Savills Research
Ho Chi Minh City, Vietnam

Spotlight
The Amended Housing Law

January 2015

SPOTLIGHT

THE AMENDED HOUSING LAW

Housing Law Amendments

This highly anticipated and long discussed amendment has had support from all levels of the government and throughout the Vietnamese property industry. Once adopted in July 2015, it will allow foreigners to lease and own a maximum of 30% of an apartment building or up to a maximum of 250 villas or townhouses. This effectively provides a registered 50 year leasehold title and gives foreigners the same rights as Vietnamese as they can now sub lease, mortgage, trade and inherit.

These amendments follow wholesale legal reform influencing many sectors and come at a time when foreign investors are showing increasing interest of particularly Vietnamese development assets. Vietnam's rapidly changing legal landscape is creating greater business certainty and a healthier and more competitive financial environment.

In 2008 a foreign ownership pilot program was passed, however this was largely unsuccessful. Up until Q2 2013 only 126 foreigners of which 108 were individuals, had purchased under this program. As at 2013 there were officially 74,000 foreigners resident in Vietnam.

The recent amendment follows the relaxation of property rights for Overseas Vietnamese (Viet Kieu) who now have access to full and unfettered ownership. Vietnam is one of the world's top 10 recipients of overseas remittances. In 2013 overseas remittances were up 10% year on year to US$11B, much of this can now effectively and confidently be held in real estate. A recent report (CIEM & Western Union, 2014) indicated that up to 17% of these remittances or nearly US$2B, will be held in property. CIEM notes that at around 8% of GDP this is a significant contribution to the economy.

Foreigners will have a more enforceable and 'useable' title now being able to; sub lease, mortgage, trade and inherit, thereby opening up a far deeper domestic purchaser pool. This will add greater liquidity to the residential market that is now showing signs of a modest recovery across the nation.

Why is the residential market so important? The residential housing market is effectively the 'engine room' of the economy. It provides a large store of the nation's wealth and drives labor markets and consumption. Through monetary policy acting on interest rates the government can directly influence the economy. In turn foreign investment is important as it enables greater supply to be bought on to satisfy the increased foreign demand. It is highly competitive within the region so any policy that assists sourcing capital is helpful.

Regional Competition

Importantly the amendment helps the Vietnamese property market become more competitive within the region. The table below summarizes the key ownership rights within the region;

The amendment will also allow investors with 'valid entry' to have exposure to a very attractive asset class within an emerging market that has excellent structural characteristics and strong growth potential. Rental yields from selected cities are shown below, Vietnam is a relatively high return location. Factoring in potential capital growth then total returns are attractive.

TABLE 1

Global Rental Returns

Tokyo	4.6%
London	4.0%
Singapore	3.9%
Mumbai	3.3%
Hong Kong	2.7%
Shanghai	2.3%
Moscow	5.8%
New York	5.7%
Dubai	5.5%
Paris	5.0%
Sydney	4.8%
Vietnam	**6.0%**

TABLE 2

Regional Foreign Ownership

Country	Tenure	Type
Cambodia	50 years	Apartments and condominium
Hong Kong	50 years	Residential and commercial
Indonesia	25 years	Residential and commercial with Right to Use title
Japan	freehold	Residential and commercial
Malaysia	99 years	Residential, commercial and land
Philippines	50 years	Land, residential and commercial
Singapore	99 years	Non-restricted residential properties
Taiwan	20 years	Houses and land
Thailand	30 years	All types of land or buildings
Vietnam	50 years	Apartments, townhouses and villas

'Golden Visas'

The 'valid entry' opens the potential for 'golden visas' that allow forms of permanent residency in return for minimum level of investment in residential property. Within the 'golden visa' framework there are usually other regulations that assist supply, such as; only new product can be purchased, resale within a stipulated period is prevented and domestic purchasers must have equal opportunity.

Financing

The decree also allows foreigners to 'pay for the property via a financial organization operating in Vietnam'. The Vietnamese retail banking sector is evolving and highly competitive, this should flow though to promoting easier access to property mortgages for foreigners.

However there are two hurdles to overcome before onshore debt can be contemplated; the first is foreign investment regulations for individuals from the State Bank of Vietnam, the second is that the debt could only be tied to the length of a visa, effectively two years.

The Numbers

Vietnam has an excellent demographic structure for the future of residential development. It has a household occupancy of 4.1 that is one of the highest in the region. Typically mature countries plateau at around 2.6. Vietnam has a large population of almost 90 million but also has a high urbanization rate at 3.03%.

The current planned supply up to 2017 for both HCMC and Hanoi is approximately 100,000 dwellings. Quick numbers show that in excess of this are needed annually for both cities. As the household occupancy decreases then formation will increase, this combined with the increasing urbanization is fertile ground for residential development. Even if these two variables are further refined it can be seen that there isn't a large supply overhang and real demand should continue at healthy levels.

Foreign ownership in mature economies is 5% to 10% of all property transactions.

- In HCMC and Hanoi there are 35,000 transactions in the primary market annually. At 5.0% this potentially yields 1,750 foreigner purchasers per annum. By comparison MMSH has up to 3,000 pa.
- Average price of $120,000 = $210m sales pa. Chop / stamp duty / processing @ $1,500 = $2.6m pa.
- The impact of the foreign purchasers is insufficient to influence pricing, however can assist with absorption and liquidity thereby contributing to a healthier residential market.

Case Study - Malaysia My Second Home (MM2H)

Malaysia has a population of 30 million people, with 90,000 foreigners and around 250,000 property transactions annually.

The Malaysia My Second Home program (MM2H) is a residency scheme to allow foreigners to live in the country on a long-stay visa of up to 10 years. To qualify for the program, applicants must meet certain financial and medical criteria. Presently they must purchase a dwelling with a minimum value of US$570,000 and maintain minimum monthly bank balances to demonstrate self sufficiency. Successful applicants are then entitled to enter and leave the country on a largely unrestricted basis.

There have been around 18,000 foreigners take up the scheme since its inception in 2002. In 2013 greater than 50% of the participants are from China and Japan, the combined take up of Europe and Americas was only 5%. The chart below shows take up by nationality since the program began.

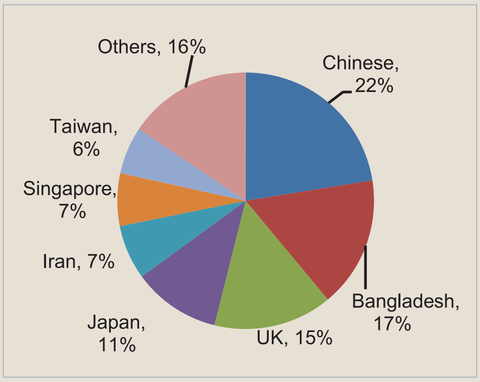

TABLE 3

International Golden Visa requirements

Country	Type	Minimum Investment amount	Length of visa / citizenship	Required time in country
Portugal	Visa	€500,000	One year, renewable	7 days in first year, 14 days in following 2 years
Spain	Visa	€500,000	One year, renewable	7 days in first year, 14 days in following 2 years
Greece	Visa	€250,000	Five years, renewable	Not stated
Cyprus	Visa/Citizenship	€300,000	3 year/ Citizenship	No visit required
Antigua and Barbuda	Citizenship	$400,000	Citizenship	35 days in first 5 years
Bahamas	Citizenship	$500,000	Citizenship	Not stated
Grenada	Citizenship	$500,000	Citizenship	No visit required
St Kitts and Nevis	Citizenship	$400,000	Citizenship	No visit required

For further inquiries, please contact:

Troy Griffiths
Deputy Managing Director
Tel: +84 (0) 933 276 663
Email: *TGriffiths@savills.com.vn*

savills.com.vn

Ho Chi Minh City Office
18th Floor, Fideco Tower,
81 – 85 Ham Nghi Street, District 1, Ho Chi Minh City
Tel: (84-8) 3823 9205   Fax: (84-8) 3823 4571
Email: Hcmc-info@savills.com.vn

Hanoi Office
6th Floor, Sentinel Place,
41A Ly Thai To Street, Hoan Kiem District, Hanoi
Tel: (84-4) 3946 1300   Fax: (84-4) 3946 1302
Email: Hanoi-info@savills.com.vn