

# Housing Development in Ho Chi Minh City

## Case Study: Bong Sao Residential Area Project

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## Introduction

Vietnam, officially the Socialist Republic of Vietnam, located on the eastern coast of the Indochinese Peninsula. Vietnam is bordered on the north by China, on the west by Laos and Cambodia, and on the south and east by the South China Sea. Hanoi is the capital, and Ho Chi Minh City (formerly Saigon) is the largest city. Ho Chi Minh City metropolitan area covers an area of 2356 sq km (910 sq mi). It is composed of 17 urban districts and 4 rural districts. The vast majority of the population, however, lives in the 17 urban districts. The population is about 5,5 million. The downtown area, in District One, is home to most of the city's government offices, civic buildings, and well-known monuments. Outside the city centre are broad tree-lined boulevards with offices and residences, many of them built in the French colonial style. The suburb Cholon, lying west of downtown, is home to most of the city's ethnic Chinese population and has the flavour of a typical Chinatown.

## Background

Housing in Vietnam before the economic reform in 1986 developed under the subsidy policy and planning. The dwelling development is part of the national five year plan. The housing quantity and quality are not considerably increased. The Government was not only the housing supplier but also the deliver. After 1986, the government has issued many new policies that created the big changes in housing, especially the urban housing, such as: the cancellation of free house policy; incentive policy in private housing development; housing for rent; issuance of the deed of the land use right and house possession, etc. Many housing renovation programmes were implemented during the last decades with many high-rise apartment buildings upgraded with the state funding and residents' contribution.

In many aspects, Ho Chi Minh City is the biggest city of Vietnam and the housing development here has been faster and faster for last ten years. The housing quantity and quality increases greatly in this stage. Total number of housing units is 1,007,021 with 1,085,265 households. Floor area is 52,711,338 square meter in total. The average floor area developed is about 2.5 million square meters per year in the 1996-2000 period. Average floor area of 7.5 m<sup>2</sup> per habitant in 1991 is increased to 10.27m<sup>2</sup> per habitant in 2000.

However the housing demand is always a challenge. It needs 6 million square meters per year to satisfy the accommodation. The population density in old districts is still 12 times higher than new districts, 50 times higher than suburb districts.

*Housing situation in Ho Chi Minh City in the 1996-2000 period (square meter of floor in new construction)*

	Quantity (m <sup>2</sup> )	Scale (%)
Total	12,078,889	100%
Housing development sector	1,324,073	10.96
of the city level	214,366	1.77
of the district level	1,109,707	9.18
Self construction of individual	7,387,763	61.16
Low and Mid quality house	8,497,470	43.38
Good quality house	2,147,321	17.77
Other sectors	1,268,339	10.50
Housing upgrading program	1,936,093	16.02

The table above shows that self construction of individual occupies 61% of the total houses developed in 1996-2000. It means that private sector has participated actively in housing development process.

*Predicted housing need of Ho Chi Minh City next ten years 2001-2010*

### Annual increasing floor area (predicted)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total area (million m <sup>2</sup> )	56.4	60.3	64.6	69.0	73.9	79.1	84.6	90.5	96.9	103.6
Increasing floor area (million m <sup>2</sup> )	3.6	3.95	4.22	4.5	4.8	5.17	5.53	5.92	6.3	6.7
Population (million)	5.4				6.3					7.3
Average floor area/habitant (m <sup>2</sup> )	10.4				11.7					14.2

*Source: Housing development program of Ho Chi Minh City 1991-2000.*

With the housing need in the next 10 years showed in the above table, the target seems a challenge to the municipality.

This paper analyses the process of housing development in Ho Chi Minh City, the biggest city of Vietnam, on her way in the fast urbanization road. Besides the overall development, it focuses especially on housing for low income people. Case study introduces a typical project of housing development in which there are high rise buildings for low income people, the Bong Sao new residential project.

## Problem Definition

After changing from central-plan regime to market-oriented policy, houses in Ho Chi Minh City developed very fast as a boom. But most houses in the market are targeting mid and high-income class for big profit. In many cases the infrastructures are not sufficient to the development. Housing for low-income people remains a concern of the city authority. The problems of housing development includes in many aspects. This paper would like to mention three of them considered as major obstacles. They are land management and urban planning, housing shortage and low-income housing.

### Land Management and Urban Planning

The Government of Vietnam has issued Land Law and many decrees for implementing the Land Law but many obstacles still existing in detail procedures when the owners would like to transfer or mortgage their properties. As estimated, the city authority has offered only 25% legal land deeds of total 979,000 households in Ho Chi Minh City. The dominant real estate market in Vietnam is free market. This free market has developed very fast and vigorously. Almost the transfer deals are not legal and bank-based payment. One of the important reasons is complicated administrative procedures and fairly high tax. The real estate transactions has operated very strongly and concentrated in the big cities with the two land hot shortages in 1995-1996 and in 2000-2001.

The urban land management authorities are hierarchy system:

Central level: General department of Land, Ministry of Construction

Provincial and centre-based city level: Service of Land and Housing

District and rural district level: two or three managing divisions with cumbersome operations.

In fact this hierarchy system has operated inefficiently due to the bureaucracy.

Urban land management is not efficient, and the formalities to access to land are too complicated. This situation leads to the common illegal appropriating of land for erecting houses. So that in many areas housing has developed in conformity to the master plan of the city. A boom of spontaneous settlement has taken place.

The land registration system has not been adequate since the land maps, relevant documentations are not updated frequently while the city develops very fast in the recent years.

## Housing shortage

Because of the increase in population, housing shortage is a permanent problem in Ho Chi Minh City. Consequently housing price goes up rapidly.

The real estate price has big difference between the unofficial market and official market. The estimation from recent survey in Ho Chi Minh City revealed that 87% of houses are private possession. The real estate deals are frequently implemented by hand written contracts without authorized registration. The selling price is quite different from the authorized price list. The house in the city centre has the extremely or very high price. It is necessary to establish the information centre of real estate transactions and regional geographical information system.

The State price list of housing are applied to the state-owned houses to sell or considered for the compensation cost in housing development projects. These prices are based on the remaining cost of the house and coefficient of its current function. This price is far below the market price.

The supply of low-income houses is about 5,000 apartments per year. Therefore it is far below the housing need of 30,000 apartments per year. Long construction time remains the shelter shortage because it takes at least 1 year for construction of a five floor apartment building.

## Low-income Housing

The percentage of the low income people in the city population is about 50% (of 3.5 million low income inhabitants). Most of these households had the very poor conditions of housing: narrow, deteriorated house, bad environmental hygiene, etc. The following groups could be mentioned as low income peoples: state employees, teachers of grammar schools or high schools, hospital employees, soldiers, workers and small retail traders.

Low income people have an average income of less than 800,000 VND per capita and the income varies from 1,000,000 to 4,000,000 per household (5 inhabitants per household).

Estimate from the national housing survey in 1999: the households having housing area less than 36m<sup>2</sup> take 34, 26%.

## Low-cost Housing

The increase in construction cost and urban land price are the most important factors in making the housing solutions less affordable for the low income.

The affordable price of a multifamily apartment varies from 120-200 million VND<sup>1</sup> per unit. Construction cost per square meter of apartment floor is about 1.6-2.0 million VND. The housing rental of 50 m<sup>2</sup> flat in private sector differs from 500,000 to 2,000,000 VND per month upon its facilities.

The social survey in some city districts shows the average loan for housing varying from 39.3 to 52.8 million VND per household and the monthly amortization payment fluctuating from 285,000 VND to 1,180,000 VND. Most of low income people could support the initial

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<sup>1</sup> VND 15,000 = USD 1

payment of 50-70 million VND for new apartment and repayment period of 10-15 years.

## Strategies to Solve the Problems

In order to cope with the problems, especially housing for low income people, there are many strategies launched.

### Administration reform

Simplify the land and housing registration procedures to speed up the authorization of land deed. That will create the legal background for housing development conformity to the master plan of the city and the development of the mortgage market.

### Housing Financing

The government has promulgated decree 71/CP of preferential policies for housing investment in Vietnam. This decree encourages all economic sectors to invest in housing for sale and for rent. Housing subsidies are direct to targeted objects. Housing development funds are contributed from many sources, such as state level, local level, residential saving, land-use cost budget, state incomes from state-owned housing selling, state budget, corporate incomes and other sources.

State budget will support in the infrastructure system cost. The local authority permits the delay payment in land using cost to optimize the capital requirement in the housing project construction.

### New Urban Development

- The city authority has encouraged developers investing in infrastructures of the new towns to reduce the population density in the old towns that are causing the overload to the existing infrastructure. On the pay-off they can exploit some areas of land to get back profit.
- The city authority has allocated budget to develop social welfare facilities in the new town projects as commercial, public services, cultural, sports, etc.

### Technical and construction aspects

- Encourage to apply low cost building materials, fast construction technique.
- Diversifying the housing types, upgrading housing technique.
- Priority to clean and cost-effective technology.
- Combine the housing solution with the social problem such as labour and employment, culture and community, energy and environment.

### Self help Housing Method

Self help and mutual aid are considered the important means to improve the housing shortage. People's contribution to the construction activities is conceived not only as mechanism to reduce the construction cost, but as a challenge to improve the general living condition of the people.

These strategies have actively created convenient conditions for housing development. The result is that a huge stock of houses has been built for the last 10 years. Many new towns have been shaping up. But there is a polarization in incomes of people in the city, so that a massive number of people are poor or have low-incomes. They are hardly to have a shelter in the process of housing development unless the municipality give them some subsidies.

## Actors in Housing Development

There are many actors cooperating with each others to implement mentioned strategies. Among them the local government is key actor.

### Government

The government role in the housing finance has been very active, particularly its direct fund to the low income housing through the annual state budgeting and other funds. The government has still supported to the low income people since this group is not able to buy a house on the free market. Therefore, the adequate solution should be diverse housing types and study the long term loans with respect to the market mechanism.

The referring project serves for rehabilitation purpose of the site clearance in the infrastructure development projects. Some policy incentives for amortization payment method in high rise multifamily buildings of Ho Chi Minh City are:

Using the compensation cost (its value about 30-40% new flat cost) as the initial deposit for the new apartment.

Reduce 10% of new flat cost if the owner pays immediately when moving to the new flat.

Reduce 2% of new flat cost if the owner pays within one year.

Ho Chi Minh City is considered as the very huge city of 5.5 million population, about 100,000 inhabitants increasing annually, and one million frequent dwellers as well. The municipality has been building five new districts of 4,200 hectare. There are 225 new residential areas of 10,000 hectares to be constructed in next ten years. The new master planning will decentralize the city to new city centres in district 2 (Thu Thiem new modern town), district 7 (Saigon South), district 12 (IT Park), Binh Chanh rural district (Tan Tao industrial zone). For the period of next 10 years, the population in the old city district is about 3.5-4 million, 2.4 million inhabitants in the new district and about 3-4 million resident in the rural area.

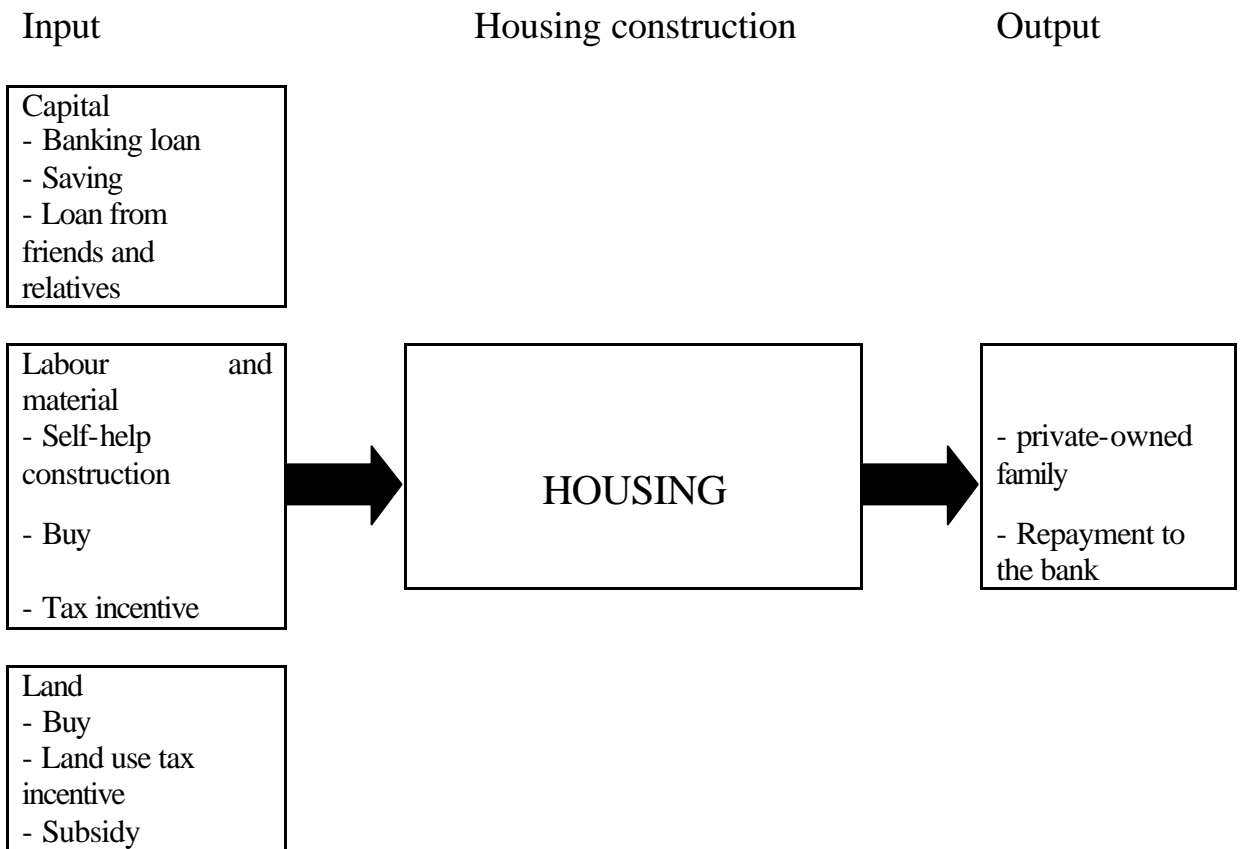
### Economic Sectors in Housing Development

The important actor in the housing development after economic reform is housing construction and development companies which operation is subject to the market-based mechanism. Its structure and operating process are likely the other domestic manufacturing companies. These developers supply the housing quality and quantity to the housing market. Most of them need the capital loan from banks to implement their housing projects.

There are many economic sectors participating in the housing development of Ho Chi Minh City: state enterprises, private companies and individuals or households. The public sector plays

dominant role in housing development and their products have high social characteristic, especially housing for low income objects, for instance, apartment buildings. Most these projects are rehabilitation project for slum demolition projects, city upgrading programs and new town development. The private business bodies have taken the important contribution in housing for mid and high income people such as new town house, villa or high quality multifamily building construction. They also invested to the city infrastructure system in the new residential area. The individual or the household only use their savings in their own housing construction or amortization payment for a flat in the apartment building.

The mechanism of housing construction in Ho Chi Minh City could be described as the chart below. The most efficient actor in this chart is Ho Chi Minh City Investment and Development Fund (HIFU). HIFU's role is support the construction cost of the housing development companies of Ho Chi Minh City.



# Case Study of Bong Sao New Residential Project



Bong Sao new residential project is a typical housing development in Ho Chi Minh City. It includes houses for low-income, middle-income and high-income people. There is a cross subsidy in the project. Profit collected from the rich is shared with the poor through low price of



their houses. In this project low-income houses are apartments. The investor is Sai Gon Real Estate Corporation (Resco).

This analysis focuses on strategy to develop houses. So we do not mention to the architecture or structure approach in this project.

Bong Sao apartments are located in the plan above. It includes 324 apartments in 9 blocks; 5 blocks with 180 apartments for sale and 4 blocks with 144 apartments for lease.

PRICE OF APARTMENTS FOR SALE. Unit: VND 1.000.000

Order	Location	Use area m <sup>2</sup>	Price of 1 m <sup>2</sup>	Price for 1 household	Number of households	Total sales
1	Ground floor	45	4,3	191,7	20	3.833,3
2	First floor	45	3,2	143,7	40	5.749,9
3	Second floor	45	2,6	119,8	40	4.791,6
4	Third floor	45	2,4	107,8	40	4.312,4
5	Fourth floor	45	2,1	95,8	40	3.833,3
	Total					22.520

The price of one apartment is nearly from 100 million VN dong to 200 million VN dong depending on the floor level. It is cheaper on upper floor. Low income people can afford this price. They can use their savings plus the loan from the bank to pay the apartment price and repay in amortization. Their apartments are used as collateral for the loan. In the market, prices of these apartments could be 50% higher because of the housing shortage.

The subsidies in this project are free land cost and infrastructure cost. This reduces 21% of the price of apartments for sale.

In this project, the subsidies go straight to the beneficiaries, who buy the apartments. Beneficiaries are public servants and people who get fixed salary from state-owned organizations, such as teachers, doctors, workers, etc.

Most apartments in the market are built and sold by municipal-owned enterprises. Private apartments are usually sold by the people who buy it from the municipal-owned companies.

Up to now, private sector has just invested in detached houses and villas for medium and high income group, because of high profit and quicker procedures in building and selling, and less interfering from the municipal administration. They buy land in the market with high price, so they can not offer low price houses for low income group. There are no barriers to them to construct high rise building for sell, but the building process is too long to return their investment capital. The ownership in apartments is not clear in terms of the common-used structures and area. It usually leads to disputes among the co-owners. So that private sector does not want to get involved in these problems, particularly with the low-income people.

On the supply side, we look at the efficiency of this project.

INVESTMENT RESULT. Unit: VND 1.000.000

Order	Ingredients	Sum of money
1	Sale	22.520
2	Investment	19.739
3	VAT Tax	1.679
4	Profit before tax	1.094
5	Incorporate tax (32%)	349.968
6	Net profit	743.681
7	Profit rate	3.77%

Resco gains a 3.77% rate of return on investment capital. It is rather low compared to bank loan interest, 6.5% per year. But Resco can get more profit on the land to build street- row houses and villas for middle and high income groups as illustrated on the overall plan of the area. The profit-business land occupies 65% of total land exploited .And the interest rate of return of profit-business land is usually about double the investment capital. It can compensate the low interest in apartments for low income people.

On the other hand, supply of low income houses is still a responsibility of state-owned real estate companies in general.

To apartments for lease, the rental is 740.000 VN dong per month in average with the deposit of 10.000.000 VN dong. This rental includes the maintenance cost every year and overall repair every 5 years. It is affordable for some groups of low income people, not for all of them.

The lease apartments apply to people who have not enough money to buy apartments. They are usually new couples; people who are in the process of saving money for owning a house in future.

On the investor side, Resco want to reserve land for future investment. In calculation, Resco is going to regain the capital in 20 years in the case of leased apartments. Then the incomes of people as a whole have increased. The demand of accommodation will thus be of higher quality apartments or houses.

As a strategy to supply more houses for low income people, the central government regulates 10% to 30% of the total area in one project allocated to low cost houses. The incentive for high rise building is free land cost. That means the government gives land without money, but the investor has to pay compensation to the current user for their loss when the government reclaims the land. The current land users usually possess the land illegally for shift shelters or they are cultivating for agricultural purpose.

The problem now is the agreement between the investor and the current users on compensation cost. The negotiation takes much time, and is sometimes endless. So the projects can not deploy. Consequently spontaneous settlement takes place on the land. Then the cost of compensation increases to push up the housing price as a result. The housing price goes up, in its turn to push up the compensation cost, and appears a circle of beating about a bush! That is the main reason now many housing projects have prolonged and a boom of spontaneous housing erection in suburban of Ho Chi Minh City.

The mediate solution now is to border spontaneous housing settlement area by roads .We can see some areas like that in Bong Sao residential project.

## Conclusions and recommendations

In order to create more convenient conditions for housing development in Ho Chi Minh City, there are some suggestions as follow:

The state incentives should focus on the investment of housing land and relevant infrastructure system. Housing policy plays a very important role in housing development. The experience in the city

development has proclaimed where the infrastructure system is well developed, there the living condition considerably improved.

National programs for in low income housing should be developed with the multifaceted organizations such as: construction, urban planning, finance, investment, social organization... Efforts by the public, private and population sectors have to be coordinated within the frame of a coherent national housing policy.

More incentives should be given to housing development such as loan with preferential rate and tax exemption, especially for high rise apartment buildings to save the land stock which is scarcer and scarcer. Enact law and sub-law documents regarding the shares of rights and liabilities in apartment ownership to reduce risk investment and attract private sector to involve in.

The city authority should functions clearly between the construction service and land management service; combines the managing bodies referring to land and housing in the state organization structure in order to reduce cumbersomeness in administration. The managerial structure and skill in land and housing management, training and re-training managerial staff should be improved

Apply informatics technology in land and housing price fluctuation records. Establish land appraisal office and allow civil court to deal with the compensation cost in housing development project. The City authority enforces implementation of the court decisions. So that housing construction process can speed up to cope with the increase in population.

Study and find out solution to solve spontaneous settlement problems which are expanding very fast in the suburban areas of the city.

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