

KNOWLEDGE REPORT



HO CHI MINH CITY ECONOMIC OVERVIEW

Overview

Overall the Vietnamese economy is now improving, albeit slowly, although, on the right track. On one hand the Government needs to curb inflation and on the other hand wants economic growth, a push me pull you situation, expect interest rates to remain at existing levels and credit growth to be limited. More positively GDP growth will edge upwards, and FDI will continue to increase. There are no indications that the price of Gold will decrease or the Dong will strengthen in the short to medium term, the stock market will remain uneventful, however, expect to see existing listed companies offering shares in order to raise capital and many more IPO's.

GDP

According to the General Statistics Office (GSO), GDP in 2nd Quarter of 2010 strengthened at an estimated 6.16%, an small increase of 0.57% as against the previous quarter and 0.68% higher than in the same period during 2009. According to the Asian Development Bank (ADB) has said the country is on track to reach the National Assembly's economic growth target of 6.5% this year, compared to a slow expansion of 5.32% in 2009.

Inflation/CPI

The Consumer Price Index in August increased slightly by 0.23% over last month, according to the General Statistics Office. On aggregate, the CPI was up 8.18% over the same period last year and 8.61% in comparison with the first eight months of last year. Most commodities groups rose slightly, ranging from a low of 0.1% to a high of 0.6%. In the first eight months of the year, other commodities also saw a high increase, including gold 37.78%, transport 16%, housing and construc-

tion materials (approximately 15%), other commodities and services 11.79% and goods approximately 11%. Hanoi's CPI increased by 0.15 % while HCMC decreased by 0.25%

FDI

Vietnam had licensed 658 new projects with a value of US\$10.79 billion in the first eight months of 2010, up 41% from the same period of last year. This figure is positive given the current economic climate. Also during the January-August period, Vietnam allowed 143 existing projects to add an additional US\$787 million, an increase of 14.2% from the previous year. Disbursed capital in the first eight months was US\$7.25 billion.

Trade Balance

According to the Customs department Vietnam's trade deficit is likely to reach \$7.96 billion during 2010 including \$440 million in the first half of September or 16.5% of the export revenue. Vietnam exported \$48.29 billion worth of goods, up 23.3% y-o-y, whereas, the value of imported goods was \$56.25 billion, up 24.5% y-o-y. In the first half of September, Vietnam exported over \$2.85 billion worth of goods, and imported \$3.29 billion worth of goods, down 31.4% and 20% respectively since August.

Interest Rates

Bank deposit and lending rates remain high. The highest deposit and lending interest rate are at 11.2% and 15% pa, while business lending rates range from 14% – 15% pa. Credit growth has been quite slow in Vietnam. In HCMC, credit increased only 1% in August compared to July, while credit in the first 8 months grew 11.3% compared to end 2009. Vietnam's credit growth in the first 8 months was relatively low at 16.27% compared to 2009.

Mass Rapid Transportation - a must for HCMC. Can Real Estate benefit from the MRT system?

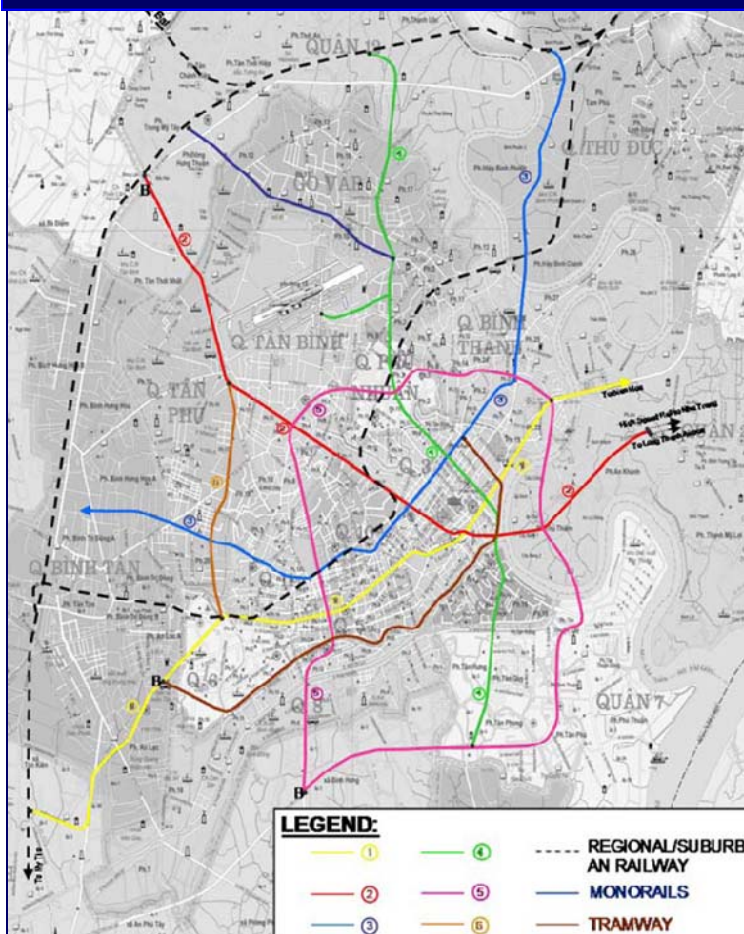
According to VAMA (Vietnam Automobile Motoring Association), Vietnam's car sales during August 2010 reached 8,671 units and total car sales up to August 2010 where 68,388 units, on that basis there will be over 100,000 additional cars on the road this year and easily 1 million cars in the next ten years. Unquestionably this will lead to greater

traffic congestion in the major conurbations. With continued urbanisation of major cities and improving living standards the car has become the desired "Bling Bling" object and the desire will not be readily quenched.

Work has commenced

The development of the MRT system is underway with the first line running from Ben Thanh, D1 to Suoi Tien Park in D9, the infrastructure of the depot is nearing completion and the compensation and site clearance is underway for track installation.

NB. The routes indicated are indicative and may change



There are a plenitude of opportunities for real estate with the development of the MRT, before and after completion. Prior to development, land prices can increase if the line runs through or is adjacent to a development site. A direct comparison was the new MRT rail line linking Makati with North Triangle in the Philippines where development in and around the stations

saw an increase in land values. Each station, especially inter-connecting stations can become commercial hubs for retail, residential, hotel and offices.

Stations away from the city centre can be developed as destination retail centre's integrated with the train station, thereby, shoppers can enter the retail centre directly from the station. and retail centre's benefit from increased foot traffic

Residential development along these lines will become increasingly attractive and capital values can increase significantly along with rental rates and yields. Areas previously consider remote for residential development will become prime locations.

What are the benefits of the MRT?

The completion of these lines will bring about a massive transformation for the City, by it self, it will not stop traffic congestion but will help to alleviate the problem.

Case studies on the Kuala Lumpur light railway system indicated that traffic congestion was reduced by 16% in 2003 and 20% in 2005, if this were to occur in HCMC, given on average each line will be able to transport 40,000 people per hour from the outskirts to the city centre in less than 30 minutes, will benefit the city.

Reduction of vehicles on the road will have a environmental impact, simply because, less road users x less exhaust emissions = less air pollution from vehicles.

This will also assist in the city's desire to attract Hi-Tec companies who prefer out of city locations and the need to disperse the population to the outer areas of the city, thereby alleviating high density in inner city locations and the mayhem caused by the morning and evening rush hours.

The city will start creating suburban locations that will be attractive to live, work, shop and be entertained. Thereby creating further opportunities for developers in areas of the city with mixed-use commercial, residential developments for workers to live closer to their work place and entertainment, hospitals, education facilities and leisure complexes.

The MRT system will play momentous part in the development of HCMC and take it one step further in putting HCMC firmly on the map as a truly "International City" of repute.

"The next train will depart from platform 1, please make sure you don't miss your train to reach your destination."

The Southern Suburban Districts will see a wave of retail development in the next 4 years.

From now up to 2014, the HCM City's total retail space would achieve over 1.3 million square metres, increasing by approximately 750,000 square metres in the next 4 years. Much of which will be in the areas of District 7, Nha Be and District 1.

Retail centre's entering the market in the coming years include Sunrise City with total area of 70,000 sqm, Royal Garden comprising 22,000 sqm, The Crescent comprising 44,000 sqm, Tan Phong Shopping Complex with 72,000 sqm Dragon Tower, with 21,000 sqm all in D7, Platinum Plaza in Binh Chanh Dist of 140,000 sqm and Time Square in D1 of 14,566 sqm.

Retail may face a challenge in the short term, as was displayed with the Saigon Paragon which proved to have disappointing foot traffic, however, things may improve for this store as it is announced the Malaysian retail operator, Parkson's have agreed to take over the management of the 7,500 sqm retail area.

HCMC's Major Retail Centre's in the CBD

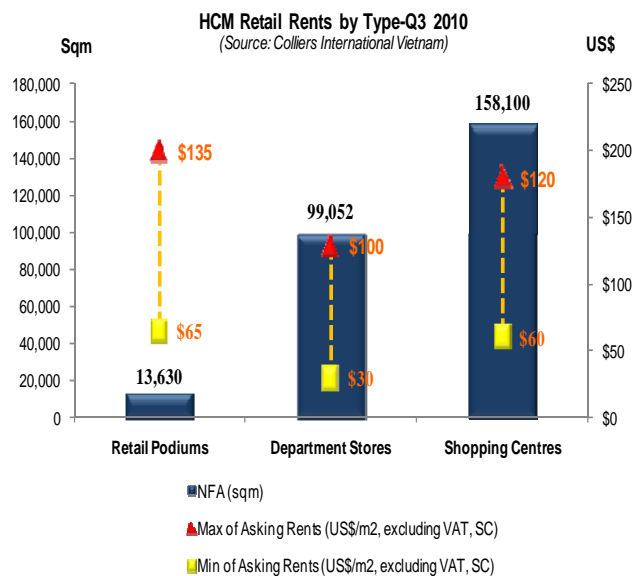
Name	District
Kumho Asiana	1
Parkson Saigon Tourist	1
Vincom Centre	1
Sheraton Hotel	1
Opera View	1
Saigon Tax Centre	1
Saigon Centre	1
Hotel Continental Saigon	1
Rex Hotel	1
Sailing Tower	1
Zen Plaza	1
Diamond Plaza	1
Royal Centre/Now Zone	1
Lucky Plaza	1

Nha Be is still an outer suburban district with infrastructure issues until the area is fully developed.

Until 2014 there may not be a sufficient population in the catchment area for the project to attract shoppers to the location. However, once all the residential projects have come to completion there will be ample population to support what will be a large retail supply.

There is a lack of modern retail trade in districts 8, Binh Chanh and Thu Duc and this lack of retail supply will continue for at least the mid-term. There is little or even no development planned for these districts, even though there is considered to be huge demand for retail since population density in districts 8 and Binh Chanh are quite high compared with other districts. While currently these are low income areas their population densities will ensure that eventually there will be additional retail demand in the area.

Major retailers looking to move into Ho Chi Minh City are looking for retail areas with sufficient space to accommodate department store retail and suburban locations such as this may prove appropriate.



HOTEL SECTOR: The hospitality sectors over the past few years has had to contend with the negative implications of SARS, Bird Flu, Swine Flu, natural disasters and the global economic downturn, however, there are signs of positive growth for this sector.

2009 for the hotel sector in Vietnam was a tough period as the global economic downturn took grip with tourist numbers dwindling compared to the previous years which had seen growth y-o-y and occupancy rates below 50%, however, into 2010 there are positive signs that tourism sector is back on track.

China leads the table of nationalities visiting Vietnam, followed by South Korea and Ja-

pan, the majority of visitors come from the Asia Pacific region with just under 29,000 visitors coming from the USA and 109,000 visitors coming from other countries.

New Hotels and Resort Developments

The downturn has not diminished the interest in hotel development, in HCMC alone there are over 12 hotel projects across the 3-5 star grade expected to be completed over the next 5 years providing over 3,500 additional rooms.

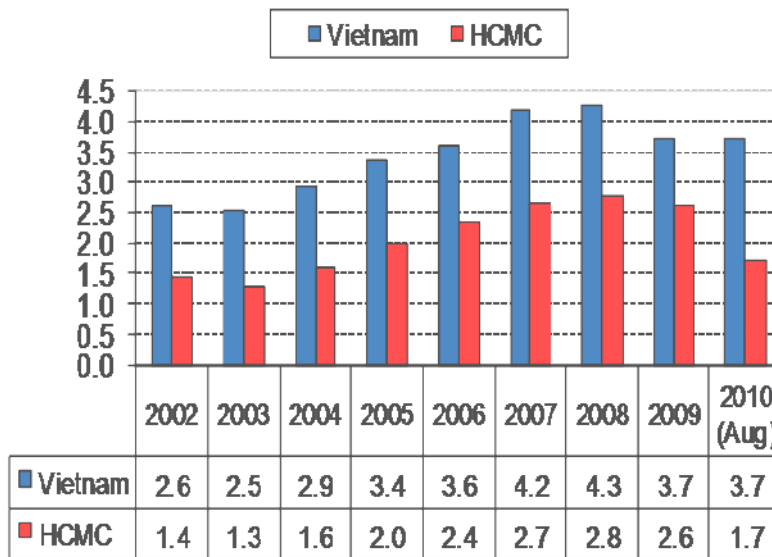
Across Vietnam there are hotel & resort developments underway;

- Tay Ninh, Petroland are constructing a mixed use development with a 144 bed 4 star hotel.
- Cam Ranh, Eurowindow have announced the development of a Hotel and Spa on a 34.2ha site with a 500 room 5 star hotel.
- Ben Luc, Long An province, Khang Information Group have announced plans for a Disney Style park

called "Happy Land" with plans for 3-5 star hotels.

- Ba Ria-Vung Tau Hoa, Anh Dao Tourist Co have announced plans for the development of the Oceanami Resort comprising of a 5 star hotel and 180 villas.
- Nha Trang, the 284 room Sheraton Nha Trang was officially opened in September 2009.

Number of Foreign Visitor Arrivals



Foreign Investment

Vietnam has always been considered a market full of potential for hotel and resort development due to its lengthy coastline.

ITC Spectrum signed a hotel management agreements with Marriott International, Ritz Carl-

ton and Outrigger Enterprises for 3 resort projects in Vinh Hoi Bay, Quy Nhon.

Comprising of a 18 hole golf course and villas, the Outrigger Resort and Spa with 210 rooms and 46 villas, the 100 villa Ritz Carlton Reserve and 320 room JW Marriott.

Accor have announced plans to have 30 operational hotels in Vietnam by 2013, comprising of 4 Sofitel's, 5 Pullman's, the remainder under the Mecure, Novotel and Ibis brands in Hanoi, Da Nang, Haiphong, Vung Tau and HCMC.

With this level of activity and with more project across Vietnam expected to commence, the future does look positive for this sector.

OFFICE SECTOR: The office sector is seeing a paradigm shift towards bigger and better quality buildings, will this alone be enough to attract tenants.

Supply

With over 1.4 sqm of existing office space across all sectors in HCMC and a further 2 million sqm under construction or with planning expected to come on line over the next five years would make most developers avert their attention to other sectors in the market. However, now is the moment to consider what, where and how much you are building.

Focusing on the projects potential and designing the building to attract tenants will be uppermost as the market becomes increasingly competitive. The vast majority of office users in HCMC fall into the 120 sqm or less category and therefore are not best suited for large scale buildings as the sub division of the space may be limited due to the positioning of internal infrastructure.

On the same basis, some large space occupiers that could occupy space in large scale buildings may not require a prime building with prime rents as they require a back room office.

Developers should consider how they are going to position their building, benchmark the competing buildings, even if they are a grade lower, both in terms of expected rent and quality and focus on attracting the tenants best suited for their building.

Rents and Occupancy Rates

During 2008 HCMC started to experience a decline in rental values from those days of \$100 per sqm for Grade A space, with current rents for Grade A ranging from \$35-\$55, Grade B - \$20-\$30 and Grade C - \$10-\$15, on average \$28 per sqm across all grades. However, vacancy, even with new buildings coming on line, is at 15%, although expect this to rise as tenants move to the newer buildings.

The market has shifted towards the tenant having the upper hand and astute landlords are beginning to realise this and are offering incen-

tribution to fit out costs, rent free periods, signage and in some cases, certain companies have special technical requirements which have to be catered to in order to secure the tenancy.

In this current market landlords should look at maximizing the space take up, deft landlords, willing to be flexible and pander to the tenants needs now will see the benefits, not immediately, but in the longer term and as the market changes will be better placed to optimize their

Bitexeco Financial Tower

Vietnam's first iconic building is nearing completion and Bitexeco, the developer, have announced the appointment of French event organisers Prisme, the same organisers for the launch of the Burj Khalifa in Dubai, to mark the opening ceremony of the 68 storey tower in October.

Comprising 38,000 sqm of premium grade office, 8,000 sqm in the 6 storey retail podium in addition to 3,000 sqm of high-end F&B outlets from levels 48 to 50. This iconic building will also be utilizing the first double deck lift system in Vietnam with lifts reaching speeds of 7 metres per second.

Interest in the building has been growing as it nears completion. Colliers International as exclusive marketing and management agents can announce, Regus the world's leading serviced office provider intends to open a 1,000 sqm premium grade office in the building.



Service Apartment Supply

Up to September 2010, HCMC currently has approximately 3,300 units of service apartment which also included the Crescent Residence 2 & 3 in District 7 and LTT Court serviced apartment in District 1. There are generally two types of serviced apartment buildings: the first type being exclusively available to expatriates and the second built by local owners and available to the entire population.

Some new major projects just launched up to September 2010:

- Crescent Residence 2 & 3 in District 7 (175 Units)
- LTT Court Service Apartment in District 1 (36 Units)

Demand

The main source of demand for serviced apartment comes from housing needs of high earning expatriates working in HCMC.

Following factors are also demand drivers for the serviced apartment sector:

- FDI increase also would bring more expatriates to Vietnam. The flow of FDI projects in HCMC has been increasing. Up to August 2010, HCMC was ranked third as recipient of newly registered FDI accumulating to approximately US\$1.251 million with 152 projects in total.
- As of May 2009, there are over 70,000 expats re-

gistered as living and working in Ho Chi Minh City according to the city's Department of Immigration. It is expected that this number could rise by 20 percent by 2010-2011, as more multinational corporations invest in Vietnam and hire foreign labour throughout Asia, Europe and North American. Foreign individuals will inevitably continue looking for residential accommodation within downtown HCMC where international companies have their offices.

- In addition to the traditional senior expatriate with wife and children leading most International companies we have noticed an additional younger project focused specialists on shorter term contracts as company expansions are on the increase.

Future Supply

There are approximately 11 serviced apartment projects that will be launched to the market in the next three to four years with over 1,500 units. Some of major future projects are located in District 1,2,3,7 and 10, in which, District 2,7 & 10 have potential to become a centre for serviced apartments in the future.

HCMC's Major Serviced Apartment Supply		
Name of Serviced Apartment	No of Units	Occupancy Rate (%)
InterContinental Asiana Saigon	260	70
Sherwood Residence	240	90
Somerset Chancellor Court	172	85
Saigon Sky Garden	162	77
Somerset HCMC	160	87
Norfolk Mansion	126	80
Sedona Suite	89	90
Garden View Court	76	88
Indochina Park Tower	55	98
Saigon Court	55	89
Diamond Plaza	42	99
Nguyen Du Park Villas	41	100

Project Name	District	Expected Completion	Units
ASC-An Phu Building	D3	2010	80
Icon	D3	2010	186
Saigon M&C Tower	D1	2011	140
Times Square	D1	2011	139
Royal Centre	D1	2011	55
Xi Grand Court	D10	2011	103
Saigon Gateway	Phu Nhuan	2011	195
The Vista	D2	2011	100
Tan Phong Shopping Complex	D7	2013	100
Savico Ho Tung Mau	D1	2012	120
TSN-Him Lam	Tan Binh	2013	300

Notes:

480 offices in 61 countries

United States : 135

Canada : 39

Latin America : 17

Asia Pacific : 194

EMEA : 95

- \$1.6 billion in annual revenue
- 672.9 million square feet under management
- Over 10.000 professionals

Vietnam

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