



# Consequences of the two-price system for land in the land and housing market in Ho Chi Minh City, Vietnam

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## ABSTRACT

**Keywords:**  
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In Vietnam, land is acquired from land-use-right certificate holders and allocated to developers of real estate projects by the State, based on a government imposed land-price framework that does not adhere to market principles. Once developed, land is transacted between developers and buyers based on the prevailing market price. This separate price system on land is intended to encourage capital from investors to flow and stimulate economic development. In reality, this policy has led to prolonged conflicts over land acquisition. The conflicts in turn have led to insufficient supply of land for developing residential projects in Ho Chi Minh City. Despite the unbalanced demand and supply of land, the land and housing market in Ho Chi Minh City is in a 'thriving condition'. The study finds that the thriving condition is due to fierce speculation on already available land lots and partially or fully completed housing units in the market. Employing a market survey of 494 residential projects, this study examined the underlying causes of that 'thriving condition'. It seems that the Government is trapped by a peculiar two-price system that favours the developers over the public in general.

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## Introduction

Vietnam has been transformed from a centrally planned economy based on subsidy principles to a market-oriented economy directed by socialist ideology since 1986. During the years of this transformation, Vietnam has become one of the most attractive destinations in the Asia-Pacific region for Foreign Direct Investment (FDI). Vietnam obtained around US\$20 billion of registered FDI capital<sup>1</sup> in 2007 and about US\$64 billion in 2008 (FIA, 2008).<sup>2</sup> Foreign investment in the real estate sector amounted to 54% of the total FDI in 2008, compared to 35%, and 22% in 2007 and 2006, respectively (GSO, 2008).<sup>3</sup> This is indicative of the bubbling of real estate market in the urban and peri-urban areas of Vietnam. Nevertheless, the actual flow of FDI in 2006 and 2007 was

only 34% and 37% of the registered FDI capital, respectively (GSO, 2009: 103). The most important reason of this deficit is related to land acquisition problems.

The histories of both the national liberation revolution and the economic development of Vietnam have much to do with land (Kerkvliet, 1997). According to the Constitution of Vietnam, land cannot be privately owned since it is the collective property of people and is representatively owned and administered by the State (National Assembly of Vietnam, 1992). The so-called "land use rights" introduced through the Land Law in 1993 can be traded using the Land-Use-Right Certificate (LURC) as an instrument (Waibel, Eckert, Bose, & Martin, 2007: 63). All land-related activities between the State and land users such as compensation, acquisition, allocation, renting, taxing, etc., are based on a Land-Price Framework (LPF), which is issued by the State with the initial purpose of regulating the market price of land. The land price in the LPF, however, is set too low and does not follow market principles. This leads to disagreements between the State and land users (Lich et al., 2005). Meanwhile, transactions between developers and buyers follow market principles, and not based on the LPF as expected by the State. This is the two-price system for land in Vietnam that the paper focuses on.

In general, the low land-price policy institutionalised through the LPF intends to encourage capital inflow for economic

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<sup>1</sup> Registered FDI refers to capital commitment that is to be invested in a project and has been registered with the State.

<sup>2</sup> Foreign Investment Agency (2008) *FDI in Vietnam in 2008* (Report to the Central Government).

<sup>3</sup> General Statistical Office (2008) *Statistical Yearbook of Vietnam 2007* (Statistical Publishing House).

development, especially in the form of FDI (Han & Vu, 2008: 1112), but this policy leads to conflicts in land acquisition for residential projects, which are based on the LPF. Conflicts emerge because land prices in the LPF and the market price differ significantly. The conflicts lead to lack of land to be acquired for residential projects in Ho Chi Minh City, which are stimulated by low land-price policy. Despite that, the land and housing market in Ho Chi Minh City is in a 'thriving condition'<sup>4</sup>. This appears to be dichotomous. Many incomplete projects lead to the inadequate supply of housing units in the housing market in Ho Chi Minh City. As a result of this inadequate supply, the demands for completed housing units as well as uncompleted housing units are quite high. The speculators exploit this condition to buy and sell properties again and again while increasing the price at each transaction. These transactions indicate a 'thriving condition' but it only benefits the developers and speculators. The Government seems to be trapped in a peculiar two-price system for land that favours the developers over the general public. This paper analyzes the consequences of the two-price system for land in the largest land and housing market in Vietnam, that is, Ho Chi Minh City.

## Research method

Employing the policy analysis technique and a survey of 494 residential projects in four areas of Ho Chi Minh City, viz., Central, Urban, Peripheral and Rural Districts, this study examined the underlying causes of the 'thriving condition'. These projects were identified from a list of residential projects from the Department of Natural Resources and Environment and Management Authority of Saigon South New Development Area. These projects were visited and observed for their state of completeness during the period February–June 2009. In order to obtain the views of the key stakeholders on the prevailing land and pricing policy, key informant interviews were conducted with 16 officials from city and district authorities, 75 residential developers, and 120 buyers of housing units in those residential projects.

The city officials included two officials from People's Committee of Ho Chi Minh City, two officials from Department of Construction, two officials from Department of Natural Resources and Environment, two officials from Department of Plan and Investments, 3 officials from Management Authority of Saigon South New Development Area, 2 officials from People's Committee of District 7, one official from People's Committee of Binh Chanh District, one official from Bureau of Tax in Ho Chi Minh City and one official in National Bank of Vietnam in Ho Chi Minh City. They were interviewed in their offices. Those officials are involved in land acquisition, land compensation, land taxation, management of residential projects, issuance of legal titles, legal papers, and financial resources for residential projects, etc. Developers including senior management officers from 63 Vietnamese developers and 12 Joint-Venture developers were interviewed either in their offices or sales offices. Buyers of housing units were also interviewed in the sales offices.

The findings from the analysis of both primary data and secondary data are presented under two major sections in this paper. First, it discusses recent land policies in Vietnam that has bearings on the two-price system on land. Second, the consequences of this system on the land and housing market in Ho Chi Minh City is analyzed based on the survey of residential projects and interviews with key informants.

## Evolution of land policies in Vietnam

Land was communally owned before the French colonised Vietnam in 1886. The colonial state greatly favoured wealthy people, large landowners, and other social elites over peasants. Kerkvliet (1997: 3–9) states that bitter conflicts over access to land, how it should be used and allocated, and the distribution of grain and other products from the land contributed directly to Vietnam's revolutionary war against French colonial rule. Since 1945, and particularly after the Geneva conference in 1954,<sup>5</sup> the new government of the Democratic Republic of Vietnam accelerated agrarian land reform. The goal was to nationalise the land of Vietnamese and French landlords and to redistribute it to peasants—under the slogan "land for ploughmen"—as a reward for their contribution in liberating the country (Marsh, MacAulay, & Hung, 2006: 16; National Assembly of Vietnam, 1953). However, Do and Iyer (2003) state that the policy was reversed and that land began to be collectivised in the late 1950s as communist ideology gained strength. Meanwhile, in the South, the Vietnamese–American government based in Saigon (Ho Chi Minh City today) sustained a land regime similar to that of the French colonial system. Thus, the war in the South against the Vietnamese–American government won considerable support among villagers (Kerkvliet, 1997: 9–10).

Marsh et al. (2006: 16–17) state that under the collective system, all households were paid a share of output according to their recorded labour inputs on communal land. Production dropped due to low incentives for individuals to contribute to cultivation and production. This, in turn, resulted in a demand to import more than a million tons of food each year during the period after the war, and much of the population suffered from hunger and poverty. The situation required an urgent solution. The Contract 100 (*Khoan 100*) in 1981 paved the way for liberating the agricultural sector. The first change was that farmers were allowed to keep the entire surplus that they produced over a contracted output (Do & Iyer, 2003: 5). According to Marsh et al. (2006: 16), this initial step had a significant impact on agricultural production, especially rice production. However, this policy was later modified, and quotas were constantly renegotiated, resulting in a decline in public confidence (Do & Iyer, 2003: 5). The country again faced famine and hyper-inflation (Hau & Dickie, 2006: 7). Confronted with worsening economic conditions, the government announced the program of Policy Renovation (*Doi Moi* Policy) in 1986 and started a gradual movement towards a market-oriented economy directed by socialist ideology.

The first reform, Resolution 10, aimed at recovering credibility by further liberalising the agricultural sector in Vietnam (Do & Iyer, 2007). It was similar to the rural reforms in China in the late 1970s when communes/rural collectives were eliminated and land was leased to farmers using the household as the unit of operation and management (Han & Vu, 2008: 1103). Moreover, land was allocated to farmers with five- to thirty-year security of tenure for annual and perennial crops, respectively (Government of Vietnam, 1989). The reforms have had a dramatic impact on the economy. Government revenue and spending began increasing after 1991, and agricultural production increased rapidly after 1988 (see Marsh et al., 2006). Urban land and housing, however, were ignored. There was no ban on private transactions, but there were restrictions ensuring that houses were for accommodation rather than

<sup>4</sup> The term 'thriving condition' is used to indicate a housing bubble. The term 'booming' was not used in this paper, because the housing market in Vietnam has not experienced boom and bust cycles yet. Speculation is a dominant characteristic of the 'thriving condition'.

<sup>5</sup> The 1954 Geneva Conference ended France's colonial presence in Vietnam and temporarily divided the country into 2 states at the 17th parallel, establishing the Democratic Republic of Vietnam—a Communist-based state in the North—and the Republic of Vietnam—the French-protected and later American-supported state in the South.

profit (Phe, 2002: 478). Buying and selling land was prohibited, allowing only for transfer through inheritance (National Assembly of Vietnam, 1987). Hence, a proper urban land market did not develop, despite some informal transactions (Do & Iyer, 2003: 6). The Land Law of 1993 constituted a step to release urban land into the land and housing market.

#### *The 1993 land law and land-Use-right certificate issuance*

The land and housing market was initially constituted by the Land Law of 1993. The law granted six rights to households—namely, transforming, transferring, leasing, inheriting, mortgaging, and the right to receive compensation in case of expropriation. The implementation of the land law consisted of the provision of land titles in the form of LURCs to households and organizations. Reportedly, this law initiated an extensive agricultural land titling program in Vietnam with almost 11 million land titles issued by 2000, which covered 90% of farm households, making this one of the largest rural titling programs in the developing world. In comparison, 8.7 million land titles have been distributed in Thailand since the early 1980s, 1.87 million in Indonesia between 1996 and 2000, and 1.2 million in Peru (Do & Iyer, 2007: 2).

Additionally, the 1993 Land Law extended the duration of tenure security to 20 years for annual and 50 years for perennial crops (Deininger & Jin, 2003: 3). Both efficiency and equity benefits have resulted from such reforms (Deininger & Jin, 2003). The reforms helped Vietnam to increase its share in a number of agricultural export markets, making it one of the fastest growing economies in the world during the 1990s.

Although agricultural land reform was a success, in urban areas, only 16% of land users were issued certificates by 2003, and the process is not expected to be completed by 2010 (Do & Iyer, 2003: 9). Lai (1996) argues that wars, regime changes and weak local administration have induced land titling chaos in Vietnam's urban centres. Phe (2002: 478) states that, although transactions of housing units before 1994 followed market logic, transactions were more unstable than those in a conventional market economy. The most important reason was that land and housing were not combined into one property. The 1991 Housing Ordinance noticeably stated that housing land belongs to the State, although private ownership of housing on land is confirmed. In transactions by 1994, a land lot was not accompanied with a house (on such land lot) as a property (National Assembly of Vietnam, 1987). Since buying and selling of land was banned, the transaction of a private house too complicated, in the sense that a new owner of a transacted house might not be the tenant of the land lot on which the house exists, unless the State allocated the land lot to her/him. Until 1994, Decree 60-CP combined housing and land into one housing property assured by a legal title known as Building Ownership and Land-Use-Rights Certificate (BOLURC) for both building and land (Government of Vietnam, 1994a). The uncertain property rights in 'transitional period' between the 1991 Housing Ordinance and the 1994 Decree 60-CP created ideal context for illicit constructions in peri-urban and rural areas (Ho Chi Minh City's Communist Party, 1998).

Afterwards, many illicit transactions were notarized at the *de facto* local authority under formalization process. The term 'legal paper' refers to a document that can be used to apply for legal titles (Kim, 2004). Accompanied by the rapid influx of transient migrants in 1990s, the process of conversion of farmland in the peripheral areas to urban use was accelerated (Ha & Wong, 1999: 302). Table 1 illustrates that housing in peri-urban and rural areas was chaotic, since 75.4% of houses had no legal papers. Accordingly, the Land Law of 2003 intended to pave a way for establishing a land and housing market in Vietnam (see Fig. 1).

**Table 1**

Legal conditions of housing according to the Housing Census in Ho Chi Minh City in 1999.<sup>a</sup>

Housing in Ho Chi Minh City	Legal conditions of housing						Total	
	BOLURCs		Legal papers		No legal papers		No.	%
	No.	%	No.	%	No.	%		
State-owned houses	53,217	64	29,950	36	—	—	83,167	100
Private houses	44,408	5.2	222,364	29.5	587,409	68.7	854,181	100
Total	97,625	10.4	252,314	26.9	587,409	62.7	937,348	100
Houses in peri-urban & rural areas within the total	—	—	137,084	24.6	419,283	75.4	556,367	100

<sup>a</sup> The Population and Housing Census is conducted every 10-year in Vietnam (in 1979, 1989, 1999, and 2009). The result of Population and Housing Census of 2009 is under-processing and will be announced in 2010. Source: compiled from People's Committee of HCMC, 2002 and Statistical Office of HCMC, 2000.

#### *The 2003 land law – LURC as a trading instrument in the real estate market*

Land is still conceptually owned by "the whole of the people", and the State continues to own, control and distribute land and administer the user's rights (National Assembly of Vietnam, 2003). The 2003 Land Law grants further rights to use land as a gift and a resource input in business, as well as to claim for compensation when land is acquired by the Government for development. The key principle is that all the rights adhered to land use are subject to the fulfilment of the obligations (Han & Vu, 2008: 1105).

This system is quite similar to the system of LURs in China, since the Chinese state is the single supplier of land. However, a land supply market mechanism and a land banking system as established in China since 1996, is absent in Vietnam. In China, State-Owned Enterprises and government institutions can no longer enjoy the privilege of allocated land (Tian & Ma, 2009). Moreover, the way of acquiring land has greatly changed over time. During the 1980s and most of the 1990s, LURs were acquired through negotiation, tender and auction. Negotiation provided local governments in China with large discretion of establishing land prices. In order to eliminate under-the-table negotiations and to create a fair and transparent land transaction system, tendering and auctioning were gradually introduced into the land supply system in coastal cities such as Shanghai, Guangzhou and Shenzhen in the late 1990s. It is compulsory to supply land for commerce, tourism, recreation, finance, services and housing (for sale) through auction or tender from July 2002 (Tian & Ma, 2009).

Meanwhile, in Vietnam land is acquired from original land users and allocated for developers of real estate projects by the State, based on a government land-price framework that does not adhere to market principles. Once developed, land is transacted between developers and buyers based on the prevailing market price. In other words, the original LURCs holders do not get a chance of getting any benefit of the real potential value (market value) of land that they are compelled to hand back to the government. Although this separate price system<sup>6</sup> on land is intended to encourage capital

<sup>6</sup> Government land price in the primary market (between the government and land users) is determined in land-price framework, according to type of land (agricultural, forestry, aqua-cultural, rural, peripheral, and urban land), region (mountain, midland, and low land areas), class of land, category of urban land, and adjacent to business districts. Meanwhile, market land price is considered in secondary market (or actual price of a transaction in free market) between land users.

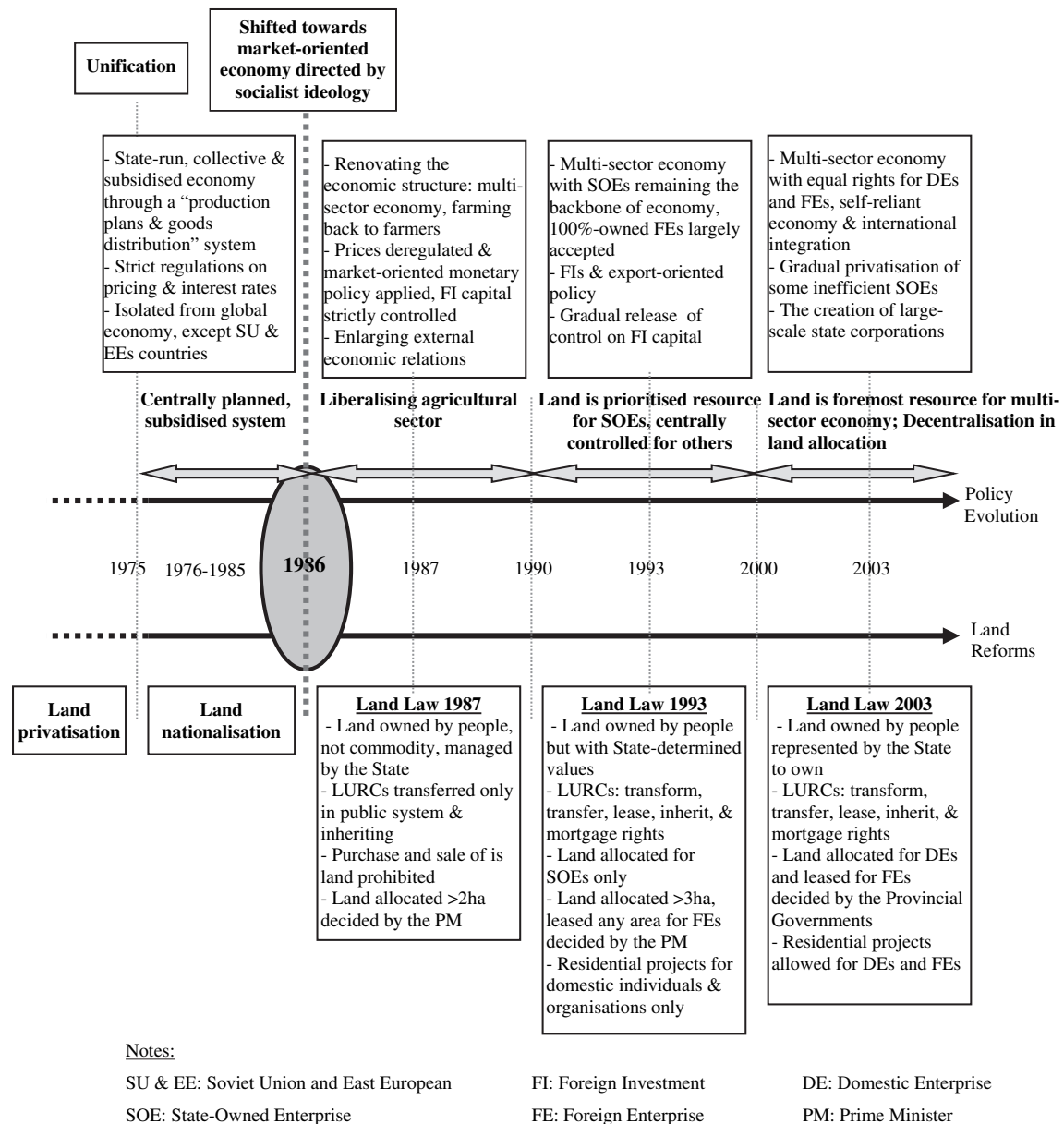


Fig. 1. Land reforms vis-à-vis policy evolution in Vietnam.

flow to stimulate economic development, it abandons original LURCs holder who lose the benefit of a transaction.

Fig. 2 explains the mechanism of transaction involving the two-price system. In reality, this system has led to prolonged conflicts

over land acquisition in Vietnam. The ambiguity of two-price system for land and its consequences in the land and housing market in Ho Chi Minh City are analyzed in the next section.

### Two-price system on land

One of the major principles of the *Doi Moi* Policy of 1986 is price management (Vylter, 1995). Generally, the land price in a market economy is decided by supply and demand relations. The State intervenes in the land market through tax policy, socio-economic plans, etc., but not through the direct control of land prices. However, in Vietnam since 1993, the LPF has been used by the State with the initial purpose of orienting the market price of land. The State utilized the LPF as a tool for all land-related valuations in the country such as land allocation, renting land to users, compensation for site clearance to displaced users, using land as a resource input in joint-venture enterprises, and calculating of tax when land is transferred to a new land user (Han & Vu, 2008).

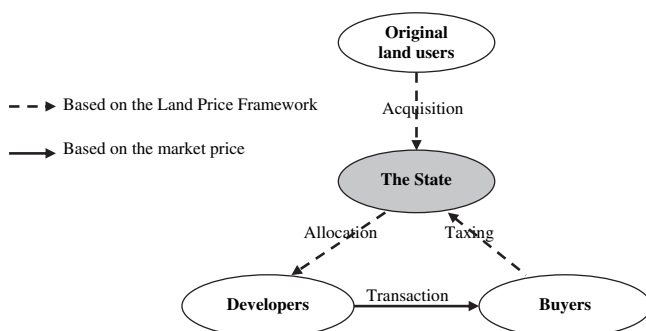


Fig. 2. The illustration of two-price system on land.



Table 2 illustrates the differences between land prices of land lots in a residential project in Ho Chi Minh City in specific times 2006 (developer started to sell land lots) and 2009 (when it was visited in June 2009). Although government price has also increased by two times in 3 years, the market price of land lots in this project has increased by almost 3 times during the same period. The two-price system on land helps the government in controlling the accessibility of land for developers and attracting more investments.

In Vietnam, access over land<sup>7</sup> has been a sensitive issue, in the sense that there has been a lingering fear of foreign and private dominations. People have bitter memories of tensions between tenants and landlords during the French and American land regimes (Dixon & Kilgour, 2002: 605). Dixon and Kilgour (2002) also point out that by 1998, Vietnam was classified as the most difficult and stressful environment for FDI in the Asia-Pacific region. Meanwhile Sumner (2008: 239) argues that numerous policy changes in developing countries have been enacted to make the investment environment more favourable to FDI in the 1990s. Most foreign investors were either obliged, or found it necessary to establish joint ventures with Vietnamese partners, especially with the State-Owned Enterprises (Dixon & Kilgour, 2002: 602). Thus, they could have access to land through the contribution of the Vietnamese counterpart.<sup>8</sup> As stated above, the supply side of land was totally in the hands of the State until 2003, since land compensation and site clearance were administered by Government authorities under the LPF. If only one price for land (valued under market principles), land supply is no longer in the hands of the State as revealed by all 16 related officials who were interviewed.

A Deputy Director of Department of Construction stated that “if there is only one price, capitalists are able to come and purchase whole of Saigon. How can we manage our sovereignty in this situation?” This is an overstatement from a senior official. However, this statement implies concerns of the Government on domination of foreigners over land. The regulation on access over land in freehold LURCs (Vietnamese people/organizations) and leasehold LURCs (foreign organizations) in Vietnam proves this argument (National Assembly of Vietnam, 2003).

However, low land-price policy has been used as a key factor for encouraging investments for economic development. A Vice Chairman of People's Committee of Ho Chi Minh City stated in the interview that “the low land price policy in government price imply the low cost of investments for developers, especially FDIs. Furthermore, public security and public welfare projects, especially infrastructure projects, which mostly implemented by the State, have to use government price for land acquisition.” Such investments also bring more job opportunities and public benefits for local people. Admittedly the significant differences in two-price system for land lead to difficulties in land acquisition. Furthermore, the change of land acquisition policy in residential projects, where developers have to negotiate directly with original land users about compensation has led to disputes in compensation for land earmarked for public security, public welfare, and residential projects. These will be further discussed in next sections.

**Table 2**

Government land price and market land price in Phu My land sub-division project in Ho Chi Minh City.

Government land price in 2006 <sup>a</sup> (VND1000/sq.m)	Selling price of land lots in 2006 <sup>b</sup> (VND1000/sq.m)	Government price in 2009 <sup>a</sup> (VND1000/sq.m)	Selling price of land lots in 2009 <sup>b</sup> (VND1000/sq.m)
1200–1600	8000–13,000	2200–3300	23,000–25,000

<sup>a</sup> Government land prices were collected from the Land-Price Framework of Ho Chi Minh City in 2006 issued on 27 Dec 2005 (Decision 227/2005/QĐ-UBND of Ho Chi Minh City People's Committee) and the Land-Price Framework of Ho Chi Minh City in 2009 issued on 20 Dec 2008 (Decision 89/2008/QĐ-UBND of Ho Chi Minh City People's Committee).

<sup>b</sup> Selling prices of land lots were collected at the sale office of the developer of project in June 2009.

The State recognizes the difference in the two-price system for land. Since 2003, official land prices have been required ‘to be issued by the Provincial Government annually on the 1st January based on the price framework that was a close match to the market price’ (National Assembly of Vietnam, 2003). Then, in the case of a “large difference between price framework and real transaction price in the market, the LPF should be adjusted annually by the Provincial Government.” The LPF was supposed to be around 70% of the market price. However, Table 3 illustrates the extremely low of government land price, even using a maximum of K ratio<sup>9</sup> (1.2), than land market price in Ho Chi Minh City. Consequently, such difference leads to conflicts in land acquisition throughout the country, especially on land price for compensation of displaced land users by developers and public authorities.

### Conflicts in land acquisition

In Vietnam, land acquisition is the only way to obtain land for projects. The conflicts in land acquisition usually involve three parties. They are residents whose lands are being acquired, developers who are allocated the lands acquired for developing residential projects, and Government authorities (Han & Vu, 2008). The ‘rights’ over lands are acquired from displaced/original land users by the State and such ‘rights’ are allocated to developers for residential projects. In Ho Chi Minh City, not many land users hold legal titles (LURCs and BOLURCs) or legal papers, especially in peri-urban and rural areas as discussed. Therefore, land users have no ‘rights’ on lands, which have been illicitly transacted, but they have ‘rights’ on housing ownerships, although such houses were illegally constructed. Large number of illicit land transactions and illegal housing constructions on such lands, therefore, contribute to chaos in land acquisition in Ho Chi Minh City as well.

According to another Vice Chairman of Ho Chi Minh City's People's Committee, there have been more than 25,000 land-related complaints during the period 2007–2008. More than 80% of these complaints concerned compensation, site clearance, and resettlement. Main reason was identified in relation to land prices used for the compensation of displaced land users. However, only 61% of land-related complaints have been solved. The remains of complaints (39%) have not been solved and that lead to accumulated complaints in following years. The reasons behind these complains according to this Vice Chairman are; different land policies and complicated land tenure systems in history, illegal housing constructions, and illicit land transactions. In addition,

<sup>7</sup> ‘Access over land’ means the access to Land-Use-Right Certificates (LURCs) in freehold. In theory, socialist ideology opposes over speculation/domination on resources, especially means of production as land.

<sup>8</sup> The Vietnamese counterpart in Joint Venture Investment contributes to total investment by the Land-Use-Rights Certificate of land lot (valued normally 20–30% of total investment) for development projects. The LURC in this case is issued as long-term leasehold of land in joint venture period (30 years, 50 years or 70 years). In some specific case, 100% of foreign investment is allowed based on long-term leasehold of land as well.

<sup>9</sup> Variable K ratio (0.8–1.2) adjusts the price table according to different locations of land lots (Government of Vietnam, Decree 87-CP, 2004). For example, government land price is fixed for land lots along a street, but some certain land lots are nearby intersection that have higher price by multiplying with maximum of K ratio (1.2).

**Table 3**

The government price and market price in Ho Chi Minh City in 2009.

Location	Land price (VND1000/sq.m)		Ratio
	Maximum of Government price <sup>a</sup>	Maximum of asking price <sup>b</sup>	
Central Districts			
Hai Ba Trung street, District 1	48,400	293,000	600%
Tu Xuong street, District 3	22,000	213,000	970%
Urban Districts			
Dinh Bo Linh street, Binh Thanh Dist.	12,500	79,200	640%
Dat Thanh street, Tan Binh District	6400	66,700	1040%
Peripheral Districts			
Do Xuan Hop street, District 9	3500	40,000	1140%
Ha Huy Giap street, District 12	4400	32,000	730%
Rural Districts			
Le Van Luong street, Nha Be Sub-district	2200	28,700	1300%
Nguyen Thi Ranh street, Cu Chi Sub-district	660	2000	300%

<sup>a</sup> The government price of land was collected (the maximum price of land along certain streets) from the Land-Price Framework of Ho Chi Minh City in 2009 issued on 20 December 2008 (Decision 89/2008/QĐ-UBND of Ho Chi Minh City People's Committee).

<sup>b</sup> The asking price (Asking prices of land lots and properties close to market price since sellers announcing selling prices in real estate agents based on their expected prices to sell and consultancies of reasonably sellable prices from real estate agents.) of land lots/properties on the streets was collected from some real estate agents.

the conflicts over land prices exacerbated by the fact that the Government accepts only the compensation price of acquired land based on the LPF in existing land use (National Assembly of Vietnam, 2003); while, displaced land users claim a “close match to the market price related to future price of projects”.

There have been 18,000 complaints relating to land disputes submitted to Governmental Inspection Agency from 1996 to the end of 2005.<sup>10</sup> Similarly, 83.4% of such cases have not been resolved due to accumulation of complaints and the shifting of land-price policy. Table 4 shows that complaints related to land price in the land acquisition process have increased from 800 (during the period 1993–1995) to 12,708 cases (during the period of 1996–2005). At the early step of the land and housing market in 1993–1995, government price and market price were not much different. Since 1996, the difference in two-price system has been significant that led to sudden increase of complaints (MoNRE, 2008).<sup>11</sup>

The difference in two-price system on land creates ‘rooms’ for discretion of related officials in land acquisition due to ambiguities in land tenure system in Ho Chi Minh City. Their discretion expanded in applying appropriate official land price for compensation of properties without legal titles and legal papers, especially the cases of illicit land transactions and illegal housing constructions in peri-urban and rural areas of Ho Chi Minh City (MoNRE, 2008). Developers also enjoy benefits directly from two-price system on land. Two-price system thus brings opportunity for coalition between two parties (i.e. developers and related officials)

<sup>10</sup> At central level, there is no official data of complaints over land announced after 2005. It was explained that land-related complaints should be solved at the provincial level of government, not at the central level of government from 2006. The complaints first were submitted to District or Provincial People's Committee. If complaints had not been solved, they were re-submitted to the higher level of government at the Governmental Inspection Agency. Rarely, people have brought complaints to Courts.

<sup>11</sup> MoNRE (2008), ‘Lawsuits on land in Vietnam’, Report to the Central Government.

**Table 4**

Comparative data of complaints, accusations, disputes regarding land in Vietnam.

Land-related complaints	Number of complaints submitted to Governmental Inspection Agency		% increase
	1993–1995	1996–2005	
Old land claims	800	1224	150%
Complaints on land acquisition	800	12,708	1590%
Land dispute	200	1548	770%
Accusations of violations of land laws	100	1800	1800%
Other cases	100	720	720%
Total	2000	18,000	900%

Source: compiled from MoNRE, 2008.

involved to benefit from land acquisition. Displaced land users are the only party that is disadvantaged in land acquisition.

In the interviews of 75 employers/employees based on a multiple choice question, “Have you/your company experienced issues listed below in land acquisition process?”, diverse answers were revealed. The answers are given in Table 5. In terms of land acquisition, all 75 developers admitted that they got difficulties in negotiation with original land users about prices for compensation. Although developers started to negotiate on the basis of the LPF, most of developers complained about “much higher price than the LPF for compensation” since they negotiated without the help of Government authorities.

Original land users also claimed prices for compensation following future land use (when housing projects will be completed) instead existing land use of their lands that lead to difficulties in negotiation. This is the risk faced by developers when they negotiate directly with original land users following market principles. Complicated tenure systems in history such as illicit transactions, illegal constructions, legal papers, and legal titles led to difficulties in land acquisition of 96% of developers. According to the interview findings 63 out of 75 developers claimed that without help of Boards of Compensation & Resettlement, the time schedule for land acquisition were expended and difficult to negotiate land price for compensation with original land user, due to the fact that original land users claimed land price for compensation of future land use, not existing land use.

Another multiple choice question was related to comments/suggestions on land acquisition and used to test the favour of developers in land acquisition (see the result in Table 6). About 84% of interviewed developers expected to return the role in negotiation for compensation in residential projects back to the Government authorities (Board of Compensation and Resettlements) as it was before the 2003 Land Law (see details in the next section). Meanwhile, only 12 foreign-related developers out of 75 developers agreed with two last choices, which bring ‘third parties’ into land acquisition. The ‘third parties’, in theory, can facilitate the process of

**Table 5**

Difficulties of land acquisition in residential projects in Ho Chi Minh City (N = 75).

Issues leading to difficulties in land acquisition	Frequency	Percentage
Difference in market price and government price of land	75	100%
Complicated tenure system: legal titles, legal papers, illicit transactions, illegal constructions, etc.	72	96%
Without help of Board of Compensation & Resettlement: time expended and difficult to negotiate	63	84%
Conflicts in price compensation of Existing land use or Future land use	47	63%

Source: data reduction based on answer for a multiple choice question.

**Table 6**  
Comments on land acquisition from 75 developers of housing projects (N = 75).

Suggestions on land acquisition	Frequencies	Percentage
Necessary to handle compensation by Board of Compensation & Resettlement	63	84%
Need of professional authorities to handle compensation and site clearance issues	7	9%
Need independent Appraisal companies to value property and determine price	5	7%

Source: data reduction based on a multiple choice question.

land acquisition more transparent, more efficient, and more reasonable. However, without the help of *de facto* local officials, who notarized illicit transactions and illegal constructions in complicated land tenure systems in history, the ‘third parties’ would not really facilitate as revealed further by interviewed developers. In addition, 63 developers preferred backing to previous model of land acquisition that implies the favour of developers in two-price system for land, which directly granted benefits for them.

The difficulties in land acquisition due to two-price system for land, lead to a lack of available land for residential projects in particular and development projects in general. The lack of land for residential projects in supply, in turn direct high market price of land compared with official government price, although government price is updated every year.

### Lack of land for residential projects

The main duties pertaining to compensation and resettlement of displaced land users are in the hands of the District/Sub-district level People’s Committee where the site of a project is located. The discharge of these duties is supervised by a Provincial level People’s Committee. The Board of Compensation and Resettlement is established and dissolved for each project.<sup>12</sup> Moreover, residents whose land is acquired have to be resettled in resettlement areas with better conditions in terms of social and infrastructure services than had existed in the expropriated areas as regulated in the 2003 Land Law (National Assembly of Vietnam, 2003). Resettlement projects are public projects and launched by the Provincial level People’s Committees. These lead to accumulated difficulties in terms of land acquisition as well. It is a vicious circle since land for resettlement projects for displaced people cannot be acquired due to the two-price system; in return, lack of land to be acquired for resettlement areas that leads to more difficulty in acquiring land for development projects.

As a result of this chaotic situation, projects have been divided into two groups for compensation since 2003. This, however, leads to differences between land prices for compensation in public security or public welfare projects, including projects with foreign investments (group I) and private projects (group II).<sup>13</sup> Obviously, most land users in group I of projects have opposed the compensation prices offered to them as revealed by interviewed officials in

Management Authority of Saigon South New Development Area, People’s Committee of District 7, and Binh Chanh Sub-district.

In Ho Chi Minh City, for example, an official in People’s Committee of District 7 stated that “original land users in group I of projects are compensated at most VND 162,000/sq.m for their agricultural land, while in group II of projects, developers offer VND 800,000–1,000,000/sq.m.” A Vice Chief of the Office of Natural Resources and Environment in Management Authority of Saigon South New Development Area pointed out that “Such opposition has strongly increased in the cases where two projects (one in group I and one in group II) are nearby. The original land users have the chance to compare the receivable compensation. Consequently, many projects in group I and group II in Ho Chi Minh City have not been able to acquire land for implementation, especially for projects in group I, which use the LPF for compensation. Similarly, on the side of projects in group II, the swift change from the LPF to market price basis of compensation leads to complexities in land acquisition.” Those lead to a difficult situation in land acquisition of residential projects in Ho Chi Minh City. The results of the survey of 494 projects are presented in Table 7.

It shows that land for 149 residential projects (around 30%) among 494 projects, which were implemented during period of 1996–2006, could not acquire land or could acquire only half of land; meanwhile 14 projects acquired only half of land but start to construct infrastructure system. There are two major reasons that remarked by the developers of these 163 projects. Firstly, in 74 abandoned projects, developers had to negotiate by themselves about land prices for compensation since they started to acquire land after 2003. Thus, they faced difficulties in negotiation following market price with original land users. Secondly, in 89 projects (75 + 14) acquired half of land, developers depended on land acquisition of the Board of Compensation and Resettlement before 2003. However, until 2003 only half of land was acquired. Afterwards, the developers have stuck in negotiation with original land users following market price. Moreover, some displaced land users, who got compensation in first period (before 2003), came back to claim for more compensation in comparison with land price for compensation in second period. Those lead to difficulties in land acquisition.

In addition, 106 projects (21.5%) acquired whole land, but did nothing of construction infrastructure system and building. Meanwhile, 197 projects (39.8%) out of total 494 residential projects have acquired whole land and started to construct infrastructure system and buildings on their land. Most impressively, Table 7 shows that only 5.67% of residential projects have been completed during the period 1996–2006 in Ho Chi Minh City. The total number of residential projects was launched in order to fulfil the demand of residential units; meanwhile the number of completed projects reflects the supply of residential units in the land and housing market in Ho Chi Minh City. Hence, the limited residential units have been completed and supplied to the market that proves a serious imbalance in the supply and demand of land in the land and housing market. Consequently, lack of land in the real estate market for developers is a crucial problem in Ho Chi Minh City, and it is explained by the fact that only around 30% of the registered FDI capital has been implemented annually in Ho Chi Minh City, according to the Chief of Office of Foreign Direct Investment in Department of Plan and Investment. The real problem exists in the two-price system for land. Meanwhile, the two-price system is also the reason for high demand in the land and housing market in Ho Chi Minh City.

### High demand and the ‘thriving condition’ in the land and housing market

The land and housing market in Ho Chi Minh City has characterized high demand for land in the recent period. Several reasons

<sup>12</sup> Normally, each Board of Compensation and Resettlement has at least 12 representatives, including at least 9 from the District/Sub-district People Committee, 1 from local authority (Ward/Commune), 1–2 from displaced land users, and 1 from the developer of the project (Government of Vietnam, 2007, Decree 123-CP).

<sup>13</sup> The government divides projects into two groups for compensation under the 2003 Land Law. Firstly, if a project is identified as public security, public welfare, productive or foreign-related investment (group I) the State has a duty to launch land compensation and resettlement based on land-price framework with the District/Sub-district People Committee as the major representative. Secondly, if a project is not identified with any of the above purposes (group II), the state lets the developers negotiate directly with original land users in terms of land compensation and resettlement based on market price of land without the help of Board of Compensation and Resettlement. Science parks, industrial zones, etc. are in the group I, and residential projects are in the group II.



**Table 7**

Rate of completion of residential projects in Ho Chi Minh City (1996–2006).

Residential project in HCMC	No of project	% of total number	Total area (m <sup>2</sup> )	% of total area	Completed number of projects								% of completed projects
					0	0	0>	⊗	⊗>	▶	▲		
Total in the whole city	494	100%	53,034,286	100%	74	75	14	106	104	93	28	5.67%	
By public companies	273	55.26%	31,028,276	58.51%	55	52	10	46	47	45	18	6.59%	
By private companies	216	43.72%	14,506,510	27.35%	18	20	4	60	57	47	10	4.63%	
By JV companies	5	1.01%	7,500,000	14.14%	1	3				1		0.00%	
In Central Districts	DISTRICT 1, 3, 4, 5, 6, 10, 11 AND PHU NHUAN DISTRICT												
By public companies	35	7.09%	434,448	0.82%	13	8	1	4	2		7	21.21%	
By private companies	4	0.81%	12,323	0.02%		1		1			2	50.00%	
In Urban Districts	DISTRICT 8, BINH THANH, GO VAP, TAN BINH, TAN PHU, BINH TAN DISTRICTS												
By public companies	53	10.73%	1,717,782	3.24%	10	8	4	2	19	5	5	9.26%	
By private companies	26	5.26%	1,325,097	2.50%	2	3	4	4	11	2	0	0.00%	
In Peripheral Districts	DISTRICT 2, 7, 9, 12, THU DUC DISTRICT, HOC MON, BINH CHANH SUB-DISTRICTS												
By public companies	171	34.62%	26,902,055	50.73%	31	33	5	33	26	37	6	3.51%	
By private companies	173	35.02%	12,335,057	23.26%	16	15		49	44	41	8	4.62%	
By JV companies	5	1.01%	7,500,000	14.14%	1	3				1		0.00%	
In Rural Districts	NHA BE, CAN GIO, CU CHI SUB-DISTRICTS												
By public companies	14	2.83%	1,973,991	3.72%	1	3		7		3	0	0.00%	
By private companies	13	2.63%	833,533	1.57%		1		6	2	4	0	0.00%	

Notes: O: Abandoned; Ø: Compensating around half of land acquiring; ⊗: Whole land acquired; >: Under construction of infrastructure system; ▶: Under construction of buildings; ▲: Completed. Source: author's analysis based on checklist and unprocessed data from Department of Natural Resources and Environment and Management Authority of Saigon South New Development Area.

for this demand have been identified. First of all, low land price is used as a key factor in encouraging foreign capital. FDI registered in the real estate sector of Vietnam in 2007 and 2008 totalled around US\$6.1 billion and US\$33 billion, respectively. From 1988 to 2006 it was only US\$8.1 billion (GSO, 2009: 104–111). In Ho Chi Minh City, the registered FDI capital increased from US\$2.33 billion to US\$8.4 billion in 2007 and 2008 (see Fig. 3), meanwhile FDI registered in the real estate sector of Ho Chi Minh City achieved US\$1.86 billion (80%) and US\$7.73 billion (92%), respectively (SOH, 2009). Moreover, new Decree 84-CP-2007 stipulates that foreign enterprises are allowed to lease land up to 70 years instead of 50 years for their businesses. Therefore, global real estate consultancy companies (for example CB Richard Ellis) agreed that “this Decree helps Vietnam becomes one of the most open real estate markets in Asia”.

Secondly, the Ministry of Construction (MoC) reports that the level of urbanization in Ho Chi Minh City will reach around 30–32% in 2010 and 55–65% in 2020 (MoC, 2008a).<sup>14</sup> Therefore, the demand for both land and housing will be high. The national socio-economic plan 2005–2010 estimates that from 2007 to 2010, Vietnam needs 366 million m<sup>2</sup> of housing, including 176 million in urban areas and 190 million in rural areas. Meanwhile, Ho Chi Minh City solely needs estimated 104 million m<sup>2</sup> of housing (MoC, 2008a).

Furthermore, GDP growth rates were persistent around 10% during the period 1997–2008 as well as GDP per capita in Ho Chi Minh City was US\$2534 in comparison with US\$795 in the whole country in 2008 (SOH, 2009). Those infusions lead to increase in living standards of households in Ho Chi Minh City and contribute to a real demand of better quality of housing. However, the increases in urbanization level and living standards are not the most important reasons that have contributed to the ‘thriving condition’ in the land and housing market in Ho Chi Minh City (Vietnam Program, 2008). If they were, the land and housing prices should be equal with people's incomes. However, in reality, with GDP per capita US\$2534, common people in Ho Chi Minh City need

several years for available to buy a middle-level housing unit (Vietnam Program, 2008). Another important reason is the abundant in informal resources of finance such as household saving, overseas remittance, etc.; meanwhile the profit from speculation on land and housing units was too attractive (Vietnam Program, 2008). Fig. 4 illustrates the ‘thriving condition’ of prices of housing units in condominium from 2003 to the end of 2009. The prices got their peaks in quarter 1 of 2008 and gradually decreased since then. However, the prices at the end of 2008 were still double times compared with the prices in 2006. Therefore, the profit from speculation was too appealing (see further in Table 8).

It is noteworthy that the Government controls carefully capital accounts that come into the land and housing market. The interest rate of mortgage loans for real estate development in 2009 in Vietnam is 13%, compared to 1, 3, 5, and 7% in the UK, Singapore, the US, and Thailand, respectively (Anh, 2009).<sup>15</sup> Such interest rate even was rose to 21% in four months (Jun–Sep) in 2008. Meanwhile, Fig. 3 shows that the overseas remittance to Ho Chi Minh City through official channels even was higher than the registered FDI capital during the period 2003–2007 and achieved US\$5 billion in 2008. Moreover, an official in the National Bank of Vietnam in Ho Chi Minh City, estimated that “the gold savings outside the bank system (at households, gold shops, etc.) has been around 700–800 tons, to the value of US\$21–24 billion (700–800 tons of gold × US\$30 million/ton). During 20 years (1988–2008) Vietnam officially has imported more than 500 tons of gold for the domestic gold market and has not re-exported.” It is notable that the national savings of Vietnam announced by the Government is around US\$20 billion as revealed by the official.

According to the interviews, 75 developers estimated that roughly less than 5% of their customers needed loans from banks for their transactions. More than 95% of their customers were identified that their transactions were paid “by cash”. In these cases, the developers knew nothing about financial sources of their buyers. Meanwhile, only 1% of 120 interviewed buyers revealed that they used mortgage loans for their transactions. Around 99% of

<sup>14</sup> MoC (2008a) ‘Sustainable urban development in Vietnam’, Annual report to the Central Government.

<sup>15</sup> Anh, L. (2009) ‘The problem of mortgage loans in Vietnam’, SGTT, 29 June 2009 <http://www.sgitt.com.vn/Default1.aspx?ColumnId=1> (available on 11 July 2009).



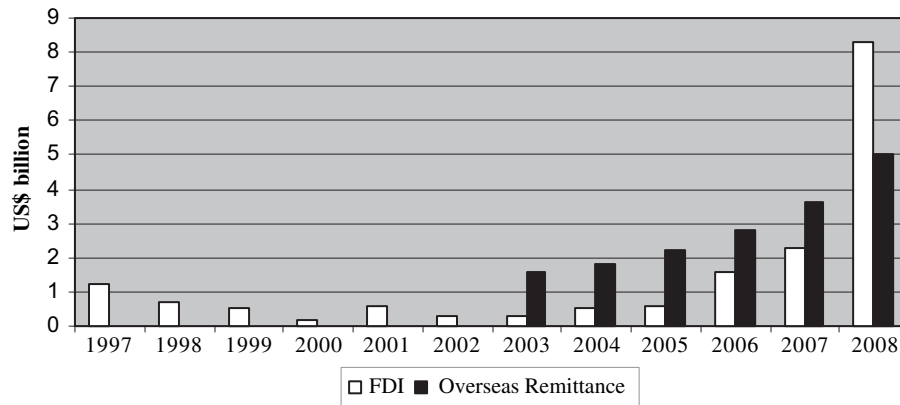


Fig. 3. FDI and Overseas Remittance in Ho Chi Minh City (1997–2008). (Source: SOH, 2009).

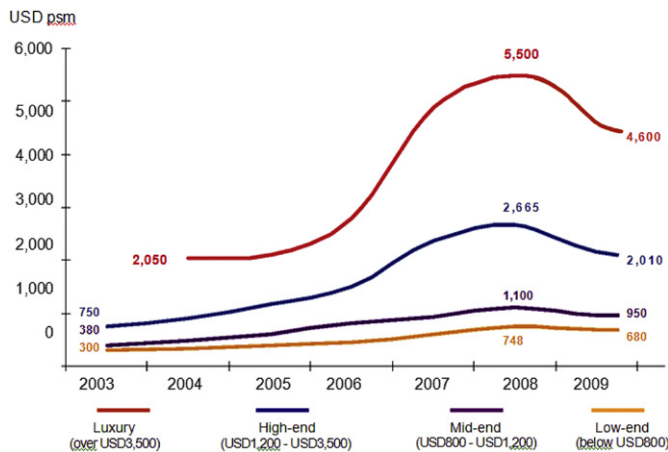


Fig. 4. Change of average condominium price (sorted by grade) in the housing market in Ho Chi Minh City. Source: adopted from CB Richard Ellis (2009). Market study: Office and condominium markets in Hanoi and Ho Chi Minh City (Quarter 4 2008).

buyers answered “their own money” about their sources of finance, although 40% of them revealed that they have their overseas relatives, which implied the source of overseas remittances for their transactions. Vietnamese people have no tradition to use services in the bank system. As revealed by the official, there were only less than 250,000 personal bank accounts (roughly 3% of population) in Ho Chi Minh City until 2008. It is stated that “Saigonians customarily use gold (*vang*) as their savings and both gold and cash currencies for their transactions, rarely using bank accounts.” The high household savings and overseas remittances contribute to speculative demand that lead to ‘thriving condition’ in the land and housing market in Ho Chi Minh City as shown in Fig. 3 and Table 8.

In addition, Table 8 shows that the ‘virtual price’ of residential land reaches 150–300% of the ‘market price’ and even more than 1000% of the ‘government price’ during the period of 2006–2007. In comparison, Tho and Anh (2008) reveal that the average increase of housing price in the United State of America (USA) was only 54% from 2001 to 2005. Those numbers imply the risk in the land and housing market in Ho Chi Minh City.

### Concluding comments

The two-price system for land is used as a key instrument to encourage capital, particularly FDI for development. Meanwhile, the supply of land is still in the hands of the Government. On one hand, this policy has led to high registered FDI in the recent times, particularly in 2008, after Vietnam became a member of the World Trade Organization (WTO).

Table 8  
Market and government land prices in some new urban areas.

Locations	Market price <sup>a</sup> Dec 2006 (VND million/sq.m)	Market price <sup>a</sup> Dec 2007 (VND million/sq.m)	% of change	Government price <sup>b</sup> Dec 2006 (VND million/sq.m)	Government price <sup>b</sup> Dec 2007 (VND million/sq.m)	% of change
<i>Ho Chi Minh City</i>						
<b>Phu My-Van Phat Hung</b> , District 7	11.0	27.0	145%	1.6	2.2	38%
<b>Thai Son</b> , Nha Be Sub-district	5.5	16.0	191%	1.5	1.7	13%
<b>Hong Linh</b> , Binh Chanh Dist.	4.3	13.0	202%	1.15	1.4	22%
<b>Thanh My Loi</b> , Huy Hoang, Dist. 2	16.0	26.5	66%	1.2	1.4	17%
<b>Gia Hoa</b> , District 9	5.5	14.0	155%	0.95	1.2	27%
<i>Adjacent provinces</i>						
<b>Long Tho-HUD</b> , Nhon Trach, Dong Nai Province	1.0	2.5	150%	0.4	0.5	25%
<b>Long Hau</b> , Long An Province	(6/2007) 3.2	6.5	103%	0.45	0.6	33%
<b>Chanh Nghia</b> , Thu Dau Mot, Binh Duong Province	6.7	26.0	288%	0.7	0.9	29%

<sup>a</sup> Vietnam Program, 2008.

<sup>b</sup> Land-Price Frameworks of Ho Chi Minh City, Long An, Dong Nai, Binh Duong Provinces issued on December 2006 and 2007.

On the other hand, the findings prove that the two-price system for land led to lingering opposition to land acquisition throughout the country. This opposition contributes to the lack of available land for development. Meanwhile, demand on available land for development projects has increased significantly. As a result, the seriously imbalanced supply and demand of land creates a 'thriving condition' in the land and housing market in Ho Chi Minh City. This makes land acquisition more complicated due to large differences between the land-price framework and the market price. A vicious circle derived from two-price system on land (two-price system for land – difficulties in land acquisition – lack of land acquired – thriving condition in the land and housing market – two-price system for land) lead to the peculiarly 'thriving condition' in the land and housing market not following market principles. In other words, the ambiguities in land prices direct to the ambiguities in the land and housing market in the land and housing market in Ho Chi Minh City. The Government seems to be trapped by its own laws and regulations.

The Government thus faces the huge pressure of demand for a one-price system. However, such a change will not happen as long as the market-oriented economy directed by socialist ideology is sustained in Vietnam. There are some political constraints for a one-price system. First of all, a one-price system for land may lead to huge compensation for available land for public projects, particularly infrastructure projects, which are mostly funded by the State. Moreover, it is contradictory in the sense that the State has to buy land, which it owns, in the market for investing in public projects. Secondly, there is no reason to keep the supply of land in the hands of the State, since land is transacted only by market price. In this case, the domination of the international portfolio is the greatest concern. Land access is still a very sensitive issue in Vietnam, especially with regard to the foreign sector. Lessons learnt from the 1997 Financial Crisis provide a good argument for supporting the two-price system.

Thirdly, as discussed, high value of registered FDI in recent times support the argument in favour of maintaining the two-price system on land. As proven by reality in the case of the 1986 *Doi Moi* Policy, without facing a 'real disaster', a 'revolution' would not be chosen over a 'midway solution'. In the meantime, the establishment of a land supply market mechanism namely tender and auction, and land banking system like in China can create a fair and transparent land transaction system. In the long-term, one-price system is the solution for an open real estate market in Vietnam. The one-price system may bring market-equivalent compensations for the landowners – who miss out in development windfalls enjoyed by developers at the moment. Conflicts over land acquisition will be no longer a problem due to a fair and transparent land acquisition system. Land supply through tender and auction in land banking system will bring more finance for government revenue. Moreover, tax revenue will be increased due to only market-price transaction system. Most importantly, demand and supply in the

land and housing market will not be distorted and purely follow market principles.

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