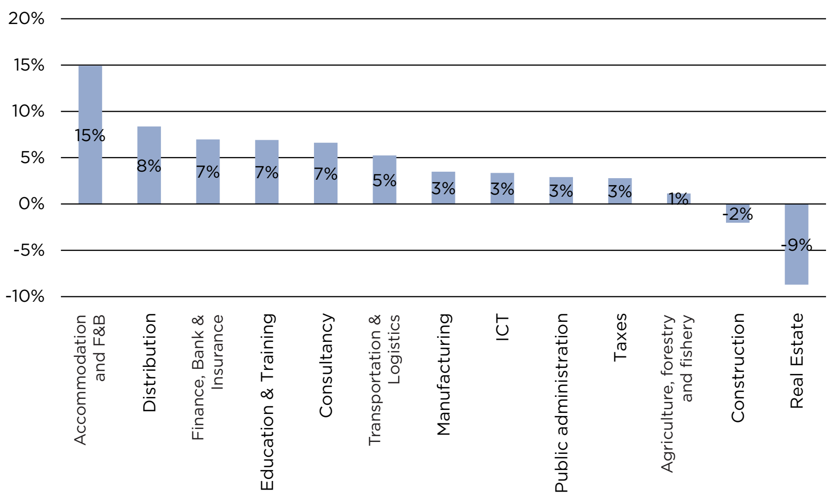
Asian Cities - 2H 2023

SPOTLIGHT
Savills Research

Ho Chi Minh City Offices

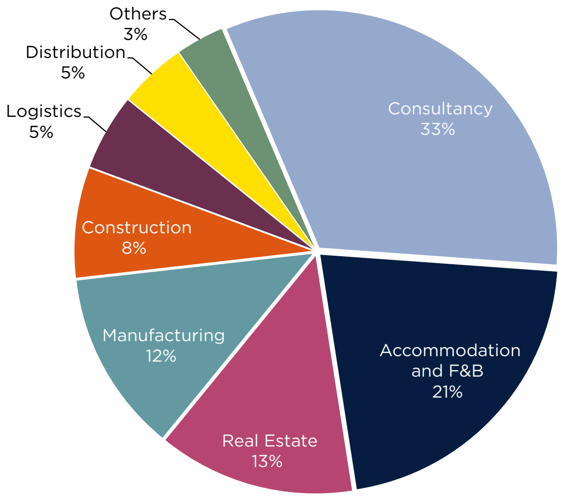
Steady recovery and green Grade A boost

GRAPH 1: HCMC GRDP YoY Growth by Industry, Q1/2023 to Q3/2023



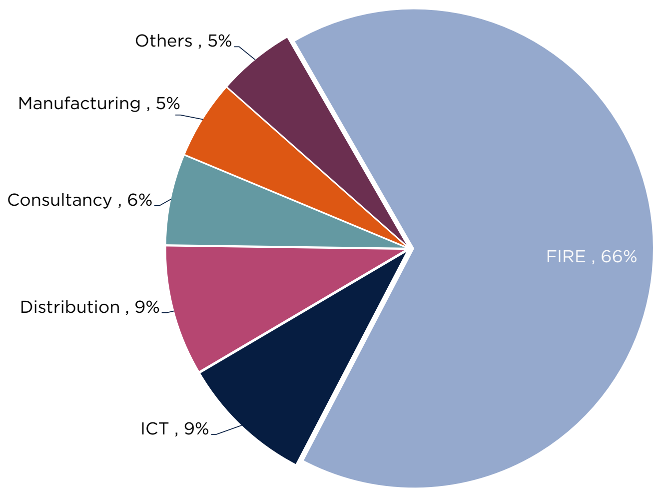
Source HCMC Statistics Office

GRAPH 2: HCMC New and Additional FDI by Industry, Q1/2023 to Q3/2023



Source HCMC Statistics Office

GRAPH 3: Share of Leased Area by Sector, Q1/2023 to Q3/2023



Source Savills Research & Consultancy

ECONOMIC OVERVIEW

Ho Chi Minh City's GRDP of 4.6% YoY in 9M/2023 was higher than the national level of 4.2% YoY. Services represented the greatest share of GRDP at 65% and the greatest growth of 5.7% YoY. All service sectors grew, except for real estate with a decline of 9% YoY. Accommodation and F&B posted impressive growth of 14.9% YoY, followed by distribution at 8% YoY.

Despite the sound economic recovery, total FDI to HCMC declined by 34% YoY to US$1.9 billion in 9M/2023, primarily affected by decreases in additional and M&A FDI. The city's limited prime office space compared to regional counterparts has resulted in sustained high occupancy.

OUTSTANDING PERFORMANCE

With a muted historical cycle, HCMC has performed well at an occupancy of 90%; average rents rose by 6% YoY to US$32 per sq m per month. Occupancy of new projects such as The Hallmark and The METT in Thu Thiem NUA reached 50%, with rent averaging VND1.3 million per sq m per month. Thu Thiem is next to the existing CBD and the high-end offices appeal to finance, banking, insurance, and real estate (FIRE) and information, communication, and technology (ICT) tenants. Notable tenants were from Australia, Korea, Taiwan, Malaysia, and Viet Nam.

The notable pipeline of high-end supply is likely to hasten obsolescence in poorer quality Grade C assets. As of Q3/2023, stock increased by 4% YoY to 2.6 million sq m NLA from 371 projects. Grade C remained the largest supplier with a 42% share, followed by Grade B at 41% and Grade A (including Grade A Suburban) at a 17% share.

Regionally, HCMC is a highly promising Asian locale, particularly compared to its chronically oversupplied regional counterparts. Grade A occupancy was 96% with rents of US$63 per sq m per month in Q3/2023. High occupancy rates reflect strong business activity, burgeoning industries, and a thriving corporate landscape, while competitive occupancy costs underscore the attractiveness of HCMC to businesses seeking to establish or expand their operations within Asia.

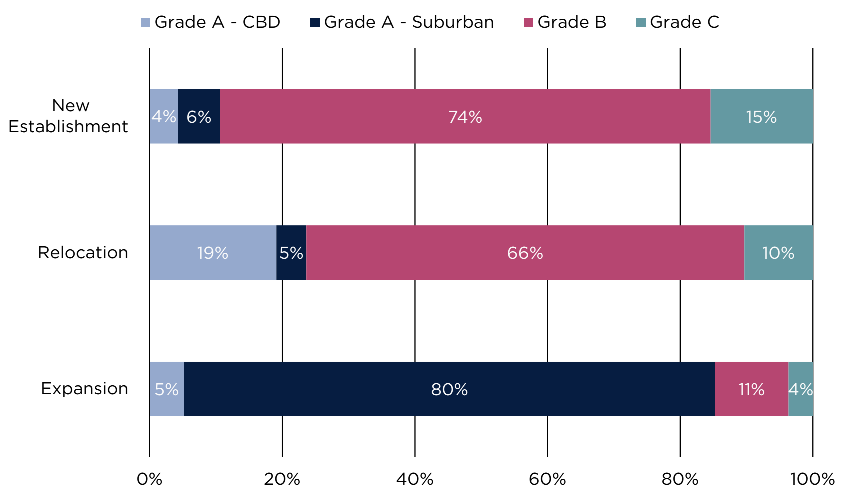
MARKET DRIVERS

The leased area by industry was steady this quarter with finance, IT, distribution and consultancy tenants driving demand. Financial firms, mainly banking institutions looking to expand, took a 66% share of the leasing deals in 9M/2023, compared with 27% in 2022. Demand from IT tenants decreased by 16 ppts YoY to 9% compared with 24% in the same period in 2022. While demand from FIRE tenants increased significantly, the IT sector posted lower demand in 2023.

Suburban areas are gaining traction with high-quality buildings and competitive rates. In 9M/2023, 80% of tenants looking to expand selected Grade A Suburban properties like The Hallmark, Phu My Hung Tower, and The METT. Increasingly, new Grade A developments deliver green certifications and meet demand for high-spec offices with attention paid to innovation, energy efficiency, advanced tech, and human wellbeing. Older properties will likely need to be renovated to remain competitive.

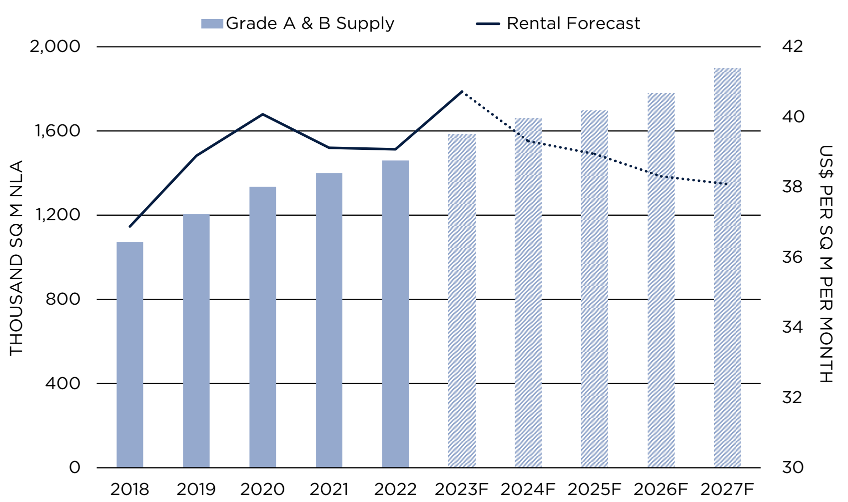
Despite ongoing challenges, Ho Chi Minh City's office market remains resilient, poised for a robust rebound to its pre-COVID prowess. The emergence of increased green, Grade A space highlights a promising trajectory for the city's commercial real estate.

GRAPH 4: Preferred Grade by Purpose, Q1/2023 to Q3/2023



Source Savills Research & Consultancy

GRAPH 5: HCMC Rent and Supply Forecast, 2018 to 2027F



Source Savills Research & Consultancy

HEADWINDS

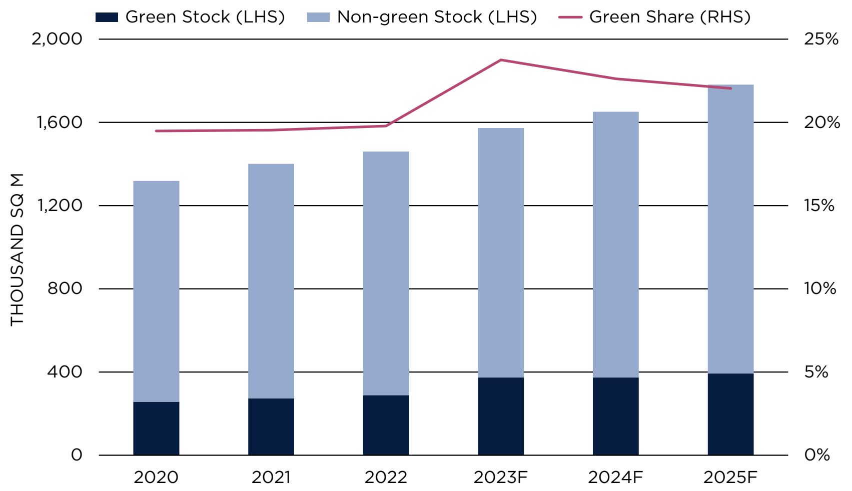
Global office markets have taken a hit. In the US some commentators have forecast a 40% fall following the pandemic, and occupiers have yet to stabilise, albeit we now see a more concerted return to (office) work. Office demand has weakened in the short term as decentralisation, post pandemic resource reviews and altered demand have all impacted this asset class. Viet Nam is somewhat insulated, having broader structural elements contributing to office demand. However, neither is it immune to the global contagion influencing office markets.

Before 2020, HCMC operated as a landlord-driven market, characterised by limited new supply and consistently high occupancy rates. However, since 2021, economic challenges and COVID-19 delayed the city's office space growth. By 2026, an estimated 200,000 sq m NLA of Grade A and B office space will be added, marking a 20% increase from the current stock. Up to 2026, rents are expected to see an annual softening of 2% per annum, coinciding with an anticipated decrease in HCMC GRDP and FDI growth compared to the 2015 to 2019 period.

To 2026, the Grade A and B leased area will increase by 6% per annum in the base case from 1.5 million sq m NLA. Accelerated conversions of old developments, increased leasing activity and a slowing volume of deliveries mean that HCMC A and B office vacancy rates will peak at 12% over the near term and begin to decline to 8% from 2025.

Whilst modelling indicates a softening market, office markets in Viet Nam are exposed to structural drivers which can easily outperform historical averages,

GRAPH 6: Green Share of Grade A & B Stock, 2020 to 2025F



Source Savills Research & Consultancy

including continued growth of the banking and insurance sectors which are traditionally large office occupiers. Other favourable factors include the large-scale relocation of government offices in Ha Noi, education-related demand, and take up by innovation, research, medical and science hubs.

SUSTAINABLE DEVELOPMENT

Demand for sustainability is rising as ESG commitments come to the fore. Property developers are increasingly conscious of future-proofing properties and are starting to deliver green products. While occupier awareness remains low, this will likely change rapidly as ESG becomes fundamental to doing business.

As of Q3/2023, green offices delivered over 20% of the leasable stock, increasing by 6% YoY. The non-CBD accounted for 57% of green stock. By 2025, there will be an additional 103,900 sq m NLA of green offices from key Grade A projects such as The Nexus or VP Bank.

savills

For more information about this report, please contact us

Savills Vietnam

Neil Macgregor
Managing Director
+84 28 3823 4754
nmacgregor@savills.com.vn

Savills Research

Troy Griffiths
Deputy Managing Director
Vietnam
+84 933 276 663
tgriffiths@savills.com.vn

Huynh Thi Huong Giang
Head of Research & S22M
HCMC
+84 902 851 189
hthihuonggiang@savills.com.vn

Simon Smith
Regional Head of Research
& Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.asia