Rules relaxed for a more inclusive market

Michael Piro, chief operating officer of Indochina Capital, spoke to *VIR*'s **Hoang Anh** about witnessing radical changes in the Vietnamese real estate market and the basis for his unbreakable faith in future prospects in the sector.

How would you evaluate the potential of the Vietnamese real estate market?

I think there are incredible opportunities at hand, but like in any market with a lot of opportunities, there are inherent risks. The Vietnamese economy is growing at about 6.8 per cent, one of the highest growth rates in the world. We also have a demographic profile to support real estate development: about 3 per cent of the population is migrating into the cities, resulting in a very strong urbanisation rate, and when I look at the opportunities for us at Indochina Capital, the hotel and hospitality markets are quite compelling. International arrivals are up nearly 30 per cent, but what is even more interesting is that domestic arrivals are in excess of 70 million. Since the costs of travel were brought down by Vietjet, Jetstar, and others, more Vietnamese people travel. Additionally, GDP per capita has reached $2,400. Economists say the $2,000 threshold is the inflection point where consumer spending really picks up, and this is evident in hospitality and consumer spending. Overall, the potential of the Vietnamese real estate market is extremely strong.

What have been the most prominent changes in the industry during your time here?

A lot has changed. I have been here for about 12 years, doing real estate the entire time. I would say the biggest change is that domestic developers are rising to dominance. When I came, the main projects were carried out by foreign developers using foreign capital, but over the last 10 years, we have seen local players emerging as the dominant developers. We see this in the cases of Vincom, FLC, and Novaland. They control all the major projects now, which is a major shift–and this is good. The domestic market should be dominated by domestic players.

Foreigners are now permitted to purchase and own residential units in Vietnam. How has this impacted foreign direct investment (FDI) inflows to the domestic real estate sector?

I think the changes had a tremendous impact. If you look at most high-end projects throughout Vietnam, the 30 per cent quota for foreign ownership has been maxed out.

I started selling real estate to foreigners about 12 years ago in Danang. At the time, I had to travel to Hong Kong or China to do real estate shows and to get one buyer here, one buyer there. Now, we have a real estate brokerage division called Indochina Properties and our biggest problem is that we do not have enough products to sell. Now, foreign buyers are actually chasing me for properties. I think this is a tremendous shift. The Vietnamese government has done a good job relaxing policies to encourage foreign investment in real estate and I think this trend should continue. Vietnam has been continuously relaxing foreign ownership regulations. When I first arrived, it was highly restricted. After a few years, they introduced the 50-year lease for foreigners. Then they allowed ownership of one property for *Viet Kieu*. A few years later, *Viet Kieu* could own multiple properties. Another few years later, foreigners were allowed to lease property for 70 years.

Now, we see a pretty much equal playing field between foreign and Vietnamese real estate investors. There is still a little way to go, but the trend has always been progressive. Although Vietnam has not been very fast in liberalising foreign ownership regulations, it has been very supportive and foreign investors are encouraged by these trends. This progress is less restricted than in some markets like Thailand. I think Vietnam is sending a great message to the world with this.

What is real estate investors' biggest worry in Vietnam?

Canada, where I am from, has a land mass of about 10 million square kilometres, while Vietnam has about 330,000sq.km. So Canada is about 30 times larger, but its population is only a third of Vietnam's. Just looking at these numbers, it is clear that the demand for land in Vietnam is going to be very strong and I have no doubt of the long-term potential of the market. We only need to balance what happens between now and then.

With its unpredictable cycles, the real estate business is always difficult. We conduct a lot of predictive studies to prepare for when the cycles change, but the truth is nobody truly knows. This is a young, developing, and relatively immature market, which brings tremendous opportunities at the cost of increased volatility. This makes the risk profile different from developed markets.

Investors from Canada, Europe, or Japan are likely used to a more mature market, while in Vietnam you can seize opportunities that take you very high, but you have to be ready for things to come down more quickly. It comes down to your timing, understanding of the country, and managing the risks–but overall, market conditions are great, the government is extremely encouraging towards foreign investors, and I think now is a great time to enter.

Which real estate segments will you focus on in Vietnam in the future?

Indochina Capital and our partner Kajima have a clear strategy to focus on pretty much anything with a bed in it–hotels, residential units for sale or serviced apartments, everything. This is our primary focus, which represents about 70 per cent of our portfolio. For the remaining 30 per cent we are looking at office, logistics, and industrial properties, but we think we mainly want to support the growing population and tourism by getting people a bed to sleep in.■

Local realty lures East Asian buyers

By Bich Ngoc

Photo: Le Toan

With local real estate prices a fraction of those in Hong Kong or Taiwan, investors from these markets flock to Vietnam

The demand for Vietnamese properties is growing fast among East Asian buyers.

With robust economic growth in Vietnam over the past few years, foreigners, especially from Hong Kong, Taiwan, South Korea, and mainland China are finally diving into the real estate market, as evidenced by the lack of available foreign quota properties for well-located projects and pent-up demand from foreigners looking to buy.

According to Leung Kai Sun Sunny, a buyer from Hong Kong, foreigners mostly want to seek out ideal property projects that ensure long-running benefits. "I have bought four units in high-end projects in Ho Chi Minh City and we are receiving a good enough yield, which brings higher benefits than neighbouring countries," Leung said.

"The expense of buying land plots and construction activities in other countries like China and Japan is very high, meaning that the price to end-users or home-owners is also very high, mostly three to four times higher than in Vietnam," he told *VIR*. "Then we have individual investors like me who are paying close attention to the benefits, which pays off. I would say that investors might face higher risk in other markets like China and Japan, where the investment cost for every project is very high."

According to Sunny Hoang, associate director of International Residential Sales at Savills in Ho Chi Minh City, based on Savills' internal research data, investors from Hong Kong and Taiwan make up a sizeable proportion of the home-buyers currently investing in Vietnam.

"Vietnam has become the most attractive destination among emerging economies in the ASEAN for many Taiwanese investors," Hoang told *VIR*.

Savills, like many other property consultants and developers, has taken introduction road shows to Hong Kong, Taiwan, and China to introduce Vietnam's property market to home-buyers there.

"We wanted to make a strong push into these markets as we see strong demand from their investors," said Hoang.

Vietnam, with its attractive entry price, has become a new hunting ground for buyers from Hong Kong and Taiwan looking for quality assets with great potential. A Hong Kong parking space, in a high-end development in Kowloon, recently sold for $760,000. With this sum, a Hong Kong-based investor could buy a high-end unit in a central business district (CBD) area of Ho Chi Minh City, or three units in the non-CBD areas. "We look at these drivers as an opportunity to gain market share with investors from Hong Kong and Taiwan," said Hoang.

In addition, according to Hoang, the Vietnamese government is currently investing heavily in new infrastructure projects such as the new metro lines and new roads and bridges to provide better connectivity throughout local cities, and is focused on furthering the tourism boom by easing restrictions for foreigners to travel to Vietnam via visa waiver programmes for certain countries.

"These factors have created strong demand among foreign investors who have capital to place and prefer to invest in developing markets in search of higher rental yield and capital appreciation," she added.

Currently, new home prices in Ho Chi Minh City's CBD average about $5,500-$6,500 per square metre, which is 25 per cent of the average price in Taiwan. Also, property owners in Taiwan are liable to pay additional taxes and fees, while buyers in Vietnam only need to pay 10 per cent in VAT and a one-time 2 per cent maintenance fee.■