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# ANALYSIS OF THE VIETNAMESE COMMERCIAL REAL ESTATE MARKET

STRATEGIC INVESTMENT IMPLICATIONS FOR  
EVERGREEN PROPERTIES OF MICHIGAN, INC.

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## GLOSSARY

ADB	Asian Development Bank
AFIRE	Association of Foreign Investors in Real Estate
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BCC	Business Cooperation Contract
CBD	Central Business District
CIT	Corporate Income Tax
CPI	Consumer Price Index
CRE	Commercial Real Estate
CS	Current Supply: The total amount of cumulative office/retail space that has been completed at a given time
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
FOE	Foreign Owned Enterprise
FS	Future Supply: The total amount of office/retail space slated for completion in the future at a given time.
GDP	Gross Domestic Product
GFA	Gross Floor Area: The total amount of all covered areas including columns, walls, common passageways, lift lobbies, and toilets.
Grade A	A Grade A property meets <i>all</i> of a set of criteria regarding its offerings to a typical sophisticated occupier. These criteria are broadly concerned with the property's overall profile, location, amenities, management standards, and technical specifications.
Grade B	A Grade B property meets <i>some</i> of a set of criteria regarding its offerings to a typical sophisticated occupier. These criteria are broadly concerned with the property's overall profile, location, amenities, management standards, and technical specifications
Grade C	A Grade C property meets a set of criteria regarding its offerings to a typical <i>non- sophisticated</i> occupier. These criteria are broadly concerned with the property's overall profile, location, amenities, management standards, and technical specifications.

HCMC	Ho Chi Minh City
IMF	International Monetary Fund
JV	Joint Venture
LURs	Land Use Rights
M&A	Merger & Acquisition
OC	Occupancy Rate: The number of units in a building that have been rented out, compared to the total number of units in the building
ODA	Official Development Assistance
REITs	Real Estate Investment Trusts
SBV	State Bank of Vietnam
TI	Transparency International
US	The United States
VC	Vacancy Rate: The number of units in a building that are not rented out, compared to the total number of units in the building
VND	Vietnam Dong
WB	World Bank
WTO	World Trade Organization



## 1 INTRODUCTION

This chapter begins with the background information of this study, indicating the reasons for choosing Vietnam's commercial real estate market as a subject of research. There will be a brief overview of the commercial real estate market followed by an explanation of the objectives, questions, and limitations of this study. An introduction to the theoretical framework and the research approach is also included.

### 1.1 Background information

This thesis is conducted for Evergreen Properties of Michigan Inc., a real estate company with its headquarters located in the United States. As the U.S. real estate market has been stagnant for the past few years, many U.S. corporations have crossed the border to seek new growth beyond their home market. Following this trend, Vietnam has become one of the strategic markets in Asia in which Evergreen Properties of Michigan, Inc. is considering establishing their presence. The aim of this thesis is to assist Evergreen Properties of Michigan, Inc. to determine whether they should invest in Vietnam, and if so, in which areas they should invest in order to fully utilize their available resources.

Vietnam is the fourth fastest growing economy in the region, after China, Indonesia, and Thailand (see Appendix 5). Vietnam's booming economic growth and increasing demand have attracted numerous foreign investors with a huge flow of capital into different industries. The real estate market in general, and the commercial real estate market in particular, has had a long history of being considered one of the most important markets, ensuring the economic growth and societal security of Vietnam (Vietnam Briefing 2012). The market has grown at a fast pace over the past few years, fuelled by the increasing demand for serviced apartments, residential housing, and office spaces in the country (Overseas Property Mall 2006). Recent changes in investment and real estate business law have opened the commercial real estate market to foreign investors and Vietnam's membership in WTO has raised many U.S. investors' interest in this market.

Since the Doi Moi (Renovation) policy was carried out in Vietnam in the mid-1980s, the country has experienced rapid growth. The reform has put an end to the closed market economy and has been an influence toward the building of an open market economy with international capital flow as one of the most crucial growth engines for Vietnam (Vuong 2010, 31). The international economic integration has brought to Vietnam a number of business opportunities and investments as the result of the process of globalization. The increase in the demand for quality housing and better infrastructure has fuelled the era of real estate development. However, the Vietnamese commercial real estate market, like other international markets, is marked with volatility and uncertainty due to the economic crisis in the world market and high inflation in the country. The State Bank of Vietnam (SBV) has tightened lending policies and increased the interest rates to curb high inflation, which has led to too much bad debt in local housing projects. On the other hand, this has created a new period and many opportunities for foreign investors, such as investment by buying back these projects at low prices (VietnamNet 2012). The Association of Foreign Investors in Real Estate (AFIRE) has ranked Vietnam as the fourth emerging market in the region in 2011 after China, India and Brazil and the fifth emerging market in the region in 2012 in terms of foreign attraction (AFIRE 2011 and 2012). Also, Vietnam is predicted to enter the top ten tourist destinations in the coming decade (Greenwood 2011).

Most studies seem to agree that Vietnam's real estate industry has enormous potential for investors but is a highly risky market. For example, Jehan and Luong (2008) cite that Vietnam's real estate market is a young but fast growing market faced with some of the fundamental problems of a new market such as inefficient legal frameworks, lack of transparency, and lack of financing resources. As far as lack of transparency is concerned, Nguyen (2012) acknowledges that property investment is expected to give higher return in the long term for an emerging market like Vietnam; however, an assessment in a longer time frame is currently difficult due to the unavailability of data. In addition, EPM Advisers (2011) also states that investors worry about the "under-developed" legal system and regulatory framework in Vietnam. Despite these concerns, there are a growing number of investment opportunities in Vietnam's real estate market.

Even though many studies have reported issues concerning the Vietnamese real estate market, there has been very little research reported on the structure of the Vietnamese commercial real estate market itself. This research originates from the author's strong desire to promote U.S. investment in the Vietnamese real estate market. As the expansion of U.S. firms beyond their home market has still been limited, U.S.'s awareness of the potential and attractiveness of the Vietnamese real estate market has only risen recently. Results of this research will help the case company, Evergreen Properties of Michigan, Inc. to have a better understanding of Vietnam's commercial real estate market and how to establish their first presence there based on the available opportunities in the market.

This research will be of substantial value for other U.S. investors and firms who have interests in Vietnam's commercial real estate market, providing firsthand information about the market in order to assess their investment opportunities. Amid the uncertainties in the global market and the continuing shift from developed economies to emerging economies, it is certain that the Vietnamese commercial real estate industry is a market worth keeping a close eye on.

## 1.2 Research questions, objectives, and limitations

The primary objective of this research is to analyze the main characteristics of the Vietnamese commercial real estate market. Based on the analysis, the strategic investment implications for the case company, Evergreen Properties of Michigan, Inc. will be discussed. This research aims at answering the following main question:

Should Evergreen Properties of Michigan Inc. invest in the Vietnamese commercial real estate market?

In order to clarify the main question, the following sub-questions are established:

- What are the main characteristics of Vietnam's commercial real estate market?
- Has the Vietnamese government created any laws to facilitate foreign investment, especially investment from U.S. investors?

- What is the potential of Vietnam's commercial real estate market?
- What are the best modes of entry into the Vietnamese commercial real estate market?
- Who are the main players and the most important stakeholders in the market?

The real estate market is a broad topic with a number of different sub-markets. It is normally divided into two main categories: the commercial real estate market and the residential real estate market. This thesis will be focused on analysis of the commercial real estate market with the purpose of providing commercial real estate property investment implications for the case company. Due to time constraints, the researcher cannot investigate all commercial property types in the market but only concentrate on two property types: retail and office. Generally, the commercial real estate market consists of the following property types: office, retail, rental apartments, industrial properties, hotels, self-storage, and senior housing. Retail and office appear to be the hottest types among the mentioned property segments in the commercial real estate market.

It should be noted that this study only aims at giving the case company a broad view of the potential of the Vietnamese commercial real estate market with a main focus on retail and office segments. This thesis is not an internationalization plan for the case company to invest in the Vietnamese commercial real estate market. Therefore, it is advised that the case company should carry out further research to form a comprehensive plan, if it decides to invest in Vietnam.

Another limitation is that the researcher will only recommend investment opportunities in light of the case company's current situation. The recommended opportunities in this thesis might not be applicable in other situations.

Furthermore, since the case company is a property management company, the investment opportunities will mainly be focused on property investment. Finally, the investment locations in Vietnam will be limited to Hanoi and Ho Chi Minh City. These two cities are Vietnam's metropolitan centers for investment given their population profile and excellent demographics. Additionally, they currently attract a major share of foreign investment in Vietnam.

The study is relatively broad in nature since the researcher aims at providing firsthand information for the case company to assess their investment opportunities in the commercial real estate market in Vietnam. The author also hopes that this research will pave the way for more specific and project-based research in the future.

### 1.3 Theoretical framework

This thesis is divided into two main themes: theoretical framework and empirical study. Different data sources are collected for each section. The theoretical framework of this study mainly consists of secondary data such as books, articles, journals, and some published real estate reports. The theoretical study gives descriptions of adopted theories that can be used to facilitate the analysis process of considering investment in the Vietnamese commercial real estate industry. These theories are basically strategic tools and models which are used widely in market research. The theoretical framework presents the following information:

- International real estate investment;
- PESTLE analysis;
- Porter's five forces;
- Industry and corporate value chain;
- Resource audit;
- Strengths and weaknesses of SWOT analysis; and
- International entry modes.

The author will not only provide overview information for each tool and model, but also point out the reasons for selecting these techniques. These tools are essential as a foundation for the empirical study of the available data.

### 1.4 Research approach

Research methodology is a crucial part of the research process determining how the research project should be undertaken, according to Saunders et al. (2009, 43). The term "research methodology" is different from the term "research method" in the sense that research method refers to the techniques and procedures used to

collect and analyze data (Saunders et al. 2009, 3). The research methodology section is normally divided into two parts: research design and data collection.

Research design involves choosing the right research approach for a research project. The correct research approach will provide the author with a reliable answer for the initial research question and meet research purposes. There are three types of research approaches, including: inductive, deductive, and combination. This thesis adopts the inductive approach which means the results of the research are drawn from the collected and analyzed data and empirical observations. In short, it goes from general to specific (shown in Figure 1). This is different from the deductive approach, in which the theory or hypothesis is developed and the research strategy is designed to test the hypothesis (Saunders et al. 2009, 124-126).

As explained in the background information, the nature of this study is market research. Market research can be conducted using both qualitative and quantitative research methods. However, this thesis mainly concentrates on qualitative market research, as can be seen in Figure 1. The term “qualitative market research” refers to a part of the market research industry resulting from using qualitative methods, according to Chandler and Owen (2002, 6). Qualitative research gives an in-depth knowledge of the participants, processes, and industries being studied (Rogelberg 2004, 163). Qualitative data sources consist of the author’s observations, participant observations, interviews, questionnaires and surveys, documents, and texts (Myers 2009, 8). On the other hand, the quantitative research method focuses on the measurement of variables so that the numbered data can be analyzed using statistical procedure (Creswell 2009, 4).

The following Figure 1 demonstrates the research design of this study:

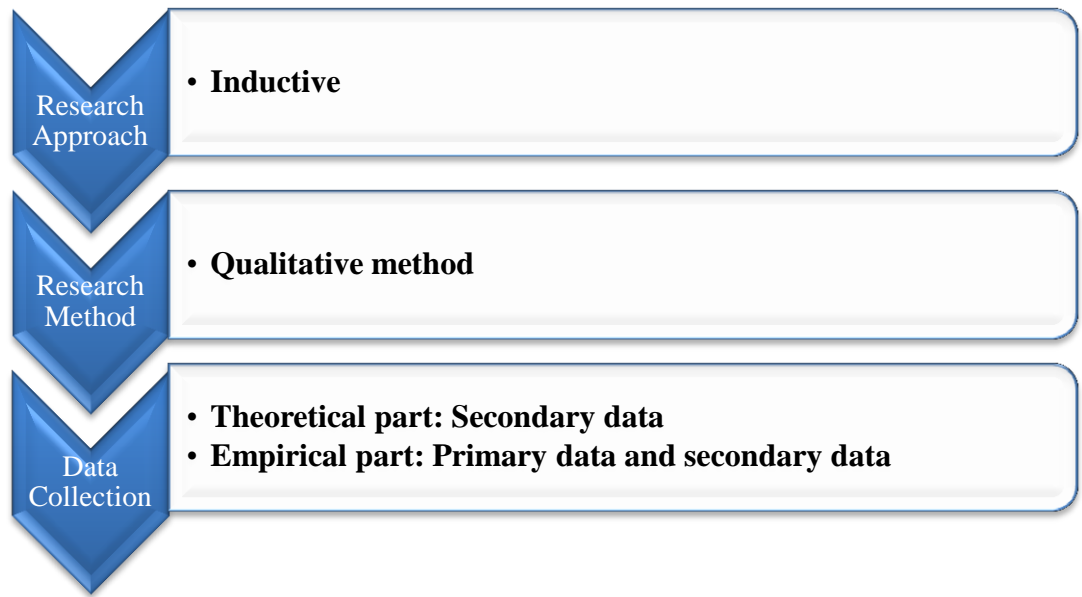


FIGURE 1. Research design

The empirical study of this thesis is built by using both primary and secondary data (shown in Figure 1). Primary data are collected from interviews with the managers of the case company, the case company's documents, and also the author's observations while being trained at the case company. The secondary data are gathered from published reports about the Vietnamese market and the Vietnamese commercial real estate industry, the Internet, Government websites, articles, and newspapers. The qualitative data consist of the case company's financial and strategy reports, property appraisals, and previous market research. Different analysis tools are employed in the empirical study in order for the author to formulate investment strategies for the case company. The empirical study is constructed in three parts:

- 1) Analysis of Vietnam as a target country and the Vietnamese commercial real estate industry
- 2) The case company's internal analysis
- 3) Investment opportunities

The author conducts the empirical study in a systematic manner by utilizing the analytic tools presented in the theoretical framework. The empirical study is divided into four layers. The first layer analyzes the macro environment of

Vietnam as a target country for investment while the second layer presents the characteristics of the micro environment of the Vietnamese commercial real estate industry. These two layers form the first part of the empirical study. The third layer, also the second part of the empirical study, focuses on the analysis of the case company itself. Finally, the third part of the empirical study discovers the investment opportunities and investment entry modes available to the case company.

### 1.5 Thesis structure

This thesis is divided into two main themes: theoretical framework and empirical study. The allocation of these two main themes is presented in Figure 2 below:

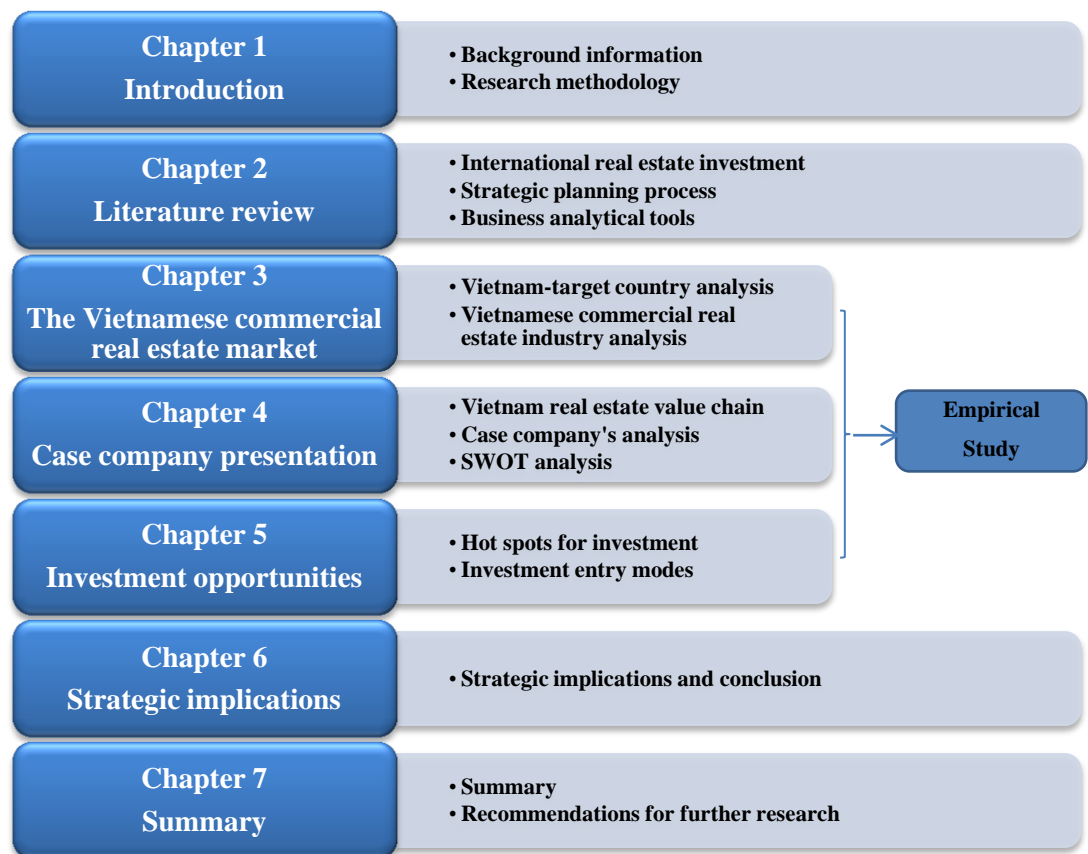


FIGURE 2. Thesis structure



The theoretical framework is located in Chapter 2 of this thesis. Chapter 2 presents the strategic planning process and description of theories, which can be used as a basis for the market analysis of this thesis.

The empirical study of this thesis is allocated to Chapter 3, Chapter 4, and Chapter 5. Chapter 3 introduces the information about Vietnam as a target country including economical, societal, geographical, political, and legal aspects and the analysis of the Vietnamese commercial real estate market. Chapter 4 analyzes the internal strengths and weaknesses of the case company and consequently, positions the case company in the external environment with SWOT analysis. Chapter 5 explores the hot spots for investment and investment entry modes.

Finally, Chapter 6 and Chapter 7 conclude this thesis with recommendations and summary. These two chapters aim at delivering the final outcome of this thesis, answering the main research question of whether the case company should invest in the Vietnamese commercial real estate market and providing them with strategic investment implications.

## 2 LITERATURE REVIEW

This chapter presents an overview of the strategic planning process and a description of the theories adopted as a basis for the market analysis process of this study. Basically, the theories are a combination of analysis tools used as a framework for the author to analyze the macro environment, the micro environment, and the internal situation in order to formulate strategic investment implications for the case company.

### 2.1 International real estate investment

Increasing global economic integration has made the opportunities of international real estate investment more compelling than ever. Traditionally, the most justified arguments for international real estate investment are diversification and return enhancement (Taylor and Sarga 1998, 13; Lynn 2010, 13). Both arguments are still valid today. With a carefully developed and executed investment strategy, companies who invest internationally can realize these two benefits.

For U.S. investors and firms, the decision to invest in a foreign real estate market is more discretionary than it is for other investors because of the wealth of opportunities available in the U.S. market. However, as the market has become increasingly global, the decision to not invest internationally is associated with a number of opportunity costs. According to Corner and Liang (2006, 187), international investment will bring investors three compelling benefits: prudence, diversification, and diverse opportunities.

The size and distribution of the commercial real estate universe are an important determinant of international real estate investment. Even though the U.S. is a large and diverse market, it only represents a small share of the global investable universe of commercial real estate. Fiorilla et al. (2012, 124) stated that the U.S. comprises slightly more than one-quarter of the commercial real estate globally (approximately 25.4%). It is foreseen that growth over the next decade will be dominated by developing countries, accounting for 42.8% of the global commercial real estate market (Fiorilla et al. 2012, 124). With 75% of the investable real estate universe located outside the U.S., it seems obvious that

companies who invest internationally enjoy a larger and more diverse set of opportunities than U.S. investors who “stay home” do. In addition, the global commercial real estate market has become more accessible compared to what it was in the past with increasing inflows of foreign capital. However, there are certain risks associated with investing in real estate overseas. Risks like taxes and currency risks need to be considered. Legal systems and leasing practices differ. Despite all risks involved, it cannot be denied that given the size and accessibility of many foreign markets, U.S. investors should consider some exposure to the global commercial real estate market. (Corner and Liang 2006.)

Perhaps the most justifiable argument for international investment is diversification. Diversification plays a crucial role in distributing risk among multiple markets and helps optimize potential for return (Yanos 2008). One characteristic of the commercial real estate market is that the market trends are cyclic, meaning they go up and down following a pattern that repeats. Therefore, if an investor has a portfolio of properties in different markets, he can compensate for loss in his portfolio when the market experiences an up-cycle. As the international real estate market has become more transparent, international investment offers more attractive diversification benefits than stocks or bonds (Corner and Liang 2006, 192; Wilson and Zurbruegg 2003, 262). Hence, for U.S. investors, investing internationally is a powerful strategic tool for enhancing their portfolio returns, and at the same time diversifying their portfolio globally (Lynn 2010, 14; Wilson and Zurbruegg 2003, 263-264).

Finally, international investment means more available and diverse opportunities beyond the U.S. market. According to Lynn (2010, 15), the drivers for more diverse opportunities are the broad range of economic development and growth patterns, along with different demographic profiles among international markets. For example, each country in the world experiences different GDP growth, and GDP growth is a fundamental push to increase a country's demand for real estate. Corner and Liang (2006, 193) stated that the investable commercial real estate market can be divided into three categories: developed, maturing, and emerging. Developed markets are fully integrated into global capital markets and have lower long-term country risk, e.g. Germany and the U.S. Maturing markets have a higher degree of country risk because they are less advanced, for example, South

Korea. Finally, emerging markets, such as Vietnam and China, have the highest degree of country risk due to a less developed commercial real estate market. Investors can develop strategies to achieve specific portfolio objectives by shifting allocations of property among these three markets (Corner and Liang 2006, 193; Fiorilla et al. 2012, 133).

In conclusion, the investment environment has changed dramatically in the past decade. The recent recession in the global market has reminded investors of the importance of diversification and strategic management of their portfolios. With the majority of the investable commercial real estate universe located outside the U.S., it is crucial that U.S. investors in general, and the case company in particular, consider adding international real estate properties to their portfolios.

## 2.2 The strategic planning process

The strategic planning process is a useful tool to help the company survive in the highly competitive environment of today. This process helps the company clearly define its own mission and objectives and assess their external and internal environments to create strategy, implement strategy, evaluate progress, and make necessary adjustments to achieve its goals (QuickMBA 2012).

According to Wheelen and Hunger (2004, 4), the strategic planning process is a set of managerial decisions and actions that determine an organization's long-run performance. Hill and Jones (2010, 12) state that there are five main steps in the strategic planning process, as can be seen in Figure 3:

- Define the organization's mission and major objectives and goals;
- Analyze the external environment to identify the opportunities and threats and the organization's internal environment to identify its strengths and weaknesses;
- Formulate strategies that build on the organization's strengths and correct its weaknesses in order to take advantage of external opportunities and reduce external threats. These strategies should be consistent with the organization's mission and objectives;
- Implement the strategies; and

- Evaluate the results of the strategies and continuously improve the strategies to accomplish better outcomes.

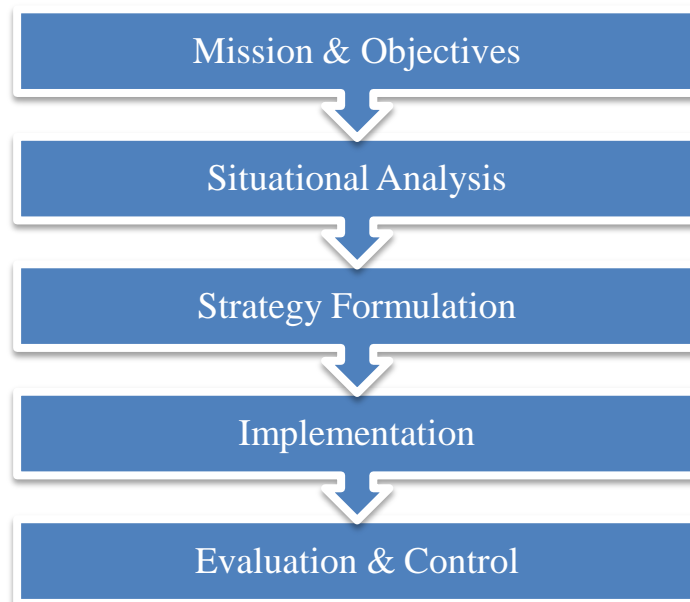


FIGURE 3. Strategic planning process (NetMBA 2012)

This study emphasizes the monitoring and evaluating of the external opportunities and threats of Vietnam's commercial real estate market in light of the case company's strengths and weaknesses. Therefore, the author will mainly concentrate on situational analysis and strategy formulation for the purpose of providing insight into Vietnam's commercial real estate market and recommending the strategic investment options for the case company.

### 2.3 Situational analysis

Situational analysis offers the researcher a framework to collect and analyze data sources, aiming at answering the question of "where and how to enter a foreign market". As a second component in the strategic planning process, the situational analysis, or in other words, environmental scanning, is conducted by monitoring, evaluating, and disseminating the information from the external and internal

environments (Wheelen and Hunger 2004, 52). The purpose of situational analysis is to identify the strategic factors that affect the future of the company.

The external environment is divided into two categories: the macro environment and the micro environment. The macro environment is often related to the country in which the company operates, either its home country or its target country, while the micro environment involves analysis of a particular industry that affects the operation of the company (NetMBA 2012). Often the changes in the external environment can present both opportunities and threats. Therefore, the company needs to know its own capabilities and weaknesses in order to seize the opportunities and reduce the threats imposed by the external environment (Hill and Jones 2010, 18-19).

On the other hand, the internal environment analysis considers the situation within the company itself. The most important variables of the internal environment, which will be analyzed in this study, are the structure, culture, and resources of the company. Because of the large amount of information it provides for the researcher, the internal environment analysis data is normally classified as strengths and weaknesses. Key strengths form a set of core competencies which the company can utilize to gain competitive advantage. (QuickMBA 2012.)

There are several tools which can be used in the situational analysis, including: PESTLE, Porter's five forces and resource audit, as can be seen in Figure 4.

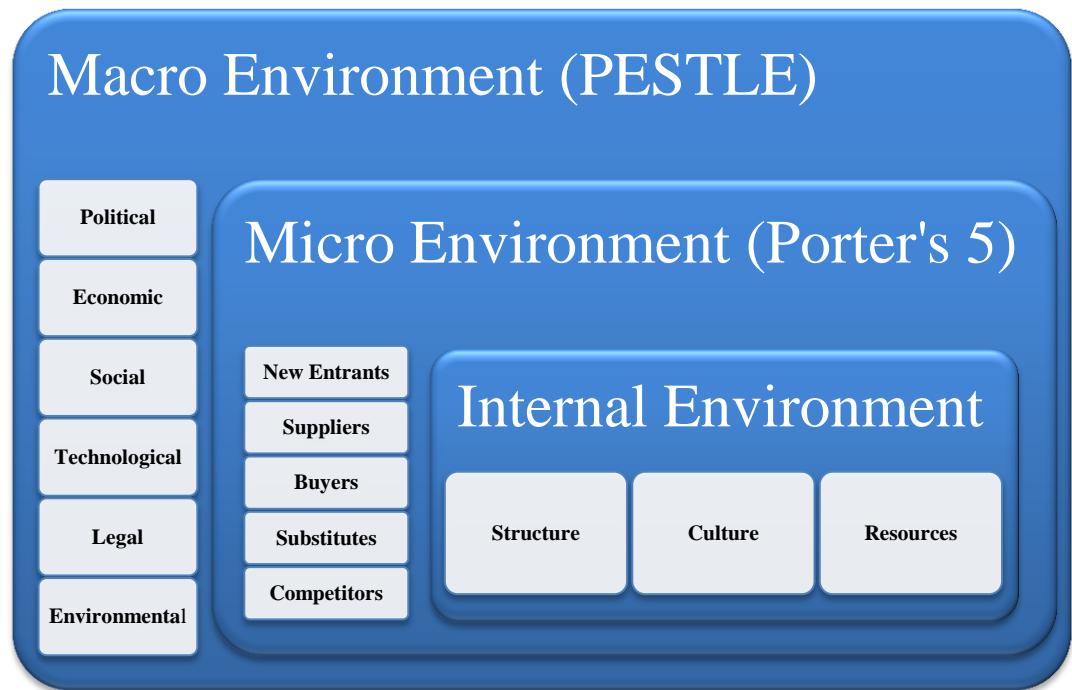


FIGURE 4. Situational analysis framework

Figure 4 illustrates the three layers of business environment which are examined in this thesis, including: macro environment, micro environment, and internal environment. PESTLE model is used to analyze the macro environment while the micro environment is analyzed by utilizing Porter's five forces. The third layer, the internal environment, is studied by employing the resource audit technique. These three layers of business environment are presented in the next three subchapters.

### 2.3.1 Macro environment

The macro environment factors are uncontrollable factors, meaning factors that are outside the sphere of influence of the organization, and the level of impact of these factors varies with each organization (Cadle et al. 2010, 3). PESTLE analysis is a technique that is widely used to scan macro environmental factors. PESTLE identifies six key areas that should be considered when attempting to confront sources of change, including: **Political, Economic, Socio-Cultural, Technological, Legal, and Environmental** factors (Haberberg and Rieple 2008, 105).

**Political factors**

Political factors may increase the possibility of political issues arising that might affect the organization and how it operates (Haberberg and Rieple 2008, 106). Some political factors, which need to be taken into consideration are political stability (potential changes in the government which may change the country's policies and priorities), new government initiatives, the degree of corruption, and the international relations of the target country with other countries (Cadle et al. 2010, 3). When entering a new market, considering changes in regional politics is also a necessity.

**Economic factors**

The economic environment is examined through key figures such as GDP (Gross Domestic Product), growth rates, inflation rates, interest rates, labor costs, and taxation levels (NetMBA 2012). Analysis of a real estate market should also include some important economic features such as Foreign Direct Investment (FDI), efficiency of the financial market, infrastructure quality, and currency convertibility. Economic factors can have an obvious impact on the business activities of a real estate company (Haberberg and Rieple 2008, 106).

**Socio-Cultural factors**

The social and cultural dimensions or environments of a nation form the values of the society, which in turn, affect the functioning of the business. It is important to consider both the demographic and social influences of cultural factors. The cultural factors consist of four layers: national culture, business culture, organizational culture, and the culture of the individual within the society. (Lee 2009.)

**Technological factors**

An organization is greatly impacted by the technological development in a country. Technological factors can determine entry barriers, efficiency of production levels, and influence outsourcing decisions. Some of the most important technological factors, such as R&D (Research and Development)



activity, rate of technological change, equipment and automation, and technology incentives are usually considered. (QuickMBA 2012.)

### **Legal factors**

It is vital to consider factors arising from changes to the law. Legal compliance has become such a crucial issue nowadays that many business analysis reports have been conducted to ensure compliance with particular laws or regulations (Cadle et al. 2010, 4). Some of the most important laws affecting real estate businesses are Law on Investment, Law on Real Estate Business, and Law on Enterprises (Mayer Brown JSM 2011).

### **Environmental factors**

Environment is one of the most important factors concerning the organization today as there have been rising concerns about climate change and global warming. In pursuit of a “green business”, many organizations have increasingly adopted the bottom triple line model, which takes into consideration three aspects, including society, economy, and environment while operating a business (Haberberg and Rieple 2008, 111). Investing in the commercial real estate industry requires companies to conduct environmental testing and provide environmental reports to designated authorities before any investment activities can materialize.

#### **2.3.2 Micro environment**

The micro environment is a detailed study of the factors of influence of the industry in which the organization operates. A well-known tool to analyze the micro environment is Porter’s five forces. The five-force model shapes the competition of the industry and at the same time provides managers with a clear picture of the structure of the industry. The collective strength of these five forces determines the ultimate profit potential of the industry, where the measurement of the profit potential is the long-term return on invested capital (Porter 1998, 3). Porter (1990) also states that the strength of the five forces varies from industry to industry, and changes as the conditions of the industry change over time. The task of the manager is to figure out how changes in the five forces will create

opportunities and threats and to prepare a strategic response. Porter's five forces are depicted in Figure 5 below:

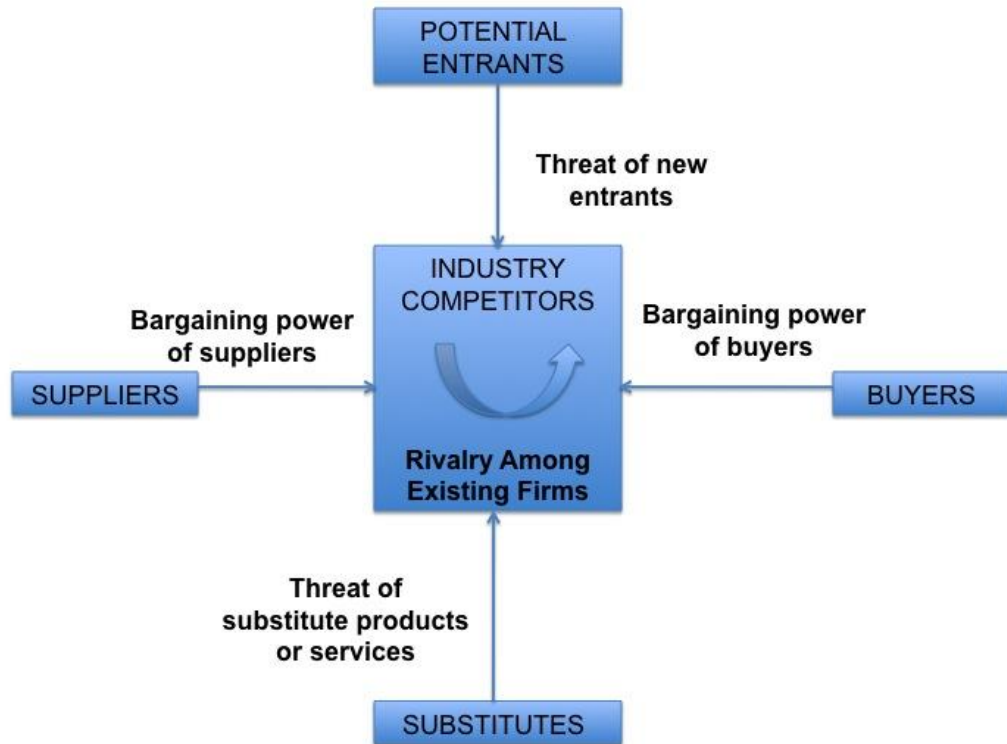


FIGURE 5. Forces driving industry competition (Porter 1998, 4)

### **Threat of new entrants**

New entrants to an industry bring to it new capacity, desire to gain market share, and substantial resources (Porter 1998, 7). Price can be bid down, reducing the industry's overall profitability. The threat of entry depends on the presence of barriers to entry and the reaction that can be expected from existing competitors (Hollensen 2008, 80). If the entry barriers are high and/or the new entrants can expect strong retaliation from established competitors, the threat of entry is low (Porter 1998, 7). According to Stonehouse et al. (2004, 120), barriers to entry consist of:

- The economies of scale which give the existing firms a cost advantage over new entrants;

- Product differentiation and brand loyalty which make it difficult for new entrants to attract customers from existing competitors;
- The capital requirement to start a business for new entrants;
- Switching costs incurred by customers which deter them from buying from new entrants;
- Difficulty in accessing distribution channels which affects new entrants' ability to provide their products to the customer;
- Government policy which may restrict entry; and
- The retaliation from existing players such as price cuts and advertising campaigns which may prevent customers from switching to new entrants.

### **Rivalry among existing firms**

In most industries, firms are mutually dependent. A competitive move by one firm can noticeably affect its competitors and hence might cause retaliation or countermoves (Porter 1998, 17). There are several factors that have an impact on the intensity of rivalry, according to Bamford and West (2010, 115-116):

- The concentration of the industry: The intensity of rivalry in the industry depends on the number of competitors of equal size;
- Rate of market growth: Slow growth rate of the industry tends to present intense rivalry among existing firms as they compete for market share;
- Switching costs: When the products or services are nearly identical and switching costs to buyers are low, competitors fight fiercely to keep their existing customers and attract new customers;
- Exit barriers: High costs to exit a business cause competitors to perform in different ways that are often counterproductive to both company and industry performance.

Rivalry among existing competitors happens due to either pressure or opportunity for improvement. It normally takes the form of competition for position in the industry such as: price competition, advertising battles, product launching or improvement of customer service. Rivalry among existing firms might or might not make the whole industry better off. (Porter 1998, 18.)

### **Threat of substitute products or services**

All firms in an industry compete with industries producing substitute products. Porter (1998, 23) states that substitute products reduce the potential profitability of an industry by placing a ceiling on the prices firms in the industry can profitably charge. Consequently, a product's price elasticity is strongly affected by the substitute products. When more substitute products from other industries become available, the more elastic the demand will be since customers have more alternatives. A firm can reduce the substitution threat by differentiating its product, enhancing its performance, and increasing customers' switching costs. (Stonehouse et al. 2004, 120-121.)

### **Bargaining power of buyers**

Buyers use their bargaining power in the industry by forcing down prices, expecting higher quality or more services, and playing competitors against each other at the cost of industry profitability. The power of an important buyer or buyer group depends on the characteristics of the market and on the importance of their purchases from the industry. (Porter 1998, 24.)

### **Bargaining power of suppliers**

Porter (1990) indicates that suppliers can use their bargaining power over the players in the industry by threatening to raise prices or reduce the quality of purchased goods and services. Study of supplier power and benchmarks with competitors in the industry will help the organization significantly gain the strength of this force, according to Hollensen (2008, 79).

#### 2.3.3 Internal environment

The third layer in the environmental scanning process is organizational scanning. Scanning and analyzing the external environment for opportunities and threats are not enough for an organization to create its competitive advantage. Managers have to analyze the organization itself to identify internal strategic factors which define the organization's strengths and weaknesses. Internal environment analysis is often associated with identifying, evaluating, and developing an organization's

resources to gain competitive edges (Wheelen and Hunger 2004, 81). A good way to begin an organizational analysis is to conduct both industry and corporate value chain analysis. The purpose is to examine the organization in the context of overall value creating chain activities.

### Industry value chain

The value chain of most industries is often categorized into upstream and downstream activities (Halley and Beaulieu 2009, 49). The industry value chain is also known as the supply chain. Analysis of the industry value chain will give the managers an idea of the amount of their corporation's expertise at each part of the value chain (Wheelen and Hunger 2004, 85). Even if the company operates up and down the entire industry value chain, at some point, it usually has a center of gravity or core competency where its greatest capabilities lie.

### Corporate value chain

Corporate value chain analysis is a process which analyzes specific activities through which the organization can create value and gain competitive advantages. Porter (1985) proposed a systematic model (as shown in Figure 6) to categorize a firm's activities, which can be grouped into primary activities and support activities.

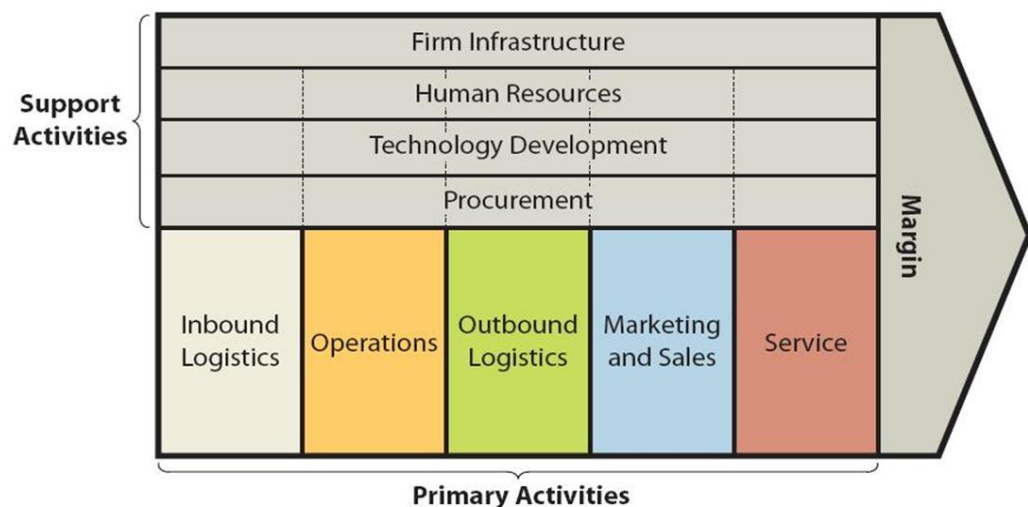


FIGURE 6. Porter's corporate value chain (Porter 1985)

The idea of this model is that firms should focus on activities yielding margins, in which they have more expertise and capabilities than their competitors, and that they should collaborate with other firms in the industry value chain.

### Resource audit

Resources are the most important variable in the company's process of gaining competitive advantage. Resource audit, also known as resource analysis, is a term referring to the analysis of key areas of internal capability in order to identify the strategic factors that enable business change (Cadle et al. 2010, 10). The resource audit technique is illustrated in Figure 7 below:

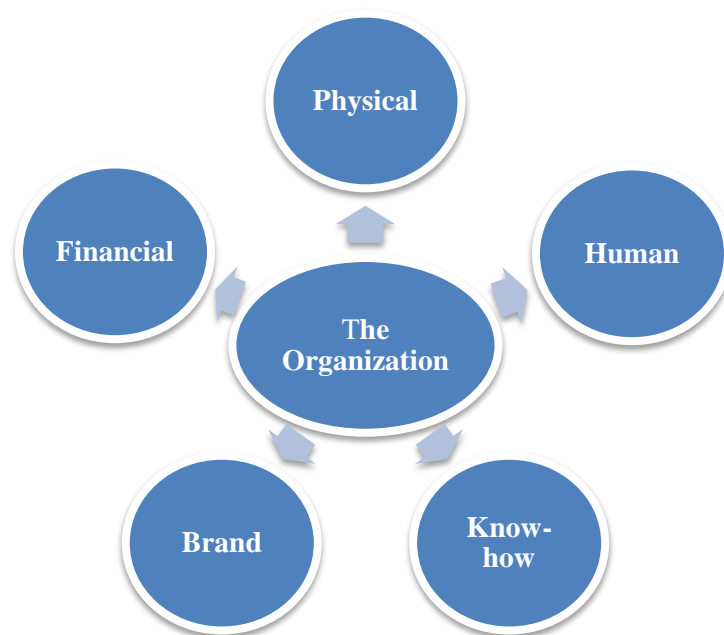


FIGURE 7. Resource audit (Cadle et al. 2010, 11)

Figure 7 shows five areas of a resource audit that can be examined:

- **Financial:** The availability of the financial resources (includes the firm's financial assets) and its ability to access loans and credit. The more stable the firm's financial situation is, the easier it is to have access to funds for investment and development.

- Physical: The tangible assets of a company, including land, buildings, and equipment, whether owned or leased.
- Human: The skills and knowledge of the firm's personnel are considered.
- Reputation (brand): An intangible asset which is perceived by stakeholders.
- Technology know-how: The information transparency within the organization (also evaluated by the organization's culture itself).

## 2.4 Strategy formulation

In the following subchapter, various generic strategies are discussed. These are analytic tools which can be used to formulate strategic options for the case company in regards to investing in the Vietnamese commercial real estate market.

### 2.4.1 SWOT analysis

SWOT analysis is used to analyze an organization's strategic factors in light of the current situation. SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats (shown in Figure 8). Over the years, SWOT analysis has proven itself to be the most enduring analytical tool used in strategic management. The purpose of SWOT analysis is not only to identify the firm's distinctive competencies, but also to discover the opportunities that the firm has not yet been able to take advantage of (Wheelen and Hunger 2004, 109). In addition, SWOT is used to summarize and consolidate key issues when analyzing an organization and its external business environment. It usually follows the use of techniques such as PESTLE, Porter's five forces, and resource audit (Cadle et al. 2010, 15). A number of possible alternative strategies can be generated by using SWOT analysis.



FIGURE 8. SWOT analysis (Cadle et al. 2010, 14)

In this thesis, SWOT analysis is utilized for exploring the case company in the context of the Vietnamese market and the Vietnamese commercial real estate industry. Despite its broad usage, SWOT has its own pros and cons which need to be taken into account before using it. SWOT's advantages and disadvantages are briefly described in Table 1 below:

TABLE 1. SWOT's Pros and Cons (Kotler et al. 2009, 104)

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Simple and versatile</li> <li>• Provide a clear framework for business decision</li> <li>• Provide a strategic guideline</li> <li>• Define core capacities and competencies</li> </ul>	<ul style="list-style-type: none"> <li>• Tend to create long lists</li> <li>• Focus more on gathering information than creating concrete actions</li> <li>• Ignore priorities</li> <li>• Only a basic initial review tool</li> </ul>



SWOT analysis can provide helpful information; however, it is important to note that it can tend to oversimplify critical issues as much as illuminate them (Kotler et al. 2009, 105). Therefore, if SWOT is used correctly and smartly, it can play a key role in supporting the company's plan (Ferrell and Hartline 2011, 128).

#### 2.4.2 Directional strategy

A corporation's directional strategy can be divided into three substrategies, including: growth strategies, stability strategies, and retrenchment strategies. Corporate directional strategy is depicted in Figure 9 below:

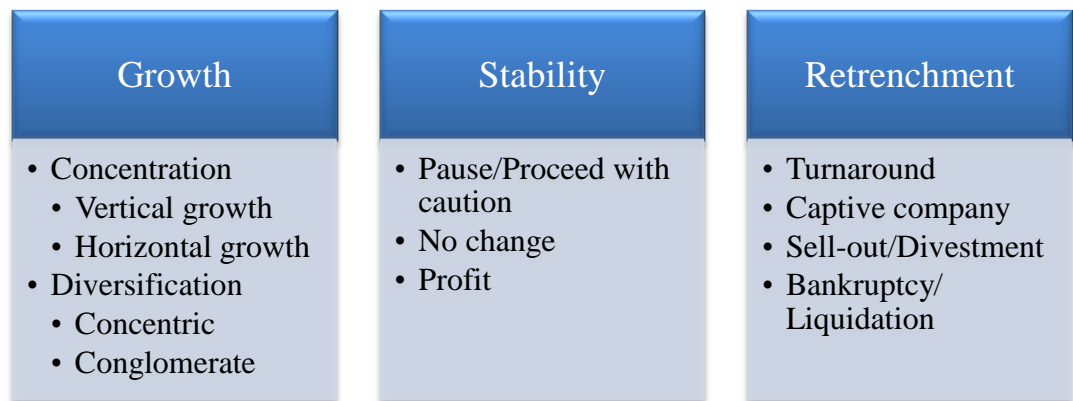


FIGURE 9. Directional strategy (Wheelen and Hunger 2004, 139)

Growth strategy is the most widely pursued strategy. The reason for this is that companies that operate in intensely competitive industries must grow to survive. A company can grow internally by expanding its operations both globally and domestically, or it can grow externally through mergers, acquisitions, and strategic alliances (Wheelen and Hunger 2004, 139). Especially in today's world, growth is often associated with internationalization. There are several strategic options for entering a foreign market. Choosing an appropriate entry mode will serve as a guideline for the company to establish its presence in its chosen market.

Stability strategy is utilized to guard against change. Corporations employ this strategy when they believe that they have met their stated objectives or are

satisfied with what they have accomplished (Wild et al. 2010, 337). Such corporations see the business environments as posing neither profitable opportunities, nor threats. Their main aim is simply to maintain their present positions.

Retrenchment strategy is a strategy designed to reduce the scale or scope of a corporation's businesses (Wild et al. 2010, 337). Corporations may cut back their scale by closing factories with unused capacity and laying off workers when economic conditions worsen or competition increases. On the other hand, they can reduce the scope of their activities by selling unprofitable businesses which no longer fit the company's goals.

### 2.4.3 International entry options

When a company has made a decision to enter a foreign market, there are a variety of options open to them. These options vary with cost, risk, and degree of control which can be exercised over them. Entry decisions to a foreign market are often associated with the selection of entry modes and entry timing. A mode of entry into an international market is the channel which a company employs to gain entry into a new foreign market (Peng 2009, 165-166). Overall, the decision of how and when to enter a foreign market can have a significant impact on the performance and position of a company in its target market.

#### **How to enter?**

Basically, there are three entry modes to foreign markets: exporting, contracting, and investment (shown in Figure 10).

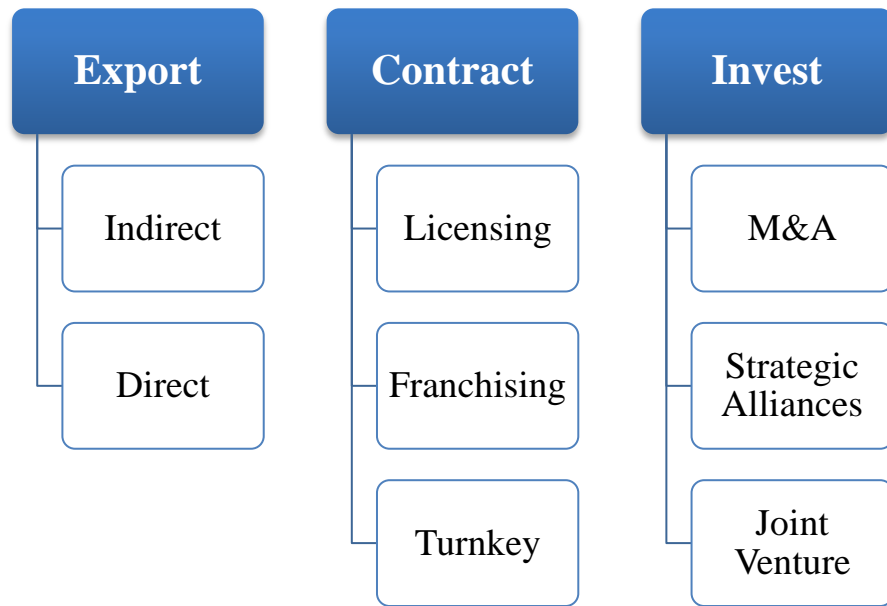


FIGURE 10. Modes of entry

### Export

Exporting is a good way to minimize the risks and costs of entering a new market. There are two ways to export a product or service: indirect and direct (NetMBA 2012). Indirect exporting means selling products through an intermediary located in the same country. On the other hand, in direct exporting, companies sell their products to intermediaries located in their foreign markets.

### Contract

A second option to penetrate a foreign market is contracting. There are three forms of contracting: licensing, franchising, and turnkey operations.

- **Licensing:** Under the licensing agreement, the licensor grants rights to another firm in its target market to use its intangible assets (brand or expertise) to produce and/or sell a product or service (Wheelen and Hunger 2004, 144). The licensee pays a fee to the licensor in return for its technical expertise. This strategy is useful when the company does not have sufficient funds to directly enter its target market.

- Franchising: The franchiser permits its chosen franchisee to open a business under the franchiser's brand name and operating system in exchange for a fee in the form of a percentage of the franchisee's sales.
- Turnkey operations: Contracts are made for the construction of facilities, such as large plants in exchange for a fee. The facilities are transferred to the foreign country or firm when they are complete. (Wheelen and Hunger 2004, 145.)

### **Investment**

Companies can utilize their resources by investing in their target countries through three options: merger and acquisition, joint venture, and strategic alliance.

- M&A (Merger & Acquisition) is a relatively quick way to enter into a foreign market by purchasing another company already operating in that country. As a result, the firm can enjoy strong product lines and a good distribution network. (Wheelen and Hunger 2004, 145.)
- Joint venture is the most popular method of entry into a new country. Companies form joint ventures, which can be considered formal entities, to combine their resources and the expertise needed to facilitate the development of new products or technologies (Sherman and Shapiro, 2008). This method also offers entry into a country that restricts foreign ownership.
- Strategic alliance is a partnership of two or more corporations to achieve strategic objectives that are mutually beneficial (Wheelen and Hunger 2004, 127). There are many reasons firms form a strategic alliance:
  - To obtain technology and/or manufacturing capabilities;
  - To obtain access to a new market;
  - To reduce financial and political risks; and
  - To gain or retain competitive advantage.

### When to enter?

Entry timing is one of the critical factors affecting a company's position in a foreign market. There are two types of entry timing when moving into certain countries: first mover and late mover (Peng 2009, 166). Often firms prefer first mover advantages, meaning advantages that first movers enjoy while late movers do not. However, being late movers does not prevent companies from enjoying some significant advantages that first movers cannot.

Table 2 shows first mover advantages and late mover advantages or first mover disadvantages. Peng (2009, 166) clearly defines the potential first mover advantages while Hill and Jones (2010, 227) highlight a number of disadvantages for the first mover.

TABLE 2. Pros and cons of being a first mover

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Proprietary technological leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Significant pioneer costs</li> </ul>
<ul style="list-style-type: none"> <li>• Preemption of scarce resources</li> </ul>	<ul style="list-style-type: none"> <li>• Uncertainties</li> </ul>
<ul style="list-style-type: none"> <li>• Establishment of entry barriers for late entrants</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties adapting to market changes (Locking itself in inferior technology)</li> </ul>
<ul style="list-style-type: none"> <li>• Avoidance of clashing with dominant firms in home market</li> </ul>	
<ul style="list-style-type: none"> <li>• Relationships with key stakeholders</li> </ul>	

According to Peng (2009, 166-167), there are five reasons why companies should be first movers when moving into their target market. First, they may gain advantage through innovation in technological leadership. First movers' accumulation of experience with innovation also gives them greater expertise than late entrants in the experience curve (Bamford and West 2010, 244). Second, late movers might not have the same access to key raw materials, profitable projects,

or skilled labor. Third, first movers have power to erect significant entry barriers for late entrants such as customer switching costs (Peng 2009, 166). Fourth, being a first mover in a foreign market may help companies avoid clashing with dominant firms in their home market, especially when the home market is intensely competitive. Finally, first movers can build precious relationships and connections with key stakeholders, such as customers and governments, and increase their brand recognition (Peng 2009, 167).

On the other hand, being first movers might bring companies some disadvantages. Companies can experience significant pioneer costs related to technology development, marketing channels creation or development, and customer education (Hill and Jones 2010, 227). Next, first movers can face some operational risk and numerous technological and market uncertainties. Finally, market changes can make it difficult for first movers to adapt their strategies. (Bamford and West 2010, 245.)

Overall, it is important to keep in mind that being first movers brings companies superior reputation and customer relationships that late movers cannot have. These advantages play an important role in helping companies gain control over the market and consolidate their positions. (Peng 2009, 166.)

## 2.5 Summary of literature review

The chapter gives an overview of the market analysis process conducted by the author. It mainly focuses on theories relating to environmental scanning, value chain analysis of the real estate industry, internationalization strategies, and SWOT analysis. These theories are based on the strategic planning process, where situational analysis and strategy formulation are emphasized. These analytic techniques will be useful to help the case company in its decision making process.

### 3 THE VIETNAMESE COMMERCIAL REAL ESTATE MARKET

The third chapter focuses on analysis of the Vietnamese market as a whole and the Vietnamese commercial real estate industry in particular. These two analyses aim at providing a look at the structure of the Vietnamese commercial real estate market and its potential and attractiveness. Some fundamental risks associated with investment in Vietnam are also included in this chapter.

#### 3.1 PESTLE analysis: Macro environment analysis of the Vietnamese market

As mentioned in the literature review, the PESTLE analysis model is selected to perform the macro environmental scanning of the Vietnamese market. This analysis enables the identification of external strategic factors that have an impact on a firm's strategies when it enters Vietnam.

##### 3.1.1 Political factors

One of the strengths of Vietnam that attracts investors and exporters is its high level of political stability compared to other peer countries in the region (Ketels et al. 2010, 66). This is an important advantage to boost Vietnam's competitiveness. The Communist Party of Vietnam is currently the only political party in Vietnam. Foreign firms investing in Vietnam are protected by the Vietnamese government's laws, such as Law on Investment No.59-2005-QH11, Law on Enterprise No.60-2005-QH11, and Law on Real Estate Business No.63-2006-QH11 (Mayer Brown JSM 2011).

##### **Vietnam and U.S. relations**

Vietnam's relations with the U.S. have become increasingly cooperative and broad-based in the years after the political normalization of diplomatic relations, marked by a formal announcement of President Bill Clinton. A series of bilateral summits have helped drive the improvement of ties and collaboration and at the same time have boosted U.S. and Vietnam economic relations. This was proven by the U.S.-Vietnam Bilateral Trade Agreement, effective on the 10<sup>th</sup> of December 2001, which significantly increased trade between the U.S. and

Vietnam. The trade agreement also marked a large-scale U.S. investment in Vietnam. During 2009, the U.S. private sector committed \$9.8 billion USD to Vietnam in FDI (Foreign Direct Investment). Similarly, U.S. companies continue to invest directly in the Vietnamese economy today. (U.S. Department of State 2012.)

### **Foreign relations**

Over the past decades, Vietnam has recognized the increasing importance of global economic interdependence and has made enormous efforts to adjust its foreign relations to reflect its involvement in international economies and its political position in Southeast Asia. The country has begun to integrate itself into the regional and global economy by joining international organizations. Vietnam has stepped up its efforts to regularize relations with the financial world system to attract foreign capital from the West. In the 1990s, Vietnam became a member of the World Bank (WB), the International Monetary Fund (IMF), and the Asian Development Bank (ADB). Membership in these international organizations has facilitated Vietnam's trade with its East Asian neighbors as well as with countries in Western Europe and North America. In July 1995, Vietnam was accepted into the Association of Southeast Asian Nations (ASEAN). Since then, Vietnam's influence in ASEAN has expanded significantly. The country served as Chairman in 2010. Of particular significance, Vietnam joined the Asia-Pacific Economic Cooperation forum (APEC) in November 1998 and hosted summits for APEC in 2006 and ASEAN in 2010. Communist Party leaders have strived to promote an open market economy by calling for a more internationally engaged foreign policy platform, also known as a more government wide approach to foreign policy. (U.S. Department of State 2012.)

### **Effect of membership in WTO on real estate market**

Vietnam joined the World Trade Organization (WTO) in 2007 as the 150<sup>th</sup> member. Belonging to the WTO has definitely brought Vietnam many benefits, especially in the real estate sector, which has seen rapid development and investment growth from foreign investors. From 2006 to 2007, registered FDI increased by around 68%, to \$20.3 billion USD and 50% of that was poured into



the real estate sector (Overseas Property Mall, 2006). WTO membership means that the country has to abide by international rules to make investment safer. This has certainly wiped out many foreign investors' doubts about the country's legal system (Mayer Brown JSM 2011).

### **Government incentives for foreign investors**

The Vietnamese government is not only stable but also intensely reform oriented. Over the past years, the Government has proven itself willing to consider and implement a wide range of changes in order to attract capital, advanced technology, and management skills (Ketels et al. 2010). The Ministry of Planning and Industry (MPI) has stepped up its efforts to loosen its control over investment licensing for the purpose of making it possible for investors to go directly to local levels to file forms. Furthermore, the Government also offered generous tax exemptions and reductions or payment of compensation such as a two-year tax exemption followed by a two-year reduced tax rate for foreign investors (Dawson 2011).

#### 3.1.2 Economic factors

Ten years after the BRICs- Brazil, Russia, India and China was dubbed, investors no longer experienced the advantage of being a first mover by investing in these countries. However, a new investment theme has been spotted recently, with Vietnam as a part of the CIVETS group of countries- Columbia, Indonesia, Vietnam, Egypt, Turkey, and South Africa. CIVETS is being touted as the next generation of tiger economies (Greenwood 2011). These countries present the next big investment opportunity resulting from their fast-rising and diverse economies. Some statistical information about Vietnamese economy is demonstrated in Table 3:

TABLE 3. Vietnamese economy fact sheet 2012 (CIA World Fact Book 2013)

<b>Vietnamese Economy Fact Sheet (2012)</b>	
GDP (2012)	US \$137.7 billion
Real growth rate (2012)	5.1%
GDP-per capita (PPP) (2012)	US \$3,500
Inflation rate (2012)	9.2%
Unemployment rate (2012)	4.3%
Currency	Vietnam Dong (VND)
Exchange rate VND/US\$	20,858.30

### **GDP and the economic growth rate**

Vietnam has been one of the fastest growing economies in the world for the past 20 years, expanding at an average of about 7.2% per year during the period from 2001-2010. With the Government's effort to curb high inflation, the GDP has decreased from 5.9% in 2011 to 5.1% in 2012, as can be seen in Table 3 (CIA World Factbook 2013). However, amid the global economic recession, Vietnam has managed to maintain a steady economic growth rate. The World Bank predicted that Vietnam would achieve a GDP of 7% in 2013 (Greenwood 2011).

### **Currency and inflation**

All monetary policies are managed by the State Bank of Vietnam (SBV). Rapid economic growth has led Vietnam to suffer one of the highest inflation rates in the world, 9.2% in 2012 (shown in Table 3). This rate, however, shows a significant improvement, compared to 18.7% in 2011 (CIA World Factbook 2013). The SBV stated that reducing the inflation rate to 9% while aiming for an economic growth rate of 6% would be its priority in 2012 (Thanh Nien 2011). This was not an easy task, especially under the circumstances of the world's economic downturn. Nonetheless, the SBV has succeeded somewhat in tackling this issue by a number

of measures, aimed at stabilizing domestic prices. For example, the SBV has increased the interest rate to 15% and tightened lending policies to individuals and businesses (Bloomberg News 2011). This means that obtaining financing in Vietnam might become one of the hardest obstacles for foreign investors.

Similar to inflation, currency depreciation is one of the toughest issues facing the Vietnamese economy at the moment. The devaluation of the Vietnam dong against the U.S. dollar has been recorded at the lowest level since 1993, by about 7% (Bloomberg News 2011). At the beginning of 2011, the SBV depreciated the VND against the U.S. dollar by 9.3% in order to ease pressure on the foreign exchange market and control the trade deficits (Vietnam News 2011). According to the SBV, its decision to devalue the VND against the U.S. dollar is a necessity. This will bring the foreign exchange rate closer to the market. However, a weak Dong has serious repercussions for the real estate market because most real estate transactions are quoted and concluded in U.S. dollar. If the supply of dollars dries up, the real estate market could grind to a halt. Many real estate developers set up their prices in U.S. dollar to ensure their profits are not affected by the exchange rate. However, under the Ordinance on Foreign Exchange Management, all transactions done in Vietnam must be in VND. (Global Property Guide 2011.)

### **Foreign investment**

There are two crucial sources of foreign investment in Vietnam: FDI and ODA (Official Development Assistance). According to the Deputy Minister of Planning and Investment (cited by Business Times 2012), nearly 13,670 valid FDI projects operated in Vietnam in 2011 with a total registered capital of \$198 billion USD. For the last five years, FDI inflows have shifted to export-oriented and labor intensive industries and the real estate sector (Ketels et al. 2010, 45). Among these sectors, the real estate sector is still a leader with a major share of the capital flowing into the country. Analysts have predicted that the real estate sector should anticipate a new wave of FDI capital flow since the Vietnamese commercial real estate market has shown all favorable conditions for foreign investors to earn money. A number of projects have been delayed or abandoned due to the lack of capital, triggered by the SBV's tightened lending policies (VietnamNet 2012).

This represents a golden opportunity for foreign investors to buy back these projects at low prices and establish their presence in the country.

Over \$12 billion from ODA has been committed to Vietnam, primarily for poverty reduction and infrastructure development. ODA funding will still be provided for Vietnam to help implement socio-economic development projects, especially infrastructure and energy projects.

### **Unemployment rate**

Vietnam's unemployment rate has increased slightly from 3.6% in 2011 to 4.3% in 2012 (CIA World Fact Book 2013). This rate, however, was lower than that of many European countries. For example, the lowest unemployment rates among the EU countries were recorded in Austria (4.5%), Luxembourg (5.1%), Germany (5.4%), and the Netherlands (5.6%) (Eurostat 2012). The unemployment rate in the urban areas of Vietnam was considerably higher than that in the rural areas; 4.43% and 2.27% respectively.

#### 3.1.3 Socio-Cultural factors

Vietnam's entrepreneurial culture, young population, and rising income form a very attractive customer base and the country's high literacy rate and strong work ethic create a high quality work force.

### **Demographic factors**

Demographic data are significant factors that affect how real estate is priced and what types of properties are in demand. A major shift in the demographics of a nation can have a large impact on real estate trends for several decades.

Vietnam is a highly populated country with over 91 million people (ranks 13<sup>th</sup> in the world's most populated countries) with an average age of 28 (CIA World Factbook 2013). For a country of over 91 million people, the age structure of Vietnam's population is a perfect pyramid with approximately 80% of the population under the age of 40 and 72% of this majority under the age of 24. The generation lost in the war has resulted in a thin layer of citizens over the age of 60,

which represents only 8% of Vietnam's total population (CIA World Factbook 2013). Compared to other Asian nations, Vietnam enjoys the youngest demographic profile in contrast with the "middle-age" population of China and the aging population of Japan. The United Nations Population Fund (UNFPA) described this as a "demographic dividend", which means there are two or more persons of working age (15-60) for every person of dependent age (under 15 or 60 and over 60). The demographic dividend is an important factor that boosts Vietnam's economic growth rate. This bonus presents a golden opportunity for foreign investors, as they will benefit from the abundance of young labor workers and a rising demand for rental apartments, office buildings, and retail properties.

### **Level of education**

The Government has made tremendous efforts to improve the country's educational system. Vietnam has a widespread system of schools, colleges, and universities that are both publicly and privately owned. The official language of Vietnam is Vietnamese. However, English is taught as the language of business which has facilitated the communication between Vietnamese entrepreneurs and foreign investors.

Vietnam has a high literacy rate; 94% of the population can read and write (CIA World Fact book 2013). For the past few years, Vietnamese students have rapidly embraced a number of educational opportunities. For example, Vietnam has become one of the 10 nations with the largest student populations studying in the U.S.

However, many international investors cite that a shortage of skilled workers and managers is still a major barrier to expansion (Ketels et al. 2010, 82). This is caused by the mismatch of formal education and training to labor market requirements and inadequate focus on vocational training.

### **Urbanization and the real estate sector**

There is a huge demand for quality retail properties resulting from projected higher personal spending by the rapidly growing population, especially in urban areas of Vietnam. According to Dr. Do Tu Lan (2011), Deputy General Director

of the Urban Development Agency, the urban population increased from 18.3 to 26 million during the period from 1999 - 2010 with a growth rate of 3.4%. The rate of urbanization was 30.5% in 2010, increased from 20.7% in 1999. The reason for this trend is that most Vietnamese people want to live in big cities such as Hanoi, Ho Chi Minh City, and Danang due to the high employment opportunities offered by a large number of both local and foreign companies. Vietnam's urbanization trend has led to a shortage of supply in retail and rental apartment segments versus the high demand from an increasing number of households in the urban areas. This trend presents a great opportunity for foreign investors to penetrate the Vietnamese commercial real estate market, especially in rental apartments and retail segments as this urbanization is predicted to persist in the future.

### **Buying behavior**

Overall, the housing prices in Vietnam are very high compared with residents' incomes. Due to this, when the housing markets were stagnant, many Vietnamese people tried to manage credit to be able to own a house. A new niche market has been born from Vietnamese people's buying behavior, known as the low-income housing market. This market has been increasingly supported by the Deputy Minister of Construction in order to reduce the gap between demand and supply. This means that foreign investors have an option to penetrate the Vietnamese real estate market by simply creating a joint venture with local companies to support the low-income housing market.

There is also a change in the buying behavior of the Vietnamese people in the real estate sector. Before, even low-income Vietnamese people preferred to purchase a house and did not like renting houses. However, there has been changing behavior by the Vietnamese people toward renting rather than owning a house.

#### 3.1.4 Technological factors

### **Information technology in the real estate sector**

Information technology has a vital role in reshaping the real estate sector, especially the commercial real estate market in Vietnam. The introduction and

adoption of communication and information technology have provided property investors with access to data such as listings, fees, rates, and demographics that were previously available only to real estate brokers. There have been a number of technological innovations in the real estate industry in Vietnam, including the use of virtual tours of commercial properties and neighborhoods, online bidding, and online transactions between sellers and buyers.

Vietnam adopted the first Internet service in 1997, which was relatively late compared to other peer countries in the region (Ketels et al. 2010, 78). Since then, Internet use has expanded rapidly. In 2006, the government announced its plans to achieve the Internet penetration rate of 35% in 2010 (Ketels et al. 2010, 78). According to the Internet World Stats, the Internet penetration rate for Vietnam is about 33.7% (illustrated in Figure 11). Although this number is lower than the government's target, there has been a significant increase in the Internet penetration rate in Vietnam, as in 2009, the rate was only 25%.

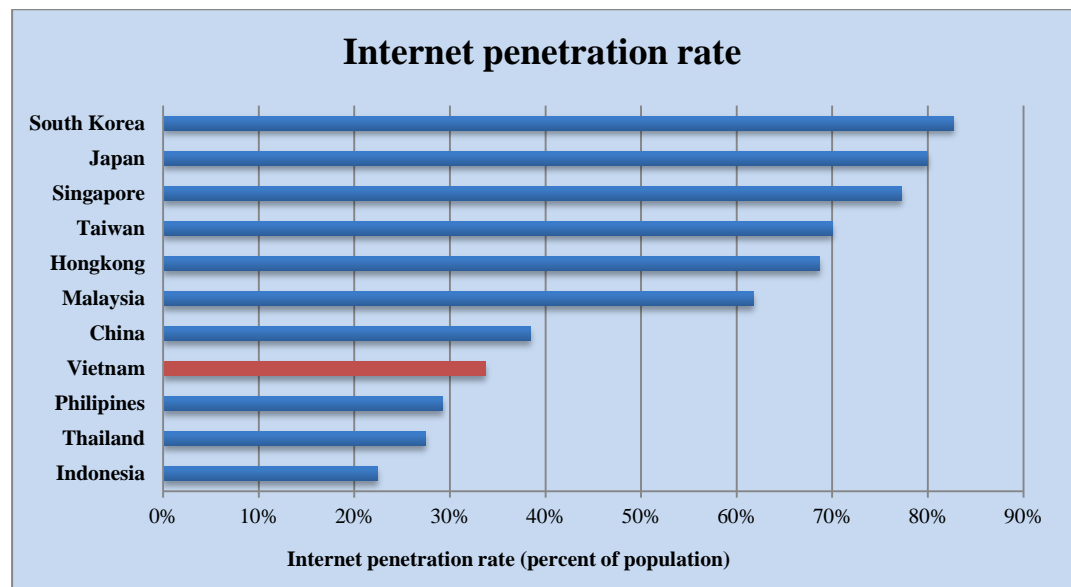


FIGURE 11. Internet penetration rates for Vietnam and comparison countries 2011 (Internet World Stats 2012)

Figure 11 shows three levels of Internet penetration in selected countries in Asia. The top six countries show penetration rates between 62 and 83 percent. Vietnam

belongs to the second group with rates between 27 and 39 percent, including China, Philippines, and Thailand. Indonesia lags behind other countries with a rate of about 22%.

### **Real estate trading center**

Information is the key to any real estate transaction. Flexible access to information depends on the rate of information technology growth in the country. Three real estate trading centers have opened to the public in Vietnam, including: the Hanoi real estate trading center, the Ho Chi Minh real estate trading center, and the Danang real estate trading center. These real estate trading centers provide public real estate information to people and consulting service companies and allow them to list real estate products (The Voice of Vietnam 2006). Foreign investors can seek free information about real estate regulations and purchase different services from these centers such as: buying, selling, and mortgaging of properties. Information about real estate projects, prices, plans, and policies can also be accessed at one of the above mentioned trading centers.

#### 3.1.5 Legal factors

There are various laws, regulations, and decrees regulating investment activities in Vietnam. In this thesis, the author will mainly provide the laws closely related to real estate investment and some legislation relating to doing business in Vietnam. The major laws considered in this thesis include:

- Law on Investment
- Law on Real Estate Business

The National Assembly of Vietnam adopted the Law on Investment No 59/2005/QH11 and Law on Enterprises No. 60/2005/QH11 in accordance with the WTO to ensure all enterprises (both foreign and domestic) in the economy, regardless of business type, are treated equally by the law.



## **Law on Investment**

Law on Investment was created with the purpose of regulating investment activities. Foreign investors can invest directly in Vietnam in the following forms:

- Joint Venture Enterprise (JV)
- 100% Foreign Owned Enterprise (FOE)
- Business Cooperation Contract (BCC)

There are limits on the percentage of ownership which a foreign firm may hold in a joint venture. All foreign investors are favorably guaranteed a number of aspects of assets and capitals, intellectual property rights, trade, and transfer of capital and assets abroad (Vien 2010).

Investors can also enjoy investment incentives by investing in some special sectors and geographical areas:

- Investment incentives are applied in the following sectors: Processing, agriculture, forestry, and aquaculture products. The sectors that use high technology and large work forces are also entitled to investment incentives.
- Geographical areas of investment incentives are categorized into: (1) Areas with extremely difficult socio-economic conditions, (2) areas with difficult socio-economic conditions, (3) industrial zones, export processing zones, high-tech, and economic zones.

## **Law on Real Estate Business**

Under the Law on Real Estate Business which came into effect on 1 January, 2007, a foreign incorporated company can set up a business in Vietnam to carry out the following investment activities:

- Investing to build houses and construction works for sale or for lease;
- Investing in development projects on leased land to develop infrastructure for sale or lease;

- Providing real estate services (including brokerage services, evaluation services, consultancy services, management services, transaction floor services, advertisement services, and auction services). (Ha 2011.)

Foreign investors are not allowed to engage in some real estate activities such as:

- 1) Buying houses and construction works for sale, lease or hire purchase
- 2) Subleasing houses and construction works

As a result of this law, foreign investors can only invest in Vietnam as real estate developers and/or real estate service providers. However, it is believed that Vietnam will relax the above restrictions in compliance with international economic integration and in order to encourage more investment in the real estate sector.

### **Land for real estate projects by foreign investors**

Foreign Invested Enterprises (FIEs) needing land for real estate development projects can choose one of the following options:

- Lease land from the Government;
- Lease land from the land users who are permitted under the law to lease land to foreigners to develop real estate projects;
- Form a joint venture with a Vietnamese entity that has LURs (Land Use Rights) and is allowed to use LURs for a joint venture company.

Foreign investors are recommended to lease land from the Government rather than from land users because when the Government leases a specific parcel of land to a developer for a particular project, it means the project is in line with the zoning plan of the area. With residential housing projects, FIEs that are licensed to do business in Vietnam can participate in a bid for LURs in order to carry out specific projects that call for investment from the Government. (Ha 2011.)

It is also important to note that FIEs that lease land from the Government to develop real estate projects are required to pay a lump sum upfront for the entire lease term if they want to build houses for sale. FIEs that pay the land rents annually can only build houses for lease.

**Land Use Rights (LURs)**

LURs that are issued to foreign investors (developers of real estate projects) are in line with the duration of their investment projects. Once the projects end, so do the LURs. After the term of the investment projects (50 years or an exception of 70 years), foreign investors must hand over the houses for rent or any unsold houses to the Government in order for them to convert to Government ownership. This can have an impact on real estate businesses operated by foreigners. However, there are opportunities for foreign investors to extend their investment certificates. (Vietnamese Embassy in the U.S. 2012.)

**The administrative systems**

Vietnam’s priorities are to complete the legal framework for protection of property rights, to improve the business environment, and to reform the administrative systems (Ketels et al. 2010, 66). Since 2002, many legal documents have been issued and implemented with efforts to improve the country’s investment climate. However, like many other emerging countries, Vietnam’s transparency of regulations and corruption remain big obstacles to foreign investors.

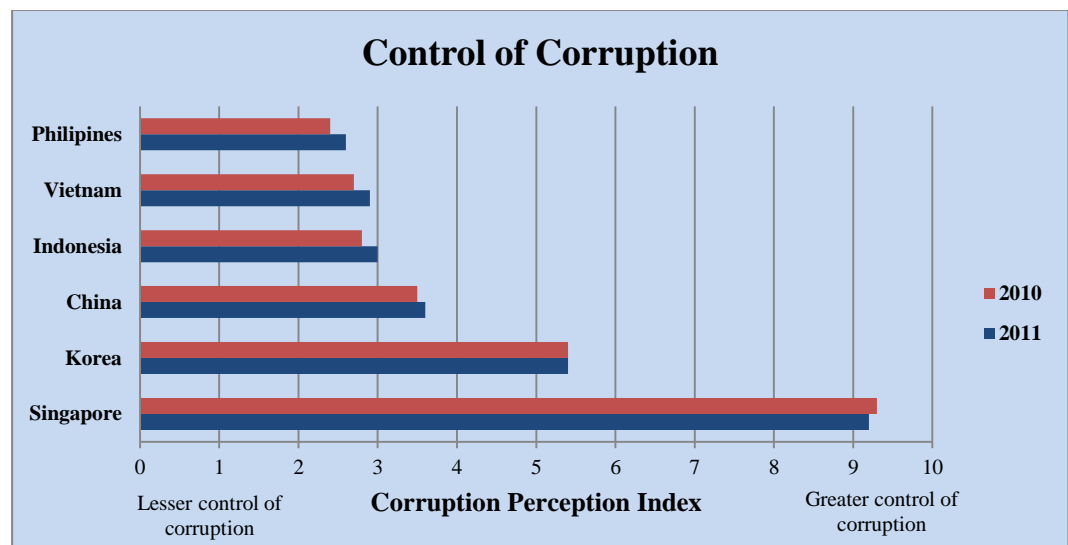


FIGURE 12. Control of corruption-Vietnam and comparison countries, 2010 and 2011 (Source: Transparency International’s (TI’s) Corruption Perception Index 2012)

According to Transparency International's (TI) Corruption Perception Index, in 2011, Vietnam's absolute score is low (2.9 out of 10 points). However, Vietnam has seen a slight improvement in its score (from 2.7 in 2010 to 2.9 in 2011 as illustrated in Figure 12 above). This shows that the Government's efforts to tackle the corruption issues in the country have succeeded somewhat since Vietnam's score had remained unchanged for the previous three years at 2.7. This score, on the other hand, compared to other peer countries in the region, still lags behind (except for Philippines).

Overall, Vietnam's administrative infrastructure has a modest performance, as shown in Figure 13 below.

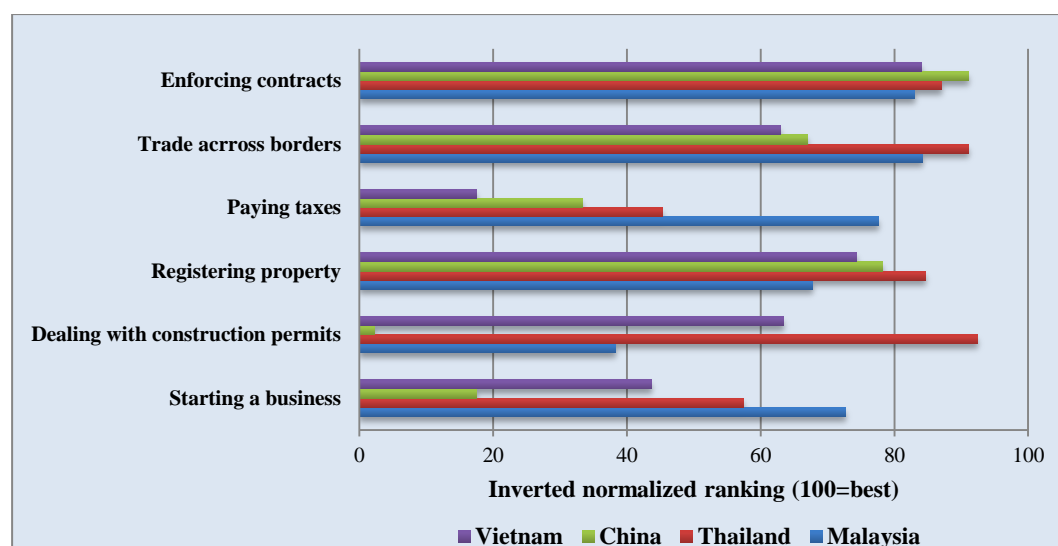


FIGURE 13. Selected doing business indicators for Vietnam and comparison countries, 2011 (Source: World Bank/IFC, Doing Business 2012)

The Doing Business rankings of the World Bank and IFC provide the performance of a country's doing business indicators. Six indicators are referred to as administrative efficiency, out of ten mentioned indicators in the World Bank's report. Figure 13 presents the performance of Vietnam compared to that of three other countries including China, Thailand, and Malaysia. Overall, Vietnam is doing better than China, especially on construction permits. However, Vietnam still lags behind Malaysia and Thailand on all indicators.

Administrative procedures are still a great burden for businesses, especially paying taxes and closing a business. However, the Government has made some improvements in a move to make domestic regulations more business-friendly.

- Starting a business: Vietnam has made it easier to start a business in the country by implementing an efficient one-stop shop. The one-stop shop combines business registration and tax registration processes to obtain business and tax licenses. Furthermore, Vietnam has also eased company start up by eliminating the need for a seal for company licensing.
- Dealing with construction permits: Vietnam has implemented a 50% cost reduction for newly completed buildings' registration and transferred the authority to register buildings from local authorities to the Department of National Resources and Environment. (World Bank's Business Environment Snapshot for Vietnam 2011.)

### **Foreign investment incentives**

Foreign investors doing business in Vietnam can enjoy various investment incentives. Firstly, there is a special incentive CIT rate of 10% for a period of 15 years (calculated from the first year in which the enterprise has turnover) for newly established enterprises in the high tech, scientific research, and technological development sectors, investment in the development of especially important infrastructure facilities for the State, and the production of software products. Furthermore, newly established businesses operating in the sectors of education and training, occupational training, healthcare, culture, sports, and the environment are exempted from corporate income tax for a maximum period of four years and also enjoy the CIT rate of 10%. (Dawson 2011; Mayer Brown JSM 2011.)

Secondly, the newly established enterprises from investment projects in areas with difficult socio economic conditions will be exempted from corporate income tax for a maximum period of two years, and shall be entitled to a 50% reduction in the amount of corporate income tax payable for a minimum period of four subsequent years from the first year in which the enterprise has taxable income. (Dawson 2011.)

Thirdly, the normal corporate income tax (CIT) rate is 25%. However, the preferential rates of 10%, 15%, and 20% apply to investment projects which satisfy certain conditions, such as investment in certain fields of business and/or encouraged geographical locations. (Mayer Brown JSM 2011.)

Finally, there is an import duty exemption on equipment, machinery, and specialized vehicles imported for creating assets of the project, and fuel, raw material, and supplies imported for implementing the project. Additionally, protected industrial property rights, technical know-how, processes, and services required to implement the investment project will be exempt from taxes relating to technology transfer or income derived from royalties. (Dawson 2011.)

### **Intellectual and industrial property**

Vietnam has a well-organized national trademark and protection regime. It is important that foreign investors register their trademarks in Vietnam to receive protection. Intellectual and industrial property rights are administered by the National Office of Industrial Property (NOIP). Vietnam is also a part of the International Paris Convention for the Protection of Industrial Property and the Madrid Agreement Concerning the International Registration of Marks. (Mayer Brown JSM 2011.)

#### 3.1.6 Environmental factors

Environment and real estate are closely related to each other. Before any real estate activities can be implemented, it is mandatory that real estate firms or investors conduct environmental assessment such as site surveys and submit environmental reports to the designated authorities. Therefore, it is necessary for foreign investors to take into consideration the current environmental issues in their target country.

One of the environmental issues currently facing Vietnam is the degrading environment. This is caused by the growing urban industrialization and population immigration into big cities, especially in Hanoi and Ho Chi Minh City. Urban pollution due to inadequate domestic, industrial and solid waste treatment and disposal has become one of the biggest concerns of the Government. Along with

problems with waste treatment, big cities like Hanoi and Ho Chi Minh City also face degradation of soil and ground water contamination. A number of laws have been issued to protect the environment during the development of the real estate industry, including:

- An environmental protection law (December 1993) with decree No. 175/CP which provides broad guidance for implementation of investment projects related to real estate environmental assessment, institutional responsibilities, environmental standards and inspections.
- Circular No 1100/TT-MTg (August 1997) from the Ministry of Science, Technology and Environment on guidance of planning and assessment of environmental impact reports for investment projects.

The second environmental issue facing Vietnam is the deforestation caused by using agricultural land to construct commercial properties such as shopping centers, offices, and resorts. For example, recent construction of golf courses has been blamed for encroaching on rice fields and creating not only social but environmental problems, such as contamination of ground water resources due to the use of fertilizers and pesticides (VietnamNet 2012). This has led to the decision by the Government to stop the development of these golf courses. The lesson learned from this example is that it is extremely important to analyze the environmental factors related to real estate investment projects in the target country in order to avoid revocation of licenses or delay of foreign-invested projects.

### 3.2 Porter's Five Forces: Micro environment analysis of the Vietnamese commercial real estate industry

This subchapter uses Porter's five forces model to describe the structure of the Vietnamese commercial real estate market with a focus on retail and office segments. The commercial real estate market in Vietnam saw three major events when the property price was at its peak. The first was in 1993-1995, with the introduction of the Land Law which approved public land trade. It was also a time which saw a significant foreign capital inflow into Vietnam, creating strong demand for business offices and retail segments. The second property price shock

happened in 2001-2002, when the VN-U.S. Bilateral Trade Agreement was signed. This event opened up another huge capital flow from foreign institutions and individual investors into the country, marked by the activation of the Land Law, effective 1 July 2004. Last but not least, the third event in the commercial real estate market was when Vietnam joined the WTO in 2007. This event has raised many foreign investors' interest in the commercial real estate market of Vietnam. (Nguyen 2012.)

The downturn of the commercial real estate market in Vietnam started in 2008, first with the tight credit policy made by the Vietnamese government. Local players in the real estate market who highly depend on domestic bank financing are significantly affected by this policy. Local developers also face difficulties in getting bank loans to finance their development projects. This situation, on the other hand, benefits foreign investors because they can enter Vietnam by establishing joint ventures in a stronger position with these local partners who have been resistant to their approach before.

### 3.2.1 Threat of new entrants

Threat of new entrants in the market depends on barriers to entry, such as capital required to enter the market and government policy. Potential entry by new firms adds constraints to the market power of the current industry participants. Unlike other industries, different types of business entities are able to invest in the commercial real estate market. In the retail segments, world famous retailers such as Lotte (Korea) and Parkson (Malaysia) have already opened shopping centers in Hanoi and Ho Chi Minh City, while others like Central (Thailand), Carrefour (France), Takashimiya (Japan), and Wal-Mart (U.S.) are reviewing the market for a near future entrance (Jehan and Luong 2008). Investors were keen on buying projects that were licensed and under construction instead of leasing land and developing it. The barrier to enter the commercial real estate market in Vietnam is medium since investors or firms need to raise large funds in order to purchase real estate projects. The critical hurdle is that there are no Real Estate Investment Trusts (REITS) in Vietnam. As a result, it can be difficult for real estate firms to borrow money locally and investors may be forced to mobilize new sources of



financing. Another issue is that the Government is at a very different stage of development compared to those of advanced economies. Both Vietnam's legal system and regulatory system are fast developing but still remain feeble by international standards. This lowers the threat of entry due to uncertainties in the legal frameworks.

The main competitors in the commercial real estate market are big international real estate firms and retail players. Some of them are named in Table 4 below:

TABLE 4. Competition in the Vietnamese commercial real estate market

<b>Competition</b>		
<b>ASIA</b>	<b>EUROPE</b>	<b>AMERICA</b>
Tokyu Corp	Protego	GS Group
Keppel Land	Carrefour	Riviera Group
Vina Capital		Wal-Mart

While Vietnamese developers are faced with many difficulties with funds, foreign investors, especially Asian investors, have found potential opportunities in the Vietnamese commercial real estate market. There has been a strong flow of investment into the Vietnamese commercial real estate market from Asian countries, including: Singapore, Japan, Malaysia, and South Korea. Singapore, South Korea, and Malaysia used to be the most visible property investors in Hanoi and Ho Chi Minh City. However, that is changing now as Japanese investors are starting to enter the Vietnamese commercial real estate market. (Finkestein 2012.)

**Singapore:** Singapore is a country that has a strong investment in the Vietnamese commercial real estate market, especially in the office and retail segments. For the

past two years, many Singaporean investors in Vietnam have proven the market to be profitable, including: Capital Land, Keppel Land, and Amara Holdings. Keppel Land Group alone has poured over three billion USD into 16 real estate projects in the country, with some that are large scale, including the Saigon Center project consisting of international class offices, apartments, a hotel and a shopping center. (The Voice of Vietnam 2008.)

**Japan:** Japanese investors have had a strong connection to Vietnam through financial and communication markets for the past few years. Now they have started pouring money into the Vietnamese commercial real estate market. One of the biggest Japanese investors in the Vietnamese commercial real estate market is Tama Global Investment Pte. This company, under Japan's Tama Home Group, entered the Vietnamese market by buying a 20% stake in Cotec Real Estate Development and Investment Joint Stock Co. (Cotecland), a subsidiary of Cotec Group in Vietnam (Finkestein 2012).

**Korea:** There were 61 Korean investment projects reported in 2011 in the Vietnamese real estate market with total registered capital of more than 6.1 billion USD, accounting for 26.5% of the total number of Korean projects in Vietnam (VNRE 2011). According to the general director of Inpyung Company, one of the biggest Korean real estate companies currently operating in Vietnam, the Vietnamese commercial real estate market has huge potential for investors who wish to commit to a long-term investment and have patience.

**Malaysia:** Malaysian investors have been the most positive Asian investors in the Vietnamese commercial real estate market. There have been a number of registered projects in deployment status invested in by Malaysian companies. SP Setia, one of the most famous real estate investment companies in Malaysia, is currently the most active Malaysian commercial real estate investor in Vietnam. (Vietnam Economic News 2012.)

Doing business in Vietnam is no simple matter. Many foreign investors state that the Vietnamese commercial real estate market presents the next big investment opportunity for them to earn profit. However, due to constraints in the legal system and the burden of administrative procedures, they are still hesitant to

invest in Vietnam. Some had already established their presence in the country but had to withdraw because of the high fluctuation in the commercial real estate market. Therefore, it can be said that the threat of entry into the Vietnamese commercial real estate market is medium.

### 3.2.2 Rivalry among existing firms

According to Porter (1998, 17-22), industry competition intensity is determined by several factors, including: number of competitors, rate of industry growth, height of exit barriers, and diversity of rivals. Foreign firms investing in the commercial real estate market in Vietnam have to compete with both domestic real estate firms and foreign real estate investors.

On the one hand, one of the characteristics of the Vietnamese commercial real estate market is that there is more coordination than competition between existing firms. For example, firms will divide portions of a large project between several companies to spread the role of development and defray the infrastructure costs. From a traditional view, lack of competition indicates an inefficient market. However, from firms' perspectives, market entry is more open, especially when the cooperation between firms is sustained by the increasing demand and availability of developable land. This phenomenon is referred to as the market of interfirm networking and close government-business relations (Czinkota et al. 2010, 367).

On the other hand, there is rising competition between firms in the market. For example, in the retail segment, there is fierce competition as the participants in the market are meeting the rising demand for high-end shopping centers. Traditional Vietnamese shop houses are gradually replaced by or renovated to become department stores and shopping centers. Market competition is set to increase with the potential arrival of large foreign retailers and the growth of domestic competition. In the office segment, Grade A office buildings are in high demand. This demand is gradually met by the transition of Grade A office building development from Grade B by a number of domestic and foreign real estate firms.

Another unique characteristic of the commercial real estate market is that different types of business entities from different sectors are able to collaborate and invest in real estate projects. This dynamic increases the intensity of competition since the diversity of players increases, including: real estate development companies, retail companies, property management companies, and real estate service companies.

### **Domestic investors**

The commercial real estate market in Vietnam used to be dominated by domestic investors. Several office and shopping center projects have been invested in by giants such as Vincom JSC, Bitexco, Lilama Land, Phat Dat Real Estate Development Cooperation, and Van Phu Invest JSC. These domestic real estate companies keep the market active and attract the participation of foreign investors.

**Lilama Land:** Lilama Land Group is currently the biggest domestically invested company in the Vietnamese commercial real estate market. It was established by Lilama Company and Hanoi Land Group in 2007, with the initial capital of 1000 billion USD (Viet Bao 2007). Lilama Land commits to develop a number of large-scale projects, including: upscale shopping centers, high-end rental office buildings, hotels, and resorts. The advantage of this company is that it can utilize the land and projects developed by Hanoi Land.

**Vincom JSC:** Vincom Joint Stock Company was formerly known as Vietnam General Joint Stock Company. The company was founded in 2002 and is headquartered in Hanoi, Vietnam. Through its subsidiaries, the company mainly engages in real estate business. It constructs and provides retail outlets and commercial offices for lease. Vincom JSC is also involved in trading real estate properties and construction of national infrastructure projects. The company owns a wide range of large-scale real estate projects at prime locations in Vietnam including: Vincom Center in Hanoi and Ho Chi Minh City, Vincom Mega Malls-Times City, and Vincom Mega Malls-Royal City. (EMIS 2012.)

**Bitexco Group:** Bitexco Group was founded in 1985 and is one of the most successful multi-industry corporations in Vietnam. From 2000, the company has

developed various high-profile projects in Hanoi and Ho Chi Minh City. Examples in Hanoi are the Garden Shopping Center while in Ho Chi Minh City, there are the Bitexco Office Building and the Bitexco Financial Tower. Bitexco's reputation in Vietnam is for its high level of expertise in real estate investment and its sustainable development. (Bitexco Group 2012.)

**Phat Dat Real Estate Cooperation:** Phat Dat REC was established in 2004 and has become one of the leading investment companies in Vietnam. The company has developed and invested in many real estate projects in major cities such as Hanoi and Ho Chi Minh City. One of its well-known projects is “EverRich”- a high-rise commercial and apartment building in Ho Chi Minh City with a capital investment of over 11,000 billion VND. (Phat Dat 2012.)

### **Foreign investors**

While many Vietnamese real estate companies are distressed by the frozen commercial real estate market, many foreign investors are still confident to heavily invest in Vietnam. They generally view Vietnam's ballooning population, low labor costs, stable economic growth, and rising income per capita as an attractive market with unlimited potential growth. Vina Capital and Indochina Capital are currently the biggest foreign investors in Vietnam's commercial real estate market.

**Vina Capital Group:** Vina Capital was founded in 2003 and is one of the largest foreign investors in Vietnam's commercial real estate market with a diversified portfolio of two billion USD in assets under management. Vina Land Limited (“VNL”) commits to invest in key growth segments within Vietnam, including office, retail, and rental apartment segments. (Vina Capital 2012.)

**Indochina Capital Group:** Indochina Land Group's real estate division is Vietnam's premier real estate development and fund management firm. It develops and finances real estate projects, covering a full range of property types including mix-use commercial (retail and office) developments. In 2009, it was recognized by Euromoney magazine's annual real estate poll as “Best Real Estate Developer in Vietnam” and one of the Top 10 in Asia. One of the most significant commercial projects launched by Indochina Land in Vietnam is the Indochina

Plaza Hanoi- a three-tower residential, retail, and office complex. (Indochina Capital 2012.)

### 3.2.3 Threat of substitute products or services

According to Porter (1988), all firms in an industry are competing, in a broad sense, with industries producing substitute products. As an investment asset, commercial real estate competes with other investment instruments which generate a return for investors.

Residential real estate is considered a substitute investment for commercial real estate because of some fundamental similarities. Firstly, residential real estate and commercial real estate are substantial portions of the total investable universe. Secondly, both are real and tangible assets, thus, highly collateralizable. Thirdly, the residential real estate market and the commercial real estate market are both large and well developed. Therefore, they can be effective tools to hedge against inflation. Last but not least, privately traded commercial real estate and residential homes have low return volatilities compared with stocks and bonds. (Kapas et al. 2006, 2.)

The residential real estate market in Vietnam is one of the key growth markets where foreign investors see major potential investment opportunities. Due to a rapidly expanding urban middle class, demand for housing, especially suburban and modern housing has increased strongly. Vietnam's favorable population demographic with over 91 million people, most of whom live in the countryside, presents opportunities for more urban housing development. The market is relatively untapped with demand higher than supply. As the Vietnamese people's purchasing power rises, they are seeking better quality products such as second and luxury homes (Nu Wire Investors 2012). These segments are growing exponentially.

As mentioned in the legal aspect in Chapter 2, foreign individuals and organizations investing in development projects in the Vietnamese real estate market are issued ownership certificates for the duration of their investments. In the residential real estate market, foreign organizations investing in development

projects for sale such as residential properties, must transfer the ownership rights for all unsold properties to the State upon expiration of the investment certificates. This can be a big disadvantage to foreign firms investing in the residential real estate market in Vietnam since they lose all their investment in the projects.

Another factor which affects foreign investors in the Vietnamese residential real estate market is Vietnam's sky high lending rates. The residential real estate market has become sluggish because homebuyers cannot afford getting a loan which leads to difficulties in selling houses. Therefore, foreign investors seem to be more interested in the commercial real estate market because commercial properties can help them diversify risk with much higher cash flow.

The threat of substitutes is relatively low in the short term. In the long term, some other alternative investment instruments might pose a threat to the commercial real estate market. Other markets such as the stock market, the bond market, and the high tech market have gradually become more attractive to foreign investors. However, as the commercial real estate market still attracts a major share of foreign investment into the country, there is a growing market for commercial properties.

#### 3.2.4 Bargaining power of buyers

There are two types of buyers in the commercial real estate market, especially the office and retail segment: buyers and lessors or tenants. Each type of buyers has their own bargaining power in the market.

##### **Buyers**

There are three different groups of buyers. The first group includes the long term investors, who previously did business in other fields but now want to jump into the commercial real estate market when they see the commercial real estate projects' prices are getting attractive. The second group of buyers includes the enterprises which have to lease business premises for their head offices and storehouses, and now want to own land to develop properties on their own. The last group are the real estate investors, who luckily sold out their products in 2009-2010 at the very beginning of the commercial real estate market crisis, and

now return to the market to seek investment opportunities. (Business Times 2012.)

### **Lessors or tenants**

The commercial real estate market consists of a wide range of tenants. In the office and retail segments, there are three groups of tenants. The first group of tenants is the enterprises who need to lease business premises for their office space. The second group is the retailers who lease land to construct their own retail stores or who lease premises in the shopping centers or strip malls to open retail businesses. The last group is any individual who leases commercial premises to open a retail business.

The commercial real estate market in Vietnam can be considered an untapped market with demand outstripping supply. Therefore, the bargaining power of buyers in this market is rather weak. There is a limited supply of Grade A office buildings in both Hanoi and Ho Chi Minh City and there is a shortage of Grade C offices in Hanoi (Nguyen 2011). In the retail segment, the demand of consumers rises tremendously as the purchase power of consumers increases. This leads to higher prices in purchasing or leasing properties in both segments.

#### **3.2.5 Bargaining power of suppliers**

Suppliers in the commercial real estate market are considered sellers. The supply of commercial properties, especially office buildings and retail properties relies on two groups of suppliers: developers and renovators. Developers are people who purchase land and construct their own development projects for sale or lease. Renovators normally buy existing properties for the purpose of renovating these properties for sale or for lease.

Suppliers have a strong position in the commercial real estate market in Vietnam, especially when the demand in the market far outstrips supply. For example, in the office segment, despite the global economic crisis and the domestic macro economic uncertainties, the number of newly established organizations continues to increase (Nguyen 2011). These organizations increase the demand for new



office buildings with international standards. Even though office space rent slightly decreased, the demand still remains strong.

TABLE 5. Total supply of offices in Hanoi and HCM City in 2011 (Nguyen 2011)

	<b>Grade A</b>	<b>Grade B</b>	<b>Grade C</b>	<b>Total (SqM)</b>
Hanoi	170,000	400,000	210,000	780,000
HCM City	305,000	690,000	750,000	1,745,000

TABLE 6. Rent and vacancy rates of offices in Hanoi and HCM City in 2011 (Nguyen 2011)

	<b>Grade A</b>	<b>Grade B</b>	<b>Grade C</b>	<b>Total (SqM)</b>
Hanoi	\$38/10%	\$25/18%	\$15/10%	\$26/13%
HCM City	\$35/25%	\$20/15%	\$15/11%	\$20/17%

Table 5 and Table 6 show the supply, rent, and vacancy rates for office buildings in Hanoi and Ho Chi Minh City. It can be seen from these two tables that there was a shortage of Grade A office buildings in both cities in 2011 and the vacancy rate of Grade A, for example, was significantly low in Hanoi. In contrast, Grade A office buildings in Ho Chi Minh City showed higher vacancy rate than that of Grade B and C. Most of the office space demand has been filled with the supply of Grade B and Grade C offices with lower rental rates compared to Grade A. This means that there are rooms for more investment in Grade A office buildings with international standards in both Hanoi and Ho Chi Minh City.

The retail segment of the commercial real estate market in Vietnam is also experiencing a surge in activity. Even though shop houses are still popular among Vietnamese people, the market has become more familiar with shopping centers.

With continued growth in demand for large residential development, shopping centers will become a more prevalent retail format in the near future. Furthermore, domestic and international retailers are expected to increase demand for new retail spaces as they continue their aggressive expansion plans. (Nguyen 2011.)

TABLE 7. Total supply of retail spaces in Hanoi and HCM City in 2011 (Nguyen 2011)

	<b>Department Store</b>	<b>Shopping Centers</b>	<b>Total (SqM)</b>
Hanoi	20,000	100,000	120,000
HCM City	120,000	240,000	360,000

TABLE 8. Rent and vacancy rates of retail spaces in Hanoi and HCM City in 2011 (Nguyen 2011)

	<b>Department Store</b>	<b>Shopping Centers</b>	<b>Total (SqM)</b>
Hanoi	\$45/5%	\$30/10%	\$37/12.5%
HCM City	\$45/3%	\$35/8%	\$40/5.5%

Retail is probably one of the most underserved segments, due to a very low supply of modern shopping spaces, as shown in Table 7. Of the current supply of shopping centers in the market in Hanoi and Ho Chi Minh City, 90% - 92% were occupied with the rent relatively low compared to that of department stores, as illustrated in Table 8.

Even though analysis of suppliers indicates that suppliers have a strong position in the commercial real estate market, their bargaining power is weak since the price of properties for sale or for lease fluctuates depending on the supply and demand

of the market. Suppliers have no control over or power to set the price for the market except speculation in the market.

### **Summary of industry competitive analysis**

Analysis of the industry five forces implies that the Vietnamese commercial real estate industry can be classified as attractive despite medium-high rivalry. The bargaining power of domestic sellers and buyers is relatively weak, putting foreign investors in a better position. Since the price of properties fluctuates based on the supply and demand of the market, both buyers and sellers have no power to set the price. This might pose a threat to foreign investors since there is room for speculation. Speculation usually overvalues the price of the properties and creates a price bubble.

Commercial properties, in general, face low short-term substitution threats. The reason for this is because commercial properties diversify risk in investor's portfolios and generate much higher returns compared with residential properties. However, other types of investments such as bonds, high tech, and stocks have become increasingly attractive to investors as the instruments for return enhancement. This will pose threats to the commercial properties in the longer term.

The commercial real estate market has a medium-high rivalry between existing competitors. There are a number of foreign and domestic competitors in the market, especially in the office and retail segments. The diversity of these competitors is also gradually increasing, resulting in a tougher environment between existing firms. However, one unique characteristic of the Vietnamese commercial real estate market is that there is more cooperation than competition in the market. This lowers the rivalry level between firms, and new entrants can utilize this characteristic by partnering with bigger firms or better established firms in the market.

Last but not least, the threat of new entrants is medium. Even though the Vietnamese commercial real estate market has been perceived as a market full of investment potential, there are plenty of hurdles to overcome before entering the market. The biggest issues are still the entry and exit costs.

The commercial real estate market in Vietnam is still in the nascent stages of development. This characteristic is different from other advanced countries with well-developed real estate markets. Thus, in the future there will be much tougher competition. The Vietnamese government is currently working on investment policies to make investment in Vietnam more friendly which will increase the threat of new entrants into the market. Therefore, being a first mover in the market at the early stage of development will offer investors with numerous opportunities.

The five forces model of the Vietnamese commercial real estate industry is summarized in Figure 14 below:

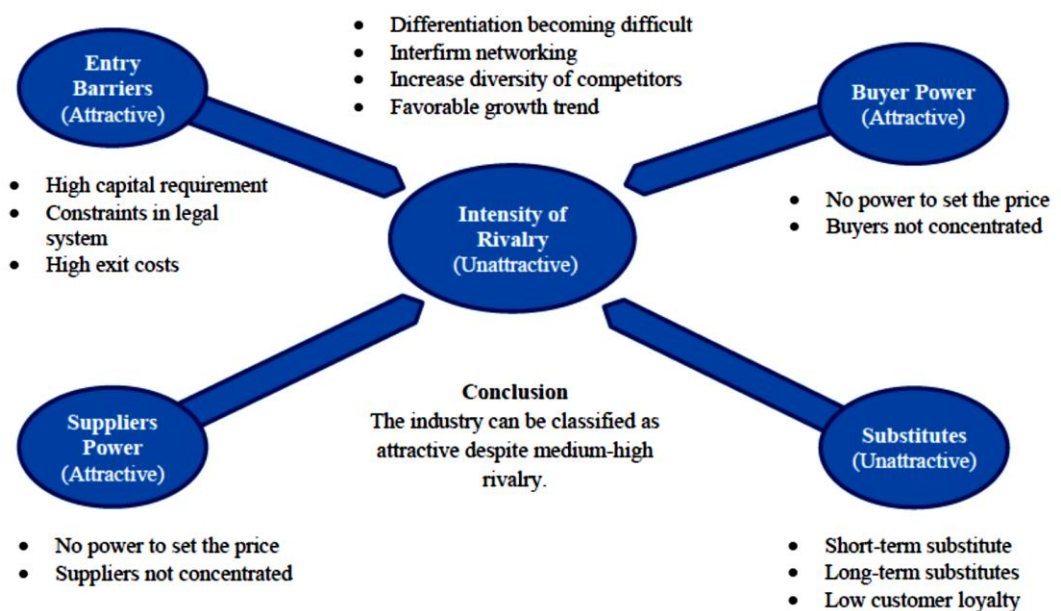


FIGURE 14. The five forces model of the Vietnamese commercial real estate industry

### 3.3 Summary of the Vietnamese commercial real estate market

Analysis of the Vietnamese market as a whole and the Vietnamese commercial real estate market in particular, provides a clear picture of the potential and attractiveness of the Vietnamese commercial real estate industry.

Through a transition to an open market economy after Doi Moi (Renovation), Vietnam has proven itself to be a potential investment environment for foreign investors. Being touted as one of the next generation of tiger economies, Vietnam attracts foreign investors with its high level of political stability, compared to other peer countries in the region, and its booming economic growth. Furthermore, the Vietnamese government has stepped up its efforts to encourage more foreign investment by introducing a number of policies and legal frameworks to boost its competitiveness through global economic integration and more engaged foreign policy. Vietnam's young population and rising income also form a very attractive customer base and its low labor costs provide investors with the cost advantage. Nonetheless, there are still major issues facing Vietnam such as high inflation, Vietnam dong depreciation, shortage of skilled labor, and the burden of administrative procedures. More recently, the policy responses have mainly intensified investment with a focus on generating growth rather than on upgrading productivity and efficiency. That is why it is necessary for Vietnam to take the initiative to move beyond the current economic growth model, which is based on low labor cost and intensive capital investment, toward a model of raising its competitiveness at the core of growth. Some fundamental attributes need to be upgraded with new advantages to attract more foreign investment. This is critical for Vietnam, as the country is striving to move up sustainably to the next stage of development.

Vietnam's commercial real estate market is perceived as being in the early stages of development compared to other countries with well-developed real estate markets. Many successful foreign investors have proven the market to be profitable and worth investing in with a number of untapped opportunities. However, doing business in Vietnam's commercial real estate industry is no simple task, especially for first time investors. A good investment plan with local assistance is a good way to start, especially in an industry with low transparency like the commercial real estate market in Vietnam. Working with local companies will certainly help investors gain access to the information available about the market.

## 4 CASE COMPANY PRESENTATION

The previous chapter in this thesis revealed the threats and opportunities of the external environment of Vietnam as a target country for investment. In this chapter, the internal environment of the case company itself is analyzed to identify its strengths and weaknesses. The chapter is divided into two subchapters: internal environmental analysis and strategy formulation.

### 4.1 Internal environment analysis

As reviewed in Subchapter 2.3.3, the best way to analyze the organization is to conduct both industry and corporate value chain analysis. As a consequence, the author attempts to position the case company's value chain within the Vietnamese real estate industry value chain in order to identify the areas where the case company has potential to leverage. Furthermore, as discussed, the resource audit technique is adopted to perform the case company's internal analysis.

#### 4.1.1 The Vietnamese real estate industry's value chain

An industry's value chain is a representation of the various processes that are involved in producing goods or services, starting with raw materials and ending with delivered products (Wheelen and Hunger 2004, 85). An industry's value chain is also known as its supply chain. Each link in the supply chain adds value to the total value of the whole supply chain. Study of an industry's value chain can significantly improve a company's core competencies and hence, create new business models with improvement to its value systems (Halley and Beaulieu 2009, 49).

Supply chain management is an essential tool for strategic planning. An industry's supply chain varies in each country depending on the number of parties involved and certain economic factors (Wheelen and Hunger 2004, 85). Compared to other advanced countries, Vietnam's real estate industry is still in the early stages of development. Therefore, a good way to study the case company's capabilities is to put them in the context of the overall real estate supply chain in Vietnam. The real estate industry's value chain in Vietnam is depicted in the following figure:

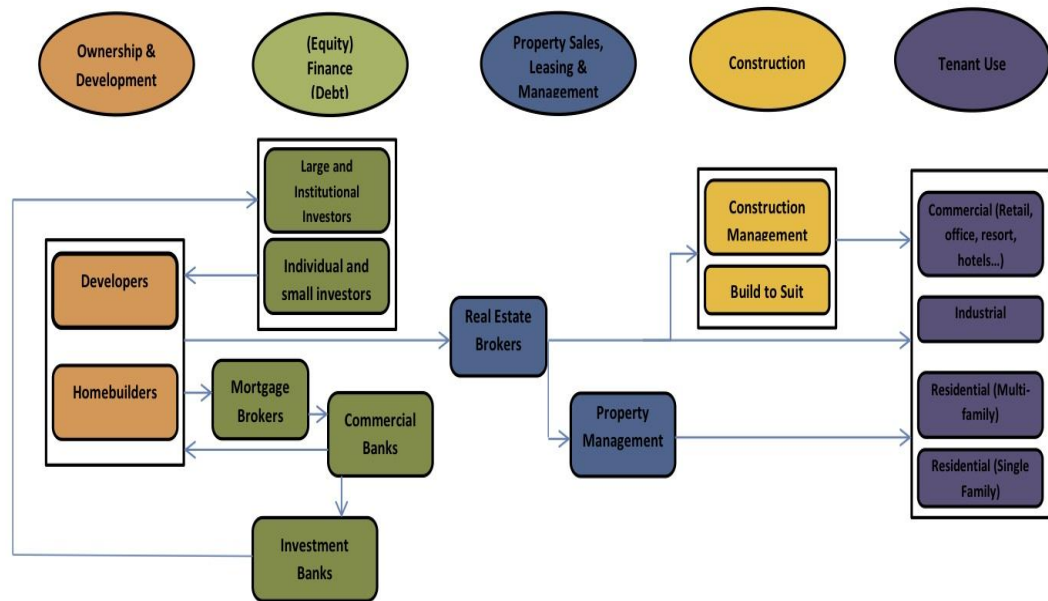


FIGURE 15. The Vietnamese real estate industry's value chain (Lowe and Gereffi 2008, 8)

As can be seen in Figure 15, Vietnam's real estate industry value chain is divided into five segments: ownership and development, finance, property sales and leasing, construction, and tenant use. Economic activities move from the left to the right. Each segment has its own actors working together to provide inputs via a series of transactions to deliver real estate products and services for tenant use. Basically, most owners and developers have to go through the financing segment to be able to acquire a property and afterwards use real estate brokers to affect the property sale or leasing transactions. Some large property owners have the option of performing the property management themselves or paying a property management firm to provide this service. If the transaction involves new construction, the owner/developer may have its own construction capabilities or outsource a construction company to build the building. The last segment in the supply chain is the tenant use of the final real estate products or services which is categorized as residential, commercial, or industrial.

Actors in each segment of the Vietnamese real estate industry's value chain have different roles. Firstly, ownership and development consists of companies that

own and develop properties including developers and homebuilders. It should be noted that there are no REITs in Vietnam.

Secondly, the equity part of the finance segment is comprised of large institutions, private firms, and individuals investing in real estate. These actors provide capital to the owners and developers to undertake their real estate projects. The debt portion presents the commercial and residential mortgage loans. Mortgage brokers in this segment play the role of connecting borrowers to direct lenders. In the residential market, home mortgages are issued by Commercial Banks and then are sold on the secondary market. In the commercial market, the mortgages are originated by Investment Banks, who buy commercial properties and sell them as securities to investors. (Lowe and Gereffi 2008, 6.)

Thirdly, the companies operating in the property sales, leasing and management segment act as intermediaries between entities that want to buy, sell, or lease properties (Lowe and Gereffi 2008, 7). Many brokerage firms in this segment provide property management services to commercial property owners.

Fourthly, the construction segment consists of construction management and build to suit/lease back. Companies operating in construction management services are often responsible for every phase of construction from the initial idea through design, construction, commissioning, and completion (Lowe and Gereffi 2008, 7).

Finally, tenant use is the last segment in the chain and also represents the final output of the whole collaboration of the value chain. The specific uses of real estate properties are normally divided into three categories:

- Industrial use;
- Commercial use, including retail, office, hotel, resort;
- Residential use, including single-family housing and multi-family housing such as apartments.

By analyzing the amount of its expertise in each link of the supply chain, the case company can certainly determine where the value is potentially generated along the industry value chain.



#### 4.1.2 Company analysis

##### **Company profile and history**

The case company, Evergreen Properties of Michigan, Inc. was established in 1992. It is headquartered in Grand Rapids, Michigan, U.S. It is a real estate company specializing in property leasing and management. Today, Evergreen Properties of Michigan, Inc. employs approximately 25 people and has a portfolio of commercial and residential properties located in 50 locations in the West Michigan area. Subsidiaries operated by Evergreen Properties include: Evergreen Builders, Evergreen Moving and Storage, and AAA Asphalt. Evergreen Properties is also a management company for five LLCs including SD Benner, LLC, SD Benner II LLC, SD Benner III, LLC, SD Benner IV, LLC and The Village at Knapp's Crossing, LLC.

##### **Company's services**

Evergreen Properties of Michigan, Inc. provides services related to real estate business, including marketing and sales support, leasing, construction service, and logistical planning. It consists of the major activities below:

- Property sales, leasing and management;
- Marketing and sales services;
- Logistical activities, mainly warehousing and moving services under Evergreen Moving and Storage;
- Construction service under Evergreen Builders;
- Building materials under AAA Asphalt; and
- Funding service for qualified tenants.

##### **Company's financial profile**

Evergreen Properties's annual revenue exceeds \$4.8 million on a consolidated basis for the 2011 fiscal year.

**Vision and mission**

Evergreen Properties of Michigan, Inc.’s vision is simple and straightforward: “To be a leading real estate company in the West Michigan market”. Its mission is to “create value through aggressive property sale, leasing and management to generate superior performance” and “to maximize shareholders’ returns through growth in funds from operations and increasing asset value”.

**Company’s strategy**

To accomplish its mission, Evergreen Properties has steadily and consistently focused on acquiring existing commercial properties, utilizing sales comparison approach, especially retail and office properties in different submarkets in the West Michigan area. In addition, it maximizes the value of its existing portfolio through aggressive asset management and increases asset value through acquiring national tenants. (Benner 2011.)

4.1.3 Case company’s value chain

Evergreen Properties of Michigan, Inc. owns, manages and develops, and operates across most parts of the real estate industry’s value chain. Its core competencies or primary businesses are owner, property and asset manager, and developer.

Evergreen Properties’s value chain is shown in the following figure:

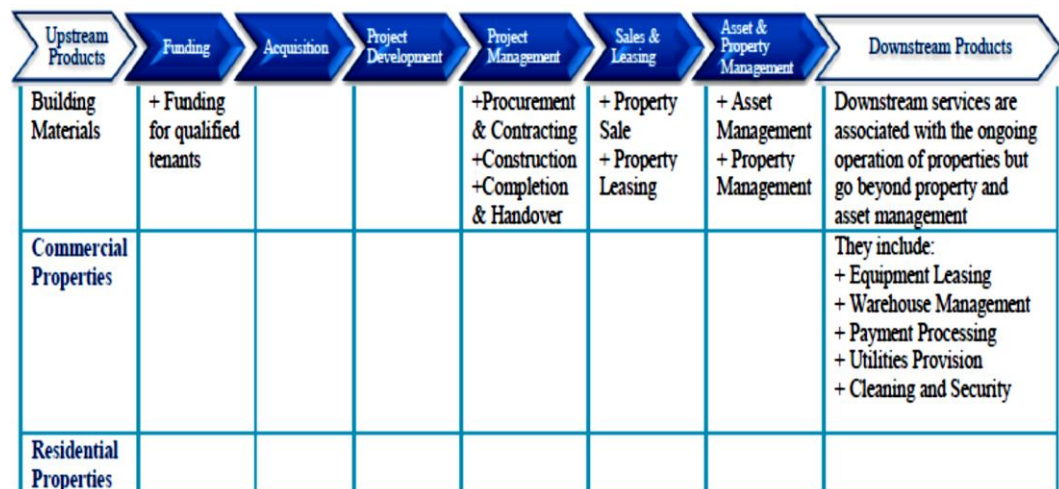


FIGURE 16. Evergreen Properties’s value chain (Benner 2011)

The case company's value chain shows all value generating activities performed by the case company itself and its subsidiaries. It can be seen in Figure 16 that Evergreen Properties engages in several activities along the supply chain. Sales and leasing and asset and property management are the main business activities under the management company, which is Evergreen Properties. Other activities are operated and influenced by subsidiaries. Commercial and residential properties are managed by Evergreen Properties; however, the profits are consolidated under the five LLCs.

In order to identify the amount of expertise of Evergreen Properties in each part of the real estate industry supply chain in Vietnam, the author attempts to position its value chain model in the context of overall value creating real estate activities. This leads to four potential areas in the supply chain in Vietnam in which the case company's capabilities can be leveraged: developer, large and institutional investors, property management, and construction management. These areas initiate the fifth: commercial tenant use.

1) Developer: The case company has high potential for leverage in this segment since it is one of the case company's core competencies. As analyzed in Subchapter 3.1.5 of this research, under the law on Real Estate Business in Vietnam, foreign investors can only invest in Vietnam as real estate developers and/or real estate service providers. Therefore, utilizing its expertise in property development as a developer investing in Vietnam will provide the case company with a certain competitive advantage.

2) Large and institutional investors: On the one hand, before acquiring any property, companies in general and the case company in particular, have to go through the financing segment. On the other hand, acquiring financing in Vietnam can be a difficult task for foreign investors. If the case company can use its funding function to collaborate with large and institutional investors in Vietnam, it will become easier to raise funds instead of having to mobilize new sources of financing.

3) Property management: This is also an activity that the case company can highly leverage. The case company can operate its property development in parallel with

property management instead of hiring a property management firm to conduct this service.

4) Construction management: Even though this is a function performed by the case company's subsidiary, Evergreen Builders, the case company still has potential leverage. The reason for this is that its subsidiary's construction expertise can be used in parallel with its property development expertise.

5) Commercial use: Since the case company's portfolio consists of mainly commercial properties, it is more profitable to continue to concentrate on commercial properties as final products.

#### 4.1.4 Resource audit

Analysis of the case company's resources enables the identification of the case company's internal capabilities and weaknesses. There are five areas of resource audit that are to be examined in this thesis. The first area is financial resources. In general, the case company has good financial control and stability. Some basic ratios are calculated from the case company's balance sheet and income statement to illustrate its financial health, including current ratio and profit on sales. The case company's current assets as of 31 July 2012 were \$8,366,233.33 USD, while its total current liabilities were \$3,707,146.35 USD. The current ratio is calculated:  $\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}} = 2:1$ . This ratio measures the case company's general financial stability indicating the case company has the ability to pay its current obligations. The average profit on sale is 30% demonstrating a good profitability on leasing activities.

The second area of resource audit is physical resources. Currently, the case company's retail portfolio is comprised of 30 retail centers valued at approximately \$1 billion USD. There are 15 free standing buildings for office and commercial use valued at \$20 million USD. Their residential portfolio consists of five single-family houses and two apartment projects valued at approximately \$30 million USD. The total value of land and equipment for lease is valued at \$15 million USD.

The third resource that needs to be taken into consideration is human resources. The case company has a staff of 25, including 18 sales professionals and two joint managing directors. All staff is very motivated and committed to the company. The sales team consists of highly trained real estate professionals that are focused and experienced in the commercial, residential property, and property investment market. They have in-depth knowledge of the real estate industry with great dedication to their clients. All real estate professionals are equipped with property and asset management skills and are able to negotiate and provide tenants with the best options to suit their needs so that tenants can enjoy optimal cost savings.

Reputation (brand) is one of the most important intangible assets that measures the case company's capabilities and also the fourth area of the resource audit technique. The case company was elected as one of the best real estate brokers and property management companies based on the highest volume of real estate transactions in the West Michigan market in 2010 and 2011. The case company is known locally for a steady portfolio of properties with a number of national tenants such as Buffalo Wild Wings, PNC Banks, and Cash Advance. The latest event that drew attention from media was the opening of one of the most famous Chinese restaurant chains in the U.S. called PF Chang's China Bistro. Nonetheless, the case company is not known outside their customer base and areas of operation.

Finally, the fifth resource is technology know-how. The case company makes extensive use of their information systems and real estate information data but these are not well integrated.

Overall, the resource audit highlights where there are strengths that will enable the introduction of business improvement and where there are weaknesses that could undermine the working practices.

#### 4.2 Strategy formulation

As referred to in the theoretical study of this thesis, the chosen tool for the strategy formulation is SWOT analysis. The input information for this analysis is taken from the external environmental analysis in Chapter 3 and internal analysis

in Chapter 4.1. The table below is the summary of SWOT analysis for Evergreen Properties if they invest in the Vietnamese commercial real estate industry:

TABLE 9. SWOT analysis of Evergreen Properties in the Vietnamese commercial real estate industry

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Specialization</li> <li>• A diversified portfolio of properties with a high occupancy rate of 90%</li> <li>• A values driven corporate culture</li> <li>• Good financial control and stability</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Only a local brand</li> <li>• Lack experience in international investment</li> <li>• The business model lacks integration</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Booming economic growth</li> <li>• Increasing economic relations between Vietnam and the U.S.</li> <li>• Investment incentives for foreigners by the Vietnamese government</li> <li>• High demand from growing population with rising income</li> <li>• Shortage of supply in the retail and office markets in the CBDs</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• High inflation and Vietnam Dong depreciation</li> <li>• Tightened lending policies</li> <li>• Growing entrance in the real estate market from Asian investors</li> <li>• High competition in the retail and office markets</li> <li>• There are no REITs in the market</li> </ul>

Put in the context of the Vietnamese commercial real estate industry, Evergreen Properties seems to enjoy its specialization and its values driven corporate culture. All staff working at Evergreen Properties has profound knowledge of the commercial real estate industry, especially of the retail and office segments. Some of them have intensive international experiences in Asian markets, such as in the Chinese real estate market. Furthermore, Evergreen Properties's value driven corporate culture is one of its competitive advantages ensuring the highest performance of the personnel inside the company. This is a strong point when entering a foreign market. Good financial control and stability will support Evergreen Properties's investment plan in case it has to mobilize its financial resources to Vietnam. Also, a diversified portfolio of properties with a high occupancy rate in the home country might be the case company's strength when accessing Vietnamese financing for investment. However, lack of international experience might be a barrier, not to mention Evergreen Properties is only well known locally for its property management and leasing activities. Another weakness is that its current business model is not integrated between different departments, for example, between the marketing and sales and leasing departments.

On the other hand, the case company appears to have quite a number of appealing opportunities waiting for them in Vietnam. Firstly, Vietnam is currently touted as one of the next economic tigers with a fast-rising economy and high level of political stability. While the demand for commercial real estate properties, such as retail properties, depends highly on the population profile, Vietnam's growing population with rising income certainly forms an attractive customer base for the case company. Furthermore, the Vietnamese government provides a number of incentives for foreign investors in Vietnam such as a corporate income tax exemption for a maximum period of four years. Besides, even though the retail and office markets are abundant with properties for sale and lease, there is a shortage of high end office buildings and retail properties, especially in the CBDs as they always achieve the full occupancy rate of approximately 100% (Colliers International 2012). Additionally, the Vietnam and U.S. economic relationship was improved dramatically after the U.S.-Vietnam Bilateral Trade Agreement was signed. This trade agreement has marked a new wave of U.S. investment in the

Vietnamese commercial real estate market. Furthermore, it can be foreseen that trading between Vietnam and the U.S. will continue to be more progressive in the future.

Although Vietnam appears to be a potential market, it imposes a number of threats to foreign investors. Firstly, high inflation and a disadvantageous exchange rate are two forces that might drive real estate prices higher which would increase entrance costs for the case company. Another drawback to notice is that SBV has tightened the lending policies and increased the interest rates to curb high inflation. This means that it will be harder to acquire financing from banks and Vietnamese financial institutions, not to mention that there are no REITs in Vietnam. The case company might be forced to mobilize new sources of finance to compensate for the high entry costs.

Also, the case company should be aware that the Vietnamese commercial real estate market is drawing great attention from Asian investors such as Indonesia, Singapore, and Japan. This increases the competition in the market, especially in the retail and office segments as these segments have become significantly attractive to these Asian investors.

In summary, the case company does have a good opportunity to succeed in the Vietnamese commercial real estate industry, despite some undeniable risks. These threats require the case company to take into consideration all factors more thoroughly before making any decision. Investment opportunities and investment entry mode will be presented in the next chapter.



## 5 INVESTMENT OPPORTUNITIES

Vietnam is a market worth keeping a close eye on thanks to its untapped potential and affordable prices. This chapter explores the main investment opportunities by presenting crucial information about Hanoi and Ho Chi Minh City and the modes of entry into Vietnam's commercial real estate market.

### 5.1 Hot spots

As mentioned in the limitations of this thesis, Hanoi and Ho Chi Minh City are chosen to be presented as the hot spots for property investment in Vietnam by the case company. These two cities are Vietnam's metropolitan centers for investment given their population profile, the extent of FDI, and excellent demographics. In this subchapter, main information about the commercial real estate market in Hanoi and Ho Chi Minh is introduced for the purpose of helping the case company have an understanding of the current commercial real estate trend in each city.

#### 5.1.1 Ho Chi Minh City

##### **Overview**

Ho Chi Minh City, previously known as Sai Gon, is situated in the southern part of Vietnam. The city offers the vibrancy of a commercial city with high rise buildings and a number of shopping centers alongside the legacy of ancient and fascinating culture. Ho Chi Minh City is known as the "Pearl of the Far East". With a population of about seven millions Ho Chi Minh City is also the cultural center and economic capital of Vietnam.

The city is well connected with the rest of the world through air and sea routes and thereby draws huge foreign funds to its many sectors. The following Table 10 presents some statistical information about Ho Chi Minh City:

TABLE 10. Ho Chi Minh City economy fact sheet (CBRE 2012)

<b>Ho Chi Minh City Economy Fact Sheet (8M/2012)</b>	
Real GDP Growth (8M/2012)	9.6%
CPI (Consumer Price Index)	4.3%
Registered FDI	US \$413.1 million
Exports	US \$19.3 billion
Imports	US \$17.7 billion
Retail and services turnover	VND 344.1 trillion
Tourism (arrivals)	2.2 million

### **The commercial real estate market**

Ho Chi Minh City is the largest market in Vietnam and also a recommended market for first time foreign investors. This city is drawing interest from a number of global investors seeking office, retail, and hospitality investment opportunities (Ta 2011).

Ho Chi Minh City was ranked ninth in investment prospects (shown in Table 11) and sixth in development prospects (shown in Table 12) compared to other cities in the Asia Pacific region despite its inflationary and economic problems (Galloway 2012).

TABLE 11. City investment prospects (Galloway 2012)

	generally good	fair	generally poor
<b>1</b>	Singapore		5.77
<b>2</b>	Shanghai		5.65
<b>3</b>	Sydney		5.49
<b>4</b>	Chongqing		5.49
<b>5</b>	Beijing		5.46
<b>6</b>	Guangzhou		5.43
<b>7</b>	Melbourne		5.43
<b>8</b>	Taipei		5.41
<b>9</b>	Ho Chi Minh City		5.38
<b>10</b>	Bangalore		5.38
<b>11</b>	Jakarta		5.35
<b>12</b>	New Delhi		5.32
<b>13</b>	Bangkok		5.30
<b>14</b>	Hong Kong		5.30
<b>15</b>	Mumbai		5.29
<b>16</b>	Kuala Lumpur		5.27
<b>17</b>	Tokyo		5.24
<b>18</b>	Manila		5.03
<b>19</b>	Seoul		4.86
<b>20</b>	Auckland		4.77
<b>21</b>	Osaka		4.70

Table 11 illustrates the score of investment prospects in 21 cities in the Asia Pacific region. The score is calculated based on a survey conducted by Emerging Trends in Real Estate Asia Pacific 2012. Not surprisingly, Ho Chi Minh City was ranked in the top ten cities with the best investment opportunities with a score of 5.38. Singapore and Shanghai shared the first and second positions with generally good investment prospects for foreign investors.

According to Galloway in his report “Emerging Trends in Real Estate Asia Pacific 2012”, construction in Ho Chi Minh City is expected to blossom. Foreign capital continues to flow into the city’s real estate sector, especially into retail property segment. 49% of respondents believe retail properties will be the next big investment opportunity in Ho Chi Minh City. This is proven by a high rate of occupancy in the retail space, 96% in just 9.6 million square feet. An overheating economy has led to a significant increase in the demand for domestic sales. Ho Chi Minh City is now in the top 20 most densely developed cities in the world. There is an imbalance in the real estate sector in the city with significant growth in the demand versus a shortage of supply. Consequently, the supply side cannot meet the retail space requirements for domestic sales and the growing number of tourists. 44 % of correspondents suggested that investment in hotel space would definitely bring excellent returns.

TABLE 12. City development prospects (Galloway 2012)

	generally good	fair	generally poor
<b>1</b>	Singapore	5.63	
<b>2</b>	Shanghai	5.51	
<b>3</b>	Chongqing	5.43	
<b>4</b>	Beijing	5.42	
<b>5</b>	Jakarta	5.40	
<b>6</b>	Ho Chi Minh City	5.38	
<b>7</b>	Bangalore	5.36	
<b>8</b>	Guangzhou	5.36	
<b>9</b>	Sydney	5.32	
<b>10</b>	Mumbai	5.32	
<b>11</b>	Melbourne	5.30	
<b>12</b>	Taipei	5.29	
<b>13</b>	New Delhi	5.27	
<b>14</b>	Bangkok	5.24	
<b>15</b>	Hong Kong	5.24	
<b>16</b>	Kuala Lumpur	5.21	
<b>17</b>	Manila	4.97	
<b>18</b>	Tokyo	4.77	
<b>19</b>	Seoul	4.66	
<b>20</b>	Auckland	4.56	
<b>21</b>	Osaka	4.29	

In the office market, Ho Chi Minh City is facing high competitive pressure due to the difficulties of macro-economics, lack of capital, and large future supply. According to research by Colliers International (2012), the office market has shown rental rate declines during 1Q 2012 due to high landlord competition. The average rental rate across all grades was at \$25.5 USD/sqm/month, down by 7.4% compared to 2011. However, the occupancy rate remained stable at nearly 90%. The main suppliers of the office market are Grade B and C which account for 90% of total supply. The total supply of Grade A office buildings is approximately 191,850 sqm GFA, while Grade B is 896,000 sqm GFA and Grade C is 856,250 sqm GFA (shown in Figure 17). Most of the Grade A buildings with excellent demographics achieved good performance with an average occupancy of 97%. A number of developers have offered many promotions and incentives in order to attract tenants including better quality, flexible leasing terms and reasonable rent, and no fee for relocation. Due to strong competition among all grades, it is forecasted that the average rental rate will continue to decrease further, but only moderately. However, a slight recovery in rents is expected to happen in 2013 in line with the recovery of both local and global economies.

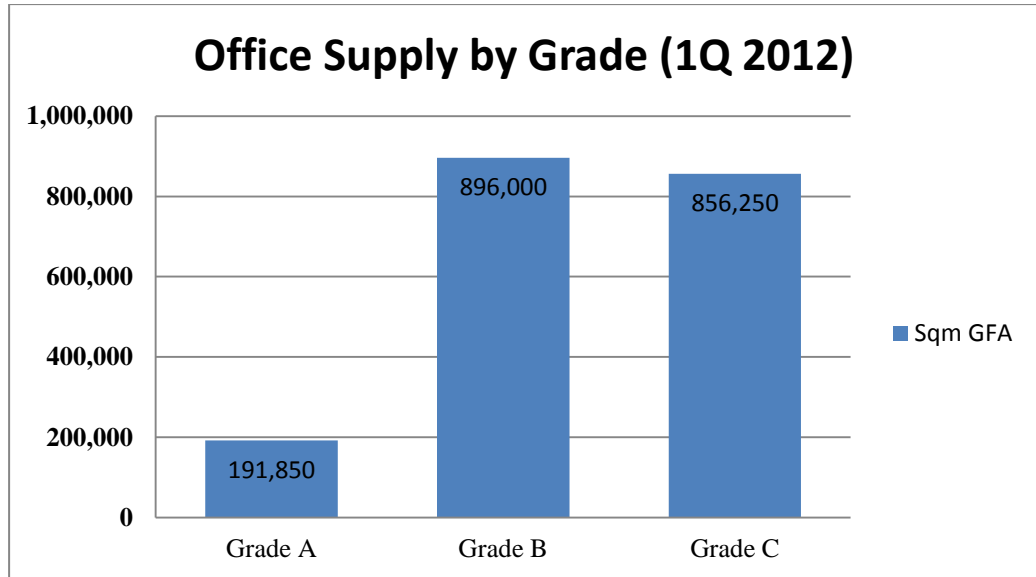


FIGURE 17. Office supply by grade 1Q 2012 (Colliers International 2012)

Figure 18 below shows the performance of the office market in Ho Chi Minh City by grade. It can be seen in the chart that Grade C shows slightly higher occupancy rates compared to Grade B and A. Grade A's occupancy rate reached 89.8%, a small increase of 2% compared to 4Q 2011.

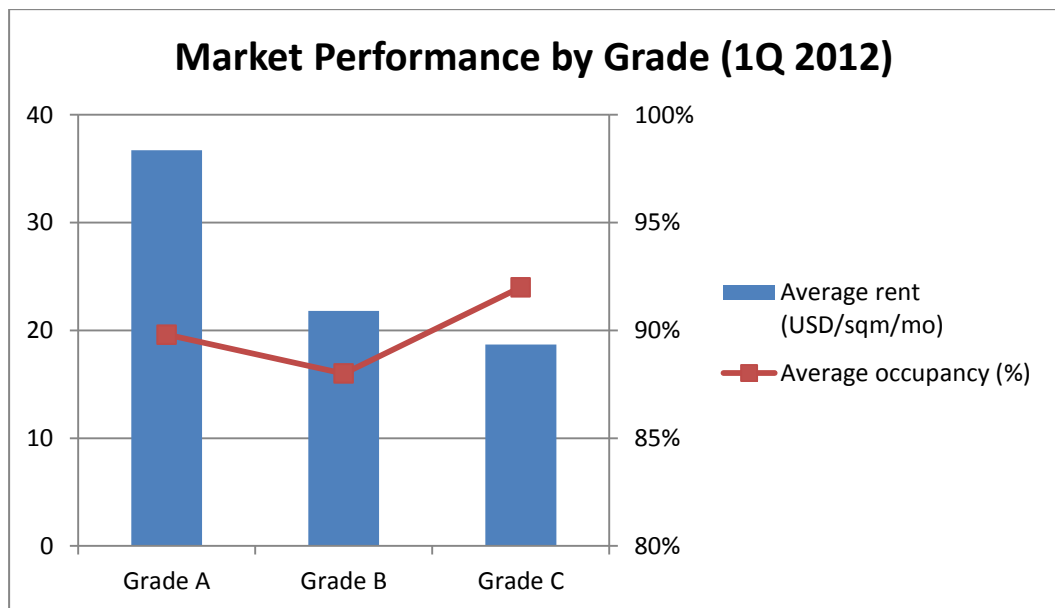


FIGURE 18. Office market performance by grade 1Q 2012 (Colliers International 2012)

In the retail market, Ho Chi Minh City has advantages for retail development due to its young population, fast urbanization growth rate, and increasing disposable income. Colliers International stated in their research that in 1Q 2012, the total supply of retail properties was approximately 616,000 sqm, increased by 7% compared to 2011. Shopping centers, department stores and supermarkets account for 87% of the total supply. Retail properties are mainly located in good locations including District 1 and District 7 (see Appendix 1).

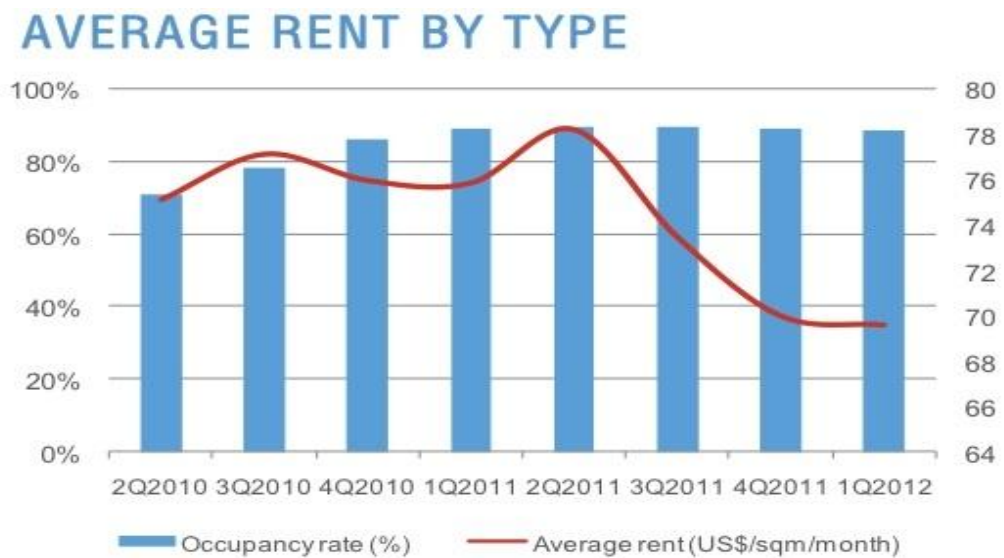


FIGURE 19. Retail market performance in Ho Chi Minh City 2Q 2010-1Q 2012 (Colliers International 2012)

The average rental rate of retail properties in Ho Chi Minh City was at \$70.6 USD/sqm/month excluding service charges and taxes (shown in Figure 19). The occupancy rate of the retail market averaged 90.3% in Q1 2012, down by 3.9% compared to 2011 (shown in Figure 19). The highest recorded occupancy rate for department stores was 97% while shopping centers and retail podiums reached the rate of 88% and 86% respectively. It is foreseen that the large supply of retail space and tightened lending policy will have an impact on the demand for retail properties. Also, average rental rates and occupancy rates might decline slightly more in 2013. It is noted that all retail podiums located in the Central Business District (CBD) including Caravelle Hotel, New World Hotel, Opera View, and

Rex Arcade achieved 100% occupancy. The average rental rate for these retail podiums reached \$110 USD/sqm/month. They mainly consist of luxury international brands such as Gucci, Louis Vuiton, and Burberry. Accessing the CBD is one of the high barriers to entry into the retail market in Ho Chi Minh City for retail property developers.

According to the latest MasterCard Worldwide Index of Consumer Confidence (cited by Colliers International 2012), Vietnam still ranks third for consumer spending in Asia. This has strengthened a number of international retailers' confidence in a resilient consumer market in Vietnam, especially in Ho Chi Minh City.

### 5.1.2 Hanoi

#### **Overview**

Hanoi is the second largest city and the official capital of Vietnam. Situated on the banks of the Red River, Hanoi embraces a fascinating mix of cultural influences from the East and the West with the presence of Chinese and French architecture. Similar to Ho Chi Minh City, Hanoi boosts the cultural beauty and commercial success of Vietnam. Hanoi consists of eight districts namely Tu Liem, Hoan Kiem, Dong Da, Cau Giay, Ba Dinh, Hai Ba Trung, Tay Ho, and Long Bien (see Appendix 2).

Hanoi's GDP growth has slowed down to 7.9% but is still at a healthy level (as shown in Table 13). The low GDP growth is due to limited capital, high interest rates, low purchasing power and a decrease in exports. However, Hanoi has strived to maintain and improve its attractiveness by upgrading its infrastructure with many announced projects during Q1 2012. Hanoi's ranking in the 2011 Provincial Competitiveness Index jumped up seven levels and the city has managed to attract 39 new FDI projects with total registered capital of \$120 million USD (Colliers International 2012).

TABLE 13. Hanoi economy fact sheet (CBRE 2012)

<b>Hanoi Economy Fact Sheet (9M/2012)</b>	
Real GDP Growth (9M/2012)	7.9%
CPI (e.o.p)	6.5%
Registered FDI	US \$919 million
Exports	US \$7.5 billion
Imports	US \$17.6 billion
Tourism (arrivals)	1.1 million

### **The commercial real estate market**

Similar to Ho Chi Minh City's office market, Hanoi has also experienced a downward trend in the average rental rate and occupancy rate in Q1 2012 due to the significant amount of current vacant areas and difficult economic conditions. Grade A office buildings have seen the average rental rate continue to decrease and stand at approximately \$40.3 USD/sqm/month according to Colliers International. The occupancy rate averaged 91.2%, a decrease of 4.4% compared to Q4 2011. The reason for this decline is the considerable vacancy rate of new office buildings. Despite welcoming three new office buildings in the suburban areas in Q1 2012, Grade B's average rent rate and occupancy rate continued to decrease significantly. The average occupancy rate was 83.7 %, down by 2.4% while the rental rate stood at \$22.9 USD/sqm/month, a decline by \$1.9 USD/sqm/month compared to Q4 2011.



## PERFORMANCE BY DISTRICTS

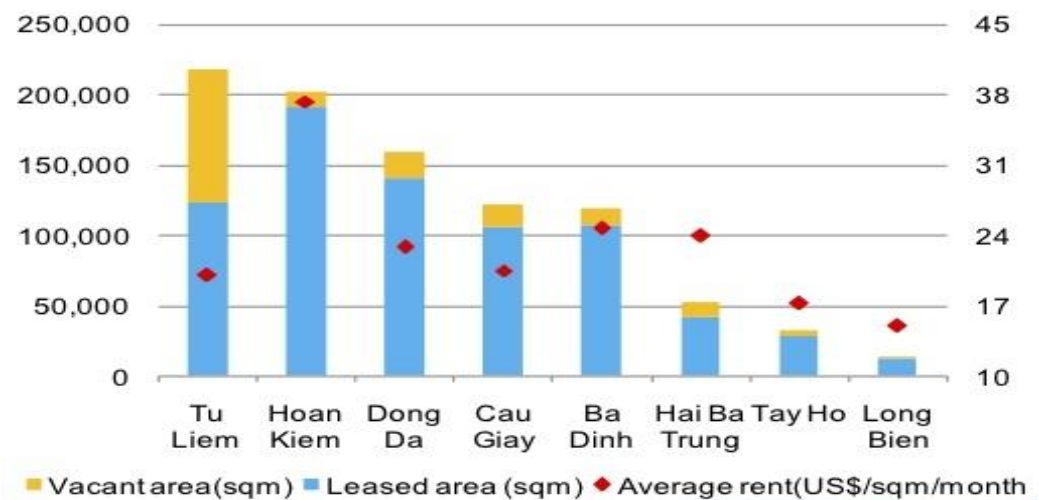


FIGURE 20. Office market performance by districts (Colliers International 2012)

Figure 20 shows the office market performance by district in Hanoi. Tu Liem ranked first in terms of new office supply but experienced the lowest occupancy rate at 56.4%. Hoan Kiem, which is one of the central business districts, performed the best with the highest occupancy rate of 95.3% and the average rent at \$37.3 USD/sqm/month. Compared to Tu Liem, other districts show little supply of new office buildings. The average rent rate in other districts besides Hoan Kiem ranged from \$15-\$24.5 USD/sqm/month. Tu Liem and Cau Giay emerged as the destination for companies with a plan for expansion. Tenants are mainly from Korea and Japan. According to Colliers International (2012), there will be a new supply coming into the market in the next three years and the completion time of future office buildings will depend on economic conditions. Strong supply is likely to continue putting pressure on the rent rates. Landlords' competition in Grade A may lead to a decrease in the rent of Grade B in the CBD.

In the retail market, there are signs showing pressure from large new supply and consumer budget tightening. However, a positive note is that a number of foreign retailers still keep their eyes firmly on Vietnam's retail market, especially Hanoi and Ho Chi Minh City due to their population profile and consumer spending. According to the research produced by CBRE (2012), the highlight of the retail

market during the Q3 2012 was the opening of a new shopping center named Indochina Plaza Hanoi, providing 17,000 sqm retail space of modern design and luxury style.

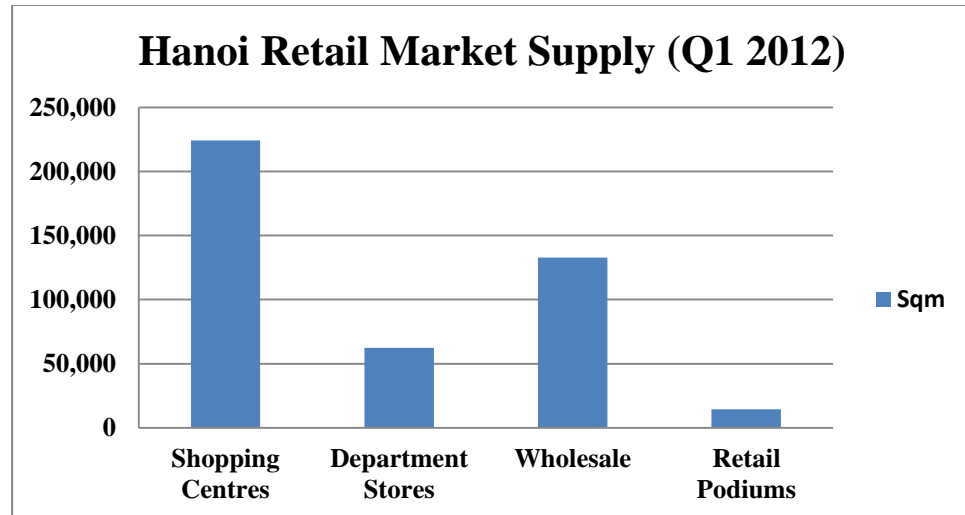


FIGURE 21. Retail market supply in Hanoi Q1 2012 (Colliers International 2012)

The current supply of Hanoi's retail market is illustrated in Figure 21 above. According to Colliers International (2012), the total supply of retail space in Hanoi remained stable at 433,700 sqm, of which 51.7% was accounted for by shopping centers and 14.4% by department stores. Wholesale and retail podiums shared the remaining percentages of 30.6% and 3.3% respectively.

Hanoi's retail market has shown minor downward changes in the rental rate and occupancy rate. The rent of retail centers in the CBD remained unchanged as most of them have reached full occupancy. The non-CBD shopping centers showed a decline of 3.34% in Q1 2012 compared to Q4 2011.

On a side note, despite pressure coming from foreseen new supply, foreign retailers are still keen on significant expansion. Temporary decreases in the rent rates due to fiercer competition and limited consumer spending will be eased as the market shows signs of recovery in 2013 (Jones Lang Lasalle 2012).

## 5.2 Investment entry mode

As discussed in Subchapter 2.4.3, investment is one of three market entry modes to enter a foreign market and the most popular choice for companies operating in the commercial real estate market. Investment entry mode consists of three options including M&A, joint venture, and strategic alliance. Subchapter 2.4.3 delivered a clear definition of each option and its benefits.

Internationalization is a crucial growth strategy. The choice of the appropriate investment entry mode into an emerging market such as Vietnam is a critical decision in the process of internationalization. The chosen investment entry mode must ensure that the company still enjoys its competitive advantages in a foreign market. Emerging market penetration can be difficult and embraces much higher risks than developed market penetration due to geographical distances and cultural barriers. Therefore, the initial chosen investment entry mode is extremely important and so is profound knowledge of the market.

Out of the three options of investment entry mode, M&A and joint venture have been widely used by a number of foreign investors when entering the Vietnamese commercial real estate market. These two options have proven themselves beneficial for companies and investors who adopted them in their internationalization process. There have been many successful examples of foreign investors and companies establishing their initial presence in Vietnam by utilizing M&A or joint venture. One of the latest examples is the market penetration by Tama Global Investment Pte. This company, under Japan's Tama Real Estate Group, entered the Vietnamese commercial real estate market by buying a 20% stake in Cotec Real Estate Development and Investment Joint Stock Co. (Coteland), a subsidiary of Cotec Group in Vietnam (Finkeistein 2012).

### **Merger and Acquisition**

M&A transactions are purchases of an equity stake with a long-term specific strategic element (Peng 2009, 237). The benefits of M&A are that once adopted smartly and correctly, they can increase both sides' competitive competencies, business and other resource efficiency, and create combined value for both entities. For the case company, there are four major advantages when using this

option to enter Vietnam. First, M&A can give the case company complete equity and management control. Second, this undivided control leads to better protection of market knowledge. Third, M&A allows better coordination between entities involved in M&A transactions globally. Last, the case company can enjoy faster entry speed by adopting the M&A option. In terms of drawbacks, M&A tends to be very expensive and risky both financially and politically. Furthermore, before M&A can happen, the case company needs to have a plan for integration with the partner company in the transaction. This task can be difficult and problematic. M&A's advantages and disadvantages can be summarized in Table 14 below:

TABLE 14. M&A in Vietnam-Advantages and disadvantages (Peng 2009, 232)

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Equity and management control</li> </ul>	<ul style="list-style-type: none"> <li>• Risks associated with political problems</li> </ul>
<ul style="list-style-type: none"> <li>• Protection of market knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• High development costs</li> </ul>
<ul style="list-style-type: none"> <li>• Ability to coordinate globally</li> </ul>	<ul style="list-style-type: none"> <li>• Post-M&amp;A integration issues</li> </ul>
<ul style="list-style-type: none"> <li>• Fast entry speed</li> </ul>	

According to Savills Vietnam (cited by Tuoi Tre News 2011), Vietnam will see the number of M&A deals in the commercial real estate market rise as there is a critical shortage of capital in the market. Also, there are a number of local developers seeking new sources of finance to move their projects forward. Therefore, M&A partner selection plays a crucial role in helping companies internationalize to Vietnam. Overall, the current shortage of bank financing presents golden opportunities for cashed-up property investors to invest in Vietnam through M&A.

### **Joint venture**

Joint venture is one of the most pursued forms of investment by foreign companies in Vietnam. This form of investment is understood as an economic

entity with at least one foreign company partner. The 2005 Investment Law allows the establishment of 100% foreign invested enterprises (100% FIEs) but not in all sectors. Generally, there is no limitation on the percentage of foreign involvement in a company that operates in the real estate business (Ha 2011). This means that if the case company decides to form a 100% FIE, this option will still allow them to engage in the real estate business. Recent reforms have made this option increasingly popular; however, many foreign companies still choose to partner with Vietnamese companies. Like other foreign investment forms, joint venture in the Vietnamese commercial real estate industry has its own pros and cons. The following Table 15 briefly describes joint venture's advantages and disadvantages in Vietnam:

TABLE 15. Joint venture in Vietnam-Pros and cons (Peng 2009, 232)

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Form relationship with the Government and clients</li> <li>• Local market know-how</li> <li>• Access to qualified staff</li> <li>• Knowledge of LURs</li> </ul>	<ul style="list-style-type: none"> <li>• Limited local management skills</li> <li>• Different goals and interests of partner</li> <li>• Organizational culture might be bureaucratic</li> </ul>

On the positive side, partnering with Vietnamese real estate companies, which can be state-owned enterprises, can bring the case company crucial relationships with the Government and clients. In addition, the case company can have access to the Vietnamese partner company's local market know-how, qualified staff and knowledge of LURs. However, there are some disadvantages associated with investing by establishing joint venture. Vietnamese partner companies might have limited local management skills and their organization's culture might be bureaucratic. They also might not share the same goals and interests with the case company and hesitate to make some important strategic decisions. Finally, joint venture licenses are granted for a period of 50 years or 70 years and can be

renewed easily with mutual consent of all parties, or alternatively, dissolved by mutual consent.

In conclusion, an international investor can enter the Vietnamese commercial real estate market by M&A or by establishing a JV with a local company. The choice depends on the company's financial situation and the real estate project itself in its target market. However, M&A is usually an option for large and institutional investors with a large amount of capital available for investing, while joint venture might be a better choice for small and medium investors. Both options are not only appropriate choices for entering foreign markets but also are used by the existing foreign investors themselves to significantly increase their position in Vietnam.

## 6 STRATEGIC IMPLICATIONS

Overall, the biggest question remaining is whether investment in the Vietnamese commercial real estate market should be added to the case company's strategic actions. This chapter closes the research by delivering the answer to this question.

In order to achieve this task, all prior analyses should be simplified to review all factors which significantly affect the case company's decision of whether or not to invest in the Vietnamese commercial real estate market. A summary of all the key findings is presented in Table 16 below:

TABLE 16. Key factors affecting the case company's investment decision in Vietnam

	<b>Advantages</b>	<b>Disadvantages</b>
<b>Vietnam</b>	<ul style="list-style-type: none"> <li>• High level of political stability</li> <li>• Rapid GDP growth</li> <li>• Rising demand and income</li> <li>• Rising FDI</li> <li>• Lower trade barriers</li> <li>• Ongoing regulatory changes</li> </ul>	<ul style="list-style-type: none"> <li>• Inflation</li> <li>• Currency depreciation</li> <li>• Shortage of skilled workers</li> <li>• Burdensome administrative system</li> <li>• Some environmental issues</li> </ul>
<b>Vietnamese CRE market</b>	<ul style="list-style-type: none"> <li>• Low bargaining power of sellers and buyers</li> <li>• Low substitution threats</li> </ul>	<ul style="list-style-type: none"> <li>• High rivalry between existing competitors</li> <li>• Medium threat of new entrants</li> </ul>
<b>Case company</b>	<ul style="list-style-type: none"> <li>• Availability of resources</li> <li>• Specialization</li> </ul>	<ul style="list-style-type: none"> <li>• Poor experience in international investment</li> </ul>

From the author point's view, the first crucial step for the case company is to define its directional strategy; whether it wants to grow globally or domestically. As analyzed in the previous chapter, the U.S. is a large market with a wealth of investment opportunities. However, as three quarters of the investable commercial real estate universe is located outside the U.S., the case company can miss a great opportunity to significantly enhance their returns if they do not expand internationally. Once the directional strategy is identified, location should be taken into consideration. If the case company plans to internationalize, its target country's potential and risks together with specific market knowledge should be studied thoroughly. Timing of entry is also important as being a first mover in the Vietnamese market, which is at an early stage of development, can provide companies with crucial relationships with the Government and clients. For an emerging market like Vietnam, the most essential requirement is a high degree of resource commitment which might not be a good move for the case company strategically.

As presented in Table 16, the most remarkable strength of the case company is the availability of resources, which will provide the company with a significant competitive advantage when entering Vietnam. However, the case company lacks experience in international investment which is disadvantageous, especially when it comes to a highly risky market like Vietnam. According to Li (1994, 229-230), international experience is an important determinant of international expansion and particularly crucial for firms in the early stage of international operations. As the result, the case company might find it difficult to establish and manage their investment in an unfamiliar and risky environment like Vietnam since they have very little international operating experience.

On the one hand, if the case company decides to expand globally, there are many reasons why the case company should consider investing in Vietnam. Firstly, one of Vietnam's competitive advantages compared to other peer countries in the Asia Pacific region is that Vietnam has a high level of political stability with an integrated approach toward international relations. In addition, Vietnam's economic relations with the U.S. have improved significantly over the past decades. Secondly, Vietnam is one of the fastest growing economies in the region, fourth after China, Indonesia, and Thailand, with a young population, rising



demand for real estate properties, especially retail and office properties and an abundance of relatively cheap labor. Thirdly, Vietnam has received significantly high inflows of FDI into the real estate sector for the last five years. Also, Vietnam's membership in WTO has certainly increased many foreign investors' confidence in the country's legal system as the country has to make investment safer by complying with WTO rules. Last but not least, the Vietnamese government has proven itself to be willing to reform and implement a wide range of changes to attract more capital into the country. This is an important factor as it can be certain that the government will continue to make significant innovations in investment law to position Vietnam as a friendly business environment for foreign investors.

On the other hand, Vietnam is a highly risky emerging market. Even though the opportunities for investment in Vietnam are massive, there are many drawbacks that need to be considered. One of Vietnam's disadvantages is its sky high inflation which the Government is trying to tackle. Inflation certainly drives the properties' prices higher and the Vietnam dong depreciation increases foreign investors' uncertainty of the market. Furthermore, even though Vietnam has a wealth of labor, many foreign companies still complain about the fact that they cannot acquire skilled workers. Another shortcoming of the Vietnamese market is its administrative systems. Like many other emerging countries, Vietnam's transparency of regulations and corruption remain a big obstacle to foreign investors. Finally, some environmental issues in Vietnam such as degradation of soil and water contamination have a significant impact on foreign investors' real estate decisions.

The Vietnamese commercial real estate market is still in the nascent stages of development, offering numerous opportunities for foreign investors and huge potential for growth. Analysis of the Vietnamese commercial real estate industry suggests that the market is highly attractive but highly competitive. The first reason for this is due to the low bargaining power of sellers and buyers. Since the market prices fluctuate based on the supply and demand in the market, both buyers and sellers have no power to set the price. Furthermore, commercial properties face low substitution threat because they generate more stable and higher returns for investors. However, the diversity of market players is increasing

with the entry of a number of Asian investors. Due to high costs of entry and exit, the threat of new entrants is medium. Overall, one of the biggest drawbacks of the Vietnamese commercial real estate market is the low level of transparency. International investors have been demanding better information on market fundamentals while the Government has made slow improvements in the data availability and regulatory changes.

If the case company is interested in investing in Vietnam, it is suggested that the case company invests in Ho Chi Minh City. Even though the two presented hot spots in this research are large metropolitan cities in Vietnam, Ho Chi Minh City is highly recommended for first time foreign investor like the case company, given its population profile, extent of FDI, and ideal location. The case company can invest in Ho Chi Minh City in two ways: M&A and/or joint venture. As discussed in the modes of entry section, joint venture might be a better choice for the case company because it requires less financial resources compared to M&A and the laws seem to favor the joint venture option. However, this will change in the future as Vietnam is trying to increase M&A transactions.

In addition, right now is the time to invest in the Vietnamese commercial real estate market as a number of local companies are trying to seek foreign capital through joint venture due to banks' tightened lending policies. Difficulties in acquiring finance also drive many local developers to abandon or delay their projects. The case company can certainly buy back these projects at lower prices and fully develop them.

It has always been the author's belief that the riskier the investment is, the higher the return will be for investors. Conditions in the Vietnamese commercial real estate market right now might seem unfavorable; however, those existing challenges can be overcome with appropriate strategies. There have been a number of examples of foreign investors who successfully invested in the Vietnamese commercial real estate market. Still, it is undeniable that because of the case company's current position in the U.S. market, it would be better if the case company concentrates on strengthening its position in its home market first, before planning to go international. Additional risks might apply if the case

company has low commitment, as commitment and patience are the keys to win the commercial real estate market in Vietnam.

In conclusion, the author's answer to the main research question is: yes, the case company should take the opportunity and invest in the Vietnamese commercial real estate market, especially in the retail and office segments. Vietnam can be a highly risky market but has great potential for foreign investors to keep their eye on. It is essential for the case company to seek consultancy services and advice from companies who have in-depth knowledge of the Vietnamese market and are experienced in project development. Further research should be carried out promptly as timing is the key to winning this market. A list of some reliable real estate investment consulting companies can be found in the Appendix 3 of the Appendices section.

## 7 SUMMARY

This thesis conducted initial market research to assist the case company in assessing the potential and attractiveness of the Vietnamese commercial real estate market as a destination for retail and office property investment. As a consequence, all key subjects in this research are based on the case company's interests. The thesis is divided into two main themes: theoretical framework and empirical study.

First, the theoretical framework reviewed and collected theories which were utilized as a guideline for market analysis. The main focus was to explore the potential of the Vietnamese commercial real estate market in light of the case company's current situation. The chosen theories were: PESTLE for macro environment analysis, Porter's Five Forces model for the micro environment analysis, Value Chain analysis and Resource Audit for internal analysis and finally, SWOT analysis for strategy formulation. These models and theories acted as supportive tools to determine which entry options should be adopted by the case company, using international entry mode analysis.

The empirical study followed the theories in a systematic manner. The main findings revealed that the Vietnamese commercial real estate market has massive potential if the case company is prepared to take the risks. As an emerging market, Vietnam involves a number of country risks and the competition within the commercial real estate industry is intense. Therefore, it is recommended that the case company should identify its directional strategies clearly first, before deciding whether it should expand internationally or domestically because of the nature of its home market. Once the directional strategies have been identified, if the case company is still interested in Vietnam, Ho Chi Minh City is the author's recommendation for the investment destination, utilizing joint venture as the entry mode with a focus on retail and office properties.

In conclusion, analysis of Vietnamese commercial real estate market indicates that Vietnam has great potential for the case company to enhance its return on investment and now is the time for the case company to enter this market. The

case company is suggested to perform further research for more in-depth knowledge of the market once it approves this recommendation.

### **Reliability and validity of the study**

As mentioned in Subchapter 1.2, the research was narrowed to the Vietnamese commercial real estate industry with a focus on retail and office properties only. The Vietnamese residential real estate market was not included in the analysis. Other types of commercial properties such as hotels, rental apartments, industrial properties, and senior housing were not taken into consideration to maximize the reliability and validity of the result.

Furthermore, it is noted that the examined factors in this research are subject to changes since the external environment of a country and an industry changes all the time. Also, there is the risk of presenting the information in a positive perspective as Vietnam is the author's native country. The author acknowledges this possibility and proceeded with caution. As a consequence, the available data in this research was analyzed from a more critical approach for the purpose of providing the case company with a thorough view of the Vietnamese commercial real estate industry.

In addition, transparency is one of the most important issues facing the Vietnamese real estate industry as a whole and the Vietnamese commercial real estate industry in particular. Low transparency in the market leads to the fact that information about the market is not concentrated and properly presented. This caused the author many difficulties when searching for current market information. However, the author managed to access several international real estate firms' published reports about the market. These reports consist of certified market trends, real estate projects, and updated property listings. They significantly helped the author conduct this research.

### **Recommendations for further research**

This study aims at giving the case company a broad view of the potential of the Vietnamese commercial real estate industry with a main focus on retail and office segments. Further research should be carried out in order to create a

comprehensive plan to penetrate the market. Some recommendations for further research are as follows:

### **1) Risks associated with international real estate investment in an emerging market like Vietnam**

An emerging market like Vietnam has great potential for foreign real estate firms to enhance their returns. However, as mentioned in this research, Vietnam is considered a highly risky country for investment. Therefore, it is important to identify all the risks related to international real estate investment in Vietnam. These risks can be technical issues, formal barriers, and informal barriers. Having a clear understanding of all risks allows the case company to measure and prioritize them and take the appropriate actions to reduce losses.

### **2) The case for Vietnamese retail: Issues and opportunities**

Demand for quality retail properties in Vietnam is fueled by factors that include urbanization, economic growth, projected higher personal spending, greater integration with the world economy, the expansion of retail chains, and increasing domestic and foreign investments. Although the commercial real estate market in Vietnam is still in its nascent stages and subject to risks, Vietnam's retail segment has enormous potential, as discussed in this research. Therefore, in-depth research on this topic is needed in order to present a guideline for the case company to invest in this market.

### **3) Vietnamese real estate practices and methods**

Real estate practices and methods in Vietnam are different from those in the U.S. Vietnam uses its distinctive methods of real property appraisal, brokerage, land development, and investment analysis. Several U.S. companies have applied their home country systems to evaluate real estate opportunities in the Vietnamese market. Thus, it is essential to have a better understanding of the investment analytical methods and criteria for real estate investment in Vietnam. Further study of this topic will assist the case company in its investment decision making in Vietnam.

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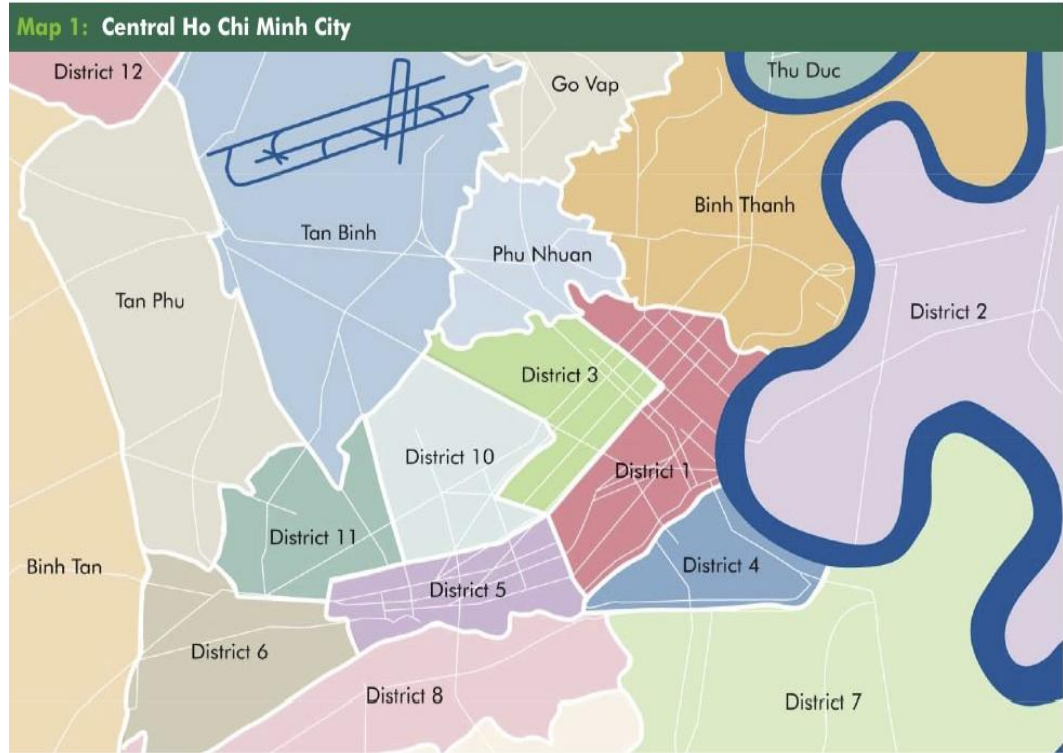
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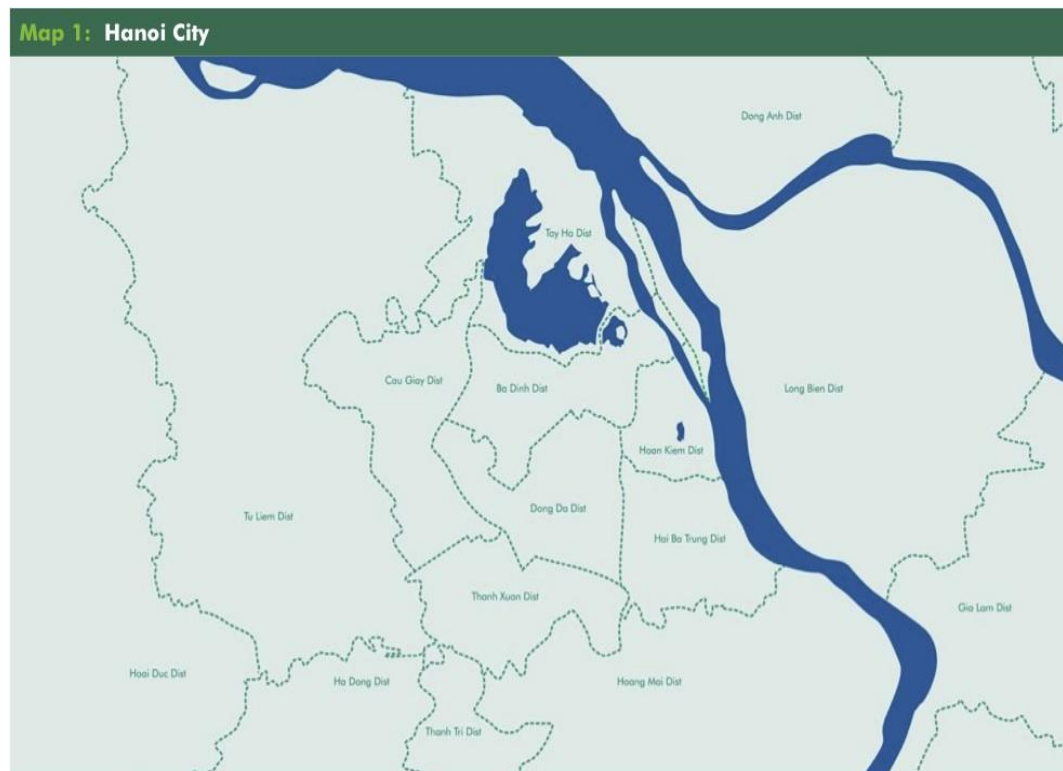
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## APPENDICES

### APPENDIX 1. Map of Central Ho Chi Minh City



### APPENDIX 2. Map of Hanoi





### APPENDIX 3. List of real estate consulting companies in Vietnam

#### 1. Jones Lang Lasalle

**Field:** Specializing in **commercial real estate services** and investment management.

**Services:** **Research, strategic consulting**, investment sales and acquisitions, management consulting, property and asset consulting.

**Notes:**

Provide investors with a comprehensive range of integrated real estate services. Best International Property Consultancy 2011 at “International Property Awards”.

**Contacts**

Jones Lang LaSalle Ho Chi Minh City  
26/F Saigon Trade Center  
37 Ton Duc Thang Street, District 1  
Ho Chi Minh City, VIETNAM  
Tel: +848 3910 3968  
Fax: +848 3910 6810  
Website: [joneslanglasalle.com.vn](http://joneslanglasalle.com.vn)

#### 2. CBRE Richard Ellis Group, Inc

**Field:** Specializing in **commercial real estate services**.

**Services:** **Research and consulting**, investment management, strategic advice and execution for property sales and leasing, development service.

**Notes**

First CRE company in the Fortune 500 and one of the Most Admired Companies in the real estate industry.

**Contacts:**

CBRE Ho Chi Minh City  
12<sup>th</sup> Floor, Me Linh Point  
Tower 2, Ngo Duc Ke St, District 1  
Ho Chi Minh City, VIETNAM  
Tel: +848 3824 6125  
Fax: +848 3828 8418  
Website: [cbrevietnam.com](http://cbrevietnam.com)

### 3. Knight Frank

**Field:** Specializing in residential and **commercial property consultancy.**

**Services:** Consultancy and research, valuations, property management, commercial and residential leasing, exclusive listing

**Notes**

The world's largest privately owned property consultancy company with a focus to provide clients with the best advice and price.

**Contacts:**

Knight Frank HCM City  
Suite A, Level 7, VTP Office Building  
8 Nguyen Hue Blvd  
Ho Chi Minh City, VIETNAM  
Tel: +848 3822 6777  
Fax: +848 3827 7856  
Email: [hochiminh@vn.knightfrank.com](mailto:hochiminh@vn.knightfrank.com)  
Website: knightfrank.com.vn

### 4. Cushman & Wakefield

**Field:** Specializing in every stage of the real estate process.

**Services:** Brokerage, **property investment**, real estate assets analysis, and consulting.

**Notes**

Delivers customized services and solutions by actively advising investors through every stage of the real estate process.

**Contacts:**

Cushman & Wakefield HCM City  
Level 2, Packsimex Building  
52 Dong Du, District 1  
Ho Chi Minh City, VIETNAM  
Tel: +848 6291 4707  
Fax: +848 6291 4717  
Website: [cushwake.com](http://cushwake.com)

## 5. Savills Vietnam

**Field:** Specializing in specialist advisory, management, and transactional services.

**Services:** Research & consultancy, investment brokerage and advisory, property management, retail and office services.

### Notes

Have deep understanding of specialist property sectors with the highest standards of client care.

### Contacts:

Savills Ho Chi Minh City  
Fideco Tower, 81-85 Ham Nghi Street  
District 1  
Ho Chi Minh City, VIETNAM  
Tel: +848 3823 9205  
Website: savills.com.vn

## 6. Colliers International

**Field:** Specializing in commercial real estate services.

**Services:** Research, investment, valuation and advisory, office and retail services, sales and leasing.

### Notes

Provide clients with market intelligence through customized commercial real estate services and consultancy to support practical business decisions.

### Contacts:

Colliers International HCM City  
Bitexco Building, 7<sup>th</sup> Floor  
19-25 Nguyen Hue Street District 1  
Ho Chi Minh City, VIETNAM  
Tel: +848 3827 5665  
Fax: +848 3827 5667  
Email: hcm.cs@colliers.com

APPENDIX 4. Summary of Vietnamese Laws related to the commercial real estate industry

Policy-Legal Documents	Main contents
<p><b>Law on Investment No. 59-2005-QH11</b></p>	<p>This law regulates investment activities for business purpose, the rights and obligations of investors, the guarantee of lawful rights and interests of investors; encouragement of investment and investment incentives, State administration of investment activities in Vietnam and offshore investment in Vietnam.</p>
<p><b>Law on Enterprises No. 60-2005-QH11</b></p>	<p>This law provides for the establishment, management, organization and operation of limited liability companies, shareholding companies, partnerships and private enterprises in all economic sectors; provides for corporate groups.</p>
<p><b>Decree No. 101-2006-ND-CP</b></p>	<p>This decree is on re-registration and/or conversion by enterprises with foreign invested capital and registration for replacement with investment certificates by enterprises with foreign invested capital pursuant to Law on Enterprises and Law on Investment.</p> <p>Article 10. Forms of conversion of an enterprise</p>
<p><b>Law on Real Estate Business No. 63-2006-QH11</b></p>	<p>This law provides for real estate activities; rights and obligations of organizations and individuals conducting real estate business activities and real</p>

	estate transactions related to real estate business.
<b>Decree No. 175-CP</b>	This law provides broad guidance for implementation of investment projects related to environmental protection.
<b>Circular No. 1100/TT-MTg (1997)</b>	This circular is on guiding preparation and evaluation of reports on assessing environmental impact in respect to an investment project.

APPENDIX 5. Comparison of Vietnamese economy and other countries in the region in 2012

	<b>GDP</b>	<b>Real growth rate</b>	<b>GDP-per capita</b>	<b>Inflation rate</b>	<b>Unemployment rate</b>
China	US \$8.25 trillion	7.8%	US \$9,100	3.1%	6.4%
Indonesia	US \$894.9 billion	6.0%	US \$5,000	4.5%	6.7%
Thailand	US \$377 billion	5.6%	US \$10,000	3.1%	0.9%
Vietnam	US \$137.7 billion	5.1%	US \$3,500	9.2%	4.3%
Philippines	US \$240.7 billion	4.8%	US \$4,300	3.4%	6.9%
Malaysia	US \$307.2 billion	4.4%	US \$16,900	1.9%	3.0%