Laos | Research Reports

Vientiane

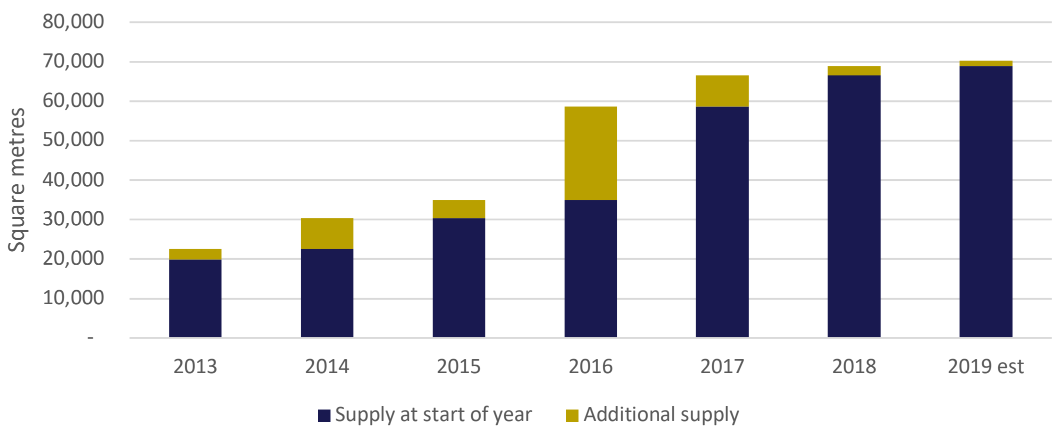
OFFICE MARKET REPORT H2 2018

A MOVE TO BETTER QUALITY FOR TENANTS

Summary

- Growing demand from multinationals for better quality offices
- Limited prime locations
- Supply surge in 2016 still yet to be fully absorbed
- Rental pressures due to demand/supply imbalances
- Belt & Road Initiative (BRI) could spur demand in next decade

Fig 1 – HISTORICAL SUPPLY OF OFFICE SPACE IN VIENTIANE



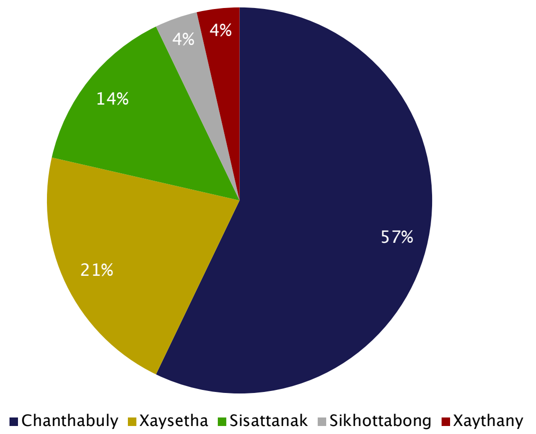
Source: New Asia Property Research / Rentsbuy

INTRODUCTION TO VIENTIANE

Vientiane is the capital and main commercial city of Laos. Administratively Vientiane Capital forms a prefecture of around 900,000 population comprising nine districts. Vientiane Province is a totally separate administrative area located north and west of Vientiane Capital. For the purposes of this report Vientiane is considered as the Vientiane Capital Prefecture.

As the main commercial city Vientiane contains all office buildings in Laos - commercial activity in the other cities such as Pakse, Luang Prabang and Savannakhet takes place in informal spaces such as shophouses and villas.

Fig 2 – BANKS, INSURANCE COMPANIES HQs & GOVERNMENT MINISTRIES BY DISTRICT IN VIENTIANE 2018



Source: New Asia Property Research / Enterprise Registration and Management (ERM) Department

Of the nine districts in Vientiane six are considered as urban areas and contain the real estate considered in this report. Chanthabury is the main commercial district comprising the lion's share of banks and insurance headquarters and government ministries in Vientiane. Many of these are located in Lane Xang Avenue, the main thoroughfare in the city, which is part of Chanthabury. The district also contains most of the tourism related facilities in the city including the main riverfront area.

Sisattanak district is host to many of the embassies as well as NGOs and companies located in villas rather than offices. It is also the location of a number of international schools including the Vientiane International School. The area is very popular for expats working in the city who live in rented houses or apartments.

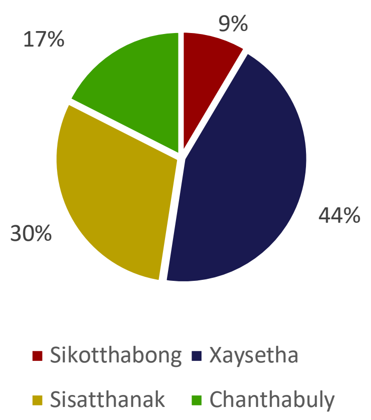
Sikhottabong district is a growth area for business and residential purposes due to more available land plots on main roads. Wattay International Airport is located in this district

Xaysetha district also hosts many government offices as well as some embassies and office buildings completed more recently. The district stretches out some way east of the centre of Vientiane and also includes an industrial zone.

SUPPLY

Overall office supply at the end of 2018 amounted to just under 70,000 sq. m with the most significant addition coming in 2016 with two of the largest office buildings in the city. Compared with other South East Asian commercial centres, Vientiane has a far smaller supply and represents less than a quarter of the total in Phnom Penh and less than 1% of office space found in Bangkok.

Fig 3 – PERCENTAGE OF OFFICE SUPPLY BY DISTRICT 2018

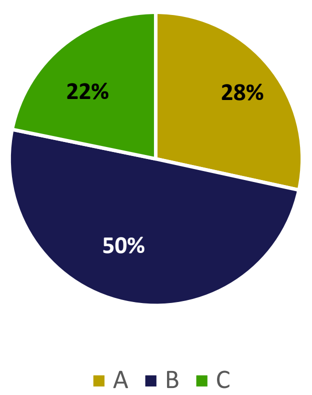


Source: New Asia Property Research / Rentsbuy

While Chanthabuly is the main commercial district of Vientiane only 17% of supply is located in this district. Access to sizable land plots on main roads is limited with government departments taking up some of this prime land. Vientiane is a small city without the choking traffic jams evident in other commercial cities in the region so the clustering affect that results in the proliferation of CBDs is not so evident in the Lao capital. Xaysetha contains the highest amount of office space with two significant additions in the past two years.

Only limited new supply is expected over the next few years. The next noteworthy addition is expected to be from Sky Office at Vientiane World Trade Center in Sisattanak district. The office building is phase 2 of the World Trade Centre complex where the largest retail centre in Laos is slated to open in 2019. The office is expected to be completed in 2022 with 33 floors and when completed will be the largest office building in the capital.

Fig 4 – PERCENTAGE OF OFFICE SUPPLY BY GRADE 2018

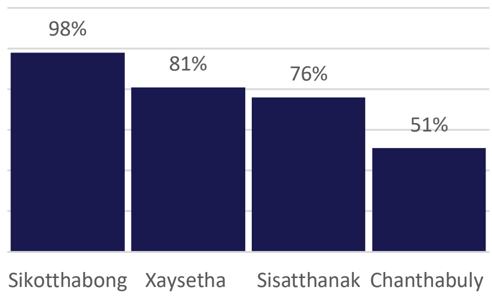


Source: New Asia Property Research / Rentsbuy

As in most frontier markets there is no official classification of office grades in Vientiane. Therefore an assessment was made taking into account various factors such as access, parking, ceiling height, lift capacity, reception and other common areas. Such grading would not be appropriate in more mature markets as no office building in Vientiane would qualify as grade A in Singapore for example. In general given the low level of commercial activity in Vientiane compared to other commercial centres offices are usually small in size with either limited number of floors or a small floorplate. However for most tenants the quality of current supply is acceptable. Currently half of the supply can be considered grade B. Only limited supply for grade C is available as for this level of quality alternative office spaces such as villas and shophouses are often more acceptable.

DEMAND

Fig 5 – OFFICE OCCUPANCY RATES H2 2018 BY DISTRICT



Source: New Asia Property Research / Rentsbuy

Chanthabuly district contains a number of older buildings which have had difficulty competing with newer and higher grade offerings in other districts, encouraging some tenants to relocate. Overall occupancy for the whole of Vientiane stands at 75% with the growth in supply from 2016 overtaking demand during the past few years. With limited supply expected in the next few years current supply may begin to be absorbed especially with further demand growth on the back of the BRI and manufacturing, power and logistics investment.

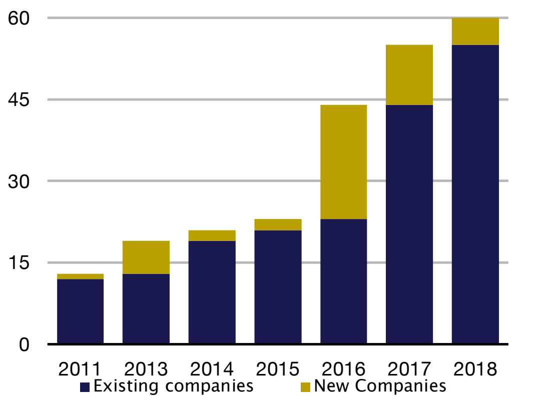
DEMAND DRIVERS

Fig 6 – NUMBER OF NEW FOREIGN COMPANIES SET UP IN VIENTIANE BY YEAR

Source: New Asia Property Research / Enterprise Registration and Management (ERM) Department

The number of foreign companies registering in Vientiane has risen consistently since 2014 with China being the main contributor due to the development of the Belt and Road Initiative in Laos with its strategic location linking China with Thailand and then further south to Singapore. Sectoral growth came from the establishment of more professional services companies looking to support the overall development of the economy as well as construction businesses and companies involved in wholesale trade. In terms of dedicated office demand, professional services are the most significant user.

Fig 7 – NUMBER OF FOREIGN ACCOUNTANT AND LEGAL FIRMS REGISTERING IN VIENTIANE BY YEAR



Source: New Asia Property Research / Enterprise Registration and Management (ERM) Department

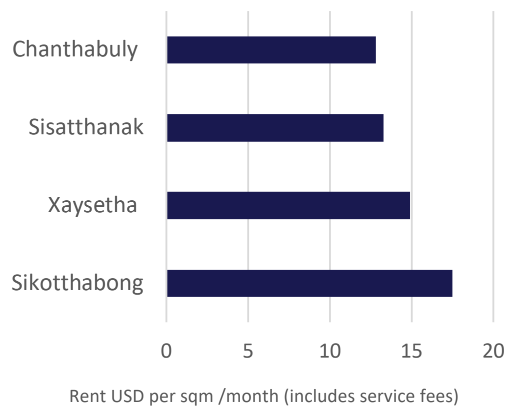
Accountancy firms and legal services are one of the main drivers of demand in a small office market such as Vientiane. Many enter a new country to support regional clients and with the rapid development of large-scale infrastructure projects such as hydropower construction and operation the need for professional services grows appreciably.

Manufacturers, especially MNCs, are usually an important driver of office demand in many countries. However in Laos most larger scale manufacturing is export orientated with limited local supply and also a small domestic demand which means most have limited white collar staff requirements and therefore lower demand for office space.

The development of transport links within the ASEAN area and China has spurred increasing interest in the development of logistics in Laos with its strategic location linking China and Vietnam with Thailand. Demand for office space from such companies is growing and is likely to continue to be a key player in the office market as a result of further development of supply linkages and transport infrastructure in the regions especially with the development of the new China – Laos high speed railway due to be completed in 2021.

RENTAL RATES

Fig 8 – AVERAGE RENTAL RATES FOR OFFICE BY DISTRICT

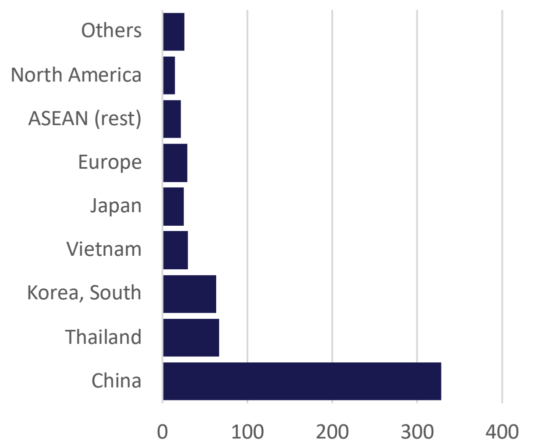


Source: New Asia Property Research / Rentsbuy

Sikhottabong has the highest rates but this is on account of limited supply only in the grade A category. Rates are similar in other districts on average around 13 USD per sq. m per month. Lease contracts usually range from one to three years and in the past landlords asked for one year rent up front; although over the past few years as more supply has been added and competition increased this is usually able to be negotiated to smaller payments. Some offices include service fees in the rent while others add an extra amount. All property rentals are subject to 10% tax.

OUTLOOK

Fig 9 - NUMBER OF NEW FOREIGN COMPANIES REGISTERED IN VIENTIANE CAPITAL IN 2018 BY COUNTRY / REGION



Source: New Asia Property Research / Enterprise Registration and Management (ERM) Department

The vast majority of new foreign companies originate from China. In 2018 a total of 318 Chinese companies were registered to do business in Vientiane which represented an over 50% increase from the previous year. One of the crucial factors is the BRI in which Laos is expected to be greatly impacted given its strategic location and small population. The BRI provides the impetus for private Chinese companies to invest in a wide range of sectors often unrelated to the BRI itself.

However from the perspective of the office market most Chinese entrants will take up informal space such as villas, apartments and hotel rooms to run their operations and the larger companies often occupy single small office buildings to operate. It is expected that over time some will migrate to dedicated office space as they become more established and wish to present a better image so helping to fuel demand in the next ten years.

Currently Vientiane has a wide range of disadvantages that prevent rapid growth in demand for office space. The population is the smallest for the main commercial centre of each country in ASEAN with the exception of Bandar Seri Begawan in Brunei. There is limited air connectivity to most countries in the region thus preventing the city becoming a regional hub. Generally Laos ranks very low in comparison to other regional countries in doing business including setting up a company. There are also issues of the low skill levels of local employees in surveys of businesses in Laos. Also its main economic drivers such as mining and hydropower generally do not feed into office demand as many countries set up only in the locations in the country where they operate from rather than Vientiane or have a very limited presence there.

The key potential driver going forward is the development of the transport infrastructure in Laos with a substantial investment expected from the new railway project connecting Yunnan province and Laos in the north of the country ending in Vientiane before heading into Thailand. The dynamics of this as well as road improvements all over the country facilitating trade within the region will go a long way to determining whether Vientiane remains a backwater with only limited growth in demand or the city thrives as a hub for transhipment, manufacturing, finance and other services relating to regional trade and development and thus acting as a spur for a more vigorous office market.