The Impact of Vietnam’s Anti-corruption Campaign on the Real Estate Sector

Le Hong Hiep*

EXECUTIVE SUMMARY

- As land management has long been identified as one of the most corruption-prone areas in Vietnam, exposing corruption related to land management has become an important focus of the country’s unprecedented anti-corruption campaign since 2016.

- Since 2017, inspections and investigations have been launched into hundreds of property development projects, especially in Ho Chi Minh City, Da Nang and Ha Noi. Key targets are projects that sourced land from state-owned enterprises or public entities.

- The investigations have delayed the licensing process for property projects, leading to a fall in new supply and surging property prices, as well as declining government revenue from land fees.

- Vietnamese authorities do not want the campaign to affect the country’s economy negatively. The licensing procedures in Ho Chi Minh City have gradually eased since early 2019. This should help stabilize the city’s property market by restoring supply even if such an effect may not be visible until next year.

* Le Hong Hiep is Fellow at ISEAS – Yusof Ishak Institute.
INTRODUCTION

Vietnam’s unprecedented anti-corruption campaign led by Communist Party of Vietnam (CPV) General Secretary Nguyen Phu Trong since 2016 has resulted in the arrest and prosecution of dozens of high-ranking officials. The most notable ones include former Politburo member and Party Secretary of Ho Chi Minh City Dinh La Thang, former ministers of information and communication Nguyen Bac Son and Truong Minh Tuan, and former deputy ministers of public security Bui Van Thanh and Tran Nhat Tan. Apart from government officials, many bankers and senior executives at major SOEs and private companies have also fallen victim to the campaign. The campaign can therefore be seen as a key highlight in Vietnamese politics over the past three years and will undoubtedly go down as one of the most important legacies of Mr Trong’s stewardship.

While analysts have extensively examined the political impact of the campaign, especially on the power consolidation of Mr Trong and his allies, little attention has been paid to whether and how the campaign has impacted the country’s economic performance. This article seeks to offer insights into this aspect of the campaign by examining its impact on the country’s real estate market, especially in Ho Chi Minh City, where the campaign has led to the investigation into, and thus the delay of, a great number of property development projects.

LAND-RELATED CORRUPTION IN VIETNAM

Land management has long been identified as one of the most corruption-prone areas in Vietnam. According to Vietnam’s 2013 Constitution, land is “public property, owned by all the people, and represented and uniformly managed by the State”. The State, on behalf of the people, “shall allocate or lease land to, and recognize land use rights of, organizations and individuals”.

In practice, however, access to land is not equal for all organizations and individuals. Among economic actors, state-owned enterprises (SOEs) generally enjoy greater access to land. As a matter of history, many of them have been able to lease large plots of land at preferential rates. During their restructuring, such SOEs, especially those located in major cities, find that their prime-location land plots are a potentially valuable asset that can generate considerable rents for not only the company but also their management.

There are a few common ways for SOE managers, who work with corrupt officials and predatory private actors, to illegally benefit from their company’s land bank. For example, during the equitization (i.e. privatization) of these SOEs, the majority stake in the company can be sold to private investors, sometimes at undervalued prices. Although land is not included in the valuation of the equitized SOEs, as these SOEs normally maintain their titles to the land after being equitized, gaining control over the SOEs will enable the new investors to control the land. Another way is for the SOEs to sell off their land to private investors through a shady process and at a non-market price. This normally happens when the SOE’s land is sold directly to a preferred buyer without it being put on public auction. Alternatively, an SOE can enter into a joint venture with a private investor, who normally is a real estate developer, to develop a property project. The SOE contributes the land to the joint venture while the developer covers other development costs, and the profit is split
between the two partners. However, the land is normally undervalued, and the difference between the agreed value and the market value will be shared illegally between the stakeholders. In order to pull off these tricks, the SOEs and the investors will need to secure the approval of relevant government officials who oversee the SOEs in question.

Another common corruption practice in land management is found in Build-Transfer (BT) projects used for developing public infrastructures such as roads or bridges. Under this scheme, an investor will build public infrastructure projects in exchange for cleared land banks offered by local governments. This sounds like an appealing measure to help cash-strapped local governments develop infrastructures, but the problem lies in the valuation of the land offered to the investor as well as the determination of the value of the project in question. Corruption happens when the land is undervalued, and/or the investment costs are inflated.

**VIETNAM’S CRACKDOWN ON LAND-RELATED CORRUPTION**

As Vietnam’s anti-corruption campaign intensifies, exposing corruption related to land management has become an important focus. Various inspections and investigations have been conducted on property development projects, especially those that secured land from public sources. For example, on 24 October 2018, the Ministry of Construction (MOC) promulgated an inspection plan for 2019, under which 12 real estate companies and more than 30 projects would be inspected by MOC in 2019. In 2018, the ministry also inspected 12 major property developers and their related projects. Other inspections were also conducted by the Government Inspectorate. For example, in May 2017, the Ministry of Finance (MOF) issued a list of 60 real estate projects in 10 provinces and cities to be inspected by the Government Inspectorate. All these projects were built on land that was originally owned by SOEs or state agencies. Following this proposal, such projects have been inspected or investigated. More projects in major cities, especially Ha Noi, Ho Chi Minh City and Da Nang, where land is most expensive, have been added to the list over the past two years. Some major corruption scandals have been exposed through this process.

A major example is the investigation into Phan Van Anh Vu, who was reportedly an agent of the Ministry of Public Security (MPS) and worked with corrupt officials in the Ministry and local politicians to buy land from SOEs and government authorities at undervalued prices without going through a bidding process. Vu would later flip the land at much higher prices to realize profits, or establish joint ventures with property developers to develop housing projects on the acquired land. In his home city of Da Nang, Vu was said to be involved in 40 real estate projects that sourced land from state-owned companies or government authorities. In Ho Chi Minh City, using his cover as an agent of the MPS, Vu secured several prime-location land sites in the Central Business District (CBD) of the city through his front company named Bac Nam 79 Joint Stock Company. As investigations into Vu’s shady businesses expanded, many government officials in Da Nang, Ho Chi Minh City and the central government were prosecuted in 2018 and early 2019, including two former deputy ministers at the MPS, Bui Van Thanh and Tran Nhat Tan.

In a related case, Novaland, one of the biggest residential developers in Ho Chi Minh City, came under close scrutiny from the government after its connections with Vu and the two above-mentioned deputy ministers were exposed. Novaland expanded quickly by acquiring
undeveloped projects from other companies, or entering into partnerships with SOEs that owned prime-location land plots to develop property projects. As such, Novaland’s projects have also been subject to inspections and investigations. For example, three out of the 12 projects in Ho Chi Minh City which the MOF referred to the Government Inspectorate for inspection belonged to Novaland and its related companies. In January 2019, Ho Chi Minh City authorities also briefly imposed a ban on transactions of units in seven projects developed by Novaland. These projects were built on land plots previously owned by SOEs, and the land was transferred to these projects without going through a proper bidding process. Although Novaland’s owners and management have not been prosecuted, the company reportedly had to pay some fines and additional land fees to the government. The government did not retake the land or cancel such projects as housing products in these projects had been sold to homebuyers, and retaking the land or cancelling the projects would lead to social and political instability due to buyers’ protests, which the government wished to avoid.

Another notable case is related to the Thu Thiem New Urban Area in Ho Chi Minh City where allegations of land-related corruption have been raised. For example, Dai Quang Minh, the developer of an 80-hectare township called Sala won its land through three road-building BT projects in Thu Thiem. The company stated that expenses for building 12km of roads was VND12,182 billion (about USD530 million), or approximately USD44 million per kilometre, which some analysts claimed to be “the most expensive on earth”. Such an extremely high cost is hardly justifiable, especially given that Dai Quang Minh did not have to build any major bridges or pay for land site clearance. Questions have therefore been raised as to whether the costs of these BT projects were inflated. Moreover, the price at which the company acquired the land was determined on the basis of no infrastructure having been in place. After the roads were built by public funds, however, land price soared. As such, while the government paid for the construction of such infrastructures, the company gained handsomely from the land price hike, casting further suspicion upon the financial rationale and transparency of these BT projects. Meanwhile, previous Thu Thiem residents who were evicted to give way to the new urban area have staged mass protests against the low compensation they received as well as the illegitimate changes to the Thu Thiem master plan that favoured developers at the expense of local residents, leading to social and political tensions. Due to these problems, the government has frozen most property development projects under construction in Thu Thiem to facilitate investigations. The impacted projects include those by both local and foreign developers.

In addition to the above cases, investigations have been conducted on various property development projects in major cities. According to an industry source, about 170 officers of Ho Chi Minh City authorities were investigated and/or prosecuted due to their wrongdoings in land management. However, local media reported only some high-profile cases, while others were kept from the public to limit the negative impact on the economy. Meanwhile, an international real estate services provider based in Ho Chi Minh City reported that about 180 real estate projects in Ho Chi Minh City were either investigated or recalled in 2018, which slowed down the licensing process for property projects in the whole city. According to a media report, “hundreds of real estate projects in Ho Chi Minh City have been delayed by cumbersome administrative procedures and the authorities’ temporary halt on project approval”. Against this backdrop, more than 100 real estate developers had a meeting with the city’s authorities in April 2019 to complain about the slow licencing process and to urge the city to address their concerns.
Similar issues were also observable in other major cities. For example, in the central city of Da Nang, at least nine property development projects have been suspended due to ongoing investigations into land issues. Chairman of Da Nang People’s Committee Huynh Duc Tho observed that “everything is frozen, difficult to implement; even if implemented, it’s difficult to take further steps to market or operate these projects”. Mr Tho also noted there has been a reluctance among local officials to solve problems related to these projects due to their concerns about legal risks. The same is also happening in Ho Chi Minh City as officials have been unwilling to sign off on projects and instead adopt a “wait and see” attitude.

**ECONOMIC CONSEQUENCES**

Delays in the licensing process for property projects due to anti-corruption investigations have generated some notable impact on Vietnam’s real estate market. Property developers are the first to feel the brunt. At the meeting with Ho Chi Minh City authorities on 10 April 2019, some developers complained that their applications for licenses had been held off for more than 12 months, causing extra costs for their businesses. Such a burden will hurt first and foremost small and medium-sized developers. However, if the delay is prolonged, big developers will also feel the pain, in terms of both financial and reputational costs.

**Figure 1 - Primary price movement of Ho Chi Minh City and Hanoi condo markets**

At the same time, as the new supply of properties contracted, property prices have soared, especially in Ho Chi Minh City. According to Savills Vietnam, the supply of new apartments in Ho Chi Minh City in the first quarter of 2019 stood at 12,000 units, which represented a 57% year-on-year fall. The short supply was one of the main reasons causing the price of luxury and high-end condos in Ho Chi Minh City to increase by 15% in 2018.
The price of mid-range apartments in the city also increased by 13% during the same period. A report by Viet Capital Securities in March 2019 noted that “2018 residential transactions temporarily cooled as launches fell mainly due to lengthy legal procedures. Ho Chi Minh City is showing signs of overheating as primary prices accelerated”. Despite the investigations, however, the price of apartments in Hanoi was rather muted as the inventory in Hanoi remained large (see Figure 1).

The surging property price in Ho Chi Minh City, while benefiting investors and speculators, will make it more difficult for young people to afford their first homes. The price surge also generated fears of a property bubble, which seemed to be one of the reasons underlying the State Bank of Vietnam’s decision to lower commercial banks’ credit cap for the real estate sector.

For the government, delays in the licensing process and the fall of new launches have caused revenue from land fees to decrease. For example, Ho Chi Minh City’s revenue from land fees declined by 22.5% in 2018.9 The trend, if sustained, will put the city’s fiscal position under pressure given that land fees normally account for around 10% of its annual revenue.

CONCLUSION

The anti-corruption campaign led by CPV General Secretary Nguyen Phu Trong since 2016 has had a far-reaching impact on Vietnam’s political and economic environment. Real estate was perhaps the most affected economic sector, with investigations into land-related corruption causing widespread delays in the licensing process for property development projects, especially in Ho Chi Minh City. The impact ranges from fall in new supply and surging property prices to the government’s declining revenue from land fees.

There is little doubt that Vietnam’s anti-corruption drive will continue in the coming years, but the CPV would not want the campaign to negatively affect the country’s social and economic conditions. As such, while Vietnamese authorities will continue their investigations into the sector, they will also try to take measures to alleviate unwanted impact on the property market. There are signs that the licensing procedures have gradually eased off since early 2019, with most projects in suburban areas and non-CBD districts in Ho Chi Minh City still being allowed to proceed. In the city’s CBD area, projects which have not been investigated or was under construction have now been granted permits for restarting their construction. In May 2019, the Ho Chi Minh City Real Estate Association (HoREA) announced that the city would allow 124 out of 150 projects that were suspended for investigation to resume. The resumption of these projects will help moderate the rise of property prices in Ho Chi Minh City by increasing the new supply, but such an effect may not be visible until next year.
For example, a meeting of the Central Steering Committee on Anti-Corruption was convened in Hanoi on 21 May 2019. The meeting stressed the need to continue to implement the anti-corruption agenda adopted by the Committee in a timely manner.