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Vietnam relaxes its rules on foreign ownership of property

Michael Peel

Communist country opens the door to overseas investors — but will they come?

A lantern shop in the capital, Hanoi

Vietnam's embrace of global capitalism stretched to the opening of its first McDonald's last year and now the communist country stands on the verge of another symbolic shift: allowing the foreign ownership of property. In the lead-up to the 40th anniversary of the final US retreat from South Vietnam on April 30, Hanoi wants to tap a southeast Asian property boom fuelled by incoming elites from the region and beyond. The opening up of ownership will be a key test of outside appetite for a market that has attractions but is still only nosing towards recovery after a rocky few years.

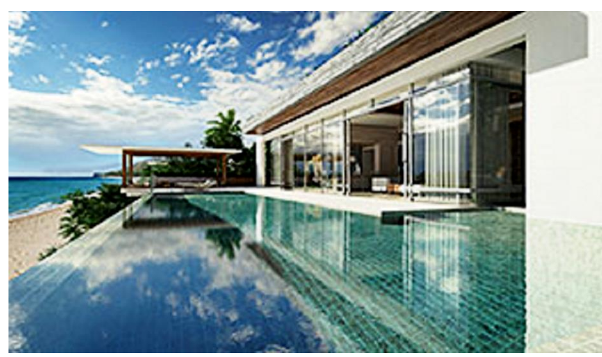
"Property in Vietnam versus the region is relatively cheap and is showing strong rental yields," says Neil MacGregor, managing director of Savills in Vietnam. "The new law has gone much further than we expected."

Vietnam's property market change is the latest phase of a staged economic opening up of this country of 90m people that began in the 1980s and accelerated after the US lifted its postwar trade embargo in 1994. Since then, Hanoi has overseen the growth of a low-wage manufacturing export hub that has become a key part of the global supply chains of international retailers and other companies. While annual economic growth has consistently been between 5 and 10 per cent for the past 20 years, the change has also brought with it frustrations over inequality, corruption and working conditions. Tensions pent up under the communist party's repressive rule spilled out dramatically last year, when anti-Chinese protests over a maritime dispute led to riots and the ransacking of foreign-owned businesses.

The new property rules in place from July 1 will permit overseas nationals with valid residence visas to buy up to 30 per cent of a condo or up to 250 houses in a ward — an administrative area that can contain thousands of properties — with a 50-year lease. The limited relaxation of the rules is in line with the partial opening of other markets in the region. In Thailand, for example, foreigners are limited to 49 per cent ownership of condos.

Estate agents say locations for the most interesting properties in Vietnam fall into three categories: the main urban centres of Hanoi and Ho Chi Minh City, coastal resorts, and new niche destinations. At the top end, Savills is offering five-bedroom villas in the seaside area of Nha Trang for Vnd33bn ($1.53m). In Ho Chi Minh City, the main commercial centre, high-end housing developments are springing up along the Saigon river and away from the crowded downtown area.

Sotheby's International Realty is selling a three-bedroom, 19th-floor duplex close to the river for Vnd10.5bn. In Hanoi, which has a more relaxed feel and retains some of the old French colonial atmosphere in its boulevards, Ocean Villas Group is selling four-bedroom penthouses from $320,000.

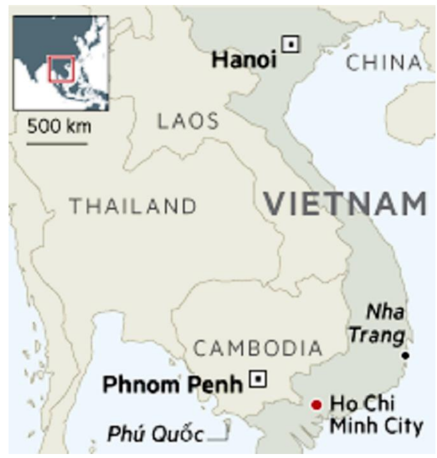


Five-bedroom villa in Nha Trang, Vnd33bn ($1.53m)

One intriguing emerging opportunity is the island of Phu Quoc, which the government is promoting as a tourist centre — "Vietnam's Phuket", as one agent describes it. It has an airport with flights to destinations including Siem Reap in Cambodia, the gateway town to the magnificent Angkor temples.

Vietnam bulls say now is a great time for overseas property investors to come to the country. They predict the continued expansion of a domestic wealthy class, an influx of Vietnamese nationals returning from abroad, and a flow of foreign executives arriving to manage an expanding manufacturing sector.

But there are also doubts over how big a draw Vietnam will turn out to be for foreigners. Institutional investor appetite may be limited, with higher returns to be found elsewhere in the region. Potential Chinese buyers who might visit Vietnam as tourists may be deterred from establishing a permanent presence because of the antipathy of many Vietnamese towards their nation.



The new property rules themselves also present obstacles to foreign purchasers. The requirement to have a valid visa may be a bureaucratic deterrent to some. It is also still unclear what the institutional financial mechanisms are for buying, selling and taking proceeds out of Vietnam. Then there are questions over whether the rules will be consistently applied. One western businessman describes how he is still waiting for his property-ownership papers after buying an apartment in Ho Chi Minh City seven years ago, under a special exemption giving buying rights to foreigners who carried out work for the government. He puts the delay down to the local bureaucracy's reluctance to implement an unusual policy, even one approved by the central authorities. "There's a big difference between dealing with the federal government and dealing with local authorities," he says. "The local authorities are a nightmare".

Vietnam's ambience, population and frontier-market possibilities make it look a tempting property play. However, the arrival of the first overseas buyers may yet be a lower-key event than the much-trumpeted appearance of McDonald's. "[The foreign ownership law] is definitely a positive step," says Nicholas Holt, Asia-Pacific head of research at Knight Frank. "But I don't think we are going to see a big wave."

Buying guide

● Average annual temperatures vary from 23C in Hanoi to 27C in Ho Chi Minh City. December to April are the driest months

● GDP has grown by more than 6 per cent over the past three quarters

● Pickpocketing and bag snatching are the most common crimes faced by foreigners. Violent crime is "very rare", according to the US State Department

What you can buy for . . .

$500,000 A house in District 7, an area of Ho Chi Minh City popular with expats

$1m A two-bedroom villa in on the coast at Da Nang

$3m A four-bedroom family home in District 2 of Ho Chi Minh City

Michael Peel is the FT's Bangkok regional correspondent

Main photograph: Tim Draper/ 4Corners