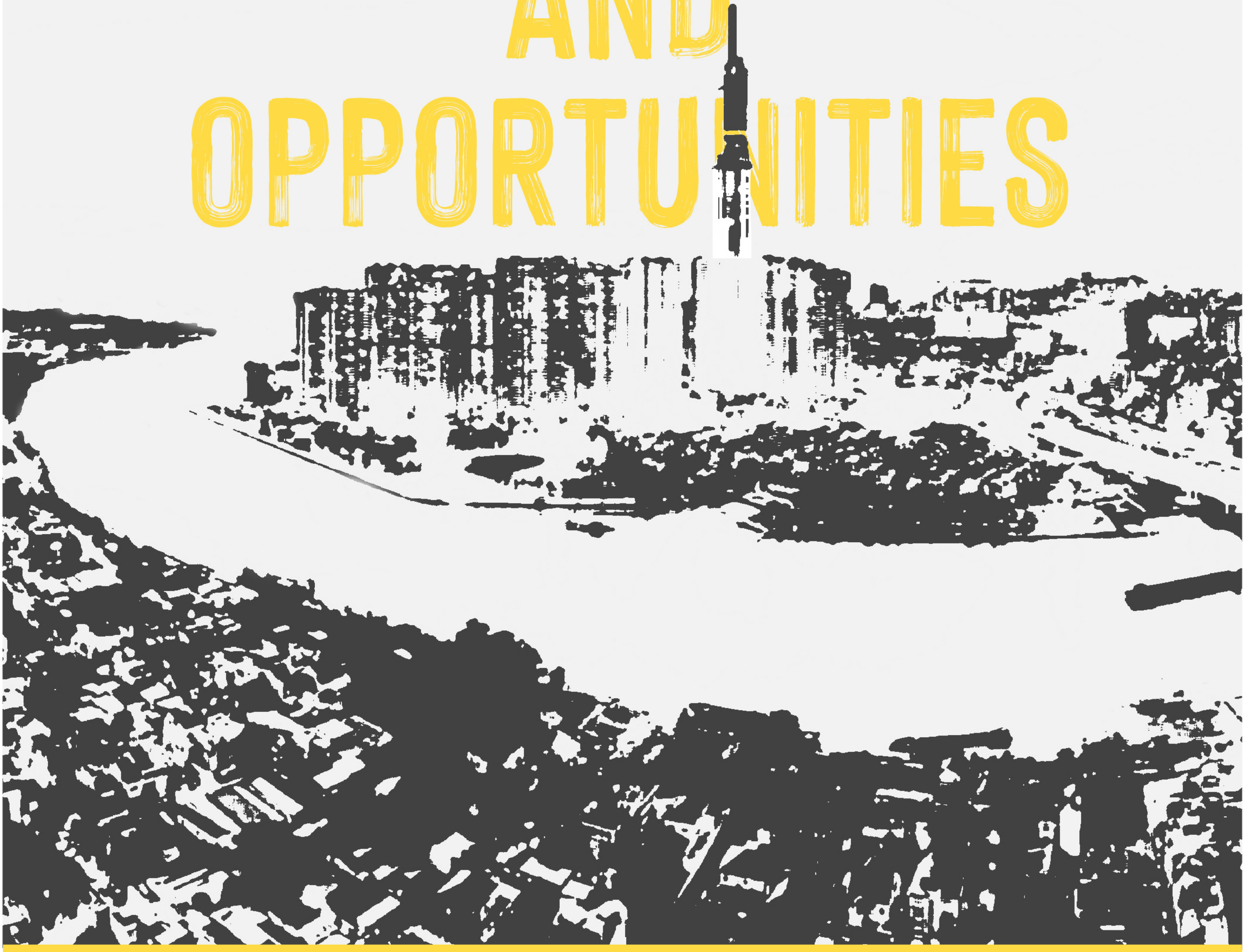
2020

SPOTLIGHT
Savills Research

HCMC

savills

CHALLENGES AND OPPORTUNITIES



MARKET BRIEF 1H.2020

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

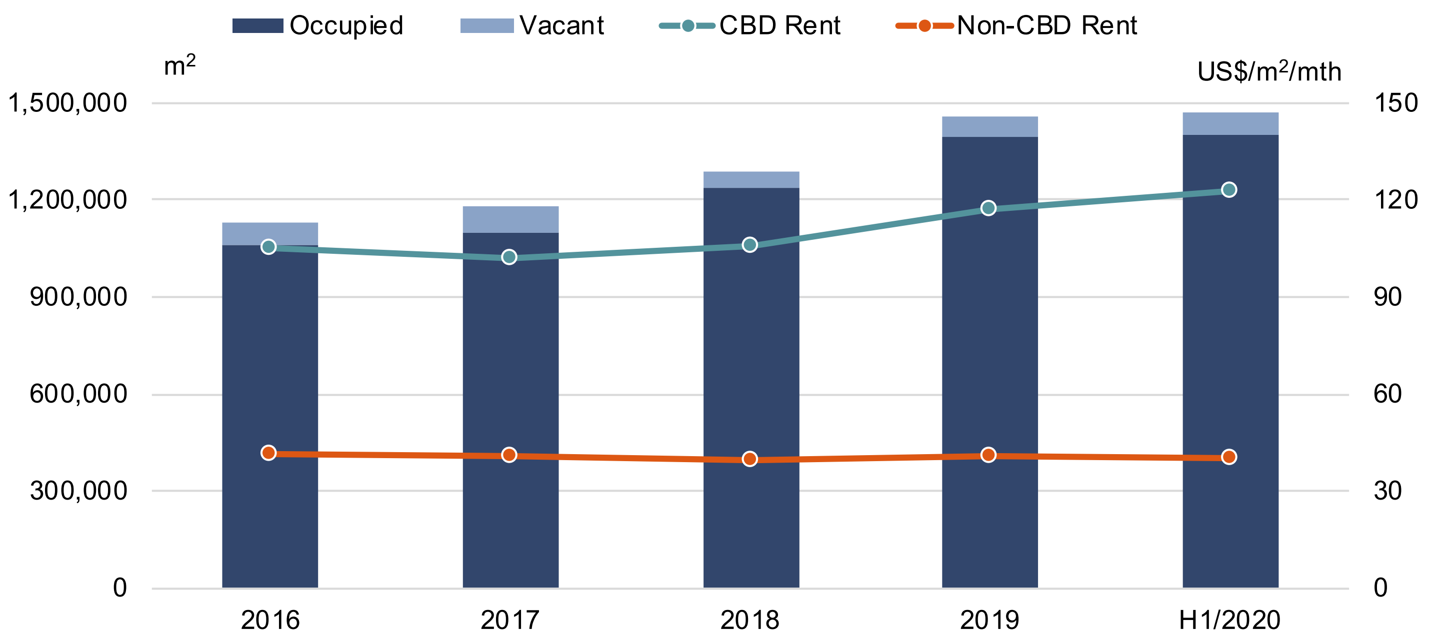
RETAIL

SUPPLY
~1.5 mil m²
Stable QoQ
5% YoY

AVG. RENT
$49/m²/mth
-1% QoQ
stable YoY

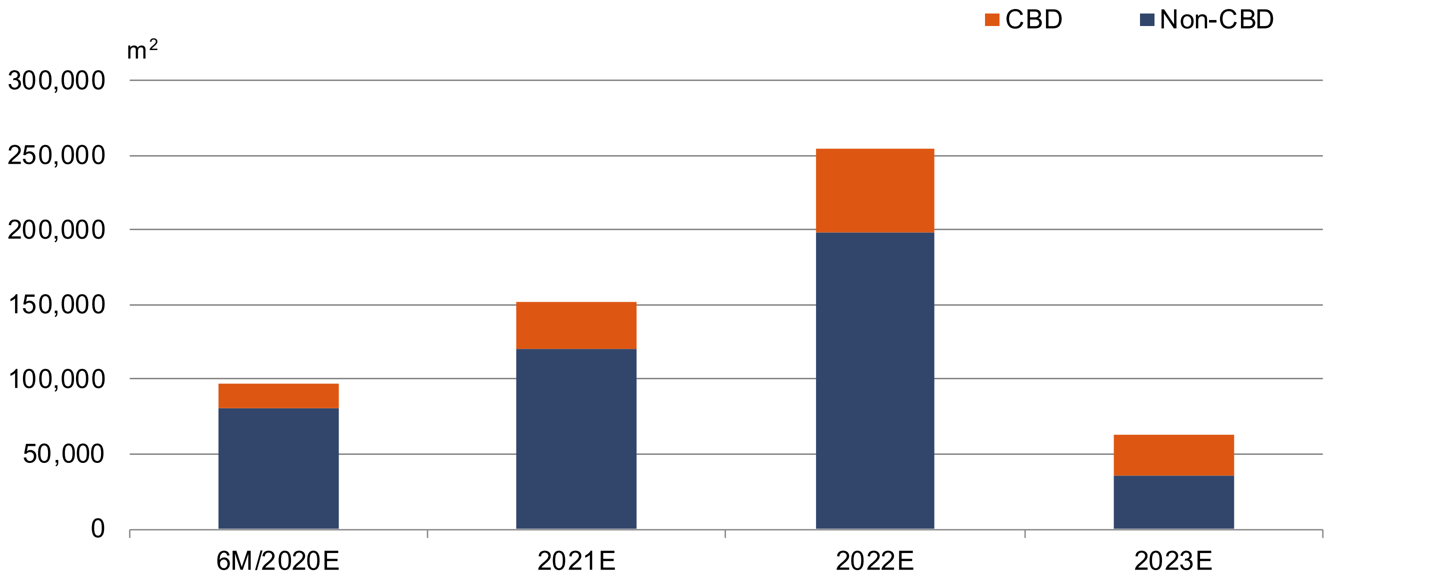
OCCUPANCY
95%
stable QoQ
-1 ppts YoY

Performance



Source Savills Research and Consultancy

Future Supply till 2022



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

> *Strategies will need to evolve as e-commerce develops. A more effective, integrated online approach will deliver additional revenues*
>
> *Thu Ha,*
> *Savills Vietnam Retail Leasing Manager*

KEY FINDINGS

Supply change

Two new project entries in early Q1 were followed by a completed shopping center expansion in Q2. Supply change was in non-CBD areas. By end Q2 total supply was approximately 1.5 million m^2, stable quarter on quarter (QoQ) and up 5% year on year (YoY).

In the second half, over 96,000m^2 is scheduled for entry, 84% of which in the non-CBD. Most modern retail centers in these areas being within new developments rely mostly on resident demand. Longer term occupiers beyond F&B are increasingly difficult to secure. The decentralization trend is reflected in softening rents.

Positive performance

Average occupancy stayed high at 95%, stable QoQ but slightly down -1ppt YoY. The YoY decrease resulted from non-CBD cancellations, alongside predominantly F&B and Fashion tenants choosing not to renew contracts.

Average gross floor rents eased slightly -1% QoQ but remained stable YoY. Most landlords offered up to -30% rent reductions in April and May. When footfall recovered in June non-CBD retail centers offered -15% discounts or up to US$2 service charge reductions. CBD landlords, buffered by 3-5-year term lease terms, extended more limited support.

Post lockdown HCMC retail sales of goods and services grew 20% month on month (MoM) in May and 5% MoM on June. Accommodation alongside F&B sales jumped 80% MoM in May and 42% in June while sales of goods increased 12% in May and 3% in June.

Street retail shrinks

The pandemic has forced street retail-chain tenants to adjust business strategies. F&B and fashion chains closing underperforming outlets has increased prime street retail vacancies. CBD street retail focused to the tourism market suffered as travel bans on top of Metro related disruptions forced further closures. A recent Savills survey found potential occupiers requesting up to -40% rental discounts compared to the maximum -20% at end 2019.

E-commerce extends

The pandemic accelerated e-commerce uptake after physical retail under lockdown forced behavioral change. Outlet based retailers have started using technology to drive sales and enhance service levels. Alongside greater focus to social network marketing, websites are under upgrade and e-commerce platforms and mobile apps are being increasingly utilized. Consumers have been quick to recognize the convenience of shopping online with to-door delivery while benefiting from multiple targeted digital promotions, discounts. Physical retailers are increasingly seeing their stores as part of the customer online journey.

OFFICE

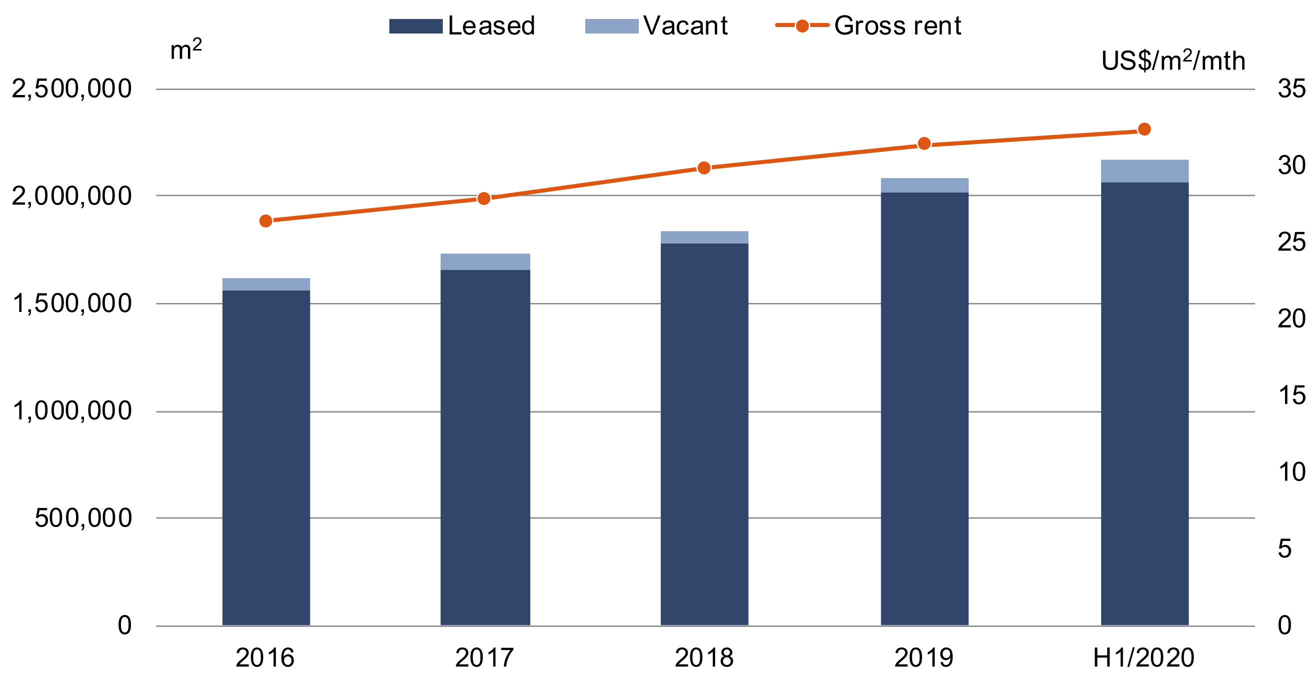
SUPPLY
~2.2 mil m²
1% QoQ
15% YoY

AVG. RENT
$32/m²/mnth
1% QoQ
4% YoY

GRADE A RENT
$62/m²/mnth
-1% QoQ
4% YoY

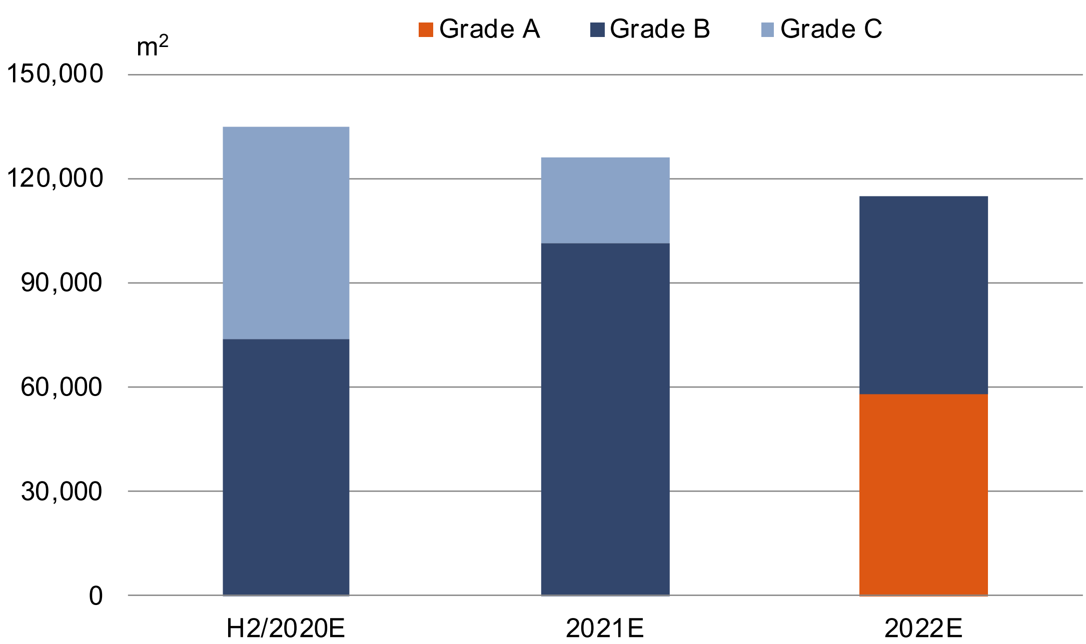
OCCUPANCY
94%
-3ppts QoQ
-3ppts YoY

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

> *The office market remains healthy with an overall vacancy of 5%, meaning choice is limited. Decentralization will ease some of the pressure.*
>
> *Tu Thi Hong An, Savills Commercial Leasing Director*

KEY FINDINGS

Increasing supply

Supply increased over the first half despite the economic slump. Over 91,000m2 of new stock saw H1 supply up 15% YoY, 33% from 4 new projects including the first Grade A launch for 3 years. Total supply is now approximately 2.2 million m2. By end 2022, over 376,000m2 from 24 projects is scheduled for entry. Supply pipelines underscore developer confidence with over 70% of upcoming projects being completed now.

Landlords respond

The first half was positive with average rents up 4% YoY and occupancy remaining high at 95 percent. Grade B rent adjustments following newly released long-term occupied space saw Q2 asking rents up 1% quarter on quarter (QoQ) and 4% YoY. Typically, the most downturn-sensitive segment, Grade C rents eased -0.4% QoQ.

Landlords support has been varied. Grade A and B measures were mostly short-term emoluments for existing tenants. Some landlords offered -20% discounts for up to 3 months. Grade C projects -5% and -15% discounts encouraged relocations and new contracts.

Demand side

HCMC offices were not immediately affected but issues emerged in Q2 after tenant first half revenues dropped amongst increasing Covid fallout. Growing uncertainty saw some leases cut for cost related relocations. Total H1 take-up over 52,000m2 was up 74% YoY. However, with around 44% businesses being downsized, shuttered or relocated to shophouses, Q2 recorded -34,200m2 negative take-up.

The outbreak has negatively affected Airlines, Transportation, Tourism, and Finance while amplifying E-Commerce, Fintech and Proptech opportunities. A recent Savills survey of Grade A and B lessees found Finance ease -2ppts and Hospitality down -1ppt YoY. Positive demand forecasts saw Manufacturing, ICT and Real Estate market shares increasing up to 2ppts YoY.

Outlook

With 3-5-year leases over 90% occupied projects wanted to retain existing terms. Upcoming projects with large vacant areas are expected to offer more competitive leases. Further challenges are expected in H2 from the economic downturn. Alongside new space, increasing vacancies will provide further leverage in negotiations. However, Vietnam remains one of the fastest-growing SE Asian economies with a bright long-term economic outlook. Positive GDP 2.6% growth in 2020, an average 6.7% pa forecast for 2021 with full recovery by 2024, according to FocusEconomics. Vietnam remains the best bet in Asia for the long term.

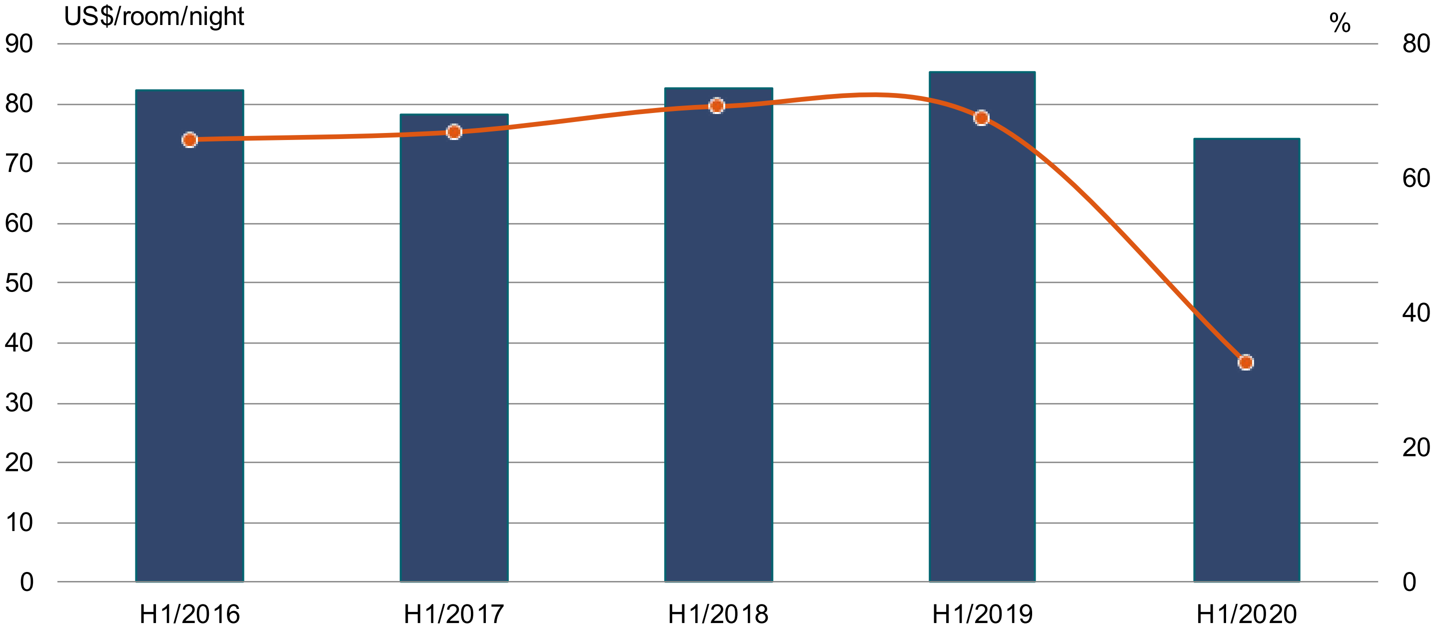
HOTEL:

SUPPLY
12.4k rooms
-23% QoQ
-23% YoY

AVG. ROOM RATE
$60/room/night
-21% QoQ
-25% YoY

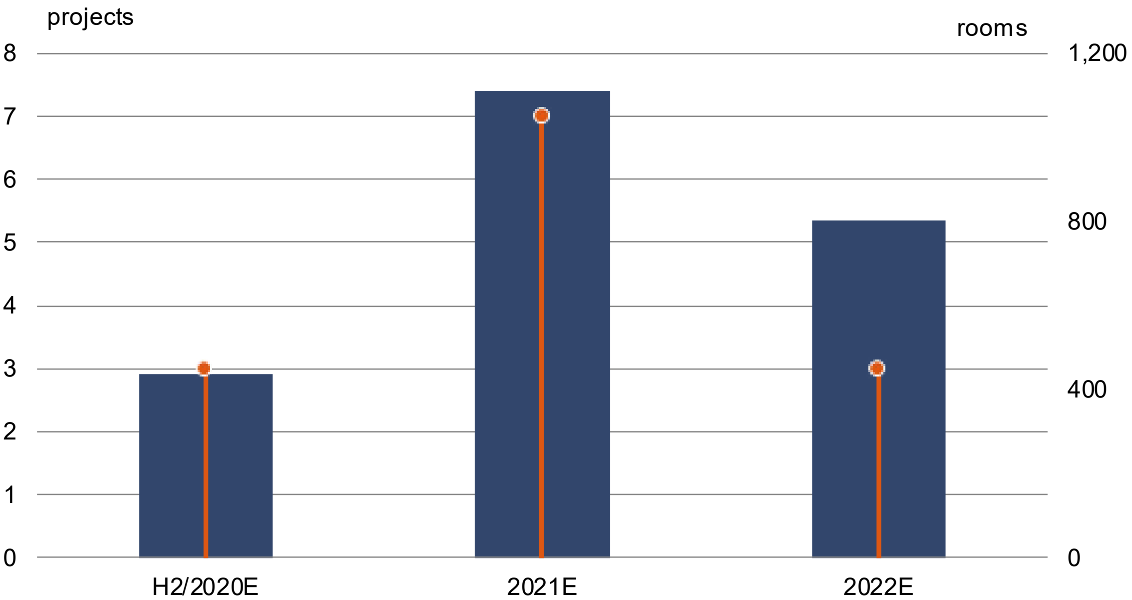
OCCUPANCY
12%
-36 ppts QoQ
-51 ppts YoY

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

> *City hotels dependent on international visitors are struggling, the good news is their F&B revenues have returned. The strong domestic sector is benefiting coastal properties*
>
> *Mauro Gasparotti*
> *Savills Hotel APAC Director*

KEY FINDINGS

Supply shrinks sharply

Total supply of approximately 12,400 rooms from 84 hotels was down -23% quarter on quarter (QoQ) and year on year (YoY) after all grades suffered temporary closures. Some including InterContinental Asiana Saigon and the Norfolk trimmed supply and service levels to cut costs. The Alagon, Silverland, A&Em and Liberty groups using strategic closures to concentrate demand to key projects.

First half fizzles

Closed borders resulted in the weakest H1 performance on record. H1 occupancy fell to 32%, down -36ppts YoY led to ARR dropping -13% YoY to US$74/room/night. After a turbulent first quarter Q2 occupancy dropped -36ppts QoQ to 12%, in-turn pushing ARR down -21% QoQ. Primarily reliant on international trade 5-star was the most affected. The HCMC Tourism Department reports international visitors decreased -69% YoY to approximately 1.3 million in H1.

First half accommodation and catering (A&C) revenues fell -47% YoY while travel agency revenues slumped -71% YoY. Following the April lockdown, A&C revenues fell -48% QoQ as agency revenues plummeted -96% QoQ.

Domestic tourism is underpinning hopes of early recovery. H1 local travel was at its highest in Vietnam from the approximately 8.1 million domestic visitors to HCMC.

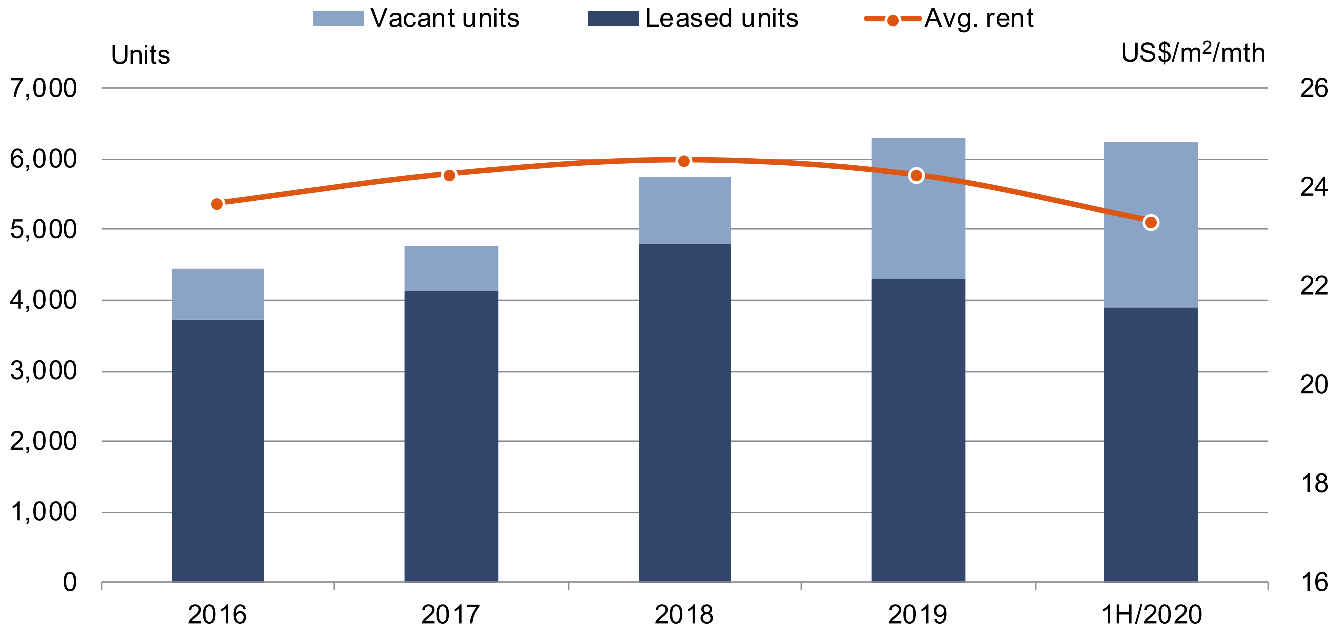
Outlook

With pre-pandemic vacancy already around 30%, segment struggles are likely to continue. The >4,000 new rooms alongside temporary project closures are likely to increase second half supply pressure. However, “Travel Bubbles” under discussion now would provide a much-needed boost. Two or more countries with successful Covid-19 containment establishing mutually ‘safe’ flight corridors would see Asian visitors become the key target. SE Asian nations alongside China, Taiwan, Korea and Japan provided 77% of total foreign inbounds in 2019. Until international flights start again, segment hopes will continue to rely on domestic travelers.

SERVICED APARTMENT

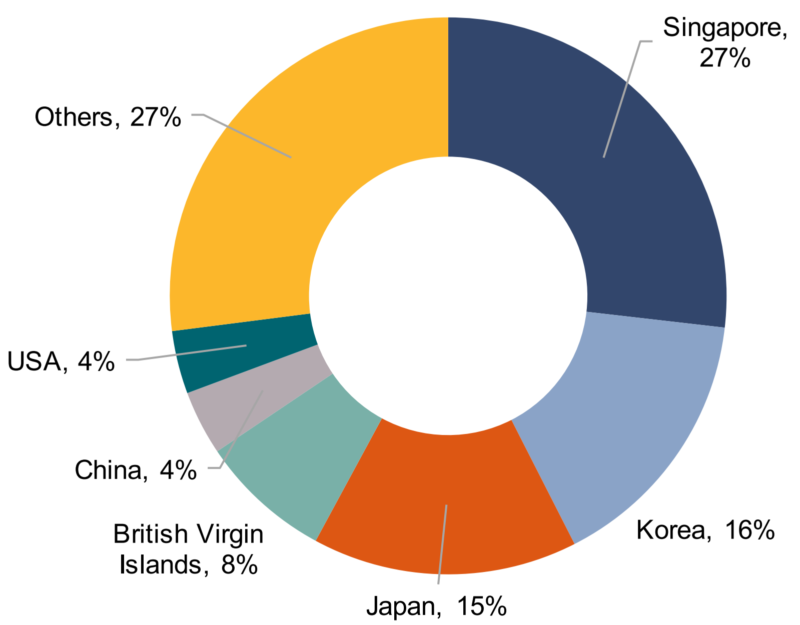
SUPPLY	AVG.RENT	OCCUPANCY
~6,400 units	$23/m²/mth	84%
-1 QoQ	-4% QoQ	-5ppts QoQ
10% YoY	-6% YoY	-22ppts YoY

Performance



Source Savills Research and Consultancy

H1/2020 HCMC FDI, by Country



Source PSO

(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

> *“While the situation remains difficult, expats returning will certainly help. The outlook is fairly positive as Serviced Apartments tend to recover faster than other Hospitality offers.”*
>
> *Tu Thi Hong An,*
> *Savills Commercial Leasing Director*

KEY FINDINGS

Limited New Supply

New H1 stock of 223 new units moved up 10% YoY after one new 13-unit Grade C project launch in Q2. Two Grade C projects withdrew 121 units after converting to Office space. All projects stayed open throughout the first half. Total supply of approximately 6,400 units from 109 projects was down -1% QoQ and up 10% YoY.

Resilient Performance

Second quarter 61% occupancy was down -5ppts QoQ and -19ppts YoY. Grade B reliant on short-term demand was the most affected. long-term corporate tenants kept segment occupancy high compared to other hospitality offers after borders closed.
Average rents were eased -4% QoQ and -4% YoY to US$23/m2/mth with around a third either offering up to -20% off rents, or free utility/ service bills for a maximum 3 months.

Attractive FDI Destination

HCMC first half total registered FDI capital of US$2 billion was 2nd highest nationwide. Although down-35% YoY, HCMC, like Vietnam remains an attractive FDI destination. Savills Jun 2020 Global Research found Vietnam leads Global Manufacturing Nearshoring for cost competitiveness, complementing its fast growing, increasingly modern manufacturing base.

Potential To Lead Recovery

Covid-19 related uncertainties are likely to see pressure increase over the second half. Segment focus on long-stay corporate contracts has solid performance expected. H2 demand may partially recover once flight restrictions are lifted with over 7,000 expats poised to return. Savills 2020 Global Survey found nearly 80% of respondent operators had high confidence full recovery will be underway from 2021.

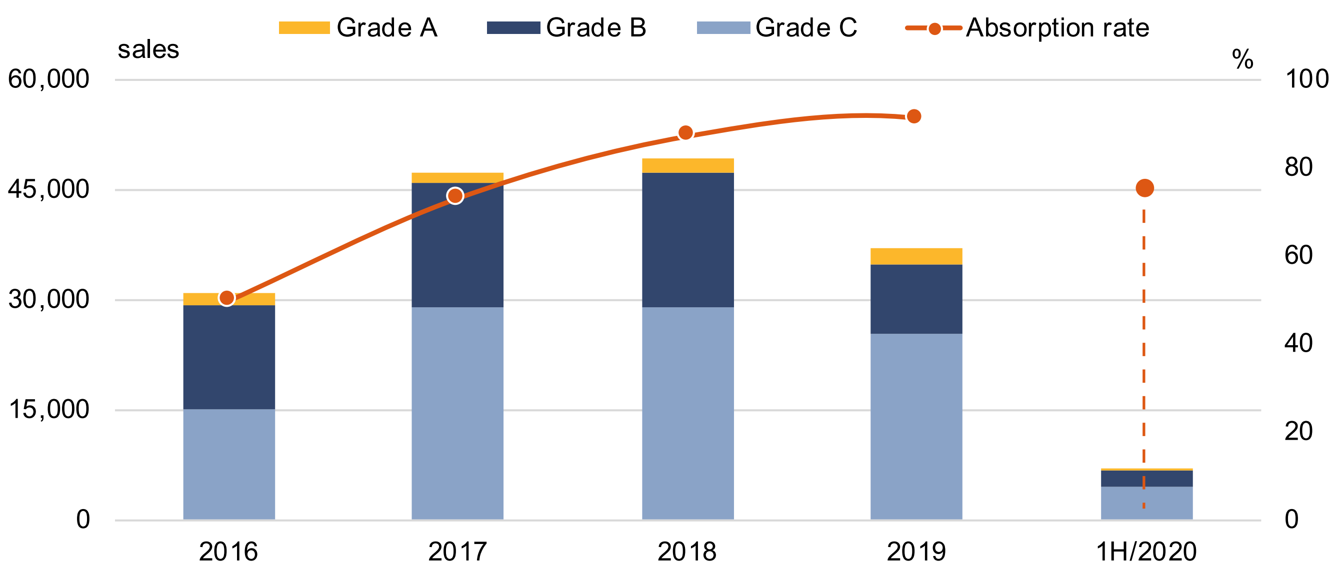
APARTMENT

PRIMARY SUPPLY
>4,400
-37% QoQ
-64% YoY

SALES
>2,100
-55% QoQ
-74% YoY

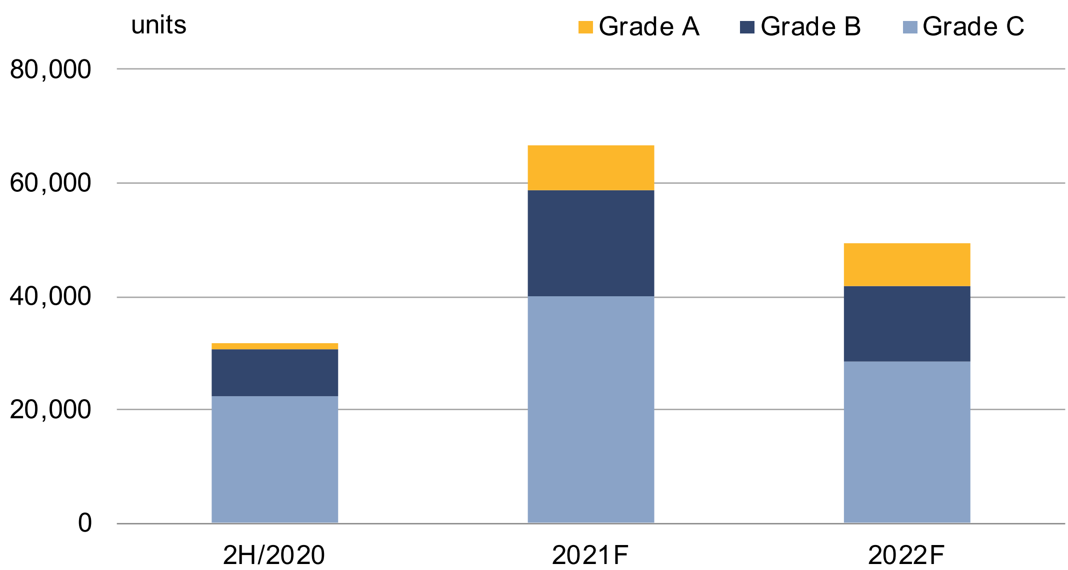
ABSORPTION RATE
48%
-19ppts QoQ
-20ppts YoY

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

> *"The pandemic delayed new launches and slowed international investors. However, local demand remains steady, particularly for affordable units"*
>
> *Nguyen Khanh Duy,*
> *Savills Residential Sales Director*

KEY FINDINGS

Record Low Supply

First half primary stock was down -52% year on year (YoY) to over 9,100 units, to a five-year low. The long Tet holiday followed by pandemic effects has severely affected developer planning. Q2/2020 supply from 4 new entries and 10 next phases totaling 2,100 units, plunged -55% quarter on quarter (QoQ) and -74% YoY.

Seven planned launches have been postponed to H2. Sunshine Horizon launched limited stock pre-lockdown with an upgraded online approach. With foreign demand at effectively zero more cautious Grade A&B launches each provided less than 100 units.

Sales Slump

Post pandemic has resulted in new challenges. Most developers remain cautious with market sentiment uncertain. H1 sales fell -55% YoY, to just over 6,800 units, the lowest in five years. Grade C performed best with up to 84% absorption while contributing 64% of all H1 sales. The 3 new Grade C projects each achieved over 80% absorption. Overall demand was positive with 75% absorption slightly easing -4ppts YoY.

PropTech Pops

Covid-19 forcing change to buyer behaviors is also re-shaping sales strategies. Property website visitor numbers jumped 23% month on month in the first half. Smartly adapting to the changing environment, key developers are increasingly moving online to drive sales through experience rich app-based trading floors. Vingroup and Sunshine Group had already made moves pre-pandemic into the online 'PropTech' space. Phu My Hung recently launched their first project - The Antonia – with a refined focus to driving online bookings.

Second Half Supply Shaping Up

Total expected stock by 2022 is over 147,000 units, of which Grade C with a 62% share will continue to dominate. Increasing segment demand is capturing greater developer attention.

The second half has over 31,700 units expected to launch. Construction permit approval delays means the majority will be from next phases. Districts 2 and 9 will continue to dominate, together accounting for a 53% share. Ongoing infrastructure improvements regularly improving connectivity are driving key eastern districts demand. The outstanding major development accounting for 32% of H2 stock is Vinhomes Grand Park - The Origami.

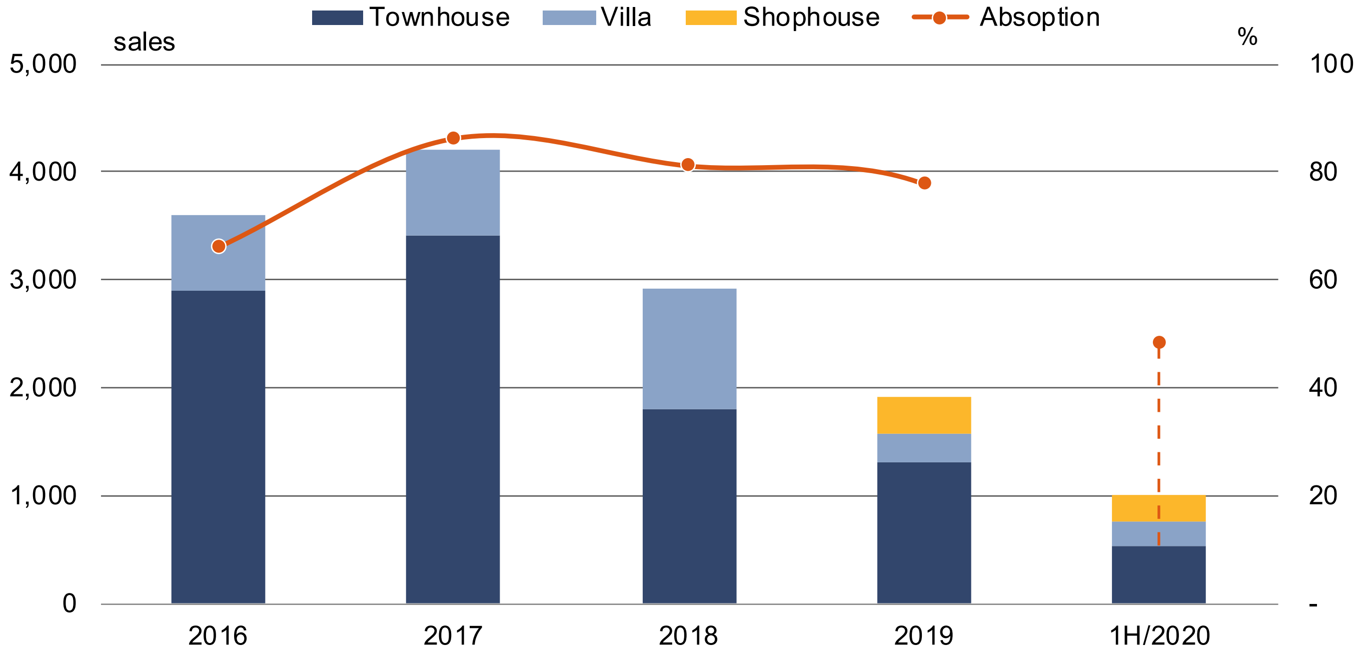
VILLA & TOWNHOUSE:

PRIMARY SUPPLY
~880
-27% QoQ
-32% YoY

SALES
>440
-22% QoQ
-34% YoY

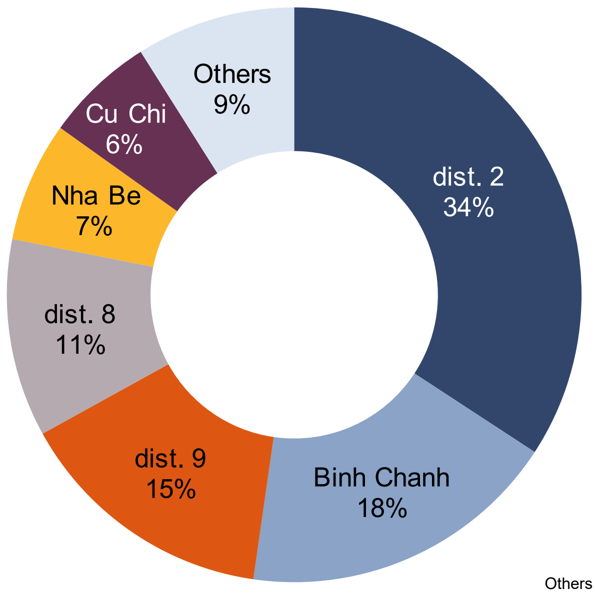
ABSORPTION RATE
50%
3ppts QoQ
-2ppts YoY

Performance



Shophouse separated out since Q1/2019
Source: Savills Research & Consultancy

Future Supply



Others including District 7, 12, Binh Tan, Go Vap anh Thu Duc
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

> *There is growing interest for landed properties in close provinces such as Long An or Dong Nai. These areas have multiple infrastructure delivery that will peak over the next 3 years and provide strong value uplift.*
>
> *Do Thi Nguyet Anh*
> *Residential Sales Manager*

KEY FINDINGS

Supply low

Limited new launches alongside increasingly cautious buyers saw primary supply at its lowest for five years. First half Villa/Townhouse and Land Plot primary supply was down -43% YoY to approx. 3,250 dwellings/plots. Land Plots at -53% fell sharper YoY than the -23% Villa/Townhouse decline. Total new H1 supply of over 1,900 plots/ dwellings was down -58% YoY.

Post lockdown Villa/ Townhouse gained 240 new units, or around 36% of Q1 launches saw a -27% QoQ drop in primary stock. The around 440 new land plots saw stock decrease -24% QoQ and primary stock drift -1% QoQ. Large-scale compound projects have eastern districts dominating with almost 80% of primary dwellings. Districts Binh Chanh and Cu Chi were the two leading land plot suppliers.

Challenging performance

Supply constraints resulted in the worst performing first half for 5 years. Total Villa/Townhouse sales fell -34% YoY with Shophouse leading performance. Land plot sales slumping -67% YoY were affected by a Covid-19 related drop in speculative interest. With Villa/Townhouses at 50% and land plots 43%, moderate absorption was maintained over Q2.

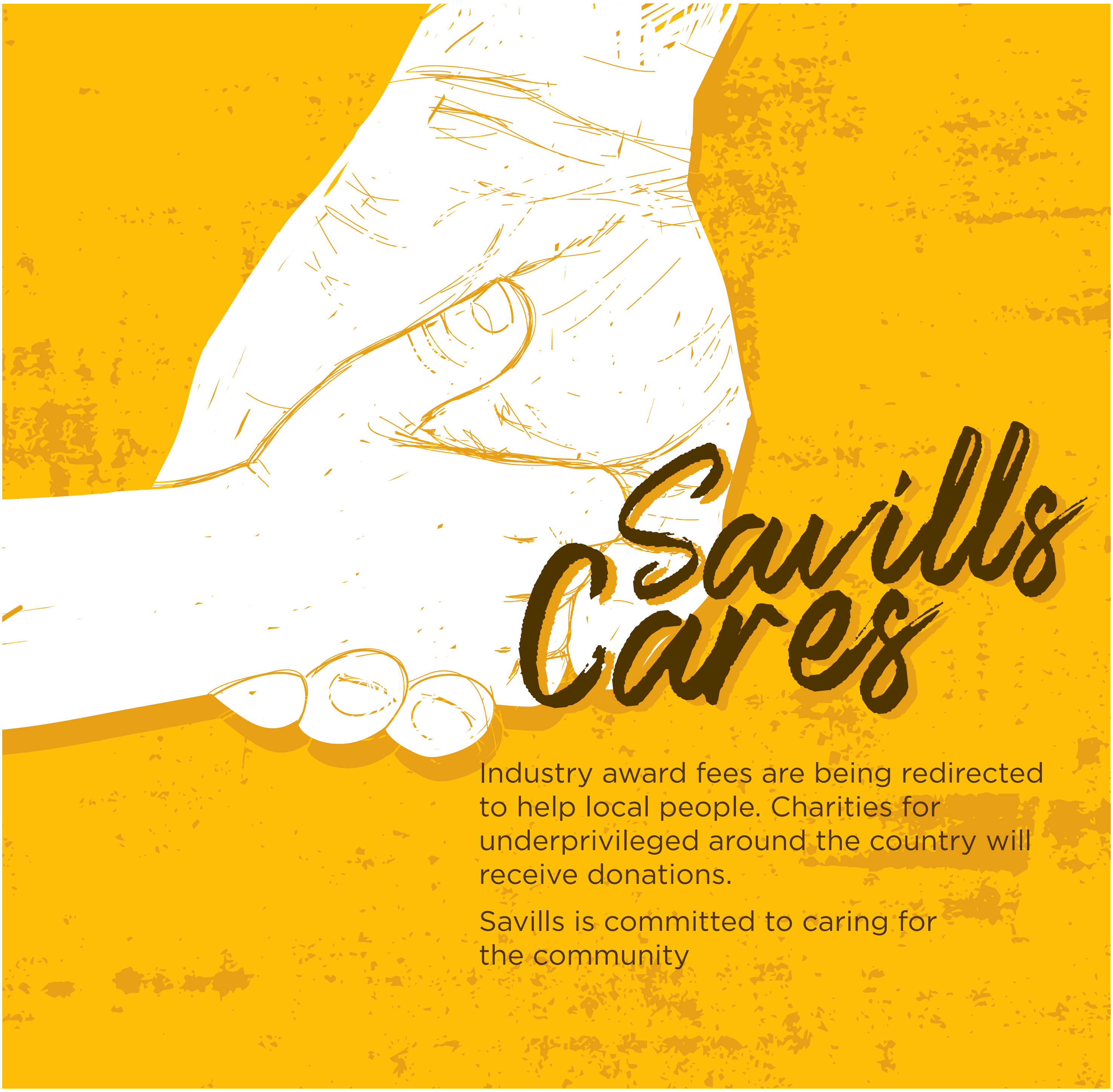
Around 61% of active projects kept QoQ land prices steady over Q2. However, additional discounting alongside longer payment timelines were offered to trigger sales.

Shophouse rising

Limited supply alongside strong price growth has seen Shophouse demand sharply increase in recent years. The highest landed product absorption in Q2/2020 was for this sub-segment. Commercial value combined with living space has Shophouse priced higher than Townhouse with supply accordingly allocated for project return. Vinhomes Grand Park – The Manhattan, launched in Q2 with 93% Shophouse tilted segment new supply to 65 percent.

Outlook

H2 anticipates more activity with over 3,600 units from new entries and existing project next phases. Until 2022, the segment expects 12,800 dwellings/plots to launch. Eastern districts earmarked for over 50% of future supply will retain their dominant position. Ongoing infrastructure improvements will see increased interest for satellite cities Dong Nai, Binh Duong, Long An with large-scale townships offering competitively priced, more diversified products.



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.

Research

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