

## WARNING FROM THE GLOBAL FINANCIAL CRISIS

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The current global financial crisis, which has initially started in the United States, originated in the immoderate investment of low interest-rate capital and substandard mortgage loans in the real estate market, together with the boom of real estate security derivatives on this market with an aim to gain opportunity profits. When the real estate market reversed and became sluggish, real property went down in value and the due debts were insolvent, it led to the collapse of credits and finally the financial crisis.

The situation is similar to the South-East Asia's financial and economic crisis which started in Thailand in 1997, but this time it is more severe and on a larger scale.

Real estate is a big bundle of property worth about US\$ 8 trillion or 15% of equities or 24% of the total bond market of the world.

There are 2 forms of investment in real estate:

(1) Direct investment: Investment in real and tangible assets like buying, selling or renting real estate. This requires much capital and is of low liquidity and so not everybody can invest.

(2) Indirect investment: Investment in listed REOCs or REITs securities. This does not require much capital and is of high liquidity, therefore everyone can invest as this form of investment is public which can attract much capital from the society.

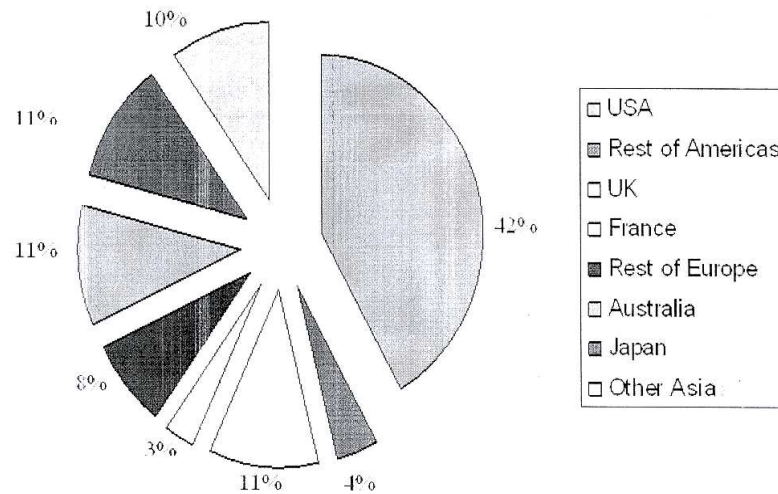
The world's stock markets in real estate have seen a strong growth in recent years. The total capitalization in the global real estate securities markets was about US\$ 905 billion which were allocated as follows: US 42%, UK, Australia and Japan 11% each, other Asian countries 10%, France 3%, the rest of Europe 8%, and the rest of America 4%.

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<sup>1</sup> 8 billion USD only calculate total amount of invested commercial real estate not including residential market at 2006

<sup>2</sup> Estimate of RREEF at 2006

**Chart 1: The allocation of Global real estate securities market**



Source: RREEF Research, FTSE EPRA/NAREIT

The capital flows into real estate securities sharply increased between 2003 and 2006

**Tab 1: Global Real Estate Investment Activities follow group properties**

	North America			Europe			Pacific Asia		
	D.RE	RE.Se	Eq	D.RE	RE.Se	Eq	D.RE	RE.Se	Eq
2003	9%	36,3%	29%	7,4%	26,9%	20,3%	5,2%	25,3%	25,5%
2004	14,4%	33%	10,8%	9,8%	43,7%	12,7%	7,4%	35,4%	13,1%
2005	20%	13,1%	6,8%	11,3%	26,5%	25,5%	12%	35,2%	35,9%
2006	16,7%	36,3%	15,5%	16,6%	50%	19,6%	17,9%	34,8%	14,3%

Source: RREEF Research, FTSE EPRA/NAREIT

D.RE: Direct real estate; RE.Se: Real estate securities; Eq: Equities

The unprecedented big capital flows pouring into real estate including easy mortgage loans from banks sharply raised real estate prices during that time.

Also, the introduction of REITs to the system helped further develop in the world, from 10 countries in 2001 to 18 countries in early 2007.

**Tab 2: Global real estate Index 1999 - 2006**

Period	Global Composite			North America			Asia			Europe		
	Return Components			Return Components			Return Components			Return Components		
	Total	Price	Income	Total	Price	Income	Total	Price	Income	Total	Price	Income
<b>Annual (including current year to date)</b>												
1999	8.87	3.71	5.16	-4.38	-11.27	6.89	32.16	28.23	3.92	-3.23	-6.88	3.65
2000	13.23	7.92	5.31	31.24	22.67	8.57	1.15	-1.91	3.07	5.12	4.24	3.67
2001	-3.81	-7.85	4.04	9.98	4.09	5.90	-17.22	-19.55	2.33	-8.12	-9.41	3.29
2002	2.82	-2.38	5.20	2.42	-3.79	6.21	-7.15	-10.58	3.44	21.89	16.81	4.88
2003	40.89	33.47	7.23	37.70	29.65	8.05	44.63	38.47	6.36	44.85	38.72	5.98
2004	37.96	31.97	6.00	33.51	26.88	6.63	36.85	32.24	4.61	52.73	46.95	5.78
2005	15.35	10.67	4.68	13.21	8.09	5.12	23.37	18.63	4.73	9.43	6.03	3.39
2006	42.35	37.50	4.85	36.26	30.89	5.38	36.49	32.15	4.34	66.99	62.79	4.20

Source : FTSE EPRA/NAREIT

In the five years to mid-2007, REITs came to play a significant role in piloting investment activity and market prices. The soft mortgage loan (the primary lender would easily lend up to 65% or 75% Loan-To-Value (LTV) of real estate value which was inherently high during that time). Also, together with the boom of real estate security derivatives on this market with an aim to gain opportunity profits. When the real estate market reversed and became sluggish, real property went down in value and the due debts were insolvent, it led to the collapse of credits and finally the financial crisis.

Since June 2007 the real estate and real estate securities prices have sharply declined. Over the past 18 months REIT prices have fallen sharply, with the global REIT index declining by 55% from its peak in May 2007.

**Tab 3: Global real estate Index 2007 - Q1/2009**

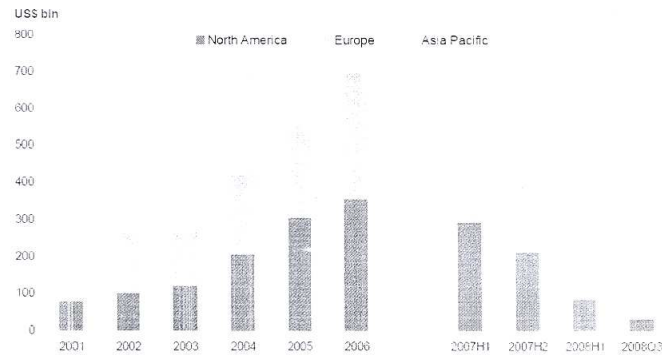
Period	Global Composite			North America			Asia			Europe		
	Return Components			Return Components			Return Components			Return Components		
	Total	Price	Income	Total	Price	Income	Total	Price	Income	Total	Price	Income
<b>Annual (including current year to date)</b>												
2007	-6.96	-9.98	3.02	-14.92	-18.26	3.33	14.60	11.67	3.13	-24.50	-26.63	2.13
2008	-47.72	-50.21	2.49	-40.63	-43.88	3.25	-52.48	-54.43	1.94	-51.13	-53.30	2.17
2009	-24.46	-25.56	1.11	-36.28	-37.44	1.15	-12.62	-13.66	1.06	-22.95	-23.92	0.98

Index 2009 is of 1<sup>st</sup> quarter.

Source : FTSE EPRA/NAREIT

Investment in global real estate has also continued to sharply fall from the peak in 2006

**Tab 4: Global Real Estate Investment Activities (US\$ Bn)**



Source: RREEF Research, JLL, DTZ, CBRE

From the regional and global financial and economic crises there arise essential warnings:

- (1) the too-highly assessment of expected value of real estate and real estate-originated securities due to very hot real estate market development in certain times has somehow led to the financial and economic crisis;
- (2) the very hot investment in real estate and real estate securities market is a signal of the country's potential financial and economic crisis;

**(3) the needed caution in estimating mortgage value of real estate and real estate-originated securities with the hot developing market. The ratio of loan to mortgage assets value must be calculated in inverse proportion against the increased market value of mortgage assets;**

**(4) the changing capitalisation rate is directly proportional to the price increase of real estate and real estate-originated securities.**

**These are the problems of concerns and also big challenges for the work of properties valuation, especially in real estate valuation.**

The hot development of real property market in Vietnam in recent times has not led to a financial and economic crisis since the market size is still small and the REITs has not been in operation. However, the aforesaid warnings from the regional and global financial crises are a matter of great concern and certain serious and careful research in property valuation is needed.

The current real property market in Vietnam has been formed since “the economic reforms” started 20 years ago. Up to now the real property market has undergone the three periods of price fever: 1991 - 1992; 2001 - 2003; 2007 - Q1/2008 with their characteristics of the next coming being hotter than the one before it, especially the price fever period of 2007 - Q1/2008 in Hanoi and HoChiMinh city.

The price fever in 2007 and that of the first two months in 2008 came from the big profits gained from investments in securities market in 2006 and began to be transferred to real property markets, together with optimistic forecasts of investment and economic development as Vietnam became a member of WTO.

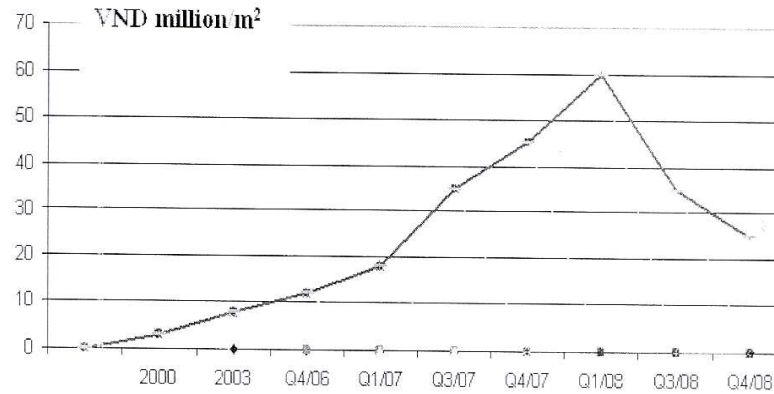
As of the end of quarter 4/2006 prices had continuously risen quarterly and reached their peak in February 2008. Land prices in some areas in HoChiMinh city rose by nearly fourfold. Prices of high-class apartments also strongly rose at times to US\$ 5,000 per square meter. The rent of office building continuously increased by the end of 2007 (grade A: US\$ 90/m<sup>2</sup>/month, grade B: US\$ 45, grade C: US\$ 25).

The strong price increases in real estate markets had greatly attracted investment capital into these markets, most of which was from banking mortgage loans. In early 2008, the total bank loans in real estate investment were about 9 billion dollars, which implied a hidden risk. The great profits earned from real estate and securities markets had strongly boosted consumption, especially in luxury goods, which helped accelerate inflation.

To fight inflation, the government carried out measures to tighten and curb credits, especially loans for investment in real estate and securities trading, together with the 21%-interest rate loans conducted by banks to deal with high inflation. Investors had to sell their real estate to pay due loans. Real estate

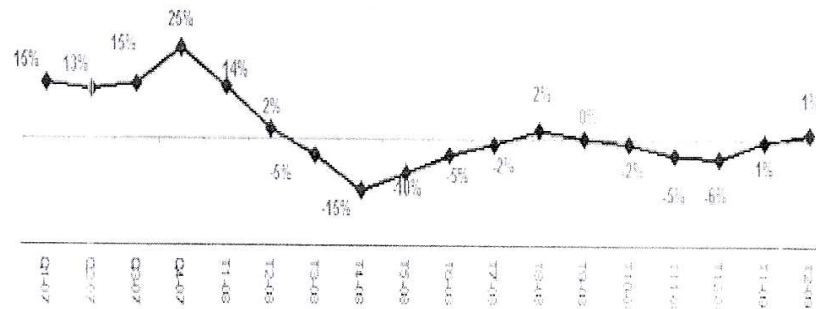
prices began to fall sharply and have continually decreased in the past 13 months. In the 3<sup>rd</sup> quarter of 2008 land prices fell by 40 -60% as compared with the peak of February 2008 and by the end of this year land prices further fell by 5 -10 million dong per sq. meter.

**Chart 3: Fluctuation of land plots price in new urban zone at HCM city**



Prices of high-class apartments also continued to fall, with only about 1,300 dollars/m<sup>2</sup> in some projects.

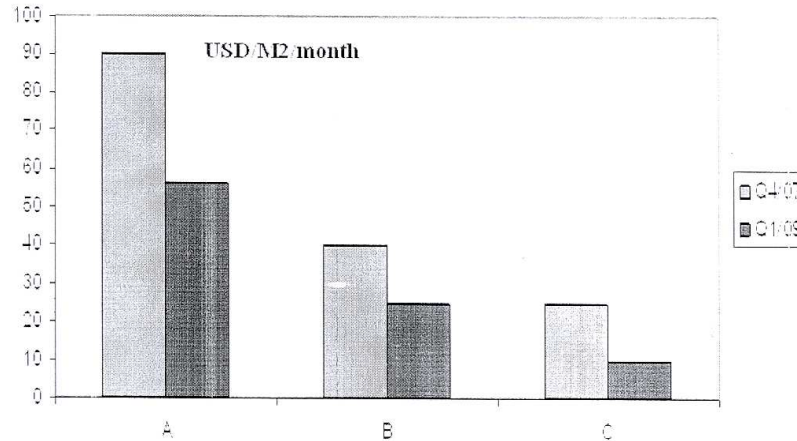
**Chart 4: High-class apartment price fluctuation at HCM city T1/07 - T2/09**



Source: VietRees

The rent of office building was only about 40% in early 2009 as compared with that of end-2007 as renters strongly reduced their expenses in the economic recession, and because of the increasing supply. At present, HoChiMinh city has 900,000m<sup>2</sup> of various office buildings, a 21% increase against end of 2007 and will continue to increase to 1.2 million m<sup>2</sup> by late 2009.

Chart 5: Rent building office fluctuation at HoChiMinh city



Although the market price of real estate at present has strongly reduced against its peak in February of 2008, it is still high as compared with the time before the fever in the first quarter of 2007 and much more higher compared with the people's average income as well as the general price level of the country's economy. Much of the capital invested in the real estate market is still coming from bank loans.

Therefore, the warnings from the global financial and economic crises remain very significant in property valuation.

We must carefully analyze the nature of real estate market prices at the time of valuation and the future risk levels in order to reasonably estimate the real estate expectant value, especially real estate mortgage for bank loans.

**Need to pay attention:**

- real estate market price is more high, the ratio of the mortgage loan on property market value (M) must be more low.

- real estate market price and income on real estate are more high, discount rate and capitalisation rate must be more high correlatively.

But how to estimate reasonably? To get this, we must have a research on real estate market, define and analyse the cycle of Vietnam real estate market from the beginning to present carefully, the specific fluctuation in each market segment, the relationship between currency market and capital market,

fluctuation trend in the next time. Thus, we will have fundamental to estimate the expectant value of real estate quite reasonably.

In this matter, Vietnamese appraisers have no advantage compared with colleagues in developed countries that have a strong real estate market, because we lack systematic documents on real estate market research and analysis.

To solve this matter, that isn't an effort of a separate valuation company but must be carried out by Vietnamese Valuation Association with the contribution of valuation companies and the co-operation of Vietnamese Real estate Association. And this must be done immediately./.