Grounds for optimism

A host of factors lie behind the largely positive future industry players who spoke to VET see in Vietnam's real estate.

Vietnam is one of the fastest-growing economies in Asia. The strong long-term growth fundamentals of the economy, the heavy investments in infrastructure by the government, and the dynamic and growing middle class all augur well for the country's real estate sector. Despite the pandemic, Vietnam posted GDP growth of 2.9 per cent, making it one of the top-performing Asian economies in 2020, and many segments of the real estate market have proven to be resilient, with both the logistics and industrial sectors leading the pack. With increasing global recognition of Vietnam as a preferred manufacturing location, we believe the export-oriented manufacturing sector will continue to flourish and will thus boost the prospects for Vietnam's industrial and logistics sectors. The entrance or expansion of larger local corporates and multinational corporations would also create conditions that are conducive to a robust Grade A office sector. In the residential market, the strong demand-supply dynamics and favorable interest rate environment have resulted in many new developments selling out quickly after the sales launch. The prices of residential units have also seen an increase, as new projects launched into the market continue to set new price benchmarks. The residential market has also matured, with a greater emphasis by discerning buyers on design, facilities, and service to ensure a world-class standard of living. The long-term investment prospects continue to be bright, underpinned by strong economic growth. The government is heavily focused on economic growth and has been constantly rolling out new guidelines and regulations to streamline and make FDI easier and more investor-friendly over the years. At the current moment, the favorable global interest rate environment coupled with relatively strong economic growth have led to significant interest and competition by foreign developers within Vietnam's real estate market. Some business models are evolving due to Covid-19. For example, the acceleration of digital transformation, the surge in the adoption of e-commerce, greater acceptance of flexible working arrangements, and a greater emphasis on the health of a building and touchless devices all mean that developers need to review their business model costs and assumptions to re-evaluate the feasibility of a project.

Mr. Andre Lim Teng-Kiat,
CEO, Mapletree Vietnam

Mr. Matthew Powell,
Managing Director, Savills Hanoi

We have seen the expansion of local organizations and international businesses into Vietnam's office market. Vietnam holds potential for multinational corporations, especially those in technology, financial services, and life insurance. They are in need of office space, and along with the emergence of new supply, this will make the office market much more competitive in the near future. These are also factors that continue to push investors to develop the office market and look forward to future growth in rental rates. Vietnam has adopted flexible monetary policy and has effective control over Covid-19, which has brought many advantages to the office market. No one has to work remotely for too long, and companies aren't under the financial pressure to find sub-offices in cheaper areas or have to use virtual offices, like in the US or the UK. In Vietnam, demand for traditional office space continues to increase together with more concerns about optimizing traditional office use.

Vietnam attracted FDI in industrial real estate in the first quarter of 2021 while the residential and commercial sectors slowed down. In industrial real estate, many manufacturers have relocated from China to Vietnam to diversify their supply chains and shipping networks because of the US-China trade war and the Covid-19 pandemic. In addition, large electronic firms like Samsung, Foxconn, and Intel have expanded their investments in Vietnam. Industrial land rents and occupancy rates in key cities like Ho Chi Minh City and Hanoi continue to increase, and investors are looking at surrounding provinces like Thanh Hoa, Ha Nam, and Vinh Phuc that have lower land rentals. The Vietnamese Government has increasingly emphasized the development of infrastructure in the north, like ports and highways. Localities in the northern region have shown a strong commitment to promoting industrial parks, and this bodes well especially for industrial real estate in northern Vietnam. The FDI flows into Vietnam in recent years have also been of higher value, such as in advanced technology and manufacturing, and this will significantly benefit supply chains in Vietnam. Overall, investments in residential and commercial real estate by foreign investors slowed down largely because of the Covid-19 pandemic, particularly for serviced apartments, condotels, and hospitality real estate. However, this is expected to rebound quickly because of Vietnam's overall strong demographic and economic factors and its resilience displayed during the pandemic. Its real estate sector is still quite young compared to other competing regional centers such as Manila, Jakarta, and Bangkok. Demand and supply factors in all types of property mean that we can identify many opportunities in many sectors. At the moment, for example, due to the avoidance of a reliance on China, many manufacturers from around the world are looking to Vietnam as an alternative, and as a result industrial parks and industrial properties are in high demand. The growing middle-class has boosted demand for residential housing of all types. I expect to see investment across all segments in the coming years.

Mr. David Jackson,
CEO, Colliers Vietnam

Similar to all countries around the world, FDI flows to Vietnam have been impacted by travel bans preventing foreign investors from visiting and closing deals, and many have been cautious about committing capital to new overseas assets. This impact, however, appears not to be long term. Figures reveal that Vietnam's FDI in general and FDI into the real estate sector lost a little momentum in the first three quarters of 2020, right after the virus first broke out, but bounced back around the end of the year and the first quarter of 2021. The successful containment of Covid-19 and different fiscal and monetary stimulus measures from the government cemented Vietnam's position as an attractive and safe investment destination in the region. Prior to the pandemic, foreign investors had eyed Vietnam as a promising location to expand their supply chains away from China, and this trend is likely to continue in the mid and long terms after the pandemic. During 2020, to aid economic recovery, the State Bank of Vietnam announced a string of interest rate cuts, to speed up economic recovery, which in turn created a positive impact on the real estate market. As 2021 progresses, licensing issues are being resolved gradually, thanks to the smooth political transition of the country and the new effective laws on investment and enterprises which provide a more business friendly regulatory framework for both domestic and foreign property players. The industrial market was a "hot" segment in Vietnam's real estate industry in 2019-2020 and is likely to remain so in 2021. The US-China trade war prompted many manufacturers to relocate to Vietnam, and Covid-19 accelerated this trend. Industrial land prices, rents, and occupancy rates will continue to enjoy excellent growth. As e-commerce grew massively in 2020 after shoppers stuck at home flocked online, it accelerated the logistics real estate sector. We have seen increasing investor requirements for logistics, warehousing, cold storage, and supporting infrastructure and we expect these investment areas will become key over the next few years. Speeding up the disbursement of public investment is an important solution to accelerate economic recovery amid the Covid-19 pandemic. In addition, public investment is mainly concentrated on key socio-economic infrastructure projects, especially in transport, water resources, education, healthcare, and agriculture, so it can act as bait to attract foreign investment. In order to improve the investment climate, the government should take a more progressive approach to resolving legal delays to projects, simplifying administrative procedures, and reducing investment conditions for foreigners. These will help smooth real estate project approvals and reduce the time needed to obtain construction permits. ■

Mr. Masataka Yoshida,
Senior Managing Director, Head of the Cross-Border Division & CEO Vietnam, Recof Corporation

FDI into real estate in the first quarter of 2021 was $600 million, accounting for 6 per cent of total inwards FDI into the country and more than double the figure in the same period last year. Despite the overall decline of 25 per cent in FDI in 2020 compared to the previous year, due to disruptions from Covid-19, foreign investment in real estate still rose 8 per cent year-on-year to nearly $4.2 billion and accounted for 15 per cent of total FDI. Real estate has remained one of the leading sectors in attracting foreign investment, representing 10-20 per cent of total inflows each year from 2017 to 2020. These were largely Asian led, notably from Singapore, South Korea and Japan. During the recession, the real estate sector continued to see sustained investments, reflecting its attractiveness among foreign investors. Figures from Real Capital Analytics (RCA) show that investment trends have changed over the last five years. Specifically, the share of office, retail, and hotel in total investment volumes fell from nearly 80 per cent in 2016 to 40 per cent in 2018-2019 and only 12 per cent in 2020. Conversely, investments into industrial real estate gained a larger proportion, rising from less than 10 per cent in 2016-2018 to nearly 30 per cent in 2019 and 50 per cent in 2020. In the opening quarter of this year, there were ten newly-registered FDI projects in the real estate sector with $432 million in total, eight of which belong to the industrial segment. Many other foreign investors are also seeking opportunities to take part in the industrial segment, comprising both industrial park infrastructure development and the construction of warehouses and factories for lease. Accordingly, the industrial segment is expected to continue receiving larger investments in the time to come. This is due to the sustained development of Vietnam's manufacturing sector, in addition to the fast-growing logistics sector and high demand for warehousing facilities. In particular, the shift of manufacturing facilities from China to other countries to diversify supply chains and be less dependent on China and ease the impact of US-China trade tensions have made Vietnam a more attractive investment destination, with its stable macro-economic conditions, preferential incentives from the government, and the potential benefits from its free trade agreements. Unlike industrial real estate, other sectors have been more affected by the pandemic, with lackluster performances posted recently. However, with the effective containment of the pandemic, economic activities have resumed and are normalizing. Heavily affected by the pandemic, the hospitality sector will take longer to recover and is unlikely to get much attention for now. However, with strong domestic tourism as well as the gradual re-opening of international flights from the rollout of vaccination programs and the implementation of vaccine passports, this sector could yield returns for the first mover, especially when there are several properties offered for sale. By addressing long-standing issues, the State can maximize the growth of real estate. The amended laws on investment, enterprises, and land, and Decree No 148, should technically provide more guidance and transparency and are well timed with new trade pacts being ratified. The first priority should be ending the uncertainty around land transfer pricing. Furthermore, they should halt their reviews of project prices paid by developers. Providing clear guidelines and a cohesive framework for developers to work within would help resolve supply-side issues without overwhelming or destabilizing the market. Processes and frameworks that allow this can be utilized to address the second market bottleneck: the term of the land use right certificate (LURC). Fifty years is an adequate timeframe for investors looking to acquire land or assets, and they can work within these constraints. Other regional markets have successfully used similar lengths of time for land leases. What investors do not like is the uncertainty that arises from the lack of guidance or clear framework for potential issues. In this case, the expiry of a project or asset's LURC, and the process to renew it, creates uneasiness for investors and developers. ■

Mr. Paul Tonkes,
Director, Logistics & Industrial Services, Cushman & Wakefield Vietnam