

Property Sector: Positive regulatory changes

5 March 2020

Yuanta VN Property Universe				
Stock code	Rating	Current price (VND)	Target price (VND)	12-m TSR
NLG VN	BUY	25,800	36,400	43%
KDH VN	BUY	24,800	31,081	27%
VHM VN	BUY	80,500	94,862	19%
NVL VN	HOLD	53,800	65,073	21%

What's new?

- ▶ Domestic media in recent days have been publicizing various recent regulatory reforms and the possible restart of various infrastructure projects in HCMC.
- ▶ The reforms include a reduction in minimum condo sizes, details on the Law on Bidding, and the acceleration of infrastructure projects in HCMC.

Market outlook

- ▶ The lower per-unit price of smaller condos will be affordable for a wider group of prospective buyers (both residents and, of course, speculators).
- ▶ Clarified bidding rules should help attract investment but do not appear to resolve recent administrative problems in HCMC.
- ▶ We see these changes as incrementally positive for the long-term development of the real estate industry.

Floor plan of small apartment



25sqm



45sqm



c.500K

households do not own their own residence



c.81K

households were in need of social housing in 2016-2020

Thu Thiem infrastructure projects



Source: Gov, Yuanta Vietnam

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Every little bit helps

1) Minimum condo size is reduced following the Ministry of Construction's Circular 21/2019 / TT-BXD on standards for condominiums. The circular was announced on Dec 31 and takes effect on July 1 of this year.

Requirements for small condos include 1) the minimum usable area of each unit is set at 25 sqm, 2) small apartments defined as those with area of 25–45 sqm must not exceed 25% of the total number of apartments in each project, 3 each unit must have at least one living room in excess of 9sqm in area (and one restroom too), and 4) the population density of the projects with small units must conform to the respective jurisdiction's master plan.

2) Clarity on the Law on Bidding. Decree 25/2020/ND-CP (issued on Feb 28) provides detailed implementation guidance on the procedures and responsibilities of investors and the relevant authorities. Specifically --

The decree addresses some of the key bottlenecks in the bidding process, including land allocation, leasing, and project implementation. This should be critical for local authorities in carrying out land allocation and land leasing for bid winners. Numerous projects have not been implemented despite having completed the bidding process due to delays in land allocation / leasing. The decree increases the likelihood for such projects to be restarted.

3) Restarting infrastructure projects in HCMC? The domestic media in recent days have reported that construction of Metro Line 1 is now c. 71% complete, should achieve 85% by yearend, and should be completed by the end of 2021. In addition, infrastructure projects in Thu Thiem New Urban Area and other key projects have recently been approved to continue.

Our view: The news is incrementally positive for property developers.

Smaller units = lower prices. Circular 21/2019/TT-BXD will not restructure the entire property market, but the per-unit price of smaller condos should obviously be lower and thus within the reach of a wider range of buyers for residence and speculation. However, any building design changes will require approvals, so the effects of Circular 21 on might only be seen after a one-year lag.

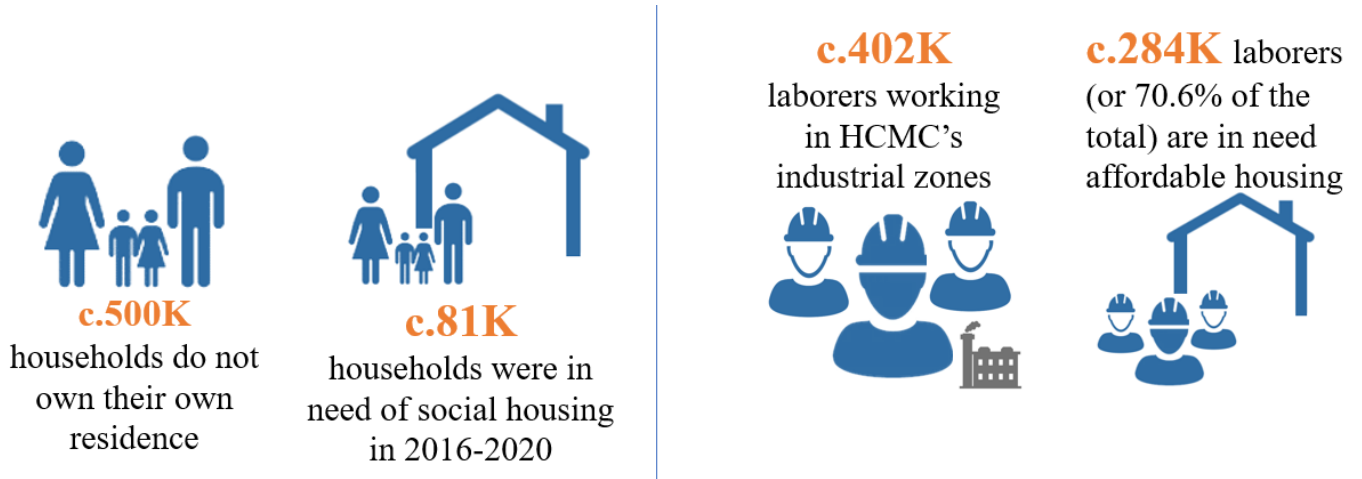
Expanding landbank by bidding should be easier for developers following the promulgation of Decree 25/2020/ND-CP. This should also help local governments attract real estate investment. However, our understanding is that the decree does not resolve the administrative problems currently confronting most developers in HCMC, which are related to the land acquisition process.

Allowing infrastructure projects to be carried out is an unmitigated positive given that 1) the infrastructure is very much needed to boost residents' quality of life and 2) infrastructure spending should provide a positive boost to economic growth amid the current global macro headwinds.

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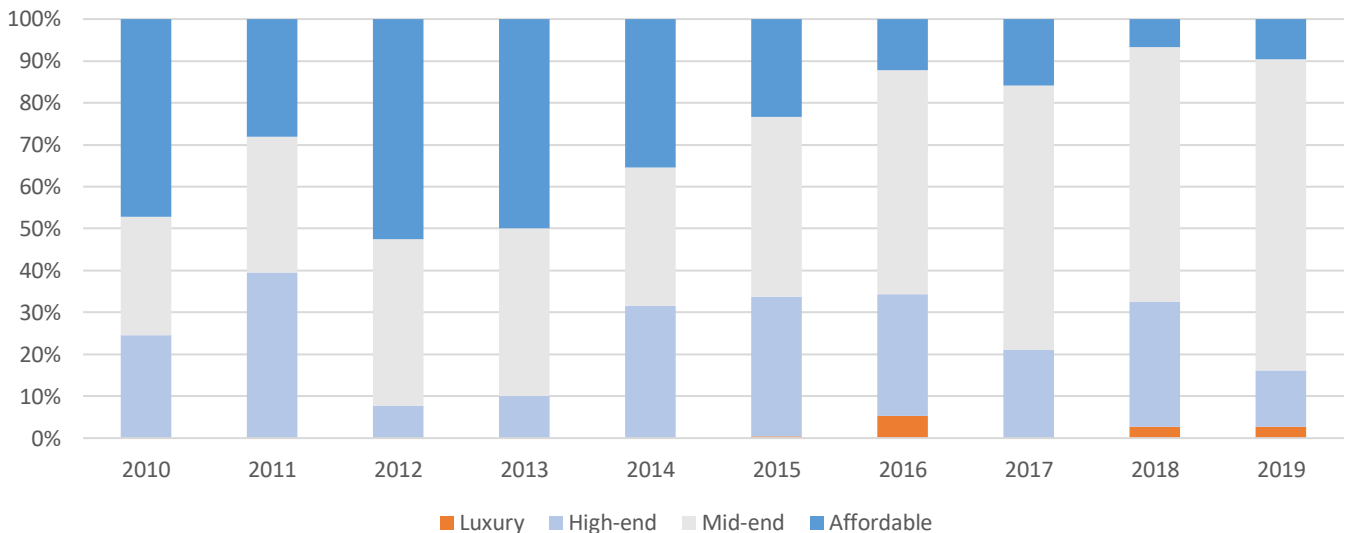
Fig1. Huge need of social / affordable housing in HCMC



Source: Department of Construction and the HCM City Development Research Institute

Smaller minimum condo units should increase affordability for a wider range of potential buyers. According to the Department of Construction and the HCM City Development Research Institute, c.500K households do not own their own residence, among which c.81K households were in need of social housing in 2016-2020. Also, of the 402K laborers working in HCMC's industrial zones, 284K laborers (or 70.6% of the total) are in need affordable housing. Of course, the reduction in minimum size should also open the door to a wider range of property speculators, as experienced elsewhere.

Fig2. New launched units by segment (proportion of total new units launched)

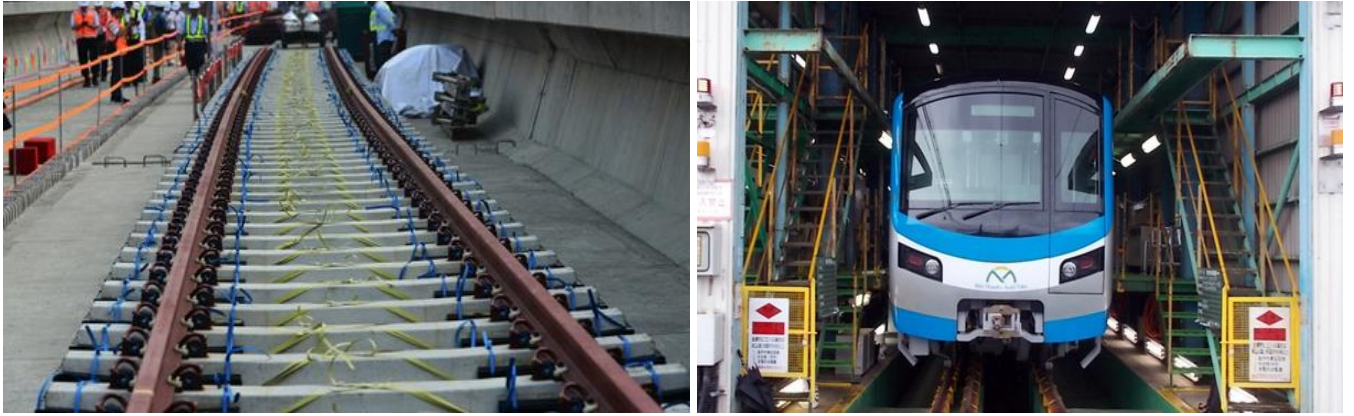


Source: CBRE (New launched units in HCMC and Hanoi), Yuanta VN

Affordable units have accounted for more than 50% of total new unit supply in the past. However, the affordable segment has not accounted for a significant proportion of newly launched units for the past four years. Affordable housing accounted for just 9.6% of newly launched units in HCMC and Hanoi in 2019.

This shift is due to the sharp increase in land prices, which has decreased profit margins of such developments. Thus, social/affordable housing has become less attractive to developers.

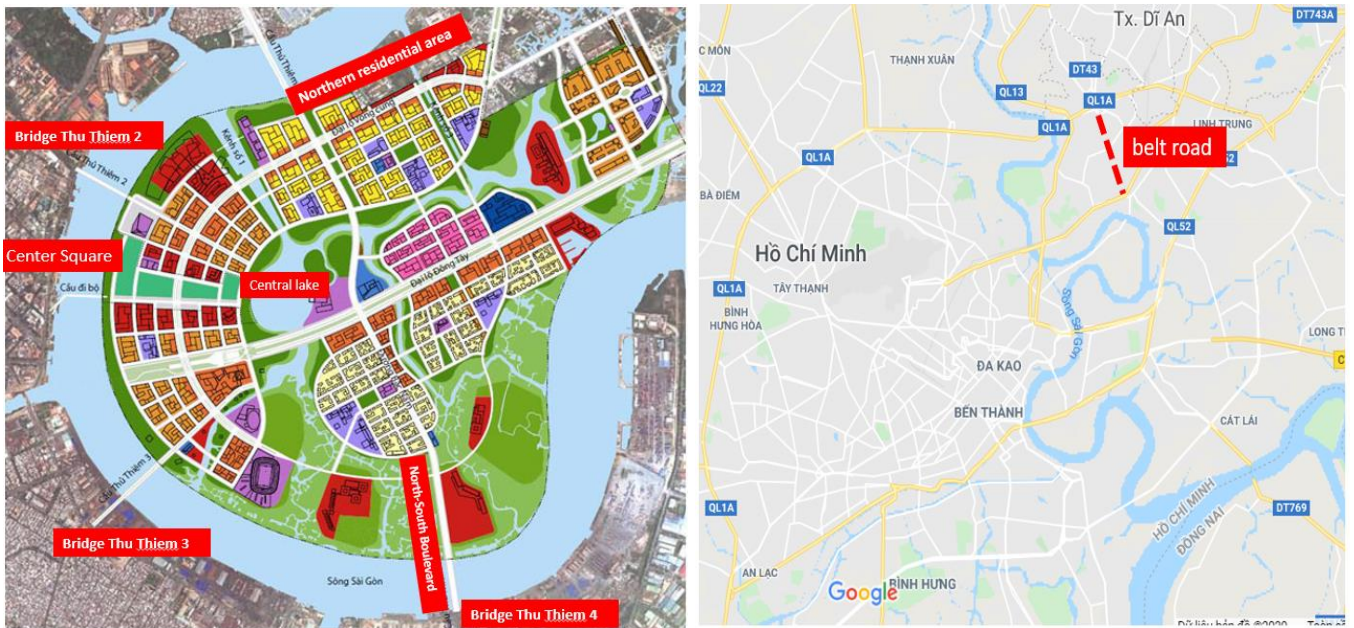
Fig4. Construction progress of HCMC Metro Line 1



Source: Zing.vn, MAUR

HCMC's Management Authority for Urban Railways (MAUR) has stated that it expects to implement a test run for Metro Line 1 in 3Q2020. Hitachi, the machine manufacturer, is reportedly testing two trains to deliver first. It will deliver another 15 trains of three carriages each as the line is completed, according to MAUR. The project has reportedly achieved c. 71% completion and will reach 85% at the end of this year. This long-delayed project will officially enter operation by the end of 2021, according to MAUR.

Fig5. Several Thu Thiem (District 2) projects and others have been approved to resume



■ projects have been approved to resume
Source: HCMC People's Committee, Yuanta VN

According to the Ho Chi Minh City People's Committee Office, infrastructure projects in Thu Thiem New Urban Area of District 2 and other key areas have been approved to resume under build-transfer (BT) contracts. Previously, these projects had been halted pending inspection and/or review by investigators.

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