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The pattern of foreign property investment in Vietnam: The apartment market in Ho Chi Minh City

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A B S T R A C T

As globalization proceeds, transnational property development is increasing. Especially in emerging markets, foreign developers' influence in changing the local landscape is becoming significant. In this research, the behavioral patterns of foreign developers in the apartment market of Ho Chi Minh City, Vietnam were identified. To understand the dynamics of foreign developers, the types of products that were being created, where the investments were located, and the differences in development strategies adopted by foreign developers in comparison to domestic counterparts were identified. To accomplish this, data on apartment projects and statistics were collected, and a series of spatial analyses including sieve mapping, histogram analysis, factor analysis and logistic regression was conducted. In addition, closer examination was made of specific cases to understand the dynamics among foreign and domestic developers, also allowing the identification of some regularities in the patterns of foreign developments. Besides presenting detailed results, this paper also seeks to account for the conditions that appear to have generated these patterns and characteristics.

Introduction

As globalization proceeds, transnational property developments have increased significantly. The freer movement of capital, facilitated by deregulation, policy reforms, and a movement toward greater global trade integration, coupled with improvements in communication and transportation technology, developers from one country can readily implement projects in another. Especially in emerging markets, the influence of transnational investments in changing the local landscape is becoming more significant. Accordingly, there have been some researches on where foreign investments locate and why they chose to locate in those places when they entered the particular market. The locational patterns of finance and producer services by foreign investment have been especially studied for several cases. For example, Grant and Nijman investigated the geographic distribution of foreign companies in finance and producer services in Accra and Mumbai and found that market forces drove foreign companies to be spatially segregated from domestic counterparts within city centers (Grant, 2001; Grant & Nijman, 2002). In the case of manufacturing ventures, Wei et al. argued that investment policies of the local government are the most important factor accounting for the locational behavior of foreign ventures in their investigation of Nanjing (Wei, Luo, & Zhou, 2010), and the similar explanation also applied in Hangzhou (Wei, Leung, Li, & Pan, 2008).

Compared to these sectors in which foreign investors typically have comparative financial and technical advantages over the local players, the housing markets in emerging economies are generally an exception, mainly because foreign companies are unable to penetrate the markets as easily as their domestic counterparts. Foreign companies may have more sophisticated construction techniques and access to finance, but domestic firms have the advantage of possessing a better understanding of the local residential culture, lifestyle, climate conditions and so on. They are also more competitive in terms of cost reduction, having a strong business network and a familiarity with the local legal process. Therefore, the tension between foreign and domestic companies is more likely to be conspicuous in the housing market, and a different approach is thus required to for its analysis.

However, the manner in which foreign property developers behave when they enter a new market, vis-à-vis their products and strategies with a focus on housing type, remains an under-studied area. While there have been substantial case studies (e.g. Chen, Wang, & Kundu, 2009; Douglass & Huang, 2007; Huat, 2011; Percival & Waley, 2012; Shatkin, 2011) about the properties developed by foreign developers dealing with the driving forces and mechanism of investments in specific cases, spatial segregation

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from local environment and so on, quantitative evidences about how foreign developers' properties show different patterns from those developed by domestic counterparts have been rarely provided. Through an investigation of the growing apartment market in Ho Chi Minh City, Vietnam, into which substantial foreign real-estate investment have been channeled recently, this study intends to identify how foreign developers are different from their domestic counterparts in terms of where they locate their investments, how their products are different in terms of sizes and price, and how their strategies are different.

Foreign investment and the apartment market in Vietnam

Since *Doi Moi* (open door policy) in 1986, Vietnam has become a destination for foreign investment business by multinationals. Over the past decade, annual GDP growth has averaged 7.2%. With increasing integration into the global economy, 'Foreign Direct Investment' (FDI) into Vietnam has also surged. Net inflows of FDI ranged between $1.3 billion and $1.8 billion in 2002–2006 and soared to $6.6 billion in 2007 and $9.3 billion in 2008 (Anwar & Nguyen, 2010; Asian Development Bank, 2009). For firms pursuing a "China-plus-one" strategy for new factories in case things go awry in China, for example, Vietnam often turns out to be the "plus-one" (The Economist, 2008). In this regard, a large proportion of FDI originates from East Asian countries such as Korea, Taiwan and Singapore (see Fig. 1).

Not surprisingly, economic growth has changed the urban landscape of Vietnam substantially. The level of urbanization has grown from 19% in 1984 to an estimated 27% in 2007 (McGee, 2009: p. 230). A significant proportion of this urban population is centered on the three major urban centers of coastal Vietnam that include Hanoi-Haiphong in the Red River Delta, Ho Chi Minh–Binh Duong–Dong Nai–Vung Tau on the edge of the Mekong Delta and the central costal region around Da-Nang. Ho Chi Minh City (HCMC), in particular, has been a strong engine of the economic growth (Dapice, Gomez-Inanez, & Thanh, 2010: p. 2). The mega-urban region centered there recently accounted for 52% of the total FDI received and 74% of all investment (McGee, 2009: p. 230). Further, the apartment market of HCMC plays a significant role in attracting FDI. According to 'Property Report,' foreigners have been buying into apartments in HCMC for some time and at an astonishing rate. Around 85 percent of FDI that found its way into the city during 2007 flowed directly into the property sector. HCMC attracted US$2.5 billion during that period with over US$2.1 billion going into real estate."

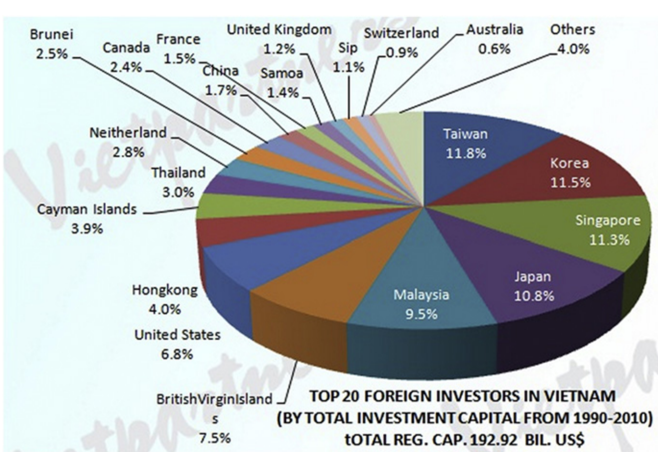

Fig. 1. Top 20 foreign investors in Vietnam. Source: http://www.vietpartners.com/Statistic-fdi.htm.

There are mainly three urban housing typologies in Vietnam: villas, row houses and apartments (Ly, Birkeland, & Demirbilek, 2010). Among them, apartments are not the housing type local people prefer. In an interview with Nguyen Trong Hoa, Head of 'Ho Chi Minh City Institute for Development Studies' (HIDS), he explained the reason as follows.

> There are some reasons why Vietnamese prefer villas to apartments. The first is that Vietnam originally was an agricultural country. Only about 20 years ago, more than 90% of the population was composed of farmers, and for farmers, having the land is very important. Therefore, when farmers migrate to the city, they still consider land as an indispensable asset. Second, in Vietnam we haven't established industrial manners quite yet. By industrial manners I mean the division of labor in an urban city. Life in the countryside is mostly self-sufficient, but when they come to the city, there is labor division, and other people take care of electricity, garbage disposal, etc. But because they were farmers, they want to do everything on their own, they want to dig their own wells, generate their own electricity, dispose of their own garbage. This means, the industrialization in Vietnam is too fast, while the people have difficulty in keeping up with the change. Urban civilization is not established yet. Moreover, the public service is quite bad. If electricity is cut, people have to walk many floors and carry water manually. Thus until now, this bad impression about apartments is still engraved in people's mind. (Hoa, 2011)

In other words, agricultural customs, difficulty adapting to urban lifestyles and doubts about public services make people hesitate to live in urban apartments. However, there have been some changes in this orientation. Apartment price, for instance, has risen in the mid-2000s, despite recent contraction. According to Hoa, consumers of apartments are mostly foreigners and young people who have lived in other countries (Hoa, 2011). Since most foreign investment into Vietnam is from East Asia, the majority of foreigners are also from East Asia and their lifestyle is well fitted to apartment living. As a result of such changes, apartments are also increasingly inhabited by members of the upper middle class. Fig. 2 shows the rough relationship between housing type and income level. It shows the wealthiest people live in villas, although apartments are usually consumed by households whose income per month is over 7 million Vietnamese Dong (VND).

Following on from this, apartments are more suitable for foreign developers to develop for several reasons. First, it is harder for foreigners to obtain land, and, therefore, apartments are better for them to make a profit from small areas of land. Second, since their information is limited compared to locals, it is better to focus on a small number of large-scale projects than on a large number of small-scale projects. Moreover, as seen in Fig. 1, most foreign developers in Vietnam are from East Asia, especially from Taiwan, Korea, Japan, and Singapore. Since apartments are what are frequently developed there, their human resources and expertise are accustomed to the development of this housing type.

Data and methodology

The main methodologies used in this study are logistic regression and factor analysis. Since the main objective of this study is to discover behavioral patterns of foreign investment which are different from the local, a dependent variable was set as to whether each project was developed by foreign developer or not. In many cases, foreign developers' projects were implemented as joint ventures in conjunction with a local partner. Until recently, this formation was the only way for foreigners to invest in property development since foreigners' ownership of land-use rights was legally prohibited until 2009. In the joint venture setting in