STATEGIC RISKS OF REAL ESTATE ENTERPRISES IN VIETNAM MARKET

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Abstract

In recent years, our country's economy has made great progress, the economic growth rate of the following year is always higher than that of the previous year. The real estate market (real estate) also develops strongly and extensively, is considered a market full of potentials and opportunities. Many domestic and foreign investors have seen and grasped these opportunities, a series of new urban areas, supermarkets, hotels, shopping malls, offices for lease, .. have sprung up in succession at big cities meet the increasing demands of the people. The volatility of the real estate market happens very complicatedly, with erratic heat and cold, sometimes there is a "fever", sometimes "freezing". Because this is a large capital-occupying market, negative changes in the real estate market will strongly affect the economy, which can cause crises to the economy. Therefore, it is necessary to identify strategic risks in order to have appropriate solutions to avoid and minimize losses and damages. Subject: "Strategic risk analysis of domestic and foreign real estate businesses operating in the Vietnamese market" will highlight common strategic risks in the real estate market, as well as provide solutions to solutions and recommendations to effectively prevent and overcome risks.

Keywords: strategic risks, real estate market, Vietnam market

1. Introduction

The real estate market is the place where real estate activities and goods exchange between related parties take place, where the purchase, sale, transfer, lease, mortgage and other adversities take place. cases related to real estate such as intermediaries, brokers, consulting ... among actors in the market where the role of State management has a decisive impact on the promotion of development or inhibiting activities doing business in the real estate market. In 1986 Vietnam transformed its centrally planned economy into a socialist-oriented market economy. A series of domestic real estate companies have been established and operated very effectively such as: Vingroup, Sun Group, Vihajico, Novaland, Sunshine Group, ...
Vietnam has been increasingly integrated with the world economy, especially the process of attracting foreign investment and absorbing modern science and technology, increasing demand for industrial real estate, many corporations. Large foreign countries are choosing Vietnam as a country to place production plants and make long-term investments, becoming the premise and conditions for forming industrial real estate demand. Typically Keppel Land is one of the early foreign real estate investors in Vietnam, with 20 licensed projects and a development orientation plan of more than 25,000 housing units in Vietnam, Keppel Land affirms its name, is a leading foreign real estate developer. Typical projects of this developer include Saigon Center (commercial complex, office and apartment), The Estella, Estella Heights, Villa Riviera Point…; CapitaLand Vietnam is a member of Singapore-based CapitaLand Real Estate Group, to date, CapitaLand has provided the housing market in Ho Chi Minh City and Hanoi about 8,000 quality apartments with 12 housing projects, two retail zones. Ascott Limited, a 100% owned subsidiary of CapitaLand, has a portfolio of more than 4,800 serviced apartments in 21 buildings in the above big cities and provinces; … Foreign investors' investment in Real estate in Vietnam is an opportunity but also a great challenge for the sustainable development of the Vietnamese economy.

However, for input product markets that have important implications for the development of production and business such as capital markets, labor markets, especially the real estate market, is only in the early stages. formation and development, with many limitations and existing risks. Stemming from that fact, it is extremely necessary to analyze the risks and find solutions to perfect the development of the real estate market.

2. Method

The process of analyzing and synthesizing:

+ Analysis research the documents, theoretically from different sources like the newspaper books, the Internet. Next we divide them into separate parts, separate classes to find out specific and profound about the strategic risk of domestic businesses.

+ The synthesis method: is linking each side, each part of the analyzed information creates a new complete and profound theoretical system on the above risks.

+ System protocol: to arrange knowledge to be a system on a basis of a theory that would make sense of the thorough strategic risk. The statistical method is to gather data from different sources later, and then arrange them to establish their own level. A little influence or a lot of business interests, this method will help us determine the risk that affects a lot, the risk that affects less, The degree of influence is how many words come out of prevention options as well as maximum restrictions of risk to business. The methods of efficiency, the overall means to illuminate the problems of reasoning, are to collect the number of all the facts. In fact, through business reports, documents, documents from the professionals, And then rewind it to ascertain the abnormal risk, the cause of the risk, the level of risk of risk, how other businesses, the risk, the success, and the failure of another enterprise, learned to business.
3. Results

3.1. Theoretical basis

3.1.1. Risk

Risk is understood as the quantification of the likelihood of any damage occurring or a lower return than expected. There are many types of risks such as exchange rate risk, market risk, legal risk, credit risk, interest rate risk, real estate risk ...

Risk management is the process of identifying risks and finding ways to manage and limit those risks to the organization. In general, it is the process of looking at the overall performance of the organization, identifying potential hazards and their likelihood. Since then there is the preparation of appropriate actions to minimize those risks to the lowest level. In the past, when it comes to risk management, most people thought of insurance activities. These are package services, in which the insurance buyer will not bear the risk in case it happens. However, the concept of risk management today has changed a lot. With the requirements of the law, the requirements of the employees, risk management has become an increasingly important management factor such as financial management or the management of other resources in the organization.

Real estate investments can make great profits but also face a lot of risks. Real estate risk is expressed through 4 aspects: capital safety, reliability of expected returns, degree of conversion to money and complexity of asset management. These risks can be grouped into two categories: factors affecting investment items that the investor cannot control, called systemic risks and factors that affect only one or two items. The investment can be controlled, called individual risks.

+ Systemic risk: It is difficult for investors to judge and deal with systemic risks such as inflation risk, market supply and demand, conversion into money, interest rates, policy and caused by disasters.

+ Specific risks: Most of the individual risks are related to the misjudging analysis of certain factors of the market such as wrong valuation, incorrect prediction of consumer tastes, inaccurate location selection ...

3.1.2. Real estate management

Real estate business administration of a business is a process of continuous, organized, targeted impact of the real estate corporate governance level in a scientific and artistic way to the process. Real estate business to best use all potentials and opportunities to best perform all real estate production and business activities of the enterprise, in order to achieve the goals set out in accordance with the Law on Real Estate Business and social rate in the volatile conditions of the real estate business environment, with optimal efficiency.

Real estate business activities include: real estate trading and real estate services business:
- Real estate trading is the investment of capital to carry out construction activities, buy, sell, receive transfer for sale, transfer; lease, sublease, lease purchase real estate; real estate brokerage services; real estate trading floor services; real estate consulting services or real estate management for profit purposes.

- Real estate services business is activities that support real estate business and real estate market, including real estate brokerage services, real estate valuation, real estate transaction floors, Real estate consulting, real estate auctions, real estate advertising, real estate management.

Some features of real estate business: Real estate business operates locally and regionally; Real estate business is a big and long-term investment activity; Real estate business is a sensitive activity, strongly influenced by law and policy; Real estate business is both a multi-disciplinary business and a unique business activity. The goal of real estate business administration is to control operations and minimize costs of businesses, improve profits in production and business activities.

3.2. The results of the study and the discussion

3.2.1. Overview of Vietnam's real estate market

The real estate market is one of the markets with an important position and role for the national economy, having direct relationships with the financial and monetary markets, construction markets, building materials markets, labor markets ... The development and effective management of this market will contribute significantly to the process of promoting socio-economic development, creating the ability to attract investment capital for the country's economic development, making a practical contribution to the process of sustainable urban and rural development towards industrialization, modernizing the country. In the period of the previously centralized planning economy, this market has not had the conditions to develop. But when moving to develop the market economy, the real estate market in Vietnam has gradually formed and developed at a fast pace, which has contributed significantly to economic growth. After a period of formation and development, the real estate market has also revealed shortcomings in market operation mechanisms, legal systems, market participants, in terms of goods structure, transaction, information, management.... The world financial crisis that a resulted from real estate mortgage lending in the United States was a fundamental driver of the recession of most countries around the world demonstrating the enormous impact the real estate market has on the economy. Therefore, the operation of the real estate market to promote the positives and limit the negative effects is a matter of research concern.

3.2.2. Research results

The project "hanging" is one of the biggest and common risks. The hanging project is a hot message causing many frustrations in society. To explain the hanging phenomenon, many people have brought "hundreds of mulberry trees to the head of silkworms", such as:
"hands do not capture the enemy" (do not have capital), tricks of pinning the land for speculation, planning and approving projects.

In Vietnam at present, not only private investor projects are suspended but also a series of projects hanging on the State side. Starting planning is hanging, planning is finished leaving it not implemented. Next was the suspended project, approved the project, built a few stakes and then stopped. Next is the hanging promise, continuously moving the commencement date, the end date of the project; apologize to people many times, promise to return to businesses. Then the profit hangs, there are projects that do not know what to do, the investment purpose is not clear, so when put into use, the more loss. The main risks that a real estate investment project may encounter:

a) Risk on the investor's side:

+ The risk of the investor's financial capacity: The risk occurs when the capital of the enterprise is limited, the solvency of the business is poor, has to borrow with a higher interest rate, so the risk will be higher when the business can be financially active. Currently, most real estate companies in Vietnam operate with low professionalism. The number of enterprises registered for real estate business is very large, but most of them have small capital scale, not suitable for market requirements ... For example, in Ho Chi Minh City, there are currently more than 6,000 real estate businesses but There are only nearly 4,200 enterprises registered for business, of which only nearly 50 enterprises with capital over 100 billion. However, all are still active in a strong way, everyone, whatever they like to do ...

An additional risk and also the current situation of the real estate market is the situation of real estate investment in "fashion". Immediate high profit is the reason why businesses jump into the real estate market. However, not all businesses have a specific market research to come up with an appropriate business strategy. Due to lack of knowledge of the market, many businesses have led to rampant investment, wastefulness, and even speculation, adversely affecting the market. This has been warned to cause turmoil in the real estate market and has a negative impact on businesses themselves.

+ Risk of legal capacity: Real estate is an important asset of each country, real estate transaction relationships often have a strong impact on most socio-economic activities. Therefore, real estate is strongly governed by law and State management. In investment, especially in the real estate sector, even the smallest legal risk can kill the investor ... Risks occur during the appraisal of legal capacity of the investor when there are not enough documents. Proof of legal capacity in accordance with current regulations. Documents proving the legal capacity of the investor include: legal documents, business activity reports, other references.

The unhealthy business environment is the direct cause of many employees - business leaders falling into the labor circle, many times they accidentally violate the law or even not fully aware of the wrong doings. Instead of abiding by the law, market participants
casually accept to commit illegal acts if it is already inertia and jointly done by a large number of competitors. Raising interest rates above the ceiling is the inertia of the banking market, which exists long before the banking cases are heard. Some defendants at the time of the breach simply thought that they were doing the same as the market competition.

+ Business capacity risk: Operational capacity risks are corporate governance risks that arise when the leaders do not have the capability and qualifications to lead the business or are unable to lead due to their age, reacting less flexibly to market fluctuations. Another case is that the leader, despite having good qualifications and capabilities, is incapable of internal unity and unity. The lack of consensus of the members will result in inaccurate decision-making. Profitable decisions are sometimes not made. Instead, decisions can undermine the benefits of the business.

Resource-based views suggest that entrepreneurship is seen as a valuable and rare resource that competitors can hardly copy or copy, thus contributing to creating sustainable and valuable competitive advantage. An entrepreneur is a person who directs and acts to lead the business of an enterprise. Their business decisions are influenced by their personal characteristics, knowledge, skills, and abilities. Therefore, entrepreneurs need to have a wide variety of knowledge and skills to fulfill their complex roles in the business, while taking on the three basic roles that are the entrepreneur's role.

b) Project risks:

+ Risks of mechanisms and policies: Changes in policy lines of the State and local authorities may have impacts on the operation of the real estate market in general and the investment into real estate in particular. Specifically:

  • Policies that have indirect effects such as: the encouragement of external investment in the locality can increase the demand for real estate, thereby causing real estate prices to rise.

  • Direct impact policies such as:

    ∗ Policies allowing overseas Vietnamese to buy real estate in Vietnam.

    ∗ Policy allows people who do not have a city registration to buy houses in the city.

    ∗ Financial policies apply to people who are allocated or leased land by the State ...

    ∗ Credit policies for investment activities in real estate

    ∗ State tax policies for real estate

Currently, the Vietnamese legal system is still not uniform; the tax system has not been renewed; The real estate registration system is divided, not enough conditions for a public and transparent management system; it is not easy enough in exercising the right to mortgage, guarantee, contribute capital with real estate to increase investment capital from the hidden capital in real estate; has not been able to mobilize people's savings to invest in real estate; land use planning is still weak; the system of management agencies and managers
still has many inadequacies, not yet well served the people; There are still many mistakes in the application of new laws on land ... Administrative procedures are too cumbersome to unnecessary, costing time and money, and missed investment opportunities ...

The lack of professionalism is shown in many aspects, including the legal system: An incomplete and not strong legal corridor has caused the overall inconsistency to adjust. Policies mechanisms with overlaps, shortages and low effectiveness make it difficult to apply in practice. Issues that are considered to be the biggest hindrance are: investment procedures, land allocation procedures are still complicated, not linked to the rights of users and owners; compensation, site clearance and issues related to planning... For example, the state management of housing markets, new urban areas, condominiums and offices for rent lack some adequate regulatory mechanisms in the transaction. It is a fact that many products of new urban housing projects, apartments, offices for rent have been bought from the project's inception. There are many projects that have been renamed, changed owners and the owners selling products are not entirely the investors.

In order to be able to buy land and houses in new urban areas at an acceptable price, most investors have to accept to pay the investor when the investor is not legally eligible to sell a house (not finished the foundation). Therefore, both investors and home buyers have to circumvent the law in the form of business capital contribution contracts or investment contracts. Because it is not protected by the law, there will be a lot of trouble when disputes arise.

+ Macroeconomic risk: The price of real estate depends on macroeconomic factors such as:
  - The situation of real estate supply and demand in the region
  - Characteristics of the people participating in the real estate market Regional Real Estate
    - Regional real estate market conditions
    - Current status of the neighborhood (infrastructure such as roads, water supply and drainage systems, electricity supply, communication ...)
    - Annual GDP growth rate of the region
    - Average annual income of people in region (high, medium or low) compared to other regions
      - The ability to meet the credit needs of the credit system in the region;
      - Number of plots, vacant land plots in the region
      - Average price of land in the region
      - Tax rate and tax rate
      - General inflation
      - Labor market, stock market, market credit in the region.

+ Interest rate risk: Interest rate directly affects the cost of capital and then investment efficiency. Assuming that in the context of rising inflation, the State Bank of Vietnam decides to increase the required reserve ratio, increase the base interest rate in VND and issue
compulsory bills of credit to credit institutions to enforce the monetary tightening policy and curbing inflation. These measures have led to a race of deposit rates among credit institutions and as a result increased VND lending rates. The result of this increase in interest rates will directly affect businesses to borrow money from banks to maintain operations and expand production, causing interest expenses to increase, leading to a decline in business results.

On the other hand, real estate investment requires a huge amount of capital, so investors usually have to borrow money from many sources. Re-loans are usually medium and long term loans. But the interest burden is proportional to the length of the project. Therefore, interest rate is a variable that has a great impact on the discounted cash flow of invested capital. Whether the project brings more or less benefits depends greatly on the interest rate.

+ Financial risks: The financial security of the project is the content to be considered in the financial appraisal of an investment project. It is an important basis for evaluating the financial feasibility of a project. Financial risks occur when capital cannot be guaranteed, capital stagnation occurs. The expected capital security is shown in the legality and practical basis of mobilized sources. If it is equity or joint venture, there must be a commitment on the progress and the amount of capital contributed by the shareholders or the joint venture parties. If it is equity capital, there must be an explanation of the business operations of the establishment 3 years ago and now proving that the establishment has been, is and will continue to operate effectively, with accumulation, and thus ensure capital is available for project implementation.

Risks may occur due to the calculation of the proportion of capital mobilized capital accounts for in the total investment. When determining the funding sources of the project, the capital structure of the project was not properly determined. Or the incorrect calculation of the annual fund needed due to price fluctuations or inflation. During the appraisal, it is necessary to check the capital commitment of the capital contributor, lender or sponsor. Checking commitments to ensure credit capital open L/C at funding agencies.

+ Market, income and payment risks: The market greatly affects the success or failure of real estate investment projects because its price depends largely on the supply-demand relationship in the market. When demand is greater than supply, real estate prices are often pushed up; On the contrary, when demand is lower than supply, real estate prices tend to decrease. Real estate prices also depend on factors stemming from market defects such as "monopoly", "speculation", "unfair competition".

The demand for real estate in Vietnam is huge, but this does not mean an abundance of purchasing power. The reason is that people's income is still very low. However, many assessments of the real estate market of many real estate management companies mostly focus on emphasizing, even excessively, the demand for real estate, creating heat in the speculative market. A part of businesses, short-term investors have benefited from the increase in real estate sale / rental prices. However, in the long run, this situation will have
serious consequences for the entire economy.

Real estate prices in major cities in Vietnam are currently considered too high compared to the level of income of the people as well as the level of economic development and the real value of real estate. This situation has directly affected the socio-economic development process and makes housing creation of most low-income people difficult. Not only that, high land prices cause great pressure for investors, especially investors in the industrial infrastructure sector. Team project costs increased significantly due to the constantly increasing volatility of compensation costs, site clearance, land access.

+ Construction and construction risks: During the construction and construction process, real estate projects can face many risks such as insufficient capital, materials not meeting the requirements, skills of workers, ... these risks have a great impact to the completion of the project. Specifically, divide risks into two main groups as follows:

  • Construction location: affect investment capital, price, competitiveness, determine the effectiveness of real estate investment projects. Risks occur when the location is inconsistent with the long-term economic development forecast, the local transport network construction plan, the existing facilities of the investment site are inappropriate, the climate of the places with fluctuations ... It is necessary to learn about natural conditions (climate, hydrology, water sources ...), social conditions (population, customs, economic activities ...), conditions of regional development plan, plan, and economic factors of the site.

  • Construction scale: Risk occurs when the total cost estimate, cost estimate of each work item is omitted, incorrect, the items needing investment that have not been estimated, or investment in the items is not required. When appraising, it is necessary to check the price contracts of the project. For example, the construction does not guarantee proper construction techniques, the labor safety measures are not guaranteed, causing accidents. The Can Tho Bridge collapse on September 26, 2007 caused over 40 billion VND in damage, 54 deaths, and 80 injuries is an example of how great a construction risk occurs.

Therefore, it is necessary to propose suitable bidding, selection of contractors, and contract guarantee. Consider and evaluate whether construction proposals and solutions are appropriate to the norms and construction needs for each work item?

+ Risk of supply: Raw materials, suppliers, tax policy, .. are the things that affect the ability to provide inputs to the project. When the supply of inputs is not guaranteed, it will affect the construction progress of the works. When appraising, it is necessary to check package contracts and contract guarantees, assess the reputation of suppliers of materials.

+ Operational and maintenance risks: Depends on the investor's ability to manage real estate. Especially in Vietnam today, there is a lack of professional managers because this is a relatively new profession. There are always risks in operating a real estate. Although in the process of planning the project, the investor has to research carefully, but because the information is not perfect and everything is always for development, there will always be
unexpected events happening. On the other hand, due to the long real estate construction process, when put into operation the technical standards will no longer be guaranteed, the original design will no longer be appropriate.

+ Social environmental risks: Social factors also have a great impact on real estate values. An area where the population density suddenly increases due to the growth of the mechanical population, the value of real estate there will increase as the supply-demand balance is broken. On the other hand, other factors in the region such as quality of health care services, education, people's education, security issues, and local people's habits also affect the value of real estate. Status of people living in real estate, health status, occupation and employment status, family and social relationships of people living together ... The issues related to feng shui must also is scrutinized.

4. Conclusions and Recommendations

4.1. Conclusions

Nowadays, real estate is primarily a commodity. Real estate creation and real estate price formation always include natural, economic and social factors in addition to internal factors such as the law of supply-demand, and the law of value. The real estate market is objective, but risky and includes many opportunities for great returns, especially in a developing economy like Vietnam. Capital for the real estate market must always be a medium to long term source and is often in the same direction as the market price and size. Because the real estate market not only depends on the law of pure value, it is a double-edged sword for investment capital in general and the real estate market in particular, so capital solutions for the real estate market products must be strategic, stable, transparent and professional.

In general, although the market in general and real estate businesses in particular in the coming time will have difficulties, the advantages are still many. The most obvious is the capital story when the market is about to enter a more difficult and quiet period. This is a challenge for the market in general but also an opportunity for large, reputable, potential and long-term businesses.

+ Operational and maintenance risks: Depends on the ability of the investor to manage the property. Especially in Vietnam, there is a shortage of professional managers because this is a relatively new profession. In operation, a real estate is always potentially risky. Although in the process of making the project the investor has to study thoroughly but due to imperfect information and everything is always mobilized to develop, there will always be unexpected events. On the other side, due to the long construction of real estate, when put into operation technical standards will no longer be guaranteed, the original design will no longer be suitable.

+ Social environmental risks: Social factors also have a big impact on real estate values. In an area where population density suddenly increases due to the growth rate of the mechanical population, the value of real estate there will increase due to broken supply and
demand balance. On the other behalf of other factors in the region such as: quality of health services, education, people's intellectual level, security issues, customs of people in the region also affect the value of real estate. Status of people living in real estate, health status, occupation and employment status, family and social relationships of people living together ... Matters relating to feng shui theory must also be scrutinized.

4.2. Recommendations

Nowadays real estate is first and fore foremost over the world. The creation of real estate and the formation of real estate prices always include natural, economic and social factors besides internal factors such as the law of supply and demand, the rule of value. Real estate is objective, but full of risks and includes many opportunities for large income, especially in a developing economy like Vietnam. Capital for real estate always has to be a medium and long-term source and often has the same proportions as the price and size of the market. Real estate investment is not only dependent on the law of value, so it is a double-edged knife for investment capital in general and real estate in particular, so the capital solution for real estate investment must be strategic, stable, transparent and professionalized. The key tools to solve the capital problem for real estate investors are: discount works, investors, investors, medium and long-term commitments have enough evidence to be protected by law to reduce risks and even solutions to discount real estate debt when the conditions that form that real estate are qualified.

Overall, although the market in general and real estate businesses in particular in the coming time have difficulties, but the advantages are still many. The most obvious is the capital story as the market prepares to enter a new, more difficult and quiet phase. This is a challenge for the market in general but also an opportunity for large, reputable, potential and long-term businesses.

Recommendation:

Plan ahead: many investors buy a home because they think they have a good deal and then try to figure out what to do with it. This is actually a reverse mindset. Accordingly, first of all, they must find out their plan first, then find a house or real estate suitable for that plan. Remember, you must choose the investment model before looking for the asset to match it.

Having a reliable information network: the key to early investor success is to build a reliable and appropriate team of experts. At the very least, they need to have a good relationship with a real estate agent, an appraiser and a professional lawyer. Because these are the people who will provide all useful information for an investor from accessing the real estate until officially owning it, to avoid investors falling into the case of buying or being deceived.

Always keep stable cash flow: Real estate has quite poor liquidity, so keep the cash flow very stable. If your real estate investment strategy is to buy, then sublease to more than one person, then you need to have enough cash to cover expenses such as maintenance costs, damage repairs ...
Don't get cornered: Many people buy a property and get stuck with it because they have only one way out, a single plan to do. Suppose the investor has only one plan, to sell the property or lease it out. But when the investors can't sell, or they can't rent out, what happens? So always having at least 2, preferably 3 different plans, will be a way to help investors avoid being cornered. For example, if an investor buys a house with plan A to restore the house and then resell it, then plan B could be to keep the house and lease it to cover the costs, plan C, which is to sell to another investor at a price slightly above or below the market price, hoping to still make a profit.

Some effective real estate marketing strategies to help increase revenue:

+ Identify and research target markets
+ Expand budgets for marketing campaigns
+ Develop project websites and use digital marketing channels
+ Promote sales through word of mouth marketing
+ Responding to customer needs quickly
+ Regularly posting about real estate projects
+ Branding

5. References