



Renovating the method and enhancing the government managerial efficiency in the housing sector with a view to beautifying the city landscape, ensuring the political, economic, cultural and social stability and mapping out measures to speed up accommodation for the city population.

The detailed measures should be implemented:

- Reforming the housing administration and real estate SOEs' performances:

(1) Improving administrative procedures in selling and buying houses. This task remains poor and complicated due to

# SOLUTIONS TO IMPROVING HCMC-BASED SOEs' COMPETITIVENESS IN REAL ESTATE TRADING

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**H**CMC is the largest hub for economics, culture, technique and services in Vietnam. Its population reaches 5 million living in an area of 2,100 km<sup>2</sup>. Its urbanization proceeds fast. According to the forecasts, the city population will amount to 7.2 million by the year of 2010 and its per capita GDP US\$4,500-4,600. As a result, the city is required to upgrade its roads, telecommunications network, parks, residential areas in line with a modern city in the twenty first century.

The city is preparing initial steps for the real estate industry. The local authorities have taken positive measures to settle the housing problem to the

poor. The Government has also decided to sell its houses. In addition to the Government's efforts to deal with housing problems, the real estate market are bustling through house construction for rent or sale, and land-use transfer. The changes in the HCMC property market symbolize the country's housing market.

In parallel with promulgation of decrees, the establishment of housing development and trading businesses have been strengthened. In July 1998, the Saigon Real Estate Corporation came into being and started operations. The establishment of this company shows the Government's restructure of state-owned enterprises

(SOEs) with the aim to enhance their market power and competitiveness and restrain price upheavals and inflation rates.

With its reforms in management policies for real estate businesses in the past years, the city growth rate increased strikingly. These results indicate the efforts of local authorities and SOEs. However, to boost the process of the national industrialization and modernization, the Government is required to devise long-run plans for real estate SOEs, especially solutions to their competitiveness.

The following measures are proposed:

## I. FIRST SOLUTION

vague and overlapping policies. In addition, the functions of some government agencies are overlapping and inefficient.

(2) Rearranging property trading SOEs and making them affiliates to the Saigon Real Estate Corporation in order to create their strength in the city's tenders for housing construction and development. Moreover, the city should train an army of skilled workers specializing in property business and management of urban development projects. It should also hold training courses as well as build an army of marketing staff who well understand the city people's housing demand.



• Perfecting the legislation on property trading:

(1) Rearranging the specialized agencies, managing real estate development and trading in line with an integrated system and removing unsuitable regulations on houses and residential land.

(2) Perfecting the legal system and policies on land. In respect of land-use transfer and land lease, the land value should be well determined for effective use. Developing land to secure the public benefits and limiting speculation and negative actions in using land.

(3) Well managing the property market, dealing with the people's urgent requirement for housing in developing urban areas. Encouraging various economic sectors to build and trade in houses, and invest in infrastructures following the Government's guidelines and management.

(4) Proposing appropriate policies for property trading and making favorable conditions for SOEs to engage in the real estate market for the city's housing development.

• Strengthening the management of dwelling land because the city dwelling land and houses account for the largest percentage in comparison with other provinces and this generates many favorable conditions for the property trading sector to boom. The following points should be centered on:

(1) The Government regulations on planning and using land shall be strictly respected, the public land shall not be used for individual purposes and wasted. The newly-founded residential areas shall include sufficient functions and facilities to promote the dwellers' living and travelling. The city Land and Housing Management Service and Chief Architect Office are agencies managing and planning houses and land.

The Saigon Real Estate Corporation is a state enterprise specialized in trading properties and implementing the housing development projects in the city.

(2) Improving the management of state-owned properties such as buildings, dwelling houses, offices and warehouses of SOEs across the city.

(3) Encouraging various economic sectors to develop dwelling houses. HCMC has planned residential areas in newly-founded districts to relocate people from the inner city to suburbs. The real estate SOEs should assume responsibility for urban development, contributing to the fast economic restructure and stabilization of the people's accommodation.

(4) The Government should soon set the criteria of dwelling area to help SOEs with application for land-use certificates.

(5) The Government should expand land allocation and rent for other objectives and increase obligations and rights for organizations and individuals which are granted land or lease land (including domestic and foreign ones). Moreover, it should accumulate land and prolong the term of allocating and leasing land and make favorable conditions for SOEs to build residential areas after they are granted land.

(6) The compensation policy should ensure the housing rehabilitation for those who legally possess houses and land and are requested to move to new location.

(7) Increasing investments in technical and social infrastructures. The trend of fast increasing land value and population requires the focus on projects planning and building apartment blocks with adequate facilities for the people's living.

(8) Using proceeds from real estate trading to up-

grade infrastructures for less-value land in order to lower selling prices of this land after the infrastructures here have been built. The investors using land for property business must earmark a part of land with infrastructure to build houses for installment sale, lease or cheap sale to the low-income earners and the poor in the city.

• Speeding up the development investment in the real estate sector

(1) The program on housing development and the property trading should be concentrated on with the two important solutions:

+ Upgrading, refurbishing and modernizing the downtown area, removing slum houses along the canals in the inner city and building landscapes, clean and civilized environment.

+ Developing new residential areas, satellite cities with the aim to implement the Government and the city People's Committee's instructions on people relocation and reduction of population density in line with working conditions of the inhabitants.

(2) On detailed planning and architecture

\* As for 12 districts in inner city:

- With an area of 14,134 hectares, the average number of floors built in these districts shall increase from 1.4 to 2.7. The construction density will be reduced from 60-70% to 40-50%, and the construction area must be kept at 10 square meters per capita.

- The city refurbishment must be in compliance with traditional and cultural identity. The traffic congestion needs gradual settlement by public means of transport replacing individual vehicles.

\* As for developing urban areas:

- With 35,000 hectares belonging to 7 newly-founded districts, the land usage is paid special attention to in urban areas and

industrial parks. In addition, financial companies, banks, and relevant agencies should offer active supports to enterprises investing in these new areas.

- The infrastructure should be constructed and appropriate open-air space and greenery ensured. The city has to provide new homes for 4,000 households every year and 24,000 households by 2000 which are living on 37 polluted canals.

- The future projects should strictly comply with construction regulations on road width, construction density, building height and so on. Newly-developed urban areas must not pollute the environment and must meet adequate conditions of a modern city. It is estimated that land for civil works is 70 square meters per capita and the construction land 110 m<sup>2</sup>/person.

- The delay of land-use fee payments also helps SOEs have enough capital to invest in housing programs.

## II. SECOND SOLUTION

Granting capital to SOEs in building homes, trading properties, and implementing the city's targets of housing development.

The Government shall perfect financial and credit policies with the aim to renovate the management of real estate business. The shortage of capital has hindered the process of implementing investment projects, reduced production scale and caused divergent and ineffective management. The backwardness of building machinery and equipment has deteriorated the project quality, prolonged the time of building and wasted the state capital.

According to the Saigon Real Estate Corporation, property trading SOEs should have enough capital to implement the HCMC housing development



strategy. The investment capital required for housing development in the 1998-2010 period amounts to VND126,000 billion. The plan to provide homes in the city are scheduled as follows:

- + From 1998 to 2000: Reconditioning and building about 120,000 homes (from 7.5 to 10 million square meters, building 30,000 homes per year) with an investment capital of VND35,650 billion, including VND10,386 billion for infrastructures and VND 25,264 billion for homes.

- + From 2001 to 2010: Upgrading and building some 800,000 homes with an investment capital of VND90,350 billion, of which VND13,552 billion comes from the state budget, accounting for 15%.

The above investment capital, in our opinion, may be attracted from the following sources:

- State budget: including funds used for capital construction, national programs and proceeds from sales of state-owned houses.

- Loan capital including foreign loans for inked projects. The Government will use this source to help real estate trading SOEs build key projects, refurbish old homes, embellish the city landscape, implement the relocation programs, and provide homes for the poor.

- National investment assistance fund: (in line with the competent agency's certificate of investment incentive);

- Commercial loans for investment (borrowing from local sources, foreign sources with or without guarantee);

- Investment capital of SOEs (basic amortization, corporate profits and funds, capital generated from equitization, bond issuance, contribution of land and building in joint ventures with foreign partners);

- Funds raised from individuals and organizations for building infrastructures in the form of charity and donation.

- Idle money of the people and overseas Vietnamese: This source is now enormous. It can be allured by issuing bonds via the HCMC Investment Fund for Metropolitan Development, HCMC Bank for Housing Development, real estate companies. The Government should map out preferential policies for overseas Vietnam to trade in properties.

- Foreign direct investment: not to mention the Vietnamese counter capital to realize investment projects.

- Official development assistance from international institutions and governments: specifying the list and amount of capital for every program and project. The local authorities should devise plans on housing development to make the best use of this capital source. SOEs should enter joint ventures with foreign investors with feasible projects, appropriate incentives and profit distribution. Moreover, the Government should attract financial assistance from the United Nations and loans from the World Bank.

- Investment capital from non-state economic sector: Non-state businesses are able to mobilize capital fast from their relatives and international credit institutions when they are given proper incentives.

To streamline the above investment capital, the Government is required to offer incentives to SOEs such as allocating land, reducing tax, and permitting the delay of land-use fee payments. This is an important ground for enterprises to accomplish the city strategy for housing development. If these measures are well carried out, the

SOEs' competitiveness will be strengthened.

After specifying the capital investment sources as mentioned above, we suggest some methods to generate capital for SOEs' property trading as follows:

- (1) Generating capital from land

- + Determining policies on creating investment capital for housing development and making legal framework suitable to the reality. Devising the new system to manage and use the capital source effectively. Complying with the Government's regulations on using state capital well and accounting.

- + Rectifying prices of land and houses in HCMC: Land belongs to the ownership of the entire people under the state management. The State allocates land to households and individuals for long-term use. To manage and improve the real estate market, the Government should study and set the land price suitably to make advantage of the available land. In the process of urban development in line with planned targets, the land value in some areas will rise differently. The Government should use this value added to invest in infrastructure and improve the people's living standard.

The use of price as the main tool to manage real estates is pertinent in the market economy. To adjust prices, investors usually examine the location of land and houses. The prices of urban land must be compatible with the market supply and demand law. To acquire the finance for housing development targets, the system of state budget management needs reformation with a view to proper investments in housing construction and the financial source should be maintained as a special institution.

- + Soon making the master plan on housing and land in the city. This is a legal base for investment decisions in each area. Each residential area has different architecture design, and urban space must be organized to ensure the city environment and landscape. The capital source which is concentrated and used actively will boost investment relations.

- + Soon perfecting the law on real estate business in the system of economic legislation with the aim to create favorable conditions for the healthy competition in the property market. The Government should outline policies to stimulate many economic sectors including foreign investors to involve in housing development, at the same time fight against the price dumping.

- + Creating capital from land: The Government should study to exchange land for infrastructure as the investment in the Bắc Bình Chánh-Nam Nhà Bè highway. However, this exchange needs attention to providing jobs for the residents living there.

- (2) Renewing the policy on investment credit management, including:

- + Increasing the loan capital in the structure of investment capital: in the structure of investment capital, the state-owned source makes up only 10%. As a result, to accomplish the five-year plan (1998-2003), the capital mobilization should be liberalized to fulfil the housing development program.

- + Using many investment forms from the state budget to build homes: the state budget used for providing welfare homes and building infrastructures will be recovered through electricity and water charges, tolls and other taxes.

- + Improving the system of budget management for housing investment: The system of managing



and preserving houses should be implemented strictly and properly. The relevant agencies should soon remove obstacles to investment, and obligations of management agencies in using state budget effectively for housing development should be specified.

+ Giving priority to SOEs specializing in property trading and making favorable conditions for good SOEs. The SOEs' business performance in housing development should be enhanced to produce profits. They are required to use their equity capital and profits to innovate their equipment and machinery with the aim to secure the project quality. Also the technology of building and producing construction materials as well as real estate services and marketing should be renovated. These are major tasks of the real estate sector.

+ In respect of projects building infrastructures: The Government should grant capital to SOEs for investment, allow them to take long-term loans with low interest rate and define the date of project completion strictly. Moreover, they can use their land to contribute capital in joint ventures with foreign partners.

### III. THIRD SOLUTIONS

Boosting up marketing activities of SOEs to enhance their competitiveness and sales.

To accelerate the output and revenues, SOEs' marketing is inevitable. They should investigate the market, introduce their products in advertisements so that the buyers know prices, method of payment (one-time payments or installments). The detailed measures are suggested for marketing activities as follows:

- Taking initiative in making plans and fixing prices clearly, reducing costs and selling prices in

line with the people's affordability. At present, the selling price difference between the state sector and the market remains wide, therefore those who have just bought state-owned houses often recondition their houses for rent or sale. This causes difficulties to SOEs' business. The determination of prices and flexible payment method is very crucial to the enterprise success. By investigating the market and rectifying prices, SOEs will ensure their revenues and profits.

- Paying more attention to marketing activities, real estate brokerage, investment project introduction, transferring a part or whole of housing projects on the basis of mutual interest and securing product quality for good business performance.

• The affiliate companies and other businesses should exchange information about real estate business with the aim to develop the sector thoroughly and build the price system appropriately. Their operations should center on stabilizing the property market, meeting the current requirements for accommodation and working place of the city residents and foreign individuals and organizations.

• Heightening the advertisement campaign introducing new planned residential areas with the aim to provide sufficient information about houses and land, new city plans. This campaign will contribute to restraining speculation in land and legal house construction which are now common in the city.

• Implementing the program to build homes for installment sale and rent in respect of low income earners with the installments lasting from one year or more according to the customer's affordability and the enterprise's capital capacity.

At present, in HCMC the low-income people account for about 50%, their need for house renting is thus so large. From this status quo, the enterprises are now concerned about providing homes for the poor and many of them have performed these operations effectively and successfully.

• Regularly organizing customers' meetings in line with the Saigon Real Estate Corporation plan at property trading SOEs to market the home design, size, price and quality.

Arranging the residential areas in accordance with the Government's policies on household relocation to reduce the pressure of population boom and stop the migrant flows into the city, securing to reach the population target of 3 million in the inner city and jobs for the people. The economic restructure should be implemented in the direction of urbanizing suburbs and providing enough homes for the people.

Urgently strengthening the management of project construction in the city, putting restraints to illegal building and encroaching the public land which are currently a nerve-racking situation. The ecological and socioeconomic environments, natural conditions, and traffic order in the city should be protected.

In each construction project, a particular percentage of land should be earmarked for building homes for low-income earners, for example, from 10 to 30% of the total construction land. The projects building homes for the poor will be charged no land-use fees. The proceeds from real estate sales should be used to build infrastructures for less-value land areas.

• Upgrading slum and residential areas encroaching the public land with no infrastructure. In

many cases, the Government should accept them as transitional accommodation to make plans for reformation and building minimum infrastructure for better living. Those meeting enough conditions will be used for apartment buildings construction and the residents there should be relocated with appropriate facilities.

The HCMC is the bridge linking the country's two large economic areas: the Mekong Delta and the southeastern provinces. It currently becomes a development pole of the quadrangle of HCMC, Binh Duong, Bien Hoa, and Vung Tau. The city development plan is applying its comparative advantages to exploit the potentials in housing and metropolitan development with a growth rate of 20-30% per year.

The concentrated residential areas should be uniformly developed. The industrial parks should be situated at right places to serve the city development strategy and the people living conditions. The new residential areas will be build and old dwelling blocks upgraded. The frame of land and house prices needs rectification in line with the market mechanism. The Government is required to reduce taxes on the projects building homes for the low-income earners and projects relocating the city residents.

The HCMC real estate business include very sophisticated activities and high socialization. The SOEs engaging in real estate business are required to find solutions for their good performance to fulfil their obligations in the city housing development strategy. We hope the city housing development cause will attain many achievements to meet the people's requirements.