The returns for foreign property developers are high, but beneath that silver lining lie the high risks of operating in Vietnam, which can bring unexpected cold showers.

Lured to Vietnam’s low wage economy, many investors have overlooked other costs. Though wages are among the lowest in Asia, overseas telecommunication rates are exorbitant while poor infrastructure and red tape add to costs. But the most painful cost burden many investors carry is the shockingly high rents for office and residential accommodation.

Rents in Hanoi and Ho Chi Minh City are among the highest in Asia. This is because there is a severe shortage of all types of quality accommodation.

The main reason for high rents is straightforward: demand far outstrips supply. Foreign investment drives this market. It is the expatriate community and tourism which create demand for office, residential, hotel and industrial space of international quality.

Although a few office and upper-end residential developments of international standard have recently come onstream in both Hanoi and Ho Chi Minh City, analysts opine that the high rent situation will persist for some time.

In the long term, rent charges will depend on the economy’s performance and foreigners’ perceptions of doing business in Vietnam. “... It depends on what happens to laws here, on investor sentiment and a host of other factors,” says Mr. James Juers, chief representative of Colliers Jardines in Vietnam. “The big unknown here is what demand will be like in two to three years,” he adds.

Despite high costs, investors will stay on and new ones will enter if their perceptions of Vietnam’s prospects are bright. On the other hand, if the economy’s prospects dim, property developers with projects completed or coming onstream soon are likely to have wished that they had placed their bets elsewhere.

The high rent situation in Hanoi has been accentuated by restrictions on property development in central Hanoi. Rents in Hanoi are higher than Ho Chi Minh City’s, even though the latter holds the prestigious position as Vietnam’s economic powerhouse and has attracted more investment.

Hanoi
Office. Although there is far less supply here than in Ho Chi Minh City, restrictions have pushed rents to stratospheric levels. The Chief Architect’s Office has imposed restrictions on development in the Hoan Kiem Lake area of central Hanoi to protect the area’s French architectural heritage.

A 32-meter (eight-storey) height restriction has sent a number of projects back to the drawing board, according to Mr. Adam Schwarz, writing in The Far Eastern Economic Review (FEER). A proposed major development for this area, The Hanoi Plaza, originally

The serene Hoan Kiem Lake in central Hanoi. Authorities want to conserve the lake and the surrounding architecture.
planned as two towers of 11 and 22 storeys, was rejected by the Chief Architect. The towers were reduced to five and eight storeys respectively.

In the last quarter of 1995, Hanoi’s first two international-standard office buildings in the city center — the International Centre, developed by Singapore’s Straits Steamship and Central Building, developed by Hong Kong Land — went on stream. The International Centre, which has a net lettable area of 7,600 square meters, has attracted tenants such as Singapore Airlines, Citibank, Telstra, and international lawyers Clifford Chance and Freshfields.

Central Building’s leasing manager, Mr. Robert Garman, anticipates that 80% of this building will be leased out by the end of 1995. This building, with a net lettable area of 4,000 square meters, has the Finnish Embassy among its tenants, occupying 10% of this area.

According to Mr. Paul Mason, chief executive for property consultancy Richard Ellis in Vietnam, asking net monthly rents for these two buildings quoted in November ranged between $45 and $50 a square meter, down from $50 to $55 asked in late September.

He attributes this to competition from office property developments that have recently come on stream in the upcoming commercial district of Tu Liem, about eight kilometers west of Hanoi’s city center. “Over this period, Tu Liem has experienced slight increases in rents,” he says.

The shift to Tu Liem is a result of developers facing restrictions in building international-quality properties in the city center.

There are two major property developments in Tu Liem: the Hanoi International Technology Center (HITC), developed by the Schmidt Group, and the Daeha Business Center, developed by Korea’s Daewoo Group.

The HITC, which took in its first tenant in August, comprises exhibition space and 6,500 square meters of net lettable area.

“As of late October, 2,000 square meters of HITC have been committed and 1,900 square meters are on offer,” Mr. Mason of Richard Ellis says. The HITC has tenants such as Toyota, Siemens and Danzas.

Sharing Schmidt’s confidence in Tu Liem’s viability as an upcoming business area, the Korean development, located about one kilometer away from HITC, will comprise two 15-storey office, hotel and apartment buildings. This project will supply 18,000 square meters of net office space in March 1996.
It's unlikely, though, that Tu Liem can be a substitute for the city center area despite lower rents. Asking rents for Tu Liem in September averaged $35 a square meter.

"The Hanoi market is going to be a 'locationality-driven' market in that the success or failure of a given property development will depend on its specific location," says property developer Mr. Peter Ryder, chairman of Doan Ket West Lake Village Ltd.

Some businesses will have to operate offices in the city center owing to the type of client base they have, paying higher rents. "The city center area will be service-oriented, government-oriented, and finance-focused," says Mr. Ryder. The Tu Liem area, on the other hand, will be more attractive to industrial-, scientific- and research-oriented companies.

Mr. Nick Jones, manager, Colliers Jardine, Hanoi, has this to point out: "Tu Liem's potential depends very much on the infrastructure that becomes available in this area — shops, entertainment, medical and recreational facilities.

The Daeha Business Center, unlike HITC, will have much of this infrastructure within its compound. For this reason, Daeha has an advantage over HITC which is located at least one kilometer further away from Hanoi's city center. "The HITC is not a recognised business address yet. It is suitable for companies that want international quality but are not bothered about a prestigious address," remarks Mr. Jones.

"The Daeha project, once onstream, will become the acid test for the Hanoi market. This development will provide more space than the three existing international-standard office buildings in Hanoi. If Daeha leases out quickly, it will demonstrate the underlying strength of the office market in Hanoi."

But the high rent problem in the city center is not too bad for some of the larger tenants. "Some of the larger tenants have negotiated rents down to $29 a square meter," says Ms. Lisa Jane O'Neil of Bloomberg Business News in Hanoi.

"What is happening is that developers are keen to lock in tenants that require large spaces and are willing to commit themselves for three to five years. As the market becomes saturated with office space in three to four years, these property developers would have already made their money on those tenants."

Smaller tenants who want space in the central business area and yet are reluctant to pay the high rents for these international-standard buildings have an attractive option. The refurbished development at 104 Tran Hung Dao starts at $28 per square meter. This development — a joint venture by the TPC Group of Hong Kong with a leading local developer — went on stream at the end of October 1995. With 1,900 square meters net office space and three penthouses, this building has attained a 40% occupancy rate as of mid-November. Among its tenants are Philips and Samsung.

The only other office space coming on stream in central Hanoi is an extension to the Metropole Hotel, now under construction. This development will provide 5,700 square meters of office space and 135 new hotel rooms after mid-1996, according to the FEER.

For investors who need office space while checking out Vietnam's business potential, Mr. Juers of Colliers Jardine says reassuringly, "The first six months of
1995 have seen more locally built projects satisfying [this] demand... It's adequate for most companies needing representative office accommodation for two or three years while exploring opportunities and assessing their approach to doing business in Vietnam."

Residential. There is tight supply in the upper-end residential market. Mr. Juers commented: "The shortage of residential accommodation has resulted in many expatriates residing in villas, shophouses and hotel rooms of varying quality. It is not uncommon for expatriates to reside in a hotel room for up to six or 12 months while they locate, negotiate and renovate suitable accommodation."

Currently, there are three major residential developments in Hanoi—all enjoying 100% occupancy rates. However, property developer Mr. Ryder observes: "There is nothing of real quality available in the market today."

The first to enter the market was the Flower Village, a joint venture between Japan's CoCo International and a unit of Hanoi's People's Committee. The first stage of this two-phased project went onstream in 1994, with 32 villas within a compound near the picturesque West Lake. All units were snapped up immediately. The second phase of this project was commissioned in April 1995, comprising 68 serviced apartments. The monthly rent for each unit is $4,500 plus a $500 service charge. "All units were fully leased before completion," says Colliers Jardine's Mr. Juers.

The other major residential development, Regency West Lake, is located close to the Flower Village. Developed by Singapore's Liang Court Group, this building comprises 66 one- and two-bedroom serviced apartments. This Singaporean development, of all the residential projects, has received the heaviest criticism. The biggest apartments are only 96 square meters each. "It's not a bad place to live in but it's not worth the price," says a Singaporean tenant. Opened in November 1994, the Regency West Lake had a slow take up initially as the asking rents were too high for such small apartments. This building, however, has now attained 100% occupancy, probably because of the 25-35% discounts currently offered. The FEER reports that The Regency West Lake was offering 30-40% discounts in late March 1995. The asking rents in November range from $5,900-$8,200 per month.

Liang Court is developing a mixed purpose property in central Hanoi called The Regency Hanoi Towers—located where the famous 'Hanoi Hilton' was sited, just outside the restricted area around Hoan Kiem Lake, which explains why the authorities have approved this 17-storied project. This project includes 204 one-, two- and three-bedroom serviced apartments. The largest apartments cover 165 square meters each. This project will be ready in early 1997.

The latest completed development is Fujita Thanh Cong, located close to the U.S. Embassy, consisting of 36 units. It was fully leased before completion.

An important residential development under construction is within the multipurpose Daeha Business Center. Besides offices and hotel rooms, this complex incorporates 194 apartments.

Australian real estate developer Residex will join forces with a local company affiliated with the Interior Ministry to build a residential and commercial complex by the end of 1997, reports the Japanese newspaper Nikkei Weekly. This facility will include a 64-unit apartment block, in addition to 242 hotel rooms and shopping space.

Hongkong & Shanghai Hotels Ltd. scored another big one in Vietnam when they announced in late November that they have received a 40-year investment licence to own and operate a joint venture residential-cum-hotel project in Hanoi. The Hong Kong company will take a 65% stake in the $103 million project which involves the development of 165 residential apartments and a 400-room hotel. The project is scheduled for completion in 1999. This development, facing Giang Vo Lake in Ba Dinh district, covers 18,000 square meters.

"Demand for residential properties, even 2 to 3 years from today, will outstrip supply," predicts Mr. Ryder. "The total number of units that will be delivered in 2 to 3 years will be under one thousand. There's probably demand for a thousand units right now. I forecast that demand will double in the next 2 years," he says.

There is also a demand for French villas. Mr. Jones from Colliers Jardine says: "As a result of a shortage of quality residential units, some expatriates prefer living in French villas where the rent ranges between $3,000 to $8,000 a month."

"Tenants paying $5,000 to $6,000 on rents is not uncommon for a villa that needs a lot of repair work... typically you can spend $70,000 to $80,000 refurbishing one of these villas," he adds.

With the severe shortage of residential accommodation and consequent high rents, Richard Ellis's Mr. Mason opines that this segment provides the best rate of return to foreign investors within the Hanoi property market.

Retail. Except for Hanoi's only existing supermarket which opened in February 1995, the retail property market here is almost non-existent.

"Vietnam still relies on its wet markets and shophouses for the supply of its food and consumer goods respectively," says Mr. Juers of Colliers Jardine. "Until three years ago, there were virtually no shops outside its ancient 36 street district."

For this reason, Colliers Jardine's Mr. Jones believes that retail will be the next new area of development. A number of retail projects are already underway. Two of them are the Hanoi Plaza, which will include 5,000 square meters of retail space, and the Residex development mentioned earlier, which will include 3,000 square meters of shopping area. The Hong Kong & Shanghai development in Ba Dinh also contains a retail element.
"The retail element will concentrate on servicing surrounding office and residential projects," elaborates Mr. Juers. "Retailers are therefore likely to include banks, airlines, cafes and restaurants, catering mainly to expatriates."

However, the retail market's potential will be realised only when there is a substantial increase in the purchasing power of the locals and changes in shopping habits.

**Ho Chi Minh City**

**Office.** The market here is not only less restrictive than Hanoi's, but is far more developed. Oncoming space is increasing at a faster rate. "The Ho Chi Minh market is two to three years ahead of Hanoi's," says Mr. Juers.

Ho Chi Minh City's first international-standard office building at 58 Dong Khoi (2,288 square meters) went on stream in August 1994. The Landmark (6,000 square meters) and 162 Pasteur Street (3,000 square meters) opened their doors to tenants in December 1994 and March 1995 respectively. All buildings have attained close to 100% occupancy.

"There's about 32,000 square meters of net modern office space in Ho Chi Minh City," calculates Mr. Simon Allen, chief representative of Brooke Hillier Parker in Ho Chi Minh City. "Of this, about 3,000 square meters is vacant," he says.

On a less upbeat note, property services provider, First Pacific Davies, in their report on Ho Chi Minh City wrote: "Less than 20,000 square meters could be considered of international-standard and, of this, only the Landmark could be described as Grade 'A' office stock."

"By the end of 1996, another 100,000 square meters of space will be made available," says Mr. Allen. Consequently, potential tenants will enjoy more choice.

"But it doesn't necessarily mean that rents will slide substantially," he adds. Developers are taking a bullish view as no new space will come onstream between the end of 1996 and the last quarter of 1997.

"Net rents for prime space in District One are about $40 a square meter," says Mr. Allen. "Retailers, who agrees, says: "Foreign-developed office space commands net monthly rents of $35-$45 per square meter." The Landmark commands the top net rates: $60 per square meter.

These rents do not reflect the true costs. To these average net rents, a further $4-$5 service charge per square meter is charged and tenants pay a 10% government tax.

In contrast, locally developed office properties cost a fraction of what is charged by foreign developers. "The rentals for new offices built by local firms average $30 per square meter per annum which includes all taxes and service charges," says Mr. Juers. One Vietnamese project—Tuoi Tre Building, covering 6,000 square meters—was completed in the first half of 1995.

In the meantime, developers, for the next 6 to 12 months, are likely to concentrate their efforts in achieving pre-lettings by signing up large tenants—such as major oil companies—before their respective projects are completed. With such tenants locked in, developers are positioned to market space more effectively to other potential high-end clients. "So, developers will probably drop rents to attract such tenants," Mr. Allen says. As a result, for now, and some time onwards, large tenants are likely to get some reasonable deals.
But I can see developers hardening their attitude towards the end of 1996, because they know that very little new space is coming on until the last quarter of 1997,” Mr. Allen adds.

The only new office supply in the first nine months of 1997 will come from the mixed-use development Kotobuki Building (8,858 square meters) in the early part of 1997.

In the last quarter of 1997, supply will surge as slightly more than 100,000 square meters of new space comes onstream. The main development, Sun Wah Tower on Nguyen Hue Boulevard, will have 28,500 square meters of net office space. Other developments include Saigon Metropolitan Tower (18,000 square meters), Diamond Plaza (15,000 square meters), Plaza Hotel (9,700 square meters) and RSC Mansion (10,000 square meters).

Still, Ho Chi Minh City's office stock of 210,000 square meters by the end of 1998 will be a fraction of that available in most other regional centers.

With some 100,000 square meters of new office space coming onstream in 1996, some commentators are ringing warning bells about oversupply.

However, Mr. Allen of Brooke Hillier Parker says: “On the face of it, and with a take up rate in 1995 so far of only 20,000 square meters, there seems to be cause for alarm. But one has to look more closely at the underlying characteristics and dynamics of commercial property development before jumping to conclusions.

“Firstly,” says Mr. Allen, “fewer than 10% of foreign companies in this city use modern purpose-built office space. ‘Latent’ demand for modern space from existing companies could therefore be as much as 300,000 square meters. Demand from new arrivals in the market would add approximately 60,000 to 100,000 square meters per year and, therefore, ignoring the expansion of existing companies, the potential demand for office space in 1996 is around 400,000 square meters.”

Which combination of factors will trigger a release of this latent demand?

“Reduced rentals from the current average on prime space would undoubtedly release demand. However, it is likely that the greatest influence will be the limitations, both in terms of size and efficiency, of the villas and shophouses that most companies currently occupy,” says Mr. Allen.

“In addition, the increased availability of office space will mean that, in terms of image and prestige, fewer companies will have a valid excuse for continuing to occupy sub-standard office accommodation.”

Currently, Ho Chi Minh City is home to more than 1,000 representative
offices, each with a requirement of between 50-150 square meters. Over the next few years, many of these companies might upgrade to fully operational offices — which depends on how well they perceive their prospects in Vietnam to be — and shift to international-standard accommodation and acquire more space. Many such tenants will require space of 500-1,000 square meters each, about ten times more than what they occupy now.

Even though more office space will come online over the next few years, Mr. Allen forecasts net rents for prime space will stay at $40 or above. "As more space comes online, the market will be stratified into prime space and secondary space. A lot of the office space that's around at the moment will in a year or two be classified as secondary space. This will be the space where rents have to be cut to maintain occupancy."

The major international-standard office buildings coming online in 1996 are Saigon Tower (12,000 square meters), Saigon Center (12,000 square meters of Grade 'A' space) and Saigon Trade Center (44,000 square meters). In addition to these, there are a number of mixed-use projects incorporating office accommodation: Chancellor Court (4,000 square meters) developed by Singapore's Liang Court, Harbor View (7,500 square meters), and some other minor schemes.

The largest property project in Vietnam, September 23rd Park, was recently approved. This $542 million multipurpose project, which covers 170,000 square meters of office space, will be located next to the New World Hotel in the city center.

Property developments in District One might hit a wall in the near future unless the infrastructure is massively upgraded and expanded, and steps taken to control road traffic. In view of this, the authorities have earmarked a number of areas outside the central business area, of which two will be of interest to prospective office developers. They are Saigon South, a 2,600 hectare site located to the south of District One which is a joint venture development with a Taiwanese partner, and Thu Thiem, which lies east of District One, just over the Saigon River.

Saigon South's development has been delayed by clearance issues and full completion remains a long way off. Furthermore, the current development momentum in the traditional central business district is hampering this ambitious project.

The other earmarked area, Thu Thiem, has been mooted as a potential new financial center. This area is close to the expatriate residential area of An Phu.

"At present Thu Thiem suffers from poor accessibility from District One as the river remains a considerable obstacle to integration with the central business district," says First Pacific Davies.

A feasibility study for the construction of a bridge is underway and a tunnel has been proposed. However, as these transport projects multiply, costs will escalate, which in turn will make the area less desirable.

Chancellor Court: An office cum-residential development that will be ready in 1996.
# Existing office developments in HCMC

<table>
<thead>
<tr>
<th>Name of project</th>
<th>Net area (square meters)</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Landmark</td>
<td>7,000</td>
<td>1995</td>
</tr>
<tr>
<td>International Business Center</td>
<td>2,000</td>
<td>1994 (refurb)</td>
</tr>
<tr>
<td>OSIC</td>
<td>7,061</td>
<td>1992 (refurb)</td>
</tr>
<tr>
<td>58 Don Khoi</td>
<td>2,288</td>
<td>1994</td>
</tr>
<tr>
<td>Mondial</td>
<td>1,290</td>
<td>1993 (refurb)</td>
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<td>PDD</td>
<td>3,000</td>
<td>1995</td>
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<tr>
<td>Han Nam Officetel</td>
<td>5,500</td>
<td>1993</td>
</tr>
<tr>
<td>Yoco Office Building</td>
<td>4,260</td>
<td>1995</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>32,399</strong></td>
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</table>

Source: First Pacific Davies  
Note: The statistics in this table may differ from statistics in the text as we have sourced data from different sources.

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**Residential.** This market covers the upper-end level only. The shortage of suitable prime residential accommodation for expatriates in the city center has encouraged the growth of suburban residential areas such as Tan Binh and An Phu. But expatriates who choose to live in these areas have to tolerate increasingly lengthy commutes on congested roads.

As it is in Hanoi, this shortage has forced many expatriates to reside in villas, shophouses and hotel rooms of varying quality.

Rents for international-standard residential apartments in the city center range from $2,000-$3,000 per month for a one-bedroom unit, $3,000-$4,000 for a two-bedroom unit, $4,000-$5,000 for a three-bedroom unit, according to First Pacific Davies. Brooke Hillier Parker's Mr. Allen reports that rents are $60-$70 per square meter for serviced apartments in the city center, $30-$35 per square meter for suburban apartments and around $4,000 for 200 square meters of landed property.

Colliers Jardine's Mr. Juers says: “We are looking at $7,000 for a two-bedroom apartment, or a good villa for $3,000-$4,000 in District One or Three.”

To highlight the market's potential, Mr. Juers paints this scenario, “Let's say there's a representative office staffed by two expatriates. This office occupies 100 square meters. Now each expatriate needs a place to stay. They both need a lot more than 100 square meters to live in. So, a conservative estimate is that for every 100 square meters of office space occupied, there will be a demand for 150-200 square meters of residential space.”

As representative offices upgrade to

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**Ho Chi Minh City International Hotel Rooms Supply**

![Graph showing hotel rooms supply from 1994 to 1996 with projections for 1997 and 1998.](chart.png)

*Source: Colliers Jardine*
### Future Supply of Accommodation in HCMC

<table>
<thead>
<tr>
<th>Name of project</th>
<th>Net Office space (square meters)</th>
<th>Hotel (rooms)</th>
<th>Residential (units)</th>
<th>Completion</th>
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<td>Taiwan development in 3 phases</td>
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<td>450</td>
<td>100</td>
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</tr>
<tr>
<td>Apartments</td>
<td></td>
<td></td>
<td></td>
<td>1997</td>
</tr>
<tr>
<td>Orient FIMEX</td>
<td>14,000</td>
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<td>1998</td>
</tr>
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<td>Saigon Center (phase One)</td>
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<td>89</td>
<td>1996</td>
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<tr>
<td>(phase Two)</td>
<td></td>
<td>250</td>
<td></td>
<td>1998</td>
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<tr>
<td>Sun Wah Tower</td>
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<td>Kotobuki Building</td>
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<td>Ma Linh Plaza</td>
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<td>Regent Hotel</td>
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<tr>
<td>Ocean Place</td>
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<td>350</td>
<td>100</td>
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<td>Delta Caravelle</td>
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<td>1997</td>
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<td>Saigon Metropolitan Tower</td>
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<td>Diamond Plaza</td>
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<td>Chancellor Court</td>
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<td>156</td>
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<td>Cityview Apartments</td>
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<td>298</td>
<td>60</td>
<td>1996</td>
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<td>Plaza Hotel</td>
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<td>Saigon Trade Centre</td>
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<td>Serviced Apartments</td>
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<td>RSC Mansion</td>
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<td>Park Hyatt</td>
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<td>258</td>
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<td>1999</td>
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</table>

Source: First Pacific Devices
Note: The statistics in this table may differ from statistics in the text, as we have sourced data from different sources.

fully operational status over the next few years, the expatriate presence here will increase, boosting the demand for accommodation. However, not all of this increase is expected to be at the upper-end level, as the majority is at present.

As companies upgrade, they will bring in more mid-level managers and technicians. At this level, there will be a substantial demand for mid-level residential space which developers will not ignore. "There will come a time when it will be profitable to build cheaper residential accommodation and aim at this lower market segment," says Mr. Allen. Currently, there is no critical mass of mid-level expatriates to make such projects economically feasible.

The potentially biggest market in the long term lies in catering for the huge local population. But this is out of reach to foreign investors unless the foreign investment laws change. Nevertheless, in the long term, this segment has the potential to make the 'expatriates only' market appear almost insignificant.

Currently, Vietnam does not have much of a middle class. However, if the economy maintains 8%-plus growth rates per year over the next few years, this middle class will grow into a sizeable force.

This market cannot be tapped presently because the development life of a property joint venture here is somewhere between 30 to 40 years. "Why would a Vietnamese want to acquire property that is limited to the lifespan of the joint venture when they can get something in perpetuity elsewhere," argues Mr. Juers.

Most properties here are available on short term leases of 1-3 years. The Parkland development — to go onstream in March 1996 — at Thu Duc hit the headlines recently as it was the first foreign residential project here that could offer foreigners leases of up to 30 years, which is the lifespan of this joint venture. This is the closest that Vietnam has allowed to home ownership by foreigners.

But this development has run into
problems, highlighting the risks that foreign developers here have to bear with, as laws are often unclear and subject to abrupt changes.

A government decree recently passed may scupper the attractiveness of trading in these long-term, transferable leases (See box story, page 18). At the time when the government approved the issue of these 30-year leases, the developer, Hong Kong's Chiap Hua, was told by the state that foreign holders would be allowed to transfer the leases and sub-let for a profit. This recent decree now effectively removes the right to transfer or sub-let.

"At the moment it is a great worry, but we are not really sure how we will be affected. We will be prepared to push for exemptions if need be," a company source was quoted as saying in a Hong Kong newspaper. Although there are ways and means of getting around the restrictions in the new decree, Parkland's leasing consultant, Brooke Hillier Parker, says that the marketing focus has now shifted to short term leases.

Retail. Ho Chi Minh city's retail market is far more advanced than Hanoi's. The concept of air-conditioned shopping is about to be reality in this city. The Saigon Superbowl near the international airport is due to open in early 1996. Besides a bowling alley, this complex will contain 35 speciality stores and supermarket fast food outlets. The monthly rents in this complex will be about $60 per square meter, says Colliers Jardine.

Several factors hold back investment in shopping centers. One factor is the lack of international traders with licences to operate because the licensing process is long and cumbersome. Another is a lack of distribution networks. Finally, because of low incomes, most Vietnamese homes lack proper storage facilities and refrigerators, thereby encouraging daily wet market shopping.

Partially because of differences in culture, Ho Chi Minh City people are quicker to adopt new lifestyles than those in Hanoi. Among other factors that give this city a big edge over Hanoi are the larger expatriate community, the higher average per capita income and well established Viet Kieu connections.

**Other potential markets**

Besides Hanoi and Ho Chi Minh City there are no established property markets anywhere else in Vietnam. However, markets might develop in second-tier cities such as Haiphong, Vung Tau and Danang.

This depends on the quantity of foreign investment moving into these cities. With more investments, larger numbers of expatriates will move into these cities, increasing the demand for office, residential, hotel and industrial properties.

But these markets can become viable only if there are sufficiently large numbers of expatriates to make it so. This depends on the rate of economic growth and the manner in which the reform process develops over the next few years.

Danang's prospects ride on the development of tourism. Not far from Danang lies China Beach. There are some large foreign hotel developments here. It has an airport that can handle widebody aircraft. But massive investments in infrastructure are needed such as in transport, sanitation, power and so on to make Danang suitable for large scale tourism.

Vung Tau's prospects are tied to the oil and gas industry, and tourism. Vung Tau is the main supply center to Vietnam's offshore oil and gas fields. The importance of oil and gas in Vung Tau's development of a property market is symbolised by the ongoing construction of a Vietnamese-Singaporean joint venture development called PetroVietnam Towers. This building will supply 12,600 square meters of office space to Vung Tau. Its nascent property market recently received a set back when the central government chose to locate Vietnam's first proposed oil refinery worth $1.2 billion at Dung Quat instead of Vung Tau, as proposed earlier.

There is some uncertainty about Vung Tau as some oil exploration companies are becoming disillusioned with Vietnam. There have been

### Existing Supply of Residential Accommodation for Expatriates in HCMC

<table>
<thead>
<tr>
<th>No.</th>
<th>Location</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>An Phu villas</td>
<td>Several compounds of villas in the An Phu/Thu Duc area</td>
</tr>
<tr>
<td>2.</td>
<td>Tecasin</td>
<td>Completed in 1993, comprising 21 residential apartments</td>
</tr>
<tr>
<td>3.</td>
<td>Saigon Village</td>
<td>District 10, comprising 21 residential apartments</td>
</tr>
<tr>
<td>4.</td>
<td>The Landmark</td>
<td>Completed in February 1995 and are the first centrally located serviced apartments, with rentals ranging from $2,500 for studios to $7,000 for two bedroom units</td>
</tr>
<tr>
<td>5.</td>
<td>Riverside Apartments</td>
<td>208 serviced apartments in Thu Duc District</td>
</tr>
</tbody>
</table>
encouraging gas finds, though. If oil explorers leave, demand for commercial and residential space will weaken.

But Vung Tau can still depend on tourism. Mr. Juers points out that being only two hours drive away from Ho Chi Minh City, there are seven million people there who can take a weekend off occasionally to relax in Vung Tau. The number of hotels under construction in Vung Tau appear to bear out this observation.

As the main port for Hanoi, Haiphong's fortunes are closely linked with China's Yunnan province as well as with the rest of north Vietnam. With a rapidly expanding economy, land-locked Yunnan looks to Haiphong port as an important throughput for goods. Haiphong's prospects are also meshed with the government's plans to develop a 'growth triangle' linking this city with Hanoi and Lao Cai on the border with China.

Hanoi has plans to build a new deep water port in Haiphong equipped to handle massive expected increases in cargo throughput. The main stumbling block to these plans is that there is no satisfactory land route linking Haiphong with Yunnan. The only land links to Hanoi are a two-lane congested road and an old, narrow-gauge railway line.

**Conclusion.** The property market's potential has been barely tapped. The market is primarily driven by foreign investment. In a few years, however, as a sizeable Vietnamese middle class takes shape, the demand for office space and hotel accommodation of international standards will receive a second boost from this section of society. Some of them will stay at quality hotels when they travel within the country, while Vietnamese

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<tr>
<th>Ho Chi Minh City</th>
<th>Hanoi</th>
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</tbody>
</table>
Vietnamese shoppers go mainly to wet markets, shophouses and street vendors, not yet to shopping centers

Companies will demand quality office space as they approach international standards of business practice.

Prospective developers should not expect the same rewards as the pioneer developers who are on the way to recovering their costs and are now set to earn above average returns on their investments because of high rents.

Vietnam is no paradise to work in. Firstly, the laws are muddy and the bureaucracy is onerous. Developers coming into this market have to

learn the local business culture, which includes ways and means of getting around the bureaucracy and the unclear laws. This requires tolerance and exercise of extreme patience.

Secondly, local joint venture partners in property projects face difficulty in raising finance from a bank. This increases the workload of the foreign partner. Due to recent changes in legislation, the local partner, whose contribution to the joint venture is usually the land on which the development takes place, now cannot use this asset as collateral for loans from local banks. The burden, instead, falls on the foreign partner who has to provide guarantees for debt financing, which is usually backed by an offshore collateral.

The lack of well defined laws and rules make Vietnam a risky place to invest in. The high returns have to be measured against this. The early developers were able to make their money as competition was minimal. But competition is picking up. The considerable returns might drop in a few years. It all depends on the level of economic activity.

If returns drop, and the high risks remain, developers will reconsider. Mr. Jones of Colliers Jardine in Hanoi says: “Developers are going to compare the opportunities in Vietnam and the risks and rewards with other emerging markets.” If that happens, he says, “there might be a slowdown in activity.”

There is talk in the market that the Vietnamese might issue a rule where the lifespan of new foreign property development is to be reduced from 30-40 years to 20, and the minimum stake of the Vietnamese side — whose contribution is only land — increased from 30% to 40%. This reduces the returns to the foreign developer.

May be Vietnam should stick to the position where the foreign developer can enjoy higher returns — this time for its own benefit. Otherwise, property developers might find the inner provinces of China or some part of eastern Indonesia a more lucrative place to do business in.