Transparency key for overseas investment

By Ngoc Anh

More transparent and compatible factors from the Vietnamese government and investors are key requirements to attract further funding from the international arena into the country's real estate market.

According to Nguyen Thi Thanh Huong, CEO of Dai Phuc Land, foreign investors are highly appreciated in the Vietnamese real estate market, especially if they have a long-term vision. However, the compatibility between groups inside and outside the country must be improved. This refers to the gaps between the legal framework, corporate government, and the types of products which developers are looking for.

Up until now, the Vietnamese legal system has been tangled in uncertainty across several issues, such as for condotels, tourism property, and for entertainment and leisure facilities. Moreover, foreign investors also pay the most interest to the capacity to manage the developers, as well as the type of projects which they plan to invest in.

"Vietnamese developers must seriously prepare a mindset and mentality and improve themselves towards international standards to be equal to foreign investors, so that we can successfully co-operate with them," Huong said.

Dai Phuc Land is now developing a large-scale project called Van Phuc City. The developer has also recently successfully inked a contract with South Korean Daemyung Group to co-develop the $300-million Ocean World as part of Van Phuc City. "In order to fulfil this contract, we must upgrade ourselves to meet the demand of the foreign partner," Huong said.

Meanwhile, according to Hong Sun, vice chairman at the Korea Chamber of Commerce and Industry in Vietnam, South Korean investors often have difficulties in accessing information on the Vietnamese partners with whom they plan to co-operate.

"Vietnamese partners must clarify their business status, along with advantages and disadvantages, so foreign investors can make the right decision," Sun said.

Many deals have failed due to a lack of transparency. For example, domestic and foreign partners in a joint venture to develop a $140 million complex with horse track ended up in court due to a dispute that lasted over the last 12 years. The 500-hectare project is located in the southern province of Long An and invested by Ho Chi Minh City-based Hong Phat Real Estate JSC and China Policy Ltd. (CPL).

The Chinese company had made contributions of $15.6 million for its part. However, due to the extra expenses for compensation, the domestic partner requested CPL to contribute another $20 million, which was refused. Now in court, the joint venture is on the edge of bankruptcy.

Meanwhile, the unclear regulations on paying tax has also put a halt to a $4.1 billion tourism complex, Saigon Atlantis, through US Winvest Investment LLC, which has also dragged on for more than a decade.

In 2007, Winvest had advanced an amount of VND98 billion ($4.5 million) of the land rent to the southern province of Ba Ria-Vung Tau for land clearance and compensation of 87 hectares out of the total of 307ha. However, in 2012 this piece of land was handed over to the investor.

Following Decree No.69/2009/ND-CP, investors must pay land rental at the time of land allocation. With this regulation, the actual rent at the time of land allocation to the investor in 2012 had increased five times higher compared to 2007. Winvest, therefore, requested to pay the rates of 2007 but was refused by the local authorities. The authorities decided to revoke the project and add it to the list calling on other investors to develop in the coming time.

Although strongly impacted by the coronavirus, slowing down real estate development in Vietnam, interest from foreign investors remains high.


Photo: Le Toan
Legal frameworks must be improved so the right investment appears

According to Eric Solberg, chairman and CEO of EXS Capital, a Hong Kong-based independent investment firm with interest in high-end residential projects in Vietnam, the pandemic has devastated the real estate market but it is not all negative for some sectors.

"Segments which still remain on the increase despite the pandemic are logistics, industrial property, and data centres," Solberg told *VIR*.

He added that EXS Capital is working with local partners to locate sites with land and power to build the next generation of Vietnam's digital economy. "With e-commerce, video meetings, and entertainment streaming all going through the roof, the cloud is ever more important and, as we say, data centres are where the cloud lives. So that looks very promising," he said.

Solberg added, "For brave, smart investors, these situations are the very best time to invest, of course with a strong and honourable local partner."

Meanwhile Don Lam, VinaCapital co-founder and CEO, said that some real estate development projects in Vietnam are being held up by challenging issues, but VinaCapital believes that the development of many other projects that are not encumbered by such intractable issues should be allowed to progress right away.

"Before the COVID-19 outbreak, the pent-up demand of middle-class homebuyers, coupled with the dearth of new projects, led to a situation in which newly-launched units were typically receiving multiple bids on each unit for sale. In our opinion, that is a clear signal that more units need to be developed and launched for sale," Lam said.

VinaCapital expects more manufacturers to expand or locate operations to Vietnam, an acceleration of a trend that has already brought significant levels of investment. "Vietnam continues to offer tremendous opportunities for investors who know how to identify and access them and avoid pitfalls," Lam said.■

Japanese investors lead M&A in real estate market

By Van Ngoc

Despite significant deals from Japanese investors during the first five months of the year, the development of mergers and acquisitions in real estate remains uncertain in the second half of the year due to the long-term impact of the coronavirus pandemic.

In January, Mitsubishi Corporation and Nomura Real Estate acquired the majority shares (80 per cent) of the Grand Park project by Vinhomes, including over 10,000 units of condominiums in Ho Chi Minh City.

According to Mitsubishi, this township covers approximately 365 hectares and will include offices, residences, sports and commercial facilities, schools, hospitals, and parks for about 200,000 people.

Not a newcomer in Vietnam's mergers and acquisitions (M&A) market, Mitsubishi had previously co-operated with local property developer Bitexco to create 240 low-rise housing units and two high-rise condominiums out of a proposed total of more than 1,000 low-rise and 17 high-rise units at The Manor Central Park project in Hanoi. In Ho Chi Minh City, the company is also involved in a range of projects developed by domestic Phuc Khang Group.

Meanwhile, Nomura Real Estate acquired 24 per cent of the stakes in Sun Wah Tower, in addition to the Zen Plaza office building in the heart of Ho Chi Minh City. Moreover, Nomura Real Estate co-operated with Phu My Hung Development Corporation to develop the Midtown Phu My Hung Complex in the city's District 7. Under its new medium- to long-term management plan, which runs until March 2028, Nomura Real Estate plans to invest approximately ¥300 billion ($2.7 billion) in overseas businesses including in Thailand, Vietnam, the Philippines, and China.

Elsewhere, Haseko Corporation reached an agreement to acquire a 36 per cent stake in Vietnamese construction firm Ecoba in May. Haseko is one of the leading condominium contractors and development corporations in Japan with total assets of up to $6.8 billion. The company has built a total of around 580,000 condominium units, approximately 10 per cent of the total number of condominium units on the Japanese market.

According to Masataka Sam Yoshida, head of the cross-border division and CEO at Vietnam RECOF Corporation, there are two types of Japanese real estate investors currently present in Vietnam.

"Especially in the real estate sector, one would invest on a corporate level, focusing on real estate developers, while the other one would invest into specific development projects. In general, most Japanese favour the latter type as projects are simpler to manage and more visible. Meanwhile, since it is not easy to see all the inside of a corporation, the potential risk is higher," Sam Yoshida told VIR.

Nevertheless, Japanese investors have been searching for appropriate target projects in vain recently as local developers remained impatient to go with the time-consuming research process. "The increase of Japanese investment will be rather dependent on the strategies of local developers, the price of the land, and the speed and volume of approvals to be issued by the authorities," said Sam Yoshida.

According to Phan Xuan Can, chairman of real estate consulting firm Soho Vietnam, one of the best times for M&A hunters is when the market is in crisis. "Many individuals and investment funds have contacted me to search for new assets, particularly for office buildings, and small- and medium-sized hotels and resorts with the total investment of about VND8-10 trillion ($350 to 430 million)" Can disclosed.

Stephen Wyatt, country head of JLL Vietnam also said that the investment thesis and key fundamentals for Vietnam remain positive although some investors might be hesitant on their investment decisions due to the impact of COVID-19.

Even though the market saw positive signs in the first five months, the second half of the year is expected to remain uncertain. Sam Yoshida, RECOF said that M&A activities in the second half of 2020 would not be easy to predict due to the adjustment needed between the negative impact of the pandemic and the needs for economic recovery which will have different procedures in each country and sector. "In addition, one of the hurdles that the market will have to overcome are the strict regulations at the country's border gates, which will physically prevent investors to examine prospective projects, but also the local side willingness to see the results of the coming election in early 2021," Yoshida said.

Therefore, according to Sam Yoshida, Japanese investors can further be divided into two more groups. "One group includes those who would want to follow the traditional way to 'wait and see' until after the storm has passed. The other group, which is increasing among their customers, will include those who would want to grasp this opportunity to take advantage of having less competing buyers; not because they want to buy cheap but because they want to find the best possible partnerfrom wider choice for their valuable expansion in the region. ■