CBRE

Positive Signs of Improvement in the Second Half of the Year: The Worst is Likely Behind Us

▲ +5.05%
VIETNAM GDP

▲ +5.81%
HCMC GRDP

▲ +6.27%
HANOI GRDP

▲ +12.00%
VN-INDEX

Note: Arrows indicate y-o-y change.

HOT TOPICS

- **Office:** In 2023, Hanoi experienced a significant increase in office supply, leading to increased vacancy rates. While rental rates for Grade A remained stable, Grade B saw a decrease in asking rents due to a new supply.
- **Retail**: In 2023, Hanoi's retail market saw the opening of various new projects, with Lotte Mall West Lake Hanoi standing out as the largest shopping mall in Vietnam in the last four years. The retail market experienced solid rental growth, driven by the expansion of luxury brands and reduced vacancy rates.
- **Residential:** In 2023, Hanoi and HCMC witnessed decade's low new supply due to impacts from macro headwinds, recording nearly 13,000 units and slightly over 8,700 units, respectively. Condominium prices in Hanoi are on the upward trend, up by nearly 15% y-o-y while HCMC witnessed flattening price trend. Towards 2024, factors including stabilizing interest rates and upcoming amendments to policy and legal framework will elevate buyers' sentiments and foster market recovery.
- **Industrial:** Despite economic challenges in 2023, Vietnam's industrial sector performed well across asset types and regions, largely driven by robust demand. Emerging high-tech industries like electric vehicles and semiconductors, along with traditional sectors, has gained significant interest.

Vietnam Economic Overview

- Vietnam's GDP growth slowed to 5.05% in 2023, down from 8.02% the previous year. Despite this, various renowned international financial institutions maintain an optimistic outlook on Vietnam's economic prospects, forecasting a minimum of 6% GDP growth in 2024.
- Total registered FDI reached about US$36.61 billion, up 32.1%% y-o-y. Singapore, China, and Hong Kong were the leading sources of FDI in 2023. This year, Quang Ninh, Thai Binh, and Bac Giang were the most attractive FDI destinations.
- Total import and export turnover amounted to US$683 billion, down by 6.6% y-o-y. Vietnam achieved a trade surplus for the eighth consecutive year, estimated at US$26 billion, three times higher than the surplus recorded in 2022.
- The CPI rose by 3.25% y-o-y. The main drivers behind the increase were the rising prices of housing and construction materials and the increasing costs of food and electricity.
- Interest rates continued to decline, indicating positive signals in Vietnam's property market shortly.
- Retail sales growth was 9.6%, lower than the robust 19.8% growth observed in 2022. Nevertheless, Vietnam's retail sector demonstrated a more positive trajectory than other regional markets.
- The tourism sector has made a significant recovery since the COVID-19. In 2023, the country welcomed 12.6 million foreign visitors, surpassing the full-year target of 8 million tourists and recovering to 70% of the pre-pandemic level in 2019. South Korea and China were the leading sources for Vietnam's tourism market in 2023.

Office

New supply surged with the domination of Grade A

In the last quarter of 2023, Hanoi's office market saw the addition of two new Grade A projects, Lotte Mall West Lake in the West and Diamond Park Plaza in Midtown area, covering a rental area of more than 50,000 sq.m. NLA. The total office supply in Hanoi reached almost 1.74 million sq.m. NLA by the end of Q4 2023, with Grade A projects accounting for 36% of the total supply. The total net absorption in Hanoi in Q4 2023 was 16,000 sq.m., with the majority stemming from Grade A buildings such as Capital Place, Lancaster Luminaire, and Lotte Mall West Lake Hanoi.

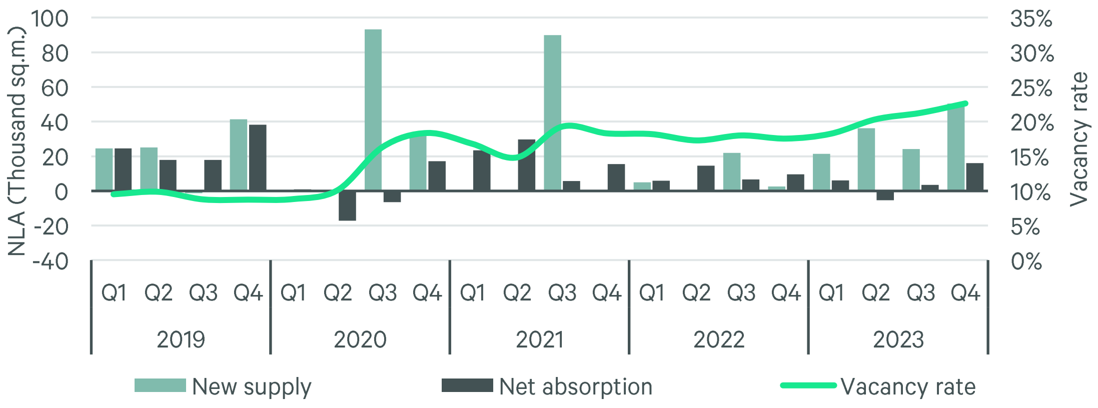
Regarding rental prices, the average rent for Grade A offices saw a slight increase compared to the previous quarter due to the introduction of two new projects, reaching approximately US$26.4/sq.m./month, a 0.4% increase q-o-q and 2.0% increase y-o-y. Grade B office rents witnessed a slight decline, with an average rent of US$14.5/sq.m./month, reflecting a decrease of 0.6% q-o-q and 1.4% y-o-y. As for vacancy rates, the vacancy rates for Grade A and Grade B projects were 31.1% and 17.5%, respectively, representing an increase of 2.9 ppts and 0.1 ppts when compared to previous quarter, respectively.

In 2023, there is a preference for high-quality office spaces among tenants, especially multinational companies. Despite economic challenges, the abundant supply has allowed tenants to negotiate favorable rental rates for higher-quality office spaces. Relocation transactions still accounted for a significant proportion, approximately 31% in Hanoi the during 2023. Most of these transactions aimed to move to newer, higher-quality office spaces with competitive rental rates. Furthermore, CBRE recorded that in 2023, the Flexible Workspace sector and the Finance/Banking/Insurance sector accounted for approximately 24% and 16% of the major transactions, respectively. These sectors were less impacted by economic crises and demonstrated strong financial foundations. They often represented large corporations with long-term expansion plans in Vietnam.

Market Outlook

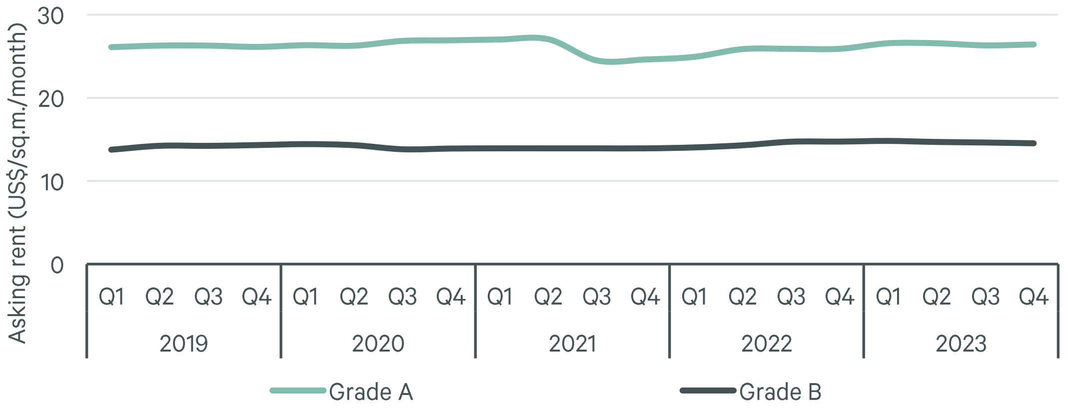
In 2024, Hanoi's office market will see the introduction of five new Grade A projects, adding a total of 127,500 square meters of NLA to the existing office supply. Notable upcoming projects include 36 Cat Linh Tower, Heritage Westlake, Taisei Square Hanoi, among others.

FIGURE 1: Market Performance, Office, Hanoi



Source: CBRE Research, Q4 2023

FIGURE 2: Asking Rent, Office, Hanoi



Source: CBRE Research, Q4 2023
Asking rent is exclusive of service charge and VAT.

Retail

Resilient market performance despite dropping consumer confidence

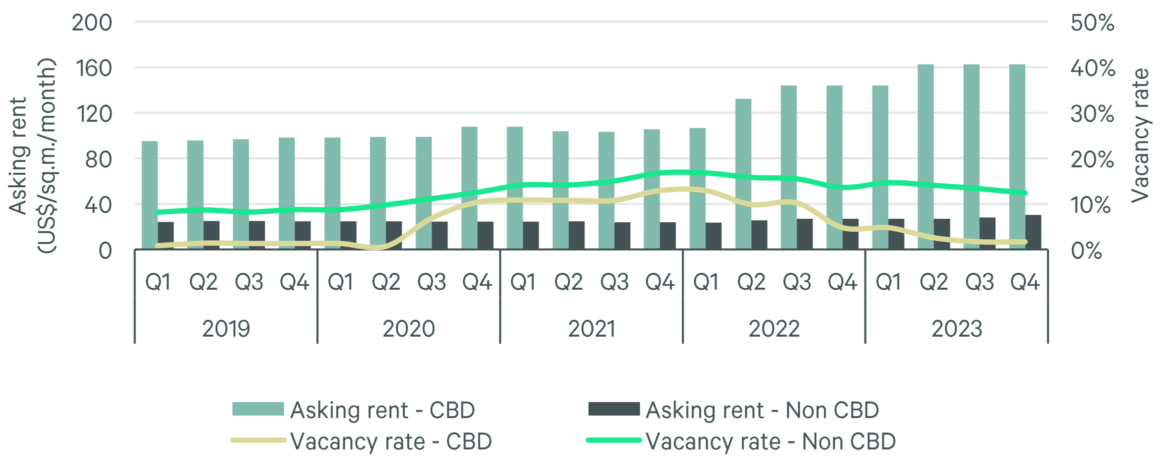
Hanoi's retail market welcomed some exciting project openings in 2023, adding nearly 90,000 sq.m. of retail space. Lotte Mall West Lake Hanoi, launched in the second half, was the highlight of the year. With a net leasable area of up to 72,000 sq.m. (excluding the basement and aquarium area), Lotte Mall West Lake Hanoi was the largest shopping mall in the last four years. Recently, the retail podium within Diamond Park Plaza Tower was opened for lease in Q4 2023, offering around 2,300 sq.m. of retail space. 2024 is anticipated to be another active year for the retail market, with the addition of nearly 50,000 sq.m. of net leasable area.

In the face of challenging economic conditions, Hanoi's retail market showed resilience. Both the CBD and Non-CBD locations experienced solid growth in rental rates. In prime CBD locations, the asking rent continued to rise thanks to the active entrance and expansion of luxury brands, reaching US$162/sq.m./month, up by 13% y-o-y. In Non-CBD locations, newly opened projects supported the rental surge. The average asking rent in Non-CBD areas reached US$30/sq.m./month, up by 7% q-o-q and 13% y-o-y.

In 2023, while shophouses faced challenges, shopping malls continued to perform relatively well and maintain high occupancy. In the CBD, there was almost no vacant retail space. In non-CBD locations, the occupancy rate reached nearly 88%.

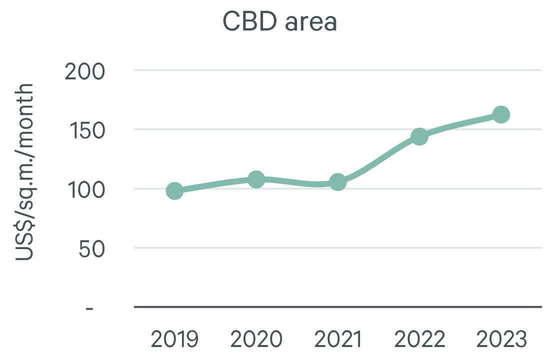
In 2023, Vietnam's retail sales saw a growth of 9.6%, lower than the 19.8% growth observed in 2022. Nevertheless, Vietnam's retail sector demonstrated a more positive trajectory than other regional markets. This year, there was a surge in new market entrants and expansions in categories such as F&B, Entertainment, and Fashion. Most international brands, especially in the high-end segment, have experienced more positive sales activities in the Asia Pacific region than in other areas, driving the active pursuit of new store openings and expansions. However, prime retail space with high quality remains limited in Vietnam, even in the two biggest cities like Hanoi and HCMC.

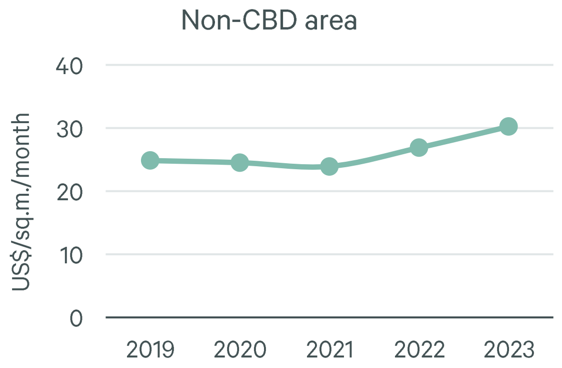
FIGURE 3: Market Performance, Hanoi Retail



Source: CBRE Research., Q4 2023. Asking rent is for the ground floor, exclusive of VAT and service charge

FIGURE 4: Average Ground Floor Asking Rent, Hanoi Retail





Source: CBRE Research., Q4 2023. Asking rent is for the ground floor, exclusive of VAT and service charge

Condominium

Hanoi condominium pricing continued its upward trend

In 2023, Hanoi experienced the lowest number of new supply in the past ten years. A total of nearly 10,300 condominium units were newly launched, representing a decrease of 32% compared to 2022. However, there was an improvement in the number of newly launched units in the latter half of 2023 compared to the first half, particularly a significant increase of over 60% in the Hanoi condominium market. Mega-urban projects in the West and East of Hanoi continued to dominate the market, contributing more than 60% of the total new supply.

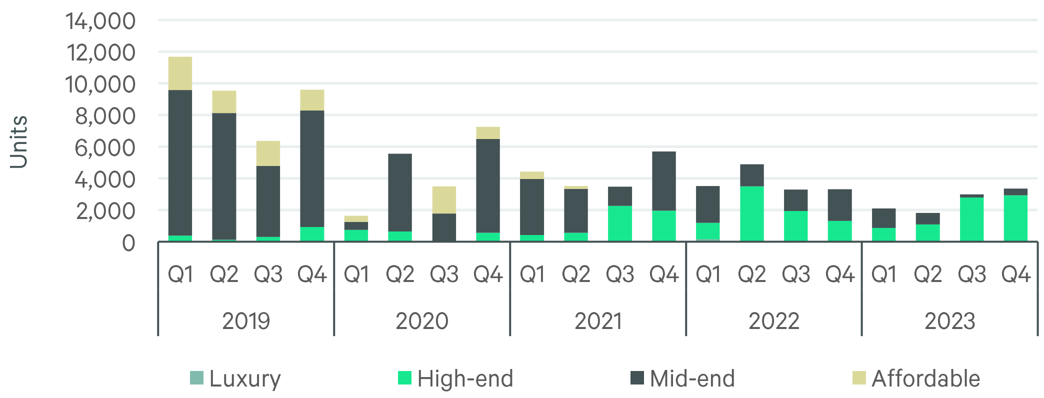
In terms of absorption rate, Hanoi recorded more than 11,280 condominium units sold in 2023, down by 32% from 2022. However, there was an improvement in the absorption rate in the second half of 2023, thanks to the proactive efforts of developers. These efforts included implementing preferential sales policies such as extended payment schedules and offering discounts of up to 15% for early payment. Additionally, positive macro factors such as declining interest rates have contributed to an improved sentiment among home buyers. As a result, the number of condominium units sold in the last two quarters of the year helped to increase the sold units by more than 60% compared to the first half.

In terms of pricing, primary prices of Hanoi condominium units recording a rapid price growth mainly due to the large quantity of new supply in the high-end segment. Prices of Hanoi condominium seem to follow a similar trajectory to that of HCMC about three years ago. At the end of 2023, the average primary selling price in Hanoi reached US$ 2,200/sq.m. (excluding VAT and maintenance fees), up 3.3% q-o-q and 13.6% y-o-y. This was the primary price recorded in HCMC during the 2020-2021 period.

In the secondary market, the selling price of condominiums in Hanoi in Q4 2023 continued to increase from the previous quarter, reaching almost US$ 1,375/sq.m., up 5.2% y-o-y. Limited new supply, while newly launched projects setting high prices contributed to boosting the demand in the secondary condominium market in Hanoi.

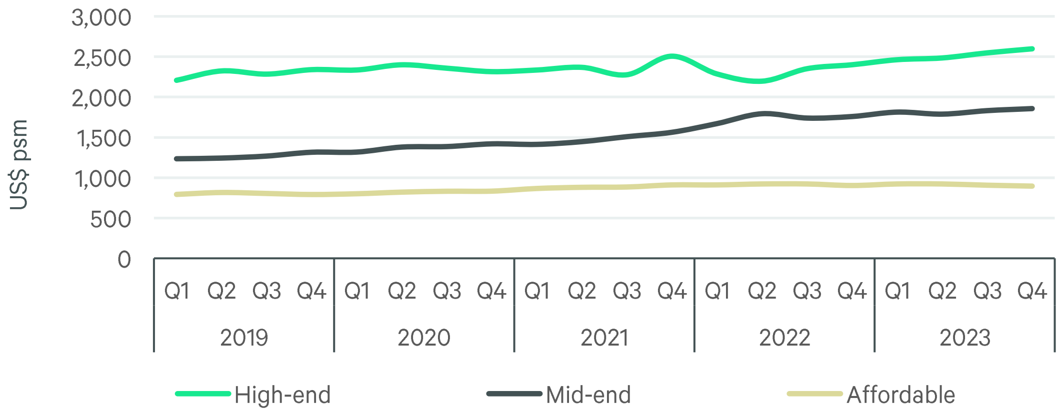
Towards 2024, Hanoi is expected to welcome nearly 15,000 new condominium units, coming from mega-urban projects in the West and East. In the short term, new supply is still limited, while demand remains high, causing selling prices to maintain at a high level.

FIGURE 5: New supply, Condominium , Hanoi



Source: CBRE Research, Q4 2023

FIGURE 6: Average primary prices, Condominium, Hanoi



Source: CBRE Research, Q4 2023. Prices before VAT and maintenance fee

Villa & Townhouse

Hanoi market saw land property prices stabilizing

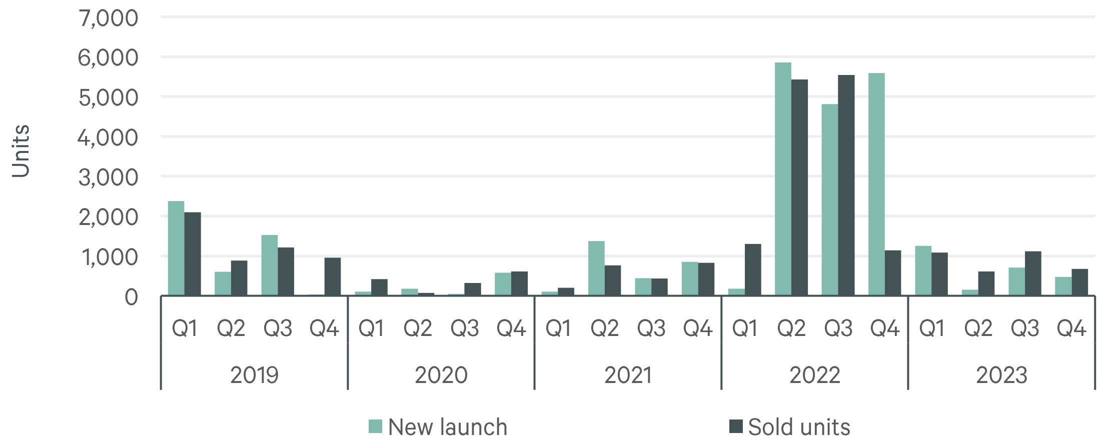
In 2023, new supply recorded 2,600 landed property units in Hanoi, down by 84% compared to last year when the market witnessed a surge in new supply. Large-scale township in the East continued to contribute the largest share in the total new supply.

In terms of absorption, the last quarter of 2023 recorded almost 680 units sold, adding to the total number of units sold in 2023 to be 3,490 units and surpassed the new supply volume launched this year in Hanoi. Hanoi landed property also saw improved absorption in the latter half of the year compared to the first half, with the sold units in H2 2023 up by 5.5% from H1 2023.

This quarter continued to witness a gradual decrease in the number of distressed sales in the secondary market since the second half of this year, resulting in a slowdown in price declines towards the end of the year. In Q4 2023, the average secondary price of landed property in Hanoi reached nearly US$ 6,480/sq.m., down by only 1% q-o-q and 6.4% y-o-y.

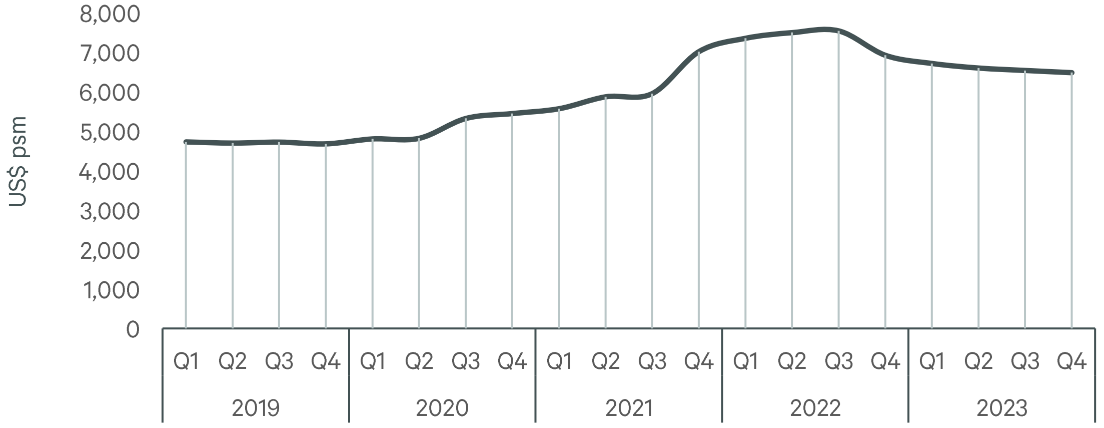
Moving forward, an increase in new supply is anticipated, particularly in large-scale townships in the East and North of Hanoi. More than 6,000 landed property units are expected to launch to the market in 2024. The policy interest rate is on the stabilizing track, and there are upcoming approvals and amendments to policy and legal frameworks that will contribute to increased synchronization and consistency for the real estate environment. These factors will increase buyer sentiment and facilitate market recovery in 2024.

FIGURE 7: New Launch vs Sold Unit, Hanoi Landed Property



Source: CBRE Research., Q4 2023.

FIGURE 8: Average Secondary price, Hanoi Landed Property



Source: CBRE Research., Q4 2023. Prices before VAT

Northern Industrial

Industrial land sector thrives as tenants continue expanding operations in Vietnam

For industrial land, Tier 1 markets in the Northern region recorded an average occupancy rate of 81%. Notably, the net absorption of industrial land reached its highest level in the past five years, surpassing 800 hectares, representing a y-o-y increase of 37%. The average rental rate for Tier-1 markets in the North reached US$132/sq.m./remaining term.

In addition to electronics, automobile, and components manufacturers, tenants from emerging industries in the high-tech sector, such as electric vehicles, semiconductors, and green materials, also demonstrated their interest in Vietnam.

RBF and RBW sector also recorded positive net absorption

In 2023, the RBW and RBF segments had a bustling year. The Northern region witnessed the highest level of completions since its inception, with a total of 770,000 sq.m. of warehouse and factory space completed throughout the year. In the North's Tier-1 markets, RBW rental rates remained stable at US$4.6/sq.m./month compared to last year. RBF rentals averaged at US$4.8/sq.m./month, posting a 3.9% y-o-y increase. The growth in RBF rental rates can be attributed to strong demand and the opening of well-located projects.

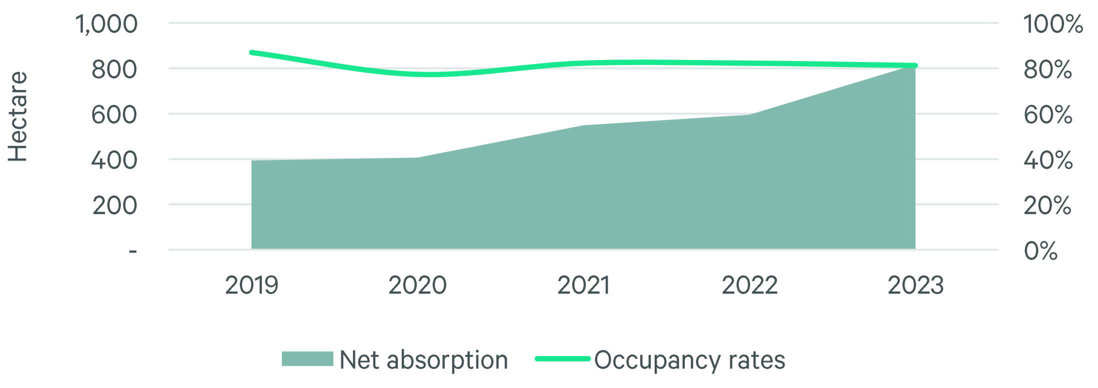
The market experienced positive net absorption despite the increase in supply. RBF maintained an occupancy rate of 86% while RBW's occupancy rate was 76%, down by 6% y-o-y.

Market Outlook

In the next three years, industrial land rents are expected to increase by 5-9% per year in the North. Positive demand from various industry groups and nationalities helps drive rental growth in many localities. Meanwhile, RBW/RBF rents are forecast to increase from 1% - 4% per year in the next three years. Given the growing emphasis on high-tech and sustainable industries, it is anticipated that the sectors of semiconductor and electric vehicles will enjoy further expansion.

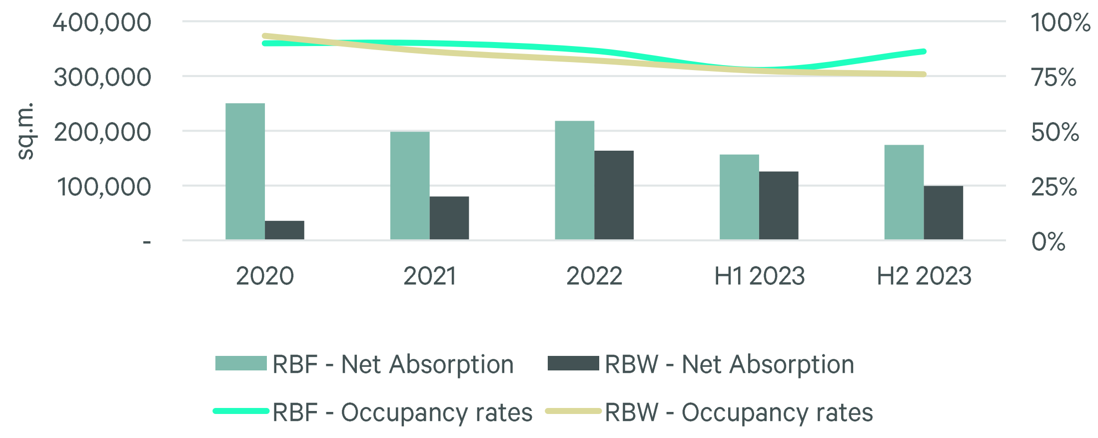
Note: Tier-1 markets include Hanoi, Hai Phong, Hai Duong, Hung Yen and Bac Ninh.

FIGURE 9: Industrial Land, Net absorption and Occupancy rates, Northern Tier-1 markets



Source: CBRE Research, Q4 2023.

FIGURE 10: Ready-built Warehouse (RBW) and Factory (RBF), Net absorption and Occupancy rates, Northern Tier-1 markets



Source: CBRE Research, Q4 2023.

Serviced Apartment

Vacancy rate has been improved thanks to attractive asking rents

During Q4 2023, the Serviced Apartment market experienced a termination of services in a Grade B project, Dolphin Plaza, resulting in the total supply averaged at 5,072 units. Grade A Serviced Apartments maintained their dominance in the market, accounting for 79% of the total supply.

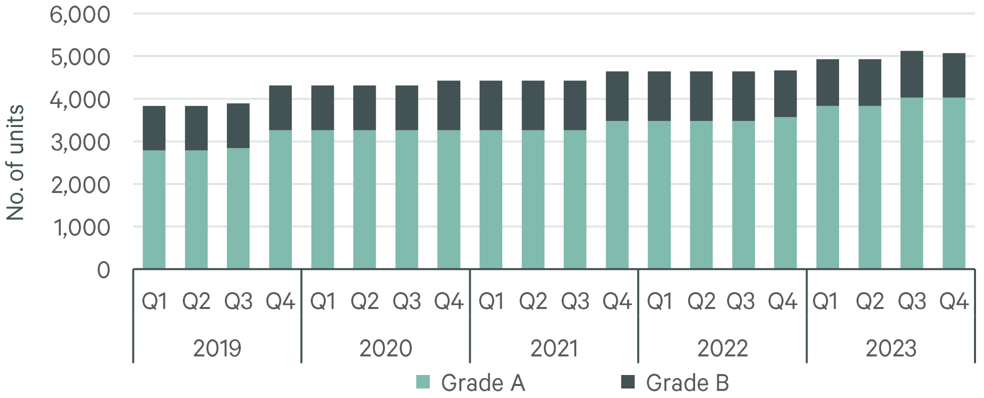
In Q4 2023, the rental rates in Hanoi's office market experienced a slight decrease compared to the previous quarter. This was mainly attributed to increased promotional activities by both Grade A and Grade B projects aimed at improving vacancy rates. The average asking rent for Grade A projects was US$28.0/sq.m./month, reflecting a 0.2% decrease q-o-q and a 2.9% decrease y-o-y. In the Grade B segment, the average asking rent was US$17.6/sq.m./month, taking into account the impact of a project that ceased development. However, if we exclude this factor, the average asking rent for Grade B projects witnessed a 0.2% decrease q-o-q. Overall, the market rent averaged at US$25.7/sq.m./month.

Additionally, as a result of the promotional activities, the Grade A project vacancy rate witnessed a decline of 0.3 ppts decrease q-o-q and 1.9 ppts decrease y-o-y, reaching 24.5%. In the Grade B segment, the vacancy rate reached 25.2%. However, if we exclude the project that ceased operations, Grade B projects also experienced a 0.9 ppts decrease q-o-q and a 1.3 ppts decrease y-o-y in vacancy rate. Overall, the average vacancy rate for both grade projects combined was recorded at 24.7%.

Market Outlook

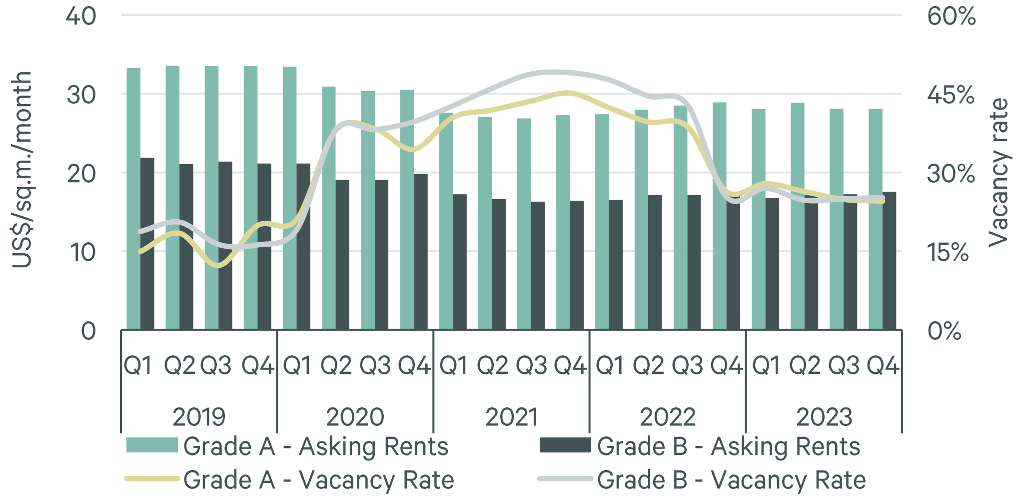
Looking ahead, the serviced apartment market in Hanoi is anticipated to see a significant influx of new supply, with over 3,051 units expected to be introduced in the coming years. The majority of these new units will be Grade A apartments operated by well-known international brands. This indicates a rising demand for upscale and high-quality serviced apartments, as well as increasing interest from international players in the market. Out of the seven upcoming projects, two are scheduled to open in 2024, contributing a total of 2,031 units to the overall supply. The stable operational environment in 2023, along with the influx of FDI from major projects and infrastructure improvements, will have a positive impact on future demand. This sets the stage for a promising outlook and supports the anticipation of additional quality supply in the market.

FIGURE 11: Total supply, Hanoi Serviced Apartment, Q4 2023



Source: CBRE Research., Q4 2023

FIGURE 12: Asking price and Vacancy rate, Hanoi Serviced Apartment, Q4 2023



Source: CBRE Research., Q4 2023

Terminology

Grade A, B (Office): Although no formal classification system exists, grades are generally understood as follows:

Grade A Buildings: High-rise buildings, located within the CBD, with column-free floor plates of over 1,000 sq. m., ceiling heights of 2.75 meters, professional management, premium M&E design, lift lobby, and high-efficiency access.

Grade B Buildings: Generally, 75% of Grade A amenities as well as being in the CBD or periphery, with at least seven stories and floor plates of 500-1000 sq. m.

Net absorption: Net absorption figures represent the net increase in occupied floor space in the period. The figures are determined using the following method:

net absorption = new completions

+ vacancy figures at the beginning of the period

– demolition - vacancy figures at period-end

Rent: Rent is quoted as the average "asking" rent, without accounting for any incentives. Rents are stated in US$ per square meter (per sq. m.) as well as in these terms: Gross or net, inclusive (including management fees and/or property taxes) or exclusive (excluding management fees and property taxes) that are customarily employed in the respective sector.

Rents or average room rates are quoted on the following basis:

Office: Rents, NLA, exclusive of VAT and service charges.

Flexible Workspace: Rents, per person, inclusive of amenities but exclusive of VAT.

Retail: Rents, NLA, exclusive of VAT and service charges.

CBRE's condominium ranking criteria:

Ultra Luxury: projects that have primary prices over US$12,000 per sq.m

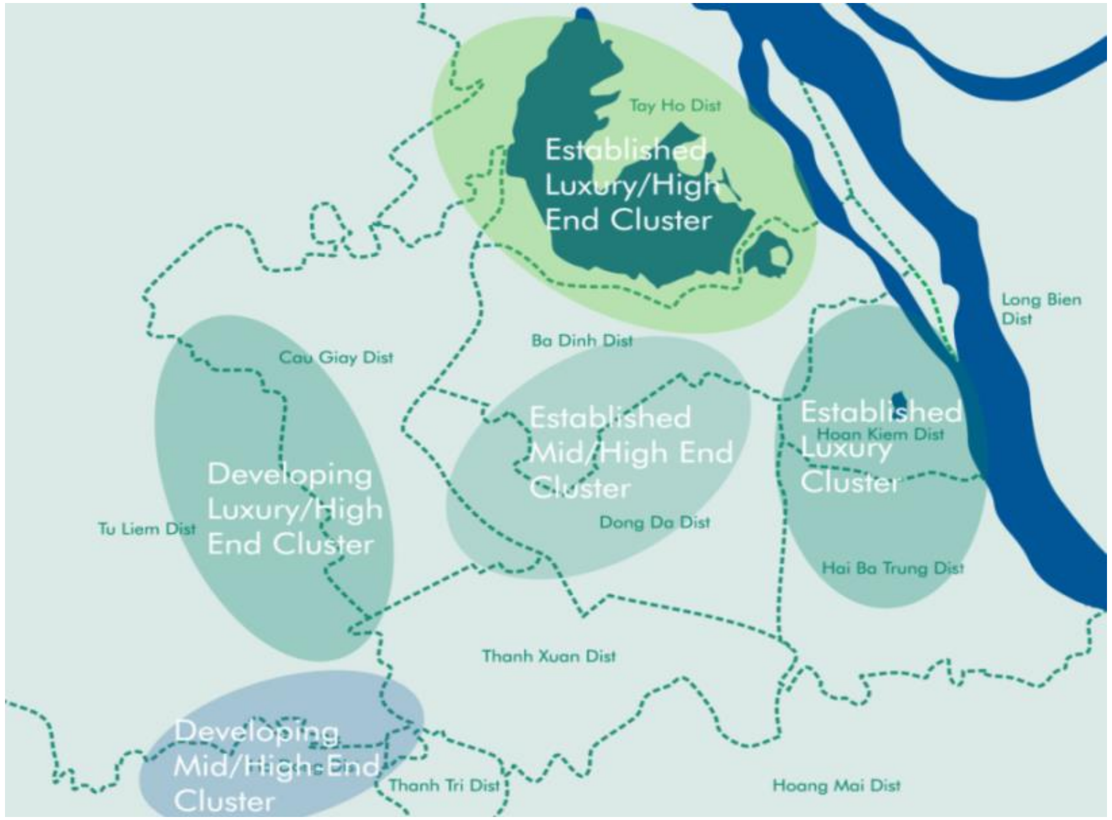
Luxury: projects that have primary prices over US$4,000 per sq.m

High-end: projects that have primary prices from US$2,000 per sq.m to US$4,000 per sq.m

Mid-end: projects that have primary prices from US$1,000 per sq.m to US$2,000 per sq.m

Affordable: projects that have primary prices under US$1,000 per sq.m

Saleable area: The saleable area of a unit is measured up to the center line of the wall separating adjoining units. The full thickness of the walls separating the units from common areas, lift shafts, light wells, staircases, etc., is included.



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