



REPORT

Savills Research

VIETNAM - Q1/2020

Media Release Serviced Apartment

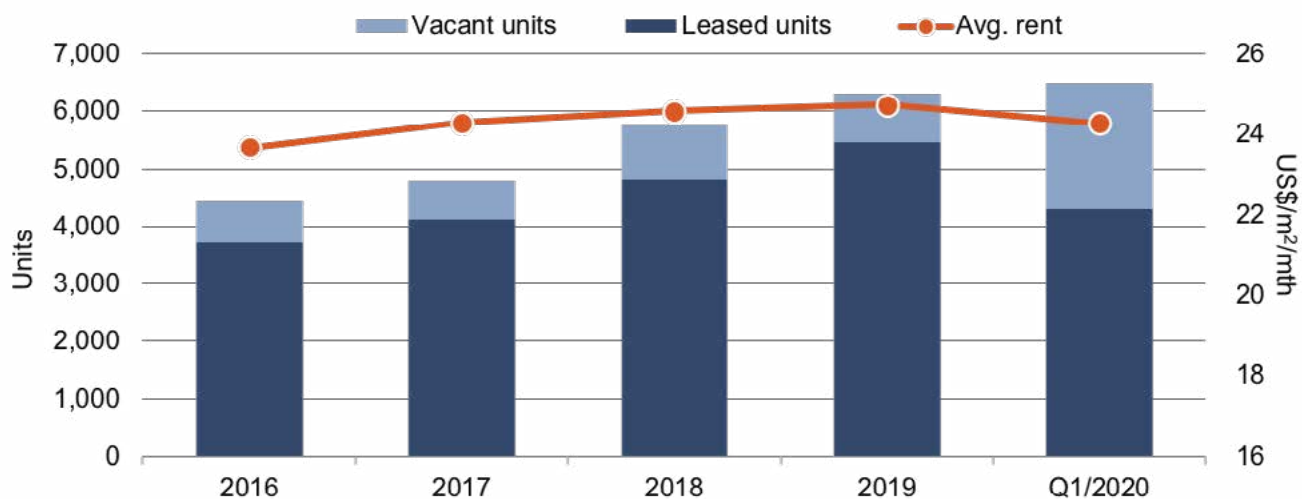
savills



SERVICED APARTMENT



Performance



Source Savills Research and Consultancy

International visitors to Viet Nam, Q1



Source GSO, VNAT

(1) Data collection as of Q1/2020
 (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 Apartment performance is highly correlated to FDI. With borders closed and many expatriates home, then short term performance is suffering. Some owners are using the time wisely, to reposition their assets and heighten competitiveness.”

*Troy Griffiths, Deputy Managing Director
Savills Vietnam*



KEY FINDINGS

COVID freezes performance

The pandemic has severely disrupted business, early travelling restrictions affected Tourism and Hospitality first. To limit infections and protect key long-term tenants, most Serviced Apartment projects have refused short-term tenants since February, occupancy has fallen significantly. In HCMC, average occupancy declined -20 pts QoQ and -17pts YoY. Average rents represented by longer term contracts, were down -2% QoQ and YoY. Grade B had the sharpest decrease of -3% QoQ when larger scale operators offered up to 15% monthly rent discounts.

Crisis response

In Q1, the travel ban resulted in a sharp decline in new bookings and increased overseas cancellations. Short stays fell away in March, with reservations and longer-term contracts delayed or cancelled. Extensive crisis management by businesses has led to less than 50% occupancy in most active projects. Since March, the HCMC Department of Labor, War Invalids and Social Affairs has put new labor permits on hold for foreign workers. The Ministry of Labor, War Invalids and Social Affairs (MOLISA), as of in March 2020 confirmed 68,000 foreigners work in Vietnam, of which 37% that are under travel restrictions have not returned.

Landlords and tenants are actively seeking pragmatic solutions. Many upscale projects focused on protecting existing tenants by suspending short-term leases. In the lower Grades, rent reductions were introduced together with extended payment schedules, easier cancellation policies and agreements on the future of rent reviews. Chains such as Somerset, Glenwood, and Thien Son offered up to 10% discounts. Others such as Sherwood and City House have limited new contracts and retained units for longer term tenants until they return.

Project regulations to protect occupiers include:

- Body temperatures: Anyone above 37.5 degrees C will be announced, and all unit related occupants potentially quarantined.
- Occupiers must wear face masks in public areas and upon building entry.
- Social distancing, keeping two meters from others when queuing for check-in, etc.

Short term struggles

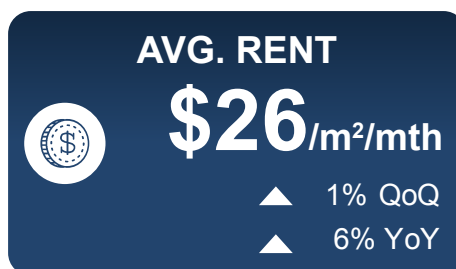
Serviced apartment demand is expected to fall across all Grades. In Q1/2020, there were 3.7 million international visitors, down -18% YoY. Airlines have been hit hard by travel restrictions. When the shutdown started 1st April, all international flights were cancelled and domestic travelling curtailed.

According to the UNWTO, global international arrivals will fall up to -30 percent YoY in 2020. Previous crisis benchmarks for SARS in 2003 and the GFC in 2009, show Viet Nam had 8.0% less growth than the international average during each event. While the pandemic persists, international arrivals are expected to be very limited, continuing to affect short-term Serviced Apartment demand.

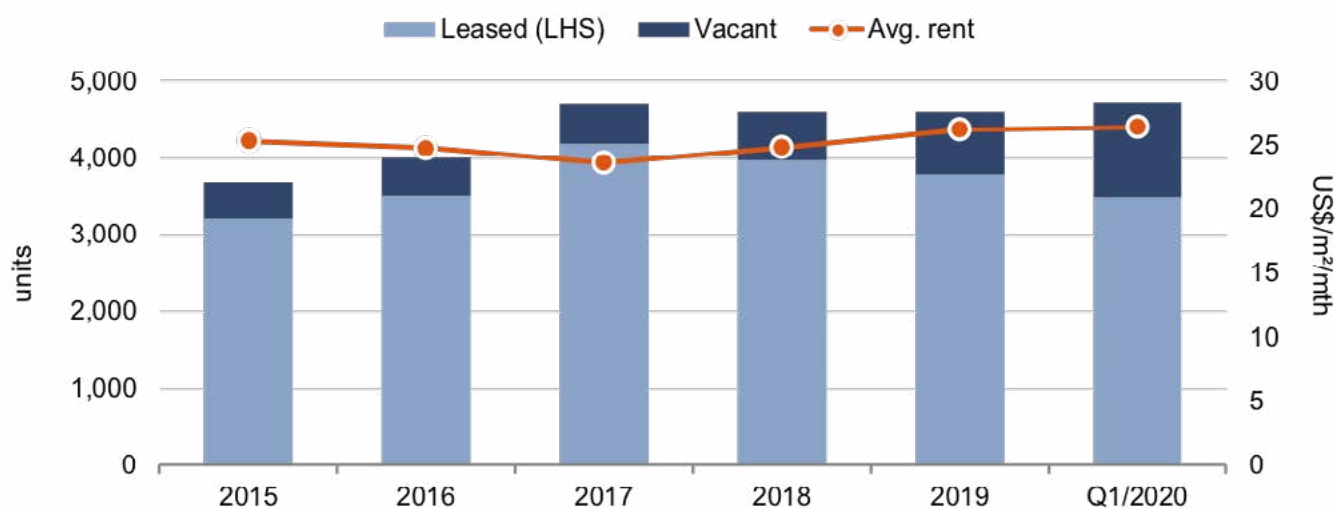
In addition to decreasing demand, is the increasing pressure from buy-to-let apartments. The total Grade A and B apartments handed over from 2018 to 2022 is greater than 50,000. Up to 30% are likely to enter the rental market. In 2020, around 45% of the identified future stock will enter. This pipeline is expected to hold off their launches. Recently there was a trend to convert Grade C apartments to offices.

There is a positive amongst all the gloom. Vietnam's rapid and much lauded 'prevention over cure' response has helped mitigate economic risks and increased expectations of an early recovery. HCMC remains an attractive FDI destination and as national economic hub, has the largest expat population in Vietnam

SERVICED APARTMENT

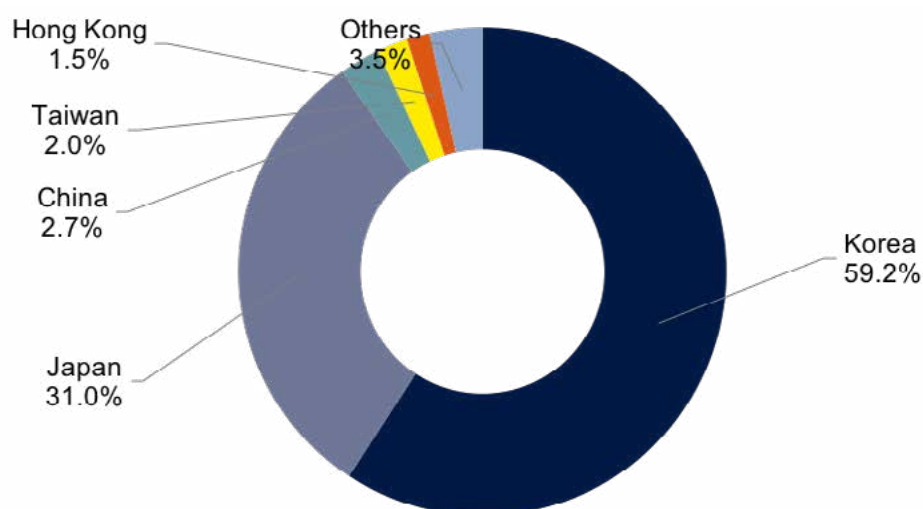


Performance



Source Savills Research and Consultancy

New Ha Noi FDI by source



Source FIA, 3M/2020

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“The Serviced Apartment sector is feeling pressure, particularly as their main occupants are foreigners, the majority of which have returned to their home countries. Buy to let investors will also compete for the same tenant pool. Once borders reopen then this asset class will recover quickly.”

*Troy Griffiths, Deputy Managing Director
Savills Vietnam*



KEY FINDINGS

Performance

Serviced Apartment average occupancy fell to 74% decreasing -8 ppts QoQ and -11 ppts YoY. Grade A was hit hardest, down -13 ppts QoQ and YoY. A Grade A project opened in January at 14% absorption, the lowest entry performance in five years. Total supply was up 2% QoQ to approximately 4,700 units, from 52 projects.

Despite short-term issues, average long-term rents had slight adjustments 1% QoQ and 6% YoY. While the West and Secondary areas were stable, or up 1% to 3%; the CBD and remaining areas eased -1% to -4 percent. In March with Covid-19 taking hold, some operators reduced offers by -10% and provided free service vouchers.

Struggling Industrials

In March 2020, The General Statistics Office of Vietnam (GSO) reported the Index of Industrial Production (IIP) rose 5.4% YoY, following 23.7% YoY in February and -5.5% YoY in January. Of the IIP criteria, water supply output and waste treatment increased most at 9.5% YoY. The Purchasing Managers' Index (PMI) of Vietnam plunged from 49 points in February to 41.9 points in March, its lowest level since 2012. This was attributed mostly to China supply chain delays, purchasing decreases and tightened inventories.

Expatriates working in IPs are a major long-term Serviced Apartment demand source. With labor-intensive operations and multiple shared common spaces, industrial parks (IP) in Ha Noi and surrounding provinces Bac Ninh, Bac Giang and Hung Yen have been vulnerable to Covid-19. Despite being authorized to operate during the lockdown, manufacturers face operational issues once an infection is discovered.

Larger Units: Longer Terms and Better Leases

Larger units, from 3-bedroom and above, had good occupancy. There are no 5- or 6-bedroom units available; 3-bedroom are at 88% absorption and 4-bedroom, 86 percent. Increasing 1-bedroom supply responds to the preference over studios. In 52 active projects, 1-bedroom units are 45% larger than studios, being 22% higher in rent and generate 44% higher RevPAR for operators.

Grade A occupancy was affected the most after travel restrictions are imposed. Daily bookings had -20 ppts QoQ drops in leases over Q4/2019. Before the pandemic, 90% of Grade A operators accepted monthly leases and 35% of occupants stayed short term. When the situation eases, operators may change business strategies to focus on traditional lease terms. According to 'The Global Serviced Apartments Industry Report 2020-2021', the sharing economy (e.g. Airbnb), presents less challenges. Implemented since 2018/2019, Economic and Regulatory/Planning Controls, have negatively affected Serviced Apartment operators.



KEY FINDINGS

Optimistic Investment Environment

Proactive national leadership will bolster business post crisis and accommodation demand will recover. A Dalia Research GmbH survey in late March has 62% of respondents believing the government is responding the “right amount”. Swift, decisive and effective Covid-19 measures have Vietnam outperforming all 45 surveyed countries.

In Q1, Ha Noi received US\$448 million of registered FDI, equivalent to 12% of the Q1/2019 total. Newly registered FDI of US\$113 million showed a 71% YoY increase. Korea contributed the most with US\$67 million, representing 59% of the total. Next was Japan with 31%, China, 3% and Taiwan, 2 percent. Asian expats remain the key target group for Serviced Apartments.

Outlook

Six projects with approximately 700 units are approaching fit-out and were scheduled to come online in 2020. From 2022 on, four major players will open over 200 units each, mostly in Tay Ho District. In projects managed by non-branded operators, mixed-used development will dominate over single-purpose serviced apartment buildings.

In March, Ministry of Labour, Invalids and Social Affairs (MOLISA) summed that approximately 25,500 foreign labours are yet to re-enter, accounting for 37% of total licensed expatriates nationwide. Temporarily stopping issuing all visas to Viet Nam directly affects demand. In Q1/2020, Hanoi Serviced Apartment performance is underpinned by long-term contracts, if the pandemic continues these may fall away.

Alongside lower pricing, operators are looking to enhance tenant protections, and boost home-alike functions to capture more long-term future leases.



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

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