

VIETNAM REPORT

CONSTRUCTION MARKET UPDATE

JUNE 2018



MARKET TRENDS

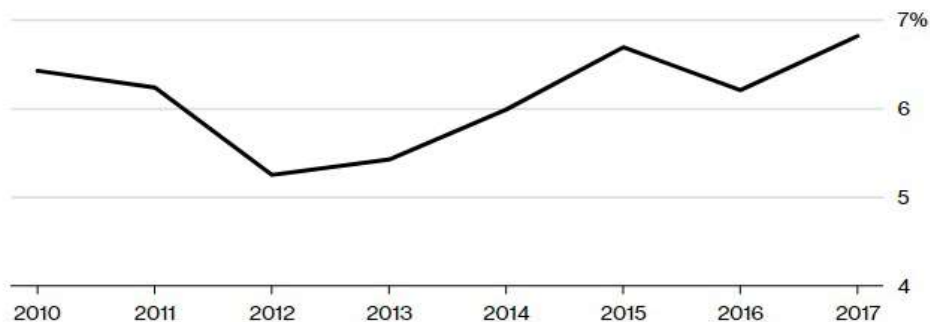
VIETNAM ECONOMY

In 2017, the country achieved its strongest growth in five years when its gross domestic product (GDP) reached 6.8%, which surpassed the government's annual target of 6.7%. The construction sector was the second highest contributor to the total GDP with a 33.34% contribution. The government has set a similar annual growth target of 6.7% for 2018.

investments accounting for 25.4% (US\$9.11 billion) and 23.6% (US\$8.49 billion) of the total FDI respectively. In 1Q 2018, foreign investment capital poured more than USD 5.8 billion into the country, but was lower than that in 1Q17. In 1Q 2018, there were about 26,800 new registration of enterprises with a total capital of nearly VND278.5 trillion. This marked a year-on-year (y-o-y) increase of

Strengthening Growth

Vietnam's economy grew at the fastest pace since at least 2010



Source: Vietnam's General Statistics Office; Bloomberg

Backed by growth in the manufacturing and agriculture sectors, Vietnam's economy in 1Q 2018 reached a ten-year high of 7.38% from a year earlier, according to the General Statistics Office (GSO). With regard to economic structure, the industrial and construction sector and services reached the highest growth rates of 9.7% and 6.7% y-o-y, respectively. The country maintained a trade surplus from January to April this year. Exports increased 22% in 1Q 2018 from a year earlier, while imports rose 13.6%.

Total foreign direct investments (FDI) reached nearly US\$35.9 billion in 2017, which was the highest since 2009. The disbursed capital was a ten-year high as it hit US\$17.5 billion. The majority of the country's FDI came from Japan and South Korea, with their

1.2% in number and 2.7% in capital. In addition, nearly 8,450 businesses resumed operations, a decrease of 8.9% y-o-y.

While Vietnam outperformed most of its Southeast Asian peers as export growth remained resilient on the back of a global trade recovery last year, the Vietnamese economy and other regional countries are not immuned to the many challenges due to rising protectionism in large countries, all factors affecting the Vietnamese economy and other regional countries, the government remains positive.

Vietnam's economic growth momentum is expected to remain robust along with broad macroeconomic stability. The World Bank revised upwards its previous estimate of 6.5% and now projects Vietnam's GDP to expand by 6.8% for the whole of 2018.

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PROPERTY MARKET

After the real estate sector grew by 4.1% in 2017, its highest since 2011, it is likely to remain an attractive business sector for investors throughout 2018. Data from the Vietnamese Construction Ministry's Housing and Property Market Management Department showed Ho Chi Minh (HCMC) recorded 1,900 deals in January 2018, a rise of 8.6% over the preceding month's figure. There were also 3,077 real estate development projects underway across the country with a total investment of VND3.3 quadrillion.

Recent reports of land fever have raised concerns another potential real estate bubble in Vietnam, similar to the one back in 2008. Industry experts listed the increased numbers of transactions, new constructions, areas under development, participants in the market; rising prices; and presence of projects that are bigger in terms of scale, value and funding as some of the warning signs.

Based on Jones Lang LaSalle (JLL) data, for 1Q 2018 in HCMC, no new Grade A office building entered the market while the Grade B segment had a slight increase in office spaces. Overall, there is healthy demand for both grades of office spaces. The office sub-market recorded strong rental growth in both Grade A and Grade B segments, with landlords of Grade A buildings increasing rental rates. Average rental growth for existing Grade B office space is expected to remain moderate until the end of 2018. Meanwhile, new Grade B buildings have improved building quality and rental rates are kept affordable to compete with Grade A buildings.

There were a total retail space of 55,000m² entering the sub-market in 1Q 2018. Overall vacancy rates fell in to 9.3% quarter-on-quarter (q-o-q) as a result of improving leasing activity and rising purchasing power of the city households. JLL observed that retail tenants have strong focus on the F&B, fashion, health and entertainment retail sub-categories. Lifestyle concept and co-working space will likely attract interest of experiential retail operators in the market. Nearly 50,000m² in suburban areas is expected to be completed within 3Q 2018, accounting for around 25% of total future supply in 2018. Rental rates is projected to record steady growth for the rest of the year.

Real estate consultant CB Richard Ellis reported there were about 35,000 new high-end apartments — those commanding more than US\$1,500/m² — that came to market in HCMC in the past three years. It is a dramatic increase on 2012-14, during which fewer than 10,000 units were listed for sale. Housing demand is rising fast in the country but the availability of affordable housing remains a pressing issue nationwide. Municipal construction authorities reported home ownership remains out of reach for the many low and medium-income earners in urban areas. The real estate market is at risk of a severe imbalance in supply if developers are predominantly focused on the high-end segments of the market, leaving Vietnam's largest cities, namely HCMC and Hanoi in critical need of affordable supply by 2030.

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CONSTRUCTION INDUSTRY

Gross domestic product (GDP) from the construction sector achieved VND32,385 billion in 1Q 2018. Construction GDP reached an all time high of VND205,628 billion in 4Q 2017 and a record low of VND24,018 billion in 1Q 2013. The labour force across all sectors is healthy. In 1Q 2018, The total labour force was estimated at 54 million persons. This figure includes the 14.4 million working in the industry and construction sector.

Authorities are accelerating measures to curb the urgent issue of Vietnam's rapid urbanisation and population growth, and private vehicle ownership. The technical and social infrastructure in Ho Chi Minh City (HCMC) is overstretched. Under the HCMC Zone Master Plan, the construction of new expressways including Bien Hoa – Vung Tau, HCMC – Thu Dau Mot – Chon Thanh, HCMC – Moc Bai, and Dau Giay – Da Lat, are scheduled for completion by 2030.

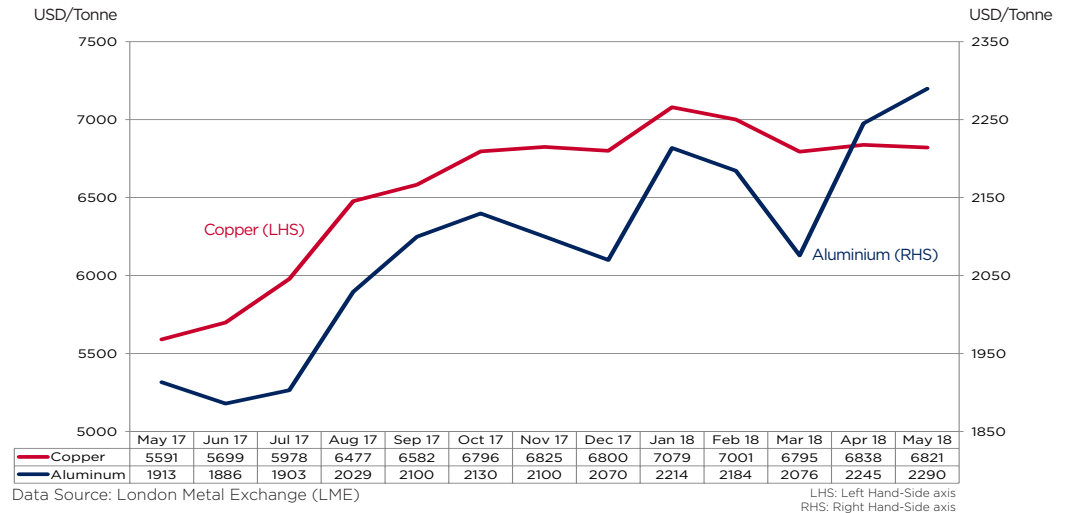
The government also ordered HCMC authorities to accelerate the city's metro project, which was first proposed in 2001 as part of a comprehensive public transport plan for HCMC and neighboring provinces to mitigate traffic congestions. It includes three monorail lines with a total length of 37km and six partly underground metro routes running a total of 107km from Ben Thanh to Suoi Tien, Ben Thanh to Tham Luong, Ben Thanh to Binh Tan, Lang Cha Ca to Van Thanh, Thu Thiem to Can Giuoc, and Ba Queo – Phu Lam. Ben Thanh will be a hub connecting all the lines. According to the initial

estimates in 2007, total investment of the project was VND 17 trillion. As at 1H 2018, 51% of the project's workload has been completed and the project is scheduled to be completed in 2020.

Since late 2017, land prices increased rapidly in three areas which have been earmarked to become special economic zones (SEZs). These areas include Phu Quoc Island in the far south, Bac Van Phong in central Khanh Hoa province and Van Don in the northern Quang Ninh province. Land prices in Van Don, Van Phong and Phu Quoc rose to VND60 million (approx. US\$2,632) per square metre, according to a report from the Viet Nam Association of Real Estate Brokers. Industry experts expect the current land fever to continue for at least the next 12 months. As a result, the MOC ordered local authorities to take control of the land market and prevent speculators from creating instability, as well as identify the causes of market volatility and handle cases of land legislation violations of the three SEZs. The central bank also ordered lenders to tighten control over investment loans intended for the stock and real estate markets, warning of bad debt risks.

The construction industry is expected to continue expanding until 2021, due to investments in transport infrastructure, energy and utilities, commercial and affordable housing projects. Based on current demand and cost trends, barring any unforeseen market conditions, building tender prices in HCMC are anticipated to increase by 3% to 5% y-o-y in 2018.

METAL PRICES



Note:

The London Metal Exchange has suspended its physically-settled steel billet contract with immediate effect from April 2017.

CONSTRUCTION MATERIAL PRICES

MATERIAL	UNIT	AVERAGE SUPPLY RATE (VND)			
		3Q2017	4Q2017	1Q2018	2Q2018 ^p
Concreting Sand	m ³	506,561	406,477	374,698	398,943
Stone Aggregate (20mm)	m ³	218,182	280,000	280,000	280,000
Ordinary Portland Cement (PCB40)	kg	1,505	1,364	1,363	1,465
Reinforced Concrete (Grade 30 MPA)	m ³	1,163,636	1,200,000	1,118,182	1,200,000
Reinforced Concrete (Grade 40 MPA)	m ³	1,272,727	1,310,000	1,218,636	1,310,000
High Tensile Steel Bars (10 - 40mm)	kg	13,983	14,250	14,526	14,480
Mild Steel Round Bars (6 - 20mm)	kg	13,691	14,147	14,347	14,710
Structural Steelwork (U-beam, stanchions)	tonne	13,913,333	15,330,000	15,480,000	15,420,000
Timber Sawn Formwork	m ²	145,000	145,000	148,000	150,000
Clay Bricks (100mm thick wall)	m ²	95,000	98,000	100,000	103,000

Data Source: Ho Chi Minh City Construction Department

p: preliminary

Exclusions:

• Plant and Equipment • Transport • Wastage • Overheads and Profit • Tax Expenses (VAT)

Notes:

All supply prices stated above are only applicable for building construction projects in Ho Chi Minh City. Specific cost consultancy should be sought for your particular factual situation prior to utilising this information.

CURRENCY EXCHANGE

CURRENCY	UNITS PER USD			
	3Q2017	4Q2017	1Q2018	2Q2018 ^p
Vietnamese Dong (VND)	22,984	22,919	22,677	22,714

Data Source: Oanda

p: preliminary

HO CHI MINH CITY CONSTRUCTION PRICES

DEVELOPMENT TYPE	COST PER CFA VND ('000) / m ²	COST PER CFA USD / m ²
OFFICE		
Good Quality, 10 to 25 storeys	23,500 - 26,500	1,040 - 1,170
Good Quality, 26 to 40 storeys	24,700 - 26,600	1,090 - 1,170
Prestige, 10 to 25 storeys	24,900 - 30,800	1,100 - 1,360
Prestige, 26 to 40 storeys	26,100 - 32,200	1,150 - 1,420
HOTEL (Excluding FF&E)		
Three Star	24,400 - 31,500	1,070 - 1,390
Four Star	31,200 - 37,000	1,380 - 1,630
Five Star	34,700 - 41,600	1,530 - 1,830
COMMERCIAL		
Retail	20,100 - 26,800	890 - 1,180
RESIDENTIAL		
Good Quality Condominium	15,400 - 18,400	680 - 810
Luxury Condominium	16,600 - 23,300	730 - 1,030
INDUSTRIAL		
Warehouse	6,200 - 9,400	270 - 410
Factory	6,500 - 9,800	290 - 430
CAR PARK		
Multi Storey	8,900 - 13,300	390 - 5890
Basement, outside CBD	16,500 - 23,300	730 - 1,010
Basement, CBD	18,300 - 25,500	810 - 1,100

Notes:

Construction Floor Area (CFA) - The area of all building enclosed covered spaces measured to the outside face of external walls including covered basement and above ground car park areas.

All Ho Chi Minh City construction prices stated herein are as at **1st Quarter 2018**, and include a general allowance for preliminaries, foundation and external works. The price ranges herein are indicative and due consideration should be given to the different specification, size, location and nature of each project when utilising this information. The prices here may not fully reflect the extent of current market forces and tendering conditions.

Exchange Rate Used: USD 1.00 = 22,677

Exclusions:

- Land cost • Legal and professional fees • Development charges • Authority fees • Finance costs
- Site infrastructure work • Diversion of existing services • Models and prototypes • Future cost escalation
- Loose furniture, fittings and works of art • Tenancy work • Resident site staff cost • Value-Added Tax (VAT)

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		Cost Escalation and Cost Benchmarking by Sectors

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