



North versus South: The Impact of Social Norms in the Market Pricing of Private Property Rights in Vietnam

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Summary. — Despite a centralized political system, country-wide legal reforms, and similar high housing demand pressures, property rights have evolved differently in Vietnam’s two leading cities, Hanoi and Ho Chi Minh City (HCMC), during the transition period. Using ethnographic fieldwork and a hedonic price model, the study shows that the two land and housing markets price tenure ambiguity differently. The different price structures indicate the importance of norms, as socially constructed by local political interests and culture, in the efficacy of land title regularization programs.

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1. INTRODUCTION

For decades, international development agencies and governments have pursued land tenure regularization projects in the hopes of bolstering private property rights enough to unleash wealth generating investment into land and housing markets. Their record of success has been mixed and often criticized (Durand-Lasserve & Royston, 2002; Field & Torero, 2004; Firmin-Sellers & Sellers, 1999; Payne, 2001; Woodruff, 2001). However, the support for these programs by many has not flagged but only strengthened in recent years (deSoto, 2000).¹

Previous scholarship has tried to account for the mixed outcomes by debating the relationship between tenure security and legal titles. In some contexts, the impact of title programs may be limited because households invest in property without title in the hopes of having stronger claims for tenure later (Razzaz, 1993). Alternatively, it could be that the efficacy of title is unrealized without also strengthening legal enforcement and financial institutions (McKechnie, 2005). Others point out that in some established communities, the untitled might actually feel quite secure about their housing tenure but still do not choose to partic-

ipate in the real estate market (Lanjouw & Levy, 2002). Most developing and transition countries exhibit a range of market development even without fully developed courts and financial institutions (Li, 1999; Zhu, 2002). Irregularity of titles appears to be a hindrance in some markets more than others.

The classic theory for explaining the evolution of legal private property rights systems counted the costs and benefits (Demsetz, 1967). The market would create the demand for title if a sufficiently large net economic gain could be generated by such a change. However,

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there is still much that is left unexplained by this general framework. In particular, the *mechanisms* by which society counts the costs and benefits and the *form* that new property rights take as a result have been left unanswered (Merrill, 2002).

In trying to understand why some societies are more responsive to title reforms, recent institutional economics scholarship is helpful in indicating that underneath the interest-based enforcement of rules and laws are micro-foundation institutions such as norms, beliefs, and culture that shape the motivation for following rule-based institutions; that is the reason the enforcers enforce the rules (Greif, 2006). Inter-disciplinary scholars have provided empirical cases of nonlegal property rights institutions that fit the local political economy and culture, particularly in smaller communities (Ellickson, 1991; Levmore, 2002; Ostrom, 1990).

Sociologists have long theorized and debated how politics and culture work together in the process of socially constructing economic institutions. While some institutions are external to the agents, coming in the form of laws and policies that might serve the interests of the powerful (Bourdieu, 1977), they must also be internalized cognitively by the agents in wider society and habitualized into routine practices to the point that they are made normal and embedded into the institutional fabric of society. Therefore, agents play an integral role through their repeated interactions in constructing and reproducing these external structures. The institutions are internalized and externalized. There is a perennial debate as to how much agency exists within the structures, but agreement that rather than viewing society as a rational actor that chooses the most efficient institutional design, economic institutions such as property rights are built through this social construction process (Berger & Luckman, 1967; Silbey & Ewick, 1998).

In order to better account for the institutional outcomes, case studies have been used to detail the social construction process of electricity pricing (Yakubovich, Granovetter, & McGuire, 2005), the high-tech industry in Silicon Valley (Saxenian, 1996), and the housing industry in modern France (Bourdieu, 2005). These studies focus on the evolution of an industry and its structure. While institutional factors like social norms, culture, and political economy have a lot of intuitive resonance, it is usually more difficult to analyze their con-

crete impacts on market transactions. They do not usually lend themselves to statistical analysis. This study takes advantage of the opportunity to compare whether the housing markets in two cities in Vietnam, Hanoi and HCMC, with purportedly widely different social norms around profiting from property and legal formalism, price shades of legal tenure differently.

Vietnam is an interesting case for the literature for several reasons. First, while Vietnam has often been cited as not having made appropriate institutional reforms for private property rights (Heritage Foundation, 2004; IMF, 2000; Jones Lang LaSalle, 2006), it has developed widespread and rapidly growing private property markets. Second, even though the legal framework and administrative structures are homogeneous across the country, property rights have evolved differently between its two major cities during 1993–2004 period: Hanoi in the north and Ho Chi Minh City (HCMC) in the south. While both cities faced rapidly growing housing demand pressures which would impel a change toward private property rights institutions as previous scholarship has indicated, this paper argues that differences in social norms about property and the law, as socially constructed by local politics and culture,² account for the observed linguistic differences and market valuation of newly formed private property rights. Relative to HCMC, Hanoi's social norms and more rigid bureaucracy led to a real estate market which was slower to adopt new legal terms for property rights and penalized properties with ambiguous property rights status. Meanwhile, HCMC's market rapidly evolved new terms for property rights in order to capitalize on the latest formal legal changes. It also allowed properties with more ambiguous tenure to still come to market because a range of property rights could still be enforced through alternative institutions allowed by its particular social norms and more flexible government bureaucracy.

In presenting the empirical evidence, this paper first introduces how private property rights reforms were implemented by the Vietnamese government. Next, it discusses differences in politics and culture between Vietnam's northern and southern regions according to key informant interviews, and the area studies literature as well as hypotheses about how these differences should affect the operationalization of these new rights. Then, the paper applies hedonic price models to statistically analyze how the

newly emerged property markets of Hanoi and HCMC value private property rights. Finally, the paper discusses the implications these findings have for policy and academic discourses.

2. PROPERTY RIGHTS REFORMS AND INSTITUTIONS IN VIETNAM

Policy advisors have warned that Vietnam does not have the right institutions for the protection of private property, namely clear legislation, title registration, and capable court systems. However, Vietnamese people have been buying and selling their rights to residential property in the rapidly expanding real estate markets.³ Of course these property rights claims are not valid without legitimate enforcement institutions (Cole & Grossman, 2002), but there can be a great amount of diversity in where and what form economic institutions take in specific contexts. This section first identifies the property rights institutions that exist in transitional Vietnam.

Before the transition, the Vietnamese government planned where people were employed, housed, and received food and social services through a household registration system. The bureaucracy involved with this system meant that household tenancy was well documented when Vietnam began its major economic reforms in 1986. With the introduction of the 1993 Land Law, a major change in property rights was allowed in this communist country. The state still retained ownership of all land but a private person or entity could now possess, transfer, and mortgage use rights to a land parcel for a specific period of time, essentially functioning like leasehold rights found in the UK and Chinese markets.

At the time of this study, urban households had to obtain a Building Ownership and Land Use Certificate (BOLUC) which combines homeownership with the land use rights into one legal document. Also known as the “pink certificate” for its color, the BOLUC was equivalent to having a fully titled private residential property. However, since its introduction, less than 25% of the houses had obtained them by 2001 (Dang & Palmkvist, 2001).⁴ The reasons why so few properties have the BOLUC are many.

In some cases, a house’s lack of title could be a reflection of being caught in a bureaucratic limbo for missing some of the legal papers needed to document tenancy or the local ward

or district government’s limited administrative capacity to issue them. Meanwhile, because of the fees and time involved in obtaining the BOLUC and the tax liabilities incurred with ownership, some buyers and sellers prefer to transact without it. Alternatively, others pay property related taxes and fees and have the wards notarize the transactions which increase the legitimacy of ownership claims but still do not register for title.

Another reason why one might not have received the BOLUC despite applying for it and possessing all the necessary legal papers is that any lingering property disputes over ownership, boundaries, etc., must be resolved before they are issued (Gillespie, 1999a). This is an important point since property claims are only truly property rights if they are enforced (Cole & Grossman, 2002), and so the true test of a claim being a right is shown by the way disputes are resolved. Like other centrally planned countries, Vietnam has an elaborate government bureaucracy involved in many aspects of household economic life that is involved in settling disputes. However, compared to other Asian communist states, Vietnam is characterized by a high amount of discretion at the lower levels of government (Fforde & de Vylder, 1996; Gainsborough, 2002; Leaf, 1996). For example, in HCMC, the majority of land and housing disputes are handled by neighborhood communities and local bureaucrats (see Figure 1). The first and lowest institution for handling many kinds of disputes is the residential block committees, the *to dan pho*. Outsiders are often surprised by the extent to which neighbors in Vietnam can weigh in on what would be deemed private household affairs in other contexts. But the attitude is to resolve disputes as quickly as possible and locally through arbitration in order to avoid more official involvement by higher levels of government.

If the *to dan pho* cannot resolve a dispute, the ward may get involved. In 2001, there were 238 urban wards in HCMC with on average roughly 4,000 households in each ward. Many ward offices have bureaucrats designated to deal exclusively with land and housing issues in their ward. Ward officials estimate that 30–50% of the disputes they hear annually concern land and housing issues and that they can resolve roughly 70% of them. One ward president who administers a ward on the city’s outskirts explained in an interview that the wards not only use their own records to check ownership but that they often also know who the people

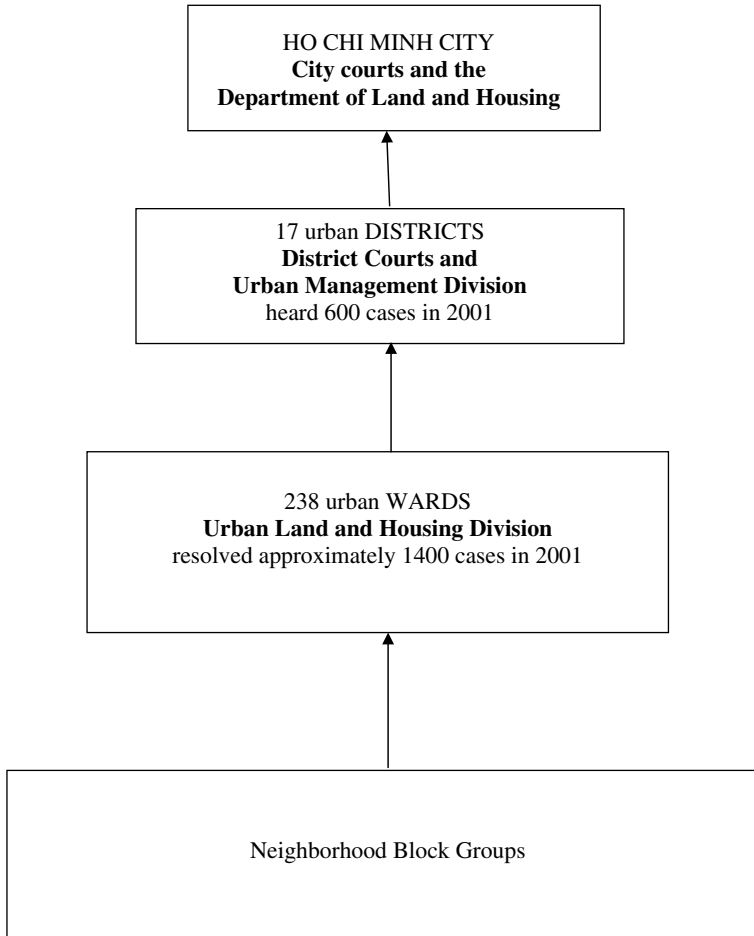


Figure 1. *Layers of state institutions that enforce property rights in HCMC (2001).*

are because they attend each other's weddings, anniversaries, and memorial services.

Disputes unresolved at the ward level of government may gain a hearing with the district government's land and housing departments and civil courts. District courts in HCMC hear about 600 housing cases a year and approximately one-third of these are referred on appeal to city courts taking an average of one to three years to be resolved (Gillespie, 1999a). While similar data are unavailable for Hanoi, government officials in the land law area confirm that neighborhood block groups and ward governments arbitrate cases in Hanoi as well. The availability of alternative property rights enforcement institutions also helps to explain why households are slow in obtaining the BOLUC. However, possession of the BOLUC

would provide less risk of title disputes for which a buyer might be willing to pay more.

Thus, in Vietnam one can have state-sanctioned property rights that are not necessarily enforced by the courts and registration institutions which are the focus of international development projects. Instead, property rights enforcement occurs at a variety of levels of civil and state institutions and ranges from negotiation to increasingly formal legal means. In particular, the widespread use of the neighborhood block groups and ward governments allows for discretionary latitude in the enforcement of property rights. Other studies in Asia also suggest that property rights enforcement and dispute resolution may be administered through the existing state organizations which may not have been formally assigned the duty by law

but effectively enforce them (Gillespie, 1999b; Leaf, 1994). One can see that given Vietnam's institutional endowments of well-documented tenancy and an extensive, decentralized bureaucracy, these alternative registration and enforcement mechanisms are the least costly way to enforce the new property rights, at least in the short term.

3. THE POLITICS AND CULTURE AROUND PROPERTY IN THE NORTHERN AND SOUTHERN REGIONS OF VIETNAM

As explained above, decentralized government bureaucracies can exercise discretion in law enforcement. While the laws and government structure are identical throughout the whole country, any researcher in Vietnam cannot escape the often mentioned sentiments about differences between northerners and southerners. This is not surprising given its political history, but the differences are also cited as deep-seated cultural ones. This section summarizes some of the differences in politics and social norms around property between Vietnam's northern and southern regions as described by the secondary literature and interviews with government officials, business leaders, and citizens in both regions in 1997, 2000–01, and 2003.⁵

With its history as the epicenter of the communist revolution and state power, it is not surprising that northerners are generally known as being more rigid about regulations and that the north is a more difficult place to conduct private business (Dapice, Nguyen, Pham, & Bui, 2004). According to real estate development firms interviewed in HCMC who investigated setting up businesses in the north, Hanoi does not have comparable open entry into the market. Although exact figures are not available, one developer estimates that the state directly controls land development of about 30% of the parcels and 50% of the developable land area in HCMC, whereas it controls 90% of the parcels and almost all of the land area in Hanoi. The most striking evidence that land supply and development is overwhelmingly dominated by political elites and state-owned companies is that only a handful of private development firms exist in Hanoi. Political economy theory is especially helpful in explaining the situation in Hanoi. Since political elites can monopolize market share through control

of land supply, it is in their best interest to keep prices high through enforcement of the formal property rights laws not only for state legitimacy but also for personal gain. Thus, the political interests to maintain strict adherence to rules and the social norms about following rules are not only complementary but also reinforcing. However, constricting land supply typically induces higher house prices (Dowall & Landis, 1982).

In contrast, although the highest positions in city government are appointed by the communist party in Hanoi, the bureaucracy in HCMC has generally been more pragmatic than legalistic (Turley & Womack, 1998). For example, HCMC experimented with pilot programs such as the one-stop office to rationalize and expedite procedures for obtaining land development permits instead of having applicants try to negotiate the maze of multiple bureaus. This is not surprising considering that social attitudes are generally more lax about formal rules and are prone to experimenting, which complements the entrepreneurial culture of HCMC. Accordingly, hundreds of private land and housing development firms have formed in HCMC within the first decade of transition (JBIC, 1999) and entrepreneurs interviewed confirm open entry into the market, however imperfectly competitive it is. As one private real estate developer related, "The biggest difference between the north and the south is social perception. . . in the south you may tax profits but the attitude is 'good for you' whereas in the north they have a criminal atmosphere." The south also has more of a consumer culture and the concept of advertising has been adopted more readily, fueling market demand, whereas people in the north are characterized as savers.⁶ The social norms about economic transactions typically involve less ideology about dual-pricing and stigmatizing profit-making and consumption. Meanwhile, in interviews with law firms, one lawyer related that there were only three lawyers specializing in real estate in all of HCMC in 2001. Real estate developers related to me that it is rare to use lawyers in the south, whereas it is more common in the north. The consumer culture in the south plus a greater readiness to transact with strangers and to make new social networks has helped to expand both supply and demand in the south, which has translated into a larger market and greater competition. Market competition should also induce lower house prices relative to an oligopolistic situation like

Hanoi's housing market. Furthermore, the social norms in the south are relatively open to operating outside formal channels even within the bureaucracy. And so it is not surprising that such a large percentage of property disputes are settled by arbitration through neighborhood block groups and ward levels of government.

There could be several reasons why different regions of Vietnam have different cultural attitudes towards private property. Differences between regions in regards to property relations became pronounced during the French colonial period when private ownership, the growth of markets, and a private property register were more established in the south during the 1890s (Wiegiersma, 1988). During the 1950s, before the revolution, land tenure varied greatly between the three regions of the country with the south having many absentee landlords while central Vietnam had more communal land ownership and the north pursued five waves of land reform, expropriating land from nearly 58% of the population (Moise, 1983).

Beyond historical legacy, some researchers point to contemporary HCMC's government leaders as being the vanguards of reform (Turley & Womack, 1998) within the country out of sheer economic necessity. While some note that northern city bureaucrats still do not know how to work productively with private business (Dapice *et al.*, 2004), others take issue with this characterization when government bureaus and elites in HCMC have also exhibited predatory actions towards private business as in the rest of the country (Gainsborough, 2003). Meanwhile, development institutions advocating free market reforms also focus on the government: its insufficient and laggard privatization (Heritage Foundation, 2004; IMF, 2000). However, these debates do not address the core point of this research which focuses on the economic behavior of people in the markets in Hanoi and HCMC rather than either the formal government policies or the bureaus. Several Vietnam scholars refer to a spontaneous, bottom-up process that started practical transition in Vietnam (Fforde & de Vylder, 1996; Gainsborough, 2003). The people in the market of course are affected by their interactions with state bureaucracies which enforce property rights but these bureaucrats themselves are a part of the social reconstruction process which may vary according to the local social norms about property.

I hypothesize that while there is also corruption and predatory behavior of the local gov-

ernment and elites in HCMC, the political economy and culture is such that compared to Hanoi, they interact more productively with private businesses.⁷ The evidence is clear when almost no private real estate firms have been able to form in Hanoi while there are hundreds in HCMC even though market demand is even higher in Hanoi because of the supply constraints. From a neoclassical economics viewpoint, one would have thought that the profit margin would provide more than enough incentive for private firms to form in the north (Dapice *et al.*, 2004). Some of the firms interviewed reported not just their perceptions about the north, but also the difficulty of their attempts.

The way to tell if there are significant differences in norms about property rights between Hanoi and HCMC is to look for evidence. My study takes advantage of a unique opportunity in Vietnam's transition to examine market data and find whether the societies in the two cities price property rights differently. The differences in norms would suggest that property rights might be operationalized differently in Hanoi and HCMC. We would expect that despite lower median incomes, house prices will be higher in Hanoi because of the constricted supply through more restrictive regulatory practices and monopoly of land supply by political elites. We would also expect the Hanoi market to value titled property rights more than the south because of the more exacting standards of enforcement, whereas the south should be more lenient to alternative forms of documenting property rights. The next section investigates the empirical evidence to see if this is the case.

4. EMPIRICAL FINDINGS

(a) *Differences in language and house prices*

Given the differences between norms in the north and the south, this paper investigated whether there were differences in how private house sellers in Hanoi and HCMC operationalize the new private property rights instituted by the government. Many variables are held constant since the two cities are in the same country with a uniform legal and government administrative structure and because both markets expanded rapidly during the same time period. For data, this study turned to where market transactions begin: the private listings of houses for sale in the local newspaper. Using

Table 1. *Descriptive statistics: comparison between houses listed for sale in Hanoi and HCMC (2004)*

	Hanoi					Ho Chi Minh city					
	<i>n</i>	Median	Standard deviation	Minimum	Maximum	<i>n</i>	Median	Standard deviation	Minimum	Maximum	
<i>Variables</i>											
Price in gold <i>taels</i> *	19	282	217	70	850	Price in gold <i>taels</i> *	2,939	135	162	17	1,595
Price in million VND	1,339	980	1,218	130	12,500	Price in million VND	552	380	576	100	8,500
All prices in mill VND/sqm	1,632	10	15.33	1.34	222	All prices in mill VND/sqm	3,541	9.43	10.92	0.68	175
<i>House characteristics</i>											
Number of stories	1,864	3.0	1.40	1	6	Number of stories	3,476	2.0	1.03	1	7
Floor area in square meters	1,864	110	96	10	675	Floor area in square meters	3,541	90	90	11	672
Distance to CBD in kilometers	1,632	4.0	1.73	1	13	Distance to CBD in kilometers	3,541	5.2	2.54	1	16
<i>Amenities (dummies)</i>											
Street facing	132	0.071	0.257	0	1	Street facing	677	0.191	0.393	0	1
Water	1,864	1.000	0.000	1	1	Water	3,439	0.971	0.167	0	1
Electricity	1,864	1.000	0.000	1	1	Electricity	3,541	1.000	0.000	1	1
Telephone	1,856	0.996	0.065	0	1	Telephone	3,388	0.957	0.202	0	1
Toilet	1,863	0.999	0.023	0	1	Toilet	3,541	1.000	0.000	1	1
Proximity to market	67	0.036	0.186	0	1	Proximity to market	668	0.189	0.391	0	1
Proximity to school	22	0.012	0.108	0	1	Proximity to school	580	0.164	0.370	0	1
<i>Property rights (dummies)</i>											
Red certificate	1,139	0.611	0.488	0	1	Pink certificate	2,445	0.691	0.462	0	1
Waiting for red certificate	212	0.114	0.318	0	1						
Owner	336	0.180	0.385	0	1	Ownership certificate	182	0.051	0.221	0	1
Legal papers	427	0.225	0.418	0	1	Legal papers	846	0.239	0.427	0	1
Total, <i>n</i>	1,632						3,541				
Ads mentioning property rights	1,622						3,482				

*Tael is a unit of gold equating approximately 1.25 ounces.

issues of *Mua va Ban* (literally translated “Buy and Sell”), a popular classified advertisement newspaper that has both a Hanoi and a HCMC edition, I culled advertisements from the March–June 2004 issues.⁸ These advertisements contained an amount of detailed information that is rare for most developing countries and makes it possible to apply a hedonic price model. I was able to have the General Statistics Office reparse the 1999 census data down to the ward level so that I could attach neighborhood characteristics. I selected all ads that at least listed a price, the house size, and the name of its ward (see the [Appendix](#) for more details).

Table 1 presents a comparison of descriptive statistics for the houses on the market in Hanoi and HCMC. HCMC is a larger city and its housing market is also bigger as we can see in the number of observations recorded for each city. In reviewing the amenities of the houses listed, we do not find major differences in the quality of housing being offered for sale between the two cities. However, the price per square meter of housing in Hanoi is more expensive than in HCMC even though Hanoi’s median household income level is only about two-thirds of HCMC’s. Also, given that the median size of a house’s footprint is similar in both cities, we can see that housing in Hanoi is much denser than in HCMC by the median number of floors. The high prices and density further indicate the land supply constraints in Hanoi’s housing markets discussed earlier.

One of the most interesting aspects of this data source is that of the 5,162 observations, nearly all of them make reference to some kind of property rights status. But, despite a national legal framework, the property rights terms commonly used by house sellers in Hanoi differ from those used in HCMC. As explained in the previous section, having the BOLUC or “pink certificate” was the most recent and secure form of tenure and therefore it should be the most valuable form of property right in the housing market. Having a pink certificate also means the seller has invested time and money in obtaining the title which should be compensated in the sales price. Certainly, transferring ownership of property with a pink certificate is easier since they are only issued if there are no outstanding property disputes. However, while the government has decreed that every house must obtain a pink certificate, most properties do not have it.

In HCMC, there are two property rights terms most commonly used to refer to formal title: “*Chu quyên tu nhân*” loosely translated “ownership certificate” and “*Chu quyên hồng*” or “pink certificate.” A previous study found that in the early years of the real estate market, 1998–2001, “ownership certificate” was the more common term used in advertisements (Kim, 2004). It was assumed the lister meant they had the BOLUC but it could have also included older certificates or other papers. However, starting in 2002, “pink certificate” became the more commonly used term in the market. It is less ambiguous which document the seller has and advertises the “highest value legal document,” explains a Vietnamese property lawyer. As seen in Table 1, 69.3% of the listed properties claim possession of the pink certificate.

What is even more fascinating is that Hanoians use a different term for property rights: *so do*, which can be translated as “red certificate.” These documents existed since 1994 and certify an occupant’s right to use the land on which the house is located. By 2004, the latest regulations required a pink certificate to combine house ownership and land use right into one document for urban areas while the red certificate is still used for agricultural land. Key informants confirm that Hanoians are referring to the BOLUC when they use the older term, giving further indication of the slower pace of change in the north. Interestingly, unlike the HCMC ads, many sellers in Hanoi also use the term “*cho so do*” which means they are “waiting for red certificate” after having submitted their application. It could be that there is a greater backlog in the issuance of BOLUCs in the north. It could also be that Saigonese are being looser in their claim of possessing the BOLUC while they are still waiting for its issuance. In any case, only in the north is the distinction so commonly made which again indicates a greater formal exactness with practices in Hanoi. We would expect to see some difference in the market value between those claiming they have the BOLUC and those that are waiting for it.⁹

There is one type of term that is commonly used in both the north and the south. “*Giay to hop le*” is a vague term which literally translated means “papers in accordance to regulation” or more loosely “legal papers.” These papers include the variety of documents which can be used to apply for the pink certificate. There are also many derivations of this term

Table 2. Comparison of Ho Chi Minh city and Hanoi base models

HCMC model Estimation method	Base model Semi-log	Hanoi model Estimation method	Base model Semi-log
<i>Dependent variable is house prices in Vietnamese dong (VND)</i>			
Constant	5.073	Constant	5.746
Distance to CBD in km	-0.117 (-4.667)	Distance to CBD in km	-0.012 (-0.317)
Floor area in square meters	0.537 (47.480)	Floor area in square meters	0.502 (25.634)
Street facing house	0.251 (22.260)	Street facing house	0.306 (16.787)
School	0.038 (3.444)	Telephone	0.041 (2.281)
Percent housing quality high	0.116 (6.254)	Percent housing quality low	-0.110 (-4.612)
Education rate high	0.078 (3.781)	Education rate high	0.114 (4.600)
<i>District dummies</i>			
CBD	0.023 (1.166)	CBD	-0.004 (-0.141)
Urban fringe	0.031 (0.509)	Urban fringe	-0.081 (-3.200)
District 1	0.255 (3.215)	District Ba Dinh	0.112 (4.737)
District 2	0.071 (1.922)	District Cau Giay	0.055 (2.157)
District 3	0.313 (3.147)	District Hai Ba Trung	0.018 (0.645)
District 4	0.186 (2.711)	District Hoan Kiem	0.030 (1.143)
District 5	0.252 (3.139)	District Hoang Mai	-0.037 (-1.398)
District 6	0.277 (3.370)	District Tay Ho	0.106 (4.180)
District 7	0.165 (2.519)	District Thanh Xuan	-0.029 (-1.151)
District 8	0.238 (2.483)	District Thanh Tri	0.001 (0.072)
District 9	0.079 (2.348)		
District 10	0.339 (3.151)		
District 11	0.313 (3.228)		
District 12	0.100 (1.746)		
District Binh Tan	0.087 (1.977)		
District Binh Thanh	0.390 (2.845)		
District Go Vap	0.311 (2.221)		
District Phu Nhuan	0.340 (2.873)		

(continued on next page)

Table 2—continued

HCMC model Estimation method	Base model Semi-log	Hanoi model Estimation method	Base model Semi-log
District Tan Binh	0.469 (2.938)		
District Tan Phu	0.242 (2.675)		
District Thu Duc	0.079 (2.000)		
Adjusted R^2	0.586	Adjusted R^2	0.467

Notes: Coefficients are standardized Betas; T -stats in parentheses.

The HCMC and Hanoi datasets includes 3,537 and 1,631 observations, respectively.

used in the ads referring to specific legal papers such as building permits and housing permits from previous regimes, but for the purposes of this study, all of these were grouped into a single “legal papers” category because the listers were mentioning them as some proof of ownership right although according to the law they have less standing than the pink certificate. Despite the differences in the scale of markets and histories, both cities’ advertisements use this term with a similar frequency: 22.5% in Hanoi, 23.9% in HCMC.

We see that while economic factors such as large potential gains from skyrocketing demand can provide incentives for a systemic change to private property rights, the vocabulary for the new private property rights in the two markets has evolved differently: “Pink certificate” and “ownership certificate” in the south and “red certificate” and “waiting for red certificate” in the north. These linguistic differences suggest different cultural perceptions about the law and property. This study next investigates whether these linguistic differences also have economic significance.

(b) *Differences in market pricing of property rights*

This study analyzed the data described in the previous section using a standard hedonic price model. The hedonic price model is basically a multi-linear regression model where the coefficients of the variables are interpreted as a portion of the house’s market value (Box & Cox, 1964; Goodman & Kawai, 1984; Rosen, 1974).¹⁰ It is unusual to have sufficient data from a developing country to be able to apply the hedonic price model.¹¹ We are also fortunate to be able to enter property rights vari-

ables into the model to find their market value.

Table 2 shows the result of the base models for Hanoi and HCMC. The models have a good fit with all the signs of the variables in the expected direction. Property prices generally fall the farther houses are located away from the city center and rise with more floor area, street frontage, and living amenities. The coefficients are also similar to those of a previous study of HCMC that used data from a different newspaper source, further indicating the robustness of the model (Kim, 2004).

However, the explanatory power of the HCMC models at $R^2 = 0.586$ is higher than for the Hanoi models at $R^2 = 0.467$. Furthermore, in the Hanoi model, the variable that measures the property’s distance from the city center is insignificant, while having the appropriate sign. This variable should be one of the most important variables in an urban land market that has transitioned away from a centrally planned economy to a market system (Bertaud & Renaud, 1995). By contrast, in HCMC’s market, house prices decrease by 11.7% for every kilometer it is located away from the central business district (CBD). This could be in part because Hanoi is a smaller and denser city and thus distance could play less of an important role. As shown in Table 1, most of the properties in Hanoi lie about 4 km from the center with a standard deviation of only 1.72 km, whereas HCMC properties were typically 5 km away with a standard deviation of 2.54 km. And we do see that the variable *fringeq* is significantly negative, indicating that prices do fall at Hanoi’s urban fringe. Still, we would expect to find the market to value distance in a more graduated fashion.

In further comparing the base models of Hanoi and HCMC, we also find some other important differences. One is that when city district dummies were entered in the Hanoi model to further account for a house’s neighborhood value, only two of them were significant. Still, they were all included in the model because they increased its explanatory power. However, in the HCMC model, most district variables were significant commanding different premiums even after holding other location variables constant (whether they were in the CBD or city periphery and their distance from the CBD). The significance of the district dummy variables and of the distance to CBD variable indicates that HCMC’s market values a property’s location more sensitively than Hanoi’s. One of the other observations we could make about the descriptive statistics in Table 1 is that Hanoian ads do not advertise their other locational attributes as much as in HCMC (such as proximity to schools and markets). The lower explanatory power of the Hanoi model and the insignificance of location variables suggest that Hanoi’s housing market is still somewhat atypical of other markets. This coincides with the arguments made earlier about the differences in supply constraints and social norms between Hanoi and HCMC.

The key variables of interest in this study surround property rights. As explained previously, laws and regulations about property rights are uniform nationally in Vietnam. But, we have observed differences in how lay terms used for property rights have evolved between the north and the south. Earlier I contended that the slowness to linguistic change in Hanoi about property is indicative of its society’s receptiveness to economic transition in general. And now we investigate if they have statistical significance.

Table 3 shows the results for HCMC and Table 4 shows the results for Hanoi. The property rights variables were entered step-wise to the base models in Table 2. As we would expect, both Hanoi and HCMC models show that the seller who explicitly communicates possessing the BOLUC (a pink or red certificate) can ask the highest offer price. Hanoians can ask for a 7% premium, while sellers in HCMC can ask around 11% more if they have already obtained the pink certificate. In HCMC, the vaguer term that was used more commonly only three years earlier, “ownership certificate,” could no longer command as high a value as “pink certificate” at 4.3%.

Table 3. *Ho Chi Minh city property rights models*

Model	Semi-log		
	Model 1	Model 2	Model 3
Estimation method			
Constant	5.108	5.058	4.940
Distance to central business district	-0.118 (-4.721)	-0.119 (-4.772)	-0.120 (-4.791)
Square meter floor area of house	0.537 (47.539)	0.537 (47.510)	0.536 (47.502)
Street	0.251 (22.239)	0.251 (22.295)	0.250 (22.178)
School	0.039 (3.581)	0.038 (3.511)	0.039 (3.555)
Housing quality high	0.116 (6.264)	0.117 (6.298)	0.116 (6.256)
Education rate high	0.077 (3.750)	0.078 (3.794)	0.077 (3.760)
District and location dummies entered	Yes	Yes	Yes
Pink certificate	0.039 (3.487)	0.054 (2.890)	0.110 (3.794)
Legal Papers		0.019 (1.040)	0.070 (2.556)
“Ownership certificate”			0.043 (2.521)
Adjusted R ²	0.587	0.587	0.588

Notes: Coefficients are standardized Betas; T-stats in parentheses. *n* = 3,537.

The most tell-tale indicator of significantly different operations of property rights between the two cities is in the case when more ambiguous terms are used. The two markets have opposite signs on the coefficients for the term “legal papers.” In Hanoi, citing the possession of legal papers has a negative effect on offer prices. Sellers decrease the offer price by 9% if they mention these. Model 3 is included in the analysis to show that the claim of “waiting for the pink certificate” is not statistically significant to the 95th percentile. It appears that the Hanoian housing market is less tolerant of ambiguous property rights and the seller has internalized it into their initial offer price. However, HCMC is a different story. “Legal papers” is significantly positive and can still

Table 4. *Hanoi property rights models*

Model	Semi-log		
	Model 1	Model 2	Model 3
Estimation method			
Constant	5.758	5.799	5.826
Distance to central business district	-0.013 (-0.340)	-0.010 (-0.277)	-0.011 (-0.281)
Square meter floor area of house	0.482 (24.762)	0.481 (24.813)	0.481 (24.798)
Street	0.302 (16.789)	0.301 (16.799)	0.301 (16.780)
Telephone	0.035 (1.950)	0.033 (1.830)	0.033 (1.824)
House quality low	-0.098 (-4.128)	-0.096 (-4.061)	-0.095 (-4.040)
Education rate high	0.120 (4.901)	0.122 (5.026)	0.122 (4.847)
District and location dummies entered	Yes	Yes	Yes
Red certificate	0.132 (7.039)	0.070 (2.806)	0.055 (1.362)
Legal papers		-0.092 (-3.776)	-0.104 (-2.848)
Waiting for red certificate			-0.014 (-0.454)
Adjusted R^2	0.483	0.487	0.487

Notes: Coefficients are standardized Betas; *T*-stats in parentheses. $n = 1,631$.

command a 7% premium over not advertising possession of any paper documentation of property rights. As one would expect, the coefficient is less than for the "pink certificate" but it is still valued as something between being fully titled and having no documentation.

5. INVESTIGATING ALTERNATIVE HYPOTHESES

The main finding of this model concerns how the two markets value "legal papers" over formal title; the coefficient is negative in Hanoi and positive in HCMC. The contention of this paper is that norms, socially constructed by political interests and culture, play a large part in accounting for this difference.

In considering other variables that could be in the error term, it could be that instead of the institutional environment, the properties with informal title in Hanoi are somehow different from those in HCMC. One hypothesis could be that such houses in Hanoi are of lower quality than in HCMC and that the legal papers variable is picking up the effect of lower valued housing. However, as the descriptive statistics showed, the amenities of the houses in the Hanoi sample are similar to the HCMC sample. Table 5 shows that there is no significant correlation between any of these amenities and the legal papers variable in either city, except for having a landline telephone.¹²

Alternatively, instead of the house itself, it could be that houses with informal property rights in Hanoi are located in neighborhoods with lower housing values than in HCMC. The percentage of low quality housing stock in the house's ward is positively and significantly correlated with legal papers in Hanoi while it is insignificant in HCMC. However, the percentage of low quality housing is not only very low but also similar between the two cities. In examining the frequency distribution, within the 25th and 75th percentiles, the percentage of a ward's housing stock of low quality ranges from 2% to 6% in Hanoi and 0% to 5% in HCMC. So it must be some factor besides low quality housing in a ward that is decreasing the value of properties with legal papers in Hanoi.

Beyond housing and neighborhood characteristics, one might question if there is some-

Table 5. *Correlations between housing quality variables and "legal papers"*

	Hanoi	HCMC
Water	-. ^a	-0.018 (0.275)
Electricity	-. ^a	-. ^a
Toilet	-0.046 (0.064)	-. ^a
Telephone	-0.064 ** (0.009)	0.020 (0.238)
Low quality housing in ward	.062* (0.013)	0.014 (0.405)
High quality housing in ward	-0.007 (0.791)	0.047 ** (0.005)

T-Stats in parentheses.

^a The correlation could not be calculated because the variable is constant.

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

thing structurally different about Hanoi's housing market. For example, the percentage of high quality housing in the Hanoi sample's wards is higher than in HCMC; 55–69% versus 14–36% between the 25th and 75th percentiles. One could hypothesize that because the percentage of high quality housing in a ward in the Hanoi sample is higher, the market might discriminate against properties with only legal papers instead of formal title. However, the negative correlation between the high housing quality variable and the legal papers variable in Hanoi is not significant.

Curiously, high housing quality is positively and significantly correlated with the legal papers variable in HCMC. This raises the question as to why the houses in nicer neighborhoods in HCMC are not getting the pink certificate. And, more importantly, why is it not a liability in HCMC's market to offer legal papers like it is in Hanoi, given that the distribution of certificates is similarly backlogged in both cities. The data indicate that owners of high quality houses have other documentation of ownership but do not have the BOLUC. And with HCMC's market's pricing structure, they would lose only a 4% premium of having gone to the trouble of getting the certificate versus roughly a 16% differential in Hanoi.

This again leads to my argument about the importance of social norms and local enforcement institutions in shaping how property rights evolve. As one key informant explained, the benefit of buying property in HCMC without the pink certificate is worth the risk, especially if one is planning to resell it quickly because real estate prices have been rising rapidly. But this classic Demsetzian explanation is only made possible through HCMC's particular institutional context. The economic benefit can be realized because it is normal for people to transact without the pink certificate in the market – it will not impede the sale. The benefit also exists because the property rights risks can be lowered with just legal papers because they are still recognized by the neighborhood block groups and ward levels of government.

In the north it must be expected to transact with some proof of property right because otherwise no seller would advertise legal papers if it would bring down their asking price. We see in Table 1 that nearly all the ads in Hanoi claim some sort of documentation. However, in the south, it seems that advertising legal papers is still better than offering nothing.

One problem in studying the market value of title involves endogeneity. While a title might add value to a property by increasing its property rights security and mortgageability, owners of more valuable properties might tend to pursue the cost and trouble of obtaining title to protect their asset. Endogeneity is not an overwhelming concern in this case for two reasons. First, the cost of titling appears to be either independent of or negatively correlated with the value of the property.¹³ Second, a primary interest of the study is to examine the value of legal papers as a property right. Endogeneity with titling should not affect the coefficient on *legal papers*. The probability of a seller possessing legal papers is related to factors that are independent of a property's value.

6. WHY THE NORTH AND SOUTH DEVELOPED DIFFERENT WAYS OF OPERATIONALIZING AND PRICING PROPERTY RIGHTS: IMPLICATION OF FINDINGS

This study took advantage of the natural experiment situation in which the same legal reforms were applied across the country. It also took advantage of the availability of data to employ a standard hedonic price model to find statistical evidence of variation in how formal legal reforms were adopted in two Vietnamese cities.

In light of the empirical findings, we can make several observations. The Demsetzian literature would have predicted a change to private property rights in Vietnam, only if one took an ecumenical view of institutions. As housing demand skyrocketed with transition, large economic gains could be achieved through a private housing market. But it is the old communist institutions that helped to mitigate the start-up and transaction costs involved in establishing a private property rights regime. The household registration system helped to establish stable and documented tenancy at the onset of transition, therefore, tenure security was not an impediment to the market. The neighborhood block groups and ward administrations increasingly took on the task of adjudicating property disputes, as they had already been involved in many household level economic matters and had better information about local residents and properties. Meanwhile, legislative reforms, title registration and cadastral survey institutions, courts, and the legal profession, institutions with high start-up

costs, have been developing more slowly. One could argue that in the interim, the emergence of new private property rights took the most cost-effective path, given Vietnam's institutional endowment of a communist bureaucracy. Although property titles were not well distributed and legal institutions were weak, the private housing market has taken off in both cities, beguiling international indicators that Vietnam has some of the most inappropriate private property rights institutions among all countries.

This study also finds that despite a centralized political system and the country-wide legal reforms, property rights evolved differently in Vietnam's two leading cities. The cost-benefit model of institutional change is not only inadequate in explaining the process by which private property rights change, but is also inadequate in the resulting forms and market values of new private property rights. While economic forces helped impel a change to private property, Hanoi's market has been slower to adopt changes and is less tolerant of legally ambiguous property rights than HCMC's despite the north's even greater level of housing demand. This paper argues that because government control and social norms are more rigid about following rules, property owners are penalized by the market for claiming "legal papers" or "waiting for pink certificate" instead of having the final certificate. In Hanoi's economy with a housing shortage, we would have expected to see increased acceptance of alterna-

tive legal papers but the political economy and social norms shaped it otherwise. Meanwhile, in HCMC, the change to private property rights and a housing market was assisted by the social norms that encourage entrepreneurialism and pragmatism over legal formalism and by local bureaucratic institutions that serve as unofficial enforcers of the new property rights. Sellers could use a variety of forms and terms for property rights and the market could price the risks accordingly.

Market price data have been used here to show how local norms, socially constructed by the reciprocal relationship between political institutions and culture, shape economic transactions. The main point of this study is not that the two cities value formal titles. One would expect them to have market value, especially considering the investment in time and costs for the minority of households who obtained them. Rather, the major finding of this paper is that for the majority of households who do not have property titles, Hanoi's market values legally ambiguous property rights status as a liability whereas HCMC's market values it positively as an intermediary form of property right. The irony here for policy circles is that the looser, less law-respecting norms about property rights have been an important part of the South's rapid investment into the housing market. In the current global trend to title housing, we should expect to see even greater variation in outcomes between countries with greater differences in social norms and political institutions.

NOTES

1. One example of how wide the support has been is contained in de Soto's Institute for Liberty website: <http://www.ild.org.pe/eng/recognitions.htm>. The World Bank has also featured Peru's land titling program in its magazine *Development Outreach*: <http://www1.worldbank.org/devoutreach/mar05/>.

2. For clarification, social norms are distinct from habitual cultural practices in that they involve enforcement through social sanctions in cases of nonconformity. Here, I use the term culture in the sociological sense which incorporates the material products, ideas, language, organization, and symbols social actors use in practice to communicate meaning to each other (Swidler, 1986). As we will see, the internalization of the norm about title is reflected in this study's findings that

Hanoian sellers reduce their offer prices if they have ambiguous title, while HCMC sellers offer a price between title and having no documents.

3. Unlike typical developing countries, the real estate market in Vietnam is not characterized by a dual formal and informal market. Rather, one of the main points of this study is that the mainstream real estate market in HCMC has properties with a range of conformances to the newly introduced laws and regulations. What made it possible to bring them to the market was the range of enforcement institutions available.

4. More recently, the 2004 Land Law amendments separated the registration of land and housing again into two certificates. However, there is still confusion over

how to implement the new certificates for housing and of what color they should be (Nguyen, 2005). We would expect that the two cities will again respond differently in how they operationalize and price the new certificates.

5. Interviews included representatives from various levels of government: General Department of Land Administration, Chief Architect's Office of HCMC and Hanoi, Hanoi Authority for Planning and Investment, Department of Housing and Land Administration of HCMC, several district and ward government offices in HCMC, Institute for Economic Research, National Center for Social Sciences of Vietnam, Hanoi and HCMC Architectural Universities. Private sector interviewees included managers from several international and domestic private land development companies which have attempted projects in both Hanoi and HCMC as well as in other cities, the Asia Commercial Bank, and private law firms. International development agencies engaged in land-related projects were also interviewed: United Nations Development Program, Swedish International Development Cooperation Agency, United Nations Development Organization, World Bank.

6. The increase in consumerism and market savviness in the south is often written about in the media (VIR, 1996). Comments about saving and spending proclivities were also mentioned in interviews with the managers of one of Vietnam's largest private banks, Asia Commercial Bank, that characterized their operations as taking deposits from the north to make loans in the south.

7. The definition of "private" firms in Vietnam includes situations where those with political connections are often intimately tied to the ownership of these firms (Gainsborough, 2003). Still, these organizations have

been allowed to manage their daily operations, face a hard budget constraint, are responsive to market demand, and do not enjoy the preferential treatment shown to state-owned real estate companies in terms of access to credit, land, and easier permitting and approvals. The literature finds that a similar gradated view of "private" exists in China as well (Zhu, 2002).

8. A multi-year data set would have been desirable. However, the archives for the Hanoi edition were destroyed in a flood, so previous years issues were unavailable.

9. In Hanoi, the listers sometimes identify that they are *chinh chu* or "owner." Of these 336 ads, 190 further specify that they have the red certificate and 24 specify that they are waiting for it. This paper tests the value of legal documentation and therefore the specific types of documents were entered into the model and not general claims of ownership.

10. For more detailed and technical discussion of the specification of the models used in this study, refer to Kim (2004).

11. A few studies have shown with hedonic price models that housing markets can distinguish and price the premium for legal tenure (Dowall & Leaf, 1991; Jimenez, 1984; Kim, 2004).

12. This is not a major issue given that Vietnam has had explosive growth in cell phone usage.

13. For further details on the private costs of titling including tax liabilities, refer to Kim (2004).

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APPENDIX A. NOTES ON THE DATA

Assistants entered information from the newspaper listings. Only listings which provided the name of the property's ward were entered because socio-demographic variables could be attached to the observations. A complication is that since the 1999 census, the jurisdictional boundaries of some of the wards in the urban fringe areas were redrawn. For new wards that were completely within the boundaries of former wards, census data of the former wards were applied. Any questionable observations were removed.

The listed property prices came in two currencies. Prices in HCMC were usually quoted in gold *luongs* while most in Hanoi were quoted in millions of *dong*, the Vietnamese paper currency (see Table 1). All prices were converted into Vietnamese *dong* using the current official exchange rate taken from the newspaper for that particular date. I removed outlier observations that had prices less than 100 million VND and greater than 16,000 million VND.

Past hedonic price model studies of real estate have found certain variables to be consistently significant and large determinants of real estate values, so it was important to have data for these variables in order to ensure explanatory power in the model. The variable *Distance to CBD* was calculated by first identifying the property's ward. A geographical midpoint was inputted in GIS software for each ward's jurisdictional boundaries and then a straight-line distance was calculated from the ward's midpoint to the city's downtown central business district in kilometers. This number was rounded to the nearest whole kilometer.

A house's size, specified by *Floor Area*, is also a major determinant of price. Only ads which stated the square meter floor area of the house were collected. I removed outliers beyond two standard deviations for each city. In the end, 1631 observations were collected for Hanoi and 3537 observations for HCMC.

There are some drawbacks to this source of data. We cannot see what the actual transaction

prices are or whether they sell at all. Most probably, listed prices tend to be inflated to allow room for negotiation. The prices may also be higher due to sample bias. The people who can afford to buy a classified advertisement may not represent the average market seller and may tend to list higher end properties. If, so one could theorize that property rights are more important for this market segment than for lower income households with less options. On the other hand, many of the listers are avoiding broker's fees and therefore may be able to offer lower prices. So, in the interpretation of the findings, it is important to keep in mind that the findings apply to this market segment. Another possible problem is the variation among the sellers in terms of their expertise and knowledge about the market. I attempt to smooth out these biases by taking a large random sample to find variables that are consistently significant. Related to this, it is possible that a seller could possess legal papers or a certificate but not have advertised it in the listing. If this were the case however, the property rights coefficient would understate the effect of property rights on prices.

In order to check how feasible the listings were as a data source, field assistants called listers to enquire about properties and found that the sellers were open to discussing properties and the form of tenure they had, inviting the assistants to come and see the documents and property. While we cannot substantiate their claim through this method, still we assume that the sellers would not be able to maintain the offered price level when the buyers investigate the claim themselves.

In any case, the thousands of listings made voluntarily by sellers in the newly emerged real estate markets provide a rich data source without the problems of survey instruments. What we find are the sellers' perceptions of what they can ask for in the market and how property rights impact this. We assume that supply is responsive to demand because of the large numbers of competitors and the free entry and exit into the market.