



20 YEARS
IN VIETNAM

Vietnam Property Market

A TWENTY YEAR REFLECTION



International Awards

Savills has topped the real estate agents/ advisors in the 2015 UK Business Superbrand chart for the seventh consecutive year, ahead of all industry competitors.



Savills Vietnam is delighted to have been named the Best Real Estate Agency and the Best Property Consultancy in Vietnam for many years.

2015 International Property Awards

- Best Real Estate Agency in Vietnam
- Best Property Consultancy in Vietnam

2014 International Property Awards

- Best Lettings Agency in Asia Pacific
- Best Real Estate Agency in Asia Pacific
- Best Lettings Agency in Vietnam
- Best Real Estate Agency in Vietnam

2013 Golden Dragon Award

- Leading property services provider in Vietnam

2013 International Property Awards

- Best Real Estate Agency in Asia Pacific
- Best Real Estate Agency in Viet Nam
- Best Property Consultancy in Vietnam
- Best Lettings Agency in Vietnam
- Best Real Estate Agency Website in Vietnam

2012 International Property Awards

- Best Property Consultancy in Vietnam
- Best Real Estate Agency in Vietnam

2012 South East Asia Property Awards

- Best Property Consultancy in Vietnam



"The awards recognize the effort and achievements of our team in Vietnam"

Neil MacGregor
Managing Director of Savills Vietnam

Overview



Vietnam recently celebrated the 40th anniversary of reunification and the end of the 'American War'. This year Savills also celebrates a milestone; 20 years of establishment as the longest serving foreign property company in Vietnam. To mark the occasion we've reviewed some of the key indicators over this period, as well as considered what the next 20 years may bring.

Back in 1995 the small office of Chesterton Petty was established on Pham Su Manh, Hanoi, employing five people. In 2007, Savills plc decided to invest in Chesterton Petty and changed the company name into Savills Vietnam. In 2010, we were honored to have HRH Prince Andrew open our present offices at Sentinel Place, Ly Thai To. This small office now grows into the modern day Savills, in 2015 employing over 1,000 people in big cities of Vietnam including Hanoi, Da Nang, Nha Trang, HCMC. Savills is also in the top 1,000 tax payers across all companies in Vietnam and is in the top 200 foreign tax payers.



What was happening in Vietnam in 1995?

- Vietnam was admitted to ASEAN. This is contemporary as 20 years on the ASEAN Economic Community (AEC) has aims to be implemented in 2015.
- Formally commenced diplomatic relations with the US.
- Vietnam was the worlds third largest exporter of rice.
- Cyclo (Xích Lô) directed by Tran Anh Hung won the Golden Lion at the 52nd Venice International Film Festival. Other global releases included Braveheart, Toy Story and Batman Forever.
- There were around 15,000 mobile phone subscribers.
- The Saigon Floating Hotel is one of the most vivid images of tourism over the last two decades. It was moored in HCMC and managed by Southern Pacific Hotels to meet the high demand of travelers for a 5 star hotel in the early 1990s.

Elsewhere around the world, the Barings Bank collapses, the World Trade Organisation commences and NATO bombs Bosnia leading to a Peace agreement, Microsoft released Windows 95, Agassi won the Australian Open and President Clinton denied that he'd had an affair with Monica Lewinsky.

Economic Landscape

	1995	2014
GDP (US\$ billion)	21	185
Exchange rate, average (VND/USD)	11,058	21,304
Lending Interest Rate (%)	20.1	8.7
FDI (US\$ billion)	6.9	20.2
Mobile subscribers	15,000	138,630,000
Car ownership	20,000	2,014,182
Beer consumption (billion liters)	~ 0.8	3.1

GDP

Over the last two decades Vietnam's economic growth has been outstanding, consistently delivering top of the chart growth. Since 2000, China is the only Asian economy to perform better than Vietnam.

GDP growth was relatively stable through much of the 1990's, accelerating in the early 2000's up to the first peak at 2008. Vietnam has moved from one of the world's poorest countries to middle income and has future mid term prospects that will eclipse most Asian peers.

State Owned Enterprises account for around 40% of national output. This is fertile ground for reform as these enterprises are notoriously inefficient and attract commentary regularly. Notwithstanding, many of Vietnamese corporates have impressive performance in the international arena. The Forbes Global 2000 annually ranks the world's most powerful public companies based on revenues, profits, assets and market value. In 2014, Vietin Bank, BIDV and Vietcombank are all within the top 2,000.

FDI

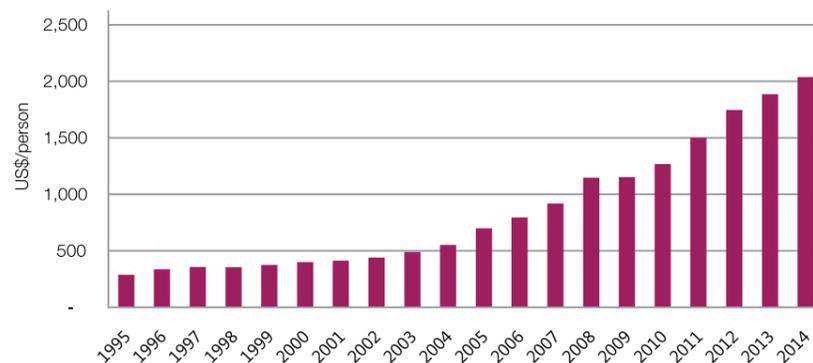
Foreign Direct Investment has been the catalyst for impressive domestic growth as the government actively competes for capital within the region. The recent intensification in this competition includes very strong

corporate taxation incentives.

In the earlier years the regional competition for capital was relatively static, it wasn't until the early 2000's that Vietnam's popularity with foreign investors really picked up, peaking

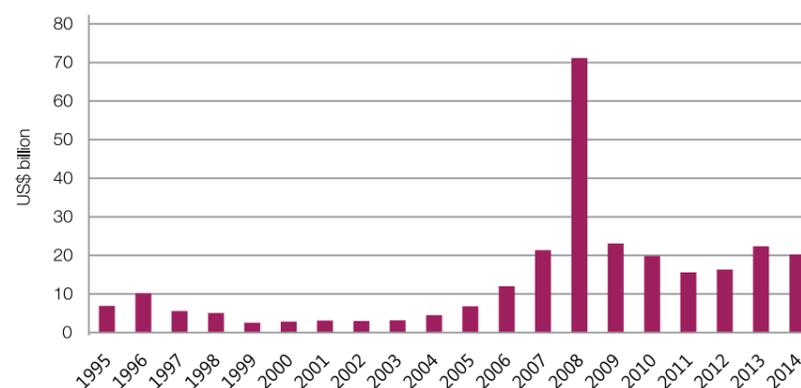
in 2008 with a registered amount of almost US\$70B. However this amount was never fully disbursed. The accent in recent years is to attract realistic projects that will disburse their commitments rather

GDP per capita



Source: General Statistics Office

Registered FDI



Source: General Statistics Office

than holding as options whilst attracting co investors. The quality of FDI is also improving, in Danang recently the local government turned down two major projects for environmental reasons.

Foreign Remittances

From a historical perspective the chart shows a jump in foreign remittances around the early 2000's as the first generation of migrants became more prosperous within their adopted countries.

Cut to today's situation where Vietnam is in the top 10 foreign remittance recipients globally, that is a major contributor to GDP. For 2014 Remittances were around US\$12.5B, across in excess of 4 million transactions. Remittances exceed Overseas Development Assistance (ODA) and help prosperity as Vietnam's love of small business benefits with active seed funding, thereby enabling the vigorous 'start up' culture.

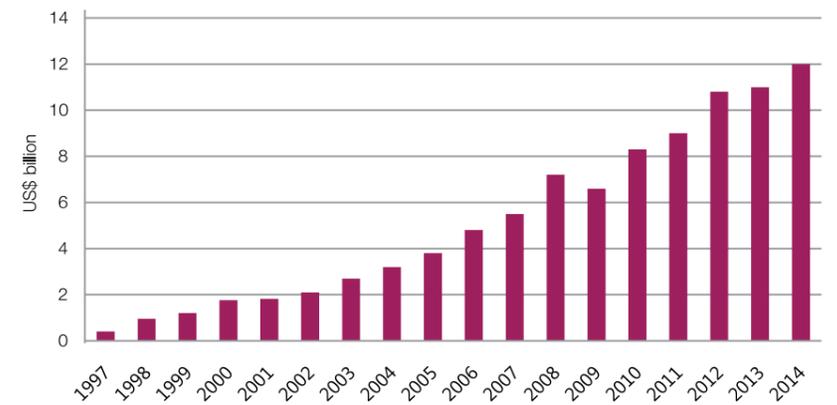
Direct property investment also benefits as it receives between 17% and 20% of foreign remittances. As more Vietnamese return, there is better access to remittances. The government recently recognized this with amendments to the Housing Law that confers full ownership rights to Viet Kieu.

Interest Rates

Abenomics is a regional driver for quantitative easing, virtually every country has followed suit and continue to drive down interest rates. QE throughout the region will benefit the respective domestic economies, however importantly will also encourage foreign investment into other regional targets. This outward flow of capital has accelerated recently and is particularly noticeable from Singapore, Korea and Japan.

Domestically the low cost of capital drives investment as well as fueling the residential economy. Vietnam's current interest rate is ~9.0%.

Foreign Remittances



Source: General Statistics Office

However this low cost of debt has only recently emerged, in 1995 it was around 20%.

In 2015 the benchmark rate from the State Bank of Vietnam has been around 6.5%. The lowest over the last 15 years was 4.8% in 2000, with the highest in 2008 at 15%, very similar to 2012.

Tourism

Vietnam is very well located to two of the world's largest tourism markets; China and Russia, who collectively contribute around 52% of global source markets.

From 1995 to 2014, the total number of visitors increased significantly from 1,351,300 to 7,874,312. The downturns for the AFC, US stock market collapse and GFC are clear, however the steep slope of the chart in recent times is impressive. Part of this growth is the addition of air services and the massive impact of Low Cost Carriers (LCC).

Over the last 20 years air traffic has grown at a staggering CAGR of 16.7% and is ranked globally in growth at number 3. The Vietnam Air Transport Master Plan 2020 envisages 10 international airports; Hanoi, Cat Bi, Phu Bai, Da Nang, Chu Lai, Cam Ranh, HCMC-Tan son

Nhat, Long Thanh, Can Tho and Phu Quoc. Noi Bai opened in 2014 and with the excellent motor way and bridge connections through to Hanoi, is a great example of the future development potential of air systems.

Domestic tourism over this 20 year period has surged. Halong, Danang, Nha Trang and Phu Quoc have all emerged as bone fide domestic destinations. The chart below shows only the recent history and bias between international and domestic tourists in the two key cities of Danang and Nha Trang. In both locations, domestic tourism dominates and has almost doubled in volume over the 7 years of available data. 20 years ago in Nha Trang, the airfield that dominates the centre of town, was a two minute walk from hotels on Tran Phu. Whilst less convenient the new airport at Cam Rahn Bay allows direct international flights and access to major source destinations.

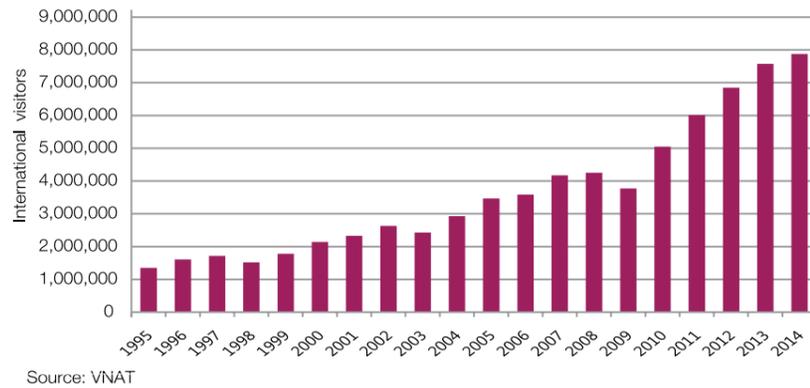
The residential markets in these locations have performed strongly. Danang stands out, benefiting from good planning and infrastructure, high amenity value and connectivity. The second home market has emerged over the last 7 years and is evident in successful master planned estates such as Danang Beach Resort, Vinpearl Premium and Sun Villas.

VinPearl Island in Nha Trang was an early catalyst that worked well for both domestic and international visitors. Many years later and with multiple destinations being developed across the country then the success of this development seems assured. Vinacapital (Danang Beach Resort) and Indochina Capital (Hyatt Regency) invested heavily early and understood the importance of catalyst attractors such as golf courses.

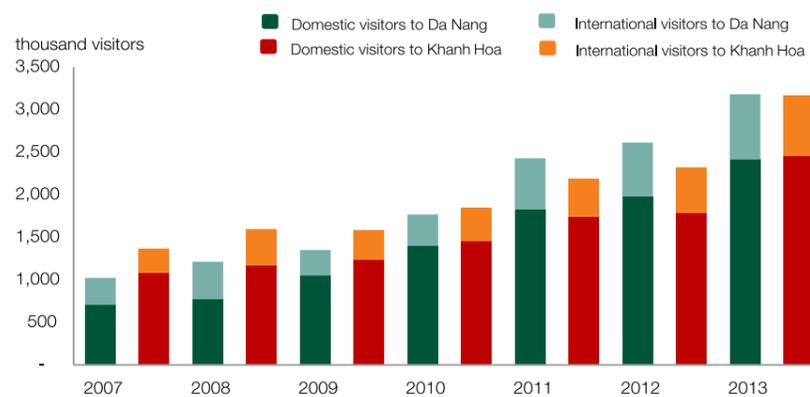
A recent report (Ten Year Outlook for Coastal Tourism in Vietnam, MGT Management, 2013) suggests that to 2022 Vietnam could become a top 10 destination with international arrivals up to 33 million, currently 7.9 million. This is driven by Vietnam's abundant coastline and proximity to China and Russia as source destinations. With amendments to the Housing Law that may allow more relaxed foreign ownership, then Vietnam's coastline could quickly attract foreign investors and capital. Residential products that are international standard and are orientated towards foreign purchasers are already available.



International Visitors



Visitor Profile - Da Nang & Khanh Hoa



Property

Retail

With literally hundreds of thousands of square meters of contemporary format opening in the last couple of years it is worth considering the nature and volume of retail that has changed over the last 2 decades. Vietnam is still under shopped in terms of contemporary retail formats with a retail density of less than 0.1/sqm per person. Our regional peers of Bangkok and Kuala Lumpur have a density of 0.7/sqm and 0.8/sqm per person.

Savills was there in 2010 to help deliver Phu My Hung's "Crescent", Vietnam's first truly modern Shopping Centre, that now is a centerpiece of the District 7 development.

The recent entry of global giants such as McDonalds and Starbucks is interesting and adds to so many other foreign brands including the high end; Hermes, Cartier, Louis Vuitton. The marquee cars are around; Bugati, Rolls, Bentley, Maybach. It remains to be seen whether the local consumers will adopt the more expensive foreign offer. In a country where the coffee culture is strong and competitive then a move to the modern format may not be easy.

enjoyed good growth over this period. However by the late 2000's Vietnamese markets were more correlated with FDI and external conditions and so could not escape the GFC. A strong correction occurred that is only now normalizing.

A major driver of domestic office demand is the FIRE (finance, insurance, real estate) sectors. Vietnam lags our regional peers in penetration of these industries.

We expect that as insurance and banking sectors evolve then there will be a steady uptick in domestic office demand.

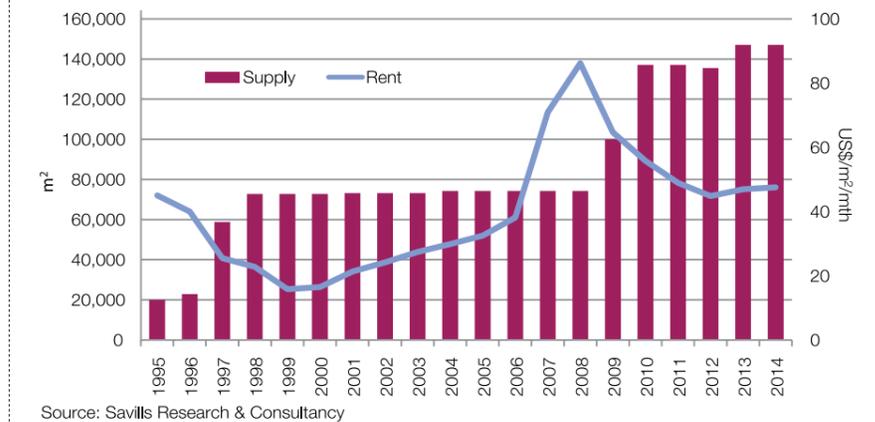


Office

Sunwah Tower was completed in 1995 and The Metropolitan in 1996. This was the beginning of a new wave of A grade supply. The Metropolitan came on at a rent of \$40/sqm, peaked in 2008 at around \$80/sqm and is now trading in the high \$48 - \$50/sqm.

Often Vietnam has shrugged off global influences, as was the case in 2003 in the Asian Financial Crisis. With limited external debt and a burgeoning domestic economy Vietnam's office markets

HCMC Grade A Office Market



Residential

Vietnam's residential cycles haven't been charted extensively, as most contemporary developments have been going through a continuous growth phase. What does seem apparent is that compared to other countries, residential property cycles in Vietnam seem to be much shorter. The UK is commonly quoted at 10 years, Australia is 7 years, it seems that Vietnam is approximately 5 years. This may be a result of the central government's ability to implement monetary policy more 'directly' than in other countries.

Savills has a long and proud association with Phu My Hung. The development company was formed in 1993 as a joint-venture between the HCMC People's Committee and Central Trading & Development Group, headquartered in Taiwan. The vision of the founders has been realized as what was previously swamp land has now been developed into Vietnam's show piece master planned community. Savills has been involved in many aspects of this historical and landmark development and continues to lease and manage properties including serviced apartments, villas as well as commercial and retail, including The Crescent Shopping Centre.

In 2005 Vietnam moved into the start of its 'golden age', where there is high population growth and a young workforce. It will normally mean both high domestic production as well as strong consumption. Also within this window, the burden of the elderly has yet to amount to a large social security cost. However many of our peer economies also have good demographic 'windows' and they will compete regionally.

Over the last 20 years there have been major changes to the structure of Vietnam's economy and population. One of these variables is household occupancy, falling from around 4.7 people / household in 1995 to 3.6 in 2014. As younger

HCMC Apartment Market



Source: Savills Research & Consultancy



Phu My Hung in 1995



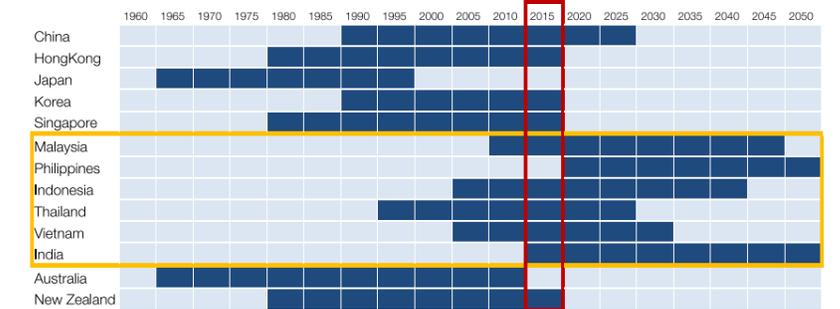
Phu My Hung in 2014

people gain greater independence there has been a gradual erosion of the three generation household. The effect has been to fuel residential apartment development and the creation of more independent living. Will household sizes fall further, quiet possibly yes. However filial piety remains strong in the east, thereby resisting strong occupancy decreases. European countries have household occupancies in the low 2's, China is around 3.1, Cambodia 4.8 and Philippines 4.3.

Over the 20 year period Vietnam has continued to transition away from the agricultural base, initially at greater than 20% of GDP to around 17% in 2014. The gain attributed to share taken from agriculture into industry. The service sector is yet to take off in Vietnam and has remained relatively static throughout this period. In part this may be due to the large State Owned Enterprises dominating and not effectively utilizing their resources or human capital.

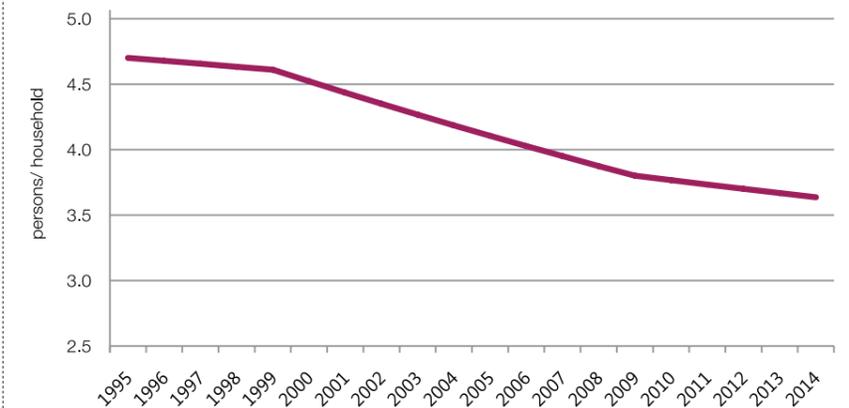
The second part of the chart is 'urbanization' that shows an enormous drift to the cities, moving from less than 20% in 1995 to 34% in 2014. The drift continues and underwrites demand for residential product.

The demographic window in Asia-Pacific, 1960-2050



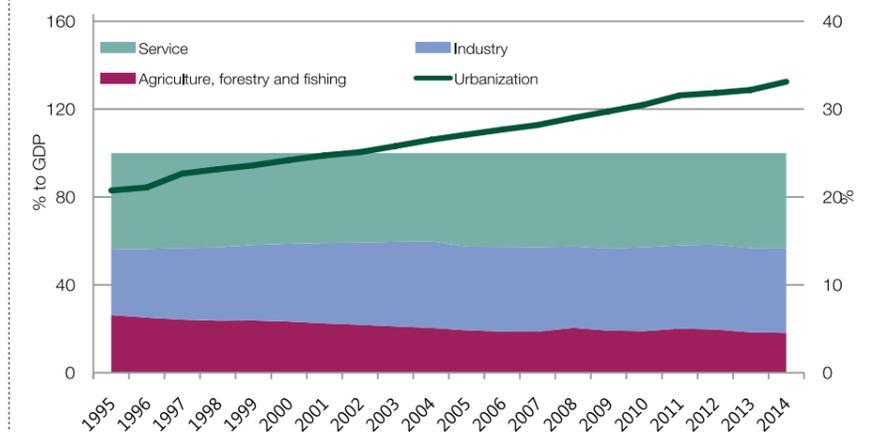
Source: United Nations

Vietnam Household Size



Source: Savills Research & Consultancy, General Statistics Office

GDP Structure & Urbanization



Source: General Statistics Office

Vietnam Changes After 20 Years

Over the two decades that Savills has been in operation, Vietnam's demographic and economic structure has changed significantly in key areas that drive the property market.

- Household occupancy is shrinking, requiring greater dwelling formation.
- There is a massive urban drift from the rural to urban areas and there has been a shift share movement from Agriculture to Industry.
- We already know that the demographic window is favorable and that Vietnam has a young, well educated workforce.
- Further according to the Boston Consulting Group (BCG), Vietnam has the fastest-growing middle class in Southeast Asia, expected to rise to 33 million by 2020, almost triple the 12 million in 2012.

Indeed much has been achieved in a mere 20 years. These factors combined with the enormous potential of the SE Asian region and the prospects arising from emerging markets make Vietnam a compelling location for future business.

Savills is proud to have served our clients for the last two decades, we look forward to celebrating many more milestones in Vietnam.

Global reach, local expertise

With over 600 offices and associates throughout UK, the Americas, Europe, Asia Pacific, Africa and the Middle East



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