



The effect of WTO membership on Vietnam's real estate market and the role of valuation

PhD. Truong Thai Son
Director of Hoang Quan Valuation company

I. The context of Vietnam's real estate market after WTO accession

1. The real estate market

In 2007, Vietnam obtained remarkable achievements with high economic growth rate, a record high of foreign direct investment capital. The WTO membership of Vietnam promoted a large number of companies to penetrate into the market. The living standard has been improved with rapid increase in consumption. The housing market was vibrant with an increasing number of invested funds. The process of equitization of many state owned enterprises led to a great demand for high quality offices, which put additional pressure on the real estate market. This brought about pressing and necessary requirements of supplies for offices, hotel, retail areas and apartments. It was a very good time to invest in the real estate field with expectations of brilliant perspective for the real estate market in 2008.

In recent years, Vietnam's real estate market has always been under the situation in which the supply did not satisfy the demand. Therefore, the fact that land fever or rapidly increases in housing prices occurred was unavoidable. Especially big fluctuations in the stock markets in recent years also resulted in the fluctuation in the real estate market. Accordingly, investors moved their investment capital to this market that was more profitable and less risky. To sum up, high economic growth rate, WTO membership, improvement of living standard, higher income, high proportion of idle cash, increasing demand for investment and speculation create great opportunities for domestic and foreign investors to contribute to the development of the property market.

2. Outstanding events in real estate sector in Vietnam in 2007

- Numerous people stood in line to purchase apartments of projects such as Vista, Sky Garden, Hoang Anh Gia Lai, etc in Ho Chi Minh city in the mid-previous year. This indicates the increasingly high demand for apartment market.
- The Decree 84 of the Government provides supplementary regulations that encourage foreign investors in the real estate field by extending the time of land using license. Long lease contracts shall be automatically extended by 50 years to 70 years without any additional cost. The Decree also prescribe some specific

cases in which the Government shall be responsible for land clearance before handing over land for investors in order to speed up the process of investment.

- Foreigners living and working in Vietnam and Vietnamese residents have been created more opportunities to buy land and houses in Vietnam.

- ***The investment in real estate in Vietnam***

The foreign invested capital flow continues to pour into the real estate market in Vietnam. No matter what the global backdrop, the real estate in Vietnam still appeals to investors and remains at the current development level. A variety of investors from international hotel corporations (Accor, Inter-Continental Hotels Group, etc), giants from Middle East (IFA, Kingdom Hotel Investment), Building and Investment corporations from Japan, Korea; Investment funds with strong financial capacity (Indochina Capital, Vina Capital, etc) have possessed a range of real estate projects and continue to have further plans in the future. The increase in foreign investment doesn't be an obstacle for the investment plans of local investors. The participation of domestic and new foreign investors will help promote the property market instead.

Difficulties in the real estate market:

- The limitation of land fund in centre areas. The high land price in the market.
- Problems in infrastructure, transportation, accessibility of project, land clearance, etc.
- Problems in administrative formalities especially for foreign investors.
- Local investor face difficulties due to lack of funds

These are major challenges for all people including both local and foreign investors taking part in the Vietnam real estate market. It is required that the Government draws specific and comprehensive planning. A good example is that the HCM City People's Committee has recently announced the list of 20 gold plots of land for investment and call to public investment. Specific planning policies will create equal opportunities for both local and foreign investors and have positive impact on the real estate market.

II. Market Overview in 2008

**** The Office market***

There were little new supply of class A and class B offices in 2008. Office rental prices remained at higher level, with the monthly market rental of office class A about 45 - 69.5USD/m². The monthly average rental of class A office is 51USD/m², while it is 35USD/m² for class B office. The highest monthly rental of class B office in some beautiful positions reached 42USD/m². There was a slight increase in the monthly rental of class C that varied from 20 to 30 US\$/m². The occupation rate of class A and class B offices remained at 98 - 99%.

**** The market for business area***

According to the Worldwide Retail Development Index published annually by A.T.Kearney, Vietnam was considered as the most attractive market amongst 30 developing markets. Despite the freeze of the property market, lower economic growth rate, high inflation rate, there was no signal of depression in demand for retail area. In some commercial centers of the city, the average rental price still remained at 65USD/m²/month. It is difficult for retailers to expand their operations in the city due to the limitation in retail area supply in beautiful locations.

**** The Housing Market:***

The housing Market in Hochiminh city also suffered impact of changes in the global economy as well as changes in economic environment in Vietnam. The housing prices in city center areas has decreased slightly by about 5%, while there were more fluctuations in housing prices in projects of initial development or in less central areas, which went down by approximately 30%. In July and August, the increase in price of construction materials and labor cost as well as the financial difficulties were the main factors that resulted in the stagnation of many projects and therefore would slow down the progress of new supply.

**** Market of apartments for rent:***

Apartments for rent projects in popular locations still have high occupation rate of 95 -100%. Demand for apartments for rent mainly came from foreigners living and working in Vietnam, however, this demand was slower than expected. The reasons may be because companies were more careful with their financial capacity due to fluctuations of global economy. The price and occupation rate were not unchanged for current high-ranking apartments for lease whereas there new projects have been offered a discount of 20% to attract customers.

The future perspective of apartments for rent market in HCMC is still very brilliant because the number of foreigners working in Vietnam will continue to rise in medium and long terms.

III. Development of valuation market

1. The role of valuation

The valuation professional has been increasingly developed. There were different types of the valuation purposes: to buy, sell, determine of value in real estate valuation; joint-venture capital contribution, loan investment banking; from real estate appraisal to business and brand name valuation

Quantity and quality of valuation firms have been increasingly augmented and have attracted many prestigious foreign companies to operate in Vietnam. There are about 200 valuation firms and 3 foreign valuation companies that become members of the Vietnam Valuation Association, which comprise Richard Ellis Vietnam (CBRE), Collier International, Savills Vietnam.

The valuation profession is recognized and plays an important role in social and economic activities. In the context where there are rapid fluctuations in real estate prices, valuation help to determine the real value of property and provide orientation for the price trend and the orientation of the property market in the future.

2. Some suggestions for market development and valuation field

Opportunities and challenges

In recent years, the property market has seen many fluctuations and sometimes has been frozen, slowly developed. One of the main reasons is the promulgation in succession of a range of new legal documents such as the Land Law, the Real estate business Law, regulations on the adjustment of and changes the new framework to interfere in the capital market and the property market, etc. These policies have a large impact on the valuation services in general and the appraisal of real estate in particular. However, at the beginning of 2009, there have been signs of the flourishes and recovery of two main markets including the financial market and the real estate market.

The number of clients involved in the real estate market, financial markets, capital markets, banking services, etc. have been increased. Noticeably, there has been the rise in capital ownership, joint venture, investment cooperation, etc. in the open market in order to enhance the competitiveness. When the market changes for a positive tendency, the valuation service plays a crucial role and requires being more professional and accurate with the common objectives to protect legal rights, avoid risk, improve the business efficiency.

We must acknowledge that although the valuation services have been recently introduced in Vietnam, it has strongly developed and also satisfied the demand of society, economic activities, organizations and state agencies to some extent. The valuation activities determine not only the market value of property but also provide consultation for the effectiveness of the property investment and business, contributing to the development of the property market.

Valuation services are performed these days for many purposes such as mortgage, equitization, trading, distribution of assets, joint venture, etc. The appraisal is also carried out for unlimited size and type of assets, varies from the appraisal of real estate, movable properties to business valuation, commercial value appraisal, brand name appraisal.

Valuation services meet the increasing demand of different subjects such as individuals, legal entities, credit institutions, credit funds, compensation units, equitization units, insurance, etc. in which there are many international organizations.

3. Suggestions to strengthen the role of the Vietnam Valuation Association

The Vietnam Valuation Association (VVA) was established in 2006 in Vietnam. It is a non-governmental organization, legal representative of individuals and legal entities engaged in valuation activities with a view to

protect their rights and legitimate interests. The VVA helps members improve their performance and efficiency of valuation, build new partnerships, fair competition, and equality amongst valuation companies. On behalf of valuation firms, the VVA offers suggestions to state agencies involved in building legal documents on valuation. The VVA is also authorized to organize continuing professional development training courses and to perform the international cooperation with other countries, other Valuation Association in the world in order to develop the valuation. To create favorable conditions for the VVA can do well in their tasks, the following measures should be recommended:

1. The legal framework on valuation in Vietnam is relatively complete, comprising the Ordinance on Price, Decree 101 on valuation and other Circulars promulgated by the Ministry of Finance providing instructions related to valuation. However, it is recommended that these legal documents be adjusted and completed in accordance with the actual situation.

2 – The Asean Valuation Association (AVA) in company with the valuation associations from other countries should cooperate and assist the VVA in valuation profession training, exchange of experience to promote the performance of the VVA.

3 - The Asean Valuation Association (AVA) should work out a strategy building the Asean valuation market. Firstly the Asean Valuation standards should be built up in order to have a unified standard level on valuation. The next step should be the recognition of licensed valuers amongst Asean countries and allow them to perform the valuation service in all over Asean countries.

Thank you!

PhD. Truong Thai Son
Executive Board member of the VVA
Director of Hoang Quan Valuation Company