

HANOI - Q1/2020



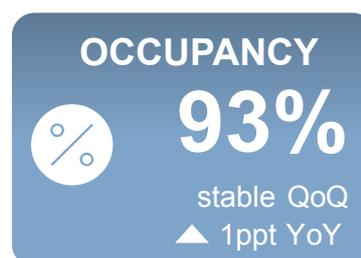
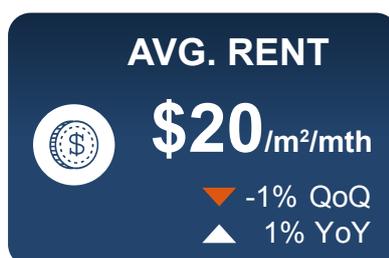
REPORT

Savills Research

Media Release — Office —



OFFICE:

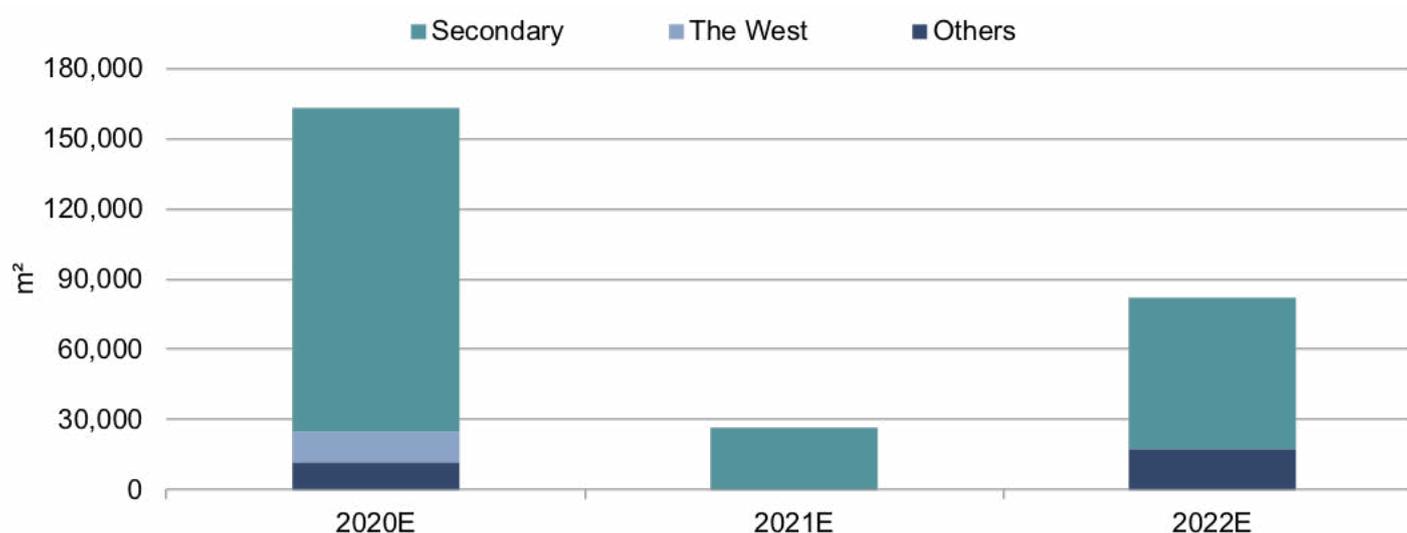


Market Performance



Source Savills Research and Consultancy

Future Supply



Source Savills Research and Consultancy

(1) Data collection as of Q1/2020

(2) Occupancy calculated by leased area divided by leasable area

(3) Avg. Rent: including service charge, excluding VAT

QoQ: Quarter on Quarter comparison
YoY: Year on Year comparison

“ Whilst the current office market remains healthy, there is a lag affect that may affect pricing in the future. Short term discounts and healthy lessor / lessee partnering are now considered. ”

*Le Tuan Binh,
Head of Commercial Leasing, Savills Hanoi*



KEY FINDINGS

Stable Performance

Total stock was approximately 1.8 million m², decreasing -1% QoQ and up 3% YoY as two CBD Grade A projects International Centre and Vietcombank Tower were withdrawn for renovation and internal use. Grade B continued to dominate with 47%, followed by Grade C with 28 percent. Most projects are located in the West.

By 2022, new supply of approximately 272,000 m² will enter, primarily Grade A. Decentralization continues as most are in the Secondary area, none are expected in the CBD. All projects scheduled to launch in 2020 are fitting out and will deliver. However, with the on-going uncertainty, other developments may be delayed.

The office market has yet to see significant negative impact of COVID-19, and maintained stable performance this quarter. Most leases have terms of three to five years and so the cycle is smoothed. The average gross rent decreased by a slight -1% QoQ but increased 1% YoY; rent was down across all grades. Occupancy was unchanged QoQ and up 1 ppt YoY; Grade A had the strongest growth. Near term vacancies will increase as tenants tightening spending, resize or close their offices, or put expansion plans on hold.

Q1/2020 take-up was negative at -15,600 m², the lowest in the past six quarters, mainly due to the closures of two Grade A projects. Highest take-ups were Grade B and the West; however, 2020 take-up will slow.

Short-Term Impact

COVID-19 slowed Hanoi's Q1/2020 GDP growth, to 3.72% YoY, half of Q1/2019 (6.95 percent). Implemented FDI growth was 3.9% YoY, tremendously lower than in Q1/2019 (24.7%) since projects by Chinese, Korean and Japanese investors confronted obstacles in commercial transactions and customs clearance.

Most companies are encouraged to work from home, either entirely or on a rotating basis, leading to temporary closures of numerous workplaces, directly affecting office leases. Companies in transportation, tourism and hospitality are the most affected due to their high level of social interaction. Manufacturing and trading companies have reduced demand as production and supply chain disruption are felt. Besides, professional service providers are reassessing workforces to minimize costs.

Companies in healthcare and insurance are thriving; their demand is high. ICT firms are also strong, since technologies to optimize remote productivity are expanding.

Coworking demand has dropped significantly as it is vulnerable to the pandemic, with short leases and open plan spaces. It is expected to recover quickly with demand strongly biased to SMEs.



KEY FINDINGS

Landlords & Tenants

Landlords of low-grade buildings have responded quickly with rent adjustments. Concessions will need to be made for a win-win solution, that could include: rent reductions, favorable lease terms and renegotiation of essential clauses. There is also the option to 'blend and extend' to risk share and lengthen the original lease term for a stronger covenant with the landlord.

Promising Future

Although Vietnam's Q1/2020 GDP growth was the lowest for the decade at 3.8%, the economic outlook is still optimistic. According to the latest ADB 2020 GDP growth forecast, Vietnam is expected to reach 4.8%, higher than regional peers: Indonesia (2.5%), Singapore (0.2%), Philippines (2%) and Thailand (-4.8 percent). According to GSO's survey on Q2's business trends in the manufacturing industry, 38.8% of businesses consider the trend to be better; 25.9% of enterprises forecast to be more difficult and 35.3% of enterprises thought their business and production situation would be stable.

Governments and central banks have been responding to the situation with policy measures and financial aid to mitigate the economic impact. Vietnam is one of the global top 20 fiscal stimulators, with measures such as: a credit package of VND250,000 billion with preferential interest rates, the postponement of VAT, corporate income tax and land rent payments for up to five months without penalties, the temporary payment suspension of social insurance fund and union fees until 6/2020, or longer subject to the outbreak. These initiatives help to reduce immediate costs to maintain business continuity and preserve jobs.

Many tech behemoths were founded during challenging times such as Apple and Microsoft during the 1970's recession, or Airbnb during the GFC 2008-09. Many tech companies have also risen from the last recession including Twitter, Uber, or Netflix. A new wave of startups may enter the market following the pandemic, sparking fresh office demand.

Changing Demand

External shocks do not immediately signal lease breaks or reductions, this is more likely at contract expiry. The crisis is possibly delivering us the most comprehensive home-office experiment in history. Work-from-home may never replace offices completely, but the upcoming tech-boom will enable it further. There may be a reduction of CBD office demand as staff alternate between working in the office or from home. In the long-term, despite a rebound in employment, future office areas may not increase in absolute proportion to the number of new hires.

The shift to flexibility drives continued growth in the shared office market. By 2024, millennials will constitute 75% of the active workforce. This growing group of office users prefers different offices. Options for working from home, office design and extra amenities are part of an attractive package.



Industry award fees are being redirected to help local people. Charities for underprivileged around the country will receive increased donations.

Savills is committed to caring for the community

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Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the Vietnam property market.

Research



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