The Revival Of Ho Chi Minh

April 2018

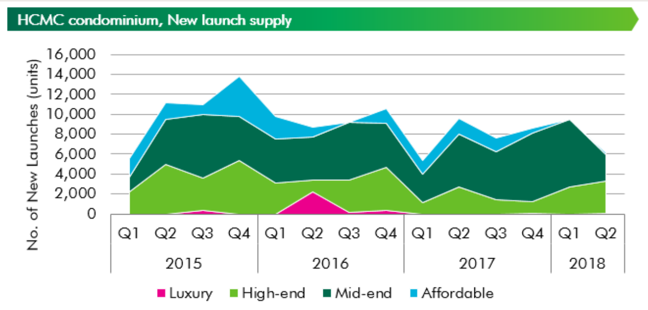
Ho Chi Minh City (HCMC), formerly known as Saigon, is the economic centre and the heart and soul of Vietnam's commerce scene.

With a population of almost 8.5 million people. There are a total of 12 districts with District 1 being the Central Business District (CBD) where most of the commercial buildings including the Saigon Trade Centre are located. District 2 across the Saigon river is increasingly gaining in prominence as the new residential hotspot across the high-end Binh Thanh district. The master-planned area of Thu Thiem in District 2 is touted as the next CBD and the Pudong of HCMC. District 7 is also another notable district seeing increasing importance as a residential suburb with a prominent community masterplan by Phu My Hung.

There is no better way to experience this city than to take a walk in District 1. The many streets are teeming with retail shops, cafes, restaurants and many Grade A office towers overlooking the Saigon river. High density residential skyscrapers are too becoming common sight. Inevitably, the growth over the last decade brought along infrastructural woes from transport to services. But on the overall HCMC is an exciting place to be. Of note to us is the low vacancy rate despite the incessant building - an unusual condition amongst emerging capital cities like Kuala Lumpur, Guangzhou and Manila.

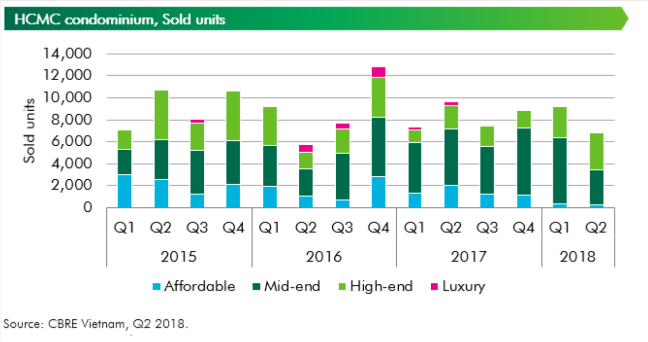
Having said that, the property prices in HCMC, while a fraction of many developed countries, is relatively high. In District 7 we examined a project targeted at locals commanding US$2,000psm. The same developer is also developing in the Thu Thiem precinct commanding about US$3,500 psm, almost similar to prices of apartments in Brisbane, Australia.

But are there buyers? Jones Lang Lasalle's research for Q3 2017 shows that of the completed 110,000 and 86,000 uncompleted supply for the year, only 10.6% are unsold. While CBRE show shows that new launches are swinging towards mid-high end products, it is interesting to note that given the amount of restrictions on foreign buyers, it seems that local demand is still able to support such products and price point.



Source: CBRE Vietnam, Q2 2018.

However, there are still some uncertainties with regards to how the locals are able to afford these assets in the absence of a mature banking system with affordable rates mortgage and financing. Yet, we were told that Stage 1 (more than 800 units) of the Thu Thiem project



sold out in less than a month at above US$3,500 psm with more buyers on the waiting list for Stage 2 to be priced from US$4,300 psm.

With the official average after-tax disposable income of residents in Ho Chi Minh City at less than US$500 per month, the situation is indeed baffling. However, speaking to our contacts on the ground, it is clear that the income levels of Vietnamese professionals are clearly underestimated with many having more than one income stream. Many of them run businesses on the side and much of the income there is not declared to be taxed. The inefficiencies in the tax system is a very common trait in emerging markets.

Furthermore, there is a 30% restriction on foreign purchasers. If that is to be believed, then 70% of the buyers of these properties are local Vietnamese right?

Unfortunately, that may not be the case. It is just a simple matter of 'deal structuring' where the buyer will sign a Lease Agreement with the developer instead of a Sales & Purchase Agreement. The buyer will then in time sell to a local Vietnamese who can then execute with the standard S&P on freehold. Such a lease with the developer (regardless of repute) is still an inferior security as compared to a proper title deed (pink book). Without a title deed, the foreign buyer will be unable to secure a mortgage. Caveat Emptor!

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