



Q3/2011

REAL ESTATE HIGHLIGHTS

HO CHI MINH CITY

Knight Frank

HIGHLIGHTS

- The HCMC real estate market has passed through the quietest period of the year so far, with general confidence knocked by worldwide economic events and domestic uncertainty.
- The residential market for sale has been especially quiet, with very few sales in the apartment and landed property markets. The quarter's soaring gold price has offered domestic investors and speculators an attractive alternative to residential property.
- New office and retail developments are offering attractive incentives to entice new tenants, therefore decreasing effective rents in the market.

ECONOMIC & LEGAL UPDATE

Economic Overview

GDP

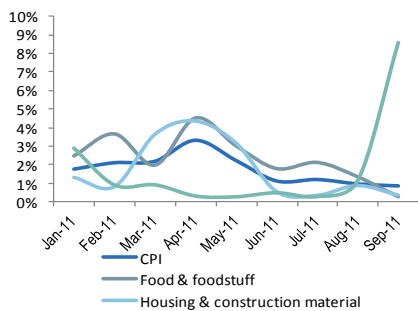
For the first nine months of 2011, GDP was estimated to have grown 5.76% compared to the same period in 2010. HCMC grew 10% over the same period.

The government has downgraded its growth forecast for 2011 twice, from 7 - 7.5% to 6.5% and subsequently to 6%.

CPI

Year on year inflation stood at 22.42% in September 2011, although CPI figures for September showed the lowest month on month price increase of 2011 (0.82% equating to 9.4% annually).

Movement of CPI in the first 9 months of 2011



Source: GSO

The quarter has seen decelerating monthly inflation during June to September, with a spike in educational inflation at the beginning of the school year the exception against the trend.

Lending Rates

With inflation coming under control, the State Bank of Vietnam has capped deposit rates at 14% in order to try and improve liquidity. Lending rates have slowly followed, currently ranging from 19% to 22%, although access to credit in the real estate sector is still severely limited due

to ongoing lending restrictions.

Balance of Payments

According to the Governments Statistics Office, the trade deficit for the 9 months of 2011 stood at 6.84 billion USD, equal to 9.77% of total export turnover. Total export turnover is estimated at 70.03 billion USD, an increase of 35.4% compared with the same period of 2010.

Imports, Exports and Balance of payment for the 9 months of 2011



Source: GSO

Foreign Direct Investment

In the first nine months of 2011, Vietnam attracted 9,903.5 million USD of FDI, equaling 72.1% of the same period of last year. Of which, the registered capital of 675 newly licensed projects was USD 8,237.8 million (decrease 31.5% by capital and 29.6% by projects from the same period last year).

Gold Prices and Trading

World gold prices increased from the previous quarter, floating over \$1,700 USD for much of the period. September saw the gold price increase 13.14% against August, pushing the price over the past nine months by 30.48% over December 2010, and 41.09% year-on-year.

Legal Update

Decree No.53/2011/ND-CP

Issued the 1st July 2011, and taking effect

the 1st January 2012, provides guidance on the implementation of some articles of Law No 48 (Law of Non-agricultural Land Use Tax, effective from the 1st January 2012).

Directive No. 1474/CT-TTg

Issued on the 24th August 2011, which outlines the Prime Minister's proposal's to streamline and reorganize the certificate of land use right procedures. The Directive additionally proposes the creation of a land database.

KNIGHT FRANK COMMENTS

Q3/2011 has continued to provide a difficult climate for real estate, with loan restrictions and high interest rates continuing to strangle the flow of credit to the sector.

CPI statistics show a decelerating inflation rate between June and September, which is encouraging for the health of the economy. The prospect of an easing of credit conditions should be positive for growth prospects and the real estate market.

Capped deposit rates have pushed some investors into alternative investment mediums, with stock market liquidity increasing during September. More importantly, the quarter's soaring gold price has offered domestic investors and speculators an attractive alternative to real estate.

With the world economy in a state of turbulence; the two largest export markets of Vietnam the U.S. and the E.U. are likely to see an extended period of low growth, possibly having an adverse effect on Vietnamese exports.



APARTMENT FOR SALE

Market Performance

Very low transaction rates continued to be the main characteristic of the apartment for sale market HCMC in Q3/2011. July, always a quiet month due to the Chinese lunar calendar, was especially flat, while August and September also proved to be very difficult months.

Although developers are wary of publicly dropping the headline apartment prices, in private, downward price negotiations are happening, as well as indirect price aids: longer payment schedules, bank loan support, lucky draws, discounts for buying in bulk. The largest discounts have been in the mid to high end sectors of the market where oversupply is most apparent.

In the secondary market we are also seeing price drops, putting extra pressure on developers in the primary market. We are seeing transactions in the secondary market down on average 5% q-o-q across all districts.

Supply

Approximately 1,100 apartment units were launched in HCMC in Q3/2011. The mid end sector constituted the majority of new supply with notably the Carillon Apartment building in Tan Binh bringing a large

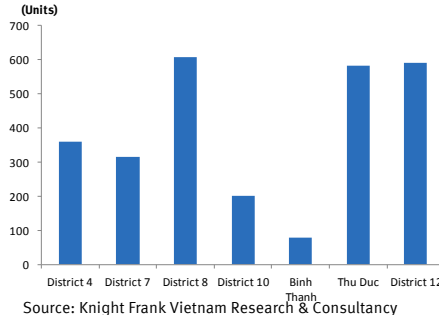
amount of units to the market. Other notable projects included Canh Vien 3 in District 7 and the latest launch of over 100 units of Lotus Garden in Tan Phu, two of the few projects to sell successfully over the quarter.



Over a third of new supply offered to the market in Q3/2011 came on line in District 7 and Nha Be District.

Five projects broke ground in Q3/2011, contributing approximately 2,000 units to future supply.

Future Supply - Units from Projects that broke ground and projects approved in Q3/2011 (Units)



Source: Knight Frank Vietnam Research & Consultancy

loan restrictions to the sector, the soaring world price of gold and a drop in confidence in the real estate market as a way of achieving capital gains.

Outlook

A large number of projects are projected to enter the market over the coming years, with the future pipeline centered on Districts 7, 2 and Binh Tan. Overall, 50 projects bringing 20,000 units are planned over the next 3 years in HCMC.

KNIGHT FRANK COMMENTS

Potential buyers in the apartment market have been very quiet in Q3/2011. The rise in the gold price has kept arbitrage investors out of the market, whilst the stock market has recently seen a flurry of activity as deposit rates have pushed investors elsewhere for positive real rates of return. With a change in confidence, these investors could return to the real estate market.

The growing inventory of unsold stock in the primary market and the large amount of stock being marketed on the secondary market provides a large amount of choice for any type of buyer and therefore a good opportunity to shop for the best deal.

Cash rich buyers will continue to be best placed as banks continue to reduce their exposure to real estate and mortgages are not easily available.

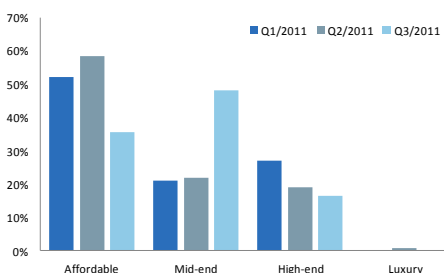
With inflation hopefully coming under control, the State Bank of Vietnam may be looking to relax credit growth to the sector. This could help the gradual shift from speculative demand to real end user demand.

Demand

Although there has been few transactions over the quarter, we believe that the underlying real demand is overwhelmingly in the affordable segment i.e. from 500—870 USD/sq m.

Market liquidity has been restricted due to

New Supply by Apartment Type



Source: Knight Frank Vietnam Research & Consultancy

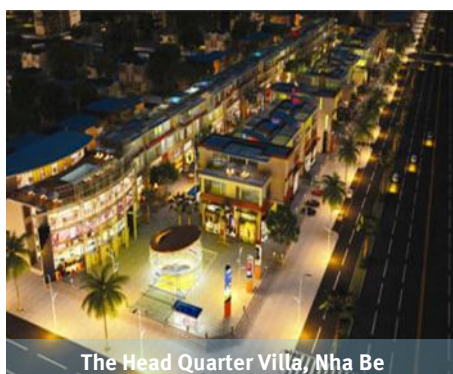
VILLA, TOWNHOUSE & LAND PLOTS FOR SALE

Market Performance

The HCMC landed property market in Q3/2011 saw limited activity. There were no new villa projects that came to market in the quarter, and the number of recorded transactions reduced to a lower level than previous quarters. The land plot market was relatively active in the low end market and in outlying provinces around HCMC.

The townhouse and villa market in Q3/2011 witnessed the lowest transaction level since the beginning of the year due to the limited demand. The current projects on the market including Villa Park, Ventura, Headquarter kept selling current stock, whereas Goldora was withdrawn from the market. This situation significantly reduced the primary supply by 200 units to around 300 units.

Demand remained as weak as the previous two quarters, as the increase in gold price, across most of the quarter, at-



The Head Quarter Villa, Nha Be

tracted interest of cash rich buyers and put a hold on buying decisions in real estate. Additionally, the rumors of a possible interest rate cut have also delayed the decision to buy. Consequently, there are only few transaction recorded during the whole period.

The high end land plot market including projects located in Thanh My Loi-District 2, Sadeco-District 7 & Nha Be, Tan An Huy-Nha Be, Phuoc Long B-District 9 experienced a low number of successful transactions. Meanwhile, the low end market with total value from VND0.5billion to

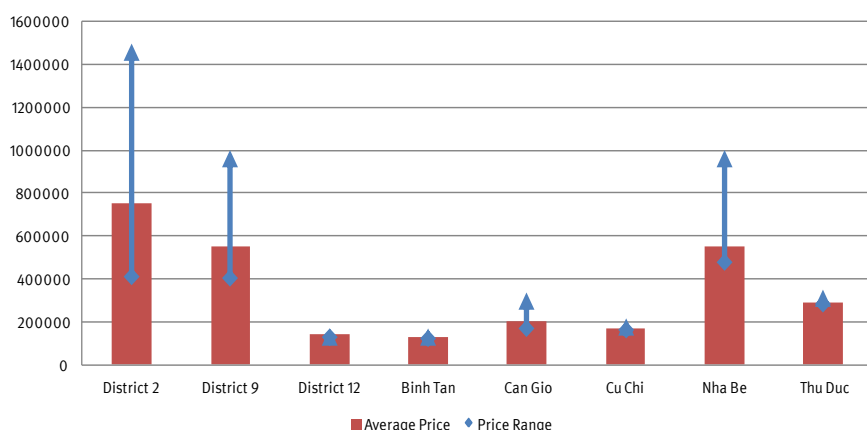
VND1.5billion (25,000—75,000 USD) per plot dominated transaction volume, especially in suburban areas including Nha Be, Cu Chi, and surrounding provinces of HCMC including Binh Duong, Long An and Dong Nai.

Outlook

In the next quarter, the market will welcome new supply mainly in the surrounding provinces of HCMC notably Eco Xuan-Binh Duong, IJC Commercial Binh Duong, and Suoi Son Dong Nai. In HCMC supply is expected to remain unchanged.

In the medium term, the landed property is still an attractive segment of real estate as the preferable property of many Vietnamese people. Due to these advantages, this market is likely recover more quickly than other segments.

**Primary Villa Market
 Price by District
 (US\$/unit)**



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A reduction in interest rates is likely to positively affect market confidence. However, due to the time lag effect and the attractiveness of the gold market, the landed property market is likely to remain quiet in the next quarter.

The current market is believed by some to be near the bottom of the property cycle. Cash rich buyers could profit from the market for owner occupation or investment purposes.

Despite the positive movement in bank interest rates, the exact point of recovery is questioned while the economy is adapting to the problems in the world economy.



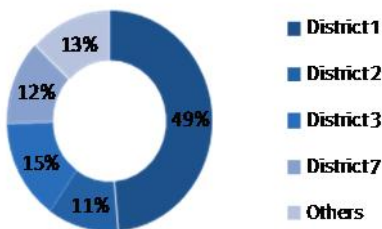
SERVICED APARTMENT

Market Performance

Total supply of serviced apartments within HCMC has increased to over 3,428 units with the opening of the Mayfair Suites building located on Pham Ngu Lao Street, District 1 with 28 units.

The major supply of serviced apartments are found in District 1 representing 49% of total supply. As the main area for office buildings and expatriate workers, District 1 will continue to be the main area for the new supply of serviced apartments.

Serviced Apartment Stock by District

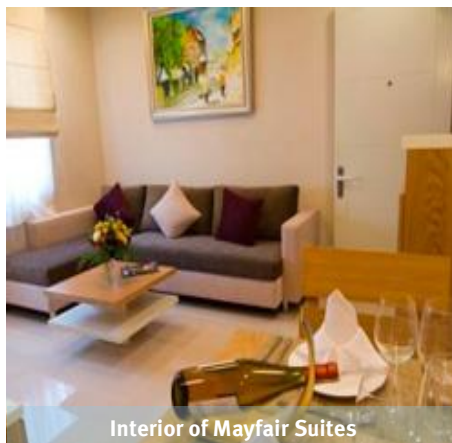


Source: Knight Frank Vietnam Research & Consultancy

Occupancy rates remain high at over 90% for Grade A and over 80% for Grade B. The occupancy rates are expected to remain high as long as supply is restricted.

In general, the real estate market has continued to face many difficulties over the quarter, however the serviced apartment segment has been bright with stable rental rates. The average rental rate is around US\$30-35/m²/month for Grade A, US\$20-25/m²/month for Grade B and US\$15/m²/month for Grade C.

The decrease in FDI in 9 months of 2011 has affected the number of foreigners in Vietnam. The total accumulated number of foreigners that come to Vietnam for work-



Interior of Mayfair Suites

ing purposes has decreased over the 9 months of 2011. (-5.2% y-o-y and -8.8% q-o-q).

However, there is an increasing number of Asian workers coming to Vietnam such as Chinese: +44.9%, Japanese: +8.2% and Malaysian: + 12.2% (y-o-y). (Source: GSO). Asian tenants make up a large proportion of demand for serviced apartments in HCMC and increasing numbers of workers is likely increase demand across the sector.

Currently, because of difficulties in the residential sale market, the buy-to-let apartments are more strongly competitive with serviced apartments. For example, Vincom complex building on Le Thanh Ton supplies 5 luxury unit types, including 3-bedroom, 4-bedroom and penthouse units. All these units have been fully furnished with large area from 150sqm to 330sqm. Besides buy-to-let apartments, villas for lease are also competing in this high end of the market.

Outlook

Market competition, both from additional supply and other apartment projects is

expected to increase in the coming quarters and could potentially cause some serviced apartment operators to offer price promotions in order to stimulate total rooms occupied.

The serviced apartment market in HCMC compared with other Asian cities is still full of potential with high occupancy rates, high rental rates and a small supply. However, this market is very sensitive to changes in the economy of Vietnam and especially foreign direct investment.

There are a number of projects coming onto the market in the near future such as: Times Square (139 units), The Vista (100 units), Saigon M&C (140 units) and Saigon Pavilions (30 units).

KNIGHT FRANK COMMENTS

To outpace the stagnation of the residential sale market, developers must be more careful and flexible. In recent times, we have seen some projects that developers temporarily change a part of building's function from apartments for sale to serviced apartments in prime locations.

It is important that developers carry out detailed research on unit sizes in order to successfully launch a new serviced apartment project. The trend towards 1-bedroom and 2-bedroom units, more popular from single persons living in the CBD represents an increasing segment of demand.

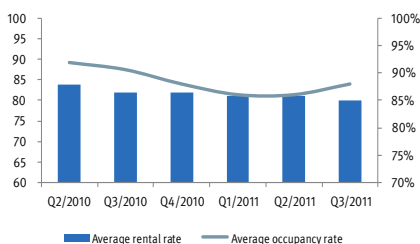
RETAIL

Market Performance

The retail sales value of goods and services in HCMC was estimated at 331,887 billion VND in the first eight months of 2011, showing a growth rate of 23.8% from the same period last year. From January to September 2011, the CPI rose 16.63%. Compared with the corresponding period last year, the index accelerated 22.42%.

Mirroring the last quarter, rental rates have slightly decreased due to the low purchasing power and a number of lease renewals at lower rents. Despite this, the occupancy has increased thanks to the closing of Kumho Asiana Plaza last quarter and Lucky Plaza in early September. In recent times we have witnessed some retail tenants in new retail centers struggle to survive initially as in most cases expectations of retail turnover fell short of expectations and the current premium rental rates were not sustainable.

Average prime rental rates and occupancy rate in HCMC (\$/m²/month & %)



Source: Knight Frank Vietnam Research & Consultancy

Activities

Vietnam's consumer confidence index fell sharply in the second half of this year, standing at 77.1 points, according to the survey by MasterCard Worldwide released on 1st August 2011. However, many international retailers still intend to enter the

market in consideration that Vietnamese consumers seem more confident than other countries in the region.

Family Mart has obtained an agreement to set up a joint venture with Phu Thai Group to develop the Family Mart chain in Vietnam. According to a recent press article, the Chairman said that their plan is to increase the number of shops to 20 by the end of the year, and 300 in next three or five year.

The grand opening of Crescent Mall Commercial Center is expected to be completed in Q4/2011. We have been advised that occupancy is currently at 70% with a numbers of major anchor and sub-anchor tenants already committed to the shopping centre including Giant Supermarket, Megastar Cinemas, TiniTown, Gap, Nike-town and 101 Entertainment Group.

Meanwhile, Gap Inc—the leading US retailer—has announced to they will open their first store in October within Vincom. Moreover, Lotte Mart Company has confirmed their plan to raise investment capital into Vietnam.

Supply

Existing supply in the HCMC retail market is approximately 658,000 sqm including supermarkets, retail podiums, department stores and shopping centres.

The future pipeline of retail developments in HCMC exceeds 1,680,000 sqm over the next five years. This will more than double the existing supply.

Outlook

It is expected that trading conditions will continue to be challenging for most retailers in the last quarter of this year due to

the high inflation rate and low consumer confidence. However, Government initiatives to lower the interest rate is still a priority and hopefully this will continue to reduce inflation in Q4/2011.

The re-opening of Bitexco Finance Tower's retail podium and Kumho Link in the next quarter will increase the amount of retail space.



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There has been a fall of up to 10% - 30% in visitors numbers within some shopping centers. Therefore a number of retailers are re-negotiating their terms and conditions. We anticipate the downward trend of the retail market will continue in the next quarter, until the Tet period of next year.

The sentiment in the retail market has now seen some developers of new retail projects being forced to have longer term expectations of returns. Lowering the effective rent makes provisions for any shortfalls of anticipated visitors to a retail centre during the establishment phase. This strategy should help sustain occupancy rates of a centre in the short to medium term. Rents can be adjusted to market when the shopping centre is fully established.



OFFICE

Market Performance

The office market in Q3/2011 was relatively stable with positive signs from a number of grade A and B projects.

We have observed only minimal movement in the existing grade A office market where the occupancy rate has remained at 90% - 100% in most grade A buildings over the quarter, excepting Bitexco Financial Tower. However, Bitexco is doing deals, notably with Adidas (taking retail and office), law companies and investment corporations. It is also understood that Samsung have exchanged agreements to occupy four (4) floors and looking to move in towards the end of this year. This renewed interest shows positive signs in this market and the ability of the



Saigon One

developer to be flexible in a difficult market.

Smaller tenancy deals are still driving market at around the 100 to 300 sqm size. An interesting sector which has helped drive this market is mergers and acquisitions from Asian counterparts such as

China and Japan. The fragile nature of some companies in Vietnam coupled with high interest rates opens opportunities for those looking at the potential of the Vietnamese market, this is particularly apparent from Japanese companies. The active sectors for this investment have been financial and telecoms.

With the above in mind, a large amount of new demand originates from fledging companies looking for flexible solutions with serviced offices soaking up some of this demand. To compete with this the major voids in the market (Bitexco/Vincom) are offering smaller offices at reasonable rates to try and capture some of this demand.

There are no notable changes in headline rents in District 1; grade A rents have not varied in the last quarter, all be it the larger voids in district 1 are looking at attractive incentives and stepped rentals deals which is bringing down the effective rent.

Main new supply into grade B market Q3/2011:

- 30,000 sqm at Dragon Tower developed by PV-Gas, PVC and Phu Long in Nha Be district
- 4,500 sqm PVFCCo Tower developed by PVFCCo in Mac Dinh Chi, District 1

Significant future supply that broke ground in the quarter:

- Commencement of 22-level MB Sunny Tower developed by Viet R.E.M.A.X and funded by Military Bank in Tran Hung Dao St, District 1
- Commencement of the mixed-use building SSG Tower in Binh Thanh District. The project is expected to be completed by December 2013 with 47,000 sqm of leasable office area.

Grade B rental levels have remained steady and occupation remains strong in

the central business district of district 1. With rental rates of \$26–\$29, projects: Empire Tower, Me Linh Point Tower, Fideco Tower, and Havana Building managed to get close to 100% occupancy rate due to their good location and competitive rentals.

Lower rents can be found outside District 1, with rents starting as low as \$10++ in Phu Nhuan, Tan Binh and Phu My Hung.

Outlook

Saigon One will extend over 42 floors (35 of office) and will be topping out Q4/2011. This development is bringing a number of firsts to the market and raising the benchmark for international grade A standards in terms of design, architecture, construction and technological infrastructure.

With marketing due to commence this development will begin to attract those looking for high quality accommodation and are considering their options in early to mid 2012.

KNIGHT FRANK COMMENTS

Location is always a major drive force when companies are looking to relocate and it is worth noting that all planned new developments for completion in 2015 are encompassed within the 4 major roads Thanh Duc Thang, Hai Bai Trung, Le Loi and Ham Nghi (excepting Ben Thanh Towers).

With the next thriving market Thu Thiem it looks like the shape of the city is pulling itself towards Saigon River and the Thu Thiem Bridge and its transport infrastructure links to district 2 which will open in Q4/2012.



Americas

USA

Bermuda

Brazil

Caribbean

Australasia

Australia

New Zealand

Europe

UK

Belgium

Czech Republic

France

Germany

Hungary

Ireland

Italy

Portugal

Romania

Russia

Spain

The Netherlands

Ukraine

Africa

Botswana

Kenya

Malawi

Nigeria

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