GLOBAL MARKETS

Our Take On Hanoi

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Over the last 10 years, we have been talking quite a lot about Australia or the UK and we tend to get pigeon-holed. "Oh RunningStream? That Australian property company?" We are used to that by now.

Given that investments in frontier markets are traditionally a risky business for retail investors, we make no apologies for steering many of our neophyte clients away from potentially more profitable frontier markets into an asset that has more predictable growth patterns with a higher level of certainty (albeit lower rate) of capital growth.

Our business model does not allow us to 'sell and forget'. When we say that we stand with our clients throughout their journey through property investing, we mean it.

However, we are always open to opportunities if we can resolve our key fundamental investing checklist. (Ownership security, profitability and manageability). It is still early days, but we believe we may have found a very promising market quite close to home. This is none other than the Socialist Republic of Vietnam.

Vietnam has a population approximately 94.6 million people as of 2016 census. It is a fast modernising nation with a 2017 nominal GDP of US$215.8 billion with projections by Goldman Sachs to double by 2025 to US$436 billion. That is a phenomenal growth rate to achieve that target in 7 years.

Vietnam's economy is driven primarily by agriculture and manufacturing. But we are starting to see growth coming in from the technology sector along with the construction sector due to drive to improve transport infrastructure in the country.

The population is young with half of them below the age of 30, the income levels are rising across the board. In short, Vietnam is a country with a central government, a young, hardworking population with increasing income levels and increasing openness to foreign direct investment. And therein lies the opportunity for savvy investors.

Hanoi

Hanoi is the capital of Vietnam with a population of almost 7.6 million people. Hanoi is separated into 12 different urban districts and 17 rural districts. The most important of these districts are the commercial districts of Hoan Kiem and Ba Dinh. Long Bien across the Red River is also of historical importance with an increasing residential and retail footprint. The main areas of developer interest outside of these districts would be West Lake, the Hai Ba Trung and Tu Liem districts to the South East and West of Hanoi CBD respectively.

One of the things that struck me about Hanoi is that they seemed to have a much better city planning than the average developing nation. Their transportation network impressed me a lot more than Kuala Lumpur's (KL).

It is a very organised layout as compared to KL. While of course KL and Hanoi are at much different stages of development, with the latter being about 10-15 years behind the former.

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The real estate industry is certainly fast growing in Hanoi. Many big developers such as Lotte, Capita Land, Gamuda Land and VinHomes have multiple ongoing projects in the Hanoi metropolitan area. The residential segment is growing quite significantly.

To note is that of the 22,000 plus apartments completed in the last year to date, more than 21,000 have been sold. That is a staggering take up rate. However, there is a disparity of take ups depending on the project and the total amount of unsold inventory across Hanoi sits around 20% of completed and upcoming stock.

However, taking into consideration of a population of 7.6 million people with only 130,000 plus completed new apartments in Hanoi suggests that there is little evidence of an oversupply. It is also a surprising take up rate given that the mortgage rates are at 10-12% with actual rental yields ranging between 5-7%, most Vietnamese folks buy their properties in cash outright.

However, official statistics state the average Hanoian earns about US$300 per month. Compare that with properties at an average per square metre rate of US$1000 per square metre for apartments outside the CBD to as high as US$4000 within the city centre.

That brings the Price to Income Ratio to a staggering 30 or so. Which in economics terms signals massive overvaluation in the property market. Or does it?

It is important to take statistics with a pinch of salt. In many developing countries, there is a lack of transparency and availability of reliable data. In this case, the information on individual incomes is not reliable.

Statistically, the average Vietnamese earns less than $US500 per month. But what we have found is that many Vietnamese operates side businesses in addition to their day jobs. And many jobs have some form of variable income which is not captured by data. We then found out that many Vietnamese in white collar middle management jobs earn approximately US$2500 to US$3000. This is the market which the savvy investor has to pay attention to.

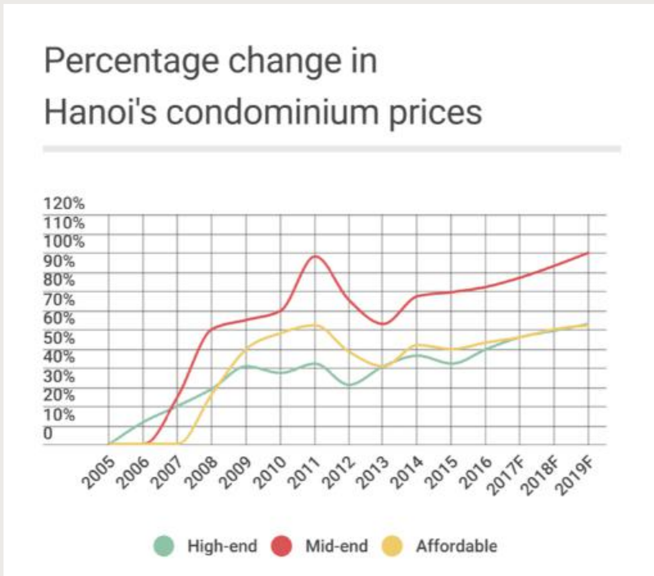
Foreign investors need to understand the regulations pertaining to the purchase of residential property. Residential property regulations dictate the following with respect to foreigners:

1) 30% of the total units within one condominium complex;

2) 10% of the total separate landed homes within one residential compound, or

3) 250 homes within an administrative unit equivalent to a ward.

Also, foreigners are subjected to a 50 years leasehold period on the property they have bought. I know what many of you are thinking right now: "What? 50 years only? Won't my property valuations depreciate according to the period of the lease?"



Not necessarily so. Here is the catch: If a foreigner sells the property back to a Vietnamese, the property reverts to a freehold asset. This means that the leasehold rule is there to ensure that foreigners are not allowed to hold onto the property in perpetuity and to make sure ownership reverts eventually back to a Vietnamese citizen.

This is not a bad rule when it comes to protecting the land ownership rights of the locals. The question is whether there is enough local demand to absorb the supply.

Very surprisingly, the Hanoi residential market has shown to be very much fundamentally supported. I viewed various completed projects and all of them have shown to have a very high occupancy level.

Times City in the Hai Ba Trung district is a very large development of 20 plus blocks of 800 apartments each and the occupancy rate is surprisingly high. Fully parked basement for motorcycles and cars lots is another measure of the occupancy rate of the development.

This was the same situation across a few other developments across some of the other residential estates. Importantly, these still had available quotas for foreigners to purchase. This is indicative that the majority of buyers are Vietnamese (including overseas).

However, those were just the affordable to mid-end segment of the residential property sector. What was not covered earlier was the higher end premium to the luxury sector of the residential market with property prices ranging from US$2500 onwards.

What was disconcerting for me was that the number of new projects in this segment far outnumbers the mid-tier segments. The average income of Hanoian is still lower than the folks down in Ho Chi Minh City. Naturally, these are questions I have that are yet to be answered on how the properties in the luxury segment are being taken up so quickly.

While the market still needs to be further looked into, it is still no secret that the Hanoi property market has done very well in terms of price growth over the last decade.

Much of the growth has happened in the mid-tier segment which is the segment of highest demand among the fast-growing affluent population. Investors will do well to take note and do much research into the demand in the secondary market for properties they are looking to get into as much of the resale in the secondary market is to local Vietnamese and it is a good indicator of fundamental demand.

Conclusion

Hanoi's skyline is certainly becoming more impressive by the year. It is certainly indicative of a capital city that is fast undergoing transformation and evolution from developing country status. However, challenges still abound for foreign investors. It is doubly important for foreign investors to address the basic principles of Ownership Security, Manageability and Profitability before making the decision to invest into Vietnam.

Colin Chu
Senior Consultant, RunningStream Group