2020

SPOTLIGHT
Savills Research

HANOI

savills

CHALLENGES AND OPPORTUNITIES

MARKET BRIEF H1.2020

- Retail
- Office
- Serviced Apartment
- Hotel
- Apartment
- Villa & Townhouse
- Industrial

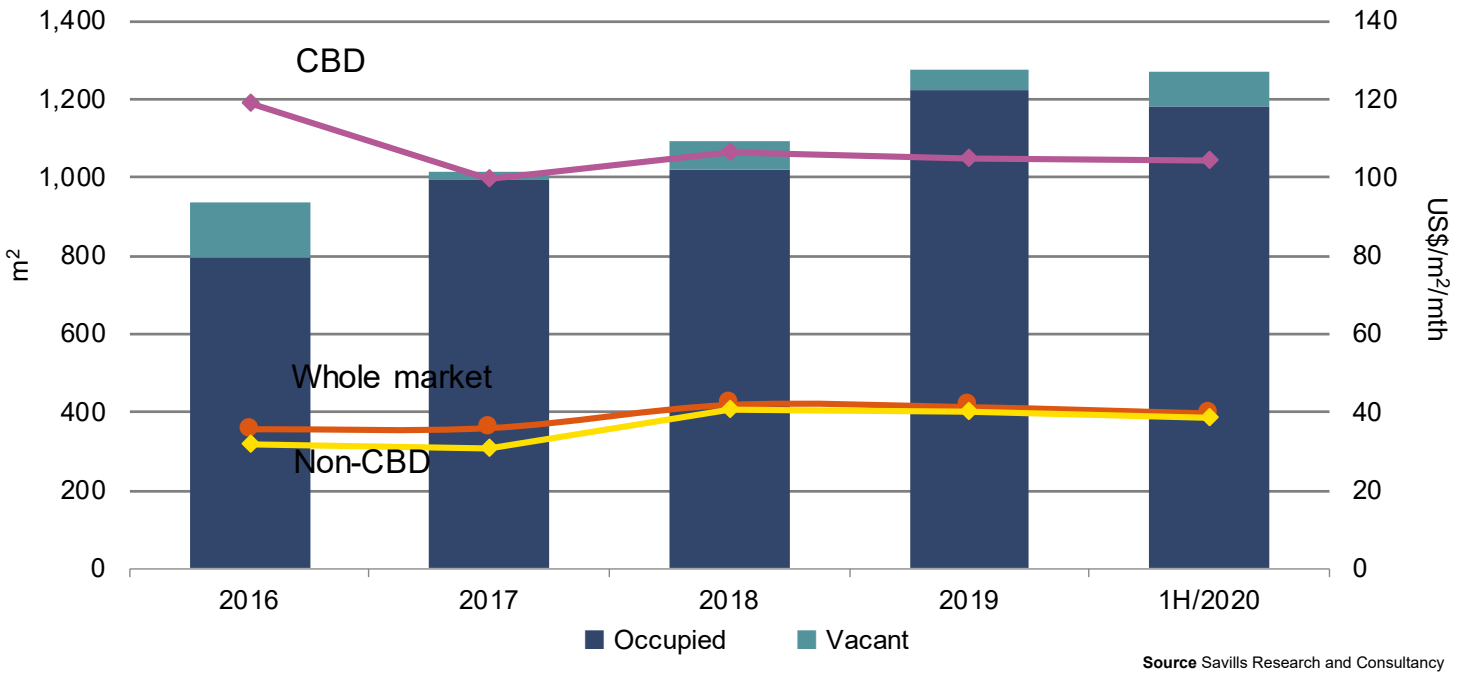
RETAIL

SUPPLY
~1.6 mil m²
Stable QoQ
▲ 5% YoY

AVG. RENT
$40/m²/mth
▼ -2% QoQ
▼ -4% YoY

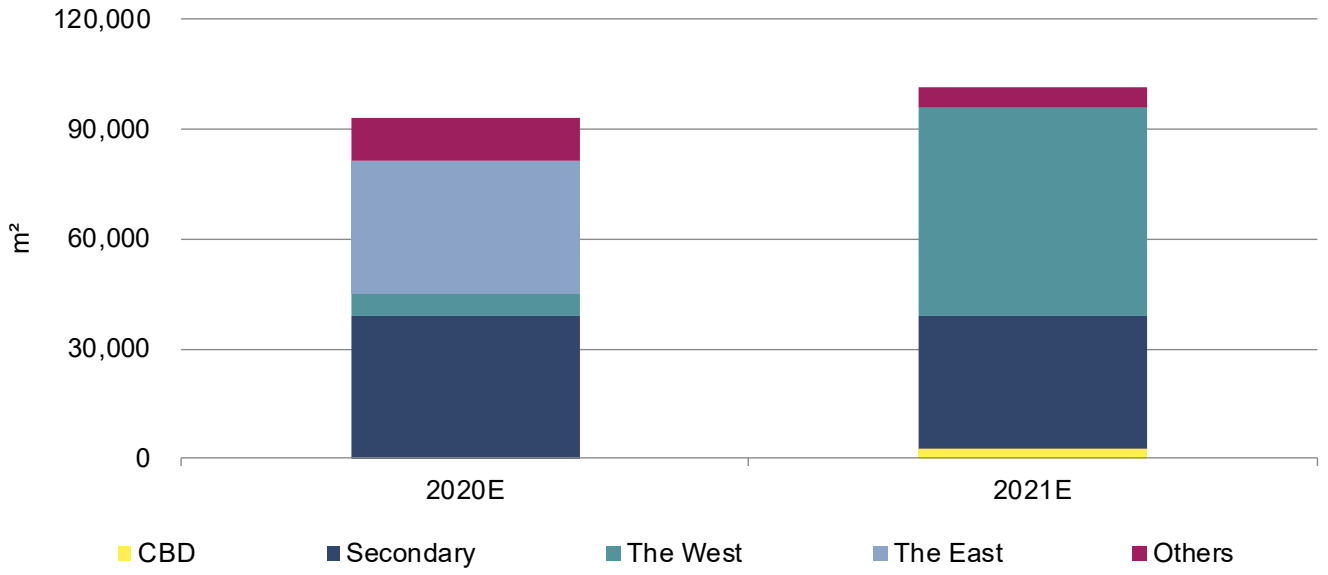
OCCUPANCY
93%
▼ -2 ppts QoQ
▼ -3 ppts YoY

Performance



Source Savills Research and Consultancy

Future Supply



Source Savills Research and Consultancy

(1) Data collection as of Q2/2020
(2) Occupancy calculated by leased area divided by leasable area
(3) Avg. Rent: ground level including service charge, excluding VAT

QoQ: Quarter on Quarter comparison
YoY: Year on Year comparison

> *Rental pressure eased in Q2 with relief requests handled in Q1. Tenants' strategy will focus on adaptability. Landlords are required to come up with measures in response to changing demand.*

Ms. Hoang Dieu Trang
Senior Manager, Commercial Leasing

KEY FINDINGS

Softer Performance

Total stock was approximately 1.6 million m², stable QoQ and up 5% YoY. The Secondary area with 42% also has the highest retail density in Hanoi of 0.46 m²/person. Shopping centres continue to dominate with a 57% share.

Average ground floor gross rent reduced -2% QoQ and -3% YoY to a two-year low. Average occupancy fell -2 ppts QoQ and -4 ppts YoY to a three-year low. Retail podiums and shopping centres registered sharper declines than department stores. Non-CBD projects had steeper drops than those in the CBD. Q2 take-up was -29,000 m² in Q2 and -38,000 m² in H1, with shopping centres and the West the worst affected.

Cautious Reopening

Footfall and sales slumped under lockdown in April to recover slightly in May and June. Sales remained low due to limited availability of imported goods and pandemic affected purchasing power. Landlords and tenants remained cautious keeping anti-corona virus hygiene measures strictly applied. Rent relief requests were mostly handled in Q1, with pressure subsiding in Q2, however rebates, reductions and waivers all helped.

A recent Savills Hanoi survey reaching 2.500 tenants of 21 shopping centers and department stores found Fashion & Cosmetics with 26% of leased area retain its leading category position, followed by Entertainment with 23 percent. Proportions decreased YoY for Fashion & Cosmetics, Furniture, Houseware, Electronics; while proportions increased for Supermarket and the 'Others' category.

Macroeconomic Recovery

H1 total goods & services sales of VND 269.8 trillion, or US$11.6 billion, were up 0.5% YoY. Sales of goods up 9.9% YoY to VND 179.3 trillion, or US$7.7 billion, were attributed to higher household essential demand and increasing e-commerce.

The CPI increased 3.7% YoY, mainly owing to 11.1% growth in Food, Foodstuffs & Catering and 3.1% in Medical & Healthcare.

Outlook

Until end 2021, 20 projects with approximately 195,000 m² will enter, 39% in the West with 32% in the Secondary area. Notable developments include Vincom Mega Mall Smart City, Vincom Mega Mall Ocean Park and Hinode City. Continued decentralization will soften rents.

The Government has launched campaigns aimed at stimulating consumption. FocusEconomics forecast national 2.6% GDP growth in 2020 rebounding to 6.7% in 2021-2024. Over the long-term Vietnam is expected to maintain economic stability while continuing to be the fastest growing SE Asian nation.

Retailers continue to benefit from technology driving sales while ramping up customer service. Online shopping growth alongside rapidly evolving consumer behaviors will require landlords to develop more innovative footfall strategies.

OFFICE

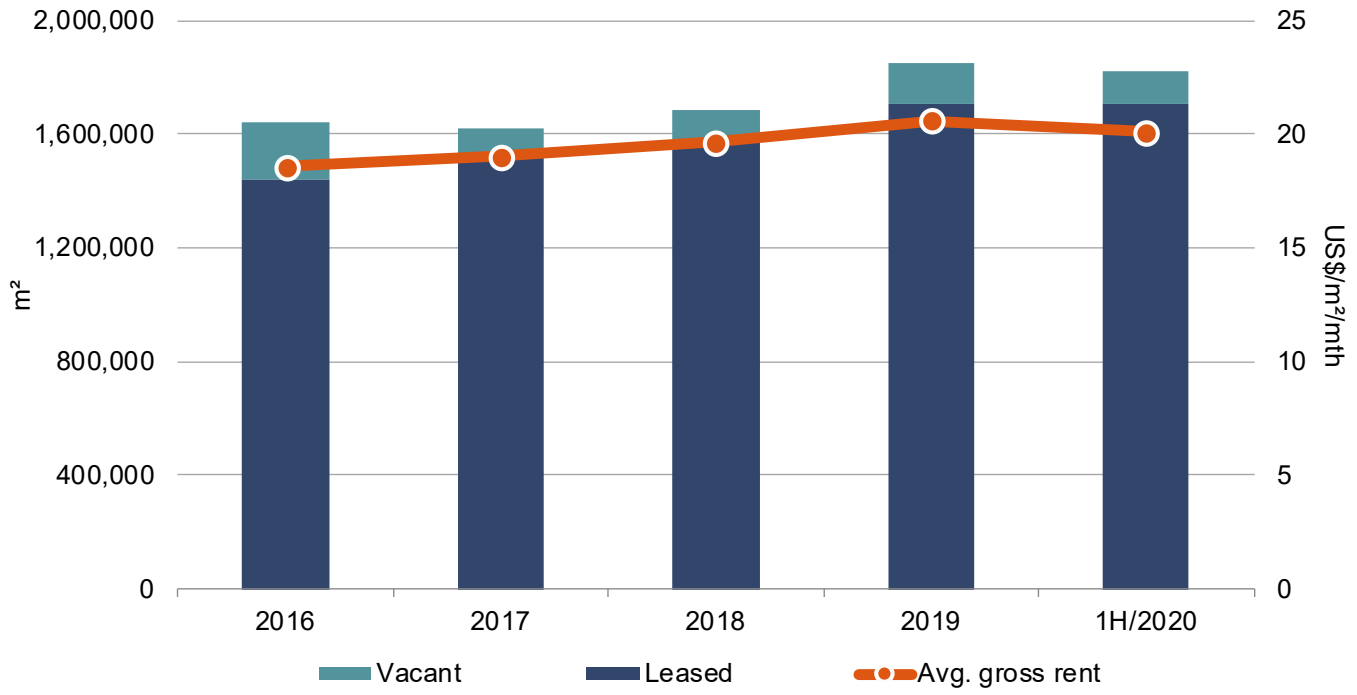
SUPPLY
~1.8 mil m²
stable QoQ
▲ 1% YoY

AVG. RENT
$20/m²/mnth
▼ -1% QoQ
▼ -1% YoY

GRADE A RENT
$31/m²/mnth
stable QoQ
▼ -1% YoY

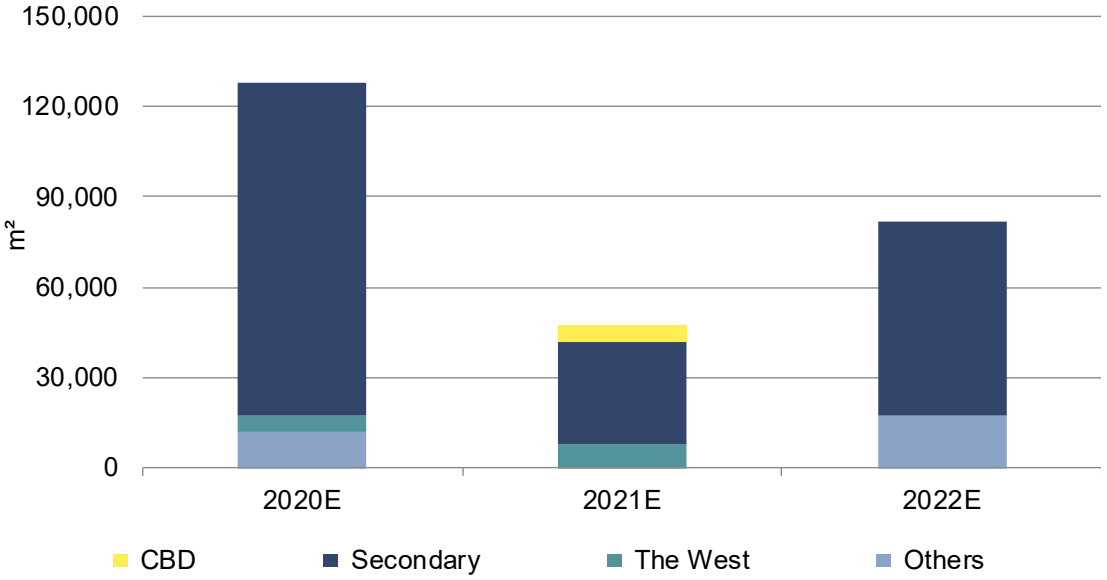
OCCUPANCY
94%
▲ 1 ppt QoQ
▲ 1 ppt YoY

Market Performance



Source Savills Research and Consultancy

Future Supply



Source Savills Research and Consultancy

(1) Data collection as of Q2/2020
(2) Occupancy calculated by leased area divided by leasable area
(3) Avg. Rent: including service charge, excluding VAT

QoQ: Quarter on Quarter comparison
YoY: Year on Year comparison

> *High-grade building Landlords in the CBD managed relief requests case-by-case but nothing is seen yet in the West area. Abundant new supply and cautious sentiment may see reduced mid-term average occupancy.*

Mr. Le Tuan Binh
Head of Commercial Leasing Hanoi Director

KEY FINDINGS

Decreased Rent, Increased Occupancy

Total stock of approximately 1.8 million m² was stable QoQ and up 1% YoY with most projects located in the West. Grade B with 47% had the largest share alongside the highest 2% YoY growth, or 6% pa over 5 years. Grade A at 25% had the smallest share and down -1% YoY, or 2% pa over 5 years, the weakest growth.

Average gross rent decreased -1% QoQ and -1% YoY; Grade A remained consistent while Grades B and C recorded declines, mainly in higher vacancy projects. With longer-term contracts finalized within previous quarters average occupancy slightly increased 1 ppt QoQ and 1 ppt YoY. Grade A had the strongest occupancy growth following improved performance in projects launched last year. Q2 take-up was 15,000 m² but overall H1 lost -400 m² after Q1 closures of International Centre and Vietcombank Tower. The highest take-up was in Grade B and the West.

Landlords & Tenants

Landlords relief measures included rent adjustments, more favorable lease terms and renegotiated essential clauses. While landlords of low-grade buildings were quick to action, those in higher grade buildings handled requests case-by-case. Relief measures were offered in the CBD but yet, nothing in the Western area.

The comparatively short lockdown, alongside Government and landlord support resulted in few lease breaks.

Landlords are expecting increased vacancies with declining rents as tenants look to rein in spending while reviewing office-based work practices.

Economic Factors

Hanoi will remain a stable investment destination with government determined that the capital leads post-pandemic economic recovery. Hanoi attracted US$2,764 million FDI in H1, of which US$1,217 million was licensed by 24th June 2020 and US$1,547 million was licensed at the 'Hanoi 2020 – Investment and Development Cooperation' conference in June.

There were approximately 12,600 newly established enterprises in Hanoi over H1 down -7% YoY, with total registered capital up 5% YoY to VND 175 trillion, or US$7.5 billion.

Although H1 GDP growth was low at 3.4% YoY, the economic outlook remains optimistic. FocusEconomics forecast GDP growth to reach 2.6% in 2020, outpacing other SE Asian nations. The expected 2021-2024 forecast growth 6.7% will keep Vietnam ahead of the 3.3% - 6.5% forecast for regional peers.

Outlook

By 2022, approximately 258,000 m² of primarily Grade A new supply will enter. Decentralization continues with the majority in the Secondary area and none scheduled for the CBD. This supply influx combined with more cautious sentiment may soften occupancy over the next two years. Average rent is forecast to ease -2% in 2020 but slowly recover in 2021.

The pandemic has reshaped the market with new trends. Tenants will increasingly focus on health through higher quality workplaces with more employee-friendly environments. Minimizing location constraints makes for a wider net in hiring talented employees, curtailing office overhead whilst staying competitive. Remote working has been adopted by global tech giants and is regularly used by outsourcing companies.

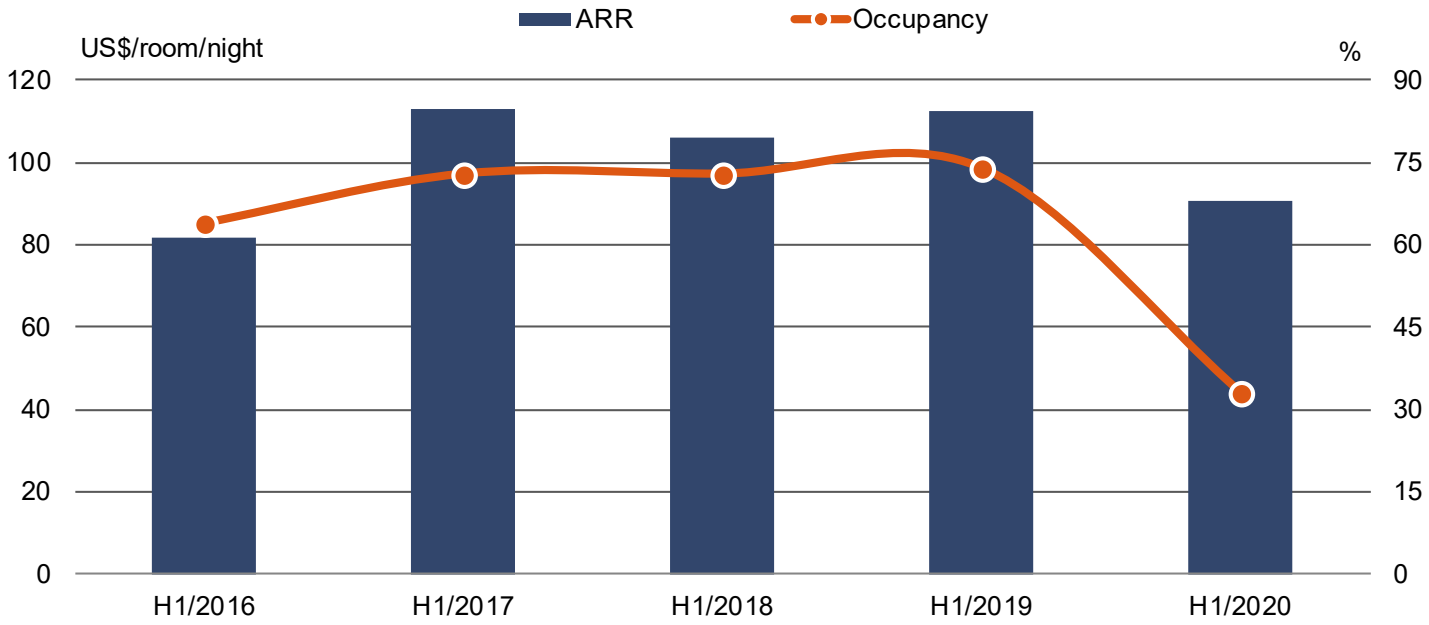
HOTEL:

SUPPLY
9,950 rooms
stable QoQ
stable YoY

AVG. ROOM RATE
$85/room/night
-14% QoQ
-24% YoY

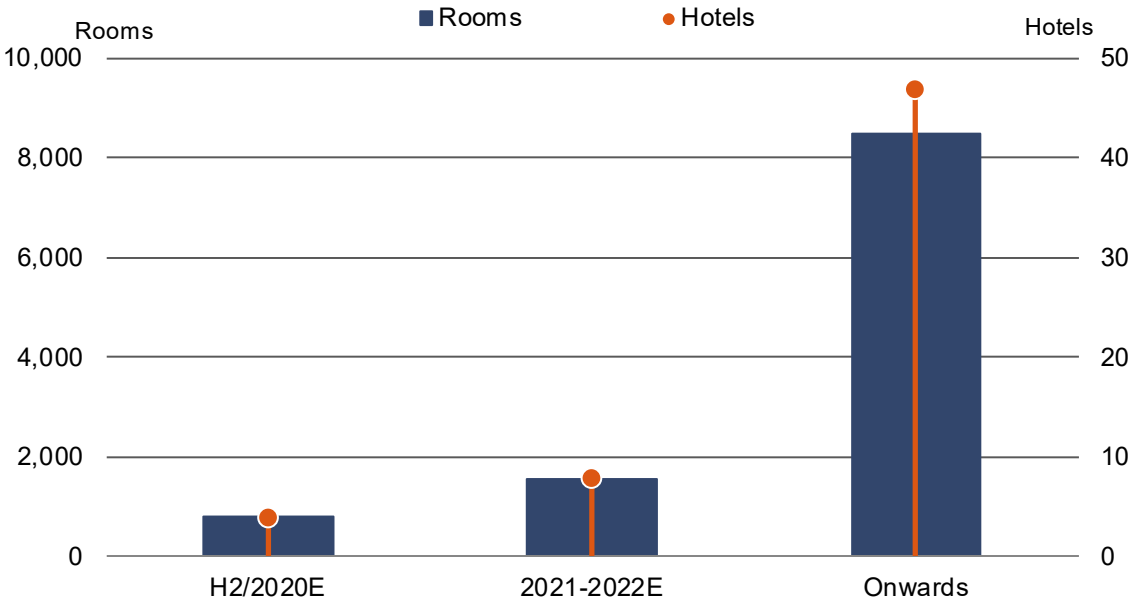
OCCUPANCY
21%
-23 ppts QoQ
-52 ppts YoY

Performance



Source Savills Research and Consultancy

Future Supply



Source Savills Research and Consultancy

(1) Data collection as of Q2/2020
(2) Occupancy calculated by occupied units divided by total available units.
(3) Avg. Room Rate: including service charge, excluding VAT
(4) QoQ: Quarter on Quarter comparison
(5) YoY: Year on Year comparison
(6) Future supply includes new developments, but excludes projects under-grading; Covid-19 related temporary closures

> *"Q2 saw the lowest performance due to lockdown in April and inbounds effectively halted. However, recovery is underway as domestic visitors start travelling again."*
>
> *Matthew Powell*
> *Director, Savills Ha Noi*

KEY FINDINGS

Performance Remains Low

Total stock of approximately 9,950 rooms was stable QoQ and YoY from the 16 five-star, 19 four-star and 31 three-star projects. The lockdown coupled with closed borders devastated second quarter performance. Two four-star and eight three-star mostly CBD projects have remained closed. Q2 occupancy of 21%, down -23 ppts QoQ and -52 ppts YoY, saw average room rates (ARR) slide -14% QoQ and -24% YoY to US$85/room/night.

In Q2, five-star led grade performance with 25% occupancy and US$27/room/night RevPAR. Long stays and businessmen remain the main guest source. The lack of tourists led to destination and hotel closures in April and CBD performance collapse as RevPAR decreased -71% QoQ and -84% YoY. Secondary area RevPAR decreased -59% QoQ and -80% YoY. The West was down to US$29/room/night RevPAR or -51% QoQ and -72% YoY.

Low Visitors, Encouraging Signs

Lockdown followed by travel restrictions saw domestic and international traveler numbers significantly drop YoY. H1 visitors to Ha Noi were down -65.4% YoY to 4.93 million. Of these 987,000 were international, down -68.8% YoY; the 3.95 million domestic travelers were down -64.6% YoY. Q2 visitors down -84% YoY to 1.08 million included 31,000 international visitors down -98% YoY, while 1.06 million domestic visitors were down -81% YoY.

Due to international travel restrictions, visitors to Ha Noi were mostly domestic, people returning to work or visitors from other provinces. There were significant month on month increases in Q2: there were 792.000 visitors in June, against 258.000 in May, and just 35,500 in April.

Aviation Domestic Recovery Underway

Civil Aviation Authority data from May 19th to June 18th, reported over 18,600 flights completed nationally by Vietnamese carriers, down -38.3% YoY, but increasing 16% MoM. In Q2, flights by Vietnamese carriers were down -60% QoQ while over H1 flights were down -31.7% YoY. Total H1 international visitors were 3.74 million, down -55.8% YoY.

Outlook

In H2 two 5-star, one 4-star and one 3-star supplying over 800 rooms will enter. From 2021-2022, eight new projects will add a combined 1,550 rooms. From 2022 onwards, 47 projects providing around 8,500 rooms are expected to enter. Five-star is set to dominate future supply with 27 projects, mostly in the Secondary area, opening over 7,200 rooms.

Until international flights reopen, Vietnamese will be restricted to local destinations. According to Google Asia-Pacific, Q2 search results for domestic flights increased 85% YoY. Four- and 5-star hotels will mostly likely benefit with multiple ongoing promotions alongside discounts enticing domestic tourists.

Wellness tourism is growing. According to the Global Wellness Institute (GWI), related expenditure of US$919 billion in 2022 is forecast alongside 7.5% pa average growth. Asia-Pacific at 13% pa has the highest projected growth with US$251.6 billion revenues forecast by 2022. The potential for wellness tourism in Vietnam is significant as during 2015-2017, trips grew 22.8% pa on average.

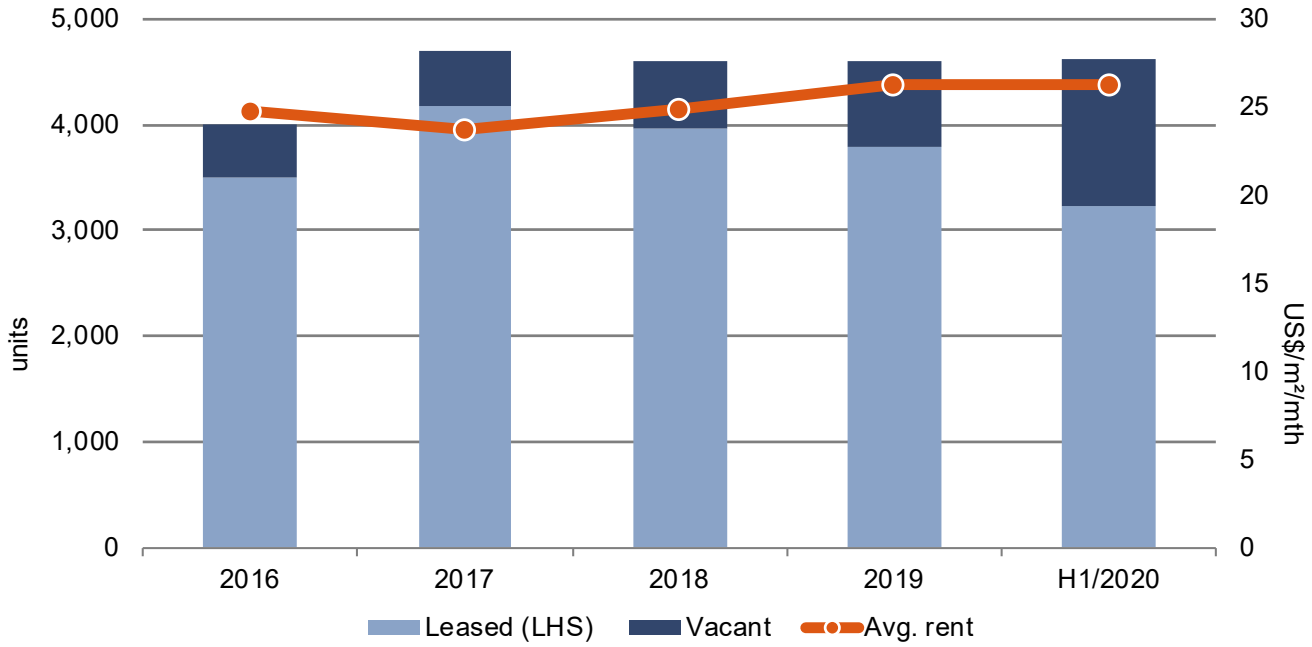
SERVICED APARTMENT

SUPPLY
~4,620 units
-2% QoQ
-2% YoY

AVG.RENT
$26/m²/mth
-1% QoQ
5% YoY

OCCUPANCY
70%
-4 ppts QoQ
-13 ppts YoY

Performance



Source Savills Research and Consultancy

H1/2020 Ha Noi registered FDI

(1) Data collection as of Q2/2020
(2) Occupancy calculated by leased units divided by total units.
(3) Avg. Rent: including service charge, excluding VAT

QoQ: Quarter on Quarter comparison
YoY: Year on Year comparison

> *"Serviced Apartments is correlated highly with FDI and expats working for major international companies. The asset class has held up well, the long-term potential for Hanoi remains good, with many MNCs contemplating relocation to Vietnam."*
>
> *Ms. Hoang Nguyet Minh,*
> *Associate Director, Investment*

KEY FINDINGS

Performance

Total supply from 51 projects was down -2% QoQ to approximately 4,621 units. One Grade B and one Grade C project closed. Occupancy decreasing -4 ppts QoQ and -13 ppts YoY, reached its lowest level of 70 percent.

H1 Grade A performance remained steady with 69% of total units occupied. Long-term leases steadied segment performance with average rent easing slightly -1% QoQ to stay at US$26/m²/mth.

Overall resilience showed with 50/52 sites still in operation after lockdown eased with 22% retaining around 90% occupancy.

Attentive Industrials

Multinationals shifting supply chains to Viet Nam to escape U.S - China trade war related tariffs, are starting to accelerate. The northern Industrial market alongside accommodation providers are anticipating a post pandemic expat driven wave of demand.

Ha Noi gained US$1,217 million of registered FDI in H1, equivalent to 25% of H1/2019. Investor trust in Viet Nam has been further amplified by effective pandemic containment alongside the recent EVTA ratification.

By June 2020, three industrial projects financed by Japanese, Korean and Hongkong investors accounted for 53% of total newly registered FDI. Asian expats are expected to be a key tenant target for Serviced Apartments.

Business Leverage

The Government issued timely support for pandemic affected enterprises and employees. Resolution No. 84/NQ-CP permits expats to enter and receive new, or extend existing work permits. There were 15% discounts provided for organizations, households and individuals renting land directly from the Government.

Law No. 51/2019/QH14 allows expatriates to change visa purpose without the need to leave and re-enter. Resolution No. 79/NQ-CP regulating e-visa issuance for 80 countries for stays up to 30 days regardless of purpose. Foreigners finding work in Viet Nam or entering under an e-visa may change their visa status when the work permit is secured. These changes are intended to reduce immigration procedures and costs while facilitating investment and tourism development.

Outlook

Seven projects with approximately 770 units are expected to come online in 2020. With 73% of this new supply, the Secondary area will remain the most competitive in 2020. This area is also scheduled for 71% of total future supply. However, the 'Others' region – districts Gia Lam, Dong Anh - have started introducing large-scale projects.

Post pandemic Serviced apartments may see increased competition from hotels or rental platforms. Customers may already reserve up to 365-day stays on Airbnb while Agoda is about to enable 180-day bookings.

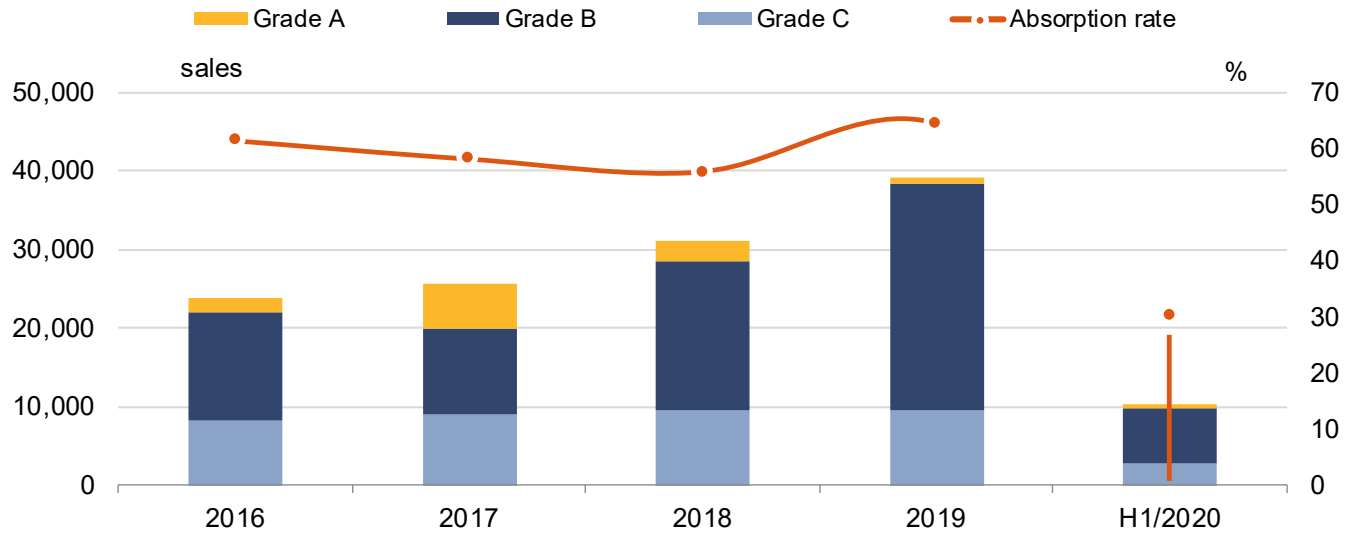
APARTMENT

SUPPLY
29,200
▲ 5% QoQ
▼ -6% YoY

SALES
>5,400
▲ 11% QoQ
▼ -43% YoY

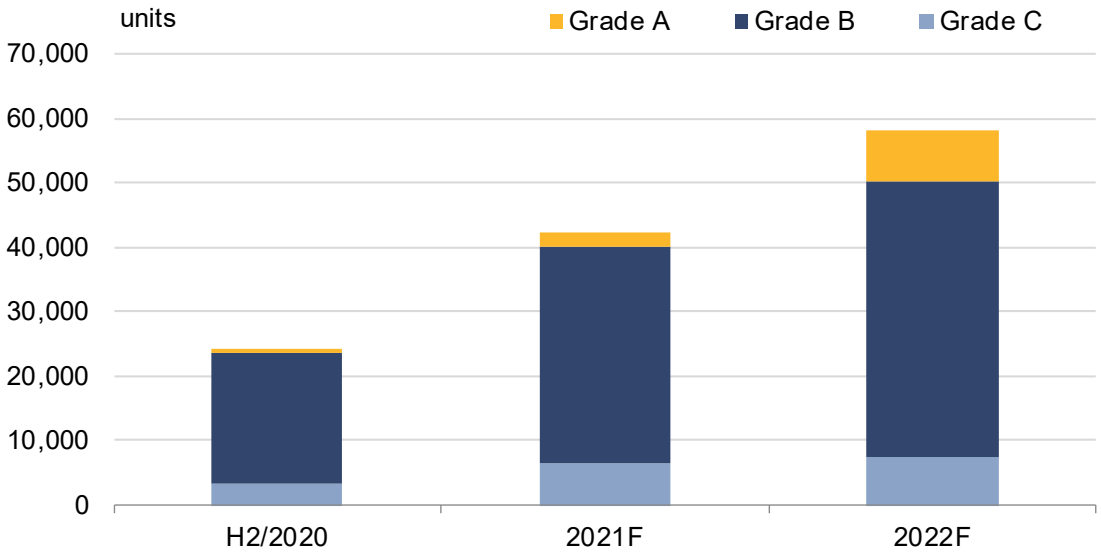
ABSORPTION RATE
19%
▲ 1 ppt QoQ
▼ -12 ppts YoY

Market Performance



Source Savills Research and Consultancy

Future supply



Source Savills Research and Consultancy

(1) Data collection as of Q2/2020
(2) Absorption rate calculated by sales divided by primary supply

QoQ: Quarter on Quarter comparison
YoY: Year on Year comparison

> *Grade B remains the driver, however all classes have suffered short term demand pressure. Large supply handed over in 2020, may see rental yields soften. With abundant infrastructure being completed, long term returns remain sound.*

Ms. Do Thu Hang,
Director, Advisory Services, Savills Hanoi

KEY FINDINGS

Post Lockdown Performance

The lockdown lasting just 22 days helped ease downward pressure. In Q2/2020, five new and the next phases of seven existing projects, provided approx. 6,200 units, up 28% QoQ and down -6% YoY. Primary supply increased 5% QoQ but decreased -6% YoY to 29,200 units. Grade B accounting for 74% remains the largest supplier.

Increased developer and buyer confidence accelerated new project launches and second quarter performance. There were approximately 5,400 sales, up 11% QoQ but down -43% YoY. H1 had approx. 10,300 sales, down -47% YoY with 30%, decreasing -17 ppts YoY.

Stable Primary Prices

Pandemic effects made sales difficult in H1 but average primary prices remained stable QoQ and moved up 7% YoY to US$1,460/m2.

Savills Global Residential Sentiment Survey found 53% of respondents reported H1 property prices in their markets were unchanged YoY. Although parts of the world have entered recession, this situation is dissimilar to the GFC where over leveraged property owners contributed to economic collapse.

Suburban Districts Expand

In line with Ha Noi urban expansion, supply is shifting from urban areas to rural districts. In 2016, Hoai Duc and Thanh Tri districts provided 10% of supply. In Q2/2020, rural districts Gia Lam, Dong Anh, Hoai Duc and Thanh Tri districts together provided a 27% share. Strongly performing Eastern districts in H1 had rural district sales accounting for 22 percent.

Future large satellite projects include Xuan Mai Smart City (3,072 ha), Vinhomes Co Loa (299 ha), BRG Smart City (272 ha) and Vinhomes Wonder Park (133 ha). These developments were approached to deliver sustainable solutions to population pressure, traffic congestion and infrastructure shortages.

Strong Demand

Residential property is a defensive asset class. Urbanisation, strong population growth and shrinking households all contribute to residential demand. At 2020, Viet Nam urbanisation was 37% lower than SEA (50%) and Asian peers (51%). Lagging urbanization implies strong future development potential.

A 96 million population in 2019 has 120 million expected by 2050 and 57% national urbanization. The emerging middle class, currently accounting for 13%, is expected to reach 26% of the population by 2026. Total households increased 1.8% pa from 2009-2019. Each household had an average of 3.5 persons, 0.3 persons fewer than in 2009.

Outlook

In 2H/2020, approximately 24,200 units from four existing, and 18 future projects will enter, with Grade B continuing to lead segment share. Of the 22 projects announced, 68% are under construction with 32% at foundation. Leading future suppliers are Tu Liem district with 45% of stock, Gia Lam with 32% and Hoang Mai with 9 percent.

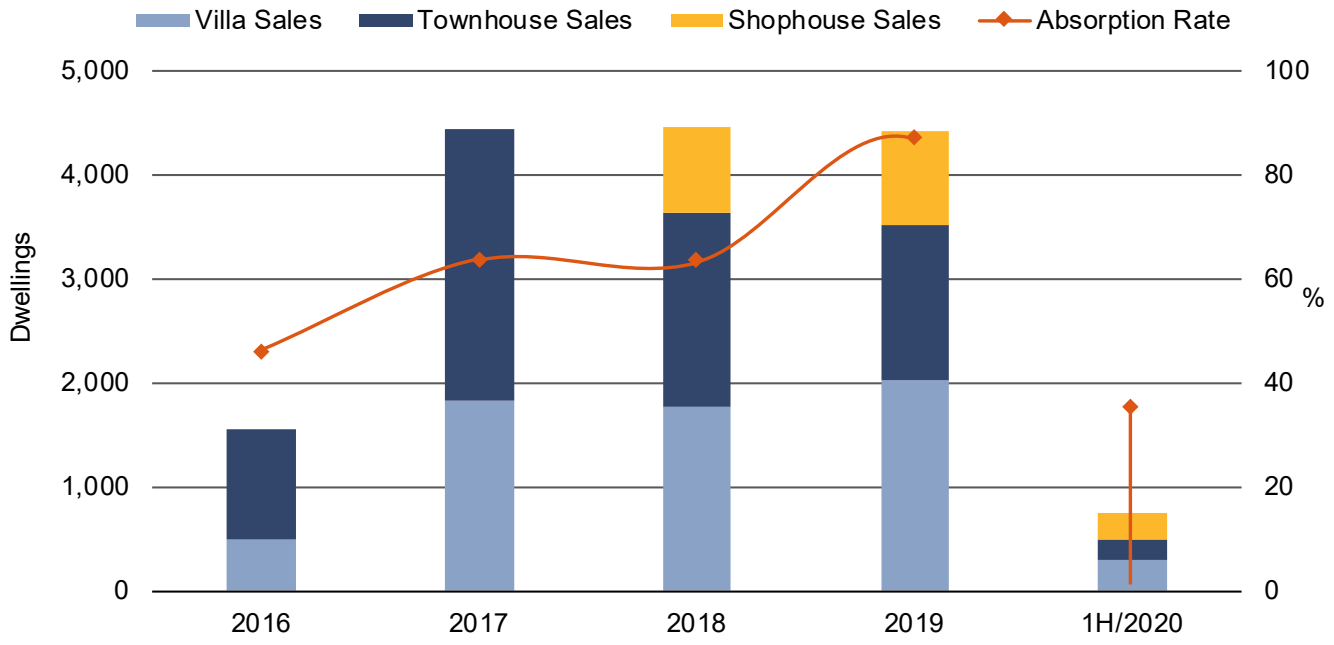
VILLA & TOWNHOUSE:

PRIMARY SUPPLY
1,853
▲ 38% QoQ
▼ -45% YoY

SALES
470
▲ 67% QoQ
▼ -78% YoY

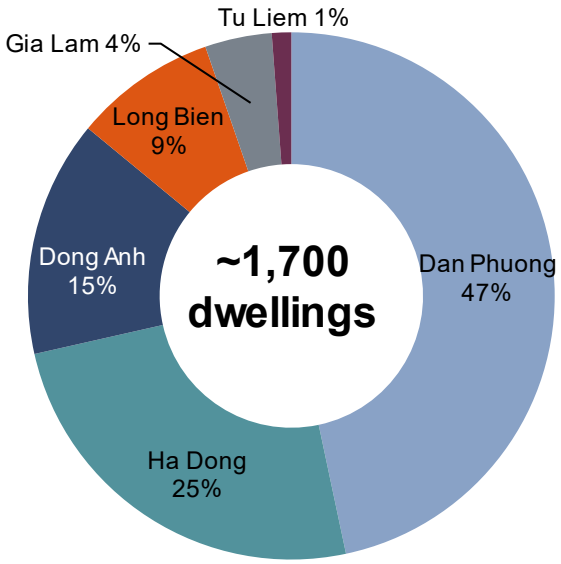
ABSORPTION RATE
25%
▲ 4 ppts QoQ
▼ -39 ppts YoY

Performance



Source: Savills Research & Consultancy

Future Supply



Source: Savills Research & Consultancy

(1) Data collection as of Q2/2020
(2) Absorption rate calculated by sales divided by primary supply

QoQ: Quarter on Quarter comparison
YoY: Year on Year comparison

> *Limited stock is an issue, but decentralization will see greater supply and choice. Developers continue to skew to townhouses and shophouses knowing they are great fit for the mass middle class.*

Matthew Powell Director, Savills Ha Noi

KEY FINDINGS

New Supply Surge

Following lockdown eight newly launched projects and two new phases of active projects, provided approximately 790 dwellings, up 17% QoQ but down -44% YoY. Tay Ho District led new supply with Sunshine Group Ciputra projects. Most started pre-sale activities early, for some nearly a year, with diverse capital raising methods including capital contribution, investment cooperation, or business cooperation contracts.

Two newly launched projects including Kien Hung Luxury and Mipec City View had Ha Dong continue to lead primary supply with a 38% share. This district is expected to lead the market for the rest of the year.

Performance Rehabilitation

Performance improved with 470 sales, up 67% QoQ but down -78% YoY. Alongside having the highest primary supply, Ha Dong also led sales with a 34% share. Quarterly absorption of 25% still at its lowest for three years was down -39 ppts YoY but moved up 4 ppts QoQ.

Despite pandemic effects slowing the economy and increasing buyer caution, there is growing new supply, improved performance, alongside increasing quarterly absorption. Savills expects performance to recover in the fourth quarter.

High Priced New Supply

Average primary prices increased this quarter with higher priced new supply. Villa average primary price was US$4,764/m², up 19% QoQ.

Townhouse was US$4,458/m², up 9% QoQ; and the Shophouse average was US$7,306/m2, up 18% QoQ. Of the newly launched projects, Sunshine Group with a prime location in Tay Ho district, had the highest asking prices.

Average secondary prices for Villa slightly increased 1.1% QoQ, Townhouse was up 0.5% QoQ, with Shophouse drifting up 0.1% QoQ.

Vingroup Dominance

Over H2, eight projects will be launched or release next phases, providing approximately 1,700 dwellings, mostly in Dan Phuong and Ha Dong. Vingroup and Him Lam Corporation are the leading suppliers in 2020.

From 2016 to 2019, the top five developers Vingroup, Gamuda Land Vietnam, Nam Cuong Group, Bitexco and Vimefulland led new supply. Vingroup consistently accounted for the largest share of 39% during this period. Vingroup has yet to launch any villa/townhouse stock in Ha Noi in H1/2020 but expect Vinhomes Wonder Park first phase in Dan Phuong district, to launch later this year. Vingroup is also expected to lead new supply in 2020.

Limited Central Districts Land

With limited land to develop medium to large scale villa/townhouse projects, new supply in 2020 is mostly located near central district borders. Upcoming major villa/townhouse projects located outside of central districts include Vinhomes Wonder Park in Dan Phuong; BRG – Sumitomo Smart City in Dong Anh; Xuan Mai Smart City in Chuong My; and two Vinhomes urban areas in Hoa Lac. Increased development of satellite urban areas is inevitable.

On May 28th, the Prime Minister issued Decision No. 705/QD-TTg approving Hoa Lac urban area general planning until 2030 at 1/10,000 scale. Several newly launched low-rise residential projects in this area were land plots such as Hoa Lac Premiere Residence; Hoa Lac Lotus; Lucky Hill. Some projects offer the choice of self-build following approved planning or paying developers to complete.

Promising Outlook

The Ha Noi 2020 Investment & Development Cooperation Conference on June 27th was a significant milestone in attracting investment to Ha Noi, especially post-pandemic. Approximately 1,200 local and foreign developers attended with 229 projects awarded investment registration certificates for a combined US$17.6 billion investment.

Major awarded residential projects include Mai Lam Xuan Canh Dong Hoi NUA in Dong Anh district, Le Trong Tan Geleximco UA, Tay Ho Tay UA, Kim Chung Di Trach, An Lac Green Symphony, CEO Me Linh, Thanh Lam Dai Thinh 2, and the next phases of Gamuda Garden. With 2.3% pa urban population growth, the second highest population centre after Ho Chi Minh City, strong investment inflows alongside considerable upcoming supply, Ha Noi villa/townhouse market outlook remains sound.

Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the Vietnam property market.

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