DEALS IN THE OFFING

Mr. Michael Piro, Indochina Capital's Chief Operating Officer, shares his thoughts with VET on foreign investment in the real estate sector.

■ What level of interest is there from foreign investors in Vietnam's property market at this time?

Vietnam is currently a hotspot for foreign investment both in terms of general asset investment and real estate development. I have participated in a variety of real estate investment conferences throughout the region, where Vietnam is often talked about as one of the most promising destinations for property development and investment worldwide.

The majority of FDI inflows into the country has gone to the manufacturing industry, at 44.2 per cent of the total, while real estate ranked third with 8.5 per cent. To us at Indochina Capital, this is an extremely encouraging sign and speaks to the opportunities that exist here as the market matures. At this stage the interest is incredibly strong, but the challenge for these investors is finding suitable deals. We are in a market where demand from investors is outstripping supply, with "too much money chasing too few deals". I have not observed a similar market dynamic since 2007.

We have seen several global institutional investors, such as Warburg Pincus and Gaw Capital, investing heavily in the real estate market across multiple segments. We have also received numerous enquiries from foreign investors, most notably from South Korea and Japan, who are interested in entering Vietnam. We are excited about what is to come.

■ Vietnam's real estate market continues to have irresistible appeal to foreign investors, mostly through merger and acquisitions (M&A). What are your thoughts on this trend?

We see this as a notable trend that reveals a number of distinguishing characteristics of the market. Firstly, it suggests that the market is moving towards a more efficient state, with specialization beginning to take place in a meaningful way. I believe that the market is starting to understand that it is more efficient for local companies to handle project acquisitions, local approvals, etc., while foreign investors focus on contributing expertise and capital. International investors are realizing that their entry into the market can be facilitated much faster and efficiently through M&A activity rather than pursuing direct investment on an independent basis. A number of foreign investors have had painful experiences attempting to establish themselves in the market in this independent manner. We are encouraged by this trend, as it also demonstrates the growing transparency, sophistication, and improving standards at local companies, leading to a number of very successful partnerships with foreign entities.

The role of experienced consultants like us here at Indochina Strategic, Indochina Capital's Advisory Arm, is also to bring about this change. Indochina Capital has been acquiring and selling hundreds of millions of dollars of investments, allowing us to understand the acquisition process inside out, especially the importance of setting up the correct legal structure; a key component that foreign investors tend to struggle with due to their inexperience in the market. This has an enormous impact on the transferability of the assets, tax implications, and capital repatriations.

■ What attracts foreign investors to Vietnam's property market?

Firstly, Vietnam is one of the world's fastest-growing economies. PwC forecasts it to be the fastest-developing country over the next 30 plus years and to join the Top 20 economies in the world by 2050. Opportunities in Vietnam are plentiful and it continues to be one of the most exciting markets globally.

Moreover, the country has one of the largest emerging middle classes in Asia. The middle and affluent classes, which we define as individuals who earn a monthly income of ≥$8,500, will grow from 12 million to 33 million between 2014 and 2020, according to BCG. This sort of growth is highly attractive to foreign developers, who see the emerging middle class as a key market. In 2017, domestic tourists totaled 73.2 million, roughly five times the number of international tourist arrivals, which grew to 12.9 million. The emerging middle class will continue to fuel the growth of domestic tourism, creating a desirable market for foreign developers to target.

Finally, the government has focused on transportation infrastructure to improve international and domestic accessibility. The government spent 5.7 per cent of GDP on infrastructure in 2017; the highest percentage in Southeast Asia. Terminal expansions at international airports in Hanoi, Da Nang and Ho Chi Minh City are already underway, with further runway upgrades planned for Nha Trang and Hai Phong. New international airports are opening up later this year, at Phu Quoc and Van Don, which will significantly boost tourist arrivals in both regions of the country. This demonstrates the government's commitment to the tourism sector; an integral element for attracting foreign investors to Vietnam's property market.

■ What are the challenges for foreign investors when developing property projects in Vietnam? What should the government do to attract more foreign investors to the sector?

Despite the implementation of policies that promote tourism, such as the relaxation of visa requirements for certain countries, as well as the government's commitment to improving infrastructure, Vietnam still has a long way to go in terms of its regulatory environment.

While I believe the playing field was quite level a decade ago, today's regulations clearly favor the local developer over their foreign counterpart. As it currently stands, foreign investment is still highly regulated and restrictive, increasing the cost of entry and hence discouraging foreign investors from exploring Vietnam's real estate market. Current regulations, coupled with a complex legal system, heavily favor local developers and those who have experience in the market.

As the regulatory environment improves, more foreign developers will engage with the local market. Nevertheless, given the slow-moving nature of the regulatory system, I find it hard to envision a scenario where Vietnamese law, as it relates to foreign investment and foreign ownership of real estate, will be able to catch up with the market itself, especially when considering the amount of property developments that are underway or in the pipeline throughout the country. In spite of that, we have seen pro-growth policies being pushed by the government. Although there is still work to be done, the country is moving in the right direction. ■