



THE LONG ROAD AHEAD

BY DESMOND HUGHES

“VIETNAM IS PUSHING HARD TO BECOME A FAVOURITE PLACE IN SOUTHEAST ASIA FOR FOREIGN INVESTORS AND TROPICAL HOME BUYERS.”

Vietnam has grown and developed in recent years at an incredible pace, and alongside that growth its real estate industry has similarly expanded. *The Economist* ran a special 14-page report on Vietnam in April entitled “Half-way from rags to riches”, which aptly demonstrates the positioning of Vietnam and its status as a country to be reckoned with. There is no doubt that there is still a large percentage of the population with a lower average GDP per head capita in comparison to developed Asian neighbours, but notwithstanding such rich-poor divides, Vietnam continues to forge ahead at a strong pace, overcoming its challenges. The percentage of people living on US\$1 per day in 1990 in Vietnam was, according to the World Bank, over 50 percent, which had dropped down by 2004 to less than 10 percent - greater than China; Indonesia and Thailand over that period.

The political framework for Vietnam’s development has been set by the unprecedented selection of a ‘Southerner’ as the prime minister - Nguyen Tan Dung, born in South Vietnam, whose international activities have been recognized by foreign countries as demonstrating a strong, favourable attitude towards attracting and making foreign investment easier in Vietnam. In just eight years, Vietnam has created a stock market, signed a trade pact with America, hosted the Asia-Pacific Summit, joined the World Trade Organisation and won a temporary seat on the United Nations Security Council. Vietnam is serious and determined to develop. The legal environment has also altered significantly for the better. Kris Limcharoen, partner of the international law firm Belmont Limcharoen, prior to the launch of its new office in

Ho Chi Minh City stated: “Vietnam has a new raft of legislation designed to open up and improve the environment for conducting business, especially so also in the real estate sector.” Nguyen Khan Thinh, Senior Associate appointed to Belmont Limcharoen (Ho Chi Minh City) further states: “Real estate law has been improved by the recent laws such as the law on Real Estate Business dated 29 June, 2006 and Construction Law passed on 26 November, 2003. Most foreigners are now aware of long leases of 50 years and in special circumstances 70 years available to secure investment in property in Vietnam.”

In the current economic environment, Vietnam faces global challenges of rising inflation to the point of reports of possible full devaluation of the Vietnamese Dong, increased lending rates and the inevitable slowdown on the rate of acceleration of growth. According to Andrew Brown, country head of Jones Land LaSalle, “The recent devaluation of VND [Vietnamese Dong] against USD is putting more weight on the cost of construction which has increased 40 percent from Q3 ‘07.” Notwithstanding this, Brown further comments that “Registered FDI [Foreign Direct Investment] has experienced exponential increases in the last three years, attracting more than USD15 billion so far this year being double that over the same period of last year, which is confirmation in itself that foreign investors remain optimistic about Vietnam’s long term future and potential.”

It is ‘long-term’ that is the key word in relation to Vietnam and if you look at what it has achieved recently in a very short number of years, it is likely that the determi-



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nation and emphasis on foreign investment and internal growth will not suddenly change in attitude. Bill Barnett, Managing Director of C9 Hotelworks compares the current position against the potential of Vietnam: "The situation looks to worsen given the shared borders of economic tiger China. With the earthquake in Sichuan province, steel demand along with construction materials will continue to move upward...resulting in slower growth than anticipated." However, Bill goes on to state that the future is bright for Vietnam. "It's all about upside and in a country of 80 million people with natural resources and proximity to key markets such as China, Hong Kong and Singapore, it's a blank piece of paper at this point."

Real Estate Market Segments

Luxury Residential

Vietnam has a wealth of natural assets at its disposal, and the correct adjustments have already been made to its now forgotten image as a museum of an embattled history although the seriousness of that history should not be belittled or dismissed. For example, Vietnam now famously hosts the Miss Universe contest at its beautiful seaside resort Nha Trang and has developed a nearby island to accommodate retail and leisure activities named 'Vinpearl' which is evidence of understanding of the needs of the new 'global travellers', a more sophisticated breed than 'backpackers'. Such natural assets have been applied to the luxury residential sectors, and it is clear that foreign investors are committed to developing real estate to integrate into

and around the attractive areas of natural beauty. A short distance away from the tourist hot spots, quiet, peaceful but chic modern-tropical designed luxury villas are infiltrating the global market, placing Vietnam firmly on the list of hot prospects for investment and enjoyment. Tom Travers, partner of luxury property specialists Indigo Real Estate, is actively involved in the promotion of successfully branded and well supported projects such as the Raffles Residences, Da Nang. Tom states "The Vietnam property market is booming and luxury property developers have already started jumping on the economic bandwagon... Vietnam is pushing hard to become a favourite place in Southeast Asia for foreign investors and tropical home buyers". Indigo Real Estate is also marketing Six Senses Hideaway Con Dao developed by Indochina Land comprising 42 high end luxury villas, and the Nam Hai at China Beach in Hoi An the designs of which sit more than comfortably amidst world acclaimed luxury property resorts and developments.

The legal framework for investment has also been modernized and now developers and resorts are able to confidently provide prospective investors with a clear guide to investing in the real estate sector. Knowledge of this arms developers with the confidence to make long term investment plans. Marc Townsend, Managing Partner of CBRE Vietnam, comments "CBRE is able to represent as agent a wide spread of developments – the investment behind which is varied, not limited to local companies".

Supporting these projects is a commitment to leisure and infrastructure facilities to accommodate enjoyment of the surrounds. So much so that there is even a debate as to



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whether there are 'too many' golf courses under development. Tran Thai, in the *Vietnam Economic Times* in May, queries "which is more important – land for golf or land for rice." But Tony Cashmore, president of the Society of Australian Golf Course Architects is in favour of Vietnam's unique environment, saying "golf courses in Asia are usually duplicated; later golf courses are nearly exact duplication of earlier ones, by this is not the case in Vietnam. Vietnam also has beautiful sites along the coast and ideal hills and mountain retreats, beautiful plants, adequate rainfall and a healthy climate."

With prestigious names such as Raffles and Crowne Plaza already committed to projects under construction, and more monies pouring in, notwithstanding a slower pace of growth, Vietnam is being targeted as a prime location in Asia for luxury property development.

Hotels and Integrated Resorts

Some of the residential project already mentioned include a resort element. Mixed used projects are increasingly popular in the luxury real estate sector, and developers are able to manufacture developments attractive not only to buyers, but branded resort operators keen to expand their portfolios to include Vietnam.

CBRE's Townsend says Da Nang is a "secondary market and has an embryonic office and retail market. It also has a strong second home market. With strong branded hotel operators such as Sofitel, Intercontinental and the Hyatt active on the beach – CBRE's activities and input increase and develop through its service offerings of valuation, research and agency for real estate for developers; investors; landlords and tenants". When asked about the specific type of investment Da Nang is attracting, Townsend elaborates "local funds such as IndoChina and VinaCapital are active but there is now also strong investment from a variety of locations – Korea; Malaysia and now also from Dubai".

It is well known that tourism, destination popularity and development of leisure and infrastructure supports an increasing number of hotel guests, occupancy levels with a direct correlation to the growth of the real estate industry. Vietnam should be no exception to this pattern.

Brian Gunnarson of ThaiNam Real Estate, a real estate company specialising in turn-key developments and resorts in both Thailand and Vietnam, is well placed to compare the jurisdictions and comment on the similarities and differences of growth. "Thailand has a residential and integrated resort based real estate market that is now starting to mature in a number of areas which has been successful, albeit with some bumps relating to political stability over the last two years. Vietnam has stronger inflationary issues, but in terms of development - the Vietnamese developers working with foreign investors are able to learn very quickly from the successes but also the mistakes made by neighbouring countries. Vietnam's development will be good for Vietnam, but also for Thailand and other neighbours, which surely will not want to be overtaken by the force of Vietnam's determination."

Commercial, Retail, Office, and Industrial

Foreign companies and investors are also surging forward with relocation of industrial sites, creation of new commercial centres, at a pace that is hard to keep up with. Notwithstanding the global economic slowdown in recent months, the commercial skyline of Ho Chi Minh City clearly denotes a country of growth and investment. Branded luxury good chains are sited at highly visible locations such as the strongly tenanted Hung Vuong Plaza in District 5, operated by Parkson Retail Group Limited, headquartered in Beijing. Management consultancy firms such as A.T. Kearney, are reported in the Vietnamese press as offering a bullish view of the retail market, declaring that their research shows "Vietnam dethroned India, which had the top spot three years straight on A.T. Kearney's Global Retail Development Index, which ranks countries based on a variety of factors such as economic and political risk, per capita income, market saturation and market attractiveness".

In relation to the office market, Townsend cites a CBRE report on the Office Market May 2008, which describes a limited but changing supply; low vacancy with strong interest for quality office space, rising rents; softening of land prices; and surging inflation. The report shows a strong growth in office rentals in Hanoi and Ho Chi Minh City, with



the Shipping, Forwarding and Logistics industry topping the number of enquiries list for 2008 so far. Most interestingly, the report shows that there is a decentralization of locations away from the prime central office locations, a case study of which is presented as the Thu Tiem district. Apparently, Grade A remains strong, and Grade B and C office supply is showing signs of softening.

Simply by checking the daily financial journals, it is easy to see that there is a huge amount of ongoing commercial activity in Vietnam, with such activities requiring office space, operational space, retail space and industrial space – and the associated logistical capacity to cope with associated import and export. Mr Ian Lydall, Senior Partner at PricewaterhouseCoopers Vietnam has recently written about the increase in foreign direct investment: “The government is particularly focused on encouraging investments in the hi-tech industries, infrastructure development projects and also high value added, export oriented manufacturing. While concerns [exist] regarding inflation, infrastructure, the growing trade deficit and shortages of human resources...it is likely to remain one of the fastest growing economies in the foreseeable future as it progresses on its path to become an industrialized nation by 2020.”

Facilitating Direct Foreign Investment – Generally and for Real Estate

The principal requirements for encouraging foreign investment are political: economic and social stability. There are wobbles in respect of inflation in Vietnam, and that cannot be ignored, short term. However, the pendulum of regulation has been swinging firmly in favour of foreign investment for some time, and the effects are already evident. Confidence in long term investment is bolstered by the knowledge that there is a transparent and open acknowledgment of the need to root out corrupt practices such as anti-corruption drives supported by the prime minister himself. Furthermore, the regulatory environment has been restructured to provide a legal basis for turnkey operations – the Build Operate Transfer program, permitting investment and return is supported by investment laws directed at creating less onerous foreign investment

procedures. This has a direct effect on the development of the real estate sector. Barnett of C9 Hotelworks states Vietnam has “amended foreign ownership laws to accommodate longer terms of legal interest than many of its neighbours, demonstrated a very liberal attitude and has addressed the market with a humble attitude – not asking that the market meets demands, but admitting where there is a lack of knowledge and expressing a desire to learn.. it’s a breath of fresh air.”

The Future

In view of recent inflationary issues, the timing of this article is in itself a challenge, and there are many more challenges to overcome. However, foreign investors and external markets have all begun to recognize the true long term potential of the tiger economy of Vietnam which extends undoubtedly to real estate.

With a continual increase in growth with upward and downward slopes along the way, the real estate market is poised to facilitate the growth of industries, companies, housing of human capital, offering of luxury residences to high end investors and users and benefit from the growth in tourism to the region. All in all, the young demographic of Vietnam have a different challenge than their older generations.

The real estate market is still embryonic in a number of sectors, but already that market is adapting to a change in demand and market force. The Vietnamese should be well advised to not only compete with their neighbours but also to learn from successes, such as Thailand. Vietnam should ensure that it retains its charm, unique identity and cultural strengths which are an integral part of the country which will encourage and retain those that have chosen to invest, visit or do business in the country. There is no doubt that Vietnam and the Vietnamese, possess the strengths and qualities to adapt to change the future will bring. The horizon of Vietnam is bright.

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