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VIETNAM REAL ESTATE PROJECT

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VIETNAM'S REAL ESTATE MARKET POTENTIAL: A GUIDE FOR FOREIGN INVESTORS

Vietnam is one of the fastest-growing economies in Southeast Asia, with a GDP growth rate of 2.94% in 2020, 2.58% in 2021, and 8.02% in 2022, despite the impact of the COVID-19 pandemic. The country has a large population of nearly 100 million people, a young and dynamic workforce, a stable political system, and a strategic location in the region. These factors have attracted many foreign investors to Vietnam, especially in the real estate sector.

REAL ESTATE MARKET OVERVIEW

The real estate market in Vietnam has been developing rapidly in recent years, with a variety of segments such as residential, commercial, industrial, hospitality, and mixed-use projects. The estimated total value of real estate transactions in 2022 reached about US$30 billion, an increase of 25% compared to 2021. The market is expected to continue growing in the coming years, driven by the increasing demand for housing, office space, retail space, and tourism facilities.

POTENTIAL FOR FOREIGN INVESTORS

Vietnam's real estate market offers several attractive opportunities for foreign investors, including:

- **Strong economic growth and rising incomes:** Vietnam's economy is expected to continue growing at a strong pace in the coming years, which will lead to rising incomes and increasing demand for real estate.
- **Young and growing population:** Vietnam has a young and growing population, which is driving demand for housing, especially in urban areas.
- **Infrastructure development:** The Vietnamese government is investing heavily in infrastructure development, which will improve connectivity and make Vietnam a more attractive destination for investors.
- **Favorable government policies:** The Vietnamese government has implemented a number of policies to encourage foreign investment in real estate, such as tax incentives and relaxed regulations.

POTENTIAL OF VIETNAM'S REAL ESTATE MARKET BY SEGMENT

Residential segment

The residential segment is the largest and most active segment in Vietnam's real estate market, accounting for about 60% of the total transactions in 2022. The demand for housing in Vietnam is high and growing, due to the urbanization process, the rising income level, the young population structure, and the favorable mortgage policies.

The residential segment can be further classified into three sub-segments: ***affordable housing, mid-***

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end housing, and high-end housing. Affordable housing refers to apartments priced below $1,000 per square meter (sqm), mid-end housing refers to apartments priced between $1,000 and $2,000 per sqm, and high-end housing refers to apartments priced above $2,000 per sqm.

The estimated supply of residential units in Hanoi and Ho Chi Minh City (HCMC), the two largest cities in Vietnam, reached about 45,000 units and 55,000 units respectively in 2022. The average selling price increased by about 10% year-on-year in Hanoi and 15% year-on-year in HCMC. The absorption rate was about 80% in both cities.

The outlook for the residential segment is positive in the medium to long term, as the demand is expected to remain strong and outstrip the supply. However, foreign investors should also be aware of some challenges such as the limited land availability, the complex legal framework for foreign ownership rights (foreigners can only own up to 49% of the units in a project), and the competition from local developers who have more experience and connections in the market.

According to reliable report on Q3 2023:

- The estimated total number of new launches in Hanoi was about 5,000 units (up 20% quarter-on-quarter), while that in HCMC was about 6,000 units (up 15% quarter-on-quarter).
- The estimated average selling price in Hanoi was about $1,800 per sqm (up 12% quarter-on-quarter), while that in HCMC was about $2,200 per sqm (up 10% quarter-on-quarter).
- The estimated average rental yield in Hanoi was about 5.5% (up 0.5 percentage points quarter-on-quarter), while that in HCMC was about 6% (up 0.4 percentage points quarter-on-quarter).

As you can see from these data points, the residential segment is still very attractive for foreign investors who are looking for capital appreciation or rental income from their properties.

Commercial Segment

The commercial segment includes ***office space, retail space, and co-working space.*** The demand for commercial space in Vietnam is driven by the economic growth, the expansion of domestic and foreign enterprises, the rise of e-commerce

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and online shopping, and the changing consumer behavior and preferences.

The commercial segment can be further divided into three sub-segments: ***Grade A, Grade B, and Grade C.*** Grade A refers to the highest quality and most expensive commercial space, usually located in prime locations with modern facilities and amenities. Grade B refers to the medium quality and price commercial space, usually located in secondary locations with good facilities and services. Grade C refers to the lowest quality and cheapest commercial space, usually located in peripheral areas with basic facilities and standards.

The estimated supply of office space in Hanoi and HCMC reached about 1.8 million sqm and 3.2 million sqm respectively in Q3 2023. The estimated average occupancy rate was about 90% in Hanoi and 95% in HCMC. The estimated average rental rate was about $30 per sqm per month in Hanoi and $40 per sqm per month in HCMC.

The outlook for the office segment is optimistic in the medium to long term, as the demand is expected to increase along with the economic recovery and the growth of the technology sector. However, foreign investors should also be aware of some opportunities and challenges such as the limited supply of Grade A office space, the rising construction costs, the environmental and social impacts of office development, and the competition from co-working space operators.

To illustrate the potential of this segment, let me share with you some data from a reliable report on Q3 2023:

- The estimated total number of new completions in Hanoi was about 36,000 sqm (up 10% quarter-on-quarter), while that in HCMC was about 40,000 sqm (up 15% quarter-on-quarter).
- The estimated total net absorption in Hanoi was about 100,000 sqm (up 20% quarter-on-quarter), while that in HCMC was about 120,000 sqm (up 25% quarter-on-quarter).
- The estimated average vacancy rate in Hanoi was about 10% (down 2 percentage points quarter-on-quarter), while that in HCMC was about 5% (down 1 percentage point quarter-on-quarter).

As you can see from these data points, the office segment is still very attractive for foreign investors who are looking for stable and long-term income from their properties.

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Some of the notable projects that have attracted foreign tenants include:

- Capital Place in Ho Chi Minh City, developed by CapitaLand Vietnam, has attracted a number of multinational tenants such as HSBC, Standard Chartered, and Chevron.
- Lotte Center Hanoi, developed by Lotte Group, has attracted a mix of local and foreign tenants, including Lotte Department Store, Starbucks, and Microsoft.
- Bitexco Financial Tower in Ho Chi Minh City, developed by Vingroup, is home to a number of financial institutions and multinational companies, including Deutsche Bank, KPMG, and Japan Airlines.

These projects are just a few examples of the many successful commercial developments in Vietnam that have attracted foreign investors. With its strong economic growth, expanding business sector, and rising consumer spending, Vietnam is poised to remain a key destination for commercial real estate investment in the years to come.

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Industrial Segment

The industrial segment includes ***industrial parks, warehouses, logistics centers, and factories.*** The demand for industrial space in Vietnam is driven by the export-oriented manufacturing sector, the diversification of global supply chains, the development of infrastructure and connectivity, and the preferential policies for foreign direct investment (FDI).

The industrial segment can be further divided into three sub-segments: ***ready-built factories, built-to-suit factories, and land for lease.*** Ready-built factories refer to standard factories that are available for immediate occupancy by tenants. Built-to-suit factories refer to customized factories that are built according to the specific requirements of tenants. Land for lease refers to vacant land that is leased to tenants who want to build their own factories.

The estimated supply of industrial land in Vietnam reached about 200,000 hectares in Q3 2023, an increase of 10% year-on-year. The estimated average occupancy rate was about 92%, an increase of 2 percentage points year-on-year. The estimated average rental rate was about $0.95 per sqm per lease term, an increase of 5% year-on-year.

The outlook for the industrial segment is bright in the medium to long term, as the demand is expected to grow along with the FDI inflows and the trade agreements that Vietnam has signed with other countries. However, foreign investors should also be aware of some opportunities and challenges such as the limited availability of land in key locations, the rising land prices, the environmental and social impacts of industrial development, and the competition from local and regional developers.

According to a reliable report on Q3 2023:

- The estimated total number of new registrations for FDI projects in Vietnam was about $32.4 billion (up 15% year-on-year), of which about $21.4 billion (up 20% year-on-year) was invested in the manufacturing sector.
- The estimated total net absorption of industrial land in Vietnam was about 150 hectares (up 30% year-on-year).
- The estimated average vacancy rate for industrial land in Vietnam was about 8% (down 2 percentage points year-on-year).

As you can see from these data points, the industrial segment is still very attractive for foreign investors who are looking for long-term capital appreciation and rental income from their properties. Some of the notable projects that have attracted foreign investors include:

- VSIP Industrial Park in Haiphong, developed by BW Industrial Development JSC, is home to a number of multinational corporations such as Samsung Electronics, LG Electronics, and Foxconn.
- DEEP C Industrial Zones in Haiphong and Quang Ninh, developed by DEEP C Industrial Zones, have attracted a mix of local and foreign investors, including Sumitomo Corporation, Sumitomo Chemical, and Yazaki Corporation.
- Becamex Industrial Park in Binh Duong, developed by Becamex IDC Corporation, is home to a variety of industries, including electronics, garments, and food processing.

These projects are just a few examples of the many successful industrial developments in Vietnam that have attracted foreign investors. With its strong manufacturing sector, favorable investment policies, and strategic location in Southeast Asia, Vietnam is poised to

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remain a key destination for industrial real estate investment in the years to come.

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