# VIETNAM PROPERTY MARKET REMADE

Vietnam came into the spotlight in 2005 when it was on the verge of joining the WTO.

The over-optimistic boom was driven largely by FDI instead of domestic growth, particularly in the trade, tourism and property sectors. This drove housing prices on a rampage at 110% growth YoY in 2009. However, pit soon came crashing down, with over a span of four years saw prices corrected by as much as 40% as investor-enthusiasm waned.  Buyers and developers defaulted on loans and banks were crippled in the process, leading to an inability to support businesses which led to further economic distress, abandoned projects and spates of bankruptcies. The State Bank of Vietnam had to absorb the impact of $8b of non-performing loans to stem losses.

**THAT WAS THE FIRST WAVE**

As the dampening theory states, the first run tends to be irrationally exuberant, followed by inevitable correction. Any subsequent uplift tends to be clouded by skepticism (once bitten twice shy as they say), but usually done with better fundamental support.

In late 2014, sensible government policies and free trade agreements helped bolster wages, encouraging the middle class growth and driving rapid urbanisation across Vietnam. Armed with a better understanding of the market, foreigners invested with a lot more caution and at a more moderate rate. Such sensibility resulted in residential prices rebounding by as much as 15% in a single year.

So where does the Vietnam market stand today? Is it ready for the influx of foreign investors in terms of stability, manageability and returns? Let's take a closer look at some of the factors that should give us clues as to whether Vietnam's market is ready.

**ECONOMY**

The Vietnamese economy is experiencing strong growth on multiple fronts. Domestic consumption is expected to increase at a rate of 20% per year, and GDP growth is one of the highest in the region, achieving 7% in Q4 2015 alone. The growth was fuelled not just by the textile industry, which the country is so known for, but also the IT, tourism, automotive, medical devices and high-technology manufacturing for global brands such as Samsung, LG Electronics, and Intel.

The country has signed free trade deals with major economic blocks of the world, including the US and Canada, the EU and the Russian Federation via a further agreement with the Eurasian Economic Union. Experts are expecting the Vietnamese economy to continue its 7% growth path for several more years to come.

**INFRASTRUCTURE**

Vietnam is looking to invest an estimated $48 billion from 2016 through to 2020, focusing mainly on improving the country's transportation infrastructure covering roads, railways and waterway systems. The country will have to seek funding from the private sector due to constraints on the state budget. According to a report by the Bank for Investment and Development of Vietnam, over 68% of the roads in Vietnam need to be rebuilt or upgraded. This represents significant potential for growth and employment.

**DEMOGRAPHICS**

Over the last 20 years' the household size in Vietnam has dropped from 4.7 in 1995 to 3.6 in 2014. Rural-urban migration increased from 20% to 34% in the same period, while agriculture as a proportion of total GDP continues to fall. Vietnam has the fastest-growing middle class across Southeast Asia and that is expected to triple again from 12m in 2012 to 33m in 2020, fuelling the growing consumer market.

**PROPERTY MARKET**

From a macroeconomic point of view, Vietnam is definitely one of the rising stars in Asia, and this may seem to be a great opportunity for foreigner investors. However, there remains significant obstacles that will continue to challenge potential investors.

The 50-year lease is clearly unattractive with unclear processes for renewal, thus explaining the muted reaction from foreign investors. Repatriation of profits (capital gain when sold or rental income) remains unclear. Hence, for investors with neither commercial nor kinship ties to Vietnam, it is a major roadblock. Furthermore, a current lack of legal documentation to clarify relevant procedures hinders the practical implementation of the new laws. Unlike locals who purchase housing with

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their savings, foreign-purchasers use bank loans with a substantially lesser cash outlay. Currently, banks can only offer mortgages on Vietnamese properties when there is property title insurance, which is yet to be available in Vietnam.

Such uncertainties and inefficiencies are discouraging foreign investors, thus we have yet to see significant interests in Vietnam, especially when opportunities are abounding in more developed countries with clearer policies and more competitive returns.

In addition, and clearly the symptoms of an immature market, we are seeing developers and investors violating laws of investment and construction, be it deliberately or due to a lack of transparency. Regulations on collateral, unsecured loans and housing sales were not complied, leading to complicated disputes. The lack of professionalism among developers and credit organisations have also allowed the use deposits and credit for the wrong purposes.

## CONCLUSION

As Vietnam continues to enjoy economic growth and maturing towards a developed market, investors will have to be strong hearted. We are positive about the housing market, no qualms about that. We are just unclear that it is one in which foreign property investors can safely invest and profit from as the (pardon the pun) pho~bia of risks faced by investors could be significantly huge as well.

With such challenges yet to be overcome, are the returns worth the risks?


### ABOUT THE CONTRIBUTOR

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