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ESTATE OF AFFAIRS

Navigating the pros and cons of investing in the real estate market

Hi Sven,
I'm a French citizen currently living in Ho Chi Minh City. I would like to invest in local assets. I've tried to open a stock trading account with a local brokerage but it seems like the stock market is extremely volatile, and asset prices do not often reflect company fundamentals. I've been looking at buying some physical real estate as there are many new projects popping up around the city. Do you have any insights into the local real estate market and are there any projects that you would recommend as an investment?

THE LOCAL REAL ESTATE MARKET has been in a sort of "honeymoon" phase when it comes to foreign investors, as the state allowed foreigners to purchase property for the first time in July 2015. The fact that you see so many new projects showing up around the city obviously shows that local developers are expecting foreigners, and obviously locals, to pounce on their new supply of developments.

It is relatively easy to purchase property as a foreigner at the moment. All you would require is a valid passport and Vietnamese visa, which could be a tourist or business visa. You would be required to sign a purchase agreement and transfer funds, either the entire value of the property upfront, or through a payment schedule dictated by the developer. If you would like to purchase a unit in a development where the basement level has not yet been completed, you would have to sign an additional deposit contract. You might ask "why would I want to buy an apartment in a development where the foundation has not yet been completed?" The truth is that there is so much demand for units within new developments around the city that many will have sold 80 percent of the total

units before the second floor is even finished, a problem which I will address further on.

There are many positive economic aspects that could drive more foreign and domestic investment into the local property market. Firstly, neighboring countries like Hong Kong and Singapore have been experiencing issues within their own property markets. Residential sales have decreased around 70 percent in Hong Kong since the beginning of 2015, and Singapore's residential property price index has decreased by 14 points since the beginning of 2014. Secondly, gross yields received on properties in Vietnam (the amount of money you receive from letting your unit relative to the price you pay) are higher than most cities in Asia, except for Phnom Penh, at around 8 percent. Thirdly, there are a few monetary positives: the central bank has kept its benchmark interest rate the same since 2014, the Vietnamese dong maintains a stable currency peg to the US dollar, and inflation for 2016 is forecast at around 3 percent—which all means that there should be no shockwaves to the credit market in the near future, which is important as more and more investors buy property on

credit (loans to home buyers increased 22 percent in 2015). Lastly, urbanization is increasing and demographic shifts are taking place. More and more properties are being bought by younger individuals and families, on credit, which will drive prices positively going forward.

There are many inventories available, from apartments, penthouses, retail spaces to villas and office spaces. Residential space is usually priced around USD2,300 per square meter. There are also many new units around the city known as "officetels," which are essentially hybrids of office space and residential, designed for young entrepreneurs working for small companies. These are usually priced at USD3,700 per square meter.

One of the more trusted developers is Novaland. They have over 20 projects available around the city, comprising penthouses, apartments, officetels and retail spaces.

If you are looking for something more luxurious, look no further than the Sanctuary Residences near the Ho Tram Strip, a 1.5 hour drive from Ho Chi Minh City. These are beachfront villas located close to The Bluffs Ho Tram golf course.

There are, however, a number of pitfalls when it comes to participating in the local property market. It is often difficult to obtain accurate market data, as with any frontier market. Speculative activities by local investors could lead to dramatic property price increases in the near term, resulting in boom and bust cycles (see China). Also, it is often difficult for foreign investors to obtain mortgages from local banks unless they are married to a Vietnamese citizen.

I believe this is a relatively risky real estate market. However, if you have a long horizon ahead and have a portion of your capital held in safer, less volatile investments, why not take a punt? ■