Hanoi Retail
COVID-19 hits classic retail; accelerates e-commerce

ECONOMIC OVERVIEW

According to United Nations figures, the metro area population of Hanoi is currently around 4.7 million, much smaller than Ho Chi Minh at 8.6 million, but the city benefits from its status as National Capital and its relative proximity to China (Nanning, the nearest major Chinese city, lies approximately 200 miles to the north). Hanoi registered a modest 3.72% GDP growth rate in the first quarter of 2020 following 6.97% growth in the final quarter of 2019 as the impact of COVID-19 hit the economy in March.

The COVID-19 pandemic has restricted residents’ ability to shop, travel and eat out, and the services sector has been hit hard. In Q1/2020, Hanoi’s total goods and service retail sales fell by 7.8 ppts to 2.3% YoY, accounting for approximately VND135.7 trillion (US$5.9 billion). The downward momentum is more obvious on a monthly basis, with the growth rate declining from 11.7% in January, to 7.6% in February and then falling significantly to -3% in March. Moreover, a strict drink-driving law was imposed in January to reduce excessive drinking in the city. Together with the impact of travel bans on the local economy, the measure has affected accommodation and F&B sales in Hanoi, with total sales down by 20.2% YoY.

Despite the squeeze on consumer purchasing power caused by the poor market sentiment, Hanoi’s retail sales maintained robust growth of 9.3% YoY, reaching VND87.6 trillion (US$3.8 billion) in the first quarter. The figure was mainly supported by strong demand for essentials along with ecommerce sales.

The consumer price index rose by 1.07% MoM in January but fell by -0.07% MoM in February and -0.89% MoM in March. Five of the 11 groups of commodities and services reported a steep fall, including transportation; culture, entertainment & tourism; food, foodstuffs & catering; housing, electricity, water, fuel & construction materials; and beverages & tobacco.

RETAIL OVERVIEW

With no new projects coming on stream in the first quarter, total stock was unchanged at approximately 1.6 million sq m with shopping centres accounting for 57%. A softer rental performance in Q1 was a direct consequence of COVID-19 as average ground floor gross rents dropped by -2% QoQ and -4% YoY and occupancy eased -1 ppts QoQ. Non-CBD projects saw steeper declines in both rents and occupancy rates.

After the city’s first reported case on March 6th, footfall began to drop off and containment measures led to temporary closures of malls, restaurants, cinemas, entertainment venues and fitness centres. A recent Savills tenant survey found that 55% of retailers are experiencing falling revenues. Most categories were affected with only supermarkets registering growth, up 20%.

Mall occupancy has generally remained high with well-known brands better equipped to deal with the crisis and wanting to avoid losing security deposits and face legal action. However, mall vacancies are likely to escalate in the coming months. With rents up to 50% of gross operating costs, street retailers are suffering most and closures have been widespread. Those retailers with outlets in both malls and on streets chose to close street stores.

DEMAND & TRENDS

Struggling tenants are asking landlords for relief measures. Some are suggesting lockdown exemptions and up to 50% rent reductions for three to 12 months. Many are continuing to negotiate other business expense reductions, and some will not renew their leases on expiry. Tenants considering entry have been renegotiating or have postponed finalizing contracts. Our survey found 57% wanted up to 50% reductions and 31% were seeking exemptions.

Landlords responses have varied. Big developers moved early with up to 50% rent reductions, or even exemptions, and tenants were engaged to find equitable solutions such as deferrals and concessions. Requests have been handled on a case by case basis so far. Smaller developers adopted a wait-and-see attitude, but most intend to reduce rents by around 30%. Helpful suggestions for parties include:

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**GRAPH 1: Hanoi Retail Sales Growth, Q1/2020**

**GRAPH 2: New Retail Supply by Type, 2015 to Q1/2020**

**GRAPH 3: Category Revenue Changes, Q1/2020 vs Q4/2019**
- Close tenant engagement, case-by-case review and flexible support.
- Rent reductions location and sales dependant.
- Rent suspension during lockdown.
- Monthly rents.
- Extend payment schedules.
- Service charges reduced to minimum and switch to monthly payments.
- Explore integrating online opportunities. Trends point to an increased share when the crisis ends.

Fewer shopping trips and stocking up helped shift consumers from street and convenience outlets to hypermarkets, supermarkets and minimarkets. E-commerce and home delivery services have been boosted with e-tailers seeing up to 30% growth. A Savills survey found 28% of retailers had an online presence and another 28% were exclusively online. E-commerce and home delivery services are expected to continue to increase with COVID-19 undermining consumer sentiment and influencing buying behaviors.

OUTLOOK
Up to the end of 2021 we have identified 19 new retail projects totaling approximately 195,000 sq m with 43% in the west of Hanoi and 28% in secondary areas. Notable developments include Vincom Mega Mall Smart City (44,000 sq m net) and Vincom Mega Mall Ocean Park (36,000 sq m net). Overall rents are expected to fall as expansion continues into non-CBD areas. Projects scheduled to enter in 2020 are considering delays.

A recent Savills survey found that 61% of occupiers are optimistic if the pandemic ends in Q2 but if it persists 86% felt recovery would take a minimum of six months. F&B, entertainment, education, and fitness are anticipated to be the first to recover with consumers wanting to rapidly embrace ‘normality’. Categories such as fashion & cosmetics, furniture, and houseware & electronics may take longer to recover.

The Asian Development Bank expects Vietnam to maintain economic stability and long-term growth. GDP growth is forecast to ease to 4.8% in 2020 but rebound to 6.8% in 2021 if the pandemic is contained within the first half. Vietnam is set to retain its crown as the fastest growing economy in Southeast Asia.

“Retail has been severely disrupted but opportunities remain. Swift responses, adaptive business practices and forward planning are vital now.”

![GRAPH 4: Future Supply, 2020 & 2021](source)

![GRAPH 5: Regional GDP Growth, 2020E & 2021E](source)