Vietnam's first medical city shaping up

| BY NOELLE LIM |

An artist's impression of the International Hi-Tech Healthcare Park

Aseana Properties Ltd and its Malaysian, Singaporean and Vietnamese partners launched the Hi-Tech Healthcare Park in Ho Chi Minh City (HCMC) on Oct 9. Malaysian property developer Ireka Corp Bhd owns 19.6% of Aseana Properties Ltd, which will plan, develop and market the project, while Ireka's wholly owned subsidiary, Ireka Development Management Sdn Bhd, is the development manager of Aseana. Ireka Corp, through its subsidiary Ireka Engineering & Construction Sdn Bhd, is expected to bid for the construction of the park.

The healthcare park is Aseana's largest development project to date and will take nine years to complete, Lai Voon Hon tells *City & Country* in an exclusive interview after the launch. Lai is the executive director of Ireka Corp and general director of Hoa Lam-Shangri-La Healthcare Ltd Liability Co, the company that holds the investment licence to develop the park.

Vietnam posted a GDP of 8.5% in 2007 and attracted a great deal of foreign interest. This year, however, it may miss its economic growth target of 7%, Vietnam's Prime Minister Nguyen Tan Dung said at the opening of the National Assembly on Oct 16.

There was a massive selldown in the stock market in 1H2008, while the central bank has raised the base interest rate three times this year to 14% to cool the economy (the rate has since been cut to 13% in October). The average inflation rate is estimated to hit 24% this year. But there are signs that inflation is easing as the consumer price index just rose 0.18%, the lowest monthly increase since the beginning of the year, according to a report by CB Richard Ellis (CBRE) Vietnam.

FDIs expected to rise to US$60 million

Property market launches have received poor response. According to CBRE Vietnam, 6,273 residential units were launched in the first nine months of 2008 and only 35% were sold, compared with the 12,000 units sold in 2007. Rapid escalation of building material costs, land prices and cost of capital are affecting the feasibility of new developments.

The good news is, exports in 2008 are estimated to increase by 34% to more than US$65 billion ($96.5 billion), the highest in more than 10 years, Nguyen had said at the National Assembly.

FDI commitments are expected to rise to about US$60 million while some US$11 billion worth of projects are being implemented. The government also expects a GDP growth of 7% next year, Bloomberg reports. The population demographics is a definite advantage — Vietnam has a booming population of about 85 million and over 60% are below 30 years old.

Says Lai, "We think Vietnam is undergoing a temporary correction, something which is really needed. The economy was growing at a breathtaking pace in the past three years. In all economic cycles, a country needs a breather. With the turmoil in the US, high inflation and low business confidence will probably be prolonged in Vietnam."

He says the development cycle in Vietnam is similar to that in Malaysia 15 to 20 years ago during the 1990s boom. "Vietnam is just at the beginning of the building capacity curve in terms of manufacturing and infrastructure. The supporting infrastructure, such as offices and residences, will ride on this curve, too. FDIs that have entered the country will propel the economy forward. At the moment, we don't see the need to stop any project."

Tran Thi Lam, the Vietnamese partner and chairman of Hoa Lam-Shangri-La, echoes similar sentiments. She says, "We are facing inflation and economic difficulties but it's a short-term problem that will last one to two years only. So, this is the time to prepare and build."

When Aseana listed on the London Stock Exchange in April 2007, it had committed to utilise its IPO proceeds of US$162 million in Malaysia and Vietnam and had expected to fully deploy the funds in 2008.

About 46% of this amount was invested in Malaysian projects at the time of listing, and the balance earmarked for Vietnam. About US$80 million has been committed to develop HCMC's Wall Street Centre District 1 (commercial), Queen's Place District 4 (mixed) and the healthcare park as well as The Nam Khang Resort & Residences in Danang.

Located on 37.54ha in Binh Tan District, the healthcare park is the first such project in Vietnam, and is touted to become one of the largest in Southeast Asia, with a gross development cost of US$400 million.

Lai says the project comprises a medical city with hospitals, medical schools, office buildings, shopping centre, hotel and apartments. The right to use the land is for 69 years from July 10 this year when the investment licence was awarded (all land in Vietnam is owned by the government).

The park is about 10km from District 1, HCMC's central business district but 30 minutes' drive through the crawling traffic. Says Lai, "The East-West Highway, expected to be completed in 2010, will reduce travel time between these two locations by half. Phu My Hung in District 7, the expatriate area, is about half-an-hour's drive using the highway. This site is 10 minutes away from District 5 or Chinatown, the most populated residential area with the highest income per capita. It is also next to Tan Tao, the largest industrial park in HCMC."

Malaysian, Singaporean and Vietnamese stakeholders

Hoa Lam-Shangri-La, the holder of the investment licence, is 30% owned by Hoa Lam Services Co Ltd, a company incorporated in Vietnam, and 70% owned by Shangri-La Healthcare Investment Pte Ltd, which inked the deal in May 2008. Three months later, Aseana acquired 51% each in Hoa Lam Services and Shangri-La, and announced that it would initially invest US$27.6 million.

Meanwhile, 49% of Hoa Lam Services is held by Vietnamese partners, namely Tran, her family members and several individuals. Tran made her fortune distributing motorbikes in Vietnam. She also holds the right of use to several pieces of real estate in HCMC, one of which is in District 1 along Le Thanh Ton, a major road.

The other 49% of Shangri-La is held by Econ Medicare Centre Holdings Pte Ltd and other parties. Econ Medicare is the holding company of China Healthcare Ltd, a company listed on the Singapore Stock Exchange. It owns a cluster of nursing homes, purpose-built medicare centres and West Point Hospital in Singapore and China.

Tony Tan, chairman and major shareholder of Island Hospital Sdn Bhd, has signed a memorandum of understanding with Hoa Lam-Shangri-La to develop the tertiary and teaching hospital (Phase One). Tan is the brother of IGB Corp Bhd managing director Robert Tan and was one of the founders of Parkway Holdings Ltd. For the past 20 years, Tan, through Parkway, has been involved in the management of hospitals like Gleneagles Hospital and Mount Elizabeth Hospital in Singapore and Island Hospital (Penang). He is also said to have stakes in several property developments in Malaysia and Singapore.

On potential partners in the pipeline, Lai says it's too early to disclose names.

Five phases of development

The Hi-Tech Healthcare Park will be developed in five phases and Ireka is seeking reputable healthcare players to jointly develop each phase. Construction work for Phase One will take three years (2008-2011). There will be a tertiary care and teaching hospital, an institute of medical science and technology, a cancer diagnostic centre, a language school and a training centre for nurses.

In Phase Two (2010-2013), a research centre and medical suites will be built. Phase Three (2012-2015) will cover the development of a rehabilitation hospital and a cardiothoracic centre, while in Phase Four (2014-2017), a hospital for women and children will be built. And, finally, in Phase Five (2016 onwards), a general hospital will be constructed.

Within the healthcare segment, Lai says there will be five centres of excellence specialising in various fields of medicine, including cancer and orthopedics. By 2017 or 2018, the medical city should have about a million sq m of gross floor area and 1,750 hospital beds serving 45,000 in-patients and 300,000 out-patients a year.

The offices, shopping centre and hotel will be built from Phase Two onwards. According to Tran,the authorities have approved the contruction of 2,000 apartment units. Says Lai, "We are considering various categories — four- and five-star — to cater to different clients.

"Patients and family members from outside Vietnam or HCMC will now have a place to stay. We have not decided whether to lease or sell the units. It depends on market conditions. Our approval allows us this option. We want to develop the medical side first and then demand for the remaining assets will follow."

The offices will serve the needs of the healthcare park while the shopping centre will serve as a neighbourhood mall and complement Big C, a local hypermarket in the nearby industrial park. As for the hotel, Lai says it could be three- or four-star pending government approval on the plot ratio.

Vietnam's population of 85 million is estimated to grow at a rate of 1.4% a year, while disposable income is expected to grow at 10% over the next five years, according to market forecasts by Aseana.

"HCMC has close to nine million people and its population is growing at double digits. There is a huge middle-class segment. Vietnamese are increasingly able to afford medical care in Vietnam and some go to Malaysia, Singapore and the US for treatment. There are some 50,000 expatriates living in HCMC who need medical facilities, too. We can also serve patients from other Indochina countries," says Lai.

Marc Townsend, managing director of CBRE Vietnam, says, "There is only a handful of international hospitals in HCMC like Columbia and SOS International, and one hospital to serve the expatriate community in Phu My Hung. The Vietnamese are willing to spend money in three areas — medical care, education and their parents."

Government backing for the healthcare park project is strong. Says Lai, "It is willing to work with foreign investors to expedite approvals and work permits for foreign staff. The government is allowing import of fixed asset equipment with no import duty or value-added tax." It grants a tax holiday in the first four years, and 50% tax reduction in the subsequent four years. Thereafter, the tax rate is only 10%, which is favourable, compared with the current corporate tax of 28%. There is a 100% tax refund if the taxable profits are reinvested in education, healthcare or R&D. Remittance tax is not imposed on payment of dividends to offshore entities.

"Another plus point is, future partners who jointly develop this project with us need not worry about land compensation. The land is free of encumbrances," adds Lai.

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