Viettonkin Consulting

Foreign Investment into Real Estate and Property of Vietnam

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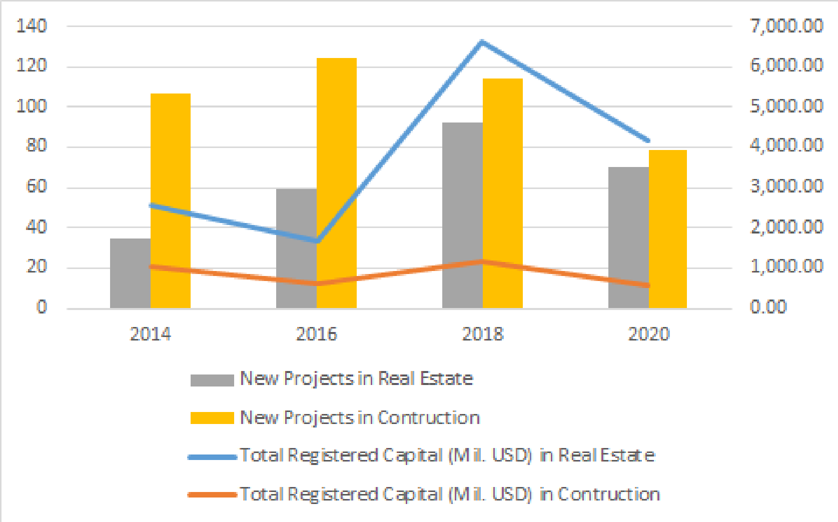
26 April 2021

Introduction

Showing non-stop development despite the Covid-19, the real estate industry maintains to be the second-largest recipient of foreign direct investment in Vietnam. Three main types of properties can be categorized: residential, commercial, and industrial property. The residential property includes housings for living purposes of single or multi-unit families. In Vietnam especially, villas, row houses, and apartments are the main urban housing typologies. Commercial property is a type of investment, so serves as business activities. Offices, retails, leisure, and healthcare centres contribute to this market. With somewhat similar practices, possessions such as parks and zones are considered industrial properties. In this paper, we take a closer look at the impact of Covid-19, geographical, and industrial trends of this sector.

Real Estate FDI in Vietnam History

As stated in “The Real Estate Market Potential 2021”, with nearly 29 billion USD poured into Vietnam in 2021, 14.8% of which is accounted for the real estate industry, illustrating relative increases compared to 2020. Yet, the real estate market has witnessed fluctuating growing phases dating back to 1989 when Vietnam went through a transition from a centrally planned closed economy to a socialist-based market economy due to the Doi Moi policy.



FDI inflows in Vietnam gradually increased since Doi Moi and reached its peak in 1996 that also put an end to the very first phase. Beginning from the first investment in a Ho Chi Minh City's mix-used building after the establishment of the Doi Moi policy, the climate of RFDI in Vietnam remained positive thanks to Amendments in 1992 and 1996 until the Asian financial crisis triggered in 1997. The second phase witnessed an exceptional growth with 13.3 billion USD reached in 2008 before the crash of the Global Financial Crisis. Since then, RFDI fluctuated and decreased substantially until 2013 when it began to recover. The total registered maintained at around 2 billion USD annually from 2013 to 2018 where it entered its third phase. Notably, the 2018 RFDI rose to half of its peak in 10 years after the financial crash with 6 billion USD, which is majorly contributed by the positive global economy fueled by the booming international trade. The pandemic in the end of 2019, however, put a halt to this prominent growth with a decline in both sectors. From January to April 2021, 778 million USD in real estate and 158 million USD in construction FDI is noted, accounting for a 17% and 88% increase respectively compared to the first four months in 2020. RFDI, in general, ranks third in recent years and second cumulatively in the total FDI investment.

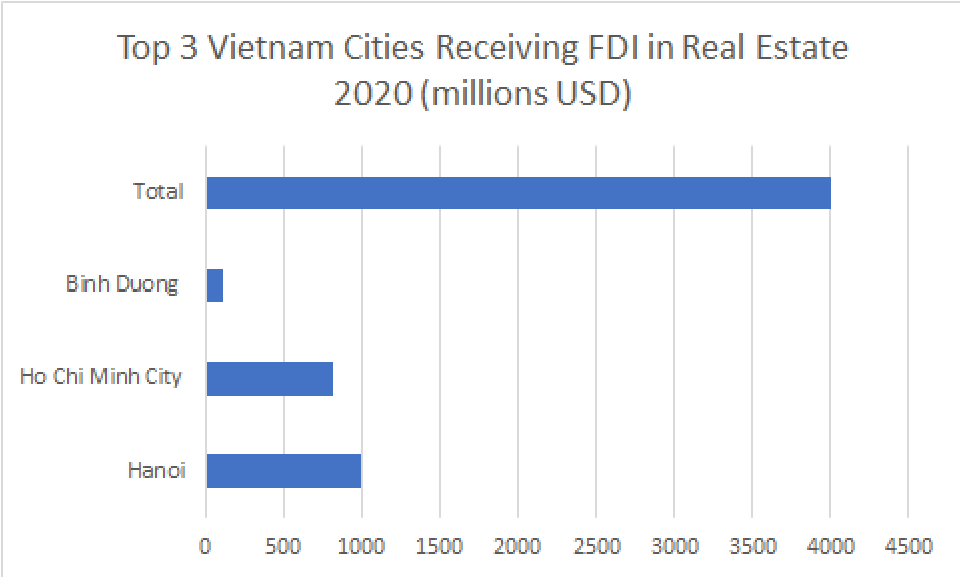
Covid-19 Impacts

Covid-19 has some notable effects on the real estate industry. The total registered capital in the first 5 months of 2020 is only 13.88 billion USD, down 17% compared to the same period of the year. The real estate business activity (real estate) saw a sharp decrease of 42% to 801.25 million USD. According to Hoang from "The Real Estate Market Potential 2021" seminar, among the three types of property, the residential market suffers the heaviest consequence from the pandemic. Development strategies in unit housings need to have immediate advance. Commercial properties are much less influenced because of potential growth in leisure real estate. Contributed by a major amount of foreign investment, on the other hand, the industrial market shows no sign of recession. Investors are, therefore, optimistic about these economic and industrial areas, observed in the rise of land prices. To take advantage of the situation, Vietnam needs to make preparations for its infrastructure condition as well as local workforce when invested.

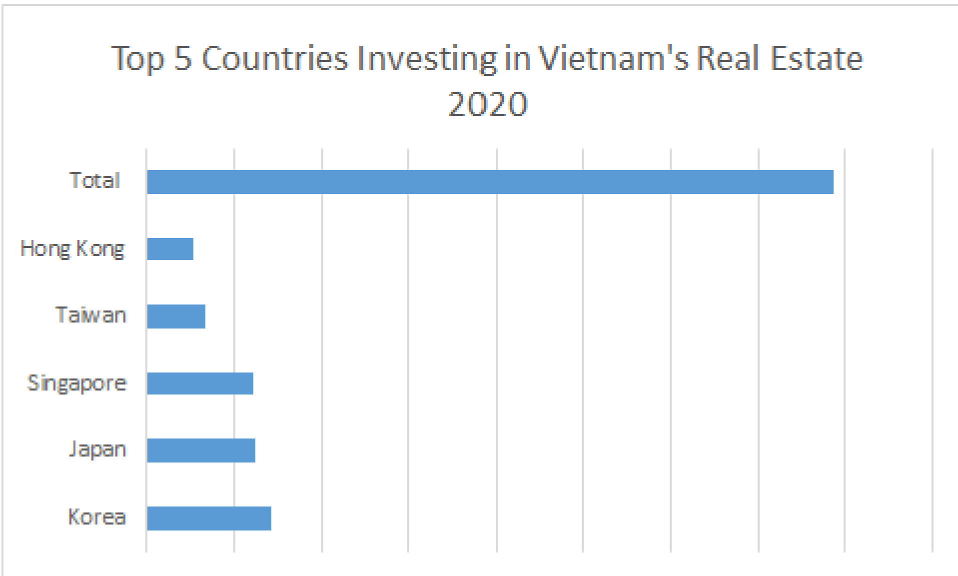
While most parts of the world bear the weight of the economic contraction due to Covid-19, Vietnam proves its steady growth with prospective revivalry thanks to strict measurements since the early stages. Covid-19, in fact, offers a great opportunity for Vietnam to attract foreign investment. The real estate industry is not an exception as real estate prices continue to grow despite the global economic condition. Since the pandemic also witnesses some changes in preferences and tastes, new FDI inflows are invited in the real estate industry. "Vietnam's property market is likely to receive inflows of foreign investment after big countries encourage their companies to relocate manufacturing bases out of China due to the global pandemic" ("Vietnam's property market"). In May 2020, US$2.2 billion is funded by the Japanese government to enact this change. Major international companies such as Apple, Nintendo, and Samsung also have relocated some of their factories to Vietnam since then. In the industrial sector especially, the appearance of Covid-19 also accelerates Vietnam's participation in the global supply chain. This trend is opening up a very wide door, requiring a large supply of real estate in industrial zones.

Geographical Trends

We observe segregated investments among provinces and cities in Vietnam. By FIA, Ho Chi Minh City, Hanoi, and Binh Duong receive the greatest amount of foreign investment regarding all sectors. This aligns with the real estate market.



The rapid growth in GDP over the years, especially with a young workforce, leading to a notable increase in housing demand in major cities such as Hanoi and Ho Chi Minh City. areas where industrial zones are concentrated. Along with the emerging middle-class, there is a rising trend in Vietnam to reside in larger and more environmental-friendly areas: "real estate traders and developers have taken solutions to approach customers, changing the development areas to leapfrog the FDI shifting trend and the trend of urbanization in localities outside big cities." (Vien). Housing demand, for this reason, shifts to satellite urban areas and lays the foundation for the increase in apartments, most significantly are district 2 and district 7 in Ho Chi Minh City. Moreover, Vietnam has a coastline of more than 3,000km with magnificent landscapes, diverse historical, and cultural relics that play a pivotal role in creating incentives for resort construction. As demand continues to outpace supply, especially in key industrial provinces, with occupancy rates reaching 75% in operating industrial zones nationwide, competition among manufacturing zones located close to major cities and major seaports are increasing. Commercial property takes over these regions as a result to serve the local needs. Besides the biggest investment in these three cities, growing investment potentials can also be seen in Long An, Dong Nai, Thanh Hoa (Toan). Overall, "foreign developers' property developments tend to locate on the periphery of the city and are formed in clusters." (Jung)

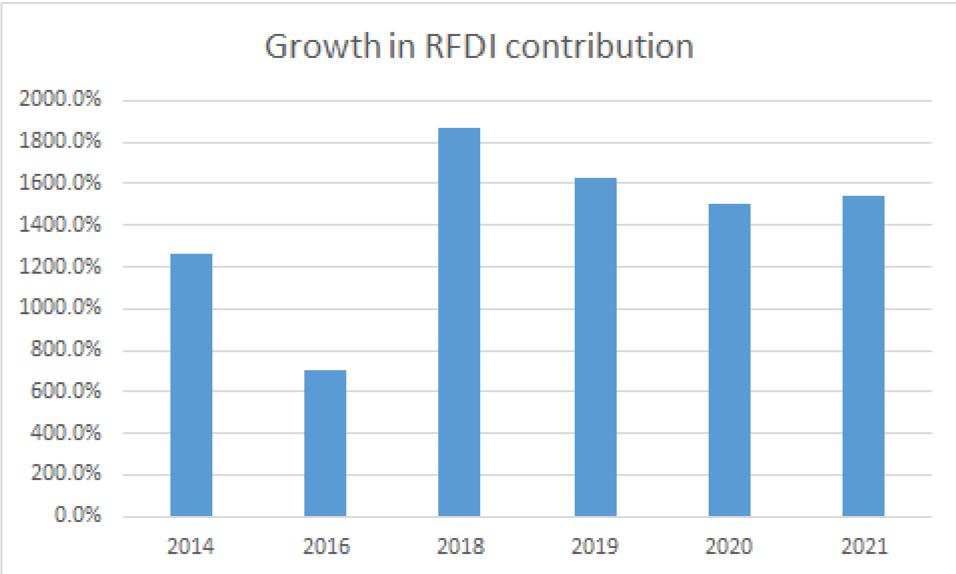


Since Doi Moi, the number of investment resources has been growing non-stop into Vietnam with 139 countries and territories with 33,294 projects in total last year. According to the FIA, US$393,3 billion are invested and mostly from Southeast Asia countries with Korea, Singapore, and Japan being the greatest FDI resources. All three sectors in real estate are brought into effect by major Korean investors. Since 2016, LG Display Hai Phong project in Hai Phong has been receiving growing investment, which lands at 744 million USD in 2021. More manufacturing plants are implemented in Vietnam from Korea recently such as Polypropylene and liquefied petroleum gas warehouse projects with a total registered investment capital of 1.201 billion USD. Residential sites are expanded in Hanoi by the multi-purpose - hippodrome entertainment complex in 2019 and Project of West Lake Urban Residence Centre last year endowed with a total of nearly 2 billion USD. Singapore focuses more on the southern provinces and cities with residential mix-used high-rise apartment buildings, villas, offices, shopping centres, medical services, education facilities and recreational facilities. A crucial amount is also invested in the industrial sector such as Keppel Land, CapitaLand, Sembcorp, and Mapletree, which maintain their significant contribution from the mid-1990s. In 2018, 1.12 billion USD was poured into the Laguna Company Limited project located in Thua Thien Hue. Singaporean investors continued to invest in Liquefied Natural Gas (LNG) Plant Project under the operation of Bac Lieu LNG Thermal Power Centre having total registered investment capital of 4 billion USD in 2020. Most recently, Long An I and II LNG Power Plant Project has a total registered capital of more than 3.1 billion USD. Japanese companies provide their sources to each real estate sector as well. A total investment capital of 4.138 billion USD is funded in Smart city projects in Hai Boi, Hanoi in 2018. Industrial zones are more concentrated this year with O Mon II Thermal Power Plant Factory (1.31 billion USD) in Can Tho and the newly Jinko Solar PV Vietnam Solar Cell Technology Project (498 million USD) in Quang Ninh. China, Taiwan, and Hong Kong are also paying more attention to Vietnam's real estate industry, especially Mainland China. During 2019, ACTR's all-steel Radian tire manufacturing project located in Tay Ninh received 280 million USD. This opens great opportunities for Tay Ninh to proceed with Chinese investors and lands at another 300 million USD Radian Jinyu Tire Manufacturing Plant Project in 2020. Only in the first four months of this year, the investment capital adjusted in the project has increased by about 312 million USD.

Industry Trends

The real estate industry is a significant contribution to the economic growth of

Vietnam's real estate industry. In 2018, RFDI arrives at its highest endowment of 6.6 billion USD that makes up 18.8% total FDI. Its contribution slightly decreased since then with 16.3% and 15% respectively in 2019 and 2020. Until April 2021, real estate business FDI reached 60.9 billion USD, accounting for 15.4% of total FDI, only second to processing and manufacturing industries. Although there is a rising number of FDI enterprises taking part in Vietnam's real estate sector from 2010 till now, the growth rate which still remains lower than the number of domestic enterprises in the same field.



FDI in real estate in Vietnam is increasingly diversified and of higher quality, raging from industrial real estate, housing, and luxury apartments to rent, commercial centers, and hotels. Developing from these original functions, combinations among real estate sectors emerge in recent years. Rather than large-scale projects of single land use, mixed-used areas are growing in demand.

A positive relationship between the industrial market and foreign investment is easily foreseen due to the optimistic outlook of the availability of satellite urban areas as well as local increasing preferences. “The number of recommended research projects to invest in new manufacturing bases in 2020 also rises rapidly compared to previous years” (Toan). Especially, real estate in logistics provides great incentives for the market. Being an open economy since late 1980s, Vietnam's deep integration with major economies through multiple free trade agreements such as CPTPP, EVFTA grant full access for Vietnamese production to transform exporting low-value to high-value goods. Together with a novel variety of international manufacturing units, developers have the right to choose more qualified tenants and multinational companies in more valued industries. The industrial real estate sector is prospering with a 10-time increase in FDI over the past decade. "Institutional innovation, co-location of FDI firms, and enhanced liveable environments in developing countries" (Kim and O'Connor, 2018) also give rise to the real estate FDI, which will lead to more urban outcomes. Furthermore, the development in land supply as well as its quality contributes to imminent production projects. In the areas with many concentrated industrial zones, there is a promising strong shift of FDI inflows to industrial real estate. Unlike the industrial and commercial property, the outlook on the development of foreign investment in the residential market is somewhat less positive. This is largely due to the local advantages compared to foreigners raging from property rights to the availability to access domestic housing.

Changes in Legal Framework

Beginning with the Regulation for Foreign Investment in preparation for Doi Moi, The Vietnamese government implemented a political approach towards FDI. It was not until 1987 the inward FDI was welcomed into Vietnam binded by the Law on Foreign Investment. The revision of the Law on Corporate Income Tax, which reduced to 20%, also made a major impact, which pushed further investment incentives for the expansion project. Industrial parks, therefore, provide more incentives to foreign investors. The lower real estate tax along with this act enhanced land use and land rental for both local and foreign investors. Foreigners are offered with more opportunities to buy homes in Vietnam also due to the relaxation of regulations in real estate. In January this year, the newly implemented Law on

Investment extended conditional business lines with direct effect on the RFDI such as trading, distribution, and logistics services. As mentioned above, active integration to multilateral free trade agreements allows fluid transaction in the international scene.

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