ECONOMY OVERVIEW

The Vietnamese economy continued to show positive growth in Q3 2015. GDP in Q3 increased 6.5% year on year (y-o-y), which is the highest growth rate among the six key economies of Southeast Asia. Total retail sales and consumer services in the first nine months of 2015 were estimated at VND 2,374.5 trillion, up 9.8% compared to the same period last year.

The CPI increased nominally at 0.74% y-o-y, the lowest level in the past 10 years. FDI pledges year to date, rose 53% from a year ago to $17 billion, with strong inflows into the manufacturing sector and production of export goods and the associated services sector rose 6.1% in the first nine months.

The State Bank of Vietnam issued government bonds highlight improvements in the economy showing significant yield compression with an average in Q3 of 6.7% and 7.1% for five year and ten year bond respectively.

In the long term, the economy will benefit from domestic reforms and trade liberalization as a pre requisite of Vietnam membership of the Trans-Pacific Partnership (TPP), the Free Trade Agreement (FTA) and further ASEAN integration.

SUPPLY

In Q3 2015, the supply of serviced apartments in Hanoi remained unchanged. Grade A accounts for 71% of the total supply, providing 2,308 units from 17 projects. Grade B takes a smaller proportion with 931 units from 15 projects. In term of supply by location, most of the stock is concentrated in the city center, West Lake and Midtown areas.

Due to the limited availability of land in the CBD, future serviced apartment projects will be developed on the new CBD area, the fringe CBD and the West. Over the next two years, it is estimated that 500 units will be added to the stocklist in these areas.

PERFORMANCE

The market recorded healthy rental movements and relatively high occupancy. The average gross rental rate experienced a minimal downward trend, down 0.5% to US$29/sqm/mth in the review quarter. Whilst Grade A average rental rate remained stable q-o-q at US$34/sqm/mth, Grade B dropped to US$24/sqm/mth. In contrast, the overall average occupancy rate increased by 1.9 ppts q-o-q, up to 86.9%. This is the highest rate since Q1 2011 thanks to limited supply and strong leasing activities by landlords and building operators.

DEMAND

Hanoi is one of the three leading localities nationwide in foreign direct investment (FDI) attraction, accounting for 17.3 percent in the number of projects and 9.32 percent in the amount of registered FDI in the country.

The municipal authorities have paid special attention to assisting businesses in accessing capital sources, while promoting administrative reform, especially in tax procedure, in order to facilitate enterprises’ production and business activities. Being a favorite invested destination of foreign corporations, the city continues to attract more expatriates to work and live here.

OUTLOOK

The market will keep its stable performance in the next few quarters due to current limited supply in Hanoi. To secure better occupancy rate, landlords in some Grade B serviced apartments will be more forward in softening rents while those in Grade A continue to keep their high rate. Competition from buy-to-let trend is forecast to grow in coming years, creating pressure on the serviced apartment market. Landlords should offer special promotions and discounts in their buildings to secure long-term tenants.