VIENTIANE (LAOS) PROPERTY MARKET REPORT | 2ND HALF 2011

Colliers INTERNATIONAL

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VIENTIANE (LAOS)
PROPERTY MARKET REPORT

1. Highlights

Vientiane property market begins to modernise but at a sustainable pace.

Young population will stimulate growth over the next twenty years.

Vientiane's population is expected to continue its rapid increase over the next twenty years presenting opportunities and challenges.

Total number of upper scale hotel rooms is over 900.

Just over half of the total supply of apartments for lease units in Vientiane were completed during 2009 and 2010.

Limited office space is still evident in high occupancy rates.

In the retail sector four fifths of total supply has been added in the past two years.

2. Introduction - Vientiane makes strides

Vientiane, the capital of Laos, resembles more of a sleepy South American town than the commercial hub of another emerging tiger and this reflects the intention of a more moderate trajectory of growth in the city. The name is translated as 'City of Sandalwood', a tree known for its fragrance. It became the capital of Laos as far back as 1563. It was not until 1986 with the "New Economic Mechanism" that started the slow process of market orientated reforms from a centrally planned economy that the emergence of Vientiane as both the political and commercial capital of the country took place. However, being landlocked and having a small population as well as being cautious in its economic development has meant that the city has only recently taken on the characteristics of modern city life and there is still some way to go. But that remains the charm of Vientiane for those who have been fortunate enough to experience the city.

A significant amount of real estate activity is undertaken by diplomatic missions and Non Governmental Organizations (NGOs) in the form of villas and leased apartments for their own operations as well as residences for their expat employees. Over the past ten years Laos has undertaken a significant amount of hydropower development and is serving the energy needs of its neighbours as well as becoming an important mining destination and logistical hub for regional trade. Many companies involved in these sectors, especially from Vietnam, China and Thailand, have now located their head offices in Vientiane. A plethora of banks have sprung up in the capital to serve the needs of these investors.

Vientiane is also increasingly on the tourist itinerary that also includes Luang Prabang - a UNESCO World Heritage site, Vang Vieng - a popular destination for backpackers and the less visited areas in the south of the country including Tad Lo waterfalls and Si Phan Don (Four Thousand Islands). Many like to spend a few days in the capital before moving on and hotels of all grades are accommodating these tourists and also business travellers.

Although no international hospital exists, the first private clinic has recently opened and an accredited international school is growing apace. The jigsaw pieces of an international city are fitting into place although the retail component is still mostly in the form of traditional shopping centres. Big C will open its doors next year and more modern retail centres are due to come online over the next few years but the shopping scene in Udon Thani is still likely to keep the city quiet at weekends for some time. In 2011 the first ever stock exchange started operation in Vientiane with two companies listing although the number is set to increase over the next few years.

The abundance of land in the capital and foreign ownership restrictions mean that no condominiums or apartments for sale can be found in Vientiane. Height restrictions will maintain the unique character of the city and while the riverfront area is being rejuvenated with eclectic designs that add to the city's character, other projects are less appealing. The real estate market in Vientiane is awakening but the relaxed charm of this city will remain for some time to come.

3. Laos Overview

LAOS'S KEY FACTS

Official Name:	Lao People's Democratic Republic
Area:	236,800 sq km
Population:	6,500,000 (2012 estimate)
Density:	27.5 people per sq km
Capital:	Vientiane
Government:	Communist one-party state
Population Growth Rate:	1.7% (2011 est)
Life Expectancy:	67.5 years (UNDP)
Adult Literacy Rate:	
Language:	The official language is Lao, other languages spoken by various ethnic groups
Religion:	Around two-thirds are Buddhists, rest mostly animist
Currency:	Kip

ECONOMIC PROFILES

Economy:	Market oriented economy with central planning (since 1986)
GDP	USD6.34 billion (nominal) USD15.7 billion (ppp) 2010
Per – Capita GDP	USD1,000 (nominal) USD2,435 (ppp) 2010
Annual Growth Rate	8.3% in 2010
Exchange Rate:	Around 8,000 Kip to the US dollar
Principal Industries:	Primary industry predominates including copper, tin, gold, and gypsum mining; timber, electric power, agricultural processing and tourism.

ETHNIC BREAKDOWN

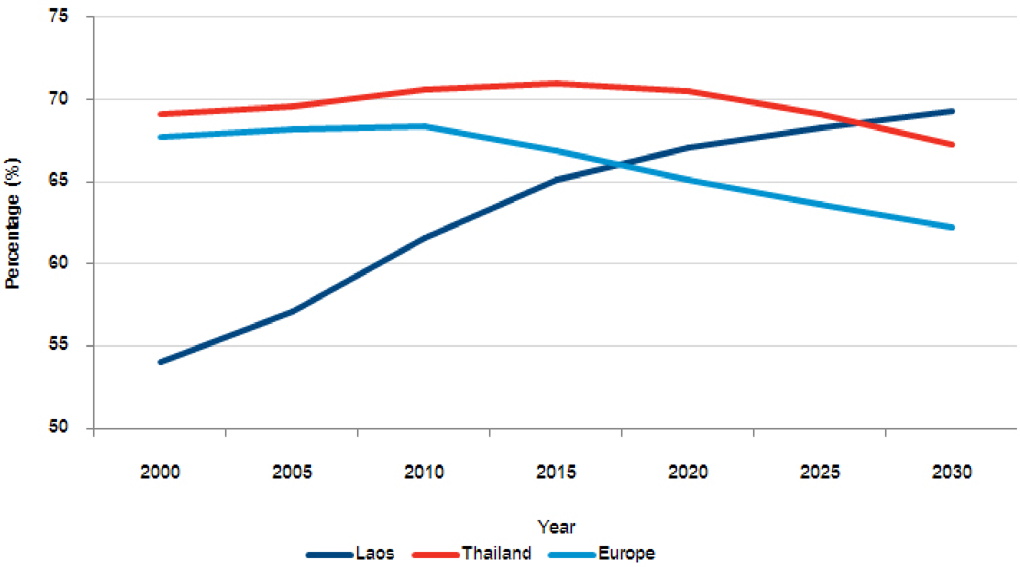
Just over half of the population are ethnic Lao, the second largest group are the Khmou with just over ten per cent and found in the north of the country and the Hmong with just under 10% with many living outside of Laos due to political problems after the communist government took power in 1975. The rest of the population consists of over a hundred ethnic groups.

THE DIASPORA SPACING OF LINES BELOW

Since 1970 it is estimated by the UN Population Division that around 540,000 have migrated from Laos, representing nearly 9% of the total population. Many begin new lives abroad and can earn significantly more than the average salary in Laos and have greater capital. This means that the group is often a strong source of investment back into Laos as is the case in Vietnam and Cambodia. Many buy properties for investment purposes and also to house their relatives who have remained in the country. Key destination countries are the United States, Thailand, France, Canada, Australia, Japan, Germany, Belgium and New Zealand.

DEMOGRAPHICS

PERCENTAGE OF AGE GROUP BETWEEN 15-65



Colliers International Thailand Research | Source: Population Division of the Department of Economic and Social Affairs of the United Nations

Laos has a young population compared with other countries in the world. This is mostly a result of the war that occurred in the seventies which severely reduced the number of births. This means that there are relatively few older people. The period after the war saw a dramatic rise in births and these baby boomers are now reaching the age where they are economically productive. For many countries this is a significant contributor to economic growth as occurred in Japan in the fifties to seventies and later in Korea and Taiwan in the sixties to eighties.

ECONOMIC HISTORY

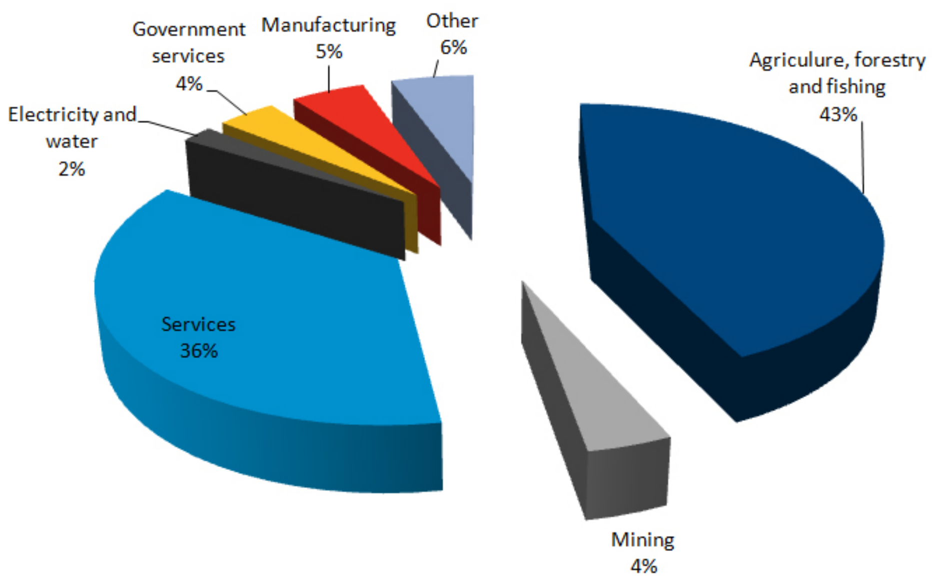
When the communist Pathet Lao came to power in 1975, they imposed a Soviet-style command economic system in similar fashion to Vietnam but it soon became clear that this system was hampering Laos in developing its economy. In 1986 the government announced the New Economic Mechanism (NEM) which tentatively started the reform of the economy to a more market driven one. Over time the NEM was expanded to include a range of reforms designed to create conditions that allowed for greater private sector activity. Market forces replaced centrally determined prices. The model is similar to that of Vietnam and China with an essentially market economy but with significant central planning and strong state capitalism in key sectors.

Laos has limited manufacturing activity and relies upon primary products such as mining and energy. Hydropower is an increasingly important source of revenue to the point where the Industry and Commerce Minister wanted Laos to become the "battery" of South East Asia. There are 55 dams being planned for the future. Tourism is a high growth area with arrivals increasing significantly every year. The government relies on overseas assistance for investment with only around 22% of USD5 billion planned for the last five year plan coming internally.

LAOS SECURITIES EXCHANGE

The Laos Securities Exchange (LSX) began trading in January 2010. The LSX lists two companies, Electricite du Laos Generation Company and Banque Pour Le Commerce Exterieur Lao, with more expected to follow. Korea Exchange, the sole securities exchange operator in Korea, has invested $9.8m, or 49% of the capital in the exchange with The Bank of Laos, the country's central bank, investing the rest. The two Initial Public Offerings raised around USD140 million. It is one of the few stock exchanges that cater to frontier market investors, the others in the region are Mongolia and now Cambodia although the latter has no companies listed at the end of 2011. A new office building was completed to accommodate the exchange and securities companies.

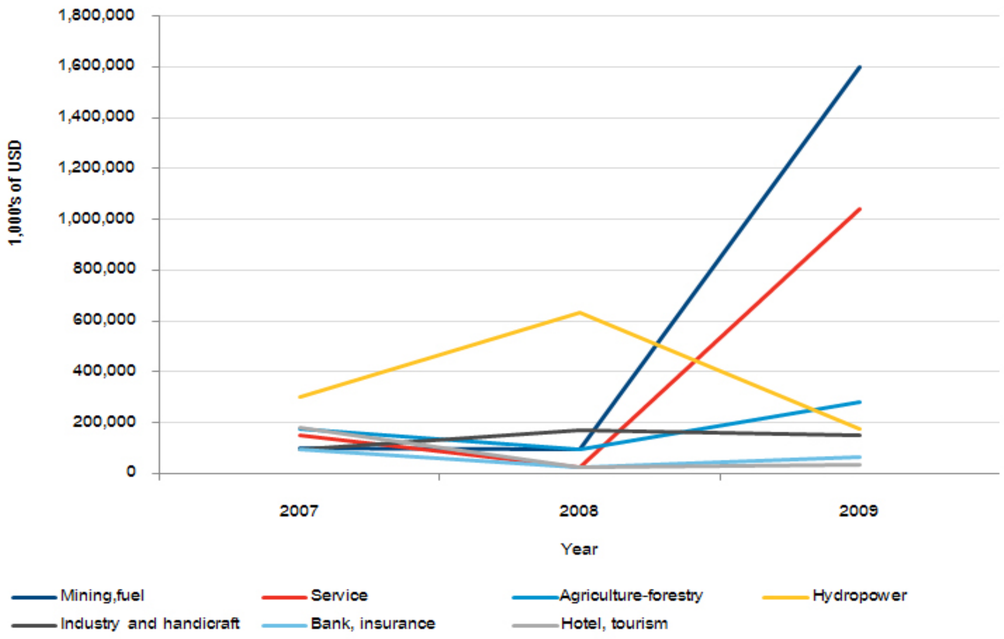
BREAKDOWN OF GDP 2010



Colliers International Thailand Research | Source: Department of Statistics, Ministry of Planning and Investment

The underdeveloped nature of the Lao economy is shown in the significance of the agricultural sector and limited manufacturing activity. Around four fifths of the population work in the agriculture sector, most in subsistence rice farming. Clearly most of the country has little part in globalization and the benefits it can bring.

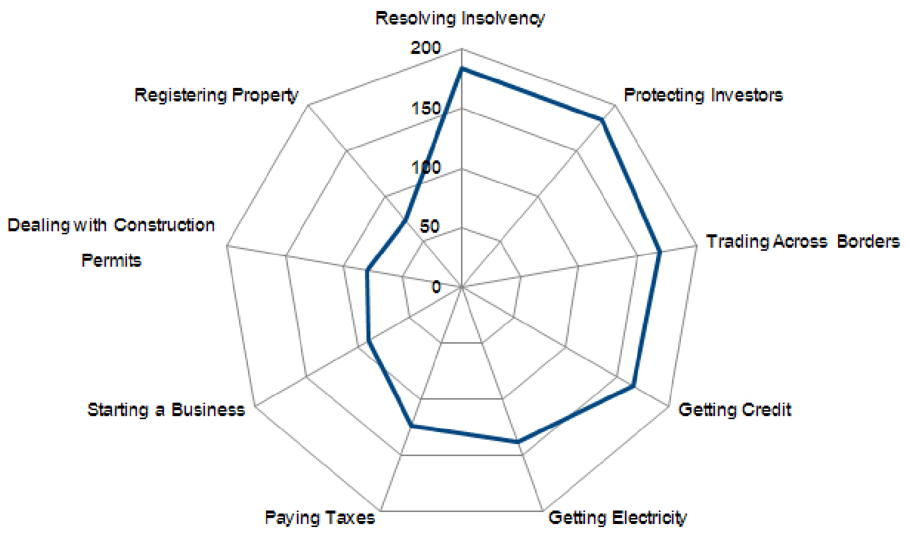
BREAKDOWN OF FOREIGN INVESTMENT BY SECTOR IN LAOS



Colliers International Thailand Research | Source : Investment Promotion Department , MPI

The energy and mining sectors are key magnets for foreign investment in Laos in stark comparison with the industrial sector. The service sector attracted the second largest amount of investment in 2009 due to transport and retail activity.

EASE OF DOING BUSINESS RANK (OUT OF 183 ECONOMIES)

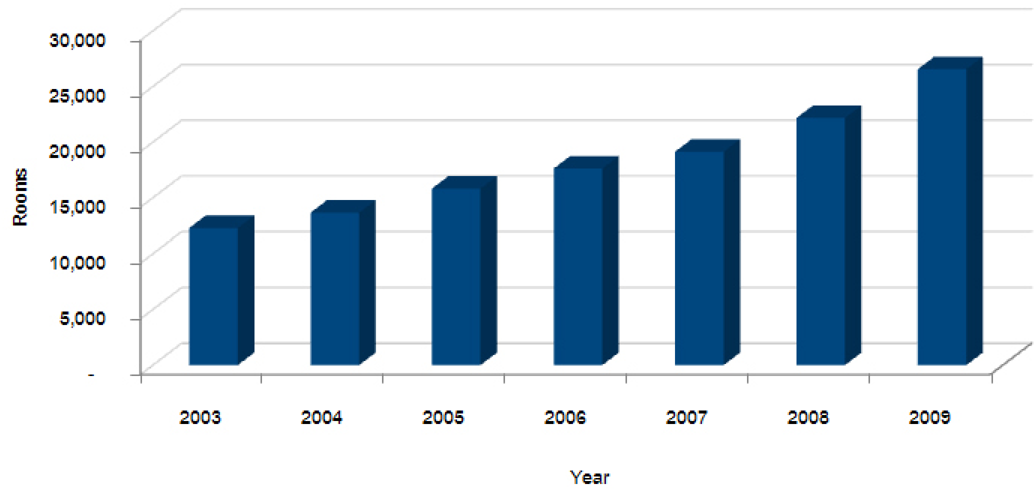


Colliers International Thailand Research | Source: World Bank

The higher the number, the worse in comparison with other countries throughout the world. The country performs poorly in terms of trade, investor protection, securing credit and insolvency with limited legal provision and enforcement. However on the positive side Laos scores relatively highly in starting a business and property related aspects.

4. LAOS HOTEL MARKET

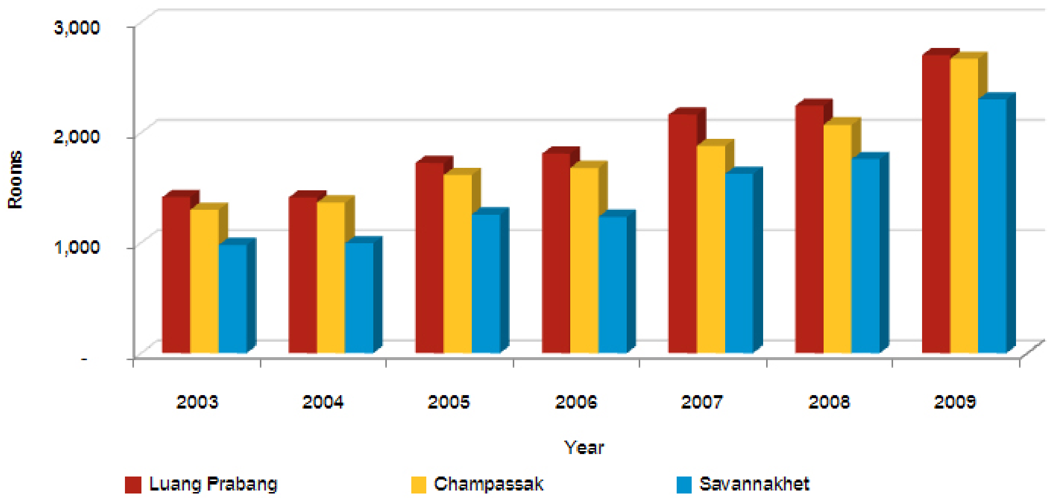
TOTAL SUPPLY OF HOTEL ROOMS IN LAOS



Source: Lao National Tourism Administration and Colliers International Thailand Research

There has been a steady rise in the number of hotel rooms throughout the country to reflect the growing importance of tourism in Laos. There were just over 25,000 rooms in all categories in 2009.

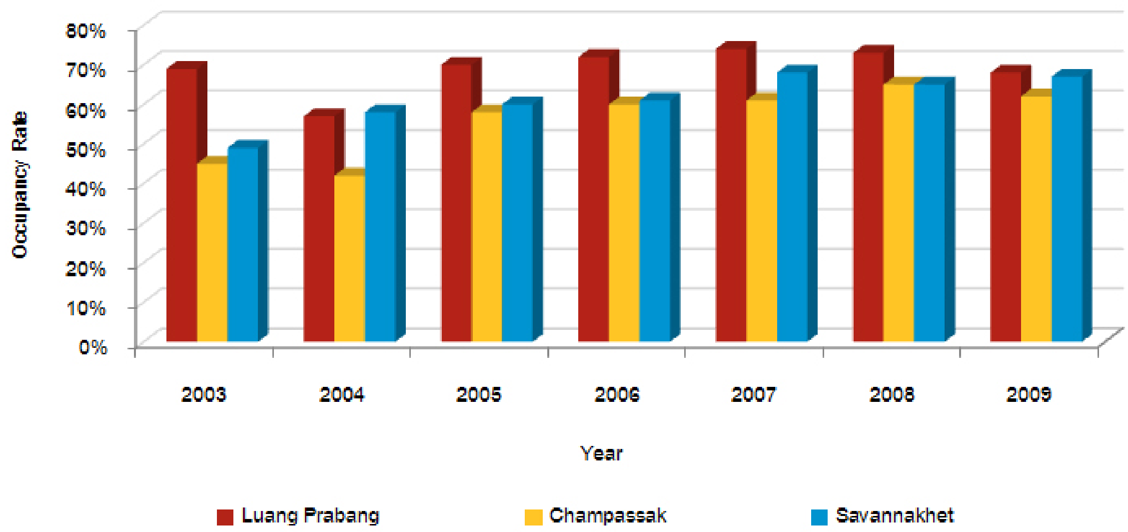
HOTEL SUPPLY IN SELECTED DESTINATION BY YEAR, EXCLUDING VIENTIANE



Source : Lao National Tourism Administration and Colliers International Thailand Research
Remark : Above number is including hotel, resort and guesthouse

The three most important destinations outside of Vientiane are Luang Prabang, a UNESCO World Heritage City which is a popular draw card for many visitors to Laos which has distanced itself from the mass tourism market. Savannakhet is the second biggest city in Laos and an important hub between Thailand, Vietnam, Vientiane and the south of the country. It has less appeal as a tourist destination but has a pleasant laid back atmosphere. Champasak is host to Khmer ruins which are also a UNESCO World Heritage site and also the town of Pakse, which is the commercial centre of the south of the country and close to the Thai border. In all destinations there has been a rise in the number of hotel rooms to cater to the growing number of tourists.

OCCUPANCY RATE BY PROVINCE, 2003 – 2009.



Source: Lao National Tourism Administration and Colliers International Thailand Research
Remark: Above figure includes all grades of hotel

During the years 2005 – 2009 Luang Prabang had the highest occupancy rates. In 2007 the occupancy rate in Savannakhet increased approximately 12% from the previous year, due to the Friendship Bridge opening, although in 2008 this dropped by 4.4% and then picked up again in 2009.

LEGAL ASPECTS

LAND OWNERSHIP

The government owns all land in Laos. The equivalent of ownership is based on the concept of land use rights. However the government may take back the land anytime for a symbolic rather than market value. Foreigners are not allowed to own land.

LAND LEASEHOLD

Lao citizens are authorized to lease land from the state for a maximum of thirty years which can be extended depending on the case. Foreigners may lease from the state. Foreigners wishing to lease developed land from Lao citizens must get approval from the National Land Management Authority based on local administration recommendations. The maximum lease period is 20 years but may be extended on a case by case basis. For foreigners who come to invest the lease period for state land is 50 years but may be extended and for Lao citizens this period is 30 years. The period for embassies and international organisations is 99 years. Land can be sub-leased with approval from state and can also be inherited.

BUILDINGS

Foreigners have the right to buy and sell property based on the contract of land lease but state has priority in buying property.
Foreigners are not allowed to buy apartments on a freehold basis and no condominium strata title exists.

ECONOMIC ZONES

For special economic zones the maximum period for land lease is 75 years, but may be extended with approval from the National Assembly.

TAXATION/CHARGES

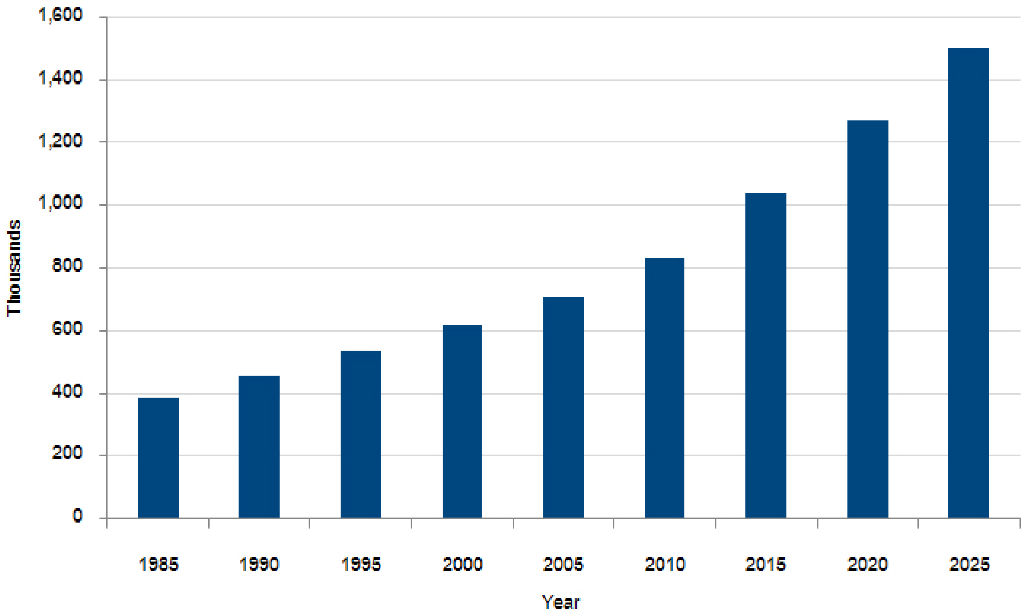
15% tax arising from property, including leasing.

5. VIENTIANE OVERVIEW

VIENTIANE DEFINED

Vientiane relates to three administrative entities. Vientiane Capital is the formal name for the main city and official capital. This is the area considered in the report and will be known as Vientiane. The city forms part of Vientiane Prefecture which includes five districts in Vientiane Capital and four outside. The prefecture was split from Vientiane Province in 1989 which represents a larger area surrounding the prefecture.

HISTORICAL AND ESTIMATED POPULATION OF VIENTIANE



Colliers International Thailand Research | Source: Population Division of the Department of Economic and Social Affairs of the United Nations

With its young population and the attractions of the largest commercial city in the country for internal migration mean that the population of Vientiane has over doubled in size over the course of the past 25 years. Further economic growth is likely to lead to a further movement of population from a rural to urban environment and therefore the estimated population could nearly double again within the following fifteen years to exceed 1.5 million. This will present a challenge for authorities in regards to services and infrastructure and present an opportunity for property developers in the residential and retail sectors.

VIENTIANE DISTRICT BOUNDARIES

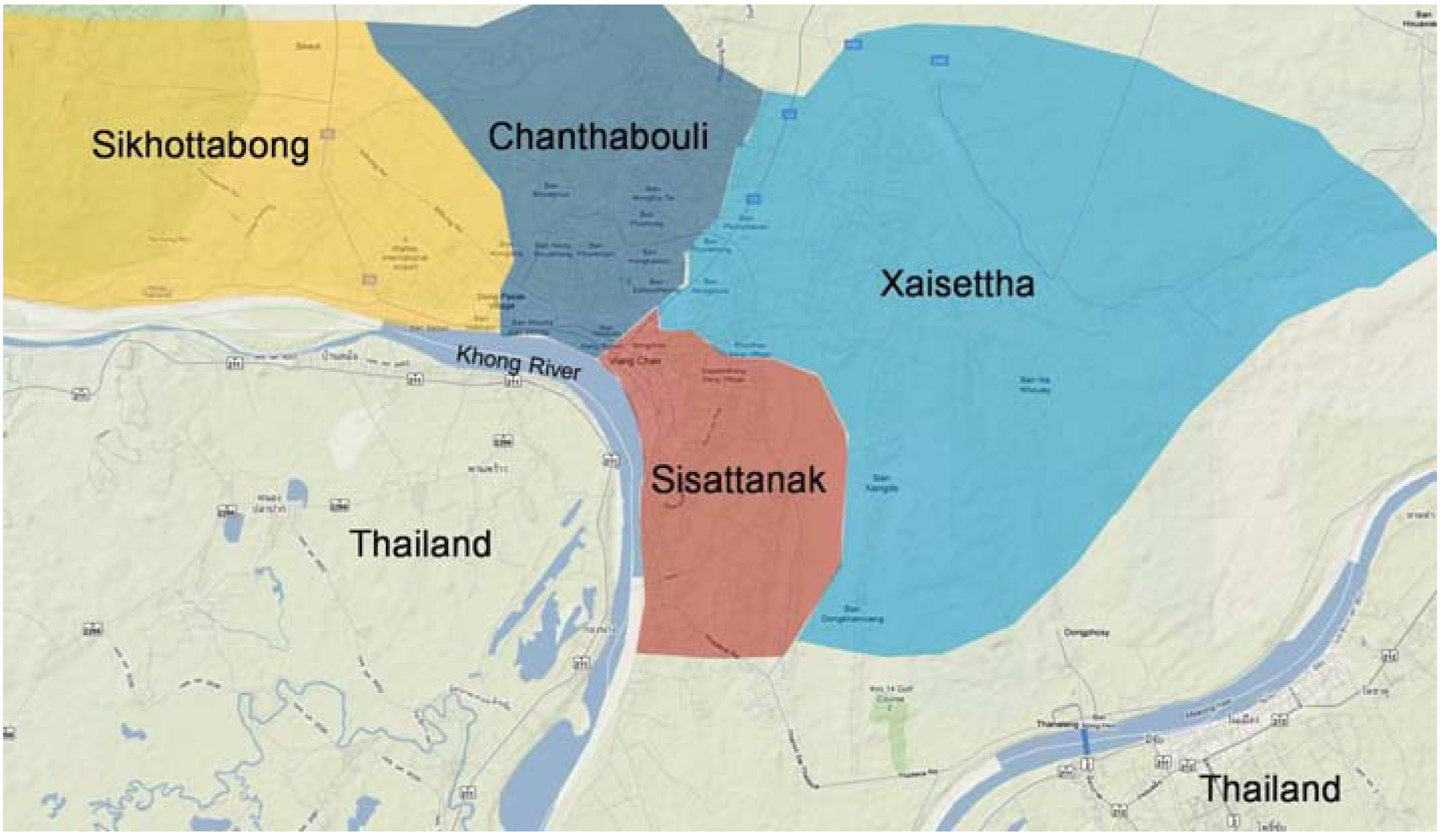
Vientiane is the largest city of Laos as well as the commercial centre of the country. Vientiane is located on the eastern bank of the Mekong River opposite Nong Khai province in Thailand. Access between the two countries is by Friendship Bridge in Hadxayfong district to Nong Khai province.
Vientiane is comprised of the following districts:

- Chanthabouly
- Sikhottabong
- Sisattanak
- Saysetha
- Hadxayfong

Note: Spelling varies based on romanisation of the Lao language

ZONING

For this report Colliers International Thailand will focus on four districts from the total of five within Vientiane, as the vast majority of the property market in this report is located in these four districts.



SIKHOTTABONG DISTRICT:

Sikhottabong district is a new area for business and residential purposes. Wattay International airport is located in this district and a number of office and retail centres are starting to spring up.

CHANTHABURY DISTRICT:

Most of the government offices, hotels and guesthouses are located in this district. The area on or close to the river in this district is considered as downtown and is popular with tourists as well as being the location of a number of offices.

SISATTANAK DISTRICT:

This district contains the lion's share of embassies as well as offices for NGOs and companies located in houses rather than offices. It is also the location of the Vientiane International School and other schools using English as a language. Therefore the area is very popular for expats working in the city. Most live in rented houses or apartments.

SAYSETHA DISTRICT:

In addition to Chanthabury district, many government offices are also located in this district including some embassies and office buildings. Most office buildings were completed in the past two years.

INTERNATIONAL SCHOOLS

Vientiane International School (VIS) is an accredited International Baccalaureate World School in Vientiane, Laos, established in 1991. VIS moved to a new purpose built facility in August 2008. It teaches from 3-18 years of age. Kiettisack International School (KIS) follows the IGCSE Secondary syllabus. On February 24 2010 KIS met all the standards required to be a Cambridge International Centre. Other schools that offer English medium education include A.I.S. International School, Panyathip International School (PIS), Vientiane Pattana School and Sharon English School.

MEDICAL SERVICES

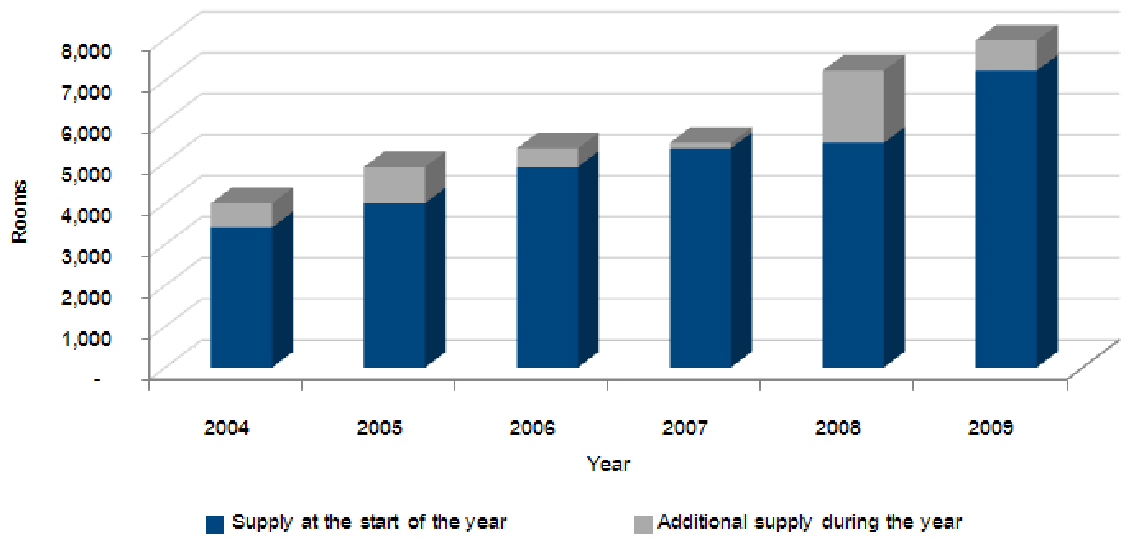
Alliance International Medical Centre opened in 2011 and is the first international full service clinic in Laos. It is operated by The Wattana Hospital Group which has a hospital in Nong Khai, on the border in Thailand. Centre Medical de l'Ambassade de France was the first international private clinic in Vientiane. There are three well known public hospitals called Mohosot, Mittapheb and Sethathirath (Japanese) hospitals, although most wealthy Laotians and expats choose to go to Nong Khai or Udon Thani in Thailand for operations.

6. VIENTIANE HOTEL MARKET

HOTEL CLASSIFICATION

No formal classification exists for hotels in Laos and as such Colliers International Thailand has distinguished between those in the upper scale category, which also includes a hotel considered of luxury standard, and those below upper scale. Upper scale hotels in Laos are usually of a size to support high staffing levels, and a significantly greater quality and range of facilities. Reception and the other public rooms will be spacious with a number of restaurants. All bedrooms will have full en suite bathrooms and offer a good standard of comfort and equipment, such as a hair dryer, telephone and toiletries. At this point in time the standard of hotels in general may not reach the level expected in other countries.

HISTORICAL SUPPLY OF HOTEL ROOMS IN VIENTIANE

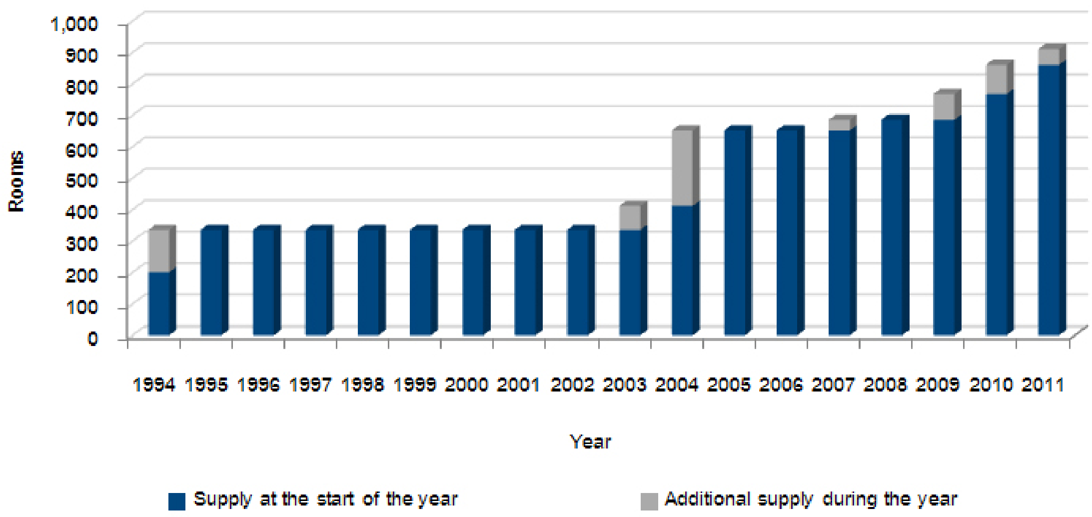


Source: Ministry of Hotels and Tourism and Colliers International Thailand Research

The total number of hotel rooms in every category, for the whole of Vientiane was 7,970 rooms in 2009, an increase of approximately 46% from 2007. More than 1,700 rooms were added to the market in 2008, the highest number during these 6 years. Approximately 2,500 rooms or 31% of the total hotel rooms in Vientiane are guesthouses, due to budget tourists making up a significant percentage of the tourism market.

UPPER SCALE HOTEL MARKET

HISTORICAL SUPPLY IN VIENTIANE

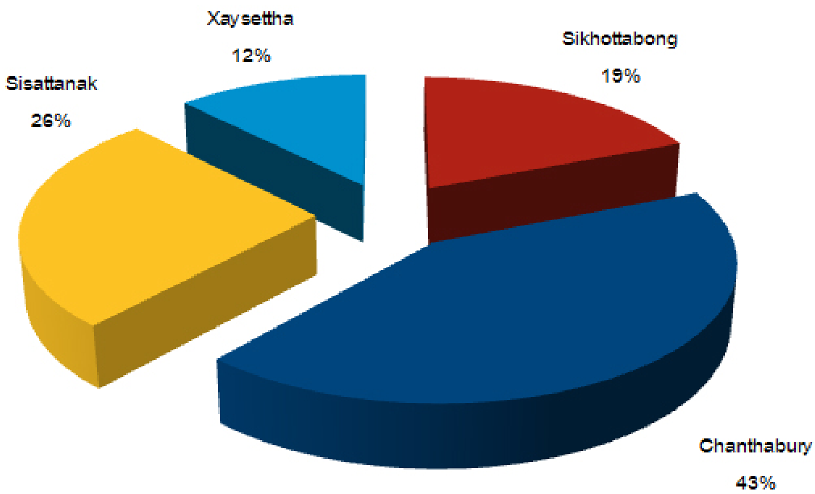


Source: Colliers International Thailand Research

Approximately 200 (22%) of the total luxury hotel rooms supplied in Vientiane were added before 1994. However in 1994, 130 rooms were added to the market due to the first Friendship Bridge (Nong Khai – Vientiane) being officially opened on April 4th 1994. Subsequently, after 1994 no new supply came to the market until 2003 due to the effects of the Asian Financial Crisis. The total number of upper scale hotels rooms is Vientiane now sits at approximately 910 with an average of 83 rooms per hotel.

The Lao government appointed Vientiane as the venue for regional meetings and sporting events, such as the ASEAN Summit in 2004 and SEA Games in 2009, during which time there were a small number of hotel rooms added to the city.

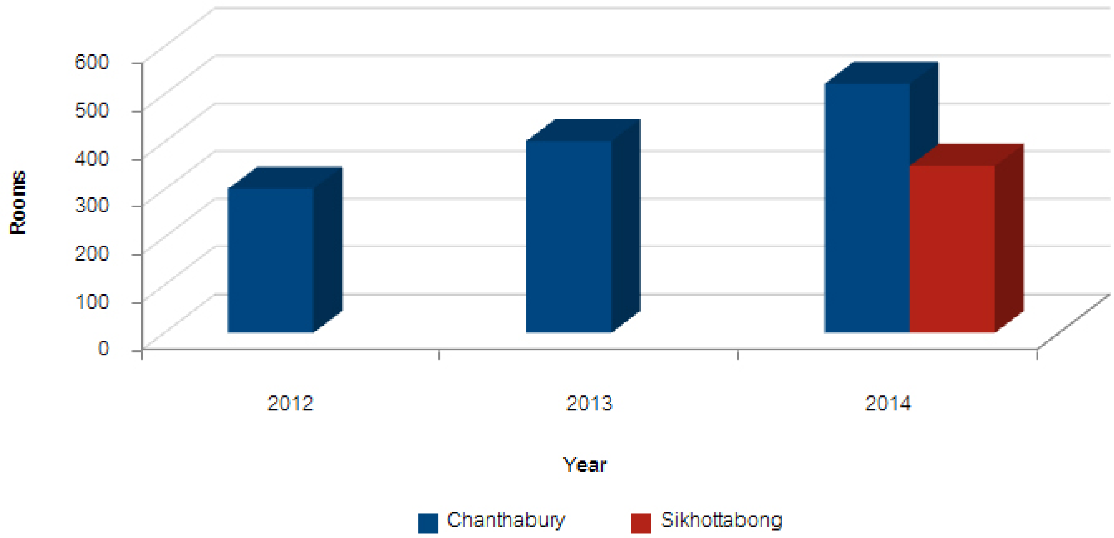
SUPPLY BY LOCATION OF UPPER SCALE HOTEL ROOMS



Source: Colliers International Thailand Research

Just over 40% of the total number of upper scale hotel rooms in Vientiane are located in Chanthabury district. This district is popular due to the proximity of downtown Vientiane, and the location of temples, bus terminals and restaurants. In addition there is a large hotel in the Sisattanak district of the city that contributes 240 rooms alone.

CUMULATIVE FUTURE SUPPLY



Source: Colliers International Thailand Research

Due to the growth of tourism and business travel to Vientiane, there are a few new hotel developments under construction. Although Vientiane is not the main tourist attraction in Laos, the city is the country's transportation hub. Tourists can take a public bus or train to other provinces or neighbouring countries very easily from the centre, so as a result the majority of journeys start and finish in the city.

More than 1,200 rooms are scheduled to be completed by 2014 and approximately 520 of these rooms (43%) will be in the Chanthabury district.

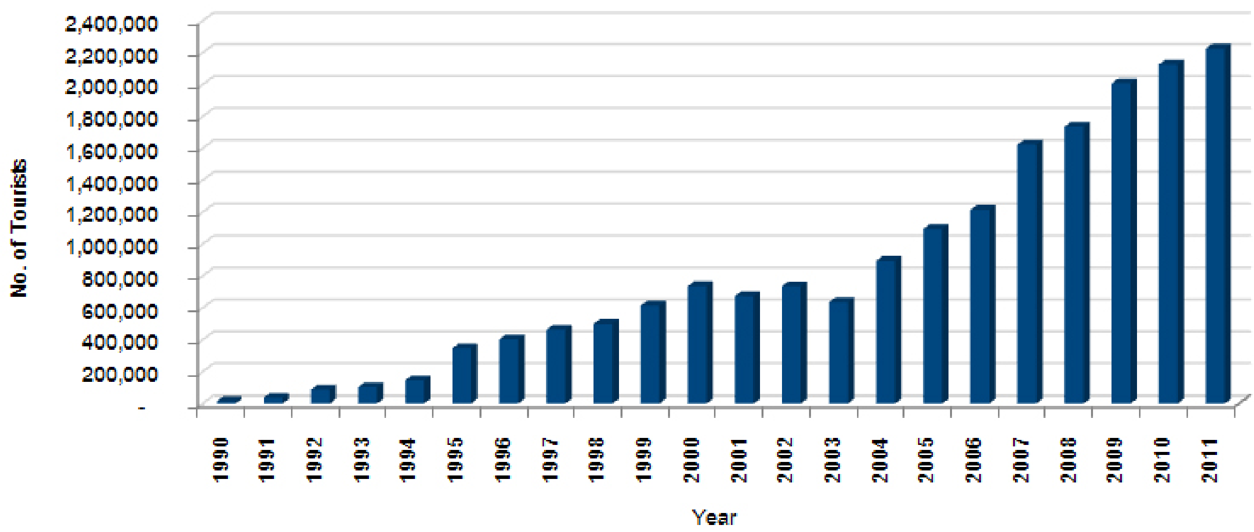
The Regal Global Investment and Development Group from Singapore is planning to build the largest hotel project in Chanthabury to date. Rasavong Hotel is a luxury mixed use project with 350 hotel rooms, a shopping mall, sport complex and entertainment centre. The total budget for this project is around USD 100 million and it will be 28 storeys tall. The project is due to start in March 2012 and scheduled to be completed in 2014.

Another international hotel chain planning expansion in Laos is the Accor Group. Accor has announced the opening of the Ibis Vientiane at the end of 2012, with a total of 64 rooms and a restaurant. This hotel will be located in the main tourist and entertainment area of Vientiane. Ibis Vientiane is the second hotel from the Accor Group in Laos after Mercure Vientiane (formerly Novotel Vientiane).

In terms of retail, on the same site as the old shopping mall in Chanthabury will be the new Talat Sao Mall. In addition to the shopping mall there will be a 5 star international standard hotel on the 6th & 7th floors of the building, boasting more than 170 rooms and scheduled to open in 2012 after the shopping mall.

DEMAND

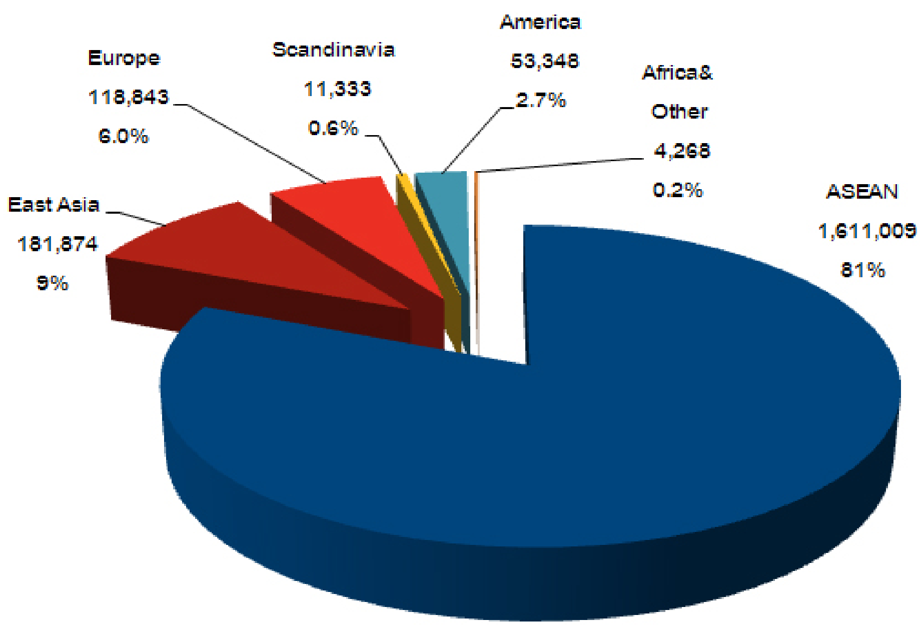
NUMBER OF TOURISTS ARRIVING IN LAOS PER YEAR



Source: Lao National Tourism Administration and Colliers International Thailand Research
Remark: Laos's tourist arrival figures are estimated by the Laos National Tourism Administration

After the official opening of the first Friendship Bridge (Nong Khai – Vientiane) in 1994, the number of tourists in 1995 increased by more than 137%, an increase of just over 200,000 from the previous year. The second friendship bridge (Mukdaharn – Savannakhet) was opened in 2006 and boosted the number of tourists in 2007 by 34% with an increase of over 400,000 from the previous year. Due to the SEA Games in 2009 in Vientiane, there was a boost in the number of tourists arriving in Laos and this number is still growing in 2010 and 2011.

MARKET SHARE OF TOURIST ARRIVALS BY REGION 2011

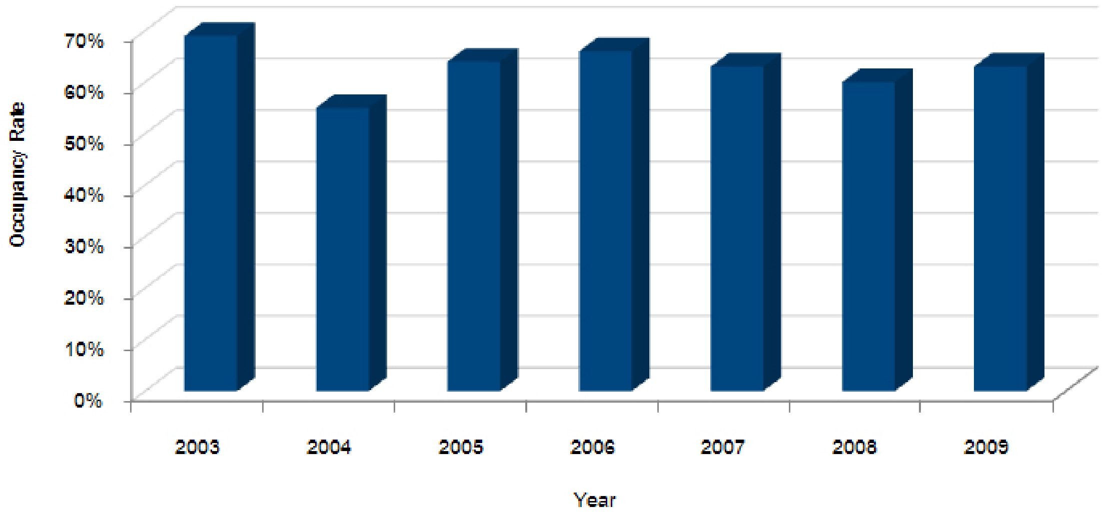


Source: Lao National Tourism Administration and Colliers International Thailand Research

Tourists from Asia are the main target of the Vientiane tourism market making up approximately 90% of an annual total of around 1,611,000 tourists with 9% coming from East Asia. Approximately 79% of the Asian market is Thai and most foreign tourists who came to Laos arrive from Thailand. There are no direct flights from Europe or America and limited flights from Kunming to Vientiane. Vientiane is the gateway into Laos for the majority of tourists as they can pick up transport to the main attractions, such as Luang Prabang, Pakse, Savannakhet and Champassak. Onward travel to Vietnam, Cambodia and Myanmar is also possible from Vientiane, with the Wattay International Airport and city bus terminals catering for a variety of different travellers.

OCCUPANCY RATE

OCCUPANCY RATE 2003 – 2009



Source: Lao National Tourism Administration and Colliers International Thailand Research
Remark: Above figure is included total hotel all grades

The occupancy rates of luxury hotels in Vientiane are still lower than mid range hotels and guesthouses. Most foreign tourists in Vientiane are looking for budget accommodation and prefer to stay in guesthouses or 2 – 3 star hotels. These options offer a cheaper rate and can easily provide 1-2 nights stay prior to travelling on to other attractions such as Luang Prabang. The bulk of the tourists staying in the luxury hotels are from Thailand.

MICE MARKET

As more companies set up in Laos the country will benefit from the regional MICE market. Many companies hold regional meetings, often rotating each year for each of their offices. This means that meetings and seminars are increasingly hosted in Laos and with its small number of hotel rooms in comparison with other countries in the region the Laos hospitality market will benefit more proportionately.

SWOT

STRENGTHS

One of Laos's key strengths, also found in Thailand, is its cultural and traditional tourist attractions. Vientiane is not considered a main tourist destination in Laos, but most tourist journeys will start from Vientiane and then move on to the other provinces.

Friendship Bridge 1, the main gateway for foreign tourists, is not far from Vientiane and provides access for 25% of the people entering the country.

The Riverside is an attractive location for higher end hotels due to the views in a similar fashion to Phnom Penh.

WEAKNESSES

Vientiane's main weakness is that it is not a major destination for tourists entering the country. Primarily it is used as a temporary stop off for 1-2 nights upon arrival and prior to exit. This will need to change if the hotel market wants to see significant growth.

International flights are only available into Vientiane from a limited number of locations, with the majority being from Asia.

An expansion in air links with other countries in the region will increase the appeal of Vientiane and Laos to not just the Asian market but to the world. This potential should stimulate growth over the coming years.

OPPORTUNTIES

The opening up of ASEAN to greater trade and investment will lead to more business trips, including MICE.

More tourists are seeking new "wow" destinations and Laos can benfefit from this.

The lack of development of Vientiane may support the city in attracting visitors looking for a more sedate atmosphere.

THREATS

As Vientiane is presently the main air travel entry point for tourists, if another province was to expand their airport infrastructure this could threaten the growth of Vientiane.

The friendship bridge brings a lot of opportunity to Vientiane, but if the Thailand and Laos government agree to develop more bridges in other parts of the country this will directly affect the tourism market in Vientiane.

7. VIENTIANE APARTMENT MARKET

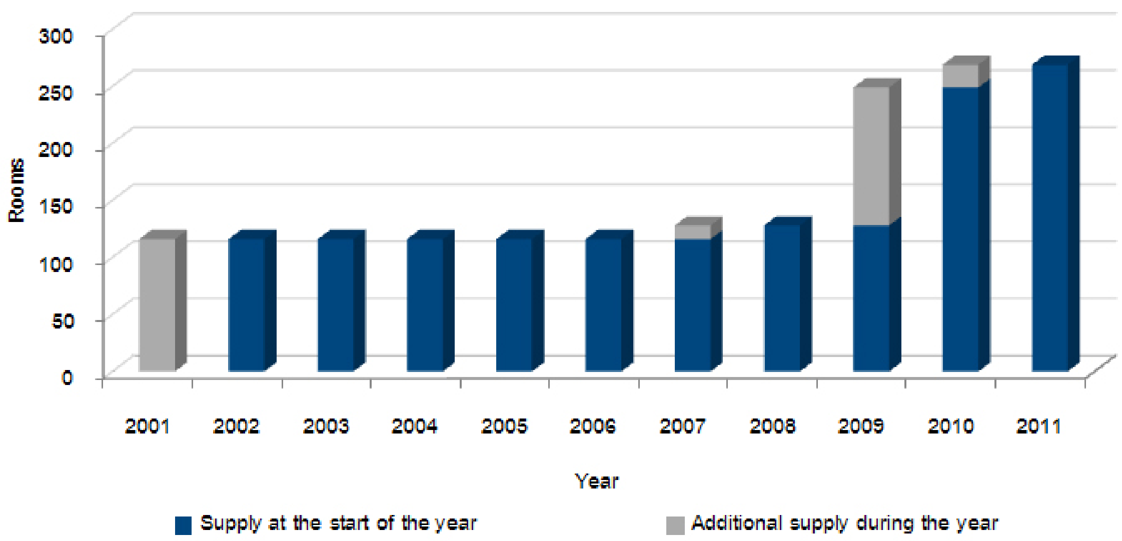
DEFINITION

Apartments for lease include buildings that lease out residential space usually for long term contracts but sometimes for short stays. The levels of service and facilities provided in such apartments vary.

Only some apartments could be considered serviced apartments where cleaning would be provided on a daily basis and a small restaurant provided. In many cases cleaning takes place two or three times a week with minimal communal facilities. Most do not contain swimming pools and gyms. For the purposes of this report the term apartment shall refer to apartments for lease.

APARTMENT MARKET

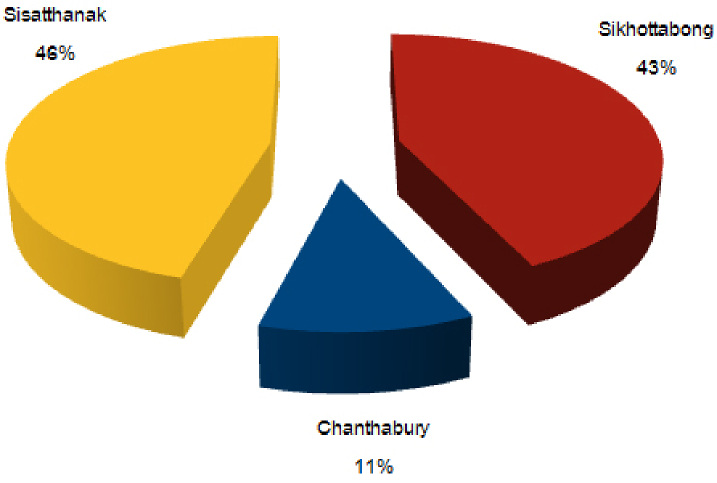
HISTORICAL SUPPLY



Source: Colliers International Thailand Research

Approximately 52% of the total supply of apartment units in Vientiane were completed during the years 2009 - 2010 with total supply now standing at almost 270 units. Although demand for apartments in Vientiane is high, expats in Vientiane rent individual houses to use as residential and/or office use, or stay in hotels for two to three months at a time. Unlike other cities there are no condominiums or apartments for sale in Vientiane which would usually provide added competition with individual units being offered for rent by owners.

SUPPLY BY LOCATION



Source: Colliers International Thailand Research

Most apartments in Vientiane are located in Sisattanak district, with only one project in Sikhottabong district, however this project is the biggest serviced apartment in Vientiane called Parkview Executive Suite on Luangprabang Road representing 43% of the total rooms in the city.

Many embassies and NGO offices are to be found in Sisattanak district, so 46% of total supply is located there. In addition the Vientiane International School is also located in Sisattanak district.

ROOM SIZE

THE SMALLEST AND LARGEST SIZE OF ROOMS IN APARTMENT FOR LEASE BY ROOM TYPE

ROOM TYPE	STUDIO		1 BEDROOM		2 BEDROOM		3 BEDROOM	
Room Size (Sq M.)	Smallest	Largest	Smallest	Largest	Smallest	Largest	Smallest	Largest
	35	57	50	96	70	134	162	174

Source: Colliers International Thailand Research

Nearly 40% of total supply is for one bedroom units, while two bedrooms units have a share of around 33% of the total market. The size of the rooms in various apartments is different for every project, depending on project concept, size, location and year opened. The most recent apartment project in Yangon was Parkview Executive Suite and every type of room is larger than in other projects.

RATE

THE LOWEST AND HIGHEST RATE OF APARTMENT BY ROOM TYPE

ROOM TYPE	STUDIO		1 BEDROOM		2 BEDROOM		3 BEDROOM	
Rental (USD / Month)	Lowest	Highest	Highest	Highest	Lowest	Highest	Lowest	Highest
	450	1,400	450	1,900	700	2,050	2,200	2,500

Source: Colliers International Thailand Research

Rental rates of apartments in Vientiane start from USD 450 per month for a studio unit with a room area of around 35 sq m, while the highest rental is USD 2,500 per month for three bedroom units of 174 sq m.

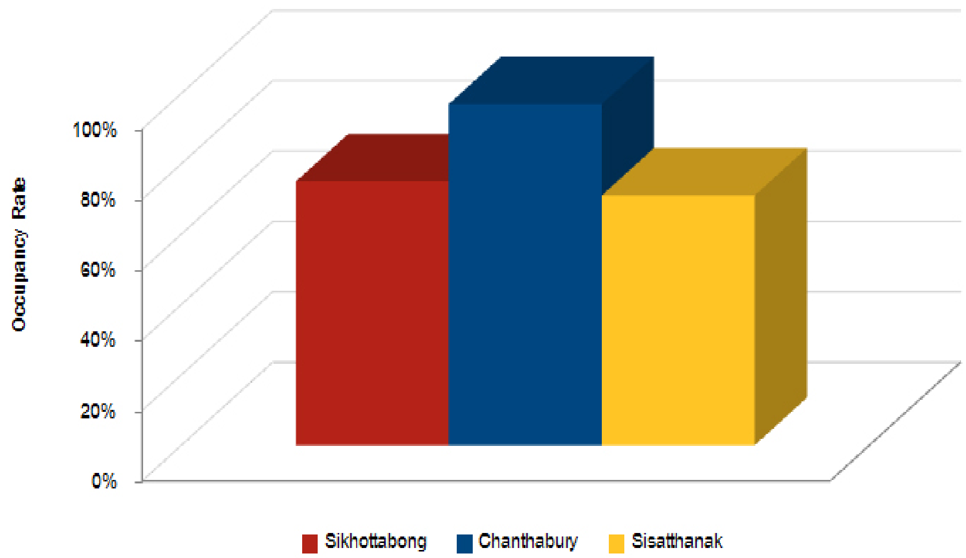
The rental rate of Parkview Executive Suite and HHI Apartment is higher than other apartments by more than 250% due to the higher level of services and facilities available.

FUTURE SUPPLY

At present there are no indications of any future apartment buildings being constructed or in the process of planning.

DEMAND

OCCUPANCY RATE BY LOCATION



Source: Colliers International Thailand Research

Every apartment in Vientiane shows a high occupancy rate. The average occupancy rate in Chanthabury district is the highest, due to only 11% of total supply being located in this district. The average occupancy rate in Sisattanak district is the lowest; although a lot of embassies and NGOs offices are located in this district, many expats stay in individual houses for rent. Most apartments in Vientiane offer long term contracts rather than short term ones and therefore there is less competition with the hotel sector. Most customers of apartments are expats who work in Vientiane, including Japanese, Korean, Chinese, European and Thai. Others work in other parts of Laos but return to Vientiane for weekends or sporadically and therefore apartments represent a more cost effective choice than a landed property. In some cases rooms are provided to companies who then use them for various staff at different times.

SWOT ANALYSIS

STRENGTHS

The limited supply of serviced apartments helps keep occupancy levels high and with no new supply expected in the next two years this is likely to continue. With hotels focusing more on the short stay market the prospects for commanding long stay business is very strong.

Individual houses in Vientiane generally lack facilities such as swimming pool, gym, cleaning services, internet and security guard and do not provide the convenience offered by apartments.

WEAKNESSES

Most of the apartments in Vientiane are not of an international standard.

No internationally recognised serviced apartment brand has yet to target Vientiane.

OPPORTUNITIES

For the past two to three years, Lao's economy has been growing fast. Many foreign investors would like to extend their business to Laos and also invest in new projects. This will lead to more expats locating here.

As more visitors come to Laos there could be a demand for apartments for short term stays which will provide an opportunity to boost revenue.

THREATS

A growing trend for housing estates may create more competition.

The development of facilities in Pakse and Suvanaket may lead to expats wishing to permanently locate there rather than use Vientiane as a weekend getaway.

8. ARTICLE - HOUSING MARKET IN VIENTIANE

Houses for rent are popular with expats living in Vientiane. These can be for NGOs, embassy or consular staff or from companies doing business in Laos although some prefer the convenience and lower rates of an apartment for lease.

Most houses are stand alone rather than in estates although there is a growing trend for estates due to the higher level of security. Otherwise the tenant is responsible for this and some embassies even resort to providing private security for their staff. The highest demand for houses is around the USD 500-800 per month mark, while there is a reasonable level of demand for the USD 1,000 to 1500 rental categories especially from diplomatic staff.

It is usually the custom for tenants to pay at least 6 months in advance but mostly with no security deposit, although a few landlords require this. The lease term is usually one year while the tenant is responsible for paying their own utility bills. Some tenants prefer a longer term lease if they are comfortable with the house and surroundings but most accept the greater flexibility of a shorter lease.

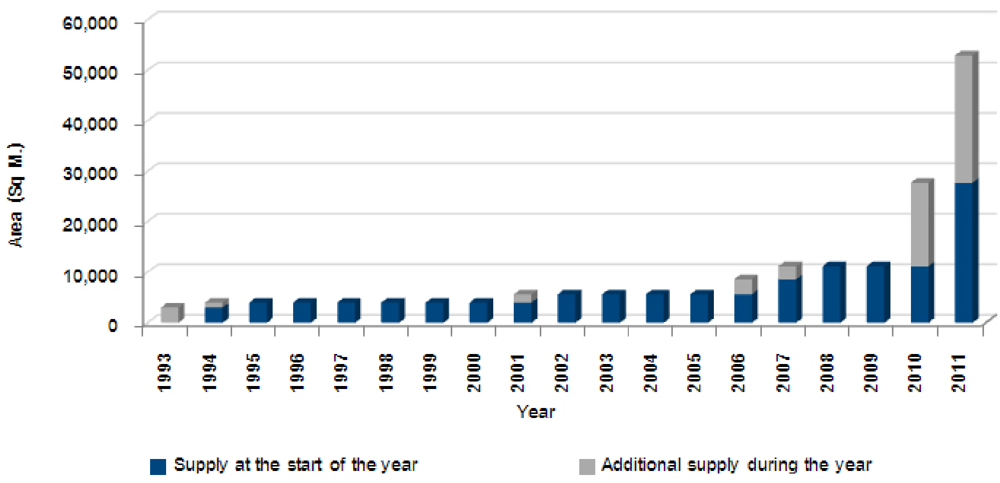
Whether the rental covers items such as furniture and electronic equipment depends on the landlord. Prospective tenants need to confirm what is included and what is excluded. If equipment is included it is usually for basic items such as fridge, microwave or washing machine. Most houses do not come with an internet connection although it is usually better for the tenant to choose their own package to suit their needs and this can be easily be arranged through a provider. It is easy to arrange a fixed line telephone but many prefer only a mobile. Due to connection problems it is advisable to use more than one sim card from different carriers. Many cheap phones can be purchased that allow four sim cards to be installed.

Popular locations for expat renters are in diplomatic areas or near Vientiane International School and other schools that provide English language instruction. These locations are mostly in Sisattanak district along many small roads. It is common not to use the name of the road as an address. Chanthabouly district is the location of many offices and can be considered as a main business district so many prefer this location which is also close to the entertainment areas.

There is also some demand for house rentals in Luang Prabang in the north of Laos for those working in the hospitality industry and in Sukannaket and Pakse in the central and south of the country where many industries are located.

9. VIENTIANE OFFICE MARKET

HISTORICAL SUPPLY



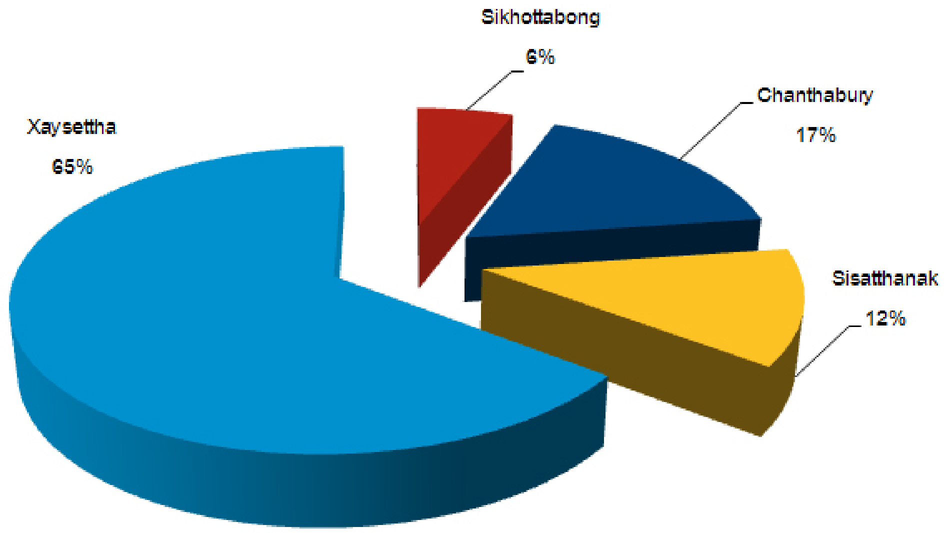
Source: Colliers International Thailand Research

The total area of office space in Vientiane is almost 53,000 sq m and nearly 80% of total supply was added to the market during 2010 – 2011. The average size of office buildings recently completed has risen dramatically. Office buildings completed before 2010 had an average space of only 2,240 sq m per building, but the new buildings that were completed during the years 2010 – 2011 have almost 6,000 sq m per building. The Asian construction boom of the 1990's was not apparent in Vientiane as the country was only just emerging from relative economic isolation and was just embracing an open market economy.

Most of the owners of office buildings in Vientiane are Chinese, Vietnamese or Korean companies, due to them being some of the biggest investors in Laos. Many were operating in Laos in various industries and they required quality office space with security systems, adequate parking space and high quality management. However, the older office buildings in Vientiane could not provide them with these requirements, so they developed their own office buildings for their own use as well as leasing out to other tenants.

Many NGOs and private companies also rent houses or shophouses to be used for office purposes. The advantages are ample parking space and the availability of residential space for staff on the upper floors. Some companies rent an apartment or even a hotel room to serve as an office.

SUPPLY BY LOCATION



Source: Colliers International Thailand Research

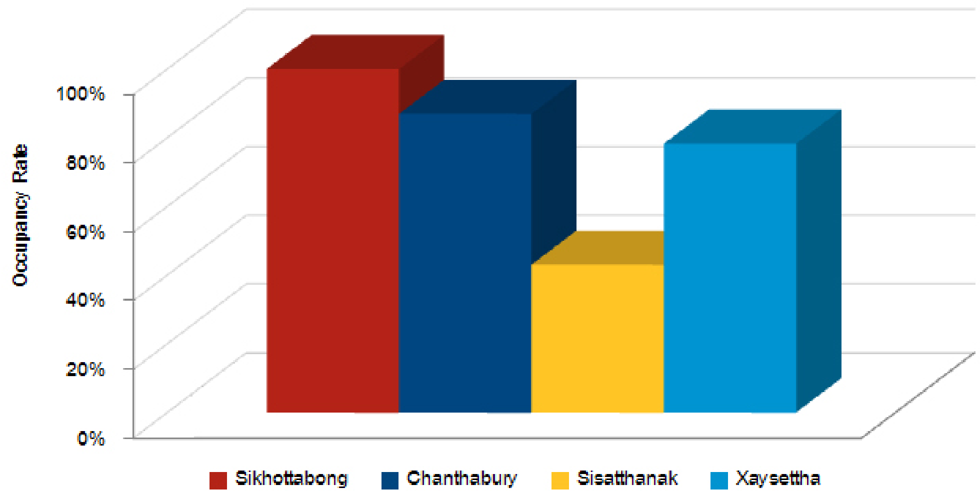
Sixty five percent of total supply is located in Seethe district which consists of just four buildings. Four new office buildings from a total of seven buildings completed during the years 2010-2011 were located in Saysetha district, comprising 82% of total space, especially along the Singha road, as many government offices are also located along this road.

FUTURE SUPPLY

No new office buildings are expected to enter the market in the next two to three years except for a mixed use project on Souphanouvong road. This is on vacant land opposite to Wattay International Airport in Sikhottabong district. The developer is ST. Group Co, Ltd. and the project consists of a five star hotel and office space. However there are some small buildings or shophouses under construction which can be converted to office space.

DEMAND

OCCUPANCY RATE



Source: Colliers International Thailand Research

The average occupancy rate in Vientiane was approximately 76%, with the occupancy rate in Sikhottabong district highest. This is due to only small office buildings being located there with a total office space of only 3,100 sq m. Sisattanak district shows the lowest occupancy rate, as the head office of the Laos Securities Exchange on Kampheang Muang Road still has space available as the stock market is still in its embryonic stage with just two companies listed by the end of 2011. More are however expected to list in the future.

OCCUPIERS

Most occupiers of office space in Vientiane are in the form of large multinational businesses that invest and operate in the country. However a significant number of Non Governmental Organisations operate in the country and are large occupiers in relation to commercial enterprises, in similar fashion to Cambodia and Myanmar. However most operate from rented residential style property.

RENTAL

The average range of rental rate for office buildings in the Vientiane is between USD 12 – 15 per sq m per month, although some office buildings are higher than the average rate by more than 30%. The average range of rental in Chanthabury district is slightly higher than other districts as the district is regarded as the centre of the city. Some companies rent a small office building or shophouse for offices due to lower rental rates but there are few other facilities.

SINGLE OCCUPIER OFFICES

Laos has a liberalised financial sector and many foreign banks actively operate in Vientiane. Most occupy their own dedicated office building and are not considered in this report.

SWOT ANALYSIS

STRENGTHS

Most office buildings in Vientiane have a high occupancy rate, although some buildings have space still available, especially those located far from the main business hub.

WEAKNESSES

In general office buildings struggle to provide expected facilities for conducting international business such as security system and adequate parking space. No internationally recognised grade A standard office building exists in the city.

Many companies occupy individual houses or shophouses as in many other frontier markets and it is often difficult for them to make the move to actual office space.

OPPORTUNITIES

For the past 2 – 3 years, the Lao economy has been growing fast, albeit from a low base. If the country moves into a development model similar to that of Vietnam and Cambodia then prospects for long term sustainable growth are enormous as the country can plug itself into and benefit from the ASEAN Free Trade Area in 2015.

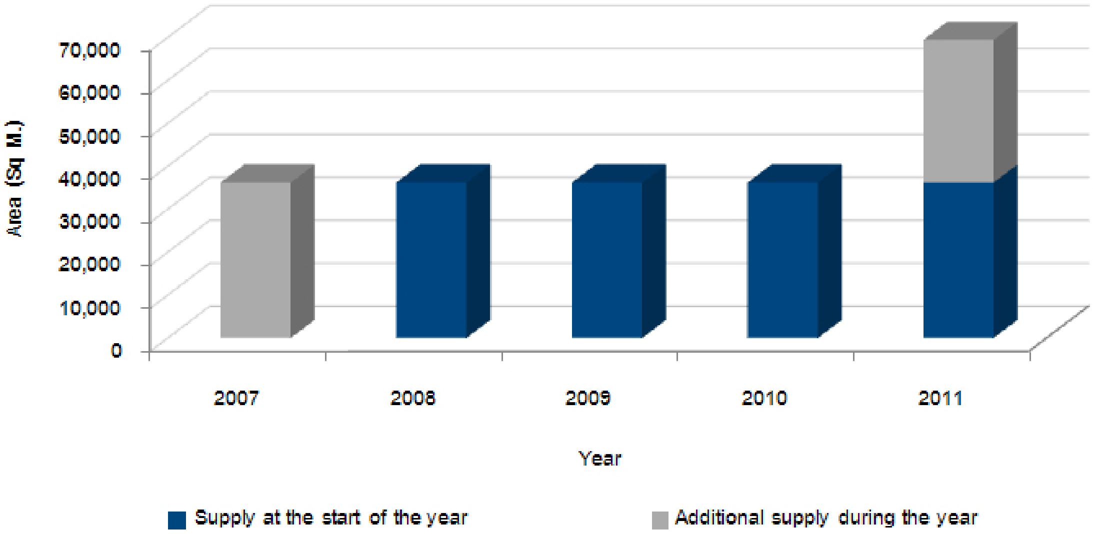
As businesses start to move out of office space in hotels and serviced apartments then the dedicated office building market will benefit from another source of demand.

THREATS

The opening of Myanmar and rapid attention being focused on FDI in Cambodia may see Laos crowded out in terms of manufacturing investment which feeds in to the service sector that supports office demand.

10. VIENTIANE RETAIL MARKET

HISTORICAL SUPPLY



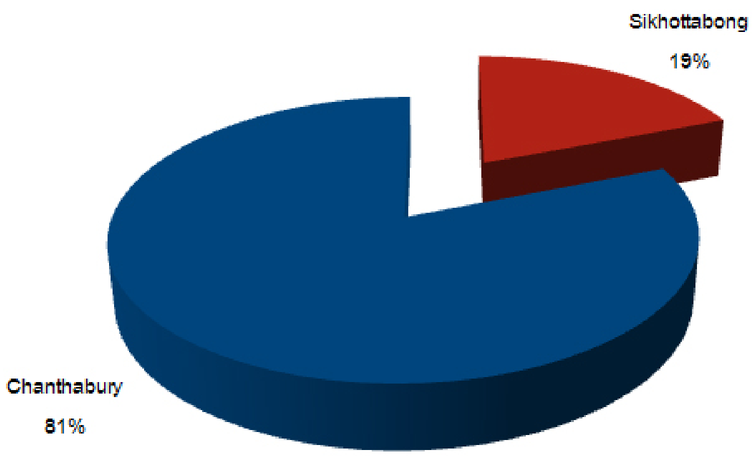
Source: Colliers International Thailand Research

There were no modern retail centres in operation prior to 2007. Approximately 52% of total supply was opened in the year 2007, after that year no new supply was added to the market until the year 2011. The first shopping mall in Vientiane was Talat Sao Mall phase 1 with a total building area around 23,000 sq m. Talat Sao Mall project was developed by the Crescendas group from Singapore. Talat Sao Mall phase 2 officially opened in November 2011, although some shops had already opened before this event.

Talat Sao Mall phase 2 is the first modern and largest shopping mall in Vientiane. The eight storey building comprises four floors of retail including one floor for Big C supercentre on the third floor as well as a five star hotel on the upper floors.

During the weekend Laotians will cross the border to Thailand to visit shopping malls and hypermarkets in Udon Thani which is only two hours drive from Vientiane. Also popular is a hypermarket in Nong Khai just across the river. Thailand is an important factor in the retail market for Laos and is partly responsible for the limited number of modern retail centres in the capital.

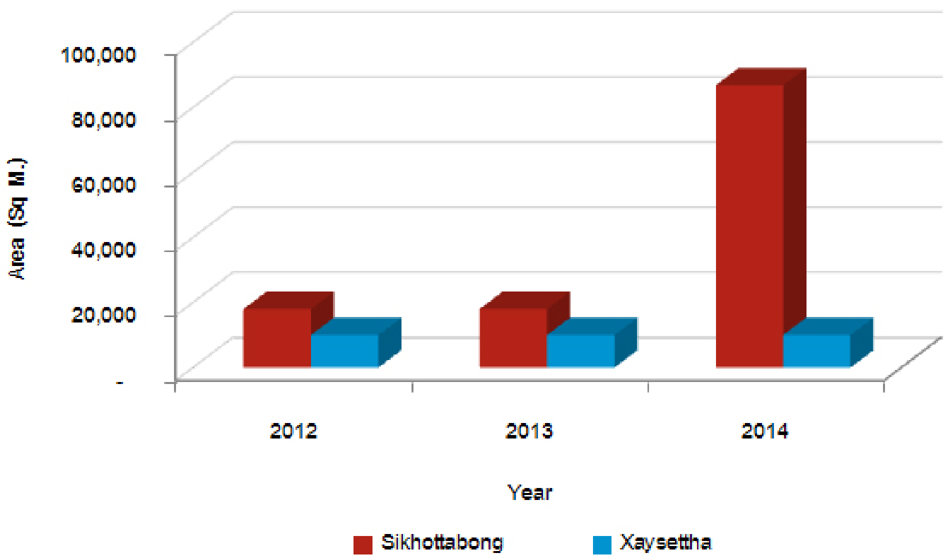
SUPPLY BY LOCATION



Source: Colliers International Thailand Research

Talat Sao Mall phase one and two in Chanthabury district are the largest shopping malls in Vientiane, so the total area of the retail market in this district accounts for approximately 80% of retail in the city. Another retail centre in Vientiane is Sanjiang Shopping Mall in Sikhottabong district, where most of the products are imported from China and it has a parking lot for 800 cars and 5,000 motorbikes.

FUTURE SUPPLY



Source: Colliers International Thailand Research

In the next 3 years Regal Mega Mall by Singaporean investor Regal Global Investment & Development Group will become the largest shopping mall in Vientiane with a total retail area of approximately 70,000 sq m. including a hypermarket on the ground floor with a total area around 20,000 sq m. and more than 1,100 shops as well as cinema, karaoke and fitness centre.

The ASEAN Trade Centre on Khamphaeng Meuang Road in Saysetha district is the new centre for retail products from China and other ASEAN countries. This centre is scheduled to open in 2012. Tatluang Shopping Centre in Sisattanak district is also expected to be completed in 2012.

SUPERMARKETS

The common retail experience in Vientiane is either in the form of traditional markets or minimarkets that began to proliferate in the nineties after the country adopted open market reforms. These minimarkets are essentially a hybrid between convenience store and supermarket and are popular with foreign tourists as products have prices labelled. There are only two actual supermarkets in Vientiane although this is set to change with the addition of Big C next year.

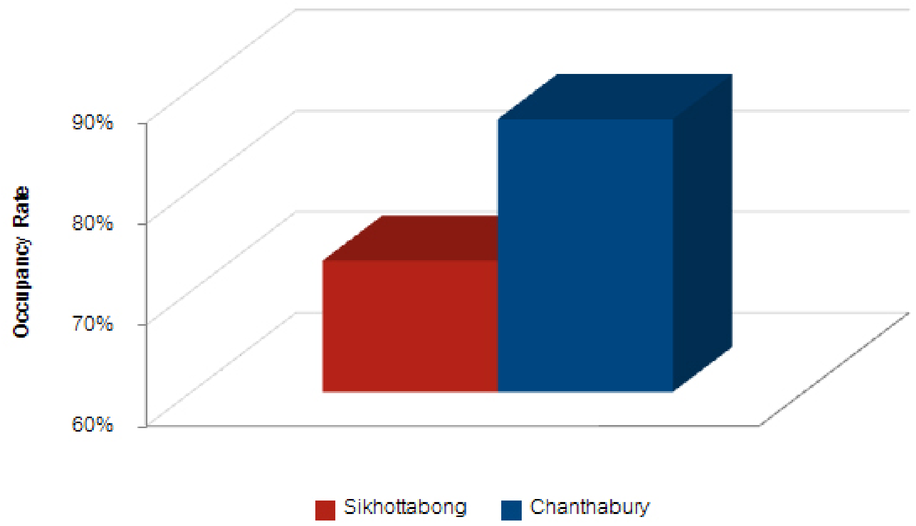
PRICE

AVERAGE SELLING PRICE

Most of the retail centres in Vientiane are based on a leasehold of usually 40 years or freehold with title deed. Regal Mega Mall is selling space in the future centre starting at USD2,900 per sq m with freehold title deed. Tatluang Shopping Centre is offering a forty year leasehold contract for approximately USD35,000 - 75,000 per sq m depending on location in the centre.

DEMAND

AVERAGE OCCUPANCY RATE OF RETAIL IN VIENTIANE BY LOCATION

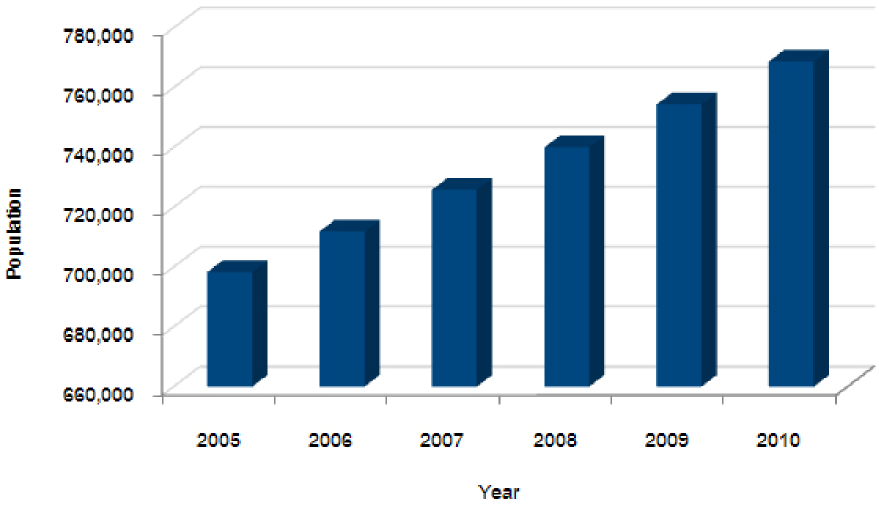


Source: Colliers International Thailand Research

The average occupancy rate for retail centres in Vientiane was approximately 81%, which is due to the development of new retail centres which attract tenants to relocate thus creating high vacancy levels. The new Talat Sao Mall phase two can attract the tenants from other retail centres including Talat Sao Mall phase one, due to the modern style and central location which also attracts tourists.

DEMAND DRIVERS

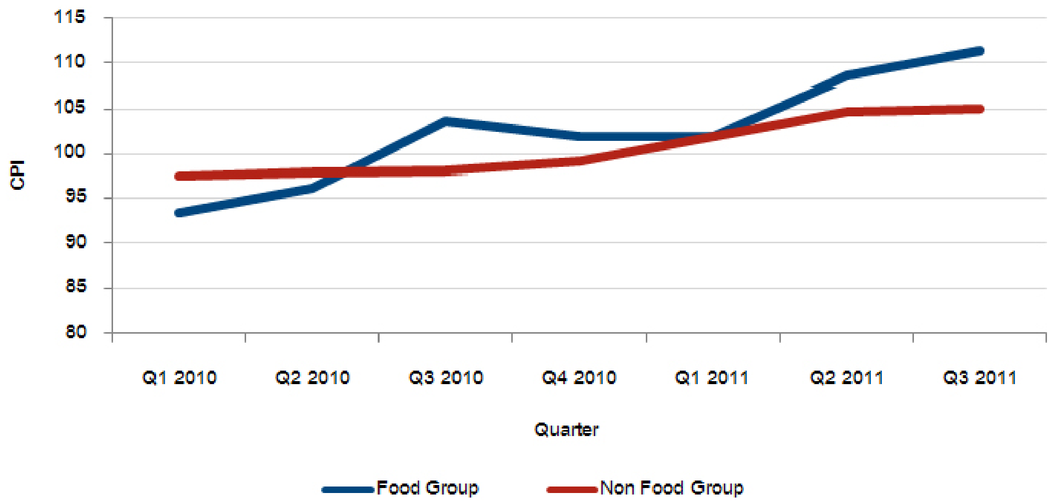
POPULATION IN VIENTIANE CAPITAL (AS OF Q1 2011)



Source: Ministry of Population and Colliers International Thailand Research

Vientiane is the capital of Laos as well as its main commercial centre, so the total population is more than every other province by approximately 50 – 300%. The total population of Laos was approximately 6.26 million in 2010 of which around 768,643 are in Vientiane representing more than 12% of the population of Laos.

CONSUMER PRICE INDEX (CPI) 2009 - 2011 BY QUARTER



Source: Department of Statistics and Colliers International Thailand Research
Remark: CPI of December 2010 = 100

The general Consumer Price Index of non food groups is more stable than food groups, but both are still increasing every year.

BRANDS

There is a gradual appearance of recognisable international brands in Laos although not to the same extent as Thailand or even Cambodia. No international fast food outlet exists at this stage. However due to popularity of Thai soap operas in the country a significant number of Thai brands are now visible in the capital. The cultural affinity between the countries cannot be overlooked.

SWOT ANALYSIS

STRENGTHS

There is very little modern retail development in the city and as such the potential for growth in all retail sectors is significant.

WEAKNESSES

Most of the retail centres are in the form of "retail condos' which are sold or leased for a long period equating to ownership. Such centres may find it difficult to compete with modern retail centres which are planned in detail to ensure the right mix of tenants.

OPPORTUNITIES

The growth of Laos as an entrepot between China, Vietnam and Thailand is leading to a greater number of investors wishing to operate in the country. One key feature will be wholesale markets facilitating trade between these countries.

The development of ATMs throughout the city will improve access to cash and spur retail spending.

THREATS

The location of modern retail centres across the border in Thailand means that much of the capital is quiet as Laotians flock to cities such as Nong Khai and Udon Thani for their retail fix. This is likely to remain a strong impediment to the development of a modern retail sector for the city. While Nong Khai contains a hypermarket it does not have a modern shopping centre and with a population of under 70,000 it is unlikely to have one in the foreseeable future.

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