VIETNAM SPECIAL REPORT

RENT VS. BUY IN VIETNAM

Making the right choice

CBRE GLOBAL RESEARCH AND CONSULTING

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CONTENT

Executive Summary

General perception

Buying is preferred to renting.

- Independent lifestyle
- Greater privacy
- Community ties
- Home-ownership pride

Rent perception

- Less freedom
- Insecurity and instability
- Less privacy
- Rental is a wasted expense

Under current interest rate conditions, which is better?

HANOI

"For buyers with over 56% down-payment, buying is better. For those with less, renting is better."

HCMC

"Buying is better than renting."

> "However, an emerging group of young people in both cities are joining the rental market."

Introduction

Vietnam's current population is 90 million, of which urban population accounts for 32.5% of the total[1]. General demand for housing is therefore huge, especially in major cities such as Hanoi and Ho Chi Minh City (HCMC) which are the location for most of the country's economic activities and are experiencing rapid urbanization.

As a cultural preference and habit, Vietnamese like to live in their own properties. Owning a home outright brings the owner certain advantages such as independent lifestyle, greater privacy and the pride of home ownership. When someone buys a home, that person is perceived as being financially stable and secure as buying a home requires a large capital expenditure, typically upfront. In addition, home ownership also closely ties the property owner to his surrounding community, which is an important factor in Vietnamese culture.

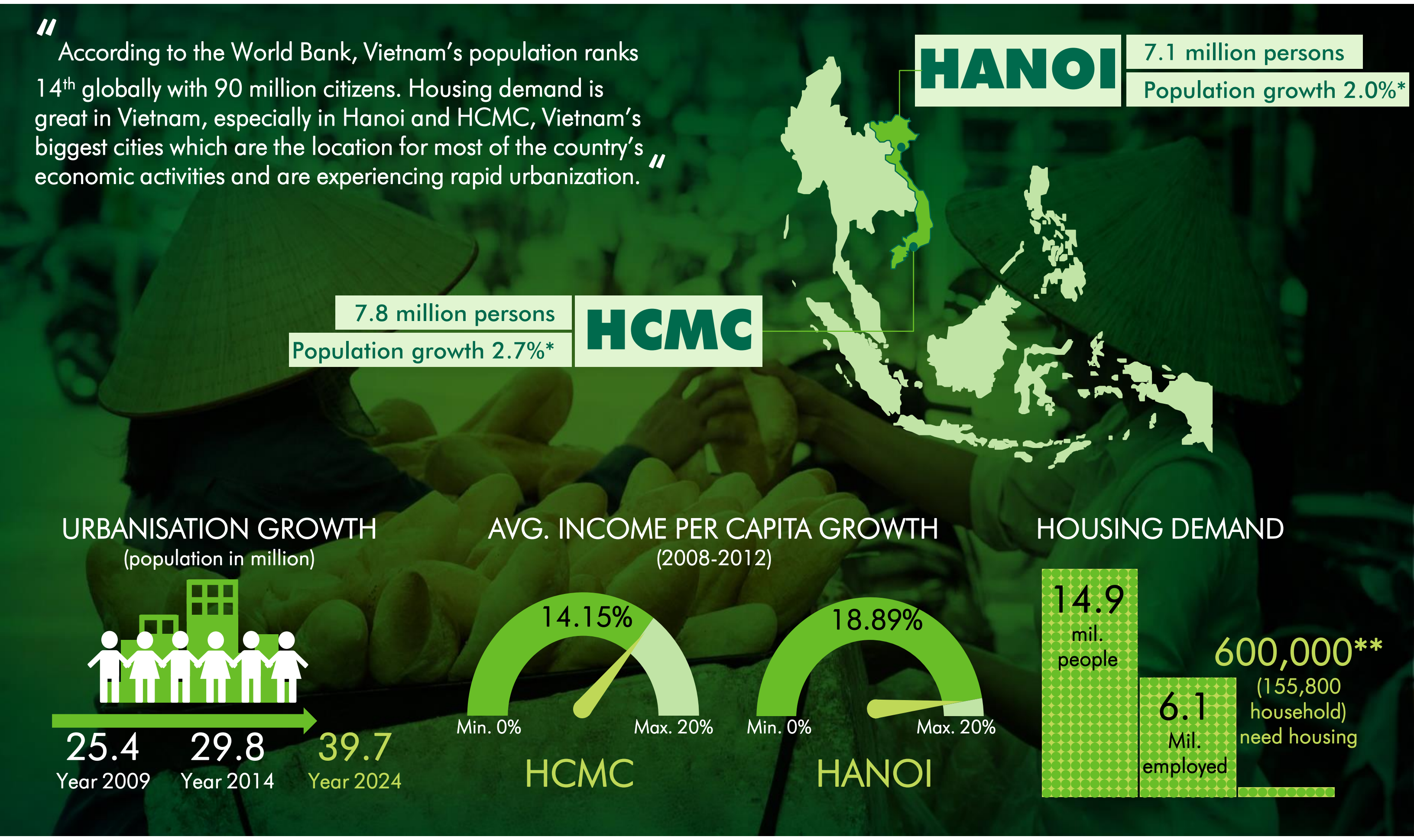
Renting has been traditionally viewed as a less desirable option that is chosen when people cannot afford to buy a home, or an option typically reserved for people relocating to the city from other provinces. Renting is commonly associated with insecurity and instability as landlords can ask tenants to leave if they decide to take back their properties, or they can significantly raise rents. While staying in a rented property, tenants are also subject to additional rules and restrictions. They may not be allowed to adopt a pet for example and they may not be able to have friends or family to stay with them for a long period of time. In addition, tenants have less privacy and freedom and they cannot do any alteration or renovation work to the property.

However, the trend is changing in Hanoi and HCMC in line with rapid urbanization and economic development, and as more potential tenants are joining the market.

There has been relatively little discussion in Vietnam on whether renting or buying makes more sense as most people believe that buying is a wiser choice and rental payment is a wasted expense. However, when it comes to a financial consideration of the two options, taking into account mortgage costs, opportunity costs and net proceeds upon resale of the property as compared to total renting cost, the situation could be different. This is especially relevant as mortgage financing has started to emerge in Vietnam and is expected to become more popular as the financial market develops. In this paper, we are looking at Hanoi and HCMC as the two major cities of Vietnam where rental markets are expected to be more attractive in the future and the decision as to buying or renting is likely to be more widely discussed.

Housing Demand

Hanoi's existing population is 7.1 million, and HCMC's is 7.8 million[2]. Out of this total of 14.9 million people, 6.3 million are in their golden working years (i.e. aged from 18 to 55 for women, and 18 to 60 for men). Given Vietnam's current employment rate of 98%, taking into account employment of all forms including full-time, part-time and freelance work, an estimated 6.1 million people are employed[3]. In accordance with a recent survey by a market research firm[4], it is observed that approximately 10% of the employed population, or 600,000 people, need housing. With a national average household size of 3.85[5], it is estimated that at least 155,800 current households living in the two cities have a need for housing.



However, Vietnam's Gross Domestic Product (GDP) per capita is in the lower band as compared to the rest of the region and globally with an average income per capita of USD1,911[6]. The decision on whether to rent or buy a home is therefore an important consideration for most Vietnamese people.

The Vietnam housing market in general is in an emerging stage. Prior to the 1990s, most houses were built and allocated to the Vietnamese by the Government. The introduction of the first Land Law in the late 1980s and its later amendments have stimulated demand for self-built houses and paved the way for commercial housing development projects by experienced developers. This has resulted in a gradually regulated housing market with more industry players joining the game, and this has helped to accelerate the cities' urbanization rate.

Traditional Preferences and Trends

Buying – Traditionally the Only Option

Cultural Factors

To Asians in general and Vietnamese in particular, owning a home has been an aspiration and ultimate life-long dream. As an old saying goes, "a rolling stone gathers no moss", and this is a common belief among the locals. Just like other important events in one's life, buying a house is a significant decision as it involves huge capital expenditure and is perceived as a step towards settling down.

Investment Asset

Apart from cultural aspects, property is traditionally believed to be a good value holding asset. In a country where the currency has historically been weak, people have become accustomed to buying residential property or gold as a form of investment. This has been proven to be a good approach for many years as land and property prices have risen significantly since the 1990s when the Land Law took effect, despite the economy's ups and downs.

As in anywhere else in the world, property is believed to be a good investment in Vietnam. Those who buy a landed house or an apartment usually hope to make some gain from the investment after a certain period of time. This period can vary from short-term (1-2 years) to long-term (5-10 years or longer) depending on market conditions. In addition, a residential property can also generate a stable stream of rental income for the landlord, which is especially true in Hanoi and HCMC where there are more jobs and hence, more immigrants from other provinces, resulting in higher demand for rental properties.



Growing numbers of young adults are leading more modern lifestyles and can afford to buy

Unlike the Western lifestyle where young people move out when they are 18 years old and live independently from their families, young people in Asia traditionally live with their families until they get married. However, that trend is changing now. The urban lifestyle in Vietnam is becoming more modern and independent.

There is an emerging group of young independent adults who want to live on their own. This group includes young adults, especially those who are highly educated or have studied and lived overseas, those who wish to live independently, and young couples who want to live separately from their extended families. This group is growing and is composed mainly of professionals who work in private or foreign invested firms. These people are usually relatively well-off financially and can afford a reasonable property as first-time buyers.

Renting – Demand is Growing

Increasing immigrant population

In the past, renting has not been a preferred option for Vietnamese. It is mostly viewed as an option reserved for those who cannot afford to buy their own homes, and those who relocate from other provinces to the city. Despite certain advantages it may bring, renting is usually perceived as unstable since tenants have no control over the properties they rent. Although the monthly cost is mostly predictable, landlords reserve the right to increase the rents and to set the house rules that tenants have to follow. This can lead to insecurity and instability and limit the level of privacy and freedom that tenants have. In addition, tenants cannot use the rented property as collateral for any personal loans that they may have.

However, this trend is changing now in the two cities in line with rapid urbanization and economic development.

Compared to expatriates who are on contracted working periods, the Vietnamese people who turn to the rental market have different needs. A majority of these people are immigrants from other provinces living and working in Hanoi and HCMC.

Relatively high property prices and high mortgage rates have made home ownership less affordable to these people compared to people who already live in the cities. Therefore, this group of people turns to the rental market for their accommodation. Given the limited budgets available, these people usually stay in various locations and most commonly rent rooms or share houses or flats with others.

Young independent adults yet to afford homeownership

A small group of young adults in the city who want to live independently from their families but cannot yet afford home ownership without the support of their families have also joined the rental market. These are usually young people who are financially independent and like to lead a modern lifestyle. They can afford to pay out a certain sum to pay the monthly rent but are not yet able to afford to buy a home on their own. To these people, renting gives them the flexibility to choose the location to live in. They may rent a property near their workplace or in a prime location that is in close proximity to entertainment hubs that suit their lifestyle, but which they cannot afford to buy as properties in these locations are usually expensive.

With their budget for monthly rent, this group tends to favor decent rooms in mid- to high-end apartments or landed properties in the desired locations.

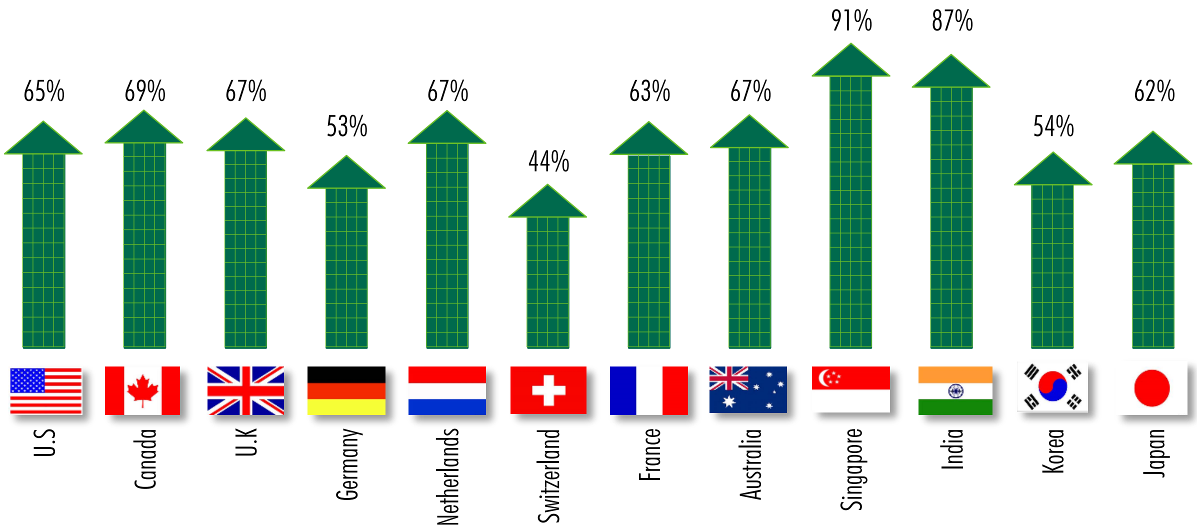
"Supply creates demand" theory

It is noted that the "supply creates demand" theory could be applied to the rental market in HCMC specifically and potentially also in Hanoi in the next few years. The market in HCMC offers a wide variety of choices, locations, accommodation types and price ranges that can meet a wide range of rental demand. This may trigger demand from some young professionals whose families stay in the outer areas of the city and may find renting an affordable room near the CBD much more convenient for them than commuting for almost two hours every day to and from work. Also, those who have long wanted to live on their own and are able to afford monthly rent can also find affordable options in such a wide market. According to a report on migration by the Vietnam General Office for Population and Family Planning (GOPFP), an estimated 150,000 people migrate to HCMC every year, while the rate for Hanoi is approximately 100,000[7]. Since most of these immigrants would have to find their accommodation in the rental market, it is estimated that the rental market in HCMC is larger than in Hanoi.

Trends in Other Countries

The home rental rate in developed countries such as the U.S. and Europe is generally higher than in developing countries. Specifically, the home rental rate in the U.S. is 35%, Canada 31%, U.K 33%, Germany 47%, Australia 33%, France 37%, and even higher in Switzerland at 56%[8]. Notably, among the developed countries, the rental rate in major cities such as New York and London is high at 55% and 41% respectively and in Amsterdam the rate is even higher at over 70%[9]. This shows that renting is relatively popular in the developed economies. This is due to a combination of various factors.

Chart 1: Homeownership rates in countries



Source: Reuters, www.statista.com, July 2014.

Similar to the situation elsewhere, affordability is an issue that deters many people from buying a home. It is a prerequisite to consider for most homebuyers. The ratio of relative housing cost to per capita income in the U.S. is 8 times and in some European countries 9 times. The rate is notably higher in some Asian countries such as Japan (25 times), Singapore (34 times) and Taiwan (32 times). In Vietnam, this rate is 26 times in Hanoi and 15 times in HCMC on average[10].

Demographic factors also play a part. The proportion of young singles living on their own is much higher in the U.S. and European countries compared to Asia. These are usually young graduates who cannot yet afford their own homes and prefer to stay in convenient locations near where economic activities are based. They are prepared to pay monthly rent while building up their career or while saving for home ownership at a later stage.

Policy and job mobility also play a critical role in one's decision on whether to buy or to rent. Notably in Germany for example, regulations are favourable to tenants. German laws allow state government to impose a cap for rent increases of 15% over a three-year period. In addition, unlike the U.S. or U.K., the German government does not allow the deduction of housing loan interest from taxable income. Also, the European Union supports labor mobility for its countries' citizens to freely move from one country to another to seek employment. This has led to significant movements of immigrants to cities in developed countries for well-paid jobs or better living standards, and creates demand for rental properties. Additionally, more people are adopting temporary homes in view of the possible need to move to other cities to find work.

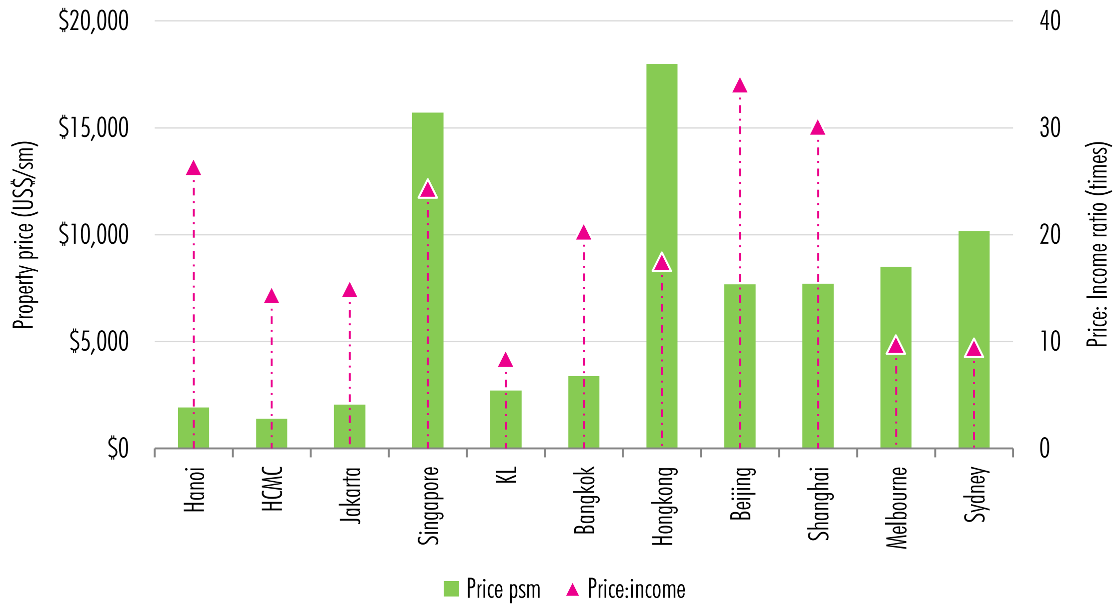
Home Affordability in Vietnam

High Property Price Compared to Income

Generally speaking, given the very low average income per capita nationwide, housing cost to per capita income for Vietnamese people is high compared to other cities and countries in the region and the world.

Except for a certain group of people who have higher and more stable incomes, for the overall population, affordability remains an ongoing issue despite the great demand. According to research data in 2012, up to 80% of urban households in HCMC and 81% in Hanoi have average monthly income of below VND15 million (US$700 per month)[11]. Given the rising living costs in Hanoi and HCMC, this household income is considered low and just enough to cover basic living needs such as food, transportation, utility bills, schooling etc. with small margin for savings.

Chart 2: Property price and price to income ratio in cities in the region



Source: CBRE, Q2 2014.

An Example of Professionals' Income and Savings

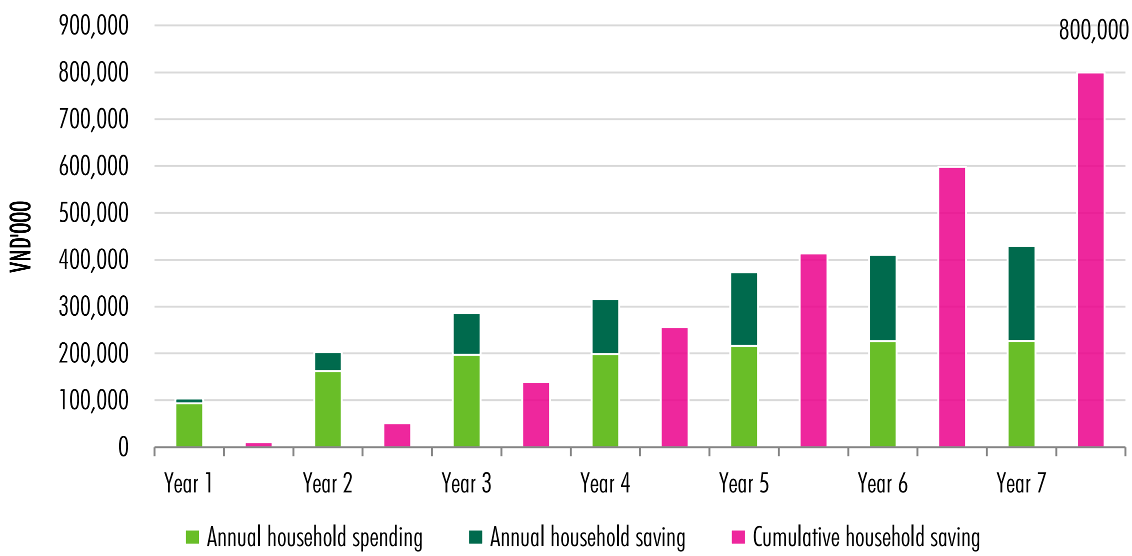
We have taken a closer look into a sector of the population who are now emerging as young professionals working in private or foreign invested companies. These individuals are mostly university graduates, well-educated, independent and like to adopt a modern lifestyle.

The global salary survey website http://www.averagesalarysurvey.com conducted a salary survey in 2013/2014 on 500 professionals in the major cities in Vietnam, mainly focusing on Hanoi and HCMC. Based on the data from this survey, the average income for professionals falls into the higher income bands of the cities' and nation's average.

It is assumed that the savings rate for the first year is 10% and that this rate goes up annually, taking into account income increments. It is also assumed that the household includes a couple, and both spouses are working.

Based on the data and these assumptions, by the seventh year of working, these young families would have a considerable amount in savings to consider using to buy their own homes. In this study, by the seventh working year, the young household would accumulate approximately VND800 million. If they consider buying a mid-end apartment worth VND1.6 billion, this amount should cover 50% of the apartment value. They would need to source the balance from bank mortgages and/or their family members or relatives. The reality is that the young couple would typically receive financial support from either or both sides of the family, enabling them either to buy a home more quickly or at a higher value.

Chart 3: Annual household income and saving for a young professional family



Source: CBRE Vietnam, Q2 2014.

Cost of Buying

Property Price

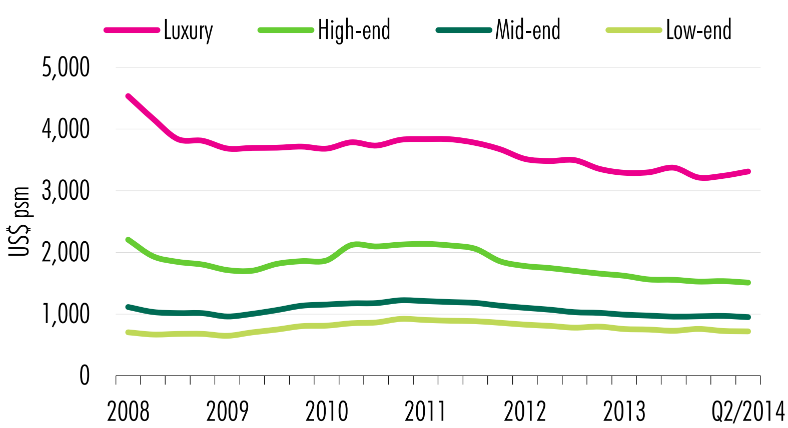
Property prices have historically been high in Vietnam as compared to average income level. Prices were especially high when supply was limited 5 to 10 years ago.

However, with the market being slow for the last few years, prices have been adjusted to a lower level. Also, with the opening of the market to more industry players, more supply has been rolled out creating more options available to buyers and more competition in the market. Ultimately, prices have become affordable to potential buyers.

Also, first-timers, young people and newly-wed couples who want to have their own homes now have more choices as there are more categories of homes and more price ranges available.

Ten years ago, options for buyers were limited to mostly landed houses and high-end and luxury apartments, which made buying a home almost beyond reach of majority of people. Supply for mass market housing was very limited. However, for the past five years, more products of different price ranges have been introduced to the market by developers. Especially, the flood of affordable apartment projects in 2012 offering small units with pricing of as low as US$500 – 800 psm made home purchase more affordable. This has helped individual first-timers or newly-wed couples on limited budgets realize the dream of owning a home.

Chart 4: Secondary asking price movement by quarter



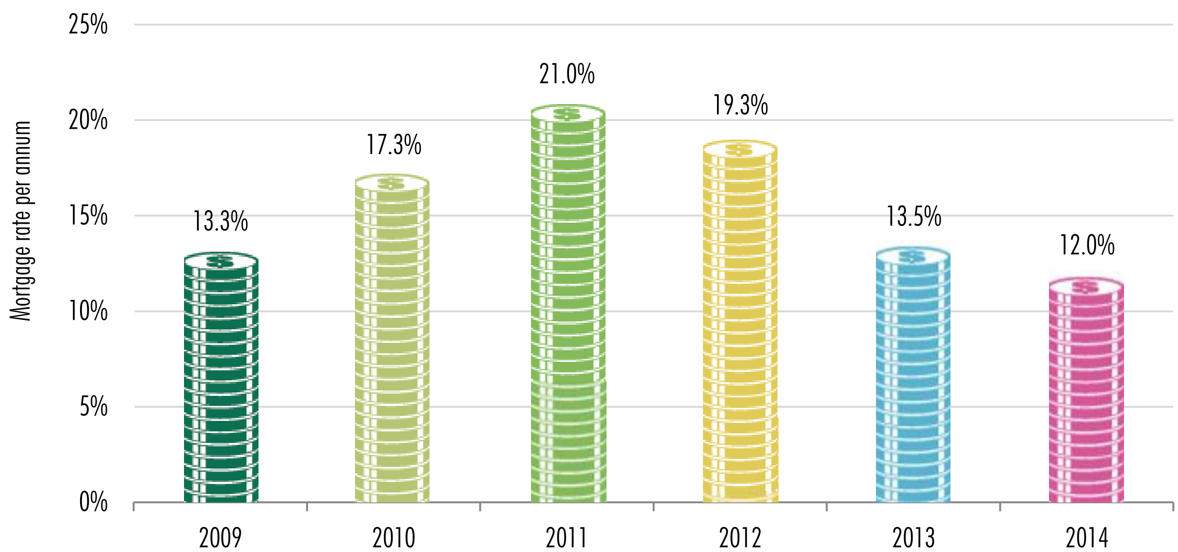
** Note: The chart demonstrates average prices in Hanoi and HCMC*

Source: CBRE Vietnam, Q2 2014.

Mortgage Rate Environment

Unlike the U.S. or European countries, and other matured economies in Asia where interest rate environment is relatively stable and financing cost is affordable and predictable to borrowers, financing cost in Vietnam has been relatively high and unstable for at least the past 6-8 years. At its peak in 2011, mortgage rate went up to over 20% p.a.

Chart 5: Average annual mortgage rate



Source: HSBC, CBRE Vietnam, Q2 2014.

Except for the peak in 2011, mortgage rate in Vietnam has traditionally been in the range of 10%-15% p.a. After 2011, the State Bank of Vietnam has implemented several measures to stabilize the interest rate environment. Since 2012, mortgage rate has gone down and this year, the rate has matched 2009 level. With a more stabilized mortgage rate environment, more mortgage loan applications and disbursements have been observed over the past two quarters among homebuyers as home purchase gets more affordable with lower mortgage rates.

It is worth noting that mortgage rates in matured markets such as the U.S., Europe, or Singapore, Japan is much lower than in Vietnam and only fluctuate in the range of 2% to 5% p.a. [12]

Total Cost of Buying

To estimate the total cost of housing, we will use the example of a couple with savings by their seventh year of working from Page 12 for calculation. In this study, property value, mortgage loan costs, opportunity costs, and net proceeds when the property is sold are taken into account to estimate the total cost of buying a home.

We have assumed that the couple would buy a mid-end apartment worth VND1.6 billion. They would use their savings of VND800 million as a down-payment and take a mortgage loan for the balance over a period of 15 years. Hence the loan-to-value ratio would be 50%. It is assumed that the average mortgage rate would be 12% p.a. throughout the loan period.

Assuming that no additional repayment will be made during the loan period, the monthly mortgage payment would be VND9.6 million, the total loan cost would be VND1.7 billion, and the total cost for buying the apartment would be VND2.5 billion, in which the total interest cost is VND928 million (54% of loan cost and 37% of total housing cost).

Opportunity costs are calculated based on the interest that would be earned if the down-payment was to be put in a fixed deposit account until the apartment is sold by end of 15th year. The deposit rate is assumed to be 4% p.a. The property is assumed to be sold when the loan is fully repaid with a gain of 15% on the original apartment value and the net proceeds would be VND1.84 billion. This appreciation rate is based on observation of Vietnam's historical annual apartment price appreciation and the inflation rate for the past 8 years. With the combination of apartment price appreciation and inflation rate, the net appreciation rate of the apartment in this example is assumed to be 1% p.a., or 15% over 15 years.

The total net cost is VND1.33 billion.

Family support

Bank loan

Cost of Renting

Total Cost of Renting

When it comes to renting cost, the situation is different in HCMC and Hanoi. In general, rental in HCMC is higher than in Hanoi, which also means for landlords that residential properties in HCMC can provide a better yield than those in Hanoi. For the same quality apartment in comparable locations, the rent in HCMC could be around 10% to 20% higher than in Hanoi.

To estimate the cost of renting, we do a calculation for a 15-year rent, based on the rent of a similar apartment that the couple would buy, in the same location. The calculation also takes into account the opportunity cost if the monthly rent was to be put in a fixed-deposit account to earn interest.

Based on evaluation of a comparable apartment in Hanoi and HCMC, the current monthly rent for a similar apartment in Hanoi would be VND6 million, and in HCMC VND7 million. The increment rate is assumed to be 2% annually.

The total rental cost for 15 years in Hanoi would be VND1.29 billion and in HCMC VND1.5 billion.

Summary of Buying and Renting Costs in Hanoi vs. HCMC

Table 1: Buying vs. Renting in Hanoi

Item	Buy (VND'000)	Rent (VND'000)
First-year monthly payment	9,601	6,000
Average monthly payment	9,601	6,917
Average annual payment	115,216	83,008
Total payment (A)	2,528,242	1,245,126
Opportunity cost (B)	640,755	49,805
Net proceeds (C)	1,840,000	-
Total net cost (D) = (A) + (B) – (C)	1,328,997	1,294,931

Source: CBRE Vietnam, Q2 2014.

Table 2: Buying vs. Renting in Ho Chi Minh City

Item	Buy (VND'000)	Rent (VND'000)
First-year monthly payment	9,601	7,000
Average monthly payment	9,601	8,070
Average annual payment	115,216	96,843
Total payment (A)	2,528,242	1,452,647
Opportunity cost (B)	640,755	58,106
Net proceeds (C)	1,840,000	-
Total net cost (D) = (A) + (B) – (C)	1,328,997	1,510,753

Source: CBRE Vietnam, Q2 2014.

When is Buying or Renting Better?

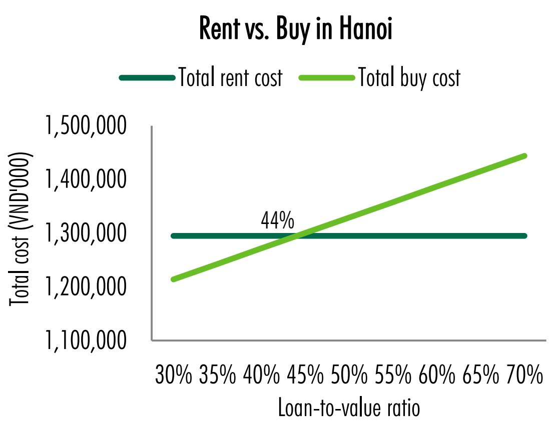
Sensitivity

Due to higher rental levels, the total renting cost in HCMC is higher than that in Hanoi. Therefore, it looks as if it is better to buy in HCMC and to rent in Hanoi. However, it is worth noting that the interest cost which is based on loan-to-value ratio and interest rate environment makes up a high portion of the total buying cost. **Hence, for buyers in Hanoi who can provide a larger down-payment, the total buying cost would be lower and in such a case, buying could be better.**

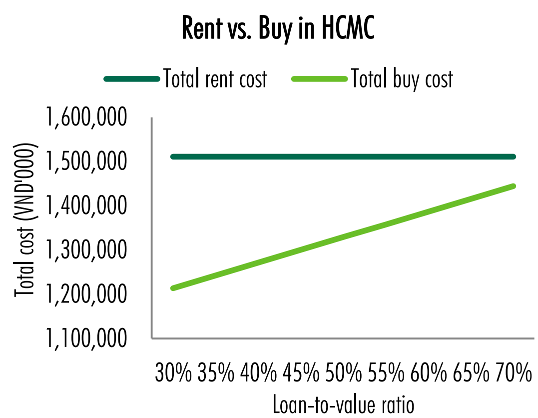
The charts below that compare renting and buying cost by loan-to-value ratio and by interest rate would indicate the different situations where to buy or to rent is better in each city. In Hanoi, if the interest rate environment remains at its current level, buying is better if buyers can provide a down-payment of over 56% of the property value. **While in HCMC, with current interest rate environment, it is better to buy as the renting cost is high.**

Likewise, if the interest rate declines, total net buying cost will decrease. It is better to buy in Hanoi when the interest rate goes lower than 11.6% p.a., and it is better to buy in HCMC when interest rate is lower than 13.9%. This means that in the current interest rate environment, it is better to buy in HCMC.

Chart 6: Renting cost vs. buying cost by loan-to-value ratio in Hanoi and HCMC

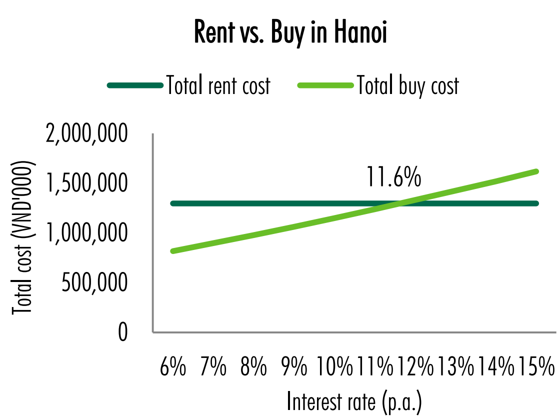


Source: CBRE Vietnam, Q2 2014.

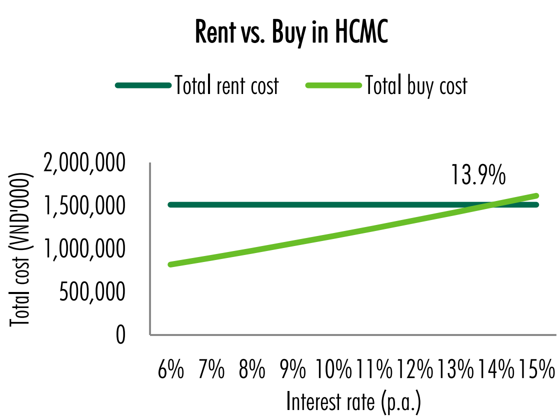


Source: CBRE Vietnam, Q2 2014.

Chart 7: Renting cost vs. buying cost by interest rate in Hanoi and HCMC



Source: CBRE Vietnam, Q2 2014.



Source: CBRE Vietnam, Q2 2014.

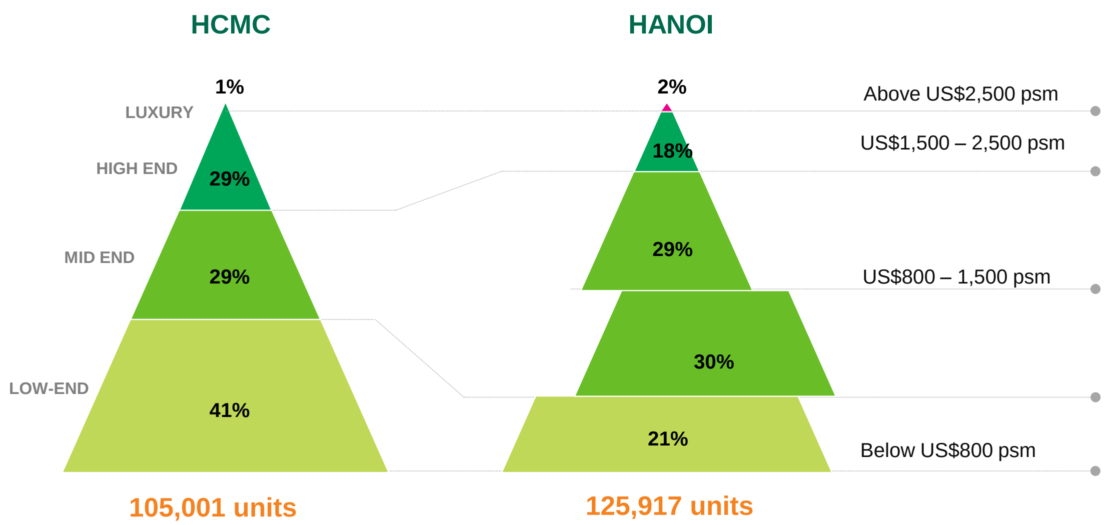
Available Options

For Buying

Depending on the budget, a household that decides to buy can go for either landed houses or high-rise apartments. Generally, landed properties are more expensive, and the absolute value for a landed unit could range from over VND4 billion and above, depending on the location.

For high rise apartments, there is a wider range of options as prices vary.

Chart 8: Supply of condominiums by grade in Hanoi and HCMC



Source: CBRE Vietnam, Q2 2014.

For Renting

Generally speaking, rental markets in Hanoi and HCMC have been mainly serving students, workers and professionals from other provinces of Vietnam, and expatriates living and working in the two cities. Rental properties vary from landed houses to high rise apartments to meet various demands. In recent years, some property owners have developed mini-apartments for rent to match demand from young and single professionals who like to live in independent apartments with basic en-suite facilities but cannot afford renting in mid- to high-end apartments.

Location wise, rented properties are scattered in almost all districts in Hanoi and HCMC. Although the most common type of rental accommodation in Hanoi and HCMC is still shared rooms and space in landed houses, apartments are preferred by the young professionals as apartments are usually more modern, being developed in recent years, are better managed by building management and provide tenants with better parking facilities and security services.

Depending on the location and grade of the building, rent can vary from VND5 million to VND20 million or higher per month. Payment of management fees can be borne by landlords or tenants depending on negotiation terms.

Final Thoughts

Rapid urbanization in Hanoi and HCMC is attracting increasing numbers of immigrants to these cities to work and live.

According to data from Vietnam GOPFP, the number of immigrants to Hanoi and HCMC is growing annually. The annual growth rate of immigrants is 1.5% per year on average for Hanoi, and 2.2% for HCMC, which is estimated to bring an additional approximately 100,000 people to Hanoi, and approximately 150,000 people to HCMC annually. Data also revealed that 85% of the immigrants were in the age range 15-29[13]. The influx of immigrants of Gen Y to the city is expected to boost demand for rental properties and performance in the rental market.

In addition, since Vietnam has a young population while property prices are still high to most young people, it is expected that rental properties will be growing. More rental properties will be developed to cater to the growing number of people who need accommodation but cannot yet afford their own properties. The rental market is also expected to develop into a better organized and regulated market where potential tenants will be able to find a good range of options, matching their budgets and lifestyles rather than being forced to try and buy their own properties because they cannot find suitable renting options.

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