

A Study on the expansion of public rental housing supply

Using REITs model

- Based on the case of Ho Chi Minh City, Vietnam

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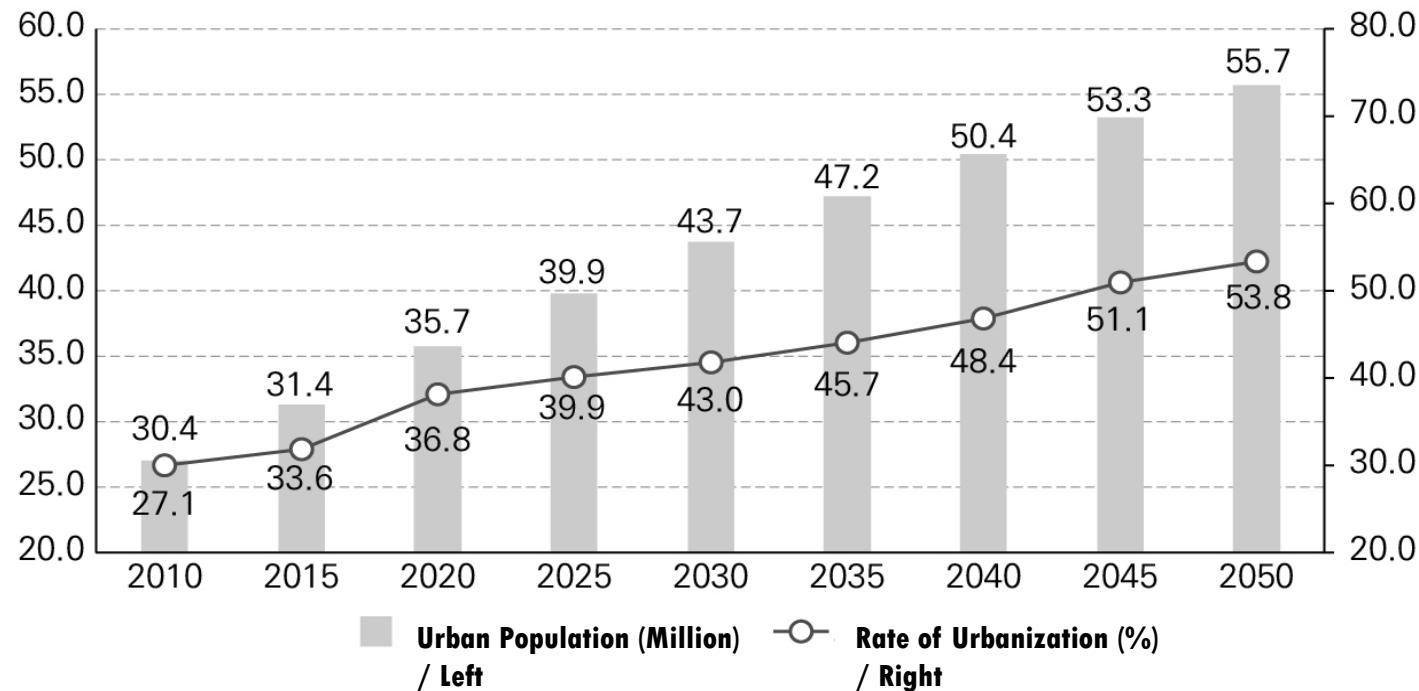
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Introduction

Research Background



- **Rapid economic growth and urbanization in Vietnam → Housing shortage problem**
- **Unsuccessful management of rising housing demand due to large-scale migration for higher education and employment**
- **Shortage of affordable housing due to market polarization since 1986 (Doi-moi economic opening)**
- **Rapid response is needed to prevent the mass production of slums and bad houses**

Because it is difficult to deal with housing problem quickly with government budget alone, different types and sources of financing is needed.

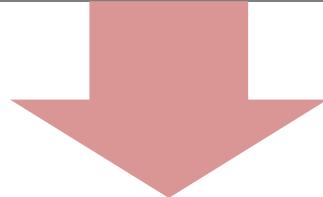
Current Status of Ho Chi Minh City

- **Population: About 8.3 million**
- **Net population inflow rate (2016): Highest single city in Vietnam (6.6%)**
- **Rapidly growing area of population and economy**
- **Housing Shortage problem**
 - Despite the nation's highest monthly average income area, the ratio of permanent houses stood at 27.2 percent which is far below the national average of 49.7 percent.
 - Statistically more than 70% of the population lives in semi-permanent housing and below
- **More than 90 percent of Hanoi and Ho Chi Minh immigrants lives in rental homes, but the rental price of Ho Chi Minh is even too high for the middle income group (UN Habitat, 2008)**
 - Average monthly household income: 3.77 million VND (General Statistics Office of Vietnam, 2016)
 - Average monthly rent for one-bedroom apartment: 13.2 million VND in downtown, 7.2 million VND in outer region (numbeo.com, 2018)
- **The abolition of the family registry system (declared in 2011) leads to a greater population concentration.**
- **Although a government fund for public rental housing development in Vietnam exists, the actual projects is very little so the sufficient supply is difficult through the fund (Ministry of Economy and Finance, 2014)**

→ **Needs of supplementary funding in addition to Government funds**

- * **Focusing on the housing shortage problem in Ho Chi Minh City area, Seoul REITs is implemented as a model to expand the supply of public rental housing in this study.**

Seoul REITs, which is a public-private cooperated rental housing business model, has benefits of stability ensured as a public sector and it enables efficient use of private funds so that it does not rely entirely on public resources at the same time.

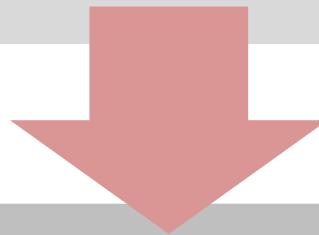


Proposal of a business model that utilizes **ODA funds**

Research Purpose

“If REITs associated with ODA, how effective would it be to promote the supply of public rental housing In Ho Chi Minh City, Vietnam?”

- * **Innovative Financing Plan is needed**
 - **Mixed finance (private and public resources)**
 - **Multilateral cooperation**



- * **Financial benefits of REITs**
 - **Enables small investors to participate**
 - **Promoting Liquidity of the real estate market**

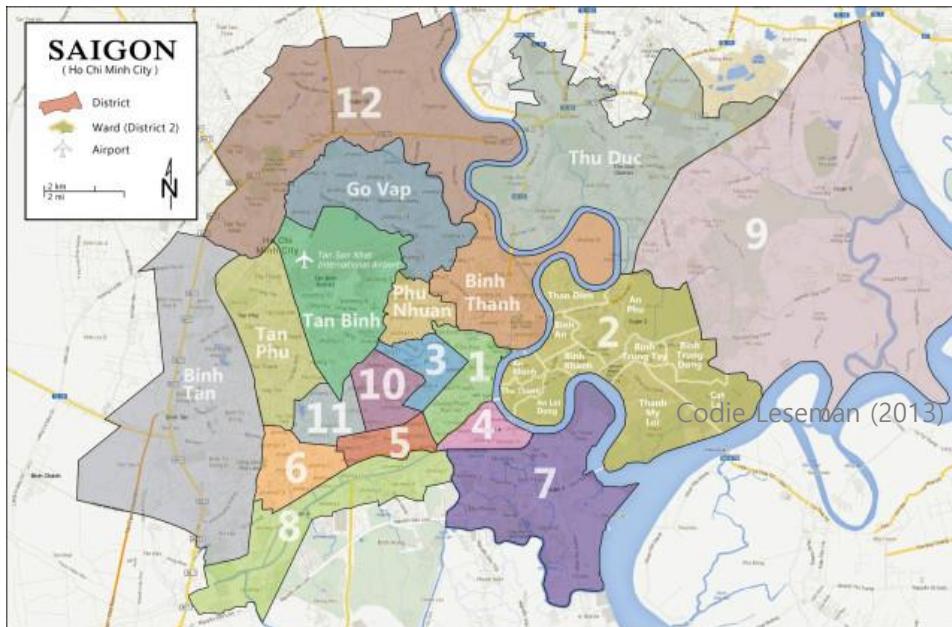
Methodology & Research Area

Research Steps

- 1. Survey on the Average Rental Price of Apartment in HCMC area through Local Real Estate Broker Website**
- 2. Study on the Related Policies of Ho Chi Minh and Vietnam**
- 3. Proposal of a Modified Model of Seoul REITs for the application in Vietnam**

Regional Analysis

**According to a survey of 2,092 property registered on Real Estate Rental Websites,
(Based on the minimum size of the government-supplied social housing - 30m²)**



Contents	Price per m ²	Price per 30m ²
Total Mean	195,000	5,850,000
Old City Area (District 1, 3, 5, 6)	239,000	7,170,000
Outer Region of Old Town Area (District 4, 8, 10, 11, Binh Thanh, Phu Nhuan)	200,000	6,000,000
The Outermost Region of Old Town Area (Go Vap, Tan Binh, Tan Phu)	158,000	4,740,000
New town Area (District 2, 7, 9, 12, Thu Duc, Binh Tan)	165,000	4,950,000

Income brackets	Monthly income	Monthly rent	Yearly rent
1	2,107,000	2,550,000	30,600,000
2	2,996,000	2,550,000	30,600,000
3	3,772,000	2,550,000	30,600,000
4	4,916,000	2,550,000	30,600,000
5	13,635,000	2,550,000	30,600,000
Average	5,481,000	2,550,000	30,600,000

<Calculated rent per monthly income by income brackets based on Given Data>

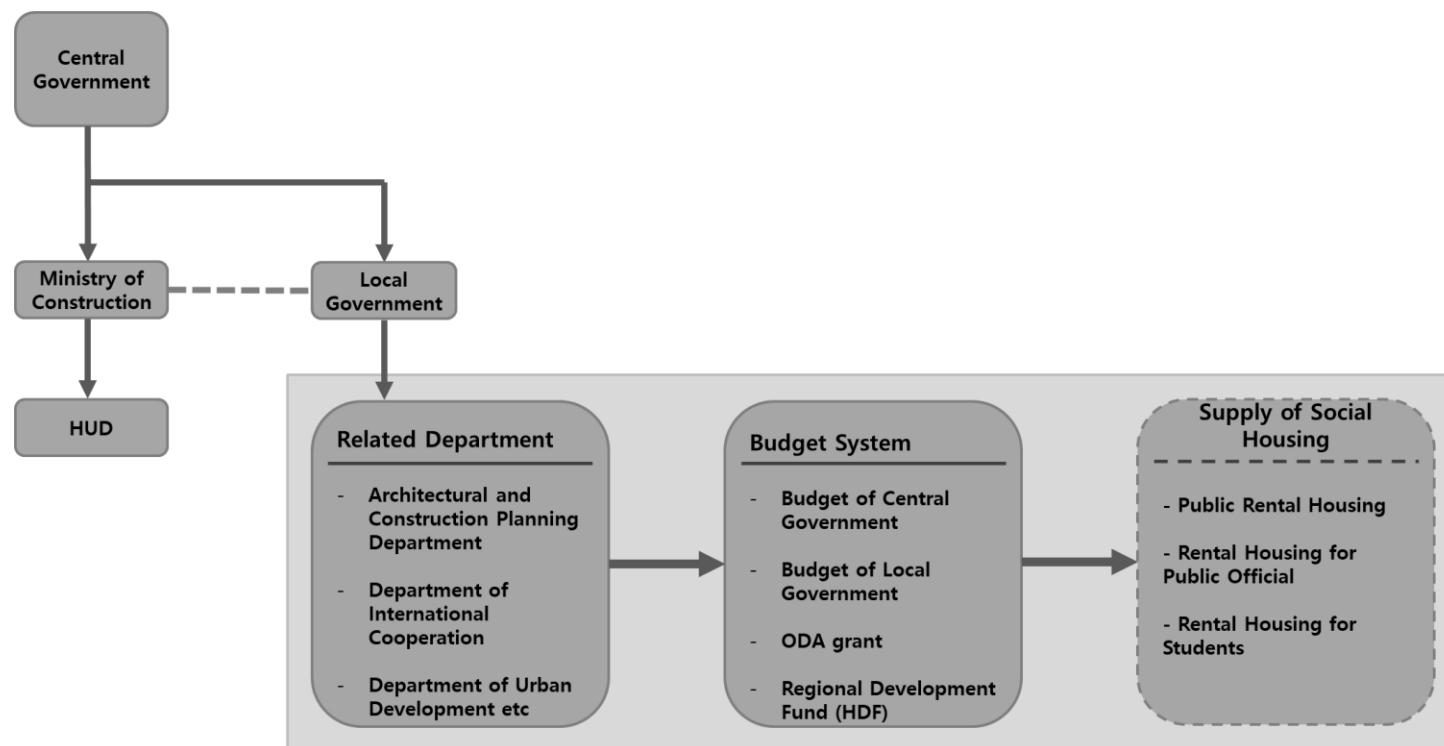
**Monthly average rent
5,850,000 VND**

Monthly average household income

5,480,000 VND

Public Rental Housing Policies in Vietnam

- * **2020 strategies for developing national housing (Announced in 2011) :**
 - Plan for supporting low-income and socially disadvantaged people**
 - by increasing the supply of rental housing on behalf of Market mechanism**
- * **Vietnam's social housing policy provides affordable housing to consumers such as**
 - 1. public sector workers**
 - 2. soldiers**
 - 3. industrial estate workers and college students, and**
 - 4. urban low income groups**



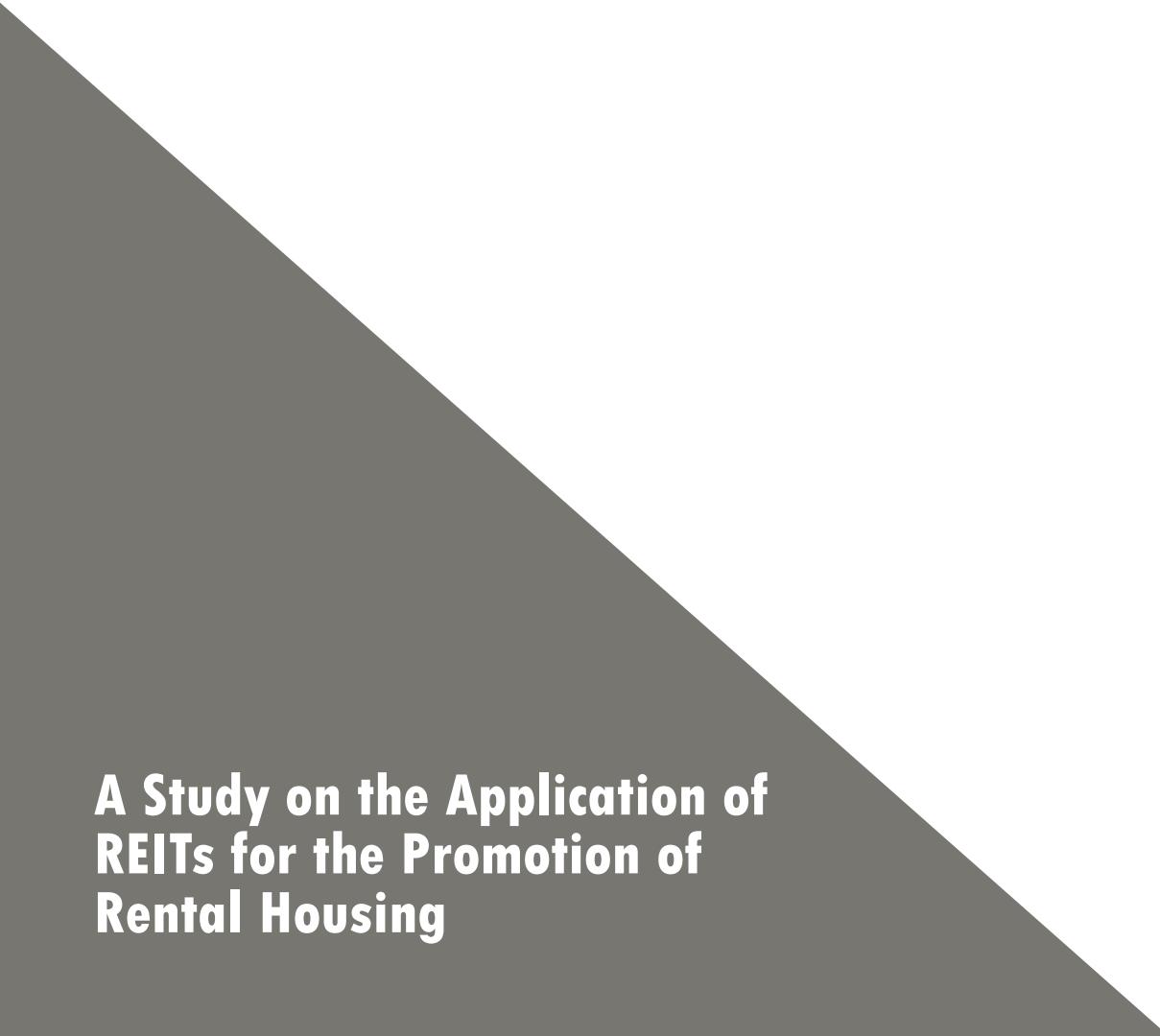
Application of Vietnamese Public Rental Housing Policy

- **Vietnam's domestic REITs were first established in 2016**
 - : The Vietnamese government actively attracts private sector and overseas capital participation by revising the Real Estate Business Act, the Housing Act, and the Land Act.
- ∴ IT clearly demonstrates the Vietnamese government's commitment to attracting foreign investment.

Categories	Housing for students	Housing for workers	Housing for low-income families
Area	Minimum 4m ² for each person	Minimum 5m ² for each person	Maximum 70m ²
Floor area ratio, Coverage	150% of general housing	150% of general housing(No limitation for stories)	
Land fee	-	Exemption	Exemption
VAT	-	0%	0%
Corporate tax	-	4years exemption from revenue occurring / 50% reduction for next 9 years	4years exemption from revenue occurring / 50% reduction for next 9 years
Loan preference	-	Yes	Yes
Infrastructure investment support	-	Yes	

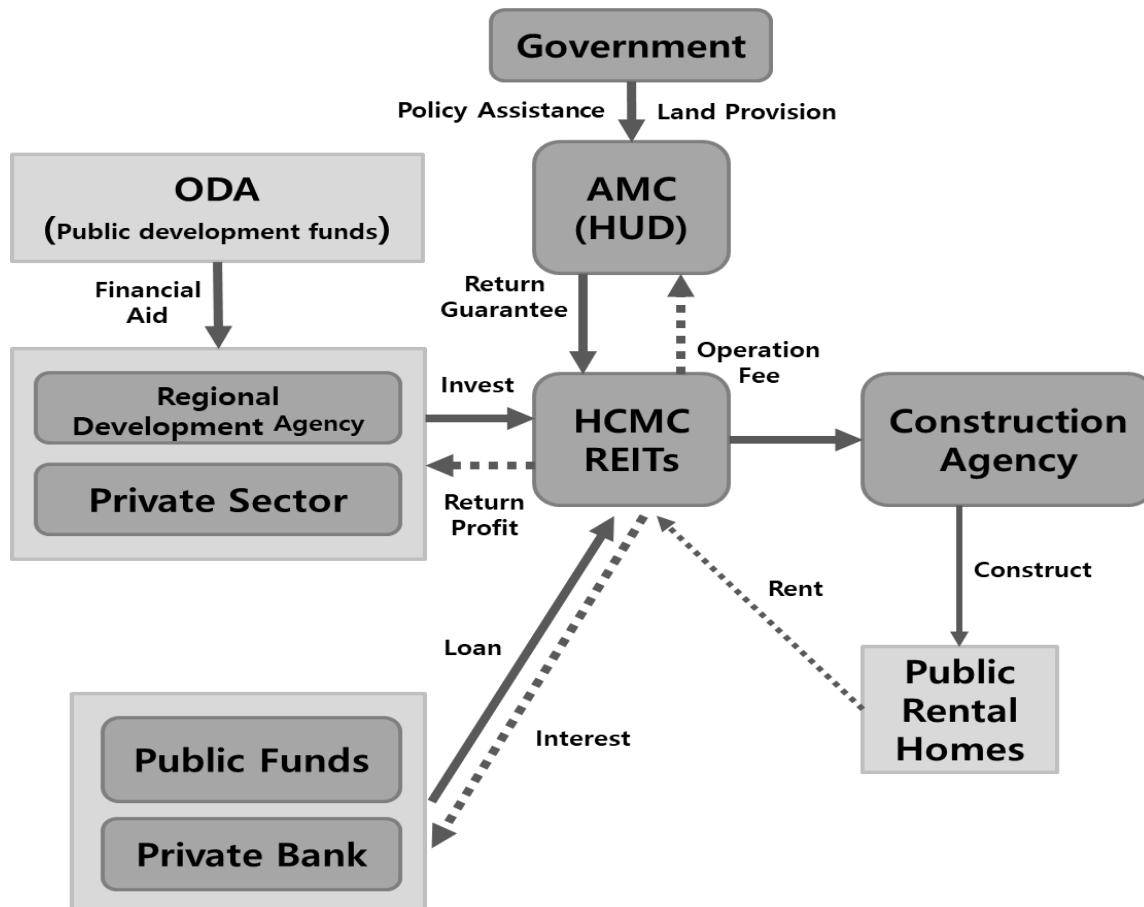
<Incentive articles from 2009 Vietnam Government's Social Housing Planning Act>

Source: The Department of Justice, Local Ordinance Manual for Korean Companies, Vietnam II(2015)



A Study on the Application of REITs for the Promotion of Rental Housing

A Proposal for the Model of Ho Chi Minh-type Public Rental Housing REITs



Based on Seoul REITs structure

- The AMC role that SH Corporation played at the Seoul REITs needs to be taken by regional development agencies such as HUD, which has the authority of managing housing projects in Ho Chi Minh area.
- the land needed to construct rental housing can be provided by the state, thereby reducing the cost of land
- ODA resources are introduced as an institutional funds

The purpose of these REITs model is to ensure that the public effectively reduces costs in the projects it wants to do, although it lacks marketability compared to the usual REITs.

Ho Chi Minh City's yearly rent compared to the price of rental housing (VND)

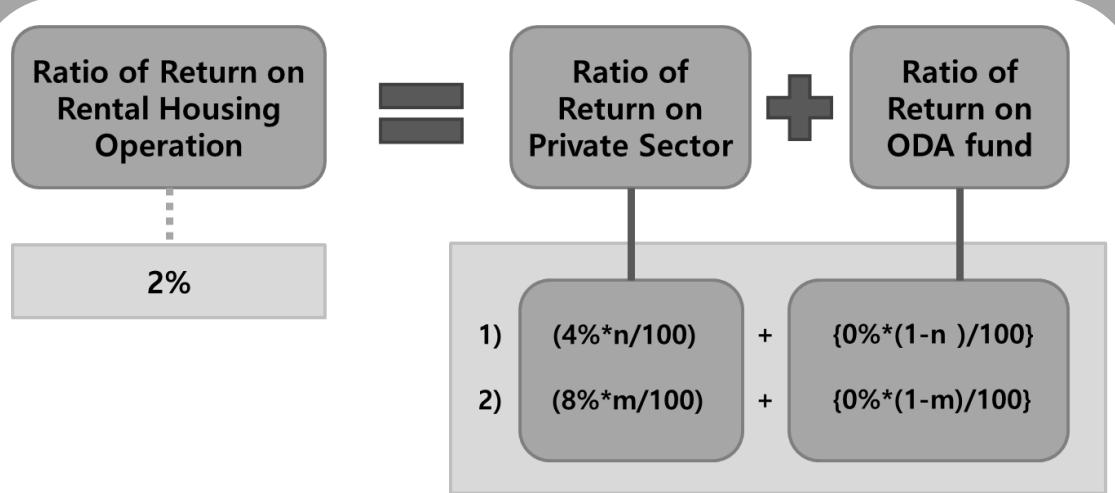
Average year rent for rental housing (VND)	Average price of rental housing (VND)	Annual rental rates to rental housing prices
2,550,000	150,000,000	0.02

Source: Author's estimation with reference to White Paper on Social Housing Activities Vietnam (LH, 2012)

- **based on an interview with the head of the Real Estate Association in Ho Chi Minh City**
- **Annual rental rates against the prices of rental housing were estimated, referring to the rents in the White Paper(LH, 2012)**

→ **the annual rental rate ratio to the rental housing price is 2 %, and this value is defined as the return on the operation of rental housing.**

Profitability Analysis 2



- 1) **4% above the national bond yield was assumed to be the target return of REITs**
- 2) **8 % above market interest was assumed as the target return for REITs.**

1) **$n = 50$**

REITs or private sector investments cover the remaining 50% of the cost of the project when ODA fund guarantees at least 50 % of the project cost.

→ **2% return on the operation of rental housing while guaranteeing a 4% return to REITs**

2) **$n = 75$**

REITs or private sector investments cover the remaining 25 % for the project cost when ODA fund guarantees at least 75 % of the project cost.

→ **2 % return on the operation of rental housing while guaranteeing a 4 % return to REITs.**

Conclusion

Needs of Supplementary Policies

MOU between Vietnamese government and international organizations responsible for ODA support is required

In addition to funding, the agency's **capacity enhancement program** should be conducted together.

To enable public sector utilization, **legislation needs to be supplemented** to diversify the use. (As the first REITs was established in 2016, incremental complement is required.)

Additional measures to address housing crisis need to be implemented. Residents who cannot even afford public rental houses need a **differentiated approach** such as rent assistance.

Conclusion

- If profitability is guaranteed through ODA funding, the government can reduce public budgets, attract private investment effectively, and achieve **public private partnership (PPP)**.
- Vietnamese government and public institution's financial support are needed for **long-term operations**.
- Although ODA resources can guarantee early investment stability, considering that most ODA projects are carried out within a certain period of time, government or local government needs to secure their own resources.
- The establishment of institutions in charge of operation or enhancement of capabilities of existing similar institutions is needed
- A **professional institution** is needed that can handle the establishment and operation of public rental housing REITs.

Thank You.