

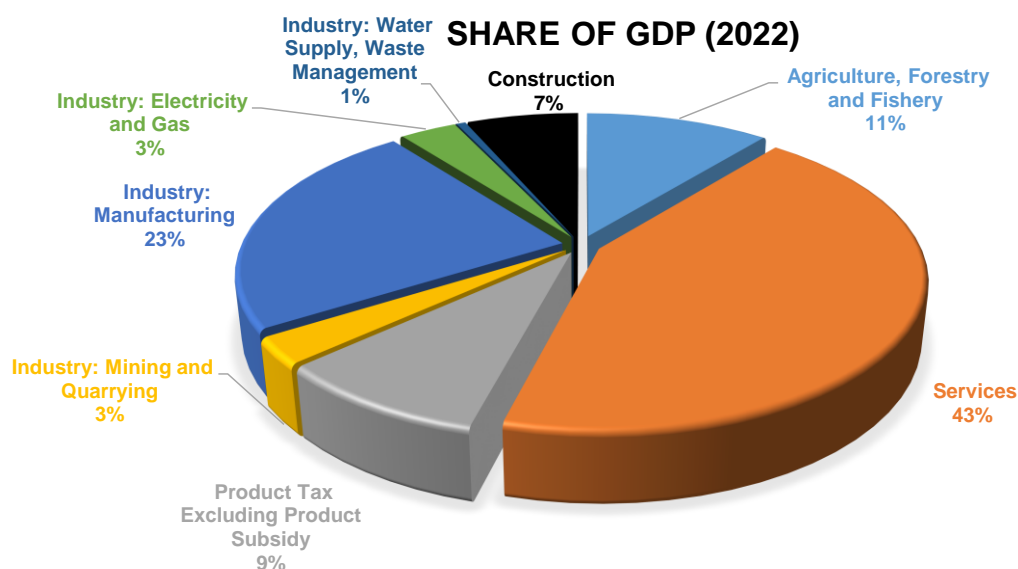
Vietnam Real Estate Snapshot: Relevance and Risks

In a Nutshell: While real estate sector worries on credit constraints in Vietnam are not unfounded, the impact is likely to be very differentiated. The attendant drag on the real economy is inevitable and coupled with external demand slowdown may imply that **hitting official growth targets is a tough act**. The relatively small size of the construction sector (~7%) mitigates the risks of a meltdown of economic activity, though indirect wealth effects may chip away at private consumption.

Relative to its real economy impact, **real estate credit risks are outsized** from both loans and corporate bond channels. **Outstanding loans to real estate** which represented 21.2% of total outstanding credit is worth **27% of nominal GDP** in 2022. On the corporate bond front, despite the sharp decline in issuance of real estate bonds in 2022, associated risks are on the immediate horizon given the short tenor and substantial share of unsecured bonds among these issuances.

While the authorities have **proposed rescue package** with preferential rates alongside the **SBV's lowering of various interest rates on 15 March**, it is far from being all out relief for higher end developers. **Legislation changes** via Decree No.8/2023 on 5 March which allow for **bond principal repayment and interest repayment in kind or extending terms of bonds** are paving the way for negotiations surrounding bond payment extensions and restructuring.

Office and industrial real estate remains the bright spot with healthy occupancy amid steady FDI disbursements congruent with global supply chain shifts.



With real estate sector hogging headlines since late 2022 as large property developers struggle with liquidity constraints amid necessary regulatory measures, this note provides a snapshot of its macroeconomic relevance and risks ahead for this year.

Real Economy: A Drag

On the **growth** front, the **construction** sector comprised **7% of the economy's value add** in 2022. The

indirect effects are certainly larger considering the linkages to the services sector **through the real estate services (3.6% of GDP in 2022) as well as other associated financial services.**

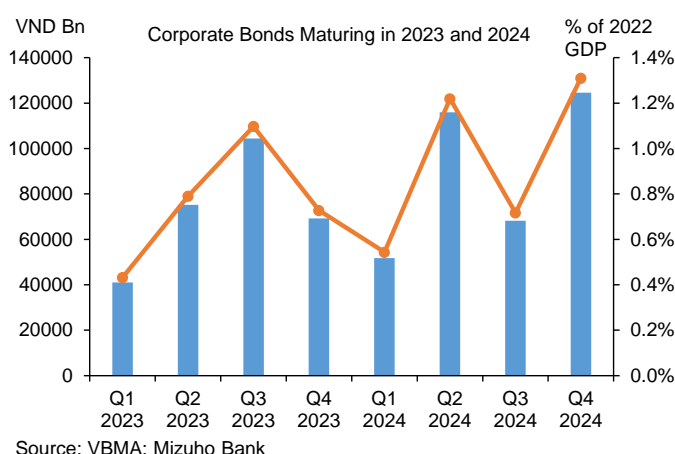
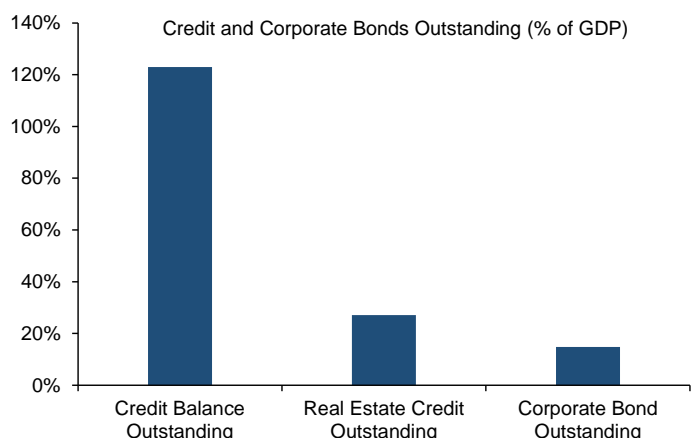
Given the **labour** intensive nature of the sector, the **ramifications of real estate sector woes on employment is amplified** as the construction industry provides **approximately 9% of jobs** in the economy. Real estate services account for another 1% of total employment.

Credit Risks: Outsized Impact

In terms of **credit risks**, the State Bank of Vietnam revealed that outstanding loans to real estate amounted to VND2580 trillion VND which represented 21.2% of total outstanding credit. This amount represents the real estate sector's outsized impact and associated financial risks as **these outstanding loans is approximately 27% of nominal GDP in 2022.**

Turning to the **corporate bond market**, total corporate bond issuance fell 66% in 2022 with the real estate driving 45% of this decline followed by the banking sector.

Specifically, the real estate sector's value of bond issuance fell a sharp 80.8% in 2022 to 51979 billion VND (0.5% of GDP) due to regulatory changes and fraud discoveries denting investor appetites. To be clear, these changes are critical to ensure healthy functioning capital markets which are transparent and facilitate appropriate usage of funds raised.



Nonetheless, real estate sector's corporate bond issuance still comprised 20% of total corporate bonds issued in 2022. Notably, **38% of these 2022 issued real estate bonds were either unsecured or backed by real estate equities** and this is significantly higher than the 29% in 2021. The adverse feedback loop from decline in credit worthiness on equity prices and hence collateral value will worry investors.

With an **average tenor of 3.05 years** and average coupon rate of 10.04%, the **associated risks are on the immediate horizon.** That said, given that the nature of **bond issuance skews toward private placements**, average households are not expected to be directly impacted in a significant manner in the event of defaults or restructuring.

Over 2023-24, 650 trillion VND (6.8% of GDP) of corporate bonds will be maturing. (See chart above). Of these, approximately 119.1 trillion VND belong to real estate bonds which are expected to mature this year.

Means-based Rescue: Not all out relief

Amid **growing cases of corporate declarations of bond repayment delays**, it is clear that the authorities

are already keeping a close watch on the sector's credit risks with the legislation changes via Decree No.8/2023 passed in early March which **allow for in-kind repayment of bond principal and repayment as well as changing the terms of the bonds**. Nonetheless, these changes are **subject to bond holder approval**. In addition, previous legislation Decree 65/2022 which changed definition of “Professional Investor”, Duration of bonds’ issuance distribution and requirement for credit ratings will be suspended and not take effect until the start of next year.

In addition, in their bid to support growth, the SBV have assisted by lowering various lending rates in order to reduce the cost of borrowing and prevent impairment of credit flows. This will help improve construction cash flows and incite higher marginal demand from property buyers.

Aside from credit aspects, timely completion of construction projects will be essential to fulfil housing demand **and prevent denting confidence in the property market**. While the number of commercial housing projects completed rose in Q4 2022, the number of completed apartments continued a declining trend. The number of newly licensed projects also took a significant hit as it **stood at only 53% of 2021 levels**.

The **lack of pipeline supply may result in reduction in housing affordability** as housing prices and rents creep up which could crimp household budgets and dampen on-going urbanisation and industrialisation efforts.

Commercial Housing Development Projects

	Licensed		Under Construction		Completed	
	Projects	Apartments	Projects	Apartments	Projects	Apartments
Q1	39	18660	1216	332387	22	5217
Q2	29	6753	1091	327125	24	5608
Q3	36	24324	1148	324511	17	4123
Q4	22	5995	466	228029	28	3258
2022	126	55732			91	18206

To that end, the authorities have continued to push **social housing** projects. In 2022, total apartments for social completed at 6196 is just 34% that of commercial housing. On 17 February, the SBV has announced **loan package worth 120 trillion VND** for developers and lower income buyers with lending rates which are 1.5-2%-points lower than market rates.

These **means-based efforts amounting to 1.2% of GDP** are critical and commendable in order to prevent moral hazard. That said, they are not yet a replacement for commercial property market and certainly **not easy relief for developers of higher end residential property**.

That said, **social housing developments providing affordable housing for workers remain complementary to industrialisation efforts** as FDI disbursements continue to proceed with much urgency. Consequently, the **silver lining in terms of stability remains in the office and industrial real estate segment**. Industrial real estate occupancy rates are above 80% on average and rents growth was healthy at around 10% in 2022. This will continue to be the bright spot for the real estate market in 2023 while the residential real estate segment is subject to continued scrutiny.

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