On solid foundations

Real estate M&A activities have not been overly affected by the events of 2020 and will continue into the future.

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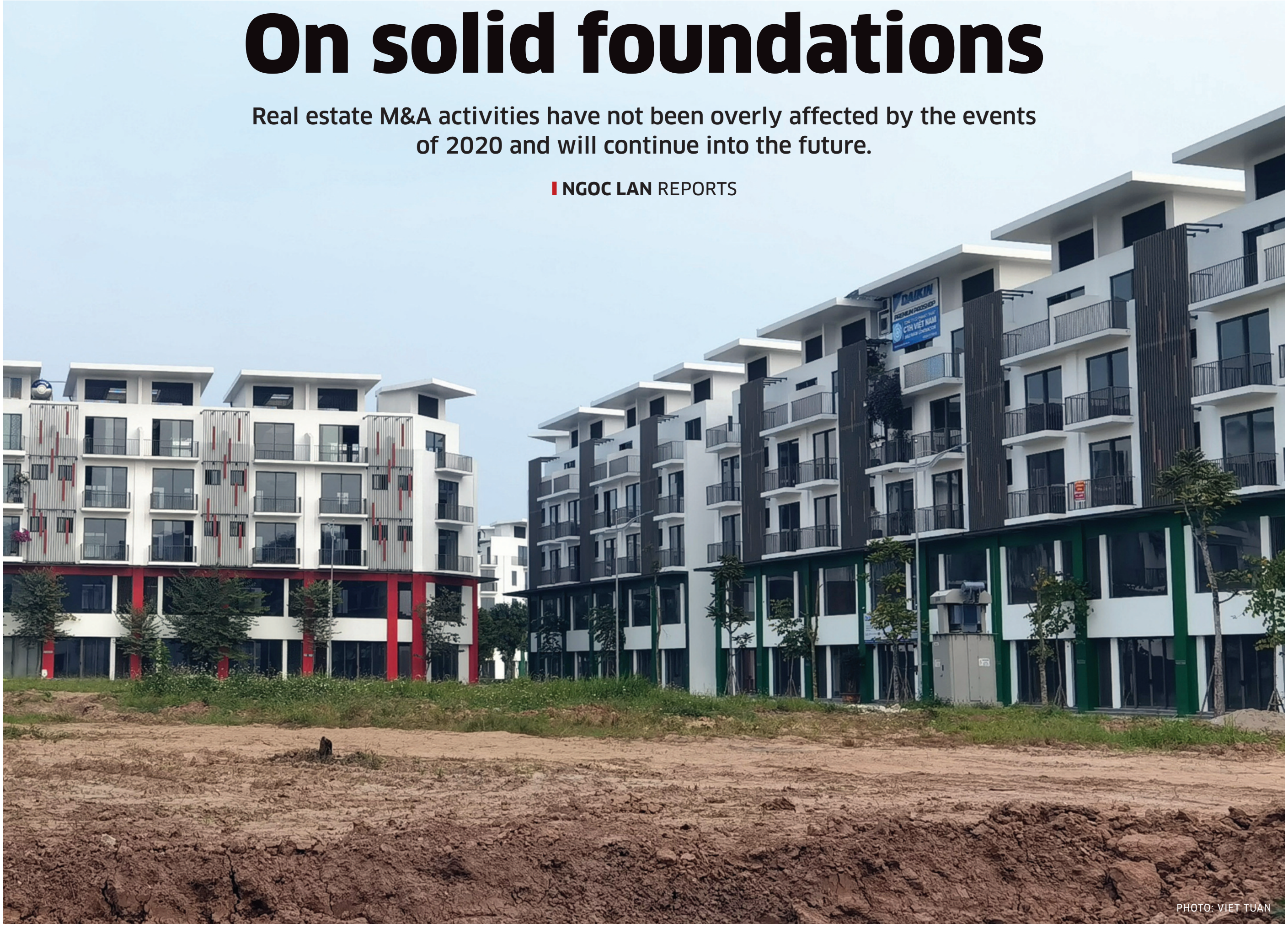

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Keppel Land, through its wholly-owned subsidiary, Portsville, is divesting its remaining 30 per cent interest in Dong Nai Waterfront City (DNWC), a 170-ha township in southern Dong Nai province, to the Nam Long Investment Corporation (NLG) for a total consideration of VND1.951 trillion ($83.8 million), according to an announcement from Keppel Land on December 1. With the divestment of this remaining 30 per cent, Keppel Land expects to recognize a gain on disposal of approximately S$52.5 million ($39.4 million). This transaction follows the divestment of Portsville's 70 per cent interest in DNWC to NLG, which was announced in 2019.

The divestment is expected to be completed in the first half of 2021, conditional upon certain conditions being fulfilled, including but not limited to the issuance of a new enterprise registration certificate by relevant Vietnamese authorities. Mr. Joseph Low, General Director of Keppel Land Vietnam, said the divestment from DNWC is in line with Keppel's plan to monetize identified assets and apply the balance sheet space that is released to new growth opportunities under its Vision 2030. "We will continue to expand our presence in Vietnam, a key market for Keppel Land, and contribute to the country's sustainable urbanization with our quality residential and commercial developments as well as integrated townships," he added.

Bright spots

Novaland has recently been promoting divestment from projects with expected profit margins, and has approved a plan to transfer all contributed capital of the Sun City Real Estate Development and Investment Company Limited. As of the end of the third quarter of 2020, Novaland held 49 per cent of Sun City's capital, with a value of VND955.5 billion ($41 million). It also divested from the Nova Nippon Co., Ltd., where it held more than 99.9 per cent of the VND3.908 trillion ($167.6 million) in charter capital. The Group also revealed that it has only just closed the transaction for a 286-ha land fund in Dong Nai and a number of other deals elsewhere, with a total transaction value of nearly $1 billion. "M&As are a tool for us to restructure and expand in a multi-sector direction," Mr. Nguyen Thai Phien, Senior Director of Finance at the Novaland Group told the M&A Forum 2020 held in late November.

In early 2020, Danh Khoi bought all shares from Japanese investors to secure 100 per cent of Sun Frontier and become the owner of The Royal apartment project in central Da Nang city. The Group took advantage of the opportunities available last year to find and successfully implement three M&A deals, while there are still a few other projects in the negotiation phase. "The current strategy of Danh Khoi is to focus on developing a clean land fund as a resource for development in the coming years," said Mr. Nguyen Huu Quang, Member of the Board of Directors and Deputy General Director at Danh Khoi Holdings. "The locations that Danh Khoi focuses on developing are the best in the current period as well as subsequent years, in line with our business development strategy for the next five and ten years."

One of the most notable transactions publicly announced in 2020 was the joint venture between the Mitsubishi Corporation (40 per cent), Nomura Real Estate Development (40 per cent), and Vingroup (20 per cent), to jointly develop a 10,000-home subdivision at Vinhomes Grand Park, a residential township in District 9, Ho Chi Minh City. Another highlight transaction was a $650 million investment by a KKR-led consortium into

Vinhomes, equal to a 6 per cent stake. With capital from foreign investors being disbursed heavily in recent times, many sales activities have been launched along with the rapid construction progress of the project. Another recently announced transaction is the partnership between Swire Properties and the City Garden JSC to jointly develop "The River", a luxury residential project in Thu Thiem district, Ho Chi Minh City.

JLL has observed that many Vietnamese developers are raising capital for large-scale development portfolios, which are attractive to investors because of the size of the cash flow, high returns, and growth potential in an emerging real estate market like Vietnam. Though these transactions are still under negotiation and legal review, they are nonetheless considered a positive factor for Vietnam's real estate market, because of the confidence of foreign investors in market recovery and improvements to purchasing power in subsequent quarters.

The market also witnessed excitement in M&A activities for the industrial real estate segment. Logos Property has invested $350 million in a logistics real estate joint venture, to penetrate into Vietnam. Asian warehouse giant GLP is planning to cooperate with SEA Logistic Partners Vietnam, while the SLP Group has launched a $1.5 billion joint venture in Vietnam. And South Korea's Mirae Asset Daewoo Co. and the Naver Corporation have invested $37 million in a warehouse at the LogisValley logistics center in northern Bac Ninh province.

According to Colliers International Vietnam, while 2020 has been a difficult year for many industries, Vietnam's real estate market has weathered the storm and underlying demand remains for all types of property, with M&A transactions in the sector continuing to rise as a result. "M&A transactions allow investors both local and foreign to take advantage of strong market demand and enter the sector with seasoned and experienced developers or take advantage of buying projects where many of the licensing procedures are already completed," Mr. Peter Dinning, Chairman of Colliers International Vietnam, told VET. "Investors bring much-needed capital and developers bring experience and often ready-to-go projects."

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Challenges to address

Real estate M&A transactions in the first nine months of 2020 recorded a slowdown in number, according to a JLL report. It also noted that the cost of capital for Vietnamese developers will tend to increase in order to compensate for the greater risk the pandemic poses. Many local developers have experienced difficulties in accessing commercial bank loans, even though lending interest rates have fallen compared to previous years. Commercial banks, however, place great emphasis on credit quality, and a number of real estate businesses cannot satisfy loan conditions. As a developer, Mr. Quang agreed that the real estate business in some segments has slowed down and many developers have fallen into financial difficulties. "The main challenges for Danh Khoi are financial resources and sales plans," he added. "These are the two most fundamental and central challenges that developers have to deal with in the current and upcoming periods."

JLL has observed that investors could find more investment opportunities, such as participating in auctions directly with the government or buying assets through the Vietnam Asset Management Company (VAMC) or a commercial bank with collateral in a non-performing loan. These investment channels are not unfamiliar to investors, but due to a lack of information and legal transparency in previous years, very few assets have been successfully acquired. With liquidity problems that arise from the suspension of and/or investigation into projects, real estate developers are more actively approaching these methods. There are still many challenges, though.

In industrial real estate, despite being attractive, conducting deals remains challenging for investors. JLL's report noted that finding the right sized land in the right location to develop ready-built warehouses or factories for lease, coupled with increases in industrial land prices, while ensuring the investment meets a certain return, are key concerns for investors, not to mention the competition arising from both existing and new players.

The pandemic certainly has impacted real estate businesses, so there will be a number of domestic real estate firms facing liquidity problems. Foreign investors will also be more cautious in their investment. Mr. Masataka Yoshida, Senior Managing Director, Head of the Cross Border Division & CEO at the Recof Corporation Vietnam, told VET that Japanese investors will be more careful than they used to be because they are more sensitive to the impact of Covid-19 on the business of their Vietnamese counterparts and how this will be reflected in projects' financial plans. "Thus, for Vietnamese sellers, it is more important than usual to be well prepared on how to present FY 2021 business plans in order to appeal to the Japanese side," he added.

Future moves

The impact of Covid-19 will also, however, give investors and developers the opportunity to buy quality land or projects at low prices. "We see this year as a good opportunity for Danh Khoi to expand its land bank, with reasonable prices and a wide choice," said Mr. Quang.

Vietnam's real estate sector is still relatively new compared to other Southeast Asian countries, and demand for all types of property, apart from hospitality, is still quite strong, according to Colliers. Investors are able to enter the market now by teaming up with experienced partners with good track records and extensive land banks and a reputation for providing good products at good prices. But as demand for real estate is so strong, prices can often be over-valued. What stops local developers from expanding quickly is often a lack of funding. "Foreign investors can bridge the gap between the funding provided by banks and the need for local developers to expand further, while local developers must be prepared to increase corporate governance, provide full transparency in their business activities, and ensure the senior management team is trained to a level a foreign investor requires," Mr. Dinning noted. "A company with international standards and the willingness to adapt to the requirements of international investors will make the most from M&A opportunities."

Of a similar mind, Mr. Yoshida said that the quality of projects, such as the combination of location and potential customers together with pricing strategies, will be crucial parameters for local developers. "If that can be done, they will be able to enjoy a rush of Japanese and other foreign investors, as they would certainly want to reclaim the time lost during the pandemic," he noted. "I also believe that prospects in the Ho Chi Minh City market are hopeful because of the New Thu Duc City, the launch of the Metro Line, and new leaders in the central government encouraging certain areas to attract a number of investors."

For the time being, M&As will remain a trend in the real estate market. With the EU-Vietnam Free Trade Agreement (EUVFTA) taking effect last August and the country's stable fundamentals, Vietnam has received strong interest from both investors and manufacturers for industrial properties. "M&A transactions will continue to increase as foreign investors see the success of local companies driving the sector forward," said Mr. Dinning. "This may be the only way to enter the real estate sector, as these local companies have all the right connections and ability to secure and streamline the development process, something that foreign investors are unable to compete with." ■