

# SOME LESSONS FROM FOREIGN REAL ESTATE MARKETS

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**A**s everybody knows, the land has great effects on the socioeconomic life. The land and housing in Vietnam today is considered as a basis for social and individual welfare.

In our opinion, the Vietnamese government has adopted a right policy on land but the mechanism for managing relations around land is not appropriate with the result that the land has become not only an economic problem but also a social one. In Hà Nội and HCMC, speculation in real estate has recently caused price fever. Within a year or two, the price increased by four times, or even nine times in certain cases. Cà Mau is also witnessing a price fever when the average price of agricultural land rose by 100 times. When the agricultural land is turned into residential land, many people get rich quickly.

Before 1975 in the North, the economy was less developed and met with great difficulties but the land and housing problem caused no disorder. As we know, the real estate market is an imperfect one that is easily distorted, that is, producing unexpected fluctuations in price and supply-demand relationship that lead to price fever and bad effects on the economic growth.

In the past decade, the centrally-planned mechanism was removed and the market economy was applied quickly to all fields, including ones that were saved for the public sector even in developed countries. Under the market mechanism, there are many kinds of markets for different products. In Vietnam, however, the government has decided against commercialization of health care, education and cultural services, that is, we need not develop all kinds of markets.

In many Asian countries, including NICs, the speculation in real estate causing the price to skyrocket has led to social inequality. Many de-



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veloping countries have stressed the necessary balance between the economic growth and social equality, and between the economic development and protection for the environment. The social equality, in its turn, has great effects on the social stability and sustainable economic growth.

The following are some facts about foreign real estate markets.

(1) South Korea: The price of real estate skyrocketed in the 1980s and became a serious political and social problem and a danger to national integrity. According to a rough estimate, profit generated by rises in the land price in 1989 equaled some 35% of total income earned by townspeople. In addition, the rises in the land price led to higher compensations for land clearance needed for infrastructure projects. In 1970-72, a kilometer of road cost from 90 to 100 million won and this figure was 27,000 million in 1993, a 270-time increase. This situation really caused harm for public interests and sustainability of the economic growth.

The real estate crisis in the late 1980s was very serious. The price became uncontrollable, partly due to high inflation rate. In these years, riots broke out and lasted for a long time. Although the average wage rose steadily, all workers saw that the raise was very small in comparison with increases in the land price and rental. The South Korean realized that the uneven distribution of wealth and inequality of opportunity not only caused socio-political problems but also hindered the economic growth. The government took many strong measures to cut profit earned by speculation in real estate, such as:

- fining those who hold too much land unnecessarily;
- increasing taxes on profit from sale of land and income from real estate;
- applying progressive taxation to land owners;
- imposing the increment value tax on unused land to prevent the speculation in land.

In addition, the government set limit on land area owned by a house-



hold in order to force owners to sell the extra area, otherwise they had to pay an extra tax equaling to 11% of the market price for the extra area. Moreover, there was an investment fee imposed on the real estate that benefited from the public investment in the infrastructure and supply services.

(2) Malaysia: The double target adopted by Malaysia is economic growth along with social equality. Policy on urban land is also oriented towards this target.

Under the colonial period, individuals could own large areas of land. In many cases, the government had to expropriate private land when carrying out major development projects. The Expropriation Law allows the government to get enough land not only for public development proj-

zens, especially the poor, have to pay excessive prices for the roof over their head. This part, large or small, is set differently for each state. Developers are also asked to cut from 5% to 15% of prices advertised for the poor and 30% of the number of apartments they build must be sold at the cut price.

(3) Thailand: The situation in Thailand is slightly different because the private sector here plays a more important role in housing development. The market for urban real estate is a sellers' one and only middle and upper classes could take part in this market while the lower class couldn't afford the cheapest apartment offered on the market. The mechanism for financing housing projects for the poor only stimulated the speculation with the result that

three years was 30% and rose to 37% in the first two months of 2003. If no effective measure is taken, the whole economy will be damaged when the bubble bursts.

The Chinese government has decided to stop granting licenses to developers who want to build big apartment houses, or villas and cottages in suburbs. From now on the market for high-quality houses will be under strict control of the government (Người Lao Động [Laborers], March 4, 2003).

Valuable lessons from these markets are as follows:

- The government intervention in the real estate market through town planning is necessary. All housing development projects should get permit from the government. Developers are asked to save part of their projects for the poor. Heavy taxation is put on large-scale land owners and a limit on land owned is set to force the land owner to sell the extra area.

- Excessive prices and rental of real estates in Hà Nội and HCMC will increase the production cost and discourage investors, especially foreign ones. This situation has happened in India and many other countries. Many foreign investors and reporters are of the opinion that the average price of houses and land in big cities in Vietnam are very high in comparison with other cities in the world while the infrastructure is much poorer.

- Investment in the real estate is one of causes of the shortage of capital facing commercial banks. Many Asian banks have faced financial difficulties after extending loans to real estate investors.

- Speculation in the real estate hinders the economic growth when investment in this field generates bigger profits than in production and other businesses.

- Rises in the price of real estate change the habits of spending and saving. Most families getting rich by investing in the real estate tend to spend more and save less, which reduce the source of capital needed for the economic development. Thus the hot real estate market produces bad effects on the economic growth.

- The market gets hot easily because of its imperfect characteristics, which hinders housing projects for the poor.

- The market for real estate doesn't help increase the budget income considerably while the government has to spend more on compensation for land clearance when carrying out infrastructure projects. ■



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ects but also for sale. The government intervention reflects in the strict control over town planning. All development projects must acquire license from local governments.

To prevent individuals from accumulating land, the federal government requires the land to be developed with two years after licensing. To prevent resale of land granted, a permit from the state government is required when selling a piece of land.

Taxes, especially the property tax, are used for limiting the speculation in land and real estate. The government also asks developers to save part of any apartment house for a certain Malay group. The logic behind this regulation is the argument saying that if everything is left to market forces, many groups of citi-

zens, especially the poor, have to move away from big cities.

The busy market for real estates caused the price to skyrocket and profit generated by this market was very big. Real estate stocks are the third favorite ones for financial investors. This situation was one of causes of the financial crisis broken out in this country before spreading to neighboring ones.

(4) China: According to the report by State Committee for Reform and Development, the boom in the real estate market in the past three years was about to come to an end because some 61% of investment in the real estate was loan capital and some 120 million meters of housing have been long waiting for buyers. The growth rate of house building in the past