

12TH ASEAN VALUERS CONGRESS
HO CHI MINH CITY, VIETNAM
SEPTEMBER 23 - 26, 2002

CURRENT SITUATION OF REAL ESTATE VALUATION
IN VIETNAM

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Distinguished guests,

Ladies and gentlemen,

It's my great honor today, on behalf of the Southern Information and Valuation Center to present my paper titled "Current situation of real estate valuation in Vietnam" at the 12th ASEAN Valuers Congress held during September 23-26, 2002 in Ho Chi Minh City.

First and foremost, I would like to wish all of you good health and happiness. And may we have the successful congress.

I do hope that this is a great opportunity for me to directly discuss and exchange our concerning issues in the field of property valuation with domestic and international colleagues. These issues are also in the keeping line with the Congress's theme: "Profiting from the property investment in ASEAN". Accordingly, the role of property valuation is affirmed so that it then makes great contributions for the economic growth of the world and the region as well.

Demands for property valuation services including the needs of the stage management agencies, enterprises, and the people, especially in the urban and big economic centers like Ho Chi Minh City, Hanoi, Can Tho, Binh Duong, Dong Nai, etc. is the urgent issue in the context of the market economy under the state management.

In VietNam, there is a definition: "Real estates are the unmovable assets including land houses, improvements on that land. Assets that have the close relation with land and other assets under the regulations of law (term 181 of the Civil Law of the Socialist Republic of Vietnam 1995) are also real estates.

The role of real estate is important for the socio-economic life. Real estate is the important factor of the reproducing process of the society. It is a labor object, an important material and a foundation for accessing potential ability and the development of each nation in specific period.

1. Valuation in Vietnam has helped to satisfy the society's demands.

Vietnam is in the process of developing a market economy so the economic and technical characteristics of real estate are still limited. The objective of

Vietnam is developing the Socialist oriented market economy under the State management, highly promoting the market's functions under the State's regulations on the resources distribution. Therefore, in order to develop the commodity market, the market economy needs to be fully developed the technical and economic characteristics of real estate. They are the market economy's products and motive forces of the market economy. It can be said that the diversity of the real estate valuation's objectives in Vietnam is also the indispensable product of the market economy's development oriented by the Socialism in Vietnam.

1. 1. Real estate valuation serves real estate preservation.

Real estate valuation serves real estate preservation, compensation and property valuation for business accounting.

1.2. Real estate valuation for purchasing and disposal.

1.3. Ownership changes of real estate

In the modern market economy, there is not only the mobile of assets, but the enterprise is full product of its owner as well. The enterprise can change itself. The relationship of real estate ownership can be rearranged. Therefore, the ownership change of real estate occurs.

Purpose of real estate valuation of the enterprise is to:

+ Contributing capital for join-venture;

+ Merge or dissolve;

+ Disposal, transfer or rent

1.4. Land and house (Real estate) transactions.

The land granting and land right use transference are taken under the Vietnam law. Together with the housing market, the land market gradually appears the housing and land transactions also develop day by day. This requires the equivalent development of the valuation profession. The major profession of housing and land valuation over the past period for purposes of housing and workshops business, land and house right use transference: the State acquires land and workshops; does business on land, land for rent.

1.5. Financial professional skill.

+ Mortgage: the bank requires enterprises possess assets, especially real estate for mortgage. The value of mortgage asset must be equivalent to the market value of the asset at the time of mortgage with the aim at ensuring the security of the bank.

+ Asset and real estate for rent

1.6. For taxation.

1.7. Auditing professional skill.

Enterprises do auditing, dissolving and merging. Those persons whose rights related to real estates often require for compensation; therefore, real estate needs to be appraised its market value. For example, when an enterprise is dissolved, a couple divorces, parents, brothers establish their own enterprises; they need to value their real estate price for related person's negotiation or the court's solvent.

1.8. For consultant

+ Trials

+ Auditing

2. Real estate valuation has successfully undertaken its functions and roles in real estate management.

On one hand, the real estate valuation is the requirement of many real estate profession forms (purpose for real estate use). On the other hand, the real estate asset valuation directly relates to diverse interests of the persons concerned, partners. Issuing the market value measure of real estate is a basic function of real estate valuation. The correct measure will be a foundation to protect legal interests of the persons concerned, ensure the easy undertaking of the asset transactions.

Together with the development of the Socialist oriented market economy under the State management in Vietnam, the real estate valuation for management keeps a more and more important role.

2.5. Valuing the real estate in accordance with the international practices
will support the open-door policy, call for foreign investment, maintain the national interest and stimulate the international integration.

Based on international practices, correctly solving relations in terms of internal and external interests is the basic measure, the regulation for equal investment price. This regulation indicates the great mean of valuation. It is the measure of interest for both parties.

The real estate valuation has its own characteristics: the difference between the domestic and the oversea markets is really huge. Furthermore, there're a lot of unidentified factors. Therefore, it is necessary to possess the international qualification on valuation, especially valuation approaches for services and protection for the national interests.

3. Current situation of real estate valuation in Vietnam

Real estate transactions in Vietnam have become effervescent since the Vietnam economy transiting from the central planned economy in the Socialist oriented market economy. The beginning of the effervescence is stipulated by following factors:

- Urbanization
- The State hands the right of ownership on the land right use to individuals, economic sectors for doing business and production.
- The State opens the international co-operation and calls for foreign investment.
- Demands for accommodation, trade and production development have impacted strongly on "demand" of the real estate market. In addition, the planing and upgrading urban areas, improving the infrastructure for the industrialization and modernization, attracting the foreign investment have made remarkable contributions to the increase in the demand for real estate.

Because of the above reasons, the real estate market has been gradually appeared since 1991 — 1992 and has developed rapidly since October 15th, 1993 (the date that the Law on Land came into effect) with more detailed areas and forms of market; such as:

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- Cultivating land market;
- Housing market;
- Markets of workshops, land for cultivation;
- Markets of skyscrapers, office building, hotels.

However, the real estate market had got a long time of stagnancy after the Decree No. 87 / ND-CP by the Government on implementing the Law on rights and obligations of domestic organizations when being granted land and renting land. The real estate market has not recovered till 2001 and the majority is small transactions outside the State management. Therefore, the full and correct information market on real estate trade as foundations for analyzing and identifying factors impacting to the real estate market. Real estate transactions in Vietnam are very diverse and plentiful to satisfy the society's demand and serve the State policies and the life of the people.

Demand for real estate valuation is objective; it is a great demand not only of the State management authorities but also of the whole society. Because of the constant changes of the real estate price, the non-stop increasing demand, no center market, the information of real estate is very limited, both the seller and the purchaser have many difficulties in proper marketing. The valuation helps the seller and the purchaser fully understand the nature of real estate, which are being transacted in the market; such as economic and technical characteristics, price.

In Vietnam, land belongs to the whole people's ownership. That's why the land transference, before hand, only existed in small scale; the majority was for accommodation demands and the real estate business was very simple. Many real estate business forms have come into the world so far; including individuals, organizations, companies, etc. to some extent, this has made remarkable contributions to breaking the big ice against the real estate trade and the real estate market. However, it has also brought many urgent issues that the State need to resolve; namely, the procedure for right use transference, the transference of cultivating land to specialized land or accommodation land, the master of each area and localities; particularly the accommodation for low income people, persons in areas of site clearance for transportation and public constructions, etc.

Meanwhile a professional organization for valuation has not been established yet; the valuation is mainly done by the State management authorities; the right of real estate price determining is in the hand of authorities at different levels; in detail, this duty is handed over to pricing council of localities. Pricing council undertakes valuation steps and proposes specific price levels and then local authorities determine. This indicates that the valuation in Vietnam has not become professional yet; the responsibility is low; the organization is scared. One urgent reality is that the legal framework for valuation has not been fulfilled yet.

Together with the 15 -year reform and renovation in Vietnam (1986 - 2002), the valuation profession in Vietnam has established and developed; since 1990, the Government Pricing Committee has been authorized to study and learn about experiences in valuation of regional and international nations whereby find out a appropriate valuation model for Vietnam. The Government Pricing Committee has founded two experimental valuation centers in the North and in the South: The Southern Information and Valuation Center (SIVC) has responsibility for valuation in 31 provinces and cities in the South of Vietnam. This is the experimental model of public service with the co-ordination between experts and valuers of the center and valuers of State management authorities in the region. The center does valuation independently. This model has made great contributions to valuation; in 1999, the total valued asset was VND 412 billions; in which the real estate value was VND 253 billions in 2001, the total valued asset was VND 1,409 billions; in which the real estate valued at VND 251 billion and total valued asset for the 7 first month of 2002 was VND 920 billions; in which the real estate valued at VND 420 billions.

We have applied following approaches to real estate valuation:

- + Direct comparison approach
- + Cost approach
- + Income approach
- + Surplus approach
- + Discount cash flow approach (DCF).

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In general, aforementioned valuation approaches have been applied popularly over the past period and have brought quite correct results (the difference is about 2-10%) in comparison with the transference value in the market at different period of real estate price changes. The results were identified via comparison with sale price of workshop's auction sale.

In addition to the development of valuation value and the staff of valuers, the valuers training, international co-operation, scientific research also have been paid great importance, especially, NDV Organization of Holland has granted the center the ISO certificate 9001/2000 in quality management system.

Thanks to fostering training courses on international valuation standards and real estate valuation activities of the center in recent year, the real estate valuation activities of the center has been improved gradually. Beside the two costumed approaches of the direct comparison approach and the cost approach; the surplus approach and the discount cash flow approach are also applied to value real estate assets that have potential development; namely, cultivating land, land for infrastructure construction for sale.

Though the existence and successes of the SIVC model are only at the first step, it can be said that the professional valuation has started from this model (SIVC is self-accounting and independent center. Valuation staffs of the center have good command of different spheres; namely economics, law, accounting, construction, etc. luckily, all of us have gathered together to build up a public service center for valuation).

The most remarkable shortcoming of the center in particular and the Vietnam's valuation branch in general is that there are not clear standards of real estate valuation approaches and principles as the foundation for assessing and examining results of real estate valuation activities. Therefore there a lot of views on the correction of real estate valuation result. Even the definition on the market value of real estate has not been determined in details by the responsible authorities.

In short, although the real estate valuation in Vietnam has just begun, it has made remarkable contributions towards the correct identification of real estate value on the date of valuation. And the valuation is also facing to many difficulties; namely:

+ Lack of information of the real estate market;

- + Lack of professional valuers of real estate;
- + Scientific foundations for real estate valuation are lack, too.
- + Legal documents on valuation are still inadequate.

4. Some proposals for the development of valuation in Vietnam.

In order to help the valuation activities satisfy the demand of the market, a legal framework for valuation branch should be built and determined valuation standards logistically in a way suited to the reality in Vietnam.

Firstly, to build and fulfill legal framework of documents on valuation activities. In which, Vietnam valuation standards should be defined early in accordance with both specific conditions in Vietnam and regional and international valuation standards.

The valuation activities in Vietnam have been fostered and developed at a high speed. On August 8th, 2002, the State President signed the Price Ordinance approved by the Permanent Standing Committee of the National Assembly X on April 13th, 2002. At the Section 3, Chapter II stipulates State owned assets subjected to be valued, valuation enterprise, valuation results, etc. This Ordinance is the highest legal framework of this field. The valuation profession has been raise up to an important level; the valuation becomes a professional service, and the foundation of valuation enterprises have been becoming reality. The State needs to make more directions in details of valuation implementation.

However, those are only the most common regulations, the legal framework, principles, professional standards and standards for activities do not meet the requirements of valuation activities. The reality has indicated that on one hand, Vietnam needs to have its own valuation standards, and on the other hand, the professional experience and professional skills of valuers need to be improved to satisfy demands of the rapid development of Vietnam 's valuation profession. In addition, the valuation branch also needs to be legalized, too. The building the valuation standards, on one side, is necessary for the globalization of valuers' activities; on the other side, for the development of valuation theory research, valuers training as well as the modernization of the valuation branch in future.

The objectives of building valuation standards includes:

Firstly, in order to set up united standards for the State management in the whole branch and standardize valuers' profession, accordingly, valuers have to thoroughly work under basic principles of valuation profession; namely, independence, equality, honesty and correction.

Secondly, to help valuation organizations and valuers can work in a way suited to most unite professional criteria hereby the valuation quality could be improved.

Thirdly, to determine and identify the professional qualification of valuers to protect legal rights and interests of clients, investors, and other relevant partners as well as of the public in general.

Fourthly, to build a system of valuation standards of Vietnam, which are proper and keeping in line with valuation standards of AVA and international valuation standards committee (IVSC).

Valuation activities over the past few years have shown some below issues that need to be noted.

The first issue, it is obligatory that the valuation profession in Vietnam has moved and will develop in the coming period. This is because the Vietnamese people traditionally do their utmost to triumph over every difficulties and challenges to reach proud successes.

The second one, the development of the valuation profession in Vietnam required time and positive assistance of international valuation organizations and nations with the developed valuation profession. With the aim at getting supports from international valuation organizations, Vietnam needs to quickly enough to establish its own Valuers Association. This will pave the favorable way for integration of Vietnam valuation profession.

The Valuers Association is a converged place and a management organization of members and professional valuers; furthermore, it is the professional valuers training organization, the place for regional and international exchanges and co-operations. It is important to take advantages of regional and international exchanges and co-operations to train our professional valuation staffs and quickly keep abreast of the international valuation profession to serve the national economy.

The third issue is to urgently establish independent valuation organizations, independent enterprises and companies to meet the existing valuation demands. At present, many private companies in localities are actively studying regulations of law, standards and preparing necessary conditions to set up valuation companies legally. As for the State, the State is also actively preparing for the enacting of legal documents relating to the foundation of valuation companies; such as, valuation standards, and conditions for valuation company foundation.

The fourth issue, it is necessary to promote researching and learning about models, experiences, organization and activities of valuation of regional and international countries; especially the diversity of valuation organization models should be paid great importance.

At the same time, we need to pay attention to international co-operation in studying valuation science and applying it towards the specific situations of Vietnam. The assistance of the ASEAN Valuers association and all other International valuation organizations to Vietnam is extremely important.

As for Vietnam, we should stimulate the international co-operation for exchanging and studying experiences as well as the assistance from the Government, international valuation organizations to pave the way for development of this profession. In addition, Vietnam has to specialize the valuers staff and establish the Vietnam Valuers association together with the foundation of valuation companies of economic sectors.

On the occasion of the 12th AVA Congress held in Vietnam and on behalf of SIVC, we would like to receive positive supports and co-ordinations of the ASEAN Valuers Association as well as international organizations.

Wish all colleagues great achievements from the 12th Ho Chi Minh AVA Congress.

Thank you and have a fruitful Congress.