

VIETNAM - Q1/2020

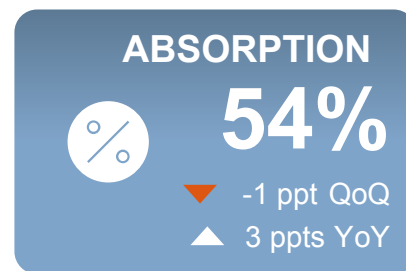
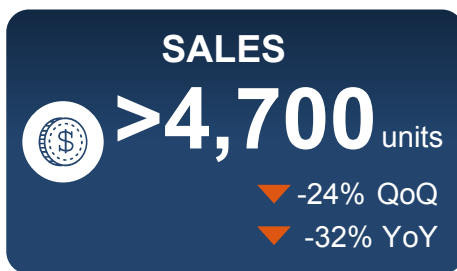
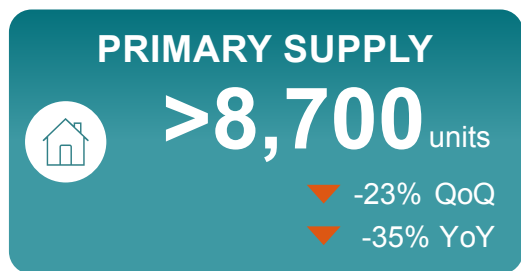

REPORT
Savills Research

Media Release Apartment

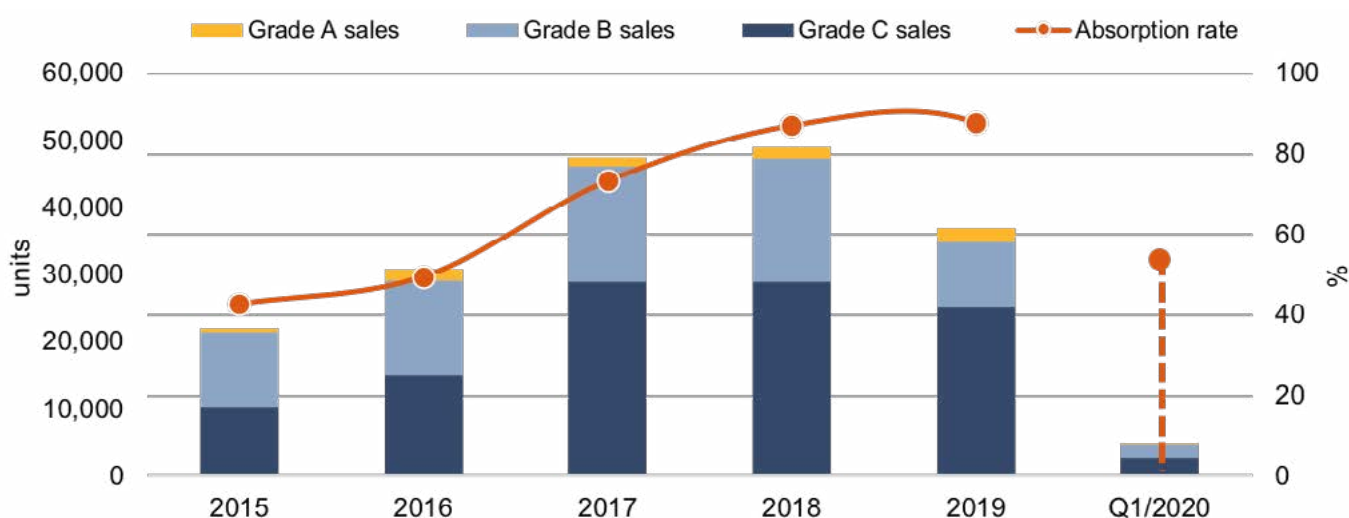
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APARTMENT:

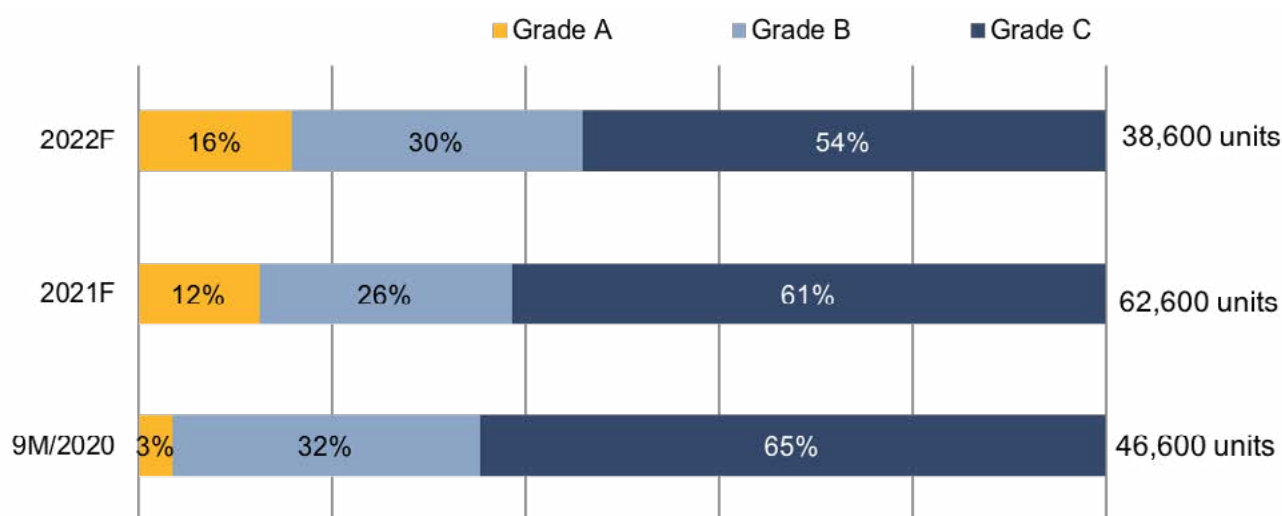


Market Performance



Source Savills Research and Consultancy

Future Supply



Source Savills Research and Consultancy

(1) Data collection as of Q1/2020
 (2) Absorption rate calculated by sales divided by primary supply

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

“ *With a solid equity background, there appears to be little default or delay to schedules of payments for Apartments. However with low consumer confidence and launches delayed, lets see how the secondary market performs...* ”

Nguyen Khanh Duy,
Director of Residential Sales, Savills HCMC



KEY FINDINGS

Bears

Primary stock was down -42% YoY and with low inventory and limited launches, was at its lowest for the last five years. Three new entries had started bookings before Tet and officially launched before the shutdown. Before sales stopped D'Iusso and Citigrand in District 2 and the West Gate in Binh Chanh achieved an average 79% absorption.

Sales dropped -32% YoY to over 4,700 units. With the majority of 2020 sales prior to the pandemic in Jan and Feb, then absorption was positive at over 50%.

Yields Decline

Social distancing and tourism restrictions decelerated rental demand in HCMC. By end Q1/2020, all Grades suffered drops; -0.7ppts YoY saw Grade A average yields down to 4% and Grade B down to 5.2 percent.

In the coming quarters, with national borders closed, timelines uncertain and more cautious buyers, then rental demand and investor purchasers will be affected. Yields will continue to be pressured in the near term. From 2021, indicators suggest improvements in Grades A and B, with low buy-to-let stock levels and rental demand expected to recover with Covid-19 under greater control.

Under Pressure

Over the short-term the secondary market may come under pressure from outstanding debt. A Savills study of 40 Grade A & B projects showed levels of outstanding purchase contract payments* will increase and peak in Q1/2021. The impact on personal incomes has resulted in increasing numbers of 'property-flippers' unable to meet their instalments, in turn pressuring secondary prices.

However in reviews of specific high end developments virtually all schedule of payments have been maintained, with so far, no defaults or extensions required. For cash rich investors however, lower prices and illiquidity present long-term opportunities

Outlook

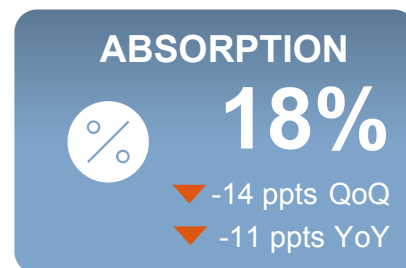
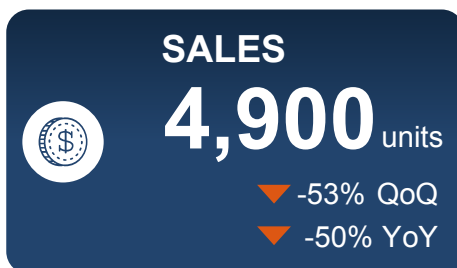
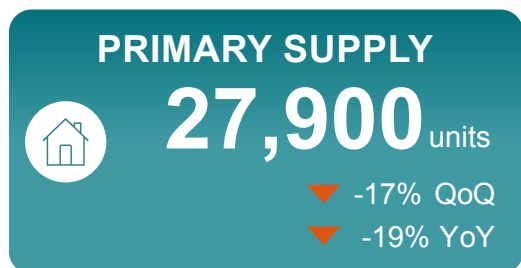
Social distancing is affecting developer sales strategies, but the biggest effect is on buyer behaviour. Having healthcare, essential services and education nearby and minimising travel has become increasingly relevant High-end buyers will favour smaller, less densely built and more private developments with good amenities. Most major developers have postponed launches or ramped up online sales efforts. Anticipated stock until 2022 is over 147,800 units, of which Grade C with 60% will continue to dominate.

The Government led stimulus, including an emergency interest rate cut, and willingness of mortgage lenders will help mitigate the effects of Covid-19. Developers may increasingly use their balance sheets to provide extended terms or debt, to maintain competitive marketing. Decreasing household sizes and steady 2% pa** HCMC population growth will also help boost longer term recovery.

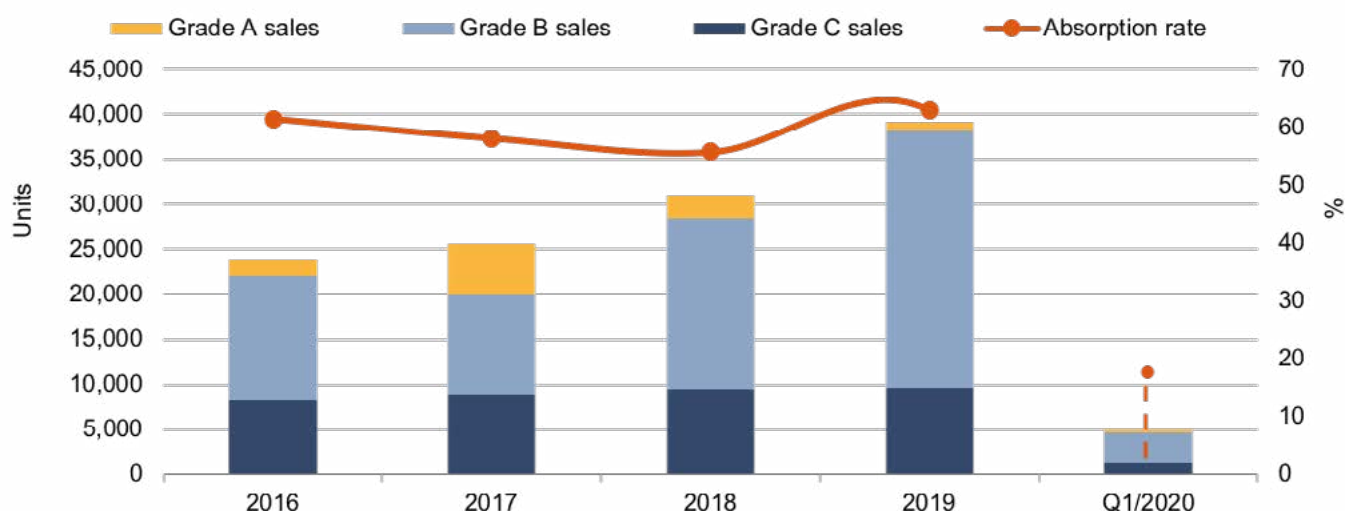
* Total instalments value within one quarter. All selected projects have standard payment schemes.

** Population Census 2019

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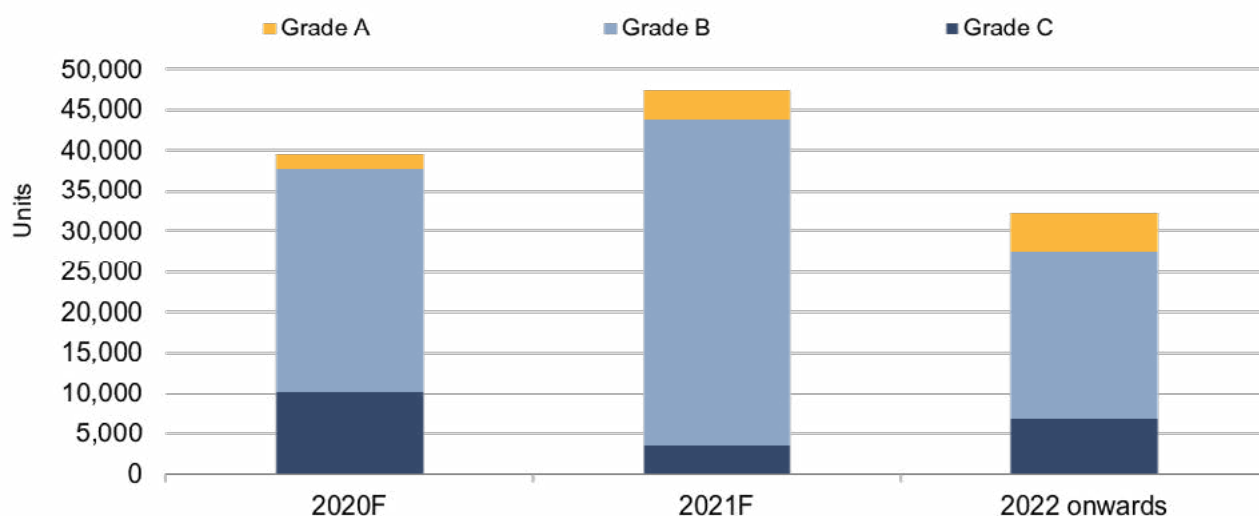


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💡 *We may see a recovery in launches over the second half accompanied by a big push by developers to catch sales targets* 💡

*Do Thu Hang, Director,
Advisory Services, Savills Hanoi*



KEY FINDINGS

Pandemic performance

In Q1/2020, five new and the next phases of six existing projects, provided approx. 4,800 units, down -64% QoQ and -50% YoY. New launches were at their lowest for five years as developer plans rapidly changed in response to the pandemic. Primary supply decreased -17% QoQ and -19% YoY to 27,900 units. Grade B remains the largest supplier accounting for 73 percent.

There were approximately 4,900 sales, down -53% QoQ and -50% YoY. Low quarterly performance, first affected by national holidays in early Q1, was further damaged by social distancing. Local buyers are avoiding crowded sales events and travel bans have limited foreign purchases. First quarter absorption was 18%, decreasing -14 ppts QoQ and -11 ppts YoY. Intensified government measures since April 1st, have forced developers to shutter site operations and close sales offices.

Stable primary prices

Primary prices were stable QoQ and up 10% YoY to US\$1,460/m². Unless it continues into 2H/2020, Savills anticipate the outbreak is unlikely to result in a sharp primary price correction.

For five years average primary prices have steadily increased 5% pa. Grade A at 10% YoY has been the highest with improving development standards in new supply. Cau Giay increased 15% pa fueled by lower than CBD prices and cutting-edge healthcare and educational facilities.

Grade B suffered

Grade B had the lowest absorption, down -16 ppts QoQ and -14 ppts YoY to 17 percent after sales fell -57% QoQ and -51% YoY. Grade B sales eased to 70% from 75% in Q4/2019. With abundant supply, developers face severe competition to maintain performance. Primary prices decreased -2% QoQ but increased 5% YoY. Grade C at 20% had the highest absorption, fueled by increasing demand for more affordable units.

Positive longer-term demand drivers

By 2019, city population reached 8.1 million, driven by steady 2.2% pa growth for ten years. Delivering approx. 120,000 babies pa and gaining up to 100,000 immigrants annually, Hanoi growth is higher than the national 1.1 percent. The urban population, up 8 ppts over 2009, represents 49% of the total.

The 2019 'Population and Housing Census' reported approximately 2.2 million households in Ha Noi. Average household sizes are on a downward trend and currently at 3.5 people/household. People living in apartments were the highest nationwide at 12.9%, with 2.8% planning to buy new dwellings. NFA per capita was 26.1 m²/person in 2019, up from 23.6 m²/person in 2014.

There was increased foreign interest in high-end products, with 30% project quotas quickly taken up. This trend is expected to continue in well located, premium projects by reputable developers.



KEY FINDINGS

Technology on a high

Vingroup introduced 'Online Trading Floor' and Sunshine released their 'Sunshine App'. These tech moves are supported as 66% of Vietnamese online for an average daily use of 6 hours and 42 minutes. Around 148% have mobile phones and 45% of mobile connections are 3G & 4G. However, technology will not completely replace the role of personal interaction in developing buyer confidence.

Outlook

The short-term economic impact of Covid will be significant.

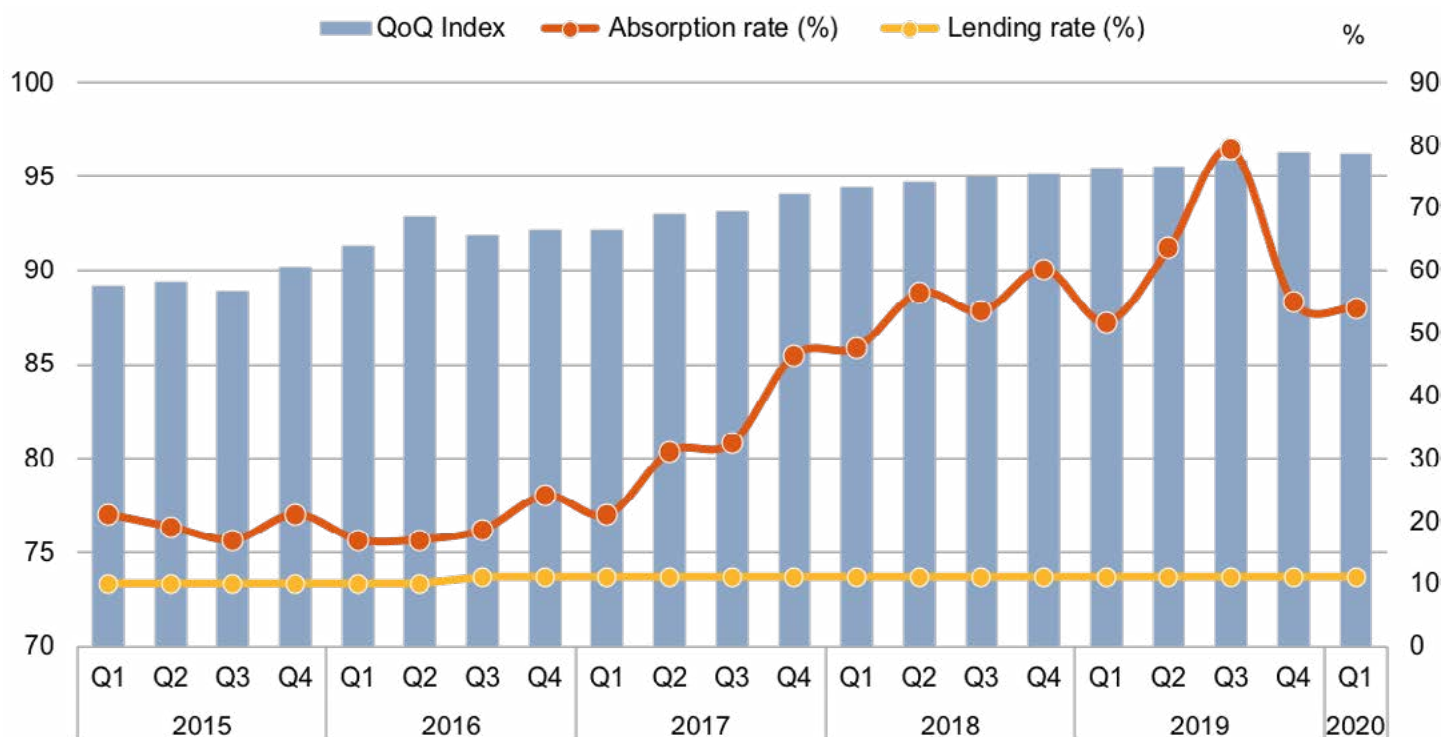
In 2020, approximately 39,600 units from 28 existing and future projects will enter and Grade B will continue to lead. Of the 28 announced projects, 43% are under construction and 36% at foundation. Leading future suppliers are Tu Liem district with 37% of stock, Gia Lam with 24% and Hoang Mai with 23 percent.

When restrictions are lifted developers will be under pressure to ramp up sales, which is likely to see improved buyer incentives. These may include more flexible payment terms, smaller deposits, and extended payment schedules.

Reasons to be cheerful

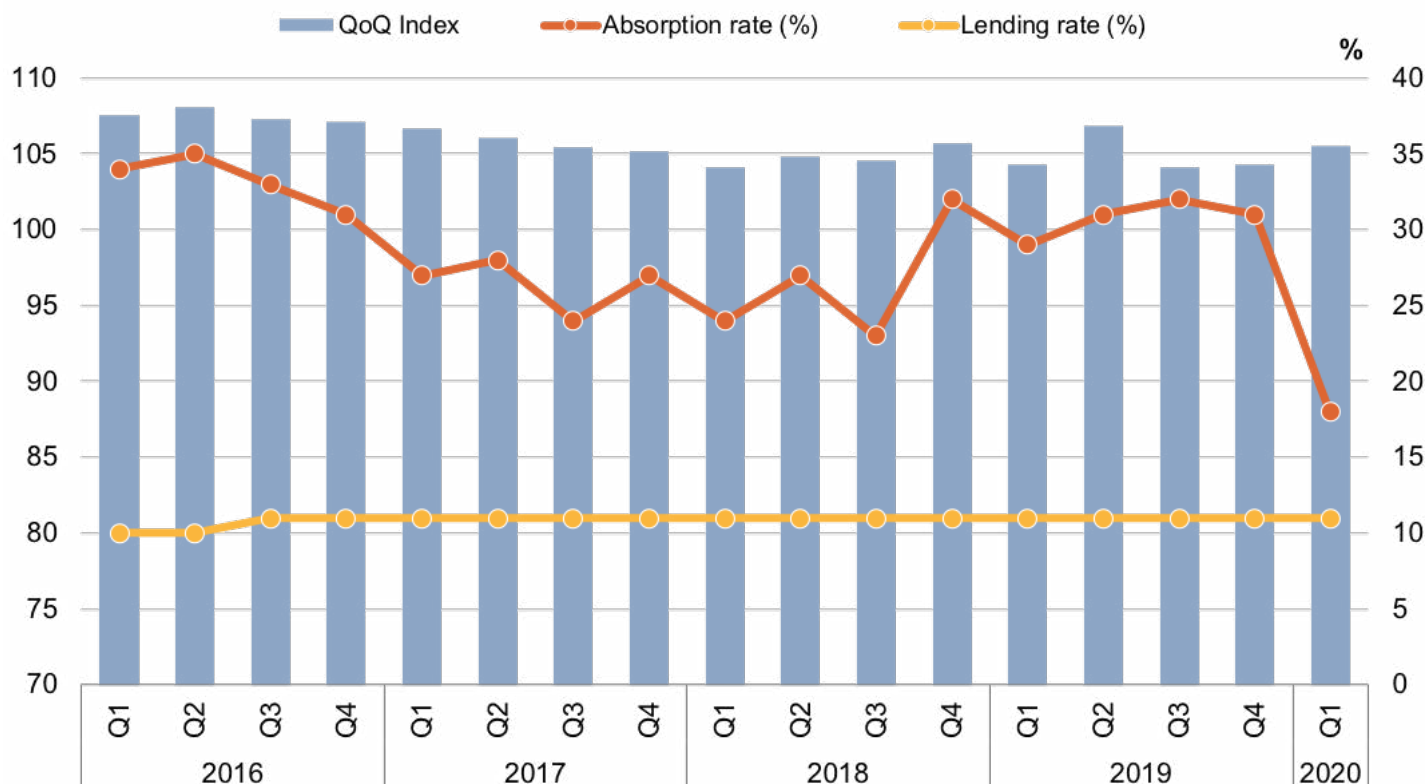
- Online sales will accelerate in 2020.
- Property management will implement 4.0 technologies to remotely connect with residents.
- Decree 41/2020 / ND-CP: extending tax and land rents payments to ease the worst pandemic effects.
- New regulations will reshape supply. National technical regulations on apartment buildings state units must have a minimum 25 m² NLA; and units less than 45 m² must not exceed 25% of total project units.
- Wider capital sources: 2019 remittances reached a new high of US\$16.7 billion, of which over 20% was invested in property. Real estate firms in 2019 issued bonds worth over US\$4.6 billion representing a 38% share and second only after commercial banks.

HCMC - RESIDENTIAL QOQ INDEX



Note: Base Index Q1 2009 = 100
Source Savills Research & Consultancy

HANOI - RESIDENTIAL QOQ INDEX



Note: Base Index Q1 2009 = 100
Source Savills Research & Consultancy



Industry award fees are being redirected to help local people. Charities for underprivileged around the country will receive increased donations.

Savills is committed to caring for the community



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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