SPOTLIGHT
Savills Research

HO CHI MINH CITY

Media Release Q2/2021

savills

MACRO INDICATORS

In H1/2021, gross domestic product growth of 5.6% was positive in the context of the global pandemic. Manufacturing and construction grew by nearly 9% and accounted for 59% of GDP.

The first half saw trade recovering with estimated revenues of US$317 billion, up 32% (year-on-year) YoY. Viet Nam records US$1.4 billion trade deficit.

In H1, total FDI decreased -3% YoY, in which newly register capital increased 13% YoY to US$9.55 billion.

Tourism struggles continue with just 88,200 arrivals in H1, down -98% YoY.

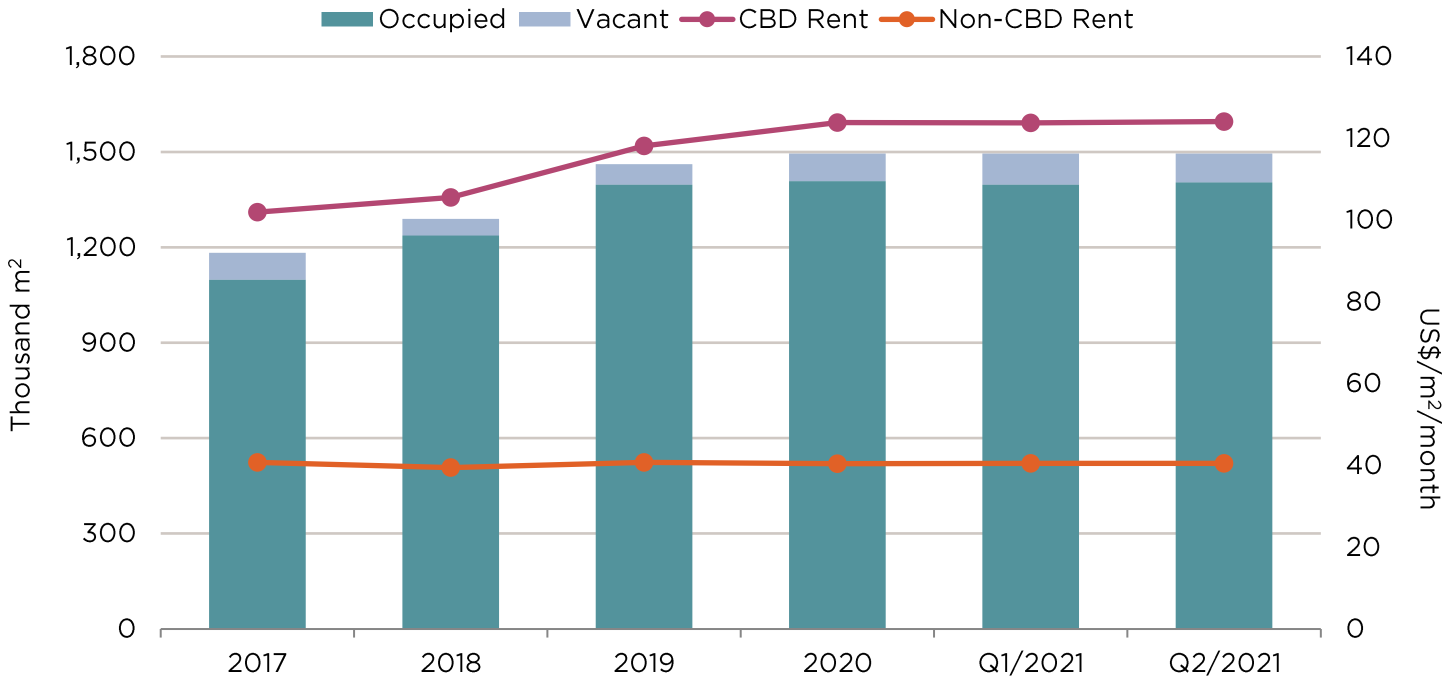
RETAIL

SUPPLY
~1.5 mil m²
Stable QoQ
▲ 1% YoY

AVG. RENT
$50/m²/mth
▼ -1% QoQ
▲ 2% YoY

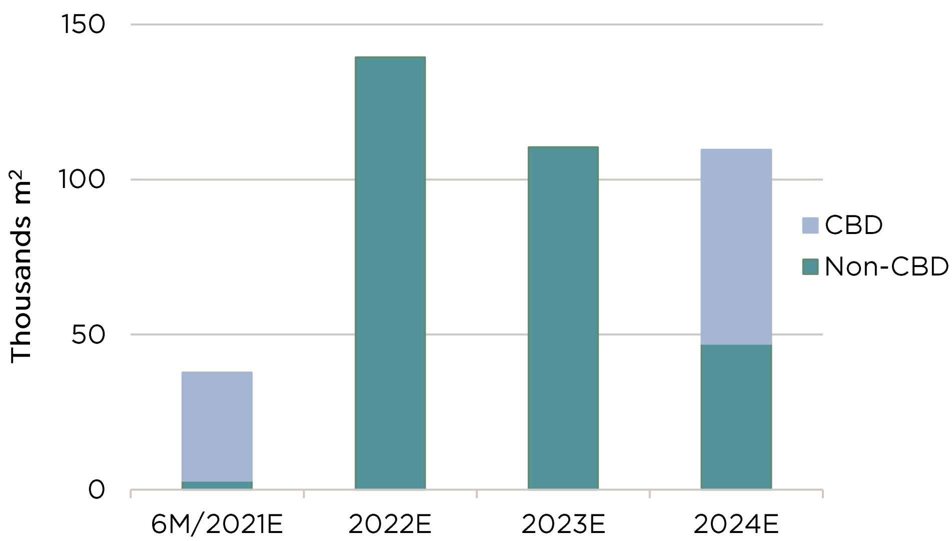
OCCUPANCY
94%
▲ 1ppt QoQ
▼ -1ppts YoY

Performance



Source Savills Research & Consultancy

Supply to 2024



Source Savills Research & Consultancy

(1) Data collection as of Q2/2021
(2) Occupancy calculated by leased area divided by leasable area
(3) Avg. Rent: ground level rent, including service charge, excluding VAT

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

Retailers are cautious in opening new stores. F&B is mostly staying put, and positive on a H2 recovery are preparing new concepts. Consumer confidence is beginning to decline, as job losses and lower disposable incomes bite.

With low growth in regional markets and confidence in Vietnam, then many foreign brands are pursuing more active FIE positions.

Tran Pham Phuong Quyen
Manager, Retail Leasing, HCMC

KEY FINDINGS

Delayed Pipeline

In Q2/2021, total supply was 1.5 million m^2 NLA, and with no additions it was stable quarter on quarter (QoQ) and up 1% year on year (YoY).

Uncertainty with the pandemic will likely delay any retail launches. For the second half of 2021, supply of 37,000 m^2 NLA will come from three existing projects, with 92% in the CBD. However, from 2022 to 2024, 83% of future supply will be in the non-CBD.

Occupancy Flat but OK

Retail occupancy remained sound, up 1ppt QoQ to 94%. The slight increase came from 3ppts QoQ occupancy increase in Retail podiums, after a rent decrease. Some non-CBD Shopping Centers had vacancy absorbed that led to stable high occupancy of 94%.

Many F&B tenants have released their space, but notable brands such as Manwah, Tokyo Deli and Golden Gate chains have expanded. Regardless of CoVid, international brands kept to their market entry schedule, many cooperating with local distribution partners.

Landlord Response

Retail centers have been closed since the beginning of June. Many landlords waived rents and management fees in June, as well as extending fit-out periods.

The average asking ground-floor rent slightly declined by -1% QoQ to US$50/m^2/month gross.

E-commerce Development

E-commerce continued to be preferred as shoppers are more cautious in visiting physical stores. According to e-Commerce SEA Report 2020 by Google, Temasek, Bain, new consumers who migrated online due to the pandemic accounted for 41% of digital consumers in Vietnam, and 94% of these new consumers intend to continue their behaviour post-pandemic. Compared to other Southeast Asia countries' digital economy, Gross Merchandise Value growth in Vietnam ranked second and will reach 19% pa from 2020-2025.

According to Vietnam E-Commerce and Digital Economy Agency, e-commerce revenue in 2020 was US$11.8 billion, accounting for 5.5% of total Retail Sales of Good and Services (RSGS) in Vietnam. With growth of 18% YoY, this figure is predicted to reach US$13.2 billion in 2021.

Suburban Pressure

From 2022 to 2024, 83% of future supply will be in the non-CBD. At face value this may appear to be over supply and difficult to fill. However, in many cases it is replacement of retail stock removed for the new development, as well as a product of the evolving nature of retail. The decentralised retail supply is effectively neighbourhood shopping centres, that offer a concentration of brands and convenience, in a modern format.

Strong urbanization, growing wealth and changing behaviours will allow viable decentralised development.

Traditional v. Modern

Despite ongoing social distancing, retail occupancy remained sound, up 1ppt QoQ to 94%. Modern retail tenants are immobile, long-term leases for up to 5 years are common.

High-street shophouses are struggling as many F&B tenants have vacated. Their landlords meeting the market with up to 30% rent reductions.

In Q2, new brands such as Marc Jacob, Dyson and Under Amour opened outlets in large-scale shopping centres including Saigon Center and Crescent Mall. Regardless of CoVid, international brands kept to their market entry schedule, many cooperating with local distribution partners.

Habit Changes

With Covid forced closures, there has been a shift from brick-and-mortar retail to e-commerce. E-commerce in Vietnam had a Gross Merchandise Value growth ranked second across SEA and expected to reach 19% pa from to 2025. According to Vietnam E-Commerce and Digital Economy Agency, the national e-commerce revenue is forecast to grow at 18% YoY, to more than US$13 billion this year.

OFFICE

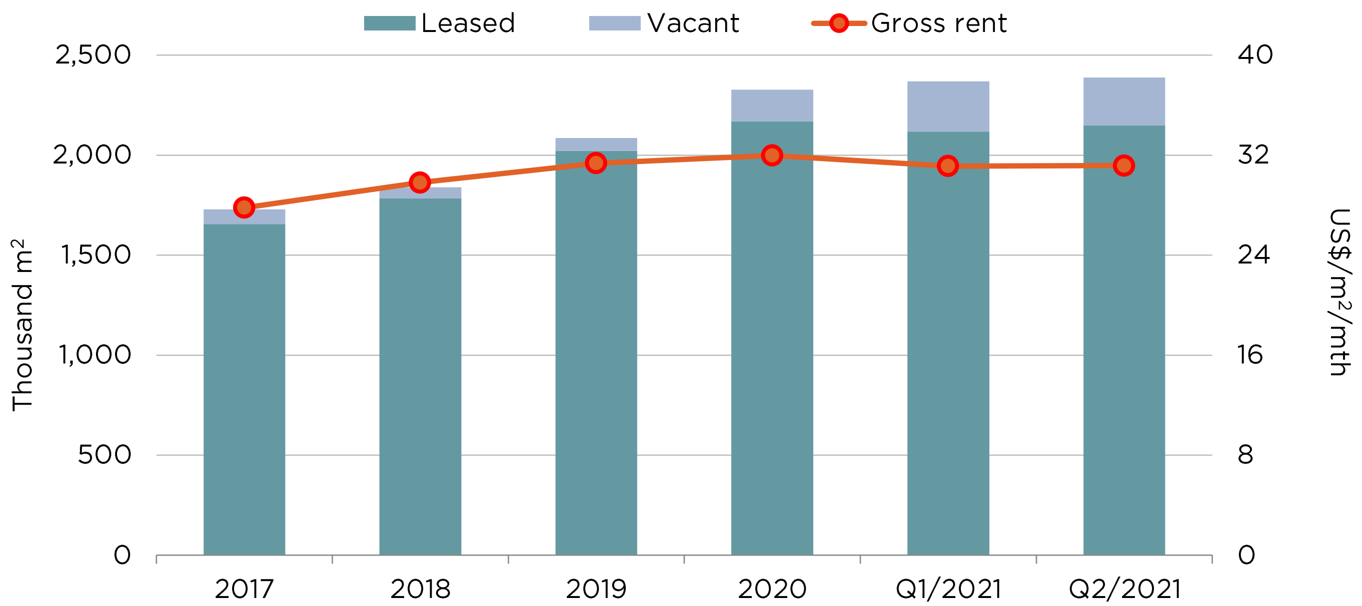
SUPPLY
~2.4 mil m²
▲ 1% QoQ
▲ 10% YoY

AVG. RENT
$31/m²/mnth
stable QoQ
▼ -4% YoY

GRADE A RENT
$60/m²/mth
stable QoQ
▼ -3% YoY

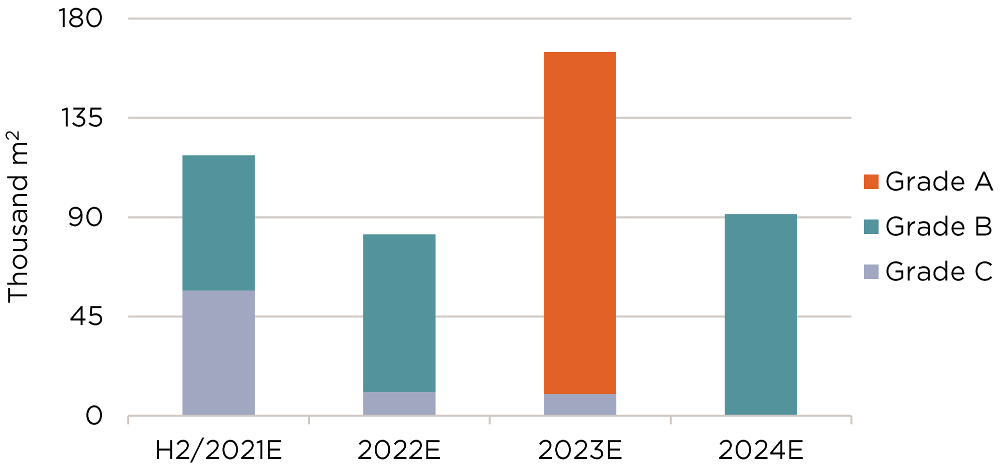
OCCUPANCY
90%
1ppt QoQ
▼ -4ppts YoY

Performance



Source Savills Research & Consultancy

Supply to 2024



Source Savills Research and Consultancy

(1) Data collection as of Q2/2021
(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

"Office demand remains solid with strong enquiry from Finance, Education and Technology sectors, with larger requirements above 5,000sqm and aiming to occupy by end of 2021. The pandemic has crystallized the working from home trend in Vietnam.
The next major supply of A grade space is 2023, in the meantime decentralized supply is sufficient for natural absorption levels."

Tu Thi Hong An
Commercial Leasing Director, HCMC

KEY FINDINGS

Increasing Non-CBD Supply

Decentralization continued as non-CBD stock increased 22% YoY, whilst CBD stock grew only 1% YoY. Total stock of 2.4 million m^2 was up 1% QoQ and 10% YoY. Q2 new supply of 19,000m^2 was from two grade B projects in Binh Thanh and District 7, with small scales of 8,000 m^2 and 11,000m^2.

Stable performance

Average occupancy of 90% was up 1ppt QoQ and rent was stable at US$31/$m^2$/mth gross. On a yearly basis, average occupancy was -4ppts lower.

Landlords mostly kept rents unchanged but offered up to 2 months' rent free in the non CBD.

Healthy demand

There was positive take-up of 30,600m^2 in Q2 and a total of 68,600m^2 for H1/2021, mostly from recently launched Grade B projects.

H1 deals were mostly Distribution, with 36% of total leased area, ICT at 21%, and Transportation & Logistics at 9 percent. These sectors continue to grow. Data from Visa showed that electronic payments via the Internet, mobile phones, and QR codes, increased 71% YoY in volume and 48% YoY in value. Office demand from e-commerce and fintech looks set to increase.

Around 70% of deals were less than 300m^2, showing healthy demand from SMEs. In H1/2021, HCMC new enterprises of over 18,400 were up 4% YoY, the average registered capital of US$0.7 million/ enterprise was up 34% YoY.

Outlook

By 2024, future supply of over 456,600m^2 is expected, of which, 60% is in the non-CBD. There has been limited Grade A supply for the last three years, however by 2023 there will be 155,000m^2 GFA delivered from HVH Building and The Sun Tower.

Decentralized Grade B buildings with softer rents were nearly 50% absorbed. Most lessors required a 5% pa rent increase and a market review after 3 years.

The HCMC economy is expected to fully recover in the short term. Office demand which is intrinsically linked to the economy, is expected to increase.

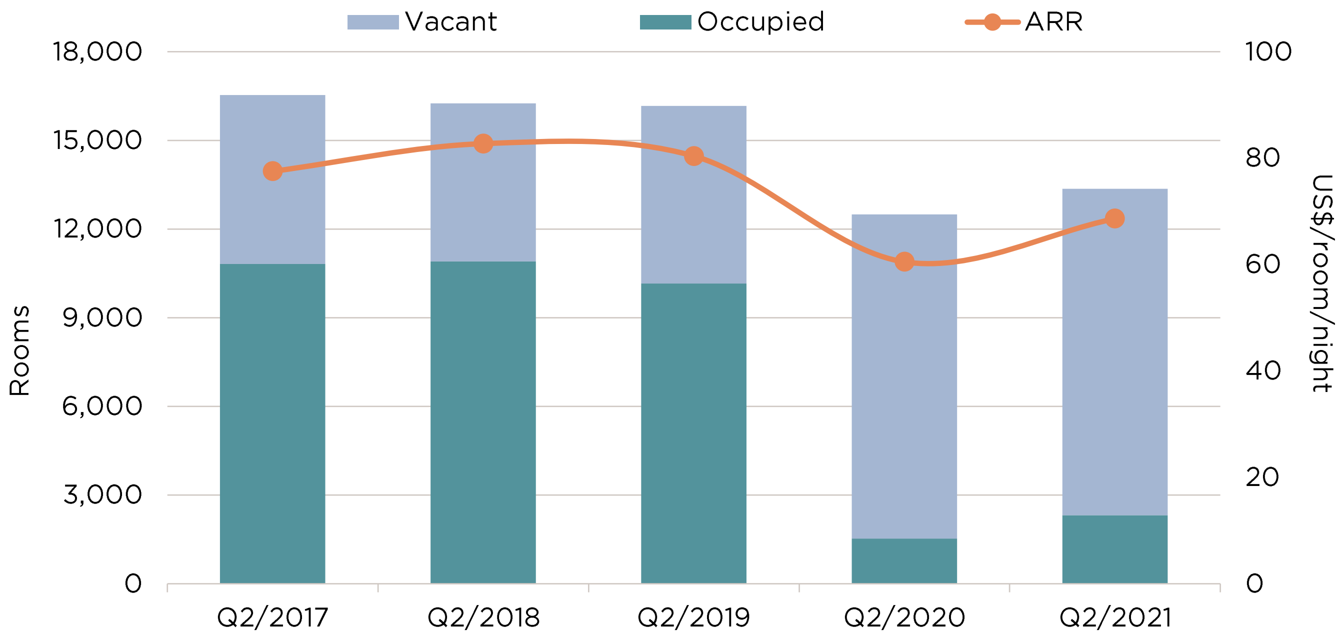
HOTEL

SUPPLY
13,400 rooms
-11% QoQ
7% YoY

AVG.ROOM RATE
$69 /room/night
11% QoQ
14% YoY

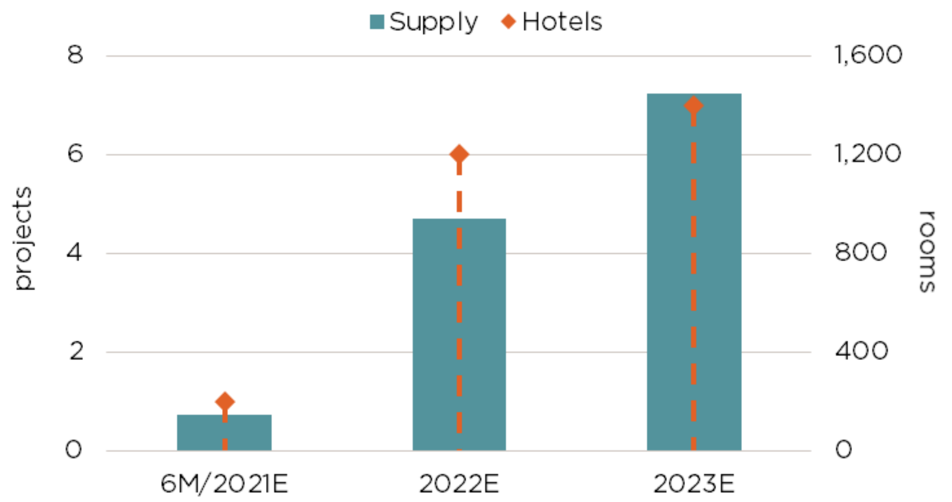
OCCUPANCY
18%
1ppts QoQ
5ppts YoY

Performance



Source Savills Research & Consultancy

Supply to 2023



(1) Data collection as of Q2/2021

(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

> *Performance is slightly inflated as many mid-range hotels have been secured for quarantine facilities. Overall the sector continues to suffer, however is very well positioned regionally for post CoVid "revenge travel"*

Cao Thi Thanh Huong
Research Manager, HCMC

KEY FINDINGS

Quarantine demand

During the 4th Covid wave in Q2, lockdown measures led to shrinking demand, with 17 projects removed from stock in HCMC. Stock decreased -11% QoQ across all grades to nearly 13,400 rooms in 103 hotels.

However, on a yearly basis, stock was up 7%, with the re-opening of 28 projects, half are used as quarantine facilities.

Quarantine demand from immigration, government officials and local quarantined citizens, remained strong. This quarter, there were 8 new quarantine projects added to total over 3,000 rooms from 25 projects city-wide. Most are in District 1, 3, 5, 7 and Tan Binh.

Bottom is behind

Quarterly occupancy was 18%, slightly up 1ppt QoQ, as supply decreased. However, compared to the market bottom in Q2/2020 when the pandemic first appeared, occupancy has bounced back 5ppt YoY, equivalent to 53% YoY increase in total occupied rooms. This is derived from long-stay demand and quarantine projects that achieved over 60% occupancy.

Since Q2/2020 ARR has trended upward at 3% per quarter to US$69/room/night. According to HCMC Tourism Department, in the first 6 months of 2021, HCMC tourism revenue was up 19% YoY to nearly US$1.5 billion as the city welcomed more than 7 million domestic tourists.

Outlook

According to UNWTO, global tourism could fully recover in 2024, where herd immunity holds a key for success. Vietnam aims for at least 70% of the population to be vaccinated by the end of 2021.

The post-pandemic outlook for the hotel industry is promising, with the expansion of well-known brands world-wide. By the end of 2023, HCMC will have an additional 2,500 keys, at least 70% will be operated by international hoteliers including Fusion, Hilton and InterContinental.

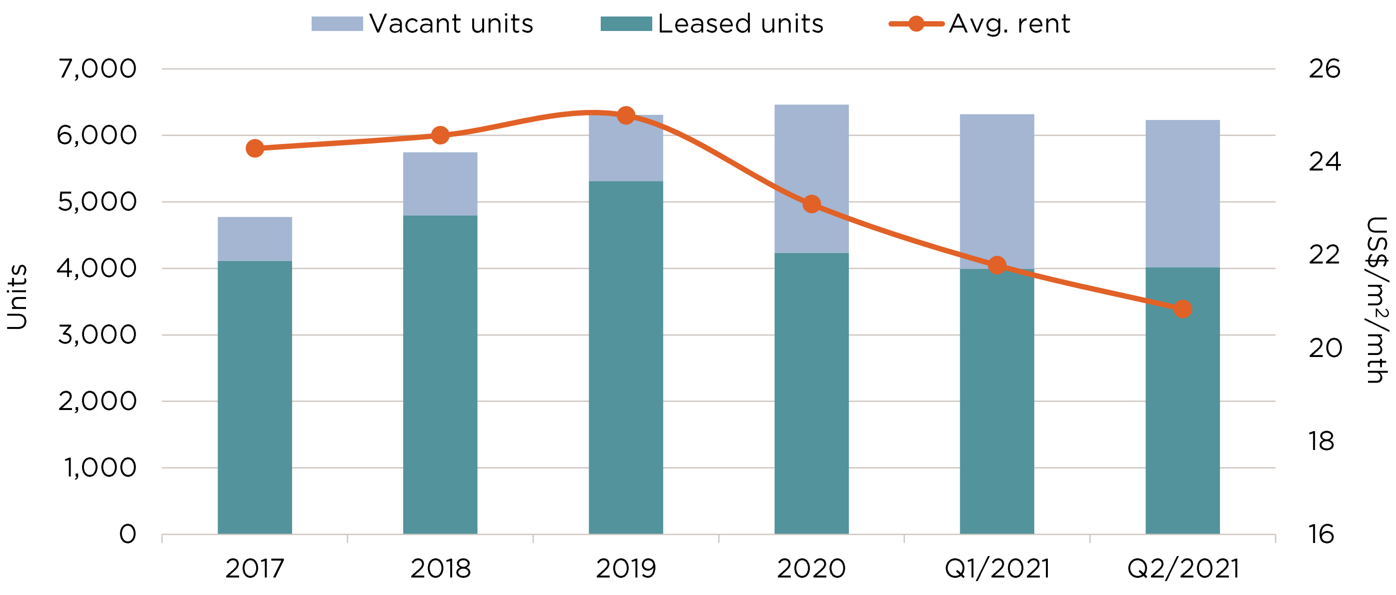
SERVICED APARTMENT

SUPPLY
>6,200 units
▼ -1% QoQ
▼ -3% YoY

AVG.RENT
$20.8/m²/mth
▼ -2% QoQ
▼ -10% YoY

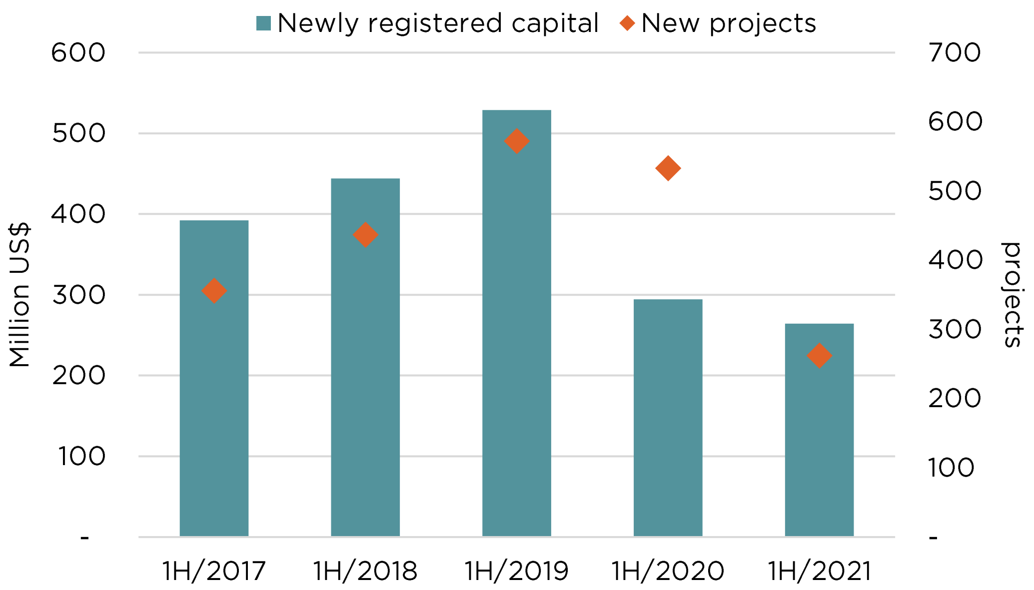
OCCUPANCY
64%
▲ 1ppts QoQ
▲ 3ppts YoY

Performance



Source Savills Research & Consultancy

HCMC FDI, H1/2021



Source: MPI

(1) Data collection as of Q2/2021
(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

"CoVid has impacted the sector, however not to the extent first thought. Overall SAs are showing remarkable resilience, mostly through captive long term contracts. FDI commitments remain sound, that will convert to demand in the near-term."

Troy Griffiths
Deputy Managing Director

KEY FINDINGS

Decreasing Stock

Stock has trended downward since Q2/2020 as demand was limited during Covid. Without any new launches and the withdrawal of three CityHouse projects in Q2/2021, stock dropped by -1% QoQ and -3% YoY to over 6,200 units.

By 2023, over 700 units from 8 future projects are expected to launch.

Challenging Performance

Average rent eased -4% QoQ and -11% YoY to US$21/m^2/mth. Grade B rent decreased the most faced with early termination issues nearly 30% of projects offered discounts up to -30% for long stay contracts. More incentives were included such as free car parking, utility allowances or upgrades.

The average occupancy of 64% was up 1 ppt QoQ as inefficient projects closed. It increased 3ppts YoY, supported by resilient long term accommodation and the return of expats. Short-term leases for local tenants, mostly businessmen, have been challenged during the ongoing Covid outbreak.

Outlook: A Long Run

It remains uncertain with borders blocked, flights disrupted and immigration limited. Despite ongoing drawbacks, positive macro-economic performance in H1 helps raise confidence. According to the HCMC Statistic Office, the total FDI in H1 was US$1.4 billion with new capital of around $264 million, while city GDP grew 5.4% YoY.

Full recovery might be expected from 2023 onwards, aligning with global vaccination progress.

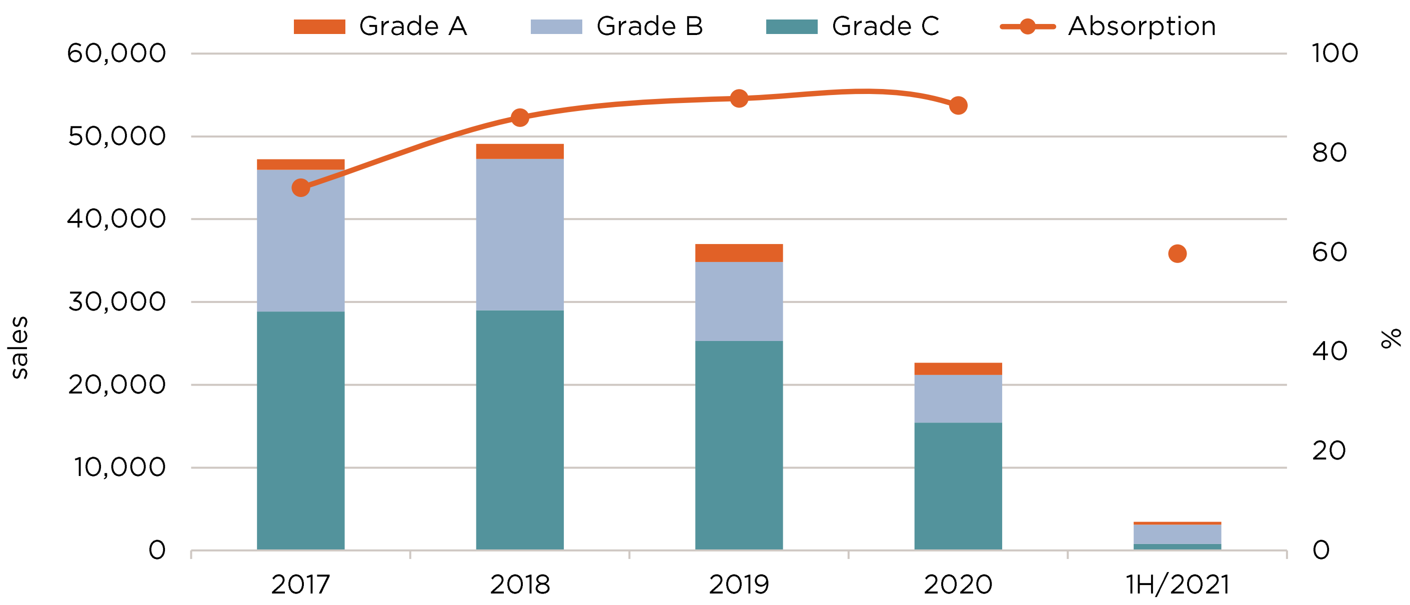
APARTMENT

PRIMARY SUPPLY
~3,700
-25% QoQ
-18% YoY

SALES
~1,400
-35% QoQ
-36% YoY

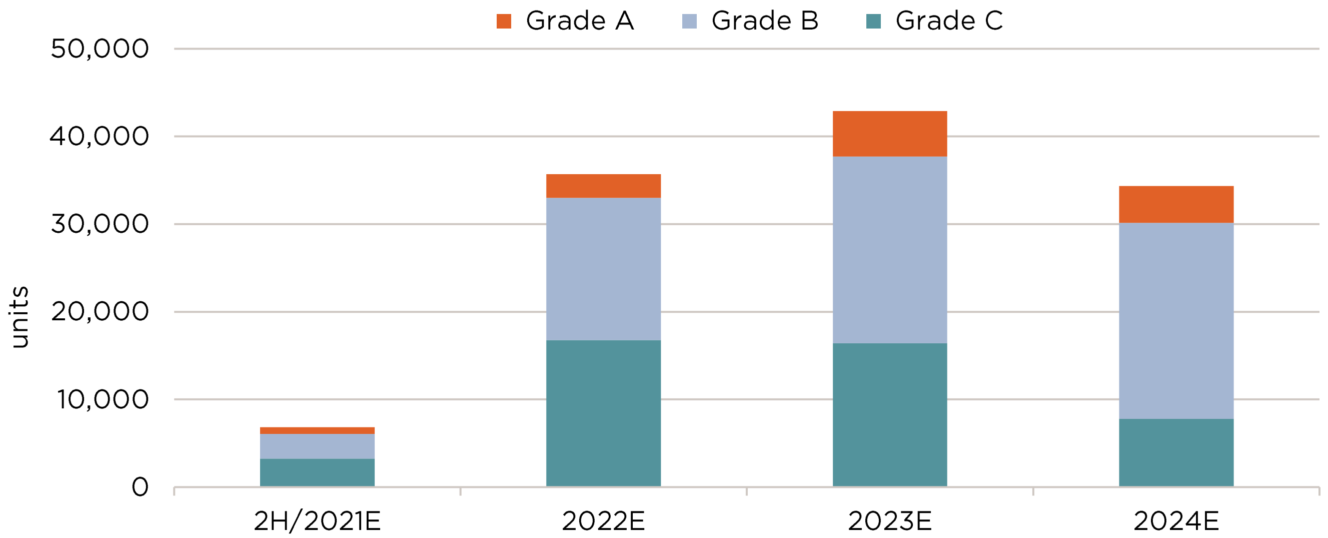
ABSORPTION RATE
37%
-5 ppts QoQ
-10 ppts YoY

Performance



Source Savills Research & Consultancy

Supply to 2024



Source Savills Research & Consultancy

(1) Data collection as of Q2/2021
(2) Absorption rate calculated by sales divided by primary supply

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

"Wealth is growing, evident in new stock exchange accounts and demand for residential. However, there is a lack of current supply that is pushing prices. Investors may feel the pinch of the long term CoVid softening. Vacancies have increased slightly, with a minor rental reduction, but a 2% value escalation. The much-anticipated launch of Masterise Grand Marina is getting closer, a bellwether for high end pricing."

Vo Thi Khanh Trang
Research Associate Director, HCMC

KEY FINDINGS

Lowest Supply For A Very Long Time

In Q2/2021, primary supply of nearly 3,700 units decreased -25% quarter on quarter (QoQ) and -18% year on year (YoY), to the lowest delivered in a long time. There were limited launches and low inventory, furthermore, ten projects temporarily halted to adjust pricing.

New quarterly supply from three projects and the next phases of six existing developments, was more than 1,600 units, down -26% QoQ and -23% YoY and accounted for 45% Q2 primary supply. Grade A and B dominated new supply at 76%.

Low Absorption

It was the lowest sales and absorption for the last five years. Total sales of nearly 1,400 units, were down -35% QoQ and -36% YoY while absorption at 37%, was down -5ppt QoQ and -10ppt YoY.

Grade B had the greatest share of sales at 49% share, and the highest absorption at 52%. The remaining inventory is strongly priced.

Sales from fresh quarterly supply accounted for 77% total Q2 sales, with absorption of 63%.

Primary Price Increase

Almost 40% of primary projects increased their selling prices by up to 15% QoQ. Existing projects with new phases achieved 10% increases over previous phases.

Outlook

To 2024, there will be around 120,000 units launched. Thu Duc city with rapid urbanization and improving infrastructure has the highest share at 44%.

In the second half of the year, 6,800 units from 22 projects are expected to launch, mostly Grade C at 47% share.

The new Circular No. 03/2021/TT-BXD on reducing minimum unit sizes to no less than 25 m^2 will benefit Grade C developers and will provide far more affordable dwellings, however, will be challenged balancing approved project populations.

Upper Grade Supply Increasing

Primary supply of units under VND2 billion (US$86,000) that meet mass end-user demand was less than 10% of the city's primary supply in Q2/2021, with a decreasing availability in the near term.

From 2022 to 2024, Grade B future supply will increase to 53%, followed by Grade C at 37% and Grade A 10%. The city will receive the first large scale Branded Residence by Marriott – Grand Marina with a rumored selling price of over US$15,000/sqm.

Savills recent survey of Grade B rentals compared to Q4/2020, showed vacancy has increased, with a slight rental reduction, and 2% value escalation. This could be expected to recover post Covid.

Housing Needs

According to HCMC Department of Construction, the housing floor area is expected to grow 4% pa in the next ten years to reach 295 million m2 Gross Floor Area (GFA) by 2030. Annual new supply from 2016 to 2020 has been approximately 31,000 units.

From 2015 to 2020 high-rise products accounted for over 90% of new housing, according to HCMC Department of Construction. Over the short term apartments will continue to deliver over 80% of future supply.

Decentralization

Improving infrastructure and rapid urbanization in the East (Thu Duc city) and the South (District 7 and Nha Be) has supported high-rise development. Notable infrastructure projects include Metro Line 1, Thu Thiem bridge 2 and 4, expanding Le Van Luong – DT826C road and Long Hau – DT826E road and Nguyen Van Linh – Nguyen Huu Tho tunnel. By 2024, Thu Duc city will dominate future supply with 44% share, District 7 for 13% share, and Nha Be an 8% share.

Nearby provinces including Binh Duong, Dong Nai and Long An are benefiting from the spillover, and improved connectivity. Binh Duong has higher urbanization, healthy industrial market growth and better connectivity to HCMC. Compared with HCMC Grade C apartments (US$1,200 to US$2,600/m2 NSA), Binh Duong has lower prices (US$800 to US$2,000/m2 NSA).

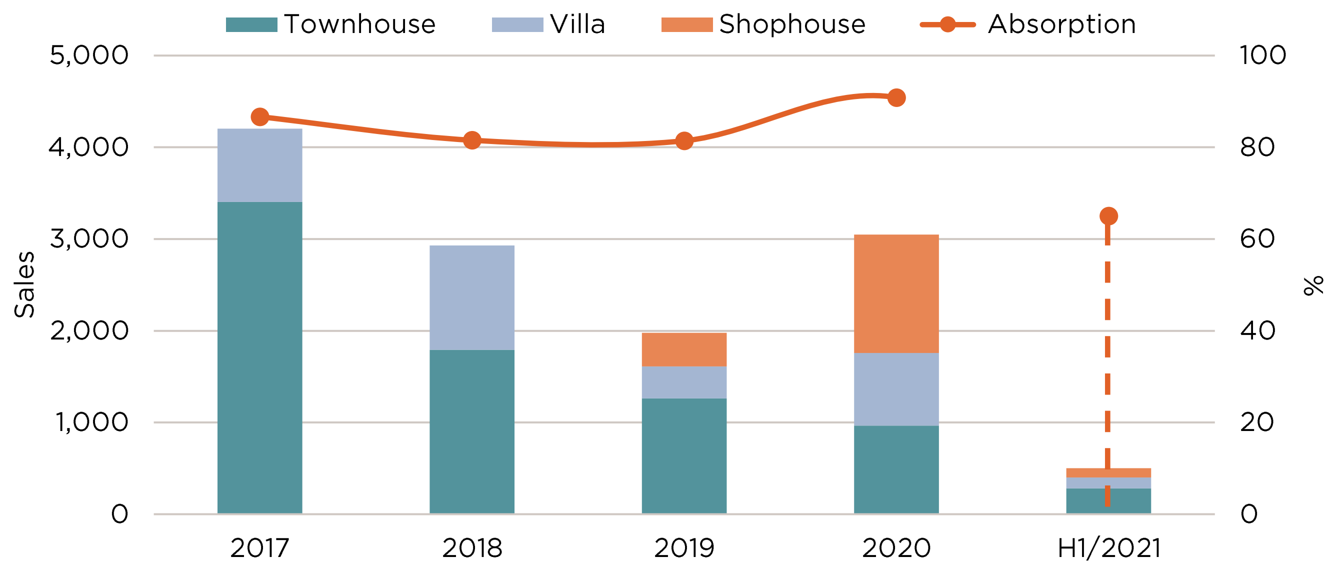
VILLA & TOWNHOUSE

PRIMARY SUPPLY
>570
21% QoQ
-30% YoY

SALES
>300
49% QoQ
-33% YoY

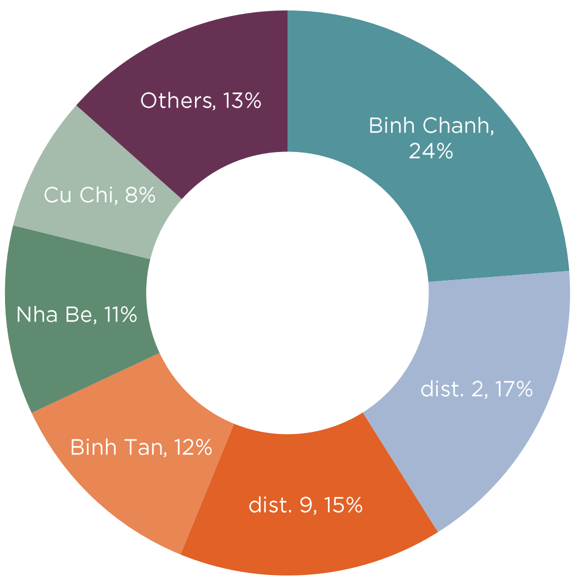
ABSORPTION RATE
53%
10 ppts QoQ
-2 ppts YoY

Performance



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

Supply to 2023



(1) Data collection as of Q2/2021
(2) Absorption rate calculated by sales divided by primary supply
QoQ: Quarter on Quarter comparison
YoY: Year on Year comparison

"Others" include Districts 7, 8, Can Gio, Go Vap, and Thu Duc.
Source Savills Research & Consultancy

Historically low supply has driven inevitable price increases, that has spilled to neighboring provinces. With the new government formalized then the near-term hope is for more approvals that will answer the supply shortage. Future supply is so far evenly dispersed, providing an array of location choice.

Vincent Nguyen,
Directors of Residential Sales

KEY FINDINGS

Low Primary Supply

New supply remained limited and mostly located suburban districts. H1/2021 primary supply of over 770 dwellings was the lowest for five years, down -44% year-on-year (YoY). The H1 approximately 500 sales were down -51% YoY.

Q2 primary supply of 570 dwellings was up 21% quarter-on-quarter (QoQ) but down -30% YoY. Townhouse had 49% share. New quarterly supply of 300 dwellings were from a single District 12 project and four launches of next phases in Thu Duc, Go Vap and Tan Phu.

There has been limited new supply of Shophouses. In 2020, they dominated with a 41% share and a 270% YoY increase, mainly from Vinhomes Grand Park; The Manhattan, and The Manhattan Glory that sold out within 3 quarters.

Improved QoQ Sales

Quarterly sales of around 300 dwellings increased 49% QoQ with absorption at 53%, up 10ppts QoQ. New launches were 75% absorbed.

Go Vap and Thu Duc City accounted for nearly 90% of quarterly sales, mostly from launches at Cityland Park Hills and Van Phuc City.

In terms of active projects with inventory from the previous quarters, more than 60% of projects were 80% absorbed, leaving little to choose from. What remained was over US$2 million/ dwelling, or in small scale projects.

Price Escalation

Limited primary supply generated secondary price escalation. In Q2/2021, the average secondary prices of our constant basket increased 13% YoY. District 7 had the highest YoY price growth, up 20%, followed by Districts 9, Nha Be, 2, and Go Vap, with a range of 13% to 19% YoY.

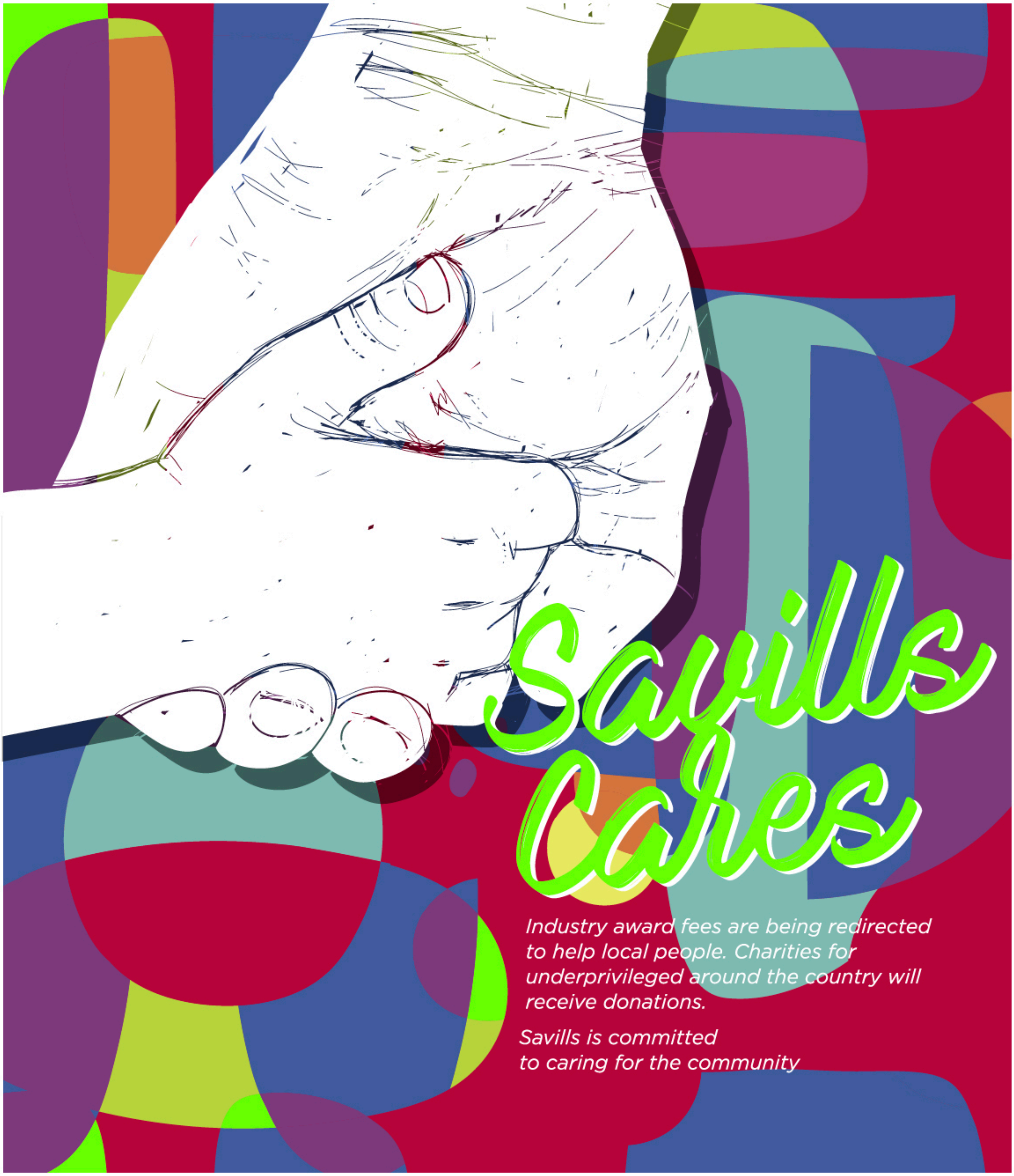
Outlook

Future supply to 2023 is expected to reach 9,700 dwellings/ plots. Thu Duc City will supply the most with a 32% share, followed by Binh Chanh with 24 percent. HCMC plans to turn five suburban districts Hoc Mon, Binh Chanh, Nha Be, Cu Chi and Can Gio into 'urban districts' in 2021-2030. These districts with large land banks are becoming key residential development targets.

Under the HCMC Housing Plan to 2030 prioritizing high-rise development, there will be limits on landed property.

HCMC infrastructure priorities are to develop ring roads and improve connectivity, especially to the future Long Thanh airport. Ho Chi Minh City has identified key transport infrastructure to be completed by 2025.

- Completion of Ring Road 3 is the city's top priority, as it plays a vital role to ease traffic congestion that connects the East with the West indirectly affecting highways such as HCMC - Long Thang - Dau Giay, HCMC - Trung Luong, Ben Luc - Long Thanh - Dau Giay, HCMC - Moc Bai, HCMC - Thu Dau Mot - Chon Thanh.
- Bridges and roads connecting regions including Cat Lai Bridge, flyovers along the road 25C, roads connecting HCMC and the Mekong Delta provinces of Long An and Tien Giang, as well as upgrade of Nguyen Van Bua Street and expressway HCMC- Moc Bai, in the Southern Province of Tay Ninh.



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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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