

Why Vietnam Real Estate Industry Getting into Frozen Period?

Do Minh Kien⁺, Zhang Wensong and Zheng Kai

School of Economics and Management, Beijing Jiaotong University, Beijing, China, 100044.

Abstract. In recent years, there were more and more concerns about real estate from investors, developers and ordinary people. Real estate has become a research hotspot. In this article, we will analysis the status quo of Vietnam real estate, put forward current problems and make deep research on the cause of real estate into the frozen period, then propose corresponding countermeasures. We hope we can on put forward some suggestions and recommendations about the standardization, as well as the improvements of the real estate market.

Keywords: real estate, frozen period, trading market, inflation

1. Introduction

Since the implementation of economic reforms, Vietnam real estate has had good developments to some degree, achieved good achievements and met part of needs of the market (Jia, 2011). But generally speaking, Vietnam real estate is still in the primary stage of development, there are still lots of problems that need to be made up (Yang, 2011). In recent years, the trend of real estate market was poorer and poorer, turnover low, in a long time, price and trading declined sharply, real estate was thought at the edge of crisis and would fully enter the frozen period (Huang, 2011). Data showed that the first six months of the 2012, listed real estate companies faced many difficulties, especially inventories increased. About 70 real estate companies, inventories values at the end of the second quarter of 2012 amounted to 7.24×10^{13} VND, approximately \$ 3.1 billion. Among them, nearly 20 enterprises inventory values to 1×10^{12} VND.

⁺ Corresponding author. *E-mail address:* mk07vn@gmail.com

The real estate industry report showed that 69.4% of the cash was held by six largest companies in the market, other companies held little. Until February 2012, total cashes were insufficient to cover the costs (including bank interest paid to the contractor, etc.). This showed that most companies didn't have enough cash to turnaround operations. This situation led developers, real estate companies to sell off the housings and engineering goods, to reduce the financial pressure. The data showed that in August, the CARINA PLAZA (Ho Chi Minh City) launched a discounted price of 80% of the 150 houses, the price dropped from 15.5 million VND / m² to 13.2 million VND / m². HONG ANH RIVERVIEW (Ho Chi Minh City) discounted 60% ~70%, from 24 million VND / m² down to 18.5 million VND / m².

In this article, we will analysis the status quo of Vietnam real estate, and make deep research on the cause of real estate into the frozen period, then put forward corresponding countermeasures.

2. Methodology

The phenomenon that a industry performs differently in different market period is called industrial cycle (Chen, 2003). According to the change of price and quantity, the industrial cycle can be divided into four stages (shown in table 1). The "frozen period" is the one that both prices and quantities are decline. In short, the industrial cycle can be attributed to the interaction of demand and supply. On the basis of the principle of economics, the decline of quantities and prices at the same is due to the decrease in demand, which cause the decrease in supply and the emergence of surplus, as shown in figure 1.

Tab. 1: Four stages of industrial period

	Price	Quantity
Prosperity period	↑	↑
Recession period	↓	↑
Frozen (depression) period	↓	↓
Recovery period	↑	↓

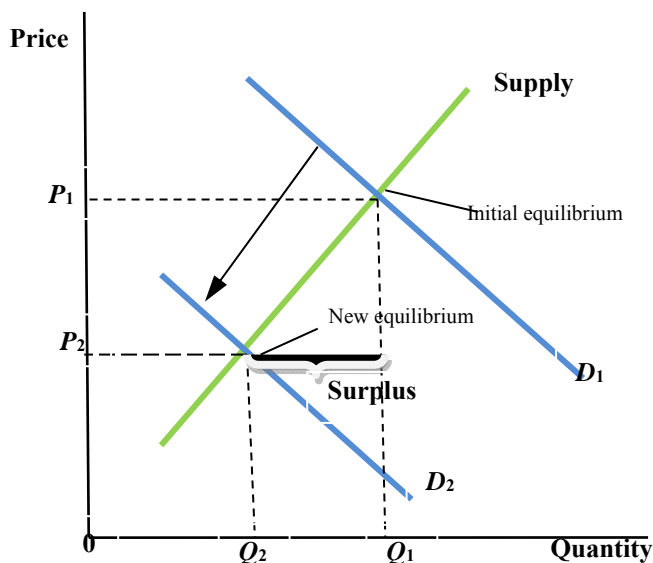


Fig. 1: Economics explanation of frozen period

N. Gregory Mankiw said, “The demand curve shows how the quantity of a good demanded depends on the price. According to the law of demand, as the price of a good falls, the quantity demanded rises. Therefore, the demand curve slopes downward. In addition to price, other determinants of the quantity demanded include income, tastes, expectations, and the prices of substitutes and complements, If one of these other determinants changes, the demand curve shifts”. Therefore, we may find the reason for the frozen period of Vietnam real estate by means of analyzing the demand curve shifts.

3. Reasons for the Frozen Period of Vietnam Real Estate

The real estate industry with far-reaching impact is related to the development of the country as well as people's daily lives. While Vietnam real estate market is not standardized, the law does not give clear provisions as well as the constraints to the development of the real estate, thus making the develop is unstable, what's worse, in recent years getting into the frozen period. We thought the reasons mainly can be attributed to the following ones.

3.1. The price exceeds purchasing power

In recent years, the huge profits in the real estate industry have attracted the attention of a large number of investors and developers. Deliberate favorable for the real estate industry as well as some corporate skill makes price higher than

ever before, and makes it smell “price” and “intimidating”. Within a few years the price of the house was up to a dozen or even dozens of times. Started from 2009, many investors poured into real estate market and invested blindly in advanced buildings and villa projects, which led to five times the average price of housing than the workers' average income, more than five times higher than developed countries, more than more than 10 times higher than the developed countries.

Housing for most inhabitants is rigid demand, according to the relevant departments of Vietnam real estate, housing demand remains high, especially social housing, including low-cost houses in cities, employees housing of industrial enterprises, college students' dormitories and poor housing in the rural. There are 1.6 million low-quality temporary accommodations, and 500,000 houses in the city less than 15m² (Vietnamese law standard accommodation area), there are 1.5 million house in the countryside without guaranteed quality. According to Vietnamese Ministry of Construction, to 2015, Vietnamese population will reach 9150 million, housing demands 1966.6m², including city 891.8m² meet 3430 people's demands. Housing funds need to invest in 2015 is 2.205×10^{15} VND, 1.767×10^{15} VND in 2020. The actual housing need is very large, while the supply of the real estate market is far to reach.

Some experts pointed out that 2012 was "the customer's real needs," but that is not the case. Housing prices are still very high, even in Hanoi many residents think the price has fallen to the lowest, but the prices are still about 15 million VND per square meter, far more than the residents 'afford abilities. Let's do a simple calculation, the average wage of every civil servant is about 2.7 million VND (including relative insurance costs), 10 years (Vietnamese civil servants salary calculation: 3.33×830), how many years can they buy a house?

3.2. The inflation rate remains high

As shown in Figure 2, by the impact of global economic crisis in 2008, Vietnam CPI increased by 22.97%, the highest value in more than a decade. To a certain degree, from 2009, Vietnam should perform a stable macroeconomic rather than to maintain economic growth rate. However, due to practical considerations of a variety of purposes, the Vietnamese financial sector implemented economic stimulus plan and a large number of money poured into the financial system.

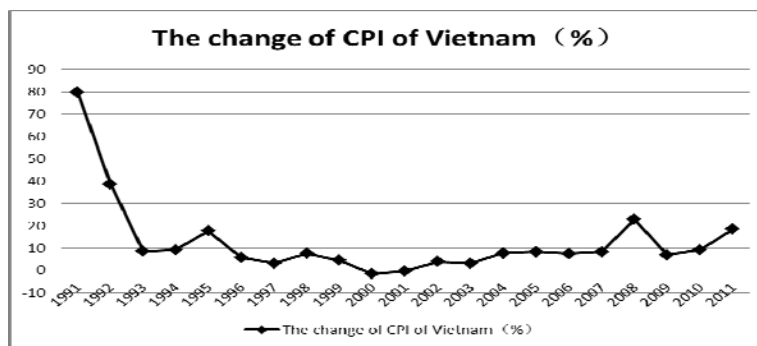


Fig. 2: Vietnam's CPI change (1991 - 2011)

Source: Website of Chinese Economic and Commercial Counselor of the Embassy of the Socialist Republic of Vietnam

In 2008, American subprime lending crisis triggered a global financial crisis. While Vietnam macroeconomic adjustment lag behind the actual market, thus resulting in bad inflation. In order to cope with the crisis, Vietnam began to implement liberal policies, including open market operations, reserve ratio, financing and discounted convenience. In addition, the Vietnamese government adjusted bank base rate and financial systems by means of supervising inventory capitals of each bank. From 2008 to 2009, the financing rate downed from 15% to 7%, the discount rate from 13% to 5%, the benchmark interest rate from 14% to 7%, in September 2009 reserve ratio from 3.6% down to 1.2%, as are shown in figure 3, figure4, figure 5 and figure 6.

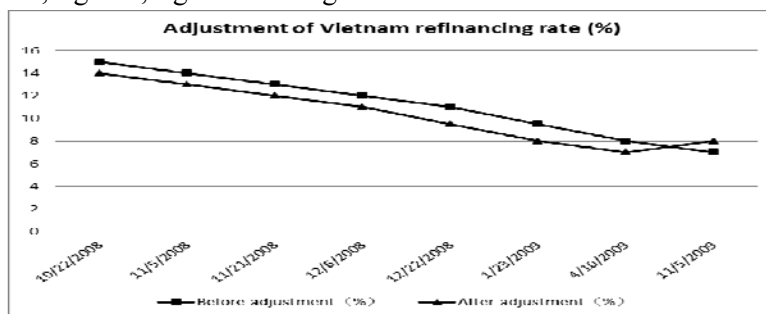


Fig. 3: Adjustment of Vietnam refinancing rate (%)

Source: Website of Chinese Economic and Commercial Counselor of the Embassy of the Socialist Republic of Vietnam

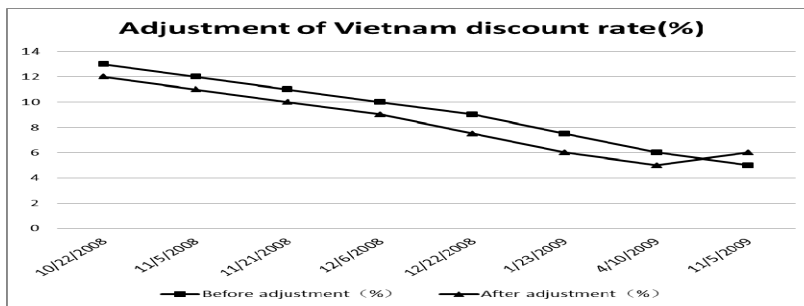


Fig. 4: Adjustment of Vietnam discount rate (%)

Source: Website of Chinese Economic and Commercial Counselor of the Embassy of the Socialist Republic of Vietnam

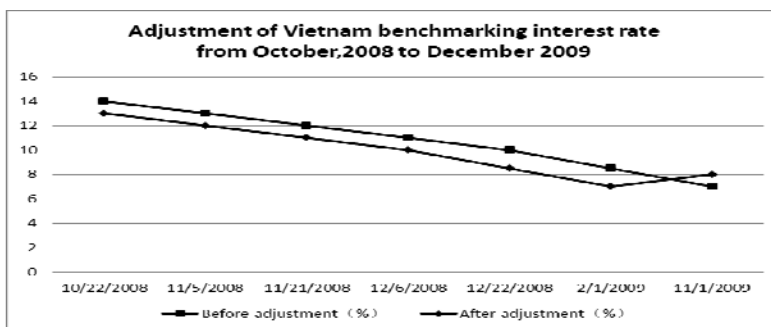


Fig. 5: Adjustment of Vietnam benchmarking interest rate (2008.10-2009.12)

Source: Website of Chinese Economic and Commercial Counselor of the Embassy of the Socialist Republic of Vietnam

In 2008, the growth of money supply was 20.3%, and rose to 29% in 2009. Lots of money flowed into the financial market, invested in various areas, especially in securities and real estate markets. The bank relaxed lending policies, and the conditions of borrowers. The solvency of borrowers is too low, resulting in the generation of lots of bad debts.

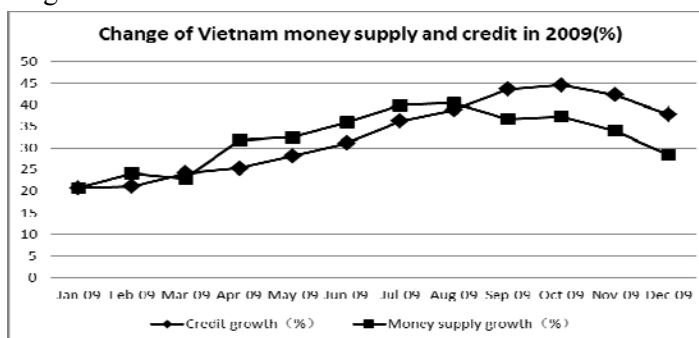


Fig. 6: Change of Vietnam money supply and credit in 2009(%)

Source: Website of Vietnam Statistics Bureau

In 2010, because of immature management and weak management capacity of financial system, securities market began to decline, resulting in the transfer of investor attention. Much money poured into the real estate market, resulting in overheating of the real estate development and housing prices rapid growth, so that the residents cannot afford. What is more, in order to raise prices, they used capital means to confuse and cause the occurrence of illegal investments and irrational buying behaviours. Excessive concerns, crazy investments and capital injection, made people of rigid demands couldn't afford and more and more real estate stocks.

However because of the imperfect of financial system, management capabilities and predictive abilities could not keep up with the actual change. Real efficiency of government investment is very low, domestic production expands continuously, but the quality doesn't improve and enterprises are lack of investment planning and strategic thinking, resulting in blind investment. Real domestic consumption demand does not increase, there is no improvement in per capita income. In 2011, coupled with the European debt crisis, Vietnamese exports and production were affected and CPI increased to the peak to 18.58% (Vietnam Bureau of Statistics data).

The first half of 2012, although the CPI index demoted, also up to 12.2%, resulting in people were faced with inflation pressure. Vietnam central bank continued to slowdown and reduce loans for non-production areas, such as real estate, so they could not obtain large-scale bailout funds in a short time, resulting in many of the projects under construction were forced to abandoned, the inventory values up to three billion dollars in the first half of 2012, thus making which almost made the overall real estate market collapsed. Inflation has become one of the important reasons for getting into the frozen period.

3.3. Investors lose confidence in the real estate market

In 2012, the real estate market in Vietnam faced problems of excess inventory values and inability to deal with the loan, what's worse, the real estate market has almost lost the confidence of investors and buyers. The developers have used a variety of means to reduce price, promote to reduce inventories, increase the liquidity to deal with their due debts. But according to statistics, from Hanoi to Ho Chi Minh City, turnover of most real estate companies was very little.

Customers with needs were waiting with expectations for the real estate bubble burst, the domestic and foreign investors as well as developers tried to leave premises with minimal losses. Investors lost confidence, banks lost trusts,

developers lost heart, thus making Vietnam's real estate industry almost standstill, not to mention the market standardization. The entire real estate market was in chaos.

3.4. Real estate market suddenly be "weaned"

Since the implementation of monetary easing in 2009, Vietnam has maintained GDP growth. However, the inflation rate has been rising, the real estate and stock markets has emerged the phenomenon of overheated and emptiness development. Rate of dead accounts was still increasing, various banks were facing with enormous pressure, and the lifeblood of the financial system was almost blocked.

In March 3, 2011, in order to implement resolution 11 introduced on February 24, 2011 about how to curb inflation and stabilize the economy, the National Bank of Vietnam (the central bank) promulgated series of monetary tightening measures. In 2011, Vietnamese Government put forward that stable macroeconomic was more important than the pursuit of economic growth and the inflation rate should below 7%. After then, Vietnam delimited the growth of the money supply officially and raised its benchmark interest rate at the same time. In addition, in order to improve the quality of GDP growth, from 2011 the central bank put the credit largely to the pure production industries and restricted securities and real estate loans, and required credit institutions to drop the loan balance of non-production areas to less than 22% before June 30, to less than 16% before December 31. If credit institutions couldn't fulfill the task, the National Bank would levy twice reserve against deposit and limited the scopes of business in the second half of this year and next year. If the credit total scale was higher than the resolution target in June 30, the National Bank would take the necessary measures to further strictly control lending.

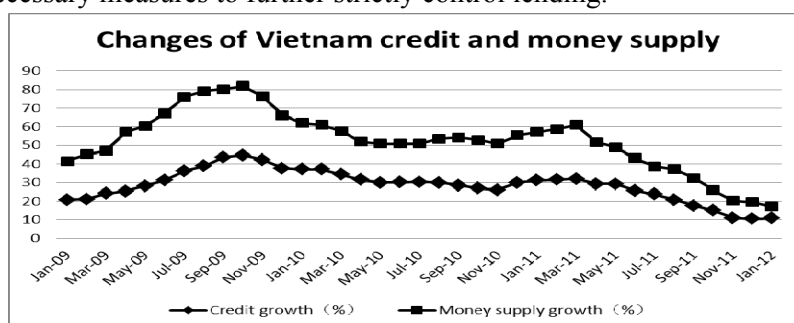


Fig. 7: Changes of Vietnam credit and money supply (2009/01-2012/01)

Source: Website of Vietnam Statistics Bureau

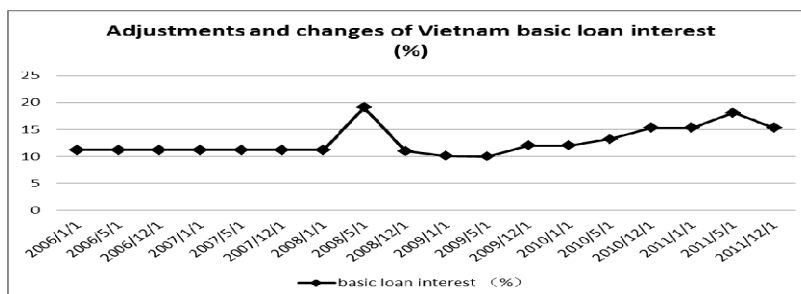


Fig. 8: Adjustments and changes of Vietnam basic loan interest (%)

Source: Website of Vietnam Statistics Bureau

In order to bail out, real estate developers use a wide variety of marketing promotion programs. But, according to the policies of the central bank, the real estate lending rate has been 23% -27%. Traditional approaches of Vietnam real estate industry were to borrow new loan money to fill their due debts and prepare the new liquidity, resulting the suddenly “weaning” of the entire real estate industry and great losses.

4. Countermeasures for Vietnam Real Estate Market

The real estate industry related to the national people's livelihood is an important indicator of national stability and social harmony. Based on the above analysis, there are lots of problems and hidden dangers existing in Vietnam real estate market. In order to better improve and regulate the real estate trading market and re-establish the confidence of the people in the real estate development market, there are still many things need to do. We believe that at this stage we have several corresponding measures.

4.1. Perfect the legal framework of real estate

Many experts believed that the legal framework of the real estate market had been gradually improved. However there are still many problems need to improve and supplement. About tax policy, 69/2009/ND-CP provisions that nation should housing land use rights tax in accordance with the market price. In 2003, Land Act also rules that developers should make compensations to the owners of land in accordance with the market price. However, the market price is a generic concept, which was difficult to determine by both enterprises and land owners. Therefore, the real estate enterprises need spend a lot of time, energies and money to resolve issues of the site clean-up, pay the tax and compensation. So Vietnamese government departments should modify the

concept of the so-called "market price", provide reasonable algorithm to the public. In addition, full compensation program files are needed and should strictly implement by real estate companies and developers. At the same time, nation should require various local government departments to help solve the compensation issues between developers and land owners

Another unreasonable tax policy is the personal income tax law. Each real estate transfer contract and co-investment contract should pay 2% of contract value, while the so-called personal income tax is actually the total transactions, no discount. The income is not based on the implementation. No matter what happens, they should pay tax as the provisions. The tax directly affects the development of the social investment real estate. The too high tax rate and unreasonable implementation of tax policies are the main reasons of the frozen of real estate and affect the future development of Vietnam real estate. According to the current status quo, the government of Vietnam should adjust the personal income polices and levy taxes according to the actual situation of the real estate transaction, which will be very beneficial to the future development of the real estate.

4.2. Reform and improve the policies of financial markets and real estate credit

Over the years, the development of the real estate market in Vietnam has been unstable, and sometimes grows overheating, high prices, sometimes close to the freezing point, no transaction. The main reason is that the capital of real estate comes from financial institutions such as commercial banks, state-owned banks, which are characterized by very high interest rates and short-term credits. The real estate market needs low mortgage rates, and long-term credit. So bank credit policy is not suitable for investment and marketing. When bank tightens credit, real estate will be greatest impacted, resulting in very high market risk.

Therefore, in order to solve the long-term capital for real estate, we need quickly upgrade the financial markets to attract large financial institutions such as funds, investment banks, pension funds, insurance funds, etc. We should also attract foreign capitals. In order to attract a variety institutions finance to the real estate market, we should build a financial market with pure real estate products, including a variety of real estate mortgage contract transactions, real estate CDO and other real estate securities.

4.3. Improve the infrastructure systems

The Vietnamese infrastructure system in recent years has improved, but is still very weak, and can't reach social development requirements, especially the quality of the transportation system between existing cities and new urban, residential areas and development zones. These conditions will directly affect the development of the real estate and Vietnam will lose their appeals to investors and buyers. Therefore, the real estate development projects mainly center on the city center area, the projects far away from the city rarely attract the participation of investors. The scale of real estate development and investment opportunities has not been extended to all parts of the country and all the different areas.

Vietnamese Government should take into account the planning of future real estate development, and to improve and enhance the country's infrastructure systems, especially the policies of transport systems. It's an important work for Vietnam to implementation to improve the traffic systems such as highways, urban public tools, subway, which is the important foundation of future development. Also we should do a number of activities to attract developers to construction and develop real estate in other areas away from the big city to expand the range of real estate.

5. Conclusion

Since the economic reform and opening up in 1986, Vietnam GDP growth has remained in moderate speed and made a lot of achievements in various fields. Vietnam in 1993 first proposed land law, then update the original land law in 2003, which become the foundation for the development of the real estate market. The period from 2004 to 2007 was the golden period of the Vietnam real estate, particularly development fast, and the real estate had embarked on a new stage. However, severely affected by the global financial crisis in 2008, the real estate development emerged unstable phenomenon.

In the first half of 2012, the Vietnam real estate nearly entered into the frozen period, inventories values were more than three billion dollars, all projects almost frozen. The main reason is the huge market demand, but the market development is not based on real demand and supply. In addition, the National Bank of Vietnam performed excessively loose monetary policy, resulting in continual growing inflation rate, and then had to tighten the monetary, thus making the market suddenly be "weaned". Developers couldn't solve the problems of debts and floating capitals, lost investors and purchasers' confidence. I order to spend this frozen period, Vietnam real estate must do macro-adjustment and build well financial and land law systems, improve

infrastructures. We believe that after the implementation of these measures, the Vietnam's real estate market will get better achievement in the future, and contribute to national growth.

References

Zhongwen Jia. (2011). Real estate investment in Vietnam: three countermeasures. *Urban Development*, 14, 86.

Xiuzhu Huang. (2011). Vietnam real estate into a frozen period. *Lianhezaobao*,

Ran Yang. (2011). Vietnam Discussion and Analysis of urban land resources and real estate development and management policies. *Southern Homeland resources*. 11, 48-49.

Dihong Chen, Huazhong Li & Xiangyu YANG. (2003). Method Selection of Constructing Industrial Cycle Index and Its Demonstration Analysis. *Systems Engineering*. 4, 72-76.