

The Decline in Vietnam Real Estate Market- Lessons from The United States of America and China

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ABSTRACT— *Vietnamese economy in 2013 likely to reach GDP growth of about 5.4%, inflation was under control at an increase of 6.5% figure. According to Prime Minister Nguyen Tan Dung, Vietnam's economy has overcome many difficulties towards recovery and higher growth. In 2013, the size of the economy GDP is about 176 billion U.S. dollars, per capita income was about \$ 1,960. This figure is meaningful in the context of Vietnam's economy still faces many difficulties due to the impact of the world economic crisis. As predicted by the General Statistics Office, Vietnam's GDP in the next two years is expected to grow 5.8%, respectively, and 6%. The exchange rate between the Vietnamese dong and foreign currencies like dollars, yen, euro remained stable, while the trade surplus in 2013 is about \$ 863 million, up slightly from 280 million surplus dollar in 2012. Besides the bright spots on the macroeconomic, Vietnam's economy faces challenges due to the decline of the real estate market as the NPL ratio of the banking sector increased to 8.8% in 2012 (according to data from state-owned banks), interest rates fell but remained at high levels and are unlikely to business access to capital. Currently, the fiercely in the direction and administration of state-owned banks in the implementation of monetary policy, the introduction of the VAMC company has taken the NPL ratio of banks to an average of around 5%. This article the author refers to lessons learned from the decline in industrial real estate market in the United States, China which offers a number of measures to increase liquidity in the real estate market in Vietnam, contributing to economic growth in the future.*

Keywords— Vietnam Assets Management Company (VAMC), mortgage debt obligations (CDOs), gross domestic product (GDP).

1. INTRODUCTION

The real estate market is one of the important markets of the market economy because this market is directly related to a huge amount of assets in terms of size, the nature and value of the items in the economy. Real estate is a major asset of every nation. The proportion of total real estate wealth in society in different countries but typically occupy around 40% of the material wealth of each country. Activities related to real estate accounted for 30 % of total economic activity. According to experts, the total value of untapped capital in real estate hidden in the 3rd world countries are great up to a trillion dollars, several times the total ODA of developed countries currently available for developing countries in the past 30 years. Real estate is also great assets of each household. In terms of the economy, the real estate market functions outside the residence, which organized economic activity family, it was a source of capital for development through active mortgage.

The decline in U.S. housing prices taking place across the state, the housing market peaked in early 2006, then began decline in 2006, 2007 and continued to decrease to a low in mid-2012. Currently, the housing market in the United States began to increase the liquidity of real estate transactions has increased dramatically. On December 30, 2008 index of housing prices in the U.S. have declined the most in history. The percentage of houses for sale in the United States increased in 2007 led to the crisis taking place on a large scale in the real estate market and finance. The rate of foreclosures in 2006 and 2007 of U.S. homeowners rise has led to a crisis of subprime lending, mortgage debt obligations (CDOs), credit institutions, investment funds, and financial markets foreign buyers in 2008. In October 2007, the U.S. Treasury Secretary said "the sharp decline of the real estate market is the most significant risk to the U.S. economy."

2. THE DECLINE IN THE U.S. REAL ESTATE

Any collapse of the housing market in the United States has a direct impact not only on the pricing, but all the mortgage market of the country, builders, real estate, supply stores, retailers, protective barrier held by the largest institutional investors, foreign banks, thereby increasing the risk of a nationwide recession. Concerns about the impact of the collapse of the housing and credit markets in the larger U.S. economy by President George W. Bush and Chairman of

the Federal Reserve Ben Bernanke announced a limited bailout of the U.S. housing market for homeowners unable to pay the mortgage of them.

In 2008, the U.S. government allocated over \$ 900 billion rescue loan and related to the U.S. housing market, with more than half of Fannie Mae and Freddie Mac (both the government-sponsored enterprises) as well as agencies in federal governance (is a U.S. government agency.) On December 24, 2009, the Ministry of Finance has announced an unprecedented offer that would Fannie Mae and Freddie Mac unlimited financial support for the next three years, although recognized losses exceed \$ 400 billion so far. Treasury criticized for spending to exceed the powers of the National Assembly allowed by the U.S. Constitution, and a violation of limits imposed by the Recovery Act in 2008 and the economy.



Figure 1. The median price of a new home sold in the U.S. during the period 1963-2012 (monthly data).
(Source: Encyclopedia 2013)

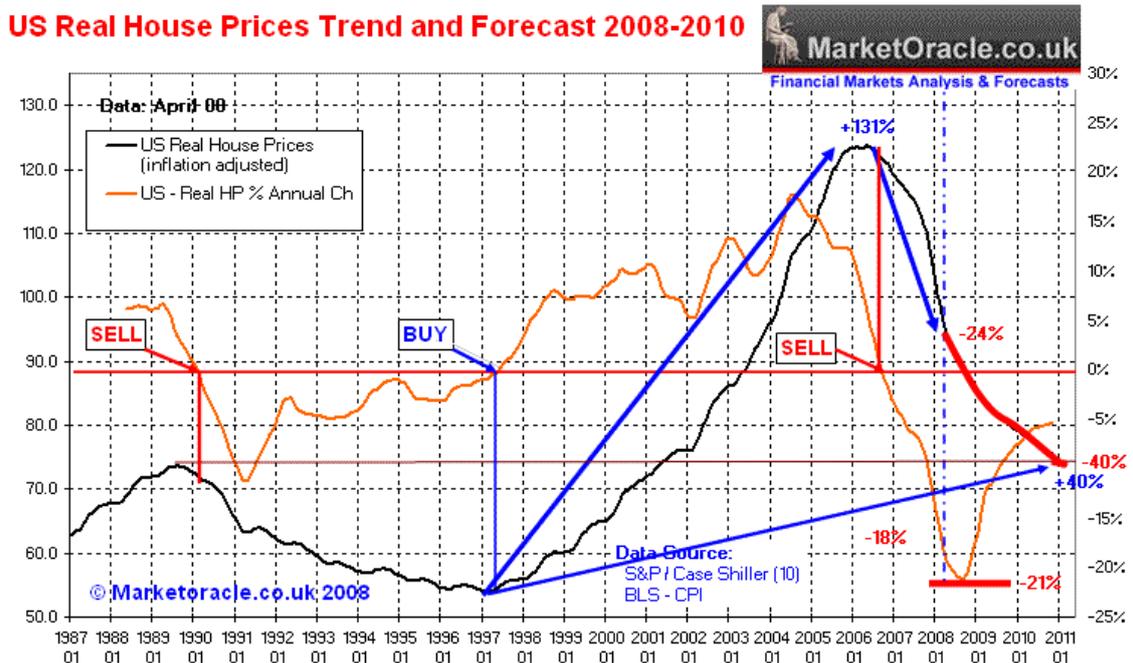


Figure 2. US House Prices Trend and Forecast 2008-2010
(Source: www.marketOracle.co.uk, 2012)

3. THE DECLINE OF THE REAL ESTATE MARKET IN CHINA

The real estate market in China decline took place in the residential and commercial center. At the end of 2011, house prices peaked and began to fall. Policy of the Chinese government on housing market as members of the middle class can not afford a home in the big city. Losses assets including real estate and the stock are considered to be one of the main reasons for the growth economic decline of China in 2012 and 2013.

There were many factors that can lead to higher housing prices. Contributions may include lower interest rates and increased lending by banks, starting in 2003 when Prime Minister Wen Jiabao cheap credit allowed for the construction and purchase of real estate. During the real estate market boom, increasing local government revenues rely on land sales for income (accounting to 50% of sales), sales and encourage further development of soil. China government had the limitations on foreign investment for Chinese citizens, thereby increasing the attractiveness of domestic investment. Such as Chinese citizens also face cultural pressures encourage home ownership, especially for those men looking for a wife. Dealing with the global financial crisis 2007-2012, program spending China's economic stimulus is invested in real estate, contributed to rising house prices.

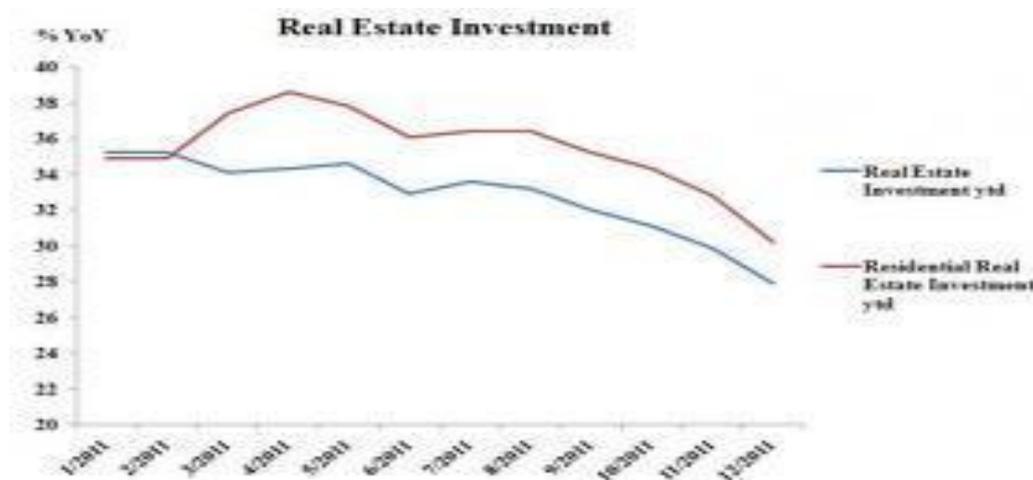


Figure 3. Investing in real estate in China in 2011.
(Source: Nicholas Borst, Chinese housing market correction update, 2012)

Between 2005 and 2011, median home prices have risen rapidly in the real estate market in China. Analysts argue about whether this increase is a result of real estate speculation, or the increased demand from population. Results are large number of commercial properties and vacant residential, where an estimated 64 million vacant apartments, the price-earnings ratio high for real estate, such as in Beijing, where the ratio is 27 in 1 year (i.e., 27 times the price of 1 year income), five times the international average, (27 on 1 is based on a two-person household can make up collection import, this proportion will increase to 54 on 1 for a Beijing household income of only about \$ 6,500 / year) and the price to rent ratio for the property, such as in Beijing, where the rate This ratio is 500:1 month (i.e. lost 500 us dollar to rent a house average) compared to the global rate of 300:1 months. Having a secondary trading market for Chinese households, with rates rate secondary to transactions is 0.26 in the first half of 2009 (i.e. four times to buy a new home sales for secondary purposes, not in). Contribute to the boom of the real estate market is Chinese companies in the fields of chemical, steel, textile and footwear industries open property departments really hope more profitable than that of their core business. During this, residential housing investment as a share of China's GDP has tripled from 2% in 2000 to 6% in 2011, similar to the U.S. housing market.

Analysts, including Cao Jianhai, professor at the Academy of Social Sciences of China, Andy Xie, an economist Shanghai and Zhang Xin, an executive director of real estate company SOHO in Beijing, China warned of threat of a sharp decline in the real estate market and economic stagnation will follow. response to these concerns, in the summer of 2011, Standard & Poor's downgraded the outlook for real China in the field of real estate development from stable to negative, after the government tightened credit conditions in the country and slower sales.

However, the trend is increasing urbanization and income growth in China could continue to support property prices. said the World Bank in a 2009 report that China's housing prices have not overcome the increase in income on a national level , dispelling fears of experts. However, in March 17, 2010 quarterly report, the research team of the World Bank (WB) said China needed to raise interest rates to prevent the risk of a property bubble. In China, there have been lending activities relatively conservative mortgage. Agencies China economic research sustainability of China's housing boom forecast population and per capita income in 300 cities in China, and the subsequent demand for housing in China in the next decade. The report said that "the real estate market of China is important on global economic indicators; the housing boom in China will create opportunities for investors in sectors such as furniture, automobiles and construction materials. In terms of urban population of China, the forecast for that between 2011 and 2020 will increase by 26.1% or over 160 million, while income per person in urban areas will increase 2.6 times to 51 310 people Yuan (about U.S. \$ 8,000 under current exchange rates).

Between 2010 and 2011, the policy was enacted to prevent the real estate bubble or prevent it from happening. China's cabinet, announced in 2010, will oversee capital flows to "stop overseas speculative funds affect the real estate market of China" and also started taxing family buy a house Monday. Early in 2011, Beijing has banned the sale of the house for

those who have not lived in Beijing for five years. Beijing also a limited number of native Beijing families can own, and allows only one home for families not native Beijing. July 2011, the Chinese government raised interest rates for the third time and property tax revenues across the country have been made in China in late 2009 as a measure to curb speculation and reduce prices so approved for people buying property for the first time - has been providing fixed 5% interest rate for 20-year mortgages fell only 4% will also be removed.

The sharp decline of the real estate market started in the summer of 2011, when home prices began to decline in China's cities. End of the asset bubble is considered one of the main reasons for the economic growth of China fell in 2013, China's GDP estimate increased by 7%.

Phenomenon has seen average housing prices in the country from 2005 to 2009 can be driven by both government policies and attitudes of Chinese culture. House prices on high income and percentage rents for the property and a large number of residential and commercial vacant has been cited as a lesson learned for Vietnam.

4. LESSONS LEARNED FOR VIETNAM

The sharp decline of real estate in Vietnam started happening since the beginning of 2011, when the consumer price index (CPI) increased by nearly 20%, the rate of regular interest rates remain on 20%. Housing prices began to decline. From 4/2011 to present, a rather strange phenomenon is appearing more and more articles on the press warning about the state of the high price of real estate (real estate) in Vietnam. The frequency of such information can only be compared to the period of "darkness" of the real estate market in 2008 and early 2009. But during the big waves increase land prices in Hanoi took place from mid-2009 to early 2011, with the price being pushed up almost three times, quite surprised that the warning information on the property market rather meager.

The question of a sharp decline of real estate is not a new topic. Sauce on each round of land, this issue yet, only if you consider carefully, often this subject just yet at the point where speculators almost completed sales. It is clear that the decline in home prices in 3 years from 2011 to 2013 led to the mass loss of the real estate business. This caused as a result of bad debts in the banking increases, the construction company once submerged in debt, many companies laid off workers and unpaid staff.

During the 4 major waves of the real estate market nearly twenty years ago (Wednesday waves belong to the real estate market in Hanoi and Da Nang that has spread to the southern region), perhaps the problem real estate bubble only mentioned a lot second largest after wave of developments from 2000 to 2001. For almost 5 years later, from 2002 to 2006, it has not witnessed a sharp decline in housing prices in terms, but instead freezes the status of the majority of the segment, particularly the land segment.

In comparison, apartment segment has not formed so much of the amount in the academic field of real estate did not have a complete concept of freezing the apartment. But the market frozen period from early 2008 to mid-2009 close, new people witnessed the decline quite sharply - to 40% average - land price and apartment. That decline has shown in the adverse economic conditions (such as the economic crisis), the real estate market is often the most visible part of it virtual, and proportionate consequences of economic loss is a virtual must return close to the true value.

From analyzing the real estate market in the United States and China, can be found in the current era of globalization, Vietnam is a country with a small economic and unavoidable impacts from the major economies. Real estate bubble exploded in countries in the region and Vietnam is not an exception property prices fell continuously for 3 years significantly affected the economic growth and macroeconomic stability. The Government of Vietnam in the coming time required to perform a number of solutions that limit the impact of the decline in the real estate market. We can see the bad debt in Vietnam in recent years in the banking sector largely from real estate market, so the government needs to implement a number of measures decided attributable to limit the impact of the decline on the real estate market and enhance liquidity for the real estate market contributes to GDP growth in the coming years.

Indeed, the deployment of 30,000 billion support package rates for home buyers obtained low having many shortcomings. The money can not be disbursed due to administrative problems. According to a survey of analysts forecasts Center and Sustainable Development, National Economics University, many buyers of low-income housing in Hanoi to buy the house at a higher price trade, together with interest higher productivity markets from 50-100%. For example, some city officials in Hanoi to buy reflect their low-income apartment buildings, away from the center, there is no elevator for 11 millions dong/m², interest rates in 10 years ranges from 16 - 24%. While current commercial rates for low-income people only 10-12 millions dong/m², interest only commercial mortgage is about 10-12% / year for a long time 10-20 years. In particular, a number of state officials under the authority of the Ministry to purchase low-income apartment buildings in accordance with the contract signed in 2010 to levels 20 millions dong/m². These shows, poor enforcement of the law sell the facility and low-income housing policy of the state does not keep the evolution of the real estate market.

According to HCM City Real Estate Association, from 2015, HCM City needs 30,000 apartments to meet resettlement needs clearance of development projects on the socio-economic area city. So city leaders had the idea to buy the flat area and the average quality of the business is to serve outstanding resettlement plan.

If implemented this will contribute to increased market liquidity real estate. Recently, the Ministry of Construction also advocates buying apartments for public housing for the service. The number of buyers of the Ministry of Construction has yet not much but glimmering solutions to increase liquidity for the apartment.

If the local industry and the positive direction as Ho Chi Minh City resolved and the Ministry of Construction, the housing market will soon be promoted. Meanwhile in the capital will also enable people pouring in, since the real estate market may be flourishing. In short, the government needs to make some drastic measures to increase liquidity in the real estate market in Vietnam as follows:

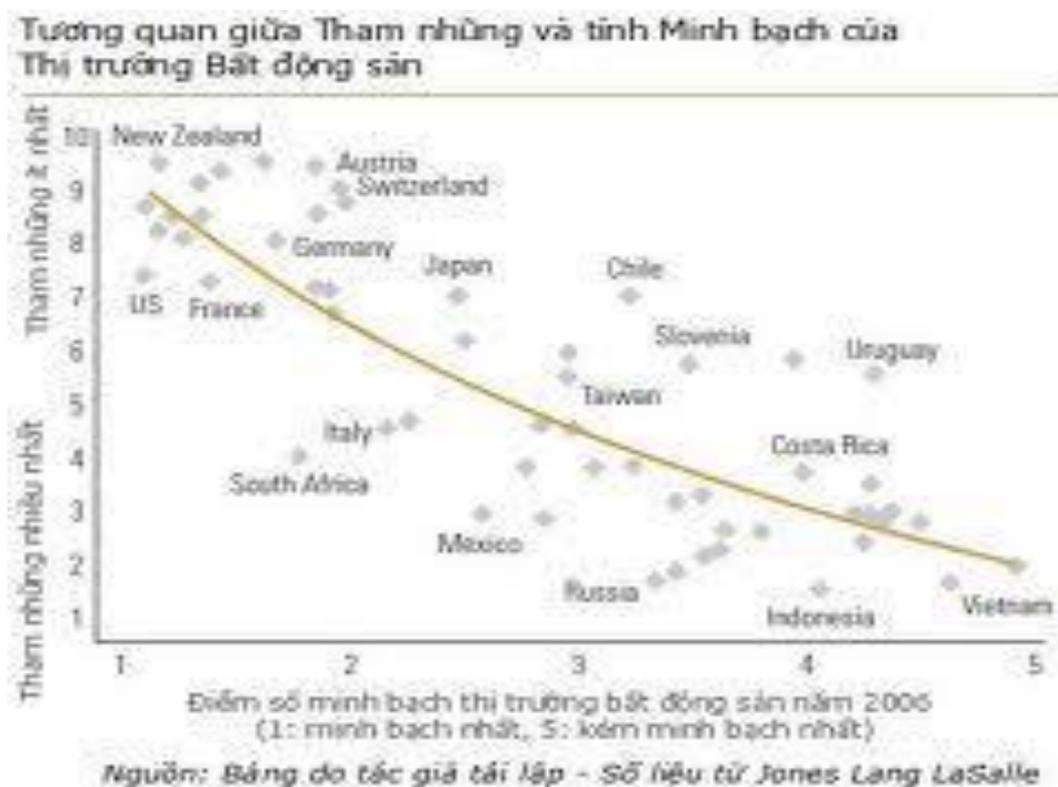


Figure 4. The correlation between corruption and transparency of the real estate market

(Source: author based on data from Jones Lang LaSalle)

Firstly, to contribute to the liquidity of the market, administrative procedures related traffic housing services need to be improved in order to facilitate robust and secure for buyers. Home purchase contract to ensure full legal, construction quality, service comes to sync. The government should also have solutions to enhance law enforcement at the local level.

Secondly, the government should enact tax policies to raise taxes on those who own second homes in order to become decrease in real estate prices and prevent real estate bubbles back. The government should also set new tariffs for housing as tax revenue.

Thirdly, the credit policy for the real estate should be a priority, especially for home credit income for income low rates of less than 10 million m2. Government through the State Bank should encourage commercial banks to consumer's low-income home loans within 10 - 20 years with interest rate of 5-6% /year. In recent years, credit has been focused on the manufacturing sector has the ability to export as computers, mobile phones, agricultural, fisheries and minerals. Policy export credit support should continue to be enhanced deployment.

Fourth, the government should speed up the restructuring of the economy through bad debts. Continue development of company debt purchases under national government (VAMC) to purchase bad loans from banks at market prices, contributing to bank restructuring, which helps enterprises gain access to bank loans with reasonable interest rates. Government should aggressively buy bad debt VAMC directing derived from real estate, aiming to buy at around 150 trillion of bad debt are derived from the real estate in the coming year.

Fifthly, a solution should done right, the government should reduce interest rates for real estate enterprises to protect businesses in this sector, limiting the bankruptcy, mass disruption caused businesses and rising unemployment .

Sixth, the sharp decline of the burst real estate market is the indispensable global trends. Therefore, the government should not focus more resources on the recovery of real estate market. Government should enact policies to increase

liquidity in the real estate market, thereby reducing the bad debt of the banks. The decrease in housing prices would reduce budget revenues through land auctions. Therefore, the government should increase savings, increase subsidies for the export sector to contribute to Vietnam's trade surplus with the country's flagship product is the computer components, Smartphone, agricultural and fishery products, textiles and minerals.

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