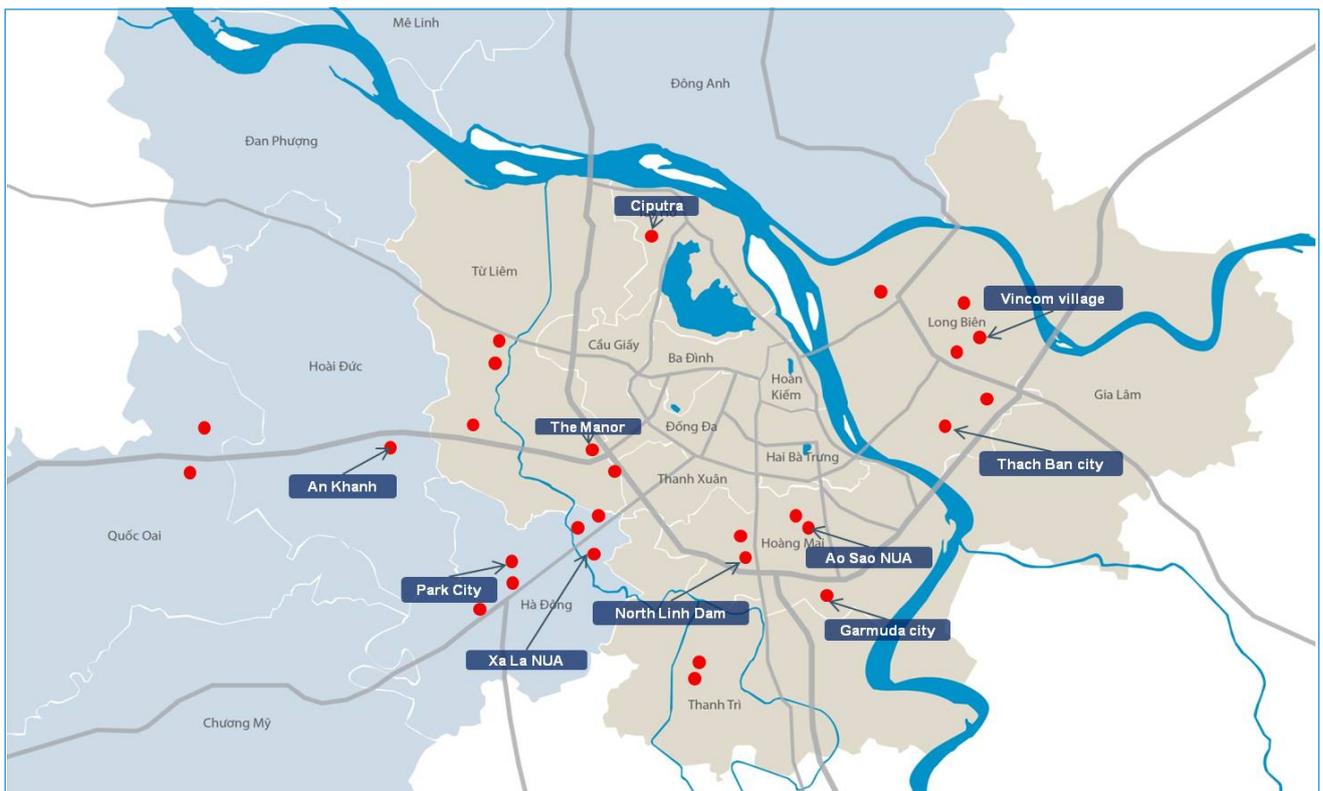


Source: Savills Research & Consultancy

Map 1: Landed property segment in HCMC



Map 2: Landed property segment in Ha Noi



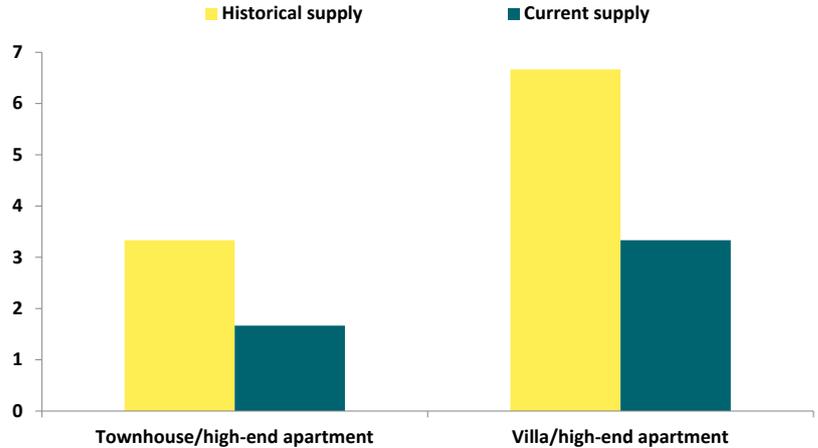
Now, with smaller sizes, landed properties have become more affordable and compete with high-end apartments as the preferred dwelling choice for the affluent class. A townhouse in HCMC was typically 3 times more costly than a high-end apartment in the past, but has since been reduced to 1.7 times in newly developed areas. Similarly, the typical ratio of a villa primary price to that of a high-end apartment is currently 3.3, compared to 6.6 five years ago.

This trend can also be observed in Ha Noi's market but less obviously. The typical ratio of a townhouse primary price to that of a high-end apartment is currently 1.1, slightly lower than the 1.2 of five years ago.

Most infrastructure projects in HCMC and Ha Noi, including urban railway systems and ring roads, have significantly improved accessibility to outlying areas. This ameliorates commuting times and convenience, providing the opportunity for the future landed supply to be even more affordable.

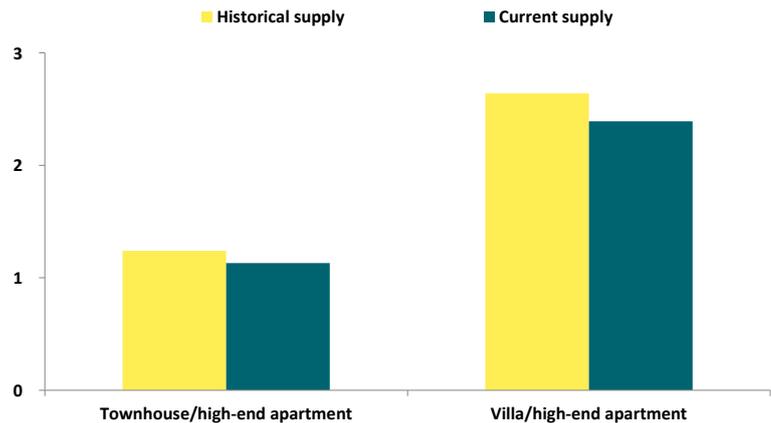
Landed property can be attractive to investors. Townhouses have outperformed other residential asset classes in investment returns over 2013-2016. A major component is land value appreciation. Without this appreciation, apartments still perform well due to presently high rental yields.

**Chart 6: HCMC primary price ratio**



Source: Savills Research & Consultancy

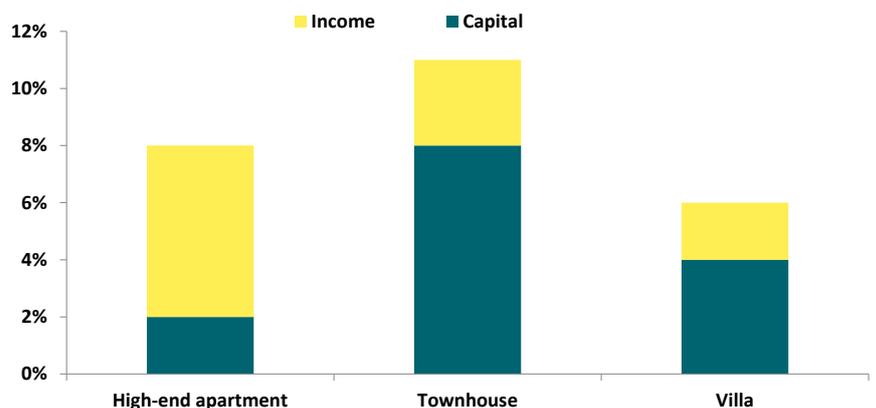
**Chart 7: Ha Noi primary price ratio**



Source: Savills Research & Consultancy



**Chart 8: HCMC total returns, 2013-2016 average**



Source: Savills Research & Consultancy

# DEMAND

**V**iet Nam's demographic has caught up with regional peers, taking further and rapid steps towards modernity. The increased tendency toward the formation of nuclear households has reduced average household sizes sharply. Although a modern lifestyle has enormous influence and attraction, tradition still plays an important role. Multigenerational households account for a significant proportion of approximately 24% of the population, falling from 25.1% in 2009.

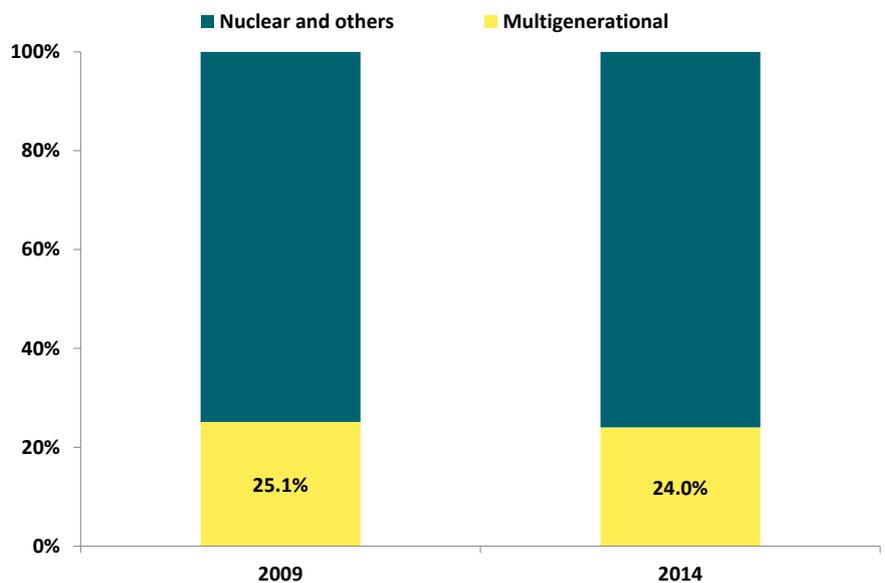
The combination of a multigenerational household culture and a fast expanding affluent class has created a niche market for landed housing. Villas and townhouses best suit upgraders and higher income families with more than two generations under one roof.

Compared to regional peers with similar population densities, such as Kuala Lumpur, Bangkok and Jakarta, HCMC and Ha Noi's primary supply of landed housing (less than 10%) is small, leaving ample room for future growth.

Limited supply and increasing demand has placed HCMC and Ha Noi amongst the regions best performing landed markets in 2015, with take-up rates of 41% and 73 percent.

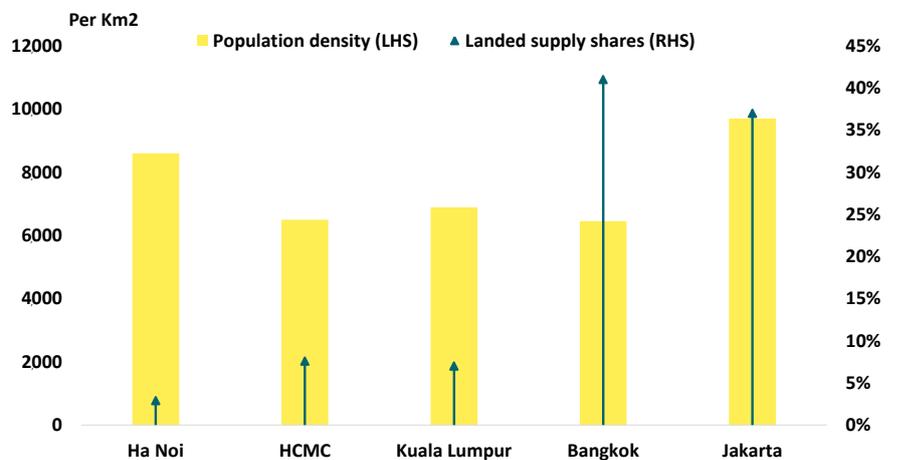
Savills has modelled a scenario for 2016 landed housing demand, part of which captures household formation. To link back to affordability we have based on lower- and higher-affluence groups, so that we can allocate the landed segment proportion. Effective demand for landed property was

**Chart 9: Proportion of urban multigenerational households, 2009-2014**



Sources: Estimate from GSO data

**Chart 10: Landed primary residential, 2015**



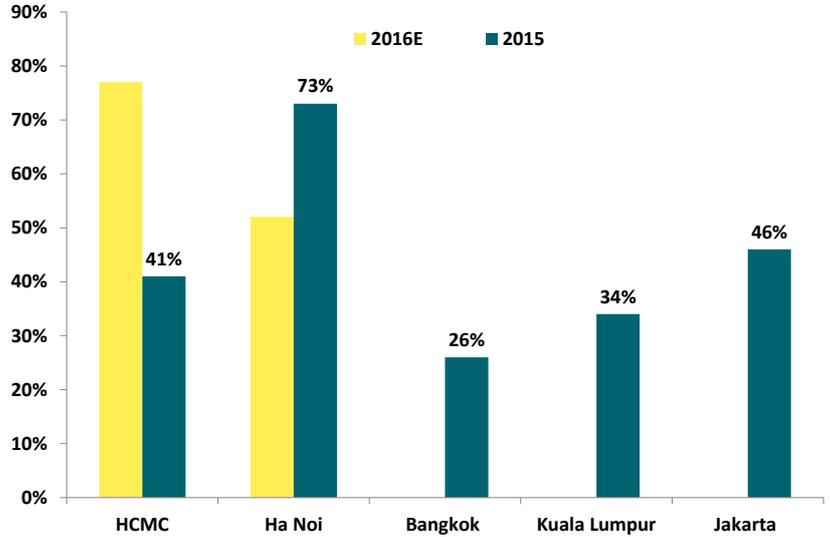
Sources: Estimate from GSO data

estimated at approximately 3,300 dwellings in HCMC and 1,880 dwellings in Ha Noi. The model forecast that in 2016, landed property demand will be 88% and 103% higher than 2015's figures for the two cities (Table 3).

The landed property market promotes sustainability due to a healthy purchaser structure. In a 2015 survey end-users account for the majority of purchasers, with speculators less than 10 percent. Investors are substantial in the townhouse segment, prompting an expanding rental market in the near future. Higher-income professionals are less susceptible to economic contractions, allowing stable rental demand.

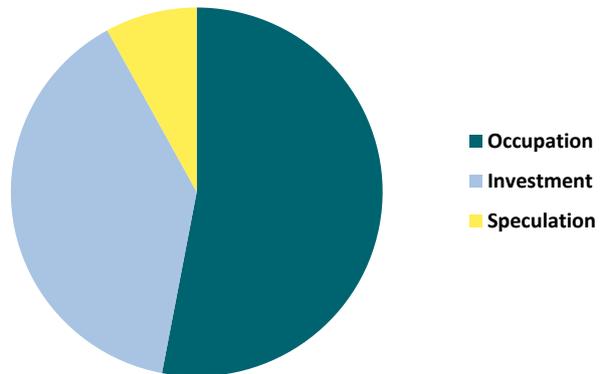


**Chart 11 : Take-up rates: regional benchmarking**



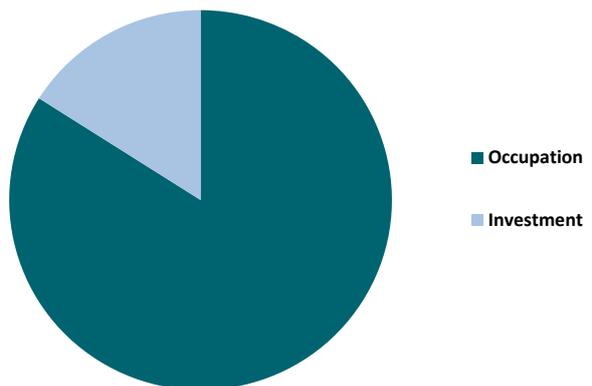
Source: Estimation by Savills Research & Consultancy

**Chart 12: Townhouse purchasers - 2015**



Source: Savills Research & Consultancy

**Chart 13: Villa purchasers**



Source: Savills Research & Consultancy

**Table 3: Scenario for landed housing demand in 2016, HCMC and Ha Noi**

		HCMC		Ha Noi	
		Lower affluent	Higher affluent	Lower affluent	Higher affluent
Number of households (HH) (a)		175,000	19,000	100,000	11,000
A	Multigenerational HH (b)	29%	29%	21%	21%
	Percentage demanding new residences (c)	13%	20%	13%	20%
	Percentage for landed housing (d)	35%	40%	35%	40%
	Demand for landed housing (b*c*d) (e)	2,309	441	956	185
	Percentage met by self-development (f)	65%	65%	65%	65%
	Effective demand from multigenerational HH (e-f) (g)	808	154	334	65
B	Nuclear HH or others (b)	71%	71%	79%	79%
	Percentage demanding new residences (c)	13%	20%	13%	20%
	Percentage for landed housing (d)	33%	35%	33%	35%
	Demand for landed housing (b*c*d) (e)	5,330	944	3,389	608
	Percentage met by self-development (f)	65%	65%	65%	65%
	Effective demand from nuclear HH or others (e-e*f) (g)	1,866	331	1,186	213
A+B	Base demand (h)	2,674	485	1,521	278
	Incremental demand due to investor activity (i)		30%		30%
	Target demand (h*i) (j)	3,304		1,881	
	Planned supply	4,300		3,600	
	Estimated take-up rate	77%		52%	

Note:

Lower and higher affluent HH are those with annual income from US\$20-40k and over US\$40K, respectively

(a) &amp; (b) are estimated from GSO data

(c) is based on 2nd party survey data.

(d) &amp; (f) &amp; (i) are based on Savills survey and understanding of the market

Source: Savills Research &amp; Consultancy

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