

Asian Cities - 2H 2022

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SPOTLIGHT
Savills Research

Ho Chi Minh City Residential



Muted performance belies continued demand for good product

INTRODUCTION

Ho Chi Minh City (HCMC) is the country's economic hub. The city's population stood at 8.3 million in 2015 and had reached 9.1 million by 2021, just short of the 10 million residents required to be a 'megacity'. Approximately 80% are urban residents due to the influx of migrant workers. Net-migration reached 21.8‰ in 2021.

Strong economic growth of 6% per annum over the last decade has driven housing demand. Over the last two decades, the country has implemented liberal market

mechanisms and has actively encouraged private and Foreign Direct Investment (FDI). FDI has been a central driver of export-oriented industrialization, particularly for manufacturing and processing industries in HCMC and key southern cities, with 40% of FDI invested since 1988 in fields requiring significant numbers of manufacturing workers. Thus, labour and residential markets have attracted migrant workers around industrial zones in HCMC and surrounding cities.

PRIMARY PRICES THRIVE

Residential markets are recovering post pandemic. In September 2022, apartment stock reached 18,930 units, an increase of 193% YoY. There were approximately 13,290 sales, improving by 345% YoY, and absorption of 70% representing an increase of 10 ppts YoY. This performance was still modest compared to the supply and sales peaks between 2016 and 2019.

Before 2020, Grade C units contributed up to 80% of sales; however, since 2021, Grade A & B units have overtaken and are now approximately 70% of sales. Constrained stock levels and improving wealth have promoted higher grade development. Grade A prices have risen by 27% pa since 2015, outpacing the 7% to 12% per annum of the lower grades. By Q3/2022, Grade A primary prices in HCMC reached US\$14,200 per sq m, the strongest growth across APAC cities at 40% YoY thanks to new branded units in the CBD.

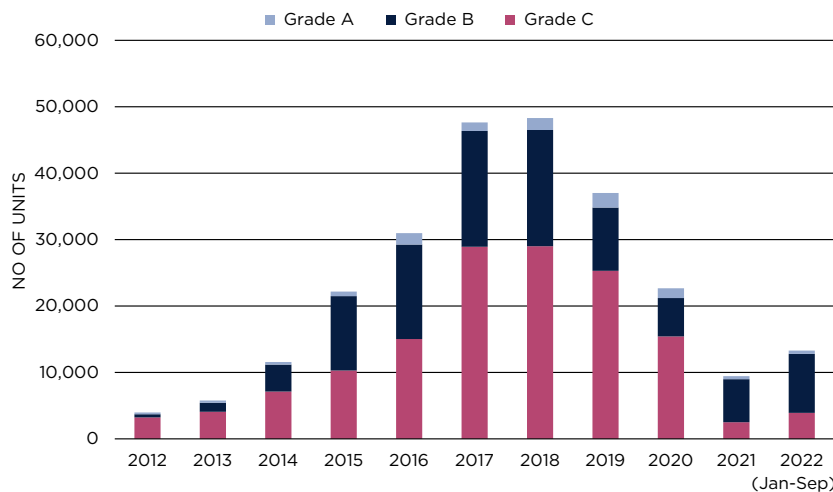
The significant annual increase meant there were only 500 Grade A sales in September 2022, and at 28%, was the lowest absorption in a decade. Grade A prices remain high, however softening market conditions may dampen short term buyer confidence. Higher grade residential is less aligned with fundamental mass market demand.

Despite the slowing volume, Grade A remains in demand, with ongoing developer interest in prime sites and Viet Nam's growing upper-middle class as individuals with a daily income of US\$50 to US\$110 are expected to increase by 17% per annum to 2030, according to HSBC. By 2025, Grade A supply is expected to reach over 18,000 units or 14% of total stock. HCMC luxury residential appeals to investors mostly from China, Hong Kong, Korea and Singapore. Foreign interest has spiked since the revision of the Housing Law in 2015, which now allows foreigners to own leasehold property.

GEOGRAPHIC POPULARITY SHIFT

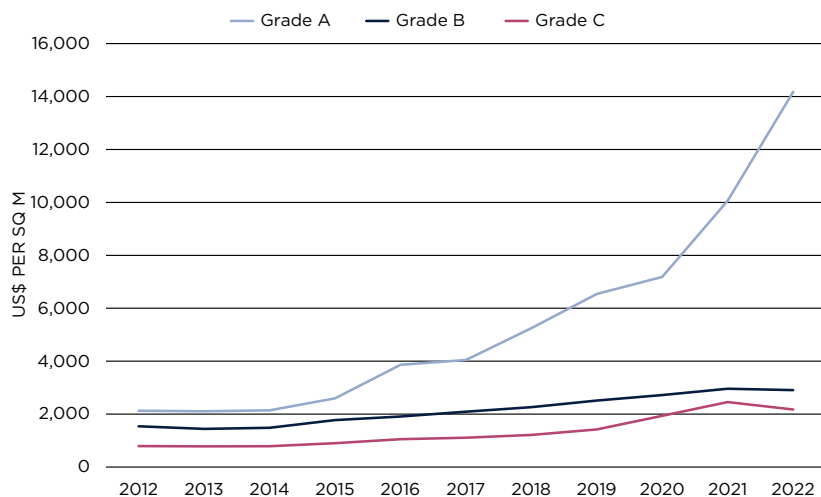
Housing affordability is a globally troubling concept. The supply of affordable housing was steady between 2016 and 2019, with Grades B and C representing 57% of the supply (26,780 units) with prices of US\$90,000 to US\$120,000 per unit or US\$1,100 to US\$2,000 per sq m NSA. However, since 2020, this has fallen to approximately 8,000 units per year. Housing affordability is a growing concern, with the price-to-income index high at 12. At an assumed savings rate of 40% of annual income, it might take a normal household in HCMC over 30 years to pay for a Grade C apartment at 2021 values without bank credit or family support. Home ownership in HCMC was among the lowest in Viet Nam. According to the 2019 Population Census, over 30% of households in HCMC did not have their own homes and were either living with relatives or renting, 21 ppts higher

GRAPH 1: Apartment Sales by Grade in HCMC, 2012 to Jan-Sep 2022



Source Savills Research & Consultancy

GRAPH 2: Primary Apartment Prices in HCMC, 2012 to 2022



Source Savills Research & Consultancy

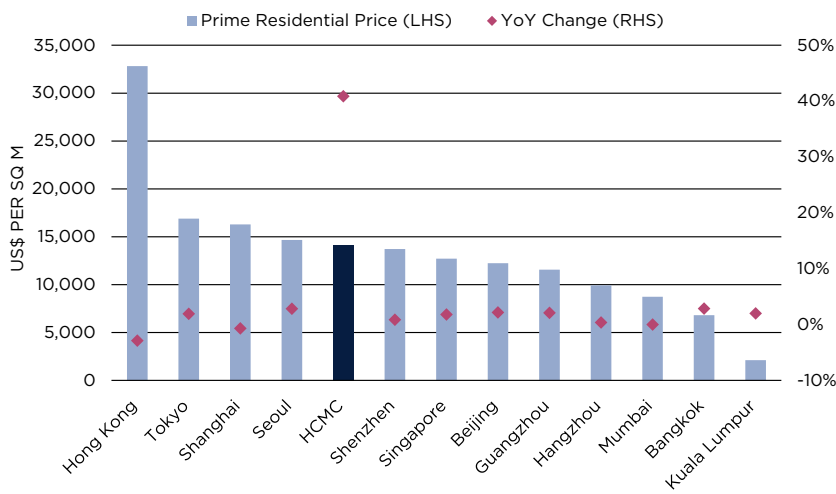
than the national average.

Increasing housing demand amid supply constraints might result in a geographical shift to capture unserved demand. Satellite provinces like Binh Duong, Dong Nai and Long An have improving apartment supplies, expanding infrastructure, and competitive prices of US\$1,000 to US\$1,500 per sq m NSA, around half the comparative HCMC price. Most projects in these provinces are within a 30-minute drive of HCMC.

According to the Housing Development Plan, HCMC requires an additional 15 million sq m NSA of commercial housing by 2025; high-rise buildings will contribute 90%. This equates to 233,000 units or 47,000 units per

With limited supply in HCMC, demand is being satisfied in neighboring provinces, particularly Binh Duong. With a continued strong infrastructure spend and the opening of key projects in the near term, values will continue to shift.

GRAPH 3: Prime Benchmarks, 2022



Source Savills Research & Consultancy

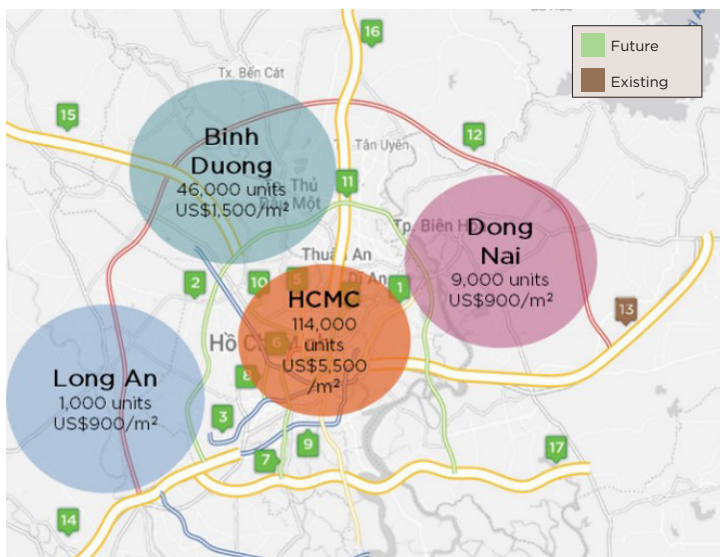
year; the future supply of mid and low-end units will be 115,200, which will only meet 49% of the requirement, which will result in a shift to neighbouring areas. By 2030, HCMC's infrastructure investment will be US\$11.4 billion with over 210 projects, including projects which connect HCMC and satellite provinces such as Ring Road 3, the National Highway 13 expansion, and the HCMC - Thu Dau Mot - Chon Than Expressway.

MARKET CORRECTION

The Government's ongoing anti-corruption campaign is beginning to impact the real estate industry. Authorities detained several prominent real estate leaders, from companies including FLC, Tan Hoang Minh and Van Thinh Phat for stock and corporate bond issuance fraud.

The complexities, expenses, and delays caused by investment procedures and preparations, tax, compensation, and clearance are challenging real estate development and access to capital. According to FiinGroup,

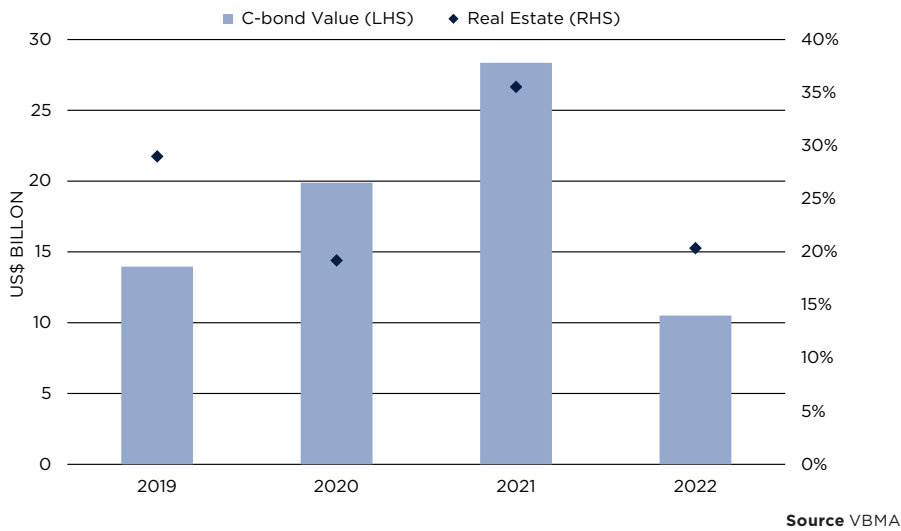
MAP 1: Ho Chi Minh City Competitive Landscape



- 1 Metro line 1 Ben Thanh - Suoi Tien Under Construction Expected completion in 2023
- 2 Metro line 2 Ben Thanh - Tham Luong Planning Expected completion in 2030
- 3 Metro line 3A Ben Thanh - Tan Kien Planning Expected completion in 2031
- 4 Metro line 3B Ben Thanh - Hiep Binh Phuoc Investment Call Expected completion in 2038
- 5 Metro line No. 4 Thanh Xuan - Hiep Phuoc Planning Expected completion in 2036
- 6 Metro line No. 4B Gia Dinh Park - Tomb of Cha Ca Under Construction Expected completion in 2036
- 7 Metro line No. 5 Can Giuoc Bus Station - Saigon Bridge Under Construction Expected completion in 2036
- 8 Metro line No. 6 Ba Queo - Phu Lam Investment Call Expected completion in 2036
- 9 Monorail line No. 2 National Highway 50 - Binh Thoi Investment Call
- 10 Monorail line 3 Phan Van Tri - Tan Chanh Hiep Investment Call
- 11 Ring Road 3 Under Construction Expected completion in 2034
- 12 Ring Road 4 Planning Expected completion in 2026
- 13 Ho Chi Minh City - Long Thanh Expressway Completed
- 14 Ho Chi Minh City - Trung Luong Expressway Under Construction Expected completion in 2023
- 15 Ho Chi Minh City - Moc Bai Expressway Planning Expected completion in 2027
- 16 Ho Chi Minh City - Thu Dau Mot Expressway Approved Expected completion in 2025
- 17 Ben Luc - Long Thanh Expressway Construction Expected completion in 2025

Source General Statistics Office of Viet Nam
 Note Launched and future supply by 2025E.
 Primary price at Q3/2022.

GRAPH 4: C-Bond Issuance by Year, 2019 to 2022



real estate firms typically raise funds via prepayment, which accounts for 18% of the capital structure, with bonds (17%), bank credit (14%) and other sources such as equity via M&A accounting for 51%. However, developers have struggled because of the tightened controls on bonds. At the end of September 2022, the total value of issued corporate bonds was over US\$10 billion. Real estate represented over US\$2 billion or 20% of value, down by -61% YoY because of the tightened controls, which included public business reports, disclosure of investment project information, compulsory credit ratings.

There is concern that significant players will hold off on raising large capital sums for the foreseeable future. Government agencies are also delaying decisions regarding new investments.

Along with corporate bonds, scheduled payments from buyers will become topical. Developers are more likely to raise credit from projects with completed legal documents and good construction. Bank credit for RE is expected to be limited to the end of 2023. As such, developers with strong balance sheets are planning to offer long-term payment schedules of up to three years or discounts of up to 40% for 90% cash up-front.

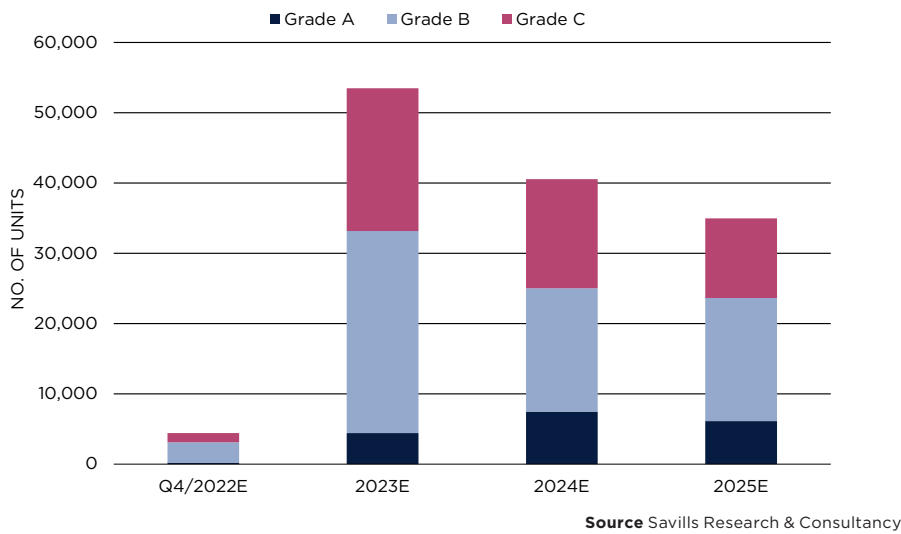
OUTLOOK

While developers struggle with delayed and complex legal procedures and credit tightening, inflation and rising interest rates will weigh negatively on buyer sentiment. However, without holding costs and low transfer taxes, residential property in HCMC remains an attractive asset class.

Residential demand will continue to grow, supported by the rising population, decreasing household sizes, increased urbanization, wealth improvement and updated macro policies. The need for renovation and replacement due to the deterioration of housing quality will also add to future housing demand.

Price escalation is set to continue, but at a lower short-term rate. With growing demand and an annual pipeline of approximately 30,000 units, positive absorption is expected.

GRAPH 5: Supply Outlook, HCMC Apartment, Q4/2022 to 2025E



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

Vo Thu Khanh Trang
 Head of Research
 HCMC
 +84 906 948 580
 vthikhanhtrang@savills.com.vn

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