

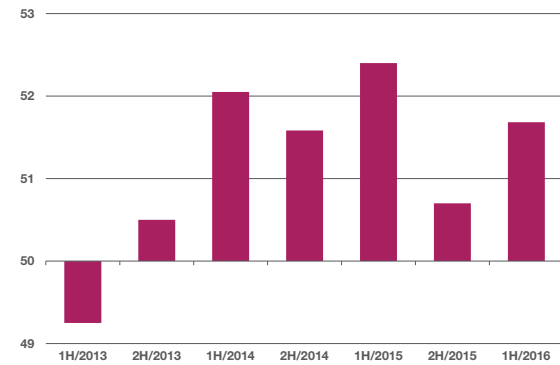
Asian Cities Report

Vietnam Industrial Land

2H 2016

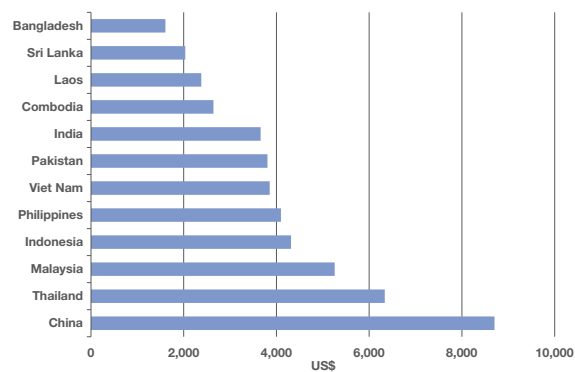


GRAPH 1
Average manufacturing PMI, 1H/2013–1H/2016



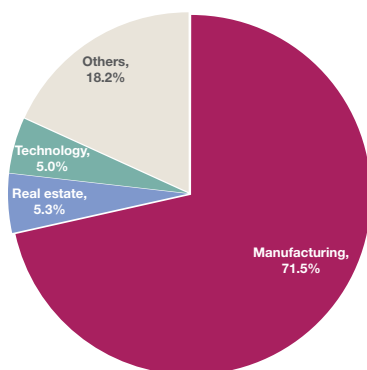
Source: FocusEconomic

GRAPH 2
Manufacturing workers' annual salary in 2015



Source: Jetro, 2015

GRAPH 3
Foreign direct investment, 1H/2015



Source: GSO, 2016

Overview

In 1H/2016, there was a new wave of foreign direct investment (FDI) flowing into Viet Nam. Investor confidence pushed higher upon the conclusion of the Trans-Pacific Partnership (TPP) and EU-Vietnam Free Trade Agreement (EVFTA) negotiations at the end of 2015. These free trade agreements are expected to create expanded and new routes for goods produced in Viet Nam to major global exports markets such as the US, Europe and Japan.

Viet Nam's regional and global competitiveness has been strengthened not only by effective policymaking incentivising secondary sector growth, but also by slightly diminished competition from China in the wake of steadily increasing labour costs. Higher direct labour costs have strained labour-intensive industries such as garment, textile, processing and manufacturing, and sent many international companies seeking regional alternatives offering favourable trade agreements, domestic policies and factors of production. With one of the region's most competitive labour costs at approximately half that of China, and its expanding infrastructure, Viet Nam stands out as the ideal recipient of the outbound wave of foreign companies from China.

As a result of new inflows, Viet Nam's secondary sector has continuously expanded since 1H/2013, and the manufacturing purchasing management index (PMI) has remained higher than the expansion threshold of 50 points.

FDI and demand for industrial land

In 1H/2016, 1,145 new projects registered capital of US\$7.5 billion, an increase of 95% year-on-year (YoY). The processing and manufacturing sector received the most attention, with a 71% share of registered FDI. Geographically, Hai Phong and Ha Noi were the best performers, with a cumulatively registered FDI of approximately 30%, followed by Binh Duong with

9% and Dong Nai with 8%. East Asian manufacturing giants remained dominant in 1H/2016. The most prominent investments were from Korean high-tech manufacturers, such as LG's US\$1.5 billion OLED screen factory in Hai Phong. Korean investments accounted for 35% of total registered FDI with US\$4 billion, followed by Japan with US\$1.2 billion and Singapore with US\$1.1 billion.

In order to seize market share in an expanding economy, both international and domestic developers have expedited the development of new industrial parks: Becamex IDC (Viet Nam) selected Binh Phuoc province in the Southeast Region for the development of a new industrial park with 4,600 ha; Vietnam Singapore Industrial Park (VSIP) selected Nghe An province in the North Central Coast Region for the development of a new industrial park with 750 ha; and Amata (Thailand) selected Dong Nai province in the Southeast Region for the development of a new industrial park with 410 ha.

In 1H/2016, there was approximately 1,425 ha of newly-leased area in Viet Nam's industrial parks, totalling approximately 28,500 ha, increasing 5% since year-end 2015. At the same time, six newly operational industrial parks supplied approximately 700 ha of leasable area, bringing the total to 218 industrial parks with an area of 59,700 ha and a leasable area of approximately 41,000 ha.

As demand outpaced supply, average industrial park occupancy increased to 70%, 3 percentage points higher than the beginning of the year. Current supply will be heavily diluted by 16 industrial parks in planning, with a tentatively proposed supply of 18,600 ha of leasable area.

Southern Viet Nam Ho Chi Minh City

Although having international air and seaports, most HCMC industrial parks are located in semi-rural districts. Focus has steadily shifted

toward high-tech industries, while labour- and land-intensive industries are encouraged less.

Industrial parks in HCMC have the most convenient locations and therefore the highest rents amongst the southern provinces. However, as a result of higher labour costs, newly-developed industrial parks are pressed to increase occupancy.

The processing and manufacturing sector received only US\$66 million of registered FDI in 1H/2016, equivalent to 13% of the total inflow to HCMC.

Surrounding provinces

With good proximity to HCMC's ports and large land banks, Binh Duong and Dong Nai have consolidated their positions as industrial centres of southern Viet Nam, with each province attracting approximately US\$1 billion to the processing and manufacturing sector in 1H/2016.

While previously an industrial park development laggard, Long An has had increased interest, with 16 operating industrial parks supplying approximately 3,000 ha of leasable space. In 1H/2016, Long An received approximately US\$350 million of registered FDI, the highest among the Mekong provinces. Nevertheless, as rents are relatively high, the average industrial park occupancy in Long An was low, at less than 60%.

Northern Viet Nam

Hai Phong

With a large and improving international port system, Hai Phong remained a strong destination in northern Viet Nam, with industrial parks such as Nomura and Nam Cau Kien having occupancies from 90-100%. However, Hai Phong's average rent is relatively high, due to a lack of effective policies incentivising developers, consequently dampening average occupancy.

The local government's recent efforts to improve the doing-

business environment have had a positive effect. In 1H/2016, Hai Phong received the most FDI, with US\$1.8 billion of registered capital. Trang Due is the most appealing industrial park, with its comprehensive infrastructure. In 1H/2016, this industrial park received large investments from notable companies such as LG (US\$1.5 billion) and SL Electronics (US\$425 million).

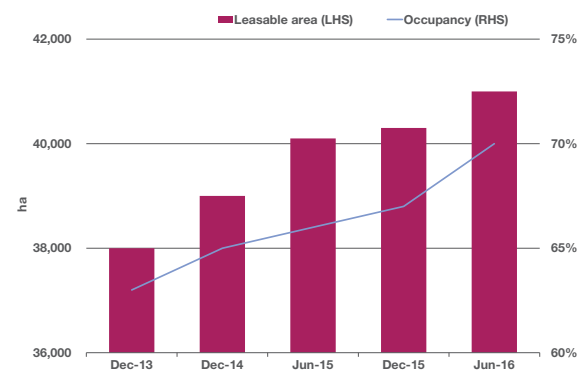
Ha Noi and surroundings

While Ha Noi and the surrounding provinces are strongly supported by Noi Bai International Airport, there are no nearby seaports and air transport is not feasible for many industries. As such, attractive incentives have been mobilised that target higher-value product industries. The results have been clear, with industrial park occupancy in the region typically exceeding 70%. Although successful, this region could become more competitive through increased investment in highway systems connecting to China and Hai Phong's seaports.

In 1H/2016, other northern provinces remained attractive, with Bac Ninh's industrial parks receiving US\$563 million of registered FDI and Vinh Phuc's receiving US\$563 million.

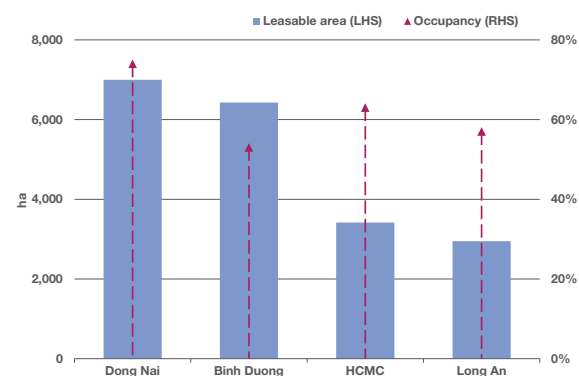
While Ha Noi's industrial parks are less attractive, due to the fact that average rents are near-double that of neighbouring competitors, along with relatively higher labour costs, the city remains competitive among high-tech firms as evidenced by Samsung's recent R&D investment of US\$300 million. ■

GRAPH 4
Industrial land supply and performance, 2013–1H/2016



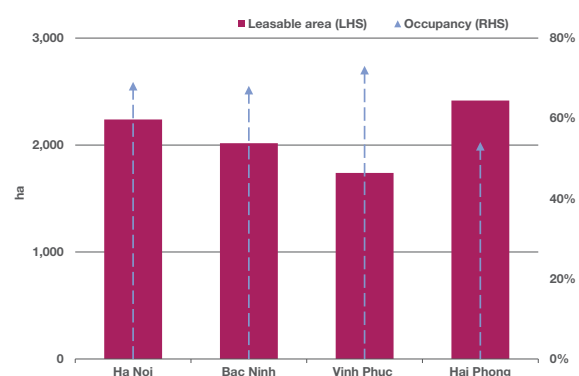
Source: MPI, 2016

GRAPH 5
Southern Viet Nam supply and performance, 1H/2016



Source: Savills Research & Consultancy

GRAPH 6
Northern Viet Nam supply and performance, 1H/2016



Source: Savills Research & Consultancy

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