

M&As IN COMMERCIAL REAL ESTATE



Commercial real estate M&As were vibrant in the second half of 2024. Director of Investment and Research **QUANG TRAN** and research manager **NAM CAO**, from NAI Vietnam, explain the reasons new policies and economic recovery helped this process.

After a quiet period in M&A activities in 2023, the market made somewhat of a breakthrough during 2024, a year with relatively stable exchange rate and large accumulated demand. Currently, domestic and foreign investors are showing special interest in various real estate segments in Vietnam, especially commercial real estate including industrial properties, office buildings, and shopping centres.

The commercial real estate segment mainly attracts investors with medium and long-term visions. Notably, satellite areas such as Binh Duong, Dong Nai, and Ba Ria-Vung Tau are emerging as attractive destinations thanks to the advantages of available land and increasingly complete infrastructure.

According to our statistics, over 60 per cent of buyers are foreign investors and this percentage even jumps to 92 per cent with deals over \$100 million. With abundant capital from abroad, foreign investors are gradually expanding their portfolios in Vietnam.

An interesting observation is that among foreign investors, there are businesses that previously only played supporting roles in projects in Vietnam. However, with the success of these projects, they have decided to step out of their previous roles to boldly become co-investors. The parent companies' confidence in the Vietnamese market has been built, and therefore larger capital investments have been approved.

Countries with traditionally slow but steady approaches, such as Japan, have become more urgent in their decision-making process, as Vietnam's economic environment shows impressive growth after the pandemic and maintains political stability. Clearly, with rising land prices, delayed participation will significantly increase investment costs.

Asian developers are still benefiting from low interest rates in their home countries. As of late October, interest rates in South Korea slightly decreased to 3.25 per cent, in Japan although increased to 0.25 per cent but remained very low, and

in China steadily decreased to 3.1 per cent.

Contrary to the thought that building investment is spending plenty to earn pennies, with current occupancy rates of 82-89 per cent in Grade A and B office buildings, it is entirely feasible for investors to use rental income to cover loan interest.

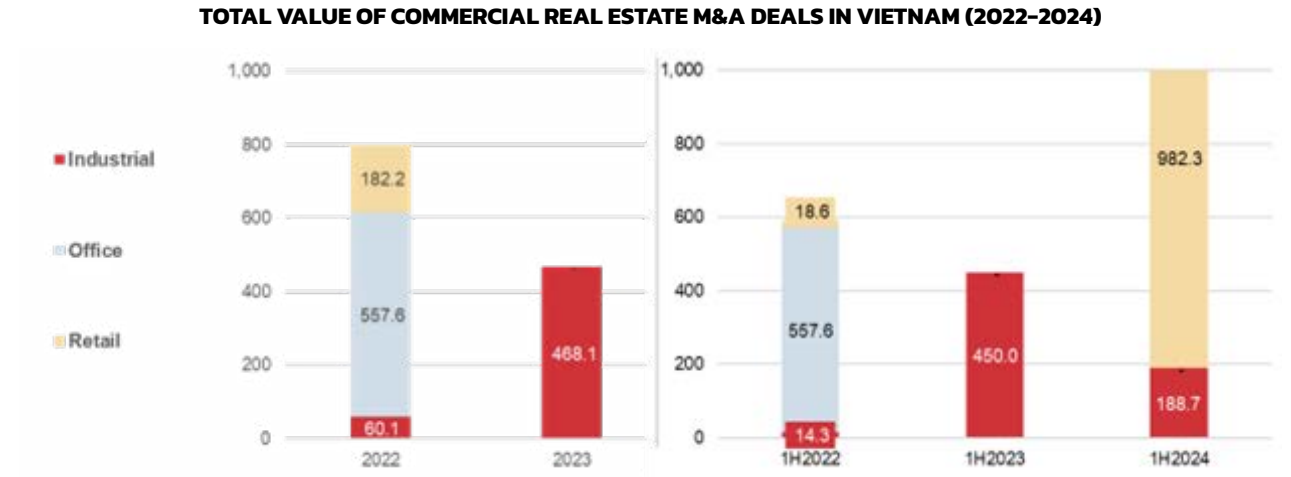
For commercial real estate, it is common for foreign investors to secure pre-commitments from businesses before investing, sometimes covering up to 45 per cent of the total area. This allows for a strong cash flow from the very beginning.

One of the purposes of purchasing commercial real estate, from large shopping malls to minimarts, is retail market coverage. We have observed intense competition from both domestic and foreign operators for retail spaces. There are locations less than 1.5km away from existing shopping malls, yet investors still want to acquire them to attract target customers.

From foreign buyers' demand, Vietnam's market is seeing a boom in domestic sellers who excel in project legal arrangements but have little to no experience in commercial real estate operations. After securing projects, they quickly transfer them, accepting moderate profit margins, with the aim of generating cash flow to seek other projects. They have become professional project hunters.

There is clearly a synergy in Vietnam's commercial real estate M&A landscape between parties with project sources and legal expertise, and those with business models and financial strength.

A difference from previous real estate market downturns is that transfer prices are no longer cheap, as sellers have somewhat overcome



Source: NAI Vietnam, data sourced from EY-Parthenon

their loan repayment crisis. Therefore, we notice a relatively strange phenomenon in the market where some sellers are no longer overly eager towards any potential buyer.

Unlike professional project hunters, these businesses don't want to sell outright but prefer partial cooperation, thereby using the buyer's brand for long-term play. For 100 per cent Vietnamese companies, partnering with one or more big names from Japan, South Korea, Singapore, or Thailand is a foundation for future projects. Therefore, the purpose of transfer is not purely financial.

PERSPECTIVES AND BARRIERS

Vietnam's real estate M&A market in 2024 witnessed a diverse investment landscape. While the beginning of the year was marked by a wave of investments from domestic enterprises, the second half has seen the dominance of foreign investors - a trend like 2023.

Investors from Japan, Taiwan, South Korea, and Singapore are focusing on commercial real estate rather than the residential segment, which is facing supply shortages. Projects such as office buildings or industrial parks are not only operating stably but also possess clear legal status, facilitating smooth transactions.

Along with economic recovery and stability in macroeconomic in-

dicators, M&As are becoming hot again, especially in the commercial real estate segment, strongly attracting investors' interest. This trend is expected to continue into 2025. In the regional context, Vietnam's commercial real estate market continues to affirm its position as an attractive destination for foreign funding, notable for products capable of generating immediate cash flow such as industrial areas, offices, shopping centres, and retail spaces.

In late 2024, the most significant event impacting the global economy was the US election result. There has been optimism about Vietnam benefiting from another US-China trade war (if any) as occurred during Donald Trump's first term.

This is true, but can we transform it into a long-term advantage? During Q3 and Q4 of 2024, the textile industry benefited from instability in Bangladesh and Myanmar. Can we maintain this in 2025 and later?

Analysts are predicting an explosion in industrial real estate demand, yet some industrial areas and ports still experience many vacancies despite long-term operation. The Vietnamese government expects M&A transactions to create production facilities, business operations, and commercial-service establishments, rather than land being transferred multiple times.

An office building, a shopping centre, or an industrial park is both a small ecosystem and a component of a larger ecosystem. Therefore, the purpose of M&A is to transfer the properties to those who can better exploit them. If it is only for land accumulation purposes, M&As sometimes become a bitter pill.

