# THE IMPACTS OF WTO ACCESSION ON HA NOI'S REAL ESTATE MARKET

**By**

**Nguyen, Quang Son**

**THESIS**

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF BUSINESS ADMINISTRATION

2009

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Committee in charge:

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## ABSTRACT

### THE IMPACTS OF WTO ACCESSION ON HA NOI'S REAL ESTATE MARKET

**By**

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The globalization process facilitates the economic transactions among countries. The most distinctive symbol of the globalization process is being the member of the World Trade Organization (WTO). The economies of different countries become interdependent and the economic elements of every economy are now under the multilateral impacts both from the domestic factors and the external factors.

Viet Nam has become the official member of WTO since January 2007; it marks the full integration of Viet Nam economy into the global economy. Viet Nam had a closed economy with the strict trade and non-trade barriers to protect the domestic markets. However, to fulfill the WTO commitments, Viet Nam has to follow a process to open gradually its economy. It is the big challenge for Viet Nam's economy, while most of their sectors and markets are uncompetitive and under the long-time protection. Real estate market is also under the strong impacts resulting from the economic integration.

Viet Nam's real estate market is still in the infancy stage; therefore, to mitigate the shortcomings and take the incoming opportunities creating by the WTO entry, the market itself need to be restructured to meet the new business environment. In addition, more research should be conducted to provide measures to avoid the mistakes and to find the most suitable model for the economic development in general and for the real estate market in particular.

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**Dedicated to my beloved Father**

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Many thanks are also given to my family members – who have created the most favorable conditions for me to have time for completing this thesis. I am grateful to my friends and colleagues in Savills Korea for giving me advices and guidance in the process of finding the materials for this study.

Last but not least, my special thanks to the dedicated staff of KDI Library, their support for me was really precious; it encouraged me to overcome the difficulties to find the necessary documents for my study.

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# Chapter 1: Introduction

## 1. The purpose of the thesis

In 2006, Viet Nam became the official member of the World Trade Organization (WTO). Viet Nam's accession to WTO marked a milestone for the full integration of Vietnamese economy to the global economy. In the process of economic integration, many economic sectors will be opened to the foreign investors such as: telecommunications, transportation, banking, retail, and insurance sector…the business environment will change dramatically. Viet Nam's WTO accession not only encourages the domestic investors but also attracts the large inflows of investment capital from foreign investors; as a result, Viet Nam's economy is forecast to achieve a higher growth rate in the coming years.

It is a matter of fact that Viet Nam's real estate market will be also booming in accordance with the economic development. The rapid changes of economic sectors will have direct effects on the Viet Nam's real estate market. The demand for apartments, hotels, commercial centers, entertainment areas will be also changed rapidly. However, Viet Nam's real estate market is not fully developed and the rapid change of the market status can bring both opportunities and challenges to the current equilibrium of the market. Therefore, in order to take advantage of the

opportunities and overcome the challenges, it is necessary to have more studies on the real estate market in order to find the efficient directions for the planning, investment management, and development trend for the market.

Under the framework of this thesis, I would like to focus on the study of the impacts coming from Viet Nam's WTO accession on Ha Noi's real estate market; of which, the major fields of study will focus on the office and retail market. The analysis will represent the profound impacts after Viet Nam's entry to WTO by showing the changing agents of the development in the real estate market; the FDI – funded projects will take the pivotal role both in office and retail market and foreign developers would become the main players in the real estate market. Ha Noi is the capital city and also one of two biggest economic centers in Viet Nam. Ha Noi's real estate market can be a typical example of Viet Nam's real estate market and would develop as the biggest real estate market in near future. After Viet Nam became the official member of WTO, the FDI inflows and the economic development could have strong impacts on Ha Noi's real estate market. Nevertheless, Ha Noi's real estate market still lack of the proper mechanism to manage and utilize the development of the market. In addition, there is a big knowledge gap for the management of the real estate market in order to manage and forecast the development trend of the market in the fields of building apartments, residential quarters, commercial centers and

tourist centers.

Therefore; a study of the impacts on the market status, investment and development trend of Ha Noi's real estate market could provide the understanding of the theoretical framework and its application into reality so as to take the advantages of the opportunities and overcome the arising challenges. This study also is useful for the business purpose aiming at Ha Noi's real estate market; particular in the office and retail market. In order to accomplish these purposes, this thesis will focus on three objectives: first of all, to provide the analysis of Ha Noi's real market status before and after Viet Nam's accession to WTO; secondly, to analyze the impacts on Ha Noi's real estate market and forecast the development trend of the market; thirdly, to propose the strategies to improve the efficiency in management of the real estate market and the recommendations for the business purposes.

## 2. The methodology and the thesis structure

The first method is used in this thesis is the comparison method; to a certain extent, the current market status and development trend of Ha Noi's real estate market could have the similar patterns in comparison with the previous development phases of the real estate market in other countries for example South Korea, China, Indonesia, India, Russia…Therefore, the lessons of experience from

these markets could be utilized to make the references for Viet Nam's real estate market in general and Ha Noi's real estate market in particular.

The thesis also applies the secondary research to utilize the available information from books, magazines and articles related to the real estate sector. These sources of information will be the useful references for the study to gather the data on real estate market, arising issues and the development trend in the future.

The study also uses the synthesis method to collect the data from the recent survey of the real estate market in Viet Nam in general and Ha Noi in particular. These data sources could be used to analyze the market status and to find out the sustainable trends of development for the real estate market.

The thesis includes 5 chapters and additional appendices and tables. The short descriptions for these 5 chapters are mentioned in the following parts:

Chapter one will mention the purposes, study methods and the structure of the thesis in order to give the overview of the study and its purposes.

Chapter two will provide the introduction to Ha Noi's real estate market under the general framework of Viet Nam's context. Some theories related to the real estate market are also discussed.

Chapter three will illustrate the market status and development of Ha Noi's real estate market before and after 2006 (the year when Viet Nam became the official

member of WTO). The changes that were brought by Viet Nam's accession to WTO on the Ha Noi's real estate market are analyzed in terms of the market demand and supply, the market elements, the investment patterns…

Chapter four will analyze the market trend and forecast for the market development of Ha Noi's real estate market. In this sector, the major trends of market development will be represented and analyzed in details.

Chapter five will propose the recommendations for the purposes of improving the market performance and giving suggestions for the investment in Ha Noi's real estate market.

# Chapter 2: The Overview of Hanoi Real Estate Market

## 1. The market characteristics:

### 1.1 Ha Noi's Demographic and Economic Characteristics:

#### *1.1.1 Demographic characteristics:*

Ha Noi is the capital city of Socialist Republic of Viet Nam. Locating in Northern Viet Nam, Ha Noi covers 921 sqm with the registered population of 3.3 million people (In 2006). The following figure represents the current population and the development trend of the population in the period of 2005 – 2020.

Source: General Statistics Office

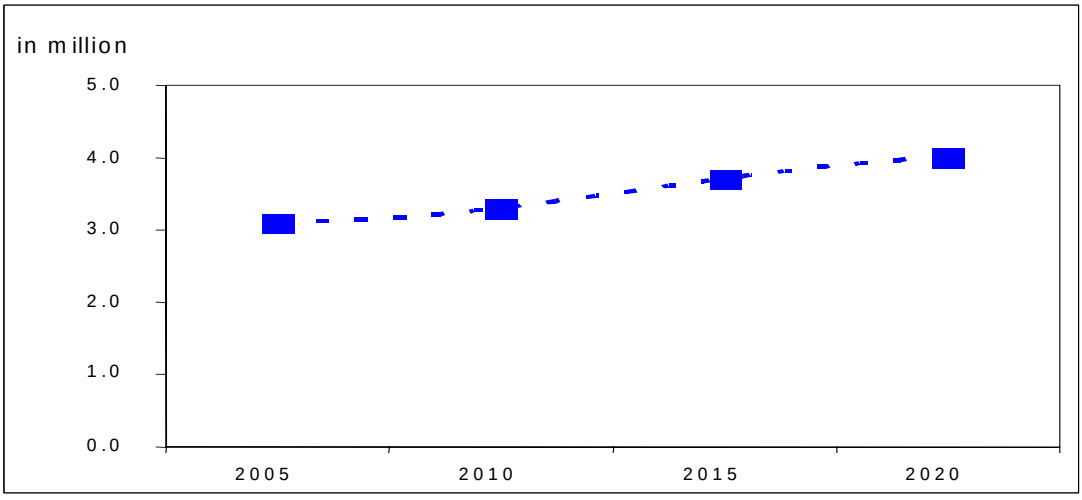


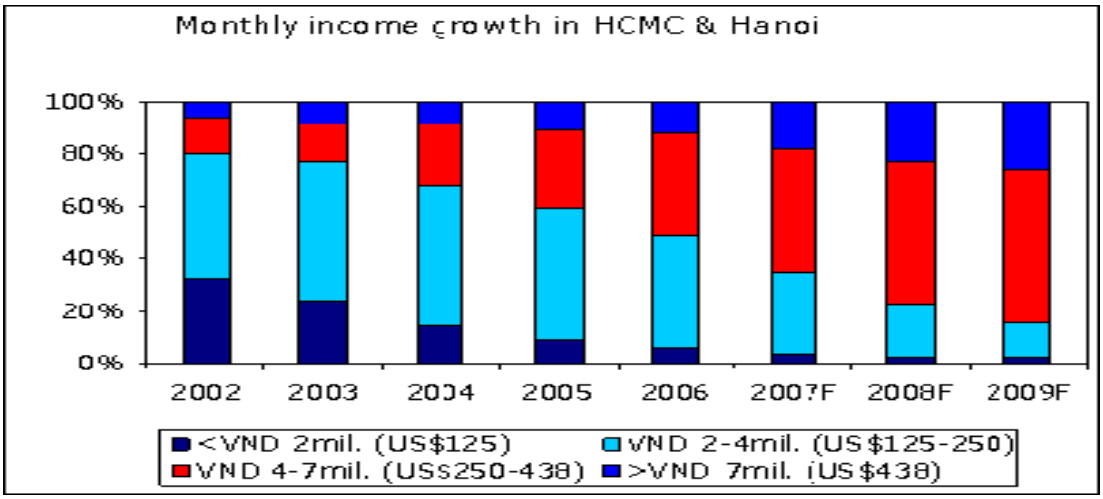

Figure 1: The current status and forecast of the population in Ha Noi

The majority of Hanoi's population is within the working age (Approximately 60% of the total population). This is the advantage of the city to attract the foreign

investments thanks to its large supply base of working force. Hanoi's average literacy age is 99% of its population: of which, over 6000 people are post graduates in science and technology, 20,000 people are university graduates and 110,000 people are secondary technicians.

### *1.1.2 Economic characteristics:*

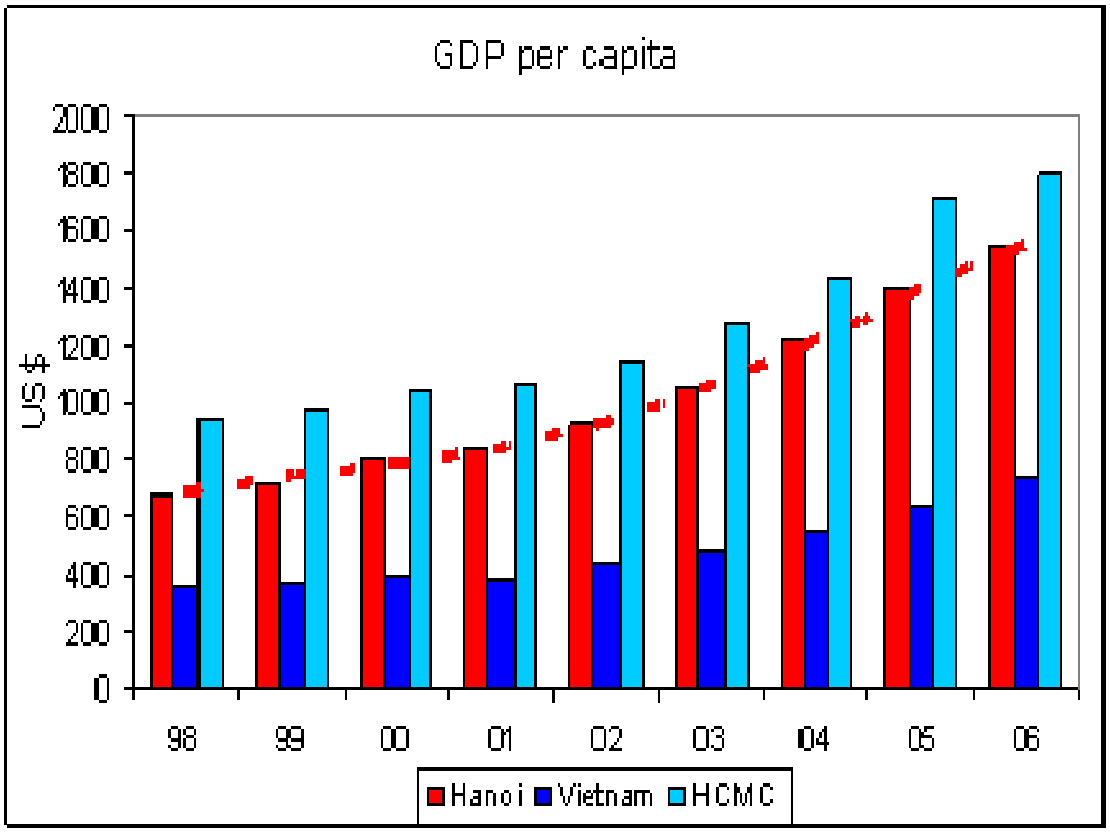
After Ho Chi Minh City, Ha Noi is the second highest GDP per capital of whole nation. Ha Noi's GPD per capita reached USD 1,800 at the end of 2006. This amount is approximately 2 times larger than the national average income. Ha Noi has one of the highest FDI figures in the country, as a result, Ha Noi's population benefit from higher salaries for working in the foreign-invested sectors.




Source: Savills Research & Consultancy

Figure 2: The monthly income growth in HCMC and Ha Noi

Ha Noi's GDP per capita has been increasing steadily since 1996 and within ten years, the figure has close to double itself. GPD growth rate for Ha Noi has been above 10% per annum since 2002; the rise of optimistic trend comes from Viet Nam's transition from an agriculture-dominant economy to the industrial and service-dominant economy. Ha Noi's GDP growth is currently higher than the national average, and it is almost identical to the economic center – Ho Chi Minh City.




Source: Savills Research & Consultancy

Figure 3: GPD per capita of Ha Noi and HCMC in comparison with the National standard.

### 1.2 The administrative organization of Ha Noi Capital

#### *1.2.1 The Central Business District and surrounding areas*

Ha Noi' center point is Hoan Kiem Lake, located in the center of Hoan Kiem District. A majority of government offices, commercial offices, hotels and restaurants are located in the Hoan Kiem District and Ba Dinh district to the west of the center. Ha Noi's Center Business District (CBD) is located in the eastern of Hoan Kiem Lake; this area is generally indentified as the area immediately surrounding the well-known Metropole Hotel close the Ha Noi Opera House. To the North of the lake situates the Old Quarter consisting of small irregularly laid out streets where are full of local shops, restaurants and service workshops. Hoan Kiem District has attracts a lot of investment mainly thank to the historic landmarks such as Ha Noi Opera House, Hoan Kiem Lake, and the tourist-attractive spot – the Old Quarter. The hustle and bustle of the Old Quarter represents the dynamic of Hoan Kiem District.

Source: CB Richard Ellis

Figure 4: Ha Noi's Districts Map

Hoan Kiem District also is one of the highest population densities of Ha Noi with the total area of 5.29 sqm and a population of over 171,400 residents.

Ba Dinh District covers 9.3 sqm with the second lowest population density among Ha Noi's Districts. This is mainly due to the fact that the prime areas of this

district are reserved for large occupiers including the Presidential Palace; Units of the Ministry of Defense, Ba Dinh Square, Ho Chi Minh Mausoleum, and the Ho Chi Minh Museum are located. Ba Dinh District owns the excellent road networks to ensure the comfortable transportation among the important government ministries. Therefore, this district has the great potential to become a major business center in Ha Noi.

Although Ha Ba Trung District and Dong Da District are quite close to the CBD, these districts' infrastructure is not well-built due to the fact that the infrastructure in these two districts has been developed during the 80s when the command economy dominated and no master plan existed to determine the direction and strategy for urbanization. As a result, many of the streets are in poor condition and the high population density leads to traffic congestion and inaccessibility. These districts lack of a prominent entertainment hub or recreational facilities such as sports arenas. To the South of the CBD is Hai Ba Trung District and the "French Quarter" is situated in the North of Hai Ba Trung District. The "French Quarter" has been developed in early years 19$^{th}$ century with a regular gridwork street pattern. This area is situated with a cluster of government buildings, diplomatic residences, embassies, and commercial offices.

Further to the western Ha Noi is Cau Giay District where is situated with

many universities, colleges, and research institutes. Cau Giay District is located relatively far away from the city center and used to be an area of mainly town houses and dormitory blocks. The district absorbs the influx of immigrants from the country side; in addition, the district is known to be "Student City" due to the large congregation of universities in the area.

The following table will represent the developed buildings and important locations for Ha Noi's CBD and surrounding areas. Each of the districts will be ranked in accordance with two main criteria: Perceived desirability and infrastructure strength. The perceived desirability is understood as the attractiveness of the district to the investment in the real estate sector; meanwhile, the infrastructure strength evaluates the development and accessibility of the basic utilities such as electricity, sewage system, schools, roads, hospitalities, entertainment facilities...

| District | Core attractions | | Perceived desirability | Infrastructure strengths | Overall potential |
|---|---|---|---|---|---|
| **Hoan Kiem** | **Business**<br>• 63 Ly Thai To<br>• Pacific Place<br>• Congress | **Others**<br>• Opera House<br>• Old Quarter<br>• Metropole Hotel<br>• Hoan Kiem Lake | 5 | 5 | 5 |
| **Ba Dinh** | • National Assembly<br>• Van Phuc Diplomatic area<br>• Presidential Palace | • HCM Mausoleum<br>• Ambassadors residence<br>• US embassy<br>• Thu Le Park | 4 | 5 | 4.5 |
| **Hai Ba Trung** | • Bach Mai hospital<br>• National universities | • Old French quarter<br>• Developed housing area<br>• Lenin's Park | 3.5 | 3.5 | 3.5 |
| **Dong Da** | • A number of local, Grade B and C offices<br>• Hang Day Stadium | • Giang Vo Exhibition centre<br>• Temple of Literature | 3 | 3 | 3 |
| **Cau Giay** | • National universities<br>• Some hospitals | • Big C<br>• Ethnological Museum | 3 | 3 | 3 |

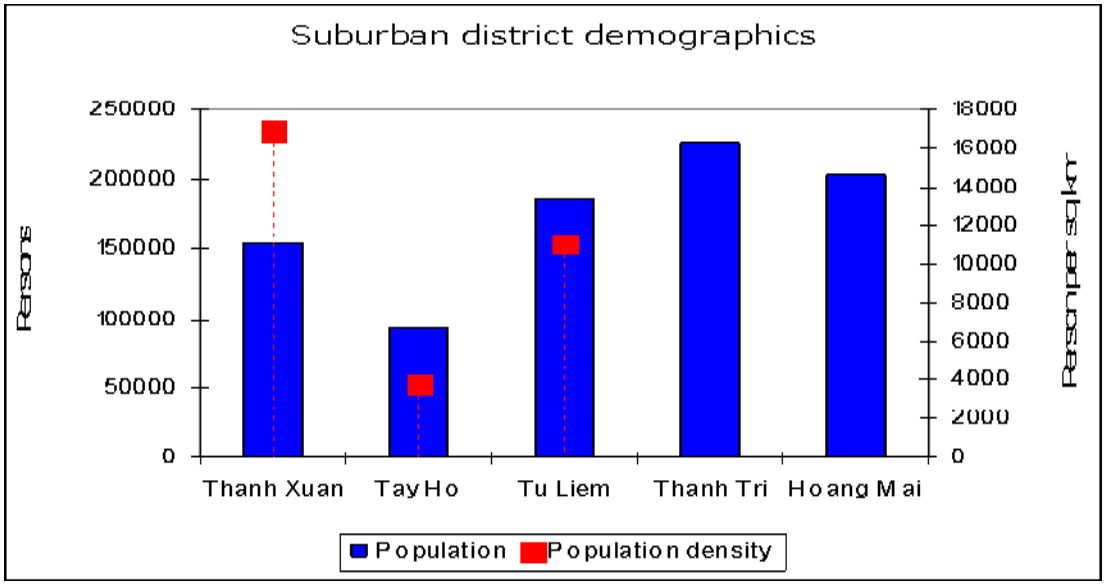
Source: Savills Research & Consultancy

Table 1: The rankings for Ha Noi's CBD and surrounding areas

### *1.2.2 The Suburban Areas*

The Suburban areas include Thanh Xuan, Tay Ho, Tu Lien, Thanh Tri, and Hoang Mai District. These districts own great land areas available for development, thank to their geographical advantages; additionally, the Government has committed much willingness and capital to develop the infrastructure in these

districts.




Source: General Statistic Office

Figure 5: The demographic data for Ha Noi's suburban districts

Tu Liem District is currently going through the fast pace of development. The district becomes important because it already encompasses the International Convention Center (The Center hosted the 2006 APEC meeting), the National Stadium and the site for the construction of numerous Government buildings in the southern section of the district.

Thanh Xuan District currently position is relatively positive. The district has a high population density and has experienced tremendous amount of development. This is highly likely due to the number of universities that exist in the district, including the National University of Social Science and Humanities. The district is

also situated by a number of textile factories and some light industrial productions such as Hoa Binh Automobile Factory. Therefore, the commercial activities in this area are very active and the transportation network is relatively developed. However, the district still faces the congestion and roadblocks during the rush hours and peak transportation hours.

In comparison with other suburban areas, Tay Ho District presently shows the greatest potential for developments, although there is limited land available in this area. The district benefits from the relative proximity to the CBD (Approximately 15 minutes away from Hoan Kiem Lake). It has the large population of foreigner residents. Tay Ho's infrastructure has also improved in recent years, particularly with the construction and renovation of the highway outside of West Lake, which increases the accessibility between this area and the other district.

Thanh Tri District locates in the south of Ha Noi. Since 2003, the district was divided into Thanh Tri and Hoang Mai districts. Thanh Tri was among one of the first areas of Ha Noi to see major new urban developments and was viewed as a testing ground to gauge the market's potential to absorb apartment units. The infrastructure is still below the standard in comparison with the nearby districts; except for the National Road 1 which has undergone the significant renovation, internal roads are in poor condition and need to be reconstructed and expanded. In

next years, there are a lot of planned infrastructure improvements for Thanh Tri District: Ring road No.3 and No.4 will link the newly-completed Thanh Tri Bridge. A second Metro hypermarket is under construction in this area.

The valuation of the suburban districts will be represented in the following table. Obviously, the rankings of the suburban areas are below than the CBD and its surrounding areas; however, there is a big gap of development between the internal districts and the suburban areas. The overall potential for suburban areas also shows that there will be a lot of works to be done to improve the infrastructure and the local livelihoods in these districts.

| District | Core attractions | | Infrastructure strengths | Perceived desirability | Overall potential |
|---|---|---|---|---|---|
| | Business | Others | | | |
| **Thanh Xuan** | • National universities<br>• National convention centre | • Hacinco student village<br>• Dinh Cong urban area | 3 | 2.5 | 2.7 |
| **Tay Ho** | • Sheraton Hotel<br>• Thang Loi Hotel | • Ciputra International city<br>• United Nations International School | 3.5 | 3.5 | 3.5 |
| **Tu Liem** | • Metro<br>• My Dinh National Stadium | • Trung Van new urban area<br>• My Dinh I, II new urban areas<br>• Me Tri Ha new urban area | 3 | 2.8 | 2.9 |
| **Thanh Tri** | • Thanh Tri Bridge | | 2.5 | 2 | 2.3 |
| **Hoang Mai** | • Railway station<br>• Proximity to industrial zones | • Dinh Cong new urban area<br>• Linh Dam new urban area<br>• Dinh Cong Lake<br>• Linh Dam Lake | 2.5 | 2 | 2.3 |

Source: Savills Research & Consultancy

Table 2: The rankings for Ha Noi's suburban areas

## 2.2 The elements and structure of the market

### *2.2.1 The elements of the market:*

To serve as the subject of this thesis, Ha Noi's real estate market could be divided among the following segments: Office, retail, hotel, serviced apartments,

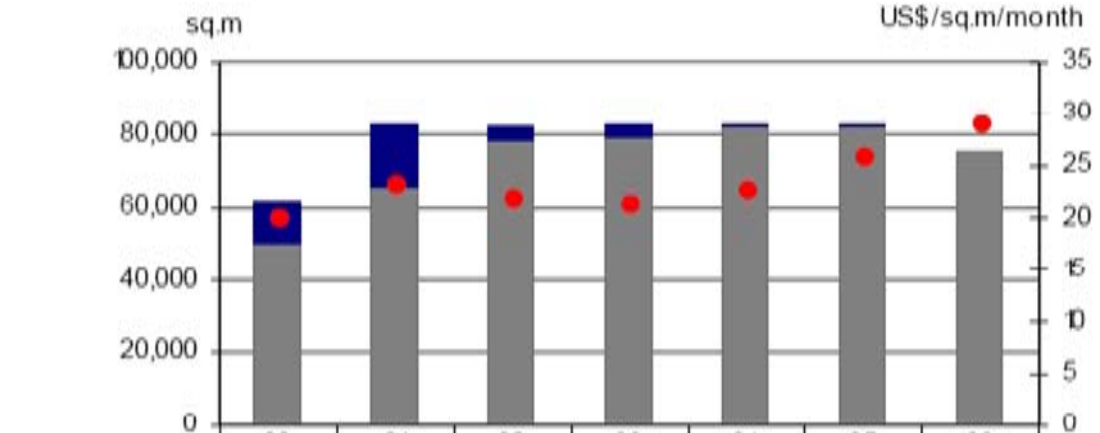
and residence markets. With thin the framework of this Study, the two most prospective market segments will be analyzed including the office and retail market. The detailed analysis will be represented in the following parts.

#### *2.2.1.1 Office Market:*

Viet Nam started to follow the market economy mechanism since 1996. Initially, major supplies of office spaces in Ha Noi were under the form of townhouses or converted French – style Villas. The office market could be divided into two categories based on the quality and geographical criteria: Grade A and grade B offices. In addition, this division also associates with the geographical distribution of office buildings: Grade A offices are located mostly in Ha Noi's CBD; meanwhile, grade B offices are usually distributed in the second business district and suburban areas.

Presently, Ha Noi's office market consists of 358,000 sqm; there are 10 grade A office buildings with the total floor area of 95,000 sqm; of which, 9 of these offices buildings are located in CBD (In Hoan Kiem District). The largest grade A office building is Vietcombank Tower with the total floor area of 19,500 sqm; meanwhile, the smallest office building is Press Club with the floor area of 1,500 sqm. As a matter of fact, the supplies of grade A office buildings are very limited. There is a

large shortage of Grade A office spaces; the shortage is represented by the increasing rental rates, high occupancy rate, and rapid pace of take-up rate. Since 2000, the occupancy rate has achieved up to 80% on average; since 2003, the rental rate has escalated by 15% per year on average. The following figure will represent the overall performance of Ha Noi Grade A Office in the period 2000 – 2006.



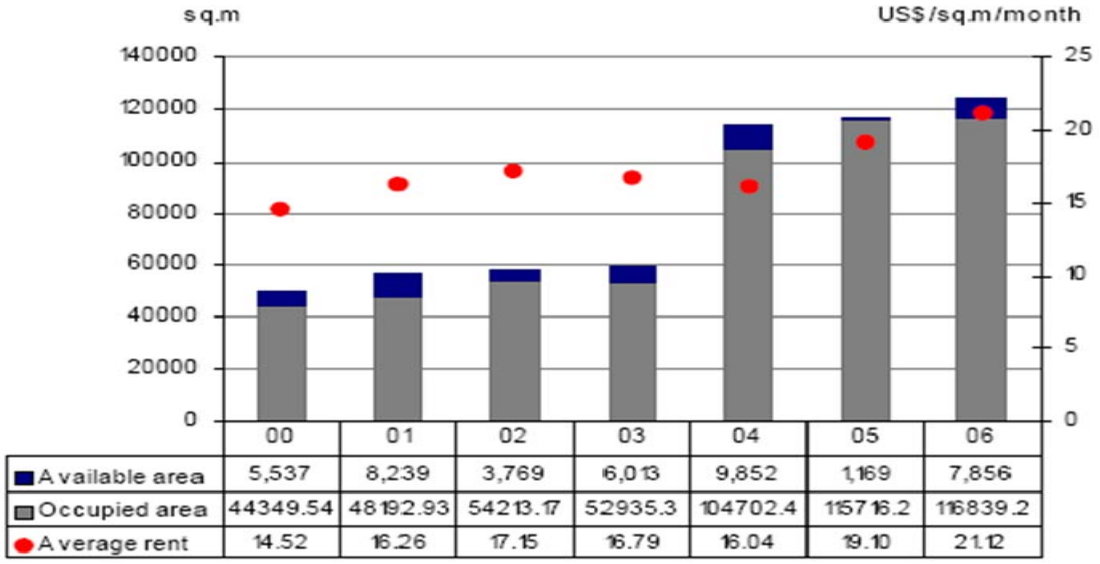

| | 00 | 01 | 02 | 03 | 04 | 05 | 06 |
|---|---|---|---|---|---|---|---|
| Available area | 11,330 | 16,892 | 3,430 | 3,705 | 741 | 412 | 75 |
| Occupied area | 50,245 | 65,506 | 78,246 | 78,628 | 81,592 | 81,921 | 75,017 |
| Average rent | 20.01 | 23.22 | 21.78 | 21.18 | 22.52 | 25.74 | 29.07 |

Source: Savills Research & Development Consultancy

Figure 6: The Office Supplies, Occupancy rates and rental rates from 2000 - 2006 of Ha Noi Grade A Office Buildings

In addition, Ha Noi's Grade B Office market includes 27 grade B office buildings with the total net leasable area of 189,855 sqm. These office buildings are located mainly in CBD and the Secondary Business District (In Hai Ba Trung District, Cau Giay District, and in Ba Dinh District). There are 09 office buildings located in

CBD, 18 buildings in the SBD, and 02 buildings in the Suburban areas. Demands for grade A office buildings also exceed the Supplies, the rental rates continue to increase and reach the peak at USD 27 per sqm in the second quarter of 2007. The following figure represents the performance of Grade B office market in the period 2000 -2006.




| | 00 | 01 | 02 | 03 | 04 | 05 | 06 |
|---|---|---|---|---|---|---|---|
| Available area | 5,537 | 8,239 | 3,769 | 6,013 | 9,852 | 1,169 | 7,856 |
| Occupied area | 44349.54 | 48192.93 | 54213.17 | 52935.3 | 104702.4 | 115716.2 | 116839.2 |
| Average rent | 14.52 | 16.26 | 17.15 | 16.79 | 16.04 | 19.10 | 21.12 |

Source: Savills Research & Development Consultancy

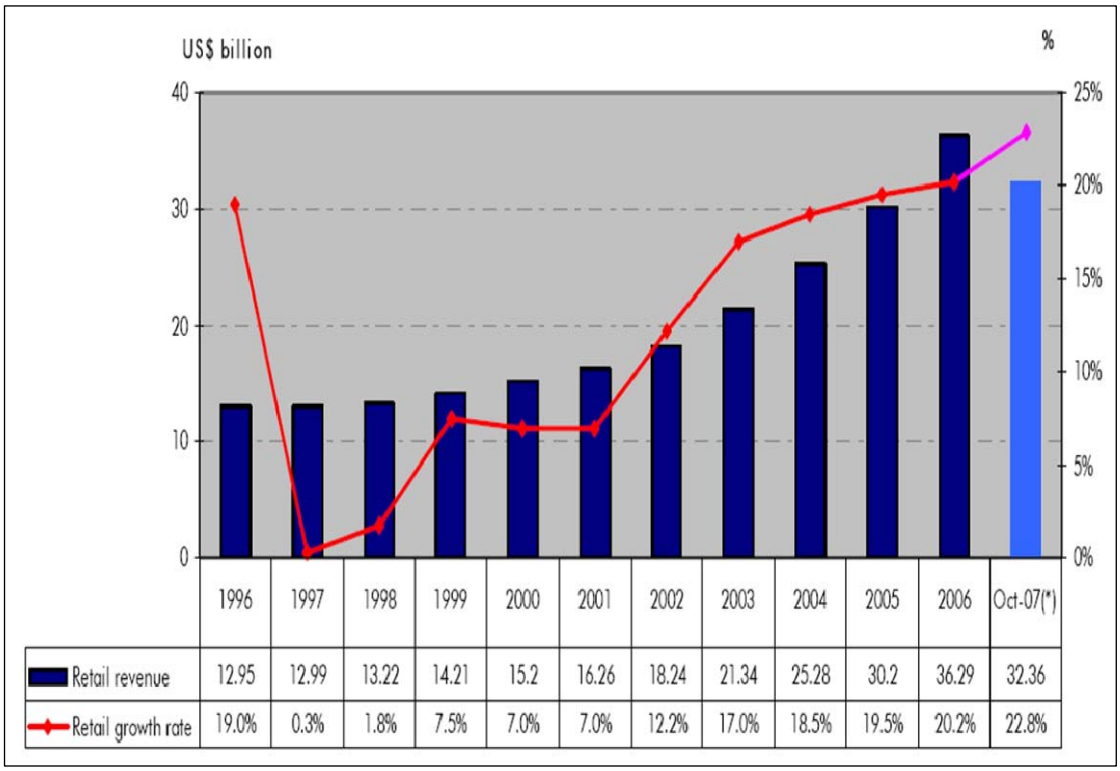
Figure 7: The Office Supplies, Occupancy rates and rental rates from 2000 - 2006 of Ha Noi Grade A Office Buildings

However, the available office spaces are still small in comparison with the other cities in the region and the scale of the local economy. In the incoming years, the office market will be increased both in size and capability, the market will become mature; therefore, the rental rates could not fluctuate as drastically as during

the 1990s in Ha Noi' real estate market.

#### *2.2.1.2 Retail market*

Viet Nam has been ranked second in term of economic growth rate in the past decade and at an impressive 10.4% CAGR (Compound Annual Growth Rate). Viet Nam's economy is also transforming from an agriculture-based economy to the service-based economy. In addition, Viet Nam has one of the youngest population structure in Asia with over 70% of population is under 30 years old. In 2005, GDP reached 8.4% per year, and the total consumption value was up to USD 21 billion. Market potentiality already attracted several big retailers such as Metro Cash & Carry (Germany), Bourbon (France), Parkson (Malaysia), Zen Plaza (Japan), and Diamond Plaza (South Korea). The following figure will present the growth rate of retail market in Viet Nam during recent years.




| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Oct-07(*) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail revenue | 12.95 | 12.99 | 13.22 | 14.21 | 15.2 | 16.26 | 18.24 | 21.34 | 25.28 | 30.2 | 36.29 | 32.36 |
| Retail growth rate | 19.0% | 0.3% | 1.8% | 7.5% | 7.0% | 7.0% | 12.2% | 17.0% | 18.5% | 19.5% | 20.2% | 22.8% |

Source: HCMC General Statistics Office

Figure 8: Viet Nam's retail growth rate and revenue during the period of 1996 – 2007

Ha Noi's retail market also reflexes the attraction of a typical emerging retail market. During the period of 2001 – 2006, Ha Noi's GDP has grown at a stable rate of 11% to 12%. The retail market has been expanded at a remarkable rate with the growth rate of over 15% in the period of 2000 – 2005, and reached over 20% by the end of 2006. Viet Nam's became the full member of WTO since January 2007 and the commitments to open the retail market could encourage the participation of oversea retailers. Since January 2009, 100% foreign-owned retailers are allowed to operate in

Viet Nam's retail market. As a result, big international retail chains such as Wal–mat, Tesco, and Carrefour are planning to enter Ha Noi's retail market. The strong inflows of foreign investors in the retail market will present the higher growth rate in the next years.

### 2.2.2 The structures of the market:

#### *2.2.2.1 Structures of the office market*

According to the classified criteria using by CB Richard Ellis Viet Nam (CBRE Viet Nam), Office Grading can be divided among Grade A, Grade B, and Grade C offices with the following criteria.

**Grade - A Office Criteria**

- Located in the easily-accessible and prominent location;
- International standard architecture, materials and workmanship;
- Height of the ceiling is at 2.65m with average floor area of 1,000 sqm/room; weight pressure is at 500kg/sqm; Width of entrance door is 900mm at least; corridor is at least of 2.2 m width; lightness is at the minimum of 400 lux;
- Air-conditioned lobby and available car parking;
- Elevators: Programmable elevators, at least one elevator for 4 floors, each

elevator could carry 16 people, and elevators are made by the prestigious producers.

- International standard Fire and Safety system with service contracts signed with the qualified companies;
- Highest quality mechanical and electrical systems which are continuously maintained;
- Broadband IT connection with multilevel of bandwidth based on individual tenant demands;
- International standard management;
- Careful tenant mix to ensure the convenient operations for all tenants.

**Grade - B Office Criteria**

- Located in the secondary business district or the suburban areas with the good accessibility;
- Design and developers are nationally or internationally recognized.
- Reasonable - sized footplate is 500sqm at least; height of the ceiling is at 2.5m with average floor area of 500 - 1,000 sqm/room; weight pressure is at 300kg/sqm; Width of entrance door is 900mm at least; corridor is at least of 1.8m width; lightness is at the minimum of 400 lux;

- Elevators: At least one elevator for 4 floors, each elevator could carry 12 - 16 people, and elevators are made by the prestigious producers.
- Flexible spaces for the convenient operations of tenants; Broadband IT connectivity;
- Adequate maintenance, management services, and a good tenant mix for the office building.

**Grade - C Office Criteria**

- Subprime locations and often associate with the difficult access;
- Lack of parking place; Low ceiling height;
- No broadband connectivity available;
- Low quality of maintenance and management;
- Low prestige tenants;
- Lower quality of elevators, mechanical and electrical systems;
- Depend on lower prices to attract tenants and investors.

***2.2.2.1 Structures of the retail market***

**Shopping Centers**

Shopping Centers entered Ha Noi's market in 1997. At present, there are 7 shopping centers in Ha Noi with the total leasable area of 34,291 sqm. All of these

Shopping Centers are situated in the prime locations in Ha Noi such as Trang Tien Plaza and Vincom Towers. The following table will represent the key information of Shopping Centers in Ha Noi.

| Name | District | Area (m2) | Average Rental Range (US$/m2) |
|---|---|---|---|
| Vincom Tower | Hai Ba Trung | 17,791 | 40-100 |
| Big C Shopping Centre | Cau Giay | 12,000 | 25-40 |
| Trang Tien Plaza | Hoan Kiem | 4,500 | 57-75 |
| Ruby Plaza | Hai Ba Trung | 1,500 | 30-40 |
| Luxury Mall | Dong Da | 5,000 | 60-90 |
| Hanoi Tower | Hoan Kiem | 2,515 | 45-50 |
| Syrena | Tay Ho | 4,500 | 30-40 |

Source: Savills Research & Consultancy

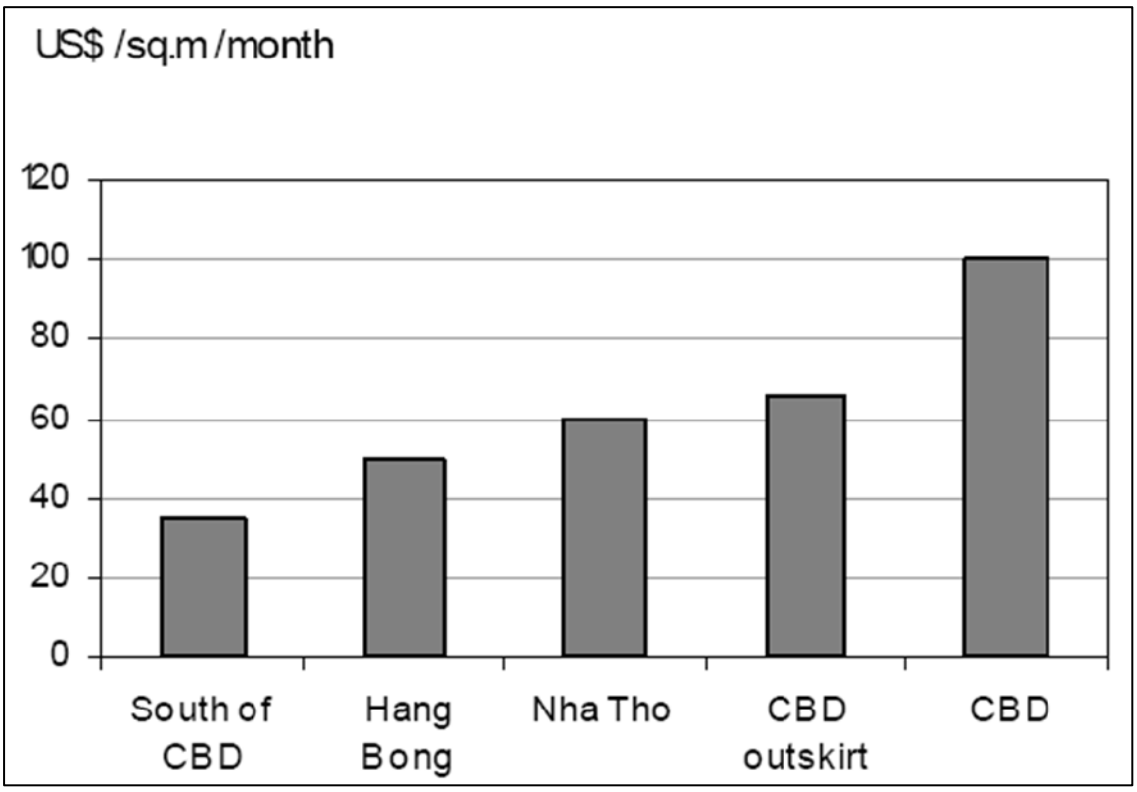
Table 3: The current status of Ha Noi Shopping Centers

**Street-front stores and Podium Centers**

Street-front stores are very popular in Viet Nam market. People still keep the habit of visiting the Street-front stores to buy everything they need for daily life. In Ha Noi, there have a lot of shops with tiny frontage and around 4 sqm, this is

considered to be the legacy of the French colonial when the households pay the property tax according to the amount of the space that the building occupied along the street. However, this also reflexes the old practice in the command economy while people are assigned the land or houses by the State agencies. Therefore, houses were very small and the street frontage was divided among the households.

The high-end fashion brand names usually rent shops at the Podium Centers. These are normally the street front space on the ground floors of office buildings designed exclusively for retail shops. These shops are situated around the building, while the middle area of the podium is reserved for administrative purposes. The following figure represents the average rental rates in the major retail areas of the front – street and podium centers in Ha Noi.




Source: Savills Research & Consultancy

Figure 9: Average rental rates in major retails areas of Front-street and Podium Centers in Ha Noi

**Wholesale Centers**

Ha Noi has merely 3 Wholesale Centers: Metro Thang Long, Metro Hoang Mai and Me Linh Plaza. The table below represents the major characteristics of the current Wholesale Centers in Ha Noi.

| No. | Picture | Name | Location | Area (sq m) | Average Rental Range |
|---|---|---|---|---|---|
| 1 | | Metro Thang Long | Suburban | 10,925 | Self-owned |
| 2 | | Metro Hoang Mai | Suburban | 46,000 | Self-owned |
| 3 | | Melinh Plaza | Suburban | 67,000 | Complimentary |
| Total | | | | 77,925 | |

Source: Savills Research & Consultancy

Table 4: Average rental rates in the Wholesale Centers in Ha Noi

Metro Thang Long opened in July 2003 providing selected customers with in-bulk and cheap price commodities. However, there is a few of luxury brands and premium quality products. Metro Center is convenient for the daily shopping of the customers.

Metro Hoang Mai was opened in September 19th 2007; this second Metro center has the total area of 46,000 sqm with the total investment of over USD 15 million. Metro Hoang Mai sells around 15,000 items of food products and non-food products.

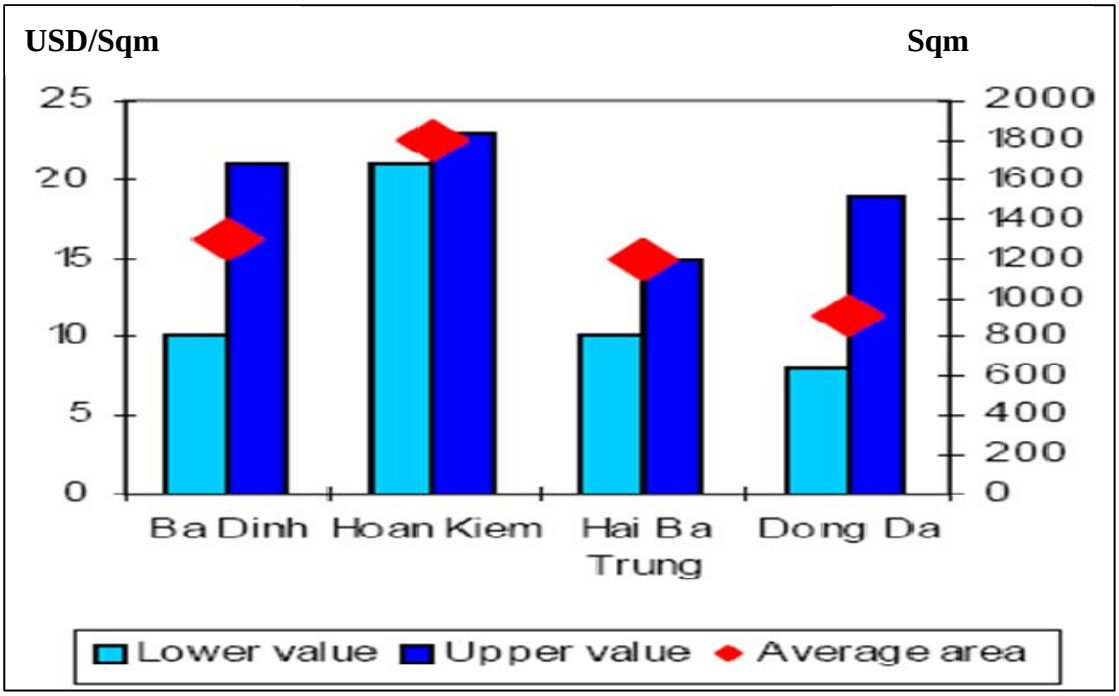
Meanwhile, Me Linh Plaza provides the modern purchase model; that is the trade complex. Me Linh Plaza hosts hundreds of international and local brands. However, the long distance from Ha Noi Center is still a concern for customers; obviously, customers are reluctant to go that far for shopping under the heavily – traffic volume in Ha Noi nowadays. Nevertheless, Me Minh Plaza represents the first one-stop shopping model in Ha Noi for the specific industry: building materials and interior design.

**Supermarkets**

At the beginning, there were ten supermarkets in Viet Nam in 1995. That number has increased to 140 supermarkets by the last quarter on 2006. Supermarkets are scattered thorough Ha Noi with the major supermarkets are clustered mostly in Hoan Kiem, Dong Da, and Ba Dinh Districts.

Since the first supermarket was established in Ha Noi, it has posed as the competitor to the traditional markets. The advantages of traditional markets include the proximity to living places, low prices and easy access for local people. Therefore, traditional markets are still the dominant places for the local people with the average or low income. Meanwhile, high income earners and foreigners prefer to shop in the supermarkets and shopping centers. As a result, there is a peaceful coexistence

between supermarkets and traditional markets. Each of them serves different market segmentations, especially for the developing market where the income gaps are remarkable among the average earners and high income earners. The figure below will represent the rental rates and the leasable areas of the Supermarkets in Ha Noi.




Source: Savills Research & Consultancy

Figure 10: Rental rates and average areas of the Supermarkets in Ha Noi

Generally, the rental rates for Ha Noi's supermarkets are quite low. The rental rate ranges from USD 8 per sqm (Ha Noi Star Supermarket in Dong Da District) to USD 23 per sqm (Citimart in Ha Noi Somerset Grand). This rental range is quite low in comparison with the rental rates in Ho Chi Minh City (The highest rate reaches USD 30 per sqm in CBD). Nevertheless, the majority of supermarkets in Ha Noi are

self-owned and usually located in the prime areas; at these areas, the rental rates can achieve at USD 30 per sqm for the tenants.

# Chapter 3: The Impacts on Ha Noi's Real Estate Market after Viet Nam's Accession to WTO

## 1.1. Ha Noi's real estate market status before 2006

### 1.1.1 The reason for time division of the real estate market

Before 2006, Viet Nam's market is remarkably protected by the high tax rate and the trade barriers for the imported goods and foreign producers. Pivotal sectors of the economy are under the control of the state-owned corporation such as: Power and energy, posts and telecommunications, insurance, distribution, water supply…In addition, there is also the limitation for the foreign-owned shares in sectors (Below 49% of the share ownership), it is mandatory to keep the business entities in specific sectors out of the control of foreign investors.

Generally, Viet Nam's economy was under the strong protection, the economy has not fully integrated into the global economy. Ha Noi's real estate status was mainly the playground of the domestic developers. To analyze the changes of real estate market status in Ha Noi under the impacts from Viet Nam's accession to WTO, this study identifies two different stages: the period before and after 2006. The reason for the division is Viet Nam's full WTO membership started since January 1st 2007. Viet Nam has to open the market following the schedule committed with

WTO; as a result, the foreign companies could enjoy the fairer treatment and playing ground when entering Viet Nam's market under the conditions that the trade barriers and non-trade barriers would be gradually removed.

After being the full membership of WTO, Viet Nam has to follow the schedule of opening the domestic market. There are main commitments that could have great effect on the economy in general and the real estate in particular.

Open the commodities market: Viet Nam will reduce 20 tax lines; mainly applicable to the tax lines with over 20% tax rates, including: Textile and Garment, marine products, woods, papers, manufactured goods, electronic appliances, pork, beef, and its by-products.

Reduce the taxes on many products across many sectors: In the next 5 to 12 years, over 4,000 commodities could be the subjects for the tariff reduction. Tax rates reduced from 24.5% to 21% on average. All the taxes on previously – protected agro products are to be reduced.

| *Items* | *Current tax rates (%)* | *Tariff Reduction Commitment (%)* |
|---|---|---|
| Automobiles | 90 | 52 |
| Televisions, Air Conditioners and Washing Machines | 50 | 20 |
| Beers and Wines | 85 | 45 |
| Garments and Textiles | 37.3 | 13.7 (No Quotas) |
| Footwear | 50 | 30 |
| Agriculture Products | 23.5 | 20.9 |
| Computers/ IT Products | 45 | 0 (in 2012) |

Source: Ministry of Trade

Table 5: Tariff Reductions after Viet Nam's entry to WTO

In addition, Viet Nam also pledged to open the service sectors. This movement could take the strong impacts on the whole economy. After 2007, foreign – invested companies could enjoy the fair treatment and the smooth integration into Viet Nam's service industries such as: business – related services, information providing services, banking and finance, distribution, entertainment, healthcare, tourism, education, and transportation.

| *Sectors* | *Market Access Status after Viet Nam's Entry to WTO* |
|---|---|
| Advertising and Market Research Services | As of January 1st 2009, no limitation for capital investment. |
| Services related to manufacturing sectors | 100% of foreign – invested enterprises are allowed in 2012. |
| Courier Services | 1oo% of foreign – invested enterprises is permitted in 2012. |
| Banking Services | As of April 1st 2007, 100% foreign-invested banks are permitted. |
| Telecom | No limitation but under the Government's regulations. |
| Motion Pictures | Foreign invested capital should not exceed 51% of legal capital in Joint – Ventures. |
| Franchising Services | As of January 1st 2009, No limitation |
| Wholesale trade and Retailing services | As of January 1st 2009, No limitation. |
| Education Services | As of January 1st 2009; 100% of foreign-invested education entities are permitted. |

Source: Ministry of Trade

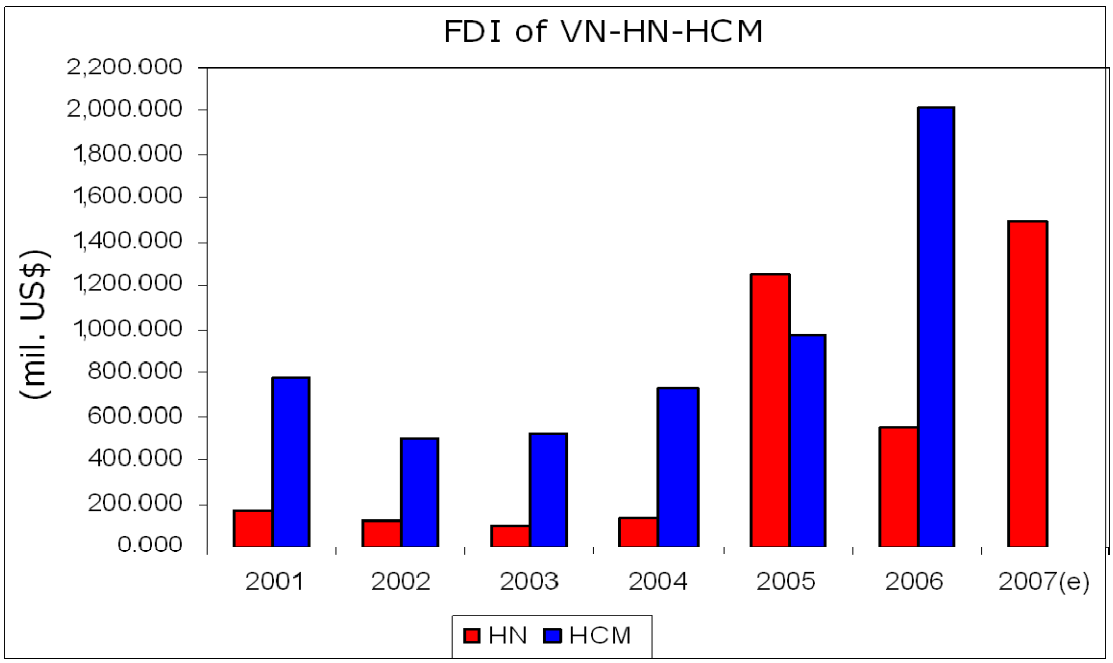
Table 6: Market access status of keys sectors after Viet Nam's entry to WTO

Besides, the investment environment is also improved. The discrimination of domestic and external investment is removed. Most of the pivotal sectors of the economy such as: electricity supply, insurance, petroleum distribution, exploration of natural resources that have been previously controlled by the state-owned companies. These sectors will be open to the participation of the private sectors and foreign invested entities. Viet Nam already mapped out the specific schedule for opening the monopolistic sectors.

For the Posts and Telecommunications sector, foreign-invested entities could provide the telecommunication service (And they could own up to 49% of shares in the local companies which provide the commercial infrastructure for the sector). In terms of the distribution business, the foreign-invested entities could have the complete control over their operations since January 1st 2009. However, Viet Nam still preserves the distribution channel for petroleum products, pharmacy, tobacco, steel, chemical fertilizer, cement, newspapers and cultural – related items. These channels could be opened to foreign entities after 3 years of WTO accession.

After 2006, WTO commitments are gradually implemented in accordance with the committed schedule pledged by Viet Nam Government. As a matter of fact, the removal of trade and nontrade barriers could encourage the stronger integration of Viet Nam economy into the global economy. In particular, there will be a strong

movement of foreign direct investment (FDI) to Viet Nam's economy. The sharp increase of FDI is presented in the following figure.




Source: Savills Research & Consultancy

Figure 11: FDI in Viet Nam (VN) – Ha Noi (HN) and HCM City (HCM)

The above figure clearly shows a surge in FDI inflows to Ha Noi after 2006, the estimated volume of FDI could triple the total achieved amount in 2006. The strong FDI inflows would realize the great potential of economic development in Ha Noi in the following years.

In addition; after Viet Nam's entry to WTO, more international companies would establish the operations thanks to the liberalization of the key sectors of the economy. These developments will also have the profound impacts on Viet Nam's

real estate market in general and Ha Noi's real estate market in particular.

### 1.1.2 Ha Noi's Office Market Status before 2006

Viet Nam's open policy was launched in 1986 and the domestic market was liberalized to attract foreign investment. However, the first movement of office development was recorded in the 1990s with the establishment of the first international standard office building in Ha Noi. The foreign – developed Hanoi International Technology Centre (HITC) building was opened in the second quarter of 1995. This building was developed by the German Medical Equipment Trading Schmid Group with the total floor area of 11,145 sqm grade A office. The new release of the international standard building pushed the rental rate up to USD 50 per sqm.

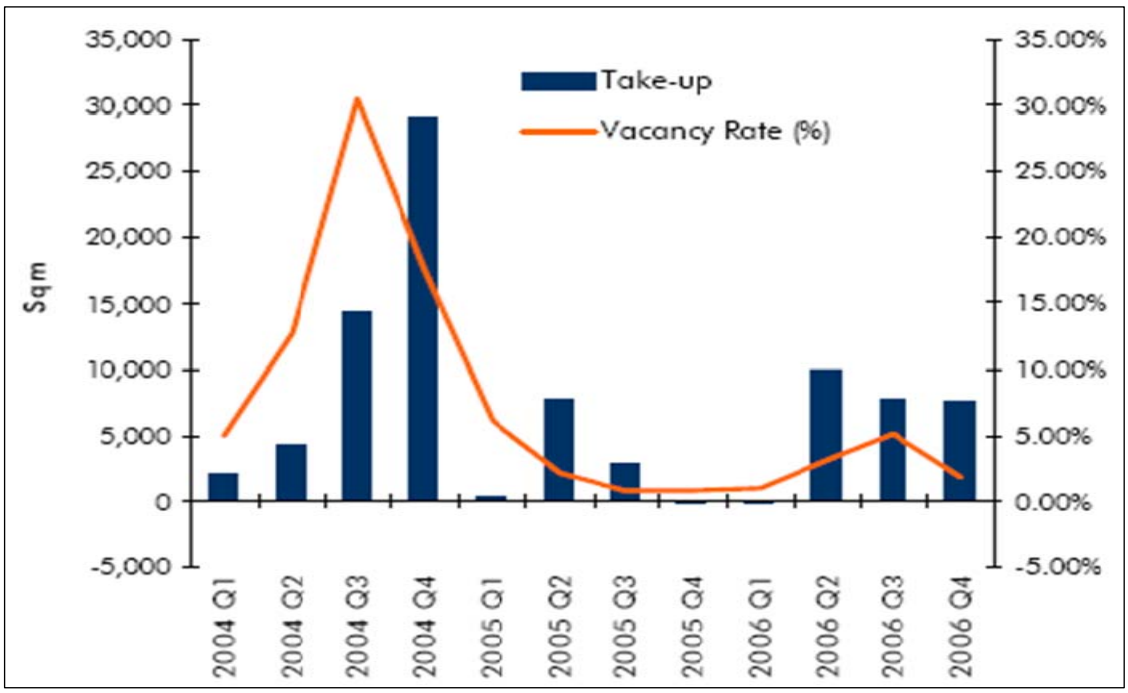
Generally, Ha Noi's office market before 2006 was dominated by the local developers. The impacts of foreign investors were noticeable since the foreign investment is encouraged during the innovation period; when a great number of foreign investors were allowed to set up their companies in Viet Nam, the office market really emerged. At that time, a large number of foreign companies tried to find the office spaces to lease; therefore, the initial shortage of the office spaces pushed the rents to increase remarkably. Foreign companies used to rent the converted old villas or hotel spaces to satisfy their office demands. The low level of

supply and high demand pushed the rental rate to a very high level. This acted as the motivation to attract more investment projects for the office development sector.

Moreover, the surplus of office demands in combination with the high rental rate encouraged the development of new office project in the next years. The new office supplies in 1997 and 1998 pushed down the market rental rate to USD 29.26/sqm in 1997 and USD 23.78/sqm in 1998. In 1997, the Asian Financial Crisis also had negative effects on the development of the real estate projects. However, the additional supplies of office spaces were kept uninterrupted; in 2000, new supplies in combination with the week office demands put the rental rates down to USD 20 per sqm on average, this was also the lowest achievable rental rates in the period of 1996 -2006.

Despite of the negative effects; the office supply continued to grow through 2000, the additional office supply caused the further decrease of rental rate at the average of under USD 20 per sqm/month. The negative effects on the office market did not last long, then the market gradually recovered and has performed relatively well during the period of 2002– 2006. This period could be the first booming time for Ha Noi's real estate market with the rapid increase in office demand and supply. The strong inflows of FDI resulted in the increase of foreign – invested companies; in addition, the private sector also developed rapidly and the demand for office spaces

grew accordingly. It is the fact that, Ha Noi's office market is an emerging and still in the immature stage, the demand and supply are unstable and can be changed remarkably within a short time period (Usually in 3 or 4 year period). Therefore, when there was a sudden rise in the office demand, and the existing stock of office spaces was limited; the rental rates were increased remarkably. The following figure represents the fast development of office market during the first booming period.



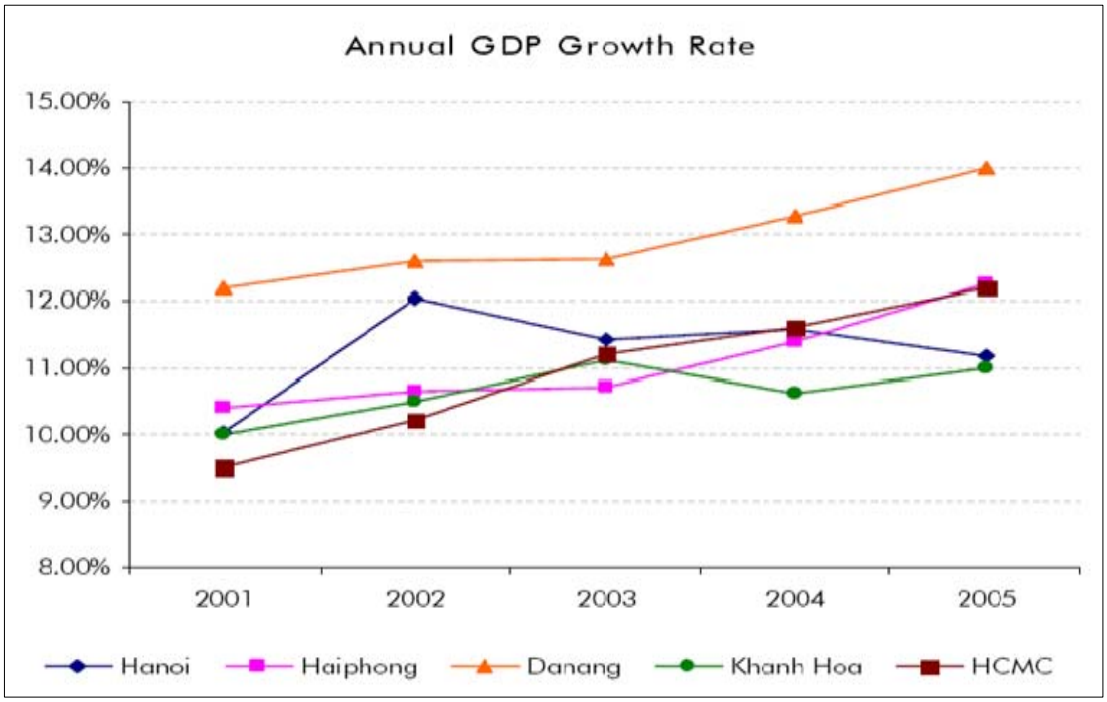

Source: CB Richard Ellis

Figure 12: Ha Noi's office take – up and vacancy rate during the first booming period (2004 – 2006)

In general, Ha Noi's office market before 2006 experienced the first booming

period after the renovation policy (Started in 1996): the surplus of office demands in comparison with the existing supplies, high rental rate, low vacancy rate, and the periodic fluctuation of the market. There are some factors that have the impacts on the first booming of the office market:

Firstly; during the period of 1996 – 2006, Viet Nam's economy has achieved a stable and high growth rate; the annual growth rate has reached up to 7.5% on average. As a result, a large number of companies have been established. The demand for office spaces also increased rapidly. Ha Noi also achieved the high economic growth rate during this period; Ha Noi's GDP gained the average growth rate of 11.5% during this period.

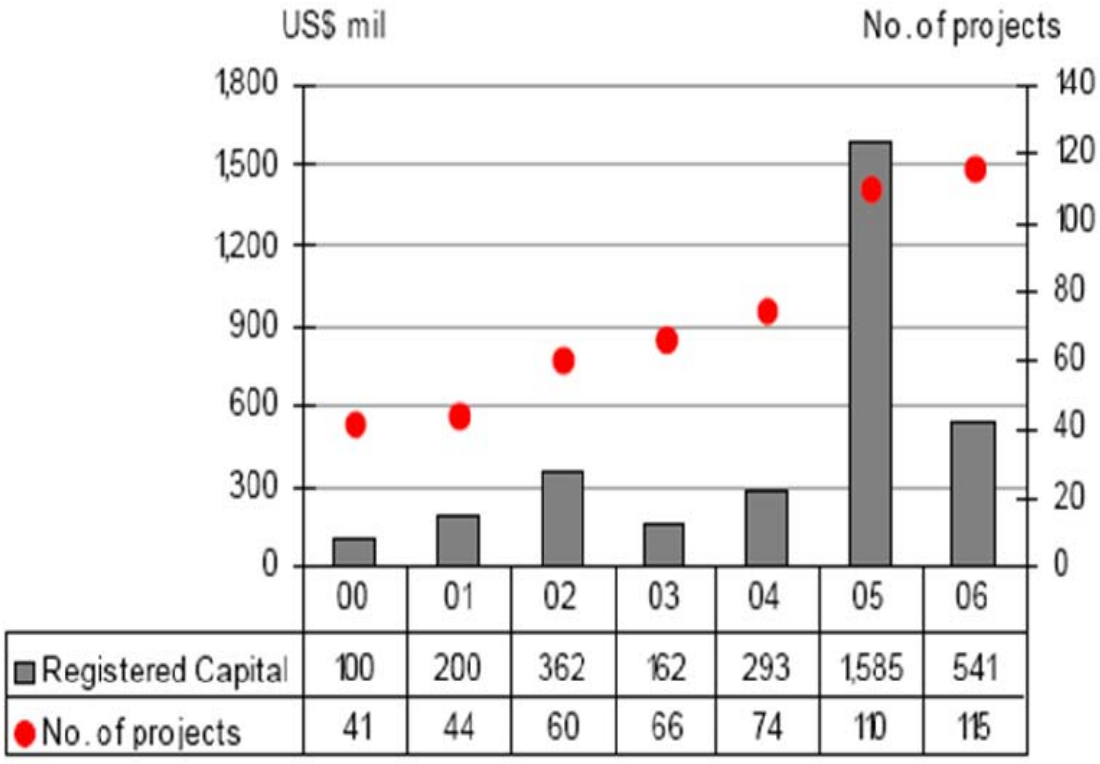



Source: General Statistic Department

Figure 13: GDP Growth rate of key cities during the period of 2001 – 2005

Ha Noi's high economic growth rate acted as the momentum for the development in the North of Viet Nam. In addition, Ha Noi is the capital city where the pivotal state agencies are located; the City also has a good infrastructure and a large customer base. Therefore, most of the companies want to establish their offices to take these advantages; the demand for office spaces is increased accordingly.

Secondly, the strong FDI inflows also facilitate the rapid development of the office market. After 1996, the open policy encourages the foreign investors in all sector of the economy. The greater integration into the global economy also results in the further involvement of the foreign factors in Viet Nam's economy. Being the second largest economic center, Ha Noi attracted the great inflows of FDI; during the period of 1986 – 1989, FDI mainly focused on the commercial and service sectors; FDI reached the peak in 1996 and tend to decrease in the period of 1997 – 2003 due to the negative impacts of the financial crisis. The recovery of the economy went along with the strong inflows of FDI; 2006 saw the big lap of FDI attraction to Ha Noi with 194 FDI projects and the total registered capital of over USD 1.03 Billion. Accordingly, Ha Noi belonged to the top ten locations of FDI attraction and ranked fourth in the overall ranking table. The following table represents the number of FDI projects and the registered FDI in Ha Noi during the period of 2000 – 2006.

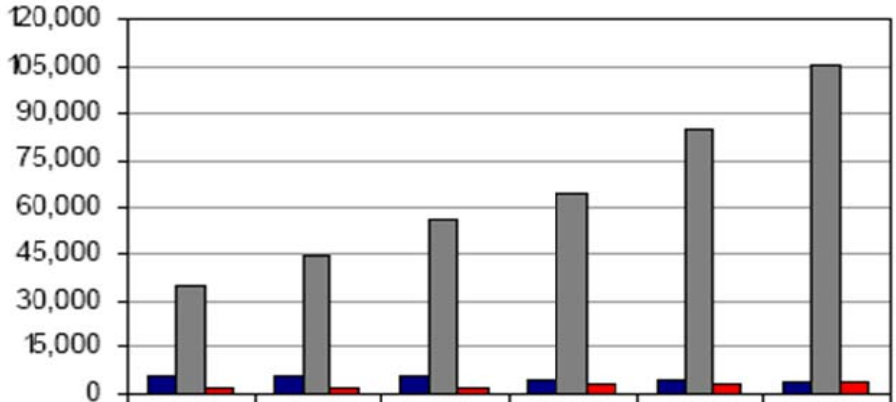



Source: Ministry of Investment and Planning

Figure 14: Ha Noi's FDI projects and registered FDI during the period of 2000 - 2006

As a result, the rapid economic growth rates in combination with the strong FDI flows facilitate the establishment of many companies with the large demand for the office spaces. During the period of 2000 – 2005, it is estimated that over 160,000 companies were established. The following figure represents the rapid increase of the newly – established companies during this period. The sudden increase of office demands has put the strong pressure on the rental rates and turned the rental rates in the prime areas ups to the exceptional level of USD 140 – 150 per sqm/month for

the emerging office market like Ha Noi.




| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| State owned enterprise | 5,355 | 5,355 | 5,363 | 4,845 | 4,596 | 4,086 |
| Non-state enterprises | 35,004 | 44,314 | 55,237 | 64,526 | 84,003 | 105,569 |
| Foreign enterprises | 1,525 | 2,011 | 2,308 | 2,641 | 3,156 | 3,697 |

Source: Ministry of Investment and Planning

Figure 15: Number of the established companies during the period of 2000 – 2005

It is obvious that during the booming period of the economy, the private sector was developed remarkably. Most of these newly – established companies operate in the IT field, financial sector and the serviced sector. According to the statistics released by Savills Viet Nam, most of the tenants look for the office spaces less than 150 sqm; this reflects the prevalence of the small and medium – sized companies during the period of 2000 – 2005. The foreign – invested companies also supported the development of the office market; these companies usually looked for the offices in prime areas (The buildings are usually located in the CBD). They put

the great importance on the office location and pay the high rental rates for the office spaces that are up to their requirements.

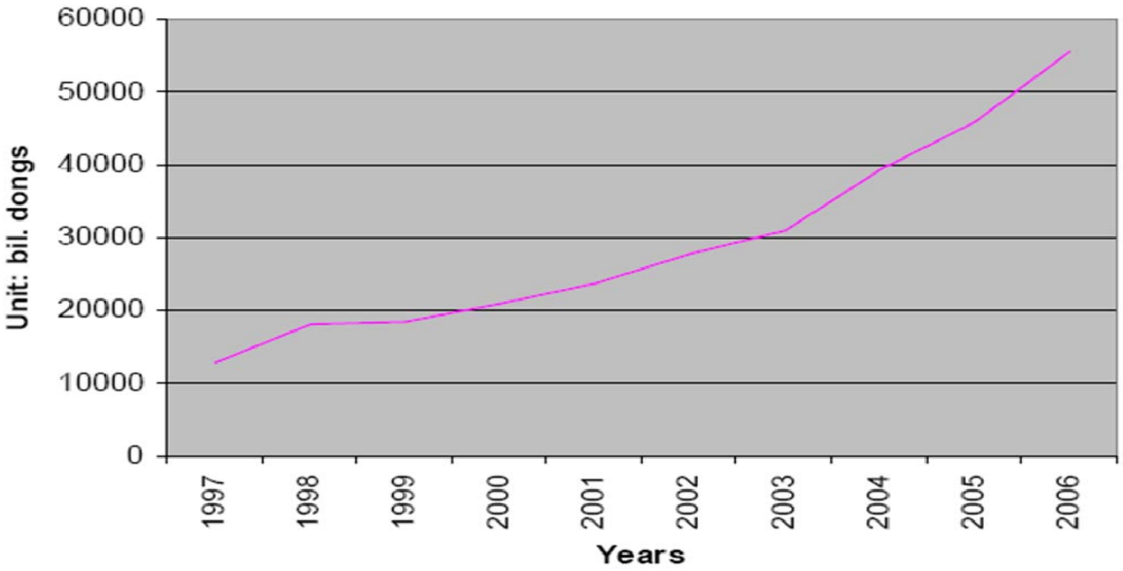
### 1.1.3. Ha Noi's retail market status before 2006

Generally, the value of the retail market in Viet Nam is estimated at USD 20 billion (According to AT Kearney). In term of the Demographics, Viet Nam's consumers are the youngest in Asia with around 79 million people under the age of 65. In Viet Nam, there are two pivotal markets including Ha Noi and Ho Chi Minh City; these markets are consolidated by the mass migration of nearly 1 million people each year. Additionally, the consumption patterns are changing rapidly with the high growth rate of the economy and the increase of the middle – income people.

At present, Ha Noi's retail market is still small and underdeveloped. However, the retail market could be considered as the most promising sector in the real estate of Ha Noi. Ha Noi retail market was dominated by the local retailers, because of the trade barriers that hinder the international retailers to enter the market. The international retailers have penetrated the market including Cash and Carry Group with the brand name of Metro and the Casino Group with the brand name of Big C. The local retailers have the advantages of good locations and the long – time relationship with the consumers. Meanwhile, the international retailers lacked

of the market information; they wanted to get accustomed to the local retail market before they decided the next development in their business.

During the period of 2001 – 2006, the retail sector has reached the high growth rate of over 15%. Particularly, the growth rate has achieved at 20% in 2006. This strong development of the market is represented in the following figure.




Source: Ha Noi Statistics Office

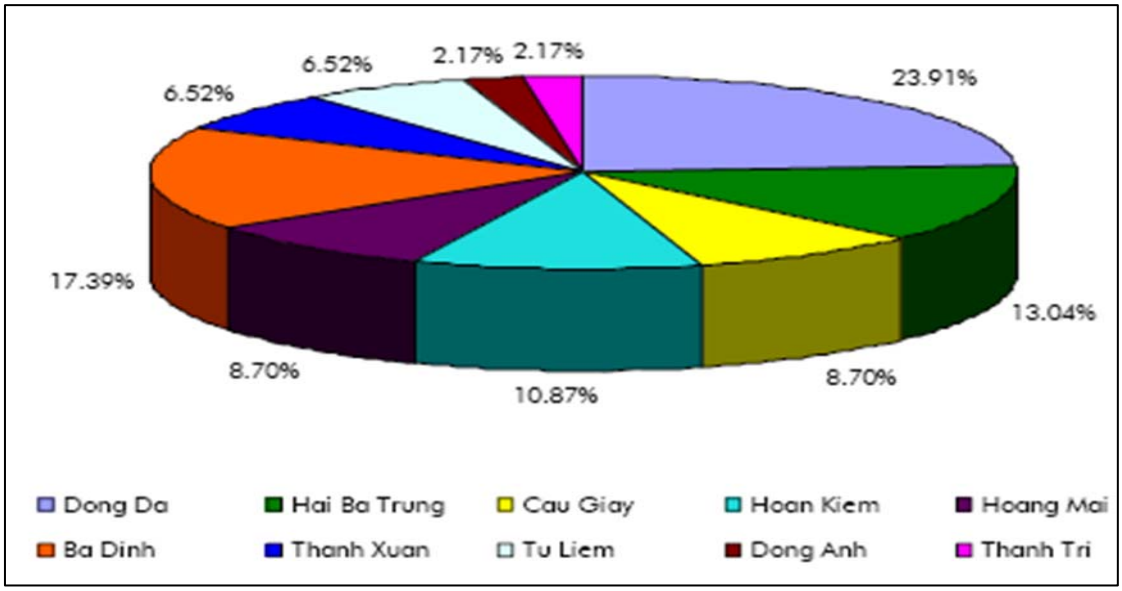
Figure 16: The total retail sales of general trade and services in Ha Noi during the period of 1997 - 2006

To have the clear understanding of the local retail market; the market could be divided among following sectors: Supermarkets, Shopping centers, front – street shops and podium centers, and the wholesale centers. More detailed analysis of these sectors is presented in following parts.

#### *1.1.3.1 The Supermarket sector*

As mentioned above, Ha Noi's supermarket sector was dominated by the local players including: Intimex, Citimart, Fivimart, and Hapromart. Before 2006, the international retailers could not participate in the distribution channels directly. In other way, they have to establish the join ventures with the local partners and the controlling share could not exceeded 49% of the total share. Moreover, they were not allowed to set up the 100% foreign – invested entities in the retail sector.

In accordance with Savills Viet Nam's statistics, there are 35 supermarkets in Ha Noi. Most of the large supermarkets located in the CBD; in addition, Ha Noi's supermarkets distributed unevenly: there are 5 supermarkets in the CBD with the total area of 6,245 sqm (Accounting for 14.4% of the whole supplies); 27 supermarkets in the SBD with the total area of 35,242 sqm (Accounting for 81.3% of the whole supplies); 3 supermarkets in the Suburban areas with the total area of 1,850 sqm (Accounting for 4.3% of the whole supplies). The distribution of supermarkets in each district is presented in the following figure.

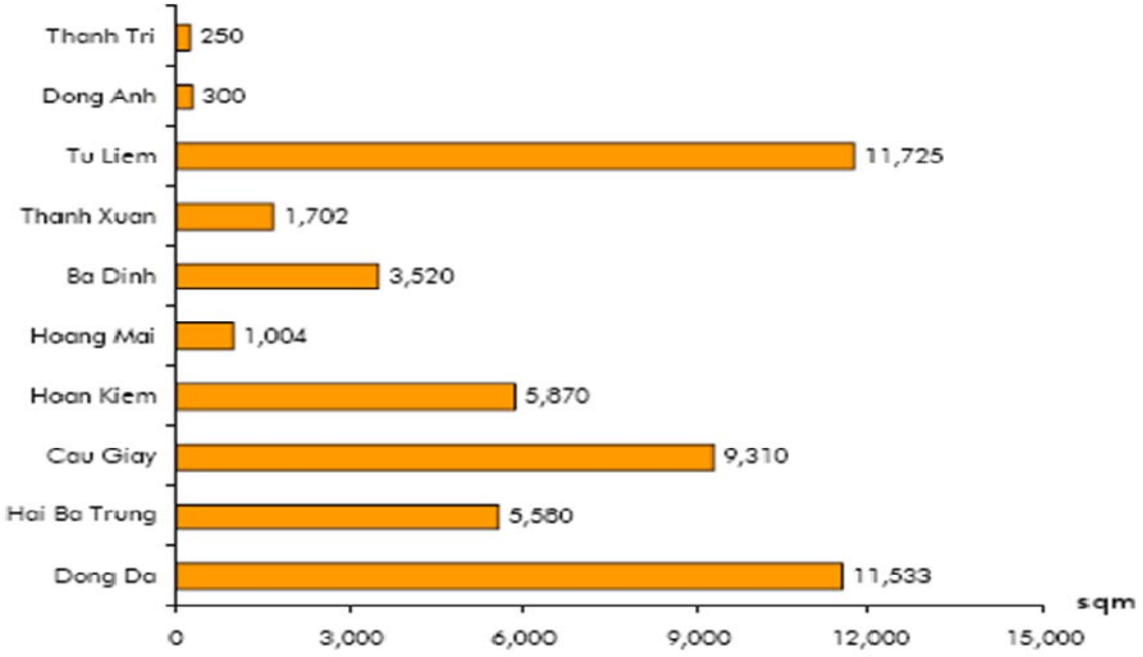



(Source: CB Richard Ellis)

Figure 17: The number of supermarkets divided by districts

Around 43% of the supermarkets have the total area below 1,000 sqm and these supermarkets are usually located in Hoan Kiem, Dong Da, and Ba Dinh Districts. Nevertheless, the suburban areas (Tu Liem, Thanh Xuan, and Cau Giay Districts) have accumulated the largest trading areas with the new development projects of large supermarkets in recent years. This is resulted from the fact that it is very difficult to find the sizable and good sites for large retail projects within the central districts of Ha Noi. Meanwhile, the suburban areas provide the suitable sites for the retail projects and the potential customer base thank to the city expansion and the mass migration to Ha Noi. Therefore, the developers have no other choice but to choose the suburban areas as their new areas for retail development projects.

In the following figure, Ha Noi's total trading areas in the supermarkets are represented.




Source: CB Richard Ellis

Figure 18: The supplies of trading areas in supermarkets divided by districts

The rental rates of these supermarkets are ranging from USD 8 per sqm (Ha Noi Supermarket in Dong Da District) to USD 23 per sqm (Citimart Supermarket in Hai Ba Trung District). However, it is the fact that a majority of the supermarkets is self – owned and it is very difficult to estimate the exact rental rates for these supermarkets. Generally, the rental rates of the supermarkets with good locations could exceed USD 30 per sqm – this rental rate is quite higher than the ceiling rate of the market.

Despite of the fact that supermarkets face the strong competition by the traditional wet markets, and there is the coexistence of the supermarkets and traditional wets markets in Ha Noi; it is obvious that Ha Noi still needs the larger amount of supermarkets to satisfy the increasing demands from the customers. When people have the larger disposable income and their awareness of the foods hygiene is improved, they will likely choose the supermarkets for shopping instead of going to the traditional wet markets. This could be the good opportunities for both the local and international retailers in the future.

#### *1.1.3.2 The Shopping centers*

Until 1997, the first shopping center was established in Ha Noi. Until 2006, the development of shopping centers has not kept up with the increasing demand of local customers. The local retailers also controlled the majority of the market share; meanwhile, the role of international retailers were not remarkable, they have to form the joint venture with the local partners and their shares in the join ventures could not exceed 49% of the total share. According to the statistics of Savills Viet Nam in 1996, the existing supplies of shopping centers in Ha Noi were estimated at 95,000 sqm with 7 shopping centers. There was a shortage of shopping centers in comparison with Ha Noi's market scale.

Consequently, the rental rates increased sharply (Average rental rates achieved at USD 40 per sqm), and the occupancy rate reached 95% on average (Shopping centers in CBD were fully occupied). Generally, the rental rates of shopping centers ranged from USD 25 per sqm (In Big C Shopping Center) to USD 100 per sqm (In Vincom Tower). The following table represents the net trading areas and average rental rates of the shopping centers in Ha Noi.

| Name | District | Area (m2) | Average Rental Range (US$/m2) |
|---|---|---|---|
| Vincom Tower | Hai Ba Trung | 17,791 | 40-100 |
| Big C Shopping Centre | Cau Giay | 12,000 | 25-40 |
| Trang Tien Plaza | Hoan Kiem | 4,500 | 57-75 |
| Ruby Plaza | Hai Ba Trung | 1,500 | 30-40 |
| Luxury Mall | Dong Da | 5,000 | 60-90 |
| Hanoi Tower | Hoan Kiem | 2,515 | 45-50 |
| Syrena | Tay Ho | 4,500 | 30-40 |

Source: Savills Research and Consultancy

Table 7: The net trading areas and the average rental rates of the Shopping centers in Ha Noi

In fact, the rental rates vary based on the exposure and the accessibility to the customers. For example, the ground floors in Vincom Tower could achieve the rental rate up to USD 85 per sqm; meanwhile, the other floors could reach USD 55 per sqm

on average.

Apparently, the high potential of the retail market has attracted several big international retailers such as Wal-mat, Tesco, Casino, and Lotte. These retailers are very active to find the suitable sites for their development projects. Their targets include the new urban areas and suburban areas with the high potential of the future development; therefore, Ha Noi will witness many new shopping centers right after the opening of the retail market to the international retailers in 2009.

#### *1.1.2.3 The front – street Shops and Podium Centers*

The front – street Shops has been dominated Ha Noi's retail market for several decades. City dwellers are accustomed to this type of shopping; they usually drop by the shops alongside the streets on their way home or to office. These shops are situated along the streets with the narrow frontages (Ranging from 5 to 8 meters long). The rental rates will depend on the location and the traffic volume of the streets. Ha Noi's customers get accustomed to the front – street Shops thank to its convenience and accessibility.

Podium Centers are usually situated in the ground floors of the office buildings. These ground floors face the surrounding streets and only used for the retail shops. Podium Centers could serve both the office workers in these buildings

and the customers; therefore, Podium Centers are the favorite retail spaces for the luxurious brands in Ha Noi. These retail spaces are grouped for the study purpose of the retail market and the similarity between the front – street Shops and Podium Centers. The retail spaces of front – street Shops and Podium Centers are classified into the locations: CBD, SBD, and the outskirt areas; the following parts will represent each classification in details.

***Front – Street Shops and Podium Centers: CBD area.***

Front – street Shops and Podium Centers in CBD are situated along Trang Tien, Ngo Quyen, Le Thai To, and Ly Thai To Street. These streets host the most luxurious brand in Ha Noi's retail market; the Podium Centers include the prestigious buildings: Metropole Hotel, Press Club, Opera Business Center, 63 Ly Thai To Building, and Asia Tower.

Rental rates in these areas are claimed to be the highest in Ha Noi's retail market; for example, the rental rates are above USD 100 per sqm in some areas around Metropole Hotel, Ha Noi Opera House, and Hoan Kiem Lake. In addition, the escalation rate is around 30% - 50% per year due to the limited supplies and the high demand for retail spaces in these areas. The appearance of luxurious brands in these areas is likely a must to the retailers when they want to define themselves as

the prestigious brands in Ha Noi's retail market. The following table represents the current rental rate for the front – street Shops and Podium Center in this area.

| No | Name | Area in sqm | Rent US$ per sqm per month |
|---|---|---|---|
| 1 | 63 Ly Thai To | 561 | 96 |
| 2 | Metropole Centre | 650 | 90-120 |
| 3 | Press Club | 750 | 65-130 |
| 4 | Opera Business Centre | 1,660 | 90 |
| 5 | Asia Tower | 800 | 90-110 |

Source: Savills Research and Consultancy

Table 8: The average rental rates for the front – street Shops and Podium Centers in the CBD area of Ha Noi

***Front – Street Shops and Podium Centers: SBD area***

In this area, the front – street Shops and Podium Centers are located along Trang Thi, Quang Trung, Tran Hung Dao, Phan Chu Trinh, Ly Thuong Kiet, and Hai Ba Trung Street. These streets have the high volume of traffic and could be considered as the main shopping streets for the electronic appliances, clothes, boutique, and office utensils. The shops selling the similar categories tend to located

next together, this creates the "Cluster effects" to attract customers and give more purchasing options to them; for example, Tran Hung Dao Street is very popular with the telecom shops and service centers, Hai Ba Trung Street is well-known for the center of the electronic appliances, and Trang Thi is the location for the boutiques and souvenir shops. The rental rates in SBD are lower and more stable than in CBD area; most of the tenants are the local companies and residents, foreign tenants take the small percentage in SBD area. The table below will illustrate the average rental rate of this area.

| Location | Example | Area in sqm | Rent US$/ sqm |
|---|---|---|---|
| Phan Chu Trinh, Ngo Quyen, Hai Ba Trung, Ly Thuong Kiet | Sun Red River | 1,128 | 40 |
| | Hanoi Somerset | 2,515 | 45-50 |
| | Central Building | 550 | 55 |
| | Artexport | 2,300 | 40 |
| | Pacific Place | 1,200 | 60-65 |

Source: Savills Research and Consultancy

Table 9: The average rental rates for the front – street Shops and Podium Centers in the SBD area of Ha Noi

***Front – Street Shops and Podium Centers: Outskirt Areas***

The Shops are situated along Nha Tho, Ly Quoc Su, Nha Chung, Hang Bong, Au Trieu, Hang Gai, Hang Ngang, Hang Dao, Hang Bai, Le Van Huu, Bui Thi Xuan, Pho Hue, and Ba Trieu Street. These streets host a variety of shops: Handicrafts, fashion shops, boutiques, coffee shops, footwear shops.etc. The Outskirt Areas could be divided into two subgroups: Nha Tho area and Hang Bong area.

Nha Tho area (Including Nha Tho, Hang Trong, Ly Quoc Su, and Au Trieu Street) is very popular to tourists and trendy customers. This area hosts a lot of high – end local fashion brands and luxurious boutiques. Therefore, the rental rates achieve the second highest just after the rates in CBD areas; the average rental rate is up to USD 60 per sqm. Tenants usually try to sign the long – term contracts to secure their retail spaces due to the good sales revenue and the fierce competition for the shops in this area.

Hang Bong area (Including Hang Bong, Hang Gai, Hang Ngang, Hang Dao, and Hang Bai Street) could be regarded as the tourist attraction spots of Ha Noi. Alongside the streets, many fashion shops, boutiques, and souvenir shops are densely located. High traffic volume and the popularity to tourist make this area very attractive to the retailers; they have to compete with each other to lease the good retail spaces. As a result, the average rental rate could reach up to USD 30 per

sqm; additionally, the occupancy rate usually achieves 100% with a long waiting list of the tenants. The following table represents the achievable rental rates in two above – mentioned subgroups.

| Street Names | Example | Area (Sqm) | Rent (US$/Sqm) |
|---|---|---|---|
| Nha Tho<br>Hang Trong<br>Ly Quoc Su<br>Au Trieu | Asia Tower | 800 | 100 |
| | Three Trees | N/A | 35 |
| | Thing of Substances | 50 | 31 |
| | Cara | 11 | 57 |
| | Mirror Mirror | 30 | 32 |
| Hang Bong<br>Hang Gai<br>Hang Ngang<br>Hang Dao<br>Hang Bai | Shop A | 200 | 23 |
| | Clothes Shop | 12 | 31 |
| | Cosmetic Showroom (2 Floors) | 300 | 23 |
| | Hand Phone Shop | 400 | 25 |

Source: Savills Research and Consultancy

Table 10: The average rental rates for the Outskirt areas of Ha Noi

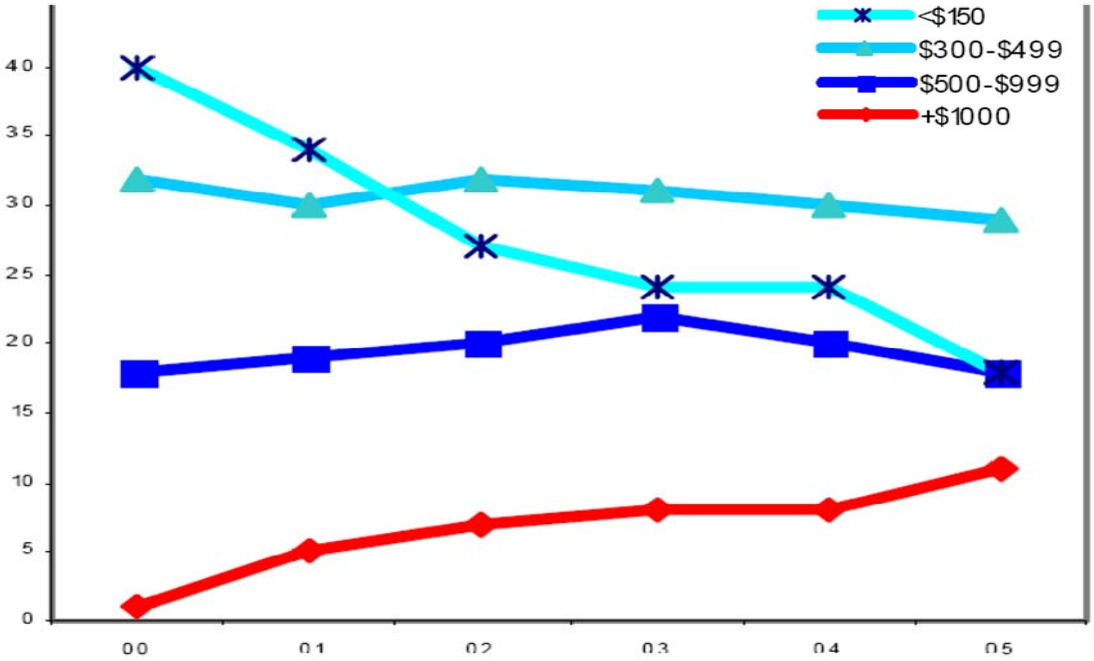
***1.1.3.4 The wholesale market***

There are merely two wholesale centers in Ha Noi: Metro Thang Long and Me Linh Plaza. Of which, Metro Thang Long opened in 2003 under the management of Cash and Carry Group. The total area of this center is 11,000 sqm with the exhibition of over 15,000 items of commodities and serves around 90,000 registered

customers. Me Linh Plaza went into operation at the end of 2006, it is the first trade center for building materials and the interior design. The total floor area of Me Linh Plaza is 80,000 sqm (30,000 sqm of warehouse and parking area; 15,000 sqm for apartment and office spaces; 1,000 sqm for restaurants). Rental rates range from USD 7 to USD 12 per sqm/month. The type of Me Linh Plaza is similar to Home Depot in other countries. Customers could enjoy the convenience of shopping with a variety of products; meanwhile, the sellers also benefit from the cluster effect when the customers come to the Plaza to satisfy their demands for building materials and the interior design.

Apparently, the early success of these two wholesale centers would motivate the bold moves of other competitors to develop their wholesale centers in the coming years. In addition, Ha Noi accumulates many factors to be a promising retail markets in the region. Firstly, the number of wealthy people is increasing remarkably thanks to the high economic growth rate. Viet Nam's GDP per capita was estimated at USD 480; meanwhile, Ha Noi's GDP per capita achieved at USD 1,750 in 2006. Generally, Ha Noi's GDP per capita was 2.25 times above the national average. In addition, the consumption volume grew by 20% per annum. Additional incomes from the overseas remittance also consolidated the high disposable income; it is estimated that 30% of population has the overseas relatives and one over five

households receives overseas remittances from the overseas relatives. The annual amount of remittances reach USD 4 billion (Appropriate to 15% of GDP); of which, over 70% of overseas remittances is sent to the city dwellers. This helps to expand the household's income and change the consumption pattern of the customers. The following table will illustrate the increase on the urban households' income in the period 2000 – 20005.

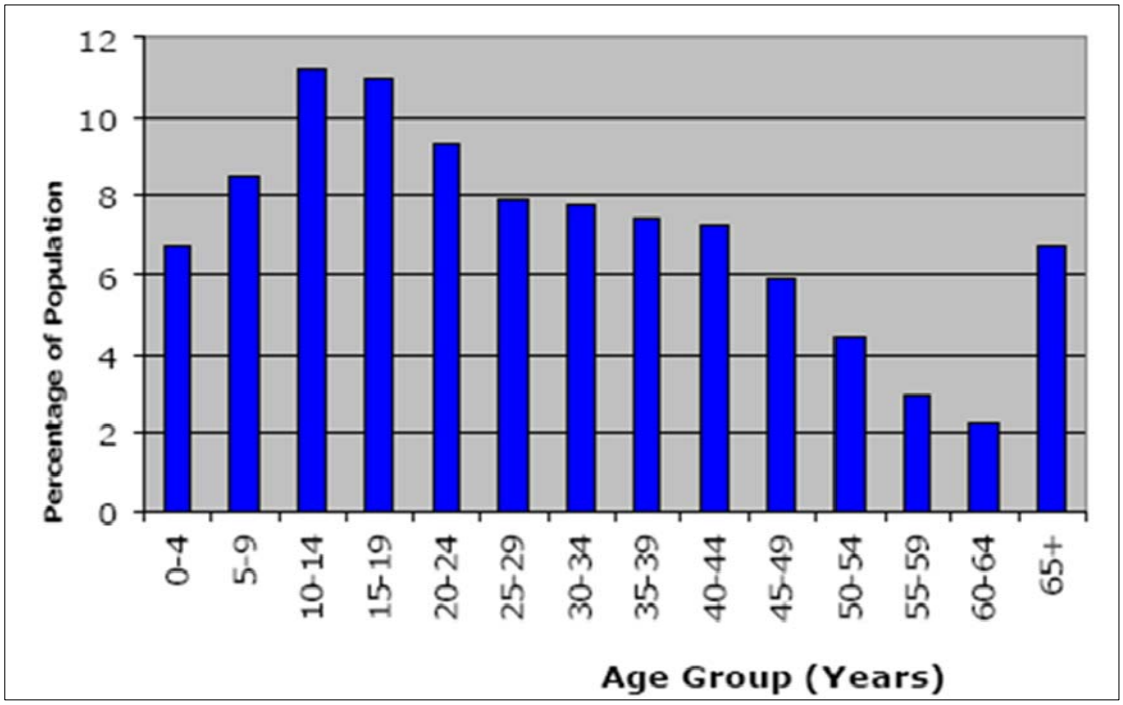



Source: Chesteron Petty Viet Nam

Figure 19: Percentage of urban household's income in the period of 2000 - 2005

Secondly, the young population is the big momentum for the economy in general and for the retail market in particular; over 70% of population is under 30

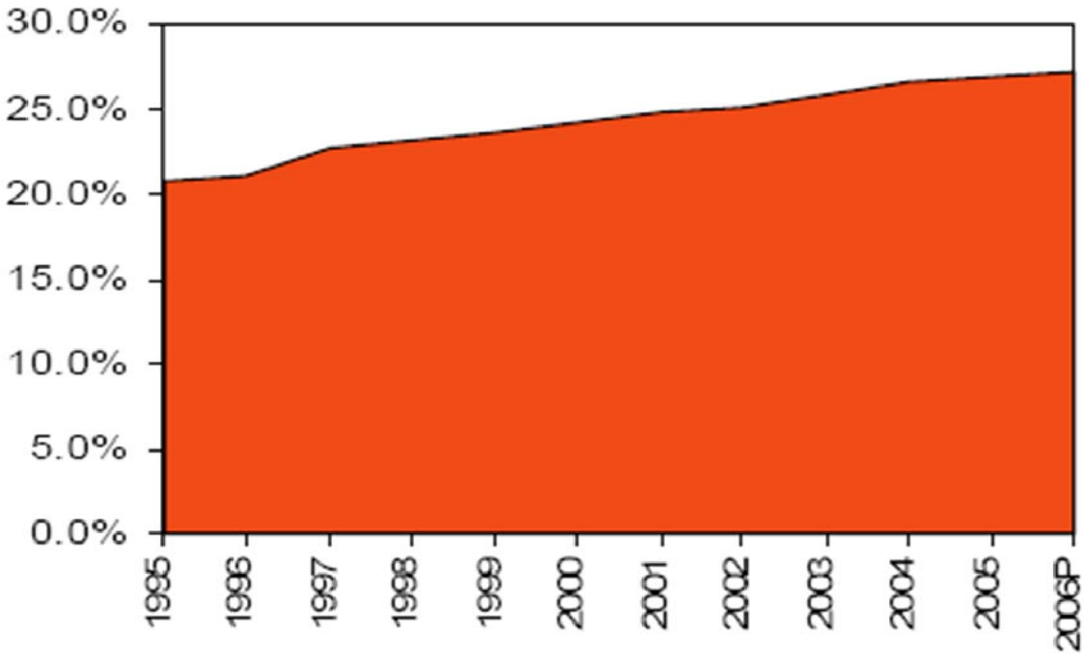
years old. Viet Nam's population is among one of the youngest demography in Asia with the average age is 26. Young people get adapted to the conspicuous consumption rapidly; they become the main momentum for the development the market sectors with the consumption of popular commodities such as: mobile phones, electronic devices, clothing and fashion accessories. The big changes were also obvious in the consumption pattern; which were represented by the rapid increase in the popularity of ATM services, banking and private insurance. McKinsey's analysis showed that the retail banking services could grow at 25% annually; this show the great development potential for Ha Noi's retail market in particular. Young demography is illustrated by the following figure.




Source: General Statistics Office

Figure 20: Population structure by age group in 2005

Thirdly, the rapid urbanization of Ha Noi has created the big and promising development opportunities for retail market. Viet Nam's urban population has increased from 20.7% in 1995 to 27.1% in 2006. It is forecast that urban population would reach 33.4 million people in 2010 and 40 million people in 2020. The immigration procedure is simplified for immigrant workers in Ha Noi; additionally, the industrial zones also attract a lot of workers from other regions to join Ha Noi's workforce. Therefore, Ha Noi could be the big market for the retail market with the projected population ups to 7 million people. The rapid urbanization level is represented in the following figure.




Source: General Statistics Office

Figure 21: The urbanization level of Viet Nam in the period of 1995 -2006

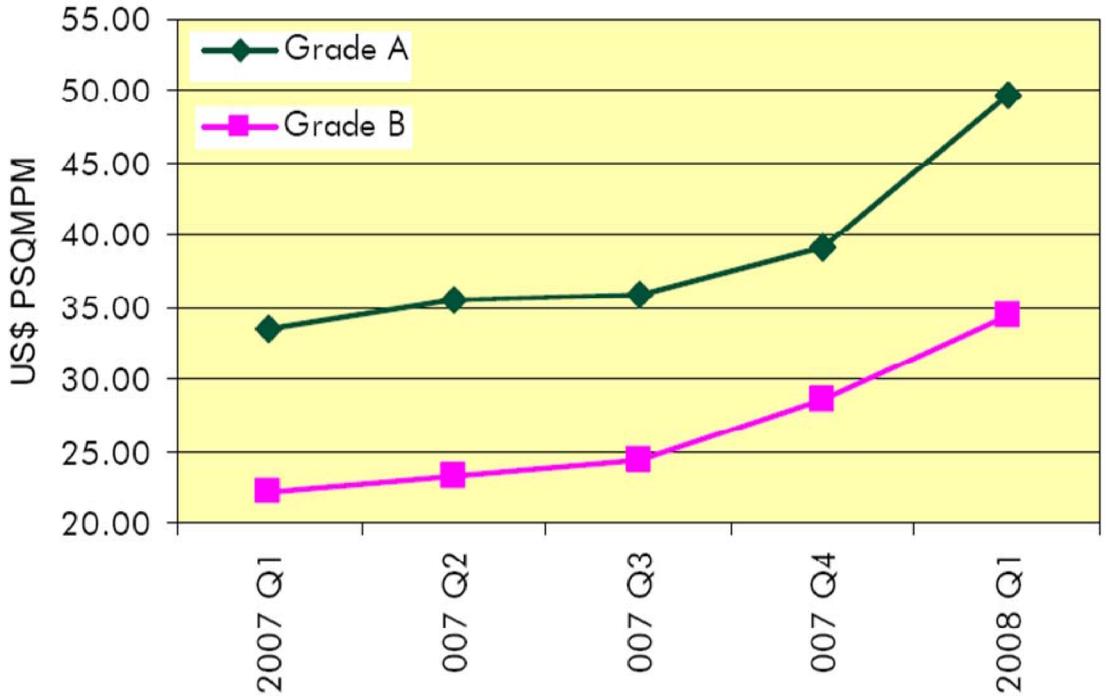
Fourthly, the high number of foreign tourists visited Ha Noi is another basis for the development of the local retail market. Foreign tourists' consumption could facilitate further development of the local retail market. Additionally, local retailers also have to upgrade the retail facilities and improve the service quality to satisfy the demands from the foreign customers. During the period of 1996 – 2006, the number of foreign tourists has been increased 20% on average (From 250,000 tourists in 1990 to 3.5 million tourists in 2005). In accordance with the estimation released by Viet Nam Tourism Administration, the number of foreign tourists could increase at 10 to 20% per year and could reach from 5.6 to 6 million tourists at the end of 2010. The higher number of foreign tourists could mark the further development of local retail market in next years.

## 1.2. Ha Noi's real estate market under the impacts of Viet Nam's WTO accession

### 1.2.1 Ha Noi's Office Market

The office market performs well with the good performance in all market sectors. Nevertheless, the shortage of office supply remains; while the demand for office spaces continues growing. The mass entry of foreign – invested sectors and the

rapid expansion of local private sectors facilitate the robust of the market. These factors have the profound impacts on the market with the high rental rates and the low occupancy rate of the office spaces. One of the main criteria is the escalation rate over the recent period; the increase in the rental rates of the local office market could be illustrated in the following figure.



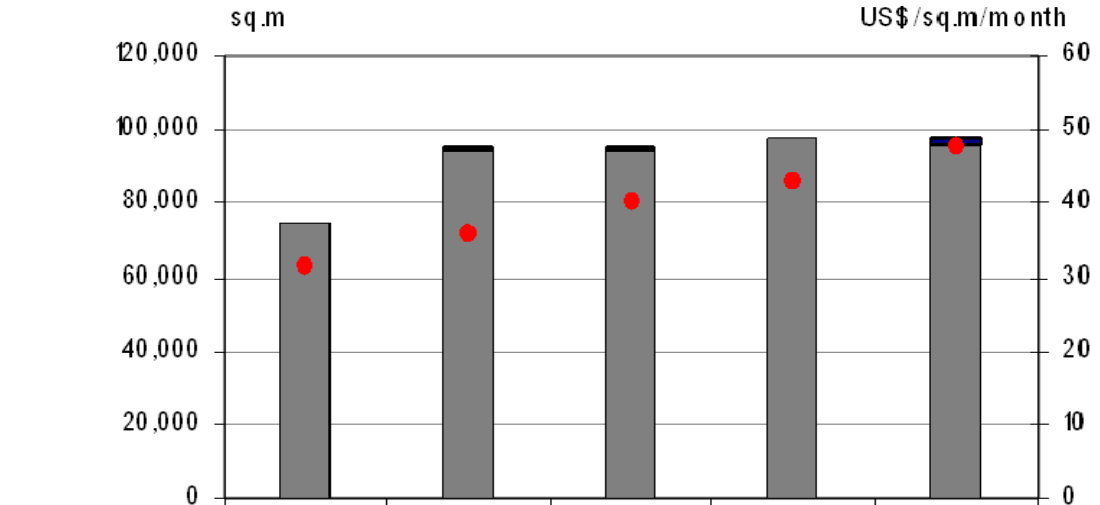

Source: CB Richard Ellis

Figure 22: The quarterly escalation of the rental rates for Ha Noi's office market.

In terms of the grade A office market, the limited supplies could not meet the current demand. Therefore, the first and the fourth quarter of 2007, the occupancy rate achieved 100% with the average rental rate at USD 31.28 per sqm and USD 42.82 per sqm consecutively. There is a slightly decrease in the first quarter of 2008 with

the occupancy rate of 98.62%; however, the average rental rate achieves at USD 52.81 per sqm/month.

The rental rates keep on increasing, while the occupancy rate is decreased for the grade A office market. When the rental rates become rather high in the grade A office market; as a result, tenants tend to move out of the expensive office areas, they have to choose the office spaces with lower rental rates and larger floor areas. Presently, new office buildings in the SBD and suburban areas attract the large number of tenants thank to the proximity to the CBD, better infrastructure, and the accessibility.

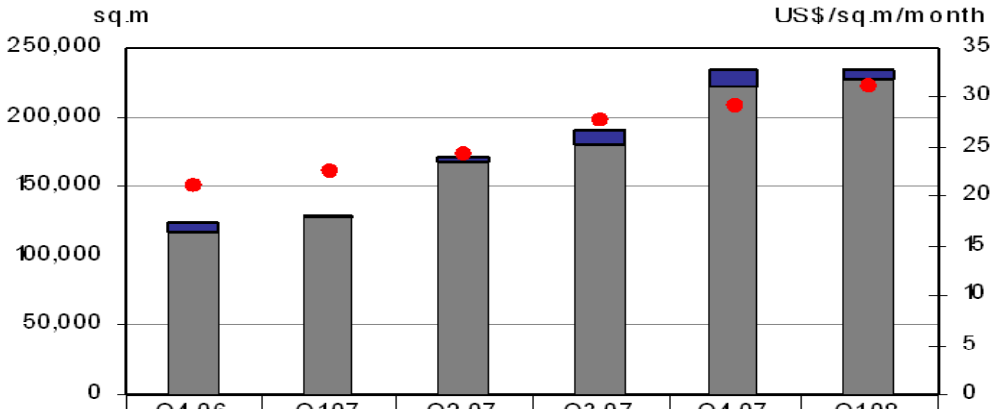



| | Q1 07 | Q2 07 | Q3 07 | Q4 07 | Q1 08 |
|---|---|---|---|---|---|
| Available area | 0 | 190 | 190 | 0 | 1,346 |
| Occupied area | 75,092 | 94,932 | 94,932 | 97,722 | 96,376 |
| Average rent | 31.28 | 35.87 | 40.14 | 42.82 | 47.62 |

Source: Savills Research & Consultancy

Figure 23: The Quarterly performance of Grade A office market

In terms of the grade B office market, the market has performed well with the high rental rates and the low occupancy rate. The market status is quite similar with the grade A office market; there is a demand surplus of the office spaces, the current supplies could meet the existing demands. While the additional supplies of office spaces are expected in 2 or 3 years later. The average rental rate increase remarkably in 2007 and the first quarter of 2008; however, the vacancy rate fluctuates widely due to the additional supplies of grade B office spaces to the market (See the following figure). In fact, many companies are looking for the grade B offices to locate their companies; they could not lease the grade A office due to limited supplies and high rental rates. Therefore, they have to relocate their offices to SBD or suburban areas where the rental rates are affordable and they could have more floor areas.

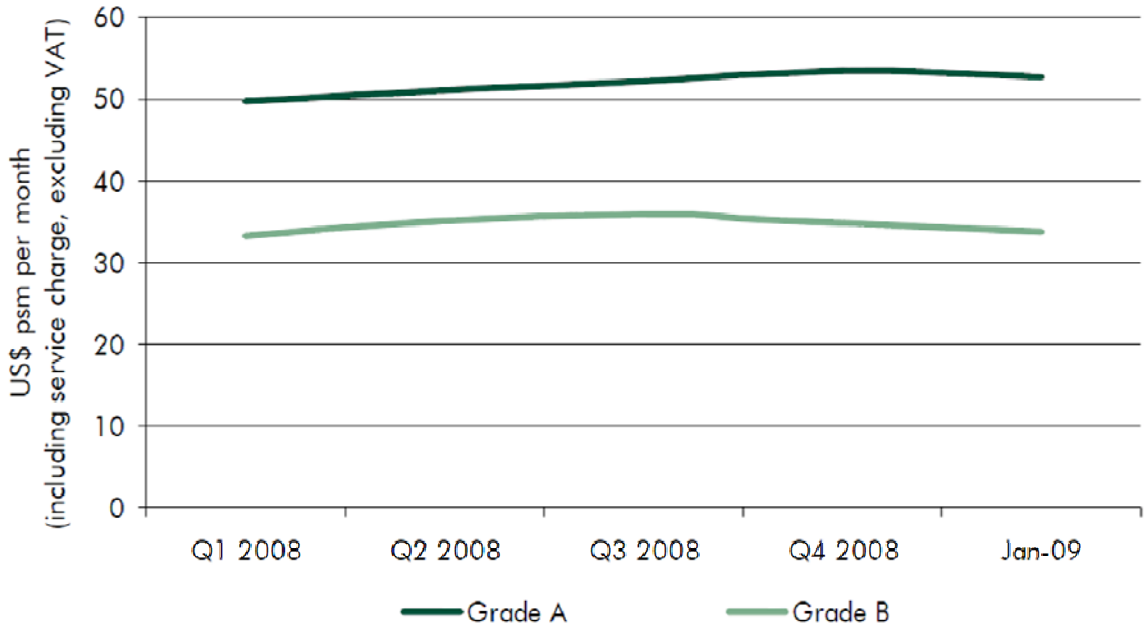



| | Q4 06 | Q1 07 | Q2 07 | Q3 07 | Q4 07 | Q1 08 |
|---|---|---|---|---|---|---|
| Available area | 7,731 | 1,945 | 3,440 | 8,923 | 12,192 | 7,034 |
| Occupied area | 116,964 | 127,740 | 168,580 | 180,932 | 222,272 | 227,430 |
| Average rent | 21.12 | 22.59 | 24.34 | 27.61 | 29.15 | 31.14 |
| Average rent | 21.12 | 22.59 | 24.34 | 27.61 | 29.15 | 31.14 |

Source: Savills Research & Consultancy

Figure 24: The Quarterly performance of Grade B office market

However, the full integration into the global economy not only brings the positive effects but also absorbs the negative impacts. The entry to WTO increases the business cooperation with other economies; as a result, Viet Nam's economy becomes more sensitive to the fluctuation of the global market. Ha Noi's real estate also is under the effects by the economic condition. When the early signs of the global economic recession appeared in the end of 2008 combining with the subprime mortgage crisis in the United States, there have been several negative effects on Ha Noi's office market in particular. The difficulties in business activities have made the companies consider their future plans as well as the business development strategy; these negative impacts put the pressure on the escalation of the rental rates and growth rate for Ha Noi's Grade A and B office market. In the short term, the occupancy rate and the rental rate have shown the slight decreasing trend. Particularly, the rental rate has reduced remarkably in the 4th Quarter of 2008; the general reduction of the rental rate is estimated from 15% to 25% in comparison with the corresponding period in the previous year. The following figure will represent the rental rate in 2008 and the decreasing trend of the rental rate in 4th Quarter of 2008.




Source: CB Richard Ellis

Figure 25: The Quarterly performance of Grade A and Grade B office market in 2008

It is obvious that the market opening brought by Viet Nam's entry to WTO has created the good opportunities for the development of the real estate market in general and the office market in particular. The entry to WTO could be considered as a landmark for the stronger development of the real estate market in Viet Nam. The impacts on the office market resulted from Viet Nam's entry to WTO are represented in the following factors:

***Changing the market equilibrium by new investments from the foreign investors and developers:***

Viet Nam's real estate sector has attracted the large amount of foreign investment after the accession to WTO in 2007; it is estimated that around USD 5 billion has been disbursed. During the period from January to May 2008, the total registered capital from foreign investors has been recorded at over USD 14 billion; of which, over 45% of the total registered capital invests in the office and apartment development projects. The strong inflows of FDI projects emphasize the high expectation of the foreign investors for the real estate market. The following figure represents the strong inflows of FDI into Viet Nam in the period of 2004 – 2008 (Q1).

Source: General Statistics Department

Figure 26: Viet Nam FDI in the real estate sector within the period of 2004 –

2008 (Q1)

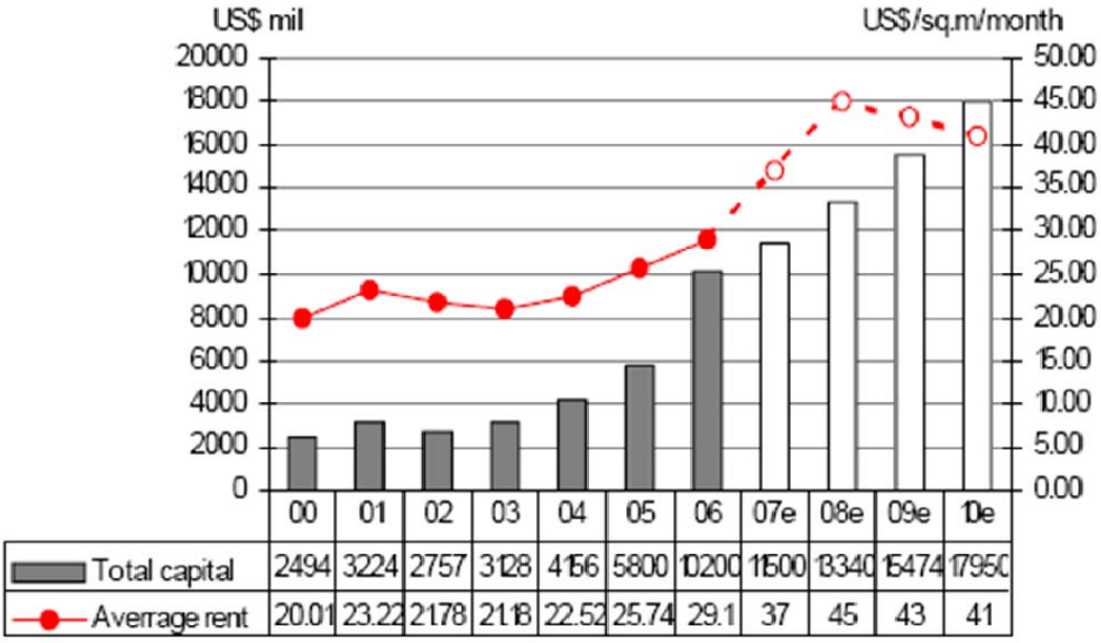
Apparently, the high potential of the economic development has fuelled investors' confidence. They see the business opportunities in Viet Nam economy in general and in the real estate sector in particular. The strong inflows of FDI into the office development projects have proved the attractiveness of the market; Ha Noi's office market has the high rental rates, low vacancy rate, and the big supply shortage. These factors are the promising signs for the investors to reap the profit targets. The participation of foreign investors has changed the status of the office market remarkably; before 2006, the local developers played the main role in the market and the effects of the foreign players were limited. However; after Viet Nam's accession to WTO in conjunction with the new policies for attracting foreign investors, there are the rapid movements of the foreign investors in the office market such as Keangnam (South Korea) with Keangnam Ha Noi Landmark Tower project, Charmvit (South Korea) with Ha Noi Plaza Hotel project, Coralis (France) with the Landmark Project, Riviera (Japan) with a 5-star Hotel Complex Project.etc. In the next 3 years when these projects are completed, the main supplies of the market (Especially for the grade A office spaces) will be from the foreign developers; the market would be considered under the strong impacts by the foreign investors.

***The rapid expansion of the private sectors and mass entries of the foreign – invested companies create the momentum for the development of the office market.***

In parallel with the strong FDI inflows, there are the mass entries of foreign – invested companies. These newly – established companies are the new forces to consolidate the demand side of the office market. First of all, they try to look for the office spaces in CBD area with the advantages of good infrastructure, customers' accessibility, and close the business – supported partners. Meanwhile; most of grade A offices are located in the CBD area, the demand for office spaces is quite high in all year round. Ha Noi's grade A offices include 10 buildings (Of which, 9 of them locate in the CBD area); the supplies apparently could not satisfy the increasing demands from the tenants.

According to the recent studies conducted by Savills Viet Nam; it is a matter of fact that there is a close correlation between the increasing trend of the registered investment capital and the rental rate escalation in Ha Noi office market in particular. Apparently; in parallel with the strong FDI inflows, a big number of the foreign – invested companies also come into operation. These newly – established companies add up the demand side for the office spaces in Ha Noi's office market; while the supply side is still limited, the additional demand put the remarkable pressure on

the market balance. Consequently, the new market balance will be established and the new rental rates also marked in the market based on the current market conditions. The following figure represents that close correlation.




Source: Ministry of Planning and Investment - Savills Research & Development Consultancy

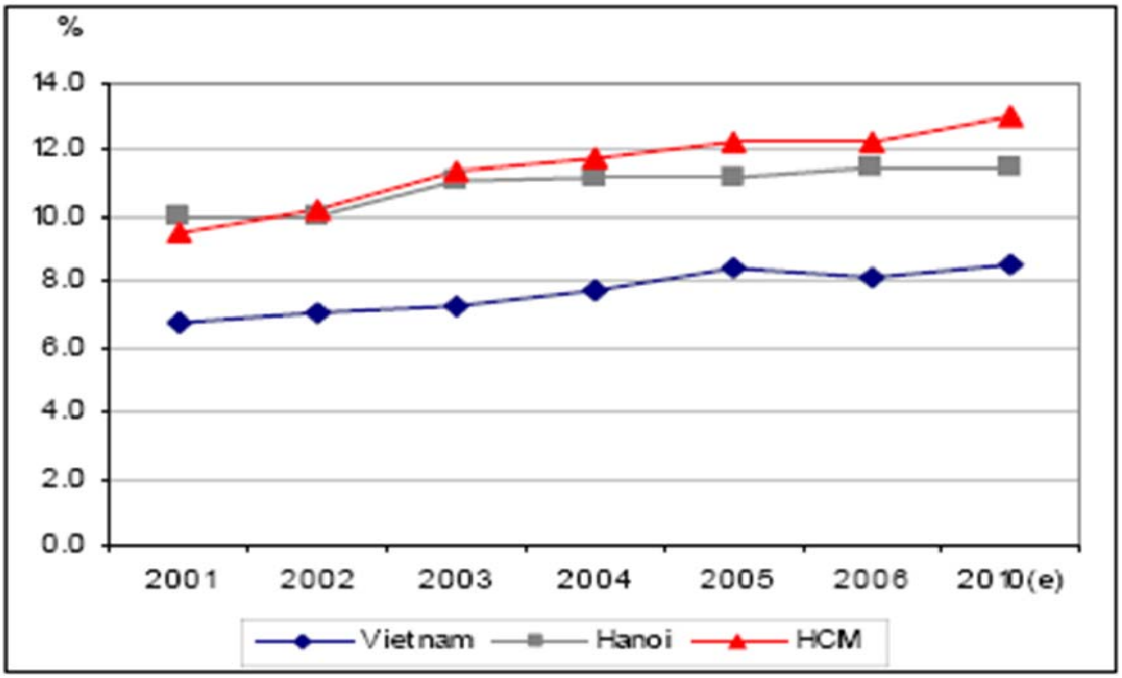
Figure 27: The effects of the registered foreign investment capital on the average rental rate of the office market.

***The stable and high economic growth rate facilitates the development of the real estate market in general and the office market sector in particular.***

Viet Nam's economy has achieved the average growth rate of around 8.5% in recent decade and became the second economy which has the most rapid economic

growth rate in the world (Ranking behind China). The entry to WTO could be the momentum for Viet Nam's economy to sustain the high economic growth rate. The opening of the local market not only helps Viet Nam's economy to integrate fully into the global market but also facilitates the development of the economic sectors when a lot of foreign companies participate in the domestic economy.

Obviously, the bright outlook of the economy has the positive impacts on the real estate market; particularly, Ha Noi's real estate market could achieve the good growth rate. With the position as one of two economic engines in Viet Nam, Ha Noi's development provides a major contribution to Viet Nam's economic growth rate as a whole. The bright economic outlook could also promote the development of the office market with the opportunities for the stronger expansion of the private sectors and the foreign – invested sectors. As a result, the big demand for more office spaces to situate their companies and the motivation for providing more office spaces to the market. The demand and the supply side of the office market would be much bigger in parallel with the good performance of the market in particular and the strong development of the whole economy in general. Following figure represents the GDP growth rate during the past years and the forecast growth rate in next period of the economy.




Source: General Statistics Office

Figure 28: GDP growth rate of Viet Nam, Ha Noi, and Ho Chi Minh City.

### 1.2.2 Ha Noi's retail market

Ha Noi's retail market is considered as the most promising sectors in all sectors of the real estate market. Viet Nam's accession to WTO opens the great development opportunities for the retail market. Ha Noi ranks 4$^{th}$ in the 2007 Global Retail Development Index (After other emerging markets such as India, Russia, and China). The opening of the local retail market will begin since January 2009, when

100% foreign – invested retailers are allowed to set up their business in the domestic market. There are several factors that define clearly the potential of the local retail market: the strong GDP growth rate of the economy, the rapid increase of the income per capital, the dominance of youth in the population structure, the surging demand of the customers, and the shortage of the retail supplies in the market. These factors help to raise the overall ranking of Viet Nam among other promising retail markets in the world.

| 2007 rank | Country | Region | Country risk | Market attractiveness | Market saturation | Time pressure | GRDI score |
|---|---|---|---|---|---|---|---|
| | | Weight | 25% | 25% | 30% | 20% | |
| 1 | India | Asia | 67 | 42 | 80 | 74 | 92 |
| 2 | Russia | Eastern Europe | 62 | 52 | 53 | 90 | 89 |
| 3 | China | Asia | 75 | 46 | 46 | 84 | 86 |
| 4 | Vietnam | Asia | 57 | 34 | 76 | 59 | 74 |
| 5 | Ukraine | Eastern Europe | 41 | 43 | 44 | 88 | 69 |
| 6 | Chile | Americas | 80 | 51 | 42 | 43 | 69 |
| 7 | Latvia | Eastern Europe | 77 | 32 | 21 | 86 | 68 |
| 8 | Malaysia | Asia | 70 | 44 | 46 | 54 | 68 |
| 9 | Mexico | Americas | 83 | 58 | 33 | 33 | 64 |
| 10 | Saudi Arabia | Mid. East/N. Africa | 65 | 40 | 66 | 35 | 64 |

Source: AT Kearney

Table 11: 2007 Global Retail Development Index released by AT Kearney

Presently, the current retail supplies in Ha Noi are quite limited; there are just two international chains in Ha Noi including Cash & Carry (With the Metro brand

name) and Casino Group (With the Big C brand name). However, with the promising opportunities for development of the local retail market; many international retail chains are looking for the business opportunities in Ha Noi's retail market, several names can be listed such as: Wal-Mat, Lotte, Parkson, Carrefour, and Carrings.

The current status of the major sectors in Ha Noi's retail market is represented in the following parts.

#### *1.2.2.1 The Shopping Centers.*

Shopping centers could be considered as the fastest growing and the most promising segment of all retail sectors in Ha Noi. During the period of 2000 – 2006, this market segment has achieved the average growth rate of 16% per year and reached up to 22.9% in 2007. At present, there are around 69,219 sqm in 10 existing shopping centers of Ha Noi.

In fact, the existing supplies of shopping centers could satisfy both the customer's demand and the retailer's needs. In terms of the customers, they still have the limited options for the shopping places with the current centers in Ha Noi. In terms of the retailers, they usually have to find the front – street shops instead of leasing the retail sectors in the shopping centers; to some extent, their choice for the

retail spaces is also limited due to the shortage of the retail supplies. According to the statistics released by Savills Viet Nam in the fourth quarter of 2007, these shopping centers perform very well with the average occupancy rate of 95% (Fully occupied in the CBD area) and the average rental rate ranging from USD 40 to USD 120 per sqm/month; the escalation rate achieves at 15 – 20% on average per year for all these shopping centers. The performance of shopping centers in Ha Noi is represented in the following table.

| No. | Name | Location | Area (sqm) | Average Rental Range (US$/sqm/ month) |
|---|---|---|---|---|
| 1 | **Vincom Tower** | 191 Ba Trieu, Hai Ba Trung | 17,791 | 40-100 |
| 2 | **Big C Shopping Centre** | Tran Duy Hung, Cau Giay | 12,000 | 25-40 |
| 3 | **Trang Tien Plaza** | 24 Hai Ba Trung, Hoan Kiem | 4,500 | 57-75 |
| 4 | **Luxury Mall (Ocean Park)** | 1 Giai Phong, Dong Da | 5,000 | 60-90 |
| 5 | **Ha Noi Tower** | 49 Hai Ba Trung, Hoan Kiem | 2,515 | 45-50 |
| 6 | **Syrena** | 51 Xuan Dieu, Ho | 4,513 | 22-40 |
| 7 | **Hapro - C.T Department Store** | 19 -21 Dinh Tien Hoang, Hoan Kiem | 500 | 100-110 |
| 8 | **Ruby Plaza** | 44 Le Ngoc Han, Hai Ba Trung | 2,400 | 35-45 |
| 9 | **Parkson Viet Tower** | 1 Thai Ha, Dong Da | 11,000 | 40-120 |
| 10 | **Ha Thanh Plaza** | 102 Thai Thinh, Dong Da | 9,000 | 20-100 |

Source: Savills Research & Consultancy

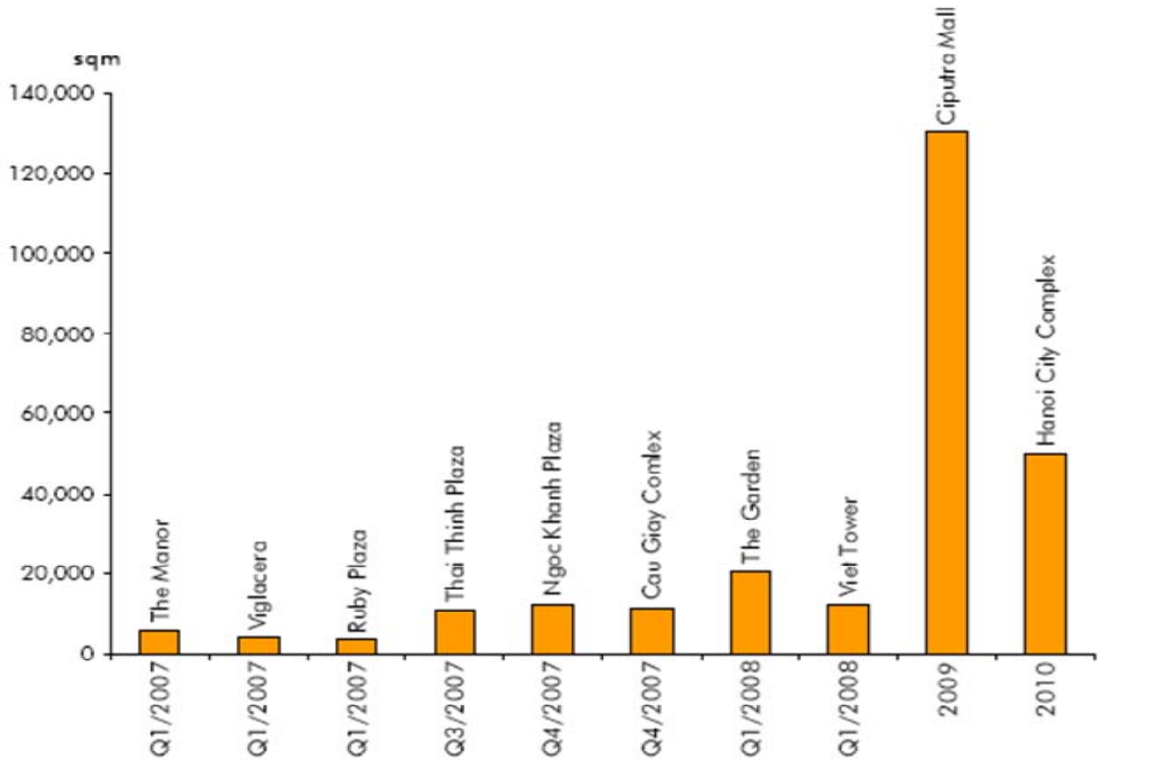
Table 12: The total leasable area and the average rental range of the Shopping Centers in Ha Noi

Apparently, this sector attracts the great attention from the foreign investors;

before 2006, foreign retailers could not participate directly in the distribution channel, they have to form the joint ventures with the local partners. In addition, the share that the foreign retailers own in the joint ventures could not exceed 49% of the total share. Therefore, the role of the foreign retailers was not remarkable in the retail market and the market was under the complete control of the local retailers. However, these barriers would be removed completely after Viet Nam's accession to WTO; there will be the big changes to the retail market in particular since January 2009, the foreign retailers could set up their businesses in the retail sector and fully participate in the distribution channel of the market.

The good performance and the promising outlook of the shopping centers have been in the focus of the big retailers. The international retailers have been prepared for the market penetration by forming the joint ventures with the local retailers; then they could raise the share ownership in the join ventures to control the ownership and the management of the joint ventures after the deadline for the full opening of the retail market beginning from January 2009. Recently, giant international chains such as Wal – mat, Lotte, Daisy, Carrefour, Parkland, and TESCO are finding the sites for establishing their future shopping centers in Ha Noi. They likely tend to set up the large shopping complexes in conformity with the worldwide standards for the retail facilities. Once, the same situation occurs when

the foreign retailers take the pivotal role in the market development with the implementation of many big retail projects such as Ciputra Mall Project, Ha Noi City Complex Project, The Garden Project, and Keangnam Shopping Center.etc. However; due to the shortage of the sizable land areas in CBD area, a majority of new supplies would come from the SBD and suburban areas. The future supplies of shopping centers are presented in the following figure.




Source: CB Richard Ellis

Figure 29: Future Supplies of the Shopping Centers in Ha Noi

As represented in the above figure, Ha Noi's shopping centers would have the strong development in next 3 to 4 years with the rapid increase in the quantity and quality of the shopping centers. According to the statistics released by CBRE

Viet Nam; in 2009, there was nearly 41,625 sqm of the retail spaces to be added to Ha Noi's retail supplies; in 2010, there are around 41,496 sqm of the retail spaces to be added; and in 2011, when many big retail projects (Ciputra Mall Project, Ha Noi City Complex Project, Keangnam Shopping Center, Phuong Nam Pearl Tower Project, Ha Noi Plaza Hotel Project…) will be completed, around 330,251 sqm of the retail areas will be supplied to the market.

#### *1.2.2.2 The Front – Street Shops and Podium Centers.*

These market segments have also performed well recently; due to the lack of competition in the market, the time period before the opening of the retail market has proved to be the good time for the traditional segments like the front – street shops. The demands for front – street shops in CBD area are still high, on the main reason that explain this high demand is that tenants (Foreign retailers in particular) want to define the luxury or the classes of the brands by leasing the most prestigious retail spaces in the CBD area; because they could have approached to their main sources of customers: the wealthy people and the foreign tourists.

Consequently, high demands for retail spaces in CBD area have put the great pressure on the increase of the rental rates and the escalation rate in the area. According to the 2007 Retail Reports released by Savills Viet Nam, the average rental

rate ranges from USD 80 to USD 140 per sqm/month with the highest rental rate in Metropole Center (USD 100 to USD 140 per sqm/month) and the lowest rental rate in Press Club (USD 80 to USD 130 per sqm/month). In addition, the annual escalation rate in CBD area has also achieved at 35 to 40% on average; while the annual escalation rate in SBD and outskirt areas has reached 30% and 20% consecutively. The following table represents the total leasable area and the average rental range in the front – street shops and Podium centers in CBD area of Ha Noi.

| No | Name | Area in Sqm | Rent US$/Sqm/Month |
|---|---|---|---|
| 1 | **63 Ly Thai To** | 561 | 140 |
| 2 | **Metropole Centre** | 650 | 100 – 140 |
| 3 | **Press Club** | 750 | 80 – 130 |
| 4 | **Opera Business Centre** | 1,660 | 112 |
| 5 | **Asia Tower** | 800 | 100 - 120 |

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e: Savills Research & Consultancy

Table 13: The total leasable area and the average rental range of the front – street shops and Podium centers in CBD of Ha Noi

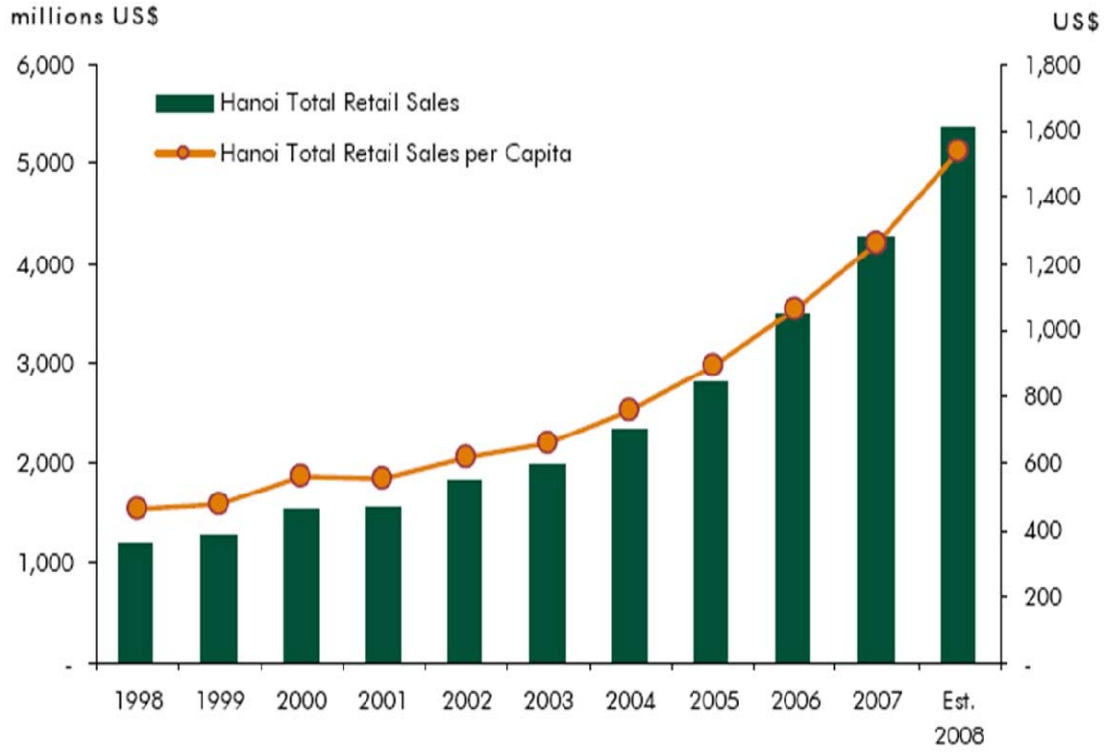
However, there are some warning signs for the good performance of the front – street shops in the long term (Particularly after January 2009). Even though,

good locations for the front – street shops are still at high demand and the rental rates continue to increase; it is forecast that the rental rates of the front – street shops would be decreased due to the strong competition from the shopping centers. After January 2009, the market segment of shopping centers would develop rapidly and become the major competitor to the segment of front – street shops in terms of the rental rates, customer attractions, and the tenant's selection for the retail spaces. In addition, the consumption pattern could also change when the customers want to have access to variable products, price ranges, quality guarantee in combination with their demands for the amusement and entertainment during the shopping time. Obviously, shopping centers will be the preferable options for the customers with the higher demand for their shopping habits.

Nevertheless, there could be the co – existence between the front – street shops and the shopping centers in Ha Noi's retail market; local customers are get used to their own way of shopping pattern with the front – street shops thank to its convenience, accessibility, and affordability. In the emerging retail market like Ha Noi, the competition between the shopping centers and the front – street shops could be intensified to satisfy customer's demands and gain the market share in the coming years.

#### *1.2.2.3 The Supermarket sector*

It is a matter of fact that when people's living standard is improved, they pay more attention to the quality and the safety of the products. The good performance of supermarkets in Ha Noi's retail market not only marked the stable development of this sector but also proved the change in the consumption pattern of the local customers. Before then, Ha Noi's customers are accustomed to the traditional markets with low hygienic conditions and uncontrolled quality of products. To a majority of people, Supermarkets are related to the matter of affordability and luxury to some extent. At present, these ideas seem out of date when people's incomes are improved remarkably with the strong expectation on the rapid development of the economy. In accordance with Ha Noi's Statistics Office, Ha Noi's income per capita reaches up to USD 1,900 in 2008, an increase of around 23% comparing with the year 2007. The optimistic factors are represented noticeably in the total retail sales of good and services in Ha Noi represented in the following figure.

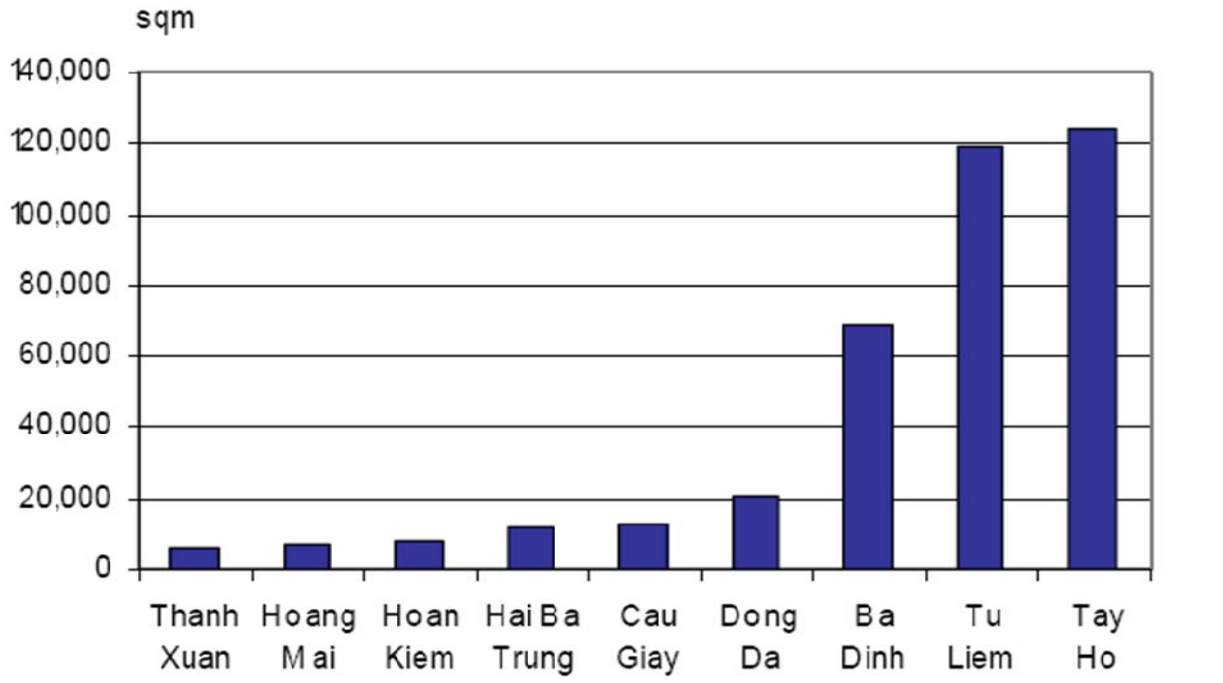



Source: CB Richard Ellis – Ha Noi General Statistics Office

Figure 30: The total retail sales of good and services in Ha Noi

The figure has shown the good criteria to assess the potential of Ha Noi retail market with the stable and high growth rate both in the total retail sales and the total retail sales per capita. Apparently, the rapid development of the local retail market has attracted the due attention from the international retailers and developers. In the race for setting up the supermarkets in Ha Noi, local retailers have the advantages over the foreign retailers; because local retailers have the experience and long term operation in the market. In addition, local retailers almost occupied the most convenient sites for the establishment of the supermarkets (Particularly in Ha Noi's CBD area such as Hoan Kiem, Ba Dinh, and Hai Ba Trung District). Therefore; due to

the difficulty in finding the suitable locations, foreign retailers will likely move to the SBD, suburban areas or newly – developed areas to set up their supermarkets. As a result, most of the future retail supplies will come from the SBD, suburban areas and new urban areas; one of the main examples could be presented by the retail development projects implemented along Pham Hung Corridor with the big projects like Keangnam Shopping Center Project (Supplies 50,000 sqm of retail spaces in 2010 and accounts for half of the retail supplies out of CBD area). The future supplies of retail areas are illustrated in the following figure.




Source: Savills Research & Consultancy

Figure 31: Ha Noi's future supplies of retail areas categorized by districts during the period of 2007 - 2011

*1.2.2.4 The Wholesale Centers.*

Obviously, the existing 3 wholesale centers are the small quantity in comparison with the current customers in Ha Noi and its vicinity. In addition, the wholesale market is still very new to the local players, they lack the financial capability and the management experience to participate in the market; therefore, the market is quite open to the international wholesalers. Before the opening of the market, the existing wholesalers are eager to consolidate their market share by expanding the current centers and establishing new centers in Ha Noi and surrounding areas. The first move was taken by the Cash and Carry Group with the establishment of the second wholesale center (Metro Hoang Mai) in Hoang Mai District of Ha Noi City. The other wholesale center (Me Linh Plaza) is also scheduled to expand the current facilities.

Meanwhile, the other groups are also very active to find the good sites to establish the wholesale centers in Ha Noi; at present, many new development projects to set up the wholesale centers are implemented by the giant groups such as Carrings, Wal-mat, Carrefour, and TESCO in the coming years. As a result, Ha Noi will witness the rapid development in the market segmentation of the wholesale centers as the quantity of these centers will not stand at three existing centers.

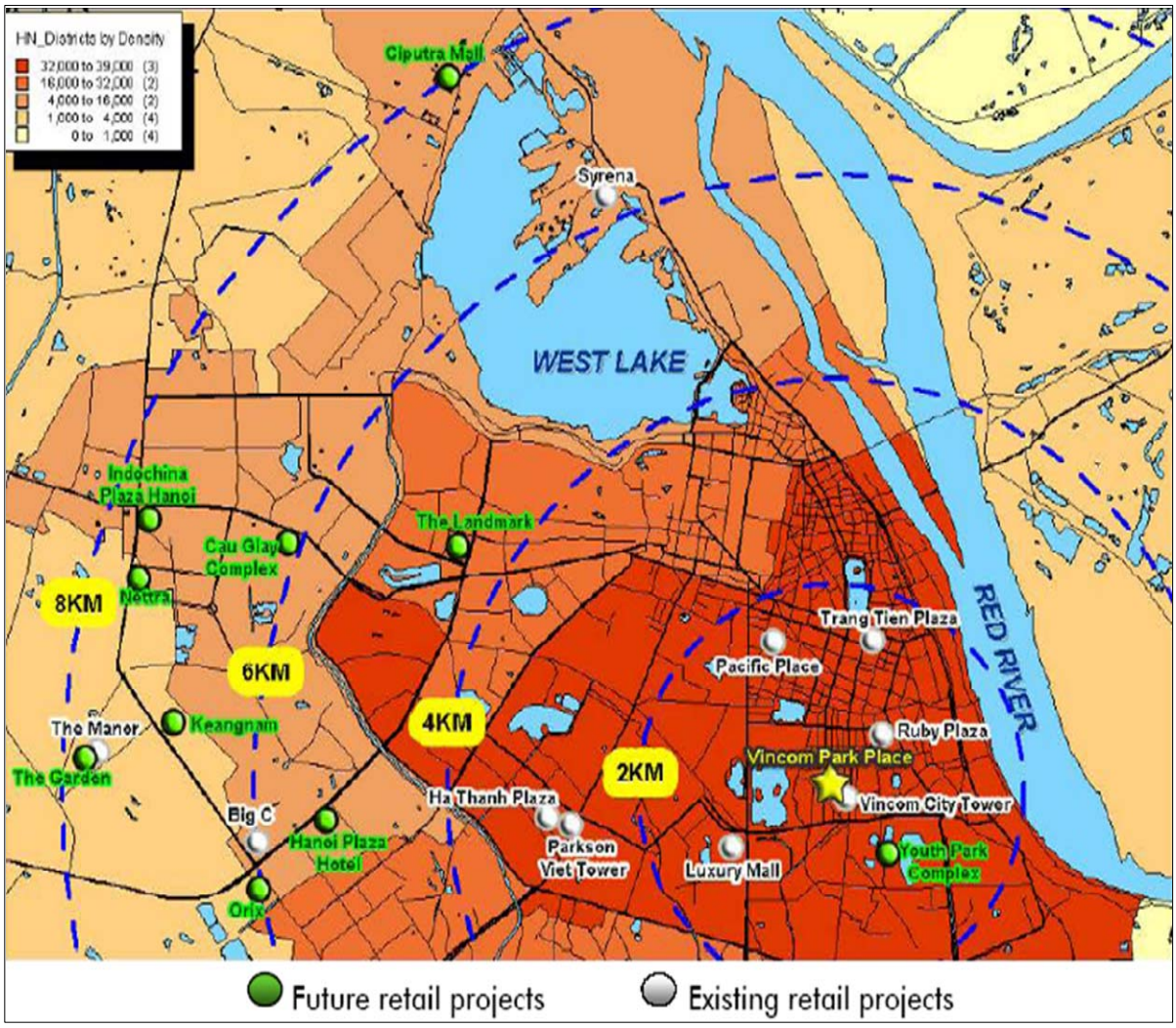
The following table will represent the future supplies of the retail facilities for the all sectors in the coming years.

| No. | Name of Project (All kinds of retails) | Location | District | Developer | Expected Completion | Total estimated area (sq m) | Primary Use | Status |
|---|---|---|---|---|---|---|---|---|
| 1 | Kinh Do Tower | 93 Lo Duc | Hai Ba Trung | Kinh Do Hotel Co. Ltd. | Q2 2008 | 3,000 | Shopping Centre | Under Construction |
| 2 | CDC building | 27 Le Dai Hanh | Hai Ba Trung | Nhan Nghia Consulting Investment & Development Corporation | Q4 2008 | 1,200 | Shopping centre | Under Construction |
| | | *Sub 2008* | | | | *4,200* | | |
| 1 | Den Lu Trade Centre No. 2 | Den Lu Residential area | Hoang Mai | Vietnam Investment Construction Export-Import Hol | Q2 2009 | 5,546 | Shopping Centre | Planning |
| 2 | Thai Ha Project | Thai Ha | Dong Da | Incomex | Q4 2009 | 6,415 | Shopping Centre | Under Construction |
| 2 | Cuu Long Trade and Service Centre | 201 Truong Chinh | Thanh Xuan | Cuu Long Service & Trading Co-operative | Q1 2009 | 2,600 | Shopping Centre | Under Construction |
| | | *Sub 2009* | | | | *14,561* | | |
| 3 | Mipec building | 229 Tay Son | Dong Da | Military Petrochemical JSC | Q2 2010 | 22,527 | Commercial Centre | Planning |
| 4 | 105 Truong Chinh building | Truong Chinh | Thanh Xuan | Phuong Nam JSC | 2010 | 7,575 | Supermarket | Planning |
| 5 | Cho Mo Plaza | Bach Mai | Hai Ba Trung | Vinaconex | Q3 2010 | 11,150 | Shopping Centre, traditional market | To break ground in Q2 2008 |
| | | *Sub 2010* | | | | *41,252* | | |
| 1 | Vincom2 | 114 Mai Hac De | Hai Ba Trung | PFV Trade and Investment Co. Ltd. - Vietnamese | Q1 2011 | 7,800 | Shopping Centre | Under Construction |
| | | *Sub 2011* | | | | *7,800* | | |
| 1 | Hacinco Tower | 324 Tay Son | Dong Da | Ha Noi Real estate Business & Services JSC | n/a | 1,980 | Commercial Centre | On hold |
| 2 | Ha Noi Bowling Center | 2 Pham Ngoc Thach | Dong Da | Ha Noi Bowling Company | n/a | 4,300 | Shopping centre | Planning to re-develop |
| 3 | Hotel Complex | 8 Chua Boc | Dong Da | MB land | n/a | n/a | Shopping centre | Planning |
| 4 | Kim Lien Hotel | 1 Kim Lien | Dong Da | Kim Lien Hotel | n/a | n/a | Shopping Centre | Planning |
| 5 | Intresco and Thang Long Garment Company's project | Minh Khai | Hai Ba Trung | Investment and Trading of Real Estate JSC | n/a | 14,000 | Commercial Centre | Planning |
| | | | | | | 67,813 | | |

Source: Savills Research & Consultancy

Table 14: The future supplies of retail facilities in all sectors in Ha Noi

The future supplies of retail facilities of all sectors in Ha Noi are represented in the following figures.




Source: CB Richard Ellis

Figure 32: Ha Noi's future supplies of retail facilities

To sum up; after Viet Nam's accession to WTO, the retail market has experienced the profound impacts as follow:

Firstly, the new market equilibrium has been established. The participation of international retailers has changed the market status remarkably. They would have the fairer playground to develop and compete with the local retailers in the market. Obviously, this new market equibrilium will set a higher level for the development of the local retail market.

Secondly, Ha Noi will witness the first booming period in the retail market after the opening of the local retail market. There are many on – going development projects for the retail purposes in Ha Noi such as Ciputra, Yen So Park Shopping Mall, and Keangnam Shopping Center.etc. The good performance is also seen in all sectors of the retail market with high growth rate in the total retail revenue per year in Ha Noi. In addition; customer's demand grows rapidly thank to the improved living standard, increasing disposable income, and the strong expectation for the high economic development. All these factors would be the signals for the strong development of the local retail market in the coming years.

Thirdly, it could be forecast that the local retail market could be under the strong influence of the international retailers. They enter the local retail market and set the general standard for the local retail market; they are going to set up large retail centers in accordance with the international standards. Moreover, international retailers will be likely to gain the large shares of the market with their good financial

capacity, professional management, and in – depth experience in the retail sector. However, the competition would be very fierce among the retailers; while the international retailers want to penetrate the market and gain the local market share; local retailers want to keep their market shares and continue to expand their retail chains. After all, customers will get much of benefits from the fiercer competition among the retailers; and the development of the local retail market is also accelerated thank to the escalation in the market competition.

Last but not least, the local retail market will experience the decentralization of the retail sector. Many retail development projects are under progress outside CBD area and it is the fact that most of the future retail supplies will come from the SBD and suburban areas. Before 2006, the center of the retail sector concentrated on the CBD area with the large areas of retail centers; but the scale of each retail center is not large and up to the international standards for the big retail centers (For example a majority of the supermarkets with over 1,000 sqm is located in the central districts: Hoan Kiem, Ba Dinh, an Hai Ba Trung District). However, when the international retailers enter the retail market, they have the big difficulties in finding the good sites in CBD area because most of the good sites are already occupied by the local retailers and the suitable areas for the retail projects are also limited due to the lack of the sizable sites in Ha Noi's CBD area. Therefore, the international

retailers have to seek the sites in SBD and suburban areas, where they could find the suitable sites up to their requirements for the retail development projects. In addition, the rapid urbanization and expansion of Ha Noi capital has also created the satellite residential centers with the large customer bases and purchasing power; these factors facilitate the development of the retail centers to satisfy the increasing demands of the local people. As a result, the distribution of the retail centers in Ha Noi will be decentralized in coming years with the development of many projects in the SBD and suburban areas, these changes will have the profound impacts on the overall condition of the retail market in terms of market rent, demand and supply of the retail spaces.

# Chapter 4: The Analysis of Ha Noi's Real Estate Market after Viet Nam's WTO Accession

## 1.1. The impacts on different sectors of the market

### 1.1.1 The analysis of the impacts on Ha Noi's office market

Based on the above – mentioned of the office market in Ha Noi, there are remarkable impacts on the market as being analyzed in the following parts.

#### *1.1.1.1 The remarkable change of the main market controllers in Ha Noi's office market.*

After Viet Nam's accession to WTO, one of the most remarkable changes could be foreseen is the increasing dominance imposed by the foreign investors and developers in Ha Noi's office market particularly. During period of 1990 - 2006, the market has been dominated by the domestic developers such as VINACONEX, CIENCO, and BITEXCO…at the beginning, the developers usually built the offices to satisfy their demands for office spaces; the leasable office spaces for the external tenants were mainly from the NGOs and the other tenants in the diplomatic sector. At this time, the market was still at the immature stage, the foreign investors and developers had the difficulties in the procedures for entering the market. In addition, the market outlook was not so clear and attractive for them to decide to participate

in the market.

After 2006, when the market conditions change; Viet Nam has to implement their commitments in accordance with WTO principles, foreign investments are encouraged. Moreover, the local market has emerged as one of the most prospective markets in the region. As a result, there are the strong inflows of foreign investments into the office market; the unprecedented inflows of foreign investments in the office development projects could be seen particularly in the recent period starting from 2007. Many big office development projects are being developed by the foreign investors and developers such as Coralis, Keang Nam, Kumho, and Posco…In comparison with the other projects implemented by the domestic developers in the market in terms of the quantity of the on – going projects and the scale of these projects; it could be said that Ha Noi's office market will be likely to become an externally – driven market with the obvious dominance of the foreign investors and developers. Obviously, they have several advantages over the local developers both in the financial capability and the experience to apply in the emerging office market like Ha Noi's office market.

***1.1.1.2 The gradual segmentation of the office market among the domestic developers and foreign developers.***

At present, there is a trend that most of the foreign investors and developers

mostly focus on the high – end segmentation of the office market. Recently, most of the newly – developed office towers implemented by the foreign developers have concentrated in the grade A office segmentation such as Pacific Palace (Developed by Eve Fortune), the Landmark (Coralis), Ha Noi Plaza Hotel (Charmvit), and Keangnam Ha Noi Landmark Tower (Keangnam). Currently, the grade A office market is very attractive to the foreign investors with the high rental rates and low vacancy rate; additionally, the market outlook is promising with the strong expectation for the high economic growth rate. Therefore, the foreign developers are likely to invest in the high yield sectors; they tend to focus on the most promising market segmentation to invest and could reap the good returns on their investments.

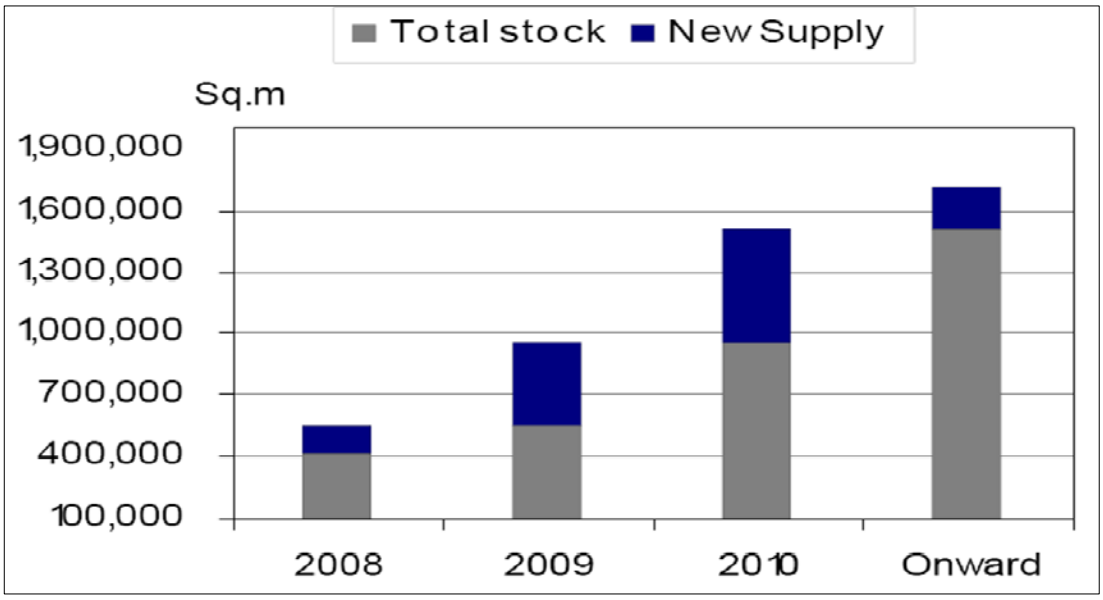
However, Ha Noi's office market is considered as the emerging market and the local economy is developing rapidly. Although the economic growth rate remains high, the level of development varies among the different sectors in the economy. Therefore, the tenant's demand is in various types; a large number of the small and medium – sized require the affordable office rents for their office spaces. They put the priority for the cost effectiveness than the location advantage when they find the spaces to host their offices. Most of these companies are newly established during the booming of the economy, they usually choose the grade B and C office spaces to situate their offices. The demands for the grade B and C office

spaces are also on the increase, but the supplies are still limited and below the current tenant's requirements. The local developers are trying to satisfy the growing demands for grade B and C office spaces; while the development of the grade A office buildings seems to be dominated by the foreign developers and the development of the grade B and C office projects is not attractive to them. The local developers have found the suitable market segmentation to invest and develop; particularly, the local developers have the constraints in the capital mobilization as well as the management experience for the long – term real estate development projects. Most of the grade B and C office projects usually could be completed from 12 months to 22 months; therefore, the local developers could improve the return on investment and reduce the risk during the project implementation period. Currently, local developers have develop a large number of the grade B and C projects in Ha Noi, particularly in the CBD area where the land size is limited for the grade A office development projects. Additionally, high rental rates for grade A offices tend to redirect the market demands; for the small and medium - sized companies they could not afford the high rents, they tend to move to the office spaces with the lower rental rates. As the demand grows rapidly, many office projects are being developed in the SBD and suburban areas to satisfy the tenant's new demands. In 2010, it is forecast that 62% of new office supplies coming from the sub urban areas.

In combination with the current increase in the quantity of the small and medium – sized companies in Ha Noi, it is forecast that the segmentation of the grade B and C office market is also very promising the coming years.

#### *1.1.1.3 The large supplies of office spaces could create the temporary saturation in the market in the short term period.*

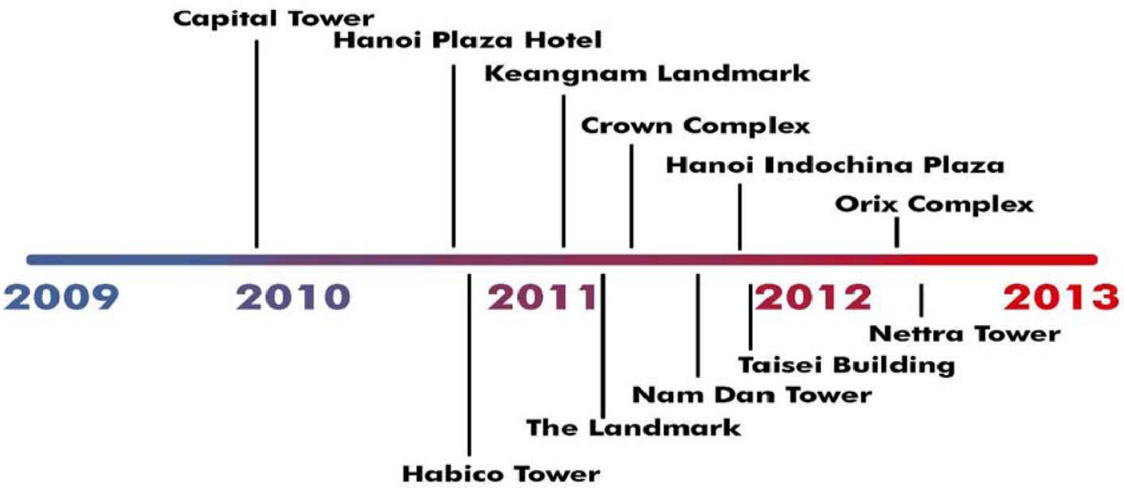
In accordance with the latest data released by Savills Viet Nam on the future supplies of office spaces in Ha Noi, the additional supplies include 270,052 sqm in 2009 and 530,000 sqm in 2010. Of which, there are three grade A office projects to be completed in 2009 and 2010 in Ha Noi's CBD area including BIDV Tower Project, Ha Noi Opera Plaza Project, and Capital with the total leasable area of around 43,000 grade A office spaces. Other office projects in SBD area also add up 70,000 sqm in 2008 and around 87,000 sqm of office spaces in 2009. For the office supplies in suburban areas until 2011, it is forecast that the new supplies could reach up to 510,000 sqm of office spaces. These data are presented in the following figure.




Source: Savills Research & Consultancy

Figure 33: Ha Noi's future supplies of office spaces

The large supplies of office spaces in the next 3 years could have the profound impacts on the market equilibrium; the rental rates and the occupancy rate could be negatively affected when the big office spaces are supplied to the market. Consequently, Ha Noi's office market would face the short term saturation status: the rental rates could decrease and the vacancy rate could increase due to the temporary supply surplus in the market. The period is forecast to occur in mid of 2011 when a series of large offices are to be completed as schedule. The following figure will represent the planned timeline for the major office development projects in Ha Noi in coming years.



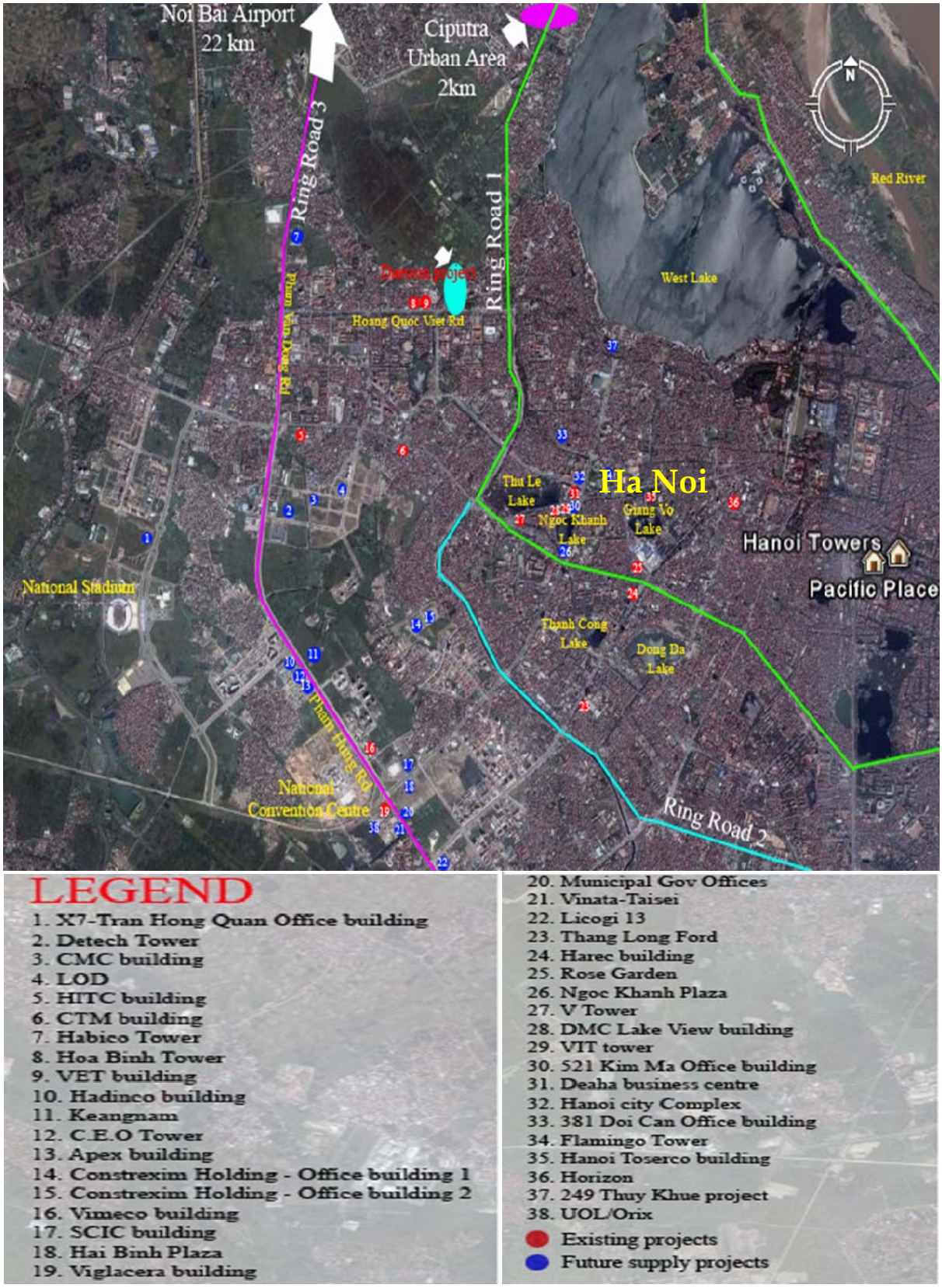

Source: CB Richard Ellis

Figure 34: The planned timeline for the major development projects in Ha Noi in the period of 2009 – 2013

#### *1.1.1.4 The facilitation for the decentralization process of the office projects in Ha Noi.*

Based on the recent activities of the developers in the office market, it could be said that the participation of the foreign developers in the market has facilitated the process of decentralization for the office center in Ha Noi. Before 2006, the decentralization process occurred slowly and mainly implemented by the local developers with the small and medium – size office development projects. After the this period, the active participation of the foreign developers such as Keang Nam, Daewoo E&C, Kolon E&C, Kumho, Coralis, and Charmvit…has changed the office market remarkably. A lot of office development projects have been implemented in

SBD area, suburban areas and the satellite cities such as Ha Dong City and Son Tay City. Before 2006, Ha Noi's grade A office included 10 office buildings; of which, nine grade A office buildings is in Ha Noi's CBD area; the rest is located in the SBD area. It could be said that Ha Noi's CBD area is the center of the local office market. The situation has changed remarkably in recent years when the foreign developers have been encouraged to implement the big office projects in Ha Noi. Nevertheless, the developers face the fact that it is difficult to find the suitable lands in the CBD that could develop the grade A office buildings. In addition, one of the biggest obstacles is that the land leasing rate in Ha Noi is very expensive in comparison with the other countries in the region. The more feasible options for the developers are to find the suitable sites in CBD and suburban areas where they could find the good sites up to their requirements in terms of the good location and affordable land rents. As a result, a lot of office development projects (Including many grade A office projects) are being developed in the suburban areas (Particularly in Pham Hung Corridor). In the coming years, Pham Hung Corridor will be considered as the new center of the office market. The following figure represents the concentration of the office projects in Pham Hung Corridor and Western Ha Noi Capital.




Source: Savills Research & Consultancy

Figure 35: Development projects in Western Ha Noi Capital

### 1.1.2 The analysis of the impacts on Ha Noi's retail market.

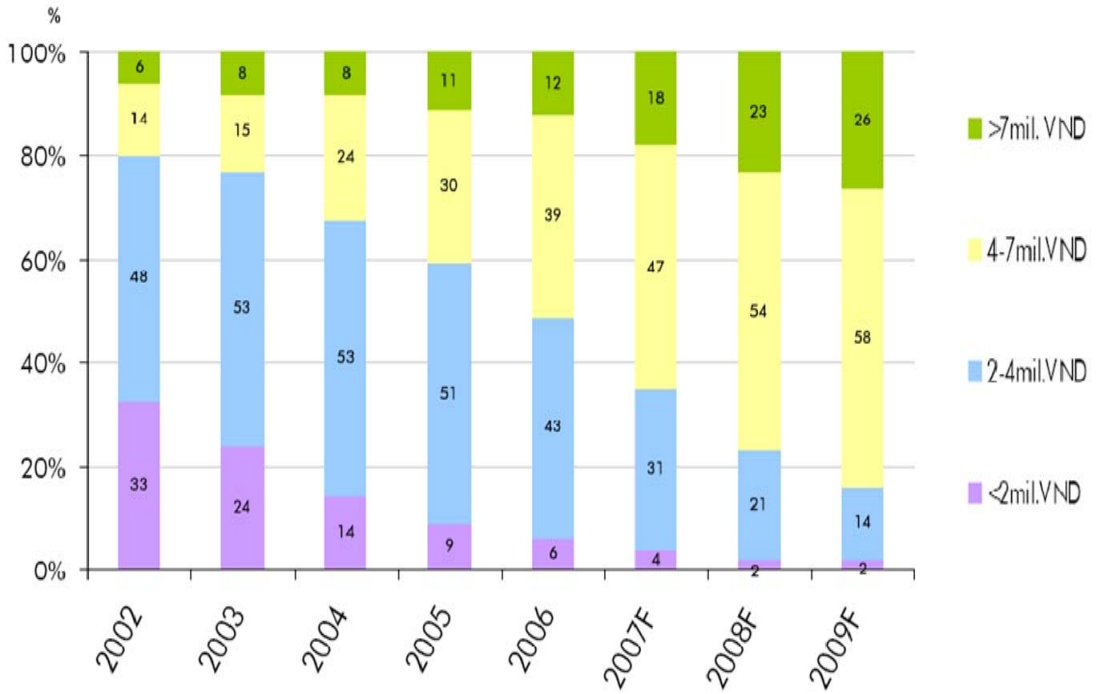
Ha Noi's retail market is considered as the most promising sector in the local real estate sector. The development potential of the local market is also further accelerated by the opening of the market to the foreign retailers after Viet Nam's entry to WTO. The analysis of the major impacts on Ha Noi' retail market is represented in the following parts.

#### *1.1.2.1 The attractiveness of the retail market would motivate the active participation from both local and foreign retailers.*

According to AT Kearney, Ha Noi's retail market has been highly appreciated as one of the most potential emerging markets. The local retail sector has performed very well in recent years; Ha Noi still lacks of the retail spaces, the demand for retail spaces exceeds the current market supply. Consequently, the rental rates are high and the occupancy rate is rather low. These factors could motivate both the retailers and the developers to participate in Ha Noi's retail market.

Moreover, Ha Noi's retail market has the profound development potentials with the good economic growth rate, young population, and large customer base with high purchasing power. In general, the expectation for Viet Nam's high economic growth rate after the accession to WTO in combination with the rapid

increase of GDP per capita in Ha Noi in particular also contribute to the attractiveness of the local retail market; these positive outlooks are the good signals to indicate the expected high growth rate of the retail market in the coming years. As a result, the number of middle – income people is on the increase accordingly with the higher disposable income. In parallel with the rapid growth rate of the economy, people's income would likely to increase remarkably in the coming years. The following figure presents the forecast of the increasing income in the population in the next years.




Source: AC Nielsen

Figure 36: The Forecast of Income Growth per capita/month in population in the period of 2007 – 2009

***1.1.2.2 The fiercer competition after the opening of the retail market in January 2009.***

Before 2006, the local retail market almost closed to the foreign retailers: they could not participate directly in the market and unable to set up 100% foreign – invested companies in the retail sector. Apparently, Ha Noi's retail market has been dominated mostly by the local retailers. The impacts of the foreign retailers were not so remarkable, there were just two international players including Cash & Carry Group (With the operation of Metro Thang Long Center) and Casino Group (With the operation of Big C supermarket). However, the market status has been changed remarkably alongside the implementation of the WTO commitments after Viet Nam became the official member and has to open the local market in accordance with the WTO's principles.

After January 2009, foreign retailers will be able to set up their own retail centers and participate directly in the local market. Obviously, more retailers (Including a large number of the foreign retailers) will participate in the local retail market; TESCO, Parkland, Wal-mat, Daisy, Carrefour, and Lotte Group are looking for the good sites to locate their retail centers in Ha Noi. While the local retailers have the existing retail centers and long – time experience in the local market; the

foreign retailers have the advantages over their strong financial capacity and the superiority in the management knowledge.

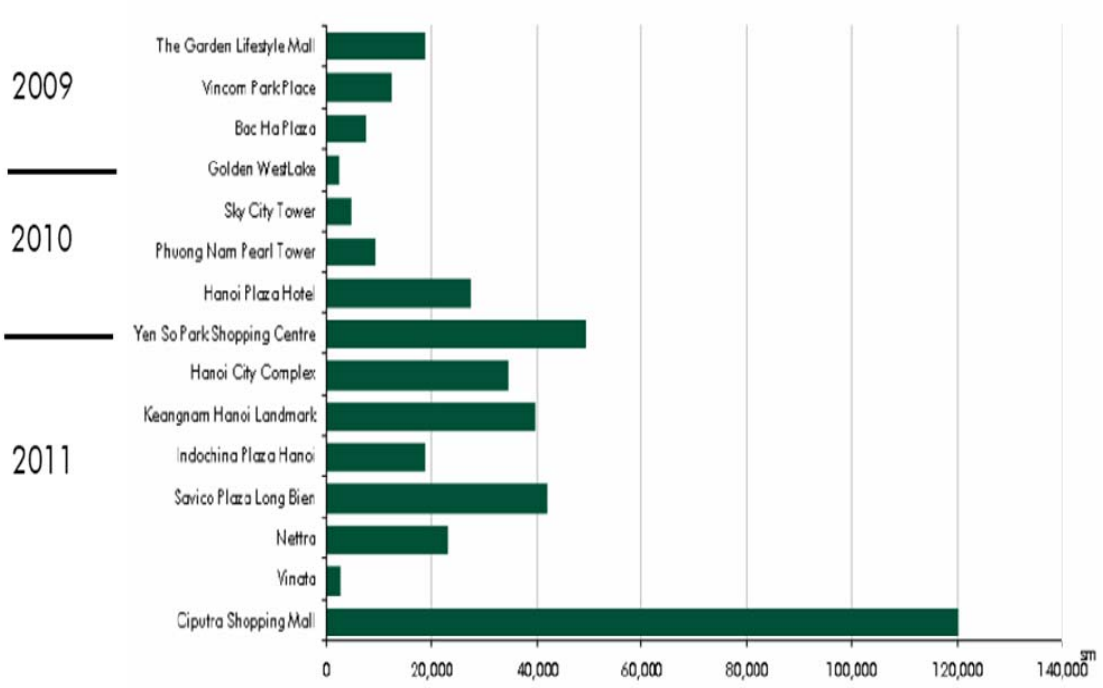
Apparently, local retailers want to protects their current market share and try to expand their retail centers before the foreign retailers enter the market; for instance, 4 big local retailers (Including HAPRO, SATRA, SAIGON CO.OP, and PHU THAI GROUP) have recently formed the VDA Group to develop the nationwide retail network. Other local retailers such as City Mart, Maxi Mart…are also active to find the suitable sites to expand their current network coverage. The local retailers try to consolidate their market shares before the mass entry of the foreign competitors.

On the contrary, foreign retailers want to penetrate the market; the good performance of two retail pioneers (Big C and Metro Thang Long) has motivated the active participation in the local market. Before the opening time of the local retail market, the international retailers have conducted the thorough market survey to prepare for their entry. In addition, current foreign retailers in the market (Cash & Carry Group and Casino Group) are also very active to expand their retail chain: Cash & Carry Group has just opened the second center in Ha Noi with the brand Metro Hoang Mai; meanwhile, Casino Group plans to open the other in the suburban areas. The competition among the retailers has just begun and the

dominance of the market has not been decided yet. However, the fiercer competition in Ha Noi's retail market apparently will attract the increasing amount of investment capital in the market as well as require the better efforts of the retailers to operate in the market. To some extent, these factors could bring many benefits to the market and take the retail market to the higher level of development.

***1.1.2.3 Ha Noi's retail market would develop rapidly thank to the opening of the local market.***

In fact, the escalating level of competition in Ha Noi's retail market could only serve as the momentum for the high growth rate of the market but also bring the benefit to the customers with the better choice for the retail centers and product ranges. Currently, a large number of both local and foreign retailers have implemented the retail development projects in Ha Noi and surrounding areas. They are in the race to complete the project as schedule to take the advantages over the competitors. The rapid development of the local retail market could be seen in the quantity of the retail development projects and the scale of these projects. According to the reports released by CB Richard Ellis Viet Nam, the future supplies of shopping centers in Ha Noi could reach up 41,625 sqm of retail spaces in 2009; 41,496 sqm in 2010; and 330,251 sqm in 2011. The following figure will represent in details of the future supplies of the retail spaces within the period of 2009 – 2011.




Source: CB Richard Ellis

Figure 37: The Future supplies of retail spaces in Ha Noi within the period of 2009 - 2011

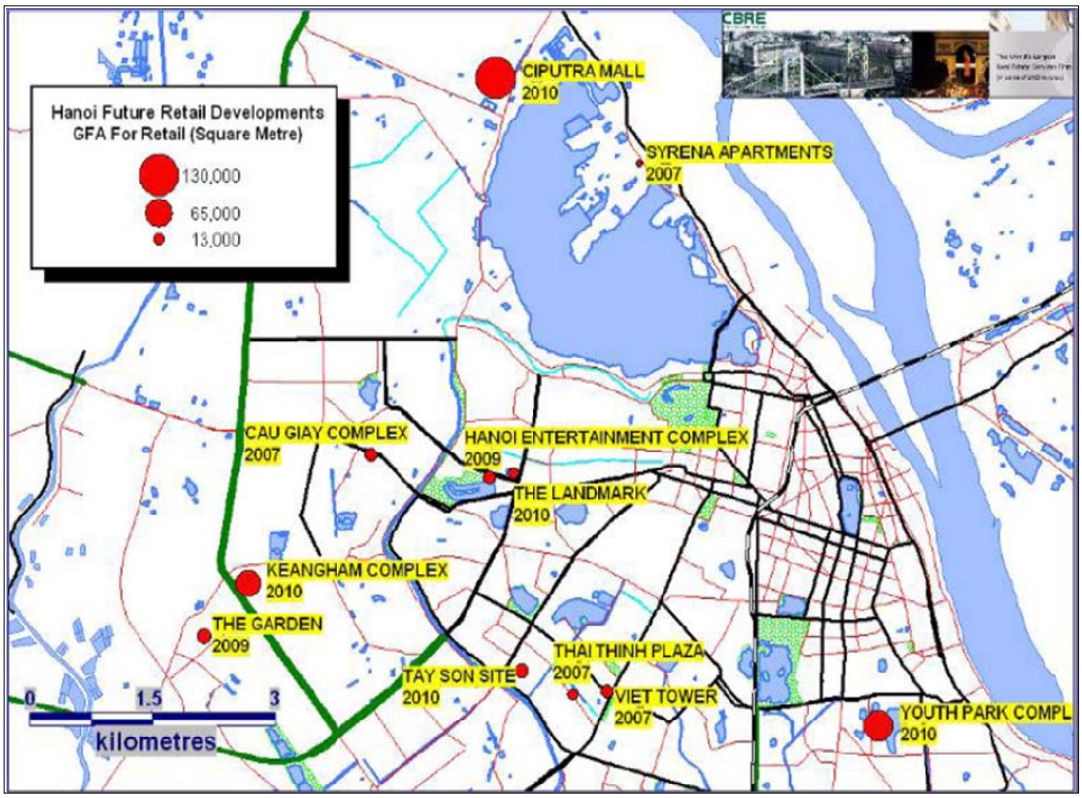
Specifically, the rapid development of the shopping centers could be regarded as the clear example for the benefits that have facilitated the high growth rate of the specific sector in the local retail market. Currently, Ha Noi has 7 shopping centers with 95,000 sqm of retail spaces; however, the quantity of shopping centers will increase sharply within the next 3 years with the active participation of both local

and foreign retailers. (See the Appendix 1 for the development projects of the shopping centers in Ha Noi within the period of 2007 – 2011).

***1.1.2.4 The new establishment of the retail centers outside the CBD area of Ha Noi capital.***

The rapid process of urbanization and the expansion of Ha Noi capital have created the good opportunities for both the local and foreign retailers to find the good sites for their retail development projects. The retailers usually face the difficulties in finding the good sites in central districts for the retail development projects due to the limited land size and the expensive land rent. The establishment of new urban areas and satellite cities has also attracted the development of new retail centers to satisfy the local consumers' demands. Therefore, many retail development projects are being implemented in the suburban areas; it could be forecast that the new retail center would be formed in the suburban area and Pham Hung Corridor could be regarded as the new retail center in the near future. Particularly, the decentralization process in the supermarket sector has been represented remarkably; many large supermarket projects are being developed in the SBD and suburban areas. The establishment of the large supermarkets in these areas will change the market status noticeably both in the rental rates and the occupancy rate of the market. The establishment of the new retail center also

represented in the distribution of the retail projects in Ha Noi recently, it is forecast that the main supplies of retail spaces would come from the SBD and the suburban areas within the next 4 years. The following figure represents the decentralization of the new retail development projects in Ha Noi in the coming years.




Source: CB Richard Ellis

Figure 38: The future supplies and distribution of new retail spaces in Ha Noi in the period of 2007 – 2010

## 1.2. The development trends of Ha Noi's real estate market

The following parts will represent the development pattern of the commercial projects with the strong westward movement. In addition, the new development

axis of Ha Noi real estate market is also identified. The purposes of my analysis are to provide the forecast for both the researchers and the developers with the long-term development trend of Ha Noi real estate market. This trend would be accelerated thank to the positive impacts of Viet Nam's entry to WTO.

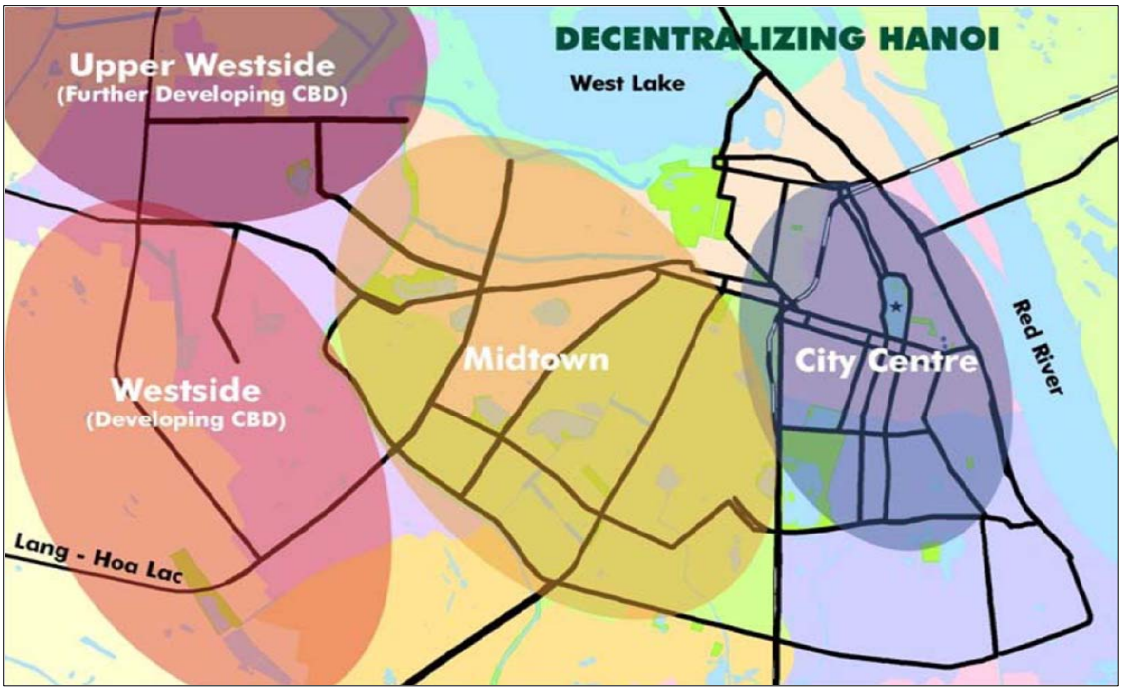
In accordance with the current market status and the forecast of the market development, the remarkable trends of the local market are presented in the following parts.

**1.2.1 The decentralization of the real estate market:**

In parallel with the above – mentioned analysis, both office and retail market follow the similar trend of decentralization process. While Ha Noi's CBD area is gradually lose its role as the development center of the market; other newly – established centers are formed in the SBD area and the suburban areas. At present, Ha Noi is expanding and developing rapidly; these processes create many development opportunities for the previously - underdeveloped SBD and suburban areas. Additionally, the development opportunities in CBD area recently become limited and usually associated with the high costs in terms of land rent and land clearance process; developers also have difficulties in finding the sizable land sites within the CBD area for their development projects. Meanwhile, the areas in SBD and suburban areas are under development, the developers could find a lot of good

sites, low costs of land clearance, and the affordable land rent to implement their projects.

The decentralization process could be represented by the clear example in Ha Noi's office market. In accordance with the categorization of CB Richard Ellis Viet Nam, Ha Noi is divided among four main areas for the sake of the simplicity: City center (CBD), Midtown (SBD), Upper Westside, and Westside. These areas are illustrated in the following figure.




Source: CB Richard Ellis

Figure 39: The categorization of Ha Noi into four main areas

Before 2006, the main office supplies concentrated in CBD area (Mostly in Hoan Kiem District). The majority of the grade A office supplies with 9 out of 10

grade A office buildings located in CBD area. Additionally, 70% of the current office supplies are currently located in Ha Noi CBD area. The distribution of grade A and B offices in CBD area is represented in the following figure.

Source: CB Richard Ellis

Figure 40: The current supplies of grade A and B offices in Ha Noi's Center

After 2006, the status of the office market has changed remarkably; the office supplies are expanded with many projects outside Ha Noi's CBD area. Presently, the major sites for the office development projects are in SBD area and suburban areas. Particularly, a lot of the grade A offices is being implemented in these areas; the future supplies of grade A office spaces in SBD area and suburban area will

dominate the market in coming years. According to CB Richard Ellis Viet Nam, the future supplies of grade A office spaces in CBD area merely account for 10% of the total supply in the office market. This modest amount of supplies is illustrated in the following figure.

Source: CB Richard Ellis

Figure 41: The future supplies of grade A offices in Ha Noi's Center

In next years, the major supplies of the office spaces will mainly from the SBD area and suburban areas with many on-going office development projects. The decentralization is obvious when the CBD area hosts only a small number of projects and most of new office projects will locate in Midtown and Westside (Mainly in Pham Hung Corridor – My Dinh Area). According to the forecast released by CB

Richard Ellis Viet Nam, up to 90% of future office supplies will be from the Westside and Midtown area. A lot of big office development projects is being completed in next 3 – 4 years such as : The Landmark (In SBD area), Keang Nam Ha Noi Landmark Tower (In My Dinh Area), Ha Noi Plaza Hotel (in Cau Giay District)…The large supplies of office spaces in the Westside and Midtown are illustrated below.

Source: CB Richard Ellis

Figure 42: The future supplies of offices in Ha Noi's Westside and Midtown

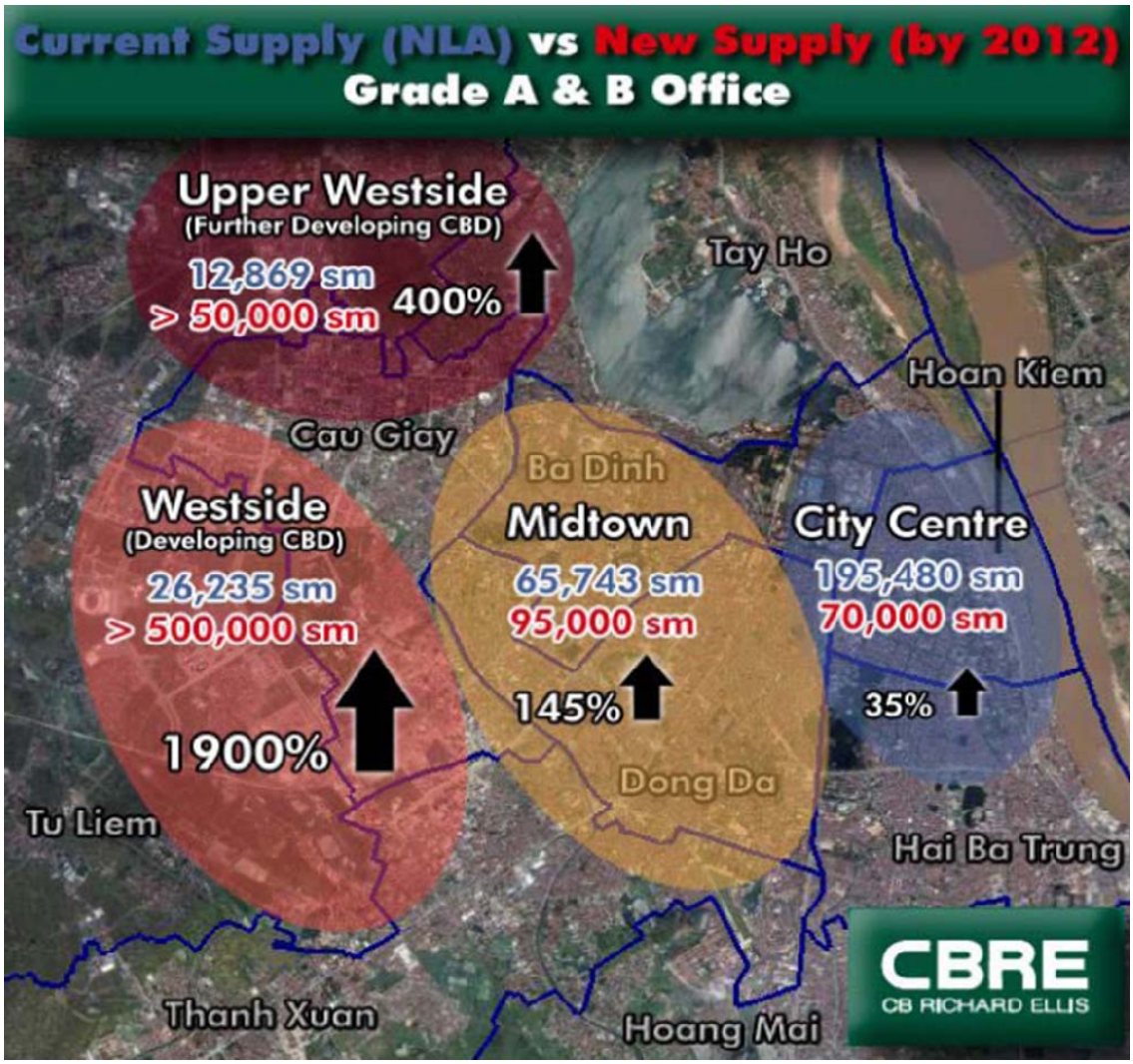
### 1.2.2 The strong Westward development of the real estate market

As mentioned in the above part, a large number of real estate development projects are being implemented in the Westside of Ha Noi capital. In accordance with the reports released by CB Richard Ellis Viet Nam, the westward movement is

forecast to occur by 2011 – 2012, when a lot of real estate project is schedule to be completed. Furthermore, Ha Noi's expansion plan has created many good opportunities for the developers and the establishment of the new CBD in My Dinh area represents a new development direction of the city.

Concerning the office market; newly - established office center in Westside has the superior over the other office areas in terms of accessibility, infrastructure, and architecture. In addition, the average rental rate is nearly half of the current average rent in the CBD area. These advantages have attracted a lot of tenants to move out of CBD area to the new office centers. More companies tend to relocate their offices to the Westside and Midtown area. This trend will likely turn My Dinh area into a new business center of Ha Noi capital in coming years.

Moreover, the strong Westward movement of the office market is also represented by the remarkably high growth rate of future office supplies in this area; at present, many office projects are being developed in Pham Hung Corridor – My Dinh area. According to the data of CB Richard Ellis Viet Nam, supplies of the office spaces in the Westside of Ha Noi will increase at 1900% in 2012. Meanwhile, the increase of office spaces in CBD area merely grows at 35% in 2012. These data are illustrated in the following figure.




Source: CB Richard Ellis

Figure 43: The strong Westward development of office supplies in Ha Noi

**1.2.3 The next center of real estate development:**

Obviously, the expansion of Ha Noi capital will unveil many development opportunities. After the expansion, Ha Noi's total area will cover 334,470.02 ha with the population of 6.2 million people. According to the data released by the General Statistics Office; Ha Noi's total area increases at 263% and total population grows at 81% after the expansion. The following table illustrates Ha Noi's status before and

after the expansion plan.

| | **Area** ($Km^2$) | **Population** (Thousand) |
|---|---|---|
| **Ha Tay Province** | 2,198 | 2,543 |
| **Me Linh District (Vinh Phuc Province)** | 141.3 | 182 |
| **4 Communes in Luong Son District (Hoa Binh Province)** | 87.7 | Over 20 |
| **Total Increase** | 2,427 | 2,775 |
| **Ha Noi Before Expansion** | 921.8 | 3,888 |
| **Ha Noi After Expansion** | 3348.76 | 6143 |
| **The increase after Expansion (%)** | 263 | 81 |

Source: GSO

Table 15: Ha Noi's status before and after the expansion plan

In accordance with the master plan of Ha Noi capital, the expansion associates with the development of the newly - expanded areas. The expansion plan of Ha Noi will satisfy the demand for decentralizing the city center and developing the new residential areas in Ha Noi's vicinity. The next center of development center is considered to be Lang – Hoa Lac highway and Ha Dong City. The movement is confirmed by the Master plan for development and expansion of Lang – Hoa Lac highway to 2020 issued by the Prime Minister in the Decision No. 855/2002/QD-TTg dated 27/09/2002. Accordingly, the forecast population of the new development project will reach 1.2 million people; of which, 900,000 people will be

urban people.

Based on the statistics released by CB Richard Ellis Viet Nam; currently, there are 137 development projects in Ha Tay areas with the main locations such as: Van Quan, Van Phu, Van Khe, Mo Lao, and An Khanh. The following table represents the major development projects in the new areas of Ha Noi after the expansion.

| Projects | Developer | Location | Investment Capital (USD Million) | Land area (Ha) | Status |
|---|---|---|---|---|---|
| **Van Quan – Yen Phuc New Urban Area** | HUD | Ha Dong City | 76 | 63 | Largely Occupied |
| **Van Phu New Urban Area** | Quang Ninh Construction Investment and House Trading JSC | Ha Dong City | 820 | 125 | Site Clearance |
| **Mo Lao New Urban Area** | Booyoung Vina | Ha Dong City | 43 | 171.15 | Under Construction |
| **Mo Lao New Urban Area** | TSQ Finance Group | Ha Dong City | 59.2 | 12.8 | Under Construction |
| **North An Khanh New Urban Area** | POSCO E&C and VINACONEX | LANG – HOA LAC Highway | 2,100 | 264.4 | Under Construction |
| **South An Khanh New Urban Area** | SUDICO | LANG – HOA LAC Highway | 910 | 203 | Under Construction |
| **Tuan Chau Ecological and Entertainment Park** | Tuan Chau Ha Tay JSC | LANG – HOA LAC Highway | 290.7 | 267 | Under Construction |

Source: GSO

Table 16: Ha Noi's new development projects after the expansion plan

# Chapter 5: Conclusions and Recommendations

## 1.1. Conclusions

Viet Nam's accession to WTO brings the good opportunities to the country development in general and to Ha Noi's development in particular. The opening of the local market in combination with the full integration in the global economy also gives good chances for the rapid development of the local real estate market. Moreover, Ha Noi's real estate market is a good case study for the emerging markets; the development of the market since the infancy state to the period of the rapid growth rate under the strong impacts by the external forces could be also studied.

After Viet Nam's entry to WTO, there are many positive factors which facilitate the strong growth of the local real estate market; the high economic growth rate will continue to fuel the development of the real estate sector. Additionally, large FDI inflows also have the good impacts on both the economy in general and the real estate sector in particular. However, the foreign developers will likely gain the control of the office and retail sector based on their strong financial capacity and development experience; within the period of the next 3 to 4 years, the future supplies of the office and retail market are mainly provided by the foreign developers.

However, the greater integration into the global market also invites the negative forces to the local real estate market. Consequently, the local market presently would experience the fluctuations from the external real estate markets and operate in accordance with these impacts.

Ha Noi's real estate market is still under the strong developing stage; therefore, the local market has the great development potentials; these potential could be facilitated more rapidly by the good factors brought back by Viet Nam's accession to WTO. This is the good opportunities for Ha Noi's real estate market to take the advantages of the positive factors and develop rapidly the local real estate market.

## 1.2. Recommendations

Based on the analysis of the current conditions and the forecast of the future trend in Ha Noi, the following recommendations of the study are represented:

Firstly, Ha Noi's real estate market could be considered as the typical model for the emerging market with the main following factors: the underdevelopment of the market, lack of the competition in the market, big development potentials, and a lot of promising opportunities. To some extent, it is forecast that the development of the local market could follow the similar pattern with the other emerging real estate

markets such as China, Thailand, India, and Russia…in terms of these characteristics: the rapid development rate, the high market attractiveness, and also the wide fluctuation of the market. The lessons of the management and development learnt from these emerging overseas markets could be very useful to the direction of development for Ha Noi's real estate market. Therefore, the study of the local market should be in connection with the development of the other emerging markets to forecast the general trend of the market development and to find the most feasible solution for the management of the local market.

Secondly, many good opportunities are provided for the developers after Ha Noi's expansion plan is approved. At present, it is the suitable time to participate in the local market; while many promising development projects are introduced to both local and international developers. In the coming years, Ha Noi's major development will be the Westward movement; accordingly, a new CBD center is going to be established in Pham Hung Corridor - My Dinh area with the concentration of many development projects implemented the government agencies and the commercial developers. Moreover, the new urban areas will provide new development opportunities for the developers; Ha Noi's expansion will be the limestone for the new development of the local real estate market, the market outlook will be promising with the high growth rate in coming years. The Westward

development will be the major trend and the new triangle of development will be established including Lang & Hoa Lac highway – My Dinh – Ha Dong. This triangle will be the main engine for the development in Ha Noi's real estate market in the near future.

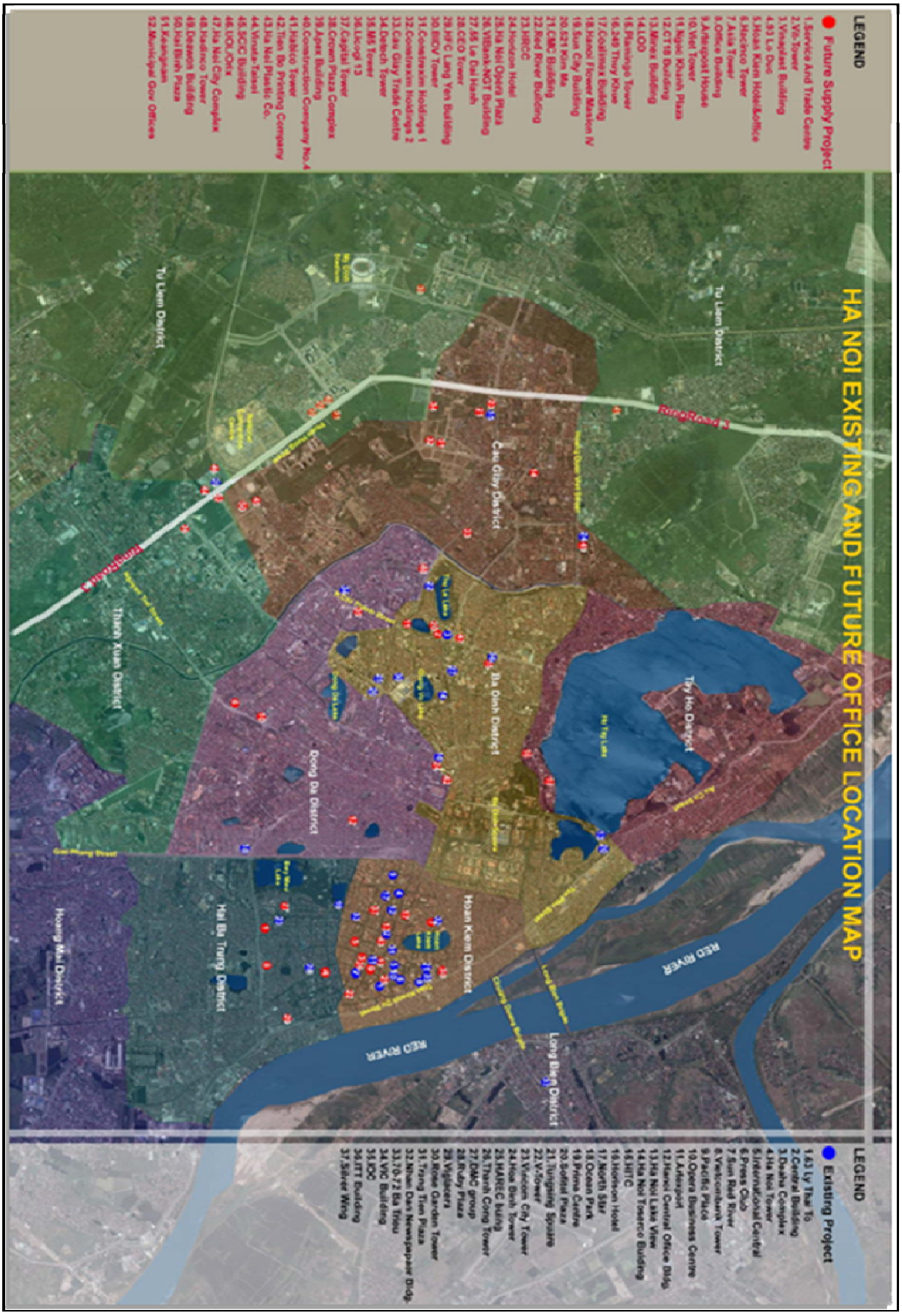
Thirdly, in terms of the office market; after Viet Nam's accession to WTO, Ha Noi's office market has experienced the first booming since the establishment. The market has achieved the remarkably high growth rate in parallel with the establishment of many new office projects in Ha Noi's office market. The initial good performance of the local market has attracted the due attention from the foreign developers. However, some early signs of the possible downturn have appeared and threatened the market; additionally, the market likely faces the short – term saturation in 2012, when a lot of big projects are scheduled to be completed and the large future office supplies will be marketed. As a result, the short – term market saturation will harm the market performance in terms of the market rents and vacancy rate. Therefore, Ha Noi's office market should be paid more attention by the policy makers to adjust the stable growth rate of the sector. To the developers' side, they will have to follow the tight schedule to complete the project on time in order to avoid the possible market saturation and achieve the target rents for their office spaces.

Fourthly, in terms of the retail market; Ha Noi's retail market will perform well in coming years thank to the positive factors of the emerging market: young population, changing consumption pattern, improved living standards, and local people's increasing disposable income. These factors could be the promising signs to attract the attention of the foreign retailers. The current rapid growth rate of the local retail market will continue in the next years. In addition, the competition will be tougher among the local retailers and foreign retailers in the market. The opening of the local retail market obviously provides the foreign retailers with the good opportunities to enter the market and threaten the current market shares of the local retailers. The competition in the supermarket sector is forecast to be tougher particularly among the local retailers and the foreign retailers: while the local retailers gain the good local market shares, the foreign retailers have to compete to gain the shares from the existing retailers in the market. In the all market sectors, the shopping centers are the good market segmentation; this sector will achieve the highest growth rate in comparison with other sectors. With the continuation of the current growth rate in the development of the shopping centers, it is forecast the shopping centers will appear widespread in Ha Noi and the surrounding provinces within next 5 years.

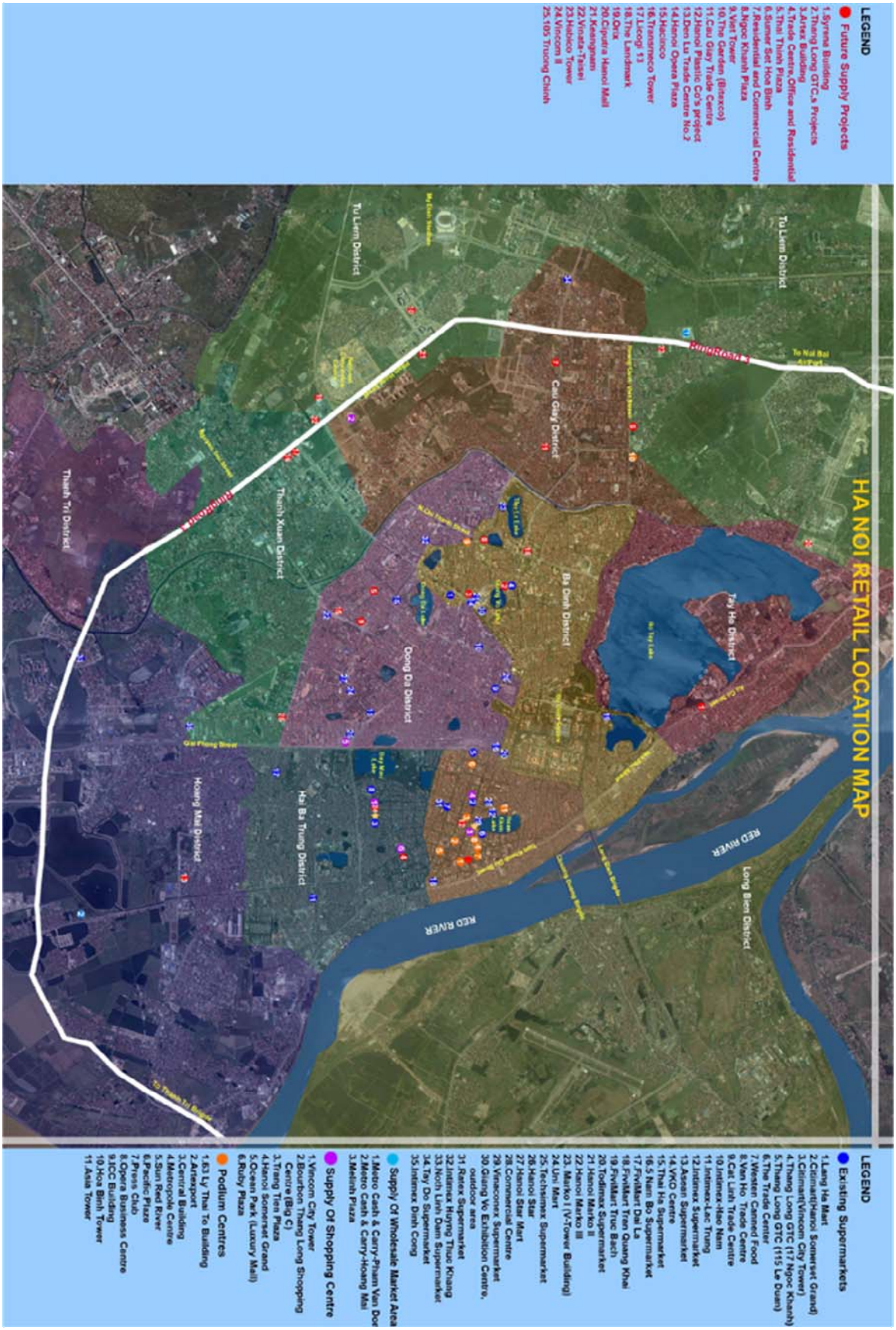
Fifthly, the early signs of the global economic recession would have the

negative impacts on Ha Noi's real estate market in general as well as the local office and retail market in particular. As a matter of fact; when Viet Nam's economy integrates into the global economy, they are also under the impacts by the external sources. In the real estate field, the negative effects resulting from United States' subprime mortgage crisis have caused the chain reaction in the other markets. In addition, the early signs of the global economic recession such as: stagnant economic growth, decreasing export turnover, increasing unemployment rate… have pose the great pressure on the real estate market. The high rental rates for office and retail spaces in Ha Noi could be on the decrease if the economy could not get the targeted growth rate. In addition, the development process of the office and retail projects in Ha Noi could be lengthened, delayed or even cancelled due to the economic difficulties that the developers face. Therefore, this potential scenario of Ha Noi real estate should also be considered in the forthcoming research. So that both researchers and developers could take advantages of the good conditions and mitigate the negative impacts from the global economic recession.

**APPENDIX A:** Ha Noi's Existing and Future Office Location Map



**APPENDIX B:** Ha Noi's Existing and Future Retail Location Map



# APPENDIX C: Future Supplies of the Shopping Centers in Ha Noi

| No | Project | Location | Expected Completion | Total Estimated Area (Sqm) | Primary Use | Status |
|---|---|---|---|---|---|---|
| 1 | **Syrena Building** | SBD | Q4/2007 | 4,500 | Shopping Center | Under Construction |
| 2 | **Trade Centre, Office & Residential** | SBD | Q4/2007 | 3,000 | Shopping Center | Under Construction |
| 3 | **Thai Thinh Plaza** | SBD | Q4/2007 | 6,000 | Shopping Center | Under Construction |
| 4 | **Residential & Commercial Center** | SBD | Q4/2007 | 2,700 | Shopping Center | Under Construction |
| 5 | **Viet Tower** | SBD | Q4/2008 | 5000 | Shopping Center | Under Construction |
| 6 | **The Garden (Bitexco)** | SBD | Q4/2008 | 20,500 | Shopping Center | Under Construction |
| 7 | **Den Lu Trade Center No.2** | Suburban | 2009 | 5,546 | Shopping Center | Planning |
| 8 | **Ligogi 13** | Suburban | 2009 | 3,500 | Shopping Center | Planning |
| 9 | **Ngoc Khanh Plaza** | Suburban | 2009 | 3,500 | Shopping Center | Under Construction |
| 10 | **Ha Noi Plastic Co's Project** | CBD | 2009 | 2,741 | Shopping Center | Under Construction |
| 11 | **The Landmark** | SBD | 2010 | 50,000 | Shopping Center | Under Construction |
| 12 | **Orix** | Suburban | 2010 | 25,000 | Shopping Center | Under Construction |
| 13 | **Ciputra Ha Noi Mall** | Suburban | 2010 | 120,000 | Shopping Center | Under Construction |
| 14 | **KeangNam** | Suburban | 2010 | 50,000 | Shopping Center | Under Construction |
| 15 | **Vincom 2** | Suburban | 2010 | 7,800 | Shopping Center | Under Construction |

| | | | | | | |
|---|---|---|---|---|---|---|
| 16 | **Vinata – Taisei** | Suburban | 2011 | 2,000 | Shopping Center | Planning |

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